KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed University)
(Established Under Section 3 of UGC Act 1956)
Coimbatore - 641021.

SUBJECT CODE: 15CMU501

CORE- ADVANCED CORPORATE ACCOUNTING

PROGRAM OUTCOME

Advanced Corporate Accounting represents the concepts of Corporate Accounting procedures and in depth knowledge on preparation of various accounts related to corporate field. This course gives the basics of Amalgamation and Reconstruction of companies. Accounts of Insurance companies, Banking companies, Electricity Companies and Accounting Standards are discussed.

PROGRAM LEARNING OUTCOME

- To enable the students to understand the concepts on Amalgamation of companies and financial statement of insurance companies.
- The make the students gain knowledge in the Accounting practices in electricity companies and banking companies.

UNIT I

Amalgamation and Reconstruction - Meaning, Objectives - Types - Internal reconstruction - External Reconstruction Accounting Treatment for Amalgamation in the Nature of Merger - Amalgamation in Nature of Purchase.

UNIT II

Financial Statement of Insurance Companies - Introduction to Insurance Business - Types of Insurance - Life Insurance - General Insurance - Fire Insurance - Marine Insurance - Preparation of Valuation Balance Sheet - Determination of Surplus to Policy Holder.

UNIT III

Financial Statement of Banking Companies - Meaning of Banking - Types of Banks - Books of Accounts - Returns - Forms of Financial Statement - Capital Adequacy Norms - Income Recognition - Classification of Assets and their Provision - Rebate on Bills Discounted Preparation of Statement of Profit and Loss and Balance sheet.

UNIT IV

Financial statement of Electricity Company - Formats of Financial Statement - Specific Transactions of Electricity Company - Disposal of Surplus - Reasonable Rate of Return - Implementation of Accelerate Power Development and Reform Program [AADRP] - Objectives - Funding Pattern etc.

UNIT V

Accounting Standards - AS 4: Contingencies and Events Occurring after the Balance Sheet Date, AS 11: The Effects of Changes in Foreign Exchange Rates, AS12: Accounting for Government Grants, AS 14: Accounting for Amalgamation, AS 15: Employee Benefit, AS 17: Segment Reporting.

SUGGESTED READINGS:

TEXT BOOKS

1. Shukla, M.C., & Grewal, T.S., & Gupta, S.C. (2012). Advanced Accounts Vol.-II. New Delhi: S. Chand & Company Ltd.

REFERENCES

1. Maheswari, S.N., & Maheswari,S.K. (2013). Advanced Accounting. New Delhi: Vikas Publishing House Pvt. Ltd..

2. Jain, S.P., & Narang, K.L. (2014). Advanced Accountancy (12th ed.). Ludhiana: Kalyani Publishers.

3. Agarwal, B.D. (2013). Financial Accounting Advanced. New Delhi: Pitambar Publishing Company.

4. Patel, R.B. (2012). Advanced Corporate Accounting. Jaipur: Mark Publisher.

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University Established Under Section 3 of UGC Act 1956)

Coimbatore – 641 021.

LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAME: MANONMANI.G
SUBJECT NAME: ADVANCED CORPORATE ACCOUNTING SUB.CODE:15CMU501
SEMESTER: V CLASS: III B.COM

UNIT –I

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Amalgamation and reconstruction – Introduction and meaning	T1[10.1-10.2] R2[II-281]
2.	1	Objectives , internal reconstruction and external reconstruction	T1[10.2-10.4] R2[II-281]
3.	1	Problems on amalgamation and reconstruction	T1[10.4-10.10] R2[302]
4.	2	Problems on internal and external reconstruction	T1[10.11-10.13] R2[302]
5.	2	Problems in amalgamation in the nature of merger	T1[10.12-10.15] R2[II-280]
6.	1	Problems in amalgamation in the nature of merger	T1[10.12-10.18]
7.	1	Problems in amalgamation in the nature of merger	T1[10.12-10.18]
8.	1	Tutorial- Amalgamation	
9.	1	Tutorial- Amalgamation and reconstruction	
10.	1	Tutorial- Amalgamation and reconstruction	
11.	1	Recapitulation and discussion of important questions	
12.	1	Recapitulation and discussion of important	

		questions	
13.	1	Recapitulation and discussion of important questions	
14.	2	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-I			**15 Hours**

UNIT II

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Financial Statement of insurance companies-introduction	R3[5.55-5.57]
2.	1	Types of insurance	R2[II475-477]
3.	1	Life insurance corporation- meaning and explanation	T[24.1-24.3]
4.	1	General insurance- Fire and Marine insurance	T[24.28-24.30]
5.	1	Accounting principles of preparing financial statement –Form A	R2[II 490-493]
6.	1	Revenue account Form A-RA	R2[II 486-490]
7.	1	Problems to be worked out in Revenue account	R2[II 486-490]
8.	1	Profit and loss A-PL and Balance Sheet	R2[11478-11485]
9.	1	Problems on Financial Statement of insurance companies	R2[II 585-603]
10.	1	Problems on valuation balance sheet	W1
11.	1	Problems on determination of surplus	R2[II 603-608]
12.	1	Recapitulation and discussion of important questions	
13.	1	Recapitulation and discussion of important questions	
14	1	Tutorial- Revenues, Profit &Loss and Balance sheet	
15.	1	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-II			**15 Hours**

UNIT-III

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Financial Statement of Banking companies – introduction and meaning	T1[12.8]
2.	1	Types of banking companies , legal requirements and books of accounts returns	T1[12.2-12.16]
3.	1	Forms of financial Statement and capital adequacy norms	T1[12.23-12.25]
4.	1	Income recognition and problems based on balance sheet of banking companies	T1[12.30]
5.	1	Classification of assets and their provisions	T1[12.30-12.35]
6.	2	Problems on rebate rate of returns on bills discounted	R1[II 531-33] T1[12.30-12.40]
7.	1	Problems on Financial Statement of banking companies	R1[II 514-516]
8.	1	Problems on Financial Statement of banking companies	R1[II 513-514] T1[12.30]
9.	1	Problems on Balance sheet of banking companies	T1[12.30-12.40] R2[II-535]
10.	1	Tutorial- balance sheet of banking companies	
11.	1	Tutorial- balance sheet of banking companies	
12.	1	Recapitulation and discussion of important questions	
13.	1	Recapitulation and discussion of important questions	
14.	2	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-III			**15 Hours**

UNIT IV

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Financial Statement of electricity companies- introduction and meaning	T1[16.20]

2.	1	Formats of financial statements and problems	T1[16.18-16.20]
3.	1	Transactions of electricity companies disposal of surplus	T1[16.18]
4.	1	Reasonable rate of return problems	T1[16.16]
5.	1	Problems on financial statements of electricity companies	T1[16.66-69]
6.	1	Problems on disposal of surplus	T1[16.67-69]
7.	1	Accelerate power development and reform program –meaning, objectives	W1
8.	1	AADRP-objectives and funding pattern	W1
9.	1	AADRP funding pattern in detail	W1
10.	1	Tutorial- Balance sheet of electricity companies	
11.	1	Tutorial- Balance sheet of electricity companies	
12.	1	Recapitulation and discussion of important questions	
13.	1	Recapitulation and discussion of important questions	
14.	2	Recapitulation and discussion of important questions	
Total no. of hours planned for unit-IV			**15 Hours**

UNIT V

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Accounting standards- Introduction ,meaning, objectives, needs and significance	T1[18.1-18.2]
2.	1	Contingencies and events occurring after balance sheet AS4	T1[18.15-18.19]
3.	2	Net profit or loss for the period ,price items and changes in accounting policies	T1[18.19-18.20]
4.	1	Indian accounting standards-applicability of AS	T1[18.7-18.10]

5.	1	Net profit/loss for the period	T1[18.19-18.20]
6.	1	Effect on change in foreign exchange rates	
7.	1	Accounting for government grants	T1[18.30-18.35]
8.	1	Accounting for government grants	T1[18.30-18.35]
9.	1	Changes in the accounting policies	T1[18.19-18.20]
10.	1	Changes in accounting policies	T1[18.19-20]
11.	1	Tutorial- Net Profit/Loss for the period	T1[18.19-18.20]
12.	1	Recapitulation and discussion of important questions	
13.	1	Discussion of previous year End Semester Exam Questions	
14.	2	Discussion of previous year End Semester Exam Questions	
Total no. of hours planned for unit-V			**15 Hours**

Text Books : Advanced Accounts ,Shukla M.C.,Grewal S.C(2014).

Reference books : T1 Maheshwari S.N Advanced Accounting

R2 Jain S.P.& Narang Advanced Accounting

R3 Agarwal B.D. Financial Accounting

Websites : www.monder.gov.in.

UNIT-I

SYLLABUS

Amalgamation and Reconstruction - Meaning, Objectives - Types - Internal reconstruction - External Reconstruction Accounting Treatment for Amalgamation in the Nature of Merger - Amalgamation in Nature of Purchase.

Amalgamation in the Nature of Purchase:

Amalgamation of companies which do not fulfill one or more conditions of amalgamation in the nature of merger is amalgamation in the nature of purchase.

Calculation of Purchase consideration in case of Amalgamation in nature of purchase :-

There are four methods of calculating purchase consideration:

(i) Lumpsum or Adhoc Method : In this method purchase consideration will be given in advance. So the amount of purchase consideration will be given directly to Vendor company by purchasing company.

(ii) Net Assets Method : As per this method, purchase consideration is the difference between the agreed price of assets and liabilities taken over by the purchasing company. In this method, fictitious assets are not included while calculating purchase consideration.

(iii) Net Payment Method : In this method the various payments made by purchasing company to the shareholders of vendor company are summed up for calculating purchase consideration. The payment may be made not only in cash but also in form on equity shares and preference shares. It is to be noted that if payment to other party is not made through vendor company but directly then it is not included in calculation of purchase consideration. Debentures will not be included in payment of purchase consideration.

(iv) Intrinsic Value of Shares Method : In this method purchase consideration is discharged by transferee company on the basis of intrinsic value of shares by the following formula :-

Intrinsic Value of shares = Net Assets for Equity Shareholders/ No. of Equity Shares

Accounting Entries in case of Amalgamation in the Nature of Purchase

In the Books of Vendor Company : The accounting books of liquidated company are closed in case of amalgamation. Accounting entries are made through Realization account. The entries in the books of vendor company will be as follows :-

(1) Transfer of Assets taken over by Purchasing Company to Realization Account : Realization A/c Dr.

To (Particular) Assets A/c (At Book Value)

(2) Transfer of Liabilities taken over to Realization A/c :

(Particular) Liabilities A/c Dr.

To Realization A/c

(3) Transfer of Statutory Reserves to Realization Account : (If statutory reserve is to be maintained in future)

Statutory Reserve A/c Dr.

To Realization A/c

(4) Purchase Consideration Due :

Purchasing Company A/c Dr.

To Realization A/c

(5) Purchase Consideration Received :

Bank A/c Dr.

Prof. Shares in Purchasing Co. A/c Dr.

Equity Shares in Purchasing Co. A/c Dr.

To Purchasing Co. A/c

(6) Transfer of Prof. Share Capital to Preference Shareholders A/c :

Preference share Capital A/c Dr.

To Preference Shareholders A/c

(7) Dividend Due on cumulative Preference Shares :

Realization A/c Dr.

To Preference Share Dividend A/c

Preference Share Dividend A/c Dr.

To Preference Share Holders A/c

(8) Payment to Preference Share Holders :

Preference Share Holders A/c Dr.

To Shares in Purchasing Company A/c

To Bank A/c

If preference shareholders are paid more or less, then the balance amount will be transferred to Realization account.

(9) Transfer of Equity Share Capital, Revenue Reserve, and Capital Reserve : Equity Share Capital A/c Dr.

General Reserve/ P&L A/c Dr.

Capital Reserve A/c Dr.

Particular Reserve A/c Dr.

To Equity Shareholders A/c

(10) Transfer of Fictitious Assets and Accumulated Losses :

Equity Shareholders A/c Dr.

To Profit & Loss A/c

To Preliminary Expenses A/c

To (Particular) Loss A/c

(11) Realization from Assets not taken over by Purchasing Company : Cash/Bank A/c Dr. (Amount Realised)

Realization A/c Dr. (Loss on sale if any)

To (Particular) Assets A/c (Book Value of Assets)

(12) Payment of Liabilities not taken over by Purchasing Company :

Creditor (or Particular Liability) A/c Dr.

To Cash/Bank A/c

To Debentures in Purchasing in Company A/c

To Preference Shares in Purchasing Company A/c

To Equity Shares in Purchasing Company A/c

If any profit or loss arises on payment of liability it will be credited or debited to Realization account.

(13) Entry for Liquidation Expenses will be made according to the situation, which may be as follows :-

(i) If expenses A/c paid by purchasing company no entry will be made in the books of vendor company.

(ii) If expense4s are borne by vendor company, the following entry will be passed:-

Realization A/c Dr.

To Bank A/c

(iii) If realization expenses are paid by vendor company reimbursed by purchasing company, following entry will be passed :-

(a) On payment :

Realization A/c Dr.

To Bank A/c

(b) Amount received from Purchasing Company :

Bank A/c Dr.

To Realization A/c

(iv) If liquidation expenses are included in purchase consideration then it will be credited to Realization account as per entry 3. At the time of payment of Expenses, entry will be passed according to (iii) (a).

(14) Transfer of Balance of Realization Account to Equity Shareholders : If debit balance in realization account i.e. loss :-

Equity Shareholders A/c Dr. (Amount of Loss)

To Realization A/c

If credit balance in realization account i.e. profit :-

Realization A/c Dr.

To Equity Shareholders A/c

(15) Payment to Equity Shareholders :

Equity Shareholders A/c Dr.

To Cash/Bank A/c

To Debentures in Purchasing Company A/c

To Preference Shares in Purchasing Company A/c

To Equity Shares in Purchasing Company A/c

All account of Vendor Company will be closed by posting the above entries in ledger accounts.

Accounting in the Books of Purchasing Company :

(i) Assets and Liabilities Taken Over :

(Particular) Assets A/c Dr. (Agreed Value of Assets)

To (Particular) Liabilities A/c (Agreed Value of Liabilities)

To liquidator of Vendor Co. A/c (Purchase Consideration)

If the value of assets taken over by purchasing company is less than the total value of liabilities and purchase consideration the difference is Goodwill and if the value of assets is more than the total value of liabilities and purchase consideration, the difference will be capital reserve. Goodwill account will be debited or capital reserve account will be credited in the above journal entry.

(ii) Statutory Reserves Taken Over :

Amalgamation Adjustment A/c Dr.

To Statutory Reserve A/c

(iii) Payment of Purchase Consideration :

Liquidator of Vendor Co. A/c Dr. (Purchase Consideration)

To Equity Share Capital A/c (Paid Up Value of Shares)

To Preference Share Capital A/c (Paid Up Value)

To Securities Premium A/c (Premium on Shares)

To Debentures A/c (Paid Up Value)

To Cash / Bank A/c (Cash Payment)

(iv) Payment of Debentures of Vendor Company :

Debentures A/c (Vendor Company) Dr.

To Debenture A/c (Purchasing Company)

To Bank A/c (If in cash)

(v) Payment of Realization Expenses in addition to Purchase Consideration : Goodwill/ Capital Reserve A/c Dr.

To Cash/Bank A/c

No additional Entry will be passed in case such expenses are part of purchase consideration.

Mutual Debts : Due to mutual trading and lending transactions between the companies one company may be debtor trade debtor, borrower or acceptor of bill of another company. The company entitled to receive the amount shows such mutual indebtness as asset in its balance sheet and the company which is to discharge the obligation shows such mutual indebtness as liability in its balance sheet. Thus we may find mutual debtors and creditors, mutual bills receivables and payables, loan to another and loan from another in the balance sheet of two existing companies being agreed to amalgamate. Accounting in the books of Transferor (Vendor) company. There is no accounting effect of mutual debts in the books of vendor company. While closing the books of vendor company the balance of such items is transferred to realization account in the same way as other assets and liabilities. Accounting in the books of purchasing company: The journal entry of business purchase will be done according to general rules in the books of purchasing company entries :-

(i) If Purchasing Company is Debtors and Vendor Company is Creditor : Creditors (in Purchasing Company) A/c Dr.

To Debtors (in Vendor Company) A/c

(ii) If Purchasing Company is Creditor and Vendor Company is Debtor : Creditor (in Vendor Company) A/c Dr.

To Debtors (in Purchasing Company) A/c

(iii) Bills Payable in the Books of Purchasing Company and Bills Receivable in the Books of Vendor Company :

Bills Payable (in Purchasing Co.) A/c Dr.

To Bills Receivable (in Vendor Co.) A/c

(iv) Bills Payable in the Books of Vendor Co. and Bills Receivable in the Books of Purchasing Company :

Bills Payable (in Vendor Company) A/c Dr.

To Bills Receivable (in Purchasing Company) A/c

(v) Other mutual debts in the books of purchasing and vendor company are shown as asset in the books of one company and liabilities in the books of other company. The amount of mutual debt is deducted from assets and liabilities side of purchasing company. If loan is taken by purchasing company :

Loan from Vendor Co. A/c Dr.

To Loan to Purchasing Company A/c

If loan has been taken by Vendor Co.

Loan from Purchasing Co. A/c Dr.

To Loan to Vendor A/c

(2) Unrealized Profit on Stock : Transactions of purchase and sale of goods usually happens between companies in same business. Goods are sold by adding profit on cost. If at the date of amalgamation, either the purchasing company or vendor company is holding stock of such goods then in case goods are sold at profit, the profit included in such goods will be assumed as unrealized profit. Adjustment for unrealized profit will be done as follows :-

In the Books of Transferor Company : No adjustment is required in the books of transferor company.

In the Books of Transferee Company :

(a) If Stock is held in the hands of transferor company than transferee company firstly takes over stock from transferor company and then following entry is passed to eliminate unrealized profit :-

Goodwill/Capital Reserves A/c Dr.

To Stock A/c (By amount of unrealized profit)

(b) If Stock held by transferee company is out of goods purchased from transferor company at cost plus. Profit the transferee company is to pass following entry for elimination of unrealized profit :-

Goodwill/ Capital Reserve A/c Dr.

To Stock A/c (By amount of unrealized profit)

Pooling of Interest Method:

Pooling of interest method is applied in case of amalgamation in nature of merger, the accounting procedure is as follows :-

(i) All the Assets, of Reserves & surpluses are taken by the transferee company at their book values.

(ii) Soon after amalgamation, consolidated figure of Profit and loss account of both the transferor company and transferee company is shown in the Balance Sheet of purchasing company other reserves are also consolidated and shown in Balance Sheet.

(iii) If accounting polices of both vendor Company and purchasing company are different then same policies must be adopted.

(iv) If there is any difference between the share capital of transferor company and share capital issued to shareholder of transferor company, it will be adjusted through reserve.

Amalgamation –Net assets method

Illustration 1 : M Ltd and N ltd agreed to amalgamate on the basis of the following balance sheets as on 31.3.97

Liabilities	**M Ltd**	**N Ltd**	**Assets**	**M Ltd**	**N Ltd**
Share capital @Rs25 each	75,000	50,000	Good will	30,000	-
P & L A/c	7,500	2,500	Fixed Assets	31,500	38,800
Creditors	3,500	3,500	Stock	15,000	12,000
Depreciation fund	-	2,500	Debtors	8,000	5,200
			Bank	1,500	2,500

	86.000	**58,500**		**86,000**	**58,500**

The assets and liabilities are to be taken over by a new company formed called O ltd, at book values. P Ltd 's capital is Rs2,00,000 divided into 10,000equity shares of Rs10 each and 10,000 9% preference shares of Rs10 each .

P Ltd issued the equity shares equally to the vendor companies and preferences shares were issued for any balance of purchase price.

Pass journal entries in the books of P Ltd and prepare its balance sheet.

Solution:

Statement showing purchase consideration (Net Assets)

Particulars	**M Ltd(amount)**		**N Ltd(amount)**	
Sundry assets taken over		86,000		58,500
Less: Liabilities Creditors Deprecation fund	 3,500 -	 3,500	 3,500 2,500	 6,000
Purchase consideration		82,500		52,500
Less: Equity shares issued Equally (1,00,000/2)		50,000		50,000
Value of preference shares issued		**32,500**		**2,500**

Books of P Ltd (purchasing company)

Journal entries

Particulars	**Debit (amt)**	**Credit (amt)**

Business purchase A/c Dr To Liquidator of M ltd To Liquidator of N Ltd (being purchase price payable to the vendor companies)	1,35,000	 82,500 52,500
Fixed Assets A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr Good will A/c Dr To creditors A/c To depreciation fund A/c To business purchase A/c (being assets and liability taken over from M Ltd and N Ltd and good will thereon)	70,300 27,000 13,200 4,000 30,000	 7,000 2,500 1,35,000
Liquidator of M Ltd Dr To equity share capital A/c To 9% preference share capital A/c (being payment of purchase price)	82,500	 50,000 32,500
Liquidator of N Ltd A/c Dr To Equity share capital A/c To 9% preference share capital A/c	52,500	 50,000 2,500

Balance sheet of P Ltd as on 31st March 1997

Liabilities	Amount	Assets		Amount
Share capital:		Fixed assets:		
10,000 equity shares of Rs 10 each	1,00,000	Good will		30,000
10,000 9% preference shares of Rs 10 each	1,00,000	Other fixed assets	70,300	
		Less: Dep fund	2,500	67,800
Issued and paid up : 10,000 equity shares of Rs10 each fully paid	1,00,000	Current assets:		
3,500 9% preferences shares of Rs10 each fully paid	35,000	Stock		27,000
		Debtors		13,200
(all the above shares were issued for consideration other than cash)		Bank		4,000
Current liabilities:				
Creditors	7,000			
	1,42,000			**1,42,000**

RECONSTRUCTION

It means reconstruction of a company's financial structure. It may take place either with or without the liquidation of the company.

MEANING:

In case of Internal Reconstruction the company's existing financial structure is reorganised without dissolving the existing company and without forming a new company. Taking a wider meaning of the term 'Internal Reconstruction' it includes:

i) Alteration of Share Capital under Section 94 to 97.

ii) Reduction of Share Capital under Section 100 to 105.

iii) Variation of Shareholders' Right under Section 106.

iv) Scheme of Compromise/Arrangement under section 391 to 393 and 394 A.

Internal Reconstruction:

The capital of a company is formed to take over the business of an existing company which will be liquidated. The capital of a company is reorganized to enable it to make a fresh beginning, after eliminating accumulated losses.

- Generally , internal reconstruction is preferred by companies over external reconstruction due to the following reason:
- Liquidation of the existing company and formation of new company involve a large number of legal formalities and are also expensive.
- Accumulated losses of the liquidating company cannot be set off against the profits of the newly formed company though the shareholders may be the same, thus an important tax advantage is lost.
- The time span needed for external reconstruction is generally far more than that of internal reconstruction.

Accounting entries for reduction of capital:

1 **.** Reducing or completely extinguishing liability of the shareholders for uncalled capital

Example:1 A company whose capital consists of 5,000 shares of RS100 each , Rs75 called and paid , decides to reduce the shares into 5,000 shares of Rs 75 each fully paid.

Journal Entry

Particulars	**Debit(amt)**	**Credit (amt)**
Share capital A/c Dr To share capital A/c (being conversion of 5,000 shares of Rs100 each , Rs75 paid up into 5,000 shares of Rs75 each, fully paid up)	3,75,000	 3,75,000

2. **Refunding surplus capital which is found to be in excess of needs of the company**

Example 2: A company whose paid up capital includes 10,000 equity shares of Rs100 each fully paid decides to return Rs20 per share to the members, thus reducing each shares to Rs80 each ,fully paid .

Journal entry

Particulars	Debit (amt)	Credit (amt)
Equity share capital (Rs100) A/c Dr	10,00,000	
To equity share capital (Rs80) A/c		8,00,000
To sundry shareholders A/c		2,00,000
(being conversion of 10,000 shares of Rs100 each into shares of Rs80 each and the balance to be returned transferred to the members)		
Sundry shareholder A/c Dr	2,00,000	
To bank A/c		2,00,000
(being return of capital to shareholders ad per the scheme)		

3.Cancelling or writing off lost capital , not represented by assets

(a) .When face value of the shares is changed or the rate of preference dividend is changed , thus changing the category of the share.

Example 3: 5,000 equity shares of Rs10 each are reduced to fully paid shares of Rs6 each.

Journal entry

Particulars	**Debit (amt)**	**Credit (amt)**
Equity share capital (Rs10) A/c Dr	50,000	
To equity share capital (Rs6)A/c		30,000
To capital reduction A/c		20,000
(being conversion of 5,000 shares of Rs10 each into shares of Rs6 each fully paid, balance transferred to capital reduction A/c)		

When there is no change in the face value of the share or rate of preference dividend, thus resulting in no change in the category of the share.

Example 4: A company decides to reduce Rs3 per share on its 80,000 equity shares of rS10 each , fully paid.

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
Equity share capital A/c Dr	2,40,000	
To capital reduction A/c		2,40,000

4 .when debenture holders or creditors make some sacrifice as a part of capital reduction scheme

Example 5:As per the capital reduction scheme adopted by a company,5,000 7%debentures of Rs100 each and the trade creditors have agreed to reduce their claims by Rs50,000

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
7% debenture A/c Dr	1,00,000	
Creditors A/c Dr	50,000	

To capital reduction A/c (being reduction of Rs20 per debenture on 5,000 debentures and reduction of creditors as per capital reduction scheme)		1,50,000

5.When there is appreciation in the value of any of the assets

Example 6: On the date of capital reduction , accompany finds that its buildings have appreciated by Rs40,000 and the value of stock has gone up by Rs30,000

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
Buildings A/c Dr	40,000	
Stock A/c Dr	30,000	
To capital reduction A/c		70,000
(being appreciation in the value of assets credited to capital reduction)		

7 .When capital reduction account is used to write off loses, reduce assets, etc as per the approved scheme

Journal Entry

Particulars	**Debit (amt)**	**Credit (amt)**
Capital reduction A/c Dr	XXX	
To profit and loss A/c (Dr balance)		XXX
To preliminary expenses A/c		XXX
To discount on issue of shares or debenture		XXX
To good will A/c		XXX

To Assets A/c (amount to be reduced) To capital reserve A/c(balance of any) (being losses written off and assets reduced as per capital reduction scheme)		XXX XXX

UNIT- I

POSSIBLE QUESTIONS

1. On 31st December 2006. The following balances stood in the books of Asian Bank Ltd after preparation of its profit and loss account

	Rs. (in '000)		Rs. (in '000)
Share Capital : issued and subscribed	4, 000	Reserve Fund (under section17)	6,200
Fixed deposits	42,600	Savings bank deposits	19,000
Current accounts	23,200	Money at call and short notice	1,800
Investments	25,000	Profit and loss a/c (cr) 1st Jan 2006	1,350
Dividends for 2005	400	Premises	2,950
Cash in hand	380	Cash with RBI	10,000
Cash with other banks	6,000	Bills discounted and purchased	3,800
Loans, cash credit and overdraft	51,000	Bills payable	70
Unclaimed dividend	60	Rebate on bills discounted	50
Short loans (borrowing from other banks)	4,750	Furniture	1,164
Other assets	336	Net profit for 2006	1,550

Prepare Balance sheet of the bank as on 31st December 2006.

2. The following is the Trial Balance extracted from the books of Town Bank Ltd.

Debit Balances	Rs.	Credit Balances	Rs.
Balances with banks	46,350	Share Capital	3,00,000
Investment in Government bonds	1,94,370	Security deposit of employees	15,000
Other investment	1,55,630	SB Accounts	7,420
Gold Bullion	15,130	Current Accounts	97,000
Interest accrued on investment	24,620	Fixed Deposits	1,13,050
Silver	2,000	Reserve Fund	1,40,000
Constituent liability for acceptance	56,500	Borrowings from banks	77,230
Buildings	65,000	Profit and Loss A/c	6,500
Furniture	5,000	Bills for collection	43,500
Money at call	26,000	Acceptance and Endorsement	56,500
Loans	2,00,000	Interest	72,000
Bills Discounted	12,500	Commission	25,300
Interest	7,950	Discounts	42,000
Bills for collection	43,500	Rent	600
Audit Fees	5,000	Profit on Bullion	1,200
Loss on sale of furniture	1,000	Miscellaneous Income	2,700
Director's Fees	1,200	Accumulated Depreciation	20,000

		on building	
Salaries	21,200		
Postage	50		
Managing Director's Remuneration	12,000		
Loss on sale of investment	30,000		
Cash in hand	25,000		
Cash with RBI	50,000		
Branch Adjustment	20,000		
	10,20,000		**10,20,000**

You are required to prepare profit and loss account and balance sheet after taking into consideration the following

a. Bad debts Rs. 500
b. Rebate on bills Rs. 1,000
c. Current year's depreciation on building Rs. 2,000
d. Some current accounts are overdrawn to the extent of Rs. 25,000 and total of credit balance is Rs. 1,22,000

3. The following are the balances extracted from the books of New Delhi Bank Ltd, as on March 31, 1998

Particulars	Rs.
Rebate on Bills discounted	15,000
Interest and discount received	40,55,000
Interest paid on deposits	24,04,000
Issued and Subscribed Capital	10,00,000
Reserve under section 17	7,00,000
Commission, Exchange and Brokerage	1,80,000
Rent Received	60,000
Profit on Sale of Investment	1,90,000
Salaries and Allowances	2,10,000
Directors fees and allowances	24,000
Rent and Taxes paid	1,08,000
Stationery and Printing	48,000
Postage and Telegram	40,000
Preliminary expenses	10,000
Audit fees	8,000
Depreciation on Bank Property	25,000

The following further information is given :

1. A customer to whom a sum of Rs. 5,00,000 has been advanced has become insolvent and it is expected only 40% can be recovered from his estate. Interest due at 15% has not been provided for in the books
2. Provision for bad and doubtful and other debts necessary Rs. 1,00,000
3. Provide Rs. 7,00,000 for income tax
4. The directors desire to declare 10% dividend

Prepare the Profit and Loss Account in accordance with the law. Make necessary assumptions

4. From the following particulars prepare the balance sheet of progressive bank ltd as on 31st March 2008

Particulars	Dr.	Cr.
Share Capital		10,00,000
Reserve Fund		16,00,000
Fixed Deposits		40,00,000
Savings Bank Deposits		60,00,000
Current Account		2,20,00,000
Money at call and short notice in India	2,00,000	
Bills Discounted and Purchased in India	9,00,000	
Investment at Cost:		
Central and State Government		
- Securities	1,00,00,000	
- Debentures	4,00,000	
- Bullion	24,00,000	
Reserve for Building		10,00,000
Premises at cost	1,00,00,000	
Additions to premises	20,00,000	
Depreciation fund on properties		80,00,000
Cash with Reserve Bank of India	34,00,000	
Cash with State Bank of India	12,00,000	
Unclaimed Dividend		24,000
Unexpired discount		50,000
Loans, advances, overdrafts and cash credit in India	1,00,00,000	
Branch adjustment	57,94,000	
Silver	2,00,000	
Advanced payment of Tax	1,10,000	
Interest accrued on investment	2,60,000	
Non-bank assets acquired	70,000	
Borrowings from banks in India		2,50,000
Bills Payable		20,00,000
Profit & Loss (including Rs. 2,10,000 for the year)		4,10,000
Dividend fluctuation fund		6,00,000
	4,69,34,000	**4,69,34,000**

The bank had bills for collection for its constituent Rs. 3, 00,000 and Rs. 4, 00,000. There was a claim of Rs. 2,00,000 against the bank but not acknowledged as debt. The liabilities for bills rediscounted were Rs. 32,000. Liability for forward exchange contract was Rs. 20,00,000.
The directors decided to reserve Rs. 2,000 for unexpired discount and transfer reserve for building to depreciation fund.

5. The following are the ledger balances of X Bank Ltd. Prepare the Profit and Loss Account and Balance Sheet as on 31st March 2008, as per the requirements of the Banking Regulations Act.

	Rs.
Share Capital 20,000 shares of Rs. 1,000 each Rs. 100 paid	20,00,000
Reserve Fund Investment	10,00,000
General Expenses	1,82,000
Current Account	2,02,44,000
Interest paid	1,61,000

Savings Bank Accounts	29,20,000
Fixed Deposits	40,00,000
Profit and Loss Account, Balance brought forward	2,30,000
Discount received	1,80,000
Rebate on bills Discounted	64,000
Commission, exchange and Brokerage	44,000
Cash	2,27,000
Interest Received	5,32,000
Cash with RBI	20,12,000
Owing by foreign correspondents	2,00,000
Short loans	64,82,000
Loans and Advances to customers	1,55,85,000
Investments	92,83,000
Bills Discounted	62,28,000
Premises	62,28,000

Additional information

1. Provision for bad and doubtful debts required Rs. 1,29,000
2. The bank had bills for collection for its constituent Rs. 5,00,000 and Acceptance and guarantees Rs.16,00,000
3. The Profit and Loss Account balance is the balance left on that account after the payment of interim dividend amounting to Rs. 2,00,000.

6. From the following information relating the Chandu Banking Co Ltd, Prepare Profit and Loss Account and the Balance Sheet as on 31st March 2008. As per the requirements of the Banking Regulations Act.

Particulars	Rs.
Share Capital: Shares of Rs. 100 each, fully paid	2,00,000
Statutory Reserve Fund (Fully invested in 5% government Securities at par)	1,20,000
Establishment Expenses	1,28,000
Current Deposits	13,67,000
Interest paid	7,48,000
Savings Account	17,32,000
Discount	4,47,000
Rebate on Bills Discounted	48,000
Fixed Deposits	8,75,000
Profit and loss Account Balance Forward Credit	8,20,000
Commission and Exchange	2,93,000
Premises	4,80,000
Cash in hand	23,000
Interest Received	12,86,000
Investment in Shares (Market value Rs.2,00,000)	93,000
Cash with bank in India	2,85,000
Term loans in India	10,00,000
Cash Credit- Hypothecation	12,69,000
Cash credit – Pledge in India	9,44,000
Bills Purchased	16,00,000
Loan to employees for purchase of bicycle	41,000
Salaries, allowances, bonus, provident fund	4,45,000
Dividend paid for 2006-07	20,000

Dividend received on investment	8,000

Additional information

1. Establishment expenses include : Advertising Rs. 10,000, Stationery Rs. 63,000, Rent Rs. 18,000, Lighting Rs. 3,000, Audit fees Rs. 8,000, Postage and Telegrams Rs. 5,000, Stamp Papers Rs. 2,000.
2. An advance of Rs. 21,000 included in cash credit – hypothecation as above is considered doubtful and needs to be fully provided form.
3. Provide for taxation at 50%
4. Make necessary appropriation for statutory reserve
5. Acceptance for customers Rs. 48,000

7. Some of the items in the Trial Balance of Modern Bank Limited as on December 31, 2002 were as follows

	Rs.		Rs.
Loans and advances	71,50,000	Printing and Stationery	4.500
Current Account (including overdraft of Rs. 1,50,000)	66,00,000	Interest on savings bank deposits	75,000
Bills discounted and purchased	19,20,000	Auditors Fees	5,000
Interest on Fixed deposits	1,55,000	Director's Fees	2,500
Interest on loans	2,25,000	Interest on Overdraft	95,000
Discount (subject to unexpired discount Rs. 30,000)	2,01,000	Provision for bad debts Jan 1 2002	42,000
Interest on cash credit	1,05,000	Bad debts	21,000
Commission earned	46,500	Provision for income tax Jan 1 2002	66,000
Loss on sale o investment	34,000	Income tax paid for 2002	54,000

You are required to prepare profit and loss account of the bank, maintaining the provision for income tax at Rs. 84,000 and provision for bad debts at Rs. 52,000 for the year ended December 31st 2002. All workings should form part of your answer.

8.From the following details, prepare profit and loss account of the Bharat Bank Ltd., for the year ended December 31st 2010

	Rs.		Rs.
Interest paid on deposits and borrowings	2,40,000	Interest and discount	7,48,000
Rent Received	36,000	Net profit on sale of investment	36,000
Salaries, allowances, bonus and provident fund	2,10,000	Commission, exchange and brokerage	1,20,000
Legal charges	12,000	Audit fees	5,000
Directors and local committee members fees	2,400	Printing and stationery	6.400
Miscellaneous Expenditure	12,000	Telephone, stamp postage and telegram	44,000
Advertising	9,000	Insurance and lighting	7,400
Bad debts	34,500	Rent paid	48,000

Opening balances of unexpired discount and reserve for bad and doubtful debts were Rs. 48,000 and Rs. 24,000 respectively. Closing balances required on these amounts are Rs. 54,000 and Rs. 36,000 respectively. Provide 60% taxation on current profits.
The Chairman and managing director has been paid a salary of Rs. 2,400 p.m and has been provided free quarters and a motor car perquisites valued at Rs. 6,000 p.a.

9.On 31st December 2006. The following balances stood in the books of Asian Bank Ltd after preparation of its profit and loss account

	Rs. (in '000)		Rs. (in '000)
Share Capital : issued and subscribed	4, 000	Reserve Fund (under section17)	6,200
Fixed deposits	42,600	Savings bank deposits	19,000
Current accounts	23,200	Money at call and short notice	1,800
Investments	25,000	Profit and loss a/c (cr) 1st Jan 2006	1,350
Dividends for 2005	400	Premises	2,950
Cash in hand	380	Cash with RBI	10,000
Cash with other banks	6,000	Bills discounted and purchased	3,800
Loans, cash credit and overdraft	51,000	Bills payable	70
Unclaimed dividend	60	Rebate on bills discounted	50
Short loans (borrowing from other banks)	4,750	Furniture	1,164
Other assets	336	Net profit for 2006	1,550

Prepare Balance sheet of the bank as on 31st December 2006.

10. From the following particulars XY Bank Ltd, having its own premises, prepare the balance sheet in the prescribed form as on 31st December 2005

	Rs. (in '000)		Rs. (in '000)
Authorized Capital	4, 000	Investments	7,000
Subscribed capital 4,000 shares of Rs. 10 each Rs. 5 paid	2,000	Bills discounted (in India)	15,000
Profit & loss	850	Endorsement for bills for collection	100
Liability for customers for acceptance	5,000	Money at call and short notice	9,000
Cash in hand	2,000	Cash with RBI	4,000
Reserve	3,000	Cash with State Bank of India	4,000
Letter of credit issued	500	Telegraphic transfer payable	800
Bank draft payable	1,200	Short loans	40
Rebate on bills discounted	10	Acceptance for customers	5,000
Loans and advances	10,000	Cash credit	10,000
Overdraft	1,000	Bills purchased (payable outside India)	1,000
Current and deposit account	56,000	Bills for collection	100
Investment Fluctuation Fund	100		

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UNIT- I

Questions	A	B	C	D	Answer
Every Banking Company is required to close its accounts on	31st December	31st March	30th June	30th September	31st March
The Percentage of profit to be transferred to statements reserve by the banking company is	25%	15%	20%	10%	25%
The assets which does not generate income to the banker is termed as	Performing Assets	Fixed Assets	Non-performing assets	Current assets	Non-performing assets
Rebate on bills discounted is	An accrued income	an item of income	a liability	income received in advance	income received in advance
A Non banking asset is	An investment	An item of office appliance	Any asset acquired from the debtors in satisfaction of claims	Money at call and short notice	Any asset acquired from the debtors in satisfaction of claims
Schedule 1 relates to __________	Investment	Advances	Capital	Fixed Assets	Capital
Provision for income tax is shown in the Bank account under the head	Borrowings	Other liabilities	Operating expenses	Contingent liabilities	Other liabilities
The heading other assets does not include	Stationery and stamps	Interest accrued	Gold	Silver	Gold
Demand drafts and Telegraphic transfers are shown in the Bank accounts under the head	Contingent liabilities	Bills payable	Loans and Advances	Borrowings in India	Bills payable
Letter of credit and endorsement are shown in Bank account under the head	Bills payable	Contingent liabilites	Bills for collection	Other assets	Contingent liabilities
In a bank's balance sheet, Gold is shown under ______	Investment	Fixed Assets	other Assets	Advances	Investment
A bank is not allowed to grant loans or advances on the security of its own ______	Debentures	shares	bonds	others	shares
Building acquired in satisfaction of a claim and interest accrued but not due on investments are shown in the Banks Balance sheet under the head	Fixed Assets	Investments	Advances	Other assets	Other assets
Banking Companies are governed by -------- Act 1949	RBI	Banking Regulations	Banking Realization	Banking Organisation	Banking Regulations
Banks in India are under the general supervision of -------	RBI	SEBI	Central Govt	State Govt	RBI
The basis for banking transactions are the ------------ prepared by customers and sometimes by banks	Voucher	Bill	Slips	Receipt	Slips
All appropriations of the profits are shown in the IVth part of ___________	Revenue	Balance Sheet	P&L Appropriation	P&LA/c	P&LA/c
Acceptance, endorsement and other obligations are shown in the Bank's balance sheet under the head-----------	Contingent liabilities	Other liabilities	Contingent Assets	Other assets	Contingent liabilities
Locker rent is shown in P&L a/c of the Bank under the head-------	Schedule 12	Schedule 14	Schedule 13	schedule 15	Schedule 14
At Present, the SLR for a banking company in India, as per the regulations of RBI is ---------	15%	10%	25%	40%	25%

According to present regulations of RBI, a banking company is to maintain a minimum of ------------------ percent as cash reserve over its time and demand liabilities.	12%	20%	15%	5%	5%
Schedule 13 relates to --------------	interest earned	Interest accrued	interest expended	other income	interest earned
Schedule 15 related to --------	other income	interest earned	interest expended	interest received	interest expended
In a bank's balance sheet, Silver is shown under ______	Investment	Fixed Assets	other Assets	Advances	other Assets
A banking company should have atleast ___________ of the subscribed capital as paid up capital	one- half	one-third	two-third	25%	one- half
Schedule 9 deals with _______	Investment	deposits	Advances	Capital	Advances
Provision for doubtful debts is shown under _________ in the profit & loss A/c	Provision and contingencies	interest earned	Operating expenses	other income	provision and contingencies
only after writing off all capital losses like preliminary expenses, brokerage, commission etc The Banking Companies can--------	be allowed to pay dividends	cannot pay dividends	can pay after the approval of RBI	can be paid after the approval of Head office	Can be allowed to pay dividends
If the rebate on bills discounted is given outside the trial balance, the same should be subtracted from schedule 13 shown in ___________	Schedule 12	schedule 5	Schedule 11	schedule 15	schedule 5
Loss on sale of investment is to be shown in __________	Schedule 14	Schedule 13	Schedule 15	Schedule 16	Schedule 14
Salaries and allowances paid to the directors of a banking company are shown in ________	Schedule 12	Schedule 13	Schedule 14	Schedule 16	Schedule 16
Bills for collection are to be shown under the head ________	Rebate on bills discounted	Provision and contingencies	bad and doubtful debts	other liabilities and provision	provision and contingencies
The Bad Debts of Banks are called as _________	Net performing assets	Non preference assets	net preference assets	nonperforming assets	nonperforming assets
The particulars relating to Borrowings from other banking companies must be sub divided into in India and ______	branches of same bank	branches of other banks	Outside India	head office	Outside India
Schedule 2 deals with __________	Capital	Reserves and Surplus	Deposits	borrowings	Reserves and surplus
security deposits of employees should shown in __________	other liabilities	Reserves and Surplus	Deposits	borrowings	other liabilities
Money at call and short notice is treated as	liabilities	assets	income	expenditure	assets
Interest on current deposits is shown under __________ head	interest earned	interest expended	other Assets	other income	interest expended
Established expenses are recorded in ____________	Schedule 12	Schedule 13	Schedule 14	Schedule 16	Schedule 16
Interest paid the customers on saving bank account should be shown under the head________	interest earned	interest expended	other Assets	other income	interest expended
Discount on bills discounted is a __________	income	expenses	deferred expenses	capital expenditure	income

Interest on Cash credit is an item of __________	liabilities	assets	income	expenditure	income
Director's Fees and Auditor's Fees should be shown under the head _________	operating income	operating expenses	revenue expenses	revenue receipt	operating expenses
Depreciation on Bank's property to be shown under the _________	Schedule 12	Schedule 13	Schedule 14	Schedule 16	Schedule 16
Proposed dividend should be shown under the head _________ of the profit and loss of a banking company	Appropriation	operating expenses	other income	interest received	Appropriation
Transfer fees is a ________	income	expenditure	direct income		
interest expended is show in ______ schedule	1	4	12	15	15
Provision for taxation should be shown In __________	other liabilities	Provision and contingencies	appropriation	operating expenditure	Provision and contingencies
Interest on loans should be shown in _________ head	operating income	operating expenses	interest expended	interest earned	interest earned
The profit and Loss account of a banking company has to prepared in ______	Form A	Form B	Form C	Form D	Form B
The Banking Regulations Act _______	1956	1961	1949	1934	1949
The Balance sheet of a Banking Company has _______ schedules	18	20	12	10	12
Statutory reserves is maintained at __________ of a banking company	income	expenses	profits	loss	profits
Share premium is shown in ___________	Capital	Reserves and Surplus	Loans and Advances	Deposits	Reserves and Surplus
Capital Reserve is shown in _______ schedule	2	1	4	5	2
Demand deposits is an item of __________	loans	advances	deposits	borrowings	deposits
Debits balances of branch adjustments is shown in _________	other income	Other liabilities	other Assets	other expenditure	other Assets
Government bonds should be shown under the head _________	deposits	Investments	Loans and Advances	Fixed Assets	Investments
Furniture and fixtures to be shown in ___________	other income	Other liabilities	other Assets	other expenditure	other Assets
Borrowings from other banks is a ______	other income	Other liabilities	other Assets	other expenditure	Other liabilities

UNIT-II

SYLLABUS

Financial Statement of Insurance Companies - Introduction to Insurance Business - Types of Insurance - Life Insurance - General Insurance - Fire Insurance - Marine Insurance - Preparation of Valuation Balance Sheet - Determination of Surplus to Policy Holder.

Insurance business means business other than life insurance business. General insurance companies operating in India were nationalised on 13th May, 1971 by the Ordinance of the President of India. The accounts of the General Insurance Companies were maintained according to the provisions of Insurance act 1938. Under the previous law, separate Revenue Account had to be prepared for each type of business-fire, marine, accident, etc.

The following accounts were used to be prepared in the case of General Insurance Companies:-

(a) Revenue Account:

A separate revenue account is prepared for each type of business. Incomes and expenses of a particular business are recorded separately and profit or loss arising there from is transferred to Profit and Loss Account.

(b) Profit and Loss Account:

General incomes and expenses not belonging to a particular business are recorded in it and balance of profit or loss is transferred to Profit and Loss Appropriation Account.

(c) Profit and Loss Appropriation Account:

Appropriations of profit for various purposes are shown in it and it’s balance is transferred to balance sheet.

(d) Balance Sheet:

It shows various assets and liabilities of general insurance companies. Performa of Balance Sheet is same for general and life insurance companies.

Before the incorporation of IRDA Act, 2000 which allowed private players, general insurance business was conducted by General Insurance Corporation of India and its four subsidiaries.

But now, Final account of general insurance business are required to be prepared as per IRDA Regulations, 2002 which consist of:

(a) Revenue Account (as per Form B-RA);

(b) Profit and Loss Account (Form B-PL);

(c) Balance Sheet (Form B-BS).

The summaries of these accounts are as follows:

1. Revenue Account:

A separate Revenue Account (Form B-RA) is prepared for each type of business e.g., fire, marine etc. It records the incomes and expenses of a particular business and profit/loss is transferred to Profit and Loss Account.

2. Profit and Loss Account:

(Form B-PL) Besides, profit/loss of different business, it records incomes and expenses of general nature and it shows how the profit has been appropriated. Its balance is shown in the Balance Sheet.

3. Balance Sheet:

(Form B-BS) It records various assets and liabilities of the General Insurance Companies.

It must be observed that difference in revenue account does reveal profit or loss of business. The revenue account is closed by transfer to respective fund account viz., fire fund, marine fund etc. Ascertainment of profit under General Insurance Business. General insurance policies are normally issued for short terms renewable every year.

It is quite possible that on the accounting date, some of the contracts are still alive and hence represent unexpired risk. A suitable provision is made for that unexpired risk on a generalized basis as it is impractical to create it for specific policies. Sometimes an additional provision is also created. The total of reserve for unexpired risk and additional risk is collectively termed as 'Respective Fund' which may be fire fund, marine fund, motor vehicle fund, etc.

The revenue account starts and ends with respective value of the fund besides recording normal revenue and expenditure. The difference of the account is called profits or loss and is transferred to Profit and Loss Account.

Reserve for Unexpired Insurance:

According to the provisions of Insurance Act, 1938, provision for unexpired risks in case of fire, marine, cargo and miscellaneous business is to be created-@ 40% of the net premiums received and 100% in case for marine Hull. However, income determination of general insurance business is done as per section 44 of Income-tax Act, 1961 and Rule 6 E of the Income-tax Rules.

They provide for reserve for unexpired risk allowed as deduction up to 50% of net premium income in case of fire insurance and miscellaneous insurance and 100% of net premium in case of marine insurance.

As such, reserve is to be made at 50% of the net premium income in case of fire and other insurance businesses and at 100% of the net premium income in case of marine insurance business. A prudent insurance company may make additional reserve in case of fire and miscellaneous insurance business, if it considers it necessary.

Commission to Agents:

Commission on policies affected through insurance agents cannot exceed 5% of the premium in respect of fire and marine business and 10% in case of miscellaneous business. In case of policies effected through principal agents the maximum limits are 20% for fire and marine policies and 15% in the case of miscellaneous insurance less any commission payable to an insurance agent with respect to the policy concerned. Certain concessions are available in this respect to principal agents having a foreign domicile.

Claims:

Claims paid must include all expenses directly incurred in settling claims such as legal expenses, medical expenses, surveyor's expenses etc.

No claim of Rs. 20,000 or more can be paid, except as the Controller of Insurance may otherwise direct, unless there is a report in respect thereof from an approved surveyor or loss assessor (licensed under the Insurance Act).

Regulations Given by Insurance Regulatory and Development Authority:

An insurer carrying on general insurance business, after the commencement of Regulations given by the Insurance Regulatory and Development Authority on 30th March, 2002, shall comply with the requirements of Schedule B for the preparation of financial statements, management report and auditor's report.

Schedule B as given by IRDA is reproduced below:

General Instructions for Preparation of Financial Statements:

1. The corresponding amount for the immediately preceding financial year for all items shown in the Balance Sheet, Revenue Account, and Profit and Loss Account shall be given.

2. The figures in the financial statements may be rounded off to the nearest thousands.

3. Interest, dividends and rentals receivable in connection with an investment should be stated at gross value; the amount of income tax deducted at source being included under 'advance taxes paid'.

4. Income from rent shall not include any notional rent.

5. (I) For the purposes of financial statements, unless the context otherwise requires:
(a) The expression 'provision' shall, subject to note (II) below mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, of retained by way of providing for any known liability or loss of which the amount cannot be determined with substantial accuracy.

(b)The expression 'reserve' shall not, subject to as aforesaid, include any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability.

(c) The expression 'capital reserve' shall not include any amount regarded as free for distribution through the profit and loss account; and the expression 'revenue reserve' shall mean any reserve other than a capital reserve.

(d) The expression "liability" shall include all liabilities in respect of expenditure contracted for and all disputed or contingent liabilities.

(II) Where:
(a)Any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or

(b)Any amount retained by way of providing for any known liability is in excess of the amount which in the opinion of the directors is reasonably necessary for the purpose, the excess shall be treated for the purpose of these accounts as a reserve and not provision.

6. The company should make provision for damages under law suits where the management is of the opinion that the award may go against the insurer.

7. Extent of risk retained and reinsured shall be separately disclosed.

8. Any debit balance of the Profit and Loss Account shall be shown as deduction from uncommitted reserves and the balance, if any, shall be shown separately:

1. An insurer shall prepare the Revenue Account, Profit and Loss Account [Shareholders' Account] and the Balance Sheet in Form B-RA, Form B-PL and Form B-BS, or as near thereto as the circumstances permit.

Provided that an insurer shall prepare Revenue Account and Balance Sheet for fire, marine and miscellaneous insurance business and separate schedules shall be prepared for Marine Cargo, Marine-other than Marine Cargo and the following classes of miscellaneous insurance business under miscellaneous insurance and accordingly application of AS-17 (Segment Reporting) shall stand modified.

(i) Motor

(ii) Workmen's Compensation/Employers' Liability

(iii) Public/Product Liability

(iv) Engineering

(v) Aviation

(vi) Personal Accident

(vii) Health Insurance

(viii) Others

2. An insurer shall prepare separate Receipts and Payments Account in accordance with the Direct Method prescribed in AS-3 "**Cash Flow Statement**" issued by the ICAI.

Form B-RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

Revenue Account for The Year Ended 31st March, 20…

Policyholders' Account (Technical Account)

4.	Interest, Dividend & Rent—Gross			
	Total (A)	2		
1.	Claims Incurred (Net)			
2.	Commission	3		
3.	Operating Expenses related to Insurance Business	4		
	Total (B)			
	Operating Profit/(Loss) from Fire/Marine Miscellaneous Business C = (A – B)			
	Appropriations			
	Transfer to Shareholder's Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	Total (C)			

Note:

See Notes appended at the end of Form B-PL:

Form B-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

Profit and Loss Account for The Year Ended 31st March, 20…

Shareholders' Account (Non-technical Account)

Particulars	Schedule	Current Year (Rs. 000)	Previous Year (Rs. 000)
1. **Operating Profit/(Loss)**			
(a) Fire Insurance			
(b) Marine Insurance			
(c) Miscellaneous Insurance			
2. Income from Investments			
(a) Interest, Dividend & Rent—Gross			
(b) Profit on sale of investments			
Less: Loss on Sale of Investments			
3. **Other Income** (To be specified)			
Total (A)			
4. **Provisions (Other than taxation)**			
(a) For diminution in the Value of Investments			
(b) For Doubtful Debts			
(c) Others (to be specified)			
5. Other Expenses			
(a) Expenses other than those related to Insurance Business			
(b) Bad Debts written off			
(c) Others (to be specified)			
Total (B)			
Profit before Tax			
Provision for Taxation			

Notes:

To Form B-RA and B-PL:

(a) Premium income received from business concluded in and outside India shall be separately disclosed.

(b) Reinsurance premiums 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 provisions for claims at the year-end.

(d) Items of expenses and income in excess of one per cent 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 an investment, should be stated at gross amount, the amount of income tax deducted at source being included under "advance taxes paid taxes deducted at source".

(h) Income from rent shall include only the realised rent. It shall not include any notional rent.

From B BS

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 2006

Particulars	*Schedule*	*Current Year (Rs. 000)*	*Previous Year (Rs. 000)*
Sources of Funds			
Share Capital	5		
Reserves and Surplus	6		
Fair Value Change Account			
Borrowings	7		
Total			
Application of Funds			
Investments	8		
Loans	9		
Fixed Assets	10		
Current Assets			
Cash and Bank Balances	11		
Advances and Other Assets	12		
Sub-total (A)			

Current Liabilities	13		
Provisions	14		
Sub-Total (B)			
Net Current Assets (C) = (A – B)			
Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
Debit Balance in Profit & Loss Account			
Total			

Contingent Liabilities

No.	*Particulars*	*Current Year (Rs. 000)*	*Previous Year (Rs. 000)*
1.	Partly paid-up Investments		
2.	Claims, other than against policies, not acknowledged as debts by the company		
3.	Underwriting commitments outstanding (in respect of shares and securities)		
4.	Guarantees given by or on behalf of the company		
5.	Statutory demands/liabilities in dispute, not provided for		
6.	Reinsurance obligations to the extent not provided for in accounts		
7.	Others (to be specified)		
	Total		

Schedules Forming Part of Financial Statements
Schedule 1 — Premium Earned (Net)

No.	*Particulars*	*Current Year (Rs. 000)*	*Previous Year (Rs. 000)*
	Premium from direct business written		
	Add: Premium on Reinsurance accepted		
	Less: Premium on Reinsurance ceded		
	Net Premium		
	Adjustment for change in reserve for unexpired risks		
	Total Premium Earned (Net)		

Notes: Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission under the head of reinsurance premiums.

Schedule 2—Claims Incurred (Net)

Particulars	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Claims paid		
Direct		
Add : Re-insurance Accepted		
Less : Re-insurance ceded		
Net Claims paid		
Add : Claims Outstanding at the end of the year		
Less : Claims Outstanding at the beginning		
Total Claims Incurred		

Notes:

(*a*) Incurred But Not Reported (IBNR). Incurred But Not Enough Reported (IBNER) claims should be included in the amount for outstanding claims.

(*b*) Claims include specific claims settlement cost but not expenses of management.

(*c*) The surveyor fees, legal and other expenses shall also form part of claims cost.

(*d*) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.

Schedule 3–Commission

Particulars	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Commission paid		
Direct		
Add : Re-insurance Accepted		
Less : Commission on Re-insurance Ceded		
Net Commission		

Note: The profit/commission, if any, are to be combined with the Re-insurance accepted for Re-insurance ceded figures.

Schedule 4–Operating Expenses Related to Insurance Business

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Employee's remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & Stationery		
7.	Communication		
8.	Legal & professional charges		
9.	Auditors fees, expenses etc.		
	(*a*) as auditor		
	(*b*) as adviser or in any other capacity, in respect of :		

Schedule 2—Claims Incurred (Net)

Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
Claims paid		
Direct		
Add : Re-insurance Accepted		
Less : Re-insurance ceded		
Net Claims paid		
Add : Claims Outstanding at the end of the year		
Less : Claims Outstanding at the beginning		
Total Claims Incurred		

Notes:

(*a*) Incurred But Not Reported (IBNR). Incurred But Not Enough Reported (IBNER) claims should be included in the amount for outstanding claims.

(*b*) Claims include specific claims settlement cost but not expenses of management.

(*c*) The surveyor fees, legal and other expenses shall also form part of claims cost.

(*d*) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.

Schedule 3–Commission

Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
Commission paid		
Direct		
Add : Re-insurance Accepted		
Less : Commission on Re-insurance Ceded		
Net Commission		

Note: The profit/commission, if any, are to be combined with the Re-insurance accepted for Re-insurance ceded figures.

Schedule 4–Operating Expenses Related to Insurance Business

No.	Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
1.	Employee's remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & Stationery		
7.	Communication		
8.	Legal & professional charges		
9.	Auditors fees, expenses etc.		
	(*a*) as auditor		
	(*b*) as adviser or in any other capacity, in respect of :		

(*i*) Taxation matters		
(*ii*) Insurance matters		
(*iii*) Management services; and		
(*c*) in any other capacity		
10. Advertisement and publicity		
11. Interest & Bank Charges		
12. Others (to be specified)		
13. Depreciation		
Total		

Notes: Items of expenses and income in excess of one per cent of the total premiums (less reinsurance) or Rs. 5,00,000 whichever is higher, shall be shown as a separate line item.

Schedule 5–Share Capital

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Authorised Capital Equity Shares of Rs......each		
2.	Issued Capital Equity Shares of Rs......each		
3.	Subscribed Capital Equity Shares of Rs......each		
4.	Called-up Capital Equity Shares of Rs......each		
	Less : Calls unpaid		
	Add : Equity Shares forfeited (Amount originally paid up)		
	Less : Par Value of Equity Shares bought back		
	Less : Preliminary Expenses Expenses including commission or brokerage on underwriting or subscription of shares		
	Total		

Notes:

(*a*) Particulars of the different classes of capital should be separately stated.

(*b*) The amount capitalised on account of issue of bonus shares should be disclosed.

(*c*) In case any part of the capital is held by a holding company, the same should be separately disclosed.

Schedule 5A – Share Capital Pattern of Shareholding
[As certified by the Management]

Shareholders	*Current Year*		*Previous*	
	Number of Shares	*% of Holding*	*Number of Shares*	*% of Holding*
Promoters				
— Indian				
— Foreign				
Others				
Total				

(c) Derivative Instruments		
(d) Debentures/Bonds		
(e) Other Securities (to be specified)		
(f) Subsidiaries		
(g) Investment Properties—Real Estate		
4. Investments in Infrastructure and Social Sector		
5. Other than Approved Investments		
Short-term Investments		
1. Government Securities and Government Guaranteed Bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares		
(aa) Equity		
(bb) Preference		
(b) Mutual Funds		
(c) Derivative Instruments		
(d) Debentures/Bonds		
(e) Other Securities (to be specified)		
(f) Subsidiaries		
(g) Investment Properties—Real Estate		
4. Investment in Infrastructure and Social Sector		
5. Other than Approved Investments		
Total		

Form B-RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

Revenue Account for The Year Ended 31st March, 20…

Policyholders' Account (Technical Account)

4. Interest, Dividend & Rent—Gross			
Total (A)	2		
1. Claims Incurred (Net)			
2. Commission	3		
3. Operating Expenses related to Insurance Business	4		
Total (B)			
Operating Profit/(Loss) from Fire/Marine Miscellaneous Business C = (A – B)			
Appropriations			
Transfer to Shareholder's Account			
Transfer to Catastrophe Reserve			
Transfer to Other Reserves (to be specified)			
Total (C)			

Note:

See Notes appended at the end of Form B-PL:

Form B-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

Profit and Loss Account for The Year Ended 31st March, 20…

Shareholders' Account (Non-technical Account)

Particulars	Schedule	Current Year (Rs. 000)	Previous Year (Rs. 000)
1. **Operating Profit/(Loss)**			
(a) Fire Insurance			
(b) Marine Insurance			
(c) Miscellaneous Insurance			
2. Income from Investments			
(a) Interest, Dividend & Rent—Gross			
(b) Profit on sale of investments			
Less: Loss on Sale of Investments			
3. **Other Income** (To be specified)			
Total (A)			
4. **Provisions (Other than taxation)**			
(a) For diminution in the Value of Investments			
(b) For Doubtful Debts			
(c) Others (to be specified)			
5. Other Expenses			
(a) Expenses other than those related to Insurance Business			
(b) Bad Debts written off			
(c) Others (to be specified)			
Total (B)			
Profit before Tax			
Provision for Taxation			

Notes:

To Form B-RA and B-PL:

(a) Premium income received from business concluded in and outside India shall be separately disclosed.

(b) Reinsurance premiums 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 provisions for claims at the year-end.

(d) Items of expenses and income in excess of one per cent 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 an investment, should be stated at gross amount, the amount of income tax deducted at source being included under "advance taxes paid taxes deducted at source".

(h) Income from rent shall include only the realised rent. It shall not include any notional rent.

From B BS

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 2006

Particulars	*Schedule*	*Current Year (Rs. 000)*	*Previous Year (Rs. 000)*
Sources of Funds			
Share Capital	5		
Reserves and Surplus	6		
Fair Value Change Account			
Borrowings	7		
Total			
Application of Funds			
Investments	8		
Loans	9		
Fixed Assets	10		
Current Assets			
Cash and Bank Balances	11		
Advances and Other Assets	12		
Sub-total (A)			

Current Liabilities	13		
Provisions	14		
Sub-Total (B)			
Net Current Assets (C) = (A – B)			
Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
Debit Balance in Profit & Loss Account			
Total			

Contingent Liabilities

No.	*Particulars*	*Current Year (Rs. 000)*	*Previous Year (Rs. 000)*
1.	Partly paid-up Investments		
2.	Claims, other than against policies, not acknowledged as debts by the company		
3.	Underwriting commitments outstanding (in respect of shares and securities)		
4.	Guarantees given by or on behalf of the company		
5.	Statutory demands/liabilities in dispute, not provided for		
6.	Reinsurance obligations to the extent not provided for in accounts		
7.	Others (to be specified)		
	Total		

Schedules Forming Part of Financial Statements
Schedule 1 — Premium Earned (Net)

No.	*Particulars*	*Current Year (Rs. 000)*	*Previous Year (Rs. 000)*
	Premium from direct business written		
	Add: Premium on Reinsurance accepted		
	Less: Premium on Reinsurance ceded		
	Net Premium		
	Adjustment for change in reserve for unexpired risks		
	Total Premium Earned (Net)		

Notes: Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission under the head of reinsurance premiums.

Schedule 2—Claims Incurred (Net)

Particulars	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Claims paid		
Direct		
Add : Re-insurance Accepted		
Less : Re-insurance ceded		
Net Claims paid		
Add : Claims Outstanding at the end of the year		
Less : Claims Outstanding at the beginning		
Total Claims Incurred		

Notes:

(*a*) Incurred But Not Reported (IBNR). Incurred But Not Enough Reported (IBNER) claims should be included in the amount for outstanding claims.

(*b*) Claims include specific claims settlement cost but not expenses of management.

(*c*) The surveyor fees, legal and other expenses shall also form part of claims cost.

(*d*) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.

Schedule 3–Commission

Particulars	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Commission paid		
Direct		
Add : Re-insurance Accepted		
Less : Commission on Re-insurance Ceded		
Net Commission		

Note: The profit/commission, if any, are to be combined with the Re-insurance accepted for Re-insurance ceded figures.

Schedule 4–Operating Expenses Related to Insurance Business

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Employee's remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & Stationery		
7.	Communication		
8.	Legal & professional charges		
9.	Auditors fees, expenses etc.		
	(*a*) as auditor		
	(*b*) as adviser or in any other capacity, in respect of :		

Schedule 2—Claims Incurred (Net)

Particulars	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Claims paid		
Direct		
Add : Re-insurance Accepted		
Less : Re-insurance ceded		
Net Claims paid		
Add : Claims Outstanding at the end of the year		
Less : Claims Outstanding at the beginning		
Total Claims Incurred		

Notes:

(*a*) Incurred But Not Reported (IBNR). Incurred But Not Enough Reported (IBNER) claims should be included in the amount for outstanding claims.

(*b*) Claims include specific claims settlement cost but not expenses of management.

(*c*) The surveyor fees, legal and other expenses shall also form part of claims cost.

(*d*) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.

Schedule 3–Commission

Particulars	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Commission paid		
Direct		
Add : Re-insurance Accepted		
Less : Commission on Re-insurance Ceded		
Net Commission		

Note: The profit/commission, if any, are to be combined with the Re-insurance accepted for Re-insurance ceded figures.

Schedule 4–Operating Expenses Related to Insurance Business

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Employee's remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & Stationery		
7.	Communication		
8.	Legal & professional charges		
9.	Auditors fees, expenses etc.		
	(*a*) as auditor		
	(*b*) as adviser or in any other capacity, in respect of :		

(i) Taxation matters		
(ii) Insurance matters		
(iii) Management services; and		
(c) in any other capacity		
10. Advertisement and publicity		
11. Interest & Bank Charges		
12. Others (to be specified)		
13. Depreciation		
Total		

Notes: Items of expenses and income in excess of one per cent of the total premiums (less reinsurance) or Rs. 5,00,000 whichever is higher, shall be shown as a separate line item.

Schedule 5–Share Capital

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Authorised Capital Equity Shares of Rs......each		
2.	Issued Capital Equity Shares of Rs......each		
3.	Subscribed Capital Equity Shares of Rs......each		
4.	Called-up Capital Equity Shares of Rs......each		
	Less : Calls unpaid		
	Add : Equity Shares forfeited (Amount originally paid up)		
	Less : Par Value of Equity Shares bought back		
	Less : Preliminary Expenses Expenses including commission or brokerage on underwriting or subscription of shares		
	Total		

Notes:

(a) Particulars of the different classes of capital should be separately stated.

(b) The amount capitalised on account of issue of bonus shares should be disclosed.

(c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

Schedule 5A – Share Capital Pattern of Shareholding
[As certified by the Management]

Shareholders	*Current Year*		*Previous*	
	Number of Shares	*% of Holding*	*Number of Shares*	*% of Holding*
Promoters				
— Indian				
— Foreign				
Others				
Total				

(c) Derivative Instruments		
(d) Debentures/Bonds		
(e) Other Securities (to be specified)		
(f) Subsidiaries		
(g) Investment Properties—Real Estate		
4. Investments in Infrastructure and Social Sector		
5. Other than Approved Investments		
Short-term Investments		
1. Government Securities and Government Guaranteed Bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares		
(aa) Equity		
(bb) Preference		
(b) Mutual Funds		
(c) Derivative Instruments		
(d) Debentures/Bonds		
(e) Other Securities (to be specified)		
(f) Subsidiaries		
(g) Investment Properties—Real Estate		
4. Investment in Infrastructure and Social Sector		
5. Other than Approved Investments		
Total		

Prepare the set of final accounts for the year 2006-2007:

Particulars	*Rs.*	*Particulars*	*Rs.*
Fire Fund (as on 1.4.2006)	11,80,000	Commission on Direct Business	2,99,777
General Reserve	4,50,000	Commission on re-insurance accepted	60,038
Investments	36,00,000	Outstanding Premium	22,300
Premiums	26,01,533	Claims intimated but not paid (1.4.2006)	60,000
Claims Paid	6,02,815		
Share Capital—Dividend into Equity Shares of Rs. 100 each	10,00,000		
Profit & Loss A/c (Cr.)	25,000	Expenses on Management	4,31,947
Re-insurance premium	1,12,525	Audit Fees	36,000
Claims recovered from re-insurers	21,119	Rent	67,500
Commission on re-insurance ceded	48,016	Income from Investments	1,53,000
Advance income-tax paid	2,50,000	Sundry Creditors	22,500
		Agent's Balance (Dr.)	20,000
		Cash on Hand and Bank Bal.	1,32,462

The following further information may also be noted:

(a) Expenses of management include survey fees and legal expenses of Rs. 36,000 and Rs. 20,000 relating to claims;

(b) Claims intimated but not paid on 31st March 2006—Rs. 1, 04,000;

(c) Income-tax to be provided at 40%;

(d) Transfer of Rs. 2, 25,000 to be made from Current Profits to General Reserve.

(e) The company maintains a reserve for unexpired risk @ 50% of net premium income.

(f) The directors propose a dividend @ 30%. Dividend distribution tax is payable @ 11% which includes surcharge (CA Inter)

SOLUTION :

New Asia Insurance Co. Ltd.
Fire Revenue Account
for the year ended 31st March, 2007

Particulars	*Schedule*	*Current Year Rs. '000*	*Previous Year*
1. Premium Earned (Net)	1	24,24,504	
Total (A)		24,24,504	
2. Claims Incurred (Net)	2	6,81,696	
3. Commission	3	3,11,799	
4. Operating Expenses Relating to Insurance Business	4	3,75,947	
Total (B)		13,69,442	
Operating Profit from Fire Insurance Business (C) = (A) – (B)		10,55,062	
Appropriations :			
Transfer to Shareholders' Account			
Total (C)		10,55,062	

Profit & Loss Account
for the year ended 31st March, 2006

Particulars	*Current Year Rs. '000*	*Previous Year*
Operating profit from Fire Insurance	10,55,062	
Income from Investments	1,53,000	
Total (A)	12,08,062	

Expenses other than those related to Insurance Business :		
Rent	67,500	
Rates and Taxes	5,804	
Audit Fees	36,000	
Total (B)	1,09,304	
Profit before Tax (A) – (B)	10,98,758	
Provision for Taxation @ 40%	(4,39,503)	
	6,59,255	
Appropriations :		
Proposed Final Dividend @ 30%	3,00,000	
Dividend Distribution Tax @ 11%	33,000	
Transfer to General Reserve	2,25,000	
	1,01,255	
Balance of profit brought forward from last year	25,000	
Balance carried forward to Balance Sheet	1,26,255	

Balance Sheet
as on 31st March 2007

Particulars	*Schedule*	*Current Year Rs. '000*	*Previous Year*
Sources of Funds :			
Share Capital	5	10,00,000	
Reserves and Surplus	6	9,31,255	
Total		19,31,255	
Application of Funds :			
Investments	8	31,30,000	
Current Assets	11	4,82,462	
Advances and other Assets	12	42,300	
Sub Total (A)		5,24,762	
Current Liabilities	13	1,26,500	
Provisions	14	15,97,007	
Sub Total (B)		17,23,507	
Net Current Assets (C) = (A) – (B)		11,98,745	
Total		19,31,255	

Schedule 1
Premium Earned (Net)

Particulars	*Current Year Rs. '000*	*Previous Year*
Premiums	26,01,533	
Less : Premium on reinsurance ceded	(1.12.525)	
	24,89,008	
Adjustment for increase in reserves for unexpired risks. (Rs. 12,44,504 – Rs. 11,80,000)	(64,504)	
	24,24,504	

Schedule 2
Claims Incurred (Net)

Particulars	*Current Year Rs. '000*	*Previous Year*
Claims Paid (Rs. 6,02,815 + Rs. 36,000 + Rs. 20,000)	6,58,815	
Less : Re-insurance ceded	(21,119)	
	6,37,696	
Add : Claims outstanding at the end of the year	1,04,000	
	7,41,696	
Less : Claims outstanding at the beginning	(60,000)	
	6,81,696	

Schedule 3
Commission

Particulars	*Current Year Rs. '000*	*Previous Year*
Commission Paid :		
Direct Business	2,99,777	
Add : Re-insurance Accepted	60,038	
Less : Re-insurance ceded	3,59,815	
	(48,016)	
	3,11,799	

Schedule 4
Operating Expenses Related to Insurance Business

Particulars	*Current Year Rs. '000*	*Previous Year*
Expenses of Management		
Rs. 4,31,947 – Rs. 36,000 – Rs. 20,000	3,75,947	

Schedule 5
Share Capital

Particulars	*Current Year*	*Previous Year*
Share Capital	10,00,000	

Schedule 6
Reserves and Surplus

Particulars		*Current Year Rs. '000*	*Previous Year*
	Rs. '000		
General Reserve	5,80,000		
Addition during the year	2,25,000	8,05,000	
Credit Balance of Profit and Loss Account		1,26,255	
		9,31,255	

Schedule 8
Investments

Particulars	*Current Year Rs. '000*	*Previous Year*
Investments	31,30,000	

Schedule 11
Cash and Bank Balance

Particulars	*Current Year Rs. '000*	*Previous Year*
Cash and Bank Balance	4,82,462	

Schedule 12
Advance and Other Assets

Particulars	*Current Year Rs. '000*	*Previous Year*
Outstanding Premium	22,300	
Agents Balance	20,000	
	42,300	

Schedule 5
Share Capital

Particulars	Current Year	Previous Year
Share Capital	10,00,000	

Schedule 6
Reserves and Surplus

Particulars		Current Year Rs. '000	Previous Year
	Rs. '000		
General Reserve	5,80,000		
Addition during the year	2,25,000	8,05,000	
Credit Balance of Profit and Loss Account		1,26,255	
		9,31,255	

Schedule 8
Investments

Particulars	Current Year Rs. '000	Previous Year
Investments	31,30,000	

Schedule 11
Cash and Bank Balance

Particulars	Current Year Rs. '000	Previous Year
Cash and Bank Balance	4,82,462	

Schedule 12
Advance and Other Assets

Particulars	Current Year Rs. '000	Previous Year
Outstanding Premium	22,300	
Agents Balance	20,000	
	42,300	

UNIT- II

1.From the following balances as on March 31, 2008 in the books of General Insurance Co. Ltd, Prepare a Revenue Account in respect of their Fire Insurance Business

Particulars	Rs.	Particulars	Rs
Claims paid	4,80,000	Claims outstanding on April 2007	40,000
Claims intimated and accepted. But not paid on March 31, 2008	70,000	Premium Received	12,00,000
Reinsurance Premium Received	1,20,000	Commission	2,00,000
Commission on reinsurance ceded	8,000	Commission on reinsurance accepted	4,000
Expenses of management	3,02,000	Provision for unexpired risk on April 2007	4,00,000
Additional provision for unexpired risk on April 2007	20,000	Bonus utilized in reduction of premium	12,000
Reinsurance recoveries of claims	8,000	Medical expenses regarding claims	5,000
Loss on sale of motor car	3,500	Bad debts	2,500
Refund of double taxation	4,500	Interest and dividend	8,000
Income tax deducted thereon	1.500	Legal expenses regarding claims	4,000
Profit on sale of Investments	3,500	Rent of Staff Quarters deducted from salaries	2,400
Depreciation	4,600		

You are required to prepare for additional reserve for unexpired risk at 1% of net premium in addition to the opening balance of additional reserve.

Particulars	Rs.(In Lakhs)	Particulars	Rs.(In Lakhs)
Direct Premium income received	50.00	Reserve for unexpired risk as on 1.4.2007 (net)	60.00
Claims outstanding as on 1.4.2007 (net)	20.00	Bad Debts	10.00
Income from investment and dividend (gross)	10.00	Rent Received from properties	5.00
Interest on Government Securities as on 1.4.2007	100.00	Investment in shares as on 1.4.2007	20.00
Commission paid on direct insurance	5.00	Expenses of management	5.00
Income tax deducted at source	3.00	Profit and Loss A/c (Cr) 1.4.2007	10.00
Other Expenses	1.25	Reinsurance premium receipt	5.00
Outstanding claims as on 31.3.2008	30.00	Direct Claims paid (gross)	25.00
Reinsurance claims paid	4.00		

2. The following figures have been extracted from the books of Madurai Insurance Company Ltd in respect of their marine business for the year ending March 31, 2008

Prepare a Revenue Account, Profit and loss A/c and the Profit and loss Appropriation account for the year after taking into account the following information

a) All direct risks are reinsured for 20% of the risk
b) Claim a commission of 25% on reinsurance ceded
c) Provide 25% commission on reinsurance accepted
d) Market value of investment as on 31.3.2008 is as under:
    i) Government Securities – Rs. 105 lakhs
    ii) Shares – Rs. 18 Lakhs
    Adjust separately for each of these two categories of investment.

e) Provide 65% for income tax.

3.From the following balances of Safety Insurance Co. Ltd as on March 31, 2008.

Prepare (i) Fire Revenue Account (ii) Marine Revenue Account (iii) Profit and Loss Account

	Rs.		Rs.
Bad Debts (fire)	10,000	Depreciation	70,000
Bad Debt (Marine)	24,000	Interest , dividend received	28,000
Auditor's fees	6,000	Difference in exchange(cr)	600
Director's fees	6.400	Miscellaneous Receipts	10,000
Share transfer fees	1,600	Profit on sale of land	1,20,000
Bad debts recovered	2,400	Fire Premium less reinsurance	12,00,000
Reserve (fire on 1.4.2007)	5,00,000	Marine Premium less reinsurance	21,60,000
Reserve (Marine on 1.4.2007)	16,40,000	Management Expenses (fire)	2,90,000
Claim paid and outstanding (fire)	3,80,000	Management Expenses (Marine)	8,00,000
Claims paid and outstanding (marine)	7,60,000	Commission earned on reinsurance ceded (fire)	60,000
Commission paid (fire)	1,80,000	Commission earned on reinsurance ceded (Marine)	1,20,000
Commission paid (marine)	2,16,000	Additional reserve (fire) on 1.4.2007	1,00,000

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

4.From the following balances extracted from the books of the LIC as t 31. 2. 2006, Prepare a Revenue A/c for the year ending 31.3.2006 in the prescribed form.

	Rs. (in '000)		Rs. (in '000)
Claims by death	3,30,000	Life Assurance Fund (1.4.05)	63,31,000
Claims by maturity	2,15,000	Premiums	20,65,000
Agents, Canvassers's Allowances	26,500	Bonus in reduction of premium	1,000
Salaries	44,200	Income Tax on interest and dividends	5,700
Travelling Expenses	1,200	Printing and Stationery	13,900
Director's Fees	8,700	Postage & Telegrams	14,300
Auditor's Fees	1,000	Receipt Stamp	2,300
Medical Fees	52,000	Reinsurance Premium	40,950
Commission	2,18,000	Interest and Dividend (Gross)	2,72,000
Rent	2,800	Policy Renewal Fees	9,600
Law Charges	200	Assignment fees	540
Advertising	4,300	Endowment Fees	690
Bank Charges	1,500	Transfer Fees	1,400
General Charges	2,000	Surrenders	47,500

Provide Rs. 1,500 thousands for depreciation of furniture and Rs. 2,20,000 for depreciation on investment.

5.Prepare from the following a Life Insurance Revenue A/c and Balance Sheet as on 31.3.2006.

	Rs		Rs.
Claims by death	16,890	Outstanding interest on Advances 31.3.2006	1,944

Agent's Salaries and Allowances	6,420	Bonus paid with claims	2,700
Surrender value paid	2,810	Endowment assurance matured	24,415
Actuarial Expenses	1,520	Annuities paid	1,350
Premiums	94,836	Interest revenue	19060
Commission to Agents	8,900	Rent, Rate and Taxes	5,475
Salaries	13,500	General Charges	1,860
Medial Fees	1,200	Fees Received	172
Travelling Expenses	1,800	Bonus paid in Cash	2,825
Director's Fees	900	Advertisement	726
Agents balance	750	Consideration for annuities	12,853
Claim expenses	1,432	Printing and Stationery	650
Premium Outstanding (1.4.2005)	2,134	Claims O/S (1.4.05)	2,376
Premium Outstanding (31.3.2006	3.143	Claims O/S (31.3.06)	3,735
Investments	1,46,700	Loans on policies	38,300
Share Capital	2,00,000	Loan on mortgages	2,90,560
Sundry Creditors	9,200	Freehold premises	1,22,600
Life Assurance Fund	3,53,672	Furniture and /Fittings	64,100
Reserve Fund	1,46,000	Cash on hand and Deposits	76,300

6. From the following Trial Balance, prepare the Revenue A/c and the Balance Sheet of the Great Life Assurance Co. Ltd

Trial Balance as on 31.3.2006

	Rs. ('000)		Rs. ('000)
Loans on life policies	4,200	Premiums	3,65,900
Expenses of Management	18,200	Profit on Sale of Investment	10,800
Deposit with RBI- Government Securities	2,00,000	Claims admitted but not paid	58,400
Commission	9,800	Sundry Trade Creditors	7,700

Freehold Ground Rents	1,68,000	Life Assurance Fund (1.4.05)	28,00,000
Bonus in Cash	4,200	Consideration for annuities granted	12,200
Surrenders	21,100	Interest, Dividend & Rent – Gross	1,20,500
Agent's Balance	6,800		
Port trust debenture, interest and principal guarantee b y Govt.	5,28,200		
Cash at bank, Current A/c	12,700		
Cash in hand	1,750		
Foreign Govt. Securities	1,42,500		
Office Furniture	1,500		
Fully paid up share capital in limited liability companies registered in India	1,21,600		
Stock of policy stamp in hand	150		
Mortgage in India	6,61400		
Mortgage out of India	2,06,400		
Loans on Govt. Securities	7,19,000		
Loans on Company policies	1,74,600		
	33,75,500		**33,75,500**

UNIT-II

Insurance business in India is now regulated by the provision of	The Insurance Act 1938	The IRDA Act 1999	The Banking Regulations Act 1949	The Indian companies Act 1956	The IRDA Act 1999
Number of Schedule to be prepared by the insurance companies for their financial statements are	26 schedules	10 schedules	12 schedules	15 schedules	15 schedules
In life insurance, the policy amount is payable	after the death of the assured	after the expiry of the policy period	On death of the insured or on expiry of policy period whichever is earlier	Only when the insured has incurred loss	On death of the insured or on expiry of policy period whichever is earlier
In General insurance, the policy amount is payable	after the death of the assured	after the expiry of the policy period	only when the loss occurs or the liability raises	Only when the insured has attained a certain age	only when the loss occurs or the liability raises
Claims paid by life insurance companies is shown in	Schedule 1	Schedule 2	Schedule 3	Schedule 4	Schedule 4
The commission received from the re-insurer is called	Commission on reinsurance accepted	commission on reinsurance ceded	Commission on direct business	other business	commission on reinsurance ceded
The bonus which is to be paid on maturity of the policy along with the policy amount is known as	revisionary bonus	Annual bonus	Interim bonus	Eventual Bonus	revisionary bonus
The balance found in the Revenue Account of life insurance companies is considered as	Net profit/Net Loss	Surplus /Deficit	Life Assured Fund	Gross profit/Gross loss	Surplus /Deficit
The balance found in the Revenue Account of general insurance companies is treated as	Provision for unexpired risk	Net profit/Net loss	Operating profit/Loss from insurance business	Gross profit/Gross loss	Operating profit/Loss from insurance business
The Commission paid by the re-insurer is known as	Commission on direct business	commission on reinsurance ceded	commission on reinsurance accepted	Commission received	commission on reinsurance accepted
A valuation of Balance Sheet is prepared by	Joint Stock company	Banking Company	Life insurance Company	General insurance company	Life insurance Company
Preliminary expenses incurred by life insurance companies is treated as	Miscellaneous expenditure	A deduction from paid up share capital	a fixed asset	an operating expenses	A deduction from paid up share capital
Agents balances (Dr) is shown in the balance sheet of life insurance companies as	Current liabilities	Other assets	Fixed assets	Borrowings	Other assets
Appropriation, like interim dividend, proposed final dividend in general insurance business are shown in	Profit and loss appropriation A/c	Revenue A/c	Profit & Loss A/c	Trading A/c	Profit & Loss A/c
The Percentage of Profit of life business to be distributed to policy holders is	95%	100%	40%	50%	95%

Leasehold Ground Rents are shown in	Revenue A/c	P&LA/c	Schedule 8 Investment	Schedule9 Loans	Schedule 8 Investment
the document which contains the terms and conditions of the contract of insurance is called ---------	Policy	Rules	Conditions	Terms	Policy
___________refers to the amount payable by the insurer to the insured when the policy becomes due for payment	Claims	Receipts	Policy	Rules	Claims
Losses of theft are covered by _______ insurance	Burglary	Causality	Annuity	Premium	Burglary
Every year, the accounting year of insurance business is to end on --------	31st December	31st March	30th June	30th September	31st March
In life insurance revenue account, Schedule 4 is named as ----------	Benefits paid	Benefits received	Business Received	Business Paid	Benefits paid
Schedule 15 prepared by insurance companies deals with ----------	expenditure	Miscellaneous expenditure	Miscellaneous income	Income	Miscellaneous expenditure
Claims incurred (Net) by general insurance companies is dealt in schedule no.	2	3	4	5	2
_____________ refers to the lump sum amount paid to the insurer by the customer seeking annuity	Annuity	Consideration	Consideration for annuity granted	other income	Consideration for annuity granted
The life insurance Revenue A/c does not disclose ____________ of the life business	Profit	Gross profit	Net profit	Loss	Profit
The computation of net liability on all outstanding policies is a complicated mathematical process which is carried out only by an ___________	Actuary	Claims	Premium	Bonus	Actuary
Profit on life insurance is found out by the preparation of __________	Valuation Balance sheet	Profit and loss	Profit and Loss appropriation	operating profit	Valuation Balance sheet
The term Surrender value is exclusively applicable only for __________	Life insurance	Marine Insurance	Accidental Insurance	Fire insurance	Life insurance

When the insurance company finds the risk heavy, part of the risk is insured with another insurance company, such a procedure is known as _________	Re-insurance	Re-insured	Re-insurer	Re-insurance claim	Re-insurance
The excess provision maintained by the general insurance company over the minimum reserve is called ________	Additional reserve	Special Reserve	Specific reserve	General reserve	Additional reserve
Survey expenses paid in connection with claim should be included in the item _________	Claims	Provisions	Additional Expenses	Special Expenses	Claims
Insurance business is divided into__________ types	two	three	four	five	two
Insurance companies are regulated by ______	IRDA regulations Act 2002	IRDA regulations Act 1998	IRDA regulations Act1999	IRDA regulations Act 2000	IRDA regulations Act 2002
Insurance carrying life insurance should comply with the ________ of IRDA Regulations 2002	Schedule A	Schedule B	Schedule C	Schedule D	Schedule A
Bonus payable on Maturity of a policy is known as _________	revisionary bonus	Annual bonus	Interim bonus	Eventual Bonus	revisionary bonus
Insurance company final account should also include a _________	cash management	fund flow statement	cash flow statement	asset management	cash flow statement
To ascertain the surplus or deficit, the insurance company prepares _________	Profit and loss appropriation A/c	Revenue A/c	Valuation Balance Sheet	Profit & Loss A/c	Valuation Balance sheet
The provision for unexpired risks is shown as a subtraction from the premium in __________ a/c	Profit & loss A/c	Profit and loss appropriation A/c	Revenue A/c	Balance Sheet	Revenue A/c
Share capital of insurance companies is dealt in ________	Schedule 5	Schedule 6	Schedule 7	Schedule 8	Schedule 5
______ is a part of financial statements of insurance company	Revenue A/c	Profit and Loss Appropriation	income & Expenditure a/c	Receipts and payment a/c	Revenue A/c
The general insurance companies should comply with _________ of IRDA regulations 2002	Schedule A	Schedule B	Schedule C	Schedule D	Schedule B

Commission on reinsurance ceded is an _________	expenses	income	deferred expenses	revenue expenses	income
__________ is an annual payment guaranteed and paid by an insurance company to the insured in consideration received as premium	lump sum payment	Annuity	Bonus	sum assured	Annuity
___________ is refers to the bonus which is payable in cash but utilized by the policy holder to adjust the premium due from them	Bonus in Cash	Bonus in reduction of premium	Interim bonus	Revisionary Bonus	Bonus in reduction of premium
The Excess of Revenue income over the revenue expenditure is termed as __________	Life fund	Bonus Fund	Capital Reserve	Life Assurance Fund	Life Assurance Fund
___________ policies are eligible to receive the bonus paid out of profits earned by the insurance companies	Whole life policy	Endowment policy	With profit policy	Without Profit policy	With profit policy
In case of Life insurance, _________ of the profit of insurance company is distributed among policy holders as Bonus	70%	80%	95%	100%	95%
Taking more than one policy on the same subject matter with two or more insurance companies is called _______	Reinsurance	Double insurance	Single Insurance	Triple insurance	Double insurance
If the net liability is more than the life assurance fund is treated as __________	Surplus	deposits	Deficit	Excess	Deficit
________ represents the income received in advance by the insurance companies as premium	income received in advance	Reserve for unexpired risk	outstanding income	Premium	Reserve for unexpired risk
General insurance policies have a life time of ___________	one year	two years	three years	four years	one year
Revenue A/c consists of _________ schedules	1	2	3	4	4
__________ can be made by policy holders at any time during the one year when the policy is in force in general insurance	Premium	Revenue	Claims	Surrender	Claims

__________ is the commission payable by an insurance company to another insurance company for the reinsurance business provided by it	Commission on reinsurance accepted	commission on reinsurance ceded	Commission	Claims	Commission on reinsurance accepted
Schedule1 deals with __________	Premium	Claims	Commission	operating expenditure	Premium
Schedule 2 deals with __________	Premium	Claims	Commission	operating expenditure	Claims
Schedule 4 of Revenue account deals with _________	Premium	Claims	Commission	operating expenditure	operating expenditure
the 3rd Schedule of Revenue A/c of insurance companies deals with __________	Premium	Claims	Commission	operating expenditure	Commission
Schedule 7 of insurance companies deals with _________	Share capital	Reserves and Surplus	Borrowings	investments	Borrowings
Fixed Assets are shown under _________ in Insurance Business	Schedule 5	Schedule 6	Schedule 8	Schedule 10	Schedule 10
Current liabilities of insurance companies are under the head of _______	Schedule 13	Schedule 6	Schedule 12	Schedule 11	Schedule 13

UNIT-III

SYLLABUS

Financial Statement of Banking Companies - Meaning of Banking - Types of Banks - Books of Accounts - Returns - Forms of Financial Statement - Capital Adequacy Norms - Income Recognition - Classification of Assets and their Provision - Rebate on Bills Discounted Preparation of Statement of Profit and Loss and Balance sheet.

Introduction of Banking Companies:

Bank is legal financial institution that accepts money which can be withdrawn anytime as per the customer's demand; as well as it also lends money to individuals and institutions whenever they need it. In other words, it acts as a link between clients that have capital deficits and clients that have capital surplus as explained in figure 1 below.

In India, Banks and their activities are regulated by Banking Regulation Act 1949. According to this Act, banking means, Accepting deposits of money from public for the purpose of lending. These deposits are repayable on demand and can be withdrawn by cheque, draft or otherwise.

Types of Banks:

According to the schedule II of the Reserve Bank of India Act 1934, hereafter called RBI Act, banks can be categorized into two main types:

a) Scheduled Bank

According to section 2(e) of the RBI Act, a bank included in the Act's second schedule is termed as Scheduled Bank. Following conditions should be fulfilled by the banks to be included in the Scheduled list: The minimum paid up capital and reserves should be ₹ 25,00,000, and No activity of the bank should adversely affect the depositor's interest. Scheduled banks can further be of two types, namely scheduled commercial bank and scheduled co-operative bank.

i. Scheduled Commercial Banks These are the banks included in schedule II of the RBI act, which accept deposits and grant loans to their customers in order to earn profits. Following are the types of commercial banks:

 Nationalized Banks These are the banks where 51% of the shares is held by either central government or by RBI. For example Punjab National Bank (PNB), State Bank of India (SBI), etc.

 Private Banks These are the financial institutions where majority of share capital of the bank is held by private individuals. For example Housing Development Finance Corporation (HDFC) Bank Ltd, Industrial Credit and Investment Corporation of India (ICICI) Bank Ltd, etc.

 Foreign Banks – A bank which is registered and have the headquarter in a foreign country is called a foreign bank. These banks operate their branches in other countries. For example Citibank, American Express Bank, Hongkong and Shanghai Banking Corporation (HSBC), etc

 Development Banks – These are the financial institutions established to lend money on a subsidized rate to industrial and agricultural sector for the growth and development of social and economic sector of the nation. For example Industrial Development Bank of India (IDBI) etc.

ii. Scheduled Cooperative Banks

These are the financial institutions which belong to its members who come together for some common purpose. Here, the members are the owners as well as the customers of the banks. Cooperative banks as a principal do not pursue the goal of profit maximization and they are registered and governed by the State Cooperative Societies Act, for example, Nidhis. These banks may operate in Metropolitan cities, or at the state level or even at the district level, and are accordingly called as the Scheduled Urban Cooperative banks, Scheduled State Cooperative bank or the Scheduled District Cooperative Bank respectively.

b) Non-Scheduled Bank

The banks which are not included in schedule II of the RBI act are called non-scheduled banks in India. They are basically local area banks. There are very few non-scheduled banks as majority banks come under the purview of the second schedule of RBI act. For example, Lord Krishna Bank and Sikkim Bank are both non-scheduled banks.

Business Activities of Banking Companies:

Section 8 of Banking Regulation Act 1949 explains that a banking company is not allowed to directly or indirectly deal in the buying/selling/bartering of goods, except for the purpose of realizing the security held by it; while section 6 explains various business activities which can be performed by banking companies. Some of these activities include:

1. Banks can manage issue of shares, debentures, underwriting and guaranteeing etc.

2. It can act as a middleman for any government/local authority/any other person.

3. It can borrow and raise funds as well as can also advance or lend money to others.

4. It can acquire, construct and can make alterations of any building necessary for its business.

5. It can also provide aid in the establishment and support of institutions, trust etc.

6. It can also transact in every kind of guarantee and indemnity business.

7. It can acquire and hold and can deal with any property or right, title and interest in such property which may form the security of loans and advances.

Legal Provisions to be followed by Banks:

There are certain legal provisions which must be followed by banks. Some of these are given below:

Authorized Capital, Subscribed Capital and Paid up Capital

Section 12 of the Banking Regulation Act, 1949, provides that a banking company's subscribed capital should be atleast half of authorized capital while paid up capital should be atleast half of the subscribed capital. In other words, Share capital of a banking company can include equity shares and those preference shares which have been issued before 1 July 1944. In other words, nowadays, preference shares cannot be issued by a banking company. Moreover, no single shareholder should hold more than 1 percent of the total voting rights of the bank

Minimum Paid up Capital and Reserves

Section 11(2) of the Banking Regulation Act 1949, put some limits on the banking company's minimum aggregate value of the paid up capital and reserves. These limits can be divided according to the fact whether the banking company is incorporated in India or outside India .

Statutory Reserve Fund

According to section 17 of the Banking Regulation Act 1949, all the banking companies are supposed to create a reserve fund. It should transfer atleast 20 percent of its profits to such reserve fund before any dividend is declared. RBI has asked the banks to transfer higher percentage (25 percent of the net profits) to the reserve fund in order to strengthen the financial position of the banks.

Cash Reserve Ratio (CRR) of Scheduled Banks

Section 42 of the RBI Act 1934, requires every scheduled bank should maintain a reserve in the form of cash in current account(s) with RBI. The reserve should be equivalent to a certain percentage (as prescribed from time to time by RBI) of bank's demand and time liabilities. Such a percentage is called cash reserve ratio (CRR). The present prescribed percentage is 4 percent which became effective from 9th February 2013.

Cash Reserves of Non-Scheduled Banks

As per Section 18 of the Baking Regulations Act 1949, every non-scheduled bank is supposed to maintain a cash reserve with itself or with RBI, a sum prescribed by RBI from time to time. Currently, this prescribed sum is 3 percent of total demand and time liabilities of the bank in India.

Liquidity Requirements

As per Section 24 of the Banking Regulations Act 1949, every banking company should maintain its liquidity by having an amount equal to atleast 25 percent of its demand and time liabilities (in India) in the form of cash, gold or unencumbered approved securities. This percentage is called statutory liquidity (SLR) ratio. These liquidity requirements are in addition to the amounts mentioned above in 5.4 for scheduled banks and 5.5 for non-scheduled banks. RBI keeps on changing the SLR from time to time. Earlier it was 23% and recently (that is December 2015) it has been reduced to 21.5%. ICAI has advised the students to do the calculations according to 25% as RBI changes the ratio from time to time.

Accounting System of Banks:

Banks have voluminous transactions which need to be immediately recorded. To do this banks maintain subsidiary books along with its principal books of accounts as mentioned below:

I) Subsidiary Books

a) Current account ledger

b) Savings bank account ledger

c) Fixed deposit accounts ledger

d) Receiving cashier's cash book

e) Paying cashier's cash book

f) Investments ledger

g) Loans ledger

h) Bills discounted and purchased ledger

II) Principal Books

a) Cash book

b) General ledger which includes control accounts of all subsidiary ledgers and different assets and liabilities account.

Treatment of an Asset as Non Performing Assets

Asset Treated as an NPA if:

1. Term loan

If the interest and/or installment of the principal remain overdue for a period of 90 days.

2. Cash credit and overdraft

If the Account remains “out of order” for a period of more than 90 days. An account is treated as “out of order” if

a) balance outstanding remains continuously in excess of the sanctioned limit/drawing power, or

b) outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period.

3. Bills purchased and discounted

If the bills remain overdue for more than 90 days.

4. Agricultural advances for short duration crops

If the installment of principal or interest thereon remains overdue for two crop season. Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.

5. Agricultural advances for long duration crops

If the installment of principal or interest thereon remains overdue for one crop season.

6. Securitization transactions

If the amount of liquidity facility remains outstanding for more than 90 Days.

7. Credit card accounts

If the minimum amount mentioned in the statement remained unpaid within 90 days from the next statement, the gap between two statements should not be more than one month.

8. Advances guaranteed by central government

If the government repudiate or reject its guarantee when called upon. Thus, central government guaranteed advances would be treated as standard assets even if overdue. Guidelines for Income

Recognition It basically deals with answering the question as to when to recognize an item of income. Following main points needs to be understood in respect of income recognition by banks: A) Income Recognition Policy It is the rule or guideline prescribed by RBI regarding income recognition. According to it income is recognized on the following basis:

On Performing Assets Income is recognized on accrual basis whether realized or not

On Non-Performing Assets Income is recognized on cash basis

Financial Statements of Banks: The balance sheet of a bank and its profit and loss account are together termed as bank's financial statements. These are to be prepared as per the Form A and Form B of Schedule III of Banking Regulation Act, 1949. The financial statements of a banking company are a bit different from those of a non-banking company. For the banking companies, there are in total 18 schedules out of which schedule1 to schedule 12 are annexed with the balance sheet, whereas schedule 13 to schedule 16 are annexed with the profit and loss account , schedule 17 is notes on accounts and schedule 18 is disclosure of accounting policies (AS1).

1.From the following information, prepare the Profit and Loss Account of South Indian Bank as on 31st March, 2004:

	Rs. ('000)
Interest and Discount	3,045
Income from Investments	115
Interest on Balances with RBI	180
Commission, Exchange and Brokerage	820
Profit on Sale of Investments	110
Interest on Deposits	1,225
Interest to RBI	161
Payment to and Provisions for Employees	1,044
Rent, Taxes and Lighting	210
Printing and Stationery	180
Advertisement and Publicity	95
Depreciation	92
Directors' Fees	220
Auditors' Fees	120
Legal Charges	230
Postage, Telegrams and Telephones	70
Insurance	56
Repairs and Maintenance	48

Other information :

1. Interest and discount mentioned above is after adjustment for the following :

	Rs. ('000)
(*a*) Tax provision for the year	220
(*b*) Provision during the year for doubtful debts	102

SCHEDULE 14 – OTHER INCOMES

	Year ended 31st March, 2004
	Rs. ('000)
I. Commission, Exchange, Brokerage	820
II. Profit on Sale of Investments (Rs. 110 – Rs. 12)	98
Total	918

SCHEDULE 15 – INTEREST EXPENDED

	Year ended 31st March, 2004 Rs. ('000)
I. Interest paid on Deposits	1,225
II. Interest to RBI	161
III. Others	–
Total	1,386

SCHEDULE 16 – OPERATING EXPENSES

	Year ended 31st March, 2004
	Rs. ('000)
I. Payment to and Provisions for Employees	1,044
II. Rent, Taxes and Lighting	210
III. Printing and Stationery	180
IV. Advertisement and Publicity	95
V. Depreciation on Bank's Property	92
VI. Directors' Fees	220
VII. Auditors' Fees	120
VIII Legal Charges	230
IX. Postage, Telegrams and Telephones	70
X. Repairs and Maintenance	48
XI. Insurance	56
XII. Other Expenditure	–
Total	2,365

2.The following Trial Balance was extracted from the books of the United Bank of India as on March 31, 2004:

	Rs.	Rs.
Capital (fully owned by Central Govt.)	–	3,00,000
Cash in hand	46,350	–
Investment Bonds of Companies	1,94,370	–

Other Investments in Shares	1,55,630	–
Gold Bullion	15,130	–
Interest Accrued on Investments	24,620	–
Security Deposits of employees	–	15,000
Savings Account Balance	–	7,420
Current Account Ledger Control A/c	–	97,000
Fixed Deposits	–	23,050
Security Premium A/c	–	90,000
Statutory Reserve	–	1,40,000
Silver Bullion	2,000	–
Constituents' Liability for Acceptances and Endorsements	56,500	–
Buildings	65,000	–
Furniture	5,000	
Borrowings from Banks	–	77,230
Money at Call and Short Notice	26,000	
Advances	2,00,000	–
Profit and Loss Account balance	–	6,500
Bills Discounted and Purchased	12,500	
Bills for Collection	–	43,500
Acceptances and Endorsements	–	56,500
Interest	7,950	72,000
Commission and Brokerage	–	25,300
Discounts	–	42,000
Bills Receivable being bills for collection	43,500	–
Audit fees	5,000	–
Loss on sale of Furniture	1,000	–
Directors' Fees	1,200	–
Salaries	21,200	–
Postage	50	–
Rent	–	600
Profit on Bullion	–	1,200
Managing Directors' Remuneration	12,000	–
Miscellaneous Income	–	2,700
Loss on Sale of Investments	30,000	–
Deposit with Reserve Bank of India	75,000	–
Branch Adjustments	20,000	–
Depreciation Reserve on Building	–	20,000
Total	10,20,000	10,20,000

You are required to prepare a Profit and Loss Account for the year ended 31st March, 2004, and Balance Sheet as at that date after considering the following:

(i) Provide Rebate on bills discounted Rs. 5,000.

(ii) A scrutiny of the Current Account Ledger reveals that there are accounts overdrawn to the extent of Rs. 25,000 and the total of the credit balances is Rs. 1, 22,000.

(iii) Claims by employees for Bonus Rs. 15,000 is pending award of arbitration,

(iv) Depreciation on building for the year amounts to Rs. 5,000.

(v) Out of profits for the year, 20 per cent transferred to Statutory Reserve and the Directors proposed a dividend of 8 per cent, subject to deduction of tax.

SOLUTION :

Balance Sheet of United Bank of India as on 31st March, 2004

	Schedule No.	As on 31.03.2004 Current Yerar	As on 31.03.2003 Previous Year
		Rs.	Rs.
CAPITAL & LIABILITIES			
Capital	1	3,00,000	
Reserves & Surplus	2	2,67,900	
Deposits	3	1,52,470	
Borrowings	4	77,230	
Other Liabilites and Provisions	5	44,000	
Total		8,41,600	
ASSETS			
Cash and Balances with Reserve Bank of India	6	1,21,350	
Balance with Banks and money at call and short notice	7	26,000	
Investments	8	3,65,130	
Advances	9	2,37,500	
Fixed Assets	10	45,000	
Other Assets	11	46,620	
Total		8,41,600	
Contingent Liabilities	12	71,500	
Bills for Collection		43,500	

SCHEDULES

SCHEDULE 1 – CAPITAL

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. Capital fully owned by Central Government	3,00,000	
	3,00,000	

SCHEDULE 2 – RESERVES & SURPLUS

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. Statutory Reserve		
Opening Balance	1,40,000	
Additions during the year	11,080	
	1,51,080	
II. Security Premium		
Opening Balance	90,000	
	90,000	
III. Balance in Profit and Loss Account	26,820	
	26,820	
TOTAL (I, II and III)	2,67,900	

SCHEDULE 3 – DEPOSITS

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
A. I. Demand Deposits		
(*i*) From Banks	–	
(*ii*) From Others	1,22,000	
	1,22,000	
II. Savings Bank Deposits	7,420	
III. Term Deposits		
(*i*) From Banks	–	
(*ii*) From Others	23,050	
Total (I, II and III)	1,52,470	

SCHEDULE 4 – BORROWINGS

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. Borrowings in India		
(*i*) Other Banks	77,230	
	77,230	
Secured borrowings in 1above – Rs. 77,230 (assumed)		

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. Security Deposits of Employees	15,000	
II. Rebate on Bills Discounted	5,000	
III. Proposed Dividends	24,000	
	44,000	

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. Cash in hand	46,350	
II. Balance with Reserve Bank of India		
(*i*) In Deposit Account	75,000	
	1,21,350	

SCHEDULE 7 – BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. In India		
(*i*) Money at call and short notice		
(*a*) With Banks	26,000	
	26,000	

SCHEDULE 8 – INVESTMENTS

	As on 31.03.2004 Current Year	*As on 31.03.2003 Previous Year*
	Rs.	Rs.
I. Investments in India in		
(*i*) Shares	1,55,630	
(*ii*) Bonds	1,94,370	
(*iii*) Gold Bullion	15,130	
	3,65,130	

SCHEDULE 9 – ADVANCES

	As on 31.03.2004 Current Year	*As on 31.03.2003 Previous Year*
	Rs.	Rs.
A. (*i*) Bills Purchased and Discounted	12,500	
(*ii*) Cash Credits, Overdrafts and Loans Payable on Demand	2,25,000	
(*iii*) Term Loans	–	
	2,37,500	

SCHEDULE 10 – FIXED ASSETS

	As on 31.03.2004 Current Year	*As on 31.03.2003 Previous Year*
	Rs.	Rs.
I. Premises		
At cost as on 31.3.03	65,000	
Less: Depreciation to date	25,000	
	40,000	
Furniture	5,000	
	45,000	

SCHEDULE 11 – OTHER ASSETS

	As on 31.03.2004 Current Year	*As on 31.03.2003 Previous Year*
	Rs.	Rs.
I. Inter-Office Adjustments (net)	20,000	
II. Interest Accrued	24,620	
III. Silver	2,000	
	46,620	

SCHEDULE 12 – CONTINGENT LIABILITIES

	As on 31.03.2004 Current Year	*As on 31.03.2003 Previous Year*
	Rs.	Rs.
I. Claims against the bank not acknowledged as Debts	15,000	
II. Acceptances, Endorsements and Other Obligations	56,500	
	71,500	

Profit & Loss Account for the year ended 31.3.2004

	Schedule No.	As on 31.03.2004 Current Yerar	As on 31.03.2003 Previous Year
		Rs.	Rs.
I. INCOME			
Interest Earned	13	1,09,000	
Other Income	14	(1,200)	
TOTAL		1,07,800	
II. EXPENDITURE			
Interest Expended	15	7,950	
Operating Expenses	16	44,450	
Provisions and Contingencies		–	
TOTAL		52,400	
III. PROFIT/LOSS			
Net Profit for the year		55,400	
Profit brought forward		6,500	
TOTAL		61,900	
IV. APPROPRIATIONS			
Transfer to Statutory Reserve @ 20%		11,080	
Proposed Dividends		24,000	
Balance carried over to Balance		26,820	
		61,900	

SCHEDULE 13 – INTEREST EARNED

		As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
		Rs.	Rs.
I. Interest and Discount on Advances / Bills			
Interest and Discount	72,000		
Balance as per Books	42,000		
	1,14,000		
Less : Rebate on bills discounted	5,000	1,09,000	
		1,09,000	

SCHEDULE 14 – OTHER INCOMES

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. Commission, Exchange and Brokerage	25,300	
II. Loss on Sale of Furniture	(1,000)	
III. Loss on Sale of Investments	(30,000)	
IV. Profit on Bullion	1,200	
V. Rent	600	
VI. Miscellaneous Income	2,700	
	(1,200)	
Note : Loss figures are being shown in brackets.		

SCHEDULE 15 – INTEREST EXPENDED

		As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
		Rs.	Rs.
I. Interest on deposits	7,950		
		7,950	

SCHEDULE 16 – OPERATING EXPENSES

	As on 31.03.2004 Current Year	As on 31.03.2003 Previous Year
	Rs.	Rs.
I. Payments to and Provisions for Employees	21,200	
II. Rent, Taxes and Lighting	–	
III. Printing and Stationery	–	
IV. Advertisement and Publicity	–	
V. Depreciation on Bank's Property	5,000	
VI. Directors' Fees, Allowances and Expenses	13,200	
VII. Auditors' Fees and Expenses	5,000	
VIII. Legal Charges	–	
IX. Postages, Telegrams, Telephones, etc.	50	
X. Repairs and Maintenance	–	
XI. Insurance	–	
XII. Other Expenses	–	
TOTAL	44,450	

3.On 31st December, 2004, a Bank had the following unmetered Bills:

On 31st December, 2004, a Bank had the following unmatured Bills :

Date of Bill	*Amount Rs.*	*Terms (Months)*	*Discount @*
12th Oct.	36,500	6	7%
7th Nov.	73,000	4	6.5%
1st Dec.	18,250	3	6%

SOLUTION :

S. No.	*Amount of the Bill*	*No. of days up to the date of maturity*	*Discount Rate*	*Total Discount*	*No. of days after 31st. Dec., 2004*	*Unearned Discount*
1.	36,500	182	7%	1,274[1]	105	735[2]
2.	73,000	120	6.5%	1,560[3]	69	897[4]
3.	18,250	90	6%	270[5]	63	189[6]
	1,27,750			3,104		1,821

Journal Entry at the Time of Discounting

			Rs.	Rs.
Bills Discounted & Purchased Account	Dr.		1,27,750	
To Customer Account				1,24,646
To Discount Account				3,104
(Being Bills of Rs. 1,27,750 discounted and purchased)				

Journal Entry on 31st December, 2004

			Rs.	Rs.
Discount Account	Dr.		1,821	
To Rebate on Bills Discounted Account				1,821
(Being unearned discount)				

Workings

1. Rs. $36,500 \times \frac{7}{100} \times \frac{182}{365}$ = Rs. 1,274.00

2. Rs. $\frac{1,274 \times 105}{182}$ = Rs. 735.00

3. Rs. $73,000 \times \frac{6.5}{100} \times \frac{120}{365}$ = Rs. 1,560.00

4. Rs. $1,560 \times \frac{69}{120}$ = Rs. 897

5. Rs. $18,250 \times \frac{6}{100} \times \frac{90}{365}$ = Rs. 270

6. Rs. $270 \times \frac{63}{90}$ = Rs. 189

4.From the following information, find out the amount of provision to be shown in the Profit and Loss Account of a bank:

	Rs. (in Lakhs)
Assets :	
Standard	8,000
Sub-standard	6,000
Doubtful : for one year	1,000
for three years	1,600
for more than three years	400
Loss Assets	1,200

SOLUTION :

CALCULATION OF PROVISION

Assets	*Amount (Rs. ('00,000)*	*% of Provision*	*Provision Rs. ('00,000)*
Standard	8,000	0.25	20
Sub-standard	6,000	10	600
Doubtful : for one year	1,000	20	200
for 3 years	1,600	30	480
for more than 3 years	400	50	200
Loss Assets	1,200	100	1,200
		Total	2,700

UNIT- III

1. Balance Sheets as at 31st march, 2010:

	H Ltd.	S Ltd.		H Ltd.	S Ltd.
Share Capital :			Sundry Assets	5,60,000	2,60,000
Shares of Rs. 10			60% shares in		
each fully paid	5,00,000	2,00,000	S Ltd. (at cost)	1,20,000	
Reserves	1,00,000				
Creditors	80,000	60,000			
Total	6,80,000	2,60,000	Total	6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as at 31st march, 2010.

2. Balance Sheet as at 31st March, 2010:

	H Ltd.	S Ltd.		H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Sundry Assets	5,50,000	2,60,000
Each share, fully paid	5,00,000	2,00,000	S Ltd. (at cost)	1,30,000	
Reserves	1,00,000				
Creditors	80,000	60,000			
Total	6,80,000	2,60,000	Total:	6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as at 31st March, 2010.

3. Balance Sheets as at 31st March, 2010:

(Rs.)

	H Ltd.	S Ltd.		H Ltd..	S Ltd.
Share Capital:			Sundry Assets	5,70,000	2,60,000
Shares of Rs. 10 each, fully paid	5,00,000	2,00,000	60% Shares in S Ltd. (at cost)	1,10,000	
Reserves	1,00,000				
Creditors	80,000	60,000			
Total	6,80,000	2,60,000	Total	6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as at 31st March, 2010.

4. Balance Sheet as at 31st March, 2010:

(Rs.)

	H Ltd.	S Ltd.		H Ltd..	S Ltd.
Share Capital:			Sundry Assets	4,26,000	3,04,000
Shares of Rs. 10 each, fully paid	5,00,000	2,00,000	100% Shares in S Ltd. acquired on 31st March,2010 (cost)	2,54,000	
Reserves	1,00,000	50,000	Preliminary Exp.		6,000
Creditors	80,000	60,000			
Total:	6,80,000	3,10,000	Total:	6,80,000	3,10,000

Prepare a Consolidated Balance Sheet as at 31st March, 2010.

5. Balance Sheet As at 31st March, 2010.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Sundry Assets	4,46,000	3,04,000
Shares of Rs. 10 fully paid	5,00,000	2,00,000	100% Shares in S Ltd. Acquired on 31st March, 2010 (cost)	2,34,000	
Reserves	1,00,000	50,000	Preliminary Expenses		6,000
Creditors	80,000	60,000			
Total	6,80,000	3,10,000	Total	6,80,000	3,10,000

Prepare a Consolidated Balance Sheet as at 31st March, 2010.

6. Balance Sheets as at 31st March, 2008.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Sundry Assets	5,17,600	3,04,000
Shares of Rs.10 fully paid	5,00,000	2,00,000	60% Shares in S Ltd. Acquired on 31stMarch,2008.	1,62,400	

			(cost)		
Reserves	1,00,000	50,000	Preliminary Expenses		6,000
Creditors	80,000	60,000			
Total:	6,80,000	3,10,000	Total:	6,80,000	3,10,000

Prepare a Consolidated Balance Sheet as at 31st March, 2008.

7. Balance sheets as on 31st March 2009.

	H Rs.	S Rs.		H Rs.	S Rs.
Share Capital in Re. 1 fully paid shares	12,000	5,000	Sundry assets	20,000	8,000
Reserve	5,000	1,000	Investment A/c 5,000 Shares of S Ltd.	6,500	–
P&LA/c	2,000	1,000			
Sundry Liabilities	7,500	1,000			
Total	26,500	8,000	Total	26,500	8,000

Shares were acquired by H Ltd. on 30th September 2008. S Ltd. Transferred Rs. 500 from profits to reserve on 31st March, 2009.Prepare the consolidated balance sheet.

8. The following are the Balance Sheets of R Ltd. and S Ltd. as at 31st March, 2010.

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital:			Fixed Assets	5,00,000	2,40,000
Equity Shares of Rs. 10 each, fully paid up	4,00,000	1,50,000	Investment in 15,000 equity shares in S Ltd. in April 1, 2009	2,00,000	–
14% Preference, shares of Rs. 100 each, fully paid up	–	1,00,000	Current Assets (including Rs. 10,000 stock-in-trade purchased from R Ltd.)	3,00,000	2,60,000
General Reserve	50,000	40,000			
Profit and Loss A/c (before appropriation for dividends)	30,000	25,000			
14% Debentures	2,00,000	--			
Current Liabilities and Provisions	3,20,000	1,85,000			
Total	10,00,000	5,00,000	Total	10,00,000	5,00,000

Prepare the Consolidated Balance Sheet as at 31st March, 2010, assuming that

(a) S Ltd's General Reserve and Profit and Loss Account (after appropriation for dividends) stood at Rs. 25,000 and Rs. 10,000 respectively on April 1, 2009 and

(b) R Ltd. Sells goods at a profit of 25%on cost.

UNIT- III

A holding company is one which holds more than	2/3rd share capital of subsidiary	50% of share capital of subsidiary company	75% of share capital of subsidiary company	40% of share capital of subsidiary company	50% of share capital of subsidiary company
A company in which more than 50% of shares are held by another company is termed as	Holding company	Subsidiary Company	Govt. Company	Public Company	Subsidiary Company
Profits earned by a Subsidiary company upto the date of acquisition of shares by the holding company are called	Revenue profit	Capital Profit	Revaluation Profit	Realisation Profit	Capital Profit
Profits earned by a Subsidiary company after date of purchase of shares by the holding company are called	Revenue profit	Capital Profit	Revaluation Profit	Realisation Profit	Realisation Profit
The Term Minority Interest represents	The Shareholders holding 50% of shares in Subsidiary Co.	The interest of the outsides in the Subsidiary Co.	The Company which holds more than 51% of shares in Subsidiary Co.	The Company which holds n 40% of shares in Subsidiary Co.	The interest of the outsides in the Subsidiary Co.
The excess price paid by a holding company to acquire controlling interest in the subsidiary company is transferred to	Capital Reserve	Goodwill A/c	Revenue Reserve	Cost of Control	Goodwill A/c
The excess of the shares in equity or net assets of the subsidiary over and above the price paid for the investment is shown as	Capital Reserve	Goodwill A/c	Revenue Reserve	Cost of Control	Capital Reserve
Unrealised profit included in Stock is	Deducted from stock in combined Balance sheet	Deducted from P&L A/c balance in combined Balance sheet liabilities side	Deducted from stock and P&L a/c balance in combined balance sheet	Shown separately in assets side of CBS	Deducted from stock and P&L a/c balance in combined balance sheet
Any loss or profit on revaluation of assets and outside liabilities is	Treated as Revenue profit/loss	Ignored in CBS	Treated as Capital Profit/loss and adjusted in the respective asset/liabilities in combined balance sheet	Shown separately in liabilities side of CBS	Treated as Capital Profit/loss and adjusted in the respective asset/liabilities in combined balance sheet
Bonus shares issued out of Post Acquisition profits will	Have no effect on CBS	Decrease the Revenue profit	Decrease the total of asset side of CBS	Increase the goodwill to the extend of the holding company's share of the bonus	Decrease the Revenue profit
A company should purchase more than _________ shares of another company in order to become a holding company	25%	50%	75%	100%	50%
The profit included in the closing stock on the date of consolidation is known as _________	Unrealised profit	Post Acquisition profit	Pre acquisition loss	Pre acquisition profit	Unrealised profit
Minority interest is shown on the _________ side of the consolidated balance sheet	Liabilities	Assets	Not shown	Shown in separate schedule	Liabilities

Contingent liability is shown as a ______in CBS	Foot note	Miscellaneous	Other asset	Other Liabilities	Foot note
While preparing the consolidated Balance Sheet investment of the holding company in equity shares of the subsidiary is replaced by the ____ of the balance sheet	Assets	Liabilities	Both assets and liabilities side	Profit and loss	Both assets and liabilities side
The Holding Co., share of Revenue Profits of the subsidiary is added to __________	Profit and loss A/c	Profit and loss Appropriation	Revenue Account	Capital Reserve A/c	Profit and Loss A/c
Dividends paid out of capital profit must be credited to ________a/c by the holding company	Investment	Revenue	Profit and loss a/c	dividend	Investment
Interim dividend pertaining to Pre-acquisition period is adjusted to _________	cost of control	minority interest	goodwill	Capital Reserve A/c	Cost of control
Goods in transit and Cash in transit should be entered in the ______ of the CBS	Assets Side	Liabilities side	Both assets and liabilities side	Profit and loss	Assets side
Post acquisition profit is also known as _________	Revenue profit	Capital Profit	income	other income	Revenue profit
Pre-acquisition profit is also known as _________	Revenue profit	Capital Profit	income	other income	Capital Profit
_______ company is one which controls one or more other companies	Holding Company	Subsidiaries	Purchasing Company	Selling Company	Holding Company
As per section 212 of the companies Act, the information to be attached to the balance sheet of a holding company with respect to subsidiary company should be	Be on the same day as that of the subsidiary company	Not more than one year old	Not more than six months old	be of any date	be of any date
A holding company is best defined as one which	holds most of the shares in another company	holds most of the net assets of another company	holds both shares and debentures in another company	holds the reserves of another company on behalf of that company	holds most of the net assets of another company
A Ltd pays Rs. 340,000 for 80% of the shares of B Ltd when B's share capital is Rs. 200,000 and its reserves are Rs. 120,000. What is the goodwill arising on this acquisition?	Rs. 1,80,000	Rs. 1,40,000	Rs. 20,000	Rs. 84,000	Rs. 84,000
A non-controlling interest is best defined as:	debt stake in a subsidiary, as opposed to the equity stake	the equity stake in the subsidiary held by the holding company, less reserves	the total of the debt and equity stakes in the subsidiary	the equity stake in the subsidiary not held by the holding company	the equity stake in the subsidiary not held by the holding company
The group's share of the pre-acquisition reserves of a subsidiary form part of:	the group's capital reserves	the goodwill calculation	the group's revenue reserves	the group's share capital	the goodwill calculation

F Ltd has share capital of Rs. 100,000 and reserves of £160,000. G Ltd acquired 75% of F Ltd two years ago, when the share capital was the same but the reserves were Rs. 120,000. At what amount should the non-controlling interest be shown in the current group statement of financial position?	Rs. 55000	Rs. 65,000	Rs. 195,000	Rs. 70,000	Rs. 65,000
K Ltd owns 90% of L Ltd. Last year K made total sales of Rs. 600,000, including Rs. 80,000 to L Ltd. L Ltd made total sales of Rs. 540,000, none of which were to K Ltd. What figure should be shown for sales in the group statement of comprehensive income?	Rs. 1,040,000	Rs. 1,080,000	Rs. 1,026,000	Rs. 1,060,000	Rs. 1,060,000
Preparation of consolidated Balance Sheet of Holding Company and its subsidiary Company as per	AS-11	AS-22	AS-21	AS-23	AS-21
The shares of outsiders in the Net Assets in subsidiary company is known as ____	Outsiders liability	Assets	Subsidiary company's liability	Minority Interest	Minority Interest
Excess of paid up value of the shares over cost of investment is considered as	Goodwill	Capital Reserve	Minority interest	Capital profit	Capital Reserve
Profit earned before acquisition of shares is treated as	Capital profit	Revenue profit	General Reserve	Revaluation loss	Capital Reserve
Profit earned after acquisition of shares is treated as	Capital profit	Revenue profit	General Reserve	Revaluation loss	Capital profit
Preparation of consolidated statement as per AS21 is	Optional	Mandatory for listed companies	Mandatory for Pvt. Ltd	Partnership firm	Mandatory for listed companies
Holding company share in capital profits of subsidiary company is adjusted in	cost of control	Shown on Assets side of Balance Sheet	Revenue Profit	Revenue loss	Shown on Assets side of Balance Sheet
Holding company share in Revenue profits of subsidiary company is adjusted in	Capital profit	Revenue profit	Fixed assets	Profit & Loss A/c	Profit & Loss A/c
Unrealised profit on goods sold and included in stock is deducted from	Capital profit	Revenue profit	Fixed assets	Minority Interest	Revenue profit
Face value debenture of subsidiary company held by Holding company is deducted from	Debentures	Cost of control	Minority interest	debenture in consolidated balance sheet	Cost of control

Consolidated financial statements are prepared on the principle	In form the companies are one entity ; in substance they are separate	In form the companies are separate; in substance they are one	In form and substance the companies are one entity	In form and substance the companies are separate	In form and substance the companies are one entity
Minority interest includes	Share in share capital	Share in Capital profit	Share in Revenue profit	All of the above	All of the above
The time interval between the date of acquisition of shares in Subsidiary company and date of Balance Sheet of Holding company is known as	Pre-acquisition period	Post Acquisition period	Pre commencement period	Pre incorporation period	Post acquisition period
Pre-acquisition dividend received by Holding company is credited to	Profit & Loss A/c	Capital Profit	Investment A/c	Cost of Control	Investment A/c
Post acquisition dividend received by Holding Company is debited to	Bank A/c	Profit & Loss A/c	Dividend A/c	Investment A/c	Profit & Loss A/c
Which Exchange rate will be considered for conversion of share capital of subsidiary company	Opening Rate	Closing Rate	Average Rate	Rate of which date share acquired	Rate of which date share acquired
A Subsidiary company shall be excluded from consolidation when	Control is intended to be temporary	It operates under severe long term restrictions which significantly impair its ability to transfer fund	Always included for consolidation	Both a and B	Both a and B
_________ shown in the consolidated balance sheet is the equity held by the outsiders in the subsidiary company	Minority interest	Cost of control	Goodwill	Capital profit	Minority interest
___________ is the price paid for investment over and above proportionate share of net assets acquired by the holding company	Minority interest	Cost of control	Goodwill	Capital profit	Cost of control
Profit on revaluation of fixed asset is a _______	Capital profit	Revenue profit	Revenue loss	Goodwill	Capital profit
The depreciation on fixed asset during revaluation is ________	Capital profit	Revenue profit	Revenue loss	Goodwill	Revenue loss
For calculating Minority interest, there is need to distinguish between capital and revenue profit of _________	Subsidiary company	Holding company	Purchasing Company	Selling Company	Subsidiary company
Issue of bonus shares out of pre acquisition profit will have _________ on the consolidated Balance sheet	No efffect	Single Effect	Double Effect	Adverse Effect	No effect
No company can become the subsidiary of another company	yes	no	yes always	not at all	no

A company has to acquire more than __________ of share of another company to become holding company	25%	40%	50%	60%	50%
The financial year of Holding company and Subsidiary company must be the same	yes	No	Not at all	yes always	No
Group accounts constitute accounts of	Holding company	Subsidiary Company	Purchasing Company	Selling Company	Holding Company
Profit earned by subsidiary company	Revaluation profit	Capital Profit	Revenue loss	Revenue profit	Revenue profit
The excess paid by holding company to acquire controlling interest in the subsidiary company is known as	Surplus	Deficit	Cost of Control	Goodwill	Cost of control
Revenue loss has to be	Divided in holding company-minority interest	charged directly to the holding company profit and loss a/c	Charged directly to subsidiary company profit and loss a/c	Debited in profit and loss a/c	Divided in holding company-minority interest
The holding co., share of Revenue Profits is __________	ignored	Shown in Consolidated Balance sheet	Shown in profit and loss account of holding company	added in computing minority interest	Shown in profit and loss account of holding company

UNIT-IV

SYLLABUS

Financial statement of Electricity Company - Formats of Financial Statement - Specific Transactions of Electricity Company - Disposal of Surplus - Reasonable Rate of Return - Implementation of Accelerate Power Development and Reform Program [AADRP] - Objectives - Funding Pattern etc.

Electricity Companies

1. To consolidate the laws relating to generation, transmission, distribution, trading and use of electricity

2. For taking measures conducive to development of electricity industry, and promoting competition therein,

3. Protecting interest of consumers and supply of electricity to all areas,

4. Rationalisation of Electricity Tariff,

5. Ensuring transparent policies regarding Subsidies,

6. Promotion of efficient and environmentally benign policies,

7. Constitution of Central Electricity Authority, Regulatory Commissions and Establishment of Appellate Tribunal,

8. For matters connected therewith or incidental thereto.

National Electricity Policy and Plan under the Electricity Act. [Sec.3]

A. National Electricity Policy:

1. Formulation: The Central Government shall, from time to time, prepare the National Electricity Policy and Tariff Policy, in consultation with the State Governments and the CEA, for development of the power system based on optimal utilisation of resources such as Coal, Natural Gas, Nuclear Substances or Materials, Hydro and Renewable Sources of Energy.

2. Publication: The Central Government shall publish National Electricity Policy and Tariff Policy from time to time.

3. Review / Revision: The Central Government may, from time to time, in consultation with the State Governments and the CEA, review or revise, the National Electricity Policy and Tariff Policy.

B. National Electricity Plan:

1. The CEA shall prepare a National Electricity Plan in accordance with the National Electricity Policy and notify such plan once in 5 years.

2. The CEA shall –

(a) publish the draft National Electricity Plan and invite suggestions and objections thereon from Licensees, Generating Companies and the Public within prescribed time.

(b) notify the Plan after obtaining the approval of the Central Government,

(c) revise the Plan incorporating therein the directions, if any, given by the Central Government while granting approval under Clause

(a). 3. The CEA may review or revise the National Electricity Plan in accordance with the National Electricity Policy.

3. Various Regulatory / Advisory Authorities under the Electricity Act.

1. Central Electricity Authority: There shall be a body to be called the Central Electricity Authority (CEA) to exercise such functions and perform such duties as are assigned to it under the Electricity Act.

2. “Appropriate Commission” means –

(a) Central Regulatory Commission (CERC) referred u/s 76(1), or,

(b) State Regulatory Commission (SERC) referred u/s 82, or, (c) Joint Commission referred u/s 83. 3.

Central Electricity Regulatory Commission (CERC) [Sec.76 – 79]:

(a) There shall be a Commission to be known as the Central Electricity Regulatory Commission (CERC) to exercise the powers conferred on, and discharge the functions assigned to, it under this Act.

(b) CERC has jurisdiction over Generating Companies owned or controlled by the Central Government and those Generating Companies who have entered into or otherwise have a composite scheme for generation and sale in more than one state.

4.Electricity Regulatory Commission (SERC) [Sec.82,84 – 88]:

(a) Every State Government shall, within 6 months from the appointed date, by Notification, constitute for the purposes of this Act, a Commission for the State to be known as the (name of the State) Electricity Regulatory Commission(SERC).

(b) State SERCs have jurisdiction over Generating Stations within the State boundaries, except those under the CERC's jurisdiction.

5. Joint Commission [Sec.83]: A Joint Commission may be constituted by an agreement to be entered into –

(a) by two or more Governments of States, or

(b) by the Central Government, in respect of one or more Union Territories, and one or more Governments of States, and shall be in force for such period and shall be subject to renewal for each further period, if any, as may be stipulated in the agreement. The Joint Commission shall determine Tariff in respect of the Participating States or Union Territories separately and independently. 6. Central Advisory Committee (CAC) [Sec.80 – 81] and State Advisory Committee [Sec.87 – 88]: The CERC / SERC may, by notification, establish from a specified date, a Committee to be known as Central Advisory Committee (CAC) / State Advisory Committee (SAC) respectively.

The objects of CAC / SAC shall be to advise the CERC / SERC on –

• major questions of policy,

• matters relating to quality, continuity and extent of service provided by the Licensees,

• compliance by the Licensees with the conditions and requirements of their licence,

• protection of consumer interest,

• electricity supply and overall standards of performance by utilities.

Accounting Aspects

Is Schedule VI (Revised) applicable for Electricity Companies

1. As such, u/s 211(1) & (2) Proviso, Schedule VI (Revised) is not applicable to any Insurance / Banking / Electricity Companies.

2. However, for Companies engaged in the generation and supply of Electricity, there is no prescribed format for presentation of Financial Statements, either in the Electricity Act, 2003, or the Rules framed thereunder.

3. Sec. 616(c) states that the Companies Act will apply to Electricity Companies, to the extent it is not contrary to the requirements of the Electricity Act. So, Electricity Companies shall be required to prepare their accounts as per Schedule VI (Revised) to the Companies Act, 1956, till the time any other format is prescribed by the relevant statute.

Accounting for Security Deposits received by Electricity Supply Companies.

1. **Security Deposit [Sec.47]:**

A Distribution Licensee may require from any person, who requires a supply of electricity to his premises in pursuance of Sec.43, to deposit sufficient security against the estimated payment which may become due to him –

(a) In respect of electricity supplied to such person (including Energy Charges, Fixed / Demand Charges, Fuel Price and Power Purchase Adjustment (FPPPA) Charges, Electricity Duty and any other charges as may be levied from time to time), or

(b) Where any Electric Line / Electric Plant / Electric Meter is to be provided for supplying electricity to such person, in respect of the provision of such Line / Plant / Meter.

Note: A Distribution Licensee shall –

• Not be entitled to require security in certain cases, where the person requiring the supply is prepared to take the supply through a Pre–Payment Meter.

• refund such security on the request of the person who gave such security.

2. Interest on Security Deposit:

(a) The Licensee shall pay interest to the consumer at the RBI Bank Rate prevailing on the 1st April for the year, payable annually on the Consumer's Security Deposit with effect from date of such deposit.

(b) Interest Accrued during the year shall be adjusted in the Consumer's Bill for the first quarter of the ensuing financial year.

Accounting and Reporting of Security Deposit:

Transaction Journal Entry Disclosure in Financial Statements Receipt of Security Deposit from Consumer Bank A/c Dr.

To Security Deposit A/c

Balance of Security Deposit A/c at the year– end should be disclosed as Non–Current Liability in the Balance Sheet.

Interest Accrued on Security Deposit at the end of the accounting period

Interest Expense A/c Dr.

To Interest Accrued on Security Deposit

• Interest Expense to be written off in the Statement of Profit and Loss.

• Balance of Interest Accrued on Security Deposit A/c at the year–end should be disclosed as Non–Current Liability in the Balance Sheet.

Adjustment of Interest Accrued on Security Deposit in the Consumer's Bill

Interest Accrued on Security Dep. A/c Dr.

To Revenue / Sales Turnover

Interest Accrued during any year is adjusted in the Consumer's Bill for the first quarter of the ensuing financial year.

1. Advance against Depreciation (AAD):

(a) Advance Against Depreciation (AAD) was an element of Tariff provided under the Tariff Regulations for 2001–04 and 2004–09 to facilitate debt servicing by the Generating Companies, since it was considered that depreciation recovered in the tariff considering a useful life of 25 years is not adequate for debt servicing.

(b) Since this amount is not repayable to the customers by the Electricity Companies, this is to be treated as Deferred Revenue to the extent depreciation chargeable in the accounts is considered to be higher than the depreciation recoverable in Tariff in future years. (as per Matching Principle and ICAI EAC Opinion).

2. Accounting for Exchange Rate Variations on the Foreign Currency Borrowings

(a) Foreign Exchange Rate Variation (FERV) on Foreign Currency Loans and Interest thereon is recoverable from / payable to the customers on actual payment in line with the Tariff Regulations.

(b) Deferred Foreign Currency Fluctuation Asset is to be recognised by corresponding credit to Deferred Income from Foreign Currency Fluctuation in respect of the FERV on Foreign Currency Loans or Interest thereon adjusted in the Cost of Fixed Assets, which is recoverable from the customers in future years on actual repayment.

(c) This amount will be recognized as Revenue, corresponding to the depreciation charge in future years.

3. Assets under 5 KM Scheme of the Government of India:

(a) Ministry of Power has launched a scheme for electrification of villages within 5 km periphery of Generation Plants of Central Public Sector Undertakings (CPSUs) for providing reliable and quality power to the project affected people.

(b) This scheme provides free electricity connections to Below Poverty Line (BPL) households. The scheme will cover all existing and upcoming power plants of CPSUs.

(c) The Cost of the Scheme will be borne by the CPSU to which the Plant belongs. This cost will be booked by the CPSU under the Project Cost and will be considered by the CERC for determination of Tariff.

Accelerated Power Development and Reforms Program (APDRP) and Grants there under.

1. Meaning: Accelerated Power Development and Reforms Program (APDRP) is a Reforms Program to bring a financial turnaround in the performance of the State–owned Power Sector. It seeks to provide Grants to State Electricity Boards (SEBs) / Utilities for narrowing and ultimate elimination of the gap between unit cost of supply and revenue realization within a specific time frame.

2. Objectives: APDRP aims at strengthening and upgradation of the Sub–Transmission, and Distribution system in the country with the following objectives –

(a) reducing Aggregate Technical and Commercial (AT&C) losses,

(b) improving quality of supply of power,

(c) increasing revenue collection, and

(d) improving consumer satisfaction.

3. Funding: Under APDRP, the Union Government provides funds as Additional Central Assistance over and above the normal Central Plan Allocation to the States, under two components –

(a) Investment Component, i.e. assistance for strengthening and upgradation of sub–transmission and distribution system. The focus is on high density urban areas to achieve quick result as losses in absolute term are very high in such areas.

(b) Incentive Component, i.e. a Grant for States/Utilities to encourage them to reduce their Cash Losses on yearly basis. Note: Different percentages are specified in respect of Special Category States and Other States.

Category of States % of Projects / Scheme Cost from APDRP % of Projects Scheme Cost from PFC / REC / Own / Other Sources As Grant As Loan As Loan / Counterpart Funds / Own Funds Special Category States 90 10 – Non–Special Category States 25 25 50

Category of States	**% of Projects / Scheme Cost from APDRP**		**% of Projects Scheme Cost from PFC / REC / Own / Other Sources**
	As Grant	**As Loan**	**As Loan / Counterpart Funds / Own Funds**
Special Category States	90	10	–
Non–Special Category States	25	25	50

Accounting of Grant received under APDRP:

(a) On receipt, Grant received under APDRP towards Capital Expenditure, is treated as Capital Receipt and accounted as Capital Reserve.

(b) Every year, a portion of this Grant is treated as Income (by transfer to the Statement of Profit and Loss) in the same proportion as the Depreciation written off on the Assets acquired out of the Grant.

(c) Depreciation for the year debited to the Statement of Profit and Loss, on the Asset acquired out of Grant match against portion of Grant transferred from Capital Reserve.

(d) The unadjusted balance of Capital Reserve is disclosed under Reserves and Surplus in Balance Sheet.

(e) In the Cash Flow Statement, Grant Received under APDRP is reported under Financing Activity.

(f) At any time if the ownership of the Assets acquired, out of the Grants, vest with the Government, the Grants (Capital Reserve) are adjusted in the Carrying Cost of such Assets.

(g) Grants Received by the Utility under APDRP and its utilisation shown under the head Capital Expenditure made during the year, is not considered for calculation of Annual Revenue Requirement (ARR) of the Utility for the year.

Tariff is determined in order to cover Annual Fixed Cost (AFC).

Annual Fixed Cost (AFC) of a Generating Station or a Transmission System shall consist of the following components –

1. Return on Equity,
2. Interest on Loan Capital,
3. Depreciation,
4. Interest on Working Capital,
5. Operation and Maintenance Expenses,
6. Cost of Secondary Fuel Oil (for coal–based and lignite fired generating stations only),
7. Special Allowance in lieu of R&M or Separate Compensation Allowance, wherever applicable.

Return on Equity in case of Electricity Companies.

1. Return on Equity shall be computed in rupee terms, on the Equity Base of the Entity, determined in accordance with Regulation 12, i.e. considering a Debt Equity Ratio of 70: 30.

2. Return on Equity shall be computed on pre–tax basis at the base rate of 15.5% to be grossed up as under – When the Generating Company or Transmission Licensee is paying Income Tax by way of Return on Equity Minimum Alternate Tax, e.g. 11.33% including SC and Cess (100% 11.33%) 15.5% − = 17.481% Normal Corporate Tax, i.e. 33.99% including SC and Cess (100% 33.99%) 15.5% − = 23.481%

3. Equity Base should not include the amount contributed by the Consumers towards such Capital Investment. Consumer Contribution for such Capital Investment is not brought out in the Annual Revenue Requirement (ARR).

4. Equity Base is computed considering the following principles –

(a) For a Project declared under commercial operation on or after 01.04.2009, if the Equity actually deployed is more than 30% of the Capital Cost, Equity in excess of 30% shall be treated as Normative Loan.

(b) If the Equity actually deployed is less than 30% of the Capital Cost, the Actual Equity shall be considered for determination of Tariff.

(c) Equity invested in Foreign Currency shall be designated in Indian Rupees on the date of each investment.

Problems on Electricity Companies:

1.D Electricity Co. earned a profit of Rs 26,98,500 after paying Rs 1,40,000 @ 14% as debenture interest for the year ended March 31,2012. The following further information is supplied to you:

	₹
Fixed Assets	3,60,00,000
Depreciation written off	1,00,00,000
Loan from Electricity Board	80,00,000
Resere Fund Investments, at par, @ 10%	20,00,000
Contingencies Reserve Investments, at par, @ 10%	15,00,000
Tariff and Dividends Control Reserve	2,00,000
Security deposits of customers	3,00,000
Customers' contribution to assets	1,00,000
Preliminary Expenses	80,000
Monthly average of current assets, including amount due from customers, ₹ 5,00,000	15,20,000
Development Reserve	5,00,000

Show the disposal of profits mentioned above.
Assume bank rate to be 10%

Solution :

		₹
Reasonable Return :		
12% on Capital Base, ₹ 1,85,00,000		22,20,000
½ % on Loan from Electricity Board		40,000
½ % on Development Reserve		2,500
½ % on Debentures		5,000
Income from Reserve Fund investments		2,00,000
		24,67,500
Clear Profit :		26,98,500
Surplus :		
₹ 26,98,500 *less* ₹ 24,67,500		2,31,000
Disposal :		
$^1/_3$ for the company being less than 5% of Reasonable Return		77,000
½ of the balance to be credited to Tariffs and Dividends Control Reserve		77,000
½ of the balance to be credited to customers		77,000
Total		2,31,000

The journal entry will be :

		₹	₹
Profit and Loss Account	Dr.	1,54,000	
To Tariffs and Dividends Control Reserve			77,000
To Benefit to Customers Account			77,000
(Amounts to be credited to the Tariffs and Dividends Control Reserve and to be refunded to consumers because of the excess of the clear profit over reasonable return).			

Capital Base :

Fixed Assets *less* Depreciation		2,60,00,000
Preliminary Expenses		80,000
Average Current Assets (other than customers' debts)	10,20,000	
Contingencies Reserve Investments		15,00,000
		2,86,00,000
Less : ₹		
Loan from Electricity Board	80,00,000	
Debentures	10,00,000	
Tariffs and Dividends Control Reserve	2,00,000	
Security Deposits	3,00,000	
Customers' Contribution	1,00,000	
Development Reserve	5,00,000	
		1,01,00,000
		1,85,00,000

2.Provide for the undermentioned depreciation, and prepare a Receipts and Expenditure on Capital Account, Revenue Account, Net Revenue Account and Balance Sheet from the following Trial Balance. A call of Rs 20 per share was payable on 30th September, 2011 and arrears are subject to interest @ 15% p.a.

Depreciation to be provided for on: Building @ 5%, Machinery @ 15%, Mains @ 20%, Transformers etc., @ 10%, Meters and Electrical Instrument @ 15%.

THE DYNAMO ELECTRIC LIGHTING CO. LTD.
Trial Balance as at March 31st, 2012

Amount on March 31st, 2011 ₹		₹	₹
	Capital, Nominal, 50,000 Shares of ₹ 100 each		
20,00,000	Subscribed, 25,000 shares of ₹ 100 each	—	25,00,000
15,00,000	14% Debentures	—	15,00,000
6,00,000	Provision for Depreciation	—	6,00,000
—	Calls in arrear	1,00,000	
9,30,000	Freehold Land	9,30,000	
4,00,000	Buildings	5,00,000	
6,00,000	Machinery at station	10,00,000	
5,00,000	Mains	8,00,000	
1,00,000	Transformers etc.	2,00,000	
50,000	Meters	1,50,000	
30,000	Electrical Instruments	40,000	
1,60,000	General Stores (Cables, Mains, Meters etc.)	2,35,000	
25,000	Office Furniture	25,000	
	Coal and Fuel	1,90,000	
	Oil, Waste, Engine-room Stores	75,000	
	Coal, Oil, Waste, etc. in Stock	10,000	
	Wages at Station	3,00,000	
	Repairs and Replacement	50,000	
	Rates and Taxes	30,000	
	Salaries of Secretary, Manager etc.	1,50,000	
	Directors' Fees	1,00,000	
	Stationery, Printing and Advertising	60,000	
	Law and Incidental Expenses	30,000	
	Sale by Meter	—	9,75,000
	Sale by contract	—	5,00,000
	Meter Rents	—	30,000
	Sundry Creditors	—	1,00,000
	Sundry Debtors	5,50,000	
	Cash in hand and at Bank	8,30,000	
	Contingencies Reserve	—	1,50,000
		63,55,000	63,55,000

Soultion:

Receipts and Expenditure on Capital Account for the year ended March 31, 2012

Expenditure	*Expenditure upto March 31, 2011*	*Expenditure during the year*	*Total*	*Receipts*	*Receipts upto March 31, 2011*	*Receipts during the year*	*Total*
	₹	₹	₹		₹	₹	₹
To Freehold Land	9,30,000	—	9,30,000	By Share Capital	20,00,000	4,00,000*	24,00,000
To Buildings	4,00,000	1,00,000	5,00,000	By 14% Debentures	15,00,000	—	15,00,000
To Machinery at Station	6,00,000	4,00,000	10,00,000				
To Mains	5,00,000	3,00,000	8,00,000				
To Transformers	1,00,000	1,00,000	2,00,000				
To Meters	50,000	1,00,000	1,50,000				
To General Stores	1,60,000	75,000	2,35,000				
To Electrical Instruments	30,000	10,000	40,000				
To Office Furniture	25,000	—	25,000				
Total Expenditure	27,95,000	10,85,000	38,80,000				
To Balance of Capital Account	—	—	20,000				
	27,95,000	10,85,000	39,00,000		35,00,000	4,00,000	39,00,000

*Calls in arrears have been deducted.

Revenue Account for the year ended March 31, 2012

	₹	₹		₹
A. Generation			By Sale of energy for lighting purposes	9,75,000
To Coal and Fuel	1,90,000		By Sale of energy for power purposes	
To Oil, Waste and Engine-Room Stores	75,000		By Sale of energy by contract	5,00,000
To Wages at Station	3,00,000		By Meter Rent	30,000
To Repairs and Replacement	50,000	6,15,000		
B. Distribution		—		
C. Public Lamps		—		
D. Rent, Rates and Taxes :				
To Rates and Taxes		30,000		
E. Management Expenses :				
To Directors' Fees	1,00,000			
To Secretary's and Manager's Salaries	1,50,000			
To Stationery, Printing and Advertising	60,000			
To Law and Incidental Charges	30,000	3,40,000		
G. Depreciation :**				
Depreciation on :				
Buildings	22,500			
Machinery	1,20,000			
Mains	65,000			
Transformers	30,000			
Meters	15,000			
Electrical Instruments	5,250	2,57,750		
To Balance carried to Net Revenue Account		2,62,250		
		15,05,000		15,05,000

**Depreciation on additions charged for 6 months.

Net Revenue Account

	₹		₹
To Interest on Debentures, outstanding	2,10,000	By Balance from last account	—
To Contingencies Reserve —transfer*	19,400	By Balance brought from Revenue Account	2,62,250
To Balance c/d	40,350	By Interest due on calls in arrears (on ₹ 1,00,000 @ 15% for 6 months)	7,500
	2,69,750		2,69,750

General Balance Sheet

Liabilities		₹	*Assets*	₹
Capital Account : amount received		39,00,000	Capital Account : amount expended for works	38,80,000
Sundry Creditors on open accounts		1,00,000	Stores on hand	10,000
Contingencies Reserve		1,69,400	Sundry Debtors	5,50,000
Net Revenue Account—Balance		40,350	Interest due on calls in arrears	7,500
Provision for Depreciation:			Cash at bank and in hand	8,30,000
Balance as per last Balance Sheet	6,00,000			
Addition during the year	2,57,750	8,57,750		
Interest on Debentures Outstanding		2,10,000		
		52,77,500		52,77,500

3.The Hindustan Gas Company rebuilt and re-equipped part of their works at a cost of Rs 5,00,000. The part of the old works thus superseded cost Rs 3,00,000. The capacity of the new works is double the capacity of the old works. Rs 20,000 is realised by the sale of old materials, and old materials worth Rs 10,000 are used in the construction of the new works and included in the total cost of Rs 5,00,000 mentioned above. The costs of labour and materials are 25% higher than when the old works were built.

Journalise the entries.

Solution :

Journal

			Dr. ₹	Cr. ₹
	Replacement Account	Dr.	3,75,000	
	New Works Account	Dr.	1,15,000	
	To Bank			4,90,000
	Being the amount written off (₹ 3,00,000 + 25%) and the amount capitalised out of the ₹ 4,90,000, spent on reconstruction in cash, *i.e.*, ₹ 5,00,000 — ₹ 10,000.			
	New Works Account	Dr.	10,000	
	To Replacement Account			10,000
	Being the materials used in the new works.			
	Bank	Dr.	20,000	
	To Replacement Account			20,000
	Being the amount realised by the sale of old materials.			
	Revenue Account	Dr.	3,45,000	
	To Replacement Account			3,45,000
	Being the transfer of balance of Replacement Account to Revenue Account.			

***Working Notes*:**

	₹
Cost of old works	3,00,000
Add: Increase in cost ₹ $\frac{3,00,000 \times 25}{100}$	75,000
Current cost of old works	3,75,000

Cash cost of new works = ₹ 5,00,000 – ₹ 10,000 = ₹ 4,90,000
Account to be capitalised = ₹ 4,90,000 – ₹ 3,75,000 = ₹ 1,15,000.

4.The Gurgaon Electricity Company Limited decides to replace one of its old plants with a modern one with a larger capacity. The plant when installed in 1985 cost the company Rs 24 lakhs, the components of materials, labour and overheads being in the ratio of 5:3:2. It is ascertained that the costs of materials and labour have gone up by 40% and 80% respectively. The proportion of overheads to total costs is expected to remain the same as before.

The cost of the new plant as per improved design is Rs 60 lakhs and in addition, material recovered from the old plant of a value of Rs 2,40,000 has been used in the construction of the new plant. The old plant was scrapped and sold for Rs 7,50,000.

The accounts of the company are maintained under Double Account system. Indicate how much would be capitalised and the amount that would be charged to revenue. Show the ledger accounts.

Solution:

Dr. Gurgaon Electricity Company Limited Plant Account Cr.

	₹		₹
To Balance b/fd	24,00,000	By Balance c/d	49,20,000
To Bank Account (cost of new plant—capitlised)	22,80,000		
To Replacement Account (old parts)	2,40,000		
	49,20,000		49,20,000
To Balance b/d	49,20,000		

Dr. Replacement Account Cr.

	₹		₹
To Bank Account (current cost of replacement)	37,20,000	By Bank Account (sale of scrap)	7,50,000
		By Plant Account (old material used)	2,40,000
		By Revenue Account (transfer)	27,30,000
	37,20,000		37,20,000

Working Notes :

(1) Cost to be incurred for replacement of present plant :

	Cost of Existing Plant	*Increase*	*Current Cost*
	₹	%	₹
Materials	12,00,000	40%	16,80,000
Labour	7,20,000	80%	12,96,000
			29,76,000
Overheads (¼ of above or 1/5 of total)			7,44,000
Current Replacement Cost			37,20,000
Current Replacement cost			37,20,000
Total Cash Cost			60,00,000
Amount capitalised, excluding old materials used			22,80,000

5.The following balance have been extracted from the books of an electricity company at the end of an accounting year:

	₹
Share capital	1,00,00,000
Reserve fund invested in 8% Government securities acquired at par	60,00,000
Contingencies reserve invested in 7% State Loan, at par	12,00,000
Loans from State Electricity Board	25,00,000
12% Debentures	20,00,000
Development reserve	8,00,000
Fixed Assets	2,50,00,000
Depreciation reserve on fixed assets	30,00,000
Consumers' deposits	40,00,000
Amount contributed by consumers towards cost Of fixed assets	2,00,000
Intangible assets	8,00,000
Tariffs and dividend control reserve	10,00,000
Current assets (monthly average)	15,00,000

In the accounting year, the Company earned a profit of ₹ 28,00,000 after tax.
Assuming that the bank rate is 10%, show how you will deal with the profits of the company.

[*Adapted C.A. (PCE), May, 2010*]

Solution :

Calculation of Capital Base :

	₹	₹
Original cost of fixed assets	2,50,00,000	
Less : Amount contributed by the customers	2,00,000	2,48,00,000
Add : Cost of intangible assets		8,00,000
Investments against contingency reserve		12,00,000
Monthly average of current assets		15,00,000
Total (*i*)		2,83,00,000
Less : Amount written off on account of depreciation	30,00,000	
Loan from State Electricity Board	25,00,00	
12% Debentures	20,00,000	
Consumers' deposits	40,00,000	
Balance of development reserve	8,00,000	
Balan ce of tariffs and dividend control reserve	10,00,000	
Total (*ii*)		1,33,00,000
Capital Base (*i*) – (*ii*)		1,50,00,000

Calculation of Reasonable Return :

	₹
Yield at standard rate i.e. 10%+2% on capital base, 12% of ₹ 1,50,00,000	18,00,000
Add : Income from reserve fund investments, 8% of ₹ 60,00,000	4,80,000
½ % of loans from State Electricity Board, ½ % of ₹ 25,00,000	12,500
½ % of debentures, ½ % of ₹ 20,00,000	10,000
½ % of development reserve, ½ % of ₹ 20,00,000	4,000
Total	23,06,500

Disposal of surplus :

	₹
Profit after tax, given	28,00,000
Less : Reasonable return, as calculated above	23,06,500
Surplus	4,93,500
Less : 20% of reasonable return, 20 % of ₹ 23,06,500	4,61,300
Amount to be credited to customers rebate reserve	32,200

Allocation of surplus of ₹ 4,61,300 :

(*i*) 1/3rd of the surplus of the company subject to 5% of reasonable rate of return is at the disposal of the company.

1/3rd of ₹ 4,61,300 = ₹ 1,53,767

5% of ₹ 23,06,500 = ₹ 1,15,325

Being lower of the two, ₹ 1,15,325 is at the disposal of the company.

(*ii*) ½ of the balance is to be credited to Tariff and dividend control reserve

= ½ of ₹ [4,6,300 – 1,15,325] = ₹ 1,72,988

(*iii*) ½ of the balance is to be credited to customers rebate reserve i.e. ₹ 1,72,987

Final Distribution :

	₹
(*i*) Refunded to customers, ₹ 32,200 + ₹ 1,72,987	2,05,987
(*ii*) Transfer to tariff dividend control reserve, as ca	1,72,988
(*iii*) At the disposal of the company, ₹ 23,06,500 + ₹ 1,15,325	24,21,825
	28,00,000

UNIT- IV

1. The following are the balances on 31st March, 2008 in the books of the electric power and Light Co. Limited:

	Dr	Cr
Cost of Generation of Electricity	14,000	
Cost of Distribution of Electricity	2,000	
Rent, Rates and Taxes	2,000	
Management	4,800	
Depreciation	8,000	
Sale of Current		52,000
Rent of Meters		2,000
Interest on Debentures	4,000	
Interim Dividend	8,000	
Balance of Net Revenue Account, April 1, 2007		11,400

From the above Balances, prepare Revenue Account and Net Revenue Account.

2. An electricity company laid down a main at a cost of Rs. 50,000. Some years later, the company laid low an auxiliary main for 1/5th of the length of the old main at a cost of Rs. 15,000. It also replaced the rest of the length of the old main at a cost of Rs. 60,000. The cost of material and labour has gone up by 10%. Sale of old material realized Rs. 800 only. Old material valued at Rs. 1,000 was used in renewal and those valued at Rs. 500 were also used in the construction of the auxiliary main. Show the entries.

3. An Electric Supply Co. rebuilt its Mains at the cost of Rs. 19,90,000. This includes value of Rs.13,800 material of old Mains used for new one. The original Mains were constructed at a cost of Rs. 9,90,000. The ratio of material and labour was 7:3. The increase in material prices is 12½% and wage rates 15%. Material worth Rs. 25,200 from old works was sold. Show journal entries under Double Account System for the above and determine the net cost of replacement.

4. An Electricity Company laid down a Main at a cost of Rs. 16, 00,000. Some years later the company laid down an auxiliary Main for one – fourth of the old Main at a cost of Rs. 6,00,000. It also replaced the rest of the length of the old Main at a cost of Rs. 18, 00,000 the cost of material and labour having gone up by 15%. Sale of old materials realized Rs. 40,000. Old materials valued at Rs. 40,000 were used in renewal and those valued at Rs. 60,000 were used in auxiliary Main. Show the Journal Entries for recording the above transactions

UNIT-IV

What is the name of the account showing Profit and Loss under double account system	Income and Expenditure A/c	Income Statement	Revenue A/c	Net Revenue A/c	Revenue A/c
What is the name of the account which shows Profit and Loss Appropriation under double account system	Income and Expenditure A/c	Income Statement	Revenue A/c	Net Revenue A/c	Net Revenue A/c
Under Double Account System, Interest on Debenture Is shown in _________	Revenue A/c	Net Revenue A/c	Capital A/c	General Balance Sheet	Net Revenue A/c
Under Double Account System, Share forfeited account is shown in _________	Credit side of Revenue A/c	Credit Side of Net Revenue A/c	Credit side of Capital A/c	Liabilities Side of General Balance Sheet	Credit side of Capital A/c
Under double account system, Preliminary Expenses is shown on _____	Debit side of Revenue A/c	Debit Side of Net Revenue a/c	Debit side of Capital A/c	Aset side of the General Balance Sheet	Debit side of Capital A/c
Cost of license appears in ______	General Balance Sheet	Revenue Account	Capital A/c	Net Revenue A/c	Capital A/c
When an asset is replaced, any amount realised on sale of material will be credited to ________	Net Revenue A/c	Revenue Account	Asset A/c	Replacement A/c	Replacement A/c
Original cost of an asset Rs. 2,50,000. Present cost of replacement Rs. 325,000. Amount spent on replacement Rs.3,80,000 . The amount chargeable to revenue will be	Rs. 1,30,000	Rs. 3,80,000	Rs. 2,50,000	Rs. 3,25,000	Rs. 3,25,000
The original cost of an asset is Rs. 50,000. Present cost of the replacement is Rs. 65,000. The amount spent in its replacement is Rs. 76,000. The amount to be capitalised will be _______	Rs. 65,000	Rs. 76,000	Rs. 11,000	Rs. 50,000	Rs. 11,000
Under Double account system, income statement is sub divided into ________ and net revenue account	Revenue A/c	income account	expenses account	Capital Account	Revenue A/c
under Double Account system, balance sheet is bifurcated into general balance sheet and ______	Capital A/c	Revenue A/c	Net Revenue A/c	income account	Capital A/c

the Double Account system is a method of presenting annual financial statements used generally by _________	public utility concern	Private concern	Government organisation	corporate sector	Public utility concern
Under double account system, depreciation is :	debited to revenue A/c	Debited to Net Revenue A/c	Credited to the asset a/c	credited to depreciation fund A/c	credited to depreciation fund A/c
Receipts and Expenditure on capital account is also known as ______	Capital A/c	Current A/c	Revenue A/c	Net Revenue A/c	Capital A/c
The balance of Capital Account represents excess/shortage of investment in Fixed assets out of ______ sources	Long Term	Permanent	Short term	Floating	Long term
Floating Assets and __________ are recorded in the General Balance Sheet	Floating liabilities	short term liabilities	long term liabilities	Reserves	Floating liabilities
Under double account system, the amount to be written off when an asset replaced is debited to _____ account	Revenue A/c	Net Revenue A/c	Current ac/c	Fixed capital a/c	Revenue A/c
Contingencies reserve is created until it equals ___________ percent of the original cost of fixed assets	10%	20%	15%	5%	5%
Contribution to general reserve should be made until it reaches __________ percent of original cost of the assets	12%	4%	8%	10%	8%
The excess of clear profit over reasonable return should be taken as ___________	Surplus	Excess	Deficit	Loss	Surplus
________ enables one to know the cost of fixed assets acquired during the year	Capital account	Revenue A/c	Profit and loss A/c	Profit and lost appropiration A/c	Capital account
Share premium should be shown on the _______ side of the Capital A/c	Receipts	Payment	income	expenditure	Receipt
Contingency Reserve is to be invested in _________	trust securities	bonds	mutual fund	stocks	trust secuirities
Depreciation Account (Cr) means	Depreciation fund	Revaluation	Profit & loss	Revaluation loss	Depreciation fund
_______ system is not the method of maintaining accounts it is the system of presenting the final accounts	Double entry system	single entry system	Double Account System	Accounting standards	Double Account System
Double Account System is followed by ______	Companies	Partnership	Sole Trader	Public utility concern	Public utility concern

There are two final statements one is General balance sheet and other ______	Receipts and Expenditure	Profit and Loss	Receipts and payment	Income and Expenditure	Receipts and Expenditure
Under the Double Account System, for disclosing expenses and income of a public utility concern is known as ________	Receipts and Expenditure	Profit and Loss	Receipts and payment	Income and Expenditure	Receipts and Expenditure
Interest on debenture is shown ______ under the double account system	Receipts and Expenditure	Profit and Loss	Receipts and payment	Income and Expenditure	Receipts and Expenditure
Under Double Entry System, debit means	Benefit receiving aspect	Assets	Liabilities	Benefit giving aspect	Benefit receiving aspect
Under Double Account system, capital a/c is otherwise called as _______	Receipts and Expenditure	Profit and Loss	Receipts and payment	Income and Expenditure	Receipts and Expenditure
The profit or loss of the Revenue A/c is transferred to _________ a/c	Net Revenue A/c	Capital A/c	General Balance Sheet	Receipts and Expenditure	Net Revenue A/c
The Balance of Net Revenue Account is transferred to ______	Capital A/c	General Balance Sheet	Receipts and Expenditure	Profit & Loss A/c	General Balance Sheet
The Electricity companies are required to present the final accounts according to _________	Double entry system	single entry system	Double Account System	Accounting standards	Double Account System
There are two methods of providing depreciation under Electricity company. They are	Straight line method and Compound interest method	Straight line and WDV method	Straight line and Annuity method	Straight line and Revaluation method	Straight line method and Compound interest method
Every Electricity company should create from the existing reserve or from the revenue reserve to the called as _____	Contingency Reserve	General Reserve	Specific Reserve	Reserve Fund	Contingency Reserve
Any sum to be appropriated towards ______ may be done in annual instalments spread over a period of five years	Contingency Reserve	General Reserve	Specific Reserve	Development Reserve	Development Reserve
______ reserve is created out of profit in excess of reasonable return earned by an electricity undertaking	Tariffs and Dividend control Reserve	General Reserve	Specific Reserve	Development Reserve	Tariffs and Dividend control Reserve
_________ reserve can be utilized by the undertaking when the clear profit is less than the reasonable return in any year	Tariffs and Dividend control Reserve	General Reserve	Specific Reserve	Development Reserve	Tariffs and Dividend control Reserve

When an undertaking is sold, any balance remaining in the _________ is transferred to purchasing company	Tariffs and Dividend control Reserve	General Reserve	Specific Reserve	Development Reserve	Tariffs and Dividend control Reserve
Sec 67 of the Act provides for creation of ________	Tariffs and Dividend control Reserve	General Reserve	Specific Reserve	Development Reserve	General Reserve
The annual contribution to the General Reserve is _________	At a rate not exceeding 1/2% of the original cost of asset	At a rate not exceeding 10% of the original cost of asset	At a rate not exceeding 12% of the original cost of asset	At a rate not exceeding 2% of the original cost of asset	At a rate not exceeding 1/2% of the original cost of asset
General Reserve can be created until its total reaches _________	Not exceeding 25% of the original cost of asset	Not exceeding 8% of the original cost of asset	Not exceeding 5% of the original cost of asset	Not exceeding 10% of the original cost of asset	Not exceeding 8% of the original cost of asset
_________ provide the guideline for preparation of clear profit	Sixth Schedule	Second Schedule	Forth Schedule	Fifth Schedule	Sixth Schedule
Clear profit is the difference between	income and expenditure	total of income	total of expenditure	amount of income and the sum of expenditure plus appropriations	amount of income and the sum of expenditure plus appropriations
_________ is the income derived from investment	Clear Profit	General Reserve	Reasonable Return	Development Reserve	Reasonable Return
________ means an amount equal to 1/2% of the any loan advanced by the Board	Clear Profit	General Reserve	Reasonable Return	Development Reserve	Reasonable Return
Reasonable return means an amount equal to 1/2% of the accumulation in the __________	Clear Profit	General Reserve	Specific Reserve	Development Reserve	Development Reserve
________ means the original cost of the fixed asset	Capital Base	Revenue base	Capital Expenditure	Revenue Expenditure	Capital Base
_________ is the excess of clear profits over reasonable return	Disposal of surplus	General Reserve	Specific Reserve	Development Reserve	Disposal of surplus
______ of surplus not exceeding 5% of the reasonable return will be at the disposal of the undertaking	one- half	one-third	two-third	25%	one-third
From _______ one half will be transferred to tariff and dividend control Reserve	Disposal of surplus	General Reserve	Specific Reserve	Development Reserve	Disposal of surplus
Any excess after transferring to all resources will be transferred to customers by way of __________	reduction in rate	concessional rate	special price	discounted price	reduction in rate
Interim dividend paid under Double Account system should be shown on ________	Debit side of Revenue A/c	Debit side of Net Revenue A/c	Debit side of Profit and loss A/c	credit side of Net Revenue A/c	Debit side of Net Revenue A/c
Double entry system, only _____ aspect is recorded	one aspect	single aspect	debit aspect	Credit aspect	one aspect
Double entry system is a __________	Non Scientific method	Scientific method	Legal	Illegal	Scientific method

Every Electricity Company is required to close its accounts on	31st December	31st March	30th June	30th September	31st March
Every Electricity Company should submit its final accounts to the government with __________	3 months	6 months	9 months	one year	6 months
Double entry system is a __________	Scientific method	logical	Legal	others	Scientific method
Under Double Entry System, Credit means	Benefit receiving aspect	Assets	Liabilities	Benefit giving aspect	Benefit giving aspect

UNIT-V

SYLLABUS

Accounting Standards - AS 4: Contingencies and Events Occurring after the Balance Sheet Date, AS 11: The Effects of Changes in Foreign Exchange Rates, AS12: Accounting for Government Grants, AS 14: Accounting for Amalgamation, AS 15: Employee Benefit, AS 17: Segment Reporting.

Accounting Standard (AS) 4

Contingencies and Events Occurring After the Balance Sheet Date

Introduction

1. This Standard deals with the treatment in financial statements of

(a) Contingencies, and

(b) Events occurring after the balance sheet date.

2. The following subjects, which may result in contingencies, are excluded from the scope of this Standard in view of special considerations applicable to them:

(a) liabilities of life assurance and general insurance enterprises arising from policies issued;

(b) obligations under retirement benefit plans; and

(c) commitments arising from long-term lease contracts.

Definitions

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

Events occurring after the balance sheet date are those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

Two types of events can be identified:

(a) those which provide further evidence of conditions that existed at the balance sheet date; and

(b) those which are indicative of conditions that arose subsequent to the balance sheet date.

Explanation

Contingencies

The term "contingencies" used in this Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

Estimates are required for determining the amounts to be stated in the financial statements for many on-going and recurring activities of an enterprise. One must, however, distinguish between an event which is certain and one which is uncertain. The fact that an estimate is involved does not, of itself, create the type of uncertainty which characterizes a contingency. For example, the fact that estimates of useful life are used to determine depreciation, does not make depreciation a contingency; the eventual expiry of the useful life of the asset is not uncertain., even though the amounts may have been estimated, as there is nothing uncertain about the uncertainty relating to future events can be expressed by a range of outcomes. This range may be presented as quantified probabilities, but in most circumstances, this suggests a level of precision that is not supported by the available information. The possible outcome scan, therefore, usually be generally described except where reasonable quantification is practicable.

The estimates of the outcome and of the financial effect of contingencies are determined by the judgement of the management of the enterprise. This judgement is based on consideration of information available up to the date on which the financial statements are approved and will include a review of events occurring after the balance sheet date, supplemented by experience of similar transactions and, in some cases, reports from independent experts.

Accounting Treatment of Contingent Losses

The accounting treatment of a contingent loss is determined by the expected outcome of the contingency. If it is likely that a contingency will result in a loss to the enterprise, then it is prudent to provide for that loss in the financial statements

The estimation of the amount of a contingent loss to be provide d for in the financial statements may be based on information

If there is conflicting or insufficient evidence for estimating the amount of a contingent loss, then disclosure is made of the existence and nature of the contingency.

A potential loss toanenterprisemaybereducedoravoidedbecause a contingent liability is matched by a related counter-claim or claim against a third party. In such cases, the amount of the provision is determined after taking into account the probable recovery under the claim if no significant uncertainty as to its measurability or collectability exists. Suitable disclosure regarding the nature and gross amount of the contingent liability is also made.

The existence and amount of guarantees, obligations arising from discounted bills of exchange and similar obligations undertaken by an enterprise are generally disclosed in financial statements by way of note, even though the possibility that a loss to the enterprise will occur, is remote.

Provisions for contingencies are not made in respect of general or unspecified business risks since they do not relate to conditions or situations existing at the balance sheet date.

Accounting Treatment of Contingent Gains

Contingent gains are not recognised in financial statements since their recognition may result in the recognition of revenue which may never be realised. However, when the realisation of a gain is virtually certain, then such gain is not a contingency and accounting for the gain is appropriate.

Determination of the Amounts at which Contingencies are included in Financial Statements

The amount at which a contingency is stated in the financial statements is based on the information which is available at the date on which the financial statements are approved. Events occurring after the balance sheet date that indicate that an asset may have been impaired, or that a liability may have existed, at the balance sheet date are, therefore, taken into account in identifying contingencies and in determining the amounts at which such contingencies are included in financial statements.

In some cases, each contingency can be separately identified, and the special circumstances of each situation considered in the determination of the amount of the contingency. A substantial legal claim against the enterprise may represent such a contingency. Among the factors taken into account by management in evaluating such a contingency are the progress of the claim at the date on which the financial statements are approved, the opinions, wherever necessary, of legal experts or other advisers, the experience of the enterprise in similar cases and the experience of other enterprises in similar situations.

If the uncertainties which created a contingency in respect of an individual transaction are common to a large number of similar transactions, then the amount of the contingency need not be individually determined, but may be based on the group of similar transactions. An example of such contingencies may be the estimated uncollectable portion of accounts receivable. Another example of such contingencies may be the warranties for products sold. These costs are usually incurred frequently and experience provides a means by which the amount of the liability or loss can be estimated with reasonable precision although the particular transactions that may result in a liability or a loss are not identified. Provision for these costs results in their recognition in the same accounting period in which the related transactions took place.

Events Occurring after the Balance Sheet Date

Events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure.

Adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. For example, an adjustment may be made for a loss on a trade receivable account which is confirmed by the insolvency of a customer which occurs after the balance sheet date.

Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. An example is the decline in market value of investments between the balance sheet date and the date on which the financial statements are approved. Ordinary fluctuations in market values do not normally relate to the condition of the investments at the balance sheet date, but reflect circumstances which have occurred in the following period.

Events occurring after the balance sheet date which do not affect the figures stated in the financial statements would not normally require disclosure in the financial statements although they may be of such significance that they may require a disclosure in the report of the approving authority to enable users of financial statements to make proper evaluations and decisions.

There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements.

There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements.

Disclosure

The disclosure requirements herein referred to apply only in respect of those contingencies or events which affect the financial position to a material extent.

If a contingent loss is not provided for, its nature and an estimate of its financial effect are generally disclosed by way of note unless the possibility of a loss is remote (other than the circumstances mentioned in paragraph 5.5). If a reliable estimate of the financial effect cannot be made, this fact is disclosed.

When the events occurring after the balance sheet date are disclosed in the report of the approving authority, the information given comprises the nature of the events and an estimate of their financial effects or a statement that such an estimate cannot be made.

Accounting Standard (AS) 5

Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

Objective

The objective of this Standard is to prescribe the classification and disclosure of certain items in the statement of profit and loss so that all enterprises prepare and present such a statement on a uniform basis. This enhances the comparability of the financial statements of an enterprise over time and with the financial statements of other enterprises. Accordingly, this Standard requires the classification and disclosure of extraordinary and prior period items, and the disclosure of certain items within profit or loss from ordinary activities. It also specifies the accounting treatment for changes in accounting estimates and the disclosures to be made in the financial statements regarding changes in accounting policies.

Scope

1. This Standard should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the statement of profit and loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.

2. This Standard deals with, among other matters, the disclosure of certain items of net profit or loss for the period. These disclosures are made in addition to any other disclosures required by other Accounting Standards.

3. This Standard does not deal with the tax implications of extraordinary items, prior period items, changes in accounting estimates, and changes in accounting policies for which appropriate adjustments will have to be made depending on the circumstances.

Definitions

The following terms are used in this Standard with the meanings specified:

Ordinary activities are an y activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

Extraordinary items are income o r expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

Net Profit or Loss for the Period

All items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.

Normally, all items of income and expense which are recognised in a period are included in the determination of the net profit or loss for the period. This includes extraordinary items and the effects of changes in accounting estimates.

The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the statement of profit and loss:

(a) profit or loss from ordinary activities; and

(b) extraordinary items.

Extraordinary Items

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

Virtually all items of income and expense included in the determination of net profit or loss for the period arise in the course of the ordinary activities of the enterprise. Therefore,only on rare occasions does an event or transaction give rise to an extraordinary item.

Whether an event or transaction is clearly distinct from the ordinary activities of the enterprise is determined by the nature of the event or transaction in relation to the business ordinarily carried on by the enterprise rather than by the frequency with which such events are expected to occur. Therefore, an event or transaction may be extraordinary for one enterprise but not so for another enterprise because of the differences between their respective ordinary activities. For example, losses sustained as a result of an earthquake may qualify as an extraordinary item for many enterprises. However, claims from policyholders arising from an earthquake do not qualify as an extraordinary item for an insurance enterprise that insures against such risks.

Examples of events or transactions that generally give rise to extraordinary items for most enterprises are:

– attachment of property of the enterprise; or

– an earthquake.

Profit or Loss from Ordinary Activities

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. 13. Although the items of income and expense are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. Disclosure of such information is sometimes made

Circumstances which may give rise to the separate disclosure of items of income and expense in accordance include:

(a) the write-down of inventories to net realisable value as well as the reversal of such write-downs;

(b) a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;

(c) disposals of items of fixed assets;

(d) disposals of long-term investments;

(e) legislative changes having retrospective application;

(f) litigation settlements; and (g) other reversals of provisions.

Prior Period Items

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

The term 'prior period items', as defined in this Standard, refers only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period.

Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight.

Prior period items are generally infrequent in nature and can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, income or expense recognised on the outcome of a contingency which previously could not be estimated reliably does not constitute a prior period item.

Prior period items are normally included in the determination of net profit or loss for the current period. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

Changes in Accounting Estimates

As a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives of depreciable assets. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

An estimate may have to be revise d if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments. The revision of the estimate, by its nature, does not bring the adjustment within the definitions of an extraordinary item or a prior period item.

Sometimes, it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate. In such cases, the change is treated as a change in an accounting estimate, with appropriate disclosure.

The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

(a) the period of the change, if the change affects the period only; or

(b) the period of the change and future periods, if the change affects both.

A change in an accounting estimate may affect the current period only or both the current period and future periods. For example, a change in the estimate of the amount of bad debts is recognised immediately and therefore affects only the current period. However, a change in the estimated useful life of a depreciable asset affects the depreciation in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods, is recognised in future periods.

The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate which was previously included in the profit or loss from ordinary activities is included in that component of net profit or loss. The effect of a change in an accounting estimate that was previously included as an extraordinary item is reported as an extraordinary item.

The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

Changes in Accounting Policies

Users need to be able to compare the financial statements of an enterprise over a period of time in order to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are normally adopted for similar events or transactions in each period.

A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.

A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

The following are not changes in accounting policies:

(a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement; and

(b) the adoption o f a new accounting policy for events or transactions which did not occur previously or that were immaterial.

Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should

A change in accounting policy consequent upon the adoption of an Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, contained in that Accounting Standard. However, disclosures required by paragraph 32 of this Standard should be made unless the transitional provisions of any other Accounting Standard require alternative disclosures in this regard.

Accounting Standard (AS) 11

The Effects of Changes in Foreign Exchange Rates

Objective

An enterprise may carry on activities involving foreign exchange in two ways. It may have transactions in foreign currencies or it may have foreign operations. In order to include foreign currency transactions and foreign operations in the financial statements of an enterprise, transactions must be expressed in the enterprise's reporting currency and the financial statements of foreign operations must be translated into the enterprise's reporting currency.

The principal issues in accounting for foreign currency transactions and foreign operations are to decide which exchange rate to use and how to recognise in the financial statements the financial effect of changes in exchange rates.

Scope

1.This Standard should be applied:

(a) in accounting for transactions in foreign currencies; and

(b) in translating the financial statementso f foreign operations.

2. This Standard also deals with accounting for foreign currency transactions in the nature of forward exchange contracts.1

3. This Standard does not specify the currency in which an enterprise presents its financial statements. However, an enterprise normally uses the currency of the country in which it is domiciled. If it uses a different currency, this Standard requires disclosure of the reason for using that currency. This Standard also requires disclosure of the reason for any change in the reporting currency.

4. This Standard does not deal with the restatement of an enterprise's financial statements from its reporting currency into another currency for the convenience of users accustomed to that currency or for similar purposes.

5. This Standard does not 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 (see AS 3, Cash Flow Statements).

6. This Standard does not deal with exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs (see paragraph 4(e) of AS 16, Borrowing Costs).

Definitions

7. The following terms are used in this Standard with the meanings specified:

7.1 Average rate is the mean of the exchange ratesin force during a period.

7.2 Closing rate is the exchange ra tea t the balance sheet date.

7.3 Exchange difference is the d ifference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

7.4 Exchange rate is the ratiofor exchangeo f two currencies.

7.5 Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

7.6 Foreign currency is a currency other than the reporting currency of an enterprise.

7.7 Foreign operation 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.

7.8 Forward exchange contract means an agreement to exchange different currencies at a forward rate.

7.9 Forward rate is the specified exchange rate for exchange of two currencies at a specified future date.

7.10 Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.

7.11 Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

7.12 Net investment in a non-integral foreign operation is the reporting enterprise's share in the net assets of that operation.

7.13 Non-integral foreign operation is a foreign operation that is not an integral foreign operation.

7.14 Non-monetary items are assets and liabilities other than monetary items.

7.15 Reporting currency is the currency used in presenting the financial statements.

Foreign Currency Transactions Initial Recognition

A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when an enterprise either:

(a) buys or sells goods or services whose price is denominated in a foreign currency;

(b) borrows or lendsfundswhentheamountspayableorreceivable are denominated in a foreign currency;

(c) becomes a party to an unperformed forward exchange contract; or

(d) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable.

Reporting at Subsequent Balance Sheet Dates

(a) foreign currency monetary items should be reported using the closing rate. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realised from, or required to disburse, a foreign currency monetary item at the balance sheet date, e.g., where there are restrictions on remittances or where the closing rate is unrealistic and it is not possible to effect an exchange of currencies at that rate at the balance sheet date. In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realised from, or required to disburse, such item at the balance sheet date;

(b) non-monetary items which are carried in terms o f historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction; and

(c) non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.

Cash, receivables, and payables are examples of monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items. The carrying amount of an item is determined in accordance with the relevant Accounting Standards. For example, certain assets may be measured at fair value or other similar valuation (e.g., net realisable value) or at historical cost. Whether the carrying amount is determined based on fair value or other similar valuation or at historical cost, the amounts so determined for foreign currency items are then reported in the reporting currency in accordance with this Standard. The contingent liability denominated in foreign currency at the balance sheet date is disclosed by using the closing rate.

Recognition of Exchange Differences

Reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise, with the exception of exchange differences dealt with in accordance .An exchange difference results when there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each intervening period up to the period of settlement is determined by the change in exchange rates during that period.

Net Investment in a Non-integral Foreign Operation

Exchange differences arising on a monetary item that ,in substance, forms part of an enterprise's net investment in a non-integral foreign operation should be accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expenses in accordance with paragraph 31.

An enterprise may have a monetary item that is receivable from, or payable to, a non-integral foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension to, or deduction from, the enterprise's net investment in that non-integral foreign operation. Such monetary items may include long-term receivables or loans but do not include trade receivables or trade payables.

Financial Statements of Foreign Operations

Classification of Foreign Operations

The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to the reporting enterprise. For this purpose, foreign operations are classified as either "integral foreign operations" or "non-integral foreign

A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations. For example, such a foreign operation might only sell goods imported from the reporting enterprise and remit the proceeds to the reporting enterprise. In such cases, a change in the exchange rate between the reporting currency and the currency in the country of foreign operation has an almost immediate effect on the reporting enterprise's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items held by the foreign operation rather than the reporting enterprise's net investment in that operation.

In contrast, a non-integral foreign operation accumulates cash and other monetary items, incurs expenses, generates income and perhaps arranges borrowings, all substantially in its local currency. It may also enter into transactions in foreign currencies, including transactions in the reporting currency. When there is a change in the exchange rate between the reporting currency and the local currency, there is little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting enterprise. The change in the exchange rate affects the reporting enterprise's net investment in the non-integral foreign operation rather than the individual monetary and non-monetary items held by the non-integral foreign operation.

The following are indications that a foreign operation is a nonintegral foreign operation rather than an integral foreign operation:

(a) while the reportingenterprisemaycontroltheforeignoperation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting enterprise;

(b) transactions with the reporting enterprise are not a high proportion of the foreign operation's activities;

(c) the activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting enterprise;

(d) costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency rather than in the reporting currency;

(e) the foreign operation's sales are mainly in currencies other than the reporting currency;

(f) cash flows of the reporting enterprise are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operation;

(g) sales prices for the foreign operation's products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation; and

(h) there is an active local sales market for the foreign operation's products, although there also might be significant amounts of exports.

The appropriate classification for each operation can, in principle, be established from factual information related to the indicators listed above. In some cases, the classification of a foreign operation as either a no integral foreign operation or an integral foreign operation of the reporting enterprise may not be clear, and judgement is necessary to determine the appropriate classification.

Integral Foreign Operations

The financial statements of an integral foreign operation should be translated using the principles and procedures as if the transactions of the foreign operation had been those of the reporting enterprise itself.

The individual items in the financial statements of the foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself. The cost and depreciation of tangible fixed assets is translated using the exchange rate at the date of purchase of the asset or, if the asset is carried at fair value or other similar valuation, using the rate that existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when those costs were incurred. The recoverable amount or realisable value of an asset is translated usingtheexchangeratethatexistedwhentherecoverable amount or net realisable value was determined. For example, when the net realisable value of an item of inventory is determined in a foreign currency, that value is translated using the exchange rate at the date as at which the net realisable value is determined. The rate used is therefore usually the closing rate. An adjustment may be required to reduce the carrying amount of an asset in the financial statements of the reporting enterprise to its recoverable amount or net realisable value even when no such adjustment is necessary in the financial statements of the foreign operation. Alternatively, an adjustment in the financial statements of the foreign operation may need to be reversed in the financial statements of the reporting enterprise.

For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable.

Non-integral Foreign Operations

In translating the financial statements of a non-integral foreign operation for incorporation in its financial statements, the reporting enterprise should use the following procedures:

(a) the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation should be translated at the closing rate;

(b) income and expense items of the non-integral foreign operation should be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchanged ifferences should be accumulated in a foreign currency translation reserve until the disposal of the net investment.

For practical reasons, a rate that approximates the actual exchange rates, for example an average rate for the period, is often used to translate income and expense items of a foreign operation.

The translation of the financial statements of a non-integral foreign operation results in the recognition of exchange differences arising from:

(a) translating income and expense items at the exchange rates at the dates of transactions and assets and liabilities at the closing rate;

(b) translating theopeningnetinvestmentinthenon-integral foreign operation at an exchange rate different from that at which it was previously reported; and

(c) other changes to equity in the non-integral foreign operation.

These exchange differences are not recognised as income or expenses for the period because the changes in the exchange rates have little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting enterprise. When a nonintegral foreign operation is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and reported as part of, the minority interest in the consolidated balance sheet.

Change in the Classification of a Foreign Operation

When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.

The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the reporting enterprise may lead to a change in the classification of that 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 differences 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 as 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.

All Changes in Foreign Exchange Rates

Tax Effects of Exchange Differences

Gains and losses on foreign currency transactions and exchange differences arising on the translation of the financial statements of foreign operations may have associated tax effects which are accounted for in accordance with AS 22, Accounting for Taxes on Income.

Disclosure

An enterprise should disclose:

(a) the amount of exchange differences included in the net profit or loss for the period; and

(b) net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

When the reporting currency is different from the currency of the country in which the enterprise is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.

When there is a change in the classification of a significant foreign operation, an enterprise should disclose:

(a) the nature of the change in classification;

(b) the reason for the change;

(c) the impact of the change in classification on shareholders' funds; and

(d) the impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.

The effect on foreign currency monetary items or on the financial statements of a foreign operation of a change in exchange rates occurring after the balance sheet date is disclosed in accordance with AS 4, Contingencies and Events Occurring After the Balance Sheet Date. Disclosure is also encouraged of an enterprise's foreign currency risk management policy.

UNIT- V

1 Define Human Resource Accounting and Explain the objectives of this system

2. Briefly explain the meaning and significance of Human Resource Accounting

3. Explain the various methods of valuation of Human Resources

4. What are accounting standards and explain its objectives

5. What is the need for accounting standards? Discuss the reasons

6. Discuss the scope of accounting Standards

7. List out the International Accounting Standards

8 Explain briefly any five accounting standards

9. Explain the qualitative characteristics of Financial Reporting

10. Discuss the presentation of Financial Statements in detail.

UNIT-V

Expenses incurred by a business enterprise on the recruitment, training and development of workers are considered	Opportunity cost	Imputed Cost	Current Cost	Capital Cost	Capital Cost
Measurement of the value of human resources is based on the __________	Stock concept in accounting	Future profit concept	Ownership concept of an asset	Net profit Concept	Stock Concept in accounting
The prominent among the value based model is the __________	Flamholtx model	Lev and Schwarz Model	Lee and Rosenbloom Model	Rensis Likert Model	Lev and Schwarz Model
M/s. Hekimian and Jones advocate using net present value determination of opportunity cost to arrive at ________	Value of financial assets	Value of Physical Assets	Value of human assets	Value of book asset	Value of human assets
Physical assets are valued on the basis of _________	Stock	Future profit	Ownership	Net profit	Stock
Under traditional accounting, the amount spent on human resources is treated as ___________	Income	Revenue	Expenses	Loss	Expenses
Comparison of human capital with non-human capital will give an idea about the degree of _________	Labour intensiveness	Capital intensiveness	Profit intensive	Revenue intensiveness	Labour intensiveness
Disclosure of Accounting policies is dealt in _______	AS-2	AS-1	AS-5	AS-19	AS-1
Inventories should be valued at ___________	Cost	Net realisiable value	Cost or net realisibale value whichever is less	Book value	Cost or net realisibale value whichever is less
Cash flow statements are discussed under which accounting standards_______	AS-8	AS-4	AS-5	AS-3 (Revised)	AS-3 (Revised)
Extraordinary items are dealt in under which accounting standard?	AS-5	AS-2	AS-1	AS-10	AS-5
Deferred Revenue and Development Expenditure is shown in the Balance Sheet under the head	Fixed Assets	Miscellaneous Expenditure	Current Assets	Investment	Miscellaneous Expenditure
Assets which are acquired for own use and not for resale are known as :	Fixed Assets	Wasting Assets	Current Assets	Fictitious Assets	Fixed Assets

An investment in land and building that are not intended to be occupied substantially for use by or in the operations of, the investing enterprise is termed as _________	Current investment	Long term investment	Investment in property	short term investment	Investment in property
If the amount of purchase consideration is lower than the value of the net assets acquired, the difference should be treated as _________	Goodwill	Capital Reserve	Revenue Reserve	Special Reserve	Capital Reserve
The revenue from sales to external customers as reported in the profit and loss account is known as ________	Enterprise revenue	Segment Revenue	Segment Assets	Segment Liabilities	Enterprise revenue
A lease that transfers sustainability all the risks and rewards incidents to ownership of an asset is called _______	Operating lease	Non-cancellable lease	Finance Lease	Business Lease	Finance Lease
Dilutive potential equity shares represent shares which __________	Will be issued in future	are already issued	are the shares of promoters	are issued to employees freely	Will be issued in future
A discounting operation as per AS-24 represents	Liquidation of an enterprise	Discontinuation of an component of a business	Merger of enterprises	Amalgamation	Discountinuation of an component of a business
Amortisation of an intangible asset means	Purchasing asset	Selling asset	Recording the asset in books	Writing off over estimate	Writing off over estimate
Social Responsibility accounting is ____	Statutory requirement	Legal Requirements	Voluntary Disclosures	Conditional Requirements	Voluntary Disclosures
Social Responsibility accounting communicated about a firm's	Social Performance	Financial Performance	Operational Efficiency	Business Efficiency	Social Performance
Social Income statement reveals social benefits and	Values	Objectives	Norms	Costs	Costs
Social Income Statement reveals social benefits and cost to the staff, community and	Government	Industry	General Public	Customers	General Public
Social Balance Sheet contains social capital investments, other social assets and ______	Human assets	Fixed assets	Floating assets	Intangible assets	Human Assets

Accounting standards Board (ASB) was constituted on __________	21.4.1997	21.5.1997	21.8.1997	21.10.1997	21.4.1997
______ are inflows and outflows of cash and cash equivalent	Cash Flows	Business Activities	Finance Activities	Operating Activities	Cash Flows
________ is original and planned investigation undertaken with the hope of gaining new scientific knowledge	Research	Investigation	Selection	Process	Research
A_________ is an investment that is by its nature readily realisible and is intended to be held for not more than one year from the date on which such investment is made	Current investment	Long term investment	Investment in property	short term investment	Current investment
_______ company means the company which is amalgamated into another company	Transferor	Transferee	Selling Company	Purchasing Company	Transferror
_________ means the company into which a transferor company is amalgamated	Transferor	Transferee	Selling Company	Purchasing Company	Transferee
______ is a method of recognising the cost of retirement benefits only at the time payment are made to employees on or after their retirement	Pay when you purchase	Payment at the time of retirement	Pay as you go	Costs	Pay as you go
__________ are interested and other costs incurred by an enterprise in connection with the borrowing of funds	Borrowing cost	Buying cost	Operation cost	Performance Cost	Borrowing Costs
A_________ is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale	Fixed Assets	Qualifying Assets	Performing Assets	Permanent Assets	Qualifying Assets
The difference between segment revenue and segment expenses is __________	Profit	Operating Profit	Operating Result	Segment Reseult	Segment Reseult

An enterprise which is under the control of the Central Government and or / any State Government is known as ______	Government Companies	State Controlled Enterprise	Corporation Company	Non- Governmental Company	State Controlled Entreprise
________ of a lease asset is the estimated fair value of the asset at the end of the lease term	Lease Value	Residual Value	Estimated Value	Expected Value	Residual Value
Consolidated financial statements are usually prepared by a parent company, merging the accounting data of itself and its _________	Holding Company	Subsidiaries	Purchasing Company	Selling Company	Subsidiaries
The Tax effect on Timing difference is called ______ Tax	Deferred Tax	Advance Tax	Un paid tax	Expected Tax	Deffered Tax
An asset is an impaired asset, if carrying amount of the asset exceeds the amount that can be________	Paid	Collected	Refunded	Unpaid	Recovered
The pooling of Interest method is specially applied for	Amalgamation in the nature of merger	Amalgamation in the nature of purchase	Absorption	Reconstruction	Amalgamation in the nature of merger
The Accounting Standards are in the nature of _____	Rules	Act	Laws	Policies	Laws
______ Requires disclosure of non-cash financing and investing activities as a foot note	AS-8	AS-4	AS-5	AS-3 (Revised)	AS-3 (Revised)
As per ______ effect of prior period item should be disclosed in profit and loss account	AS-2	AS-1	AS-5	AS-19	AS-5
Accounting for investments in association has to be usually accounted under the _______ Method	Equity	Acquisition	Current investment	Long term investment	Equity
_______ reports provides information under the same major headings as in an annual Financial Statements	Consolidated	Interim	Half-yearly	Short term	Interim

In India the responsibility of developing accounting standards is undertaken by the ACB of the institute of ________	Chartered Accountants	Cost Accountants	Chartered Secretaries	Cost Secretaries	Chartered Accountants
Gross profit, Operating Profit and Net Profit are separately revealed in a ____	Single Step Income Statement	Double Step Income Statement	Financial Statements	Multi Step Income Statements	Multi Step Income Statements
Balance Sheet Equation is _____	Liabilities + Assets = Equity	Assets + Equity = Liabilities	Assets = Liabilities + Equity	Assets + Equity+ Liability=0	Assets = Liabilities + Equity
Fixed Assets are shown in Balance Sheet at	Their Original Cost	Original Cost less Depreciation	Cash Receipts alone	Cash Payments Alone	Cash Receipts Alone
Cash Flow Statement reveals	Net Cash Flow During a period	Cash Profit	Cash Receipts alone	Cash Payments Alone	Net Cash Flow During a period
Accounting Standards Board (ASB) of the ICAI is entrusted with the responsibility of Developing Accounting	Rules	Policies	Standards	Procedures	Standards
All those who are interested in Financial Report of Business Enterpreses are known as user group or ________	Government	Stake Holders	Customers	Public	Stake Holders
The Fundamental assumption of 'going concern' presumes that the enterprise will continue operations for the Forseeable_______	Current	Previous years	Future	past periods	Future
A Balance Sheet can be presented in Horizontal form or ________	Assets form	Liability form	Account Form	Vertical Form	Vertical Form
Income Statement can be Single step statement or _________	Triple Step Income Statement	Double Step Income Statement	Financial Statements	Multi Step Income Statements	Multi Step Income Statements
Financial Reporting reveals the results of __________ of an enterprise	Operations and Financial position	Financial Performance	Operating Result	operating performance	Operations and Financial position
_________ are the guidelines and norms relating to a particular aspect of accounting determined by ASB of the Institute of Chartered Accountants of India	Accounting policies	Accounting procedures	Accounting Standards	Accounting Rules	Accounting Standards

________ form of Balance Sheet is usually followed in all Statutory Forms of final Accounts	Horizontal	Vertical	Statement form	Account form	Vertical
Net Social Income to staff is the difference between social benefit to staff and social ________ to staff	Income	Revenue	Cost	Expenditure	Cost

Register No: ______
[15CMU501]

KARPAGAM UNIVERSITY
(Establishment Under Section 3 of UGC Act 1956)
Coimbatore-641021
(For the candidates admitted from 2015 onwards)
FIRST INTERNAL TEST, JULY 2017
III.B.COM – V SEMESTER
ADVANCED CRPORATE ACCOUNTING

Time:2Hours
Date & Session: **Max: 50 Marks**

SECTION A (20 X 1 = 20)

Answer all questions

1. The percentage of profit to be transferred to statements reserve by the Banking company is:
   a) 25% b)15% c) 20% d)10%
2. Rebate on bills discounted is:
   a) An Accrued incomeb) an item of income
   c) a liability d) income received in advance
3. Letter of credit and endorsement are shown in the Bank accounts under the head:
   a) Bills payable b) Contingent liabilities
   c)ills for collection d) other assets
4. A Non-Banking asset is a
   a) an investment b) an item of office appliance
   c) Any asset acquired from the debtors in satisfaction of claims.
   d) Money at call and short notice
5. The heading other assets does not include:
   a)Stationary and stamps b)Interest accrued
   c) Gold d) Silver
6. Every Banking company is required to close its accounts on:
   a) 31st December b)31st March
   c) 30th June d) 30th September
7. Lockers rent is shown in the P&L a/c of a Bank under the head
   a) Schedule 11 b) Schedule 10
   c) Schedule 9 d) Schedule 6
8. Schedule 13 relates to
   a) Interest earned b) interest paid
   c) investment d) expenses
9. Banking companies are governed by the Banking Regulation Act
   a) 1944 b) 1994 c) 1949 d) 1945
10. Provision of income tax is shown in the Bank a/c under the head
    a) Borrowings b) Other liabilities
    c) Operating expenses d) Contingent liabilities
11. Banks in India are under the general supervision of
    a) RBI b) SEBI c) Central Govt d) State Govt
12. A valuation of balance sheet is prepared by
    a) Joint Stock Company b) Banking Company
    c) Life insurance Company d) General insurance Company
13. The Commission paid by the re-insurer is known as
    a) Commission on direct business
    b) Commission on re-insurance
    c) Commission on re-insurance accepted
    d) Commission received
14. The percentage of profit of life business to be distributed to policy holders is:
    a) 95% b) 100% c) 50% d) 40%
15. Losses of theft are covered by __________ insurance
    a) Accident insurance b) Life insurance
    c) Marine insurance d) other insurance
16. Insurance business in India is now regulated by the provision of
    a) The insurance Act 1938 b) The IRDA Act 1999
    c) The Banking Regulation Act 1949
    d) The Indian Company Act 1956
17. Claims paid by life insurance companies is shown in
    a) Schedule 1 b) Schedule 2
    c) Schedule 3 d) Schedule 4
18. In Life insurance, the policy amount is payable
    a) after the death of assured
    b) after the expiry of the policy period

c) on death of the insured or on expiry of policy which is earlier
d) only when the insured has incurred loss

19. Lease hold ground Rents are shown in

a) Revenue a/c   b) P%L a/c
c) Schedule 8 investment   d) Schedule 9 loans

20. Every year, the accounting year of every insurance company is to end on

a) 31^{st} March   b) 31^{st} December
c) 31^{st} August   d) 1^{st} January

SECTION-B (3 x 10 = 30)

Answer all questions

21. a) What is Statuary Reserve? How is it created?

(Or)

b) The Trail Balance of the ICBC Bank Ltd., as on 30^{th} June 1984 shows the following balances.

	Rs.
Interest and Discount	45,40,600
Rebate on bills discount(1.7.83)	4,750
Bills Discounted and purchased	3,37,400

The unexpected discount as on 30.6.84 is estimated to be Rs. 5,560. Draft necessary adjusting entries and calculate the amount of interest and discount to be credited to profit and Loss Account.

22. a) From the following particulars, prepare a profit and loss A/C of new Bank Ltd., for the year ended 31.12.1996.

	Rs.(in'000)		Rs.(in'000)
Interest on loans	260	Interest on cash credits	225
Interest on fixed deposits	280	Rent and Taxes	20
Rebate on Bills Discount	50	Interest on Overdrafts	56
Commission Charged to Customers	9	Director & Auditor's fees	4
		Interest on Savings-Bank a/c	70
Establishment expenses	56	Postages and Telegrams	2
Discount on bills discounted	200	Sundry charges	2
		Interest on current accounts	45
		Printing and Advertisements	3

(Or)

b) The following is the Trail balance of the Mayas Nagari Bank Ltd., as on 31.12.1984.

Credit balances	Rs.	Debit balances	Rs.
Share Capital	1,15,00,000	Silver	13,00,000
Statuary reserve	1,15,00,000	Cash in hand	40,30,000
Saving accounts	1,76,24,000	Provident fund investment	10,00,000
Demand Draft	13,40,000		
Rebate on bills Discounted1.1.84	2,90,000	Other investments in govt Securities	40,00,000
Interest and Discount	1,44,00,000	Buildings	56,92,700
Commission	18,00,000	Depreciation on building	4,10,300
Locker rent	1,00,000	Bad debts	80,000
Cash certificates	30,00,000	Cash credits & overdrafts	40,00,000
Traveler's cheques	8,00,000	Furniture	64,00,000
Provident fund	10,00,000	Stationary stock	51,000
Interest on P.F. invest	1,00,000	Balance with Rajkot Bank	10,00,000
Income tax deducted at source from employee's salary	10,000	Balance with RBI	30,00,000
Fixed Deposits	1,12,00,000	Loans	3,00,00,000
Current accounts	45,00,000	Bills purchased and discounted	10,00,000
		Interest on deposits	60,00,000
		Salaries	80,00,000
		Contribution to P.F	8,00,000
		Gold	24,00,000
	7, 91, 64,000		7,91,64,000

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23. a) The life Assurance Fund of an Insurance Company on 31.3.2006 showed a balance of Rs. 87,76,500. It was found later that the following were not taken into account.

	Rs.
Dividend from investment	4,80,000
Income tax on above	48.000
Bonus in reduction of premium	8,77,500
Claims covered under re-insurance	4,23,000
Claims intimated but not accepted by the company	7,62,000

Ascertain the correct balance of fund.

b) What are the types of Insurance?

****

Reg No ……………………….
[15CMU501]

KARPAGAM UNIVERSITY
Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
(For the candidates admitted from 2015 onwards)
B.Com., DEGREE EXAMINATION, NOVEMBER - 2017
SECOND INTERNAL TEST, AUGUST 2017
COMMERCE (PROFESSIONAL ACCOUNTING)
ADVANCED CRPORATE ACCOUNTING

Time: 2 hours
Maximum : 50 marks

Date & Session:

SECTION - A (20X 1 = 20 Marks)
CHOOSE THE CORRECT ANSWER

1. The General insurance policies have a life time of ___________
a) one year b) two years c) three years d) four years

2. Revenue A/c consists of _________ schedules
a)1 b) 2 c) 3 d) 4

3. __________ can be made by policy holders at any time during the one year when the policy is in force in general insurance
a) Premium b) Revenue c) Claims d) Surrender

4. __________ is the commission payable by an insurance company to another insurance company for the reinsurance business provided by it
a) Commission on reinsurance accepted
b) commission on reinsurance ceded
c) Commission
d) Claims

5. Schedule1 deals with __________
a) Premium b) Claims
c) Commission d) operating expenditure

6. Schedule 2 deals with __________
a) Premium **b) Claims**
c) Commission **d) operating expenditure**

7. A holding company is one which holds more than ____
a) 2/3rd share capital of subsidiary
b) 50% of share capital of subsidiary company
c) 75% of share capital of subsidiary company
d) 40% of share capital of subsidiary company

8. A company in which more than 50% of shares are held by another company is termed as _____
a) Holding company b) Subsidiary Company
c) Govt. Company d) Public Company

9. Profits earned by a Subsidiary company upto the date of acquisition of shares by the holding company are called______
a) Revenue profit b) Capital Profit
c) Revaluation Profit d) Realisation Profit

10. Profits earned by a Subsidiary company after date of purchase of shares by the holding company are called______
a) Revenue profit b) Capital Profit
c) Revaluation Profit d) Realisation Profit

11. The Term Minority Interest represents_____
a) The Shareholders holding 50% of shares in Subsidiary Co.
b) The interest of the outsides in the Subsidiary Co.
c) The Company which holds more than 51% of shares in Subsidiary Co.
d) The Company which holds n 40% of shares in Subsidiary Co.

12. The excess price paid by a holding company to acquire controlling interest in the subsidiary company is transferred to _______
a) Capital Reserve b) Goodwill A/c
c) Revenue Reserve d) Cost of Control

13.The excess of the shares in equity or net assets of the subsidiary over and above the price paid for the investment is shown as _________
a) Capital Reserve b) Goodwill A/c
c) Revenue Reserve d) Cost of Control

14. Unrealized profit included in Stock is ____
a) Deducted from stock in combined Balance sheet
b) Deducted from P&L A/c balance in combined Balance sheet liabilities side
c) Deducted from stock and P&L a/c balance in combined balance sheet
d) Shown separately in assets side of CBS

15. Any loss or profit on revaluation of assets and outside liabilities is Treated as__
a) Revenue profit/loss
b) Ignored in CBS
c) Capital Profit/loss and adjusted in the respective asset/liabilities in combined balance sheet
d) Shown separately in liabilities side of CBS

16. While preparing the consolidated Balance Sheet investment of the holding company in equity shares of the subsidiary is replaced by the ____ of the balance sheet
a) Assets b) Liabilities
c) Both assets and liabilities side d) Profit and loss

17. A company should purchase more than _________ shares of another company in order to become a holding company
a) 25% **b) 50%** c) 75% d) 100%

18. The profit included in the closing stock on the date of consolidation is known as _________
a) Unrealised profit b) Post Acquisition profit
c) Pre acquisition loss d) Pre acquisition profit

19. Minority interest is shown on the _________ side of the consolidated balance sheet
a) Liabilities b) Assets
c) Not shown d) Shown in separate schedule

20. Contingent liability is shown as a ______in CBS
a) Foot note b) Miscellaneous
c) Other asset d) Other Liabilities

SECTION-B (3 x 10 = 30)
Answer all questions

21.a) From the following balances of United General Insurance Co. Ltd. as on 31.3.2006 prepare: i) Fire revenue A/c ii)Marine revenue A/c and iii) Profit and Loss A/c

		Rs. ('000)		Rs. ('000)
Provision for unexpired risk			Interest, dividends, etc.	28
on 1.4.05: Fire		500	Difference in exchange(Cr)	6
	Marine	1,640		
Additional reserve on			Miscellaneous receipts	10
1.4.05:	Fire	100	Profit on sale of land	120
Bad debts:			Premium received:	
	Fire	10	Fire	1,200
	Marine	24	Marine	2,160
Auditor's fees		24	Expenses of management	
Director's fees		10	Fire	290
Share transfer fees		16	Marine	800
Bad debts recovered		24	Commission earned on	
Claims paid & outstanding:			reinsurance ceded:	
Fire		380	Fire	60
Marine		760	Marine	120
Commission paid: Fire		180		
Marine		216		
Depreciation		70		

Provision for unexpired risk is to be kept at 50% of the premiums for fire and at 100% for marine departments. The additional reserve in case of fire insurance is to be increased by 5% of the net premium.

(OR)

b) Prepare, in the proper statutory form, the revenue account of the Jai Hind Life Assurance Co. Ltd., for the year ended 31st March 2006 from the following figures.

Claims by death	76140	Exp. of management	31,920
Claims by maturity	30,110	Commission	9574
		Interest, dividend	

Premiums	7,05,690	and rent	97840
		Income tax	
Transfer fees	129	thereon	35710
		Bonus in	
Consideration for		reduction of	
annuities granted	82,127	premium	980
		Dividend paid to	
Annuities paid	53,461	shareholders	5,500
		Life assurance	
Bonus paid in cash	2,416	fund (1.4.2005)	15,21,000
		Surrenders	13140

Paid up share capital of the above life assurance company is Rs. 5,00,000 thousands and net liability as per actuary's valuation is Rs. 11,05,000 Thousands as on 31.3.06.

22.a) On 31st March, 1996 the balance sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Equity share Capital	8,00,000	2,00,000	Fixed Assets	5,50,000	1,00,000
General Reserve	1,50,000	70,000	75% shares in S Ltd. (at cost)	2,80,000	-
P & L A/c	90,000	55,000	Stock	1,05,000	1,77,000
Creditors	1,20,000	80,000	Other assets	2,25,000	1,28,000
	11,60,000	4,05,000		11,60,000	4,05,000

Draw a consolidated Balance Sheet as at 31st March, 1996 after taking into consideration the following information:

i) H Ltd. acquired the shares on 31st July, 1995.

ii) S Ltd. earned profit of Rs. 45,000 for the year ended 31st March, 1996. iii)In January 1996 S Ltd. sold to H Ltd. goods costing Rs. 15,000 for Rs. 20,000.

On 31st March, 1996 half of these goods were lying as unsold in the godown of H Ltd.Give your working notes.

(OR)

b) The Balance sheet of C Ltd and D Ltd. as at 31st Dec, 1986 are as follows:

Liabilities	C Ltd Rs.	D Ltd Rs.	Assets	C Ltd Rs.	D Ltd Rs.
Share capital (in Shares of Rs.10 Each)	2,00,000	1,00,000	Sundry Assets	1,32,500	1,38,200
General reserve	18,000	20,000	Goodwill	-	20000
P & L A/c	24,500	23,000	Shares in D Ltd. at Cost	1,40,000	-
Creditors	30,000	15200			
	2,72,500	1,58,200		2,72,500	1,58,200

In the case of ‘D’ Ltd., profit for the year ended 31st December 1986 is Rs, 12,000 and transfer to reserve is Rs. 5,000. The holding of C Ltd., in D Ltd is 90% acquired on 30th June 1986.

Draft a consolidated Balance Sheet of ‘C’ Ltd. and its subsidiary.

23.a) The Balance sheets of H Ltd., and S Ltd. on 31st Dec 1990 were as follows:

Liabilities	H Ltd. Rs.	S Ltd Rs.	Assets	H Ltd. Rs.	S.Ltd Rs.
Share capital: 10% pref.shares Of Rs.100 each		1,00,000	Land & Building	3,10,000	1,60,000
Equity shares of Rs. 100 each	10,00,000	4,00,000	Machinery Less 10% depn.	2,70,000	1,35,000
General Reserve	1,00,000	50000	3000 shares in SLtd	4,50,000	
P & L A/c balance On 1.1.90	40,000	30,000	Stock at cost	2,20,000	1,50,000
Profit for 1990	2,00,000	80,000	Debtors	1,55,000	90000
Creditors	1,50,000	70,000	Cash & Bank Balance	85,000	1,95,000
	14,90,000	7,30,000		14,90,000	7,30,000

‘H’ Ltd. acquired 3,000 equity shares in ‘S’ Ltd. on 1st July 1990. As on the date of acquisition, ‘H’ Ltd., found that the value of Land and Buildings and Machinery of ‘S’Ltd., should be Rs. 1,50,000 and Rs. 1,92,500 respectively.

Prepare the consolidated Balance Sheet of ‘H’ Ltd. and its subsidiary ‘S’ Ltd. showing the assets at their proper values.

(OR)

b) Write short notes on Holding company and Subsidiary Company.

Reg No………………………….

[15CMU501]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education

(Established Under Section 3 of UGC Act 1956)

COIMBATORE- 641 021

(For the candidates admitted from 2015 onwards)

MODEL EXAMINATION, SEPTEMBER – 2017

III B.Com – Fifth Semester

COMMERCE

ADVANCED CORPORATE ACCOUNTING

Time: 3 hours Maximum : 60 Marks

Date:

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1 Building acquired in satisfaction of a claim and interest accrued but not due on investments are shown in the Banks Balance sheet under the head

(a) Fixed Assets (b) Investments

(c) Advances (d) Other assets

2 The Percentage of profit to be transferred to statements reserve by the banking company is

(a) 25% (b) 15%

(c) 20% (d) 10%

3. The heading other assets does not include

(a) Stationery and stamps (b) Interest accrued

(c) Gold (d) Silver

4. A Non-banking asset is ________________

(a) An investment

(b)Any asset acquired from the debtors in satisfaction of claims

(c) An item of office appliance

(d) Money at call and short notice

5.Insurance business in India is now regulated by the provision of

(a) The Banking Regulations Act 1949 (b) The IRDA Act 1999

(c)The Insurance Act 1938 (d) The Indian Companies Act 1956

6. Number of Schedule to be prepared by the insurance companies for their financial statements is

(a) 26 Schedules (b) 10 Schedules

(c) 12 Schedules (d) 15 Schedules

7.In life insurance the policy amount is payable
(a) After death of the assured
(b) After the expiry of the policy period
(c) On death of the insured or on expiry of policy period whichever is earlier
(d) Only when the insured has incurred loss

8.In General insurance, the policy amount is payable
(a)After death of the assured
(b)After the expiry of the policy period
(c)Only when the loss occurs or the liability rises
(d)Only when the insured has attained a certain age

9.Dividends paid out of capital profit must be credited to _______ a/c by the holding company
(a) Investment (b) Revenue
(c) Profit and loss A/c (d) Dividend

10. Interim dividend pertaining to pre-acquisition period is adjusted to
(a) Cost of Control (b) Minority Interest
(c) Good will (d) Capital Reserve A/c

11. While preparing the consolidated Balance sheet investment of the holding company in equity shares of the subsidiary is replaced by the _____ of the balance Sheet
(a) Assets (b) Liabilities (c) Both assets and liabilities side d) Profit and loss

12. Profits earned by a Subsidiary company after date of purchase of shares by the holding company are
(a) Revenue Profit (b) Capital Profit
(c) Revaluation Profit (d) Realization Profit

13. Under double account system, depreciation is _________
(a) Debited to revenue A/c
(b) Debited to Net Revenue A/c
(c) Credited to the asset A/c
(d) Credited to depreciation found A/c

14. Receipts and Expenditure on capital account is also known as
(a) Capital A/c (b) Current A/c
(c) Revenue A/c (d) Net Revenue A/c

15. The balance of capital account represents excess/ shortage of investment in fixed assets out of ____________ Sources
(a) Long Term (b) Permanent
(c) Short Term (d) Floating

16. When an asset is replaced, any amount realized on sale of material will be credited to
(a) Net Revenue (b) Revenue Account
(c) Asset A/c (d) Replacement A/c

17. Physical assets are valued on the basis of _______

(a) Stock (b) Future Profit

(c) Ownership (d) Net Profit

18. Under Traditional accounting, the amount spent on human resources is treated as _________

(a) Income (b) Revenue

(c) Expenses (d) Loss

19. Comparison of human capital with non - human capital will give an idea about the degree of

(a) Labour intensiveness (b) Capital intensiveness

(c) Revenue Intensiveness (d) Profit intensiveness

20.Deferred Revenue and Development Expenditure is shown in the Balance Sheet under the Head

(a) Fixed Assets (b) Miscellaneous Expenditure

(c) Current Assets (d) Investment

Section – B (5X8=40 Marks)
Answer All The Questions

21. a) The following are the ledger balances of X Bank Ltd. Prepare the Profit and Loss Account and Balance Sheet as on 31st March 2008, as per the requirements of the Banking Regulations Act.

	Rs.
Share Capital 20,000 shares of Rs. 1,000 each Rs. 100 paid	20,00,000
Reserve Fund Investment	10,00,000
General Expenses	1,82,000
Current Account	2,02,44,000
Interest paid	1,61,000
Savings Bank Accounts	29,20,000
Fixed Deposits	40,00,000
Profit and Loss Account, Balance brought forward	2,30,000
Discount received	1,80,000
Rebate on bills Discounted	64,000
Commission, exchange and Brokerage	44,000
Cash	2,27,000
Interest Received	5,32,000
Cash with RBI	20,12,000
Owing by foreign correspondents	2,00,000

Short loans	64,82,000
Loans and Advances to customers	1,55,85,000
Investments	92,83,000
Bills Discounted	62,28,000
Premises	62,28,000

Additional information

1. Provision for bad and doubtful debts required Rs. 1,29,000
2. The bank had bills for collection for its constituent Rs. 5,00,000 and Acceptance and guarantees Rs.16,00,000
3. The Profit and Loss Account balance is the balance left on that account after the payment of interim dividend amounting to Rs. 2,00,000.

(OR)

b) The following is the Trial Balance extracted from the books of Town Bank Ltd.

Debit Balances	Rs.	Credit Balances	Rs.
Balances with banks	46,350	Share Capital	3,00,000
Investment in Government bonds	1,94,370	Security deposit of employees	15,000
Other investment	1,55,630	SB Accounts	7,420
Gold Bullion	15,130	Current Accounts	97,000
Interest accrued on investment	24,620	Fixed Deposits	1,13,050
Silver	2,000	Reserve Fund	1,40,000
Constituent liability for acceptance	56,500	Borrowings from banks	77,230
Buildings	65,000	Profit and Loss A/c	6,500
Furniture	5,000	Bills for collection	43,500
Money at call	26,000	Acceptance and Endorsement	56,500
Loans	2,00,000	Interest	72,000
Bills Discounted	12,500	Commission	25,300
Interest	7,950	Discounts	42,000
Bills for collection	43,500	Rent	600
Audit Fees	5,000	Profit on Bullion	1,200

Loss on sale of furniture	1,000	Miscellaneous Income	2,700
Director's Fees	1,200	Accumulated Depreciation on building	20,000
Salaries	21,200		
Postage	50		
Managing Director's Remuneration	12,000		
Loss on sale of investment	30,000		
Cash in hand	25,000		
Cash with RBI	50,000		
Branch Adjustment	20,000		
	10,20,000		**10,20,000**

You are required to prepare profit and loss account and balance sheet after taking into consideration the following

a. Bad debts Rs. 500
b. Rebate on bills Rs. 1,000
c. Current year's depreciation on building Rs. 2,000
d. Some current accounts are overdrawn to the extent of Rs. 25,000 and total of credit balance is Rs. 1,22,000

22.a) From the following balances as on March 31, 2008 in the books of General Insurance Co. Ltd, Prepare a Revenue Account in respect of their Fire Insurance Business

Particulars	Rs.	Particulars	Rs
Claims paid	4,80,000	Claims outstanding on April 2007	40,000
Claims intimated and accepted. But not paid on March 31, 2008	70,000	Premium Received	12,00,000
Reinsurance Premium Received	1,20,000	Commission	2,00,000
Commission on reinsurance ceded	8,000	Commission on reinsurance accepted	4,000
Expenses of management	3,02,000	Provision for unexpired risk on April 2007	4,00,000
Additional provision for unexpired risk on April 2007	20,000	Bonus utilized in reduction of premium	12,000
Reinsurance recoveries of claims	8,000	Medical expenses regarding claims	5,000
Loss on sale of motor car	3,500	Bad debts	2,500
Refund of double taxation	4,500	Interest and dividend	8,000
Income tax deducted thereon	1.500	Legal expenses regarding claims	4,000
Profit on sale of Investments	3,500	Rent of Staff Quarters deducted from salaries	2,400
Depreciation	4,600		

You are required to prepare for additional reserve for unexpired risk at 1% of net premium in addition to the opening balance of additional reserve.

(OR)

b) From the following balances of Safety Insurance Co. Ltd as on March 31, 2008.
Prepare (i) Fire Revenue Account (ii) Marine Revenue Account (iii) Profit and Loss Account

	Rs.		Rs.
Bad Debts (fire)	10,000	Depreciation	70,000
Bad Debt (Marine)	24,000	Interest , dividend received	28,000
Auditor's fees	6,000	Difference in exchange(cr)	600
Director's fees	6.400	Miscellaneous Receipts	10,000
Share transfer fees	1,600	Profit on sale of land	1,20,000
Bad debts recovered	2,400	Fire Premium less reinsurance	12,00,000
Reserve (fire on 1.4.2007)	5,00,000	Marine Premium less reinsurance	21,60,000
Reserve (Marine on 1.4.2007)	16,40,000	Management Expenses (fire)	2,90,000
Claim paid and outstanding (fire)	3,80,000	Management Expenses (Marine)	8,00,000
Claims paid and outstanding (marine)	7,60,000	Commission earned on reinsurance ceded (fire)	60,000
Commission paid (fire)	1,80,000	Commission earned on reinsurance ceded (Marine)	1,20,000
Commission paid (marine)	2,16,000	Additional reserve (fire) on 1.4.2007	1,00,000

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

23. a) Balance sheets as on 31st March 2009.

Liabilities	H Rs.	S Rs.	Assets	H Rs.	S Rs.
Share Capital in Re. 1 fully paid shares	12,000	5,000	Sundry assets	20,000	8,000
Reserve	5,000	1,000	Investment A/c 5,000 Shares of S Ltd.	6,500	–
P&LA/c	2,000	1,000			
Sundry Liabilities	7,500	1,000			

Total	26,500	8,000	Total	26,500	8,000

Shares were acquired by H Ltd. on 30th September 2008. S Ltd. Transferred Rs. 500 from profits to reserve on 31st March, 2009.Prepare the consolidated balance sheet.

(OR)

b) The following are the Balance Sheets of R Ltd. and S Ltd. as at 31st March, 2010.

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital:			Fixed Assets	5,00,000	2,40,000
Equity Shares of Rs. 10 each, fully paid up	4,00,000	1,50,000	Investment in 15,000 equity shares in S Ltd. in April 1, 2009	2,00,000	_
14% Preference, shares of Rs. 100 each, fully paid up	_	1,00,000	Current Assets (including Rs. 10,000 stock-in-trade purchased from R Ltd.)	3,00,000	2,60,000
General Reserve	50,000	40,000			
Profit and Loss A/c (before appropriation for dividends)	30,000	25,000			
14% Debentures	2,00,000	--			
Current Liabilities and Provisions	3,20,000	1,85,000			
Total	10,00,000	5,00,000	Total	10,00,000	5,00,000

Prepare the Consolidated Balance Sheet as at 31st March, 2010, assuming that
(a) S Ltd's General Reserve and Profit and Loss Account (after appropriation for dividends) stood at Rs. 25,000 and Rs. 10,000 respectively on April 1, 2009 and
(b) R Ltd. Sells goods at a profit of 25%on cost.

24. a) The following are the balances on 31st March, 2008 in the books of the electric power and Light Co. Limited:

	Dr	Cr
Cost of Generation of Electricity	14,000	
Cost of Distribution of Electricity	2,000	
Rent, Rates and Taxes	2,000	

Management	4,800	
Depreciation	8,000	
Sale of Current		52,000
Rent of Meters		2,000
Interest on Debentures	4,000	
Interim Dividend	8,000	
Balance of Net Revenue Account, April 1, 2007		11,400

From the above Balances, prepare Revenue Account and Net Revenue Account.

(OR)

b) An Electric Supply Co. rebuilt its Mains at the cost of Rs. 19,90,000. This includes value of Rs.13,800 material of old Mains used for new one. The original Mains were constructed at a cost of Rs. 9,90,000. The ratio of material and labour was 7:3. The increase in material prices is 12½% and wage rates 15%. Material worth Rs. 25,200 from old works was sold. Show journal entries under Double Account System for the above and determine the net cost of replacement.

25.a) Explain the various methods of valuation of Human Resources

(OR)

b) Explain briefly any five accounting standards

Reg. No.................................

[12CMU501]

KARPAGAM UNIVERSITY

(Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2012 onwards)

B.Com. DEGREE EXAMINATION, JANUARY 2015

Fifth Semester

COMMERCE

ADVANCED CORPORATE ACCOUNTING

Time: 3 hours　　　　　　　　Maximum : 100 marks

PART – A (15 x 2 = 30 Marks)
Answer ALL the Questions

1. From the following information find out the amount of provision to be shown in the profit and loss account of a Commercial Bank

Assets	Rs. In Lakhs
Standards	8,000
Substandard	6,000
Doubtful:	
For one year	1,000
For three years	1,600
For more than 3 years	400
Loss assets	1,200

2. Calculate the net profit earned by Annriya Bank Ltd. from the data given below for the year ended 31-03-2003.

Particulars	Rs.
Interest earned	5,00,000
Other incomes	37,000
Interest expended	3,40,000
Operating expenses	1,05,000

3. On 31.12.96 Popular Bank Ltd has the following bill in its portfolio. All the bills are discounted at 5%

Amount in Rs.	Due date
50,000	31.1.1997
40,000	30.4.1997

Calculate rebate on bills discounted, assuming accounts are closed on 31st December.

4. Calculate the net claim to be debited to Revenue a/c of Insurance Company.

Particulars	Rs.
Claims paid for the year ended 31.03.06	5,75,000
Claims outstanding on 01.04.05	55,000
Claims outstanding on 31.03.06	98,000
Claims covered under reinsurance	28,000

5. A Life Assurance Company prepared its Revenue A/c for the year ended 31.03.06 and ascertained its Life Assurance fund to be Rs.28,35,000. It was found later that the following had been omitted from the accounts.
   a) Interest accrued on investments Rs.39,000
   b) Income tax liable to be deducted thereon is estimated to be Rs.10,500
   c) Outstanding premiums Rs.32,800
   d) Claims intimated but not admitted Rs.17,400
   What is the true Life Assurance Fund?

6. From the following, you are required to calculate the amount on account of claim to be shown in the Revenue A/c for the year ending 31st March 2006.

Intimated in	Admitted in	Paid in	Rs.
2004-05	2004-05	2005-06	15,000
2005-06	2005-06	2006-07	10,000
2003-04	2004-05	2004-05	5,000

Claim on account of reinsurance in 2005-06 was Rs.25,000.

7. 'M' Ltd. has capital of Rs.2,00,000 in shares of Rs.100 each out of which 'N' Ltd. purchased 75% of the shares at Rs.2,40,000. The profits of 'M' Ltd. at the time of purchase of shares by 'N' Ltd were Rs.1,10,000. 'M' Ltd decided to make a bonus issue out of pre acquisition profit of one share for ever five shares held.
   Calculate the cost of control of acquiring shares of 'M' Ltd. before the issue of bonus shares.

8. P Ltd. acquired 65% shares of Q Ltd. on 1-10-02. Profit and Loss a/c in the books of Q Ltd. showed a debit balance of Rs.40,000 on 01-04-02. On 31-03-03, the Balance sheet of Q Ltd. showed Profit and Loss a/c balance of Rs.1,20,000. Calculate revenue profits.

9. H. Ltd. Purchased 75% of shares in S Ltd. on 01-07-01. On 31-12-01 the Balance Sheet of S Ltd. showed Reserve Fund balance on 01-01-01 Rs.40,000, profit earned during 2001 Rs.60,000 and preliminary expenses unwritten off Rs.20,000. Calculate capital profits.

Reg. No.................................

[13CMU501]

KARPAGAM UNIVERSITY

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COIMBATORE – 641 021
(For the candidates admitted from 2013 onwards)

B.Com., DEGREE EXAMINATION, NOVEMBER 2015

Fifth Semester

COMMERCE

ADVANCED CORPORATE ACCOUNTING

Time: 3 hours Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

21. a) Answer the following:

i) From the following information find out the amount of provision to be shown in the profit and loss account of a Commercial Bank

Assets	Rs. In Lakhs
Standards	8,000
Substandard	6,000
Doubtful:	
For one year	1,000
For three years	1,600
For more than 3 years	400
Loss assets	1,200

ii) On 31st March 1998, Prince Commercial Bank Ltd., finds its advances classified as follows:

Assets	Amount (Rs)
Standard assets	14,91,300
Sub-standard assets	92,800
Doubtful assets (secured)	
: doubtful for one year	25,660
: doubtful for one year to 3 years	15,640
: doubtful for more than 3 years	6,580
Loss assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned advances.

Or

b) From the following particulars, prepare a Profit and Loss A/c of Vidhya Bank Ltd., for the year ended 31.12.2011

Particulars	Rs.	Particulars	Rs.
Interest on Loan	2,60,000	Interest on cash credits	2,25,000
Interest on fixed deposits	2,80,000	Rent and taxes	20,000
Rebate on bills discounted	50,000	Interest on overdrafts	56,000
Commission charged to customers	9,000	Directors and Auditor's fees	4,000
Establishment expenses	56,000	Postage and telegrams	2,000
Discount on bills discounted	2,00,000	Sundry Charges	2,000
Interest on current accounts	45,000	Interest on Savings Bank accounts	70,000
Printing and advertisements	3,000		

22. a. From the following figures relating to Great India Life Assurance Company for the year ended 31.03.2012, prepare a revenue account of the company.

Particulars	Rs.	Particulars	Rs.
Claims less reinsurance:		Claims outstanding on 1.4.2011	
By Death	2,00,000	By Death	80,000
By Maturity	1,40,000	By Maturity	60,000
Annuities	12,600	Sundry incomes	6,000
Printing and Stationery	7,700	Consideration for annuities granted	1,01,200
Surrenders	4,000	Interest, dividend and rents	2,10,000
Commission	25,050	Registration and other fees	200
Expenses of management	3,00,000	Income tax	45,000
Life Fund on 1.4.2011	39,00,000	Income tax on interest & dividends	50,000
Premium received	15,00,000		

Additional information:
i. Claims outstanding on 31.03.2012 by death Rs.50,000; by maturity Rs.40,000
ii. Management expenses outstanding Rs.6,000
iii. Provide Rs.4,500 for depreciation
iv. Premium outstanding on 31.03.2012 is Rs.2,00,000

Or

b. From the following particulars relating to 'Axis' Insurance Co. Ltd., prepare Fire Revenue A/c for the year ending 31.03.2005:

Particulars	Rs. (in '000)	Particulars	Rs. (in '000)
Claims paid	4,80,000	Premium received	12,00,000
Claims outstanding on 1.4.04	40,000	Reinsurance premium paid	1,20,000
Claims intimated but not accepted and paid on 31.3.05	10,000	Commission	2,00,000
Claims intimated and accepted but not paid on 31.3.05	60,000	Commission on reinsurance ceded	10,000
Commission on reinsurance accepted	5,000	Provision for unexpired risk on 1.4.04	4,00,000
Expenses of management	3,05,000	Additional provision for unexpired risk on 1.4.04	20,000
Bonus in reduction of premium	12,000		

You are required to provide for additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance.

23. a. On 31st March, 1996 the balance sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Equity Share Capital	8,00,000	2,00,000	Fixed Assets	5,50,000	1,00,000
General Reserve	1,50,000	70,000	75% shares in S Ltd. (at cost)	2,80,000	---
Profit and Loss A/c	90,000	55,000			
Creditors	1,20,000	80,000	Stock	1,05,000	1,77,000
			Other current assets	2,25,000	1,28,000
	11,60,000	4,05,000		11,60,000	4,05,000

Draw a Consolidated Balance Sheet as at 31st March, 1996 after taking into consideration the following information:
i. H Ltd. acquired the shares on 31st July 1995.
ii. S Ltd. earned profit of Rs.45,000 for the year ended 31st March 1996.
iii. In January 1996 S Ltd. sold to H Ltd. goods costing Rs.15,000 for Rs.20,000. On 31st March, 1996 half of these goods were lying as unsold in the godown of H Ltd. Give your working notes.

Or

b. Answer the following:
i. 'S' Ltd. has capital of Rs.2,00,000 in shares of Rs.100 each out of which 'H' Ltd. purchased 75% of the shares at Rs.2,40,000. The profits of 'S' Ltd. at the time of purchase of shares by 'H' Ltd were Rs.1,10,000. 'S' Ltd decid to make a bonus issue out of pre acquisition profit of one share for ever fi shares held.

Calculate the cost of control of acquiring shares of 'S' Ltd., after the issu of bonus shares.

ii. 'Freddy Ltd.', a subsidiary company has a capital of Rs.5,00,000 in share of Rs.100 each out of which the 'Marghy Ltd.', a holding company acqui 80% of the shares of Rs.6,00,000. The profits of 'Freddy Ltd.' on the dat acquisition of shares by 'Marghy Ltd.' were Rs.3,00,000. Calculate the va of goodwill or capital reserve.

24. a. Answer the following:
i. The figures given below relate to the City Electric Supply Co. Ltd. Prepar Revenue A/c for the year ended 31-3-2004

Particulars	Rs.
Sale of Current	1,04,000
Rent of Meters	4,000
Cost of Generation	28,000
Cost of Distribution	4,000
Rent, Rate and Taxes	4,000
Management Expenses	25,600

ii. From the following information relating to Gunter Power & Light Co. Ltd prepare Net Revenue A/c for the year ended 31-03-04.

Particulars	Rs.
Net Revenue A/c Balance(1-4-03)	25,000
Profit transferred from Current year Revenue A/c	45,000
Interest on Debentures	8,000
Interim Dividend	16,000

Or

b. From the following particulars, draw up (i) Balance Sheet as on 31-12-03 on the basis of the Single Account System and (ii) the Capital A/c and the Gen Balance Sheet as on the same date, under the Double Account System.
Authorised Capital: 3,000 shares of Rs.10 each, of which issued and paid up capital is Rs.27,000

Particulars	Rs.
6% Debentures	3,000
Trade Creditors	1,600
Trade Debtors	3,800
Cash at Bank	3,500
Stock – in – Trade	2,400
Profit and Loss A/c	1,600
Land	3,700
Machineries	16,000
Shafting	5,000
Buildings	1,300
Depreciation Fund (Machinery)	2,500

25. a. What are the objectives and limitations of human resources accounting?

Or

b. Explain the 'Value based methods' of valuing human resources.

Reg. No...............................

[14CMU501]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2014 onwards)

B.Com., DEGREE EXAMINATION, NOVEMBER 2016

Fifth Semester

COMMERCE

ADVANCED CORPORATE ACCOUNTING

Time: 3 hours   Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

21. a. From the following particulars prepare a profit and loss a/c of new Bank Ltd, for the year ended 31.12.1996.

Particulars	Rs. in '000	Particulars	Rs. in '000
Interest on loan	260	Interest on cash credit	225
Interest on fixed deposit	280	Rent and taxes	20
Rebate on bills discounted	50	Interest on over drafts	56
Commission charged to customers	9	Directors and Auditors fees	4
Establishment Expenses	56	Interest on saving bank a/c	70
Discount on bills discounted	200	Postages and telegrams	2
Interest on current a/c	45	Sundry charges	2
Printing and advertisement	3		

Or

b. On 31st December 1986 The following Balance sheet in the books of Asian Bank Ltd, after preparation of its profit and loss a/c.

Particulars	Rs. in '000
Share capital; Issued and subscribed	4,000
Reserve fund	6,200
Fixed deposit	42,600
Saving banks deposit	19,000
Current a/c	23,200
Money of call and short notice	1,800
Investments	25,000
Profit and loss (CR) Jan 1986	1,350
Dividend for 1985	400
Premises	2,950
Cash in hand	380
Cash with other Banks	10,000
Bills discounted and purchased	3,800
Loan, Cash credit and over drafts	51,000
Bills payable	70
Un claimed dividend	60
Rebate on bills discounted	50
Short loans (borrowings from other banks)	4,750
Furniture	1,164
Other assets	336
Net profit for 1986.	1,550

Prepare balance sheet of the bank as on 31st December 1986.

22. a. Prepare from the following a Life insurance revenue a/c and balance sheet as on 31.3.2006.

Particulars	Rs. in '000	Particulars	Rs. in '000
Claims by death	16,890	Out standing Interest on advances (31.3.2006)	1,944
Agent salary	6,420	Bonus paid with	2,700
Surrender values paid	2,810	Endowment assurance matured	24,415
Actuarial expenses	1,520	Annuities paid	1,350
Premium	94,836	Interest revenue	19,060
Commission to agents	8,900	Rent, Rates and taxes	5,475
Salaries	13,500	General charges	1,860
Medical fees	1,200	Fees received	172
Travelling expenses	1,800	Bonus paid in cash	2,825
Directors fees	900	Advertisement	726
Agents balances	750	Consideration for annuities granted	12,853
Claim expenses	1,432	Printing and stationery	650
Premium out standing 1.4.05	2,134	Claims O/S(1,4.05)	2,376
Premium O/S 31.3.06	3,143	Claims O/S 31.3.06	3,735
Investments	1,46,700	Loans on polices	38,300
Share capital	2,00,000	Loans on mortgagees	2,90,560
Sundry creditors	9200	Free hold premises	1,22,600
Life assurance fund 1.4.05	3,53,672	Furniture and fittings	64,100
Reserve fund	1,46,000	Cash on hand and deposits	76,300

Or

b. The life fund of a life insurance company on 31.3.2006 showed a balance of Rs.54,00,000. However the following items were not taken in to a/c while preparing the Revenue a/c for 2005-2006. Ascertain the correct life fund balance.

i. Interest and dividends accrued on investment	20,000
ii. Income tax deducted at source on the above	6,000
iii. Re-insurances claims recommendable	7,000
iv. Commission due on re-insurances premium paid	10,000
v. Bonus in reduction of premium	3,000

23. a. The balance sheet of 'C' Ltd D Ltd as on 31st December 1986 are as follows..

LIABILITIES	C LTD	D LTD	ASSETS	C LTD	D LTD
Share capital(in shares of Rs.10 each)	2,00,000	1,00,000	Sundry assets	1,32,500	1,38,200
General reserve	18,000	20,000	Good will	----	20,000
Profit and loss a/c	24,500	23,000	Shares in D ltd at cost	1,40,000	
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

IN the case of "D" Ltd ,profit for the year ended 31st December 1986 is Rs.12,000 and transfer to reserve is Rs .5,000 .The holding of C Ltd in D Ltd is 90% acquired on 30th june 1986.

Draft a consolidated balance sheet of C ltd and its subsidiary.

Or

b. From the following balance sheet relating to H Ltd and S Ltd prepare a consolidated balance sheet.

LIABILITES	H LTD	S LTD	ASSETS	H LTD	S LTD
Share capital (share of Rs 10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	1,20,000
Profit &loss a/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	----------
Bills payable	----------	30,000	Shares in S ltd at cost 15000 shares	1,50,000	------------
	17,00,000	5,30,000		17,00,000	5,30,000

i. All profit of S LTd have been earned after the shares were acquired by H LTD but there was already a reserves of Rs 60000 on that date.

ii. All the bills payable of 's' ltd were accepted in favour of 'H' ltd

iii. The stock of 'H' ltd includes Rs 50000 purchased from 'S' ltd the profit added was 25% on cost.

24. a. The pioneer gas co rebuilt and re-equipped part of their works as a cost of Rs. 15,00 ,000. The part of the old works thus superseded cost Rs 9,00,000. Rs 60,000 is realized by the sale of old materials and old materials valued Rs. 2,000 are used in the reconstruction and included in the cost of Rs. 15,00,000 mentioned above.

The cost of labour and materials is 20% higher now than when the old works were constructed . give journal entries and prepare the necessary ledger a/c..

Or

b. What are the difference between double a/c system and single a/c system?

25. a. What is human resource accounting and explain its objectives.

Or

b. Mention the various value based methods of human resource valuation..

Reg. No.................................

[14PAU501]

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B.Com., DEGREE EXAMINATION, NOVEMBER 2016

Fifth Semester

COMMERCE (PROFESSIONAL ACCOUNTING)

ADVANCED CORPORATE ACCOUNTING

Time: 3 hours — Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

21. a. What is meant by Goodwill? Explain the factors that influence the value of Goodwill.

Or

b. The abridged balance sheet of Vidhur Ltd. as at 31st March 1998 was as follows:-

Liabilities	Amount (Rs).	Assets	Amount (Rs).
Shares capital: 20,000 Equity shares of Rs. 10 each fully paid up	20,00,000	Fixed Assets	13,10,000
		Current Assets	9,70,000
Current Liabilities	3,50,000	Profit & Loss Account	70,000
	23,50,000		23,50,000

On the above mentioned date, Panchal Ltd. took over the business of Vidhur Ltd. at balance sheet values. Winding up costs, Rs. 9,000 were also borne by Panchal Ltd. The summarized balance sheet of Panchal Ltd. at that date stood as follows.

Liabilities	Amount (Rs).	Assets	Amount (Rs).
Shares capital: 3,00,000 Equity shares of R. 10 each	30,00,000	Fixed Assets	32,10,000
General Reserve	10,00,000	Investment in 50,000 Equity Shares of Vidhur Ltd.	4,75,000
Current Liabilities	19,45,000	Current Assets	22,60,000
	59,45,000		59,45,000

Panchal Ltd. discharged the consideration by allotment to Vidhur Ltd. 1,00,000 fully paid equity share of Rs.10 each at an agreed value of Rs.12 each and by payment of cash at bank for payment to liquidator of Vidhur Ltd.
Show important ledger accounts in the books of Vidhur Ltd., pass journal entries in the books of Panchal Ltd. and draw its balance sheet immediately following the takeover of the business.

22. a. Explain the policies of Revenue Account in General Insurance.

Or

b. Elucidate the difference between Reinsurance and Double Insurance.

23. a. Explain the guidelines of reserve bank of India for compilation of Financial Statement

Or

b. From the following information relating to Adharsh Bank Limited, prepare profit and loss account for the year ended 31st March 1994 along with the necessary schedules:

Particulars	Year ended 31.3.1993 (Rs. In '000)	Year ended 31.3.1994 (Rs. In '000)
Interest/Discount On Advance/Bills	272,67	316,28
Income On Investment	105,30	118,10
Interest On Balances With Reserve Bank Of India	40,64	42,43
Commission, Exchange And Brokerage	28,14	29,07
Profit on sale of Investment	1,23	1,14
Interest on Deposits	278,39	314,04
Interest on Reserve Bank of India borrowings	30,64	33,62
Payments to and provisions for employees	83,97	97.17
Rent, taxes and lightings	8,90	9,55
Printing and stationary	1,90	2,13
Advertisement and publicity	34	87
Depreciation on bank properties	2,15	2,92
Director's fees, allowances and expenses	6	7
Auditor's fees and expenses	34	41
Law charges	17	22
Postage, Telegrams, telephones, etc.	2,61	3,12
Repairs and maintenance	72	91
Insurance	8,03	9,15
Other expenses	9,76	8,84
Balance of Profit and Loss account (b/fd)	10,00	?

The following adjustments are to be made:

i. Make a provision for income tax (Including Surcharge) @ 51.75%. The rate of taxation for the year ended 31st March, 1993 was also 51.75.

ii. Every year, the bank transfers 20% of profit to profit to stationary reserves, and 5% for profit to Revenue Reserve.

iii. The board of directors propose dividend amounting to Rs. 2,00,000 for the year ended 31st March 1994. Last year also, an identical amount of dividend was proposed.

24. a. A water supply concern had a replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was Rs. 80,00,000; the auxiliary main cost Rs. 9,00,000 and the new main cost Rs. 3,50,000. It is estimated that cost of laying a main has gone up by 30%. Parts of the old main realized Rs. 15,000. Pass journal entries and Ledger accounts.

Or

b. What is meant by Double Account System? Enumerate the special features of Double Account System.

25. a. Explain the Financial statements of foreign operations.

Or

b. Enumerate the main principles and disclosures of Government Grants.
