Semester IV

		L	T	P	C
17PAU401	**CORE- ADVANCED CORPORATE ACCOUNTING**	**6**	**2**	**-**	**6**

SCOPE

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.

OBJECTIVES

- 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 SEC. 3 OF UGC ACT, 1956)
COIMBATORE – 21
DEPARTMENT OF COMMERCE
LECTURE PLAN

STAFF NAME : Mrs. K.Kavitha

SUBJECT NAME : ADVANCED CORPORATE ACCOUNTING

SUB.CODE : 17PAU401

SEMESTER : IV CLASS : II BCOM. (PA)

UNIT I

S. No.	Lecture Duration (Hr)	Topics to be covered	Support Materials
1	1	Amalgamation and Reconstruction – Introduction Meaning and Objectives	**T1:** Pg. No. 21.1 - 21.10
2	1	Types of Reconstruction I. Internal reconstruction II. External Reconstruction	**T1:** Pg. No. 21.45
3	1	Internal Reconstruction Alteration of Share Capital Procedure for reducing Share Capital	**R 5** : Pg. No. 9.1 – 9.10 R 2 : Pg. No. II – 327 - 330
4	1	Problems to be worked out in Alteration of Share Capital	**R 5** :Pg. No. 9.11 – 9.13
5	1	Problems to be worked out in Alteration of Share Capital	**R 5** :Pg. No. 9.11 – 9.13
6	1	Problems to be worked out in Alteration of Share Capital (T)	**R 5** :Pg. No. 9.11 – 9.13
7	1	Problem to be worked out in Capital Reduction	**R 5** :Pg. No. 9.13 – 9.28
8	1	Problem to be worked out in Capital	**R 5** :Pg. No. 9.13 – 9.28

		Reduction (T)	
9	1	Amalgamation – Types of Amalgamation I. Amalgamation in the nature of Merger II. Amalgamation in the nature of Purchase III. Methods of Accounting for Amalgamation	**T1:** Pg. No. 21.1 - 21.5 **R 5** :Pg. No. 10.3 – 10.4
10	1	Accounting Treatment for Amalgamation	**R 5** :Pg. No. 10.18 – 10.27
11	1	Problems to be worked out in Amalgamation in the Nature of Merger	**R 5** :Pg. No. 10.31 – 10.51
12	1	Problems to be worked out in Amalgamation in the Nature of Merger (T)	**R 5** :Pg. No. 10.31 – 10.51
13	1	Problems to be worked out in Amalgamation in the Nature of Merger (T)	**R 5** :Pg. No. 10.31 – 10.51
14	1	Problems to be worked out in Amalgamation in Nature of Purchase	**R 5** :Pg. No. 10.52 – 10.81
15	1	Problems to be worked out in Amalgamation in Nature of Purchase	**R 5** :Pg. No. 10.52 – 10.81
16	1	Problems to be worked out in Amalgamation in Nature of Purchase (T)	**R 5** :Pg. No. 10.52 – 10.81
17	1	Recapitulation and discussion of Important questions	
Total			**17 Hours**
UNIT - II			
1	1	Financial Statement of Insurance Companies Introduction to Insurance Business	**T 1** : Pg. No. 24.1 – 24.2

2	1	Types of Insurance Life Insurance - General Insurance - Fire Insurance - Marine Insurance	**R 2** : Pg. No. II – 475 **R 5** : Pg. No. 13.2- 13.3
3	1	**Preparation of Valuation Balance Sheet** Important Terms and their treatment in Final Accounts of Life Insurance Companies	**R 5** : Pg. No. 13.8 – 13.9
4	1	Accounts of Life Insurance Companies Preparation of Final Accounts of Insurance Companies	**R 5** : Pg. No. 13.6
5	1	Preparation of Revenue Account of Life Insurance Companies	**R 5** : Pg. No. 13.9- 13.11
6	1	**Determination of Surplus to Policy Holder** Computation of Profit in Life Insurance Business	**R 5** : Pg. No. 13.11 – 13.12
7	1	Problems to be worked out in Revenue Account	**R 5** : Pg. No. 13.79 – 13.89
8	1	Problems to be worked out in Revenue Account (T)	**R 5** : Pg. No. 13.89 – 13.108
9	1	Problems to be worked out in Balance Sheet	**R 5** : Pg. No. 13.89 – 13.108
10	1	Problems to be worked out in Balance Sheet (T)	**R 5** : Pg. No. 13.89 – 13.108
11	1	Accounts of General Insurance Companies Preparation of Revenue Account	**R 5** : Pg. No.13.108 – 13.125
12	1	Accounts of General Insurance Companies Preparation of Revenue Account (T)	**R 5** : Pg. No.13.108 – 13.125
13	1	Problems to be worked out in Profit and Loss Account (T)	**R 5** : Pg. No. 13.125 – 13.135
14	1	Problems to be worked out in Profit and Loss Account	**R 5** : Pg. No. 13.125 – 13.135
15	1	Problems to be worked out on Revenue	**R 5** : Pg. No. 13.135 –

		Account and Balance Sheet of General Insurance Companies (T)	13.160
16	1	Recapitulation and discussion of Important questions	
Total			**16 Hours**
UNIT - III			
1	1	Financial Statement of Banking Companies Meaning of Banking	**T 1** : Pg. No. 25.1 – 25.5
2	1	Types of Banks Books of Accounts Returns	**R 5** : Pg. No. 12.3 **T 1** : Pg. No. 25.6 – 25.11
3	1	Forms of Financial Statement **-** Capital Adequacy Norms	**W 1**
4	1	Income Recognition	**W 2**
5	1	Classification of Assets and their Provision	**W 2**
6	1	Rebate on Bills Discounted	**R 5** : Pg. No. 12.23
7	1	Problems to be worked out in Rebate on Bills Discounted	**R 5** : Pg. No. 12.34 – 12.38
8	1	Problems to be worked out in Rebate on Bills Discounted (T)	**R 5** : Pg. No. 12.34 – 12.38
9	1	Preparation of Statement of Profit and Loss and Balance sheet Guidelines of RBI for Profit and Loss Account	**R 5** : Pg. No. 12.6 – 12.10
10	1	Problems to be worked out in Profit and Loss Account	**R 5** : Pg. No.12.38 – 12.52
11		Problems to be worked out in Profit and Loss Account (T)	**R 5** : Pg. No.12.38 – 12.52
12		Problems to be worked out in Profit and Loss	**R 5** : Pg. No.12.38 – 12.52

		Account (T)	
13	1	Format for preparation of Balance Sheet Guidelines of RBI for Balance Sheet	**R 5** : Pg. No. 12.10 – 12.23
14	1	Problems to be worked out in Balance Sheet (T)	**R 5** : Pg. No. 12.54 – 12.90
15	1	Problems to be worked out in Balance Sheet (T)	**R 5** : Pg. No. 12.54 – 12.90
16	1	Recapitulation and discussion of Important questions	
Total			**16 Hours**
UNIT - IV			
1	1	Financial statement of Electricity Company Introduction to Double Account System	**R6 :** Pg. No. 554 **R 5** : Pg. No. 16.1
2	1	Chief Features of the Double Account System	**R6** : Pg. No. 554 - 555
3	1	Double Account System VS Double Entry System	**R 5** : Pg. No. 16.2 – 16.3
4	1	Formats of Financial Statement Final Accounts of Electricity Supply Companies	**R 5** : Pg. No. 16.10
5	1	Format of Revenue Account	**R 5** : Pg. No.16.11
6	1	Specific Transactions of Electricity Company Provisions relating to Electricity Supply Companies	**R 5** : Pg. No. 16.13 – 16.18
7	1	Disposal of Surplus Reasonable Rate of Return	**R 5** : Pg. No. 16.18 & 16.16
8	1	Problems to be worked out in Replacement of Assets	**R 5** : Pg. No.16.18 – 16.32
9	1	Problems to be worked out in Replacement of	**R 5** : Pg. No. 16.18 – 16.32

		Assets (T)	
10	1	Problems to be worked out in Disposal of Profits (T)	**R 5** : Pg. No. 16.32 – 16.39
11	1	Problems to be worked out in Disposal of Profits (T)	**R 5** : Pg. No. 16.32 – 16.39
12	1	Calculation of Clear Profits	**R 5** : Pg. No. 16.39 – 16.42
13	1	Problems to be worked out in Final Accounts (T)	**R 5** : Pg. No. 16.42 – 16.45
14	1	Problems to be worked out in Final Accounts (T)	**R 5** : Pg. No. 16.55 – 16.65
15	1	Implementation of Accelerate Power Development and Reform Program [AADRP] Objectives **Funding Patterns**	**W 3**
16	1	Recapitulation and discussion of Important questions	
Total			**16 Hours**
UNIT – V			
1	1	**Introduction to Accounting Standards** Meaning, Objectives and Needs for Accounting Standards	**R 5** : Pg. No. 18.1 – 18.2
2	1	Significance of Accounting Standards	**R 5** : Pg. No. 18.2 – 18.3
3	1	International Accounting Standards	**R 5** : Pg. No. 18.3 – 18.5
4	1	Accounting Standards in India	**R 5** : Pg. No. 18.5 – 18.7
5	1	Applicability of Accounting Standards Classification of Business Enterprises	**R 5**: Pg. No. 18.8 – 18.11
6	1	**Accounting Standards - AS 4** Contingencies and Events Occurring after the Balance Sheet Date	**R 5** : Pg. No. 18.19 – 18.21
7	1	AS 11: The Effects of Changes in Foreign	**R 5** : Pg. No. 18.30 – 18.32

		Exchange Rates	
8	1	AS12: Accounting for Government Grants	**R 5** : Pg. No. 18.32 – 18.33
9	1	AS 14: Accounting for Amalgamation,	**R 5** : Pg. No. 18.35 – 18.39
10	1	AS 15: Employee Benefit,	**R 5** : Pg. No. 18.39
11	1	AS 17: Segment Reporting	**R 5** : Pg. No. 18.42 – 18.44
12	1	Recapitulation and discussion of Important questions	
13	1	Previous Year ESE Question Paper Discussion	
14	1	Previous Year ESE Question Paper Discussion	
15	1	Previous Year ESE Question Paper Discussion	
Total			15 Hours

TEXT BOOK

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

REFERENCES

R 1 : Maheswari, S.N., & Maheswari,S.K. (2011). *Advanced Accounting*. New Delhi: Vikas Publishing House Pvt. Ltd..

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

R3 : Agarwal, B.D. (2009). *Financial Accounting Advanced*. New Delhi: Pitambar Publishing Company.

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

R 5 : Reddy T.S. & Murthy. A. (2018). Corporate Accounting. Chennai. Margham Publications

R 6 : Dr. Arulanandham. M.A & Raman K.S. , Corporate Accounting. New Delhi: Himalaya Publication House

Websites

W 1 : http://14.139.172.204/nptel/CSE/Web/110106040/module8/8_1-Capital%20adequacy.pdf

W 2 : http://www.allbankingsolutions.com/Banking-Tutor/asset-classification.shtml

W 3 : https://powermin.nic.in/en/content/accelerated-power-development-programme-apdp

UNIT – I

SYLLABUS

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

Introduction

Sometimes companies carrying on similar business combine with each other to obtain the economies of large scale production or to avoid the disastrous results of cut throat competition. It is being done by Amalgamation and Absorption. The term amalgamation is used when two or more companies carrying on similar business go into liquidation and a new company is formed to take over their business. The term absorption is also used when an existing company takes over the business of one or more existing companies. These concepts have been modified by the Accounting Standard 14 (AS – 14) – "Accounting for Amalgamation", issued by the Institute of Chartered Accountants of India. This standard is applicable in respect of accounting periods commencing on or after 1st April, 1995 and is mandatory in nature. This standard specifies the procedure of accounting for amalgamation and the treatment of any resultant goodwill or reserve.

Purchase Consideration

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BALANCE SHEET OF KARPAGAM CO. LTD.
As at 31st March, 2005

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

Suppose (i) Company **Providence Ltd.,** takes over the business of Company Karpagam Ltd.,; (ii) The value agreed for various assets is : Land and Buildings Rs. 2,50,000, Plant and Machinery Rs. 2,40,000, Goodwill Rs, 2,20,000, Stock Rs. 1,30,000 and

Debtors Rs. 80,000; Providence Company does not take over cash but agrees to assume the liability of Sundry Creditors at Rs. 50,000.

The calculation of purchase consideration will be as follows :

Value of assets taken over by Providence Company Ltd., :	**Rs.**
Land and Buildings	2,50,000
Plant and Machinery	2,40,000
Goodwill	2,20,000
Stock	1,30,000
Debtors	80,000

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

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

(3) **Net Payment Method.** Under this method purchase consideration is calculated by adding the various payments in the form of shares, securities, cash etc. made by the transferee company. No amount of liabilities is deducted even if these are assumed by the purchasing company. Thus purchase consideration is the total of all the payments whether in shares, securities or cash. Suppose, in the example given above Providence Ltd., agrees to give for every 10 shares in Karpagam Ltd., 15 shares of Rs10 each, Rs.8 paid up; Providence Ltd., also agrees to pay Rs 1,50,000 cash to discharge the creditors.

The Purchase Consideration will be calculated as under :

Shareholders of Karpagam Ltd. will get :

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

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

(4) **Shares Exchange Method.** Under this method purchase consideration is required to be calculated on the basis of intrinsic value of shares. The intrinsic value of a share is calculated by dividing the net assets available for equity shareholders by the number of equity shares. This value determines the ratio of exchange of the shares between the transferee and transferor companies. In some cases the agreed values of the shares of both the companies are given. In that case the purchase consideration is calculated with reference to the value of shares of two companies involved. Suppose X Ltd. and Y Ltd. are two companies carrying on business in the same line of activity. Their capital is Rs. 60,00,000 and Rs. 20,00,000 (value of each share , Rs. 100). The two companies decided to amalgamate in XY Ltd. If each share of X Ltd. and Y Ltd. is valued at Rs. 150 and Rs. 250 respectively for the purpose of amalgamation, then purchase consideration will be as under :

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

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

RECONSTRUCTION

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

Internal Reconstruction: This is generally resorted to by a company which is being reorganized internally. A scheme of re-organization is prepared in which all parties sacrifice. The sacrifices are made in this order – equity shareholders, preference shareholders, unsecured creditors and partially secured creditors. Under this scheme the existing company continues in its legal entity from and can take advantage of carry forward and set off of the past losses.

AMALGAMATION AND EXTERNAL RECONSTRUCTION

ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEROR COMPANY:

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

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

Realisation Account

To Various Assets (individually at book value)

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

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

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

To Realisation Account

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

(3) For purchase consideration

Transferee Company's Account Dr.

To Realisation Account

(4) For receiving purchase consideration from the transferee company

Bank Account Dr.

Shares in Transferee Company A/c Dr.

To Transferee Company a/c

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

Bank Account Dr.

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

To Assets Account

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

(6) For liquidation expenses

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

Realisation Account Dr.

To Bank Account

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

First Alternative – no entry.

Second Alternative – the following two entries will be passed:

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

To Bank Account

(ii) Bank Account Dr.

To Transferee Co.'s A/c

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

Realisation Account Dr.

To Bank Account

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

Various Liabilities A/c Dr.

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

To Bank Account

Or Shares in Transferee co. A/c

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

(8) For Closing Realisation Account

(a) If Profit

Realisation A/c Dr.

To Equity shareholders A/c

(b) If Loss

Equity Shareholders A/c Dr.

To Realisation A/c

(9) For transferring Preference Share Capital

Preference Share Capital A/c Dr.

To Preference Shareholders A/c

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

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

Equity Share Capital A/c Dr.

General Reserve A/c Dr.

Debenture Redemption Reserve A/c Dr.

Dividend Equalisation Reserve A/c Dr.

Share Premium A/c Dr.

Profit and Loss A/c Dr.

Accident Compensation Fund Dr

Share Forfeited A/c Dr.

Profit Prior to Incorporation A/c Dr.

Any Other Reserve or Fund A/c Dr.

To Equity Shareholders A/c

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

Equity Shareholders A/c Dr.

To Profit and Loss A/c

To Discount or Expenses on issue of shares or debentures

To Preliminary Expenses

To Underwriting Commission

(12) For paying shareholders

Preference Shareholders A/c Dr.

Equity Shareholders A/c Dr.

To Bank or Shares in transferee company

ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEREE COMPANY

(1) On amalgamation of business

Business Purchase Account Dr. (with the amount of

To Liquidators of Transfereor Co purchase consideration)

(2) For recording assets and liabilities taken over

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

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

To Reserve Account (with book value)

To Business Purchase Account (with book value)

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

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

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

Sundry Assets Account Dr.

To Sundry Liablities

To Profit and Loss Account

To Reserve Account

To Liquidators of the Transfereor Co. A/C

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

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

Liquidator of the Transferor Co. A/C Dr.

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

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

Profit and Loss Account Dr.

To Bank Account

(5) For the formation expenses of the transferee company

Preliminary Expenses Account Dr.

To Bank Account

Illustration 1 : On 31st March, 2008, White Ltd. was absorbed by Black Ltd., the later taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 40,00,000 to be discharged by the transfree company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company. The balance sheet of the two companies as on 31st March, 2008 stood as under :

Liabilities	White Ltd.	Black Ltd.	Assets	White Ltd.	BlackLtd.
Share Capital : Authorised Issued & Subscribed Equity Shares of Rs. 10 each General Reserve Profit & Loss A/C Workmen's Compensation Fund Sundry Creditors Staff Provident Fund Provision for Taxation					

Example-1

1. A company having 500000 8% preference shares of Rs10 each decides to consolidate the shares into shares of Rs100 each .the required journal entry is as follows

8% preference share capital (Rs. 10)A/c Dr	50,00,000	
To 8% preference share capital (Rs100) A/c		50,00,000

Example 2

2.conversion of stock into shares

A company decides to convert its Rs10 equity shares capital of Rs8,00,000 into stock.

The following is the journal entry to be passed

Equity capital A/c Dr 8,00,000

To equity capital stock A/c 8,00,000

Example 3

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

A company whose paid up capital includes 10,000 shares equity shares of Rs100 each fully paid decides to return Rs.20 per share to the members , thus reducing each shres to Rs. 802 each. Fully paid.

Particulars	Debit	Credit
Equity share capital (Rs.100) A/c Dr	10,00,000	
To equity share capital (Rs.80) A/c		8,00,000
To sundry shareholders A/cc		2,00,000
Sundry shareholders A/c Dr	2,00,000	
To bank A/c		2,00,000

Example 4

Cancelling or writing off lost of capital, not represented by assets

5,000 equity shares of Rs. 10 each are reduced to fully paid shares of Rs.6 each .

Particulars	Debit	Credit
Equity share capital (Rs10)A/c Dr	50,000	
To equity share capital (Rs6) A/c		30,000
To capital reduction A/cc		20,000

Example 5

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

On the date of capital reduction a company finds that its buildings have appreciated by Rs.40,000 and the value of stock has gone up by Rs.30,000

Particulars	Debit	Credit
Buildings A/c	40,000	
Stock A/c	30,000	
To capital reduction A/c		70,000

Example 6

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

As per the capital reduction scheme adopted by a company 5,000 7% debenture of Rs.100 each are to be reduced to Rs80each and trade creditors have agreed to reduce their claims by Rs.50,000

Particulars	Debit	Credit
7% debentures A/c Dr	1,00,000	
Creditors A/c	50,000	
To capital reduction A/c		1,50,000

Example 7

X co ltd has the following shares as a part of its share capital

- 10,000 *% preferences shares of Rs.100 each fully paid
- 50,000 equity shares of Rs.5 each fully paid

- 20,000 equity shares of Rs. 10 each . Rs. 8 called up and paid up
- The company has decided to alter the share capital of Rs.10 each.
- To sub divide the preference share in to shares of Rs.10h.
- To consolidate the equity shares of Rs. 5 each in to shares of Rs.10 each

To convert the partly paid up equity shares in to fully paid up shares of Rs8 each with necessary legal sanctions.

Journal the following

Particulars	Debit	Credit
Preference share capital (Rs100 each) A/c Dr To preference shares capital (Rs10) A/c	10,00,000	 10,00,000
Equity share capital (Rs 5)A/ c Dr To equity shares capital (Rs10) A/c	2,50,000	 2,50,000
Equity share capital (partly paid)A/c Equity share capital (fully paid) A/c	1,60,000	 1,60,000

Example 8

(Surplus in Capital Reduction Account)

ABC Ltd passed resolution and got court permission for the reduction of its share capital by Rs.5,00,000 for the purpose mentioned as under:

- To write off the debit balance of P& L a/c of Rs.2,10,000
- To reduce the value of plant and machinery by Rs.90,000 and goodwill by Rs.40,000
- To reduce the value of investments by Rs.80,000

The reduction was made by converting 50,000 preference shares of Rs.20 each fully paid to the same number of preference shares of Rs15 each fully paid and by converting

50,000 equity shares of Rs.20 each on which Rs.15 is paid up into 50,000 equity shares of Rs.10 each fully paid up.

Particulars	Debit	credit
Preference share capital A/c(Rs20) Dr	10,00,000	
To preference share capital A/c		7,50,000
To capital reduction A/c		2,50,000
Equity share capital A/c (partly paid)	7,50,000	
A/c Dr		5,00,000
To equity share capital (fully		2,50,000
paid) A/c		
To capital reduction A/c		
Capital reduction A/c D r	5,00,000	
To profit and loss A/c		2,10,000
To plant and machinery A/c		90,000
To good will A/c		40,000
To investment A/c		80,000
To capital reserves A/c (bal figure)		80,000

Example 9

Following a series of losses. XYZ co Ltd resolved to reduce its capital to 50,000 fully paid Rs.5 shares and to eliminate share premium account. The company's balance sheet prior to implementation of the scheme was:

Liabilities	Amount	Assets	Amount
Share capital :		Good will	1,00,000
50000 fully paid shares of RS10	5,00,000		

each			
Securities premium A/c	50,000	Land and building s	1,62,000
Creditors	62000	Plant and machinery	2,07,000
Bank overdraft	73,000	Stock	92,000
		Debtors	74,000
		Profit and loss a/c	50,000
	6,85,000		**6,85,000**

It was resolved to apply the sum available under the scheme:

- To write off the good will account
- to write off the debit balance of the profit and loss account
- To reduce the book values of the assets by the following amounts:
- ✓ Land and buildings Rs.42,000
- ✓ Plant and machinery Rs.67,000
- ✓ Stock Rs.33,600

To provide a bad debts reserve of 10 % of the book value of debtors

Show the journal entries to give effect to the scheme and prepare the revised balance sheet after its implementation.

Particulars	**Debit**	**Credit**
Share capital A/c Dr To capital reduction A/c	2,50,000	 2,50,000
Securities premium A/c Dr To capital reduction A/c	50,000	 50,000
Capital reduction A/c Dr To good will A/c	3,00,000	 1,00,000

To profit and loss A/c		50,000
To land and building A/c		42,000
To stock A/c		33,600
To provision for bad debts A/c		7,400
To plant and machinery A/c		67,000

Balance sheet of XYZ ltd as on

Liabilities	Amount	Assets	Amount
Share capital : 50,000 fully paid shares of Rs.5 each	2,50,000	Land and buildings	1,20,000
Creditors	62,000	Plant and machinery	1,40,000
Bank overdraft	73,000	Stock	58,400
		Debtors 74,000 (LESS) provision for debts 7,400	56600
	3,85,000		**3,85,000**

Amalgamation in the nature of purchase

Amalgamation – lump sum method of purchase

1. Raman Ltd and Sivan Ltd have a agreed to amalgamate .A new company Siva ram Ltd has been formed to take over the running concern as on 31.12.1993 the following balance sheets show the position of the companies amalgamation

Liabilities	Raman Ltd	Sivan Ltd	Assets	Raman Ltd	Sivan Ltd
Share capital	20,000	50,000	Good will	-	6,000

Rs10 each					
General reserve	16,000	-	Furniture	8,000	12,000
Capital reserve	-	4,000	Stock	16,000	8,000
P& L a/c	4,000	-	Sundry debtors	10,000	17,000
Creditors	10,000	6,000	Cash at bank	12,000	7,000
Loan from bank	10,000	16,000	P & L a/c	-	6,000

Siva ram Ltd took over all the assets and liabilities of both the transferor companies at book values except cash at bank , creditors and the good will of Sivan ltd which was considered worthless .

The purchase consideration was agreed at Rs.60,000 for Raman Ltd and Rs.40,000 for Sivan Ltd fully paid equity shares of Rs.10 each were issued settle the purchase price for both the companies

Cash at bank of both companies was exactly sufficient to settle their creditors at 10% discount and pay the liquidation expenses .

You are required to give important ledger in the books of transferor companies and the journal entries and balance sheet in the book of transferee company.

Solution:

Books of Raman Ltd (transferor company)

Realisation account

Particulars	Amount	Particulars	Amount
To plant	14,000	By loan from bank	10,000
To furniture	8,000	By Siva ram Ltd	60,000
To stock	16,000	By creditors (10,000*10/100)	1,000
To sundry debtors	10,000		
To bank (exp)12,000-9,000	3,000		
To share holders (profit)	20,000		
	71,000		**71,000**

Bank account

Particulars	Amount	Particulars	Amount
To balance b/d	12,000	By creditors(10,000-1,000)	9,000
		By realisation (expenses)	3,000
	12,000		**12,000**

Shareholders A/c

Particulars	Amount	Particulars	Amount
To shares in Siva ram ltd	60,000	By share capital A/c	20,000
		By general reserve A/c	16,000

		By P& L a/c	4,000
		By realisation a/c	20,000
	60,000		**60,000**

Books of Sivan Ltd (transferor company)

Realisation account

Particulars	Amount	Particulars	Amount
To plant	20000	By loan from bank	16000
To furniture	12000	By Siva ram ltd	40000
To stock	8000	By creditors(6000*10/100)	600
To sundry debtors	17000	By shareholders (loss)	2000
To bank (expenses) (7000-5400)	1600		
	58,600		**58,600**

Bank account

Particulars	Amount	Particulars	Amount
To balance b/d	7,000	By creditors(6000-600)	5,400
		By realisation (expenses)	1,600
	7,000		**7,000**

Shareholders A/c

Particulars	Amount	Particulars	Amount
To P & L A/c	6,000	By share capital A/c	50,000
To realisation	2,000	By capital reserve A/c	4,000
To good will	6,000		

To share in Siva ram Ltd	40,000		
	54,000		**54,000**

Note: since good will of Sivan Ltd is considered worthless there is no need to transfer it to realisation account. Like any other loss it is transferred to shareholders directly.

Books of siva ram Ltd (transferee company)

Particulars	Debit	Credit
Business purchase A./c Dr	1,00,000	
To Raman Ltd A/c		60,000
To Sivan Ltd A/c		40,000
Plant A/c Dr	34,000	
Furniture A/c Dr	20,000	
Stock A/c Dr	24,000	
Sundry debtors A/c Dr	27,000	
Good will A/c Dr	21,000	
To business purchase A/c		1,00,000
To loan from bank		26,000
Liquidator of Raman Ltd A/c	60,000	
Liquidator Sivan Ltd A/c	40,000	
TO share capital A/c		1,00,000

Liabilities	Amount	Assets	Amount
Capital : 10000 shares of Rs.10 each	1,00,000	Fixed assets: Goodwill	21,000
Loan from bank	26,000	Plant	34,000

		Furniture	20,000
		Current assets: Stock Sundry debtors	 24,000 27,000
	1,26,000		**1,26,000**

Absorption –Net payment method

1. The following is the balance sheet of X Ltd as on 31.3.1996

Liabilities	Amount	Assets	Amount
Share capital : 2,00,000 shares of Rs.10each	20,00,000	Land and building	10,00,000
General reserve	2,50,000	Plant and machinery	15,00,000
Dividend equalisation reserve	2,00,000	Furniture	25,000
Profit and loss a/c	51,000	Stock	6,00,000
12 % debenture	10,00,000	Work in progress	3,00,000
Sundry creditors	3,00,000	Sundry debtors	2,50,000
		Cash at bank	1,26,000
	38,01,000		**38,01,000**

The company was absorbed by A Ltd on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5%taking over the liability in respect of sundry creditors and a payment of Rs7 in cash and one share of Rs.5 in A Ltd at the market value of Rs.8 per share for every share in X Ltd . The cost of liquidation of Rs.15,000 is to be met by the purchasing company. pass journal entries in the books of A Ltd

Statement showing purchase consideration

Particulars	Cash	Shares	Total
for shareholders:			
CASH 2,00,000*7	14,00,000		14,00,000
Shares in A Ltd 2,00,000*1*8		16,00,000	16,00,000
Purchase consideration	**14,00,000**	**16,00,000**	**30,00,000**

Note: As per As-14 Purchase price should include payment to shareholders alone .So debenture have to be shown as taken over by A Ltd and then settled .Cost of liquidation paid by purchasing Co should be shown as reimbursement.

Books of X ltd (transferor company)

Journal entries

Particulars	Debit	credit
Realisation A/c Dr	38,01,000	
To sundry assets		38,01,000
Sundry creditors A/c Dr	3,00,000	
12 % debenture A/c	10,00,000	
To realisation A/c		13,00,000
A Ltd A/c Dr	30,00,000	
To realisation A/c		30,00,000
Bank A/c Dr	14,00,000	
Share in A ltd Dr	16,00,000	
To A ltd A/c		30,00,000
A Ltd A/c Dr	15,000	
To bank A/c		15,000
Bank A/c Dr	15,000	

To A ltd A/c		15,000
Share capital A/c Dr General reserve A/c Dr Dividend equalisation reserve A/c Dr Profit and loss A/c Dr To share holders A/c	20,00,000 2,50,000 2,00,000 51,000	 25,01,000
Realisation A/c Dr To shareholders A/c	4,99,000	 4,99,000
Shareholders A/c Dr To bank A/c To shares in A ltd	30,00,000	 14,00,000 16,00,000

External construction : Net payment method

The book of S ltd contained the following balance as on May 31.1994

Particulars	Debit	Credit
Equity share capital (Rs10 Each)	-	12,00,000
Creditors		14,00,000
Patents and trade marks	12,00,000	
Plant and machinery	4,00,000	
Stock	*3,00,000*	
Debtors	*5,00,000*	
Cash	*12,500*	
Preliminary expenses	*72,500*	
Profit and loss a/c	*1,15,000*	
	26,00,000	**26,00,000**

The patents and trade marks are considerably over valued . the company is also not in a position to raise any further capital. The following scheme of reconstruction has therefore been framed.

The company will go into voluntary liquidation. A new company S.S Ltd will be formed with an authorised capital of Rs.20,00,000 to take over the assets.

Liability will be discharged by the new company to the creditors by payment of 25 paise in a rupee in cash and 50 paise in a rupee by issue of 9% debenture

1,20,000 shares of Rs.10 each (Rs.5 per share paid) will be issued to the shareholders of S ltd the balance Rs.5 per share to be paid on allotment

Expenses of liquidation amounting to Rs.17,500 will be paid by S.S Ltd the scheme was approved by all concerned. You are required to

Close the ledger of S ltd

Give entries to open the book of S ltd

Prepare the opening balance sheet of S.S Ltd

Books of 'S' Ltd (transferor company)

Realisation A/c

Particulars	Amount	Particulars	Amount
To patents and trade marks	12,00,000	By S.S Ltd	6,00,000
To plant and machinery	4,00,000	By creditors	14,00,000
To stock	3,00,000	By share holders (loss)	4,12,500
To debtors	5,00,000		
To cash	12,500		
	24,12,500		**24,12,500**

Creditors A/c

Particulars	Amount	Particulars	Amount
To realisation A/c (transfer)	14,00,000	By balanced b/d	14,00,000
	14,00,000		14,00,000

S.S Ltd A/c

Particulars	Amount	Particulars	Amount
To realisation a/c	6,00,000	By shares in S.S.Ltd	6,00,000
	6,00,000		**6,00,000**

Bank A/c

Particulars	Amount	Particulars	Amount
To S.S Ltd(expenses)	17,500	By S.S Ltd (expenses)17500	17,500
	17,500		**17500**

Share holders A/c

Particulars	Amount	Particulars	Amount
To preliminary expenses	72,500	By share capital A/c	1,200,000
To profit and loss a/c	1,15,000		
To realisation A/c	4,12,500		
To shares in S.S ltd	6,00,000		
	12,00,000		**12,00,000**

Share in S.S Ltd A/c

Particulars	Amount	Particulars	Amount
To S Ltd A/c	6,00,000	By shareholders A/c	6,00,000
	6,00,000		**6,00,000**

Books of S.S Ltd (transferee company)

Particulars	Debit	Credit
Business purchase A/c Dr	6,00,000	
To Liquidator of s ltd A/c		6,00,000
Patents and trade marks A/c Dr	12,00,000	
Machinery A/c Dr	4,00,000	
Stock A/c Dr	3,00,000	
Debtors A/c Dr	5,00,000	
Cash A/c Dr	12,500	
To business purchase A/c		6,00,000
To creditors (14,00,000*75/100)		10,50,000
To capital reserve A/c		7,,62,500
Capital reserve A/c Dr	7,62,500	
To bank (expenses)		17,500
To patents and trade marks A/c		7,45,000
Liquidators of S.S Ltd A/c Dr	6,00,000	
To equity share capital A/c (Rs5Paid)		6,00,000
Bank A/C Dr	6,00,000	
To equity share capital A/c		6,00,000
Creditors A/c Dr	10,50,000	
To bank A/c		3,50,000
To 9% debenture A/c		7,00,000

Balance sheet of S.S Ltd as on 31st may 1994

Liabilities	Amount	Assets	Amount
Share capital :authorised 2,00,000 shares of Rs.10each	20,00,000	Patents and trade marks(12,00,000-7,45,000)	4,55,000
Issued and paid up capital 120000 shares of Rs10each fully paid	12,00,000	Plant and machinery	4,00,000
9% debentures	7,00,000	Stock	3,00,000
		Debtors	5,00,000
		Cash	12,500
		Bank (600000-367500)	2,32,500
	19,00,000		**19,00,000**

Inter company holdings

Inter company Owings and unrealized profit in stock also

Following are the balance sheets of two companies W Ltd and Z ltd as at march 31 1999

Liabilities	W Ltd	Z Ltd	Assets	W Ltd	Z Ltd
Equity shares of Rs100 each	500000	300000	Sundry assets	750000	350000
Reserves	100000	60000	1000 shares in W ltd at cost	-	100000
Creditors	150000	90000			
	750000	**450000**		**750000**	**450000**

W ltd was to absorb Z Ltd agreeing that the shares of both the companies are worth Rs120 each . the purchase consideration was to be discharged in the form of fully paid shares.

A sum of Rs20000 is owed by W ltd to Z Ltd .also included in the stock of W Ltd is RS30000 goods supplied by Z Ltd .also included in the stock at cost plus 20%.

Give entries in the books of both the companies and balance sheet in the books of W ltd

Solution:

In the books "Z Ltd (transferor company)

Particulars	Debit	Credit
Realization A/c Dr To sundry assets	3,50,000	 3,50,000
Creditors A/c Dr To realization A/c	90,000	 90,000
W Ltd A/c Dr To Realization A/c	2,40,000	 2,,40,000
Shares in W ltd A/c Dr To W Ltd A/c	2,40,000	 2,40,000
Shares in W Ltd A/c Dr To realizations A/c	20,000	 20,000
Share capital A/c Dr Reserve A/c Dr To shareholders A/c	3,00,000 60,000	 3,60,000
Share holders account A/c Dr To share In W ltd	3,60,000	 3,60,000

Investment in shares of W Ltd should be re -valued on the same basis as agreed value for the shares for the purpose of absorption so 1000 *120-100000=Rs20000 is the profit on the investment made in W Ltd 's shares by Z Ltd

Working note 1

Realisation A/c

Particulars	Amount	Particulars	Amount
To sundry assets	3,50,000	By creditors	90,000
		by W Ltd	2,40,000
		By shares in W Ltd A/c (profit on revaluation of investment in shares)	20,000
	3,50,000		**3,50,000**

Working note 2

Shares in W ltd account A/c

Particulars	Amount	Particulars	Amount
To balance b/d	1,,00,000	By shareholders	3,60,000
To realisation A/c (1000*120-100000)	20,000		
To W ltd	2,40,000		
	3,60,000		**3,60,000**

Working note 3

Shares holders A/c

Particulars	Amount	Particulars	Amount
To shares in W ltd	3,60,000	By share capital a/c	3,00,000

		By reserves	60,000
	3,60,000		**3,60,000**

Working note 4

Purchase consideration

Total value of Z LTd shares 3,00,000/100 *120 3,60,000

No of shares to be issued by W ltd on the basis of agreed value of its own shares

At Rs120 each

3,00,000/120 = 3,000 shares

Less: Shares already held by Z Ltd 1,000shares

Fresh shares to be issued by W ltd to Z Ltd 2,000 shares

Purchase consideration =2,000 *120 = Rs.2,40,000

In the books of W Ltd (transferee company)

Particulars	Debit	Credit
Business purchase A/c Dr To liquidator of Z Ltd	2,40,000	 2,40,000
Sundry assets A/c Dr To creditors To business purchase A/c To capital reserve A/c	3,50,000	 90,000 2,40,000 20,000
Liquidator of Z Ltd A/c Dr To share capital A/c (2000 *100) To securities premium A/c (2000 *20)	2,40,000	 2,00,000 40000
Creditors A/c Dr To sundry Assets a/c	20000	 20000
Capital Reserve A/c Dr	5000	

To sundry assets A/c		5000

Balance sheet of W Ltd (after amalgamation)

Liabilities	Amount	Assets	Amount
Share capital: 7000 shares of Rs100 each)of above 2000 shares are issued for consideration other than cash)	7,00,000	Sundry assets: (750000+350000) 11,00,000 Less: Mutual owing 20,000 10,80,000 Less: unrealised profit 5,000 in stock	10,75,000
	1,00,000		
Capital reserve (20000-5000)	15,000		
Securities premium	40,000		
Creditors (150000+90000) 240000 Less: Mutual owing 20000	2,20,000		
	10,75,000		**10,75,000**

UNIT – III

POSSIBLE QUESTIONS

PART A (1 mark)

(Online examinations)

PART B (2 Marks)

1. What is Amalgamation?

2. Explain 'Capital Reduction'.

3. Mention various types of Amalgamation.

4. What do you understand by the term Capital Profits?

5. List out the methods for computing Purchase Consideration.

PART B (2 Marks)

1. M Ltd. And N Ltd. Agreed to amalgamate on the basis of the following Balance Sheet as

on 31-3-1997.

Liabilities	M Ltd. Rs.	N Ltd. Rs.	Assets	M Ltd. Rs.	N Ltd. Rs.
Share capital Rs.25 each	75,000	50,000	Goodwill	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

TOTAL	**86,000**	**58,500**	**TOTAL**	**86,000**	**58,500**

The assets and liabilities are to be taken over by a new company formed called 'P Ltd', at book values. P Ltd's capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs.10 each and 10,000 9% preference shares of Rs.10 each.

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

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

2. The following scheme of reconstruction has been approved for Divya Ltd
   (A) The shareholders to receive in lieu of their present holding of 60,000 shares of Rs.10 each fully paid the following.
      (I) Fully paid new equity shares equal to 1/3rd of their holding
      (II) 8% preference shares fully paid, to the extent of 1/5th of the above new equity shares
      (III) Rs.60,000 8% secured debentures
   (B) The debenture holders' total claim of Rs.75,000 to be reduced to Rs.25,000. This will be satisfied by the issue of 2,5000 8% preference shares of Rs.10 each fully paid
   (C) An issue of 50,000 6% first debentures was made and allotted, payment for the same having been received in cash.
   (D) The goodwill which stood an Rs.3,00,000 was written down to Rs.50,000. Plant & Machinery which stood at Rs.1,00,000 was written down to Rs.75,000
   (E) The freehold premises which stood at Rs.1,75,000 was written down by Rs.75,000

Give Journal entries in the books of Divya Ltd. for the above Reconstruction.

3. Raman Ltd., and Sivam Ltd., have agreed to amalgamate. A new Company, Sivaraman Ltd., has been formed to take over the running concern as on 31.12.2005. The following

Balance Sheets show the position of the companies amalgamating

Liabilities	Raman Ltd. Rs.	Sivam Ltd. Rs.	Assets	Raman Ltd. Rs.	Sivam Ltd. Rs.
Share Capital Rs. 10 each	20,000	50,000	Goodwill	-	6,000
General Reserve	16,000	-	Plant	14,000	20,000
Capital Reserve	-	4,000	Furniture	8,000	12,000
P& L A/c	4,000	-	Stock	16,000	8,000
Loan from Bank	10,000	6,000	Sundry Debtors	10,000	17,000
Creditors	10,000	6,000	Cash at bank	12,000	7,000
			P & L A/c	-	6,000
	60,000	**46,000**		**60,000**	**46,000**

Sivaram Ltd. Took over all the assets and liabilities of both the transferor companies at book values except cash at bank, creditors and the goodwill of Sivan Ltd. which was considered worthless.

The Purchase Consideration was agreed at Rs. 60,000 for Raman Ltd., and Rs. 40,000 for Sivan Ltd., Fully paid Equity Shares of Rs. 10 each were issued to settle the purchase price for both the companies.

Cash at bank of both the companies was exactly sufficient to settle their creditors at 10 % discount and pay the liquidation expenses.

You are required to give important ledger accounts to close the books of the transferor companies and the Journal and Balance Sheet in the books of the transferee company, assuming that the amalgamation is in the nature of Purchase.

4. The summarised Balance Sheet of Ambrose Co. Ltd., as at 31st December, 2008 was as follows :

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised & Issued Capital : 2,00,000 Equity Shares of Rs. 10 each Fully Paid	20,00,000	Land and Buildings	15,00,000
10,000, 6 % Cumulative Preference Shares of Rs. 100 each fully paid	10,00,000	Plant and Machinery	10,00,000
Bank Overdraft	7,00,000	Goodwill	2,00,000
Sundry Creditors	5,00,000	Patents and Trade Marks	1,00,000
(Note : the Cumulative Preference dividend is in arrear for three years)		Stock	4,00,000
		Sundry Debtors	3,00,000
		Preliminary Expenses	1,00,000
		Profit and Loss A/c	6,00,000
	42,00,000		**42,00,000**

A Scheme of Capital reduction was approved on the following terms:

(i) The Preference Shareholders agreed that their Shares be reduced to fully paid Shares of Rs. 50 each and to accept Equity Shares of Rs. 5 each fully paid in lieu of Dividend Arrears

(ii) The Equity Shareholders agree that their shares be reduced to a fully paid value of Rs. 5 each

(iii) The Authorised Capital of the company is to remain at Rs. 30,00,000 divided into 4,00,000 Equity Shares of Rs. 5 each and 20,000, 6 % Cumulative Preference Shares of Rs. 50 each

(iv) All the Intangible and Fictitious Assets are to be eliminated and Bad Debts of Rs. 50,000 and absolute stock of Rs. 80,000 are to be written off.

Give the necessary Journal Entries to record the Capital Reduction and draw up the revised Balance Sheet.

5. Following a series of losses, XYZ Co. Ltd., resolved to reduce its Capital to 50,000 fully paid Rs. 5 shares and to eliminate Share Premium Account. The companies Balance Sheet prior to implementation of the Scheme was :

Liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital; 50,000 Fully paid Shares of Rs. 10 each	5,00,000	Goodwill	1,00,000
Securities Premium A/c	50,000	Land and Buildings	1,62,000
Creditors	62,000	Plant and Machinery	2,07,000
Bank Overdraft	73,000	Stock	92,000
		Sundry Debtors	74,000
		Profit and Loss A/c	50,000
	6,85,000		**6,85,000**

It was resolved to apply the sum available under the Scheme:

(i) To write off the Goodwill Account

(ii) To write off the debit balances of the Profit and Loss Account

(iii) To reduce the Book values of the Assets by the following Accounts:

Land and Building - Rs. 42,000

Plant and Machinery - Rs. 67,000

Stock - Rs. 33,600

(iv) To provide a bad debts reserve of 10 % of the Book value of Debtors

Show the Journal entries to give effect to the scheme and prepare the revised Balance Sheet after its implementation

6. The following are the balance sheets of Sindhu Ltd., and Bindhu Ltd., as on 31-3-2000

Liabilities	Sindhu Ltd Rs.	Bindhu Ltd Rs.	Assets	Sindhu Ltd Rs.	Bindhu Ltd Rs.
Equity share capital (Rs. 10 each)	5,00,000	3,00,000	Fixed Assets	8,00,000	3,50,000
8% Pref. Share capital (Rs.100 each)	2,00,000	1,00,000	Current Assets	4,00,000	2,50,000
General Reserve	1,00,000	50,000			
P&L A/C	50,000	30,000			
12 % Debentures of Rs. 100 each	50,000	20,000			
Current Liabilities	3,00,000	1,00,000			
	12,00,000	**6,00,000**		**12,00,000**	**6,00,000**

Sindhu Ltd., agreed to acquire Bindhu Ltd., on the following terms :

(i) 11 % Preference Shares will be issued to discharge the Preference Shares in Bindhu Ltd., at 25 % Premium

(ii) Cash of Rs. 2 per Share will be paid and one Equity Shares in Sindhu Ltd., will be issued at agreed value of Rs. 13 per share for every Equity Shares in Bindhu Ltd.

(iii) Bindhu Ltd., 's Debentures are to be paid off in cash

Give Journal Entries in the books of Sindhu Ltd., and prepare its Balance Sheet, if Amalgamation is in the Nature of Merger.

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)

(Established Under Section 3 of UGC Act, 1956)

Coimbatore – 641021

B. COM. (PA)

ADVANCED CORPORATE ACCOUNTING - 17PAU401

UNIT - I

S. No.	Questions	Option 1	Option 2	Option 3	Option 4			Answer
1	Purchase consideration is payable in____________	goods	shares	loan	bond			shares
2	Realisation consideration met by the purchasing company should be debited to _________	Realisation A/c	goodwill	vendor A/c	Creditor A/c			goodwill
3	Accounting standard for amalgamation is __________	AS-8	As-20	AS-14	As-3			AS-14
4	Pooling of interest method is used to account for amlgamation in the nature of ________.	Purchase	sale	merger	credit			merger
5	Purchase consideration , as per As-14 should include cash and securities agreed to be given by the transferee company to transferor company's	Shareholders	Shareholders & debentures	creditors, debentures and shareholders	Debentures			Shareholders
6	Expenses of liquidation of transferor company may be shown as "Reimbursement" in transferor company's books, if the expenses are agreed to be paid by	Transferor company	Transferee company	transferor and transferee the companies	X company			Transferee company
7	Excess purchase consideration paid to the transferor company and debited to goodwill account under the purchase mehtod of accounting for amalgamation should be written off within a period of	2 years	8 years	20 years	5 years			5 years
8	The accounting standards committee of the ICAI (Institute of chartered Accountants of India) has developed As________ to bring uniformity in accounitng for amalgamation in India.	As14	As16	As20	As 15			As14
9	The methods of accounting used to record amalgamation in the nature of merger is called __________ mehtod.	Purchasing method	Pooling of Interest	payment method	Net asset method			Pooling of Interest

10	Any excess of purchase consideration paid over and above the share capital of the transferor company should be adjusted in __________ in transferee company's books.	Reserves	Assets	Capital	secured loan			Reserves
11	Net worth method and intrinsic value method of ascertaning purchase consideration are both based on the ___________ taken over.	Net assets	Net liability	capital employed	current asset			Net assets
12	when two or more existing companies combine together to form a new company ,is called ________	Amalgamation	Absorption	External reconstruction	internal reconstruction			Amalgamation
13	When one existing company takes over the business of one or more existing companies , is called	Amalgamation	Absorption	external reconstruction	Internal reconstruction			Absorption
14	When an existing company is liquidated and a new company is formed with the same shareholders to take over its business, is called ______________	Absorption	amalgamation	internal reconstruction	external reconstruction			external reconstruction
15	Alteration of share capital is effected by a company if it is authorised by the ____________	Memorandum of association	Articles of association	shareholders	board of directors			Articles of association
16	The capital reduction scheme can be implemented only after getting permission from _________	central Govt	controller of capital issues	shareholders	the competent court			the competent court
17	In case of sub-division of share capital , the total number of shares__________	Does not change	Decreases	Increases	Decrease proportionately			Increases
18	When a company converts its equity shares into the capital stock, then the account to be credited is _____________	Preference share capital A/c	equity share capital A/c	Equity capital Stock A/c	No entry is required			Equity capital Stock A/c
19	After writing off all accumulated losses, the balance in capital reduction A/c if any should be transferred to ________	share capital A/c	Capital Reserve A/c	General Reserve A/c	Good will A/c			Capital Reserve A/c
20	Any gain on revaluation of the assets at the time of internal reconstruction will be credited to ________	capital reserveA/c	Capital reduction A/c	share capital A/c	General reserve A/c			Capital reduction A/c

21	In the scheme of reorganisation , amount of shares surrended by shareholdersis transferred to ______	Capital reserve A/c	General reserve A/c	surrendered shares A/c	sharecapital A/c			surrendered shares A/c
22	Any decrease in the value of assets, at the time of internal reconstruction , will be charged to __________	good will A/c	capital reduction A/c	revaluation a/c	share capital A/c			capital reduction A/c
23	A company has issued capital of 40000 equity shares of Rs10 each fully paid. It decides to convert its capital into 80000 equity shares of Rs5 each. It is a case of ________	Decrease in unissued sharecapital	sub-division of sharecapital	consolidation of share capital	division of capital			sub-division of sharecapital
24	The price payable by the purchasing company to the selling company for taking over business is called _______________	purchasing consideration	sale consideration	cash consideration	business consideration			purchasing consideration
25	The accounting standards committee of the ICAI (Institute of chartered Accountants of India) has developed As________ to bring uniformity in accounitng for amalgamation in India.	As14	As16	As20	As 15			As14
26	________ section of companies Act permits a limited company to alter the capital	95	90	94	91			94
27	A copy of the resolution should be filed with him within ________ of the date of passing of such resolution.	32	34	30	41			30
28	_____section of the companies Act, any such alteration must be notified to the registrar of companies.	80	9	94	95			95
29	________ of the company must permit reduction of share capital.	AOA	MOA	AOC	MOC			AOA
30	In the general body meeting, a _______ must be passed for reduction of share capital.	ordinary meeting	special resolution	annual meeting	general resolution			special resolution
31	any surplus amount in capital reduction is transferred to ________	reserve account	capital reserve account	General Reserve A/c	capital redemption A/c			capital reserve account
32	Intrinsic value method is also called as _________	share exchange method	hare and stock method	share capital method	share method			share exchange method
33	The new values given for assets and liabilities must be shown in the books of the ___________	purchasing company	vendor company	creditor company	seller company			purchasing company

34	Purchasing company records the assets on _________values.	marked value	market value	book value	any value			market value
35	The books of the selling company which is liquidated must be _________	opened	started	closed	begin			closed
36	The undistributed profits of both revenue and capital nature appear on the _________of the balance sheet.	Liabilities	Assets	fixed assets	current asset			Liabilities
37	________ are the amount payable to all outsiders except shareholders.	liabilites	external laibilities	current liabilities	reserve			external laibilities
38	_______ section of the companies Act 1956 facilities amalgamation, absorption and external reconstruction.	495	465	494	490			494
39	________ means the company which is amalgamated into another company.	transferee company	transferor company	transfered company	transport company			transferor company
40	________ _______ method the price paid in the agreement directly.	net payment method	net asset method	Liumpsu m method	Intrinsic value method			Lumpsum method
41	________ taken by the purchasing company is deemed as the purchase consideration under the net asset method.	net paymanet method	net asset method	Lumpsum method	Intrinsic value method			net asset method
42	Purchasing company records the assets on _________values.	marked value	market value	book value	any value			market value
43	Net worth method and intrinsic value method of ascertaning purchase consideration are both based on the ___________ taken over.	Net assets	Net liability	capital employed	current asset			Net assets
44	Purchase consideration is payable in____________	cash	loan	bonds	goods			cash
45	The exchange ratio is generally determined on the basis of ___________ value .	face value	Intrinsic value	agreed value	mormal value			Intrinsic value
46	________section of the companies Act specify the provision relating to amalgamation.	390&396A	391&392A	350& 350A(4)	346& 360A			390&396A
47	Share which are not yet issued by the company are _________	cancelled	entered	uncalled	Paid			cancelled
48	Reconstruction refers to reorganisation of the _______- of acompany	asset	liabilities	reserves	Capital structure			Capital structure
49	a company can reduce its sharecpaital as per the provisions of section __________ of the companies Act 1956.	99to 100	89to 90	100 to 105	60 to 67			100 to 105

50	If the articles is ilent it may be altered through ___________ to enable the company to reduce its share capital.	ordinary resolution	special resolution	annual resolution	general resolution			special resolution
51	The surrendered shares may be _______ immediately by transferring their value to capital reduction account.	paid	unpaid	called	Cancelled			Cancelled
52	Agreed value of asset taken over-Agreed value of liabilities taken over is ________	net assets	net payment	purchasing method	yield method			net assets
53	The undistributed profits of both revenue and capital nature appear on the _________of the balance sheet.	Liabilities	Assets	fixed assets	current asset			Liabilities
54	________ are the amount payable to all outsiders except shareholders.	liabilites	external laibilities	current liabilities	reserve			external laibilities
55	______ profits do not form part of liabilities , they belong to the shareholders.	future	net	accumulated	gross			accumulated
56	the terms of agreement between the purchasing and selling companies govern the mode of ascertaining the __________	purchase	cashier	net asset	purchase consideration			purchase consideration
57	Every scheme of amalgamation involving two or more companies requires th eapproval of a ___________	creditors winding up	members	court	Unsecured creditors			court
58	Pooling of interests method is used to account for amalgamation in the nature of ____.	Purchase	Sale	Merger	Selling			merger
59	Excess purchase consideration paid to the transferor company and debited to goodwill account under the purchase method of accounting for amalgamation should be written off within a period of _________.	2 years	20 years	5 years	8 years			5 years
60	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			Articles of Association

UNIT – II

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 is a contract whereby one party agrees for a consideration called premium to indemnify the other against a possible loss or to pay a stated sum of money on the happening of a particular event. This agreement or contract when put in writing is known as **policy**. The person whose risk is covered is called **insured or assured** and the company or corporation which insures is known as **insurer, assurer or underwriter**. The consideration in return for which the insurer agrees to make good the loss is known as **premium**.

Types of Insurance

From accounting point of view, the insurance may be divided into two as follows:

1. Life Insurance

A life insurance contract is a long term contract in which the assured must pay the premium at stated intervals and the insurer guarantee to pay a certain sum of money to the assured on the happening of the event which is certain (either death or expiry of the fixed period). Section 2 of Indian Insurance Act 1938 defines life insurance as “life insurance business is the business of effecting contracts upon human life”.

2. General Insurance

All insurance other than life insurance is general insurance. Under this type of insurance, the insurer undertakes to indemnify the loss suffered by the insured on happening of a certain event in consideration for a fixed premium. Usually all these are short term agreements for a year. Fire insurance, marine insurance, accident insurance, burglary insurance, third party insurance etc. are the examples for general insurance.

FINANCIAL STATEMENTS OF INSURANCE COMPANIES

Insurance Regulatory and Development Authority (IRDA) has issued the regulations regarding the preparation of financial statements.

Final Accounts of Life Insurance Companies

The final accounts of a life insurance company consist of (a) Revenue Account, (b) P&L A/c and (c) Balance Sheet.

Revenue Account (Form A-RA)

Revenue Account is prepared as per the provisions of IRDA regulations 2002 and complies with the requirements of Schedule A as follows:

FORM A – 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)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)

	Premiums earned – net (a) Premium (b) Reinsurance ceded (c) Reinsurance accepted Income from investments (a) Interest, dividends & rent – Gross (b) Profit on sale/redemption of investments (c) (Loss on sale/redemption of investments) (d) Transfer/ Gain on revaluation/change in fair value* Other income (to be specified) Total (A) Commission Operating Expenses related to insurance business Provision for doubtful debts Bad debts written off Provision for tax Provisions (other than taxation) (a) For diminution in the value of investments (net) (b) Others (to be specified) Total (B) Benefits Paid (Net) Interim Bonuses paid Change in valuation of liability in respect of life policies (a) Gross** (b) Amount ceded in Reinsurance (c) Amount accepted in Reinsurance Total (C) Surplus (Deficit) (D)=(A)-(B)-(C) Appropriations Transfer to Shareholders' Account Transfer to Other Reserves (to be specified) Balance being Funds for Future Appropriations Total (D)	1 2 3 4		

Notes:
*Represents the deemed realized gain as per norms specified by the Authority.
**Represents Mathematical Reserves after allocation of bonus
The total surplus shall be disclosed separately with the following details:
(a) Interim bonuses paid
(b) Allocation of bonus to policyholders
(c) Surplus shown in the Revenue Account
(d) Total Surplus: [(a)+(b)+(c)]

Profit And Loss Account (Form A-PL)

The P&L A/c is prepared to calculate the overall profit of the life insurance business. The incomes or expenses that are not related to any particular fund are recorded in the P&L A/c.

FORM A - 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)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Amounts transferred from/to the Policyholders Account (Technical Account)			
	Income from investments			
	(a) Interest, dividends & rent – Gross			
	(b) Profit on sale/redemption of investments			
	(c) (Loss on sale/redemption of investments)			
	Other income (to be specified)			
	Total (A)			
	Expenses other than those directly related to the insurance business			
	Bad debts written off			
	Provision for tax			
	Provisions (other than taxation)			
	(a) For diminution in the value of investments (net)			
	(b) Provision for doubtful debts			
	(c) Others (to be specified)			
	Total (B)			
	Profit (Loss) before tax			
	Provision for taxation			
	Appropriations			
	(a) Balance at the beginning of the year			
	(b) Interim dividends paid during the year			

	(c) Proposed final dividend (d) Dividend Distribution Tax (e) Transfer to Reserves/other accounts (to be specified) Profit carried ....to the Balance Sheet			

Notes to Form A-RA and A-PL:

(a) Premium income received from business concluded in and outside India shall be separately disclosed.
(b) 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 percent of the total premiums (less reinsurance) or Rs.500000 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 and taxes deducted at source".
(h) Income from rent shall include only the realized rent. It shall not include any notional rent.

Balance Sheet (Form A-BS)

Balance Sheet of Life Insurance Company is prepared in vertical format. The form of Balance Sheet is as follows:

FORM A - BS

Name of the insurer
Registration No. and Date of Registration with the IRDA
Balance Sheet as at 31st March, 20….

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Sources of Funds			
	Shareholders' Funds:			
	Share Capital	5		
	Reserves and Surplus	6		
	Credit/[Debit] Fair Value Change Account			
	Sub-Total			
	Borrowings	7		
	Policyholders' Funds:			
	Credit/[Debit] Fair Value Change Account			

	Policy Liabilities Insurance Reserves Provision for Linked Liabilities **Sub-Total** Funds for Future Appropriations **Total**			

	Application of Funds			
	Investments			
	Shareholders’	8		
	Policyholders’	8A		
	Assets held to Cover Linked Liabilities	8B		
	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 and Loss Account (Shareholders’ 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

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	First Year Premiums		
2.	Renewal Premiums		
3.	Single Premiums		
	Total Premium		

SCHEDULE 2 – COMMISSION EXPENSES

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
Commission paid		
Direct - First Year Premiums		
Renewal Premiums		
Single Premiums		
Add: Commission on 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 or Re-insurance ceded figures.

SCHEDULE 3 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Employees' remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & stationery		
7.	Communication expenses		
8.	Legal & Professional charges		
9.	Medical fees		
10.	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		
11.	Advertisement and publicity		
12.	Interest and bank charges		
13.	Others(to be specified)		
14.	Depreciation		
	Total		

Note: Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or Rs.500000 whichever is higher, shall be shown as a separate line item.

SCHEDULE 4 – BENEFITS PAID [NET]

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Insurance Claims: (a) Claims by Death (b) Claims by Maturity (c) Annuities/Pension payment (d) Other benefits, specify.		
2.	(Amount ceded in reinsurance): (a) Claims by Death (b) Claims by Maturity (c) Annuities/Pension payment (d) Other benefits, specify.		
3.	Amount accepted in reinsurance: (a) Claims by Death (b) Claims by Maturity (c) Annuities/Pension payment (d) Other benefits, specify.		
	Total		

Notes: (a) claims include specific claims settlement costs, wherever applicable.
(b)Legal and other fees and expenses shall also form part of the claims cost, wherever applicable.

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		

4.	Equity shares of Rs…..each Called-up Capital Equity shares of Rs…..each Less: Calls unpaid Add: 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 capitalized 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 – PATTERN OF SHAREHOLDING
[As certified by the Management]

Shareholders	Current Year		Previous Year	
	No. of Shares	% of Holding	No. of Shares	% of Holding
Promoters *Indian *Foreign Others Total				

SCHEDULE 6 – RESERVES AND SURPLUS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3.	Share Premium		
4.	Revaluation Reserve		
5.	General Reserves		
	Less: Debit balance in P&L A/c, if any		
	Less: Amount utilized for buy back.		
6.	Catastrophe Reserve		
7.	Other Reserves (to be specified)		
8.	Balance of Profit in P&L A/c		
	Total		

Note: Additions to and deductions from the reserves shall be disclosed under each of the specified heads.

SCHEDULE 7 – BORROWINGS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)

1.	Debentures/Bonds		
2.	Banks		
3.	Financial Institutions		
4.	Others (to be specified)		
	Total		

SCHEDULE 8 – INVESTMENTS-SHAREHOLDERS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –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		
	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		
	Investment Properties – Real Estate		
4.	Investments in Infrastructure and Social sector		
5	Other than Approved Investments		
	Total		

SCHEDULE 8 A– INVESTMENTS-POLICYHOLDERS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	(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.	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.	(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.	Investments in Infrastructure and Social sector		
5	Other than Approved Investments		
	Total		

SCHEDULE 8 B– ASSETS HELD TO COVER LINKED LIABILITIES

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	(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.	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.	(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.	Investments in Infrastructure and Social sector		
5	Other than Approved Investments		
	Total		

SCHEDULE 9– LOANS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	**Security-wise Classification**		
	Secured		
	(a) On mortgage of property		
	(aa) In India		
	(bb) Outside India		
	(b) On Shares, Bonds, Govt. Securities, etc.		
	(c) Loans against policies		
	(d) Others (to be specified)		
	Unsecured		
	Total		
2.	**Borrower-wise Classification**		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Companies		
	(e) Loans against policies		
	(e) Others (to be specified)		
	Total		
3.	**Performance-wise Classification**		
	(a) Loans classified as standard		
	(aa) In India		
	(bb) Outside India		
	(b) Non-standard loans less provisions		
	(aa) In India		
	(bb) Outside India		
	Total		
4.	**Maturity-wise Classification**		
	(a) Short Term		
	(b) Long Term		
	Total		

SCHEDULE 10– FIXED ASSETS

Particulars	Cost/Gross Block	Depreciation	Net Block

	Opening	Additions	Deductions	Closing	Up to Last Year	For the Year	On Sales/ Adjustmen	To Date	As at year end	Previous Year
Goodwill										
Intangibles (specify)										
Land-Freehold										
Leasehold Property										
Buildings										
Furniture & Fittings										
Information Technology Equipment										
Vehicles										
Office Equipment										
Others (Specify nature)										
Total										
Work in progress										
Grand Total										
Previous Year										

SCHEDULE 11– CASH AND BANK BALANCES

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)

1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts		
	(aa) Short-term (due within 12 months of the date of Balance Sheet)		
	(bb) Others		
	(b) Current Accounts		
	(c) Others (to be specified)		
3.	Money at call and short notice		
	(a) With banks		
	(b) With other institutions		
4.	Others (to be specified)		
	Total		
	Balances with non-scheduled banks in 2 and 3 above		
	Cash and Bank Balances		
	1. In India		
	2. Outside India		
	Total		

SCHEDULE 12– ADVANCES AND OTHER ASSETS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Advances		
1.	Reserve deposits with ceding companies		
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net provision for taxation)		
6.	Others (to be specified)		
	Total (A)		
	Other Assets		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business (including reinsurers)		
6.	Due from subsidiaries/holding company		

7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	Total (B)		
	Total (A+B)		

SCHEDULE 13– CURRENT LIABILITIES

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Agents' balances		
2.	Balances due to other insurance companies		
3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated premium		
6.	Sundry creditors		
7.	Due to subsidiaries/holding company		
8.	Claims outstanding		
9.	Annuities due		
10.	Due to Officers/Directors		
11.	Others (to be specified)		
	Total		

SCHEDULE 14– PROVISIONS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	For taxation (less payments and taxes deducted at source)		
2.	For proposed dividends		
3.	For dividend distribution tax		
4.	Others (to be specified)		
	Total		

SCHEDULE 15– MISCELLANEOUS EXPENDITURE
(To the extent not written off or adjusted)

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

Explanation of some items in final accounts

1. Claims – Claim is the amount payable by the insurance company. In life insurance business,

claims may arise due to two reasons i.e., by death or maturity.

2. Annuity – It is an annual payment which a life insurance company guarantees to pay for lump sum money received in the beginning.
3. Surrender value – If an insured is unable to pay the further premium, he can get his policy paid from the company. It is the present cash value of the policy which a holder gets from the company on surrendering all the rights of the policy.
4. Bonus in reduction of premium – instead of paying bonus in cash, the insurance company may deduct the bonus from the premium due from the insured. This is known as bonus in reduction of policy.
5. Consideration for annuities granted - Any lump sum payment received by the insurance company in lieu of granting annuity is called consideration for annuity granted.
6. Re-insurance – When a company accepts a business of more value and in order to reduce the risk, may pass on some business to the other company, it is called reinsurance.
7. Commission on Reinsurance Accepted or Ceded – The Company which passes some business to the other company gets some commission which is known as commission on reinsurance business ceded. Commission paid on reinsurance business accepted is known as Commission on Reinsurance Accepted.

Illustration 1

From the following information prepare Revenue Account of Safe Insurance Co. Ltd. as on 31st March 2011 (figures in 000s):

Claims by death Rs. 152280, Claims by maturity Rs.60220, Premiums Rs.1411380, Transfer fees Rs.258, Consideration for annuities granted Rs.164254, annuities paid Rs. 106922, Bonus in cash Rs.4832, Expenses of Management Rs.63840, Commission Rs.19148, Interest and dividend Rs.195680, Income tax Rs.11420, Surrenders Rs.26280, Bonus in reduction of premium Rs. 1960, Dividends to shareholders Rs.11000 and Life Assurance Fund Rs. 3042000.

Solution:

FORM A – RA

Name of the insurer: Safe Insurance Co. Ltd.

Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 2011

Policyholders' Account (Technical Account)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premiums earned – net (a) Premium (b) Reinsurance ceded (-)	1	1411380	

	(c) Reinsurance accepted (+)			
	Income from investments			
	(a) Interest, dividends & rent – Gross		195680	
	(b) Profit on sale/redemption of investments			
	(c) (Loss on sale/redemption of investments)			
	(d) Transfer/ Gain on revaluation/change in fair value			
	Other income (to be specified):			
	Consideration for annuities granted		164254	
	Transfer fee		258	
	Total (A)		1771572	
	Commission	2	19148	
	Operating Expenses related to insurance business	3	63840	
	Provision for doubtful debts			
	Bad debts written off			
	Provision for tax			
	Provisions (other than taxation)			
	(a) For diminution in the value of investments (net)			
	(b) Others (to be specified):			
	Income tax		11420	
	Total (B)		94408	
	Benefits Paid (Net)	4	363494	
	Interim Bonuses paid			
	Change in valuation of liability in respect of life policies			
	Total (C)		363494	
	Surplus (Deficit) (D)=(A)-(B)-(C)		1313670	
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Other Reserves (to be specified)			
	Balance being Funds for Future Appropriations		1313670	
	Total (D)		1313670	

SCHEDULE 1 - PREMIUM

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	First Year Premiums	1411380	
2.	Renewal Premiums		

3.	Single Premiums Total Premium	1411380	

SCHEDULE 2 – COMMISSION EXPENSES

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
Commission paid	19148	
Direct - First Year Premiums		
Renewal Premiums		
Single Premiums		
Add: Commission on Re-insurance Accepted		
Less: Commission on Re-insurance Ceded		
Net Commission	19148	

SCHEDULE 3 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Employees' remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & stationery		
7.	Communication expenses		
8.	Legal & Professional charges		
9.	Medical fees		
10.	Auditors' fees, expenses etc		
11.	Advertisement and publicity		
12.	Interest and bank charges		
13.	Others(to be specified): Expenses of management	63840	
14.	Depreciation		
	Total	63840	

SCHEDULE 4 – BENEFITS PAID [NET]

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)

1.	Insurance Claims:		
	(a) Claims by Death	152280	
	(b) Claims by Maturity	60220	
	(c) Annuities/Pension payment	106922	
	(d) Other benefits:		
	Surrenders	26280	
	Bonus in cash	4832	
	Bonus in reduction of premium	1960	
	Dividend to shareholders	11000	
	Total	363494	

Illustration 2

From the following trial balance of Guarantee Life Insurance co. Ltd prepare Revenue Account and Balance Sheet as at 31st March 2011(figures in 000s).

Claims paid and outstanding	115200	
Surrenders	3300	
Reversionary bonus paid and outstanding	12300	
Establishment charges	23500	
Commission to agents	48500	
Medical fees	10100	
Directors and auditors fees	24000	
Stationery and printing	4800	
Postage and telegram	1050	
Office rent	4200	
Sundry expenses	800	
Bank charges and commission	950	
Investments	4047400	
Loans and policies	174700	
Outstanding interest	69800	
Outstanding premiums	23200	
Cash at bank	29600	
Fine and fees received		
Interest and dividend received		
Premiums received and outstanding		300
Premiums received in advance		225300
Claims admitted but not paid		330800
Claims intimated but not admitted		9000
Sundry creditors		210000
Life fund in the beginning of the year		20000
		18000
		3780000

	4593400	4593400

Solution*:*

FORM A – RA

Name of the insurer: Guarantee Life Insurance Co. Ltd.

Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 2011

Policyholders' Account (Technical Account)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premiums earned – net			
	(a) Premium	1	330800	
	Income from investments			
	(a) Interest, dividends & rent – Gross		225300	
	Other income (to be specified):			
	Fines and fees		300	
	Total (A)		556400	
	Commission	2	48500	
	Operating Expenses related to insurance business	3	69400	
	Others (to be specified):			
	Total (B)		117900	
	Benefits Paid (Net)	4	130800	
	Total (C)		130800	
	Surplus (Deficit) (D)=(A)-(B)-(C)		307700	

FORM A - BS

Name of the insurer: Guarantee Life Insurance Co. Ltd.

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 2011

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Sources of Funds			
	Shareholders' Funds:			
	Share Capital	5	----------	
	Reserves and Surplus	6	4087700	
	Credit/[Debit] Fair Value Change Account			
	Sub-Total		4087700	

	Borrowings *Policyholders' Funds:* Credit/[Debit] Fair Value Change Account Policy Liabilities Insurance Reserves Provision for Linked Liabilities	7	---------	

	Sub-Total		----------	
	Funds for Future Appropriations		----------	
	Total		4087700	
	Application of Funds			
	Investments	8	4047400	
	Loans	9	174700	
	Fixed Assets	10	---------	
	Current Assets		4222100	
	Cash and Bank Balances	11		
	Advances and Other Assets	12	29600	
	Sub-Total (A)		93000	
	Current Liabilities	13	122600	
	Provisions	14	257000	
	Sub-Total (B)		---------	
	Net Current Assets (C)=(A)-(B)		257000	
	Miscellaneous Expenditure (to the extent not		-134400	
	written off or adjusted)	15	----------	
	Total		4087700	

Schedules forming part of A-RA

Particulars	Amount	Amount
Schedule 1 – Premium earned – net		
Premium received and outstanding		**330800**
Schedule 2 – Commission		
Commission paid to agents		**48500**
Schedule 3 –operating expenses related to insurance business		
Establishment charges	23500	
Medical fees	10100	
Stationery and printing	4800	
Directors and auditors fees	24000	
Postage and telegram	1050	
Office rent	4200	
Sundry expenses	800	
Bank charges and commission	950	**69400**

Schedule 4 – Benefits paid (Net)		
Claims paid and outstanding	115200	
Surrenders	3300	
Reversionary bonus paid	12300	**130800**

Schedules forming part of A-BS

Particulars	Amount	Amount
Schedule 5 – Share Capital		**Nil**
Schedule 6 – Reserves and Surplus		
Life Fund at the beginning	3780000	
Add: Surplus	307700	**4087700**
Schedule 7 – Borrowings		**Nil**
Schedule 8 – Investments		**4047400**
Schedule 9 – Loans		**174700**
Schedule 10 – Fixed Assets		**Nil**
Schedule 11 – Cash and Bank Balances		**29600**
Schedule 12– Advances and Other Assets		
Outstanding Interest	69800	
Outstanding Premium	23200	**93000**
Schedule 13 – Current Liabilities		
Sundry Creditors	18000	
Premiums received in advance	9000	
Claims admitted but not paid	210000	
Claims intimated but not admitted	20000	**257000**
Schedule 14 – Provisions		**Nil**
Schedule 15 – Miscellaneous Expenditure		**Nil**

Determination of profit in life insurance business

A life insurance company earns profit when the life insurance fund exceeds its net liability. The net liability is the excess of present value of future claims of current policies over the present value of premiums to be received in future in respect of current policies. Net liability is to be compared with life assurance fund on a particular date in order to calculate the surplus or deficiency. Usually this comparison is made by preparing a statement called Valuation Balance Sheet. Its format is as follows:

Liabilities	Amount	Assets	Amount
Net Liability	*****	Life Fund	*****
Surplus (Bal. Fig)	*****	Deficit (Bal. Fig)	*****
	*****		*****

As per Section 28 of the Life Insurance Corporation Act 1956, 95%of the surplus must be distributed to policyholders in the form of bonus in respect of with profit policies. The balance 5%

may be utilized for such purpose as determined by the central government. Bonus payable to policyholders is calculated as follows:

Surplus as per Valuation Balance Sheet		****
Less: Actuarial expenses	****	
Dividends payable to shareholders	****	****
		****
Add: Interim bonus paid		****
Net Surplus		****

95% of net profit is payable as bonus to policyholders. While paying the above bonus, interim bonus paid already has to be deducted.

Illustration 3

A life insurance company gets its valuation made once in every two years. Its life assurance fund on 31st December 2011 was Rs.5555000 before providing for 55000 being the shareholders' dividend for 2011. Its actuarial valuation on 31st December 2011 disclosed a net liability of Rs.3500000. an interim bonus of Rs.100000 was paid to policyholders during the previous two years. Show Valuation Balance Sheet, Net Profit for the period and Distribution of surplus.

Solution:

Valuation Balance Sheet as on 31st December 2011

Liabilities	Amount	Assets	Amount
Net Liability	3500000	Life Fund	5555000
Surplus (Bal. Fig)	2055000		
	5555000		5555000

Calculation of Net profit:

Surplus as per Valuation Balance Sheet	2055000
Less: Dividends payable to shareholders	55000
	2000000
Add: Interim bonus paid	100000
Net Surplus	2100000

Distribution of surplus

Bonus to policyholders (2100000x95%)	1995000
Less: interim bonus already paid	100000
Balance due to policyholders	1895000

Final Accounts of General Insurance Companies

The final accounts of a general insurance company consist of (a) Revenue Account, (b) P&L A/c and (c) Balance Sheet.

Revenue Account (Form B-RA)

General insurance company may be doing more than one business like fire, marine, accidental etc. For each type of business a separate Revenue Account is to be prepared in the prescribed form B-RA. The form of Revenue Account is given below:

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)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Premiums Earned (Net)	1		
2.	Others (to be specified)			
3.	Change in Provisions for unexpired risk			
4.	Interest, Dividend & Rent - Gross			
	Total (A)			
1.	Claims Incurred	2		
2.	Commission	3		
3.	Operating Expenses related to insurance business	4		
4.	Others (to be specified)			
	Total (B)			
	Operating Profit/ (Loss) from Fire/ Marine/ Miscellaneous business (C)=(A-B)			
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	Total (C)			

Profit And Loss Account (Form B-PL)

The P&L A/c is prepared to calculate the overall profit of the general insurance business. Operating profits (or losses) of fire, marine and miscellaneous insurance are taken in the P&L A/c. income from investments, profit or loss on sale of investments, bad debts, provision for doubtful debts etc. are taken in the P&L A/c.

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)

No.	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 (d) Interest, dividends & rent – Gross (e) Profit on sale/redemption 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 (net) (b) For Doubtful Debts (c) Others (to be specified)			
5.	Other Expenses (a) Expenses other than those directly related to the insurance business (b) Bad debts written off (c) Others (to be specified)			
	Total (B) Profit before tax Provision for taxation Profit after tax			
	Appropriations (f) Interim dividends paid during the year (g) Proposed final dividend (h) Dividend Distribution Tax (i) Transfer to Reserves or other accounts (to be specified)			
	Balance of Profit/Loss brought forward fro last year Balance carried forward to the Balance Sheet			

Balance Sheet (Form B-BS)

Balance Sheet of Life Insurance Company is prepared in vertical format. The form of Balance Sheet is as follows:

FORM B - BS

Name of the insurer

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 20….

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Sources of Funds			
	Shareholders' Funds:			
	Share Capital	5		
	Reserves and Surplus	6		
	Fair Value Change Account			
	Borrowings			
	Total	7		
	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 and 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 for direct business written Add: Premium on reinsurance accepted Less: premium on reinsurance ceded Net Premium Total Premium Earned (Net)		

Note: Reinsurance premiums whether on business cede or accepted are to be bought 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: Reinsurance accepted Less: Reinsurance ceded Net Claims paid Add: Claims outstanding at the end of the year Less: Claims outstanding at the beginning Total Claims Incurred		

SCHEDULE 3 – COMMISSION

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
Commission paid Direct Add: Commission on 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 or Re-insurance ceded figures.

SCHEDULE 4 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Employees' remuneration & welfare benefits		
2.	Managerial remuneration		
3.	Travel, conveyance and vehicle running expenses		
4.	Rents, rates & taxes		

5.	Repairs		
6.	Printing & stationery		
7.	Communication expenses		
8.	Legal & Professional charges		
9.	Medical fees		
10.	Auditors' fees, expenses etc		
	(a) As auditor		
	(b) As adviser or in any other capacity, in respect of:		
	(j) Taxation matters		
	(ii) Insurance matters		
	(iii) Management services; and		
	(c) In any other capacity		
11.	Advertisement and publicity		
12.	Interest & bank charges		
13.	Others(to be specified)		
14.	Depreciation		
	Total		

Note: Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or Rs.500000 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 capitalized 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 – PATTERN OF SHAREHOLDING
[As certified by the Management]

Shareholders	Current Year		Previous Year	
	No. of Shares	% of Holding	No. of Shares	% of Holding
Promoters				
*Indian				
*Foreign				
Others				
Total				

SCHEDULE 6 – RESERVES AND SURPLUS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3.	Securities Premium		
4.	General Reserves		
	Less: Debit balance in P&L A/c, if any		
	Less: Amount utilized for buy back.		
5.	Catastrophe Reserve		
6.	Other Reserves (to be specified)		
7.	Balance of Profit in P&L A/c		
	Total		

Note: Additions to and deductions from the reserves shall be disclosed under each of the specified heads.

SCHEDULE 7 – BORROWINGS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Debentures/Bonds		
2.	Banks		
3.	Financial Institutions		
4.	Others (to be specified)		
	Total		

SCHEDULE 8 – INVESTMENTS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –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.	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.	Investments in Infrastructure and Social sector		
5	Other than Approved Investments		
	Total		

SCHEDULE 9– LOANS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)

1.	**Security-wise Classification** Secured (a) On mortgage of property (aa) In India (bb) Outside India (b) On Shares, Bonds, Govt. Securities, etc. (c) Others (to be specified) Unsecured Total		
2.	**Borrower-wise Classification**		

	(a) Central and State Governments (b) Banks and Financial Institutions (c) Subsidiaries (d) Industrial Undertakings (e) Others (to be specified) Total		
3.	**Performance-wise Classification** (a) Loans classified as standard (aa) In India (bb) Outside India (b) Non-performing loans less provisions (aa) In India (bb) Outside India Total		
4.	**Maturity-wise Classification** (a) Short Term (b) Long Term Total		

SCHEDULE 10– FIXED ASSETS

Particulars	Cost/Gross Block				Depreciation				Net Block	
	Opening	Additions	Deductions	Closing	Up to Last Year	For the Year	On Sales/ Adjustments	To Date	As at year end	Previous Year

Goodwill										
Intangibles (specify)										
Land-Freehold										
Leasehold Property										
Buildings										
Furniture & Fittings										
Information Technology Equipment										
Vehicles										
Office Equipment										
Others (Specify nature)										
Total										
Work in progress										
Grand Total										
Previous Year										

SCHEDULE 11– CASH AND BANK BALANCES

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts		
	(aa) Short-term (due within 12 months)		
	(bb) Others		
	(b) Current Accounts		
	(c) Others (to be specified)		
3.	Money at call and short notice		
	(a) With banks		
	(b) With other institutions		
4.	Others (to be specified)		
	Total		
	Balances with non-scheduled banks in 2 and 3 above		

SCHEDULE 12– ADVANCES AND OTHER ASSETS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Advances		
1.	Reserve deposits with ceding companies		
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net provision for taxation)		
6.	Others (to be specified)		
	Total (A)		
	Other Assets		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business (including reinsurers)		
6.	Due from subsidiaries/holding company		

7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	Total (B)		
	Total (A+B)		

SCHEDULE 13– CURRENT LIABILITIES

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Agents' balances		
2.	Balances due to other insurance companies		
3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated premium		
6.	Sundry creditors		
7.	Due to subsidiaries/holding company		
8.	Claims outstanding		
9.	Due to Officers/Directors		
10.	Others (to be specified)		
	Total		

SCHEDULE 14– PROVISIONS

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

SCHEDULE 15– MISCELLANEOUS EXPENDITURE
(To the extent not written off or adjusted)

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

Reserve for Unexpired Risk

The reserve maintained to meet any possible liability in respect of those policies which are not expired at the end of an accounting year is called reserve for unexpired risk. Opening balance for reserve for unexpired risk is added to the premium and closing balance of reserve for unexpired risk is deducted from the premium. The net premium should be shown in revenue account. The closing balance of reserve for unexpired risk should be shown in the balance sheet under the head 'provisions'. At present reserve for unexpired risk will be created as follows:

a. 50% of net premium for fire insurance, marine cargo business and miscellaneous insurances.
b. 100% of net premium for marine hull business.
   In addition to the above reserve, a company can maintain more reserves. Then it is called Additional Reserve.

Illustration 4

From the following figures taken from the books of Asia Insurance Co. Ltd doing the fire insurance business, prepare the final accounts for the year 2010-2011.

Fire fund on 1st April 2010	930000
General Reserve	450000
Investments	3600000
Premium	2701533
Claims paid	602815
Share capital – Equity shares @ Rs.100 each	900000
Additional Reserve on 1st April 2010	330000
Profit and loss Account (credit)	75000
Reinsurance premium	112525
Claims recovered from reinsurers	21119
Commission on reinsurance ceded	48016
Advance income tax	250000
agents' balance (Debit)	20000
Commission on direct business	299777
Commission on reinsurance accepted	60038
Outstanding premium	22300
Claims intimated but not paid on 1st April 2010	60000
Expenses of management	431947
Audit fees (General)	36000
Rate and tax (General)	5804
Rent (General)	67500
Income from investments	153000
Sundry creditors	22500
Cash in hand and bank balances	182462

The following further information may also be noted:

1. Expenses of management include survey fees and legal expenses of Rs.36000and Rs.20000 relating to claims
2. Claims intimated but not paid on 31st March 2011 Rs.104000
3. Income tax to be provided @55%
4. Proposed dividend 8%
5. Transfer to general reserve Rs.200000
6. Reserve for unexpired risk to be kept @ 40% of net premium.

Solution:

FORM B – RA

Name of the insurer: Asia Insurance Co. Ltd

Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 2011

Policyholders' Account (Technical Account)

No.	Particulars	Schedule	Current Year	Previous Year
1.	Premiums Earned (Net)	1	2483405	
2.	Others (to be specified)			
3.	Change in Provisions for unexpired risk			
4.	Interest, Dividend & Rent - Gross			
	Total (A)		2483405	
1.	Claims Incurred	2	681696	
2.	Commission	3	311799	
3.	Operating Expenses related to insurance business	4	375947	
4.	Others (to be specified)			
	Total (B)		1369422	
	Operating Profit/ (Loss) from Fire business (C)=(A-B)		1113963	
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	Total (C)		1113963	

FORM B - PL

Name of the insurer: Asia Insurance Co. Ltd

Registration No. and Date of Registration with the IRDA

Profit and Loss Account for the year ended 31st March, 2011

Shareholders' Account (Non-technical Account)

No.	Particulars	Schedule	Current Year	Previous Year
1.	**Operating Profit/ (Loss)**			
	(a) Fire Insurance		1113963	
	(b) Marine Insurance			
	(c) Miscellaneous Insurance			
2.	Income from investments			
	(a) Interest, dividends & rent – Gross		153000	
	(b) Profit on sale/redemption of investments			
	Less: Loss on sale of investments			
3.	**Other income** (to be specified)		1266963	

	Total (A)			
4.	**Provisions (other than taxation)** • For diminution in the value of investments (net) • For Doubtful Debts			
5.	• Others (to be specified) Other Expenses (a) Expenses other than those directly related to the insurance business (b) Bad debts written off (c) Others (to be specified) Rent 67500 Rates and taxes 5804 audit fees <u>36000</u>		109304	
	Total (B)		109304	
	Profit before tax		1157659	
	Provision for taxation(-)		636712	
	Profit after tax		520947	
	Appropriations (a) Interim dividends paid during the year (b) Proposed final dividend (900000x8%) (c) Dividend Distribution Tax (d) Transfer to Reserves or other accounts (to be specified) general reserve		72000 200000	
			272000	
	Balance of Profit/Loss brought forward from last year		248947 75000	
	Balance carried forward to the Balance Sheet		323947	

FORM B - BS

Name of the insurer: Asia Insurance Co. Ltd

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 2011

No.	Particulars	Schedule	Current Year	Previous Year

	Sources of Funds *Shareholders' Funds:* Share Capital Reserves and Surplus Fair Value Change Account Borrowings	 5 6 7	 900000 973947 	

Total		**1873947**	
Application of Funds			
Investments	8	3600000	
Loans	9		
Fixed Assets	10		
		3600000	
Current Assets			
Cash and Bank Balances	11	182462	
Advances and Other Assets	12	292300	
Sub-Total (A)		474762	
Current Liabilities	13	126500	
Provisions	14	2074315	
Sub-Total (B)		2200815	
Net Current Assets (C)=(A)-(B)		-1726053	
Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
Debit Balance in Profit and Loss Account			
Total		**1873947**	

Schedules forming part of B-RA

Particulars	Amount	Amount
Schedule 1 – Premium earned – net		
Premium	2701533	
less: Reinsurance	112525	
Net premium	2589008	
Adjustment for changes for reserve for unexpired risk		
Add: Opening balance of reserve(930000+330000)	1260000	
	3849008	
less: closing balance of reserve: 2589008x40% = 1035603 Additional opening = 330000	1365603	**2483405**
Schedule 2 – Claims incurred		
Claims paid	602815	
Add: Survey fees	36000	
Legal expenses	20000	
	658815	

less: Claims recovered from reinsurance	21119	
Net claims paid	637696	
Add: outstanding at the end	104000	
	741696	**681696**
less: outstanding at the beginning	60000	

Schedule 3 – Commission		
Commission paid	299777	
Add: Reinsurance commission accepted	60038	
Less: Reinsurance commission ceded	359815	
Schedule 4- operating expenses related to insurance business	48016	**311799**
Expenses of Management		
less: survey fees and legal expenses(36000+20000)		
	431947	
	56000	**375947**

Schedules forming part of B-BS

Particulars	Amount	Amount
Schedule 5 – Share Capital		**900000**
Schedule 6 – Reserves and Surplus		
General Reserve	450000	
Add: Additional	200000	
	650000	
Balance in P&L A/c	323947	**973947**
Schedule 7 – Borrowings		**Nil**
Schedule 8 – Investments		**3600000**
Schedule 9 – Loans		**Nil**
Schedule 10 – Fixed Assets		**Nil**
Schedule 11 – Cash and Bank Balances		**182462**
Schedule 12– Advances and Other Assets		
Advance income tax	250000	
Agents' balances	20000	
outstanding premium	22300	**292300**
Schedule 13 – Current Liabilities		
Sundry Creditors	22500	
Claims intimated but not paid	104000	**126500**

Schedule 14 – Provisions		
Reserve for unexpired risk(closing)	1365603	
Provision for tax	636712	**2074315**
Proposed dividend	72000	
Schedule 15 – Miscellaneous Expenditure		**Nil**

Illustration 5: From the following trial balance of Zenith Insurance Company Ltd prepare Revenue Account for Fire and Marine business and Profit and Loss Account for the year ended 31st March 2011 and a Balance Sheet on that date:

Investments	406980	
Freehold premises	306142	
Leasehold premises	12604	
Agents balances	46212	
Sundry debtors	17918	
Advance income tax on interest and dividend	4513	
Claims paid and outstanding:		
Fire	102412	
Marine	261512	
Expenses of management:		
Fire	96512	
Marine	142218	
Commission:		
Fire	34921	
Marine	62857	
Interest accrued	919	
Office furniture	14761	
Preliminary expenses	90212	
Cash and bank balance	101738	
Share capital (4000 shares @ Rs. 100 each)		400000
Claims admitted but not paid:		
Fire		4620
Marine		9808
Creditors		44962
Due to reinsurers:		
Fire		2471
Marine		4143
Interest and dividend		19512
Other incomes		807
Premium received:		
Fire		356418
Marine		859960
	1702701	1702701

Provision for unexpired risk is to be made at 50% of the premium received for fire business and 100% of the premium received for marine business.

Solution:

FORM B – RA

Name of the insurer: Zenith Insurance Co. Ltd
Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 2011

Policyholders' Account (Technical Account)

No.	Particulars	Schedule	Fire	Marine
1.	Premiums Earned (Net)	1	178209	-----------
2.	Others (to be specified)			
3.	Change in Provisions for unexpired risk			
4.	Interest, Dividend & Rent - Gross			
	Total (A)		178209	------------
1.	Claims Incurred	2	102412	261512
2.	Commission	3	34921	62857
3.	Operating Expenses related to insurance business	4	96512	142218
4.	Others (to be specified)			
	Total (B)		233845	466587
	Operating Profit/ (Loss) from Fire business (C)=(A-B)		-55636	-466587
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	Total (C)		-55636	-466587

FORM B - PL

Name of the insurer: Zenith Insurance Co. Ltd

Registration No. and Date of Registration with the IRDA

Profit and Loss Account for the year ended 31st March, 2011

Shareholders' Account (Non-technical Account)

No.	Particulars	Schedule	Current Year	Previous Year
1.	**Operating Profit/ (Loss)**			
	(a) Fire Insurance		-55636	
	(b) Marine Insurance		-466587	
	(c) Miscellaneous Insurance			
2.	Income from investments			
	(a) Interest, dividends & rent – Gross		19512	
	(b) Profit on sale/redemption of investments			

	Less: Loss on sale of investments			
3.	**Other income** (to be specified)		807	
	Total (A)		-501904	

4.	**Provisions (other than taxation)** (a) For diminution in the value of investments (net) (b) For Doubtful Debts (c) Others (to be specified)			
5.	Other Expenses (a) Expenses other than those directly related to the insurance business (b) Bad debts written off (c) Others (to be specified) Total (B)		----------	
	Balance carried forward to the Balance Sheet (A)-(B)		-501904	

FORM B - BS

Name of the insurer: Zenith Insurance Co. Ltd

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 2011

No.	Particulars	Schedule	Current Year	Previous Year
	Sources of Funds			
	Shareholders' Funds:			
	Share Capital	5	309788	
	Reserves and Surplus	6	----------	
	Fair Value Change Account			
	Borrowings	7	-----------	
	Total		**309788**	
	Application of Funds			
	Investments			
	Loans	8	406980	
	Fixed Assets	9	----------	
	Current Assets	10	333777	
	Cash and Bank Balances		740757	
	Advances and Other Assets			
	Sub-Total (A)	11		
	Current Liabilities	12	101738	
	Provisions		69562	
	Sub-Total (B)	13	171300	
	Net Current Assets (C)=(A)-(B)	14	66004	
	Miscellaneous Expenditure (to the extent not		1038169	

written off or adjusted)		1104173
Debit Balance in Profit and Loss Account		-932873
Total	15	
		501904
		309788

Schedules forming part of B-RA

Particulars	Fire	Marine
Schedule 1 – Premium earned – net		
Premium (Net)	356418	859960
less: closing balance of reserve:		
50% of fire and 100% of marine	178209	859960
	178209	**------------**
Schedule 2 – Claims incurred		
Claims paid	**102412**	**261512**
Schedule 3 – Commission		
Commission paid	**34921**	**62857**
Schedule 4- operating expenses related to insurance business		
Expenses of Management	**96512**	**142218**

Schedules forming part of B-BS

Particulars	Amount	Amount
Schedule 5 – Share Capital		
Paid up shares	400000	
less: Preliminary expenses	90212	**309788**
Schedule 6 – Reserves and Surplus		**Nil**
Schedule 7 – Borrowings		**Nil**
Schedule 8 – Investments		**406980**
Schedule 9 – Loans		**Nil**
Schedule 10 – Fixed Assets		
Freehold premises	306412	
Leasehold premises	12604	
Office furniture	14761	**333777**
Schedule 11 – Cash and Bank Balances		**101738**
Cash in hand and Bank balances		
Schedule 12– Advances and Other Assets		
Advance income tax	4513	
Agents' balances	46212	
Sundry debtors	17918	**69562**
Accrued interest	919	
Schedule 13 – Current Liabilities		
Sundry Creditors	44962	
Claims admitted but not paid(4620+9808)	14428	
Due to reinsurers	6614	**66004**

Schedule 14 – Provisions		
Reserve for unexpired risk(closing)		
Fire	178209	**1038169**
Marine	859960	
		Nil
Schedule 15 – Miscellaneous Expenditure		

Exercises:

1. Following were the balance extracted from the trial balance of the Southern Life Insurance Co. Ltd. at 31st March 2011:

	Rs. 000s		Rs. 000s
Balance of account at the beginning of the year	2000000	Claims admitted but not paid	6000
Govt. Securities	1000000	Surrenders	20000
Profit on realization of assets	2000	Single premiums	80000
Investment fluctuation account	10000	Consideration for annuities granted	50000
Claims under policies by death	60000	Interest, dividends and rent received	70000
Claims under policies by maturity	100000	Depreciation on furniture	3000
		Administrative expenses	36000
		Salaries	3000
Loans on mortgages	560000	Auditor's fees	1500
Loans on policies	300000	Director's fees	300
Freehold property and	103000	Legal expenses	1000
furniture	3600	Advertising	1400
Sundry creditors	2000	Printing, stationery and others	10800
Outstanding premiums	24000		
Commission paid	24000	Cash at bank	168400
Interest accrued not due	3000	Provision for depreciation	3000
Premium (other than single)	200000		

Prepare a Revenue Account and Balance sheet.

Ans: (Profit: Rs.141000 and Balance sheet Total: Rs.2151000)

2. From the following balances of Mysore General Insurance Co. Ltd. as on 31st March 2011, prepare Revenue Accounts, Profit & Loss Account and Balance sheet.

Claims paid less reinsurance:		Building (cost Rs.125000)	87000
Fire	80000	Office equipment (cost Rs.48000)	30000
Marine	62000	Cash in hand	56000
General reserve	118000	Cash at bank	104000
Commission paid:		Premium less reinsurance:	
Fire	48000	Fire	210000
Marine	39000	Marine	163000
Share capital (20000 shares		Tax deducted at source	9000

of Rs.100 each)	200000	Furniture (cost Rs. 18000)	12000
Expenses of management Fire	53000	Premium due: Fire	28000
Marine	36000	Marine	20000
Reserve for unexpired risk		Claims outstanding on 1st	

(1st April 2010):		April 2010:	
Fire	204000	Fire	14000
Marine	123000	Marine	2000
Investments at cost	2515000	Due from other insurers	27000
Depreciation	21000	Director's fees	4000
Additional reserves (1st April 2010):		Commission on reinsurance ceded:	
Fire	132000	Fire	23000
Marine	16000	Marine	2000
Interest accrued	25000	Dividends (Credit)	20000
Contingency reserve	39000	Interest on investments	100000
Investment reserve	47000	Due to other insurers	43000

Following further information is also given:

(a) Claims outstanding on 31st March 2011 are: Fire Rs.17000, Marine Rs.6000
(b) Market value of investments is Rs.2401000.
(c) Increase additional reserve by 10% of net premium for the year for fire.
(d) Maintain reserves for unexpired risks at 50% of premium for the year in case of fire insurance and 100% of premium for the year in case of marine insurance.

Ans: (Fire profit: Rs.127000, Marine loss: Rs.16000, Balance carried to Balance sheet: Rs.139000 and Balance sheet total: Rs.2410000).

POSSIBLE QUESTIONS

PART A

1. The Commission received from the re-insurer is called ________
   a) Commission on reinsurance accepted **b) Commission on reinsurance ceded**
   c) Commission on direct business d) Commission on indirect business
2. An annual payment which an insurer guarantees to pay for lump sum money received in the beginning is called _________
   a) Premium b) Annuity
   c) Claim d) Policy
3. Preliminary expenses incurred by life insurance companies is treated as _____________ a) Miscellaneous expenditure **b) a deduction from paid up share capital** c) a fixed assets d) an operating expense
4. Schedule 15 prepared by Insurance Companies deals with _____________
   a) Share Capital b) Investments
   c) Fixed Assets **d) Miscellaneous Expenditure**
5. Claims paid by life insurance companies is shown in ___________
   a) Schedule 1 b) Schedule 2
   c) Schedule 3 **d) Schedule 4**
6. Insurance business in India is regulated by _________
   a) LIC **b) IRDA**
   c) RBI d) SEBI
7. Banks show the provision for income tax under the head ___________
   a) Contingent liabilities b) Deposits
   c) Other liabilities and provisions d) Borrowings
8. Assets are NPAs for a period exceeding 12 months are called _________
   a) Standard Assets b) Substandard Assets
   c) Doubtful Assets d) Loss Assets
9. In General Insurance, the policy amount is payable ____________
   a) after the death of the insured
   b) After the expiry of the policy period
   c) Only when the loss occurs or the liability arises
   d) only when the insured has attained a certain age
10. In _________ the insurer agrees to pay a certain sum of money to the policyholder either on his death or a certain age, which ever is less.
    a) Fire Insurance b) Marine Insurance
    c) Burglary Insurance **d) Life Insurance**
11. The principle of subrogation is applicable to__________
    a) Fire Insurance b) Marine Insurance
    c) Burglary Insurance **d) Fire, Marine and Burglary Insurance**

12. Losses of theft are covered by _____________
    a) Fire Insurance b) Marine Insurance
    c) Burglary Insurance d) Life Insurance
13. In Life insurance, the policy amount is payable _________
    a) after the death of the assured
    b) After the expiry of the policy period
    c) on death of the insured or on expiry of policy period which ever is earlier
    d) Only when the insured has incurred loss
14. General Insurance includes ______________
    a) Fire Insurance b) Marine Insurance
    c) Burglary Insurance **d) Fire, Marine and Burglary Insurance**
15. Leasehold Ground Rents are shown in _____________
    a) Revenue A/c b) P & L A/c
    c) Schedule 8 investments d) Schedule 9 Loans
16. Claims incurred (Net) by general insurance companies is dealt in schedule no. ____________
    a) 1 **b) 2**
    c) 3 d) 4
17. Insurance business in India is now regulated by the provisions of : __________
    a) The Insurance Act 1938 **b) The IRDA Act 1999**
    c) The Banking Regulation Act 1949 d) The Indian Companies Act 1956
18. The agreement of insurance is called as __________
    a) Policy b) Premium
    c) Annuity d) Bond
19. Revenue Account is also called ________
    a) Shareholders' Account b) Policyholders' Account
    c) Creditors' Account d) Debtors Account
20. The life insurance Revenue A/c does not disclose the ______________ of the life business
    a) Income **b) Profit**
    c) Surplus d) Deficit

PART – B

1. Give the meaning of 'Annuity'.
2. Write a short note on ' Reserve for unexpired Risk'.
3. Differentiate 'Commission on reinsurance accepted and Commission on reinsurance ceded'.
4. What is meant by Surrender Value?
5. What do you understand by the term 'Contingent Liabilities'?

PART – C

1. Prepare in the proper statutory form of Revenue Account of the Super Insurance Company Ltd. For the year ended 31st March 2006 from the following figures :

Particulars	Amount Rs. ('000)	Particulars	Amount Rs. ('000)
Claims by Death	76,140	Expenses of Management	31,920
Claims by Maturity	30,110	Commission	9,574
Premiums : First Premium Renewal Premiums Single Premiums	 2,50,000 3,55,690 1,00,000	Interest, dividends and rent	97,840
Transfer Fees	129	Income Tax on interest, dividends etc.	35,710
Consideration for annuities granted less reinsurance	82,127	Surrenders	13,140
Annuities paid	53,461	Bonus in reduction of Premium	980
Bonus paid in cash	2,416	Dividend paid to shareholders	5,500
		Amount of Life Insurance fund at the beginning of the year	15,21,000

2. The following balances form part of the books of Bharat Insurance Company as on 31.03.2006 :

Particulars	Amount Rs. ('000)	Particulars	Amount Rs. ('000)
Life Fund on 01.04.2005	15,70,562	Bonus paid in reduction of Premium	3,500
Claims by death	1,16,980	Preliminary Expenses	600
Claims by Maturity	96,420	Claims admitted but not paid at the end of the year	80,034
Premiums	2,70,572	Annuities due but not paid	22,380
Management Expenses	29,890	Capital Paid up	6,00,000
Commission	36,541	Govt. Securities	16,90,890
Consideration for annuities granted	10,620	Sundry Assets	5,68,110
Surrenders	21,768	Interest, dividends and rents	49,401
Annuities	29,420		
Bonus paid in cash	9,450		

Additional Information :		Rs. ('000)
(i)	Claims covered by reinsurance	10,000
(ii)	Further Claims intimated	8,000
(iii)	Further bonus utilized in reduction of premium	1,500
(iv)	Interest Accrued	15,400

(v) Premiums Outstanding 7,400

Prepare a revenue Account and Balance Sheet.

3. From the following figures relating to India Life Assurance Company for the year ended 31.03.2006, prepare a revenue account of the Company :

Particulars	Amount Rs. ('000)	Particulars	Amount Rs. ('000)
Claims less reinsurance By Death By Maturity	 2,00,000 1,40,000	Annuities	12,600
Printing and Stationery	7,700	Surrenders	4,000
Commission	25,050	Expenses of Management	3,00,000
Life Fund on 1.4.05	39,00,000	Premiums Received	15,00,000
Claims Outstanding on 1.4.05 By Death By Maturity	80,000 60,000	Sundry Incomes	6,000
Consideration for annuities granted	1,01,200	Interest, dividends and rents	2,10,000
Registration and other fees	200	Income Tax	45,000
Income Tax on interest and dividends	50,000		

Additional Information :

(i) Claims outstanding on 31.3.06 by death Rs. 50,000 Thousands; by maturity Rs. 40,000 Thousands

(ii) Management Expenses outstanding Rs. 6,000 Thousands

(iii) Provide Rs. 4,500 Thousands for depreciation

(iv) Premium Outstanding on 31.03.06 is Rs. 2,00,000 Thousand

4. From the following Trial Balance prepare the revenue account and the Balance Sheet of the United India Assurance Co. Ltd.

Trial Balance as on 31.03.2006

Particulars	Debits Rs. ('000)	Particulars	Credits Rs. ('000)
Loans on life interests	4,281	Premiums received	3,65,982
Expenses of Management	18,241	Profit on sale of investments	10,872
Deposits with RBI	2,00,000	Claims admitted but not paid	58,421
Commission	9,872	Sundry Creditors	7,734
Freehold ground rent	1,68,421	Life Assurance Fund (1.4.05)	28,00,500
Bonus in cash	4,222	Consideration for annuities granted	12,272
Surrenders	21,104	Interest, dividends and rent	1,20,682

		(gross)	
Claims by maturity	1,04,728		
Annuities Paid	7,681		
Claims by death	1,72,681		
House Property	59,888		
Outstanding Premiums	21,641		
Income tax on interest receipts	7,139		
Agents balances	6,824		
Port Trust debentures	5,28,241		
Cash at bank	12,724		
Cash in hand	354		
Foreign securities	1,42,520		
Office Furniture	1,500		
Fully paid up Shares in Ltd. liability companies	1,21,621		
Stock of Policy stamps in hand	168		
Mortgages in India	6,61,421		
Loans on Govt. securities	4,98,321		
British Govt. securities	2,21,640		
Loans on company's policies	1,74,692		
Mortgages outside India	2,06,490		
	33,76,415		**33,76,415**

Zaldi pay Insurance Co. Ltd has furnished the following information for preparation of Revenue A/c of Fire Insurance business for the year ended 31.3.2006 and its Profit and Loss A/c for the year ;

Particulars	Amount Rs.	Particulars	Amount Rs.
Claims admitted but not paid	42,376	Bad debts	2,500
Commission paid	50,000	Claims paid	15,000
Commission on reinsurance receives	12,000	P & L Appn. A/c	10,000
Share Transfer fees	5,000	Premium received less reinsurance	5,52,000
Expenses of Management	78,000	Claims Outstanding as on 01.04.2005	27,000
Reserve for unexpired risk as on 01.04.2005	2,30,000	Dividend on Share capital	18,500

Additional Reserve on 01.04.2005	40,000		

The following further information has also to be considered:

1. Premium outstanding at the end of the year Rs. 40,000
2. Additional reserve at 10 % of Net Premium to be maintained
3. It is the policy of the company to maintain 50% of premium towards reserves for unexpired risks

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)

(Established Under Section 3 of UGC Act, 1956)

Coimbatore – 641021

B. COM. (PA)

ADVANCED CORPORATE ACCOUNTING - 17PAU401

UNIT - II

S. No.	Questions	Option 1	Option 2	Option 3	Option 4			Answer
1	Insurance business in India is now regulated by the provisions of :	The Insurance Act 1938	The IRDA Act 1999	The Banking Regulation Act 1949	The Indian Companies Act 1956			The IRDA Act 1999
2	Number of Schedules to be prepared by the insurance companies for their financial statements are	26 Schedules	10 Schedules	12 Schedules	15 Schedules			15 Schedules
3	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 which ever is earlier	Only when the insured has incurred loss			on death of the insured or on expiry of policy period which ever is earlier
4	In General Insurance, the policy amount is payable	after the death of the insured	After the expiry of the policy period	Only when the loss occurs or the liability arises	only when the insured has attained a certain age			Only when the loss occurs or the liability arises
5	Claims paid by life insurance companies is shown in	Schedule 1	Schedule 2	Schedule 3	Schedule 4			Schedule 4

6	The Commission received from the re-insurer is called	Commission on reinsurance accepted	Commission on reinsurance ceded	Commission on direct business	Commission on indirect business			Commission on reinsurance ceded
7	The bonus which is to be paid on maturity of the policy along with the policy amount is known as	Reversionary Bonus	Annual Bonus	Interim Bonus	Eventual Bonus			Reversionary Bonus
8	The balance found in the Revenue Account of the insurance companies is considered as	Net Profit / Net Loss	Surplus/Deficit	Life Assurance Fund	Gross Profit/Gross Loss			Surplus/Deficit
9	A Valuation of Balance Sheet is prepared by	Joint Stock Company	Banking Company	Life Insurance Company	General Insurance Company			Life Insurance Company
10	The percentage of Profit of Life business to be distributed to policy holders in	95%	100%	50%	40%			95%
11	The agreement of insurance is called as ………..	Policy	Premium	Annuity	Bond			Policy
12	The consideration in insurance for covering the risk is called …………	Claim	Premium	Annuity	Grant			Premium
13	……………is the party who undertakes the risk in insurance.	Insurer	Assurer	Underwriter	Insurer, Assurer and Underwriter			Insurer, Assurer and Underwriter
14	The party whose risk is covered in insurance is known as ………	Insurer	Insured	Underwriter	Broker			Insured
15	In …………, the insurer agrees to pay a certain sum of money to the policyholder either on his death or a certain age, which ever is less.	Fire Insurance	Marine Insurance	Burglary Insurance	Life Insurance			Life Insurance
16	General Insurance includes …………….	Fire Insurance	Marine Insurance	Burglary Insurance	Fire, Marine and Burglary Insurance			Fire, Marine and Burglary Insurance
17	LIC was nationalized in …………..	1935	1950	1956	1964			1956

18	Insurance business in India is regulated by …………	LIC	IRDA	RBI	SEBI			IRDA
19	Under …………, the sum assured is given to the beneficiary only on death of policyholder.	Whole Life Policy	Endowment Policy	Annuity	With Profit Policy			Whole Life Policy
20	……….is the amount payable to the insured on the happening of event.	Premium	Annuity	Claim	Policy			Claim
21	An annual payment which an insurer guarantees to pay for lump sum money received in the beginning is called …………	Premium	Annuity	Claim	Policy			Premium
22	The amount given to the policyholder due to his inability of paying further premium is called …………..	Annuity	Bonus	Surrender value	Claim			Bonus
23	…………..is an agreement between two insurance companies whereby one transfers a part of risk to other.	Reinsurance	Sub insurance	Shared Policy	Reassurance			Shared Policy
24	Revenue Account is also called …… …….	Shareholders' Account	Policyholders' Account	Creditors' Account	Debtors Account			Creditors' Account
25	The commission earned by insurance companies from others for giving them business under reinsurance is called …………………	Commission on reinsurance accepted	Agents' commission	Commission on reinsurance ceded	Commission on insurance accepted			Commission on reinsurance ceded
26	The commission given by insurance companies to others for receiving business under reinsurance is called …………………	Commission on reinsurance accepted	Agents' commission	Commission on reinsurance ceded	None of these			None of these
27	Profit and Loss Account of General Insurance Companies are prepared in … ………	Form A-PL	Form B-RA	Form B-PL	Form B-BS			Form B-BS
28	The principle of subrogation is applicable to…………..	Fire Insurance	Marine Insurance	Burglary Insurance	Fire, Marine and Burglary Insurance			Fire, Marine and Burglary Insurance

29	The balance found in the Revenue Account of the General insurance companies is treated as _______________	Provision for unexpired risk	Net Profit/Net Loss	Operating profit or loss from insurance business	Gross Profit/Gross Loss			Operating profit or loss from insurance business
30	Preliminary expenses incurred by life insurance companies is treated as _____________	Miscellaneous expenditure	a deduction from paid up share capital	a fixed assets	an operating expense			a deduction from paid up share capital
31	Agents balances (Dr) is shown in the balance sheet of life insurance companies as _______________	Current Liabilities	Other Assets	Fixed Assets	Borrowings			Other Assets
32	Appropriations, like interim dividend, proposed final dividend in general insurance business are shown in ________________	Profit and Loss Appropriation A/c	Revenue A/c	Profit and Loss A/c	Trading A/c			Profit and Loss A/c
33	Leasehold Ground Rents are shown in ______________	Revenue A/c	P & L A/c	Schedule 8 investments	Schedule 9 Loans			Schedule 8 investments
34	The documents which contains the terms and conditions of the contract of insurace is called ______________	Policy	Premium	Annuity	Bond			Policy
35	______________ refers to the amount payable by the insurer to the insured when the policy becomes due for payment	Premium	Annuity	Claim	Policy			Claim
36	Losses of theft are covered by ____________________	Fire Insurance	Marine Insurance	Burglary Insurance	Life Insurance			Burglary Insurance
37	Every year, the accounting of every insurance company is to end on ____________	31st December	31st March	31st July	31st August			31st March
38	In life insurance revenue account, schedule 4 is named as _______________	Premium	Operating Expenses	Benefits paid	Commission			Benefits paid

39	Schedule 15 prepared by Insurance Companies deals with _____________	Share Capital	Investments	Fixed Assets	Miscellaneous Expenditure			Miscellaneous Expenditure
40	Claims incurred(Net) by general insurance companies is dealt in schedule no. _____________	1	2	3	4			2
41	____________ refers to the lumpsum amount paid to the insurer by the customer seeking annuity	Claim	Premium	Bonus	Consideration for annuities granted			Consideration for annuities granted
42	The life insurance Revenue A/c does not disclose the ______________ of the life business	Income	Profit	Surplus	Deficit			Profit
43	The computation of the net liability on all outstanding policies is a complicated mathematical process which is carried out only by an _______________	Actuary	Bonus	profit	surplus			Actuary
44	Profit on life business is found out by the preparation of _____________	General Balance Sheet	Valuation Balance Sheet	Profit and Loss A/c	Revenue A/c			Valuation Balance Sheet
45	The term 'Surrender Value' is exclusively applicable only for ___________	Fire Insurance	Marine Insurance	Life Insurance	Motor Insurance			Life Insurance
46	When an insurance company finds the risk heavy, part of the risk insured with another Insurance Company. Such a procedure is known as _______________	Insurance	Assurance	Claim	Re-insurance			Re-insurance
47	The excess provisions maintained by a general insurance over the minimum prescribed amount is called ____________	Capital Reserve	Revenue Reserve	Depreciation Reserve	Additional Reserve			Additional Reserve
48	Survey expenses paid in connection with claims should be included in the item ___________	Premium	Bonus	Reinsurance Premium	Claims			Claims
49	Insurance business in India is divided into ____________	One Types	Three Types	Two Types	Four Types			Two Types

50	Insurance Carrying on Life Insurance business should comply with the requirements of ________________ of IRDA Regulations 2002	Schedule B	Schedule A	Schedule C	Schedule D			Schedule A
51	Insurance Carrying on General Insurance business should comply with the requirements of ________________ of IRDA Regulations 2002	Schedule B	Schedule A	Schedule C	Schedule D			Schedule B
52	Bonus payable on maturity of a policy is known as ________________	Normal Bonus	Bonus for Reinsurance	Reversionary Bonus	Premium			Reversionary Bonus
53	Insurance Company Final accounts should also include a ________________	Fund Flow Statement	Cash-flow Statement	Trial Balance	Journal			Cash-flow Statement
54	_____________ is prepared to ascertain surplus or deficiency of life insurance	Profit and Loss A/c	Revenue A/c	General Balance Sheet	Valuation Balance Sheet			Valuation Balance Sheet
55	The provision for unexpired risks is shown as a subtraction from the ___________	Premium Revenue A/c	Risr A/c	Unexpired Risk A/c	Premium A/c			Premium Revenue A/c
56	Share Capital of insurance companies is dealt in _____________	Schedule 4	Schedule 5	Schedule 1	Schedule 2			Schedule 5
57	Marine Insurance business is regulated by ______________	Marine Insurance Act, 1973	Marine Insurance Act, 1983	Marine Insurance Act, 1993	Marine Insurance Act, 1963			Marine Insurance Act, 1963
58	LIC Stands for ______________	Life Insurance Company	Life Industries Corporation	Life Insurance Corporation	Limited Insurance Corporation			Life Insurance Corporation
59	LIC controls more than __________ of the Life Insurance business in India	80%	90%	85%	95%			85%
60	Insurance Regulatory Authority was set up in ________	1996	1997	1998	1999			1996

UNIT - III

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.

FINANCIAL STATEMENT OF BANKING COMPANIES

In India, banking companies are governed by the Banking Regulation Act 1949. Section 5 of the Act defines banking as "the accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, and order or otherwise".

Business of banking companies

In addition to the business of banking, a banking company may engage in any one or more of the following business:

i. The borrowing, raising, or taking up of money
ii. The lending or advancing of money either upon or without security
iii. The drawing, making, accepting, discounting, buying, selling, collecting and dealing in b bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not.
iv. The granting and issuing of letter of credit, travelers cheques and circular notes
v. On receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise.
vi. The buying, selling and dealing in bullion
vii. The collecting and transmitting of money and securities
viii. Contracting for public and private loans and negotiating and issuing the same
ix. Carrying on and transacting every kind of guarantees and indemnity business
x. Undertaking and executing trusts, etc…

Important provisions of the Banking Regulation Act 1949

1. **Statutory Reserve**

As per Section 17, banking companies incorporated in India hall transfer every year at least 25% of its profit before any dividend is declared to a Statutory reserve (Reserve fund) until the amount of the reserve together with the security premium Account is equal to the paid up capital.

2. **Cash Reserve Ratio (CRR)**

Banks are required to maintain with the Reserve Bank of India a cash reserve of at least 3% of the total of its demand and time liabilities in India.

3. **Statutory Liquidity Ratio (SLR)**

Banks are also required to maintain atleas6t 25% of the demand and time liabilities in the form of liquid assets like cash, gold or unencumbered. SLR may vary in a range of 25% to 40%.

4. **Non – Banking Assets**

These are the assets which are not used in the ordinary course of business of banking, but they are such immovable and movable properties which come under the possession o t he banking company for recovering the amount due from customers.

5. **Minimum Capital and Reserves**

In case of a banking company incorporated in India, the sum of its paid up capital and reserves shall not be less than the amount mentioned below:

a. If it has places of business in more than one state Rs.500000, and if any such place of business is situated in Mumbai or Kolkata or in both, Rs.1000000.
b. If it has all its places of business in one state, none of which is Mumbai or Kolkata,Rs.100000 in respect of its principal place of business plus Rs.10000 for each additional place of business in the same district plus Rs.25000 for each place of business elsewhere in the state(the maximum amount required being Rs.500000).

Accounting System

The accounting system of a banking company is different from that of a trading or manufacturing company. The main features of a bank's accounting system are as follows:

1. Entries in the personal ledgers are made directly from the vouchers
2. From such entries in the personal ledgers each day summary sheets in total are prepared which are posted to the control accounts in the general ledger.
3. The general ledger's trial balance is extracted and agreed every day.
4. All entries in the personal ledgers and summary sheets are checked by persons other than those who have recorded entries. It helps in detection of mistakes.
5. A trial balance of detailed personal ledgers is prepared periodically and gets agreed with the general ledger control accounts.
6. Two vouchers are prepared for every transaction not involving cash.

Books maintained by banks

1. Receiving Cashier's Counter Cash Book.
2. Paying Cashier's Counter Cash Book.
3. Current Accounts Ledger.
4. Saving Bank Accounts Ledger.
5. Fixed Deposit Accounts Ledger.
6. Investment ledger.
7. Bills Discounted and Purchased Ledger.
8. Loan Ledger.
9. Cash Credit Ledger.
10. Customers' Acceptances, endorsements and Guarantee Ledger.

11. Recurring Deposits Accounts Ledger, etc.

The Slip System

This is not a system of book keeping, but a method of rapidly posting entries to books kept on double entry system. In this system, posting is made from slips prepared inside the organization itself or from slips filled in by its customers. In a banking company, the main slips are pay-in-slips, withdrawal slips and cheques and all these slips are filled in by clients of the bank.

Advantages of Slip system

1. It makes accounts reliable.
2. Slips are the basis of auditing.
3. The bank saves a lot of clerical labour as most of the slips are filled in by its customers.
4. There is no need for keeping subsidiary books.

Disadvantages of Slip system

1. Slips may be lost, destroyed or misappropriated as these are loose.
2. In the absence of subsidiary books, books cannot be verified.
3. It is very difficult and expensive to keep date wise record of a large number of slips.
4. Customers feel difficulty on account of slip system.

Final Accounts of Banks

As per Section 29, a banking comp[any incorporated in India, is required to prepare, at the end of each accounting year, a Balance sheet and profit and Loss Account as on the last working day of the year.

Profit and Loss Account

A banking company is required to prepare its Profit and Loss Account according to Form B in the Third Schedule to the Banking Regulation Act, 1949. Form B is given as follows:

Form B

Form of Profit & Loss Account for the year ended 31st March

(000s omitted)

	Schedule No	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Income			
Interest earned	13		
Other income	14		

Total			
II. Expenditure Interest expended Operating expenses Provisions and contingencies	15 16		
Total			
III. Profit/ Loss Net profit / loss for the year(I-II) Profit/loss brought forward			
Total			
IV. Appropriations Transfer to statutory reserves Transfer to other reserves Transfer to government/ proposed Dividend Balance carried over to Balance sheet			
Total			

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Interest/ discount on advances/bills II. Income on investments III. Interest on balances with Reserve Bank of India and other inter-bank funds		
IV. Others		
Total		

SCHEDULE 14 – OTHER INCOME (000s omitted)

	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)

I. Commission, exchange and brokerage II. Profit on sale of investments Less: Loss on sale of investments III. Profit on revaluation of investments Less: Loss on revaluation of investments IV. Profit on sale of land, buildings and other assets Less: Loss on sale of land, buildings and other Assets		
V. Profit on exchange transactions Less: Loss on exchange transactions VI. Income earned by way of dividends etc. from subsidiaries/ companies and/or joint ventures abroad/in India VII. Miscellaneous income Total		

Note: Under items II to V loss figures may be shown in brackets

SCHEDULE 15 – INTEREST EXPENDED(000s omitted)

	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Interest on deposits II. Interest on Reserve Bank of India/ inter- bank borrowings III. Others		
Total		

SCHEDULE 16– OPERATING EXPENSES

(000s omitted)

	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Payments to and provisions for employees II. Rent, taxes and lighting III. Printing and stationary IV. Advertisement and publicity V. Depreciation on bank's property VI. Directors' fees, allowances and expenses VII. Auditor's fees, allowances and expenses (including branch auditors) VIII. Law charges IX. Postages, telegrams, telephones, etc X. Repairs and maintenance XI. Insurance XII. Other expenditure		
Total		

Illustration 1

Following figures have been obtained from the books of Rai Bank Ltd for the year ending 31st March 2011(figures in '000):
Issued and subscribed capital Rs.1000, Interest and discount earned Rs.3800, Commission and exchange earned Rs.195, Interest paid Rs.2000, Salaries and wages Rs.210, Directors fees Rs.35, Rent and taxes Rs.70, Postage and telegrams Rs.61, Profit on sale of investments Rs.240, Loss on sale of investments Rs.38, Rent received Rs. 62, Depreciation Rs.31, Stationary Rs.60 and Auditors fees Rs.8.
Additional information:

a. The profit and loss account had a balance of Rs.10,00,000 on 1st April 2010.
b. An advance of Rs.12,00,000 has become doubtful and it is expected that only 50% of the amount due can be recovered from the security.
c. The provision of tax is made at 50%.

d. A dividend of 10% is proposed.
Prepare Profit and Loss Account of Rai Bank Ltd for the year ending 31st March 2011.

Solution:

Rai Bank Ltd Profit and Loss Account
For the year ending 31st March 2011 (000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	3800	
Other income	14	459	
Total		4259	
II. Expenditure			
Interest expended	15	2000	
Operating expenses	16	475	
Provisions and contingencies		1192	
Total		3667	
III. Profit/ Loss			
Net profit / loss for the year(I-II)		592	
Profit/loss brought forward		1000	
Total		1592	
IV. Appropriations			
Transfer to statutory reserves (592x25%)		148	
Transfer to other reserves		-----	
Proposed Dividend		100	
Balance carried over to Balance sheet		1344	
Total		1592	

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills	3800	
Total	3800	

SCHEDULE 14 –OTHER INCOME(000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage	195	
II. Profit on sale of investments	240	
Less: Loss on sale of investments	(38)	
	62	
III. Miscellaneous income (Rent received)		
Total	459	

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits	2000	
Total	2000	

SCHEDULE 16– OPERATING EXPENSES
(000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Payments to and provisions for employees	210	
II. Rent, taxes and lighting	70	
III. Printing and stationary	60	
IV. Depreciation on bank's property	31	
V. Directors' fees, allowances and expenses	35	
VI. Auditor's fees, allowances and expenses (including branch auditors)	8	
VII. Postages, telegrams, telephones, etc	61	
Total	475	

Illustration 2

From the following information, prepare the Profit and loss Account of the National Bank for the year ended 31st March 2011(figures in '000):

Interest on loans Rs.518, Interest on cash credits Rs.446, Discount on bills discounted (net) Rs.390, Interest on Overdrafts Rs.108, Interest on Savings bank Account Rs.220, Interest on fixed deposits Rs.554, Commission, exchange and brokerage Rs.16.40, Rent, taxes and lighting Rs.36, Auditors fees Rs.2.40, Postage, telegrams and telephones Rs.2.80, Sundry charges Rs.2, Directors fees Rs.6, Printing and stationery Rs.0.40, Law charges Rs.1.40, payment to employees Rs.108, Locker rent Rs.0.70, Transfer fees Rs.1.40, Depreciation on bank's property Rs.10 and Advertisement an publicity Rs.1.40.

Additional information: Rebate on bills discounted Rs.98000 and provide for bad debts Rs.58000.

Solution:

National Bank Ltd
Profit and Loss
Account
For the year ending 31st March 2011 (000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	1364.00	
Other income	14	18.50	
Total		1382.50	
II. Expenditure			
Interest expended	15	774.00	
Operating expenses	16	170.40	
Provisions and contingencies		58.00	
Total		1002.40	
III. Profit/ Loss			
Net profit / loss for the year(I-II)		380.10	
Profit/loss brought forward		--------	
Total		380.10	
IV. Appropriations			
Transfer to statutory reserves (380.10x25%)		95.03	
Transfer to other reserves		-----	
Transfer to government/ proposed Dividend		-----	
Balance carried over to Balance sheet		285.07	
Total		380.10	

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills(518+446+390+108-98)	1364.00	
II. Income on investments	----	
III. Interest on balances with Reserve Bank of India and other inter-bank funds	-----	
IV. Others	-----	
Total	1364.00	

SCHEDULE 14 – OTHER INCOME (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage	16.40	
II. Lockers Rent	0.70	
III. Transfer fees	1.40	
Total	18.50	

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits(220+554)	774.00	
Total	774.00	

SCHEDULE 16– OPERATING EXPENSES (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010

I. Payments to and provisions for	108.00	
employees	36.00	
II. Rent, taxes and lighting	0.40	
III. Printing and stationary	1.40	
IV. Advertisement and publicity	10.00	
V. Depreciation on bank's property	6.00	
VI. Directors' fees, allowances and expenses	2.40	
VII. Auditor's fees, allowances and		
expenses (including branch	1.40	
auditors)	2.80	
VIII. Law charges	2.00	
IX. Postages, telegrams, telephones, etc	170.40	
X. Other expenditure		
Total		

Balance Sheet

The balance sheet of a banking company is prepared according to Form A in Third Schedule which is as follows:

BALANCE SHEET OF …… (Here enter name of the banking company)
as on 31st March (Year) (000s omitted)

	Schedule No	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
Capital & Liabilities			
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
Total			
Assets			
Cash and balances with RBI	6		
Balances with banks & money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		

Total Contingent liabilities Bills for collection	12		

SCHEDULE 1 – CAPITAL

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. For Nationalized Banks Capital (Fully owned by Central Government Total II. For Banks Incorporated Outside India Capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head) Amount of deposit kept with the RBI under section 1(2) of Banking Regulations Act, 1949		
Total		
For other Banks Authorised capital ……. Shares of Rs….. each Issued capital ……. Shares of Rs….. each Subscribed capital ……. Shares of Rs….. each Called up capital ……. Shares of Rs….. each Less: Calls unpaid Add: Forfeited shares		

SCHEDULE 2 – RESERVES & SURPLUS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Statutory Reserves Opening Balance Additions during the year Deductions during the year II. Capital Reserves Opening Balance Additions during the year Deductions during the year III. Securities Premium Opening Balance Additions during the year Deductions during the year		
IV. Revenue & Other Reserves Opening Balance Additions during the year Deductions during the year V. Balance in Profit and Loss Account Total (I+II+III+IV+V)		

SCHEDULE 3 – DEPOSITS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
A. I. Demand Deposits (i) From Banks (ii) From Others II. Saving Bank Deposits III. Term Deposits (i) From Banks		

(ii) From Others Total		
(I+II+III) B. (i) Deposits of branches in India (ii) Deposits of branches outside India		
Total		

SCHEDULE 4 – BORROWINGS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Borrowings in India (i) Reserve Bank of India (ii) Other banks (iii) Other institutions and agencies II. Borrowings outside India		
Total		

Secured borrowings included in I & II above – Rs.

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Bills payable II. Inter-office adjustments (net) III. Interest accrued IV. Others (including provisions)		
Total		

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Cash in hand (including foreign currency notes) II. Balances with Reserve Bank of India (i) In current accounts		

(ii) In other deposit accounts Total (I &II)		

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

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. In India (i) Balances with banks (a) In current accounts (b) In other deposit accounts (ii) Money at call and short notice		
(a) With banks (b) With other institutions Total		
II. Outside India (i) In current accounts (ii) In other deposit accounts (iii) Money at call and short notice Grand Total (I+II)		

SCHEDULE 8 – INVESTMENTS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Investments in India in (i) Government securities (ii) Other approved securities (iii) Shares (iv) Debentures and bonds (v) Subsidiaries and/or joint ventures (vi) Others (to be specified)		
Total		

II. Investments outside India in (i) Government securities (including local authorities)		
(ii) Subsidiaries and/or joint ventures abroad		
(iii) Other investments (to be specified) Total Grand Total (I+II)		

SCHEDULE 9 – ADVANCES

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
A. (i) Bills purchased and discounted (ii) cash credits, overdrafts and loans repayable on demand		
(iii) Term loans Total		
B. (i) secured by tangible assets (ii)covered by bank/Government guarantees		
(iii) unsecured Total		
C. I. Advances in India (i) priority sectors (ii) public sector (iii) banks		
(iv) others		

Total		
II. Advances outside India (i) Due from banks (ii) Due from others (a) Bills purchased and discounted (b) Syndicated loans (c) Others		
Total		
Grand Total (CI+CII)		

SCHEDULE 10 – FIXED ASSETS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Premises At cost on 31st March of the preceding year Additions during the year Deductions during the year Depreciation to date II. Other fixed Assets (including furniture and fixtures) At cost on 31st March of the preceding year		
year Additions during the year Deductions during the year Depreciation to date Total		

SCHEDULE 11 – OTHER ASSETS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)

I. Inter-office adjustments (net) II. Interest accrued III. Tax p[aid in advance/ tax deducted at source IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims VI. Others		
Total		

SCHEDULE 12 – CONTINGENT LIABILITIES		
	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Claims against the bank not acknowledged as debts II. Liability for partly paid investments III. Liability on account of outstanding forward exchange contracts IV. Guarantees given on behalf of constituents (i) In India (ii) Outside India V. Acceptances, endorsements and other obligations VI. Other items for which the bank is contingently liable		
Total		

Explanation of some items relating to Balance Sheet

1. Money at call and short notice: It represents temporary loans to bill brokers, stock brokers and other banks. If the loan is given for one day, it is called "money at call" and if the loan cannot be called back on demand and will require at least a notice of three days for calling back, it is called "money at short notice".
2. Advances: Advances include Bills discounted and purchased, loans, cash credit and overdraft.
3. Inter - office adjustments: Every head office will have a number of transactions with its branches. The head office makes necessary adjustments in its books on the receipt of information from the branches. On the date of balance sheet some transaction may remain unadjusted in the books of the head office. Such entries are recorded in the balance sheet under the sub-heading 'Branch Adjustments' and may appear on the assets side under the heading 'Other Assets' if it has a debit balance and on t e liabilities side under the heading 'Other Liabilities' if it has a

credit balance.

4. Bills for Collection: When the bank receives bills receivables from its customers for collection, it keeps them till maturity. On the date of maturity when bills are collected, customers account is credited with the amount collected. If some bills remain outstanding, such bills are treated by the banks as outstanding bills for collection. It is shown as 'Contingent Liability (Schedule 12)'.
5. Acceptance, endorsement and other obligation: This represents bank's liability on account of bills endorsed or accepted on behalf of its customers. For greater security, the drawer of bill wants acceptance of the drawee's bank. The bank incurs a liability by accepting bills on behalf of customers. On the maturity of bill, the bank pays and collects the amount from its customers. At the end of the accounting period, if tee is any outstanding bills it is shown on the 'Contingent Liability (Schedule 12)'.

Illustration 3

From the following particulars, prepare the final accounts of Jaya Bank Ltd for the year ended 31st March 2011.

Share capital		500000
Reserve Fund		1000000
Fixed deposit		2000000
Savings bank deposit		3000000
Current accounts		7000000
Borrowed from the bank		200000
Investments	3000000	
Premises	1200000	
Cash in hand	60000	
Cash at bank	2800000	
Money at call and short notice	300000	
Interest accrued and paid	200000	
Salaries	80000	
Rent	30000	
Profit and Loss Account (01.04.2010)		160000
Interest earned		450000
Bills discounted	500000	
Bills payable		800000
Loans, advances, overdraft and credits	7000000	
Unclaimed dividends		30000
Sundry creditors		30000
	15170000	15170000

The bank had the bills for Rs.1400000 as collection for its constituents and also acceptance and endorsements for them amounting to Rs.400000.

Solution :

Profit and Loss Account of Jaya Bank Ltd.
For the year ended 31st March 2011

(000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	450	
Other income	14		
Total		450	
II. Expenditure			
Interest expended	15	200	
Operating expenses	16	110	
Provisions and contingencies		-----	
Total		310	
III. Profit/ Loss		140	
Net profit / loss for the year(I-II) Profit/loss brought forward		160	
Total		300	
IV. Appropriations			
Transfer to statutory reserves (140x25%)		35	
Transfer to other reserves Transfer to government/ proposed Dividend			
Balance carried over to Balance sheet		265	
Total		300	

SCHEDULE 13 –INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills	450	
Total	450	

SCHEDULE 14 –OTHER INCOME (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage		
II. Profit on sale of investments Less: Loss on sale of investments		
III. Miscellaneous income (Rent received)		

Total		

SCHEDULE 15 –INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits	200	
Total	200	

SCHEDULE 16– OPERATING EXPENSES (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Payments to and provisions for employees	80 30	
II. Rent, taxes and lighting Total	110	

Balance Sheet of Jaya Bank Ltd as on 31st March 2011 (000s omitted)

	Schedule No	As on 31.3.2011	As on 31.3.2010
Capital & Liabilities			
Capital	1	500	
Reserves & Surplus	2	1300	
Deposits	3	12000	
Borrowings	4	200	
Other Liabilities and Provisions	5	860	
Total		14860	
Assets			
Cash and balances with RBI	6		

Balances with banks & money at call and short notice	7	60 3100	
Investments	8	3000	
Advances	9	7500	
Fixed Assets	10	1200	
Other Assets	11	------	
Total		14860	
Contingent liabilities	12		
Bills for collection		400 1400	

SCHEDULE 1 - CAPITAL

	As on 31.3.2011	As on 31.3.2010
Authorised capital: Shares of Rs.10 each Issued capital: Shares of Rs.10 each Subscribed capital: Shares of Rs.10 each Called up capital: Shares of Rs.10each Rs.5 each fully paid	500	
Less: Calls unpaid Add: Forfeited shares Total	500	

SCHEDULE 2 – RESERVES & SURPLUS

		As on 31.3.2011	As on 31.3.2010
I. Statutory Reserves			
Opening Balance	1000		
Additions during the year	35	1035	
II. Capital Reserves			
III. Securities Premium			
IV. Revenue & Other Reserves			
V. Balance in Profit and Loss Account		265	
Total (I+II+III+IV+V)		1300	

SCHEDULE 3 – DEPOSITS

	As on 31.3.2011	As on 31.3.2010
A.		
I. Demand Deposits	7000	
II. Saving Bank Deposits	3000	
III. Term Deposits	2000	
Total (I+II+III)	12000	
B.		
(i) Deposits of branches in India		
(ii) Deposits of branches outside India		
Total	12000	

SCHEDULE 4 – BORROWINGS

	As on 31.3.2011	As on 31.3.2010
I. Borrowings in India		
Reserve Bank of India Other banks	200	
Other institutions and agencies		
II. Borrowings outside India		
Total	200	

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

	As on 31.3.2011	As on 31.3.2010
I. Bills payable	800	
II. Inter-office adjustments (net)		
III. Interest accrued		
IV. Others (including provisions)30+30	60	
Total	860	

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

	As on 31.3.2011	As on 31.3.2010

I. Cash in hand (including foreign currency notes)	60	
II. Balances with Reserve Bank of India		
(iii) In current accounts		
(iv) In other deposit accounts		
Total (I &II)	60	

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

	As on 31.3.2011	As on 31.3.2010
I. In India		
Balances with banks	2800	
Money at call and short notice	300	
Total	3100	
II. Outside India	-------	
Grand Total (I+II)	3100	

SCHEDULE 8 – INVESTMENTS

	As on 31.3.2011	As on 31.3.2010
I. Investments in India	3000	
II. Investments outside India		
Tota l	3000	

SCHEDULE 9 – ADVANCES

	As on 31.3.2011	As on 31.3.2010
A.		
(i) Bills purchased and discounted	500	
(ii) cash credits, overdrafts and loans repayable on demand	7000	
(iii) Term loans		
Total	7500	

SCHEDULE 10 – FIXED ASSETS

	As on 31.3.2011	As on 31.3.2010
I. Premises At cost on 31st March of the preceding year II. Other fixed Assets (including furniture and fixtures)	1200	
At cost on 31st March of the preceding year Total	1200	

SCHEDULE 11 – OTHER ASSETS

	As on 31.3.2011	As on 31.3.2010
I. Inter-office adjustments (net) II. Interest accrued III. Tax p[aid in advance/ tax deducted at source IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims		
VI. Others Total	---------	

SCHEDULE 12 – CONTINGENT LIABILITIES

	As on 31.3.2011	As on 31.3.2010
I. Claims against the bank not acknowledged as debts II. Liability for partly paid investments III. Liability on account of outstanding forward exchange contracts IV. Guarantees given on behalf of constituents (iii) In India (iv) Outside India V. Acceptances, endorsements and other obligations VI. Other items for which the bank is contingently liable	400	
Total	400	

Non-Performing Assets (NPA)

Bank advances can be classified as Performing Assets and Non-Performing Assets (NPA). An asset becomes NPA when it ceases to generate income for the bank. NPA means a credit facility in respect of which interest and/or principal repayment installments is in arrears for more than 90 days. Interest income from NPA is considered as income as and when it is received rather than on accrual basis.

Asset Classification

Bank's loans and advances are to be classified into two broad categories- Standard assets and Non-Performing Assets. NPAs are subdivided into three- Substandard, Doubtful and Loss Assets. These may be explained as follows:

1. Standard Assets – Standard assets are those which do not carry more than the normal credit risk attached to the business. These are assets which are not NPAs.
2. Sub-standard Assets – These have been classified as NPA for a period not exceeding 12 months.
3. Doubtful Assets - Doubtful Assets are those which have remained NPA for a period exceeding 12 months.
4. Loss Assets – Loss assets are those assets in which loss has been identified by the bank, auditors or RBI but the amount has not been written off wholly or partly. These assets are irrecoverable.

Rebate on bills discounted or unexpired discounts

The whole amount of discount on bills discounted may no t be related to that accounting year. A part of it may be related to next accounting period. This is so because at the close of the accounting year, some of the bills discounted may not have matured. In short rebate on bills discounted means the unearned amount or discount received for those bills which mature after the date of closing the final accounts. It is also called unexpired discount or discount received in advance. It is carried forward to next year by passing the following entry:

Interest and discount A/c Dr

To Rebate on bills discounted.

If rebate on bills discounted is given in trial balance, it should e taken to Balance sheet under "Other Liabilities and Provisions". If it is given under adjustments, it should be deducted from "Interest and Discount" in Profit and loss Account and should be taken to Balance sheet under "Other Liabilities and Provisions".

At the commencement of next accounting year it is transferred to Interest and Discount Account by reversing the above entry.

Illustration 4

In respect 0f the following transactions of Best Bank Ltd pass necessary journal entries as well as their treatment in the P&L A/c and Balance Sheet for the year ended 31st March 2011.

The following bills are discounted at 5%.

Discounted on	Amount Rs.	Terms (months)
23.12.2011	50000	3
19.09.2011	100000	4
20.10.2011	400000	3
30.11.2011	30000	5

Solution:

Calculation of Rebate on bills discounted

Due date	No. of days after 31.12.11	Amount Rs.	Rate of discount %	Unexpired Discount
26.03.2011	85	50000	5	50000x5/100x85/365= 582
22.01.2011	22	100000	5	100000x5/100x22/365= 301
23.01.2011	23	400000	5	400000x5/100x23/365= 1260
03.05.2011	123	30000	5	30000x5/100x123/365= 506
				2649

Rebate on bills discounted =
2649 Journal entry:

Interest and discount A/c Dr 2649
To Rebate on bills discounted. 2649

Rebate on bills discounted Rs.2649 will be deducted from "Interest and Discount" in P&L A/c. it will also appear on the liability side of Balance sheet under the heading "Other liabilities and provisions".

Illustration 5

The following are the ledger balances of the National Bank Ltd. Prepare P&L A/c and Balance Sheet as on 31st March 2011 as per the requirements of The Banking Regulation Act.

Share capital (20000 shares of Rs.100 each)	2000000
Reserve Fund investments	1000000
General expenses	182000
Current accounts	20244000
Interest paid	161000
Savings bank account	2920000
Fixed deposits	4000000
Profit and loss Account(on 31st March 2010)	230000
Discount received	180000
Rebate on bills discounted	64000
Commission, exchange and brokerage	44000

Cash	227000
Interest received	532000
Cash with RBI	2012000
Owing by foreign correspondents	200000
Short loans	6482000
Loans and advance to customers	15585000
Investments	9883000
Bills discounted	6228000
Premises	2218000

Adjustments:

1. Provision for bad and doubtful debts required Rs.129000
2. The bank had bills for collection for its constituents Rs.500000and acceptances, endorsements and guarantees Rs.1600000.
3. The P&L A/c balance is the balance left on that account after the payment of interim dividend amounting to Rs.200000.

Solution:

Profit and Loss Account of National Bank Ltd.
For the year ended 31st March 2011 (000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	712	
Other income	14	44	
Total		756	
II. Expenditure			
Interest expended	15	161	
Operating expenses	16	182	
Provisions and contingencies		129	
Total		472	

III. Profit/ Loss Net profit / loss for the year(I-II) Profit/loss brought forward Total		284 430 714	
IV. Appropriations Transfer to statutory reserves (284x25%) Transfer to other reserves Interim Dividend paid Balance carried over to Balance sheet Total		71 200 443 714	

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills	712	
Total	712	

SCHEDULE 14 – OTHER INCOME (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage II. Profit on sale of investments Less: Loss on sale of investments III. Miscellaneous income (Rent received)	44	
Total	44	

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits	161	
Total	161	

SCHEDULE 16– OPERATING EXPENSES

(000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Payments to and provisions for employees	182	
II. General expenses	182	
Total		

Balance Sheet of National Bank Ltd as on 31st March 2011 (000s omitted)

	Schedule No	As on 31.3.2011	As on 31.3.2010
Capital & Liabilities			
Capital	1	2000	
Reserves & Surplus	2	1514	
Deposits	3	27164	
Borrowings	4	6482	
Other Liabilities and Provisions	5	193	
Total		37353	
Assets			
Cash and balances with RBI	6	2239	
Balances with banks & money at call and short notice	7	200	
Investments	8	10883	
Advances	9	21813	
Fixed Assets	10	2218	
Other Assets	11	------	
Total		37353	
Contingent liabilities	12	1600	
Bills for collection		500	

SCHEDULE 1 - CAPITAL

	As on 31.3.2011	As on 31.3.2010
Authorised capital: 20000 Shares of Rs.100 each Issued capital: 20000 Shares of Rs.100 each Subscribed capital: 20000 Shares of Rs.100 each	2000	

Called up capital: 20000 Shares of Rs.100 each Rs.100 each fully paid Less: Calls unpaid Add: Forfeited shares Total	2000	

SCHEDULE 2 – RESERVES & SURPLUS

		As on 31.3.2011	As on 31.3.2010
I. Statutory Reserves			
Opening Balance	1000		
Additions during the year	71	1071	
II. Capital Reserves			
III. Securities Premium			
IV. Revenue & Other Reserves			
V. Balance in Profit and Loss Account		443	
Total (I+II+III+IV+V)		1514	

SCHEDULE 3 – DEPOSITS

	As on 31.3.2011	As on 31.3.2010
A.		
I. Demand Deposits	20244	
II. Saving Bank Deposits	2920	
III. Term Deposits	4000	
Total (I+II+I II)	27164	
B.		
(i) Deposits of branches in India		
(ii) Deposits of branches outside India Total	27164	

SCHEDULE 4 – BORROWINGS

	As on 31.3.2011	As on 31.3.2010
I. Borrowings in India Reserve Bank of India Other banks Other institutions and agencies III. Borrowings outside India	6482	
Total	6482	

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

		As on 31.3.2011	As on 31.3.2010
I. Others (including provisions)			
Rebate on bills discounted	64		
Provisions	129	193	
Total		193	

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

	As on 31.3.2011	As on 31.3.2010
I. Cash in hand (including foreign currency notes)	227	
II. Balances with Reserve Bank of India		
(i) In current accounts	2012	
(ii) In other deposit accounts		
Total (I &II)	2239	

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

	As on 31.3.2011	As on 31.3.2010
I. In India Balances with banks Money at call and short notice		
Total		
	200	

II. Outside India Grand Total (I+II)	200	

SCHEDULE 8 – INVESTMENTS

	As on 31.3.2011	As on 31.3.2010
I. Investments in India Investments 9883 Reserve Fund Investment 1000	10883	
Tota l	10883	

SCHEDULE 9 – ADVANCES

	As on 31.3.2011	As on 31.3.2010
A. (i) Bills purchased and discounted (ii) cash credits, overdrafts and loans repayable on demand (iii) Term loans	6228 1558 5	
Total	21813	

SCHEDULE 10 – FIXED ASSETS

	As on 31.3.2011	As on 31.3.2010
I. Premises At cost on 31st March of the preceding year II. Other fixed Assets (including furniture and fixtures)	2218	
At cost on 31st March of the preceding year Total	2218	

SCHEDULE 11 – OTHER ASSETS

	As on 31.3.2011	As on 31.3.2010

I. Inter-office adjustments (net) II. Interest accrued III. Tax p[aid in advance/ tax deducted at source IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims		
VI. Others Total	---------	

SCHEDULE 12 – CONTINGENT LIABILITIES

	As on 31.3.2011	As on 31.3.2010
Acceptances, endorsements and other obligations	1600	
Total	1600	

POSSIBLE QUESTIONS
PART – A

1. Banking companies are governed in India by _______
   - **a) Banking Regulation Act**
   - b) Indian Companies Act
   - c) Reserve Bank of India Act
   - d) Partnership Act
2. Electronic payment system is an ?
   - a) Software
   - b) Hardware
   - **c) Application**
   - d) Package
3. Every Banking Company is required to close its accounts on _________________
   - a) 31st December
   - **b) 31st March**
   - c) 30th June
   - d) 30th September
4. Provisions for doubtful debts is shown under 'Provisions for Contingencies' in the _________ of banking company
   - a) **Profit and Loss A/c**
   - b) Balance Sheet
   - c) P & L Appropriation A/c
   - d) Revenue Account
5. SLR stands for _______
   - a) Savings Level Ratio
   - **b) Statutory Liquidity Ratio**
   - c) Standard Liquidity Ratio
   - d) Standard Level Ratio
6. ______is a form of agreement between two parties in which one party agrees to make good for loss of another.
   - a) Contract
   - **b) Insurance**
   - c) Banking
   - d) Mutual fund
7. When a bank returns a cheque unpaid, it is called?
   - a) Payment of the cheque
   - b) Drawing of the cheque
   - **c) Dishonour of the cheque**
   - d) Taking of the cheque
8. Provision for income tax is shown in the Bank Accounts under the head ___________
   - a) Borrowings
   - **b) Other Liabilities**
   - c) Operating expenses
   - d) Contingent Liabilities
9. The P&L A/c of Banking Companies are prepared as per _______ of Banking Regulation Act
   - a) Form A of Schedule III
   - **b) Form B of Schedule III**
   - c) Form A of Schedule VI
   - d) Form B of Schedule VI
10. If cheque is crossed an account payee, this is direction of, to __________
    - a) Payee, paying banker
    - b) Payee, collecting bank
    - c) Drawer, paying bank
    - **d) Drawer, collecting bank**
11. Letter of Credit and Endorsement are shown in the Bank accounts under the head _________
    - a) Bills Payable
    - **b) Contingent liabilities**
    - c) Bills for collection
    - d) Other Assets
12. According to present Regulation of the RBI, a banking company is to maintain a minimum of ___________ Percent as Cash Reserve over its time and demand liabilities
    - a) 15%
    - **b) 5%**
    - c) 25%
    - d) 20%

13. The electronic funds transfer using a two-way communications system is referred to as a
    a) Pay or cheque **b) Wire transfer**
    c) Depository transfer cheque d) Payable through draft
14. Lockers rent is shown in the P&L A/c of Bank under the head ___________
    a) Schedule 15 b) Schedule 12
    c) Schedule 13 **d) Schedule 14**
15. Profit and Loss Account of General Insurance Companies are prepared in _______
    a) Form A-PL b) Form B-RA
    c) Form B-PL **d) Form B-BS**
16. In life insurance revenue account, schedule 4 is named as ______________
    a) Premium b) Operating Expenses
    c) Benefits paid d) Commission
17. NPA stands for_________
    a) Non- Performing Assets b) Normal Performing Assets
    c) National Performing Asset d) Notional Performing Assets
18. Which is the first change in banking sector of India after independence?
    a) Nationalization of Banks **b) Social control on Banks**
    c) Establishment of SBI d) Establishment of RBI
19. The usual deposit accounts of banks are ______________
    a) Current accounts, electricity accounts and insurance premium accounts
    b) Current accounts, post office savings, bank accounts and term deposit accounts
    c) Loan accounts, savings bank accounts and term deposit accounts
    d) Current accounts, savings bank accounts and term deposit accounts
20. Banks in India are under the general supervision of ______________
    a) SBI **b) RBI**
    c) SEBI d) ABI

PART- B

1. Define Banking.
2. State any four businesses of Banking Companies.
3. Write short note on Statutory Liquidity Ratio
4. Write a short note on Non – performing Assets.
5. What do you understand by the term Cash Reserves?

PART - C

1. From the following information relating to Lakshmi Bank Ltd., prepare the Profit and Loss A/c for the year ended 31st December, 2007.

Particulars	Amount Rs.	Particulars	Amount Rs.
Rent Received	72,000	Salaries and Allowances	2,18,800

Exchange and Commission	32,800	Postage	5,600
Interest on Fixed Deposits	11,00,000	Sundry Charges	4,000
Interest on Savings Bank A/cs	2,72,000	Director's & Auditors fees	16,800
Interest on Overdrafts	2,16,000	Printing	8,000
Discount on Bills Discounted	7,80,000	Law Charges	3,600
Interested on Current Accounts	1,68,000	Locker Rent	1,400
Interest on Cash Credits	8,92,000	Transfer Fees	2,800
Depreciation on bank property	20,000	Interest on Loans	10,36,000

2. From the following particulars of XY Bank Ltd., having its own premises, prepare the Balance Sheet in the prescribed form as on 31st December 2015

Particulars	**Amount Rs. (in '000)**	**Particulars**	**Amount Rs. (in '000)**
Authorised Capital	4,000	Investments	7,000
Subscribed Capital 4,00,000 shares of Rs. 10 each, Rs. 5 Paid	2,000	Bills Discounted (in India)	15,000
Profit and Loss (Cr.)	850	Endorsement on Bills for Collection	100
Liability of Customers for Acceptance	5,000	Money at Call and Short Notice	9,000
Cash in Hand	2,000	Cash with RBI	4,000
Reserve	3,000	Cash with State Bank	4,000
Letters of Credit Issued	500	Telegraphic transfer payable	800
Bank drafts payable	1,200	Short Loans	40
Rebate on Bills Discounted	10	Acceptances for Customers	5,000
Loans and Advances	10,000	Cash Credits	10,000
Overdrafts	1,000	Bills Purchased (payable outside India)	1,000

Current and Deposit Accounts	56,000	Investment Fluctuation Fund	100
Bills for Collection	100		

3. The following figures are extracted from the books of Bheema Bank Ltd., as on 31.12.2007

Particulars	Amount Rs.	Particulars	Amount Rs.
Interest and Discount received	36,95,738	Commission, Exchange and Brokerage	2,00,000
Directors' fees and allowances	55,000	Postage and Telegrams	62,313
Stationery	17,625	Preliminary Expenses	15,000
Interest paid on Deposits	20,32,542	Rent Received	55,000
Salaries and Allowances	1,75,000	Rent and Taxes paid	87,973
Profit on Sale of Investments	2,00,000	Depreciation on Building	27,375
Audit Fees	5,000		

Additional Information:

1) A customer to whom a sum of Rs. 10,00,000 has been advanced has become insolvent. It is expected that only 50% can be recovered from his private estate.
2) For the remaining debts, a provision of Rs. 1,50,000 was necessary.
3) Rebate on Bills Discounted as on 31.12.2006 Rs. 12,000 and on 31.12.2007 Rs. 16,000
4) Provide Rs. 6,50,000 for Taxation
5) Write off all Preliminary Expenses.

Prepare Profit and Loss A/c in accordance with the law.

4. From the books of accounts of new Bharat Bank Ltd., as on 31st March, 2006 the following, particulars regarding loans and advances given by the Bank in India are available :

Particulars	Amount Rs.
Loans to Corporate Sector fully secured (excluding banks but including companies in which directors are interested	**10,00,000**
Loan to Vijaya Bank Ltd., fully secured	**3,00,000**
Debts due to officers (excluding directors, fully secured)	**2,00,000**
Loans to non – corporate sector – fully secured	**9,00,000**

Loans to Nagarik Bank Ltd., fully secured	**4,00,000**
Debts due by Manoj, director of the bank – fully secured	**1,00,000**
Debts considered good which are unsecured	**5,00,000**
Debts due by companies in which the directors are interested, fully secured	**6,00,000**
Maximum Amount of debts at any time during the year	**15,00,000**
Doubtful Debts	**50,000**
Provision for bad and doubtful debts	**75,000**
Maximum amount of debts due by officers and directors at any time during the year	**5,00,000**

You are required to show how the items are statutorily required to be entered in the Balance Sheet of the bank.

5. From the following information, prepare Profit and Loss Account of Swadesh Bank Ltd., for the year ended 37st December 2007

Particulars	Amount Rs. ('000)	Particulars	Amount Rs. ('000)
Interest on Fixed Deposits	430	Interest on Loans	650
Discount on Bills Discounted	415	Interest on Overdrafts	210
Interest on Cash Credits	410	Interest on Savings Bank Deposits	125
Salaries and Allowances	140	Rent, Taxes,Insurance and Lighting	40
Locker Rent	5	Repairs to Bank Property	2
Commission, exchange and brokerage	24	Directors' fees and allowances	25
Transfer Fees	2	Provident Fund Contribution	12
Local Committee fees and allowances	10	Audit fees	12
Printing and Stationery	4	Loss on Sale of Governement Securities	5
Loss on Sale of Furniture	2	Postage and Telegrams	2
Depriciation	10	Advertisement	4
Legal Charges	3		

Additional Information :

(i) Rebate on Bills Discounted on 31st December, 2006 Rs. 19,000

(ii) Rebate on Bills Discounted on 31st December, 2004 Rs. 26,000

(iii) Bad Debts to be written off Rs. 40,000

(iv) Provision for Taxation Rs. 50,000

6. From the following information, prepare the Profit and Loss A/c of ABC Bank Ltd., for the year ended on 31st March, 2072 in the prescribed form.

Particulars	Amount Rs.	Particulars	Amount Rs.
Interest on Loan	2,59,000	Interest on Fixed Deposits	2,75,000
Rebate on Bills Discounted required	49,000	Commission	8,200
Establishment Expenses	54,000	Discount on Bills Discounted	1,95,000
Interest on Cash Credit	2,23,000	Interest on Current Account	42,000
Rent and Taxes	18,000	Interest on Overdraft	1,54,000
Director's Fees	3,000	Auditors Fees	1,200
Interest on Savings Bank Deposit	68,000	Postage and Telegrams	1,400
Printing and Stationery	2,900	Sundry Charges	1,700

Bad Debts to be written off amounted to Rs. 40,000. Provision for Taxation may be made @ 55 %. Balance of Profit from last year was Rs. 1,20,000.

The Directors have recommended a dividend of Rs. 20,000 for the Share Holders.

7. From the following particulars, prepare a Profit and Loss Account of New Bank Ltd. For the year ended 31.12.2006

Particulars	Amount Rs.(in'000)	Particulars	Amount Rs.(in'000)
Interest on Loans	260	Interest on Cash Credits	225
Interest on Fixed Deposits	280	Rent and Taxes	20
Rebate on Bills Discounted	50	Interest on Overdrafts	56
Commission Charged to Customers	9	Directors and Auditors Fees	4
Establishment Expenses	56	Interest on Savings Bank Accounts	70
Discount on Bills Discounted	200	Postage and Telegrams	2
Interest on Current Accounts	45	Sundry Charges	2

Printing and Advertisements	3		

8. On 31st December 2016. The following balances stood in the books of Asian Bank Ltd., after preparation of its Profit and Loss Account.

Particulars	Amount Rs.(in'000)	Particulars	Amount Rs.(in'000)
Share Capital Issued and Subscribed	4,000	Reserve Fund (u/sec 17)	6,200
Fixed Deposits	42,600	Savings Bank Deposits	19,000
Current Accounts	23,200	Money at Call and Short Notice	1,800
Investments	25,000	Profit and Loss A/c (Cr.) 1st Jan 2016	1,350
Dividend for 2015	400	Premises	2,950
Cash in Hand	380	Cash with RBI	10,000
Cash with Other Banks	6,000	Bills discounted and Purchased	3,800
Loans, Cash Credits and Overdrafts	51,000	Bills Payable	70
Unclaimed Dividends	60	Rebate on Bills Discounted	50
Short Loans (Borrowings from other Banks)	4,750	Furniture	1,164
Other Assets	336	Net Profit for 2016	1,550

Prepare Balance Sheet of the Bank as on 31st December 2016.

9. From the books of accounts of New Bank Ltd., as on 31st March, 2006 the following, particulars regarding loans and advances given by the Bank in India are available :

Particulars	Amount Rs.
Loans to Corporate Sector fully secured (excluding banks but including companies in which directors are interested	**20,00,000**
Loan to Vijaya Bank Ltd., fully secured	**6,00,000**
Debts due to officers (excluding directors, fully secured)	**4,00,000**
Loans to non – corporate sector – fully secured	**18,00,000**
Loans to Nagarik Bank Ltd., fully secured	**8,00,000**
Debts due by Manoj, director of the bank – fully secured	**2,00,000**
Debts considered good which are unsecured	**10,00,000**
Debts due by companies in which the directors are	**12,00,000**

interested, fully secured	
Maximum Amount of debts at any time during the year	**30,00,000**
Doubtful Debts	**1,00,000**
Provision for bad and doubtful debts	**1,50,000**
Maximum amount of debts due by officers and directors at any time during the year	**10,00,000**

You are required to show how the items are statutorily required to be entered in the Balance Sheet of the bank.

KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed to be University)

(Established Under Section 3 of UGC Act, 1956)

Coimbatore – 641021

B. COM. (PA)

ADVANCED CORPORATE ACCOUNTING - 17PAU401

UNIT - III

S. No.	Questions	Option 1	Option 2	Option 3	Option 4			Answer
1	. ……..is called a factory of cre dit.	Company	Firm	Bank	HUF			Bank
2	Banking companies are governe d in India by ……….	Banking Regu lation Act	Indian Compani es Act	Reserve Bank of India Ac t	Partnership Act			Banking Regulatio n Act
3	CRR stands for …………	Current Reser ve Ratio	Capital Reserve Ratio	Cash Re serve Ra tio	Capital Rede mption Ratio			Cash Res erve Rati o
4	SLR stands for ……………	Savings Level Ratio	Statutory Liquid ity Ratio	Standard Liquidit y Ratio	Standard Level Ratio			Statutory Liquidity Ratio
5	The method of rapidly posting e ntries in the books of banks is c alled as ……….	Single Entry	Cash Method	Slip Syst em	Double Entry			Slip Syst em
6	The P&L A/c of Banking Comp anies are prepared as per …… …….of Banking Regulation Ac t	Form A of Sch edule III	Form B of Sche dule III	Form A of Sched ule VI	Form B of Sc hedule VI			Form B o f Schedul e III
7	…….of profit is transferred to s tatutory reserves.	10%	20%	25%	30%			25%
8	Banks show the provision for in come tax under the head …… ….	Contingent lia bilities	Deposits	Other lia bilities a nd provi sions	Borrowings			Other lia bilities an d provisi ons
9	Rebate on bills discounted is … ……..	An income acc rued but not re ceived	A liability	An expe nse	Income recei ved in advan ce			Income r eceived i n advanc e

10	NPA stands for…………	Non-Performing Assets	Normal Perform ing Assets	National Perform ing Asse t	Notional Performing Assets			Non-Performi ng Assets
11	Schedule 1 is concerned with ……….	Cash and bala nce with RBI	Capital	Reserve s and Su rplus	Investments			Capital
12	………… is shown under Sche dule 15.	Interest earned	Profit	Interest Expende d	Appropriatio ns			Interest E xpended
13	Acceptance, endorsements and other obligations come under th e head…	Provisions and Contingencies	Contingent liabil ities	Deposits	Borrowings			Continge nt liabiliti es
14	Assets are NPAs for a period no t exceeding 12 months are calle d …………	Standard Asse ts	Substandard Ass ets	Doubtfu l Assets	Loss Assets			Substand ard Asset s
15	Assets are NPAs for a period ex ceeding 12 months are called ……….	Standard Asse ts	Substandard Ass ets	Doubtfu l Assets	Loss Assets			Doubtful Assets
16	………is a form of agreement b etween two parties in which one party agrees to make good for loss of another.	Contract	Insurance	Banking	Mutual fund			Insurance
17	In which year, MICR system for cheque was implemented in India?	1987	1996	1990	1993			1987
18	Which is the first bank to introduce Credit card in India?	Bank of India	Global Trust Bank	IndusInd Bank	Central Bank of India			Central Bank of India
19	----------- was not nationalized in 1969	Punjab National Bank	Oriental Bank of Commerce	Bank of Baroda	Union Bank of India			Oriental Bank of Commerc e
20	Electronic payment system is an ?	Software	Hardware	Applicat ion	Package			Applicati on
21	Which is the first bank to launch Debit card in India?	Standard Chartered Bank	Citi Bank	ABN Amro Bank	American Express Bank			Citi Bank
22	Which was the first Joint Stock Bank established by an Indian establishment?	Bank of Bombay	Oudh Commercial Bank	Bank of Hindust an	Hindustan Commercial Bank			Bank of Hindusta n

23	Which is the first change in banking sector of India after independence?	Nationalization of Banks	Social control on Banks	Establishment of SBI	Establishment of RBI			Social control on Banks
24	When were the banks nationalized in our country?	On 1st July 1965	On 19th July 1969	On 19th July 1969 and 15th April 1980	On 16th April 1980 and 1st July 1965			On 19th July 1969 and 15th April 1980
25	What are the major change in banking sector of India after nationalization of Banks?	Expansion of bank branches	Cut throat competition in Banking sector	Introduction of Banking Regulation Act	Establishment of RBI			Expansion of bank branches
26	The following one is absolutely essential for a special crossing	Two parallel transverse lines	Words "And company?	Words "Not negotiable"	Name of a banker			Name of a banker
27	The reasonable period allowed in India for the presentation of a cheque is	1 year	3 months	9 months	depending upon custom			3 months
28	If cheque is crossed an account payee, this is direction of, to	Payee, paying banker	Payee, collecting bank	Drawer, paying bank	Drawer, collecting bank			Drawer, collecting bank
29	Which of the following is not the form of E-banking?	Internet Banking	Direct Deposit in Bank	Electronic cheque conversion	Mobile banking			Direct Deposit in Bank
30	-------is the most favoured technology for secure Internet banking service	Public Key Instructions	Public Key Information	Public Key Infrastructure	People Key Infrastructure			Public Key Infrastructure
31	The electronic funds transfer using a two-way communications system is referred to as a	Pay or cheque	Wire transfer	Depository transfer cheque	Payable through draft			Wire transfer
32	Interest payable on savings bank accounts is?	Regulated by State Governments	De-regulated by RBI	Regulated by RBI	Regulated by Finance Minister			De-regulated by RBI

33	The usual deposit accounts of banks are	Current accounts, electricity accounts and insurance premium accounts	Current accounts, post office savings, bank accounts and term deposit accounts	Loan accounts, savings bank accounts and term deposit accounts	Current accounts, savings bank accounts and term deposit accounts			Current accounts, savings bank accounts and term deposit accounts
34	Fixed deposits and recurring deposits are?	Repayable after an agreed period	Repayable on demand	Not repayable	Repayable on demand or after an agreed period as per bank's choice			Repayable after an agreed period
35	Accounts are allowed to be operated by cheques in respect of?	Both savings bank accounts and fixed deposit accounts	Both Savings bank accounts and current accounts	Both savings bank accounts and loan accounts	Other savings bank accounts and cash accounts only			Both Savings bank accounts and current accounts
36	Which of the following is correct statement?	No interest is paid on current deposit accounts	Interest is paid on current accounts at the same rate as term deposit accounts	The rate of interest on current accounts and savings accounts are the same	No interest is paid on any deposit by the bank			No interest is paid on current deposit accounts
37	When a bank returns a cheque unpaid, it is called?	Payment of the cheque	Drawing of the cheque	Dishonour of the cheque	Taking of the cheque			Dishonour of the cheque
38	Largest shareholder (in percentage shareholding) of a Nationalized bank is ?	RBI	NABARD	Government of India	LIC			Government of India

39	An institution whose principle business is accepting deposits and forwarding loans is called	Mutual Fund Business	Company	Bank	Ombudsman			Bank
40	Which of the following term do not represent any part of Banking technology?	NEFT	RTGS	ITC	EPS			ITC
41	The chief activities of bank do not include	Providing loans	Accepting deposits	Providing lockers	Selling real estate properties			Selling real estate properties
42	Every Banking Company is required to close its accounts on ________________	31st December	31st March	30th June	30th September			31st March
43	The Percentage of profit to be trasferred to statements reserve by the banking company is ___________	25%	15%	20%	10%			25%
44	An Asset which does not generate income to the banker is termed as ____________	Performing Asset	Non-Performing Assets	Fixed Asset	Current Asset			Non-Performing Assets
45	A Non - banking Asset is ____________	an Investment	an item of office appliances	Any asset acquired from the debtors in satisfaction of claim	Money at call and short notice			Any asset acquired from the debtors in satisfaction of claim
46	Provision for income tax is shown in the Bank Accounts under the head ___________	Borrowings	Other Liabilities	Operating expenses	Contingent Liabilities			Other Liabilities
47	The heading other assets does not include ________	Stationary and Stamps	Interest Accrued	Gold	Silver			Gold
48	Demand Drafts and Telegraphic transfers are shown in the Bank Accounds under the head _____________	Contingent lia bilities	Bills Payable	Loans and Advances	Borrowings In India			Bills Payable

49	Letter of Credit and Endorsement are shown in the Bank accouns under the head _____________	Bills Payable	Contingent liabilities	Bills for collection	Other Assets			Contingent liabilities
50	Building acquired in satisfaction of a claim and interest accrues but not due on investments are shown in the Banks Balance Sheet under the head ____________	Fixed Assets	Investments	Advances	Other Assets			Other Assets
51	Banking Companies are governed by the _______________ Act, 1949	Companies	Partneship	Banking Regulations	Banking			Banking Regulations
52	Banks in India are under the general supervision of ______________	SBI	RBI	SEBI	ABI			RBI
53	The bases for recording bank transactions are the _____________ prepared by customers and sometimes by bank staff	Slips	Bills	cheque	drafts			Slips
54	All appropriation of the Profit are shown in Ivth part of _____________	P & L A/c	Balance Sheet	P & L Appropriation A/c	Reveue Account			P & L A/c
55	Lockers rent is shown in the P&L A/c of Bank under the head _______________	Schedule 15	Schedule 12	Schedule 13	Schedule 14			Schedule 14
56	At present, the SLR for a banking company in India, as per the regulations of the Rbi is ____________	25%	15%	20%	10%			25%
57	According to present Regulation of the RBI, a banking company is to maintain a minimum of ___________ Percent as Cash Reserve over its time and demand liabilities	15%	5%	25%	20%			5%
58	Schedule 13 relates to __________	Interest Expended	Interest Earned	Other Income	Operating Expenses			Interest Earned

59	Schedule 15 relates to _______	Interest Expended	Interest Earned	Other Income	Operating Expenses			Interested Expended
60	Provisions for doubtful debts is shown under 'Provisions for Contingencies' in the ____________ of banking company	P & L A/c	Balance Sheet	P & L Appropriation A/c	Reveue Account			P & L A/c

UNIT – IV

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

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.

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

4. 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

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
	3,75,000

Solution :

Journal

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

***Working Notes*:**

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

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

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

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

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

Solution:

Dr. Gurgaon Electricity Company Limited Plant Account Cr.

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

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 QUESTIONS

PART – A

1. Under Double Account System, interest on debentures is shown in _________________
   a) Revenue A/c b) General Balance Sheet
   c) Capital A/c **d) Net Revenue Account**
2. Electricity Supply is a ______________
   a) Private Sector b) Non - government Sector
   c) Public Utility Service d) Unauthorised Sector
3. The accounts of Electricity company shall be made in the prescribed form as set in ____________________ of the Indian Electricity Rules, 1956
   a) Annexure IV **b) Annexure IV & Annexure V**
   c) Annexure V d) Annexure III & Annexure IV
4. The Contingency Reserve should be created until it equals ___________ of the original cost of the Fixed Assets
   a) 2% b) 10%
   c) 15% **d) 5%**
5. What is the name of the account showing Profit and Loss under double account system?
   a) Income and Expenditure Account b) Income Statement
   c) Revenue A/c d) Net Revenue Account
6. Under Double Account System, Preliminary expenses is shown on ____________
   a) debit side of Revenue A/c b) debit side of Net Revenue A/c
   c) debit side of Capital A/c d) asset side in the General Balance Sheet
7. Electricity supply company shall render their accounts to the State Government with ______
   a) Fifteen Days b) Thirty Days
   c) Six Months d) Three Months
8. Every Electric supply company shall create from the existing reserve called ______________
   a) Capital Reserve b) Revenue Reserve
   c) Contingency Reserve d) Reserve Contingency Reserve

9. What is the name of the accounts which shows Profit and Loss Appropriation under double account system?
   a) Net Revenue Account b) Revenue A/c
   c) Income Statement d) Net Reserve Account
10. Cost of license appears in _______________
    a) General Balance Sheet **b) Capital A/c**
    c) Revenue A/c d) Net Revenue Account
11. Every Electric supply company shall prepare its accounts to ____________
    a) 31st December **b) 31st March**
    c) 31st May d) 31st July
12. Under the Straight Line method of depreciation, an allowance is made each year which is equalent to _______ of the cost of asses

a) 95% b) 85%
c) 90% d) 100%

13. Under Double Account System, shares forfeited account is shown in ______________
a) Credit side of Revenue Account b) Credit side of Net Revenue A/c
c) Credit Side of Capital A/c d) Liabilities side of General Balance Sheet

14. When an asset is replaced, any amount realised on sale of old materials will be credited to ____________
a) Net Revenue Account b) Revenue A/c
c) Asset A/c **d) Replacement A/c**

15. The published Accounts of electricity companies are to be prepared in accordance with the Provisions of
a) Companies Act, 1996 b) Companies Act, 1926
c) Companies Act, 1936 **d) Companies Act, 1956**

16. Reserve must be transferred every year from the Revenue Account to the _____________
a) Depreciation Reserve A/c b) Depreciation A/c
c) Reserve A/c d) Depreciation Revenue A/c

17. Under Double Account System, depreciation is _____________
a) debited to revenue A/c b) debited to Net revenue A/c
c) credit to the assets A/c **d) credited to depreciation fund A/c**

18. Electricity Supply Companies are governed by ____________
a) The Electricity Act 1910 and The Electricity Act 1948
b) The Indian Electricity Act 1910 and The Electricity (Supply) Act 1948
c) The Indian Electricity Act 1910
d) The Electricity (Supply) Act 1948

19. The Electricity Companies are required to present their final accounts according to the _____
a) Double Entry System b) Single Entry System
c) Double Account System d) Single Account System

20. For Electricity Supply Companies ____________ methods of depreciation recognised
a) two b) Three
c) Four d) Five

PART – B

1. Write short notice on Clear Profit.
2. What is meant by Double Account System?
3. Mention the provisions relating to ‘Disposal of Surplus’.
4. Write short notice on Development Reserve.
5. State any four rules relating to calculation of reasonable return.

PART - C

1. H Electricity Co. earned a profit of Rs. 8,49,250 after paying Rs. 30,000 @ 6% as debentures

interest for the year ended 31.3.2004. the following further information is supplied to you :

Particulars	Amount Rs.
Fixed Assets	1,80,00,000
Depreciation written off	50,00,000
Loan from Electricity Board	40,00,000
Reserve Fund investment at Par (4%)	10,00,000
Contingencies Reserve investment, at par (4%)	7,50,000
Tariffs and Dividends control reserve	1,00,000
Security deposits of customers	1,50,000
Customers' contribution to asses	50,000
Preliminary Expenses	40,000
Monthly average of current assets, including amount due from customers Rs. 2,50,000	7,50,000
Development Reserve	2,50,000

Show the disposal of the profits.

2. From the following particulars, draw up :
   (a) Balance Sheet as on 31-12-2003 under he Single Account System; and
   (b) The Capital A/c and General Balance Sheet as at the same date under the Double Account System

   Authorised Capital – 20,000 Shares of Rs. 100 each

   Issued and paid up capital – 10,000 shares of Rs. 100 each including 1,000 shares issued in 2003

Particulars	Amount Rs.
8% Debentures	2,00,000
Reserve Fund	3,00,000
Trade Creditors	1,00,000
Trade Debtors	2,20,000
Cash at Bank	60,000
Stock	1,20,000

Reserve Fund Investments – at cost Rs. 3,00,000 (Market Value Rs. 3,60,000)

Fixed Assets - Expenditure upto 31-12-02

Building - Rs. 5,00,000

Machinery - Rs. 5,00,000

Expenditure during the year 2003:

Machinery - Rs. 1,40,000

Depreciation Fund :

Building - Rs. 60,000

Machinery - Rs. 1,00,000

3. Gopal Electricity Co. earned a profit of Rs. 33,97,000 after paying Rs. 1,20,000 @ 6% as Debentures

interest for the year ended 31.3.2004. The following further information is supplied to you :

Particulars	Amount Rs.
Fixed Assets	7,20,00,000
Depreciation written off	2,00,00,000
Loan from Electricity Board	1,60,00,000
Reserve Fund investment at Par (4%)	40,00,000
Contingencies Reserve investment, at par (4%)	30,00,000
Tariffs and Dividends control reserve	4,00,000
Security deposits of customers	6,00,000
Customers' contribution to asses	2,00,000
Preliminary Expenses	1,60,000
Monthly average of current assets, including amount due from customers Rs. 10,00,000	30,40,000
Development Reserve	10,00,000

Show the disposal of the profits.

4. The XYZ Electricity Company decided to replace some parts of its Plant by an improved Plant. The Plant to be replaced was built in 2003 for Rs. 54,00,000. It is estimated that it would now cost Rs. 80,00,000 to build a new Plant of the same size and capacity. The cost of the new Plant as per the improved design was Rs. 1,70,00,000 and in addition ,material belonging to the Old Plant valued at Rs. 5,50,000 was used in the construction of the New Plant. The balance of the old Plant was sold for Rs. 3,00,000. Compute the amount to be capitalised. Also pass the journal entries and Replacement Account.

5. The following balance relate to an Electricity Company and pertain to its accounts for the year ended 31.12.2003

Particulars	Amount Rs.	Particulars	Amount Rs.
Share Capital	1,00,00,000	Reserve Fund (invested in 5 % Govt. Securities at par)	60,00,000
Contingencies Reserve (invested in 6% State Govt. Loan)	20,00,000	Loan from State Electricity Board	30,00,000
11 % Debentures	8,00,000	Development Reserve	10,00,000
Fixed Assets	2,00,00,000	Depreciation Reserve on fixed assets	80,00,000
Consumer's Deposits	75,00,000	Amount contributed by consumers towards cost of fixed assets	2,00,000
Intangible Assets	5,00,000	Tariffs and Dividends Control Reserve	6,00,000
Current Assets (Monthly	20,00,000		

average)			

The company earned a profit of Rs. 9,00,000. Show how the profits of the company will be dealt with under the Provisions of the Electricity Act, assuming that the Bank Rate during the year 8 %.

6. The following are the balances on 31.03.04 in the books of the Ernakulam Power and Light Company Ltd.

Particulars	Amount Rs.	Amount Rs.
Land on 31.03.2003	1,20,000	
Lands expanded during 2003 – 2004	4,000	
Machinery on 31.03.2003	4,80,000	
Machinery expanded during 2003 - 2004	4,000	
Mains including cost of laying	1,60,000	
Mains expended during 2003 – 2004	40,800	
Equity Shares		4,39,200
Debentures		1,60,000
Sundry Creditors		800
Depreciation Fund		2,00,000
Sundry Debtors for Current Supplied	32,000	
Other Debtors	400	
Cash	4,000	
Cost of generation of electricity	28,000	
Cost of distribution of Electricity	4,000	
Rent, rates and taxes	4,000	
Management Expenses	9,600	
Depreciation	16,000	
Sale of Current		1,04,000
Rent of Meters		4,000
Interest on Debentures	8,000	
Interim Dividend	16,000	
Net Revenue A/c Balance on 31.03.2003		22,800
	9,30,800	**9,30,800**

From the above Trial Balance, prepare Revenue A/c, Net Revenue A/c, Capital A/c and General Balance Sheet.

7. The following balance have been extracted at the end of March 1999, from the books of an electricity company :

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
Share Capital	2,00,00,000	Reserve Fund (invested in 8 % Govt. Securities at par)	1,20,00,000
Contingencies Reserve	24,00,000	Loan from State Electricity	50,00,000

(invested in 7% State Govt. Loan)		Board	
12 % Debentures	40,00,000	Development Reserve	16,00,000
Fixed Assets	5,00,00,000	Depreciation Reserve on fixed assets	60,00,000
Consumer's Deposits	80,00,000	Amount contributed by consumers towards cost of fixed assets	4,00,000
Intangible Assets	16,00,000	Tariffs and Dividends Control Reserve	20,00,000
Current Assets (Monthly average)	30,00,000		

The company earned a profit of Rs. 56,00,000 (after tax) in 1998 - 1999. Show how the profits have to be dealt with by the company assuming the bank rate was 10%.

8. From the following particulars about Bijal Power Ltd. determine (a) the Capital base (b) the reasonable return (c) the disposal of profit. Show the journal entry.

Particulars	Amount Rs.
Tariffs and Dividends control reserve	65,00,000
Reserve Fund Investment at par	81,25,000
Contingencies Reserve Investments at par	73,15,000
Development Reserve	32,50,000
Loan from Electricity Board	2,11,25,000
Preliminary Expenses	6,00,000
Security deposits from customers	50,00,000
Customer's contribution to assets	8,00,000
Monthly average of current assets	1,10,00,000
Debentures	5,00,00,000
Fixed Assets (net of depreciation Rs. 3.25 Cr)	16,25,00,000
Profit earned (net of debenture interest 15 %)	3,15,00,000
Monthly average of current asset includes dues from customers Rs. 30,00,000	
Reasonable return calculation is to be done @ 12 %	

9. The following balances appeared in the books of Universal Electric Supply Corporation Ltd. as on 31.12.03

Particulars	**Debit Balances Rs.**	**Credit Balances Rs.**
Equity Shares		6,00,000
Debentures		2,00,000

Land on 31.12.03	1,50,000	
Land purchased during the year	60,000	
Mains including cost of laying to 31.12.03	1,60,000	
Mains expended during the year	76,000	
Machinery on 31.12.03	5,50,000	
Machinery Purchased during the year	66,000	
Sundry Creditors		1,000
Depreciation Fund Account		2,50,000
Sundry Debtors for Current Supplied	40,000	
Other Book Debts	500	
Stores in Hand	6,000	
Cash in Hand	4,000	
Cost of Generation of Electricity	30,000	
Cost of Distribution of Electricity	9,000	
Sale of Current		1,50,000
Meter Rent		5,000
Rent, Rates & Taxes	12,000	
Establishment Expenses	21,000	
Interest on Debentures	10,000	
Interim Dividend	20,000	
Depreciation	20,000	
Net Revenue A/c Balance on 31.12.03		**28,500**
	12,34,500	**12,34,500**

From the above balances prepare the Revenue A/c, Net Revenue A/c, Capital A/c and General Balance Sheet

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under Section 3 of UGC Act, 1956)
Coimbatore – 641021
B. COM. (PA)
ADVANCED CORPORATE ACCOUNTING - 17PAU401
UNIT - IV

S. No.	Questions	Option 1	Option 2	Option 3	Option 4			Answer
1	Under Double Account System, interest on debentures is shown in	Revenue A/c	Net Revenue	Capital A/c	General			Net Revenue
2	What is the name of the account showing Profit and Loss under	Income and	Income Statement	Revenue A/c	Net Reve			Revenue A/c
3	What is the name of the accoun which shows Profit and Loss	Net Revenue	Revenue A/c	Income Statement	Net Rese			Net Revenue
4	Under Double Account System, shares forfeited account is shown in	Credit side of	Credit side of Net	Credit Side of Capital	Liabilities			Credit Side of
5	Under Double Account System, depreciation is _____________	debited to revenue	debited to Net	credit to the assets	credited			credited to
6	Under Double Account System, Preliminary expenses is shown on	debit side of	debit side of Net	debit side of Capital	asset side			debit side of
7	Cost of licence appears in _______________	General Balance	Capital A/c	Revenue A/c	Net Reve			Capital A/c
8	When an asset is replaced, any amount realised on sale of old	Net Revenue	Revenue A/c	Asset A/c	Replacem			Replacement A/c
9	Electricity Supply Companies are governed by	The Electricity	The Indian Electricity	The Indian Electricity	The Eletr			The Indian
10	Electricity Supply is a ______________	Private Sector	Non - government	Public Utility	Unauthori			Public Utility
11	The published Accounts of electricity companies are to be	Companies Act,	Companies Act, 1926	Companies Act, 1936	Companie			Companies Act,
12	The Electricity Companies are required to present their final	Double Entry	Single Entry	Double Account	Single			Double Entry
13	Every Electric supply company shall prepare its accounts to	31st December	31st March	31st May	31st July			31st March
14	Electricity supply company shall render their accouts to the State	Fifteen Days	Thirty Days	Six Months	Three			Six Months
15	The accounts of Electricity company shall be made in the	Annexure IV	Annexure IV &	Annexture V	Annexure			Annexure IV &
16	For Electricity Supply Companies ____________ methods of	two	Three	Four	Five			two
17	Reserve must be transferred every year from the Revenue Account to	Depreciation	Depreciation	Reserve A/c	Depreciati			Depreciation
18	Under the Straight Line method of depreciation, an allowance is made	95%	85%	90%	####			90%
19	Every Electric supply company shall create from the existing reserve	Capital Reserve	Revenue Reserve	Contingency Reserve	Reserve			Contingency

20	The Contingency Reserve should be created until it equals ____________	2%	10%	15%	5%			5%
21	The sums appropriated to the Contingency Reserve should be	Indian Trust Act,	Indian Trust Act,	Indian Trust Act,	India n			Indian Trust
22	The Contingency Reserve should be utilised with the approval of	Central Governme	Local Authority	State Governnme	Both State			State Governn
23	Any sum tobe appropriated towards 'Development Reserve' may be done	8 Years	5 Years	3 Years	7 Year			5 Years
24	When an undertaking is sold, this Reserve should be handed over to	Tariffs ad Dividend	General Reserve	Contingenc y Reserve	Deve lopm			Develop ment
25	________________ is created out of Profits in excess of the reasonable	Contingen cy	Developme nt Reserve	Tariffs ad Dividend	Gene ral			Tariffs ad Dividend
26	_______________ Reserve can e utilised by the undertaking only to	General Reserve	Tariffs ad Dividend	Contingenc y Reserve	Deve lopm			Tariffs ad Dividend
27	____________ of the Act provides for the creation of a General	Section 67	Section 65	Section 62	Secti on			Section 67
28	Section 67 of the Act provides for the creation of a	Tariffs ad Dividend	Contingenc y Reserve	Developme nt Reserve	Gene ral			General Reserve
29	General Reserve can be created until the total of such Reserve does not	5%	10%	8%	3%			8%
30	______________ of the Sixth Schedule of the Act provides	Para XII	Para XVII	Para VII	Para XVII			Para XVII
31	______________ means the difference between the amount of	Clear Profits	Disposal of Profit	Net Profit	Reas onabl			Clear Profits
32	In order to prevent an electricity under taking to earn too high a	Rate of Return	Reasonable Return	Deduction	Depr eciati			Reasonab le Return
33	______________ is a yield at the standard rate which is the Bank rate	Profit	Income	Reasonable Return	Reve nnnn			Reasonab le Return
34	Reasonable return is an amount equal to _______ on any loans	1/4%	3/4%	1/1%	1/2 %			1/2 %
35	_________________ is the excess of clear profit over reasonable return	Clear Profits	Disposal of Profit	Net Profit	Reas onabl			Disposal of Profit
36	_______________ of the surplus not exceeding 5% of the reasonable	One-half	One - fourth	One - fifth	One - third			One - third
37	Of Three-fourth of the balance of surplus ____________ will be	One-half	One - fourth	One - fifth	One - third			One-half
38	An electricity undertaking must so adjust the rates that the amount of	15%	5%	20%	10%			20%
39	Original cost of an asset Rs. 2,50,000. Present cost of	Rs. 1,30,000	Rs. 3,80,000	Rs. 2,50,000	Rs. 3,25,			Rs. 3,25,000
40	Original cost of an asset Rs. 50,000. Present cost of replacement Rs.	Rs. 65,000	Rs. 76,000	Rs. 11,000	Rs. 50,0			Rs. 11,000
41	Under double account system, the income statement is sub divided into	Reserve A/c	Reserve A/c ; Net	Net Revenue	Reve rse			Reserve A/c ; Net
42	Under double account system, the balance sheet is bifurcated into	Capital A/c and	Capital A/c and	Capital A/c and Profit	Capit al			Capital A/c and

43	The Double Account system is a method of presenting annual	Public Utility	Private concerns	Governmen t Concerns	Loca l			Public Utility
44	Receipts and Expenditure on Capital account is also known as	Revenue A/c	Capital A/c	Asset A/c	Labil ities			Capital A/c
45	The Balance of Capital account represents excess / shortage of	Short Term	Medium Term	Long Term	Long and			Long Term
46	Under the double account system, the amount to be written off when	Revenue Account	Net Revenue	Capital Account	Profi t and			Revenue
47	Contingencies reserve is created until it equals __________ percent of	1%	2%	2.5%	5%			5%
48	Contribution to general reserve should be made until it reaches	5%	3%	7%	8%			8%
49	The excess of clear profit over reasonable return should be taken as	Excess	Surplus	Income	Profi t			Surplus
50	The ____________ account enables one to know the cost of fixed assets	Asset	Capital	Liabilities	Cash			Capital
51	__________ should be shown on the recipts side of capital account	General Reserve	Profit	Share Premium	Loss			Share Premium
52	______________ is to be invested in Trust Securities	Developm ent	Tariffs ad Dividend	Contingenc y Reserve	Gene ral			Continge ncy
53	Contingency Reserve is to be invested in _______________	Trust Securities	Shares	Bonds	Debe nture			Trust Securitie
54	Depreciation A/c (Cr.) means __________________	Reserve Fund	Capital Fund	Replaceme nt Fund	Depr eciati			Depreciat ion Fund
55	Depreciation Fund is also called as _____________	Contingen cy	Depreciatio n Reserve	Developme nt Reserve	Tarif fs ad			Depreciat ion
56	Depreciation is not credited to the asset account under	Depreciati on Fund	Asset Replaceme	Double Accout	Dou ble			Double Accout
57	_________________ is similar to the ordinary Profit & Loss	Revenue Account	Net Revenue	Profit and Loss	Capit al			Net Revenue
58	______________ is in the nature of Profit and Loss A/c	Net Revenue	Revenue A/c	Capital A/c	Profi t and			Revenue A/c
59	Renewals are provided out of ______________	Current Revenue	Current Capital	Current Expenses	Curr ent			Current Revenue
60	The account prepared for disclosing the appropriations of Profits is	Profit and Loss	Capital A/c	Revenue Account	Net Reve			Net Revenue

UNIT V

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.

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

Disclosure

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

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

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

Accounting Standard (AS) 5

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

Objective

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

Scope

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

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

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

Definitions

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

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

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

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

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

Net Profit or Loss for the Period

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

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

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

(a) profit or loss from ordinary activities; and

(b) extraordinary items.

Extraordinary Items

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

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

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

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

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

– attachment of property of the enterprise; or

– an earthquake.

Profit or Loss from Ordinary Activities

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

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

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

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

(c) disposals of items of fixed assets;

(d) disposals of long-term investments;

(e) legislative changes having retrospective application;

(f) litigation settlements; and

(g) other reversals of provisions.

Prior Period Items

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

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

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

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

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

Changes in Accounting Estimates

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies

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

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

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

The following are not changes in accounting policies:

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

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

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

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

Accounting Standard (AS) 11
The Effects of Changes in Foreign Exchange Rates

Objective

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

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

Scope

1. This Standard should be applied:

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

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

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

forward exchange contracts.1

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

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

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

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

Definitions

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

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

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

Exchange rate is the ratiofor exchangeo f two currencies.

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.

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

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.

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

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

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

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

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

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

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

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

PART – A

1. Accounting Standard Board (ASB) was constituted on _____________
   a) 21.04.1777 b) 21.04.1877
   c) 21.04.1977 d) 21.04.2017
2. Accounting Standards provide frame work for the preparation of _____________
   a) Cost Statement b) Account Statement
   d) Auditors Report **d) Financial Statements**
3. Non - monetary items are assets and liabilities other than _____________
   a) Debtors b) creditors
   c) long term liabilities **d) Monetary Items**
4. AS - 14 classifies amalgamation into ______ categories
   a) 1 b) 3
   c) 2 d) 5
5. The Accounting Standards are in the nature of _______ but not laws
   a) Act b) Standards
   c) Rule **d) law**
6. The Objectives of setting standards is to bring about _______________ in financial reporting a) Difference **b) Uniformity**
   c) Variation d) Diversity
7. ___________ is the mean of exchange rates in force during a period
   a) Forward Rate b) Closing Rate
   c) Exchange Rate **d) Average Rate**
8. Purchase Consideration to be issued to the ____________ of the Selling company
   a) Debtors b) creditors
   c) Shareholders d) Vendors
9. ____________ ensures the compliance of accounting standards by the general public through the attest function of its members
   a) The Chartered Accountants of India
   b) The Institute of Chartered Accountants of India
   c) The Institute of Cost Accountants of India
   d) The Institute of Company Secretary of India
10. All business enterprises are classified into ___________ Levels
    a) 3 b) 2
    c) 5 d) 6
11. A transaction in a foreign exchange should be recorded in the _____________
    a) Home Currency b) Foreign Currency
    c) Reporting Currency d) Foreign Exchange Currency
12. _____________ to be issued to the shareholders of the selling company
    a) Assets b) Shares

c) Purchase Consideration d) Debentures

13. Accounting is universally accepted as ____________
    a) Principle b) the language of business
    c) the language of countries d) Regulations
14. While formulating Accounting Standards, ASB will give due consideration to International Accounting Standards issued by ____________
    a) IFRS b) ISI
    c) IAS **d) IASC**
15. The terms of an agreement for exchange of two currencies at a specified future date is called as ______________
    a) Average Rate **b) Forward Rate**
    c) Closing Rate d) Exchange Rate
16. ___________ Approach recognises grants as income related to appropriate period on a systematic and rational basis
    a) Net b) Capital
    c) Profit **d) Income**
17. Accounting communicates financial results of an enterprise to various interested parties by means of ______________
    a) Cost Statements **b) Financial Statements**
    c) Account Statements d) Auditors Statement
18. AS - 4 deals with _______ items
    a) 5 **b) 2**
    c) 4 d) 1
19. ____________ date is the date at which a receivable is due to be collected or a payable is due to be paid
    a) Purchase b) Sale
    c) Grace **d) Settlement**
20. Shareholders holding not less than ________ of face value of the Equity shares of the transferor company will become the shareholders of the transferee company
    a) 80% b) 85%
    c) 90% d) 95%

PART - B

1. Briefly explain the meaning of Accounting Standard?
2. What are the objectives of Accounting Standards?
3. What is Accounting Standard Board?
4. What is a ‘Contingency’ as per AS – 4?
5. What are ‘Monetary’ and ‘Non – monetary’ items under AS – 11?

PART - c

1. Define Accounting Standards. Elucidate the need and significance of Accounting Standards.
2. What is Accounting Standard Board? How does it formulate Accounting Standards?
3. Explain the meaning and features of Level I, Level II and Level III enterprises in relation to accounting standards.
4. Define Accounting Standards. Discuss the scope of Accounting Standards.
5. How are ‘Contingencies’ and events occurring after Balance Sheet data to be treated as per AS – 4?
6. Explain the procedure for accounting for the effect of changes in Foreign Exchange rates under AS – 11?
7. How should the government grants be accounted in a company as per AS – 12?
8. Explain the method of accounting for amalgamation in the nature of ‘Purchase’ under AS – 14?
9. How should a firm account for Retirement benefits under AS - 15
10. Discuss in detail segment reporting under AS – 17?

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed to be University)
(Established Under Section 3 of UGC Act, 1956)
Coimbatore – 641021
B. COM. (PA)
ADVANCED CORPORATE ACCOUNTING - 17PAU401
UNIT - V

S. No	Questions	Option 1	Option 2	Option 3	Option 4			Answer
1	Accounting Standard Board (ASB) was constituted on	21.04.1777	21.04.1877	21.04.1977	21.04.2017			21.04.1977
2	The Accounting Standards are in the nature of _______ b ut	Act	Standards	Rule	law			law
3	____________ ensures the compliance of accounting	The Chartere	The Institute of	The Institute of Cost Accountans of India	The Institute of			The Institute of Chartered
4	Accounting is universally accepted as ____________	Principle	the language	the language of countries	Regulations			the language of business
5	Accounting communicates financial results of an	Financial Statemen	Cost Statements	Auditors Report	Cost Sheet			Financial Statements
6	Accouting Standards provide frame work for the preparation	Financial Statemen	Cost Statements	Auditors Report	Cost Sheet			Financial Statements
7	The Objectives of setting standards is to bring about	Difference	Uniformity	Variation	Diversity			Uniformity
8	International Accounting Standards Committee was	June, 1975	June, 1983	June, 1973	June, 1985			June, 1973
9	While formulating Accounting Standards, Asb will give due	IFRS	ISI	IAS	IASC			IASC
10	ASB will review Accounting Standards at	at all times	Anytime	Irregular Intervals	Periodical Intervals			Periodical Intervals
11	Expand IASC ____________	Internati onal	Indian Accountin	International Accounting	Internation al			International Accounting
12	All business enterprises are classified into ___________	3	2	5	6			3
13	AS - 4 deals with _________________	Foreign Exchang	Amalgama tion	Contingecies and events occuring	Employee benefits			Contingecies and events occuring
14	AS - 4 deals with _______ items	5	2	4	1			2
15	The _______________ may result in loss or in gain or in	Expenses	Loss	Provisions	Contingenc ies			Contingencies
16	_____________ Currency is the currency used in presenting	Forward	Future	Reporting	Foreign			Reporting
17	_____________ Currency is the currency other than the	Forward	Future	Reporting	Foreign			Foreign
18	____________ is the ratio for exchange of two currencies	Exchang e Rate	Forward Rate	Average Rate	Closing Rate			Exchange Rate

19	The terms of an agreement for exchange of two currencies at a	Average Rate	Forward Rate	Closing Rate	Exchange Rate			Forward Rate
20	____________ is the mean of wxchane rates in force during a	Forward Rate	Closing Rate	Exchange Rate	Average Rate			Average Rate
21	The Exchange rate at the Balance Sheet date is	Average Rate	Forward Rate	Closing Rate	Exchange Rate			Closing Rate
22	_______________ items are money held and assets and	Non - Monetar	Monetary	Non cash	Gift			Monetary
23	Non - monetary items are assets and liabilities other than	Debtors	creditors	long term liabilities	Monetary Items			Monetary Items
24	_____________ date is the date at which a receivable is due to	Purchase	Sale	Grace	Settlement			Settlement
25	A transaction in a foreign exchange should be recorded in	Home Currency	Foreign Currency	Reporting Currency	Foreign Exchange			Reporting Currency
26	Foreig Cuurent Liability for purchase of Fixed Assets is	Foreign Exchage	Future Contract	Spot Contract	Swap			Foreign Exchage Contract
27	AS - 12 deals with the Accounting for _____________	Continge cies and	Governme nt Grants	Foreign Exchange	Amalgamat ion			Government Grants
28	The Government includes ____________	State Governm	Central Governme	Both State and Central	Local Authority			Local Authority
29	____________ Approach treats grants as equivalent to	Net	Income	Capital	Profit			Capital
30	____________ Approach recognises grants as income	Net	Capital	Profit	Income			Income
31	AS - 14 deals with the Accounting for _____________	Governm ent	Amalgama tion	Contingecies and events occuring	Foreign Exchange			Amalgamation
32	AS - 14 classifies amalgamation into ______	1	3	5	2			2
33	Shareholders holding not less than _________ of face value of	80%	85%	90%	95%			90%
34	All the assets and liailities of the transferor compay becomes	Amalga mation	Internal Reconstruc	External Reconstruction	Absorption			Amalgamation
35	______________ to be issued to the shareholders of the selling	Assets	Shares	Purchase Consideration	Debentures			Purchase Consideration
36	Purchase Consideration to be issued to the _____________ of	Debtors	creditors	Shareholders	Vendors			Shareholders
37	AS _________ deals with the accounting treatment for	14	4	11	12			14
38	In respect of retirement benefits in the form of Provodent Fund	Profit and Loss	Profit and Loss A/c	Balance Sheet	Revenue A/c			Profit and Loss A/c
39	AS 17 deals with _____________	Fixed Assets	Amalgama tion	Segment Reporting	Lease			Segment Reporting
40	___________ deals with Segment Reporting	AS 10	AS 16	AS12	AS 17			AS 17
41	A ______________ is a distinguishable component of	Geograp hical	reportable segment	Segment Reporting	Business Segment			Business Segment

42	A ______________ is a distinguishable component of	reportable	Segment Reporting	Geographical Segment	Business Segment			Geographical Segment
43	A ___________________ is a business or a geographical	Segment Liabilitie	reportable segment	Segment result	Segement Assets			reportable segment
44	______________ is revenue from sales to external	Enterprise	reportable segment	Enterprise Income	Enterprise Expenses			Enterprise Revenue
45	_____________ is segment revenue less segment expenses	Segment Reportin	Segment result	Segment Liabilities	Segement Assets			Segment result
46	Segment Assets does not include __________	Segment Liabilitie	Segement Assets	Current Assets	Income Tax Assets			Income Tax Assets
47	______________ does not include income tax liabilities	Current Assets	Income Tax Assets	Segment Liabilities	Segement Assets			Segment Liabilities
48	______________ does not include Income tax assets	Segement Assets	Income Tax Assets	Fixed Assets	Current Assets			Segement Assets
49	Segment Liabilities does not include _______________	Income Tax	Fixed Assets	long term liabilities	Income Tax Liailities			Income Tac Liailities
50	_____________ are the accouting policies adopted for	Segment Accounti	Segment Reporting	Segement Recording	Segment Policies			Segment Accounting Policies
51	There are ___________ approaches for accounting	one	two	three	four			two
52	AS stands for ____________	Accounting	Actual Sales	Accounting Standards	Accounting for Sales			Accounting Standards
53	______________ deals with Accounting for Fixed Assets	AS 26	AS 20	AS 10	AS 17			AS 10
54	AS 19 deals with _________________	Amalgamation	Segment Reporting	Fixed Assets	Lease			Lease
55	__________ deals with Intangible Assets	AS 26	AS 20	AS 10	AS 17			AS 26
56	_______ section of the compani	495	465	494	490			494
57	Purchasing company records the	marked value	market value	book value	any value			market value
58	Alteration of share capital is eff	Memorandum of	Articles of association	shareholders	board of directors			Articles of association
59	The books of the selling compar	opened	started	closed	begin			closed
60	Purchase consideration is payab	cash	loan	bonds	goods			cash