KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemedto-be-University Established Under Section 3 of UGC Act, 1956)

Coimbatore - 641 021.

DEPARTMENT OF COMMERCE
I M.COM
ADVANCED CORPORATE ACCOUNTING – 17CMP104
ANSWER KEY
I INTERNAL TEST
SECTION A
MULTIPLE CHOICE QUESTIONS

1.Vertical Form

2. Muti step statement

3. Assets =Liabilities+ Equity

4. Realisation A/c

5. Goodwill

6. 50% of share capital of subsidiary company

7.Revenue Profit

8.Deducted from Stock and Profit and Loss A/c balance in combined Balance Sheet

9. Assets Side

10. Goodwill and Capital A/c

11. Securities Premium

12.Amalgamation

13.Market Price

14. Realisation A/c

15. Two or more companies liquidate to taken over by existing company

16. Unrealised Profit

17. Liabilities

18. Pooling of Interest

19. Debenture

20. Liquidator

SECTION B

21. **'Managerial Remuneration' includes (as per Sections 309, 311, 348 and 387):**

Managerial Remuneration refers to remuneration payable to managerial personnel of a company, viz., directors, managing director / whole time director and manager.

22. Amalgamation

The term amalgamation is used when two or more companies carrying on similar business go into liquidation and a new company is formed to take over their business.

23.Minority Interest

Minority Interest refers to the claim or the interest of the minority or outside shareholders in the net assets (i.e., assets minus liabilities) of the subsidiary company.

SECTION C

24.a.Final Accounts

*Gross Profit – 1,40,700
*Net Profit - 60,250
*Balance of Profit carried forward to B/S – 82,250
*B/S Total -2,90,000.

24.b.Total Managerial Remuneration = 42,812.

25. Journal Entries – P Ltd

i. Business Purchase A/c	Dr	1,35,000	
To Liquidator of M Ltd			82,500
To Liquidator of M Ltd			52,500
ii. Goodwill A/c	Dr	30,000	
Fixed assets A/c	Dr	70,300	
Stock A/c	Dr	27,000	
Debtors A/c	Dr	13,200	
Bank A/c	Dr	4,000	
To Creditors A/c			7,000
To Depreciation A/c			2,500
To Business Purchase			1,35,000
iii. Liquidator of M Ltd	Dr	82,500	
To Equity Share Capital A/c			50,000
To 9% Preference Share Capital A/c			2,500

- Balance Sheet Total – 1,44,500

26. 1. Minority Ratio – 9:1

2.Revenue Profit – 6,000

Holding Company's Share – 5,400

Subsidiary Company's Share – 600

3.Capital Profit – 24,000

Holding Company's Share – 21,600

Subsidiary Company's Share – 2,400

4.Minority Interest -5,000

5.Capital Reserves - 3,600

6. Consolidated Balance Sheet Total – 4,34,000.

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I M.COM
ADVANCED CORPORATE ACCOUNTING – 17CMP104
ANSWER KEY
II INTERNAL TEST
SECTION A
MULTIPLE CHOICE QUESTIONS

1. Income Received in Advance
2. Other Liabilities
3. Schedule – 4
4. Profit and Loss Appropriation A/c
5. Accounting for Price Level Changes
6. Stock concept in Accounting
7. IAS 7
8. IRDA Regulations Act 1999
9. Reversionary Bonus
10. RBI
11. Capital Cost
12. Labour Investments
13. Lev and Schwarz Model
14. Non Performing Asstes
15. On death of the insured or a expiry of policy period which ever is earlier
16. An asset acquired from the debtors in satisfaction
17. Capital
18. Commission on reinsurance ceded
19. Expenses
20. Investment

SECTION B

21. **Rebate on Bills Discounted:**

Rebate on Bills Discounted is also known as Discount Received in Advance, or, Unexpired Discount or, Discount Received but not earned. Its treatment is same as we do in the case of Interest Received in Advance.

22. Reserve for Unexpired Risk

The unexpired risk reserve is defined as a prospective assessment of the amount that needs to be set aside in order to provide for the claims and expenses which will emerge from unexpired risks and which is over and above the unearned premium reserve pertaining to the same risks as the same valuation date. In other words, if any, that is additional to the amount of expected claims and expenses from active portfolio of the assessment to cover reserves for unearned premiums for that class on the same date.

23. Reinsurance

It is a process whereby one entity (the reinsurer) takes on all or part of the risk covered under a policy issued by an insurance company in consideration of a premium payment. In other words, it is a form of an insurance cover for insurance companies.

SECTION C

24.Bharath Bank Ltd . P & L A/c

Provisions & Contingencies – 13,50,000

Schedule 13 – Interest Earned – 39,96,000.

Schedule 14 – Other Income – 4,55,000.

Schedule 15 – Interest Expended – 24,04,000.

Schedule 16 – Operating Expenses – 4,80,000.

Net Profit – 2,17,000

Balance of Profit Carried forward to Balance Sheet – 73,600.

25. New Era Bank Ltd P & L A/c

Provisions & Contingencies – 13,00,000

Schedule 13 – Interest Earned – 37,03.000..

Schedule 14 – Other Income – 4,55,000.

Schedule 15 – Interest Expended – 20,38,000.

Schedule 16 – Operating Expenses – 4,80,000.

Net Profit – 3,40,000

Balance of Profit Carried forward to Balance Sheet –1,72,000.

26. **Definition:**

The American Association of Accountants (AAA) defines HRA as follows: 'HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties'.

Significance of Human Resource Accounting

1. The system of HRA discloses the value of human resources, which helps in proper interpretation of return on capital employed.
2. Managerial decision-making can be improved with the help of HRA.
3. The implementation of human resource accounting clearly identifies human resources as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.
4. It helps in efficient utilization of human resources and understanding the evil effects of labour unrest on the quality of human resources.
5. This system can increase productivity because the human talent, devotion, and skills are considered valuable assets, which can boost the morale of the employees.
6. It can assist the management for implementing best methods of wages and salary administration.

26. Limitations of Historical Accounting

The following are the important limitations of historical accounts.

(i) In actual practice the financial statements are prepared on the basis of the historical cost. So the financial statements may be incorrectly interpreted unless appropriate adjustment are made on the current price level.

(ii) Unrealistic profit due to the depreciation calculated under the historical cost method

(iii) Insufficient provisions of depreciations

(iv) According to Companies Act 1956 fixed assets are shown at their historical cost and not at current cost.

(iv) Return on capital employed is misleading because the profits are overstated and fixed assets are understated.

(v) Incorrect ascertainment of operating capacity

(vi) Historical cost accounting mixes up the holding gains and its operating gains which does not help in taking effective managerial decisions.

(vii) Misleading inter-period and inter-firm comparison

(viii) Difficulty in comparison of profitability of two plants.

Reg No...............

[17CMP104]

KARPAGAM UNIVERSTIY

(Established Under Section 3 of UGC Act 1956)

Coimbatore – 641021

(For the candidates admitted from 2015 onwards)

I M. Com. CA

Fifth Semester

First Internal Test, August - 2017

ADVANCED CORPORATE ACCOUNTING

Time: 2 hours Maximum: 50 marks

Date:

PART –A (20*1=20 Marks)

Multiple choice Questions

1. A Balance Sheet can be presented in Horizontal form or ________
   a. Assets form b. Liability form c. Account Form d. Vertical Form
2. Income Statement can be Single step statement or __________
   a. Triple Step Income Statement b. Double Step Income Statement
   c. Financial Statements d. Multi Step Income Statements
3. Balance Sheet Equation is _____
   a. Liabilities + Assets = Equity b. Assets + Equity = Liabilities
   c. Assets = Liabilities + Equity d. Assets + Equity+ Liability=0
4. Liquidation expenses paid by the purchasing company are to be debited to -----------------.
   a. Preliminary expenses account b. Business purchase account
   c. Recreation expenses d. Realisation a/c
5. The excess of purchase consideration over net asset is-------------.
   a. Securities premium b. Capital reserve
   c. Goodwill d.Preliminary expenses
6. 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
7. 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
8. Unrealised 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
9. Goods in transit and Cash in transit should be entered in the ______ of the CBS
   a. Assets Side b. Liabilities side
   c. Both assets and liabilities side d. Profit and loss
10. The cost of liquidation of the vendor company agreed to be paid by the purchasing company is debited to----------in the books of the later company.
    a. Goodwill account b. Capital reserve account
    c. Goodwill and capital account d. External reconstruction
11. When shares or debentures are issued at a premium -----------account should be credited with the amount of the premium.
    a. Share premium b. Securities premium c. Premium d. Profit on issue of shares
12. When two or more companies liquidate to form a new company is is called----------------.
    a. Amalgamation b. Absorption c.Reconstruction d.Merging
13. When the purchasingcompany allots shares at market price the calculation of purchase consideration is based on----------------.
    a. Market price b. Paid up value
    c. Average of the above two d. Equity share holders a/c
14. Liquidation expenses paid by the purchasing company are to be debited to -----------------.
    a. Preliminary expenses account b. Business purchase account
    c. Recreation expenses d. Realisation a/c
15. Absorption is said to be taken place when-------------------.
    a. A Company is formed to take over the other company.
    b. Two or more companies are liquidated to form a new company.
    c. Two or more companies liquidate to be taken over by the existing company.
    d. Two or more existing companies liquidate
16. The profit included in the closing stock on the date of consolidation is known as _________
    a. Unrealised profit b. Acquisition profit
    c. Pre acquisition loss d. Pre acquisition profit
17. Minority interest is shown on the _________ side of the consolidated balance sheet
    a. Liabilities b. Assets c. Not shown d. Shown in separate schedule
18. .. ..method is used to account for amalgamation in the nature of purchase
    a. Pooling of interests b. Sale c. Merger d.Purchase
19. At the time of purchase of ---------- is always debited with the ex-interest price
    a. Debenture b. Equity c. Preference d. Bonds
20. A person who is entrusted with the job of realizing assets and discharging liabilities in the process of liquidation is called
    a. Managing Director b. Agent c. Liquidator d. Shareholders

PART –B (3*2=6 Marks)

Answer All the Questions

21. What is managerial remuneration? Write a note.
22. Explain Amalgamation
23. Write a short notes on 'Minority Interest'.

Karpagam Academy of Higher Education
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Unit IV

Insurance &Banking Company Accounts

Insurance company Accounts – Life and General Insurance Accounts – Preparation of Revenue Accounts and Balance Sheet (Under the New Format) Banking Company Accounts – Rebate on Bills Discounted – Classification of Advances and Investments – Preparation of Profit and Loss Account and Balance Sheet (Under the New Format).

FINAL ACCOUNTS OF GENERAL INSURANCE COMPANIES ACCOUNTING

General 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 effected 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		

Notes:

(a) **Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost:**

(i) Holding company and subsidiary shall be construed as defined in the Companies Act. 1956.

(ii) Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

(iii) Joint control – is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.

(iv) Associate – is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company,

(v) Significant influence (for the purpose of this schedule)-means participation in the financial and operating policy decisions of a company, but not control of those policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policy making process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement.

As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

(b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.
(c) Investment made out of Catastrophe reserve should be shown separately.
(d) Debt securities will be considered as **"held to maturity"** securities and will be measured at historical costs subject to amortisation.
(e) Investment property means a property [land or building or part of a building or both] held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.
(f) Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments.

Notes:

(a) Short-term loans shall include those, which are repayable within 12 months from the date of balance short. Long-term loans shall be the loans other than short-term loans.
(b) Provisions against non-performing loans shall be shown separately.
(c) The nature of the security in case of all long-term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.
(d) Loans considered doubtful and the amount of provision created against such loans shall be disclosed.

Schedule 10 — Fixed Assets

Particulars	Cost Gross Block				Depreciation				Net Block	
	Opening	Additions	Deductions	Closing	Upto Last Year	For the Year	On Sales/ Adjustments	To Date	As at Year end	Previous Year
Goodwill										
Intangibles (specify)										
Land-Freehold										
Leasehold										
Property										
Buildings										
Furniture & Fittings										
Information Technology										
Equipment										
Vehicles										
Office Equipment										
Others (Specify nature)										
Total										
Work in progress										
Grand Total										
Previous Year										

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

Schedule 11 – Cash and Bank Balances

No.	Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts		
	(aa) Short-term (due within 12 months)		
	(bb) Others	–	
	(b) Current Accounts		
	(c) Other (to be specified)		
3.	Money at Call and Short Notice		

3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated premium		
6.	Sundry creditors		
7.	Due to subsidiaries/holding company		
8.	Claims outstanding		
9.	Due to officers/directors		
10.	Others (to be specified)		
	Total		

Schedule 14 – Provisions

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Reserve for Unexpired Risk		
2.	For taxation (less advance tax paid and taxes deducted at source)		
3.	For proposed dividends		
4.	For dividend distribution tax		
5.	Others (to be specified)		
	Total		

Schedule 15 – Miscellaneous Expenditure
(To the extent no written off or adjusted)

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Discount Allowed on issue of shares/debentures		
2.	Others (to be specified)		
	Total		

(a) With Banks		
(b) With Other Institutions		
4. Others (to be specified)		
Total		
Balances with non-scheduled banks in 2 and 3 above		

Note. Bank balance may include remittances in transit. If so, the nature and amount shall be separately stated.

Schedule 12 – Advances and Other Assets

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Advances			
1.	Reserve deposits with ceding companies		
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6.	Others (to be specified)		
	Total (A)		
Others Assets			
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' Balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on Insurance business (including reinsurers).		
6.	Due from subsidiaries/holding		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	Total (B)		
	Total (A + B)		

Notes:

(a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.

(b) The term 'officer' should conform to the definition of that term as given under the Companies Act. 1956.

(c) Sundry debtors will be shown under item 8 (Others).

Schedule 13—Current Liabilities

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Agents' Balances		
2.	Balances due to other Insurance Companies		

(a) With Banks		
(b) With Other Institutions		
4. Others (to be specified)		
Total		
Balances with non-scheduled banks in 2 and 3 above		

Note. Bank balance may include remittances in transit. If so, the nature and amount shall be separately stated.

Schedule 12 – Advances and Other Assets

No. *Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
Advances		
1. Reserve deposits with ceding companies		
2. Application money for investments		
3. Prepayments		
4. Advances to Directors/Officers		
5. Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6. Others (to be specified)		
Total (A)		
Others Assets		
1. Income accrued on investments		
2. Outstanding Premiums		
3. Agents' Balances		
4. Foreign Agencies Balances		
5. Due from other entities carrying on Insurance business (including reinsurers).		
6. Due from subsidiaries/holding		
7. Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8. Others (to be specified)		
Total (B)		
Total (A + B)		

Notes:

(a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.

(b) The term 'officer' should conform to the definition of that term as given under the Companies Act. 1956.

(c) Sundry debtors will be shown under item 8 (Others).

Schedule 13—Current Liabilities

No. *Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1. Agents' Balances		
2. Balances due to other Insurance Companies		

3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated premium		
6.	Sundry creditors		
7.	Due to subsidiaries/holding company		
8.	Claims outstanding		
9.	Due to officers/directors		
10.	Others (to be specified)		
	Total		

Schedule 14 – Provisions

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Reserve for Unexpired Risk		
2.	For taxation (less advance tax paid and taxes deducted at source)		
3.	For proposed dividends		
4.	For dividend distribution tax		
5.	Others (to be specified)		
	Total		

Schedule 15 – Miscellaneous Expenditure
(To the extent no written off or adjusted)

No.	*Particulars*	*Current Year (Rs. '000)*	*Previous Year (Rs. '000)*
1.	Discount Allowed on issue of shares/debentures		
2.	Others (to be specified)		
	Total		

Notes:
(a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:
(i) Some benefit from the expenditure can reasonably be expected to be received in future, and
(ii) The amount of such benefit in reasonably determinable.
(b) The amount to be carried forward in respect of any item included under the head "**Miscellaneous Expenditure**" shall not exceed the expected future revenue/other benefits related to the expenditure.

Illustration (Fire Insurance Revenue Account and Final Accounts):
From the following figures taken from the books of New Asia Insurance Company Ltd. doing fire underwriting business.

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	

Final Accounts of Life Insurance Business

The insurance companies are required to prepare their financial statements i. e. Revenue Account, Profit and Loss Account and Balance Sheet according to the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002.

Insurers carrying on Life Insurance Business should comply with the requirements of Schedule A of the Regulations which among other things, gives the following Forms:
Revenue Account – Form A – RA
Profit and Loss Account – Form A – PL
Balance Sheet – Form A-BS
Insurers doing General Insurance Business should comply with requirements of Schedule B of the Regulations which among other things, gives the following Forms:
Revenue Account – Form B – RA
Profit and Loss Account – From B – PL
Balance Sheet – From B – BS
In both cases, Revenue Account and Balance Sheet are given in summary form. There are 15 Schedules in each case, the first four schedules relate to Revenue Account and the remaining eleven schedules relate to Balance Sheet which give details of the summary heads. In both Schedules A and B, Profit and Loss Appropriation Account is dispensed with and appropriations are accommodated in the Profit and Loss Account.

Life Insurance Business:

The chief peculiarity of the life insurance business is that the life insurance contracts are for a long term and that, on a particular date, the future implications of a contract must be considered before profit can be ascertained. Under an annuity contract, the life insurance office does not receive any amount after the initial payment but has to go on paying till the annuitant dies.

On a particular date, therefore, there is a liability in respect of future payments to be made. Under a life insurance policy, also, there is liability because against a policy, the premiums expected to be received in future will generally be much less than the amount payable by way of the claim. Suppose, A took out a policy for Rs 10,000 on 5th July, 1987 for twenty years, the premium being Rs 500 per annum.

On 31st March, 2003, the life insurance company is faced with the position that only four premiums (in 2003-04, 2004-05, 2005-06, 2006-07) can be expected, amounting in all to Rs 2,000. The company will have to pay Rs 10,000 latest, on 5th July, 2008.

There is a gap of Rs 8,000 In terms of 31st March, 2003 the gap is slightly less because of interest. The possibility of A’s death must be kept in mind because death means stoppage of payment of premium and hastening the payment of the claim leading to loss of interest.

The chief point to remember is that in respect of policies already issued and still in force, there is a deficiency of claims that are expected to arise over premiums that are expected to be received. This deficiency is known as “net liability”. A company cannot be said to have made profits unless it has reserves equal to the net liability.

The calculation is made only by actuaries, mathematicians well versed in the intricacies of life insurance. The valuation has to be got done by the insurance company every year.

In case of life insurance, Revenue Account (Policyholders’ Account), Profit and Loss Account (Shareholders’ Account) and Balance Sheet are prepared as per Form A-RA, Form A-PL and Form A-BS respectively.

Notes: (applicable to Schedules 8 and 8A & 8B):

(a) Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost.

(i) Holding company and subsidiary shall be construed as defined in the Companies Act, 1956:

(ii) Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
(iii) Joint control is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.
(iv) Associate is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.
(v) Significant influence (for the purpose of this schedule) – means participation in the financial and operating policy decisions of a company, but not control of those policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policy making process, material intercompany transactions, interchange of managerial personnel or dependence on technical information.
Significant influence may be gained by share ownership statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 percent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case.
Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
(b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.
(c) Investment made out of Catastrophe Reserve should be shown separately.
(d) Debt securities will be considered as "held to maturity" securities and will be measured at historical costs subject to amortisation,
(e) Investment Property means a property [land or building or part of a building or both] held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.
(f) Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose them of within twelve months from balance sheet date shall be classified as short-term investments.

SCHEDULE – 9

LOANS

	Particulars	*Current Year*	*Previous Year*
		(₹'000)	*(₹'000)*
1.	SECURITY-WISE CLASSIFICATION		
	Secured		
	(*a*) On Mortgage of property (*aa*) In India (*bb*) Outside India		
	(*b*) On Shares, Bonds, Govt. Securities, etc.		
	(*c*) Loans against policies		
	(*d*) Others (to be specified)		
	Unsecured		
	TOTAL		
2.	BORROWER-WISE CLASSIFICATION		
	(*a*) Central and State Governments		
	(*b*) Banks and Financial Institutions		
	(*c*) Subsidiaries		
	(*d*) Companies		
	(*e*) Loans against policies		
	(*f*) Others (to be specified)		
	TOTAL		
3.	PERFORMANCE-WISE CLASSIFICATION		
	(*a*) Loans classified as standard (*aa*) In India (*bb*) Outside India (*b*) Non-standard loans less provisions (*aa*) In India (*bb*) Outside India		
	TOTAL		

Notes:

(a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:

1. some benefit from the expenditure can reasonably be expected to be received in future, and
2. the amount of such benefit is reasonably determinable.

(b) The amount to be carried forward in respect of any item included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue/other benefits related to the expenditure.

Illustration 1:

The under-mentioned balances form part of the Trial Balance of the All People's Assurance Co. Ltd., as on 31st March, 2012:—

Amount of Life Assurance Fund at the beginning of the year, Rs 14,70,562 thousand; claims by death Rs 76,980 thousand; claims by maturity, Rs 56,420 thousand; premiums, Rs 2,10,572 thousand; expenses of management, Rs 19,890 thousand; commission, Rs 26,541 thousand; consideration for annuities granted Rs 10,712 thousand; interests, dividends and rents, Rs 52,461 thousand; income tax paid on profits Rs 13,060 thousand; surrenders, Rs 21,860 thousand; annuities, Rs 29,420 thousand; bonus paid in cash, Rs 9,450 thousand; bonus paid in reduction of premiums, Rs 2,500 thousand; preliminary expenses balance, 1600 thousand; claims admitted but not paid at the end of year, Rs 10,034 thousand; annuities due but not paid, Rs 2,380 thousand; capital paid up, Rs 14,00,000 thousand; Government securities, 124,90,890 thousand; Sundry Fixed Assets, Rs 4,19,110 thousand.

Prepare Revenue Account and the Balance Sheet after taking into account the following:—

(*a*) Claims covered under reinsurance, ₹ 10,000 thousand
(*b*) Further claims intimated. ₹ 8,000 thousand } by death;
(*c*) Further bonus utilised in reduction of premium, ₹ 1,500 thousand
(*d*) Interest Accrued, ₹ 15,400 thousand;
(*e*) Premiums Outstanding, ₹ 7,400 thousand.

Solution:

All People's Co. Ltd.
Revenue Account for the year ended 31st March, 2012

Particulars	*Schedule*	*₹ '000*
Premiums earned – net	1	2,19,472
Income from Investments		67,861
Other Income :		
Consideration for Annuities granted		10,712
Total (A)		2,98,045
Commission	2	26,541
Operating Expenses related to Insurance Business	3	19,890
Provision for Tax		3,060
Total (B)		49,491
Benefits Paid (Net)	4	1,96,130
Total (C)		1,96,130
Surplus (D) = (A) – (B) – (C)		52,424
Balance being Funds for Future Appropriations		52,424
Total (D)		52,424

Balance Sheet as at 31st March, 2012

	Schedule	*₹'000*
Sources of Funds		
Share Capital	5	13,99,400
Policyholders' Funds		
Life Assurance Fund		14,70,562
		28,69962
Funds for Future Appropriations		52,424
Total		29,22,386
Application of Funds		
Investments	8	24,90,890
Fixed Assets	10	4,19,110
Current Assets:		
Advances and Other Assets	12	32,800
Sub Total (A)		32,800
Current Liabilities	13	20,414
Sub Total (B)		20,414
Net Current Assets (C) = (A) – (B)		12,386
Total		29,22,386

SCHEDULE – 1

Premium	
Premiums earned-net	2,19,472

SCHEDULE – 2

Commission Expenses	26,541

Illustration 2:
The following balances appeared in the books of the Happy Life-Assurance Co. Ltd, as on 31st March, 2012:

SCHEDULE – 1

	₹ *in lakhs*
Premium	
Premium received	15,000
Add : Outstanding premium	2,028
	17,028

SCHEDULE – 2

Commission Expenses	
Commission Paid	250
Add : Commission on reinasurance accepted	65
	315

SCHEDULE – 3

Operating Expenses Related to Insurance Business	
Expenses of management paid	3,100
Add : Outstanding expenses	60
	3,160
Less : Prepaid expenses	15
	3,145
Printing and Stationery	77
Depreciation on :	
Building	45
Furniture	15
	3,282

SCHEDULE – 4

	₹ *in lakhs*	
Benefits Paid (Net)		
Insurance claims :		
Claims by Death		
Paid	2,200	
Add : Outstanding at the end of the year	600	
	2,800	
Less : Outstanding in the beginning	900	1.900
Claims by Maturity		
Paid	1,500	
Add : Outstanding at the end of the year	400	
	1,900	
Less : Outstanding in the beginning	600	1,300
Annuities		6
Surrenders		40
		3,246

SCHEDULE – 5

Share Capital	10,000

SCHEDULE - 6

Reserves and Surplus	
Contingency Reserve	150
	150

SCHEDULE – 7

Borrowings	
Premium Deposits	1,150
Sundry Deposits	100
	1,250

	₹ in lakhs
Claims *less* reassurances paid during the year :	
By Death	2,200
By Maturity	1,500
Annuities	6
Furniture and Office Equipment at cost (including ₹ 40 lakh bought during the year)	250
Printed Stationery	77
Cash with Bank on Current Account	1,350
Cash and Stamps in hand	30
Surrenders	40
Commission	250
Expenses of Management	3,100
Sundry deposits with Electricity Companies etc.	1
Advance Payment of Income-tax	50
Sundry Debtors	50
Agents' Balances	100
Income-tax	450
Income-tax on Interest, Dividends and Rents	500
Loans and Mortgages	150
Loans on Policies	3,250
Sundry Investments (₹ 250 lakh deposited with the Reserve Bank of India)	52,000
Building at cost (including ₹ 85 lakh added during the year)	5,400
	70,754
Share Capital	10,000
Life Assurance Fund at the beginning of the year	40,000
Premiums *less* reassurances	15,000
Claims *less* reassurances outstanding at the beginning of the year :	
By Death	900
By Maturity	600
Credit balances pending adjustment	60
Consideration for annuities granted	2
Interest, Dividends and Rents	1,800
Registration and other fees	2
Sundry Deposits	100
Taxation Provision	300
Premium Deposits	1,150
Sundry Creditors	350
Contingency Reserve	150
Furniture and Office Equipment Depreciation Account	40
Building Depreciation Account	300
	70,754

From the foregoing balances and the following information, prepare the company's Balance Sheet as on 31st March, 2012 and its Revenue Account for the year ended on that date :

(*a*) Claims *less* reassurances outstanding at the end of the year : By Death ₹ 600 lakh; By Maturity, ₹ 400 lakh.

Banking Company Accounts

Definition of Banking

Section 5 of banking regulation act defines banking as "the accepting, for the purpose of lending or investment, of deposit of money from the public repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise.

The main aspects of the Act relating to final a/cs are:

- Every bank has to publish its balance sheet as on March 31st (Sec29).
- Balance sheet is to be got audited from qualified auditors. Sec (30 (i))
- Publish balance sheet and auditor's report within 3 months from the end of period to which they refer. RBI may extend the period by further three months. Sec(31)
- Prevents banks from producing any confidential information to any authority under Industrial Disputes Act. (34A).
- RBI authorised to undertake inspection of banks (Sec 35).
- Certain returns are also required to be sent to RBI by banks such as monthly return of liquid assets and liabilities (24-3), quarterly return of assets and liabilities in India (25), return of unclaimed deposits i.e. 10 years and above (26) and monthly return of assets and liabilities (27-1)

Format of balancesheet

Explanation of Balance Sheet Items: Items	Schedule No	As on (Current year) Rs. in Crores	As on (Previous year) (Rs. in crores
CAPITAL AND LIABILITIES:			
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
ASSETS:			
Cash and Balances with Reserve Bank of India	6		
Balances with Banks and Money at Call and Short Notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
TOTAL			
Contingent liabilities	12		
Bills for collection			
Significant Accounting Policies and Notes to Accounts	17 & 18		

Schedules referred to above form an integral part of the Balance Sheet

PREPARATION OF BANK BALANCE SHEET

Illustration 1:

On 31st dec 1986. The following balance stood in the books of Asian Bank Ltd., after preparation of its profits and loss account.

	Rs. (in ‘000)
Share capital: Issued and subscribed	4000
Reserve fund (under sec 17)	6200
Fixed deposit	42,600
Savings bank deposit	19000
Current account	23200
Money at call and short notice	1800
Investments	25000
P&L a/c (cr) 1st jan 1986	1350
Dividend for 1985	400
Premises	2950
Cash in hand	380
Cash with RBI	10000
Cash with other banks	6000
Bills discounted and purchased	3800
Loans, cash credit and overdrafts	51000
Bills payable	70
Unclaimed dividend	60
Rebate on bills discounted	50
Short loans (borrowing from other banks)	4750
Furniture	1164
Other assets	336
Net profit for 1986	1550

Prepare balance sheet of bank as on 31st dec 1986.

Solution

Asian Bank Ltd.

Balance sheet as on 31.12.1986

	Schedule No.	As on 31.12.86 (Rs. In ‘000)
Capital and Liabilities		
Capital	1	4000
Reserve and surplus	2	8700
Deposits	3	84800
Borrowings	4	4750
Other Liabilities & provisions	5	180
Total		102430
Assets		
Cash and balance with RBI	6	10380

Balance with banks & money at call and short notice	7	7800
Investments	8	25000
Advances	9	54800
Fixed assets	10	4114
Other assets	11	336
Total		102430
Contingent Liabilities	12	NIL
Bills for collection	-	NIL

WORKING NOTES:

SCHEDULE 1 CAPITAL (Rs. In' 000)

Issued and subscribed share capital 4000

SCHEDULE 2 RESERVE AND SURPLUS

Reserve fund		6200
P&L A/c (1.1.86)	1350	
Less: dividend for 1985	400	
	950	
Add: net profit for 1986 after deducting statutory reserve [15,50000-(15,50,000*25%)]	1162.5	
		2112.5
Statutory reserve		387.5
		8700

Note: Transfer to statutory reserve now is at 25% of Net profit.

SCHEDULE 3 DEPOSITS

Fixed deposits	42600
Savings bank deposits	19000
Current accounts	23200
Total	84800

SCHEDULE 4 BORROWINGS

Short loans	4750

SCHEDULE 5 OTHER LIABILITIES AND PROVISIONS

Bills payable	70
Unclaimed dividend	60
Rebate on bills discounted	50
total	180

SCHEDULE 6 CASH AND BALANCES WITH RBI

Cash in hand	380
Cash with RBI	10000

total	10380

SCHEDULE 7 BALANCE WITH BANKS AND MONY AT CALL AND SHORT NOTICE

Money at call and short notice	1800
Cash with other banks	6000
Total	7800

SCHEDULE 8 INVESTMENTS

Investments	25000

SCHEDULE 9 ADVANCES

Bills discounted and Purchased	3800
Loans ,cash credits and overdrafts	51000
Total	54800

SCHEDULE 10 FIXED ASSETS

Premises	2950
Furniture	1164
Total	4114

SCHEDULE 11 OTHER ASSETS

Other assets	336

SCHEDULE 12 CONTINGENT LIABILITIES

Bills for collection	NIL

Illustration 2:

Indian Bank Ltd. presents its ledger balances on 31.03.01

	Rs.
Loans	400000
Cash credits	100000
Overdrafts	70000
Premises	100000
Investments	800000
Salaries	56000
General Expenses	54000
Rent, Rates & Taxes	4600
Director’s fees	3600
Stock of Stationery	17000
Bills purchased	92000
Cash in hand	200000
Cash with RBI	186000
Money at Call	160000

Share capital	1000000
Reserve fund	500000
Current A/c.	200000
Fixed deposit	250000
S.B. Deposit	50000
Cash certificates	50000
Profit/Loss A/c. 01.04.00 (Cr.)	32000
Interest & Discounts	256000
Interim Dividend	34000
Shares in company	100000
Recurring Deposits	40000

Other Information:

i. Provide for doubtful debts Rs.10000
ii. Interest receivable on investments Rs.16000
iii. Unexpired discounts Rs.760
iv. Interim dividend declared was 4% actual
v. Endorsement and guarantee Rs.200000
vi. Additions made to premises during the year Rs.10000
vii. Depreciate premises at 5% on opening balance.

Prepare Profit & Loss A/c. and Balance Sheet.

Methods of Advancing Loans

The commercial bank uses the following methods of advancing loans to his customers;

- Over draft
- Cash credit
- Fixed loans
- Discounting bills of exchange

1. **Over Draft**

By this method of advancing loans, banker allows his reliable customers to draw over and above the money actually deposited by them in their accounts. This facility is allowed through cheque only to the current account holders, but only to those, who have good financial and credit standing. These advances are given on the basis of personal securities. The civil officer and other salaried persons are also allowed overdraft equal to their six months' salary with the condition to deposit their salary bill with the bank till the recovery of the overdraft. Interest on overdraft is charged on the basis of daily debit balance on actual amount drawn from the date. It is the easiest way of advancing loans from bank, bank earns profit and on the other side, the borrowers is temporary accommodated and can be able to meet with the short term requirements for money with the facility of overdraft.

2. **Cash Credit**

Another method of advancing loan is cash credit method. By cash credit arrangements, a customer is granted an advance up to a certain limit, which he can draw from time to time required by him. In this method of advancing loans, bank pens a loan account in the name of the borrower and honors the cheques drawn by him. On this type of loan, the interest is charged on the amount actually utilized. If funds remain idle, bank looses interest and some bankers make it essential to charge interest on some part of cash credit form the customer, whether the customer utilize it or not. Cash credit is a short term commercial loan, which is advanced to businessmen and industrialists against tangible securities. This is the most popular way of borrowing by large commercial and industrial firms due to facility of drawing the amounts as and when desired. However, in this method of advancing loans, banker should observe some precautions while advancing loans. Banker must be satisfied with the honesty and credit standing of customers. As **John Pager** said "Provided the banker is dealing with honest and responsible person documents of title to goods are convenient securities for advances. Moreover, the banker should be familiar with the different market, and should advance against saleable commodities puts as the security for the loan granted.

3. **Fixed Loans**

Under this method of advancing loan, the bank advances in fixed amount repayable either in fixed monthly or yearly installments or in lump sum. It is usually borrowed to meet with the long term requirements for capital. Interest is charged on the full amount of the loan sanctioned for whole of the period, whether utilized or not by the borrower. These types of loans are granted against security like gold ornaments, real state, machinery, stock and bonds. These securities are put to cover the risk for the return of the loan. However, some un-secured loans are also provided to the customers having good credit ranking. Different loans are advance for different purpose and periods, it includes consumer loans, industrial and commercial loans and agricultural loan for a short, medium and long term periods.

4. **Discounting Bills of Exchange**

It is another way of advancing loan to the customers. Bank discount the bill of exchange held by the businessmen, which are payable after a certain period of time. Banks pay the holder of the bill and amount equal to their face value after deduction of interest at the current market rate for the period the bill has to mature. By discounting bill of exchange, a bank accommodates his customer for short term requirements for cash. The bills of exchange are very liquid asset to hold, because on their maturity, they can easily be turned into cash.

Principles of Advancing Loans

We also know that bank deals with other people's money, so any banker before making any advance, will have to consider many factors for the proper investment and safe return of the principle amount along with the profit expected. These principles are as under;

1. **Principle of safety**

It is the basic principle of the use of the bank's fund. There should be full security and safety of the return of the money advanced. For this purpose, bank asks for different kinds of guarantees and securities to cover the risk of advances. In case of loss, the amount advanced is covered by selling the securities offered for loans.

2. **Principle of liquidity**

It is in the interest of the bank to keep his money in a liquid form, convertible easily into cash, as and when desired by the bank. So bank invest his money in the short term advances and avoids in any long term financing like land, buildings and purchase of machinery.

3.

4. **Diversification in loans**

At the time of advancing loans, bank should satisfy himself about the purpose and use for which loan is advanced. For non-productive or illegal business no advance should be granted.

4. **Financial position**

Banker before advancing any loan should satisfy himself about the character, financial position and mode of repayment of the loan. Loan should be granted in accordance with the financial position of the firm or industry. Beyond the capacity, no loan should be granted, because there will be a great risk in the repayment of the loan.

TYPES OF INVESTMENTS

There are many types of investments and investing styles to choose from. Mutual funds, ETFs, individual stocks and bonds, closed-end mutual funds, real estate, various alternative investments and owning all or part of a business are just a few examples.

Stocks

Buying shares of stock represents ownership in the company and the opportunity to participate in the company's success via increases in the stock's price plus and dividends that the company might declare. Shareholders have a claim on the company's assets.

Holders of common stock have voting rights at shareholders' meetings and the right to receive dividends if they are declared. Holders of preferred stock don't have voting rights, but do receive preference in terms of the payment of any dividends over common shareholders. They also have a higher claim on company assets than holders of common stock.

Bonds

Bonds are debt instruments whereby an investor effectively is loaning money to a company or agency (the issuer) in exchange for periodic interest payments plus the return of the bond's face amount when the bond matures. Bonds are issued by corporations, the federal government plus many states, municipalities and governmental agencies.

A typical corporate bond might have a face value of $1,000 and pay interest semi-annually. Interest on these bonds are fully taxable, but interest on municipal bonds is exempt from federal taxes and may be exempt from state taxes for residents of the issuing state. Interest on Treasuries are taxed at the federal level only.

Bonds can be purchased as new offerings or on the secondary market, just like stocks. A bond's value can rise and fall based on a number of factors, the most important being the direction of interest rates. Bond prices move inversely with the direction of interest rates.

Mutual funds

A mutual fund is a pooled investment vehicle managed by an investment manager that allows investors to have their money invested in stocks, bonds or other investment vehicles as stated in the fund's prospectus.

Mutual funds are valued at the end of trading day and any transactions to buy or sell shares are executed after the market close as well.

Mutual funds can passively track stock or bond market indexes such as the S&P 500, the Barclay's Aggregate Bond Index and many others. Other mutual funds are actively managed where the manager actively selects the stocks, bonds or other investments held by the fund. Actively managed mutual funds are generally more costly to own. A fund's underlying expenses serve to reduce the net investment returns to the mutual fund shareholders.

Mutual funds can make distributions in the form of dividends, interest and capital gains. These distributions will be taxable if held in a non-retirement account. Selling a mutual fund can result in a gain or loss on the investment, just as with individual stocks or bonds.

Mutual funds allow small investors to instantly buy diversified exposure to a number of investment holdings within the fund's investment objective. For instance, a foreign stock mutual might hold 50 or 100 or more different foreign stocks in the portfolio. An initial investment as low as $1,000 (or less in some cases) might allow an investor to own all the underlying holdings of the fund. Mutual funds are a great way for investors large and small to achieve a level of instant diversification.

ETFs

ETFs or exchange-traded funds are like mutual funds in many respects, but are traded on the stock exchange during the trading day just like shares of stock. Unlike mutual funds which are valued at the end of each trading day, ETFs are valued constantly while the markets are open.

Many ETFs track passive market indexes like the S&P 500, the Barclay's Aggregate Bond Index, and the Russell 2000 index of small cap stocks and many others.

In recent years, actively managed ETFs have come into being, as have so-called smart beta ETFs which create indexes based on "factors" such as quality, low volatility and momentum.

Karpagam Academy of Higher Education

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

Coimbatore - 641 021.

DEPARTMENT OF COMMERCE

I M.Com

ADVANCED CORPORATE ACCOUNTING - 17CMP104

Academic Year: 2017- 2018

Questions	A	B	C	D			Answer
UNIT - I							
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
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
Any debit balance in Profit & Loss a/c represents ------------and such losses will be written off as part of capital reorganization.	Gains	Resources	Accumulated losses	Incomes			Accumulated losses
When shares issued at premium ------ account is credited.	Share premium account	Share first call account	Share allotment account	Share forfeited account			Share premium account
Minimum number of members in case of public company is---------.	4	5	6	7			7
Maximum number of members in public limited company is --------------- .	10	20	50	Unlimited			Unlimited

After gettingminimum subscription of shares, the company has to allot shares with in---------------days.	90	100	110	120			120
If the minimum subscription is not received by the company, then the refund of application money should be made within ----------days.	7	9	10	22			10
In case of public limited company, after gettingthe-----------the company can start the business	Memorandum of Association	Table A	Certificate of commencement of business	Articles of Association			Certificate of commencement of business
The amount of capital mentioned in MOA is ----------.	Authorised capital	Issued capital	Reserve capital	Subscribed capital			Authorised capital
The difference between called up capital and paid up capital is -------------.	Issued capital	Unpaid capital	Reserve capital	Uncalled capital			Unpaid capital
When the shares are issued to purchase the fixed asset, ------------- should be credited.	Asset a/c	Share premium a/c	Share capital a/c	Share allotment a/c			Share capital a/c
Accordingto companies Act----------- % of interest is to be paid on calls in arrears.	3	4	5	6			5
Accordingto Companies Act------------ % of interest is to be paid on calls in advance.	5	6	7	9			6
…… number of calls in a share issue -------------.	4	5	3	6			3
Interest on calls in advance is transferred to -------------.	Debit side of p&L a/c.	Credit side of P&L a/c	Liability side	Asset side			Debit side of p&L a/c.
The rate of discount on shares cannot exceed------------.	5%	10%	12%	15%			10%
Discount on issue of shares is shown on---------.	Asset side of the balance Sheet	Liability side of the balance sheet	Debit side of the profit and loss account	Credit side of the profit and loss account			Asset side of the balance Sheet
Discount of issue of shares is a ---------.	Revenue loss	Capital loss	Deferred revenue expenditure	Direct expenses			Capital loss
When shares are forfeited, the share capital account is debited by--------------.	Paid up capital	Called-up capital	Calls in arrears	Issue price of shares			Called-up capital
Discount on issue of forfeited shares should not exceed----------------.	5% od subscribed capital	10% of reissued capital	The amount received so far on forfeited shares	25% of original issue price.			The amount received so far on forfeited shares
The profit on reissue of forfeited shares is transferred to----------------.	General reserve	Capital redemption reserve	Capital reserve	Profit and loss account			Capital reserve
The buy-back of shares may be done ----------	At par	At discount	At premium	At par, discount and premium			At par, discount and premium
Rights shares are those shares which are-----------.	Issued by a newly formed company	First offered to the existingshare holders.	Issued to the directors of the company	Issued to holders of convertible debentures			First offered to the existingshare holders.
Real owners of a company are called as-------------.	Equity shareholders	Preference shareholders	Debenture holders	Bond holders			Equity shareholders

Preference share holders receive--------------.	Fixed rate of interest	Flexible rate of interest	Fixed rate of dividend	Flexible rate of dividend			Fixed rate of dividend
Equity Share holders have the rights of	Voting	Dividend	Interest	Voting and Bonus shares			Voting and Bonus shares
The amount on shares paid by share holders before it is actually due is-------------------.	Calls in arrears.	Calls in advance	Reserve capital	Subscribed capital			Calls in advance
The amount on shares not paid by share holders after it has been called by the company is--------------.	Calls in arrears	Calls in advance	Reserve capital	Subscribed capital			Calls in arrears
Minimum subscription decided by------------.	Share holders	Board of directors	Debenture holders	Creditors			Board of directors
When shares are forfeited, the amount already received is----------------.	Refunded	Treated as revenue profit	Retained by company	Distributed as dividend			Retained by company
Dividend is paid on ------------.	Issue price	Market price	Face value	Paid up amount on shares			Paid up amount on shares
If proposed dividend is 18% of the paid up capital, the percentage of profit transferred to reserve is-----------.	2.50%	5%	7.50%	10%			10%
………….. form is the profits of the company are distributed amongst the shareholders.	Shares	Premium from issue of share	Reserves	Dividend			Dividend
The dividend that is declared between AGM is------------.	Interim dividend	Final dividend	Semi dividend	Half-yearly dividend			Interim dividend
The total remuneration payable to the managerial personnel should not exceed----------net profits.	5%	10%	11%	15%			11%
Private company has minimum-------------.	2 directors	5 directors	10 directors	20 directors			2 directors
Forfeited shares to become-------------.	Property of the government.	Property of the company	Property of the shareholders	Property of all the shareholders			Property of the company
Advance payment of tax is in the nature of -----------.	Capital expenses	Revenue expenses	Pre-paid expenses	Outstandingexpenses			Pre-paid expenses
In the liabilities side of the company's balance sheet, calls in arrears are shown-----------.	Under the headingReserves and Surplus.	Under the headingcurrent liabilities	Under the headingSecured loans	By subtractingthe amount from the called up capital.			By subtractingthe amount from the called up capital.
In the asset side of the company's balance sheet, fictitious asset like Discount on issue of debentures are shown under the heading -------------	Fixed assets	Investments	Current assets	Miscellaneous expenditure			Miscellaneous expenditure
Preliminary expenses are an example of--------------------	Fixed assets	Current assets	Fictitious asset.	Investment			Fictitious asset.
Debentures are shown in the balance sheet under the heading -------------	Unsecured loans	Current liabilities	Secured loans	Share capital			Secured loans
Interest on debenture is----------.	Variable in nature	Fixed in nature	Optional	Appropriation.			Fixed in nature

Profit on cancellation of own debentures are transferred to--------------.	P&L a/c	Capital reserve	General reserve	Dividend equalization fund			Capital reserve
The maximum remuneration payable to a part time director should not exceed-----------------.	1% of the annual profit	3% of the annual profits	5% of the annual profits	10% of the annual profits			5% of the annual profits
Final accounts of a company include-----------------------.	Profit & Loss account	Trading	Balance sheet	P&L account, P&L appropriation account and Balance Sheet			Trading, Profit & Loss account and Balance Sheet
Loose tools is shown in the balance sheet under the head---------------.	Fixed assets	Loans and advances	Current assets	Miscellaneous assets			Fixed assets
The surplus found in P&L appropriation account is shown under the head--------------------.	Share capital	Reserves and surplus	Current liabilities	Current provision.			Reserves and surplus
In the liabilities side of the company's balance sheet, calls in arrears are shown-----------.	Under the headingReserves and Surplus.	Under the headingcurrent liabilities	Under the headingSecured loans	By subtractingthe amount from the called up capital.			By subtractingthe amount from the called up capital.
In the asset side of the company's balance sheet, fictitious asset like Discount on issue of debentures are shown under the heading -------------	Fixed assets	Investments	Current assets	Miscellaneous expenditure			Miscellaneous expenditure
Preliminary expenses are an example of--------------------	Fixed assets	Current assets	Fictitious asset.	Investment			Fictitious asset.
Debentures are shown in the balance sheet under the heading ------------	Unsecured loans	Current liabilities	Secured loans	Share capital			Secured loans

KARPAGAM ACADEMY OF HIGHER EDUCATION

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

Coimbatore - 641 021.

Unit I

Preparation of Company Final Accounts – Treatment and Provisions for Income Tax – Divisible Profit – Bonus shares – Calculation of Managerial Remuneration.

Preparation and Presentation of the Final Accounts:

In respect of preparation and presentation of the final accounts the requirements of Section 210 of the Companies Act are quoted below:

(1) At every annual general meeting of a company in pursuance of section 166, the Board of Directors of the company shall lay before the company :

(a) A balance sheet as at the end of the period specified in sub-section (3); and (b) a profit and loss account for that period.

(2) In case of a company not carrying on business for profits, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account and all references to "profit and loss account", "profit" and "loss" in this and elsewhere in this Act shall be construed, in relating to such a company as references respectively to the "income and expenditure account", "the excess of income over expenditure" and "the excess of expenditure over income".

(3) The profit and loss account shall relate :

(a) In the case of the first annual general meeting of the company to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months: and

(b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months or in case where an extension of time has been granted for holding the meeting under the second provision to sub-section (1) of section 166, by more than six months and the extension so granted.

(4) The period to which the account aforesaid relates is referred to in this Act as a financial year and it may be less or more than a calendar year, but it shall not exceed fifteen months.

Provided that it may extend to eighteen months where special permission has been granted in that behalf by the registrar.

(5) If any person, being a director of a company, failure to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that in case of any proceedings against a person in respect of an offence under this section, it shall be a defense to prove that a competent and reliable person was charged with the duty of seeing that the provision of this section were complied with and was in a position to discharge that duty.

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed willfully.

(6) If any person, not being a director of the company, having been charged by the Board of Directors with the duty of seeing that the provisions of this section be complied with, makes default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that no person be sentenced to imprisonment for any such offence unless it was committed willfully.

FINAL ACCOUNTS

So far, we have discussed that how the business transactions are recorded in Journal andledger and how to detect and rectify the errors and how to prepare Trial Balance. Is quite natural that the businessman is interested in knowing whether his business is running on Profit or Loss and also the true financial position of his business. The main aim of Bookkeeping is to inform the Proprietor, about the business progress and the financial position at the right time and in the right way. Preparation of Final accounts is highly possible only after the preparation of Trial Balance.

Final Accounts

Trading & Profit and Loss A/c Balance sheet

1. Trading and Profit and Loss A/c is prepared to find out Profit or Loss.
2. Balance Sheet is prepared to find out financial position a if concern.

Trading and P&L A/c and Balance sheet are prepared at the end of the year or at end of thepart. So it is called Final Account.

Revenue account of trading concern is divided into two-part i.e.

1. Trading Account and
2. Profit and Loss Account.

TRADING ACCOUNT

Trading refers buying and selling of goods. Trading A/c shows the result of buying andselling of goods. This account is prepared to find out the difference between the Selling pricesand Cost price. If the selling price exceeds the cost price, it will bring Gross Profit. Forexample, if the cost price of Rs. 50,000 worth of goods are sold for Rs. 60,000 that will bring inGross Profit of Rs. 10,000.If the cost price exceeds the selling price, the result will be Gross Loss. For example, if thecost price Rs. 60,000 worth of goods are sold for Rs. 50,000 that will result in Gross Loss of Rs.10, 000.

Thus the Gross Profit or Gross Loss is indicated in Trading Account.

Items appearing in the Debit side of Trading Account.

1. **Opening Stock**: Stock on hand at the commencement of the year or period is termed as theOpening Stock.

2. **Purchases:** It indicates total purchases both cash and credit made during the year.

3. **Purchases Returns or Returns out words:** Purchases Returns must be subtracted from thetotal purchases to get the net purchases. Net purchases will be shown in the trading account.

4. **Direct Expenses on Purchases**: Some of the Direct Expenses are.

i. **Wages**: It is also known as Productive wages or Manufacturing wages.

ii. Carriage or Carriage Inwards:

iii. **Octroi Duty:** Duty paid on goods for bringing them within municipal limits.

iv. Customs duty, dock dues, Clearing charges, Import duty etc.

v. **Fuel, Power, Lighting charges related to production**.

vi. **Oil, Grease and Waste**.

vii. **Packing charges:** Such expenses are incurred with a view to put the goods in the

Saleable Condition.

Items appearing on the credit side of Trading Account

1. Sales: Total Sales (Including both cash and credit) made during the year.

2. Sales Returns or Return Inwards: Sales Returns must be subtracted from the Total Sales toget Net sales. Net Sales will be shown.

3. Closing stock: Generally, Closing stock does not appear in the Trial Balance. It appearsoutside the Trial balance. It represents the value of goods at the end of the trading period.

PROFIT AND LOSS ACCOUNT

Trading account reveals Gross Profit or Gross Loss. Gross Profit is transferred to credit side of Profit and Loss A/c. Gross Loss is transferred to debit side of the Profit Loss Account. Thus Profit and Loss A/c is commenced. This Profit & Loss A/c reveals Net Profit or Net loss at a given time of accounting year.

Items appearing on Debit side of the Profit & Loss A/c

The Expenses incurred in a business is divided in too parts. i.e. one is Direct expenses are Recorded in trading A/c., and another one is Indirect expenses, which are recorded on the debitside of Profit & Loss A/c. Indirect Expenses are grouped under four heads:

1. **Selling Expenses**: All expenses relating to sales such as Carriage outwards, Travelling Expenses, Advertising etc.,

2. **Office Expenses**: Expenses incurred on running an office such as Office Salaries, Rent, Tax,Postage, Stationery etc.,

3. **Maintenance Expenses**: Maintenance expenses of assets. It includes Repairs and Renewals,Depreciation etc.

4. **Financial Expenses**: Interest Paid on loan, Discount allowed etc., are few examples forFinancial Expenses.

Item appearing on Credit side of Profit and Loss A/c.

Gross Profit is appeared on the credit side of P & L. A/c. Also other gains and incomes of the business are shown on the credit side. Typical of such gains are items such as Interest received, Rent received, Discounts earned, Commission earned.

Preparation Of And Presentation Of Final Accounts Of Joint Stock Companies As Per Company Law Requirements - Performa

SCHEDULE VI, PART II

Form of Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening Stock	xxx	By Sales xxx	
To Purchases		Less: Sales Returns xxx	xxx
Less: Purchas Returns	xxx	By Closing Stock	
To Freight and Carriage	xxx		
To Wages	xxx		
To Coal & Coke	xxx		
To Gross Profit c/d	xxx		
	xxx		
To Salaries	xxx		xxx
To Rent	xxx	By Gross Profit b/d	xxx
To Discount	xxx	By Interest Received	xxx
To Commission	xxx	By Rent Received	xxx
To Advertisement	xxx	By Discount	xxx
To General Expenses	xxx	By Commission	xxx
To Directors' Fees	xxx	By Profit on sale of Assets	xxx
Too Bad Debts			
To Loss on sale of assets			
To Depreciation			
To Preliminary Expenses			
To Provision for Income Tax			
To Net Profit c/d			
	xxx		xxx

PROFIT AND LOSS APPROPRIATION ACCOUNT:

The profit and loss appropriation account may be separately prepared to give details regarding the balance of profit and loss brought forward from last year , the net profit (loss) earned during year and appropriation made during the year

Proforma Of Profit And Loss Appropriation Account

Profit and loss appropriation account of ……….co. Ltd.

(as on 31 march, 20…………)

particulars	Rs.	particulars	Rs.
To Transfer to Reserves	Xxx	By Last year's Balance b/d	Xxx
To Income Tax for previous	Xxx	By Net Profit for the year b/d	Xxx
year not provided for	Xxx	By Amount withdrawn from	Xxx
To Interim Dividend	Xxx	General Reserve or any other	
To Proposed dividend	Xxx	reserve	Xxx
To Surplus (Balance figure)	xxx	By Provision such as Income	
carried to Balance Sheet		Tax provision no longer	xxx
		required	

PROBLEMS INPROFIT AND LOSS APPROPRIATION ACCOUNT

Illustration:1

The accounts of the thackery Ltd an amount of Rs3,00,000 to the credit of profit &loss account on 31.3.1998 out of which the directors decided to place Rs60,000 to general reserve and Rs42,000to debentures redemption fund. At the annual general meeting held on15.6.1998 , it was decided to place Rs20,000 to a development reserve and to pay a bonus of 2.5 % of the profit to directors as additional remuneration. The payment of the half-yearly dividends on Rs5,00,000 6% cumulative preference shares on Sept 30,1997 and march,31,1998 was confirmed and a dividend@10% was declared on the equity share capital of the face value of Rs6,00,000 . The balance of profit & loss account is to be carried forward to next year. Prepare profit& loss Appropriation account showing the above arrangements

Solution:

Profit and loss appropriation account for the year ended 31.3.1998

Particulars	Amount	Particulars	Amount
To general reserve	60,000	By net profit as per P& L A/c	3,00,000
To debenture redemption fund	42,000		
To development reserve A/c	20,000		
To director's remuneration (2.5 % on Rs3,00,000)	7500		
To preference share dividend A/c (6% on Rs5,00,000)	30,000		
To equity share dividend A/c (10% on Rs 6,00,000)	60,000		
To balance of profit carried forward to B/S	80500		
	3,00,000		**3,00,000**

Illustration:2

Klusener Ltd had Rs21, 00,000 profit on31.3.1998 after making provisions for deprecation and taxation Rs1, 30,400 , profit was brought forward from last year . Following recommendation were made by the directors of the company to appropriate the profits:

To transfer Rs6, 30,000 to general reserve

To pay Rs85, 000 as ex-gratia bonus to employees of the company

To declare dividend @5% on equity shares

To transfer Rs45, 000 to staff gratuity reserve

To transfer Rs 50,000 to development rebate reserve

To transfer Rs90, 000 to deferred taxation reserve

The company's capital consisted of 1,00,000 equity shares of Rs10 each fully paid. For the year ending at 31.3.98, the directors transferred Rs40, 000 to dividend equalization reserve and Rs30,000 to debenture redemption fund account. Prepare profit & loss Appropriation account.

Solution:

Profit and loss appropriation account for the year ended 31.3.1998

Particulars	Amount	Particulars	Amount
To proposed bonus	85,000	by balance b/d	1,30,400
To proposed transfer to general reserve	6,30,000	By net profit for the year	21,00,000
To proposed dividend 10,00,000*5/100	50,000		
To staff gratuity reserve	45,000		
To development rebate reserve	50,000		
To deferred taxation reserve	90,000		
To dividend equalization reserve	40,000		
To debenture redemption fund A/c	30,000		
To balance carried forward to B/S	12,10,400		
	22,30,400		**22,30,400**

BALANCE SHEET

Trading A/c and Profit & Loss A/c reveals G.P. or G.L and N.P or N.L respectively,

Besides the Proprietor wants

i. To know the total Assets invested in business

ii. To know the Position of owner's equity

iii. To know the liabilities of business.

DEFINITION

The Word 'Balance Sheet' is defined as "a Statement which sets out the Assets and Liabilities of a business firm and which serves to ascertain the financial position of the same on Any particular date."On the left hand side of this statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Therefore the two sides of the Balance sheet must always be equal. Capital arrives Assets exceeds the liabilities.

OBJECTIVES OF BALANCE SHEET:

1. It shows accurate financial position of a firm.
2. It is a gist of various transactions at a given period.
3. It clearly indicates, whether the firm has sufficient assents to repay its liabilities.
4. The accuracy of final accounts is verified by this statement
5. It shows the profit or Loss arrived through Profit & Loss A/c.

SCHEDUL VI, PART I

(SECTION 211)

FORM OF BALANCE SHEET

A. HORIZONTAL FORM

Balance Sheet of ….. (here enter the name of the company)

As on …….. (here enter the date as at which the balance sheet is made out)

Figures for the previous year Rs. (1)	Liabilities (2)	Figures for the current year Rs. (3)	Figures for the previo us year Rs. (4)	Assets (5)	Figures for the current year Rs. (6)
	Share Capital: **Authorized** … shares of Rs. ….each **Issued**: …. Shares of Rs. …. Each **Subscribed:** …. Shares of Rs. …..each.			**Fixed Assets:** (a)Goodwill (b)Land (c) Buildings (d) Leaseholds (e) Railway sidings (f) Plant and machinery (g) Furniture and Fittings	

	Less: Calls Unpaid: (i) By Directors (ii) By others **Add:** Forfeited Shares **Reserves and Surplus:** 1.Capital Reserve 2.Capital Redemption Reserve 3.Share premium A/c 4. Other Reserves 5. Surplus 6. Proposed additions to Reserve 7. Sinking funds **Secured Loans:** 1.Debentures 2.Loans and advances from Banks 3.Loans and advances from subsidiaries 4. Other loans and advances **Unsecured Loans:** 1Fixed Deposits 2.Loans and advances from subsidiaries 3. Short term Loans and Advances 4. Other loans and advances **Current Liabilities**			(h) Development of Property (i) Patents, trademarks and designs (j) Livestock (k) Vehicles etc., **Investments:** 1. Investment in Government or trust securities 2. Investments in shares, debentures and bonds 3. Immovable properties 4. Investments in the capital of partnership firms **Current assets, Loans and Advances:** **(A)Current Assets** 1. Interest accrued on investments 2. Stores and Spare Parts 3. Loose tools 4. stock in Trade 5. Work in progress 6. Sundry Debtors 7. Cash in hand and at bank **(B) Loans and Advances:** 8. Advances and loans to subsidiaries 9. Advances and loans to partnership 10. Bills of Exchange 11. Balances with customs, port trust etc., **Miscellaneous Expenditure:**	

	and Provisions: **A. Current Liabilities** 1.Acceptances 2.Sundry Creditors 3.Subsidiary Companies 4. Advance payments 5. Unclaimed dividends 6. Other Liabilities 7. Interest accrued but not due on loans **B. Provisions** 1.Provision for Taxation 2.Proposed Dividend 3.For Contingencies 4.For proposed fund scheme 5.For insurance, pension and similar staff benefit schemes 6.For Provident Fund scheme 7. Other Provisions			1.Preliminary Expenses 2.discount on issue of Shares 3. Underwriting Commission **4.** Development Expenditure **Profit and Loss Account**	

VERTICAL FORM OF BALANCE SHEET

Vertical form of Balance sheet inserted as Part B of Part I of Schedule VI to the Companies Act, 1956 by GSRNo.220 (E) dated 12 – 03 – 1979 is as follows:

B. VERTICAL FORM

Name of the Company ……………….

Balance Sheet as at ……………….

(1)	Schedule No. (2)	Figures as at the end of current financial year (3)	Figures as at the end of previous financial year (4)
I.SOURCES OF FUNDS			
(1) Shareholders' Funds:			
(a) Capital			
(b) Reserves and Surplus			
(2) Loan funds:			
(a) Secured Loans			
(b) Unsecured Loans			
II. APPLICATION OF FUNDS			
(1) Fixed assets:			
(a) Gross block			
(b) Less Depreciation			
(c) Net block			
(d)Capital work-in-progress			
(2) Investments			
(3) Current Assets, Loans and Advances:			
(a) Inventories			
(b) Sundry Debtors			
(c) Cash and bank balance			
(d) Other current assets			
(e) Loans and advances			

Less: Current liabilities and Provisions (a) Liabilities (b) Provisions **Net Current Assets** (1) (a) Miscellaneous Expenditure to the extent Not written off or Adjusted (c) Profit and Loss Account **Total**			

Illustration 6 : Prepare a Balance Sheet in Vertical form as at 31st March, 2010 from the following information of Goodwill Company Limited as required under Part I B of Schedule VI of the Companies Act, 1956 :

	Rs.
Term loan	10, 00,000
Sundry Creditors	11, 45,000
Advances	3, 72,000
Cash and Bank Balances	2, 75,000
Staff Advances	55,000
Provision for Taxation	1, 70,000
Securities Premium	4, 75,000
Loose tools	50,000
Investments	2, 25,200
Loss for the year	3, 00,000
Sundry Debtors	12, 25,000
Miscellaneous Expenses	58,000
Loans from debtors	2, 00,000
Provision for doubtful debts	20,200
Stores	4, 00,000
Fixed assets (WDV)	51, 50,000
Finished goods	7, 50,000
General Reserve	20, 50,000
Capital work – in – progress	2, 00,000

Additional Information:

(1) Share capital consists of :
   (a) 3,000 Equity Shares of Rs. 100 each fully paid up.
   (b) 10,000 – 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
(2) Term loans are secured
(3) Depreciation on assets Rs. 5,00,000
(4) Schedule need not be given. However, groupings should form part of the answer.

Solution :

Goodwill Company Limited
BALANCE SHEET
As on 31st March, 2010

		As on 31-3-10	As on 31-3-10
Sources of Funds			
1. Shareholders' Funds :			
(a) Share Capital		13,00,000	
(b) Reserves and Surplus		25,25,000	38,25,000
2. Loans Funds :			
(a) Secured Loans		10,00,000	
(b) Unsecured Loans		Nil	10,00,000
3. Suspense Account (Balancing figure)			27,00,000
			75,25,000
Application of Funds			
1. Fixed Assets:			
(a) Gross Block		56,50,000	
(b) Less : Depreciation		5,00,000	
(c) Net Block		51,50,000	
(d) Capital work-in-progress		2,00,000	53,50,000
2. Investments			2,25,200
3. Current Assets, Loans & Advances			
(a) Inventories		12,00,000	
(b) Sundry Debtors		12,04,800	
(c) Cash and Bank Balances		2,75,000	
(d) Loans and Advances		4,27,000	
		31,06,800	
Less : Current Liabilities & Provisions :			
(a) Current Liabilities	13,45,000		
(b) Provisions	1,70,000	15,15,000	15,91,800
4. Miscellaneous Expenditure :			
(a) Profit and Loss Account		3,00,000	
(b) Miscellaneous Expenses		58,000	3,58,000
			75,25,000

Working Notes: Rs.

1. Share Capital:
   3,000 Equity Shares of Rs. 100 each 3, 00,000

10,000 – 10% Redeemable Preference Shares of Rs. 100 each		10, 00,000
		13, 00,000
2. Reserves and Surplus:		
Securities Premium		4, 75,000
General Reserve		20, 50,000
		25, 25,000
3. Fixed assets:		
Fixed Assets at WDV		51, 50,000
Add: Depreciation	5, 00,000	
		56, 50,000
4. Inventories:		
Finished Goods		7, 50,000
Stores		4, 00,000
Loose Tools		50,000
		12, 00,000
5. Sundry Debtors:		12, 25,000
Less: Provision for Doubtful Debts		20,200
		12, 04,800
6. Loans and Advances:		
Advances		3, 72,000
Staff Advances		55,000
		4, 27,000
7. Current Liabilities :		
Sundry Creditors		11, 45,000
Loans from Debtors		2, 00,000
		13, 45,000

Illustration 7 The Arun Manufacturing Company Limited was registered with a nominal capital of Rs. 60,00,000 in Equity Shares of Rs. 10 each. The following is the list of balances extracted from its books on 31st March 2009:

	Rs.
Calls-in-arrear	75,000
Premises	30,00,000
Plant and Machinery	33,00,000
Interim dividend paid on 1st November, 2008	3,92,500
Stock, 1st April, 2008	7,50,000
Fixtures	72,000
Sundry Debtors	8,70,000
Goodwill	2,50,000
Cash in hand	7,500
Cash at Bank	3,99,000
Purchases	18,50,000
Preliminary Expenses	50,000
Wages	8,48,650
General Expenses	68,350
Freight and Carriage	1,31,150
Salaries	1,45,000
Directors' Fees	57,250
Bad Debts	21,100
Debenture interest paid	1,80,000
Share Capital	40,00,000
12% Debentures	30,00,000
Profit and Loss Account (Credit Balance)	2,62,500
Bills Payable	3,70,000
Sundry Creditors	4,00,000
Sales	41,50,000
General Reserve	2,50,000
Bad debts Provision 1st April, 2008	35,000

Prepare Trading and Profit and Loss Account and Balance Sheet in proper form after making the following adjustments:

(a) Depreciate Plant and Machinery by 15%.
(b) Write off Rs. 5,000 from Preliminary Expenses.
(c) Provide for half year's debenture interest due.
(d) Leave Bad and Doubtful Debts Provision at 5% on Sundry Debtors.
(e) Provide for Income Tax @ 50%.
(f) Stock on 31st March, 2009 was Rs. 9,50,000.

Solution:

Trading and Profit and Loss Account of Arun Manufacturing Company Limited
As on 31st March, 2009

		Rs.		Rs.
To Opening Stock		7,50,000	By Sales	41,50,000
To Purchases		18,50,000	By Closing Stock	9,50,000
To Wages		8,48,650		
To Freight and Carriage		1,31,150		
To Gross Profit c/d		15,20,200		
		51,00,000		51,00,000
To Salaries		1,45,000	By Gross Profit b/d	15,20,200
To General Expenses		68,350		
To Directors' Fees		57,250		
To Bad debts	21,100			
Add: New Provision	43,500			
	64,600			
Less: Old Provision	35,000	29,600		
To Debenture interest paid	1,80,000			
Add: Outstanding	1,80,000	3,60,000		
To Depreciation on Plant and Machinery		4,95,000		
To Preliminary Expenses		5,000		
To Provision for Income Tax		1,80,000		
To Net Profit c/d		1,80,000		
		15,20,200		15,20,200
To Interim Dividend		3,92,500	By Balance b/d	2,62,500
To Profit Transferred to Balance Sheet		**50,000**	By Net Profit b/d	1,80,000

DISPOSAL OF PROFITS

The main objectives of a firm are to maximize the shareholders wealth. Cash generated from the successful operation of business are generally distributed among the shareholders' in the forms of dividend. But a company may also decide not to pay dividend to their shareholders if it is better to put the business's profits to work making the business itself more valuable.

It simply means that a company can dispose their profits in two different ways: Disposal in the forms of dividend; and transferring the profits to reserve funds/retained earnings.

After making provision for bad and doubtful debts, depreciation of assets and all other matters which are usually provided for by bankers, the company may out of its net annual profits declare a dividend. In the process of making dividend decision a company generally consider following factors:

- Transaction cost
- Personal taxation
- Dividend clientele
- Dividend payout ratio
- Dividend cover
- Liquidity
- Divisible profits
- Rate of expansion
- Rate of return
- Stability of earnings
- Stability of dividend
- Legal provisions
- Degree of control and
- Cost of financing

Considering these factors a company can take the decisions regarding dividend. A dividend is generally considered to be a cash payment issued to the holders of company stock. However, there are several types of dividends, some of which do not involve the payment of cash to shareholders. Some of these are:

- Stock dividend
- Property dividend
- Scrip dividend
- Liquidating dividend

Opposite to this, a company might choose to hoard its profit. This is especially true for businesses with cyclical sales and profits. For example, an airplane manufacturer might spend a lot of money one year building or upgrading a factory. It might lose money that year. In a couple of years, when the factory is making lots of planes and selling lots of planes, profits might go up, and so the company will prefer to save that money to buy the next factory.

Similarly, a company that plans to grow much larger might reinvest its profits back into the company so that it's worth more in the near future. You often see this in technology stocks, where acquiring more customers or increasing the value of each customer will hopefully produce even more revenue in the future—and more profits.

A company might also acquire other companies. This is similar to investing in the company. You can see this happen in very large companies, where it's cheaper and easier to buy an established but smaller company than it is to start a new line of business.

Added to these, a company may prefer to retain earning within the company due to the following reasons:

- Financial security of the company
- Expansion activities
- Sources of finance for planned future investment
- Want to maintain/increase working capital
- It is more tax efficient
- To fund pension or remuneration
- Regulatory requirements
- Build up reserves due to concern about future cash flow.

Issue of Bonus Shares

Introduction:

The undistributed profits, after the necessary provisions for taxation, are the property of the equity shareholders and the same may be used by the company for distribution as dividends to them. But the sound financial policy demands that some of the profits at least must be ploughed back into the business. Thus when a company has accumulated substantial amount of past profits as might be found in the credit of capital reserves, revenue or general reserve of profit and loss account; it is desirable to bring the amount of issued share capital closer to the actual capital employed as represented by the net assets (Assets – Liabilities) of the company. This would reflect the true amount of capital invested by the shareholders in the company.

For example, the capital, which the shareholders have contributed for shares, is clearly visible since this was contributed in cash. But the capital, which they have contributed in the form of accumulated profits, remains unknown because this was not a direct contribution in cash. In order to rectify these, accumulated profits in full or in part are capitalized, that is, accumulated profits are converted into shares. Shares are distributed free of charge and therefore are known as Bonus Shares, which are given to existing shareholders pro rata to their holdings. It may be added the bonus shares may be issued to make up the existing partly paid shares as fully paid.

Objecive behind the Issue of Bonus Shares:

1. Company's cash resources may not be sufficient to pay dividend in cash

2. Company wants to build up cash resources for expansion or for repayment of a liability.

3. Company may want to bring its paid up capital more in line with the capital resources employed in the business.

4. It may be required to with a view to bringing down the rate of dividend though not the quantum of dividend on the issued capital of the company.

SEBI GUIDELINES on the issue of bonus shares

There are no guidelines for issuing bonus shares by the private companies or unlisted public companies has been issued by the SEBI (Disclosure and investor protection) Guidelines, 2000.

However, the listed public companies for issuing bonus shares to the shareholders must comply with the guidelines issued by the SEBI (disclosure and Investor Protection) Guidelines, 2000.

The requirements of the guidelines of SEBI are given below:

a) Right of FCD/PCD holders: No company shall pending the conversion of FCDs/PCDs issue any shares by way of bonus unless similar benefit is extended to the holders of FCDs/PCDs, through reservation of shares in proportion to such convertible part of FCDs/PCDs. The shares so reserved may be issued at the time of conversion of such debentures on the same terms on which the rights or bonus issues were made.

b) Out of free reserves: the bonus issue shall be made out of free reserves built out of genuine profits or share premium collected in cash only.

c) Revaluation of fixed assets: reserves created by revaluation of fixed assets should not be capitalised. If assets are subsequently sold and the profits are realized, such profits could be utilised for capitalization.

d) Bonus issue not to be in lieu of dividend: The declaration of bonus issue, in lieu of dividend, should not be permitted.

e) Fully paid shares: Bonus issue shall not be made, unless the partly paid shares, if any, existing are made fully paid up.

f) No default in respect of deposit/debentures: the company should not have defaulted in payment of any interest or principal in respect its fixed deposits and interest on debentures or redemption of debentures.

g) Statutory dues of the employees: the company should not be defaulted in payment of its statutory dues to the employees such as contribution to PF, gratuity, bonus, minimum wages, workmen's compensation, retrenchment, payment to contract labour etc.

h) Implementation of proposal: The bonus issue shall be implemented within a period of 15 days after the date of approval of the BoD; it does not require the shareholders' approval for capitalization of profits or reserves for making bonus issue as per the AoA of the company. However, if the company is required to get the shareholders' approval as per AoA of the company for capitalization of profits or reserves, the bonus issue shall be implemented within 2 months from the date of the meeting of the BoD.

i) Provision in the AoA: the AoA of the company should provide the provision for the capitalization profits, i.e. it must authorize the bonus issue, if not, and steps should be taken to alter the AoA suitably.

j) Authorised capital: consequent upon bonus issue if the subscribed or paid up capital of the company exceed the authorised capital, then a resolution shall be passed by the company at its GM for increasing its authorised capital to that extent.

k) Certificate: A certificate duly signed by the issuer company and countersigned by the statutory auditor or the company secretary in practice to the effect that the provisions of the guidelines has been complied with shall be forwarded to the SEBI.

Difference between Bonus Shares and Right Shares

• **Bonus Issue:** Bonus shares are additional free shares issued to the shareholder by the company. Profitable Companies in India issue Bonus Shares. These are additional shares issues given the shareholder without any cost to existing shareholders.

• **Rights Issue:** Rights issues are the shares issued by a company only to its existing shareholders which will be cheaper than the current market price of that company share. In Rights Issue, some costs are involved and the shareholders can either subscribe or unsubscribe.

Free reserves that can be used for issue of Bonus shares:

a) Surplus in profit and loss account.

b) General reserve.

c) Dividend equalization reserve.

d) Capital reserve arising from sale of fixed assets in cash.

e) Balance in debenture redemption reserve after redemption of debentures.

f) Capital redemption reserve account created at the time of redemption of redeemable preference shares out of the profits.

g) Securities premium account collected in cash.

Reserves not available for issue of Bonus Shares:

a) Capital reserve arising due to revaluation of assets.

b) Securities premium arising on issue of shares on amalgamation or take over.

c) Investment allowance reserve/ Development allowance reserve before expiry of 4 years from the date of creation.

d) Surplus arising from a change in the method of depreciation.

e) Balance in debenture redemption reserve account before redemption takes place.

Accounting treatment

a) For fully paid bonus shares

1) Capital Redemption Reserve A/c Dr
Securities Premium A/c Dr
Profit and Loss Account Dr
General reserve and other Free reserves A/c Dr

To Bonus to Shareholders A/c

2) Bonus to Shareholders A/c Dr

To Equity Share Capital A/c

To Securities Premium A/c

b) For bonus shares issued to make partly paid shares fully paid up

1) Profit and Loss Account Dr

General reserve and other Free reserves A/c Dr

To Bonus to Shareholders A/c

2) Share Final call A/c Dr.

To Share Capital A/c

3) Bonus to Shareholders A/c Dr

To Share final call A/c

Managerial Remuneration in a Company

Overall Maximum and Minimum Remunerations Legal Restrictions:

The Companies Act provides some restrictions on the managerial remuneration provided by a private company (a subsidiary of a public company) or a public company.

These restrictions are enumerated:

(a) Maximum Limit:

According to Sec. 198 of the Companies act, the total managerial remuneration payable by a public company or a private company—which is subsidiary of a public company—to its directors and its managers in respect of a financial year computed in the manner laid down in Sections 349, 350 and 351— except that the remuneration of the directors shall not be deducted from the gross profit.

Explanation:

'Remuneration' includes (as per Sections 309, 311, 348 and 387):

(a) Any expenditure incurred by the company in providing any rent-free accommodation or any other benefit or amenity in respect of accommodation free of charge, to any of the persons aforesaid.

(b) Any expenditure incurred by the company in providing any other benefit or amenity free of charge or at a concessional rate to any of the persons aforesaid.

(c) Any expenditure incurred by the company in respect of any obligation or service, which, but for such expenditure by the company, would have been incurred by any of the persons aforesaid;

(d) Any expenditure incurred by the company to effect any insurance on the life of, or to provide any pension, annuity or gratuity for any of the person aforesaid or his spouse or child.

It is to be noted that according to Sec. 200 of the Companies' Act, 1956, no company can now pay to any of its officer or employees remuneration, fee or any tax or varying with any tax payable by him.

(b) Minimum Limit:

According to Sec. 198 (Subsection 4) of the Companies (Amendment) Act, 1988—subject to the provisions of Sec. 269 (Schedule XIII)—a company shall not pay to its Directors (including any managing or whole time Director or manager) by way of remuneration any sum exclusive of any fees payable to Directors under Sec. 309 (2) except with the previous approval of the Central Government, if the company has inadequate profits or no profits in any financial year. This is subject to the of Sec. 209 (which deals with appointment of managing or whole time Director or manager) read with Schedule XHL

Remuneration to Directors:

The remuneration to Directors is governed by Sec. 309 of the Companies Act, which is to be determined by – the Articles or by the resolution (special resolution if the articles so require).

Fees may be payable by the articles for attendance of the meeting of the board or committee subject to:

(a) A whole-time or managing director may be paid remuneration by way of monthly pay and/or specified percentage of net profit of the company (not exceeding 5% where there is only one such director, and not exceeding 10% in all where there are more than one whole-time director).

(b) A part-time director (i.e., not whole-time or managing director) may be remunerated either by way of monthly, quarterly or annually (with the approval of the Central Government or by way of commission (if the company by special resolution authorizes) not exceeding 1% for all such Directors, Secretaries, Treasurers or Managers and not exceeding 3% for all such Directors in other cases, or at higher percentage with the approval of the Central Government.

(c) Any whole-time or managing director shall not be entitled to receive any commission from any subsidiary of such company.

(d) The special resolution shall remain in force for a maximum period of 5 years. It may, however, be renewed, from time to time, by a special resolution for further periods of 5 years but no renewal can be effected earlier than 1 year from the date on which it is to come into force.

(e) A Director may be paid fees for attending each meeting of the Board or a committee thereof attended by him.

(f) If any Director receives any sum in excess of remuneration due to him, he shall keep the excess amount in trust for the company and shall refund it to the company. The company, however, cannot waive the recovery of any such sum.

(g) The above rules shall not apply to a private company unless it is a subsidiary of a public company.

(h) Prohibition of tax-free payment. A company shall not pay any officer or employee remuneration free of tax (Sec. 200).

(i) The net profit for the purpose of Directors' remuneration shall be computed as per prescribed manner laid down in Sections 349 and 350 without deducting the Directors' remuneration from the gross profit.

However, Sec 310 of the Companies Act, 1956, provides that any increase in remuneration of any Director of a public company or a private company which is a subsidiary of a public company, shall not be valid:

(i) In case where Schedule XIII is applicable (unless such increase is as per the conditions specified in that Schedule) and

(ii) In any other case, unless the same is approved by the Central Government.

Sec. 309 does not apply to a private company unless it is a subsidiary of a public company.

It should be noted that the remuneration payable to a director shall include all remuneration payable to him for services rendered in any other capacity unless the services are rendered in professional capacity and the director possesses the requisite qualifications for the practice of the profession in the opinion of the Central Government.

Remuneration to Manager:

According to Sec. 2 (24), 'Manager' means an individual who has the management of the whole or substantially the whole of the affairs of a company. He is actually subject to the superintendence, control and directions of the Board of Directors. Thus, 'Manager' includes a director or any other person accompanying the position of a manager—by whatever name called.

A company cannot have more than one manager at a time:

The remuneration to manager is governed by Sec. 387 of the Companies Act. The manager of a company may receive remuneration by way of a monthly payment and/or by way of a specified percentage on net profit calculate according to Sees. 349, 351 provided that such remuneration shall not exceed in the aggregate of 5% of the net profit without the approval of the Central Government— Sec. 387.

The provisions do not apply to private company unless it a subsidiary of public company.

To Sum Up:

It has already been highlighted above that the Companies Act provides certain restrictions on managerial remuneration (the same is not, however, applicable to a private company which is not a subsidiary of a public company.)

Provisions (Part II of Schedule XIII read with Sees. 198, 269, 310 and 311):

Maximum limit of Remuneration Payable to Various Managerial Personnel:

(a) If the Company has sufficient Profit

	Categories	Maximum percentage of annual net profits
(i)	Part-time Director with one or more Managing Directors	1%
(ii)	Part-time Director without wholetime Director or Managing Director	3%
(iii)	Wholetime Director (one)	5%
(iv)	Manager	5%
(v)	Managing Director (one)	5%
(vi)	Wholetime Directors (more than one)	10%
(vii)	Managing Directors (more than one)	10%
(viii)	Managing Director(s), Manager with one or more wholetime Director(s)	10%
(ix)	Overall limit for total remuneration to all managerial personnel (exclusive of fees for attending meeting)	11%

(b) If the company has inadequate Profit or No Profit

Effective Capital of the company	Maximum Monthly Remuneration Rs.
Less than 1 crore	75,000
1 crore to less than 5 crores	1,00,000
5 crores to less than 25 crores	1,25,000
25 crores to than 100 crores	2,00,000

The Companies Act, 1956, suggests the maximum limit of overall managerial remuneration to various managerial personnel.

But it may be mentioned here that the company may fix the managerial remuneration for managerial personnel within the prescribed limit. At the same time, the company has its choice to calculate such remuneration on net profit either (i) before charging such remuneration; or (ii) after charging such remuneration. The Companies Act is silent about it.

Tutorial Note:

While solving a problem, if nothing is mentioned, the students are advised to calculate such remuneration on net profit before charging such commission or after charging such commissions, preferably on net profit before charging such commission.

Schedule XIII to the Companies Act: Managerial Remuneration:

Applicability of Schedule XIII:

The provisions contained in Sees. 198 and 269 read with Schedule XIII are applicable only to:

(a) A Public Limited Company, and

(b) A Private Limited Company which is a subsidiary of a public company and not applicable to Government companies.

This schedule consists of the following three parts:

(a) Part I — Deals with the qualification and appointment of managerial persons;

(b) Part II — Deals with remunerations payable; and

(c) Part III — Deals with requirements like shareholders' approval.

Recent Amendments to Schedule XIII:

Section II of Schedule XIII, deals with the limits of remuneration to managerial personnel.

The following notifications issued by the Department of Company Affairs in this regard are:

(i) Notifications GSR No 215(E) dated 2.3.2000—Remuneration limits fixed ranging from Rs.75,000 p.m. to Rs.2,00,000 p.m.

(ii) Notification GSR No 36(E), dated 16.1.2002—Remuneration limits fixed ranging from Rs.75,000 p.m. to Rs.4,00,000 p.m.

(iii) Notifications GSR No 565(E) dated 14.8.2002—for Special Economics Zones (SEZ) to pay remuneration up to Rs.2,00,000 p.m.

Notifications GSR No. 36(E) of 16.1.2002 modification contains most of the provision of 16.1.2000— it is practically more important.

Ceiling Limit Applicable at Present:

Remuneration payable by companies having no profits or inadequate profits.

Notwithstanding anything contained in this part, where, in any financial year, during the currency of tenure of the managerial person, by way of salary, dearness allowance, perquisites and any other allowances:

(A) Not exceeding the ceiling limit of Rs.24, 00,000 per annum or Rs.2,00,000 per month calculated on the following scale:

	Where the effective capital of Company is	*Monthly remuneration payable shall not exceed* (Rs.)
(i)	less than rupees 1 crore	75,000
(ii)	rupees 1 crores or more but less than rupees 5 crores	1,00,000
(iii)	rupees 5 crores or more but less than rupees 25 crores	1,25,000
(iv)	rupees 25 crores or more but less than rupees 50 crores	1,50,000
(v)	rupees 50 crores or more but less than rupees 100 crores	1,75,000
(vi)	rupees 100 crores or more	2,00,000

Provided that the ceiling limits specified under this subparagraph shall apply, if:

(i) Payment of remuneration is approved by a resolution passed by the Remuneration Committee;

(ii) The company has not made any default, in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of thirty days in the preceding financial year before the date of appointment of such managerial person.

(B) Exceeding or not exceeding the ceiling limit of Rs.48,00,000 per annum, or Rs.4,00,000 per month calculated on the following scale:

	Where the effective capital of Company is	*Monthly remuneration payable shall not exceed* (Rs.)
(i)	less than rupees 1 crores	1,50,000
(ii)	rupees 1 crores or more but less than rupees 5 crores	2,00,000
(iii)	rupees 5 crores or more but less than rupees 25 crores	2,50,000
(iv)	rupees 25 crores or more but less than rupees 50 crores	3,00,000
(v)	rupees 50 crores or more but less than rupees 100 crores	3,50,000
(vi)	rupees 100 crores or more	4,00,000

Provided that the ceiling limits specified under this subparagraph shall apply, if

(i) Payment of remuneration is approved by a resolution passed by the remuneration committee;

(ii) The company has not made any default in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of thirty days in the preceding financial year before the date of appointment of such managerial person;

(iii) A special resolution has been passed at the general meeting of the company for payment of remuneration for a period not exceeding three years;

(iv) A statement along with a notice calling the general meeting referred to in clause (iii) is given to the shareholders containing the following information, namely:

I. General Information:

(1) Nature of industry

(2) Date or expected date of commencement of commercial production

(3) In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus

(4) Financial performance based on given indicators

(5) Export performance and net foreign exchange collaborations

(6) Foreign investments or collaborators, if any.

II. Information about the appointee:

(1) Background details

(2) Past remuneration

(3) Recognition or awards

(4) Job profile and his suitability

(5) Remuneration proposed

(6) Comparative remuneration profile with respect to industry, size of the company, profile of the position and person (in case of expatriates the relevant details would be with respect to (w.r.t.) the country of his origin)

(7) Pecuniary relationship—directly or indirectly—with the company, or relationship with the managerial personnel, if any.

III. Other information:

(1) Reasons of loss or inadequate profits

(2) Steps taken or proposed to be taken for improvement

(3) Expected increase in productivity and profits in measurable terms.

IV. Disclosures:

(1) The shareholders of the company shall be informed of the remuneration package of the managerial person.

(2) The following disclosures shall be mentioned in the Board of Directors' report under the heading "Corporate Governance", if any, attached to the annual report:

i. All elements of remuneration package such as salary, benefits, bonuses, stock options, pension etc. of all the directors;

ii. Details of fixed component and performance—linked incentives along with the performance criteria;

iii. Service contracts, notice period, severance fees;

iv. Stock option details, if any, and whether the same has been issued at a discount as well as the period over which accrued and over which exercisable.

Provided further that the conditions specified in sub-paragraph (C) shall apply in the case the effective capital of the company is negative.

Provided also that the prior approval of the Central Government is obtained for payment of remuneration of the above scale.

(D) Not exceeding Rs.2,40,00,000 p.a. or Rs.20,00,000 p.m. in respect of companies in Special Economic Zones as noticed by the Department of Commerce from time to time.

Provided that these companies have not raised any money by public issue share or debentures in India.

Provided further that such companies have not made any default in India in repayment any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of 30 days in any financial year.

Perquisites:

A managerial person shall also be eligible to the following perquisites which shall not be included in the computation of the ceiling on remuneration.

(a) Contribution to provident fund superannuation fund, or annuity fund to the extent these either singly or put together are not taxable under the Income-Tax Act, 1961.

(b) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service, and

(c) Encashment of leave at the end of the tenure.

In addition to the perquisites specified in paragraph (v) above, an expatriate managerial person (including a non-resident Indian) shall be eligible to the following perquisites- which shall not be included in the computation of the ceiling on remuneration specified above:

(a) Children's education allowance:

In case of children studying in or outside India, an allowance limited to a maximum of Rs.5,000 per month per child or actual expenses incurred, whichever is less. Such allowance is admissible up to a maximum of two children.

(b) Holiday passage for children studying outside India/family staying abroad:

Return holiday passage once in a year by economy class or once in two years by first class to children and to the members of the family from the place of their study or stay abroad to India, if they are not residing in India with the managerial person.

(c) Leave travel concession:

Return passage for self and family in accordance with the rules specified by the company where it is proposed that the leave be spent in home country instead of anywhere in India.

Effective Capital:

As per Explanation I to Sec. II of Schedule XIII, Effective Capital is the aggregate of:

(a) Paid-up Capital;

(b) Reserves and Surplus (Excluding Revaluations Reserves);

(c) Long-term Loans; and

(d) Deposits repayable after one year as reduced by:

(i) Any investment;

(ii) Accumulated losses;

(iii) Preliminary Expenses not written-off.

Remuneration Committee:

Comparative Analysis of Clause 49 of the Listing Agreement and Schedule XIII of the Companies Act.

The Comparative Analyses are:

Particulars	Clause 49	Schedule XIII
Companies to which applicable	Only listed companies, but a non-mandatory requirement	Mandatory in the case of companies with paid-up capital of Rs. 5 crores or more, and where minimum remuneration is payable in case of absence of profits or inadequate profits
Minimum number of members in the Committee	3 Non-Executive Directors	3 Non-Executive Independent Directors
Chairman of the committee	An independent Director to be the Chairman	Not defined
Quorum for the committee	All members of the Committee to be present	Not defined
Annual General Meeting and the Remuneration Committee	Chairman to be present at the AGM to answer	Not defined

Applicability of Schedule XIII—Some Practical Issues:

(a) Where Remuneration is fixed by a profit-making company but in later years if it incurs losses:

The provision on Sec. I or Part II of Schedule XIII is applicable in case of a profit-making company. Under the circumstances, the company can pay managerial remuneration up to 5% of the net profit to one such managerial person or 10% of the net profit if there is more than one person. But if the company incurs losses or earns inadequate profit in subsequent years, Section II of Part II will automatically be applied, i.e.

(i) Re-fix the remuneration within the applicable ceiling limit specified in II of Part II.

or,

(ii) Approval from Central Government must be taken for such payment.

(b) Where effective Capital is reduced after fixing the Remuneration:

If the effective Capital is reduced after fixing the remunerations at a subsequent year the remuneration must be scaled down or approval from the Central Government must be taken.

(c) Where managerial remunerations from two companies are taken:

Where a person is appointed as managerial person in more than one company no approval from Central Government is required provided, the total remuneration must not exceed the higher of the maximum managerial remuneration as per Schedule XIII.

(d) Managerial Remunerations to Non-whole-time Directors:

We know that as per Sec. 198 of the Companies Act, the maximum remuneration is allowed @ 11% of the net profits, which consists of 5% for managing or whole-time director, 5% for Second managing director and, naturally, balance 1% is left which is allowed for non-whole-time director.

(e) Appointment in Contravention of Schedule XIII:

Where the Company Law Board contravenes the appointment it has the following effects:

(i) The appointee must refund the entire amount he received as Salaries, Commissions and Perquisites. The company cannot waive the recovery unless approved by the Central Government;

(ii) The appointee and every officer are liable for imprisonment up to 3 years and also fine for Rs.500 for every day of default; or

(iii) The offence is not compoundable u/s 621/A.

Method of Computation of Net Profit for Calculation of Managerial Remunerations (Sec. 349 and Sec. 350):

It is interesting to note that the method of computing net profit for ascertaining managerial remuneration is quite different than the ordinary method of computing net profit in case of general business.

As per Sec. 349 and Sec. 350, while computing net profits of a company in any financial year for the purpose of calculating management remunerations the following points must be taken into consideration:

(1) Credit shall be given for:

Bounties and subsidies received from any Government or any public authority constituted or authorised in this behalf by the Government unless the Central Government otherwise directs.

(2) Credit shall not be given for:

(a) Profits, by way of premium on shares or debentures of the company which are issued or sold by the company;

(b) Profit on sale by the reissue of forfeited share;

(c) Profit of Capital nature, i.e. Capital Profit—profit on sale of any (part/full) undertaking of the company;

(d) Capital Profit—profit on sale of assets or immovable property or fixed assets or any undertaking of the company.

(3) Following expenses should be deducted:

(i) Usual charges (revenue expenditure);

(ii) Directors' Remuneration;

(iii) Bonus or Commission to Staff;

(iv) Any tax on abnormal profits notified by the Central Government;

(v) Any tax imposed for special reasons or circumstances and notified by the Central Government;

(vi) Interest on Debentures;

(vii) Interest on Secured Loans and Advances;

(viii) Interest on Unsecured Loans and Advances;

(ix) Deprecations allowable will be Rs.350;

(x) Contributions to any charitable fund;

(xi) Deficit or loss of any previous years;

(xii) Compensations/Damage to be paid by virtue of any legal liability including a liability arising from a breach of contract;

(xiii) Any sum paid by way of Insurance;

(xiv) Bad Debts written-off or adjusted.

(4) Following items shall not be deducted:

(i) Income-Tax or Super Tax payable according to Income-Tax Act — other than special tax or tax on abnormal profit;

(ii) Any voluntary compensation or damage;

(iii) Loss of capital nature (includes any loss or part thereof on sale of undertakings—the excess of WDV over the sale proceeds.

Method of Computation of 'Profit' for Calculating Managerial Remuneration:

(a)	**Where Gross Profit is given**		
			Rs.
	Gross Profit		...
Add:	Bounties & Subsidies	...	
	Profit on Sale of Assets (Cost Minus Written Down Value)	...	...
			...
Less:	Usual Expenses	...	
	(i.e. Revenue Expenditures like, Salary, Rent, Insurance etc.)		
	Bonus/Commission to Staff	...	
	Interest	...	
	Depreciations (admissible)	...	
	Compensation for Breach of Contract, etc.	...	
	Bad Debt etc.	...	...
			...
Less:	Part-time Directors' Remunerations		...
			...
(b)	**Where Net Profit is Given**		
	Net Profit as per Profit and Loss A/c		...
Add:	***Expenses on Items which are not allowed as Deductions***		
	Any Capital Expenditure	...	
	Provisions for Income-Tax	...	
	Any ex-gratia payment	...	
	Any managerial Commissions already charged to P & L A/c	...	
	Depreciation found excess (i.e. over and above admissible amount)	...	...
			...
Less:	**Incomes or Items which are not allowed**		
	Profit on Sale of Investment	...	
	Any Capital Profit (S.P. – C.P.)	...	
	Profit on Reissue of Forfeited Shares	...	...
			...
Less:	Part-time Directors' Remunerations		...
			...

General Illustrations:

Computation of Managerial Remuneration under Different Conditions:

Illustration 1:

From the following Profit and Loss Account of X Ltd. compute the maximum permissible managerial remunerations under each of the following conditions:

(a) When there is only one whole-time Director

(b) When there are two whole-time directors

(c) When there are two whole-time Directors, a part-time director and a manager

(d) When there is only a part-time Director and no whole-time directors.

Profit and Loss Account
for the year ended ......

Dr.	Rs.	Cr.	Rs.
To Repairs	8,000	By Gross Profit	30,00,000
" Interest on Debentures	12,000	" Profit on Sale of Plant (Cost Rs. 45,000, WD Rs. 35,000)	40,000
" Donation to Calcutta University	20,000		
" Bonus to foreign technician	25,000		
" Compensation to employee (injured)	4,000		
" Provision for Taxation	7,00,000		
" Loss on Sale of Car (W.D.V. Rs. 18,000)	8,000		
" Net Profit	22,63,000		
	30,40,000		30,40,000

Solution

Computation of Net Profit for Managerial Remuneration

		Rs.	Rs.
	Net Profit (as per Profit and Loss A/c)		22,63,000
Add:	Provision for Taxation		7,00,000
			29,63,000
Less:	Profit on Sale of Plant:		
	Sale Price (i.e. Rs. 35,000 + Rs. 40,000)	75,000	
	Less: Original Cost	45,000	
			30,000
		Net Profit	29,33,000

Calculation of Maximum Managerial Remuneration:

(a) When there is only one Director:

As per Sec. 349 of the Companies Act, where there is only one Director the maximum limit of managerial remuneration will be @ 5% of the net profit. So, the Managerial Remuneration will be Rs.1, 46,650 (i.e. Rs.29, 33,000 x5/100)

(b) When there are two Whole-time Directors:

The Maximum limit of managerial remuneration will be @ 10% of net profit i.e. Rs.2,93,300 (i.e. Rs. 29,33,000 x 10/100)

(c) When there are two Whole-time Directors, a Part-time Director and a Manager

Under the circumstances, the maximum limit of managerial remuneration will be @ 11% of Net Profit.

So, the Managerial Remuneration will be Rs.3, 22,630. (i.e. Rs.29, 33,000 x11/100).

(d) When there is only a Part-time Director and no Whole-time Director:

The maximum limit of managerial remuneration in this case will be only @ 1% of net profit. So the managerial remuneration will be Rs.29, 330 (i.e. Rs.29, 33,000 x 1/100).

Illustration 2:

From the following particulars of Ganga Ltd., you are required to calculate the managerial remuneration in the following situations:

(i) There is only one Whole-time Director;

(ii) There are two Whole-time Directors;

(iii) There are two Whole-time Directors and a Part-time Director and a Manager:

	Rs.
Net Profit before provisions for Income-Tax and managerial remuneration but after depreciation and provision for repairs	8,70,410
Depreciation provided in the books	3,10,000
Provisions for repairs of machinery during the year	25,000
Depreciation allowable under Schedule IV	2,60,000
Actual expenditure incurred on repairs during the year	15,000

[CA Inter, Nov. 1998]

Solution

For the purpose of computing managerial remunerations as per Sec. 198 and 309, net profit should be calculated as per Sec 349 of the Companies Act.

Calculation of Net Profit

as per Sec. 349 of the Companies Act

			Rs.
	Net Profit (before provisions for Income-Tax, Managerial Remunerations but after depreciations and provisions for repairs)		8,70,410
Add back:	Depreciation provided in the Books	3,10,000	
	Provisions for repairs of Machinery	25,000	
			3,35,000
			12,05,410
Less:	Depreciation allowable as per Schedule IV	2,60,000	
	Actual Expenditure for repairs	15,000	
			2,75,000
	Net Profit u/s 349		9,30,410

Computation of Managerial Remunerations

(i)	**Where only one Wholetime Director**			
	Managerial Remuneration	= 5% of Rs. 9,30,410	= Rs.	46,520.50
(ii)	**Where two Wholetime Directors**			
	Managerial Remuneration	= 10% of Rs. 9,30,410	= Rs.	93,041
(iii)	**Where two Wholetime Directors, a Part-time Director and a Manager**			
	Managerial Remuneration	= 11% of Rs. 9,30,410	= Rs.	1,02,345.10

Computation of Managing Director's Remuneration

Illustration 3:

From the following Profit and Loss Account of XYZ Ltd., (a manufacturing concern) for the year ended 31.12.2008, calculate the Managing Director's remuneration in terms of the Companies Act, 1956. The Managing Director is entitled to a commission of 5% on the net profit of the company:

	Rs.		Rs.
Miscellaneous Expenses	23,250	Premium on issue of	
Voluntary Compensation	6,000	Shares/Debentures	12,500
Bad Debts	2,500	Profit on sale of forfeited shares	500
Interest on Bank Overdraft	13,650	Profit on sale of Fixed Assets	80,000
Interest on Debentures	7,500		
Directors' fees	4,500		
Loss on Sale of Investments	12,500		
Depreciation on Fixed Assets	18,350		
Donation	30,000		
Income-tax	1,31,000		
Net Profit for the year	1,00,000		
	5,78,000		5,78,000

Notes:

		Rs.
(1)	Original Cost of the Fixed Assets sold	1,00,000
	Written-down value of the Fixed Assets sold	30,000
	Sale Proceeds of Fixed Assets	1,10,000
(2)	Donations allowable u/s 293(1)(e) of the Companies Act, 1956	25,000

[CU BCom (Hons.)—Adapted]

Solution

Computation of Remuneration payable to Managing Director

		Rs.	Rs.
	Net Profit		1,00,000
Add:	Voluntary Compensation	6,000	
	Donation (Rs. 30,000 – Rs. 25,000)	5,000	
	Loss on Sale of Investment	12,500	
	Income-tax	1,31,000	
			1,54,500
			2,54,500
Less:	Premium on issue Shares and Debentures	12,500	
	Profit on Sale of Forfeited Shares	500	
	Profit on Sale of F.A.	10,000	
	(Sale price – Original cost)		23,000
	Adjusted Net Profit (according to Secs. 349-350)		2,31,500

So, Managing Director's remuneration @ 5% on the above profit will be Rs. 11,575 (Rs. 2,31,500 × $\frac{5}{100}$).

Karpagam Academy of Higher Education
(Deemed University Established Under Section 3 of UGC Act, 1956)
Coimbatore - 641 021.
DEPARTMENT OF COMMERCE
I M.Com
ADVANCED CORPORATE ACCOUNTING - 17CMP104
Academic Year: 2017- 2018

Questions	A	B	C	D			Answer
UNIT-II							
When two or more companies goingto liquidation and new company is formed then it is known as--------------.	Absorption	Amalgamation	Internal reconstruction	External reconstruction			Amalgamation
Preference dividend is to be paid before-----------.	Payment of debenture interest	Payment of income tax	Distribution of equity dividend	Distribution of preference shares dividend			Distribution of equity dividend
When a new company is formed with the same name in order to take over the business of the existing company it is called as-------------.	Absorption	Amalgamation	Internal reconstruction	External reconstruction			Internal reconstruction
When an existingcompany takes over the business of one or more existingcompanies is ----------------	Amalgamation	Absorption	Reconstruction	Internal reconstruction			Absorption
The cost of liquidation of the vendor company agreed to be paid by the purchasingcompany is debited to-----------in the books of the later company.	Goodwill account	Capital reserve account	Goodwill and capital account	External reconstruction			Goodwill and capital account
Accumulated losses in the vendor company should be transferred to------------.	Share capital account	Equity shareholders account	Capital reserve account	Profit and loss account			Equity shareholders account
Purchase consideration is payable in-------------.	Cash	Shares	Debentures	Cash, Shares and Debentures			Cash, Shares and Debentures
Realisation expenses met by the purchasingcompany should be debited to-------------.	Realisation account	Goodwill account	Vendor account	Capital reserve account			Vendor account
The excess of purchase consideration over net asset is--------------.	Securities premium	Capital reserve	Goodwill	Preliminary expenses			Goodwill
For transferring assets to realisation a/c------------------is debited.	Purchasinga/c	Liabilities a/c	Preference share capital a/c	Realisation a/c			Realisation a/c
For transferringliabilities taken over --------------is debited.	Assets a/c	Realisation a/c	Liabilities a/c	Bank Account			Liabilities a/c

For purchase consideration receivable----------------is debited	Purchasingcompany's account	Bank a/c	Purchasinga/c	Debenture a/c			Purchasingcompany's account
For receivingthe purchase consideration ----------------is credited	Liability account	Purchasingcompany's account	Realisation account Bank account				Purchasingcompany's account
For realizingassets not taken over ---------------is debited	Creditors a/c	Bank a/c	Debenture a/c	Share holders a/c			Bank a/c
For payment of liabilities not taken over ---------------is debited.	Purchasingcompany's a/c	Debenture holders a/c	Realization a/c	Shares in purchasinga/c			Realization a/c
If expenses are to be borne by the purchasingcompany -----------is debited.	Purchasingcompany's a/c	Profit & Loss a/c	Preference share holders a/c	Equity share holders a/c			Purchasingcompany's a/c
For discharge of preference share capital--------------is debited.	Shares in purchasinga/c	Preference share capital	Realization	Debenture			Preference share capital
For realization profit and loss account ---------------is credited.	Equity share holders a/c	Bank a/c	Preference share capital	Bank a/c			Equity share holders a/c
When windingup takes place in a company, the shareholders are called	Creditors	Shareholders	Debtors	Contributories			Contributories
When two or more companies liquidate to form a new company is is called-----------------.	Amalgamation	Absorption	Reconstruction	Merging			Amalgamation
When the purchasingcompany allots shares at market price the calculation of purchase consideration is based on-----------------.	Market price	Paid up value	Average of the above two	Equity share holders a/c			Market price
Liquidation expenses paid by the purchasing company are to be debited to ------------------.	Preliminary expenses account	Business purchase account	Recreation expenses	Realisation a/c			Realisation a/c
Absorption is said to be taken place when--------------------.	A Company is formed to take over the other company.	Two or more companies are liquidated to form a new company.	Two or more companies liquidate to be taken over by the existingcompany.	Two or more existing companies liquidate			A Company is formed to take over the other company.
A person who is entrusted with the job of realizingassets and dischargingliabilities in the process of liquidation is called	ManagingDirector	Agent	Liquidator	Shareholders			Liquidator
On acquisition of business, which of the following item is not taken over by the purchasing company --------------	Profit and loss account (debit balance)	Cash balance	Bank balance	Bank a/c			Profit and loss account (debit balance)
The accountingtreatment with respect to acquisition of business will be by using -----------------	When new set of books is opened	When the same set of books is continued	When new set of books is opened and the same set of books is continued	When the past year set of books is continued			When new set of books is opened and the same set of books is continued

The first item in the order of payment to be made by the liquidator is	Unsecured Creditors	Secured creditors	Liquidation expenses	Preference Share Holder			Liquidation expenses
……………………method is used to account for amalgamation in the nature of purchase	Poolingof interests	Sale	Merger	Purchase			Poolingof interests
When two or more companies goingto liquidation and new company is formed then it is known as--------------.	Absorption	Amalgamation	Internal reconstruction	External reconstruction			Amalgamation
Post acquisition profits are treated as---------------.	Revenue profit	Capital profit	Capital reserve	Revenue reserve			Revenue profit
………….. form is the profits of the company are distributed amongst the shareholders.	Shares	Premium from issue of share	Reserves	Dividend			Dividend
Forfeited shares to become-------------.	Property of the government.	Property of the company	Property of the shareholders	Property of all the shareholders			Property of the company
Purchase consideration is payable in-------------.	Cash	Shares	Debentures	Cash, Shares and Debentures			Cash, Shares and Debentures
The maximum remuneration payable to a part time director should not exceed-----------------.	1% of the annual profit	3% of the annual profits	5% of the annual profits	10% of the annual profits			5% of the annual profits
Interest on debentures is calculated on-------------.	Issue price	Redeemable price	Face value	Market price			Face value
At the time of purchase of ----------- is always debited with the ex-interest price	Debenture	Equity	Preference	Bonds			Debenture
Which of the followingis not a source of redemption	Redemption out of capital	borrowings from financial institutions	Redemption out of profits of the company	Redemption by conversion			Redemption out of borrowings from financial institutions
Accounting standard for Amalgamation is-------------------.	AS-8	AS-20	AS-14	AS-3			AS-14
Poolingof interests method is used to account for amalgamation in the nature of ---------------.	Purchase	Sale	Merger	Purchase			Purchase
Purchase consideration AS-14, should include cash and securities agreed to be given by the transferee company to transferor company's ---------------.	Shareholders	Shareholders & debenture holders	Creditors, debenture holders and shareholders.	Debenture holders			Shareholders
Expenses of liquidation of transferor company may be shown as 'Reimbursement' in transferor company's books, if the expenses are agreed to paid by------------.	Transferor company	Transferee company	Both the companies	neither company			Transferee company

Excess purchase consideration paid to the transferor company and debited to goodwill account under the purchase method of accountingfor amalgamation should be written off within a period of -------------.	2 years	8 years	20 years	5 years			5 years
The amount of surrendered shares is credited to --------------account	Capital reduction	Capital	Bank	Profit and loss account			Bank
Alteration of share capital is effected by a company if it is authorized by the--------	Memorandum of Association	Articles of association	Shareholders	Board of directors			Memorandum of Association
The capital reduction scheme can be implemented only after getting permission from-------------.	Central government	Controller of capital issues	Share holders	The competent court			Share holders
Any decreases in the value of assets at the time of internal reconstruction, will be changed to-------------.	Goodwill a/c	Capital reduction a/c	Revaluation a/c	Share capital a/c			Capital reduction a/c
Consolidation of shares does not affect the amount of----------------.	Share capital	Creditors, Debtors	Debtors, Creditors	Bank overdraft			Share capital
A company can convert fully paid ---------------into stock and also reconvert ----------------back into shares	Securities, Debenture	Debentures, Deposits	Deposits ,Share,	Share, Stock			Share, Stock
Any debit balance in Profit & Loss a/c represents ------------and such losses will be written off as part of capital reorganization.	Gains	Resources	Accumulated losses	Incomes			Accumulated losses
In the scheme of capital reduction, any new liability to be provided for, such as arrears of preference dividend, must be met out of----------- account.	Income reduction	Trading	Capital reduction	Debtors			Capital reduction
Inter company 'owing' should be -------------while preparing the balance sheet of the transferee company after completion of amalgamation.	Eliminated	Not eliminated	Appointed	Athorised			Eliminated
When surrendered shares are reissued -------------------is debited.	Surrendered shares account	Preference share capital	Bank account	Capital reduction account			Surrendered shares account
For refunding surplus capital-----------------is credited.	Share holders a/c	Creditors a/c	Liabilities a/c	Debenture holders a/c			Share holders a/c
For any sacrifice made by debenture holders or creditors--------------is credited.	Capital reduction account	Bank account	Capital reserve account	Asset account			Capital reduction account

For payment of liabilities not taken over ---------------is debited.	Purchasing company's a/c	Debenture holders a/c	Realization a/c	Shares in purchasing a/c			Realization a/c
If expenses are to be borne by the purchasing company -----------is debited	Purchasing company's a/c	Profit & Loss a/c	Preference share holders a/c	Equity share holders a/c			Purchasing company's a/c
The various losses can be written with the help of capital reduction account at the time of------------- reconstruction.	External	Outsources	Internal	Surplus			External
At the time of reorganisation the amount of shares surrounded by shareholder is transferred to--------------.	Capital reserve account	Capital reduction account	General reserve account	Surrendered share account			Surrendered share account
For writingoff the accumulated losses under the scheme of capital reduction we debit--------------------.	Share capital account	Capital reserve account	General reserve account	Accumulated loss account			Share capital account
In case of consolidation of share capital the total number of shares of the company-------------.	Decreases	Increases	Equal	Constant			Equal

KARPAGAM ACADEMY OF HIGHER EDUCATION

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

Coimbatore - 641 021.

Unit II

Amalgamation, Absorption and Reconstruction of Companies (Advanced Problems in Amalgamation, Absorption and Reconstruction of Companies including adjustment regarding elimination of Unrealised Profit, Inter - Company Owings and Inter- Company Holdings).

The term amalgamation is used when two or more companies carrying on similar business go into liquidation and a new company is formed to take over their business.

Amalgamation means formation of a new company to take over atleast two existing companies which go into liquidation. Hence in amalgamation, there is birth of a new company with the closure of atleast two companies which wind up their business. The business of the companies going into liquidation are transferred to a new company formed for this purpose, in return for a purchase consideration. Therefore in amalgamation, there are minimum of two companies going into liquidation simultaneously and a new company formed at the same time to take over the business of the liquidated companies.

Amalgamation = Two or more liquidations and one formation

Absorption = One liquidation and no formation

External Reconstruction= One liquidation and one formation

Suppose there are two existing companies viz. X Co. Ltd. and Y Co. Ltd.

- **Amalgamation** : A new company XY Co. Ltd. is formed which takes over the business of X Co. Ltd. and Y Co. Ltd. Both the companies X Co. Ltd. and Y Co. Ltd. go into liquidation.

- **Absorption :** An already exiting company X Co. Ltd. takes over business of Y Co. Ltd., which goes into liquidation.

- **External Reconstruction** : A new company Z Co. Ltd. is formed to take over X Co. Ltd. (or Y Co. Ltd.) which goes into liquidation.

Accounting Standard (AS-14) and Amalgamation

The Council of the Institute of Chartered Accountants of India has issued Accounting Standard - 14, ‘Accounting for Amalgamation’ which states the procedure for accounting for amalgamations. This standard is mandatory in nature and effective from accounting periods commencing on or after 1-4 -1995.

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

a) Amalgamation means, an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other status which may be applicable to companies.

b) Transferor company means, the company which is amalgamated into another company.

c) Transferee company means, the company into which a Transfer Company is amalgamated.

d) Reserve means, the portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability.

Types of Amalgamation

As per this standard there are two types of amalgamation viz.

1. Amalgamation in the nature of merger.

2. Amalgamation in the nature of purchase.

Figure shows the Types of Amalgamations as follows:

Amalgamation in the nature of merger - An amalgamation is in the nature of merger if following conditions are satisfied :

- All assets and liabilities of Transferor Company are taken over by the Transferee Company.
- The shareholders holding at least 90% or more of the equity shares of the Transferee Company become the equity shareholder of the TransfereeCompany (shares already held by the transferee Company and its subsidiaries are not counted for the purpose of 90% or more limit.
- Consideration for the amalgamation is paid in equity shares by the Transferee Company to the equity shareholder of the Transferor Company (except fractional shares can be paid in cash.)
- Business of the Transferor Company is intended to be carried on by the Transferee Company.
- No adjustment is made in the book values of the assets and liabilities of the Transferor Company by way of revaluation or otherwise, except the adjustments to ensure uniformity of accounting policies. For example , if Transferor Company follows the straight lines method of depreciation for the fixed assets whereas the Transferee Company follows the diminishing balance method of depreciation, the Transferee Company can adjust the book value of fixed assets of the Transfer Company only for the difference of depreciation between straight line method and diminishing balance method. Such adjustment in the book value of fixed assets will not be treated as revaluation.

Amalgamation in the nature of purchase - An amalgamation will be considered in the nature of purchase if any of the conditions regarding amalgamation in the nature of merger is not satisfied.

These are amalgamations which are in effect a mode by which one company acquires another company and as a consequence, the shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company, or the business of the company which is acquired is not intended to be continued.

Purchase Consideration

Purchase consideration is the amount which is paid by the purchasing (transferee) company for the purchase of the business of the vendor (transferor) company. The purchasing company agrees to pay certain sum of payments to the vendor company called purchase consideration. While determining the amount of purchase consideration special care should be given to the valuation of assets and liabilities of the vendor (transferor) company. The calculation of purchase consideration is very important and may be calculated in the following ways:

(1) **Lump Sum Method.** When the transferee company agrees to pay a fixed sum to the transferor company, it is called a lump sum payment of purchase consideration. For example, if A Ltd., purchases the business of B Ltd., and agrees to pay Rs. 50,00,000 in all, it is an example of lump sum payment.

(2) **Net Worth (or Net Assets) Method.** According to this method, the purchase consideration is calculated by calculating the net worth of the assets taken over by the transferee company. The net worth is arrived at by adding the agreed value of assets taken over by the transferee company minus agreed value of liabilities to be assumed by the transferee company. While calculating purchase consideration under this method the following points merit attention:

(a) The term 'Assets' will always include cash in hand and cash at bank unless otherwise specified but shall not include fictitious assets as preliminary expenses, discount on the issue of shares or debentures, underwriting commission, debit balance of Profit & Loss Account, etc.

(b) If the particular asset is not taken over by the transferee company, it should not be included in the purchase consideration.

(c) The term 'Liabilities' will mean all liabilities to third parties (i.e., excluding company and shareholders).

(d) The term ‘trade liabilities’ will include trade creditors and bills payable. It will exclude other liabilities to third party as bank overdraft, debentures, outstanding expenses, tax liability etc.

(e) If a fund or portion of a fund denotes liability to third parties, the sum must be included in the liability as staff provident fund, workmen’s’ savings bank account, workmen’s’ profit sharing fund, workmen’s’ compensation fund (up to the amount of claim, if any).

(f) The ‘term liability’ will not include past accumulated profits or reserves such as general reserve, dividend equalization fund, reserve fund, sinking fund, capital reserve, securities premium account, capital redemption reserve account, profit and loss account etc., as these are payable to shareholders and not to third parties.

(g) The term ‘business’ will always mean both the assets and the liabilities.

(h) If any liability is not taken over by the transferee company, the same should not be included in the purchase consideration.

(i) Goodwill (being an intangible asset) value agreed to be paid by the transferee company is added in the purchase consideration.

(j) The consideration for the amalgamation should include any non-cash element at fair value. In case of issue of securities, the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up. Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective net book values.

(k) Where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the additional payment should be included in the consideration if payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment should be recognized as soon as the amount is determinable [see Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet Date].

(l) Treatment of Reserves Specified in a Scheme of Amalgamation. Where the scheme of amalgamation sanctioned under a statute prescribes the treatment to be given to the reserves of the transferor company after amalgamation, the same should be followed.

Net worth or net assets method of purchase consideration may be made clear by the following example :

BALANCE SHEET OF KARPAGAM CO. LTD.

As at 31st March, 2005

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	2,80,000
60,000 Equity Shares of Rs.10	6,00,000	Land and Buildings	1,60,000
5% Debentures	1,00,000	Plant and Machinery	2,80,000
Sundry Creditors	60,000	Stock	1,60,000
General Reserve	40,000	Debtors	80,000
Profit and Loss account	2,00,000	Cash	20,000
		Preliminary Expenses	20,000
	10,00,000		10,00,000

Suppose (i) Company **Providence Ltd.,** takes over the business of Company Karpagam Ltd.,; (ii) The value agreed for various assets is : Land and Buildings Rs. 2,50,000, Plant and Machinery Rs. 2,40,000, Goodwill Rs, 2,20,000, Stock Rs. 1,30,000 and Debtors Rs. 80,000; Providence Company does not take over cash but agrees to assume the liability of Sundry Creditors at Rs. 50,000.

The calculation of purchase consideration will be as follows :

Value of assets taken over by Providence Company Ltd., :

	Rs.
Land and Buildings	2,50,000
Plant and Machinery	2,40,000
Goodwill	2,20,000
Stock	1,30,000
Debtors	80,000

	9, 20,000
Less : Sundry Creditors taken over by Providence Co. Ltd.	50,000

Purchase Consideration	**8,70,000**
	------------

(3) **Net Payment Method.** Under this method purchase consideration is calculated by adding the various payments in the form of shares, securities, cash etc. made by the transferee company. No amount of liabilities is deducted even if these are assumed by the purchasing company. Thus purchase consideration is the total of all the payments whether in shares, securities or cash.

Suppose, in the example given above Providence Ltd., agrees to give for every 10 shares in Karpagam Ltd., 15 shares of Rs. 10 each, Rs. 8 paid up; Providence Ltd., also agrees to pay Rs. 1,50,000 cash to discharge the creditors.

The Purchase Consideration will be calculated as under :
Shareholders of Karpagam Ltd. will get :

$60,000 \times \frac{15}{10}$ = 90,000 shares of Rs. 10 each, Rs. 8 paid up	7,20,000
Cash paid to discharge creditors	1,50,000

Purchase Consideration	8,70,000

(4) **Shares Exchange Method.** Under this method purchase consideration is required to be calculated on the basis of intrinsic value of shares. The intrinsic value of a share is calculated by dividing the net assets available for equity shareholders by the number of equity shares. This value determines the ratio of exchange of the shares between the transferee and transferor companies. In some cases the agreed values of the shares of both the companies are given. In that case the purchase consideration is calculated with reference to the value of shares of two companies involved.

Suppose X Ltd. and Y Ltd. are two companies carrying on business in the same line of activity. Their capital is Rs. 60,00,000 and Rs. 20,00,000 (value of each share , Rs. 100). The two companies decided to amalgamate in XY Ltd. If each share of X Ltd. and Y Ltd. is valued at Rs. 150 and Rs. 250 respectively for the purpose of amalgamation, then purchase consideration will be as under :

	X Ltd.	Y Ltd.
	Rs.	Rs.
60,000 shares of Rs. 150 each	90,00,000	---
20,000 shares of Rs. 250 each	---	50,00,000

Note : While issuing shares to individual shareholders of the selling company, these may be in fractions. A company cannot issue shares in fractions but it can issue fractional certificates or coupons or pay cash for the fractions.

AMALGAMATION , ABSORPTION AND EXTERNAL RECONSTRUCTION ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEROR COMPANY:

The books of the transferor company being wound up will be closed in the same way as the books of a partnership firm being dissolved. The following entries are made:

(1) For transferring assets taken over by the transferee company

Realization Account

To Various Assets (individually at book value)

Note. Assets which are not taken over by the purchasing company as cash, bank balance will not be transferred to Realization Accounts. Fictitious assets like preliminary expenses, discount or commission or expenses on issue of shares or debentures, debit balance of profit and loss account are not to be transferred to realization account. Assets on which some provision has been made are to be transferred to realization account at their gross figures and provisions has been made should be transferred along with liabilities.

(2) For transferring liabilities taken over by the transferee company

Various Liabilities (Individually) Dr. (at book value)

To Realization Account

Note. Only those liabilities are to be transferred which have been assumed by the transferee company. Accumulated profits like credit balance of profit and loss account, general reserve, dividend equalization reserve, sinking fund, capital reserve are not transferred to realization account. If there is any fund which partially represents liability and partially undistributed profit, then that portion which represents liability should be transferred to realization account. Trade liabilities include sundry creditors and bills payable but not outstanding bills.

(3) For purchase consideration

Transferee Company's Account Dr.

To Realization Account

(4) For receiving purchase consideration from the transferee company

Bank Account Dr.

Shares in Transferee Company A/c Dr.

To Transferee Company a/c

(5) For assets sold by the transferor company not taken over by the transferee company

Bank Account Dr.

Realization A/c (if loss on sale of assets) Dr.

To Assets Account

To Realization A/c (if profit on sale of assets)

(6) For liquidation expenses

(a) If the expenses are to be met by the transferor company

Realization Account Dr.

To Bank Account

(b) If the expenses are to be met by the transferee company, there are two alternatives:

First Alternative – no entry.

Second Alternative – the following two entries will be passed:

(i) Transferee Co.'s A/c Dr.

To Bank Account

(ii) Bank Account Dr.

To Transferee Co.'s A/c

(c) If liquidation expenses are included in the purchase consideration and not paid separately by the purchasing company

Realization Account Dr.

To Bank Account

(7) For liabilities not taken over by the transferee company when paid by the transferor company

Various Liabilities A/c Dr.

Realization A/c (if excess payment is made) Dr.

To Bank Account

Or Shares in Transferee co. A/c

To Realization A/c (if less payment is made)

(8) For Closing Realization Account

(a) If Profit

Realization A/c Dr.

To Equity shareholders A/c

(b) If Loss

Equity Shareholders A/c Dr.

To Realization A/c

(9) For transferring Preference Share Capital

Preference Share Capital A/c Dr.

To Preference Shareholders A/c

Note. If arrears of dividend are to be paid to preference shareholders, then such excess amount should be debited to realization account and credit to Preference Shareholders Account. If the preference shareholders have agreed to get less than the amount of capital, then reverse entry is to be passed.

(10) For transferring equity share capital and accumulated profit:

Equity Share Capital A/c	Dr.
General Reserve A/c	Dr.
Debenture Redemption Reserve A/c	Dr.
Dividend Equalization Reserve A/c	Dr.
Share Premium A/c	Dr.
Profit and Loss A/c	Dr.
Accident Compensation Fund	Dr
Share Forfeited A/c	Dr.
Profit Prior to Incorporation A/c	Dr.
Any Other Reserve or Fund A/c	Dr.
To Equity Shareholders A/c	

(11) For transferring accumulated loss and expenses not written off

Equity Shareholders A/c Dr.

To Profit and Loss A/c

To Discount or Expenses on issue of shares or debentures

To Preliminary Expenses

To Underwriting Commission

(12) For paying shareholders

Preference Shareholders A/c Dr.

Equity Shareholders A/c Dr.

To Bank or Shares in transferee company

ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEREE COMPANY

(1) On amalgamation of business

Business Purchase Account Dr. (with the amount of

To Liquidators of Transferor Co purchase consideration)

(2) For recording assets and liabilities taken over

Sundry Assets (Individually) Account Dr. (with book value)

To Sundry Liabilities A/C (Individually) (with book value)

To Reserve Account (with book value)

To Business Purchase Account (with book value)

The difference between debits and credits is adjusted in the reserves of the transferee company.

Note. As per AS – 14, the balance of the Profit and Loss A/C of the transferor company is transferred to General Reserve. If any.

Instead of passing two entries one combined entry can be passed :

Sundry Assets Account Dr.

To Sundry Liabilities

To Profit and Loss Account

To Reserve Account

To Liquidators of the Transferor Co. A/C

The difference between the above mentioned debits and credits is adjusted against the reserve in the books of transferee company.

(3) For making payment to the liquidator of the transferor company.

Liquidator of the Transferor Co. A/C Dr.

To Bank / Share Capital / Securities Premium (if any)

(4) If liquidation expenses are paid by the transferee company

Profit and Loss Account Dr.

To Bank Account

(5) For the formation expenses of the transferee company

Preliminary Expenses Account Dr.

To Bank Account

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 Oltd, 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	1,35,000	
To Liquidator of M ltd		82,500
To Liquidator of N Ltd		52,500
(being purchase price payable to the vendor companies)		
Fixed Assets A/c Dr	70,300	
Stock A/c Dr	27,000	
Debtors A/c Dr	13,200	
Bank A/c Dr	4,000	
Good will A/c Dr	30,000	7,000
To creditors A/c		2,500
To depreciation fund A/c		1,35,000
To business purchase A/c		
(being assets and liability taken over from M Ltd and N Ltd and good will thereon)		
Liquidator of M Ltd Dr	82,500	
To equity share capital A/c		50,000
To 9% preference share capital A/c		32,500
(being payment of purchase price)		
Liquidator of N Ltd A/c Dr	52,500	
To Equity share capital A/c		50,000
To 9% preference share capital A/c		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 (all the above shares were issued for consideration other than cash)	35,000	Stock		27,000
		Debtors		13,200
		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	3,75,000	
To share capital A/c		3,75,000
(being conversion of 5,000 shares of Rs100 each , Rs75 paid up into 5,000 shares of Rs75 each, fully paid up)		

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)	2,00,000	
Sundry shareholder A/c Dr		2,00,000
To bank A/c		
(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 To equity share capital (Rs6)A/c To capital reduction A/c (being conversion of 5,000 shares of Rs10 each into shares of Rs6 each fully paid, balance transferred to capital reduction A/c)	50,000	 30,000 20,000

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 To capital reduction A/c	2,40,000	 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 Creditors A/c Dr To capital reduction A/c (being reduction of Rs20 per debenture on 5,000 debentures and reduction of creditors as per capital reduction scheme)	1,00,000 50,000	 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 Stock A/c Dr To capital reduction A/c (being appreciation in the value of assets credited to capital reduction)	40,000 30,000	 70,000

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 To profit and loss A/c (Dr balance) To preliminary expenses A/c To discount on issue of shares or debenture To good will A/c 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 XXX XXX XXX XXX XXX

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DEPARTMENT OF COMMERCE

I M.Com

ADVANCED CORPORATE ACCOUNTING - 17CMP104

Academic Year: 2017- 2018

Questions	A	B	C	D	Answer
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

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Unit 1II

Holding Company Accounts – Capital Profit – Revenue Profit – Minority Interest – Cost of Control – Preparation of Consolidated Balance Sheet

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INTRODUCTION

One of the popular firms of business combination is by means of holding company or Parent Company. A holding company is one which directly or indirectly acquires either all or more than half the number of Equity shares in one or more companies so as to secure a controlling interest in such companies, which are then known as subsidiary companies. Holding companies are able to nominate the majority of the directors of subsidiary company and therefore control such companies. Holding company meet directly from such subsidiary company or it may acquired majority OR shares in existing company. Such company also considered as subsidiary company in which holding company acquired majority shares.

MEANING UNDER COMPANIES ACT 1956

Section 4 of the companies Act, 1956 defines a subsidiary company. A company is a subsidiary of another if and only if –

a) That other company controls the composition of its Board of Directors; or

b) That other –

i) Where the first mentioned company is an existing company in respect of which the holders of Preference shares issued before the commencement of this Act have the same voting rights in all respect as the holders of Equity shares exercises or controls more than half of the total voting power of such company.

ii) Where the first mentioned company is any other company, holds more than half in nominal value of its Equity share capitals. OR

iii) The company is a subsidiary of any company which is that other company's subsidiary.

ADVANTAGES OF HOLDING COMPANIES

Following are the advantages of Holding Company:

1) Subsidiary company maintained their separate identity.

2) The public may not be aware the existence of combination among the various company.

3) Holding company need not to be invest entire amount in the share capital in subsidiary company still enjoy controlling power in such company.

4) It would be possible to carry forward losses for income tax purposes.

5) Each subsidiary company prepares its own accounts and therefore financial position and profitability of each undertaking is known.

6) Holding company may additional acquired or disposed of and the shares in subsidiary company in market whenever if desired.

DISADVANTAGES OF HOLDING COMPANIES

1) There is a possibility of fraudulent manipulation of accounts.

2) Inter company transaction may not be at a fair prices.

3) Minority share holders interest may not be properly protected.

4) The accounts of various companies may be made upon different dates to, manipulate profit or financial position of Group companies.

5) The shareholders in the holding company may not be aware of true financial position of subsidiary company.

6) Creditors and outsiders shareholder in the subsidiary company may not be aware of true financial position of subsidiary company.

7) The Subsidiary Companies may be force to appoint person of the choice of holding company such as Auditors, Directors other officers etc. at in dually high remuneration.

8) The Subsidiary Company may be force for purchases or sale of goods, certain assets etc. as per direction of holding company.

PRESENTATION OF ACCOUNTS BY HOLDING COMPANIES

As laid down in section (212) of the companies Act, 1956. A holding company requires to attach its balance sheet. The following documents and present the same to its shareholders.

a) A copy of the Balance Sheet of the subsidiary.

b) A copy of the Profit and Loss Account of the subsidiary.

c) A copy of the Report of the Board of Directors of the subsidiary.

d) A copy of the Auditors Report of subsidiary.

e) A statement indicating the extent of holding company's interest in the subsidiary at the end of the accounting year of the subsidiary.

f) Where the financial year of the subsidiary company does not coincident with the financial year of the holding company. A statement showing the following.

i) Whether there are any changes in holding companies interest in subsidiary company since the close of financial year of the subsidiary company.

ii) Details of material changes which have occurred between the end of the financial year or the subsidiary company an end of the financial year of the holding company.

1.6 AS. 21 – Consolidation of Financial statement

AS. 21 come into effect in respect of accounting periods commencing on or after 1st April i.e. for year ending 31st March 2002. The A.S. 21 is applicable to all the enterprises that prepare consolidated financial statement. It is mandatory for Listed companies and Banking companies.

As per AS 21, The Consolidated financial statements would include:

i) Profit & Loss A/c

ii) Balance sheet

iii) Cash flow statement

iv) Notes of Accounts except typical notes.

v) Segment reporting

AS 21 also desire various import terms, as well as treatment and same while preparing consolidated financial statement. Consolidated financial statements should be prepared for both domestic as well as foreign subsidiaries.

CONSOLIDATION OF BALANCE SHEET

A holding company is required to present to its shareholders consolidated balance sheet of holding company and its subsidiaries. Consolidated balance sheet is nothing but addicting of up or combining the balance sheet of holding and its subsidiary together. However assets and liabilities are straight forward, i.e. added line to line and combination of share capital, reserves, and accumulated losses are not directly added in consolidated balance sheet.

Preparation of consolidated balance sheet. The following points need special attention while preparing consolidated balance sheet.

1) Share of holding company and share of minority (outside shareholders).

2) Date of Balance sheet of holding company and that of various subsidiary companies must be same. If they are not so necessary adjustment must be made before consolidation.

3) Date of Acquisition of control in subsidiary companies.

4) Inter company owing.

5) Revaluation of fixed assets as on date of acquisition, depreciation, adjustment on revaluation amount etc. which are discussed here in after.

- **COST OF CONTROL / GOODWILL / CAPITAL RESERVE :**

The holding company acquires more than 50% of the shares of the subsidiary company. such shares may be acquired at a market price. Which may be at a premium or at discount. This amount is reflected in the balance sheet of holding company of the assets side as investment in the shares of subsidiary company. This is the price paid for shares in net assets of subsidiary company as on date of its acquisition. Net assets of the subsidiary company consist of share capital, accumulated profits and reserve after adjustment, accumulated losses as on the date of acquisition.

If the amount paid by the holding company for the shares of subsidiary company is more than its proportionate share in the net asset of the subsidiary company as on the date of acquisition, the difference is considered as goodwill.

If there is excess of proportionate share in net assets of subsidiary company intrinsic of shares acquired and cost of shares acquired by holding company there will be capital reserve in favour of holding company.

It goodwill already exists in the balance sheet of holding company or both the goodwill thus calculated, will be added up to the existing goodwill. Capital Reserve will be deducted from Goodwill. In short, net amount resulting from goodwill and capital Reserve will be shown in the consolidated Balance sheet.

• MINORITY INTEREST:

The claim of outside shareholders in the subsidiary company has to be assessed and shown as liability in the consolidated balance sheet. Minority interest in the net assets of the company is nothing but the proportionate share of aggregation of share capital, reserve surpluses funds etc. proportionate share of all assets should be deducted from the minority interest.

Thus, minority interest is the share of outsider in the following.

1) Share in share capital in subsidiary.

2) Share in reserves (Both pre and post acquisition of subsidiary).

3) Share in accumulated losses should be deducted.

4) Proportionate share of profit or loss on revaluation of assets.

5) Preference share capital of subsidiary company held by outsiders and dividend due on such share capital, if there are profits. Minority interest means outsiders interest. It is treated as liability and shown in consolidated Balance sheet as current liability. This amount is basically intrinsic value of shares held by minority.

• **CAPITAL PROFITS AND REVENUE PROFITS:**

The holding company may acquire the shares in the subsidiary company either on the balance sheet date or any date earlier than balance sheet date. All the profit earned by the subsidiary company till the date of acquisition of shares by holding company have to be taken as capital profits for the holding company.

Such reserves loose their individual identity and considered as capital profits. In case, the holding company acquired shares on a date other than balance sheet date of subsidiary, the profits of subsidiary company will have to be apportioned between capital profits and Revenue profits from the point of view of the holding company. Thus any profit earned by subsidiary company before the date of acquisition is the capital profit, while any profit earned by subsidiary company after the date of acquisition is Revenue profits.

While preparing the consolidated balance sheet share in capital profits should be adjusted with the cost of control and Revenue profits / Reserves should be merged with the balances in the Reserve and surpluses of the holding company.

• ELIMINATION OF INVESTMENTS IN SHARES OF SUBSIDIARY COMPANY :

Investment in shares in subsidiary company represents the cost paid by the holding company to acquire the shares of the subsidiary company. The investment in shares of the subsidiary company entitles the holding company to share the net assets of the subsidiary company. While preparing consolidated balance sheet all the assets and liabilities of subsidiary company have to be merged with those of the holding company and therefore it is logical to eliminate investments of the holding company in the shares of the subsidiary company. Share in net assets of the outside shareholders should treat as the minority interest it is shown in the balance sheet on the liability side of holding company.

• MUTUAL OWING / INTER COMPANY TRANSACTIONS :

The holding company and the subsidiary company may have number of inter company transactions in any one or more of the following matters.

1. Loan advanced by the holding company to the subsidiary company or vice versa.

2. Bill of Exchange drawn by holding company on subsidiary company or vice versa.

3. Sale or purchase of goods on credit by holding company form subsidiary company or vice versa.

4. Debentures issued by one company may be held by the other.

As a result of these inter company transactions, certain accounts appear in the balance sheet of the holding company as well as the subsidiary company. In the consolidated balance sheet all these common accounts should be eliminated.

For e.g.

1. S Ltd. has taken loan of Rs. 20,000 from H Ltd. then S ltd. balance sheet shows a liability of Rs. 20,000 while H Ltd. balance sheet shows on assets of Rs. 20,000.
2. H Ltd. draws a bill of Rs. 50,000 on S Ltd., then H Ltd. books it
will show bills receivable Rs. 50,000 while S Ltd. books will
show bills payable Rs. 50,000.

3. S Ltd. issued debentures of Rs. 1,00,000 which are held by H Ltd. then S Ltd. balance sheet will show a liability of Rs. 50,000 while H Ltd. books will show an assets of Rs. 50,000.
All the above inter company transactions have to be eliminated while preparing the consolidated balance sheet. These can be done by deducting inter company transactions from the respective items on both sides of balance sheet.

• UNREALIZED PROFIT:

The problem of unrealized profit arises in those cases where the companies of the same group have sold goods to each other at the profits and goods still remain unsold at the end of the year company to whom the goods are sold. While preparing the consolidated balance sheet, unrealized profit has to be eliminated from the consolidated balance sheet in the following manner.

1. Unrealized profits should be deducted from the current revenue profits of the holding company.

2. The same should be deducted from the stock of the company consolidated balance sheet. Minority shareholders will not be affected in any way due to unrealized profits.

• CONTINGENT LIABILITIES:

As 29 defines a contingent liabilities as:

A possible obligation that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from the past events but not recognized / provided.

Such contingent liability may be of two types.

a) External contingent liability.

b) Internal contingent liability.

Internal contingent liability relates in respect of transactions between holding and subsidiary company and it will not be shown as foot note in the consolidated balance sheet, as they appear as actual liability in the consolidated balance sheet.

• REVALUATION OF ASSETS AND LIABILITIES:

The holding company may decide to revalue the assets and liabilities of the subsidiary company on the date of acquisition of share in the subsidiary company. Any profit or loss on such revaluation is a capital profit or loss.

Profit on revaluation of assets of the subsidiary company whether before or after date of acquisition of shares by the holding company, the same must be shared by the holding company, and the minority share holders in proportion to their respective holding. The minority share holders share should be added to the minority interest. But the holding company share should be treated as capital profits and considered in cost of control.

Further readjustment for depreciation on increase in the value of assets should be made in the profit and loss account in the subsidiary company. And same should be deducted from the Revenue profits of the subsidiary company.

• **PREFERENCE SHARES IN SUBSIDIARY COMPANY :**

In case the subsidiary company has also Preference share capital, its treatment on consolidation will be as follows:

a) Nominal value of non participating Preference share capital of the subsidiary company is held by the holding company should be adjusted in cost of control against the cost of Preference shares.

b) Preference shares held by outsiders. Paid up value of such Preference shares should be included in Minority interest.

• BONUS SHARES:

The issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as by the minority share holders without any additional cost. However ratio of holding will not change. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits or revenue profits.

i) Issue of bonus shares out of pre acquisition profits (capital profits): In case the subsidiary company issues bonus shares out of capital profits the cost of control remains unaffected in the consolidated balance sheet on account of issue of bonus shares. As share capital increases by the amount of bonus and capital profits decreases by the same amount. Hence, there is not effect on cost of control when bonus shares are issued from pre acquisition profits.

ii) Issue of bonus share of post acquisition profits (Revenue profits): In this case, a part of revenue profits will get capitalized resulting decrease in cost of control or increase in capital reserve. Issue of bonus shares whether out of capital profits or revenue profits will not affect on minority interest. Minority interest will remain unaffected.

• **TREATMENT OF DIVIDEND:**

i) **Dividend paid :** When subsidiary company pays dividend, the holding

company will naturally receive its due share. On receipt the holding company will debit bank account. However account to be credited depends upon whether dividend received out of pre-acquisition

profit or out of post acquisition profit. Dividend received by the holding company out of Pre-acquisition profit should be credited to investment account. Only the dividend out of post acquisition profit should be treated as Revenue income and credited to profit and loss account.

ii**) Proposed dividend :**

In case the subsidiary company has proposed dividend on its shares which is not accounted by the holding company for such dividend due on their investment in subsidiary company profits. Profit may be then analysed between capital Revenue in the usual manner.

iii) **Dividend payable :**

In case subsidiary company has declared dividend and the holding company taken credits for such dividend in its account, following treatments should be given.

1. No adjustment in respect of such dividend should be done in the subsidiary company book.

2. In the holding company books dividend out of pre-acquisition profit should be credited investment account. Dividend out of post acquisition profit should be credited to profit and loss account.

3. In the consolidated Balance-sheet the amount of dividend payable by the subsidiary company will be cancelled against the amount of dividend receivable by the holding company. Dividend payable to minorities may be either included in the minority interest or be shown separately as liability in the consolidated balance sheet.

iv) Intension to propose dividend: In case subsidiary company as intension to propose dividend, such proposed dividend given in adjustment may be completely ignored while preparing the consolidated balance sheet. Alternatively proposed dividend on share capital held by minority may be deducted from minorities interest and shown separately liability in the consolidated balance sheet.

• **PRELIMINARY EXPENSES :**

The preliminary expenses of subsidiary company may be taken as capital loss or the amount may be added with the amount of preliminary expenses of the holding company.

• **PROVISION FOR TAXATION :**

Any provision for taxation provided by the subsidiary company should be taken to the consolidated balance sheet and be shown on the liability side.

• **PURCHASE OF SHARES IN INSTALLMENT** :

A holding company may purchase shares of the subsidiary company in installments. In such circumstances division of profit between pre and post acquisition will depend upon the lots in which shares are purchased. However, if small purchases are made over the period of time then date of purchase of shares which results in acquiring in controlling interest may be taken as cut of line for division of profits between capital and Revenue.

• **SALE OF SHARES :**

When a holding company disposed off a part of its holding in the subsidiary company and the relationship of holding and subsidiary company continues as it holds majority of shares of subsidiary. Sale of shares by holding company may be treated as follows.

a) Profit or loss on sale of shares should be ascertained and it should be adjusted while ascertaining goodwill or capital reserve. In brief, such loss or gain on sale of share should be considered in cost of control.

b) The minority interest and cost of control should be ascertained on the basis of number of shares held by the holding company and the minority on the date of consolidated balance sheet.

How to prepare Consolidated Balance Sheet of Holding Company

Steps for preparing consolidated balance Sheet of the holding company and its subsidiary company.

1stStep

Add all the assets of subsidiary company with the assets of holding company. But Investment of holding company in Subsidiary company will not shown in consolidated balance sheet because, investment in subsidiary company will automatically adjust with the amount of share capital of subsidiary company in holding company.

2nd step

Add all the liabilities of subsidiary company with the liabilities of holding company. But Share capital of subsidiary company in holding company will not shown in the consolidated balance sheet in the books of holding company. Because, this share capital automatically adjust with the amount of the investment of holding company in to subsidiary company.

3rd Step

Calculate of Minority Interest

First of all we should know what minority interest is. Minority interest is the shareholder but there is not holding company's shareholder. So, when holding company shows consolidated balance sheet, it is the duty of accountant to show minority interest in the liability side of consolidated balance sheet.

We can calculate minority interest with following formula

Total share capital of Subsidiary company = XXXXX

Less Investment of Holding company in to subsidiary company = - XXXX

Add proportionate share of the subsidiary company‘s profit and

Reserves or increase in the value of assets + XXXX

Less proportionate share of the subsidiary company's loss and decrease

In the value of total assets of company - XXXXX

Value of Minority Interest XXXXX

4th Step

Calculate cost of capital / Goodwill or Capital Reserve

If holding company purchase_shares of subsidiary company at premium, then the value of premium will be deemed as goodwill or cost of capital and shows as goodwill on the assets side of consolidated balance sheet.

But if holding company purchases the shares of subsidiary company at discount, then this value of discount will be capital reserve and show in the liability side of consolidated balance sheet.

5th Step

Treatment of Pre – Acquisition of reserve and profit

Pre – acquisition profit and reserve of subsidiary company will be shown as capital reserve in consolidated balance sheet but the value of minority interest's profit or reserves deducts from it and add in minority interest value.

Total profit before acquisition of subsidiary company = XXXX

Less share of minority interest - XXXX

Value of profit X minority interest's value of shares in subsidiary company / total share capital of subsidiary company.

Pre – acquisition profit and reserve shown as capital reserve XXX

6th Step

Calculate post acquisition profits

After the date of purchasing the shares of subsidiary company , profit of subsidiary company will also deem of holding company and it include in the profit of holding company and we also separate the part of profit of minority interest and add in minority interest's value and shown in liability side .

7th Step

Elimination of common transactions

All common transaction between holding company and subsidiary company will not show in the consolidated balance. There following common transaction

1. goods sold and goods purchase on credit and the value of debtor or creditor either subsidiary company or holding company will not shown in consolidated balance sheet
2. Value of bill payable or bill receivable of holding company on subsidiary company will also not shown but if some bills value is discounted from third party then either of both company's payable value shown as liability in the consolidated balance sheet .

8th Step

Treatment of Unrealized profit

If subsidiary company sells the goods to holding company or holding company sells the goods to subsidiary company at profit and if such goods will not sold in third party , then the profit will not realized , so such unrealized profit will not credited to profit and loss account . At this time a stock reserve account is opened and all amounts of unrealized profit transfers to this account and this accounts total amount is deducted from closing stock of consolidated balance sheet.

Suppose

Closing stock of H 50000

Closing stock of S 50000

100000

Less stock reserve

2000

98000

If subsidiary company has also other outsider's shares then holding company makes reserve up to his shares proportion.

9th Step

Treatment of dividend

If holding company gets the dividends from subsidiary company, then this will divide into two parts. If subsidiary company declare dividend out of capital profits, then this will add in capital reserves in consolidated balance sheet. But, if subsidiary company has declared the profit out of revenue gains, then this dividend will add in general profit and loss account and will shown in the liability side of consolidated balance sheet.

For example,

1. H Ltd. acquires 70% of the equity shares of S Ltd. on 1st January, 2012. On that date, paid up capital of S Ltd. was 10,000 equity shares of 10 each; accumulated reserve balance was 1,00,000. H Ltd. paid 1,60,000 to acquire 70% interest in the S Ltd. Assets of S Ltd. were revalued on 1.1.2012 and a revaluation loss of

`20,000 was ascertained. The book value of shares of S Ltd. is calculated as shown below:

`

70% of the Equity Share Capital	1,00,000
70,000	
70% of Accumulated Reserve 1,00,000	70,000
70% of Revaluation Loss 20,000	(14,000)
	1,26,000

So, H Ltd. paid a positive differential of 34,000 i.e (1,60,000 -1,26,000). This differential is also called goodwill and is shown in the balance sheet under the head intangibles.

2. A Ltd. acquired 70% interest in B Ltd. On 1.1.2012. On that date, B Ltd. had paid-up capital of 1,00,000 consisting of 10,000 equity shares of 10 each and accumulated balance in

reserve and surplus of 1,00,000. On that date, assets and liabilities of B Ltd. were also revalued and revaluation profit of 20,000 were calculated. A Ltd. paid 1,30,000 to purchase the said interest.

In this case, the book value of Shares of B Ltd. is calculated as shown below:

`

70% of the Equity Share Capital 1,00,000	70,000
70% of Reserves and Surplus 1,00,000	70,000
70% of Revaluation Profit 20,000	14,000
	1,54,000

So, H Ltd. enjoyed negative differential of `24,000 i.e. (1,54,000 – 1,30,000).

Illustration 3

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2012 at a cost of 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2012:

Consolidated Financial Statements of Group Companies

	in lakhs
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2012. Exe Ltd. purchased the shares of Zed Ltd. @ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

Solution

Revalued net assets of Zed Ltd. as on 31st March, 2012

`

	in lakhs	in lakhs
Fixed Assets [120 X 120 %]	144.0	
Investments [55 X 90 %]		49.5
Current Assets		70.0
Loans and Advances		15.0
Total Assets after revaluation		278.5
Less:		
15% Debentures	90.0	
Current Liabilities	50.0	(140.0)
Equity / Net Worth		138.5
Exe Ltd.'s share of net assets (70%)		96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd.		
(70 lakhs – 7 lakhs*)		63.00
Capital reserve		33.95

* Total Cost of 70 % Equity of Zed Ltd	70 lakhs
Purchase Price of each share	20

Number of shares purchased [70/20] 3.5 lakhs

Dividend @ 20 % i.e. 2 per share 7 lakhs

Since dividend received is for pre acquisition period, it has been reduced from the cost of investment in the subsidiary company

Illustration 4

From the following summarized balance sheets of H Ltd. And its subsidiary S Ltd. drawn up at 31st March, 2012, prepare a consolidated balance sheet as at that date, having regard to the following:

(i) Reserves and Profit and Loss Account of S Ltd. stood at 25,000 and 15,000 respectively. In the year 2007, the minority's share of losses actually comes to1,50,000. But since minority interest as on 31.12.2006 was less than the share of loss, the excess of loss of 21,000 is to be added to A Ltd.'s share of losses. Similarly for the year 2008, the entire loss of B Ltd Is to be adjusted against A Ltd.'s profits for the purpose of consolidation. Therefore, upto 2008, the minority's share of B Ltd's losses of 57,000 are to be borne by A Ltd. Thereafter, the entire profits of B Ltd. will be allocated to A Ltd. unless the minority's share of losses previously absorbed (`57,000) has been recovered. Such recovery is fully made in 2011 and therefore minority interest of `33,000 is shown after adjusting fully the share of losses of minority previously absorbed by A Ltd date of acquisition of its 80% shares by H Ltd. on 1st April, 2011.

(ii) Machinery (Book-value `1,00,000) and Furniture (Book value `20,000) of S Ltd. were revalued at `1,50,000 and `15,000 respectively on 1.4.2011 for the purpose of fixing the price of its shares.

[Rates of depreciation: Machinery 10%, Furniture 15%.]

Summarized Balance Sheet of H Ltd. as on 31st March, 2012

	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Equity and Liabilities			Non-current assets		
Shareholders' funds Share Capital Shares of Rs.100 each	6,00,000	1,00,000	Fixed assets Machinery Furniture Other non-current	 3,00,000 1,50,000 4,40,000	 90,000 17,000 1,50,000

			assets		
Reserves Profit and Loss Account Trade Payables	2,00,000 1,00,000 1,50,000	75,000 25,000 57,000	Non-current Investments Shares in S Ltd.: 800 share ` 200 each	1,60,000	-
	10,50,000	2,57,000		10,50,000	2,57,000

Solution

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No	Rs
I. Equity and Liabilities (1). Shareholder's Funds (a) Share Capital (b) Reserves and Surplus	1	6,00,000 3,44,600 48,150

(2) Minority Interest (3) Current Liabilities (a) Trade Payables	2	2,07,000
Total		11,99,750
II. Assets (1) Non-current assets (a) Fixed assets (i) Tangible assets (ii) Intangible assets (b) Other non- current assets	3 4 5	5,97,750 12,000 5,90,000
Total		11,99,750

Notes to Accounts

				Rs
1.	Reserves and Surplus Reserves (W.N.3) Add: 4/5th share of S Ltd.'s post-acquisition reserves		2,00,000 40,000	2,40,000

	Profit and Loss Account Add: 4/5th share of S Ltd.'s post-acquisition profits		1,00,000 4,600	1,04,600 3,44,600
2.	Trade Payables H Ltd. S Ltd.		 1,50,000 57,000	 2,07,000
3	. Tangible Assets Machinery H. Ltd. S Ltd. Add: Appreciation Less: Depreciation Furniture H. Ltd S Ltd.	 1,00,000 50,000 1,50,000 (15, 000) 20,000	 3,00,000 1,35,000 1,50,000	

	Less: Decrease in value	(5,000)		
		15000		
	Less Depreciation	(2,250)	12,750	5,97,750
4.	Intangible assets Goodwill [WN 6]			12,000
5.	Other non-current assets H Ltd. S Ltd.		4,40,000 1,50,000	5,90,000

Working Notes

1.	**Pre-acquisition profits and reserves of S Ltd.** Reserves Profit and Loss Account	25,000 15,000
		40,000
	H Ltd.s = 4/5 × 40,000 Minority Interest= 1/5 × 40,000	32,000 8,000

2.	**Profit on revaluation of assets of S Ltd.**	
	Profit on Machinery Rs.(1,50,000 – 1,00,000)	
	Less: Loss on Furniture Rs.(20,000 – 15,000)	
	Net Profit on revaluation	50,000
	H Ltd.'s share 4/5 × 45,000	
	Minority Interest 1/5 × 45,000	5000
	.	45,000
	Post-acquisition reserves of S Ltd.	36,000
	Post acquisition reserves = (75,000 – 25,000)	9,000
	H Ltd.'s share 4/5 × 50,000	
3	Minority interest 1/5 × 50,000	
		50,000
		40,000
		10000
4.	**Post -acquisition profits of S Ltd.**	10,000
	Post-acquisition profits (25,000 – 15,000)	750
	Add: Excess depreciation charged	

	furniture @ 15% on 5,000 i.e. (20,000 – 15,000) Less : Under depreciation on machinery @ 10% on 50,000 i.e. (1,50,000 – 1,00,000) Adjusted post-acquisition profits H Ltd.'s share 4/5 × 5,750 Minority Interest 1/5 × 5,750	10,750 (5,000) 5,750 4,600 1,150
5.	**Minority Interest** Paid-up value of (1,000 – 800) = 200 shares held by outsiders i.e. 200 × 100 Add: 1/5th share of pre-acquisition profits and reserves 1/5th share of profit on revaluation 1/5th share of post-acquisition reserves 1/5th share of post-acquisition profit	20,000 8,000 9,000 10,000 1,150 48,150

6.	**Cost of Control or Goodwill**	
	Paid-up value of 800 shares held by H Ltd. i.e. 800 × 100	80,000
	Add: 4/5th share of pre-acquisition profits and reserves	32,000
	4/5th share of profit on the revaluation	36,000
	Intrinsic value of shares on the date of acquisition	1,48,000
	Price paid up by H Ltd. for 800 shares	1,60,000
	Less: Intrinsic value of the shares	(1,48,000)
	Cost of control or Goodwill	**12000**

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DEPARTMENT OF COMMERCE
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ADVANCED CORPORATE ACCOUNTING - 17CMP104
Academic Year: 2017- 2018

Questions	A	B	C	D	Answer
UNIT- IV					
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
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

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ADVANCED CORPORATE ACCOUNTING - 17CMP104
Academic Year: 2017- 2018

Questions	A	B	C	D	Answer
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 whichev	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
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
Net Social Income to staff is the difference between social benefit to staff and social ________ to staff	Income	Revenue	Cost	Expenditure			Cost
The amount of surrendered shares is credited to --------------account.	Capital reduction	Capital	Bank	P&L Account			Bank
Alteration of share capital is effected by a company if it is authorized by the-------------------------.	Memorandum of Association	Articles of association	Shareholders	Board of directors			Memorandum of Association
The capital reduction scheme can be implemented only after gettingpermission from-------------.	Central government	Controller of capital issues	Share holders	The competent court			Share holders
Any decreases in the value of assets at the time of internal reconstruction, will be changed to-------------.	Goodwill a/c	Capital reduction a/c	Revaluation a/c	Share capital a/c			Capital reduction a/c
Consolidation of shares does not affect the amount of----------------.	Share capital	Creditors	Debtors	Bank overdraft			Share capital
A company can convert fully paid ---------------into stock and also reconvert ----------------back into shares	Securities	Debentures, Equity	Deposits, Stock	Share,stock			Debentures, Equity
Any debit balance in P&L a/c represents ------------and such losses will be written off as part of capital reorganization.	Gains	Resources	Accumulated losses	Incomes			Accumulated losses
In the scheme of capital reduction, any new liability to be provided for, such as arrears of preference dividend, must be met out of-----------account.	Income reduction	Trading	Capital reduction	Debtors			Capital reduction
Inter company 'owing' should be -------------while preparingthe balance sheet of the transferee company after completion of amalgamation.	Eliminated	Not eliminated	Appointed	Not appointed			Eliminated

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Karpagam Academy of Higher Education

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

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Unit V

Inflation Accounting – Human Resource Accounting – International Accounting Standards (Theory Only) - International Financial Reporting Standards.

Concept of Inflation Accounting:

Inflation normally refers to the increasing trend in general price levels. In economic sense it refers to a state in which the purchasing power of money goes down or conversely there is more money in circulation than is justified by goods and services. Inflation has come to stay as a standing feature in the economy of almost all countries of the world.

The general weakness of the traditional accounting system is that it fails to reflect the price level changes in the financial statements as it is based on historical cost. The American Institute of Certified Public Accountants defines the Inflation accounting as a system of accounting, which purports to record as a built-in mechanism, all economic events in terms of current cost.

It is a system of accounting like traditional accounting. It is a method designed to show the effect of changing costs and prices on affairs of a business unit during the course of relative accounting period. But the difference lies in the process of matching cost against revenue.

While the cost in the traditional accounting refers to historical cost, in inflation accounting it represents the cost that prevails at the time of reporting. The inflation accounting has an inbuilt and automatic mechanism to match the cost and revenue at current values.

Salient Features:

From the above definition, the salient features of Inflation accounting may be listed as follows:

1. The inflation accounting has an inbuilt and automatic recording procedure.
2. The unit of measurement is not stable like traditional or historical accounting.
3. It takes into consideration all the elements of financial statements for reporting.
4. The realization principle is not rigidly followed, particularly in the case of recording fixed assets and long-term loans.

Need for Inflation Accounting:

In the traditional accounting, assets are shown in the financial statements year after year on the basis of acquisition prices or at historical cost. During the inflationary period, historical-cost based depreciation would be highly insufficient to replace the existing assets at current costs. Items like depreciation, cost of goods sold, and inventory are understated and the profit figure and financial position of the business units are highly distorted.

Current revenues for the period are not properly matched with current cost of operation. Hence, the problems created by price changes in the historical- cost based accounts necessitate some methods to take care of inflation into the accounting system.

Methods of Accounting for Changing Prices:

International accounting bodies have suggested a number of methods for measuring the impact of changing prices on the profitability and financial position of the business units. However, no single method has gained universal acceptance.

Noteworthy among the various methods the following are the generally accepted methods of accounting for price level changes: Current Purchasing Power Method [CPP method]. Current Cost Accounting Method [CCA method]. Hybrid method [a Mixture of CPP and CCA methods].

(1) Current Purchasing Power (CPP) Method:

The CPP method [also termed as Constant rupee method] attempts to restate all items in the financial statements in terms of units of equal purchasing power. It seeks to eliminate the effects of changes in the general price levels or in the value of money itself. Money as a measuring rod is somewhat defective, because its value keeps on changing due to inflation or deflation.

The CPP method basically attempts to remove the distortions in financial statements, which arise due to change in the value of rupee. For this purpose, any approved price index depicting the changes in the purchasing power of rupee is used to convert the various items of the financial statements.

For example, an asset purchased in 2000 for Rs.5, 000 would be valued in 2005 based on the change in the general price index in 2005 as compared to that in 2000. Suppose the general price index was 200 in 2000 and it was 300 in 2005.

The asset would be valued at Rs.7,500 [i.e., Rs.5,000 x 300/200], It implies that the current purchasing power of a sum of Rs. 5,000 spent in 2000 is equivalent to Rs.7 500 in 2005. That is, the purchasing power of rupee in 2005 is 1.5 times [300/200] more than that in 2000.

It is important to note that under CPP method only the changes in the general purchasing power of money is relevant and not the value of individual asset. For example a particular asset has become cheaper over the period of time as against the increase in the general price index. In such a case, the value of such an asset will be raised in accordance with the general price index.

Steps involved in CPP method:

Conversion Factor: For converting historical rupees into equivalent uniform rupees [current purchasing prices] as at the date of balance sheet an index depicting the changes in the power of rupee is required.

This is done through a conversion factor, which is calculated as follows:

$$\text{Conversion Factor} = \frac{\text{Price Index at the date of conversion}}{\text{Price at the date of transaction}}$$

For this purpose most broad-based retail or consumer price is used. And in case of transactions occurring throughout a period, an average price index of the period is used. Such transactions include items like sales, purchase of goods, payment of expenses, etc. The average price index may be calculated by taking the average of the opening and end of the period price index numbers.

Example 1:

A company purchased a plant on 1-1-2005 for a sum of Rs.45 000. The consumer price index on that date was 125 and it was 250 at the end of the year. Restate the value of the plant as per CPP method as on 31st December 2005.

$$\text{Conversion Factor} = \frac{\text{Price index as on 31-12-2005}}{\text{Price as on 1-1-2005}} = \frac{250}{125} = 2$$

Value of the Plant on 31st December 2005 after conversion	= Value of the plant on 1 – 1 – 2005 x Conversion Factor
	= Rs. 45 000 x 2 = Rs. 90 000.

Distinction between Monetary and Non-monetary items:

The CPP method distinguishes between monetary items and non-monetary items for converting the figures.

Monetary items are those items whose amounts are fixed by contract or otherwise they remain constant in terms of monetary units [rupees, dollars, etc.]. The changes in price levels do not affect their values. Examples of monetary assets and liabilities are cash, debtors, creditors, debentures, outstanding expenses, preference share capital, etc.

During the period of inflation, the holder of monetary assets loses general purchasing power since their claims against the firm remain fixed irrespective of any changes in the general price levels.

Conversely the holder of monetary liabilities gains since he is to pay the same amount due in rupees of lower purchasing power. The CPP method suggests the computations of purchasing power gains or loss made by a firm on holding the net monetary items.

Non-monetary items are those items that cannot be stated in fixed monetary amounts. They include tangible assets such as buildings, plant and machinery, inventories for sale, etc. In other words non-monetary items do not carry a fixed value like monetary items. Under CPP method all such items are to be restated to represent the current purchasing power.

For example, a machinery costing Rs.25 000 in 1996 may sell for Rs.35 000 today though it has been used. This may be due to change in the general price level. The equity capital is a non-monetary item since the equity shareholders have residual claim on the company's net assets.

Computation of Monetary Gain or Loss:

The changes in purchasing power affect both monetary and non-monetary items of the financial statements. In case of monetary assets and monetary liabilities, the firm receives or pays the amounts fixed as per the terms of contract, but it loses or gains in terms of real purchasing power.

Such monetary gain or loss should be computed separately and shown as a separate item in the restated income statement in order to find out the overall profit or loss under CPP method.

Example 2:

From the following data, compute the net monetary gain or loss as per CPP method:

Monetary Items		1 – 1 – 2005	31 – 12 – 2005
Cash		Rs. 5,000	Rs.10,000
Debtors		20,000	25,000
Creditors		15,000	20,000
Public Deposits		20,000	20,000
Consumer price index numbers are:			
On 1 – 1 – 2005	—	100	
On 31 – 12 – 2005	—	150	
Average for the year	—	120	

Solutuion:

[A] Impact of changes of general price levels on liabilities:

	Rs.	
Monetary liabilities on 1 – 1 – 2005 Rs.35 000		
Value of liabilities at current prices [Rs.35 000 × 150/100]		52,500
Value of additional liabilities at current prices [Rs.40 000 – 35 000] x 150/120		6,250
		58,750
Less: Value as per closing balance sheet		40,000
Resultant monetary gain on holding liabilities		18,750

Note:

The conversion factors for the opening balances of assets and liabilities have been computed by dividing the year-end price index by opening price index, [i.e., 150/100]. And for additions made during the year, it has been calculated by dividing the year-end price index by average price index, [i.e., 150/120].

Adjustment for Cost of Sales and Inventories:

For the purpose of restatement of the Cost of sales and Inventories under CPP method, the cost flow pattern of [i.e., First in First out or Last in First out] should be kept in mind. Under the First in First out assumption, the inventories purchased first are issued to production or to customers. Later purchases remain in stock.

Similarly under the last in First out assumption, the inventories purchased are issued first and the earlier purchases remain in stock. These cost flow pattern should be kept in mind while using the index numbers for computing conversion factors. Under FIFO method, the cost of sales normally includes the entire opening stock and current purchases less closing stock.

Closing stock comprises entirely current purchases and sometimes part of opening stock. In case of LIFO, the cost of sales includes current purchases only and closing stock comprises opening stock and sometimes part of current purchases.

For the purpose of restatement of historical figures in terms of current values, the following price indices are used:

[i] Purchases of the previous year: Average indices for the relevant years.

[ii] Current Purchases: Average index of the year.

[iii] Opening stock: Index at the beg

Example 3:

[B] Impact of changes of general price levels on monetary assets:

Value of monetary assets on 1 – 1 – 2005 Rs.25 000		
Value at current prices on 31 – 12 – 2005 [Rs.25 000 x 150/100]	37,500	
Additions at current prices [Rs.35,000 – 25,000] x [150/120]		12,500
	50,000	
Value of assets as per closing balance sheet	35,000	
Resultant monetary loss on holding monetary assets	15,000	
Net monetary gain [A – B] [Rs.18,750 – 15,000]	3,750	

Method Solution:

FIFO Method:

Values of Cost of Sales and Inventories:

	Historical Cost Basis Rs.		Conversion Factor	CPP Method Rs.	
Opening Stock	20,000		1.6 [240/150]	32,000	
Add: Purchases	60,000		1.33 [240/180]	80,000	
	80,000			1,12,000	
Less: Closing Stock		24000	1.33 [240/180]		32,000
Cost of Sales	56000			80 000	

LIFO Method

Values of Cost of Sales and Inventories

	Historical Cost Basis			Conversion Factor	CPP Method		
		Rs.				Rs.	
Opening Stock		20,000		1.6 [240/150]		32,000	
Add: Purchases		60,000		1.33 [240/180]		80,000	
			80,000				1,12 000
Less: Closing Stock:							
Opening stock	20,000			1.6 [240/150]	32,000		
Current Purchases	4,000	24,000		1.33 [240/180]	5,333		37,333
Cost of Sales		56,000					74, 667

Determination of Profit:

There are two approaches to determine the profit under CPP method. They are [a] Net Change Method and [b] Restatement of Income Method.

Net Change Method:

This approach is based on normal accounting concept that profit is equal to change in equity during an accounting period. Opening balance sheet based on historical cost is converted into CPP balance sheet by using index numbers.

Monetary items should be converted and the net monetary gain or loss is shown. Equity capital is also converted. The difference in the balance sheet is taken as reserves. When equity is not converted, then the difference in the balance sheet is taken as equity.

Income Method:

Under this method the historical profit and loss account is restated in CPP terms. All the items of Income Statement are converted into CPP values on the following basis:

[a] Sales and operating expenses are restated at the average index applicable for the year.
[b] Cost of sales is converted as per the cost flow assumption as explained above.
[c] Net gain or loss on monetary items will have to determined and shown separately in the restated income statement.
[d] Fixed assets and their depreciation are converted on the basis of the indices prevailing at the dates of purchase of such assets.
[e] Taxes and dividends paid are converted on the basis of indices prevailing at the dates of payment.

Limitations of CPP Method:

The index numbers are statistical averages and the CPP method is based on indices. Hence, it would be very difficult to apply with precision to individual firms.

There are various price indices, which characterize different price situations. Hence, it would be a difficult task to select a suitable price index.

The method deals with changes in the general price level and not with the changes in prices of individual firms. However, the only relationship is that the individual prices move with the general price index to some extent. Hence, a large number of accountants, economists, and Government authorities do not favor this method.

(2) Current Cost Accounting [CCA] Method:

Because of the limitations of CPP method, the Sandilands Committee recommended the current cost accounting system as a method for correcting the deficiencies of historical cost accounting. The Accounting Committee of U.K has issued a Statement of Standard Accounting Practice 16 [SSAP – 16] relating to CCA method. Main Features of CCA method

Money remains to be the unit of measurement. The items of the financial statements are restated in terms of current value of that item and in terms of general purchasing power of money. Assets and liabilities are at their current value to the business. Similarly the profits are computed on the basis of current values of the various items to the business.

This requires carrying out the following adjustments:

Revaluation Adjustment,

Depreciation Adjustment,

Cost of Sales Adjustment [COSA] and

Monetary Working Capital Adjustment

Methodology:

Revaluation Adjustment:

Fixed assets are shown in the balance sheet at their values to the business. The value to the business of an asset refers to the opportunity loss to the business if were deprived of such assets. In this context, it is pertinent to understand the gross and net replacement costs. The gross replacement cost of an asset is the cost to be incurred at the date of valuation to obtain a similar asset for replacement.

For example:

If an asset purchased on 1 – 1 – 2005 for Rs. 50,000 costs Rs. 80,000 on 31 – 12 – 2005, then the gross replacement cost on 31 – 12 – 2005 would be Rs.80,000. Net replacement cost refers to the unexpired service potential of that part of gross current replacement cost.

For example, a machine costing Rs. 80,000 has a life of eight years with zero scrap value and it has been used for three years. If the machine can be purchased now for Rs.80,000 then the net replacement cost of the asset would be Rs.70,000 i.e., the current price of the machine less depreciation for three years.

Plant and machinery, Motor vehicles, Office equipment, Fixtures and fittings, Ships and Aircrafts, etc., are normally valued at their net current replacement cost. Land and buildings occupied by the owner himself should be shown in the balance sheet at their value to the business, which will comprise the market value for existing use plus estimated acquisition cost.

If the open market is not available, then the net replacement cost of the buildings and open market value of land for its existing use plus the estimated acquisition cost should be taken as their value to the business. Long-term investments should also be shown in the balance sheet at their value to the business.

Quoted investments should be valued at their unit market value and unquoted investments are valued on the basis of the current cost net worth of the company. Inventories should be valued at power of the current replacement cost as on the date of the balance sheet and the net realizable value.

Depreciation Adjustment:

The profit and loss account should be charged for depreciation with an amount equal to the value of fixed assets consumed during the period. When the fixed assets are valued on the basis of their net current replacement cost, the depreciation charge should be based on such cost.

The depreciation charge may be computed either on the basis of total replacement cost of the asset or on average net current cost of assets.

Average current cost may be computed as follows:

Example 3:

[B] Impact of changes of general price levels on monetary assets:		
Value of monetary assets on 1 – 1 – 2005 Rs.25 000		
Value at current prices on 31 – 12 – 2005 [Rs.25 000 x 150/100]	**37,500**	
Additions at current prices [Rs.35,000 – 25,000] x [150/120]		**12,500**
	50,000	
Value of assets as per closing balance sheet	**35,000**	
Resultant monetary loss on holding monetary assets	**15,000**	
Net monetary gain [A – B] [Rs.18,750 – 15,000]	**3,750**	

The current depreciation charge is obtained by apportioning the average net replacement cost over the expected remaining useful life of the fixed assets as at the beginning of the period.

When the fixed assets are revalued every year there will also be shortfall of depreciation representing the effect of price rise during the period. This shortfall is called backlog depreciation, which should be charged either to general reserves or against the related revaluation surplus on the fixed assets. The need for adjustment of backlog depreciation will arise whenever a depreciating asset is revalued.

Example 4:

Vicky ltd. purchased new equipment on 1 – 1 – 2002 for Rs. 80,000 and its expected life was 10 years without any scrap value. On 1 – 1 -2005 a similar new equipment costedRs. 30,000 and on 31 – 12 – 2005 Rs.40,000. What would be the depreciation charge for the year 2005 assuming that there is no change in the estimated life of the equipment.

Solution

Depreciation charge under CCA method

$$\frac{\text{Current value at the beginning} + \text{Current value at the end}}{2 \times \text{Expected life}}$$

$$= \frac{\text{Rs.}30{,}000 + \text{Rs.}40{,}000}{2 \times 10} = \text{Rs. } 3{,}500$$

Example 5

On 1 – 1 – 2002 firm purchased equipment for a sum of Rs.5 00 000 and its expected life was 10 years without any scrap value. The price indices for the asset were as follows:

1 – 1 – 2002	100
1 – 1 – 2005	150
31 – 12 – 2005	180

Compute the depreciation adjustment for the year 2005 under CCA method charging depreciation on straight-line basis.

Solution

Statement showing the value and depreciation of the Equipment

Particulars	1 – 1 – 2005 Historical Cost [Rs.]	Current Cost [Rs.]	31 – 12 – 2005 Historical Cost [Rs.]	Current Cost [Rs.]
Cost	5,00,000	7,50,000	5,00,000	9,00,000
Less: Depreciation [3/4 yrs.]	1,50,000	2,25,000	2,00,000	3,60,000
Net Cost	3,50,000	5,25,000	3,00,000	5,40,000

Depreciation adjustment for 2005 based on Current Replacement value

Depreciation at 10% on Current Cost Rs.9 00 000		Rs.90,000
Less: Depreciation charged for 2005 as per HCA	50,000	
Depreciation Adjustment	40,000	

Cost of Sales Adjustment [COSA]:

This adjustment is made in order to determine the current cost operating profit. COSA represents the difference between value to the business and the historical cost of stock consumed in the period. The amount of sales is the current revenue and requires no adjustment in its figure.

Such as raw materials consumed or finished goods sold items. Which enter into the calculation of cost of sales, have to be taken at the present value at which they would be replaced or consumed or sold. The difference in values is called as COSA, which is debited to the Profit and loss account and credited to Current Cost Account Reserve.

Example 6

Determine the value of Cost of Sales Adjustment from the data given below:

Opening stock on 1 – 1 – 2005	Rs.12 000
Closing stock on 31 – 12 – 2005	16 000
Index number on 1 – 1 – 2005 [Io]	160
Index number on 31 – 12 – 2005 [Ic]	200
Average index number for the year [Ia]	190

Solution

Cost of Sales Adjustment = Closing stock [CS] – Opening stock [OS] – Ia [CS/ Ic – OS/ Io]
= [Rs.16,000 – 12,000] – 190 [16,000/200 – 12,000/160]

= Rs. 4,000 – 190 [80 – 75]
= Rs. 3,050

Monetary Working Capital Adjustment [MWCA]:

The rising prices create the need for the additional working capital for efficient and profitable operation of the firm. The concept of monetary working capital refers to the excess of accounts receivables and unexpired expenses over accounts payables and accruals. Current cost accounting ensures that the impact of changing prices on working capital is taken care of through MWCA.

This adjustment is to be carried out while computing current cost of operating profit by charging profit and loss account with any increase in net additional working capital owing to changing price levels and crediting the CCA Reserve. This adjustment is required only for price level changes and not for any increase in volume of business. The following formula may be used for calculating MWCA.

MWCA = C – O – Ia [C/Ic – O/Io]

Where C = Closing monetary working capital

O = Opening monetary working capital

Ia = Average price index

Io = Opening price index

Ic = Closing price index

Example 7

From the following information as per historical cost accounting, carry out Monetary Working Capital Adjustment under CCA method:

	Opening balance Rs.	Closing balance Rs.
Accounts Receivables	18,000	21,000
Accounts Payables	10,000	12,000
Price Index	175	205
Average Price Index	190	

Solution

MWCA = C – O – Ia [C/Ic – O/Io]

Opening monetary working capital [O] = Rs.18 000 – 10 000 = Rs.8 000

Closing monetary working capital [C] = Rs.21 000 – 12 000 = Rs.9 000

MWCA = Rs.9 000 – 8 000 – 190 [9000/205 – 8000/175]

= Rs.1 000 – 190 [43.9 – 45.7]

= Rs.1 000 + 342 = RS.1 342

Gearing Adjustment:

Gearing is the ratio of debt capital to shareholder's funds. When fixed assets and working capital are partially financed by debt capital the amount of debt remains the same because of repayment agreement. The price level changes do not affect this liability of the business. Thus, the shareholders enjoy the benefits in the period of rising prices.

During the declining prices the reverse experience takes place. The entire net income goes to shareholders. However, in the calculation of operating profit, the existence of borrowing is ignored.

Hence, the profits attributable to shareholders would be understated [or where prices fall overstated] if the whole of depreciation, COSA, and MWCA were charged or credited to profit and loss account. The total of these adjustments [Depreciation, COSA, and MWCA] are proportionately abated through gearing adjustment [gearing ratio].

The gearing adjustment is calculated by the application of the following formula:

Gearing Adjustment [Gearing ratio] = D/D + S x S

Where D = average net debt S = average share holders interest

In the calculation of net borrowing, cash or any other monetary asset not included in MWCA should be deducted from the total borrowing. It would be apt to use average gearing ratio for gearing adjustment.

The calculated amount of gearing adjustment will be debited to Current Cost account Reserve and credited to Profit and Loss Account. In other words the shareholders' share will be charged to profit and loss account and credited to current cost account reserve.

Example 8:

Calculate the Gearing Adjustment Ratio and the Current Cost Adjustment after abating for gearing adjustment.

Following information relate to Rashmi & Co., Ltd.	Opening [Rs.]	Closing [Rs.]
[a] The net borrowing debentures and deferred taxation	2,80,000	2,80,000
Creditors	40,000	28,000
Bank Overdraft	1,20,000	92,000
Taxation	30,000	28,000
Cash	[80,000]	[1,20,000]
Total	3,90,000	3,08,000
[b] Share capital and Reserves from Current Cost Balance Sheet	7,41,600	9,41,000
Proposed dividend	10,000	12,000
Total Shareholders interest	7,51,600	9,53,000
[c] Current cost adjustment:		
Depreciation		34,000
Fixed assets disposal		36,000
COSA		32,400
MWCA		22,400
		1,24,800

Calculate the Gearing Adjustment Ratio and the Current Cost Adjustment after abating for gearing adjustment.

Solution:

$$\text{Gearing Adjustment Ratio} = \frac{D}{D+S} \times 100$$

Average net borrowing [D] = [Rs.3 90 000 + Rs.3 08 000]/2 = Rs.3 49 000
Average Shareholders funds [S] = [Rs.7 51 600 + Rs.9 53 000]/2 = Rs.8 52 300
Average total funds employed [D + S] = [Rs.3 49 000 + Rs.8 52 300] = Rs.12 01 300

$$\text{Gearing Adjustment Ratio} = \frac{D}{D+S} \times 100 = \frac{\text{Rs. }3{,}49{,}000}{\text{Rs. }12{,}01{,}300} \times 100 = 29.05\%$$

Total current cost adjustment	Rs.1,24,800
Less: Gearing adjustment [29.05% of the above]	36,254
Current cost reserve after adjustment	88,546

Advantages of CCA Method:

1. Computation of depreciation based on the fixed assets current value [or value to the business] provides a realistic measure of the resources used in a period.

2. Assets are shown at their current values in the balance sheet.

3. It clearly differentiates the gains from operations from the gains from holding assets.

4. Cost of sales adjustment enables the entity to maintain its value in real terms.

5. Computation of monetary gains and losses highlights the effect of holding monetary items.

6. The introduction of appropriation account brings together revaluation surplus and current cost profit together. It helps management in devising dividend policies realistically.

7. Both management and users of accounts are provided with realistic information relating to value of assets, costs and profit.

Deficiencies in CCA Method:

1. Treatment of backlog depreciation is not proper. Charging against the current cost accounting reserve, which is a capital reserve, provides for backlog depreciation. The proper method would be to charge against revenue reserve available for dividend. This will enable the management to make available the funds for replacement of assets. Further it fails to provide adequate funds for replacements of new types of assets.

2. This method ignores materiality factor. If a particular adjustment is not necessary for a company, it cannot ignore such adjustment. Further the valuation process is subject to the discretion and personal judgment of the managers than the ascertainment of historical cost.

3. This method ignores purchasing power gains and losses on the monetary items of the firm. It takes into account such gains and losses in nature of cost of holding monetary assets and liabilities during a period of changing price levels. In fact such companies would gain or lose very much in terms of purchasing power on the items during the inflationary periods.

4. This method is based on uniform accounting practices, which are not true in actual practice. The accounting practices and maintaining of books differ from firm to firm. Hence, the information available for valuation purposes may not be adequate and real. Because of these deficiencies, many accountants feel that this method may not have adequate capacity to depict the true financial position of the business during the periods of price level changes.

5. The CCA method fails to provide for the gearing adjustment with regard to fixed assets and inventories. They are also financed partly by borrowings. Hence, it is pertinent to subject these assets to gearing adjustment.

(3) Hybrid Method:

Hybrid method combines some of the features of CPP method and CCA method. According to this method, the relevant adjustments are made with reference to specific indices in the place of general index as in the case of CPP method.

In addition, the purchasing power gains and losses on monetary items are also taken into consideration. Combining of the two methods as a compromise formula brings both the benefits and limitations of both CPP and CCA methods. It is still in the evolutionary stage and not suitable for practical application.

Illustration 1:

On 1 – 1 – 2005 a company purchased equipment for Rs.45 000. The price index on that date was at 150. Restate the value of the equipment as per CPP method on 31 – 12 – 2005 when the price index was at 200.

Solution:

$$\text{Conversion Factor} = \frac{\text{Price index at the date of conversion}}{\text{Price index at the date of purchase}} = \frac{200}{150} = \frac{4}{3}$$

Value of equipment on 31 – 12 – 2005 as per CPP method

= Existing value x Conversion Factor

= Rs.45 000 x [4/3] = Rs.60 000

Illustration 2:

Mr. Ram purchased shares in HLL Ltd., for Rs. 10 000 in 1991 when the index of the general price levels stood at 110. At the end of 1994 the market price of the shares was Rs.8 000 and the index was 132. In 1995, the market price of the shares was Rs.9 000 and the index was 145.2.

[i] Calculate the CPP value of the shares in 1994 and in 1995.

[ii] Under CPP accounting, what gain or loss would be shown in respect of shares?

[iii] What was the real gain or loss in purchasing power in respect of the shares during 1995?

Solution:

Illustration 3: From the data given below, compute the net monetary gain or loss as at 31 – 12 – 2005:

	1 – 1 – 2005	31 – 12 – 2005
Cash	Rs. 10,000	Rs. 20,000
Accounts Receivables	40,000	50,000
Sundry creditors	30,000	40,000
Debentures	40,000	40,000
Retail price index numbers	200	300
Average price index for the year 240		

Solution:

[i] CPP value of the shares at the end of 1994 = $\frac{\text{Rs.}10\ 000 \times 132}{110}$ = Rs. 12,000

CPP value at the end of 1995 = $\frac{\text{Rs.}10{,}000 \times 145.2}{110}$ = Rs.13,200

[ii] Determination of accounting gain or loss

	1994	1995
CPP value	Rs. 12,000	13,200
Less: Purchase price	10,000	10,000
Accounting loss	2,000	3,200

[iii] Determination of actual loss in purchasing power

	1994	1995
CPP value	Rs.12,000	13,200
Less: Market price	8,000	9,000
Loss in purchasing power	4,000	4,200

Illustration 3: From the data given below, compute the net monetary gain or loss as at 31 – 12 – 2005:

	1 – 1 – 2005	31 – 12 – 2005
Cash	Rs. 10,000	Rs. 20,000
Accounts Receivables	40,000	50,000
Sundry creditors	30,000	40,000
Debentures	40,000	40,000
Retail price index numbers	200	300
Average price index for the year 240		

Solution:

Statement showing monetary gain/loss on account of Price level changes

CPP value of Monetary liabilities on 1 – 1 – 2005 [Rs.70 000 × 1.5]	Rs. 1,05,000	
CPP value of increase in monetary liabilities during 2005 [Rs.10 000 × 1.25]	12,500	
CPP value of monetary liabilities on 31 – 12 – 2005	1,17,500	
Less: Monetary liabilities on 31 – 12 – 2005 as per balance sheet	80,000	
Gain on holding Monetary liabilities		Rs. 37,500
CPP value of monetary assets as on 1 – 1 – 2005 [Rs.50 000 × 1.5]		Rs. 75,000
CPP value of increase in monetary assets during 2005 [Rs.20 000 × 1.25]	25,000	
CPP value of monetary assets on 31 – 12 – 2005		1,00,000
Less: Book value as on 31 – 12 – 2005		70,000
Loss on holding monetary assets		Rs. 30,000
Net gain on monetary items		7,500

Working Notes:

Computation of conversion factors:

Working Notes:

Computation of conversion factors:

For monetary items as on 1 – 1 – 2005: 300/200 = 1.5

For monetary items as on 31 – 12 – 2005: 300/240 = 1.25

Increase in monetary items:

	as on 1 – 1 – 2005	as on 31 – 12 – 2005	Increase during 2005
	Rs.	Rs.	Rs.
Monetary Assets	50,000	70,000	20,000
Monetary Liabilities	70,000	80,000	10,000

Illustration 4:

Following information has been extracted from the books a Limited Company:

Monetary assets Rs.30 000; monetary liabilities Rs. 16,500

The price index at the time of monetary item were created was 200 and now it stands at 260. Assuming that there has been no change in the amount of assets and liabilities, ascertain the general purchasing power gain or loss.

Solution:

	CPP value of monetary assets = [Rs. 30,000 × 260] / 200 =Rs. 39,000	
	Less: Actual book value	30,000
[A]	Loss on holding monetary assets	9,000
	CPP value of monetary liabilities = [Rs.16 500 × 260] / 200 = Rs. 21,450	
	Less: Actual book value	16,500
[B]	Gain on holding monetary liabilities	4,950
	Net general purchasing power loss [A – B]	4,050

Illustration 5:

On 1 – 1 – 2005 a firm had cash at bank balance of Rs. 40,000. On that date the consumer price index was 200.

During the period ended 31 – 12 – 2005 the receipts and payments were as follows:

Receipts	Rs.	Price Index	Payments	Rs.	Price index
1 – 5 – 2005 Sales	21 000	210	10 – 6 – 2005 Costs	43 000	215
18 – 9 – 2005 Sales	69 000	230	1 – 8 – 2005 Plant	40 000	225
			15 – 12 – 2005 Costs	30 000	240

Ascertain the profit or loss on account of price changes at the year-end when the price index was 240.

Solution:

Statement showing the profit or loss on account of price level changes during the year ended 31 – 12 – 2005.

	Historical Cost [Rs.]	Conversion Factor	CPP value [Rs.]
1 – 1 – 2005 Bank balance	40,000	240/200	48,000
Receipts:			
1 – 5 – 2005 Sales	21,000	240/210	24,000
18 – 9 – 2005 Sales	69,000	240/230	72,000
Total bank balance [A]	1,30,000		1,44,000
Payments:			
10 – 6 – 2005 Costs	43,000	240/215	48,000
1 – 8 – 2005 Plant	42,750	240/225	45,600
15 – 12 – 2005 Costs	30,000	240/240	30,000
Total Payments [B]	1,15,750		1,23,600
31 – 12 – 2005 Bank balance [A – B]	14,250		20,400

The constant rupee [CPP] value of the closing bank balance should have been Rs.20 400 whereas the actual balance is only Rs. 17 000. Hence, the difference in value of Rs.6 150 [Rs.20 400 – 14 250] represents the loss on account of price changes.

Illustration 6:

Mr. Ram purchased shares at a cost of Rs.1 80 000 on 9th February 2005 when the price index stood at 300. On 31st December 2005 the index had moved to 345 and the market value of the investment was Rs.1 96 000. Find out the profit or loss on the investment as per CPP basis.

Solution:

31 – 12 – 2005 Cost of shares as per CPP basis [Rs. 1,80,000 × 345/300] =	Rs. 2 07,000
Less: Market value of the shares	1,96,000
Loss on the value of the investment	11,000

Illustration 7: From the following information given on historical cost basis, restate the cost of goods sold according to HCA and CPP methods assuming that the firm is using LIFO method for pricing its inventories:

	Rs.
Inventories on 1 – 1 – 2005	2,400
Purchases during the year 2005	28,000
Inventories on 31 – 12 – 2005	6,800

The price index in the beginning of the year was 200 while at the end of 2005 it was 360. The closing inventory consists of purchases of purchases made when the price index was 330. The purchases were made uniformly during the year.

Solution:

	HCA method	Conversion Factor		CPP method
	Rs.			Rs.
1 – 1 – 2005 Inventory	2,400	360/200 [1.8]		4,320
Purchases during 2005	28,000	360/280		36,000
Goods available for sale	30,400			40,320
31 – 12 – 2005 Inventory	6,800	2,400 × 1.8	4,320	
		4 400 × 360/330	4 800	9,120
Cost of goods sold during 2005	23,600			31,200

Note: Purchases have been converted into constant rupees using average price index, 280 [i.e., 200 + 360 /2], Closing inventory includes the balance of the opening inventory.

Illustration 8:

From the following information given on historical cost basis, compute the cost of goods sold under HCA and CPP methods assuming that the firm follows FIFO method for pricing its inventories:

Inventories on 1 – 1 – 2005	Rs. 4,800
Purchases during the year 2005	Rs. 42,000
Inventories on 31 – 12 – 2005	Rs. 11,400

The general price index was 200 on 1 – 1 – 2005 and at the end of 2005 it was 360. The closing inventory consists of purchases made when the price index was 228. The purchases were made uniformly throughout the year.

Solution

	HCA method Rs.	Conversion Factor	CPP method Rs.
Inventory on 1 – 1 – 2005	4,800	360/200	8,640
Purchases made during 2005	42,000	360/280	54,000
Goods available for sales	46,800		62,640
Less: Inventory on 31 – 12 – 2005	11,400	360/228	18,000
Cost of goods sold during 2005	35,400		44,640

Note:

Purchases have been converted into constant rupees using the average price index of 280.

Illustration 9:

A firm purchased a plant for Rs.5 00 000 on 1 – 1 – 2002. It has an expected life of 10 years with zero scrap value.

The price indices for the asset were as follows:

1 – 1 – 2002	200
1 – 1 – 2005	320
31 – 12 – 2005	350

The firm charged depreciation on straight-line basis. Ascertain the values of machinery on 1st January and 31st December 2005 as per HCA and CCA methods. Also calculate the amount of depreciation adjustment to be made in the account of 2005.

Solution:

Statement showing the value and depreciation of the Equipment

Particulars	1 – 1 – 2005 Historical Cost [Rs.]	1 – 1 – 2005 Current Cost [Rs.]	31 – 12 – 2005 Historical Cost [Rs.]	31 – 12 – 2005 Current Cost [Rs.]
Cost	5,00,000	8,00,000	5,00,000	8,75,000
Less: Depreciation [3/4 yrs.]	1,50,000	2,40,000	2,00,000	3,50,000
Net Cost	3,50,000	5,60,000	3,00,000	5,25,000

Depreciation adjustment for 2005 based on Current Replacement value

Depreciation at 10% on Current Cost Rs.8 75 000		Rs. 87,500
Less: Depreciation charged for 2005 as per HCA	50,000	
Depreciation Adjustment	37,500	

Illustration 10:

Following information have been taken out from the books of Mac ltd., for the year 31st December 2005:

	Rs.	
Materials consumed	5,00,000	
Manufacturing wages and expenses	4,00,000	
Inventories as on 1 – 1 – 2005 at cost:		
Raw materials	40,000	
Finished goods	1,00,000	
Inventories as on 31 – 12 – 2005 at cost:		
Raw materials	60,000	
Finished goods	90,000	
The value of inventories to business was ascertained at	1 – 1 – 2005	31 – 12 – 2005
	Rs.	Rs.
Raw materials	48,000	70,000
Finished goods	1,10,000	1,00,000

Price of materials rose during the year steadily by 20% and manufacturing wages and expenses by 16%. Ascertain the adjustments required for the above under CCA method.

Solution:

Statement showing adjustment for value of inventories to business and Cost of Sales adjustment for the year ended 31 – 12 – 2005.

Adjustment for value of inventories to business:

		Rs.
Value of inventories to business on 31st December 2005:		
Raw materials		70,000
Finished goods		1,00,000
Total		1,70,000
Book value of inventories: Raw materials	Rs. 60,000	
Finished goods	90,000	1,50,000
Increase in value [credit to CCA Reserve]		20,000
Cost of sales Adjustment:		
Purchases as per books of account		5,20,000
Add: 10% being half the increase in raw material prices		52,000
		5,72,000
Add: Raw material stock on 1 – 1 – 2005 [value to business]		48,000
		6,20,000
Less: Closing stock of Raw materials [adjusted for price changes] [Rs.60 000 x 110/120]		55,000
Materials consumed at prices when consumed		5,65,000
Manufacturing wages and expenses	4,00,000	
Add: 8% being half the increase in rate during 2005	32,000	4,32,000
		9,97,000
Less: book value of materials, wages and expenses		9,00,000
Cost of Sales Adjustment		97,000
Debit to Profit and loss account and Credit to CCA Reserve		

Notes:

Computation of purchases = Materials consumed + Closing stock – Opening Stock

Purchases = Rs.5 00 000 + 60 000 – 40 000 = Rs. 5, 20,000

Illustration 11:

From the following particulars calculate the Monetary Working Capital Adjustment:

	1 – 1 – 2005	31 – 12 – 2005
Inventories	Rs. 2,20,000	Rs. 2,44,000
Accounts Receivables	1,80,000	2 20,000
Cash at bank	24,000	32,000
Advances for supplies of materials	40,000	50,600
Due to suppliers	1,00,000	1,28,800

During the year 2005 the material prices increase by 15% and those of finished goods by 10%.

During the year 2005 the material prices increase by 15% and those of finished goods by 10%.

Solution:

Statement of Monetary Working Capital

	As On 1 – 1 – 2005	As on 31 – 12 – 2005
	Rs.	Rs.
Accounts Receivables	1,80,000	2,20,000
Advances for supply of materials	40,000	50,600
	2,20,000	2,70,600
Less: Accounts Payables	1,00,000	1,28,800
Monetary Working capital [MWC]	1,20,000	1,41,800
Increase in MWC during 2005	21 800	

Restatement showing increase in amounts due to change in volume in terms of mid- year prices.

	As on 1 – 1 – 2005	as on 31 – 12 – 2005
	Rs.	Rs.
Accounts Receivables Rs. 1 80 000 × 105/100	1,89,000	
Rs.2 20 000 × 105/110		2,10,000
Advances for supply of materials Rs.40 000 × 107.5/100	43,000	
Rs.50 600 × 107.5/115		47,300
	2,32,000	2,57,300
Less: Due to suppliers Rs.1 00 000 × 107.5/100	1,07,500	
Rs.1 28 800 × 107.5/115		1,20,400
	1,24,500	1,36,900
Increase due to change in prices	12,400	
Increase in Monetary Working Capital – actual	Rs. 21 800	
Less: Due to increase in volume in terms of mid-year prices	12 400	
Increase due to change in prices – MWCA	9 400	

Note:

Accounts Receivables have been adjusted by change in prices of finished goods and the other two items by the change in prices of material.

Illustration 12:

From the following comparative balance sheet of Sri Ram Limited as prepared according to Current Cost Accounting Method, calculate the Gearing ratio:

Comparative Balance sheet

Liabilities	2004 Rs.	2005 Rs.	Assets	2004 Rs.	2005 Rs.
Share Capital	1,00,000	1,00,000	Fixed Assets [net]	2,40,000	2,80,000
Revenue Reserve	50,000	60,000	Inventories	1,00,000	1,30,000
CCA Reserve	1,00,000	1,20,000	Book debts	1,60,000	1,80,000
Secured Debts	1,16,000	1,76,000	Prepaid expenses	2,000	2,000
Creditors	1,00 000	92,000	Cash	10,000	14,000
Provision for Taxation	31,000	40,000			
Proposed dividend	15,000	18,000			
	5,12,000	6,06,000		5,12,000	6,06,000

Solution

Statement of Equity and Net Borrowings

	As on 31 – 12 – 2004		As on 31 – 12 – 2005		
Equity Rs.	Net Borrowings Rs.	Total Rs.	Equity Rs.	Net Borrowings Rs.	Total Rs.
Share capital	1,00,000	1,00,000	1,00,000	1,00,000	
Revenue Reserve	50,000	50,000	60,000	60,000	
CCA Reserve	1,00,000	1,00,000	1,20,000	1,20,000	
Proposed dividend	15,000	15,000	18,000	18,000	
Secured debts	1,16,000	1,16,000	1,76,000	1,76,000	
Provision for taxation	31,000	31,000	40,000	40,000	
Cash	[10,000]	[10,000]	[14,000]	[14,000]	
Total 2,65,000	1,37,000	4,02,000	2,98,000	2,02,000	5,00,000

Illustration 13:

From the following information compute the values of cost of sales as per HCA and CCA methods:

Opening stock of materials on 1 – 1 – 2005 [500 tons at Rs.60 per ton.] Rs.30 000	
Materials consumed during 2005	400 tons
Purchases during 2005	Nil
Price of materials on 1 – 1 – 2005	Rs. 70 per ton
Price of materials on 31 – 12 – 2005	Rs. 90 per ton

Solution

Historical Cost Accounting method	
Cost of sales [400 tons × 60]	Rs. 24,000
Closing stock [100 x 60]	Rs. 6,000
Current Cost Accounting method	
Cost of Sales [400 tons × 80]	Rs. 32,000
Closing Stbck [100 tone × 90]	Rs. 9,000

Cost of sales is calculated based on average price index [70 + 9012] Rs.80. The difference in the value of closing stock will be credited to CCA Reserve. The value of closing stock will appear at

Rs.9 000 in the balance sheet. The cost of sales adjustment of Rs.8 000 [i.e., Rs.32 000 – 24 000] will be charged to Profit and loss account and credited to CCA Reserve.

Human Resource Accounting: Meaning, Definition, Objectives and Limitations!

Meaning:

Human resources are considered as important assets and are different from the physical assets. Physical assets do not have feelings and emotions, whereas human assets are subjected to various types of feelings and emotions. In the same way, unlike physical assets human assets never gets depreciated.

Therefore, the valuations of human resources along with other assets are also required in order to find out the total cost of an organization. In 1960s, Rensis Likert along with other social researchers made an attempt to define the concept of human resource accounting (HRA).

Definition:

1. The American Association of Accountants (AAA) defines HRA as follows: 'HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties'.

2. Flamhoitz defines HRA as 'accounting for people as an organizational resource. It involves measuring the costs incurred by organizations to recruit, select, hire, train, and develop human assets. It also involves measuring the economic value of people to the organization'.

3. According to Stephen Knauf, 'HRA is the measurement and quantification of human organizational inputs such as recruiting, training, experience and commitment'.

Need for HRA:

The need for human asset valuation arose as a result of growing concern for human relations management in the industry.

Behavioural scientists concerned with management of organizations pointed out the following reasons for HRA:

1. Under conventional accounting, no information is made available about the human resources employed in an organization, and without people the financial and physical resources cannot be operationally effective.

2. The expenses related to the human organization are charged to current revenue instead of being treated as investments, to be amortized over a period of time, with the result that magnitude of net income is significantly distorted. This makes the assessment of firm and inter-firm comparison difficult.

3. The productivity and profitability of a firm largely depends on the contribution of human assets. Two firms having identical physical assets and operating in the same market may have different returns due to differences in human assets. If the value of human assets is ignored, the total valuation of the firm becomes difficult.

4. If the value of human resources is not duly reported in profit and loss account and balance sheet, the important act of management on human assets cannot be perceived.

5. Expenses on recruitment, training, etc. are treated as expenses and written off against revenue under conventional accounting. All expenses on human resources are to be treated as investments, since the benefits are accrued over a period of time.

Objectives of HRA:

RensisLikert described the following objectives of HRA:

1. Providing cost value information about acquiring, developing, allocating and maintaining human resources.

2. Enabling management to monitor the use of human resources.

3. Finding depreciation or appreciation among human resources.

4. Assisting in developing effective management practices.

5. Increasing managerial awareness of the value of human resources.

6. For better human resource planning.

7. For better decisions about people, based on improved information system.

8. Assisting in effective utilization of manpower.

Methods of Valuation of Human Resources:

There are certain methods advocated for valuation of human resources. These methods include historical method, replacement cost method, present value method, opportunity cost method and standard cost method. All methods have certain benefits as well as limitations.

Benefits of HRA:

There are certain benefits for accounting of human resources, which are explained as follows:

1. The system of HRA discloses the value of human resources, which helps in proper interpretation of return on capital employed.

2. Managerial decision-making can be improved with the help of HRA.

3. The implementation of human resource accounting clearly identifies human resources as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.

4. It helps in efficient utilization of human resources and understanding the evil effects of labour unrest on the quality of human resources.

5. This system can increase productivity because the human talent, devotion, and skills are considered valuable assets, which can boost the morale of the employees.

6. It can assist the management for implementing best methods of wages and salary administration.

Limitations of HRA:

HRA is yet to gain momentum in India due to certain difficulties:

1. The valuation methods have certain disadvantages as well as advantages; therefore, there is always a bone of contention among the firms that which method is an ideal one.

2. There are no standardized procedures developed so far. So, firms are providing only as additional information.

3. Under conventional accounting, certain standards are accepted commonly, which is not possible under this method.

4. All the methods of accounting for human assets are based on certain assumptions, which can go wrong at any time. For example, it is assumed that all workers continue to work with the same organization till retirement, which is far from possible.

5. It is believed that human resources do not suffer depreciation, and in fact they always appreciate, which can also prove otherwise in certain firms.

6. The lifespan of human resources cannot be estimated. So, the valuation seems to be unrealistic.

INTERNATIONAL ACCOUNTING STANDARDS

Introduction

The International Accounting Standard Board (IASB) was formulated and began in operations in 2001. The objective of IASB is as follows

"Committed to developing, in public interest, asingle set of high quality, global accouting standards that require transparent and comparable information in general purpose financial statements"

The IASB is selected, overseen and funded by the International Accounting Standards Committee (IASC) Foundation, consisting of 22 trustees.

The responsibility of the trustees, besides others include,

• Appointment of members of the IASB and Standards Advisory Council and the IFRIC

• Monitoring the IASB's effectiveness and adherence to its due process and consultation procedures

• Establishing and maintaining appropriate financing arrangement

• Approve of the budget for the IASC Foundation and

• Responsibility for constitution changes

Extract of the International Accounting Standards

The following are the Extract of the International Accounting Standards and International Financial Reporting Standards, prepared by IASC Foundation staff (The same has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.) International Accounting Standard 1

Presentation of Financial Statements

Objective

This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of Previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with International Financial Reporting Standards (IFRSs).

INTERNATIONAL ACCOUNTING STANDARD 2

Inventories International Accounting Standard 2 Inventories (IAS 2) replaces IAS 2 Inventories (revised in 1993) and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. The Standard also supersedes SIC-1 Consistency—Different Cost Formulas for Inventories.

Reasons for revising IAS 2

The International Accounting Standards Board developed this revised IAS 2 as part of its project on Improvements to International Accounting Standards. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements. For IAS 2 the Board's main objective was a limited revision to reduce alternatives for the measurement of inventories. The Board did not reconsider the fundamental approach to accounting for inventories contained in IAS 2.

Objective and scope

The objective and scope paragraphs of IAS 2 were amended by removing the words 'held under the historical cost system', to clarify that the Standard applies to all inventories that are not specifically excluded from its scope.

Scope clarification IN6

The Standard clarifies that some types of inventories are outside its scope while certain other types of inventories are exempted only from the measurement requirements in the Standard. Paragraph 3 establishes a clear distinction between those inventories that are entirely outside the scope of the Standard (described in paragraph 2) and those inventories that are outside the scope of the measurement requirements but within the scope of the other requirements in the Standard.

INTERNATIONAL ACCOUNTING STANDARD 7

Cash Flows Statements

Objective

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation. The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Scope

An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

This Standard supersedes IAS 7 Statement of Changes in Financial Position, approved in July 1977.

Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenueproducing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

INTERNATIONAL ACCOUNTING STANDARD 8

Accounting Policies, Changes in Accounting Estimates and Errors

Objective

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IAS 1 Presentation of Financial Statements.

Scope

This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with IAS 12 Income Taxes.

INTERNATIONAL ACCOUNTING STANDARD 10

Events after the Balance Sheet Date

Objective

The objective of this Standard is to prescribe:

(a) when an entity should adjust its financial statements for events after the reporting period; and

(b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope

This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

INTERNATIONAL ACCOUNTING STANDARD 11

Construction Contracts

Objective

Accounting for construction contracts involves measurement and recognition of costs and revenue in the books of "Contractor". Objective of this standard is the allocation of contract revenue and contract costs to the period in which the work is performed.

Scope

This Standard shall be applied in accounting for construction contracts in the financial statements of contractors.

Definitions

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

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

A fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses. A cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

INTERNATIONAL ACCOUNTING STANDARD 12

Income Taxes

Objective

The objective of this Standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

(a) The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's statement of financial position; and

(b) Transactions and other events of the current period that are recognized in an entity's financial statements.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions.

INTERNATIONAL ACCOUNTING STANDARD 16

Property, Plant and Equipment

Objective

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such Investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment

INTERNATIONAL ACCOUNTING STANDARD 17

Leases

Objective

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

Scope

This Standard shall be applied in accounting for all leases other than:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and

(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

However, this Standard shall not be applied as the basis of measurement for:

(a) property held by lessees that is accounted for as investment property (see IAS 40 Investment Property);

(b) investment property provided by lessors under operating leases (see IAS 40);

(c) biological assets held by lessees under finance leases (see IAS 41 Agriculture); or

(d) biological assets provided by lessors under operating leases (see IAS 41).

INTERNATIONAL ACCOUNTING STANDARD 18

Revenue

Objective

Income is defined in the Framework for the Preparation and Presentation of Financial Statements as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties.

The objective of this Standard is to prescribe the accounting treatment of revenue arising from certain types of transactions and events.

The primary issue in accounting for revenue is determining when to recognize revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Scope

This Standard shall be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods;

(b) the rendering of services; and

(c) the use by others of entity assets yielding interest, royalties and dividends.

INTERNATIONAL ACCOUNTING STANDARD 19

Employee Benefits

Objective

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

This Standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies.

INTERNATIONAL ACCOUNTING STANDARD 20

Accounting for Government Grants and Disclosure of Government Assistance

Scope

This Standard shall be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

This Standard does not deal with:

(a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature;

(b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable income or are determined or limited on the basis of income tax liability (such as income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates);

(c) government participation in the ownership of the entity; (d) government grants covered by IAS 41 Agriculture

INTERNATIONAL ACCOUNTING STANDARD 21

The Effects of Changes in Foreign Exchange Rates

International Accounting Standard 21 The Effects of Changes in Foreign Exchange Rates (IAS 21) replaces IAS 21 The Effects of Changes in Foreign Exchange Rates (revised in 1993), and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. The Standard also replaces the following

Interpretations:

• SIC-11 Foreign Exchange—Capitalisation of Losses Resulting from Severe Currency Devaluations

• SIC-19 Reporting Currency—Measurement and Presentation of Financial Statements under IAS 21 and IAS 29

• SIC-30 Reporting Currency—Translation from Measurement Currency to Presentation Currency.

Scope

IN5 The Standard excludes from its scope foreign currency derivatives that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Similarly, the material on hedge accounting has been moved to IAS 39.

INTERNATIONAL ACCOUNTING STANDARD 23

Borrowing Costs

Objective

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Scope

An entity shall apply this Standard in accounting for borrowing costs.

The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

(a) a qualifying asset measured at fair value, for example a biological asset; or

(b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

This Standard uses the following terms with the meanings specified:

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs may include:

(a) interest on bank overdrafts and short-term and long-term borrowings;

(b) amortisation of discounts or premiums relating to borrowings;

(c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

(d) finance charges in respect of finance leases recognised in accordance with IAS 17 Leases; and

(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

INTERNATIONAL ACCOUNTING STANDARDS 24

Related Party Disclosures

Objective

The objective of this Standard is to ensure that an entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Scope This Standard shall be applied in:

(a) identifying related party relationships and transactions;

(b) identifying outstanding balances between an entity and its related parties;

(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) determining the disclosures to be made about those items.

This Standard requires disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 Consolidated and Separate Financial Statements.

Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

INTERNATIONAL ACCOUNTING STANDARD 26

Accounting and Reporting by Retirement Benefit Plans

Scope

This Standard shall be applied in the financial statements of retirement benefit plans where such financial statements are prepared.

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

Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

Funding is the transfer of assets to an entity (the fund) separate from the employer's entity to meet future obligations for the payment of retirement benefits.

For the purposes of this Standard the following terms are also used:

Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

Net assets available for benefits are the assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.

Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

INTERNATIONAL ACCOUNTING STANDARD 27

Consolidated and Separate Financial Statement Objective The objective of IAS 27 is to enhance the relevance, reliability and comparability of the information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. The Standard specifies:

(a) the circumstances in which an entity must consolidate the financial statements of another entity (being a subsidiary);

(b) the accounting for changes in the level of ownership interest in a subsidiary;

(c) the accounting for the loss of control of a subsidiary; and

(d) the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries.

INTERNATIONAL ACCOUNTING STANDARD 28

Investment in Associates

Introduction

International Accounting Standard 28 Investments in Associates replaces IAS 28 Accounting for Investments in Associates (revised in 2000) and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. The Standard also replaces the following Interpretations:

• SIC-3 Elimination of Unrealized Profits and Losses on Transactions with Associates

• SIC-20 Equity Accounting Method—Recognition of Losses

• SIC-33 Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests.

Scope

The Standard does not apply to investments that would otherwise be associates or interests of ventures in jointly controlled entities held by venture capital organizations, mutual funds, unit trusts and similar entities when those investments are classified as held for trading and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Those investments are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they occur.

Furthermore, the Standard provides exemptions from application of the equity method similar to those provided for certain parents not to prepare consolidated financial statements. These exemptions include when the investor is also a parent exempt in accordance with IAS 27 Consolidated and Separate Financial Statements from preparing consolidated financial statements (paragraph 13(b)), and when the investor, though not such a parent, can satisfy the same type of conditions that exempt such parents (paragraph 13(c)).

INTERNATIONAL ACCOUNTING STANDARD 29

Financial Reporting in Hyperinflationary Economies

This Standard shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.

INTERNATIONAL ACCOUNTING STANDARD 31

Interests in Joint Ventures

Introduction

IN1 International Accounting Standard 31 Interests in Joint Ventures (IAS 31) replaces IAS 31 Financial Reporting of Interests in Joint Ventures (revised in 2000), and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

Scope

The Standard does not apply to investments that would otherwise be interests of venturers in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities when those investments are classified as held for trading and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Those investments are measured at fair value, with changes in fair value being recognised in profit or loss in the period in which they occur. Furthermore, the Standard provides exemptions from application of proportionate consolidation or the equity method similar to those provided for certain parents not to prepare consolidated financial statements. These exemptions include when the investor is also a parent exempt in accordance with IAS 27 Consolidated and Separate Financial Statements from preparing consolidated financial statements [paragraph 2(b)], and when the investor, though not such a parent, can satisfy the same type of conditions that exempt such parents [paragraph 2(c)].

INTERNATIONAL ACCOUNTING STANDARD 32

Financial Instruments: Presentation

Objective

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in IAS 39 Financial Instruments: Recognition and Measurement, and for disclosing information about them in IFRS 7 Financial Instruments: Disclosures.

Scope

This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates or IAS 31 Interests in Joint Ventures. However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 or IAS 31 in addition to those in this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

(b) employers' rights and obligations under employee benefit plans, to which IAS 19 Employee Benefits applies.

(c) [deleted]

(d) insurance contracts as defined in IFRS 4 Insurance Contracts. However, this Standard applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies IAS 39 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.

(e) financial instruments that are within the scope of IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see IAS 39).

(f) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 Share-based Payment applies, except for

(i) contracts within the scope of paragraphs 8–10 of this Standard, to which this Standard applies,

(ii) paragraphs 33 and 34 of this Standard, which shall be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:

(a) when the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;

(b) when the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);

(c) when, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

(d) when the non-financial item that is the subject of the contract is readily convertible to cash. A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements, and accordingly, is within the scope of this Standard.

INTERNATIONAL ACCOUNTING STANDARD 33

Earnings per Share

Objective

The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity. Even though earnings per share data have limitations because of the different accounting policies that may be used for determining 'earnings', a consistently determined denominator enhances financial reporting. The focus of this Standard is on the denominator of the earnings per share calculation.

Scope

This Standard shall apply to

(a) the separate or individual financial statements of an entity:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market; and

(b) the consolidated financial statements of a group with a parent:

(i) whose ordinary shares or potential ordinary shares are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or

(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market.

An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard.

When an entity presents both consolidated financial statements and separate financial statements prepared in accordance with IAS 27 Consolidated and Separate Financial Statements, the disclosures required by this Standard need be presented only on the basis of the consolidated information. An entity that chooses to disclose earnings per share based on its separate financial statements shall present such earnings per share information only in its statement of comprehensive income. An entity shall not present such earnings per share information in the consolidated financial statements.

If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of IAS 1 Presentation of Financial Statements (as revised in 2007), it presents earnings per share only in that separate statement.

INTERNATIONAL ACCOUNTING STANDARD 34

Interim Financial Reporting

Objective

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.

Scope

This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require entities whose debt or equity securities are publicly traded to publish interim financial reports. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards. The International Accounting Standards Committee* encourages publicly traded entities to provide interim financial reports that conform to the recognition, measurement, and disclosure principles set out in this Standard. Specifically, publicly traded entities are encouraged:

(a) to provide interim financial reports at least as of the end of the first half of their financial year; and

(b) to make their interim financial reports available not later than 60 days after the end of the interim period.

Each financial report, annual or interim, is evaluated on its own for conformity to International Financial Reporting Standards. The fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with this Standard does not prevent the entity's annual financial statements from conforming to International Financial Reporting Standards if they otherwise do so.

If an entity's interim financial report is described as complying with International Financial Reporting Standards, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard. INTERNATIONAL ACCOUNTING STANDARD 36

Impairment of Assets

Introduction

International Accounting Standard 36 Impairment of Assets (IAS 36) replaces IAS 36 Impairment of Assets (issued in 1998), and should be applied:

(a) on acquisition to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004.

(b) to all other assets, for annual periods beginning on or after 31 March 2004. Earlier application is encouraged.

Objective

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

Scope

This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) inventories (see IAS 2 Inventories);

(b) assets arising from construction contracts (see IAS 11 Construction Contracts);

(c) deferred tax assets (see IAS 12 Income Taxes);

(d) assets arising from employee benefits (see IAS 19 Employee Benefits);

(e) financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement;

(f) investment property that is measured at fair value (see IAS 40 Investment Property);

(g) biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs (see IAS 41 Agriculture);

(h) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 Insurance Contracts; and

(i) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations.

INTERNATIONAL ACCOUNTING STANDARD 37

Provisions, Contingent Liabilities and Contingent Assets

Objective

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount. **Scope**

This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:

(a) those resulting from executory contracts, except where the contract is onerous; and

(b) [deleted]

(c) those covered by another Standard.

INTERNATIONAL ACCOUNTING STANDARD 38

Intangible Assets

Objective

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

Scope

This Standard shall be applied in accounting for intangible assets, except:

(a) intangible assets that are within the scope of another Standard;

(b) financial assets, as defined in IAS 32 Financial Instruments: Presentation;

(c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 Exploration for and Evaluation of Mineral Resources); and

(d) expenditure on the development and extraction of, minerals, oil, natural gas and similar nonregenerative resources.

INTERNATIONAL ACCOUNTING STANDARD 39

Financial Instruments: Recognition and Measurement

Objective

The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in IAS 32 Financial Instruments: Presentation. Requirements for disclosing information about financial instruments are in IFRS 7 Financial Instruments: Disclosures.

Scope

This Standard shall be applied by all entities to all types of financial instruments

INTERNATIONAL ACCOUNTING STANDARD 40

Investment Property

Objective

The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

This Standard shall be applied in the recognition, measurement and disclosure of investment property.

INTERNATIONAL ACCOUNTING STANDARD 41

Agriculture

Objective

The objective of this Standard is to prescribe the accounting treatment and disclosures related to agricultural activity.

Scope

This Standard shall be applied to account for the following when they relate to agricultural activity: (a) biological assets;

(b) agricultural produce at the point of harvest; and

(c) government grants covered by paragraphs 34–35.

1.4 INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1: FIRST TIME ADOPTION OF IFRS

• IFRS-1 requires an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. In particular, the IFRS requires an entity to do the following in the opening IFRS balance sheet that it prepares as a starting point for its accounting under IFRSs:

• Recognise all assets and liabilities whose recognition is required by IFRSs;

• Do not recognise items as assets or liabilities if IFRSs do not permit such recognition;

• Reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, which are different type of asset, liability or component of equity under IFRSs; and

• Apply IFRSs in measuring all recognised assets and liabilities.

• Who is first time adopter?

• An entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs. Opening IFRS Balance Sheet & Comparative Balance Sheet

• An entity has to prepare an opening IFRS Balance Sheet at the date of transition to IFRSs.

• This should be the starting point for its accounting under IFRSs.

• It is not required to present that opening balance sheet in its first IFRS based financial statements

However, to comply with IAS -1 “Presentation of Financial Statements” , an entity’s IFRS based financial statements should include at least one year of comparative information under IASB GAAP [Para 36 , IFRS-1].

Example: Company B proposes to prepare and present IFRS for the calendar year 2012, i.e. Balance Sheet Date 31.12.2012. How should the company carry out transition?

Steps to be taken

• Prepare opening IFRS Balance Sheet as on 1.1.2012 – this is termed as transition date; the beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements.

• The company has to present comparative information for one year, such comparatives should be as per IASB GAAP – so it has to restate the accounts of 2011 as per IFRS.

• Prepare and present first IFRS based Financial Statements for 2012 ; it is the first annual financial statements in which an entity adopts IFRSs by an explicit and unreserved statement.

• Then effectively the company has apply IFRS on and from 1.1.2011.

• Accounting policies: Select its accounting policies based on IFRSs in force at 31st Dec, 2012. Paras 7-9 of IFRS- 1 requires adoption of current version of IFRSs which would enhance comparability because information in a first time adopter’s first financial statements is prepared on a consistent basis over time and would provide comparative information prepared using latest version of the IFRSs.

Moreover, the entity will get exemptions from applying certain standards as given in Paras 13-34B , 36- 36C and 37 of IFRS-1.

Actions at a Glance

• Recognise all assets and liabilities whose recognition is required by IFRSs • Do not recognise items as assets or liabilities which IFRSs do not permit

• Reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs

• Carry out measurement of all assets and liabilities so recognized / re-classified in accordance with IFRSs

• Change in accounting policies

• Applying exemptions: The first time adopter may elect for exemptions granted in Paragraphs 13- 25H and 36A-36C of IFRS-1.

Prohibition of retrospective application of some aspects of other IFRSs

The first time adopter should follow the prohibition of applying retrospective application relating to: (i) Derecognizing of financial assets and financial liabilities ,

(ii) Hedge accounting ,

(iii) Estimates, and

(iv) Assets classified as held for sale and discontinued operations. [Paragraphs 26-34B of IFRS-1]

IFRS-2 SHARE BASED PAYMENTS

• IFRS-2 Share Based Payment was issued by the International Accounting Standards Board in February 2004. The Standard has been effective since 2005.

• IFRS 2 requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

Types of Share Based Transactions

These are of three types –

1. Equity-settled transactions for goods or services acquired by an entity
2. 2 Cash settled but price or value of the goods or services is based on equity instruments of the entity and.
3. Transactions for goods or services acquired by the entity in which either the entity can settle or supplier can claim settlement by equity instruments of the entity.

Recognition of Share Based Payment

The following are recognition criteria under Paras 7-9 of IFRS-2 :

(i) The goods or services received or acquired in a share-based payment transaction are recognised when the goods are obtained or as the services are received. The entity shall recognise a corresponding increase in equity is recognised if the goods or services were received in an equitysettled transaction.

(ii) The goods or services received or acquired in a share-based payment transaction are recognised when the goods are obtained or as the services are received. The entity shall recognise a corresponding increase in liability if the goods or services were acquired in a cash-settled transaction. For example, in case of employee stock option, it is difficult to assess the fair value of the service rendered, and therefore, the transaction should be measured at fair value of the equity.

(iii) The goods or services received in a share-based payment transaction may qualify for recognition as an asset. If they are not so qualified then they are recognised as expense.

For example, inventories (which forms part of operating activities acquired through a share based payment, the entity should pass the following journal entries :

Purchases A/c Dr.

To Equity Share Capital A/c (face value component)

To Securities Premium A/c (premium component)

Timing of Recognition

- The term ‘service acquired or received has’ has wider connotation in the context of ‘vesting period’ and ‘vesting condition’. If employees are granted share options conditional upon the achievement of a performance condition as well as length of service , the length of the vesting period would vary depending on when that performance condition is satisfied and it would available only to the eligible category of employees .

Example

- An entity plans to grant 100 equity shares per employee of Class-I , 50 equity shares of per employee of Class –II and 30 equity shares per employee of Class –III if PAT of company exceeds $ 1000 million on a cumulative basis.
- This benefit will be available only such employees who will continue till the end of the financial year in which the target performance achieved.
- The entity would estimate the length the vesting period in terms of estimated time required to achieve the performance, say 3 years , and percentage of employees under different class who will continue till the end 3rd financial year from the grant date.

Assume the following % of employees will continue:

Class –I : 90% of 100 employees,

Class –II : 80% of 200 employees and Class –III : 70% of 800 employees.

The fair value per equity share as on the grant date is RO100.

Then initial value of the share based payment works out to be –

RO 33,80,000 [100 shares × 90% × 100 employees + 50 shares × 80% × 200 employees + 30 shares × 70% × 800 employees] × RO 100.

This will be allocated over three years which is the expected vesting period.

- In transaction of equity settled share based payment, if the counterparty is not required to complete a specified period of service to be eligible to unconditionally entitled to the grant then it is presumed that the required service has been completed. So the transaction should be recognised in full on the grant date [Para 14, IFRS-2].

- There are generally situations in employee stock option that the eligible employees should complete specified service period.
- In such a case the transaction should be recognised over the vesting period. If the employee is granted share options conditional upon performance condition (other than market condition), then the options vest during the expected fulfilment period.
- Market conditions are adjusted in the fair value of option. [Para 15, IFRS-2].

IFRS 3: BUSINESS COMBINATIONS

- A **Business** is integrated set of activities, and assets conducted and managed for the purpose of providing (a) a return to investors and (b) lower costs or other economic benefits to policyholders or participants. It is generally consists of inputs, processes, and resulting outputs that are or will be used to generate revenue. A business can be part of a whole entity / company. But a standalone asset may or not be a business. Paragraphs B 7-B12 of IFRS 3 explain various identification criteria of business.
- A **Business Combination** is an act of bringing together of separate entities or businesses into one reporting unit. The result of business combination is one entity (the acquirer) obtains control of one or more businesses. If an entity obtains control over other entities which are not businesses, the act is not a business combination.

Recognition of assets and liabilities

‘‘As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree” [Para 10, IFRS 3].

Check List

- Identify assets and liabilities within the Framework for Preparation and Presentation Financial Statements and;
- Check the liabilities which do not arise out of business combination ;
- Recognise assets (like identifiable intangibles) which were not recognised by the acquiree since these were internally generated intangibles ;
- Do not recognise any liability which constitute remunerations to the past owners of the acquiree or its employees for future services or which constitute reimbursement of the acquirer’s acquisition costs;
- Identification of assets or liabilities which are assumed because of pre-existing relationship – the acquirer takes over the sundry debtors of the acquiree which was due by the acquirer for goods purchased or services received. The acquirer takes over all assets and liabilities of the acquiree excluding cash. This example, debtors of the acquiree should excluded from the list of assets acquired as it was a pre-existing relationship.
- Consider exception of recognition principle for contingent liabilities stated in Paras 22& 23 , IFRS 3;
- Effect of deferred tax [Paras 24-25, IFRS 3] ;

- Employee benefits [Para 26, IFRS 3];
- Indemnification assets [Paras 27-28, IFRS 3];
- Operating lease [Paras B28-30, Appendix B, IFRS 3];
- Reaquired Rights [Paras B35-36, Appendix B, IFRS 3];
- Share based awards [Para 30, IFRS 3]
- Assets held for sale [Para 31, IFRS 3]

IFRS 4: INSURANCE CONTRACTS

Objective

The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts.

In particular, this IFRS requires:

(a) limited improvements to accounting by insurers for insurance contracts.

(b) disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

Scope

An entity shall apply this IFRS to:

(a) Insurance contracts (including reinsurance contracts) that it issues and reinsurance contracts that it holds.

(b) Financial instruments that it issues with a discretionary participation feature (see paragraph 35). IFRS 7 Financial Instruments: Disclosures requires disclosure about financial instruments, including financial instruments that contain such features.

This IFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7), except in the transitional provisions in paragraph 45.

An entity shall not apply this IFRS to:

(a) product warranties issued directly by a manufacturer, dealer or retailer (see IAS 18 Revenue and IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

(b) employers' assets and liabilities under employee benefit plans (see IAS 19 Employee Benefits and IFRS 2 Share-based Payment) and retirement benefit obligations reported by defined benefit retirement plans (see IAS 26 Accounting and Reporting by Retirement Benefit Plans).

(c) contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item (for example, some licence fees, royalties, contingent lease payments and similar items), as well as a lessee's residual value guarantee embedded in a finance lease (see IAS 17 Leases, IAS 18 Revenue and IAS 38 Intangible Assets).

(d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either IAS 39, IAS 32 and IFRS 7 or this Standard to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.

(e) Contingent consideration payable or receivable in a business combination (see IFRS 3 Business Combinations).

(f) Direct insurance contracts that the entity holds (ie direct insurance contracts in which the entity is the policyholder). However, a cedant shall apply this IFRS to reinsurance contracts that it holds.

For ease of reference, this IFRS describes any entity that issues an insurance contract as an insurer, whether or not the issuer is regarded as an insurer for legal or supervisory purposes.

A reinsurance contract is a type of insurance contract. Accordingly, all references in this IFRS to insurance contracts also apply to reinsurance contracts.

IFRS 5: NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Objective

The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the IFRS requires:

(a) Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

(b) Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

Disposal group

- It is a group of assets (and directly associated liabilities) which are to be disposed of through a single transaction.
- The group includes goodwill acquired in business combination if the group is a cash generating unit to which goodwill has been allocated in accordance with the requirements of Paras 80-87 of IAS-36 Impairment of Assets.
- A cash generating unit is the smallest identifiable group of assets that generates cash inflow and that such cash inflow is largely independent of other assets or group assets of the entity.

Discontinued Operations

A component of entity which is either disposed of or classified as held for sale ; and

- represents a major separate line of business or geographical area of operations or
- is part of single co-ordinated plan to dispose of a major separate line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

Classification criteria

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active programme to locate a buyer is initiated
- the sale is highly probable, **within one year** of classification as held for sale (subject to exceptions stated in Para 9, IFRS-5)
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

The criteria 'sale is highly probable, **within one year** of classification as held for sale' needs is not evidenced when the management is indecisive whether the particular asset will be sold or leased out.

Basic principles

- The basic principle of classifying ' non-current assets held for sale and disposal groups' is that the carrying value is expected to be realised through a sale transaction rather than through continuing use.
- Assets should be available for immediate sale in their present conditions subject to only the terms and conditions which are usual and customary for sales of such assets. Sale must highly probable.

Measurement & Presentation

- Under this standard assets that meet the criteria to be classified as ' held for sale' should be measured at the lower of carrying amount and fair value less cost to sell , and it will not be required to charge depreciation on such assets. These assets should separately presented on the face of the balance sheet. Result of 'discontinued operations' should presented separately in the Income Statement.

Classification criteria met after the balance sheet date

- If the classification criteria for an asset or disposal group are met after the balance sheet, the entity should not classify such asset or disposal group as held for sale.
- If these criteria are met after the balance sheet date but before the authorization of financial statements, information stated Para 41(a) , (b) & (d) of IFRS-5 should disclosed in notes. [Para 41(a) : description of non-current assets ; (b) description of the circumstance of sale,

expected manner and timing of sale and (d) reportable segment to which such assets is presented in accordance with IFRS-8].

Nature of disposal	Should the transaction be classified as Held for Sale ?
Sale of 51% of a 100% owned subsidiary, with the remaining 49% becoming an equity accounted associate.	Yes, as the group lost the control
Sale of 44% of a 100% subsidiary. The group continues to control and consolidate the subsidiary.	No, the group continues to control the same assets as previously but has sold an economic interest in those assets
Sale of 75% of a 90% owned subsidiary. The remaining 15% is accounted for as an AFS.	Yes, since it will be recovered principally through a sale transaction
Sale of 30% of a 35% interest in an associate. The remaining interest of 5% is accounted for as an AFS.	Yes, since it will be recovered principally through a sale transaction
Sale of 5% of a 35% owned associated. The remaining interest of 30% continues to be classified as an associate and equity accounting is followed.	No, since it will not be recovered principally through a sale transaction

IFRS 6: EXPLORATION FOR AND EVALUATION OF MINERAL ASSETS

The objective of this IFRS is to specify the financial reporting for the exploration for and evaluation of mineral resources.

In particular, the IFRS requires:

(a) limited improvements to existing accounting practices for exploration and evaluation expenditures.

(b) entities that recognise exploration and evaluation assets to assess such assets for impairment in accordance with this IFRS and measure any impairment in accordance with IAS 36 Impairment of Assets.

(c) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

Scope

An entity shall apply the IFRS to exploration and evaluation expenditures that it incurs.

The IFRS does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

An entity shall not apply the IFRS to expenditures incurred:

(a) before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

(b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

IFRS 7: FINANCIAL INSTRUMENTS-DISCLOSURES

The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

The principles in this IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*.

However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 or IAS 31 in addition to those in this IFRS. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.

(b) employers' rights and obligations arising from employee benefit plans, to which IAS 19 *Employee Benefits* applies.

(c) [deleted]

(d) insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this IFRS applies to derivatives that are embedded in insurance contracts if IAS 39 requires the entity to account for them separately. Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IAS 39 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.

(e) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies, except that this IFRS applies to contracts within the scope of paragraphs 5–7 of IAS 39.

This IFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of IAS 39.

Unrecognised financial instruments include some financial instruments that, although outside the scope of IAS 39, are within the scope of this IFRS (such as some loan commitments).

This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IAS 39 (see paragraphs 5–7 of IAS 39).

IFRS 8: OPERATING SEGMENT

The IFRS specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 Interim Financial Reporting, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. The IFRS requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate re sources to operating segments.

Identification of segments

The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters.

The IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IAS 14 required identification of two sets of segments—one based on related products and services, and the other on geographical areas. IAS 14 regarded one set as primary segments and the other as secondary segments.

A component of an entity that sells primarily or exclusively to other operating segments of the entity is included in the IFRS's definition of an operating segment if the entity is managed that way. IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments.

Reg No...............

[17CMP104]

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Established Under Section 3 of UGC Act 1956)

Coimbatore – 641021

(For the candidates admitted from 2017 onwards)

I M. Com

First Semester

Second Internal Test, October - 2017

ADVANCED CORPORATE ACCOUNTING

Time: 2 hours Maximum: 50 marks

Date:

PART –A (20*1=20 Marks)
Multiple Choice Questions

1. Rebate on bills discounted is ___________
   a. an accrued income b. an item of income
   c. a liability d. Income received in advance
2. Provision for income tax is shown in the Bank accounts under the head
   a. Borrowings b. Other Liabilities
   c. Operating expenses d. Contingent liabilities
3. Claims paid by life insurance companies is shown in __________
   a. Schedule 1 b. Schedule 2 c. Schedule 3 d. Schedule 4
4. Appropriations, like interim dividend, proposed final dividend in general insurance business are shown in ___________.
   a. Profit & loss appropriation A/c b. Revenue A/c
   c. Profit & loss A/c d. Trading A/c
5. Inflation accounting is also known as _____________.
   a. Accounting for price level changes b. Decision Accounting
   c. Standard Accounting d. Historical Accounting
6. Measurement incurred by a business enterprise on the recruitment, training and development of workers are considered as _____________.
   a. 'Stock' concept in accounting b. Future profit concept
   c. Ownership concept of an asset d. None of these
7. _________ sets out requirements for the presentation and disclosure of cash flow information.
   a. IAS 7 b.IAS 6 c.IAS 3 d.IAS 9
8. Insurance companies are regulated by ______
   a. IRDA regulations Act 2002 b. IRDA regulations Act 1998
   c. IRDA regulations Act1999 d. IRDA regulations Act 2000
9. Bonus payable on Maturity of a policy is known as _________
   a. Reversionary bonus b. Annual bonus c. Interim bonus d. Eventual Bonus
10. Banks in India are under the general supervision of -------
    a. RBI b. SEBI c. Central Govt d. State Govt
11. Expenses incurred by a business enterprise on the recruitment, training and development of workers are considered
    a. Opportunity cost b. Imputed Cost c. Current Cost d. Capital Cost
12. Comparison of human capital with non-human capital will give an idea about the degree of ________
    a. Labour intensiveness b. Capital intensiveness
    c. Profit intensive d.Revenue intensiveness
13. The prominent among the value based model is the _________
    a. Flamholtx model b. Lev and Schwarz Model
    c. Lee and Rosenbloom Model d. Rensis Likert Model
14. The assets which does not generate income to the banker is termed as
    a. Performing Assets b. Fixed Assets
    c. Non-performing assets d. Current assets
15. In life insurance, the policy amount is payable
    a. after the 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
16. A Non banking asset is
    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
17. Schedule 1 relates to __________
    a. Investment b. Advances c. Capital d. Fixed Assets
18. The commission received from the re-insurer is called
    a. Commission on reinsurance accepted b. commission on reinsurance ceded
    c. Commission on direct business d. other business
19. Under traditional accounting, the amount spent on human resources is treated as ______
    a. Income b. Revenue c. Expenses d. Loss
20. In a bank's balance sheet, Gold is shown under ______
    a. Investment b. Fixed Assets c. Other Assets d. Advances

PART –B (3*2=6 Marks)
Answer All the Questions

21. What is "Rebate on Bills discounted"?
22. Write a note on 'Reserve for Unexpired risk'.
23. What is 'Reinsurance'?

PART – C (3*8=24 Marks)
Answer All the Questions

24. a) The following are the figures extracted from the books of Bharath Bank Limited as on 31st March 2009:

Particulars	Rs.
Interest and Discount received	40,00,000
Interest paid on deposits	24,04,000
Issued and Subscribed Capital	10,00,000
Salaries and Allowances	2,00,000
Director fee	30,000
Rent and Taxes Paid	1,00,000
Postage and Telegrams	50,000
Reserve Under Section	8,00,000
Commission Exchange and Brokerage	2,00,000
Rent received	55,000
Profit on sale of Investments	2,00,000
Depreciation on Bank's Properties	30,000
Stationary	50,000
Preliminary Expenses	15,000
Audit Fees	5,000

... further information is given below. Prepare the Profit and Loss account of Bharath Bank Limited for the year ended 31st March 2009.

(a) A customer to whom a sum of Rs. 10 lakhs has been advanced has become insolvent and it is expected that only 50% can be recovered from his estate. There were also other debts for which a provision of Rs. 1,50,000 was found necessary by the auditors.

(b) Rebate on bills discounted on 31-3-2008 was Rs. 12,000 and on 31-3-2009 was Rs. 16,000.

(c) Provide Rs. 7,00,000 for income-tax.

(d) The directors desire to declare 10% dividend.

(Or)

b.) Prepare the Revenue Account of Life Insurance Company for the year ended 31st December 2013 from the following particular

	Rs.
Claim - by Death	4,30,000
Claim - by Maturity	3,80,000
Premium	18,20,000
Policy Renewal Fees	25,000
Assignment Pees	2,500
Endorsement Fees	3,000
Transfer Fees	4,000
Annuities Paid	2,20,000
Consideration for Annuities granted less reinsurance	3,20,000
Bonus paid in cash	15,000
Bonus in reduction of premium	12,000
Expenses of Management	1,32,000
Commission	40,000
Interest, Dividend and Rent	3,50,000
Income tax thereon	70,000
Surrenders	62,000
Dividend paid to Shareholders	48,000
Amount of Life Insurance Fund 1.1.2002	65,00,000

25.a) On 31st December, 2010 the books of insurance company contained the following particulars in respect of fire insurance business.

	Rs.
Reserve for unexpired risk on 31st December, 2009	10,00,000
Additional reserve on 31st December, 2009	2,00,000
Claims paid	12,80,000
Estimated liability in respect of outstanding claims:	
On 31st December 2009	1,30,000
On 31st December 2010	1,80,000
Expenses of management including Rs. 60,000 legal expenses paid in connection with claim	5,60,000
Reinsurance premiums	1,50,000
Reinsurance recoveries	40,000
Premiums	22,40,000
Interest and dividends	1,29,040
Income-tax thereon	13,040

Profit on sale of investment	22,000
Commission	3,04,000

Prepare in prescribed form the fire insurance revenue account for the year 2010 reserving 50% of the premiums for unexpired risks and keeping an additional of Rs.2,00,000. Assume that one fourth of the premiums and claims are applicable to business outside India and that the gross premiums written directly in India amounted to Rs 22,50,000.

(Or)

b) The following are the figures extracted from the books of New Era Bank Limited as on 31st March 1995:

	Rs.
Interest and Discount received	37,07,000
Interest paid on Deposits	20,38,000
Issued and Subscribed Capital	10,00,000
Salaries and Allowances	2,00,000
Directors Fees and Allowances	30,000
Rent and Taxes paid	90,000
Postage and Telegrams	60,000
Statutory Reserve Fund	8,00,000
Commission, Exchange and Brokerage	1,90,000
Rent received	65,000
Profit on Sale of Investments	2,00,000
Depreciation on Banks properties	30,000
Stationary Expenses	40,000
Preliminary Expenses	25,000
Auditors Fees	5,000

The following further information is given:

a) A customer to whom a sum of Rs.10 lakh has been advanced has become insolvent and it is expected that only 50% can be recovered from his estate.

b) There were also other debts for which a provision of Rs. 1,50,000 was found necessary by the auditors.

c) Rebate on Bills discounted on 31st March 1994 was Rs. 12,000 and on 31st March 1995 was Rs. 16,000.

d) Provide Rs.6,50,000 for Income-tax.

e) The Directors desire to declare 10% dividend.

Prepare the Profit and Loss account of New Era Bank Limited for the year ended 31st March 1995.

26. a) Explain the Limitations of Historical accounting.

(Or)

b) Define Human Resource Accounting and explain the significance of this system.

No. of Copies - 30

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 : **D.PATHMA PRIYA**
SUBJECT NAME : **ADVANCED CORPORATE ACCOUNTING** **SUBJECT CODE: 17CMP104**
SEMESTER : **I** **CLASS** : **I M.Com**

UNIT I

S.No.	Lecture Duration (Hrs)	Topics to be covered	Support Material
PREPARATION OF COMPANY FINAL ACCOUNTS			
1	1	Preparation of Company Final Accounts - Theory	T1 7.1- 7.18
2	1	Company Final Accounts – Format	T1 7.1- 7.18
3	1	Problems to be worked in Profit & Loss Account of the Corporate Entities.	T1 7.47-7.50
4	1	Problems to be worked in Balance Sheet of the Corporate Entities.	T1 7.47-7.50
5	1	Provisions for Income Tax Adjustments - Problems to be worked in Final Accounts of Joint Stock Companies.	T1 7.50-7.53
6	1	Problems to be worked in Final Accounts of Joint Stock Companies.	T1 7.50-7.53
7	1	Issue of Bonus shares - Problems	W1
8	1	Managerial Remuneration - Theory	T1 7.19 – 7.25
9	1	Managerial Remuneration - Problems	T1 7.19 – 7.25
10	1	Computation of Managerial Remuneration Problems	T1 7.38 – 7.42
11	1	Recapitulation and discussion of important questions	
12	1	Recapitulation and discussion of important questions	
Total No of Hours planned for Unit- I			**12 hours**

UNIT-II

S.No.	Lecture Duration (Hrs)	Topics to be covered	Support Material
FINAL ACCOUNTS			
1	1	Amalgamation of Companies - Theory	T1 10.31 – 10.33
2	1	Advanced Problems to be worked in Amalgamation of Companies	T1 10.31 – 10.33
3	1	Advanced Problems to be worked in Amalgamation of Companies	T1 10.47– 10.49
4	1	Absorption of Companies- Theory	T1 10.64 – 10.68
5	1	Advanced Problems to be worked in Absorption of Companies	T1 10.64 – 10.68
6	1	Absorption Problems to be worked with Inter - Company Owings	T1 10.98 – 10.100
7	1	Absorption Problems to be worked with Unrealised Profit in Stock.	T1 10.98 – 10.100
8	1	Advanced Problems to be worked in Absorption using Inter- Company Holdings.	T1 10.101 –10.104
9	1	Advanced Problems to be worked External Reconstruction of Companies	T1 10.93 – 10.95
10	1	External Reconstruction of Companies Problems.	T1 10.95 – 10.98
11	1	Inter- Company Holdings – Companies problems to be worked.	T1 10.104 – 10.105
12	1	Recapitulation and discussion of important questions	
		Total No of Hours planned for Unit- II	**12 hours**

UNIT III

S.No	Lecture Duration (Hrs)	Topics to be covered	Support Material
Accounts of Holding Companies/ Parent companies:			
1	1	Holding Company Accounts - Theory	T1 10.19 – 10.22
2	1	Holding Company Accounts – Format Problems to be worked	T1 10.19 – 10.22
3	1	Holding Company Accounts –Problems to be worked	T1 10.19 – 10.22
4	1	Preparation of Consolidated Balance Sheet Problems with Capital Profit Calculation.	T1 10.119 –10.123
5	1	Computation of Revenue Profit Problems in consolidated balance sheet.	T1 10.136 –10.138
6	1	Minority Interest Calculation and Cost of Control Calculations Problems to be worked	T1 10.142 –10.144
7	1	Cost of Control Calculations Problems to be worked	T1 10.142 –10.144
8	1	Problems to be worked for Consolidated Balance Sheet.	T1 10.119 –10.123
9	1	Problems to be worked for Consolidated Balance Sheet.	T1 10.119 –10.123
10	1	Advanced Problems to be worked in Consolidated Balance Sheet Accounts.	T1 10.119 –10.123
11	1	Advanced Problems to be worked in Consolidated Balance Sheet Accounts.	T1 10.119 –10.123
12	1	Recapitulation and discussion of important questions	
		Total No of Hours planned for Unit- III	**12 hours**

UNIT IV

S.No	Lecture Duration (Hrs)	Topics to be covered	Support Material
Accounts of Holding Companies/ Parent companies:			
1	1	Preparation of Revenue Accounts – Life Insurance Companies.	T1 13.101- 13.102
2	1	Preparation of Final Accounts in Life Insurance Company.	T1 13.102- 13.106
3	1	Preparation of Final Accounts in Life Insurance Company.	T1 13.102- 13.106
4	1	Preparation of Final Accounts in General Insurance Companies.	T1 13.135- 13.141
5	1	Preparation of Final Accounts in General Insurance Companies.	T1 13.135- 13.141
6	1	Problems to be worked in General Insurance Companies Financial Statements.	T1 13.147 –13.153
7	1	Banking Company Accounts - Rebate on Bills Discounted, Problems to be worked out.	T1 12.36-12.38
8	1	Banking Company Accounts - Rebate on Bills Discounted, Problems to be worked out.	T1 12.36-12.38
9	1	Classification of Advances and Investments	W2
10	1	Preparation of Profit and Loss Account and Balance Sheet of Banking Company Accounts (Under the New Format) Problems to be worked.	T1 12.72-12.76
11	1	Preparation of Profit and Loss Account and Balance Sheet of Banking Company Accounts (Under the New Format) Problems to be worked.	T1 12.72-12.76
12	1	Recapitulation and discussion of important questions	
		Total No of Hours planned for Unit- IV	**12 hours**

UNIT V

S.No	Lecture Duration (Hrs)	Topics to be covered	Support Material
Accounts of Banking Companies:			
1	1	Inflation Accounting-Different methods of Inflation Accounting	T1 12.1
2	1	Inflation Accounting-Different methods of Inflation Accounting	T1 12.1
3	1	Meaning, Definition and objectives of Human Resource Accounting	T1 12.2
4	1	Advantages and Limitations of Human Resource Accounting	T1 12.4
5	1	International Accounting Standards (Theory)-Have to be discussed	T1 12.2
6	1	International Accounting Standards (Theory)-Have to be discussed	T1 12.2
7	1	International Financial Reporting Standards.	T1 12.6 -12.8
8	1	International Financial Reporting Standards.	T1 12.6 -12.8
9	1	Recapitulation and discussion of important questions	
10	1	Discussion of Previous Year ESE Question Paper	
11	1	Discussion of Previous Year ESE Question Paper	
12	1	Discussion of Previous Year ESE Question Paper	
		Total No of Hours planned for Unit- V	**12 hours**

Text Book:

1.T.S. Reddy and A.Murthy (2013), *Corporate Accounting*, Chennai, Margham Publications.

2.S.P. Jain and Narang (2010), *Advanced Corporate Accounting*, New Delhi,

Kalyani Publishers.

Reference Books:

1. Gupta,R.L (1998). Corporate Accounting, New Delhi, Sultan Chand and Company.
2. Singal,A.K (2010). Corporate Accounting, New Delhi, Vayu Education of India.

Website

1. http://www.businessmanagementideas.com
2. http://kalyan-city.blogspot.in.

Karpagam Academy of Higher Education

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

Coimbatore - 641 021.

I M.COM

First Semester - 2017-18

ADVANCED CORPORATE ACCOUNTING - 17CMP104
UNIT I POSSIBLE QUESTIONS (6 MARKS)

Answer All the Questions

1. The trail balance of Madhu Garments Ltd for the year ending 31st March 2015 given below

Particulars	Amount	Particulars	Amount
Building	80,000	Share capital	
Machinery	60,000	(10,000 shares of Rs. 10	1,00,000
Interim dividend paid	6,000	each)	3,20,000
Stock 1st April 2000	18,000	Sales	28,000
Purchases	1,60,800	Profit and loss a/c	22,000
Wages	30,000	Unsecured loan	2,000
Office furniture	10,000	Securities premium	19,500
Patents	8,000	Sundry creditors	6,000
Debtors	72,500	Staff provident fund	2,500
Bank balance	18,000	Provision for bad debts	
Repairs	1,200		
Coal and water	2,500		
Rent and taxes	5,000		
Prepaid expenses	2,000		
Salaries	15,000		
Bad debts	1,000		
Return inwards	6,000		
Carriage	4,000		
	5,00,000		5,00,000

Prepare profit and loss a/c with following adjustments.

(i) Stock on 31.3.2001 Rs 42,000
(ii) Write off bad debts Rs.500 as bad debts
(iii) Provision for income tax is to be made 50% of net profits.

2. Following is the profit and loss account of Kannan Limited for the year ending 31st March 2005.

Profit and loss account

Particulars	Amount	Particulars	Amount
To repairs	30,000	By gross profit c/d	10,00,000
To commission to foreign technician	50,000	By profit on sale of investment	50,000
To depreciation	60,000	By capital gain on sale of machinery	2,00,000
To salaries and allowances	42,500		
To ex-gratia payment to worker	17,500		
To directors fees	20,600		
To proposed dividend	21,400		
To compensation paid to employee under compensation act	10,300		
To compensation for breach of contract	7,700		
To provision for bad debts	5000		
To net profit	9,85,000		
	12,50,000		12,50,000

Find out managerial remuneration payable to directors from above information when

(i) There is manager to assist the directors

(ii) There is none out of manager, managing directors and whole time directors to assist the directors.

3. Following was the trial balance of Vijay trading Co Ltd as on 31st March 2010:

Particulars	**Dr(Rs)**	**Cr (Rs)**
Stock on 1st April, 2009	30,000	
Buildings	1,50,000	
Purchases	1,00,000	
Sales		1,80,000
Returns	5000	4000
Wages	20,000	
Carriage inwards	1500	
Carriage outwards	800	
Discounts	1200	1000
Salaries	2600	
Rent	1650	
Commission		1200
General expense	5500	

Profit & loss(1st Apr 2009)		12000
Interim dividend paid	10000	
Capital(2000 shares 100 each)		200000
Calls in arrears	2000	
Sundry Debtors & Creditors	40000	20300
Plant & machinery	87,750	
Cash in hand and bank	800	
10% debenture		50000
Interest paid on debenture	2500	
Debenture redemption fund		10000
Preliminary expenses	7200	
TOTAL	**4,78,500**	**4,78,500**

Prepare profit and loss account and profit and loss appropriation a/c with following adjustments:
i) Closing stock Rs.40,000, ii)Debtors include Rs. 1,000 as advance for expenses.
iii) Provide 5% on debtors for doubtful debts. iv) 2% for discount on debtors and creditors.

4. From the following profit and loss a/c of Sundhar Ltd for the year ended 31.12.2005 and additional data given. Calculate commission due to managing director at 5% of net profit. Salary of managing director is to be treated as part payment of commission.

Profit and loss a/c for the year ended 31.12.2005

Particulars	Rs	Particulars	Rs
To opening stock	11000	By sales	1,70,000
To bonus(including Rs.500 for 2004)	5000	By closing stock	15,000
To directors fees	3000		
To managing director Salary Commission	 2000 1000	By other incomes : Discount Profit on sale of fixed asset	 2000 1000
To development rebate reserve	800		
To provision for tax	3000		
To establishment expenses	40,000		
To loss on sale of investments	200		
To net profit	1,22,000		
TOTAL	**1,88,000**		**1,88,000**

The book value of fixed assets sold was Rs.2000 and their original cost was Rs.2, 600.

5. Star Ltd has an authorized capital of Rs. 10,00,000 divided into 10,000 equity shares of Rs.100 each. The following is the Trial balance of the company for the year ended 31st December 2001.

Particulars	**Dr(Rs.)**	**Cr(Rs.)**
Equity Share Capital		5,00,000
Bills Receivable	40,000	

Land & building	1,50,000	
Furniture	1,00,000	
Debtors	1,00,000	
Cash	3,500	
Bank	5,500	
Sundry Creditors		1,10,000
Opening Stock	2,70,000	
Purchases & Sales	8,00,000	10,43,000
Wages	80,000	
Fuel and Power	35,000	
Carriage inwards	16,000	
Discount received		7,000
Auditor's fees	11,000	
Salary	44,000	
Traveling Expenses	14,000	
Purchase returns		8,000
Carriage outwards	4,000	
15% Bank Loan		1,00,000
Interest on Bank Loan	15,000	
Factory Rent	40,000	
Bad Debts	40,000	
	16,68,000	**16,68,000**

Adjustments:

1. Value of stock on 31.12.2001 Rs. 2, 20,000.
2. Provide 5% Provision for Bad Debts on Debtors.
3. Depreciate Land & building at 10%
4. Unpaid wages Rs. 5,000 and Salary Rs. 6,000

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First Semester - 2017-18

ADVANCED CORPORATE ACCOUNTING - 17CMP104
UNIT II POSSIBLE QUESTIONS (6 MARKS)

1. On 31st March, 2003 the Balance Sheet of Kandhan and Co. was as follows.

Liabilities	Amount	Assets	Amount
	Rs.	Fixed Assets:	**Rs.**
Share Capital:		Goodwill	2,00,000
Authorised Capital:		Building	1,00,000
20,000 Shares of Rs.100 each	20,00,000	Machinery	2,60,000
Issued and Paid-up Capital:		Furniture	20,000
19,000 Shares of Rs.100		Current Assets:	
each fully paid-up	19,00,000	Stock	3,70,000
		Debtors	1,80,000
Current Liabilities:	1,00,000	Profit and Loss A/c	1 9,70,000
Creditors	1,00,000		
Loan from Sharma	21,00,000		21,00,000

The following scheme of reconstruction of the Company was agreed upon:

(a) The issued 19,000 shares be reduced to an equal number of fully paid shares ofRs. 40 each.

(b) The loanfrom Sharma is to be reduced and for its full settlement, the remaining unissued 1,000 shares be issued to him as fully paid at Rs. 40 per share.

(c) The amount thus available by reduction of capital and settlement xoith Sharma, be utilised as follows:

(i) For writing down Goodwill and Profit and Loss Account fully.

(ii) Any available balance, for writing down Machinery.

Journalise the transaction and prepare the Balance Sheet of the Company after the reconstruction has been carried out.

2. On1st April, 2003 A Ltd.and B Ltd. were amalgamation into C Ltd. on the basis of following Sheets and information.

Liabilities	ALtd. Rs.	B Ltd. Rs.	Assets	ALtd. Rs.	B Ltd. Rs.
Authroised Capital:			Goodwill	80,000	32,000
Equity Shares of			Premise	50,000	60,000
Rs.10 each	2,24,000	2,00,000	Plant	41,000	10.000
Paid-up Capital	2,24,000	1,75,000	Stock	42,000	33,000
Reserve	8,000	12,000	Debtors	23,000	40,000
Profit for year 2002-03	11,000	4,000	Cash	12,000	22,000
Creditor	5,000	6,000			
	2,48,000	1,97,000		2,48,000	1,97,000

It was agreed that in respect of both the companies 10% should be written off premises and doubtful debts. Goodwill was to be valued at three years purchase ofthe last years two average profits. The profits of A Ltd. and B Ltd. for 2001-02 were Rs.13,000 and Rs. 6,000 respectively. Pass the necessary journal entries in the books of C Ltd. and prepare its opening Balance Sheet.

3. What is amalgamation? Explain its advantages and disadvantages?

4. Two companies A Ltd. and B Ltd. on similar business decided to amalgamate. A new company MM Ltd. is to be formed to take over the assets and liabilities of each company. The following are their Balance Sheets.

Liabilities	A Ltd.	BLtd.	Assets	A Ltd.	B Ltd.
	Rs. '000	Rs '000		Rs. '000	Rs.'000
Equity Shares Capital			Land & Budding	1,195	700
(Rs. 11) each)	30	20	Plant & Machinery	7,05	9,50
General Reserve	250	330	Furniture	20	30
Development Rebate			Investment	380	170
Reserve	40	70	Stock	500	200
Profit & Loss A/c	90	50	Debtors	450	260
Sundry Creditors	120	200	Cash at Bank	250	340
	3,500	2,650		3,500	2,650

Mayank Ltd. issued requisite number of equity shares to discharge the claims of equity shareholders of the transferor companies.

Prepare a net showing purchase consideration and draft the Balance Sheet of Mayank Ltd. assuming:

(i)Amalgamation in the nature of merger, and

(ii)Amalgamation in the nature of purchase.

5. ABC Limited and XYZ Limited agree to amalgamate and form a new company to be called 'Chetna' Limited worth an authorised capital ofRs.50,00,000 divided in shares ofRs.10each. The next' company take over all the assets and liabilities of both companies, the consideration being 1,00,000 fully paid shares to the ABC Limited and 50,000 fully paid shares to XYZ Limited. The balances to the date of amalgamation were:

Debit Balance			**Credit Balance**		
	ABC Ltd.	**XYZ Ltd.**		**ABC Ltd.**	**XYZ Ltd.**
	Rs	Rs.		Rs.	Rs
Premises	7,50,000	2,80,000	Share Capital	10,00.000	5,00,000
Machinery	5,75,500	2,75,000	Debentures	-	1,00,000
Stock	1,95,920	85,900	Reserve	5,00,000	50,000
Debtors	36,400	35,740	Profit & Loss A/c	62,500	35,000
Cash at Bank	42,180	23,360	Creditors	37,500	15,000
	16,00.000	7,00,000		16,00,000	7,00,000

Give opening journal entries and the Balance Sheet in the books of the new company, on the assumption that amalgamation is in the nature of merger.

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First Semester - 2017-18

ADVANCED CORPORATE ACCOUNTING - 17CMP104
UNIT III POSSIBLE QUESTIONS (6 MARKS)

1. The following are the Summarized B/S of H Ltd. and S Ltd. as a 30th Nov 1987.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Authroised Capital:			Goodwill	80,000	32,000
Equity Shares of			Premise	50,000	60,000
Rs.10 each	2,24,000	2,00,000	Plant	41,000	10.000
Paid-up Capital	2,24,000	1,75,000	Stock	42,000	33,000
Reserve	8,000	12,000	Debtors	23,000	40,000
Profit for year 2002-03	11,000	4,000	Cash	12,000	22,000
Creditor	5,000	6,000			
	2,48,000	1,97,000		2,48,000	1,97,000

You are to prepare Consolidated B/S as at 30-11-1987.

- H Ltd. acquired Share of S Ltd. on 1-12-1986. When the balance on their Profit and Loss and General Reserve Rs. 66,0000 and 9,000 respectively.
- S. Creditors of Rs.40,000 in the Bank of H Ltd. on 30-11-1987 included a sunnRs 24,000 Payable to S Ltd. for credit Purchase on which the latter company made a profit of Rs. 6,000 in 1986-87.
- S Ltd. declared and paid Interim dividend @ 8% on 2-6-1987. Which include Profit of H Ltd.
- Stock of Rs. 1,02,000 of II Ltd. on 30-11-1987 includes unsold good purchased from S Ltd. at a cost of Rs. 18,000.

2. The following of A Ltd. and B Ltd. as on 31st March 1986 were as follows.

	A Ltd.	B Ltd.		A Ltd.	B Ltd.
	Rs. 000	Rs. 000		Rs. 000	Rs. 000
Share Capital			S. Assetsl6,000	16,000	10,000
Rs. 10 each	10,000	8,000	Investment		
G. Reserve	4,000	-	4,00,000 Share in		
Profit and Loss	4,000	1,800	S.Ltd	4,000	
Creditors	2,000	2,200			
	20,000	10,000		20,000	10,000

The Share were purchased by A Ltd. and B Ltd. 30th June 1994. On 1st Jan. 1994 the Profit and Loss of B Ltd. showed and Loss of Rs. 30 Lakh which was written off from profit prepare Consolidated B/S 31st March 1986.

3. On 1st April, 2002 K Ltd. acquired 1,800 shares of Rs. 10 each in L Ltd. at a cost Rs.36,000. At the date of acquisition L Ltd. had a credit balance of Rs 24,000in its Profit and Loss Account. From the following Balance Sheet, prepare a Consolidated Balance Sheet of K Ltd and its subsidiary L Ltd. as at 31st March, 2003.

Balance Sheet of K Ltd. (as at 31st March. 2003)

Liabilities	Amount	Assets	Amount
	Rs.		**Rs.**
Authorised and Issued Share Capital:		Freehold Property	1,90,000
		Plant and Machinery	28,000
20,000 Shares of Rs. 10 each	2,00,000	Share in Z Ltd at Cost:	
General Reserve	1.00,000	1,800 Shares of Rs. 10 each	36,000
Profit and Loss A/c	20,000	Stock	60,000
Sundry Creditors	60,000	Sundry Debtors	40,000
		Bank Balance	26,000
	3,80,000		3,80,000

Balance Sheet of L Ltd. (as at 31sl March, 2003)

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Authorised and Issued Share Capital:		Investment at Cost	4,000
		Stock	10,000
2,000 Shares of Rs. 10 each	20,000	Sundry Debtors	14,000
Profit and Loss A/c	30,000	Bank Balance	26,000
Sundry Creditors	4,000		
	54,000		54,000

4. A Ltd. acquired 2000 Equity Shares of Rs.100 each in B Ltd. on 31 12-1993. The Balance Sheet are as follows:

	A Ltd.	**B Ltd.**		**A Ltd.**	**B Ltd.**
Equity Shares			Fixed Assets	7,00,000	2,50,000
Capital			Current Assets	4,00,000	2,00,000
@ 100 each	8,00,000	2,50,000	2,000 Share in B Co.		
Reserve	3,00,000	50,000	at cost	3,00,000	
Profit and Loss	1,00,000	1,00,000			
Creditors	2,00,000	50,000			
	14,00,000	4,50,000		14,00,000	4,50,000

B Ltd. had a credit balance of Rs. 50,000 in the Reserve and Rs.20,000 in the profit and Loss when A Ltd. acquired share in B Ltd. B Ltd. issued Bonus share in the ratio of one for every five share held out of the Profit earned during 1994. There is not Shown in the above B/S Prepare Consolidated B/S.

5) Following are the B/S of M Ltd and N Ltd. as at Dec 31, 1994.

	M Ltd.	**N Ltd.**		**M Ltd.**	**N Ltd.**
	Rs.	Rs.		Rs.	Rs.
Share Capital			Goodwill	20,000	10,000
(Rs. 10 each)	2,50,000	1,00,000	F. Assets	2,00,000	1,20,000
G. Reserve	75,000	30,000	Stocks	80,000	30,000
Profit and Loss	70,000	60,000	Debtors	60,000	50,000
Creditors	50,000	20,000	Investment		
			Share in 6,000		
B/P	5,000	2,000	R Ltd.	85,000	
			Cash	5,000	2,000
	4,50,000	2,12,000		4,50,000	2,12,000

Share in R Ltd. were acquired by Ltd. on 1st July 1994 Rs. Ltd. had on 1-1-1994 Rs. 18,000 in General Reserve and Rs. 14,000 in profit and Loss, Included in the creditors of R Ltd. is Rs. 12,000 for goods supplied by M Ld. Included in the stock of N Ltd. are goods to the value of Rs. 60,000 were supplied by Ltd. at a Profit of 25% on Cost prepare Consolidated B/S.

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First Semester - 2017-18

ADVANCED CORPORATE ACCOUNTING - 17CMP104
UNIT IV POSSIBLE QUESTIONS (6 MARKS)

1. From the Following information, prepare profit and Loss Account of Ran Bank Ltd. for the year ended on 31st March, 2010:

Rs.

Interest on Loans	2,56,000
Interest on fixed doposits	2,75,000
Commission	5200
Establishment	54,000
Discount on bills discounts	1,46,000
Interest on cash credit	2,23,000
Interest on current accounts	42,000
Rates and taxes	18,1)00
Interest on overdrafts	1,54,000
Directors fees	3,000
Auditors fees	7,200
Interest on saving bank deposits	68,000
Postage & telegrams	1.400
Printing & Stationery	2,900
Sundry charges	1,700
Income from investments	2,000
Profit on sale of investments	4,000

Bad debts to be written off amounted to Rs. 40.000. Provision for taxation may be made © 55%.

2) A Life insurance company disclosed a fund of Rs.25,00,000 and the Balance Sheet Total Rs 50.00.000 on 31st March, 2003 before taking the following into consideration:

(a) A Claims ofRs. 20,000 was intimated and admitted but not paid during the year:

(b) A Claim ofRs. 6,000 outstanding in the books for 8 years is written back;

(c) Interest on securities accrued Rs. 800, but not received during the year;

(d) Rent of the own building occupied Rs. 2,000;

(e) Premium of Rs. 600 is payable under reinsurance;

(f) Reinsurance recoveries Rs. 26,000;

(g) Bonus utilised in reduction of premium Rs. 10,000;

(h) Agents commission to be paid Rs. 18,000

Pass the necessary journal entries for the above omissions, compute the fund and show the Balance Sheet total after making the above adjustments.

3. From the following balances taken from the books of RK Bank Ltd. you are required to drafts as on March 31,1999 (a) a Balance Sheet and b) a Profit & Loss A/c.

Share Capital	Rs.
Authorised and Issued-10,000 shares of Rs. 50 paid	5,00,000
Reserve Fund	3,50,000
Fixed Deposit Accounts	9.50,000
Saving Bank Deposits	30,00,000
Current Accounts	80,00,000
Money at call and short notice	3,00,000
Investment at cost	30,00,000
Interest accrued and paid Salaries (including salary of General Manager	2,00,000
Rs 24,000 and Directors' fees Rs. 5000)	80,000
Rent General Expenses including Stationary Rs.5,000	20,000
and Auditor's Fees Rs.2,000	10,000
Profit and loss Account-Cr. on 1st April,1998	2,10,000
Dividend Paid	50,000
Premises after depreciation up to 31st March, 1999 Rs.20,00,000	12,00,000
Cash in hand	60,000
Cash with Reserve Bank	15,00,000
Cash with other Banks	13,00,000
Borrowed from Banks	7,00.000
Interest and Discounts	7,50,000
Bills Discount and Cash Credit	6,00,000
Bills payable	8,00,000
Loans, Overdrafts and Cash Credit	70,00,000
Unclaimed Dividends	30,000
Sundry/ Creditors	30,000
Bills for Collection	1,40,000
Acceptances and endorsement on behalf of customers	2,00,000

Rebate on bills discounted and Purchased for unexpired term amounted to Rs 5,000. Allow 5% depreciation on premises on original cost. A Provision for doubtful debts amounting to Rs.30,000 is required. Create a provision of Rs. 1,00,000 for taxation. The bank has no business outside India.

4. From the balance prepare final account of New Insurance Company limited for the year 2009.

Particulars	**Rs.**	**Particulars**	**Rs.**
Govt. Securities	5,25,000	Capital	1,50,000
Claims paid:		Provision for unexpired	
Marine	1,00,000	risk on 1st January	
Fire	80,000	Marine	3,00,000
Commission		Fire	1,25,000
Marine	55,000	Additional Reserve	
Fire	60,000	Fire	50.000
Management Expenses		Claims Unpaid on 1st January	
Marine	1,05,000	Marine	15.000
Fire	1,02,500	Fire	12.500
General expenses:	75,000	Due to other Insurance	
Premium Outstanding		Companies	17,500
Marine	10.000	Interest on Securities	32,500
Fire	7,500	General reserve	25,000
Dividend paid	15,000	Profit and Loss Account	9,000
Premises	2,50,00	Premium Receive	
Furniture	25,000	Marine	3,75,000
Cash at bank	51,500	Fire	3,50,000
	14,61,500		14,61,500

Claims outstanding on 31st December 1994 were Rs. 12,500 and Rs. 12,500 in respect of Marine insurance. A taxation reserve of Rs. 15,000 is required. Depreciate premises by 5% and furniture by 10%. Additional reserve (Fire) is to be increased by 5% of net premium.

5. The following balances appeared in the books of Bharat Commercial Bank Ltd. as on 31st March, 2000:

Particulars	Rs.
Cash with Reserve Bank of India	10,06,100
Share Capital	2,00,00,000
Reserve Fund	7,50,000
Current Accounts	10,95,15,302
Fixed Deposits	6,93,34,590
Debts due to Bank and Agents	1,54,82,760
Rebate on Bills Discounted	19,595
Branch Adjustment (Cr.)	89,65,604
Acceptance for Customers	1,14,95,662
Bills for Collection	67,05.927
Profit and Loss Account	19,51,635

Cash in hand	1,63,55,112
Cash withother banks	2,59,90,409
Silver	35,00,000
Investment at cost (Market price)	12,81,40,626
Interest accrued on Investments	9,03,215
Cash Credit and Demand Advances	6,74,37,340
Bills Discounted and purchased	2,74,27,651
Buildings	2,29,540
Dead Stock	9,92,188
Saving Bank Accounts	6,00,03,000
Loans	l,30,10,305
Money at Call and Short Notice	10,50,000

You are required to prepare the Balance Sheet as on 31st March, 2000 after taking the following information into account:

(a) The Authorised Capital of the Bank is five crores of rupees in shares of Rs. 100 of which four lacs of shares are issued, Rs. 50 per share being called up and paid up.

(b) Claims against the bank not acknowledged as debts amount to Rs. 3,45,000.

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First Semester - 2017-18

ADVANCED CORPORATE ACCOUNTING - 17CMP104

UNIT V POSSIBLE QUESTIONS (6 MARKS)

1. Discuss the Relevant Provisions of Accounting Standard: 21(ICAI).
2. Enumerate the different methods of inflation accounting.
3. Distinguish between historical cost and current cost.
4. Explain the meaning and significance of HRA.
5. Explain the various approaches for the valuation of human resources.

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(For the candidates admitted from 2016 onwards)
DEPARTMENT OF COMMERCE (CA)

SUBJECT : ADVANCED CORPORATE ACCOUNTING
SEMESTER : I
SUBJECT CODE: 17CMP104 CLASS : I M.Com

SYLLABUS

Semester I

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17CMP104 ADVANCED CORPORATE ACCOUNTING

Course Objective:

- Undergoing this course will help to learn the practical application of corporate concepts required at the corporate sectors.
- The aim is to impart the ability to prepare company and parent company's financial statements
- To provide knowledge on the importance of Human Resources Accounting.

Learning Outcomes:

- To enable the students to have working knowledge in corporate and special accounts.
- To aware about International Accounting Standards
- To gain about International Financial Reporting Standards
- To gain conceptual knowledge of principles of Insurance and Banking Company Accounts.

Unit I

Preparation of Company Final Accounts – Treatment and Provisions for Income Tax – Divisible Profit – Bonus shares – Calculation of Managerial Remuneration.

Unit II

Amalgamation, Absorption and Reconstruction of Companies (Advanced Problems in Amalgamation, Absorption and Reconstruction of Companies including adjustment regarding elimination of Unrealised Profit, Inter - Company Owings and Inter- Company Holdings).

Unit III

Holding Company Accounts – Capital Profit – Revenue Profit – Minority Interest – Cost of Control – Preparation of Consolidated Balance Sheet.

Unit IV

Insurance company Accounts – Life and General Insurance Accounts – Preparation of Revenue Accounts and Balance Sheet (Under the New Format).

Banking Company Accounts – Rebate on Bills Discounted – Classification of Advances and Investments – Preparation of Profit and Loss Account and Balance Sheet (Under the New Format).

Unit V

Inflation Accounting – Human Resource Accounting – International Accounting Standards (Theory Only) - International Financial Reporting Standards.

Suggested Readings:

Text Book:

1.T.S. Reddy and A.Murthy (2013), *Corporate Accounting*, Chennai, Margham Publications.

2.S.P. Jain and Narang (2010), *Advanced Corporate Accounting*, New Delhi,

Kalyani Publishers.

Reference Books:

1. Gupta,R.L (1998). Corporate Accounting, New Delhi, Sultan Chand and Company.
2. Singal,A.K (2010). Corporate Accounting, New Delhi, Vayu Education of India.