

INDEX- COMPANY ACCOUNTS

CHAPTER	PAGE NO
1. ACCOUNTS OF BANKING COMPANY	2- 30
2. ACCOUNTS OF INSURANCE COMPANY	31- 64
3. PRESENTATION OF FINANCIAL STATEMENT	65-78
4. ACCOUNTING OF SHARES	79- 93
5. RIGHT ISSUE AND SWEAT EQUITY SHARES	94--94
6. REDEMPTION OF PREFERENCE SHARES AND BONUS ISSUE	95-107
7. BUY BACK OF SHARES	108-116
8. ISSUE OF DEBENTURES	117- 118
9. REDEMPTION OF DEBENTURES	119- 138
10. CASH FLOW STATEMENT	139-164
11.UNDERWRITTING OF SECURITIES	165-174
12.ELECTRICITY COMPANY	175--179
13.ACCOUNTING STANDARDS	180--193

NOTE: FOLLOW SEQUENCE MENTIONED IN INDEX WHILE STUDYING

CHAPTER 1. ACCOUNTS OF BANKING COMPANY

Important Provisions of Banking Regulation Act, 1949.

a. Prohibition of Trading (Section 8)

A Banking company cannot directly or indirectly deal in the buying or selling or bartering of goods. However, it may buy, sell or barter in connection with the bills of exchange received for collection or negotiation.

b. 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.
- However, in any particular case, The Reserve Bank of India may extend such period of seven years if it is satisfied, that such extension would be in the interest of the depositors of the banking company

C. Statutory Reserve fund:-section 17 requires every banking company shall create a reserve fund and transfer at least 25% of its profits to reserve before any dividend is paid.

d. Cash Reserve Ratio (Sec. 18)As per sec. 18 of Banking Reg. Act.1949, every scheduled commercial bank in India is required to maintain:-

- ⇒ a daily cash reserve balance to the extent of 4% of its total demand and time liabilities in India as on last **Friday of the-second preceding fortnight** shall submit to the Reserve **Bank before the twentieth day of every month** a return showing the amount so held on alternate Friday during a month with particulars of its demand and time liabilities in India on such Friday or if any such Friday is a Public holiday under the negotiable Instrument Act at the close of business on the preceding working day.
- ⇒ **As per sec. 42 of RBI Act. 1949**, every Scheduled Bank in India shall maintain with the Bank an average daily balance the amount of which **shall not be less than 4%** of the total of the demand and time liabilities in India of such bank as shown in the return referred to in Section 42 (2), which shall send to the bank at the close of business on each Friday, but not later than seven days after the date to which it relates. **The aforesaid limit can be raised by RBI up to 15 %.**

e. Statutory Liquidity Reserve (SLR) (Sec. 24 of Banking Reg. Act. 1949):Every banking company shall maintain in India in cash, gold or unencumbered approved securities, valued at a price not exceeding the current market price, an amount which shall not at the close of the business on any day be less than **21.5%** of the total of its demand and time liabilities in India. This limit can be raised by RBI up to 40%.

f. 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 the 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.

g. 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	*****	*****
	5	*****	*****
Other liabilities and provisions		*****	
	6	*****	*****
Balances with banks and Money at call and short notice	7	*****	*****
Investments	8	*****	*****
Advances	9	*****	*****
Fixed Assets	10	*****	*****
Other Assets	11	*****	*****
		*****	*****
Total:	12	*****	*****
Bill for collection		*****	*****

Schedule-1: Share Capital

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

Schedule- 2Reserves 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	XXX
(ii) Other Banks	XXX
(iii) Other institutions and agencies	XXX
II. Borrowings outside India	XXX
Total: (I + II).	

Schedule 5 Other liabilities and provisions

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

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
(i) 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
(iii) 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	
(i) Government securities	XXX
(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

(i) 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.	
II.	Claims against the bank not acknowledged as debts
III.	Liabilities for partly paid investments
IV.	Liabilities on account of outstanding forward exchange contracts
V.	Guarantee given on behalf of constituents
	(a) in India
	(b) Outside India
V.	Acceptances, endorsements and other obligations*
V).	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.

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

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

Schedule -13 Interest 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.

INTEREST INCOME RECOGNITION

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

Advances	On performing	Assets	On Non-performing	Assets
	Interest Earned	Interest Received	Interest Earned	Interest Received
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 2007.

Question 2. Given below are details of interest on advances of Oriental Bank of Commerce as on 31.3.2007.

Assets	Interest Earned	Interest Received (Rs. in lakhs)
Performing Assets:		
Term Loan	240	160
Cash Credit and Overdraft	1500	1,240
Bills purchased and discounted	300	300
Non- Performing Assets:		
Term Loan	150	10
Cash Credit and Overdraft	300	24
Bills purchased and discounted	200	40

Find out the income to be recognized for the year ended 31.3.2007. **(CA-inter- 4Marks) [Ans. Rs. 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, 2012	Rs.
Rebate on bills discounted (1-4-2011)	16,000
Discount Received	2,30,000
Bill discounted and purchased	15,77,350

Journalise the transactions, assuming that –

- The rate of discounting was 18 % P.A. and
- Average due date for bill discounted & purchased is 15 May, 2012.

QUESTION:4 On 31st March 2011 Uncertain Bank Ltd. had a balance of Rs. 9 Crores in rebate on bills discounted A/c. During the year ended 31st March, 2012, Uncertain Bank Ltd. discounted bills of exchange of Rs.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 Rs. 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 A/Cs pertaining to

- discounting of bills of exchange and
- Rebate on bills discounted. **(1998- May) 10 Marks**

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

- Interest and Discounts 1,96,62,400
- Rebate on Bills Discounted (balance on 1.4.2006) 65,040
- 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 Rs. 92,760. Prepare

- Rebate on Bills Discounted Account; and
- Interest and discount Account in the ledger of the Banks. **(CA-nov- 2003) 6 marks, CMA Inter**

QUESTION:6 As on 31st December 2000, the books of the Patiala Bank include, among others, the following balances:

Rebate on bills discounted 1.1.2000	3,20,000
Discount received	46,00,000
Bills discounted and purchased	3,15,47,000
Bills for collection	12,00,000

Throughout 2000, the Bank's rate for discounting has been 18% and the rate of commission on bills for collection @ 4%. On investigation and analysis, the average due date for the bills discounted and purchased is calculated as 15th February 2001 and that for bills for collection as 15th January 2001.

Show the calculation of the amount to be credited to the Bank's Profit and Loss Account under discount earned for the year 2000. Show also the journal entries required to adjust the above mentioned accounts.

Answer: Unexpired Discount = Rs. 3,15,47,000 x 18/100 x 46/365 = Rs. 7,15,642 (31 day + 15 days = 46 days)

Amount to be credited to Profit and Loss Account:

Sch. 13	Rs.
Discount received	46,00,000
Add: Balance in Rebate Account as on 1.1.2000	3,20,000
Less: Rebating Bill Discounted (1.1.2001) - unexpired discount)	(7,15,642)
Amount transferred to Profit and Loss Account	42,04,358

Journal

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
2000	Rebate on Bill Discount A/c Dr.	3,20,000	
Dec. 31	To Interest and Discount A/c		3,20,000
	Interest and Discount A/c Dr.	7,15,642	
	To Rebate on Bills Discounted A/c		7,15,642
		42,04,358	
	Interest and Discount A/c Dr.		
	To Profit and Loss A/c		42,04,358

QUESTION:7 Calculate Rebate on bills discounted as on 31st Dec. 2001 from the following data and show Journal entries.

Date of bill	Amount	Period	Rate of Discount
15-10-2001	25,000	5 months	8%
10-11-2001	15,000	4 months	7%
25-11-2001	20,000	4 months	7%
20-12-2001	30,000	3 months	9%

Question 8: The following is an extract form 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 (Rs.)	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 2006 – 4MARKS)

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 10,56,650

12,78,250

Less: Rebate on 31.03.07 4,25,254

8,52,996

Journal Entries

		Rs.	Rs.
Rebate on bill discount	Dr.	2,21,600	
To discount on bill A/c			2,21,600
Discount on bill A/c	Dr.	4,25,254	
To Rebate on bill Discounted			4,25,254
Discount bill A/c	Dr.	8,52,996	
To P & L A/c			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 a 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 Rs.12,00,000 bills for collection. During 2003-2004, it received further bill for collection amounted to Rs.28,40,000. Bills dishonored and returned to customers were Rs.2,00,000 and bills collected during the period were Rs.32,15,000. Prepare the bills for collection (Assets) A/c and bills for collection (liability) A/c. (ICWA-INTER 5MARKS)

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 1.4.2003, acceptance, Endorsement, etc. not yet satisfied amounted to Rs.14,50,000. During the year under question, Acceptances, endorsements, Guarantees etc., amounted to Rs.44,00,000. Bank honoured acceptances to the extent of Rs.25,00,000 and client paid off Rs.10,00,000 against the guaranteed liability. Client failed to pay Rs. 1,00,000 which the Bank had to pay. Prepare the "Acceptances, Endorsements and other obligations A/c" as it would appear in the General Ledger.

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 Rs.22,30,000. Out of which Rs.20 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance register revealed the following:

Client	Acceptances/ Guarantees	Remark
A	10,00,000	Bank honoured on 10-6-1998
B	12,00,000	Party paid off on 30-9-1998
C	5,00,000	Party failed to pay and bank had to honour on 30.11.1998
D	8,00,000	Not satisfied upto 31-3-1999
E	5,00,000	Not satisfied upto 31.3.1999
F	2,70,000	Not satisfied upto 31.3.1999

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

CREATION OF PROVISION FOR DOUBTFUL DEBTS

The Banks have to classify their advances into four broad 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

QUESTION:13 Advances have been classified as under:

	Cash-Credit and Overdraft	Term Loans	Bills Purchased
Standard Assets	1,000	975	225
Sub-Standard Asset	125	100	25
Doubtful-up to one year	100	20	—
One to three years	120	50	—
More than three years	50	80	—
Loss Assets	30	50	—
	1,425	1,275	250

No Provision has been made so far against these assets. Sub-standard assets are secured upto 35% and doubtful assets are secured to the extent of 60% of the dues. Make the required provisions. **(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 Rs. 60 Lakhs against which the bank holds securities worth Rs.15 Lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.
- (ii) Other advances:

Assets:	Rs. (in Lakhs)
Standard	3,000
Sub-standard	2,200
Doubtful:	
For one year	900
For two years	600
For three years	400
For more than 3 years	300
Loss assets	600

(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	Rs. 70 Lacs	Rs. 60 Lacs
DICGC/ECGC Cover	50%	40%
Securities held	Rs. 30 Lacs	Rs. 25 Lacs
Realizable Value of securities	Rs. 20 Lacs	Rs.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 Rs.50 Lakhs
 ECGC Cover 40%
 Securities held Rs. 10 Lakhs(realizable value Rs. 12 Lakhs)
 Period for which the advance has remained doubtful = More than 2 years.

You are asked to compute the provision required on the above advances. (ICWA-INTER 6 MARKS)

Question .17

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

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

(CA- MAY 2006 – 8 MARKS)

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

	Rs.
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. (Rs-in lakhs)	Cr. (Rs. in lakhs)
Fixed Deposit	-----	51,700
Saving Deposit	-----	45,000
Current Accounts	2800	52,012
Cash in Hand	16015	
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:

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

**CAPITAL ADEQUACY RATIO(CAR)(NOT IN CMA INTER GROUP 2 SYLLABUS- KHUSHI MANAO)—
IGNORE VIDEO LECTURE ON THIS TOPIC**

Preparation of financial statement

Question 21. From the following information, prepare Profit and Loss Account of South Bank Ltd. as on 31st March 2005.

	Rs. (in '000)
Interest and Discounts	3,437
Income from Investments	1,15
Interest on Balance with R.B.I.	1,80
Commission, exchange and brokerage	8,20
Profit on sale of Investments	1,10
Interest on deposits	12,25
Interest to R.B.I.	1,61
Payment to and provision for employees	10,44
Rent, Taxes and Lighting	2,10
Printing and Stationery	1,80
Advertisement and Publicity	95
Depreciation	92
Directors Fees	2,20
Auditors Fees	1,20
Law charges	2,30
Postage, Telegram and Telephones	70
Insurance	56
Repairs and Maintenance	48

Other Information:

(i) Interest and discount mentioned above is after adjustment for the following:

	Rs.('000)
Tax Provision for the year	2,20
Provision during the year for doubtful debts	1,02
Loss on sale of Investments	12
Rebate on bills discounted	58

(ii) 25 % of profit is transferred to Statutory Reserves and 5% of profits transferred to revenue reserve.

Profit brought forward from last year 16,000. **(ICWA-INTER 16 MARKS)**

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

	Rs.
Interest and Discount received	20,30,000
Interest paid on deposits	12,02,000
Issued and subscribed capital	5,00,000
Reserve under section 17	3,50,000
Commission, exchange and brokerage	90,000
Rent received	30,000
Profit on sale of investments	95,000
Salaries and allowances	1,05,000
Director fees and allowances	12,000
Rent and taxed paid	54,000
Stationery and printing	12,000
Postage and telegram	25,000
Other expenses	12,000
Audit fees	4,000
Depreciation on bank properties	12,500

Other information:

A customer, to whom a sum of Rs. 2, 50,000 has been advanced, has become insolvent and it is expected that 40% can be recovered from his estate. Interest due at 15% on his debt has not been provided in the books.

Provision for bad and doubtful debts on other debts necessary Rs. 50,000.

Rebate on bills discounted as on 01.01.2003, Rs. 7,500.

Provide Rs. 3, 00,000 for income tax.

The directors desire to declare 50,000 dividend

Prepare the profit and loss account in accordance with the law. Make necessary assumptions.

Question 23. From the following information relating to Trader's Bank Ltd. prepare the Profit and Loss Account for and the Balance Sheet as at the end of financial year ending on 31st March, 2002 in the Performa prescribed by the Banking Regulation Act 1949:-

	Rs.		Rs.
Share Capital:	2,00,000	Cash in hand	22,650
Shares of Rs.100 each fully paid		Interest received	12,86,400
Statutory reserve fund (fully in 5% government securities at par)	1,20,000	Investments in shares (market value Rs.2,00,000)	92,500
Bad debts	12,875	Cash with Banks of India(BOI)	2,84,500
Establishment expenses	1,27,725	Term Loans in India,	10,00,000
Current deposits	13,65,227	Cash credit Hypothecation in India	12,56,000
Interest paid	7,48,490	Cash credit- Pledge in India	9,44,000
Savings accounts	17,20,000	Bills purchased	16,00,000
Acceptances for customers.	37,500	Loans-to-employees for purchases of Bicycles	40,770
Discount	4,95,000	Salaries, allowances, bonus, provident Fund	4,45,467
Profit and loss account (1.4.2001)-credit	8,20,400	Dividend paid for 2000-2001	20,000
Fixed deposits	8,75,000	Dividend received on investments	8,000
Commission and exchange	2,92,900		
Premises	4,80,000		

Additional Information:

(a) The chief executive of the bank drew a remuneration of Rs.48,000 which is included in salaries, allowances etc.

(b) Unexpired discount as at 31.03.2002 was Rs.40,000

(c) Establishment expenses include:

Advertisement 10,000, Stationery 63,000, Rent 18,000, Lighting 3,000, Audit fees 8,000, Postage and telegram 4,600, Revenue Stamps 400, Stamp papers 1,500

(d) An advance of Rs.8,000 included in cash credit hypothecation above is considered doubtful and needs to be fully provided.

(e) Provide for taxation at 30%.

(f) Make necessary appropriation for statutory reserve.

Question 24. The following are the ledger balances (as Rupees thousands) extracted from the books of Nainital Bank Limited as on March 31, 2002.

	Rs.		Rs.
Share Capital	1,90,000	Cash in hand and with Reserve Bank	75,000
Current accounts control	97,000	Saving Accounts	15,000
Employee's security deposits		Fixed deposits	23,050
Investments in Govt. of India		Balances with other banks	46,350
Bonds	94,370	Other investments	55,630
Gold bullion	15,130	Interest accrued on investments	24,620
Silver	2,000	Reserve fund	1,40,000
Constituents liabilities for acceptances and endorsements	56,500	Profit & loss A/c(cr.)	6,500
Borrowing from banks	77,230	Bills for collection	43,500
Building	65,000	Interest (cr.)	62,000
Fruitier	5,000	Loans	1,81,000
Money at call and short notice	26,000	Bills discounted	12,500
Commission & brokerage (Cr.)	25,300	Interest	7,950
Discount (Cr.)	42,000	Miscellaneous income	3,900
Rent (Cr.)	600	Depreciation reserve (buildings)	800
Audit fees	5,000	Director's fees	1,000
Depreciation reserve (furniture)	200	Postage	1,250
Salaries	21,200	Loss on sale of investments	20,000
Rent, rates and taxes	12,000	Branch adjustments (Dr.)	20,000

The Bank's Profit and Loss account for the year ended and Balance Sheet as at 31st March 2002 are required to be prepared in appropriate form. Further information available are: (in Rupees thousands)

Rebate on bills discounted to be provided 4,000

Depreciation for the year: Building 5,000, Furniture 500

Included in the current accounts ledger are accounts overdraw to the extent of 2,500.

Answer:

Balance Sheet of Nainital Bank Ltd. as on 31st March 2002

Particulars	Schedule No.	As on 31 st March'2002 (Rs.'000)	As on 31 st March'2001 (Rs.'000)
Capital and Liabilities:			
Capital	1	1,90,000	
Reserve and Surplus	2	2,02,400	
Deposits	3	1,37,550	
Borrowing	4	77,230	
Other liabilities and provisions	5	11,420	
Total		<u>6,18,600</u>	
Assets:			
Cash and balance with Reserve Bank of India	6	7,50,00	
Balance with bank and Money at call and short notice	7	7,23,50	
Investments	8	16,71,30	
Advances	9	19,60,00	
Fixed Assets	10	6,35,00	
Other Assets	11	4,46,20	
Total		61,86,00	
Contingent liabilities	12	5,65,00	
Bills for collection			

Profit and Loss Account for the year ended 31.3.2002

Particulars	Schedule No.	Rs. '000
I Income:		
Interest & Discount	13	104000
Other Income	14	<u>9800</u>
		<u>113800</u>
II Expenditure:		
Interest expended	15	7,950
Operating Expenses	16	45950
Provisions and Contingencies		<u>4000</u>
		<u>57900</u>
III Profit/Loss:		55900
Net Profit for the year Profit b/f		<u>6500</u>
		<u>62400</u>
IV Appropriations:		
Transfer to Statutory Reserve		11180
Balances carried over to Balance Sheet		51220

Schedule 1 - Capital

Issued, called up and paid up share capital	1,90,000
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Schedule 2 - Reserves & Surplus

1. Statutory Reserves Opening Balance	140000
Additions during the year	<u>11180</u>
Balance in Profit and Loss Account	151180

Schedule 3 – Deposits

Particulars	
I. Demand Deposits	9,95,00
II. Saving Bank Deposits	1,50,00
III. Term Deposits	<u>2,30,50</u>
Total	13,75.50

Schedule 4 - Borrowings

I. Borrowings in India	7,72,30
II. Other Banks	

Schedule 5 - Other Liabilities and Provisions

IV Other liabilities including provisions:	
Balances on bills discounted	4000
Employees Security Deposit	<u>7420</u>
Total	11420

Schedule 6 - Cash and Balances with Reserve Bank of India

I. Cash in hand (including foreign currency notes)	3,50,00
II. Balances with Reserve Bank of India:	
(i) In current Account	3,20,00
(ii) In other Account	<u>80,00</u>
Total (Details are not based on figures given in the question)	7,50,00

Schedule 7 - Balances with Banks & Money at call & Short Notice

1. India	
(i) Balances with banks:	
(a) In Current account	26350
(b) In Other accounts	20000
(ii) Money at call at short notice	
(a) With banks	23000
(b) With other institutions	3000
Total	72350

Schedule - 8 Investments

1. Investments in India in	
(i) Government securities	9,43,70
(ii) Shares (assumed)	5,56,30
(iii) Gold	1,51,30
(iv) Silver	20,00
Total	16,71,30

Schedule 9 - Advances

A. (I) Bills Purchased and discounted	12500
(II) cash credits, overdrafts and loans repayable on demand	<u>183500</u>

Schedule 10 - Fixed Assets

I. Premises:	
At cost as on 31 st March, 2001	65000
Depreciation to date	<u>-5800</u>
	59200
II Other fixed assets (including Furniture and Fixture):	
At cost as on 31 st March, 2001	50,00
Depreciation to date	<u>-7,00</u>
	4300
Total (I & II)	63500

Schedule 11-other assets

inter office adjustments (net)	2,00,0
interest enquired	<u>2,46,20</u>
	4,46,20

Schedule 12-contingent liabilities

IV. Acceptances, endorsements and other obligations	<u>5,65,00</u>
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Schedule 13 - Interest Earned

I. Interest	62000
II. Discount	42000
	10,40,00

Schedule 14 - Other Income

I. Commission, Exchange and Brokerage	25,300
II. Profit on sale of investments *****	<u>(-)20000</u>
Less: Loss on sale on investments 2,00,00	5300
VII. Miscellaneous Income 3,900	
Rent and other Receipts 600	<u>4500</u>
Total	98,00

Schedule 15-Interest Expended

I. Interest on Deposits	7950
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Schedule 16 - Operating Expenses

I. Payments to and Provisions in employees	21200
11. Rout, faxes and lighting	12000
111. Depreciation on Bank's Property	55,00
IV. Director's Fees, allowances and expenses	10,00
V. Auditor's fees and expenses	50,00
VI. Postage, Telegrams, Telephones etc.	12,50
Total	4,59,50

Question No. 25: The following balances appeared in the books of Bharti Bank Ltd. As on 31st March, 2004:

Share capital	2,00,00,000
Reserve Fund	7,50,000
Current call and saving Bank Account	16,95,18,302
Fixed Deposits	6,93,34,590
Debts due to Banks and Agents	1,54,82,760
Cash in hand	1,63,55,112
Cash with other Banks	2,69,96,509
Silver	35,00,000
Investments at cost	12,91,90,626
Rebate on bills discounted and Treasury Bills	19,595
Branch Adjustment (Cr.)	89,85,604
Acceptances for customers	1,14,93,662
Bills for collection	67,05,927
Profit and loss Account	19,51,636
Interest accrued on investments	9,03,215
Cash credit, demand advances and loans	8,04,47,645
Bills discounted and purchased	2,74,27,651
Buildings	2,39,540
Dead stocks	9,92,188

Prepare a balance sheet as on 31st March, 2004 after taking the following information into account:

- The authorized capital of the bank is five crores of rupees in shares of Rs. 100 of which four lacs shares are issued at Rs. 50 per share being called up and paid up.
- Rs. 7, 44, 68,592 of the bank book debts is fully secured, the balance being unsecured but considered good. Debts officers and fully secured amount to Rs. 19,500.
- Claims against the bank not acknowledged as debts amount to Rs. 3,45,000.

Answer: Balance Sheet as on 31st March 2004

Capital and Liabilities		
Capital	1	2,00,00,000
Reserve and surplus	2	27,01,635
Deposits	3	23,88,52,892
Borrowings	4	1,54,82,760
Other Liabilities and provisions	5	90,05,199
		28,60,42,486
Assets		
Cash and balances with RBI	6	1,63,55,112
Balances with Banks and money at Call and Short Notice	7	2,69,96,509
Investments	8	12,91,90,626
Advances	9	10,78,75,296
Fixed assets	10	12,31,728
Other assets	11	44,03,215
		28,60,42,486
Contingent Liabilities		1,18,38,662
Bills for Collection	12	67,05,927

Schedule 1: Capital	
Authorized: 5,00,000 Equity Shares of Rs. 10 each	<u>5,00,00,000</u>
Issued and subscribed: 4,00,000 Equity Shares of Rs. 10 each	4,00,00,000
Called up and paid up: 4,00,000 Equity Shares of Rs. 100 each Rs. 50	
Called up and paid up	2,00,00,000
Schedule 2: Reserves and surplus	
Stationery reserve	7,50,000
Profit and loss Account balance	19,51,635
	27,01,635
Schedule: 3 Deposits	
(i) Current call and saving Bank Accounts	16,95,18,302
(ii) Term (Fixed) Deposits	6,93,34,590
	23,88,52,892
Schedule 4: Borrowings	
In India: Debts due to Banks and agents	<u>1,54,82,760</u>
Schedule: 5 Other Liabilities and Provisions	
Bills payable	.....
Inter-office adjustments (Net)	89,85,604
Rebate on Bills Discounted and treasury Bills	19,595
	90,05,199
Schedule 6: Cash and Balance with RBI	
Cash in hand	1,63,55,112
Balances with RBI	.....
	1,63,55,112
Schedule: 7 Cash and Balances with RBI	
Cash with other banks	2,69,96,509
Money at call and short notice	.....
	2,69,96,509
Schedule: 8 investment	
Investment at cost	12,91,90,626
Schedule 9: Advances	
(i) Bills Discounted and purchased	2,74,27,651
(ii) Cash Credit, Demand advances and loans	8,04,47,645
Terms loans	.....
	<u>10,78,75,296</u>
Schedule 10: Fixed Assets	
Premises (Buildings)	2,39,540
Other Fixed Assets (Dead Stock)	9,92,188
	12,31,728
Schedule 11: Other Assets	
Interest Accrued on investment	9,03,215
Silver	35,00,000
	44,03,215
Schedule 12: Contingent Liabilities	
Acceptances For Customers	1,14,93,662
Claims against the Bank not acknowledged as debts	3,45,000
	1,18,38,662

NOTE:- It is assumed that debts due by bank' officer, and fully secured are included in the Secured debts of Rs. 7,44,68,592.

EXAMINATION QUESTIONS

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

(Rs. In '000)

Interest and discount	8,860
(Includes interest accrued on investments)	
Other income	220
Interest expended	2,720
Operating expenses	2,830
Interest accrued on investments	10

Additional information:	(Rs. In '000)
Rebate on bills discounted to be provision for	30
<u>Classification of advances:</u>	
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)	

Question:-27 Answer the following:

(a) From the following information of great Bank Ltd., compute the provision to be made in the profit and loss account:

	Rs. In (lakhs)
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of plant and machinery Rs. 600 lakhs)	2,000
non-recoverable assets	1,500 (CA- nov 2008 – 4MARKS)

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

	Rs.		Rs.
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 Rs. 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.) Rs. 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	44,30,000
Other income	14	1,25,000
Total		45,55,000
II. Expenditure		
Interest expended	15	13,60,000
Operating expense	16	13,31,000
Provision and contingencies (W.N.3)		10,17,050
Total		<u>37,08,050</u>
III. Profit/Loss		
Net profit for the year		8,46,950
Profit brought forward		40,000
Total		8,86,950
IV. Appropriations:		
Transfer to statutory reserve (@ 25% on Rs. 8,46,950)		2,11,737.50
Balance carried forward to balance sheet		6,75,212.50
Total		8,86,950

Schedule 13: interest earned

Interest and discount	44,00,000
Income on investment	5,000
Interest on balance with RBI	25,000
Total	44,30,000

Working Note: Statement of rebate on bills discounted as on 31.12.2009

Due date	Amount (Rs.)	No. of days after 31.12.2009	Rate of discount (%)	Discount of the unexpired period
March 6 th	1,40,000	65	5	1,247
March 12 th	4,36,000	71	4.5	3,816
March 26 th	2,82,000	85	6	3,940
April 6 th	4,06,000	96	4	4,271
Total rebate on bills discounted to be carried forward				13,274

Question:- 29 How will you disclose the following ledger balance in the final accounts of DVD Bank:

	Rs. In Lakhs
Current accounts	700
Saving accounts	500
Fixed deposits	700
Cash credits	600
Term Loans	500
Bills discounted and purchased	800

Additional information:

- Included in the current accounts ledger are account overdrawn to the extent of Rs. 250 lacs.
- One of the cash credit accounts of Rs. 10 lacs (including interest Rs. 1 Lacs) is doubtful.
- 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, and other portion is secured by tangible assets.

Answer:-Relevant schedules (following part of the balance sheet) of DVD Bank.

Schedule 3: deposits

Particulars	Rs. In Lakhs
A demand deposits (700 – 250)	450
B saving bank deposits	500
C term deposits	700

	1,650
Schedule 9: Advances	
(i) Bills discounted and purchased	800
(ii) cash credits and overdrafts (600 + 250)	850
(iii) term loans	<u>500</u>
	<u>2,150</u>
(i) Secured by tangible assets (bal. fig.)	
(ii) secured by Bank/Government guarantees (500 x 60%)	1,730
(iii) unsecured (600 x 20%)	300
	120
	2,150
Schedule 5: other liabilities and provisions	
Other (Provision for doubtful debts)	10
Profit and Loss Account (an extract)	
Less: Provision for doubtful debts	10
Note: It is assumed that the cash credit has been in 'doubtful' category for more than three years.	

Question:-30 NOT IN CMA INTER GROUP 2 SYLLABUS- KHUSHI MANAO) A commercial Bank has the following capital funds and assets. Segregate the capital funds into tier I and tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

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 Rs. 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 investments	2.76
Income from investments	15.53
Salaries bonus and allowances	18.75
Rent, taxes and lighting	1.70
Printing and stationary	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
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 Rs. 9,00,000 as on 31st March, 2011(**CA- MAY 2011 – 16 MARKS**)

Question:-32 The following particulars are extracted from the records of M/s engco Bank Limited for the year ended 31st March, 2011:

Rebate on bills discounted (not due on March 31 st , 2010)	60,610
Discount received	6,10,800
Bills discounted	24,42,250

An analysis of the bills discounted is as follows:

Amount Rs.	Due date
3,75,000	April 15, 2011
4,90,000	May 6, 2011
2,45,000	June 1, 2011
3,68,000	June 20, 2011
4,85,000	July 4, 2011

The rate of discount is 12% per annum. You are required to:

- Calculate rebate on bills discounted as on 31st March, 2011.
- Determine the amount of discount to be credited to the profit and loss account for the amount of discount as on 31st March, 2011.
- Show the necessary journal entries in the books of M/s Engco Bank Ltd. As on 31st March, 2011

(CA- nov 2011 – 8 MARKS)

Question 33. From the following information, prepare Profit and Loss A/c of Hyderabad Bank Ltd. for the year ended 31st March, 1993.

Items	000 Rs.
Interest on cash credit	18,20
Interest on overdraft	7,50
Interest on term loans	15,40
Income on investments	8,40
Interest on balance with RBI	1,50
Commission on remittances and transfer	75
Commission on letters of credit	1,18
Commission on government business	82
Profit on sale of land and building	27
Loss on exchange transactions	52
Interest paid on deposit	7.20
Auditors' fees and allowances	1,20
Director's fees and allowances	2,50
Advertisements	1,80
Salaries, allowances and bonus to employees	12,40
Payment to Provident Fund	2,80
Printing and Stationery	1,40
Repairs and maintenance	50
Postage, telegrams, telephones	80

Other Information

Interest on NPA is as follows:

	Earned (Rs.'000)	Collected (Rs. '000)
Cash credit	8,20	4,00
Overdraft	450	1,00
Term Loans	750	2,50

- Classification of advances ('000 Rs.)

Sub-standard	11,20
Doubtful assets not covered by security	2,00
Doubtful assets covered by security for one year	50
Loss Assets	2,00
- Book Value of Investments is Rs. 2750 out of which 25% held for maturity. Market Value of best investments 75% is Rs. 19,000

Solution: Profit and Loss Account For the year ended 31st March, 1999

Income	Schedule	(Rs. '000) Year Ended 31-3-93
Interest earned	13	3,830
Other income	14	250
		4,080
Expenditure		
Interest expended	15	2,720
Operating expenses	16	2,340
Provision and Contingencies		743
		5,803
Profit/Loss		(1,723)
Appropriations		Nil

Schedule 13 - Interest Earned

Interest/Discount on advances/bills		
Interest on cash credit (1820-420)		1,400
Interest on overdraft (750-350)	400	
Interest on term loans (1540-500)	<u>1,040</u>	<u>1,440</u>
		<u>2,840</u>
Income on investments		840
Interest on Balance with RBI		<u>150</u>
		<u>3,830</u>

Interest on NPA is recognised on cash basis.

Schedule 14 - Other Income

Commission, Exchange and Brokerage		
Commission on remittances and transfer	75	
Commission on letter of credit	118	
Commission on Government business	<u>82</u>	<u>275</u>
Profit on sale of Land and building		27
Loss on Exchange Transaction		(52)
		250

Schedule 15 - Interest Expended

Interest on Deposits		<u>2,720</u>
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Schedule 16 - Operating Expenses

Payment and provision for employees		
Salaries, allowances and bonus	1,240	
Provident Fund Contribution	280	<u>1,520</u>
Printing and Stationery		140
Advertisement and Publicity		180
Directors' fees, allowances and expenses		250
Auditor's fees and expenses		120
Postage, telegrams, telephones etc.		80
Repairs and maintenance		50
		2,340

Working Note:

Provision and contingencies		(Rs. '000)
Provision for NPA:		
Sub-standard	1120x 15-100	= 168
Doubtful not covered by security	(200 x 100%)	= 200
Doubtful covered by security for one year	50 x 25-100	=12.5
Loss Assets	(200 x 100%)	= 200
		580.50

Depreciation on current investments	2062.50	
Cost 75% of 2,750	<u>1900.00</u>	162.50
Less: Market value		743.00

Question 34. The following is an extract from Trial Balance of Overseas Bank Ltd., as at 31st March, 1991.

Bill discounted	12,64,000	
Rebate on bills discounted not due on March 31 st , 1990		22,160
Discount received		1,05,708

An analysis of the bills discounted is as follows:

Amount Rs.	Due Date 1991	Rate of Discount (%)
1,40,000	June 5	14
4,36,000	June 12	14
2,82,000	June 25	14
4,06,000	July 6	16

Calculate Rebate on Bills Discounted as on 31-3-1991 also show necessary journal entries.

Solution: In order to determine the amount to be credited to the Profit and Loss A/c it is necessary to first ascertain the amount attributable to the unexpired portion of the period of the respective bills. The workings are as given below:

- The bill is due on 5th June; hence the number of days after March 31st, is 66. The discount on Rs. 1,40,000 = for 66 days @ 14% per annum will be
 $14 \times 100 \times 66 \div 365 \times \text{Rs. } 1,40,000 = \text{Rs. } 3,544.$
- Number of days in the unexpired portion of the bill is 73 : discount on Rs. 4,36,000 for 73 days @ 14% per annum will be Rs. 12,208.
- Number of days in the unexpired portion of the period of the bill is 86: discount on Rs. 2,82,000 for 86 days @ 14% per annum will be Rs. 9,302.
- Number of days in the unexpired portion of the period of the bill is 97: discount on Rs. 4,06,000 for 97 days @ 16 p.a. will be Rs. 17,263.

The amount of discount to be credited to the Profit and loss Account will be:

	Rs.
Transfer from Rebate on Bills discount as on 31 -3 -1990	22,160
Add: Discount received during the year ended 31 -3-1991	<u>1,05,708</u>
	<u>1,27,868</u>
Less: Rebate on bills discounted as on 31.3.1991 (see back)	<u>42,317</u>
	<u>85,551</u>

The journal entries will be as follows:

		Rs.	Rs.
Rebate on Bills Discounted A/c	Dr.	22,160	
To Discount on Bills A/c			22,160
(Being the transfer of Rebate on Bills Discounted on 31.3.1990 To Discount on Bias Account)			
Discounted on Bills A/c	Dr.	42,317	
To Rebate on Bills Discounted A/c			42,317
(Being the transfer of rebate on bills discounted required on 31-3-1991 from discount on Bills Account)			
Discount on Bills A/c	Dr.	85,551	
To Profit and Loss A/c			85,551
(Being the amount of discount on bills transferred to profit and Loss Account)			

Note: In the Profit and Loss Account, the discount on bills will not appear as a separate item but will be included in the heading Interest/Discount on advances/bills as per Form B of the new format.

Question 35. 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 (Rs.)	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.

Solution: The amount of rebate on bills discounted as on 31st March, 2006 the period which has not been expired upto that day will be calculated as follows:

Discount on Rs. 2,80,000 for 62 days @ 10%	4,756
Discount on Rs. 8,72,000 for 69 days @ 10%	16,484
Discount on Rs. 5,64,000 for 82 days @ 10%	12,671
Discount on Rs. 8,12,000 for 92 days @ 10%	20,467
Discount on Rs. 6,00,000 for 96 days @ 10%	15,781
Total	70,159

The amount of discount to be credited to the profit and loss account will be:

	Amount
Transfer from rebate on bills discounted as on 31.03.2005	68,259
Add : Discount received during the year	1,70,156
	2,38,415
Less : Rebate on bills discounted as on 31.03.2006 (as above)	70,159
	1,68,256

Journal Entries

	Amount	Amount
Rebate on bills discounted A/c	Dr. 68,259	
To Discount on bills A/c		68,259
(Transfer of unexpired discount on 31.03.2005)		
Discount on bills A/c	Dr. 70,159	
To Rebate on bills discounted		70,159
(Unexpired discount on 31.03.2006 taken into account)		
Discount on Bills A/c	Dr. 1,68,256	
To P&L A/c		1,68,256
(Discount earned in the year, transferred to P&L A/c)		

Question 36. NOT IN CMA INTER GROUP 2 SYLLABUS- KHUSHI MANAO

Question 37. As on 31st December, 1985 the books of the Hercules Bank, include among others, the following balances:

Rebate on bills discounted (1-1-1985)	3,20,000
Discount received	46,00,000
Bills discounted and purchased	3,15,47,000
Bills for collection	12,00,000

Throughout 1985, the Bank's rate for discounting has been 18% and the rate of commission on bills for collection, 4%. On investigation and analysis, the average due date for the bills discounted and purchased is calculated as 14th February, 1986 and that for bills for collection as 15th January, 1986. Show the calculation of the amount to be credited to the Bank's Profit and Loss Account under discount earned for the year 1985. Show also the journal entries required to adjust the above mentioned accounts.

Solution: Unexpired Discount:On Bills Discounted = $3,15,47,000 \times 18/100 \times 45/365$ 7,00,0847,00,084

Rs.

Amount to be credited to Profit & Loss A/c:

Rs.

(A) Balance in Discount Received A/c

46,00,000

(B) Add: Balance in Rebate A/c as of 1.4.20x1 - transferred

3,20,000

(C) Less: Rebate on bills as on 31.3.20x2

7,00,084

(D) Amount to be transferred to Profit & Loss A/c: [A + B + C]

42,19,916**Particulars****Dr. (Rs.)****Cr. (Rs.)**

Rebate on Bills Discounted A/c

Dr. 3,20,000

To Discount Received A/c

3,20,000

(Being transfer of opening balance in the rebate A/c)

Discount Received A/c

Dr. 7,02,057

To Rebate on Bills Discounted A/c

7,00,084

To Rebate on Bills for Collection A/c

1,973

(Being provision for unexpired discount as on 31.3.20x2)

Discount Received A/c

Dr. 42,17,943

To Profit and Loss A/c

42,17,943

(Being transfer of discount net after adjustment)

Question 38. NOT IN CMA INTER GROUP 2 SYLLABUS- KHUSHI MANAO**Question 39.** Calculate Provision required by Bank

Asset classification status

Doubtful More than 3 years;

CGTSI Cover

75% of the amount outstanding

or 75% of the unsecured amount

or Rs. 18.75 lakh, whichever is the least

Realizable value of Security

Rs. 1.50 lakh

Balance outstanding

Rs. 10 lakhs

Solution:

Secured

 $= 1,50,000 \times 100\%$ 1,50,000

Unsecured

 $= 8,50,000 \times 100\%$ 8,50,000

Less: CGTSI Cover

75 % x 10,00,000

7,50,000

75% of 8,50,000

6,37,500

Amount given

18,75,000

6,37,500

2,12,500

Total provision required = 2,12,500 + 1,50,000 = 3,62,500

Question 40. NOT IN CMA INTER GROUP 2 SYLLABUS- KHUSHI MANAO**Question 41.** The following figures have been taken from the books of National Bank Limited as on 31st March, 2011:**Rs.**

Paid up share capital

20,00,000

Interest and discount received

74,11,000

Interest paid on deposits

40,74,000

Salaries and allowances

4,00,000

Rent and taxes paid

1,80,000

Directors' fees and allowances

60,000

Statutory reserve fund

16,00,000

Postages and telegrams

1,20,000

Rent received

1,30,000

Commission, exchange and brokerage

3,80,000

Profit on sale of investments

4,00,000

Depreciation on bank's property

60,000

Law charges

80,000

Auditors' fees

10,000

The following additional information is given to you:

One customer to whom a sum of Rs. 20 lakhs was advanced has become insolvent and it is expected that only 50% of the amount will be recovered from his estate.

Auditors find that a provision of Rs. 3 lakhs is necessary against other debts.

Rebate on bills discounted on 31st March, 2010 was Rs. 24,000 and on 31st March, 2011 was Rs. 32,000.

Provide Rs. 13,00,000 for income tax.

The Board of Directors decides to declare dividend @ 10% after transfer of 25% of the year's profit to Statutory Reserve.

You are required to prepare Profit and Loss Account of the bank with all the necessary schedules for the year ended 31st March, 2011. Ignore figures for the previous year and corporate dividend tax. **(RTP Nov 11)**

Answer: Profit and Loss account for the year ended 31st March,

	Schedule No.	Year ended 31.3.2011 Rs.
<u>Income</u>		
Interest earned	13	74,03,000
Other income	14	<u>9,10,000</u>
		83,13,000
<u>Expenditure</u>		
Interest expended	15	40,74,000
Operating expenses	16	9,10,000
Provisions and contingencies (W.N.2)		<u>26,00,000</u>
		75,84,000
<u>Profit</u>		
Net profit for the year		7,29,000
Profit brought forward		
<u>Appropriations</u>		7,29,000
Transfer to Statutory Reserve		
Proposed dividend		1,82,250
Balance carried over to balance sheet		<u>2,00,000</u>
		3,46,750
		7,29,000

Schedule 13 - Interest earned

Interest and discount earned (W.N.I)	74,03,000
--------------------------------------	-----------

Schedule 14 - Other Income

	Rs.
Commission, exchange and brokerage	3,80,000
Profit on sale of investment	4,00,000
Rent	<u>1,30,000</u>
	9,10,000

Schedule 15-Interest Expended

Interest paid on deposits	40,74,000
---------------------------	-----------

Schedule 16-Operating Expenses

Payment and provisions for employees	4,00,000
Rent and taxes paid	1,80,000
Depreciation on bank's property	60,000
Directors' fees and allowances	60,000
Auditors' fees	10,000
Law charges	80,000
Postage and Telegrams	1,20,000
	9,10,000

Working Notes:

	Rs.
Calculation of interest earned	74,11,000
Interest and discount received	<u>24,000</u>
Add: Rebate on bills discounted as on 31 st March, 2010	74,35,000
Less: Rebate on bills discounted as on 31 st March, 2011	<u>(32,000)</u>
	<u>74,03,000</u>
Provisions and Contingencies	
Provision for doubtful debts:	
Doubtful debts due to insolvency of a customer (50% of Rs. 20 lakhs)	10,00,000
Provision for other debts	<u>3,00,000</u>
Provision for income tax	<u>13,00,000</u>
	<u>26,00,000</u>

Question 42. In the following transactions of the Unique Bank Ltd., you are required to indicate the necessary journal entries as well as their treatment in the Profit & Loss Account and Balance Sheet in respect of the year ended 31.12.2011:

The following bills were discounted @ 5%:

	Discounted on	Amount Rs.	Due date inclusive of 3 days of grace
(i)	28.12.2011	50,000	31.1.2012
(ii)	29.7.2011	1,00,000	30.11.2011
(iii)	29.10.2011	4,00,000	30.4.2012
(iv)	31.12.2011	3,0,000	3.3.2012

The Bank has accepted Bills on behalf of its customers amounting to Rs. 2,00,000 at nominal commission of 2%.

The Bank has advanced an amount of Rs. 5,00,000 having a covering for the same through bills worth Rs. 2,00,000 and goods on key-loan basis Rs. 4,00,000.

(RTP May 2012)

Answer: Unexpired discount 31.12.2011 to be calculated as under:

On Rs. 50,000 @ 5% for 31 days	$(50,000 \times \frac{5}{100} \times \frac{31}{366})$	Rs. 212
On Rs. 4,00,000 @ 5% for 121 days	$(4,00,000 \times \frac{5}{100} \times \frac{121}{366})$	6,612
On Rs. 30,000 @ 5% for 63 days	$(30,000 \times \frac{5}{100} \times \frac{63}{366})$	258
		<u>7,082</u>

Note: Year 2012 is a leap year.

Journal Entries

Date	Particulars	Dr.	Cr.
		Rs.	Rs.
2011, 1 July	Interest and discount A/c	Dr. 7,082	
	To Rebate on bills discounted A/c		7,082
	(Proportionate discount on unexpired bills adjusted at the end of the year)		
Dec. 31	Customers' liability for acceptance A/c	Dr. 2,00,000	
	Customers' current A/c	Dr. 4,000	2,00,000
	To B/P A/c (acceptance on behalf of customer)		4,000
	To Commission A/c		
	(Bills accepted on customers' behalf and earned commission @ 2%)		
Dec. 31	Loans and advances A/c	Dr. 5,00,000	
	To Cash A/c		5,00,000
	(Amount advanced on security of bills and goods on key-loan basis)		

Treatment in Profit and Loss Account and Balance Sheet

Discount earned (up to 31.12.2011) will be credited to 'P & L A/c' and unexpired discount of Rs. 7,082 will, be credited to 'Rebate on Bills Discounted A/c,' which will appear on the liability side of the Balance Sheet.

Commission earned will be credited to P & L A/c whereas customers' liability for acceptance will appear on the asset side of the Balance Sheet in Schedule (9) and Acceptance on behalf of customer will appear in the liability side in Schedule(5) as contra items, and

Loans and advances will appear in the assets side of the Balance Sheet.

CHAPTER 2. ACCOUNTS OF INSURANCE COMPANY

Meaning of Insurance: The word "insure" means "to make an arrangement for the payment of a sum of money in the event of loss or injury to..." and Insurance' means "act or System of insuring."

- ⇒ Under an insurance contract, one party, called insurer, undertakes to indemnify the losses suffered by the other party, called insured, for some specified causes in consideration for a fixed premium.
- ⇒ The document that contains terms of insurance contract is called Insurance Policy.
- ⇒ An insurance company makes profit if the claims of loss and expenses of insurance company are less than the premium collected by it. if the claims of loss and expenses are more than premium, it sustains losses.

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 March20.....[Policyholders' Account]

Particulars	Schedule	Current Year	Previous Year
		(Rs, ,000)	(Rs. ,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		
Provision for tax(related to policy holder)			
Total (B)			
Benefits Paid (Net) Interim Bonus Paid	4		
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) Balance being fund for future Appropriations for policy holders(95%)			

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 insurancebusiness			
Total (b)		XXXXXX	
Profit before tax (A-B)		XXXXXXXX	
Less: provision for tax(Related to shareholder)		XXXXXXXX	
Profit after tax		*****	*****
Appropriations:			
(a) Balance at the beginning of the year			
(b) Interim dividends paid during the year			
(c) Proposed final dividend			
(d) Dividend distribution on tax			
(e) 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) Claims incurred shall comprise claims paid, specific claims settlement costs wherever applicable and change in the outstanding provision for claims at the year-end.
- (d) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or Rs.5,00,000 whichever is higher, shall be shown as a separate line item.
- (e) Fees and expenses connected with claims shall be included in claims.
- (f) Under the sub-head "others" shall be included items like foreign exchange gains or losses and other items.
- (g) 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"
- (h) Income from rent shall include only the realized rent. It shall not include any notional rent.

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

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

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

Premium Rs. 8,00,000
 Annuity paid Rs. 1,20,000
 Surrender Rs. 80,000
 Claim paid Rs. 75,000
 Consideration for annuity Rs. 2,40,000
 Expenses of management Rs. 1,50,000

Interest, dividend, rent (policy holder)	Rs. 70,000
Interest, dividend, rent (shareholder)	Rs. 60,000
Opening balance of valuer's liability	Rs. 90,000
Closing balance of valuer's liability	Rs. 1,12,000
Income tax (shareholder)	Rs. 40,000
Interim bonus paid	Rs. 24,000
Reversionary bonus	Rs. 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	Xxxxx	Xxxxx
Claim paid	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 specified)

xxxxxxxxxxxx

Less: transfer to any other reserves (only specified)

xxxxxxxxxxxx

Balance transfer to profit and loss account

xxxxxxxxxxxx

FORMB-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		
Misc 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)		Xxxxxx
Profit before tax (A-B)		Xxxxxxxx
Less: provision for tax		Xxxxxxxx
Profit after tax		*****

Appropriations:		
(b) Interim dividends paid during the year		.....
(c) Proposed final dividend		.....
		
(d) Dividend distribution on tax		.....
(e) 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 (Rs.,000)	Previous Year (Rs.,000)
Sources of funds:			
Share Capital	5	Xxxxx	
Reserve & Surplus	6	Xxxxx	
Borrowings	7	Xxxx	
Investments	8	Xxxxx	
Loans	9	Xxxxx	
Fixed assets	10	Xxxxx	
Cash and bank balances	11	Xxxxx	
Advances and other assets	12	Xxxxx	
Current liabilities	13	(Xxxxx)	
Provisions	14	(Xxxxx)	
Miscellaneous expenditure	15	xxxxxx	

Contingent Liabilities:

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

SCHEDULE FORMING PART OF FINANCIAL STATEMENTS:**SCHEDULE-1 PREMIUM, 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		
Total			

Note:-Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or Rs.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	P. Year
Authorized Capital Equity Shares of Rs.- each	(Rs. ,000)	(Rs. ,000)
Issued, Subscribed, called up and paid up share Capital		
Less: Calls unpaid		
Add : Shares forfeited		
Total		

Shedule-6 Reserve & Surplus

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

Schedule-7 Borrowing

Particulars	Current	Previous Year
Debentures / Bonds		
Banks		
Financial Institutions		
Others		

Shedules-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:		
	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
	SECURITY WISE CLASSIFICATION:		
	Secured:		
	(a) On mortgage of property		
	(aa) In India		
	(bb) Outside India		
	(b) On Shares, Bonds, Govt. Securities, etc.		
	© 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/ Adj.	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
Discount Allowed in issue of Shares / debentures		

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	Rs.1900 Lacs
Net Liability as per Valuation	Rs. 1 ,500 Lacs
Interim Bonus paid	Rs.250 lacs

Question:4 The Life fund of a Life Assurance Company was Rs.90,00,000 as on 31st March, 2017. The interim bonus paid during the inter valuation period was Rs.4,00,000. The periodical actuarial valuation determined the net liability at Rs.74,00,000. Surplus brought forward from the previous valuation was Rs.5,00,000. The directors of the company proposed to carry forward Rs. 10,00,000.

Show:

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

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 Rs.51,52,000. Its actuarial valuation on 31st March, 2012 disclosed net liability of Rs. 50,00,000 under the Assurance and annuity contracts. An interim bonus of Rs. 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 Rs.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	Rs.
2001	2001	2002	15,000
2002	2002	2003	10,000
2000	2001	2001	5,000
2000	2001	2002	12,000
2002	2003	2003	8,000
2002	2002	2002	1,02,000

Claims on account of Re-insurance ceded was Rs. 25,000

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 Rs. 2,30,000(Including Rs. 35,000 Surveyor's fee and Rs. 45,000 Legal expenses for settlement of claims) **[CA (Inter), Nov., 1999, Adapted]**

Question 8. Indian insurance Co. Ltd. furnishes you with the following information:

On 31.12.2003 it had reserve for unexpired risks to the tune of Rs. 40 crores. It comprised Rs. 15 crores in respect of marine insurance business; Rs. 20 crores in respect of fire insurance business and Rs. 5 crores in respect of miscellaneous insurance business.

It is the practice of Indian insurance Co. Ltd. to create reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.

	Rs. In crores		
	Marine	fire	miscellaneous
Premia collected from:			
(a) Insured in respect of policies issued	18	43	12
(b) Other insurance companies in respect	7	5	4
Of risks undertaken			
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".

Show in columnar "Unexpired risks reserve" a/c for 2004.

Question 9 :(Life Assurance Fund). The revenue account of a life insurance company shows the life assurance fund on 31st march, 2015 at Rs. 62,21,310 before taking into account the following items:

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

What is the life assurance fund after taking into account the above omissions? **(C.S. Inter. June 1993.**

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

- (i) Dividend from investments Rs. 4,80,000
- (ii) Income tax on above 48,000
- (iii) Claims recovered under re-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>
	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 From the following information, prepare, the Revenue Account of Life Insurance Co. Ltd. for the year ended 31st March, 2002.

	Rs.		Rs.
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 Outstanding as on 1.4.2001	5,000
Premiums outstanding as on 1.4.2001	7,60,000	Interest, Dividends & Rent Received	1,70,000
Bonus in Reduction of Premiums	3,00,000		
Interest, Dividend & Rents accrued as on 1.4..2001	2,000		

Additional Information:

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

Question:12 The following Trial Balance was extracted from the books of the India Life Assurance Co. Ltd. as on 31st March, 2002:

Particulars	Dr. (Rs.)	Cr. (Rs.)
Paid-up Capital 10,000 Shares of Rs. 10 each	-	1,00,000
Life Assurance Fund (on 1.4.2001)	-	29,72,300
Dividends paid	15,000	-
Bonus to Policy- holders	31,500	-
Premium outstanding (on 1.4.2001)	3,500	-
Premium Received	-	1,61,500
Claims paid	1,97,000	-

Claims outstanding (on 1.4.2001)	-	27,300
Commission paid	9,300	-
Management Expenses	32,300	-
Mortgages in India	4,92,200	-
Interest and Dividends received	-	1,12,700
Agents Balances	9,300	-
Furniture & Fittings	30,000	-
Freehold Premises	3,05,000	-
Stamps in hands	10,000	-
Investments	20,00,000	-
Loan on company's policies	1,73,600	-
Cash in Deposit Account	50,000	-
Cash in hand and on Current Account	8,100	-
Surrenders	7,000	-
	33,73,800	33,73,800

You are required to prepare the Company's Revenue Account for the year ended 31st March, 2002 and its Balance Sheet as on that date after taking the following matters into consideration:

- (a) Claims admitted but not paid Rs.9,300,
- (b) Management Expenses due Rs.200,
- (c) Interest accrued Rs. 19,300.
- (d) Premiums outstanding Rs. 12,000.

Question:13 (Fire and Marine: Revenue and profit and loss) from the following balances of Hi-Fi Funeral insurance Co. Ltd. As on 31st march, 2013, prepare-

- (i) Fire Revenue Account:
- (ii) Marine Revenue Account :and
- (iii) Profit and loss account

Particulars	Rs.	Particulars	Rs.
Survey expenses (fire)	10,000	Commission earned on re- insurance ceded (marine)	60,000
Additional reserve opening (fire)	50,000	Commission earned on re- insurance ceded (Fire)	30,000
Commission paid (marine)	1,08,000	Management expenses (fire)	1,45,000
Commission paid (fire)	90,000	Management expenses (marine)	4,00,000
Claims paid and outstanding (marine)	3,80,000	Marine premium	
Claims paid and outstanding (fire)	1,80,000	Less: Re- insurances	10,80,000
Fire fund –opening	2,50,000	Fire premium	
Marine fund –opening	8,20,000	Less: Re- insurance	6,00,000
Bad debts recovered	1,200		
Share transfer fee	800	Profit on sale of land	60,000
Directors' fees	5,000	Miscellaneous receipts	5,000
Auditors' fees	1,200	Differences in exchange (Cr.)	300
Bad debts (marine)	12,000	Interest, dividends, etc. received	14,000
Bad debts (fire)	5,000	Depreciation	35,000

In addition to usual reserves, additional reserve in case of fire insurance is to be increased by 5% of net premium.

Answer: Fire Revenue Account For the year ended 31st March, 2013

Premium Earned (Net)	1	6,00,000	
Change in provision for unexpired risk		(80,000)	
Total (A)	2	5,20,000	
Claims incurred (Net)	3	1,90,000	
Commission	4	60,000	
Operating expenses related to insurance business		1,50,000	
Total (B)		4,00,000	
Operating profit from fire insurance business (A-B)		1,20,000	

Note: Reserve for unexpired risks as on 31.3.2013

50% of net premium	3,00,000
Additional Reserve	<u>80,000</u>
	<u>3,80,000</u>

Change in provision for unexpired risk

Opening	3,00,000
Closing	<u>3,80,000</u>
	<u>80,000</u>

Marine Revenue Account For the year ended 31st march, 2013

Particulars	Schedule	Current year (Rs.)	Previous year Rs.
Premium Earned (Net)	1	10,80,000	
Change in provision for unexpired risk		<u>(2,60,000)</u>	
Total (A)	2	<u>8,20,000</u>	
Claims incurred (Net)	3	3,80,000	
Commission	4	48,000	
Operating expenses related to insurance business		4,12,000	
Total (B)		<u>8,40,000</u>	
Operating profit from Marine Insurance Business (A-B)		<u>(20,000)</u>	

Note:

Reserve for unexpired risks

100% of net premium 10, 80,000

Change in provision for unexpired risk

Opening	8, 20,000
Closing	<u>10, 80,000</u>
	<u>(2, 60,000)</u>

Profit and loss account For the year ended 31st March, 2013

opening profit (loss):		
Fire Insurance	1,20,000	
Marine Insurance	(20,000)	
Income from Investments:		
Interest, Dividend and Rent –Gross	14,000	
Profit on sale of land	60,000	
Other Incomes:		
Transfer Fees	800	
Bad Debt Recovered	1,200	
Misc. Receipts	5,000	
Difference in Exchange	<u>300</u>	
Total of (A)	<u>1,81,300</u>	
Other Expenses:		
(i)Auditors' Fees	1,200	
(ii)Directors' Fees	5,000	
(iii)Depreciation	<u>35,000</u>	
Total (B)	<u>41,200</u>	
Profit Before Tax	1,40,100	

Schedule 1Premium Earned (Net) Fire

Net Premium	<u>6,00,000</u>	
Total Premium Earned (Net)	<u>6,00,000</u>	
Premium Income from business effected:		
In India	<u>6,00,000</u>	
Total Premium Earned (Net)	<u>6,00,000</u>	

Schedule 2 Claim Incurred (Net) Fire

Claims Paid	1,80,000	
Add: Sundry Expenses	<u>10,000</u>	
Net Claims Paid	<u>1,90,000</u>	
Claims Paid to Claimants; In India	<u>1,90,000</u>	
Total claims incurred	<u>1,90,000</u>	

Schedule 3 Commission (Fire)

Commission Paid		
Direct	90,000	
Add: Re-insurance Accepted		
Less: Re- insurance ceded	<u>30,000</u>	
Net Commission	<u>60,000</u>	

Schedule 4 Operating Expenses Related to Fire Insurance Business

Employees' remuneration & welfare benefits		
Managerial remuneration	1,45,000	
	5,000	
	<u>1,50,000</u>	

Schedule 1 Premium Earned (Net) Marine

Premium from Direct business written		
Net Premium	<u>10,80,000</u>	
Total Premium Earned (Net)	<u>10,80,000</u>	

Schedule 2 Claim Incurred (Net) Marine

Claims Paid		
Net Claims Paid	<u>3,80,000</u>	

Schedule 3 Commission (Marine)

Commission Paid		
Direct	<u>1,08,000</u>	
Add: Re-insurance Accepted		
Less: Re-insurance ceded	60,000	
Net Commission	<u>48,000</u>	

Schedule 4 Operating Expense Related to Marine Insurance Business

Employees' remuneration & welfare benefits		
Managerial remuneration	4,00,000	
Others – bad debts		
Depreciation	<u>12,000</u>	
Total	<u>4,12,000</u>	

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:

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

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

(C.A. Inter)

Answer: Marine Revenue Account For the year ended 31st March, 2002

Particulars	Schedule	Current year Rs.	Previous year Rs.
Premiums Earned (Net)	1	98,32,250	
Change in provision for unexpired risk		<u>(26,33,863)</u>	
Total(A)		<u>71,98,387</u>	
Claims Incurred (Net)	2	51,41,500	
Commission	3	4,39,000	
Operating expenses related to Insurance business	4	<u>6,68,000</u>	
Total (B)		<u>62,48,500</u>	
Operating profit from Marine Insurance business (A-B)		9,49,887	

Note: Reserve for unexpired risk as on 31-3-2002

100% of Premium Income	98,32,250
Additional Reserve	<u>4,91,613</u>
	<u>1,03,23,863</u>

Change in provision for unexpired risk:

Opening	76,90,000
Closing	<u>1,03,23,863</u>
	<u>(26,33,863)</u>

Profit and Loss Account for the year ended 31st March, 2002

1. Operating Profit /(Loss)		
Marine Insurance	9,49,887	
2. Income from investments:		
Interest, Dividend and Rent –Gross	3,36,000	
Total (A)	12,85,887	
Profit Before Tax	12,85,887	
Provision for Taxation	7,16,000	
Profit After Tax	5,69,887	
Profit available for appropriation	5,69,887	
Balance carried forward to Balance Sheet	5,69,887	

Note: it has been assumed that total income tax liability is Rs. 7, 16,000 (Rs. 6, 60,000+56,000)

Schedule 1 Premium Earned (Net)

Premium from Direct business written	93,52,000	
Add: premium on re-insurance accepted	14,37,000	
Less: premium on re-insurance ceded	<u>9,56,750</u>	
Net Premium	<u>98,32,250</u>	
Total Premium Earned (Net)	<u>98,32,250</u>	

Schedule 2 Claims Incurred (Net)

Claims Paid		
Direct	47,98,000	
Add: Re-insurance accepted	6,09,000	
Less: re-insurance ceded	<u>2,65,500</u>	
Net Claims Paid	<u>51,41,500</u>	

Schedule 3 Commission

Commission paid		
Direct	4,40,000	
Add: Re-insurance accepted	38,000	
Less: Re- insurance ceded	<u>39,000</u>	
Net Commission	<u>4,39,000</u>	

Schedule 4 Operating Expenses Related to Insurance Business

Employees' remuneration & welfare benefits	4,80,000	
Rents' rates & taxes	58,000	
Legal & professional changes	44,000	
Others – postage & printing	<u>86,000</u>	
Total	6,68,000	

Question:15 (Fire Insurance Reserve). Zaldi pay Insurance Company Limited has furnished the following for preparation of Revenue Account for fire business insurance for the year ended 31st March 2017:

Claims admitted but not paid	42,376
Commission paid	50,000
Commission on Re-insurance received	12,000
Share transfer fees	5,000
Expenses of management	78,000
Bad debts	2,500
Claims paid	15,000
Profit and loss appropriation account	10,000
Premiums received (less re-insurance)	5,52,000
Reserve for unexpired risks as on 1.4.2016	2,30,000
Additional reserve on 1.4.2016	40,000
Claims outstanding as on 1.4.2016	27,000
Dividend on share capital	18,500

Further following information has also to be considered:

i) Premiums outstanding at the end of the year Rs. 40,000

ii) It is the policy of the company to maintain 50% of premium towards reserve for unexpired risks.

iii) Additional reserve at 10% if net premium to be maintained.

Answer:

Revenue Account

Particulars	Schedule	Rs.
Premium Earned (Net)	1	<u>5,06,800</u>
Total (A)		<u>5,06,800</u>
Claims Incurred (Net)	2	30,376
Commission	3	38,000
Operating expenses related to Insurance Business	4	<u>78,000</u>
Total (B)		<u>1,46,376</u>
Operating profit from Fire Insurance Business (A-B)		<u>3,60,424</u>

Profit and Loss Account For the year ending 31st march, 2017

Particulars	Schedule	Rs.
1. Operating profit from Fire insurance Business		3,60,424
2. Income from investments		...
3. Other income –Share transfer fee		<u>5,000</u>
Total (A)		<u>3,65,424</u>
4. Provisions (other than taxation)		...
5. Other expenses –bad debts written off		<u>2,500</u>
Total (B)		<u>2,500</u>
Profit before tax		3,62,924
Less; provision for taxation		Nil
Profit after tax		3,62,924
Appropriations		
Final dividend (proposed)		18,500
Balance of profit brought forward from last year		<u>10,000</u>
Balance carried forward to Balance sheet		<u>3,54,424</u>

Schedule 1 Premium Earned (Net)

Premium from direct business written	5,52,000
Add: Outstanding Premium	40,000
Less: Adjustment for change in unexpired risk reserve	66,000
Less: Adjustment for change in additional reserve	<u>19,200</u>
Total Premium Earned(Net)	<u>5,06,800</u>

Schedule 2 Claims Incurred (Net)

Claims Paid	
Direct	15,000
Add: Claims outstanding at the end of the year	42,376
Less: Claims outstanding at the beginning	<u>27,000</u>
Total	<u>30,376</u>

Schedule 3 Commission

Commission Paid	
Direct	50,000
Less: Re- insurance ceded	<u>12,000</u>
Total	<u>38,000</u>

EXAMINATION QUESTIONS

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 Risk on 1.4.1999		2,00,000	1,40,000
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:

- Depreciation on Fixed Assets to be provided at 10% p.a.
- Interest accrued on investments Rs. 10,000.
- Closing provision for taxation on 31.3.2000 to be maintained at Rs. 1,24,138.
- Claims outstanding on 31.3.2000 were Fire insurance Rs. 10,000; Marine Insurance Rs. 15,000.
- Premium outstanding on 31.3.2000 were Fire Insurance Rs. 30,000; Marine Insurance Rs. 20,000.
- Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.
- Expenses of management due on 31.3.2000 were Rs.10,000 for Fire Insurance and Rs. 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 (Rs. '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)	3,46,500
4. Provisions (Other than taxation)	
5. Other Expenses (Director's fees. Depreciation on F.A.)	89,000
Total (B)	89,000
Profit Before Tax (A-B)	2,57,500
Less: Provision for Taxation	99,138
Profit after tax	1,58,362

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
	4,55,000	3,35,000
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
Closing	(2,27,500)
Total	27,500

1,40,000
(3,35,000)
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, 2001, also pass necessary Journal Entries to record the above transactions with narration.

	Rs. in lacs
Balance of Life Assurance Fund as on 1-4-2000	167.15
Interim Bonus paid for the valuation period	25.00
Balance of Revenue Account for the year ended 31-3-2001	240.00
Net Liability as per Value's certificate as on 31 -3-2001	165.00

The company declared a reversionary bonus of Rs. 185 per Rs. 1,000 and gave the policyholders an option to take bonus in cash Rs. 105 per Rs. 1,000. Total business conducted by the company was Rs. 600 lacs. The company issued with profit policy only, 3/5 of the policyholders in value opted for cash bonus.

Answer: Valuation Balance Sheet as on 31st March, 2001 (Rs. in Lacs)

Particulars	Rs.	Particulars	Rs.
To Net Liability	165.00	By Life Fund as on 31/3/2001	240.00
To Profit and Loss A/c	75.00		
	240.00		240.00

Distribution Statement

	Rs. in Lacs
Profit as per Valuation Balance Sheet	75.00
Add: Interim Bonus paid	25.00
	<u>100.00</u>
Policy holders share (95%)	95.00
Less: Interim Bonus paid	25.00
	70.00

Journal Entries

Life Assurance Fund A/c	Dr.	75.00	
To Profit & Loss A/c			75.00
(Being profit transferred as per Valuation Balance Sheet)			
Profit & Loss A/c	Dr.	37.80	
To Bonus payable in Cash A/c			37.80
(Being cash bonus payable @ Rs. 105 per 1000 on 3/5 of 600 lakhs)			
Profit & Loss A/c	Dr.	44.40	
To Life Assurance fund A/c			44.40
(Being profits @ of Rs. 185 per 1000 on 2/5 of 600 Lakhs transferred to life fund for reversionary bonus)			

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

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

Interim bonus for the valuation period paid was Rs. 80,000.

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

The company declared a reversionary bonus of Rs. 12 per share Rs. 1,000 and gave the policyholders an option to get the bonus in cash for Rs. 5 per Rs. 1,000. Total business of the company is Rs. 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.

Answer:

Valuation Balance sheet

Particulars	Rs.	Particulars	Rs.
To Net Liabilities	50,00,000	By Life Insurance fund (W.N.1)	60,34,000
To Net profit	10,34,000		
	60,34,000		60,34,000

Distribution Statement

Net profit as per Valuation Balance Sheet	10,34,000
Add: Interim bonus paid	<u>80,000</u>
	11,14,000
Less: Carried forward,	<u>2,90,000</u>
True surplus	<u>8,24,000</u>
Policy holders will get 8,24,000 x95%	7,82,800
Less: Interim bonus paid	<u>80,000</u>
Amount due to policy holders	<u>7,02,800</u>

Journal Entries

Particulars	Dr.	Cr.
Profit and loss account	Dr.	3,00,000
To Bonus payable in cash		3,00,000
(Being the bonus payable in cash)		
Profit and loss account	Dr.	10,80,000
To Life insurance fund		10,80,000
(Being transfer to life insurance fund for new liability)		

Valuation Balance sheet as on 31st march 2004

Particulars	Rs.	Particulars	Rs.
To Net Liabilities	50,00,000	By Life Insurance fund (Note-1)	60,34,000
To Net profit	10,34,000		
	60,34,000		60,34,000

Working Notes:**1. Computation or Adjusted Life Insurance Fund as on 31.3.2004:**

Life Insurance fund before adjustments.			Rs.
			60,00,000
Add: Interest on investment (gross) $\frac{63,000 \times 100}{100-10}$	70,000		
	<u>7,000</u>		
Less: Tax deducted at source		63,000	
Consideration for annuities granted		<u>9,000</u>	<u>72,000</u>
			60,72,000
Death claim intimated	36,000		
Less: Death claim covered under re-insurance	<u>12,000</u>		
Bonus utilized in reduction of premium		24,000	
Adjusted life insurance Fund		<u>14,000</u>	<u>(38,000)</u>
			60,34,000

2. Bonus

- (a) Payable in cash Rs. 15 crores x 4/10 x 5/1,000 Rs. 3,00,000
 (b) Transfer to fund Rs. 15 crores x 6/10 x 12/1,000 Rs. 10,80,000

Imp. Note:

In this question bonus payable in cash is Rs. 3,00,000 and the bonus by transfer to life insurance fund amounting Rs. 10,80,000 covers to Rs. 13,80,000 which is more than the amount due to the policy holder i.e. Rs. 7,02,800. So the above question is solved on the assumption that company has sufficient balance in P&L A/c for declaration of 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
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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
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Question:20 The life fund of Well-Life Assurance Co. was Rs. 90,00,000 as on 31st December, 2005. The interim bonus paid during the valuation period was Rs. 1,50,000. The periodical actuarial valuation determined the net liability at Rs. 75,00,000. Surplus brought forward from the previous valuation was Rs. 9,00,000. The directors of the company proposed to carry forward Rs. 10,00,000 and to divide the balance between the shareholders and the policy holders. You are required to show:

- (i) The valuation Balance Sheet,
- (ii) The Net Profit for the valuation period.
- (iii) The distribution of the surplus.

Answer:

Valuation Balance Sheet at 31.12.2005			
Particulars	Rs.	Particulars	Rs.
To Net Liability (as per actuarial valuation)	75,00,000	By Life Fund as per Balance sheet	90,00,000
Surplus	15,00,000		
	90,00,000		90,00,000

(ii) Net Profit for the valuation period:

Rs.	
Surplus as per valuation Balance Sheet	15,00,000
Add: Interim Bonus paid	<u>1,50,000</u>
16,50,000	
Less: Surplus at the beginning of the period	<u>9,00,000</u>
<u>7,50,000</u>	

(iii) Distribution of Surplus:

Total Surplus	16,50,000
Less: Surplus to be carried forward	<u>10,00,000</u>
<u>6,50,000</u>	

Question:21. Domestic Assurance Co. Ltd. received Rs. 5,90,000 as premium on new policies and Rs. 1,20,000 as renewal premium. The company received Rs. 90,000 towards reinsurance accepted and paid Rs. 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 Prepare Revenue Account in proper form for the year ended 31st March, 2008, from the following particulars related to Krishna General Insurance Co. for the year ended 2007-2008:

	Related to Direct business	Related to Reinsurance
Premiums:		
Amount received	30,00,000	2,40,000
Receivable at the beginning	1,80,000	24,000
Receivable at the end	2,40,000	36,000
Amount paid	-	3,60,000
Payable at the beginning	-	30,000
Payable at the end	-	42,000
Claims:		
Amount paid	18,00,000	1,80,000
Payable at the beginning	60,000	12,000
Payable at the end	1,20,000	18,000
Amount recovered	-	1,20,000
Receivable at the beginning	-	18,000
Receivable at the end	-	12,000
Commission:		
Amount paid	72,000	10,800
Amount received	-	14,400
Additional information:		
(i) Interest, dividend and rent received (Income-tax in respect of above)		30,000 6,000
(ii) Management expenses including Rs. 12,000 Related to legal expenses regarding claims		1,32,000
(iii) Provision for Income tax existing at the beginning of the year was Rs. 1,95,000, the Income-tax actually paid during the year Rs. 1,68,000 and the provision necessary at the year end Rs. 2,07,000.		
(iv) The net premium Income of the company during the year 2006-2007 was Rs. 24,00,000 on which reserve for unexpired risk @ 50% and additional reserve @ 71/2% was created. This year, the balance to be carried forward are 50% of net premium on reserve for unexpected risk and 5% on additional reserve.		

Answer: Revenue Account for the year ended 31.3.2008

Particulars	Schedule	Amount (Rs.)
1. Premium earned (Net)	1	27,03,000
2. Profit/Loss on sales/Redemption of investment	-	-
3. Other	-	-
4. Interest, dividend & rent (Gross)	-	<u>30,000</u>
Total (A)		<u>27,33,000</u>
1. Claims incurred (Net)	2	19,44,000
2. Commission	3	68,400
3. Operating expenses related to insurance business	4	1,20,000
Total (B)		<u>21,32,400</u>
Operating Profit/Loss from insurance business (C) = (A-B)		6,00,600

Schedule-1 Premium Earned (Net)

Premium received from direct business (W.N.1)	30,60,000
Add: Premium on reinsurance accepted (2,40,000 + 36,000 - 24,000)	<u>2,52,000</u>
	33,12,000
Less: Premium on reinsurance ceded (3,60,000 + 42,000 - 30,000)	<u>3,72,000</u>
Net Premium	29,40,000
Adjustment for charge in reserve for unexpired risk (W.N.2)	<u>2,37,000</u>
Total premium earned (Net)	27,03,000

Schedule -2 Claims Incurred (Net)

Particulars	Rs.
Claims paid (Direct)	18,00,000
Add: Legal expenses regarding claims	<u>12,000</u>
	18,12,000
	<u>1,80,000</u>
Add: Reinsurance Accepted	19,92,000
Less: Reinsurance ceded (1,20,000 + 12,000 - 18,000)	<u>1,14,000</u>
	18,78,000
Add .Claims outstanding at the end (1,20,000 + 18,000)	<u>1,38,000</u>
	20,16,000
Less: Claims outstanding at the beginning (60,000 + 12,000)	<u>72,000</u>
Total claim incurred	19,44,000

Schedule -3 Commission

Particulars	Rs.
Commission paid Direct	72,000
Add: Re-insurance accepted	<u>10,800</u>
	82,800
Less: Re-insurance ceded	<u>14,400</u>
Net commission	68,400

Schedule - 4 Operating Expenses related to Insurance Business

Expenses of management (1,32,000 - 12,000)	<u>1,20,000</u>
	1,20,000

Working Notes:

1. Calculation of premium received from direct business	
Premium on direct business	30,00,000
Add .Premium outstanding at the end	<u>2,40,00</u>
	32,40,000
Less: Premium outstanding at the beginning	<u>1,80,000</u>
	30,60,000

2. Computation of change in reserve for unexpired risk

Reserve for unexpired risk for the year 2007-08 (29,40,000 x 50%)	14,70,000
Add: Additional reserve for unexpired risk for the year 2007-08 (29,40,000 x 5%)	<u>1,47,000</u>
	16,17,000
Less: Reserve for unexpired risk for the year 2006-07 (24,00,000 x 50%)	12,00,000
Additional reserve for unexpired risk for the year (24,00,00 x 7.5%)	<u>1,80,000</u>
	2,37,000

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
Premium:		
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
Claims:		
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>	7,48,000
		94,86,000

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>	(6,00,000)

Net Premium earned **88,86,000**

(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>	5,51,000
		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>	(1,99,000)
		72,52,000
Add: Outstanding direct claims at the end of the year		<u>95,000</u>
		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 Rs. 38,000 Surveyor's fee and Rs. 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 From the following Information of M/s. Big fish Marine Insurance Co.Ltd., prepare the Revenue Account as per regulations of IRDA for the year ended 31st March,-2011:

Particulars	Amount (Rs.)
Premiums Received	18,75,000
Premium outstanding on March 31, 2011	1,25,000
Premium paid on reinsurance ceded	2,28,000
Claims paid	10,54,000
Estimated liability In respect of outstanding claims:	
On April 1, 2010	1,89,000
On March 31,2011	2,25,000
Expenses of management {includes Rs. 45,000 Surveyor's fee and Rs. 65,000 Legal expenses paid for settlement of claims}	4,85,000
Interest and Dividend (Gross)	1,65,250
Income tax on the above	49,575
Profit on sale of investments	46,000
Commission paid	1,94,000

Balance of fund on 1st April, 2010 was Rs. 18,50,000 including Additional reserve of Rs. 1,80,000. Additional reserve has to be maintained at 10% of net premiums for the year.

Question 26. From the following information as on 31st March, 2002, prepare the Revenue Accounts of Sagar Bhima & Co. engaged in Marine Insurance Business:

Particulars	Direct Business (Rs.)	Re-Insurance (Rs.)
1. Premium:		
Received	24,00,000	3,60,000
Receivable - 1 st April	1,20,000	21,000
31 st March	1,80,000	28,000
Premium paid	---	2,40,000
Payable - 1 st April	---	20,000
31 st March	---	42,000
2. Claims:		
Paid	16,50,000	1,25,000
Payable - 1 st April	95,000	13,000
31 st March	1,75,000	22,000
Received	---	1,00,000
Receivable - 1 st April	---	9,000
31 st March	---	12,000
3. Commission:		
On Insurance accepted	1,50,000	11,000
On Insurance ceded	---	14,000

4. Other expenses and Income:

Salaries — Rs. 2,60,000; Rent, Rates and Taxes — Rs. 18,000; Printing and Stationeries — Rs. 23,000; Indian Income Tax Paid — Rs. 2,40,000; Interest, Dividend and Rent — Rs. 1,15,500; Legal Expenses (Inclusive of Rs. 20,000 in connection with the settlement of claims) — Rs. 60,000; Bad Debts Rs. 5,000; profit on sale of Investments — Rs. 12,000; Profit on Sale of Motor Car — Rs. 5,000.

Balance of Fund on 1st April was Rs. 26,50,000 including Additional Reserve of Rs. 3,25,000. Additional Reserve has to be maintained at 5% of the net premium of the Year.

Also Transfer Rs. 50,000 and Rs. 30,000 to Catastrophe and shareholders account respectively. (2002 — May) Adapted

Solution:

Particulars	Schedule	Marine
Premium earned income from investment	(1)	25,21,750
Int. dividend & rent		1,15,500
Profit on sale		12,000
Other Income		
Motor Car		5,000
	(A) Total	26,54,250
Claim	(2)	17,81,000
Commission	(3)	1,47,000
Operating expenses		5,86,000
	(B) Total	25,14,000
	Profit (A-B)	1,40,250
(-) Transfer to catastrophe A/c		50,000
(-) Shareholders A/c		30,000
	Balance	60,250

W. Note:-1 Calculation of Premium

Direct Premium	24,60,000
(+) Re-insurance	3,67,000
(-) Paid)	
	2,62,000
	Net Premium
(+) Opening URR	26,50,000
(-) Closing URR (105%)	28,93,250
	premium earned
	25,21,750

W.Note:-2 Calculation of claim's

Direct claim	17,30,000
(+) Reinsurance accepted	1,34,000
(-) Reinsurance ceded	1,03,000
(+) Legal expenses	20,000
	17,81,000

W. Note:-3 Calculation of Commission

Direct Commission	1,50,000
(+) Reinsurance accepted	11,000
(-) Reinsurance ceded	14,000
	1,47,000

W. Note:-4 Calculation of operating expenses

Salaries	2,60,000
Rent	18,000
Photostat	23,000
Tax paid	2,40,000
Legal Exp.	40,000
Bad debts.	5,000
	5,86,000

Question 27. Calculate amount of claim.

Claim paid upon death	40,000
Claim paid upon maturity	80,000
Claims outstanding at the end	10,000
Claims outstanding at the end of previous year	5,000

Surveyor's expenses paid	2,000
Reversionary bonus	8,000
Commission paid	9,000
Re-insurance claims received	40,000
Re-insurance claims receivable at the end	5,000
Re-insurance claims receivable at the end of last year	2,000

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

	Direct Business (Rs.)	Reinsurance (Rs.)
(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 — Rs. 3,20,000; Rent, Rates and Taxes Rs. 29,000; Postage, Telegrams, Stationary and Printing Rs. 43,000; Indian Income-tax Paid: Rs. 4,40,000; Interest, Dividends and Rent Gross Rs. 1,37,500; Income-tax Deducted at Source Rs. 40,250; Legal Expenses (inclusive of Rs. 40,000 in connection with settlement of claims) Rs. 72,000.		
(v) Balance of fund on 1 st January Rs. 38,45,000 including Additional Reserve of Rs. 4,45,000. Additional Reserve has to be maintained at Rs. 5% of the net premium of the year.		

Question 29. Write short notes on the following:

- Unexpired Risks Reserve.
- 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)**

	(Rs.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 Rs.105 lakhs.

(ii) Shares Rs. 18 lakhs.

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

SOLUTIONS: Revenue Account for the year ended 31st March, 2008

Particulars	Schedule	Current Year
1. Premium earned (net)	1	60.00
2. Profit/Loss on sale/redemption of investments		-
3. Others		-
4. Interest, Dividend & Rent-Gross (10+5-3)		<u>12.00</u>
Total (A)		72.00
1. Claims Incurred (Net)	2	34.00
2. Commission	3	3.75
3. Operating expenses related to insurance business	4	<u>16.25</u>
Total (B)		<u>54.00</u>
Operating Profit/(Loss) from Marine Business (C) = (A - B)		18.00
	Total (C)	

Profit & Loss Account for the year ended 31st March, 2008

Particulars	Schedule	Current Year	Previous Year
1. Operating Profit from marine insurance	18.00		18.00
2. Income from investments	-		-
3. Other Income			18.00
4. Provision (other than taxation)			
Diminution in the value of investment Appropriations	Nil		Nil
Balance of profit/loss brought forward from Last year	10.00		10.00
Balance carried forward to Balance Sheet	20.35		20.35

Schedule 1. Premium Earned (Net)

Premium from direct business	50.00	
Add: Premium on re-insurance accepted	5.00	
Less: Premium m re-insurance ceded	55.00	
Net Premium	10.00	
Adjustment for change in reserve for unexpired risk [(opening) 60 – (Closing) 45]	45.00	

Schedule 2. Claims incurred (Net)

Claims paid		
Direct	25.00	
Add: Reinsurance accepted	4.00	
	29.00	
Less: Reinsurance ceded	5.00	
Net Claims paid	24.00	
Add: Claims outstanding at the end of the year	30.00	
	54.00	
Less: Claims outstanding at the beginning of the year	20.00	
Total claims incurred	34.00	

Schedule 3. Commission

Commission paid		
Direct	5.00	
Add: Re-insurance accepted	1.25	
	6.25	
Less: Commission reinsurance ceded	2.50	
Net commission	3.75	
Expenses of Management	5.00	
Bad Debts	10.00	
Other expenses	1.25	
	16.25	

Working Note:

Provision for income tax:	18.00
Income (excluding revaluation)	3.00
Add: Tax deducted at source	21.00
	13.65
Provision @ 65% of Rs.21.00 lakhs	(3.00)
Less: Tax deducted at source	10.65

Question 31. From the following balance extracted from the books of Perfect Insurance Company Limited as on 31-03-2000, you are required to prepare Revenue Accounts and P/L in respect of Fire and Marine Insurance business for the year ended 31 -03-2000

Directors' Fees	80,00	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1-4-99)	90,000
Provision for Taxation (as on 1-4-1999)	85,000	Advance Income tax paid during the year	60,000
Loss on sale of Investment	1,000	Provision For Doubtful debts	10,000

	Fire(Rs.)	Marine (Rs.)
Outstanding Claims on 1-4-1999	28,000	7,000
Claims paid	1,00,000	80,000
Reserve for Unexpired Risk on 1-4-1999	2,00,000	1,40,000
Premiums Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Operating Expenses	60,000	45,000
Re-insurance Premium (Dr.)	25,000	15,000
Profit on sale of Investments	2,000	5,000

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

- Depreciation of Fixed Assets to be provided at 10% p.a.
- Interest accrued on investments Rs.10,000
- Create additional provision for taxation on 31-03-2000 by Rs.1,24,138.
- Claims outstanding on 31-03-2000 were Fire Insurance Rs.10,000; Marine Insurance Rs.15,000.
- Premium outstanding on 31-03-2000 were Fire Insurance Rs.30,000; Marine Insurance Rs.20,000.
- Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.
- Operating Expenses due on 31-03-2000 were Rs.10,000 for Fire Insurance and Rs.5,000 in respect of Marine Insurance (CA-2000-November [5])

Question 32 deleted from book(be happy)

Question 33. Given below are the revenue items of a hypothetical life insurance company for the year ended 31-3-99.

	Rs.in lacs
Premiums	28,00
Consideration for annuities	7,50
Interest, Dividends and Rents	1,00
Claims	12,00
Annuities	4,00
Surrenders	4,00
Commission	1,50
Expenses of Management	7,50
Interim bonus paid for the valuation period	1,80
Valuer's Liabilities (opening)	12,20

As on 31-3-99 net liability as per valuer's certificate was 12,00 lacs. Company wanted to write off 40 lacs book value of investments.

Question 34. The following figures have been extracted from the books of New India Insurance Company Ltd. In respect of their Marine Business for 2007-2008:

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

Prepare Revenue Account and Profit and Loss Account for the year after taking into account the following 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:
 - Government Securities 105 lakhs.
 - Shares to 8 lakhs. Adjust separately for each of these two categories of investments.
- Provide 65% for Income tax.

Solutions: Revenue Account for the year ended 31st March, 2008

Premium earned (net)	1	60.00	
Profit/Loss on sale/redemption of investments		—	
Others		—	
Interest, Dividend & Rent-Gross (10+5-3)		12.00	
Total (A)		72.00	
Claims Incurred (Net)	2	34.00	
Commission	3	3.75	
Operating expenses related to insurance business	4	16.25	
Total (B)		54.00	
Operating Profit/(Loss) from Marine Business (C)		18.00	
= (A-B) Appropriations		—	
Transfer to Shareholder's Account		—	
Transfer to Catastrophe Reserve		—	
Transfer to other Reserves (to be specified)		18.00	
Total (C)			

Profit & Loss Account for the year ended 31st March, 2008

1. Operating Profit from marine insurance		18.00	
2. Income from investments		-	
3. Other Income		-	
Total (A)		18.00	
4. Provision (other than taxation)			
Diminution in the value of investment in shares	2.00		
Less: increment in the value of investment in govt, securities	(5.00)	(3.00)	
5. Other expenses		-	
Total (B)		(3.00)	
Profit before tax A-B [i.e. 18 - (-3)]		21.00	
Less: Provision for taxation		(10.65)	
Total		10.35	
Appropriations		Nil	
Balance of profit/loss brought forward from last year		10.00	
Balance carried forward to Balance Sheet		20.35	
		20.35	

Schedule 1. Premium Earned (Net)

Particulars	CurrentYear (Rs.in Lakhs)
Premium from direct business	50.00
Add: Premium on re-insurance accepted	5.00
	55.00
Less: Premium on re-insurance ceded	
	10.00
Net Premium	45.00
Adjustment for change in reserve for unexpired risk [(opening) 60 - (Closing) 45]	15.00
	60.00

Schedule 2. Claims incurred (Net)

Claims paid	
Direct	25.00
Add: Reinsurance accepted	4.00
	29.00
Less: Reinsurance ceded	5.00
Net claims paid	24.00
Add: Claims outstanding at the end of the year	30.00
	54.00
Less: Claims outstanding at the beginning of the year	20.00
Total claims incurred	34.00

Schedule 3. Commission

Commission paid	
Direct	5.00
Add: Re-insurance accepted	1.25
	6.25
Less: Commission on reinsurance ceded	2.50
Net Commission	3.75

Schedule 4. Operating Expenses

Expenses of Management	5.00
Bad Debts	10.00
Other expenses	1.25
	16.25

Working Note:

Provision for income tax:	Rs.in Lakhs
Income (excluding revaluation)	18.00
Add: Tax deducted at source	3.00
	21.00
Provision for income tax:	Rs.in Lakhs
Provision @ 65% of 21.00 lakhs	13.65
Less: Tax deducted at source	(3.00)
	10.65

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 - Rs.33,000; Marine - ₹15,000

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

Fire - Rs.46,000; Marine - Rs.17,000; Out of the above a fire claim amounting to Rs.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.

Questions 36. Not in syllabus. Khush ho jao...

Question:37. The following particulars are presented to you by Goodluck General Insurance Company regarding its fire insurance business for the year ended 31st March, 2011:

	Rs.	Rs.
Reserve for unexpired risk on 31 st March, 2010		
(i) 50% of net premium income for 2009-2010	5,00,000	
(ii) Additional reserve on 31 st March, 2010	1,00,000	6,00,000
Claims paid		2,80,000
Commission paid		80,000
Bad debts		10,000
Expenses of management		2,90,000
Premiums received less reinsurances		12,10,000
Claims outstanding on 31 st March, 2010		1,00,000
Commission earned on reinsurance ceded		59,000
Estimated liability on 31 st March, 2011 respect of in claims due or intimated		2,00,000

Prepare the Fire Revenue Account for the year ended 31st March, 2011 in the proper form and with necessary schedules. On 31st March, 2011 the company decides to keep total additional reserve for unexpired risk equal to 15% of the net premium income for the year **(RTPNov-10)**

SOLUTION: Fire Revenue Account for the year ended 31st March, 2011

	Schedule	Current year
Premium earned (Net)	1	10,23,500
Total (A)		10,23,500
Claims incurred (net)	2	3,80,000
Commission	3	21,000
Operating expenses relating to insurance business	4	2,90,000
Total (B)		6,91,000
Operating Profit from General Insurance Business C=(A)-(B)		3,32,500
Appropriations:		
Transfer to shareholders' accounts		3,32,500

Schedule 1: Premium Earned (Net)

Premium received less reinsurance			12,10,000
Adjustment for change in reserve for unexpired risk:			
Total opening provisions		6,00,000	
Closing provision:			
50% of net premium	6,05,000		
Additional provision @ 15%	1,81,500	(7,86,500)	(1,86,500)
Premium Earned (Net)			10,23,500

Schedule 2: Claims Incurred (Net)

	Rs.
Claims paid	2,80,000
Add: Claims outstanding at the end of the year	2,00,000
	4,80,000
Less: Claims outstanding at the beginning of the year	(1,00,000)
	3,80,000

Schedule 3: Commission

Commission paid	80,000
Less: Commission earned in reinsurance ceded	(59,000)
	21,000

Schedule 4: - Operating expenses relating to insurance business

Expenses of management	Rs.2,90,000
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CHAPTER 3. PRESENTATION OF FINANCIAL STATEMENT

Definition of company:--As per section 2(20) of the companies act 2013, "company" means a company incorporated under the companies act,2013 or any previous company law.

SALIENT FEATURES OF A COMPANY :-

1. **Incorporated association**— A company comes into operation after its registration under Companies Act. Without such registration no company can come into existence.
2. **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.
3. **perpetual existence** – Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
4. **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'.
5. **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.
6. **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.
7. **Not a citizen**—A company is not a citizen in the same sense as a natural person is.
8. **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.
9. **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.
10. **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**.
11. **Right of access to information:**-- The right of the shareholders of a company to inspect its books of accounts is governed by article of association.

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 fulfills 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 Rs. 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:- 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.

14. Small company – as per section 2(85), a small company 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 should not be more than 5 crores; or

(ii) turnover of which as per last profit and loss account does not exceed 2 crores or such higher amount as may be prescribed which should not be more than 20 crores. Provided that nothing in this clause should apply to

- (a) A holding company or a subsidiary company
- (b) A company registered under section 8
- (c) A company or body corporate governed by any special act.

MAINTENANCE OF BOOKS OF ACCOUNT :- As per section 128 of the companies Act 2013, every company should prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books should be kept on accrual basis and according to the double entry system of accounting.

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.

Maintenance at place other than registered office:- it is the duty of the company to inform the registrar of companies within 7 days of the decision in case the board of directors decide to maintain books at place other than the registered office.

In case of branch office :- where a company has a branch office in India or outside India, it should be deemed to have complied with the provisions of the act, if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns periodically are sent by branch office to the company at its registered office or such other place as as the board of directors have decided.

Statutory books : the following statutory books are required to be maintained by a company under different sections of the companies Act 2013:

- a. Register of investments of the company held in its own name.
- b. Register of charges
- c. Register of members
- d. Register of debenture holders
- e. Minute books
- f. Register of contracts, or arrangements in which directors are interested.
- g. Register of directors and key managerial personnel and their shareholding
- h. Register of loans and investments by the company.
- i. **Registers and documents relating to the issue of shares are:**
 - 1. Share application and allotment book
 - 2. Share call book
 - 3. Certificate book
 - 4. Register of members
 - 5. Share transfer books
 - 6. Dividend register

ANNUAL RETURN:- in accordance with section 92 of the companies act 2013, every company should prepare an annual return in the form prescribed by the companies Act 2013 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 should be signed by the company secretary, or where there is no company secretary, by the director of the company. The annual return should be filed with the registrar within 60 days from the day on which each of the annual general meeting is held.

PREPARATION OF FINANCIAL STATEMENTS:- Under Section 129 of the Companies Act, at the annual general meeting of a company, the Board of Directors of the company shall lay before the company. Financial statements as per section 2(40) of the companies Act, 2013 include -

- (a) a balance sheet as at the end of the financial period;
- (b) a profit & loss account for that period (In case of a company not carrying on business for profit, an income and expenditure account)
- (c) cash flow statement
- (d) a statement of change in equity, if applicable
- (e) any explanatory notes related to point (a) to (d) above.

Provided further that the financial statement, with respect to one person company, small company and dormant company, a start up private company may not include cash flow statement.

Section 129 along with Schedule III of the Companies Act, 2013 deals with the preparation and presentation of profit and loss account and the balance sheet. It requires that final accounts of a company shall give a true and fair view of the state of affairs of the company. Schedule III prescribes the form in which profit and loss account and Balance Sheet should be prepared

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			
	Shareholder's fund		-----	-----
	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:	38		
	Current tax		-----	-----
	Deferred tax		-----	-----
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)		-----	-----
XII.	Profit/(Loss) from discounting operations	39	-----	-----
XIII.	Tax expense of discounting 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:	41		
	Basic		-----	-----
	Diluted		-----	-----

Capital Reserve:- Capital reserves are those reserves which are created for the purpose of retaining the assets permanently within the business. Capital reserves are created out of profits **which are of extra-ordinary or capital nature and not out of operating profits. In case of companies, following are the examples of capital profits:**

- (i) Premium on the issue of shares or debentures,
- (ii) Profit prior to incorporation,
- (iii) Profit on re-issue of forfeited shares.
- (iv) Profit on redemption of debentures,
- (v) Profit on sale of the undertaking or part of it.
- (vi) Excess of sale proceeds over the cost of the fixed assets.
- (vii) Profits set aside for redemption of preference shares.
- (viii) Profits on revaluation of fixed assets and liabilities.
- (ix) The excess of assets over liabilities *plus* purchase consideration on the acquisition of an existing business.

According to the Companies Act the expression 'Capital Reserve' shall not include any amount regarded as free for distribution by way of dividend. There are certain profits which according to the Companies Act cannot be used for payment of dividend:

premium on issue of shares;

profit on reissue of forfeited shares; and

Profits transferred to capital redemption reserve account consequent upon the redemption of preference shares out of profits.

SOURCES OF DIVIDEND:--There are three sources from which dividends may be declared, namely

- (i) current year's profits,
- (ii) past profits remaining undistributed and
- (iii) Moneys provided by Government.

(i) **Dividends out of current year's profits:** A company can declare dividend out of current year's profits only after providing for depreciation in accordance with the provisions of sub-section (2) of Section 205.

(ii) **Dividends out of previous year's profits:** A company can pay dividend out of the profits of any financial year(s) which falls after the commencement of Companies (Amendment) Act 1960 after providing for depreciation in accordance with those provisions and remaining undistributed. The legal position is summarized as under:
Arrears of depreciation are to be considered only if dividend for any financial year is declared out of profits of any previous financial year or years falling after 28 December, 1960.

3. The Central Government may, if it thinks necessary to do so in the public interest, allow any company to declare or pay dividend for any financial year out of the profits of the company for that year or years or any financial year without providing for depreciation. Where the Central or State Government has guaranteed the payment of dividend by the company; dividend may be paid out of money provided by such Government

DIVIDENDS OUT OF RESERVES:-- In case of inadequacy or absence of profits in any year, a company can declare and pay dividends by withdrawing amount out of reserves. **Only revenue reserves which are free and uncommitted can be used for this purpose.** The **Companies (Declaration of Dividend out of Reserves) Rules, 2014** provides that in the event of inadequacy or in the absence of profits in any year, dividend may be declared by a company for that year out of the accumulated profits earned by it in the previous year and transferred by it to the reserves, **subject to the conditions** that :

(a) **The rate of dividend** shall not exceed the **average of the rates** at which dividend was declared by it in the three years immediately preceding that year.

(b) **the total amount to be drawn from the accumulated profits earned in previous years and transferred to the reserves** shall not exceed an amount equal to **one-tenth of the sum of its paid up capital and free reserves** and the amount so drawn shall first be utilized to set off the losses in the financial year before any dividend in respect of preference or equity shares is declared; and

(c) **The balance of reserves after such drawn** shall not fall below 15 per cent of its paid up share capital.

Question:1 Calculate the maximum amount that can be distributed as dividend for the year 2017 according to Companies (Declaration of Dividend out of Reserves) Rules 2014 from the Following data: **Rs.**

Paid up equity capital	10 lacs
Free reserves	5 lacs
Loss in 2017	0.6lacs

Dividends declared in 2012, 2013, 2014, 2015 and 2016: 12.5%, 15%, 13%, 16% and 13%.

Question 2. Equity share capital = Rs 15,00,000
12% preference share capital = Rs 5,00,000
General reserves = 5,00,000
Current year profit = nil

Calculate the maximum rate of dividend which can be paid out of past year general reserves. Assume that average rate of dividend declared during last 3 years is 12%. **(CA Inter)**

Question:3 Due to inadequacy of profit during the year, the company proposes to declare dividend out of general reserves. From the following particulars you are to ascertain the amount that can be drawn applying the Companies (Declaration of dividend out of Reserves) Rules, 2014.

(i) 8,750 8% Preference shares of Rs. 100 each fully paid	8,75,000
(ii) 3,50,000 equity shares of Rs. 10 each fully paid	35,00,000
(iii) General Reserves	10,50,000
(iv) Capital reserves on revaluation of assets	1,75,000
(v) Security Premium	1,75,000
(vi) Profit and loss a/c— credit balance	31,500
(vii) Net Profit for the year	1,78,500

Average rate of dividend during the last 3 years 15%.

[C.S. (Inter) June 1988]

TAX TREATMENT

Question:4 The trial balance of Complex Ltd. as at 31st March 1998 shows the following items.

Items	Debit(Rs.)	Credit (Rs.)
Advance payment of income-tax	2,20,000	--
Provision for taxation for the year ended 31-3-1997	-	1,20,000

The Following further information is given:

- (i) Advance payment of income tax includes Rs. 1,40,000 for 1996-97.
- (ii) Actual tax liability for 1996-97 amounts to Rs. 1,52,000. No effect for the same has so far been given in the accounts.
- (iii) Provisions for income tax has to be made for 1997-98 for Rs. 1,60,000.

You are required to prepare (a) provision for income tax account. (b) Advance payable of income tax account, (c) liabilities for taxation account and also show, how the relevant items will appear in the profit and loss account and balance sheet of the company. **(CA Inter, Nov 1998)**

Question:5 The following are the extracts from the Trial Balance of a Neha Beauty Products Limited on 31 March, 2017 :

	Debit Rs.	Credit Rs.
Provision for Tax (2015-2016)	—	20,000
Advance Tax Paid for 15-16	18,000	—
Advance Tax Paid for 16-17	10,000	—
Tax Deducted at Source (15-16)	1,000	—
Profit and Loss Account Balance (15-16)	—	20,000

Assessment for the year 15-16 was finalized during the year 16-17. The total tax liability for that year was fixed at Rs. 22,000. The net profit earned by the company during 2016-2017 before tax amounts to Rs. 40,000. The company is in 35% tax bracket. Pass journal entries and show how the various items will appear in the company's balance sheet. **[B. Com. (Hons.) Delhi 2002(Modified)]**

Question:6 The trial balance of Mona Creditors Ltd. as on 31 March 2017 shows the following terms :

	Debit	Credit
Provision for taxation	—	5,40,000
Advance Payment of Tax	10,50,000	—

You are also given the following information:

- i. Advance payment of tax includes Rs. 6,20,000 for 2015-16
- ii. Assessment for 2015-16 is completed in 2016-17 and the actual tax liability amounts to Rs. 6,45,000 and no payment has been made so far for the same
- iii. For the financial year 2016-17 provision for income tax required is Rs. 7,50,000 . Make journal entries and prepare the various ledger accounts affected.

MANAGERIAL REMUNERATION:---Managerial personnel refer to managing/whole time director and manager. Remuneration paid to managerial personnel, namely, directors(part time and whole time), managing director or manager, is subject to overall limit as well as separate limits for each category of managerial personnel. Under section 197A of the company act a company can have either managing director or manager and not both. Various sections which deals with managerial remuneration are as follows

SECTION 197—prescribes the overall maximum remuneration payable in case of profit and also in case of inadequacy of profit or loss.

SECTION 198--- lays down how the net profit of the company will be ascertained for the purpose of calculating managerial remuneration

LIMITS TO MANAGERIAL REMUNERATION IN CASE OF ADEQUATE PROFITS

1. Overall limits to all managerial personnel = 11%
2. All directors(part time) when the company is having managing directors/ whole time directors or manager = 1%
3. All directors(part time) when the company is not having managing directors/ whole time directors or manager = 3%
4. A manager, managing director or whole time director, when there is one = 5%
5. A manager, managing director or whole time director, when there is more than one = 10%

COMPUTATION OF ADMISSIBLE PROFITS FOR THE PURPOSE OF MANAGERIAL REMUNERATION

Question:7 Prasanthi Limited made a net profit of Rs. 25,000 lakhs after adjusting the following items.
(Rs. Lakhs)

(a) Provision for taxation	10,000
(b) Capital profit on sale of part of the Undertaking	200
(c) Depreciation as per books	600
(d) Managerial remuneration	55
(e) Provision for diminution in the value of investments	15
(f) Profit on sale of investments	30
(g) Provision for wealth tax	20
(h) Directors' fees	15
(i) Revenue Profit on sale of assets	40
(j) Revenue Loss on sale of assets	35
(k) Prior period adjustments (credit)	20
(l) Provision for bad debts	100
(m) Ex-gratia payment to an employee	5

You are given the following additional information:

1. Depreciation as per Section 123 Rs.500 lakhs
2. Bad debts actually written off Rs.60 lakhs

You are required to calculate net profits U/S 198 of the Companies Act 2013.

Question 8 From the following particulars of Ganga Limited, you are required to calculate the managerial remuneration in the following situations.

- (a) There is only one whole time director.
- (b) There are two whole time directors:
- (c) There are two whole time directors, a part time director and Manager.

Net profit before provision for income-tax and managerial remuneration, but after depreciation and provision for repairs 8,70,410
 Depreciation provided in the books 3,10,000
 Provision for repairs of machinery during the year 25,000
 Depreciation allowable under Schedule II 2,60,000
 Actual expenditure incurred on repairs during the year 15,000

[C.A. (Inter) Nov. 98,]

Question9. The following is the Profit & Loss A/c of Mudra Ltd. for the year ended 31st March, 2017

	Rs.		Rs.
To Administrative, Selling and distribution expenses		By Balance b/d	5,72,350
" Donation to charitable funds	8,22,542	" Balance from Trading A/c	-
" Directors fees	25,500	" Subsidies received from Govt	40,25,365
" Interest on debentures	66,750	" Interest on Investments	2,32,560
" Compensation for breach of Contract	31,240	" Transfer fees	15,643
" Managerial remuneration	42,530	" Profit on sale of Machinery:	722
" Depreciation on fixed assets	2,85,350	Amount realized	55,000
" Provision for Taxation	5,22,543	Written down value	30,000
" General Reserve	12,42,500		25,000
" Investment Revaluation Reserve	4,00,000		
" Balance c/d	12,500		
	14,20,185		
	48,71,640		48,71,640

Additional Information:

- (1) Original Cost of the machinery sold was Rs. 40,000
 - (2) Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs.5,75,345.
- You are required to comment on the managerial remuneration in the following situations:

- (a) there is only one whole time director;
- (b) there are two whole time directors;
- (c) There are two whole time directors, a part time director and a manager.

MANAGERIAL REMUNERATION IN CASE OF INADEQUATE PROFIT OR LOSS(without Central Govt. approval)

EFFECTIVE CAPITAL	Limits of yearly remuneration
Shall not exceed	
Less than 5 crores	60 lac
5 crores or more but less than 100 crores	84lacs
100 crores or more but less than 250 crores	120 lacs
250 crores or more	120 lacs + .01% Of the effective capital
	In excess of 250 crores

Note1: always follow limits given in book.

Note:- the above limits shall be doubled if the resolution passed by the shareholders is a special resolution.

Question10. The following extract of Balance sheet of X Ltd. was obtained:

Balance sheet (Extract) as on 31st march, 2017

Liabilities	Rs.
Authorised capital:	
20,00,000,14% preference shares of Rs. 100	20,00,00,000
2,00,00,000 Equity shares of Rs. 100 each	2,00,00,00,000
	2,20,00,00,000
Issued and subscribed capital:	
15,00,000,14% preference shares of Rs. 100 each fully paid	15,00,00,000
1,20,00,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	96,00,00,000
Share suspense account	20,00,00,000
Reserves and surplus	
Capital reserves (60% is revaluation reserve)	2,50,00,000
Securities premium	50,00,000
Secured loans:	
15% Debentures	65,00,00,000
Unsecured loans:	
Public deposits	3,70,00,000
Cash credit loan from SB I	4,65,00,000
Current Liabilities:	
Sundry creditors	3,45,00,000
Assets:	
Investment in shares, debentures, etc.	75,00,00,000
Profit and Loss account	15,25,00,000
Discount on shares not written off	55,00,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

X Ltd. has been sustaining loss for the last few years. X Ltd. has only one whole-time director Find out how much remuneration X Ltd. can pay to its managerial person. Would your answer differ if X Ltd. is an investment company?

PREPARATION OF FINANCIAL STATEMENTS.

QUESTION 11. Prepare the Balance Sheet of Payal Textiles Ltd. as required under Schedule III of the Companies Act, 2013, as on 31 March 2017. Following balances are given:

Accounts	Dr. Rs.	Cr. Rs.
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 from Debtors	—	2,00,000
Provision for (Doubtful) Debts	—	20,200
Provision for Depreciation	—	5,00,000
Equity Share Capital (30,000 x 10)	—	3,00,000
8% Preference Share Capital (10,000 x 100)	—	10,00,000
Advances given to employee	3,72,000	—

Advances to staff	55,000	—
Cash and Bank	2,75,000	—
Loose Tools	50,000	—
Investments	2,25,000	—
Profit and Loss Account (Losses)	3,00,000	—
Debtors	12,25,000	—
Discount on debentures	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 12 From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31 March, 2017 as required by Part I, Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary:

	Debit	Credit
Equity Capital (Face value of Rs. 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	—
		68,000
Provision for Taxation	---	
Sundry Debtors	2,00,000	—
Advances	42,700	—
Proposed dividend	—	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 and Expenses)	—	2,00,000
	19,09,000	19,09,000

The following additional information is also provided:

- 2000 equity shares were issued for consideration other than cash.
 - Debtors of Rs. 52,000 are due for more than six months.
 - The cost of assets : Building : Rs. 4,00,000; Plant and Machinery : Rs. 7,00,000, Furniture : Rs. 62,500.
 - The balance of Rs. 1,50,000 on the loan account with State Finance Corporation is inclusive of Rs. 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
 - Balance at Bank includes Rs. 2,000 with Perfect Bank Ltd. which is not a Scheduled Bank.
 - Bills receivable for Rs. 2,75,000 maturing on 30 June 2017, have been discounted.
 - The Company had contracts for the erection of Machinery at Rs. 1,50,000 which is still incomplete
- (IPCC Group 1 2014 nov – 16 marks)

QUESTION 13 The following are the balances of Johri Aabhushan Bhandar Co. Ltd. as on 31 March, 2017:

Credit	Rs	Debit	Rs.
Share Capital (Rs. 100 Shares)	40,00,000	Premises	30,72,000
12% Debentures	30,00,000	Plant	33,00,000
Profit and Loss Account	4,00,000	Stock	7,50,000
Bills payable	3,70,000	Debtors	8,70,000
Creditors	4,00,000	Goodwill	2,50,000
Sales	41,50,000	Cash and bank	5,44,000
General Reserve	2,50,000	Calls in Arrear	75,000
Bad-Debts Provision on 1.04.2016	35,000	Interim Dividend Paid	3,92,500
		Purchases	18,50,000
		Preliminary Expenses	50,000
		Wages	9,79,800
		General Expenses	68,350
		Salaries	2,02,250
		Bad-debts	21,100
		Debentures Interest paid	1,80,000
	1,26,05,000		1,26,05,000

- Depreciate plant by 15%
- Half year's Debenture Interest due.
- Create 5% provision on debtors for doubtful debts
- Provide for income tax @ 30%
- Stock on 31 March, 2017 was Rs. 9,50,000.
- A claim of Rs. 25,000 for workmen compensation is being disputed by the company.
- The Board declared a dividend of 12% on paid up capital including interim dividend.
- Dividend distribution Tax is 17.304%
- Transfer Rs 10,000 to general reserve.

QUESTION 14. The Auto Parts manufacturing Co. Ltd. was registered with an authorized capital of Rs. 10,00,000 divided into shares of Rs. 10 each of which 40,000 shares had been issued and fully paid. The following is the Trial Balance extracted on 31 March, 2017.

	Debit Rs.	Credit Rs.
Stock (April 1, 2016)	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 and	19,530	—
Cash at Bank	96,860	—
Advance payment of Tax	84,290	—
Profit and Loss Account on 1 April, 2016	—	38,640
Share Capital	—	4,00,000
	17,30,610	17,30,610

You are required to prepare statement of profit and Loss for the year ended 31 March, 2017 and a Balance Sheet as at that date after taking into consideration the following adjustments:

(i) On 31 March 2017, outstanding Manufacturing Wages and outstanding Office Salaries stood at Rs. 1,890 and Rs. 1,200 respectively. On the same date, stock was valued at Rs. 1,24,840 and Loose Tools at Rs. 10,000.

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

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

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

(v) The directors recommended a maiden (first) dividend @ 15% for the year ending 31 March, 2017 after a transfer of 5% of net profits to general Reserve

QUESTION 15. Fine Products Ltd. was registered with a nominal capital of Rs. 5,00,000 divided into shares of

Rs. 100 each. The following Trial balance is extracted from the books on 31 March, 2017.

	Rs		Rs.
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>
12,000 Shares of A Ltd. Of		14% Debentures	2,00,000
Rs. 10 each, Rs. 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	5,000
Sundry Expenses	18,000		
Debtors	1,25,000		
Bank	27,000		
	12,18,000		12,18,000

You are required to prepare statement of Profit and Loss for the year ending 31 March, 2017 and a Balance Sheet as at the date after taking into consider the following information:

- Provide for bad and doubtful debts @ 4% on debtors.
- Make a provision income tax @ 30%
- Depreciation expense includes depreciation of Rs. 8,000 on Buildings and that of Rs. 12,000 on Machinery.
- The directors recommend a dividend @ 25% and transfer of Rs 20,000 to general reserve
- Dividend distribution Tax : 17.304% (CS Inter, CMA inter, CA-IPCC)

QUESTION 16. From the under mentioned Trial Balance of Good luck Ltd. prepare statement of Profit and Loss for the year ended 31 March 2017 and the Balance on that date :

Debit Balances	Rs	Credit Balances	Rs
Opening Stock	3,00,000	Equity Share Capital	10,00,000
Rent and Taxes	60,000	(10,000 Shares of Rs. 100 each)	2,50,000
Purchases	6,09,000	5% Debentures	17,50,000
Wages	5,52,000	Sales	17,50,000
Discount	15,000	Creditors	80,000
Fuel	25,700	Bank Overdraft	1,20,000
Building	7,00,000	Discount	22,000
Carriage inward	11,750	Transfer Fee	1,000
Sundry Debtors	2,00,000	Return outward	1,000
Goodwill	1,30,000		
Advance Tax	1,50,000		
Plant and Machinery	2,50,000		
Loose Tools	60,000		

CMA INTER 2	COMPANY ACCOUNTS	CA/CMA Santosh kumar
Advertisement	30,000	
General Expenses	44,000	
Bad Debts	10,300	
Debenture Interest	6,250	
(half year upto 30-09-2016		
Miscellaneous Expenses	30,000	
Insurance	10,000	
Cash at Bank	30,000	
	32,24,000	32,24,000

Additional Information:

- (i) The authorized capital of the company is Rs. 20,00,000
- (ii) Stock on 31.03.2017 was Rs. 3,50,000
- (iii) Depreciate Plant and machinery by 10% and revalue loose tools at Rs. 41,000
- (iv) Provide 2% as bad debt reserve
- (v) Final dividend 15% was proposed by the Board of Directors.
- (vi) Rate of Income Tax 30%
- (vii) Dividend distribution Tax is 17.304%
- (viii) Transfer Rs 20,000 to general reserve and Rs 15,000 to Sinking fund account.

(CMA inter, CA-IPCC)

Question 17: The Managing Director of A Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of Rs. 25,000 per month. The net profit, for the purpose, are to be taken without charging income-tax and his remuneration itself. During the year, A Ltd. made net profit of Rs. 43, 00,000 before charging MD's remuneration, but after charging provision for taxation of Rs. 17,20,000. Compute Remuneration payable to the Managing Director.

Answer. Calculation of remuneration payable to the Managing Director

Net profit as per books 43.00

Add: provision for taxation 17.20

Annual profit for the purpose of managerial remuneration 30.60

Managing Director's Remuneration @ 5% of above 3.01

Minimum remuneration to be paid to the managing director

= Rs. 25,000 per month × 12 3.00

Hence, in this case,

Remuneration to be paid to the Managing director of A Ltd. = Rs. 3, 01,000.

(CA IPCC- MAY 2009(2MARKS))

CHAPTER 4. ACCOUNTING OF SHARES

IMPORTANT THEORY

- The word 'company' is derived from the Latin word 'com' i.e. with or together and 'panis' i.e. bread.
- 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 OF A COMPANY :-

- 12. Incorporated association—** A company comes into operation after its registration under Companies Act. Without such registration no company can come into existence.
- 13. 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.
- 14. perpetual existence –** Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
- 15. 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'.
- 16. 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.
- 17. 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.
- 18. Not a citizen—**A company is not a citizen in the same sense as a natural person is.
- 19. 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.
- 20. 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.
- 21. 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**.
- 22. Right of access to information:--** The right of the shareholders of a company to inspect its books of accounts is governed by article of association.

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
- (e) That other company holds more than half in its nominal value of its equity share capital; or
- (f) 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.
- (g) 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 ad 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 fulfills 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 Rs. 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:

- (c) Restricts the rights of members to transfer its shares.
- (d) 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.
- (e) Prohibits any invitation to the public to subscribe to any shares in, or debentures of, the company.
- (f) 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:- 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.*

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.

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 i.e. at discount or premium. E.g. Share having face value Rs 100 can be issued at Rs 50/- premium on one share, so here issue price is Rs 150. 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 (section 2(8)) :- This capital also called Registered Capital or Nominal Capital. This is maximum capital requirement of company and mentioned in 'capital clause' of the 'Memorandum of Association' registered with Registrar of Company. 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.

2. Issued Share Capital (section 2(50)) :- 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 (section 2(86)) :- 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 (section 2(15)) :- Companies generally receive the issue price of share in installments. 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 (section 2(64)) :- 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 Installment in Arrears or Calls in Arrears. To calculate paid-up share capital, Calls in Arrear is deducted from Called-up Capital in the balance sheet. Called-up Capital and Paid-up capital are shown together at liabilities side of balance sheet. **Dividend are paid on Paid -up Capital**

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. This Reserve can also be used to issue Bonus Shares if they have been realized in cash. Capital reserves are part of Reserves and surplus and shown under the head 'Reserves and surplus' in the balance sheet.

TYPES OF SHARES: These are two type of shares

1. Preference Shares:- Those shareholder which have preferential right in following matter

- a. They get assured preferential dividend at fixed rate during the life of company.
- b. They are having preferential right to be paid first in case of winding up of company, from other shareholders.

According to section 43 of companies Act 2013, person holding preference shares are called preference shareholders. However, Holder of preference share does not have voting rights.

The company Act 2013, prohibits the issue of preference share which is irredeemable. Preference shares are cumulative and Non-participating unless otherwise stated. According to Company Act, preference shares which are redeemable within 20 years can only be issued.

Types of Preference Shares:- These are following type:-

a. Cumulative Preference Shares

- A cumulative preference share is one that carries the right to a fixed amount of dividend every year. If current year profit is insufficient, it is paid from future profit. So dividend is accumulated unless it is paid in full and such shares are called Cumulative Preference Share.
- The arrears of dividend are shown in balance Sheet as 'Contingent Liabilities'.
- In India 'Preference shares' are always cumulative unless otherwise stated.
- If dividends are in arrears for a period not less than two year, holders of such shares will be entitled to take part and vote on every resolution in general body meeting of shareholders.

b. Non-Cumulative Preference Shares

- These are those shares which do not carry right to get dividend accumulated or carry forward if profit of current year are insufficient. In other words we can say if company cannot pay dividend in one year then right of shareholder to receive dividend in future period expires.
- **If dividend remains arrears for a period not less than two years or an aggregate periods of not less than three years comprised in six years ending with the expiring of financial year, holder of such shares will be entitled to take part and vote on every resolution at any meeting of shareholders.**

c. Participating Preference shares :- These shareholders have following rights

- Right to get fixed percentage of dividend.
- Right to participate on stipulated profit after equity shareholders have been paid at stipulated rate.
- In case of winding up of company, these shareholder also get right to receive pre-determined portion of surplus after equity shareholders have been paid off.

d. Non participating preference Share:- These shareholders only get fixed percentage of dividend every

year. They don't have right to participate in profit and surplus in case of winding-up of company.

e. Redeemable Preference Shares:- These are shares that company may issue on the condition that company will repay after the fixed period or even earlier at company discretion. It is governed by section 55 of the companies Act 2013.

f. Non-Redeemable Preference shares:- Those shares which are not redeemable are called non redeemable preference shares. According to section 55, no company limited by shares shall issue irredeemable preference share or preference shares redeemable after expiry of 20 years from the date of issue.

g. Convertible Preference Shares:- These shareholder have right to convert their shares into equity shares at their option according to terms and conditions of their issue.

h. Non-Convertible preference Shares : These shareholders do not have right to convert their shares into equity shares.

- 2 Equity Shares (section 43(a)) :-** These are those shares which are not Preference Share. They don't have preferential right in matter of dividend or repayment of capital. On Equity shares dividend is recommended by Board of Directors and dividend may vary from year to year. These shareholders carry voting right in general meeting of shareholders. Company (Amendment) Act 2000, permit issue of equity share capital with differential right as to dividend, voting or otherwise.
- 3 SHARES Issued of for cash :-** To Issue shares, private companies raise funds from private placement of shares. Public companies for raising funds issue prospectus and invite general public to subscribe for its shares. On basis of prospectus, applications are deposited in scheduled bank by interested parties along with amount payable at the time of application. First installment along with application is called application money. As per section 39 of the co act 2013, application money cannot be less than **5% of face value of shares**.
- **SEBI Guidelines** require the shares issued are made fully paid-up **within 12 months** of the date of allotment if the size of the issue is **up to 500 crores**.
 - **As per SEBI Guidelines**, the minimum application money to be paid by an applicant along with the application **shall not be less than 25% of the issue price**.

IMP. NOTE -- matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board(CLB)

- According to company Act 2013, a company can not proceed to allot shares unless minimum subscription is received by company.
- Share application money is converted into share capital after board of director approved for allotment of shares.

Minimum Subscriptions :- A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in prospectus has been subscribed. Amount of minimum subscription to be disclosed in prospectus by Board of Director taking into account following

1. Preliminary expenses of company
 2. Commission payable on issue of shares.
 3. cost of fixed assets purchased or to be purchased
 4. Working capital requirement of company.
 5. Any other expenditure for day to day operation of business.
- According to guidelines of Securities Exchange Board of India(SEBI) a company **must receive a minimum 90% subscription** against whole issue before making any allotment of shares or debenture to public
 - If company is not able to receive minimum subscription of 90% of the issue, the entire subscription shall be refunded to applicants within 15 days from closures of issue.
 - In case of delayed refund interest for the delayed period as per section 73 of companies Act shall be payable @ 4% to 15%(having regard to the length of the period in delay) on the amount of refund.
 - The companies Act 2013 requires that the period of at least one month must be between two calls.
 - The company has right to reject or accept an application fully or partially.

Subscriptions of Shares:- When ever 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 Rs. 100 and company issue it at Rs. 200, here Rs 100 is share 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 preface share or debenture of company

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.

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.

CONCEPT BASED QUESTIONS

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

On application Rs 2

On allotment Rs 3

On first call Rs 4

On final call Rs 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 Rs 7 as fully paid up. Make entries.

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

On application Rs 2

On allotment Rs 4

On first call Rs 3

On final call Rs 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 Rs 9 as fully paid up. Make entries.

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

On application Rs 2

On allotment Rs 3

On first call Rs 2

On final call Rs 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 reissued at Rs 8 as fully paid up. Make journal entries.

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

On application Rs 2

On allotment Rs 5(including premium)

On first call Rs 4

On final call Rs 1

Public applied for 32,000 shares and allotment was made to applicants for 30,000 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 Rs 8 as fully paid up. Make entries.

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

Application Rs 3(including premium Re 1)

Allotment Rs 4(including premium Re 1)

First call Rs 3

Final call Rs 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 Kajju 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 Rs 8 as fully paid. It includes all the shares of Mr Kajju. Make entries.

QUESTION 6. Umesh Ltd. issued 2,00,000 equity shares of Rs. 10 each at a premium of Re. 1 per share (to be adjusted on allotment) payable as follows (i) Rs. 2 on application; (ii) Rs. 3 on allotment and (iii) Rs. 4 on first call. Subscription list was closed on 1 January 2004 by which date applications for 4,50,000 shares had been received. Allotment was made as under :

List A : Applicants for 50,000 shares were allotted in full.

List B : Applicants for 1,00,000 shares were allotted 50,000 shares on pro-rata basis

List C : Applicants for 3,00,000 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 @ Rs. 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 Rs. 2,50,000 divided into 25,000 shares of Rs. 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, Rs. 2 per share were paid on application, Rs. 2 per share on allotment and Re. 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 Rs. 4 per share (application and allotment money)

On 1,250 shares Rs. 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 Rs. 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.

QUESTION 9. (Share application and allotment account) Parul Construction Ltd. made an issue of 30,000 shares of Rs. 10 each payable Rs. 3 on application, Rs. 5 on allotment and Rs. 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 Rs. 30,00,000 invited applications for 20,000 shares of Rs. 100 each payable Rs. 30 on application, Rs. 40 on allotment (including premium) and Rs. 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 Rs. 30,000. Give journal entries to record above transactions and show the company's balance sheet with relevant information only.

Solution:

Date	Particulars	Debit Rs.	Credit Rs.
(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. Calls-in-Advance Account Dr. To Share First and Final Call Account	5,58,000 2,00,000	7,58,000
(vii)	Underwriting Commission 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 Rs. 10, each payable as under :

On Application : Rs. 1
On Allotment : Rs. 2
On First Call : Rs. 3
On Final Call : Rs. 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 of forfeited shares.

Solution:

(i)	Bank Account To Share Application Account Receipt of application money on 1,00,000 shares @ Re. 1 per share)	Dr.	Rs. 1,00,000	Rs. 1,00,000
(ii)	Share Application Account Share Allotment Account To Equity Share Capital Account (Application money @ Re. 1 received and allotment money @ Rs. 2 due on 1,00,000 shares transferred to share capital account as per resolution no....dated...)	Dr. Dr.	1,00,000 2,00,000	3,00,000
(iii)	Bank Account To Share Allotment Account (Allotment money @ Rs. 2 received on 99,000 shares)	Dr.	1,98,000	1,98,000
(iv)	Share First Call Account To Equity Share Capital Account (First call money @ Rs. 3 due on 1,00,000 shares vide resolution no....dated,,)	Dr.	3,00,000	3,00,000
(v)	Bank account To share first call account (First call money received on 98,500 shares @ Rs. 3 per share)	Dr.	4,00,000 2,95,500	2,95,500
(vi)	Share second and Final call A/c To equity share capital account (Second cal due on 1,00,000 shares @ Rs. 4 per share vide resolution no...dated)	Dr.	4,00,000	4,00,000
(vii)	Bank Account To share second and final Call account (Final call money @ Rs. 4 per share received on 98,200 shares)	Dr.	3,92,800	3,92,800
(viii)	Share capital account (1,800 x Rs. 10) To share forfeited Account (1,000 + x Re. 1) + (500 x Rs. 3) + (300 Rs. 6) To share allotment account (1,000 x Rs. 2) To share first call account (1,500 x Rs. 3) To share second and final call Account (1,800 x Rs. 4) (forfeited of shares for non-payment of instalments)	Dr.	18,000	4,300
(ix)	Bank account (1,800 x Rs. 9.50) Share forfeited Account (1,800 x Re. 0.50) To equity share capital account (Reissue of forfeited shares at Rs. 9.50 per share)	Dr. Dr.	17,100 900	2,000 4,500 7,200
(x)	Share forfeited Account To capital Reserve Account (transfer of the credit balance in the share forfeited account to the capital reserve account, being the profit on reissue)	Dr.	3,400	18,000
				3,400

QUESTION 12. (Forfeiture and reissue) Malik Limited has a subscribed capital of 2,000 equity shares of Rs. 25 each, Rs. 20 per share called up. The directors forfeited 200 equity shares held by a shareholder who had failed to pay the first call made @Rs. 10 per share. Later the directors reissued these forfeited shares at Rs. 20per share paid up at Rs. 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. To Share Forfeited Account To Calls-in-Arrears Account (Forfeiture of 200 equity shares, Rs. 20 per share called up for non-payment of first call @ Rs*.10 per share)	Rs. 4,000	Rs. 2,000 2,000
(ii)	Bank Account Dr. Share Forfeited Account Dr. To Equity Share Capital Account (Reissue of 200 equity shares as Rs. 20 per share paid up @ Rs. 15 per share)	3,000 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 (Forfeiture and 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 Rs. 50 each, Rs. 40 being called up, on which Radha, a shareholder paid application and allotment moneys of Rs. 25 per share but did not pay first call money of Rs. 15 per share. Of these forfeited shares, the company subsequently reissued 350 shares as fully paid up for Rs. 40 per share.
- B Ltd. forfeited 100 shares of Rs. 50 each, Rs. 35 per share called up on which Rs. 25 per share has been paid by Rakesh; the amount of first call of Rs. 10 per share being unpaid. The directors reissued the forfeited shares to Baldeo crediting Rs. 35 per share paid for a payment of Rs. 25 per share.
- The directors of D Ltd. forfeited 100 shares of Rs. 100 each called up for nonpayment of final call money of Rs. 50 per share. Half of these shares were subsequently reissued at Rs. 120 per share as fully paid.
- E Ltd. forfeited 200 shares of Rs. 100 each (issued at a premium of 10%) for non-payment of first call of Rs. 25 and final call of Rs. 15. Of these 150 shares were reissued for Rs. 90 per share.
-

QUESTION 14 (Forfeiture after first call) Bhavna Ltd. offered 10,000 equity shares of Rs. 100 each for subscription at a premium of Rs. 20 per share payable as follows:

On Application Rs. 10

On Allotment Rs. 40 (including premium)

On First Call Rs. 20

On Second Call Rs. 30

and balance on Final Call.

The company received applications for 12,000 shares and 10,000 shares were allotted pro-rata.

Holders of 400 shares failed to pay the first call and after due notice, their shares were forfeited. The amounts payable on second call were paid in full except that a holder of 200 shares failed to pay.

250 of the 400 shares forfeited were reissued, credited Rs. 80 paid for Rs. 50 per share. The final call was met in full including the arrears of the second call. Journalize the transactions including cash transactions in the books of the company. **CMA INTER (8 marks)**

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 Rs. 10 each on the following terms:

On Application: Re. 1

On Allotment: Re. 3 (including premium of Rs. 2)

On First Call (three months after allotment) : Rs. 4

On Second Call (three months after first call) :Rs. 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 Rs. 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 Rs. 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 Rs. 10 each to be issued at 20 per cent premium. The amount payable per share is as under :

- On Application : Rs. 5
- On Allotment : Rs. 4 (including premium of Rs. 2)
- On First Call : Rs. 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 Rs. 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 (Rs)	Preference Shares(Rs)
On application	3	3
On allotment (1st May)	3	4
On first and final call (1st September)	4	3

Subscription was received for 1,20,000 Equity Shares and 45,000 Preference Shares. Application for Preference Shares were accepted in full. Out of applications for Equity Shares, application for 10,000 shares were rejected; applications for 85,000 shares accepted in full and 15,000 share were allotted to the remaining applicants.

All amounts were received except the amount due on call on 1,000 Equity Share 500 Preference Shares. Pass entries in the Cash Book and Journal.

Question 18. (Pro-rata allotment and forfeiture immediately on default of one installment)

Sonia Beauty Products Limited issued a prospectus inviting applications for 20,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On Application	Rs. 2
On Allotment	Rs. 5 (including premium)
On First Call	Rs. 3
On Second Call	Rs. 2

Applications were received for 30,000 shares and allotment made *pro-rata* to the applicants for 24,000 shares, the remaining applications being refused. Money overpaid on applications was employed on account of sums due on allotment. Reetika, to whom 400 shares were allotted, failed to pay allotment money and her subsequent failure to pay the first call, her shares were forfeited. Bithika, the holder of 600 shares failed to pay the two calls, and her shares were forfeited after the second call had been made. Of the shares forfeited, 800 shares were sold to Geetika credited as fully paid, for Rs. 9 per share, the whole of Reetika's shares being included. Show journal and cash book entries and the balance sheet. [I.C.W.A. (Inter)]

Question 19. (Forfeiture and reissue of shares originally issued at premium) Priyanka Ltd. issued to public 3,00,000 equity shares of Rs. 10 each at a premium of Re 1 per share. The amount was payable as to Rs. 2 with application, Rs. 4 (including premium) on allotment and Rs. 5 on first and final call.

Applications totalled 6,11,000 shares. The Board of Directors rejected applications for 11,000 shares and made allotment on all the remaining applications on a *Pro-rata* basis.

Purnima to whom 300 shares had been allotted did not pay the balance of allotment money and subsequently the call money. Qasim who held 450 shares did not pay the call. Their shares were forfeited three months after making of the call. All the forfeited shares were reissued as fully paid up to Ravi at the rate of Rs. 11 per share. You are required to pass journal entries for all the transactions including cash transactions. [C.S.(Inter) June 2000]

Question 20. (Pro-rata allotment and forfeiture after the final call) Dhananjay Ltd. was registered with a nominal capital of Rs. 20,00,000 in equity shares of Rs. 100 each. 10,000 of these shares were issued to the public at a premium of Rs. 20 per share, payable as to Rs. 20 on application, Rs. 45 on allotment including premium, Rs. 25 on first call and the balance on final call. Applications were received for 13,000 shares and allotment was made *pro-rata* to the applicants of 12,000 shares. Money over-paid on application was employed on account of sums due on allotment. Prakash holding 200 shares paid the whole of the amount due on first call along with the allotment but failed to pay final call. Ali holding 300 shares failed to pay the two calls and John holding 400 shares failed to pay the final call only. All these shares were forfeited after the final call. Of the shares forfeited, 200 shares belonging to Ali and 200 shares belonging to John were sold to Raju as fully paid for Rs. 90 per share. Show the journal entries including cash in the books of the company.

Question 21 (Securities premium account credited only when the premium is actually received) Viney limited issued a prospectus inviting applications for 40,000 shares of Rs. 10, each at a premium of Rs. 2 per share payable as under:

On Application	: Rs. 2 per share
On Allotment	: Rs. 5 per share (including premium)
On First Call	: Rs. 3 per share
On Second Call	: Rs. 2 per share

Applications were received for 60,000 shares including one from Nitin who applied for 1,400 shares. Shares were allotted to the applicants including Nitin to whom only 1,000 shares were allotted, the remaining applications were refused and amount refunded. Money overpaid by Nitin on application was employed on account of sums due on

allotment. Nitin failed to pay the allotment money due and on his subsequent failure to pay the first call, his shares were forfeited. These were sold to Rajiv at Rs. 10 each fully paid including premium. Amount due on the second call was received in full from all the shareholders. Show the journal entries in the books of the company.

Question 22. JYOTI' Ltd. invited applications for the issue of 1,00,000 equity shares of Rs. 10 each payable Rs. 4 on application. Rs. 5 (including Rs. 3 as Securities Premium) on allotment and balance on first and final call. The prospectus provided that in case of partial allotment, money received in excess on application would be adjusted towards the amounts due on allotment and call.

The company received applications for 2,50,000 shares out of which applications for 50,000 shares were rejected outrightly and other applicants were allotted shares on pro-rata basis. The company received all moneys due on allotment and call except from one shareholder (who applied for 2,000 shares) who failed to pay the allotment and the call moneys. The company forfeited his shares. Out of the forfeited shares, the company reissued 600 shares at the rate of Rs. 8 per shares, fully paid up.

You are required to record the above transactions. Prepare Share Forfeited Account Capital Reserve Account and show the relevant items in the balance sheet of the company.

Note :- remaining questions are not relevant for your examination.

Question 33. On 1st April, 2012, Vishwas Ltd. was formed with an authorised capital of 10,00,000 divided into 1,00,000 equity shares of 10 each. The company issued prospectus inviting application for 90,000 equity shares. The company received applications for 85,000 equity shares. During the first year, 8 per share were called. Ram holding 1,000 shares and Sham holding 2,000 shares did not pay the first call of 2 per share. Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at 6 per share, 8 called-up. Show the following: (a) Share capital in the Balance Sheet of the company as per Schedule III, Part 1 of the Companies Act, 2013. Also prepare 'Note to Accounts' for the same. (CS EXECUTIVE 2014, Modified)

Question 35. XL Ltd. invited applications for issuing 1,00,000 equity shares of 10 each at par. The amount was payable as follows:

On Application Rs 3 per share;

On Allotment Rs 4 per share; and

On First and Final Call Rs 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 40. X Ltd. issued 40,000 Equity Shares of 10 each at a premium of 2.50 per share. The amount was payable as follows:

On application Rs 2 per share,

On allotment Rs 4.50 per share (including premium), and

On call Rs 6 per share.

Owing to heavy subscription the allotment was made on pro rata basis as follows:

- (i) Applicants for 20,000 shares were allotted 10,000 shares.
- (ii) Applicants for 56,000 shares were allotted 14,000 shares.
- (iii) Applicants for 48,000 shares were allotted 16,000 shares.

It was decided that excess amount received on applications would be utilised on allotment and the surplus would be refunded. Ram, to whom 1,000 shares were allotted, who belongs to category (i), failed to pay allotment money. His shares were forfeited after the call. Pass necessary Journal entries in the books of X Ltd. for the above transactions.

Question 42. A company issued 1,00,000 Equity Shares of Rs 10 each on the following terms: 3 payable on application, 4 on allotment, the balance as and when required. Applications were received for 1,40,000 Equity Shares. Allotment was made as under:

80,000 applications were given 80,000 Equity Shares,

50,000 applications were given 20,000 Equity Shares, and

10,000 applications were not allotted any share.

A shareholder who applied for 1,000 Equity Shares and was given 1,000 shares failed to pay the allotment money. His shares were forfeited. Pass Journal entries to record the above transactions.

CHAPTER 5. RIGHT ISSUE AND SWEAT EQUITY SHARES

FOLLOW ONLY VIDEO LECTURES. SEPARATE NOTES NOT REQUIRED

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
(i.e. profits which would be available for dividends) 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 --

by an issue of shares(equity or preference) or

by transferring the equivalent amount from the free reserves to Capital redemption reserve A/c

or by applying both the orders.

Imp. Note-

Free reserves/ divisible or distributable profits include profit and loss A/c, general reserve, retained earning, surplus, 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, 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.

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:

Free Reserves A/c Dr
To Premium on redemption of Shares A/C

Question 1. The balance Sheet of Komalika Ltd as on 31 March ... was as under:

Liabilities	Amount	Assets	Amount
<u>Share Capital</u>		Sundry assets	8,50,000
2,000,7.5% Preference Shares of Rs.100 each fully Paid	2,00,000	Cash	1,50,000
40,000 Equity shares of Rs. 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 December, 1999 is as follows:

Liabilities	Amount	Assets	Amount
Share Capital		Non current assets:	
Issued & Full paid		Land & Building	1,00,000
500 Redeemable pref. shares of Rs. 100 each	50,000	Plant	30,000
9,000 equity shares of Rs.10 each	90,000	Furniture	2,000
Reserves & Surplus:		Current Assets:	
Securities premium	10,000	Stock	30,000
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>
			93,000
	2,25,000		2,25,000

The Company decided to redeem its preference shares at premium of 5% on 31st January, 2000. A fresh issue of 1,000 equity shares of Rs. 10 each was made at Rs. 12 per share, payable in full on 31st January, 2000. These were fully subscribed and all moneys were duly collected. All the investments were sold realizing Rs. 27,000. The Directors wish that only the minimum reduction should be made in the revenue reserve.

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

(Ans.: Balance sheet Total 1,83,500)

Question 3. The balance sheet of Vivek Ltd. As at 31 March is as follows:

Liabilities	Rs.	Assets	Rs.
Share capital:			
Issued and fully paid:		Land and Building	20,00,000
50,000,9% Preference Shares of Rs. 20 each fully paid	10,00,000	Plant	5,00,000
90,000 Equity shares of Rs. 20 each fully paid	18,00,000	Fixtures and Fitting	1,00,000
Reserves and Surplus:		Motor Van	40,000
Securities Premium		Stock	6,60,000
Account	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 Rs. 5,60,000. A fresh issue of 10,000 ordinary shares of Rs. 20 was made at Rs. 24 per share payable in full on 1 April. These were duly subscribed for and the full amount was received on that date. The directors wish that only minimum reduction be made in the revenue reserves. You are required to draft journal entries, including those relating to cash, to record the above transactions and to set out the balance sheet of the company as it would then appear.

Question4. The following balance sheet of H Limited as on June 30,2000:

Liabilities	Amount	Assets	Amount
Share capital:		Fixed Assets	1,00,000
3,000 redeemable pref. shares of Rs. 10 each full paid	30,000	Investment	21,000
6,000 equity shares of Rs. 10 each full paid	60,000	Current Assets:	
Securities premium Account	29,000	Stock in trade	44,000
General reserve	40,000	Sundry debtors	16,000
Profit & loss A/c	24,500	Cash at bank	22,000
Sundry Creditors	19,500		
	2,03,000		2,03,000

The company exercised its option to redeem on July 1, 2000 the whole of the Preference share Capital at a premium of 5%. To assist in financing the redemption, all the investments were sold, realizing Rs.19,500. On August 1, 2000 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. **(Ans.: Balance sheet Total 1,70,000)**

Question 5. Exchange Limited has an issued share capital of 650, 7 % redeemable preference shares of Rs. 100 each and 4,500 equity shares of Rs. 50. The preference shares are redeemable at a premium of 7.5 % on April 1, 2000. The company's Balance Sheet as on March 31, 2000 was as follows:

Liabilities	Amount	Assets	Amount
Share Capital: Issued 650, 7%redeemable Preference shares of 100 each fully paid 4,500 equity shares of Rs. 50 each fully paid	65,000 <u>2,25,000</u> 2,90,000	Fixed Assets Investment Balance at Bank	3,45,000 18,500 31,000
Profit and loss A/c balance Sundry Creditors	48,000 56,500		
	3,94,500		3,94,500

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

- To sell all the investments for Rs. 16,000
 - To finance part of the redemption from company funds, subject to leaving balance of Rs. 12,000 in the profit and Loss Account, and
 - To issue sufficient equity shares of Rs. 50 each at a premium of 10 per share to raise the 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. The following is the Balance sheet of Ajanta Limited as on June 30, 1999:

Liabilities	Amount	Assets	Amount
Shares capital: 3,000 6% redeemable preference shares of Rs. 10 each full paid 6,000 equity shares of Rs. 10 each full paid	30,000 <u>60,000</u> 90,000	Fixed Assets Investment <u>Current Assets:</u> Stock in trade Sundry Debtors cash as Bank	80,000 21,000 44,000 16,000 22,000
Securities premium Account General reserve Profit & loss A/c balance Sundry Creditors	29,000 40,000 14,500 9,500		
	1,83,000		1,83,000

The company exercised its option to redeem, on July 1, 1999 the whole of the preference Share Capital at a premium of 10 percent. To assist in financing the redemption, all the investments were sold, Realizing Rs 25,000. On September 1, 1999, the company made a bonus issue of three equity Shares fully paid for every ten equity Shares held on that date. The appropriate resolution having been passed, the above transactions were duly completed.

You are required to show the Journal entries to record the transactions in the books of the company and the balance sheet as it would appear after the completion of the transactions.

Question 7. The financial position of P Ltd. At 31ST Dec., 2001 was as follows:

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

As per the term of issue of the preference shares these were redeemable at a premium of 5 per cent on 1st February, 2002 and it was decided to arrange this as far as possible out of the company's resources subject to leaving a balance of Rs 50,000 in the credit of the Profit and Loss Account. It was also decided to raise the balance amount by Issue of 17,000 equity shares of Rs. 10 each at a premium of Rs. 2.50 per share.

You are required to prepare the necessary Ledger Account giving effect to the above arrangements in the company's books. Journal Entries are not required. **(6 marks)**

Question 8. The following is the Balance Sheet of Abhipraya Limited as on 31 March 2003

Liabilities	Amount	Assets	Amount
Share Capital:		Fixed Assets	24,00,000
5,000 12% Redeemable Preference Shares of Rs. 100 each	5,00,000	Stock	5,00,000
10,000 Equity Shares of Rs.100 each	10,00,000	Debtors	50,000
Capital Reserve	1,00,000	Cash	50,000
Securities Premium Account	1,00,000		
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 2003 at 10 per cent premium. On 1 April 2003, a fresh issue of equity shares was made to the extent it is required under Companies Act 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 Rs. 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.

Solution:

Journal Entries

Date	Particulars	Lf	Dr Rs	Cr Rs
1- April	Bank A/c Dr. To Share Application and Allotment Account (Fresh issue of 2,000 equity shares for the purpose of redemption)		2,00,000	2,00,000
1- April	Share Application and Allotment A/c Dr. To Equity Share Capital A/c (Allotment of 2,000 equity shares)		2,00,000	2,00,000
1- April	Bank A/c Dr. To Bank Loan A/c (Rising of bank loan of Rs. 3,50,000 for		3,50,000	3,50,000

	redemption of 5,000 preference shares at 10% Premium).			
1- April	General Reserve Account Dr. Profit and Loss Appropriation Account Dr. To Capital Redemption Reserve A/c (Balances of accumulated profits and general reserve transferred to capital Redemption Reserve Account)		2,00,000 1,00,000	3,00,000
1- April	12% Red. preference share Capital A/c Dr. Premium on Redemption A/c Dr. To Preference Shareholders A/c (Amount due on redemption)		5,00,000 50,000	5,50,000
1- April	Preference Shareholders Account Dr. To Bank (Payment of preference shareholder on redemption)		5,50,000	5,50,000
1- April	Securities Premium Account Dr. To Premium on Redemption Account (Premium paid on redemption taken from Securities Premium A/c)		50,000	50,000

Question 9. X Ltd. whose issued share Capital on 31 March 1997 consisted of 24,000 ,10% Preference Shares of Rs.100 each fully paid up and 60,000 Equity shares of Rs.100 each, Rs.90 paid up, decided to redeem preference shares at a premium of Rs. 10 per share. The Company's balance sheet as on 31-3-1997 showed a general reserve of Rs. 28,00,000. The redemption was affected partly out of the proceeds of a new issue of 12,000 equity shares of Rs. 100 each at a premium of Rs.35 per share. The premium payable on redemption was met out of the premium received on the new issue.

On 1 July 1997, the company at its general meeting resolved that the reserves be applied in the following manner:

- The declaration of bonus at the rate of Rs. 10 per share on equity shares for the purpose of making the said equity shares fully paid, and
- The issue of bonus shares to old equity shareholders in the ratio of one share for every five shares held by them. You are required to pass necessary Journal entries.

Q10. 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 Rs 10 each at a premium of 20%. Fresh issue of shares is made in lots of 100 Shares for such amount as is necessary after utilizing the available sources to the maximum extent.

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

[B.Com(Hons.) Delhi 1997 modified]

Question.11The following is the balance sheet of Mitra Ltd. as on 31 March 1999 :

Liabilities	Rs.	Assets	Rs.
5,000, 10% preference shares of Rs. 100 each	5,00,000	Fixed Assets	13,70,000
90,000 equity shares at Rs. 10 each	9,00,000	Investments at cost (market value: Rs. 2,80,000)	3,00,000
Securities Premium Account	1,00,000	Stock	9,00,000
		Debtors	1,00,000
General Reserve	7,50,000	Cash at bank	1,75,000
Profit and Loss Account	2,00,000	Cash in hand	5,000
Current liabilities	4,00,000		
	28,50,000		28,50,000

It was decided on 30 June 1999 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 were issued at Rs. 10 per share payable on application. The company also issued 10,000, 12% debentures of Rs. 100 each. On 1 August 1999, 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.

Question. 12 The Balance Sheet of Quality Profit Ltd. As at 31 March 1999 is as follows:

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 100 each	2,00,000	Fixed Assets:	2,90,000
Less: Calls in arrears @ Rs.20 each	<u>20,000</u>	Investments (Face value Rs. 1,00,000)	80,000
12% Preference Shares of Rs. 100 each	1,00,000	Stock	50,000
Securities Premium	5,000	Debtors	40,000
General Reserve	50,000		
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 1999 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 1999 was Rs. 50,000 and to issue fresh equity shares at a premium of 20% to finance the redemption. The investments were sold at a loss of 5%. After redemption, the board decided to issue one bonus share of Rs. 100 each for every five shares held. Holders of 100 preference shares were not traceable. Assuming that all formalities relating to redemption and issue of bonus shares were complied with. you are requested to show necessary journal entries in the books of Quality Products Ltd. and also to prepare summarized balance sheet of the company.

Question 13 The following is the summarised balance sheet of Disha Ltd. as on 31 March 2003:

Liabilities	Rs.
1,00,000 Equity Shares of Rs. 10 each fully paid	10,00,000
60,000, 10% Preference Shares of Rs. 10 each, Rs. 8 Called up	4,80,000
Capital Reserve	2,00,000
General Reserve	2,50,000
Securities Premium	1,20,000
Profit and Loss Account	4,00,000
Sundry Creditors	2,00,000
	26,50,000
Assets	Rs.
Net Block	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 2003, the company made a final call on its preference shares and it was paid by all the shareholders. Thereafter the company redeemed the fully paid preference shares at a premium of 10%. In order to pay off the preference Shareholder, the company sold its investments, realising Rs. 4,40,000 and issued 2,000, 11% preference shares of Rs. 100 each, the full amount was called up on application. 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.

Question 14. 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 Rs 10 each at a premium of 20%. Fresh issue of shares is made in lots of 100 Shares for such amount as is necessary after utilizing the available sources to the maximum extent.

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

[B.Com(Hons.) Delhi 1997 modified]

Question 15. (Bonus shares only to equity shareholders)

Ajanta Trading Co. Ltd. has an authorised capital of Rs. 8,00,000 divided into 10,000 6% Preference Shares of Rs. 10 each.; 20,000 7% Preference Shares of Rs. 10 each; and 50,000 Equity Shares Rs. 10 each.

On January 1, 2003, the whole of the two classes of preference shares and 15,000 of the equity shares stood in the books as fully paid. The securities premium account as on that date showed a balance of Rs. 20,000. The balance of profit was Rs.32,000. On July 1, 2003, it was decided to redeem the whole of 6% preference shares at a premium of Re. 1 per share and for this specific purpose, the company issued for cash 8,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share, payable full on allotment. All the above shares were taken up. The cost of issue of shares amounted to Rs. 3,000. On October 1 the company issued to existing shareholders one bonus share of Rs. 10 fully paid for each five held. It is the intention of the directors that minimum reduction should be made in revenue reserve account which stood at Rs. 1,25,000. Give necessary journal entries.

[B.Com. (Hons.) Delhi]

Solution: Journal Entries

Date	Particulars	Debit	Credit
2003		Rs.	Rs.
July 1	6% Red. Preference Share Capital Account Dr. Premium on Red. of Preference Shares Account Dr. To Preference Shareholders Account (Amount due on redemption)	1,00,000 10,000	1,10,000
July 1	Bank Account Dr. To Equity Share Application Account (The application money received on the issue of shares including premium)	96,000	96,000
July 1	Equity Share Application Account Dr. To Equity Share Capital Account To Securities Premium Account (Transfer of application money to share capital and securities premium accounts respectively)	96,000	80,000 16,000
July 1	Cost of Issue Account Dr. To Bank Account (Expenditure incurred on the issue of shares)	3,000	3,000
July 1	Preference Shareholders Account Dr. To Bank Account (Amount paid on redemption)	1,10,000	1,10,000
July 1	Securities Premium Account Dr. To Premium on the Redemption of	13,000	10,000

	Preference Shares Account		3,000
	To Cost of Issue Account		
	(The utilisation of premium money for writing off premium on redemption and preliminary expenses)		
July 1	Profit and Loss Appropriation Account Dr.	20,000	
	To Capital Redemption Reserve Account		20,000
	(Amount transferred to capital redemption reserve account to the extent of nominal amount paid out of profits)		
Oct. 1	Securities Premium Account Dr.	23,000	
	Capital Redemption Reserve Account Dr.	20,000	
	General Reserve Account Dr.	3,000	
	To Bonus Issue Account (The sum required for bonus issue taken from different reserves accounts utilizing the minimum general reserve account)		46,000
Oct. 1	Bonus Issue Account Dr.	46,000	
	To Equity Share Capital Account (Issue of bonus shares)		46,000

Question 16. (Issue of bonus shares) Ashoka limited has an authorised equity capital of Rs. 20 lakhs divided into shares of Rs. 100. The paid up capital was Rs. 12,50,000. Besides this, company had 9% redeemable cumulative preference shares of Rs. 10 each for Rs. 2,50,000. Balance on other accounts were : Securities Premium Rs. 18,000; Profit and Loss Account Rs. 72,000 and General Reserve Rs. 3,40,000. Included in sundry assets were investments of the face value of Rs. 30,000, carried in the books at a cost of Rs. 34,000. The company decided to redeem the cumulative preference shares at a premium of 10 per cent partly by the issue of equity share of the face value of Rs. 1,20,000 at a premium of 10%. Investments were sold at 105% of their face value. All preference shareholders were paid off except 3 holders holding 250 shares. After redemption of cumulative preference shares, fully paid bonus shares were issued in the ratio of 1 : 4. Give the necessary journal entries bearing in mind that the Directors wanted a minimum reduction in free reserves while effecting the above transactions. Working should form part of your answer. [C.A (Inter) Modified]

Question 17. (Conversion) What entries can Be made for the following redemptions made by the company:

- In 2002 Shweta Ltd. redeemed Rs. 1,00,000 preference shares by converting them into equity shares issued at 25% premium.
- In 2003 Shweta Ltd. redeemed Rs. 95,000 preference shares by converting them into equity shares issued at 5% discount.
- In 2004 Shweta Ltd. redeemed 10,000 preference shares of Rs. 10 each at a premium of Rs. 1.25 per share by converting them into equity shares of Rs. 10 each issued at 10% discount

Solution:

		Rs.	Rs.
(a) 2002	Preference Share Capital Account Dr.	1,00,000	
	To Preference Shareholders Account		1,00,000
	Preference Shareholders Account Dr.	1,00,000	
	To Equity Share Capital Account		80,000
	To Securities Premium Account		20,000
	Profit and Loss Appropriation Account Dr.	20,000	
	To Capital Redemption Reserve Account (Capitalization of profits to the extent redemption not met by issue of equity shares)		20,000
(b) 2003	Preference Share Capital Account Dr.	95,000	
	To Preference Shareholders Account (Amount payable on redemption)		95,000

	Preference Shareholders Account	Dr.	95,000	
	Discount on Issue of Shares Account	Dr.	5,000	
	To Equity Share Capital Account			1,00,000
(c) 2004	Preference Share A Capital Account	Dr.	1,00,000	
	Premium on Redemption Account	Dr.	12,500	
	To Preference Shareholders Account			1,12,500
	Preference Shareholders Account	Dr.		
	Discount on Issue of Shares Account	Dr.	12,500	
	To Equity Share Capital Account (Redemption ~~by converting preference shares into equity~~)			1,25,000
	Profit and Loss Account	Dr.	12,500	
	To Premium on Redemption Account			12,500

Question.18 The balance sheet of Murari Ltd. as on 31 March 2003 was as follows :

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets	1,30,000
10,000 Equity Shares of		Investments	30,000
Rs. 10 each fully paid	1,00,000	Stock	20,000
1,000 Preference Shares of		Debtors	50,000
Rs. 100 each fully called up	1,00,000	Bank	40,600
Less : Calls-in-arrear (100 shares)	(2,000)		
Securities Premium Account	12,000		
Reserve Fund	29,600		
Profit and Loss Account	10,000		
Creditors	21,000		
	2,70,600		2,70,600

On 1 April 2003, fixed assets costing Rs. 20,000 were sold for Rs. 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 Rs. 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 2003. **[B.Com (Hons.) Calcutta]**

Q.19 (Redemption of preference shares with calls-in-arrears by fresh issue of shares at discount)

The following balances were extracted from the books of Karan limited :

50,000 Equity Shares of Rs. 10 each		5,00,000
2,000, 14% Preference Shares of Rs. 100 each	2,00,000	
Less : Calls-in-arrear on 300 shares	<u>6,000</u>	1,94,000
General Reserve		50,000
Capital Reserve (Realized in cash)		10,000

The preference shares were- redeemed at a premium of Rs. 5 per share. The company issued such further equity shares of Rs. 10 each (of the class already issued) at a discount of 10% as were necessary for the purpose of

redeeming the preference shares, which were fully subscribed and duly allotted. Show the journal entries to record the transactions and a relevant extract in the balance sheet after such redemption.

Question.20. The balance sheet of Redemption Ltd. as at 31 March 2003 is as follows :

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

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

Question .21 (Use of the equation)

- (i) Preference shares to be redeemed Rs. 1,50,000.
- (ii) Premium on Redemption 10%.
- (in) Profits given in the Balance Sheet Rs. 25,000.
- (iv) Securities Premium Account (Given) Rs. 5,000.

Determine the number and amount of fresh issue of equity shares of Rs 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%

Q.22 (Use of algebraic equation) The following is the summarized balance sheet of Sonu limited:

Liabilities	Rs.	Assets	Rs.
Equity Share Capital fully paid up @Rs. 100 each	5,00,000	Fixed Assets Less Depreciation	7,00,514
12% Preference Share of Rs. 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		
	10,15,20		10,15,20

Preference shares are due for redemption at a premium of 10%. The directors desire that only minimum number of equity shares of Rs. 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 .23. Boon Ltd. provides you the following balance sheet as on 31 March 2003:

	Rs.		Rs.
60,000 Equity Shares of Rs. 100 each, fully paid	60,00,000	Land & Buildings	50,60,000
25,000, 14% Preference Share of Rs. 100 each fully paid	25,00,000	Furniture and fixtures	8,35,000
Capital Reserve	50,000	Debtors	13,25,000
General Reserve	12,00,000	Cash in hand	25,000
Securities Premium	15,000	Cash at Bank	46,25,000
Profit and Loss Account	35,000		
Pre-incorporation profits	25,000		
Dividend Equalization Reserve	75,000		
Preference dividend payable	3,50,000		
Equity dividend payable	6,00,000		
Sundry Creditors	10,20,000		
	1,18,70,000		1,18,70,000

Dividend to shareholders was paid on 2 April 2003. The company decided to redeem the preference shares on 5 April 2003 at a premium of 10 per cent. For this purpose, the company issued new equity shares of Rs. 100 each at a premium of 5% to the minimum possible extent, utilizing all available sources at its disposal.

Make journal entries to record the foregoing transactions and re-draft balance sheet immediately after redemption of preference shares. Give detailed working notes.

Question 24. The Balance sheet of a Limited Company on 31st January read as under:

Liabilities	Amount	Assets	Amount
<u>Share Capital</u>		Freehold property	1,15,000
Authorized:		Stock	1,35,000
30,000 Equity shares of Rs. 10 each	3,00,000	Debtors	75,000
Issued And subscribed:		Cash	30,000
20,000 Equity Shares of Rs. 10 each fully paid	2,00,000	Balance at Bank	2,20,000
Profit and loss Account	1,20,000		
12% Debentures	1,20,000		
Creditors	1,15,000		
Proposed dividend	20,000		
	5,75,000		5,75,000

At the annual General Meeting it was resolved:

- To pay the proposed dividend of the 10 per cent in cash
- To issue one bonus share for every four shares held.
- To give existing shareholders the option to purchase one Rs.10 Share at Rs15 for every four shares held prior to the bonus distribution, this option being taken up by all the shareholders.

Give the necessary Journal Entries and then Company's balance sheet after these transactions are completed.

Question 25. The balance sheet of XYZ Ltd. as at 31st December 1998 *inter alia* includes the following:

50,000 8% preference shares of Rs 100 each Rs	35,00,000
70 paid up	
1,00,000 Equity shares of Rs 100 each fully paid up	1,00,00,000
Securities premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000

Under the terms of their issue the preference shares are redeemable on March 31, 1999 at a premium of 5%. In order to finance the redemption the company makes a right issue of 50,000 equity shares of Rs 100 each at Rs 110 per share, Rs 20 being payable on application, Rs 35 (including premium) on allotment and the balance on January 1, 2000. The issue was fully subscribed and allotment made on March 1, 1999. The monies due on allotment were received by March 30, 1999.

The preference shares were redeemed after fulfilling the necessary conditions of section 80 of the companies act, 1956. The company decided to make the minimum utilization of general reserve.

You are asked to pass the necessary journal entries and show the relevant extracts from the Balance Sheet as on March 31, 1999 with the corresponding figures as on 31st December, 1998 **(CA -1999-november)**

Question 26. The balance sheet of a A Ltd as at 31-03-1995 is as follows:

Balance sheet as at 31-03-1995

LIABILITIES	AMOUNT	ASSETS	AMOUNT
<u>Authorized share capital</u>		Sundry assets	17,00,000
1,50,000 equity shares of Rs.10 each	<u>15,00,000</u>		
Issued, Subscribed & paid-up			
80,000 equity shares of Rs 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

(CA- 1995-November)

(Ans: Total of Balance sheet Rs 17,00,000)

Question 27. The following is the balance sheet of trinity LMT as at 31-03-1995:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
<u>Share capital</u>		<u>Fixed assets:</u>	
Authorized		Gross Block	3,00,000
10,000 10% redeemable		Less: Dep	<u>1,00,000</u>
preference shares of Rs 10 each	1,00,000		2,00,000
90,000 equity shares of Rs 10 each	<u>9,00,000</u>	Investments	1,00,000
	<u>10,00,000</u>		
<u>Issued subscribed and paid-up capital</u>		<u>Current Assets and Loans & advances:</u>	
10,000 10% redeemable		Inventory	25,000
Preference shares of Rs10 each	1,00,000	Debtors	25,000
10,000 equity shares of Rs 10	1,00,000	Cash and Bank	50,000
		Misc. Expenditure	
<u>Reserves and Surpluses</u>	1,20,000	To the Extent not written off	20,000
General reserve	70,000		
Share premium	18,500		
Profit and loss a/c	11,500		
Current Liabilities and Provision			
TOTAL	4,20,000		4,20,000

For the year ended 31-3-1996, the company made a net profit of Rs 15,000 after providing Rs 20,000 depreciation and writing off the miscellaneous expenditure of Rs 20,000

The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31-3-1996 was paid before 31-3-1996
Except cash and bank balance other current assets and current liabilities as on 31-3-1996 was the same as on 31-3-95.
2. The company redeemed the preference shares at a premium of 10%
3. The company issued bonus shares in the ratio of one share for every equity share held as on 31-3-1996
4. To meet the cash requirements of redemption, the company sold a portion of the investments so as to leave a minimum balance of Rs 30,000 after such redemption.
5. Investments were sold at 90% of cost on 31-3-1996.

You are required to:

- (a) Prepare necessary journal entries to record redemption and issue of bonus shares
- (b) Prepare the cash and bank account
- (c) Prepare the Balance sheet as at 31st march 1996 incorporating the above transactions.

(CA INTER 1996-November)

Question 28. Footfault Ltd had equity capital of 2,00,000 divided into shares of Rs. 100 each, 11% cumulative redeemable preference share of Rs. 100 each for Rs.1,00,000 and Rs. 50,000 and Rs. 40,000 respectively to the credit of profit and loss Account and General Reserve as on 31st March 1999. It has also Rs 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 1-4-1990 at a premium of 10%. It was also decided to sell certain investment whose book and market values on 31-3-90 were Rs. 40,000 and Rs. 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.

CHAPTER 7. BUY BACK OF SECURITIES

Meaning: - buyback of shares means the repurchase of its own shares by the company. When shares are bought back by a company, they have to be cancelled by the company. Thus shares buy back results in decrease in share capital of the company. A company cannot buy its own shares for the purpose of investments. A company having sufficient cash may decide to buy back its own shares. The following may be the advantages of buy back of shares:-

- (a) To increase earnings per share as the buyback of shares reduces number of shares outstanding.
- (b) To increase % holding of promoters as the shares which are bought back are cancelled.
- (c) To discourage others to make hostile bid to take over the company as the buy back will increase % of promoters holding.
- (d) To support the share price on the stock exchange when the share price is less than its worth.
- (e) To pay surplus cash to share holders when the company does not need it for business.

The companies act, 2013 under section 68(1) permits companies to buy back their own shares and other specified securities out of:

- (i) its free reserves
- (ii) the securities premium; or
- (iii) the proceeds of the issue of any shares other specified securities.

Note: 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 other specified securities. For example, if equity shares are to be buy back, then preference shares may be used for the purpose(but not equity shares).

Conditions of buy back of shares.[SECTION 68(2)]

- (a) There must be a provision in the articles of association of a company authorizing the company to purchase its own shares.
- (b) A special resolution has to be passed in Annual General Meeting of the company. But if the buy back is upto 10% of its paid up share capital plus free reserves, then special resolution is not required. In that case company is required only to pass board resolution.
- (c) The buyback must not exceed 25% of the total paid up capital and free reserves of the company.(**resource test**)
- (d) the buyback of shares in any financial year must not exceed 25% of its shares.(**share outstanding test**)
- (e) The debt- equity ratio should not be more than 2:1. It means the ratio of the debt owned by the company (both secured and unsecured) after such buy back is not more than twice the total of its paid up capital and its free reserves.
- (f) all the shares for buy back should be fully paid up.
- (g) Buy back of only those shares are possible which are listed as per SEBI Regulation.

NOTE: (I) buy back of shares must be completed within 12 months from date of passing special resolution/board resolution.

(II) No offer of buy back shall be made within a period of one year from the date of closure of a previous offer of buy back. This means that there cannot be more than one buyback in one year.

SOME MORE THEORY COVERED IN VIDEO LECTURE 2--- WATCH AND WRITE CAREFULLY IN YOUR REGISTER AND MIND, BOTH.

PRACTICAL QUESTIONS

Question:1 Trimurthi Ltd. purchases its 10,000 equity shares of Rs. 10 each @ Rs. 15 per share. No fresh issue is made for this purpose. Make necessary journal entries in accordance with the provisions for buy-back on the assumption that there are sufficient free reserves.

Question:2 Shikha Ltd. had issued capital of Rs. 1,00,00,000 of Rs. 10 equity shares. The balance in the security premium account was Rs. 1,00,000 and general reserves Rs. 14,00,000. The company decided to buy-back 20% of its share capital direct from its shareholders at Rs. 8 per share. The company had issued Rs. 5 lakh, 10% preference shares two months back for the purpose of buy-back. Record the transactions relating to buy-back in the books of the company.

Question:3 Delight Limited furnishes the following balance sheet as on 31 March 2002 :

Liabilities	Rs.	Rs. (In crores)
Authorised Capital		<u>125</u>
Issued and Subscribed Capital :		
13% Preference Shares of		
Rs. 100 each fully paid	75	
Equity Shares of Rs. 10 each fully paid	<u>50</u>	125
Reserves and Surplus :		
Capital Reserve	50	
Revenue Reserve	250	300
Current Liabilities and Provisions		<u>140</u>
		<u>565</u>
Assets		
Fixed Assets		150
Investments		120
Current Assets, Loans and Advances		<u>295</u>
		<u>565</u>

The company purchased its own Rs. 100 lakh equity shares of Rs. 10 each at Rs. 25 per share on 1 April 2002 out of free reserves. The company also redeemed preference shares on same date. The payments for the above were made out of bank account which forms part of current assets. You are required to pass necessary journal entries to record the above transaction. [C.S. (Inter) Dec 2002]

Question:4 On 31 March 2001, following was the balance sheet of New Era Limited :

Liabilities	Rs. (in Lakhs)	Assets	Rs. (in Lakhs)
Equity Share Capital	2,400	Machinery	3,600
(Fully paid up shares of Rs.10 each)		Furniture	452
Securities Premium	350	Investments	148
General Reserve	930	Stock	1,200
Profit and Loss Account	340	Debtors	520
12% Debentures	1,500	Cash at Bank	740
Sundry Creditors	750		
Sundry Provisions	390		
	<u>6,660</u>		<u>6,660</u>

On 1 April 2001, the company announced the buy-back of 25% of its equity shares @ 15 per share. For this purpose, it sold all of its investments for Rs. 150 Lakhs and issued 2,00,000, 14% preference shares of Rs. 100 each at par, the entire amount being payable with application.

The issue was fully subscribed. The company achieved the target of buy-back. Later the company issued one fully paid up equity share of Rs. 10 by way of bonus shares for every four equity shares held by the equity shareholders. Show journal entries for all transactions including cash transactions [C.S. (Inter) December 2001]

Question 5. Anu Ltd. furnishes you with the following balance sheet as at 31st March, 2008:

Particulars	Note no.	31.03.2008
Equity & Liabilities		(In Crores)
Shareholder's Fund		
Equity Capital		25
12% Preference Capital		75
Reserves & Liabilities		
Revenue Reserve		260
Capital Reserve		15
Security Premium		25
Current Liabilities		40
Total		440
Non-Current Assets		
Tangible Assets		
Fixed Assets 100		
Depreciation (100)		-
Investments (MV-400Cr)		100
Current Assets		340
Total		440

The company redeemed preference shares on 1st April, 2008. It also bought back 50 lakh equity shares of (Rs) 10 each at (Rs) 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets. You are asked to:

- (1) Pass journal entries to record the above.
- (2) Prepare balance sheet as at 1.4.2008
- (3) Calculate the value of an equity share on net assets basis.

Solution: Journal entries in the books of Anu Ltd.

Particulars	Debit		(Rs) In crores
			Credit
1st April 2008	12% Preference share capital A/c	Dr	75
	To Preference shareholders A/c		75
	(Being preference share capital account transferred to shareholders account)		
	Preference shareholders A/c	Dr	75
	To Bank A/c		75
	(Being payment made to shareholders)		
	Shares buy back A/c	Dr	25
	To Bank A/c		25
	(Being 50 lakhs equity shares bought back @ (Rs) 50 per share)		
	Equity share capital A/c (50 Lakh x (Rs) 10)	Dr	5
	Securities premium A/c (50 Lakhs x (Rs) 40)	Dr	20
	To Shares buy back A/c		25
	(Being cancellation of shares bought back)		
	Revenue reserve A/c	Dr	80
	To Capital Redemption Reserve A/c		80
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)		

Balance Sheet

Particulars	Notes no.	31.03.2001
Equity & Liabilities		(in Crores)
Shareholder's Fund		
Equity Capital		20
Reserves & Liabilities		
Revenue Reserve		180
Security Premium		20
CRR		80
Current Liabilities		40
Total		340
Non-Current Assets		
Tangible Assets		
Fixed Assets 100		
Depreciation (100)		-
Investments (MV-400Cr)		100
Current Assets (340-100)		240
Total		340

Net asset value of equity shares

Particulars	Amount	Amount
Assets:		
Fixed Assets	Nil	
Investments (at market value)	400	
Current assets	240	640
Less: Liabilities:		
Current liabilities	(40)	
Net assets available for equity share holders	600	
Number of equity shares outstanding as on 1.4.2008		2 crores
Value per equity share of (Rs) 10 each (600 ÷ 2)		(Rs) 300

Question no 6. What are the criteria that a joint stock company should fulfil to issue sweat equity shares?

Solution: As per section 54, the expression 'sweat equity shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called.

Notwithstanding anything contained in section 53, which deals with the power of a company to issue shares at a discount, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:—

1. The issue of sweat equity shares is authorized by a special resolution passed by the company in the general meeting.
2. The resolution specifies the number of shares, current market price, the consideration if any, and the class or classes of directors or employees to whom such equity shares are to be issued.
3. Not less than one year has, at the time of the issue, elapsed since the date on which the company was entitled to commence business.
4. The sweat equity shares of company, whose equity shares are listed on a recognised stock exchange, are issued in accordance with the regulations made by the Securities and Exchange Board of India in this behalf. But in the case of company whose equity shares are not listed on any recognised stock exchange, the sweat equity shares are issued in

accordance with the guidelines as may be prescribed. All the limitations, restrictions and provisions relating to equity shares are applicable to sweat equity shares also.

Question 7.

Liabilities	Amount	Assets	Amount
Share capital		Fixed assets less depreciation	50
Equity shares of 10 each fully paid A	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		
	<u>312</u>		<u>312</u>

- The company redeemed the preference shares at a premium of 10% on 1st April, 2010.
- It also bought back 3 lakhs equity shares of Rs 10 each at Rs 30 per share. The payment for the above were 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 Rs 2 lakhs (face value Rs 2.20 lakhs). These debentures were cancelled on 1st April, 2010.
- The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at Rs20 when the market price was Rs 30. (This was included under current liabilities). On 1.04.2010 employees exercised their options for 50,000 shares.
- Pass the journal entries to record the above.
- Prepare Balance Sheet as at 01.04.2010. **(Nov 10) (16 Marks)**

Answer

Date	Particulars		Debit	Credit
01.04.2010	9% Redeemable preference share capital A/c Premium on redemption of preference shares A/c To Preference shareholders A/c (Being preference share capital transferred to shareholders account)	Dr. Dr.	20.00 2.00	22.00
01.04.2010	Preference shareholders A/c To Bank A/c (Being payment made to shareholders)	Dr.	22.00	22.00
01.04.2010	Equity shares buy back A/c To Bank A/c (Being 3 lakhs equity shares of (Rs.) 10 each bought back @ (Rs.) 30 per share)	Dr.	90.00	90.00
01.04.2010	Equity share capital A/c Securities premium A/c	Dr. Dr.	30.00 60.00	
	To Equity Shares buy back A/c (Being cancellation of shares bought back)			90.00
01.04.2010	Revenue reserve A/c (20 + 30) To Capital redemption reserve A/c	Dr.	50.00	50.00

01.04.2010	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 (Rs.) 2 lakhs, face value being (Rs.) 2.20 lakhs and the balance being profit on cancellation of debentures)	Dr.	2.20	2.00 0.20
1.04.2010	Profit on cancellation of debentures A/c To Capital reserve A/c	Dr.	0.20	0.20
01.04.2010	Bank A/c Employees stock option outstanding	Dr.	10.00	
	To Equity share capital A/c To Securities premium A/c	Dr.	5.00	5.00 10.00
01.04.2010	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 01-04-2010 ('000)

Equity & Liabilities		
Shareholders Fund		
Equity Capital (Rs. 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:

	(Rs. in lakhs)
1. Equity share capital	
Opening balance	100.00
Less: Cancellation of bought back shares	(30.00)
Add: Shares issued against ESOP	5.00
	75.00

2.	Capital Reserve	
	Opening balance	8.00
	Add: Profit on cancellation of debentures	<u>0.20</u>
		8.20
3.	Revenue reserves	(Rs. in lakhs)
	Opening balance	50.00
	Less: Creation of Capital Redemption Reserve	<u>(50.00)</u>
		(0)
4.	Securities Premium	(Rs. 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)
	Add: Shares issued against ESOP shares at premium	<u>10.00</u>
		<u>8.00</u>
5.	10% Debentures	
	Opening balance	4.00
	Less: Cancellation of own debentures	<u>(2.20)</u>
		<u>1.80</u>
6.	Current liabilities	
	Opening balance	<u>70.00</u>
	Less: Adjustment for ESOP outstanding	<u>(5.00)</u>
		<u>65.00</u>
7.	Investments at cost	
	Opening balance	120.00
	Less: Investment in own debentures	<u>(2.00)</u>
		<u>118.00</u>
8.	Current assets	
	Opening balance	
	Less : Payment to preference shareholders	142.00
	Less : Payment to equity shareholders	(22.00)
	Add: Share price received against ESOP	(90.00)
		<u>10.00</u>
		<u>40.00</u>

Question No.8. Following is the Balance Sheet of M/s competent Limited as on 31st March, 2012

Assets	(Rs.)	Assets	(Rs.)
Equity Shares of Rs.10 Each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue reserve	15,00,000	Current Assets	30,00,000
Securities Premium Profit	2,50,000		
& Loss Account Secured	1,25,000		
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current Liabilities	16,50,000		
Total	76,50,000	Total	76,50,000

The company wants to buy back 25,000 equity shares of Rs10 each , on 1st April, 2012 at Rs 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, 1956. If yes, pass necessary journal entries towards buy back of shares and prepare e Balance Sheet after buy back of shares. **(May 2012) (8 Marks)**

Question 9. M Ltd furnishes the following summarized balance sheet as on 31st March 2019:

Equity and liabilities	In '000	In '000
Issued and subscribed share capital: 3,00,000 equity shares of Rs 10 each fully paid up 20,000 9% preference shares of Rs 100 each	3,000 <u>2,000</u>	5,000
Reserves and surplus: Capital reserve Revenue reserve Security premium Profit and loss account	10 4,000 500 <u>1800</u>	6,310
Non current liabilities- 10% debentures Current liabilities and provisions		400 40
		11,750
Assets Fixed assets: cost Less: provision for depreciation Non –current investment at cost Current assets, loans and advances(including cash and bank balances)	3,000 <u>250</u>	2750 5,000 4,000
		11,750

The company passed a resolution to buy back 20% of its equity capital @ Rs 15 per share. For this purpose, it sold its investments of Rs 30 lakhs for Rs 25 lakhs. Pass necessary journal entries.

Solution : JOURNAL ENTRIES

- BANK ACCOUNT Dr. 2500
 Profit and loss A/c Dr 500
 To investment Account 3,000
- Equity share capital A/c Dr 600
 Premium payable on buyback Dr 300
 To equity share buy back A/c 900
- Equity share buy back Dr 900
 To bank A/c 900
- Security premium A/c Dr 300
 Premium payable on buyback A/c 300
- Revenue reserve A/c Dr 600
 Capital redemption reserve A/c 600

Question 10. Perrotte Ltd. Has the following capital structure as on 31.3.2019:

	Particulars	(in crores)	(in crores)
1.	Equity share capital (shares of Rs 10 each fully paid)		330
2.	<u>Reserves and surplus</u>		
	General reserve	240	
	Security premium account	90	
	Profit and loss account	90	
	Infrastructure development reserve	<u>180</u>	600
3.	Loan funds		1800

The shareholders of perrotte Ltd. On the recommendation of their Board of directors, have approved on 12.09.2019 a proposal to buy back the maximum permissible number of equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's share is Rs 25 per share and in order to induce the existing shareholders to offer their share for buy back, it was decided to offer a price of 20% over market.

You are also informed that the infrastructure development reserve is created to satisfy income tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either Rs 1200 crores OR 1500 crores.

Assuming that the entire buy back is completed by 9.12.2019, show the accounting entries in the company's book in each situation. (ICAI Study material)

CHAPTER 8 .ISSUE OF DEBENTURES

1. Introduction- A debenture is a bond issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

Under section 71 (1) 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. Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, shall be approved by a special resolution passed at a duly convened general meeting. Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.

Section 71 (4) 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.

Issue of debentures for consideration other than cash

Question1 X Ltd purchased a machine costing Rs 99,000 payable by issue of 10% debentures of Rs 100 each at
Case 1. Par
Case 2. Premium of 10%
Case 3. Discount of 10%

Question 2. Blue Prints Limited Purchases building worth Rs. 1,50,000, plant and machinery worth Rs. 1,40,000 and furniture for Rs. 10,000 from Wadhwa and Company and took over liabilities of Rs. 20,000 for a purchase consideration Rs. 3,15,000. Blue Prints Limited paid the purchase consideration by issuing 12% debentures of Rs. 100 each at a premium of 5%. Pass the necessary journal entries.

Question 3. Assume in the previous question purchase consideration was Rs 2,70,000 and payment was made by issue of 12% debentures of Rs 100 each at a discount of 10%.

Question 4. G.W.K Ltd. purchased assets worth Rs. 4,50,000 and took over liabilities of Rs. 35,000 of K.L.M. and Co. for a purchase consideration of Rs. 4,00,000. The purchase price was paid by issue of Rs. 100, 12% debentures at a premium of 10% The debentures of GWK Ltd. are quoted in the market at Rs. 140 at the relevant time. You are required to give journal entries to record the above transactions in the books of the purchasing company.

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 fulfills 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. ALtd borrowed loan of Rs 10,00,000 from HDFC Bank. Company pledged machinery worth Rs 40 lacs. In addition to machine company issued 40,000,12% debentures of Rs 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 Rs. 1,00,000 – 9% Debentures at par and redeemable at par.
- (2) Issue of Rs. 1,00,000 – 9% debentures at premium of 5% but redeemable at par
- (3) Issue of Rs. 1,00,000 – 9% Debentures at a discount of 10%, repayable at par.
- (4) Issue of Rs. 1,00,000 – 9% Debentures at par but repayable at a premium of 5%.
- (5) Issue of Rs. 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 Rs. 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 Rs 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 Rs 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 Rs. 10,00,000 -12% Debentures on which the interest is payable on 30 September and 31 March. Show the necessary journal entries relating to debenture interest for the year ending on 31 March 2004 assuming that all payments to debentureholders 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 Rs. 2,00,000 at a discount of 6%. The debentures were repayable by annual drawings of Rs. 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 Rs. 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 Rs. 1,00,000 on 1 July 2003 repayable by five equal annual installments of Rs. 20,000 each. The company closes its accounts on 31 March every year. Indicate the amount of discount to 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 Rs. 100 each at a discount of 6%. The expenses on issue amounted to Rs. 35,000. The debentures have to be redeemed at the rate of Rs. 1,00,000 each year commencing with the end of the fifth year. How much discount and expenses should be written off each year.

CHAPTER 9. REDEMPTION OF DEBENTURES

MEANING:- Redemption of Debentures means discharging the liability on account of debentures issued by a company by making repayment to the debenture holders. Debentures are normally redeemed on the due date or earlier as per the terms of issue. Debentures may be redeemed in installments, i.e., by draw of lots or by purchase from the open market for cancellation or by conversion into shares or new debentures.

At the time of redemption, following should be kept in mind:

1. Time of Redemption of Debentures: Debentures are normally redeemed on the due date. A company may, if authorised by the terms of issue, redeem the debentures before the due date in instalments, i.e., by draw of lots and if authorised by its Articles of Association or by purchase from open market for cancellation.

2. Amount of Redemption of Debentures: if the debentures are redeemed on maturity by payment of whole amount or by draw of lots, the amount payable is as per the terms of issue, i.e., at par or at premium.

3. Sources of Redemption of Debentures: The sources of redemption of debentures may be any of the following:

(a) Out of Capital: It means redemption of debentures without transfer of any profit from Surplus(statement of profit and loss). Redemption only out of capital is not possible under the present law because the Companies Act, 2013 prescribes companies(other than those exempted from creating Debentures Redemption Reserve) to transfer amount of profits available for distribution as dividend as specified in Rule 18(7) (b) of the Companies (Share Capital and Debentures) Rules, 2014.

(b) 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.

(c) Out of Profit and 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**.

DEBENTURES REDEMPTION RESERVE (DRR) AND DEBENTURES REDEMPTION INVESTMENT (DRI)

Debentures Redemption Reserve (DRR):-- Debentures Redemption Reserve (DRR) is a reserve set aside out of profits available for distribution as dividend for the purpose of redemption of debentures. The amount is transferred to Debentures Redemption Reserve (DRR) before the process of redemption of debentures begins. The process of redemption begins with setting aside (creating) Debentures Redemption Reserve (DRR) out of profits available for distribution as dividend. Besides the transfer of amount to DRR, Rule 18(7)(c) of the Companies (Share Capital and Debentures) Rules, 2014 prescribes that the company required to create DRR shall invest amount in securities specified. However, few kinds of companies (discussed later) are exempt from transferring amount to DRR.

Need for Debentures Redemption Reserve (DRR):-- The Companies-Act, 2013 [Section 71(4)] prescribes that

- (i) Every company issuing debentures shall create Debentures Redemption Reserve (DRR);
- (ii) Out of its profits available for distribution as dividend; and
- (iii) The amount credited to DRR shall not be utilised by the company except for redemption of debentures.

Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 prescribes that a company shall transfer at least 25 per cent of the nominal (face) value of the outstanding debentures to DRR.

Debentures Redemption Reserve is a specific reserve. A company can utilise DRR only for redemption of debentures.

Exemption from Transferring Amount to DRR :-- The Companies Act, 2013 together with Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 exempts following class or kinds of companies from creating DRR:

- (i) All India Financial Institutions (AIFIs) regulated by the Reserve Bank of India; and
- (ii) Banking Companies.
- (iii) Besides the exemption to above class or kinds of companies, DRR is not required to be created on fully convertible debentures. And where the debentures are partly convertible, DRR is created only on the non-convertible part of debentures. [Rule 18(7)(d) of the Companies (Share Capital and Debentures) Rules, 2014]

Transfer of DRR to General Reserve:-- Debentures having been redeemed, DRR is transferred to General Reserve. Rule 18(7)(b) prescribes that a company shall transfer at least 25 per cent of nominal (face) outstanding debentures to Debentures Redemption Reserve. Thus, a company has two options for transfer of Debentures Redemption Reserve to General Reserve as follows:

- (a) Transfer proportionate amount after every redemption from Debentures Reserve to General Reserve; or
- (b) Transfer DRR to General Reserve after all the debentures have been redeemed.

Alternatively, if the company decides to transfer amount of DRR to General Reserve after all the debentures are redeemed, DRR is transferred to General Reserve after redemption of all the debentures.

Disclosure of Debentures Redemption Reserve (DRR) in Balance Sheet:-- Debentures Redemption Reserve is shown in the Equity and Liabilities part of the Balance Sheet under the main-head 'Shareholders' Funds' and sub-head 'Reserves and Surplus'.

Debentures Redemption Investment (DRI):-- Another condition of the Companies Act, 2013 is prescribed in Rule 18(7)(c) of the Companies (Share Capital and Debentures) Rules, 2014 for redemption of debentures as follows:

"The company shall invest an amount **at least equal to 15 per cent of the nominal (face) value** of debentures that shall be redeemed by the company by 31st March of next year and the amount should be invested on or before 30th April of the current year."

It means that at least 15% of the nominal (face) value of the debentures to be redeemed during the financial year (1st April to 31st March) should be invested by the company in any of the specified securities on or before 30th April of that financial year.

The amount invested or deposited should not at any time fall below 15% of the amount of debentures maturing by 31st March of the financial year.

It should be kept in mind that investment is to be made by those companies who are required to create DRR. Thus, the exempted companies, i.e., AIFIs regulated by RBI and Banking Companies, are not required to invest in specified securities. Also, investment is not required to be made in specified securities, if the debentures are fully convertible. If the debentures are partly convertible, investment is made of an amount that is at least equal to 15% of the non-convertible part of the debentures. The amount invested or deposited shall not be used for any purpose other than for redemption of debentures.

METHODS OF REDEMPTION OF DEBENTURES:-- Debentures may be redeemed:

1. in lump sum on maturity,
2. in instalments by draw of lots,
3. by purchase from open market, or
4. by Conversion.

Adequacy of Debenture Redemption Reserve (DRR)

Ministry of Corporate Affairs has made the following clarification on adequacy of Debenture Redemption Reserve (DRR) vide Circular no. 04/2013 dated 11 February, 2013:-

		Adequacy of Debenture Redemption Reserve (DRR)
(i)	For debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures.	No DRR is required
(ii)	For other Financial Institutions (FIs) within the meaning given in the Companies Act.	DRR will be as applicable to NBFCs registered with RBI.
(iii)	For debentures issued by NBFCs registered with the RBI.	25% of the value of debentures issued through public issue. No DRR is required in the case of privately placed debentures.
(iv)	For debentures issued by other companies including manufacturing and infrastructure companies.	25% of the value of debentures issued through public issue. Also 25% DRR is required in the case of privately placed debentures by listed companies. For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of debentures.

3. Liability of the Company to Create Debenture Redemption Reserve:--Section 71 (4) in the Companies Act 2013 covers the requirement of creating the Debenture Redemption Reserve. The Section 71 states as follows:

1. Where a company issues debentures under this section, it shall create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.
2. The amounts credited to the debenture redemption reserve shall not be utilised by the company except for the purpose aforesaid.
3. The company referred to in sub-section (1) shall pay interest and redeem the debentures in accordance with the terms and conditions of their issue.
4. Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee shall, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

NOTE:- 1 to 14 questions are covered issue of debentures.

SINKING FUND METHOD(DEBENTURE REDEMPTION FUND METHOD):--

QUESTION 15. X Ltd. issued 2,000, 12% debentures of Rs. 100 each at par on 1 April, 2000. These debentures are redeemable at the end of the fifth year at 10% premium. It was resolved that sinking fund should be formed and invested in 10% development bonds of Rs. 100 each. Interest on bonds is payable on 31 March every year.

Reference to Sinking Fund Tables shows that Rs. 0.1638 invested at the end of every year at 10% compound interest will produce Re. 1 at the end of the fifth year.

10% Development Bonds of the required amount were purchased on different dates at the following prices :

On March 31, 2001 Rs. 80

On March 31, 2002 Rs. 90

On March 31, 2003 Rs. 100

You are required to show Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account for the first three years in the books of X. Ltd. Accounting year of this company ends on 31 March. **[B.Com. (Hons.) Delhi 1997 Modified]**

QUESTION 16. Prakash Enterprises Ltd. issued Rs. 10,00,000, 10% Debentures on January 1, 2001. These were to be redeemed on 31 December 2003. For this purpose, the company established a Sinking Fund. Investments were expected to earn 5% interest per annum. Sinking Fund Tables show that 0.317208 invested annually at 5% amount to Re. 1 in three years. On 31 December 2003, the bank balance was Rs. 4,20,000 before receipt of interest on sinking fund investments. On that date the investments were sold for Rs. 6,56,000. Interest is payable annually. Calculate the interest to the nearest of a rupee and investments are made in multiples of Rs. 100. Ignore tax on debenture interest

Show the 10% Debentures Account, Sinking Fund Account, Sinking Fund Investments Account and Bank Account in the books of the company. Also give complete journal entries.

QUESTION 17 Instalment Supply Business Limited issued 8% 2,000 Debentures of Rs. 100 each at 5% discount on 1 January 1998 payable at a premium of 10% after 5 years. A sinking fund is created for this purpose and the money is invested in 5% Government loan. Investments are to be made in multiples of rupees ten only. Rupee 1 invested p.a. @ 5% over 5 years amounts to Rs. 5.5256 Investments realised Rs. 1,75,000; the balance at bank on 31 December 2002 was Rs. 54,320. Give journal entries and show ledger accounts assuming that accounting period ends on 31st December. Interest is payable every year.

QUESTION 18. On 31 March 2000, the following balances were extracted from the books of P. Ltd :

Rs.

12% Mortgage Debentures 50,00,000

Debenture Redemption Fund 50,00,300

Debenture Redemption Fund Investments 42,00,000

On 1 April 2000, all the investments were sold for Rs. 41,16,000 and debentures were redeemed at par. The company had sufficient bank balance. You are required to prepare:

- (i) 12% First Mortgage Debentures Account;
- (ii) Debenture Redemption Fund Account; and
- (iii) Debenture Redemption Fund Investments Account

[C.S. (Inter) December 2000]

Question 19. (Redemption out of sinking fund)

On 30 June 2003, the following balances stood in the books of a company:

Rs.

8% First Mortgage Debenture Stock 2,00,000

Debenture Redemption Fund 2,13,080

Debenture Redemption Fund Investments:

Rs. 70,000, 6% Punjab Electricity Board Bonds 71,260

Rs. 80,000, 5% UP Water Board' Loan 64,068

Rs. 60,000, 8% Government of India Loan 61,710

Rs. 16,000, 7% Co-operative Bank Loan 16,042

On the same day the investments were sold: Electricity Bonds at par; 5% loan at Rs. 91; 8% loan at 109 and 7% loan at 103. On 1 July 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. **(CMA INTER – 4 marks)**

Question 20. (Partial redemption of debentures out of sinking fund)

Shweta Ltd. had Rs. 5,00,000, 12% Debentures outstanding on 1 April 2003. The Debenture Redemption Fund Account of the company stood at Rs. 3,50,000 on the same date represented by 10% Government Bonds of Rs. 100 each. The company sold-Rs. 3,00,000 worth of Bonds at a discount of 5% to redeem Rs. 2,75,000 debentures at a premium of 5%. Show the journal entries and prepare the ledger accounts to record the foregoing transactions. (Ignore interest)

Answer:

2003		Rs.	Rs.
1 Apr.	Bank Account Dr. Debenture Redemption Fund Account Dr. To Debenture Redemption Fund Investments Account (Realisation of Government bonds of Rs. 100 each at Rs. 95 to pay off the debentures; loss on sale transferred to debenture redemption fund account)	2,85,000 15,000	3,00,000
1 Apr.	12% Debentures Account Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders Account (Amount due on redemption at premium of 5%)	2,75,000 13,750	2,88,750
1 Apr.	Debenture Redemption Fund Account Dr. To Premium on Redemption of Debentures Account (Transfer of premium on redemption of debentures to debenture redemption fund account)	13,750	13,750
1 Apr.	Debenture Redemption Fund Account Dr. To General Reserve Account (Transfer of nominal value of debentures redeemed to general reserve account)	2,75,000	2,75,000

REDEMPTION BY CONVERSION

Question 21. X Ltd had issued 12% debentures of Rs 20,00,000 at par repayable at a premium of 5%. Company decided to convert debentures into equity shares of Rs 10 each. Make journal entries if conversion took place (1) on the date of maturity (2) before the date of maturity.

Question 22. Y Ltd issued 16% debentures of Rs 10,00,000 at discount of 10% repayable at a premium of 15% at the end of 4 years. Company decided to convert their debentures into new equity shares of Rs 10 each. Make entries if conversion took place (1) on date of maturity (2) before the date of maturity.

Question 23. Z Ltd issued 14% debentures of Rs 10,00,000 at discount of 5% repayable at a premium of 10% at the end of 4 years. Company decided to convert their debentures into new equity shares of Rs 10 each issued at a premium of 10%. Make entries if conversion took place on the date of maturity.

Question 24. On 1 January 2003, Anju Limited issued 2,000-12% Debentures of Rs. 500 each at Rs. 475 each. Debenture holders had an option to convert their holding into 13% Preference Shares of Rs. 100 each at a premium of Rs. 25 per share. A holder of 100 Debentures notified his intention to convert his holding into 13% preference shares. Journalize the above transactions.

Question 25. The summarised balance sheet of Convertible Limited as on 31 March, 2004 stood as follows:

Share Capital: 5,00,000 Equity Share of Rs. 10 each fully paid	50,00,000
General Reserve	75,00,000
Debenture Redemption Fund	50,00,000

13.5% Convertible Debentures:

1,00,000 Debentures of Rs. 100 each	1,00,00,000
Other Loans	50,00,000
Current Liabilities	<u>1,25,00,000</u>
	<u>4,50,00,000</u>
Assets	
Fixed Assets at cost less depreciation	1,60,00,000
Debenture Redemption Fund Investments	40,00,000
Cash and Bank Balance	50,00,000
Other Current Assets	<u>2,00,00,000</u>
	<u>4,50,00,000</u>

The debentures which were issued at a discount of 5% are due for redemption on 1 April 2004. 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 Rs. 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 Rs. 44 lakhs on sale; and
- (iii) All the transactions are put through, without any lag on 1 April 2004. Redraft the balance sheet of the company as on 1 April 2004 after giving effect: the redemption. Show your calculations in respect of the number of equity share.-to be allotted and cash payment necessary.

Question26 Mahindra Ltd. gave notice of its intention to redeem its outstanding Rs. 4,00,000, 6% debenture stock at Rs. 102 per cent, and offered the holders the following options to apply the redemption money to subscribe for : (a) 5% cum-pref. shares of 20 each at Rs. 22.50 per share; (b) 5% debenture stock at 96 per cent; (c) to have their holdings redeemed for cash. Holders of Rs. 1,71,000 stock accepted the proposal (a). Holders of Rs. 1,44,000 stock accepted the proposal (b). The remaining stockholders accepted the proposal (c). Pass the journal entries to record the above transactions.

Question27 Mohini limited has an authorised capital of Rs. 10,00,000 in shares of Rs. 10 each of which 60,000 shares have been issued and are fully paid. A summary of its balance sheet on 31 March 2004 is as follows:

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

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

REDEMPTION BY PURCHASE IN THE OPEN MARKET**Question28 (Calculation of interest on own debentures)**

Excess Ltd. purchased its own 12% debentures of face value of 100 each, (interest payable on 30 September and 31 March) on following dates:

1 August 2002 Rs. 6,00,000 @ Rs. 94 ex-interest

31 December 2002 Rs. 4,00,000 @ Rs. 95 cum interest

these debentures were cancelled immediately. Make journal entries. **[CS. (Inter) December 2002]**

Question29 (Purchase of debentures for immediate cancellation)

On 1 January 2002, XYZ Ltd. has 5,000 10% Debentures of Rs.100 each outstanding. The interest on these debentures is paid half yearly on June 30, and December 31 every year. The company is not maintaining any sinking fund for redemption of debentures. On 1-4-2002, the company purchased 500 debentures @ Rs. 95 each cum-interest for immediate cancellation. On 1-10-2002, the company purchased 600 debentures @ Rs. 90 each ex-interest for immediate cancellation. You are required to record (i) the payment of interest on June 30 and Dec. 31, 2002, (ii) Purchase and cancellation of debentures on 1-4-2002 and 1-10-2002.

Question30 (Purchase and cancellation of debentures at the end of year)

On March 2000, Zodiac Ltd's. balance sheet showed 1,00,000, 12% fully paid debentures of Rs. 100 each outstanding. Interest on debentures is payable on 30 September and 31 March every year. On 1 August 2000, the company purchased 20,000 of its own debentures as investment at Rs 98 ex-interest. However on 31 March 2001, the company cancelled all these debentures. Pass journal entries for all the transactions, including cash transactions during the year ended 31 March 2001. **[C.S. (Inter) June 2001]**

Question31 (Purchase of own debentures) Leena Ltd. purchases from the market its own 400,12% debentures of Rs. 100 each at Rs. 90 on 31 December, 2002. Calculate the price paid exclusively for the debentures if the quotations are (i) cum-interest, and (ii) ex-interest. Debenture interest is paid on 31 March and 30 September each year. Also journalise in both the cases assuming that these debentures are not yet cancelled. **[B.Com. (Hons). Delhi, 2003]**

Question32 (Redemption of Debentures) Sea wage Ltd. had Rs. 18,00,000 14% Debentures outstanding on 1 April 2001 redeemable on 31 March 2002. On 1 April 2001, the debenture redemption fund stood at Rs. 14,98,000 represented by own debentures of the face value of Rs. 2,00,000 purchased at an average price of Rs. 99 per debenture and 10% stock acquired at par for Rs. 13,00,000. The annual installment of transfer to the fund was Rs. 1,42,000. On 31 March 2002, investments were sold for Rs. 12,93,600 and the debentures were redeemed. Show 14% Debentures Account, Debentures Redemption Fund Account and Debenture Redemption Fund Investments Account for the year and 31 March 2002. **[CS. (Inter) June 2002][B.Com(h) Delhi 1986(modified]**

Answer: 14% Debentures Account

2002		Rs.	2001		Rs.
Dec. 31	Debenture Redemption Fund Investments (Own Debentures) Account	1,98,000	April 1	Balance b/d	18,00,000
	Capital Reserve A/c	2,000			
	Debentureholders Account	16,00,000			
		18,00,000			18,00,000

Debenture Redemption Fund Account

2002		Rs.	2001		Rs.
March 31	Debenture Redemption Fund Investments Account (loss on sales)	6,400	April 1	Balance b/d	14,98,000
	General Reserve Account	17,91,600	2002 Mar. 31	Bank Account	1,30,000
		17,98,000		(Interest) Interest on own Debentures A/c	28,000
				Profit and Loss Appropriation A/c	
					17,98,000

Debenture Redemption Fund Investments Account

2001		Rs.	2002		Rs.
April. 1	Balance b/d : Own Debentures 10% Stock	1,98,000 13,00,000	Mar. 31	14% Debentures A/c (Own Debentures)	1,98,000
				Bank Account (Sale)	12,93,600
				Debenture Redemption Fund Account	6,400
		14,98,000			14,98,000

Calculation of Interest on Debenture Redemption Fund Investments**Interest on Own Debentures**

$$2,00,000 \times 14$$

On Rs. 2,00,000 @ 14% for one year : ----- = Rs. 28,000

100

Interest on 10% Stock

$$13,00,000 \times 10 \times 1$$

On Rs. 13,00,000 @ 10% for one year : ----- = Rs.1,30,000

100

1,58,000

Question33 (Debentures are purchased cum-int./ ex-int. for immediate cancellation and there is no sinking fund)

Febina Limited had, 1,000, 9% debentures of Rs. 100 each as on 1 April 2003. As per the term of the issue, the company had the option to purchase debenture in the open market for immediate cancellation:

30 June 2003 200 Debenture at Rs. 97 cum-interest

1 January 2004 500 Debentures at Rs. 102 cum-interest

1 March 2004 150 Debentures at Rs. 98-1/2 ex-interest

Debenture interest was payable half-yearly-30 September and 31 March- and income tax was deductible @ 10% at source. Show the journal entries in the books of the company. The company closes its books of the company. The company closes its books on 31 March.

Question34 (Purchases of own debentures and interest on own debentures)

On 1 October 2002, Aishwarya Ltd. issued 2,000, 12% Debentures of Rs. 100 each payable after 5 years. The interest is payable on 30 September and 31 March every year. The company is also allowed to purchase its own debentures which may be cancelled or kept or re-issued at the company's option. The company made the following purchases by cheques in the open market:

On 31 August 2003: 200 Debentures at Rs. 98 ex-interest

On 31 December 2004: 100 Debentures at Rs. 97 cum-interest.

The debentures which were purchased on 31 August 2003 were cancelled on 31 March 2005. All payments were made on the due dates. Give the journal entries to record the above transactions (including receipts and payments).

Question35 (cum. int. and ex. Int. with sinking fund)

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

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

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

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

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

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

REDEMPTION BY DEBENTURE TRUSTEES

A reference has already been made about Debenture Trust Deed and Debenture Trustees. **Section 117B of the Companies Act (introduced by the Companies (Amendment Act) 2000)** along with **SEBI Guidelines**, requires the appointment of debenture trustees to protect the interest of debentureholders before the debentures are offered for public subscription. The debenture trustees are also given the task of redeeming the debentures. The company makes them available cash for the purpose of making investments and also to purchase the debentures of the company in the

open market either to retain them as investments or to cancel them immediately. However the accounting treatment for redemption of debentures by debenture trustees is more or less same except for the fact that investments made by the trustees and cash balance available with the trustees are kept in separate accounts in the books of the account of the company itself. The purpose is not to mix up the transactions made by the trustees with that of company in respect of investments and cash available. **There is change in the terminology or account titles as well.** For example the company will have to open such accounts as : Debenture Trustees Fund Account, Debenture Trustees Bank Account, Debenture Trustees Investments Account, and so on.

Question36 (DELETED FROM SYLLABUS—BE HAPPY) (Redemption by Trustees) On 1st January 2011, X Ltd issued 12% debentures of Rs 8,00,000 payable at the end of third year. For this purpose company decided to create

Question37. Following balances appeared in the books of X Ltd.

	(Rs)
12% debentures	2,00,000
Sinking fund	80,000
Sinking fund investment	

10% Punjab Govt. Securities - Face value 30,000 - Cost 25,000.

9% Haryana Govt. Securities - Face value 50,000 - Cost 45,000

Sinking Fund cash (Rs) 10,000

During the year following transactions took place.

Purchase 13% Delhi Govt. bonds (face value 2000) cost price (Rs) 4000.

Sold Haryana Govt. bonds for (Rs) 55,000.

Purchased 15% U.P. Govt. bonds (face value 80,000) cost price (Rs) 50,000.

Annual appropriation necessary is (Rs) 25000. Prepare necessary accounts relating to sinking fund. Assume sinking fund is non-cumulative and ignore interest.

Solution:

Sinking Fund A/c

To Balance c/d	1,15,000	By Balance b/d By Profit on sale By Profit & Loss Appr	80,000 10,000 35,000
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Punjab Government Securities

	Nos/ FV	Amount		FV	Amount
To Balance b/d	30,000	25,000	By Balance c/d	30,000	25,000

Haryana Government Securities

	FV	Amount		FV	Amount
To Balance b/d	50,000	55,000	By SF cash	50,000	55,000
To Profit /Sale	-	10,000			

Delhi Government Securities

	FV	Amount		FV	Amount
To SF Cash	2,000	4,000	By balance c/d	2,000	4,000

QUESTION 38. The following is the balance sheet of Fair Deal Ltd. as on 1 April 2003

Liabilities	Rs.	Assets	Rs.
2,00,000 Equity Shares of Rs. 10 each	20,00,000	Land and Buildings	5,00,000
Profit and Loss Account	2,00,000	Plant and Machinery	15,00,000
General Reserve	3,00,000	Furniture and Fixtures	2,00,000
7,000, 12% Debentures of Rs. 100 each	7,00,000	Stock	2,00,000
Sundry creditors	3,00,000	Debtors	2,00,000
		Bills Receivable	10,000
		Cash at Bank	2,20,000
		Preliminary expenses	70,000
	35,00,000		35,00,000

The debenture trust deed provides that the company may redeem the debentures at a premium of 3% at any time before maturity. The directors decided to exercise this option and issued 50,000 shares of Rs. 10 each at Rs. 12 per share and 2,000, 14% Debentures of Rs. 100 each for the purpose of redemption. Show the journal entries and post-redemption balance sheet in the prescribed form.

Answer:

2003					
1 April	Bank Account To Equity Share Application and Allotment Account (Receipt of application money on 50,000 shares of Rs. 10 each at Rs. 12 per share including a premium of Re. 1 per share)	Dr.	Rs. 6,00,000		Rs. 6,00,000
	Equity Share Application and Allotment Account To Equity Share Capital Account.	Dr.	6,00,000		5,00,000
	To Securities Premium Account (Allotment of 50,000 shares of Rs. 10 each at a premium of Rs. 2 per share)				1,00,000
	Bank Account	Dr.	2,00,000		
	' To Debenture Application and allotment Account (Receipt of debenture application money on 2,000 debentures of Rs. 100 each)				2,00,000
	Debenture Application and allotment Account	Dr.	2,00,000		
	To 14% Debentures Account (Allotment of 14% debentures of Rs. 100 each)				2,00,000
	12% Debentures Account	Dr.	7,00,000		
	Premium on Redemption of Debentures A/c To Debentureholders Account (Amount due on redemption of debentures)	Dr.	21,000		7,21,000
	Debentureholders Account	Dr.	7,21,000		
	To Bank (Payment to Debentureholders)				7,21,000
	Securities Premium Account	Dr.	91,000		
	To Premium on Redemption of Debentures A/c				21,000
	To Preliminary Expenses Account				70,000
	Writing off the premium on redemption and preliminary expenses against share premium account)				

QUESTION 39 (Issue of partly convertible debentures) Libra Ltd. 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 Rs. 100 per debenture,
- (b) Convertible portion per debenture 60%; date of conversion on expiry of six months from the date of closing of issue,
- (c) Date of closure of subscription lists 1.5.2004; date of allotment 1.6.2004; rate of interest on debentures 15% payable from the date of allotment; value of equity share for the purpose of conversion Rs. 60 (Face value Rs. 10).
- (d) Underwriting commission 2%
- (e) No. of debentures applied for 1,50,000.
- (f) Interest payable on debentures half-yearly on 30 September and 31 March. Write relevant journal entries for all transactions arising out during the year ended 31 March 2005 (including cash and bank entries) **[C.A. (Inter) May 1995 Modified]**

QUESTION 40. The summarised Balance Sheet of Vasudha Ltd. on 30 September, 2002 was:

Share Capital :	Rs.		Rs.
Issued and fully paid :		Fixed Assets	15,00,000
5000 equity shares of Rs. 100 each fully paid	5,00,000	Investments :	
6% Redeemable preference shares of Rs. 100 each (less calls in arrears on 200 shares)	4,95,000	Own Debentures of nominal value of Rs. 1,00,000	95,000
Reserves and surplus		Other Securities	1,00,000
Securities Premium	1,00,000	Current Assets :	
Capital Reserve	1,00,000	Stock	2,00,000
General Reserve	2,00,000	Debtors	1,00,000
Profit & Loss Account	3,00,000	Cash at Bank	6,00,000
10% Debentures	2,00,000		
Creditors	7,00,000		
	25,95,000		25,95,000

On 30 September, 2002 the following were due for redemption:

(i) 5,000 6% Redeemable Preference Shares at a premium of Rs. 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) For the half year ending 30 September, 2002, the debenture interest and preference dividend were paid out of the profits of the company.

(ii) On an offer made to the 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.

(iii) A fresh issue of 1,000 equity shares of Rs. 100 each was made at a premium of Rs. 50 per share and subscribed in full. All moneys due were received forthwith.

(iv) Redemption of all preference shares was made on 10 October, 2002. You are required to show all journal entries for the above transactions to give the company's opening Balance Sheet after giving effect to them.

[C.A. (Inter) May 1994 Modified]

Answer:

Date	Particulars	Debit	Credit
		Rs.	Rs.
(i)	Profit and Loss Account Dr. To Debenture Interest Account To Preference Dividend Account (Provision for debenture interest at 10% for 6 months and dividend on paid up value of preference share capital @ 6% for 6 months)	24,850	10,000 14,850
(ii)	Debenture Interest Account Dr. To Bank Account To Interest on Own Debentures Account (Payment of interest on debentures held by outsiders and adjustment of interest on investment in own debentures)	10,000	5,000 5,000
(iii)	Preference Dividend Account Dr. To Bank Account (Payment of preference dividend).	14,850	14,850
(iv)	Bank Account Dr. To Calls-in-Arrears Account (Calls-in-arrears on 200 preference shares received)	5,000	5,000
(v)	10% Debentures Account Dr. Premium on Redemption of Debentures Account Dr. To Debentureholders Account (Redemption of 10% Debentures at a premium of 10%)	2,00,000 20,000	2,20,000
(vi)	Debentureholders Account Dr. To 12% Debentures Account (Issue of new 12% Debentures to the debentureholders)	2,20,000	2,20,000
(vii)	Investments in own 12% Debentures Account Dr. To Investments in Own 10% Debenture Account To Profit and Loss Account (Exchange of Own 10% Debentures by Own 12% Debentures; surplus being transferred to profit and loss account)	1,10,000	95,000 15,000
(viii)	Bank Account Dr. To Equity Share Application and Allotment Account (Receipt of application money on fresh issue of 1,000 equity shares of Rs. 100 each issued at a premium of Rs. 50 per share)	1,50,000	1,50,000
(ix)	Equity Share Application and Allotment Account Dr. To Equity Share Capital Account To Securities Premium Account (Allotment of equity shares)	1,50,000	1,00,000 50,000
(X)	General Reserve Account Dr. Profit and Loss Account Dr. To Capital Redemption Reserve Account (Transfer from divisible profits a sum equivalent to the nominal value of the preference shares redeemed out of them)	2,00,000 2,00,000	4,00,000
(xi)	6% Preference Share Capital Account Dr. Premium on Redemption of Preference	5,00,000	

	Shares Account	Dr.	1,25,000	
	To Preference Shareholders Account (Redemption of 6% redeemable preference shares of Rs. 100 each at a premium of Rs. 25 per share)			6,25,000
(xii)	Preference Shareholders Account	Dr.		
	To Bank Account (Payment to preference shareholders on redemption)			6,25,000
(xiii)	Interest on Own Debentures Account	Dr.	5,000	
	To Profit and Loss Account (Transfer of interest on own debentures to profit and loss account)			5,000
(xiv)	Securities Premium Account	Dr.	1,45,000	
	To Premium on Redemption of Debentures Account To Premium on Redemption of Preference Shares Account (Premium on redemption of debentures and preference shares provided out of securities premium account)			20,000 1,25,000

HINT(i) Cash at bank has been calculated as under:

Opening Balance	6,00,000	
Add: Received on calls in Arrears	5,000	
Received from fresh issue	<u>1,50,000</u>	
	7,55,000	
Less : Preference Dividend	14,850	
Debenture Interest	5,000	
Preference Shareholders	<u>6,25,000</u>	<u>6,44,850</u>
		<u>1,10,150</u>

(ii) Balance in the Profit and Loss Account has been arrived at as follows

Opening Balance	3,00,000	
Less: Capital Redemption Reserve	2,00,000	
Preference Dividend	14,850	
Interest on Debentures	<u>10,000</u>	<u>2,24,850</u>
		75,150
Add: Interest on Own Debentures	5,000	
Profit on Conversion of Investment in Own 10% Debentures into Own 12%-Debentures		<u>15,000</u>
		<u>95,150</u>

- (iii) Preference dividend has been paid on paid up amount in pursuance to Section 93 of the Companies Act 1956. It is assumed that Articles of Association permit such payment.
- (iv) Profit on conversion of 10% Own Debentures into 12% Own Debentures means revaluation of an asset. Hence the profit on such revaluation has been transferred to Profit and Loss Account or it could be kept in Revaluation Reserve Account.

QUESTION 41(Redemption by purchase in the open market) In 2000, Alpha Ltd. issued Rs. 2,00,000, 8% debentures at par which were redeemable at Rs. 102 on 30 June, 2004. Annual appropriations had been made out of profits to a sinking fund set up under the terms of the debentures trust deed. The appropriations were invested annually on 30 June together with the sinking fund investments income received in the year ended on that date. The trustees have power to purchase for immediate cancellation any debenture available at a market price below par, and to realise investments of the sinking fund for this purpose. The following balances appeared in the company's books on 1 July 2003. (i) Debenture Redemption Fund Account — Rs. 1,17,490 represented by investments at cost of an equal amount. (ii) 8% Debentures - 1,20,000.

The under mentioned transactions took place during the year ended 30 June 2004:

- (iii) Half year's debenture interest to 31 December 2003 was paid on that date.
- (iv) Investments costing Rs. 9,750 were sold and realised Rs. 10,050 on 1 January 2004 in order to provide funds for purchase of debentures. On the same date, Rs. 10,000 debentures were purchased at Rs. 98 (inclusive of expenses) on the market and cancelled.
- (v) The remaining investments of the fund were sold and the proceeds amounting to Rs. 1,10,200 were received on 29 June 2004.
- (vi) Income amounting to Rs. 6,950 received in the year from the sinking fund investments was not invested in view of the immediate debenture redemption.
- (i) On 30 June 2004, the debentures were repaid together with half-year's interest thereon.

You are required to write up the following ledger accounts for the year ended on 30 June, 2004: (i) 8% Debentures, showing capital and interest entries. (ii) Debenture Redemption Fund Investment. (iii) Debenture Redemption Fund.

Answer:

8% Debentures Account

2004		Rs.	2003		Rs.
Jan. 31	Bank Account Debenture Redemption Fund Account (i)	9,800	July 1	Balance b/d	1,20,000
June 30	(Profit on Redemption) Debentureholders Account	1,10,000			
		1,20,000			1,20,000

Debenture Interest Account

2003		Rs.	2004		Rs.
Dec. 31	Bank Account (Interest on Rs. 1,20,000 for 6 months @ 8% p.a.)	4,800	June 30	Profit and Loss Account	9,200
2004					
June 30	Bank Account (Interest for 6 months on Rs. 1,10,000 @ 8% p.a.)	4,400			
		9,200			9,200

Debenture Redemption Fund Investments Account

2003		Rs.	2004		Rs.
July 1	Balance b/d	1,17,490	Jan. 1	Bank Account (Proceeds of sale)	10,050
2004					
Jan. 1	Debenture Redemption Fund Account (Profit on realization)	300	June 29	Bank Account (Proceeds of sale)	1,10,200
June 29	Debenture Redemption Fund Account (Profit on realization)	2,460			
		1,20,250			1,20,250

Debenture Redemption Fund Account

2003		Rs.	2003		Rs.
July 30	Premium on Redemption of Debentures Account	2,200	July 1	Balance b/d	1,17,490
	General Reserve	1,22,240	2004		
	Capital Reserve (ii)	2,960	Jan. 1	Debenture Redemption Fund Investments Account	300
				8% Debentures Account	200
			July 30	Bank Account (Interest on investments)	6,950
				Debenture Redemption Fund Investments Account	2,460
		1,27,400			1,27,400

Debentureholders Account

2004		Rs.	2004		Rs.
June 30	Bank Account	1,12,200	June 30	8% Debentures	1,10,000
				Premium on Redemption of Debentures Account	2,200
		1,12,200			1,12,200

Question 42. Naseeb Limited has an authorised capital of Rs. 15,00,000 divided into equity shares of Rs. 10 each and its balance sheet as on 31 December 2003 was as follows:

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	12,00,000
Issued and fully paid up	5,00,000	Current Assets	4,20,000
Capital Reserve	1,20,000	Investment in Own	
General Reserve	2,00,000	Debentures	85,000
Debenture Redemption Fund	3,00,000	(Nominal value	
6 % Debentures	4,00,000	Rs. 1,00,000)	
Sundry Creditors	2,60,000	Cash at Bank	75,000
	17,80,000		17,80,000

The 6% debentures were due for redemption on 30 June 2004 at a premium of 5% the company decided:

(i) To issue to the public 25,000 equity shares of Rs. 10 each at Rs. 15 per share. The money was duly received;

(ii) To redeem the debentures on 30.6.2004 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 2008 at par. The holders of Rs. 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. **[C.A. (Inter)]**

Answer:

2004		Rs.	Rs.
June 30	Bank Account Dr. To Share Application and Allotment Account (Being the amount received on applications for 25,000 equity shares of Rs. 10 each at Rs. 15)	3,75,000	3,75,000
	Share Application and Allotment Account Dr. To Equity Share Capital Account To Securities Premium Account (Being the allotment of 25,000 shares @ Rs. 10 each at a premium of Rs. 5 per share <i>vide</i> Board's resolution dated....)	3,75,000	2,50,000 1,25,000
	Debenture Interest Account Dr. To Debentureholders Account To Interest on Own Debentures Account (Being interest due on debentures outstanding @ 6% on Rs. 4,00,000 including on own debentures)	12,000	9,000 3,000
	6% Debentures Account Dr. Premium on Redemption of Debentures Account Dr. To Debentureholders Account (Amount due on redemption)	3,00,000 15,000	3,15,000
	Debentureholders Account Dr. To Bank Account (Payment of interest to debentureholders)	9,000	9,000
	Debentureholders Account Dr. To Bank Account (Payment to debentureholders holding Rs. 2 lakh debentures including premium)	2,10,000	2,10,000
	Debentureholders Account Dr. To 7% Debentures Account (Being the issue of new 7% debentures (2008) to the holders of Rs. 1 lakh debentures including premium)	1,05,000	1,05,000
	6% Debenture Account Dr. To Own Debentures Account To Profit on Redemption of Debentures Account (Cancellation of own debentures and profit thereof)	1,00,000	85,000 15,000
	Profit on Redemption of Debentures Account Dr. To Capital Reserve Account (Profit on cancellation transferred to capital reserve account)	15,000	15,000
	Securities Premium Account Dr. To Premium on Redemption of	15,000	

Debentures Account (Premium paid on redemption written off to securities premium account)		15,000
Debenture Redemption Fund Account <i>Dr.</i> To General Reserve Account (The amount provided out of profits for redemption of Rs. 3 lakhs debentures)	3,00,000	3,00,000
Profit and Loss Account <i>Dr.</i> To Debenture Interest Account (Transfer of debenture interest to profit and loss account)	12,000	12,000
Interest on Own Debentures Account <i>Dr.</i> To Profit and Loss Account (Transfer of interest to profit and loss account)	3,000	3,000

- (i) Debenture interest on Rs. 1 lakh debentures has not been converted into new debentures as the problem is silent on the point,
- (ii) Only Rs. 3 lakhs have been provided out of debenture redemption fund for redemption because new debentures of Rs. 1 lakh substitute the old debentures,
- (iii) Premium on redemption of debentures has been set off against securities premium account as Section 78 permits the same,
- (iv) Profit on cancellation being capital profit has been transferred to capital reserve account though it could be done through debenture redemption fund account as well.

IMPORTANT EXAMINATION QUESTIONS FOR REVISION

Question:- 43 PROGRESSIVE LTD. issued Rs. 10,00,000, 6% Debenture Stock at par on 21.1.1984. Interest was payable on 30th June and 31st December, in each year.

Under the terms of the Debentures Trust the owned stock is redeemable at par. The trust deed obliges the Company to pay to the trustees on 31st December, 1995 and annually thereafter the sum of Rs. 1,00,000 to be utilised for the redemption and cancellation of an equivalent amount of stock, which is to be selected by drawing lots.

Alternatively, the Company is empowered as from 1st January, 1995 to purchase its own debentures on the open market. These Debentures must be surrendered to the Trustees for cancellation and any adjustments for accrued interest recorded in the books of account. If in any year the nominal amount of the stock surrendered under this alternative does not amount to Rs. 1,00,000 then the shortfall is to be paid by the Company to the Trustees in cash on 31st December. The following purchases of stock were made by the Company:

	Nominal value of	Purchase price per
	Stock purchased	Rs. 100 of stock
(1) 30 th September, 1995	1,20,000	98
(2) 31 st May, 1996	75,000	95(Ex-interest)
(3) 31 st July, 1997	1,15,000	92

The Company fulfilled all its obligations under the trust deed.

Prepare the following Ledger Accounts:

- Debenture Stock A/c
- Debenture Redemption A/c
- Debenture Interest A/c.

Note: Ignore costs and taxation.

Answer:

Debenture Stock Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1995 Sept.30 Dec. 31	To Debenture Redemption A/c To Balance c/d	1,20,000 <u>8,80,000</u> 10,00,000	1995 Jan. 1	By Balance b/d	10,00,000
1996 May 31 Dec. 31	To Debenture Redemption A/c To Debenture Redemption A/c To Balance c/d	75,000 25,000 <u>7,80,000</u> 8,80,000	1996 Jan. 1	By Balance b/d	<u>10,00,000</u> <u>8,80,000</u>
1997 July 31 Dec. 31	To Debenture Redemption A/c To Balance c/d	1,15,000 6,65,000	1997 Jan. 1	By Balance b/d	<u>8,80,000</u> <u>7,80,000</u>
		7,80,000			7,80,000

Debenture Redemption Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1995 Sept. 30	To Bank A/c (Rs. 1,20,000 x 0.98 – Rs. 1,800) To Capital Reserve A/c (Profit on cancellation)	1,15,800 <u>4,200</u> 1,20,000	1995 Sept. 30	By Debenture Stock A/c	1,20,000
1996 May 31 Dec. 31	To Bank A/c (Rs. 75,000 x 0.95) To Capital Reserve A/c (Profit on cancellation) To Bank A/c (Shortfall = Rs. 1,00,000-Rs. 75,000)	71,250 3,750 <u>25,000</u> 1,00,000	1996 May 31 Dec. 31	By Debenture Stock A/c By Debenture Stock A/c	75,000 25,000
1997 July 31	To Bank A/c (Rs. 1,15,000 x 0.92 – Rs. 575) To Capital Reserve A/c (Profit on cancellation)	1,05,225 9,775	1997 July 31	By Debenture Stock A/c	<u>1,00,000</u> 1,15,000
		1,15,000			1,15,000

Debenture Interest Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1995 June 30 Sept. 30 Dec. 31	To Bank A/c To Bank A/c To Bank A/c	30,000 1,800 <u>26,400</u> 58,200	1995 Dec. 31	By Profit and Loss A/c	58,200
1996 May 31 June 31 Dec. 31	To Bank A/c To Bank A/c To Bank A/c	1,875 24,150 <u>24,150</u> 50,175	1996 Dec. 31	By Profit and Loss A/c	<u>58,200</u> 50,175
1997 June 30 July 31 Dec. 31	To Bank A/c To Bank A/c To Bank A/c	23,400 575 19,950	1997 Dec. 31	By Profit and Loss A/c	<u>50,175</u> 43,925
		43,925			43,925

Working Notes: Interest paid on Debentures @ 6% per annum:

Date Rs.	Amount of Debentures Rs.	Period	Interest
1995			
June 30	10,00,00	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
1996			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
1997			
June 30	7,80,000	6 months	23,400
July 31	1,15,000	1 months	575
Dec. 31	6,65,000	6 months	19,950

Notes:

- (1) It has been assumed that debentures are purchased for immediate cancellation of existing debenture.
- (2) The purchases of 30th September 1995 and 31st July, 1997 have been taken on cum-interest basis.

Question:- 44. A Company purchased Its own 11% debentures in the open market for Rs. 50,00,000 (cum-interest). The interest amount Included In the purchase price is Rs. 1,50,000. The face value of the debentures purchased Is Rs. 52,00,000. The Company cancelled the debentures so purchased. Pass Journal Entries in the books of the Company for purchase and immediate cancellation of debentures.

Answer:-

Particulars	Dr. Rs.	Cr. Rs.
11% Own debenture Account Dr. Deb. Interest A/c Dr. To Bank [Being the purchase of cum-interest own debentures from the market]	48,50,000 1,50,000	50,00,00
11 % debenture Account Dr. To Own debenture Account To Capital Reserve [Being profit on cancellation of own debentures transfers to Capital Reserve Account]	52,00,000	48,50,000 3,50,000

CHAPTER 10. CASH FLOW STATEMENT

Question 1. From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:

	31.3.2002	31.3.2001
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	2,00,000	
Provision for taxation	1,00,000	70,000
Proposed dividend	2,00,000	1,00,000
Sundry Creditors	<u>7,00,000</u>	<u>8,20,000</u>
	<u>25,00,000</u>	<u>20,00,000</u>
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	<u>2,00,000</u>	<u>2,00,000</u>
	<u>25,00,000</u>	<u>20,00,000</u>

Question 2. From the following details relating to accounts of Grow Ltd. prepare Cash Flow Statement:

	31.3.2002	31.3.2001
Share Capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000
Profit and Loss Account	1,00,000	60,000
Debentures	2,00,000	
Provision for taxation	1,00,000	70,000
Proposed dividend	2,00,000	1,00,000
Sundry Creditors	<u>7,00,000</u>	<u>8,20,000</u>
	<u>25,00,000</u>	<u>20,00,000</u>
Plant and Machinery	7,00,000	5,00,000
Land/Building	6,00,000	4,00,000

Investments	1,00,000	NIL
Sundry Debtors	5,00,000	7,00,000
Stock	4,00,000	2,00,000
Cash on hand/bank	<u>2,00,000</u>	<u>2,00,000</u>
	<u>25,00,000</u>	<u>20,00,000</u>

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.
- (ii) During the year one old machine costing 50,000 (WDV 20,000) was sold for Rs. 35,000.
- (iii) Rs. 50,000 was paid towards income tax during the year.
- (iv) Building under construction was not subject to any depreciation. Prepare cash flow statement.

Question 3. From the following particulars prepare a Cash Flow Statement:

	Last year	This Year
	Rs.	Rs
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 Rs. 26,000 for personal use.
- 2) The provision for depreciation against machinery last year was Rs. 27,000 and this year Rs. 30,000.
- 3) During the year a part of machine costing Rs 30,000 (book value Rs 22,000) was sold for Rs 7,000.

Question:4 Prepare Cash flow statement from the following comparative balance sheets

	As on 31 March			As on 31 March	
Liabilities	2016	2017	Assets	2016	2017
	Rs.	Rs.		Rs.	Rs.
Share Capital	4,50,000	5,00,000	Fixed Assets	5,00,000	5,30,000
Loans unsecured	2,00,000	2,00,000			
General reserve	25,000	75,000	Current assets	5,42,000	6,01,000
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 2016-17, the company earned a profit of Rs. 2,00,000 after charging depreciation of Rs. 75,000. The profit was appropriated as follows: Provision for taxation Rs. 1,00,000, proposed dividend Rs. 50,000 and balance to reserve Rs. 50,000. (ii) Machinery worth Rs. 75,000 was sold at Rs. 60,000 and a new machinery for Rs. 1,80,000 was purchased.

QUESTION 5. Following are the summarized Balance Sheets of Shotgun Ltd. as on 31 March 2017 and 2018

Liabilities	2017 Rs.	2018 Rs.	Assets	2017 Rs.	2018 Rs.
Share Capital	2,00,000	2,50,000	Land and Building	2,00,000	1,85,000
General Reserve	50,000	55,000	Machinery	1,50,000	1,70,000
Profit & Loss Account	30,500	30,600	Stock	1,00,000	77,000
Debentures	70,000	-	Debtors	80,000	64,000
Sundry Creditors	1,50,000	1,40,000	Bank	500	8,000
Provision for Taxation	30,000	35,000	Goodwill	-	6,600
	5,30,500	5,10,600		5,30,500	5,10,600

Dividend of Rs. 25,000 was paid.

- Assets of another company were purchased for a consideration of Rs. 50,000 payable in shares: Stock Rs. 20,000, Machinery Rs. 25,000.
- Depreciation written off machinery was Rs. 10,000.
- Income tax provided during the year was Rs. 33,000.
- Loss on sale of machine Rs. 1,000 was written off to General Reserve.
- Machinery for Rs. 15,000 was purchased for cash.

Prepare Cash Flow Statement.

Question 6. The summarized balance sheets of P. Ltd., as on 31 December 2017 and 2018 are as follows:

Assets	31-12-2017	31-12-2018
Fixed Assets: At cost	16,00,000	19,00,000
Less: Depreciation	4,60,000	5,80,000
	11,40,000	13,20,000
Trade Investments	2,00,000	1,60,000
Current Assets	5,60,000	6,60,000
Discount on debentures	40,000	20,000
	19,40,000	21,60,000
Liabilities		
Share Capital	6,00,000	8,00,000
Capital Reserves	-	20,000
General Reserve	3,40,000	4,00,000
Profit and Loss Account	1,20,000	1,50,000
Debentures	4,00,000	2,80,000
Liabilities for goods and services	2,40,000	2,60,000
Provision for Income Tax	1,80,000	1,70,000
Proposed Dividend	60,000	72,000
Unpaid Dividend	-	8,000
	19,40,000	21,60,000

During 2018, the company

- Sold one machine for Rs. 50,000; the cost of machine was Rs. 1,00,000 and the depreciation provided for it amounted to Rs. 40,000;

- (ii) Provided Rs. 1,80,000 as depreciation;
 (iii) Redeemed 30% of debentures @ 105;
 (iv) Sold some trade investments at profit of Rs. 20,000, credited to capital reserve;
 (v) Decided to value the stock at cost, whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31.12.2017 was 1,08,000; the stock on 31.12.18 Rs.1,50,000 was correctly valued at cost;
 (vi) Decided to write off fixed assets costing Rs. 28,000 on which depreciation amounting to 20,000 has been provided. You are required to prepare the cash flow statement during 2018.

Question 7. The balance sheets of AB Ltd. as on 31 December 2017 and 2018 are as under:

Liabilities	31.12.17	31.12.18	Assets	31.12.17	31.12.18
Equity share capital	1,50,000	2,50,000	Goodwill	60,000	47,000
8% Redeemable Preference Shares	1,50,000	1,00,000	Land and Building	1,00,000	75,000
Reserves and Surplus:			Plant and Machinery	90,000	1,91,000
General Reserve	20,000	30,000	Trade Investments	10,000	35,000
Capital Reserve	-	25,000	Current Assets,		
Profit & Loss Account	18,000	27,000	Loans and Advances		
			Stock	85,000	78,000
Sundry Creditors	26,000	53,000	Sundry Debtors	60,000	90,000
Bills Payable	18,000	12,000	Bills Receivable	15,000	18,000
Provision for taxation	28,000	32,000	Cash at Bank	10,000	22,000
Proposed dividend	27,000	33,000	Cash in hand	7,000	6,000
	4,37,000	5,62,000		4,37,000	5,62,000

The following further particulars are given:

- (i) In 2018, Rs. 18,000 depreciation has been written off plant and machinery and no depreciation has been charged on land and building.
 (ii) A piece of land has been sold out and the balance has been revalued, profit on such Sale and revaluation being transferred to Capital Reserve. There is no other entry in Capital Reserve Account.
 (iii) A plant was sold for Rs. 12,000 (W.D.V. - Rs. 15,000)
 (iv) Dividend received amounted to Rs. 2,100 which included pre-acquisition dividend of Rs. 600.
 (v) An interim dividend of Rs. 10,000 has been paid in 2018. You are required to prepare: Cash Flow Statement

Question 8. Following are the balance sheets of X Co. Ltd. as on 31st March, 2017 and 2018:

Liabilities	2017	2018	Assets	2017	2018
Pref. Share Capital	----	2,00,000	Goodwill	20,000	30,000
Eq. Share Capital	4,20,000	5,20,000	Buildings	6,00,000	5,80,000
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			
Provision for tax	60,000	70,000			
	12,81,000	12,41,200		12,81,000	12,41,200

Information:

- (i) Dividend paid in cash Rs. 50,000 during the year.
- (ii) Assets acquired for Rs. 1,00,000 payable in equity shares: stock Rs. 50,000, Machine Rs. 40,000.
- (iii) Machine purchased for cash Rs. 12,000.
- (iv)) machinery of the book value of Rs. 6,000 was sold for Rs. 6,500.
- (v) Provision for tax during the year Rs. 66,000.
- (vi) Debenture holders accept preference shares in settlement of their claims.
- (vii) Depreciation on buildings Rs. 20,000. Prepare Cash flow statement.

Question 9. From the following summarized balance sheets of a company, as at 31 March 2017 and 31 March 2018 respectively prepare cash flow statement. All working should form part of your answer:

Liabilities	2017	2018	Assets	2017	2018
Equity Share Capital	75,000	1,20,000	Fixed Assets at cost	2,40,070	2,53,730
10% Redeemable Preference Share Capital	1,00,000	80,000	Less : Depreciation	90,020	98,480
Reserve for replacement of Machinery	15,000	10,000	Investments	61,000	76,000
Long term Loans	-	40,000	Stock	98,000	1,04,000
Bank Overdraft	22,000	-	Trade Debtors	88,000	85,000
Trade Creditors	84,450	75,550	Bank	11,750	32,000
Proposed dividend on Equity Shares	12,000	24,000			
Profit & Loss Account	1,00,350	1,02,700			
	4,08,800	4,52,250		4,08,800	4,52,250

Additional information:

- (i) During the year, additional equity capital was issued to the extent of Rs. 25,000 by way of bonus shares fully paid.
- (ii) Final dividend on preference shares and an interim dividend of Rs. 4,000 on equity shares were paid on 31 March 2018.
- (iii) Proposed dividends for the year ended 31 March 2017 were paid in October 2017.
- (iv) Movement in reserve for replacement of machinery account represents transfer to Profit and Loss Account.
- (v) During the year, one item of plant was up valued by Rs. 3,000 and credit for this taken to profit and loss account.
- (vi) Rs. 1,700 being expenditure on fixed assets for the year ended 31 March 2017 wrongly debited to sundry debtors then, was corrected in the next year.
- (vii) Fixed assets costing Rs. 6,000 (accumulated depreciation Rs. 4,800) were sold for Rs. 250, loss arising there from was written off.
- (viii) Preference shares redeemed in the year (June 2017) were out of a fresh issue of equity shares. Premium paid on redemption was 10%.

Hint: Reduce opening debtors by 1,700 and increase the opening balance of fixed assets with the help of following journal entry:

(Opening) Fixed Assets Account	Dr.	1,700
To (Opening:) Debtors		1,700

Question 10. Condensed versions of the comparative balance sheets and income statement of Scindia Ltd. are presented below:

Comparative Balance Sheets as on December 31, 1999 and 1998

Assets	1999	1998
	Rs.	Rs.
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
Liabilities and Capital		
Creditors	32,500	37,000
Wages payable	4,500	7,500
Income tax payable	7,000	5,000
Mortgage note payable 2022	1,00,000	-
Equity share capital, Rs. 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 Rs. 40,000 were declared during the year.
- (ii) Machinery with an original cost of Rs. 80,000 and accumulated depreciation of Rs. 74,000 was sold during the year for Rs. 6,000 cash. New machinery was also purchased for Rs. 1,00,000 cash.
- (iii) Land and buildings were acquired during the year at a cost of Rs. 1,15,000. In addition to the down payment of Rs. 15,000, a ten year 10% mortgage note for Rs. 1,00,000 was issued to the vendor.

Income Statement for the year ended December 31, 2017

Sales		8,10,000
Cost of goods sold		<u>4,60,000</u>
Gross profit on sales		3,50,000
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		1,44,500
Income tax provision		<u>69,500</u>
Net profit after tax		<u>75,000</u>

Question 11. You are given below the profit and loss account of Srivastava Ltd., for the year ended December 31, 1997. The company is engaged in the manufacture of plastic cans.

Sales	Rs. 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	<u>1,50,000</u>

Additional information:

- (1) Included in operating expenses is loss on sale of machinery Rs. 20,000.
- (2) Actual taxes paid in respect of 2016 Rs. 90,000.
- (3) The balances relating to current items taken from the balance sheets of 1996 and 1997 are given below:

	31-12-1997	31-12-1996
	Rs.	Rs.
Trade debtors	80,000	60,000
Inventory	65,000	70,000
Trade creditors	90,000	85,000
Required:		

Cash flow from operations by (1) direct method and (2) indirect method.

Question 12. Presented below are the balance sheets of Reckless Limited, as at December 31, 2016 and 2017.

	2017	2016
Assets		
Cash and bank balances	4,00,000	6,00,000
Trade debtors	8,00,000	6,50,000
Inventory	14,00,000	15,50,000
Prepaid expenses	65,000	80,000
Land	15,00,000	18,00,000
Equipment	20,00,000	16,00,000
Accumulated depreciation-Equipment	(3,00,000)	(2,00,000)
Building	25,00,000	25,00,000
Accumulated depreciation-Buildings	<u>(6,00,000)</u>	<u>(5,00,000)</u>
	<u>77,65,000</u>	<u>80,80,000</u>
Capital and Liabilities		
Provision for taxation	1,25,000	1,00,000
Trade creditors	6,50,000	8,00,000
Debentures	20,50,000	22,00,000
Equity share capital	43,00,000	40,00,000
Retained earnings	<u>6,40,000</u>	<u>9,80,000</u>
	<u>77,65,000</u>	<u>80,80,000</u>

Additional information:

- (1) Land was sold for cash at a profit of Rs. 50,000.
 - (2) Net profit for the year Rs. 1,60,000.
 - (3) Equipment costing Rs. 6,00,000 was purchased and paid by cash. In addition equipment costing Rs. 2,00,000 with a book value of Rs. 40,000 was sold for Rs. 30,000 and cash was received.
 - (4) Debentures were redeemed at face value by issuing shares at par.
 - (5) Amount transferred to provision for taxation during the year Rs. 1,60,000.
- You are required to prepare a statement of cash flow for Reckless Ltd. for the year ended December 31, 2017.

Question 13. You are given below the balance sheet of Guruji Limited for the year ended December 31, 1996.

	Rs.
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>
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 1997 the following transactions took place:

1. Further land was purchased for cash Rs. 1,50,000.
2. An amount of Rs. 60,000 was repaid towards long-term borrowings.
3. Dividends paid to shareholders Rs. 1,20,000.
4. Plant of Rs. 2,00,000 was purchased by issuing debentures at par Rs. 2,00,000.
5. Part of the investments was sold at Rs. 1,20,000 resulting in a profit of Rs. 20,000.
6. Net profit for the period was Rs. 3,50,000 after writing off depreciation amount of Rs. 90,000 on plant and machinery.
7. Investment costing Rs 50,000 purchased during the year.
8. The following were the balances as at December 31, 1997:

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, 1997 and a statement of cash flow for the year ended December 31, 1997.

Question 14. ABC Limited gives you its Balance Sheet as on 31st March, 2016 and its projected Profit and Loss Account for the year ended 31st March, 2017.

Balance Sheet as on 31st March, 2016

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>	5,60,000
General reserve	1,30,000	Motor car at cost 80,000	
Profit and loss account	65,000	Less:dep. <u>30,000</u>	50,000
8% debentures	3,00,000	Stock	5,60,000
Sundry creditors	2,85,000	Book debts	2,20,000
Provision for tax	1,40,000	Bank	1,20,000
Proposed dividend	90,000	Advance income tax	1,00,000
		Preliminary expenses	20,000
	<u>16,30,000</u>		<u>16,30,000</u>

Projected Profit and Loss Account (For the year ended 31st March, 2017)

To Opening Stock	5,60,000	By Sales :	
To Purchases	14,40,000	Cash	3,70,000
To Wages	80,000	Credit	18,00,000
To Manf. Exps.	40,000	By Stock	4,20,000
To Office & Administration Expenses	50,000	By Profit on Sale of Machine	10,000
To Selling & Distribution Expenses	30,000		
To Interest	24,000		
To Depreciation :			
Machinery	56,000		
Car	14,000		
	70,000		
To preliminary Expenses	10,000		
To Provision for Taxation	1,36,000		
To Proposed Dividend on Equity	1,00,000		
To Balance	60,000		
	26,00,000		26,00,000

The company proposes to issue one equity share for two equity shares with a nominal value of Rs. 3,00,000 at a premium of 10%. Machinery will be acquired for Rs. 1,00,000. The cost of machinery to be sold in the year ended 31st March, 2017 is Rs. 80,000 with a depreciation provision of Rs. 45,000.

It is expected that:

- (i) Tax liability up to 31st March, 2016 will be settled for Rs. 1,20,000 within 31st March, 2017.
- (ii) Advance Income Tax amounting to Rs. 1,30,000 is proposed to be paid in 2016- 17.
- (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, 2017 will be Rs. 5,000.

You are required to :

- (i) Draft the Company's projected Balance Sheet as on 31st March, 2017.
- (ii) Draft the statement showing the cash flows during the year ended 31st March, 2017.

Answer: Projected Balance Sheet as on March 31, 2017

	Rs.	Rs.
Liabilities		
Share capital-9,000 Equity shares of Rs. 100 each fully paid		9,00,000
Reserves & Surplus		
Share premium		50,000
General reserve	1,30,000	
Add: Excess tax provision	20,000	1,50,000
Profit and Loss Account balance	65,000	
Add: Current profit	60,000	1,25,000
Secured Loans-Debentures		3,00,000
Current Liabilities & Provisions		
Sundry creditors		1,80,000
Creditors for expenses		5,000
Provision for taxation		1,36,000

Proposed dividends		1,00,000
		19,46,000
Assets:		
Fixed Assets-Machinery	7,20,000	
Less: Depreciation	<u>1,51,000</u>	5,69,000
Motor car	80,000	
Less: Depreciation	<u>44,000</u>	36,000
Current assets, loans and advances		
Stock in trade		4,20,000
Book debts		3,30,000
Bank balance		4,51,000
Advance income tax		1,30,000
Miscellaneous Expenditure		
Preliminary expenses		10,000
		19,46,000

Working Note. for the projected balance sheet:

1. Book debts: Credit sales for the year	18,00,000
Debtors being two months sales	3,00,000
Add: Increase of 10%	30,000
Projected book debts	3,30,000
2. Creditors: Purchases for current year	14,40,000
Creditors being one and half month's purchases	1,80,000
3. Outstanding expenses given as	5,000

4. Machinery Account

To Balance b / d	7,00,000	By Machinery disposal A/ c	80,000
To Bank-Purchases	1,00,000	By Balance c/d	7,20,000
	<u>8,00,000</u>		<u>8,00,000</u>

5. Machinery Disposal Account

To Machinery A/ c	80,000	By Provision A/ c	45,000
To Profit and loss A/c	10,000	By Bank-Sale proceeds	45,000
	<u>90,000</u>		<u>90,000</u>

6. Provision for Depreciation Account (Machinery)

To Machinery Disposal A/ c-transfer	45,000	By Balance b/d	1,40,000
To Balance c / d	1,51,000	By Profit and loss A/ c	56,000
	<u>1,96,000</u>		<u>1,96,000</u>

7. Sundry Debtors Account

To Balance b/d	2,20,000	By Bank-(bal. fig)	16,90,000
To Credit sales	18,00,000	By Balance c/d	3,30,000
	<u>20,20,000</u>		<u>20,20,000</u>

8. Sundry Creditors Account

To Bank (bal. fig)	15,45,000	By Balance c / d	2,85,000
To Balance b/d	1,80,000	By Purchases	14,40,000
	<u>17,25,000</u>		<u>17,25,000</u>

9.

Advance Tax Account

To Balance b/d	1,00,000	By Tax provision A/ c	1,20,000
To Bank	20,000		
	1,20,000		1,20,000
To Bank (for 1996)	1,30,000	By Balance c/d	1,30,000
	1,30,000		1,30,000

10.

Tax Provision Account

To Advance tax a/c	1,20,000	By Balance b/d	1,40,000
To Reserve A/c	20,000		
	1,40,000		1,40,000
To Balance C/d	1,36,000	By Profit and Loss A/c	1,36,000

Projected Statement of Cash Flow (for the year ended March 31, 2017)

	Rs.	Rs.
Cash flows from operating activities		
Net profit before taxation	2,96,000	
Adjustments for Depreciation	70,000	
Preliminary expenses written off	10,000	
Profit on sale of machinery	(10,000)	
Interest paid	24,000	
Operating profit before working capital changes	3,90,000	
Decrease in stock	1,40,000	
Increase in book debts	(1,10,000)	
Decrease in sundry creditors	(1,05,000)	
Increase in outstanding expenses	5,000	
Cash generated from operations	3,20,000	
Taxes paid	(1,50,000)	
Net cash from operating activities (A)		1,70,000
Cash flows from investing activities		
Sale of machinery	45,000	
Purchase of machinery	(1,00,000)	
Net cash used in investing activities (B)		(55,000)
Cash flows from financing activities		
Issue of shares at a premium	3,30,000	
Interest paid	(24,000)	
Dividends paid	(90,000)	
Net cash from financing activities (C)		2,16,000
Net increase in bank balances (A + B + C)		3,31,000
Bank balances at the beginning of period		1,20,000
Bank balances at the end of period		4,51,000

*As against the provision of Rs. 1,40,000 tax liability was settled at Rs. 1,20,000. Therefore the excess provision of Rs. 20,000 is transferred to reserve account.

The tax liability for the year ending March 31, 2016 was settled at Rs. 1,20,000.

As advance tax paid which can be adjusted against this is Rs. 1,00,000 only a further sum of Rs. 20,000 is paid during the year ending with March 31, 2017.

Question 15. From the following Balance Sheet and Information prepare Cash Flow Statement of Ryan Ltd. for the year ended 31st March, 2003: **Balance Sheet**

Liabilities	31st March, 2003	31st March, 2002
Equity Share Capital	6,00,000	5,00,000
10 % Redeemable Preference Capital	-	2,00,000
Capital Redemption Reserve	1,00,000	-
Capital Reserve	1,00,000	-
General Reserve	1,00,000	2,50,000
Profit and Loss Account	70,000	50,000
9% Debentures	2,00,000	-
Sundry Creditors	95,000	80,000
Bills Payable	20,000	30,000
Liabilities for Expenses	30,000	20,000
Provision for taxation	95,000	60,000
Proposed Dividend	90,000	60,000
	15,00,000	12,50,000
Assets		
Land and Building	1,50,000	2,00,000
Plant and Machinery	7,65,000	5,00,000
Investments	50,000	80,000
Inventory	95,000	90,000
Bills Receivable	65,000	70,000
Sundry Debtors	1,75,000	1,30,000
Cash and Bank	65,000	90,000
Preliminary Expenses	10,000	25,000
Voluntary Separation Payments	1,25,000	65,000
	15,00,000	12.50,000

Additional Information:

- (i) A piece of land has been sold out for Rs. 1,50,000 (Cost - Rs. 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on sale and profit on revaluation.
- (ii) On 1st April, 2002 a plant was sold for Rs. 90,000 (Original Cost - Rs. 70,000 and WDV - Rs. 50,000) and Debentures worth Rs. 1 lakh was Issued at par as part consideration for plant of Rs. 4.5 lakhs acquired.
- (iii) Part of investments (Cost - Rs. 50,000) was sold for Rs. 70,000.
- (iv) Pre-acquisition dividend received Rs. 5,000 was adjusted against cost of investment.
- (v) Directors have proposed 15% dividend for the current year,
- (vi) Voluntary separation cost of Rs. 50,000 was adjusted against General Reserve.
- (vii) Income-tax liability for the current year was estimated at Rs. 1.35,000.

(viii) Depreciation@ 15% has been written off from Plant account but no depreciation has been charged on Land and Building.

Question 16. The Balance Sheet of New Light Ltd., for the year ended 31st March, 2001 and 2002 are as follows:

Liabilities	31st March 2001 (Rs.)	31st March 2002 (Rs.)	Assets	31 st March 2001 (Rs.)	31st March 2002 (Rs.)
Equity share capital	12,00,000	16,00,000	Fixed Assets	32,00,000	38,00,000
10%Pref. share capital	4,00,000	2,80,000	Less: Depreciation	9,20,000	11,60,000
				22,80,000	26,40,000
Capital Reserve	-	40,000	Investment	4,00,000	3,20,000
General Reserve	6,80,000	8,00,000	Cash	10,000	10,000
Profit and Loss A/c	2,40,000	3,00,000	Other current assets	11,10,000	13,10,000
9% Debentures	4,00,000	2,80,000	Preliminary expenses	80,000	40,000
Current liabilities	4,80,000	5,20,000			
Proposed dividend	1,20,000	1,44,000			
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 Rs. 1,00,000. the cost of which was Rs. 2,00,000 and the depreciation provided on it was Rs. 80,000.
- (ii) The company also decided to write off another fixed asset costing Rs. 56,000 on which depreciation amounting to Rs. 40,000 has been provided.
- (iii) Depreciation on fixed assets provided Rs. 3,60,000.
- (iv) Company sold some investment at a profit of Rs. 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 31.3.2001 was Rs. 2,16,000. The stock on 31.3.2002 was correctly valued at Rs. 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

A. Cash flow from operating activities

Profit during the year	60,000
Adjustment for inventory	(24,000)
Transfer to general reserve	1,20,000
Proposed dividend	1,44,000
Provision for tax	<u>3,40,000</u>
Net profit before taxation	6,40,000

Adjustment made for:

Preliminary expense written off	40,000
---------------------------------	--------

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	10,88,000	
Increase in current liabilities (Rs. 5,20,000-4,80,000)	40,000	
Increase in current assets (Rs. 13,10,000-(11,10,000+24,000))	<u>(1,76,000)</u>	
Cash generated from operations	9,52,000	
Income tax paid	<u>(3,60,000)</u>	
Net cash from operating activities		5,92,000
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 (Rs. 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. Rs. 10,000		

Working notes:

1. Revaluation of stock increases the opening stock by Rs. 24,000

$$\left[\frac{\text{Rs. } 2,16,000}{90} \times 10 = \text{Rs. } 24,000 \right] \times 10 = \text{Rs. } 24,000$$

Hence, opening balance of other current assets will be as follows:

Rs. 11, 10,000 + Rs. 24,000 = Rs. 11, 34,000

Due to under valuation of stock, the opening of profit and loss account be increased by Rs. 24,000.

Opening balance of profit and loss account after revaluation of stock will be Rs. 2,40,000+24,000= Rs. 2,64,000.

2. Fixed Assets Account

Particulars	Rs.	Particulars	Rs.
To balance b/d	32,00,000	By bank A/c (sale of assets)	1,00,000
To bank A/c (balancing figure will be assets purchased)	8,56,000	By accumulated depreciation A/c	80,000
		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	Rs.	Particulars	Rs.
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	Rs.	Particulars	Rs.
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	12,80,000		12,80,000

5. Unpaid dividend is taken as non-current item and dividend paid is shown at (Rs. 1,20,000-16,000) = Rs. 1,04,000

Question 17. Ms. Jyothi of star oils limited has collected the following information for the preparation of cash flow statement for the year 2000.

	(Rs. In lakhs)
Net profit	25,000
Dividend (including dividend tax) 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 2000 in accordance with AS-3 cash flow statement issued by the institute of chartered accountants of India. (Make necessary assumptions). **(May 2001-16 MARKS)**

Question 18. 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 Rs. 15,000 was sold for Rs. 6,000 and it had an accumulated depreciation of Rs. 8,000. **Balance sheet**

	2000	2001			2001
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.	<u>1,05,000</u>	<u>1,20,000</u>
Debentures	2,20,000	60,000		3,15,000	3,60,000
Provision for income tax	86,000	12,000	Land	60,000	60,000
			Patents	55,000	65,000
Outstanding expenses	3,000	5,000	Cash	74,000	37,000
Accounts payable (creditor)	58,000	94,000	Inventories	3,12,000	2,77,000
Bills payable	28,000	8,000	Accounts receivables (debtors)	54,000	47,000
			Pre-paid 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)

Net sales	19, 70,000
Less: cost of goods sold	<u>14, 80,000</u>
Gross profits	4, 90,000
Less: operating expenses (includes Depreciation on Buildings and equipment of Rs. 23,000 and patent Amortization of Rs. 6,000	<u>5, 00,000</u>
Net loss from operation	(10,000)
Less; other revenue	<u>7,000</u>
Net loss:	<u>(3,000)</u>
Add: Retained earnings	<u>2, 31,000</u>
	2, 28,000
Less: Dividend paid 16,000	
Loss on sale of asset <u>1,000</u>	<u>17,000</u>
Retained earnings (31.12.2001)	<u>2, 11,000</u>

Prepare a Cash flow statement.

Question 19. Balance sheet of Pi Ltd. For the year ended 31st March 2001 and 2002 were summarized thus:

Liabilities	31.3.2001	31.3.2002	Assets	31.3.2001	31.3.2002
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
Capital reserve	.....	24,000	Plant and machinery	1,70,000	1,60,000
General reserve	50,000	70,000	Car	.....	40,000
Profit and loss	20,000	30,000	Investment	40,000	20,000
Hire vendor	.....	28,000	Stock	60,000	1,00,000
10% debenture	.....	2,00,000	Debtors	75,000	1,45,000
Creditors	95,000	85,000	Cash	45,000	2,61,000
Provision for tax	30,000	45,000	Advances tax	35,000	50,000
Unclaimed dividend	.....	7,000	U/commission	10,000	9,000
	8,95,000	14,89,000		8,95,000	14,89,000

Adjustments:

A car of 50,000 was purchased on Hire Purchase and Rs. 25,000 was paid to Hire Vendor during the year.

The debentures were issued @ 10% premium which was taken to Capital Reserve on 1st April, 2001.

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 @ 20% 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 Rs. 2,50,000 shares @ 10% premium.

- Dividend paid during the year = Rs. 43,000.
- The preference shares were redeemed @ 25% premium.
- Plant & Machinery costing Rs. 50,000 (WDV 22,000) was disposed off.
- Bad Debts written off RS. 5,000.
- Dividend received was Rs. 17,000 of which Rs. 7,000 was post acquisition. Prepare Cash Flow Statement.

Question 20. The balance sheet of A Ltd. For the years ended 31st March, 2001 and 2002 were summarized thus:

Liabilities	2001	2002	Assets	2001	2002
Share capital	5,00,000	7,50,000	Goodwill	10,000	9,000
Pref. capital	2,00,000	1,00,000	Land and building	4,00,000	4,80,000
Security premium	.....	10,000	Plant	3,00,000	2,70,000
General reserve	70,000	1,00,000	Investments	1,00,000	70,000
Profit and Loss	45,000	50,000	Stocks	90,000	1,20,000
10% Debenture	2,00,000	.....	Debtors	1,00,000	86,000
Outstanding wages	5,000	10,000	Advance tax	50,000	40,000
Creditors	90,000	1,15,000	Prepaid Expenses	20,000	45,000
Provision for tax	60,000	80,000	Bank	85,000	1,10,000
Provision for Dep (P&M)	30,000	50,000	Cash	45,000	35,000
	<u>12,00,000</u>	<u>12,65,000</u>		<u>12,00,000</u>	<u>12,65,000</u>

- Re. 1 lakh equity shares were issued at 10% premium.
- In the beginning of the year, one share was issued as bonus for every 10 shares held out of general reserves.
- Preference shares of Rs. 1,00,000 was converted into equity shares.
- Tax for year ended 2001 was settled at Rs. 90,000 by Assessing officer.
- Depreciation rate on land and Building was 20% P.a.
- Plant and machinery costing Rs. 30,000 WDV Rs. 10,000 was disposed off during the year.
- Investments purchased during the year amounted to 40,000 and company also sold some of them at loss of 10%.
- An item in the stock of Rs. 20,000 was wrongly valued at Rs. 27,000 which was rectified during the year.
- Debentures have been redeemed in the middle of the year.
- The net profit earned during the year is Rs. 1,20,000.

Prepare cash flow statement for the year ended on 31st March, 2002.

Question 21. ABC Ltd. gives you the following information. You are required to prepare Cash Flow Statement by using indirect methods as per AS-3 for the year ended 31.03.2004:

Balance Sheet as on

Liabilities	31 March,03	31 March,04	Assets	31 March,03	31 March,04
Share Capital	50,00,000	50,00,000	Plant &		
Retained			Machinery	27,30,000	40,70,000
Earnings	26,50,000	36,90,000	Less: Depre-		
Debentures	—	9,00,000	Citation	(6,10,000)	(7,90,000)
				21,20,000	32,80,000
			Debtors	23,90,000	28,30,000
			Less: Provision	(1,50,000)	(1,90,000)
				22,40,000	26,40,000
Creditors	8,80,000	8,20,000	Cash	15,20,000	18,20,000
Bank Loan	1,50,000	3,00,000	Marketable.		
Liability for			Securities	11,80,000	15,00,000
Expenses	3,30,000	2,70,000	Inventories	20,10,000	19,20,000
Dividend -			Prepaid Expenses	90,000	1,20,000
Payable	1,50,000	3,00,000			
	91,60,000	1,12,80,000		91,60,000	1,12,80,000

Additional Information:

- Net profit for the year ended 31st March, 2004, after charging depreciation Rs. 1,80,000 is Rs. 22,40,000.
- Debtors of Rs. 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.
- ABC Ltd. declared dividend of Rs. 12,00,000 for the year 2003-2004. **(MAY 2004 – 16 Marks)**

Question 22. 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.

- Net profit before taking into account Income Tax and Income from law suits but after taking into Account the following items was Rs. 20 lakhs:
 - Depreciation on Fixed Assets Rs. 5 lakhs.
 - Discount on issue of Debentures written off Rs. 30,000.
 - Interest on Debentures paid Rs. 3,50,000.
 - Books value of investments Rs. 3 lakhs (Sale of Investments for Rs. 3,20,000).
 - Interest received on investments Rs. 60,000.
 - Compensation received Rs. 90,000 by the company in a suit filed.
- Income tax paid during the year Rs. 10,50,000.
- 15,000,10% preference shares of Rs. 100 each were redeemed on 31.3.2004 at a premium of 5%. Further the company issued 50,000 equity shares of Rs. 10 each at a premium of 20% on 2.4.2003. Dividend on preference shares were paid at the time of redemption.
- Dividends paid for the year 2002-2003 Rs. 5 lakhs and Interim dividend paid Rs. 3 lakhs for the year 2003-04.
- Land was purchased on 2.4.2003 for Rs. 2,40,000 for which the company issued 20,000 equity shares of Rs. 10 each at a premium of 20% to the land owner as consideration.
- 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	35,300
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

(2005 - May (20 marks))

Answer:

X Ltd. Cash Flow Statement for the year ended 31st March, 2004

	Rs.	Rs.
1. Cash flow from operating activities:		
Net profit before Income tax & extra ordinary items		20,00,000
Adjustments for :-		
Interest on Debentures paid Discount	350,000	.
discount on issue of Debentures	30,000	
Interest on Investments received	(60,000)	
Profit on sale of investments	(20,000)	8,00,000
		28,00,000
Operating Profit before Working Capital Changes		
Adjustments for:-		
Decrease in Bills receivable	10,000	
Increase in Stock	(1,18,000)	
Increase in Outstanding Expenses	6,800	
Increase in Sundry Creditors	5,300	
Decrease in Bills Payable Cash	(5,000)	(1,06,000)
generated from operations		26,94,000
Income tax paid		(10,50,000)
		16,44,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		90,000
Net Cash Flow from Operating Activities		17,34,000
2. Cash flow from Investing Activities:-		
Interest received on investment	60,000	
Sale Proceeds of Investments	3,20,000	3,80,000
3. Cash Flow from Financing Activities:-		
Dividend paid (500,000+300,000)	(8,00,000)	
Preference Dividend paid	(1,50,000)	
Interest on Debentures paid	(3,50,000)	
Redemption of preference shares at 5% Premium	(15,75,000)	

Proceeds by issue of equity shares at 20% Premium	6,00,000	
Net Cash used in financing activities		22,75,000
		(1,61,000)
Net Cash decrease in cash & cash equivalents during the year		1,96,300
Add:- Cash & cash equivalents as on 31.3.2003. Cash & cash equivalents as on 31.3.2004.		35,300

Note :- Since purchase of land in exchange of equity shares (issued at 20% Premium) does not involve any cash transaction so it has not been taken in the cash flow statement.

Question 23. Raj Ltd. gives you the following information for the year ended 31st March, 2006:

- (i) Sales for the year Rs. 48,00,000. The Company sold goods for cash only.
- (ii) Cost of goods sold was 75% of sales.
- (iii) Closing inventory was higher than Opening inventory by Rs. 50,000.
- (iv) Trade creditors on 31.3.2006 exceed the outstanding on 31.3.2005 by Rs. 1,00,000.
- (v) Tax paid during the year amounts to Rs. 1,50,000.
- (vi) Amounts paid to Trade Creditors during the year Rs. 35,50,000.
- (vii) Administrative and Selling Expenses paid Rs. 3,60,000.
- (viii) One new machinery was acquired in December, 2005 for Rs. 6,00,000.
- (ix) Dividend paid during the year Rs. 1,20,000.
- (x) Cash in hand and at Bank on 31.3. 2006 Rs. 70,000.
- (xi) Cash in hand and at Bank on 1.4.2005 Rs. 50,000.

Prepare Cash Flow Statement for the year ended 31.3.2006 as per the prescribed Accounting Standard.

(CA-PE-2, May 2006-12 MARKS)

Question 24. The following are the summarized Balance Sheets of 'X' Ltd. as on March 31, 2005 and 2006 :

Liabilities	As on 31.3.2005	As on 31.3.2006
Equity share capital	10,00,000	12,50,000
Capital Reserve	—	10,000
General Reserve	2,50,000	3,00,000
Profit and Loss A/c	1,50,000	1,80,000
Long-term loan from the Bank	5,00,000	4,00,000
Sundry Creditors	5,00,000	4,00,000
Provision for Taxation	50,000	60,000
Proposed Dividends	1,00,000	1,25,000
	25,50,000	27,25,000

Assets	2005	2006
Land and Building	5,00,000	4,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in Hand	2,00,000	1,65,000
Cash at Bank	3,00,000	4,10,000
	25,50,000	27,25,000

Additional Information :

- (i) Dividend of Rs. 1,00,000 was paid during the year ended March 31, 2006.
- (ii) Machinery during the year purchased for Rs. 1,25,000.
- (iii) Machinery of another company was purchased for a consideration of Rs. 1,00,000 payable in equity shares.
- (iv) Income-tax provided during the year Rs. 55,000.
- (v) Company sold some investment at a profit of Rs. 10,000. which was credited to Capital reserve.
- (vi) There was no sale of machinery during the year.
- (vii) Depreciation written off on Land and Building Rs. 20,000.

From the above particulars, prepare a cash flow statement for the year ended March, 2006 as per AS-3 (Indirect method). **CA- 2006- Nov (16 marks)**

Question 25. Garden Ltd. acquired fixed assets viz. plant and machinery for Rs. 20 lakhs. During the same year it sold its furniture and fixtures for Rs.5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3? **CA-2007 -May (2 marks)**

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 A.S. 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 26. J Ltd. presents you the following information for the year ended 31st March, 2007:

	(Rs. in Lacs)
(1) Net Profit before tax provision	36,000
(ii) Dividend paid	10,202
(iii) Income-tax paid	5,100
(iv) Book value of Assets sold	222
Loss on sale of Asset	48
(v) Depreciation debited in P & L account	24,000
(vi) Capital grant received-amortised in P & L A/c	10
(vii) Book value of investment sold	33,318
Profit on sale of investment	120
(viii) Interest income from investment credited in P & L A/c	3,000
(IX) Interest expenditure debited in P & L A/c	12,000
(x) Interest actually paid (Financing activity)	13,042
(xi) Increase in working Capital [Excluding cash and Bank Balance].	67,290
(xii) Purchase of fixed assets	22,092
(xiii) Expenditure on construction work	41,688
(xiv) Grant received for Capital projects	18
(xv) Long-term borrowings from Banks	55,866
(xvi) 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	8,000

You are required to prepare a Cash flow statement as per AS-3 (Revised). **CA-2007 - Nov(16 marks)**

Question: 27 : From the flowing summarized cash account of S Ltd. Prepare cash flow statement for the year ended 31st March, 2009 in accordance with AS - 3 (Revised) using direct method. The company does not have any cash requirement: **Summarized Cash Account**

	Rs. 000		Rs. 000
Opening Balance	50	Payment to suppliers	2,000
Issue of share capital	300	Purchase of fixed assets	200
Received from customers	2,800	Overhead expenses	200
Sale of fixed assets	100	Wages and salaries	100
		Tax paid	250
		Dividend paid	50
		Bank loan	300
		Closing balance	150
	3,250		3,250

Answer: **Cash flow statement for the year ended 31.3.2009**

Particulars		Rs. 000
Cash flow from operating activities		
Cash received from customers	2,800	
Less: cash paid to suppliers	2,000	
Cash paid for overhead expenses	200	
Cash paid for wages and salaries	<u>100</u>	
	2,300	
	500	
Less: Income tax paid	<u>250</u>	
Net cash generated from operating activities		250
Cash flow from investing activities		
Sales of fixed assets	100	
Less: Purchase of fixed assets	<u>200</u>	
Net cash used in investing activities		(100)
Cash flow from Financial Activities		
Received from issue of share capital	300	
Less: Payment of bank loan	300	
Payment of dividend	<u>50</u>	
	<u>350</u>	
Net cash used in financial Activities		<u>(50)</u>
Net increase in cash and equivalents		100
Add: Cash and equivalents at the beginning of the year		<u>50</u>
Cash and equivalents at the end of the year		<u>150</u>

Question 28: The flowing particulars relate to Bee Ltd. for the year ended 31st March 2010;

- (i) Furniture of book value of Rs. 15,500 was disposed of for Rs. 12,000.
- (ii) Machinery costing Rs. 3, 10,000 was purchased and Rs. 20,000 were spent on its erection.
- (iii) Fully paid 8% preference shares of the face value of Rs. 10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of Rs. 10 each were issued at a premium of Rs. 2 per share. The entire money being received with application.
- (iv) Dividend was paid as follows:

On 8% preference shares	Rs. 40,000
On equity shares for the year 2009-10	1, 10,000
- (v) Total sales were Rs. 32, 00,000 out of which cash sales were 11, 50,000.
- (vi) Total purchases were Rs. 8,00,000 including cash purchase of Rs. 60,000
- (vii) Total expenses were Rs. 12,40,000
- (viii) Taxes paid including dividend tax of Rs. 22,500 were Rs. 3,30,000
- (ix) Cash and cash equivalents as on 31st March, 2010 were Rs. 1,25,000

You are requested to prepare cash flow statement as per AS-3 for the year ended 31st March, 2010 after taking into consideration the following also:

	On 31 st March, 2009	on 31 st March, 2010
Sundry debtors	1,50,000	1,47,000
Sundry creditors	78,000	83,000
Unpaid expenses	63,000	55,000

Answer:

Cash flow Statement for the year ended 31st march, 2010

Particulars	Rs.	Rs.
1. Cash flows from operating activities		
Cash receipts from customers (W. N 1)	32,03,000	
Less: Cash paid to suppliers and payment for expenses (W. N. 3)	(20,43,000)	
Cash generated from operations	11,60,000	
Income tax paid (3,30,000-22,500)	<u>3,07,500</u>	
Net cash from operating activities		8,52,500
2. Cash flow from investing activities		
Sale of furniture	12,000	
Purchase of machinery	3,30,000	
Net cash used in investing activities		(3,18,000)
3. Cash flow from financial activities		
proceeds from issue of equity shares	7,20,000	
redemption of 8% preference shares	(10,30,000)	
dividend paid (Rs. 40,000+1,10,000)	(1,50,000)	
dividend distribution tax paid	<u>(22,500)</u>	
net cash used in financial activities		(4,82,500)
net increase in cash and cash equivalents		52,000
add: cash and cash equivalents as on 31 st March 2009 (bal. Figure)		<u>73,000</u>
Cash and cash equivalents as on 31 st March, 2010		1,25,000

Working Note;

- Cash Receipt from customers:
Credit sale = total sales Rs. 32, 00,000 – cash sales Rs. 11,50,000
= 20, 50,000

Total debtors Account

To balance b/d	1,50,000	By cash/Bank (Bal. Fig)	20,53,000
To credit sales	20,50,000	By balance c/d	1,47,000
	22,00,000		22,00,000

Total sale receipts = Rs. 20,53,000+11,50,000+32,03,000

- Cash payment to suppliers;-
Credit purchases
= total purchases Rs. 8,00,000 – cash purchases Rs. 60,000
= Rs. 7,40,000

Total Creditors Account

To cash/bank (bal. fig)	7,35,000	By balance b/d	78,000
To balance c/d	83,000	By credit purchases	7,40,000
	8,18,000		8,18,000

Total payments to suppliers = Rs. 7,35,000+60,000= Rs. 7,95,000

3. Cash paid to suppliers and payment for expenses

Particulars	Rs.
Outstanding expenses as on 31.3.2009	63,000
Add: expenses charged to profit and loss account	12,40,000
	13,03,000
Less: outstanding expenses as on 31.3.2010	55,000
Payment on account of expenses	12,48,000

Total of payment to suppliers and payment for expenses = Rs. 7, 95,000+ 12, 48,000= 20, 43,000

Question 29;The following are the summarized Balance Sheets of Lotus Ltd. as on 31st March, 2010 and 2011

	31.3.10	31.3.11
Liabilities:		
Equity share capital (Rs. 10 each)	10,00,000	12,50,000
Capital Reserve	.....	10,000
Profit and loss A/c	4,00,000	4,80,000
Long term loan from the bank	5,00,000	4,00,000
Sundry creditors	5,00,000	4,00,000
Provision for taxation	50,000	60,000
	24,50,000	26,00,000
Assets:		
Land and building	4,00,000	3,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry debtors	4,00,000	4,20,000
Cash in hand	2,00,000	1,40,000
Cash at bank	3,00,000	4,10,000
	24,50,000	26,00,000

Additional information:

1. Depreciation written off on land and building Rs. 20,000
2. The company sold some investment at a profit of Rs. 10,000 which was credited of capital Reserve.
3. Income tax provided during the year Rs. 55,000
4. During the year, the company purchased machinery for Rs. 2, 25,000. They paid Rs. 1, 25,000 in cash and issue 10,000 equity shares of Rs. 10 each at par.

You are requested to prepare a cash flow statement for the year ended 31st March 2011 as per AS -3, by using indirect method.

Answer:**Cash flow from operating activities**

Net profit before tax for the year (W. N 1)	1,35,000	
Add: depreciation on machinery (w. N. 2)	55,000	
Depreciation on land and building	<u>20,000</u>	
Operating profit before change in working capital	2,10,000	
Add: decrease in stock	20,000	
Less: increase in sundry debtors	(20,000)	
Less: Decrease in sundry creditors	<u>(1,00,000)</u>	
Cash generated from operations	1,10,000	
Less: income tax paid (W. N 3)	<u>(45,000)</u>	
Net cash generated from operating activities		65,000

Cash flow from investment activities

Purchased of machinery (2,25,000-1,00,000)	(1,25,000)
Sale of investment (W. N 4)	60,000

Net cash used in investing activities	(65,000)
Cash flow from financial activities	
Issue of equity share (2,50,000-1,00,000)	1,50,000
Repayment of long term loan	(1,00,000)
Net cash generated from financial activities	<u>50,000</u>
Net increase cash and cash equivalents	50,000
Cash and cash equivalents at the beginning of the year (2,00,000+3,00,000)	<u>5,00,000</u>
Cash and cash equivalents at the end of the year (1,40,000+4,10,000)	<u>5,50,000</u>

Working notes;**1. Calculation of net profit before tax.**

	Rs.
Increase in profit and loss (cr.) balance	80,000
Add; provision for taxation made during the year	55,000
	1,35,000

2. Calculation of depreciation charged on machinery

	Rs.		Rs.
To balance b/d	7,50,000	By depreciation (bal. fig)	55,000
To bank	1,25,000	By balance c/d	9,20,000
To equity share capital	1,00,000		
	9,75,000		9,75,000

3. Calculation of tax paid

	Rs.		Rs.
To cash (bal. fg)	45,000	By balance b/d	50,000
To balance c/d	60,000	By profit and loss A/c	55,000
	1,05,000		1,05,000

4. Calculation of sales value of investment sold investment A/c

	Rs.		Rs.
To balance b/d	1,00,000	By bank A/c (bal. Fig)	60,000
To capital reserve (profit on sale of investments)	10,000	By balance c/d	50,000
	1,10,000		1,10,000

Question: 30 Balance sheet of M/S. Hero Ltd. as on 31st March, 2010 and 2011 are as follows;

Liabilities	31.3.10	31.3.11	Assets	31.3.10	31.3.11
Equity share capital	1,000	1,150	Land and buildings	500	480
Capital reserve	.....	10	Machinery	750	820
General reserve	250	300	Investments	100	50
Profit and loss A/c	150	180	Stock	300	280
Long term loan from bank	500	400	Sundry debtors	400	420
Sundry creditors	500	400	Cash in hand	200	165
Provision for taxation	50	60	Cash at bank	300	410
Proposed dividends	100	125			
	2,550	2,625		2,550	2,625

Additional information;

- (ii) Dividend of Rs. 1, 00,000 was paid during the year ended 31st March, 2011.
- (iii) Machinery purchased during the year for Rs. 1, 25,000.
- (iv) Company sold some investment at a profit of Rs. 10,000 which was created to capital reserve.
- (v) Depreciation written off on land and building Rs. 20,000.
- (vi) Income tax provided during the year Rs. 55,000.

Form the above particulars; prepare a cash flow statement for the year ended 31st March, 2011 as per AS-3 using the indirect method.

CHAPTER 11. UNDERWRITING OF SECURITIES

If the company does not receive 90 per cent of issued amount from public subscription within 120 days from the date of opening of the issue, the company cannot proceed with allotment and must refund the amount of subscription. In the case of a new company, it cannot obtain a certificate to commence business. Under the SEBI guidelines underwriting is mandatory for the net issue made to the public. In view of all this public companies enter into underwriting arrangements.

The persons or institutions who or which underwrite the issue are known as underwriters. In India the business of underwriting is carried on by the Industrial Development Bank of India, Industrial Finance Corporation of India, the Industrial Credit and Investment Corporation of India, Life Insurance Corporation of India, commercial banks, Merchant Bankers investment trusts and other financial houses. In the case of large issues, arrangements are made with several underwriters, each underwriting a specified amount. The directors must be careful in choosing the underwriters, as they will have to state in the prospectus that in their opinion the resources of the underwriters are sufficient to discharge their obligations.

Underwriting commission.

- (a) in the case of shares, five per cent of the price at which the shares are issued or the amount of rate authorised by the Articles, whichever is less, and
- (b) 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 authorised by the Articles, whichever is less.
- (c) the commission paid or agreed to be paid is disclosed in the prospectus or statement in lieu of prospectus, as the case may be.
- (d) commission is not payable on shares and debentures which are not offered to public for subscription.

Underwriting agreement. Underwriting agreement may take any of the two forms:

(a) Pure underwriting. Under this type of contract underwriters undertake to subscribe for shares to a certain limit only when the offer made to the public is not fully subscribed for by them. Thus if underwriters underwrite 10,000 shares issued by a company, they will have to purchase 2,000 shares if the public applies for 8,000 and 3,000 shares if the public applies for 7,000 and nothing if the public applies for 10,000 or more shares. The underwriting contract may be signed by one underwriter if the financial position of the underwriter is as good as to take the risk of subscribing the whole issue in the worst circumstances of no response by the public. But generally, the underwriting contract is signed between the company and two or more underwriters each agreeing to insure against the risk only to a limited extent.

(b) Firm underwriting. Under 'firm' underwriting contract, the underwriters, instead of standing behind the offer, agree to make an outright purchase of shares. Thus under 'firm' underwriting, the underwriters stipulate that they be allotted a given number of shares whether or not the issue is oversubscribed. The underwriters under such agreement get priority over the general public in relation to allotment of shares in the event of over-subscription. If, for example, underwriters have 'Firm' underwritten 10,000 shares of the total issue of 40,000 shares, only 30,000 shares shall be available to the public even if there are applications for 50,000 shares.

Determination of the liability of underwriters

Question:1 Export Ltd. incorporated on 1st January, 2000 issued a prospectus inviting applications for 5,00,000 equity shares of Rs. 10 each at a premium of 10 per cent.

The whole issue was fully underwritten by Kapoor, Bhora, Dalai and Mehta as follows:

Kapoor 2,00,000 shares

Bhora 1,50,000 shares

Dalai 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

Dalai 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. **[C.A. Inter, May]**

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

Calculate the liability of each one of the underwriters. Also ascertain the underwriting commission payable to the different underwriters. **[CS (Inter)]**

Question: 3A company made a public issue of 1,25,000 equity shares of Rs. 100 each, Rs. 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
Less Unmarked Applications	13,500	11,250	19,250	1,000	45,000
(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
Surplus of D allocated to A B and C 30 : 25 : 25	6,500 6,000	2,750 5,000	16,750 5,000	16,000 16,000	
Surplus of B allocated to A and C	500 500	+2,250 -2,250	11,750 1,750	— —	10,000 —
	—	—	10,000	—	10,000

(iii) Statement of underwriters 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 @ Rs. 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 (Rs.)	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

Bank Account	Dr.	45,00,000	
To Share Application Account (Being application money received on 90,000 shares at Rs. 50 per share from public)			45,00,000
Share Application A/c	Dr.	45,00,000	
To Share Capital A/c (Being money received on share applications on 90,000 shares transferred to Share Capital A/c)			45,00,000
A	Dr.	2,00,000	
B	Dr.	3,00,000	
C	Dr.	5,00,000	
D	Dr.	7,50,000	
To Share Capital A/c			17,50,000

(Being application money due from underwriters including firm underwriting)		
Underwriting Commission A/c	Dr.	2,50,000
To A		75,000
To B		62,500
To C		62,500
To D		50,000
(Being underwriting Commission due to underwriters)		
Bank A/c	Dr.	15,00,000
To A		1,25,000
To B		2,37,500
To C		4,37,500
To D		7,00,000
(Being amount received from underwriters on account of share application less underwriting commission due to them)		

Question:4 Plentiful Ltd. comes out with a public issue of share capital on 1-1-1995 of 10,00,000 equity shares of Rs. 10 each at a premium of 5%. Rs. 2.50 is payable on application (on or before 31-1-1995) and Rs. 3.00 on allotment (31-3-1995) 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 30-6-1995 and are re-allotted for payment in cash of Rs. 4 per share. You are required to pass summary journal entries to record the above events and transactions (including cash). [C.A. Inter

Question:5 Norman Ltd. issued 80,000 Equity shares which were underwritten as follows:

Mr. A 48,000 Equity Shares

Messrs B & Co. 20,000 Equity Shares

Messrs C Corp. 12,000 Equity Shares

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

Mr. A 6,400 Equity Shares

Messrs B & Co. 8,000 Equity Shares

Messrs C Corp. 2,400 Equity Shares

The total application excluding firm' underwriting but including marked-applications were for 40,000 Equity Shares.

The Marked Applications were as follows:

Mr. A	8,000	Equity Shares
Messrs B & Co.	10,000	Equity Shares
Messrs C Corp.	4,000	Equity Shares

(The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten.)

You are required to show the allocation of liability. Workings will be considered as a part of your answer.

(C.A. Inter, Nov., 1997)

Question: 6A joint stock companies resolved to issue 10 lakh equity shares of Rs. 10 each at a premium of Re. 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.

Question:7 (CA-INTER1999-Nov) What do you understand by "firm underwriting"? Pass the accounting entries relating to firm underwriting in the books of:

- (i) company
- (ii) underwriter.

Answer : Firm underwriting" pledges a definite commitment to take up a specified number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriters liability is determined without taking in consideration the number of shares taken up 'firm' by him i.e. the underwriter is obliged to take up :-

- (a) the number of shares he has asked for 'firm' and
 (b) the number of shares he is compelled to take up on the basis of underwriting agreement.

For example, A underwrites 60% of an issue of 10,000 shares of Rs. 10 each of AB Co. Ltd. and also applies for 1,000 shares 'firm'. The underwriting commission is agreed to at the rate of 2.5 percent. In case there are marked applications for 4,800 shares, he will have to take up 2,200 shares, i.e. 1,000 shares for which he applied 'firm' and 1,200 shares to meet his liability of underwriting contract. If, on the other hand, the underwriting contract has provided that an abatement would allowed in respect of shares taken up 'firm', the liability of A in the above-mentioned case would only be for 1,200 shares in total. The entries relating to above transactions are given below :-

Entries in the books of AB Co. Ltd (Company)

<i>Particulars</i>	<i>Dr.</i>	<i>Cr. (Rs.)</i>
1. A's Account Dr. To Equity Share Capital Account. (Being allotment of underwritten equity pursuance of firm underwriting contract, Board's resolution).	10,000	10,000
2. Underwriting commission on issue of Shares Account Dr. To A's Account (Being underwriting commission due to underwriter under the firm underwriting	250	250
3. Bank Account Dr. To A's Account (Being money received in full settlement account from under writer)	9,750	9,750

Entries in the books of A (Underwriter)

<i>Particulars</i>	<i>Dr. (Rs.)</i>	<i>Cr. (Rs.)</i>
1. Underwriting Account Dr. To AB Co. Ltd Account (Being the liability to take up necessary number shares of the company., in pursuance of underwriting contract recorded)	10,000	10,000
2. AB Co. Ltd Account Dr. To underwriting Account (Being underwriting commission income underwriting A/c)		250
3. AB Co. Ltd Account Dr. To Bank Account (Being balance money paid to the co. in full of account)		9,750

Question: 8 (CA-INTER 2001-May) A joint stock company resolved to issue 10 lakh equity shares of Rs. 10 each at a premium of Re. 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:*

- Prepare a statement calculating underwriter's liability for shares other than shares underwritten firm.
- Pass journal entries for all the transactions including cash transactions. **(16 marks)**

Answer :Statement Showing Underwriters Liability for Shares other than Shares Underwritten firm

Statement Showing Underwriters	X	Y	Z	Total
Gross Liability [9,00,000 Share in the ratio of 65:25:10]	5,85,000	2,25,000	90,000	9,00,000
Less: Marked applications				
	4,65,500	1,67,500	79,500	7,12,500
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65:10	(6,500)	7,500	(1,000)	—
	4,000	—	8,500	12,500
	Rs.	Rs.	Rs.	
Underwriting Commission Payable [Gross liability x Rs. 11 x 2%]	44,000		93,500	
Net Amount payable	1,28,700	49,500	19,800	
Net Amount receivable	84,700	49,500	73,700	

Journal Entries

Particulars	L. F.	Dr. (Rs.)	Cr. (Rs.)
Bank A/c Dr. To Equity Share Application A/c [Being application money received on Lakh Equity Shares @ Rs. 11 per		11,00,000	11,00,000
Bank A/c Dr. To Equity Share Application A/c [Application money received on equity shares @ Rs. 11 per share general public and underwriters for underwritten firm)			97,62,500
Equity Share Application A/c Dr.			

Y's A/c	Dr.	44,000	
Z's A/c	Dr.	93,500	
To Equity Share Capital A/c			1,00,00,000
To Securities premium A/c			10,00,000
[Allotment of 10 Lakh equity shares Rs. 10 each at a premium of Rs. 1 per share]			
Underwriting Commission A/c			
To X's A/c			1,28,700
To Y's A/c			49,500
To Z's A/c			19,800
[Amount of Underwriting Commission payable to X, Y and Z @ 2% on the amount of Share Underwritten]			
Bank A/c	Dr.	73,70	
To Z's A/c			73,700
[Amount received from Z in final settlement]			
X's A/c	Dr.		
Y's A/c	Dr.		
To Bank A/c			
[Amount paid to X and Y in final settlement]			

Question:9 (CA-INTER2005-Nov) Scorpio Ltd. came out with an issue of 45,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Co; B & Co. and C & Co.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:

A & Co.	7,25,000	shares
B & Co.	8,40,000	shares
C & Co.	13,10,000	shares
Total	28,75,000	shares

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid along with application. *You are required to:*

- 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. **(16 marks)**

Answer :

Particulars	A & Co. Rs.	B & Co. Rs.	C&Co. Rs.
Gross Liability	12,00,000	12,00,000	12,00,000
Less: Firm Underwriting	(1,00,000)	(1,00,000)	(1,00,000)
Less: Marked Application	11,00,000 (7,25,000)	11,00,000 (8,40,000)	11,00,000 (13,10,000)
	3,75,000	2,60,000	(2,10,000)
Less: Unmarked Application (In Gross Liability Ratio)	(75,000) 3,00,000	(75,000) 1,85,000	(75,000) (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	--1,00,000
Add: Firm underwriting	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 @ Rs. 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 Rs. each) (B)	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

Sl. No.	Particulars	L.F.	Amount Dr.	Amount Cr.
1.	Underwriting Commission A/cDr. 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
2.	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
3.	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:-10 A company entered into an underwriting agreement with Mr. B for 60% of the issue of Rs. 50,00,000, 15% debentures, with a firm underwriting of Rs. 5,00,000. Marked applications were in respect of debentures worth Rs. 35,00,000. Compute liability of Mr. B and commission payable to him.

Question:- 11. 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:- 12 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 Shares)			
	P	O	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 Total liability in amount @ 10 each	50,000 Rs. 5,00,000	1,48,000 Rs.14,80,000	2,14,000 Rs. 21,40,000	4,12,000 Rs. 41,20,000

CHAPTER 12. ELECTRICITY COMPANY

Question 1. From the following calculate Weighted Average Rate of Depreciation considering the rates as per Appendix-III

Assets	Closing Balance at Cost
1. Land under full ownership	14,30,000
2. Land under Lease	4,30,000
3. (a) Building & Civil Engineering Works other than Kutcha Roads	33,00,000
(b) Railways Sidings	40,00,000
(c) Temporary Erections such as Wooden Structures	10,00,000
4. IT Equipments	20,00,000
5. Self Propelled Vehicles	30,00,000
6. Portable Air Conditioning Plants	25,00,000
7. (a) Apparatus other than Motors let on hire	15,00,000
(b) Motors let on hire	2,00,000
8. Communication Equipments	5,00,000
9. Office Furniture, Furnishing, Equipments, Fittings & Apparatus	5,00,000
10. Plants & Machinery in generating stations	2,52,00,000
11. Cooling Towers & Circulating Water Systems	10,00,000
12. Hydraulic Works Forming part of the Hydro-dams, etc.	20,00,000
13. Transformers & Switchgear	2,05,00,000
14. Lighting Arrestor, Batteries, Overhead lines including cable support	10,00,000
15. Meters	20,00,000
16. Static Air Conditioning Plants	1,00,00,000
17. Street Light Fittings	47,85,000
18. Vehicles other than Self Propelled Vehicles	2,15,000

Question 2. Calculate depreciation as per 2009 regulations from the following information of an Electricity generation project

- Date of commercial operation i.e. 1.9.2010.
- The details of actual expenditure incurred up to the date of commercial operation i.e. 1.9.2010 and projected expenditure to be incurred from the date of commercial operation up to 31.3.2014 for the assets under Transmission system. The details of apportioned approved cost as on the date of commercial operation and projected expenditure to be incurred for the above mentioned assets is summarized below:

Apportioned approved cost	Actual Cost Incurred as on the date of commercial operation	Proposed Expenditure from the date of commercial operation to 31.3.2011	Proposed Expenditure for 2011-12	Total Expenditure completion cost
4,20,000	4,00,000	1,00,000	20,000	5,20,000

iii.

Average Rate of Depreciation Calculated as per rates Specified in Appendix-III	5.3	5.2	5.2	5.2
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Additional capital expenditure of 20,000 lakh has been considered out of 1,00,000 lakh for the year 2010-11 and no further additional capital expenditure has been considered as capital cost has been restricted to apportioned approved cost in the absence of revised capital expenditure.

Question 3. Calculate depreciation upto 2013-14 as per 2009 regulations from the following information of XYZ Power generation Project

Date of commercial operation/Work Completed Date 1-april-1996

Beginning of Current year 1-Apr-2011

Useful life 35 years

		(Figures in ₹ Crores)
1.	Capital Cost at beginning of the year 2011-12	222.00
2.	Additional Capitalisation during the year: 2012-13	10.56
	2013-14	29.44
3.	Value of Freehold Land	12.00
4.	Depreciation recovered up to 2009-10	48.60
5.	Depreciation recovered in 2010-11	5.40

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2011-12.

Question 4. From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004.

- Date of Commercial Operation of COD = 1st April 2010
- Approved opening Capital cost as on 1st April 2010 = 1,50,000
- Weighted Average Rate of Depreciation: 3.5%
- Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as follows:

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	10,000	3,000	2,000	2,000
Repayment of Loan	8,000	10,000	10,000	11,000
Weighted Average Rate of Interest on Loan	7.4	7.5	7.6	7.5

Question 5. The trial balance of MM Electric Supply Ltd. For the year ended 31st March, 2013 is as below:

Particulars	Amount (₹ in '000)	Amount (₹ in '000)
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	
Electrical 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 2012-13 subject to adjustments		5,000
Stock in hand	12,050	
Sundry Debtors	6,246	
Contingency Reserve Investments:		
SBI Bonds-2020	10,010	
Other Investments	2,000	
Cash & Bank	3,254	
Public lamps	3,040	
Depreciation Fund		25,816
Sundry Creditors		6,524
Proposed dividend		12,100
	1,71,840	1,71,840

During 2012-13 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%. Required prepare for the above period general balance sheet as on 31st March, 2013 as per the schedule III:

Adjustments:

1. Transfer to Contingency Reserve ₹ 1,70,000 & to General Reserve ₹ 2,00,000
2. Loss on Contingency Reserve Investment ₹ 10,000
3. Make a Provision for debts considered doubtful of ₹ 1,014,000

Solution:-

Balance Sheet as at 31st March, 2013

Particulars	Note No.	(₹ in '000)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	65,000
(b) Reserves and Surplus	2	21,376
(2) Non-Current Liabilities		
(a) Long-term Borrowings	3	40,000
(3) Current Liabilities		
(a) Trade Payables		6,524
(b) Short-Term Provisions	4	12,100
Total		
II. ASSETS		
(1) Non-Current Assets		1,45,000
(a) Fixed Assets		
(i) Tangible Assets	5	1,09,960
(ii) Intangible Assets		2,504
(b) Non-Current Investments	6	12,000
(2) Current Assets		12,050
(a) Inventories		5,232
(b) Trade Receivables	7	3,254
(c) Cash and Cash Equivalents		
Total		1,45,000

Notes to Accounts:**1. Share Capital**

Authorised Capital	
50,00,000 shares of 10 each	50,000
2,50,000 14% Pref. Shares of 100 each	25,000
	75,000

Issued & Subscribed Capital	
50,00,000 shares of 10 each	50,000
2,50,000 14% Pref. Shares of 100 each	25,000
Less: 1,00,000 14% Pref. Shares of 100 each	(10,000)
	65,000

2. Reserves and Surplus

Capital Reserve		
Contingency Reserve (12,030 + 170 - 10)		4,020
General Reserve (1,000 + 200)		12,190
Profit & Loss Account		1,200
Opening Balance	350	
Add: Profit for the period	5,000	
Less: Transfer to General Reserve	(200)	
Less: Transfer to Contingency Reserve	(170)	
Less: Provision for Doubtful Debts	(1,014)	3,966
Total		21,376

3. Long-term Borrowings

15% Debentures	24,700
16% Term Loan	15,300
	40,000

4. Short-term Provisions

Proposed Dividend	12,100
	12,100

5. Tangible Assets

Land (10,400 + 20,50)	12,450
Building (30,054 + 50,80)	35,134
Plant & Machinery	57,058
Mains	4,524
Meters	3,150
Electrical Instruments	1,530
Office Furniture	2,450
Transformers	16,440
Public lamps	3,040
Less: Depreciation Fund	(25,816)
Total	1,09,960

6. Non-Current Investments

SBI Bond-2020 (10,010 – 10)	10,000
Other Investments	2,000
	12,000

7. Trade Receivables

Sundry Debtors	6,246
Less : Provision for Doubtful Debts	(1,014)
	5,232

Question 6. From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

1. Date of Commercial Operation of COD = 1st April 2010
2. Approved Opening Capital Cost as on 1st April 2010 = ₹ 15,00,000
3. Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average

Rate of Interest on Loan is as Follows

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	1,00,000	30,000	20,000	10,000

CHAPTER 12. ACCOUNTING STANDARDS

AS-11: (REVISED) THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Applicability:-- Accounting Standard (AS) 11, The Effect of Changes in Foreign Exchange Rates (revised 2003), issued by the Council of the Institute of Chartered Accountants of India, came into effect in respect of accounting periods commencing on or after 1.4.2004 and is mandatory in nature from that date.

Scope: This statement should be applied in:

- (a) accounting for transactions in foreign currencies.
- (b) translating the financial statements of foreign operations.

This statement does not:

- (a) specify the currency in which an enterprise presents its financial statements.
- (b) deal with the restatement of an enterprise's financial statements from its reporting currency into another currency.
- (c) deal with the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency and the translation of cash flows of a foreign operation.
- (d) deal with exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Definitions:

- * **Average Rate:** Average rate is the mean of the exchange rates in force during a period.
- * **Closing Rate:** Closing rate is the exchange rate at the balance sheet date.
- * **Exchange Rate:** Exchange rate is the ratio for exchange of two currencies.
- * **Reporting Currency:** Reporting currency is the currency used in presenting the financial statements.
- * **Foreign Currency:** Foreign currency is a currency other than the reporting currency of an enterprise.
- * **Forward Rate:** Forward rate is the specified exchange rate for exchange of two currencies at a specified future date.
- * **Monetary Items:** Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
- * **Non-monetary Items:** Non-monetary items are assets and liabilities other than monetary items.
- * **Foreign Operations:** Foreign operations is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.

Recognition of Exchange Differences

- (a) Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period should be recognised as income or as expenses in the period in which they arise.

Example1. Hemant Ltd. borrowed US\$ 90,000 on 1.1.2006 which will be repaid on 31.7.2006. Goel Ltd. prepares financial statements ending on 31.3.2006. Rates of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under;

1.1.2006	1 US\$	=Rs. 48.00
31.3.2006	1 US\$	= Rs. 49.00
31.7.2006	1 US\$	= Rs. 49.50

Translation of financial statements of foreign operation:- AS-11 classifies the foreign operation into two types:

- (a) Integral foreign operation
(b) Non-integral foreign operation

- (a) **Integral foreign operation:** Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise, like dependent branches, sales depot, foreign arm etc. which produces raw material and transfers it to Head Office.

Translation of financial statements of integral foreign operation:

The individual items in the financial statements of the foreign operation are translated as if all these transactions had been entered into by the reporting enterprises. It means —

- * Individual items in the financial statements of the foreign operation are translated at the actual rate on the date of the transactions; alternatively, average rate can also be applied.
- * The cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if the asset is carried at cost.
- * If tangible fixed asset is carried at fair value, translation should be done using the rate that existed on the date of the valuation.
- * The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realisable value is translated applying exchange rate when realisable value is determined which is generally closing rate.
- * Exchange difference arising on the translation of the financial statement of integral foreign operation should be charged to profit and loss account
- * Exchange difference arising on the translation of the financial statement of foreign operation may have tax effect which should be dealt as per AS-22 "Accounting for Taxes on Income".

- (b) **Non-integral foreign operation:** Non-integral foreign operation is a foreign operation that is not an integral foreign operation. The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:

- (i) While the reporting enterprise may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting enterprises;
- (ii) Transactions with the reporting enterprise are not a high proportion of the foreign operation's activities.
- (iii) The activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting enterprise.
- (iv) Cost of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency and not in the reporting currency,
- (v) Day-to-day cash flow of the reporting enterprises is independent of the foreign enterprises cash flows.
- (vi) Sales prices of the foreign enterprises are not affected by the day-to-day changes in exchange rate of the reporting currency of the foreign operation.
- (vii) There is an active sales market for the foreign operation product.

Translations of accounts of non-integral foreign operation

- * Balance sheet items, assets and liabilities, both monetary and non-monetary, at closing rate.
- * Items of income and expense at actual exchange rates on the date of transactions.
- * All resulting exchange differences should be accumulated in a foreign currency translation reserve until the

disposal of the net investment.

- * Contingent liabilities at closing rate.
- * Tax effects, if any, may be accounted for as per AS-22.

Change in the classification of foreign operation:- When a foreign operation that is integral to the operations of the reporting enterprise is reclassified as a non-integral foreign operation, exchange difference arising on the translation of non-monetary assets at the date of the reclassification are accumulated in a foreign currency translation reserve. When a non-integral foreign operation is reclassified as an integral foreign operation, the translated amounts for non-monetary items at the date of the change are treated at the historical cost for those items in the period of change and subsequent periods. Exchange differences which have been deferred are not recognised as income or expenses until the disposal of the operation.

Question 1: A business having the head office in Mumbai has a branch in UK. The following is the trial balance of Head Office and branch as at 31.3.2006.

Account Name	Amount in £	
	Dr.	Cr.
Fixed Assets (Purchased on 1.4.2003)	10,000	
Debtors	3,200	
Opening stock	800	
Goods received from Head Office Account (Recorded in H.O. Books as Rs. 8,04,000)	12,200	
Sales		40,000
Purchases	20,000	
Wages	2,000	
Salaries	2,400	
Cash	6,400	
Remittances to Head Office (Recorded in H.O. Books as Rs. 3,82,000)	5,800	
Head Office Account (Recorded in H.O. Books as Rs. 9,80,000)		14,800
Creditors		8,000
	62,800	62,800

- a) Closing stock at branch is £ 1,400 on 31.3.2006.
 (b) Depreciation @ 10% p.a. is to be charged on fixed assets.
 (c) Prepare the trial balance after conversion in Indian rupees.
 (d) Exchange rates of pounds on different dates are as follows:
 1.4.2003 - Rs. 61; 1.4.2005 - Rs. 63 and 31.3.2006 - Rs. 67.

Answer. Trial Balance of the Foreign Branch converted into Indian Rupees as on March 31, 2006.

Particulars	£(Dr.)	£'(Cr.)	Conversion Basis	Rs. (Dr.)	Rs. (Cr.)
Fixed Assets	10,000		Transaction Date Rate	6,10,000	
Debtors	3,200		Closing Rate	2,14,400	
Opening Stock	800		Opening Rate	50,400	
Goods Received from H.O.	12,200		Actuals	8,04,000	
Sales		40,000	Average Rate		26,00,000
Purchases	20,000		Average Rate	13,00,000	

Wages	2,000		Average Rate	1,30,000	
Salaries	2,400		Average Rate	1,56,000	
Cash	6,400		Closing Rate	4,28,800	
Remittances to	5,800		Actuals	3,82,000	
H.O. Account		14,800	Actuals		9,80,000
Creditors		8,000	Closing Rate		5,36,000
Exchange Rate			Balancing figure	40,400	
Difference			Closing Rate		
	62,800	62,800		41,16,000	41,16,000
Closing Stock	1,400			93,800	
Depreciation	1,000		Fixed Asset Rate	61,000	

Question2. AD Softex India Ltd. imports certain stock worth US \$ 600000 on 15th Aug., 2001 at which date the exchange rate is Rs. 46 per dollar. The payments are made on March 31, 2002. When the exchange rate is Rs. 47.10 per dollar. The stock is in hand as on 31st March, 2002.

[Ans. : Rs. 660000 debited to P&L Account]

Question2. AlmazImpex Ltd. obtains a long-term foreign exchange loan of US \$ 20,00,000 on 2nd Sept., 2001 when the exchange rate is Rs. 44.50 per dollar. On 31st March, 2002, the exchange rate has gone up to Rs, 47.40 per dollar.

[Ans. : Rs. 58 lakhs debited in P&L Account]

Question3. Comment:

(a) The account of a foreign branch is incorporated in the head office books at a standard rate and a resultant notional profit is credited to the head office profit & loss account.

[Ans. : Not correct]

(b) ABC Ltd. had acquired an asset from USA at cost of US \$ 2,00,000 immediately after the acquisition of asset, the Indian rupee was devalued by 10%. The company transferred the additional liability to exchange fluctuation reserve account.

[Ans. : Not correct]

(c) The foreign exchange liabilities outstanding as at the year-end are stated at the forward rate where forward exchange contract exist and in other cases at the exchange rate at which it is actually settled. The resultant gain/loss are charged to interest and finance charges in the profit & loss account.

[Ans. : Policy not as per AS-11]

Question 4. A Ltd. purchased fixed assets costing Rs. 300 lakhs as on 1-1-1998 and same was fully financed by foreign currency loan (US dollar) Payable in three annual installments. Exchange rate were I US \$ = Rs. 40 and Rs. 42.50 as on 1-1-1998 and 31-12-1998 respectively. First installment was paid on 31-12-1998. The entire difference in foreign exchange has been charged to revenue for the year 1998. You are required to state, how these transactions would be accounted for.

(CA Final May, 1999)

[Ans. : Entire exchange diff. (Rs. 18.75 lakhs should be capitalized as the transactions were entered into before 1-4-2004)]

Question5. AlmazImpex Ltd. an Indian Company took a foreign currency loan of US \$ 5,00,000 @ 10 % p.a. on 1-1-2004. Interest is payable half-yearly with an installment for principal of US \$ 50,000. The company closes books of account as on 31st March every year. Exchange rates are:

1-1-2004	42.25	
31-3-2004	42.50	
30-6-2004	42.90	
31-12-2004		43.90
31.3.2005	43.50	

Prepare loan account of the company and calculate the exchange fluctuation loss/ gain for the financial year ended on 31-3-2004 and 31-3-2005 respectively.

[Ans. : Loss - Rs. 1,25,000 (31-3-2004); Loss - Rs. 4,95,000 (31-3-2005)]

Question6. Z Ltd. sold goods to US Company for US \$ 10, 00,000 on 12-2-2004 and realized the due on 30-6-2005. Z Ltd. closes the books of account on 31st March. Exchange rates were as follows:

<i>Date</i>	<i>Rate</i>
12-2-2004	45.20
31-3-2005	46.10
30-6-2005	45.90

Calculate the exchange fluctuation loss/gain on the balance sheet date and on the settlement date respectively.

[Ans. : **Gain (Rs. 9,00,000); Loss (Rs. 2,00,000)**]

Question7. What would be the exchange rate of the translation of following items while translating the financial statement of foreign operation, if these are part of no integral foreign operation?

- Depreciation
- Salaries and wages
- Opening stocks
- Closing stocks
- Debtors
- Fixed assets (these were acquired out of funds raised from issue of equity shares) .
- Accounts payable
- Provision for taxes
- Head office account.

AS 12-(GOVERNMENT GRANTS)

Problem 1: Koit Ltd. Received ₹ 3,00,000 as share application money from Govt. Comment whether it is a Government Grants as per AS-12?

Solution: Government participation as equity holders is not covered by AS-12. Government is also one of the shareholders of the company hence the receipt is a contribution towards capital.

Problem 2: On 1st April 2010 Sizzler Ltd purchases an asset at ₹ 10,00,000, Salvage value ₹ 1,00,000, life 5 years. Government grant received in September 2010 ₹ 3,00,000. Due to non-compliance of some conditions attached with the asset the whole grant become refundable in the year 2012-13. Compute Depreciation in the year 2012-13. (Assume SLM depreciation). Sizzler Ltd. adopts capital approach.

Problem 3: Top & Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 50 crore in capital assets, received ₹ 10 crore from the Government in January, 2005 (accounting period being 2004-2005). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2005.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

(C.A. Final Nov. 1995 & May 2005) (3/4 Marks respectively)

Solution: As per AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoter's contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue.

Thus it is inappropriate to recognize government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment followed by the company is not proper.

Problem :4 Dark Ltd has received grant of ₹ 20 lacs under the Government subsidy scheme for acquiring imported machinery for setting up an oil exploration plant and the entire grant received is credited to profit and loss account.

Solution: The treatment given is wrong, because when we received grant against machine then it called capital grant. So it should be reduced from the cost of machinery (capital approach) or transfer to Balance Sheet on liabilities side as deferred income (income approach). It is incorrect to transfer the grant to profit and loss a/c.

Problem 5: A Company receives a grant from the State Government as compensation for loss of stocks due to unseasonal floods. The entire grant received is credited to "Capital Reserve". Comment on the accounting treatment.

Solution: Where the grant is in the nature of compensation for any past losses (sick companies) or immediate financial support (flood affected company) then such grant should be treated as per AS – 5 (Extra-ordinary activity). In the present case the company has to show such govt. receipt as extraordinary receipt.

Problem 6: Primus hospitals Ltd. had acquired 40 units of Doppler scan machines from Holiver USA at a cost of US\$ 1,65,100 per unit in the beginning of Financial Year 2008-09. The prevailing rate of exchange was ₹ 50 to the US\$. The acquisition was partly funded out of a government grant of ₹ 5 crores. The grant relating to such machines was given with a rider that in the event of a change in management, the entity is bound to return the grant. In April 2011, 51% control in the company was taken over by an overseas investor. The expected productive period of such an asset is normally reckoned at 5 years. The depreciation rate adopted was 20% p.a. S.L.M. basis. The company had incurred expenditure of US\$4,000 towards bank charges and ₹ 7,500 per unit as sea freight you are also informed that neither capital reserve nor deferred income account has been maintained by the company. You are required to suggest the accounting treatment as a result of the return of the grant, in the light of the relevant AS.

(C.A. Final Nov 2011 Marks 5)

Problem 7. X ltd received a grant of Rs 50,00,000 to bear incremental loss for to establish factory in backward area. Incremental cost incurred during next three years were Rs 40,00,000, Rs 40,00,000 and Rs 20,00,000 respectively. Show treatment as per AS 12 for all 3 years.

ACCOUNTING STANDARD- 15 (RETIREMENT BENEFIT)

Problem 1: Tata Cosmetic Limited has 300 employees as on 31/3/2013. 5 days leaves are allowed in a year which can be carried forward till next year only. The company adopt LIFO method of utilizing leaves (first current year leave will be used and then last year). As on 31/3/2013, the average unutilized leaves per employee are 2 days. Based on the past experience it is expected that out of 300 employees, 2010 will take a leaves of 5 days in next year and remaining 90 employees will take $6^{1/2}$ days leave in the next year. You are required to calculate the amount of liability to be provided as on 31/3/2013 based on number of days.

Solution: For 210 employees 5 days leaves as per LIFO will be consumed for March 2014. Leave estimated to be $6^{1/2}$ which means for 31/3/2013 the company has to provide $1^{1/2} \times 90$ employees = 135 days salary.

Problem 2: Kumar Ltd is an engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed as surplus of Rs 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to Rs 2 lakhs instead of Rs 5 lakhs. The average remaining life of the employees is estimated to be 6years. You are required to advise the company. **(C.A. Final May 2011) (Marks4)**

Solution: According to AS-15, any actuarial gains and losses should be recognized immediately in the statement of Profit & Loss Account income or expenses.

In the given case, the amount of surplus from pension scheme of Rs 6 Lakhs is an actuarial gain, which should be recognized as income in the Profit & Loss Account of the current year and not to be adjusted from the amount of annual contribution.

Disclosure: The change relating to actuarial valuation for its pension scheme should be treated as a change in an Accounting policy and disclosed in accordance with AS-15 Disclosure required by AS-15 should also be made in the Financial Statement.

Problem 3: An actuary has made some changes in his assumptions for retirement benefits i.g. changes in medical costs to be paid, changes in discounting rate etc. Are these changes in the assumption changes in accounting policy or changes in accounting assumption?

Solution: A number of actuarial valuation method have been developed by the actuarial profession to estimate employer's obligation under defined benefits schemes. While these methods are primarily designed to calculate funding requirement, they are also frequently used to determine retirement benefit costs for accounting purposes. The actuarial method selected for determined accrual of liability and the assumption made can have a significant effect on the expense to be recorded in each accounting period. Therefore, in carrying out a periodical valuation, an actuary chooses a suitable valuation method and, in consultations with the employer, make appropriate assumptions about the elements affecting the computations. The assumptions relate to the expected inflow from future contribution and from investments as well as to the expected outgo for benefits. In making an actuarial valuation, the actuary may sometimes effect a change in the actuarial method used or in the assumptions adopted for determining the retirement benefits costs. Any alterations in the retirement benefit costs so arising are charged or credit to the statement of profit and loss for the year. Accordingly, a change in the actuarial method used for determining the retirement benefit costs constitutes a change in an accounting policy and thus, the auditor would have to ensure that the same is disclosed and impact on accounts is expressed in quantitative terms.

Problem 4: Zodiac Enterprises pays salary / wages per day = Rs 200. Leaves utilized during the year say 300 days. Leaves unutilized at Balance Sheet date are non-accumulating 200 days and accumulating are 500 days out of which 40% are vesting leaves are expected to be utilized in future in years. Calculate relevant figures.

Problem 5: Wages of Mr. A, an employee of Grasim Ltd is Rs 200 per day. He was on leave from 23/3/2009 to 31/3/2009. Show accounting entries in the books of Grasim Ltd to record the compensated absence in each of the following cases:

Mr. A is entitled to 8 days of compensated absence, which is non -accumulating.

Mr. A is entitled to 8 days of compensated absence, which is accumulating.

Problem 6: Gross wage bill of Ferrous Limited for the month of April 2009 is Rs 30,00,000. PF contribution (employers share) is 8% of gross wage. The employees make a matching contribution to PF. Ferrous Ltd. deposited a total sum of Rs 4,50,000 on 30/4/2009 toward PF obligations for April 2009. Show accounting entries to record the above transactions.

ACCOUNTING STANDARD 16 (BORROWING COST)

QUESTION 1. A Ltd. wanted to construct a factory building for which it borrowed a sum of Rs. 10 lakhs at an interest rate of 15%. The funds were kept on deposit with a cooperative bank and at the end of the year earned an interest of Rs. 28,000. The amounts necessary for construction were drawn from this deposit and also cash from operations. The building was completed at a cost of Rs. 18 lakhs. State the value at which the building will be shown in the books.

QUESTION 2. X Ltd. has obtained an institutional loan of Rs. 680 lakhs for modernization and renovation of its plant and machinery. Plant and machinery acquired under the modernisation scheme and installation completed on 31.3.98 amounted to Rs. 520 lakhs, 30 lakhs has been advanced to suppliers for additional assets and the balance of Rs. 130 lakhs has been utilised for working capital purpose. The total interest paid for the above loan amounted to Rs. 68 lakhs during 97-98. You are required to state how the interest on the institutional loan is to be accounted for in the year 97-98.

QUESTION 3. A Ltd. commences building an asset on 1-4-2001. For this purpose it issues debentures on the same date for Rs. 10,00,000 bearing an interest of 10%. During the year ending the company also raised general loans from financial Institutions as per details below :

1.7.2001 Rs. 5,00,000 @12% per annum

1.10.2001 Rs. 3,00,000 @15% per annum

Expenditures on the asset were as per details given below :

Date	Amount (Rupees)
1.4.2001	4,00,000
1.7.2001	8,00,000
1.10.2001	6,00,000
1.2.2001	3,00,000

The company earned an interest of Rs. 15,000 on temporary investments made with funds borrowed specifically for the asset. You are required to compute the amount of borrowing cost to be capitalised in relation to this asset.

Problem 4: A company obtained term loan during the year ended 31st March, 2002 to an extent of Rs 650 lakhs for modernization and development of its factory. Buildings worth Rs 120 lakh were completed and Plant and Machinery worth Rs 350 lakhs were installed by 31st March, 2002. A sum of Rs 70 lakhs has been advanced for assets, the installation of which is expected in the following year. Rs 110 lakhs has been utilized for Working Capital requirement. Interest paid on the loan of Rs 650 lakhs during the year 2001-2002 amounted to Rs 58.50 lakhs. How should the interest amount be treated amount be treated in the Accounts of the Company?
(C.A. Final Nov. 2005) (6 Marks)

Problem 5: On 01.04.2006 Nidhi Ltd. borrowed Rs 2,00,000 @12% p.a for construction of qualifying assets. The construction commences on 01.06.2006 and completes on 28.02.2007. Income earned on investing the same borrowing temporally was Rs 5,000 of which Rs 2,000 represents, income earned after 01.06.2006. Ascertain the amount of borrowing cost for capitalization.

Problem 6: Kirloskar Ltd. had following general borrowings and investments in qualifying assets.

Source	Date of raising	Amount (Rs)
12% Debentures	0.1.04.2005	15,00,000
15% Term Loan	0.1.04.2005	600,000
18% Term Loan	0.1.04.2005	4,00,000

Qualifying Assets	Amount (Rs)	Data of Commencement	Data of Completion
A	6,00,000	0.1.04.2005	31.01.2006
B	5,00,000	0.1.05.2005	31.03.2006
C	4,00,000	0.1.07.2005	---

With the help of these details determine for the year ended 31.03.2006

1. The amount of the borrowing cost incurred
2. The amount of borrowing cost to be capitalized for qualifying assets
3. The amount of borrowing cost to be charged to revenue

Problem 7: X Ltd began construction of a new building on 1st January. It obtained Rs 1 Lakh special loan to finance the construction of the building on January at an interest rate of 10%. The Company's other two outstanding non-specific loans were-

- a) Rs 5,00,000 Loan at 11% Interest, and (b) Rs 9,00,000 Loan at 13% Interest.

The expenditure that were made on the building project were as follows-

- b) January Rs 2,00,000, (b) April Rs 2,50,000, (c) July Rs 4,50,000, (d) Dec. Rs 1,20,000.

Building was completed by 31st Dec 2007. Following the principles prescribed in AS-16 "Borrowing Cost," calculate the amount of interest to be capitalized and pass one Journal Entry for capitalizing the cost and borrowing cost in respect of the building. **(C.A. Final Nov 2008 Marks 10)**

Problem 9: On April 1, 2014, MGH constructions undertook construction of a factory building for expansion purpose. Total cost of project was Rs 3,00,00,000. The building was completed by end of March 2015 and during the period following payments were made:

Payment made	Amount
1st April 2014	20,00,000
30th June 2014	60,00,000
31st December 2014	1,80,00,000
31st March 2015	40,00,000
Total	<u>3,00,00,000</u>

MGH construction borrowings as at March 31, 2015 were as follow:

- 9% term loan amounting to Rs 80,00,000 taken on December 31, 2013. Simple interest is payable annually. Amount outstanding as March 31, 2014 and during 14-15 is Rs 80,00,000. The loan was taken specifically for the project.
- 11% debentures issued on March 31, 2013 with simple interest payable annually. Amount outstanding for the year 14-15 is Rs 1,50,00,000.
- 10% bonds issued on December 31, 2012 amounting to Rs 1,70,00,000. Simple interest payable at annual rest. Amount outstanding for the year 14-15 is Rs 1,60,00,000.

How much borrowing cost should be capitalized for construction of the building as per AS-16 "Borrowing Cost"?

Solution:

Step 1) Calculation of BC incurred: (Only for GB) (Rs in lakhs)

SOURCE	BORROWINGS	AVG. O/S	INTEREST
11% Debn.	150.000	150.000	16.500
10% Bonds	160.000	160.000	16.000
Total	310.000	310.000	32.500

Step 2) Calculation of Capitalization rate for general borrowing:

$$\text{Capitalization \%} = \text{Interest/Avg. O/S} = 10.484 \% \text{ p.a}$$

Step 3) Calculation of Average Investment in QA:

Q.A.	EXPENDITURE INCURRED ON QA	PERIOD	PRODUCT
1ST April 2005	----	Specific B	----
30th June 2005	----	Specific B	----
31st Dec. 2005	180	3/12	45
31st March 2006	40	0/12	0
Total:	220		45
Net Investments in General Borrowings			
Capitalization rate			

ACCOUNTING STANDARD 17(SEGMENT REPORTING)

Problem 1: Microtech Ltd. produces batteries for scooters, cars, trucks and specialized batteries for investors and UPS. Are these products different business segment or a part of the same business segment.

Solution: As per AS-17 segments are identified based on different risk/rewards factors. The company is basically producing batteries. But the batteries are further meant for (i) auto/vehicles and (ii) investors/UPS mostly useful for household purpose i.e. indoors. The risk and rewards in auto and investors are significantly different. Auto batteries are affected by government policy, road conditions, number of accidents etc and batteries for investors/UPS depends upon number of power suppliers, standard of living, corporate use or household use etc. Hence there are two business segments for Microtech Ltd. 'Auto batteries' and 'batteries' for investors/UPS'.

Problem 2: If by applying the 10% thresholds, one reportable segment is identified but there are 5 other business/geographical segments which do not meet individually any of the 10% thresholds, what should the enterprise do in the case.

Problem 3: M Ltd. Group has three divisions A,B and C. Details of their turnover, results and net assets are given below:

Division A	Rs ('000)
Sales to B	3050
Other Sales (Home)	60
Export Sales	4090
	<u>7200</u>

Division B	
Sales to C	30
Export Sales to Europe	200
	<u>230</u>

Division C	
Export Sales to America	<u>180</u>

	Head Office	Division		
		A	B	C
	Rs('000)	Rs('000)	Rs('000)	Rs('000)
Operating Profit or Loss before tax		160	20	(8)
Re-allocated cost form Head Office		48	24	24
Interest costs		4	5	1
Fixed assets	50	200	40	120
Net current assets	48	120	40	90
Long-term liabilities	38	20	10	120

*Long term liabilities does not include interest bearing liabilities. Prepare a Segment Report for publication in M Ltd. Group. **(Final C.A. Nov 2000 & May 2005) (8 Marks)**

Problem 4: Segment revenue does not include the following: (i) Indirect income like interest, dividend, Rent etc. (ii) Capital Gain on Sale of Assets. (iii) Extraordinary items.

Determine whether other items, such as export as incentives, lease rent, interest from customer, can form part of segment revenue as per AS-17.

Solution: Export incentives & Interest from customers: Both are part of operating income. Hence such operating receipt has to be a part of segment revenue.

Lease Rent: A company may engage in leasing when it is profitable, in addition to the of sale of goods. For example: An automobile company may be engaged both in selling the cars as well as leasing the car: In that case leasing may be treated as a separate segment.

Problem 5: Superb Ltd. is a multinational company having registered office in Mumbai. The following details are available from the books and other records of the company for the year ended 31st March, 2014:

Sales:	Rs ('000)	Rs ('000)
Domestic	7,625	
Europe	1,676	
America	2,325	
Australia	<u>766</u>	12,392
Inter-unit sales between geographic areas (not included above)		
Domestic	523	
Europe	<u>760</u>	1,283
Operating profit:		
Domestic	3,575	
Europe	762	
America	1,262	
Australia	<u>344</u>	5,943
Other items:		
General corporate expenses		362
Interest expenses		274
Income from investment		165
Identifiable assets:		
Domestic	10,620	
Europe	5,635	
America	3,205	
Australia	<u>1,560</u>	21,020
General corporate assets:	750	
Investments		675

Operating profit includes Rs ('000) 62 on inter-geographical segment sales.

Prepare a statement showing financial information about the operations of Superb Ltd. in different geographical segments.

Problem 6: The Chief Accountant of Sports Ltd. gives the following Data regarding its six segments:

Rs in Lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	-190	10	10	-10	30	-100
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss.

Problem 7: Fellicy Limited has investment (equity and debit) in the book of HO. The investment constitute 10% of total assets. There is some income of interest and dividend. Is it necessary to show this activity of the HO as a separate segment or can it be shown as unallocated corporate assets?

Solution: As far as 10% limit is concerned it is material. If HO is actively engaged in trading in investments and earning income out of it then it can be treated as a separate segment. But if only surplus cash is invested and incidental income is earned then it can be taken to unallocated column.

Problem 8: A Company has an inter-segment transfer pricing policy of charging of at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company correct?

(C.A. Final May 2007) (4 Marks)

Solution: AS-17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.

Problem 9: The management of Airways Ltd provides you the information related to one of its segment. you are required to calculate Segment assets from the given information Plant, property, equipment= Rs24,00,000, inventories = Rs 7,00,000, Loans to employee = Rs 4,00,000, Accounts receivable = Rs5,00,000, DTA = Rs 45,000 (C.A . Final NS) (5 Marks)

Solution: Segment assets = 24,00,0000 + 7,00,000 + 5,00,000 = Rs36,00,000.

segment assets includes the operating assets employed for the operations of the segments. Any loan even to employees also should not be considered segment assets.

Problem 10: M/s XYZ Ltd. has three segments namely X, Y, Z. The total assets of the company are Rs 10.00 crs. Segment X has Rs 2.00 crs., segment Y has Rs 3.00 crs. and segment Z has Rs 5.00 crs. Deferred tax assets included in the assets of each segments are X- Rs 0.50 crs., Y- Rs 0.40 crs. and Z- Rs 0.30 crs. The accountant contends that all the three segments are reportable segment. Comment.(C.A. Final Nov 2008 Marks 5)

Solution: According to AS-17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are 8.8 crores [10 crores - (0.5+0.4+0.3)]. Segment X holds total assets of 1.5 crores (2 crores - 0.5 crores); Segment Y holds 2.6 crores (3 crores - 0.4 crores); and segment Z holds 4.7 crores (5 crores - 0.3 crores). Thus all the three segment hold more than 10% of the total assets, all segment are reportable segments.a

AS 18 – RELATED PARTY DISCLOSURES

Follow only class notes given in lectures and questions solved in class. NO OTHER NOTES/BOOK RECOMMENDED.

AS 19. LEASE ACCOUNTING

Follow only class notes given in lectures and questions solved in class.

