

INDEX- CORPORATE ACCOUNTING

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Note 1- Follow the sequence given above while studying.

Note 2- this book has been designed as per new exam pattern for upcoming exams.

Note 2. All questions of your study material, RTP, MTP, Past year questions are covered in this book.

Note 3: No any other book is recommended.

Note 4. This book is fully amended. Any further amendment by ICAI will be shared in your what's app group of CMA Inter group 2.

CHAPTER 1. ACCOUNTS OF BANKING COMPANY

1. MEANING OF BANKING:

Banks are vital to the prosperity and well-being of any society or country. Banks enable a society to create the platform for the satisfaction of wants of its people by managing and maintaining the flow of money to carry out transactions. **Banks in India and their activities are regulated by the Banking Regulation Act, 1949. Under Section 5(b) of the Said Act "Banking" means**

- Accepting deposits of Money from Public for the purpose of lending or investing.
- These deposits are repayable on demand or otherwise.

Banking Company: Any bank which transacts this business as stated in section 5(b) of the act in India is called a banking company. However merely accepting public deposits by a company for financing its own business shall not make it a bank.

2. Types of Banks: There are two main categories of Commercial Bank In India namely:

- i. Scheduled Commercial Bank
- ii. Scheduled Co-Operative Bank.

Scheduled Commercial Banks are again divided into five types as given below:

- i. Nationalized bank (e.g. SBI, BOB)
- ii. Development bank (e.g. NABARD, EXIM)
- iii. Regional rural bank (Gramin Bank)
- iv. Foreign bank (e.g. CITI Bank).
- v. Private sector bank (e.g. ICICI Bank, HDFC Bank etc.)

The Scheduled Co-operative Banks are again divided into two parts as given below:

- i. Scheduled State co-operative bank
- ii. Scheduled urban co-operative bank

Note : Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. After May 1997 there are no non-scheduled commercial banks existing in India. The banks included in this scheduled list should fulfil following two conditions:

- i. The paid-up Capital and reserve in aggregate should not be less than ₹ 5 lakhs.
- ii. Any Activity of the bank will not adversely affect the interest of depositors.

3. The RBI as the Central Bank is the 'Bank of Last Resort' i.e., when other commercial banks are in trouble RBI helps them out. The services provided by RBI to scheduled commercial banks included the followings:

- (a) The purchase, sale and re-discounting of certain bills of exchange, or promissory notes.
- (b) Purchase and sale of foreign exchange.
- (c) Making of loans and advances to scheduled banks.
- (d) Maintenance of accounts of the scheduled bank in its banking department and issue department.
- (e) Remittance of money between different branches of scheduled banks through the offices, branches or agencies of Reserve Bank free of Cost or at nominal rates.

4. (STATUTORY) Reserve Funds (Section 17 of banking regulation act 1949):- Every banking company incorporated in India is required to create a Reserve Fund and **to transfer at least 25% of its profits to reserve fund**. The profit of the year as per the profit and loss account prepared under Section 29 is to be taken as base for the purpose of such transfer and transfer to reserve fund should be made before declaration of any dividend.

If any banking company makes any appropriation from the reserve fund or share premium account, it has to report to the Reserve Bank of India the reasons for such appropriation **within 21 days**.

5. RESTRICTION AS TO PAYMENT OF DIVIDEND (SECTION 15):- Before paying any dividend, a banking company has to write off completely all its capitalized expenses including preliminary, organisation expenses, share-selling commission, brokerage and amounts of losses incurred by tangible assets. However, a banking company may pay dividend on its shares without writing off:

- i. The depreciation in the value of its investment in approved securities in any case where such depreciation has not been accounted for loss.
- ii. The depreciation in the value of its investment in shares, debentures or bonds (other than approved securities) in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company.
- iii. The bad debts in any case where adequate provision for such debts had been made to the satisfaction of the auditor of the banking company.

6. CASH RESERVE (CRR) :-Section 18 of Banking Regulation Act 1949 (under section 42(1) of RBI Act,1934), all scheduled banks are required to maintain with RBI a CRR of prescribed % of net demand and time liabilities(NDTL) as on last Friday of the second preceding fortnight or as specified by RBI from time to time.

Cash reserve can be maintained by way of either a cash reserve with itself or as balance in a current account with the Reserve Bank of India.

7. LIQUIDITY NORMS (SLR): as per section 24 of Banking regulation act 1949, Banking Companies have to maintain sufficient liquid assets in the normal Course of business called as Statutory Liquidity Ratio (SLR). This safeguards the interest of depositors and prevents banks from over-extending their resources. Liquidity norms have been given Statutory recognition. Every banking Company has to maintain the SLR in the form of: Cash, gold and unencumbered approved securities. The above assets have to be held at the close of business on any day and shall be valued at a price not exceeding the Current market price of the above assets.

The Percentage of SLR is changed by the Reserve Bank of India from time to time considering the general economic conditions. This is in addition to the Cash Reserve Ratio balance which a scheduled bank is required to maintain under **section 42 of the Reserve Bank of India Act**.

8. RESTRICTION ON ACQUISITION OF SHARES IN OTHER COMPANY: - A banking company **cannot form any subsidiary** except for one or more of the followings purposes:

- a. The undertaking of any business permissible for banking company to undertake.
- b. Carrying on business of banking, exclusively outside India with previous permission in writing, of the Reserve Bank.
- c. The Undertaking of Such other business consider to be conducive to the spread of banking in India or to be otherwise useful or necessary in the public interest, which the Reserve Bank of India may permit with prior approval of the Central Government.

9. RESTRICTION ON LOANS AND ADVANCES:-Under **Section 20 of the Banking Regulations Act**, a banking company **shall not grant any loans or advances on the Security of its own shares**. Further, It cannot enter into any commitment for granting any loan or advance to or on behalf of-

- i. Any of its directors
- ii. Any firm in which any of its directors is interested as partner, manager, employee or guarantor.
- iii. Any Company other than the subsidiary of the banking company, or a company which is entitled to dispense with the use of the word Ltd in its name under the Companies Act, or a Government Company of which any of the directors of the banking company is a director, manager, employee or guarantor or in which he holds substantial interest.
- iv. any individual in respect of whom any of its directors is a partner or a guarantor.

10. PROHIBITION OF CHARGE ON UNPAID CAPITAL AND FLOATING CHARGE ON ASSETS: Under **Section 14 of the Banking Regulation Act**, no banking Company shall Create any charge upon any unpaid capital of the company, and any charge if created shall be invalid. A banking company also cannot create a floating charge on the undertaking or any property of the company or any part thereof unless the creation of such floating charge is certified in writing by the Reserve Bank as not being detrimental to the interest of the depositors of such company. Any charge created without obtaining the certificate from the RBI as above shall be invalid.

11. ACCOUNTS: At the end of each calendar year or at the expiration of twelve months ending on such dates as the Central Government may specify in this regard, every banking company incorporated in India, in respect of business transacted by its branches in India, shall prepare with reference to that year or period, a Balance Sheet (Form A) and Profit and Loss Account (Form B) as on the last working day of that year or the period in the forms set out in the Third Schedule of Banking Regulations Act.

12. Business of banking company: as per the provisions of section 6 of the banking regulation Act 1949, a banking company may engage in any one or more of the following forms of business, in addition to the business of banking. These are:

- a. The borrowing, raising or taking up of money; the lending or advancing of money either with or without security.
- b. The discounting, buying and selling and collecting of bills of exchange, hundis, promissory notes.
- c. Issuing letter of credit (LC)
- d. Acting as agent for any government or local authority or any other person.

- e. Contracting for public and private loans and negotiating and issuing the same.
- f. Managing, selling and realising any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claim.
- g. Act as factor and engage in equipment leasing.
- h. Deal in government securities and underwrite general obligations of state and municipal securities.
- i. Invest in government and other debt securities.

13. Prohibition of Trading (Section 8):

(i) No banking company shall directly or indirectly deal in the buying or selling or bartering of goods except in connection with the realisation of security given to or held by it.

(ii) 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 or negotiation or with such of its business.

14. Disposal of Non-banking Assets (Section-9)

- A banking company can only acquire immovable property for its own use.
- Other immovable properties acquired must be disposed off within seven years from the date of acquisition or a period extended by RBI.

15. Unclaimed Deposit: (Section-26) Every banking company is required to submit a return in the prescribed form and manner to the reserve bank of India at the end of each calendar year of all accounts in India which could not be operated for 10 years. This report is to be submitted within 30 days after the close of each calendar year.

16. Minimum paid up capital and reserves (Section 11)

Banking company	Minimum aggregate value of paid up capital and reserves
1. In case of banking company incorporated outside India	
(a) Having a place of business in the city of Mumbai or Kolkata or both	₹20,00,000
(b) Not having a place of business in the city of Mumbai or Kolkata or both	₹15,00,000
2. In case of banking company incorporated in India:	
a. Having a place of business in more than one state (excluding place business in the city of Mumbai or Kolkata).	₹5,00,000
b. Having a place of business in more than one state including place business in the city of Mumbai or Kolkata.	₹10,00,000
c. Having all its places of business in one state and none of which is in the city of Mumbai or Kolkata.	₹1,00,000 + ₹10,000 for each of the 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 to maximum of ₹ 5,00,000.

17. BOOKS OF ACCOUNTS, RETURNS AND FORMS OF FINANCIAL STATEMENTS

I. MAIN CHARACTERISTICS OF A BANK'S BOOK-KEEPING SYSTEM:-

The Book-Keeping System of a banking company is substantially different from that of a trading or manufacturing enterprise. A bank maintains a large number of accounts of various types for its customer. As a safeguard against any payment being made in the account of a customer being dishonoured due to a mistake in the balance in his account, it is

Necessary that customers' accounts should be kept up-to-date and checked regularly, in many other mercantile enterprise, Books of primary entry (i.e., day books) are generally kept up-to-date. While their ledgers including the general ledger and subsidiary ledgers for debtors, Creditors etc. are written afterward. However, a bank cannot afford to ignore its ledgers, particularly those concerning the accounts of its customers and has to enter into the ledgers every transaction as soon as it take place, In the bank accounting , relatively less emphasis is placed on day books.

Presently most of the **Bank's accounting is done on Core Banking Solutions (CBS)** Wherein all accounts are maintained on huge servers with posting being affected instantly through vouchers, debit cards, internet banking etc.

The main characteristics of bank's system of book-keeping are as follows:

(a) Voucher Posting: - Vouchers are nothing but loose leaves of journals or cash books on which transactions are recorded as they occur. Entries in the personal ledgers are made directly from vouchers instead of being posted from the books of prime entry.

(b) Voucher Summary Sheets: - The vouchers entered in different personal ledgers each day are summarized on summary sheets, 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: - All entries in the detailed personal ledgers and summary sheets are checked by persons other than those who have made the entries. A Considerable force of Such check is employed, with the general results 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 ledgers control accounts.

(f) Double Voucher System: - Two vouchers are prepared for every transaction not involving cash - one debit voucher and another credit voucher.

II. SLIP (or VOUCHER) SYSTEM OF LEDGER POSTING: - The bank has to ensure that customers (depositors) ledgers accounts are up-to-date so that when a cheque is presented to the bank for payment, the bank can immediate decide whether to honour or dishonour the cheque. It is therefore necessary that transactions in the bank are immediately recorded or are updated online.

For this purpose, slip system of ledger posting is adopted. Under this system entries are made in the (personal) accounts of customers in the ledger directly from various slips rather than from subsidiary books or journals and then a Day book is written up. In the way the posting in the ledger accounts and writing of the day-book can be carried out simultaneously without any loss of time. A slip is also called voucher.

In general, the types of slips used in bank book-keeping are: pay-in-slips, cheques or withdrawal forms.

As these slips are filled by the customers there is much saving of time and labour of the employees of the bank.

- (a) **Pay-in-slips:** - when a customer deposits money with a bank, he has to fill up a printed pay-in-slips form and submit it to the 'receiving cashier' of the bank along with cash. The form of pay-in-slip has two parts. The left-hand side portion of the pay-in-slip is called '**counterfoil**'. It is returned by the receiving cashier after he receives and counts the cash. The counterfoil bears signature of the receiving cashier and it is duly stamped with rubber stamp of the bank. Pay-in-slip. Server as an acknowledgement of the deposit by the customer with the bank. The remaining portion of pay-in-slip that is, its right-hand-side part remains with the bank for making entry in the cash Book. However, with the advancement of banking through computerization, these days the cheques can be deposited merely by writing the account number of the depositor on the back of the cheque. Similarly, cash can be deposited through ATM's (Automatic teller machines). In such cases, the documents used for entries are the cheques deposited and deposited slips in the ATM's.
- (b) **Withdrawal slip or cheque:** When a customer withdraws money from the bank, he has to fill-up or write a cheque or withdrawal form and submit it to the paying cashier who makes payment, after checking the signature of the customer and adequacy of amount in his ledger-keeper debits the customer's account. These days the cashier may himself debit the customer's account in the computer-based ledger immediately before making the payment.
- (c) **Dockets:** Sometimes the bank staff also prepares slips for making entries in the ledger accounts for which there are need original vouchers. For Example, the loan department of a bank prepares vouchers when the interest is due. This slip of voucher is known as docketts

III. NEED OF THE SLIP SYSTEM: - The need for slip system arises due of following reasons:

- 1. Updated Accurate Accounts:** - The bank must keep its customers' accounts accurate and up-to-date because a customer may present a cheque or withdrawal slip anytime during business hours of the bank.
- 2. Division of Work:** - As a number of transactions in bank is very large, the slip system permits the distribution of work or posting simultaneously among many persons of the bank staff.
- 3. Smooth flow of work:-** The Accounting work moves smoothly without any interruption.

However, as mentioned above these days due to complete computerization of the banking sectors, pay in slips are not used in many banks.

18. Book of accounts:

1. general ledger	The general ledger contains: - Control accounts of all personal ledgers. - Profit and loss account. - Assets' accounts. - Contra accounts. Usefulness: it facilitates the preparation of balance sheet.
2. Profit and loss ledger	The profit and loss ledger contains: - Detailed account of revenue items. - Detailed account of expense items. Usefulness: it facilitates the preparation of profit and loss account.
Principals books of accounts:	
Subsidiary books:	
1. Personal ledgers	- Current accounts ledger - Saving bank account ledgers - Fixed deposit ledgers - Loan ledger

	e. Overdraft ledger f. Cash credit ledger g. Customer's acceptance, endorsement and guarantee ledgers.
2. Bill registers	a. Inward bill for collection. b. Outward bill for collection. c. Bills discounted and purchased register.

Subsidiary registers	1. Demand drafts, telegraphic transfers and mail transfers issued on branches and agencies. 2. Demand drafts, telegraphic transfers and mail transfers issued from branches and agencies. 3. Letter of credit. 4. Letter of guarantee.

19. FORMS OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT:

The Community under the chairmanship of shri A. Ghosh, Deputy Governor , RBI , after due deliberation suggested suitable changes/amendments in the forms of balance sheet and profit and loss account of banks , having regards to:-

1. Need for better disclosure
2. Expansion of Banking Operations both area-wise and sector over the period.
3. Need for Improving the Presentation of Accounts etc.

The Formats are given below as specified in Banking Regulation Act in the Form A of Balance sheet, Form B of Profit and Loss Account and eighteen other schedules of which the last two relates to Notes and Accounting Policies.

20. CAPITAL ADEQUATE NORMS: - NOT IN CMA INTER GROUP 2 SYLLABUS.

21. Final Accounts (Sec. 29) - According to **Section 29** of the Banking Regulation Act, 1949, every banking company is required to prepare at end of the accounting year (i.e. 31st March) a Balance Sheet and a Profit and Loss Account in the 'Form A' and 'Form B' respectively set out in the III schedule or as near thereto as circumstances admit.

Accounting for Banking Companies (Schedule III) -Format of Balance Sheet (Section 29) -FORM A

Capital and Liabilities	Sch.	As on 31.3.20— (Current Year)	As on 31.3.20— (Previous year)
Capital	1	*****	*****
Reserve and surplus	2	*****	*****
Deposits	3	*****	*****
Borrowings	4	*****	*****
Other liabilities and provisions	5	*****	*****

Cash and balances with Reserve Bank of India	6	*****	*****
Balances with other banks and Money at call and short	7	*****	*****
Investments	8	*****	*****
Advances	9	*****	*****
Fixed Assets	10	*****	*****
Other Assets	11	*****	*****
		*****	*****
Contingent Liabilities:	12		
Bill for collection		*****	*****

Schedule-1: Share Capital

Authorized capital (-----Shares of ₹ -----each)	XXXXXX
Issued Capital (----- shares of ₹ ----- each)	
Subscribed Capital (-----shares of ₹ -----each)	
Called-up Capital (-----shares of ₹ -----each)	
Less: Calls unpaid	
Add: Forfeited shares	

Schedule- 2 Reserves and Surplus

General reserves	Xxx
Capital reserves	Xxx
Security premium	Xxx
Revaluation reserves	Xxx
Profit and loss(cr)	Xxx

Schedule- 3 -Deposits

Demand deposits	Xxx
Saving deposits	Xxx
Current deposits	Xxx
Recurring deposits	Xxx

Schedule – 4 Borrowings

I. Borrowings in India	
(i) Reserve Bank of India	Xxxx
(ii) Other Banks	Xxxx
(iii) Other institutions and agencies	Xxxx
II. Borrowings outside India	Xxxx
Total I + II	xxxx

Schedule 5 Other liabilities and provisions

I. "Bills Payable	
II. Inter-Office adjustments (net)	
III. Interests accrued	
IV. **Other (including provisions)	
Total:	

Note:- (i) Bills payable:-includes drafts, telegraphic transfers, traveller cheques, mail transfers payable, banker's cheques and their miscellaneous items.

(ii) Other (including provisions):- includes the net provisions for income -tax and other taxes, surplus in aggregate in provisions for bad debts, surplus in aggregate in prov. for depreciation in securities, Contingency funds which are not disclosed as reserve but are actually in the nature of reserves, proposed dividend / transfer to Government, other liabilities which are not disclosed under any of the major head, Certain types of deposits like staff security deposits, margin deposits, etc. where the repayment is not free.

Schedule- 6 Cash and balances with Reserve Bank of India

Cash in hand	Xx
(including foreign currency notes)	Xx
Balances with Reserve Bank of India	Xx
(ii) In Current account	Xx
(ii) In Other accounts	
Total (I + II)	

Schedule- 7 Balances with banks and money at call and short notices

Balance with other banks	XXX
Money at short notice	XXX
Money at call	XXX
* Money at Call and Short Notice: - It includes deposits repayable within 15 days or less than 15 days' notice lent in inter-bank call money market.	

Schedule- 8 Investments

I. Investments in India in	
(i) Government securities (including local authorities)	XXX
(ii) Other approved securities	XXX
(vi) Shares	XXX
(iv) Debentures and Bonds	XXX
(v) Subsidiaries and / or joint ventures	XXX
(vi) Others (to be specified)*	XXX
Total:	
II. Investments outside India in	
(vi) Government securities (including local authorities)	XXX
(ii) Subsidiaries and / or joint ventures abroad	XXX
(iii) Other investments (to be specified)	XXX
Total:	
Grand Total: (I +II)	

*Others includes residual investments if any, like gold, commercial paper and other instruments in the nature of share/debentures/bonds.

Schedule- 9 Advances

(vi) Bills purchased and discounted	
(ii) Cash credits, overdrafts and loans repayable on demand	
(iii) Term loans	
Total :	

Schedule-10 Fixed Assets

Premises	Xx
Furniture	Xx
Machinery	Xx
Equipment	Xx
Computers	Xx

Schedule-11 Other Assets

I. Inter-office adjustment (net)	
II. Interest accrued	
III. Tax paid in advance/ tax deducted at source*	
IV. Stationery and stamps**	
V. Non – banking assets acquired in satisfaction of claims	
VI. Others***	
Total :	

* The amount of tax deducted at source on securities, advance tax paid etc. to the extent that these items are not set off against relative tax provisions should be shown against this item.

**Stationery and stamps- includes only exceptional items of expenditure on stationery like bulk purchase of securities paper, loose leaf or other ledgers etc. which are shown as quasi-assets to be written off over a period of time.

Schedule-12 Contingent liabilities

I. Claims against the bank not acknowledged as debts	
II. Liabilities for partly paid investments	
III. Liabilities on account of outstanding forward exchange contracts	
IV. Guarantee given on behalf of constituents	
(a) In India	
(b) Outside India	
V. Acceptances, endorsements and other obligations*	
VI. Other items for which the bank is Contingently liable**	
Total :	

*Acceptances, endorsements and other obligations include letters of credit and bill accepted by the bank on behalf of customers.

**Other items include arrears of cumulative dividends, bill rediscounted under underwriting contracts, estimated amounts of Contract remaining to be executed on capital account and not provided for.

Notes and Instruction for Compilation:**General Instructions**

1. Formats of Balance Sheet and Profit and Loss Account cover all items likely to appear in the statements. In case a bank does not have any particular item to report, it may be omitted from the formats.
2. Corresponding comparative figures for the previous year are to be disclosed as indicated in the format. The words “current year” and “previous year” used in the format are only to indicate the order of presentation and may appear in the accounts.
3. Figures should be rounded off to the nearest thousand rupees.
4. The Hindi version of the balance sheet will be part of the annual report.

22. DISCLOSURE OF ACCOUNTING POLICIES:

In order to bring the true financial position of banks to pointed focus and enable the users of financial statements to study and have a meaningful comparison of their positions, the banks should disclose the accounting policies regarding key areas of operation at one place along with notes on accounting in their financial statements. The RBI has taken several steps from time to time to enhance the transparency in the operations of banks by stipulating comprehensive disclosures in tune with international best practices. The RBI has prescribed the following additional disclosures in the 'Notes to accounts' in the banks' balance sheets, from the year ending March, 2010:

- (i) Concentration of Deposits, Advanced, Exposures and NPAs;
- (ii) Sector-wise NPAs;
- (iii) Movement of NPA;
- (iv) Overseas assets, NPAs and Revenue.
- (v) Off - balance sheet SPVs sponsored by banks.

Note: SPV (Special purpose Vehicle) also called Special purpose entity (SPE)

FORM B--Profit and loss account for the loss account for the year ended on 31st March----- (Year)

	Schedule	Current year	Previous year
1. Income:			
Interest earned	13		
Other income	14		
Total A:			
2. Expenditure			
Interest expended	15		
Operating expenses	16		
Provisions and contingencies	---		
Total B:			
Profit / Loss: (A – B)			
Net Profit / loss (-) for the year			
Profit / loss (-) brought forward			
Total C:			
Appropriations:			
Transfer to statutory reserves			
Transfer to other reserves			
Transfer to government/ proposed dividend			
Balance carried over to Balance Sheet			

Schedule -13 Interests earned

	Current year	Previous year
(i) Interest / discount on advance / bills		
(ii) Income on investments		
(iii) Interest on balances with Reserve Bank of India and other inter-bank funds		
(iv) Other income		

Schedule-14-Other Income

	As on 31.3.20- (Current Year)	As on 31.3.20- (Previous Year)
I. Commission, exchange and brokerage		
II. Profit on sale of investments Less: Loss on sale of investments		
III. Profit on revaluation of investments Less: Loss on revaluation of investments		
IV. Profit on sale of land, buildings and other assets Less: Loss on sale of land, buildings and other assets		
V. Profit on exchange transactions Less: Loss on exchange transactions		
VI. Income earned by way of dividends, etc. from subsidiaries/ companies and/ or joint ventures abroad/ in India		
VII. Miscellaneous income		
Total :		

Schedule-15 Interest expended

	As on 31.3.20---- (Current Year)	As on 31.3.20---- (Previous Year)
(I) Interest on deposits		
(II) Interest on Reserve Bank of India / Inter bank borrowings		
(III) Others		
Total:		

Schedule-16--Operating-expenses

	As on 31.3.20- (Current Year)	As on 31.3.20-- (Previous year)
I. Payment to and provision of employees		
II. Rent, taxes and lighting		
III. Printing and stationery		
IV. Advertisement and publicity		
V. Depreciation on bank's property		
VI. Directory fees, allowances and expenses.		
VII. Auditor's fees, allowances and exp. (including branch auditors)		
VIII. Law charges		
IX. Postages, Telegrams, Telephones etc.		
X. Repairs and maintenance		
XI. Insurance		
XII. Other expenditure*		
Total :		

*Other expenditure includes license fees, donations, subscriptions to papers, periodicals, entertainment expenses, travel expenses, etc. In case any particular items under this head exceeds one percentage of the total income particular may be given in the notes.

Practical questions:**INTEREST INCOME RECOGNITION**

Question:1 Given below is the detail of interest on advances of commercial bank (₹ in lakhs).

Advances	On performing	Assets	On Non-performing	Assets
	Interest Earned	Interest Received	Interest Earned	Interest
Term Loan	100	80	50	20
Cash Credit	200	120	100	60
Bill Purchased & Discounted	300	180	150	90

Calculate the interest income to be recognized for the year ending 31st march 2022. **(CMA Inter 4 marks)**

Question 2. Given below are details of interest on advances of Oriental Bank of Commerce as on 31.3.2022.

Assets	Interest Earned (₹ in lakhs)	Interest Received (₹ in Lakhs)
Performing Assets:		
Term Loan	240	160
Cash Credit and Overdraft	1,500	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. **(CA-inter- 4Marks) [Answer ₹ 2,114]**

DISCOUNTING OF BILLS OF EXCHANGE:-- At the time of discounting of a bill of exchange, the amount of the discount is credited to the Discount Received Account. If some of the bills do not mature upto accounting date, the discount, to that extent, remains unexpired is transferred to Rebate on Bills Discounted Account.

Question : 3

Following balances appeared in the books of a bank, on 31 st March,2022	₹
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.

Question : 4 On 31st March 2011 Uncertain Bank Ltd. had a balance of ₹ 9 Crores in rebate on bills discounted A/c. During the year ended 31st March, 2012, Uncertain Bank Ltd. discounted bills of exchange of ₹ 4,000 Crores charging interest at 18% per annum. The average period of discount being for 73 days. Of these bills of exchange, bill of ₹ 600 Crores were due for realization from the acceptors/customers after 31st March, 2012. The average period outstanding after 31st March 2012 being 36.5 days. Uncertain Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to

- (i) Discount earned account and
- (ii) Rebate on bills discounted.

(1998- May) 10 Marks

[Ans. Transfer to P & L A/c ₹ 142.20 (Crores); Balance ₹ 10.80 (Crores)]

Question:5. The following particulars are extracted from the (Trial Balance) Books of the M/s Punjab & Sindh Bank Ltd. for the year ending 31st March, 2007.

(i) Interest and Discounts	1,96,62,400
(ii) Rebate on Bills Discounted (balance on 1.4.2006)	65,040
(iii) Bills Discounted and Purchased	67,45,400

It is ascertained that proportionate discount not yet earned on the bills discounted which will mature during 2007-2008 amounted to ₹ 92,760. Prepare

(I) Rebate on Bills Discounted Account; and

(II) Interest and discount Account in the ledger of the Banks.

(CA-nov- 2003) 6 marks, CMA Inter

Question : 6 Deleted from syllabus... just feel happy.

Question : 7 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%
20-12-2021	30,000	3 months	9%

Question 8:The following is an extract from the trial Balance of Dream Bank Ltd. As at 31st March, 2006:

Rebate on bills discounted as on 1/4/2005	68,259 (Cr.)
Discount received	1,70,156 (Cr.)

An analysis of the bills discounted reveals as follows:

Amount (₹)	Due Date
2,80,000	June 1, 2006
8,72,000	June 8, 2006
5,64,000	June 21, 2006
8,12,000	July 1, 2006
6,00,000	July 5, 2006

You are required to find out the amount of discount to be credited to Profit and Loss Account for the year ending 31st March, 2006 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

(CA- Nov 06, CMA inter- 6 MARKS)

Question 9: The following information is available in the books of X Bank Limited as on 31st March 2007:

Bills discounted	1, 37,05,000
Rebate on Bills discounted (as on 1.4.2006)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bills	Due Date	Rate of Discount
18,25,000	5.6.2007	12%
50,00,000	12.6.2007	12%
28,20,000	25.6.2007	14%
40,60,000	25.6.2007	16%

Calculate the rebate on bills discounted as on 31.3.2007 and give necessary Journal Entries.

Answer : Calculation of rebate on bills discounted

Date of Maturity	No. of day after 31.03.07	Amount	Rate	Total amount of discount	Proportionate amount for unexpired period
05.06.07	66	18,25,000	12%	2,19,000	39,600
12.06.07	73	50,00,000	12%	6,00,000	1,20,000
25.06.07	86	28,20,000	14%	3,94,800	93,021
06.07.07	97	40,60,000	16%	6,49,600	1,72,633
					4,25,254

Rebate on bills discounted (1.4.06)	2,21,600
Add: discount received	<u>10,56,650</u>
	12,78,250
Less: Rebate on 31.03.07	<u>4,25,254</u>
	<u>8,52,996</u>

Journal Entries

Particular	₹	₹
Rebate on bill discount Dr. To discount on bill A/c	2,21,600	2,21,600
Discount on bill A/c Dr. To Rebate on bill Discounted	4,25,254	4,25,254
Discount bill A/c Dr. To P & L A/c	8,52,996	8,52,996

Collection of Bills of Exchange of customer: Bills of exchanges are negotiable instruments representing claim on the acceptor payable at maturity. Banks provide a very useful service to its customers of collecting their bills on their behalf and remitting money after charging nominal fees. A systematic record of these bills is kept in subsidiary books called Bills for Collection.

- The accounting entry is made only when bills are collected when cash is debited and respective customer account is credited.
- Bills for collection pending at the end of the year are shown on the face of balance sheet by way of footnote.

An alternative way is-

- To record Bills for collection (asset) and Bills for collection (liability.) when bills for collection are received.
- In such case the trial balance will have two bills for collection account. They will respectively on the Debit and Credit Side.
- However, in Balance Sheet, it is cancelled out and Bills for collection appear as a footnote only.

Question : 10 On 31.3.2003, X Banks Ltd. had ₹ 12,00,000 bills for collection. During 2003-2004, it received further bill for collection amounted to ₹ 28,40,000. Bills dishonoured and returned to customers were ₹ 2,00,000 and bills collected during the period were ₹ 32,15,000. Prepare the bills for collection (Assets) A/c and bills for collection (liability) A/c. (CMA-INTER 5 MARKS)

Acceptances, Endorsements and Guarantees:- A Bank has a more acceptable credit as compared to that of its customers. In this capacity, they offer very useful service to their customers by guaranteeing their obligation.

- Alternatively, a customer can make a promissory note in favour of bank to be endorsed by bank in favour of customer's creditors.
- Another alternative is to draw a bill of exchange on bank with creditors as the payee.
- The effect of all the three transaction is identical,
- The customers creditor gets an assurance of payment from either customer or his banker (in case of default),
- There acceptances, endorsements and guarantees are shown as contingent liabilities in Schedule 12 to be shown by way of footnote to the balance sheet unless invoked, The invoking will take place only when the customer default. The record payment at that time only by debiting the customer as a part of double entry mechanism.

The bankers normally insist on some security before giving guarantees. In case of default, the banker cash dispose of the security and make good his losses.

Question : 11 On 1.4.2021, acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 14,50,000. During the year under question, Acceptances, endorsements, Guarantees etc., amounted to ₹ 44,00,000. Bank honoured acceptances to the extent of ₹ 25,00,000 and client paid off ₹ 10,00,000 against the guaranteed liability. Client failed to pay ₹ 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.

Question : 12 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 ₹ 22,30,000. Out of which ₹ 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

(CA-Inter[November. 1999]4 marks, CMA -Inter)

CREATION OF PROVISION FOR DOUBTFUL DEBTS: The Banks have to classify their advances into 4 categories:--

- (i) Standard Assets (ii) Sub-Standard Assets
(iii) Doubtful Assets (iv) Loss assets.

Banks should classify their advances based on their weakening credit standing and make provisions accordingly. Before making provision, the collateral security and erosion overtime should be taken into account.

Category	Standard Assets	Sub-Standard Assets	Doubtful Assets	Loss assets.
Definition	Assets which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset is not a NPA.	Asset which has been classified as NPA for a period not exceeding 12 months.	Assets which has remained NPA for a period exceeding 12 months.	Assets which is considered uncollectible; by bank; or internal auditors; or external auditors; or the RBI inspection
Provision Requirement	Agriculture and small and micro enterprises(SME) loan- 0.25% Commercial real estate-residential house 0.75% Other Commercial real estate—1% Restructured loan- 5% Other loan-- 0.4%	a.15% on secured loan and 25% on unsecured loan. Unsecured b.infrastructure loan where some safeguard is available(ESCRO A/C)- 20%	●Unsecured Portion-100% ● Secured Portion: Debt doubtful: up to 1 year : 25 % 1 To 3 Years: 40 % More than 3 years : 100 %	100% of the total outstanding

Note : housing loan extended at lesser rates – 2%. The provisioning on these assets would revert to 0.40% after 1 year from the date on which the rates are reset at higher rates if the accounts remain standard.

Question : 13 Advances have been classified as under:

	Cash - Credit	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.

(CMA – Inter 10 Marks)

Question : 14 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 ₹ 60 Lakhs against which the bank holds securities worth ₹ 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:	₹ (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	(CA-May-2000)

Provisioning in case of advances covered by guarantees of DICGC (i.e. Deposit Ins. And Credit Guarantee Corporation) / ECGC (i.e. Export Credit Guarantee Corporation.)

- ⇒ In case of advances guaranteed by ECGC or by DICGC, provision is required to be made only for the balance in excess of the amount guaranteed by these corporations.
- ⇒ In case the bank also holds a security in respect of an advance guaranteed by the ECGC / DICGC, the realizable value of the security should be deducted from the outstanding balance before the ECGC / DICGC guarantee is off-set.

Question : 15 Bidisha Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any interest since 1 March, 2009:

	Term Loan	Export credit
Balancing outstanding on 31 -03-2011	₹ 70 Lacs	₹ 60 Lacs
DICGC/ECGC Cover	50%	40%
Securities held	₹ 30 Lacs	₹ 25 Lacs
Realizable Value of securities	₹ 20 Lacs	₹ 15 Lacs

Compute the necessary provisions to be made for the year ended 31st March, 2011 .(CA-Inter – may 2002) 6 marks

Question : 16 Mohan Bank Ltd. gives you the following information for the year 2011-2012.

- (i) Export credit given ₹ 50 Lakhs
- ECGC Cover 40%
- Securities held ₹ 10 Lakhs (realizable value ₹ 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.

(CMA-INTER 6 MARKS)

Question .17

(I) From the following, compute the amount of provisions to be made in the profit and loss Account of a bank:

Assets	₹ In Lakhs
(i) Standard (Value of security ₹ 6,000 lakhs)	7,000
(ii) Sub-standard	3,000
(iii) Doubtful	
(a) Doubtful for less than one year (Realisable value of security ₹ 500 lakhs)	1,000
(b) Doubtful for more than one year, but less than 3 year (Realisable value of security ₹ 300 lakhs)	500
(c) Doubtful for more than 3 year (No security)	300

(II) Form the following details, prepare bills for collection (Asset) A/c and bill for collection (Liability) A/c:

Particulars	₹
On 1-4-2005, Bills for Collection were	51,00,000
During the year 2005-06 Bills received for Collection amounted to	75,00,000
Bill collected during the years 2005-06	98,47,000
Bill dishonored and returned during the year	27,10,000

(CA- MAY 2006 – 4MARKS)

Calculation of Cash Reserve and Liquidity Reserve:

Question 18. Andhra Bank a schedule bank provides you the following information:

Particulars	Dr. (₹ in Lakhs)	Cr. (₹ in Lakhs)
Fixed Deposit	-	51,700
Saving Deposit	-	45,000
Current Accounts	2,800	52,012
Cash in Hand	16,015	-
Cash with Other banks	15,587	-
Money at call	21,012	-
Gold	5,523	-
Government Securities	11,017	-
Shares	1,000	-
Cash with RBI	3,788	-

You are required:

- To calculate the cash reserve to be maintained.
- To calculate the necessary amt. required to be transfer to RBI to maintain required cash reserve.
- To calculate the amount of liquidity to be maintained and comment thereupon

Accounting of Interest on doubtful debts: when a debt is found to be doubtful at the end of the accounting year.

There is no doubt that interest has accrued, but it is equally clear that the realisation of this interest is doubtful.

Therefore as a prudent accounting policy, such interest should be transferred to interest suspense account by making following entry:

Loan account	Dr.
	To interest suspense account

Note: interest suspense account should be shown in liability side of the balance sheet.

In next year, if the debtor become insolvent and part of interest realised and remaining became irrecoverable, following entry is made:

Interest suspense account	Dr. (total interest)
	To interest account (interest realised)
	To loan account (interest unrealised)

Question 19. HDFC bank has given a loan of ₹ 10,00,000 to a customer on 1st August 2021 at simple interest of 12%p.a. On 31st March 2022, it is doubtful that customer will pay interest as his financial condition is not good. Make journal entry for treatment of interest on loan given to the customer as on 31st March 2022.

Question 20: when closing the books of COC bank on 31st march 2021, you find in loan ledger, an unsecured merchant balance of ₹ 2,00,000 whose financial condition is reported as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year. During the year 2021-22, the bank accepts 75% on account of the total debts due up to 31-3-2021. Show necessary entries and ledger account for above transactions. (ICMAI Study material)

Preparation of financial statement

Question 21.

Particular	₹ ('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	₹ 2,20
provision during the year for doubtful debts	₹ 1,02
loss on sale of investments	₹ 12
rebate on bill discounted	₹ 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 ₹ 16,000

Question 22: Following figures are extracted from the books of X Bank Ltd. for the year ending on 31st March, 2004.

Particular	₹
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 ₹ 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 ₹ 50,000.
- iii. Rebate on bills discounted as on 01.01.2003, ₹ 7,500.
- iv. Provide ₹ 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.

Question 23. Deleted from syllabus----enjoy it

Question 24. From the following information, prepare a Balance Sheet of ADT International Bankas on 31st March, 2022 giving the relevant schedules:

Particulars	Dr. (₹ in Lakhs)	Cr. (₹ in Lakhs)
Share Capital	-	198.00
19,80,000 Shares of ₹ 10 each.		
Statutory Reserve	-	231.00
Net Profit before Appropriation	-	150.00
Profit and Loss Account	-	412.00
Fixed Deposit Account	-	517.00
Savings Deposit Account	-	450.00
Current Accounts	28.00	520.12
Bills Payable	-	0.10
Cash Credits	812.10	-
Borrowings From other Banks	-	110.00
Cash in Hand	160.15	-
Cash with RBI	37.88	-
Cash with Other Banks	155.87	-
Money at Call	210.12	-
Gold	55.23	-
Government Securities	110.17	-
Premises	155.70	-
Furniture	70.12	-
Term Loan	792.88	-
	2588.22	2588.22

Additional Information: -

Bills for Collection	18,10,000
Acceptances and endorsements	14,12,000
Claims against the Bank not acknowledged as debt	55,000
Depreciation-Premise	1,10,000
Depreciation-Furniture	78,000

50% of the Term Loans are secured by Government guarantees. 10% of cash credit (including Debit balance in Current A/c) is unsecured. Assume that CRR is required to be maintained at 4% of deposits. Transfer 25% of its profit to the reserve fund. Check and comment on the liquidity of the bank assuming prevailing SLR is 18%.

Question 25. From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 2022:

Items	₹ 000
Interest on Cash Credit	1820
Interest on Overdraft	750
Interest on Terms loans	1540
Income on Investments	840
Interest on balance with RBI	150
Commission on Remittance and transfer	75
Commission on letters of Credit	118
Commission on government business	82
Profit on sale of land and building	27
Loss on exchange transactions	52
Interest paid on deposits	2720
Auditors' fees and allowances	120
Directors' fees and allowances	250
Advertisements	180
Salaries, allowances and bonus to employees	1240
Payment to Provident Fund	280
Printing and Stationery	140
Repairs and Maintenance	50
Postage, telegrams, telephones	80

Other Information:

(i) Interest on NPA is as follows	Earned (₹ 000)	Collected (₹ 000)
Cash Credit	820	400
Overdraft	450	100
Term Loans	750	250
(ii) Classification of Non-Performing Advance (₹ 000)		
Standard		3000
Sub-Standard		1120
Doubtful assets not covered by Security		200
Doubtful assets covered by Security for one year		50
Loss Assets		200
(iii) Investment		2750

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment. The market value of its rest 75% investment is ₹ 19,75,000 as on 31-3-2022.

Answer: interest earned 3,830; other income 2.50; interest expended 2,720 ; operating expenses ₹ 2,340, provisions and contingencies 680

Question: - 26 From the following information calculate the amount of provision and contingencies and prepare profit and loss account of Zed bank Ltd. For the year ended 31.3.2004

Particulars	(₹ In '000)
Interest and discount (Includes interest accrued on investments)	8,860
Other Income	220
Interest expended	2,720
Operating expenses	2,830
Interest accrued on investments	10

Additional information: (₹ In '000)

Rebate on bills discounted to be provision for 30

Classification of advances:

Standard assets 4,000

Sub-standard assets 2,240

Doubtful assets-(fully unsecured) 390

Doubtful assets – covered fully by security

Less than 1 year 100

More than 1 year, but less than 3 years 600

More than 3 years 600

Loss assets 376

Provision 35% of the profit towards provision for taxation.

Transfer 25% of the profit by statutory reserve.

(CA- MAY 2005 – 16MARKS)

Hint: since interest accrued on investments are already included in interest and discount, hence separate information provided regarding interest accrued on investment will be ignored while solving this question.

Question:-27. Deleted from syllabus----enjoy it

Question:-28 From the following information, you are required to prepare profit and loss account of Zee Bank Ltd. For the year ending 31st March, 2009

	₹		₹
Interest and discount	44,00,000	interest expended	13,60,000
Other income	1,25,000	operating expenses	13,31,000
Income on investments	5,000	interest on balance with RBI	25,000

Additional information:

(a) Rebate on bills discounted to be provision for ₹ 15,000

(b) **Classification of advance :**

Standard assets	25,00,000
Sub-standard assets	5,60,000
Doubtful assets not covered by security	2,55,000

Doubtful assets covered by security:

For 1 year	25,000
For 2 years	50,000
For 3 years	1,00,000
For 4 years	75,000
Loss assets	1,00,000

(c) Make tax provision @ 35%

(d) Profit and loss A/c (Cr.) ₹ 40,000.

(CA- nov 2009 – 8 MARKS)

Answer: - Profit and loss account for the year ended 31st March, 2009

	Particulars	Schedule No.	Year ended 31 st March, 2009
I.	Income:		
	Interest earned	13	44,15,000
	Other income	14	1,25,000
	Total		45,40,000
II.	Expenditure		
	Interest expended	15	13,60,000
	Operating expense	16	13,31,000
	Provision and contingencies (W.N.1)		10,30,813
	Total		37,21,813
III.	Profit/Loss		
	Net profit for the year		8,18,187
	Profit brought forward		40,000
	Total		8,58,187
IV.	Appropriations:		
	Transfer to statutory reserve (@ 25% on ₹ 8,18.187)		2,04,547
	Balance carried forward to balance sheet		6,53,640
	Total		8,58,187

Schedule 13: interest earned

Interest and discount	44,00,000
Less: rebate on bill discounted	(15,000)
Income on investment	5,000
Interest on balance with RBI	<u>25,000</u>
Total	44,15,000

Working Note 1: Statement of provision and contingencies:

Provision for doubtful debts	5,90,250
Provision for taxation (45,40,000 – 13,60,000 – 13,31,000- 5,90,250) X 35% =	<u>4,40,563</u>
Total amount	<u>10,30,813</u>

Question:- 29 Deleted from syllabus----enjoy it

Question 30. The following are the ledger balances (in Rupee's thousands) extracted from the books of Vaishnavi Bank as on March 31, 2022

Particulars	Dr.(₹)	Cr. (₹)
Share Capital	-	1,90,000
Current Accounts Control	-	97,000
Employees Security Deposits	-	7,420
Investment in Govt. of India Bonds	94,370	-
Gold Bullion	15,130	-
Silver	2,000	-
Constituent liabilities for acceptance and Endorsement	56,500	56,500
Borrowings From Banks	-	77,230
Building	65,000	-
Furniture	5,000	-
Money at call and short notice	26,000	-
Commission & Brokerage	-	25,300
Savings Accounts	-	15,000
Fixed Deposits	-	23,050
Balances with Other Banks	46,350	-
Other Investment	55,630	-
Interest Accrued on Investments	24,620	-
Reserve Fund	-	1,40,000
P&L A/c	-	6,500
Bills For Collection	43,500	43,500
Interest	-	62,000
Loans	1,81,000	-
Bills Discounted	12,500	-
Interest	7,950	-
Discount	-	42,000
Rents	-	6,00
Audit Fees	5,000	-
Depreciation Reserve (Furniture)	-	200
Salaries	21,200	-
Rent, Rates and Taxes	12,000	-
Cash in Hand and With Reserve Bank*	75,000	-
Miscellaneous Income	-	3,900
Depreciation Reserve (Building)	-	800
Director Fees	1,000	-
Postage	1,250	-
Loss on Sale of Investments	20,000	-
Branch Adjustment	20,000	-
	7,91,000	7,91,000

*** Details of Cash in Hand and With Reserve Bank:**

Particulars	₹
Cash in Hand (including foreign currency notes)	35,000
Balances with Reserve Bank of India:	
(i) In Current Account	32,000
(ii) In Other Account	8,000

Other Information:

The bank's Profit and Loss Account for the year ended and Balance Sheet as on 31st March, 2022 are required to be prepared in appropriate form. Further information (in Rupee's thousands) available is as follows —

(a) Rebate on bills discounted to be provided ₹ 4,000

(b) Depreciation for the Year

Building	5,000
Furniture	500

(c) Included in the Current Account ledger are accounts overdrawn to the extent of ₹ 2,500.

Transfer to Statutory Reserve 25% of the Net Profits for the current year.

Answer: profit for the year ₹ 55,900

Question:-31 From the following information prepare the profit and loss account of Jawahar Bank Ltd. For the year ended 31st March, 2011. Also give necessary schedules.

Figures are in ₹ Thousands	
Interest earned on term loans	17.26
Interest earned on term loans classified as NPA	4.52
Interest received on term loans classified as NPA	2.04
Interest on cash credits and overdrafts	38.54
Interest earned but not received on cash credit and Overdraft treated as NPA	8.39
Interest on deposits	27.20
Commission	1.97
Profit on sale of investments	11.76
Profit on revaluation of investment	2.76
Income from investments	15.53
Salaries bonus and allowances	18.75
Rent, Taxes and lighting	1.70
Printing and stationery	0.75
Directors fees, allowances expenses	1.33
Law charges	0.22
Repairs and Maintenance	0.18
Insurance	0.30

Other information:**Mark necessary provision on risk assets:**

i.	Sub-standard	15.00
ii.	Doubtful for one year	7.00
iii.	Doubtful for two years	2.40
iv.	Loss assets	0.65
v.	Investments	3700

Bank should not keep more than 25% its investment as 'held-for-maturity' investment. The market value of its rest 75% investment is ₹ 9,00,000 as on 31st March, 2011

(CA- MAY 2011 – 16 MARKS)

Question 32: The books of a bank include a loan of ₹ 5,00,000 advanced on 30.09.2022, interest chargeable @ 16% p.a. compounded quarterly. The security for the loan being 7,000 shares of ₹ 100 each in a public limited company valued @ ₹ 90 each. There is no repayment till 31.12.2023. On 31.12.2023, the value of shares declined to ₹ 80 per share. How would you classify the loan as secured or unsecured in the Balance Sheet? **(ICMAI Study material)**

Question 33: Deleted from syllabus----enjoy it

Question 34: From the following trial balance and the additional information, prepare a Balance Sheet of Lakshmi Bank Ltd. a Scheduled Commercial Bank as at 31st March, 2023:

Debit balance	₹ (in lakhs)
Cash credits	1,218.15
Cash in hand	240.23
Cash with Reserve bank of India	67.82
Cash with other Banks	132.81
Money at call and short notice	315.18
Gold	82.84
Government securities	365.25
Current Accounts	42.00
Premises	133.55
Furniture	95.18
Term Loan	1,189.32
	3,882.33
Credit balance	₹ (in lakhs)
Share Capital (29,70,000 equity shares of ₹ 10 each, fully paid up)	297.00
Statutory Reserve	346.50
Net Profit for the year (before appropriation)	225.00
Profit & Loss Account (Opening balance)	618.00
Fixed deposit Accounts	775.50
Savings Deposit Accounts	675.00
Current Accounts	780.18
Bills Payable	0.15
Borrowings from other Banks	165.00
	3,882.33

Additional Information:

- i. Bills for collection: ₹ 18,10,000
- ii. Acceptance and endorsements: ₹ 14,12,000
- iii. Claims against the bank not acknowledged as debts: ₹ 55,000
- iv. Depreciation charged on premises: ₹ 1,10,000 and Furniture: ₹ 78,000

(ICMAI Study material)

Question 35. Deleted from syllabus----enjoy it

Question 36. Deleted from syllabus----enjoy it

Question 37. Deleted from syllabus----enjoy it

Question 38. Deleted from syllabus----enjoy it

Question 39. Multiple choice questions (MCQ)

i. A banking company can pay dividend on its shares

- (a) After writing off all its capitalized expenses including preliminary expenses.
- (b) After charging depreciation on its investments.
- (c) After charging bad debts where adequate provisions have been made to the satisfaction of the auditor.
- (d) Before charging depreciation on its investments and writing off all its capitalized expenses.

ii. On 1.4.2021 bills for collection were ₹ 10,000. During 2021-2022 bills received for collection amounted to ₹ 1,00,000, Bill collected were ₹ 80,000 and bills dishonoured and returned were ₹ 5,000. What will be the amount of bills for collection (assets) account as on 31.3.2022?

- (a) 25,000. (b) 30,000 (c) 35,000 (d) none of the above

iii. Rebate on bill discounted is shown in the

- (a) Assets side of the balance sheet
- (b) Liabilities side of the balance sheet
- (c) Income side of the income statement
- (d) Expense side of the income statement.

iv. Bills for collection are shown:

- (a) On Assets side of the balance sheet.
- (b) on liabilities side of the balance sheet.
- (c) On the income side of the income statement
- (d) As note below the balance sheet.

v. What percentage of provision is required on standard assets (other than advances to agricultural, SME and commercial Real Estate)?

- (a) 10 (b) 40 (c) 0.40 (d) 0.25

vi. In case of direct advances to agricultural and SME, what percentage of provision is required on standard assets?

- (a) .25 (b) 40 (c) 0.40 (d) 25

vii. When income is to be recognised on cash basis by safe trust Bank, a distinction should be made between

- (a) Banking and non-banking assets.
- (b) Monetary and non-banking assets.
- (c) Current and non-current assets.
- (d) Performing and Non- performing assets.

viii. For the year ended 31st March, 2021 Non-performing assets classified as sub-standard in Centura Bank Ltd. Will be classified as doubtful after

- (a) 24 months (b) 18 months (c) 12 months (d) 180 days.

ix. In case of advances to Commercial Real Estate (CRE) sector, what percentage of provision is required on standard assets?

- (a) .25 (b) 1.00 (c) 0.40 (d) 25

x. The Provisions on _____ assets should not be reckoned for arriving at net NPAs.

- (a) Sub-standard (b) Standard (c) Doubtful (d) Loss

xi. For more than three years (unsecured) doubtful advances, provision will be made for

- (a) 10% (b) 40 % (c) 100% (d) 2

CHAPTER 2. ACCOUNTS OF INSURANCE COMPANY

INTRODUCTION: Several people exposed to a particular type of risk contribute small amounts called premiums to an insurance fund from which the unfortunates who actually suffer the risk are compensated. Insurance business is essentially a way of averaging the risks.

A policy is a contract entered into between the insurance companies called the 'insurer' and the person insuring his risk called the 'insured'.

Policy specifies all the conditions subject to which the policy is issued. These conditions bind both the parties.

The policy is in the form of a document which the insurance company issues after receiving the premium. Thus Insurance is essentially a method of averaging risks.

Types of Policies: Depending on the type of risk, there are several types of insurance policies.

(i) Fire policies: Risks of fire are covered by fire policies.

(ii) Marine policies: Marine risks of goods, vessels and freights of goods are covered by marine insurance policies.

(iii) Burglary insurance policies- Losses of theft are covered by Burglary insurance.

(iv) Miscellaneous policies : There are miscellaneous policies to insure accidents, fidelity of employees, loss of profits in the event of fire and accidents and deaths to employees at work spots.

Note: for accounting purpose burglary insurance policies and miscellaneous policies are covered under miscellaneous insurance policies.

(v) Life insurance takes primarily two forms.

(a) Endowment policy: In the case of **endowment policy**, the insured obtains a specified sum in the event of the insured obtaining a specified age or to the family in case the insured dies before attaining specified age. They may be again with or without profit policies.

(b) Whole Life policy: In the case of whole life policies the family of the insured (to be exact the nominee mentioned in the policy) receives a specified sum on the death of insured.

The premiums would be less in the case of whole life policies compared to endowment policies for the insured of the same age.

Principles of Insurance: There are several principles governing insurance business, the important of which are discussed below.

(a) Principle of indemnity: Insurance is a contract of indemnity. The insurer is called indemnifier and the insured is the indemnified. In a contract of indemnity, only those who suffer loss are compensated to the extent of actual loss suffered by them. One cannot make profit by insuring his risks.

(b) Insurable interest: All and sundry cannot enter into contracts of insurance. For example, A cannot insure the life of B who is a total stranger. But if B, happens to be his wife or his debtor or business manager, A has insurable interest and therefore he can insure the life of B. For every type of policy insurable interest is insisted upon. In the absence of such interest the **contract will amount to a wagering contract.**

(c) Principle of uberrimae fidei: Under ordinary law of contract there is no positive duty to tell the whole truth in relation to the subject-matter of the contract. There is only the negative obligation to tell nothing but the truth. In a contract of insurance, however there is an implied condition that each party must disclose every material fact known to him. This is because all contracts of insurance are contracts of uberrimae fidei, i.e., contracts of utmost good faith. This is because the assessment of the risk and the determination of the premium by the insurer depends on the full and frank disclosure of all material facts in the proposal form.

Distinction between Life and Non-life Insurance: There are certain basic differences between life policies and other types of policies. These are listed below:

(1) Human life cannot be valued exactly. Therefore each insured is permitted to insure his life for a specified sum, depending on his capacity to pay premiums. This is not the case with other policies. Non-life insurance policies are contracts of indemnity. Therefore notwithstanding the amount for which the policy is taken, the insurer would pay (reimburse) only the actual loss suffered or the liability incurred.

(2) Life insurance contracts are long-term contracts. Once a policy is taken premiums have to be paid for number of years till maturity and the policy amount is paid on maturity. In the case of non life insurance policies, they are for a short period of one year although the policy can be renewed year after year.

(3) Life insurance is known also by another term 'assurance' since the insured gets an assured sum. Other policies (Non-life insurance) are known as insurance.

(4) The determination of profit is by different methods for life and general insurance business: In the case of life business periodically actuaries estimate the liability under existing policies. On that basis a valuation Balance Sheet is prepared to determine the profit. In the case of general insurance business a portion of the premium is carried forward as a provision for unexpired liability and the balance net of claims and expenses is taken as profit (or loss).

IMPORTANT PROVISIONS OF THE INSURANCE ACT, 1938: The Insurance Act, 1938 and the rules framed thereunder have an important bearing on the preparation of accounts by insurance companies.

(1) Forms for final accounts [Sec 11(1)]: Every insurer, on or after the date of the commencement of the Insurance Laws (Amendment) Act, 2015, in respect of insurance business transacted by him and in respect of his shareholders' funds, shall at the expiration of each financial year, prepare with reference to that year, balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations as may be specified.

(2) Audit: The Act provides that the company carrying on general insurance business be audited as per the requirements of the Companies Act, 2013.

(3) Register of policies [Sec 14(1)(a)]: Every insurer shall maintain a record of policies, in which shall be entered, in respect of every policy issued by the insurer, the name and address of the policyholder, the date when the policy was effected and a record of any transfer, assignment or nomination of which the insurer has notice.

(4) Register of claims: The insurer must also maintain a register of claims for record of claims, every claim made together with the date of the claim, the name and address of the claimant and the date on which the claim was discharged, or in the case of a claim which is rejected, the date of rejection and the grounds thereof.

(5) Approved investments (27B): All assets of an insurer carrying on general insurance business shall subject to such conditions, if any, as may be prescribed, be deemed to be assets invested or kept invested in approved investments specified in this section.

(6) Payment of commission to authorized agents (Sec 40): No person shall, pay or contract to pay any remuneration or reward, whether by way of commission or otherwise for soliciting or procuring insurance business in India to any person except an insurance agent or an intermediary or insurance intermediary in such manner as may be specified by the regulations.

(7) Sec 40 (C): Every insurer transacting insurance business in India shall furnish to the Authority, the details of expenses of management in such manner and form as may be specified by the regulations made under this Act.

(8) Sec 64VA: Every insurer and re-insurer shall at all times maintain an excess of value of assets over the amount of liabilities of, not less than 50% of the amount of minimum capital as stated under Section 6 and arrived at in the manner specified by the regulations.

BOOKS REQUIRED TO BE MAINTAINED BY INSURANCE COMPANIES: Under the Insurance Act, 1938 it is obligatory on the part of all insurance companies including the general insurance companies to maintain the **following books which may be called 'statutory books'**.

1. The registrar of policies.

2. The register of claims.

3. The register of licensed insurance agents.

In addition to the statutory books mentioned above, insurance companies also maintain the following subsidiary books for recording the transactions:

- i. Proposal register
- ii. New premium cash book
- iii. Renewal premium cash book
- iv. Agency and branch cash book
- v. Petty cash book
- vi. Claims cash book
- vii. General cash book
- viii. Agency credit journal
- ix. Agency debit journal
- x. Lapsed and cancelled policies book
- xi. Chief journal
- xii. Commission book
- xiii. Agency ledger
- xiv. Policy loan ledger
- xv. General loan ledger
- xvi. Investment ledger

IRDA REGULATIONS REGARDING PREPARATION OF FINANCIAL STATEMENTS

IRDA has issued fresh regulations regarding the preparation of financial statements and Auditor's Report on 14th August, 2000. The salient features are listed below:

(1) Insurers will in addition to the earlier statements will have to prepare a receipts and payments account (cash flow statement). This statement must be prepared in accordance with AS-3 using the direct method given in the standard.

(2) Insurers doing life insurance business should comply with the requirements of Schedule A. The Schedule gives the following forms:

Revenue Account	Form A-RA
Profit and Loss Account	Form A-PL
Balance Sheet	Form A-BS

The profit and loss account and balance sheet are given in summary form. There are 15 Schedules, the first four relating to profit and loss account and the remaining eleven relate to balance sheet which give the details of the summary heads. Schedule 5 deals with share capital. It is followed by a connected Schedule 5A, which, gives the pattern of shareholding.

(3) Insurers doing general insurance business should comply with the requirements of Schedule B. The schedule gives the following forms:

Revenue Account	Form B-RA
Profit and Loss Account	Form B-PL
Balance Sheet	Form B-BS

The profit and loss account and the balance sheet are given in summary form. The details are to be shown in the accompanying schedules. Here also the first four relate to profit and loss account and the rest eleven pertaining to balance sheet. Schedule 5A gives the pattern of shareholding. In both the schedules profit and loss appropriation account is dispensed with and the appropriations are accommodated in the profit and loss account.

(4) The report of the auditors on the financial statements of every insurer and re-insurer must conform to the requirements of Schedule C. The Authority reserves the right to issue guidelines on the appointment, continuance or removal of auditors. These guidelines can include matters relating to qualifications, experience, rotation and period of appointment of auditors.

(5) The financial statements must be accompanied by a management report given in part (iv) in Schedules

A and B as well. The report deals with compliance of certain requirements of the regulations, provision of solvency margins, disclosure with regard to the overall risk exposure and the strategy adopted to mitigate the same. It also includes ageing of claims indicating the average period taken to settle the claims, computing market value of investments, its impact on balance sheet and a review of asset quality performance of investments in terms of portfolios such as real estate, loans, investments, etc.

Finally, the report includes a responsibility statement indicating the compliance with the accounting standards, financial statements reflecting a true and fair view, maintenance of adequate accounting records, preparation of accounts on a going-concern basis and the existence of an internal audit system consistent with the size and nature of business.

(6) The financial statements should disclose the contingent liabilities, the accounting policies and the departures from such policies with reasons therefore.

(7) Premium recognition: Premium is the main revenue for insurance business. In the case of life business premium is to be recognized on due basis. In the case of general insurance premium is to be recognized as income over the contract period or the period of risk whichever is appropriate.

(8) Premium Deficiency: It is the sum of expected claim costs, related expenses and maintenance costs exceeding the related unearned premium.

(9) Catastrophe reserve. Such a reserve should be created by the insurers towards losses which might arise due to entirely unexpected set of events and not for any specific known purpose. Investment of the funds of this reserve must be made in accordance with the prescription of Authority.

(10) Valuation of investments must be made in the manner prescribed by the Authority.

(11) Loans must be measured on historical cost subject to impairment provisions.

ACCOUNTS OF LIFE INSURANCE BUSINESS:

(i) Types of Policies: As stated earlier, under a contract of life insurance an insurance company guarantees to pay a fixed sum of money to the insured on his attaining a certain age or to his nominees or legal heirs on his death. The contract in its written form is called a policy and broadly there are two types of policies. They are (1) whole life policy, and (2) Endowment policy.

- (1) whole life policy:** Under whole life policy the insured does not get the amount during his life time. The amount is paid only to his nominees or heirs on his death.
- (2) Endowment policy:** In the case of Endowment policy the amount is paid to the insured on his attainment of a specified age or if he dies before, the amount is paid to his nominees or heirs. As explained later life insurance company ascertains the profits once in two years. 95% of such profits are distributed to policyholders as bonus. Such bonus is to be credited only to 'with profit policies'.

The holders of 'without profit policies' have no right to the bonus. Naturally the premium is comparatively less in the case of 'without profit policies' than in the case of 'with profit policies'.

(ii) Annuity Business: Life insurance companies also do annuity business. Annuity refers to fixed annual payment made by the insurance company to the insured on his attaining a specified age. The insured deposits lump sum amount by way of consideration for the annuity granted. This is a method under which the person purchasing the annuity receives back his money with interest. Annuity paid represents an expenditure of the life insurance business and the consideration received for annuities is an item of income.

(iv) Surrender Value: In the case of life 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.

(v) Paid-up Policy: A policy holder, who has difficulty in paying the premium, may be allowed an option to get the policy paid-up. In such a case, the policyholder is relieved from the obligation of paying off the rest of premium, but he will not get the full value of policy which is calculated as follows:

$$\text{Paid-up value} = \text{Sum assured} \times \text{No. of Premiums paid} / \text{Total number of premiums payable.}$$

The amount paid on maturity in respect of paid-up policies is included in the amount of claims.

(vi) Bonus: It is nothing but the share of profit which is payable by the insurance company to the policyholders. Bonus may be of three types –

- (i) Cash Bonus:** It is paid to the policyholders in cash when the Valuation Balance Sheet is prepared.
- (ii) Reversionary Bonus:** It is added to the policy amount and is paid together with the policy amount when matured for payment.
- (iii) Bonus in reduction of premium:** It is just applied in reducing further premiums.
- (iv) Interim Bonus-** It is a bonus declared between dates of two valuation Balance Sheets. It is for a period for which valuation is not complete.

Note: Bonus in Reduction of Premium: In all the cases of general insurance the policy is always taken for one year and it is to be renewed after the expiry of the policy. Whether the policy is renewed with the same company, or a fresh policy is taken with some other company, it is a standing practice that the company usually grants a reduction in premium at the prescribed rate if the insured has not made any claim. This rate of reduction increases every year for usually three years if the insured does not make any claim continuously year after year.

(vii) Premium: The payment made by the insured to the Insurance Company in consideration of the contract of Insurance. The premium is generally paid annually. In some cases it may be paid at shorter intervals. **A point to be noted is the premium amount has to be paid “front end” i.e., before the commencement of the insurance cover/ policy.**

(viii) Claims: A claim occurs when any policy fall due for payment. In case of Life Insurance, it arises on death or on maturity of policy. In case of General Insurance, it arises only when the loss occurs. While calculating the claim outstanding at the end, the claim intimated as well as the claim intimated and accepted both are considered. The adjustment entry required is:

Claims A/c	Dr.
	To Claims intimated and accepted but not paid A/c
	To Claims intimated but not accepted and paid A/c

At the starting of the next period a reverse entry is passed, so that when these claims intimated are paid, they may not influence the claims account of next year. However, if company rejects any claim, such amount should be transferred to the insurance fund account and not to the claims account.

(ix) Commission: Generally, Insurance Companies get business through agents; these agents receive commission on the basis of the amount of premium they generate for the Insurance Company. Commission paid to Agents is shown as a debit (expense) in the Revenue Accounts.

(x) Re-insurance: Re-insurance means the transfer of a part of risk by the insurer. This is particularly done when the amount of insurance is very high and when it is very difficult to bear the entire risk by a single insurer, a part of the risk is to be insured with some other insurance companies.

(xi) Double Insurance: When the same risk and the same subject matter is insured with more than one insurer, i.e., more than one insurance company, the same is called Double Insurance.

(xii) Ceding Company: An insurance company that shifts part or all of a risk it has assumed to another insurance company. The Ceding company shares the premium amount it has received to cover the risk, with the second insurance company called the Reinsurer. In return the Reinsurer company pays commission to the Ceding company for getting the business.

(xiii) Life Assurance Fund: This represents the excess of revenue receipts over revenue expenditure relating to life business. The fund is available to meet the aggregate liability on all policies outstanding. Revenue Account is prepared every year to ascertain the balance of life insurance fund at the end of the year. In the preparation of Revenue Account, the opening balance of the life insurance fund is the starting point. Other items of revenue income are credited to the fund and revenue items of expense are debited. The resulting figure is the closing balance of the revenue fund.

(xiv) Valuation Balance Sheet: The balance in the life assurance fund cannot be taken as the profit made by the life insurance business. For the purpose of ascertaining the profit, the insurance company should calculate its net liability on all outstanding policies. This calculation is done by experts called actuaries and is a highly complicated mathematical process.

Insurance companies are required to have such valuation once in every two years. For calculating net liability, the actuaries calculate the present value of future liability on all the policies in force as well as present value of future premium to be received on policies in force. The excess of the present value of future liability over the present value on future premium is called the net liability.

It is by comparing the life insurance fund and net liability in respect of policies, that profit in respect of life insurance business can be ascertained. If the life insurance fund is more than the net liability, the difference represents the profit. On the other hand, the excess of net liability over the life assurance fund represents the loss for the inter-valuation period. According to Section 28 of the Life Insurance Corporation Act, 1956, 95% of the profit of life business must be distributed

to the policyholders by way of "Bonus" on with-profit policies and the remaining 5% has to be utilized for such purposes as the Government may determine. The profit or loss of life insurance business is ascertained by preparing a statement called 'Valuation Balance Sheet' which is reproduced below.

Valuation Balance Sheet as on.....

To Net liability as per actuary's valuation		By Life Assurance Fund as per Balance Sheet	
To Surplus (Net Profit)		By Deficiency (Net loss)	

1.Preparation of Financial Statements: Every insurer carrying on **LIFE** insurance business shall prepare revenue account in Form A-RA, profit and loss account in form A-PL and balance sheet in form A-BS. Every insurer carrying on **GENERAL** insurance business shall prepare revenue account in Form B-RA, profit and loss account in form B-PL and balance sheet in form B-BS.

2. The act prohibits payments of commission to any person other than authorized agent subject to a maximum of 15% of the premium.

FORM A-RA- Revenue Account for me year ended 31st March 20.....[Policyholders' Account]

Particulars	Schedule	Current Year (₹ ,000)	Previous Year (₹ ,000)
Premium earned –net	1	*****	*****
Income from Investments:			
(a) Interest, Dividend & Rent —Gross		*****	*****
(b) Profit on sale/redemption of investments			
(c) (Loss on sale/redemption of investments)			
(d) Transfer'/Gain on revaluation/change in-fair-value			
Other Income (to be specified)			
Total (A)			
Commission	2		
Operating Expenses	3		
Provisions (other than taxation)			
(a) for diminution in the value of investment			
(b) others(to be specified)			
Total (B)			
Benefits Paid (Net)	4		
Interim Bonus Paid			
Change in valuation of liability in respect of life policy (closing – opening)			
Total (C)			
SURPLUS/(DEFICIT): D = (A)-(B)-(C)			
APPROPRIATIONS:			
Transfer to Shareholders' Account (5%)			
Transfer to Other Reserves (to be specified)			
Transfer to funds for future Appropriations for policy holders			

FORM-(A-PL) Profit & loss Account for the year ended 31st March 20[Shareholders' Account]

Particulars	Schedule	Current Year	Previous Year
Amount transferred from/ to the Policyholders Account (Technical Account)		*****	*****
Income from Investments			
(a) Interest, Dividend & Rent- Gross			
(b) Profit on sale/ redemption of investments			
(c) (Loss on sale/ redemption of investments)			
Other Income (to be specified)			
Total (A)		*****	*****
Expenses other than directly related to the insurance business			
Total (B)			
Profit before tax (A – B)		Xxxxxx	
Less: Provision for tax (Related to shareholder)		xxxxxx	
Profit after tax		*****	*****
Appropriations:			
(a) Balance at the beginning of the year			
(b) Interim dividends paid during the year			
(c) Final dividend			
(d) Transfer to reserves/ other accounts (to be specified)			
Profit transferred to the Balance Sheet		*****	*****

Notes to Form A-RA and A-PL:

- (a) Premium income received from business concluded in and outside India shall be separately disclosed.
- (b) Re-insurance premium whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums. :
- (c) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or ₹ 5,00,000 whichever is higher, shall be shown as a separate line item.
- (d) Under the sub-head "others" shall be included items like foreign exchange gains or losses and other items.
- (e) Interest, dividends and rentals receivable in connection with and investment should be stated as gross amount the amount of income tax deducted at source being included under advance taxes paid and taxes deducted at source"
- (f) Income from rent shall include only the realized rent. It shall not include any notional rent.

Balance sheet as on 31st March--- Form A-BS

Particulars	Schedule	Current year	Previous year
Sources of funds:			
Shareholders' fund			
Share capital	5		
Reserves and surplus	6		
Credit/(debit) fair value change account			
Sub-total			
Borrowings:	7		

Policyholders' fund			
Credit/(debit) fair value change account			
Policy liabilities			
Insurance reserves			
Provision for linked liabilities			
Sub-total			
Funds for future appropriation			
Total			
Application of funds:			
Investments			
Shareholder's fund	8		
Policyholder's fund	8A		
Assets held to cover linked liabilities			
Loans	9		
Fixed assets	10		
Current assets:			
Cash and bank balances	11		
Advances and other assets	12		
Sub-total(a)			
Current liabilities	13		
Provisions	14		
Sub-total (B)			
Net current assets (C) = A-B			
Miscellaneous expenditure (to the extent not written off or adjusted)	15		
Debit balance in profit and loss account (shareholder's account)			
Total			

Contingent Liabilities:

Particular	Current Year	Previous Year
	(₹ ,000)	(₹ ,000)
1. Partly paid-up investments, Claims, other than against policies, not acknowledge as Debts by the company.		
2. Underwriting Commission outstanding (in respect of share & securities)		
3. Guarantee given by or on behalf of the company		
4. Statutory Demands/liabilities in dispute, not provided for		
5. Re-insurance obligations to the extent not Provided for in accounts.		
6. Others (to be specified)		
Total	*****	*****

Question 1. Prepare revenue account and profit and loss account for life insurance company with following information's:

Premium income	₹ 2,00,000
Interest, dividend, rent (policy holder)	₹ 40,000
Interest dividend, rent (shareholders)	₹ 35,000
Operating expense	₹ 70,000
Commission	₹ 28,000
Benefit paid	₹ 80,000
Opening balance of valuer's liability	₹ 26,000
Closing balance of valuer's liability	₹ 29,000

Question 2. Prepare revenue account and profit and loss account for life insurance Company with following information's:

Premium	₹ 8,00,000
Annuity paid	₹ 1,20,000
Surrender	₹ 80,000
Claim paid	₹ 75,000
Consideration for annuity	₹ 2,40,000
Expenses of management	₹ 1,50,000
Interest, dividend, rent (policy holder)	₹ 70,000
Interest, dividend, rent (shareholder)	₹ 60,000
Opening balance of valuer's liability	₹ 90,000
Closing balance of valuer's liability	₹ 1,12,000
Income tax (shareholder)	₹ 40,000
Interim bonus paid	₹ 24,000
Reversionary bonus	₹ 28,000

NOTE: Bonus to policy holders can be paid in three way:

Bonus in cash

Bonus in reduction of premium

Reversionary bonus (payable at maturity)

Note: Interim bonus means

Revenue Account for general insurance company (form B-RA)

Particulars	Schedule	Fire	Marine	Misc
Premium earned –net	1	Xxxxx	Xxxxxx	Xxxxxx
Income from Investments:				
Interest, Dividend & Rent —Gross (allocated)		Xxx	Xxxx	Xxxx
Profit on sale/redemption of investments(allocated)		Xxx	Xxxx	Xxxx
Loss on sale/redemption of investments) (allocated)		Xxx	Xxxx	Xxxxx
Loss /Gain on revaluation(allocated)		xxxx	Xxxx	Xxxx
Other Income (to be specified) (allocated)				
Total (A)		Xxxx	Xxxxxx	Xxxxxx
Claim incurred	2	Xxxx	Xxxx	Xxxxx
commission	3	Xxxx	Xxxx	Xxxx
operating expense	4	xxxx	Xxxx	xxxx
Total (B)				

OPERATING PROFIT (A-B)

XXXXXXXXXXXX

Less: transfer to catastrophes' reserve (only if specified)

XXXXXXXXXXXX

Less: transfer to any other reserves (only if specified)

XXXXXXXXXXXX

Balance transfer to profit and loss account

XXXXXXXXXXXX

FORM B-PL --Profit & loss Account for the year ended 31st March 20-----

Particulars	Schedule	Current Year
Amount transferred from Revenue a/c:		
Fire revenue		
Marine revenue		
Income from Investments:		
(a) Interest, Dividend % Rent – Gross (unallocated)		
(b) Profit/loss on sale of investments (unallocated)		
Other Income (to be specified) (unallocated)		
Total (A)		*****
Expenses other than mention in revenue a/c (unallocated) e.g. director salary, common expense		
Total (B)		*****
Profit before tax (A – B)		Xxxxx
Less: Provision for tax		xxxxx
Profit after tax		*****
Appropriations:		
(a) Interim dividends paid during the year		
(b) Final dividend		
(c) Transfer to reserves / other accounts (to be specified)		
Profit transferred to the Balance Sheet		

BALANCE SHEET AS AT 31ST MARCH, 20-----

Particulars	Schedule	Current Year (₹ , 000)	Previous Year (₹ , 000)
Sources of funds:			
Share Capital	5	Xxxxxx	
Reserve & Surplus	6	Xxxxxx	
Borrowings	7	Xxxxxx	
Fair value change account			
Total			
Investments	8	Xxxxx	
Loans	9	Xxxxx	
Fixed assets	10	Xxxxx	
Current assets:			
Cash and bank balance	11	Xxxxx	
Advances and other assets	12	Xxxxx	
Sub-total (A)			
Current liabilities	13	Xxxx	

Provisions	14	xxxxx	
Sub-total (B)			
Net current assets (C) = A-B			
Miscellaneous expenditure Profit & loss (debit balance)	15	xxxxxxx	
Total			

Contingent Liabilities:

Particular	Current Year	Previous Year
	(₹ ,000)	(₹ ,000)
1. Partly paid-up investments, Claims, other than against policies, not acknowledge as Debts by the company.		
2. Underwriting Commission outstanding (in respect of share & securities)		
3. Guarantee given by or on behalf of the company		
4. Statutory Demands/liabilities in dispute, not provided for		
5. Re-insurance obligations to the extent not Provided for in accounts.		
6. Others (to be specified)		
Total	*****	*****

SCHEDULE FORMING PART OF FINANCIAL STATEMENTS:**SCHEDULE-1 PREMIUM- —as per your notes.****SCHEDULE-2 COMMISSION EXPENSES —as per your notes****SCHEDULE-3- OPERATIVE EXPENSES RELATED' TO INSURANCE BUSINESS**

1.	Employees' remuneration & welfare benefits		
2.	Travel, conveyance, & vehicle running expenses		
3.	Training expenses		
4.	Rent, Rates & taxes		
5.	Repairs		
6	Printing & Stationery		
7.	Communication expenses		
8.	Legal & professional Charges		
9.	Medical fees		
10	Auditors' fees, expenses etc. Advertisement and Publicity , interest & Bank Charges Other (to be specified) Depreciation		

Note:- Items of expenses and income in excess of 1% of the total premiums (less reinsurance) or ₹ 5,00,000 whichever is higher, shall be shown as a separate line item

Schedule -4--BENEFITS PAID(NET) (As per your Notes)**SCHEDULE-5****SHARE CAPITAL**

	Particulars	C. Year (₹ ,000)	P. Year (₹ ,000)
	Authorized Capital Equity Shares of ₹- each Issued, Subscribed, called up and paid up share Capital Less: Calls unpaid Add : Shares forfeited		
	Total		

Schedule-6**Reserve & Surplus**

Particulars	Current Year	Previous
Capital Reserve		
Capital Redemption Res.		
Share Premium		
Revaluation Reserve		
General Reserve:		

Schedule-7 Borrowing

Particulars	Current	Previous
Debentures / Bonds		
Banks		
Financial Institutions		
Others		

Schedules-8**Investments**

S. No.	Particulars	Current Year	Previous Year
	Long Term Investments/ SHORT TERM INVESTMENTS Govt. Securities and Govt. Guaranteed bonds including Treasury Bills Other Approved securities Other Investments in: (a) Shares — Equity — Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/Bonds Investment in Infrastructure and Social Sectors		

Schedule – 9**Loans**

	PARTICULARS	CURRENT YEAR	PREVIOUS YEAR
1.	SECURITY WISE CLASSIFICATION: Secured: (a) On mortgage of property (i) In India (ii) Outside India (b) On Shares, Bonds, Govt. Securities, etc. (c) Loans against policies (d) Others (to be specified) Unsecured: TOTAL		
2.	BORROWER-WISE CLASSIFICATION		

(a)	Central and State Governments		
(b)	Bank and Financial Institutions		
(c)	Subsidiaries		
(d)	Companies		
(e)	Loan against policies)		
(f)	Others (to be specified)		
	TOTAL		

Schedule 10**FIXED ASSETS:**

PARTICULARS	COST/GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Opening	Additions	Deductions	Closing	Up to Last Year	For the Year	On Sales/ Adu.	To Date	As at Year End	Previous Year
Goodwill										
Intangibles										
Land-Freehold										
Leasehold Property										
Buildings										
Furniture & Fittings										
Inf.Tech. Equipment										
Vehicles										
Office Equipment										
TOTAL										
Work-in-Progress										
Grand Total										
PREVIOUS YEAR										

Note: Assets included in land, property and building above exclude investment properties as defined in note (e) to Schedule 8.

Schedule-11 Cash and Bank Balances

Particulars		Current Year	Previous Year
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
3.	Money at Call and Short Notice		

Schedule-12: ADVANCES AND OTHER ASSETS

Particulars	Current Year	Previous Year
Advances:		
(1) Reserve deposit with ceding Companies		
(2) Advances to ceding Companies		
(3) Application money for investments		
(4) Prepayments		
(5) Advances to officers / Directors		
(6) Advances tax paid and tax deducted at source		
(7) Others (to be specified)		
Other Assets		

(1) Income accrued on Investments		
(2) Outstanding Premium		
(3) Agents' Balances		
(4) Foreign Agencies Balances		
(5) Due from the Insurance Entities		
(6) Due from subsidiaries/ holding		
(7) Reinsurance claims / balances receivable		
(8) Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
(9) Others (to be specified)		

Notes:

- (a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.
- (b) The term officer means the definition of the word 'officer' given under the companies Act.

Schedule-13 CURRENT LIABILITIES

Particulars	Current Year	Previous Year
Agent's Balances		
Balances due to other insurance companies		
Advances from treaty companies		
Deposit held on Re-insurance ceded		
Premium received in Advance, Sundry Creditors		
Due to subsidiaries / holding company		
Claims Outstanding, Annuities Due		
Due to officers / Director, Others (to be specified)		

Schedule-14 PROVISIONS

Particulars	Current Year	Previous Year
(1) For Taxation (less Adv Tax & TDS)		
(2) For Proposed Dividends		
(3) For Dividend Distribution Tax		
(4) Bonus Payable to the Policyholders		
(5) Others (to be specified)		

Schedule-15. Miscellaneous expenditure (to the extent not written off or adjusted)

Particulars	Current Year	Previous Year
(1) Discount Allowed in issue of Shares / debentures		
(2) Others (to be specified)		

CONCEPT OF VALUATION BALANCE SHEET(Not relevant after 1938 but in syllabus)

Question:3 Prepare Valuation Balance Sheet and show distribution statement:

Life Assurance Fund as on 31-03-2017	₹ 1900 Lacs
Net Liability as per Valuation	₹ 1,500 Lacs
Interim Bonus paid	₹ 250 lacs

Question:4 The life insurance fund of Prakash life insurance company Ltd was ₹ 34,00,000 on 31st March 2022. Its actuarial valuation on 31st March 2022 disclosed net liability of ₹ 28,80,000. An interim bonus of ₹ 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward ₹ 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. **(ICMAI Study material)**

Question:5 A Life Assurance Co. got its valuation made once in every two years. The life assurance fund on, 31st March, 2012 amounted to ₹ 51,52,000. Its actuarial valuation on 31st March, 2012 disclosed net liability of ₹ 50,00,000 under the Assurance and annuity contracts. An interim bonus of ₹ 40,000 was paid to the policy holders during the inter valuation period ending 31st March, 2012. Surplus brought forward from the previous valuation was ₹ 35,000.

- (a) The valuation Balance Sheet
- (b) The profit for the valuation period; and
- (c) The distribution of the surplus.

Question 6: 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	₹
2001	2001	2002	15,000
2002	2002	2 003	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 ₹ 25,000

Question 7: From the following figures appearing in the books of fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue account for the year ended 31st March, 2004:

	Direct business	Re-insurance
Claims paid during the year	46,70,000	7, 00,000
Claims payable – 1 st April 2003	7, 63,000	87,000
31 st March, 2004	8, 12,000	53,000
Claims received	-----	2, 30,000
Claims receivable – 1 st April, 2003	-----	65,000
31 st March, 2004	-----	1, 13,000

Expenses on management ₹ 2,30,000(Including ₹ 35,000 Surveyor's fee and ₹ 45,000 Legal expenses for settlement of claims) **[ICMAI STUDY MATERIAL],[CA (Inter), Nov., 1999,]**

Question 8. Indian 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.

	₹ 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

Indian 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.

(ICMAI Study material question- figure changed)

Question 9 : (Life Assurance Fund). The revenue account of a life insurance company shows the life assurance fund on 31st march, 2022 at ₹ 62,21,310 before taking into account the following items:

- i Claims recovered under re-insurance ₹ 12,000.
- ii Bonus utilized in reduction of life insurance premium ₹ 4,500
- iii Interest accrued on securities ₹ 8,260
- iv Outstanding premium ₹ 5,410
- v Claims intimated but not admitted ₹ 26,500

What is the life assurance fund after taking into account the above omissions?

(ICMAI Study material)

Question: 10 (Life Assurance Fund). The life assurance fund of an insurance company on 31.3.2015 showed a balance of ₹ 87,76,500. It was later found that the following were not taken into account:

(i)	Dividend from investments	₹ 4,80,000
(ii)	Income tax on above	₹ 48,000
(iii)	Claims recovered under re-insurance	₹ 4,23,000
(iv)	Claims indicated but not accepted by company	₹ 7,62,000

Ascertain correct balance of the fund.

[ICWA Final. Dec. 1987 (adapted)]

Answer:

Balance of Life assurance fund	87, 76,500
Add: dividend	4, 80,000
Re-insurance recoveries	<u>4, 23,000</u>
	<u>9, 03,000</u>
	96, 79,500
Less: income tax	48,000
Claims indicated	<u>7, 62,000</u>
Correct balance of the fund	<u>88, 69,500</u>

Question: 11 Prepare Revenue Account of Life Insurance Co. Ltd. for the year ended 31st March', 2002.

Particular	₹	Particular	₹
Prepaid other expenses of Management as on 1.4.2001	8,000	Income-Tax on Interest, Dividends and Rent	40,000
Expenses of Management paid		Fines for Revival of lapsed policies	6,000
Commission	2,42,000	Consideration for Annuities Granted	10,000
Others	4,14,000	Registration and other Fees	10,000
Surrenders less Re-insurances	20,000	Premium Received	53,20,000
Claims Paid		Claims outstanding as on 1.4.2001	
- By Death	7,56,000	- By Death	59,000
- By Maturity	17,64,000	- By Maturity	1,30,000
Bonus in cash	80,000	Commission outstanding as on 1.4.2001	6,000
Annuities less Re-insurances	40,000	Other Expenses of Management	
Premiums outstanding as on 1.4.2001	7,60,000	Outstanding as on 1.4.2001	5,000
Bonus in Reduction of Premiums	3,00,000	Interest, Dividends & Rent Received	1,70,000
Interest, Dividend & Rents accrued as on 1.4..2001	2,000		

Additional Information:

- (a) Claims outstanding as on 31-3.2002 By Death - ₹ 69,000 & by Maturity ₹ 1,60,000.
 (b) Commission outstanding as on 31.3.2002 - ₹ 3,000,
 (c) Other Expenses of management outstanding as on 31.3.2002 ₹ 10,000
 (d) Other expenses of Management Prepaid as on 31.3.2002 -- ₹ 3,000,
 (e) Premium outstanding as on 31.3.2002 - ₹ 3,70,000,
 (f) Interest, Dividend & Rent Accrued (Net) as on 31.3.2002 - ₹ 10,000,
 (g) Interim Bonus paid during the year was ₹ 15,000.

Question 12. The following balances appeared in the books of Happy Mutual Life Assurance Society Ltd. as on 31-3-22

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Claims less reinsurance paid during the year		Life Assurance Fund at the beginning of the year	1,00,000
By death	4,400	Premium less Re-assurances	30,000
By maturity	3,000	Claims less reassurances outstanding at the beginning of the year:	
Annuities	12	By death	1,800
Furniture and Office Equipment at cost (including ₹ 80 lakh bought during the year)	500	By maturity	1,200
Printing and Stationery	154	Credit balances pending adjustments	
Cash with Bank in current account	2,700	Consideration for annuities granted	120
Cash and stamp in hand	60	Interest, dividends and rents	4
Surrenders less Reassurances	80	Registration and other Fees	3,600
Commission	500	Sundry Deposits	4
Expenses of Management	6,200	Taxation Provision	200
Sundry Deposits with Electricity Companies	2	Premium Deposits	600
Advance Payment of Tax	100	Sundry Creditors	2,300
Sundry Debtors	100	Contingency Reserve	700
Agents Balances	200		300
Income Tax	900		

Income Tax on Interest, Dividend and Rents	1,000	Furniture and Office Equipment depreciation Account	80
Loans and Mortgages	300	Building Depreciation Account	600
Loans on Policies	6,500		
Investments (₹ 500 lakh deposited with Reserve Bank of India)	1,04,000		
House Property at Cost (including ₹ 170 lakh added during the year)	10,800		
	1,41,508		1,41,508

From the foregoing balances and the following information, prepare the Balance Sheet of Happy Mutual Life Assurance Society Ltd. as on 31st March 2014 and its Revenue Account for the year ended on that date:

- (i) Claims less reinsurance outstanding at the end of the year: By death ₹ 1,200 lakh, By maturity ₹ 800 lakh.
- (ii) Expenses outstanding ₹ 120 lakh and prepaid ₹ 30 lakh.
- (iii) Provide ₹ 90 lakh for depreciation on buildings, ₹ 30 lakh for depreciation on furniture and office equipment and ₹ 220 lakh for taxation.
- (iv) Premiums outstanding ₹ 4056 lakh, commission thereon ₹ 130 lakhs.
- (v) Interests, dividends and rents outstanding (net) ₹ 60 lakh and interests and rents accrued (net) ₹ 700 lakh.

(ICMAI Study material)

Question: 13 Deleted from your syllabus... be happy

Question:14 (Marine insurance Reserve revenue A/c). From the following balances, as on 31-3-2002. Prepare the necessary Revenue Account for the marine insurance business of Insurance Company:

Particular	Direct Business ₹	Re-insurance ₹
A. premium:		
Received	92,00,000	14,40,000
Receivable – 1 st April, 2001	3,72,000	54,000
-- 31 st March, 2002	5,24,000	51,000
Paid	...	9,20,000
Payable – 1 st April, 2001	...	56,250
-- 31 st March, 2002	...	93,000
B. Claims :		
Paid	47,00,000	6,00,000
Payable ---1 st April, 2001	2,50,000	57,000
--- 31 st March, 2002	3,12,000	66,000
Received	...	2,55,000
Receivable – 1 st April, 2001	...	24,000
-- 31 st March, 2002	...	34,000
C. Commission:		
On insurance accepted	4,40,000	38,000
On re-insurance ceded	...	39,000

D. Other Expenses and income:

Salaries ₹ 4,80,000, Rates and Taxes ₹ 58,000; Postage, Telegrams, Stationery and Printing Expenses ₹ 86,000; Income-tax paid ₹ 6,60,000; Interest, Dividend and Rent received (Net) ₹ 2,80,000; Income tax deducted source ₹ 56,000, legal expenses (including ₹ 36,000 incurred for settlement of claims) ₹ 80,000.

E. Balance of Fund on 1st April 2001 was ₹ 76,90,000 including Additional Reserve of ₹ 6,90,000. Additional Reserve is to be maintained at 5% of the net premium in the year.

(C.A. Inter)

Answer: premium income ₹ 71,98,387; claim incurred ₹ 51,42,000; commission ₹ 4,39,000; operating expense ₹ 6,68,000.

Question: 15 Deleted from your syllabus... be happy

Question: 16 From the following balances extracted from the books of Perfect General Insurance Company Limited as on 31.3.2000, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance business for the year ended 31.3.2000 and a Profit and Loss Account for the same period:

directors' Fees	80,000	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1.4.1999)	90,000
Provision for Taxation (as on 1.4.1999)	85,000.	Income-tax paid during the year	60,000
		Fire	Marine
Outstanding Claims on 1.4.1999		28,000	7,000
Claims paid		1,00,000	80,000
Reserve for Unexpired		2,00,000	1,40,000
Risk on 1.4.1999			
Premiums Received		4,50,000	3,30,000
Agent's Commission		40,000	20,000
Expenses of Management		60,000	45,000
Re-insurance Premium (Dr.)		25,000	15,000

The following additional points are also to be taken into account:

- (a) Depreciation on Fixed Assets to be provided at 10% p.a.
- (b) Interest accrued on investments ₹ 10,000.
- (c) Closing provision for taxation on 31.3.2000 to be maintained at ₹ 1,24,138.
- (d) Claims outstanding on 31.3.2000 were Fire insurance ₹ 10,000; Marine Insurance ₹ 15,000.
- (e) Premium outstanding on 31.3.2000 were Fire Insurance ₹ 30,000; Marine Insurance ₹ 20,000.
- (f) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.
- (g) Expenses of management due on 31.3.2000 were ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of Marine Insurance.

Answer: **Form B-RA --- Revenue Account for the year ended 31st March, 2000**

Particulars		Fire Insurance	Marine Insurance
1.	Premiums earned 1	4,55,000	3,35,000
2.	Other Income	(27,500)	(1,95,000)
3.	Change in provision for unexpired risk		
4.	Interest, Dividend & Rent-Gross		
Total (A)		4,27,500	1,40,000
5.	Claims Incurred 2	4,27,500	1,40,000
6.	Commission 3	82,000	88,000
7.	Operating Expenses related to Insurance Business 4	40,000	20,000
8.	Other Expenses	70,000	50,000
Total (B)		1,92,000	1,58,000
Operating Profit/(Loss) from Fire/Marine/Miscellaneous Business i.e. (A-B)		2,35,500	(18,000)

Form B – PL --Profit and Loss Account for the year ended 31st March, 2000

Particulars	Amount (₹ '000)
1. Operating Profit/(Loss) from	
(a) Fire Insurance	2,35,500
(b) Marine Insurance	(18,000)
(c) Miscellaneous Insurance	
2. Income from Investments	
(a) Interest Dividend & Rent-Gross	1,19,000
(b) Profit on sale of Investments	10,000
3. Other Income	
Total (A)	<u>3,46,500</u>
4. Provisions (Other than taxation)	
5. Other Expenses (Director's fees. Depreciation on F.A.)	<u>89,000</u>
Total (B)	<u>89,000</u>
Profit Before Tax (A-B)	2,57,500
Less: Provision for Taxation	99,138
Profit after tax	1,58,362

Annexure

Particulars	Fire	Marine
Premiums earned (Schedule -1)		
Premium	4,50,000	3,30,000
Less: Reinsurance	(25,000)	(15,000)
Add: Outstanding (closing)	30,000	20,000
	<u>4,55,000</u>	<u>3,35,000</u>
Claims Incurred (Schedule - 2)		
Claim	<u>1,00,000</u>	<u>80,000</u>
Less: Outstanding (Opening)	(28,000)	(7,000)
Add: Outstanding (closing)	<u>10,000</u>	<u>15,000</u>
	<u>82,000</u>	<u>88,000</u>
Commission (Schedule - 3)		
Agent Commission	40,000	20,000

Operating Expenses (Schedule - 4)		
Expenses of Management	60,000	45,000
Add: Outstanding	10,000	5,000
Total	70,000	50,000

Working Notes:-

Tax during the year	60,000	
Less: Opening provision	(85,000)	
Add: Closing provision	<u>1,24,138</u>	
	<u>99,138</u>	
Unexpired Risk Reserve		
Opening	2,00,000	1,40,000
Closing	(2,27,500)	(3,35,000)
Total	27,500	1,95,000

Question:17 From the following figures of Live Well Life Assurance Co. Ltd. prepare a Valuation Balance Sheet and Profit Distribution Statement for the year ended 31st March, 2022, also pass necessary Journal Entries to record the above transactions with narration.

	₹ in lacs
Balance of Life Assurance Fund as on 1-4-2021	167.15
Interim Bonus paid for the valuation period	25.00
Balance of Revenue Account for the year ended 31-3-2022	240.00
Net Liability as per Value's certificate as on 31 -3-2022	165.00
The company declared a reversionary bonus of ₹ 185 per ₹ 1,000 and gave the policyholders an option to take bonus in cash ₹ 105 per ₹ 1,000. Total business conducted by the company was ₹ 600 lacs. The company issued with profit policy only, 3/5 of the policyholders in value opted for cash bonus.	

(ICMAI Study material)

Question:18 The Life Insurance Fund of an Insurance Company was on 31.3.2004 ₹ 60 lakhs. While ascertaining the above fund figure, the following items were omitted:

- (i) Interest received on investments ₹ 63,000 after deduction of tax at source 10%.
- (ii) Bonus utilised for reduction of premium ₹ 14,000.
- (iii) Death claim intimated, but not yet admitted ₹ 36,000.
- (iv) Death claim covered under re-insurance ₹ 12,000.
- (v) Consideration for annuities granted ₹ 9,000.
- (vi) Interim bonus for the valuation period paid was ₹ 80,000.

Net liabilities as per valuation was ₹ 50 lakh. It is now proposed to carry forward ₹ 2,90,000.

The company declared a reversionary bonus of ₹ 12 per share ₹ 1,000 and gave the policyholders an option to get the bonus in cash for ₹ 5 per ₹ 1,000. Total business of the company is ₹ 15 crores, 40% of the policyholders decided to get bonus in cash. **Prepare**

- (i) Valuation Balance Sheet as on 31.3.2004
- (ii) Distribution Statement sharing the amount due to the policyholders.

Also give Journal Entries relating to reversionary bonus.

Question:19 X Fire Insurance Co. Ltd. commenced its business on 1.4.2005. It submits you the following information for the year ended 31.3.2006:

Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.03.2006	1,00,000

Create reserve for unexpired risk @ 40%

Prepare Revenue Account for the year ended 31.3.2006

Answer:

Revenue Account for the year ended 31st March 2006

1. Premium earned (Net)	1	14,40,000
2. Change in provision for unexpired risk (0-5,60,000)		(5,60,000)
Total (A)		8,40,000
1. Claim insured (Net)	2	8,00,000
2. Commission	3	50,000
3. Operating Expenses	4	3,00,000
Total (B)		11,50,000
Operating profit/(Loss) from Fire Insurance Business (C) = (A)-(B)		(3,10,000)

Schedule -1 Premium earned (Net) :-

Premium Received	15,00,000
Less: Premium on re-insurance Premium paid	<u>1,00,000</u>
	<u>14,00,000</u>

Schedule-2

Reserve for unexpired risk. i.e. 40% on net premium	5,60,000

Schedule - 3

Claim	
Claim paid	7,00,000
Add: Claim Outstanding claim on 31.3.2006	<u>1,00,000</u>
	<u>8,00,000</u>

Schedule - 4

Expenses of management	3,00,000

Question:20. Deleted from your syllabus... be happy

Question:21. Domestic Assurance Co. Ltd. received ₹ 5,90,000 as premium on new policies and ₹ 1,20,000 as renewal premium. The company received ₹ 90,000 towards reinsurance accepted and paid ₹ 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?

Answer: Premium on New policy	5,90,000
Add: Premium on renewal of policy	1,20,000
Add: Premium on Reinsurance Accepted	<u>90,000</u>
	8,00,000
Less: Premium on Reinsurance ceded	<u>70,000</u>
Net Premium credited to Revenue Account	<u>7,30,000</u>

Question:22 Deleted from your syllabus... be happy

Question::23 From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March 2010 find out the

- (i) Net premiums earned
- (ii) Net claims incurred

	Direct-Business	re-insurance
<u>Premium:</u>		
Received	88,00,000	7,52,000
Receivable-01.04.2009	4,39,000	36,000
Receivable-31.03.2010	3,77,000	32,000
Paid		6,09,000
Payable - 01.04.2009		27,000
Payable - 31.03.2010		18,000
<u>Claims:</u>		
Paid	69,00,000	5,54,000
Payable-01.04.2009	89,000	15,000
Payable-31.03.2010	95,000	12,000
Received		2,01,000
Receivable - 01.04.2009		40,000
Receivable-31.03.2010		38,000

Answer:**(i) Net Premium earned**

Premium from direct business received	88,00,000	
Add: Receivable as 31.03.2010	3,77,000	
Less: Receivable as on 01.04.2009	<u>(4,39,000)</u>	87,38,000
Add: Premium on re-insurance accepted	7,52,000	
Add: Receivable as on 31.03.2010	32,000	
Less: Receivable as on 01.04.2009	<u>(36,000)</u>	<u>7,48,000</u>
		<u>94,86,000</u>
Less: Premium on re-insurance ceded	6,09,000	
Add: Payable as on 31.03.2010	18,000	
Less: Payable as on 01.04.2009	<u>(27,000)</u>	<u>(6,00,000)</u>
Net Premium earned		<u>88,86,000</u>

(ii) Net Claims incurred

Claims paid on direct business		69,00,000
Add: Re-insurance	5,54,000	
Add: Outstanding as on 31.3.2010	12,000	
Less: Outstanding as on 1.4.2009	<u>(15,000)</u>	<u>5,51,000</u>
		74,51,000
Less: Claims received from re-insurance	2,01,000	
Add: Outstanding as on 31.3.2010	38,000	
Less: Outstanding as on 1.4.2009	<u>(40,000)</u>	<u>(1,99,000)</u>
		<u>72,52,000</u>
Add: Outstanding direct claims at the end of the year		95,000
		73,47,000
Less: Outstanding claims at the beginning of the year		<u>(89,000)</u>
Net claims incurred		72,58,000

Question: 24 Modern Insurance Company's Fire Insurance division provide the following information, show the amount of claim at it would appear in the Revenue Account for the year ended 31st March, 2011.

	Direct Business	Re-insurance
Claim paid during the year	35,30,000	8,20,000
Claim received		3,20,000
Claim payable		
1 st April, 2010	8,23,000	58,000
31 st March, 2011	8,75,000	87,000
Claim Receivable:		
1 st April, 2010	-	85,000
31 st March, 2011	-	1,42,000
Expenses of Management	3,45,000	
(Includes ₹ 38,000 Surveyor's fee and ₹ 42,000 Legal expenses for settlement of claims)		

Answer: Net claims incurred

Claims paid on direct business (35,30,000 + 38,000 + 42,000)	36,10,000
Add: Re-Insurance 8,20,000	
Add: Outstanding as on 31.3.2011 87,000	
Less: Outstanding as on 1.4.2010 <u>(58,000)</u>	<u>(8,49,000)</u>
	44,59,000
Less: Claims received from re-insurance 3,20,000	
Add: Outstanding as on 31.3.2011 1,42,000	
Less: Outstanding as on 1.4.2010 <u>(85,000)</u>	<u>(3,77,000)</u>
	40,82,000
Add: Outstanding direct claims at the end of the year	<u>8,75,000</u>
	49,57,000
Less: Outstanding claims at the beginning of the year	<u>(8,23,000)</u>
Net claims incurred	<u>41,34,000</u>

Question:25 Deleted from your syllabus... be happy

Question 26. Deleted from your syllabus... be happy

Question 27. Deleted from your syllabus... be happy

Question 28. From the following information as on 31st December, 1998, prepare the revenue Account of an Indian Marine Insurance Co. Ltd.

		Direct Business (₹)	Re-insurance (₹)
(i)	Premium:		
	Received	46,00,000	7,20,000
	Receivable — 1 st January	2,48,000	27,000
	— 31 st December	3,36,000	34,000
	Premium paid		4,60,000
	Payable — 1 st January		37,500
	— 31 st December		62,000
(ii)	Claims:		
	Paid	23,50,000	3,00,000
	Payable — 1 st January	1,66,000	39,000
	— 31 st December	2,08,000	44,000
			1,70,000
	Receivable — 1 st January		16,000
	— 31 st December		23,000
(iii)	Commission:		
	On Insurance accepted	2,20,000	19,000
	On Reinsurance ceded		26,000
(iv)	Other Expenses and Income:		
	Salaries — ₹ 3,20,000; Rent, Rates and Taxes ₹ 29,000; Postage, Telegrams, Stationary and Printing ₹ 43,000; Indian Income-tax Paid: ₹ 4,40,000; Interest, Dividends and Rent Gross ₹ 1,37,500; Income-tax Deducted at Source ₹ 40,250; Legal Expenses (inclusive of ₹ 40,000 in connection with settlement of claims) ₹ 72,000.		
(v)	Balance of fund on 1 st January ₹ 38,45,000 including Additional Reserve of ₹ 4,45,000. Additional Reserve has to be maintained at ₹ 5% of the net premium of the year.		

Question 29. Write short notes on the following:

- (i) Unexpired Risks Reserve.
- (ii) Re-insurance.

Solutions: (i) Unexpired Risks Reserve: -- In regard to the preparation of final accounts of insurance companies; the need for unexpired risks reserve arises because not all risks under various policies expire at the year end. Many policies normally extended into the following year during which risks continue. In other words, at the closing date of the accounting period, there is unexpired liability under various policies which may occur during the remaining term of the policy beyond the year end. The effort involved in calculating the unexpired, portion of premium under each policy is very time consuming. Therefore a simple formula is adopted to derive a percentage of premium income to be allocated to reserve for unexpired risks.

According to the requirements of the Insurance Act, it is sufficient, if the provision is made for unexpired risks at 40% for Fire, Marine Cargo and Misc. business except for Marine hull which has to be 100%. However the Income Tax Authorities allow a provision of 50% of net premium in case of general insurance business.

(ii) Re-insurance: -- If an insurer does not wish to bear the whole risk of policy written by him, he may reinsure a part of the risk with some other insurer. In such a case the insurer is said to have ceded a part of his business to other insurer. The reinsurance transaction may thus be defined as, an agreement between a 'ceding company' and reinsurer whereby the former agreed to 'cede' and the latter agrees to accept a certain specified share of risk or liability as set out in the agreement.

A 'ceding company' is the original insurance company which has accepted the risk and has agreed to 'cede' or pass on that risk to another insurance company or a reinsurance company. It may however be emphasized that the original insured does not acquire any right under a reinsurance contract against the reinsurer. In the event of loss, therefore, the insured's claim for full amount is against the original insurer. The original insurer has to claim the proportionate amount from the reinsurer.

There are two types of reinsurance contract, namely, facultative reinsurance and treaty reinsurance. Under facultative reinsurance each transaction has to be negotiated individually and each party to the transaction has a free choice, i.e., for the ceding company to offer and the reinsurer to accept. Under treaty reinsurance a treaty agreement is entered into between ceding company and the reinsurer whereby the volume of the reinsurance transactions remain within the limits of the treaty.

Question 30. The following figures have been extracted from the books of New India Insurance Company Ltd. In respect of their Marine Business for 2007-2008:

(CA-PCC Nov – 2008)

Particular	(₹ in lakhs)
Direct business	
Premium Income received	50.00
Commission paid on Direct Business	5.00
Reserve for unexpired risks as on 1.4.2007	60.00
Expenses of Management	5.00
Claims outstanding as on 1.4.2007 (net)	20.00
Income tax deducted at source	3.00
Bad Debts	10.00
Profit and Loss Account: (Cr.) balance as on 1.4.2007	10.00
Income from investment and dividends (gross)	10.00
Other expenses	1.25
Rent received from properties	5.00
Reinsurance premium receipts	5.00
Investment in government securities as on 1.4.2007	100.00
Outstanding claims as on 31.3.2008 (net)	30.00
Investment in shares as on 1.4.2007	20.00
Direct claims paid (gross)	25.00
Reinsurance claims paid	4.00

Prepare a Revenue Account and Profit and Loss Account for the year after taking into account the following further information:

All direct risks are reinsured for 20% of the risk,

Claim a Commission of 25% on reinsurance ceded.

Provide 25% Commission on reinsurance accepted

Market value of investments as on 31st March, 2008 is as follows:

(i) Government Securities ₹ 105 lakhs.

(ii) Shares ₹ 18 lakhs.

Adjust separately for each of these two categories of investments. Provide 65% for Income tax.

Question 31. Prepare the fire insurance revenue account as per IRDA regulations for the year ended 31st March 2022 from the following details:

Particulars	₹
Claims paid	4,90,000
Legal expenses regarding claims	10,000
Premium received	13,00,000
Re-insurance premium paid	1,00,000
Commission	3,00,000
Expenses of management	2,00,000
Provision against unexpired risk on 1 st April 2021	5,50,000
Claim unpaid on 1 st April 2021	50,000
Claim unpaid on 31 st March 2022	80,000

Create reserve for unexpired risk @ 50%.

(ICMAI STUDY MATERIAL Question)

Answer: Operating profit ₹ 1,20,000.

Question 32 deleted from syllabus be happy

Question 33. deleted from syllabus be happy

Question 34. Deleted from your syllabus. Be happy

Question: 35. The following balances are extracted from the books of Reliance Insurance as on 31-12-1992:

Claims Paid		Audit Fee	13,000
Fire	1,00,000	Directors' Remuneration	36,000
Marine	87,000	Interest and Dividend on	
Premium less re-insurance		Investments	63,000
Received during the year		Reserve for Unexpired	
Fire	3,74,000	Risks as on 1-1-92 —	
Marine	2,97,000	Fire	2,10,000
Commission on		Marine	2,40,000
Re-insurance Ceded		Additional Reserve as	
Fire	13,000	on 1-1-92	
Commission		Fire	60,000
Fire	62,000	Marine	10,000
Marine	51,000	Claims outstanding as on	
Expenses of Management		1-1-92	
Fire	86,000	Fire	24,000
Marine	68,000	Marine	11,000
Depreciation on Assets	36,000	Premium outstanding as	
Loss on Realization of		On 1-1-92	
Investments	8,000	Fire	2,600
		Marine	17,000

Following further information is also given:

(1) Premium outstanding as on 31 -12-1992 Fire - ₹ 33, 000; Marine - ₹ 15,000

(2) Claims outstanding as on 31 -12-1992

Fire - ₹ 46,000; Marine - ₹ 17,000; Out of the above a fire claim amounting to ₹ 11,000 was covered by re-insurance.

(3) Reserve for Unexpired Risks is to be maintained at - 50% of premium less re-insurance for Fire and 100% of premium less re-insurance for Marine.

(4) Additional Reserve for Fire is to be maintained at 20% of net premium

(5) Interest accrued on Investments ₹ 13,000. Prepare Revenue Accounts and Profit & Loss Account for the year ended 31-12-1992.

Question 36. Fill in the blanks: (ICMAI Study material)

(i) Sometimes the insurer considers a particular risk too much for his capacity and may _____ a part of the risk with some other insurer.

(ii) Bonus paid at the end along with the policy amount to the policy holders is called _____.

(iii) In the case of a _____ insurance business claim will arise either on death or maturity of policy.

(vi) Losses of theft are covered by ----- insurance.

(v) The _____ Fund is available to meet the aggregate liability on all policies outstanding.

(vi) Revenue Account of life Insurance Business is relevant with Form - _____.

(vii) In case of Insurance Company the date of discharge of claim is mentioned in the register of _____.

(viii) When the same risk and the same subject matter is insured with more than one insurer, i.e., more than one insurance company, the same is called
(ICMAI Study material)

Answer: (i) Re-insurance; (ii) Reversionary Bonus; (iii) Life; (vi) Burglary; (v) Life Assurance; (vi) A – RA; (vii) Claims; (viii) double insurance.

Question 37. Multiple choice questions:

1. Rate of provisioning for advances doubtful for more than 1 year but less than 3 years is

- A. 25%
- B. 40%
- C. 60%
- D. 100%

2. 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

3. A Banking Company needs to transfer a minimum of _____ of its profit to reserve fund.

- A. 10%
- B. 15%
- C. 20%
- D. 25%

4. 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

5. A banking company is required to maintain _____ provision on unsecured portion of doubtful advances.

- A. 25%
- B. 40%
- C. 50%
- D. 100%

6. 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

7. In case of an Electricity Company, balance of Security Deposit A/c at the end of the accounting period should be disclosed as:-

- A. current liability in the Balance Sheet
- B. A non-current liability in the Balance Sheet
- C. A current asset in the Balance Sheet
- D. A non-current asset in the Balance Sheet

8. 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

9. Which of the following is/are a part of General Ledger of a Banking Company?

- A. Control Accounts of all personal ledgers.
- B. Profit and Loss Account.
- C. Assets' Accounts.
- D. All of the above.

10. Rate of provision on advances doubtful for more than 3 years is _____.

- A. 40%
- B. 25%
- C. 100%
- D. Nil

11. Date of bill 15.01.2022

Period 5 months

Rate of discount 8%

Calculate rebate on bill discounted, if accounting year ends on 31.03.22.

- A. ₹ 852.46
- B. ₹ 818.85
- C. ₹ 873.22
- D. ₹ 825.45

12. If a loan is identified to be a sub-standard advance with secured exposure of Rs 200 lakh and unsecured portion of ₹ 300 lakh, calculate the provision at applicable rate in case of a banking company.

- A. ₹ 80 lakh
- B. ₹ 85 lakh
- C. ₹ 90 lakh
- D. ₹ 95 lakh

[Answer: 1-B; 2-B; 3-D; 4-C; 5-D; 6-D; 7-B; 8-D; 9-D; 10-C, 11-A, 12-c]

CHAPTER 3. FINANCIAL STATEMENT OF COMPANIES

(AS per division I Schedule III)

Distinguishing Features of Accounting in a Company Form of Organization: Accounting in a company form of organization has certain distinguishing features as follows:

- a. The accounting process is highly regulated and guided by regulatory pronouncements.
- b. Alternatives treatments of transactions are either limited or completely avoided.
- c. The constituents of periodical accounts (i.e., income statement, balance sheet etc.) are specified by the law.
- d. The form and contents of periodical financial statements are fixed. In other words, the format of financial statements is largely rule based rather than principle based.
- e. The importance of compliance to the prescribed rules and regulations is paramount.

Regulatory Framework of Accounting in a Company Form of Organization in India: In India, accounting in a company form of organization is guided by the following regulatory sources:

- a. **The Companies Act, 2013:** This is the primary source of law governing the operation including accounting in a company. Chapter IX of this Act, Accounts of Companies, mainly provides the provisions related to maintenance of accounts and preparation of financial statements. The relevant sections are Section 128 to Section 137. In addition, the Schedule III of this Act provides the format of financial statements.
- b. **The Company Rules:** The Companies (Accounts) Rules, 2014 further provides important rules regarding accounting. In addition, some other rules such as Companies (Declaration and Payment of Dividend) Rules, 2014, Companies (Corporate Social Responsibility) Rules, 2014 etc. also provides important guidance on accounting of some specific transactions.
- c. **Accounting Standards:** These are common sets of principles, standards, and procedures that define the basis of financial accounting policies and practices. As per Section 133 of Companies Act, 2013, in India, currently, two different sets of accounting standards are in force – Accounting Standards (or ASs) notified under Companies (Accounting Standards) Rules, 2021 and Indian Accounting Standards (or Ind ASs) notified under Companies (Indian Accounting Standards) Rules, 2015.

However, for special classes of companies such as banking companies, insurance companies, electricity companies and NBFCs, separate Acts and Rules, in addition to or in suppression of Companies Act, 2013, also provides important guidelines in accounting of transactions and preparation of financial statements.

Books of Accounts of a Company:- The Companies Act, 2013 requires every company to maintain proper books of accounts and relevant books and papers.

As per Section 2(12), “book and paper” and “book or paper” include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form.

Again, Section 2(13) specifies that, “books of account” includes records maintained in respect of —

- (i) All sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- (ii) All sales and purchases of goods and services by the company;
- (iii) The assets and liabilities of the company; and

- (iv) The items of cost as may be prescribed under Section 148 in the case of a company which belongs to any class of companies specified under that section.

Accordingly, the company should maintain Cash Book and Ledger [for (i) above], Day Books, Registers and Ledger [for (ii) above], Assets registers, Schedules and Ledger [for (iii) above] and Cost Books of Accounts [for (iv) above].

Note: Section 128 of the Act has provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

Statutory Books: Statutory books are those which a limited company is under statutory obligation to maintain at its registered office as per the provisions of different Sections of the Act. The most important statutory books are:

- (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
- (viii) 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.

Annual Return: As per Section 92 of the Act, every company shall prepare a return (hereinafter referred to as the annual return) in the prescribed form containing the particulars as they stood on the close of the financial year regarding—

- (a) Its registered office, principal business activities, particulars of its holding, subsidiary and associate companies;
- (b) Its shares, debentures and other securities and shareholding pattern;
- (c) Its members and debenture-holders along with changes therein since the close of the previous financial year;
- (d) Its promoters, Directors, key managerial personnel along with changes therein since the close of the previous financial year;
- (e) Meetings of members or a class thereof, Board and its various committees along with attendance details;
- (f) Remuneration of Directors and key managerial personnel;
- (g) Penalty or punishment imposed on the company, its Directors or officers and details of compounding of offences and appeals made against such penalty or punishment;
- (h) Matters relating to certification of compliances, disclosures as may be prescribed;
- (i) Details, as may be prescribed, in respect of shares held by or on behalf of the Foreign Institutional Investors; **and**
- (j) Such other matters as may be prescribed, and signed by a director and the company secretary, or where there is no company secretary, by a company secretary in practice.

Provided that in relation to One Person Company and small company, the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.

Section 92(4) further specifies that, every company shall file with the Registrar a copy of the annual return, within sixty days from the date on which the annual general meeting is held or where no annual general meeting is held in any year within sixty days from the date on which the annual general meeting should have been held together with the statement specifying the reasons for not holding the annual general meeting, with such fees or additional fees as may be prescribed.

PREPARATION OF FINANCIAL STATEMENTS:-

Regulatory Framework Related to Preparation of Financial Statements: In India, preparation and presentation of financial statements is guided by –

- (a) The Companies Act, 2013;
- (b) The Companies (Accounts) Rules 2014;
- (c) Accounting Standards (AS or Ind AS as applicable)

Meaning of Financial Statements: According to Section 2(40) of Companies Act, 2013, financial statement in relation to a company, includes—

- (i) A balance sheet as at the end of the financial year;
- a profit and loss account, or in case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (ii) Cash flow statement for the financial year; and
- (iii) Any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv).

However, the financial statement, with respect to one person company, small company and dormant company (Section 455) may not include cash flow statement.

Meaning of Financial Year: According to Section 2(41), financial year, in relation to any company or body corporate, means the period ending on the 31st day of March every year. Where a company has been incorporated on or after 1st day of January of a year, the first financial year will end on 31st day of March of the following year.

Preparation of Financial Statements by Entities Companies Act, 2013:

Section 129 (1): The financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form as or forms may be provided for different class or classes of companies in Schedule III:

Provided that the items contained in such financial statements shall be in accordance with the accounting standards: Provided further that nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity, or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company:

Section 129(2): At every annual general meeting of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year.

Section 129(3): Where a company has one or more subsidiaries, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2):

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form may be prescribed:

Section 129(4): The provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements referred to in sub-section (3).

Section 129(5): Without prejudice to sub-section (1), where the financial statements of a company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.

Section 137(1): A copy of the financial statements, including consolidated financial statement, if any, along with all the documents which are required to be or attached to such financial statements under this Act, duly adopted at the annual general meeting of the company, shall be filed with the Registrar within thirty days of the date of annual general meeting in such manner, with such fees or additional fees as may be prescribed.

Companies (Accounts) Rules, 2014:

Rule 4A: The financial statements shall be in the form specified in Schedule III to the Act and comply with Accounting Standards or Indian Accounting Standards as applicable:

Provided that the items contained in the financial statements shall be prepared in accordance with the definitions and other requirements specified in the Accounting Standards or the Indian Accounting Standards, as the case may be.

Rule 12(1): Every company shall file the financial statements with Registrar together with Form 2AOC-4 and the consolidated financial statements, if any, with form 2AOC-4 CFS.

Rule 12(2): The class of companies as may be notified by the Central Government from time to time, shall mandatorily file their financial statement in Extensible Business Reporting Language (XBRL) format and The Central Government may specify the manner of such filing under such notification for such class of companies.

Form and Content of Financial Statements: The form and content of Financial Statements have been specified in Schedule III of the Companies Act, 2013. The objective of such specification is to improve the comparability of financial information across entities.

Schedule III of the Companies Act, 2013 comprises of three divisions as follows:

- (a) **Division I:** General Instructions for Preparation of Balance Sheet and Statement of Profit and Loss of a company whose Financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2021.
- (b) **Division II:** General Instructions for Preparation of Financial Statements of a company whose Financial Statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.
- (c) **Division III:** General Instructions for Preparation of Financial Statements for a Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

Note: In this Module, preparation of financial statements has been discussed primarily as per Division I i.e., for whom Financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2006.

Division I of Schedule III of Companies Act, 2013: Relevant provisions under 'General Instructions for Preparation of Balance Sheet and Statement of Profit and Loss of a Company' as specified in Schedule III, Division I are given below:

- a. Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head or sub-head or any changes, inter se, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly.

- b. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.
- c. (i) Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required
- (a) narrative descriptions or disaggregations of items recognised in those statements; and
 - (b) information about items that do not qualify for recognition in those statements.
- (ii) Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.
- d. (i) Depending upon the Total Income of the company, the figures appearing in the Financial Statements shall be rounded off as given below:
- When total income is less than one hundred crore rupees, rounding off shall be done to the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
 - When total income is one hundred crore rupees or more, rounding off shall be done to the nearest lakhs, millions or crores, or decimals thereof.
- (ii) Once a unit of measurement is used, it should be used uniformly in the Financial Statements.
- e. Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.
- f. For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

Division I of Schedule III comprises of two parts as follows:

- (a) Part I, which provides the minimum disclosure requirements for the Balance Sheet; and
- (b) Part II, which provides the minimum disclosure requirements for the Statement of Profit and Loss.

SCHEDULE III (Section 129) (PART I—FORMAT OF BALANCE SHEET)

	Particulars	Note No.	Figures as at the end current reporting period	Figures as at the end of previous reporting period
I.	Equity and Liabilities			
	<u>Shareholder's fund</u>		-----	-----
	Share capital	1	-----	-----
	Reserves and surplus	2	-----	-----
	Money received against share warrants	3		
	(2) Share application money pending allotment	4	-----	-----
	(3) Non-current liabilities			
	Long-term borrowings	5	-----	-----
	Deferred tax liabilities (Net)	6	-----	-----

		Other long term liabilities	7	-----	-----
		Long-term provisions	8	-----	-----
	(4)	Current liabilities			
		Short-term borrowings	9		
		Trade payables	10		
		Other current liabilities	11		
		Short-term provisions	12		
		Total		-----	-----
II.		Assets			
	(1)	Non-current assets			
		Property, plant & equipment			
		(a) Tangible assets	13	-----	-----
		(b) Intangible assets	14	-----	-----
		(c) Capital work-in progress	15	-----	-----
		(d) Intangible assets under development	16	-----	-----
		Non-current investments	17	-----	-----
		Deferred tax assets (net)	18	-----	-----
		Long-term loans and advances	19	-----	-----
		Other non-current assets	20	-----	-----
	(2)	Current assets			
		Current investments	21	-----	-----
		Inventories	22	-----	-----
		Trade receivable	23	-----	-----
		Cash and cash equivalent	24	-----	-----
		Short-term loans and advances	25	-----	-----
		Other current assets	26	-----	-----
		Total		-----	-----
Notes forming part of the financial statements 1-46					

(Note number is not prescribed in schedule III is numbered as per individual requirement)

Format of Statement of Profit and Loss

	Particulars	Note No.	Figures for the current reporting period		Figures for the previous reporting period	
I.	Revenue from operations	28		-----		-----
II.	Other income	29		-----		-----
III.	Total revenue (I+II)			-----		-----
IV.	Expenses:					
	Cost of materials consumed	30		-----	-----	-----
	Purchases of Stock-in-Trade	31		-----	-----	-----
	Changes in investments of finished goods work-in-progress and Stock-in-Trade	32		-----	-----	-----
	Employee benefits expense	33				
	Finance costs	34				
	Depreciations and amortization expenses	15&16				
	Other expenses	35				

	Total expenses			-----		-----
V.	Profit before exceptional and extraordinary items and tax (III-IV)			-----		-----
VI.	Exceptional items	36		-----		-----
VII.	Profit before extraordinary items and tax (V-VI)			-----		-----
VIII.	Extraordinary Items	37		-----		-----
IX.	Profit before tax (VII-VIII)			-----		-----
X.	Tax expense: Current tax Deferred tax	38		----- -----	----- -----	----- -----
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)			-----		-----
XII.	Profit/(Loss) from discounting operations	39		-----		-----
XIII.	Tax expense of discontinuing operations	40		-----		-----
XIV.	Profit/(loss) from discounting operations (After tax) (XII – XIII)			-----		-----
XV.	Profit (Loss) for the period (XI+XIV)			-----		-----
XVI.	Earnings per equity share: Basic Diluted	41		----- -----		----- -----

General Instructions for preparation of Statement of P & L:

Items	Description	
1. Sec.25 Companies	The provisions of this Part shall apply to the Income and Expenditure Account referred to in Sec. 129 of the Act, in like manner as they apply to a Statement of Profit and Loss.	
2. Revenue from Operations	For Company other than a Finance Company: Revenue from Operations shall disclose separately in the Notes, Revenue from – (a) Sale of Products (b) Sale of Services (c) Other Operating Revenues	For Finance Company: Revenue from Operations shall include Revenue from: (a) Interest & (b) Other Financial Services

Question 1. State the major heads and sub-heads under which the following items will be shown:

- Share application pending allotment
- Share application pending allotment became refundable
- Income tax reserve
- Income tax provision
- Income tax payable
- Dividend payable
- Unclaimed dividend
- Proposed dividend
- Share option outstanding account
- Finance lease obligations
- Current maturity of finance lease obligation
- Debentures/ bonds
- Current maturity of debentures/bonds
- Loan repayable on demand.

Question 2. State the major heads and sub-heads under which the following items will be shown:

- A. Current maturity of finance lease
- B. Application money received for securities and due for refund and interest accrued thereon
- C. Provision for expense
- D. Calls in advance
- E. Calls in arrear
- F. Provident fund/gratuity fund
- G. PF payable
- H. ESI/ Gratuity payable
- I. Provision for employees
- J. Stores and spare parts
- K. Loose tools
- L. Tools and equipment
- M. Bank deposits for 3 years
- N. Fixed deposits with restrictions for withdrawal after 2 years.
- O. Drafts/cheques in hand

Question 3. 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.

Question 4. 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

Question 5. Fill in the blanks:

- i. Interest expenses are _____ costs.
- ii. Investment of ₹ 45,00,000 in 40,000 12% Debenture of ₹ 100 each of Amrit Ltd. will come under: Assets-Non-current Assets- _____.
- iii. Provision for taxation of ₹ 88,000 will come under: Equity and Liabilities under- _____ – Short-term Provision.
- iv. Short-Term Borrowings will include all Loans within a period of _____ months from the date of the loan.
- v. Stock-in-Trade (in respect of goods acquired for Trading) are classified as _____. (ICMAI Study material)

Answer: i. Finance; ii. Non-current Investments; iii. Current Liabilities; iv. 12; v. Inventories.

Question 6. On 1st November, 2021 Squash Ltd. was incorporated with an authorized capital of ₹ 200 crores. It issued to its promoters equity capital of ₹ 10 crores which was paid for in full. On that day it purchased the running business of Jam Ltd. for ₹ 40 crores and allotted at par equity capital of ₹ 40 crores in discharge of the consideration. The net assets taken over from Jam Ltd. were valued as follows: Fixed Assets ₹ 30 crores, Inventory ₹ 2 crores, Customers' dues ₹ 14 crores and Creditors ₹ 6 crores. Squash Ltd. carried on business and the following information is furnished to you:

(a) Summary of cash/bank transactions (for year ended 31st October, 2022).

		₹ in crores
Equity capital raised:		
Promoters (as shown above)	10	
Others	50	60
Collections from customers		800
Sale proceeds of fixed assets (cost ₹18 crores)		4
		864
Payments to suppliers	400	
Payments to employees	140	
Payment for expenses	100	640
Investments in Upkar Ltd.		20
Payments to suppliers of fixed assets:		
Installment due	120	
Interest	10	130
Tax payment		54
Dividend		10
Closing cash/bank balance		10
		864

(b)		
On 31st October, 2022 Squash Ltd.'s assets and liabilities were:		
Inventory at cost		3
Customers' dues		80
Prepaid expenses		2
Advances to suppliers		8
Amounts due to suppliers of goods		52
Amounts due to suppliers of fixed assets		150
Outstanding expenses		6

(c) Depreciation for the year under:

- i. Companies Act, 2013 ₹ 36 crores
- ii. Income tax Act, 1961 ₹ 40 crores

(d) Provide for tax at 38.5% of "total income". There are no disallowed expenses for the purpose of income tax. Provision for tax is to be rounded off.

For Squash Ltd. prepare:

- i. Revenue statement for the year ended 31st October, 2022 and
- ii. Balance Sheet as on 31st October, 2022 from the above information.

(ICMAI Study material)

Question 7. Prepare the Balance Sheet of Payal Textiles Ltd. as required under Schedule III of the Companies Act, 2013, as on 31st March 2022. Following balances are given:

Accounts	Dr. (₹)	Cr. (₹)
Secured Term Loans	-	10,00,000
Creditors	-	11,45,000
6% Debentures Account	-	27,00,000
Provision for Tax	-	1,70,000
Security Premium Account	-	4,75,000
General Reserves	-	20,50,000
Loans and Debtors	-	2,00,000
Provision for (Doubtful) Debts	-	20,200
Provision for Depreciation	-	5,00,000
Equity Share Capital (30,000 × 10)	-	3,00,000
8% Preference Share Capital (10,000 × 100)	-	10,00,000
Advances given to employee	3,72,000	-
Advances to suppliers	55,000	-
Cash and Bank	2,75,000	-
Loose Tools	50,000	-
Long term Investments	2,25,000	-
Profit and Loss Account (Losses)	3,00,000	-
Debtors	12,25,000	-
Accrued income	58,000	-
Stores Items	4,00,000	-
Fixed Assets	56,50,000	-
Capital Work-in-Progress	2,00,000	-
Finished Goods Stock	7,50,200	-
	95,60,200	95,60,200

Question. 8 From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 2022. Give notes at the foot of the Balance Sheet as may be found necessary:

	Debit (₹)	Credit (₹)
Equity Capital (Face value of ₹ 100)		10,00,000
Calls in Arrear	1,000	—
Land	2,00,000	—
Building	3,50,000	—
Plant and Machinery	5,25,000	—
Furniture	50,000	—
General Reserve	—	2,10,000
Loan from State Financial Corporation	—	1,50,000
Stock:		
Finished Goods	2,00,000	
Raw Materials	<u>50,000</u>	
	2,50,000	—
Provision for Taxation	—	68,000
Sundry Debtors	2,00,000	—
Advances	42,700	—
Dividend Payable	—	60,000
Profit and Loss Account	—	1,00,000
Cash Balance	30,000	—
Cash at Bank	2,47,000	—
Preliminary Expenses	13,300	—
Loans (Unsecured)	—	1,21,000
Sundry Creditors (For Goods)	—	2,00,000
	19,09,000	19,09,000

The following additional information is also provided:

1. 2000 equity shares were issued for consideration other than cash.
2. Debtors of ₹ 52,000 are due for more than six months.
3. The cost of assets : Building : ₹ 4,00,000; Plant and Machinery : ₹ 7,00,000, Furniture : ₹ 62,500.
4. The balance of ₹ 1,50,000 on the loan account with State Finance Corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
5. Balance at Bank includes ₹ 2,000 with Perfect Bank Ltd. which is not a Scheduled Bank.
6. Bills receivable for ₹ 2,75,000 maturing on 30th June 2022, have been discounted.
7. The Company had contracts for the erection of Machinery at 1,50,000 which is still incomplete.

(CMA-16 Marks, IPCC -16 marks)

Question. 9 The following are the balances of Johri Aabhushan Bhandar Co. Ltd. as on 31st march, 2022:

Credit	₹	Debit	₹
Share Capital (₹ 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
	<u>1,26,05,000</u>		<u>1,26,05,000</u>

- (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 ₹ 9,50,000.
- (f) A claim of ₹ 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.
- (h) Transfer ₹ 10,000 to general reserve.

QUESTION 10. The Auto Parts manufacturing Co. Ltd. was registered with an authorized capital of ₹ 10,00,000 divided into shares of ₹ 10 each of which 40,000 shares had been issued and fully paid. The following is the Trial Balance extracted on 31st March, 2021.

Particular	Debit (₹)	Credit (₹)
Stock (April 1 st , 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 st 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 31st March, 2021 and a Balance Sheet as at that date after taking into consideration the following adjustments:

- (i) On 31st March 2021, outstanding Manufacturing Wages and outstanding Office Salaries stood at ₹ 1,890 and ₹ 1,200 respectively. On the same date, stock was valued at ₹ 1,24,840 and Loose Tools at ₹ 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 31st March, 2021 after a transfer of 5% of net profits to general Reserve

QUESTION 11. Fine Products Ltd. was registered with a nominal capital of ₹ 5,00,000 divided into shares of ₹ 100 each. The following Trial balance is extracted from the books on 31st March, 2021.

Particular	₹	Particular	₹
Buildings	2,90,000	Sales	5,20,000
Machinery	1,00,000	Salaries Outstanding	2,000
Stock	90,000		
Purchase (adjusted)	2,10,000		
Salaries	60,000	Share Capital	2,00,000
Director's Fees	10,000	General Reserve	40,000
Rent	26,000	Profit and Loss A/c	25,000
Depreciation	20,000	Creditors	92,000
Bad Debts	6,000	Provision for Depreciation :	
Interest accrued on Investment	2,000	On Building 50,000	
Investment :		On Machinery <u>55,000</u>	1,05,000
12,000 Shares of A Ltd. Of		14% Debentures	2,00,000
₹ 10 each, ₹ 8 paid up	1,20,000	Interest on Debentures	
Debentures Interest	28,000	Accrued but not due	14,000
Loose Tools	23,000	Interest on Investments	12,000
Advance Tax	60,000	Unclaimed Dividend	8,000
Sundry Expenses	18,000		
Debtors	1,25,000		
Bank	30,000		
	12,18,000		12,18,000

You are required to prepare statement of Profit and Loss for the year ending 31st March, 2021 and a Balance Sheet as at the date after taking into consider the following information:

- a. Provide for bad and doubtful debts @ 4% on debtors.
- b. Make a provision income tax @ 30%
- c. Depreciation expense includes depreciation of ₹ 8,000 on Buildings and that of ₹ 12,000 on Machinery.
- d. The directors recommend a dividend @ 25% and transfer of ₹ 20,000 to general reserve.

(CMA inter, CA-IPCC)

QUESTION 12. State whether the following statements are 'TRUE' or 'FALSE':

- i. Part I of Schedule III is related to preparation of Profit and Loss Statement.
- ii. Interest income in case of a Finance Company is treated as a part of revenue from Operation.
- iii. Schedule III deals only with presentation and disclosure requirements.
- iv. The aggregate amount of the balance of 'Reserve and Surplus', is to be shown after adjusting negative balance of surplus/ Loss, if any.
- v. 2,00,000 8% Preference Shares of ₹ 100 each will come under : Equity and Liabilities –Shareholders' funds - Share Capital (Schedule III).

(ICMAI Study material)

Answer: i. FALSE. ii. TRUE. iii. TRUE. iv. TRUE. v. TRUE

Question 13. In the financial statements of the financial year 2021-2022, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment.

(ICAI Study material)

Answer: As per part 1 of the schedule III, a company should disclose in notes to account for the period of 5 years immediately preceding the balance sheet date, the aggregate number and class of shares allotted as fully paid-up bonus shares. However, schedule III does not require a company to disclose the source from which these bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the schedule III to the companies act.

Question 14. The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They were of the opinion that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Schedule III.

(ICAI Study material)

Answer: Schedule III to the companies act does not require that the amount of WIP at the beginning and at the end of the accounting period to be disclosed in the statement of profit and loss. Only changes in inventory of WIP need to be disclosed in the SPL. Non-disclosure of such change in the SPL by the company may not amount to violation of schedule III if the differences between opening and closing are not material.

Question 15. Write the differences between treatment of proposed (recommended) dividend, declared dividend and dividend payable, unclaimed/unpaid dividend in financial statements.

Question 16. Futura Ltd. had the following items under the head “Reserves and Surplus” in the Balance Sheet as on 31st March,

2021:	Amount in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of 250 lakhs on the same date, which it has disclosed under the head “Statement of Profit and Loss” as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.
(ICAI Study material)

Question 17. Sumedha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First installment is due on 30.09.2021 of ₹ 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Sumedha Ltd. for the year ended 31st March, 2021 according to Schedule III.
(ICMAI Study material)

Question 18. The following is the Trial Balance of Omega Limited as on 31.3.2022:

(Figures in '000)

Particular	Debit (₹)	Particular	Credit (₹)
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.22)	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		
	1670		1670

Additional Information:

- (i) The authorised 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 at ₹ 3,60,000.
 - (iii) Declared final dividend @ 10% on 2nd April 2022.
 - (iv) Suspense account of ₹ 4,000 represents cash received for the sale of some of the machinery on 1.4.2021. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.
 - (v) Depreciation is to be provided on plant and machinery at 10% on cost
- You are required to prepare Omega Limited's Balance Sheet as on 31.3.22 and Statement of Profit & Loss with notes to accounts for the year ended 31.3.2022 as per Schedule III. Ignore previous years' figures & taxation.

Question 19. 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 International Hotels Ltd., on 31st March, 2021

Particulars	Dr. (₹)	Cr. (₹)
Authorised Capital – dividend 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, 1 st 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
	<u>19,75,000</u>	<u>19,75,000</u>
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

Question 20. The following information has been extracted from the books of account of Hero Ltd. as at 31st March, 2022

Particular	Dr. (₹ '000)	Cr. (₹'000)
Administration Expenses	480	
Cash at Bank and on Hand	228	
Cash Received on Sale of Fittings		10
Long Term Loan		70
Investments	200	
Depreciation on Fixtures, Fittings, Tools and Equipment (1 st April, 2021)		260
Distribution Costs	102	
Factory Closure Costs	60	
Fixtures, Fittings, Tools and Equipment at Cost	680	
Profit & Loss Account (at 1st April, 2021)		80
Purchase of Equipment	120	
Purchases of Goods for Resale	1710	
Sales		3000
Share Capital (1,00,000 shares of ₹ 10 each fully paid)		1000
Stock (at 1 st April, 2021)	140	
Trade Creditors		80
Trade Debtors	780	
	4500	4500

Additional Information:

1. The stock at 31st March, 2022 (valued at the lower of cost or net realizable value) was estimated to be worth ₹ 2,00,000.
2. Fixtures, fittings, tools and equipment all related to administration. Depreciation is charged at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.
3. During the year, the Company purchased equipment of ₹ 1,20,000. It also sold some fittings (which had originally cost ₹ 60,000) for ₹ 10,000 and for which depreciation of ₹30,000 had been set aside.
4. The average Income tax for the Company is 30%. Factory closure cost is to be presumed as an allowable expenditure for Income tax purpose.
5. The company proposes to pay a dividend of 20% per Equity Share.

Prepare Hero Ltd.'s Profit & Loss Account for the year to 31-3-22 and balance Sheet in accordance with the Companies Act, 2013 along with the Notes on Accounts containing only the significant accounting policies. **(ICMAI Study material)**

Question 21. The following balances extracted from the books of Supreme Ltd., a real estate company, on 31-3-

Particulars	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. Supreme Ltd. sued Shallow 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. (ICMAI Study material)

22. MULTIPLE CHOICE QUESTIONS-- PRACTICE SESSION

1. **Preparation of financial statement as per section 129 is not applicable to:**
 - a. Insurance company
 - b. Banking company
 - c. Partnership firm
 - d. All of the above
2. **As per section Financial statement to be filled with registrar along with required documents even if AGM is not held.**
 - a. 137(2)
 - b. 137(1)
 - c. 137(3)
 - d. 137(4)
3. **Format of balance sheet of company is given under :**
 - a. Schedule III, Section 129, part II
 - b. Schedule III, Section 129, part I
 - c. Schedule I, Section 129, part II
 - d. Schedule I, Section 129, part I
4. **In statement of profit and loss(SPL) of a company, treatment of normal loss of goods due to spoilage are shown under:**
 - a. Cost of material consumed
 - b. Employees benefit expense
 - c. Other expense
 - d. Exceptional items
 - e. None of above
5. **"Loss on foreign currency transaction" is shown in statement of profit and loss of the company under the head:**
 - a. Other expense
 - b. Other income
 - c. Finance costs
 - d. None of above
6. **"Share option outstanding account" is shown in balance sheet of the company under the head:**
 - a. Share capital
 - b. Reserve and surplus
 - c. Other current liability
 - d. Other non- current liability
7. **"Debentures redeemable within 12 months" will be shown in balance sheet under -----**
 - a. Long term borrowings
 - b. Short term borrowings
 - c. Other current liability
 - d. Other non- current liability
8. **"Bank deposits with more than 12 months maturity" will be shown in balance sheet of the company under:**
 - a. Current investments
 - b. Long term investments
 - c. Cash and cash equivalents
 - d. Long term loans and advances.

9. **"Goods lost by fire" should be shown in Statement of profit and loss under the head**
- Cost of material consumed
 - Exceptional items
 - Extra-ordinary items
 - Other expenses
10. **"cost of Goods used by employee for personal use" should be shown in Statement of profit and loss under the head**
- Cost of material consumed
 - Exceptional items
 - Employees cost
 - Other expenses
11. **"cost of Goods used for advertisement" should be shown in Statement of profit and loss under the head**
- Cost of material consumed
 - Exceptional items
 - Employees cost
 - Other expenses
12. **Bank overdraft is shown under the head in the balance sheet:**
- Cash and cash equivalent as negative balance
 - Short term borrowings
 - Other current liability
 - Other non- current liability
13. **Debit balance of profit and loss (losses) should be shown in balance sheet under the head:**
- Share capital
 - Reserve and surplus
 - A separate item in assets side of balance sheet
 - Other current assets
14. **Provident fund/ gratuity fund should be shown in balance sheet under the head:**
- Long term provisions
 - Short term provisions
 - Reserve and surplus
 - Other non- current liability
15. **"Intangible assets under development" is shown in the balance sheet under the head**
- Non-current assets
 - Intangible assets
 - Current assets
 - Capital work in progress
16. **Prepaid expenses are shown in the balance sheet under the head**
- Long term loans and advances
 - Short term loans and advances
 - Other current assets
 - Other current liability
17. **Accrued income are shown in the balance sheet under the head**
- Long term loans and advances
 - Short term loans and advances
 - Other current assets
 - Other current liability

18. Premium on issue of shares/ debentures is example of:

- a. Capital reserve
- b. Revenue reserve
- c. Revenue profit
- d. None of above

19. Sources of payment of dividend:

- a. Current year profit
- b. Past year undistributed profits
- c. Money provided by government
- d. All of above

20. Deleted. Not in your syllabus.

21. Deleted. Not in your syllabus.

22. Deleted. Not in your syllabus.

23. Deleted. Not in your syllabus.

24. Deleted. Not in your syllabus.

25. Part II of the Schedule III to the Companies Act, 2013 gives the –

- (A) Format of Income Statement
- (B) General instructions for preparation of Profit & Loss Account
- (C) Format of Balance Sheet
- (D) Format of Comparative Statements

26. As per Section 129(2) of the Companies Act, 2013, at every ----- of a company, the Board of Directors of the company shall lay before such meeting financial statements for the financial year.

- (A) Board Meeting
- (B) Annual General Meeting
- (C) Extraordinary General Meeting
- (D) Ordinary General Meeting

27. The company shall attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in _____ as per the Companies (Accounts) Rules, 2014.

- (A) Form No. AOC-1
- (B) Form No. AOC-2
- (C) Form No. AOC-3
- (D) Form No. AOC-4

28. Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required:

- 1. Narrative descriptions or disaggregation's of items recognized in those statements
- 2. Information about items that do not qualify for recognition in those statements.

Select the correct answer from the options given below –

- (A) 1 only
- (B) 2 only
- (C) 1 but not 2
- (D) Both 1 and 2

29. If the turnover of the company is less than ₹100 Crore, the figures appearing in the Financial Statements may be rounded off to nearest –

- (A) To the nearest hundreds
- (B) To the nearest hundreds and thou-sands
- (C) To the nearest hundreds, thousands, lakhs or millions thereof.
- (D) To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.

30. choose the correct option related to given below statements:

Statement I :-- Where the financial statements of a company do not comply with the accounting standards referred, the company shall disclose in its financial statements, the deviation from the accounting standards but the reasons for such deviation and the financial effects, if any, arising out of such deviation are not required to be given.

Statement II: -- As per Section 129 of the Companies Act, 2013 the word "subsidiary" shall include associate company and joint venture.

Select the correct answer from the options given below –

- (A) Statement I is true but Statement II is false. (B) Statement I is false but Statement II is true.
(C) Both Statement I and Statement II are true (D) Both Statement I and Statement II are false

31. If the turnover of the company more than ₹100 Crore, the figures appearing in the Financial Statements may be rounded off to nearest -

- (A) To the nearest hundreds, thousands: lakhs or millions, or decimals thereof.
(B) To the nearest lakhs, millions or crores, or decimals thereof
(C) To the nearest millions or crores or decimals thereof
(D) To the nearest crores or decimals thereof

32. Under which heading the Deferred Tax Assets appears in the balance sheet?

- (A) Current assets (B) Non-Current assets (C) Deferred assets (D) Contingent Liabilities

33. deleted from syllabus.... Be happy**34. An asset shall be classified as current:**

- (A) If it is held primarily for the purpose of being traded.
(B) If it is not possible to classify such asset as non-current asset.
(C) If for the asset normal operating cycle cannot be identified.
(D) If such asset expected to be realized, after twelve months after the reporting date.

35. A copy of the financial statements, including consolidated financial statement, along with all the documents attached to financial statements, duly adopted at the AGM, shall be filed with the Registrar within _____ of the date of AGM in prescribed manner along with prescribed fees.

- (A) 20 days (B) 30 days (C) 50 days (D) 90 days

36. As per Schedule III of the Companies Act 2013 where the normal operating cycle cannot be identified it is assumed to have duration of-

- (a) 3 month
(b) 6 month
(c) 9 month
(d) 12 month

37. Deleted. Not in your syllabus.**38. A liability shall be classified as current when it satisfies any of the following criteria:**

- (A) It is expected to be settled in the company's normal operating cycle.
(B) It is due to be settled within twelve months after the reporting date
(C) The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
(D) All of the above

39. OPC shall file a copy of the financial statements duly adopted by its member, along with all the documents which are required to be attached to such financial statements, within..... from the closure of the financial year.

- (A) 30 days (B) 60 days (C) 120 days (D) 180 days

40. Which of the following is required to be disclosed in notes to accounts in respect of 'Share Capital'?

- (A) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period
(B) Aggregate number and class of shares bought back
(C) Shares in the company held by each shareholder holding more than 5%.
(D) All of the above

41. As per Rule 3 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, all companies having..... has to file their Balance Sheet, Profit & Loss A/c and other documents with the Registrar using the Extensible Business Reporting Language (XBRL).

- (A) Issued capital of ₹5 Crore or above (B) Authorized capital of more than ₹10 Crore
(C) Paid-up capital of ₹5 Crore or above (D) Subscribed capital of ₹25 Crore or above

42. Which of the following appears under the heading 'Reserves & Surplus' in the balance sheet?

- (A) Share Options Outstanding Account (B) Share Application Money Pending Allotment
(C) short term Provisions (D) Secrete Reserves

43. As per Schedule III of the Companies Act, 2013, a Company shall disclose by way of notes additional information regarding aggregate expenditure and income in relation to any item of income or expenditure which exceeds:

- (A) 0.5% of the revenue from operations (B) ₹10,000
(C) 1% of the revenue from operations or ₹1,00,000, whichever is higher
(D) 0.5% of the revenue from operations ₹10,000, whichever is less.

44. As per Rule 3 of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015, all companies having turnover of _____ has to file their Balance Sheet, Profit & Loss A/c and other documents with the Registrar using the Extensible Business Reporting Language (XBRL)

- (A) ₹50 Crore or above (B) ₹100 Crore or above
(C) ₹250 Crore or above (D) ₹500 Crore or above

45. As per Section 128 of the Companies Act, 2013, every company shall prepare and keep at its..... books of account and other relevant books and papers and financial statement for every financial year

- (A) Corporate Office (B) Registered Office
(C) Corporate Office or Registered Office (D) Head Office and its all branches

46. Which of the following will be shown in the balance sheet under the heading 'cash and cash equivalents'?

- (A) Earmarked balances with banks
(B) Bank deposits with more than twelve months' maturity
(C) Cheques, drafts on hand
(D) All of the above

47. Which of the following type of company is required to file their accounts in Extensible Business Reporting Language (XBRL) format?

- (A) Banking companies (B) Insurance companies
(C) Non-Banking Financial companies (D) None of the above

48. Declared dividend must be paid within _____ of declaration.

- (A) 45 days (B) 50 days (C) 30 days (D) 60 days

49. Retained earnings are –

- (A) An indication of a company's profitability.
(B) The same as cash in the bank.
(C) in the form of capital reserves.
(D) The cumulative earnings of the company after dividends.

50. Which of the following type of company is required to file their accounts in Extensible Business Reporting Language (XBRL) format?

- (I) Subsidiary of Indian Listed Company
(II) Companies which are required to prepare their financial statements in accordance with the Companies (Indian Accounting Standards) Rules 2015
(III) Private company having turnover of ₹99 Crore.
(IV) Public companies having paid-up capital of ₹3 Crore.

Select the correct answer from the given below - options

- (A) (I) & (II). (B) (II) & (IV) (C) (II) & (III) (D) (I), (II) & (III)

51. deleted from syllabus.... Be happy

52. In the real world, we find that dividends.

- (A) Usually exhibit greater stability than earnings. (B) Fluctuate more widely than earnings
(C) Tend to be a lower percentage of earnings for mature firms
(D) Are usually set as a fixed percentage of earnings

53. Which of the following statement is correct?

- (A) A company may, if so authorized by its articles, pay dividends in proportion to the amount paid up on each share.
(B) Dividend cannot be paid on calls-in- advance,
(C) All the provisions of the Companies Act, 2013 that are applicable to final dividend are also applicable to interim dividend.
(D) All of the above

54. As per provisions of the Companies, Act, 2013 dividend can be paid-

1. Out of current profit 2. Out of revaluation reserve
3 Out of profits of previous financial years 4. Out of money provided by the Central or State Government
5. out of free reserve

Select the correct answer from the options given below.

- (A) 1 and 5 only
(B) 1, 2, 3 & 5
(c) 1, 3 and 5 only
(D) 1, 3, 4 and 5

55. As per Section 128 of the Companies Act, 2013, a company may, before the declaration of any dividend in any financial year, transfer _____ to the reserves of the company.

- (A) 25% of its profit after tax
(B) 10% of its profit before tax
(C) such percentage of its profits for that financial year as board of directors may consider appropriate
(D) such percentage of its profits for that financial year as equity shareholder may consider appropriate

56. Deleted. Not in your syllabus.

57. Deleted. Not in your syllabus.

58. Deleted. Not in your syllabus.

59. As per the provisions of the Companies Act, 2013, the amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account within..... from the date of declaration of such dividend.

- (A) 15 days (B) 45 days (C) 10 days (D) 5 days

60. After declaration of dividend, the company has to pay dividend within..... of declaration of dividend. If amount of dividend remains unpaid or unclaimed for 30 days of declaration of dividend, then in next..... the company has to transfer the amount unclaimed to the to a special account in any scheduled bank to be called the "Unpaid Dividend Account".

- (A) 30 days; 5 days (B) 30 days; 7 days
(C) 30 days; 5 days (D) 45 days; 7 days

61. Deleted. Not in your syllabus.

62. Any money transferred to the unpaid dividend account of a company which remains unpaid or unclaimed for a period of _____ from the date of such transfer must be transferred by the company to Investor Education and protection Fund

- (A) 3 years (B) 5 years (C) 7 years (D) 10 years

63. equity share capital of ₹ 10 each, ₹ 8 called up = 1,00,000 shares

Calls in arrear = ₹ 20,000

Calls in advance = ₹ 30,000

Interim dividend paid = ₹ 70,000

Total Dividend = 20% (including interim dividend)

Calculate dividend payable

- (A) ₹ 92,000 (B) ₹ 86,000 (C) ₹ 1,56,000 (D) ₹ 1,62,000

64. Deleted. Not in your syllabus.

65. Operating cycle of business operation = 17 months. Asset is expected to be converted into cash within 15 months from the reporting date. The given asset should be classified as

- a. current asset
- b. non-current asset
- c. either current asset or non-current asset
- d. none of the above

66. Deleted. Not in your syllabus.

67. Deleted. Not in your syllabus.

68. Deleted. Not in your syllabus.

69. Operating cycle of business operation = 11 months. Asset is expected to be converted into cash within 15 months from the reporting date. The given asset should be classified as

- a. current asset
- b. non-current asset
- c. either current asset or non-current asset
- d. none of the above

70. Deleted. Not in your syllabus.

"Answer of MCQ

1.	(D)	2.	(B)	3.	(B)	4.	(E)	5.	(C)	6.	(B)	7.	(C)
8.	(C)	9.	(C)	10.	(C)	11.	(D)	12.	(B)	13.	(B)	14.	(A)
15.	(A)	16.	(C)	17.	(C)	18.	(A)	19.	(D)	20.	(B)	21.	(A)
22.	(A)	23.	(B)	24.	(A)	25.	(A)	26.	(B)	27.	(A)	28.	(D)
29.	(D)	30.	(B)	31.	(B)	32.	(B)	33.	(D)	34.	(A)	35.	(B)
36.	(D)	37.	(B)	38.	(D)	39.	(D)	40.	(D)	41.	(C)	42.	(A)
43.	(C)	44.	(B)	45.	(B)	46.	(D)	47.	(D)	48.	(C)	49.	(D)
50.	(A)	51.	(C)	52.	(A)	53.	(D)	54.	(D)	55.	(C)	56.	©
57.	©	58.	(C)	59.	(D)	60.	(B)	61.	(A)	62.	(C)	63.	(B)
64.	(C)	65.	(A)	66.		67.		68.		69.	(B)		

SOME MORE PRACTICE QUESTIONS FROM ICAI STUDY MATERIAL:

Question 23. While preparing the Balance Sheet as on 31.03.2021, the Accountant of ABC Ltd. is confused regarding classification of following Trade Payables into current and non-current.

(ICMAI Study material)

S.No	Amount due	Due from	To be settled on
1	3,10,000	01.04.2020	18.05.2021
2	1,80,000	01.06.2020	15.09.2022
3	40,000	01.08.2020	15.07.2022
4	15,000	01.01.2021	30.04.2022
5	2,30,000	06.03.2021	05.07.2022
6	1,08,000	15.03.2021	31.12.2021

Answer: Classification of Trade Payables as Current and Non-current Liabilities

	Amount due	Date of settlement	Due from	Cut off period based on operating cycle	Whether due within the cut of date	remark
1	3,10,000	18.05.2021	01.04.2020	01.07.2021	Before	Current Liabilities
2	1,80,000	15.09.2022	01.06.2020	01.09.2021	After	Non-current Liabilities
3	40,000	15.07.2022	01.08.2020	01.11.2021	After	Non-current Liabilities
4	15,000	30.04.2022	01.01.2021	01.04.2022	After	Non-current Liabilities
5	2,30,000	05.07.2022	06.03.2021	06.06.2022	After	Non-current Liabilities
6	1,08,000	31.12.2021	15.03.2021	15.06.2022	Before	Current Liabilities

Question 24. The following are the extracts from the Trial Balance of Y Ltd. on March 31, 2021: (figures in `)

Provision for current tax (2019-20)	4,00,000	Tax deducted at source (2020-21)	20,000
Advance tax paid (2019-20)	3,60,000	Advance tax paid (2020-21)	2,00,000

The assessment for the year 2019-20 was finalized during the year 2020-21. The total tax liability for that year was fixed at ₹ 4,40,000 and the net amount payable for the year 2019-20 has not yet been paid. The net profit before tax for the year 2020-21 amounted to ₹ 8,00,000. Balance of Profit & Loss A/c at the end of 2019-20 was ₹ 4,00,000. Assume corporate income tax @ 35% (inclusive of surcharge and education cess) You are required to draft:

- Extract of Statement of Profit and Loss for the year ended March 31, 2021 along with the relevant Notes; and
- Extract of Balance Sheet as on March 31, 2021 along with the relevant Notes.

(ICMAI Study material)

i. Answer: Statement of Profit and Loss for the year ended on 31.03.2021:

	Particulars	Note no.	Current year	Previous year
I.	Profit before tax (given)		8,00,000	
II.	Tax Expenses: Current Tax	1	3,20,000	
III.	Profit from Continuing operations (I- II)		4,80,000	
IV.	Profit from dis-continuing operations		Nil	
V.	Profit for the period (III +IV)		4,80,000	

Notes to Statement of Profit and Loss:

Provision for income tax (2020-21) [8,00,000 x 35%]	2,80,000
Prior period tax (further provision for 2019-20 (Working 1)	40,000
Total	3,20,000

Balance Sheet as on 31.03.2021

I.	Equity and Liabilities		Current year	Previous year
	(1) Shareholders' Fund'			
	Reserves and Surplus	1	8,80,000	
	(2) Current liabilities			
	Other current liabilities: I.T Payable (2019-20)		80,000	
	Short term Provisions: Provision for tax (2020-21)		2,80,000	
II.	Assets			
	(1) Current Assets			
	Short term loans and advances: Advance Tax (2020-21)	2	2,20,000	

Notes to Balance Sheet:

Surplus: Balance on 01.04.2020	4,00,000
Add: Profit (2020-21)	4,80,000
Total	8,80,000
Advance tax (2020-21)	2,00,000
TDS (2020-21)	20,000
Total	2,20,000

Workings:

Tax assessment (2019-20)

Provision for tax (2019-20) = ₹ 4,00,000, and Assessed tax = ₹ 4,40,000

So, further provision required = ₹ 4,40,000 - 4,00,000 = ₹ 40,000

Income tax payable = Assessed tax – advance tax = 4,40,000 – 3,60,000 = ₹ 80,000

Question 25: State True and False:

1. Interest accrued and due should be shown under the head Other Current Liabilities in a Balance Sheet of a Company.
2. Interest on loan is included in 'other operating expenses' under the Statement of Profit and Loss.
3. As per Schedule III of Companies Act 2013, interest received on convertible debentures is shown under Finance Cost in the Statement of Profit and Loss.
4. Part I of Schedule III is related to preparation of Profit and Loss Statement.
5. Interest income in case of a Finance Company is treated as a part of revenue from Operation.
6. Schedule III deals only with presentation and disclosure requirements.
7. The aggregate amount of the balance of 'Reserve and Surplus', is to be shown after adjusting negative balance of surplus/ Loss, if any.
8. 2,00,000 8% Preference Shares of ₹ 100 each will come under: Equity and Liabilities –Shareholders' funds - Share Capital (Schedule III).

[Answer: True; False; False; False; True; True, False, true, True]

IMPORTANT NOTE: PREPARATION OF FINANCIAL STATEMENTS OF COMPANIES AS PER DIVISION II OF SCHEDULE III HAS BEEN DISCUSSED WITH IND AS 1 (UNDER CHAPTER "ACCOUNTING STANDARDS" TO AVOID CONFUSION BETWEEN THE TWO.

CHAPTER 4. ACCOUNTING OF SHARES

Significance of Capital in a Company: In order to finance procurement of resources and to run its operations, every company requires capital. In a company form of organization, this capital is raised not only from the promoters but also from others in the society i.e., public at large and institutional investors etc. This allows a traditional company (other than a one-person company) to raise huge amount of capital to finance operations at a larger scale.

IMPORTANT THEORY

- According to Justice Marshal “ A corporation is an artificial being invisible, intangible and existing only in the contemplation of law”
- According to Lord Justice Hanay a company is “an artificial person created by law with a perpetual succession and a common seal”
- Under the company act 2013, the term company is defined in section 2(20)

SALIENT FEATURES/CHARACTERISTICS OF A COMPANY:-

- i. **Incorporated association**— A company comes into operation after its registration under Companies Act. Without such registration no company can come into existence.
- ii. **Separate legal entity** – A company has a separate legal entity and is not affected by changes in its membership. Therefore, being a separate business entity, a company can contract, sue and be sued in its incorporated name and capacity.
- iii. **perpetual existence** – Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
- iv. **common seal**—Company is not a natural person, therefore, it can not sign the document in the manner as a natural person would do. In order to enable the company to sign its documents it is provided with legal tool called ‘common seal’.
- v. **Limited liability**--- The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him.
- vi. **Distinction between ownership and management**:- Since the number of shareholders is very large and may be distributed at different geographical locations, it becomes difficult for them to carry on the operational management of the company on day to day basis. This gives rise to the need of separation of the management and ownership.
- vii. **Not a citizen**—A company is not a citizen in the same sense as a natural person is.
- viii. **Transferability of shares**:- The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
- ix. **Maintenance of books**--- A limited company is required by law to keep a prescribed set of account books and any failure in this regard attract penalty.
- x. **Periodic audit** --- a company has to get its accounts periodically audited through the chartered accountant appointed **by the shareholders** in their **Annual General Meeting** on the recommendation of **Board of Directors**.

Statutory Books: Statutory books are those which a limited company is under statutory obligation to maintain at its registered office. The main statutory books are:

- (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 (viii) 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.

Books of Account: Every company is required to keep at its registered office books of account. These books are to be maintained in such a way so as to disclose:

- (a) The sums of money received and expended by the company and the matter in respect of which the receipt and expenditure has taken place.
- (b) All sales and purchases of goods of the company.
- (c) All assets and liabilities of the company.

TYPES OF COMPANIES

1. STATUTORY COMPANY:- All those companies, which operate under the special act passed by the State Legislature or Parliament, are called statutory companies. They are formed for special purpose by a special Act of Parliament. Included in this category are the unit Trust of India, Life Insurance Corporation, Reserve Bank of India, State Bank of India and so on. **Such companies are not required to use the word 'limited' as part of their name.** For example, Reserve Bank of India. Such companies are required to get their accounts audited by Comptroller and Auditor General of India and are publicly accountable to the State Legislature/Parliament.

2. GOVERNMENT COMPANY:- According to **Section 2(45) of The Companies Act, 2013** "a Government company means any company in which not less than 51% of the paid-up capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a government Company".

3. FOREIGN COMPANY:- According to **Section 2(42) of The Companies Act, 2013** "A foreign company is one that is incorporated outside India but has place of business or business operations in India.

4. HOLDING COMPANY:- Under **Section 2(46)** of The Companies Act, 2013, a company is deemed to be a holding company if the other company is its subsidiary company. A company becomes a subsidiary company when other company controls 51% or more of its paid-up share capital, has right to appoint directors on its board, or is a subsidiary of another subsidiary company.

5. SUBSIDIARY COMPANY:- According to Section 2(87), a company is deemed to be a subsidiary of another company if and only if -

- (a) That other company controls the composition of its board of directors, it implies that the controlling company (holding company) has the right to exercise the power of appointing or removing any person or a majority of persons from the directorship at its own discretion; or
- (b) That other company holds more than half in its nominal value of its equity share capital; or
- (c) That other company is a subsidiary of any company, which is that other's subsidiary. For example, Company B is a subsidiary of Company A, and Company C is a subsidiary of Company B. Since, Company B is a subsidiary of Company A, Company C becomes the subsidiary of Company A as well.
- (d) In case of a body corporate which is incorporated in a country outside India, a subsidiary or holding company of the body corporate under the law of such country shall be deemed to be a subsidiary or holding company within the meaning and for the purpose of this act whether the requirements of this section are fulfilled or not. It implies that if a company operating in India is a subsidiary of a foreign company, it will be treated as such irrespective of the fact whether in India, if it fulfils conditions (a), (b) and (c) listed above or no.

6. REGISTERED COMPANY:- All those companies that are registered under The Companies Act, 2013, are called Registered Companies.

7. LIMITED LIABILITY COMPANY:

(a) **LIMITED BY SHARES:-**According to Section 2(22) of The Companies Act, 2013 " A company in which the liability of shareholders is restricted to the amount of unpaid calls on shares is known as limited company.

(b) **LIMITED BY GUARANTEE: --**According to Section 2(21) of The Companies Act, 2013 " A company in which the liability of shareholders is restricted to the amount of Guarantee given is called limited by guarantee.

8.UNLIMITED LIABILITY COMPANY:- According to Section 2(92) of The Companies Act, 2013 A company in which the liability of shareholders is not restricted only to the value unpaid of shares is known as unlimited company

9. PUBLIC COMPANY:- According to Section 2(71) of the Act, 'public company' means a company which (a) is not a private company; (b) has a minimum paid-up capital as may be prescribed; and (c) is a private company which is a subsidiary of a company which is not a private company. After Companies (Amendment) Act, 2000, a public company cannot be registered with a capital of less than ₹ 5 lakhs. Public companies invite the public at large to participate and subscribe for the shares in, or debentures of, the company and there are no restrictions on transfer of shares.

10. PRIVATE COMPANY:- According to Section 2(68), a private company means a company which has a minimum paid-up capital as may be prescribed, and by its articles:

- (a) Restricts the rights of members to transfer its shares.
- (b) Except in one person company, limits the number of its member to 200 excluding: (i) persons who are in employment of the company; and (ii) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased. For this purpose joint holders of shares will be counted as single members.
- (c) Prohibits any invitation to the public to subscribe to any shares in, or debentures of, the company.
- (d) Prohibits any invitation or acceptance of deposits from persons other than its member, directors, and relatives. Private companies do not involve participation of public in general.

11. LISTED COMPANY:- As per Section 2(52) of The Companies Act, 2013, A listed company is a public company which has any of its securities listed in any recognized stock exchange.

12. UNLISTED COMPANY:- An unlisted company is one whose securities are not listed on any recognized stock exchange for trading.

13. One person company -- According to **Section 2(62) of The Companies Act, 2013**, a company which has only one person as member is called one person company.

Important Note: In the case of private companies shares are not listed in any stock exchange.

14. Small company: as per section 2(85) of The Companies Act, 2013 means a company, other than a public company,—

(i) paid up share capital of which does not exceed 50 lakhs or such higher amount as may be prescribed which shall not be more than 10 crores rupees.

(ii) turnover of which does not exceed 2 crores rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees.

15. Not for profit company (section 8 company)- which is a company that engages itself in the promotion of art, science, sports, education, research, social welfare, religion, charity, protection of environment or any other such objects, provided it intends to apply its profits, if any, or other income in promoting its objects and intends to prohibit the payment of any dividend to its members.

MEANING OF SHARES: In case of sole proprietorship and partnership there is limit of capital investment in business since in sole proprietor there is only one owner and in case of partnership, there also number of owners are limited. So where there is more capital required or nature of project is very big and that requires huge capital, those requirement demands companies form of organization in which capital is big and number of owners are not limited. According to section **2(84)** of the companies act 2013, share means a share in the share capital of a company and includes stock. **Features of Shares:** Shares have the following features:

- a. It represents the smallest unit of ownership.
- b. Each share has a specific value representing the part of capital in value. Such value is called the face value or nominal value of share.
- c. Shares of a specific series must have the same face value.
- d. Share represents only a partial ownership of Share Capital of the company.
- e. Shares are transferable and thereby ensures perpetual succession of the company.
- f. Each share has a distinct number.

Types of Shares: On the basis of the rights enjoyed by the shareholders, shares can be divided into two categories as follows:

- a. **Preference Shares:** These are shares in case of which the shareholders enjoy certain preferential right to receive dividend and repayment of capital in the event of liquidation of the company.
- b. **Equity Share:** These are shares that are not preference shares. In other words, here, the shareholders do not enjoy the above two preferential rights.

Different Types of Preference Shares:

- (i) **Redeemable vs. Irredeemable Preference Shares (based on redeemability):** Redeemable preference shares are such where the capital is repaid on a fixed date after a period of time. In case of irredeemable preference shares, the capital is never repaid.
- (ii) **Convertible vs. Non-Convertible Preference Shares (based on convertibility):** Convertible preference shares are such which gives the preference shareholders to convert their shares into equity shares subject to the conditions specified. In case of non-convertible preference shares, the shareholders do not enjoy any such rights.
- (iii) **Fixed Rate vs. Increasing Rate Preference Shares (based on the nature of dividend):** In case of fixed rate preference shares, the rate of dividend remain fixed throughout the term. However, in case of increasing rate¹ preference shares, the dividend rate increases after a certain period of time.
- (iv) **Cumulative vs. Non-Cumulative Preference Shares (based on accumulation of dividend):** Cumulative preference shares are such which carry the right to accumulated dividend. Thus, if the dividend is not paid in any year, it accumulates and becomes payable on subsequent year. Non-cumulative preference shares do not enjoy any such right.
- (v) **Participative vs. Non-Participative Preference Shares (based on participation rights):** Participatory preference shares are such where the holders have the right to participate (i.e., claim) into the residual distributable profit after paying equity dividend and to participate into the residual asset in the event of liquidation. This participatory right is in addition to their usual right to dividend and capital repayment. Non-participatory preference shares do not enjoy any such right.

SHARE CAPITAL:- Total share capital of company is divided into number of small indivisible units of a fixed amount and each unit is called share. The fixed value of share printed on the share certificates called Nominal/ Par/ Face value of share. However company can issue share at a price different from face value of share.

The liability of holder of shares (called shareholders) is limited to **issue price of share acquired by them**. According to SEBI guidelines, a company is free to price its issue if it has **three years track record** of consistent profitability and in case of New Company, if it has been promoted by company with a **five years tracks record** of consistent profitability.

Since total capital of company is divided into shares, the capital of the company is called share capital. Document used to invite offer from public to subscribe share and debenture of company is called **prospectus**.

Share capital of company divided into following categories:-

- 1. Authorized share capital:-** This capital also called Registered Capital or Nominal Capital. This is maximum limit which a company can raise by issue of share capital during its life time. It is shown on liabilities side of Balance Sheet at Face Value. There is no legal limit on the extent of authorized share capital.
- 2. Issued Share Capital:-** It is that part of Authorized Capital which company uses to raise fund since it is not necessary that all Authorized Capital should be issued. The remaining portion of the authorized capital which is not issued is called **un-issued capital**. It is not shown in Balance Sheet.
- 3. Subscribed Share Capital:-** That part of issued share capital which has been subscribed by the public is called subscribed share capital. Subscribed share capital may be more, less or equal to issued share capital. **At least 90%** of the issued share capital must be subscribed by the public before the allotment of shares.

4. Called-up Share Capital:-Companies generally receive the issue price of share in instalments. Called-up Capital is that portion of issue price of share which a company has demanded and called from shareholder. The portion of issue price which is not called or demanded by company **is termed as uncalled capital**.

5. Paid-up Share Capital:-Paid-up capital is that portion of Called-up Capital which is paid by shareholder. The portion of called up capital which is not paid by shareholders are called unpaid calls or Instalments in Arrears or Calls in Arrears.

6. Reserve Share capital :- According to section 65 of Company Act 2013, a company may decide by passing special resolution that some portion of subscribed uncalled capital shall not be called up except in the event of winding- up of Company. Portion of uncalled capital which a company has decided to call only in case of liquidation of company is called Reserve Liability / Reserve Capital.

7. Capital Reserves:- Capital Reserves are created out of Capital Profits. These are not free for distribution as dividend. This Reserve can be used to write off capital losses such as discount on issue of shares, underwriting commission etc.

Publication of Authorized, Subscribed and Paid-Up Capital [Section 60]

(1) Where any notice, advertisement or other official publication, or any business letter, billhead or letter paper of a company contains a statement of the amount of the authorised capital of the company, such notice, advertisement or other official publication, or such letter, billhead or letter paper shall also contain a statement, in an equally prominent position and in equally conspicuous characters, of the amount of the capital which has been subscribed and the amount paid-up.

(2) If any default is made in complying with the requirements of sub-section (1), the company shall be liable to pay a penalty of ₹ 10,000 and every officer of the company who is in default shall be liable to pay a penalty of ₹ 5,000 for each default.

Issue of Application Forms for Securities [Section 33]

No form of application for the purchase of any of the securities of a company shall be issued unless such form is accompanied by an abridged prospectus.

Provided that nothing in this sub-section shall apply if it is shown that the form of application was issued in connection with a bona fide invitation to a person to enter into an underwriting agreement with respect to such securities; or in relation to securities which were not offered to the public.

A copy of the prospectus shall, on a request being made by any person before the closing of the subscription list and the offer, be furnished to him.

If a company makes any default in complying with the provisions of this section, it shall be liable to a penalty of ₹ 50,000 for each default.

Refund of Application Money:

(1) If the stated minimum amount has not been subscribed and the sum payable on application is not received within the period specified therein, then the application money shall be repaid within a period of **15 days** from the closure of the issue and if any

such money is not so repaid within such period, the directors of the company who are officers in default shall jointly and severally be liable to repay that money with interest at the rate of **15% p.a.**

(2) The application money to be refunded shall be credited only to the bank account from which the subscription was remitted.

Allotment of Securities by Company [Section 39]

(1) No allotment of any securities of a company offered to the public for subscription shall be made unless the amount stated in the prospectus as the minimum amount has been subscribed and the sums payable on application for the amount so stated have been paid to and received by the company by cheque or other instrument.

(2) 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 Securities and Exchange Board of India (SEBI) by making regulations in this behalf.

(3) If the stated minimum amount has not been subscribed and the sum payable on application is not received within a period of **30 days from the date of issue of the prospectus**, or such other period as may be specified by the Securities and Exchange Board, the amount received under sub-section (1) shall be returned within such time and manner as may be prescribed.

(4) Whenever a company having a share capital makes any allotment of securities, it shall file with the Registrar a return of allotment in such manner as may be prescribed.

(5) In case of any default under sub-section (3) or sub-section (4), the company and its officer who is in default shall be liable to a penalty, for each default, of ₹ 1,000 for each day during which such default continues or 1,00,000 in total, whichever is less.

Subscriptions of Shares:- Whenever company issues shares it is not necessary that all shares issued by company are also subscribed by public. There are three situation of subscription by public

1. Full subscription
2. Under subscription
3. over subscription

Full subscription:- In this situation number of shares offered for subscription and the number of shares actually subscribed by public are same.

Under Subscription:- In this situation number of shares offered for subscriptions is more than number of shares subscribed by public.

Over subscriptions :- In this situation number of shares offered for subscription is less than number of shares subscribed by public.

Shares issued at Discount(Section 53):- As per new section 53 of the co. act 2013, no shares can be issued at discount(except ESOP and Sweat equity shares)

Shares Issued at Premium(section 52):- It is that situation where company issue share more than its have clue nominal value / face value. This extra amount is called share premium. Example, where face value of company is ₹ 100 and company issue it at ₹ 120, here ₹ 20 is security premium

Treatment of security Premium:- Amount of security premium is credited to separate account called security premium account. It is not part of capital. It is shown on liabilities side of balance sheet under the sub-head reserve and surplus (Heading shareholder 'fund). **According to section 52 of company Act 2013, security premium may be used by company for the following purpose**

- a) For issuing Bonus shares
- b) To write off preliminary expenses of company
- c) To write off expenses, commission, and discount allowed on any securities and debenture of company.
- d) To pay premium on redemption of preference share or debenture of company
- e) For purchase of its own shares (buy back of shares).

Over Subscription and pro- rata Allotment:- When shares are over subscribed, it is not possible for company to satisfy all the applicants. Allotment of shares is done at the discretion of company. Allotment basis can be any one of the following:-

- (a) Company may allot full shares to some and reject others.
- (b) Allotment of shares on Pro-rata basis.

Pro-rata Allotment:- Means allotment of shares in proportion of shares applied for. Applicants are informed about allotment procedure through an advertisement in leading newspapers.

Calls –in Arrears:- Sometimes share holders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more installments is known as call-in-arrear or unpaid calls. Such amount represents uncollected amount of capital from shareholders. Call-in-arrear is deducted from called-up capital to reach at paid-up value of share capital.

Generally Articles of Association empower the directors to charge interest at stipulated rate on call-in-arrear. However, according to **Table F** of articles of association, Interest at the rate of 10% per annum is charged on unpaid calls for the period started from the due date and end on when actual payment is made. However, directors have authority to waive the application of this rule in individual cases at their discretion.

Call-in Advance:- Sometime, shareholders pay in advance for calls which have not been made. This amount may be with application money, allotment money, first call etc. Calls in advance is shown as a separate item on the liability side of the balance sheet under the head 'other current liability'. As per **table F** of articles of association, Interest on calls in advance is paid @ 12% p.a.

Forfeiture of shares:- The Article of a company usually authorize the directors to forfeit shares of a member on account of non-payment of a call or interest thereon after serving him a prior notice as prescribed by the articles. Premium money received is never forfeited.

Re-issue of forfeited shares:- Forfeited shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares. Loss on re-issue can not exceed the forfeited amount. If the loss on re-issue is less than the forfeited amount, the surplus should be transferred to capital reserve. The forfeited amount on shares not yet re-issued should be shown in the balance sheet as an addition to the share capital. When the shares are re-issued at loss then such loss is debited to 'Forfeited shares account'. If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to 'securities premium account'. When shares originally issued at a discount are re-issued at a loss, the loss to the extent of original discount is debited to Discount on issue of shares Account and the balance loss is debited to forfeited shares Account.

ii. Various Types of Share Issue: Following are some of the common types of share issue.

- a. **Public Issue:** Here, the shares are offered directly to the investors for subscription. Accordingly, any person may become the shareholder of the company.
- b. **Private Placement:** Here, the shares are issued by the company to a small number of selected investors preferably the financial institutions viz. large banks, mutual funds, insurance companies, pension funds etc.
- c. **Rights Issue:** Here, the shares are offered to the existing shareholders of the company at a price below the market price on the basis of their proportionate shareholding.

- d. **Bonus Issue:** Here, the shares are offered to the existing shareholders of the company without any consideration.
- e. **Offers for sale:** An offer for sale (OFS) is a mechanism that allows promoters to reduce their holdings in listed companies transparently. These shares sold by the promoters are offered for sale directly to the public through a bidding process.

ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH:- A company may issue shares in a direct exchange for land, building or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the company. In the balance sheet, these shares should be shown separately. Within one month of allotment, the company must provide before the registration.

Public Issue of Shares: A company issues its shares to the public at a specified price. Such price, in case of an Initial Public Offer (IPO) is determined under any of the following two approaches –

- a. **Fixed Price Method:** Here shares are issued at a pre-determined price. The public is made known about the price through Prospectus and are requested to send application for subscription of the shares. The total proceeds can be collected either 'in lump sum' or 'in instalments'.
- b. **Book Building Method:** Here shares are not offered at any pre-determined price but the final share price is determined after collecting bids from the investors at various prices within a Price Band having a minimum price known as Floor Price and a maximum price known as Cap Price. The price at which the shares are ultimately allotted is called 'cut-off price'. The proceeds are normally collected on lump-sum basis and accounted accordingly.

Accounting of issue of shares: (You are going to feel the power of CMA Inter in further concepts)

CONCEPT BASED QUESTIONS

Question 1. X Ltd issued 20,000 shares of ₹ 10 each payable as follow:

On application ₹ 2

On allotment ₹ 3

On first call ₹ 4

On final call ₹ 1

Public applied for 20,000 shares (Mr. A for 12,000 shares and Mr. B for 8,000 shares). Money dues on various calls were received except Mr A who failed to pay both calls money. Thereafter his shares were forfeited. These shares were reissued at ₹ 7 as fully paid up. Make entries.

Question 2. COC Ltd issued 25,000 shares of ₹ 10 each payable as follow:

On application ₹ 2

On allotment ₹ 4

On first call ₹ 3

On final call ₹ 1

Public applied for 30,000 shares (Mr A for 18,000 and Mr B for 12,000 shares) and allotment was made pro-rata to both applicants. Money dues on various calls were received except Mr A who failed to pay both calls money. His shares were forfeited and reissued at ₹ 9 as fully paid up. Make entries.

Question 3. Tata Ltd. issued 40,000 shares of ₹ 10 each payable as follow:

On application ₹ 2

On allotment ₹ 3

On first call ₹ 2

On final call ₹ 3

Public applied for 50,000 shares and allotment was made to all applicants on pro-rata basis. Money dues on various calls were received except Mr Ramesh to whom 2000 shares were allotted failed to pay allotment and first call money. Subsequently his shares were forfeited. Thereafter final call was made and Mr Rajan to whom 1000 shares were allotted failed to pay final call money. His shares were also forfeited. All these forfeited shares were re-issued at ₹ 8 as fully paid up. Make journal entries.

Question 4. Hudco Ltd. issued 25,000 shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On application ₹ 2

On allotment ₹ 5(including premium)

On first call ₹ 4

On final call ₹ 1

Public applied for 32,000 shares and allotment was made to applicants for 30,000 shares on pro rata basis. Remaining applications were rejected.

Money dues on various calls were received except Mr karan 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 B to whom 1200 shares were allotted failed to pay final calls money. His shares were also forfeited. These shares were re-issued at ₹ 8 as fully paid up. Make entries.

Question 5. Maruti Ltd issued 40,000 shares of ₹ 10 each at a premium of 20% payable as follow:

Application ₹ 3(including premium ₹ 1)

Allotment ₹ 4(including premium ₹ 1)

First call ₹ 3

Final call ₹ 2

Public applied for 50,000 shares and allotment was made on pro-rata basis to all applicants. Mr Raju to whom 4,000 shares were allotted failed to pay allotment and first call money. Subsequently his shares were forfeited. Mr Kaju to whom 6,000 shares were allotted failed to pay both calls money. His shares were also forfeited after the final call. Out of forfeited shares 7,000 shares were re-issued at ₹ 8 as fully paid. It includes all the shares of Mr Kaju. Make entries.

QUESTION 6. Umesh Ltd. issued 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 1 per share (to be adjusted on allotment) payable as follows (i) ₹ 2 on application; (ii) ₹ 3 on allotment and (iii) ₹ 4 on first call. Subscription list was closed on 1st 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 3,00,000 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 @ ₹ 7 per share. Journalize the transactions including the cash and show the balance sheet with relevant information only.

QUESTION 7. (Issue of shares to vendors and promoters) Doaba limited company has an authorised capital of ₹ 2,50,000 divided into 25,000 shares of ₹ 10 each. Of these 4,000 shares were issued to the vendors as fully paid for purchase of building 8,000 shares were subscribed for by the public and during the first year, ₹ 2 per share were paid on application, ₹ 2 per share on allotment and ₹ 1 per share on call. 2,000 shares were issued as fully paid to promoters. Of the 8,000 shares subscribed for by the public, these had been paid at the end of the first year as under:

On 6,000 shares the full amount called up.

On 750 shares ₹ 4 per share (application and allotment money)

On 1,250 shares ₹ 2 share (application money only)

Company forfeited those shares on which less than 4 have been received.

You are required to submit journal and cash book entries recording the share capital transactions of the company.

QUESTION 8. (Calls-in-arrears and calls-in-advance) Aashima Ltd. issued 2,00,000 equity shares of ₹ 10 each, payable in equal amounts on application, allotment and the two calls. Applications were received for 2,50,000 shares. One applicant to whom 1,000 shares were allotted paid in full while remitting the allotment money and another shareholder who was allotted 1,200 shares failed to pay the final call. The remaining shareholders paid the amount due as and when called upon to pay.

The following information is also relevant:

(i) The company allotted the shares to applicants as per SEBI guidelines, (ii) The first call was made 4 months after the allotment date and the final call made 6 months after the first call, (iii) The company received the calls-in-arrears on 1,200 shares 4 months after the final call became due with interest on calls-in-arrears. Assuming that the company allotted only the shares offered for subscription, pass journal entries. The company paid the interest due from it on the date for final call in cash. Table F is applicable whenever needed.

QUESTION9. (Share application and allotment account) Parul Construction Ltd. made an issue of 30,000 shares of ₹ 10 each payable ₹ 3 on application, ₹ 5 on allotment and ₹ 2 on call. 93,200 shares were applied for and owing to this heavy over-subscription, allotments were made as follows:

(i) Applicants for 21,500 shares (in respect of applications for 2,000 or more) received 10,200 shares,

(ii) Applicants for 50,600 shares (in respect of applications for 1,000 or more but less than 2,000) received 12,600 shares,

(iii) Applicants for 21,100 shares (in respect of applications for less than, 1,000) received 7,200 shares. Cash then received after satisfying amount due on applications was applied towards allotment and call money and any balance then was returned. All moneys due on allotment and call were realized.

Give journal entries including that of cash and write up the cash account and ledger accounts relating to this issue of shares in the books of company.

(CMA INTER 10 MARKS)

QUESTION 10 (Issue of securities at premium) Kavita Garments Ltd. with an authorised capital of ₹ 30,00,000 invited applications for 20,000 shares of ₹ 100 each payable ₹ 30 on application, ₹ 40 on allotment (including premium) and ₹ 40 on final call. The issue was oversubscribed and applications were received for 36,000 shares. The basis of allotment was as follows:

- (i) To applicants for 15,000 shares 15,000 shares
 (ii) To applicants for 2,500 shares Nil
 (iii) To applicants for 18,500 share 5,000 shares

Excess application money was adjusted against the sums due on allotment and call in compliance with the provisions of the Companies Act 2013. All the moneys were duly received except the final call on 1,050 shares from the applicants belonging to full allotment category. Underwriting commission, amounted to ₹ 30,000. Give journal entries to record above transactions and show the company's balance sheet with relevant information only.

Solution:

Date	Particulars	L/F	Amount (₹)	Amount (₹)
(i)	Bank Account Dr. To Share Application Account		10,80,000	10,80,000
(ii)	Share Application Account Dr. To Equity Share Capital Account To Share Allotment Account To Calls-in-Advance Account To Bank Account		10,80,000	6,00,000 2,00,000 2,00,000 80,000
(iii)	Share Allotment Account Dr. To Equity Share Capital Account To Securities Premium Account		8,00,000	6,00,000 2,00,000
(iv)	Bank Account Dr. To Share Allotment Account		6,00,000	6,00,000
(v)	Share First and Final call Account Dr. To Equity Share Capital Account		8,00,000	8,00,000
(vi)	Bank Account Dr. Call-in-Advance Account Dr. To Share First and Final Call Account		5,58,000 2,00,000	7,58,000
(vii)	Underwriting Commission Account Dr. To Bank Account (Payment of underwriting commission)		30,000	30,000

Question 11. (Profit on reissue transferred to capital reserve) Nivedita Limited issued 1,00,000 shares of ₹ 10, each payable as under :

On Application : ₹ 1

On Allotment ₹ 2

On First Call : ₹ 3

On Final Call : ₹ 4

All moneys payable on application, allotment and calls has been received with the following exceptions: **Patel** who holds 1,000 shares has not paid the money due on allotment and calls. **Asha** who holds 500 shares has not paid the money due on the first and final calls. **Kumar** who holds 300 shares has not paid the due on the final call. The shares of Patel, Asha and Kumar were, therefore, forfeited. These shares were subsequently reissued for cash at a discount of 5 per cent. Pass journal entries recording the above transactions from the stage of receipt of application money till the reissue.

Solution:

	Particulars	Amount	Amount
		₹	₹
(i)	Bank Account Dr. To Share Application Account (Receipt of application money on 1,00,000 shares @ ₹ 1 per share)	1,00,000	1,00,000
(ii)	Share Application Account Dr. Share Allotment Account Dr. To Equity Share Capital Account (Application money @ ₹ 1 received and allotment money @ ₹ 2 due on 1,00,000 shares transferred to share capital account as per resolution no....dated...)	1,00,000 2,00,000	3,00,000
(iii)	Bank Account Dr. To Share Allotment Account (Allotment money @ ₹ 2 received on 99,000 shares)	1,98,000	1,98,000
(iv)	Share First Call Account Dr. To Equity Share Capital Account (First call money @ ₹ 3 due on 1,00,000 shares vide resolution no....dated,.)	3,00,000	3,00,000
(v)	Bank account Dr. To Share first call account (First call money received on 98,500 shares @ ₹ 3 per share)	2,95,500	2,95,500
(vi)	Share second and Final call A/c Dr. To Equity share capital account (Second cal due on 1,00,000 shares @ ₹ 4 per share vide resolution no...dated)	4,00,000	4,00,000
(vii)	Bank Account Dr. To Share second and final Call account (Final call money @ ₹ 4 per share received on 98,200 shares)	3,92,800	3,92,800

(viii)	Share capital account (1,800 x ₹ 10) Dr.	18,000	
	To share forfeited Account (1,000 + x ₹ 1) + (500 x ₹ 3) + (300 x ₹ 6)		4,300
	To share allotment account (1,000 x ₹ 2)		2,000
	To share first call account (1,500 x ₹ 3)		4,500
	To share second and final call Account (1,800 x ₹ 4) (forfeited of shares for non-payment of instalments)		7,200
(ix)	Bank account (1,800 x ₹ 9.50) Dr.	17,100	
	Share forfeited Account (1,800 x ₹ 0.50) Dr.	900	
	To Equity share capital account (Reissue of forfeited shares at ₹ 9.50 per share)		18,000
(x)	Share forfeited Account Dr.	3,400	
	To Capital Reserve Account (transfer of the credit balance in the share forfeited account to the capital reserve account, being the profit on reissue)		3,400

Question 12. (Forfeiture and reissue) Malik Limited has a subscribed capital of 2,000 equity shares of ₹ 25 each, ₹ 20 per share called up. The directors forfeited 200 equity shares held by a shareholder who had failed to pay the first call made @ ₹ 10 per share. Later the directors reissued these forfeited shares at ₹ 20 per share paid up at ₹ 15 per share. Pass the journal entries for forfeiture and reissue of share.

[CA (Foundation) November 1999]

Solution:

Date	Particulars	Debit (₹)	Credit (₹)
(i)	Equity Share Capital Account Dr.	4,000	
	To Share Forfeited Account To Calls-in-Arrears Account (Forfeiture of 200 equity shares, ₹ 20 per share called up for non-payment of first call @ ₹10 per share)		2,000 2,000
(ii)	Bank Account Dr.	3,000	
	Share Forfeited Account Dr. To Equity Share Capital Account (Reissue of 200 equity shares as ₹ 20 per share paid up @ ₹ 15 per share)	1,000	4,000
(iii)	Share Forfeited Account Dr. To Capital Reserve Account (Transfer of balance of share forfeited account to capital reserve account)	1,000	1,000

Question 13 (Reissue of forfeited shares only) Give journal entries to record the forfeiture of shares and their reissue:

- The directors of A Ltd. forfeited 500 shares of ₹ 50 each, ₹ 40 being called up, on which Radha, a shareholder paid application and allotment moneys of ₹ 25 per share but did not pay first call money of ₹ 15 per share. Of these forfeited shares, the company subsequently reissued 350 shares as fully paid up for ₹ 40 per share.
- B Ltd. forfeited 100 shares of ₹ 50 each, ₹ 35 per share called up on which ₹ 25 per share has been paid by Rakesh; the amount of first call of ₹ 10 per share being unpaid. The directors reissued the forfeited shares to Baldeo crediting ₹ 35 per share paid for a payment of ₹ 25 per share.

3. The directors of D Ltd. forfeited 100 shares of ₹ 100 each called up for non-payment of final call money of ₹ 50 per share. Half of these shares were subsequently reissued at ₹ 120 per share as fully paid.
4. E Ltd. forfeited 200 shares of ₹ 100 each (issued at a premium of 10%) for non-payment of first call of ₹ 25 and final call of ₹ 15. Of these 150 shares were reissued for ₹ 90 per share.

QUESTION 14. D Ltd. issued 2,000 shares of ₹ 100 each credited as fully paid to the promoters for their services and issued 1,000 shares of ₹ 100 each credited as fully paid to the underwriters for their underwriting services. Journalise these transactions.

(ICMAI Study material)

Question 15 (Different bases of allotment and interest on calls-in-advance) Over-Confident Co. Ltd. issued a prospectus offering 2,00,000 Equity Shares of ₹ 10 each on the following terms:

On Application: ₹ 1

On Allotment: ₹ 3 (including premium of ₹ 2)

On First Call (three months after allotment) : ₹ 4

On Second Call (three months after first call) : ₹ 4

Subscriptions were received for 3,17,000 shares on 23 April 2004 and the allotment made on 30 April was as under :

Shares Allotted

(i) Allotment in full (two applicants paid in full on allotment in respect of 4,000 shares each)	38,000
(ii) Allotment of two-thirds of shares applied for	1,60,000
(iii) Allotment of one-fourth of shares applied for	2,000

Cash amounting to ₹ 31,000 (being application moneys received with applications for 31,000 shares upon which no allotments were made) was returned to the applicants on 5 May. The amounts due were received on the due dates with the exception of the final call on 100 shares. These shares were forfeited on 15 November and reissued to Vandana on the 16 November for payment of ₹ 9 per share. The company paid the interest due on calls-in-advance on 30 October in cash. Show the journal and cash book entries and draw a balance sheet of the company giving effect to the above transactions.

[CMA INTER]

Question 16 (Reissue of forfeited shares originally issued at premium) The directors of Mamta Ltd. invited applications for 2,00,000 equity shares of ₹ 10 each to be issued at 20 per cent premium. The amount payable per share is as under :

On Application : ₹ 5

On Allotment : ₹ 4 (including premium of ₹ 2)

On First Call : ₹ 2

On Final Call : the balance.

Applications were received for 2,40,000 shares and allotment was made as follows :

- (a) To applicants for 1,00,000 shares - in full.
- (b) To applicants for 80,000 shares - 60,000 shares
- (c) To applicants for 60,000 shares - 40,000 shares

Applicants for 1,000 shares falling in category (a) and applicants for 1,200 shares falling in category (b) failed to pay allotment money. These shares were forfeited on failure to pay first call.

Holders of 1,200 shares falling in category (c) failed to pay first call and final call and these shares were forfeited after final call 1300 shares [1,000 of category (a) and 300 of category] (b)] were reissued at ₹ 8 per share as fully paid. Journalize the above transactions. Show Cash Book and prepare Balance Sheet.

[CMA INTER 8 Marks]

Question 17. A & B Ltd. offered to public on 1st April, 2017; 1,00,000 Equity Shares and 50,000 Preference Shares of 10 each payable as under:

	Equity Shares (₹)	Preference Shares (₹)
On application	3	3
On allotment (1 st May)	3	4
On first and final call (1 st September)	4	3

Question 18. On 1st May 2022 Superman Ltd. issued 5,000 Equity Shares of ₹ 100 each payable as follows:

On application ₹ 20

On allotment ₹ 30

On 1st Call ₹ 20 (Last date fixed for payment 31st July)

On Final Call ₹ 30 (Last date fixed for payment 30th August)

Applications were received on 15th May 2022 for 6,000 shares and allotment was made on 1st June 2022. Applicants for 2,500 shares were allotted in full, those for 3,000 shares were allotted 2,500 shares and applications for 500 shares were rejected. Balance of amount due on allotment was received on 15th June.

The calls were duly made on 1st July, 2022 and 1st August 2022 respectively. One shareholder did not pay the 1st Call money on 150 shares which he paid with the final call together with interest at 5% p.a. Another shareholder holding 100 shares did not pay the final call money till end of the accounting year which ends on 31st October. Show the Cash Book and Journal Entries.

(ICMAI Study material)

Question 19. JK Ltd is a company with an authorized capital of ₹ 10 lacs in equity shares of ₹ 10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2018. The company proposed to make a further issue of 1,00,000 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 2018. 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 2019. Applications were received for 3,55,000 shares and were dealt with as follows: Applicants for 5,000 shares received allotment in full. Applicants for 30,000 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 3,20,000 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.

(ICMAI Study material)

Question 20. XL Ltd. invited applications for issuing 1,00,000 equity shares of 10 each at par. The amount was payable as follows:

On Application ₹ 3 per share;
On Allotment ₹ 4 per share; and
On First and Final Call ₹ 3 per share.

The issue was oversubscribed by three times. Applications for 20% shares were rejected and the money refunded.

Allotment was made to the remaining applicants as follows:

Category	No. of Shares Applied	No. of Shares Allotted
I	1,60,000	80,000
II	80,000	20,000

Excess money received with applications was adjusted towards sums due on allotment and first and final call. All calls were made and were duly received except the final call by a shareholder belonging to Category I who has applied for 320 shares. His shares were forfeited. The forfeited shares were reissued at 15 per share fully paid-up.

Pass necessary Journal entries for the above transactions in the book of XL Ltd. Open Calls-in-Arrears and Calls-in Advance Account whenever required.

Question 21. Multiple choice questions:

MCQ series 1

1. As per _____, a company incorporated under the companies Act 2013 or any Previous company law.

- (a) Section 2(20) of the company Act 1956
- (b) Section 2(20) of the company Act 2013
- (c) Section 2(22) of the company Act 2013
- (d) Section 2(21) of the company Act 2013

2. According to _____, "A corporation is an article being invisible intangible and in the contemplation of law."

- (a) Prof. Hanay
- (b) Justice Marshal
- (c) Company Act 2013
- (d) Chanakya

3. In case of public company, Minimum number of members is _____ without any Maximum limit.

- (a) 2
- (b) 3
- (c) 7
- (d) 50

4. In case of private company, Minimum number of members is _____ but not more than _____ excluding its present or past employee numbers.

- (a) 7 and 200
- (b) 2 and 50
- (c) 2 and 200
- (d) 2 and 100

5. In case of company, audit of books of account is _____.

- (a) Optional
- (b) Mandatory
- (c) not defined
- (d) none of above

6. In case of company, business is managed by the _____ who are elected by its _____.

- (a) Directors and partners
- (b) Directors and manager
- (c) Directors and shareholders.
- (d) Shareholders and directors.

7. According to _____ of the companies Act 2013, "a company in which the liability of shareholders is restricted to the amount of unpaid calls on shares is known as company _____.

- (a) Section 2(22) and limited by shares
- (b) Section 2(21) and limited by shares
- (c) Section 2(22) and limited by guarantee
- (d) Section 2(92) and unlimited liability company.

8. According to _____ of the companies Act 2013, a company in which the liability of shareholders is restricted to the amount of guarantee given is called company _____.

- (a) Section 2(22) and limited by shares
- (b) Section 2(21) and limited by shares
- (c) Section 2(21) and limited by guarantee
- (d) Section 2(92) and unlimited liability company.

9. According to _____ of the companies Act 2013, a company in which the liability of shareholders is not restricted only to the value unpaid of shares is known as _____.

- (a) Section 2(22) and limited by shares
- (b) Section 2(21) and limited by shares
- (c) Section 2(22) and limited by guarantee
- (d) Section 2(92) and unlimited liability company.

10. According to _____ of the companies Act 2013, public company means a company which:

- (i) Is not a private company
 - (ii) Has a minimum paid-up capital as may be prescribed
 - (iii) Is a private company which is a subsidiary of company which is not a private company
- (a) Section 2(68) (b) Section 2(71) (c) section 2(62) (d) Section 2(22)

11. in a public company, maximum number of members are restricted to _____.

- (a) 50 (b) 100 (c) 200 (d) Unlimited

12. Private company is defined under _____ of the companies Act 2013.

- (a) Section 2(68) (b) Section 2(71) (c) section 2(62) (d) Section 2(22)

13. According to _____ of the companies Act, 2013, a company which has only one person as member is called _____.

- (a) Section 2(68) (b) Section 2(71) (c) section 2(62) (d) Section 2(22)

14. A Private company must have at least _____ director and not more than _____ directors.

- (a) 7 and 200 (b) 2 and 50 (c) 2 and 15 (d) 2 and 100

15. A one person company must have at least _____ directors and not more than _____ directors.

- (a) 7 and 200 (b) 1 and 15 (c) 2 and 15 (d) 2 and 100

16. A public company must have at least _____ directors and not more than _____ directors.

- (a) 7 and 200 (b) 1 and 50 (c) 2 and 15 (d) 3 and 15

17. A Public company must use the word _____ as part of its name

- (a) Private limited (b) limited (c) Public limited (d) OPC

18. A _____ company can invite and accept deposits from Public.

- (a) Private company (b) one Person Company (OPC)
(c) Public Company (d) All of the above

19. The Process of incorporating a company can be divided into 4 Principal stages:

- (a) Promotion, incorporation, capital subscription, Commencement.
- (b) Incorporation, Promotion, commencement, capital subscription
- (c) Incorporation, commencement, Promotion, capital subscription
- (d) Capital subscription, incorporation, Promotion,

20. _____ is the regulatory authority for listed companies.

- (a) MCA
- (b) SEBI
- (c) ICAI
- (d) Central Government.

21. As per SEBI guidelines, a public company must receive minimum subscription of _____ of the shares issued for subscription.

- (a) 100%
- (b) 90%
- (c) 60%
- (d) 80%

22. In case minimum subscription is not received within the specified period, Then the application money shall have to be refunded with in _____ days from the closure of the issue.

- (a) 7 days
- (b) 21 days
- (c) 15 days
- (d) 90 days

23. _____ of companies Act, 2013 Prescribes that share capital of a company can broadly be divided into preference shares and equity shares.

- (a) Section 43
- (b) section 34
- (c) section 2(4)
- (d) section 4

24. _____ are those preference shares which carry the right to receive arrears of dividend before dividend is paid to the equity shareholders.

- (a) Cumulative Preference shares
- (b) non- cumulative preference shares
- (c) Participating preference shares
- (d) redeemable Preference shares

25. The holder of _____ will also have a right to participate in the remaining profits after dividend has been paid to the equity shareholders.

- (a) Cumulative Preference shares
- (b) non- cumulative preference shares
- (c) Participating preference shares
- (d) redeemable Preference shares

26. _____ preference shares are those preference shares which carry a right to be converted into equity shares.

- (a) Cumulative Preference shares
- (b) non- cumulative preference shares
- (c) Participating preference shares
- (d) convertible Preference shares

27. According to _____ of companies Act 2013, Equity shares are those shares which are not preference shares.

- (a) Section 43(1)
- (b) section 43 (2)
- (c) Section 55
- (d) section 52

28. Authorised share capital is also known as _____

- (a) Registered share capital
- (b) nominal share capital
- (c) Both (a) and (b)
- (d) none of the above

29. Authorised share capital is defined under section _____ of companies Act 2013.

- (a) Section 2(50)
- (b) section 2(8)
- (c) Section 2(86)
- (d) section 65

30. Issued share capital is defined under section _____ of Co. Act 2013.

- (a) Section 2(50)
- (b) section 2(8)
- (c) Section 2(86)
- (d) section 65

31. Subscribed share capital is defined under section _____ of Co. Act 2013

- (a) Section 2(50)
- (b) section 2(8)
- (c) Section 2(86)
- (d) section 65

32. Reserve capital is defined under section _____ of Co. Act 2013

- (a) Section 2(50)
- (b) section 2(8)
- (c) Section 2(86)
- (d) section 65

33. Calls in arrear is shown in the balance sheet under the head _____

- (a) Other current Asset (b) Other non – current asset
(c) Shareholder fund (d) other current liability

34. Calls in advance is shown in the balance under the head _____

- (a) Other current Asset (b) Other non – current asset
(c) Shareholder fund (d) Other current liability

35. Reserve capital is shown in the financial statement under the head

- (a) Reserve & Surplus (b) share capital
(c) Other current liabilities (d) Notes to account

36. _____ can be called only at the time of winding up of the company.

- (a) Capital Reserve (b) reserve capital (c) uncalled share capital (d) calls in arrear

37. According to section 39(2) of the companies Act, 2013 minimum application money should be _____ of the share.

- (a) 5% of issue price (b) 5% of face value.
(c) 25 % of issue price (d) 25% of face value

38. According to SEBI guidelines, minimum application money should be _____ of the share.

- (a) 5% of issue price (b) 5% of face value.
(c) 25 % of issue price (d) 25% of face value

39. When shares are issued to Public for subscription, calls are made as provided in the Articles of Association of the company. If its AOA does not have a clause to this effect, Table 'F' of the companies Act, 2013 will apply following provisions

- (a) Period of 1 month must elapse between 2 calls.
(b) The amount of one call should not be less than 25% of the face value of the shares.
(c) Notice of 14 days period should be given to the shareholders to pay the amount.
(d) All of the above.

40. _____ of companies Act 2013 does not allow issue of shares at discount. However, _____ allows issue of shares at a discount when they are issued as sweat equity shares.

- (a) Section 52 and section 53 (b) section 53 and section 54
(c) Section 54 and section 53 (d) section 52 and section 54

41. As per section 52(2) of the companies Act 2013 restricts the use of the amounts received as premium on securities for the following purposes:

- (a) Issuing fully paid bonus shares (b) writing off preliminary expenses.
(c) Writing off premium payable on redemption of any securities (d) all of the above

42. When number of shares applied is more than the shares offered for subscription, it is called _____

- (a) Over subscription. (b) Under subscription
(c) Normal subscription (d) minimum subscription

43. When number of shares applied is less than the shares offered for subscription, it is called _____

- (a) Over subscription. (b) Under subscription
(c) Normal subscription (d) minimum subscription

44. _____ means allotment of shares at a pre – determined price to the pre – identified people who are interested in taking a strategic stake in the company, such as promoter, venture capitalist etc.

- (a) Preferential allotment (b) private Placement
(c) ESOP (employee's stock option plan) (d) Promoter allotment

45. According to section 42 of companies Act, 2013, _____ means any offer of securities to a selected group of persons by a company through issues of private placement offer letter.

Ans. Private Placement

46. The maximum number of persons to whom offer of private placement can be made is prescribed as _____.

- (a) 50 (b) 200 (c) 100 (d) no limit

47. ---- means options granted by the company to its employees to subscribe the shares at a price that is lower than the market price.

- (a) Preferential allotment (b) private Placement
(c) ESOP (employee's stock option plan) (d) Promoter allotment

48. When application money is received, _____ account is debited

- (a) Shares application A/c (b) share allotment A/c
(c) Bank A/c (d) share capital A/c

49. When shares are forfeited, the share capital Account is debited with _____ and the share forfeiture account is credited with _____.

- (a) Paid – up capital of shares forfeited and called up capital of shares forfeited
(b) Called up capital of shares forfeited and calls in arrear of shares forfeited
(c) Called up capital of shares forfeited and Amount received on share
(d) Calls in arrear of shares forfeited and amount received on shares forfeited

50. Dividends are usually paid as a percentage of _____.

- (a) Authorised share capital
(b) net profit
(c) Paid-up share capital
(d) called up share capital

51. COC Ltd had allotted 10,000 shares to the applicants of 14,000 shares on pro-rata basis. The amount payable on application is ₹ 2. Mr. Ram applied for 420 shares. The number of shares allotted and amount carried forward for adjustment against allotment money due to from Ram?

- (a) 60 shares and ₹ 120
(b) 300 shares and ₹ 160
(c) 320 shares ₹ 200
(d) 300 shares and ₹ 240

52. COC Ltd. issued 10,000 equity shares of ₹ 10 each at a premium of 20% payable ₹ 4 on application (including premium), ₹ 5 on allotment and the balance on first and final call. The company received applications for 15,000 shares and allotment was made pro-rata. P, to whom 3,000 shares were allotted, failed to pay the amount due on allotment. All his shares were forfeited after the call was made. The forfeited shares were reissued to Q at par. Assuming that no other bank transactions took place, the bank balance of the company after effecting the above transactions =?

- (a) ₹ 1,14,000 (b) ₹ 1,32,000 (c) ₹ 1,20,000 (d) ₹ 1,00,000

53. A company forfeited 2,000 shares of ₹ 10 each (which were issued at par) held by Mr. John for non-payment of allotment money of ₹ 4 per share. The called-up value per share was ₹ 9. On forfeiture, the amount debited to share capital =?

- (a) ₹ 10,000 (b) ₹ 8,000 (c) ₹ 2,000 (d) ₹ 18,000.

54. If forfeited shares which were issued at par, are re-issued at a premium, the amount of such premium will be credited to _____.

- (a) Share forfeiture account (b) Security premium account
(c) Capital reserve account (d) Discount on issue of shares account

55. The maximum amount beyond which a company is not allowed to raise funds, by issue of shares is its'-----.

- (a) Issued capital (b) Reserve capital (c) Nominal capital (d) Subscribed capital

56. G Ltd. acquired assets worth ₹ 7,50,000 from H Ltd. by issue of shares of ₹ 100 at a premium of 25%. The number of shares to be issued by G Ltd. to settle the purchase consideration = ?

- (a) 6,000 shares (b) 7,500 shares (c) 9,375 shares (d) 5,625 shares

57. Issuer company cannot make allotment of shares unless:

- (a) There is full subscription (b) Minimum subscription has been subscribed
(c) Promoters have subscribed (d) All of above

58. The interest on calls-in-advance is paid for the period from the _____.

- (a) Date of receipt of application money to the date of appropriation
- (b) Date of receipt of allotment money to the date of appropriation
- (c) Date of receipt of advance or date of allotment, whichever is later to the date of appropriation
- (d) Date of appropriation to the date of dividend payment

59. As per Companies Act, 2013, under which of the following 'Premium on issue of Preference Shares' shown in the balance sheet of a company?

- (a) Miscellaneous expenditure
- (b) Debentures
- (c) Reserves and surplus
- (d) Current liabilities and provision

60. Difference between called up and paid-up value of shares is called?

- (a) Securities premium
- (b) Discount on issue of shares
- (c) Calls in arrear
- (d) Calls in advance

61. The excess price received over the par value of shares, should be credited to

- (a) Calls-in-advance account
- (b) Share capital account
- (c) Reserve capital account
- (d) Securities premium account

62. The maximum rate of premium on issue of shares can be----- percent of the nominal value of the shares.

- (a) 10
- (b) no limit
- (c) 15
- (d) 5

63. The security Premium Account should be shown under

- (a) Share Capital
- (b) Current Liabilities
- (c) Current Assets
- (d) Reserves and Surplus

64. Which of the following type of securities cannot be issued at discount?

- (a) Equity share capital
- (b) sweat equity share capital
- (c) Debentures
- (d) All of the above

65. Which of the following Table of schedule 1 of the companies Act, 2013 contains the provisions relating to calls in arrear and calls in advance.

- (a) Table F
- (b) Table A
- (c) Table B
- (d) Table C

66. If the forfeited shares are issued at a premium, the amount of the premium shall be credited to

- (a) Profit and loss account
- (b) Capital reserve account
- (c) Share forfeiture account
- (d) security premium account

67. JK Ltd. issued 20,000 shares of ₹ 10 each at a premium of 20% on May 01, 2021, payable as follows:

On application ₹ 4.50 (inclusive of premium)

On allotment ₹ 2.50

On first and final call ₹ 5.00

Mrs. M, to whom 1,000 shares were allotted, has paid ₹ 5,000 on June 01, 2021. At the time of remitting the allotment money, she indicated that the excess money should be adjusted towards the call money. The directors of the company made the first and final call on October 31, 2021. The company has a policy of paying interest on calls-in-advance. The amount of interest paid to Mrs. M on calls-in-advance =?

- (a) ₹ 62.50
- (b) ₹ 52.08
- (c) ₹ 125.00
- (d) ₹ 150.00

68. Z Ltd. issued 10,000 shares of ₹ 10 each. The called-up value per share was ₹ 8. The company forfeited 200 shares of Mr. A for non-payment of 1 call money of ₹ 2 per share. He paid ₹ 6 for application and allotment money. On forfeiture, the share capital account will be.

- (a) Debited by ₹ 2,000
- (b) Debited by ₹ 1,600
- (c) Credited by ₹ 1,600
- (d) Debited by ₹ 1,200

69. B Ltd. issued shares of ₹ 10 each at a premium of 10%. Mr. C purchased 30 shares are paid ₹ 2 on application but did not pay the allotment money of ₹ 3. If the company forfeited his entire shares, the forfeiture account will be credited by _____.

- (a) ₹ 90 (b) ₹ 81 (c) ₹ 60 (d) ₹ 54

Use the following information for questions 70 and 71

B Ltd. invited applications for 5,000 shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On application	- ₹ 5 (including premium)
On allotment	- ₹ 4
On final call	- ₹ 3

Allotment was made on pro rata basis to the applicants of 6,000 shares. Mr. C to whom 60 shares were allotted, failed to pay allotment money and call money. Mr. D the holder of 100 shares, failed to pay call money. All these shares were forfeited after proper notice.

70. On forfeiture, the amount credited to share allotment account =?

- (a) ₹ 480 (b) ₹ 640 (c) ₹ 180 (d) ₹ 400

71. On forfeiture, the amount credited to share forfeiture account =?

- (a) ₹ 300 (b) ₹ 880 (c) ₹ 320 (d) ₹ 940.

72. Which of the following statements is false?

- (a) Shares can be issued for cash or any other consideration
 (b) In the event of over subscription, excess amount has to be refunded or a pro rata allotment is to be made
 (c) as per SEBI guidelines, company must receive at least 90% of entire issue.
 (d) The share application money is automatically converted to share capital.

73. Amount due on calls but not paid by the applicant is known as.....

- (a) calls in advance (b) calls in arrear (c) unpaid amount (d) defaulting amount.

74. The document inviting offers from public to subscribe for the debentures or shares or deposits of a body corporate is a _____.

- (a) Share certificate (b) Stock invests (c) Fixed deposit receipt (d) Prospectus

75. As per Schedule III of the Companies Act, 2013, forfeited shares account will be -----

- (a) Added to paid-up capital. (b) Deducted from paid-up capital
 (c) Shown as a capital reserve; (d) Shown as a revenue reserve

76. In case of over subscription of shares, each applicant receives some shares in some proportion is called....

- (a) bonus allotment (b) Right allotment
 (c) Pro-rata allotment (d) none of above

77. ----- is paid on calls in advance.

- (a) interest (b) dividend (c) bonus shares (d) none of above

78. As per table F of schedule 1 of the companies act 2013, interest on calls in advance is paid @.....

- (a) 12p.a% (b) 10% p.a (c) 10% (d) 12%

79. As per table F of schedule 1 of the companies act 2013, interest on calls in arrear is charged @.....

- (a) 12p.a% (b) 10% p.a (c) 10% (d) 12%

80. when a company allot shares to promoters or any other party for the services rendered by them, share capital account is credited and Account is debited

- (a) preliminary expenses account, (b) goodwill account
 (c) capital reserve account (d) suspense account.

81. Capital Reserves are created out of _____.

- (a) Balance in Profit and loss Account (b) Capital Profits
(c) Revenue Profits (d) Provisions

82. As per The Companies Act, only preference shares, which are redeemable within ---- can be issued.

- (a) 24 years (b) 22 years (c) 30 years (d) 20 years

83. Which of the following is not true?

- (a) Loss on reissue of shares cannot be more than the gain on forfeiture of those shares
(b) Where all the forfeited shares are not reissued the share forfeited account will show a credit balance equal to gain on forfeiture of shares not yet issued
(c) When the shares are forfeited, security premium is debited along with share capital where premium has not been received
(d) Where forfeited shares are issued at premium, the amount of such premium is credited to capital reserve account.

84. The subscribed share capital of S Ltd. is ₹ 80,00,000 of ₹ 100 each. There were no calls in arrear till the final call was made. The final call made was paid on 77,500 shares. The calls in arrear amounted to ₹ 62,500. The final call on share =?

- (a) ₹ 25 (b) ₹ 7.80 (c) ₹ 20 (d) ₹ 62.50

85. may be said to be the compulsory termination of membership by way of penalty for non-payment of allotment or any call money.

- (a) surrender of shares (b) forfeiture of shares (c) transfer of shares (d) cancelled shares

86. Forfeited shares may be re-issued at.....

- (a) par only (b) At par or at premium only,
(c) at par or discount only (d) at par or premium or discount.

87. X Ltd issued 1,00,000 equity shares of ₹ 10 each to the public at premium of ₹ 2 per share. Full amount payable on application. Public applied for 1,30,000 shares. Excess application money refunded. Amount to be credited to share capital account:

- (a) 12,00,000 (b) 10,00,000 (c) 13,00,000 (d) 15,60,000

88. X Ltd issued 1,00,000 equity shares of ₹ 10 each to the public at premium of ₹ 2 per share. Full amount payable on application. Public applied for 95,000 shares. Amount to be credited to share capital account:

- (a) 12,00,000 (b) 10,00,000 (c) 9,50,000 (d) 11,40,000

89. X Ltd issued 1,00,000 equity shares of ₹ 10 each to the public at premium of ₹ 3 per share. Full amount payable on application. Public applied for 95,000 shares. Amount to be credited to security premium account:

- (a) 12,00,000 (b) 10,00,000 (c) 3,00,000 (d) 2,85,000

90. The subscribed share capital of Y Ltd is Rs 80,00,000 of ₹ 100 each. There were no calls in arrear till the final call was made. The final call was paid on 77,500 shares. The calls in arrear amounted to ₹ 62,500. The final call per share was

- (a) 20 (b) 25 (c) 62.50 (d) 100

91. A Ltd acquired assets worth ₹ 75,25,000 from B Ltd. ₹ 4,00,000 payable in cash and remaining by issue of equity shares of ₹ 10 each at premium of 25%. The number of shares issued to settle the purchase consideration will be —

- A. 5,70,000 shares B. 7,12,500 shares C. 6,02,000 shares D. 5,75,000 shares

92. Ram was issued 200 shares of ₹ 10 each at premium of ₹ 1 per share. He had paid in total ₹ 8 (including premium). Due to non-payment of final call of balance amount, his shares were forfeited. Find the maximum amount of discount per share which can be given on re-issue of such shares:

- A. ₹ 7 B. ₹ 8 C. ₹ 2 D. ₹ 1400

93. C Ltd forfeited 500 equity shares of ₹ 10, fully called up, held by Ram for non-payment of allotment money of ₹ 5 (including premium ₹ 2), first call of ₹ 2 and final call of ₹ 2. These shares were re-issued at ₹ 9 per share. Amount transferred to capital reserve after re-issue:

- A. 1500 B. 2500 C. 500 D. 1000

94. A Ltd forfeited 1000 equity shares of ₹ 10, ₹ 9 called up, held by Raja for non-payment of allotment money of ₹ 5 (including premium ₹ 2), first call of ₹ 2 and final call of ₹ 2. These shares were re-issued at ₹ 8 per share. Amount transferred to capital reserve after re-issue:

- A. 1000 B. 2500 C. 500 D. 1500

95. A Ltd forfeited 1000 equity shares of ₹ 10, ₹ 9 called up, held by Raja for non-payment of allotment money of ₹ 5 (including premium ₹ 2), first call of ₹ 2 and final call of ₹ 2. Out of forfeited shares 850 shares were re-issued at ₹ 8 as fully paid. Amount transferred to capital reserve after re-issue:

- A. 1000 B. 2500 C. NIL D. 1500

96. B Ltd forfeited 2000 equity shares of ₹ 10, ₹ 9 called up, held by Raju for non-payment of allotment money of ₹ 3 (including premium ₹ 2), first call of ₹ 2 and final call of ₹ 2. Out of forfeited shares 850 shares were re-issued at ₹ 8 as 9 paid. Amount of share forfeiture account used on re-issue and amount transfer to capital reserve after such re-issue.

- A. 850 and 2550 B. 2550 and 850 C. 1700 and 1700 D. none of above

97. COC Ltd forfeited 4000 equity shares of ₹ 10, ₹ 9 called up, held by Raju for non-payment of allotment money of ₹ 4 (including premium ₹ 2), first call of ₹ 2 and final call of ₹ 2. Out of forfeited shares 3,000 shares were reissued at ₹ 7 as 9 paid. Amount available in share forfeiture account after such re-issue

- A. 3000 B. 12,000 C. 9000 D. none of above

98. E Ltd forfeited 200 shares of ₹ 100 each (issued at premium of 10%) for non-payment of first call of ₹ 25 and final call of ₹ 15. Of these 150 shares were re-issued for ₹ 90 per share. Amount transferred to capital reserve.....

- A. 12000 B. 9,000 C. 7,500 D. none of above

99. Z Ltd issued 10,000 shares of ₹ 10 each. ₹ 8 called up. The company forfeited 200 shares of Mr. A for non-payment of 1st call of ₹ 2 per share. He paid ₹ 6 for application and allotment money. On forfeiture, the share capital account will be—

- A. debited by ₹ 2000 B. Debited by ₹ 1600 C. Credited by ₹ 1600 D. debited by ₹ 1200

100. Z Ltd issued 10,000 shares of ₹ 10 each at premium of ₹ 2 per share. Amount payable ₹ 3 on application (including premium ₹ 1), on allotment ₹ 4 (including premium ₹ 1) and balance on final call. The company forfeited 200 shares of Mr. A for non-payment of final call. He paid application and allotment money but failed to pay final call money. On forfeiture, the security premium account will be debited by.....

- A. ₹ 20000 B. ₹ 400 C. NIL D. ₹ 200

101. Z Ltd issued 10,000 shares of ₹ 10 each at premium of ₹ 3 per share. Amount payable ₹ 4 on application (including premium ₹ 1), on allotment ₹ 4 (including premium ₹ 2) and balance on final call. The company forfeited 500 shares of Mr. A for non-payment of allotment and final call. On forfeiture, the security premium account will be debited by.....

- A. ₹ 1000 B. ₹ 500 C. NIL D. ₹ 1500

102. Lalu Ltd issued 10,000 shares of ₹ 10 each at premium of ₹ 3 per share. Amount payable ₹ 4 on application (including premium ₹ 1), on allotment ₹ 4 (including premium ₹ 2) and balance on final call. Public applied for 15,000 shares. Allotment was made to all applicants on pro-rata basis. The company forfeited shares of Mr. A who had applied for 900 shares due to non-payment of allotment and final call. Amount forfeited

- A. ₹ 3600 B. ₹ 3000 C. ₹ 2400 D. ₹ 2700

Solve question 103 to 106 with the help of following information:

Lattu Ltd issued 10,000 shares of ₹ 10 each at premium of ₹ 3 per share. Amount payable ₹ 5 on application (including premium ₹ 1), on allotment ₹ 4 (including premium ₹ 2) and balance on final call. Public applied for 15,000 shares. Allotment was made to all applicants on pro-rata basis. The company forfeited shares of Mr. A who had applied for 900 shares due to non-payment of allotment and final call. Solve following questions: --

103. amount received on application -----

104. amount of security premium not received on allotment -----

105. security premium debited at the time of forfeiture -----

106. amount forfeited at the time of forfeiture of shares -----

107. Mr. X to whom 1000 shares were allotted, failed to pay allotment money of ₹ 3 per share on 1st April 2020 and first call of ₹ 4 per share on 1st July 2020. But he paid entire amount on 1st September along with final call. Calculate interest on calls in arrear as per table F.

- A. 191.67 B. 291.67 C. 116.67 D. None of above

108. ----- have right to forfeit the shares in case of default.

- A. Shareholders B. Directors C. Chief manager

109. No interest is paid for advance money receive for

- A. allotment B. first call C. final call D. all

110. Definition of company is given U/S Of companies Act 2013

- A. 2(21) B. 2(22) C. 2(20) D. 2(24)

111. companies are not required to use the word "limited" as part of their name

- A. statutory company B. public company C. private company D. listed company

112. Definition of government company is given U/S Of companies Act 2013

- A. 2(45) B. 2(46) C. 2(44) D. 2(24)

113. Definition of foreign company is given U/S Of companies Act 2013

- A. 2(45) B. 2(46) C. 2(44) D. 2(42)

114. Definition of holding company is given U/S Of companies Act 2013

- A. 2(45) B. 2(46) C. 2(44) D. 2(24)

115. Definition of subsidiary company is given U/S Of companies Act 2013

- A. 2(45) B. 2(78) C. 2(87) D. 2(24)

116. According to SEBI guidelines, a company is free to price its issue if it has track record of consistent profitability and in case of New Company, if it has been promoted by company with a tracks record of consistent profitability

- A. 5 years and 3 years B. 3 years and 5 years
C. 2 years and 5 years D. 3 years and 2 years

117. Definition of authorized share capital is given U/S Of companies Act 2013

- A. 2(50) B. 2(8) C. 2(15) D. 2(64)

118. Definition of paid-up share capital is given U/S Of companies Act 2013

- A. 2(50) B. 2(8) C. 2(15) D. 2(64)

119. Definition of reserve share capital is given U/S Of companies Act 2013

- A. 2(50) B. 2(8) C. 65 D. 2(65)

120. According to SEBI Guidelines, the shares issued are made fully paid-up within 12 months of the date of allotment if the size of the issue is

- A. up to 500 crores B. up to 5000 crores C. up to 200 crores D. In all cases

121. According to ----- of companies Act 2013, person holding preference shares are called preference shareholders

- A. section 43 B. section 50 C. section 55 D. section 80

122. If company is not able to receive minimum subscription of 90% of the issue, the entire subscription shall be refunded to applicants within ----- from closures of issue.

- A. 15 days B. 30 days C. 45 days D. 120 days

123. The companies Act 2013 requires that the period of at least ----- must be between two calls.

- A. 3 months B. 1 months C. 2 Months D. 45 days

Answer: 1-b, 2-b, 3-c, 4-c, 5-b, 6-c, 7-a, 8-c, 9-d, 10-b, 11-d, 12-a, 13-c, 14-c, 15-b, 16-d, 17-b, 18-c, 19-a, 20-b, 21-b, 22-c, 23-a, 24-a, 25-c, 26-d, 27-a, 28-c, 29-b, 30-a, 31-c, 32-d, 33-c, 34-d, 35-d, 36-b, 37-b, 38-c, 39-d, 40-b, 41-d, 42-a, 43-b, 44-a, 45- given with question.

46-b, 47-c, 48-c, 49-c, 50-c, 51-d, 52-b, 53-d, 54-b, 55-c, 56-a, 57-b, 58-c, 59-c, 60-c, 61-d, 62-b, 63-d, 64-a, 65-a, 66-d,

67-a, 68-b, 69-c, 70-c, 71-d, 72-d, 73-b, 74-d, 75-a, 76-c, 77-a, 78-a, 79-b, 80-b, 81-b, 82-d, 83-d, 84-a, 85-b, 86-d, 87-b, 88-c, 89-d, 90-b, 91-a, 92-a, 93-d, 94-a, 95-c, 96-a, 97-a, 98-c, 99-b, 100-c, 101-a, 102-b, 103- (4500), 104- (900), 105-(900), 106-(3600), 107-a, 108-b, 109-a, 110-c, 111-a, 112-a, 113-d, 114-b, 115-c, 116-b, 117-b, 118-d, 119-c, 120-a, 121-a, 122-a, 123-b.

Multiple choice question (MCQ) series 2

Use the following information for questions 1 and 2

COC Ltd. issued 10,000 equity shares of ₹ 10 each at a premium of 20%. The share amount was payable as:

On application	₹ 2
On allotment (including premium)	₹ 5
On first call	₹ 3
On second and final call	₹ 2

Applications were received for 14,000 shares and the shares were allotted to applicants on pro-rata basis. E, who was allotted 300 shares, failed to pay the first call. On his subsequent failure to pay the second and final call, all his shares were forfeited. Out of the forfeited shares, 200 shares were re-issued @ ₹ 9 per share.

1. The amount transferred to capital reserve =

- (a) ₹ 200 (b) ₹ 1,100 (c) ₹ 800 (d) ₹ 1,300

2. Balance in share forfeiture accounts =?

- (a) Nil (b) ₹ 700 (c) ₹ 500 (d) ₹ 400

3. The following statements apply to equity/preference shareholders. Which one applies only to Preference Shareholders?

- (a) Shareholders bear the risk of the loss of investment
 (b) Shareholders bear the risk of no dividends in the event of losses
 (c) Shareholders usually have the right to vote.
 (d) Dividends are usually paid with fixed rate.

4. The Securities Premium amount can be utilized by a company for _____ .

- (a) Writing off any loss on sale of fixed asset (b) Writing off preliminary expenses
 (c) For issue of bonus shares (d) Writing off the expenses/discount on the issue of debentures
 (e) All of above

Use the following information for questions 128 to 132

B Ltd. was registered with a share capital of ₹ 1,00,00,000 divided into equity shares of ₹ 10 each. It issued 9,00,000 equity shares to the general public at par payable as to ₹ 3 on application, ₹ 3 on allotment and balance in 2 equal calls. The public had subscribed for 8,50,000 shares. Till 31st March, 2020, only first call had been made. All the shareholders had paid up except Mr. C, a holder of 25,000 shares, who did not pay the call money.

5. How much is B Ltd.'s authorized share capital?

- a. ₹ 1,00,00,000 b. ₹ 90,00,000 c. ₹ 85,00,000 d. ₹ 68,00,000

6. How much is B Ltd.'s Issued Capital?

- a. ₹ 1,00,00,000 b. ₹ 90,00,000 c. ₹ 85,00,000 d. ₹ 68,00,000

7. How much is B Ltd.'s Subscribed Capital?

- a. ₹ 1,00,00,000 b. ₹ 90,00,000 c. ₹ 85,00,000 d. ₹ 68,00,000

8. How much is B Ltd.'s Called Up Capital?

- a. ₹ 1,00,00,000 b. ₹ 90,00,000 c. ₹ 85,00,000 d. ₹ 68,00,000

9. How much is B Ltd.'s Paid Up Capital?

- a. ₹ 1,00,00,000 b. ₹ 90,00,000 c. ₹ 85,00,000 d. ₹ 67,50,000

Use the following information for questions 133 to 146

D Ltd. issued 2,00,000 shares of ₹ 100 each at a premium of ₹ 20 per share payable as follows:

On application	₹ 20
On allotment	₹ 50 (including premium)
On first call	₹ 30
On second and final call	₹ 20

Applications were received for 3,00,000 shares and pro rata allotment was made to applicants of 2,40,000 shares. Money excess received on application was employed on account of sum due on allotment as part of share capital. E, to whom 4,000 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited and F, the holder of 6,000 shares failed to pay the two calls and his shares were forfeited after the second call. Of the forfeited shares, 8,000 shares were reissued to G at a discount of 10% the whole of E's forfeited shares being reissued.

10. Amount received on application = _____.

- a. ₹ 40,00,000 b. ₹ 60,00,000 c. ₹ 48,00,000 d. ₹ 2,40,00,000

11. Application money adjusted against allotment = _____.

- a. ₹ 20,00,000 b. ₹ 16,00,000 c. ₹ 12,00,000 d. ₹ 8,00,000

12. Amount refunded to shareholders = _____.

- a. ₹ 20,00,000 b. ₹ 16,00,000 c. ₹ 12,00,000 d. ₹ 8,00,000

13. Total amount paid by E = _____.

- a. ₹ 80,000 b. ₹ 1,00,000 c. ₹ 1,44,000 d. ₹ 96,000

14. Total amount paid by F = _____.

- a. ₹ 80,000 b. ₹ 3,00,000 c. ₹ 4,20,000 d. ₹ 1,44,000

15. Total amount paid by G = _____.

- a. ₹ 7,20,000 b. ₹ 8,00,000 c. ₹ 8,80,000 d. ₹ 8,64,000

16. Amount transferred to Share forfeiture account at the time of forfeiting E's shares = _____.

- a. ₹ 80,000 b. ₹ 1,00,000 c. ₹ 3,00,000 d. ₹ 96,000

17. Amount transferred to Share forfeiture account at the time of forfeiting F's shares = _____.

- a. ₹ 80,000 b. ₹ 3,00,000 c. ₹ 4,20,000 d. ₹ 1,44,000

18. Net balance in Share Capital Account = _____.

- a. ₹ 2,00,00,000 b. ₹ 2,08,00,000 c. ₹ 2,04,00,000 d. ₹ 1,98,00,000

19. Net balance in Securities Premium Account = _____.

- a. ₹ 39,20,000 b. ₹ 39,28,000 c. ₹ 39,36,000 d. ₹ 39,44,000

20. Net balance in Share Forfeiture Account = _____.

- a. ₹ 1,00,000 b. ₹ 3,00,000 c. ₹ 96,000 d. ₹ 3,96,000

21. Net balance in Capital Reserve Account = _____.

- a. ₹ 2,96,000 b. ₹ 80,000 c. ₹ 2,10,000 d. ₹ 2,16,000

22. Net balance in Bank Account = _____.

- a. ₹ 2,40,00,000 b. ₹ 2,40,12,000 c. ₹ 2,40,24,000 d. ₹ 2,40,36,000

23. Balance Sheet Total = _____.

- a. ₹ 2,40,00,000 b. ₹ 2,40,12,000 c. ₹ 2,40,24,000 d. ₹ 2,40,36,000

24. When shares are forfeited, the share capital account is debited with and the share forfeiture account is credited with _____.

- (a) Paid-up capital of shares forfeited; Called up capital of shares forfeited
(b) Called up capital of shares forfeited; Calls in arrear of shares forfeited
(c) Called up capital of shares forfeited; Amount received on shares forfeited
(d) Calls in arrears of shares forfeited; Amount received on shares forfeited

25. Which of the following statements is true?

- a. Rights shares are those shares which are offered to the promoters
b. Rights shares are offered in lieu of dividends
c. Rights shares are offered to the existing shareholders in proportion to the equity shares held by them
d. Rights shares are first offered to employees.

Use the following information for the questions 149 to 153

B Ltd. issued 80,000 equity shares of ₹ 10 each, payable as under:

On application	₹ 3
On allotment	₹ 4
On first call	₹ 2
On final call	₹ 1

The applications received for 1,20,000 shares were dealt with as under:

- Applicants of 20,000 shares were allotted in full.
- Applicants of 80,000 shares were allotted 60,000 shares pro-rata.
- Applications for 20,000 shares were rejected.

26. Amount received on application is _____.

- a. ₹ 2,40,000 b. ₹ 3,60,000 c. ₹ 5,60,000 d. ₹ 8,00,000

27. Total excess money received as on the number of shares allotted =?

- a. ₹ 3,00,000 b. ₹ 2,40,000 c. ₹ 3,60,000 d. ₹ 60,000

28. Amount to be refunded = _____?

- a. Nil b. ₹ 60,000 c. ₹ 1,20,000 d. ₹ 1,80,000

29. Amount of excess application money available for adjustment against allotment money =

- a. Nil b. ₹ 60,000 c. ₹ 1,20,000 d. ₹ 1,80,000

30. Amount of excess application money available for adjustment against call money =

- a. Nil b. ₹ 60,000 c. ₹ 1,20,000 d. ₹ 1,80,000

31. Which type of the following shares have the right to receive dividends unpaid in prior years, whenever earnings become adequate?

- (a) Cumulative preference shares (b) Participating preference shares
(c) Convertible preference shares (d) Non-cumulative preference shares

32. Which of the following statements is false?

- (a) Interest on calls-in-advance is paid from the date of receipt of advance to the date of final call
(b) Interest on calls-in-advance is paid from the date of receipt of advance or the date of allotment, whichever is later to the date of appropriation to the relevant call
(c) Interest on calls-in-advance is paid at the rate of 12% p.a.
(d) Payment of interest on calls-in-advance is not at the discretion of the company.

33. Which of the following section of the companies act 2013 prohibits to issue of shares at discount?

- a. Section 53 b. Section 54 c. Section 55 d. Section 56

34. Have the right to vote on any resolution placed before the company or general meeting.

- a. Preference shareholder b. Equity shareholder c. Debenture holders d. All

35. when shares are issued to underwriter in consideration of underwriting commission, which account is debited

- (a) Preliminary expenses (b) goodwill A/c
(c) Underwriting commission A/c (d) Cash A/c

36. COC Ltd. Purchased machinery of ₹ 4,30,000 from X Ltd and paid by issue of equity shares of ₹ 10 each at premium of 25%. Calculate number of equity shares to be issued.

- (a) ₹ 43,000 (b) ₹ 34,400 (c) ₹ 12, 286 (d) none of these

37. Assume in previous Question 40% of the payment was made in cash and balance by issue of equity shares of ₹ 10 each at premium of 20%. Calculate amount to be credited into share capital Account

- (a) ₹ 21,500 (b) ₹ 2,15,000 (c) ₹ 4,30,000 (d) ₹ 2,58,000

Answer : 1.(c) 2.(c), 3.(d), 4.(e), 5(a), 6.(b), 7.(c) 8.(d), 9.(d), 10.(b), 11.(d), 12.(c), 13.(d), 14.(c), 15.(a), 16.(d), 17.(b), 18.(d), 19.(a), 20.(a), 21.(d), 22.(d), 23.(d), 24.(c), 25.(c) 26.(b) 27.(d) 28.(b) 29.(b) 30.(a) 31.(a) 32.(a) 33.(a) 34.(b) 35. (c) 36. (d) 37.(b)

CHAPTER 5. FOLLOW ON PUBLIC OFFER, RIGHT ISSUE AND SWEAT EQUITY SHARES

TOPICS TO BE COVERED:

- 1. FOLLOW ON PUBLIC OFFER**
- 2. SWEAT EQUITY SHARES**
- 3. RIGHT ISSUE**

1. FOLLOW ON PUBLIC OFFER (FPO)

An issuance of stock following a company's Initial Public Offer is called a Follow-on Public Offer.

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

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

FPO are popular methods for companies to raise additional equity capital in the capital markets through a stock issue.

FPOs should not be confused with IPOs, as IPOs are the initial public offering of equity to the public while

FPOs are supplementary issues made after a company has been established on an exchange.

Difference between Initial Public Offer and Follow on Public Offer:

- a. IPO is made when company seeks to raise capital via public investment while FPO is subsequent public contribution.
- b. First issue of shares by the company is made through IPO when company first becoming a publicly traded company on a national exchange while Follow on Public Offering is the public issue of shares for an already listed company.

2. SWEAT EQUITY SHARES

When a company issue shares to its employees or directors for providing knowhow, intellectual properties etc. such an issue of shares is termed as issue of sweat equity shares.

As per Section 2(88) of the Companies Act, 2013, "sweat equity shares" means such equity shares as are issued by a company to its Directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

Provisions Relating to Issue of Sweat Equity Shares:

The provisions relating to issue of sweat equity shares are covered under Section 54 of the Companies Act, 2013 and Rule 8 of the Companies (Share Capital and Debentures) rules, 2014.

Section 54 of the Act states that –

Notwithstanding anything contained in section 53, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely: –

- (a) the issue is authorised by a special resolution passed by the company;
- (b) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of Directors or employees to whom such equity shares are to be issued;
- (c) not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and

where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed

Note- The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall also be applicable to the sweat equity shares.

Rule 8 of the Companies (Share Capital and Debentures) Rules, 2014 further states that –

- (1) A company other than a listed company, which is not required to comply with the SEBI Regulations on sweat equity, shall not issue sweat equity shares to its directors or employees, unless the issue is authorised by a special resolution passed by the company in general meeting.
- (2) The explanatory statement to be annexed to the notice of the general meeting.
- (3) The special resolution authorising the issue of sweat equity shares shall be valid for making the allotment within a period of not more than twelve months from the date of passing of the special resolution.
- (4) The company shall not issue sweat equity shares for more than 15% of the existing paid-up equity share capital in a year or shares of the issue value of rupees five crores, whichever is higher.
- (5) The sweat equity shares issued to directors or employees shall be locked in/non-transferable for a period of three years from the date of allotment.
- (6) The sweat equity shares to be issued shall be valued at a price determined by a registered valuer at the fair price giving justification for such valuation.

Accounting for Issue of Sweat Equity Shares:

1. Issue of sweat equity shares for cash consideration at a discount: When sweat equity shares are issued for cash consideration at a discount, the difference between cash consideration and nominal value of sweat equity shares shall be considered as the value of intellectual property provided by the employee or director. The accounting entry shall be as follows:

Bank A/c Dr.

Intellectual Property A/c Dr.

To Equity Share Capital A/c

Note: The details of issue of sweat equity shares shall be disclosed in the Notes to Balance Sheet on Equity Share Capital.

2. Issue of sweat equity shares for consideration other than cash: According to Rule 8(9) of Companies (Share Capital and Debentures) rules, 2014 –

Where sweat equity shares are issued for a non-cash consideration, such non-cash consideration shall be treated in the following manner in the books of account of the company-

(a) where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the accounting standards;

or

(b) where clause (a) is not applicable, it shall be expensed as provided in the accounting standards.

Accordingly, the accounting entries for issue of sweat equity shares for consideration other than cash will be as follows:

(i) Sweat equity shares issued in pursuant to acquisition of an asset:

Intellectual Property A/c Dr. (Value of asset)

Employee/Director's Compensation Expenses A/c Dr. (Difference)

To Equity Share Capital A/c

(ii) Sweat equity shares issued not in pursuant to acquisition of an asset:

Employee/Director's Compensation Expenses A/c Dr.

To Equity Share Capital A/c

Note 1: Employee/Director's Compensation Expenses will be included in Employee Benefit Expenses in the Statement of Profit and Loss.

Note 2. The details of issue of sweat equity shares shall be disclosed in the Notes to Balance Sheet on Equity Share Capital.

Question 1. Show the accounting entries for the following.

- a. Tinku Ltd. allotted 500 sweat equity shares of ₹ 100 each to its directors at a discount of 6%.
- b. 800 sweat equity shares of ₹ 100 allotted to employees at par in consideration of technical know-how.

(ICMAI Study material)

Solution:

(a)	Bank A/c Dr. Intellectual Property A/c Dr. To Equity Share Capital A/c (Being allotment of 500 sweat equity shares of ₹ 100 each to Directors at a discount of 6%, balance amount of ₹ 94 per share duly received)	47,000 3,000	50,000
(b)	Technical Know-how A/c Dr. To Equity Share Capital A/c (Being allotment of 800 sweat equity shares of ₹ 100 each to employees at par, inconsideration of technical know-how)	80,000	80,000

3. ACCOUNTING OF RIGHT ISSUE (section 62)

INTRODUCTION:

Provisions of section 62(1)(a) of the Companies Act, 2013 govern any company (public or private) which is desirous of raising its subscribed share capital by issue of further shares. Whenever a company intends to issue new shares, the voting and governance rights of the existing shareholders may be diluted, if they are not allowed to preserve them. It may happen because new shareholders may subscribe to the issued share capital. **Companies Act, 2013 allows existing shareholders to preserve their position by offering those newly issued shares at the first instance to them.** The existing shareholders are given a right to subscribe these shares, if they desire. However, if they do not desire to subscribe these shares, they are even given the right to renounce it in favour of someone else (unless the articles of the company prohibit such a right to renounce).

Right issue of shares means the existing shareholders have a right to subscribe to any fresh issue of shares by the company in proportion to their existing holding for shares. They have an implicit right to renounce this right in favour of anyone else, or even reject it completely. In other words, **the existing shareholders have right of first refusal.**

A company desirous of issuing new shares has to offer, as per Section 62(1) (a) of Companies Act 2013, the shares to existing equity shareholders **through a letter of offer** subject to the following conditions, namely:

- 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;
- Unless the articles of the company otherwise provide, **the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him** in favour of any other person; and the notice shall contain a statement of this right;
- After the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company.

Exceptions to the rights of existing equity shareholders (important for exam)

Section 62 recognises **4 situations** under which the further shares are to be issued by a company, but they need not be offered to the existing shareholders. The shares can be offered, without being offered to the existing shareholders, provided the company has passed **a special resolution** and shares are offered accordingly.

Situation 1: To employees under a scheme of employees' stock option subject to certain specified conditions.

Situation 2: To any persons, either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to specified conditions.

Situation 3: Sometimes companies borrow money through debentures / loans and give their creditor an option to buy equity shares of a company.

Situation 4: It is a special situation where the loan has been obtained from the government, and government in public interest, directs the debentures/loan to be converted into equity shares.

Financial Effects of a Further issue : The financial position of a business is contained in the balance sheet. Further issue of shares increase the amount of equity (net worth) as well as the liquid resources (Bank). The amount of equity is the product of further number of shares issued multiplied by issue price. The issue price may be higher than the face value (issue at a premium). Companies Act does not allow issue of shares at a discount, except issue of sweat equity shares under Section 53.

Difference between book Value and market value of a Share:

Book value of a share = Net worth (as per books)/ Number of shares

if there are 10,000 shares with net worth of ₹ 1,25,000. The book value of one share is (₹ 125,000 / 10,000 shares) ₹ 12.50 per share. However, the market value may differ from the book value of shares.

The market value of a company's shares represents the present value of future cash flows expected to be earned from the share in the form of dividends and capital gains from expected future share price appreciation.

Difference between Cum-right Market Price of the share and Ex-right Market Price of the shares

The market price, which exists before the rights issue, is termed as **Cum-right Market Price of the share**.

The market price of the shares after further issue of shares (right issue) is termed as Ex-right Market Price of the shares. Theoretical Ex-Rights Price is a **deemed value**, which is attributed to a company's share immediately after a rights issue transaction occurs.

Right of Renunciation : Right of renunciation refers to the right of the shareholder to surrender his right to buy the securities and transfer such right to any other person. Shareholders that have received right shares have three choices of what to do with the rights.

- i. They can act on the rights and buy more shares as per the particulars of the rights issue;
- ii. They can sell them in the market; or
- iii. They can pass on taking advantage of their rights (i.e., reject the right offer).

The renunciation of the right is valuable and can be monetised by the existing shareholders in well-functioning capital market. The monetised value available to the existing shareholders due to right issue is known as '**value of right**'.

- If a shareholder decides to renounce all or any of the right shares in favour of his nominee, **the value of right is restricted to the sale price of the renouncement of a right in favour of the nominee.**
- In case the right issue offer is availed by an existing shareholder, the value of right is determined as given below:

Value of right = Cum-right value of share – Ex-right value of share

Ex-right value of the shares = [Cum-right value of the existing shares + (Rights shares × Issue Price)] / (Existing Number of shares + Number of right shares).

Question 1. COC Education Ltd is planning to raise funds by making right issue of equity shares for expansion. The existing equity share capital of the company is ₹ 50,00,000 (₹10 each).

The market price of its share is ₹ 42. The company offers to its shareholders the right to buy 2 shares of ₹ 11 each for every 5 shares held. You are required to calculate:

- (a) Cum right value of equity share.
- (b) Theoretical Ex-right value of share,
- (c) The value of right,
- (d) % increase in share capital.

Question 2. Mr. Narain has 100 shares of COC Ltd before rights issue. Market price per share is ₹ 25 per share. COC Ltd announces right issue in the ratio of 1:10 at the rate of ₹ 14 per share. Calculate ex-right market value of the share and value of right.

(Answer: Ex-right Market value ₹ 24 per share, value of right ₹1.)

Question 3. A company offers new shares of ₹100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹150. Calculate the value of a right. What should be the ex-right market price of a share?

Answer: Ex-right value of the shares = ₹ 145 per share, Value of right ₹ 5 per share.

Question 4. A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

Solution: - Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares+ No. of right shares)

$$= (\text{₹ } 240 \times 2 \text{ Shares} + 120 \times 1 \text{ Share}) / (2 + 1) \text{ Shares}$$

$$= \text{₹ } 600 / 3 \text{ shares} = \text{₹ } 200 \text{ per share}$$

Value of right = Cum-right value of the share – Ex-right value of the share

$$= \text{₹ } 240 - \text{₹ } 200 = \text{₹ } 40 \text{ per share.}$$

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 120 will have to pay ₹ 80 (2 shares x ₹ 40) to an existing shareholder holding 2 shares.

ACCOUNTING FOR RIGHT ISSUE: The accounting treatment of rights share is the same as that of issue of ordinary shares and the following journal entry will be made:

Bank A/c Dr.

To Equity Shares Capital A/c

In case rights shares are being offered at a premium, the premium amount is credited to the securities premium account.

Question 5. A Company having 70,000 shares of ₹ 10 each as its issued share capital and having market value of ₹ 21 issues rights shares in the ratio of 1:10 at an issue price of ₹ 10. Pass journal entry for issue of right shares.

Question 6. A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 46, issues rights shares in the ratio of 1:10 at an issue price of ₹ 31. Pass journal entry for issue of right shares.

Question 7. NT Limited has an issued capital of 20000 equity shares of ₹ 10 each fully called up. The following decisions are taken by the company:

To forfeit 100 shares on which ₹ 5 per share has been paid up and to be issue at ₹ 15 per share as fully paid up. To issue right shares in the ratio of 1 fully paid up shares for every 4 existing shares held, at ₹ 15 per share. Assuming that the company has sufficient general reserve for the above through journal entries.

(ICMAI Study material)

Answer:

Date	Particulars		Amount (₹)	Amount (₹)
	Equity Share Capital (100 × 10) A/c Dr.		1,000	
	To Calls in Arrear A/c			500
	To Forfeited Shares A/c			500
	Bank A/c Dr.		1,500	
	To Equity Share Capital A/c			1,000
	To Securities Premium A/c			500
	Forfeited Shares A/c Dr.		500	
	To Capital Reserve A/c			500
	Bank A/c Dr.		75,000	
	To Equity Share Application A/c			75,000
	Equity Share Application A/c Dr.		75,000	
	To Equity Share Capital A/c			50,000
	To Securities Premium			25,000

ADVANTAGES AND DISADVANTAGES OF RIGHT ISSUE:**Advantages of right issue:**

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.
2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares.
3. It is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

Disadvantages of right issue:

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against true worth to ensure that you get a bargained deal.

Question 7. Multiple Choice Question:

Question i. In case of further issue of shares, the right to renounce the shares in favour of a third party.

- (a) Must include a right exercisable by the person concerned to renounce the shares;
- (b) Should include a right exercisable by the person concerned to renounce the shares;
- (c) Is deemed to include a right exercisable by the person concerned to renounce the shares (subject to the provisions under the articles of the company).

Question ii. A company's share's face value is ₹ 10, book value is ₹20, Right issue price is ₹ 30 and Market price is ₹ 40, while recording the issue of right share, the securities premium will be credited with

- (a) ₹ 10. (b) ₹ 20. (c) 30.

Question iii. A. Right shares enable existing shareholders to maintain their proportional holding in the company.

B. Right share issue does not cause dilution in the market value of the Share.

Which of the option is correct?

- (a) A-Correct; B Correct (b) A – Incorrect; B Correct (c) A - Correct; B – Incorrect

Question iv. Right shares are normally offered at a price _____the cum-right value of the share, causing dilution in its value post-right issue

- (a) More than. (b) Less than. (c) Equal

Question v. Rights issue of shares results in _____ of market value of per share in comparison to market price before rights issue.

- (a) Increase. (b) Decrease. (c) No change.

Question vi. Ex-Rights price can be calculated by which of these formulas?

- (a) $(\text{Cum rights value of the existing shares} + \text{Rights share issue proceeds}) / (\text{existing number of shares} + \text{No. of right shares})$.
- (b) $(\text{Cum rights value of the existing shares} + \text{Rights share issue proceeds}) \times (\text{existing number of shares} + \text{No. of right shares})$.
- (c) $(\text{Cum rights value of the existing shares} - \text{Rights share issue proceeds}) / (\text{existing number of shares} - \text{No. of right shares})$.

Question vii. Issued share capital including issue of rights shares and bonus shares should be ____ authorised capital.

- (a) More than.
- (b) Less than.
- (c) Less than or equal to.

CHAPTER 6. REDEMPTION OF PREFERENCE SHARES AND BONUS ISSUE

Redemption of Preference Shares means paying back preference shareholders their money. Section 55 of the company Act permits a company, limited by Shares, to issue redeemable preference shares if it is so authorized by its articles of association. Redemption of Preference Shares.

CONDITIONS OF REDEMPTION: Section 55 lays down the following conditions for the redemption of preference shares, namely:

1. Such shares must be fully paid-up. If they are not fully paid up then they must be made fully paid-up before redemption.
2. Preference shares may be redeemed at par or at premium.
3. Such shares can be redeemed out of divisible or distributable profits or out of the proceeds of a fresh issue of shares made for the purpose of redemption.
4. Amount equivalent to face value of redeemable preference shares must be raised --
 - (a) By an issue of shares(equity or preference),
or
 - (b) By transferring the equivalent amount from the free reserves to Capital redemption reserve A/c,
Or
 - (c) by applying both the orders.

Important Note:-

Free reserves/ divisible or distributable profits include profit and loss A/c, general reserve, retained earning, surplus, Capital reserve (realised in cash), dividend Equalization fund/reserve, excess provision than actually required (e.g. workmen compensation fund, Accident compensation Fund, insurance fund, reserve/provision for doubtful debts and provision for taxation).

Non- free reserves include security premium, Revaluation reserve, capital reserves (not realised in cash), capital Redemption Reserves, debentures redemption reserve e.t.c

Meaning of Proceeds of fresh issue -

- I. **If shares are issued at premium-** does not include security premium received with issue of shares because various uses of security premium has been specifically mentioned U/S 52
- II. **If shares are issued at Par-** It is the actual amount received (i.e. par Value).

Capital Redemption Reserve Account-According to Section 55, when preference shares are redeemable out of divisible profit then amount equivalent to nominal value of redeemable shares must be transferred to Capital Redemption Reserve Account out of free reserves.

Capital Redemption Reserve (CRR) A/c can be used by the company only for the purpose of issuing fully paid bonus shares to its members/ Shareholders.

Writing of Premium on redemption of preference shares :- If preference shares are redeemable at a premium then such premium on redemption must be adjusted in the following order:

Security premium A/c Dr

Capital reserve A/c Dr

Free Reserves A/c Dr

To Premium on redemption of Shares A/C

Note:- Here capital reserve may or may not be realised in cash.

Most important note for exam: in case of class of companies on which provision of section 133 is applied, the premium, if any, payable on redemption shall be provided for out of profits of the company.

Journal entry for writing off Premium on redemption of preference shares:

Case 1:- if preference shares were issued on or before 01:04:2014 (date of commencement of the companies Act 2013) –

Same as above

Case 2:- if preference shares were issued after 01:04:2014

Free Reserves A/c Dr

To Premium on redemption of Shares A/C

Bonus Issue of Shares: Bonus shares are shares which are issued by a company free of cost to its existing members on a pro-rata basis. Established companies that have already built-up reserves sometimes decides to capitalize a part of these reserves by issuing bonus shares to existing shareholders, without requiring the shareholders to pay any consideration.

Since bonus shares requires capitalization of reserves, it leads to decrease in Reserve & Surplus and increase in the issued capital but does not bring any change in cash flow and net worth.

Ways to capitalize profits or reserves:

- a. by paying up amounts unpaid on existing partly paid shares so as to make them fully paid-up shares, or
- b. by issuing fully paid bonus shares to the existing members.

Companies Act, 2013 on Issue of Bonus Shares: As per Section 63 of the Companies Act, 2013, provisions relating to bonus issue are as follows:

(1) A company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of —

- (a) its free reserves (including capital reserve realised in cash);
- (b) the securities premium account; or
- (c) the capital redemption reserve account:

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

- (2) No company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—
- (a) it is authorised by its articles;
 - (b) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
 - (c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
 - (d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
 - (e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
 - (f) it complies with such conditions as may be prescribed.
- (3) The bonus shares shall not be issued in lieu of dividend.

SEBI guidelines on issue of bonus issues: A listed company proposing to issue bonus shares shall comply with the following requirements:

1. The articles of association of the company must contain a provision for capitalisation of reserves, etc. 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;
2. The company has not defaulted in payment of interest or principal in respect of fixed deposits and interest on existing debentures or principal on redemption;
3. The company has not defaulted in payment of statutory dues of the employees such as contribution to provident fund, gratuity etc.

Meaning of Free Reserves: As per Sec 2(43) of the Companies Act, 2013, “Free Reserves” mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend. Thus, the following are excluded from free reserves:

- a. Any amount representing unrealised gains, notional gains or revaluation of assets, where shown as a reserve or otherwise, **or**
- b. Any change in carrying amount of an asset or of a liability recognised in equity, including surplus in Profit and Loss Account on measurement of the Asset or the Liability at Fair Value.

Conversion of partly paid-up share to fully paid-up shares: A company may utilize its reserves to convert its partly paid shares into fully paid without asking the shareholders to contribute further against the call money due. This may be termed as bonus dividend.

Unlike issue of fully paid bonus shares, the sources for bonus dividend shall be, however, free reserves only as Section 52 of Companies Act, 2013 allows utilization of ‘Securities Premium’ for issuing fully paid bonus shares only. Similarly, Section 55(4) of the Act prohibits the use of ‘Capital Redemption Reserve’ for purposes other than issue of fully paid-up bonus shares.

Note: Capital Reserve realized in cash can be a source of bonus dividend as well as issue of fully paid-up bonus shares.

Question 1. The balance Sheet of Komalika Ltd as on 31 March 2026 was as under:

Liabilities	Amount	Assets	Amount
<u>Share Capital</u>		Sundry assets	8,50,000
2,000, 7.5% Preference Shares of ₹ 100 each fully Paid	2,00,000	Cash/bank	1,50,000
40,000 Equity shares of ₹ 10 each	<u>4,00,000</u>		
	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.

Question 2. The Balance Sheet of producers Ltd as on 31st March, 2026 is as follows:

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

The Company decided to redeem its preference shares at premium of 5% on 30th April, 2026. A fresh issue of 1,000 equity shares of ₹10 each was made at ₹12 per share, payable in full on 30th April, 2026. These were fully subscribed and all moneys were duly collected. All the investments were sold realizing ₹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.

(Ans.: Balance sheet Total 1,83,500)

Question 3. The balance sheet of Vivek Ltd. As at 31 March 2026 is as follows:

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

Solution:

Journal entries in the book of Vivek Ltd

Particulars	Debit	Credit
9% Preference share capital account Dr	10,00,000	
Premium on redemption account Dr	50,000	
To preference share holder account		10,50,000
Bank account Dr	5,60,000	
Profit & loss account Dr	40,000	
To Investment account		6,00,000
Bank account Dr	2,40,000	
To equity share capital account		2,00,000
To security premium account		40,000
Profit and loss account Dr	4,60,000	
General reserve account Dr	3,40,000	
To capital redemption reserve account		8,00,000
Preference share holder account Dr	10,50,000	
To Bank account		10,50,000
Security premium account Dr	50,000	
To premium on redemption account		50,000

Question 4. The following balance sheet of H Limited as on June 30,2026:

Liabilities	Amount	Assets	Amount
Share capital:		PPE	1,00,000
3,000 redeemable pref.		Investment	21,000
shares of ₹10 each full paid	30,000		
6,000 equity shares of		Current Assets:	
₹10 each full paid	60,000	Stock in trade	44,000
Securities premium Account	29,000	Sundry debtors	16,000
General reserve	40,000	Cash at bank	22,000
Profit & loss A/c	24,500		
Sundry Creditors	19,500		
	2,03,000		2,03,000

The company exercised its option to redeem on July 1, 2026 the whole of the Preference share Capital at a premium of 5%. To assist in financing the redemption, all the investments were sold, realizing ₹19,500. Preference shareholder holding 200 shares could not be traced.

On August 1, 2026 the company made a bonus issue of seven equity shares fully paid for every six 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.

Question 5. Exchange Limited has an issued share capital of 650, 7 % redeemable preference shares of ₹100 each and 4,500 equity shares of ₹50. The preference shares are redeemable at a premium of 10 % on April 1, 2026. The company's Balance Sheet as on March 31, 2026 was as follows:

Liabilities	Amount	Assets	Amount
Share Capital:		Fixed Assets	3,45,000
Issued 650, 7% redeemable		Investment	18,500
Preference shares of ₹100 each fully		Balance at Bank	31,000
paid	65,000		
4,500 equity shares of ₹50 each fully			
paid	<u>2,25,000</u>		
	2,90,000		
Profit and loss A/c	48,000		
Sundry Creditors	56,500		
	3,94,500		3,94,500

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

- (a) To sell all the investments for ₹15,900
- (b) To finance part of the redemption from company fund, subject to leaving a balance of ₹12,000 in the bank account, and.
- (c) To issue sufficient equity shares of ₹50 each at premium of ₹10 to raise balance of funds required.

The preference shares were redeemed on the due date and the issue of equity shares was fully subscribed.

You are required to prepare necessary journal entries to record the above transactions (Including cash).

Question 6. Following items appear in the Trial Balance of M Ltd. as at 31st March, 2023:

60,000 Equity Shares of ₹10 each	6,00,000
Capital Redemption Reserve	45,000
Plant Revaluation Reserve	15,000
Securities Premium Account	52,500
General Reserve	1,50,000
Profit & Loss Account	75,000
Capital Reserve (including ₹37,500 being Profit on Sale of Machinery)	1,12,500

The company decided to issue bonus shares to its shareholders at the rate of one share for every four shares held.

Required: Pass the necessary journal entries. It is desired that there should be minimum reduction in free reserves.

(CMA Inter exam – 5 marks)

Solution:

Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	Capital Reserve A/c Dr. Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c Dr. To Bonus to Shareholders A/c (Being the bonus declared by issuing 1 bonus share for every 4 shares held)	37,500 45,000 52,500 15,000	1,50,000
(ii)	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being the issue of 15,000 shares of ₹ 10 each by way of bonus)	1,50,000	1,50,000

Question 7. The financial position of P Ltd. At 31st December, 2026 was as follows:

Liabilities	Amount	Assets	Amount
Authorized, issued and Subscribed capital:		Assets	8,40,000
50,000, 5% redeemable preference shares of ₹10 each, ₹8 paid	4,00,000	Cash and Bank	3,00,000
20,000 equity shares of ₹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, 2026 and it was decided to arrange this as far as possible out of the company's resources subject to leaving a balance of ₹50,000 in the credit of the Profit and Loss Account. It was also decided to raise the balance amount by issue of 27,000 equity shares of ₹10 each at a premium of ₹2.50 per share.

You are required to make Journal Entries.

(CMA Inter- 8 marks)

Question 8. The following is the Balance Sheet of Abhipraya Limited as on 31st March 2026:

Liabilities	Amount	Assets	Amount
Share Capital:			
5,000 12% Redeemable Preference Shares of ₹ 100 each	5,00,000	Fixed Assets	24,00,000
10,000 Equity Shares of ₹100 each	10,00,000	Stock	5,00,000
Capital Reserve	1,00,000	Debtors	50,000
Securities Premium Account	1,00,000	Cash	50,000
General Reserve	2,00,000		
Profit and Loss Account	1,00,000		
Current Liabilities	10,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed on 1 April 2026 at 10 per cent premium. On 1 April 2026, a fresh issue of equity shares was made to the extent it is required under Companies Act (after utilising its own resources) for the purpose of redemption of preference shares. The shortfall in cash resources for the purpose of redemption after utilizing the proceeds of fresh issue was met by raising a bank loan, the cash balance of ₹50,000 being the minimum amount the Company requires for its trading operations.

Draft Journal entries in the books of the Company to record these transactions and prepare the balance sheet in the form prescribed by the Companies Act immediately after redemption.

Question 9. Following is the balance sheet of COC Education Ltd on 31st March 2026.

Liabilities	Amount	Assets	Amount
Share Capital:			
5,000 12% Redeemable Preference Shares of ₹100 each	5,00,000	Fixed Assets	24,00,000
10,000 Equity Shares of ₹100 each	10,00,000	Stock	5,00,000
Capital Reserve (realised in cash)	10,000	investments	40,000
Securities Premium Account	1,00,000	Cash	60,000
General Reserve	3,90,000		
Current Liabilities	10,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed on 1st April 2026 at 20% premium. On 1st April 2026, company sold its all investments for ₹35,000 and issued equity shares of ₹10 each at a premium of 25% to raise the funds required for redemption. The cash balance of ₹20,000 is the minimum amount the company requires for its trading operation. Directors also decided to use minimum revenue reserves for the purpose of redemption.

Solution:

Journal entries in the book of COC Education

Date	Particulars	Debit	Credit
1-4-26	Preference share capital account Dr Premium on redemption account Dr To preference share holder account (amount due to preference share holders)	5,00,000 1,00,000	6,00,000
1-4-2026	Bank account Dr General reserve account Dr To Investment account (investment sold to raise funds)	35,000 5,000	40,000
1-4-2026	Bank account Dr To equity share capital account To security premium account (new equity shares issued to raise funds)	5,85,000	4,68,000 1,17,000
1-4-2026	Capital reserve account Dr General reserve account Dr To Capital Redemption Reserve account (CRR created to comply section 55)	10,000 22,000	32,000
1-4-2026	Security premium account Dr To premium on redemption account (premium on redemption written off)	1,00,000	1,00,000

Working notes:**1. Computation of number of equity shares to be raised for balance of funds required:**

Funds required for redemption	6,00,000
Minimum cash balance required	20,000
Total funds required	6,20,000
Less: sale of investment	-35,000
Funds to be raised by issue of equity shares	₹5,85,000
Number of equity shares to be issued ($\frac{5,85,000}{12.50}$)	46,800 shares

2. Computation of amount of CRR to be created to comply section 55:

Face value of redeemable preference shares	5,00,000
Less: Issue of new equity shares (Face value only)	-4,68,000
amount of CRR to be created	₹32,000

Question 10. The ledger accounts of M.N. 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 ₹ 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 resources to the maximum extent.

Calculate:

- (i) number of fresh shares issued.
(ii) Amount transferred to Capital Redemption Reserve (CMA Inter exam- 4 marks)

Question.11 The following is the balance sheet of Mitra Ltd. as on 31st March 2026 :

Liabilities	Amount (₹)	Assets	Amount (₹)
5,000, 10% preference shares of ₹ 100 each	5,00,000	Fixed Assets	13,70,000
90,000 equity shares at ₹ 10 each	9,00,000	Investment at cost	3,00,000
Securities Premium Account	1,00,000	(market value : ₹ 2,80,000)	
General Reserve	7,50,000	Stock	9,00,000
Profit and Loss Account	2,00,000	Debtors	1,00,000
Current liabilities	4,00,000	Cash at bank	1,75,000
		Cash in hand	5,000
	28,50,000		28,50,000

It was decided on 30th June 2026 to redeem the preference shares at a premium of 5%. To finance the redemption, all the investments were realised at market value and 10,000 equity shares of ₹10 each were issued at ₹12 per share payable on application. The company also issued 10,000, 12% debentures of ₹100 each. On 1 August 2026, the company made a bonus issue of one equity share for each two equity shares held on that date. It was also decided that only minimum reduction should be made in the revenue reserves.

Draft journal entries including those relating to cash transactions to record these transactions and show the balance sheet after the redemption of preference shares and issue of bonus shares.

Solution: Journal entries in the book of Mitra Ltd:

Date	Particulars	Debit	Credit
30-6-26	Preference share capital account Dr Premium on redemption account Dr To preference share holder account (amount due to preference share holders)	5,00,000 25,000	5,25,000
30-6-2026	Bank account Dr Profit & loss account Dr To Investment account (investment sold to raise funds)	2,80,000 20,000	3,00,000
30-6-2026	Bank account Dr To equity share capital account To security premium account (new 10,000 equity shares issued at premium of ₹2)	1,20,000	1,00,000 20,000
30-6-2026	Bank account Dr To 12% Debentures account (new 10,000 debentures issued to raise funds)	10,00,000	10,00,000
30-6-2026	General reserve account Dr To Capital Redemption Reserve account (CRR created to comply section 55)	4,00,000	4,00,000
30-6-2026	Security premium account Dr To premium on redemption account (premium on redemption written off)	25,000	25,000
1-08-2026	Capital redemption reserve Dr Security premium account Dr General reserve account Dr To bonus issue account (reserve used for bonus issue)	4,00,000 95,000 5,000	5,00,000
1-08-2026	Bonus issue account Dr To equity share capital account (bonus shares issued)	5,00,000	5,00,000

Working note:

Number of bonus shares issued ($\frac{1}{2} \times (90,000 + 10,000)$)	50,000 shares
Face value of bonus shares	₹5,00,000
Available reserves after redemption of preference shares:	
Capital redemption reserve	4,00,000
Security premium (1,00,000 + 20,000 – 25,000)	95,000
General reserve (7,50,000 – 4,00,000)	3,50,000
Profit & loss account (2,00,000 – 20,000)	1,80,000

Question. 12 The Balance Sheet of Quality Profit Ltd. As at 31 March 2026 is as follows:

Liabilities	₹	Assets	₹
Equity Shares of ₹100 each 2,00,000		Property, plant & equipment	2,90,000
Less: Calls in arrears @ ₹20 each <u>20,000</u>	1,80,000	Investments	
12% Preference Shares of ₹100 each	1,00,000	(Face value ₹ 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 2026 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 2026 was ₹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%. Holders of 100 preference shares were not traceable.

After redemption, the board decided to issue one bonus share of ₹100 each for every five shares held. 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. **(CMA Inter- 10 marks)**

Question 13. The following is the summarised balance sheet of Disha Ltd. as on 31st March 2026:

Liabilities	₹
1,00,000 Equity Shares of ₹10 each fully paid	10,00,000
60,000, 10% Preference Shares of ₹10 each, ₹8 Called up	4,80,000
Capital Reserve (₹1,40,000 on sale of machinery)	2,00,000
General Reserve	2,50,000
Securities Premium	20,000
Profit and Loss Account	5,00,000
Sundry Creditors	2,00,000
	26,50,000
Assets	₹
Property, plant and equipment (PPE)	10,00,000
Investments	4,00,000
Inventories	4,50,000
Accounts Receivable	7,80,000
Cash at Bank	20,000
	26,50,000

On 1 April 2026, the company made a final call on its preference shares and it was paid by all the shareholders. Thereafter the company redeemed 50,000 fully paid preference shares at a premium of 10%. In order to pay off the preference Shareholder, the company sold its investments, realising ₹4,40,000 and issued 2,000, 11% preference shares of ₹100 each, the full amount was called up on application. Company also sold its PPE for ₹50,000 (book value 30,000) The company also issued fully paid bonus shares in the ratio of one equity share for every two equity shares held. Record the above transactions in the journal of X Ltd. making necessary assumptions.

Solution: Journal entries in the book of Disha Ltd:

Date	Particulars	Debit	Credit
1-04-2026	Preference share final call account Dr To preference share capital account (final call due on 60,000 preference shares)	1,20,000	1,20,000
1-04-2026	Bank account Dr To preference share final call account (final call money received)	1,20,000	1,20,000
1-04-2026	Preference share capital account Dr Premium on redemption account Dr To preference share holder account (amount due to preference share holders)	5,00,000 50,000	5,50,000

1-04-2026	Bank account Dr To Investment account To Profit & loss account (investment sold to raise funds)	4,40,000	4,00,000 40,000
1-04-2026	Bank account Dr To preference share capital account (New 2,000 preference shares issued at par)	2,00,000	2,00,000
1-04-2026	Bank account Dr To PPE To profit and loss account	50,000	30,000 20,000
1-04-2026	Capital reserve account Dr General reserve account Dr To Capital Redemption Reserve account (CRR created to comply section 55)	1,40,000 1,60,000	3,00,000
1-04-2026	Security premium account Dr Capital reserve (Non-cash) Dr To premium on redemption account (premium on redemption written off)	22,000 28,000	50,000
1-08-2026	Capital redemption reserve Dr General reserve account Dr Profit and loss account Dr To bonus issue account (reserve used for bonus issue)	3,00,000 90,000 10,000	4,00,000
1-08-2026	Bonus issue account Dr To equity share capital account (bonus shares issued)	4,00,000	4,00,000

Working notes:

Number of bonus shares issued ($\frac{1}{2} \times 1,00,000$)	50,000 shares
Face value of bonus shares	₹5,00,000
Available reserves after redemption of preference shares:	
Capital redemption reserve	3,00,000
Capital reserve (realised in cash)	Nil
Security premium	Nil
General reserve (2,50,000-1,60,000)	90,000
Profit & loss account (5,00,000 + 40,000 + 20,000)	5,60,000

Question 14. The balance sheet of G Ltd as on 31-12-2026

Liabilities	Amount
Equity share capital of ₹10 each	2,00,000
Calls in arrear	- 10,000
14% preference shares of ₹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
Provision for tax (estimated tax payable ₹20,000)	30,000
Profit and loss account	28,000
Unsecured loan	80,000
	5,20,000
Assets:	
Non-current assets	4,20,000
Current assets(including bank ₹10,000)	1,00,000
	5,20,000

The board of directors decided to redeem the preference shares on 1st January 2026 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 ₹4000 for the workmen compensation.
- utilise ₹10,000 out of development rebate reserve for the purpose.

Make necessary journal entries assuming that holders of 100 preference shares could not be traced.

(ICMAI Study material- modified)

Question 15: The balance sheet of Murari Ltd. as on 31 March 2026 was as follows :

Liabilities	Amount	Assets	Amount
10,000 equity share capital of ₹ 10 each, fully paid	1,00,000	Property, plant & equipment	1,30,000
1,000 preference shares of ₹ 100 each,		Investments	30,000
fully called-up	1,00,000	Stock	20,000
Less: Calls in arrear (100 shares)	<u>-2,000</u>	Debtors	50,000
Security premium	12,000	Bank	40,600
Reserve fund	29,600		
Profit & loss account	10,000		
Creditors	21,000		
	2,70,600		2,70,600

On 1st April 2026, PPE costing ₹ 20,000 were sold for ₹ 18,000. On the same date, it was decided to redeem the preference shares at a premium of 20% by issuing sufficient number of equity shares at a premium of 10% subject to leaving a balance of ₹ 10,000 in the reserve fund. All payments were made except to a holder of 50 shares who could not be traced. The company also made a bonus issue to the existing equity shareholders in the ratio of 1: 10. Give necessary journal entries and a new balance sheet on 1 April 2026.

Question.16. The balance sheet of Redemption Ltd. as at 31 March 2026 is as follows :

Liabilities	₹	Assets	₹
10,000 Equity Share of ₹10 each fully paid	1,00,000	Fixed Assets	2,62,000
		Debtors	90,000
11% Preference Shares of ₹100 each 1,00,000		Stock	30,000
Less : Calls-in-arrear @ ₹20 per share <u>6,000</u>	94,000	Investments	30,000
		Bank	24,000
10% Preference Shares of ₹10 each fully paid	1,00,000		
General Reserve	30,000		
Profit and Loss Account	15,000		
Dividend equalisation reserve	5,000		
Securities Premium Account	5,000		
Capital Reserve	30,000		
Creditors	37,000		
Dividend payable	20,000		
	4,36,000		4,36,000

On 1st April 2026, dividend were paid @20% on equity shares. 11% preference shares were due for payment on 1 April 2026 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 @ ₹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.

Question .17 (Use of the equation)

- (i) Preference shares to be redeemed ₹1,50,000.
- (ii) Premium on Redemption 10%.
- (iii) Profits given in the Balance Sheet ₹25,000.
- (iv) Securities Premium Account (Given) ₹5,000.

Determine the number and amount of fresh issue of equity shares of ₹10 each if company will utilize its own resources to the maximum extent and new issue has been made at

Case no 1. at a premium of 20%

Case no 2. at a premium of 5%

Question.18 (Use of algebraic equation) The following is the summarized balance sheet of Sonu limited:

Liabilities	₹	Assets	₹
Equity Share Capital fully paid up @ ₹ 100 each	5,00,000	Fixed Assets Less Depreciation	7,00,514
12% Preference Share of ₹ 10 each, 80% called up and paid up	2,00,000	Bank	16,688
Securities Premium Account	5,000	Other Current Assets	2,98,000
Profit and Loss Appropriation account	23,250		
Sundry Creditors	2,86,952		
	10,15,202		10,15,202

Preference shares are due for redemption at a premium of 10%. The directors desire that only minimum number of equity shares of ₹100 each at a premium of 5% be issued to provide for redemption of preference shares as could not otherwise be redeemed. Assuming that all formalities required under Section 55 were complied with, you are required to give the journal entries and also prepare the balance sheet.

Question 19. The balance sheet of XYZ Ltd. as at 31st December 2025 inter alia includes the following:

50,000	8% preference shares of ₹100 each ₹70 paid up	35,00,000
1,00,000	Equity shares of ₹100 each fully paid up	1,00,00,000
	Securities premium	5,00,000
	Development rebate Reserve	20,00,000
	General Reserve	50,00,000
	Bank	15,00,000

Under the terms of their issue the preference shares are redeemable on March 31, 2026 at a premium of 5%. In order to finance the redemption, on 18th February 2025, the company makes a right issue of 50,000 equity shares of ₹100 each at ₹110 per share, ₹20 being payable on application, ₹35 (including premium) on allotment and the balance on 1 May, 2026. The issue was fully subscribed and allotment made on March 1, 2026. The money due on allotment were received by March 31, 2026.

The preference shares were redeemed after fulfilling the necessary conditions of section 55 of the companies act, 2013. The company decided to make the minimum utilization of general reserve. You are asked to pass the necessary journal entries.
(Master piece question created only for COC students)

Question 20. The balance sheet of a A Ltd as at 31-03-2026 is as follows:

Balance sheet as at 31-03-2026

LIABILITIES	AMOUNT	ASSETS	AMOUNT
<u>Authorized share capital</u>		Sundry assets	17,00,000
1,50,000 equity shares of ₹10 each	<u>15,00,000</u>		
Issued, Subscribed& paid-up			
80,000 equity shares of ₹7.50 each called-up& paid –up	6,00,000		
<u>Reserves and surplus:</u>			
Capital Redemption Reserve	1,50,000		
Plant Revaluation reserve	20,000		
Securities premium account	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General reserve	3,00,000		
	17,00,000		17,00,000

The company wanted to issue bonus shares to its shareholders at the rate of one Share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

(A) You are required to give effect to the proposal by passing journal entries in the books of A Ltd.

(B) Show the amended Balance Sheet (CMA-Inter 2021 June- 8 Marks)

(Ans: Total of Balance sheet ₹ 17,00,000)

Question 21. What entries can Be made for the following redemptions made by the company:

(a) In 2024 Shweta Ltd. redeemed ₹1,00,000 preference shares by converting them into equity shares issued at 25% premium.

(b) In 2025 Shweta Ltd. redeemed ₹95,000 preference shares by converting them into equity shares issued at par.

Solution:

	Particular	₹	₹
(a) 2024	Preference Share Capital Account Dr. To Preference Shareholders Account	1,00,000	1,00,000
	Preference Shareholders Account Dr. To Equity Share Capital Account		80,000
	To Securities Premium Account (Redemption by conversion into equity shares issued at a premium of 25%)		20,000
	Profit and Loss Appropriation Account Dr. To Capital Redemption Reserve Account (Capitalization of profits to the extent redemption not met by issue of equity shares)	20,000	20,000
(b) 2025	Preference Share Capital Account Dr. To Preference Shareholders Account (Amount payable on redemption)	95,000	95,000
	Preference Shareholders Account Dr. To Equity Share Capital Account (Redemption of preference shares by issue of equity shares at par)	95,000	95,000

Question 22. Footfault Ltd had equity capital of 2,00,000 divided into shares of 100 each, 11% cumulative redeemable preference share of ₹100 each for ₹1,00,000 and ₹50,000 and ₹40,000 respectively to the credit of profit and loss Account and General Reserve as on 31st March 2019. It has also ₹ 8,000 to the credit of share premium Account.

As per the agreement with the preference shareholders, the directors decided to redeem the shares on 1-4-2019 at a premium of 10%. It was also decided to sell certain investment whose book and market values on 31-3-2019 were ₹40,000 and ₹50,000 respectively to enable redemption.

For purposes of redemption, the board decided to utilize free reserve to the minimum extent possible. It was decided to issue right equity shares at a premium of 20% to finance the redemption. After redemption, the board decided to issue bonus shares to equity holders in the ratio of 2 for 5. Holders of 100 preference shares were not traceable.

Show the necessary Journal entries to record the above transaction in the books of Footfault Ltd and also how the items will appear on the Balance Sheet of the Company. (CMA Inter- 10 marks)

Question 23. The following is the balance sheet of trinity LMT as at 31-03-2025:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
<u>Share capital</u>		<u>Property, plant & equipment:</u>	
Authorized		Gross Block	3,00,000
10,000 10% redeemable preference shares of ₹10 each	1,00,000	Less: Dep	<u>1,00,000</u>
90,000 equity shares of ₹10 each	<u>9,00,000</u>	Investments	2,00,000
	<u>10,00,000</u>		1,00,000
<u>Issued subscribed and paid-up capital</u>		<u>Current Assets:</u>	
10,000 10% redeemable Preference shares of ₹10 each	1,00,000	Inventory	25,000
10,000 equity shares of ₹10 each	1,00,000	Debtors	25,000
		Cash and Bank	50,000
<u>Reserves and Surpluses:</u>		Misc. Expenditure	
General reserve	1,20,000	To the Extent not written off	20,000
Security premium	70,000		
Profit and loss a/c	18,500		
Current Liabilities and Provision	11,500		
TOTAL	4,20,000		4,20,000

For the year ended 31-3-2026, the company made a net profit of ₹15,000 after providing ₹20,000 depreciation and writing off the miscellaneous expenditure of ₹20,000.

The following additional information is available with regard to company's operation:

1. Except cash and bank balance other current assets and current liabilities as on 31-3-2026 was the same as on 31-3-2025.
2. The company redeemed the preference shares at a premium of 10%.
3. To meet the cash requirements of redemption, the company sold a portion of the investments so as to leave a minimum balance of ₹30,000 after such redemption.
4. Investments were sold at 90% of cost on 31-3-2026.
5. The company issued bonus shares in the ratio of one share for every equity share held as on 31-3-2026.

You are required to:

- (a) Prepare necessary journal entries to record redemption and issue of bonus shares.
- (b) Prepare the Balance sheet as at 31st March 2026 incorporating the above transactions.

Question 24: Following is the extract of the Balance Sheet of YY Ltd. as at 31st March, 2026:

Authorised 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, 2026 the Company has made final call @ ₹2 each on 1,35,000 equity shares. The call money was received by 20th April, 2026. Thereafter the company decided to capitalise 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 ₹60,000, 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 2026.

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?

(ICMAI Study material)

Solution: **Journal entries in the book of company**

Equity Share Final Call A/c	Dr.	2,70,000	
To Equity Share Capital A/c			2,70,000
(Being the Final call of ₹2 per share on 1,35,000 equity shares)			
Bank A/c	Dr.	2,70,000	
To Equity Share Final Call A/c			2,70,000
(Being the Final Call money on 1,35,000 equity shares received)			

Capital Redemption Reserve A/c	Dr.	30,000	
Capital Reserve A/c [Realized in cash]	Dr.	60,000	
Securities Premium A/c [37,500 – 7,500]	Dr.	30,000	
General Reserve A/c	Dr.	1,80,000	
Profit and Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			3,37,500
(Being the Bonus issue @ one share for every four shares held by utilising various reserves)			
Bonus to Shareholders A/c	Dr.	3,37,500	
To Equity Share Capital A/c			3,37,500
(Being the Capitalisation of profits to issue 33,750 equity shares of ₹10 each, fully paid.)			

Balance sheet (after bonus issue)

	Note No.	Amount
EQUITY AND LIABILITIES		
(1) Shareholders' Fund:		
(a) Share Capital	1	18,07,500
(b) Reserve and Surplus	2	2,92,500
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	7,50,000
Total		28,50,000

Notes to Account

1. Share Capital:	
Authorised Share Capital:	
1,87,500 Equity Shares of 10 each	18,07,500
15,000, 12% Preference Shares of 10 each	1,50,000
	19,57,500
Issued, Subscribed and fully paid Share Capital:	
1,68,750 Equity Shares of 10 each, fully paid	16,87,500
(Out of above, 33,750 equity shares @ 10 each were issued by way of bonus)	
12,000 12% Preference Shares of 10 each	1,20,000
Total	18,07,500
2. Reserves and Surplus:	
Capital Reserves [1,12,500 - 60,000]	52,500
Securities Premium Reserves [37,500 - 30,000]	7,500

Surplus (Profit & Loss Account) [2,70,000 – 37,500]	2,32,500
Total	2,92,500
3. Long-term borrowings:	
Secured 12% Convertible Debentures @ 100 each	
(Out of above 1,50,000 Debentures @ 100 each to be converted into 15,000 Equity Shares @ 10 each 1 st June, 2023)	7,50,000
Total	7,50,000

Important note:

1. Capital Reserve realised in cash can be utilised for issue of fully paid bonus shares.
2. As per SEBI guidelines, securities premium collected in cash can only be utilised for bonus issue.
3. As per para (ii) of SEBI guidelines, no-company can issue bonus shares to its shareholders without extending similar benefit to convertible debentures holders. Pending such conversion, necessary number of shares should be earmarked for convertible debentures holders. Therefore, convertible debenture holders are also entitled to the bonus shares in the same ratio as the equity shareholders.

APPLICATION OF SECTION 133 ON REDEMPTION OF PREFERENCE SHARES:

Question 25 (Question 3 of book). The balance sheet of Vivek Ltd. as on 31 March 2026 is as follows:

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

Question 26. The following is the balance sheet of RR Company Ltd as on 31.12.2024.

Liabilities:	₹
Issued and paid up capital:	
2,25,000 equity shares of ₹10 each fully called up	22,50,000
Less: Calls in arrear (25,000 shares of ₹2 each)	50,000
1,00,000 equity shares of ₹10 each, ₹4 paid up	4,00,000
Profit & loss A/c	12,50,000
Dividend Equalisation Reserve	1,00,000
General Reserve	1,50,000
Development Rebate reserve	2,50,000
Capital reserve	1,50,000
Securities premium	2,50,000
Capital redemption reserve	4,00,000
Current liability	10,00,000
Total	6,15,000
Assets:	
Non current assets:	
Fixed assets	30,00,000
Current assets	10,00,000
Cash at bank	21,50,000
Total	61,50,000

The board of directors of the company took the following decisions.

- (a) To forfeit the shares on which final call of ₹2 each is due.
- (b) To issue fully paid bonus shares @ 1 fully paid up share for every 2 fully paid shares held.
- (c) To pay bonus to the partly paid shares at an equivalent rate as in (b) above without collecting any amount from the related shareholders.
- (d) To reissue the forfeited shares @ ₹12 each fully paid up.
- (e) To pay dividend equivalent to 10% on share capital including bonus shares.
- (f) To issue right shares in the ratio of 1 fully paid up share for every four existing fully paid up shares held after bonus issue at ₹15 per share.
- (g) To use minimum balance of profit and loss account.

Note:

(a) All Capital Reserve are realised in cash.

(b) One fifth of the development rebate reserve is free.

Pass necessary journal entries in the books of the company including cash transaction after the above decisions are implemented. **(ICMAI Study material, CMA Inter exam – 10 marks)**

Solution:

Date	Particular	(₹)	(₹)
i.	Equity Share Capital A/c Dr To Calls in arrear A/c To Share forfeiture A/c (25,000 equity shares were forfeited)	2,50,000	50,000 2,00,000
ii.	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. Capital Reserve A/c Dr. Development Rebate Reserve A/c Dr. General Reserve A/c Dr. To Bonus to Shareholders A/c	4,00,000 2,50,000 1,50,000 50,000 1,50,000	10,00,000
iii.	Bonus to Shareholders A/c Dr To Equity Share Capital A/c	10,00,000	10,00,000
iv.	Dividend Equalisation Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus call to Shareholders A/c (bonus call @ 5 per share given to partly paid equity shares)	1,00,000 4,00,000	5,00,000
v.	Bonus to Shareholders A/c Dr. To Equity Share Call A/c	5,00,000	5,00,000
vi.	Bank (12 × 25000) A/c Dr. To Equity Share Capital A/c To Securities Premium A/c	3,00,000	2,50,000 50,000
vii.	Share Forfeiture A/c Dr. To Capital Reserve A/c	2,00,000	2,00,000
viii.	Profit and Loss A/c Dr. To Equity Dividend A/c (41,50,000 X 10%)	4,15,000	4,15,000
ix.	Equity Dividend A/c Dr. To Bank A/c	4,15,000	4,15,000
x.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Right issue of 81,250 shares made to fully paid equity shares)	12,18,750	8,12,500 4,06,250

Question 27: MG Limited was registered on 1st January 2025 with an authorised capital of ₹3,00,000 divided into 30,000 equity shares of ₹10 each. During the next 12 months to 31st December 2025 following events occurred which related to the share capital of the company.

On 1st January 2025, the company offered for subscription of 10,000 equity shares at a price of ₹ 19 each, to be paid as follows:

At the date of issue including premium ₹10

On allotment ₹4

On first and final call ₹5

On 30th June 2025, the company made right issue on 1 for 2 basis at ₹22.50 per share, payable in full on 10th July 2025.

Only 80% of the issue was subscribed for by the shareholders with a payment being made on the due date.

On 30th November 2025, Company decided to make a bonus issue of shares at par by utilising the entire balance of securities premium account.

Prepare the equity share capital account and the securities premium account of the company for the year ended 31st December 2025.

A share holder, Shyam, who had subscribed initially for 140 shares had subsequently taken up 80% of the right issue and then received the bonus shares to which he was entitled.

Calculate the ultimate number of shares owned by him and the total price paid by him for those shares.

(ICMAI Study material)

Solution: in the book of MG Ltd

Equity share capital account

Particulars	Amount	Particulars	Amount
		By Share Application A/c	10,000
		By Share Allotment A/c	40,000
		By Share First and Final Call A/c	50,000
		By Bank (right issue) A/c	40,000
To Balance c/d	2,80,000	By Bonus to Shareholders A/c	1,40,000
	2,80,000		2,80,000

Security premium account

Particulars	Amount	Particulars	Amount
To Bonus to Shareholders (bal fig)	1,40,000	By Share Application	90,000
		By Bank	50,000
	1,40,000		1,40,000

Working notes:

- (i) Securities premium per share on original issue = $(19-10) = ₹ 9$.
- (ii) Securities premium per share on right issue = $(22.50 - 10) = ₹12.50$.
- (iii) Number of right shares issued = $80\% (1/2 \times 10000) = 4000$ shares.
- (iv) Total securities premium available = $(10000 \times 9) + (4000 \times 12.50) = ₹ (90,000 + 50,000) = ₹1,40,000$.
- (v) So number of bonus share to be issued at par = $₹1,40,000 / 10 = ₹14000$, i.e., rate of bonus issue is 14000: 14000 = 1:1, i.e., 1 bonus share issued for every share held after right issue.
- (vi) Number of right shares purchased by the shareholder = $80\% \times (1/2 \times 140) = 56$ shares. So number of bonus shares to be received by him @ 1:1 = $(140+56) = 196$ shares.

Calculation of ultimate number of equity shares owned by Shyam:

Particulars	No. of shares	Amount
Main issue of shares in Jan 2023:		
a. As application money 140×10	140	1,400
b. As allotment money 140×4		560
c. As first and final money 140×5		700
		2,660
For right issue @1:2 (80% of 140 shares $\times 1/2 \times 22.50$)	56	1,260
For bonus issue of shares @ 1:1 for total 196 shares held	196	nil
	392	3,920

Question 28. MCQs ON Redemption of preference shares, right issue, bonus issue and sweat equity shares**1. The balance of Securities Premium A/C cannot be utilized for**

- (a) Writing off preliminary expenses
- (b) Payment of dividend
- (c) Buyback of shares
- (d) Writing off Discount on issue of shares

2. Which of the following is not a Free Reserve?

- (a) General Reserve
- (b) Dividend Equalization Reserve
- (c) Revaluation Reserve
- (d) Revenue Reserve

3. 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
4. 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 authorised by the Articles of Association.
 - (c) Buy-back must be authorised by passing a special resolution in general meeting.
 - (d) Buy-back should be completed within 1 year from the state of passing of special resolution
5. 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.
6. At present, a company can issue preference shares which is:
- (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
7. Partly paid-up preference shares can be redeemed:
- (a) After the permission from Company Law Board
 - (b) After making them fully paid up
 - (c) After passing a special resolution
 - (d) After the permission from the BOD
8. _____ of the Companies Act, 2013 prohibits issue of shares at a discount.
- (a) Section 53
 - (b) Section 54
 - (c) Section 61
 - (d) Section 62
9. The net profit on forfeiture and reissue of equity shares is transferred to _____. .
- (a) Capital Reserve
 - (b) General Reserve
 - (c) Dividend Equalization Reserve
 - (d) Revaluation Reserve
10. Which of the following is/are statutory book(s) of a company?
- (a) Register of charges
 - (b) Register of Members
 - (c) Register of debenture holders
 - (d) All of the above

11. If Total issue size is 2,00,000 shares and the underwriter commits for 100% underwriting at a commission of 4%, what will be the commission payable if no. of applications received is 1,40,000. The issue price of shares is ₹ 12 for each ₹ 10 face value shares.
- (a) 28,800
 - (b) 96,000
 - (c) 80,000
 - (d) 30,800
12. Given, paid -up share capital ₹ 10,00,000 and free reserves ₹ 2,00,000, what is the maximum amount permissible for buy-back of shares?
- (a) 2,00,000
 - (b) 2,50,000
 - (c) 2,80,000
 - (d) 3,00,000
13. 10% Preference share capital ₹ 5,00,000. Redeemable at premium of 10%. Company issue 15,000 equity shares of ₹ 10 each at premium of 20%. Calculate the amount by which CRR is to be created.
- (a) 5,00,000
 - (b) 3,50,000
 - (c) 3,20,000
 - (d) None of the above

[Answer: 1-B; 2-C; 3-A; 4-A; 5-D; 6-C; 7-B; 8-A; 9-A; 10-D, 11-B, 12-D, 13-B]

Question 29: state whether following statements are true or false:

1. As per Sec 2(43) of the Companies Act, 2013, "Free Reserves" mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.
2. After the allotment of shares, sometimes a shareholder is not able to pay the further calls and returns his shares to the company for cancellation. Such voluntary return of shares to the company by the shareholder himself is called Forfeiture of Shares.
3. A Company cannot buy-back its shares from any person through a negotiated deals whether on or off the stock exchange.
4. A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy- back, and re-structure its capital and it is a disadvantage.
5. Issue of debentures as a collateral security means issue of debentures as a main security, that is, a security in addition to the prime security.
6. Debenture carries a fixed rate of dividend.
7. 'Unmarked' applications are those applications which bear the stamp of an underwriter.

8. The sum which is still to be paid to the Company for a share is known as calls in arrears.
9. An infrastructure company can issue preference shares with a maximum tenure of 20 years.
10. A company limited by shares shall not issue any preference shares which are irredeemable.

[Answer: 1. True; 2. False; 3. True; 4. False; 5. False; 6. False; 7. False; 8. False; 9. True; 10. True]

Question 30: fill in the blanks:

1. Register of Members is one of the _____ Books maintained by a company.
2. ----- is that part of the authorized capital which is offered to the public for subscription is called issued capital.
3. The application money to be refunded shall be credited only to the bank account from which the was remitted.
4. When a share is issued at a value greater than its face value it is said to be issued at a
5. Except as provided in section 54, a company shall not issue shares at a
6. Issue of Bonus Share decreases the
7. share is permissible from the existing security holders on a proportionate basis through the tender offer.
8. At the time of cancellation of own debentures _____ A/c is Credited.
9. There are _____ types of Underwriting Agreements.
10. A company is a distinct legal person existing _____ of its members.

[Answer: 1. Statutory; 2. Issued Capital; 3. subscription; 4. Premium; 5. Discount; 6. Reserves & Surplus; 7. Buy-back; 8. Own Debentures; 9. Two; 10. Independent]

Multiple choice question practice session 2:

1. Which of the following section of the Companies Act, 2013 deals with provisions relating to right issue of share?
 - (a) Section 60
 - (b) Section 62
 - (c) Section 64
 - (d) Section 68

2. Provisions relating to right issue of shares as contained in Section 62 of the Companies Act, 2013 applies to-
- (a) Company not having share capital
 - (b) All companies
 - (c) Company having a share capital
 - (d) Both (A) and (C)
3. _____ are shares issued by a company free of cost to its existing shareholders
- (a) Right shares
 - (b) Bonus shares
 - (c) Stock options
 - (d) Warrants
4. Bonus shares are shares issued by a company free of cost to its existing shareholders on pro rata basis out of:
- (a) Free reserve
 - (b) Distributable profit
 - (c) General reserve
 - (d) Any of the above
5. Right shares can be offered by the companies to existing shareholders by passing –
- (a) Special Resolution
 - (b) Board Resolution
 - (c) Ordinary Resolution
 - (d) Extraordinary Resolution
6. A company cannot issue fully paid-up bonus shares to its members out of:
- (a) Securities Premium
 - (b) Capital Redemption Reserve
 - (c) Revaluation Reserve
 - (d) All of the above
7. If company makes bonus issue at 2:3 then it means –
- (a) For every two shares three bonus' shares will be allotted
 - (b) For every three shares two bonus shares will be allotted
 - (c) For every five shares three bonus shares will be allotted
 - (d) For every five shares two bonus shares will be allotted
8. Value of the right =?
- (a) Market value plus average price of the share
 - (b) Market value less average price of the share
 - (c) Market value multiplied by adjustment factor
 - (d) Market value less average price of the share multiplied by adjustment factor
9. Which of the following is correct journal entry for issue of bonus shares?
- (a) Debit the equity share capital account and credit the securities premium account
 - (b) Debit the bonus to shareholder's account and credit the general reserve account
 - (c) Debit the general reserve account and credit the equity share capital account
 - (d) Debit the capital reserve account and credit the equity share capital account.

10. Following was the Balance Sheet of BCC Ltd. as on 31st December 2019:

Equity Shares of ₹10 each	₹ 8,00,000
Securities Premium	₹ 2,80,000
General Reserve	₹ 1,40,000
Profit & Loss Account	₹ 2,40,000
Sundry Creditors	₹1,80,000

Company issued 3 bonus shares for every 4 fully paid-up shares. Securities premium account will be utilized first and then General Reserve. To issue bonus shares Profit & Loss A/c will be debited by ----

- (a) ₹ 2,40,000
- (b) ₹1,80,000
- (c) ₹ 2,00,000
- (d) ₹ 2,20,000

11. A company has decided to increase its existing share capital by making rights issue to the existing shareholders in the proportion of 1 new share for every 2 old shares held. You are required to calculate the value of the right if the market value of share at the time of announcement of right issue is ₹576. The company has decided to give one share of ₹100 each at a premium of ₹188 each.

- (a) ₹348
- (b) ₹ 174
- (c) ₹ 96
- (d) ₹ 82

12. Following are the extracts from the draft Balance Sheet of OMG Ltd.:

Equity shares Capital (₹10 each)	8,00,000
Securities premium	1,00,000
General reserve	2,50,000
Profit and loss account	1,500

A resolution was passed declaring 3 bonus shares for 5 shares held. Use minimum securities premium balance. To issue bonus shares Securities Premium A/c will be debited by –

- (a) ₹1,50,000
- (b) ₹90,000
- (c) ₹1,20,000
- (d) ₹ 80,000

Answer: 1-B; 2-C; 3-B; 4-D; 5-C; 6-C; 7-B; 8-B; 9-C; 10-B; 11-C; 12-D

CHAPTER 7. BUY BACK OF SECURITIES

In case of companies, equity shares represent the share of ownership of net worth and hence are supposed to be perpetual. However, over time this basic feature of equity shares has also been changed. Companies, across the globe are now allowed to return back the equity shares subject to certain conditions specified in the relevant statutes. This process is known as buy-back of equity shares. Technically, it is a means of capital restructuring.

A company generally undertakes buy-back of equity shares for varied reasons. **Following are a few important reasons for adopting a buy-back strategy.**

- a. Cash rich companies may resort to buy-back when they have only a few projects to invest in.
- b. At times, buy-backs may be a more tax-effective means of rewarding shareholders.
- c. Theoretically buy-backs tend to improve the valuation of a companies as the capital base is reduced.
- d. By showing the confidence to use its reserves to buy-back its own shares, companies give a hint that themanagement perceives it as undervalued.
- e. Buy-back can help the promoters to consolidate their stake in the company.

A company may buy-back its equity shares at par or at a premium or even at a discount. However, in most of the cases, buy-backs are found to be made at premium. Hence, in such cases, buy-back involves '**payment of capital**' as well as '**payment of premium**'.

Buy-back under Companies Act, 2013:

The regulatory framework of buy-back is provided by following three sources:

- a. Companies Act, 2013 (Section 67, 68, 69 and 70);
- b. Companies (Share Capital and Debentures) Rules, 2014; and
- c. SEBI (Buy-back) Regulations, 2018

Section 67 of the Companies Act, 2013 states that no company limited by shares or by guarantee and having a share capital shall have power to buy its own shares unless the consequent reduction of share capital is effected under the provisions of this Act.

As per Section 68 of the Act,

- a. a company may purchase its own shares or other specified securities out of—
 - (i) its free reserves;
 - (ii) the securities premium account; or
 - (iii) the proceeds of the issue of any shares or other specified securities:

Provided that no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

- b. The buyback must be authorised by its articles.
- c. A special resolution must be passed at a general meeting of the company authorising the buy-back unless –
 - (i) the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company
and
 - (ii) such buy-back has been authorised by the Board by means of a resolution passed at its meeting
- d. The buy-back should be 25% or less of the aggregate of paid-up capital and free reserves of the company. Moreover, buy-back of equity shares in any financial year, shall not be more than 25% of the total paid-up equity capital.

- e. The ratio of the aggregate of secured and unsecured debts owed by the company after buy-back is shall not be more than twice the paid-up capital and its free reserves.
- f. All the shares or other specified securities for buy-back must be fully paid-up.
- g. The buy-back of the shares or other specified securities listed on any recognized stock exchange should be done in accordance with the regulations made by the Securities and Exchange Board in this behalf.
- h. The buy-back in respect of shares or other specified securities other than those specified shall be made in accordance with such rules as may be prescribed.
- i. No offer of buy-back under section 68(2) shall be made within a period of one year reckoned from the date of the closure of the preceding offer of buy-back, if any.
- j. Every buy-back shall be completed within a period of one year from the date of passing of the special resolution, or as the case may be, the resolution passed by the Board.
- k. The buy-back under section 68(1) may be made:-
 - (i) from the existing shareholders or security holders on a proportionate basis;
 - (ii) from the open market;
 - (iii) by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.
- l. Before making such buy-back, the company needs to file with the Registrar and the Securities and Exchange Board, a declaration of solvency signed by at least two Directors of the company. However, unlisted companies need not to file any such declaration to SEBI.
- m. Where a company buys back its own shares or other specified securities, it shall extinguish and physically destroy the shares or securities so bought back **within seven days** of the last date of completion of buy-back.
- n. Where a company completes a buy-back of its shares or other specified securities under section 68, it shall not make a further issue of the same kind of shares or other securities including allotment of new shares under clause (a) of sub-section (1) of section 62 or other specified securities within a period of six months except by way of a bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares.
- o. Where a company buys back its shares or other specified securities under this section, it shall maintain a register of the shares or securities so bought, the consideration paid for the shares or securities bought back, the date of cancellation of shares or securities, the date of extinguishing and physically destroying the shares or securities and such other particulars as may be prescribed.
- p. A company shall, after the completion of the buy-back under this section, file with the Registrar and the Securities and Exchange Board a return containing such particulars relating to the buy-back **within thirty days of such completion**, as may be prescribed. This is, however, not required for unlisted companies.

As per Section 69 of the Act,

- (1) Where a company purchases its own shares out of free reserves or securities premium account, a sum equal to the nominal value of the shares so purchased shall be transferred to the capital redemption reserve account and details of such transfer shall be disclosed in the balance sheet.
- (2) The capital redemption reserve account may be applied by the company, in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.

Section 70 of the Act further states that –

(1) No company shall directly or indirectly purchase its own shares or other specified securities—

- (a) through any subsidiary company including its own subsidiary companies;
- (b) through any investment company or group of investment companies; or
- (c) if a default, is made by the company, in the repayment of deposits accepted either before or after the commencement of this Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company:

Provided that the buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

(2) No company shall, directly or indirectly, purchase its own shares or other specified securities in case such company has not complied with the provisions of sections 92, 123, 127 and section 129.

Note: A company cannot utilize any borrowed fund for the purpose of buy-back. Such type of buy-backs are called leveraged buy-back which are not allowed in India.

Major provisions of SEBI (Buy-back) Regulations, 2018:

1. A company may buy-back its shares or other specified securities by any one of the following methods:

- a) from the existing shareholders or other specified securities holders on a proportionate basis through the tender offer;
- b) from the open market through—
 - (i) book-building process,
 - (ii) stock exchange;
- c) from odd-lot holders:

Provided that no offer of buy-back for fifteen per cent or more of the paid-up capital and free reserves of the company shall be made from the open market.

2. The 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 is specified in 10(2).

Accounting for Buy-back:**I. Important Issues relating to accounting of buy-back:**

(i) **Sources for payment on buy-back:** The sources for payment of capital on buy-back are –

- a. Its free reserves, or
- b. The securities premium account, or
- c. The proceeds of any shares or other specified securities like employees' stock option

The sources for payment of premium on buy-back are –

- a. Securities Premium Account; or
- b. Other Free Reserves

Note 1: 'Free Reserves' include Surplus of Statement of Profit and Loss, General Reserve, Reserve Fund, Dividend Equalization Reserve, Capital reserve (if realized) and free portion of Workmen Compensation fund etc. Hence, it does not include Securities Premium, Capital reserve (unrealized), Revaluation reserve, Capital redemption Reserve and any other statutory reserve.

Note 2: Companies that do not have adequate reserves may buy-back shares or other specified securities by making fresh issue of shares for this purpose. The fresh issue may be of equity shares or of preference shares. However, buy-back of any kind of shares or other specified securities shall not be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

(ii) Determination of quantum for buy-back. Sec. 68 of Company Act, 2013:

The maximum number of shares to be bought back is determined as the least number of shares arrived by performing the following tests:

- (1) Share outstanding test**
- (2) Resource test**
- (3) Debt-Equity Ratio test.**

The tests are discussed below:

(1) Share Outstanding test:

- (a) Ascertain the number of shares
- (b) 25% of the number of shares is eligible for buy back with the approval of shareholders.

(2) Resource test:

- (a) Ascertain shareholders' fund (Aggregate Paid-up Capital + Free Reserves)
- (b) No. of shares held for buyback = Shareholders funds/ Buy-back price

(3) The number of shares to be bought back should be such that the debt-equity ratio does not exceed 2 : 1.

Note: The number of shares to be bought-back will be the least of the above three.

Question 1: 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. Journalise the transactions.

Solution:

	Particulars	Amount (₹)	Amount (₹)
	Equity Share Capital A/c Dr. To equity share holder A/c (Buying-back 2,00,000 equity shares of ₹ 10 each, at par)	20,00,000	20,00,000
	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Transfer of nominal value of share s bought back)	20,00,000	20,00,000
	Equity share holder A/c Dr To bank account (Issue of Share made for Purpose)	20,00,000	20,00,000

Question 2: 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.

Solution:

	Particulars	Amount (₹)	Amount (₹)
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of ₹ 2 per share due on 2,00,000 equity shares as per Board resolution)	4,00,000	4,00,000
	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on 2,00,000 shares received)	4,00,000	4,00,000
	Equity Share Capital A/c Dr. To Equity Shareholders A/c (Amount due to equity shareholders transferred to their account for Buy Back)	20,00,000	20,00,000
	Equity Shareholders A/c Dr. To Bank A/c (Payment to shareholders towards buy-back)	20,00,000	20,00,000
	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Transfer of nominal value of shares Bought-back.)	20,00,000	20,00,000

Question 3: (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.

Solution:

Equity Share Capital A/c Dr. Premium on buyback account Dr. To Equity Shareholders A/c (Amount due to equity shareholders for buying-back of 20,000 equity shares)	2,00,000 40,000	2,40,000
Equity Shareholders A/c To Bank A/c (Payment to shareholders on account of buy-back)	2,40,000	2,40,000
General Reserve A/c Dr. To Capital Redemption Reserve A/c (Transfer of nominal amount of equity shares Bought back.)	2,00,000	2,00,000
Security premium account Dr. To premium on buy back account	40,000	40,000

Question 4: (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.

Solution:

Equity Share Capital A/c	Dr.	2,00,000	1,80,000
To Equity Shareholders A/c			20,000
To Capital Reserve A/c			
(Amount due to equity shareholders for buy-back of 20,000 shares @ ₹9)			
Equity Shareholders A/c	Dr.	1,80,000	1,80,000
To Bank A/c			
(Payment to equity shareholders the amount due to them)			
General Reserve A/c	Dr.	2,00,000	2,00,000
To Capital Redemption Reserve A/c			
(Transfer of nominal amount of shares bought-back)			

Question 5: 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.

Solution:

Date	Particulars	L/F	Amount (₹)	Amount (₹)
	Bank A/c	Dr.	2,00,000	2,00,000
	To Preference Share Application A/c			
	(Application money on 20,000 preference shares at ₹ 10 each)			
	Preference Share Application A/c	Dr.	2,00,000	2,00,000
	To Preference Share Capital A/c			
	(Transfer of application money to preference share capital account on shares being allotted)			
	Equity Share Capital A/c	Dr.	5,00,000	7,50,000
	Premium on buy back A/c	Dr.	2,50,000	
	To Equity shareholders A/c			
	(Amount due to equity shareholders consequent upon buy-back of 50,000 shares at ₹ 15)			
	Equity shareholders A/c	Dr.	7,50,000	7,50,000
	To Bank A/c			
	(Payment to equity shareholders for amount due to them)			
	General Reserve A/c	Dr.	3,00,000	3,00,000
	To Capital Redemption Reserve A/c			
	(Transfer of the nominal value of shares bought back out of profit)			
	Security premium A/c	Dr.	2,50,000	2,50,000
	To Premium on buy back A/c			

Question 6: The following was the balance sheet of Diamond Ltd. as at 31st March, 2025:

Equity and liabilities	₹
10% Redeemable Preference Shares of ₹ 10 each, fully paid up	2,500
Equity Shares of ₹ 10 each fully paid up	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss Account	300
9% Debentures	5,000
Sundry creditors	2,300
Sundry Provisions	1,000
	26,900
Assets	
Fixed assets	14,000
Investments	3,000
Cash at Bank	1,650
Other Current assets	8,250
	26,900

On 1st April, 2025 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 15 per share. In order to make cash available, the company sold all the investments for ₹ 3,150 lakh and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant.

Pass journal entries for all the above-mentioned transactions including cash transactions and prepare the company's balance sheet immediately thereafter.

Solution:

1	Bank A/c	Dr	3,150	
	To Investment A/c			3,000
	To Profit and Loss A/c			150
	(Being sale of investments and profit thereon)			
2	Bank A/c	Dr	2,000	
	To Bank Loan A/c			2,000
	(Being loan taken from bank)			
3	10% Redeemable Preference Share Capital A/c	Dr	2,500	
	Premium on Redemption of Preference Share A/c	Dr	250	
	To Preference Shareholder A/c			2,750
	(Being redemption of preference shares)			

4	Preference Shareholders A/c To Bank A/c (Being payment of amount due to preference shareholders)	Dr. 	2,750 	2,750
5	Securities Premium A/c To Premium on Redemption of Preference Share A/c (Being use of securities premium to provide premium on redemption of preference shares)	Dr. 	250 	250
6	Equity Share Capital A/c Premium on Buy-back A/c To Equity Shareholders A/c (being buy back of equity shares)	Dr. Dr. 	2,000 1,000 	3,000
7	Securities Premium A/c General Reserve A/c To Premium on Buy-back A/c (being use of securities premium and general reserve to provide premium on buy-back)	Dr. Dr. 	550 450 	1,000
8	General Reserves A/c To Capital Redemption Reserve A/c (2000 + 2500) (Being creation of capital redemption reserve to the extent of the face value of preference share redeemed and equity shares bought back). Note: Balance in General reserve as on 01.04.2012 (6,000 – 450 - 4,500)	Dr. 	4,500 	4,500
9	Equity Shareholders A/c To Bank A/c (Being payment of amount due to equity shareholders). Note: Cash at Bank [1650+3150+2000-2750-3000] = ₹ 1,050	Dr. 	3,000 	3,000

Balance Sheet of Diamond Ltd., as on 01.04.2025

			Current year	Previous year
I	EQUITY AND LIABILITIES			
1	Shareholders' Funds			
	(a) Share capital	1	6,000	
	(b) Reserves and surplus	2	7,000	
2	Share application money pending allotment		Nil	
3	Non-current liabilities		Nil	
	(a) Long-term borrowings	3	7,000	
4	Current Liabilities			
	(a) Trade payables		2,300	
	(b) Short-term provisions	4	1,000	

	Total (1+2+3+4)		23,300	
II	ASSETS			
1	Non-current assets			
	(a) PPE			
	(i) Tangible assets	5	14,000	
2	Current assets			
	(a) Cash and cash equivalents		1,050	
	(b) Other current assets		8,250	
	Total (1+2)		23,300	

Notes to the Accounts: (₹ in Lakhs)**1. Share capital**

Issued Capital, Subscribed and Paid Up capital: Equity Shares of ₹ 10 each	6,000
Total	6,000

2. Reserve and surplus:

Capital Redemption Reserve (1,000+4,500)	5,500
General Reserve	1,050
Profit and Loss (300+150)	450
Total	7,000

3. Long term borrowings

9% Debenture	5,000
Bank Loan	2,000
Total	7,000

4. Short term provision:

Sunday Provision	1,000
Total	1,000

5. Tangible assets:

Fixed Assets	14,000
Total	14,000

Question 7: XYZ Ltd. has the following capital structure on of 31st March 2025:

a. Equity Share capital (Shares of Rs 10 each)	300
b. Reserves:	
General reserve	270
Security Premium	100
Profit and Loss A/c	50
Export Reserve (Statutory reserve)	80
c. Loan Funds	800

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 10th April 2025 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions.

The market price was hovering in the range of ₹ 25 and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Advise the company on maximum number of shares that can be bought back and record journal entries for the same assuming the buy back has been completed in full within the next 3 months.

If borrowed funds were ₹ 1200 crores, and ₹ 1500 crores respectively would your answer change?

Solution: Maximum shares that can be bought back:

	Borrowed funds	800 crores	1,200 crores	1,500 crores
a	Shares outstanding test (WN # 1)	7.5	7.5	7.5
b	Resources test (WN # 2)	6	6	6
c	Debt Equity ratio test (WN # 3)	10.68	3	—
d	Maximum number of shares for buy back - LEAST of the above	6	3	—

Question 8: (Buyback of Equity Shares – Determination of Maximum Limit) R Ltd. wants to buy back 1,00,000 equity shares of ₹ 10 each at a price of ₹ 20 each on 01.04.2025. The buy back 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 31.03.2025:

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

You have been appointed as a legal expert to supervise the buyback process. Verify whether the buyback plan of the company meets the conditions specified by the Companies Act 2013 as regards to the maximum amount of buyback.

Solution: Determination of maximum buyback permissible as per Companies Act 2013:

1. Shares Outstanding Test: Max. Permissible Limit = 25% of Outstanding Shares

Total number of shares outstanding	5,00,000
25% of the shares outstanding	1,25,000

2. Resource Test: Max. Permissible Limit = 25% of Paid up Capital plus Free Reserves

Equity share capital	50,00,000
Free Reserve (General Reserve + DER + P/L)	75,00,000
Paid up Capital plus Free Reserves	1,25,00,000
25% of Paid up Capital plus Free Reserves	31,25,000
Buy back price per share	20
No. of shares that can be bought back (31,25,000/20)	1,56,250

3. Debt Equity Ratio Test: Debt after buyback cannot exceed twice the paid-up capital plus free reserves.

Total Debt (75,00,000 + 40,00,000 + 66,00,000)	1,81,00,000
Minimum Equity to be maintained after buyback in the ratio 2:1	90,50,000
Paid up capital plus free reserves before buyback	1,25,00,000
Future Paid up capital plus free reserves (see working note:1) (1,25,00,000 – 11,50,000)	1,13,50,000
Maximum permissible buyback (1,13,50,000 - 90,50,000)	23,00,000
Buy back price per share	20
No. of shares that can be bought back	1,15,000

Summary of three test results:

Permissible Buyback as per –	
Share Outstanding Test	1,25,000
Resource Test	1,56,250
Debt-Equity Ratio Test	1,15,000
Maximum permissible buyback (least of the three)	1,15,000
Actual buyback plan	1,00,000

Since actual buyback proposed is below the permissible limit, the company can buy back 1,00,000 shares at ₹ 20 each.

Question 9.**Balance sheet of X Ltd as on 31st March 2025**

Liabilities	Amount (₹)	Assets	Amount (₹)
Share capital:		Fixed assets less depreciation	50
Equity shares of 10 each fully paid	100	Investment at cost	120
9% Redeemable preference shares of ₹ 100 each fully paid	20	Current assets	142
Capital reserves	8		
Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	312		312

- The company redeemed the preference shares at a premium of 10% on 1st April, 2025.
- It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share. The payment for the above was made out of huge bank balances, which appeared as a part of the current assets.
- Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 2025.
- The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ₹ 20 when the market price was ₹ 30. (This was included under current liabilities). On 1.04.2025 employees exercised their options for 50,000 shares.

Pass the journal entries to record the above and Prepare Balance Sheet as at 01.04.2025.

(CMA Inter- 10 Marks)

Solution :

Date	Particular	Debit (₹)	Credit (₹)
01.04.2025	9% Redeemable preference share capital A/c Dr. Premium on redemption of preference shares A/c Dr. To Preference shareholders A/c (Being preference share capital transferred to shareholders account)	20.00 2.00	22.00
01.04.2025	Preference shareholders A/c Dr. To Bank A/c (Being payment made to shareholders)	22.00	22.00
01.04.2025	Equity shares buy back A/c Dr. To Bank A/c (Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per)	90.00	90.00
01.04.2025	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity Shares buy back A/c (Being cancellation of shares bought back)	30.00 60.00	90.00

01.04.2025	Revenue reserve A/c (20 + 30) To Capital redemption reserve A/c	Dr.	50.00	50.00
01.04.2025	10% Debentures A/c To Investment (own debentures) A/c To Profit on cancellation of own debentures A/c (Being cancellation of own debentures costing (₹) 2 lakhs, face value being (₹) 2.20 lakhs and the balance being profit on cancellation of debentures)	Dr.	2.20	2.00 0.20
1.04.2025	Profit on cancellation of debentures A/c To Capital reserve A/c	Dr.	0.20	0.20
01.04.2025	Bank A/c Employees stock option outstanding A/c To Equity share capital A/c To Securities premium A/c	Dr. Dr.	10.00 5.00	5.00 10.00
01.04.2025	Securities premium A/c To Premium on redemption of preference shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	2.00	2.00

Balance Sheet of Extra Ltd as on 01-04-2025**('000)**

Equity & Liabilities:		
Shareholders Fund:		
Equity Capital (₹ 10 Each)		75
Reserves & surplus:		
CRR		50
Capital Reserve WN-2		8.20
Security Premium WN-4		8
Non-Current Liabilities:		
10% Debentures WN-5		1.80
Current Liabilities:		65
Total		208
Non Current Assets:		
Tangible Assets		
Fixed Assets less depreciation		50
Investment (at cost) WN-7		118
Current Assets WN-8		40
Total		208

Working Note:

		(₹ in lakhs)
1.	Equity share capital	
	Opening balance	100.00
	Less: Cancellation of bought back shares	(30.00)

	Add: Shares issued against ESOP	<u>5.00</u> 75.00
2. Capital Reserve		
	Opening balance	8.00
	Add: Profit on cancellation of debentures	<u>0.20</u> 8.20
3. Revenue reserves		(₹ in lakhs)
	Opening balance	50.00
	Less: Creation of Capital Redemption Reserve	<u>(50.00)</u> (0)
4. Securities Premium		(₹ in lakhs)
	Opening balance	60.00
	Less : Adjustment for cancellation of equity shares	(60.00)
	Less: Adjustment for premium on redemption of preference shares	(2.00)
		<u>10.00</u>
	Add: Shares issued against ESOP shares at premium	8.00
5. 10% Debentures		
	Opening balance	4.00
	Less: Cancellation of own debentures	<u>(2.20)</u> 1.80
6. Current liabilities		
	Opening balance	<u>70.00</u>
	Less: Adjustment for ESOP outstanding	<u>(5.00)</u> 65.00
7. Investments at cost		120.00
	Opening balance	<u>(2.00)</u>
	Less: Investment in own debentures	118.00
8. Current assets		
	Opening balance	142.00
	Less : Payment to preference shareholders	(22.00)
	Less : Payment to equity shareholders	(90.00)
	Add: Share price received against ESOP	<u>10.00</u> 40.00

Question 10. Following is the Balance Sheet of M/s competent Limited as on 31st March, 2025

Liabilities	(₹)	Assets	(₹)
Equity Shares of ₹ 10 Each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured 12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current Liabilities	16,50,000		
	76,50,000		76,50,000

The company wants to buy back 25,000 equity shares of ₹ 10 each , on 1st April, 2025 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare e Balance Sheet after buy back of shares.

(CMA INTER- JUNE 2021) (8 Marks)

Question 11. MULTIPLE CHOICE QUESTIONS:

1. Provisions relating to buy back of securities are contained in _____ of the Companies Act, 2013.
(A) Section 77
(B) Section 77A
(C) Section 68
(D) Section 63
2. The buyback must not exceed 25% of the total paid up capital and free reserves of the company. It is called
(A) Share outstanding test
(B) Resource test
(C) Number test.
(D) none of above
3. Provisions of the Section 68 relating to buy back of shares are applicable to –
(A) Private companies
(B) Public companies
(C) Listed companies
(D) All of the above
4. No company shall purchase its own shares or other specified securities, unless buy back is authorized by its
(A) Memorandum of Association
(B) Registrar of Companies
(C) Shareholders agreement
(D) Article of Association
5. Maximum permissible buy back under the Companies Act, 2013 is –
(A) 10% of paid-up capital with special resolution.
(B) 25% of paid-up capital with board resolution.
(C) 25% of the aggregate of paid-up capital and free reserves of the company with special resolution of shareholders.
(D) 25% of the aggregate of paid-up capital and free reserves of the company with ordinary resolution of shareholders.
6. For buy - back up to _____ of the company Board resolution is sufficient.
(A) 10% of paid-up capital
(B) 10% of free reserves
(C) 10% of paid-up capital or free reserves
(D) 10% of paid-up capital and free reserves
7. Buy-back of equity shares in any financial year should not exceed –
(A) 10% of net worth
(B) 25% of free reserves of the company
(C) 25% of the paid-up equity capital
(D) 25% of the aggregate of paid-up equity capital and preference capital
8. As per Section 68 of the Companies Act, 2013, post buy back debt equity ratio should not exceed –
(A) 1:2
(B) 1.5
(C) 2:1
(D) 3:1

9. For the purpose of calculating debt equity ratio which of the following debts are considered –

- (A) Secured debts
- (B) Unsecured debts
- (C) Current liabilities
- (D) All of the above

10. Companies are allowed to buy back shares which are –

- (A) Partly paid-up
- (B) Fully paid-up
- (C) Partly paid-up or fully paid-up at the option of company
- (D) Fully paid-up and partly paid-up with the permission of Central Government

11. No offer of buy-back shall be made within a period of reckoned from the date of the closure of the preceding offer of buy-back

- (A) 6 months
- (B) 1 year
- (C) 2 years
- (D) 10 months

12. Where a company buys back its own Shares or other specified securities, it shall extinguish and physically destroy such shares or securities so brought back within-----of the last date of completion of buy-back.

- (A) 3 days
- (B) 8 days
- (C) 7 days
- (D) 9 days

13. Where a company completes a buy-back of its shares or other specified securities, it Shall not make a further issue of the same kind of shares or other securities including allotment of new shares u/s 62(1)(a) [i. e. right issue] or other specified securities within a period of –

- (A) 6 months
- (B) 1 year
- (C) 2 years
- (D) 10 months

14. Which of the following is allowed within next 6 months after the buyback of share?

- (A) Bonus issue
- (B) Conversion of warrants
- (C) Stock option schemes
- (D) All of the above

15. Which of the following statement is true?

- (A) Partly paid-up shares can be bought back by the companies
- (B) No company shall directly or indirectly purchase its own shares or other specified securities if a default is made by the company in the repayment of deposits interest payment thereon.
- (C) The offer-for buy-back shall remain open to the securities holders for a period not less than 5 days and not exceeding 10 days.
- (D) The company can buy back up to 25% of paid-up share capital and free reserve in any financial year.

16. Where a company purchase its own shares out of free reserves or securities premium account, a sum equal to the nominal value of the shares so purchased shall be transferred to the _____.

- (A) Capital Reserve Account
- (B) General Reserve Account
- (C) Capital Redemption Reserve Account
- (D) Equity Shares Redemption Account

17. Which of the following reserve can be used for buy back of equity shares?

- (A) Statutory Reserve
- (B) Dividend Equalization Reserve
- (C) Capital Redemption Reserve
- (D) All of the above

18. The buyback of shares in any financial year must not exceed 25% of its shares. It is called:

- (A) Share outstanding test
- (B) Resource test
- (C) Number test.
- (D) none of above

19. N Ltd. had 90,000 equity shares of ₹100 each, fully paid up. The company decided to buy back 10% shares at par by the issue of sufficient number of preference shares. Company do not have any reserves. How much preference shares are required to be issued if new preference shares are to be issued at ₹10 each?

- (A) 9,00,000 shares
- (B) 90,000 shares
- (C) 1,00,000 shares
- (D) 1,20,000 shares

20. S Ltd. decided to buy back 2,000 equity shares of ₹100 each at a premium of 10%. For the purpose of redemption, the company issued 15,000 10% Preference shares of ₹10 each at a premium of 20% per share. The company has sufficient balance in profit & loss account. At the time of buy back shares, the amount to be transferred by the company to the Capital Redemption Reserve Account =?

- (A) ₹ 20,000
- (B) ₹50,000
- (C) ₹1,50,000
- (D) ₹2,00,000

21. During the year 2018-2019, T Ltd. buy back 20,000 equity shares of ₹100 each at a premium of 5%. During the year 2018-2019, as the company did not have sufficient cash resources to buy back equity shares, it issued 1,00,000, 12% Preference shares of ₹10 each at a premium of 15%. The company has sufficient balance in general reserve. At the time of buy back equity shares, the amount to be transferred to capital redemption reserve?

- (A) ₹ 10,00,000
- (B) ₹ 9,50,000
- (C) ₹ 12,00,000
- (D) ₹ 15,00,000

22. Equity shares amounting to ₹2,00,000 are brought back at a premium of 5%, by issue of preference shares amounting. to ₹1,00,000 at a premium of 10%. The amount to be transferred to capital redemption reserve=?

- (A) ₹1,00,000
- (B) ₹ 90,000
- (C) ₹1,50,000
- (D) ₹50,000

23. Following are the extract of balance sheet of Light Co. Ltd.

Equity Shares of ₹ 10 each	10,00,000
Securities Premium	2,40,000
Reserves	7,50,000
Profit & Loss Account	2,80,000
Bank	9,10,000
Non-Trading Investments	4,20,000

Company brought back 15,000 shares at ₹40 each. The transaction in respect of buyback was financed by sale of 2/3rd of non-trade investment for ₹5,90,000. Amount to be transferred redemption reserve = ?

- (A) 6,00,000
(B) 1,00,000
(C) 4,50,000
(D) 150,000

24. Following are the extract of balance sheet of Tube Ltd.

Equity Shares of ₹10 each	20,00,000
Securities Premium	4,80,000
Reserves	15,00,000
Profit & Loss Account	5,60,000
Bank	18,20,000
Non-Trading Investments	8,40,000

Company brought back 30,000 shares at ₹ 40 each. The transaction in respect of buyback was financed by sale of 2/3rd of non-trade investment for ₹ 11,80,000. Bank balance after buyback will be –

- (A) ₹12,00,000
(B) ₹ 16,00,000
(C) ₹14,50,000
(D) ₹ 18,00,000

ANSWERS:

1.	(C)	2.	(B)	3.	(D)	4.	(D)	5.	(C)	6.	(D)	7.	(C)
8.	(C)	9.	(D)	10.	(B)	11.	(B)	12.	(C)	13.	(A)	14.	(D)
15.	(B)	16.	(C)	17.	(B)	18.	(A)	19.	(B)	20.	(B)	21.	(A)
22.	(A)	23.	(D)	24.	(D)								

CHAPTER 8. ISSUE OF DEBENTURES

As per Section 2(30) of the Companies Act, 2013, “debenture” includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

Following are the features of debentures as a debt instrument:

- a. Debenture is a financial instrument used to raise debt capital.
- b. It is written document issued under the seal of the company.
- c. It normally carries a rate of interest payable at regular interval. Such rate is termed as coupon rate.
- d. Debenture may be redeemable or irredeemable.

Types of debentures:

a. Redeemable vs. Irredeemable Debentures (based on redeemability): Redeemable Debentures are debentures that are repayable by a company at the end of the pre-specified time period. Irredeemable debentures are not repayable during the life-time of the company.

b. Secured vs. Unsecured Debentures (based on security): Secured Debentures are those debentures which create a charge on the assets of the company. These are also called Mortgage Debentures. Unsecured debentures are issued without the support of a collateral security. These are also called Naked Debentures.

c. Convertible vs. Non-convertible Debentures (based on convertibility): Debentures which are convertible into other securities viz. equity shares, preference shares or new debentures after a specified period are referred to as Convertible Debentures. They may be fully convertible or partly convertible. On the other hand, Debentures which are not convertible into any other security are referred to as Non-convertible Debentures.

Note: In all the above cases, the debentures may be issued at par or at premium or at discount to the issue price.

Issue of Secured Debenture: The company shall not issue secured debentures, unless it complies with the following conditions, namely:- a. An issue of secured debentures may be made, provided the date of its redemption shall not exceed ten years from the date of issue.

Provided that the following classes of companies may issue secured debentures for a period exceeding ten years but not exceeding thirty years,

- (i) Companies engaged in setting up of infrastructure projects;
- (ii) Infrastructure Finance Companies.
- (iii) Infrastructure Debt Fund Non-Banking Financial companies.

Issue of debentures for consideration other than cash

Question 1. X Ltd purchased a machine costing ₹ 99,000 payable by issue of 10% debentures of ₹ 100 each at

Case 1. Par

Case 2. Premium of 10%

Case 3. Discount of 10%

Question 2. Blue Prints Limited Purchases building worth ₹ 1,50,000, plant and machinery worth ₹ 1,40,000 and furniture for ₹ 10,000 from Wadhwa and Company and took over liabilities of ₹ 20,000 for a purchase consideration ₹ 3,15,000. Blue Prints Limited paid the purchase consideration by issuing 12% debentures of ₹ 100 each at a premium of 5%.

Pass the necessary journal entries.

Question 3. Assume in the previous question purchase consideration was ₹ 2,70,000 and payment was made by issue of 12% debentures of ₹ 100 each at a discount of 10%.

Question 4. G.W.K Ltd. purchased assets worth ₹ 4,50,000 and took over liabilities of ₹ 35,000 of K.L.M. and Co. for a purchase consideration of ₹ 4,00,000. The purchase price was paid by issue of ₹ 100, 12% debentures at a premium of 10% The debentures of GWK Ltd. are quoted in the market at ₹ 140 at the relevant time. You are required to give journal entries to record the above transactions in the books of the purchasing company.

Debentures issued as a collateral security:- A collateral security may be defined as additional security in addition to some principal security. When a limited company obtains a loan from bank or any other financial institutions, it may pledge some assets as a security against the said loan. But the lending institution may insist on some more assets as collateral security so that the amount of loan can be realized in full with the help of collateral security. In such case company may issue its debentures as collateral security. The collateral security will not be used or realized as long as company fulfils its obligation regarding payment of interest when due and repayment of loan on the maturity date. If the amount realized from sale of principal security falls short of the loan money, then loan of lending institution converted into debentures of the company and lending institution claims all the right of being a debentureholders. Debentures issued as collateral security will be realized by the lender only in case the loan is not repaid on the due date.

TREATMENT OF ISSUE OF DEBENTURES AS COLLATERAL SECURITY

Question 5. A Ltd borrowed loan of ₹ 10,00,000 from HDFC Bank. Company pledged machinery worth ₹ 40 lacs. In addition to machine company issued 40,000, 12% debentures of ₹ 100 each to the bank as collateral security. Show its treatment in the book of A Ltd.

Issue of debentures for cash

Question 6. (Terms of issue and redemption) Give journal entries for the following:

- (1) Issue of ₹ 1,00,000 – 9% Debentures at par and redeemable at par.
- (2) Issue of ₹ 1,00,000 – 9% debentures at premium of 5% but redeemable at par
- (3) Issue of ₹ 1,00,000 – 9% Debentures at a discount of 10%, repayable at par.
- (4) Issue of ₹ 1,00,000 – 9% Debentures at par but repayable at a premium of 5%.
- (5) Issue of ₹ 1,00,000 – 9% Debentures at discount of 5% but redeemable at premium of 5%.

Question 7. Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd.: Issued ₹ 1,00,000, 11% debentures at 95 per cent redeemable at the end of 10 years (i) at 102 per cent, and (ii) at 98 per cent.

[C.A. (Inter) May 2000]

DEBENTURE INTEREST

Question 8. On 1st Jan 2010, X Ltd issued 12% debentures of ₹ 2,00,000 at a premium of 15%. Interest is payable half yearly on 30th June and 31st December each year. Make journal entries assuming that accounts are closed on 31st December each year. Assume that interest due on 31st December has not yet been paid.

Question 9. On 1st Jan 2010, X Ltd issued 12% debentures of ₹ 2,00,000 at a discount of 10%. Interest is payable half yearly on 31st March and 30th September each year. Make journal entries assuming that accounts are closed on 31st December each year.

Question 10. Babli Auto Limited had ₹ 10,00,000 -12% Debentures on which the interest is payable on 30th September and 31st March. Show the necessary journal entries relating to debenture interest for the year ending on 31st March 2004 assuming that all payments to debenture holders and Government were made in time. Tax deducted at source is 10%.

DISCOUNT/ LOSS ON ISSUE OF DEBENTURES

Question 11. A company issued 9% Debentures of the face value of ₹ 2,00,000 at a discount of 6%. The debentures were repayable by annual drawings of ₹ 40,000. How would you deal with the discount on issue of debentures? Show the discount account in company's ledger for the duration of debentures.

Question 12. A company issued 9% Debentures of the face value of ₹ 2,00,000 at a discount of 6%. The debentures were repayable as follow

Year end	amount repaid
2	40,000
4	1,20,000
5	40,000

How would you deal with the discount on issue of debentures? Show the discount account in company's ledger for the duration of debentures.

Question 13. Rashi Ltd. issued 12% Debentures at 94% for ₹ 1,00,000 on 1st July 2003 repayable by five equal annual installments of ₹ 20,000 each. The company closes its accounts on 31 March every year. Indicate the amount of discount to be written off every accounting year assuming that the company decides to write off the debenture discount during the life of the debentures.

Question 14. Indira Ltd. issued 10,000 debentures of ₹ 100 each at a discount of 6%. The expenses on issue amounted to ₹ 35,000. The debentures have to be redeemed at the rate of ₹ 1,00,000 each year commencing with the end of the fifth year. How much discount and expenses should be written off each year.

MULTIPLE CHOICE QUESTIONS

- When face value of debentures is more than issue price then debentures are said to be issued at-**
(A) Premium (B) Discount (C) Par (D) None of above
- Premium on issue of debentures must be treated as –**
(A) Revenue Receipt (B) Deferred Revenue Receipt
(C) Capital Receipt (D) Capital Loss
- Premium on issue of debentures must be credited to a separate account called:**
(A) Debentures Premium Account (B) Securities Premium Account
(C) Discount on Issue of Debentures (D) Debentures Profit Account
- Which of the following type of security can issued at discounts per Companies Act, 2013?**
(1) Equity Shares (2) Sweat Equity Shares
(3) Preference Shares (4) Debentures (5) Bonds

Select the correct answer from the Options above? below –

- (A) (1) & (3) only
(B) (1), (3) & (4) only
(C) (2), (4) & (5) only
(D) (3), (4) & (5) only
- The discount on issue of debentures must be treated as –**
(A) Revenue Loss (B) Deferred Revenue Receipt (C) Capital Receipt (D) Capital Loss

6. In case of oversubscription of debentures each applicant receives the debentures in some proportion, it is known as –
(A) Bonus allotment (B) Right allotment (C) Per applicant allotment (D) Pro rata allotment
7. Which of the following security can be forfeited for non-payment of allotment or call money?
A. Equity Shares
B. Equity Shares, Preference Shares
C. Preference Shares, Equity Shares & Debentures
D. Debentures
8. Which of the following security cannot be forfeited for non-payment of allotment or call money?
(A) Equity shares (B) Preference shares (C) Debentures (D) Both (A) & (B)
9. Under section----- of the Companies Act 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption
(A) section 71(1) (B) section 71(2) (C) section 71(4) (D) section 71(5)
10. Debenture holders are the of the company.
(A) Creditors (B) Owners (C) Quasi owner (D) Deemed owner
11. Debenture holders –
(A) Have voting, rights if interest is not paid for more than 3 years
(B) Have Noting rights if interest is not paid for more than 2 years
(C) Have no voting rights
(D) Have voting rights
12. Debentures may be issued at –
(A) Par (B) Premium (C) Discount (D) Any of above
13. Debenture interest is paid at a pre-determined _____ while dividend on equity shares is paid at a _____.
(A) Variable Rate, Bank Rate (B) Variable Rate, Fixed Rate
(C) Fixed Rate, Variable Rate (D) Fixed Rate, Bench Mark Rate
14. Interest on debentures is the _____ against profits.
(A) Appropriation (B) Charge (C) Transfer (D) None of above
15. In the company's balance sheet, debentures are shown under the head –
(A) Secured Loans (B) Non-Current Liabilities (C) Current Liabilities (D) Capital Employed
16. Debentures----- converted into shares as per the terms of issue of debenture.
(A) Can be (B) Cannot be (C) Both (A) & (B) (D) If permitted by SEBI
17. Debentures..... forfeited for non-payment of call moneys.
(A) Can be (B) Cannot be (C) Both (A) & (B) (D) None of above
18. At the time of liquidation, debenture holders are paid-off.....the shareholders are paid.
(A) Before (B) After (C) At the same time (D) None of above
19. Section----- provides that where debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilized by the company for any purpose other than the redemption of debentures.
(A) section 71(1) (B) section 71(2) (C) section 71(4) (D) section 71(5)
20. Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.
(A) section 71(1) (B) section 71(2) (C) section 71(4) (D) section 71(5)

- 21. Debentures may be issued by a company**
(A) Cash (B) Consideration other than cash
(C) As a collateral security (D) Any of above
- 22. The company may allot debentures to the vendors for acquiring some assets as payment for purchase consideration, such issue of debentures to vendors is known as issue of debenture for –**
(A) Cash (B) Consideration other than cash
(C) With consideration (D) Without consideration
- 23. If the value of debentures allotted to vendors for acquiring some assets as payment for purchase consideration is more than the agreed purchase price, the difference is credited to:**
(A) Capital reserve account (B) Debenture suspense account
(C) Goodwill account (D) Profit & loss account
- 24. If the value of debentures allotted to vendors for acquiring some assets as payment for purchase consideration is less than the agreed purchase price, the difference is debited to –**
(A) Capital reserve account (B) Debenture suspense account
(C) Goodwill account (D) Profit & loss account
- 25. When debentures are issued as collateral security which of the following accounting treatment can be adopted?**
(A) No accounting entry is required to issue debentures as collateral security.
(B) Pass following entry for issue debentures as collateral security.
 Debentures Suspense A/c Dr.
 To Debentures A/c
(C) (A) or (B)
(D) None of above
- 26. Which of the following statements is TRUE?**
(A) A debenture holder is an owner of the company.
(B) A debenture holder can get his money back only on the liquidation of the company.
(C) A debenture issued at a discount can be redeemed at a premium.
(D) A debenture holder receives interest only in the event of profits.
- 27. Premium on redemption of debentures account appearing in the balance sheet is ____.**
(A) A real account (B) A nominal account - income
(C) A personal account (D) A nominal account - expenditure
- 28. Which of the following statements is FALSE?**
(A) At maturity, debenture holders get back their money as per the terms and conditions of redemption.
(B) Debentures can be forfeited for non-payment of call money.
(C) In company's balance sheet, debentures are shown under secured loans.
(D) Interest on debentures is charged against profits.
- 29. Which of the following statements is false?**
(A) A company can issue convertible debentures.
(B) Debentures cannot be secured.
(C) A company can issue redeemable debentures.
(D) Debentures have no right to participate in profits over and above their fixed interest.
- 30. Debenture interest –**
(A) is payable only in case of profits.
(B) Accumulates in case of losses or inadequate profits.
(C) is payable after the payment of preference dividend but before the payment of equity dividend.
(D) is payable before the payment of any dividend on shares.

31. Which of the following is not a characteristic of Bearer Debentures?

- (A) They are treated as negotiable instruments.
- (B) Their transfer requires a deed of transfer.
- (C) They are transferable by mere delivery.
- (D) The interest on it is paid to the holder irrespective of identity

32. When debentures are issued as collateral security, the final entry for recording the collateral debentures in the books is:

- (A) Credit Debentures A/c and debit Cash A/c
- (B) Debit Debenture suspense A/c and credit Cash A/c
- (C) Debit Debenture suspense A/c and credit Debentures A/c
- (D) Debit cash A/c and credit the loan A/c for which security is given

33. Debentures can be_____.

- I. Mortgage Debentures or Simple Debentures.
- II. Registered Debentures or Bearer Debentures.
- III. Redeemable Debentures or Irredeemable Debentures.
- IV. Convertible Debentures or Non-Convertible Debentures

Select the correct answer from the options given below.

- (A) Both (I) and (II) above
- (B) Both (I) and (III) above
- (C) Both (II) and (III) above
- (D) All of (I), (II), and (IV) above

34. Which of the following statements is false?

- (A) Debenture is a form of public borrowing.
- (B) It is customary to prefix debentures with the agreed rate of interest in case of fixed interest.
- (C) Debenture interest is a charge against profits.
- (D) The issue price and redemption value of debentures cannot differ.

35. Interest on debentures is calculated on:

- (A) Its face value
- (B) Its issue price
- (C) Its market price
- (D) Its redemption price

36. Discount on issue of debentures is a:

- (A) Revenue loss to be charged in the year of issue.
- (B) Capital loss to be written off from capital reserve.
- (C) Capital loss to be written off over the tenure of the debentures.
- (D) Capital loss to be shown as goodwill.

37. When debentures are issued as collateral security against any loan then holder of such debentures is entitled to:

- (A) Interest only on the amount of loan.
- (B) Interest only on the face value of debentures.
- (C) Interest both on the amount of the loan and on the debentures.
- (D) None of the above.

38. When debentures are redeemable at different dates, the total amount of discount on issue of debentures should be written off:

- (A) Every year by applying the sum of the year's digit method
- (B) Every year by applying the straight line method
- (C) To profit and loss account in full in the year of final or last redemption
- (D) To profit and loss account in full in the year of first redemption.

39. Non-convertible debentures refer to –

- (A) Owner's capital
- (B) Loan capital
- (C) Short term fund
- (D) Deferred investment

40. "Interest accrued & due on debentures" is shown –
(A) Under debentures (B) As other current liabilities
(C) As provisions (D) As a reduction of bank balance
41. "Interest accrued & not due on debentures" is shown –
(A) Under debentures (B) As current liabilities (C) As provisions (D) As a reduction of bank balance
42. Tax deducted at source on interest on debenture is shown as –
(A) Expense (B) Asset (C) Liability (D) Income
43. Debenture premium cannot be used –
(A) Write off the premium on redemption of shares or debenture
(B) Write off the discount on issue of debentures
(C) Pay dividends
(D) Write off capital losses
44. If debentures are issued at discount and redeemed at premium –
(A) Loss on Issue of Debentures A/c is debited
(B) Debentures A/c is credited
(C) Premium on Redemption of Debentures A/c is credited.
(D) All of the above are correct.
45. ALtd. issued 10,000, 15% Debentures that will appear in balance sheet as "15% of 100 each at per payable in full on application by 1st April, 2020. Applications were received for 11,000 Debenture. Debentures were allotted on 7th April, 2020. Excess money was refunded. Amount that will appear in balance sheet as "15% Debenture" =?
(A) ₹11,00,000 (B) ₹10,00,000 (C) ₹9,00,000 (D) ₹10,80,000
46. Z Ltd. issued 10,000, 16% Debentures of 100 each at a discount of 10% payable in full on application by 31st May, 2020. Applications were received for 12,000 debentures. Debentures were allotted on 9th June 2020. Excess monies were refunded on the same date. Amount that will appear in balance sheet as "12% Debenture" =?
(A) ₹11,00,000 (B) ₹10,00,000 (C) ₹9,00,000 (D) ₹10,80,000
47. PA Ltd. issued 10,000, 10% Debentures of 100 each at 94 on 1st January, 2010. Under the terms of issue, the debentures are redeemable at the end of 8 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 8 years.
(A) ₹8,000 (B) ₹7,500 (C) ₹6,000 (D) ₹5,000
48. HDFC Ltd. issued 10,000, 12% Debentures of ₹100 each at ₹94 on 1st January 2010. As Per the term of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December 2010. Calculate the amount of discount to be written off in 2010 & 2011.
(A) ₹20,000 & ₹16,000 (B) ₹16,000 & ₹12,000
(C) ₹16,000 & ₹12,000 (D) ₹12,000 & ₹8,000
49. Z Ltd. issued ₹1,00,000 debenture at a discount of 6% on 1.1.2020 repayable in 5 equal instalments. Discount to be written off in each 5 calendar year –
(A) ₹ 900, ₹1,200, ₹1,200, ₹1,200 & ₹300 in 1st, 2nd, 3rd, 4th & 5th year
(B) ₹2,000, ₹1,600, ₹1,200, ₹800 & ₹400 in 1st, 2nd, 3rd, 4th & 5th year
(C) ₹ 400, ₹800, ₹1,200, ₹1,600 & ₹2,000 in 1st, 2nd, 3rd, 4th & 5th year
(D) ₹1,200, ₹1,200, ₹1,200, ₹1,200 & ₹1,200 in 1st, 2nd, 3rd, 4th & 5th year

50. F Ltd. purchased Machinery from G Company for a book value of ₹4,00,000. The consideration was paid by issue of 10% debentures of ₹100 each at a premium of 25%. The debenture account was credited with _____.
 (A) ₹4,00,000 (B) ₹5,00,000 (C) ₹3,20,000 (D) ₹4,80,000
51. T Ltd. has issued 14% Debentures of ₹20,00,000 at a discount of 10% on April 1, 2017 and the company pays interest half-yearly on June 30, and December 31 every year. On March 31, 2019, the amount shown as "interest accrued but not due" in the Balance Sheet will be –
 (A) ₹70,000 (B) ₹ 2,10,000 (C) ₹ 1,40,000 (D) ₹ 2,80,000
52. On May 1, 2018, UB Ltd. issued 7% 10,000 convertible debentures of ₹100 each at a premium of 20%. Interest is payable on September 30 and March 31 every year. Assuming that the interest runs from the date of issue, the total amount of interest expenditure debited to profit and loss account for the year ended March 31, 2019 will be:
 (A) ₹ 70,000 (B) ₹58,333 (C) ₹84,000 (D) ₹64,167
53. W Ltd. issued 20,000, 8% debentures of ₹10 each at par, which are redeemable after 5 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year will be:
 (A) ₹ 40,000 (B) ₹ 10,000 (C) ₹ 20,000 (D) ₹ 8,000

54. Following journal entry appears in the books of KAJU Ltd.:

Bank A/c	Dr. 9,600	
Loss on issue of Debentures A/c	Dr. 1,000	
To 9% Debentures A/c		10,000
To premium on Redemption of Debentures A/c		600

Debentures must have been issued for –

- (A) Discount of 6% (B) Discount of 4% (C) Discount of 10% (D) Premium of 6%
55. P Ltd. issues 8% Debenture of ₹100 at a discount of 5%, redeemable at the end years at par. Which of the following is correct?

(A) Bank A/c	Dr. 95	
Loss on Debenture A/c	Dr. 5	
To 8% Debentures A/c		100
(B) Bank A/c	Dr. 95	
Discount on Debentures A/c	Dr. 5	
To 8% Debentures A/c		100
(C) Bank A/c	Dr. 95	
To 8% Debentures A/c		95
(D) Bank A/c	Dr. 105	
To Loss on Debentures A/c		5
To 8% Debentures A/c		100

56. Bhan Ltd. issued 40,00,000, 15% Debentures at 8% discount. Debentures are to be redeemed as per schedule given below:

End of the year	Face value of debentures (₹)
2	4,00,000
3	8,00,000
4	12,00,000
5	16,00,000

Amount of discount to be written off in each the 5 calendar years –

- (A) ₹80,000, ₹80,000, ₹72,000, ₹56,000, ₹32,000 in years 1 to 5.
 (B) ₹64,000 every year
 (C) ₹32,000, ₹32,000, ₹28,800, ₹25,600, ₹12,800 in years 1 to 5.
 (D) ₹3,20,000 in last year

57. Q Ltd. issues 11% Debenture of ₹100 at par, redeemable at the end of 5 years at a premium of 5%. Which of the following entry is correct?

(A) Bank A/c	Dr.	100	
Premium on Redemption	Dr.	5	
To 11% Debenture A/c			100
To Loss on Issue of Deb. A/c			5
(B) Bank A/c	Dr.	105	
To 11% Debenture A/c			100
To Premium on Redemption A/c			5
(C) Bank A/c	Dr.	105	
To 8% Debentures A/c			105
(D) Bank A/c	Dr.	100	
Loss on Issue of Deb. A/c	Dr.	5	
To 11% Debenture A/c	Dr.		100
To Premium on Redemption A/c			5

58. Following journal entry appears in the books of KAKA Ltd.:

Bank A/c	Dr.	4,750	
Loss on issue of Debentures A/c	Dr.	750	
To 9% Debentures A/c			5,000
To Premium on Redemption of Debentures A/c			500

Debentures are redeemable at a premium of –

- (A) 15% (B) 10% (C) 5% (D) 20%

59. Sana Ltd. issues 13% Debenture of 100 at a premium of 5%, redeemable at the end of 5 years at a premium of 10%. Which of the following entry is correct?

- (A) Bank A/c Dr. 105
 Loss on Issue of Deb. A/c Dr. 10
 To 12% Debenture A/c 100
 To Premium A/c 15
- (B) Bank A/c Dr. 105
 Loss on Issue of Debenture. A/c Dr. 5
 To 13% Debenture A/c 100
 To Securities Premium A/c 5
 To Premium on Redemption A/c 10
- (C) Both (A) and (B) entries are correct
 (D) None of the above is correct

60. Eagle Ltd. issued 15% Debenture of ₹100 each at a discount of 5%, but redeemable at a premium of 5% at the end of 4 years then -

- (A) Loss on Issue of Debenture A/c will be credited by 5 Premium on Redemption of Debenture A/c will be debited by ₹5
 (B) Premium on Redemption of Deben-true A/c will be debited by ₹5
 (C) Loss on Issue of Debenture A/c will be debited by ₹10
 (D) Premium on Redemption of Deben-true A/c will be debited by ₹10

61. Fortune Ltd. issued 12% debentures of ₹100 each at a premium of 5% redeemable at 110% then –

- (A) Premium on Redemption of Debentures A/c will be debited by ₹15
 (B) Securities Premium A/c will be credited by ₹15
 (C) 12% Debentures A/c will be credited ₹105.
 (D) Premium on Redemption of Deben-true A/c will be credited by ₹10

62. Juju Ltd. issued ₹ 70,000, 12% debentures of ₹ 100 each at a premium of 5% redeemable at 110%. If balance sheet is prepared only for this transaction, then balance sheet will tally at –

- (A) ₹ 73,500 (B) ₹ 70,000 (C) ₹ 77,000 (D) ₹ 80,500

63. S Ltd. issued 10,000, 12% debentures of ₹ 100 each at a discount of 5%. These debentures are redeemable at a premium of 10% after 5 years Balance at the end of third year of "Loss on Issue of Debenture A/c" will be-

- (A) ₹60,000 – (B) ₹20,000 (C) ₹40,000 (D) ₹1,00,000

64. X Ltd. borrowed ₹ 25,00,000 from a scheduled bank at an annual interest rate of 12% and deposited 14% debentures of the face value of ₹ 40,00,000 as collateral securities. If balance sheet is prepared only for this transaction, then balance sheet will tally at –

- (A) ₹ 65,00,000 (B) ₹40,00,000 (C) Either (A) or (B) (D) ₹15,00,000

ANSWERS:

1.	(B)	2.	(C)	3.	(B)	4.	(C)	5.	(D)	6.	(D)	7.	(B)
8.	(C)	9.	(A)	10.	(A)	11.	(C)	12.	(D)	13.	(C)	14.	(B)
15.	(B)	16.	(A)	17.	(B)	18.	(A)	19.	(C)	20.	(B)	21.	(D)
22.	(B)	23.	(C)	24.	(A)	25.	(C)	26.	(C)	27.	(C)	28.	(B)
29.	(B)	30.	(D)	31.	(B)	32.	(C)	33.	(D)	34.	(D)	35.	(A)
36.	(C)	37.	(A)	38.	(A)	39.	(B)	40.	(B)	41.	(B)	42.	(C)
43.	(C)	44.	(D)	45.	(B)	46.	(B)	47.	(B)	48.	(A)	49.	(B)
50.	(C)	51.	(A)	52.	(D)	53.	(D)	54.	(B)	55.	(B)	56.	(A)
57.	(D)	58.	(B)	59.	(B)	60.	(C)	61.	(D)	62.	(A)	63.	(C)
64.	(A)												

CHAPTER 9. REDEMPTION OF DEBENTURES

Meaning:- Redemption of debentures refers to the repayment of borrowed capital raised by a company through debentures. The condition of redemption is clearly specified in the prospectus inviting application for the issuance of debentures.

NOTE: In India, Redemption of debenture is guided by Section 71 of the Companies Act, 2013 and Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014 which require mandatory creation of Debenture Redemption Reserve. Hence, the redemption happens to be partly out of profits and partly out of capital.

Provisions on Creation of Debenture Redemption Reserve (DRR):

As per Section 71(4) of the Companies Act, 2013, where debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilized by the company except for the redemption of debentures.

As per Rule 18 of The Companies (Share Capital and Debentures) Rules 2019, the company shall create a Debenture Redemption Reserve for the purpose of redemption of debentures, in accordance with the conditions given below-

- (a) the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;
- (b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under:-

For debentures issued by:	Adequacy of Debenture Redemption Reserve (DRR)	Adequacy of Debenture Redemption Investment (DRI)
All India Financial Institutions (AIFIs) and Banking Companies (for both public as well as privately placed debentures).	No DRR required	No DRI required
For other Financial Institutions (FIs) within the meaning given in the Companies Act.	DRR will be as applicable to NBFCs registered with RBI.	
LISTED COMPANIES (for both, public as well privately placed debentures):		
Listed NBFC	No DRR is required	15%
Listed HFC (housing finance company)	No DRR is required	15%
Other listed companies	No DRR is required	15%
UNLISTED COMPANIES:		
Unlisted NBFC	No DRR is required	Nil
Unlisted HFC	No DRR is required	Nil
Other unlisted company	10% of value of outstanding debenture issued	15%

Note 1: in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issued.

Note 2: After the redemption of debentures, such DRR account is closed by transfer to General Reserve Account.

Debentures Redemption Investment (DRI):-- Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies:

- (a) All listed NBFCs
- (b) All listed HFCs
- (c) All other listed companies (other than AIFIs, Banking Companies and Other FIs); and
- (d) All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

- (a) in deposits with any scheduled bank, free from charge or lien;
- (b) in unencumbered securities of the Central Government or of any State Government;
- (c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
- (d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

Methods of Redemption of Debentures:

- a. By payment in lumpsum
- b. By payment in instalments
- c. By conversion into other securities
- d. By purchase in open market

Sources of Redemption of Debentures: The sources of redemption of debentures may be any of the following:

(a) Redemption out of proceeds of fresh issue of shares/ debentures: Here the company issues fresh equity/ preference shares or debentures or bonds for raising the money required for redemption of debentures. This may amount to change in the capital structure.

(b) Out of Capital: It means redemption of debentures without transfer of any profit from Surplus (statement of profit and loss).

(c) Out of Profit: It means redemption of debentures only out of profits. In this case companies transfer 100 per cent of nominal (face) value of total redeemable debentures to Debentures Redemption Reserve out of the surplus available for payment as dividend to the shareholders.

(d) Partly out of Profit and partly out of Capital: It means redemption of debentures partially out of profit and partially out of capital. Where the company does not transfer 100 per cent of nominal (face) value of outstanding debentures to Debentures Redemption Reserve out of the surplus available for payment as dividend to the shareholders, it is known as redemption out of profit and capital.

Questions based on creation of DRR and DRI as per Law:

Question 1: On 1st June 2025, HDFC Bank Ltd had issued 12% debentures of ₹ 50,00,000 at premium of 10%. They were redeemable at par on 15th October 2027. Make entries for issue and redemption of debentures.

Question 2: On 1st September 2024, X Ltd (other listed company) had issued 10% debentures of ₹ 30,00,000 at par. These debentures were redeemable at par on 15th October 2026. Make entries for issue and redemption of debentures.

Question 3: On 12th October 2024, X Ltd (other unlisted company) had issued 8% debentures of ₹ 20,00,000 at par. These debentures were redeemable at par on 10th July 2027. Make entries for issue and redemption of debentures.

Question 4: B Ltd (other unlisted company) issued 15% debentures of ₹ 20,00,000 on 1st February 2025. Out of this, ₹ 9,00,000, 15% debentures were due for redemption on 15th October 2027 at premium of 10%. Make entries for issue and redemption of debentures assuming legal compliance were fulfilled in respect of debentures redeemable on 15th October 2027 only and investments were sold at profit of 5%.

Question 5: K Ltd. (an other unlisted company) issued ₹6,00,000, 13% Debentures of ₹100 each on April 1, 2023 at a premium of 6% redeemable at a premium of 10% on March 31, 2027. The debentures were redeemed on due date. Assume that the required minimum reserve and 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).

(ICMAI Study material)

Solution:

Date	Particulars	Amount	Amount
01.4.2023	Bank A/c Dr.	6,36,000	
	Loss on Issue of Debentures A/c	60,000	
	To 13% Debentures A/c		6,00,000
	To Securities Premium A/c (600000 x 6%)		36,000
	To Premium on Redemption of Debentures A/c		60,000
	(Being issue of debentures at premium and premium on redemption is provided for.)		

31.3.2026	Surplus A/c..... Dr. To Debenture Redemption Reserve A/c (Being amount of profits transferred to DRR)	60,000	60,000
30.4.2026	Debenture Redemption Investment A/c Dr. To Bank A/c (Being statutory minimum investment made in DRI)	90,000	90,000
31.3.2027	Bank A/c Dr. To DRI A/c To Interest on DRI A/c (90000 x 10% x 11/12) (Being amount encashed from DRI for redemption)	98,250	90,000 8,250
31.3.2027	13% Debentures A/c.....Dr. Premium on Redemption of Debentures A/c.....Dr. To 13% Debenture-holders A/c (Being amount due on redemption.)	6,00,000 60,000	6,60,000
31.3.2027	13% Debenture-holders A/c To Bank A/c (Being payment made.)	6,60,000	6,60,000
31.3.2027	DRR A/c..... Dr. To General Reserve A/c (Being DRR transferred on redemption.)	60,000	60,000
31.3.2027	Interest on DRI A/c Dr. To Profit and Loss A/c (Being interest on DRI transferred.)	8,250	8,250

Question 6. The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on March 31, 2026: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st March every year. Bank balance with the company is ₹9,00,000. The Interest on debentures had been paid up to March 31, 2026.

On May 1, 2026, the investments were realised at par and the debentures were paid off at 101, together with accrued interest. Make journal entries and prepare following ledger accounts:

- (a) 6% Debentures account
- (b) DRR account
- (c) DRI account
- (d) Bank account

Solution:**6% Debenture Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.5.2026	To Debentureholder's A/c	10,00,000	1.4.2026	By Balance b/d	10,00,000
		10,00,000			10,00,000

Debentureholder's Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.05.2026	To Bank A/c	10,10,000	1.05.2026	By 6% Debenture A/c	10,00,000
				By Premium on Redemption A/c	10,000
		10,10,000			10,10,000

DRR Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.05.2026	To General Reserve A/c	1,00,000	1.04.2026	By Balance b/d	50,000
			1.04.2026	By Surplus A/c	50,000
		1,00,000			1,00,000

DRI Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.04.2026	To Balance b/d	1,50,000	1.05.2026	By Bank A/c	1,50,000
		1,50,000			1,50,000

Bank Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.04.2026	To Balance b/d	9,00,000	1.05.2026	By Debentureholders A/c	10,10,000
1.05.2026	To DRI A/c	1,50,000	1.05.2026	By Balance c/d (Balancing figure)	40,000
		10,50,000			10,50,000

Question 7: (Redemption of debentures in installments) X Ltd., a pharmaceutical company not listed in stock exchange, has 20,000, 9% Debentures of ₹100 each outstanding. These are due for redemption in lots as follows:

On March 31, 2025 – 4,000 debentures; On March 31, 2026 – 6,000 debentures; On March 31, 2027 – 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. **(ICMAI Study material)**

Solution:

Date	Time limit for creating DRR	Minimum DRR required	Number of debentures redeemed	Transfer of DRR to general reserve
On 31.3.25	Before 31.3.25	$20,000 \times 100 \times 10\% = 2,00,000$	4,000 debentures	$2,00,000 \times \frac{4,000}{20,000} = 40,000$
On 31.3.26	Before 31.3.26	$(20,000-4,000) \times 100 \times 10\% = 1,60,000$	6,000 debentures	$2,00,000 \times \frac{6,000}{20,000} = 60,000$
On 31.3.27	Before 31.3. 27	$(16,000-6,000) \times 100 \times 10\% = 1,00,000$	10,000 debentures [20,000-4,000-6,000]	$2,00,000 \times \frac{10,000}{20,000} = 1,00,000$

Questions based on indicating Sources of Redemption of Debentures:

Question 8 (Redemption out of profit): P Ltd. had issued ₹15,00,000, 10% Debentures which are due to be redeemed out of profits on November 1, 2026 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 15.4.2026. Pass necessary journal entries for recording the transactions relating to redemption of debentures. **(ICMAI Study material)**

Solution:

Date	Particulars	Amount	Amount
31-3-2026	Surplus Dr. To Debenture redemption reserve account (Being amount of profits transferred to DRR)	8,79,000	8,79,000
15.04.26	Debenture Redemption Investment A/c..... Dr. To Bank A/c (15,00,000 x 15%) (Being statutory minimum investment made in DRI)	2,25,000	2,25,000

01.11.26	Bank A/c Dr. To DRI A/c (Being amount encashed from DRI for redemption)	2,25,000	2,25,000
01.11.26	10% Debentures A/c.....Dr. Premium on Redemption of Debentures A/c.....Dr. To 10% Debenture-holders A/c (Being amount due on redemption.)	15,00,000 75,000	15,75,000
01.11.26	10% Debenture-holders A/c Dr To Bank A/c (Being payment made.)	15,75,000	15,75,000
01.11.26	DRR A/c Dr. To General Reserve A/c (Being DRR transferred on redemption.)	15,75,000	15,75,000

Question 9 (Redemption out of capital): 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 out of capital. You are required to make entries at the time of issue and at the time of redemption. **(ICMAI Study material)**

Solution:

Date	Particulars	Amount (₹)	Amount (₹)
1 st Year	Bank A/c Dr. Loss on issue of debentures A/c Dr. To 15% Debentures A/c To Premium on redemption A/c	10,000 1,500	10,000 1,500
8 th Year end	15% Debentures A/c Dr. Premium on redemption A/c Dr. To Debenture redemption A/c	10,000 1,500	11,500
	Debenture Redemption A/c Dr. To Bank A/c	11,500	11,500

Question 10 (Redemption partly out of capital and partly out of profit): The Balance Sheet of AB Ltd. as on March 31, 2025 reflected 10,000, 12% Debentures of ₹100 each outstanding. These debentures were due for redemption on July 31, 2026. The company decided to transfer ₹5,00,000 to Debenture Redemption Reserve on March 31, 2026 and invest ₹1,50,000 in fixed deposits with Bank of India on April 8, 2026. The investment was encashed as the debentures were redeemed on due date. Pass journal entries to record the above transactions (Ignore transactions relating to interest on debentures).

(ICMAI Study material)

Solution:

31.03.2026	Surplus A/c Dr. To Debenture Redemption Reserve A/c (Being amount of profits transferred to DRR)	5,00,000	5,00,000
08.04.2026	Debenture Redemption Investment A/c.....Dr. To Bank A/c (Being statutory minimum investment made in DRI)	1,50,000	1,50,000
31.07.2026	Bank A/c..... Dr. To DRI A/c (Being amount encashed from DRI for redemption)	1,50,000	1,50,000
31.07.2026	12% Debentures A/c... Dr. To 12% Debenture-holders A/c (Being amount due on redemption.)	10,00,000	10,00,000
31.07.2026	12% Debenture-holders A/c To Bank A/c (Being payment made.)	10,00,000	10,00,000
31.07.2026	DRR A/c Dr. To General Reserve A/c (Being DRR transferred on redemption.)	5,00,000	5,00,000

Redemption of debentures by conversion:

Under this method debentures are converted into new debentures or equity shares or preference shares. However, in most of the cases, they are convertible into equity shares. Debentures may be fully convertible or partly convertible. New securities may be issued at par, at premium or at discount.

Since, DRR is required only for non-convertible debentures or non-convertible part of partly convertible debentures, under this method the provisions for DRR and DRI are not applicable.

Question 11. Mahindra Ltd (an unlisted other company) gave notice of its intention to redeem its outstanding ₹4,00,000, 6% debenture stock at ₹102 per cent, and offered the holders the following options to apply the redemption money to subscribe for : (a) 5% cum-preference shares of ₹20 each at ₹22.50 per share; (b) 5% debenture stock at 96 per cent; (c) to have their holdings redeemed for cash. Holders of ₹1,71,000 stock accepted the proposal (a). Holders of ₹1,44,000 stock accepted the proposal (b). The remaining stockholders accepted the proposal (c) Pass the journal entries to record the above transactions.

Question 12: 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.

(ICMAI Study material)

Solution:

8% Debentures A/c	Dr.	12,00,000	
Premium on Redemption of Debentures A/c	Dr.	24,000	
To 8% Debenture-holders A/c [12,00,000 × 102%]			12,24,000
(Being amount due to 8% Debenture-holders on redemption at 2% premium)			
8% Debenture-holders A/c	Dr.	4,89,600	
To 6% Cumulative Preference Share Capital A/c [21,760 × 20]			4,35,200
To Securities Premium A/c [21,760 × 2.50]			54,400
(Being holders of ₹4,80,000, 8% Debentures discharged by issue of 21,760, 6% Cumulative Preference Shares of ₹20 each, at ₹22.50 per share)			
8% Debenture-holders A/c	Dr.	7,34,400	
Discount on issue of Debentures A/c [7,650 × 4]	Dr.	30,600	
To 10% Debentures [7,650 × 100]			7,65,000
(Being holders of ₹7,20,000, 8% Debentures discharged by issue of 7,650, 10% Debentures of ₹100 each, at ₹96 per debenture)			

Working notes:

1. Conversion of ₹4,80,000, 8% Debentures into 6% Cumulative Preference shares Face value of 8% Debentures opting for Proposal (i) = ₹4,80,000 (Given) Amount due on redemption – ₹4,80,000 × 102% = ₹4,89,600.

Value of each 6% Cumulative Preference share issued on conversion = ₹22.50 (Given)

No. of 6% Cumulative Preference shares issued on conversion = 4,89,600/ 22.5 = 21,760 shares

2. Conversion of 7,20,000, 8% Debentures into 10% Debentures:

Face value of 9% Debentures opting for Proposal (ii) = ₹7,20,000 (Given)

Amount due on redemption = 7,20,000 × 102% = ₹7,34,400.

Value of each 6% Cumulative Preference share issued on conversion = ₹96 (Given)

No. of 6% Cumulative Preference shares issued on conversion = 7,34,400/ 96 = 7,650 debentures

Question 13. Mohini limited (other unlisted company) has an authorised capital of ₹10,00,000 in shares of ₹10 each of which 60,000 shares have been issued and are fully paid. A summary of its balance sheet on 31st March 2026 is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital	6,00,000	Fixed Assets (net)	11,00,000
Debenture Redemption Reserve	80,000	Debenture Redemption Fund	
Profit and Loss Account	1,90,000	Investments (cost)	80,000
9% Debentures redeemable at 102%	5,00,000	(market value ₹ 40,800)	
Current liabilities	1,10,000	Current Assets	3,00,000
	14,80,000		14,80,000

Interest on debenture had been paid up to 31st March 2026. On 1st April 2026, the directors gave notice to redeem the 9% debentures on 1st July 2026, giving the holders the option to be repaid either wholly in cash or by issue of four shares of ₹10 each (fully paid) for every ₹100 debentures. Sixty per cent of the holders exercised the option to take shares, and the cash for the remainder was paid. Draft journal entries to record these transactions and any consequential transfers which you consider necessary.

Redemption of Debentures by Purchase in the Open Market:

A company may redeem the debentures by buying them from the open market (i.e., from the existing debenture-holders). The debentures so purchased may be immediately cancelled or may be held as investment and cancelled later. In the former, the debentures are immediately redeemed while in case of the latter they are redeemed after some time. Till the redemption, the debentures are considered as Investment.

If debentures are redeemed under this method, Debenture Redemption Investment (DRI), proportionate to the number of debentures purchased should be encashed. On cancellation of own debentures, minimum DRR associated with number of debentures cancelled should be transferred to General Reserve.

Question 14(immediate cancellation): 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). **(ICMAI Study material)**

Question 15. On 1 January 2026, Rama Ltd. (listed company), had 500 Debentures of ₹ 100 each outstanding in its books carrying interest at 6% per annum. In accordance with the regulatory requirements, the directors of the company acquired debentures from the open market for immediate cancellation as follows:

1 March 2026	₹ 5,000 at ₹ 98.00 (cum interest)
1 August 2026	₹ 10,000 at ₹ 100.25 (cum interest)
15 December 2026	₹ 2,500 at ₹ 98.50 (ex-interest)

Debenture interest is payable half-yearly, on 30th June and 31st Dec. Show ledger accounts of Debentures and Debenture interest for the first year, ignoring income-tax and DRI.

Question 16. YZ Ltd (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 16,000, 12% debentures of ₹100 each outstanding as on 1st April, 2025, redeemable on 31st March, 2026.

On 1st April 2025, the following balances appeared in the books of accounts Investment in 2000 9% secured Govt. bonds of ₹100 each. DRR is ₹1,00,000. Interest on investments is received yearly at the end of financial year.

2,000 own debentures were purchased on 31st March, 2026 at an average price of ₹99 and cancelled on the same date.

On 31st March 2026 the investments were realised as par and the debentures were redeemed.

You are required to write up the following accounts for the year ended 31st March 2026:

- (i) 12% Debentures Account
- (ii) Debentures Redemption Reserve Account
- (iii) Debentures Redemption Investments Account

Question 17 (Purchases of own debentures and interest on own debentures):

On 1 October 2024, Aishwarya Ltd. (an unlisted company) issued 2,000, 12% Debentures of ₹100 each payable after 5 years. The interest is payable on 30th September and 31st 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 2025: 200 Debentures at ₹98 ex-interest

On 31 December 2026: 100 Debentures at ₹97 cum-interest

The debentures which were purchased on 31st August 2025 were cancelled on 31st March 2027. All payments were made on the due dates. Give the journal entries to record the above transactions (including receipts and payments).

Question 18: Draft journal entries in respect of the following since March 1, 2026:

In 2017, XY Ltd had issued 5,000, 7.5% Debentures of ₹100 each. On 1st March, 2026, the company purchased 500 of its own 7.5% Debentures at ₹ 47,500 cum-interest.

The debentures were held as investment until 30th June, 2026 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.

(ICMAI Study material)

Sinking Fund Method:

Question 19. Prakash Enterprises Ltd. issued ₹ 10,00,000, 10% Debentures on 1 January, 2024. These were to be redeemed on 31st December 2026. 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 ₹ 1 in three years. On 31st December 2026, the bank balance was ₹ 4,20,000 before receipt of interest on sinking fund investments. On that date the investments were sold for ₹ 6,56,000. Interest is payable annually. Calculate the interest to the nearest of a rupee and investments are made in multiples of ₹ 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.

Question 20: Instalment Supply Business Limited issued 8% 2,000 Debentures of ₹ 100 each at 5% discount on 1 January 2023 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 ₹ 5.5256 Investments realised ₹ 1,75,000; the balance at bank on 31 December 2027 was ₹ 54,320. Give journal entries and show ledger accounts assuming that accounting period ends on 31st December. Interest is payable every year.

Question 21. On 30th June 2026, the following balances stood in the books of a company:

8% First Mortgage Debenture Stock	2,00,000
Debenture Redemption Fund	2,13,080

Debenture Redemption Fund Investments:

₹ 70,000, 6% Punjab Electricity Board Bonds	71,260
₹ 80,000, 5% UP Water Board' Loan	64,068
₹ 60,000, 8% Government of India Loan	61,710
₹ 16,000, 7% Co-operative Bank Loan	16,042

On the same day the investments were sold: Electricity Bonds at par; 5% loan at ₹ 91; 8% loan at 109 and 7% loan at 103. On 1 July 2026, the debentures were redeemed at a premium of 5%.

Write up the accounts concerned (other than the cash account) bringing down the balances, if any, after the above transactions have been completed, and stating how such balances should be dealt with in the next balance sheet of the company.

Let's practice some more questions:

Question 22. The Summarized Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2026 is as under:

Liabilities	₹	Assets	₹
Share Capital:		Freehold property	1,15,000
Authorised:		Stock	1,35,000
30,000 Equity Shares of ₹ 10 each	<u>3,00,000</u>	Trade receivables	75,000
Issued and Subscribed:		Cash	30,000
20,000 Equity Shares of ₹ 10 each fully paid	2,00,000	Balance at Bank	2,00,000
Profit and Loss Account	1,20,000		
12% Debentures	1,20,000		
Trade payables	1,15,000		
	5,55,000		5,55,000

At the Annual General Meeting, it was resolved:

- To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- To issue one bonus share for every five shares held.
- To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Question 23. The summarised balance sheet of Convertible Limited as on 31st March, 2026 stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital:		Fixed assets at cost less depreciation	1,60,00,000
5,00,000 Equity Share of ₹ 10 each fully paid	50,00,000	Debenture Redemption Reserve	
General Reserve	90,00,000	Investments	15,00,000
Profit and Loss A/c	19,00,000	Cash and Bank Balance	75,00,000
Debenture Redemption Reserve	1,00,000	Other current assets	2,00,00,000
13.5% Convertible Debentures:			
1,00,000 Debenture of ₹ 100 each	1,00,00,000		
Other loans	65,00,000		
Current liabilities	1,25,00,000		
	4,50,00,000		4,50,00,000

The debentures are due for redemption on 1 April 2026. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares at a pre-determined price of ₹ 15.75 per share and the payment in cash.

Assuming that:

- (i) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised option for maximum conversion;
- (ii) the investments realised ₹ 20 lakhs on sale; and
- (iii) All the transactions are put through, without any lag on 1 April 2026.

Make journal entries if the above company is an unlisted company.

Question 24. Libra Limited recently made a public issue in respect of which the following information is available:

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue
- (c) Date of closure of subscription lists- 1.5.2025, date of allotment- 1.6.2025, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).
- (d) Underwriting Commission- 2%.
- (e) No. of debentures applied for- 1,50,000.
- (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Make entries for above.

Question 25. The summarised Balance Sheet of Vasudha Ltd (a listed company) on 30th September, 2026 was:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital :		Property, plant & equipment	15,00,000
Issued and fully paid :		Investments in own Debentures	95,000
5000 equity shares of ₹ 100 each fully paid	5,00,000	of nominal value of ₹1,00,000	
6% Redeemable preference shares of ₹100 each		Investments in other Securities	1,00,000
(less calls in arrears on 200 shares)	4,95,000	Current Assets:	
Reserves and surplus:		Stock	2,00,000
Securities Premium	50,000	Debtors	1,00,000
Capital Reserve	50,000	Cash at Bank	6,00,000
General Reserve	3,00,000		
Profit & Loss Account	3,00,000		
10% Debentures	2,00,000		
Creditors	7,00,000		
	25,95,000		25,95,000

On 30 September, 2026 the following were due for redemption:

- (i) 5,000 6% Redeemable Preference Shares at a premium of ₹ 25 per share.
- (ii) 2,000 10% Redeemable Debentures at a premium of 10%.

The Redemption was made on that date and subsequently thus:

- (i) On an offer made to 10% Debenture holders, the outsiders agreed to take new 12% Debentures at par in exchange of old debentures; the company also decided to assume the new debentures.
- (ii) calls in arrear moner received from preference share holders before their redemption
- (iii) A fresh issue of 1,000 equity shares of ₹ 100 each was made at a premium of ₹ 50 per share and subscribed in full. All moneys due were received forthwith.

You are required to show all journal entries for the above transactions to give effect to them.

Solution: Entries related to redemption of Preference share:

Date	Particulars	L/F	Amount (₹)	Amount (₹)
(i)	Bank Account Dr. (200 × 25) To Calls in arrear Account (Being calls in arrear on 200 Preference share received)		5,000	5,000
(ii)	Preference share capital A/c Dr. Premium on redemption A/c Dr. To Preference shareholder's A/c (Being Amount due to Preference share holder's)		5,00,000 1,25,000	6,25,000
(iii)	Bank Account Dr. (1,000 × 150) To Equity share capital A/c To Security Premium A/c (Being 1,000 equity shares issued)		1,50,000	1,00,000 50,000
(iv)	Profit and Loss Account Dr. To Capital Redemption Reserve A/c (Being CRR created to comply section 55)		2,00,000	2,00,000
(v)	Preference Shareholder's A/c Dr. To Bank Account (Being Preference shareholders paid)		6,25,000	6,25,000
(vi)	Security Premium A/c Dr. Profit and Loss Account Dr. To Premium on Redemption A/c (Being Premium on Redemption written off)		50,000 75,000	1,25,000

Entries Related to Redemption of Debentures

Date	Particulars	L/F	Amount (₹)	Amount (₹)
(i)	10% Debenture Account Dr. To Investment in own debenture A/c To Capital Reserve A/c (Being Investment in own debenture cancelled)		1,00,000	95,000 5,000
(ii)	10% Debenture Account Dr. Premium on Redemption A/c Dr. To Debentureholder Account (Being amount due to debentureholder)		1,00,000 10,000	1,10,000

(iii)	Debentureholders Account Dr. To 12% Debentures A/c (Being 1,100 Debentures issued at per)		1,10,000	1,10,000
(iv)	Profit and Loss Account Dr. To Premium on Redemption of debentures A/c		10,000	10,000

Question 26. Naseeb Limited (an unlisted company) has an authorised capital of ₹ 15,00,000 divided into equity shares of ₹ 10 each and its balance sheet as on 31st December 2025 was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Property, plant & equipment	12,00,000
Issued and fully paid up	5,00,000	Current Assets	1,40,000
Capital Reserve	1,20,000	Investment in Own debentures	85,000
General Reserve	2,00,000	(Nominal value ₹ 1,00,000)	
Debenture Redemption reserve	20,000	Cash at Bank	75,000
6 % Debentures	4,00,000		
Sundry Creditors	2,60,000		
	15,00,000		15,00,000

The 6% debentures were due for redemption on 30 June 2026 at a premium of 5% the company decided:

- (i) To issue to the public 25,000 equity shares of ₹10 each at ₹15 per share. The money was duly received;
- (ii) To redeem the debentures on 30.6.2026 together with interest for 6 months;
- (iii) To give the debenture holders an option to receive either cash in repayment of the amount due or new 7% debentures at par. The holders of ₹1,00,000 of the old debentures accepted new debentures.

The debentures which the company held as an investment were cancelled. Ignore tax.

Required Journal entries to give effect to the above transactions.

Question 27: The following balances appeared in the books of P Ltd. As on 31.03.2026:

13% Debentures Account	₹14,00,000
Debenture Redemption Fund Account	₹10,00,000
13% Debenture Redemption Fund Investment Account (Nominal = Cost)	₹10,00,000

The annual contribution to the Debenture Redemption Fund was ₹1,40,000. the company sold its investments for ₹14,00,000 and redeemed the debentures on 31.03.2027. Prepare 13% Debentures Account, Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account up to 31.03.2027.

Solution:**Debenture Redemption Fund Account**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.2027	To General Reserve A/c (Balancing figure)	16,70,000	01.4.2026	By Balance b/d	10,00,000
			31.3.2027	By Surplus A/c	1,40,000
			31.3.2027	By Debenture Redemption Fund Investment A/c (Profit)	4,00,000
			31.3.2027	By Interest on DRI (10,00,000 × 13%)	1,30,000
		16,70,000			16,70,000

Debenture Redemption Fund Investment Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.4.2026	To Balance b/d	10,00,000	31.3.2027	By Bank A/c	14,00,000
31.3.2027	To Debenture Redemption Fund A/c (profit)	4,00,000			
		14,00,000			14,00,000

CHAPTER 10. EMPLOYEES STOCK OPTION PLAN(ESOP) AND EMPLOYEES STOCK PURCHASE SCHEME

Now-a-days established companies, in order to retain quality human resources in the organisation, offer innovative compensation strategies to their employees including directors. One of such categories of innovative strategies involve paying compensation the value which is based on the value of the company's stock (i.e., bundle of shares).

This category of compensation scheme is popularly known as Stock Based Employee Benefit Scheme/Plan. The most common form of Stock Based Employee Benefit Scheme/Plans are (a) Employee Stock Option Plan/ Scheme(ESOP/ESOS) and (b) Employee Stock Purchase Plan/ Scheme (ESPP/ESPS).

1. Employee Stock Option Plan/ Scheme (ESOP/ESOS)

As per section 2(37) of the Companies Act, 2013, "employees' stock option" means the option given to the Directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such Directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company at a future date at a pre-determined price.

The general features of ESOP are as follows:

- a. It is an innovative tool for employee compensation.
- b. It is an employee stock-based benefit scheme/plan.
- c. It provides the employees a right to acquire company's stock at a predetermined price.
- d. It is exercised on a future date.
- e. It ensures employee participation in profits.

2. Important Terminologies:

- a. **Option:** A right (but not the obligation) which is granted to an employee pursuant to an ESOP to buy company's shares on the future date at a predetermined price.
- b. **Grant:** It refers to the issuance of option to the employee under an ESOP.
- c. **Vesting:** It refers to the requirement to be satisfied by the employee to apply the right to exercise the option. Conditions may include certain period of service, meeting any performance standard etc.
- d. **Vesting Period:** It is the period during which the vesting has been granted to the employee under the ESOP.
- e. **Exercise:** It is the act of subscribing the shares under ESOP.
- f. **Exercise Period:** The time period within which the option shall be exercised.
- g. **Exercise Price:** It is the price payable to subscribe the shares under ESOP.
- h. **Intrinsic Value:** It is the excess of market price over the exercise price of shares.

3. Provisions Regarding Employee Stock Option Plan:

The statutory provisions relating to ESOP are governed by Section 62(1)(b) of the Companies Act, 2013 and Rule 12 of the Companies (Share Capital and Debentures) Rules, 2014.

According to Section 62(1)(b) of the Companies Act, 2013, any company having a share capital may propose to increase its subscribed capital by the issue of further shares to employees under a scheme of employees' stock option, subject to special resolution passed by company and subject to such conditions as may be prescribed.

In addition, Rule 12 of the Companies (Share Capital and Debentures) Rules, 2014 provides the terms and conditions subject to which an unlisted company can issue shares to its employees under ESOP.

Additionally, SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 provides terms and conditions for a number of share-based employee benefit schemes including ESOP and ESPP and also for issue of sweat equity shares by listed companies.

(A) Accounting Treatment of ESOP:

QUESTION 1. X Ltd offered 15,000 ESOPs to its employees on 1st April ,2023 exercisable on 31st march 2026. On 1st Jan 2024, 1000 options were withdrawn from employees. On 31st march 2025, 8000 options were cancelled due to resignation of employees. Rest of the options were availed by employees on due date. Market price on 1-4-2023 for equity shares of the company is ₹ 40 (face value). However market price on 31st march 2026 is ₹ 80 per share. Journalize entries and prepare employees compensation expense account.

QUESTION 2. 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, 31 July 2023, 31st Oct 2024. Market price of the share on 31st march 2025 is ₹ 90. Prepare necessary accounts.

QUESTION 3. On 1st January 2021 a company offered 10,000 options (ESOPs) when market price was ₹ 9 face value ₹ 10 and options were exercisable on 31st march 2023.

1000, 1200 options were withdrawn on 30 June 2021 and 31 October 2022. Company closes its accounts on 31st march every year. Prepare necessary accounts.

QUESTION 4. 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.

(ICMAI Study material)

QUESTION 5. A company offered following options:

Name	Option offered	Remark
X	1,000	Nil
Y	1,000	Option cancelled
Z	1,000	½ Option cancelled

Market price on the date of offer ₹ 30. Offer made on 1-1-2023. Option exercisable on 31st December 2025. Journalize transactions assuming options are ESOPs. Date of cancellation of options is 31st December 2024.

Assume that Year ends on 31st December each year.

QUESTION 6. A company grants 500 options on 1-4-2023 at ₹ 40 when the market price is ₹ 160. The vesting period is two and half years. The maximum exercise period is one year. Also 150 unvested options lapse on 1-5-2025. 300 options are exercised on 30-6-2026 and 50 vested options lapse at the end of the exercise period. Journalize.

QUESTION 7. K Ltd. granted option for 16,000 equity shares on 01.10.20 at ₹ 80 when the market price was ₹ 170 the vesting period is 4 ½ years. 8,000 unvested options lapsed on 01.12.2022. 6,000 options are exercised on 30.09.25 and 2,000 vested options lapsed at the end of the exercise period. Pass journal entries to record the above transactions. (ICMAI Study material)

QUESTION 8. (Share based payment) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2023, it granted 20,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 1st January 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.

(CA Final May 2011) (4 Marks)

QUESTION 9. (Concept of Grant with a performance condition, in which the length of the vesting period varies)

X Ltd. grants 100 stock option to each of its 2,000 employees on 1.4.21 at exercise price of ₹ 30. Exercise period 1 year
Market price on 1.4.21 = ₹ 50 (Face value ₹ 10)

These options will be vested at the end of 1st year, if the earning is 16%, or it will be vested at the end of 2nd year, if average earning of 2 years is 13 % or lastly it will be vested at the end of 3rd year, if the average rate of earning will be 10%. 10,000 options lapsed on 31.3.2022. 8,000 options lapsed on 31.3.2023 and 7,000 options lapsed 31.3.2024, Earning of company are given below

31.3.2022 = 14%

31.3.2023 = 10%

31.3.2024 = 7%

1,500 employees exercised their option during exercise period and remaining option lapsed at the end of exercise period. Make Journal entries.

QUESTION 10. (Concept of Grant with a performance condition, in which the length of the vesting period varies)

At the beginning of year 1, X Ltd. grants 200 shares each to 400 employees, conditional upon the employees' remaining in employment with the company during the vesting period. The shares will vest at the end of year 1 if the entity's earnings increase by more than 15 per cent; at the end of year 2 if the entity's earnings increase by more than an average of 12 per cent per year over the two-year period; and at the end of year 3 if the entity's earnings increase by more than an average of 10 per cent per year over the three-year period. The shares have a fair value of ₹ 40 per share at the start of year 1. No dividends need be considered.

By the end of year 1, the entity's earnings have increased by 13 per cent, and 32 employees left. The entity expects further 30 employees to leave during year 2. By the end of year 2, the entity's Average earnings have increased by only 11 per cent and 27 employees left during the year. The entity expects a further 25 employees to leave during year 3. By the end of year 3, 22 employees left and the company's earnings increased by 9 per cent, resulting in an average increase over 10 per cent per year. Make journal entries for three years.

QUESTION 11. A company has its share capital divided into shares of ₹ 10 each. On 1st 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 31st 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. **(CMAI Exam-3 marks)**

QUESTION 12. COC education grants 120 share options to each of its 460 employees. Each grant is conditional on the employee working for COC Education over the next 3 years. COC Education has estimated that the fair value of each share option is ₹ 12. COC Education estimates that 25% of employees will leave during the three year period and so forfeit their rights to the share options. Everything turns out exactly as expected but during third year only 20% employees left the organisation. Calculate the amounts to be recognized as expense during the vesting period. **(ICMAI Exam-8 marks)**

Employee Stock Purchase Plan/ Scheme (ESPP/ESPS):

Employee Stock Purchase Scheme (ESPS) refers to a scheme under which the company offers shares to employees as part of a public issue or otherwise.

(B) Accounting for Employee Stock Purchase Scheme:

The fair value of ESPP shall be treated as a form of employee compensation in the financial statements of the company.

The fair value of ESPP = No. of shares to be issued under ESPP x (Fair value per share – issue price)

The accounting entries will be as follows:**(i) For shares purchased under ESPP**

Bank A/c.....Dr.

Employee Compensation Expense A/c.....Dr.

To Equity Share Capital Account

To Securities premium Account

(ii) For transfer of the balance Employee Compensation Expense A/c

Profit and Loss A/c.....Dr.

To Employee Compensation Expense A/c

NOTES:

- (i) The amount of Employees Compensation Expenses will be reflected under the sub-head Employee Benefit Expenses in the Statement of Profit and Loss.
- (ii) Upon purchase of shares under ESPP, the shares issued should be included in the Share Capital in the Balance Sheet and securities premium thereon should be included in Securities Premium.

The Notes to Accounts must provide the details of ESPP.

QUESTION 13. 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. **(ICMAI Study material)**

QUESTION 14. On 1st April, 2023, X Ltd. offered 200 shares to each of its 400 employees at ₹ 25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in to transfer for three years from the grant date, i.e., 30th April, 2023. The market price of shares of the company on the grant date is ₹ 30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 28 per share.

Up to 30th April, 2023, 50% of employees accepted the offer and paid ₹ 25 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

(ICMAI Study material)

Solution:

Number of employees accepting the offer: $400 \times 50\% = 200$.

Total number of shares to be issued: $200 \times 200 = 40,000$.

Fair value of the option: ₹ 28 – ₹ 25 = ₹ 3.

Total value of options: $40,000 \times ₹ 3 = ₹ 1,20,000$.

In the books of X Ltd

Date	Particulars	Amount (₹)	Amount (₹)
2023	Bank A/c (40,000 x 25) Dr.	10,00,000	
April	Employee Compensation Expense A/c Dr	1,20,000	
30 th	To Equity Share Capital A/c (40,000 x 10)		4,00,000
	To Securities Premium A/c [40,000 x (28-10)]		7,20,000
	(Being the issue of 40,000 shares under ESPP at a price of ₹ 25 each when the fair value is ₹ 28 each)		

QUESTION 15. 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

Solution:

Date	Particulars	L/F	Amount (₹)	Amount (₹)
	Bank A/c Dr.		24,00,000	
	Employee Expense A/c Dr.		12,00,000	
	To Equity Share Capital A/c			6,00,000
	To Security Premium A/c			30,00,000
	(Employee expense recognized for share based payment by issue of equity at concession)			

CHAPTER 11. CASH FLOW STATEMENT(As per AS-3)

Introduction: Cash Flow Statement deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

- **Cash** comprises cash on hand and demand deposits with banks.
- **Cash equivalents** are short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For example, investments held for 3 months or less.
- **Cash flows** are inflows and outflows of cash and cash equivalents.
- **Cash flow** statement deals with flow of cash funds but does not consider the movement among cash, bank and investments of excess of cash in cash equivalents.

CLASSIFICATION OF CASH FLOW ACTIVITIES:

- **Operating activities** are the principal revenue-producing activities of the enterprise. **It provides useful information about financing through working capital.** Net impact of operating activities on flow of cash is reported as “cash flow from operating activities”. The amount of cash flows from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to:
 - a. maintain the operating capability of the enterprise.
 - b. pay dividends, repay loans; and
 - c. make new investments without recourse to external sources of financing.
- **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- **Financing activities** are activities that result in changes in the size and composition of the owners’ capital (including preference share capital in the case of a company) and borrowings of the enterprise.

Methods of preparing Cash Flow Statement:

1. **Direct Method:** In this method major classes of gross cash receipts and gross cash payments are disclosed.
2. **Indirect Method:** Under this method, the following adjustment to report net profit or loss to be made:
 - Effects of transactions of non-cash nature.
 - Deferrals in accruals of past or future operating receipt or payments.
 - Changes in current assets and liabilities
 - Income & expenses associated with investing and financing cash flows.

Concept example 1: On 1st April 2025, X Ltd was commenced and issued equity shares of ₹ 20,00,000 and 12% debentures of ₹ 1,00,000. Immediately X Ltd purchased machinery of ₹ 4,00,000 and building worth ₹ 7,00,000.

During the year, following transactions took place:

Goods purchased for cash ₹ 2,80,000

Salary paid ₹ 70,000

Advertisement paid ₹ 50,000

Freight paid ₹ 10,000.

All goods were sold for ₹ 12,80,000 for cash.

Prepare trading account and profit & loss account, Balance sheet and cash flow statement (as per AS-3) for the year ended on 31st March 2026 by both methods considering following adjustments:

(i) charge depreciation @10% on machinery.

(ii) X Ltd paid dividend of 10% on its equity shares and interest of 12% on its debentures.

(iii) Create provision for tax of ₹ 50,000.

(iv) Transfer ₹ 50,000 to general reserve

Concept example 2: Calculate cash from operating activity by indirect method:

Trading and profit & loss account (Not in prescribed format)

Particulars	Amount	Particulars	Amount
To purchases	7,00,000	By sales	25,00,000
To wages	1,00,000		
To gross profit	17,00,000		
	25,00,000		25,00,000
To Rent paid 80,000		By Gross profit	17,00,000
Add: outstanding <u>20,000</u>	1,00,000	By insurance claim received	1,00,000
To commission	50,000		
To depreciation	30,000		
To interest on debentures	35,000		
To dividend paid on equity	28,000		
To general reserve	72,000		
To provision for tax	50,000		
To balance profit trf to Balance sheet	14,35,000		
	18,00,000		18,00,000

Additional information:

Year ended	31-3-2025	31-3-2026
Debtors	1,00,000	1,70,000
Creditors	50,000	75,000
Outstanding rent	Nil	20,000
Calculate cash from operating activities by indirect method as per AS-3.		

Let's start solving practical questions:

Question 1. From the following Balance sheets of **COC EDUCATION Ltd.** Prepare Cash Flow Statement by indirect method:

Liabilities	31.3.2026	31.3.2025
Share Capital	10,00,000	8,00,000
General Reserve	2,00,000	1,50,000
Profit and Loss Account	1,00,000	60,000
Debentures	4,00,000	-
Provision for taxation	1,00,000	70,000
Dividend Payable	--	1,00,000
Sundry Creditors	7,00,000	8,20,000
	25,00,000	20,00,000
Assets		
Plant and Machinery	7,00,000	5,00,000
Land / Building	6,00,000	4,00,000
Investments	1,00,000	-
Sundry Debtors	5,00,000	7,00,000
Stock	4,00,000	2,00,000
Cash on hand / Bank	2,00,000	2,00,000
	25,00,000	20,00,000

Question 2. From the Following Balance Sheet of Grow More Ltd., Prepare CFS for the year ended 31st March, 2022.

	Particulars		31 st March, 2022	31 st March, 2021
1.	Equity and Liabilities:			
	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 (Provision for tax)		1,00,000	70,000
	Total		23,00,000	20,00,000
1.	Assets: Non-current assets;	4		
	A. Property, Plant and Equipment		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	31 st March, 2022	31 st 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.

(v) 10% Debentures were issued on 1st April 2021.

Prepare Cash flow Statement.

(CMA Inter 2021- 10 Marks modified)

Question 3. Following are the balance sheets of X Co. Ltd. as on 31st 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 ₹ 50,000 during the year.
- (ii) Assets acquired for ₹ 1,00,000 payable in equity shares: stock ₹ 50,000, Machine ₹ 40,000.
- (iii) Machine purchased for cash ₹ 12,000.
- (iv) Machinery of the book value of ₹ 6,000 was sold for ₹ 6,500.
- (v) Provision for tax during the year ₹ 66,000.
- (vi) Debenture holders accepted preference shares in settlement of their claims.
- (vii) Depreciation on buildings ₹ 40,000.
- (viii) furniture of the book value of 30,000 sold for 22,000. Loss on sale adjusted from general reserve.

Prepare Cash flow statement.

(CMA Inter- June 2007 - 16 marks)

Question 4. The Balance Sheet of New Light Ltd. as at 31st March, 2021 and 2020 are as follows:

	Particulars		31 st March, 2020	31 st March, 2021
1.	Equity and Liabilities			
	A. Share Capital	1	16,00,000	18,80,000
	B. Reserve 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 (Provision for tax)		3,60,000	3,40,000
	Total		38,00,000	41,20,000
1.	Assets			
	Non-current assets			
	A. Property, Plant and Equipment's		22,80,000	26,40,000
	B. Non-current Investment		4,00,000	3,20,000
2.	Current assets			
	A. Cash and cash equivalents		10,000	10,000
	B. Other Current assets		11,10,000	11,50,000
	Total		38,00,000	41,20,000

Notes to accounts:

No.	Particulars		31 st March, 2020	31 st 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
5.	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 ₹ 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 ₹ 40,000 has been provided.
- iii. Depreciation on property, plant and equipment provided ₹ 3,60,000
- iv. Company sold some investment at a profit of ₹ 40,000.
- 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.

Question 5. From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect Method for the year ended 31st March, 2022:

	Particulars	Notes	31 st March, 2022	31 st March, 2021
	<u>Equity and Liabilities</u>			
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
	<u>Assets</u>			
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 st March, 2022	31 st 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.	Reserve 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:

- 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.
- On 1st 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.
- Part of the investments (Cost – ₹ 50,000) was sold for ₹ 70,000.
- Pre-acquisition dividend received ₹ 5,000 was adjusted against cost of investment.
- Interim dividend was declared and paid @ 15% during the current year.
- Income-tax liability for the current year was estimated at ₹ 1,35,000.
- Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.

(CMA FINAL - 16 marks)

Question 6. From the following summarized balance sheets of a company, as at 31st March 2021 and 31st March 2022 respectively prepare cash flow statement. All working should form part of your answer:

Liabilities	2021	2022	Assets	2021	2022
Equity Share Capital	75,000	1,20,000	Property, plant equipment	2,40,070	2,53,730
10% Redeemable			Less: Depreciation	(90,020)	(98,480)
Preference share capital	1,00,000	80,000	Investments	61,000	76,000
Reserve for replacement of Machinery	15,000	10,000	Stock	98,000	1,04,000
Long term Loans	Nil	40,000	Trade Debtors	88,000	85,000
Bank Overdraft	22,000	Nil	Bank	11,750	32,000
Trade Creditors	84,450	75,550			
Dividend payable on equity shares	24,000	Nil			
Profit & Loss Account	88,350	1,26,700			
	4,08,800	4,52,250		4,08,800	4,52,250

Additional information:

- During the year, additional equity capital was issued to the extent of ₹ 25,000 by way of bonus shares fully paid.
- Final dividend on preference shares and an interim dividend of ₹ 4,000 on equity shares were paid on 31 March 2022.
- Dividends payable on equity shares for the year ended 31 March 2021 were paid in October 2021.
- Movement in reserve for replacement of machinery account represents transfer to Profit and Loss A/C.

- (v) ₹ 1,700 being expenditure on fixed assets for the year ended 31 March 2021 wrongly debited to sundry debtors then, was corrected in the next year.
- (vi) Fixed assets costing ₹ 6,000 (accumulated depreciation ₹ 4,800) were sold for ₹ 250, loss arising there from was written off.
- (vii) Preference shares redeemed in the year (31st March 2022) were out of a fresh issue of equity shares. Premium paid on redemption was 10%.

(CA Inter- May 1997 , CMA Inter- 16 marks)

Question 7. Condensed versions of the comparative balance sheets and income statement of Scindia Ltd. are presented below:

Comparative Balance Sheets as on December 31, 2022 and 2021

Assets	2022	2021
	₹	₹
Cash	46,000	28,900
Debtors	41,000	45,000
Inventories	48,000	51,000
Prepaid expenses	4,100	3,700
Machinery	3,30,000	3,10,000
Accumulated depreciation-Machinery	(1,31,000)	(1,85,000)
Buildings	5,80,000	4,75,000
Accumulated depreciation-Buildings	(2,25,000)	(2,15,000)
Land	60,000	50,000
	7,53,100	5,63,600
Equity and liabilities:		
Creditors	32,500	37,000
Wages payable	4,500	7,500
Income tax payable	7,000	5,000
Mortgage note payable 2029	1,00,000	-
Equity share capital, ₹ 20 per share	4,00,000	3,50,000
Security Premium	55,000	45,000
Profit and loss (surplus) account	1,54,100	1,19,100
	7,53,100	5,63,600

Additional information:

- (i) Dividends of ₹ 40,000 were declared during the year.
- (ii) Machinery with an original cost of ₹ 80,000 and accumulated depreciation of ₹ 74,000 was sold during the year for ₹ 6,000 cash. New machinery was also purchased for ₹ 1,00,000 cash.
- (iii) Land and buildings were acquired during the year at a cost of ₹ 1,15,000. In addition to the down payment of ₹ 15,000, a ten year 10% mortgage note for ₹ 1,00,000 was issued to the vendor.

Income Statement for the year ended December 31, 2022

Sales		7,70,000
Less: Cost of goods sold		<u>4,60,000</u>
Gross profit on sales		<u>3,10,000</u>
Operating expenses:		
Depreciation expenses-machinery	20,000	
Depreciation expenses-buildings	10,000	
Other operating expenses	<u>1,75,500</u>	<u>2,05,500</u>
Income before income tax		1,04,500
Less: Income tax provision		<u>69,500</u>
Net profit after tax		<u>35,000</u>

Prepare cash flow statement by indirect method.

(CMA final – 10 marks)

Question 8. You are given below the balance sheet of Guruji Limited for the year ended December 31, 2020.

Particular	₹
Assets	
Plant and Machinery (net of depreciation)	6,00,000
Land	2,00,000
Investments	3,00,000
Trade debtors	2,60,000
Stock	2,00,000
Bank balance	<u>2,40,000</u>
	<u>18,00,000</u>
Equity and Liabilities	
Equity share capital	8,00,000
Retained earnings	2,40,000
Debentures	3,00,000
Long-term borrowings	2,60,000
Trade creditors	<u>2,00,000</u>
	<u>18,00,000</u>

During 2021 the following transactions took place:

1. Further land was purchased for cash ₹ 1,50,000.
2. An amount of ₹ 60,000 was repaid towards long-term borrowings.
3. Dividends paid to shareholders ₹ 1,20,000.
4. Plant of ₹ 2,00,000 was purchased by issuing debentures at par ₹ 2,00,000.
5. Part of the investments was sold at ₹ 1,20,000 resulting in a profit of ₹ 20,000.
6. Net profit for the period was ₹ 3,50,000 after writing off depreciation amount of ₹ 90,000 on plant and machinery.
7. Investment costing ₹ 50,000 purchased during the year.
8. The following were the balances as at December 31, 2021:

Trade debtors	3,30,000
Trade creditors	2,30,000
Stock	1,50,000
Bank balance	4,10,000

You are required to prepare the balance sheet as at December 31, 2021 (Format not required) and a statement of cash flow for the year ended December 31, 2021.
(CMA Inter – 12 marks modified)

Question 9. Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Loans and Advances given to the following and Interest earned on them:

(1) to Suppliers (2) to employees. (3) to its Subsidiaries Companies.

(ii) Investment made in Subsidiary Smart Ltd. and Dividend received

(iii) Dividends paid for the year.

(iv) TDS on Interest Income earned on Investment made

(v) TDS on Interest earned on Investments made

(vi) Insurance Claim received

(vii) loss of fixed asset by fire. Discuss in the Context of AS-3 Cash Flow Statement.

Question 10. From the following information, Calculate Cash Flow from Operating activities:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,00,000	By Cash purchase	1,20,000
To Cash Sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of loan	75,000
To Interest & Dividend	1,000	By Interest on Loan	1,00,00
		By Balance c/d	1,04,000
	5,96,000		5,96,000

Solution: -

Cash Flow Statement for the year ended March 31 (Direct Method)

Particulars	Amount (₹)	Amount (₹)
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchase	1,20,000	
Payment to Trade Payables	1,57,000	
Office and Selling Expenses	75,000	(3,52,000)
Payment for Income Tax		30,000
Net Cash Flow used in Operating Activities		(17,000)

Question 11. The Following Summary Cash account has been extracted from the Company's accounting records:

Particulars		(₹'000)
Balance at 1.4.2021		35
Receipts from Customers		2,783
Issue of Shares		300
Sale of Fixed assets		128
		3,246
Payments to Suppliers	2,047	
Payments for Property, plant & equipment	230	
Payment for overheads	115	
Wages and Salaries	69	
Taxation	243	
Dividends	80	
Repayment of Bank Loan	250	(3034)
Balance at 31.3.2022		212

Prepare Cash Flow Statement of this Company Hills Ltd. for the Year ended 31st March, 2022 in accordance with AS-3 (Revised). The Company does not have any Cash Equivalents.

Solution: - Cash Flow Statement for the year ended 31st March, 2022 (Using Direct Method)

Particulars		(₹'000)
Cash Flows from Operating activities		
Cash receipts from Customers	2,783	
Cash Payments to Suppliers	(2,047)	
Cash Paid to employees	(69)	
Other Cash Payments (for Overheads)	(115)	
Cash generated from operations	552	
Income Taxes paid	(243)	
Net Cash from Operating activities		309
Cash Flows from Investing activities		
Payments for Purchase of Fixed assets	(230)	
Proceeds from Sale of Fixed assets	128	
Net Cash Used in investing activities		(102)
Cash Flows from financing activities		
Proceeds from issuance of Share Capital	300	
Bank Loan repaid	(250)	
Dividend Paid	(80)	
Net Cash used in financing activities		(30)
Net Increase in Cash and Cash equivalents	177	
Cash and Cash equivalents at beginning of period	35	
Cash and Cash equivalents at end of period		212

Question 12. Prepare Cash flow Statement by direct indirect of M/s MNT Ltd. for the year ended 31st March, 2021 with the help of the following information:

1. Company Sold goods for cash only.
2. Gross Profit Ratio was 30% for the year, gross profit amounts to ₹ 3,82,500.
3. Opening inventory was lesser than closing inventory by ₹ 35,000.
4. Wages paid during the year ₹ 4,92,500.
5. Office and Selling expenses paid during the year ₹ 75,000.
6. Dividend paid during the year ₹ 30,000.
7. Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000).
8. Trade payables on 31st March, 2020 exceed the balance on 31st March 2021 by ₹ 25,000.
9. Tax paid during the year amounts to ₹ 65,000 (provisions for taxation as on 31.3.2021 ₹ 45000)
10. Investment of ₹ 7,00,000 Sold during the year at a profit of ₹ 20,000.
11. Depreciation on Fixed assets amounts to ₹ 85,000.
12. Plant and Machinery Purchased on 15th November, 2020 for ₹ 2,50,000.
13. Cash and Cash Equivalents on 31st March, 2020 ₹ 2,00,000.
14. Cash and Cash Equivalents on 31st March, 2021 ₹ 6,07,500.

Question 13. Raj Ltd. gives you the following information for the year ended 31st March, 2006:

1. Sales for the year ₹ 48,00,000. The Company sold goods for cash only.
2. Cost of goods sold was 75% of sales.
3. Closing inventory was higher than Opening inventory by ₹ 50,000.
4. Trade creditors on 31.3.2006 exceed the outstanding on 31.3.2005 by ₹ 1,00,000.
5. Tax paid during the year amounts to ₹ 1,50,000.
6. Amounts paid to Trade Creditors during the year ₹ 35,50,000.
7. Administrative and Selling Expenses paid ₹ 3,60,000.
8. One new machinery was acquired in December, 2005 for ₹ 6,00,000.
9. Dividend paid during the year ₹ 1,20,000.
10. Cash in hand and at Bank on 31.3. 2006 ₹ 70,000.
11. Cash in hand and at Bank on 1.4.2005 ₹ 50,000.

Prepare Cash Flow Statement for the year ended 31.3.2006 as per AS-3.

(CMA Final – 8 marks)

Question 14. Ryan 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	
Less: Operating Expenses (including Depreciation Expenses of ₹ 37,000)	(1,47,000)	31,000
Other Income/Expenses:		
Interest Expenses paid	(23,000)	
Interest Income received	6,000	
Gain on sale of Investments	12,000	
Loss on Sale of plant	(3,000)	(8,000)
Profit before tax	23,000	
Income tax	(7,000)	
Profit after tax		16,000

Information available:

Particulars	31 st March, 2021	31 st 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
Reserve 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.

Question 15. The balances sheets of Sun Ltd. as at 31st March 2021 and 2022 were as:

	Particulars	Notes	2022 (₹)	2021 (₹)
1.	Equity and Liabilities			
	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 (Provision for tax)		1,500	1,000
	Total		70,500	58,500
	Assets			
1.	Non-Current assets			
	Property, Plant & Equipment		39,500	29,000
2.	Current assets	4		
	A. Current investment		2,000	1,000
	B. Inventories		17,000	14,000
	C. Trade receivables		8,000	6,000
	D. Cash & Cash Equivalents		4,000	8,500
	Total		70,500	70,500

Notes to Accounts:

	Particulars	2022	2021
1.	Share Capital		
	Equity Shares of ₹ 10 each	60,000	50,000
2.	Reserve & Surplus		
	Profit and Loss Account	5,000	4,000
3.	Other Current Liabilities		
	Dividend Payable	--	1,000
4.	Property, Plant and Equipment (at wdv)		
	Building	10,000	10,000
	Fixtures	17,000	11,000
	Vehicles	12,500	8,000
	Total	39,500	29,000
5.	Cash and Cash Equivalents		
	Cash and Bank	4,000	8,500

The profit and loss statement for the year ended 31st March, 2022 disclosed:

Particulars	₹
Profit before tax	4500
Tax expense: Current tax	<u>(1500)</u>
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.

Solution: - Cash Flow Statement for the year ended 31st March, 2022

Particulars	₹	₹
Cash flows from Operating activities		
Net Profit before taxation	4,500	
Adjustment for:		
Depreciation	3,500	
Profit on Sale of Vehicles (1700-1000)	<u>(700)</u>	
Operating Profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in Inventories	(3,000)	
Increase in Trade Payables	<u>1,500</u>	
Cash generated from operations	3,800	
Income taxes paid	(1,000)	
Net Cash generated from operating activities		2,800
Cash flows from investing activities		
Sale of Vehicles	1,700	
Purchase of current investments	(1,000)	
Purchase of fixtures	(8,000)	
Net Cash used in investing activities	<u>(7,000)</u>	(14,300)
Cash Flows from financing activities		
Issue of Shares for cash	10,000	
Dividends paid	(3,000)	<u>7000</u>
Net Cash generated from financing activities		(4500)
Net decrease in Cash and Cash equivalents		

Cash and Cash equivalents at beginning of period		8500
Cash and cash equivalents at end of period		4000
Note to the Cash flow Statement		
Cash and Cash Equivalents:	31.3.2022	31.3.2021
Bank and Cash	4000	8500
Cash and Cash Equivalents	4000	8500

Question 16. Given below are the relevant extracts of the Balance Sheet and the Statement of Profit and Loss of ABC Ltd. along with additional information.

Extract of balance sheet:

	Particulars	Notes	31.3.2022 (₹ in lakhs)	31.3.2021 (₹ in lakhs)
1.	Equity and Liabilities			
	Current Liabilities:			
	A. Trade Payables		250	230
	B. Short term provisions	1	200	180
	C. Other Current Liabilities	2	70	50
1.	Assets			
	Current assets:			
	A. Inventories		200	180
	B. Trade Receivables		400	250
	C. Other current assets	3	195	180

Statement of profit and loss for the year ended 31st March 2022

	Particulars	Notes	₹ in Lakhs
I	Revenue from Operations		4,150
II	Other Income	4	100
III	Total Revenue (I+II)		4,250
	Expenses:		
	Purchase of Stock in Trade		2400
	Change in inventories of finished goods		(20)
	Employee's benefits expense		800
	Depreciation expense		100
	Finance Cost		60
	Other expense		200
IV	Total Expense		3,540
V	Profit before tax (III-IV)		710
VI	Tax expense:		
	Current tax		<u>200</u>
	Profit for the year from continuing operations		510

Appropriations:

Balance of Profit and Loss Account brought forward	50
Transfer to general reserve	200
Dividend paid	330

Notes to accounts:

		2022 (₹ in lakhs)	2021 (₹ in lakhs)
1	Short term provisions: Provisions for Tax	200	180
2	Other Current liabilities: Outstanding wages Outstanding expenses Total	50 <u>20</u> 70	40 <u>10</u> 50
3	Other Current assets: Advance tax	195	180
4	Other Income: Interest and dividend	100	
5	Finance Cost: Interest	60	

Compute Cash flow from Operating activities using both direct and Indirect Method.

Question 17. Prepare Cash flow for Gamma Ltd., for the year ending 31.3.22 from the following information:

- Sales for the year amounted to ₹ 135 crores out of which 60% was cash sales.
- Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80%.
- Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.
- The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹ 1.5 crores.
- Dividend paid during the year amounted to ₹ 11.7 crores.
- Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.
- ₹ 8 crores was paid towards income tax during the year.
- A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.
- The following balances are also provided:

	₹ in Crores(31-3-21)	₹ in Crores(31-3-22)
Debtors	45	50
Creditors	21	23
Bank	6	18.2

Solution: - Cash Flow Statement for the year ended 31st March, 2022 (Using Direct Method)

Particulars	₹ in Crores	₹ in Crores
Cash Flows from Operating activities:		
Cash Sales (60% of 135)	81	
Cash receipts from Debtors (45+(135 × 40%)-50)	49	
Cash purchases (20% of 55)	(11)	
Cash payments to supplier (21+(55 × 80%)-23)	(42)	
Cash paid to employees	(22)	
Cash payments for overheads (Adm. And Selling)	(18)	
Cash generated from operations	37	
Income tax paid	<u>(8)</u>	
Net Cash generated from operating activities		29
Cash flows from investing activities		
Sale of Investments (12+2.40)	14.4	
Payments for purchase of fixed assets (21-10)	(11)	
Net cash generated from Investing activities		3.4
Cash flows from financing activities:		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	<u>(11.7)</u>	
Net Cash used in financing activities		(20.2)
Net increase in cash	12.2	
Cash at beginning of the period	<u>6.0</u>	
Cash at end of the period		18.2

Question 18. From the following particulars prepare a Cash Flow Statement:

Particulars	Last year	This Year
Assets	₹	₹
Cash	4,000	3,600
Debtors	35,000	38,400
Stock	25,000	22,000
Land	20,000	30,000
Buildings	50,000	55,000
Machinery	80,000	86,000
	2,14,000	2,35,000
Liabilities		
Creditors	36,000	41,000
Mrs. Neena's Loan	-	20,000
Bank Loan	30,000	25,000
Capital	1,48,000	1,49,000
	2,14,000	2,35,000

Additional information:

1. During the year, Mr. Suresh (the proprietor) had withdrawn ₹ 26,000 for personal use.
2. The provision for depreciation against machinery last year was ₹ 27,000 and this year ₹ 30,000.
3. During the year a part of machine costing ₹ 30,000 (book value ₹ 22,000) was sold for ₹ 7,000.

Question 19. Prepare Cash flow statement from the following comparative balance sheets

	As on 31 st March			As on 31 st March	
Liabilities	2020	2021	Assets	2020	2021
Share Capital	4,50,000	5,00,000	PPE	5,00,000	5,30,000
Loans unsecured	2,00,000	2,00,000	Bank	42,000	51,000
General reserve	25,000	75,000	Current assets	5,00,000	5,50,000
Creditors	3,67,000	3,56,000			
	10,42,000	11,31,000		10,42,000	11,31,000

Additional information: (i) During the year 2020-21, the company earned a profit of ₹ 2,00,000 after charging depreciation of ₹ 75,000. The profit was appropriated as follows: Provision for taxation ₹ 1,00,000, Dividend paid ₹ 50,000 and balance to reserve ₹ 50,000. (ii) Machinery worth ₹ 75,000 was sold at ₹ 60,000 and a new machinery for ₹ 1,80,000 was purchased.

Question 20. You are given below the profit and loss account of Srivastava Ltd., for the year ended December 31, 2021. The company is engaged in the manufacture of plastic cans. prepare cash flow from operation by both methods.

Particulars	Amount (₹)
Sales	8,00,000
Operating expenses (excluding depreciation)	(5,00,000)
Depreciation	<u>(1,00,000)</u>
Net profit before tax	2,00,000
Extraordinary income-Gain on speculation	<u>50,000</u>
	2,50,000
Provision for taxes @ 40%	<u>1,00,000</u>
Net profit after taxes	1,50,000

Additional information:

1. Included in operating expenses is loss on sale of machinery ₹ 20,000.
2. Actual taxes paid in respect of 2020 ₹ 90,000.
3. The balances relating to current items taken from the balance sheets of 2020 and 2021 are given below:

	31-12-2021	31-12-2020
Trade debtors	80,000	60,000
Inventory	65,000	70,000
Trade creditors	90,000	85,000

Question 21. ABC Limited gives you its Balance Sheet as on 31st March, 2020 and its projected Profit and Loss Account for the year ended 31st March, 2021.

Balance Sheet as on 31st March, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity share capital	6,00,000	Machinery(at cost)	7,00,000
Security premium	20,000	Less: dep.	<u>1,40,000</u>
General reserve	1,30,000	Motor car at cost	80,000
Profit and loss account	65,000	Less: dep.	<u>30,000</u>
8% debentures	3,00,000		
Sundry creditors	2,85,000	Stock	5,60,000
Provision for tax	1,40,000	Book debts	2,20,000
Dividend payable	90,000	Bank	1,40,000
		Advance income tax	1,00,000
	16,30,000		16,30,000

Projected Profit and Loss Account (For the year ended 31st March, 2021)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c	5,60,000	By Sales:	
To Purchase A/c	14,40,000	Cash	3,70,000
To Wages A/c	80,000	Credit	<u>18,00,000</u>
To Manf. Exps. A/c	40,000	By Stock A/c	4,20,000
To Office & Administration Exp. A/c	50,000	By Profit on sale of Machine	10,000
To Selling & Distribution Exp. A/c	30,000		
To Interest A/c	24,000		
To Depreciation :			
Machinery	56,000		
Car	<u>14,000</u>		
	70,000		
To Provision for taxation	1,36,000		
To Balance Profit	1,70,000		
	26,00,000		26,00,000

The company proposes to issue one equity share for two equity shares with a nominal value of ₹ 3,00,000 at a premium of 10%. Machinery will be acquired for ₹ 1,00,000. The cost of machinery to be sold in the year ended 31st March, 2021 is ₹ 80,000 with a depreciation provision of ₹ 45,000. It is expected that:

- (i) Tax liability up to 31st March, 2020 will be settled for ₹ 1,20,000 within 31st March, 2021.
- (ii) Advance Income Tax amounting to ₹ 1,30,000 is proposed to be paid in 2020-21.
- (iii) Book debts will be 10% more than warranted by the credit period of two months.
- (iv) Creditors for goods will continue to extend one and half months' credit and manufacturing expenses outstanding at the end of March, 2021 will be ₹ 5,000.

You are required to draft the Company's projected Balance Sheet as on 31st March, 2021(format not required) and the statement showing the cash flows during the year ended 31st March, 2021. **(CA Final-12 marks)**

Question 22. The Balance Sheet of New Light Ltd., for the year ended 31st March, 2021 and 2022 are as follows:

Liabilities	31 st March 2021 (₹)	31 st March 2022 (₹)	Assets	31 st March 2021 (₹)	31 st March 2022 (₹)
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)
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;

- (i) The company sold one fixed asset for ₹ 1,00,000. the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹ 80,000.
- (ii) The company also decided to write off another fixed asset costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.
- (iii) Depreciation on fixed assets provided ₹ 3,60,000.
- (iv) Company sold some investment at a profit of ₹ 40,000 which was credited to capital reserve.
- (v) Debentures and preference share capital redeemed at 5% premium.
- (vi) 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.

Answer:

Cash Flow Statement for the year ended 31st March, 2002

Particulars	Amount (₹)	Amount (₹)
A. Cash flow from operating activities		
Profit during the year	2,04,000	
Adjustment for inventory	(24,000)	
Transfer to general reserve	1,20,000	
Provision for tax	<u>3,40,000</u>	
Net profit before taxation	6,40,000	
Adjustment made for:		
Depreciation	3,60,000	
Loss on sale of fixed assets	20,000	
Decrease in value of fixed assets	16,000	
Premium on redemption of preference share capital	6,000	
Premium on redemption of debentures	<u>6,000</u>	
Operating profit before change in working capital	11,28,000	
Increase in current liabilities (₹ 5,20,000 – 4,80,000)	40,000	
Increase in current assets [₹ 13,10,000 – (11,10,000 + 24,000)]	<u>(1,76,000)</u>	
Cash generated fro operations	9,92,000	
Income tax paid	<u>(3,60,000)</u>	

Net cash from operating activities		6,32,000
B. Cash flow from investing activities		
Purchase of fixed assets	(8,56,000)	
Proceeds from sale of fixed assets	1,00,000	
Proceeds from sale of investments	<u>1,20,000</u>	
Net cash from investing activities		(6,36,000)
C. Cash flow from financial activities		
Proceeds from issuance of share capital	4,00,000	
Redemption of preference share capital (1,20,000 + 6,000)	(1,26,000)	
Redemption of debentures (1,20,000 + 6,000)	(1,26,000)	
Dividend paid	<u>(1,04,000)</u>	
Net cash from financial activities		44,000
Net increase/decrease in cash and cash equivalent during the year		Nil
Cash and cash equivalent at the end of the year is same as cash and cash equivalent at the beginning of the year i.e. ₹ 10,000		

Working notes:

1. Revaluation of stock increases the opening stock by ₹ 24,000

$$\left[\frac{₹ 2,16,000}{90} \times 10 = ₹ 24,000 \right] \times 10 = ₹ 24,000$$

Hence, opening balance of other current assets will be as follows:

$$₹ 11,10,000 + ₹ 24,000 = ₹ 11,34,000$$

Due to under valuation of stock, the opening of profit and loss account be increased by ₹ 24,000.

Opening balance of profit and loss account after revaluation of stock will be 2,40,000 + 24,000 = 2,64,000.

2. Property, plant and equipment Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000
To Bank A/c	85,60,000	By Accumulated depreciation A/c	80,000
(balancing figure will be assets purchased)		By Profit and loss A/c (loss on sale of assets)	20,000
		By Accumulated depreciation A/c	40,000
		By Profit and Loss A/c (assets written off)	16,000
		By Balance c/d	38,00,000
	40,56,000		40,56,000

3. Inventory Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	4,00,000	By Bank A/c (balancing figure being investment sold)	1,20,000
To Capital reserve A/c (profit on sale of investment)	40,000	By Balance c/d	3,20,000
	4,40,000		4,40,000

4. Accumulated depreciation Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To fixed assets account	80,000	By balance b/d	9,20,000
To fixed assets account	40,000	By profit and loss A/c (depreciation for the period)	3,60,000
To balance c/d	11,60,000		
	12,80,000		12,80,000

5. Unpaid dividend is taken as non-current item and dividend paid is shown at (₹ 1,20,000 - 16,000) = ₹ 1,04,000

Question 23. Ms. Jyothi of star oils limited has collected the following information for the preparation of cash flow statement for the year 2022.

Particular	(₹ In lakhs)
Net profit	25,000
Dividend paid	8,535
Provision for income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to profit & loss account	20,000
Amortization of capital grant	6
Profit on sale of investments	100
Carrying amount of investment sold	27,765
Interest income on investment s	2,506
Interest expenses	10,000
Interest paid during the year	10,520
Increase in working capital (excluding cash & bank balance)	56,075
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long –term borrowings	25,980
Proceeds from short –term borrowings	20,575
Opening cash and bank balance	5,003
Closing cash and bank balance	6,988

Prepare the cash flow statement for the year 2022 in accordance with AS-3 cash flow statement issued by the institute of chartered accountants of India. (Make necessary assumptions).

(CA Inter- May 2016 12 marks)

Question 24. J.LTD Present you the following information for the year ended 31st March, 2007:

S.no	Particular	(₹ In lakhs)
(1)	Net Profit before tax provision	36,000
(2)	Dividend Paid	10,202
(3)	Income Tax Paid	5,100
(4)	Book Value of assets Sold	222
	Loss on sale of Assets	48
(5)	Depreciation debited in P&L account	24,000
(6)	Capital grant received-amortised in P&L A/c	10
(7)	Book Value of investment sold	33,318
	Profit on sale of investment	120
(8)	Interest income from investment credited in P&L A/c	3,000
(9)	Interest expenditure debited in P&L A/c	12,000
(10)	Interest actually Paid (Financing activity)	13,042
(11)	Increase in working capital [Excluding Cash and Bank Balance]	67,290
(12)	Purchase of Fixed Assets	22,092
(13)	Expenditure on Construction Work	41,688
(14)	Grant received for Capital projects	18
(15)	Long-term borrowings from Banks	55,688
(16)	Provision for Income-Tax debited in P&L A/c	6,000
	Cash and Bank Balance on 1.4.2006	6,000
	Cash and Bank Balance on 31.3.2007	

You are Required to Prepare a Cash Flow statement as per AS-3 (Revised)

Question 25. Following are the balance sheet of X Ltd. as on 31st December, 2000 and 2001, and income statement for the period ending 31st December, 2001. An equipment whose cost price was ₹ 15,000 was sold for ₹ 6,000 and it had an accumulated depreciation of ₹ 8,000.

Balance sheet

Particulars	2000	2001	Particulars	2000	2001
Share Capital	2,50,000	4,60,000	Building and equipment	4,20,000	4,80,000
Retained earnings	2,31,000	2,11,000	Less: Depreciation.	(1,05,000)	(1,20,000)
Debentures	2,20,000	60,000			
Provision for income tax	86,000	12,000	Land	60,000	60,000
Outstanding expenses	3,000	5,000	Patents	55,000	65,000
Creditors	58,000	94,000	Cash	74,000	37,000
Bills payable	28,000	8,000	Inventories	3,12,000	2,77,000
			debtors	54,000	47,000
			Prepaid expenses	6,000	4,000
	8,76,000	8,50,000		8,76,000	8,50,000

Income Statement (for the Year ended 31.12.2001)

Particular	Amount (₹)
Net Sales	19,70,000
Less:- cost of goods sold	<u>14,80,000</u>
Gross profits	4,90,000
Less:- operation expenses (including Depreciation on Buildings and Equipment of ₹23,000 and patent Amortization of ₹6,000)	<u>5,00,000</u>
Net Loss from operation	(10,000)
Less:- Other Income	<u>7,000</u>
Net Loss	<u>(3,000)</u>
Add:- Retained Earning	<u>2,31,000</u>
	2,28,000
Less:- Dividend Paid 16,000	
Loss on Sale of Assets <u>1,000</u>	<u>17,000</u>
Retained Earnings (31.12.2001)	2,11,000

Prepare a Cash flow statement.

(CMA Final – 12 marks)**Question 26.** Balance sheet of Pi Ltd. For the year ended 31st March 2021 and 2022 were summarized thus:

Equity and Liabilities	31.3.2021	31.3.2022	Assets	31.3.2021	31.3.2022
Equity capital	5,00,000	9,00,000	Goodwill	10,000	14,000
Preference capital	2,00,000	1,00,000	Land and building	4,50,000	6,90,000
Security premium		45,000	Plant and machinery	1,70,000	1,60,000
General reserve	50,000	70,000	Car		40,000
Capital reserve	----	4000	Investment	40,000	20,000
Profit and loss	20,000	30,000	Stock	60,000	1,00,000
Hire vendor		28,000	Debtors	75,000	1,45,000
10% debenture		2,00,000	Cash	45,000	2,61,000
Creditors	95,000	60,000	Advances tax	35,000	50,000
Provision for tax	30,000	45,000	Bank	10,000	9,000
Unclaimed dividend		7,000			
	8,95,000	14,89,000		8,95,000	14,89,000

Adjustments:

- A car of ₹ 50,000 was purchased on Hire Purchase and ₹ 25,000 was paid to Hire Vendor during the year.
- The debentures were issued @ 10% premium on 1st April, 2021.
- Accumulated Depreciation on Land and Building was ₹ 1,50,000 and ₹ 2,10,000 respectively.
- Accumulated Depreciation on Plant and Machinery was ₹ 1,30,000 and ₹ 1,40,000 respectively.
- Investments were sold @ 40% premium, the profit of which was taken to Capital Reserve.
- Bonus Shares of 1 for every 5 held was issued in the beginning the year.
- | | |
|---------------------------|----------|
| Land and Building worth | 1,50,000 |
| Plant and Machinery worth | 50,000 |
| Debtors worth | 70,000 |
| Stock worth | 20,000 |
| Creditors worth | 30,000 |

Were purchased by issue of shares of ₹ 2,50,000 shares @ 10% premium.

- viii. Dividend paid during the year = ₹ 43,000.
- ix. The preference shares were redeemed @ 25% premium.
- x. Plant & Machinery costing ₹ 50,000 (WDV 22,000) was disposed off.
- xi. Bad Debts written off ₹ 5,000.
- xii. Dividend received was ₹ 17,000 of which ₹ 7,000 was post acquisition.

Prepare Cash Flow Statement.

(CMA Inter – 20 marks modified)

Question 27. The following figures have been extracted from the Books of X Limited for the year ended on 31.3.2004.

You are required to prepare a cash flow statement.

- (i) Net profit before taking into account Income Tax and Income from law suits but after taking into Account the following items was ₹ 20 lakhs:
 - (a) Depreciation on Fixed Assets ₹ 5 lakhs.
 - (b) Discount on issue of Debentures written off ₹ 30,000.
 - (c) Interest on Debentures paid ₹ 3,50,000.
 - (d) Books value of investments ₹ 3 lakhs (Sale of Investments for ₹ 3,20,000).
 - (e) Interest received on investments ₹ 60,000.
 - (f) Compensation received ₹ 90,000 by the company in a suit filed.
- (ii) Income tax paid during the year ₹ 10,50,000.
- (iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2004 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2003. Dividend on preference shares were paid at the time of redemption.
- (iv) Dividends paid for the year 2002-2003 ₹ 5 lakhs and Interim dividend paid ₹ 3 lakhs for the year 2003-04.
- (v) Land was purchased on 1.4.2003 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.
- (vi) Current assets and Current liabilities in the beginning and at the end of the years were as detailed below

	As on 31.3.2003	As on 31.3.2004
Stock	12,00,000	13,18,000
Sundry Debtors	2,08,000	2,13,100
Cash in hand	1,96,300	10,300
Bills receivable	50,000	40,000
Bills payable	45,000	40,000
Sundry Creditors	1,66,000	1,71,300
Outstanding expenses	75,000	81,800

Solution:

Particulars	Amount (₹)
Cash from Operating activities:	
Profit before tax & extraordinary items	20,00,000
Add: Depreciation on fixed assets	5,00,000
Add: Discount on Debentures	30,000
Add: Interest on Debentures	3,50,000
Less: Profit on sale of investment	20,000
Less: Interest on Investment	60,000
Add: Premium on redemption of preference share	75,000
Less: Increase on Stock	1,18,000
Less: Increase in Debtors	5,100
Add: Decrease in Bills receivable	10,000
Less: Decrease in Bills payable	5,000
Add: Increase in Creditors	5,300
Add: Increase in Outstanding expenses	<u>6,800</u>
Income tax paid	(10,50,000)
Cash received from Law suit	90,000
Total A	18,09,000
Cash from Investing activities:	
Sale of investment	3,20,000
Interest on Investment	60,000
Total B	3,80,000
Cash from financing activities:	
Interest on Debentures	(3,50,000)
Redemption of Preference share	(15,75,000)
Issue of equity shares	5,00,000
Security Premium received	1,00,000
Dividend paid on Preference shares (15,00,000 × 10%)	(1,50,000)
Dividend on Equity shares	<u>(8,00,000)</u>
Total C	(22,75,000)
Net cash flow during the year	(86,000)
Add: Opening cash & cash equivalent	1,96,300
Closing cash & cash equivalent	1,10,300

Question: 28. Garden Ltd. acquired fixed assets viz. plant and machinery for ₹ 20 lakhs. During the same year it sold its furniture and fixtures for ₹ 5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS – 3 ?

Answer: As per AS – 3 (Revised) 'Cash Flow statements', an organisation should report separately major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities except to the extent that cash flows described in AS 3 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in the content of the said standard. So, the Garden Ltd. cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furniture and fixtures.

Question 29. Sumangal Ltd. finds on 31st December, 2026 that it is short of funds with which to implement its branch expansion programme. On 1st January, 2026, it had a bank balance of ₹ 1,70,000 in its current account. From the following information, prepare a statement of Cash Flow to show how the overdraft of ₹ 48,750 at 31st December, 2026 has arisen:

Figures as per Balance Sheet as on 31st December

Particulars	2025 (₹)	2026 (₹)
Fixed Assets	7,50,000	11,00,000
Stock and stores	1,90,000	3,00,000
Debtors	3,80,000	3,65,000
Bank Balance/(Overdraft)	1,70,000	(48,750)
Trade Creditors	2,70,000	3,50,000
Share Capital (in shares of ₹ 10 each)	2,50,000	3,00,000
Bills Receivable	87,500	95,000

The profit for the year ended 31st December, 2026 before charging depreciation and taxation amounted to ₹ 2,50,000. The 5,000 shares of ₹ 10 were issued on 1st January, 2026 at a premium of ₹ 5 per share. ₹ 1, 37,500 was paid in March 2026 by way of income tax. Dividend was paid as follows for 2026 (final) on the capital on 31-12-2025 @ 10% . For 2026 (interim) 5% on capital on 1st January, 2026 free of tax.

Solution: **Cash Flow Statement For the period 1st January 2026 to 31st December 2026**

Particulars	₹	₹
1. Cash Flows from Operating Activities:		
Operating profit before dep. and tax	2,50,000	
Adjustment for:		
Increase in creditors	80,000	
Decrease in debtors	15,000	
Increase in stock	(1,10,000)	
Increase in B/R	<u>(7,500)</u>	2,27,500
Income tax paid		(1,31,250)
Net Cash from Operating Activities (A)		96,250
2. Cash Flow from Investing Activities:		
Purchase of fixed assets		3,50,000
Net Cash used in Investing Activities (B)		(3,50,000)
3. Cash Flows from Financing Activities:		
Issue of shares at premium		75,000
Payment of final dividend(2025)		(25,000)
Payment of interim dividend (2026)		(15,000)
Net Cash from Financing Activities (C)		35,000
Net increase in Cash and Cash Equivalents (A+B+C)		(2,18,750)
Cash and Cash Equivalents at the beginning		1,70,000
Cash and Cash Equivalents at the end		(48,750)

Question 30. The following is the income statement XYZ Company for the year 2014 – 15:

Particular			(₹)
Sale			1,62,700
Add: Equity in ABC company's earning			6,000
			1,68,700
Expenses:			
Cost of goods sold		89,300	
Salaries		34,400	
Depreciation		7,450	
Insurance		500	
Research and development		1,250	
Patent amortization		900	
Interest		10,650	
Bad debts		2,050	
Income tax:			
Current	6,600		
Deferred	1,550		
Total expenses		8,150	1,54,650
Net income			14,050

Additional information are:

- 70% of gross revenue from sales were on credit.
- Merchandise purchases amounting to ₹ 92,000 were on credit.
- Salaries payable totaled ₹ 1,600 at the end of the year.
- Amortisation of premium on bonds payable was ₹ 1,350.
- No dividends were received from the other company.
- XYZ Company declared cash dividend of ₹ 4,000.
- Changes in Current Assets and Current Liabilities were as follows:

	Increase (Decrease)
Cash	500
Marketable securities	1,600
Accounts receivable	(7,150)
Allowance for bad debt	(1,900)
Inventory	2,700
Prepaid insurance	700
Accounts payable (for merchandise)	5,650
Salaries payable	(2,050)
Dividends payable	(3,000)

Prepare a statement showing the amount of cash flow from operations.

Solution: Statement showing cash flow from operations

Cash flow from operations	Amount (₹)	Amount (₹)
Cash sales (30% 1,62,700)	48,810	
Collection from debtors	1,20,890	
Total cash from operations		1,69,700
Uses of cash from operations		
Payment to suppliers	86,350	
Salaries expense	36,450	
Payment for insurance	1,200	
Research and development	1,250	
Interest payment	12,000	
Income tax payment	6,600	
Total operating cash payment		1,43,850
Net cash flow from operations		25,850

Working Notes: (1)

Collection from debtors	₹
Credit sales (70% × 1,62,700)	1,13,890
Less: Bad debts (2,050 less 1,900)	150
	1,13,740
Add: decrease in accounts receivables	7,150
Collection from debtors on credit sales	1,20,890

(2) Payment to suppliers

Payment to suppliers	₹
Cost of goods sold	89,300
Add: Increase in inventory	2,700
Purchases	92,000
Less: increase in accounts payable	5,650
Payment to suppliers	86,350

(3)

Calculation of salaries payment	₹
Salary expense	34,400
Add : decrease in salary payable	2,050
Payment of salaries	36,450

(4)

Insurance payments	₹
Insurance	500
Add : increase in prepaid insurance	700
Payment for insurance	1,200

(5)

Interest payment	₹
Interest expenses	10,650
Add : Amortisation of bond premium	1,350
Interest payments	12,000

(6)

Income tax payments	₹
Income tax expense	8,150
Less: Deferred tax	1,550
	6,600
Changes in current tax payable	Nil
Income tax payments	6,600

Question 31: 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
Add: Non-recurring Income – Profits on sale of equipment		1,20,000
		8,40,000
Add: Retained earnings and profits brought forward		15,18,000
		23,58,000
Less: 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.

Solution: Cash Flow Statement of Company A Ltd. for the year ending March 31, 2015

Cash flows from Operating Activities

Particular	₹
Net Profits before Tax and Extra-ordinary Item	16,00,000
Add: Depreciation	6,00,000
Operating Profits before Working Capital Changes	22,00,000
Less: Increase in Debtors	(1,80,000)
Add: Decrease in Stock	16,80,000
Less: Increase in Advances	(12,000)
Less: Decrease in Sundry Creditors	(60,000)
Add: Increase in Outstanding Expenses	2,40,000
Cash Generated from Operations	38,68,000
Income tax Paid	8,68,000
Net Cash from Operations (A)	30,00,000

Cash flows from investment activities

Particular	₹
Purchase of Land	(4,80,000)
Purchase of Buildings and Equipment	(28,80,000)
Sale of Equipment	3,60,000
Net Cash used in Investment Activities (B)	(30,00,000)

Cash flows from financing Activities

Particulars	₹
Issue of Share Capital	8,40,000
Dividends Paid	(7,20,000)
Net Cash from Financing Activities (c)	1,20,000
Net increase in Cash and Cash Equivalents (A+B+C)	1,20,000
Cash and Cash Equivalents at the beginning	6,00,000
Cash and Cash Equivalents at the end	7,20,000

Building and Equipment Account

Particulars	Dr. (₹)	Particulars	Cr. (₹)
To Balance b/d	36,00,000	By Sale of Asset	7,20,000
To Cash/Bank (purchase)	28,80,000	By Balance c/d	57,60,000
(Balancing figure)			
	64,80,000		64,80,000

Accumulated Depreciation on Building and Equipment Account

Particular	Dr. (₹)	Particular	Cr. (₹)
To Sale of Asset (Accumulated depreciation)	4,80,000	By Balance b/d	
To Balance c/d	13,20,000	By Profit and Loss (Provisional)	12,00,000
	18,00,000		18,00,000

Sale of Asset account

Particulars	Amount (₹)
Original Cost	7,20,000
Less: Accumulated Depreciation	4,80,000
Net Cost	2,40,000
Profit on Sale of Asset	1,20,000
Sale Proceeds from Asset Sales	3,60,000

Question 32. On 01.01.2025, P Ltd., an Indian company, bought goods from USA for \$10000 to be sold within India. The exchange rate on that date was ₹ 76 = 1\$. On 31.03.2025, the exchange rate moved to ₹ 78 = 1 \$. How will you report the above in the Cash Flow Statement?
(ICMAI Study material)

Solution: P Ltd. would account for the purchase of inventory at $(1000 \times 76) = 76,000$ on 01.01.2025. On 31.03.25, the payables will be recorded at $₹ (1000 \times 78) = ₹ 78,000$ resulting into an unrealised loss of ₹ 2,000 on exchange fluctuation. Under Indirect Method of determining Operating Cash Flow, this will be reported as follows:

Profit	(-) ₹ 2,000
Add: loss due to Increase in payables $(78,000-76,000)$	₹ 2,000
Net impact on cash flow from operating activities	Nil

Question 33. B Ltd., a manufacturing concern, invested ₹ 3,00,000 in a five-year bond with an effective interest rate of 10% for 4 years. It received ₹ 4,40,000 on maturity. During the four years it recognised the interest income based on the effective interest rate in its income statement. How will you treat the transactions over four years and on maturity?

Solution: Over the four years lifetime, the company did not receive any cash payment. Hence, nothing will be reflected in the Cash Flow Statement. On maturity, the entire amount of ₹ 4,40,000 will appear in cash flow from investing activities with appropriate disclosure on the interest and principal part.

Question 34: Classify the following cash receipts and payments of a furniture company into cash from operating, investing and financing activities:

- Receipt from sale of furniture
- Purchases of furniture from various suppliers
- Wages paid
- Advertisement expenses paid
- Credit sales of furniture
- Misc. charges received from customers for repairs of furniture

- g. Warranty claims received from the suppliers
- h. Loss due to decrease in market value of the closing stock of furniture
- i. Payment to suppliers of furniture
- j. Depreciation on furniture of sales showrooms
- k. Interest paid on bank loan
- l. Profit on sale of equipment, in exchange of new equipment
- m. Advance received from customers
- n. GST paid
- o. Equity dividend paid for the current financial year.

Solution:

Transaction	Nature of Cash Flow	Inflow/Outflow
a. Receipt from sale of furniture	C/F from operating activities	Inflow
b. Purchases of furniture from various suppliers	C/F from operating activities	Outflow
c. Wages paid	C/F from operating activities	Outflow
d. Advertisement expenses paid	C/F from operating activities	Outflow
e. Credit sales of furniture	Not a cash flow	N. A
f. Misc. charges received from customers for repairs of furniture	C/F from operating activities	Inflow
g. Loss due to decrease in market value of the closing stock of furniture	Not a cash flow	N. A
h. Payment to suppliers of furniture	C/F from operating activities	Outflow
i. Depreciation on furniture of sales showrooms	Not a cash flow	N. A
j. Interest paid on bank loan	C/F from financing activities	Outflow
k. Profit on sale of equipment, in exchange of new equipment	Not a cash flow	N. A
l. Advance received from customers	C/F from operating activities	Inflow
m. GST paid	C/F from operating activities	Outflow
n. Equity dividend paid for the current financial year	C/F from financing activities	Outflow

Question 35: Classify the following transactions into cash flow from operating, investing and financing activities in respect of a pharmaceutical company:

- a. Issued equity shares
- b. Bonus shares issued
- c. Right shares issued
- d. Purchased 90% shares of subsidiary company
- e. Dividend received from subsidiaries
- f. Dividend received from investment in other companies

- g. Payment of license fees
- h. Royalty received from the goods patented
- i. Rent received from the letting out of free space
- j. Interest received on loans to Y Ltd.
- k. Preference Dividend paid
- l. Interest paid on security deposits
- m. Acquired the assets of a company through issue of equity shares
- n. Purchased goodwill
- o. Interim dividends paid
- p. Sale of investment in subsidiary

Solution:

Transaction	Nature of Cash Flow	Inflow/Outflow
a. Issued equity shares	a. C/F from financing activities	Inflow
b. Bonus shares issued	b. Not a Cash flow at all.	N. A
c. Right shares issued	c. C/F from financing activities	Inflow
d. Purchased 90% shares of subsidiary company	d. C/F from investing activities	Outflow
e. Dividend received from subsidiaries	e. C/F from investing activities	Inflow
f. Dividend received from investment in other companies	f. C/F from investing activities	Inflow
g. Payment of license fees	g. C/F from investing activities	Outflow
h. Royalty received from the goods patented	h. C/F from operating activities	Inflow
i. Rent received from the letting out of free space	i. C/F from investing activities	Inflow
j. Interest received on loans to Y Ltd.	j. C/F from investing activities	Inflow
k. Preference Dividend paid	k. C/F from financing activities	Outflow
l. Interest paid on security deposits	l. C/F from financing activities	Outflow
m. Acquired the assets of a company through issue of equity shares	m. No cash flow	N. A
n. Purchased goodwill	n. C/F from investing activities	Outflow
o. Interim dividends paid	o. C/F from financing activities	Outflow
p. Sale of investment in subsidiary	p. C/F from investing activities	Inflow

Question 36: X Ltd. provides you the following information of its cash inflow and outflow for the financial year 2025-26:

- a. Dividend paid to equity and preference shareholders ₹ 50,000
- b. Interest paid ₹ 10,000
- c. Interest received on loan ₹ 20,000
- d. Dividend received from Y Ltd. ₹ 15,000

How will you classify the above in the Cash Flow Statement of X Ltd. if –

- (i) X Ltd. is a financial institution and
- (ii) X Ltd. is a manufacturing concern.

Solution:

Cash Receipt/ Payment	If X Ltd. is a financial institution	If X Ltd. is a manufacturing concern
Dividend paid to equity and preference shareholders ₹ 50,000	C/F from financing activities	C/F from financing activities
Interest paid ₹ 10,000	C/F from operating activities	C/F from financing activities
Interest received on loan ₹ 20,000	C/F from operating activities	C/F from investing activities
Dividend received from Y Ltd. ₹ 15,000	C/F from operating activities	C/F from investing activities

Question 37. MULTIPLE CHOICE QUESTIONS:

- Which of the following items would be subtracted from net income when using the indirect method of calculating cash flows provided by operating activities?
 - Depreciation expense
 - Repayment of bonds payable
 - A gain on the sale of land
 - A loss on the sale of equipment
- Which of the following would be considered a cash-flow item from a "financing" activity?
 - A cash outflow to the government for taxes
 - A cash outflow to repurchase the firm's own common stock
 - A cash outflow to lenders as interest
 - A cash outflow to purchase bonds issued by another company
- The method for presenting Net cash provided by operating activities that starts with net income and adjusts it for items that affected reported net income but that did not affect cash is called as _____.
 - Direct method
 - Working capital method
 - Indirect method
 - Cost-benefit method
- Under which activities cash paid for preferred stock dividends should be shown on the statement of cash flows?
 - Investing activities
 - Financing activities
 - Noncash investing and financing activities
 - Operating activities
- Which of the following would not be considered a cash flow from "operating" activities?
 - Payments for the inventory
 - Collection from customers
 - Tax payments
 - Payment of debt principle
- Under which of the following, a business must generate positive net cash flow for it to survive in the long run?
 - Investing activities
 - Financing activities
 - Operating activities
 - Non cash activities

7. Depreciation is added back to profit when arriving at the cash flow from operating activities as ____.
- A. Depreciation is a non-cash expenditure
 - B. Depreciation does not affect profit
 - C. Depreciation only affects the balance sheet, not the profit and loss account
 - D. None of Above
8. Which of the following would not represent the cash outflows for the business?
- A. Purchase of building for cash
 - B. The sale of land for cash
 - C. Retirement of long-term debt
 - D. The payment of cash for dividends
9. The statement of cash flows does not include cash inflows and outflows for which of the following activities?
- A. Financing activities
 - B. Investing activities
 - C. Operating activities
 - D. Revenue activities
10. Sale of copyright is concerned with cash flow from _____.
- A. Operating activities
 - B. Financing activities
 - C. Investing activities
 - D. Revenue activities

[Answer: 1-C; 2-B; 3-C; 4-B; 5-D; 6-C; 7-A; 8-B; 9-D; 10-C]

Question 38: State whether following statements are true or false:

1. Dividend received by enterprise other than financial enterprise is shown as cash flow from investing activity.
2. Cash collection from customer is shown as a part of calculation of cash flow from operating activities under direct method.
3. Increase in the amount of bills receivable amounts to increase in cash flow from operating activities.
4. Payment of income tax is classified under cash flow from financing activity.
5. Interest paid by an investment company will come under cash flow from operating activity.

[Answer: False; True; False; False; True]

Question 39: Fill in the blanks:

1. For a finance company interest income is a Cash Flow from _____.
2. Investing and financing transactions that _____ require the use of cash or cash equivalents shall be excluded from a statement of cash flows.
3. Income from dividend and interest is a part of _____.
4. For a company other than a finance company payment of interest is a _____ activity.
5. _____ are 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.

[Answer: Operating Activity; do not; Investing Activity; Financing; Cash equivalents]

Question 40: Numerical multiple choice questions:

1. Net profit for the year ₹15,000, interest received in advance on 1st January 2026 ₹2,000 and 31st December 2026 ₹3,000, cash from operation will be –
 - A. ₹16,000
 - B. ₹22,000
 - C. ₹13,000
 - D. ₹15,000
2. X Ltd. purchased machinery of ₹10,00,000 issuing a cheque of ₹2,50,000 and ₹105 Debentures of ₹7,50,000. In the cash flow statement, the transaction will be shown as _.
 - A. Outflow under investing activity ₹10,00,000, inflow under financing activity as receipt for debentures ₹7,50,000
 - B. Outflow under investing activity ₹2,50,000
 - C. Inflow of ₹7,50,000 as financing activity.
 - D. None of the above
3. Given salary expenses ₹40,000, Outstanding in the beginning of the year ₹5,000 and outstanding at the end of the year ₹10,000. Cash outflow on salary will be _____.
 - A. ₹ 55,000
 - B. ₹ 45,000
 - C. ₹ 35,000
 - D. ₹ 15,000
4. If the net profits earned during the year is ₹50,000 and the amount of debtors in the beginning and end of the year is ₹10,000 and ₹20,000 respectively, then the cash from operating activities will be equal to ____.
 - A. ₹ 30,000
 - B. ₹ 40,000
 - C. ₹ 50,000
 - D. ₹ 60,000
5. If the net profits earned during the year is ₹ 50,000 and the bills receivables have decreased by ₹ 10,000 during the year then the cash flow from operating activities will be equal to _____.
 - A. ₹ 30,000
 - B. ₹ 40,000
 - C. ₹ 50,000
 - D. ₹ 60,000

[Answer: 1-A; 2-B; 3-C; 4-B; 5-B]

Important for exam:-**Difference between Cash flow statement as per AS-3 and Ind AS-7:**

AS-3	Ind AS-7
Existing AS 3 is not mandatory for Small and Medium Sized Companies.	Ind AS 7 does not offer any exclusion with regard to its applicability for certain concerns. All Ind AS compliant entities are required to prepare Cash Flow Statement.
Repayment of overdraft as demand is silent in existing AS 3.	Ind AS 7 specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents.
AS 3 uses the term "Reporting Currency"	Ind AS 7 uses the term "functional currency" instead of "Reporting Currency".
AS 3 does not deal with cash flows arising from foreign subsidiaries.	Ind AS 7 deals with translation of cash flows arising from foreign subsidiaries.

CHAPTER 12. UNDERWRITING OF SECURITIES

A company issuing securities to the potential investors cannot completely rule out the possibility of an under-subscription where the number of shares applied falls short of the shares offered for issue. Whatever be the cause, this may lead to serious consequences for the company as its plan of raising capital may be jeopardized. Thus, companies, while issuing securities, often take help of a specialized service providers who guarantee that no security remains unsubscribed. These service providers are known as Underwriters and their service is termed as Underwriting of Securities.

Underwriting of securities is an agreement, entered into by a company (issuing the security) with a financial agency to ensure that the entire issue of securities (shares, debentures etc.) gets fully subscribed. The concerned financial agency is known as 'underwriter'. The underwriters provide their services against certain fees known as 'underwriting commission'.

Types of Underwriting: Underwriting agreements can be classified into various types on different basis. These are:

I. Based on the extent of underwriting:-- (a) full underwriting and (b) partial underwriting:-

When the entire issue is underwritten by the underwriters, it is called Full Underwriting or Complete Underwriting. On the other hand, when only a part of the total issue is underwritten by the underwriters, it is called partial underwriting. Here, the issuing company needs to take the responsibility of the remaining securities.

II. Based on the number of underwriters:-- (a) single underwriting and (b) multiple underwriting:-

When the entire issue is underwritten by a single underwriter, it is called a Single Underwriting. On the other hand, when entire issue is underwritten jointly by more than one financial agency, it is referred to as syndicate or Multiple Underwriting.

III. Based on the Degree of Commitment:-- (a) firm underwriting and (b) regular underwriting:-

In case of firm underwriting, the underwriter gives a specific commitment to take a specified number of shares, irrespective of the number of shares subscribed by the public. On the other hand, regular underwriting refers to the usual underwriting agreement in which the underwriters would be liable to take up the securities in the event of under-subscription.

Meaning of Sub-underwriting:

In order to spread the risk of under-subscription, the principal underwriters may enter into subsidiary agreements in which the underwriter further gets a part of his commitment underwritten by another agency. This is known as Sub-underwriting. Such agreements are made between the underwriters alone, with the company not being a party thereto. As per agreement, the company pays commission at a prescribed rate to the principal underwriters, who in turn, disburse commission to the sub-underwriters. 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. Sub-underwriting is not a separate type of underwriting but rather an extension of an existing underwriting arrangement.

Meaning of Marked vs. Unmarked Applications:-

‘Marked’ applications are those applications which bear the stamp of an underwriter. If the issue is not fully subscribed, ‘marked’ applications shall be applied in reduction of underwriter’s liability.

The ‘unmarked’ applications are those applications which bear no stamp of an underwriter. These applications are received by the company directly from the public. The distinction between marked and unmarked applications becomes immaterial when the whole issue is subscribed by only one underwriter. When there is more than one underwriter, the unmarked applications are divided amongst underwriters. Again, when the issue is fully subscribed, the distinction between marked and unmarked applications becomes immaterial.

Meaning of Underwriter’s Liability: The liability of an underwriter is the number of securities that has to be taken up by him. This liability may be of two types - Gross Liability and Net Liability.

Gross Liability refers to the total commitment of the underwriter as per the underwriting agreement.

Net Liability refers to the liability of taking up the unsubscribed securities after taking into consideration the gross liability as per the agreement of underwriting and applications received (both, marked applications and unmarked applications).

Thus, $\text{Net Liability} = \text{Gross Liability} - (\text{Marked applications} + \text{Proportion of Unmarked applications for which the underwriter has been given credit})$.

Meaning of Underwriting commission:-- Underwriting Commission It may be paid in cash or in fully paid-up shares or debentures or a combination of all these. **It is paid on the issue price of the shares or debentures so underwritten.** As per the provision of **Section 40 of the Companies Act, 2013**, commission is payable if the following conditions are satisfied:

- (i) The payment of the commission is authorized by the articles;
- (ii) The commission paid or agreed to be paid does not exceed in the case of shares, five per cent of the price at which the shares are issued or the amount or rate authorized by the articles, whichever is less, and in the case of debentures, two and a half per cent of the price at which the debentures are issued or the amount or rate authorized by the articles, whichever is less;
- (iii) the commission paid or agreed to be paid is disclosed in the prospectus or statement in lieu of prospectus, as the case may be.
- (iv) commission is not payable on shares and debentures which are not offered to public for subscription. It means no underwriting commission is payable on the shares taken up by the promoters, employees, directors, business associates, etc.

Legal Provisions Regarding Underwriting Commission: As per the provision of Section 40 (6) of the Companies Act, 2013, read with Rule 13 of Companies (Prospectus and Allotment of Securities) Rules, 2014, a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the following conditions, namely:

- (a) the payment of such commission shall be authorized in the company’s articles of association;
- (b) the commission may be paid out of proceeds of the issue or the profit of the company or both;

- (c) the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;
- (d) the prospectus of the company shall disclose -
 - (i) the name of the underwriters;
 - (ii) the rate and amount of the commission payable to the underwriter; and
 - (iii) the number of securities which is to be underwritten or subscribed by the underwriter absolutely or conditionally.
- (e) there shall not be paid commission to any underwriter on securities which are not offered to the public for subscription;
- (f) 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.

Question 1. XYZ Ltd. is issuing 20,00,000 shares of ₹10 each to the public. N Ltd. has been appointed as the underwriter for 5% of the issue size. The commission payable to the underwriter is 5% of the issue price. Calculate the amount of underwriting commission payable to N Ltd. if the shares are issued at par. How will your answer change if the shares are issued at 20% premium? (ICMAI Study material).

Answer: Underwriting Commission ₹ 50,000 if issued at par and ₹ 60,000 if issued at premium.

Question 2. (Single Underwriter – Full Underwriting) A Ltd. issued 1,00,000 equity shares of ₹ 100 each at par to the public, underwritten only by B & Co. The company received applications for 90,000 shares of which 80,000 shares were marked. Determine the liability of the B & Co.

Solution: Underwriting liability of M/s U & Co. =

$$\begin{aligned}
 &= \text{No. of Shares Issued} - \text{No. of shares subscribed by the public} \\
 &= 1,00,000 - 90,000 \\
 &= 10,000 \text{ shares.}
 \end{aligned}$$

Question:3. Export Ltd. incorporated on 1st January, 2023 issued a prospectus inviting applications for 5,00,000 equity shares of ₹ 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	1,00,000 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.

[ICMAI Study material, CMA. Inter June 8 marks]

Question:4. Sam Limited invited applications from public for 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 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.

[CMA (Inter)]

Question: 5. A company made a public issue of 1,25,000 equity shares of ₹ 100 each, ₹ 50 is payable on application. The entire issue was underwritten by four parties— A, B, C and D—in the proportion of 30%, 25%, 25% and 20% respectively. Under the terms agreed upon, a commission of 2% was payable on the amounts underwritten. A, B, C and D had also agreed on "firm" underwriting of 4,000, 6,000, Nil and 15,000 shares respectively. The total subscriptions, excluding firm underwriting, including marked applications were 90,000 shares.

Marked applications received were as under:

A - 24,000 B - 20,000 C -12,000 D - 24,000

Ascertain the liability of the individual underwriters and also show the journal entries that you would make in the books of the company. All workings should form part of your answer.

[C.A. Inter]

Answer:

(i) Computation of Unmarked Applications

Shares subscribed excluding firm underwriting No. of shares

but including marked applications 90,000

Less: Marked applications (24,000 + 20,000 + 12,000 + 24,000) 80,000

Unmarked Applications **10,000**

(ii) Statement showing liability of underwriters

Particulars	A	B	C	D	Total
Gross Liability (30 : 25 : 25 : 20)	37,500	31,250	31,250	25,000	1,25,000
Less: Marked Applications	24,000	20,000	12,000	24,000	80,000
	13,500	11,250	19,250	1,000	45,000
Less: Unmarked Applications (in gross liability ratio)	3,000	2,500	2,500	2,000	10,000
	10,500	8,750	16,750	(1,000)	35,000
Less: Firm Underwriting	4,000	6,000		15,000	25,000
	6,500	2,750	16,750	16,000	
Surplus of D allocated to A B and C 30 : 25 : 25	6,000	5,000	5,000	16,000	
	500	+ 2,250	11,750	-	10,000
Surplus of B allocated to A and C	500	- 2,250	1,750	-	-
	-	-	10,000	-	10,000

(iii) **Statement of underwriter's liability**

Particulars	A	B	C	D	Total
Firm (No. of Shares) Others (No. of Shares)	4,000 ----	6,000 ---	10,000 ---	15,000 ---	25,000 10,000
Total	4,000	6,000	10,000	15,000	35,000

(iv) **Statement showing liability of underwriters**

Particulars	A	B	C	D	Total
Shares to be subscribed as per (iii) above	4,000	6,000	10,000	15,000	35,000
Amount due @ ₹ 50 per share	2,00,000	3,00,000	5,00,000	7,50,000	17,50,000
Less Commission due @ 2% on nominal Value of shares underwritten (₹)	75,000	62,500	62,500	50,000	2,50,000
	1,25,000	2,37,500	4,37,500	7,00,000	15,00,000

Journal Entries

Date	Particulars	L/F	Amount (₹)	Amount (₹)
	Bank A/c Dr. To Share Application A/c (Being application money received on 90,000 shares at ₹ 50 per share from public)		45,00,000	45,00,000
	Share Application A/c Dr. To Share Capital A/c (Being money received on share applications on 90,000 shares transferred to Share Capital A/c)		45,00,000	45,00,000
	A's A/c Dr. B's A/c Dr. C's A/c Dr. D's A/c Dr. To Share Capital A/c (Being application money due from underwriters including firm underwriting)		2,00,000 3,00,000 5,00,000 7,50,000	17,50,000
	Underwriting Commission A/c Dr. To A's A/c To B's A/c To C's A/c To D's A/c (Being underwriting Commission due to underwriters)		2,50,000	75,000 62,500 62,500 50,000
	Bank A/c Dr. To A's A/c To B's A/c To C's A/c To D's A/c (Being amount received from underwriters on account of share application less underwriting commission due to them)		15,00,000	1,25,000 2,37,500 4,37,500 7,00,000

Question:6. Plentiful Ltd. comes out with a public issue of share capital on 1-1-2023 of 10,00,000 equity shares of ₹ 10 each at a premium of 5%. ₹ 2.50 is payable on application (on or before 31-1-2023) and ₹ 3.00 on allotment (31-3-2023) including premium.

The issue is underwritten by two underwriters—Seth and Shetty—equally. The commission being 5% of the issue price. Each of the underwriters underwrites 20,000 shares firm.

Subscriptions total 9,60,000 shares, the distribution of forms being:

Seth: 5,20,000; Shetty : 3,60,000 and unmarked forms 80,000.

One of the allottees (using forms marked with the name of Seth) for 2,000 shares, fails to pay the amount due to allotment, all other money due being received in full including any due from the share devolving upon the underwriters. The commission due is paid separately.

The shares of the indifferent allottee are finally forfeited by 30-6-2023 and are re-allotted for payment in cash of ₹ 4 per share. You are required to pass journal entries to record the above events and transactions (including cash).

Question:7. Norman Ltd. issued 80,000 Equity shares which were underwritten as follows:

Mr. A	48,000 Equity Shares
MessrsB&Co.	20,000 Equity Shares
MessrsC Corp.	12,000 Equity Shares

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

Mr. A	6,400 Equity Shares
MessrsB &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. **(ICMAI STUDY Material)(C.M.A. Inter, Dec, 1997)**

Question: 8. A joint stock companies resolved to issue 10 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows:

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked Applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totalled 7,00,000 shares. Accounts with the underwriters were promptly settled.

You are required to:

- (i) Prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.
- (ii) Pass journal entries for all the transactions including cash transactions. **(ICMAI STUDY Material)**

Question: 9 The following underwriting took place for P. Ltd. which invited applications for 10,000 shares of ₹ 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.

(ICMAI Study material).

Solution: (i) When firm underwriting is treated as unmarked applications. Calculation of Liability of the underwriters (No. of shares)

Particulars	X	Y	Z
Gross Liability	6,000	2,500	1,500
Less: Marked Applications	1,000	2,000	500
	5,000	500	1,000
Less: Unmarked Applications	2,160	900	540
	2,840	(400)	460
Surplus of Y apportioned between X & Z in the ratio of Gross Liability (1: 2: 3 or 4:1)	(320)	400	(80)
Net Liability under contract	2,520	Nil	380
Add: Firm Underwriting	800	300	1,000
Net Liability	3,320	300	1,380

(ii) When firm underwriting is treated as marked application. Calculation of Liability of the underwriters (No. of shares)

Particulars	X	Y	Z
Gross Liability	6,000	2,500	1,500
Less: Marked Applications including firm underwriting	1,800	2,300	1,500
	4,200	200	Nil
Less: Unmarked Applications	900	375	225
	3,300	(175)	(225)
Surplus of Y and Z apportioned to X	(400)	175	225
Net Liability under contract	2,900	Nil	Nil
Add: Firm Underwriting	800	300	1,000
Net Liability	3,700	300	1,000

Question:10. Scorpio Ltd. came out with an issue of 45,00,000 equity shares of ₹ 10 each at a premium of ₹ 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.	<u>13,10,000</u>	shares
Total	<u>28,75,000</u>	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:

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

(ICMAI STUDY Material, (CMA-INTER 2005)

Answer:

Particulars	A & Co. (₹)	B & Co. (₹)	C & Co. (₹)
Gross liability	12,00,000	12,00,000	12,00,000
Less: Firm Underwriting	(1,00,000)	(1,00,000)	(1,00,000)
	11,00,000	11,00,000	11,00,000
Less: Marked Application	(7,25,000)	(8,40,000)	(13,10,000)
	3,75,000	2,60,000	(2,10,000)
Less: Unmarked Application (in Gross Liability ratio)	(75,000)	(75,000)	(75,000)
	3,00,000	1,85,000	(2,85,000)
Less: Surplus of C & Co. transfer to A & Co. & B & Co. in Gross liability Ratio	(1,42,500)	(1,42,500)	2,85,000
Net Liabilities	1,57,500	42,500	-
Add: Firm underwriting	1,00,000	1,00,000	1,00,000
Total Liabilities	2,57,500	1,42,500	1,00,000

Calculation of Amount Receivable & Payable to Underwriters

Gross Liability (12,00,000 shares @ ₹ 10)	1,20,00,000	1,20,00,000	1,20,00,000
Amount Receivable @ 12 per share (A)	30,90,000	17,10,000	12,00,000
Commission Payable (5% on 12 lakhs shares ₹ 10 each)	6,00,000	6,00,000	6,00,000
Net Amount Receivable (A) – (B)	24,90,000	11,10,000	6,00,000

Journal Entries

Date	Particulars	L/F	Amount (₹)	Amount (₹)
	Underwriting Commission A/c Dr. To A & Co. A/c To B & Co. A/c To C & Co. A/c (Being underwriting commission on the shares underwritten equally)		18,00,000	6,00,000 6,00,000 6,00,000
	A & Co. A/c Dr. B & Co. A/c Dr. C & Co. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being shares & firm underwritten shares allotted to the underwriters)		30,90,000 17,10,000 12,00,000	50,00,000 10,00,000
	Bank A/c Dr. To A & Co. A/c To B & Co. A/c To C & Co. A/c (Being the amount received towards shares allotted to underwriting after deducting underwriting commission due to them)		42,00,000	24,90,000 11,10,000 6,00,000

Question:-11. A company entered into an underwriting agreement with Mr. B for 60% of the issue of ₹ 50,00,000, 15% debentures, with a firm underwriting of ₹ 5,00,000. Marked applications were in respect of debentures worth ₹ 35,00,000. Compute liability of Mr. B and commission payable to him.

Question:- 12. Chaitanya 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.

Question:- 13. Delta 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.

Answer:- Computation of liability of underwriters

Particulars	(In Sharea)			
	P	Q	R	Total
Gross liability	4,00,000	6,00,000	8,00,000	18,00,000
Less: Firm underwriting	(50,000)	(60,000)	(70,000)	(1,80,000)
	3,50,000	5,40,000	7,30,000	16,20,000
Less: Marked applications received	(3,00,000)	(3,50,000)	(4,50,000)	(11,00,000)
	50,000	1,90,000	2,80,000	5,20,000
Less: Unmarked applications (in gross liability ratio 4 : 6 : 8)	(64,000)	(96,000)	(1,28,000)	(2,88,000)
Balance	(14,000)	94,000	1,52,000	2,32,000
Excess of P distributed to Q & R in ratio (3 : 4)	14,000	(6,000)	(8,000)	-----
Net liability (Other than firm underwriting)	-----	88,000	1,44,000	2,32,000
Add: Firm underwriting	50,000	60,000	70,000	1,30,000
Total liability of underwriters including firm underwriting	50,000	1,48,000	2,14,000	4,12,000
Total liability in amount @ 10 each	₹ 5,00,000	₹ 14,80,000	₹ 21,40,000	₹ 41,20,000

Question 14: L Limited came up with an issue of 20,00,000 Equity Shares of ₹ 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 ₹ 2.50 and ₹ 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.

(ICMAI STUDY Material)

Question 15. Mr. X underwrites 60% of an issue of 20,000 shares of ₹ 100 each of ABC Ltd. He has also agreed for a firm underwriting for 1,600 shares. The company received applications for 13,600 shares out of which were 8,000 marked applications. Determine the number of shares to be taken up by Mr. X:

- a) If the underwriting contract provides that no abatement would be allowed in respect of shares taken up 'firm'.
- b) If the underwriting contract provides that abatement would be allowed in respect of shares taken up 'firm'.

(ICMAI Study material)

Solution: Gross Liability = 20,000 x 60% = 12,000 shares

No. of unsubscribed shares = Total no. of shares offered (–) No. of shares subscribed (including marked applications)
= 20,000 – 13,600 = 6,400 shares.

Deficit of the underwriter = Gross Liability (–) Marked Applications
= 12,000 – (8,000 + 1,600) = 2,400.

Net Liability under the underwriting contract = 6,400 or 2,400 – lower of the two = 2,400

Case (a) When no abatement would be allowed in respect of shares taken up ‘firm’

Number of shares to be taken up by the underwriter = ‘Net Liability under the underwriting contract’ + Firm Underwriting = 2,400 + 1,600 = 4,000 shares

Case (b) When abatement would be allowed in respect of shares taken up ‘firm’

Number of shares to be taken up by the underwriter = ‘Net Liability under the underwriting contract’ or Firm Underwriting – whichever is higher. = 2,400 or 1,600 – higher of the two = 2,400 shares.

Question 16. (Partial underwriting, Multiple underwriters, Without Firm underwriting) C Ltd. offered for the issue of 3,00,000 equity shares of ₹ 10 each. The issue was partially underwritten by M, N and 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.

Required: (a) Compute the liability of the underwriters, (b) Determine how many share-remain unissued.

(a) Solution: Calculation of Liability of the underwriters (No. of shares):

Particulars	M	N	O
Gross Liability	1,20,000	90,000	60,000
Less: Marked Applications	1,05,600	78,000	50,000
Net Liability	14,400	12,000	10,000

(b) Shares remained unissued = 3,00,000 – 2,40,000 – (14,400 + 12,000 + 10,000) = 23,600 shares.

Question: 17. (Partial underwriting, Multiple underwriters, With Firm underwriting)

Solution: Calculation of Liability of the underwriters (No. of shares): 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.

Particulars	A	B	C
Gross Liability	75,000	30,000	30,000
Less: Marked Applications including firm underwriting	78000	27,000	28,500
Less: Surplus of A apportioned between B and C in the ratio of gross liability i.r., 20% : 20% or 1 : 1	(3,000)	3,000	1,500
	3,000	(1,500)	(1,500)
Net Liability under contract	Nil	1,500	Nil
Add: Firm Underwriting	6,000	3,000	3,000
No. of shares to be taken up	6,000	4,500	3,000

Question 18. Fill in the blanks: (based on issue of shares, redemption of preference shares, bonus issue, underwriting agreements) (ICMAI Study material)

- (i) Register of Members is one of the _____ Books maintained by a company.
- (ii) _____ is that part of the authorized capital which is offered to the public for subscription is called issued capital.
- (iii) The application money to be refunded shall be credited only to the bank account from which the _____ was remitted.
- (iv) When a share is issued at a value greater than its face value it is said to be issued at a _____.
- (v) Except as provided in section 54, a company shall not issue shares at a _____.
- (vi) Issue of Bonus Share decreases the _____.
- (vii) _____ share is permissible from the existing security holders on a proportionate basis through the tender offer.
- (viii) At the time of cancellation of own debentures _____ A/c is Credited.
- (ix) There are _____ types of Underwriting Agreements.
- (x) A company is a distinct legal person existing _____ of its members.

Answer: (i) Statutory; (ii) Issued Capital; (iii) subscription; (iv) Premium; (v) Discount; (vi) Reserves & Surplus; (vii) Buy-back; (viii) Own Debentures; (ix) Two; (x) independent.

Question 19 : State True or False (based on shares and debentures) (ICMAI Study material)

- As per Sec 2(43) of the Companies Act, 2013, "Free Reserves" mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.
- After the allotment of shares, sometimes a shareholder is not able to pay the further calls and returns his shares to the company for cancellation. Such voluntary return of shares to the company by the shareholder himself is called Forfeiture of Shares.
- A Company cannot buy-back its shares from any person through a negotiated deals whether on or off the stock exchange.

4. A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital and it is a disadvantage.
5. Issue of debentures as a collateral security means issue of debentures as a main security, that is, a security in addition to the prime security.
6. Debenture carries a fixed rate of dividend.
7. 'Unmarked' applications are those applications which bear the stamp of an underwriter.
8. The sum which is still to be paid to the Company for a share is known as calls in arrears.
9. An infrastructure company can issue preference shares with a maximum tenure of 20 years.
10. A company limited by shares shall not issue any preference shares which are irredeemable.

[Answer: True; False; True; False; False; True; False; False; True; True]

Question 20. MULTIPLE CHOICE QUESTIONS:

1. A person who undertake to take up the whole or a portion of the offered shares or debentures as may not be subscribed for by the public is called –
(A) Writer (B) Share writer (C) Broker (D) Underwriter
2. Underwriting is a contract of –
(A) Indemnity (B) Bailment (C) Guarantee (D) Pledge
3. As per the SEBI Regulations, the subscription list for public issues should be kept open for at least _____ and not more than _____ as disclosed in the prospectus.
(A) 5 working days; 8 working days (B) 3 working days; 10 working days
(C) 3 working days; 7 working days (D) 5 working days; 10 working days
4. As per SEBI Regulations, the minimum subscription has been fixed at _____ of the issued amount.
(A) 60% (B) 70% (C) 80% (D) 90%
5. DELETED
6. DELETED
7. Section 40(6) of the Companies Act, 2013 provides that a company can pay to any person in connection with issue of securities subject to prescribed conditions.
(A) Salary (B) Remuneration (C) Commission (D) Incentive
8. Which of the following is essential condition for payment of underwriting commission?
(A) The payment of commission shall be authorized by the company's articles of association.
(B) There shall not be paid commission to any underwriter on securities which are not offered to the public for subscription.
(C) 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.
(D) All of the above
9. The underwriting commission may be paid out of:
(A) Proceeds of the issue (B) Profit of the company (C) Securities Premium (D) All of the above
10. In the event of non-receipt of minimum subscription all applications moneys received should be refunded within period stated below:
(a) For non-Underwritten issues: Within of the closure of the issue.
(b) For underwritten issues: Within _____ of the closure of the issue.

Select the correct answer from the options given below.

- (A) 7 days; 15 days (B) 10 days; 15 days
(C) 15 days; 10 days (D) 15 days; 7 days
11. In case of issue of shares, underwriting commission shall not exceed –
(A) 5% of the issue price (B) 5% of the nominal value
(C) 2.5% of the issue price (D) 2.5% of the nominal value
12. In case of issue of debentures, underwriting commission shall not exceed –
(A) 2.5% of the nominal value (B) 2.5% of the issue price
(C) 5% of the market price (D) 5% of the face value
13. In case of issue of shares, the rate of underwriting commission paid or agreed to be paid shall not exceed:
(A) 5% of the issue price
(B) A rate authorized by the articles
(C) 5% of the issue price or a rate authorized by the articles, whichever is more.
(D) 5% of the issue price or a rate authorized by the articles, whichever is less.
14. In case of issue of debentures, the rate of underwriting commission paid or agreed to be paid shall not exceed:
(A) 2.5% of the issue price (B) A rate authorized by the articles
(C) 2.5% of the face value or a rate authorized by the articles, whichever is less.
(D) 2.5% of the issue price or a rate authorized by the articles, whichever is less.
15. A definite commitment by the under-writer to take up a specified number of shares or debentures of a company irrespective of the number shares or debentures subscribed for by the public is known as-
(A) Definite underwriting (B) Pakka underwriting
(C) Marked underwriting (D) Firm underwriting
16. Unmarked application has to be distributed to underwriters in the ratio of –
(A) Gross Liability Ratio (B) Last Agreed Ratio (C) Net Liability Ratio (D) Equal ratio
17. Applications bearing the stamp of the respective underwriter are called as:
(A) Firm applications (B) Stamped applications
(C) Underwritten application (D) Marked applications
18. A broker –
(A) Undertakes to find buyers who are willing to buy shares and debentures
(B) Does not guarantee the sale of shares and debentures
(C) Both (A) and (B)
(D) (B) only not (A)
19. An underwriter-
(A) Guarantees that if the public do not take up all shares the underwriters will purchase the remaining shares.
(B) Agrees to receive an underwriting commission at prescribed percentage allowed as per law.
(C) Both (A) and (B)
(D) (A) only not (B)
20. Who of the following generally acts as underwriter?
(A) Financial institutions
(B) Banks
(C) Merchant bankers
(D) All of the above

21. As per SEBI Regulations, the merchant banker shall underwrite atleast ____itself or jointly with other merchant bankers associated with the issue.
 (A) 15% of issue size
 (B) 10% of issue size
 (C) 25% of issue size
 (D) 5% of issue size
22. As per SEBI Regulations, the capital adequacy requirement for underwriter is net worth of _____.
 (A) ₹10 lakhs (B) ₹20 lakhs (C) ₹50 lakhs (D) ₹ 100 lakhs
23. LPG Ltd. issued 32,000 shares which were underwritten as follows:
 A: 19,200 shares, B: 8,000 shares & C: 4,800 shares.
- The underwriters made applications for firm underwriting as –
 A: 2,560 shares, B: 960 shares & C: 3,200 shares.
- Details of marked application are –
 A: 3,200 shares, B: 6,400 shares and C: 1,600 shares.
- Unmarked applications are for 11,520 shares. Find out the net (total) liability of individual underwriters.
 (A) 5120; 960; 3,200 respectively
 (B) 2,560; nil; nil respectively
 (C) 10,264; 940; 4,146 respectively
 (D) 10,462; 940; 4,641 respectively

IMPORTANT NOTE: For MCQs, if firm underwriting is given in question, then net liability should be considered as total liability of underwriters(unless otherwise clearly mentioned)

24. COC Ltd. issued 1,00,000 shares for public subscription and these were underwritten by A, B and C in the ratio of 25%,30% and 45% respectively. Applications were received for 80,000 shares and of these applications for 16,000 shares had the stamp of A, those for 20,000 shares had the stamp of B and those of 24,000 shares had the stamp of C. The remaining applications did not bear any stamp. Net liability of underwriters in shares is:
- | | A | B | C |
|-----|--------|--------|--------|
| (A) | 4,000 | 12,000 | 4,000 |
| (B) | 6,000 | 6,000 | 18,000 |
| (C) | 4,000 | 4,000 | 12,000 |
| (D) | 12,000 | 4,000 | 4,000 |
25. NZ Ltd. issued 34,000 shares of ₹100 at a premium of ₹ 15 each. 90% of the issue was underwritten by M/s Broker & Co. Applications were received for 27,200 shares and allotment was fully made. Net liability of underwriter for shares =?
 (A) 30,600 shares (B) 24,480 shares (C) 8,840 shares (D) 6,120 shares
26. XM Ltd. issued 25,000 shares of ₹100 at a premium of ₹15 each. 90% of the issue was underwritten by M/s UX & Co. at a maximum commission allowed under the Companies Act, 2013. Applications were received for 8,000 shares. Commission =?
 (A) ₹1,92,725 (B) ₹1,29,375 (C) ₹97,750, (D) ₹62,450
27. LG Ltd. issued 10,000 shares of ₹100 at a premium of ₹15 each. 90% of the issue was underwritten by M/s X & Co. at a commission of 1% on the nominal value. Applications were received for 8,000 shares and allotment was fully made. All money was received in one instalment. Net amount to be received from underwriter at the time of allotment of shares is –
 (A) ₹ 2,07,000 (B) ₹ 1,98,000 (C) ₹ 2,16,000 (D) ₹ 1,42,000

28. Z Ltd. entered into an underwriting agreement with B Ltd. for commission of 2.5% for 60% of the issue of ₹ 35,00,000, 15% Debentures with a firm underwriting of ₹3,50,000. Marked application were for ₹ 24,50,000 debentures. Calculate the commission payable to underwriter.
 (A) ₹75,000 (B) ₹87,500 (C) ₹ 64,750 (D) ₹52,500
29. X Ltd. entered into an underwriting agreement with Y Ltd. for commission of 2.5% for 60% of the issue of ₹50,00,000, 15% Debenture with a firm underwriting of ₹5,00,000. Marked application were for ₹35,00,000 debentures. Net(total) liability of underwriter =?
 (A) Nil (B) ₹ 6,00,000 (C) ₹ 5,00,000 (D) ₹ 8,00,000
30. MMW Ltd. made an issue of 47,000, 10% mortgage debentures of ₹100 each at par. The whole of the issue was underwritten by Y & Co. 39,950 debentures were applied for and allotted to the public. Net liability of underwriter to take number of debenture will be –
 (A) 39,950 debentures (B) 47,000 debentures
 (C) 7,050 debentures (D) 8,370 debentures

Answers:

1.	(D)	2.	(C)	3.	(B)	4.	(D)	5.	deleted	6.	deleted	7.	(C)
8.	(D)	9.	(D)	10.	(D)	11.	(A)	12.	(B)	13.	(D)	14.	(D)
15.	(D)	16.	(A)	17.	(D)	18.	(C)	19.	(C)	20.	(D)	21.	(A)
22.	(B)	23.	(A)	24.	(C)	25.	(D)	26.	(B)	27.	(B)	28.	(D)
29.	(C)	30.	(C)										

CHAPTER 13. ELECTRICITY COMPANY

In India, administration including accounting of electricity companies is guided by **the Electricity Act, 2003**.

Main features of electricity Act, 2003:

Following are the main features of Electricity Act, 2003.

- a. The activities like generation, transmission and distribution of power have been separately identified.
- b. Power generation has completely been de-licensed (except for hydro power projects).
- c. 10% of the power supplied by suppliers and distributors to the consumers has to be generated using renewable and non-conventional sources of energy.
- d. Setting up State Electricity Regulatory Commission (SERC) has been made mandatory.
- e. Appellate Tribunal to hear appeals against the decision of the CERC and SERCs.
- f. Ombudsman scheme for consumers' grievance redressal has been introduced.
- g. Provision has been incorporated for private licensees in transmission and entry in distribution through an independent network.
- h. Metering of all electricity supplied has been made obligatory.
- i. Provision relating to theft of electricity have been made stricter.

Role of central electricity Authority:

The Central Government has the power to constitute a body called Central Electricity Authority generally to exercise prescribed functions and perform prescribed duties. The office of the CEA is an "Attached Office" of the Ministry of Power. The CEA is responsible for the technical coordination and supervision of programmes and is also entrusted with prescribed statutory functions.

The CEA shall consist of not more than 14 Members (including its Chairperson), of whom not more than 8 shall be full-time members to be appointed by the Central Government. The Central Government appoints one of the full-time members to be the chairman of the Authority.

Role of Central Electricity Regulatory Commission (CERC):

The Central Electricity Regulatory Commission shall be a body corporate, having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue or be sued.

The Central Commission shall consist of the following Members namely:

- i. A chairperson and 3 Members
- ii. The Chairperson of the Authority who shall be the Member, ex-officio.

The Chairperson and Members of the Central Commission shall be appointed by the Central Government on the recommendation of the Selection Committee.

The functions of the Central Commission include regulating the tariff of generating companies, the inter-state transmission of electricity, to issue licenses, to levy fees, to fix trading margin etc.

Role of State Electricity Commission (SEC):

The State Electricity Commission shall be a body corporate, having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue or be sued.

The functions of the State Commission include determining the tariff of generation, supplying, transmission and wheeling of electricity companies, wholesale, bulk or retail, regulating the inter-state transmission of electricity, to issue licenses, to levy fees, to fix trading margin etc.

Accounting in electricity companies:

Topics to be covered:

- (1) Accounting and reporting of security deposits
- (2) Accounting for Service Line cum Development (SLD) Charges
- (3) Accounting for Grant Received under APDRP (Currently R-APDRP):
- (4) Accounting for Depreciation:
- (5) Components of Tariff (A Thermal Generating Station):
- (6) Computation of interest on loan and Return on equity (ROE)
- (7) Computation of Interest on Working Capital
- (8) Computation of Operation and Maintenance Expenses
- (9) Preparation of Financial Statements of an Electricity Company

1. Accounting and reporting of security deposits:

As per condition of supply, all State Electricity Boards are empowered to collect security deposit from their consumers. Security deposit collected from the consumers act as a cushion against the possible loss due to non-payment by the consumer.

Legal provisions:

- a. 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.
- b. The amount of Security Deposit for a consumer shall be determined as follows:

Security Deposit

= Load × Load Factor of the category in which the consumer falls × (Billing cycle + 45 days) × Current tariff

Question 1. Calculate amount of security deposit and make Journal entry:

Load sanctioned = 40 Kwh

Load factor = 2.5

Billing cycle = 30 days

Current tariff = ₹6

Answer: ₹ 45,000.

c. Accounting for security deposits:

	(i) On Receipt of Security Deposit: Bank A/c Dr. To Security Deposit A/c (Being the Security Deposit received)		
	(ii) On Making Provision for Interest Accrued on Security Deposit Interest Expense A/c Dr. To Interest Accrued on Security Deposit A/c (Being the Provision for Interest Accrued on Security Deposit Made)		
	(iii) On Adjustment of Interest Accrued on Security Deposit in Consumer's Bill: Interest Accrued on Security Deposit A/c Dr. To Sales Turnover A/c (Being the Adjustment of Interest Accrued on Security Deposit in Consumer's Bill)		

Question 2: Security deposit received from a customer on 01.07.2025 for ₹5,00,000. Interest rate applicable was 8% p.a. for 2025-26. The accrued interest for the year is adjusted against the bill for the immediate next quarter. Total bill raised for immediate next quarter is ₹1,80,000. Journalize the above transaction for 2025-26.

Question 3: Security deposit received from a customer on 01.10.2024 for ₹2,00,000. Interest rate applicable was 8% p.a. for 2024-25 and 9% p.a. for 2025-26. The accrued interest for the year is adjusted against the bill for the immediate next quarter. Journalize the above transaction for 2024-25 and 2025-26. **(ICMAI Study material)**

Reporting of Security Deposit in the Balance Sheet of Distribution Licensee:

- Balance of Security Deposit A/c at the end of the accounting period should be disclosed as a Non- current Liability in the Balance Sheet.
- Balance of Interest Accrued on Security Deposit A/c at the end of the accounting period should be disclosed as Non-current Liability in the Balance Sheet as the same is, in substance, not repayable within a period of 12 months from the reporting date and hence does not satisfy any of the conditions of classifying a liability as current.

2. Accounting for Service Line cum Development (SLD) Charges Received from Consumers:

The Service Line cum Development (SLD) Charges can be accounted and reported under any one of the following methods:

Accounting Practice 1: SLD is accounted for as a 'liability' and subsequently proportionate amount is transferred to Income Statement during the expected life of the Asset.

Accounting Practice 2: SLD is accounted for as Reserve as the amount is not refundable and disclosed under the head 'Reserves and Surplus' without transferring any proportionate amount to Income Statement during the expected life of the Asset.

Accounting Practice 3: SLD is accounted for as Capital Reserve as the amount is not refundable and 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.

Journal entries:

	(i) On Receipt of SLD Charges: Bank A/c Dr. To Capital Service Line Contribution A/c (Being the SLD Charges received)		
	(ii) On Transfer of Proportionate Amount to Income: Capital Service Line Contribution A/c Dr. To Statement of Profit and Loss (Being the Transfer of Proportionate amount to the Income Statement)		

Accounting Practice 4: SLD is accounted for as reduction in the cost of Non-Current Asset and depreciation is provided on such reduced cost.

Question 4: BSES, an electricity company, acquired non-current asset of ₹40,00,000. Company charged ₹5,00,000 as SLD charge from its customers. Make journal entries for the first year, if rate of depreciation is 10% P.a.

3. Accounting for Grant Received under APDRP (Currently R-APDRP):

With respect to the accounting for Grant Received under APDRP the following points are noteworthy:

1. Grant received under the Accelerated Power Development and Reforms Programme (APDRP) of the Ministry of Power, Government of India towards capital expenditure is treated as capital receipt and accounted as Capital Reserve and subsequently adjusted as income (by transfer to the Statement of Profit and Loss) in the same proportion as the depreciation written off on the assets acquired out of the grant.
2. The depreciation for the year to be debited to the Statement of Profit and Loss on asset acquired out of grant to match against portion of grant transferred from Capital Reserve.
3. The unadjusted balance of Capital Reserve is disclosed under the head, Reserves and Surplus, in the Balance Sheet.

4. In the Cash Flow Statement Grant received under APDRP is reported under Financing Activity.
5. At any time if the ownership of the assets acquired out of the grants vest with the Government, the grants (Capital Reserve) are adjusted in the carrying cost of such assets.

4. Accounting for Depreciation:

Calculation of Depreciation for the Purpose of Tariff as per 2019 Regulation: The calculation of depreciation shall be done considering the following points:

- a. The value base for the purpose of depreciation shall be the capital cost of the asset.
- b. Land other than the land held under lease and the land for reservoir in case of hydro generating station shall not be a depreciable asset and its cost shall be excluded from the capital cost while computing depreciable value of the asset.
- c. Depreciation shall be calculated annually, based on Straight Line Method over the useful life of the asset and at the rates prescribed in Appendix I to the Regulation.
- d. The Residual Life of the asset shall be considered as 10 years.
- e. The Salvage Value of the asset shall be considered as 10%.
- f. Depreciation shall be allowed up to maximum of 90% of the capital cost of the asset, provided that the salvage value for IT equipment and software shall be considered as NIL.
- g. Depreciation shall be chargeable from the first year of operation. In case of operation of the asset for part of the year, depreciation shall be charged on pro-rata basis.

Appendix – I of Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019:

	Assets	Depreciation rate (residual value 10%) by SLM
A	Land under full ownership	0.00%
B	Land under lease	3.34%
C	Assets purchased new:	
a.	Plant and Machinery in generating stations	5.28%
b.	Cooling towers and circulating water systems	5.28%
c.	Hydraulic works forming part of the Hydro-generating stations	5.28%
d.	Building and civil engineering works:	
	Temporary erections such as wooden structures	100%
	Others	3.34%
e.	Transformers, Kiosk, sub-station equipment & other fixed apparatus (including plant)	5.28%
f.	Switchgear including cable connections	5.28%
g.	Lightning arrestor	5.28%
h.	Batteries	5.28%

i.	Overhead lines including cable support	5.28%
j.	Meters	5.28%
k.	Self-propelled vehicles	9.50%
l.	Air Conditioning Plants:	
	Static	5.28%
	Portable	9.50%
m.	Office furniture and furnishing:	
	Street Light fittings	5.28%
	Others	6.33%
n.	Apparatus let on hire:	
	Other than motor	9.50%
	Motor	6.33%
o.	Communication equipment	6.33%
p.	I. T Equipment including software	15.00%
q.	Any other assets not covered above	5.28%

How to Calculate Weighted Average Rate of Depreciation:

Step 1: Calculate Depreciation on Individual Assets (other than Freehold Land) at the Rates as per Appendix III.

$$= \text{Cost of the Asset} \times \text{Prescribed Rate of Depreciation.}$$

Step 2: Calculate Total Depreciation on All Assets (other than Freehold Land). i.e., is the sum total of depreciation calculated on each asset:

$$= \text{Depreciation on Asset 1} + \text{Depreciation on Asset 2} + \dots$$

Step 3: Calculate Total Capital Cost of All Assets (other than Freehold Land).

Step 4: Calculate Weighted Average Rate of Depreciation:

$$= \frac{\text{Total depreciation on all assets (other than freehold land)}}{\text{Total capital cost of all assets (other than freehold land)}} \times 100$$

Note: the weighted average rate of depreciation is used for calculation of tariff.

Question 5: Calculate depreciation from the following weighted average rate of information:

Freehold land	₹5,00,000
Leasehold land	₹2,00,000
Building	₹7,00,000
Wooden structure	₹1,00,000
IT Equipment	₹1,50,000
Self-propelled vehicles	₹2,50,000
Office furniture	₹50,000
Communication equipment	₹1,50,000

Answer: 11.81%

Question 6: Calculate weighted average rate of depreciation from the following information:

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 Equipment	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 Equipment	5,00,000
9. Office Furniture, Furnishing, Equipment, 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	42,00,000
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

(ICMAI Study material)

Solution: Calculation of total cost and total depreciation:

Assets	Rate	Cost	Depreciation
1. Land under full ownership	0.00%	14,30,000	0
2. Land under Lease	3.34%	4,30,000	14,362
a. Building & Civil Engineering Works other than Kutcha Roads	3.34%	33,00,000	1,10,220
b. Railways Sidings	3.34%	40,00,000	1,33,600
c. Temporary Erections such as Wooden Structures	100.00%	10,00,000	10,00,000
4. IT Equipment	15.00%	20,00,000	3,00,000
5. Self-Propelled Vehicles	9.50%	30,00,000	2,85,000
6. Portable Air Conditioning Plants	9.50%	25,00,000	2,37,500
7. (a) Apparatus other than Motors let on hire	9.50%	15,00,000	1,42,500

(b) Motors let on hire	6.33%	2,00,000	12,660
8. Communication Equipment	6.33%	5,00,000	31,650
9. Office Furniture, Furnishing, Equipment, Fittings & Apparatus	6.33%	5,00,000	31,650
10. Plants & Machinery in generating stations	5.28%	2,52,00,000	13,30,560
11. Cooling Towers & Circulating Water Systems	5.28%	10,00,000	52,800
12. Hydraulic Works Forming part of the Hydro-dams, etc.	5.28%	20,00,000	1,05,600
13. Transformers & Switchgear	5.28%	2,05,00,000	10,82,400
14. Lighting Arrestor, Batteries, Overhead lines including cable support	5.28%	42,00,000	2,21,760
15. Meters	5.28%	20,00,000	1,05,600
16. Static Air Conditioning Plants	5.28%	1,00,00,000	5,28,000
17. Street Light Fittings	5.28%	47,85,000	2,52,648
18. Vehicles other than Self Propelled Vehicles	5.28%	2,15,000	11,352
Total		9,02,60,000	59,89,862

Total Capital Cost of All Assets (other than Freehold land) = ₹9,02,60,000 - ₹14,30,000 = ₹8,88,30,000.

Weighted Average Rate of Depreciation = $\frac{59,89,862}{8,88,30,000} \times 100 = 6.4731\%$.

Question 7: Calculate depreciation as per 2019 regulations from the following information of an Electricity generation project:

- i. Date of commercial operation i.e. 1.8.2024.
- ii. Approved capital cost ₹7,40,000
- iii. Capital cost incurred till 1-8-2024 = ₹5,00,000
- iv. Additional capital cost incurred:
 - 24-25 – ₹1,80,000
 - 25-26 – ₹2,00,000
 - 26-27 - ₹1,00,000
- v. Cost of free hold land included in total capital cost incurred till 1-8-2018 = ₹2,00,000.
- vi. Average weighted rate of depreciation:
 - 24-25 = 5.8%
 - 25-26 = 5.9%
 - 26-27 = 6.1%

Question 8. Calculate depreciation as per 2019 regulations from the following information of an Electricity generation project

- (i) Date of commercial operation i.e. 1.9.2023.
- (ii) The details of actual expenditure incurred up to the date of commercial operation i.e 1.9.2023 and projected expenditure to be incurred from the date of commercial operation up to 31.3.2026 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 31.3.2024	Proposed Expenditure for 2024-25	Total Expenditure completion cost
₹4,20,000	₹4,00,000	₹1,00,000	₹20,000	₹5,20,000

(iii)

	23-24	24-25	25-26
Average Rate of Depreciation Calculated as per rates Specified in Appendix-III	5.3%	5.2%	5.4%

Additional capital expenditure of ₹20,000 lakh has been considered out of ₹1,00,000 lakh for the year 2023-24 and no further additional capital expenditure has been considered as capital cost has been restricted to apportioned approved cost in the absence of revised capital expenditure

Question 9. Calculate depreciation upto 2025-26, as per 2019 regulations, from the following information of XYZ Power generation Project

Date of commercial operation/Work Completed Date 1-april-2008

Beginning of Current year 1-Apr-2023

Useful life 35 years

		(Figures in ₹ Crores)
1.	Capital Cost at beginning of the year 2023-24	222.00
2.	Additional Capitalisation during the year: 2024-25	10.56
	2025-26	29.44
3.	Value of Freehold Land	12.00
4.	Depreciation recovered up to 2021-22	48.60
5.	Depreciation recovered in 2022-23	5.40

5. Components of Tariff :

The tariff for supply of electricity from a thermal generating station shall comprise two parts, namely, capacity charge (for recovery of annual fixed cost) and energy charge (for recovery of primary and secondary fuel cost and cost of limestone and any other reagent).

a. Capacity Charges: The capacity charges shall be derived on the basis of annual fixed cost. The Annual Fixed Cost (AFC) of a generating station or a transmission system including communication system shall consist of the following components:

- (i) Return on equity;
- (ii) Interest on loan capital;
- (iii) Depreciation; Interest on working capital; and
- (iv) Operation and maintenance expenses.

b. Energy Charges: Energy charges shall be derived on the basis of the landed fuel cost (LFC) of a generating station and shall consist of the following cost:

- (i) Landed Fuel Cost of primary fuel;
- (ii) Cost of secondary fuel oil consumption; and
- (iii) Cost of limestone or any other reagent, as applicable.

6. Computation of interest on loan and Return on equity (ROE):

(i) Debt-equity ratio: -

For new projects, the debt-equity ratio of 70:30 as on date of commercial operation shall be considered. If the equity actually deployed is more than 30% of the capital cost, equity in excess of 30% shall be treated as normative loan. Where equity actually deployed is less than 30% of the capital cost, actual equity shall be considered for determination of tariff.

(ii) Return on equity:

Return on equity shall be computed at the base rate of 15.50% for thermal generating station, transmission system including communication system and run-of-river hydro generating station, and at the base rate of 16.50% for the storage type hydro generating stations including pumped storage hydro generating stations and run-of-river generating station with pondage.

Calculation of ROE at normal rate is done as follows:

	Particulars	Year 1	Year 2	Year 3
1	Gross Opening Equity (Normal)			
2	Less: Adjustment in Opening Equity			
	Less: Adjustment during the year			
3	Net Opening Equity (Normal)			
4	Add: Increase in equity due to addition during the year / period			
5	Less: Decrease due to De-capitalisation during the year / period			
6	Less: Decrease due to reversal during the year / period			

8	Net closing Equity (Normal)			
9	Average Equity (Normal)			
10	Rate of ROE			
11	Total ROE			

Question 10: Consider the following information provided by XYZ Power Supply Company Ltd. (₹ in lakhs):

Gross opening equity ₹3,000 as on 01.04.2023.

Adjustment in opening equity – Nil Adjustment during the year – Nil

Increase in equity due to addition during the year (over 5 years): ₹500 Decrease due to reversal and de-capitalization (over 5 years):

Rate of ROE: 18%

Calculate total ROE for the next five years.

(ICMAI Study material)

Solution: Statement showing computation of Return on equity:

	Return on Equity	Year 1	Year 2	Year 3	Year 4	Year 5
1	Gross Opening Equity (Normal)	3,000	3,500	4,000	4,500	5,000
2	Less: Adjustment in Opening Equity	Nil	Nil	Nil	Nil	Nil
3	Adjustment during the year	Nil	Nil	Nil	Nil	Nil
4	Net Opening Equity (Normal)	3,000	3,500	4,000	4,500	5,000
5	Add: Increase in equity due to addition during the year	500	500	500	500	500
6	Less: Decrease due to De-capitalisation during the year	Nil	Nil	Nil	Nil	Nil
7	Less: Decrease due to reversal during the year / period	Nil	Nil	Nil	Nil	Nil
9	Net closing Equity (Normal)	3500	4,000	4,500	5,000	5,500
10	Average Equity (Normal)	3250	3,750	4,250	4,750	5,250
11	Rate of ROE	18%	18%	18%	18%	18%
12	Total ROE	₹585	₹675	₹765	₹855	₹945

Question 11: From the following information Calculate Return on Equity:

1. Date of Commercial Operation of COD = 1st April 2025
2. Approved Opening Capital Cost as on 1st April 2025 = ₹15,00,000
3. Details of allowed Additional Capital Expenditure:

1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed) ₹1,00,000	₹30,000	₹20,000	₹10,000
Rate of ROE: 15.5%			

(ICMAI Study material)

Solution:

	Return on Equity	Year 1	Year 2	Year 3	Year 4
1	Gross Opening Equity (Normal) 30% of Opening Capital Cost	4,50,000	4,80,000	4,89,000	4,95,000
2	Less: Adjustment in Opening Equity	Nil	Nil	Nil	Nil
3	Less: Adjustment during the year	Nil	Nil	Nil	Nil
4	Net Opening Equity (Normal)	4,50,000	4,80,000	4,89,000	4,95,000
5	Add: Increase in equity due to addition during the year (30%)	30,000	9,000	6,000	3,000
6	Less: Decrease due to De-capitalisation during the year	Nil	Nil	Nil	Nil
7	Less: Decrease due to reversal during the year/ period	Nil	Nil	Nil	Nil
9	Net closing Equity (Normal)	4,80,000	4,89,000	4,95,000	4,98,000
10	Average Equity (Normal)	4,65,000	4,84,500	4,92,000	4,96,500
11	Rate of ROE	15.5%	15.5%	15.5%	15.5%
12	Total ROE	72,075	75,098	76,260	76,958

(iii) Computation of interest on loan:

- The loans arrived at in the manner indicated in Regulation 18 of these regulations shall be considered as gross normative loan for calculation of interest on loan. Gross normative loan is 70% of the capital cost.
- The interest on loan shall be calculated on the normative average loan of the year by applying the weighted average rate of interest.

Question 12: Calculate interest on loan and return on equity for thermal generating station from the following information:

Date of starting commercial operation: 1-4-2022

Approved capital cost as on 1-4-2022 = ₹ 1,50,000

Year	22-23	23-24	24-25	25-26
Additional capital expenditure	₹20,000	₹10,000	₹30,000	₹40,000
Repayment of loan	₹12,000	₹18,000	₹25,000	₹30,000
Weighted average rate of interest on loan	7.4%	7.5%	8%	10%

7. Computation of Interest on Working Capital:

The working capital shall cover cost of fuel stock, advance payment towards such cost, cost towards secondary fuel oil stock, maintenance spares, receivables and operation and maintenance expenses including water charges and security expenses, for one month.

Rate of interest on working capital shall be on normative basis and shall be considered as the bank rate as on 1.4.2023 or as on 1st April of the year during the tariff period 2023-28 in which the generating station or a unit thereof or the transmission system including communication system or element thereof, as the case may be, is declared under commercial operation, whichever is later.

Calculation interest on working capital is done in the of following format:

Statement of Interest on Working Capital:

		Year 1	Year 2	Year 3
1	Cost of Coal/Lignite			
2	Cost of Main Secondary Fuel Oil			
3	Fuel Cost			
4	Liquid Fuel Stock			
5	O & M Expenses			
6	Maintenance Spares			
7	Receivables			
8	Total Working Capital			
9	Rate of Interest			
10	Interest on Working Capital			

Question 13: Consider the following estimated information provided by XYZ Power Supply Company Ltd. (₹ in lakhs) for the next 5 years:

Cost of coal: ₹2,000 per year

Cost of secondary fuel oil: ₹200 per year for first 2 years and ₹300 per year for 3-5 years O and M expenses: ₹250 per year for first 2 years and ₹350 per year for 3-5 years Maintenance spares: ₹100 per years

Receivables: ₹1,800 per year Rate of interest: 12%

Calculate the interest on working capital.

(ICMAI Study material)

Solution: Statement showing computation of interest on working capital.

		Year 1	Year 2	Year 3	Year 4	Year 5
1	Cost of Coal/Lignite	2,000	2,000	2,000	2,000	2,000
2	Cost of Main Secondary Fuel Oil	200	200	300	300	300
3	Fuel Cost	Nil	Nil	Nil	Nil	Nil
4	Liquid Fuel Stock	Nil	Nil	Nil	Nil	Nil
5	O & M Expenses	250	250	350	350	350
6	Maintenance Spares	100	100	100	100	100
7	Receivables	1,800	1,800	1,800	1,800	1,800
8	Total Working Capital	4,350	4,350	4,550	4,550	4,550
9	Rate of Interest	12%	12%	12%	12%	12%
10	Interest on Working Capital	522	522	546	546	546

8. Computation of Operation and Maintenance Expenses:

It will include normative operation and maintenance expenses. In addition, the Water Charges, Security Expenses and Capital Spares for thermal generating stations shall be allowed separately.

Question 14: Consider the following estimated information provided by XYZ Power Supply Company Ltd. (₹ in lakhs) for the next 5 years:

Normative O & M expenses: ₹2500 for Year 1 and this will increase @10% per year. Water Charges: ₹500 for year 1 and 2 and it will increase @20% per year thereafter. Security expenses: ₹750 per year up to year 4 and ₹800 for 5th year.

Calculate total O & M expenses for five years.

(ICMAI Study material)

Solution: Statement showing O & M Expenses:

		Year 1	Year 2	Year 3	Year 4	Year 5
1	Normative O & M expenses	2,500	2,750	3,025	3,327.5	3,660.25
2	Water Charges	500	500	600	720	864
3	Security expenses	750	750	750	750	800
4	Total O & M expenses	3,750	4,000	4,375	4,797.5	5324.25

9. Preparation of Financial Statements of an Electricity Company:

The financial statements of an insurance company are prepared as per Schedule III of the Companies Act, 2013

Question 15: The trial balance of MM Electric Supply Ltd. For the year ended 31st March, 2026 is as below:

Particulars	Debit	Credit
Share Capital:		
Equity Shares of ₹10 each		50,000
14% Preference Shares of ₹100 each		15,000
Patents and trade mark	2,504	
15% Debentures		24,700
16% term loan		15,300
Land (additions during the year 20,50)	12,450	
Building (additions during the year 50,80)	35,134	
Plant & Machinery	57,058	
Mains	4,524	
Meters	3,150	
Electric al Instruments	1,530	
Office Furniture	2,450	
Capital Reserve		4,020
Contingency Reserves		12,030

General Reserve		1,000
Transformers	16,440	
Opening Balance of Profit & Loss Account		350
Profit for the year 2025-26 subject to adjustments		17,100
Stock in hand	12,050	
Sundry Debtors	6,246	
Contingency Reserve Investments:		
SBI Bonds-2023	10,010	
Other Investments	2,000	
Cash & Bank	3,254	
Public lamps	3,040	
Depreciation Fund		25,816
Sundry Creditors		6,524

During 2025-26, 1,00,000, 14% Preference Shares were redeemed at a premium of 10% out of proceeds of fresh issue of equity shares of necessary amounts at a premium of 10%.

Adjustments:

- a. Transfer to Contingency Reserve ₹1,70,000 & to General Reserve ₹2,00,000
- b. Loss on Contingency Reserve Investment ₹10,000
- c. Make a Provision for debts considered doubtful of ₹1,014,000.

You are required to prepare the balance sheet as on 31st March, 2026 as per the schedule III.

(ICMAI Study material)

CHAPTER 14. Indian ACCOUNTING STANDARDS (Ind AS)

Conceptual framework:

Meaning of Conceptual Framework: The Conceptual Framework is a basic document that sets objectives and the concepts for general purpose financial reporting. It basically acts as a guideline for the setters of accounting standards and often guides the accountants where there is no accounting standard available.

Background of Conceptual Framework for Financial Reporting under Ind AS: In India, the current version of conceptual framework issued by the ICAI for Ind AS based financial reporting is known as 'Conceptual Framework for Financial Reporting under Ind AS'. It is applicable for preparers for accounting periods beginning on or after April 1, 2021. This version of the conceptual framework is in line with the Conceptual Framework for the Financial Reporting published by the IASB in 2018 which overrides the previous version issued in 2010.

Components of Conceptual Framework for Financial Reporting under Ind AS: The Conceptual Framework for Financial Reporting under Ind AS issued by ICAI comprises of eight chapters as follows:

1. Objective of general purpose financial reporting (GPFR).
2. Qualitative characteristics of useful financial information.
3. Financial statements and the reporting entity.
4. The elements of financial statements (FS).
5. Recognition and derecognition.
6. Measurement.
7. Presentation and Disclosures.
8. Concepts of capital and capital maintenance.

Status and Purpose of Conceptual Framework: Conceptual framework serves three purposes as follows:

- a. assist the Institute in formulation of Ind ASs that are based on consistent concepts;
- b. assist preparers to develop consistent accounting policies when no Ind AS applies to a particular transaction or other event, or when an Ind AS allows a choice of accounting policy; and
- c. assist all parties to understand and interpret the Ind ASs.

Qualitative Characteristics of Useful Financial Information: In order to make financial information, published in the financial statements, useful for the users, the information must possess certain qualitative characteristics. The Conceptual Framework prescribes the following types of qualitative characteristics to be embedded in the financial information to make them useful for decision making.

A. Fundamental Qualitative Characteristics: Fundamental qualitative characteristics include –

- (a) **Relevance** – financial information will be relevant if it is capable of making a difference in decisions. For this it must have predictive value, confirmatory value or both. Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. It has confirmatory value if it provides feedback about (confirms or changes) previous evaluations. While assessing relevance, materiality shall be considered.

- (b) **Faithful Representation** -To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.

B. Enhancing Qualitative Characteristics: Enhancing qualitative characteristics include the following:

- a. **Comparability** – it enables users to identify and understand similarities in, and differences among, items.
- b. **Verifiability** – it helps assure users that information faithfully represents the economic phenomena it purports to represent.
- c. **Timeliness** - it means having information available to decision-makers in time to be capable of influencing their decisions.
- d. **Understandability** - classifying, characterising and presenting information clearly and concisely makes it understandable.

Ind AS 1: Presentation of Financial Statements

Introduction:

1. Ind AS 1, Presentation of Financial Statements, prescribes the principles for preparation of General-Purpose Financial Statements, their structures and minimum content requirements as well as guidelines for specific disclosure in India.
2. This standard deals with elements of financial statements structure and content which is addressed by **division 2 of Schedule III of co. act 2013**.

Important Definitions:

1. **Ind AS** are standards prescribed under section 133 of companies act 2013.
2. **Other comprehensive income (OCI):** - comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind AS.
3. **Reclassification adjustments:** - are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.
4. **Total comprehensive income (TCI):** - is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Detail study:

A complete set of financial statements comprises:

- a balance sheet as at the end of the period
- a statement of profit and loss for the period
- statement of changes in equity for the period
- a statement of cash flows for the period
- notes, comprising significant accounting policies and other explanatory information.

General Features of a Financial Statement: -

1. Presentation of True and Fair View
2. Going concern assumption
3. Accrual basis of accounting
4. Materiality and Aggregation
5. Frequency of Reporting
6. Off setting
7. Comparative Information
8. Consistency of presentation

1. Presentation of True and Fair View: - It is presumed to achieve by the application of all relevant Ind AS, along with additional disclosures.

Departure from complying with the prescriptions laid down in the standards: - In extremely rare circumstance, the entity may find it appropriate to make a departure from complying with the prescriptions laid down in the standards.

This may happen in cases where the management concludes that complying with a requirement in an Ind AS would be misleading and deviation from a particular requirement required by the regulatory framework.

In the above case it is required to disclose that the entity has complied with all Ind AS, except for that particular requirement. That entity is also required to give a description of the title of the standard and the accounting treatment required under the standard, the nature of departure and the reasons justifying the compliance with requirement would be misleading.

2. Going concern assumption: - An entity is required to make an assessment of its ability to continue as going concern and prepare the financial statements on going concern basis unless the management.

- **Either intends to liquidate the entity or cease trading, or**
- **Has no realistic alternative but to do so**

If going concern assumption is not valid, the entity shall prepare the financial statement by adopting any other appropriate basis of accounting supported by disclosure covering:

- **The basis on which financial statement are prepared, and**
- **The reasons why the entity is not regarded as a going concern.**

Note: - Going concern assessment is based on assessment information of at least 12 months from the end of the current financial period.

Question 1. Is there any specific disclosure requirement as per Ind AS-1 for a Company in Liquidation?

Answer: For a Company in liquidation, the fundamental accounting assumption of Going Concern is apparently not valid. The Carrying Amounts of assets and liabilities would reflect the realisable Value.

As per Ind AS-1, when an Entity does not prepare Financial Statements on a going concern basis, it shall disclose –

- (a) that fact,
- (b) the basis on which it prepared the Financial Statements, and
- (c) the reason why the Entity is not regarded as a going concern.

3. Accrual basis of accounting: - while preparing the financial statement the entity shall adopt accrual basis of accounting except for cash flow statements.

4. Materiality and Aggregation: Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of the financial statements.

Materiality depends on the size or nature of the item or a combination of both, to be judged based on particular facts and in particular circumstances. Following points must be considered while preparing financial statements: -

- **Where a line item is not, in itself, individually material then it can be aggregated with other items.**
- **Each material class of similar items should be presented separately in the financial statements, and**
- **That item of dissimilar nature or function should also be presented separately.**

5. Frequency of reporting: - An entity shall present a complete set of financial statements (including comparative information) **at least annually**. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose the following, in addition to the period covered by the financial statements:

- (a) the reason for using a longer or shorter period, and
- (b) the fact that amounts presented in the financial statements are not entirely comparable.

6. Offsetting: - items of assets and liabilities, income and expenses are set off against each other only when such set off is required or permitted by respective Ind AS. Offsetting is allowed as per their respective Ind AS.

Example- Netting of selling expenses with sale proceeds of the assets sold is allowed. Similarly netting off of foreign exchange gains or losses are also allowed.

Question 2. Selling Price = 100 million

Cost = 85 million

Accumulated depreciation = 15 million

Selling Expense = 2 million

Should the company present gain and selling expense separately.

Answer. Gain on sale of PPE ₹ 30 million and selling expense ₹ 2 million can be set off.

Question 3. Om 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.

Answer: An Entity shall not offset Assets and Liabilities or Income and Expenses, unless required or permitted by an Ind AS. When items of Income or Expense are material, an Entity shall disclose their nature and amount separately. Disposal of items of Property, Plant and Equipment is one example of such material item.

Disclosing Net Profits by setting off Fire Losses against Profit from Sale of Land is not correct. As per Ind AS-1, Profit on Sale of Land, and Loss due to Fire should be disclosed separately.

7. Comparative information: -

An entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall present minimum, two balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity, and related notes.

Additional Balance Sheet is prepared when: -

- There is a need to apply an accounting policy retrospectively, or
- To make a retrospectively restatement of items in its financial statements (in case of prior period errors), or
- When an entity re-classifies items in the financial statements.
- When first time Ind AS is applied.

Under above circumstances, the entity shall also present an additional Balance sheet as at the beginning of the earliest comparative period.

Change in Presentation or Classification: -

- When there is change in presentation or classification of items of financial statements comparative information are also reclassified and the nature, amount and the reason of reclassification are disclosed.
- When reclassification of comparative period is impracticable, an entity should disclose the reasons for not reclassifying the amounts and the nature of adjustment that would have been made if the amount had been reclassified.

Question 4. X Ltd. found a material error in the financial statement for year 21-22. How should X Ltd. present its financial statement for the year 2024-25.

Solution: - If the error occurred before the earliest prior period presented (i.e. 2013-14), it is required to restate the opening balance of assets, liabilities and equity for the earliest prior period presented (i.e. 1.04.2013) as per Ind AS 8 and Ind AS 1. Therefore, X Ltd shall restate its Balance Sheet as on 31.03.2013 and it shall present 3 Balance sheets, as on:

- 1.04.2023
- 31.03.2024
- 31.03.2025

8. Consistency of Presentation: - An entity is required to retain the same presentation and classification to ensure consistency of presentation unless the change is due to

- Change in the nature of entity operation or
- Would be appropriate or an Ind AS require such change.

Note- in case of change due to any of the above requirement, such change shall also apply to comparative information of the earlier year.

Disclosure under Ind AS-1:

1. Significant Accounting Policies: An entity shall disclose the summary of significant accounting policies and measurement bases used in preparing the financial statements.

2. Sources of estimated uncertainty: An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation of uncertainty at the end of the reporting period.

3. Capital Management Policies: An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

4. Information regarding puttable financial instruments.

5. other disclosures: An entity shall disclose in the notes:

- (i) the amount of dividends proposed or declared before the financial statements were approved for issue but not recognised as a distribution to owners during the period; and
- (ii) the amount of any cumulative preference dividends not recognised.

An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statement:

- (i) the domicile and legal form of the entity, its country of incorporation and the address of its registered office;
- (ii) a description of the nature of the entity's operations and its principal activities;
- (iii) the name of the parent and the ultimate parent of the group; and
- (iv) if it is a limited life entity, information regarding the length of its life

Presentation of Balance Sheet

- An entity shall present the balance sheet by classifying the assets and liabilities into current and non-current categories.
- The standard does not specify the order of presentation or format to be used but prescribes only certain minimum line items. **But ICAI and MCA together they have given us format of financial statements.**

DIVISION II of the schedule III of the companies Act 2013, Part 1 – BALANCE SHEET

Particulars	Notes no	Figures at the end of current reporting period	Figures at the end of previous reporting period
1. Non-current assets: a. Property, plant and equipment b. Capital Work in progress (WIP) c. Investment property d. Goodwill e. Other intangible assets f. Intangible assets under developments g. Biological plant other than bearer plant h. Financial assets: i. investments ii. trade receivables iii. loans iv. others i. Deferred tax asset(net) j. Other non-current assets			
2. Current assets: a. Inventories b. Financial assets:			

i. Investments ii. Trade receivables iii. Cash and cash equivalents iv. Bank balance other than (iii) (Earned mark amt) v. Loans vi. Others c. Current tax assets(net) – (Advance tax- tax payable) d. Other current assets			
3. Non- current assets held for sale (as per Ind AS 105)			
Total assets			
Equity and liabilities: Equity: a. Equity share capital b. Other equity Liabilities: 1. Non-current liabilities: a. Financial liabilities: i. Borrowings ii. Trade payables iii. Other financial liabilities b. Provisions c. Deferred tax liability(net) d. Other non-current liabilities 2. Current liabilities a. Financial liabilities: i. Borrowings ii. Trade payables iii. Other financial liabilities b. Provisions c. Current tax liability(net)- (Tax payable- advance tax) d. Other current liabilities 3. Liabilities directly associated with non-current asset held for sale			
Total equity and liabilities			

Important note: -

1. Financial assets: - it is a contractual right to receive cash or another financial asset. For example, Debtors, Bills receivable, accrued income, investment in shares/debentures/ securities, loan given directors/employees/customers etc.

2. Financial liabilities: - it is a contractual obligation to pay cash or other financial assets or to exchange other financial assets in lieu of payment. For example, Creditors, Bills payable, debentures, Redeemable preference shares, outstanding interest on loan/ debentures, dividend payable, unclaimed dividend etc.

Question 5: State whether following items are financial asset, financial liability or none:

	Financial assets	Financial liabilities	None
1. income tax payable			
2. dividend payable			
3. proposed dividend			
4. Advance paid for purchase of fixed assets			
5. Prepaid expenses			
6. Outstanding expenses			
7. Advance income received			

Detail discussion on items of non-current assets:

- Property, plant and equipment:** - PPE includes all fixed assets including bearer plant, finance leased asset.
- Investment property:** -It includes Land and/or building held for earning rentals or for capital appreciation or both.
- Other intangible assets:** It includes brands, trademarks, computer software, mastheads and publishing titles, mining rights, copyrights, patents, other intellectual property rights, service and operating rights, recipes, formulae, models, designs and prototypes, licenses and franchise etc.
- Biological assets other than bearer plants:** as per Ind AS-41 Agriculture, a biological asset includes living animal or plant other than bearer plant.
- Non-current-Financial assets:**
 - Investments** – long term investments in equity instruments, preference shares, government or trust securities, bonds, debentures, mutual funds, Investments in subsidiary, joint venture and associates.
- Non-current trade receivables:** -
 - Debtors and bills receivables if they are non-current.
 - Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- Non-current loans:** - It includes, loans to related parties, loans to employees, other loans expected to be realized with in period more than 12 months.
- Other non-current financial assets:** it includes bank deposits for more than 12 months remaining maturity, non-current portion of a finance lease receivables, security deposits.
- Deferred tax assets(net)** – it is difference between DTA and DTL.
- Other non-current assets:** - capital advances against PPE or any other assets which do not meet the definition of financial assets.

Detail discussion on items of current assets:

- Inventories:** - it includes raw materials, WIP, finished goods, stock- in-trade, stores and spares, loose tools, goods in transit.
- Financial assets:** -
 - Current investment**— same items mentioned in non-current investment if they are intended to be sold within remaining maturity period of less than 12 months or within the company's operating cycle.

- B. Current trade receivables** – debtors, bills receivables
- C. Cash and cash equivalents:** - it includes
 - a. Balance with banks
 - b. Cheques, drafts on hand
 - c. Cash on hand
 - d. Demand deposits
 - e. Highly liquid investments
 - f. Term deposits with maturity period of less than 3 months
- D. Bank balance other than cash and cash equivalents:** - it includes earmarked balances with banks (e.g. unpaid dividend), bank balance to the extent held as margin money.
- E. Current loans:** - It includes, loans to related parties, loans to employees, other loans expected to be realized with in period of 12 months.
- F. Other current financial assets:** - Accrued interest on investment, accrued income, insurance claim receivables.
- G. Current tax assets(net)** – if amount of tax already paid (i.e. advance tax) exceeds income tax payable.
- H. Other current assets:** -- prepaid expenses.

Detail discussion on items of equity: -

- a. **Equity share capital:** It includes equity share capital and irredeemable other securities/ convertible securities into equity shares. For each class of equity share capital following disclosures are required:
 - i. The number and amount of shares authorized.
 - ii. The number of shares issued, subscribed and fully paid and subscribed but not fully paid.
 - iii. Par value per share.
 - iv. Name of shareholders holding more than 5% shares and specifying the number of shares held.
 - v. Share forfeiture amount.
 - vi. Calls in arrears.
- b. **Other equity:** it includes all type of reserves. For example. General reserves, capital reserves, security premium, buy back reserves, retained earnings, profit and loss (debit balance), employees stock option outstanding etc.

Detail discussion on items of non-current liabilities: -

- A. Financial liabilities (long term):**
 - i. **Borrowings (long term):** it includes debentures, bonds, term loan, secured loan, unsecured loan, long term maturity of finance lease, public deposits, redeemable preference share capital, bank loan etc. if they have been taken for long term periods.
 - ii. **Trade payables (long term):** it includes creditors and bills if treated as non-current liabilities.
 - iii. **Other financial liabilities (long term):** - to be specified
- B. Provisions (long term):** provident fund, gratuity fund, provision for employees, provision for warranty (if long term).
- C. Other non-current liability (long term):** - to be specified.

Detail discussion on items of Current liabilities: -**A. Financial liabilities (short term):**

- (i) **Borrowings (short term):** - it includes bank overdraft, short term loan, short term public deposits, other loans for short term period.
- (ii) **Trade payables (short term):** creditors and bills payable
- (iii) **Other financial liabilities (short term):** - It includes current maturities of long-term debts, share application money pending allotments to be refunded (and interest accrued thereon), unpaid/unclaimed dividend, dividend payable, outstanding expenses.

B. Other current liabilities: it includes advance income received (unearned income), advance from customers, calls in advance.

C. Provisions (short term): - it includes provision for repairs, provision for warranty (if short term)

D. Current tax liabilities: - if income tax payable exceeds advance tax paid for the year.

Question 6. State the major heads and sub-heads under which the following items will be shown:

No.	Items	Head	Sub - head
1.	Share application pending allotment Became refundable		
2.	Income tax reserve		
3.	Income tax payable		
4.	Dividend payable		
5.	Unclaimed dividend		
6.	Proposed dividend		
7.	Share option outstanding account		
8.	Finance lease obligations		
9.	Current maturity of finance lease obligation		
10.	Debentures/ bonds		
11.	Current maturity of debentures		
12.	Loan repayable on demand		
13.	Provision for expense		

Question 7. State the major heads and sub-heads under which the following items will be shown:

No.	Items	Head	Sub-head
1.	Calls in arrear		
2.	Provident fund/gratuity fund		
3.	PF payable		

4.	ESI/ Gratuity payable		
5.	Provision for employees		
6.	Loose tools/ spare parts		
7.	Tools and equipment		
8.	Bank deposits for 3 years		
9.	Drafts/cheques in hand		

Question 8. State the major heads and sub-heads under which the following items will be shown:

No.	Items	Head	Sub-head
1.	Capital commitments		
2.	Contingent liabilities		
3.	Forfeited share capital		
4.	Reserve capital		
5.	Capital reserve		
6.	Interest accrued on investments		
7.	Deposits with electricity supply company		
8.	Mining rights		
9.	Provision for doubtful debts		
10.	Long term loan from debtors/customers/Directors		
11.	Short term loan from debtors/customers/directors		

Question 9. State the major heads and sub-heads under which the following items will be shown:

No.	Items	Head	Sub-head
	Workmen compensation fund/reserve		
	Profit and loss account (Dr balance)		
	Bank overdraft		
	Computer software		
	Development of software in progress		
	Machinery		
	Capital advances paid for purchase of machinery.		

Question 10. Prepare the Balance Sheet of Payal Textiles Ltd. as required under Schedule III of the Companies Act, 2013, as per Ind as 1as on 31 March 2025. Following balances are given:

Accounts	Dr. (₹)	Cr. (₹)
Secured Term Loans	-	10,00,000
Creditors	-	11,45,000
6% Debentures Account	-	27,00,000
Income Tax payable	-	1,70,000
Security Premium Account	-	4,75,000
General Reserves	-	20,50,000
Bill Payable	-	2,00,000
Provision for Doubtful Debts	-	20,200
Provision for Depreciation	-	5,00,000
Equity Share Capital (30,000 × 10)	-	3,00,000
8% Preference Share Capital (10,000 × 100)	-	10,00,000
Advance given to employee (long term)	3,72,000	-
Bills receivables	55,000	-
Cash and Bank	2,75,000	-
Loose Tools	50,000	-
Investments property	2,25,000	-
Profit and Loss Account (Losses)	3,00,000	-
Debtors	12,25,000	-
Security deposits to electricity Board	58,000	-
Stores Items	4,00,000	-
Machinery	56,50,000	-
Capital Work-in-Progress	2,00,000	-
Finished Goods Stock	7,50,200	-
	95,60,200	95,60,200

Important point for exam: -

Breach of the loan agreement before the end of Reporting Period: - When there is a breach of the loan agreement before the end of reporting period and the liability has become payable on demand at the end of reporting period, such loans are not classified as current if the banks have agreed for restructuring before financial statements are approved for issues and will be repaid later than 12 months from the reporting period.

STATEMENT OF PROFIT AND LOSS: -

DIVISION II of the schedule III of the companies Act 2013, Part 2-statement of profit and loss

	Particulars	Note no.	at the end of current reporting period	at the end of previous reporting period
i.	Revenue from operations			
ii.	Other income			
iii.	Total income			
iv.	Expenses: a. Cost of material consumed b. Purchase of stock in trade c. Changes in inventories of finished goods, stock in trade and WIP d. Employees benefit expense e. Finance costs f. Depreciation and amortization expense g. Other expenses			
	Total expenses (iv)			
v.	Profit/(loss) before exceptional items and tax(iii-iv)			
vi.	Exceptional items			
vii.	Profit/(loss) before tax			
viii.	Tax expense: i. Current tax ii. Deferred tax			
ix.	Profit (loss) for the period from continuing operation (vii – viii)			
x.	Profit (loss) from discontinued operation			
xi.	Tax expense of discontinued operation			
xii.	Profit (loss) from discontinued operation after tax(x-xi)			
xiii.	Profit (loss) for the period (ix + xii)			
xiv.	<u>Other comprehensive income (OCI):</u> A. items that will not be reclassified to profit or loss Less: income tax relating to items that will not be reclassified to profit or loss B. items that will be reclassified to profit or loss			

	Less: income tax relating to items that will be reclassified to profit or loss			
xv.	Total comprehensive income for the period (xiii + xiv) (i.e. profit(loss) for current period and OCI)			
xvi.	Earnings per share (for continuing operation) i. Basic ii. Dilluted			
xvii.	Earnings per share (for discontinued operation) i. Basic ii. Dilluted			
xviii.	Earnings per share (for discontinued & continuing operation) i. Basic ii. Dilluted			

Important note:

- No items of income or expenses should be presented as extraordinary items in the financial statements.
- This statement should begin with operating items, then non-operating items and should end with items of other comprehensive income and their related tax effects.
- **Reclassification Adjustments:** - Some Ind AS specify the timing and amount of income and expenses recognized in OCI to be reclassified into profit & loss. These adjustments are termed as reclassification adjustments.

Question 11. 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.

Answer: Embezzlement of Cash during the course of business is a Business Loss. It is a business hazard which can occur once in a while.

Loss due to embezzlement of Cash cannot be merged with any other head. Being a material item, it should to be disclosed under a distinct head in the P&L A/c and not under Salary A/c.

Question 12. From the under mentioned Trial Balance of COC education Ltd. prepare statement of Profit and Loss for the year ended 31 March 2025 and the Balance on that date:

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Property, plant and equipment's	5,00,000	Equity share capital	7,00,000
Investment property	3,00,000	General reserve	80,000
Goodwill	4,00,000	Security premium	30,00
Biological assets	50,000	12% debentures	4,00,000
		Creditors	1,10,000

Investments in 40,000 equity shares of Tata Ltd (long term)	6,00,000	Bills Payable	65,000
Opening stock of stock in trade	60,000	Sales	13,00,000
Purchase of Goods	3,80,000	Discount received	30,000
Cash in hand	30,000	Share application money	
Bank balance	45,000	Pending allotments	1,20,000
Demand deposits	70,000	Money received against share warrant	76,000
Advance tax paid	60,000		
Debtors	65,000		
Bills receivable	32,000		
Wages	39,000		
Salaries	1,70,000		
Interest on debentures paid	24,000		
Other expenses	86,000		
	29,11,000		29,11,000

Additional adjustments:

1. Dividend proposed during the year ₹ 40,000.
2. Transfer ₹ 50,000 to general reserves.
3. Value of investment property was to be increased by ₹ 1,00,000.
4. Interest on debentures are outstanding for 6 months.
5. Income tax is payable @ 30%.
6. Charge depreciation @ 10% P.a on PPE.
7. 1/5 of goodwill to be amortised during current year.
8. Salary ₹ 35,000 was prepaid.
9. Closing stock of goods was ₹ 1,20,000.

Indian Accounting Standard 2 — Inventories

Objective: The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard deals with the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope: This Standard applies to all inventories, except:

- a. financial instruments (to be accounted as per Ind AS 32 and Ind AS 109); and
- b. biological assets (i.e. living animals or plants) related to agricultural activity (Ind AS 41) and
- c. agricultural produce **at the point of harvest** (To be accounted as per Ind AS 41, Agriculture).

This Standard does not apply to the measurement of inventories held by:

- a. **producers of** forest products, agricultural produce after harvest, and minerals and mineral products.
They are measured at net realisable value in accordance with well-established practices in those industries (given in guidance note).
- b. **commodity broker-traders** who measure their inventories at **fair value less costs to sell**.
(industry standards given in guidance note).

Note:- Broker-traders are those who buy or sell commodities for others or on their own account.

IMPORTANT DEFINITIONS:

1. Inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories encompass of:

- (a) goods purchased and held for sale (e.g. merchandise purchased by a retailer and held for resale, or land and other property held for resale);
- (b) finished goods produced, or WIP being produced;
- (c) materials and supplies awaiting use in the production process (e.g. raw materials, primary packing materials).

Question 1. As per Ind AS 2, inventories include 'materials and supplies awaiting use in the production process'. Whether packing material and publicity materials are covered by the term 'materials and supplies awaiting use in the production process'.

Solution: primary packing materials are essential to bring an item of inventory to its saleable condition, for example, bottles, cans etc. The primary packing material, may be included within the scope of the terms 'materials and supplies awaiting use in the production process' but the secondary packing material and publicity materials can not be included, as these are selling costs which are required to be excluded as per Ind AS 2.

2. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. It refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. **It is an entity-specific value.**

3. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date (as per Ind AS 113). **Fair value is market-specific value (not the entity specific).**

Net realisable value for inventories may not be equal to fair value less costs to sell.

Measurement of inventories:- Inventories shall be measured at the lower of cost and net realisable value.

(i) Cost of inventories comprises

- a. all costs of purchase,
- b. costs of conversion and
- c. other costs incurred in bringing the inventories to their present location and condition

(ii) Costs of purchase of inventories includes

- purchase price,
- import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and
- transport, handling and
- other costs directly attributable to the acquisition of finished goods, materials and services.
- **Any Trade discounts, rebates and other similar items are deducted in determining the costs of purchase of inventory.**

(iii) Costs of conversion of inventories include cost directly related to the unit of production. It includes direct labour and factory overheads.

Factory overheads can further be divided into 2 parts:

- (i) Fixed factory/production overheads and
- (ii) Variable factory/production overheads.

- **Fixed production overheads** are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and the cost of factory management and administration.
- **Variable production overheads** are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour, electricity charges etc. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.
- The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.
- **Normal capacity** is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance.
- The actual level of production may be used if it approximates normal capacity.

- The amount of fixed overhead allocated to each unit of production is not increased as a consequence of **low production or idle plant**. Unallocated overheads are recognised as an expense in the period in which they are incurred.
- In periods of **abnormally high production**, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost.

Question 2. Avishkar Ltd.'s normal production capacity is 1,00,000 units and the Fixed factory Overheads are estimated at ₹ 5,00,000. Give the treatment of Fixed Production Overhead under Ind AS – 2, if actual production during a period was –

- 84,000 unites;
- 1,00,000 units;
- 1,20,000 units.

C. Other costs:- Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, cost of designing products for specific customer, transportation cost to warehouse, primary packing etc.

NOTE . the extent to which borrowing cost is included in the cost of inventories is determined on the basis of the requirement of Ind AS 23, borrowing costs.

ALLOCATION OF COST TO JOINT PRODUCTS AND BY-PRODUCTS:-- a production process may result in more than one product being produced simultaneously. This is the case when joint products are produced or when there is a main product and a by-product.

- when **joint products** are produced or when there is a main product and a **by-product** and the costs of conversion of each product are not separately identifiable — they are allocated between the products on a rational and consistent basis.
- The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.
- In case of by-products which are by their nature immaterial, then they are often measured at net realisable value and this value is **deducted from the cost** of the main product.

Question 3. In a manufacturing process of Mars Ltd one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:

Items	Unit	Amount	Output	Closingstock
Raw materials	14,500	1,50,000	MP1- 5000units	250 units
Wages	----	90,000	MP2 -4000Units	100 units
Fixed overhead	----	65,000	BP-2000 Units	--
Variable overhead	----	50,000		

Average market price of MP1 and MP2 is ₹ 60 per unit and ₹ 50 per unit respectively, by-product is sold @ ₹ 20 per unit. There is a profit of ₹ 5000 on sale of by-product after incurring separate processing charges of ₹ 8,000 and packing charges of ₹ 2,000. ₹ 5,000 was realised from sale of scrap. Calculate the value of closing stock of MP1 and MP2 as at end. Assuming amount of BP is immaterial.

Following costs are excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

- (a) abnormal amounts of wasted materials, labour or other production costs;
- (b) storage costs, unless those costs are necessary in the production process before a further production stage;
- (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- (d) selling costs

Question 4. In a production process, Normal Waste is 4% of input. 6,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹ 1,250. Show the treatment of abnormal loss.

Question:5 The cost structure per kilogram of finished product is given below:

Material cost	₹ 100 per kg
Direct labour cost	₹ 20 per kg
Direct variable production overhead	₹ 10 per kg

Fixed production charges for the year on normal capacity of 1,00,000 kgs is ₹ 10,00,000. 2,000 kgs of finished goods are in stock at the year end. How do you value the quantity in stock as per Ind AS-2.

Question 6. COC Ltd produces soft drink. In the month of April, it produces 1,00,000 pkd of soft drink . Following expenses were incurred during the month of April:

Direct material	=	8,00,000
Direct labour	=	2,00,000
Indirect material(e.g. bottle)	=	1,00,000 (variable factory overhead)
Fixed production overhead	=	2,50,000
Transport cost to stores	=	50,000
Product designing expenses	=	80,000
Primary packing charges	=	1,30,000
Publicity materials	=	3,00,000

Assume normal production capacity = 1,20,000 pkd.

Calculate cost per unit as per Ind AS 2.

Question 7. Venus trading company purchases cars from several countries and sells them to Asian countries. During the current year, this company has incurred following expenses:

- (i) Trade discount on purchases
- (ii) Handling costs relating to imports
- (iii) Salaries of accounting department
- (iv) Sales commission paid to sales agents
- (v) After sale warranty costs
- (vi) Import duties
- (vii) Cost of purchase(based on supplier's invoices)
- (viii) Freight expense
- (ix) Insurance on purchases
- (x) Brokerage commission paid to indenting agents

Evaluate which costs are allowed by Ind AS 2 for inclusion in the cost of inventory in the books of Venus.

Solution: items number 1,2,6,7,8,9,10 are allowed by Ind AS 2 for the calculation of cost of inventories. Remaining items are not considered to be the cost of inventory. Therefore, they are not allowed by Ind AS 2 for inclusion in the cost of inventory and are expensed off in the profit and loss account.

Question 8. As per Ind AS 2, selling costs are excluded from the cost of inventories and are required to be recognised as an expense in the period in which these are incurred. Whether the distribution costs would now be included in the cost of inventories under Ind AS 2.

Solution: selling and distribution costs are generally used as single term because both are related, as selling costs are incurred to effect the sale and the distribution costs are incurred by the seller to complete a sale transaction by making the goods available to the buyer from the point of sale to the point at which the buyer takes possession. Since these costs are not related to bringing the goods to their present location and condition, the same are not included in the cost of inventory.

CONCEPT OF DEFERRED SETTLEMENT TERMS

An entity may acquire inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase prices for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing (not covered under AS 2)

Question 9. COC Ltd purchased inventory at ₹ 60,00,000 on 1.4.2020 on 2 years credit. Rate of interest for similar transaction is 10%p.a.. Calculate cost price of inventory and pass entries for 2 years.

Question 10. A firm (dealer of T.V) has purchased 100 T. Vs on deferred payment basis for ₹ 5,000 per month per T.V. The amount is to be paid in twelve monthly equal instalments. The cash cost per unit of T.V. is ₹ 56,000. At the end of year, 25 T.Vs were in the stock. What should be the Cost of Inventories, amount transferred to p/l a/c as per Ind AS2?

Techniques for the measurement of cost(Cost technique)

Techniques for the measurement of the cost of inventories are:

A. non-historical cost technique

- (i) **Standard cost method:-** Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and revised in the light of current conditions.
- (ii) **Retail method :-** The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins.

The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

B. Historical cost technique: it means cost to be calculated. if any of the two methods cannot be applied for measurement of cost, then it should be computed as per historical cost method.

Question: 11 Below given the accounting data of Raghu running retail business in paints for ending 31st December, 2021.

Particular	At cost	At retail
Beginning inventory	20,000	30,000
Paints purchased	<u>1,00,000</u>	<u>1,70,000</u>
Paints available for sales	<u>1,20,000</u>	2,00,000
Net sales for the year		<u>1,60,000</u>
Ending inventory retail		<u>40,000</u>

You are required to estimate the cost of inventory as on 31st December, 2021 using retail method.

Question 12. Mars Fashion is a new luxury retail company located in Lajpat Nagar, new delhi. Kindly advise the accountant of the company on the necessary accounting treatment for the following items:

- (a) One of the company 'product lines is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make-up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetics department is unsure of the cost of each product but is confident of the selling price and has reliably informed you that the company, on average, make a gross margin of 65% on each line.
- (b) Mars Fashion also sells handbags. The company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for last 15 years. Normally, Mars manufactures 1,00,000 hand bags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company.

In accordance with Ind AS 2, explain how the items referred to in (a) and (b) should be measured.

Solution : (a) the retail method can be used for measuring inventories of the beauty products. The cost of the inventory is determined by taking the selling price of the cosmetics and reducing it by the gross margin of 65% to arrive at cost.

(b) the handbags can be measured using standard cost especially if the results approximate cost. Given that the company has the information reliably on hand in relation to direct materials, direct labour, direct expenses and overheads, standard cost method(technique) would be the best method to use to arrive at the cost of inventories.

COST FORMULAS

- The cost of inventories of items that are **not ordinarily interchangeable** and goods or services produced and segregated for specific projects shall be assigned by using **specific identification of their individual costs**. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced.
- Specific identification of costs is inappropriate when there are large numbers of items of **inventory that are ordinarily interchangeable**. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.
- The cost of inventories, other than those mentioned above, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. **An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.**
- The **FIFO** formula assumes that the items of inventory that were purchased or produced first are sold/used first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced.
- In case of **Weighted average** cost formula the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Short notes on Net realisable value (IMP FOR EXAM)

- The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.
- Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items.
- Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations

of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

- Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices.
- A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exists or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.

QUESTION:13. The company deals in three products, A, Band C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2021-22. The Historical Cost and net realisable value of the items of closing stock are determined as follows:

Items	Historical Cost (₹ in lakhs)	Net Realisable Value (₹ in lakhs)
A	40	28
B	32	32
C	16	24

What will be the value of Closing Stock?

[CMA Final May 2014, 4 marks]

CHECK YOUR KNOWLEDGE AND FEEL SHAKTI IN YOUR BODY:

Question 14. Whether an entity can use different cost formulae for inventories held at different geographical locations having similar nature and use to it?

Answer: As per Ind AS 2, an entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. In this case, since the inventories held at different geographical location are of similar nature and use to the entity, different cost formula cannot be used for inventory valuation purposes.

Question 15. Mercury ltd uses a periodic inventory system. The following information relates to 2021-2022.

Date	Particulars	Unit	Cost per unit	Total cost
April	Inventory	200	10	2,000
May	Purchases	50	11	550
September	Purchases	400	12	4,800
December	Purchases	350	14	4,900
	Total	1,000		12,250

Physical inventory at 31-3-2022 were 400 units. Calculate ending inventory value and cost of sales using:

- FIFO
- Weighted average method

Question 16. Whether the following costs should be considered while determining the NRV of the inventories?

- a. Cost of completion of work-in-progress:
- b. Trade discounts expected to be allowed on sale: and
- c. Cash discount expected to be allowed for prompt payment.

Answer :

- (a) **Cost of completion of WIP** -- yes it should be considered in case of WIP.
- (b) **Trade discount** – yes , it should be allowed(deducted) while calculating estimated selling price. These type of cost are incurred to make sale.
- (c) **Cash discount** – it is a reduction granted by suppliers from the invoice price in consideration of immediate payment or payment within a stipulated period. These type of costs are incurred to recover the sale proceeds immediately. In other words, these cost are not incurred to make sale but to recover amount immediately. Therefore the same should not be considered while determining NRV.

Valuation of inventories of Raw materials and supplies held for use in production of finished goods:

- Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

Question: 17. A Ltd. uses a single raw material and converts that into a finished product, During the current period the cost of production and sale prices are as shown below :

Raw material 3 units at ₹ 8 each	= ₹ 24.00
Costs of conversion	= ₹ 26.00
Manufacturing cost	= ₹ 50.00
Selling price	= ₹ 75.00

On the balance sheet date there is a steep fall in the price of the product to ₹ 45 because of competition and a steep fall in the material prices. Currently materials can be purchased at ₹ 4 per unit. On the balance sheet date there are 1,00,000 units of raw material in stock purchased at a cost of ₹ 8 per unit. You are required to value inventory as on the balance sheet date.

Question: 18. Raw material purchased at ₹ 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kilograms of raw material is in stock at the year end. Replacement cost of the material is ₹ 80 per kilogram. How will you value the inventory having regard to Ind AS-2?

Short notes on Recognition of inventory as an expense

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosure:**The financial statements shall disclose:**

- (i) the accounting policies adopted in measuring inventories, including the cost formula used;
- (ii) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity.

Common classifications of inventories are as follows:

- a. merchandise;
- b. production supplies;
- c. materials;
- d. work-in-progress; and
- e. finished goods

Note: inventories of service provider may be described as work in progress.

- (iii) the carrying amount of inventories carried at fair value less costs to sell;
- (iv) the amount of inventories recognised as an expense during the period;
- (v) the amount of any write-down of inventories recognised as an expense in the period;
- (vi) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period;
- (vii) the circumstances or events that led to the reversal of a write-down of inventories ; and
- (viii) the carrying amount of inventories pledged as security for liabilities.

Ind AS 2 vs. AS 2 – A Comparative View: Following are the major differences between Ind AS 2, Inventories and AS 2, Valuation of Inventories

	Ind AS 2	AS-2
1	Ind AS 2 deals with subsequent recognition of cost/carrying amount of inventories as an expense	AS 2 does not provide the same.
2	Ind AS 2 provides separate explanation for inventories of service providers	AS 2 does not contain such an explanation.
3	Ind AS 2 does not contain specific explanation for spares which is covered under Ind AS 16.	AS 2 says that inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10.

4	Ind AS 2 provides detailed guidance in case of subsequent assessment of net realisable value. It also deals with the reversal of the write-down of inventories to net realisable value to the extent of the amount of original write-down, and the recognition and disclosure thereof in the financial statements.	AS 2 does not deal with reversal.
5	Ind AS 2 excludes from its scope only the measurement of inventories held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products. However, the Standard provides guidance on measurement of such inventories.	AS 2 excludes from its scope such types of inventories.
6.	Ind AS 2 requires the use of consistent cost formulas for all inventories having a similar nature and use to the entity.	AS 2 specifically provides that the formula used in determining the cost of an item of inventory should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition
7.	Ind AS 2 does not apply to measurement of inventories held by commodity broker-traders.	This aspect is not covered in the AS 2
8.	Ind AS 2 defines fair value and distinguishes between 'net realizable value' and 'fair value'	AS 2 does not contain the such definition and explanation.

Chalte... chalet... Kuchh aur question kar lete hai... Shakti to aa hi chuki hai... kya jata hai...

Question 19. 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 by-product for an existing product, the purchase price for the same amounts to ₹ 40,000. **(ICMAI Study material)**

Solution: Cost price of the product (given) ₹ 60,000.

Net Realisable Value of the product = ₹ 40,000 – ₹ 10,000 = ₹ 30,000. Inventories are valued at lower of Cost and Net Realisable value. Hence, ₹ 30,000 should be treated as the Value of Stock to be included in Balance Sheet.

Question 20. How will you deal with the following situation? **(ICMAI Study material)**

"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".

Solution: According to Ind AS 2, Inventories, interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories. Hence, the valuation of closing stock of timber cannot be considered as it is not in conformity with Ind AS 2.

Question 21. Z Co. Ltd. purchased goods at the cost of ₹ 40 lakhs in October 2020. 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 31.3.2021?

(ICMAI Study material)

Solution: The stand of the company to disclose the closing stock at ₹ 10 lakhs is not in line with Ind AS 2. As per Ind AS 2, inventory should be valued as per cost price or net realisable value, whichever is lower. In the given problem, cost price is ₹ 10 lakhs, but the net realisable value is $₹ 11,00,000 \times 90\% = ₹ 9,90,000$. So, the value of closing inventory should be taken as ₹ 9,90,000 being the lower.

Question 22. How would you deal with the following in the annual accounts of a company for the year ended 31.3.2021? "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. Upto 2019-20, 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 2020-21. This would result into decrease in profit by ₹ 7.60 lakhs."

(ICMAI Study material)

Solution: As per Ind AS 2, Inventories, interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories. Thus, it becomes quite clear that delayed cotton clearing charges which were treated in the nature of interest must not be included while valuing closing stock as per the provision of Ind AS 2 and it is not in compliance with Ind AS 2 which was done up to 2019-20.

But from year 2020-21, the company decided to change the earlier view i.e. they decided to exclude the same from the valuation of closing stock which is, no doubt, in compliance with Ind AS 2.

As a result of change in accounting policy regarding valuation of stock, the profit was reduced by is. ₹ 7.60 lakhs which must be disclosed in the financial statement.

Question 23. The total stock of A Ltd. as on 31.3.2021 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.

(ICMAI Study material)

Type of product	Cost of materials	Production expenses incurred	Selling and distribution expenses 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

Solution: As per Ind AS 2, inventories are usually written-down to net realisable value on item-by-item basis. Thus, value of stock will be computed as:

Type of product	Cost price excluding production expense	NRV(Excluding selling and distribution expense)	Value of stock(lower of the two)
P	12,000 (10,000 + 2,000)	14,000 (15,000 – 1,000)	12,000
S	5,000	4,000 (4,500 – 500)	4,000
T	15,000 (12,000 + 3,000)	16,000 (18,000 – 2,000)	15,000
			31,000

Ind AS-7 (Statement of cash flows)

1. MEANING OF STATEMENT OF CASH FLOWS :

Cash flow statement is a statement which provides the details about how the cash is generated by an entity during the particular reporting period and how it is applied. While doing so, it takes into consideration the opening balances of cash and cash equivalents, adds the cash generated, deducts the cash payments and reconciles it with closing balances of cash and cash equivalents. The cash flows are classified into following three main categories:

- (a) Cash flows from Operating Activities
- (b) Cash flows from Investing Activities
- (c) Cash flows from Financing Activities

2. Objective:

- (a) To provide information about historical changes in cash and cash equivalents.
- (b) To assess the ability to generate cash and cash equivalents.
- (c) To understand the timing and certainty of their generation.

Scope:

- An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.
- This standard requires all entities to present a cash flow statement, even the Banks and Financial Institutions.

Benefits of cash flow information

- A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity.
- Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents.
- It also enhances the comparability.
- Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows.

Definitions:

i. Cash and Cash equivalents include cash on hand, demand deposits, cash at bank, short-term highly liquid investments (for period of 3 months or less **from the date of acquisition**) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 1: bank overdraft is considered as part of cash and cash equivalent because it is considered as integral part of entity 'cash management.

Note 2. Interest paid on cash credit facility (bank overdraft) is shown under cash flow from financing activity.

Note 3. Cash flows exclude movements between items that constitute cash and cash equivalents.

Question 1. Company has provided the following information regarding the various assets held by company on 31st March 2021. Find out, which of the following items will be part of cash and cash equivalents for the purpose of preparation of cash flow statement as per the guidance provided in Ind AS 7:

Sr.	Name of the Security	Additional Information
1.	Fixed deposit with SBI	12%, 3 years maturity on 1st Jan 2024
2.	Fixed deposit with HDFC	10%, original term was for 2 years, but due for maturity on 30.06.2021
3.	Redeemable Preference shares in ABC Ltd	Acquired on 31 st January 2021 and the redemption is due on 30th April 2021
4.	Cash balances at various banks	All branches of all banks in India
5.	Cash balances at various banks	All international branches of Indian banks
6.	Cash balances at various banks	Branches of foreign banks outside India
7.	Bank overdraft of SBI Fort branch	Temporary overdraft, which is payable on demand
8.	Treasury Bills	90 days maturity

Presentation of a statement of cash flows

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

Operating activities:-- Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss.

Examples of cash flows from operating activities are:

Operating Cash Inflows	Operating Cash Outflows
Cash receipts from the sale of goods and the rendering of services	Cash payments to suppliers for goods and services
Cash receipts from royalties, fee, commission and other revenue	Cash payments to and on behalf of employees
Cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits	Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities
Cash receipts and payments from contracts held for dealing or trading purposes	

- The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows or not. If the cash flow from operations is positive, it will be treated as positive indicator whereas negative cash flow from operations will denote that company's ability to generate the revenue from its main operations is very weak. The companies in the initial stage of their business or the companies which are facing economic problems will generally have the negative cash flow from operations.
- Cash flow from operations are used to maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Therefore, it is necessary to assess how much cash is generated by the business from operations? Are they sufficient to take care of their future investment plans? Can loans be repaid in time without default from such cash flows? Is there sufficient amount for payment of preference dividend? Is anything left for equity shareholders after making all these payments? Answers to all these questions will depend on whether the entity has generated enough cash or not.

Certain Specific Issues:

1. **Profit / Loss on Sale of Assets :** Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities.
2. **Properties built for let out :** Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.
3. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Question 2. From the following transactions, identify which transactions will be qualified for the calculation of operating cash flows, if company is into the business of trading of mobile phones

1.	Receipt from sale of mobile phones
2.	Purchases of mobile phones from various companies
3.	Employees expenses paid
4.	Advertisement expenses paid
5.	Credit sales of mobile
6.	Misc. charges received from customers for repairs of mobiles
7.	Loss due to decrease in market value of the closing stock of old mobile phones
8.	Payment to suppliers of mobile phones
9.	Depreciation on furniture of sales showrooms
10.	Interest paid on cash credit facility of the bank
11.	Profit on sale of old computers and printers, in exchange of new laptop
12.	Advance received from customers
13.	Sales Tax and excise duty paid

Investing activities:- The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. **Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities.**

Examples of cash flows arising from investing activities are

1. cash payments to acquire property, plant and equipment, intangibles and other long-term assets.
2. cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
3. cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
4. cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
5. cash advances and loans made to other parties (other than advances and loans made by a financial institution);
6. cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
7. cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
8. cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Question 3 : From the following transactions taken from a private sector bank operating in india, identify which transactions will be classified as operating and which would be classified as investing activity.

Sr. No.	Nature of transaction paid
1.	Interest received on loans
2.	Interest paid on Deposits
3.	Deposits accepted
4.	Loans given to customers
5.	Loans repaid by the customers
6.	Deposits repaid
7.	Commission received
8.	Lease rentals paid for various branches
9.	Service tax paid
10.	Furniture for new branches
11.	Implementation of upgraded banking software
12.	Purchase of shares in 100% subsidiary for opening a branch in Abu Dhabi
13.	New cars purchased from Honda dealer, in exchange of old cars And balance paid in cash
14.	Provident fund paid for the employees
15.	Issued employee stock options

Financing activities:- The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

1. cash proceeds from issuing shares or other equity instruments;
2. cash payments to owners to acquire or redeem the entity's shares;
3. cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
4. cash repayments of amounts borrowed; and
5. cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Question 4 : From the following transactions taken from a parent company having multiple businesses and multiple segments, identify which transactions will be classified as operating, investing and financing:

Sr. No.	Nature of transaction	Operating / Investing / Financing /Not to be considered
1	Issued preference shares	
2	Purchased the shares of 100% subsidiary company	
3	Dividend received from shares of subsidiaries	
4	Dividend received from other companies	
5	Bonus shares issued	
6	Purchased license for manufacturing of special drugs	
7	Royalty received from the goods patented by the company	
8	Rent received from the let out building (letting out is not main business)	
9	Dividend paid	
10	Interest paid on security deposits	
11	Purchased goodwill	
12	Acquired the assets of a company by issue of equity shares (not parting any cash)	
13	Interim dividends paid	
14	Dissolved the 100% subsidiary and received the amount in final settlement	

Reporting cash flows from operating activities:

An entity shall report cash flows from operating activities using either:

- the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
- the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Entities are encouraged to report cash flows from operating activities **using the direct method**. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

- (a) from the accounting records of the entity; or
- (b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of profit and loss for:
 - (i) changes during the period in inventories and operating receivables and payables;
 - (ii) Other non-cash items; and
 - (iii) Other items for which the cash effects are investing or financing cash flows.
- Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:
 - Changes during the period in inventories and operating receivables and payables;
 - non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
 - All other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

Reporting cash flows from investing and financing activities:--An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows are permitted to be reported on a net basis.

Reporting cash flows on a net basis:-- If nothing is mentioned as per Ind AS 7, cash flows will be presented on Gross Basis. Gross basis means the receipts would be shown separately and the payments will be shown separately.

Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

- i. Cash receipts and payments on behalf of customers. Examples are:
 - the acceptance and repayment of demand deposits of a bank;
 - Rents collected on behalf of, and paid over to, the owners of properties.

ii. Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. Examples are advances made for, and the repayment of:

- Principal amounts relating to credit card customers;
- The purchase and sale of investments; and
- Other short-term borrowings, for example, those which have a maturity period of three months or less.

iii. Cash advances and loans made to customers and repayment of those advances and loans.

iv. Cash receipts from debtors/ cash paid to suppliers.

Foreign currency cash flows:-

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 the cash flow.

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 the cash flows.

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

Question 5: COC Ltd started business on 1st April 2021 and issued equity shares of ₹ 20,00,000. Immediately new machine costing ₹ 5,00,000 was purchased and demand deposits of 10,000 US Dollar was made in American bank. Interest rate on deposit was 10% p.a. On that date rate per US Dollar was ₹ 45. Following additional informations are given for the year ended on 31.3.2022;

Cash sales	₹ 8,00,000
Purchase of stock in trade	₹ 3,50,000
Employees benefit expense	₹ 40,000
Depreciation charged on machine	₹ 30,000
Balance of Fixed deposit is 11000 US \$ (including interest)	

Prepare Cash flow statement as per Ind AS 7 assuming tax amount is Nil.

Exchange rate at the year end was ₹ 50/ US \$.

Question 6. An entity has bank balance in foreign currency aggregating to USD 100 (equivalent to ₹ 4,500) at the beginning of the year. Presuming no other transaction taking place, the entity reported a profit before tax of ₹ 100 on account of exchange gain on the bank balance in foreign currency at the end of the year. What would be the closing cash and cash equivalents as per the balance sheet?

(ICMAI Study material)

Solution:

For the purpose of statement of cash flows, the entity shall present the following:

Particulars	Amount (₹)
Profit before tax	100
Less: Unrealised exchange gain	(100)
Cash flow from operating activities	Nil
Cash flow from investing activities	Nil
Cash flow from financing activities	Nil
Net increase in cash and cash equivalents during the year	Nil
Add: Opening balance of cash and cash equivalents	4,500
Cash and cash equivalents as at the year end	4,500
Reconciliation of cash and cash equivalents	
Cash and cash equivalents as per statement of cash flows	4,500
Add: Unrealised gain on cash and cash equivalents	100
Cash and cash equivalents as per the balance sheet	4,600

Treatment of Interest and dividends:-- Cash flows from interest and dividends received and paid shall each be disclosed separately.

	Financing company	Other company
Interest paid	Cash flow arising from operating activities	Cash flow from financing activities
Interest and dividend received	Cash flow arising from operating activities	Cash flow from investing activities
Dividend paid	Cash flow from financing activities	Cash flow from financing activities

Question 7. A firm invests in a five-year bond of another company with a face value of ₹ 10,00,000 by paying ₹ 5,00,000. The effective rate is 15%. The firm recognises proportionate interest income in its income statement through out the period of bond.

Based on the above information answer the following question:

- How the interest income will be treated in cash flow statement during the period of bond?
- On maturity, whether the receipt of ₹ 10,00,000 should be split between interest income and receipts from investment activity.

Solution: Interest Income will be treated as income over the period of bond in the income statement. However, there will be no cash flow in these years because no cash has been received. On maturity, receipt of ₹ 10,00,000 will be classified as investment activity with a bifurcation of interest income & money received on redemption of bond.

Taxes on income:-- Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. If tax expense is readily identifiable with investing or financing activities, the related tax cash flows are shown under respective activities. However, when it is impracticable to identify the tax cash flow with an individual transaction, then it should be shown under operating activities separately.

Question 8. X Limited has paid an advance tax amounting to ₹ 5,30,000 during the current year. Out of the above paid tax, ₹ 30,000 is paid for tax on long term capital gains. Under which activity the above said tax will be classified in the cash flow statements of X Limited?

Solution: Cash flows arising from taxes on income should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities. In the case of X Limited, the tax amount of ₹ 30,000 is specifically related with investing activities. ₹ 5,00,000 to be shown under operating activities, and ₹ 30,000 to be shown under investing activities.

Investments in subsidiaries, associates and joint ventures :-- When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

Changes in ownership interests in subsidiaries and other businesses:

- The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities. It means cash flow effects of losing control are not deducted from those of obtaining control. They will be shown separately in statement of cash flows.
- 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:
 - the total consideration paid or received;
 - the portion of the consideration consisting of cash and cash equivalents;
 - the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
 - the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

Classification of cash flow as financing activity:-- Cash flows arising from changes in ownership interests in a subsidiary or other businesses **that do not result in a loss of control** shall be classified as cash flows from financing activities.

Non-cash transactions:-- Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

- the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
- the acquisition of an entity by means of an equity issue; and
- the conversion of debt to equity.

Question 9. X Limited acquires fixed asset of ₹ 10,00,000 from Y Limited by accepting the liabilities of ₹ 8,00,000 of Y Limited and balance amount it paid in cash. How X Limited will treat all those items in its cash flow statements?

Solution: Investing and financing transactions that do not require the use of cash and cash equivalents shall be excluded from a statement of cash flows. X Limited should classify cash payment of ₹ 2,00,000 under investing activities. The non-cash transactions – liabilities and asset should be disclosed in the notes to the financial statements.

Components of cash and cash equivalents:-- An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.

Other disclosures:

An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group.

Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

Additional information may be relevant to users in understanding the financial position and liquidity of an entity. **Disclosure of this information, together with a commentary by management, is encouraged and may include:**

- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
- (b) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
- (c) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment.

Question 10: An entity sold machinery (Book Value ₹ 1,00,000) for ₹ 72,000. The loss of ₹ 28,000 debited to the Profit & Loss Account. Is this transaction as Operating Activity?

Answer Operating Activities are the principal revenue generating activities. Investing Activities relate to the acquisition and disposal of long-term assets and other investments that are not Cash Equivalents. However, Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as per Para 68A of Ind AS 16, are Cash Flows from Operating Activities. Cash receipts from rents and subsequent sales of such assets are also Cash Flows from Operating Activities.

The amount of ₹ 72,000 i.e. the sale proceeds should be shown as an Inflow under Investing Activities. ₹ 28,000 i.e. loss on sale of asset should be added back to derive Operating Cash Flow, under Indirect Method.

Question 11: Golden Ltd acquired Fixed Assets viz. Plant and Machinery for ₹ 60 Lakhs. During the same year, it also sold Furniture and Fixtures for ₹ 15 Lakhs. Can the Company disclose, Net Cash Outflow towards Purchase of Fixed Assets in the Statement of Cash Flows?

Answer: Acquisition and Disposal of Fixed Assets is not prescribed for Net-Basis reporting. The Company **cannot** disclose Net Cash Flow in respect of acquisition of Plant and Machinery and disposal of Furniture and Fixtures.

Question 12. Following is the balance sheet of Kuber Limited for the year ended March 31, 2022

(₹ in lacs)		
Assets	2022	2021
Non-current assets		
Property, plant and equipment	13,000	12,500
Intangible assets	50	30
other financial assets(investment)	145	170
Deffered tax assets(net)	855	750
Other non-current assets	800	770
Total non-current assets (A)	14,850	14,220
Current assets		
<u>Financial assets</u>		
Investments	2,300	2,500
Cash and cash equivalents	220	460
Other current assets	195	85
Total current assets (B)	2,715	3,045
Total assets (A+ B)	17,565	17,265
Equity and liabilities		
<u>Equity</u>		

Equity share capital	300	300
Other equity	12,000	8,000
Total equity	12,300	8,300
Liabilities		
<u>Non-current liabilities</u>		
Long term borrowings	2,000	5,000
Other non-current liabilities	2,740	3,615
Total non-current liabilities	4,740	8,615
<u>Current liabilities</u>		
Financial liabilities		
Trade payables	150	90
Bank overdraft	75	60
Other current liabilities	300	200
Total current liabilities	525	350
Total liabilities	5,265	8,965
Total equity and liabilities	17,565	17,265

Additional Information:

- (1) Profit after tax for the year ended March 31, 2022 - ₹ 4,450 lacs
- (2) Interim Dividend paid during the year - ₹ 450 lacs
- (3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under
 - (a) Property, Plant and Equipment - ₹ 500 lacs
 - (b) Intangible Assets - ₹ 20 lacs
- (4) During the year ended March 31, 2022 two machineries were sold for ₹ 70 lacs. The carrying amount of these machineries as on March 31, 20X2 is ₹ 60 lacs.
- (5) Income taxes paid during the year ₹ 105 lacs
- (6) Other non-current/current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities. Using the above information of Kuber Limited, construct a statement of cash flows under indirect method.

3.20 SIGNIFICANT DIFFERENCES IN IND AS -7 and AS- 3

S.N	Particulars	Ind as-7	As-3
1.	Bank overdraft repayable on demand	Ind as 7 includes it in cash and cash equivalents.	AS-3 is silent on it.
2.	Treatment of cash payment in specific cases	Ind as-7 provides the treatment of cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business as cash flow from operating activities. Further, treatment of cash receipts from rent and subsequent sale of such assets as cash flow from operating activity is also provided.	AS-3 does not contain such requirements.
3.	Cash flows from extra-ordinary activities	Ind AS-7 does not contain this requirement	AS-3 requires to be separately classified as arising from operating, investing and financing activities.
4.	Disclosure of the amount of cash and cash equivalents in specific situations	Ind AS 7 requires an entity(except an investment entity) to disclose the amount of cash and cash equivalents and other assets and liabilities in the subsidiaries or other businesses over which control is obtained or lost. It also requires to report the aggregate amount of cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses in the statement of cash flows, net of cash and cash equivalents acquired or disposed of as a part of such transaction, events or changes in circumstances.	AS-3 does not contain any such requirement.
5.	Cash flow arising from changes in ownership interest in a subsidiary	Ind AS-7 requires to classify cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control as cash flows from financing activities.	AS-3 does not contain any such requirement.
6.	Use of different terminology	Ind AS 7 uses the term functional currency in case of foreign subsidiary	AS 3 uses the term reporting currency in case of foreign subsidiary

IND AS 10: EVENTS AFTER THE REPORTING PERIOD

2.1 INTRODUCTION :- It is impossible for any company to present the information on the same day, as the day of reporting. There would always be a gap between the end of the period for which financial statements are presented and the date on which the same will actually be made available to the public.

During this gap, there is a possibility of occurring of few events which will have far reaching effects on the business / existence of the company. How these events should be treated in financial statements of the entity? If the company is aware of the facts and is still not disclosing the same, it may mislead the users. Ind AS 10 deals with such events and provides guidance about its treatment in the financial statements.

2.2 OBJECTIVE : The objectives of the standard are divided mainly in three points.

1. **Guidelines for taking a decision** regarding adjusting or not adjusting the financial statements for the events after the reporting period.
2. **Guidelines regarding the disclosures** regarding adjusting or not adjusting events in the financial statement.
3. **Guidelines when the going concern assumption is no longer appropriate:** The standard requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is no longer appropriate.

2.3 SCOPE:-- The Standard is mainly applicable in respect of the following two matters:

1. **Accounting** for events after reporting period
2. **Disclosure** of events after the reporting period.

2.4 DEFINITIONS AND EXPLANATIONS

2.4.1 Events after the Reporting Period :- Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved.

Example :-The financial year of an entity ends on 31st March, 2021. If the board of directors approves the financial statements on 15th May, 2021, 'after the reporting period' will be the period between 31st March, 2021 and 15th May, 2021 and the events occurring during this period should be considered as 'events after the reporting period'.

2.4.2 Approving authority will be **Board of directors** in case of company and in case of other entity, the corresponding approving authority which is authorised to manage the entity on behalf of all members.

Question 1. If shareholders' approval is must, then should the approval date be considered as the date on which the shareholders approve it?

Answer : Even though shareholders' approval is needed, yet, for the purpose of deciding the events after the reporting period, the date of approval will be considered as the date of approval by the board of directors only.

Question 2. What date should be considered, if in some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval?

Answer : In this case, the financial statements are approved for issue when the management approves them for issue to the supervisory board.

Question 3. On 18th May, 2021, the management of an entity approves financial statements for issue to its supervisory board. The supervisory board approves the financial statements on 26th May, 2021. The financial statements are made available to shareholders and others on 1st June, 2021. The shareholders approve the financial statements at their annual meeting on 15th July, 2021 and the financial statements are then filed with a regulatory body on 17th July, 2021. State the date on which financial statements are considered approved for the purpose of Ind AS 10.

Answer: The financial statements are approved for issue on 18th May, 2021, the date of management approval for issue to the supervisory board.

Question 4. Which date should be considered as date of approval if authority has decided to approve the financial statements only after the public announcement of some other financial information?

Answer : 'Events after the reporting period' include all events up to the date when the financial statements are approved for issue, even if those events occur after the public announcement of profit or of other selected financial information. It will be the date on which authority has actually approved the financial statements.

Question 5. 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.

Answer : As BOD is approving the accounts on 30th August, 2021, 'after the reporting period' will be the period between 31st March, 2021 and 30th August, 2021.

Question 6. ABC Ltd. prepared interim financial report for the quarter ending June 30, 2021. The interim financial report was approved for issue by the Board of Directors on July 15, 2021. Whether events occurring between end of the interim financial report and date of approval by Board of Directors, that provide evidence of conditions that existed at the end of the interim reporting period shall be adjusted in the interim financial report ending June 30, 2021?

Answer : Ind AS 10 defines 'Events after the reporting period' as those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. What is reporting period has not been dealt with in Ind AS 10. Absence of any specific guidance regarding reporting period implies that any term for which reporting is done by preparing financial statements is the reporting period for the purpose of Ind AS 10. Accordingly, financial reporting done for interim period by preparing either complete set of financial statements or by preparing condensed financial statements will be treated as reporting period for the purpose of Ind AS 10.

Ind AS 34 provides that each financial report, annual or interim, is evaluated on its own for conformity with Ind AS. Further, Ind AS 34 provides that an interim financial report shall not be described as complying with Ind AS unless it complies with all of the requirements of Ind AS.

In accordance with the above, an entity describing that its interim financial report is in compliance with Ind AS, has to comply with all the Ind AS including Ind AS 10.

In order to comply with the requirements of Ind AS 10, each interim financial report should be adjusted for the adjusting events occurring between end of the interim financial report and the date of approval by Board of Directors. Therefore, in the instant case, events occurring between July 1, 2021 and July 15, 2021 that provide evidence of conditions that existed at the end of the interim reporting period should be adjusted in the interim financial report ending June 30, 2021.

Question 7. The Board of Directors of ABC Ltd. approved the financial statements for the reporting period 2021-22 for issue on June 15, 2022. The management of ABC Ltd. discovered a major fraud and decided to reopen the books of account. The financial statements were subsequently approved by the Board of Directors on June 30, 2022. What is the date of approval for issue as per Ind AS 10 in the given case?

Solution: Date of approval is the date on which the financial statements are approved by the Board of Directors in case of a company, and by the corresponding approving authority in case of any other entity for issue. In the given case, there are two dates of approval by Board of Directors. The financial statements were reopened for further adjustments subsequent to initial approval. The date of approval should be taken as the date on which financial statements are finally approved by the Board of Directors. Therefore, in the given case, the date of approval for issue as per Ind AS 10 should be considered as June 30, 2022.

Question 8. Should the company report only unfavourable events?

Answer: The standard clearly states that events can be favourable as well as unfavourable.

2.5 TYPES OF EVENTS :-- The 'events after the reporting period' are classified into two categories

- (i) Adjusting Events and
- (ii) Non Adjusting Events

2.6 RECOGNITION AND MEASUREMENT OF ADJUSTING EVENTS

Adjusting Events are those events that provide **evidence** of conditions that existed **at the end of the reporting period**.

An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. **Examples of adjusting events after the reporting period**

- (a) The settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' or recognises a new provision.
- (b) The receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.
- (c) The sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.
- (d) The determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold.
- (e) The determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date.
- (f) The discovery of fraud or errors that shows that the financial statements are incorrect. Ind AS 10 focuses on the errors including frauds which are revealed after the reporting period. In any case, the entity is not supposed to present any misstatement to the stakeholders, especially when it has knowledge about the errors and frauds.

Therefore entity must adjust the financial statements appropriately by rectifying the same.

Question 9. A case is going on between ABC Ltd., and GST department on claiming some exemption for the year 2021-2022. The court has issued the order on 15th April, 2022 and rejected the claim of the company. Accordingly, the company is liable to pay the additional tax. The financial statements of the company for the year 2021-2022 have been approved on 15th May, 2022. Should the company account for such tax in the year 2021-2022 or should it account for the same in the year 2022-2023?

Solution: As per Ind AS 10, An event after the reporting period is an adjusting event, if it provides evidence of a condition existing at the end of the reporting period. Here, this condition is satisfied. Court order received after the reporting period provides the evidence of the liability existing at the end of the reporting period. Therefore, the event will be considered as an adjusting event and, accordingly, the amounts will be adjusted in financial statements for 2021-2022.

Question 10. While preparing its financial statements for the year ended 31st March, 2021, XYZ Ltd. made a general provision for bad debts @ 5% of its debtors. In the last week of February, 2021 a debtor for ₹ 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. Considering the event of earthquake, XYZ Ltd. made a provision @ 50% of the amount receivable from that debtor apart from the general provision of 5% on remaining debtors. In April, 2021 the debtor became bankrupt. Can XYZ Ltd. provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 2021?

(ICMAI Study material)

Would the answer be different if earthquake had taken place after 31st March, 2021, and therefore, XYZ Ltd. did not make any specific provision in context that debtor and made only general provision for bad debts @ 5% on total debtors?

Solution: As per the definition of 'Events after the Reporting Period' of Ind AS 10, financial statements should be adjusted for events occurring after the reporting period that provide evidence of conditions that existed at the end of the reporting period. In the instant case, the earthquake took place before the end of the reporting period, i.e., in February 2021. Therefore, the condition exists at the end of the reporting date though the debtor is declared insolvent after the reporting period. Accordingly, full provision for bad debt amounting to 2 lakhs should be made to cover the loss arising due to the bankruptcy of the debtor in the financial statements for the year ended March 31, 2021. Since provision for bad debts on account of amount due from that particular debtor was made @ 50%, XYZ Ltd should provide for the remaining amount as a consequence of declaration of this debtor as bankrupt.

In case, the earthquake had taken place after the end of the reporting period, i.e., after 31st March, 2021, and XYZ Ltd. had not made any specific provision for the debtor who was declared bankrupt later on, since the earthquake occurred after the end of the reporting period no condition existed at the end of the reporting period. The company had made only general provision for bad debts in the ordinary business course and not to recognise the catastrophic situation of an earthquake. Accordingly, bankruptcy of the debtor in this case is a non-adjusting event.

As per Ind AS 10, if non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- (a) the nature of the event; and
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made."

If the amount of bad debt is considered to be material, the nature of this non-adjusting event, i.e., event of bankruptcy of the debtor should be disclosed along with the estimated financial effect of the same in the financial statements.

Question 11. A company has inventory of 100 finished cars on 31st March, 2022, which are having a cost of ₹ 4,00,000 each. On 30th April, 2022, as per the new government rules, higher road tax and penalties are to be paid by the buyers for such cars (which were already expected to come) and hence the selling price of a car has come down and the demand for such cars has dropped drastically. The selling price has come down to ₹ 3,00,000 each. The financial statements of the company for the year 2021-2022 are not yet approved. Should the company value its stock at ₹ 4,00,000 each or should it value at ₹ 3,00,000 each? Ignore estimated costs necessary to make the sale.

Solution Events after the reporting period provide the evidence about the net realisable value of the cars at the end of the reporting period and, therefore, the amount of ₹ 3,00,000 should be considered for the valuation of stock.

Question 12. ABC Ltd., has purchased a new machinery during the year 2021-2022. The asset was finally installed and made ready for use on 15th March, 2022. However, the company involved in installation and training, which was also the supplier, has not yet submitted the final bills for the same.

The supplier company sent the bills on 10th April, 2022, when the financial statements were not yet approved. Should the company adjust the amount of capitalisation in the year 2021-2022 or in the year 2022-2023?

Solution: As per the provisions of the contract, the cost of installation and training of new machine is an integral part of the cost of asset purchased. Therefore, even if the details are available after reporting period, they provide proof about the circumstances that existed at the end of reporting period. Therefore, the cost of installation and training will be considered for capitalisation in the year 2021-2022.

2.7 ACCOUNTING TREATMENT AND DISCLOSURE OF NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD:

Non adjusting events are those events that are **indicative** of conditions that arose **after the reporting period**.

An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

Example of a non-adjusting event after the reporting period are

- i. A decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue.
- ii. Bad debts after reporting period due to sudden death of debtors.

2.8 SPECIAL CASES

2.8.1 Long-term Loan Arrangements

Notwithstanding anything contained in the definition of non-adjusting events, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event.

2.8.2 Going Concern :-- An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

- Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate.
- Ind AS 1 specifies required disclosures if:

- (a) the financial statements are not prepared on a going concern basis; or
- (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

Question 13. Deleted from syllabus. No need to study even covered in video classes.

Question 14. In the plant of PQR Ltd., there was a fire on 10.05.2021 in which the entire plant was damaged and the loss of ₹ 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of ₹ 27,00,000 is expected. The financial statements for the year ending 31.03.2021 were approved by the Board of Directors on 12th June 2021. Show how should it be disclosed?

Solution: In the instant case, since fire took place after the end of the reporting period, it is a non-adjusting event. However, in accordance with Ind AS 10, disclosures regarding non-adjusting event should be made in the financial statements, i.e., the nature of the event and the expected financial effect of the same.

2.9 DIVIDENDS

- If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32, Financial Instruments: Presentation) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.
- If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.

Question 15. ABC Ltd., declares the dividend on 15th July, 2022 as the results of year 2021-2022 as well as Q1 ending 30th June, 2022 are better than expected. The financial statements of the company are approved on 20th July, 2022 for the financial year ending 31st March, 2022. Will the dividend be accounted for in the financial year 2022-2023 or will it be accounted for in the year 2021-2022?

Solution :- The dividend is declared in the year 2022-23. Therefore, the obligation towards dividend did not exist at the end date of reporting period i.e., on 31st March, 2022. Therefore, it will be accounted for in the year 2022-2023 and not in 2021-22, even if financial statements for 2021- 22 were approved after the declaration of dividend. It will, however, be disclosed in the notes in the financial statements for the year 2021-2022 in accordance with Ind AS 1.

Question 16. What would be the treatment for dividends declared to redeemable preference shareholders after the reporting period but before the financial statements are approved for issue for the year 2021-22. Whether Ind AS 10 prescribes any accounting treatment for such dividends?

Solution :- Ind AS 10 prescribes accounting treatment for dividends declared to holders of equity instruments. If an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

However, Ind AS 10 does not prescribe accounting treatment for dividends declared to redeemable preference shareholders. As per the principles of Ind AS 32, Financial Instruments: Presentation, a preference share (except irredeemable) is a financial liability. Thus, dividend payments to such preference shares are recognised as expense in the same way as interest on a bond. Since interest will be charged on time basis, the requirements of Ind AS 10 regarding date of declaration of dividend not relevant for its recognition.

2.10 DISCLOSURE

- i. An entity shall disclose the date when the financial statements were approved for issue and who gave that approval.
- ii. Updating disclosure about conditions at the end of the reporting period.
- iii. If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.
- iv. In case of adjusting events, the entity is supposed to make the necessary adjustments in the financial statements. In addition to adjustments in the financial statements, it is necessary to make the separate disclosure of the same.
- v. **Disclosure of Non-adjusting events after the reporting period** :- If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:
 - (a) the nature of the event; and
 - (b) An estimate of its financial effect or a statement that such an estimate cannot be made.

Examples of non-adjusting events after the reporting period resulting in disclosure:

- (a) a major business combination or disposing of a major subsidiary;
- (b) announcing a plan to discontinue an operation;
- (c) major purchases of assets, classification of assets as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, other disposals of assets, or expropriation of major assets by government;
- (d) the destruction of a major production plant by a fire after the reporting period;
- (e) announcing, or commencing the implementation of, a major restructuring ;
- (f) major ordinary share transactions and potential ordinary share transactions after the reporting period
- (g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;
- (h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities;

- (i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
- (j) commencing major litigation arising solely out of events that occurred after the reporting period.

2.11 DISTRIBUTION OF NON-CASH ASSETS TO OWNERS :- Sometimes an entity distributes non-cash assets as dividends to its equity shareholders. An entity may also give equity shareholders a choice of receiving either non-cash assets or a cash alternative.

Ind AS 1 requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to the financial statements but does not prescribe how to measure it.

Appendix A to Ind AS 10, applies to the distribution of Non-cash Assets or non-cash asset and cash as dividend to shareholders. It applies only to distributions in which all owners of the same class of equity instruments are treated equally.

2.11.2 Non-applicability

- (i) This Appendix does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution.
- (ii) It does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary.

2.11.3 Accounting Principles of dividend

When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must Recognize a liability for the dividend payable.

2.11.3.2 Measurement of a dividend payable

- i. An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.
- ii. If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.
- iii. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution. Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable by profit and loss account.

S. N	Ind AS 10	AS-4
1.	Events after the reporting period	Contingencies and events occurring after the balance sheet date
2.	This standard requires material non-adjusting events to be disclosed in the financial statements.	This standard requires material non-adjusting events to be disclosed in the report of approving authority.
3.	As per Ind AS 1, it has been provided in the definition of 'events after the reporting period' that in case of breach of a material provision of a long term loan arrangement on or before the end of the reporting period with the effect that liability becomes payable on demand on reporting date, if the lender, before the approval of the financial statements for issue, agrees to waive the breach, it shall be considered as an adjusting event.	No such guidance is given in AS 4.
4.	Ind AS 10 includes an appendix 'distribution of non-cash assets to owners which deals with when to recognise dividend payable to owner.	No such guidance is given in AS-4

TEST YOUR KNOWLEDGE:

Question 17. ABC Ltd., has announced its interim results for Quarter 1, ending 30th June, 20X2 on 5th July, 20X2. However, till that time the AGM for the year 20X1-20X2 was not held. The financial statements for 20X1-20X2 were approved by the board of directors on 15th July, 20X2. What will be the 'after the reporting period' as per the definition given in Ind AS 10?

Answer : As per Ind AS 10, even if partial information has already been published, the reporting period will be considered as the period between the end of reporting period and the date of approval of financial statements. In the above case, the financial statements were approved on 15th July 20X2. Therefore, for the purposes of Ind AS 10, 'after the reporting period' would be the period between 31st March, 20X2 and 15th July, 20X2.

Question 18. ABC Ltd., is in a legal suit with the GST department. The company gets a court order in its favour on 15th April, 20X2, which resulted into reducing the tax liability as on 31st March, 20X2. The financial statements for 20X1-20X2 were approved by the board of directors on 15th May, 20X2. The management has not considered the effect of the transaction as the event is favourable to the company. The company's view is that favourable events after the reporting period should not be considered as it would hamper the realisation concept of accounting. Comment on the company's views in the light of Ind AS 10.

Answer: As per Ind AS 10, even favourable events need to be considered. What is important is whether a condition exists as at the end of the reporting period and there is evidence for the same.

Question 19. ABC Ltd., is trading in laptops. On 31st March, 20X2, the company has 50 laptops which were purchased at \$ 45,000 each. The company has considered the same price for calculation of closing inventory valuation. On 15th April, 20X2, advanced version of same series of laptops is introduced in the market. Therefore, the price of the current laptops crashes to \$ 35,000 each. The financial statements for 20X1-20X2 were approved by the board of directors on 15th May, 20X2. The company does not want to value the stock at \$ 35,000 less estimated costs necessary to make the sale as the event of reduction in selling price took place after 31st March, 20X2 and the reduced prices were not applicable as on 31st March, 20X2. Comment on the company's views.

Answer : As per Ind AS 10, the decrease in the net realisable value of the stock after reporting period should normally be considered as an adjusting event.

1. XY Ltd had taken a large-sized civil construction contract, for a public sector undertaking, valued at ₹ 200 Crores. Execution of the project started during 20X1-X2, and continued in the next financial year also. During the course of execution of the work on May 29, 20X2, the company found while raising the foundation work that it had met a rocky surface and cost of contract would go up by an extra ₹ 50 crore, which would not be recoverable from the Contractee as per the terms of the contract. The Company's financial year ended on 31st March, 20X2, and the financial statements were considered and approved by the Board of Directors on 15th June, 20X2. How will you treat the above in the financial statements for the year ended 31st March, 20X2?

Answer : In the instant case, the execution of work started during the F.Y. 20X1-X2 and the rocky surface was there at the end of the reporting period, though the existence of rocky surface is confirmed after the end of the reporting period as a result of which it became evident that the cost may escalate by ₹ 50 Crores. In accordance with the definition of 'Events after the Reporting Period', since the rocky surface was there, the condition was existing at the end of the reporting period, therefore, it is an adjusting event. The cost of the project and profit should be accounted for accordingly.

Question 20. A Ltd. closed its accounting year on 31/03/2021 and the accounts for that period were considered and approved by the board of directors on 20th May, 2021. The company was engaged in boring tunnels for metro railway. While doing the boring work on 01/06/2021 it hit an aquifer and as a result 18 buildings 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 31.03.2021.

(ICMAI Study material)

Solution: Ind AS 10 defines 'events after the reporting date' as those 'significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors'. In this case the incidence, which was expected to push cost, became evident after the date of approval of the accounts. So that was not an 'event after the reporting date' as per Ind AS 10. However, this may be mentioned in the Director's Report.

Question 21. While preparing its final accounts for the year ended 31st March, 2021, a company made a provision for doubtful debts @ 5% of its total debtors. In the last week of February 2021, a debtor for ₹20 lakh suffered heavy loss and subsequently became insolvent in April, 2021. Can the company provide the full loss out of the insolvency of the debtor in the final accounts for the year ended on 31.03.2021? **(ICMAI Study material)**

Solution: As per Ind AS 10, for 'events after the reporting date', if circumstances were existing on the balance sheet date, adjustments should be made in accounts. In the given case, circumstances were pre-existing and the event in April, 2021 only confirms the same. Hence, it is adjustable event. Hence, the company can provide the full loss out of the insolvency of the debtor in the final accounts for the year ended on 31.03.2021.

Question 22. 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? **(ICMAI Study material)**

Solution: Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates consider fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. This inventory should be written down to net realizable value, the high inventory levels indicated slow demand from the manufacturer. The post balance sheet announcement confirmed the over-supply at year end.

Question 23. 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? **(ICMAI Study material)**

Solution: In the given scenario, the valuation provides sufficient evidence of impairment in value that had occurred prior to the balance sheet date. Thus, an impairment review should be carried out in accordance with IAS 36 and a provision to write down the properties would be regarded as an 'adjusting event' with the values attributed to the properties in the balance sheet being adjusted accordingly.

Question 24. 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?

Solution: Exchange rate changes are included in the list of non-adjusting post balance sheet events set out in Ind AS 10. Although the bank overdraft existed at the balance sheet date, the conditions that gave rise to the loss did not exist on that date. The exchange rate fluctuation occurred subsequent to the balance sheet date. Accordingly, in normal circumstances, the effect should not be adjusted in the financial statements. However, if the same is material, it should be disclosed by way of a note to the financial statements.

Question 25. AIR Aviation Co. Ltd. announced a restructuring programme in 2018 which was implemented in full in 2019. 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, 2020 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 Rs.200 lakh. The actions will be taken over the next 15 months. The company is expecting a break-even in 2021. Should the company prepare its financial statements on a going concern basis? **(ICMAI Study material)**

Solution: As per Ind AS 10, an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

In the given situation, the company has no plan to discontinue its operation and rather expects to break-even in the near future after implementing the additional restructuring package to be executed in 15 months' time. Consequently, the company should prepare its financial statements were prepared on a going concern basis.

Indian Accounting Standard (Ind As) 19 — Accounting for Employee Benefits

Meaning of Employee Benefits: Employee benefits are all forms of considerations given by an employer directly to the employee or their spouses, children or other dependents, or to others such as trusts, insurance companies in exchange of the service rendered by the employee.

Objective: The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope:

1. This Standard shall be applied by an employer in accounting for all employee benefits, except those to which Ind AS 102, Share-based Payment, applies.
2. This Standard does not deal with reporting by employee benefit plans.
3. The employee benefits to which this Standard applies include those provided:
 - (a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;
 - (b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry or other multi-employer plans; or
 - (c) by those informal practices that give rise to a constructive obligation.

Meaning of an Employee: An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

Type of Employee Benefits: According to the Standard, there are four types of employee benefits as follows:

- (a) **Short-term employee benefits**, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:
 - (i) wages, salaries and social security contributions;
 - (ii) paid annual leave and paid sick leave;
 - (iii) profit-sharing and bonuses; and
 - (iv) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- (b) **Post-employment benefits**, such as the following:
 - (i) Retirement benefits (e.g., pensions and lump sum payments on retirement); and
 - (ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care;
- (c) **Other long-term employee benefits**, such as the following:
 - (i) long-term paid absences such as long-service leave or sabbatical leave;
 - (ii) jubilee or other long-service benefits; and
 - (iii) long-term disability benefits; and
- (d) **Termination benefits** including voluntary retirement benefits (VRS).

ACCOUNTING TREATMENT OF EMPLOYEE'S BENEFITS:

Accounting of employees benefit is completely based on accrual concept. It means we record the employees benefit expense in the period in which employee renders the services.

(a) Accounting for Short Term Employee Benefits: Short term employees benefits are such consideration which are paid/payable by employers to their employees **with in 12 months from the balance sheet date**. For example, salary, wages, leave encashment, bonus/ profit sharing etc.

Basic principles for accounting of short-employee benefits are that the undiscounted amount of short-term employee benefits should be recognized when the employee rendered service:

(1) Accounting treatment of wages/salary:**(i) When salary/wages are accrued and paid:**

Salary/wages account Dr.
To bank account

(ii) when salary/ wages are accrued but not paid:

Salary/wages account Dr.
To outstanding salary/wages account

(iii) when salary/wages are paid in advance:

Prepaid salary account Dr.
To bank account

Note 1. Salary/ wages are debited to profit and loss account at the end of the year under the head “ employees benefit expense”.

Note 2. It is recognized as an expense unless another Standard such as Ind AS-16 “Property, Plant and Equipment” requires it to be included in the cost of assets.

Note 3. It is recognized as a liability if the amount of short-term benefits exceeds amount actually paid or spent.

Note 4. It is recognized as asset (prepaid expenses) when amount actually paid exceeds the amount of short-term benefits.

(2) Accounting treatment of bonus/ profit sharing plan:

Under some profit-sharing plans/bonus, employees receive a share of the profit only if they remain with the entity for a specified period.

Such plans/bonus create an obligation on the entity that increases the amount to be paid to employees if they remain in service until the end of the specified period.

The obligation to pay bonus/ profit sharing plan on the company may be **constructive obligation or a legal obligation.**

The measurement of such obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

An entity should recognize the expected cost of profit-sharing and bonus payments when and only when;

- The entity has a present obligation to make such payments as a result of past events and;
- A reliable estimate of the obligation can be made.

It is recognised on the date when the condition to receive bonus/ profit sharing plan is met by the employees.

Journal entries for bonus/profit sharing plan:

(A) When condition to receive bonus is met by the employees:

Bonus account	Dr.
To provision for bonus (liability) account	

(B) When bonus is paid after accrual:

Provision for bonus account	Dr.
To bank account	

Question 1. During the year 2023-24, COC Ltd announced bonus plan of ₹ 20,000/employee to his 100 employees which will be payable if employees achieve target of crossing turnover of 20 crores in current year. Salary payable to his employees were ₹ 50,00,000 P.A. Make journal entries in the book of COC Ltd for the year 2023-24 if

- (a) Target was achieved and turnover was 22 crores.
- (b) Target was not achieved.

Note 1: Computation of bonus/Profit sharing plan payable to employees=

Amount of bonus per employee X number of employees who met the condition.

Note 2. Sometimes, Bonus/ profit sharing plan may be based on share in profit. In that case it will be calculated as follow:

Profit earned by the entity during the year X share in profit **expected payout %**

Note 3. An entity recognizes the cost of profit-sharing and bonus plans not as a distribution of net profit but as an expense.

Note 4. If profit-sharing and bonus payments are not due wholly within 12 months after the end of the period in which the employees render the related service, those payments are other long term employee benefits.

Question 2. A profit-sharing plan requires an entity to pay a specified proportion of its net profit for 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.

(ICMAI Study material)

Solution: The entity recognizes a liability and expense of 4% of net profit because as per Ind AS 19, expenses are recorded based on expected payout percentage.

Question 3. 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 recognized and also make journal entry.

Solution: Bonus payable for current year = ₹ 1,00,000 + 7% of ₹ 1,00,000 = ₹ 1,07,000

No. of employees in payroll = 150 – 6% of 150 = 141

Provision for bonus = ₹ 1,07,000 × 141 = ₹ 1,50,87,000

Accounting treatment:

Employee Benefits Expenses(Bonus) A/c	Dr. 1,50,87,000
To Provision for Bonus A/c	1,50,87,000

Question 4. Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates as observed during past 10 years represents 6% per annum. Acer provides the following benefits to all its employees:

Annual bonus - during past 10 years.

Acer paid bonus to all employees who were in service during the entire financial year. Bonus was paid in June following the financial year-end. Amount of bonus for 2024-2025 paid in June 2025 represented ₹ 1,25,000 per employee. Acer Ltd. used to increase amount of bonus based on official inflation rate which is 8.5% for 2025-2026, although there was no legal obligation to increase the bonus by such inflation rate.

How would Acer Ltd. recognize liabilities and expenses for these employee benefits as on 31st March, 2026? Pass the journal entry to show the accounting treatment.

Solution:

Particulars	Amount (₹)
Bonus paid for 2024-2025	1,25,000 per employee
Bonus for 2025-2026- increased by inflation of 8.5%: [1,25,000 x (100% + 8.5%)]	1,35,625 per employee
No. of employees in staff during the whole year [350 x (100- 6%)]	329 employees
Provision for Bonus for 2025-2026	4,46,20,625

Accounting Treatment:

Provision for Bonus for 2025-2026

Employee Benefits Expenses A/c	Dr. 4,46,20,625
To Provision for Bonus	4,46,20,625

(3) Treatment of Short Term Paid Absences: Paid leaves/paid absences are leaves given to employees for which their salary will not be deducted. These leaves are allowed to employees in addition to Sunday and public holidays. An entity may pay its employees paid leaves in many ways such as sick leave, casual leave, privilege leave, short-term disability leave, maternity leave, paternity leave, Jury service leave, military service leave etc.

Entitlement to be paid absences falls into two categories –

(a) Non-accumulating leave:- It means unused leaves of current year can not be carry forward to the next year.

(b) Accumulating Leave :- Accumulating leaves are those unused leave entitlement of current year which can be carried forward and can be used in next year. Accumulating leaves may be either:

(i) vesting Leave :- It means employees are entitled to a cash payment for unused leave.

(ii) Non-vesting Leave:- It means employees are not entitled to a cash payment for unused leave. They can only take excess leaves in next year for carry forward of unused leaves of current year.

Accounting treatment of paid absences:

Question 5. COC Ltd has following rule for salary calculation to his employees.

Total days in a year	365
Less: Sunday and public holidays	65
Total working days in a year	300
Less: paid leave allowed	20
Minimum working days per year per employee	280

Assume that an employee worked for 280/ 285/ 290/300 days in a year. His salary per annum was ₹ 30,00,000.

Make journal entries for the current year **assuming his paid leave was non-accumulating.**

Question 6. COC Ltd has following rule for salary calculation to his employees.

Total days in a year	365
Less: Sunday and public holidays	65
Total working days in a year	300
Less: paid leave allowed	20
Minimum working days per year per employee	280

Assume that an employee worked for 290 days in the current year. His salary per annum was ₹ 30,00,000.

Make journal entries for the current year and next year **assuming his paid leave was accumulating- vested.**

Question 7. COC Ltd has following rule for salary calculation to his employees.

Total days in a year	365
Less: Sunday and public holidays	65
Total working days in a year	300
Less: paid leave allowed	20
Minimum working days per year per employee	280

Assume that an employee worked for 290 days in the current year. His salary per annum was ₹ 30,00,000.

Make journal entries for the current year and next year **assuming his paid leave was accumulating- (non-vested).**

Explanation of above practical concepts as per Ind AS-19.

An entity shall recognise the expected cost of paid absences as follows:

- (i) **In the case of non-accumulating paid absences:** When the absences occur, cost of non-accumulating type of compensated absences is automatically computed if the employees are on the regular pay-roll. In case employees are not in the regular pay-roll, then cost should be computed during their absences in the period in which the absences occur.

Note:- No treatment required in case of non-accumulating paid absences.

- (ii) **In the case of accumulating paid absences:-** When the employees render service that increases their entitlement to future paid absences. An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Journal entries:

(1) when leaves are earned by the employees:

Leave compensation account (SPL) Dr.

To provision for leave compensation account (liability)

(2) in next year:

(a) in case of vested accumulating:	(b) in case of non-vested accumulating:
Salary account Dr. (current year salary) To bank account	Salary account Dr. (bal fig) Provision for leave compensation Dr. (previous year closing balance) To bank account (total amount paid)
Provision for leave compensation account Dr. To bank account	

Note 1: Computation of leave compensation payable to employees:

Total number of employees X total number of unused leave per employee X salary per day

Note 2: salary per day = $\frac{\text{annual salary}}{\text{no of working days in a year}}$

Note 3: Number of working days in a year means days on which office of the company will remain open (**excluding Sunday and public holidays**).

Question 8. Following are details of an employee in COC Education Ltd.

Salary per annum – ₹ 60,00,000.

Number of working days in a year = 300 days.

Paid leave allowed per year = 25 days.

Used paid leave during the year = 10 days.

Unused paid leave at the end of first year = 15 days.

Make journal entries for the first and second year, if

Case 1. Paid leaves are non-accumulating.

Case 2. Paid leaves are vested accumulating.

Case 3. Paid leaves are non-vested accumulating.

Question 9. Mr. Niranjan is working for Infotech Ltd. Consider the following particulars:

	Year 2023-2024	Year 2024-2025
Annual salary	₹30,00,000	₹30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 3 days of 2023-2024 in 2024-2025. Pass journal entries for both the years assuming paid leaves are non-vested.

Solution: **Journal entries for 2023-2024:**

Salary Account	Dr.	30,00,000	
To Bank Account			30,00,000
Leave compensation expense account	Dr.	30,000	
To Provision for Leave Encashment			30,000

Journal Entry for 2024-2025

Salary Account	Dr.	29,70,000	
Provision for Leave Encashment Account	Dr.	30,000	
To Bank Account			30,00,000

Question 10. Assume same information as in previous question.

Based on past experience, Infotech Ltd. assumes that Mr. Niranjana will avail the unutilized leaves of 2 days of 2023-2024 subsequently.

However, in 2024-2025, Mr. Niranjana availed in actual all 3 days of brought forward leave.

Compute the expense to be recognised in 2023-2024 and 2024-2025. Also pass journal entries for both the years.

(ICAI Study material)

Solution: Journal Entry for 2023-2024:

Salary Account	Dr.	30,00,000	
To Bank Account			30,00,000
Leave compensation expense account	Dr.	20,000	
To Provision for Leave Encashment			20,000

Journal Entry for 2024-2025

Salary Account	Dr.	29,80,000	
Provision for Leave Encashment Account	Dr.	20,000	
To Bank Account			30,00,000

Question 11. Sunderam Pvt. Ltd. has a headcount of 100 employees in 2023-2024. As per the employee policy, the employees are entitled to:

- 30 casual leaves out of which 10 casual leaves may be carried forward to the next year; and
- 10 sick leaves out of which 2 sick leaves may be carried forward as paid leave.

At 31st March, 2024, the average unused entitlement is 5 days per employee for casual leaves and 1 day per employee for sick leave. On an average, it is found that the number of such employees who would be claiming casual leaves would be 30 and 10 employees who would claim sick leaves.

Compute the liability to be recognised in respect of sick leaves and casual leaves by the entity at the end of the financial year 2023-2024.

(ICAI Study material)

Solution:

Type of leave (A)	Leave Entitlement (B)	Leaves c/f permissible (C)	Average leaves Unutilized (D)	No. of Employees (E)	Liability (F = D x E)
Casual Leave	30 days	10 days	5 days	30	150 days salary
Sick Leave	10 days	2 days	1 days	10	10 days salary

The entity will recognize liability in the books equal to 150 (30 x 5) days of paid casual leaves and 10 (10 x 1) days of paid sick leaves.

Question 12. A Ltd. has 100 employees. Each employee is entitled to 10 days sick leave each year. Unused sick 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, 2023, the average unused sick leave is 2 days per employee. The management, based on experience, estimates that in the year 2024, 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 is ₹ 100. How will you treat this?

(ICMAI Study material)

Solution: In 2024, the firm will pay, in total, an additional (100 × 0.10 × 1) or 10 days of pay as a result of unused entitlement accumulated as at December 31, 2023. If the average payment per employee per day is ₹ 100, the firm should provide for a liability of ₹ 1,000. Therefore, expense on salaries and wages to be recognized in the profit and loss account for the current year is the total of the amount paid or payable for the current year (2023) and ₹ 1,000.

Question 13. 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 2023-24. 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.

(ICMAI Study material)

Solution : Salary payable per day = ₹ 15,00,000 ÷ 300 = ₹ 5,000

Unutilised leaves = 10 – 8 = 2 days

Payment for unutilised leaves = ₹ 5,000 × 2 = ₹ 10,000

Total expense to be recognised = ₹ 15,00,000 + ₹ 10,000 = ₹ 15,10,000

Question 14. Mr. Rajan is working for Infotech Ltd. Consider the following particulars:

Annual salary of Mr. Rajan = ₹ 30,00,000

Total working days in 2023-24 = 300 days

Leaves allowed in 2023-24 as per company policy = 10 days

Leaves utilized by Mr. Rajan in 2023-24 = 8 days

The unutilized leaves are settled by way of payment and accordingly, carry forward of such leaves to the subsequent period is not allowed. Compute the total employee benefit expense for Infotech Ltd. in respect of 2023-24.

Solution: Mr Rajan is entitled to a salary of ₹ 30,00,000 for 300 total working days.

Thus, per day salary works out to ₹ 30,00,000 ÷ 300 days = ₹ 10,000 per day

In the year 2023-2024, Mr. Rajan availed 8 out of 10 leaves allowed by the company.

Accordingly, leaves unutilized = 10 – 8 = 2 days

In line with the company policy, Infotech Ltd. will pay Mr. Rajan for the unutilized leave.

Thus, total expense for 2023-2024 = ₹ 30,00,000 + (2 days unutilized leaves × ₹ 10,000/day) = ₹ 30,20,000.

(B) Accounting for Post-Employment Benefits: Post-employment benefits are employee benefits

(other than termination benefits and short-term employee benefits) that are payable after the completion of employment. They include (i) retirement benefits (e.g., pensions, provident fund, gratuity etc); and (ii) other post-employment benefits, such as post-employment life insurance, post-employment medical care.

Post-employment benefit plans are classified as either **(i) defined contribution plans or (ii) defined benefit plans**, depending on the economic substance of the plan as derived from its principal terms and conditions.

(i) Defined Contribution Plan (DCP): These are post employment benefits under which entity pays fixed contribution into the specific fund on behalf of the employees and will have no further obligation to pay any amount to the employees.

For example, PF contribution etc.

Under defined contribution plans (DCP), the entity's obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an employer (and also by the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions.

Defined contribution plans may be of following three types:

- (a) Multi-employer Plans;
- (b) State Plans;
- (c) Insured Benefits.

(a) Multi-employer Plans: Multi-employer plans are defined contribution plans that:

- pool the assets contributed by various entities that are not under common control; and
- use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

(b) State Plan: State plans are established by legislation to cover all entities or entities of a specific industry and are operated by national or local Government, example of such plan in India are Provident Fund administrated by the Govt. of India.

(c) Insured Benefits: Where an employer takes insurance policy from an insurance company for meeting its obligation under post-employment benefits and the employer has no obligation to pay benefits to the employee and the insurer has sole responsibility for paying the post-employment benefits. The payments of fixed premium under such contract are, in substance, the settlement of the employee benefit obligation. Therefore, entities treat such payment as contribution to defined contribution plan.

However, if employer has the obligation to pay employee benefits when they fall due or to pay further amount if insurer does not pay, such plan shall be treated as defined benefit plan and not defined contribution plan and accounting shall be done accordingly.

ACCOUNTING OF DEFINED CONTRIBUTION PLAN:

Accounting for defined contribution plans is straight forward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period.

Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.

Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service as a liability and also as an expense.

Journal entries:

(i) when it is accrued:

Defined contribution expense account (SPL-EBE) Dr.
To Defined contribution payable account (liability)

(ii) when it is paid:

Defined contribution payable account (liability) Dr.
To bank account

Note: If it is to be paid after 12 months from the balance sheet date, then it should be recognised at present value and interest cost is charged over the period to unwind the discount.

Journal entry at the end of each year to unwind the discount:

Interest expense account (SPL- EBE) Dr. (opening balance of D C Payable X discounting rate)
To Defined contribution payable account (liability)

Question 15. COC Ltd. provides pension upon retirement to its employees. pension is paid out of the fund managed by state government to which COC Ltd. contributes 5,00,000 P.A. How should this transaction appear in the financial statements of COC Ltd. as of 31 March 2024?

Question 16. On 1st April 2023, COC Ltd. took a pension plan for its employees. pension is paid out of the fund managed by state government to which COC Ltd. contributes 6,00,000 after every 3 years. How should this transaction appear in the book of COC Ltd. for the year ended on 31 March 2024 and 31st March 2025 and 31st March 2026 assuming that discount rate/interest rate is 10% p.a.?

Question 17: Acer Ltd. provides lump-sum remuneration upon retirement to its employees. Remuneration is paid out of the fund to which Acer Ltd. contributes 12% of annual gross salaries. Contributions are made twice a year i.e. in November of the related financial year and in June after the financial year-end. Total annual gross salaries for 2023-24 amounted to ₹ 50 crores. Contribution made by Acer Ltd. in November 2023 was ₹2.8 crores. Remuneration depends on the number of employee's service and amount of cash in the fund at retirement date (Acer Ltd. has no further obligations except for contributions). How should this transaction appear in the financial statements of Acer Ltd. as of 31 March 2024?

(ICAI Study material)

Solution: Calculation of accrual for contributions in 2023-2024:

Annual gross salaries in 2023-2024:	50.00 crores
Amount of total contributions for 2023-2024 (12%):	6.00 crores
Contributions already made in November 2023:	2.80 crores
Accrual (₹ 6 crores - ₹ 2.8 crores)	3.20 crores

Accounting Treatment:

Employee Benefits Expenses Account	Dr.	6.00 crores	
To Bank Account			2.80 crores
To Contribution Payable			3.20 crores

The contribution of ₹ 6 crores will be debited to the statement profit and loss. The contribution payable of ₹ 3.20 crores will appear as a liability as at 31st March, 2024.

(ii) Defined Benefits Plan (DBP): Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans:

- (i) the entity's obligation is to pay the agreed benefits directly to current and former employees. For example, gratuity; and
- (ii) actuarial risk (that benefits will cost more than expected) and investment risk fall on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Question 18: A company pays each employee a lump-sum one-time benefit upon retirement. This benefit is computed based on the employee's years in service in the company and the final salary prior to retirement. To cover its liabilities from this remuneration, the company contributes 3% of annual gross salaries to the fund. Would this obligation represent a defined contribution plan or a defined benefit plan and why?

Solution: Although the Company pays contributions to the fund to cover its liabilities, but the amount of retirement benefit will depend on the final salary at the time of retirement and year of service. Company will have to carry the risk in case the fund's assets are not sufficient to cover remuneration in full. Hence It represents defined benefit plan.

Question 19: In accordance with applicable legislation, company contributes 12% and employees 12% of annual gross salaries to the provident and pension fund. Upon retirement, the employees will get the accumulated balance that is calculated based on employee's years of service and his average salary for past 15 years before retirement. The pension will be paid out of the state fund assets and the company has no further obligation except to make contributions. Would this obligation represent a defined contribution plan or a defined benefit plan?

Solution: Here employee's pension is determined in advance by the formula and thus employer neither carry actuarial nor investment risks, Company's liability is limited to contributions to the fund. In this case, as pension will be paid out of the state fund, it is a state fund which carries all the risks. Therefore It represents defined contribution plan.

Accounting for defined benefit plans:

It is recognized over the period of service by the employee for which benefit will be paid after his employment.

Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses.

Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Accounting by an entity for defined benefit plans involves the following steps:**(a) Accounting for determining defined benefit obligation. This involves:**

- i. **Make a reliable estimate of the ultimate cost to the entity** of the benefit that employees have earned in return for their service in the current and prior periods (Using an actuarial technique).

Total benefit payable post employment = Final expected salary p.a. X % of benefit X No of years of services.

Note: The above formula I have given as per gratuity act. In exam formula for computation of retirement benefit will be clearly mentioned.

Question 20. Sanat Pvt. Ltd. has a plan for the employees where employees are entitled to a benefit of 5% of final salary for each year of service before the age of 55. Compute the benefit attributed up to 55 years and after 55?

Solution. Benefit of 5% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

- ii. **Calculate benefits attributed to each year of service.**

$$\frac{\text{total benefits to be paid to employee post employment}}{\text{number of years of service}}$$

Question 21. A Ltd. has a plan for its employees where it has decided to pay a lump-sum benefit of ₹ 2,000 that will vest after 5 years of service. Compute the benefit attributed for 5 years of service?

Solution: In this case, as per the company's plan, a benefit of ₹ 400 (₹ 2,000 ÷ 5 years) is attributed to each of the 5 years.

(iii) Discounting that benefit expense in order to determine the present value and Calculate the current service cost of each year at present value of benefit attributed to that year.

Journal entry:

Current service cost account (P&L- EBE)	Dr.
To defined benefit obligation account (Liability)	

Question 22. On 1st April 2023, COC Education Ltd. announced a plan for its employees where it has decided to pay a lump-sum benefit of ₹ 20,00,000 that will vest after 5 years of service. Compute the benefit attributed for 5 years of service and current service cost of each year. Assume discount rate given is 10%.

(iv) Calculate interest cost for each year on opening balance of defined benefit obligation to unwind the discount because current service cost is recognised each year at present value.

Journal entry at the end of each year:

Interest cost a/c (P&L- EBE)	Dr.
To defined benefit obligation account (liability)	

Note: interest cost = opening balance of defined benefit obligation × Discount rate.

(v) Calculate actuarial gain or loss due to change in estimation calculated by actuary in the year of change. It is treated as change in accounting estimate. Such changes are applied prospectively.

Journal entry:

In case of actuarial loss	In case of actuarial gain
Actuarial loss account Dr. To Defined benefit obligation account Note: Actuarial loss will be shown in OCI- Non non-reversible item.	Defined benefit obligation account Dr. To actuarial gain account Note: Actuarial gain will be shown in OCI- Non non-reversible item.

(vi) Recognise past service cost(if any) on defined benefit obligation due to change in Defined Benefit Plan announced by the entity (For example, changes in benefit %).

Journal entry for recording past service cost-

If change in plan results in additional benefits to employees (i.e increase in benefit %):	If change in plan results in reduction of benefits to employees (i.e decrease in benefit %)::
Past service cost account (P&L- EBE) Dr. To defined benefit obligation account	Defined benefit obligation account Dr. To Past service cost account (P&L- EBE)

(vii) Payment of benefit to employees: it should be recorded on the date of payment to employees.

Journal entry:

Defined benefit obligation account Dr.
 To bank account

Step 2: Accounting of plan assets to meet defined benefit obligation:

It is a planned investment for meeting the defined benefit obligation. It is recognised at fair value at the end of each year.

(i) Recognise contribution made (i.e. amount invested) in the plan assets on the date of investment.

Journal entry:

Plan assets account Dr.
 To bank account

(ii) Recognise expected interest income on opening balance of plan assets at the end of each year using same rate at which interest cost is charged on defined benefit obligation (DBO).

Journal entry at the end of each year:

Plan assets account Dr.
 To expected return on plan assets (P&L-EBE)

Note- expected return on plan assets = balance of plan assets X interest rate.

(iii) Calculate actuarial gain or loss on plan assets at the end of each year. It is because plan assets are valued at its fair value at the end of each year.

Journal entry at the end of each year:

If there is actuarial gain (i.e., increase in fair value of plan assets)	If there is actuarial loss (i.e. decrease in fair value of plan assets)
Plan assets account Dr. To actuarial gain account	Actuarial loss account Dr. To plan assets account
Note: actuarial gain will be shown in OCI- NR)	Note: actuarial loss will be shown in OCI- NR)

(iv) Withdrawal of amount from plan assets for payment of benefits to employees.

Journal entry on the date of withdrawal:

Bank account Dr.
To plan assets account

(v) Calculate the closing balance of plan assets at the end of each year.

(vi) Calculate actual return on plan assets. It is not required for accounting purpose. It is required only for disclosure purpose.

Actual return on plan asset= Expected return on plan assets +/- actuarial gain/ (actuarial loss) on plan assets.

Step 3. Determining the amount of the net defined benefit liability (asset):- For calculating Net defined benefit liability (asset), We Deduct the fair value of any plan assets from the present value of the defined benefit obligation.

It is required because in the balance sheet defined benefit obligation and plan assets are shown as follows:

Closing balance of Defined Benefit Obligation	xxxxx
Less: closing balance of plan assets	<u>xxxxx</u>
Net defined liability (asset)	xxxxx

Note 1: If it is net de fined asset, then it will be shown in the balance sheet at lower of above calculated net defined asset amount OR asset ceiling.

Note 2. If asset ceiling amount is lower, then difference amount will be recognised as loss on plan asset due to asset ceiling in **OCI as NR**.

Journal entry:

Loss on plan asset due to asset ceiling (OCI-NR) Dr.
To plan asset account

Question 23: How will the following information be presented in the Balance Sheet of Udyog Ltd.?

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	3,500
Fair Value of Plan Assets	3,332

Solution :

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	3,500
Less: Fair Value of Plan Assets	(3,332)
Deficit, to be treated as Net Defined Benefit Liability under Non-current Liabilities as Provisions in the Balance Sheet	168

Question 24: How will the following information be presented in the Balance Sheet of Udyog Ltd ?

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	2,750
Fair Value of Plan Assets	2,975
Asset Ceiling	175

Solution:

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	2,750
Less: Fair Value of Plan Assets	(2,975)
Surplus, to be treated as Net Defined Benefit Asset,	225
Asset Ceiling as per Ind AS 19	175
Least of above is Surplus to be treated as Net Defined Benefit Asset under Non-current Assets in the Balance Sheet	175

Step 4. Calculate net interest cost/ (income) as follow:

Interest cost charged on Defined Benefit Obligation(DBO)	xxxx
Less: expected interest income on plan asset	<u>xxxx</u>
Net interest cost/ (income)	xxxx

It is also required only for disclosure in SPL. In profit and loss account , interest cost charged on DFO and expected interest income on plan asset are shown at net amount.

Step 5. Determine the amounts to be recognised in profit or loss:

- (i) Current service cost.
- (ii) Any past service cost and gain or loss on settlement.
- (iii) Net interest on the net defined benefit liability (asset).

Step 6. Determine the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

- (iv) actuarial gains and losses;
- (v) return on plan assets; and
- (vi) any change in the effect of the asset ceiling.

Note 1. Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

Question 25. On 1st April 2023, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at ₹ 20,40,000 and the present value of the defined obligation was ₹ 21,25,000. On 31st March 2024 the plan received contributions from XYZ Ltd amounting to ₹ 4,25,000 and paid out benefits of ₹ 2,55,000. The current service cost for the financial year ending 31st March 2024 is ₹5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan assets at 31st March 2024 was ₹ 23,80,000 and the present value of the defined benefit obligation was ₹ 27,20,000. Provide a reconciliation from the opening balance to the closing balance for plan assets and defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income, and the balance sheet? **(ICAI Study material)**

Solution: (1) Reconciliation statement:

	Plan assets	Defined benefit obligation
Fair value as at 1 st April 2023	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost	----	5.10.000
Contribution received	4,25,000	-----
Benefit paid	(2,55,000)	(2,55,000)
Actuarial gain on plan assets (balancing figure)	68,000	
Actuarial loss (balancing figure)	----	2,33,750
Closing balance as at 31st March 2024	23,80,000	27,20,000

(2) In statement of profit and loss, the following will be recognised:

Current service cost	₹ 5,10,000
Net interest on net defined liability (₹ 1,06,250-1,02,000)	₹ 4,250

(3) defined benefit remeasurement recognised in OCI:

Actuarial loss on defined benefit obligation	(₹ 2,33,750)
Actuarial gain on plan assets	₹ 68,000

(4) in the balance sheet:

Net defined liability(₹ 27,20,000 – 23,80,000)	₹ 3,40,000

(iii) Accounting for Other Long-Term Employee Benefits: Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service:

- (a) long-term paid absences such as long-service or sabbatical leave;
- (b) jubilee or other long-service benefits;
- (c) long-term disability benefits;
- (d) profit-sharing and bonuses; and
- (e) deferred remuneration.

Question 27. 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 ?

(ICMAI Study material)

Solution: Since, PV of defined contribution obligations is greater than Fair value of plan assets, there is a deficit.

Deficit = ₹ (15 – 14.12) = ₹ 0.88 lakh.

The above deficit should be treated as Net Defined Benefit Liability under Non-current Liabilities as Provisions in the Balance Sheet.

Question 28. 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?

(ICMAI Study material)

Solution: Since, PV of defined contribution obligations is lower than Fair value of plan assets, there is a surplus.

Surplus = ₹ (15.22 – 15.00) = ₹ 0.22 lakh. Asset Ceiling ₹ 0.19 lakh

Lower of the above (i.e., ₹ 0.19 lakh) is surplus to be treated as Net Defined Benefit Assets under Non-current Assets in the Balance Sheet.

Ind AS 19 vs. AS 15 – A Comparative View: Following are the major differences between Ind AS 19, Accounting for Employee Benefits and AS 15, Employee Benefits:

	Ind AS-19	AS-15
1.	In Ind AS 19, employee benefits arising from constructive obligations are also covered.	AS 15 does not deal with the same.
2.	Ind AS 19 the term 'employee' includes directors.	As per AS 15, the term 'employee' includes whole-time directors.
3.	Ind AS 19 deals with situations where there is a contractual agreement between a multi- employer plan and its participants.	AS 15 does not deal with it.
4.	Ind AS 19 encourages, but does not mandate, entities to involve a qualified actuary in the measurement of all material post- employment benefit obligations.	No such guidelines are present in AS 15.
5.	Detailed actuarial valuation to determine the present value of net defined benefit liability (asset) is performed with sufficient regularity. Ind AS 19 does not specify period of sufficient regularity.	Detailed actuarial valuation to determine the present value of defined benefit obligation is carried out at least once every 3 years and fair value of plan

		assets are determined at each balance sheet date.
6.	Ind AS 19 requires that the same shall be recognised in other comprehensive income and should not be recognised in profit or loss.	AS 15 requires recognition of actuarial gains and losses immediately in the profit and loss.
7.	Ind AS 19 makes it clear that financial assumptions shall be based on market expectations, at the end of the reporting period.	AS 15 does not clarify the same.
9.	Under Ind AS 19, more guidance has been given for timing of recognition of termination benefits.	Recognition criteria for termination benefits differ from the criteria given in Ind AS 19.
10.	It provides guidance on accounting for contributions from employees or third parties to defined benefit plans, which are linked to service - both dependent and independent of the number of years of service.	No specific guidance.

Indian Accounting Standard (Ind AS) 33 – Earnings Per Share

Introduction:- Earnings Per Share (EPS) is an important performance measure for a company which provides the information regarding the earnings available per equity share (also known as ordinary share in Ind AS 33).

A higher EPS as compared to the previous year indicates growth in earnings achieved by the company which is normally associated with a higher valuation in the secondary market.

Objective: The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity.

Scope:-

- (a) This Indian Accounting Standard shall apply to companies that have issued ordinary shares to which Ind AS notified under the Companies Act apply.
- (b) An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.
- (c) When an entity presents both consolidated financial statements (Ind as110) and separate financial statements (Ind AS 27), the disclosures required by this Standard shall be presented both in the consolidated financial statements and separate financial statements.

Important Definitions:

- (i) **Anti-dilution** is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
- (ii) **A contingent share agreement** is an agreement to issue shares that is dependent on the satisfaction of specified conditions.
- (iii) **Contingently issuable ordinary shares** are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.
- (iv) **Dilution** is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
- (v) **Options, warrants and their equivalents** are financial instruments that give the holder the right to purchase ordinary shares.
- (vi) **An ordinary share** is an equity instrument that is subordinate to all other classes of equity instruments.
- (vii) **A potential ordinary share** is a financial instrument or other contract that may entitle its holder to ordinary shares.
- (viii) **Put options** on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.

Types of EPS: There are two types of EPS that are reported by an entity on the face of the Statement of Profit and Loss.

These are:

- (a) Basic EPS; and
- (b) Diluted EPS

(a) Basic EPS: An entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

The objective of basic earnings per share information is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

Basic earnings per share shall be calculated by the following formula -

$$\text{Basic EPS} = \frac{\text{Profit or loss attributable to ordinary equity holders of the parent entity}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

Computation of profit or loss attributable to equity share holders:

Question 1. The following information has been provided by A 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 31.03.2024	= ₹ 350,000
Other operating expenses	= ₹ 1,00,000
Tax rate	30%.

Determine profit or loss attributable to ordinary equity holders and calculate basic EPS.

Solution: profit or loss attributable to ordinary equity holders ₹ 1,73,000

Question 2.	Net profit before tax	= ₹ 20,00,000
	Tax rate	= 30%
	Amount transfer to general reserve	= ₹ 2,50,000.
	15% preference share capital	= ₹ 10,00,000
	Equity share capital	= 1,00,000 shares of ₹ 10 each.

Calculate basic EPS.

Computation of weighted number of equity shares:

Question 3. On 1st April 2023, COC Ltd had 2,00,000 equity shares of ₹ 10 each. On 1st July 2023, new 1,00,000 equity shares of ₹ 10 were issued. Calculate Basic EPS for the year ended on 31st march 2024 if earning for equity was ₹ 6,00,000.

Answer: weighted number of equity shares 2,75,000.

Question 4. On 1st April 2023, COC Ltd had 5,00,000 equity shares of ₹ 10 each. On 1st August 2023, new 2,00,000 equity shares of ₹ 10 were issued. On 1st January 2024, COC Ltd buy backed 1,50,000 equity shares from the equity share holders. Calculate Basic EPS for the year ended on 31st march 2024 if earning for equity was ₹ 20,00,000.

Answer: Basic EPS = ₹ 3.36.

Question 5. 01.04.2023, B Ltd. has 3,600 ordinary shares outstanding. On 31.08.2024 it issued 1,200 ordinary shares for cash.

On 31.01.24 it bought back 600 ordinary shares. Calculate weighted average number of shares as on 31.03.24. If profit or loss attributable to ordinary equity holders of B Ltd. for the year ended on 31.03.24 was ₹ 21,00,000,

Calculate Basic EPS.

(ICMAI Study material)

Solution: Computation of weighted average as per Ind AS-33:

Weighted average number of ordinary shares = $(3600 \times 5/12) + (4800 \times 5/12) + (4200 \times 2/12) = 4200$ shares

The weighted average number of shares can alternatively be computed as follows:

$$= (3600 \times 12/12) + (1200 \times 7/12) - (600 \times 2/12) = 4200 \text{ shares}$$

$$\begin{aligned} \text{Basic EPS} &= \frac{\text{Profit or loss attributable to ordinary equity holders of the parent entity}}{\text{Weighted average number of ordinary shares outstanding during the period}} \\ &= 21,00,000/4200 \\ &= ₹500 \end{aligned}$$

Question 6. On 1st April 2023, A Ltd had 2,00,000 equity shares of ₹ 10 each. On 1st October 2023, new 50,000 equity shares of ₹5 were issued. Calculate Basic EPS for the year ended on 31st march 2024 if earning for equity was ₹ 8,00,000.

Answer: weighted number of equity shares 2,12,500; Basic EPS = ₹ 3.36

Question 7. On 1st April 2023, B Ltd had 1,00,000 equity shares of ₹ 20 (15 Paid up) each. On 1st December 2023, new 50,000 equity shares of ₹ 10 each (8 paid up) were issued. Calculate Basic EPS for the year ended on 31st march 2024 if earning for equity was ₹8,00,000.

Answer: weighted number of equity shares 1,08,889.

Note: If new issue of shares is of different face value/paid-up value, then firstly they should be converted into equivalent number of equity shares of the face value appearing at the beginning of the year. After that weighted number of equity shares should be calculated.

Some important points to be considered while calculating weighted number of equity shares:

- (i) Concept of bonus issue.
- (ii) Concept of right issue
- (iii) Concept of share split and reverse split.

(i) Concept of bonus issue: - bonus issue means issue of equity shares free of cost to the existing equity shareholders.

It is also called capitalization of reserves into equity shares.

While calculating weighted number of equity shares, date of issue of bonus shares are always assumed to be at the beginning of the year.

We also need to re-calculate Basic EPS of previous year assuming existence bonus shares from the beginning of previous year for better comparison.

Question 8. (Concept of bonus issue) The following data pertain to Cash Rich Ltd.

1. Net profit for the year ended 31.3.2023	₹ 67,50,000
2. Net profit for the year ended 31.3.2024	90,00,000
3. Number of equity shares outstanding till 30.9.2023	30,00,000
4. The company issued on 1.10.2023 bonus shares in the ratio of one bonus share for every two equity shares held.	

You are required to compute (a) EPS for the year ended 31.3.2024 and (b) the adjusted EPS for the year ended 31.3.2023 and (c) Bonus fraction.

(ii) Concept of right issue:

(a) In a right issue, the exercise price is often less than the fair value of the shares. Therefore right issue comprises a bonus issue combined with a subsequent issue at full market price. The bonus element in the right issue is calculated as follow:

Bonus element (Adjustment factor) is calculated as follow:-
$$\frac{\text{fair value per share before right issue}}{\text{ex-right fair value per share}}$$

Note: A Residue share (after deducting bonus element) is assumed to be issued at full market price.

(b) Bonus element in the right issue is used to recompute Basic EPS of previous year.

Question :9. The following information relates to Mega Capital Limited

- 1. Net profit for the year 2023 ₹ 11,00,000
- 2. Net profit for the year 2024 ₹ 15,00,000
- 3. Number of shares outstanding prior to rights issue = 5,00,000
- 4. Details of rights issue: One for every five held; i.e. 1,00,000 right shares were offered. Offer price of rights share ₹ 15 and the last date for exercising the rights was 1.3.2024.
- 5. Fair value of each share prior to exercise of rights was ₹ 21 per share.

On the basis of the above data you are required to compute:

- (a) Theoretical ex-rights fair value per share
- (b) Adjustment factor for EPS because of rights issue
- (c) EPS for the year 2023 before and after rights issue; and
- (d) EPS for the year 2024.

Note1: Adjustment factor (Bonus element in right issue) for EPS because of right issue =

$$\frac{\text{Fair value per share before right issue}}{\text{fair value per share after right issue}}$$

Note 2: Bonus element in right issue is assumed from the beginning of the year to calculate Basic EPS.

Note 3. Adjusted EPS of last year = Basic EPS of last year $\times \frac{1}{\text{Adjustment factor}}$

Question 10. The following information relates to Mega Capital Limited

- (a) Net profit for the year 2023 ₹ 40,00,000
- (b) Net profit for the year 2024 ₹ 60,00,000
- (c) Number of shares outstanding prior to rights issue = 10,00,000
- (d) Details of rights issue: One for every 10 held;
- (e) Offer price of rights share ₹ 25 and the last date for exercising the rights was 1.3.2024.
- (f) Fair value of each share prior to exercise of rights was ₹30 per share.

On the basis of the above data you are required to compute:

- (i) Theoretical ex-rights fair value per share
- (ii) Adjustment factor (Bonus element in right issue) for EPS because of rights issue
- (iii) EPS for the year 2024.
- (iv) EPS for the year 2023 before and after rights issue(adjusted EPS); and

Answer: (a) theoretical Ex-right value per equity share = ₹ 29.55/share

(b) Adjustment factor = 1.015

(c) Basic EPS for 2024 = ₹ 5.56/share.

(d) Basic EPS for 2023 ₹ 4 and Adjusted EPS for 2023 ₹ 3.94.

(iii) Concept of share split and reverse split: The number of ordinary shares outstanding is increased/ decreased without an increase/decrease in resources ie. without any additional consideration. The date in that case will be considered from the beginning of the earliest period presented.

Diluted earnings per share: Diluted earnings per share are calculated when there are potential ordinary shares in capital structure of the entity. A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares in future. For example:

- (i) convertible debentures
- (ii) convertible preference shares
- (iii) employees stock options plan
- (iv) options
- (v) share warrant
- (vi) contingently issuable shares.

An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

Diluted EPS is calculated using the following formula –

$$\frac{\text{Profit or loss attributable to ordinary shareholders after adjustment for diluted earnings}}{\text{Weighted average number of ordinary shares outstanding during the period assuming conversion}}$$

Note: For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity by the after-tax effect of:

- (a) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity;
- (b) any interest recognised in the period related to dilutive potential ordinary shares; and
- (c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

Note 1: For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares calculated as per the process stated earlier, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Note 2: Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

Note 3: Potential ordinary shares are dilutive, if their conversions to ordinary shares decrease the earning per share or increase loss per share from continuing operation.

Potential ordinary shares are antidilutive when their conversion to ordinary shares would increase earnings per share or decrease loss per share from continuing operations.

Note 4: The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

Question 11. 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.

Answer: Basic EPS = ₹5 ; Diluted EPS = ₹ 2.29 (dilutive)

Question 12. 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.

Answer: Basic EPS = ₹5; Diluted EPS = ₹ 5.10 (Anti- dilutive)

Question 13. D Ltd. had outstanding ordinary shares of 10,00,000 on 01.04.2020. 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

(ICMAI Study material)

Solution: Basic earnings per share = $(20,00,000/10,00,000) = ₹ 2.00$

Number of 12% convertible debentures of ₹100 each = 20,

Each debenture is convertible into 10 ordinary shares

Interest expenses for the current year = $20,00,000 \times 12\% = ₹ 2,40,000$

Tax relating to interest expense (30%) = $240000 \times 30\% = ₹ 72,000$

Adjusted net profit for the current year ₹ $(20,00,000 + 2,40,000 - 72,000) = ₹ 21,68,000$

Number of ordinary shares on conversion = $20000 \times 10 = 2,00,000$

Number of equity shares used to compute diluted earnings per share = $10,00,000 + 2,00,000 = 12,00,000$

Diluted earnings per share as per Ind AS-33 = $21,68,000/12,00,000 = ₹ 1.81$

Question 14. Consider the following information given by F Ltd.

Net Profit for the year ended on 31.03.2024 = ₹ 86,50,000

Paid-up capital: 25,00,000 ordinary shares of ₹ 10 each

1,00,000, 10% Debentures of ₹ 100 each were issued on 31.09.2023.

Tax rate 30%

Conversion rate: 10 ordinary shares for each debenture.

Calculate Diluted EPS.

(ICMAI Study material)

Solution: Adjusted net profit for the current year:

Net Profit for the current year ₹ 86,50,000

Add: Interest expense for the current year ₹ 5,00,000

Less: Tax relating to interest expense (30% of ₹ 5,00,000) ₹ (1,50,000)

Adjusted net profit for the current year ₹ 90,00,000

Note for revision in exam: Conversion of convertible debentures into Equity Share is a dilutive potential equity share. Hence, to compute the adjusted profit, the interest paid on such debentures will be added back as the same would not be payable, in case these are converted into equity shares.

Weighted average number of equity shares:

Number of equity shares resulting from conversion of debentures

= $(100000 \times 100)/10 = 10,00,000$

Weighted average number of equity shares used to compute diluted earnings per share

= $[(25,00,000 \times 12) + (10,00,000 \times 6)]/12 = 30,00,000$ Shares

Diluted earnings per share = $90,00,000/30,00,000 = ₹ 3.00$ per share

Question 15. Calculate Basic EPS and diluted EPS from the following information:

On 1st April 2023 – opening balance of shares outstanding = 5,00,000 shares.

On 1st April 2023- balance of 10%

Convertible debentures = 2,000 debentures of ₹ 100 each.

Each debenture is convertible into 2 equity shares of ₹ 10 each.

On 1st October 2023 – fresh issue of equity shares = 2,00,000 shares.

Profit before interest and tax = ₹ 20,00,000.

Tax rate = 30%.

Question 16. Calculate Basic EPS and diluted EPS from the following information:

On 1st April 2023 – opening balance of shares outstanding = 5,00,000 shares.

On 1st July 2023- Company issued 10,000,

12% convertible debentures of ₹ 100 each.

Debentures are convertible into 1,00,000 equity shares of ₹ 10 each after 5 years.

On 1st October 2023 – fresh issue of equity shares for cash = 2,00,000 shares.

Profit before interest and tax = ₹ 20,00,000.

Tax rate = 30%.

Options, Warrants and Their Equivalents: For the purpose of calculating diluted earnings per share, an entity shall assume the exercise of dilutive options and warrants of the entity.

The assumed proceeds from these instruments shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period.

The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued

at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration.

Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period.

Question 17. Net profit available for equity shares = ₹ 8,00,000.

Equity share capital = 1,00,000 shares of ₹ 10 each.

Company announced ESOP of 20,000 shares free of cost to its employees.

Calculate Basic EPS and diluted EPS.

Answer: Basic EPS = ₹ 8 Diluted EPS = ₹ 6.67 (Dilutive)

Question 18. Net profit available for equity shares = ₹ 15,00,000.

Equity share capital = 1,00,000 shares of ₹ 10 each.

Company announced ESOP of 50,000 shares at an exercise price of ₹ 20/share to its employees.

Fair value of shares on the date of announcement of ESOP was ₹ 50.

Calculate Basic EPS and diluted EPS.

Answer: Basic EPS = ₹ 15; Diluted EPS = ₹ 11.54 (Dilutive)

Question 19. E Ltd. had 10,00,000 ordinary shares outstanding on 01.04.2023. Profit for 2023-24 was ₹24,00,000. Average fair value per share during 2023-24 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 (ICMAI Study material)

Solution: Profit for the year = ₹ 24,00,000

Weighted average number of shares = 10,00,000

Basic EPS $24,00,000/10,00,000 = ₹ 2.40$

No. of shares under option = 2,00,000

No. of shares that would have been issued at fair value = $2,00,000 \times 15/20 = 1,50,000$

Weighted average number of shares = $10,00,000 + (2,00,000 - 1,50,000) = 10,50,000$

Adjusted earnings = ₹ 24,00,000

Diluted EPS = $24,00,000/10,50,000 = ₹ 2.29$

Contingently Issuable Shares: Contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (i.e., the events have occurred). Contingently issuable shares are included from the beginning of the period (or from the date of the contingent share agreement, if later).

For example, ABC Ltd. acquires a company in 2023-24 for consideration of ₹40 crores. As per the agreement with the acquiree company, If the total profits earned for accounting years 2023-24 and 2024-25 and 25-26 meet the target of ₹ 50,00,000, ABC Ltd. will issue additional 4,00,000 shares to the vendor in June 2026. Comment whether these additional shares will be included in the weighted- average calculation for the purpose of diluted EPS for the above three years, if profit earned during the above three years are ₹ 15,00,000; ₹ 38,00,000 and (₹ 10,00,000) respectively.

Contracts that may be settled in ordinary shares or cash: When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.

Purchased options: It means right to purchase its own shares without any obligation to do so. Contracts for purchased options are not included in the calculation of diluted earnings per share because including them would be antidilutive.

Written put options: Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive. If these contracts are 'in the money' during the period (ie the exercise or settlement price is above the average market price for that period), the potential dilutive effect on earnings per share shall be calculated as follows:

- (a) it shall be assumed that at the beginning of the period sufficient ordinary shares will be issued (at the average market price during the period) to raise proceeds to satisfy the contract;

- (b) it shall be assumed that the proceeds from the issue are used to satisfy the contract (ie to buy back ordinary shares); and
- (c) the incremental ordinary shares (the difference between the number of ordinary shares assumed issued and the number of ordinary shares received from satisfying the contract) shall be included in the calculation of diluted earnings per share.

Question 20. 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? **(ICMAI Study material)**

Solution: The difference between the 400 ordinary shares assumed to be issued and the 320 ordinary shares that would have been received on exercise of the option (ie, 80 shares) is added to the denominator (number of shares) in calculating the diluted

EPS. No adjustments are made to the numerator (profit attributable to ordinary shares) in calculating diluted EPS, the entity assumes that it issues.

Retrospective adjustments: If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.

If these changes occur after the reporting period but before the financial statements are approved for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

Question 21. C Ltd. had 10,00,000 ordinary shares outstanding as on 01.04.2022. On 01.01.2023 it issued 2 ordinary shares bonus for each share 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.

Solution: Earnings per share for the year 2022-23 as per Ind AS-33 = $30,00,000 / (10,00,000 + 20,00,000) = ₹ 1.00$

Adjusted/Restated earnings per share for the year 2021-22 = $9,00,000 / (10,00,000 + 20,00,000) = ₹ 0.30$

Since the bonus issue is an issue without consideration the issue is treated as if it had occurred in the beginning of the year 2022-23, the earliest period reported.

Most important note: For different type of circumstances, the times to be considered for inclusion in the weighted average number of outstanding shares are summarized below:

Circumstances	Date to be considered for weight
Ordinary shares issued in exchange of cash	Date of cash receivable
Ordinary shares against conversion of debt instrument	Date when interest ceases to accrue
Ordinary shares issued upon the conversion of mandatorily convertible instruments	Date the contract is entered into
Ordinary shares against interest or principal of any financial instrument	Date when interest ceases to accrue
Ordinary shares issued in exchange for the settlement of a liability of the entity	Date on which settlement becomes effective
Ordinary shares issued in consideration of acquisition of assets other than cash.	Date on which acquisition is recognized
Ordinary shares issued against services rendered	When service is rendered
Partly paid-up ordinary share	Ordinary shares in the ratio of amount paid up to the total face value of the share
Right issue	Adjusted with Right factor
Equity shares issued as consideration in BusinessCombination:	
- Common Control business combination	Shares included in the calculation of weighted average from the beginning of the reporting period
- Acquisition	Included in the weighted average from the date of acquisition
Bonus shares	Shares included in weighted average from the beginning of the reporting period
Share split	Shares included in weighted average from the beginning of the reporting period
Reverse share split (consolidation of shares):	
- Consolidation without reduction in the resources	Shares included in weighted average from the beginning of the reporting period
- Consolidation with reduction in resources combined with special dividend	Date with special dividend is recognized
Contingently issuable shares	Date when all necessary conditions are satisfied (i.e., event has occurred)
Contingently refundable shares	Will be included in the weighted average number of ordinary shares only from the time they are no longer subject to recall
Purchase of treasury shares for cash (reduction in outstanding shares)	From the date of purchase

Presentation: An entity shall present in the statement of profit and loss basic and diluted earnings per share for profit or loss

- from continuing operations attributable to the ordinary equity holders of the parent entity and
- for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period.
- An entity shall present basic and diluted earnings per share with equal prominence for all periods presented.
- If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line in the statement of profit and loss.
- An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes.
- An entity shall present basic and diluted earnings per share, even if the amounts are negative (i.e., loss per share).

Disclosure: An entity shall disclose the following:

- (a) the amounts used as the numerators in calculating basic and diluted earnings per share.
- (b) the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.
- (c) instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented.
- (d) a description of ordinary share transactions or potential ordinary share transactions, other than those accounted for.

Ind AS 37 - Provisions, Contingent Liabilities and Contingent Assets

Objective: The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

Scope: This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except

- (a) those resulting from executory contracts (except where the contract is onerous); and
- (b) those covered by another Standard.

Note 1: executory contracts are contracts under which:

- (a) neither party has performed any of its obligation; OR
- (b) both parties have still have important performance remaining.

Note 2: Onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(1) Provisions:

(A) Meaning of provision: A provision is a liability of uncertain timing or amount which requires substantial degree of estimation.

(B) General Recognition Criteria of provision: A provision shall be recognised when:

- (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.

If all these conditions are not met, no provision shall be recognised.

(C) Measurement of provisions:

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. While making estimate of amount of the provision, the following points should be considered:

- a. Entity should take account of the uncertainty surrounding the transaction, this may involve an expected value calculation (suitable in situation where there is a large population e.g. determining the size of warranty provisions).
- b. Provision should be measured before tax.
- c. The time value of money (the amount provided should be the present value of the expected cash flows using a pre-tax discount rate).
- d. Additional evidence provided by events after balance sheet date should be considered. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. 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.
- e. Profit on expected disposal of assets, even if closely linked with the provision should not be deducted from the amount of provision.

For example, a restructuring provision cannot be reduced by an expected gain on disposal of a factory that is being sold as part of the restructuring.

Question 1. 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 ₹ 1 lakh would result. If major defects were detected in all products sold, repair costs of ₹ 4 lakh would result. The entity's past experience and future expectations indicate that, for 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 defects. Calculate the amount to be provided. **(ICMAI Study material)**

Answer: The expected value of the provision for repairs is:

$$(75\% \times 0) + (20\% \times 1,00,000) + (5\% \times 4,00,000) = ₹ 40,000$$

Question 2. On 1st April 2022, 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. **(ICMAI Study material)**

Answer: PV of the provisions = ₹ 20 lakh / $(1 + 0.15)^2$ = ₹ 15.12 lakh

Question 3. X Ltd. has become subject to an obligating event on 01.04.2023 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 31.03.2025) **(ICMAI Study material)**

Answer: PV as on 01.04.2023 = ₹ 5,00,000 / $(1.10)^{10}$ = ₹ 1,92,772

PV as on 01.04.2024 = ₹ 5,00,000 / $(1.10)^{10}$ = ₹ 2,12,049; increase = ₹ 19,277

PV as on 01.04.2025 = ₹ 5,00,000 / $(1.10)^{10}$ = ₹ 2,33,254; increase = ₹ 21,205

On 01.04.2023			
Expense A/c	Dr.	1,92,772	
To Provision A/c			1,92,772
On 31.03.2024			
Interest (Expense) A/c	Dr.	19,277	
To Provision A/c			19,277
On 31.03.2025			
Interest (Expense) A/c	Dr.	21,205	
To Provision A/c			21,205

Note: Thus, every year interest @10% will be provided and interest will be written off to Profit and Loss A/c. At the end of the 10th year, the provision will become ₹ 5,00,000.

(D) Use of Provision: A provision shall be used only for expenditures for which the provision was originally recognised.

(E) Accounting for Provision:

- The amount of provision should be shown as an expense in profit and loss statement. Expenses relating to provision should be shown in profit and loss statement net of reimbursement.
- The amount of provision outstanding at the year end should be shown as a liability without netting off reimbursements, if any. The reimbursement expected should be shown as an asset.

(F) Application of the recognition and measurement rules:

- a. Future operating losses: Provisions shall not be recognised for future operating losses.
- b. Onerous contracts: If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.
- c. Restructuring: A restructuring is a programme that is planned and controlled by management, and materially changes either:
 - (a) the scope of a business undertaken by an entity; or
 - (b) the manner in which that business is conducted.

The following are examples of events that may fall under the definition of restructuring:

- (a) sale or termination of a line of business;
- (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
- (c) changes in management structure, for example, eliminating a layer of management; and
- (d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out are met. A constructive obligation to restructure arises only when an entity:

- (a) has a detailed formal plan for the restructuring identifying at least:
 - (i) the business or part of a business concerned;
 - (ii) the principal locations affected;
 - (iii) the location, function, and approximate number of employees who will be compensated for terminating their services;
 - (iv) the expenditures that will be undertaken; and
 - (v) when the plan will be implemented; and
- (b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

- (a) necessarily entailed by the restructuring; and
- (b) not associated with the ongoing activities of the entity.

(G) Reimbursements against provisions:

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation.

The reimbursement shall be treated as a separate asset.

The amount recognised for the reimbursement shall not exceed the amount of the provision.

(H) Disclosures requirements of provision:

- For each class of provision, an entity shall disclose:
 - (a) the carrying amount at the beginning and end of the period;
 - (b) additional provisions made in the period;
 - (c) amounts used against the provision during the period;
 - (d) unused amounts reversed during the period; and
 - (e) the increase during the period if the discounted amount arising from the passage of time and the effect of any change in the discount rate.
- An entity shall disclose the following for each class of provision:
 - (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
 - (b) an indication of the uncertainties about the amount or timing of those outflows.
 - (c) An entity shall disclose the major assumptions made concerning future events; and

(2) Contingent liabilities:**(A) Meaning of A Contingent Liability is:**

- (a) a possible obligation that arises from past events and whose existence 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;
- or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; OR
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

(B) Accounting of contingent liability:**An entity shall not recognise a contingent liability.**

A contingent liability is disclosed in notes to account.

Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

But the entity should recognise a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable.

Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

- (C) Disclosures requirement:** an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, 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.

(3) Contingent Assets:

(A) Meaning : A contingent asset is a possible asset that arises from past events and whose existence 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.

For example, claim filed by the Entity in the court against supplier, where the outcome is uncertain.

(B) Accounting of contingent asset: Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised.

However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate as an asset.

(C) Disclosures of contingent asset: Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period (in notes to account), and, where practicable, an estimate of their financial effect measured using the principles set out.

SOME IMPORTANT NOTES:

(I) A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

(II) An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

(III) Difference between Provisions and Other 'Liabilities': Provisions can be distinguished from other liabilities (such as trade payables, creditors, and accruals).

In case of provisions there is uncertainty about the timing or amount of the future expenditure required in settlement. But in case of liabilities, there is no uncertainty about the timing or amount of payment.

(IV) Provisions vs. Contingent Liabilities:

As per this Standard, provisions are recognised as liabilities because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

On the other hand, contingent liabilities are not recognised as liabilities because they are either - possible obligation or present obligations that do not meet the recognition criteria in this Standard.

LETS PRACTICE:**Question 4. Multiple choice questions series 1:**

1. **The objective of Ind AS 1 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 inventory?**
 - (a) Selling cost
 - (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

[Answer: 1 – D; 2 – A; 3 – C; 4 – C; 5 – D; 6 – D; 7 – D; 8 – B; 9 – D; 10 – D]

Question 5. Multiple choice question series 2:

1. 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
2. 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 shares. Calculate weighted average number of shares as 31.03.21.
 - (a) 1300
 - (b) 1400
 - (c) 1500
 - (d) 1600
3. Fair value before right issue ₹ 20. Theoretical ex-right fair value ₹ 18. Calculate right factor.
 - (a) 1.2
 - (b) 1.15
 - (c) 1.11
 - (d) 1.10
4. Salary payable per day ₹ 1,000; 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
5. Ordinary shares are 1,00,000 of ₹ 1.00; 10% Preference shares are 2,00,000 of ₹ 1.00; PAT ₹ 10,00,000. Calculate basic EPS.
 - (a) 9.80
 - (b) 9.60
 - (c) 9.40
 - (d) 9.20

[Answer: 1 – D; 2 – B; 3 – C; 4 – C; 5 – A]

Question 6. 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 ofthe entity.
4. An entity shall_____the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.
5. Contingent liabilities do not have any_____obligation.

[Answer: date of approval of the financial statements; termination; Diluted; not adjust; present]

All the best dear.....

Believe me...

You are now well prepared for your exam.

Your Santosh sir