2. DIVIDEND DECLEARED AND PAID BY COMPANY

1) Source of Dividend (Which Profit can be used for distribution of Dividend):

1st Priority	• Out of Current Year Profits. • Without any limits (any amount of dividend can be distributed) • No conditions are required to be fulfilled.
2nd Priority	• Out of undistributed profits of previous year, if current year profit is not adequate • Also, some conditions are required to be fulfilled to distribute the dividend out of the previous year's profits. Note: Undistributed profits are also known as Accumulated Profits or Free Reserves.
Other Important Points	• Both Current year and Previous Year profits can be utilized if current year profits are insufficient. • Dividends can also be distributed out of money provided by the government when guaranteed. • Profits for the purpose of Dividend shall not include $\underbrace{\text{Notional Gain and}}_{\text{Unrealized profit}}$ Revaluation Reserves etc. CR Bhi nahi Leneka

2) Conditions required to fulfilled to distribute Dividends out of PY Profits

Condition 1:	Dividend Rate shall not exceed the average Dividend Rates of Previous 3 Years. **Example:** Suppose previous 3 years dividend rates are 15%, 10% and 12% then CY Dividend Rate shall not exceed 12.33%
Condition 2:	Maximum withdrawal of profits out of Accumulated profits (Past profit) for dividend shall not exceed 10% of Total Paid up share capital (ESC + PSC) Plus Free Reserves as per Last Audited BS. * if there is a Loss in Cy then FR shall be taken after setting off Cy Loss. Maximum withdrawal out of PY Profits = (Total ESC + PSC + FR) x 10%
Condition 3:	The minimum Balance remaining in Accumulated Profits/Free Reserves till PY shall be at least 15% of Total Paid up share capital (ESC + PSC). Here, Minimum Bal requirement shall be checked after setting off Cy Loss. Minimum Balance means after withdrawal of Profits.
Other Points	• All three conditions must be satisfied to distribute dividends out of PY profits. • Free Reserves includes general reserves and balance of Profit and Loss A/c • Free Reserves doesn't include CRR, DRR, Security Premium A/c, Revaluation Reserves and Capital Reserves.

EXAMPLE 8:

Due to the inadequacy of profits during the year ended 31st March, 20X2, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be

Final Conclusion: Dividend Rates proposed by entity are correct and PY profits can be utilized.

3. POINTS TO BE KEPT IN MIND WHILE PREPARING FINAL ACCOUNTS

1) **Adjusted Purchases means COGS**

Whenever adjusted purchases is given in Trail Balance it means this amount is including the effect of Opening and Closing Stock

So Under P&L, if we show Adjusted Purchase then changes in Inventory not to be shown.

2) However, if this statement is also given: -

Closing stock is more than Opening by X amount

That means there is a hint in Question to show purchases separately & Changes in Inventory Separately

3) **How to Account for Bad-debts and Provision for doubtful debts?**

- Bad-debts means amount from debtors not recovered and finally lost.
- Hence, Bad-debts is a loss. Therefore transfer to Statement of Profit or Loss.

Case 1 - If Bad-debts are shown in Trial Balance:

Trial Balance (Extract)

Particulars	Debit	Credit
Bad-debts	5,000	-
Trade Receivables	1,50,000	-

It means Bad- debts entry of Rs. 5,000 is already passed as under:-

Bad-debts a/c Dr To Trade Receivables	5,000 5,000

It means Trade Receivables appearing in trial balance is already after deduction of 5,000. Now, no need to deduct Rs. 5,000 again.

Case 2 - If trial balance shows this –

Trial Balance (Extract)

Particulars	Debit	Credit
Debtors (Trade Receivables)	2,00,000	-

Additional information :- Bad-debts of 10,000

Now since Bad-debts is not shown inside the Trial Balance it means no entry is yet passed. Debtors shown in Trial Balance are before deducting Bad-debts.

Balance Sheet (Extracts)

Particulars	Amount
Trade Receivables (2,00,000 – 10,000)	1,90,000

Statement of Profit and Loss (Extract)

Particulars	Amount
Other Expense: Bad-debts	10,000

Case 3 - If Trial Balance shows like this:-

Trial Balance (Extract)

Particulars	Debit	Credit
Debtors	2,00,000	-
Bad-debts	10,000	-
Provision for Doubtful Debts	-	25,000

Additional information:-

Provision on doubtful debts should be 15 %

It means that provision @ 15 % on debtor is = 2,00,000 x 15% is 30,000.

In Trial Balance, Provision of Rs. 25,000 is already shown.

Hence, Rs. 5,000 provision entry is yet to be passed.

Profit & Loss a/c Dr	5,000	
To Provision for DD		5,000

Final impact on Balance sheet and Statement of Profit or Loss:

Balance Sheet (Extracts)

Particulars	Amount
Trade Receivables	2,00,000
(-) Provision for DD	(30,000)
	1,70,000

Statement of Profit and Loss (Extract)

Particulars	Amount
Other Expense:	
a) Bad-debts	10,000
b) Provision for DD	5,000

3) Loose Tools & Stores

Expected life is more than 12 Months it should be treated as PPE

Expected life is less than 12 Months it should be treated as Inventory
If in Question Depreciation on Loose Tools is not given then we can assume it as Inventory.

4) **GP% means Gross Profit Earned on Sales.**

- GP % is always applied on Sales Figures
- But if it is given that GP margin is on cost then some Adjustments are required to apply on it.
  e.g.: - GP is 20% on Cost
  = 1/5 on Cost
  = 1/6 on Sales

5) Preliminary Expenses are always transfer to Other Expenses (P&L), if nothing is specified in Question.

6) Consumables are always treated as Other Expense (P&L)

7) Shares option outstanding means ESOPs Outstanding, they are part of Reserves & Surplus until actually issued as Share Capital
When issued as Capital, then they will be reduced from Reserves & Surplus and added to Share Capital

8) Dividend % if given in Question then it will be Calculated on Paid-up Share Capital always.

9) Payment of Dividend is not an expense. Therefore, it should be shown under Reserves & Surplus as deduction from Net Profit.

10) Whenever Question ask to Declare Equity Dividend then before declaring Equity Dividend. Preference Dividend should be Declared if Preference Share Capital is given in Question.

11) Preference Dividend shall always be paid in priority over equity Dividend out of Current Year Profits & Past Profits.

12) If in Question Preference Share Capital is Given then it is understood that we need to pay Preference Dividend in Priority

13) "Dividend" means Equity Dividend always Unless otherwise mentioned

14) Equity Dividend = Rate (%) x Paid-Up Equity Share Capital
Preference Dividend = Rate (%) x Paid-Up Preference Share Capital

15) **Journal Entry for Dividend Declaration: -**
Dividend is Declared out of Profits Always:

Profit & Loss A/c	Dr. (1st Priority)
General Reserve A/c	Dr. (2nd Priority)

To Dividend Payable A/c

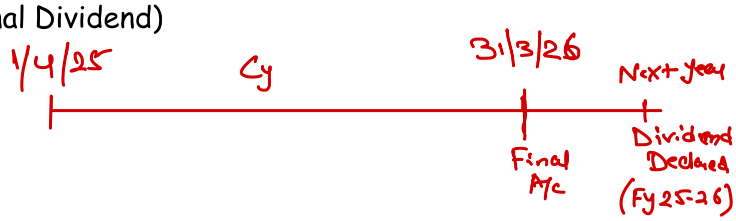
16) Equity Dividend Declaration (Annual Dividend or Final Dividend)

Situation 1

Dividend is declared after Balance Sheet Date

No Entry is required as on Balance Sheet Date

Show only Contingent Liabilities in Notes to A/c



Situation 2

Dividend is declared on Balance Sheet Date

Dividend is Shown on Balance sheet Date by passing Journal Entry.

Profit & Loss A/c Dr.

To Dividend Payable A/c

* Always apply Situation 1 only if nothing is specified in the Question about When it was Declared

17) Interim Dividend: - Dividend for less than 12 months period Declared & Paid in Same Current year.

Situation 1

Interim dividend is shown under Trail Balance on Debit side i.e. It is already Paid and entry also passed already, then deduct in Reserves & Surplus from Profit & Loss A/c or General Reserve.

Situation 2

Interim Dividend is not shown Under Trail balance but it is asked in Question to pay Interim Dividend in adjustments

P&L A/c Dr.

To Interim Dividend Payable

18) Treatment of Preference Dividend

PREFERNCE SHARE CAPITAL	
Cumulative PSC	**Non-Cumulative PSC**
Pref. Dividend Shall be recorded if % is known irrespective of whether it is declared or not.	If Questions says it is declared, then treat it same as Cumulative. (i.e. to be recorded)
R&S: P&L Balance - XXX (-) Pref. Dividend - XXX **Other Current Liability:** Pref. Dividend Payable	If question doesn't mention anything, Ignore Any Treatment
Note: • In absence of any information given in question, always treat PSC as Cumulative. (ICAI Follows the Same). • Even if company is loss making, then also cumulative preference dividend shall be recorded and to be paid in next year if there is sufficient profit in next year.	

19) When Question ask to Revalue any Asset (PPE)

(a) Upward Revaluation:

Asset A/c Dr.
To Revaluation Reserve A/c

(b) Downward Revaluation:

Other Exp. Profit & Loss A/c Dr.
To Asset A/c

20) Fixed Deposit having original maturity of up to 3 months shall become part of Cash and Cash Equivalents. Fixed Deposits for more than 3 months but up to 12 months shall be shown as Current Investments and shall not become part of Cash and Cash Equivalents.

> **Note:** Students may note that the questions based on preparation of Statement of Profit and Loss and Balance Sheet and explanatory notes as per Schedule III have been given in this Unit. However, questions requiring preparation of cash flow statements have been separately given in the next unit of this chapter.

IMPORTANT CONCEPT BUILDER EXAMPLES:

Example 10:

Trial Balance (Extract)

Particulars	Dr.	Cr.
Machines (Gross)	7,50,000 org. cost	-
Provision For Depreciation	-	2,20,000 till last year
Suspense	-	15,000 Sale

Note:

1) Depreciation Rate is 15% on WDV

2) Suspense represents cash received on Sale of one machine costing Rs.45,000 org. cost on which Accumulated Depreciation till date of sale was 32,000. Date of sale is Beginning of CY

Calculate: a) Depreciation for CY

b) Show B/s P&L Presentation after rectification

Solution:

Rectified Journal Entry		
Suspense a/c	Dr.	15,000
Prove For Dep a/c	Dr.	32,000
To Machine a/c		45,000
To Profit on sale a/c (P&L)		2,000

Depreciation for Current Year

	Gross	Provision	Net

Important Summary

1) OCL (Other Current Liability) items :-

a) O/s expenses
b) Dividend Payable & Unclaimed Divd.
c) Interest Payable
d) Share application money Refundable
e) Interim Dividend Payable

2) Other Current Assets (OCA) items :-

a) Prepaid Exp.
b) Accrued Income

3) Income Tax Provision & Income Tax Paid :-

Tax a/c

To Bank (I.T. Paid)	xxx	By Bal b/d (Opng. provision)	xxx
To Bal c/d (Closg. provision)	xxx	By P&L a/c (I.T. provision created)	xxx

eg:- Openg provision for Tax = 50,000 (as per TB)

Tax paid during the year = 1,23,000

Closg Provision = 62,000

Tax A/c

To Bank	1,23,000	By Bal b/d	50,000
To Bal c/d	62,000	By P&L a/c (B/F)	135000 → SPL

62,000 → B/S STP (CL)

4) Director Remuneration ⇒ Employee Benf. Exp.

Director's Sitting Fees ⇒ Other Exp.

5) Technical Know How ⇒ Intangible Asset

6) Dividend declared But date not mentioned
↳ Treat Contingent Liability only.

7) Bills discounted but not yet matured
↳ Treat Contingent Liability.

8) Advance (Loan) to Director ⇒ Short Term L & A if nothing is Specified.

9) Dividend Can not be distributed out of SP a/c

10) Debenture "%" is given → We have to check whether Interest is shown in TB or not.

If not shown in T.B, then dual effect of Interest should be given

- Finance Cost (SPL)
- Interest Payable (OCL – B/S)

11) Bad debt recovered ⇒ Other Income in SPL

12) Current Maturity of Long Term Loan

→ ST Borrowing

[LT से घटाओ
ST में add karo]

13) Bank OD ⇒ always ST Borrowings

14) Bill dishonoured

- B/R (−)
- Debtor (+)

15) If Trial Balance shows only Assets & Liabilities no Incomes/expenses, it means P&L Bal. given in TB is closing

16) Ageing of Trade Receivables

Notes to A/c of Trade Receivables must Disclose their ageing as Under :-

Amt due for 6 months or more	xxx
Remaining Amt due for less than 6 months	xxx

17) All provisions must be Created out of P&L a/c only :-

P&L a/c

To provision for Tax
To prov. for B.D
To Warranty provision
To Prov. for Depr.

18) Bank Balances must be shown in Notes as Under :-

Balance with Scheduled Banks ———	xxx
Balance with Other Banks ———	xxx

19) Trial Balance (extract)

	Dr.	Cr.
PPE	xxx	—
provision For Dep	—	xxx

this is original cost

this is Accumulated Dep.

Trial Balance (extract)

	Dr.	Cr.
PPE	xxx	

WDV

20) Other Expenses items :-

a) Carriage inward / outward
b) Selling, Promotional, Advert, Marketing.
c) preliminary.
d) Dealer aid
e) Transit insurance (or) any other Insurance premium paid
F) Factory exp.
g). ManuFacturing exp.
h) Director's fees / sitting fees.
i) Consumables

21) Adjusted purchase will always be treated as COGS.

22) Goods given as free Sample

Purchase
से
minus

Other Exp
↓
Advert. Exp
(+)

23) Share Forfeited & Reissued :-

Amt already paid up	——	xxx
(+) Amt. Collected on Reissue	——	xxx
		Total

Total
Face Value & Extra

Face Value
↓
Part of Share Capital

Extra
↓
CR

24) Closing Inventory is more than Opening Inventory => Negetive Expense in Expense side

25) Investment (not mentioned Current or Non-Current)
↓
always Non-Current

26) Bonus issue during the year shall be made out of :-

1st priority → CRR

2nd priority → SP a/c

3rd priority → GR

4th priority → P&L a/c

ESC (+) RBS (−)

27) When Question ask to Transfer Some Portion of profit to GR such as 10% then such 10% shall be Calculated on CY NPAT only.

28) Debit Balance of P&L ⇒ means Loss
it is to be disclosed under R&S
as negative figure.

29) Calls in arrears shall always be deducted from Share Capital.

30) Govt. Grant Received

Revenue Nature → Other Income (P&L)

Capital Receipt → For PPE / Promoter Contri

Capital Receipt → AS 12 → B/s Liability Side

31) Advance Tax ⇒ Short Term L&A in Current Assets.

32) Operating cycle :-