Semester IV

16PAU401 CORE- ADVANCED CORPORATE ACCOUNTING

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COURSE OBJECTIVES

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

LEARNING OUTCOME

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

UNIT I

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

UNIT II

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

UNIT III

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

UNIT IV

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

UNIT V

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

Note: Distribution of marks for theory and problems shall be 20 % and 80 % respectively.

SUGGESTED READINGS:

TEXT BOOKS

1. Shukla, M.C., & Grewal, T.S., & Gupta, S.C. (2008). *Advanced Accounts* Vol.-II. New Delhi: S. Chand & Company Ltd.

REFERENCES

1. Maheswari, S.N., & Maheswari,S.K. (2011). *Advanced Accounting*. New Delhi: Vikas Publishing House Pvt. Ltd..
2. Jain, S.P., & Narang, K.L. (2014). *Advanced Accountancy* (12th ed.). Ludhiana: Kalyani Publishers.
3. Agarwal, B.D. (2009). *Financial Accounting Advanced*. New Delhi: Pitambar Publishing Company.
4. Patel, R.B. (2012). *Advanced Corporate Accounting*. Jaipur: Mark Publisher.

KARPAGAM ACADEMY OF HIGHER EDUCATION

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

Coimbatore – 641 021.

LECTURE PLAN
DEPARTMENT OF COMMERCE

STAFF NAME: A.GEETHALAKSHMI
SUBJECT NAME: ADVANCED CORPORATE ACCOUNTING SUB.CODE:16PAU401
SEMESTER: IV CLASS: II B.COM (PA)

LECTURE PLAN

UNIT-I

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Amalgamation and reconstruction – Introduction and meaning	TI[10.1-10.2]
2.	1	Introduction to amalgamation	TI[10.1-10.2]
3.	1	Objectives of internal reconstruction	TI[10.4-101.10]
4.	I	External reconstruction	TI[10.4-101.10]
5.	I	Amalgamation problems to be worked out	TI[10.4-10.10
6.	I	Amalgamation in the nature of merger	R6[220-221]
7.	I	Amalgamation in the nature of purchase	R6[221]
8.	1	Difference between amalgamation and reconstruction	R6[223]
9.	1	Methods of calculating purchase consideration	R6[221]
10.	1	Preparation of realization account	R6[227]
11.	1	Calculation of net asset method	R6[228]
12.	1	Problems to be worked out amalgamation	R6[226-248]

13.	1	Problems to be worked out reconstruction	R6[226-228]
14.	1	Problems to be out nature of merger	R6[226-228]
15.	1	Problems to be out nature of merger	R6[226-228]
16.	1	Problems to be worked nature of purchase	R6[227-230]
17.	1	Problems to be worked nature of purchase	R6[227-230]
18.	I	Problems to be worked out purchase consideration	R6[221]
19.	I	Problems to be worked nature of purchase	R6[227-230]
20.	I	Tutorial I: Amalgamation	
21.	I	Tutorial II : Reconstruction	
22.	I	Recapitulation and important question discussion	
Total no. of hours planned for unit-I			**22 Hours**

UNIT II

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Financial Statement of insurance companies-introduction	R6[279]
2.	1	Introduction to insurance companies	R6[279]
3.	1	Types of insurance	R6[279]
4.	1	Life insurance corporation- meaning and explanation	R6[380]
5.	1	General Insurance –An overview	R6[410]
6.	1	Accounts of life insurance companies	R6[385]

7.	1	Regulation of insurance companies	R6[382]
8.	1	Final account Format	R6[382]
9.	1	Problems to be worked out life insurance	R6[385-390]
10.	1	Problems to be worked out life insurance	R6[385-390]
11.	1	Problems to be worked net premium method	R6[387]
12.	1	Types of insurance	R6[379]
13.	1	Problems to be worked out general insurance	R6[419-430]
14	1	Problems to be worked out general insurance	R6[419-430]
15.	1	Problems to be worked out general insurance	R6[419-430]
16.	1	Fire insurance –An overview	R6[395-398]
17.	1	Problems to be worked out fire insurance	R6[395-398]
18.	1	Marine insurance- an overview	R6[411]
19.	1	Problems to be worked out marine insurance	R6[411-420]
20.	1	Preparation of valuation of balance sheet	R6[411-420]
21.	1	Preparation of valuation of balance sheet	R6[411-420]
22.	1	Determination of policy holder	R6[420-425]
23.	1	Tutorial I: Problems to be worked out life insurance	
24.	1	Tutorial II : preparation of valuation of balance sheet	
25.	1	Recapitulation and important question discussion	
Total no. of hours planned for unit-II			**25 Hours**

UNIT-III

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	Financial Statement Of Banking Companies	R6[437]
2.	1	An overview of banking companies	R6[437]
3.	1	Regulations of banking companies	R6[437]
4.	1	Management- capital &reserves	R6[438]
5.	1	Statutory reserve of a banking companies	R6[440]
6.	1	Basic principles books required by a banking company	R6[440]
7.	1	Basic principles books required by a banking company	R6[440]
8.	1	Preparation of final account	R6[440]
9.	1	General instruction for preparing final accounts	R6[449]
10.	1	General instruction for preparing final accounts	R6[450]
11.	1	Guidelines of RBI for compilation	R6[450]
12.	1	Financial statements of balance sheet	R6[450-455]
13.	1	Problems to be worked out rebate on bills account	R6[463]
14.	1	Problems to be worked out rebate on bills account	R6[463]
15.	1	Problems to be worked out interest on doubtful debts	R6[463]
16.	1	Problems to be worked out interest on doubtful debts	R6[463]
17.	1	Principal accounting policies	R6[482]
18.	1	Basis for treating a credit facility on NPA	R6[483]

19.	1	Problems to be worked out NPA	R6[483]
20.	1	Capital Adequacy norms	R6[483]
21.	1	Income recognition	R6[435]
22.	1	Classification of assets and their provision	R6[435]
23.	1	Preparation of statement of profit and loss account	R6[470]
24.	1	Preparation of statement of profit and loss account, balance sheet	R6[470]
25.	1	Tutorial I: Forms of final statement	
26.	1	Tutorial II: Preparation of statement of profit and loss account, balance sheet	
27.	1	Recapitulation and important question discussion	
Total no. of hours planned for unit-III			**27 Hours**

UNIT IV

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials
1.	1	An overview of financial statement of electricity company	R4[1159-1160]
2.	1	An overview of financial statement of electricity company	R4[1162-1170]
3.	1	Formats of financial statement	R4[1163-1167]
4.	1	Specific transactions of electricity company	R4[1171-1172]
5.	1	Disposal and surplus	R4[1160-1165]
6.	1	Reasonable rate of return	R4[1162-1167]
7.	1	Implementation of accelerate power	R4[1172-1178]

8.	1	Development and reform program	R4[1159-1160]
9.	1	Objectives	R4[1159-1160]
10.	1	Funding pattern	R4[1179-1181]
11.	1	Problems to be worked out electricity company	R4[1179-1181]
12.	1	Problems to be worked out electricity company	R4[1179-1181]
13.	1	Problems to be worked out electricity company	R4[1179-1181]
14.	I	Problems to be worked out electricity company	R4[1179-1181]
15.	1	Problems to be worked out electricity company	R4[1179-1181]
16.	1	Problems to be worked out electricity company	R4[1179-1181]
17.	1	Problems to be worked out electricity company	R4[1179-1181]
18.	1	Problems to be worked out electricity company	R4[1179-1181]
19.	1	Problems to be worked out electricity company	R4[1179-1181]
20.	1	Tutorial I: format of financial statement	
21.	1	Tutorial II: Specific transactions of electricity company	
22.	1	Recapitulation and important question discussion	
Total no. of hours planned for unit-IV			22

UNIT V

SI.No	Lecture Duration(Hr)	Topics to be covered	Support Materials

1.	I	Accounting standards -4	R7[18.19]
2.	I	Contingencies and events occurring after the balance sheet	R7[18.19]
3.	I	Accounting standards –contingencies	R7[18.19]
4.	I	Events occurring after the balance sheet	R7[18.21]
5.	I	AS-11 the effects of changes in foreign exchange rates	R7[18.30]
6.	I	Features of foreign exchange rates	R7[18.31]
7.	I	As-12 accounting for government grants	R7[18.31]
8.	I	Main features of government grants	R7[18.32]
9.	I	AS-14 accounting for amalgamation	R7[18.35]
10.	I	AS-15 Employee benefit	R7[18.39]
11.	I	As-16 Segment reporting	R7[18.40]
12.	I	As- 16 Segment Reporting	R7[18.40]
13.	I	As-16 Segment Reporting	R7[18.40]
14.	I	Tutorial I: Effects of foreign exchange rates	
15.	I	Tutorial II: Employee benefit	
16.	I	Contingencies of event occurring after balance sheet	
17.	I	Previous years ESE questions discussion	
18.	I	Previous years ESE questions discussion	
19.	I	Previous years ESE questions discussion	
20	I	Previous years ESE questions discussion	
.21.	I	Recapitulation and important question discussion	
Total no. of hours planned for unit-V			21

Text Books : Shukla M.C. &Grewal T.S.&Gupta S.C. (2008),"*Advanced accounts". *Vol,II, New Delhi , S.Chand &company Ltd

Reference books : R4: PatelR.B(2012),"*Advanced corporate accountancy*" ,Jipur Mark Publisher.
R6: Dr.M.A. Arulanandam, Dr. K.S. Raman (2015),"*Advanced Accountancy*" Vol-II, Himalaya Publishing House.

R7: T.S.Reddy & A.Murthy(2012),"Corporate Accounting". Margham Publication.

Websites **W1** : www.monder.gov.in.

UNIT-I

SYLLABUS

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

Amalgamation in the Nature of Purchase :

Amalgamation of companies which do not fulfill one or more conditions of amalgamation in the nature of merger is amalgamation in the nature of purchase. Calculation of Purchase consideration in case of Amalgamation in nature of purchase :-

There are four methods of calculating purchase consideration:

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

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

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

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

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

Accounting Entries in case of Amalgamation in the Nature of Purchase

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

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

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

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

(Particular) Liabilities A/c Dr.

To Realization A/c

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

Statutory Reserve A/c Dr.

To Realization A/c

(4) Purchase Consideration Due :

Purchasing Company A/c Dr.

To Realization A/c

(5) Purchase Consideration Received :

Bank A/c Dr.

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

Equity Shares in Purchasing Co. A/c Dr.

To Purchasing Co. A/c

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

Preference share Capital A/c Dr.

To Preference Shareholders A/c

(7) Dividend Due on cumulative Preference Shares :

Realization A/c Dr.

To Preference Share Dividend A/c

Preference Share Dividend A/c Dr.

To Preference Share Holders A/c

(8) Payment to Preference Share Holders :

Preference Share Holders A/c Dr.

To Shares in Purchasing Company A/c

To Bank A/c

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

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

General Reserve/ P&L A/c Dr.

Capital Reserve A/c Dr.

Particular Reserve A/c Dr.

To Equity Shareholders A/c

(10) Transfer of Fictitious Assets and Accumulated Losses :

Equity Shareholders A/c Dr.

To Profit & Loss A/c

To Preliminary Expenses A/c

To (Particular) Loss A/c

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

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

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

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

Creditor (or Particular Liability) A/c Dr.

To Cash/Bank A/c

To Debentures in Purchasing in Company A/c

To Preference Shares in Purchasing Company A/c

To Equity Shares in Purchasing Company A/c

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

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

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

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

Realization A/c Dr.

To Bank A/c

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

(a) On payment :

Realization A/c Dr.

To Bank A/c

(b) Amount received from Purchasing Company :

Bank A/c Dr.

To Realization A/c

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

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

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

To Realization A/c

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

Realization A/c Dr.

To Equity Shareholders A/c

(15) Payment to Equity Shareholders :

Equity Shareholders A/c Dr.

To Cash/Bank A/c

To Debentures in Purchasing Company A/c

To Preference Shares in Purchasing Company A/c

To Equity Shares in Purchasing Company A/c

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

Accounting in the Books of Purchasing Company :

(i) Assets and Liabilities Taken Over :

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

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

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

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

(ii) Statutory Reserves Taken Over :

Amalgamation Adjustment A/c Dr.

To Statutory Reserve A/c

(iii) Payment of Purchase Consideration :

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

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

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

To Securities Premium A/c (Premium on Shares)

To Debentures A/c (Paid Up Value)

To Cash / Bank A/c (Cash Payment)

(iv) Payment of Debentures of Vendor Company :

Debentures A/c (Vendor Company) Dr.

To Debenture A/c (Purchasing Company)

To Bank A/c (If in cash)

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

To Cash/Bank A/c

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

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

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

To Debtors (in Vendor Company) A/c

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

To Debtors (in Purchasing Company) A/c

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

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

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

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

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

To Bills Receivable (in Purchasing Company) A/c

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

Loan from Vendor Co. A/c Dr.

To Loan to Purchasing Company A/c

If loan has been taken by Vendor Co.

Loan from Purchasing Co. A/c Dr.

To Loan to Vendor A/c

(2) Unrealized Profit on Stock : Transactions of purchase and sale of goods usually happens between companies in same business. Goods are sold by adding

profit on cost. If at the date of amalgamation, either the purchasing company or vendor company is holding stock of such goods then in case goods are sold at profit, the profit included in such goods will be assumed as unrealized profit. Adjustment for unrealized profit will be done as follows :-

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

In the Books of Transferee Company :

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

Goodwill/Capital Reserves A/c Dr.

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

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

Goodwill/ Capital Reserve A/c Dr.

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

Pooling of Interest Method:

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

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

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

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

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

Amalgamation –Net assets method

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

Liabilities	M Ltd	N Ltd	Assets	M Ltd	N Ltd
Share capital @Rs25 each	75,000	50,000	Good will	30,000	-
P & L A/c	7,500	2,500	Fixed Assets	31,500	38,800
Creditors	3,500	3,500	Stock	15,000	12,000
Depreciation fund	-	2,500	Debtors	8,000	5,200
			Bank	1,500	2,500
	86.000	**58,500**		**86,000**	**58,500**

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

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

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

Solution:

Statement showing purchase consideration (Net Assets)

Particulars	**M Ltd(amount)**		**N Ltd(amount)**	
Sundry assets taken over		86,000		58,500
Less: Liabilities				
Creditors	3,500	3,500	3,500	
Deprecation fund	-		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 10,000 9% preference shares of Rs 10 each Issued and paid up : 10,000 equity shares of Rs10 each fully paid 3,500 9% preferences shares of Rs10 each fully paid (all the above shares were issued for consideration other than cash)	1,00,000 1,00,000 1,00,000 35,000	Good will Other fixed assets 70,300 Less: Dep fund 2,500 __________ Current assets: Stock Debtors Bank	30,000 67,800 27,000 13,200 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	3,75,000	

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

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 To equity share capital (Rs80) A/c To sundry shareholders A/c (being conversion of 10,000 shares of Rs100 each into shares of Rs80 each and the balance to be returned	10,00,000	8,00,000 2,00,000

transferred to the members) Sundry shareholder A/c Dr To bank A/c (being return of capital to shareholders ad per the scheme)	2,00,000	 2,00,000

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

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

Journal Entry

Particulars	Debit (amt)	Credit (amt)
Capital reduction A/c Dr	XXX	
To profit and loss A/c (Dr balance)		XXX
To preliminary expenses A/c		XXX
To discount on issue of shares or debenture		XXX
To good will A/c		XXX
To Assets A/c (amount to be reduced)		XXX
To capital reserve A/c(balance of any)		XXX
(being losses written off and assets reduced as per capital reduction scheme)		

POSSIBLE IMPORTANT QUESTIONS

UNIT :1

1.What is meant by Amalgamation? Explain the types of Amalgamation. 2.On 31st March, 1997 the balance sheet of X ltd. Stood as follows:

Liabilities	Amount (Rs).	Assets	Amount (Rs).
Share Capital: 1,50,000 Equity Shares of Rs. 10 each, fully paid	15,00,000	Plant and Machinery	16,10,000
Share Premium	1,50,000	Furniture and Fixtures	1,94,400
General Reserve	6,25,500	Stock	7,05,500
Profit & Loss Account	1,85,300	Debtors	1,98,440
Creditors	3,60,740	Cash at Bank	1,13,200
	28,21,540		**28,21,540**

On this date, X Ltd. Took over the business of Y Ltd. for Rs. 6,60,000 payable in the form of its fully paid equity share of Rs. 10 each at par, shareholders of Y Ltd. getting 110shares of X Ltd. for every 100 shares held in Y Ltd. The scheme of amalgamation also provided that 3,000 11% Debenture of Y Ltd. would be converted into equal number of 12% Debenture of X Ltd. of Rs.100 each. The balance sheet of Y Ltd. on the date of the amalgamation was as follows:

Liabilities	Amount (Rs).	Assets	Amount (Rs).
Share Capital: 60,000 Equity Shares of Rs. 10 each, fully paid	6,00,000	Machinery	5,50,000
Capital Reserve	13,000	Furniture	1,35,200
Foreign Projects Reserve (Statutory Reserve)	9,700	Stock	3,15,800
General Reserve	75,350	Debtors	1,29,300
Profit & Loss Account	24,130	Cash at Bank	68,260
3,000 11% Debentures of Rs. 100 each	3,00,000	Preliminary Expenses	6,100
Creditors	1,82,480		
	12,04,660		**12,04,660**

You are required to pass journal entries and Balance Sheet in the books of X Ltd. and Y Ltd.

3.What is meant by Goodwill? Explain the factors that influence the value of Goodwill. 4.The abridged balance sheet of Vidhur Ltd. as at 31st March 1998 was as follows:-

Liabilities	**Amount (Rs).**	**Assets**	**Amount (Rs).**
Shares capital: 20,000 Equity shares of R. 10 each fully paid up	20,00,000	Fixed Assets Current Assets	13,10,000 9,70,000
Current Liabilities	3,50,000	Profit & Loss Account	70,000
	23,50,000		**23,50,000**

On the above mentioned date, Panchal Ltd. took over the business of Vidhur Ltd. at balance sheet values. Winding up costs, Rs. 9,000 were also borne by Panchal Ltd. The summarized balance sheet of Panchal Ltd. at that date stood as follows.

Liabilities	**Amount (Rs).**	**Assets**	**Amount (Rs).**
Shares capital: 3,00,000 Equity shares of R. 10 each General Reserve Current Liabilities	30,00,000 10,00,000 19,45,000	Fixed Assets Investment in 50,000 Equity Shares of Vidhur Ltd. Current Assets	31,10,000 4,75,000 22,60,000
	59,45,000		**59,45,000**

Panchal Ltd. dicharged the consideration by allotment to Vidhur Ltd. 1,00,000 fully paid equity share of Rs.10 each at an agreed value of Rs.12 each and by payment of cash at bank for payment to liquidator of Vidhur Ltd.

Show important ledger accounts in the books of Vidhur Ltd., pass journal entries in the books of Panchal Ltd. and draw its balance sheet immediately following the takeover of the business.

5. Explain the different methods of calculation Purchase Consideration of a company.

6. On 31st March 1998 the balance sheet of H Ltd was follows:-

Liabilities	**Amount (Rs).**	**Assets**	**Amount (Rs).**
Share Capital: 50,000 12% Cumulative Preference shares of Rs. 10 each, fully paid 1,50,000 Equity Shares of Rs.10 each, fully paid 10% Debenture Creditors Preference Dividends in arrear for 3 years	 5,00,000 15,00,000 3,00,000 2,00,000	Goodwill Furniture and Fixtures Plant & Machinery Patents Stock Debtors Bank Preliminary Expenses Discount on issue of Debenture Profit and Loss account	4,00,000 2,00,000 7,00,000 1,50,000 4,90,000 2,55,000 5,000 8,000 12,000 2,80,000

	25,00,000		25,00,000

The following scheme of external reconstruction was agreed upon:

i. A new company to be formed called J Ltd. with an authorised capital of Rs. 32,50,000 in equity share of Rs. 10 each.

ii. One Equity share Rs. 5 paid up, in the new company to be allotted for each equity share in the old company.

iii. Two Equity share Rs. 5 paid up, in the new company to be allotted for each preference share in the old company.
iv. Arrears of preference dividends to be cancelled
v. Debentureholeder to be receive 30,000 equity share in the new company credited as fully paid.
vi. Creditors to be taken over by the new company.
vii. The remaining unissued shares to be taken up and paid for in fully by the directors
viii. The new company to take over the old company's assets except patents, subject to writing down plant and machinery by Rs. 2,90,000 and stock by Rs. 60,000
ix. Patents were realised by H Ltd. for Rs. 10,000

Show important ledger accounts in the books of H Ltd. and open the books of J Ltd. by means of journal entries and give the initial balance sheet of J Ltd. Expenses of H Ltd. came of Rs. 10,000.

7. Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The balance sheets of both the companies were as under :

Super Express Ltd.

Balance Sheet as at 31st December, 1999

Liabilities	Amount (Rs).	Assets	Amount (Rs).
20,000 Equity shares of Rs. 100 each	20,00,000	Buildings	10,00,000
		Machinery	4,00,000
Provident fund	1,00,000	Stock	3,00,000
Creditors	60,000	Debtors	2,40,000
Insurance Reserve	1,00,000	Cash at bank	2,20,000
		Cash in hand	1,00,000
	22,60,000		**22,60,000**

Fast Express Ltd.

Balance Sheet as at 31st December, 1999

Liabilities	Amount (Rs).	Assets	Amount (Rs).

10,000 Equity shares of Rs. 100 each Employees profit sharing account Creditors Reserve account Surplus	10,00,000 60,000 40,000 1,00,000 1,00,000	Goodwill Buildings Machinery Stock Debtors Cash at bank Cash in hand	1,00,000 6,00,000 5,00,000 40,000 40,000 10,000 10,000
	13,00,000		**13,00,000**

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of Rs. 100 each in lieu of purchase Consideration. Prepare opening balance sheet of Super Fast Express Ltd.

8. Enumerate the methods of accounting for Amalgamation.

9. The following are the summarized balance sheet of V Ltd. and P Ltd. as at 31st March 1998:-

Balance Sheet of V Ltd

Liabilities	Amount (Rs).	Assets	Amount (Rs).
Equity shares capital Reserve and Surplus Creditors	10,00,000 3,40,000 1,80,000	Fixed Assets 1000 12% Debenture of P Ltd. acquired at Rs. 95 each Stock Debtors Cah at Bank Bills Receivable	8,00,000 95,000 4,00,000 1,30,000 55,000 40,000
	15,20,000		**13,00,000**

Balance Sheet of P Ltd

Liabilities	Amount (Rs).	Assets	Amount (Rs).
Equity shares capital Reserve and Surplus 12% Debentures of Rs.100 each, fully paid Bills Payable Creditors	25,00,000 7,75,000 10,00,000 25,000 4,90,000	Fixed Assets Stock Debtors Cah at Bank Bills Receivable	29,50,000 11,60,000 5,20,000 1,10,000 50,000
	47,90,000		**47,90,000**

P Ltd acquires the entire business of V Ltd for Rs. 14,00,000 to be satisfied by allotment of equity share at par. All the acceptance of P Ltd. are in the favour of V Ltd. and which are in included in the figure of bills receivable of Rs. 40,000 in V Ltd. balance sheet. Debtors appearing in the balance sheet of V Ltd. include Rs. 10,000 due from P Ltd.

You are required to:

i. prepare Realization account and Equity Shareholder Account in the books of V Ltd.

ii. Pass journal entries in the books of P Ltd.'s balance sheet immediately after amalgamation assuming

i). it is amalgamation in the nature of merger.

10. What is meant by Amalgamation? Explain the types of Amalgamation

Questions	option 1	option 2	option 3	option 4
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
Balance Sheet Equation is _____	Liabilities + Assets = Equity	Assets + Equity = Liabilities	Assets = Liabilities + Equity	Assets + Equity+ Liability=0
Fixed Assets are shown in Balance Sheet at	Their Original Cost	Original Cost less Depreciation	Cash Receipts alone	Cash Payments Alone
The Fundamental assumption of 'going concern' presumes that the enterprise will continue operations for the Forseeable_______	Current	Previous years	Future	past periods
A Balance Sheet can be presented in Horizontal form or ________	Assets form	Liability form	Account 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
Financial Reporting reveals the results of __________ of an enterprise	Operations and Financial position	Financial Performance	Operating Result	operating performance
_________ 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

________ form of Balance Sheet is usually followed in all Statutory Forms of final Accounts	Horizontal	Vertical	Statement form	Account form
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
When shares issued at premium ------ account is credited.	Share premium account	Share first call account	Share allotment account	Share forfeited account
Minimum number of members in case of public company is---------.	4	5	6	7
Maximum number of members in public limited company is ---------------.	10	20	50	Unlimited
After gettingminimum subscription of shares, the company has to allot shares with in---------------days.	90	100	110	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
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
The amount of capital mentioned in MOA is ----------.	Authorised capital	Issued capital	Reserve capital	Subscribed capital
The difference between called up capital and paid up capital is --------------.	Issued capital	Unpaid capital	Reserve capital	Uncalled 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
Accordingto companies Act-----------% of interest is	3	4	5	6

to be paid on calls in arrears.				
Accordingto Companies Act-------------% of interest is to be paid on calls in advance.	5	6	7	9
…… number of calls in a share issue -------------.	4	5	3	6
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
The rate of discount on shares cannot exceed------------.	5%	10%	12%	15%
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
Discount of issue of shares is a ---------.	Revenue loss	Capital loss	Deferred revenue expenditure	Direct expenses
When shares are forfeited, the share capital account is debited by--------------.	Paid up capital	Called-up capital	Calls in arrears	Issue price of shares
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 profit on reissue of forfeited shares is transferred to----------------.	General reserve	Capital redemption reserve	Capital reserve	Profit and loss account
The buy-back of shares may be done ----------	At par	At discount	At 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
Real owners of a company are called as-------------.	Equity shareholders	Preference shareholders	Debenture holders	Bond holders
Preference share holders receive--------------.	Fixed rate of interest	Flexible rate of interest	Fixed rate of dividend	Flexible rate of dividend
Equity Share holders have the rights of ---------	Voting	Dividend	Interest	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

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
Minimum subscription decided by------------.	Share holders	Board of directors	Debenture holders	Creditors
When shares are forfeited, the amount already received is----------------.	Refunded	Treated as revenue profit	Retained by company	Distributed as dividend
Dividend is paid on ------------.	Issue price	Market price	Face value	Paid up amount on shares
If proposed dividend is 18% of the paid up capital, the percentage of profit transferred to reserve is-----------.	####	5%	7.50%	10%
………….. form is the profits of the company are distributed amongst the shareholders.	Shares	Premium from issue of share	Reserves	Dividend
The dividend that is declared between AGM is------------.	Interim dividend	Final dividend	Semi dividend	Half-yearly dividend
The total remuneration payable to the managerial personnel should not exceed----------net profits.	5%	10%	11%	15%
Private company has minimum--------------.	2 directors	5 directors	10 directors	20 directors
Forfeited shares to become-------------.	Property of the government.	Property of the company	Property of the shareholders	Property of all the shareholders
Advance payment of tax is in the nature of -----------.	Capital expenses	Revenue expenses	Pre-paid expenses	Outstandingexpenses
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.
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

Preliminary expenses are an example of---------------------	Fixed assets	Current assets	Fictitious asset.	Investment
Debentures are shown in the balance sheet under the heading -------------	Unsecured loans	Current liabilities	Secured loans	Share capital
Interest on debenture is----------.	Variable in nature	Fixed in nature	Optional	Appropriation.
Profit on cancellation of own debentures are transferred to--------------.	P&L a/c	Capital reserve	General reserve	Dividend equalization fund
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
Final accounts of a company include-----------------------.	Profit & Loss account	Trading	Balance sheet	P&L account, P&L appropriation account and Balance Sheet
Loose tools is shown in the balance sheet under the head---------------.	Fixed assets	Loans and advances	Current assets	Miscellaneous assets
The surplus found in P&L appropriation account is shown under the head--------------------.	Share capital	Reserves and surplus	Current liabilities	Current provision.
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.
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
Preliminary expenses are an example of---------------------	Fixed assets	Current assets	Fictitious asset.	Investment
Debentures are shown in the balance sheet under the heading -------------	Unsecured loans	Current liabilities	Secured loans	Share capital

UNIT-II

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

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		

Form B-RA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

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

Policyholders' Account (Technical Account)

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

Note:

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

Form B-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

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

Shareholders' Account (Non-technical Account)

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

Notes:

To Form B-RA and B-PL:

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

(b) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e., before deducting commissions) under the head reinsurance premiums.

(c) Claims incurred shall comprise claims paid, specific claims settlement costs wherever applicable and change in the outstanding provisions for claims at the year-end.

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

(e) Fees and expenses connected with claims shall be included in claims.

(f) Under the sub-head "Others" shall be included items like foreign exchange gains or losses and other items.

(g) Interest, dividends and rentals receivable in connection with an investment, should be stated at gross amount, the amount of income tax deducted at source being included under "advance taxes paid taxes deducted at source".

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

From B BS

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 2006

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

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

Contingent Liabilities

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

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

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

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

Schedule 2—Claims Incurred (Net)

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

Notes:

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

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

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

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

Schedule 3–Commission

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

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

Schedule 4–Operating Expenses Related to Insurance Business

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

Schedule 2—Claims Incurred (Net)

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

Notes:

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

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

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

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

Schedule 3–Commission

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

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

Schedule 4–Operating Expenses Related to Insurance Business

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

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

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

Schedule 5–Share Capital

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

Notes:

(*a*) Particulars of the different classes of capital should be separately stated.
(*b*) The amount capitalised on account of issue of bonus shares should be disclosed.
(*c*) In case any part of the capital is held by a holding company, the same should be separately disclosed.

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

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

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

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

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

The following further information may also be noted:

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

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

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

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

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

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

SOLUTION :

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

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

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

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

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

Balance Sheet
as on 31st March 2007

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

Schedule 1
Premium Earned (Net)

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

Schedule 2
Claims Incurred (Net)

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

Schedule 3
Commission

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

Schedule 4
Operating Expenses Related to Insurance Business

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

Schedule 5
Share Capital

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

Schedule 6
Reserves and Surplus

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

Schedule 8
Investments

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

Schedule 11
Cash and Bank Balance

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

Schedule 12
Advance and Other Assets

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

Schedule 5
Share Capital

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

Schedule 6
Reserves and Surplus

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

Schedule 8
Investments

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

Schedule 11
Cash and Bank Balance

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

Schedule 12
Advance and Other Assets

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

POSSIBLE IMPORTANT QUESTIONS

UNIT :2

1. Explain the following terms as used in connection with life insurance:-
   a. Bonus
   b. Interim Bonus
   c. Reversionary Bonus
   d. Bonus in Reduction of Premium
2. Elucidate the statutory requirements of Life Insurance.
3. Explain the policies of Revenue Account in General Insurance.
4. Elucidate the difference between Reinsurance and Double Insurance.

5. From the following figures taken from the books of New Asia Insurance Co Ltd. owing fire underwriting business, prepare the et of final accounts for the year 1988-89.

	Amount (Rs).		**Amount (Rs).**
Fire fund (as on 1-4-1988)	9,30,000	Commission on direct buiness	2,99,777
General reserve	4,50,000	Commission on reinsurance accepted	60,038
Investment	36,00,000	Outstanding premium	22,300
Premium	27,01,533	Claims intimated but not paid (1-4-1988)	60,000
Claims paid	6,02,815	Expenses on management	4,31,947
Share Capital: divided into Equity Shares of Rs.100 each	9,00,000	Audit fees	36,000
Additional reserves	3,30,000	Rates and taxes	5,804
Profit and Loss Account (Cr)	75,000	Rents	67,500
Re- Insurance premium	1,12,525	Income from Investment	1,53,000
Claims recovered from reinsurer	21,119	Creditors	22,500
Commission on reinsurance ceded	48,016	Agents Business (Dr)	20,000
Advance income tax paid	2,50,000	Cash in hand and bank balance	1,82,462

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 31.03.1989, Rs. 1,04,000

c. Income tax to provided at 50%
d. Transfer of Rs.2,00,000 to be made from current profit to general insurance.
The company maintains a reserve, excluding additional reserve for unexpired reserve @ 40% of net premium income.

6. What is meant by Insurance? Explain various types and terms involved in Insurance.

7. A Life Assurance Co. got its valuation made once in a years. The Life assurance fund on 31st March 1989 amounted to Rs. 41,92,000 before providing for Rs. 32,000 for the shareholders' dividend for the year 1987-88. Its actuarial valuation on 31st March, 1989, disclosed net liability of Rs. 40,40,000 under the assurance and annuity contracts. An interim bonus of Rs. 40,000 was paid to the policyholders during the triennium ending 31t March, 1989.
Prepare statement showing the amount now available as bonus to policyholders.

8. From the following particulars prepare the Fire Revenue Accounts for 1988-89.

	Amount (Rs.)
Capital paid	2,35,000
Legal expenses regarding claims	5,000
Premiums received	6,00,000
Reinsurance premium	60,000
Commission	1,00,000
Expenses of management	1,50,000
Provision against unexpired risk on April 1, 1988	2,60,000
Claims unpaid on April 1, 1988	20,000
Claims unpaid on March 1, 1989	35,000

9. The under mentioned balances from part of the Trial Balance of the All People's Assurance Co. Ltd., as on 31st March 1989:-

Amount of Life Assurance Fund at the beginning of the year, Rs. 14,70,562; claims by death Rs. 76,980; claims by maturity, Rs.56,420; premiums, Rs. 2,10,572; expenses of management, Rs.19,890; commission Rs. 26,541; consideration for annuities granted Rs. 10,620; interest, dividends and rents, Rs.52,461; income tax paid on profits Rs. 3,060; fines Rs.92; surrenders, Rs.21,860; annuities Rs.29,420; bonus paid in cash Rs.9,450; bonus paid in reduction of premiums, Rs.2,500; preliminary expenses balance, Rs.600; claims admitted but not paid at the end of the year Rs.80,034; annuity but not paid, Rs.22,380; capital paid up Rs.4,00,000; government securities, Rs.14,90,890; sundry assets Rs.5,09,110.

Prepare Revenue account and the balance sheet after taking into account the following:-

a. Claims covered under reinsurance, Rs.10,000
b. Further claims intimated, Rs. 8,000 By Death
c. Further bonus utilized in reduction of premium, Rs. 1,500
d. Interest Accrued, Rs. 15,400
e. Premium outstanding, Rs.7,400

10. Explain Life Assurance Fund. How does it differ from Revenue account prepared by a general insurance company?

UNIT-II	OPTION I	OPTION II	OPTION III	OPTION IV
When two or more companies goingto liquidation and new company is formed then it is known as--------------.	Absorption	Amalgamation	Internal reconstruction	External reconstruction
Preference dividend is to be paid before-----------.	Payment of debenture interest	Payment of income tax	Distribution of equity dividend	Distribution of preference shares 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
When an existingcompany takes over the business of one or more existingcompanies is ----------------	Amalgamation	Absorption	Reconstruction	Internal reconstruction
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
Accumulated losses in the vendor company should be transferred to------------.	Share capital account	Equity shareholders account	Capital reserve account	Profit and loss account
Purchase consideration is payable in-------------.	Cash	Shares	Debentures	Cash, Shares and Debentures

Realisation expenses met by the purchasingcompany should be debited to-------------.	Realisation account	Goodwill account	Vendor account	Capital reserve account
The excess of purchase consideration over net asset is--------------.	Securities premium	Capital reserve	Goodwill	Preliminary expenses
For transferring assets to realisation a/c-------------------is debited.	Purchasinga/c	Liabilities a/c	Preference share capital a/c	Realisation a/c
For transferringliabilities taken over ---------------is debited.	Assets a/c	Realisation a/c	Liabilities a/c	Bank Account
For purchase consideration receivable----------------is debited	Purchasingcompany's account	Bank a/c	Purchasinga/c	Debenture a/c
For receivingthe purchase consideration ----------------is credited	Liability account	Purchasingcompany's account	Realisation account Bank account	
For realizingassets not taken over ----------------is debited	Creditors a/c	Bank a/c	Debenture a/c	Share holders 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
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

For discharge of preference share capital--------------is debited.	Shares in purchasinga/c	Preference share capital	Realization	Debenture
For realization profit and loss account ---------------is credited.	Equity share holders a/c	Bank a/c	Preference share capital	Bank a/c
When windingup takes place in a company, the shareholders are called	Creditors	Shareholders	Debtors	Contributories
When two or more companies liquidate to form a new company is is called-----------------.	Amalgamation	Absorption	Reconstruction	Merging
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
Liquidation expenses paid by the purchasing company are to be debited to ------------------.	Preliminary expenses account	Business purchase account	Recreation expenses	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 person who is entrusted with the job of realizingassets and dischargingliabilities in the process of liquidation is called	ManagingDirector	Agent	Liquidator	Shareholders
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
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
The first item in the order of payment to be made by the liquidator is	Unsecured Creditors	Secured creditors	Liquidation expenses	Preference Share Holder
……………………..method is used to account for amalgamation in the nature of purchase	Poolingof interests	Sale	Merger	Purchase
When two or more companies goingto liquidation and new company is formed then it is known as--------------.	Absorption	Amalgamation	Internal reconstruction	External reconstruction

Post acquisition profits are treated as---------------.	Revenue profit	Capital profit	Capital reserve	Revenue reserve
………….. form is the profits of the company are distributed amongst the shareholders.	Shares	Premium from issue of share	Reserves	Dividend
Forfeited shares to become-------------.	Property of the government.	Property of the company	Property of the shareholders	Property of all the shareholders
Purchase consideration is payable in-------------.	Cash	Shares	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
Interest on debentures is calculated on-------------.	Issue price	Redeemable price	Face value	Market price
At the time of purchase of ----------- is always debited with the ex-interest price	Debenture	Equity	Preference	Bonds
Which of the followingis not a source of redemption	Redemption out of capital	Redemption out of borrowings from financial institutions	Redemption out of profits of the company	Redemption by conversion

Accounting standard for Amalgamation is------------------.	AS-8	AS-20	AS-14	AS-3
Poolingof interests method is used to account for amalgamation in the nature of ---------------.	Purchase	Sale	Merger	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
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
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

The amount of surrendered shares is credited to -------------- account	Capital reduction	Capital	Bank	Profit and loss account
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
The capital reduction scheme can be implemented only after getting permission from-------------.	Central government	Controller of capital issues	Share holders	The competent court
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
Consolidation of shares does not affect the amount of----------------.	Share capital	Creditors, Debtors	Debtors, Creditors	Bank overdraft
A company can convert fully paid --------------- into stock and also reconvert ---------------- back into shares	Securities, Debenture	Debentures, Deposits	Deposits ,Share,	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
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
Inter company 'owing' should be ------------- while preparing the balance sheet of the transferee company after completion of amalgamation.	Eliminated	Not eliminated	Appointed	Athorised
When surrendered shares are reissued -------------------is debited.	Surrendered shares account	Preference share capital	Bank account	Capital reduction account
For refunding surplus capital-----------------is credited.	Share holders a/c	Creditors a/c	Liabilities a/c	Debenture holders a/c
For any sacrifice made by debenture holders or creditors--------------is	Capital reduction account	Bank account	Capital reserve account	Asset account

credited.				
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
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
The various losses can be written with the help of capital reduction account at the time of-------------- reconstruction.	External	Outsources	Internal	Surplus
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
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

In case of consolidation of share capital the total number of shares of the company-------------.	Decreases	Increases	Equal	Constant

UNIT III

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

Introduction

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

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

Types of Banks:

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

a) Scheduled Bank

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

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

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

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

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

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

ii. Scheduled Cooperative Banks

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

b) Non-Scheduled Bank

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

Business Activities of Banking Companies:

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

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

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

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

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

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

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

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

Legal Provisions to be followed by Banks:

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

Authorized Capital, Subscribed Capital and Paid up Capital

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

Minimum Paid up Capital and Reserves

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

Statutory Reserve Fund

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

Cash Reserve Ratio (CRR) of Scheduled Banks

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

Cash Reserves of Non-Scheduled Banks

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

Liquidity Requirements

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

Accounting System of Banks:

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

I) Subsidiary Books

a) Current account ledger

b) Savings bank account ledger

c) Fixed deposit accounts ledger

d) Receiving cashier's cash book

e) Paying cashier's cash book

f) Investments ledger

g) Loans ledger

h) Bills discounted and purchased ledger

II) Principal Books

a) Cash book

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

Treatment of an Asset as Non Performing Assets

Asset Treated as an NPA if:

1. Term loan

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

2. Cash credit and overdraft

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

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

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

3. Bills purchased and discounted

If the bills remain overdue for more than 90 days.

4. Agricultural advances for short duration crops

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

5. Agricultural advances for long duration crops

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

6. Securitization transactions

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

7. Credit card accounts

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

8. Advances guaranteed by central government

If the government repudiate or reject its guarantee when called upon. Thus, central government guaranteed advances would be treated as standard assets even if overdue. Guidelines for Income Recognition It basically deals with answering the question as to when to recognize an item of income. Following main points needs to be understood in respect of income recognition by banks: A) Income

Recognition Policy It is the rule or guideline prescribed by RBI regarding income recognition. According to it income is recognized on the following basis:

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

On Non-Performing Assets Income is recognized on cash basis

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

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

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

Other information :

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

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

SCHEDULE 14 – OTHER INCOMES

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

SCHEDULE 15 – INTEREST EXPENDED

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

SCHEDULE 16 – OPERATING EXPENSES

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

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

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

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

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

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

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

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

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

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

SOLUTION :

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

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

SCHEDULES

SCHEDULE 1 – CAPITAL

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

SCHEDULE 2 – RESERVES & SURPLUS

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

SCHEDULE 3 – DEPOSITS

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

SCHEDULE 4 – BORROWINGS

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

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

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

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

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

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

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

SCHEDULE 8 – INVESTMENTS

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

SCHEDULE 9 – ADVANCES

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

SCHEDULE 10 – FIXED ASSETS

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

SCHEDULE 11 – OTHER ASSETS

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

SCHEDULE 12 – CONTINGENT LIABILITIES

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

Profit & Loss Account for the year ended 31.3.2004

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

SCHEDULE 13 – INTEREST EARNED

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

SCHEDULE 14 – OTHER INCOMES

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

SCHEDULE 15 – INTEREST EXPENDED

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

SCHEDULE 16 – OPERATING EXPENSES

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

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

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

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

SOLUTION :

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

Journal Entry at the Time of Discounting

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

Journal Entry on 31st December, 2004

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

Workings

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

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

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

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

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

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

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

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

SOLUTION :

CALCULATION OF PROVISION

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

UNIT :3

1. On the basis of the following balance and the additional information provided thereafter, prepare balance sheet of Kuber Bank Limited as on 31st March 1994 along with the necessary schedules.

Debit balance	Amount (Rs. In '000)	Credit balance	Amount (Rs. In '000)
Cash in hand	18,98	Share Capital:	30,00
Balance with RBI	1,06,42	3 lakh shares of Rs. Shares fo	58,40
Balance with other banks	12,81	Rs. 10	5,00
Money at call and short notice	3,63	Statutory Reserve	97,12
Government securities	1,10,88	Share Premium	32,18
Shares	11,47	Revenue Reserve	1,00,76
Gold	8,75	Profit and Loss a/c	85,90
Bills purchased and discounted	80,78	Savings banks deposits	2,36,42
Cash credit and overdrafts	2,89,64	Deemed deposits	13,60
Premises	19,32	Borrowing from 13,60	10,01
Furniture and Fixtures	16,62	Bills payable	12,35
Inter-Office adjustments (Net)	1,21	Interest accrued	40,46
Stationery and stamps	8.96	Provisions	
Non – banking assets	1,50		
Interest accrued	23,75		
Tax paid in advances	7,48		
	7,22,20		**7,22,20**

Additional Information:

i. The authorized capital of the bank is Rs. 50,00 thousand divided into 5 lakh shares OF Rs. 10 each. Out of this 3 lakh shares have been issued, Subscribed and fully paid-up

ii. Net profit after tax has been Rs. 50,00 thousand; which has been transferred to statutory reserves

iii. Advances amounting to Rs.2,61,52 thousand are secured by tangible assets whereas those amounting to Rs. 98,49 thousand are covered by Bank/Govt. guarantees. The

UNIT :3

2. On the basis of the following balance and the additional information provided thereafter, prepare balance sheet of Kuber Bank Limited as on 31st March 1994 along with the necessary schedules.

Debit balance	Amount (Rs. In '000)	Credit balance	Amount (Rs. In '000)
Cash in hand	18,98	Share Capital:	30,00
Balance with RBI	1,06,42	3 lakh shares of Rs. Shares fo	58,40
Balance with other banks	12,81	Rs. 10	5,00
Money at call and short notice	3,63	Statutory Reserve	97,12
Government securities	1,10,88	Share Premium	32,18
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Bills purchased and discounted	80,78	Savings banks deposits	2,36,42
Cash credit and overdrafts	2,89,64	Deemed deposits	13,60
Premises	19,32	Borrowing from 13,60	10,01
Furniture and Fixtures	16,62	Bills payable	12,35
Inter-Office adjustments (Net)	1,21	Interest accrued	40,46
Stationery and stamps	8.96	Provisions	
Non – banking assets	1,50		
Interest accrued	23,75		
Tax paid in advances	7,48		
	7,22,20		**7,22,20**

Additional Information:

i. The authorized capital of the bank is Rs. 50,00 thousand divided into 5 lakh shares OF Rs. 10 each. Out of this 3 lakh shares have been issued, Subscribed and fully paid-up

ii. Net profit after tax has been Rs. 50,00 thousand; which has been transferred to statutory reserves

iii. Advances amounting to Rs.2,61,52 thousand are secured by tangible assets whereas those amounting to Rs. 98,49 thousand are covered by Bank/Govt. guarantees. The remaining advances are unsecured.

iv. On 31st March, 1993 cost of premises in hand was Rs. 36,84 thousand and that of furniture and fixtures was Rs. 23,96 thousand. There has been no addition to or disposal of any of these assets during the year 1993-94.

v. Some of the share held by the bank as investments are partly paid-up; the total liability for these partly paid shares is Rs.1,00 thousand.

vi. Bank has given guarantees amounting to Rs. 12,80 thousand on behalf of constituents. Also, there are contingent liabilities amounting to Rs. 23,56 thousand relating to acceptances, and endorsement for the clients.

vii. Bills for collection with the bank on 31st March 1994 totaled Rs. 9,75 thousand.

3. Enumerate the summary of the significant accounting policies adopted in preparing Financial Statements.

4. Explain the guidelines of reserve bank of India for compilation of Financial Statement 4.From the following information relating to Adharsh Bank Limited, prepare profit and loss account for the year ended 31st March 1994 along with the necessary schedules:

Particulars	Year ended 31.3.1993 (Rs. In '000)	Year ended 31.3.1994 (Rs. In '000)

Interest/Discount On Advance/Bills		
Income On Investment	272,67	316,28
Interest On Balances With Reserve Bank	105,30	118,10
Of India	40,64	42,43
Commission, Exchange And Brokerage	28,14	29,07
Profit on sale of Investment	1,23	1,14
Interest on Deposits	278,39	314,04
Interest on Reserve Bank of India	30,64	33,62
borrowings	83,97	97.17
Payments to and provisions for employees	8,90	9,55
Rent, taxes and lightings	1,90	2,13
Printing and stationary	34	87
Advertisement and publicity	2,15	2,92
Depreciation on bank properties	6	7
Director's fees, allowances and expenses	34	41
Auditor's fees and expenses	17	22
Law charges	2,61	3,12
Postage, Telegrams, telephones, etc.	72	91
Repairs and maintenance	8,03	9,15
Insurance	9,76	8,84
Other expenses	10,00	?
Balance of Profit and Loss account (b/fd)		

The following adjustments are to be made:

I. Make a provision for income tax (Including Surcharge) @ 51.75%. The rate of taxation for the year ended 31st March, 1993 was also 51.75.

II. Every year, the bank transfers 20% of profit to profit to stationary reserves, and 5% for profit to Revenue Reserve.

III. The board of directors propose dividend amounting to Rs. 2,00 thousand for the year ended 31st March 1994. Last year also, an identical amount of dividend wasproposed.

5.Explain the minimum capital and reserves of Banking Business.
6.Elucidate the special features of Capital Structure of a Banking Company. 7.Explain the specimen form of the Accounting Policies.

8. On 31st march 1994 Mahalakshmi Commercial Bank has the following capital

funds and assets. Calculate Risk Weighted Asset Ratio.

Capital funds:	Amount (Rs. In '000)
Equity share capital	50,00
Statutory reserve	61,40
Revaluation reserve	92
Capital reserve (arising on sale of fixed assets)	7,91
Assets:	
Cash	1,18,90
Balance with reserve bank of India	3,26,78
Balance with other banks	1,09,35
Money at call and short notice	74,18
Investment in government securities	9,10,96
Certificates of deposits with commercial banks	10,75
Other Investments	7,15,18
Loans and Advances:	
a. Loans guaranteed by Government of India	1,52,76
b. Loans granted to public sector undertakings of Government of India	1,78,84
c. Loans granted to public sector undertakings of State Government	92,86
Premises	1,80,00
Furniture and Fixtures	39,35
Other Assets	52,76
Off-balance Sheet Item:	
Acceptances, Endorsements and Letters of Credit	1,95,51

9. Following particulars are extracted from the (trial balance) books of the m/s. Sound bank ltd., for the year ending 31st march 1998.

a. Interest and discount 1,96,62,400
b. Rebate on bills discounted (balance on 1.4.1997) 65,040
c. Bills discounted and purchased 65,45,400

It is ascertained proportionate discount not yet earned on the bills discounted which will mature during 1998-1999 amounted to rs.92,760. Pass the necessary journal entries adjusting the above and show in the ledger of the bank.

i. Rebate on bills discounted account and
ii. Interest account

10. Explain the legal provisions and forms of Banking Business.

UNIT-III	OPTION I	OPTION II	OPTION III	OPTION IV
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
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
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
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
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 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
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
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
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
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

A company should purchase more than __________ shares of another company in order to become a holding company	25%	50%	75%	100%
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
Minority interest is shown on the __________ side of the consolidated balance sheet	Liabilities	Assets	Not shown	Shown in separate schedule
Contingent liability is shown as a ______in CBS	Foot note	Miscellaneous	Other asset	Other Liabilities
While preparing the consolidated Balance Sheet investment of the holding company in equity shares of the subsidiary is replaced by the _____ of the balance	Assets	Liabilities	Both assets and liabilities side	Profit and loss

sheet				
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
Dividends paid out of capital profit must be credited to ________a/c by the holding company	Investment	Revenue	Profit and loss a/c	dividend
Interim dividend pertaining to Pre-acquisition period is adjusted to __________	cost of control	minority interest	goodwill	Capital Reserve A/c
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
Post acquisition profit is also known as _________	Revenue profit	Capital Profit	income	other income

Pre-acquisition profit is also known as _________	Revenue profit	Capital Profit	income	other income
_______ company is one which controls one or more other companies	Holding Company	Subsidiaries	Purchasing Company	Selling 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
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
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	Rs. 1,80,000	Rs. 1,40,000	Rs. 20,000	Rs. 84,000

acquisition?				
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 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
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

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
Preparation of consolidated Balance Sheet of Holding Company and its subsidiary Company as per	AS-11	AS-22	AS-21	AS-23
The shares of outsiders in the Net Assets in subsidiary company is known as ____	Outsiders liability	Assets	Subsidiary company's liability	Minority Interest
Excess of paid up value of the shares over cost of investment is considered as	Goodwill	Capital Reserve	Minority interest	Capital profit

Profit earned before acquisition of shares is treated as	Capital profit	Revenue profit	General Reserve	Revaluation loss
Profit earned after acquisition of shares is treated as	Capital profit	Revenue profit	General Reserve	Revaluation loss
Preparation of consolidated statement as per AS21 is	Optional	Mandatory for listed companies	Mandatory for Pvt. Ltd	Partnership firm
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
Holding company share in Revenue profits of subsidiary company is adjusted in	Capital profit	Revenue profit	Fixed assets	Profit & Loss A/c
Unrealised profit on goods sold and included in stock is deducted from	Capital profit	Revenue profit	Fixed assets	Minority Interest
Face value debenture of subsidiary company held by Holding company is deducted from	Debentures	Cost of control	Minority interest	debenture in consolidated balance sheet

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
Minority interest includes	Share in share capital	Share in Capital profit	Share in Revenue profit	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
Pre-acquisition dividend received by Holding company is credited to	Profit & Loss A/c	Capital Profit	Investment A/c	Cost of Control
Post acquisition dividend received by Holding Company is debited to	Bank A/c	Profit & Loss A/c	Dividend A/c	Investment A/c
Which Exchange rate will be considered for conversion of share capital	Opening Rate	Closing Rate	Average Rate	Rate of which date share acquired

of subsidiary company				
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
_________ 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
___________ 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
Profit on revaluation of fixed asset is a ________	Capital profit	Revenue profit	Revenue loss	Goodwill
The depreciation on fixed asset	Capital profit	Revenue profit	Revenue loss	Goodwill

during revaluation is ________				
For calculating Minority interest, there is need to distinguish between capital and revenue profit of __________	Subsidiary company	Holding company	Purchasing Company	Selling 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 company can become the subsidiary of another company	yes	no	yes always	not at all
A company has to acquire more than __________ of share of another company to become holding company	25%	40%	50%	60%
The financial year of Holding company and Subsidiary company must	yes	No	Not at all	yes always

be the same				
Group accounts constitute accounts of	Holding company	Subsidiary Company	Purchasing Company	Selling Company
Profit earned by subsidiary company	Revaluation profit	Capital Profit	Revenue loss	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
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
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

UNIT IV

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

Legal Framework

1. List the objectives of the Electricity Act, 2003.

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

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

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

4. Rationalisation of Electricity Tariff,

5. Ensuring transparent policies regarding Subsidies,

6. Promotion of efficient and environmentally benign policies,

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

8. For matters connected therewith or incidental thereto.

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

A. National Electricity Policy:

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

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

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

B. National Electricity Plan:

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

2. The CEA shall –

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

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

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

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

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

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

2. “Appropriate Commission” means –

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

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

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

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

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

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

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

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

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

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

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

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

• major questions of policy,

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

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

• protection of consumer interest,

• electricity supply and overall standards of performance by utilities.

Accounting Aspects

Is Schedule VI (Revised) applicable for Electricity Companies

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

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

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

Accounting for Security Deposits received by Electricity Supply Companies.

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

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

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

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

Note: A Distribution Licensee shall –

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

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

2. Interest on Security Deposit:

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

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

Accounting and Reporting of Security Deposit:

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

To Security Deposit A/c

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

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

Interest Expense A/c Dr.

To Interest Accrued on Security Deposit

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

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

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

Interest Accrued on Security Dep. A/c Dr.

To Revenue / Sales Turnover

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

1. Advance against Depreciation (AAD):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) improving quality of supply of power,

(c) increasing revenue collection, and

(d) improving consumer satisfaction.

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

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

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

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

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

Accounting of Grant received under APDRP:

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

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

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

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

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

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

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

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

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

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

Return on Equity in case of Electricity Companies.

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

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

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

4. Equity Base is computed considering the following principles –

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

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

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

Problems on Electricity Companies:

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

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

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

Solution :

		₹
Reasonable Return :		
12% on Capital Base, ₹ 1,85,00,000		22,20,000
½ % on Loan from Electricity Board		40,000
½ % on Development Reserve		2,500
½ % on Debentures		5,000
Income from Reserve Fund investments		2,00,000
		24,67,500
Clear Profit :		26,98,500
Surplus :		
₹ 26,98,500 *less* ₹ 24,67,500		2,31,000
Disposal :		
1/3 for the company being less than 5% of Reasonable Return		77,000
½ of the balance to be credited to Tariffs and Dividends Control Reserve		77,000
½ of the balance to be credited to customers		77,000
Total		2,31,000
The journal entry will be :	₹	₹
Profit and Loss Account Dr.	1,54,000	
To Tariffs and Dividends Control Reserve		77,000
To Benefit to Customers Account		77,000
(Amounts to be credited to the Tariffs and Dividends Control Reserve and to be refunded to consumers because of the excess of the clear profit over reasonable return).		
Capital Base :		
Fixed Assets *less* Depreciation		2,60,00,000
Preliminary Expenses		80,000
Average Current Assets (other than customers' debts)	10,20,000	
Contingencies Reserve Investments		15,00,000
		2,86,00,000
Less : ₹		
Loan from Electricity Board	80,00,000	
Debentures	10,00,000	
Tariffs and Dividends Control Reserve	2,00,000	
Security Deposits	3,00,000	
Customers' Contribution	1,00,000	
Development Reserve	5,00,000	
		1,01,00,000
		1,85,00,000

2.Provide for the undermentioned depreciation, and prepare a Receipts and Expenditure on Capital Account, Revenue Account, Net Revenue Account and Balance Sheet from the following Trial Balance.

A call of Rs 20 per share was payable on 30th September, 2011 and arrears are subject to interest @ 15% p.a.

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

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

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

Soultion:

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

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

*Calls in arrears have been deducted.

Revenue Account for the year ended March 31, 2012

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

**Depreciation on additions charged for 6 months.

Net Revenue Account

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

General Balance Sheet

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

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

Journalise the entries.

Solution :

Journal

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

***Working Notes*:**

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

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

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

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

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

Solution:

Dr. **Gurgaon Electricity Company Limited Plant Account** Cr.

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

Dr. **Replacement Account** Cr.

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

Working Notes :

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

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

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

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

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

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

Solution :

Calculation of Capital Base :

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

Calculation of Reasonable Return :

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

Disposal of surplus :

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

Allocation of surplus of ₹ *4,61,300* :

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

1/3rd of ₹ 4,61,300 = ₹ 1,53,767

5% of ₹ 23,06,500 = ₹ 1,15,325

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

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

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

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

Final Distribution :

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

POSSIBLE AND IMPORTANT QUESTIONS

UNIT :4

1. The Gurgaon Electricity Company Limited decides to replace one of its old plants with a modern one with a larger capacity. The plant when installed in1960ncost the company Rs.24 lakhs, the components of materials, labour and overheads being in the ratio of 5:3:2. It is ascertained that the costs of materials and labour have gone up by 40% and 80% respectively. The proportion of overheads to total costs is expected to remain the same as before.

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

The accounts of the company are maintained under double Account System. Indicate how much would be capitalized and the amount that would be charged to revenue. Show the ledger accounts.

2. Explain the Depreciation provided by the electricity company.

3. D Electricity Co. earned a profit of Rs. 26,98,500 after paying Rs. 1,40,000 @ 14% as debenture interest for the year ended March 31st 1989. The following further information is supplied to you:-

Particulars	Amount (Rs.)
Fixed Assets	3,60,00,000
Depreciation written off	1,00,00,000
Loan from electricity board	80,00,000
Reserve Fund Investments, at par, @10%	20,00,000
Contingencies reserve Investments, at par, @10%	15,00,000
Tariffs and dividends control reserve	2,00,000
Security deposits of customers	3,00,000
Customer's contribution to assets	1,00,000
Preliminary Expenses	80,000
Monthly average of current assets, including amount due from customers,	Rs.5,00,000
Development reserve	15,20,000

Show the disposal of profit mentioned above.

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

5. The following balances were extracted from the books of the Urban Electric Supply Company Ltd. As on 31st March 1989. Prepare a revenue and appropriation account and balance sheet in the form prescribed under the Electricity Supply Act:-

PARTICULARS	AMOUNT

ower purchase	2,83,397
Distribution expenses	4,658
Rates and taxes	15
General establishment charges	30,407
Management expenses	17,730
Sales of electricity	4,19,434
Meter rent, reconnection fee etc	27,546
Depreciation	18,758
Income-tax	18,244
Repairs, maintenance of buildings	526
Contribution towards contingency reserve	3,143
Interest paid and accrued	6,089
Plant and machinery	5,59,968
Public lighting	81,665
General equipment	15,367
Capital – paid up	3,55,000
Bills payable	896
Sundry creditors – customers	2,636
Sundry creditors – others	119
Customers security deposits	1,87,566
Depreciation Reserve – as 0n 1.4.88	1,28,785
Contingencies reserve – balance as on 1.4.88	6,902
Service advances	7,957
Unpaid wages	18
Income – tax reserve	18,244
Interest payable	11,905
Stores in hand	48,852
Sundry debtors for supply of electricity	39,219

6. Elucidate the objectives of Accelerate Power Development and Reform Programme (APDRP).

7. A water supply concern had a replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was Rs. 80,00,000; the auxiliary main cost Rs. 9,00,000 and the new main cost Rs. 3,50,000. It is estimated that cost of laying a main has gone up by 30%. Parts of the old main realized Rs. 15,000. Pass journal entries and Ledger accounts.

8. What is meant by Double Account System? Enumerate the special features of Double Account System.

9. Enumerate the Reserves created by the Electricity Company.

10. Explain how replacement asset treated under the Double Account System with suitable example is showing necessary calculation and journal entries.

UNIT- IV	OPTION I	OPTION II	OPTION III	OPTION IV
Every Banking Company is required to close its accounts on	31st December	31st March	30th June	30th September
The Percentage of profit to be transferred to statements reserve by the banking company is	25%	15%	20%	10%
The assets which does not generate income to the banker is termed as	Performing Assets	Fixed Assets	Non-performing assets	Current assets
Rebate on bills discounted is	An accrued income	an item of income	a liability	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
Schedule 1 relates to ___________	Investment	Advances	Capital	Fixed Assets
Provision for income tax is shown in the Bank account under the head	Borrowings	Other liabilities	Operating expenses	Contingent liabilities
The heading other assets does not include	Stationery and stamps	Interest accrued	Gold	Silver

Demand drafts and Telegraphic transfers are shown in the Bank accounts under the head	Contingent liabilities	Bills payable	Loans and Advances	Borrowings in India
Letter of credit and endorsement are shown in Bank account under the head	Bills payable	Contingent liabilites	Bills for collection	Other assets
In a bank's balance sheet, Gold is shown under ______	Investment	Fixed Assets	other Assets	Advances
A bank is not allowed to grant loans or advances on the security of its own ______	Debentures	shares	bonds	others
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
Banking Companies are governed by -------- Act 1949	RBI	Banking Regulations	Banking Realization	Banking Organisation
Banks in India are under the general supervision of --------	RBI	SEBI	Central Govt	State Govt

The basis for banking transactions are the ------------ prepared by customers and sometimes by banks	Voucher	Bill	Slips	Receipt
All appropriations of the profits are shown in the IVth part of ____________	Revenue	Balance Sheet	P&L Appropriation	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
Locker rent is shown in P&L a/c of the Bank under the head-------	Schedule 12	Schedule 14	Schedule 13	schedule 15
At Present, the SLR for a banking company in India, as per the regulations of RBI is ---------	15%	10%	25%	40%
According to present regulations of RBI, a banking company is to maintain a minimum of ------------------ percent as cash	12%	20%	15%	5%

reserve over its time and demand liabilities.				
Schedule 13 relates to --------------	interest earned	Interest accrued	interest expended	other income
Schedule 15 related to --------	other income	interest earned	interest expended	interest received
In a bank's balance sheet, Silver is shown under ______	Investment	Fixed Assets	other Assets	Advances
A banking company should have atleast ___________ of the subscribed capital as paid up capital	one- half	one-third	two-third	25%
Schedule 9 deals with _______	Investment	deposits	Advances	Capital
Provision for doubtful debts is shown under _________ in the profit & loss A/c	Provision and contingencies	interest earned	Operating expenses	other income
only after writing off all capital losses like preliminary expenses, brokerage, commission etc The Banking	be allowed to pay dividends	cannot pay dividends	can pay after the approval of RBI	can be paid after the approval of Head office

Companies can--------				
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
Loss on sale of investment is to be shown in __________	Schedule 14	Schedule 13	Schedule 15	Schedule 16
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
Number of Schedule to be prepared by the insurance companies for their financial statements are	26 schedules	10 schedules	12 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

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
Claims paid by life insurance companies is shown in	Schedule 1	Schedule 2	Schedule 3	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
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
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
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

The Commission paid by the re-insurer is known as	Commission on direct business	commission on reinsurance ceded	commission on reinsurance accepted	Commission received
A valuation of Balance Sheet is prepared by	Joint Stock company	Banking Company	Life insurance Company	General 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
Agents balances (Dr) is shown in the balance sheet of life insurance companies as	Current liabilities	Other assets	Fixed assets	Borrowings
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
The Percentage of Profit of life business to be distributed to policy holders is	95%	100%	40%	50%
Leasehold Ground Rents are shown in	Revenue A/c	P&LA/c	Schedule 8 Investment	Schedule9 Loans

the document which contains the terms and conditions of the contract of insurance is called ---------	Policy	Rules	Conditions	Terms
__________refers to the amount payable by the insurer to the insured when the policy becomes due for payment	Claims	Receipts	Policy	Rules
Losses of theft are covered by ______ insurance	Burglary	Causality	Annuity	Premium
Every year, the accounting year of insurance business is to end on --------	31st December	31st March	30th June	30th September
In life insurance revenue account, Schedule 4 is named as ----------	Benefits paid	Benefits received	Business Received	Business Paid
Schedule 15 prepared by insurance companies deals with ----------	expenditure	Miscellaneous expenditure	Miscellaneous income	Income
Claims incurred (Net) by general insurance companies is dealt in	2	3	4	5

schedule no.

___________ refers to the lump sum amount paid to the insurer by the customer seeking annuity	Annuity	Consideration	Consideration for annuity granted	other income
The life insurance Revenue A/c does not disclose ___________ of the life business	Profit	Gross profit	Net profit	Loss
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
Profit on life insurance is found out by the preparation of _________	Valuation Balance sheet	Profit and loss	Profit and Loss appropriation	operating profit
The term Surrender value is exclusively applicable only for _________	Life insurance	Marine Insurance	Accidental Insurance	Fire 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
The excess provision maintained by the general insurance company over the minimum reserve is called ________	Additional reserve	Special Reserve	Specific reserve	General reserve

UNIT V

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

Accounting Standard(AS)4

Contingencies and Events Occurring After the Balance Sheet Date

Introduction

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

(a) Contingencies, and

(b) Events occurring after the balance sheet date.

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

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

(b) obligations under retirement benefit plans; and

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

Definitions

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

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

Two types of events can be identified:

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

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

Explanation

Contingencies

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

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

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

Accounting Treatment of Contingent Losses

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

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

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

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

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

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

Accounting Treatment of Contingent Gains

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

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

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

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

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

Events Occurring after the Balance Sheet Date

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

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

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

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

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

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Disclosure

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

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

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

Accounting Standard (AS) 5

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

Objective

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

Scope

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

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

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

Definitions

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

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

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

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

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

Net Profit or Loss for the Period

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

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

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

(a) profit or loss from ordinary activities; and

(b) extraordinary items.

Extraordinary Items

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

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

Whether an event or transaction is clearly distinct from the ordinary activities of the enterprise is determined by the nature of the event or transaction in relation to the business ordinarily carried on by the enterprise rather than by the frequency with which such events are expected to occur.

Therefore, an event or transaction may be extraordinary for one enterprise but not so for another enterprise because of the differences between their respective ordinary activities. For example, losses sustained as a result of an earthquake may qualify as an extraordinary item for many enterprises. However, claims from policyholders arising from an earthquake do not qualify as an extraordinary item for an insurance enterprise that insures against such risks.

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

– attachment of property of the enterprise; or

– an earthquake.

Profit or Loss from Ordinary Activities

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

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

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

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

(c) disposals of items of fixed assets;

(d) disposals of long-term investments;

(e) legislative changes having retrospective application;

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

Prior Period Items

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

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

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

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

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

Changes in Accounting Estimates

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies

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

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

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

The following are not changes in accounting policies:

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

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

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

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

Accounting Standard (AS) 11

The Effects of Changes in Foreign Exchange Rates

Objective

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

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

Scope

1.This Standard should be applied:

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

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

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

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

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

5. This Standard does not deal with the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency and the translation of cash flows of a foreign operation (see AS 3, Cash Flow Statements).

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

Definitions

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

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

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

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

7.4 Exchange rate is the ratiofor exchangeo f two currencies.

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

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

7.7 Foreign operation is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.

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

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

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

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

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

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

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

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

Foreign Currency Transactions Initial Recognition

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

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

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

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

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

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

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

Reporting at Subsequent Balance Sheet Dates

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

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

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

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

Recognition of Exchange Differences

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

Net Investment in a Non-integral Foreign Operation

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

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

Financial Statements of Foreign Operations

Classification of Foreign Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

Integral Foreign Operations

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

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

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

Non-integral Foreign Operations

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

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

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

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

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

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

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

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

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

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

Change in the Classification of a Foreign Operation

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

The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the reporting enterprise may lead to a change in the classification of that foreign operation. When a foreign operation that is integral to the operations of the reporting enterprise is reclassified as a non-integral foreign operation, exchange differences arising on the translation of non-monetary assets at the date of the reclassification are accumulated in a foreign currency translation reserve. When a non-integral foreign operation is reclassified as an integral foreign operation, the translated amounts for non-monetary items at the date of the change are treated as the historical cost for those items in the period of change and subsequent periods. Exchange differences which have been deferred are not recognised as income or expenses until the disposal of the operation.

All Changes in Foreign Exchange Rates

Tax Effects of Exchange Differences

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

Disclosure

An enterprise should disclose:

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

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

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

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

(a) the nature of the change in classification;

(b) the reason for the change;

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

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

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

POSSIBLE QUESTIONS

UNIT :5

1.Explain the Financial statements of integral and non-integral foreign operations.

2.Explain the items should be disclosed in the profit and loss account.

3. Explain the Financial statements of foreign operations.

4. Enumerate the main principles and disclosures of Government Grants.

5. What is meant by Contingencies? Explain the events occurring after the balance sheet date.

6. Explain the accounting statements for Government Grants.

7. Elucidate the determination of the amounts at which Contingencies are included in financial statement.

8. Enumerate the effects of changes in the foreign exchange rates.

9. Enumerate the main principles and disclosures of Contingencies. 10.Explain the changes in the accounting estimations and policies.

UNIT-V	OPTION I	OPTION II	OPTION III	OPTION IV
Expenses incurred by a business enterprise on the recruitment, training and development of workers are considered	Opportunity cost	Imputed Cost	Current 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
The prominent among the value based model is the ___________	Flamholtx model	Lev and Schwarz Model	Lee and Rosenbloom Model	Rensis Likert 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
Physical assets are valued on the basis of __________	Stock	Future profit	Ownership	Net profit
Under traditional accounting, the amount spent on human resources is treated as ____________	Income	Revenue	Expenses	Loss
Comparison of	Labour	Capital	Profit intensive	Revenue

human capital with non-human capital will give an idea about the degree of _________	intensiveness	intensiveness		intensiveness
Disclosure of Accounting policies is dealt in _______	AS-2	AS-1	AS-5	AS-19
Inventories should be valued at ___________	Cost	Net realisiable value	Cost or net realisibale value whichever is less	Book value
Cash flow statements are discussed under which accounting standards_______	AS-8	AS-4	AS-5	AS-3 (Revised)
Extraordinary items are dealt in under which accounting standard?	AS-5	AS-2	AS-1	AS-10
Deferred Revenue and Development Expenditure is shown in the Balance Sheet under the head	Fixed Assets	Miscellaneous Expenditure	Current Assets	Investment
Assets which are acquired for own use and not for resale are known as :	Fixed Assets	Wasting Assets	Current Assets	Fictitious Assets
An investment in land and building that are not intended	Current investment	Long term investment	Investment in property	short term investment

to be occupied substantially for use by or in the operations of, the investing enterprise is termed as __________				
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
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
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
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
A discounting operation as per AS-24	Liquidation of an enterprise	Discontinuation of an component of	Merger of enterprises	Amalgamation

represents		a business		
Amortisation of an intangible asset means	Purchasing asset	Selling asset	Recording the asset in books	Writing off over estimate
Social Responsibility accounting is ____	Statutory requirement	Legal Requirements	Voluntary Disclosures	Conditional Requirements
Social Responsibility accounting communicated about a firm's	Social Performance	Financial Performance	Operational Efficiency	Business Efficiency
Social Income statement reveals social benefits and	Values	Objectives	Norms	Costs
Social Income Statement reveals social benefits and cost to the staff, community and	Government	Industry	General Public	Customers
Social Balance Sheet contains social capital investments, other social assets and ______	Human assets	Fixed assets	Floating assets	Intangible assets
Accounting standards Board (ASB) was constituted on ___________	21.4.1997	21.5.1997	21.8.1997	21.10.1997
______ are inflows and outflows of cash and cash equivalent	Cash Flows	Business Activities	Finance Activities	Operating Activities
________ is original and planned	Research	Investigation	Selection	Process

investigation undertaken with the hope of gaining new scientific knowledge				
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
_______ company means the company which is amalgamated into another company	Transferor	Transferee	Selling Company	Purchasing Company
_________ means the company into which a transferor company is amalgamated	Transferor	Transferee	Selling Company	Purchasing Company
______ 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

___________ are interested and other costs incurred by an enterprise in connection with the borrowing of funds	Borrowing cost	Buying cost	Operation cost	Performance Cost
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
The difference between segment revenue and segment expenses is ___________	Profit	Operating Profit	Operating Result	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
_________ 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
Consolidated financial statements are	Holding Company	Subsidiaries	Purchasing Company	Selling Company

usually prepared by a parent company, merging the accounting data of itself and its _________				
The Tax effect on Timing difference is called ______ Tax	Deferred Tax	Advance Tax	Un paid tax	Expected Tax
An asset is an impaired asset, if carrying amount of the asset exceeds the amount that can be________	Paid	Collected	Refunded	Unpaid
The pooling of Interest method is specially applied for	Amalgamation in the nature of merger	Amalgamation in the nature of purchase	Absorption	Reconstruction
The Accounting Standards are in the nature of _____	Rules	Act	Laws	Policies
______ Requires disclosure of non-cash financing and investing activities as a foot note	AS-8	AS-4	AS-5	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

Accounting for investments in association has to be usually accounted under the ________ Method	Equity	Acquisition	Current investment	Long term investment
________ reports provides information under the same major headings as in an annual Financial Statements	Consolidated	Interim	Half-yearly	Short term
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
Cash Flow Statement reveals	Net Cash Flow During a period	Cash Profit	Cash Receipts alone	Cash Payments Alone
Accounting Standards Board (ASB) of the ICAI is entrusted with the responsibility of Developing Accounting	Rules	Policies	Standards	Procedures
All those who are interested in Financial Report of Business Enterpreses are known as user	Government	Stake Holders	Customers	Public

group or ________				
Net Social Income to staff is the difference between social benefit to staff and social ________ to staff	Income	Revenue	Cost	Expenditure
The amount of surrendered shares is credited to --------------account.	Capital reduction	Capital	Bank	P&L Account
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
The capital reduction scheme can be implemented only after gettingpermission from-------------.	Central government	Controller of capital issues	Share holders	The competent court
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
Consolidation of shares does not affect the amount of----------------.	Share capital	Creditors	Debtors	Bank overdraft

A company can convert fully paid ---------------into stock and also reconvert ----------------- back into shares	Securities	Debentures, Equity	Deposits, Stock	Share,stock
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
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
Inter company 'owing' should be ------------- while preparingthe balance sheet of the transferee company after completion of amalgamation.	Eliminated	Not eliminated	Appointed	Not appointed

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

[12CMU501]

KARPAGAM UNIVERSITY

(Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2012 onwards)

B.Com. DEGREE EXAMINATION, JANUARY 2015

Fifth Semester

COMMERCE

ADVANCED CORPORATE ACCOUNTING

Time: 3 hours   Maximum : 100 marks

PART – A (15 x 2 = 30 Marks)
Answer ALL the Questions

1. From the following information find out the amount of provision to be shown in the profit and loss account of a Commercial Bank

Assets	Rs. In Lakhs
Standards	8,000
Substandard	6,000
Doubtful:	
For one year	1,000
For three years	1,600
For more than 3 years	400
Loss assets	1,200

2. Calculate the net profit earned by Annriya Bank Ltd. from the data given below for the year ended 31-03-2003.

Particulars	Rs.
Interest earned	5,00,000
Other incomes	37,000
Interest expended	3,40,000
Operating expenses	1,05,000

3. On 31.12.96 Popular Bank Ltd has the following bill in its portfolio. All the bills are discounted at 5%

Amount in Rs.	Due date
50,000	31.1.1997
40,000	30.4.1997

Calculate rebate on bills discounted, assuming accounts are closed on 31st December.

4. Calculate the net claim to be debited to Revenue a/c of Insurance Company.

Particulars	Rs.
Claims paid for the year ended 31.03.06	5,75,000
Claims outstanding on 01.04.05	55,000
Claims outstanding on 31.03.06	98,000
Claims covered under reinsurance	28,000

5. A Life Assurance Company prepared its Revenue A/c for the year ended 31.03.06 and ascertained its Life Assurance fund to be Rs.28,35,000. It was found later that the following had been omitted from the accounts.
   a) Interest accrued on investments Rs.39,000
   b) Income tax liable to be deducted thereon is estimated to be Rs.10,500
   c) Outstanding premiums Rs.32,800
   d) Claims intimated but not admitted Rs.17,400
   What is the true Life Assurance Fund?

6. From the following, you are required to calculate the amount on account of claim to be shown in the Revenue A/c for the year ending 31st March 2006.

Intimated in	Admitted in	Paid in	Rs.
2004-05	2004-05	2005-06	15,000
2005-06	2005-06	2006-07	10,000
2003-04	2004-05	2004-05	5,000

Claim on account of reinsurance in 2005-06 was Rs.25,000.

7. 'M' Ltd. has capital of Rs.2,00,000 in shares of Rs.100 each out of which 'N' Ltd. purchased 75% of the shares at Rs.2,40,000. The profits of 'M' Ltd. at the time of purchase of shares by 'N' Ltd were Rs.1,10,000. 'M' Ltd decided to make a bonus issue out of pre acquisition profit of one share for ever five shares held.
   Calculate the cost of control of acquiring shares of 'M' Ltd. before the issue of bonus shares.

8. P Ltd. acquired 65% shares of Q Ltd. on 1-10-02. Profit and Loss a/c in the books of Q Ltd. showed a debit balance of Rs.40,000 on 01-04-02. On 31-03-03, the Balance sheet of Q Ltd. showed Profit and Loss a/c balance of Rs.1,20,000. Calculate revenue profits.

9. H. Ltd. Purchased 75% of shares in S Ltd. on 01-07-01. On 31-12-01 the Balance Sheet of S Ltd. showed Reserve Fund balance on 01-01-01 Rs.40,000, profit earned during 2001 Rs.60,000 and preliminary expenses unwritten off Rs.20,000. Calculate capital profits.