MANONMANIAM SUNDARANAR UNIVERSITY

DIRECTORATE OF DISTANCE

& CONTINUING EDUCATION

<u>CORPORATE ACCOUNTING</u>

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CORPORATE ACCOUNTING

INDEX

CORPORATE ACCOUNTING

Unit	Details
I	**Issue of shares and Final accounts of Companies:** Issue of shares: ESOPs – ESPS – Sweat Equity Shares – Book Building – Buy back of shares – Conversion of debentures into shares – Final accounts of Companies as per Schedule III of the Companies Act 2013 – Managerial Remuneration.
II	**Insurance Company Accounts:** Insurance Company Accounts: Types of Insurance – Final accounts of life assurance Companies – Ascertainment of profit – Valuation Balance Sheet – Final accounts of Fire, Marine and miscellaneous Insurance Companies.
III	**Consolidated Financial Statements:** Consolidated financial statements as per AS 21: Consolidated Profit and Loss Account – Minority Interest – Cost of control – Capital reserve – Inter-company holdings – Preparation of consolidated Balance Sheet.
IV	**Contemporary Accounting Methods:** Accounting for price level changes – Social responsibility accounting – Human resource accounting – Forensic Accounting.
V	**Financial Reporting:** Financial reporting: Meaning, Objectives, Characteristics – Indian Accounting Standards (AS 5, AS 10, AS 19, AS 20) – Corporate Social Responsibility: Meaning, Key provisions of Companies Act, 2013, Accounting for CSR expenditure, Reporting CSR, Presentation and disclosure in the financial statements.

CORPORATE ACCOUNTING

UNIT I

ISSUE OF SHARES AND FINAL ACCOUNTS OF COMPANIES

Meaning of Company

A company is an association of persons formed for a common purpose.

Definition of a company

"Company is an artificial person created by law having a separate entity with a perpetual succession and a common seal". – Prof. Haney

Kinds of Companies

Companies may be classified on the following basis:

Kinds of companies

- **Statutory Companies**
- **Registered Companies**
  - **Private Companies**
  - **Public companies**
- **Government Companies**

Sources of finance:

The company raises its finance through shares and debentures.

Meaning of share:

The capital of the Company is divided into different units of fixed amount. These units are called "shares".

Example: Capital of the company is Rs.1,00,000/- and it is divided into 10,000 units of Rs.10 each. Rs.10 each unit shall be called a share of the company.

Types of Shares

These are two types of shares namely preference shares and equity shares.

Preference Shares:

The preference shares carry two preferential rights in respect of

a) Payment of dividend
b) Repayment of capital on winding up of the company

These shares carry fixed rate of dividend.

Definition: -

According to sec.85 of the companies Act 1956, Preference shares are those shares on which there is a preferential rights.

a) to get dividend during the life time of the Company &

b) to repay capital at the time of winding up of the company.

Characteristics (features) of Preference shares: -

1) They have the first preference to get dividend at a fixed rate before any dividend paid to equity shareholders.
2) At the time of winding up of the company preference shareholders have the first to get back their capital before any capital paid to equity shareholders.
3) They shall have fixed rate of dividend.
4) They do not have right to share the surplus of profits or assets of the company
5) They do not have any voting Rights and voice in the management of the company affairs.

Different classes of preference shares: -

(a) Cumulative preference Shares: -

If any year, the company does not earn sufficient profit dividend on preference shares may not be paid for that year. The unpaid dividend amount is in arrear. These shareholders will have the right to receive the arrear dividend in the subsequent year profits.

(b) Non-Cumulative preference shares: -

If any year the company does not earn sufficient profit, dividend on preference shares may not be paid for that year. The unpaid dividend amount is in arrear. These

Share holders will have no right to claim arrear dividend in the subsequent year profit. Here dividend will not be accumulated.

(c) Participating preference Shares: -

In addition to fixed dividend, these shareholders have a right to participate in the surplus profit which remains after payment of dividend to the equity shareholders. At the time of winding up of the company they have the right to participate in the surplus profit which remains after payment of dividend to the equity shareholders. At the time of winding up of the company they have the right to participate in the surplus of assets after payment to equity shareholders.

(d) Non-participating preference shares: -

These shareholders have no right either to participate surplus of profit or surplus of assets after payment to equity shareholders.

(e) Convertible Preference Share: -

These shares can be converted into equity shares after a fixed period

(f) Non-Convertible preference shares: -

These shares have no right to convert their preference share into equity shares.

(g) Redeemable Preference Shares: -

According to sec 90 of the Companies Act Redeemable preference share are those shares which can be redeemed after a specified period or at the discretion of the company.

Conditions for Redemption

1) The redemption must be authorised by articles of association.
2) Fully paid up of this share can be redeemed.
3) It can be redeemed either out of profits of the company or out of fresh issue of equity shares.

(h) Irredeemable preference shares: -

These shares cannot be redeemed during the life time of the company

Equity shares (or) Ordinary shares

The word Equity means ownership interest or the interest of shareholders as measured by capital and Reserves. It is the backbone of any Company's Capital

Structure As per the Companies Act, the shares which are not preference shares are equity shares. Dividend and capital can be paid only after paying preference shares. During the life time of the company, The equity shares capital cannot be returned The equity shareholders are eligible to vote in the annual general body meeting of the company.

Share capital

It means the capital raised by the company by the issue of shares.

Types of share capital:

1) **Authorised capital**: It is the maximum capital that the company can raise by way of issue of shares. It is also called as nominal or registered capital.
2) **Issued capital**: It is the part of authorised capital which is issued to the public for subscription
3) **Subscribed capital:** It is the part of issued capital which is subscribed (Purchased) by the public.
4) **Called up capital:** It is part of subscribed capital with regard to which calls have been made.
5) **Paid up capital:** It is the part of subscribed capital for which call money shareholders have actually paid.

Problem:1

Babu Ltd was registered with an authorised capital of 2,00,000 shares of Rs.10 each. 1,40,000 shares were issued to the public. The public subscribed for 1,00,000 shares. The company called up Rs.7 per share. All money called up was duly received with the exception of a call of Rs.2 per share on 1000 shares. Show the amounts of various types of share capital.

Solution:

Share Capital

Particulars		Rs
Share capital		
1) Authorised Capital		
2,00,000 shares of Rs.10 each		20,00,000
2)Issued capital		
1,40,000 shares of Rs. 10 each		14,00,000
3) Subscribed capital		
1,00,000shares of Rs.10 each		10,00,000
4) Called up capital		
1,00,000 shares 7,00,000 of Rs 7 each Less calls in arrears1000 shares of Rs.2 each	7,00,000 2,000 -------------	6,98,000

Mode of Issue of Share

Mode of Issue of Share

Par | **Discount** | **Premium**

Issue of shares at Par: -

When the shares of a company are issued at the face value, they are said to be shares are issued "at par" (nominal value)

Eg. Rs.10 face value of a share issued at Rs.10 only. It is at par value.

Accounting entries for issue of shares at par:

1) Application money received:		
Bank a/c Dr.	xxx	
To share supplication a/c		xxx
(Being application money received)		
2) Transfer of application money:		
Share application a/c Dr	xxx	
To share capital a/c		xxx
3) Application money rejected: (refunded)		
Share application a/c Dr	xxx	
To Bank a/c		xxx
4) Allotment money due:		
Share allotment a/c Dr	xxx	
To share capital a/c		xxx
5) Allotment money received		
Bank a/c Dr	xxx	
To Share allotment a/c		xxx
6) Share I call money due:		
Share I call a/c Dr	xxx	
To share capital a/c		xxx
7) **Share I call money received**		
Bank a/c Dr	xxx	
To share I call a/c		xxx

8) Share II & final call due

Share II & final call a/c Dr xxx

To Share capital a/c xxx

9) Share II call money received

Bank a/c Dr xxx

To Share II call a/c xxx

Problem:2

Ramu & Co., Ltd issued 20000 equity shares of Rs.10 each payable as to Rs.2 onapplication Rs.3 on allotment Rs.3 on I call and Rs.2 on final call.

All money was duly received on issued shares. Pass journal entries prepare ledger accounts and show Balance sheet.

Solution:

1) Application money received

Bank a/c Dr 40,000

To share application a/c 40,000

(20000 shares x Rs.2)

2) Transfer of application money

Share application a/c Dr 40,000

To share capital a/c 40,000

3)Share allotment due:

Share allotment a/c Dr 60,000

To share capital a/c 60000

4)Allotment money Received:

Bank a/c Dr 60,000

To share allotment 60,000

5)Share First call due:

Share first call a/c Dr 60,000

To share capital

(20,000* Rs3) 60,000

6) First call money received:

Bank a/c	Dr	60,000	
To Share first call a/c			60,000
7) Share Second & final call due:			
Share II & final call a/c	Dr	40,000	
To Share Capital			40,000
(20,000 shares x Rs.2)			
8) Second call Money Received			
Bank a/c	Dr	40,000	
To Share II call a/c			40,000

Ramu & Co Ltd Ledger Accounts

Bank Account

To Share application	40,000	By Balance c/d	2,00,000
To Share allotment	60,000		
To Share I call	60,000		
To Share II call	40,000		
	2,00,000		2,00,000
To balance b/d	2,00,000		

Share Application Account

To Share Capital	40,000	By Bank	40,000
	40,000		40,000

Share Allotment Account

To Share capital	60,000	By Bank	60,000
	60,000		60,000

Share I call Account

To Share Capital	60,000	By Bank	60,000
	60,000		60,000

Share II & final call account

To Share Capital	40,000	By Bank	40,000
	40,000		40,000

Share capital account

To balance c/d	2,00,000	By Share Application a/c	40,000
		By Share allotment a/c	60,000
		By Share I call a/c	60,000
		By Share II & final call	40,000
	2,00,000		2,00,000
		By Balance b/d	2,00,000

Issue of Shares at Discount (Sec. 79)

A Company can issue Shares at a price which is less than the face value is called as shares are issued at a Discount.

E.g. If a share of Rs.10 is issued for Rs.9 then it is issued at 10% discount

Conditions: (Sec 79)

The following conditions are to be satisfied by the company before issuing shares at discount.

1) Issue of shares at a discount is authorised by a resolution passed by the company in general meeting and sanctioned by Central Government
2) The Rate of discount should not be more than 10% of the face value of the share Higher rate is allowed only when permitted by the central Government

3) One year must have been elapsed after the commencement of the business.
4) Issue must take place within 2 months after the date of the sanction of the company Law Board.
5) Every prospectus relating to the issue of shares and every balancesheet issued after the issue of shares shall contain particulars of the discount allowed and so much of the discount as has not been written off.
6) The Shares must belong to a class already issued

Journal Entry: Issue of shares at a discount

Share allotment a/c	Dr	xxx	
Discount on issue of Share a/c	Dr	xxx	
To share capital a/c			xxx

Note: i) Discount on issue of shares is a capital loss and will be shown on the assets side of the Balancesheet till it is completely written off from P & L a/c

ii) Discount can be allowed only at the time of allotment due.

Issue of Share at a premium:

When a share is issued at a price which is above its face value then it is said that it has been issued at premium.

E.g. If a share of Rs.10 is issued for Rs.11 then Rs.1 is the premium on the share.

Journal Entry:

Share allotment a/c Dr (including the amount of premium)	xxx	
To Share Capital a/c		xxx
To Share premium a/c		xxx

Share premium is a capital profit it will be used to written off capital losses. It will be shown on the Liability side of the Balance sheet.

Utilisation of share premium u/s 78

Under section 78 of the companies Act 1956, the share premium received is a capital profit and can be used for the following purposes.

1) For the issue of fully paid bonus shares to the shareholders of the company.
2) For writing off the preliminary expenses of the company.
3) For writing off the expenses or underwriting commission or discount on issue of

shares or debentures of the Company.

4) For providing premium payable on the redemption of any redeemable preference shares or any debentures of the company.

Minimum subscription:

The minimum subscription stated in the prospectors. The application money should be at least 5% of the face value of the shares applied for otherwise no allotment shall be made on any issue of shares of a company

5% face value of application money Received – Minimum subscription

Minimum Subscription amount must be received within 120 days from the date of prospectus otherwise whole application money has to be refunded to the applicants within next 10 days.

Pro- rata allotment (over subscription)

If the number of shares applied is more than the number of shares issued it is said to be oversubscribed.

E.g. Application Received **-** Eligible issue = over subscription

15000 shares **-** 10000 shares = 5000 shares

But the company can allot only 10000 shares equal to 10000shares issued by it. In that case the directors may either totally reject 5000 applications or they may be allot share on "prorate basis" and hence it is known as pro rata allotment.

Pro-rata will arise only on over subscription. At that time the company need not refund the excess application money received but the same can be adjusted on allotment money and call money due.

Entry: Share application a/c Dr xxx

To share allotment a/c xxx

Formula:

i) Allotment to a particular applicant:

$$\frac{\text{Total Shares}}{\text{Total Shares applied}} \times \text{Shares applied by a particular applicant.}$$

E.g. Saai has applied 150 shares, how many shares are allotted to him by the company

$$\text{Saai will get} = \frac{10{,}000 \text{ shares}}{15000 \text{ shares}} \times 150 \text{ shares} = 100 \text{ shares.}$$

ii) Calls in advance and calls in arrears:

a) Call in advance: The money received by the company in excess of what has bee called up is known as calls – in – advance.

Entry: Bank/a/c Dr xxx

To Calls in advance a/c xxx

(Being advance will be shown on the liabilities side of the balance sheet till it is closed 6% p.a Interest is allowed as a maximum as per Articles of association.)

Transfer: When particular calls are made, calls in advance is transferred to particular call a/c

Calls in advance a/c Dr xxx

To Particular call a/c xxx

b) Calls in arrears: Any amount called by the company but not paid by the shareholders is known as calls in arrears. It should be deducted from called up capital till it is realised.

E.g. Bank a/c Dr xxx

Calls in arrears a/c Dr xxx

To share I call a/c xxx

(Being calls in arrear in share I call)

5% Interest is charged as a maximum as per articles of association when it is paid.

2. Forfeiture of shares:

It means cancellation of shares by the company. If a shareholder fails to pay any call money on shares made by the company these shares may be cancelled by the company is called forfeiture of shares.

Conditions: - 1) Articles must permit.

2) At least 14 days notice must be served.

Entry:

Share capital a/c Dr (No of shares cancelled x amount called up)   xxx

To Share call a/c (No. of shares cancelled x amount unpaid)   xxx

To Forfeited shares a/c (No. of shares forfeited x amount already paid)   xxx

Share forfeited account is a capital profit and should be shown on the liabilities side of the Balancesheet.

Problem:3

Mr.A shareholder who holds 200 equity shares of Rs.10 each. He paid Rs.2 on application Rs.3 on allotment but could not pay the first call Rs.3 and final call Rs.2 per share and his share were forfeited by the directors. Pass Journal entries.

Solution: Share capital a/c Dr   2000(200x10)

To share I call a/c   600(200 x3)

To share II & final call a/c   400(200 x2)

To share forfeited a/c   1000(200 x5)

(Being forfeiture of 200 equity shares of Rs.10 each)

Share forfeited account is a capital Profit. It should be transferred to capital Reserve a/c

Entry; Share forfeited a/c Dr   1000

To Capital Reserve a/c   1000

Re-issue of shares:

Forfeited shares can be re-issued at a price less than face value. But it should not be less than the called up value. The loss on the reissue of forfeited share is debited to share forfeited account and if there is any balance in share forfeited account will be a capital profit and should be transferred to capital Reserve account.

Entry: -

Bank a/c Dr.   xxx

(No. of shares Reissued x Reissue price)

Share forfeited a/c Dr.   xxx

(No. of shares reissued x Difference between face value and reissue price)

To share capital a/c (No. of shares reissued x face value)   xxx

Any balance in share forfeited account will be transferred to capital reserve

Share forfeited a/c Dr xxx

To capital Reserve a/c xxx

Problem:4

Mr. Anbu shareholders who holds 200 equity shares of Rs.10 each. He paid Rs.2 on application and Rs.3 on allotment, But could not pay the first call Rs.3 and final call Rs.2 per share call Rs.2 per share and his share were forfeited by the directors. These 200 shares are re-issued at Rs.7 each. Pass journal entries.

Solution:

1) Forfeiture of 200 shares:

Share capital a/c Dr.	2000(2000x10)	
To share first call		600(200 x 3)
To share II final call		400 (200 x 2)
To share forfeited a/c		1000(200 x 5) (2 +3)

2) Re-issue of 200 shares of Rs.7 per share:

Bank a/c Dr	1400 (200 X 7)	
Share forfeited a/c Dr	600(200 x3) (10 -7)	
To Share capital a/c		2000 (200x10)

3) Share forfeited account transferred:

Share forfeited a/c Dr	400	
To Capital Reserve a/c		400 (200x2) (5-3)

Note:	Share forfeited ac Cr	1000 (200 x5)
	Less: Share forfeited a/c	600 (200 x3)
		400

Problem: 5

The directors of Arun Ltd resolved on 1st May 2017, that 2000 ordinary shares of Rs.10 each Rs.7.50, paid be forfeited for non payment of final call of Rs.2.50 on June 10, 2017, 1800 of the above shares were reissued for Rs.6 per share show the final entries required to give effect to the above transaction.

Solution: -

1. Forfeiture of 2000 shares:

Share Capital a/c Dr. 20,000 (2000 x100)

To calls in arrears a/c 5000 (2000 x2.50)

To share forfeited a/c 15000 (2000 x 7.50)

2. Re- issue of 1800 shares of Rs.6 each

Bank a/c Dr 10800 (1800 x6)

Share forfeited a/c Dr 7200 (1800 x4)

To share capital a/c 18000 (1800 x10)

3. Share forfeited a/c – transferred:

Share forfeited a/c Dr 6300

To Capital Reserve a/c 6300

Capital reserve:

2000 Shares forfeited (Cr)	15000
1800 shares forfeited (Cr) (1800 x 7.50)	13500
Less: Reissued (1800 x4)	7200
Capital Reserve*	6300

Surrender of Shares:

After allotment of shares, sometimes a share- holder is not able to pay further calls and returns his shares to the company for cancellation. Such voluntary return of shares to the company by the shareholder himself is called surrender of shares.

Entry: - Surrender of shares

Share capital a/c Dr xxx

To share call a/c xxx

To share forfeited a/c xxx

Issued of share for consideration other than cash (Issue of shares to vendors)

Shares can also be issued to vendors who sell some asset to the company It is called shares are issued for consideration other than cash.

Entry:

1) Sundry Assets a/c Dr xxx

 To vendor a/c xxx

 (Being Assets purchased from vendor)

2) Vendor a/c Dr xxx

 To share capital a/c xxx

 (Shares are issued to vendors for the purchasing of assets)

Right Issue: U/S 81.

A company wants to make a further issue of shares, the issue must first be offered to the existing share holders in proportion to their present holding of shares. This offer is known as Right Issue. The right shares can also be sold by the shareholders.

Calculation of value of Right Shares:

$$= \frac{\text{New Right Shares x Market price of Share – New right price of share}}{\text{Total shares (including Right shares)}}$$

The value of right share is calculated with reference to market value of shares. The market value of shares is high the right to buy more share is valuable

Example:

A Company offers to its shareholders the right to buy one share Rs.100 each Rs.125 for every 3 shares of Rs.100 each held. The market value of share is Rs.195. Calculate the value of right issue.

Solution:

Value of right issue$= \frac{\text{1 shares}}{\text{4shares (3 + 1)}} \times 195 - 125 = \text{Rs.17.50}$

Conditions:

1. The right issue must first be offered to existing shareholders in proportion to their present holding of shares.

2. The issue take place after the expiry of 2 years from the date of its incorporation or after the expiry of 1 year from the date of allotment of shares for the first time whichever is earlier.

3. The Company must serve a notice to the existing shareholders regarding the right issue. If the existing shareholders failed to accept the offer within 15 days or such further time as may be extended then the company can offer the issue to the public.

Problem: 6

A Ltd invited applications for 10000 shares of Rs.100 each at a discount of 5% payable as follows

On application – Rs. 25

On application – Rs.34

On first and final cal –Rs.36

The applications were received for 90000 shares and all of these were accepted. Al money due were received except the first and final call on 200 shares which forfeited. 100 shares were reissued @ Rs.90 as fully Paid. You are required to prepare journal entries for the above transactions.

Solution:

In the books of A Ltd.

1) Application money received for 9000 shares of Rs.25 each

Bank a/c Dr	2,25,000	
To Share application a/c (9000 x 25)		2,25,000

2) Application money transferred:

Share application a/c Dr	2,25,000	
To Share capital a/c		2,25,000

3) Allotment due – with 5% discount:

Share allotment a/c Dr (9000 x 34)	3,06,000	
Discount a/c Dr (9000 x5)	45,000	
To Share capital (9000 x 39)		3,51,000

4) Allotment money receive:-

Bank a/c Dr	3,06,000	
To Share allotment a/c		3,06,000

5) Share I & final call due:-

Share I & final call a/c Dr	3,24,000	

To Share capital (9000x36)		3,24,000
6) I call money received except 200 shares		
Bank a/c Dr (8800 x 36)	3,16,800	
Calls in arrears a/c Dr (200 x36)	7,200	
To share capital a/c (9000 x36)		3,24,000
7) Forfeiture of 200 shares (200 gqFs xWg;gpog;G)		
Share capital a/c Dr (200 x100)	20,000	
To Calls in arrear a/c (200x 36)		7,200
To share forfeited a/c 200 x59 (25+34)		11,800
To Discount a/c (200 x 5)		1,000
8) Re issue of 100 shares of Rs.90 each		
Bank a/c Dr (100 x90)	9,000	
Discount a/c Dr (10 x5)	500	
Share forfeited a/c Dr (500 x5)	500	
To Share capital a/c (100 x100)		10,000
9) Share forfeited a/c transferred: -		
Share forfeited a/c Dr	5,400	
To Capital reserve		5,400

Calculation of Capital Reserve

200 shares forfeited credit balance (200 x59)	11,800	
100 Shares forfeited (100 x59)		5,900
Less: 100 shares reissued		500
Capital Reserve		5,400

Balance Sheet

Liabilities		Assets		
Share capital 8900 shares of Rs.100 each	8,90,000	Cash at Bank		8,56,800
		Discount (9000 x5)	45,000	

Share forfeited a/c		**Less:** forfeited (200x5)	1,000	
(1000 shares x 59)	5,900		44,000	
		Less: Re-issued(100x5)	500	44,500
Capital reserve	5,400			
	9,01,300			9,01,300

Problem: 7

A Company made an issue of 10000 shares of Rs.10 each payable Rs.3 on application Rs.3 on allotment Rs.2 on first call and Rs.2 on second and final call.

All these shares were subscribed. Directors made both the calls. All moneys were received except from one shareholder who holds 100 shares failed to pay the first and final call. The directors forfeited these shares and reissued them at Rs.8 per share as fully paid up pass journal entries in the book of the company

Solution **In the books of a company**

			Dr	Cr
1.	**Application money received**			
	Bank a/c	Dr	30000	
	To Share application a/c			30000
2.	**Application money transferred:**			
	Share application a/c	Dr	30000	
	To share capital a/c			30000
3.	**Share allotment due:**			
	Share allotment a/c	Dr	30000	
	To share capital a/c			30000
4.	**Allotment money received:**			
	Bank a/c Dr		30000	
	To share allotment a/c			30000
5.	**Share I call due:**			
	Share I call a/c	Dr	20000	
	To share capital a/c			20000
6.	**I call money received except 100 shares :**			
	Share I call a/c (9900 shares x Rs.2)	Dr	19800	
	Calls in arrears a/c(100 shares x Rs.2)	Dr	200	

	To Share capital a/c (10000 shares x Rs.2)			20000
7.	**Share II & final call due :**			
	Share II & final call a/c	Dr	20000	
	To Share capital a/c(10000 shares x Rs.2)			20000
8.	**Share II call money received except 100 shares:**			
	Bank a/c (9900x2)	Dr	19800	
	Calls in arrears a/c		200	
	To share II & final call a/c (10000 x2)			20000
9.	**Forfeiture of 100 shares :**			
	Share capital a/c (100 shares x Rs.10)	Dr	1000	
	To share forfeited a/c (100 shares x Rs.6)			600
	To call in arrears a/c (Rs.2 +2)(100x4)			400
10.	**Reissue of 100 shares**			
	Bank a/c (100 shares x Rs.8 per share)	Dr	800	
	Share forfeited a/c	Dr.	200	
	To share capital a/c (100 share x Rs.10)			1000
11.	**Shares forfeited a/c –transferred**			
	Share forfeited a/c	Dr	400	
	To capital reserve			400
	Share forfeited showed credit balance	Rs.600		
	Share forfeited showed debit balance	Rs.200		
	Net credit – capital profit	Rs.400		

Ledger

Cash at Bank

To share application a/c	30000	By balance c/d	100400
To share allotment a/c	30000		
To share I call a/c	19800		
To share II call a/c	19800		
To share capital a/c (Reissued)	800		
	100400		**100400**

Balance sheet

Liabilities	Rs.	Assets	Rs.
Share capital		Cash at bank	100400
Authorised capital	100000		
10000 shares x Rs.10			
Issued & Subscribed capital			
10000 shares of Rs.10 each	10000		
Capital Reserve	400		
	100400		**100400**

REDEEMABLE PREFERENCE SHARE

Meaning of Redeemable preference shares:

Are those shares which can be redeemed after the expiry of a stipulated period.

The Conditions for the redemption of redeemable preference shares U/S 80

1. Only fully paid shares can be redeemed.
2. Partly paid –up shares cannot be redeemed.
3. Such shares can be redeemed either out of profit or out of the proceeds of a fresh issue of shares.
4. Such shares cannot redeem out of the proceeds of a fresh issue of Debentures or out of sale proceeds of any assets of the company.
5. If the shares are redeemed out of profits then equal redemption amount should be transferred to capital redemption reserve account.
6. Capital redemption reserve account is available for issuing bonus shares the shareholders.
7. If shares are redeemable at premium then such premium must provided for out of profits or share premium account.

Accounting Entries:

1) Redemption of Redeemable preference shares out of fresh issue of shares:

    Bank a/c Dr

        To Equity share capital a/c

2) Redemption out of profits

    Profit & Loss a/c Dr

    General Reserve a/c Dr

    To Capital Redemption Reserve a/c

3) Redeemed at premium

    Share premium a/c Dr (or)

    Profit & Loss a/c Dr

    To Premium on redemption of preference shares a/c

4) Amount payable

    Redeemable preference share capital a/c Dr

    Premium on redemption of preference shares a/c Dr

        To Redeemable preference shareholders a/c

5) Amount paid

    Redeemable preference shareholders a/c Dr

        To Bank a/c

Problem: 8

Following is the Balancesheet of R Ltd as at 31st December 2000.

Share capital 5000 Equity share of Rs.100 Each fully paid up	5,00,000	Sundry Assets	6,10,000
2000 6% Redeemable Preference share of Rs. 100 each fully paid	2,00,000	Bank	3,80,000
profit and loss a/c	2,40,000		
Creditors	50,000		
	9,90,000		9,90,000

on the above date the preference shares are redeemed at a premium of 5% Journalise and give the amended.

1) Redemption out of profits:

Profit and loss a/c	Dr	2,00,000	
To Capital Redemption Reserve			2,00,000

2) Redeemed at 5% premium (2,00,000 x 5/100 =10,000)

Profit and Loss a/c	Dr	10,000	
To premium on Redemption of preference shares a/c			10,000

3) Amount paid (redemption)

6% Redeemable preference Share capital a/c	Dr	2,00,000	
Premium on redemption of Preference shares a/c	Dr	10,000	
To Bank a/c			2,10,000

Balance sheet after Redemption

Share capital			Sundry Assets		6,10,000
5000 Equity share of			Bank	3,80,000	
Rs.100 each fully paid up		5,00,000	**Less:** Redemption	2,10,000	
	1,70,000		Profit and Loss a/c	2,40,000	
Less: Redemption	2,00,000				
	40,000				
Less: premium	10,000	30,000			
Creditors		50,000			
Capital Redemption Reserve a/c		2,00,000			
		7,80,000			7,80,000

Problem: 9

The following is the Balance sheet of a Limited co. as on 31.12.2017

Share Capital 100 6% redeemable		Fixed assets	3,10,000
Pref. Shares of Rs.100 each fully paid	1,00,000	cash at Bank	1,40,000
20,000 equity shares profit & Loss a/c	1,20,000		
Sundry Creditors	30,000		
	4,50,000		4,50,000

The company resolved to redeem its preference shares at a premium of 2% out of profits. Pass the necessary journal entries.

Solution: -

1) **Redemption out of Profits: -**

Profit & Loss a/c Dr 1,00,000

To Capital Redemption reserve a/c 1,00,000

2) **Redeemed at a premium 2% out of profits**:

Profit & Less a/c Dr 2000

To premium on redemption of preference share a/c 2000

[Premium = 100000 share capital x 2/100= 2000]

3) **Amount due:**

6% Redeemable Preference Share Capital a/c Dr 100000

Premium on redemption of preference Share a/c Dr 2000

To Redeemable Preference Shareholders a/c 1,02,000

4) **Amount paid: -**

Redeemable Preference Shareholder a/c Dr 102000

To Bank a/c 102000

Balance Sheet after redemption

Share capital		Fixed assets	3,10,000
20000 equity shares	2,00,000	Cash at Bank	38,000
Sundry Creditors	30,000	(140000-102000)	
Capital Redemption Reserve a/c	1,00,000		
Profit & Loss a/c	18,000		
(120000-102000)	3,48,000		3,48,000

Methods of Redeeming Redeemable Preference Shares:

Preference shares can be redeemed out of

a) Fresh issue of equity shares
b) By the creating of Capital Redemption Reserve account
c) By declaration of Bonus Shares
d) By conversion of shares.

Meaning of capital redemption reserve

This reserve is created at the time of redemption of redeemable preference shares. This reserve is created out of general reserve or Revenue Profits. It can be utilised for declaring bonus shares to the share holders. This account cannot be reduced the share capital and will appear on the liabilities side of the balance sheet.

Meaning of Bonus Shares

Bonus shares are those shares which can be issued to the existing shareholders at a free of cost. A company having large amount of profits and save cash may issue shares to its shareholders without receiving any money in proportion to their holdings. such shares are known as bonus shares.

Guidelines for issuing Bonus shares: -

1) Articles of association of the company permit the issue of bonus shares.
2) Declaration of a bonus issue instead of dividend is not allowed.
3) Bonus shares are permitted only fully paid up shares.
4) The company should pass a resolution at General body Meeting for issuing bonus shares.
5) Bonus shares are issued only out of free reserve.

6) A Company is permit to issue such shares once in 3 years only.

Employee Stock Option Plans (ESOPs)

An Employee Stock Option Plan (ESOP) is a benefit plan for employees which makes them owners of stocks in the company.

Employee Stock Purchase Scheme (ESPS)

Employee stock purchase scheme (ESPS)" means a scheme under which the company offers shares to employees as part of a public issue or otherwise.

Sweat Equity Shares

Sweat equity shares are discounted shares issued by a company to its employees or directors. The shares are given in exchange for a value-add by an employee or director.

Book Building

Book Building is the process by which an underwriter determines the price at which the shares must be sold in an Initial Public Offer (IPO). The process of price discovery requires the underwriter to call forth bids from various institutional investors such as fund managers and others.

Buy back of shares

Share or stock buyback is the practice where companies decide to purchase their own share from their existing shareholders either through a tender offer or through an open market. In such a situation, the price of concerning shares is higher than the prevailing market price.

Issue of Debentures

Debenture is a Long Term Promissory Note for raising loan capital. The purchases of debentures are called Debenture holders. Debenture holders are the creditors of the company. The rate of interest on debenture is fixed.

Meaning of Debenture:-

Debenture is a document which either creates a debt or acknowledgement of a debt A debenture is a document issued by the company under its common seal acknowledging the debt by it to its holders.

Definition of Debenture.

Sec 2 (12) of the Companies act defines debentures as “debenture includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not".

Type of debentures:

1. Registered debenture:

The names and addresses of debenture holders are registered in the company is called registered debenture. This debenture can be transferred through Registration.

2. Bearer debenture:

The name and addresses of debenture holders are not registered in the register of debentures of the company. This debenture are payable to bearer are called bearer debenture.

3. Secured debenture:

This debenture which are secured by charge over the assets of the company. These debentures having company assets as security.

4. Unsecured debenture:

The debentures which are not secured by charge over the assets of the company are called un-secured debentures. They do not have any security.

5. Redeemable debentures;

These debentures which are repayable after a specified period.

6. Irredeemable debentures:

The debenture which are not repayable during the life time of the company are called irredeemable debenture.

7. Convertible debentures:

Debenture which are convertible into equity shares or preference share after a specified period are called convertible debenture.

8. Non- Convertible debenture:

The debentures which are not convertible into equity shares or preference shares after a specified period are called non convertible debenture.

9. First debenture:

Debenture which are paid first at the time of winding up of the company

10. Ordinary (second) debenture:

The debentures which are paid after the first debenture at the time of winding up of the company are called ordinary or second debentures.

11. Equitable Debentures:

The debentures which are secured by deposit of title deeds of the property with a memorandum creating charge are called Equitable debenture.

12. Legal debenture:

The debenture which are secured by actual transfer of the legal ownership of the property from the company to the holder are called legal debentures.

Mode of Issue of debentures

I) Debentures issued for cash

Bank a/c Dr xxx

To Debenture a/c xxx

II) Debentures issued to vendors for purchasing assets

Assets a/c Dr xxx

To vendor a/c xxx

(Purchase Assets)

III) Vendor a/c Dr xxx

To debenture account xxx

Debentures issued as collateral security:

Debentures issued as an additional security to principal Security. It can be issued only when the principal security fails to pay the amount of loan.

Entry:

Debenture suspense a/c Dr xxx

To Debenture a/c xxx

Debenture suspense a/c will appear on the assets side and debenture a/c will appear on the liabilities side of the balance sheet.

From price point of view Debentures can be issued in three ways

When Debentures are issued at par (face value)

Bank a/c Dr xxx

To Debenture a/c xxx

When Debentures are issued at discount

Bank a/c	Dr	xxx	
Discount on Debenture a/c	Dr	xxx	
To Debenture a/c			xxx

When Debentures are issued at premium

Bank a/c	Dr	xxx	
To Debenture a/c			xxx
To premium on Debenture a/c			xxx

Problem: 10

X Ltd took over assets of Rs.5,00,000 and liabilities Rs. 40,000 of the Ram company for the purchase consideration of Rs.5,50,000 The X Ltd paid the purchase consideration by issuing debentures of Rs.100 each at 10% premium. Give Journal entries in the books of X Ltd.

Solution:

1) Sundry Assets a/c	Dr	5,00,000	
Goodwill a/c (b.f)	Dr.	90,000	
To Liabilities a/c			40,000
To Ram company (vendor)			5,50,000

(Being purchase of assets and liabilities of the Ram company)

2) Ram company a/c	Dr	5,50,000	
To Debenture a/c			5,00,000
To Premium Debenture a/c			50,000

(Being issue of debentures at 10% premium)

From conditions of redemption point of view

Conditions of issue	Conditions of Redemption
1) Issued at par	redeemable at par
2) Issued at discount	redeemable at par
3) Issued at premium	redeemable at par
4) Issued at par	redeemable at premium
5) Issued at discount	redeemable at premium

1) **When Debenture issued at par and redeemable at par: -**

Issue	Redemption
Bank a/c Dr	Debenture a/c Dr
To Debenture a/c	To Bank a/c

2) **When debentures issued at discount and redeemable at par**

Bank a/c Dr	Debenture a/c Dr
3) Discount a/c Dr	To Bank a/c
To Debenture a/c	

4) **When Debenture issued at premium and redeemable at par**

Bank a/c Dr	Debenture a/c Dr
To Debenture a/c	To Bank a/c
To premium on Debenture a/c	

5) **When Debenture issued at par and redeemable at premium: -**

Bank a/c Dr	Debenture a/c Dr
Loss on issue of debenture a/c Dr	Premium on redemption of
To Debenture a/c	Debenture a/c Dr
To premium on redemption	To Bank a/c
of debenture a/c	

6) **When Debenture issued at discount and redeemable at premium**:

Bank a/c Dr	Debenture a/c Dr
Loss on issue of debenture a/c Dr	premium redemption of
To Debenture a/c	Debenture a/c Dr
To premium on redemption	To Bank a/c
of debenture a/c	

Problem: 11

Give journal entries for the following: -

1) Issue of Rs.5,00,000, 11% Debentures at par and redeemable at par
2) Issue of Rs.5,00,000 11% Debentures at premium of 5% and redeemable at par
3) Issue of Rs.5,00,000 11% Debentures at discount of 5% and redeemable at a par.
4) Issue of Rs.5,00,000 11% Debentures at par but repayable at 5% premium

5) Issue of Rs.5,00,000 11% Debentures at par but repayable at 5% premium

Issue and Redemption of Debentures

i) issue Rs.5,00,000 Debentures at par and Redeemable at par:

Bank a/c Dr 5,00,000	11% Debentures a/c Dr 5,00,000
To 11% Debentures 5,00,000	To Bank a/c 5,00,000

ii) Issued at 5% premium redeemed at par:

Bank a/c Dr 5,25,000	Debenture a/c Dr 5,00,000
To 11% Debenture a/c 5,00,000	To Bank 5,00,000
To premium an Debenture 25,000	

iii) Issued at 5% discount redeemed at par

Bank a/c Dr 4,75,000	Debenture a/c Dr 5,00,000
Discount on issue of	To Bank 5,00,000
Debenture a/c Dr 25,000	
(25000 + 25000)	
To Debenture a/c 5,00,000	

iv) Issued at par redeemed at premium

Bank a/c Dr 5,00,000	Debenture a/c Dr 5,00,000
Loss on issue of	Premium as redemption
Debenture Dr 25,000	of Debenture a/c Dr 25,000
To Premium on	To Bank a/c 5,25,000
redemption of debenture 25,000	
To Debenture 5,00,000	

V) Issued at discount redeemed at premium

Bank a/c Dr 4,75,000	Debenture a/c Dr 5,00,000
Loss on issue of	Premium on redemption of
Debenture a/c Dr 50,000	debenture a/c Dr 25,000
To Debenture a/c 5,00,000	To Bank a/c 5,25,000

To Premium on redemption
of debenture 25,000

Accounting Treatment – Issue of DebentureJournal entries

1) On receipt of Debenture Application money: -

Bank a/c Dr xxx
To Debenture application a/c xxx

2) Application money transferred:

Debenture application a/c Dr xxx
To Bank a/c xxx

3) Excess application money refunded:

Debenture application Dr xxx
To Bank a/c xxx

4) Allotment Due:

Debenture Allotment a/c Dr Xxx
To Debenture a/c Xxx

5) Allotment money received:

Debenture Allotment a/c Dr xxx
To Debenture a/c xxx

6) When Debenture I call due:

Debenture I call a/c Dr xxx
To Debenture a/c xxx

7) When I call money received:

Bank a/c Dr xxx
To Debenture a/c xxx

8) When II & Final call due:

Debenture II & Final call a/c Dr xxx

To Debenture a/c xxx

9) II call money received:

Bank a/c Dr xxx

To Debenture II call a/c xxx

Debenture Discount –written off:

Discount on debentures should be written off during the life of the debentures.

i.e. Total discount is spread over the life of debentures equally

eg. If debentures are issued for 5 years, the total discount is divided by 5, the discount may be written off over 5 years

Entry: - Profit & Loss a/c Dr xxx

To Discount on debenture a/c xxx

Problem: 12

Rs.200000 debentures are issued at a discount of 6% repayable at the rate of Rs.40000 at the end of each year.

Solution:

Total discount = 2,00,000 x6/100 = 12000

	Outstanding Amount	**Ratio**
I Year	2,00,000	5
II Year	1,60,.000	4
III Year	1,20,000	3
IV year	80,000	2
V year	40,000	1
	Total	15

Discount to be written off each year being

1 year = 12000x 5/15 4,000

2year = 12000 x 4/15 3,200

3 year = 12000x 3/15 2,400

4 year = 12000 x2/15	1,600
5 year = 12000 x 1/15	800
	12,000

Interest on debentures: -

Interest on debenture is a charged against profits of the company.

Entry: Interest due

Debenture Interest a/c Dr (Gross Interest)

To Income tax a/c (Income tax amount)

To Debenture holders a/c (Net Amount)

2) Interest paid

Debenture holders a/c Dr

To Bank a/c

Provision for Redemption of Debenture:

When debentures are to be redeemed the company has to arrange a large amount of money for payment for this purpose the company has to make a provision for setting up sinking fund method

Sinking fund for Redemption of Debentures

Year beginning

1) Bank a/c Dr xxx

To Debenture a/c xxx

(Issue of debenture)

2) 1st year end

Profit & Loss appropriation a/c Dr xxx

To Sinking fund a/c xxx

(Amount set aside)

3) Amount set aside is invested:

Sinking fund Investment a/c Dr xxx

To Bank a/c xxx

4) At the end of 2 and subsequent years;

Bank a/c	Dr	xxx	
To Sinking fund a/c			xxx

(Interest received on investment)

5) Annual amount set aside

Profit & loss appropriation a/c	Dr	xxx	
To Sinking fund a/c			xxx

6) Investment (including interest)

Sinking fund Investment a/c	Dr	xxx	
To Bank a/c			xxx

At the end of last year

1) Interest received

Bank a/c	Dr	xxx	
To sinking fund a/c			xxx

2) Annual amount set aside

Profit & Loss appropriation a/c	Dr	xxx	
To sinking fund a/c			xxx

3) Sale of Investment

Bank a/c	Dr	xxx	
To sinking fund Investment a/c			xxx

4) a. profit on sale of investment

sinking fund Investment a/c	Dr	xxx	
To sinking fund a/c			xxx

4) b. Loss on sale of investment

Sinking fund a/c	Dr	xxx	
To Sinking fund investment a/c			xxx

5. Balance in sinking fund a/c transferred

Sinking fund a/c	Dr	xxx	
To General Reserve a/c			xxx

6. Redemption of debenture

Debenture a/c	Dr	xxx	
To Debenture holders a/c			xxx

7. Amount paid

Debenture holders a/c	Dr	xxx	
To Bank a/c			xxx

Problem: 13

Gokul Ltd had Rs.5,00,000/- 10% Debentures outstanding on January 1,2000. On that date the Debenture Redemption fund has Rs.4,50,000 invested in Rs.4,65,000 8% (2005) Government Loan Bonds. The annual appropriation form profits to the fund was Rs.52800. on December 31,2000 the Interest on Investments has been collected. The bank balance was Rs.102,000 after interest on investment has been received. The debentures were redeemed by realising the bonds at 87% show all relevant ledger Account.

Solution:

1) Debenture Redemption fund Account

Dec.2000		2000	
To Debenture Redemption		Jan By Balance b/d	4,50,000
fund Investment a/c	45,450	Dec 31 By interest	
(Loss on sale)		465000 x8/100	37,200
To General Reserve	4,94,550	By Profit & Loss	
		appropriation a/c	52,800
	5,40,000		5,40,000

2) Debenture Redemption fund Investment Account

2000		By Bank	4,04,550
Jan 1 To balance b/d	4,50,000	(4,65,000*87/100)	
		By Debenture redemption	
		fund a/c (loss)	45,450
	4,50,000	b.f	4,50,000

3)Debentures Account

2000		2000	
Dec.31 To Bank	5,00,000	By Balance b/d	5,00,000

4)Cash at Bank

To Balance b/d	1,02,000	By Debentures	5,00,000
To Debenture Redemption fund Investment a/c	4,04,550	By balance c/d	6,550
	5,06,550		5,06,550

Own Debenture:

When a company purchases its own debentures in the open market, these debentures can be either cancelled by the company or be kept as an investment called own debenture

Purchase of debentures kept as an Inestment: -

Own debenture a/c Dr xxx

To Bank a/c xxx

Own Debenture a/c will be shown on the assets side of the Balancesheet: Debenture a/c will continue to be shown on the liabilities Side of the Balance sheet.

Cancellation of own Debentures:

Debentures a/c Dr xxx

Loss on redemption of Debentures a/c (loss) Dr xxx

To Own Debentures a/c xxx

To Profit on redemption of Debentures a/c (Profit) xxx

Redemption of Debentures

Redemption of debentures refers to the discharge of liability on account of debentures (repayment of debentures)

Sources of finance:

Debentures can be redeemed

i) Out or profits

ii) Out of capital

iii) Out of provision made for redemption

iv) Converting debentures into shares or new debentures.

Entry:

1) Redemption of debenture:

Debentures a/c Dr xxx

To Bank a/c xxx

2) Debenture redemption reserve is created out of profits:

Profit & Loss appropriation a/c Dr xxx

To Debenture Redemption Reserve a/c xxx

3) Balance in reserve a/c not required for redemption – transferred

Debenture Redemption Reserve a/c Dr xxx

To General Reserve a/c xxx

Redemption out of capital:

Entry:

Redemption of debentures a/c Dr xxx

To Debenture holders a/c xxx

Debenture holders a/c Dr xxx

To Bank a/c xxx

Redemption by conversion:

Sometime the debenture holders of a company are given option to convert their debentures into the shares or debentures within a stipulated period

Entry:

Old Debentures a/c Dr xxx

To New share capital a/c (or) xxx

To new Debentures a/c xxx

Procedure for redeeming Debentures:

1) Time: Debentures are redeemed on the date of maturity. (Or) by drawing a lot.

2) Amount: Debentures are redeemed either at par or at premium

If debentures are redeemed by purchasing them in the open market then the price paid depends upon the Market price (it can be at par or at discount or at premium.

3) Sources of finance: Debentures can be redeemed either

i) Out of profits

ii) Out of capital

iii) Out of provision

iv) by conversion

4) By purchase of own debentures in the open market as investment or cancellation purpose.

Ex-interest and cum- interestEx-interest:

The price paid for the debentures excludes interest For recording purpose interest is calculated and added separately to the quotation. It is otherwise known as without interest

Cum-Interest:

The price paid for the debentures includes interest and for recording purpose interest and for recording purpose interest is deducted from the total price paid. It is otherwise known as with interest.

COMPANY FINAL ACCOUNTS

Final Accounts

Trading a/c **Profit & Loss a/c** **Balancesheet**

Profit & Loss appropriation a/c

Balance sheet (Sec 2(11) Schedule VI Part –I

(Specimen)Form of Balancesheet

Liabilities		Assets	
I. Share capital:		**I. Fixed Assets:**	
Authorised Capital		Goodwill	
Issued	xx	Land & Building	x x
Subscribed	xx	Plant & machinery	x x
called up capital	xx	live stock	x x
Less calls in arrear	xx	Vehicles	x x
	X x		
Add Forfeited shares	X x		
II.Reserves and surplus		**II. Investments**	
i)Capital Reserve		Investment in Govt :	
ii)Capital Redemption Reserve	xx	Securities	x x
iii)share premium Account	xx	Investment in shares	xx
iv)Other Reserves	xx	debentures or bonds	xx
Less: Debit balance in Profit & Loss	xx	Immovable properties	xx
v)Surplus from P & L appropriation a/c	xx	**III. Current Assets Loans and Advances**	
vi)proposed Dividend	xx	a)current Assets:	
vii)Sinking fund	xx	i)Outstanding interest on Investment	xx
III. Secured Loans			
Debentures			
Loans & Advances from Banks	xx	ii) Stores and spare parts	xx
Loans & Advances from Subsidiaries	xx	iii)Loose Tools	xx
		iv)stock in Trade	xx

other loans & advances	Xx	v)work in progress	x
(v)Unsecured Loan		vi)Sundry Debtors	x
(i) Fixed deposits	X	a)Debts outstanding for a period	x
(ii) Loans & advances from	X	exceeding 6 months	x
Subsidiaries	x	b)Other debts	x x
iii) Short term loans and advances	x	Less: provisions x	x
iv) Loan from Directors	x	Cash in hand	x
(v) Current Liabilities and provisionA)Current liabilities:		**B) Loans and Advances**	
		i)Advances and Loans	
Bills payable	x	toSubsidiaries	x
Sundry creditors	x	ii)Advances and loans to	X
		partnership	x
Unclaimed dividend	x		
Dutstanding interest on loan	x	iii)Bills of Exchange	x
B) Provisions		iv)Balance with customs port trust	
i) Provision for taxation	x	**4) Miscellaneous Expenditure**	
ii) Proposed dividend	x	i)Preliminary Expenses	x
iii) Provident fund scheme pension	x	ii)Underwriting commission,	x
Scheme		Brokerage	
		iii)Discount on issue	
		Debentures	x
	Xx x	**5) Profit and Loss account**	x

2) Profit and Loss Appropriation Account –Specimen

To General Reserve	x	By balance b/d	x
To proposed dividend	x	By Net profit b/d	x
To Interim Dividend	x	(from P & L a/c)	xx
To surplus Carried to			
Balance sheet	x		

Difference between profit and Loss a/c and profit & Loss approritetion a/c

1. It is prepared to findout the net profit or Net Loss of a business	1.It is prepared to find out surplus profit inorder to distribute the profit to the shareholders.
2.It is compulsory.	2.It is compulsory.
3.It is must be prepared even if it is a loss.	3.It is prepared if the business earn profit
4.It is prepared before the preparation of appropriation account	4.It is prepared after the preparation of profit & loss a/c
5.If there is a surplus, will be transferred to appropriation a/c If there is a loss will be shown in Balance sheet liabilities side	5.surplus amount will be shown on the liabilities side of the balance sheet under the heading of Reserve and surplus.

Contingent liabilities:

Contingent liabilities are those liabilities which may or may not arise in future. It will appear as a footnote under the liabilities side of the Balance sheet.

examples:

1. Arrears of cumulative preference shares dividends
2. Uncalled liability on shares partly paid.
3. claims against the company not acknowledged as debts
4. Bills discounted likely to be dishonoured.

Interim Dividend:

It is a dividend which is paid between two annual general meeting. It is paid before the final dividend is declared. It is paid when there is a sufficient profit available as final dividend to the share holders. It is appeared on the debit side of the P & L appropriation a/c and will be shown on the liability side of the Balancesheet under the

Other items:

1) Preliminary Expenses;- Balance sheet – Assets side under the heading of Miscellaneous Expenditure.

2) Unclaimed Dividend – Balancesheet Liabilities side under the heading of current Liabilities and provisions.

3) Calls in arrears - Balancesheet – Liabilities side under the heading of share capital deducted from called up capital

4) Share forfeited – Balance sheet –liabilities side –Added with share capital

5) Provision for tax - Balancesheet liabilities side – Under the heading of Reserves and surplus

6) Share premium – Balance sheet –Liabilities side –Under the heading of current Liabilities & provisions.

7) Bills Receivable – Balancesheet –Asset side **-** under the heading of current Assets Loans advances.

8) Loose Tools – Balancesheet – Asset side under the heading of current Assets Loans advances.

9) Live stock – Balancesheet – Assets side under the heading of Fixed assets.

10) Work in progress – Balancesheet Assets side – under the leading of current assets Loans and advances.

11) Pattents –Balancesheet – Assets side**-** Under the heading of Fixed assets.

Capital profits give examples.

Capital profits are those profits which are not earned during the regular course of business. They are non – recurring profits. It is a causal profits. are used to write off capital losses and balance amount will be transferred to capital reserve account.

Capital Reserve

Capital reserves are those reserves which are created out of capital profits. This reserve should not be distributed as dividend to the share holders. It can be used to write off capital losses.

Dividend: It is a share in the profits of the comapny distributed among its shareholders. It is calculated on the paidup capital.

Utilisation of capital reserve

1. To write off capital losses like preliminary Expenses, Discount on issue of shares Debentures, Goodwill etc.
2. To issue Bonus Shares.

Distinguish between capital Reserve and Reserve Capital:-

Capital Reserve	Reserve Capital
1. It is created out of capital profits	1.It is a profits of Authorised Capital
2. It can be used write off capital losses	2. The uncalled capital can be called upon in the event of winding up of a company

Distinguish between capital Reserve and Reserve Capital:-

	Dividend	Reserve
1	proposed dividend exceeds 10% but less than 12.5%	Create 2.5% Reserve out of the current profits.
2.	From 12.5% but less than 15%	5%
3.	From 15% but less than 17.5%	7 ½ %
4.	More then 20% paidup capital	10%

Managerial remuneration

The responsibility to ensure the success of a company's affairs lays on its directors i.e the people at the helm of affairs of the company. They need to make efforts in a collective manner while ensuring the best interest of the shareholders and stakeholders. Since, the future of the company depends on the abilities of the directors the company must carefully consider their appointment, remuneration and other related matters.

Meaning of 'Remuneration'

'Remuneration' means any money or its equivalent given to any person for services rendered by him and includes the perquisites mentioned in the Income-tax Act, 1961. Managerial remuneration in simple words is the remuneration paid to managerial personals. Here, managerial personals mean directors including managing director and whole-time director, and manager.

What is the permissible managerial remuneration payable under the Companies Act 2013?

- Total managerial remuneration payable by a public company, to its directors, managing director and whole-time director and its manager in respect of any financial year:

Condition	Max Remuneration in any financial year
Company with one Managing director/whole time director/manager	**5% of the net profits of the company**
Company with more than one Managing director/whole time director/manager	10% of the net profits of the company
Overall Limit on Managerial Remuneration	11% of the net profits of the company
Remuneration payable to directors who are neither managing directors nor whole-time directors	
For directors who are neither managing director or whole-time directors	1% of the net profits of the company if there is a managing director/whole time director
If there is a director who is neither a Managing director/whole time director	3% of the net profits of the company if there is no managing director/whole time director

The percentages displayed above shall be exclusive of any fees payable under section 197(5). Until now, any managerial remuneration in excess of 11% required government approval. However, now a public company can pay its managerial personnel remuneration in excess of 11% without prior approval of the Central Government. A special resolution approved by the shareholders will be sufficient. In case a company has defaulted in paying its dues or failed to pay its dues, permission from the lenders will be necessary.

- **When the company has inadequate profits/no profits:** In case a company has inadequate profits/no profits in any financial year, no amount shall be payable by way of remuneration except if these provisions are followed.

Where the effective capital is:	**Limits of yearly remuneration**
Negative or less than 5 Crores	60 Lakhs
5 crores and above but less than 100 Crores	84 Lakhs
100 Crores and above but less than 250 Crores	120 Lakhs
250 Crores and above	120 Lakhs plus 0.01% of the effective capital in excess of 250 Crores

UNIT - II
Accounts of Insurance Companies

Insurance - Meaning

Insurance is a contract whereby insurers agree to compensate for specific loss to the insured, who in consideration, agrees to pay regularly a sum of money called premium. The insurance company agrees to pay compensation is known as insurer and the person who is taking policy from the insurance company is known as policy holder or insured.

Definition of Insurance

"Insurance is a contract in which a sum of money is paid to the insured in consideration of insurers incurring the risk of paying a large sum upon a given contingency" – Justice Tindle.

Types of Insurance:

There are two types of Insurance

1. Life Insurance
2. General Insurance
3. Social Insurance

1. Life Insurance:

It is a contract between the insured and the Insurance company in which the insurance company agrees to pay the policy amount on the death of the insured or maturity of policy whichever is earlier. Hence the policy holder agrees to pay amount is called premium.

The following are the main varieties of life insurance policies

i) Whole life policy

ii) Endowment policy

iii) With profit policy

iv) Without profit policy

v) Annuity policy

2. **General Insurance:** All insurance contracts other than Life insurance are known as General insurance. Example: Fire Insurance, Marine Insurance, Liability insurance, Motor vehicle, Theft, Fidelity and Accident insurance. It is governed by General Insurance Act 1972.

3. **Social Insurance**

   It is to provide protection to the weaker section of the society who are unable to pay the premium for adequate insurance. Example: Pension plans, Disability benefits, sickness insurance and industrial insurance.

Difference between Life Insurance and General Insurance.

	Life Insurance	**General Insurance**
1)	It is a contract of certainty	It is a contract of Indemnity.
2)	It is a long term Contract	It is one year contract
3)	It is governed by LIC Act	It is Governed by GIC Act
4)	Life policy can be assigned to others	It cannot be assigned to others
5)	It comprises of Investment and Protection	It consists of only protection
6)	Insurable Interest must exist at the time of proposal.	It must exist from the date of Proposal to the end of contract.
7)	Surrender value is possible	No surrender value
8)	Policy amount will be received in the event of death or maturity date Whichever is earlier.	Policy amount will be received in the event of risk or loss occurred.

Final Accounts of life Insurance companies

1) Revenue account
2) Profit & loss account
3) Balance sheet

Specimen form of Revenue account of LIC for the year ended 31-03-20.....

Policy holders account particulars	Schedule No	Current year (Rs.000)	Previous year (Rs.000)
Premium earned (Net)	1		
a) Premium		xx	
b) Reinsurance ceded		xx	
c) Reinsurance accepted.		xx	
Income from Investments:			
a) Interest, Dividends & Rent - Gross		xx	
b) Profit ansale/redemption of Investments.		xx	
c) Loss on sale/redemption of Investments			
d) Transfer/Gain on revaluation / change in fair value other Income		xx	
		xx	
Total (A)		xx	xx

Policy holders account particulars	Schedule No	Current year (Rs.000)	Previous year (Rs.000)
Commission	2	xx	xx
operating Expenses	3	xx	xx
Provision for doubtful debts		xx	xx
Bad debts written off		xx	xx
Provision of Tax		xx	xx
Provision (other than taxation)			
a) For diminution in The value of		xx	xx
Investments (Net)		xx	xx
b) Others		xx	xx
Total B		xx	xx
Benefits paid (Net)	4	xx	xx

Interim Bonus paid change in valuation of liability of life policies a) Gross b) Amount ceed in Reinsurance c) Amount accepted in reinsurance		xx xx xx xx xx	xx xx xx xx xx
Total C		xx	xx
Surplus (or) Deficit (D) = (A-B-C)		xx	xx
Appropriations Transfer to share holders account Transfer to other Reserve Balance being fund for future Appropriations	xx xx xx	xx xx xx	xx xx xx
Total D	xx	xx	X x

Specimen form
Form – A-PL

Profit & Loss account for the year ended 31 March 2017 shareholders account (Non-Technical Account)

Particulars	**Schedule**	**Current Year (Rs.000)**	**Previous year (Rs.000)**
Amount transferred from/to policy holders account Income from Investments a) Interest, Divident & rent gross b) Profit on sale/redemption of Investments c) Loss on sale/redemption of Investments Other Income Total (A)		xx xx xx xx xx -------- xx --------	Xx xx xx xx Xx ---------- xx ------------

Expenses other than those directly related to Insurance business			
Bad debts written off	xx	xx	xx
Provisions (other than taxation)	xx	xx	xx
a) For diminution in the value of Investments (Net)			
b) Provisions for doubtful debts	xx	xx	xx
c) Others	xx	xx	xx
Total(B)	xx	xx	xx
Profit/Loss before Tax	xx	xx	xx
Provision for taxation	xx	xx	xx
Profit/Loss after tax	xx	xx	xx
Appropriation			
a) Balance at the beginning of the year	xx	xx	xx
b) Interim Dividend paid during the year	xx	xx	xx
c) Proposed final Dividend	xx	xx	xx
d) Dividend Distribution tax	xx	xx	xx
e) Transfer to reserve/Other accounts	xx	xx	xx
Profit carried …. To the Balance sheet	xx	xx	xx

Specimen form Life Insurance Balance sheet

Form A-Bs

Balance sheet as on 31 March 20 ....

Particulars	Schedule	Current Year	Previous Year
Sources of Funds			
Share holders funds			
Share capital	5		
Reserves & surplus	6		
Credit / Debit fair value Change account			
Sub Total			
	7		
Borrowings			
Policy holders funds			
Credit/Debit fair valueChange account			
Policy Liabilities			
Insurance Reserves			
Provision for linked Liabilities			
Sub total			
Funds for future Appropriations			

Application of funds Investments

Particulars	Schedule	Current Year	Previous Year
Application of funds			
Investments			
Shareholders	8		
Policy holders	8A		
Assets held to cover linked Liabilities	8B		
Loans	9		
Fixed Assets	10		
Current Assets (A)			
Cash and Bank	11		
Balances Advance and other Assets	12		
Sub total (A)			
Current Liabilities	13		
(B)Provisions	14		
Sub Total (B)			
Net current Asset C=A-B			
Miscellaneous Expenditure	15		
Debit balance in profit & Loss Account (shareholders account)			
Total (Application funds + New current assets)			

Schedule forming part of financial statements
Schedule – 1 Premium

S.No.		Current year	Previous year
1.	First year Premiums	xx	xx
2.	Renewal Premiums	xx	xx
3.	Single premium	xx	xx
	Total Premiums	xx	xx

Schedule 2 – Commission Expenses

S.No.		Current year	Previous year
1.	Commission paid	xx	xx
	Direct – First year premiums	xx	xx
	Renewal premiums	xx	xx
	Single Premiums	xx	xx
	Add Commission on reinsurance Accepted	xx	xx
	Less commission on reinsurance ceded	xx	xx
	Net Commission	xx	xx

Schedule -3 Operating Expenses related to Insurance Business

S.No.		Current year	Previous year
1.	Employees remuneration & welfare Benefits	xx	xx
2.	Travel expenses	xx	xx
3.	Training Expenses	xx	xx
4.	Rent & Rates	xx	xx
5.	Repairs	xx	xx
6.	Printing stationery	xx	xx
7.	Legal charges	xx	xx
8.	Medical fees	xx	xx
9.	Auditor fees	xx	xx
10.	Advertisement	xx	xx
11.	Interest charges	xx	xx
12.	Depreciation	xx	xx
	Total	xx	xx

Schedule – 4 Benefits paid (Net)

S.No.		Current year	Previous year
1.	**Insurance claim**		
	a) claims by Death	xx	xx
	b) Claims by Maturity	xx	xx
	c) Annuities	xx	xx
	d) Other benefits	xx	xx
2.	**Amount ceed in Reinsurance**		
	a) claim by Death	xx	xx
	b) Claim by Maturity	xx	xx
	c) Annuities	xx	xx
	d) Other benefits	xx	xx
3.	**Amount accepted in reinsurance**		
	a) Claim by Death	xx	xx
	b) Claim by Maturity	xx	xx
	c) Annuities	xx	xx
	d) Other benefits	xx	xx
	Total	**xx**	**xx**

Schedule 5- Share capital

Particulars	Current Year	Previous Year
Authorised Capital		
Issued Capital		
Subscribed Capital		
Called up Capital		
(-) Calls Unpaid		
(+) Share forfeited		
(-) Preliminary Expenses		
Total		

Schedule – 6 Reserves and Surplus

Particulars	Current Year	Previous Year
Capital Reserve Capital Redemption Reserve Share Premium General Reserve Balance of Profit in profit & loss a/c		
Total		

Schedule – 7 Borrowings

Particulars	Current Year	Previous Year
Debentures Banks Financial Institutions Others		

Schedule – 8 Investments

Particulars	Current Year	Previous Year
Long term Investments Short term Investments		

Schedule – 9 Loans

Particulars	Current Year	Previous Year
1. Security wise classification:		
a) Secured		
b) Unsecured		
Total		
2. Borrower wise classification:		
a) Control & State Govt.		
b) Banks & Financial Institutions		
c) Others		
Total		
3. Performance wise classification:		
a) Loan classified as standard		
b) Non standard Loans Less provisions		
Total		
4. Maturity wise classification:		
a) Short term		
b) Long term		
Total		

Schedule -10 – Fixed assets (Rs.000)

Particulars	**Cost / Gross Block**				**Depreciation**			**As at year end**	**Net Block**	
	Opening	**Additions**	**Deductions**	**Closing**	**Up to Last Year**	**For the year**	**On Sales/ Adjustment**		**As at year end**	**Previous year**
Goodwill Intangibles Freehold Land Leasehold property Buildings Furniture Information Technology Equipment Vehicles Office Equipment										
Total										
Work in progress										
Grand Total										
Previous Year										

Schedule -11 Cash and Bank Balances

Particulars	Current Year	Previous Year
1. Cash		
2. Bank Balance		
a) Deposit A\c		
b) Current A\c		
Others		
3. Money at call & short notice		
4. Others		
Total		

Schedule -12 – Advances and other Assets

Particulars	Current Year	Previous Year
Advances		
1.Reserve Deposits with ceding companies		
2.Application money for Investments		
3.Prepayments		
4.Advances to Directors		
5.Others		
Total(A)		

<u>Other Assets</u>		
1.Income accrued on Investments		
2.Outstanding Premium		
3. Agents Balance		
4. Foreign Agencies Balances		
5.Reposits with RBI		
Total(B)		
Grand Total (A+B)		

Schedule -13 – Current Liabilities

Particulars	Current Year	Previous Year
1. Agents Balances		
2. Balance due to other Insurance Companies		
3.Deposits held on reinsurance ceded		
4.Premium received in advance		
5. Unallocated Premium		
6. Sundry creditors		
7.Claims outstanding		
Total		

Schedule -14 – Provisions

Particulars	Current Year	Previous Year
Reserve for unexpired Risk		
For taxation		
For proposed dividends		
For dividend distribution tax		
Others		
Total		

Schedule -15 – Miscellaneous Expenditure

Particulars	Current Year	Previous Year
Discount allowed issue to shareholders		
Others		
Total		

Some Important Terms:

1) Claims:

When the insured makes a statement for the loss on the date of happening of an event or on the date of maturity of the policy to the insurer the statement is known as claims.

2) Premium:

It means the consideration received by Insurance Company in Consideration of the risk undertaken by it. It should be shown in revenue account

3) Bonus:

It is a share of profit which a policy holder gets from the LIC.

4) Reinsurance:

It means transferring the whole or a part of the risk undertaken by insurer to another Insurer.

5) Commission on Reinsurance ceded:

It is a gain to the insurance company. Insurance Companies earn commission from other insurance companies for giving them business under Reinsurance contract.

6) Commission on Reinsurance Accepted:

It is an expense to the Insurance Company. Insurance Companies paid commission to other insurance companies for giving them business under Reinsurance contract.

Reserve for unexpired Risk:

It is a reserve created to meet the risk which is associated with all such policies. In fire Insurance 50% net premium is transferred and in marine Insurance 100% of Net Premium is to transferred to Reserve for unexpired Risk.

Problem No.1

The life assurance fund of SBI life assurance company ltd. Shows a balance of Rs.9,00,000 on 31.03.2021. It was later observed that the following had not been taken into account**.**

i) Bonus utilized in reduction on premium Rs.90,000

ii) Outstanding premium Rs.2,00,000

iii) Interest accrued on investments less income tax Rs.50,000

iv) Claim intimated but not yet admitted Rs.30,000

v) Claims covered under reinsurance Rs.10,000

Compute the balance of Life Assurance Fund.

Statement Showing Life Insurance Fund

Particulars	Rs.	Rs.
Life assurance fund as on 31.03.2021		9,00,000
Add:		
Bonus utilized in reduction of premium	90,000	
Outstanding premium	2,00,000	
Interest accrued on investment less income tax	50,000	
Claims covered under reinsurance	10,000	3,50,000
	--------	--------
Less:		12,50,000
Bonus utilized in reduction of premium	90,000	
Claims intimated but not yet admitted	30,000	1,20,000
	---------	---------
Life Assurance Fund		11,30,000
		========

Problem No.2

A life assurance company prepared its Revenue A/c for the year ended 31.03.2018 and ascertained its Life Assurance fund to be Rs.30,00,000. It was found later that the following had been omitted from the accounts:

i) Bonus utilized in reduction on premium Rs.6,700

ii) Outstanding premium Rs.33,300

iii) Interest accrued on investments less income tax Rs.40,000

iv) Claim intimated but not admitted Rs.17,500

v) Claims covered under reinsurance Rs.9,500

Find out the true Life Assurance Fund.

Statement Showing Life Insurance Fund

Particulars	Rs.	Rs.
Life assurance fund as on 31.03.2018		30,00,000
Add:		
Bonus utilized in reduction of premium	6,700	
Outstanding premium	33,300	
Interest accrued on investment less income tax	40,000	
Claims covered under reinsurance	9,500	8,95,000
	--------	--------
		38,95,000
Less:		
Bonus utilized in reduction of premium	6,700	
Claims intimated but not admitted	17,500	24,200
	------------	-------------
Life Assurance Fund		38,70,800
		========

Problem No.3

From the following, you are required to calculate the loss on account of claims to be shown in the Revenue Account for the year ending 31.03.2016.

Intimated in	Admitted in	Paid in	Rs.
2014 - 2015	2014 – 2015	2015 - 2016	45,000
2015 – 2016	2015 -2016	2016 - 2017	30,000
2013 - 2014	2014 – 2015	2014 - 2015	15,000
2013 - 2014	2014 – 2015	2015 - 2016	36,000
2015 - 2016	2016 – 2017	2016 - 2017	24,000
2015 - 2016	2015 - 2016	2015 - 2016	3,10,000

Claim on account of reinsurance was Rs.80,000.

Calculation of Claim incurred

Particulars	Rs.	Rs.
Total claim paid in 2015 – 2016 (45,000+36,000+3,10,000)		3,91,000
Less: Claims outstanding at the beginning of 2015-2016		
Intimated in 2014-2015 and paid in 2015-2016	45,000	
Intimated in 2013-2014 and paid in 2015-2016	36,000	81,000
	--------	-------
Add: Claims outstanding at the end of 2015-2016		3,10,000
Intimated in 2015-2016 and paid 2016-2017	30,000	
Intimated in 2015-2016 and paid in 2016-2017	24,000	54,000
	---------	--------
		3,64,000
Less: Reinsurance claim		80,000

Claims paid and outstanding in 2015-2016 to be shown in the revenue account		2,84,000
		=======

Problem No.4

The following were the balances extracted from the trial Balance of Bajaj Life insurance co., Ltd for the year 31st March 2019.

Balance of account at the beginning of the year	Rs.8,00,000
Profit on realization of assets	Rs. 1,000
Claims under policies by death	Rs. 30,000
Claims under polices by Maturity	Rs. 50,000
Premium (Other than single)	Rs.1,00,000

Single Premiums	Rs. 40,000
Consideration for annuities granted	Rs. 25,000
Interest Received	Rs. 35,000
Depreciation on furniture	Rs. 1,500
Administrative Expenses	Rs.18,000
Salaries	Rs. 1,500
Surrenders	Rs.10,000
Auditor fee	Rs. 750
Legal Expenses	Rs. 500
Advertising	Rs. 700
Printing	Rs. 5,400
Director fee	Rs. 150
Commission paid	Rs. 12,000

Solution: **Bajaj Insurance Co., Ltd**

Revenue account for the year ended 31-03-2019.

	Schedule No	**31-03-2019**
Premium Earned – Net	1	1,40,000
Income from Investment		35,000
Interest, Dividend Transfer/gain on revaluation		1,000
other income – consideration for annuities		25,000
Granted		------------
Total (A)		2,01,000

Commission		12,000
Operating Expenses	2	28,500
	3	-----------
Total (B)		40,500

Benefits paid (Net)	4	90,000
Interim Bonus paid		--

Total (c)		90,000
Surplus (P) = A-B-C		70,500
Appropriations		-------------
Balance being funds for future		
Appropriations		**70,500**

Workings:

Schedule 1 Premium Earned (Net)	31-03-19
Premium (other than single)	1,00,000
Single Premium	40,000
Total	1,40,000
	=========

Schedule 2 Commission Expenses

Commission paid	12,000
	12,000

Schedule 3 operating Expenses

Administrative Expenses	18,000
Salaries	1,500
Auditor fee	750
Director's fee	150
Legal Expenses	500
Advertising	700
Printing	5,400
Depreciation on furniture	1,500
Total	28,500

Schedule – 4 Benefits paid (Net)

Claims under policies by death	30,000
Claims under policies by Maturity	50,000
Surrenders	10,000
Total	90,000

Ascertainment of Profit

In Life Insurance business, profit is to be ascertained after expiry of 2 years for this purpose a valuation Balance sheet is prepared.

Valuation Balance sheet as on ....

Particulars	Rs.	Particulars	Rs.
To Net liability as per actuarial valuation	xxx	By Life assurance fund as Balance sheet	xxx
To Surplus if any (Bal.Fig)	xxx	Deficiency if any (Bal.Fig)	xxx
	xxx		xxx

Distribution statement Amount payable to policy holders

Surplus as per valuation Balance sheet	xx
Add interim Bonus	xx
Policy share holders 95%	xx
Less Interim Bonus paid	xx
Amount due to policy holders for bonus	xx

Problem No.5

From the following information, calculate surplus or deficit of a Life Insurance Business for the year ended 31st March 2020.

Balance of Life Assurance Fund on 31.03.2020 Rs.80,00,000. Net liabilities on 31.03.2020 Rs.67,00,000/-

Solution

Life Insurance Company

Valuation Balance sheet as on 31-03-2017

Liabilities	Rs.	Assets	Rs.
To Net Liabilities	67,00,000	By Life Insurance	80,00,000
To Surplus	13,00,000		
	80,00,000		80,00,000

General Insurance Business

Form B – RA

Specimen form Revenue Account for the year ended 31-03...............

S.No.	Particulars	Schedule	Current Year	Previous Year
1. 2. 3. 4.	Premium earned (Net) Profit/Loss on sale/redemption of Investments Change in provision for unexpired risk Interest , Dividend Rent – Gross	1		
	Total (A)			
1. 2. 3.	Claim incurred (Net) Commission Operating Expenses related to Insurance Business Total(B)	2 3 4		
	Operating profit/Loss from fire/marine Miscellaneous Business C=A-B **Appropriations:** Transfer to shareholders Account Transfer to catastrophe Reserve Transfer to other reserve			
	Total(c)			

Form B – PL

Profit & Loss account for the year ended 31-03.......

S.No.	**Particulars**	**Schedule**	**Current year**	**Previous years**
1.	Operating profit/loss a) Fire Insurance b) Miscellaneous Insurance			
2.	Income from Investment a) Interest, Dividend – Rent gross b) Profit on sale of Investments.			
3.	Other Income			
	Total (A)			
4.	Provisions (Other than taxation) a) diminution in value of Investments b) doubtful debts c) others			
5.	Other expenses a) Expenses not related to Insurance business b) Bad debts c) Others			
	Total (B)			
	Profit before Tax Provision for taxation Appropriations a) Interim Dividend paid b) Proposed Dividend c) Dividend Distribution tax d) Transfer to any Reserve Balance of profit/loss brought forward from last year Balance carried forward to Balance Sheet			

Form B – BS

Balance sheet as on 31 March ....

Particulars	**Schedule**	**Current Year**	**Previous Year**
Sources of funds			
Share capital	5		
Reserves & Surplus	6		
Fair value change account			
Borrowings	7		
Total (A)			
Application of funds			
Investments	8		
Loans	9		
Fixed Assets	10		
Current Assets (A)			
Cash and Bank Balances	11		
Advances and other assets	12		
Sub Total (A)			
Current Liabilities (B)	13		
Provisions	14		
Sub Total (B)			
Net current Assets c=(A-B)	15		
Miscellaneous Expenditure			
Debit Balance in profit a loss a/c			
Total (Appl. of funds +NCA)			

Details of schedule

Schedule 1 Premium Earned (Net)

Particulars	Current Year	Previous Year
Premium from Direct Business		
Add Premium on reinsurance accepted		
Less Premium on reinsurance ceded		
Net premium		
Adjustment for change in reserve for unexpired risk		
Total Premium earned (Net)		

Schedule 2 – Claims incurred (Net)

Particulars	Current Year	Previous Year
Claims paid Direct		
Add Reinsurance accepted		
Less Reinsurance ceded		
Net Claim Paid		
Add Claim outstanding at the end of year		
Less Claim outstanding at beginning		
Total Claims incurred		

Schedule 3 – Commission

Particulars	Current Year	Previous Year
Commission Paid Direct **<u>Add</u>** Reinsurance Accepted **<u>Less</u>** Reinsurance ceded		
Net Commission		

Schedule 4 Operating Expenses related to insurance Business

Particulars	Current Year	Previous Year
Employees Remuneration and Welfare Benefits Travel Expenses Training Expenses Auditor fee Advertisement Interest & Bank charges Depreciation		
Total		

Schedule – 5 Share capital

S.No.	Share capital	Current Year	Previous year
1.	Authorised capital	xx	xx
2.	Issued capital	xx	xx
3.	Subscribed capital	xx	xx
4.	Called up capital	xx	xx
	Less: calls unpaid Add: Share forfeited Less : preliminary Expenses	xx	xx
	Total	xx	xx

Schedule – 6 Reserves and surplus

S.No.	Particulars	Current Year	Previous year
1.	Capital Reserve	xx	xx
2.	Capital Redemption Reserve	xx	xx
3.	Share Premium	xx	xx
4.	Revaluation Reserve	xx	xx
5.	General Reserve	xx	xx
6.	Balance of profit in P& L a/c	xx	xx
	Total	xx	xx

Schedule – 7 Borrowings

S.No.	Borrowings	Current Year	Previous year
1.	Debentures	xx	xx
2.	Banks	xx	xx
3.	Financial Institutions	xx ---------	xx ---------
	Total	xx	xx

Schedule – 8 Investments - Shareholders

S.No.	Share holders	Current Year	Previous year
1.	Long term Investment	xx	xx
2.	Short term Investment	xx	xx
	Total	xx	xx

Schedule – 8A Investments – Policy holders

S.No.	Particulars	Current Year	Previous year
1.	Long term Investments	xx	xx
2.	Short term Investments	xx	xx
	Total	xx	xx

Schedule – 8BAssets held to cover linked liabilities

S.No.	Particulars	Current Year	Previous year
1.	Long term Investments	xx	xx
2.	Short term Investments	xx	Xx
	Total	xx	xx

Schedule – 9 Loans

S.No.	Particulars	Current Year	Previous year
1.	Security wise classifications Secured Unsecured Total		
2.	Borrower wise classification a) Control & state Govt. b) Banks & Financial Institutions c) Others		
3.	Performance wise classification a) Loan classified as standard b) Non-standard Less provisions		
	Total		
4.	Maturity – wise classification a) Short term b) Long term		
	Total		

Schedule -10 – Fixed assets (Rs.000)

Particulars	Cost / Gross Block				Depreciation			As at year end	Net Block	
	Opening	Additions	Deductions	Closing	Up to Last Year	For the year	On Sales/ Adjustment		As at year end	Previousyear
Goodwill Intangibles Freehold Land Leasehold property Buildings Furniture Information Technology Equipment Vehicles Office Equipment										
Total										
Work in progress										
Grand Total										
Previous Year										

Schedule – 11 Cash and Bank Balance

S.No.	Particulars	Current Year	Previous year
1.	Cash	xx	xx
2.	Bank Balances	xx	xx
3.	Money at call & short notices	xx	xx
4.	Others	xx	xx
	Total	xx	xx

Schedule – 12 Advances and other Assets

S.No.	Advances	Current Year	Previous year
1.	Reserve Deposits	xx	xx
2.	Appliation Money	xx	xx
3.	Prepaymaents	xx	xx
4.	Advances to Directors	xx	xx
5.	Advance Tax Paid	xx	xx
	Total (A)	xx	xx

Other Assets

S.No.	Particulars	Current Year	Previous year
1.	Income accrued on Investments	xx	xx
2.	Outstanding Premium	xx	xx
3.	Agent Balance	xx	xx
4.	Foreign Agencies	xx	xx
5.	BusinessDeposits with	xx	xx
	RBI	xx	xx
	Total (B)	xx	xx
	Total (A+B)		

Schedule 13 – Current Liabilities

S.No.	Particulars	Current Year	Previous year
1.	Agents Balance	xx	xx
2.	Balance due to other insurance business	xx	xx
3.	Deposits held on reinsurance ceded	xx	xx
4.	Premium received in advance	xx	xx
5.	Sundry creditors	xx	xx
6.	Claims outstanding	xx	xx
7.	Annuities Due	xx	xx
	Total	xx	xx

Schedule 14 – Provisions

S.No.	Particulars	Current Year	Previous year
1.	For taxation	xx	xx
	Proposed	xx	xx
	Dividend	xx	xx
	Dividend Distribution tax	xx	xx
	Others	xx	xx
	Total	xx	xx

Schedule – 15 Miscellaneous Expenditure

S.No.	Particulars	Current Year	Previous year
1.	Discount allowed on issue to shares	xx	xx
2.	Others	xx	xx
	Total	xx	xx

Fire Revenue Account

Problem No.6

From the following particulars you are required to prepare fire Revenue account for the year ending 31 March 2018.

Claims outstanding 31.3.2018	2,80,000	Expenses on Management	12,68,000
Claims outstanding 1.4.2017	1,60,000		
Commission	8,00,000	Premium received	4,84,800
Claims paid	19,20,000	Commission on reinsurance accepted	20,000
Reinsurance Premium	4,80,000		
Commission on reinsurance ceded	40,000	Provision for unexpired Risk1.4.2017 (Firefund)	16,80,000
Additional provision for unexpired risk	80,000		

Solution:

Fire Revenue Account for the year ending 31.03.2018

Particulars	**Schedule**	**Current Year**
1.Premium Earned (Net)	1	43,68,000
2. Others		
3. Changes in provision for unexpiredRisk(2184000 – 1680000)		(-) 5,04,000
Total (A)		38,64,000
1.Claims incurred (Net)	2	20,40,000
2. Commission	3	7,80,000
3. Operating Expenses	4	12,68,000
4. Others		
Total(B)		40,88,000
Operating Loss (C)=(A-B)		(-) 2,24,000

Workings:

Schedule – 1- Premium earned (Net)

Premium received	48,48,000
Less Reinsurance premium	4,80,000
Total	43,68,000

Schedule – 2 – Claims incurred (Net)

Claims paid	19,20,000
Add Outstanding 31.3.18	2,80,000
	22,00,000
Less Outstanding 1.4.17	1,60,000
TotalClaims paid	7,60,000

Schedule – 3 – Commission

Commission	8,00,000
Add Commission on reinsurance	20,000
	8,20,000
Less: Commission on reinsurance ceded	40,000
Total	7,80,000

Marine Revenue Account

Problem No.7

From the following balance of united India Insurance Company as on 31.03.2021 prepare a Marine Revenue account.

Legal charges	2,400	Communication	10,000
Commission paid	2,16,000	Printing Stationary	24,000
Marine fund opening	16,40,000	Claims paid & outstanding	7,60,000
Premium received	21,60,000		
Commission earned on reinsurance ceded	1,20,000	Expenses of management	8,00,000

Solution:

Schedule – 1- Premium earned (Net)

Premium received		21,60,000
	Total	21,60,000

Schedule – 2 – Claims incurred (Net)

Claims paid & outstanding		7,60,000
	Total	7,60,000

Schedule – 3 – Commission

Commission paid	2,16,000
Less Commission earned on reinsurance ceded	1,20,000
Total	9,60,000

Schedule – 4 – Operating Expenses

Expenses of Management	8,00,000
Legal Charges	2,400
Communication	10,000
Printing & Stationary	24,000
Total	8,36,400

Marine Revenue Account for the year ended 31-03-2021

Particulars	Schedule	Current Year
1)Premium Earned(Net)	1	21,60,000
2) Profit/loss on sale /Redemption of Investment		-
3)Change in provision of unexpired risk		(-)5,20,000
4)Interest, Dividend & Rent Gross		-
Total (A)		16,40,000
1. Claims incurred (Net)	2	7,60,000
2. Commission	3	96,000
3. Operating Expenses Related to Insurance Business	4	8,36,400
Total (B)		16,92,400
Operating loss (C) = (A-B)		52,400

Fire and Marine Revenue account and profit & Loss Account

Problem No.8

From the following balances of Star General Insurance co Ltd on 31.03.2020 prepare a) Five Revenue account b) Marine Revenue account c) Profit & Loss account.

Particulars	Rs.	Particulars	Rs.
Survey expenses (Fire)	10,000	Commission earned on re-insurance ceded (marine)	60,000
Additional reserve opening (fire)	50,000		
Commission paid (marine)	1,08,000	Commission earned on re-insurance ceded (fire)	30,000
Commission paid (fire)	90,000		
Claims paid and outstanding (marine)	3,80,000	Management expenses (fire)	1,45,000
Claims paid and outstanding (fire)	1,80,000	Management expenses (marine)	4,00,000
Fire fund – opening	2,50,000	Marine premium less reinsurance	10,80,000
Marine fund – opening	8,20,000	Fire premium less reinsurance	6,00,000
Bad debts recovered	1,200	Profit on sale of land	60,000
Share transfer fee	800	Miscellaneous receipts	5,000
Director's fees	5,000	Differences in exchange (Cr)	300
Auditor's fees	1,200	Interest, dividends etc received	14,000
Bad debts (marine)	12,000	Depreciation	35,000
Bad debts (fire)	5,000		

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

Solution:

Schedule -1- Premium Earned (Net)

	Fire	Marine
Premium	6,00,000	10,80,000
Total Net Premium	6,00,000	10,80,000

Schedule -2- Claim incurred (Net)

	Fire	Marine
Claim paid	1,80,000	3,80,000
Add Survey Expenses	10,000	---
Total Claim paid	1,90,000	3,80,000

Schedule -3- Commission

	Fire	Marine
Commission – Direct	90,000	1,08,000
Less Reinsurance ceded	30,000	60,000
Total	60,000	48,000

Schedule -4- Operating Expenses

	Fire	Marine
Managerial Remuneration	1,45,000	4,00,000
Other – Bad debts	5,000	12,000
Total	1,50,000	4,12,000

Fire Revenue Account for the year ended 31.03.2020

Particulars	Schedule	Current Year
Premium Earned (Net)	1	6,00,000
Change in provision for unexpired risk		(-) 80,000
Total(A)		5,20,000
Claims incurred (Net)	2	1,90,000
Commission	3	60,000
Operating Expenses related to Insurance Business	4	1,50,000
Total (B)		4,00,000
Operating Profit (C) = A-B		1,20,000

Workings

1) Reserve for unexpired risk (31.03.2020)

50% Net Premium	3,00,000
Add Additional Reserve	80,000
	3,80,000

2) Change in provision for unexpired risk

Opening Balance	3,00,000
Less Closing Balance	3,80,000
Total	80,000

Marine Revenue account for the year ended 31.03.2020

Particulars	Schedule	Current Year
Premium Earned (Net)	1	10,80,000
Change in provision for unexpired risk		(-) 2,60,000
Total (A)		8,20,000
Claims incurred (Net)	2	3,80,000
Commission	3	48,000
Operating expenses	4	4,12,000
Total (B)		8,40,000
Operating Profit (C) = (A-B)		(-) 20,000

Workings

1) Reserve for unexpired risk 10,80,000

2) **Change in provision for unexpired risk**

Opening Balance	8,20,000
Less: Closing Balance	10,80,000
Total	2,60,000

Profit & Loss account for the year ended 31.03.2020

1) Operating Profit/Loss:	
a) Fire Insurance	1,20,000
	(-) 20,000
b) Marine Insurance	
2)Income from Investment:	
Interest, Dividend, Rent	
GrossProfit on sale of Land	
3) Other Incomes:	14,000
a) Transfer fees	60,000
b) Bad debts recovered	
	800
c) Miscellaneous Receipts	
	1,200
d) Difference in Exchange	
	5,000
Total (A)	
	300
	1,81,300
Other Expenses:	
1) Auditor fees	1,200
2) Director fees	5,000
Depreciation	35,000
	41,200
Total(B)	
Profit Before Tax (A-B)	1,40,100
Provision for taxation	----
Profit after tax	1,40,100
Appropriations:	
Balance of profit/loss brought forward from last year	----

UNIT - III

Accounts of Holding Companies

Meaning:

A Company which controls one or more other companies by means of holds either the whole of the share capital or majority of the shares of another company. The controlling company is called as the holding company and the company so controlled is called as a subsidiary company.

Definition:

Section 4 of the companies Act 1956 defines a company shall be deemed to be theholding company of another, if that other is its subsidiary".

1. By holding more than 50% of the face value of the equity shares of the other company.
2. By controlling the composition of Board of directors of the other company.
3. By controlling a holding company which controls another subsidiary company.

For example:

If X Ltd is a subsidiary of Y Ltd and Y Ltd is a subsidiary of Z Ltd, then X Ltd is also considered to be subsidiary of Z Ltd.

Advantages of Holding company:

1) The object of holding companies is to promote combination movement and eliminate competition.
2) Enjoying economics in production and management may be secured.
3) Subsidiary companies retain their identities. Hence no liquidation is possible.
4) Holding companies getting advantages existing of goodwill of is possible subsidiary companies and also control is exercised on the affairs of subsidiary companies.

Disadvantages:

Manipulation of accounts, Manipulation of Intercompany transactions, oppression of minority shareholders, and exploitation of subsidiary companies by holding company are possible in the system of holding companies formation.

Procedure for preparing consolidated balance sheet, and consolidated profit & loss a/c:

Consolidated financial statement include consolidated balance sheet profit & loss account. This statement is to show the financial position and trading results of both holding & subsidiary companies. In consolidated Balance sheet in which assets and liabilities of all the subsidiaries are given along with the assets and liabilities of holding company in one single Balance sheet.

Steps to be taken for preparation of Consolidated Balance sheet

Step 1: Wholly owned / partly owned subsidiary company:

The share of the subsidiary company held by the holding company is treated as Investment. The Investment of the holding company in the subsidiary company is replaced by Net assets of subsidiary company.

Step 2: Calculation of Capital Profits and Revenue Profits

The profits of the subsidiary company can be divided into two namely capital profit and revenue profit.

Capital Profit

The profits earned by the subsidiary company up to the date of purchase (or) acquisition of shares by the holding company are called capital profit. These profits are shared by the outsiders and holding company according to their proportionate shares held by them. Capital profits of the holding company are shown as capital reserve in the consolidated Balance sheet and share of capital profit belonging to minority interest is added to be amount of minority interest.

Revenue Profit

The profits earned by the subsidiary company after the date of purchase (or) acquisition of shares by the holding company are called capital profit. Holding company's share is added to the profits of the holding company and a share of such profit belonging to the minority interest is added to the amount of minority interest.

Step 3: Calculation of Goodwill or Capital Reserve

When the holding company purchases the shares of the subsidiary company at a price above the face value, the excess amount paid represents the payment of goodwill.

On the other hand, if the price paid for the purchase of shares is less than the paid up value, the difference is called capital reserve.

The goodwill / capital reserve is calculated as under:

Particulars	Rs.	Rs.
Paid up value of the equity held by the holding company		xxx
Add: Proportionate share in the capital profit	xxx	
Proportionate share in the capital reserve	xxx	xxx
		xxx
Less: Proportionate share in the capital loss		xxx
Total value		xxx
Less: Cost of equity (or) price paid for the investment		xxx
Goodwill / Capital reserve		xxx

Step 4: Calculation of Minority Interest

When some of the shares of the subsidiary company are held by outside shareholders, they will have a right to get a proportionate share in the assets and liabilities of that company their interest known as minority interest. The share of the outsiders in the subsidiary company is called minority interest. The Amount of minority is shown on the liabilities side of the balance sheet of the holding company.

Calculation of minority interest:

	Paid up value of shares held by outsiders		xxx
Add:	Proportionate share in the capital profit and reserve	xxx	
	Proportionate share in the revenue profit	xxx	
	Proportionate share in the increase in the value of the assets of the subsidiary	xxx	xxx
			xxx
Less:	Proportionate share in the capital losses	xxx	
	Proportionate share in the revenue losses	xxx	
	Proportionate share in the decrease in the value of the assets of the subsidiary	xxx	xxx
	Value of minority interest		xxx

Step – 5: Preparation of Consolidated Balance sheet

Consolidation is to aggregate the assets and liabilities of both holding and subsidiary company or companies after adjusting and eliminating different items such as intercompany investments, intercompany owings, unrealized profits and so on.

Step 6: Elimination of common transactions:

While preparing consolidated Balancesheet, some common transactions appearing in both Balancesheet of holding company and subsidiary company should be eliminated.

Example: 1) Goods sold on credit by the holding company to the subsidiary company and vice versa 2) Bill drawn by one company and accepted by another company. 3) Loan advanced by holding company to subsidiary company and vice versa. 4) Debentures issued by one company and held by another company.

Step 7: Treatment of unrealized profits:

If the goods sold at a profit by H to S company or S to H company remain unsold at end of the year, profit charged by the company on unused goods remain unrealized.

In this connection stock reserve is created and profit is reduced by unrealized profit. Further stock reserve is also reduced by share of minority interest. Stock reserve will be reduced on the liability side.

E.g. H Ltd purchased from S Ltd goods of the value of Rs.40000 on which S Ltd had charged a profit 20% on cost and goods worth Rs.12000 remained unsold at the end of the year.

Unrealised profit = 12000 x 20/120 = Rs.2000

Suppose H Ltd holds 75% equity shares of the subsidiary company

Stock reserve = 2000 x 75/100 = 1500 s.1500 will be deducted from stock on asset side and 1500 will be deducted from P& L a/c on the liabilities side.

Step 8: Treatment of Contingent Liabilities:

Contingent liability is that liability which arises or may not arise. Its payment depends on the occurrence of a future transaction which is not certain. Such a liability is shown by way of a footnote in the Balancesheet.

Example:

i) Arrears of dividend on cumulative preference shares.

ii) Claims against the company not acknowledged debt as yet.

iii) Bills discounted likely to be dishonoured.

iv) Amount uncalled on partly paid shares held.

Step 9: Revaluation of Assets and Liabilities:

If assets and liabilities of subsidiary company are revalued at the time of purchase of shares in the subsidiary company, profit or loss on account of such revaluation is treated as capital profit or capital loss and shared by minority shareholders and holding company according to the proportions of shares held by them. Holding company‟s share of capital profit is transferred to capital reserve, deducted from cost of control If there is loss on revaluation. Share of profit of minority shareholders is added to minority interest and deduction is made from the minority interest if there is a loss on revaluation.

Step 10: Bonus Shares:

Bonus shares may be issued out of capital profits or revenue profits or reserves of the subsidiary company. There are two methods of issuing Bonus shares: They are:

a) Treatment of Issue of Bonus shares out of capital profits:

Issue of Bonus shares out of capital profits (Pre-acquisition profits) will have no effect on the consolidated Balance sheet.

b) Treatment of Issue of Bonus shares out of Revenue profits:

Issue of Bonus shares out of revenue profits will have effect on the consolidated Balance sheet. The share of revenue profit earned by the holding company will be reduced and paid up value of shares held by the holding company will increase.

Problem No.1

From the following Balance sheet of holding company and subsidiary company prepare a consolidated balance sheet of holding company and its subsidiary company.

Balance sheet as on 31st March, 2020

Particulars	H Rs.	S Rs.	Particulars	H Rs.	S Rs.
			Sundry Assets	25,000	12,000
Share Capital in Re.1 shares	20,000	10,000	Investments :		
Sundry Liabilities	15,000	2,000	10,000 shares of Re.1 each in S Ltd	10,000	----
	35,000	12,000		35,000	12,000

Solution :

Consolidated Balance sheet as on 31st March, 2020

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital of H Company		20,000	Sundry Assets		
Sundry liabilities			H	25,000	
H	15,000		S	12,000	37,000
S	2,000	17,000			
		37,000			37,000

Problem No.2

The Balance Sheets of Anbu Ltd and Babu Ltd as on 31st December, 2017 were asfollows:

Liabilities	Anbu Ltd	Babu Ltd	Assets	Anbu Ltd	Babu Ltd
Share capital in Rs.10 fully paid			Fixed Assets	10,000	6,000
Shares	12,000	5,000	Current Assets	11,500	2,000
Equity shares	4,000	1,000	Cash at Bank	7,000	1,000
Preference shares	2,500	1,000			
Profit and Loss A/c	10,000	2,000			
Creditors					
	28,500	9,000		28,500	9,000

On 1st January, 2018, Anbu Ltd acquired 90% of share capital of Babu Ltd at 15 pershare. Prepare the consolidated Balance Sheet as on 1st Jan, 2018.

Solution:

Consolidated Balance Sheet of A Ltd and its subsidiary B Ltd as on 1st January 2018

Liabilities	Rs.	Assets	Rs.
Share capital		Cost of control	1,350
(Rs.10 fully paid)	12,000	Fixed Assets	
Preference share	4,000	Anbu Ltd10,000	16,000
Profit and Loss A/c	2,500	Babu Ltd 6,000	
Minority interest	1,600	Current Assets	
Creditors		Anbu Ltd11,500	
Anbu 10,000		Babu Ltd 2,000	13,500
Babu 2,000	12,000	Cash at Bank	
		Anbu Ltd 250	
		Babu Ltd 1,000	1,250
	32,100		32,100

(1) Ascertainment of cost of control

Investment A/c. (450 shares at Rs.15)		6,750
Less: Paid up value of 450 share	Rs. 4,500	
90% of pre-acquisition Profits i.e.90% of 1,000	900	5,400
Cost of control		1,350

(2) Minority Interest:

Paid up value of 50 Equity shares @ Rs.10	500
Paid up value of Preference shares	1,000
10% of Profits and Loss A/c balance	100
Minority interest	1,600

Problem No.3

From the Balance sheet of given below prepare a consolidated balance sheet.

Balance sheet as on 31st March 2017

Liabilities	A Rs.	B Rs.	Assets	A Rs.	B Rs.
Share Capital in Re.1 shares	12,000	5,000	Sundry Assets Investments	16,000	8,000
Sundry Liabilities	8,000	3,000	4,000 shares in B Ltd.,	4,000	---
	20,000	8,000		20,000	8,000

Solution:

Consolidated Balance sheet as on 31st March, 2017

	A Rs.		B Rs.
Share capital of A Co.,	12,000	Sundry assets	
Minority Interest (1)	1,000	A 16,000	
Sundry Liabilities		B 8,000	24,000
A 8,000	11,000		
B 3,000	24,000		24,000

Calculation of Minority interest Rs.

	Rs.
1/5th share in the assets of B co.	1,600
Less 1/5 share in the liabilities	600

Share of minority of interest	1,000
	=====

Problem No.4

Balance sheet as on 31st March, 2017

Liabilities	H	S	Assets	H	S
Share Capital in Re.1 fully paid shares	12,000	6,000	Sundry Assets	20,000	12,000
Reserve	3,000	2,000	Investments 6,000 shares in S Ltd	7,500	----
Profit and Loss A/c	2,000	1,000			
Sundry liabilities	10,500	3,000			
	27,500	12,000		27,500	12,000

H Ltd. has acquired shares on 31st March, 2017

Solution:

Calculation of capital reverses:

Equity purchased in the subsidiary	
Share Capital	6,000
Reserve	2,000
Profit and Loss A/c	1,000
Total	9,000
Less Price paid for investment	7,500
Capital Reserve	1,500

Consolidated Balance sheet as on 31st March 2017

Share capital				Sundry assets		
Re.1 fully paid shares			12,000	H	20,000	
Capital reserve			1,500	S	12,000	32,000
Reserve (H Ltd)			3,000			
Profit & Loss A/c (H Ltd)			2,000			
	H	10,500				
	S	3,000	13,500			
			32,000			32,00

Problem No.5

Calculation of Capital and Revenue profits

Balance sheet as on 31st March, 2016

Liabilities	H	S	Assets	H	S
Share Capital in Re.1 fully paid shares	12,000	5,000	Sundry Assets	20,000	8,000
Reserve	5,000	1,000	Investments 5,000 shares in S Ltd	6,500	----
Profit and Loss A/c	2,000	1,000			
Sundry liabilities	7,500	1,000			
	26,500	**8,000**		**26,500**	**8,000**

Shares were acquired by H Ltd. on 30th September, 2016

S Ltd transferred Rs.500 from profits to reserve on 31st March 2017.

Prepare the consolidated balance sheet.

Solution:

Calculation of Revenue profits of the subsidiary

P&L A/c balance as on 31-03-2017	1,000
Add Transfer to reserve	500
Total profits earned for the year	1,500
Less Profits of the first 6 months	
(From 01-04-2016 to 30-09-2017);	
Profits prior to date of Purchase (Capital profit)	750
Revenue profit	750

Capital profit

Reserve balance	1,000
Less Transferred from current profits	500
Reserve as on 1st April 2016 capital profit	500

Cost of Control

Share capital purchased		5,000
Add Pre-acquisition profits		
Capital Profit Reserve as on 01-04-2016	500	
Revenue Profit	750	1,250
Total		6,250
Price paid for the investment		6,500
Less: Equity share purchased in the subsidiary		6,250
Cost of control		250

(B) Consolidated Balance Sheet as on 31st March, 2017

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Share capital in Re.1 fully Paid Shares		12,000	Goodwill		250
Reserve H Ltd		5,000	Sundry Assets		
P & L A/c H	2,000		H	20,000	
S	750	2750	S	8,000	28000
Sundry liabilities H	7,500				
S	1,000	8,500			
		28,250			28,250

Problem No.6

Balance Sheet as on 31st December, 2014

Liabilities	**X**	**Y**	**Assets**	**X**	**Y**
Share capital in Re.1 fully paid Shares	10,000	5,000	Sundry assets	16,000	10,000
General reserve	5,000	---	5,000 Shares of Y Ltd.	6,000	----
Creditors	3,000	3,250			
P & L A/c	4,000	1,800			
	22,000	**10,000**		**22,000**	**10,000**

Shares were purchased by X Ltd. in Y Ltd on 30th June, 2014. On 1st January, 2014 the balance sheet of Y Ltd. showed loss of Rs. 3,000 which was written off out of the profits earned during 2014. Prepare consolidated balance sheet.

Solution:

Calculation of X Ltd's share of Revenue profits:		Rs.
Profit of Y Ltd as per balance sheet		1,800
Add Loss written off		3,000
Profits made during the year		4,800
Profits from 30th June to 31st December (4,800x1/2)		2,400
Pre-acquisition loss: (Capital loss)		
Profits earned to June 2004 (ie ½ of Rs. 4,800)		2,400
Less Loss on 1st January 2004		3,000
Net Loss as on 30th June 2004		600
Calculation of cost of control		
Share Capital	5,000	
Less Loss on the date of acquisition	600	4,400
Price paid for the investment		6,000
Cost of control		1,600

Consolidated Balance sheet as on 31st December, 2014

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital in Re.1 fully Paid Shares		10,000	Goodwill		1,600
General reserve (X)		5,000	Sundry Assets		
Creditors X	3,000		H	16,000	
Y	3,200	6200	S	10,000	26,000
Profit & Loss A/c X	4,000				
Y	2,400	6,400			
		27,600			27,600

UNIT - IV

INFLATION ACCOUNTING OR ACCOUNTING FOR PRICE LEVEL CHANGES:

Meaning:

Inflation accounting is a system of accounting which purports to record as a built –in mechanism all economic events in terms of current cost. Inflation accounting is the accounting which takes into account the price level changes.

It is also known as price level accounting. It is a technique of accounting by which transactions are recorded at current values. Hence it is the system of accounting in which all items of financial statements are recorded at their current values.

Features of inflation accounting: -

1) Financial transactions are recorded automatic.
2) The unit of measurement is not assumed to be static
3) Realisation principles are not followed rigidly.

Advantages of inflation accounting: -

1) In this system depreciation is charged on current value of asset.
2) It shows real profit.
3) Balance sheet shows true and fare view of the state of affairs of the companybecause they are shown at their current value.
4) In this system sales and purchases shows current price because matching principle is followed.
5) It helps to replace fixed assets.
6) Under this system, financial statements show real profit.
7) Employees are eligible to receive bonus.

Limitation of Inflation Accounting: -

1. It is not free from prejudices.
2. In this system depreciation is charged at current value. It is against the concept ofdepreciation.
3. This system show profit are not realistic
4. It is irrational to add together various asset purchased at different points of

time attheir purchase costs.

5. It creates problem at the time of Replacement of Assets.
6. Charging depreciation on replacement cost will not be accepted by Income Taxauthorities.
7. It is not easily understood by general public
8. It is not easy to determine replacement cost.

Methods of inflation Accounting.

1. Current purchasing power method (CPP)
2. Current cost Accounting method (CCA)
3. Hybrid method.

i) Current purchasing power method (CPP)

Under this method, all the items in the financial statements are restated at current purchasing power. It takes into account changes in general purchasing power of money. It is also known as General Price Level approach.

Advantages of CPP method: -

1) This system by taking into account the price changes adopts the same unit ofmeasurement.
2) The system facilitates the calculation of gain or loss in purchasing power.
3) CPP statements are prepared on supplementary basis.
4) Monetary loss organs is determined.

Demerits of CPP method:

1) Selection of suitable Index is very difficult work.
2) It is based on Index numbers which are statistical averages.
3) It deals with changes in general price level and not with changes in prices of individual prices which happens to move in step with general price index.

ii) Current cost Accounting method (CCA)

Under CCA method items in P&L a/c and Balance sheet are shown at their current cost. The assets are valued at current cost Current cost is the cost at the which the assets can be replaced as on a date.

Merits of CCA:

1) It is a rational and comprehensive system of accounting.
2) It gives more information to the investors for comparision.
3) It is more realistic and practice.
4) Matching concept is followed.
5) The Balance sheet by showing assets at their value to the business is moreinformation to investors.
6) Decision taken by management based on current cost statements are moremeaningful.

Demerits of CCA:

1) This method ignores gains or losses on monetary items.
2) Income Tax authorities do not accept CCA method.
3) The system does not deal with the maintenance of financial capital in generalpurchasing power terms.
4) This method provides instability.

iii) Hybrid method

It is a mixture of both CPP and CCA method. In this method the adjustments of fixed assets and inventories are to be made with reference to specific indices in place ofa general index as is the case under current purchasing power method.

SOCIAL RESPONSIBILITY ACCOUNTING

Meaning:

Social responsibility accounting is concerned with the measurement and disclosure of costs and benefits to the society as a result of operating activities of a business enter prise for communicating to various groups both within and out side the business.

Definition of SRA

"Modification and application of conventional accounting to the analyse and solution of problem of a social nature" - Seidler

Objectives of SRA:

1) SCA aims at identifying and measuring the Reriodic net social contribution of afirm.
2) It helps in determining whether the firms strategies and policies are consistent with the legitimate individual aspirations and also with the overall priorities of thecommunity and the society.
3) It is useful to make available information of a firm to all segments of the society.

Forms of Accounting:

1) **Social statement Approach:-**

   Under this approach two statements namely social income statement andsocial balance sheet are prepared.

2) **Operating statement Approach**:-

   Under this approach, firms present the positive aspects of social activitiesas a result of operation.

3) **Narrative approach** :-

   Under this approach the information regarding social costs and socialbenefits is made in a narrative form.

4) **Goal oriented approach :-**

   Under this approach the firm prepares a list of its social and economic goals.

5) **Pictorial Approach :-**

   In this approach social activities undertaken by enterprise are presented inthe form of pictures.

HUMAN RESOURCE ACCOUNTING

Meaning

The total knowledge, skills, creative abilities, talents and aptitudes of man power of an organization's work force is called the Human Resources.

Definitions

"Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties"

– The American Accounting Society Committee.

“HRA is a tool to measure the cost of human resources in the organization”

– Eric.

Objectives of HRA

1) To utilise human resources properly.
2) To evaluate the return on investment of human resources.
3) To provide data take managerial decision.
4) To record cost – value date about human resources in the books of organisation.
5) To treat human resources as an economic asset.
6) To evaluate the return on investment on human capital.
7) To measure the costs incurred on human resources by firms.
8) To communicate the value of human resources to the organisation and the societyat large.
9) To allow management personnel to monitor effectively the use of human resources.

Merits of Human Resource Accounting.

1. It helps management in taking appropriate decisions regarding the use of humanassets in an organisation.

2. It helps to determine standard costs of recruitment, selection, training of people inan organisation.

3. HRA recognizes the importance of an individual and thereby contributes to theintellectual growth of employees.

4. To make efficient control over human resources.

5. HRA may help to improve the motivation and morale of employees.

6. HRA helps to make long term investment decision.

7. HRA helps to increase productivity of personnel.

8. HRA brings in awareness in the employees about their levels of efficiency andperformance.

9. It provides information for planning the human resources.

10. It helps the management to take decision regarding transfer, promotion, trainingand retrenchment of human resource.

Disadvantages of HRA:

1. Human asset is different from other physical assets. The value of human resourceasset will not decrease day by day but its value will be increased.

2. Human resource is not recognised as an asset by tax laws.

3. HRA is only theoretical concept.

4. HRA will not provide specific and correct guidelines to find out cost and value ofhuman resources of an organisation.

5. The life of human resource is uncertain.

6. It is an expensive method and not suitable to small organisation.

7. The attitude of human resource cannot be predicted.

8. It is not appropriate method to adopt for promotion and training policies.

Valuation of Human Resource:

There are two methods used to evaluate the human resource.

I. On the basis of cost of the resource.

II. On the basis of value of the resource.

Valuation of Human resource on the basis of cost.

Following are the cost based method for valuing human resources.

1. Historical cost method:

Under this method the actual cost incurred on recruiting selecting training developing human resources are capitalised. The capitalised cost is written off over the expected useful life of the human resource.

2. Replacement cost method:

Under this method the human resources are valued at their replacement cost. This cost involves in recruiting hiring, training and developing the replacement to the present level of presidency.

3. Opportunity cost:

Opportunity cost is the value of an asset when there is an alternative of it. Thus the human resources are valued on the basis of their alternative use. If an employee has no alternative then he has no value. The opportunity cost of an employee in one department is calculated on the basis of the offers by other departments for those employees.

4. Standard cost Approach:-

Under this method standard cost of recruiting hiring, training and developing per grade of employees are determined year after year.

5. Total cost method :-

Under this method the total expenditure incurred for education and training of an employee are considered as the value of an employee.

Valuation of Human Resource under value Accounting on the basis of value of Human Resource:

The value of human resource of an organisation is determined to their present value to the organisation.

1. Present value of future earnings method:-

Under this method present value of an employee is measured inorder to determine the total value of a firm's Labour force.

2. Present value method:-

Under this method the value of human resources of an organisation is determined according to their present value to the organisation.

3. Reward valuation method:-

Under this method the ultimate measure of an individual value to an organisation is his expected realisable value. The realisable value is estimated on the basis of present worth of set of future service he is expected to provide during the period of likely to remain with the organisation.

4. Net Benefit Method: -

Under this method the value of human resource its equivalent to the present value of net benefits derived by the organisation from the service of is employees.

5. Aggregate payment method: -

In this method human resources are to be valued as a group and not an individual basis.

6. Certainty equivalent net benefit method :-

Under this method, the value of human resources is determined by taking into consideration the certainty with which net benefits in future will accrue to the enterprises.

Forensic accounting

Meaning

Forensic accounting is the branch of accounting that deals with the detection and prevention of financial crimes. As a forensic accountant, you'll use your competencies in accounting, auditing, and investigative techniques to detect and analyze cases of fraud and other financial crimes.

Application area

Financial forensic engagements may fall into several categories. For example:

- Economic damages calculations, whether suffered through tort or breach of contract;
- Post-acquisition disputes such as earnouts or breaches of warranties;
- Bankruptcy, insolvency, and reorganization;
- Divorce settlement

- Securities fraud;
- Tax fraud;
- Money laundering;
- Business valuation;
- Computer forensics/e-discovery; and
- Fraud risk assessments under SOX 404 or otherwise.

Methods

Forensic accounting combines the work of an auditor and a public or private investigator. Unlike auditors whose goal is focused on finding and preventing errors, the role of a forensic accountant is to detect instances of fraud, as well as identify the suspected perpetrator of the fraud. Some of the most common types of fraud schemes include overstating revenues, understating liabilities, inventory manipulation, asset misappropriation, and bribery/corruption. To discover these, forensic accountants apply a variety of techniques.

Forensic accounting methods can be classified into quantitative and qualitative. The qualitative approach studies the personal characteristics of the individuals behind financial fraud schemes. A popular theory of fraud revolves around the fraud triangle, which classifies the three elements of fraud as perceived opportunity, perceived need (pressures), and rationalization. This theoretical construct was first articulated by behavioral scientist Donald Cressey. More recently, forensic accountants have gone beyond incentive effects and focused on behavioral characteristics, a branch of accounting known as accounting, behavior and organizations, or organizational behavior. Certain predictive factors, like being labeled as "narcissistic" or committing adultery, are common traits among fraud perpetrators.[1] These characteristics are often not conclusive enough on their own to identify the culprit, but can help forensic accountants to narrow down a suspect list, sometimes based on behavioral or demographic factors.

The quantitative approach focuses on financial data information and searches for abnormalities or patterns predictive of misconduct. Today, forensic accountants work closely with data analytics to dig through complex financial records. Data collection is an important aspect of forensic accounting because proper analysis requires data that is sufficient and reliable. Once a forensic accountant has access to the relevant data, analytic techniques are applied. Predictive modeling can detect potentially fraudulent activities, entity resolution algorithms and social network analytics can identify hidden relationships, and text mining allows forensic accountants to parse through large amounts of unstructured data quickly. Another common quantitative forensic accounting method is the application of Benford's law. Benford's law predicts patterns in an observed set of accounting data, and the more the data deviates from the pattern, the more likely that the data has been manipulated and falsified.

Analytical techniques

Forensic accountants utilize an understanding of economic theories, business information, financial reporting systems, accounting and auditing standards and procedures, data management & electronic discovery, data analysis techniques for fraud detection, evidence gathering and investigative techniques, and litigation processes and procedures to perform their work.

When detecting fraud in public organizations accountants will look in areas such as billing, corruption, cash and non-cash asset misappropriation, refunds and issues in the payroll department. To detect fraud, companies may undergo management reviews, audits (both internally and externally) and inspection of documents. Forensic accountants will often try to prevent fraud before it happens but searching for errors and in-precise operations as well as poorly documented transactions.

The process begins with the forensic accountant gathering as much information as possible from clients, suppliers, stakeholders and anyone else involved in the company. Next, they will analyze financial statements in order to try and find errors or mistakes in the reporting of those financial statements as well as they will analyze any background information provided. The next step involves interviewing employees in order to try and find where the fraud may be occurring. Investigators will look at company values, performance reviews, management styles and the overall structure of the company. After this is complete the forensic accountant will try to draw conclusions from their findings.

UNIT - V
FINANCIAL REPORTING

Meaning

Financial reporting is one of the most critical business processes that accounting, finance, and the business must understand and appreciate. Financial reporting is the comprehensive review of monthly, quarterly, or yearly financial data to drive better business performance and results.

Summary of financial reporting objectives

Financial reporting offers plenty of benefits and objectives for businesses, helping to track, analyse and report income. Here are the main four goals as to why you may use financial reports:

1. **To provide information to investors** – investors want to know the return on their investment whilst potential investors want to know how a company has performed before they invest their funds.
2. **To track business cash flow** – financial reporting shows different stakeholders where cash is coming and going from.
3. **To report on accounting policies** – different companies have different accounting policies, financial reports allow investors and stakeholders to compare these policies.

4. **To enable the analysis of assets and more** – financial reporting highlights any changes in a company's assets, liabilities and equity, allowing these to be analysed.

In simple terms, financial reporting is a comprehensive review of your company’s financial data over a specified period. It involves tracking, analysing and reporting on multiple financial objectives and targets and is generally done monthly, quarterly or annually. Financial reporting needs to be timely and accurate for stakeholders to fully understand company performance and identify growth opportunities or potential threats to the business.

To meet their financial reporting objectives companies will normally produce the following reports:

- Balance sheet
- Profit and loss statement
- Cash flow statement
- Statement of changes in equity

Fundamental qualitative characteristics:

1. **Relevance**
   The characteristic of relevance implies that the information should have predictive and confirmatory value for users in making and evaluating economic decisions. The relevance of information is affected by its nature and materiality. Information is material if omitting it or misstating it could influence decision making. A financial report should include all information which is material to a particular entity.
2. **Faithfulrepresentation**
   The characteristic of faithful representation implies that financial information faithfully represents the phenomena it purports to represent. This depiction implies that the financial information is complete, neutral and free from error.

Enhancing qualitative characteristics:

1. **Comparability**
   The characteristic of comparability implies that users of financial statements must be able to compare aspects of an entity at one time and over time, and between entities at one time and over time. Therefore, the measurement and display of transactions and events should be carried out in a consistent manner throughout an entity, or fully explained if they are measured or displayed differently.
2. **Verifiability**
   The characteristic of verifiability provides assurance that the information faithfully represents what it purports to be representing.
3. **Timeliness**
   The characteristic of timeliness means that the accounting information is available to all stakeholders in time for decision-making purposes.

4. **Understandability**

The characteristic of understandability implies that preparers of information have classified, characterised and presented the information clearly and concisely. The financial reports are prepared with the assumption that its users have a 'reasonable knowledge' of the business and its economic activities.

Accounting Standards

Accounting Standards are written policy documents issued by expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation, and disclosure of accounting transactions in financial statements.

Need for Accounting Standards

Accounting standards are needed for different reasons.

1. Uniformity
2. Common principles
3. Structural frame work
4. Consistency
5. Comparability
6. Boundaries

Accounting Standards in India

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

Introduction

AS 5 specifies the method of classification and disclosure for the following items:

a. Prior period items

b. Extraordinary items

c. Certain specific items w.r.t. profit and loss from ordinary activities

The standard also describes the treatment of changes in accounting estimates and disclosures to be made on account of such changes. The standard doesn't deal with tax implication on account of such changes as mentioned above.

Application

Why apply – Applying this standard helps in comparison of financial statements among various enterprises. Also, the financial statements of different enterprises can be compared over time when the standard is applied properly.

Insight Into the Standard Guidelines

The standard particularly deals with following four specific items:

Net Profit or Loss for the Period

Two broad categories of net profit and loss for the period are Profit or loss from ordinary activities and Profit or loss from extraordinary activities. Profit or loss from ordinary activities is such which arise in the normal course of business. These activities are a part of business and related activities. Examples: Profit/loss on sale of goods, services. The transactions and results under this category are shown as usual items in the financial statements for the accounting period. Profit or loss from extraordinary activities is such which do not arise under the normal course of business. These activities do not occur regularly. Example: – Profit on sale of fixed assets, Loss due to theft. The transactions and results under this category are to be disclosed separately in financial statements. The disclosure should be in a manner which clearly shows the effect on overall profits/losses due to these activities. The standard also specifies that if the results of any activity are substantial on the overall performance of the enterprise, then it should be disclosed separately in financial statements as a separate head. Example: – Fixed assets disposal, Restructuring of activities, Settlement of litigations.

Prior Period Items

While preparing the financial statements, there are certain items which actually correspond to prior accounting periods. The income or losses due to these items are a result of error or omission in the financial statements of the prior period. By nature, these items are not frequent and can be easily identified. The current period's financial statements should clearly show the effect of such prior period items.

Changes in Accounting Estimates

There are certain estimates which are used while preparing the financial statements for any period. For example estimate on the useful life of a machinery, estimate on the realizable value of an item in inventory. At times, these estimates are required to be revised due to any of the following reasons (inclusive list):

i. Change in circumstances

ii. New information

iii. Subsequent developments

iv. Experience

The effect of such change in estimates is to be taken into account while preparing financial statements. If the change in estimate affects ordinary activities, it is disclosed under ordinary activities other under extraordinary activities.

Changes in Accounting Policies

Accounting policies are the accounting principles and method of applying those principles while preparing the financial statements. A change in accounting policy should be undertaken only in two cases:

i. If the change is required by law or accounting standard; or

ii. If the change helps in better presentation of financial statements

Any change in an accounting policy which has a substantial/material effect has to be disclosed necessarily. The impact of such change should also be shown in financial statements. If the impact can't be assessed, this fact should also be disclosed.

AS 10 Accounting for Fixed Assets

AS 10 Property, Plant and Equipment prescribe the accounting treatment for properties, P&E (Plant and Equipment) so that the users of financial statements could recognize and appreciate the information about the investment made by any enterprise in property, P&E and the also understand the changes made in such investments.

It is also important to note that AS 6 – Accounting for Depreciation stands withdrawn and such matters related to depreciation is included in AS 10.

Applicability of AS 10 Property, Plant and Equipment

AS 10 is to be applied in accounting for property, P&E (Plant and Equipment) and this standard are not applicable to:

(a) Biological assets which are related to agricultural activities except for bearer plants. The Standard is applicable to bearer plants, however, it doesn't apply to the produce on bearer plants; and

(b) Wasting assets which include mineral rights, expenses related to exploration for and extraction of oil, minerals, natural gas and other non-regenerative resources.

Recognition of Asset under AS 10 Property, Plant and Equipment

The cost of property and P&E should be recognized as an asset only if: (i) it is apparent that the future economic benefits related to such asset would flow to the business; and (ii) the cost of such asset could be reliably measured.

Measurement of cost of the asset

An enterprise can select the revaluation model or the cost model as the accounting policy and employ the same to the entire class of its properties and P&E. According to the cost model, after recognizing the asset as an item of property or plant and equipment, it should be carried at the cost less the accumulated depreciation and the accumulated impairment losses (if any).

As per revaluation model, once the asset is recognized and its fair value could be measured reliably, then it must be carried at the revalued amount, which is the fair value of such asset at the date of the revaluation as reduced any following accumulated depreciation and accumulated impairment losses (if any). Revaluations must be done at regular intervals for ensuring that the carrying amount doesn't differ much from that which would be determined using the fair value at balance sheet date.

Depreciation under AS 10 Property, Plant and Equipment

As per the standard, depreciation charge for every period must be recognized in the P/L Statement unless it's included in carrying the amount of any another asset. Depreciable amount of any asset should be allocated on a methodical basis over the useful life of the asset.

Every part of property or P&E (Plant and Equipment) whose cost is substantial with respect to the overall cost of the item must be depreciated separately.

The standard also prescribes, that the residual value and useful life of an asset must be reviewed at the end of each financial year and, in case the expectations vary from the previous estimates, changes must be accounted for as changes in accounting estimate as per Accounting Standard 5 – Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

The method of depreciation employed must reflect the pattern of future economic benefits of the asset consumed by an enterprise. Various depreciation methods could be used for allocating the depreciable amount of an asset on a methodical basis over the useful life of the asset. The methods include SLM (Straight-line Method), diminishing balance method or units of production method.

AS 19 Leases

AS-19 deals with the accounting policies applicable for all types of leases except certain listed below. A lease is a transaction whereby an agreement is entered into by the lessor with the lessee for the right to use an asset by the lessee in return for a payment or series of payments for an agreed period of time.

What kind of leases are not covered under this standard

This Standard is not applicable to:

(a) Lease agreements for exploring or using natural resource. Ex Oil, gas, timber, metals and other mineral rights
(b) Licensing agreements. Ex Motion picture films, video recordings, plays, manuscripts, patents and copyrights
(c) Lease agreements for use land

There are two types of leases:

1. Finance Lease
2. Operating Lease

Finance Lease

A lease in which all risks and rewards are transferred to the owner of assets. The title may or may not eventually be transferred.

Examples of Finance Lease are:

1. Lease in which Assets is transferred to lessee at the end of lease term
2. Lease term in which lessee has the option to purchase the assets form lessor at the price which is lower than fair price on the date when option become exercisable.
3. Lease term Covers complete economic life of the asset even if title is not transferred
4. Lease term in which present value of the minimum lease payments is equal to or substantially covers the fair value of the leased asset
5. Leased asset is of a specialized nature. Ex Ambulance (the lessee can use it without major modifications being made)

Operating Lease

Any other lease other than finance lease is considered as an Operating Lease.

Accounting in the books of Lessee in case of Finance Lease

1. At the inception of lease, lessee will recognize the lease as assets or liability at an amount equal to the fair value of leased assets
2. Apportion the lease payments into finance charge and reduction in outstanding liability
3. Allocate finance charge to the periods during lease term 4. Pass journal entry for depreciation

Disclosure in case of Finance Lease

1. Assets acquired on Lease should be shown separately
2. For each leased assets, show net carrying amount at the balance sheet date
3. Provide reconciliation between Minimum Lease Payment at balance sheet date and their present value
4. Disclose total of minimum lease payment at balance sheet date and their present value for:

- Not later than one year
- Later than one year but not later than five year
- Later than five years

5. Future minimum sublease payment expected to receive at balance sheet date
6. General description of lessee significant leasing arrangements

Accounting in the books of Lessee in case of Operating Lease

Lease payment is recognized as an expense in the profit and loss account.

Disclosure in case of Operating Lease

1. Future lease payment for the following period

- Not later than one year
- Later than one year but not later than five years
- Later than five years

2. Total Expected future lease payment
3. Lease payment recognized in the statement of Profit and Loss for the period
4. General Description of Lessee significant leasing arrangements

Accounting in the books of Lessor in case of Finance Lease

1. Lessor to record assets in the books of account at an amount equal to net investment in Lease
2. Record finance income based on pattern reflecting constant periodic rate of return
3. Estimate unguaranteed residual value used in computing lessor gross investment in lease
4. If there is any reduction in estimated unguaranteed residual value then revise the income allocation over the remaining lease term. Reduction in respect to the amountto amount already recognized to be recognized immediately. Upward adjustment to be ignored
5. Initial direct cost associated with the lease to be recognized immediately in the profit and loss account or can be spread over the lease term

Disclosure in case of Finance Lease

1. Provide reconciliation between gross investment in lease at balance sheet date and present value of minimum lease payment. Also disclose the same as

- Not later than one year
- Later than one year, but not later than five year
- Later than five year

2. Unearned finance income
3. Unguaranteed residual value
4. Accumulated provision for uncollectible minimum lease payment receivable
5. Contingent rent recognized in statement of profit and loss account
6. General description of leasing arrangement
7. Accounting policy adopted for in respect of initial direct cost

Accounting in the books of Lessor in case of Operating Lease

1. Lessor should record assets in balance sheet under fixed assets
2. Lease income to recognize in statement of profit and loss account
3. Cost incurred including depreciation to be recognized in statement of profit and loss account
4. Check for impairment and provide for in book as per GAAP

Disclosure in case of Operating Lease

1. For each class of assets accumulated depreciation, accumulated impairment and carrying amount at the balance sheet date.
2. Depreciation recognized in the statement of profit and loss account.
3. Impairment losses recognized in the statement of profit and loss account.
4. Impairment loss reversed in the statement of profit and loss account.
5. Future minimum lease payment under for each of the following periods:

- Not later than one year
- Later than one year but not later than five year
- Later than five years

6. Total contingent recognized in the statement of profit and loss account.
7. General description of leasing arrangement

Sale and Leaseback Transaction

1. If sale and leaseback transaction results in finance lease: Any excess or deficiency over carrying amount should be deferred and amortized over the lease term in proportion to depreciation of the leased assets.
2. If sale and leaseback transaction results in operating lease: Any excess or deficiency over carrying amount should be recorded immediately in book of account:
a) If the sale price is below fair value, the loss is compensated by future lease payments at below market price, it should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used
b) If the sale price is above the fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used

AS 20: Earnings Per Share (EPS)

Earnings per share (EPS) is a financial ratio that provides information regarding earnings available on each equity share held in a company. This ratio acts as an important financial tool to improve the comparability between two or more companies, as well as between two or more accounting periods. AS 20 entails the process of calculation of Earnings per share. There are two types of EPS which are to be reported by enterprises on the face of the statement of profit & loss account even if the amounts disclosed are negative (a loss per share). 1. Basic EPS 2. Diluted EPS **1. Basic EPS** Basic EPS = Net profit or loss attributable to equity shareholders / Weighted average number of outstanding equity shares Earnings – Basic (Numerator) Net profit or loss for the period as defined under AS 5 which is shown here:

Particulars	Amount
Earnings before tax	XXX
(+) extraordinary items (income)	XXX
(-) extraordinary items (expenses)	(XXX)
(-) tax attributable to the period	(XXX)
(-) preference dividend *	(XXX)
Profit for the purpose of calculating EPS	XXX

*the preference dividend deducted for the period is: (a) the amount of any preference dividends on **non-cumulative preference shares** provided for the period; and (b) the full amount of the required preference dividends for **cumulative preference shares** for the period, whether or not the dividends have been provided for.

The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods. Per share – Basic (Denominator) For calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period. The time-weighting factor = Number of days for which the specified share is outstanding / Total number of days in the period

Example 1: Number of shares outstanding as on 01-01-2010 are 2000. Fresh issue of 600 shares for cash on 31-05-2010. Buy back of 300 shares on 01-11-2010.

Solution: The weighted average outstanding number of shares = (2000 x 12/12) + (600 x 7/12) – (300 x 2/12) = 2300 shares

Example 2: Opening balance of shares as on 01-01-2010 is 2000 shares. On 31-10-2010, issue of 600 shares of Rs. 10 each, Rs. 5 paid up.

Solution: As per AS 20, partly paid up equity shares should be calculated in the ratio of amount paid up to face value (amount paid / face value). The weighted average outstanding number of shares = (2000 x 12/12) + (600 x 5/10 x 2/12) = 2050 shares

Example 3: On 01-01-2010, 2 Lac equity shares of Rs. 10 each fully paid up. On 30-06-2010, fresh issue of 2 lac equity shares of Rs. 5 each fully paid up.

Solution: The weighted average outstanding number of shares = (2,00,000 x 12/12) + (2,00,000 x 5/10 x 6/12) = 2,50,000 shares

Example 4: Net profit for the year 2010 is Rs. 18 lacs. Net profit for the year 2011 is Rs. 60 lacs. Number of equity shares outstanding till 30-09-2010 is 20 lacs. Bonus issue on 01-10-2011 = 2 (new): 1(old). Calculate EPS for the year 2011 and adjusted EPS for the year 2010.

Solution: As per AS 20, when bonus shares are issued during the year, it should be calculated in the weighted average from the beginning of reporting period irrespective of issue date. Therefore, the bonus issue is treated as if it had occurred prior to the beginning of the year 2010, the earliest period reported.

Particulars	**Amount (in Rs.)**
Net profit for the year 2010	18,00,000
Net profit for the year 2011	60,00,000
Number of equity shares outstanding till 30-09-2011	20,00,000
Bonus issue on 01-10-2011	20,00,000 x 2 = 40,00,000
Earnings per share for the year 2011	60,00,000 /(20,00,000 + 40,00,000) = Re. 1
Adjusted Earnings per share for the year 2010	18,00,000 / (20,00,000 + 40,00,000) = Re. 0.30

Example 5: Net profit for the year 2010 is Rs. 11,00,000 and for the year 2011 is Rs. 15,00,000. Number of shares outstanding prior to right are 5,00,000 shares. Right issue of one new share for each five outstanding at right issue price of Rs. 15. Last date to exercise rights is 01-03-2011. Fair value of one equity share immediately prior to exercise of rights on 01-03-2011 is Rs. 21. Compute basic EPS for the year 2011 and adjusted EPS for the year 2010.

Solution: As per Para 22, Theoretical ex-rights fair value per share = (Fair value of all shares prior to rights + Right issue proceeds) / Number of shares outstanding post right issue = {(Rs. 21 x 5,00,000 shares) + (Rs. 15 x 1,00,000 shares)} / 5,00,000 shares + 1,00,000 shares = Rs. 20 Bonus element = Fair value per share prior to exercise of rights / Theoretical ex-rights value per share = 20 / 21 = 1.05

Computation of Earnings Per Share		
Particulars	**2010**	**2011**
EPS for the year 2010 as originally reported: Rs. 11,00,000/5,00,000 shares	Rs. 2.20	
EPS for the year 2010 as restated for rights issue: Rs. 11,00,000/(5,00,000 shares x 1.05)	Rs. 2.10	
EPS for the year 2011 including effects of right issue Rs. 15,00,000 / {(5,00,000 x 1.05 x 2/12) + (6,00,000 x 10/12)}		Rs. 2.55

- **Diluted EPS**

For calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares. Earnings – Diluted (Numerator) For calculating Diluted EPS, the numerator used for basic EPS should be adjusted by the following, after considering any attributable change in tax expense for the period:

a) any dividends on dilutive potential equity shares which have been deducted in arriving numerator of basic EPS;

b) interest recognized in the period for the dilutive potential equity shares; and

c) any other changes in expenses or income that would result from the conversion of the dilutive potential equity shares.

Per share – Diluted (Denominator) For calculating diluted earnings per share, the number of equity shares should be the aggregate of the weighted average number of equity shares which would be issued on the conversion of all the dilutive potential equity shares into equity shares. Diluted earning per share is calculated in the case of potential equity share like convertible debentures, convertible preference shares, options etc. Potential equity shares are diluted if their conversion into equity shares reduces the earning per share and if it increases, then they are considered as anti-dilutive.

Example:

Particulars	**Amount**

Net profit for the current year	Rs. 1,00,00,000
Number of equity shares outstanding	50,00,000
Basic EPS	1,00,00,000/50,00,000 = 2
Number of 12% convertible debentures of Rs. 100 each Each debenture is convertible into 10 equity shares	1,00,000
Interest expense for the current year	Rs. 12,00,000
Tax relating to interest expense (30%)	Rs. 3,60,000

Particulars	**Amount**
Adjusted Net profit for the current year	Rs. (1,00,00,000 + 12,00,000 – 3,60,000) = Rs. 1,08,40,000
Number of equity shares resulting from conversion of debentures	10,00,000
Number of equity shares used to calculate diluted earnings per share	50,00,000 + 10,00,000 = 60,00,000
Diluted earnings per share	1,08,40,000/60,00,000 = Rs. 1.81

CORPORATE SOCIAL RESPONSIBILITY

Meaning

Corporate social responsibility (CSR) is a business model that helps a company remain socially accountable to itself, its community, and its stakeholders. This business model strives to leave a positive impact on the world, whether for the sake of society, the economy, or the environment.

Key Highlights of Indian Companies Act 2013

- The maximum number of members (shareholders) permitted for a Private Limited Company is increased to 200 from 50.
- One-Person company.
- Section 135 of the Act which deals with Corporate Social Responsibility.
- Company Law Tribunal and Company Law Appellate Tribunal.

Accounting for CSR expenditure

Introductions:

CSR which stands for Corporate Social Responsibility is a mode for corporate entities to give back to the society they are functioning in for the welfare of the same. In India, CSR was introduced first time in Section 135 of Companies Act, 2013. After that law related to CSR has been undergone some changes. Along with the amendments made to the Act in 2019, Section 135 has also been modified significantly. This articles briefs about recognition, measurement, presentation and disclosure of expenditure on activities relating to corporate social responsibility in the financial statements.

Recognition & Measurement of CSR Expenditure:

"The Board of every company which meets the limits prescribed under Section 135(1) shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years.

If the company fails to spend such amount, the Board shall, in its report made shall specify the reasons for not spending the amount and, unless the unspent amount relates to any ongoing project referred transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year".

Further, a company may decide to undertake its CSR activities in the following three ways:

(a) making a contribution to the funds as specified in Schedule VII to the Act; or

(b) through a registered trust or a registered society or a company established under section 8 of the Act by the company,

(c) in any other way e.g. on its own

From the above it can be inferred that the accounting related to CSR may take shapes of following scenarios: –

1. Spent Amount
    - Contributed to Fund
    - Through Registered Entity
    - On its Own
2. Unspent Amount
    - Contributed to Fund
    - Marked for ongoing projects

For accounting purpose, the above scenarios can be classified to two parts one is where CSR Activities are carried by company of its own and second one is any other case. Let’s discuss accounting in each part.

Accounting in a Scenario Where CSR Activities Carried by Company of its own: –

- In cases, where an expenditure of revenue nature is incurred on any of the activities mentioned in Schedule VII to the Act by the company on its own, the same should be charged as an expense to the statement of profit and loss as per Guidance Note Issued by ICAI CSR Expenditure Accounting.
- In case the expenditure incurred by the company is of such nature which may give rise to an ‘asset’. As per the Framework for Preparation and Presentation of Financial Statements issued by the ICAI “asset” is a “resource controlled by an enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise”. Hence, in cases where the control of the ‘asset’ is transferred by the company, e.g., a school building is transferred to a managing body of school for running and maintaining the school, it should not be recognized as ‘asset’ in its books and such expenditure would need to be charged to the statement of profit and loss as and when incurred.
- In some cases, a company may supply goods manufactured by it or render services as CSR activities. In such cases, the expenditure incurred should be recognized when the control on the goods manufactured by it is transferred or the allowable services are rendered by the employees. The goods manufactured by the company should be valued in accordance with the principles prescribed in AS 2, Valuation of Inventories or Ind-AS 2 “Inventories”. The services rendered should be measured at cost. Non-refundable indirect taxes (i.e. GST) on the goods and services so contributed will also form part of the CSR expenditure.
- Where a company receives a grant from others for carrying out CSR activities, the grant may be treated as “Grant Related to Income” as per Ind-AS 20 “Accounting for Government Grants and Disclosure of Government Assistance. Such Government grants shall be recognized in statement of profit or loss on a systematic basis over the periods in which the entity recognizes as CSR Expenses. Same Accounting treatment need to be followed by companies preparing their financial statements as per AS (Accounting Standards).

Accounting in other Scenarios: –

- In case a contribution is made to a fund specified in Schedule VII to the Act, the same would be treated as an expense for the year and charged to the statement of profit and loss.
- In case the amount is spent through registered entities the same will also be treated as expense for the year by charging off to the statement of profit and loss.
- In case unspent CSR amount contributed to a fund specified in Schedule VII to the Act, the same would be treated as an expense for the year and charged to the statement of profit and loss.
- In case unspent CSR amount is related to Ongoing Projects, the same would be accounted based on the nature of such project.

Recognition and Measurement of Income Earned During the Course of Conduct of CSR Activities: –

- The Framework for Preparation and Presentation of Financial Statements issued by the ICAI, defines 'income' as "increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants". Since the surplus arising from CSR activities is not arising from a transaction with the owners, it would be considered as 'income' for accounting purposes.

Presentation and Disclosure in Financial Statements of CSR Expenditure:

The General Instructions for Preparation of Statement of Profit and Loss under Schedule III (Both Division I & II)to the Companies Act, 2013, requires that in case of companies covered under Section 135, the amount of expenditure incurred on 'Corporate Social Responsibility Activities' shall be disclosed by way of a note to the statement of profit and loss.

As per Guidance Note on Accounting of CSR Expenditure "The notes to Financial Statements may disclose followings with regard to CSR:

(a) Gross amount required to be spent by the company during the year.

(b) Amount spent during the year on:

Sl. No.	Particulars	In Cash	Yet to be Paid in Cash	Total
1.	Construction/acquisition of any asset			
2.	On other purposes			

(c) Details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per AS 18 or Ind-AS 24.

Reporting of CSR

A corporate social responsibility (CSR) report is an internal- and external-facing document companies use to communicate CSR efforts and their impact on the environment and community. An organization's CRS efforts can fall into four categories: environmental, ethical, philanthropic, and economic.

Importance of CSR Report

CSR reports are a way for an organization to communicate its mission, efforts, and outcomes to external and internal stakeholders. In addition to employees, decision-makers, and shareholders, these include customers, the local community, and society at large.

If a company has been bold and successful in its CSR efforts, the release of its CSR report is as much a communication tool as it is a marketing and public relations event. Especially because of the lack of mandatory guidelines, you can use these reports to highlight your organization's achievements and build social responsibility into your brand's identity.

Releasing a CSR report on an annual basis can also create accountability. For example, if your organization publishes its goal to be carbon neutral by 2025 in its 2021 CSR report, chances are employees will feel driven to accomplish that goal so its completion can be noted in the 2025 report. If a goal isn't reached in its intended time frame, the CSR reporting process can prompt an examination of how the project went off track and what can be done to realign and accomplish the goal in a realistic timeframe.

Presentation and disclosure in financial statements

The *General Instructions for Preparation of Statement of Profit and Loss* under Schedule III to the 2013.Act requires a company to disclose the amount of expenditure on the CSR activities by way of a note to thestatement of profit and loss.

The technical guide recommends expenditure on CSR activities to be presented as a separate line item under the term ‘CSR expenditure’ in the statement of profit and loss. Further, the relevant note should disclose the break- up of various heads of expenses based on nature and materiality included in the line item ‘CSR expenditure’.

This should, *inter alia*, includes, amount approved by the board to be spent during the year, amount spent during the year on construction/acquisition of assets and other purposes and details of related party transactions.

Further, in case a company incurs losses, but it meets the other criteria for formulating CSR committee, the guide still requires companies to disclose the reasons for not spending any amount on CSR activities in theboard’s report.