MANONMANIAM SUNDARANAR UNIVERSITY

Tirunelveli

Directorate of Distance and Continuing Education

M.Com., Second Year

SYLLABUS

ADVANCED CORPORATE ACCOUNTING
LESSONS 1 - 8

I Accounts of Joint stock companies final Accounts - Balance sheet preparation - legal provisions for the preparation - of profit & Loss Account Calculation on Net Profit.

Devicible Profit meaning - Transfer to reserves - declaration of dividend - Depreciation - Interest out of capital Tax adjustments - Bones shares - Balance Sheet.

II Alternation of share capital - meaning and ways - Internal reconstruction - steps for reconstruction.

III Valuation of Goodwill and of share. Definition - Factors influencing & methods - yield method - Annurity methods - Net Assets method.

IV Amalgamation of companies - Amalgamation Absorption.

V Holding company Accounts - Final Accounts of Holding companies & subsidary co., consolidated Accounts - Balance sheet.

VI Accounts of Banking Companies, Functions - Accounting records. Profit & Loss Ac. & Balance Sheet Terms in the Balance Sheet.

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ADVANCED CORPORATE ACCOUNTING

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Chapter I

ACCOUNTS OF JOINT STOCK COMPAINES

FINAL ACCOUNTS

Introduction

The basic principles of preparing the profit and loss account and balance sheet of a joint-stock company is the same as that of a sole trader or partnership. It is compulsory for a joint stock company to preapre final accounts according to companies Act of 1956. Section 209 to 223 of companies Act contains provisions governing the keeping of books and publication of final accounts.

Section 210

Under Sect. 210 it has been made comulsory to present the balance sheet and profit and loss account at every annual general meeting. The directors are responsible for the preparation of final accounts and placing them before the annual general meeting. In the case of non-trading concerns, they have to prepare income and expenditure account instead of profit and loss account. In the directors wilfully fail to comply with the provisions of this section they are punishable with imprisonment for a term not exeeding six months or with a fine not exceeding one thousand rupees or both.

Section 211

According to section211, every balance sheet and profit and loss account of a company shall give a true and fair veiw of the state of affairs of the company. The set form for preparation of balance sheet has been given in part I of the schedule. Part II of the schedule contains the requirements for the preparation of profit and loss account.

Section 212

According to section 212 if a joint stock is a holding company (holding more than 50% of shares in another joint stock company,) the following documents relating to the subsidiary company shall be attached to its balance sheet.

a) a copy of the balance sheet of the subsidary.

b) a copy of the profit and loss account of the subsidary.

c) a copy of the directors report.

d) a copy of the auditors report.

e) a statement of the holding company's interest in the subsidary.

Form of Balance Sheet

Part I of schedule VI to the Companies Act contains the form of balance sheet for a joint stock company. So the balance sheet of every joint stock company should be in this form or such other form as may be approved by the General government generally or in any particular case. Banking, Insurance and Electricty companies are governed by Special status and different forms are prescribed for such companies.

SCHEDULE VI PART I

(See Sec. 211)

Balance Sheet of (Here enter the name of the company) as at (Here enter the data at which the Balance Sheet is made out)

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Assets	Figure for the current Year Rs.
	SHARE CAPITAL Authorised ... Shares of Rs. ... each			FIXED ASSETS Distinguishing as far as possible between expenditure upon	
	issued (distinguishing between the various classes of capital and stating the particulars specified below in respect of each class) Shares of Rs. each			a) Good will b) Land c) Buildings d) Leaseholds e) Railway sidings f) Plant and Machinery	

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Figure for Assets the current Year Rs.
	Subscribed Distinguishing between the various classes of capital and stating the particulars specified below inrespect			g) Furniture and fittings h) Development of property i) Patents, trade marks and designs

of each class shares of Rs.
each Rs. called up

Of the above shares ...
Shares are alloted as fully paid up pursuant to a contract without payments being received in cash. Of the above shares ... shares the end of are allotted as fully paid up way of bonus shares.

j) Livestock
k) Vehicles etc.,

NOTES

1. Under each head 456 the original cost and the additons there to and deductions there from during the year, and the total depreciation written off or provided up to the end of the year are to be stated. Depreciation written off or provide shall be allocated under the different asset head and deducted in arriving at the value of fixed assets.

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Assets	Figure for the current Year Rs.
	(Specify the source from which bonus shares are issued e.g. capitalisation of profits or reserves or form share premium account)				
	Less : Calles unpaid: i) By directors ii) by others				

Add : Forfeited shares

RESERVES AND SURPLUSINVESTMENTS

1. Capital reserves
2. Capital redemption reserves
3. Share premium account

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Assets	Figure for the current Year Rs.
	(Showing details of its utilisation in the manner provided in Sec. 78 in the year of utilisation)			Showing nature of investment and mode of valuation, for example, cost or market value and distinguishing between	
	4. Other reserves specifying the nature of each reserve and the amount in respect in respect there of			1. Investments in govern ment or trust securities. 2. Investment in shares, debentures or bounds	
	Less : Debit balance in profit and loss account (if any)				
	(The debit balance in the profit and loss account shall be shown as a deduction form			(Showing separately shares, fully paid up and partly paid up and also distinguishing the different classes of shares and	

	the uncommitted reserves, if any).				showing also in similar details investment in shares, debentures or bounds of subsidiary companies).

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Year Rs.	Figures for the previous	Figure for Assets the current Year Rs.
	5. Surplus i.e., balance profit and loss account after providing for proposed allocations namely, dividend, bonus or reserves.				3. Immovable properties 4. Investment in the capital of partnership firms
	6. Proposed additions to reserves				
	7. Sinking funds				
	SECURED LOANS: 1. Debentures.				NOTES: 1. Aggregate amount of company's quoted investment and also the
	2. Loans and advance banks				

market value
thereof
shall be
shown

ASSETS, LOANS CURRENT
AND ADVANCES:

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Figure for Assets the current Year Rs.
	3. Loans and advances			A) CURRENT
ASSETS				
	4. Other loans and advances			1. Interest accured on investments.
	NOTES:			2. Stores and spare parts
	1. Loans from directors and manager should be shown separately.			3. Losse tools.
				4. stock-in-trade
				5. Works-in-progress
				6. Sundry Debtors:
	UNSECRUED LOANS			a) Debts outstanding for a
	1. Fixed deposits			period

2. Loans and advances from
3. Short term loans and
vances.

exceeding six
months.
b) Other debts

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Figure for the current Year Rs.	Assets

a) From Banks

b) From others

(Short term loans include

those which are due for

repayment not later than one

year as at the date of the balance sheet)

NOTES:
1. In regard to sundry debetors particulars to be given separately of

a) Debts considered good and inrespect of with the company is fully secured;

b) Debts considered good for which the company

4. Other loans and advances:

holds no security other than the debtors' personal seciroty; and

c) Debts considered doubtful or bad

a) From banks

(7A) Cash balance on hand

b) From others

(7B) Banl balances

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Figure for Assets the current Year Rs.

NOTES:

a) With scheduled banks

b) With others

1. Loans from directors and manager (should be shown separately).

CURRENT LIABILITIES

AND PROVISIONS:

A) CURRENT LIABILITIES

1. Acceptances

2. Sundry creditors

3. Subsidiary companies

B. LOANS AND ADVANCES

8a) Advances and loan to subsidiaries.

b) Advances and loans to partnership firms in which the company or any of its subsidiaries is a partner.

9. Bills of exchange

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Figure for Assets the current Year Rs.

4. Advance payment and unexpired discounts for

10. Advances recoverable in cast or in kind or for

	the portion for which value has still to be give e.g. in the case of the following companies; Newspaper, fire insurance, theatres, clubs banking, steamship companies etc.			value to be received e.g. rates, taxes, insurance, etc 11. Balance with customers port, Trust, etc (Where payable on demand)
	5. Unclaimed dividends.			
	6. Other liabilities (if any)			
	7. Interest accured but not due on loans.			
	B. PROVISIONS			MISCELLANEOUS EXPENDITURE (to the extent not written off

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Figure for the current Year Rs.	Assets
	9. Proposed dividents				1. Preliminiary expenses

10. For contingencies

11. For provident fund scheme

12. For insurance, pension and similar staff benefit scheme

13. Other provisions

A food not to the balance sheet may be added to show separately :

2. Expenses including commission or brokerage on underwriting or subscription of shares or debentures

3. Discount allowed on the issue of shares of debenture

4. Interest paid out of capital during construction (Also stating the rate of interest)

5. Development expenditure not adjusted.

6. Other sum (specifying nature)

Figures for the previous Year	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Figure for Assets the current Year Rs.
	1. Claims against the company not acknowledged as debts			

2. Uncalled liability on shares partly paid.
3. Arrears of fixed cumulative dividends
4. Estimated amount of contract remaining to be executed on capatial account and not provided for.
5. Other moneys for which the company incontingently liable

PROBIT AND LOSS ACCOUNT

(Show here the debits balance of profit and loss account carried forward after deduction of the uncommitted reserves if any)

Vertical Form of Balance Sheet

By notification dated 23rd December 1978 Government have permitted companies to prepare the balance sheet either in the horizontal form as given earlier, or in the vertical form. The latter form is given below as per the notification.

Name of the Company ...

Balance Sheet as on ...

	Sources of Funds	Schedule No.	Figures as at the end of the Current year	Figures at the end of the previous financial year
1.	Shareholders funds			
	a) Capital	...	...	...
	b)Reserves and Surplus	...	...	...

2.	Loan Funds			
	a) Secured loans	...	...	...
	b) Unsecured loans	...	...	...
	Total			
II APPLICATION OF FUNDS				
1.	Fixed assets			
	a) Gross block	..	...	...
	b) Less depreciation	...	...	...
	c) New block	...	...	...
	d) Capital work in progress	...	...	...
2.	Investments			
3.	Current assets, loans and advance			
	a) Inventories	...	...	...
	b) Sundry debtors	...	...	...
	c) Cash and bank balance	...	...	...
	d) Other Current assets	...	...	...
	e) Loans and advances	...	...	...
LESS				
	Current Liabilities and provisions			
	a) Liabilities	...	...	...
	b) Provisions	...	...	...
NEW CURRENT ASSETS				
4.	a) Miscellaneous expenditure to the extent no written off on adjusted	...	...	...
	b) Profit and loss Account...		...	...
	Total			

Notes :

1. Details under each of the above items shall be given in sparate schedules. The schedules shall incorporate all the information required to be given under Part IA of the Schedule VI read with nots continuing general instruction for preparation of balance sheet.
2. The Schedules, referred to above, accounting policies and explanatory notes that may be attached shall form an integral part of the balance sheet.
3. The figures in the balance sheet mays be rounded to the nearest "ooo" or "oo" as may be convenient or may be expressed in terms of decimals of thousands.
4. A foot-note to the balance sheet may be added to show separately contigent liabilities.

Legal provision for the preparation of profit and loss account of a company

There is no prescribed form for preparation of profit and loss account or income and expenditure account of a joint stock company. For banking, insurance and electricity a companies, the form for the preparation of profit and loss account has been specified. There is no need to split the profit and loss account of a joint stock company into three parts viz., tradind account, profit and loss account and profit and loss appropriation account. However if it is done in three parts, it is permitted. It is recommended that appropriation of profit should be shown in a separated section called profit and loss appropriation account. It is also called as "below the line". items which have been considered for the determination of current years profit are shown above the line.

On the left hand side of each of the two sides (debit side and credit side), the previous years figure should be given. It is not necessary to write, "To on the debit side and "By" on the credit side of the profit and loss account.

The profit and loss account must contain the following information:

i) Sales, separately of each class of goods dealt with but the company together with quantities of such sales.

ii) Value of the basic raw materials concerned together with the quantities for each item.

Note:

The quantities to be shown should be in units in which normally the material concerned is sold or purchased in the market.

iii) Opening and closing stocks of good produced together with a break up in respect of each class of goods along with quantities.

iv) In the case of trading companies purchase opening stocks and closing stocks of each class of goods traded in by the company together with quantities

v) In the case of companies rendering services, the gross income derived from servicerendered.

vi) In the case of a company which is a manufacturing and a trading company and also renders service, it will be sufficient if the total amount are shown in respect of the opening and closing stocks, purchasesm sales and consumption of raw material with vaule and quantitative break-up and the gross income from services rendered is shown.

viii)Break-up of expenditure incurred on employees having remuneration of Rs.3,000/- or more the number of such employees must also be given. In addition the names of the employees concerned have also to be disclosed in a separarte statement.

ix) All expenses which are more than 1% of the total revenue of the company of Rs.5,000/- (whichever is higher) must be state separetely and the grouped under "Miscellaneours Expenses".

x) The extent of the profit earned or lossed incurred on account of membership of a partnership firm.

xi) In the case of manufacturing companies, in respect of each class of goods:-

a) the licensed capacity (where licence is in force);

b) the installed capacity.

c) the actual production separately for goods produced for sale and for semi-processed goods.

xii) The value of imports calculated, on C.I.F. basis by the company in respect of

a) raw material;

b) components and spare parts; and

c) capital goods.

xiii)a) Expenditure in foreign currency on account of royalty know how professional consultation fees, interest and other matters.

b) Value of all imported raw materials, spare parts and components consumed during the year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each of the total consumption.

c) Amount remitted in forigh currencies on account of dividend with a specific mention of the number of nonresident shareholders, the number of shares held by them on which the dividends were due and the year to which the dividend related.

d) Earning in foreign exchange are classified under:

1. export of goods calculated of F.O.B. basis;
2. royalty, known how professional and conslutation fees.
3. interest and dividend; and
4. other income, indicating the nature thereof

Special Points

While preparing the final accounts of joint stock companies the following point should be considered.

a) Cost of issue of debentures or shares, underwriting commission and discount on issue of shares and debentures should continue to appear in the balance sheet unless there are instructions to write them off.

b) Preliminary expenses should be written off only if it has been instructed to do so. Preliminary expenses are those expenses which are incurred to establish the company and include expenses for the preparation, printing and publishing of Memorandum and Articles of Association and the Prospectus and also include registration expenses.

c) Interest for the full year should be debited to the profit and loss account in respect of debentures.

d) since the companies act requires all interest income of the company to be shown in the profit and loss account, interest received on Sinking fund Investments should be credited to the profit and loss account (and not directly to the Sinking Fund)

e) Any unusual item should be shown separately in the profit and loss account like loss on speculation, or earned a profit through speculation (speculation not being its usual business)

f) Special attention should be paid to managerial remuneration. the law lays down certain maximum limits beyond which the remuneration can be paid only with the permission of the Central Government.

g) Depreciation: the Companies Act prohibits a company from declaring dividends unless depreciation is provided for on fixed assets. Depreciation should be provided for (a) according to the provisions of the income Tax Act or (b) by dividing 95% of the amount of the asset by its life or (c) according to a method approved by the Central Government.

Managerial Remuneration

The Compaines Act provides certain restrictions on the amount of managerial remuneration to be paid by a public company. The following are some of the legal provisions regarding managerial remuneration.

Overall Maximum and Minimum Limit

According to Sec. 198 of companies Act, the total remuneration payable to all managerial staff in any financial year cannot exceed 11% of the net profit of the company for that financial year.

According to Seco. 198 (4) if there is no profit or inadequte profit in a particular year, the company pay its all managerial staff by way of minimum remuneration upto Rs. 50,000 per annum. The minium limit can be increased with the approval of the Central Government.

CALCULATION ON NET PROFIT FOR REMUNERATION PURPOSE

Sec.349 and 350 contains previsions regarding the method of calculating net profit to decide managerial remunceration

a) Add the following to the normal profit

Bounties and subsides roceived from any Government.

b) Do not take credit for the following

1. Premium on shares or debentures of the company which are issued or sold by the company.
2. Profit on sale of forfeited shares.
3. Profits of a capital nature including profits from the sale of the undertaking or any of the undertakings of the company or of any part thereof.
4. Profits from the side of any immovable property or fixed as sets of a capital nature.

Provided that where the amount for which any fixed asset sold exceeds the written down value thereof referred to in sec. 350, credit shall be given for so much of the excess as is not higher than the difference between the original cost of that fixed asset and its writtendown value.

For example, if a company sells it fixed assets (Written down value of which is Rs.80,000 and original cost is Rs.1,40,000) for :

i) Rs. 1,04,000 then credit will be given for Rs. 24,000

ii) Rs. 1,20,000 then credit will be given for Rs. 40,000

iii) Rs. 1,50,000 then credit will be given for Rs. 60,000

iv) Rs. 1,60,000 or any price higher than Rs. 1,60,000 credit will be given for Rs. 60,000.

c) Deduct the following

i) all the usual working charges

ii) bonus or commission paid or payable to any members of the company's staff or to any engineer, technician or person employed or engaged by the company, whether on a whole time of on a parttiem basis.

iii) any tax notified by the Central Government as being in the nature of a tax on excess or abnormal profits.

iv) any tax on business profits imposed for special reasons or inspecial circumstances and notified by the Central government in this behalf.

v) Interest on debentures issued by the company.

vi) Interest on mortgages executed by the company and on loans and advances secured by a charge on its fixed of floating assets.

vii) interest on unsecured loans and advances.

viii) expenses on repairs, whether to immovable or to movable properly, provided that repairs are not of capital nature,

ix) depreciation to the extent specified in Sec.350

x) Outgoing inclusive of contributions made under sec.293 (1) (e) Under this Section the board of directors of public company or a private company which is a subsidiary of a public company shall not, except with the consent of such public company or subsidiary in general meeting contribute to charitable and other funds not directly related to the business of the company or the welfare of its employees any amounts the aggregate of which will exceed Rs.50,000 or 5% of its average net profits as determined in accordance with the provisions of Sec. 349 and 350 during the three financial yeas immediately preceding whichever is greater.

xi) the excess of expenditure over income which had arisen in computing the net profits in accordance with this section in any year which begins at or agter the commencement of this act, in so far as such excess has not been deducted in any subsequent year in respect of which the net profits have to be ascertained.

xii) any sum paid by way of insurance against the risk of any liability such as is referred to in clause

xiii) debts considered bad and written off or adjusted during the year.

d) Do not deduct the following

i) Income tax and super-tax payable by the company under the Indian Income Tax Act, 1961, or any other tax on the income of the company not covered under claused iii) and iv) of (c) above.

ii) any compensation, damages, or payments made voluntarily that is to say, otherwise than by virtue of a liability such as is referred in (xii) of (c) above.

iii) loss of capital nature including loss on sale of the undertaking or any of the undertakings of the company of any part there of not including any excess referred to in the provision of Sec 350 of the written down value of any asset which is sold discarded, demolished or destroyed over its sale proceeds of its scrap value.

iv) Subject to the ceiling limits laid down in section 198 and section 309, remuneration by way of salary, commission or both and perquisites shall not exceed the following limits, namely:

Salary

Rupee 1,80,000 per annum of rupees 15,000 per month including dearness and all other allowance calculated in the following scale.

Where the effective capital of the company isshall not exceed	Monthly Salary, payable
i) less than Rs.20 lakhs	Rs. 6,000
ii) Rs. 20 lakhs or more but less than Rs. 50 lakhs	Rs. 7,500
iii) Rs.50 lakhs or more but less than Rs.1crore	Rs. 9,000
iv) Rs.1crore or more but less than Rs. 3 crores	Rs. 11,000
v) Rs. 3 crores or more but less than 5 crors	Rs. 13,000
vi) Rs. 5 crores or more	Rs. 15,000

COMMISSION

i) In case of commission is also payable along with the salary, it shall not before than one per cent of the net profits of the company, subject to a ceiling of fifty per cent of the salary of Rs. 90,000 per annum, whichever is less.

ii) Where it is proposed to pay remuneration by way of commission only, such commission shall not exceed the following limits namely:

Where the effective capital of the company is	Commission payable annualy shall no exceed
a) less than 20 lakhs	Rs. 1,08,000
b) Rs. 20 lakhs or more but less than Rs.50 lakhs	Rs. 1,35,000
c) Rs. 50 lakhs or more but less than Rs. 1 crore	Rs. 1,62,000
d) Rs. 1 crore or more but less than Rs. 3 crores	Rs. 1,98,000
e) Rs. 3 crores or more but less than Rs. 5 crores	Rs. 2,34,000
f) Rs. 5 crores or more	Rs. 2,70,000

Maximum limit of remuneration payable to various categories of managerial personal, when they work in a different combinations are given below:

a) All directors when not assisted by whole-time directors, or manager or managing director (s)	3%
b) All directors when assisted by whole-time director(s) or manager or managing director(s)	1%
c) Manager	5%
d) Managing directors when the one category is one At a time	5%
e) Managing directors when the Possible is more than one	10%
f) Whole-time director when there is one	5%
g) Whole-time director when there is more than one	10%
h) Maximum remuneration to all managerial personnel	11%
i) Minimum remuneration to all in case of inadequate profits	Rs. 50,000

Illustration:

From the following calculate the maximum commission permissible to directors:

i) When not assisted by managing director, or manager or whole time directors:

ii) When assisted by managing director.

iii) When assisted by a manager;
iv) When assisted a whole-time director.

PROFIT AND LOSS ACCOUNT

To Bonus paid to a foreign technician	20,000	By Gross profit	36,41,000
To Repairs	5,000	By profit on sale of building	80,000
To Interest on debentures	10,000	Cost price	90,000
To donations to the University	75,000	W.D. value	70,000
To compensation to an injured man	5,000		
To provisions for taxation	8,50,000		
To Loss on sale of the vehicle (W.D. value of Rs.11,000)	6,000		
To Net Profit	27,50,000		
Total	37,21,000	Total	37,21,000

Solution :

STATEMENT SHOWING PROFITS FOR MANAGERIAL REMUNERATION

		Rs.
Net Profit as over profit and Loss Account less		27,50,000
Capital Profit on the sale of Building:		
Sale Price (e.e., Rs.70,000+80,000)	1,50,000	
Less Cost Price (Original Cost) Capital Profit	90,000	60,000
		26,90,000
Add: Provisions for Taxation		8,50,000
Net Profit for secs. 198 (1) and 309 (5)		35,40,000
i) Directors remuneration when not assisted :3 of Rs. 35,40,000		1,60,200
ii) Director's remuneration when assisted : 1% of Rs. 35,40,000		35,400

Illustration :

The following Profit and Loss Account is presented by JAYYES Ltd., for the year ended March 31, 1989.

PROFIT AND LOSS ACCOUNT

	Rs.		Rs.
To salaries and Wages	6,00,000	By Gross profit b/f	25,40,000
To Directors Fees	20,000	By Profit on sale	
To Repairs	1,35,000	of company's land	1,25,000
To Depreciation	1,50,000	By Subsidy received	2,50,000
		from State Government	
To Development	80,000		
Rebate Reserve			
To Scientific Research	1,00,000		
(New Labouratory setup)			
To General Charges	75,000		
To Income Tax	5,00,000		
To Proposed Dividends	5,00,000		
To Interest on Debentures	60,000		
To Balance c/d	2,95,000		
Total	29,15,000	Total	29,15,000

The amount of depreciation as per schedule XIV comes to Rs.2,10,000. Calculate the remuneration payable to the managing director.

SOLUTION :

	Rs.	Rs.
Gross Profit as disclosed by the		
Profit and Loss Account		25,40,000
Add Subsidy received		2,50,000
		27,90,000

Less Debentures to be made		
Salaries and wages	60,000	
Director's Fees	20,000	
Repairs	1,35,000	
Depreciation	2,10,000	
General Chares	75,000	
Interest on debentures	60,000	12,000
	--------------	--------------
		15,90,000

Profit according to Section 349 remuneration of the managing director @ 5% 15,90,000 Rs. 79,500

ILLUSTRATION

Determine the maximum remuneration payable to the parttime directors and manager of a limited company under section 309 and 387 of the companies 1956 from the following particulars:

Before charging any such remuneration, the profit and loss account showed a credit balance of Rs. 23,10,000 for the year ended 31st March 1987 after taking into account the following matters:

	Rs.
1) Capital expenditure	5,25,000
2) Subsidy received from government	4,20,000
3) Special depreciation	70,000
4) Multiple shift allowance	1,05,000
5) Bonus to goreign technicians	3,15,000
6) Provision for taxation	28,00,000
7) Compensation paid to injured workman	70,000
8) Ex-gratia to an employee	35,000
9) Loss on sale of fixed assets	70,000
10) Profit on sale of investment	2,10,000

Company is providing depreciation as per section 350 of the companies Act 1956.

SOLUTION

Calculation of Profit for the purpose of determination of Managerial remuneration:

	Rs.
Net Profit as per Profit and Loss A/c.	23,10,000
Add Capital Expenditure	5,25,000
Special Depreciation	70,000
Provision for Taxation	28,00,000
	57,05,000
Less : Profit on Sale of Investments	2,10,000
	54,95,000
Less : Part-time Directors Commission @ 1%	54,950
Net Profit for Sec. 387	54,40,050

Manager's remuneration @ 5% of Rs.54,40,050=Rs.2,72,002

Total Managerial remuneration payable

=Rs. 72,000 + 54,950 = Rs. 3,62.952.

NOTE:

Ex-gratia payment to an employee is treated as a business expense.

ILLUSTRATION

The following is the account of a company.

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1994

	Rs.		Rs.
To Administrative selling and finance expenses	5,76,628	By Balance from Trading Account	38,35,414
To Managerial allowance	18,000	By Interest on Investment	19,964
To Director's remuneration	23,484	By Scrip fees	37

To Debentures sinking fund	4,800		
To Investment revaluation reserve	9,800		
To Depreciation on fixed assets	4,69,713		
To Provision of taxational	11,40,000		
To General reserve	5,00,000		
To Balance carried down	11,12,990		
			38,55,415
		By Balance 31.12.93	3,12,632
		By Balance brought down	11,12,990
Total	38,55,415	Total	29,15,000

The Managerial Personnel are to get 10% commission for sliding scale) subject of a minimum of Rs.18,000 per annum and other directors are to get 1% on net profit.

Show the computation of managerial remuneration.

SOLUTION

COMPUTATION OF MANAGERIAL REMUNERATION

	Rs.	Rs.
Profit as per Profit and Loss Account		11,12,990
Add: Managerial allowance	18,000	
Director's remuneration	23,484	
Debenture Sinking Fund	4,800	
Investment revaluation reserve	9,800	
Provision for taxation	11,40,000	
General reserve	5,00,000	
		16,96,084
Net Profit for managerial remuneration		28,09,074

Director's remuneration @ 1% on Rs.28,09,074		28,090 (Appx.)
Net Profit as shown above	28,09,074	
Less Director's Remuneration	28,090	
	27,80,984	

MANAGERIAL REMUNERATION LIMITED TO:

Rs.		Rs.
10,00,000	@ 10%	1,00,000
10,00,000	@ 9%	90,000
7,80,984	@ 8%	62,479
27,80,984		2,52,479

DIVISIBLE PROFIT

Meaning

Profits which are available for shareholder can be called as divisible profit. Dividend should be declared only if profit remains after meeting all expenses, losses, depreciation, taxation, writing of past losses and after transfering a reasonable amount to reserve. Profit arising out of revaluating a reasonable amount to reserve. Profit arising out of revaluation on fixed assets, and profits of extraordinary profits, capital profits are not available for divided.

Prior to February 1, 1975 dividends could be declared out of reserves or past profits. Section 250A, newly introduced by the compaines (Amended) Act, 1974 now provides that if must be inaccordance with the rules framed by Central Government in this behalf or the previous approval of the Government must be obtained if the rules are not being complies with.

Dividends cannot be declared except out of profits. If a company declares and pays a dividend in the absensce of profits, the directors will have to make good the amount of the company form their own pockets. However, there is a certain amount of difference attached to the meaning of divisible profits under the law and under general accountancy practice.

Transfer to Reserves

Government companies to transfer to reserve a part of their profits (not exceeding 10%). Presumably the transfer to reserves will be out of after-tax profits.

The Government have promulgated the following rules about transfer to reserves.

1. No dividend shall be declared or paid by a company for any financial year out of the profits of

the company for that year arrived at after providing for depreciation in accordance with the provision of sub-section(2) of section 205 of the Act, except after the transfer to the reserves of the company of a percentage of its profits for that year as specified below:

i) Where the dividend proposed exceeds 10per cent but not 12.5 per cent of the paid up capital, the amount to be transferred to the reserves shall not be less than 2.5 per cent of the current profits;

ii) Where the dividend proposed exceeds 12.5 per cent but does not exceed 12.5 per cent of the paid up capital, the amount to be transferred to the reserves shall not be less than 5 per cent of the current profits.

iii) Where the dividend proposed exceeds 15 per cent, but does not exceed 20 per cent of the paid up capital, the amount to be transferred to the reserves shall not be less than 7.5 per cent of the current profits; and

iv) Where the dividend proposed exceeds 20 per cent of the paid up capital, the amount to be transferred to reserves shall not be less than 10 per cent of the current profits.

Declaration of dividend out of reserve

The Government have laid the following rules regarding utilisation of reserves for payment of dividend. In the event of inadequacy or absence of profits in any years, dividend may be declared by a company for that year out of the accumulated profits earned by it in previous years and transferred by it to the reserves, subject to the conditions that:-

i) the rate of the dividend declared shall not exceed the average of the rates at which dividend was declared by it in the five years immediately preceding that year or ten per cent of its paid up capital, whichever is less;

ii) the total amount to be drawn from the accumulated profits earned in previous years and transferred to the reserves shall not exceed an amount equal to one-tenth for the sum of its paid up capital and free reserves and the amount so drawn shall first be utilised to set off the losses incurred in the financial year before any dividend in respect of preference or equity shares is declared; and

iii) the balance of reserves after such drawal shall not fall below fifteen per cent of its paid up share capital.

Depreciation

Section 205 has now brought legal and accountancy positions quite close. Previously, it was possible to declare dividends without writing off depreciation on fixed assets and without providing for previous losses provided the Articles did not prohibit such distribution. But it appears to be still legal to pay dividend without providing the depreciation on "non-depreciable" assets such as mines, leaseholds, etc since no depreciation is allowed on them under the Income-tax Act nor has the Central Government fixed a rate of depreciation for them.

Arrears of depreciation or accumulated losses in respect of financial years falling before the commencement of the companies (Amendment) Act of 1960 dividends cannot be declared unless.

a) depreciation has been written off the fixed assets in respect of the financial year for the which dividend is to be declared according to section 205 (2) :

b) arrears of depreciation on fixed assets in respect of any previous year (falling after the commencement of the companies Amendment) Act 1960 have been deducted from the profits; and

c) losses incurred by the company in the previous years falling after the commencement of the Companies (Amendment) act of 1960 or the amounts of depreciation provided whichever are less have been deducted.

CAPITAL PROFITS, as opposed to current or revenue profits, arise in special circumstances and are connected with acquistion of business, fixed assets and fixed liabilities. The usual item are as under:

a) Profit prior to incorporation;

b) Profit on acquisition of business-that is, where the value of tangible assets acquired is more than the liabilities taken over and the purchase consideration ;

c) Profit on sale of fixed assets, the excess the excess of sale proceeds over the original cost ;

d) Premium on issue of debentures ;

e) Profit on redemption of debentures ;

f) The credit to the Capital Redemption Reserve account for redemption of redeemable proference shares ;

g) Premium on issue of shares ; and

h) Profit remaining on resissue of forfeited shares.

Capital profits can be used to write off fictitious assets like discount on issue of shares or debentures, underwriting commission, etc., Only in certain circumstances they can be used for declaring a dividend.

Profits from Subsidiary Companies

Profits of subsidiary companies must not be included in divisible profits unless the subsidiary company has declared a dividend (and only the dividend may be treated as divisible profit). Losses of subsidiary companies need not be debited to the Profit and Loss Account of the holding company but it would be better if a provision is created to meet the holding company's share of the loss of the subsidary company.

Dividend received out of profits existing on the date of acquistion of the controlling shares in the subsidiary company must be treated as a capital receipt.

Dividends

The word dividend has been defined in the Act. It may be described as a periodical payment made by a company to its shareholders from out of divisible profits, after complying with the provisions of the Act and articles of association of the company concerned.

It is the right of shareholders to claim a dividend. But this right is available only when it is declared by the company in general meeting. A dividend, once declared, become a debt and a shareholder is entitled to sure at law for recovery of the same. Dividend must be paid within 42 days of declaration. Dividend is paid only to a registered shareholder or on his order to his banker. In case shares are converted into warrants, the bearer of the warrant is entitled to dividend. From the accounting point of view the following points are worth nothing.

1. In the absence of any specific instructions in the articles dividend calculated at the recommended rate on paid-up capital.
2. No dividend is paid on calls in advance.
3. If there are calls in arrear then dividend is paid on the amount actually paid by shareholders. The company is, however, authorised to make provision in the articles prohibiting the payment of dividend on shares having calls in arrear.
4. The company is required to dedut income-tax at source on all dividends dclared by it, unless they are declared free of income-tax. The rate at which the tax is deducted depends on the status of the assessee. The rates prevailing at present are given below:

Status of the shareholders	Income Tax%	Surcharge %	Total Tax%
1. Resident individual	20	4	24
2. Domestic company	22.5	1.5	24
3. Non-resident indiual	30	6	36
4. Non-domestic company	25	Nil	25

Tax deducted by the company is deposited by it with the Government. The company gives a certificate to the shareholder mentioning in the tax deducted at source and the shareholder mentioning in the tax deducted at source and the shareholder is entitled to get the refund of the tax from the Government.

5. An interim dividend is a dividend paid by the directors at any time between two annual general meetings. Where the articles authorise, the directors can resolve to pay interim dividend.
6. After having declared interim dividend the directors may recommend another dividend. This dividend is termed as final dividend. When a final dividend is declared then interm dividend is not adjusted unless the resolution mentions it specifically.
7. As per Sec. 205 A of the Act, newly introduced, if a dividend has been declared by a company but has not been paid within 42 days from the date of declaration to any shareholder entiltled of the payment of dividend, the company shall, within seven days, transfer the total amount of dividend which remains unpaid within the said period of 42 days to a special account to be opened by the company in that behalf in a scheduled bank. The style of the account should be "Unpaid dividend account of ... company Limited/Company (private) limited". After such transfer any claims by the shareholder will be paid from such account. If the amount remains unpaid or unclaimed for a period of 3 years, the same must be transferred by the company to General Revenue Account of the Central Government.

Required accounting entries are :

1. On declaration of the dividend-

   Profit and Loss Appropriation Account Dr.

   To Dividend Account

   To Income Tax Account

   (Being net amount payable to shareholders as dividends and income-tax on dividends deductible at source).

2. On opening a separate bank Account for the payment of dividend-

   Dividend Banking Account Dr.

   To Bank Account

   (Being the amount payable to the shareholders as dividend transferred to Dividend Banking Account)

3. On payment of Dividends

   Dividend Account Dr.

   To Dividend Banking Account

   (Being dividend paid)

4. When the amount of unpaid dividend is transferred to unpaid Dividend Account after 42 days of the declaration of the dividend.

   Unpaid Dividend Account (with bank) Dr.

   To Dividend Banking Account

   (Being unpaid dividend transferred from Dividend account to unpaid Dividend Ac count opened with a scheduled bank as per provisions of the low)

5. If the unpaid dividend is not claimed by the shareholder within 3 years

   Dividend Account Dr.

   To Unpaid Dividend Account

   (Being amount of unpaid dividend not claimed for a period of three years)

Interest out of Capital

Dividend are usually paid out of revenue profits. But in certain cases, the Central Government is empowered to permit the payment of interst to shareholders even when there are no profits. This done in case of those companies which take a loan gestation period before they can commence production. Interest is given during construction period so that shareholders may feel satisfied. Section 208 of the Companies act makes provision for such interest. The payment of interest out of capital is subject to the fulfilment of the following conditions :-

1. The payment is authorised by the Articles or by a special resolution.

2. No such payment is made without the previous sanction of the Government.
3. The payment of interest is made only for such period as may be sanctioned by the Central Government but it cannot extend beyound the close of the half year next after the half year during which the work or building has been actually completed or the plant provided.
4. The rate of interest does not exceed 4% p.a. or such other rate as the Central Government may, by notification, in the offical Gazette, direct.
5. The payment of interest does not operate as a reduction of the amount paid up on the shares.
6. The interest so paid, to the extent not written off or adjusted, is shown in the Balance sheet under the head 'Miscellaneous Expenditure' and the rate of interest is also stated.

ILLUSTRATION 1

J.K.Ltd., carried forward a balance of Rs.20,00,000 in the profit and loss account for the year ended 31st Dec. 1990. During the year 1991, it earned a profit of Rs.42,00,000. It was decided the following.

1. Transfer Rs. 10,00,000 to General reserve.
2. Transfer Rs. 5,00,000 to Dividend equalisation resereve.
3. Transfer Rs. 7,00,000 to Debenture redemption fund
4. Pay the year's dividend on Rs. 30,00,000 10% on preference shares.
5. Pay 20% dividend on Rs. 60,00,000 equity share capital.

Prepare profit and loss appropriation account. Also show journal entries assuming tax deducted at source is 23%

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1991

	Rs.		Rs.
To General Reserve	10,000	By balance	20,00,000
To Dividend equalisation reserve	50,000	By Net Profit as per Profit & Loss a/c	42,00,000
To Debenture Redemption Fund	7,00,000		
To proposed preference dividend	3,00,000		
To proposed equity dividend	12.00.000		

Balance Sheet	25,00,000		
Total	62,00,000	Total	62,00,000

JOURNAL ENTRIES

1.	Proposed preference dividend a/c	Dr.	3,00,000	
	Proposed Equity dividend a/c	Dr.	12,00,000	
	To preference dividend			3,00,000
	To Equity dividend			12,00,000
	(Being resolution passed in annual general meeting for declaring dividend)			
2.	Preference dividend a/c	Dr.	69,000	
	Equity dividend a/c	Dr.	2,76,000	
	To Income Tax payable			3,45,000
	(Being income tax deducted)			
3.	Income Tax payable a/c	Dr.	3,45,000	
	To Bank			3,45,000
	(Being income tax deducted paid)			
	Dividend Bank a/c	Dr.	11,55,000	
	To Bank			11,55,000
	(Being amount dividend payable sdepositied in dividend bank a/c)			
4.	Dividend Bank a/c	Dr.	11,55,000	
	To Bank			11,55,000
	(Being amount of dividend payable deposited in dividend bank a/c)			
5.	Preference dividend a/c	Dr.	2,31,000	
	Equity dividend a/c	Dr.	9,24,000	
	To dividend a/c			11,55,000
	(Being dividend paid)			

ILLUSTRATION

Navajeevan Company Ltd., has an issued share capital of Rs. 2,00,000 in equity shares of Rs. 100 cash. On 31st Dec. 1994 the following balance appear in the books.

Profit and Loss Account	46,000 (Cr)
Dividend No. 106	260 (Cr)
Dividend No. 107	1,200 (Cr)
Unclaimed dividend	600 (Cr)
Dividend Bank a/c (106 and 107)	1,460 (Cr)
Deposit account re-unclaimed-dividend-	600 (Cr)

One 10th Jan 1995 the dividend No. 108 & 10% "Free of tax" was declared for the financial year 1994. The dividend warrents presented for payment are as follows:

Dividend No. 101	Rs.20
Dividend No. 106	Rs.120
Dividend No. 107	Rs.1,100
Dividend No. 108	Rs.19,200

On 31st Dec. 1995, the balance in dividend No. 106 and 107 were tranferred to unclaimed dividend Account prepare Ledger accounts.

Solution

DIVIDEND No. 106 ACCOUNT

To Dividend Bank	120	By balance b/d	260
To Unclaimed dividend	140		
	260		260

DIVIDEND No 107 ACCOUNT

To Dividend Bank	1,100	By balance b/d	1,200
To Unclaimed dividend a/c	100		
	1,200		1,200

DIVIDEND No. 108 ACCOUNT

To Dividend Bank	19,200	By profit and Loss	
To Balance c/d	800	appropriation a/c	20,000
	20,000		20,000

UNCLAIMED DIVIDEND ACCOUNT

To Deposit account dividend No. 101	20	By Balance	600
To balance c/d	820	By Dividend No. 106	140
		By Dividend No. 107	100
	-------		-------
	840		840
	-------		-------

DIVIDEND BANK A/C

To Balance b/d	1,460	By Dividend No. 106	120
To Bank for dividend No.108	20,000	By Dividend No. 107	1,100
		By Dividend No. 108	1,92,000
		By Deposit A/c. in No. 106 and 107	240
	----------		------------
	21,460		21,460
	----------		------------
To balance	800		

DEPOSIT A/C

To Balance	600	By unclaimed dividend No.101	20
To Dividend Bank	240	By balance	820
	---------		-------
	840		840
	---------		-------
To Balance	820		

TAX ADJUSTMENTS

A student will come across the following items while preparing final accounts.

a) Tax deducted at source

b) Advance payment of tax

c) Income-tax (Corporate tax)

d) Provision for taxation.

a) Tax deducted at source

As per sections 193 and 194 of the Income-tax Act, 1961, tax is to be deducted at source from interest on securities and dividends before they prepaid

Thus the item 'Tax deducted at source' will appear on the debit side of the trial balance.

b) Advance payment of tax

Under Section 207 of the Income-tax Act, 1961, assessees are liable to pay advance tax when the income exceeds a certain limit and the limit is Rs. 2,500 for companies.

This amount also appears on the 'debit' side of a trial balance and is in the nature of a prepaid item. Advance payment of tax can later be adjusted to wards income-tax payable after the assessment is over.

c) Income Tax

Tax payable on the assessed income is debited to income-tax account. A company adjusts an by tax paid in advance or deducted at source towards tax due.

If the assessment is not completed both 'advance payment of tax' and 'tax deducted at source' remain unadjusted and would appear in the balance sheet under the heading Current assets, Loans, and Advances : B.Loans and Advances'.

d) Provision for Taxation

Such provision is debited to the profit and loss account above the line and credited to 'provision for taxation account' which appear in the balance sheet, under the head 'Current Liabilities and Provision-B Provisions.

Provisions would have been made the provisions called 'old provision' would appear in the trial balance on the credit side. When such a provision exists income-tax aid must be debited to the provision account and not the profit and loss account. If the old provision is in excess of the income-tax paid, such surplus provision should be shown on the credit side of the profit and Loss account below the line. Likewise, if the old provision is not sufficient, further debit is made to the profit and loss account below the line. These adjustments are shown below the line so that current profit may not be affected because or these items.

Bonus Shares

Generally a company pays bonus to shareholders, in addition to the dividend paid by them. Bonus may be paid in cash. If the company has not sufficient money to pay bonus in the form of cash, then bonus shares can be paid. By paying bonus if the form of shares, a company can retain into working capital with it. New fully paid bonus shares can be issued to shareholders without receiving any cash or partly paid shares can be madefully paid without receiving any cash firm shareholders.

SOURCES OF BONUS ISSUES

Bonus shares can be issued out of the following

1. Capital Redemptron Redemptron Reserve Account created at the time of redemption of redeembale preference share out of the profits.
2. Share Premium Account

It may be remembered that both the above accounts can be utilised only for issuing fully Paid bonus shares and not for making partly paid shares into fully paid shares.

3. General Reserves.
4. Balance in the Profit and Loss Account.
5. Capital profits such as profit prior to incorporation, profit on sale on fixed assets and profit on purchase of business.
6. Any other reserves accumulated out of profits. PROVISIONS IN THE COMPANIES ACT, 1956 REGARDING THE ISSUE OF BONUS SHARES.

Bonus shares can be issued only if

a) The Articles of Association permit the issue of bonus shares.

b) The Board's revolution regarding the issue of bonus shares has been approved by the shareholders in the general meeting.

c) There should be sufficient number unissued shares to enable the company to issue bonus shares.

d) If there remains no unissued capital, a resolution altering the Memorandum and Articles of Association should be passed for increasing the authorised capital of the company.

e) Permission of the controller of capital issued regarding issue of bonus shares has been obtained.

GUIDELINES FOR THE ISSUE OF BONUS SHARES UNDER THE CAPITAL ISSUES CONTROL ACT, 1947.

The Controller of Capital Issues sanctions the issue of bonus shares, if the following conditions are satisfied.

1. The time lag between two successive bonus issues should be three years.
2. The application for a second issue can be made only after the shares offered earlier are listed on the stock exchanged or after the despatch of share certificates is completed.
3. No bonus shares can be issued unless the pairly paid share are made fully paid up.
4. The Articles of Association of the company permit the issue of bonus share.
5. Bonus issue in lieu of dividend is not allowed.
6. 30% of the pre-tax profits of the company, based on the average for the previous three year, should be sufficient to pay a dividend of 10% on the expanded capital base of the company after the issue of bonus shares.
7. A higher bonus ratio than 1:1 is not allowed i.e., number of bonus shares at one issue cannot be more than the number of shares already Held.
8. Bonus issue is permitted only out of free reserves and share premium collected in cash. Reserve created by revaluation of assets is not available for this purpose.
9. The reserves remaining after the issue of bonus shares should be at least 40% of the paid up capital which is after the issue of bonus share. Capital Redemption Reserve and reserve created by revaluation should not be considered for this purpose. All contingent liabilities having on

effect on profits must be taken into consideration for determining the amount of the reserves at the disposal of the company for the issue of bonus shares.

10. If the company has applied for both rights issue and bonus issue, the bonus issue is considered first by the controller of capital issue for sanction.
11. A resolution of the shareholders of the company is to be passed in the general meeting approving the Board's recommendations for the issue of bonus shares.
12. A return of allotment, together with a copy of the resolution of the shareholders authorising the issue of bonus shares must be filed with the Register of companies with 30 days of allotment, and the nececessary entries be made in the register of memebers and financial books of the company.
13. The controller of capital issues has consented to the issue of bonus shares.

ACCOUNTING TREATMENT

A) If the bonus is utilised by making existing partly paid shares fully paid shares, the entries will be as follows :-

1. Profit and Loss Account	Dr.
Or General Reserve Account	Dr.
Or Capital profits Account	Dr.
To Bonus to shareholders Account	
(Being amount transferred for bonus pay able to shareholders)	
2. Share Final Call Account	Dr.
To share capital Account	
(Being final call due on shares)	
3. Bonus to shareholders Accounts	Dr.
To Share Final Call Account	
(Being bonus to shareholders utilised to make the final call paid up)	

B) If the payment of bonus is made by the issue of free fully paid bonus shares, the following journal entries will be recorded :-

1. Profits and Loss Account	Dr.
Or General Reserve Account	Dr.
Or Capital Redemption Reserve Account	Dr.
Or Share Premium Account	Dr.

Or Capital Reserve Account	Dr.		
Or Any other reserve Account	Dr.		
To Bonus to Shareholders Account			
(Being amount transferred for issue of bonus shares)			
2. Bonus to share holders Accounts	Dr.		
To Share Capital Account			
To Share Premium Account (if bonus shares are issued at a premium)			
(Being issue of bonus shares)			

ILLUSTRATION

A limited company has a share Capital of Rs. 30,00,000 in equity share of Rs. 100 each. The company now declare a bonus out of its General reserve Rs. 16,00,000 and the bonus is to be paid by fully paid equity share at a premium of Rs. 60 per share. Share are quoted in the market at Rs. 250 each Pass journal entries.

SOLUTION

JOURNAL

1. General Reserve a/c	Dr.	16,00,000	
To Bonus to Shareholders			16,00,000
(Being amount transfered from General Reserve)			
2. Bonus to shareholders a/c	Dr.	16,00,000	
To Equity share capital			10,00,000
To Share Premium		6,00,000	
(Being 10,000/- share of Rs. 100 each are issued as bonus shares)			

ILLUSTRATION

A company has accumulated large profits in the Reserve Account and the directors decide to utilise a part of this in order to made the capital property representative of the final position.

The paid up share capital is Rs. 10,00,000 consisting of 90,000 equity shares of Rs. 10 each fully paid and 20,000 equity shares (face value Rs.10 each) Rs. 5 per share paid up. The directors decide to issue one bonus share at a premium of Rs.10 for every fully paid share held and to made the partly paid shares fully paid. At the date of the allotment of bonus shares the market value of the equity share stands at Rs.30.

Give necessary journal entries in respect of the above transactions.

SOLUTION

JOURNAL ENTRIES

Cash Account	Dr.	1,00,000	
To Equity Shares capital account			1,00,000
(Unpaid amount called and received on 20,000 shares)			
Reserve Account	Dr.	22,00,000	
To Bonus to Shareholders Account			22,00,000
(Amount transferred for issue of bonus shares 1,10,000 x 20) Rs.10 for share capital Rs.10 for premium)			
Bonus to Shareholder Account	Dr.	22,00,000	
To Equity Share Capital Account			11,00,000
To Share premium Account			11,00,000
(Issue of bonus shares)			

ILLUSTRATION

The balance sheet of A Ltd., on March 31, 1989 was as follows :-

	Rs.		Rs.
Shares Capital			
2,000 shares of		Sundry Assets	4,75,000
Rs. 100 each	2,00,000		
Share Premium	50,000		
General Reserve	1,00,000		
Profit and Loss Account	80,000		
Sundry Creditors	45,000		
Total	4,75,000	Total	4,75,000

The company decide to issue bonus share at the rate of three share for every four share held and decided, for this purpose, to utilise the Share Premium, Rs.60,000 out of reserve and the balance out of the Profit & Loss Account. Give journal entries to give effect to the above and give the amended balance sheet.

SOLUTION

1989 MAR 31 JOURNAL

		Dr. Rs.	Cr. Rs.
Share Premium Account	Dr.	50,000	
General Reserve	Dr.	60,000	
Profit and Loss Account	Dr.	40,000	
To Bonus to Shareholders Account			1,50,000
(The amount of bonus shares numbering 1,500 i.e., 2000 x 3/4 to be distributed among the shareholders, as per resolution No...)			
Bonus to Shareholder Account	Dr.	1,50,000	
To Share Capital Accountant			1,50,000
(The allotment of bonus shares as per resolution No...)			

BALANCE SHEET OF A LTD. as at 31st MARCH, 1989

	Rs.		Rs.
Shares Capital 3,500 Shares of Rs.100 each fully paid (Of the above 1,500 shares were issued as bonus shares out of share premium account (Rs.50,000) Reserve General (Rs. 60,000) and Profit and Loss Account (Rs. 40,000)	3,50,000	Sundry Assets	4,75,000
General Reserve	40,000		
Profit and Loss Account	40,000		
Sundry Creditors	45,000		
Total	4,75,000	Total	4,75,000

SOME SOLVED ILLUSTRATION IN FINAL ACCOUNTS

ILLUSTRATION : 1

Big & Co. Ltd., is a company with an authorised capital of Rs. 5,00,000 dividend into 5,000 equity shares of Rs.100 each. On 31.12.1994 2,500 shares were fully called up.

The following are the balance extracted from the leadger of the company as on 31.12.1994:

	Rs.		Rs.
Stock	50,000	Advertisement	3,800
Sales	4,25,000	Bonus	10,500
Purchases	3,00,000	Debtors	38,700
Wages (Productive)	70,000	Creditors	35,200
Discount Allowed	4,200	Plant and Machiney	80,000
Discount Received	3,150	Furniture	17,100
Insurance upto31.3.95	6,720	Cash and Bank	1,34,700
Salaries	18,500	Reserve	25,000
Rent	6,000	Loan from Managing	
General Expenses		Director	15,700
Profit and Loss Account	8,950	Bad Debts	3,200
Printing and Stationery	2,400	Calls in Arrear	5,000

You are required to prepare Trading and Profit and Loss Account for the year ended 31.12.1994 and the Balance Sheet as on that data of company. The following further information is given :-

1. Closing sotck - Rs.91,500
2. Depreciation to be charged on Plant and Machinery and Furniture at 15% and 10% respectively.
3. Outstanding Liabilities - Wages Rs. 5,200

   Salary - Rs. 1,200 and Rent - Rs. 600
4. Dividend @ Rs. 5% on paid up share capital is to be provided.

SOLUTION

BIG & CO.LTD.,

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1995

	Rs.		Rs.
To Stock opening	50,000	By Sales	4,25,000
To Purchases	3,03,000	By Closing	91,500
To Wages	75,200		
To Gross Profit c/d	91,300		
	5,16,500		5,16,500
To Salaries	19,700	By Gross Profit b/d	91,300
To Discount Allowed	4,200	By Discount Received	3,150
To Insurance 6,720			
Less : 1,680	5040		
To Rent	6,600		
To General Expenses	8,950		
To Printing and Stationery	2,400		
To Advertisement	3,800		
To Bonus	10,500		
To Bad Debts	3,200		
To Depreciation:			
Plant and Machinery12,075			
Furniture 1,710	13,785		
To Net Profit c/d	16,275		
	94,450		94,450
To Proposed Dividend 5% on Rs. 2,45,000 (i.e. excluding calls in arrears)	12,250	By Net Profit for the year b/d	16,275
To Balance c/d	10,254	By Balance b/d	6,220
	22,495		22,495

BIG & CO.LTD.,

as at December, 1984

Liabilities		Rs.	Assets		Rs.
SHARE CAPITAL			FIXED ASSETS		
Authorised :			Plant and		
5000 shares			Machinery	80500	
of Rs. 100 each		5,00,000	Less :		
Issued and			Depreciation	12,075	
Subscribed :				----------	
				17,100	68,125
2,500 shares of			Furniture:		
Rs. 10 each 2,50,000					
fully called up					
Less :			Less :		
Called in arrears	5,000	2,45,000	Depreciation	1,710	15,390
			Investment	------------	Nil
Reserves and surplus :					
Reserve		25,000	Current Assets		
			Loans and Advances:		
Profit and Loss		10,245	A:Current		91,500
Account			Assets : Stock		
			(assumed) (at cost)		
Secured Loans		Nil	Debtors		38,700
Unsecured Loans		15,700	Cash and Bank		1,34,700
Loans from Balance					
managing Director					
(Assumed usecured)					
A : Current Liabilities		35,200	B: loans and		1,680

and creditors Insurance Advances : Prepaid

Micellaneous Expenses Insurance Miscellaneous

Outstanding	7,000	Expenditure not yet adjusted	Nil
B : Provisions:			
Proposed Dividend	12,250		
	3,50,395		3,50,395

ILLUSTRATION 2

The following is Trial Balance of Raj Manufacturing Co. Ltd. as at 30th June 1987.

	Dr. Rs.	Dr. Rs.
Stock on 30th June 1986	7,500	-
Sales	-	35,000
Purchases	24,500	-
Productive Wages	5,000	-
Discounts	700	500
Salaries	750	-
Rent	495	-
General expenses including Insurance	1,705	-
Profit & Loss A/c 30th June 1986	-	1,503
Dividends paid	900	-
Capital-1,000 shares of Rs.10 each	-	10,000
Sundry Debtors and Creditors	3,750	1,750
Plant & Machinery	2,900	-
Cash in hand & Bank	1,620	-
Reserve	-	1,550
Bad debts	483	-

You are required to make out the Trading and Profit & Loss A/c for the year ended 3th June 1987, and the Balance Sheet as at that date. You are also to make provision in respect of the following:-

a) Stock on 30th June 1987 : Rs.8,200
b) Depreciate Machiner at 10% per annum
c) Provide 5% discount on Debtors
d) Allow 2.5 Discount on Creditors

e) Provided Managing Director's Commission, 15% on the net profits before deducting his commission

f) One-Month's rent, at Rs.540 per annum due on 30th June.

g) Six month's Insurance was unexpired at Rs.75 per annum. Make any coments that may be called for.

Trading and Profit and Loss A/c of L.N. Manufacturing for the year ended 30th June 1987

Shares Capital		Rs.		Rs.
To Opening Stock		7,500	By Sales	35,000
To Purchase		24,500	By Closing Stock	8,200
To Productive wages		5,000		
To Gross Profit c/d		6,200		
		43,200		43,200
To Discount Allowed		700	By Gross Profit b/d	6,200
To Salaries		750	By Discount received	500
To Rent	495		By Reserve for	
Add: Outstanding	45		discount on creditors	44
		540		
To General Expenses	1,750			
Less: Prepaid Insurance	38			
		1,667		
To Bad debts		483		
Provision for discount				
on debtors		188		
To Depreciation on Machinery		290		
To Commission to M.D.		319		
To Net Profit c/d		1,807		
		6,744		6,744

To Dividends paid	900	By Balance b/d	1,807
To Net profit transferred to balance sheet	2,400	By Net Profit of 1st year	1,503
	3,310		3,310

Balance sheet of L.N. Manufacturing Co. Ltd., as on 30th June 87

Liabilities		Rs.	Assets	Rs.	
SHARE CAPITAL			FIXED ASSETS		
Authorised :			Plant		
Authorised Capital			& Machinery	2,900	
			Less :		
Issued and subscribed			Depreciation	200	2610
1,000 equity shares			Investments		Nil
Rs. 10of each fully		10,000	Current Assets, Loans		
called and paid up			and advances :		
Reserve and surplus			A. Current Assets:		
Reserved		1,550	Stock		2,200
Profit & Loss A/c		2,410	Debtors		3,750
Current Liabilities and			Less :		
Provisions			Reserve	188	3,562
			Cash		1,620
A.Current Liabilities			B.Loans and Advances :		
Creditors	1,750		Unexpired Insurance		38
Less :			Miscellaneous		
Reserve for discount	44	1,706	Expenditure		Nil
Expenses outstanding		364			
B.Provisions		Nil			
		16,030			16,030

ILLUSTRATION : 3

The Allied Traders Ltd. have an authorised an subscribed capital of Rs. 8,00,000 dividend into 8,000 equity shares of Rs.100 each. From the following particulars, prepare Trading profit and Loss account about the line and below the line for the year ended 31-12-1992 and a B/S as on that date in the form prescibed under the companies Act.

		Rs
Share Capital		8,00,000
Land & Buildings		3,60,000
Plant & Machinery		6,62,400
Loose Tools		37,600
Preliminary Expenses		19,600
Furniture		14,400
Calls-in-arrears		6,000
Cash Balance		2,000
5% Government Bonds (Tax Free) F.V. Rs.40,000		39,520
B/R		54,400
Goodwill		64,400
Motor Vehicles		12,000
Sundry Debtors		83,200
Repairs		3,440
Sundry Creditors		1,22,400
Reserve Fund		60,000
Profit & Loss Appropriation a/c (Cr)	35,200	
Purchases		9,60,000
Returns out		20,000
Sales		12,31,000
Returns in		28,000
Advertisement		10,160
Audi fees		4,000
Carriage		14,800
Wages		92,800
Insurance		19,600
Opening Stock		1,90,400

General Expenses	17,200
Interium Dividend	18,000
6% Debentures	4,00,000
Debentures Interest (Less Tax at 30%)	8,400

You are given additional details

a. Closing Stock Rs. 1,76,800

b. Create RBD at 5% on debtors

c. Depreciate furniture 7.5 percent, loose tools 15 percent, plant & Machinery 5% Motor Vehicles 20 percent.

d. Prepaid insurance Rs. 1,600

e. Reserve fund to be increase by Rs. 10,000

f. Directors declared on 15.8.1992 on interium dividend at 3%

g. Wages outstanding Rs.2,400

h. Interest on debentures for 6 months.

SOLUTION

PROFIT AND LOSS ACCOUNT OF ALLIED TRADERS LTD FOR THE YEAR ENDED 31st, DECEMBER

		Rs.			Rs.
To Stock		1,90,400	By Sales	12,31,200	
To Purchases	9,60,000				
Less:			Less:		
Return	20,000	9,40,000	Return	28,000	12,03,200
To Carriage		14,800	By Closing Stock --------		1,76,800
To Wages	92,800				
Add:					
Outstanding	2,400	95,200			
To Gross Profit		1,39,600			
		13,80,000			13,80,000

Liabilities		Rs.	Assets	Rs.
To Repairs		3,440	By Gross Profit	1,39,600
To Interest on			By Interest on	
debtentures	12,000		Govt. Bonds	2,000
100/70x8,400)				
Add :				
Outstanding	12,000	24,000		
To Insurance	19,600			
Less: Prepaid	1,600	18,000		
To General Expenses		17,200		
To Audit Fees		4,000		
To Advertisment		10,160		
To Provision for bad debts		4,160		
To Depreciation plant &				
Machinery		33,120		
Furniture		1,080		
Loose Tools		5,640		
Motor Vehicles		2,400		
To Net profit		18,400		
		1,41,600		1,41,600

To Interium dividend(3%			
of Rs. 8,00,000)	24,000	By Net Profit b/d	18,400
To Reserves Fund	10,000	By Net Profit	35,200
To Balance Transferred			
to Balance Sheet	19,600		
	53,600		53,600

BALANCE SHEET OF ALLIED TRADERS LTD.

as 31st, DECEMBER

Liabilities		Rs.	Assets		Rs.
AUTHORISED CAPITAL			**FIXED ASSETS**		
8,000 Share of			Goodwill	64,000	
Rs. 100 each		8,00,000	Land & Building	3,60,000	
Issued Capital			Plant and		
8,000 shares of			Machinery	6,62,400	
Rs.100 each		8,00,000	Less: Dep	33,120	
Rs.100 each		8,00,000			6,29,280
8,000 shares of			Furniture	14,400	
Rs.100 each		8,00,000	Less: Dep	1,080	13,320
Less :			Motor Vehicles	12,000	
Calls in 6000 arreares		7,94,000	Less : Dep	2,400	9,600
RESERVE AND SURPLUS			INVESTMENTS		
Reserve Fund	60,000		5% Govt. Bonds		
Add :			(F.V. 40,000)		39,520
Addition	10,000	70,000	**Current assets**		
P& L Account		19,600	**Loans and Advances**		
SECURED LOAN			**A. CURRENT ASSETS**		
6% Debdntures		4,00,000	Stock (closing)		1,76,800
Interest on debentures			Loose tools		31,960
Less Tax		8,400	Debtors	83,200	
Unsecured Loan			Less : Prov.	4,160	79,040
Current Liabilities and			Prepaid Insurance		1,600
Provisions			Accured Interest		2,000
			Cash in hand		2,000

A. CURRENT LIABILITIES		B. LOANS AND ADVANCE BILLS RECEIVABLE	
Creditors	1,22,400		54,400
Bank Overdraft	53,140	Miscellaneous	
Outstanding Wages	2,400	Expenditure	
Outstanding income tax (see Calculation)	13,200	Perliminary Exp.	19,600
B.Provisions	Nil		
	-------------		-------------
	14,83,120		14,83,120

CALCULATION :

OUTSTANDING INCOME TAX

Dividend declared at 3 on Rs.8,00,000	24,000	
Less : Dividend paid (as per trail Balance)	18,000	6,000
Amount deducted for tax being interest on debentures at 6% p.a. Add : Tax at 30% on Rs.24,000		7,200

Tax outstanding		1,32,000

ILLUSTRATION 4

The Alfa Manufacturing Company Limited was registered with nominal capital of Rs.6,00,000 in equity shares of Rs.10 each. The following is the list of balance extracted from its books on 31st December 1986.

	Rs.
Calls in arrear	7,500
Premises	3,00,000
Plant and Machinery	3,30,000
Interim Dividend paid on 1st August 1986	37,500
Stock, 1st January 1986	75,000
Fixtures	7,200
Sundry Debtors	87,000
Goodwill	25,000
Cash in hand	750

Cash at Bank	39,900
Purchase	1,85,000
Preliminary Expenses	5,000
Wages	84,865
General Expenses	16,835
Freight and Carriage	13,115
Salaries	14,500
Directors Fees	5,725
Bad Debts	2,110
Debenture Interest paid	9,000
Subscribed and fully called up capital	4,00,000
6% Debentures	3,00,000
Profit and Loss A/c. (Cr. Balance)	14,500
Bills payable	38,000
Sundry Creditors	50,000
Sales	4,15,000
General Reserve	25,000
Bad debts Provision, 1st Januray 1986	3,500

Prepare Trading and Profit and Loss Account and Balance Sheet in propoer form after making the following adjustments.

Depreciate plant and machiner by 10% Write off Rs. 500 from preliminary expenses. Provide half year's Debenture interest due. Leave bad and doubtful debts provision at 5% on sundry debtors. Stock on 31st December, 1986 was Rs. 95,000

SOLUTION

Trading and Profit and Loss Account of the Alfa Manufacturing Co. Ltd., for the year ended 31st Dec. 1986

Dr. Cr.

	Rs.		Rs.
To Opening Stocks	75,000	By Sales	4,15,000
To Purchases	1,85,000	By Closing Stock	95,000
To wages	84,865		

To Freight and Carriage		13,115		
To Gross Profit c/d		1,52,020		
		5,10,000		5,10,000
To General Expenses		16,835	By Gross Profit b/d	1,52,020
To Salaries		14,500		
To Director's Fees		5,725		
To Bad Debits		2,110		
To Bad Debits Provision		4,350		
Less				
Existing provision	3,500	850		
To Debentures				
Interest	9,000			
Add :				
Interest Outstanding	9,000	18,000		
To Depreciation on Plant and Machinery		33,000		
To Preliminary				
Expenses Written off		500		
Expenses Written of		500		
To Net Profit c/d		60,500		
		1,52,020		1,52,020
To Interim Dividend		37,500	By Balance b/d	14,500
To Balance c/d		37,500	By Net Profit for the year	60,500
		75,000		75,000

BALANCE SHEET OF THE ALFA MANUFACTURING CO.LTD.,

As On 2nd December 96

Liabilities		Rs.	Assets	Rs.	
SHARE CAPITAL			FIXED ASSETS		
Authorised:			Goodwill		25,000
60,000 equity			Premises		3,00,000
shares of 10 each		6,00,000			
Issued and subscribed:			Plant and		
40,000 Equity			Machinery	3,30,000	
shares of Rs.10			Less :		
each	4,00,000		Depreciation	33,000	2,97,000
Less :			Fixture		7,200
Calls in Arrear	7,500	3,92,500	Investment		Nil
RESERVES AND SURPLUS			CURRENT ASSETS LOAN AND ADVANCE		
General Reserve :		25,000	A) Current Assets		
Profit & Loss Account		37,500	Stock		95,000
Secured Loans :			Sundry Debtors	87,000	
6% Debentures	3,00,000		Less:		
Add :			Provision for		
Interest			Bad Debts	4,350	82,650
Outstanding	9,000	3,09,000			
Current Liabilities			Cash in hand		750
Provisions :			Cash in Bank		39,900
A) Current Liabilities		38,000	B) Loans and Misce		
Acceptances			llaneous Expenditure		Nil
Sundry Creditors		50,000			
B) Provisions		Nil	Preliminary Expenses		4,500
		852000			852000

ILLUSTRATION 5:

The following is the Trial Balance of A.B.C. Company Ltd., as at 30th June 1986. Prepare Trading and Profit and Loss Account in the form prescribed under the Companies Act. 1956.

	Dr. Rs.	Cr. Rs.
Authorised Capital		
50,000 Shares at Rs. 10 per share		5,00,000
Subscribed Capital		
10,000 Shares at Rs.10 per share		1,00,000
Calls in Arrear	6,400	-
Land	10,000	-
Buildings	25,000	-
Pland & Machinery	15,000	-
Furniture & Fixture	3,200	-
Carriage Inwards	2,300	-
Wages	21,400	-
Salaries	4,600	-
Bad debts provision, 1st July 1985	-	1,400
Sales	-	80,000
Sales returns	1,700	-
Bank & Taxes	100	-
Coal, Gas & Water	700	-
Rates & Taxes	800	-
Purchases	50,000	-
Purchases returns	-	3,400
Bills receivable	1,200	-
General expenses	1,900	-
Sundry debtors	42,800	-
Sundry Creditors	-	13,200
Stock 1st July 1985	25,000	-
Fire Insurance	400	-
Cash at Bank	13,000	-

Cash in hand	2,500	-
Share Premium	-	6,000
General Reserve	-	24,000
	2,28,000	2,28,000

Charge depreciation on Buildings at 2.5 on plant and Machinery at 10% and furniture and fixture at 10% Make a provision of 5% on sundry debtors for bad Debts. Carry forward the following undoxired amount.

	Rs.
Fire Insurance	120
Provide the following outstanding liabilities :	
Wages	3,200
Salaries	500
Rent and Rates & Taxes	200

The value of stock on 30th June 86, was Rs.30,000

SOLUTION

TRADING AND PROFIT AND LOSS ACCOUNT OF A.B.C.Co.LTD.,

For the year ended 20th JUNE 1986

Figures for the previous Year	Liabilities		Figures for the current Year Rs.	Figures for the previous Year Rs.			Figure for the current Year Rs.
	To Opening Stock		25,000		By Sales	80,000	
	To Purchases	50,000			Less : Sales Return	1,700	78,300
	Less :				By Closing Stock		80,000
	Purchase Returns	3,400	46,000				
	To Carriage inwards		2,300				
	To Wages	21,400					
	Add:						
	OutstandingWages	3,200	24,600				

To Coal, Gas		
and Water	700	
To Gross Profits c/d	9,100	
	1,08,300	1,08,300

Figures for the previous Year Rs.	Liabilities	Figures for the current Year Rs.	Figures for the previous Year Rs.	Assets	Figure for the current Year Rs.
	Secured Loans :	Nil		Investments	Nil
	Unsecured Loans :	Nil		Current Assets,	
	Current Liabilities			Loans and Advances :	
	and Provisions			A) Current Assets	
	Sundry Creditors and	17,100		Stock	30,000
	Outstanding Expenses	Nil			
	(B) Provisions	Nil		Sundry Debtors	42,800
	Contingent Liability	Nil		Less :	
				Provisions for bad debts 2,140	40,660
				Cash at Bank	13,000
				(B) Land and Advances :	
				Bills Receivable	1,200
				Unexpired Insurance	120
				Miscellaneous	Nil
				Expenditure :	
				Profit & Loss Account	Nil
		1,38,235			1,38,235

ILLUSTRATION : 6

Poornima Ltd., incorporated on 1.4.83 with a capital of Rs. 50,000 in equity shares of Rs. 10 each look over the running business of poornima as from 1.1.1983 the purchase price Rs. 20,000 was settied on 1.7.1983 together with interest at 10% p.a. by fully paid shares for Rs. 17,500 and the balance by cheque. The company's trial Balance 31.12.1983 was as bellow.

	Rs.	Rs.
Cash and Bank balance (Cash Rs.180)	4,680	-
Share Capital	-	22,500
Land and Buildings	8,000	-
Fixtures	750	-
Cycles	1,000	-
Salaries	1,200	-
Purchases	48,500	-
Sales	-	45,000
Debtors and Creditors	4,500	3,000
Rent from tenants	-	600
Rent rates and Taxes	300	-
Building upkeep	150	-
Directors fees	720	-
Sundry Charges	120	-
Interest to Vendor	1,000	-
	71,000	71,000

Prepare the final accounts for the year ending 31.12.1983 considering the following additional details.

a. Stock at end Rs. 14,000

b. Bad debts Rs. 200 (Including Rs.50 on debtors taken over from vendor) towritten off.

c. Sales above include sales upto 1.4.83 Rs. 7,500

d. Provide for doubtful debts Rs.250

e. Depreciate building 6% and Cycles 20%

TRADING ACCOUNT OF POORNIMA LTD.

for the year ended 31.12.1983

Liabilities	Rs.	Assets	Rs.
To Purchases	48,500	By Sales	45,000

To Gross Profit	10,500	By closing Stock	14,000
	59,000		59,000

PROFIT PRIOR AND AFTER INCORPORATION ACCOUNT

for the year Ended 31.12.1983

	Prior to Incor-poration	Incor poration		Prior to incor-proation	After incor-proation
To Salaries	300	900	By Gross profit (Sales ratio)(13.75)	1,551	8,949
To Rent, rates & taxes (time ratio)	75	225	By rent from tenants	-	600
To Building upkeep (time ratio)	38	112			
To direct fee	-	720			
To Sundry Charges (Time ratio)	30	90			
To Interest to vendor (3.3)	500	500			
To bad debt	50	150			
To Provision for doubtful debts	-	250			
To Depreciaiton (time ratio)					
Building 100	300				
Cycles	50	150			
To Net Profit	607	5,953			
	1,750	9,350		1,750	9,350

BALANCE SHEET OF POORNIMA LTD AS ON 31.12.1983

Liabilities	Rs.	Assets	Rs.	
SHARE CAPITAL		FIXED ASSETS		
Authorised Capital		Land & Building	8,000	
5,000 equity shares		Less :		
Rs.10each	50,000	Dep	400	7,600
Issued and paid up		Fixtures Cycles	10,000	
Capital		Less :		
2,250 equity shares		Dep:	200	800
Rs. 10 each	22,500	Investments		Nil
Reserve and surplus profit	607	Loans and Advance		
prior to incorporation				
Profit & Loss A/c		A. Current Assets		
(Profits after				
incorporation)	5,953	Closing Stock		14,000
Secured Loan	Nil	Debtors	4,500	
Unsecured Loan	Nil	Less and Debts	200	
			4,300	
Current Liabilities		Less : Provision	250	4,050
and Provisions		Cash in hand		180
A. Current Liabilities		B. Loans & Advance		Nil
Creditors	3,000	Miscellaneous		Nil
B. Provisions	Nil	Expenditure		Nil
	32,060			32,060

WORKING NOTES

1. Time Ratio :

   Date of Purchase is 1.1.1983.

   Date of incorporation is 1.4.1983

   Date of closing accounts is 31.12.1983

Therefore from 1.1.1983 to 1.4.1983 is pre-incorporation periods viz 3 months.

From 1.4.1983 to 31.12.1983 is after-incorporation periods viz 9 months.

3 months : 9 months or 1:3

2. Sale Ratio

Total Sales is Rs.45,000

Pre-incorporation period sale is Rs.7,500

So after incorporation period sales is Rs.37,500

Therefore ratio = 7,500 : 37,500or 75 : 375 or 1.5

3. Interest to vendors

Interest settled on 1.7.1983 from 1.1.1983 to

1.7.1983 total months is 6. Of this 3 months fall in preincorporation period. Therefore it is dividend by 3:3 ratio.

4. Directors remuneration, provision for doubtful debts and Rent from tenants are assigned fully to after incorporation periods.

EXERCISES

1. M. Ltd. has an authorised capital of Rs. 2,00,000 divided into 10,000 6% preference shares of Rs. 10 each and 10,000 equity shares of Rs. 10 each. All preference shares and 6,000 of the ordinary shares are issued and fully paid. On December 31, 1991. It was as certained that the company had made a not profit of Rs.26,000. There was a balance of Rs.2,700 brought forward for the previous year. The directors decided.;

a) To transfer Rs. 5,000 to general reserve;

b) To pay preference dividend for the year and

c) To propose a dividend of 13 per cent on equity shares.

Show how the above information would appear on the appropriation account. Draw up liability side of the balance sheet as on December 31, 1991. (Balance of appropriation account Rs. 4,800)

2. The following are the extracts from the draft balance sheet of X Ltd. as on December 31, 1992.

	Rs.
Authorised Capital :	
1,00,000 equity shares of Rs.1each	1,00,000
Issued and subscribed capital :	
50,000 equity shares of Rs.1each fully called up	50,000
Reserve fund	30,000
Profit and Loss account	15,000

A resolution was passed declaring bonus of 20% on equity shares to be provided as to Rs. 6,000 out of resource fund and the balance out of profit and loss account. The bonus was to be satisfied by issuing fully paid equity shares. Your are required to set out journal entries to give effect to the resolution and show how they would affect the balance sheet.

3. The summarised balance sheet of a limited company on 31st December 1989 was as follows:

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		FIXED ASSETS	
Authorised :		Land & Building	2,00,000
50,000 shares of		Stock	1,00,000
Rs.10 each	5,00,000	Debtors	90,000
Subscribed and		Balance at Bank	2,50,000
paid up 30,000			
shares of			
Rs.10 each	3,00,000		
Profit and Loss			
Account	1,40,000		
6% Debentures	1,00,000		
Creditors	70,000		
Proposed dividend	30,000		
	6,40,000		6,40,000

At the annual general meeting of the company held on 1st April 1990, the following resolution were passed :

i) To pay a dividend in cash of 10 per cent for the year, 1989.

ii) To issue one fully paid bonus share for every five shares held

iii) To give exiting shareholders the option to purchase one Rs.10 shares at Rs.15 for every five shares held prior to the bonus distribution. This option being taken up by all the shareholder;

iv) To repay the debentures at a premium of 5 per cent.

Pass the necessary journal entries to record the above transaction and prepare the balance sheet.

4. The following is the trial balance on June 30, 1990, of the modern Manufacturing Company Ltd.

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		FIXED ASSETS	
Stock 30th		Dividend paid	
June 1989	7,500	August 1989	500
Sales	35,000	Interim dividend	
		paid February 1990	400
Purchases	24,500	Capital - 10,000 Rs. 1	10,000
		Shares fully paid	
Productive wages	5,000	Debtors	3,750
Discounts (Dr)	700	Creditors	1,750
Discounts (Cr)	500	Plant and Machinery	2,900
Salaries	750	Cash on hand and	1,620
		at bank	
Rent	495	Reserve	1,550
General Expenses	1,705	Loan to Managing director	325
Profit and Loss account	1,503	Bad debts	158
30th June 1989			

Stock on 30th June, 1990 Rs. 8,200. You are required to make out the trading account, and profit and loss account for the year ended 30th June, 1990 and the balance sheet as on that date. You are also to make provision in respect of the following :

i) Depriciate machinery @ 10% per annum;

ii) Reserve 5% discount on debtors

iii) Allow 2.5 percent discount on creditors.

iv) Provide managing Director's commission, 15% on the net profit before deducting his commission.

v) One month's rent Rs. 45 per mensem was due on 30th June ; and

vi) Six month's insurance included in general expenses was unexpired at Rs. 75 per annum.

5. The following list of balance of S.P. Ltd., as on 31st March 1990 has been extracted from its books of account. Prepare profit and loss account for the year ended 31st March 1990 and balance sheet as at that date.

Liabilities	Rs.	Assets	Rs.
Land and Buildings	70,000	Share Capital (20,000 Share of Rs.100 each on which Rs.50 per share are paid-up)	1,00,000
Furniture and Fittings	4,000	General reserve	15,000
Plant and Machinery	50,000	8% Debentures	50,000
Stock-in-trade 31.3.1989	64,000	Bank Overdraft (Unsecured)	2,000
Salaries	4,000	Sundry Creditors	8,000
Printing and Stationery	600	Share Premium	5,000
Debtors (Less than 6 months old)	35,000	Debenture redemption reserve	20,000
Trade investment	3,000	Gross Profit	52,000
Cash on hand	1,000	Profit and Loss Account	3,000
Preliminary expenses	2,000		
Bank balance (Scheduled Bank)	12,000		
Advance payment of income-tax	4,000		
Interest (Nett)	1,000		
Debenture interest	2,000		
Director's fees	1,000		
Rent, Rates and Isurance	1,400		
Total	2,55,000		2,55,000

The following information is relevant for the purpose of preparation of final accounts;

1. Outstanding expenses : Audit fees Rs.1,000. Interest on debentures for 6 months Rs. 2,000. Provision for tax Rs.12,000.
2. Machinery worth Rs.20,000 was purchased and Installed on 1st October 1989. Provided depreciation on land and buildings at 2.5% machinery and plant at 10%
3. Prepaid insurance Rs.400
4. The Directors desire the following appropriations to be made;

i) Rs.5,000 to be transferred to debenture redemption reserve.

ii) Rs.2,000 to be transferred to the general reserve.

iii) Dividend on share capital to be proposed at 8%

5. The authorised share capital of the company consists of 5,000 equity shares of Rs.100 each

Prepared by

Prof. C. Jeganthan

Chapter - 2

ALTERATION OF SHARE CAPITAL

Meaning :

Alteration of share capital means making some changes, in the share capital. A limited company can alter the capital clause of its memorandum of association, if authorised by its articles of association. The legal provisions regarding alteration of share capital is given in Sec. 94 to Sec. 98 of Companies Act. Alteration of share capital can be affected by passing an ordinary resolution in the general meeting. Confirmation of the court is not necessary. But according to sec.95 notice of alteration must be sent to the register of Companies within 30 days. Alternation of share capital can be done in any one of the following ways.

1. Increase in share capital :

A company can increase its share capital by issue of new shares. The only restriction is that the offer must have atleast fifteen days time to dicide whether to buy the additional shares or not. If a member do not buy within the period allowed, the directors can dispose the shares as they think best to the company. The journal entry to be passed is the same as issue of shares.

Bank A/c Dr.

To Equity share capital

2. Consolidation :

A company has the power to consolidate shares of smaller denominations into shares ot bigger denominations of subdivide shares of bigger denominations into shares of smaller denominations. For example, if the share capital of a company consists of 10,000 shares of Rs.100 each, the shares can be consolidated into 1000 shares of Rs.1000 each. The entry to be passed for such consolidation is as follows:

Equity share capital (Rs.100)a/c	Dr.	1,00,000	
To Equity share capital (Rs.1000)			1,00,000

3. Conversion into stock :

If a company is authorised by its articles, then fully paid share can be converted into 'stock'. The journal entry to be passed is

Equity share capital A/c Dr.

To Equity stock

Similarly the stock can be converted into shares. The journal entry to be passed is

Equity stock A/c Dr.

To Equity share capital

4. Decrease in share capital :

A company has the powers to cancel the shares which have not taken by the public. It means company can decrease it unissued capital without resulting in the reduction of its paid up capital. No journal entry will be passed for this, because it doesnot affect the paid up capital in any way.

Illustration

Pass journal entries for the following

1. Conversion of equity stock of Rs.1,00,000 into 10,000 equity shares of Rs.10 each.
2. Cancellation of unpaid amount of Rs.1,00,000 in respect of 50,000 equity shares of Rs.10 each Rs.8 called up.
3. Sub division of 5,000 equity shares of Rs.1,000 each into 50,000 equity shares of 100 each.
4. Conversion of fully paid equity share capital of Rs.5,00,000 into stock.
5. Consolidation of 10% 2,000 performence share of Rs. 100 each into 10% 2,000 preference share of Rs.1,000 each.

Solutions

JOURNAL

		Dr.	Cr.
1. Equity stock a/c	Dr.	1,00,000	

	To equity share capital			1,00,000
	(Being conversion of stock into Shares)			
2.	Equity share capital (fully called up) a/c	Dr.	4,00,000	
	To equity share capital (fully called up) a/c			4,00,000
	(Being unpaid amountof Rs. 1,00,000 is cancelled)			
3.	Equity shares capital (Rs.1,000)a/c	Dr.	50,00,000	
	To Equity share Capital (Rs.10)a/c			50,00,000
	(Being entry passed for sub division of Rs.1,000 shares into shares of Rs.100 each)			
4.	Equity share capital a/c	Dr.	5,00,000	
	To Equity stock			5,00,000
	(Being fully paid shares are converted into stock)			
5.	10% pref. share capital (Rs.100) a/c	Dr.	20,00,000	
	To 10% pref. share capital (Rs.1000)a/c			20,00,000
	(Being preference share of Rs.100 each are consolidated into share of 1000 each)			

INTERNAL RECONSTRUCTION

Internal Reconstruction :

There are two types of reconstruction namely external reconstruction and internal reconstruction. In external reconstruction the existing company has to be liquiedated, and new company is formed to take over the business of the liquidated company. There are a lot of legal formalities, and also it is a tedious affair to ligquidate one company and to form another company. So some companies prefer internal reconstruction, the past losses can be set off against future profits and there by get tax advantage, which is not possible under external reconstruction.

Internal reconstrucion and capital reduction means the same. In internal reconstruction the company is not liquidated. But an arrangement will be made will shareholders, debentureholders and creditors of the company by which their rights and privileges are suitably altered. Reduction of capital can be carried out by a company only if it is authorised by its articles, and a special resolution should be passed by the shareholder, and confirmation of the court is necessary.

The company can reduce its share capital according to provisions laid down in sect. 200 to 105 of the Companies Act. 1956. A summary of important provisions affecting the accounting procedure is given below.

a) Reduction of capital is possible only if articles permit and a special resoultion is passed to that effect.

b) Reduction of capital can take any of the following three forms.

1) Reducing or extinguishing the uncalled liability of members, or

2) Writing off or cancelling paid-up capital which is lost or hot represented by available assets, or

3) Paying off paid-up capital which is in excess of the needs of the company.

c) Reduction of capital can be carried out only after the scheme is confirmed by the court.

d) The court ordinarily confirms the second type of reduction without consulting the creditors. This is for the simple reason that the creditor's interests are in no way affected by such reduction.

e) Creditor's interests are affected by the first and third type of reductions. Therefore the court in these case will confirm only after consulting them. If some creditors ae unwilling to given after consulting them. If some creditors are unwilling to given their conset, the company will have to settle their claims.

f) The court passes the order of confirmation on such terms and conditions as it may think fit only after the consent of the creditors is secured or their claims have been settled. The court may dispense with the consent of the creditor, where the company secures the whole of the debt or the amount fixed by the court.

g) The court may order the use of words, 'and reduced' after the name of the company and also publish reasons for reduction in local papers.

h) The order of the court has to be filed with the register.

i) Capital reduction may involve the variation of rights of different classes of shares. Thus can be done only after securing the consent of the holders of at least three-fourth of the shares concerned in separate class meetings by means of special resolution.

j) Holder of at least one-tenth of the issued share capital affected by variation may apply to the court within 21 days after the consent is obtained or resolution is passed, for the cancellation of such variation. The decision of the court is final.

Accounting entries or capital reducting

The reduction of share capital is necessary, when the company has heavy accumulated losses. Because of accumulated losses, sufficient depreciation might not have been provided is the fixed assets. So the shareholders, debentureholders and creditors have to sacrifice an amount equal to the past accumulated losses and the arrears of depreciations. In any surplus is there it may be transferred to capital reserve.

The following journal entries are to be passed at the time of capital reduction.

i) For the sacrifice made by the shareholders that is on reduction of share capital.

Share capital (old) a/c	Dr.
To Share capital (New) a/c	
To capital reduction a/c	

2) For the sacerifce made by the creditors and debentureholders.

Debenture holders a/c	Dr.
Creditors a/c	Dr.
To capital reduction	

3) For utilising the amount of capital reduction for writing off accumulated losses, value of other assets and fictitious assets.

Capital reduction a/c	Dr.
To profit and Loss a/c	
To Goodwill a/c	
To Preliminary expenses a/c	
To Discount on shares	
To Patents	
To Plant and Machinery	
To Stock	

To Other assets

To capital reserve (if any balance is left over)

Illustration : 1

FOLLOWING IS THE B/S OF SUBHASH LTD

Liabilities	Rs.	Assets	Rs.
Capital :			
4,000 8% Pref.		Building	1,60,000
Shares of Rs.10		Machinery	80,000
each	40,000	Furniture	20,000
30,000 Equity		Debtors	50,000
Shares of Rs.10		Discount on issue	
each	3,00,000	of shares	10,000
Creditors	60,000	P & L a/c	80,000
	4,00,000		4,00,000

Company proved unsuccessful and the following scheme of reconstruction is passed : (i) Rs.10 Preference shares of reduced to an equal number of fully paid share of Rs. 6 each. (ii) Rs.10 equity shares be reduced by Rs.6 each though total number of equity shares will remain the same. (iii) That the amount thus available for the reduction of the assets is apportioned as follows : Discount on issue of shares and P & L A/c to be written off entirely ; Rs.60,000 of the buildings, Rs.30,000 off the machines, Rs.6,000 off the furniture and the balance available to be written off Debtors. Pass journal entries and prepare Balance sheet after reconstruction.

Solution :

	L.F.	Rs.	Rs.
Pref share capital a/c	Dr.	16,000	
Equity share capital a/c	Dr.	1,80,000	
To capital reduction a/c			1,96,000

(Being reduction of Rs.4 per share
on 4,000 Pref. shares and Rs.6per
share on 30,000 equity shares)

	L.F.	Rs.	Rs.
Capital Reduction a/c	Dr.	1,96,000	
To profit and loss a/c			80,000
To discount on issue of shares a/c			10,000
To buildings			60,000
To furniture			6,000
To debtors			10,000
(Being the amount of capital reduction used to write off fictions assets and losses)			

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
CAPITAL :		FIXED ASSETS :	
Authorised			
4,000 Pref. Shares		Buildings	1,00,000
of Rs.6 each	24,000	Machinery	50,000
30,000 Equity		Furniture	14,000
shares of Rs.4 each	1,20,000	Current assets :	
	-------------	Loans and Advance	14,000
	1,44,000	Debtors	40,000
Subscribed and paid up capital :			
4,000 Pref. shares			
of Rs. 6 each	24,000		

30,000 Equity shares of Rs.4 each	1,20,000		
Current Liabilities and provisions :			
Creditors	60,000		
	2,04,000		2,04,000

Illustration : 2

Following is the B/S of Ranu Ltd. as at March 31, 1992

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL :			
2,000 Pref. shares of Rs.100 each	2,00,000	Goodwill	15,000
		Premises	2,00,000
4,000 Equity shares of Rs. 100 each	4,00,000	Machinery	3,00,000
		Stock	50,000
55 Mortgage Debentures	1,00,000	Debtors	40,000
Bank Overdraft	50,000	P & Loss a/c	2,45,000
Creditors	1,00,000		
	8,50,000		8,50,000

The Company got following scheme approved by the court :

i) Three preference shares to be reduced to Rs.75 per share fully paid up and equity shares to Rs.37.50

ii) The Debentureholders took over the stock and debtors in full satisfaction on the amount due to them;

iii) The goodwill account is to be eliminationed;

iv) The premises is to be depreciated by 50%

v) The value of machinery is to be increased by Rs.50,000

Pass the necessary journal entries for the above and prepare the revised balance sheet.

SOLUTION :

	L.F.	Rs.	Rs.
Capital Reduction a/c	Dr.	1,96,000	
Pref.share capital a/c	Dr.	50,000	
Equity share capital a/c	Dr.	2,50,000	
To Capital reduction a/c or			
Reorganisation a/c			3,00,000
(Being reduction of Pref. and equity shares)			
5% Mortgage Debenture a/c	Dr.	1,00,000	
To Stock a/c			50,000
To Debtors a/c			40,000
To reorganisation a/c			10,000
Being discharge of debentures)			
Machinery a/c	Dr.	50,000	
To Reorganisation a/c			50,000
(Being increase in the value of machinery)			
Reorganisation a/c	Dr.	3,60,000	
To Goodwill a/c			15,000
To Premises a/c			1,00,000
To P & L a/c			2,45,000
(Being writing off the above item)			

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
CAPITAL :		FIXED ASSETS :	
2,000 Pref. shares of			
Rs.75 each	1,50,000	Premises	1,00,000
4,000 Equity shares		Machinery	3,50,000
of Rs.37.50 each	1,50,000		
Current Liabilities &			
Provisions :			
Bank Overdraft	50,000		
Creditors	1,00,000		
	4,50,000		4,50,000

Illustration : 3

The Following was the B/S Tin Toys Ltd. as at December 31, 1981.

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital			
2,000 equity shares		Goodwill	10,000
of Rs. 10 each	2,00,000	Building	20,500
Issued, subscribed		Machinery	50,850
and called -up		Preliminary expenses	1,500
12,000 shares of		Stock	10,275
Rs.10 fully called up	1,20,000	Book debts	15,000
Less :		Bank Balance	1,500
Calls in arrears		P & L A/c	20,800

Rs. 3 per share) 9,000	1,11,000		
S. Creditors	15,425		
Provisions for taxes	4,000		
	1,30,425		1,30,425

The director find the machinery is over valued by Rs.10,000. It is now proposed to extinguish a ficitious assets and write down machinery to is true value by adopting the following scheme.

a) Forfeit the shares on which calls are outstanding

b) Reduce the paid up capital by Rs. 3per share.

c) Re-issue the forfeited shares at Rs.5 per share.

d) Utilise the provision for taxes, if necessary, Pass entries and prepare new balance sheet.

(M.K.U., B.Com., October 1982)

Solution :

JOURNAL IN THE BOOKS OF TIN TOYS LTD.

	L.F.	Rs.	Rs.
Equity share capital a/c	Dr.	30,000	
To calls in arrear a/c			9,000
To share Forfeited a/c			21,000
(Being forfeiture of 3,000 equity shares as per Direcctor's Resolution)			
Equity share capital a/c	Dr.	27,000	
To Capital Reduction a/c			27,000
(Being the called up amount reduced)			
Bank a/c	Dr.	15,000	
Share Forfeited a/c	Dr.	6,000	
To Equity Share Capital			21,000

(Being 3,000 Shares of Rs.7 each are re-issued at Rs.5 each)

Share Forfeited a/c	Dr.	15,000	
Provision for taxation a/c	Dr.	300	
To Capital Reduction a/c			15,300
(Being forfeited share a/c and part of provision for taxation a/c transferred to capital reduction A/c)			
Capital reduction a/c	Dr.	42,300	
To Machinery a/c			10,000
To P & L a/c			20,800
To Goodwill a/c			10,000
To Preliminary expenses			1,500
(Bing capital reduction A/c used to write off preliminary expenses goodwill, P & L and Machinery value reduced)			

BALANCE SHEET OF TIN TOYS LTD., AS NO 31.12.1981

Liabilities	Rs.	Assets		Rs.
Shares Capital		Fixed Assets		
Authorised 20,000 Equity		Goodwill		10,000
shares of Rs.7 each	1,40,000	Less:		
Issued and subscribed		Amount written off		
2,000 Equity shares		under scheme of		
of Rs. eachfully called		reconstruction	Nil	
and paidup	84,000	Land & Buildings		20,500

Current Liabilities		Machinery	50,850	
Provisions		Less :		
A : Current Liabilities		Amount written of		
Sundry Creditors	15,425	under scheme		40.850
B : Provision of		Current Assets,		
reconstruction	10,000	Loans & Advances		
Provisions for taxation	3,700	A : Current Assets		
		Stock		10,275
		Book Debts		15,000
		Cash at Bank		16,500
		B. Loans & Advances		Nil
	1,03,125			1,03,125

Illustration : 4

Gloria and Swanson Ltd., had to pass to the hands of a Receiver for Debenture holders who held share on all assets except uncalled capital. The following is the possition as prepared by the receiver.

	Rs
Share Capital	
20,000 Shares of Rs.50 eachfully paid up	10,00,000
1,00,000 shares of Rs.50 each Rs. 25 per Share paid up	25,00,000
First Debentures	25,00,000
Second Debentures	50,00,000
Unsecured Creditors	40,00,000
Bank Balance	30,00,000
Building, Plant and Machinery (estimated to realised Rs. 15,00,000)	40,00,000

The following is the interest of Gloria and Swanson in the company

	Gloria	Swanson
	Rs.	Rs.
First Debentures	20,00,000	5,00,000
Second Debentures	30,00,000	20,00,000
Unsecured Creditors	6,00,000	9,00,000
	56,00,000	34,00,000
SHARE CAPITAL		
Fully Paid Shares	5,00,000	5,00,000
Partly Paid Shares	10,00,000	10,00,000

The following scheme of reconstruction is proposed :

i) Gloria is to cancel Rs.31,00,000 of his total debt, pay cash Rs.5,00,000 and he would be issued Rs.30,00,000. First debentures in lieu of first and second debentures to be cancelled.

ii) (a) Swanson is to cancel his total debt be accept in Rs.5,00,000 in cash and Rs. 5,00,000 in first debentures.

(b) Swanson is to surrender for cancellation Rs.5,00,000 worth to fully paid up shares.

iii) Unsecured creditors, other than Gloria and Swanson, agree to reduce their debt by 20% and accept in lieu thereof 1,00,000 shares of Rs.10 each fully paid up and balance in cash payable in five equal annual instalments.

iv) Uncalled capital is to be called in full and Rs.40 per share to be cancelled, this making shares of Rs.10 each.

Assuming the scheme is duly approved by all parties interested and by the court, shown the reconstructed balance sheet and the journal entries in the books of the company.

(M.K.U., B.Com., April 1981)

Solution

JOURNAL

		Rs.	Rs.
Bank A/c.	Dr.	25,00,000	
To Equity Share Capital (new A/c)	Dr.		25,00,000
(Being call money on party called up shares received)			
Equity share capital(old) A/c	Dr.	50,00,000	
To Equity share capital(new) A/c			10,00,000
To Capital reduction A/c			40,00,000
(Being reduction of paid up calls on 10,000 shares by Rs.40 per share)			
First Debentures A/c.	Dr.	20,00,000	
Second Debentures A/c.	Dr.	30,00,000	
Unsecured Creditors A/c	Dr.	6,00,000	
Bank	Dr.	5,00,000	
To First Debentures (New)A/c.			30,00,000
To Capital Reduction A/c.			31,00,000
(Being allotment of new debentures and payment cash to swanson in satisfaction his total debt and surrender of shares or Rs.5,00,000)			
Unsecured Creditors A/c.	Dr.	15,00,000	
To Equity share Capital(New) A/c.			10,00,000
To Capital Reduction A/c.			5,00,000
(Being allotment of 1,00,000 new equity shared of Rs.10 each fully paidup to unsecured creditors reduction to them Rs.5,00,000, Rs.10,00,000 will be paid to them by instalments)			

WORKING NOTES

OLD BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
Share Capital	35,00,000	Buildings, plant &	
First Debenture	25,00,000	Machinery	40,00,000
Second Debenture	50,00,000	Bank	30,00,000
Unsecured Debentures	40,00,000	Profit & Loss A/c.	
		Balance	80,00,000
	1,50,00,000		1,50,00,000

	Rs.	Rs.
Capital Reduction A/c.		1,05,00,000
To Profit and Loss A/c.		80,00,000
To Building, Plant & Machinery		25,00,000
(Being P & L A/c. Written off by tranfer to capital reduction account and bring in down the value of buildings, plant and machinery 25,00,000)		

BALANCE SHEET OF GLORIA AND SWANSON LTD. AS ON...

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		FIXED ASSETS	
Authorised	Nil	Building, Plant &	
Issues and subscribed		Machinery	40,00,000
10,000 shares Rs.50		Less : Amount	
each fully paid	5,00,000	Written off	25,00,000

2,00,000 shares of			15,00,000
Rs.10each fully paid	20,00,000	Current Assets. Loans	
First Debentures	35,00,000	and Advances	
Current Liabilities and		A. Current Assets	
Provisions		Cash at bank	55,00,000
A Current Liabilities		B. Loans & Advances	nil
Sundry unsecured			
Creditors	10,00,000		
B.Provisions	Nil		
	70,00,000		70,00,000

Illustration : 5

The Balance Sheet of Sushee Limited as on June 30, 1993 was as follows:

Liabilities		Rs.	Assets	Rs.
SHARE CAPITAL				
10,000 6% cumulative			Land	6,000
Pref. shares		1,00,000	Buildings	28,000
15,000 Equity shares			Plant	96,000
Rs. 10 each		1,50,000	Furniture	27,300
7% Debentures	60,000		Investments	15,000
Interest due thereon	4,200		Stocks	42,000
	----------	64,200	Debtors	53,000
Bank overdraft secured			Development Expenditure	18,000
on free buildings			Profit & Loss A/c	98,000
and plant		20,000		
Creditors		50,000		
		3,84,200		3,84,200

The following assets are to be revealed as shown below:

i) Plant Rs.59,000 tools and dies Rs.15,000 Stock Rs.30,000 and Debtors Rs.48,700

ii) The development expenditure and the debit balance of Profit and Loss account are to be written off.

iii) Price of land is valued at Rs.14,000 and is to be taken over by the debentureholders import repayment of of principal. The buildings are to be revealed at Rs. 40,000

iv) A creditor for Rs.18,000 has agreed to accept a second mortage debentures of 10% per annum secured on the plant for Rs.15,000 in settlement of his debt. Other creditors totalling Rs.10,000 agree to accept a payment of 0.85 in the rupee for immediate settlement.

v) The investment at a valuation of Rs.22,000 are to be taken over by the bank.

vi) The ascertained loss is to be met by writing down the equity shares to Rs. 1 each and the preference to Rs.8 each. The authorised share capital is to be increased immediateluy to the original amount.

vii) The equity shareholders agree to subscribe for two new equity shares at per for every share hold. This cash is all received.

viii) The costs of the scheme are Rs.3,500. These have been paid and are to be written off. The debenture interest has also been paid.

Solution

		Rs.	Rs.
Land	Dr.	8,000	
Buildings	Dr.	12,000	
Investments a/c.	Dr.	7,000	
To reconstraction a/c			27,000
(Being record of increase in the value of assets)			
Reconstruction a/c.	Dr.	1,82,500	
To Plant a/c.			37,000
To Furniture			12,300
To Stock a/c.			12,500
To Provision for bad debts a/c			4,700
To Development expenditure a/c.			18,000

(Being writing down of excess figures & elimation of ficitus items)			
Rs.10 Equity share capital a/c.	Dr.	1,50,000	
Rs.10 Preference share capital a/c.	Dr.	1,00,000	
To Rs.1 Equity share Capital a/c.			15,000
To Rs. 8 Preference share capital a/c.			80,000
To Reconstruction a/c			1,55,000
(Being writing down of equity and preferences shares)			
Equity Shareholders a/c.	Dr.	30,000	
To Equity share Capital a/c.			30,000
(Being subscription of further equity shares)			
Bank a/c.	Dr.	30,000	
To Equity share capital a/c.			30,000
(Being receipt of the equity share money)			
7% Debentures a/c.	Dr.	14,000	
To Debentures a/c.			14,000
(Being redemption at part of debentures)			
Debenturesholders	Dr.	14,000	
To Land a/c.			14,000
(Being discharge of the redeemed debentures)			
Bank a/c.	Dr.	22,000	
To Investment			22,000
(Being discharege of bank overdrafts)			
Creditors a/c.	Dr.	28,000	
To 10% Second Mortages Debentures			15,500
To Bank a/c			8,500

To Reconstruction a/c				4,000
(Being settlement of certain creditors)				
Investment on Debentures a/c.	Dr.		4,200	
Reconstruction a/c.	Dr.			3,500
To Bank a/c. 1				7,700
(Being Discharge of interest and scheme expenses)				

REVISED BALANCE SHEET

Liabilities	Rs.	Assets	Rs.	
CAPITAL		FIXED ASSETS		
Authorised		Buildings		40,000
12,500 6% cum. pref.		Plan		59,000
shares of Rs.8each	1,00,000	Furniture		15,000
1,50,000 Equity shares		Current assets		
Rs.1each	1,50,000	Loans Advances :		
	2,50,000	Stock		30,000
Issued & paid up		Debentures	53,400	
Capital :		Provision	4,700	
			---------	48,700
10,000 6% cum.ref				
shares Rs.8 each	80.000	Bank		15,800
45,000 Equity shares				
of Rs. 1 each	45,000			
SECURED LOANS				
7% First mortage				
debentures	46,000			
10% second mortage				
debentures	15,50C			

Current liabilities and Provisions	22,000		
	2,08,500		2,08,500

BANK ACCOUNT

Liabilities	Rs.	Assets	Rs.
CAPITAL		FIXED ASSETS	
To Equity share holders a/c.	30,000	By balance B/D (overdraft)	10,000
To Investments	22,000	By Int. on Debentures	4,200
		By Reconstruction A/c Exps	3,500
		By Creditors	8,500
		By Balance C/d	15,800
	52,000		52,000

Illustration : 6

Sandeep Ltd., has been suffering heavy losses in the past. It is now considered that the word is over and sound re-organisation will enable its business successfully in the furture. The Balance Sheet the company immediatly before the reconstruction is as follows :

BALANCE SHEET (AS ON 31ST DECEMBER 1992

Liabilities	Rs.	Assets	Rs.
CAPITAL		FIXED ASSETS	
Authorised :		Goodwill	3,00,000

20,000 Equity shares		Fixed Assets	15,85,000
of Rs. 100 each	20,00,000	Sundry Debtors	50,000
5,000 6% pref. shares		Cash at Bank	12,000
of Rs. 100 each	5,00,000	Preliminary Expenses	
Issued Capital		(Not written off)	5,000
10,000 Equity shares		Discount on issue	
of Rs. 100 each	10,00,000	of shares	3,000
2,000 6% pref.		Profit & Loss A/c.	12,90,000
shares of Rs.100 each			
(Dividend in arrears			
for 5 years)	2,00,000		
5% Debentures			
of Rs. 100 each	16,60,000		
Sundry Creditors	4,80,000		
Liabilities for income-tax	20,000		
	33,60,000		33,60,000

The following scheme of reconstruction ws agreed upto and duly confirmed by the court.

i) The equity shares shall be reduced to shares of Rs.10 each, Rs.5 per share being paid-up.

ii) The preference shareholders shall forgo 90% of their sckaus up shares and the remaining shares shall be converted to 7% preference share Rs. 10 each, while their claim for arrears of dividend shall be reduced to equity shares.

iii) The debentures holders agreed to have 60% of their claims which shall be discharged by the issue of 7 1/2% debentures of Rs.100 each.

iv) The sundry creditors are required to forego 60% of their claims.

v) The assets to be revalued as follows - Fixed assets Rs. 12,00,000 Stock-in-trade Rs.70,000 sundry debtors Rs.40,000 investment Rs.10,000.

vi) In order to provide sufficient working capital the equity shareholders are to pay the balance amount due against each share.

Show the journal entries in the books of the company and also the balance sheet after implementation of the scheme.

Solution :

		Rs.	Rs.
Equity share capital a/c.(Rs.100)	Dr.	10,00,000	
To reconstraction a/c.			9,50,000
To Equity Share Capital (Rs.10)a/c			50,000
(Being reduction of equity share capital equity share reduced to Rs.10 Rs. 5 paid-up)			
6% pref. share capital a/c	Dr.	20,00,000	
To Reconstruction a/c			1,80,000
To 7% pref. share capital			20,000
(Being reduction of pref. share capital by 90% and for the balance issue of 7% pref. shares)			
Reconstruction a/c	Dr.	12,000	
To Equity share capital a/c			12,000
(Being issue of Rs.10 fully paid equity share for one year dividend of 6% on pref. shares)			
5% Debentures a/c	Dr.	16,60,000	
To Reconstruction a/c			6,64,000
To 7 1/2% Debentures			9,96,000
(Being reduction of 40% debentures claim & issue for 7 1/2% debentures for their 60% claim)			
Creditors a/c	Dr.	2,28,000	
To Reconstruction a/c			2,28,000
(Being 60% reduction in creditors claim)			
Reconstruction a/c	Dr.	20,70,000	
To Fixed Assets a/c			3,85,000

To Stock-in-trade a/c		25,000
To S. Debtors a/c		10,000
To Investments a/c		10,000
To Goodwill a/c		3,00,000
To pref. Exps. a/c		5,000
To Discount on issue of shares a/c		3,000
To P & L a/c		12,90,000
To Capital Reserve a/c		42,000
(Being reduction of above items)		
Bank a/c	50,000	
To Equity share Capital a/c		50,000
(Being receipt of Rs.5per share of working capital)		

REVISED BALANCE Sheet

Liabilities	Rs.	Assets	Rs.
Capital		Fixed Assets	12,00,000
Equity Capital		Investments	10,000
(Rs. 10 shares)	1,12,000	Current Assets,	
7% pref. Capital	20,000	Loans & Advances .	
Reserves & Surplus :		Stock-in-trade	70,000
Capital Reserve	42,000	S. Debtors	40,000
Secured Loans		Bank	62,000
7% Debentures Current	9,96,000		
liabilities and			
Provisions :			
Creditors Liabilities			
and Provisions			
Creditors	1,92,000		

Liabilities for		
Income Tax	20,000	
	13,82,000	13,82,000

Surrender of shares

Under this method shares are sub-divided into shares of smaller denominations and shareholder are made to surrender a part of them to facilitiate to reduce or extinguish debenture and trade liabilities. The amount of shares surrendered not reissued, and the claim foregone by debentureholders and creditors are tranferred to capital reorgnisation account, which will be utilised to write off losses etc.

Illustration :

The balance sheet of a Ltd. as at 31st December,1986 is as follows:

Liabilities	Rs.	Assets	Rs.
Authorised and		Fixed Assets	14,30,000
issued capital		Stock-in-trade	80,000
8,000 shares of		Debtors	30,000
Rs.100 each	8,00,000	Investments	17,000
6% Debentures	14,00,000	Cash	1,03,000
Accured Interest		Profits and	
on the above	70,000	Loss account	10,70,000
Trade Creditors	4,50,000		
Income-tax due	10,000		
	27,30,000		27,30,000

The following scheme of reorganisation was approved and confirmed by the cours.

1. Each share shall be sub-divided into twenty fully paid equity shares of Rs.5 each.

2. After sub-dividion, each shareholder shall surrender to the company 95% of his holding, for the purpose of re-issue to debentureholders and creditors so far as required, and otherwise for cancellation.

3. If those surrendered 46,000 shares of Rs.5 each shall be converted into 8% participating preference shares of Rs.5 each fully paid.

4. Debentureholder's total claim to be reduced to Rs. 2,30,000. This will be satisfied by the issue to them of 46,000 participating preference shares of Rs. 5 each fully paid.

5 The liabilitiy for income-tax is to be satisfied in full.

6. The claims of unsecured creditors shall be reduced by 80% and the balance shall be satisfied by allotting them equity shares of Rs.5 each fully paid from the shares surrendered.

7. Shares surrendered and not issued shall be cancelled, Journalise the various entries to be make, assembling that the tax liabilities is not paid.

		Rs.	Rs.
Equity share capital a/c.(Rs.100)	Dr.	8,00,000	
To Equity shares capital a/c(Rs.5)			8,00,000
Equity share capital account	Dr.	7,60,000	
To Surrendered shares a/c			7,60,000
Surrendered shares a/c	Dr.	90,000	
To Equity share capital a/c			90,000
Surrendered shares a/c	Dr	4,40,000	
6% Debentures a/c	Dr.	14,00,000	
Accured interest account	Dr.	70,000	
Sundry creditors a/c	Dr.	4,50,000	
To Capital reduction a/c			23,60,000
Capital redution a/c	Dr.	23,60,000	
To Profit and Loss a/c			10,70,000
To Capital reserve			12,90,000

A LTD BALANCE SHEET AS ON

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	14,30,000

46,000 preference		Investments	17,000
shares of Rs.5 each	2,30,000	Current Assets :	
26,000 equity shares		Stock-in-trade	80,000
of Rs. 5 each	1,30,000	Debtors	30,000
Reserve and surplus :		Cash	1,03,000
Capital reserve	12,90,000		
Secured loans	----		
Unsecured Loans	----		
Current Liabilities			
and provisions :			
Income-tax	10,000		
	16,60,000		16,60,000

Scheme of Capital Reduction :

We have discussed some problem in capital reduction in which the scheme of capital reduction is clearly given. But sometimes students may be asked to suggest a suitable scheme of capital reduction. The following points should be consideed before suggesting a scheme of capital reduction.

1. The furture prospects of the company should be good even if it suffered loss now. The future profit should be sufficient the pay for all expense, tax, interest to debentureholders, dividend to preferences shareholders and some amount of profit is to be available for equity shaeholders. If the position is expected to bad even in future, then it is better to liquidate the company. Reconstruction both internal and external may be of a waste.
2. The scheme of reconstruction should be acceptable to different interested group, ie.e., creditors, debentureholders and a equity shareholders. Sacrifice of each group in any reconstruction scheme is to be passed by 75% majority of the group. So other should be sufficient prospect for each group.
3. Sufficient provision for working capital should be made. Shareholders and creditors should be willing to contribute further money. Sufficient working capital is needed to run the company without any difficulty.

STEPS FOR RECONSTRUCTION

When a scheme of reconstruction is prepared, the following successive steps may be taken.

1. Estimating the loss :

The first step is to estimate the total loss which the company has suffered to date. This is done by doing the debits balance is the profit and loss account unwritten off fictitious assets, like discount onshares, preliminary expenses, intangible assets like goodwill and reduction the value of all fixes assets.

2. Compensating the various parties

The estimated loss has to be borne by the (a) Creditors (b) Preference Shareholders (c) Equity Shareholders

a) Creditors :

Creditors and debentureholders will be ready to bear the loss only if they feel that they will suffer more if the company is liquidated. If at all they have to bear any loss, the interest rate may be increased.

b) Preference Shareholders

The preference shareholders claim will be their capital contribution and also arrears of preference dividend. If the assets are sufficient to pay for the preference shareholders, they'll not be ready to bear any loss. If the assets are insufficient, they may bear the loss, but to compensate them, the divided rate may be increased or same portion of the preference share capital may be converted into equity share capital.

As regards their accumulated preference dividend, the preference shareholders may be asked to forego, and the dividend rate may be increased slightly.

Equity Shareholders:

Equity shareholders have to suffer the maximum amount of loss. They agree to the maximum amount of loss because they know that if they do not agree the company will be liquidated and they will not get any return of capital.

3. Arrangement for working capital

To provide sufficient working capital the following method may be followed.

a) Fresh issue of equity shares.

b) Reducing the sharecapital to partly paid up amount, so that rest of the money may be called afterwards.

c) Requesting debentures holders to extend loss.

d) Arrangement for bank overdraft.

Illustration :

The following is the balance sheet of a company as on 31st Dec. 1994

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
Equity share capital :		Goodwill	50,000
20,000 share as		Loan and Building	1,20,000
Rs.10 each	2,00,000	Fixed assets	2,40,000
10% pref. share capital		Preliminary expenses	60,000
10,000 shares of 10 each	1,00,000	Profit & Loss A/c	30,000
Debentures	50,000		
Secured loan	50,000		
Creditors	60,000		
Bank o/d	40,000		
	5,00,000		5,00,000

Preference dividend is in arrears for three years. Other fixed assets worth Rs.2,20,000 now. Prepare a scheme of capital reduction, and the balance sheet after reconstruction.

Solution :

Stage 1: Calculation of loss to be written off

Goodwill	50,000
Other fixed assets	20,000
Preliminary expenses to be written off	60,000
Profit & Loss A/c	30,000
Total Loss	1,60,000

Stage 2:

Deciding the parties to be bear the loss:

a) Liabilities to third parties

Liabilities to third parties are debenture holders, secured loan, creditor and bank overdraft. The assets can be sold for Rs.3,40,000, if the company is liquidated. (Land and building Rs.1,20,000

+ other fixed assets Rs.2,20,000). This is more than enough to pay for the liabilities to third parties. Other cannot be asked to bear any loss.

b) Preference shareholders

As regards the preference shareholders, they also will not come forward to bear any loss. They know that assets are enough to pay for them. Because 1,40,000 is available even after paying liabilities to third parties. However they may be asked to forego their arrears of preference dividend. To compensate the rate of preference dividend mav be increased from 10% to 11%.

c) Equity shareholders

The equity shareholders alone has to bear the entries. The loss of Rs. 1,60,000 should be borne by 20,000 equity shareholders is Rs.8 per shareholder. So the equity share capital will be reduced to Rs.2 per share.

3. Provision for additional working capital

To provide for sufficient working capital, every shareholders may be asked to contribute Rs.2 per share as additional capital, and thereby making the equity shares as Rs.4 each. The company is now in a position to raise working capital of Rs.40,000 (20,000x2)

BALANCE SHEET AFTER RECONSTRUCTION

Liabilities	Rs.	Assets	Rs.
Equity share capital :		Land and building	1,20,000
20,000 Equity shares of			
Rs.4 each	80,000	Other Fixed assets	2,20,000
Preference share capital		Cash	40,000
10,000 shares of			
Rs.10 each	1,00,000		
Debentures	50,000		
Secured loan	50,000		
Creditors	60,000		
Bank o/d	40,000		
	3,80,000		3,80,000

Exercise : 1

The following is the Balance Sheet of week Co. Ltd. As on 31st December 1998.

Liabilities	Rs.	Assets	Rs.
1,00,000 Equity shares of Rs.10 each	10,00,000	Land	1,00,000
Sundry Creditors	1,73,000	Plant and Machinery	2,30,000
		Furniture and Fittings	68,000
		Stock	1,50,000
		Debtors	70,000
		Cash at Bank	5,000
		Profit and Loss & account	5,50,000
	11,73,000		11,73,000

The approval of the court was obtained for the following scheme or reduction of capital;

a) The equity shared to be reduced to Rs.4 per share.

b) Plant and Machinery to be written down to Rs.1,50,000

c) Stock is revalued at Rs. 1,40,000

d) The provision on debtors for doubtful debt is to be created Rs.2,000

e) Land is revalued at Rs. 1,42,000

Pass Journal entries to give effect to the above arrangement and loss prepare reconstruction amount.

Exercise : 2

The following is the summarized Balance Sheet of Not so well Co, Ltd. As on 31st March 1989

Liabilities	Rs.	Assets	Rs.
5,000 10% cumulative preference shares of Rs.100 each	5,00,000	Goodwill	60,000
1,00,000 Equity shares of Rs.10 each	10,00,000	Land and Building	5,40,000
Creditors	3,00,000	Plant and Machinery	4,00,000
Bills payable	55,000	Stock	70,000
Arrears of preference Dividend Rs.	1,00,000	Debtors	1,35,000
		Cash at bank	35,000
		Preliminary expenses	*20,000*
		Profit and Loss A/c	[illegible]
	18,55,000		18,55,000

The scheme of reconstruction given below has been agreed by all the affected parties and approved by the court. You are journalise the transact on given below and prepare the balance sheet of the company after completion of the scheme.

a) The existing 10% cumulative preference shares of Rs.60 each

b) Arrears of preference dividends are to be cancelled.

c) The quality shares are to be reduced to Rs.5 per share.

d) Plant is to be written by Rs.20,000

Exercise : 3

X Co., Ltd., resolved to write off one-half of the subscribed capital by reducing each Rs.100 share, both preference and equity, to Rs.50 fully paid up and to reduce the book figures of its assets by an equivalent amount by wiping out the goodwill and the debit balance by Rs.15,000, plant and machinery by Rs.10,000 and reserving the balance for bad debs.

The balance sheet of the company before the reduction of capital was as under :

Liabilities	Rs.	Assets	Rs.
3,000 Preference shares			
of Rs.100 each	3,00,000	Goodwill	1,00,000
5,000 equity shares of		Land and building	1,10,000
Rs.100 each.	5,00,000	Plant and Machinery	90,000
		Stock	80,000
		Sundry Debtors	20,000
	---------------	Cash	10,000
	8,00,000	Profit and Loss Account	1,90,000
SUBSCRIBED CAPITAL :			
2,000 Preference shares			
of Rs. 100 each	2,00,000		
3,000 equity shares of			
Rs. 100 each	3,00,000		
Sundry creditors	1,00,000		
	6,00,000		6,00,000

Pass Journal entries to give effect to the above resolution. Prepare the new Balance Sheet of the company.

Exercise : 4

The following scheme of reconstruction has been approved for B Ltd

1. The shareholders to receive the lieu of their present holding of 50,000 shares of Rs.10 each the following :
   a) Fully paid equity shares equal to 2/5 of their holding.
   b) 10% preference shares, fully paid, to the extent of 1/5 of the above new equity shares and
   c) Rs.60,000 14% second debentures.
2. An issue of Rs.50,000 12% first debentures was made and alloted, payment for the same being received in cash forthwith.

3. Goodwill which stood at Rs.1,50,000 was completely written off.
4. Plant and Machinery which stood at Rs.1,00,000 was written down to Rs.75,000.
5. Freehold and leasehold premises which stood at Rs.1,75,000 were written down to Rs.1,50,000.

Give journal entries in the books of the company necessitated by the above reconstruction.

Example 5

The following was the Balance Sheet of Bharat construction Ltd., as on 31st March 1989

Liabilities		Rs.	Assets		Rs.
Authorised Capital			Goodwill		10,000
20,000 Equity Shares			Land & Building		20,500
of Rs. 10 each		2,00,000	Machinery		50,850
Issued, subscribed			Stock		10,275
and paid up capital			Book Debts		15,000
12,000 shares of			Preliminery expenses		1,500
Rs.10 each	1,20,000		Profit and Loss Account		
Less Calls in arrear			Balance as per last		
(Rs.3 per share			Balance Sheet	22,000	
on 3,000 shares)	9,000		Less Profit		
		1,11,000	for the year	1,200	20,800
Sundry Creditors		15,425			
Provision for taxes		4,000			
		1,30,425			1,30,425

The Director have had a valuation made of the machinery and find it overvalued by Rs. 10,000 is proposed to write down this asset to its true value and to extinguish the deficiency in the Profit and Loss Account and to write off Goodwill and preliminary expenses by the adoption of the following course.

1) Forfeit the shares on which the call is outstanding.
2) Reduce the paid up capital by Rs.3 per share.
3) Reissue the forfeited shares at Rs.5 per share.

4) Utilise the provision for taxes, of necessary.

The shares on which the calls were in arrear were duly foreited and reissued at fully paid shares of Rs.7 each on payment of Rs.5 per shares. You are requested to draft the journal entries necessary and the Balance Sheet of the company after carrying out of the scheme as set above.

Exercise : 6

The Following is the balance sheet of N.D. Ltd., as the 31st March 1989.

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	25,000
Authorised		Freehold Property	
and Issued :		at cost	90,000
10,000 12% cumulative			
preference plant and			
machinery shares of			
Rs.10 each fully paid	1,00,000		
20,000 Equity shares of			
Rs.10 each fully paid	2,00,000	Cost less depreciation	85,000
Creditors	75,000	Investment (Market	
Bank overdraft	85,000	value, Rs.88,000)	80,500
		Stock	35,000
		Debtors	40,000
		Cash at bank	10,500
		Profit & Loss	
		Account	94,000
	4,60,000		4,60,000

Prepare an external scheme of reconstruction which in your opinion would be necessary and redraft the Balance Sheet after incorporation of your proposals for submission to the Board of Directors. The cumulative preference dividends are in arrears for two years.

Chapter 3
VALUATION OF GOODWILL AND OF SHARE

Denfinition of Goodwill

Kohler defines goodwill as "the current value of expected future income in excess of a normal return on the investment in net tangible assets; not a recorded or reporded amount unless paid for". Another definition given by him is "the excess of the price paid for a business as whole over its book value, or over the computed or agreed value of all tangible net assets purchased. Normally, purchased goodwill is the only type appearing on books of account and in financial statements".

Elements of Goodwill

According to Lord Macnaghten, "Goodwill is composed of a variety of elements. It differes in its. Composition in different trades and in different business in the same trad. One element may proponderate here and another there". In his view, one attribute common to all cases of goodwill is locality, since goodwill is attached to a business. Yet, he feels that it is difficult is very widely spread, or where it is the article produce rather than the producer of the article that has won popular favour.

Thus, goodwill may be due to a number of factors such as the location of business, skill of the owner, preferences and prejudices of customers, nature of the business, profitable contracts, patents and copyright, government patronage, etc., Goodwill may thus be the result of all these factors or a few of them. Depending upon the dominance of any of them, a business may earn better profits than its counter parts in the same line or different lines of activity. It is, therefore, possible to calculate goodwill resulting from each of these factors. Though this is not done in practice, goodwill does comprise various elements or factors mentioned above.

FACTORS INFLUENCING THE VALUE OF GOODWILL

Since it is only purchased goodwill that shows itself up in accounting records, no one would be willing to pay anything for goodwill unless the business which he intends buying is making extra profits and, unless the same are maintainable in future also. Thus, it is profit ability of a business which is the dominant factor in the valuation of goodwill, are the following :

(a) Favourable location

This, is perhaps, one of the most important factors which influence the value of goodwill. Certain cities or towns, and certain localities in the same comers in the same line of business activity would be able to take advantage of past connections and attract customers. This is specially so if new entrants find it difficult to acquire space for establishing their business. In such a case, the person leasing out his premises will necessarily demand an appreciable amount for reputation and business connections built up by him.

It must, however, be remembered that goodwill arises in a particular locality only because the locality is ideal for a particular type of business, and shopping space is scare in relation to demand. If, in the same locality, there is no scarcity of space, and it is easy for any newcomer to get in, there cannot be any goodwill.

(b) Nature of business

By 'nature' of business is meant the products produced, the extent of market for the same, prevailling competition, nature of damand and government regulations affecting the business. If owing to all or any of these factors, existing firms are earning more than normal profits, and have secured monopolistic or nearly monopolistic conditions, they will be enjoying an appreciable amount of goodwill.

(c) Managerial skill

The skill and ability of the owner of a business, or of salaried managerial personnel is also a factor on which the value of goodwill depends. Sometimes, a business may demand exceptional managerial ability which is made available to it by it owner. If that business is sold, the buyer will be deprived of the skill and ability of the owner. As such, it is the duty of the buyer to see that the services of the former owner are made avilable in future also. Otherwise, the value of goodwill would fall considerably.

Even if the value of goodwill depends upon the efficiency of salaried personnel, it is in the interest of the buyer to see that their services are still made available. Otherwise, the value of goodwill would certainly fall.

(d) Possession of patent and trade marks

It is usual for business, in modern times, to produce and sell its product under a particular brand or trade name, registered with the Registrar of patents and Trade Marks. The object of the same being acquisition of monopolistic rights and preventing infringment by ricals in the same line of activity, the business will have build up good reputation for its product, should that be so, it profits will have enable the business to build up a huge amount of goodwill.

(e) Favourable contracts

Sometimes, a business may make huge amount of profit, either because of exceptionally favourable contracts for the supply of goods and services, or pending contracts or recurring nature. Such contracts, resulting in huge profits, influence the value of goodwill. However, it should be seen whether such contracts as are exceptional in nature could be obtained in future also. Otherwise, they cannot influence the value of goowill, barring pending contracts of recurring nature.

(f) Captial

If profits of a business are large relatively to the amount of capital invested, its goodwill will have a higher value than another business earning less profits with a high amount of investment. This is obviously because of the fact that buyers prefer to buy a concern which requires less capital but which makes a relatively large amount or profit. In other words, if the return on investment is more than the normal return, the value of its goodwill will be high.

Besides the above factors influencing the value of goodwill, mention may also be made of other factors such as access to raw materials, state of the money market, risk involved, freedom from legislative restrictions, contented employees, etc.

METHODS OF VALUATION GOODWILL

The value of goodwill of a concern being dependent upon a number of factors, it is difficult to lay down a general principle of valuation of goodwill. It is precisely fot this reason that there are a number of methods of valuing goodwill, each dependent upon the special circumstances surrounding a business. There methods are :

(a) Arbitrary method

This is by far the simplest method of valuing goodwill. Under this method, the value assigned to goodwill is arrived at by mutal aggrement between the buyer of a business and it vendor. The amount agreed to be payable for goodwill its the excess of purchase price over the net assets taken over, the value of net assets having been arrived at on the basis of the business as a going concern.

Although very simple, this method is not, in fact, really a method of valuing goodwill as it is not based on any yardstick of performance of business. The value of goodwill being based on future maintainable profits, the earning capacity of business should, necessarily be taken into consideration while valuing goodwill. In the absence of any such guide, the amount goodwill arrived at by agreement cannot be scientific, and future earnings for which goodwill is paid are dependent entirely upon the optimistic outlook of the buyer.

(b) Puchase of past profits

Under this methods, goodwill is valued on the busis of an agree number of years' purchase of the average annual profits, calculated by reference to recent years and, having regard to the probable maintenance of such profits in future years.

Goodwill is a payment for the probable excess profits of the future. Accordingly, it is not past performance, but future performance that is important in the valuation of goodwill. Although this is true, past performance is a good evidence and measure of future performance. As such, it is usual to make an estimate of future profits on the basis of past profits.

While valuing goodwill on this basis, care should be taken to determine the number of years' past proftis to be averaged. The two extremes of taking either too many years' past profits or just one or two years' profit should be avoided. This is obviously because of the fact that profits on the remote past might have been affected by certain conditions not relevant to the present. In the same way, profits of one or two preceding years are not a prefect index of future performance.

The other factors to be considered in this context are

) In arriving at future profits on the basis of past profits, all extraneous and non operating profits and losses should be excluded.

i) If any non-trading asset has not been included while come from such asset is also to be excluded.

ii) Interest on debentures and depreciations of fixed assets should be provided for.

v) Provision should be made for managerial remuneration.

v) Provision should be made for taxation and preference dividend.

vi) Benefit from pending contracts partly executed should be included.

vii) Profit appropriation to reserve, dividend and amortisation of long-term liabilities should be ignored.

In case of violent fluctuations of past profits, weighted average may be computed instead of simple average, by assigning weights to each year's past profit on the basis of its influence on future profits.

Illustration 1

X, who has been carrying on a retail business for the past 15 years, intends selling his business on 31st December, 1986. It is agreed between X and the buyer that the latter pay Rs.50,000 for goodwill. From the following particulars supplied by X, ascertain the amount of goodwill if it iwere based on three years' purchase of the average profits of the last four years including the profit of 1986.

Profit earned:

1983 - Rs. 10,000 1984 - Rs. 12,000 1985 - Rs. 15,000 1986 - Rs. 18,000

At the time of acquiring X's business, the buyer was employed as the manager of a similar business on a salary of Rs. 300 per month. The profits of 1986 included income form investments Rs. 1,000 and profits of 1983 had been reduced by Rs. 3,000 being loss on speculation. Similarly, the profits of 1985 had been reduced by Rs.5,000 owing to loss from betting.

Solution :

		Rs.	Rs.
1983	Profits	10,000	
	Add : Speculation loss	3,000	
		------------	13,000
			12,000
1984	Profits	15,000	
1985	Profits	5,000	
	Add : Loss from betting	------------	20,000
1986	Profits	18,000	
	Less : Income from investments	1,000	
		------------	17,000

	Total profits		62,000

	Average proftis :	62,000/4	15,500
	Less : Proprietor's remuneration		3,600

	Average future profits		11,900

Goodwill at 3 years' purchase of average profits

= 11,900 x 3 =	Rs. 35,700
Arbitary value of good will	Rs. 50,000
On the basis of past profits	Rs.35,700

(c) Super profit method

The excess of estimated future profits over normal profits is called super profits. In other words, they represent extra profits obtained by a firm in comparision with the normal rate of reture in the another way, super profit is the excess of profit it which neessary for paying fair return on capital employed. having regard to the risk involved in that class of business, and fair managerial remuneration.

This is method thus presumes a normal yield or normal profits to cover interest on capital and managerial remuneration and the profits of a business in excess of the normal yield are called super profits. For valuing goodwill under this methods, it is necessary to know the normal rate of return expected from capital employed in this class of business and the average net profits expected in future.

There are three methods of valuing goodwill based on super profits. There are:

i. Purchase of super profits. Under this method, the value of goodwill is taken as being an agreed number of years' purchase of super profit.

Illustration 2

From the following particulars relating to the business of Mr. X, compute the value of goodwill on the basis of 3 years purchase of super profits taking average of last four years:

Capital invested	Rs. 30,000
Market rate of interest on investment 12%	
Rate of risk return on capital invested 3%	
Managerial remuneration of the proprietor, if employed elsewhere	7,500 p.a

Trading result :

1983	Profit	15,000
1984	profit	18,000
1985	Loss	2,000
1986	Profit	22,000

Solution :

Trading result :

	Rs.
1983	15,000
1984	18,000
1986	22,000

	55,000

Less : Loss in 1985	2,000
Total Profit	53,000
Average profit : 53,000/4 = Rs.	31,250
Less : Managerial remuneration	7,500
	5,750
Less : Normal return on capital invested (12% + 3%) = 15% on Rs. 30,000	4,500
Super Profit Rs.	**1,250**

Value of goodwill 3 years' purchase of super profits
= Rs. 1,250 x 3 = Rs. 3,750

Illustration 3

Given below is the balace sheet of XXYZ Co. Ltd., as at 31st December 1986.

Liabilities		Rs.	Assets		Rs.
Share Capital					
10,000 Equity shares			Goodwill		15,000
of Rs.10 each		1,00,000	Land and Building		40,000
General Reserve		45,000	Plant and Machinery		50,000
profit and			Investment		60,000
Loss a/c	6,000		Stock		50,000
Balance on			Debtors	70,000	
1.1.86 Profit			Less : Provision	10,000	
for the year	24,000				60,000
		30,000	Cash at Bank		20,000
8% Debentures		50,000	Preliminary Expenses		5,000
Creditors		30,000			
Provisions for Taxation		20,000			
Depreciation Fund :					
Plant and Machinery		25,000			
		30,000			30,000

Profit for the year included Rs.3,000 income from investments. Investments are all in government securities. Land and Buildings are worth Rs.1,00,000 and Plant and Machinery Rs.20,000. Computer the value of goodwill on the basis of 3 years purchase of super profit. Normal return on capital emplyed in this type of business is 10%.

Solution :

Land and Building		1,00,000
Plant and Machinery		20,000
Stock		50,000
Debtors		60,000
Bank		20,000
		2,50,000
Less : Debentures	50,000	
Creditors	30,000	
Provision for Tax	20,000	1,00,000
Capital employed		1,50,000
Less : 1/2 of current years profit Excluding non-trading income		10,500
		1,39,500
Super Profit :		
Profit for the year		24,000
Less : Non-trading income		3,000
Adjusted profit		21,000
Less : Normal return @ 10% on capital employed (on Rs.1,39,500)		13,950
Super profit		7,050

Goodwill on the basis of 3 year's purchase of super profit

= Rs. 7,050 x 3 = Rs. 21,150.

Notes : Capital employed may also be found out by considering the items on the liabilitues side on the balance sheet.

Share capital	1,00,000	
General Reserve	45,000	
Profit and Loss a/c.	30,000	
Appreciation in the value of Land Building	60,000	
	-------------	2,35,000
Less : Goodwill	15,000	
Fall in the value of Plant and Machinery : (50,000 - 25,000 - 20,000)	5,000	
Investments	60,000	
Preliminary expenses	5,000	
	-------------	85,000

Capital employed		1,50,000
		--------------

ii) Capitalisation of super profit

This method, which is also based on super profits, assess the capital requirement for earning super profits. Accordingly a person desirours of earning as income of 10% has pay Rs.10,00,000 for a business which is making a profit of Rs.1,00,000. The amount so paid comprises net tangible assets and goodwill.

Under this method, average profit is capitalised at a reasonable rate of return in order to find out the total value of the business. The value of goodwill will then be the difference between the total value of the business minus it net assets. In case the net assets exceed the total value of the business, the excess may be called "bad will" instead of goodwill.

In case super profit is capitalised at a certain rate of return, the captialised amount itself becomes goodwill. Thus if super profit is Rs.5,000 and the normal rate of return is 10% the value of goodwill can be found out by applying the formula.

Super profit x 100 / Normal rate = 5,000 x 100/10 = Rs.50,000

Illustration 4

The net profits of a company after providing for taxation. for the past five years are Rs.40,000 Rs.42,000, Rs.45,000 and Rs.47,000. The capital employed in the business is Rs.4,00,000 on which a reasonable rate of return of 10% is expected. Calculated the value of goodwill of the business.

Solution :

Net Profit : Rs. 40,000 + Rs. 45,000 + Rs. 46,000 + Rs. 47,000

= Total Profit Rs. 2,20,000.

Average profit 2,20,000 / 5 = Rs. 44,000

Capitalised value of the business at 10%	=	44,000 x 100/10
	=	Rs. 4,40,000
Less : capital employed being net tangible assets	=	Rs. 4,00,000
Value of goodwill	=	Rs. 40,000

If super profit is capitalisied :

Average profit	=	Rs. 44,000
Less : Return on capital employed 10% on Rs. 4,00,000	=	Rs. 40,000
Super profit	=	Rs. 40,000

Capital value of super Profit = 4,000 x 100 /10 = Rs. 40,000

value of goodwill of the business Rs.40,000

Illustration 5

A company is desirous of selling its business to anouthe company. Its averge annual profits after providing for taxation amount to Rs.30,000. It is considered that such average profits likely to be earned in the future except that:

a. Directors fees Rs.1000 charged against such profits will not be payable by the purchasing company whose existing Board can cope with the additional duties.

b. Rent Rs.1,000 annu, being paid by the vendor company will not be a charge in future since the purchasing company owns its own premises.

The value of net tangible assets of the vendor company was Rs. 2,00,000 and 10% was considered to be a reasonable return on capital employed in this class of business. Ascertain the value of goodwill.

Solution

	Rs.	Rs.
Average annual profit		30,000
Add : Non-recurring expenses :	1,000	
Directors fees	1,000	
		2,000
		32,000

A dusted average annual profit		
Capitalised value of the business		
at 10% 32,000 x 100/10		3,20,000
Less : net-tangible assets		2,00,000
Value of goodwill	Rs.	1,20,000

Illustration 6

Ascertain the value of goodwill of X Co Ltd., carrying on textile business from the following information.

BALANCE SHEET

as at 31st Dec. 1986

Liabilities	Rs.	Assets	Rs.
25,000 Equity shares of Rs.10 each	2,50,000	Goodwill at cost	15,000
Profit and Loss a/c.	60,000	Land and Builiding	1,00,000
Sundry Creditors	90,000	Plant and Machinery	1,00,000
Bank Overdraft	60,000	Stock	1,60,000
Provision for Taxation	20,000	Sundry Debtors	85,000
	4,80,000		4,80,000

The company commenced operation in 1982. The profits earned before providing for taxation are : 1982 Rs. 62,000; 1983 Rs.65,000; 1984 Rs.70,000; 1985 Rs.80,000 and 1986 Rs.1,00,000. dividend have been distributed from the profits of first three years at the rate of 10% and from those of the next two years at the rate of 15% on the paid-up capital. Assuming that income tax at the rate of 50% has been payable on these profits and 12% is the fair return on capital employed in such type of concerns acertain the value of good will of the business.

Solution :

Profits for five years:

1982 Rs.62,000 +1983 Rs.65,000 + 1984 Rs.70,000
+ 1985 Rs.80,000 + 1986 Rs.1,00,000
= total Profits Rs.3,77,000

Average annual Profit 3,77,000 / 5			= Rs. 75,400
Less : Provision for Taxation, 50%			= Rs. 37,700
Average annual distributable profit			Rs. 37,700

Average dividend paid :

10+10+10+15+15/5 = 12%

Capitalised value of the business :

37,700 x 100/12			= Rs. 3,14,166
Less : Net tangible assets :			
		Rs.	
		1,00,000	
Land and Buildings		1,00,000	
Plant and Machinery		1,65,000	
Stock			
Sundry Debtors		85,000	
		4,45,000	
Less : Liabilities :			
	Sundry Creditors	90,000	
	Bank Overdraft	60,000	
	Provision for taxation	20,000	
		1,70,000	2,75,000
Value of Goodwill			Rs. 39,166

iii. Annuty method of super profit

Even under this method super profit is the basis of valuing goodwill. However it differs from the purchase of super profit method in an important respect. If goodwill is computed by multiplying super profit by a given number of years, it should obviouly mean that the buyer would be abie to enjoy super profit by a given number of year of purchase. In order words, it means that the would be able to recoup the among paid for goods will within those year.

Although this assumption may hold good, there is loss of interest to the buyer. For instance if super profit is Rs.20,000 and goodwill is 3 year purchase of super profit is Rs.20,000 and good-will is 3 years purchase of super profit the buyer has to pay Rs.60,000 for goodwill. Under the annuity method however the present value of annuity of Re.1 payable for 3 years at the current rate of interest say 10% is Rs.2.48,685 =49.737. The buyer thus loses interest being Rs.60,000 - Rs.49,737 = Rs.10,263.

Under the annuity method the value of goodwill is the present value of an annuity of the annual super profit payable over an expected number of years at he current rate of interest. In the example given above what is to be paid for goodwill is only the present value of an annuity for as given ascertained by reference to annuity Tables or by using the formula.

I [100/100+r] /r/100 in which r is the rate of interest per annum and n is the number of year over which the payment is to be made.

Illustration 6

The net profits of a company after providing for taxation for the past five years are Rs.60,000 Rs.55,000, Rs. 58,000, Rs.62,000, Rs. 65,000. The capital employed in the business is Rs.5,00,000 on which a reasonable return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next three years.

Calculate the value of goodwill of the business on the basis of 3 years purchase of super profits and on the basis of an annuity of super profits taking the present value of an annuity of Re.1 for 3 years at 10% per at Rs.2,48,685

Solution :

Profits for five years :

Rs.50,000 + Rs. 55,000 + Rs.58,000 + Rs. 62,000 + 65,000

= Total Rs. 2,90,000

Average annual profit:2,90,000/5	Rs. 58,000
Less : Return on capital @ 10%	Rs. 50,000
Super Profits	Rs. 8,000

Value of goodwill at 3 years purchase : 8,000 x 3 = Rs. 24,000

Value of goodwill on the basis of an annuity of super profits :

8,000 x 2,48,685 = Rs. 19,895

Valuation of shares

By the term 'value of shares' we mean either its face value or the market value. The face value of a share is the value asssigned to it by the promotors of a joint stock company in the capital clause of the Memoradum of Association. This value is supposed to be more or less permanently fixed during the lifetime of a company, unless the company otherwise alters, it subject to the provisions of the companies act.

The market value of a share on the other hand is the value established by the market forces of demand and supply. The shares of a public joint stock company quoted on the stock exchange, have a value different from the face value. Although this value determined by market forces is not the same as the face value neither of these values can be taken as the proper value of a share.

A company having been in existence for many years, will have its financial position as reflected by its balance sheet quite different from what it was in the year of its formation. In the same way, the market value affected by value of it shares. It is still more difficult to ascertain the proper value of the shares of a public company whose shares are not quoted on the stock exchange. Besides, in the case of private companies, becasuse of the restriction on the transferbility of shares, their shares have no market value at all.

Therfore if the shares of a company have to change hands their value has to be ascertained.

Circumstance Necessitating valuation

The need for valuation of shares arises in the following cases:

a. When unquoted shares are to be bought and sold.

b. For formulation schemes of amalgamation and absorption.

c. For satisfying dissential shareholders in the case of reconstruction of a company.

d. When block of shares are purchased to acquire controlling interest.

e. For assessment of wealth tax and estate duty.

f. When shares of one class are to be converted into another class.

g. For valuation of the assets of a finance or investment company.

h. When a back has tolent money on the secrity of shares.

i. When a company is nationalsed and compensation is payable by the Government.

j. When shared are purchased by employees of a company to be retained by them during the tenure of their service.

k. When partners hold shares of a company for ascertaining the amount to be distributed amongest them on dissolution of the firm.

Methods of Valuation

There are two methods of valuation of shares. They are :

a. Net Assets method or Asset Backing method also known as the Intrinsic value Break up value, net Worth or Equity method.

b. Yield method or income method also known as the profit of Earning Capacity method.

Net Assets method. For the purpose of valueing shares of a company by this method, it is necessary to make a start with the assumption that the company in question is liquidated, its assets are realised and liabilities paid off. That is why this method is also called the break up value method.

According all the recorded and unrecorded assets of the company including goodwill are to be taken at their realisable values. From out of the total amount thus ascertained, all liabilities recorded as well as unrecorded should be deducted. The amount thus arrived at is in money value the asset backing for the shares. When this is divided by the number of shares, we get the intrinsic value of each share.

In case the share capital comprises both equality and preference shares, it is necessary to deduct preference share capital from the money value of net assets to get the asset backing for equality shares. Where there are fully paid up and partly paid up shares into fully paid up shares by making a national call and the uncalled amount should be added to net assets before dividing the same by the value of each fully paid up share minus the amount due on it.

Depending upon the circumstance necessitating valuation of shares it is also resonable to assume continuity of the business and value shares on a going concern basis. This is specially so form the point of view of buyers of shares who expect continuity of operations of the business the shares of which they want to buy.

If shares are to be valued on a going concern basis all the assets and liabilities should be evalued since their values shown in the balance sheet are considered to be outmoded. While evaluing assets and liabilities, it is necessary to make full provision for depreciation bad and doubtful debts and eliminate fictious assets.

With regard to goodwill however there are low alternative approaches. One of these takes into consideration goodwill while the other does not. In case goodwill should be considered it is neccessary to value it by the method specified, to in the absence of the method stipulated by any one of the methods discussed already.

Illustration 7

(Which two types of shares). From the following balance sheet of ABC Co. Ltd., as at 31st December 1986, find out the intrinsic value of each equity share:

Liabilities	Rs.	Assets	Rs.
8% Preference shares		Goodwill	25,000
of Rs. 100 each	2,00,000	Land and Buildings	1,00,000
2,500 Equity shares		Plant and Machinery	2,50,000
of Rs. 100 each	2,50,000	Stock	1,80,000

General Reserve	20,000	Sundry Debtors	50,000
Profit and Loss a/c	25,000	Investment 5% Govt.	
9% Debentures	1,00,000	Securities (face value	
Sundry Creditors	30,000	Rs. 25,000)	30,000
Provision for Taxation	35,000	Cash at bank	10,000
		Preliminary Expenses	1,50,000
	6,60,000		6,60,000

Goodwill should be valued at 5 years' purchase of super profits of the company for the last three years after charging income-tax is Rs.75,000. Fair return on capital employed is 10% Assets to be revalued: Land and Buildings Rs.1,50,000 and plant and Machinery Rs. 20,00,000.

Solution :

		Rs.	Rs.
	Valuation of Goodwill		
	Average profits		75,000
Less :	Non-trading income from Investments @ 5% on Rs.25,000	1,250	
		73,750	
Less :	Debenture interest	9,000	
			64,750
Less :	Normal return on Capital employed :		
	Land and Buildings	1,50,000	
	Plant and Machinery	2,00,000	
	Stock	1,80,000	
	Sundry debtors		50,000
	Cash at Bank		10,000
			5,90,000
Less :	Sundry Creditors	30,000	
	Provision for Tax	35,000	
			65,000
	Capital employed	5,25,000	
At 10% fair return on capital employed			52,500
	Super Profit		12,250

Value of goodwill at 5 years purchase of super profit :

Rs. 12,250 x 5 = Rs.61,250 valuation of shares :

Assets :	Goodwill (as valued about)		61,250
	Land and Building		1,50,000
	Plant and Machinery		2,00,000
	Stock		1,80,000
	Sundry Debtors		50,000
	Investments		30,000
	Cash at bank		10,000
			6,81,250
Less :	Liabilities :		
	9% Debentures	1,00,000	
	Sundry Creditors	30,000	
	Provision for Taxation	35,000	
			1,65,000
	Net Assets		5,16,250
Less :	Preference Share Capital Net Assets		
	Available to Equity share holders		2,00,000
			3,16,250

Value of each equity share : 3,16,250/2,500 = Rs. 126.50

Notes :

1. In valuing goodwill for the purpose of valuing shares, debentures have been considered to be a part of capital employed. Hence, it is not taken into consideration and debenture interest in added back to profit. In case it is considered to be an outside liability if may be deducted along with other liabilities. In much a case, interest need not be added back.
2. While non-trading assets and income from then are not considered for valuing goodwill they should be taken into consideration for valuing shares.
3. Since profits for the current year are not known, average capital employed cannot be found out.

Yield Method

Under the asset-backing method of share valuation them in emphasis is one the safety investment. Since a genuine investor is normally concerned with the safety of his investment., the assets backing method proves that the investment is safe, regardless of whether the business in which he has invested is considered to be a liquidating one or a going concern., This is so even with regard to a prospective investor. If he is asured of high asset backing he may prefer a lower rate of reture.

They yield method emphasises the other side of the picture viz., prospective yield from his investment. Under this method which always considers a businees as a going concern, the market values of assets are not considered at all. Accordingly the price that an investor is willing to pay for the shares of a company is dependent upon the prospective earnings of the company. The price payable this varies directly with the expected yield.

Under this method the future maintainable profit is estimated by reference to past performance. This is adjusted by eliminating non-recurring incomes deducting income tax. Making allocation to reserves and preference dividend. The adjusted profit is capitalised at the normal rate of return in similar business. Alternatively the value of each share may be calculated by applying the following two formulas:

Expected Rate =

Profit available / Total paid up equity capital x 100

Value of each share =

Expected rate / Normal rate x paid up value of each share.

Illustration 8

A company has, as its capital, 1,00,000 'A' Equity shares of Rs. 1 each fully paid 1,00,000 'B'; Equity Share of Rs.#1each, 75 paise paid up and 1,00,000 'C' Equity shares of Rs.1 each, 50 paise paid up. The normal average net profit, less tax of the company is esimated to be Rs.36,000 and the estimated rate of capitalisation is 8% calculated the value of each class of share.

Solution

Average net profits Rs. 36,000

At 8% the capitalised value is :

36,000 x 100/8 = 4,50,000

Value of each fully paid share :

4,50,000/2,25,000 = Rs.2

Value of each 'A' equity share : Rs.2

Value of each 'B' equity share : Rs. 2

4,50,000/2,25,000 x 75/100 = Rs.1.50

Value of each 'C' equity shares :

4,50,000 /2,25,000/2,25,000 x 50/100 = Re.1

The value of each class of share can also be found out by adopting the above formula.

'A' Equity shares :

Expected Rate =

Profit available / Total paid up equity capital x 100

= 36,000 x 100 / 2,25,000 = 16%

Value of share = 16x1/8=Rs.2

'B' Equity shares :

Expected Rate =

36,000 x 100 / 2,25,000 = Rs.16%

Value of share = 16 x 50/8x100 = Re.1

Illustration 9

(Determination of fair value). The following is the balance sheet of a company as at 31.12.1986.

Liabilities	Rs.	Assets	Rs.
6% Preference shares		Fixed Assets	4,00,000
of Rs. 10 each	60,000	Investments	
3,000 Equity shares		(nontrading)	50,000
of Rs.10 each	3,00,000	Current Assets	2,00,000
General Reserve	50,000	Preliminary expenses	10,000
Profit and Loss a/c	40,000		
5% Debentures	1,00,000		
Sundry Creditors	80,000		
Bills payable	30,000		
	6,60,000		6,60,000

Average annual profit including Rs.5,000 non-trading income is Rs.50,000. Goodwill is to be valued at 3 years purchase of super profit. Normal return on capital employed is 10%. Calculated the fair value of each equity share.

Solution :

a. Asset - backing Method :

Average annual profit		50,000
Less : Non-trading income		5,000
		45,000
Capital employed :		
Fixed assets		4,00,000
Current Assets		2,00,000
		6,00,000
Less : Liabilities :		
5% Debentures	1,00,000	
Sundry Creditors	80,000	
Bills payable	30,000	2,10,000
		3,90,000
Less : Normal return on capital employed		39,000
	Super Profit	6,000

Value of goodwill at 3 years purchase Rs.6,000 3 = Rs.18,000

valuation of shares :

Assets : Goodwill		18,000
Fixed Assets		4,00,000
Investments		50,000
Current Assets		2,00,000
		6,68,000
Less : Liabilities		
5% Debentures	1,00,000	
Sundry Creditors	80,000	
Bills payable	30,000	

	2,10,000
Net assets	4,58,000
Less : Preference share capital	60,000
Net : Assets available to equity shareholders	3,98,000

Value of each equity share 3,98,000 / 30,000 = Rs.13.27

b. Yield Method

Average annual profit	50,000
Less : preference dividend	3,600
Profit available for equity dividend	46,400

(assuming no allocation is made to reserves)

Profit Rs.46,400 capitalised at 10% =

46,400 x 100 /10 Rs. 4,64,000

Value of each equity share : 4,64,000 / 30,000 = Rs. 15,47

Fair value of each equity share : 13.27 + 15.47/2 = Rs.14.37

Note :

Fait value is the simple arithmatic average of the values obtained under both the method valuing shares.

EXERCISE

VALUATION OF GOOD WILL

Purchase of super profit method:

1. From the following information, calculated the value of goodwill.

i. Average capital employed in the business Rs.6,00,000

ii. Net trading profits of the firm for the past three years were Rs. 1,07,600

iii Rate of interest expected from capital having regard to the risk involved 12%

iv Fair remuneration to the partners for their services Rs. 12,000 per annum.

v. Sundry assets of the firm Rs.7,54,762 and current liabilities Rs.31,329

(Ans : Future maintainable profits Rs. 91,600: super profits 19,600; goodwill at three purchase of super profits Rs. 58,800; sundry assets and current liabilities superfluous when capital employed is given.)

Capitalisation of super profit method :

2. The average net profit of a business as adjusted for valuation of goodwill amounted to Rs.2,26,045. The net tangible assets employed were of the value of Rs.13,41,600. Assuing that 10% represented a fair commercial return, ascertain the value of good will by capitalising super profits. Also find out the value of the business.

(Ans : Value of goodwill Rs.8,20,450; super profits Rs.82,045; Value of the business inciuding goodwill Rs.22,60,450)

Annuity Method:

3. From the following informatin, calulated the value of goodwill on the basis of annuity of super profits.

   Capital employed Rs.2,00,000 net profits after providing for the taxation, for past five years; Rs.20,000, Rs. 21,000, Rs.21,500 and Rs.23,000. Normal rate of return is 10% on capital employed. The present value of an annuity of one rupee for five years at 10% interest is Rs.3,78.

   (Ans : Super profit Ex. 1,600; Goodwill Rs.6,048)

4. From the following Balance Sheet, you are required to value Equity shares :

Liabilities	Rs.	Assets	Rs.
2,000 6% preference shares of Rs.100 each	2,00,000	Assets book values Rs.	6,00,000
30,000 Equity shares of Rs. 10 each	3,00,000		
Liabilities	1,00,000		
	6,00,000		6,00,000

The market value of 50% of the assets is considered at 10% more than the book value and that of remaining 50% at 5% less than remained unrecorde. Assume preference shares have no priority as to the repayment of capital or dividend.

(II B.Com., Bangalore Univ.. April 1987)

(Ans : Net assets Rs. 7,10,000 value of each equity share on the assumption that preference shareholders rank pass with equity shareholders Rs.14.20 since no such assumption is now permitted by the companies Act, Value of each equity share Rs. 17 after paying off preferece share capital in full)

VALUATION OF SHARES

Net Assets Method

5. It is provide in the articles of association of a limited company that on the death of a shareholder, his should be purchased but the remaining shareholders at a price to be settled but the taken for this purpose to be value of three years purchase of the average annual profits for the last four years. The last balance sheet is as follows:

Liabilities	Rs.	Assets	Rs.
3,000 Shares of Rs.		Goodwill	1,50,000
100 each fully paid	3,00,000	Investment	
General Reserve	1,50,000	cost (market value	
Profit and Loss a/c	52,500	Rs. 2,15,000)	2,25,000
5% Debentures	3,00,000	Stock	3,75,000
Sundry Creditors	2,25,000	Book Debts	2,10,000
		Cash at Bank	67,500
	10,27,500		10,27,500

The profits for the last four years were; Rs.22,500, Rs. 30,000, Rs. 37,500 and Rs. 60,000 respectively. You are required to state with details of working the price to be paid per share.

(Ans : Good will Rs. 1,12,500; met assets Rs. 4,55,000 value of each share Rs.152 (appr.)

Yield Method

6. R.Diwakar holds, 5,000 Equity Shares in Hindustan Ltd., the paid up capital of which is 30,000 equity shares of Re.1 each. It is ascertained that:

a. The normal net profit of such company is Rs.5,000 and

b. The normal return for the type of business carried out by the company is 8 percent. Sri Diwakar requires you to value his shareholding based upon the above figures.

(Ans : By capitalising Rs.5,000 at 8% and dividing the result by the number of shjares, Value of each share Rs.2,083; at the value, diwaker's shares amount to Rs.10,145).

Prepared by:

Prof. K. Selwyn Thambiraj

Chapter 4
AMALGAMATION OF COMPANIES

This is an age of large business unites and often two or more joint stock companies combine with that end in view. Indeed combination is one of the most prominent tendencies in modern business. This tendency is primarily an outcome of competition which is the key note of free economy. Modern competition is cathorat and acute and often assumes a grave aspect. Two competing unit compete with each other recklessly, underse; each other work at growing loss, and finally go to wall. Usually however good sense prevails short of utter ruin and such units combine. In this way, competition pardoxically leads to combination. Another important cause of combination is the advantage of large scale production. The latter is associated with various economics, Ineternal and external and is subject to the law of increasing returns of diminishing cost. Elimination of competition and the lowering of cost per unit are the two important reasons why combina tions come into existence.

We shall here study the accounting aspect of combinations that is, in what manner, are the booked of the combining units written up when a combination takes place. Before this can be satisfactroily done, it is necessary to understand the meaning of some terms.

1. Amalgamation

The term amalgamation is used both in a broader as well as in a narrow sense. In the wide sense it is co-extensive with every sort of combination of two or more companies. But this is not the sense in which this term is used in accountancy. We use the term usually in its narrow sense. In the narrow sense, amalgamation refers to the formation of a new company with a view to purchase existing companies necessiating the winding up of the latter. For instance, if Ram & Co and Narain & Co, Ltd., are two competing concerns, a new company may be incorporated under the name and style of Ram Narain & Co to take over the business of both the aforsaid companies Ram Narain & Co will thus be formed and Ram & Co. Ltd., and nartain & Co. Ltd., will have to be wound up. This will be a case of amalgamation.

2. Absorption

When an existing company purchases the business of another existing company an absorption is said to have taken place. Absorption does not involve the formation of a new company, but it does require the winding up of an existing company. For instance if Ram & Co. Ltd., purchases Narain & Co. Ltd., the later will be wound up this will be a case of absorption.

Compulsory "Amalgamation" in National Interests

Amalgamation (using the term in a broad or legal sense so as to include absorption) is generally voluntary in character. But the companies Act of 1956 (Section 396) provides that where the Central Government is satisfied that it is essential in the national interest that two or more companies should amalgamate, it may by order in the Official Gazette, provide for amalgamation of those companies into a single company with such constitution, property powers rights, interests authorities and provileges and with such liabilities, duties and obligations as may be specified in the offer. Consequential incidental and supplemental provisions may also be made in the order to give effect to the amalgamation. The Central Government must however consider any suggestions objections or modification made by the companies concerned or the shareholders and creditors; and them copies of orders passed under this section shall be placed before both houses of parliament. There was no such section in the companies Act before 1956.

1. Amalgamation and Absorption

Whether combination takes the form of amalgamation or absorption, it in variably involves (i) liquidation of a concern and (ii) its purchase by another concern. In the case of amalgamation, two or more competing units go into liquidation and a new company purchases another company (or more) which goes into liquidation. The purchasing company is usually a company of sufficient powers resources and unissued capital. The vendor company either incurs a loss or makes a profit on sale depending upon whether purchase price exceeds the book value of total assets (less therefore to study what accounting revord has to be made in the books of the company going into liquidation and also in the books of the purchasing company or not.

Entries in the books of the Company going into liquidation

The company going into liquidation opens a realization account and entries regarding sale of business centre round this account. The journal entries are as follows.

1. First of all, all the assets which are taken over by the purchasing company are transferred to the realisation account by means of the following entry.

   Realisation Account Dr.

   To Assets Account

   (Being the assets transferred)

2. Some Liabilities are usually assumed by the purchasing company. Such liabilities are also transferred to the Realization account by means of the following entry.

   Liabilities A/c Dr.

   To Realisation A/c.

   (Being the selling price)

3. After that the selling price is taken into account

   Purchasing Co's a/c Dr.

   To Realisation A/c

   To Bank A/c

   (Being the expenses of realization paid)

4. If the selling company pays its own realisation expenses, the following entry will be necessary.

Realisation a/c Dr.

To Bank a/c

(Being the expenses of realization paid)

If the realization expenses are to be paid by the purchasing company, the vendor company need not pass any entry in its books unless they are payable in the first instance by the vendor company * and then they are to be reimbured by the purchasing company.

5. Realization account should now be balanced. It will show either a profit or loss which should be transferred to shareholders account. Assuming a profit is made, the following entry will be passed.

Realization a/c. Dr.

To Shareholder's

(Being profit on realization)

6. Share capital should now be transferred to shareholders account and if there is any Reserve Fund or balance of P & L it will also have to be so Transferred. The entry will be.

Share capital a/c Dr.

Reserve Fund a/c Dr.

P & L a/c Dr.

To Shareholders a/c

(Being share capital, reserve fund and
credit balance of P & L a/c
transferred to shareholders a/c.)

7. All the now remains to be done is to receive each of and shares form the purchasing company, and distribute them among shareholders. For the realization of selling price in this form, the entry will be

Bank a/c Dr.

Shares in purchasing Co. a/c Dr.

To Purchasing Co.

(Being the receipt of agreed purchase price)

All this accounts will now be closed in the books of the company going into liquidation. It should be clearly remembered that we have taken above a very simple case. Many new point will energe when students solve practical problem on the subject. The more important of them still be discussed later in the course of this chapter.

Entries in the Books of the Purchasing Company

Before passing any entry in the books of the purchasing company, the first thing that must be found out is the Net Value of the business taken over. Net value is equal to total assets taken over minus total liabilities assumed. Thus

Net Value = Assets - Liabilities

The Second thigh is to ascertain if something has been paid for good will or a capital profit has been made on purchase. In case the purchase price exceeds the netvalue, something has obviously been paid for good will. If on the other hand the net value exceeds the purchase prive, capital profit has been made which will have to be credited to a capital Reserve. Put in the form of formula.

Net Value - Purchase Price = Capital Profit

Purchase Price - Net Value = Goodwill

After this has been worked out, the passing of journal entries should be an easy task. Thus:

Assets a/c Dr.

Goodwill a/c Dr.

To Liabilities a/c

To Vendor Company's a/c

To capital Reserve a/c

(Being the purchase of the Vendor company as agreed, good will or capital profit being Rs......)

It should however be remembered that in this entry either Goodwill be shown or Capital Reserve. Both of them cannot obviously appear together, for a concern cannot make a profit and incurrs a loss at the same time.

Then the vendor company will be paid the purchase price. The entry will be

Vendor company's A/c Dr.

To Share capital a/c

To Bank a/c

(Being the payment of purchase price)

Illustration 4.1

The X Co. Ltd., and Y Co. Ltd., carry on business of a similar nature and it is agreed that they should amalgamate. A new company XY Ltd., is to be formed to which the assets and liabilities of the existing companies, with certain exception are to be transferred. On 31st December, 1985 the balance sheet of the two companies were as under.

	X Co. Ltd., Rs.	Y Co. Ltd., Rs.		X Co. Ltd., Rs.	Y Co. Ltd., Rs.
Issued Capital			Property	1,05,000	60,000
15,000 Shares of			Plant & Machinery	25,000	15,000
Rs. 10 each	1,50,000		Motor Vehicles	10,000	
8,000 Shares of Rs.10		80,000	Stock	60,000	78,000
General Reserve	80,000		Debtors	82,000	78,000
Profit & Loss A/c	20,000	20,000	Cash	43,000	18,000
5% Debentures	75,000	32,000			
Creditors					
	3,25,000	1,92,000		3,25,000	1,92,000

The assets and liabities are to be taken over a book values with the following exceptions.

a. Good will of X company and Y Company is to be valued at Rs. 80,000 and Rs. 30,00 respectively.

b. Motor vehicles of X Co. are to be valued at Rs. 30,000

c. Debentures of Y Co. are to be discharged by the issue of 5% Debentures XY co. at a premium of 4%.

d. Debtors and cash of Y Co. are to be retained by the liquidator and Creditors are to be paid out of the proceeds thereof.

Computer the basis on which shares in XY Co. will be issued to shareholders in the existing companies, pass journal entries in the books of X Co. Ltd., Y co. Ltd., and draw up the balance sheet of the XY co., as at 1st January 1986.

Solution

	X Co. Ltd., Rs.	Y Co. Ltd., Rs.
Property	1,05,000	60,000
Plant and Machinery	25,000	15,000
Motor Vehicles	30,000	-------
Stock	60,000	78,000
Debtors	82,000	------
Cash	43,000	------
Assets taken over	3,45,000	3,45,000
Less : Creditors	75,000	------
Net tangible assets	2,70,000	1,53,000
Add : Goodwill	80,000	------
Purchases Consideration	3,50,000	1,83,000
Mode of discharges :		
1.5% Debentures Rs. 60,000		
Add : 4% Permium	2,400	62,400
2. Shares (assuming face value to be Rs.10)	35,000	1,20,000
3. Cash to avoid fraction	-------	600
	3,50,000	3,50,000

Shareholders of X co, get 35 shares of Rs.10 each in the XY co. every 15 shares hold by them. Shareholder by them. Shareholders of Y Co. get 12 Shares of Rs.10 each in the XY co. for every 8 shares held by them and Rs.6 in cash for every 80 shares held by them.

IN THE BOOKS OF X CO. LTD

Journal

		Rs.	Rs.
Realisation a/c	Dr.	3,25,0000	
To Property			1.05,000
To Plant and Machinery			25,000
To Motor vehicles			10,000
To Stock			60,000
To Debtors			82,000
To cash			43,000
(Being the entry for transfer of assets taken over by the XY, Co. Ltd to realisation account)			
Creditors a/c	Dr.	75,000	
To Realisation a/c			75,000
(Being the entry for transfer to creditors to relation account)			
XY Co., Ltd.,	Dr.	3,50,000	
To Realisation a/c			3,50,000
(Being the entry for the agreed purchase price)			
Shares in XY co.	Dr.	3,50,000	
To XY co. Ltd.			3,50,000
(Being the entry for receiving purchase price in 35,000 shares of Rs. 10 each)			
Realisation a/c.	Dr.	1,00,000	
To shareholders a/c.			
(Being the entry for transfer of profit on realisation to share holder a/c)			

Share capital a/c.	Dr.	1,50,000	
General Reserve a/c	Dr.	80,000	
Profit and Loss a/c	Dr.	20,000	
To Shareholders a/c			2,50,000
(Being the entry for transfer of share capital and retained earnings to shareholders a/c)			
Shareholders a/c	Dr.	3,50,000	
To Shares in XY Co. Ltd.,			3,50,000
(Being the entry for issue of shares in XY Co. to shareholders towards amount due to them)			

IN THE BOOKS OF Y. CO. LTD.

Journal

		Rs.	Rs.
Realisation a/c	Dr.	1,53,000	
To Property			60,000
To Plant and Machinery			15,000
To Stock			78,000
(Being the entry for transfer of assets taken over by XY co. at book value of realisation a/c)			
XY CO. Ltd.,	Dr.	1,83,000	
To Realisation a/c			1,83,000
(Being the entry for the agreed purchase price)			
XY Co. Ltd.,	Dr.	62,400	
Shares in XY Co. a/c	Dr.	1,20,000	
Bank a/c	Dr.	600	

To XY Co. Ltd.,			1,83,000
(Being the entry for receiving purchase price)			
Bank a/c	Dr.	21,000	
To Sundry Debtors a/c			21,000
(Being the entry for realising sundry debtors)			
Creditors a/c	Dr.	32,000	
To Bank a/c			32,000
(Being the entry for payment to creditors)			
Realisation a/c	Dr.	2,400	
To 5% Debentures a/c			2,400
(Being the entry for transfer of premium from the realisation account to debentures a/c)			
5% Debentures a/c	Dr.	62,400	
To 5% Debenture XY co Ltd.			62,400
(Being the entry for transfer of amount due to debenture holder's a/c)			
Debentures holders a/c	Dr.	62,400	
To 5% Debenture XY c; Ltd.			62,400
(Being the entry for discharging debentures by the issue of debentures in XY co. Ltd)			
Realisation a/c	Dr.	27,600	
To Share holders a/c			27,600
(Being the entry for transfer of profit on realisation to share holders' a/c)			

Share capital a/c	Dr.	80,000	
Profit and Loss a/c	Dr.	20,000	
To Share holders a/c			1,00,000
(Being the entry for transfer of share capital and undivided profit to Share holder's a/c)			
Share holder's a/c	Dr.	1,27,600	
To Shares in XY Co. Ltd.,			1,00,000
To Bank a/c			27,600
(Being the entry for final payment to share holders)			

IN THE BOOKS OF XY CO. LTD.

Journal

		Rs.	Rs.
Goodwill a/c	Dr.	80,000	
Property a/c	Dr.	1,05,000	
Plant and Machinery a/c	Dr.	25,000	
Motor Vehicles a/c	Dr.	30,000	
Stock a/c	Dr.	60,000	
Debtors a/c	Dr.	82,000	
Cash a/c	Dr.	43,000	
To Creditors			75,000
To Liquidator of X Co. Ltd.,			3,50,000
(Being the entry for taking over assets and liabilities of X Co. Ltd.,)			
Liquidator in X Co., Ltd.,	Dr.	3,50,000	
To Share capital a/c			3,50,000
(Being the entry for issue of fully paid shares in discharge of purchase consideration)			

Goodwill a/c	Dr.	30,000	
Property a/c	Dr.	60,000	
Plant and Machinery a/c	Dr.	15,000	
Stock a/c	Dr.		
To Liquidator of Y Co. Ltd.,			1,83,000
(Being the entry for taking over assets of Y Co.)			
Liquidator of Y Co. Ltd.,	Dr.	1,83,000	
To 5% Debentures			62,400
To Share Capital A/c			1,20,000
To Bank a/c			600
(Being the entry for payment of Purchases price)			

BALANCE SHEET OF XY CO. LTD., AS AT IST JAN. 1986.

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		FIXED ASSETS	
Authorised .... Shares		Goodwill	1,10,000
of Rs.10 each	....	Property	1,65,000
Issued and Subscribed		Plant & Machinery	40,000
47,000 Shares of Rs.10		Motor Vehicles	30,000
each issued to vendors as		Investments	Nil
fully paid up	4,70,000	Current assets	
Secured Loans		Stock	1,38,000
5% Debentures	62,400	Debtors	82,000
Current liabilities		Cash	42,400
Creditors	75,000		
	6,07,400		6,07,400

Exercises

1. A Co., Ltd and B Co. Ltd. decide to amalgamate. A new company, C Co. Ltd., is formed with an authorised capital of Rs.50,00,000 dividend into 2,50,000 equity shares of Rs.20 each to take over the amalgamated companies with effect from January 1, 1980 when their balance sheets stood as follows:

	A Co. Ltd., Rs.	B Co. Ltd., Rs.		A Co. Ltd., Rs.	B Co. Ltd., Rs.
Issued Capital			Fixed Assets		
1,00,000 Equity shares of Rs.20 each fully paid		20,00,000	Goodwill	3,80,000	1,20,000
50,000 Equity Shares of Rs.20 each fully paid		10,00,000	Buildings	10,00,000	5,00,000
Reserve & Surplus			Plant and Machinery	6,00,000	3,90,000
Reserve Fund	5,80,000	3,50,000	Patents	1,70,000	
P & L a/c	2,20,000	1,50,000	Current Assets		
Current Liabilities			Stock	2,60,000	1,80,000
For Trade	1,90,000	95,000	Book Debts	4,20,000	3,50,000
For Expense	10,000	5,000	Cash at Bank	1,70,000	60,000
	30,00,000	16,00,000		30,00,000	16,00,000

Calculated the amount payable to each company and draw up the amalgamated balance sheet of the new company assuming that the payments are made wholly by means of fully paid shares of C Co. Ltd., (II B.Com., Bangalore, April 1980)

(Ans. Purchase consideration: A Co. Rs.2,80,000 C Co. 15,00,000 share holders of A Co. get 14 shares and B Co. get 15 Shares for every 10 shares held by them) Balance Sheet total Rs.46,00,000.

2. Two companies with similar business decided to amalgamate on the basis of their respective balance sheets as shown below, and form themselves into a new company. Show by working what amount of share in the new company will be due to the shareholders of the old companies and give the opening entries and the balance sheet of the new company.

	XYZ Co. Rs.	ABC Co. Rs.		XYZ Co. Rs.	ABC Co. Rs.
10,000 shares of Rs. 10 each		1,00,000	Land & Buildings	60,000	55,000
12,000 shares of Rs. 10 each		12,000	Plant & Machinery	30,000	40,000
Reserve Fund	22,000	...			
Dividend Reserve	15,000	...	Stock	40,000	25,000
Profit & Loss a/c	3,000	...	Debtors	25,000	20,000
Sundry Creditors	17,500	40,000	Bank	2,500	...
Bank Overdraft	...	10,000	Profit & Loss a/c	...	30,000
	1,57,000	1,70,000		1,57,000	1,70,000

The goodwill of ABC Co. Ltd., was valued at Rs. 20,000 and that of XYZ Co. Ltd., was taken as it.

(Ans. Purchase consideration : ABC Co. Ltd., Rs. 1,60,000 XYZ Co. Ltd., Rs.90,000) (Balance Sheet Total Rs. 3,17,500)

Prepared by

Prof. K. Selwyn Thambiraj

Chapter 5
HOLDING COMPANY ACCOUNTS

Meaning of Holding Companies

According to Sec. (4) of the Companies Act, 1956 for the purpose of this Act, the company shall be deemed to be the holding company of another if, but only if but only if, the later is its subsidiary. Meaning of holding company cannot be understood well without understanding the meaning of subsidiary company.

Meaning of Subsidiary Company

A Company is deemed to be a subsidiary of another if : (a) that other company controls the composition of its board of directors or (b) that other company.

i) Where the first mentioned company is an existing company in respect of which the holders of preference shares issued before there commencement of this Act have the same voting rights in all respects as the holders of equity shares, excercises or controls more than half of the total voring power of such company.

ii) Where the first mentioned company is any other company holders more than half in nominal value of its equity share capital; or

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

Final accounts of Hilding companies and Companies Act.

The provisions regarding the final accounts of holding companies have been made in

1) Section 212,
2) First part of Schedule VI and
3) Second part of Schedule VI to the Companies Act.

SECTION 212

There shall be attached to the balance sheet of a holding company having a subsidiary or subsidariesat the end of the financial year the balance sheet of the holding company is made out, the following documents in respect of such subsidiary, as the case may be:

a) a copy of the balance sheet of the subsidiary:
b) a copy of its profit and loss account;
c) a copy of the report of its Board of Directors;
d) a copy of the report of its auditors;

e) a statement of the holding company's interest in the subsidiary. This statement shall specify i) the extent of the holding company's interest ii) the net aggregate amount. So far as it concerns members of the company and is not dealt with in the company's accounts of the subsidiary's profits, after deducting its losses or vice versa:

f) A statement containing information where the financial year of the sybsidiary companies does not consider with the financial year of the holding company a statment containing information of the following matters shall be attached to the balance sheet of the holding company;

i) Any change in the holding companys interest in the subsidiary between the end of the financial year of the subsidary and of the holding company's financial year;

ii) Details of any material changes which have occurred between the end of the financial year of the subsidiary and the end of the financial year of the holding company in respect of the subsidiary's fixed assets its investments, the moneys lent by it and the moneys borrowed by it for any purpose other than that of meeting current liabilities.

g) The Report

If for any reason the Board of Directors of the holding company is unable to obtain information regarding profits and losses of the subsidiary company, a report in writing to that effect shall be attached to the balance sheet of the holding company.

Final Accounts of Subsidiary Company

Balance Sheet, Profit and Loss Account, Directors' Report and Auditors' Report of subsidiary company are prepared in accordance with the privisions of the company's Act, 1956.

Right of the Central Govt.

The Central Government may, on the application or with the consent of board of directors of the company, direct that in relation to any subsidiary, the provisions of section 212 shall not apply or shall apply only to such extent as may be specified in the direction.

Financial Year of Holding and Subsidiary Company

Where it appears to the Central Government desirable for a holding company or a holding company's subsidiary, to extend its financial year so that the subsidiary's financial year may end with that of the holding company and for that purpose to postpone the submission of the relevant accounts to as a general meeting the Central Govt. may, out he application or with the consent of the Board of Directors of the company whose financial year is to be extended, direct that in the case of that company the submission of accounts to a general meeting, the holding of an annual general meeting or the making of an annual return shall not be required to be submitted held or made, earlier that the dated specified in the directions.

e) a statement of the holding company's interest in the subsidiary. This statement shall specify i) the extent of the holding company's interest ii) the net aggregate amount. So far as it concerns members of the company and is not dealt with in the company's accounts of the subsidiary's profits, after deducting its losses or vice versa:

f) A statement containing information where the financial year of the sybsidiary companies does not consider with the financial year of the holding company a statment containing information of the following matters shall be attached to the balance sheet of the holding company;

i) Any change in the holding companys interest in the subsidiary between the end of the financial year of the subsidary and of the holding company's financial year;

ii) Details of any material changes which have occurred between the end of the financial year of the subsidiary and the end of the financial year of the holding company in respect of the subsidiary's fixed assets its investments, the moneys lent by it and the moneys borrowed by it for any purpose other than that of meeting current liabilities.

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The Central Government shall, on the appliaction of the directors of a holding company or a holding company's subsidiary exercise the powers conferred on it if it necessary to do so, in order to secure that the end of the financial year of the subsidiary does not preceed the end of the holding company's financial year by more than six months.

FIRST PART OF SCHEDULE VI

According in shares, debentures or bonds show in separately shares fully paid up and also distinguishing the different classes of shares and showing also in similar details investments in shares, debentures or bonds of subsidiary companies.

i) Investments

Investments in shares, debentures or bonds show in separately shares, fully paid up and also distinguishing the different classes of shares and showing also in similar details investments in shares, debentures or bonds of subsidiary companies.

ii) Loans and advances

Advances and loans to subsidiary companies are shown separately.

iii) Secured Loans

Amounts payable by subsidiary company to holding company should be shown separately and the name of the company should also be mentioned.

iv) Secured Loans

Loans and advances from subsidiary should be shown separately along with the concerned security.

v) Unsecured Loans

Unsecured loans and advances from subsidiary company should be shown separately.

vi) Current Liabilities

If shares, debentures or bonds of the subsidiary company have been purchaed by the holding company and there is some uncalled up amount on them, then such amount it shown separately under contingent liabilities.

SECOND PART OF SCHEDULE VI

Holding company has to give following information in its profit and loss accounts separately about its subsidiary company.

i) Dividends received from subsidiary company by the holding company.

ii) Provision for losses of subsidiary company.

ACCOUNTING RECORD IN THE BOOKS OF HOLDING COMPANY

1. On Purchase of Shares

Investment A/c. or Shares in subsidiary Co.............Dr............

To Bank A/c.

To Debentures A/c.

To Share Capital A/c.

(Being purchase of shares of .... co and payment made)

2. Distribution of the profits of Subsidiary Company

i) When a holding company purchases shares of a sunsidiary company and receives dividends form the subsidiary company out of those profits which belong to the pre-purchase period, then holding company will transfer this dividend to investment account and not dividend account because the divident really speaking represents the purchase price and this is a capital profit. If this dividend is received in cash, then cash account is debited and investment account or shares in subsidiary company account is credited.

ii) When holding company receives dividends from subsidiary company out of the profit of the profits of the post purchase period then this dividend is transferred to dividend account in the books of holding company. If this dividend is received in cash then bank account is debited and dividend account is credited.

iii) Dividend of pre-purchased Period:

The share of the holding company in the profits of prepurhase period of subsidiary company is shown either as deduction in the liabilities side of the balance sheet of the holding company or as addition in goodwill in its asset side.

iv) Losses of Pre-purchase period

The share of the holding company in the profit of pre-purchase period of subsidiary company is shown either as deduction in the liability side of the balance sheet of the holding company or as addition in goodwill in its asset side.

v) Bonus Shares

When holding company receives bonus shares from subsidiary company then number of shares in investmets increases and no separate entry is made for it.

CONSOLIDATED ACCOUNTS

According to the Companies Act, 1956 preparation of consolidated accounts is not necessary in India. The main object of consolidated accounts is to acuiant the shareholders of holding company about the financial position of the subsidiary company.

Consolidated Accounts

Consolidated accounts include i) Consolidated Balance Sheet and ii) consoliated Profit and Loss Account.

For the purpose of preparing consolidated accounts it is necessary that by both the companies same method of accounting is adopted. If both the companies adopt different methods of accounting, then number of difficulties are faced in preparing consolidated accounts. It is also necessary that as far as possible the financial years of both the companies should expire on the same data.

Capital of subsidiary company is to shown in the consolidated balance sheet because its some part is adjusted in goodwill or capital reserve and the remaining part is shown in minority interest.

Preparation of Consolidated Balance Sheet on acquisition of all the shares. When holding company acquires all the shares of the subsidiary company then following description is relevant at the time of preparing consolidated balance sheet.

i) **Acquisition of shares at per value**

If holding company has taken over all the shares of the subsidiary company at per value, then holding company becames owner of all the shares of subsidiary company. All the assets and liabilities of subsdiary are added in the assets and liabilities of holding company, this is why it is called consolidated balance sheet, but is must be remembered that the item of investment in subsidiary company appearing in the balance sheet of holding company is not recorded in consolidated balance sheet.

ii) **Acquisition of shares at premium**

When holding company purchases all the shares of subsidiary company at a premium then this premium is shown as goodwill in the asset side of consolidated balance sheet is if contrary information not given.

iii) **Acquisition of shares at discount**

When holding company purchases all the shares of subsidiary company at a discout, then the price paid becomes less than the value of net assets of subsidiary company. In the absence of any different information this difference is shown as capital reserve in the liability side of consolidated balance sheet. If old goodwill is given, then this capital reserve be adjusted in it.

iv) **Acquisition of shares of one subsidiary company at a premium and of another subsidiary company at a discount:**

When holding company acquires the shares of one subsidiary company at a premium and of other subsidiary company at a discount, at a premium and of other premium is more than discount, the excess premium is shown as goodwill in the asset side and if discount is more than premium then excess discount is shown in the liabilities side as capital reserve.

4. For the share of profit of holding company in the pre-acquisition profit pf subsidiary company following record is made:

   Consolidated Profit & Loss A/c. .... Dr.

   To Capital Reserve A/c.

5. For the share of loss of holding company in pre-acquistion loss of subsidiary company, following record is made:

   Capital Reserve A/c. .... Dr.

   To Consolidated Profit & Loss A/c

6. ***Directors' Remuneration :***

   If the directors of holding company get some remuneration from the subsidiary company and these directors return this remuneration to the holding company then this amount is de ducted from that total remuneration which the directors get from all the companies of consolidated group.

7. ***Record of Proposed Dividend:***

   If record has been made in the book of subsidiary company for the proposed dividend and holding company has also credited its share of this profit in its books, then no record is made for it in consolidated profit. If no record for its is made in the books of holding company then this amount with be deducted in consolidated profit and its related liability in the concerned balance sheet will also be reduced.

CALCULATION OF GOODWILL

Purchase price Shares of Subsidiary Company	Rs.

Deduct

i) Book value of acquired shares of subsidiary company.

ii) Share of holding company in the reserve of subsidiary company for the pre-acquisition period.

iii) Share of holding company in the funds of subsidiary company for the pre-acquisition period

iv) Share of holding company in the profit of subsidiary company for the the pre-acquisition period.

Calculation of Capital Reserve

If in the above table total of amounts to be deducted is more than the purhase price, then the difference is called capital reserve.

Bonus shares

If subsidiary company has issued bonus shares out of the profits of pre-acquistion period then no adjustment is made for such shares in the consolidated accounts but record is made when such bonus shares are issued out of the profits of post-acquisition period. Holding company should make adjustment for it in the amount of its investment. For this investment account is debited and capital reserve is credited.

Sales of Shares of Subsidiary Company by the Holding Company

In holding company sells some shares out of those shares of the subsidiary company which it has acquired, following record is made into books of holding company.

Cash A/c. .... Dr.

To Shares in Subsidiary Co. A/c.

(Being sale ..... Shares of Subsidiary Co.)

If profit is received on the sale of these shares, this profit is treated as capital profit is transferred to capital reserve. If there is loss on the sale of these shares, this loss is not treated as capital loss and is transferred to profit and loss account.

Illustration 1

On 1st January 1994 Y Limited acquired 18,000 shares of Rs.10 each in Z Limited at a cost of Rs. 3,60,000. At the date of acquisition Z Limited has a credit balance of Rs.2,40,000 in its profit and Loss Account.

From the following Balance Sheets, prepare a Consolidated Balance Sheet of Y Ltd and its Subsidiary Z Ltd as at 31st December 1994.

BALANCE SHEET OF Y LIMITED

Liabilities	Rs.	Assets	Rs.
Authorised and Issued Shares		Freehold Property	19,00,000
Capital :		Plant and Machinery	2,80,000
2,00,000 Shares of	20,00,000	Shares in Z Ltd.	
Rs.10 each		at Cost :	

General Reserve	10,00,000	18,000 Shares of	
Profit and Loss A/c.	2,00,000	Rs.10 each	3,60,000
Sundry Creditors	6,00,000	Stock	6,00,000
		Sundry debtors	4,00,000
		Bank balances	2,60,000
	38,00,000		38,00,000

BALANCE SHEET OF Z LIMITED

as at 31st December 1994

Liabilities	Rs.	Assets	Rs.
Authorised and			
issued share		Investment at cost	40,000
20,000 shares of		Stock	1,00,000
Rs.10 each	2,00,000	Sundry Debtors	1,40,000
Profit and Loss A/c	3,00,000	Bank Balance	2,60,000
Sundry Creditors	40,000		
	5,40,000		5,40,000

CONSOLIDATED BALANCE SHEET OF Y LTD AND ITS SUBSIDIARY Z LTD.

as on 31st December 1994

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		**FIXED ASSETS**	
Authorised and		Freehold property	19,00,000
issued		Plant and	

2,00,000 Shares of			Machinery		2,80.000
Rs.40 each fully paid		20,00,000	Current Assets :		
Reserves and			Investment Z Ltd.		40,000
Surplus :			**Stocks :**		
General Reserve		10,00,000	Y Ltd.,	6,00,000	
Capital Reserve		36,000	Z Ltd.,	1,00,000	
Profit and Loss A/c.		2,54,000	Debtors		7,00,000
Current Liabilities			Y Ltd.,	4,00,000	
Z Limited	6,00,000		Z Ltd.,	1,40,000	
Y Limited	40,000	6,40,000	**Bank Balance**		5,40,000
Minority Interest		50,000	Y Ltd.,	2,60,000	
			Z Ltd.,	2,60,000	5,20,000
		39,80,000			39,80,000

		Rs.
1.	Method of Finding out capital Reserve	1,80,000
	Norminal value of shares in Z Ltd.	
	18,000 / 20,000 = 9/10 Pre-acquistion profits of Rs.2,40,000 / 10 x 9	2,16,000
		3,96,000
	Less : Cost of share acquired	3,60,000
	Capital Reserve Rs.	36,000

		Rs.
2.	Minority Interest :	
	Nominal value of shares 2,00,000 x 1/10	20,000
	1/10 of Profit (30,000)	30,000
		50,000

This includes Rs. 2.40,000 old profit also	
Consolidated Profit and Loss Account	2,00,000
Z Limited (9/10 of post - aquistion profit of	
Rs. (3,00,000 - 2,40,000) or Rs. 60,000	54,000
	2,54,000

Illustration 2

THE BALANCE SHEETS OF H LTD, AND S LTD

on 31st December 1994, were as under

	H Ltd., Rs.	S Ltd., Rs.		H Ltd., Rs.	S Ltd., Rs.
Share Capital					
Share			Land & Buildings	6,00,000	...
Rs. 100 each	20,00,000	5,00,000	Plant & Machinery	20,00,000	...
General Reserve	3,00,000	1,00,000	Stock	4,00,000	8,50,000
Profit and Loss			Sundry Debtors	1,00,000	3,00,000
Account			Cash & Bank		
Balance on 1.1.94	4,00,000	2,00,000	Balance	1,00,000	1,00,000
Profit for 1994	5,00,000	2,50,000	3000 shares in		
Balance Creditors	5,00,000	3,00,000	S Ltd at Cost	6,50,000	....
Bills Payable	1,50,000	....	Bills Receivable	....	1,00,000
	38,50,000	13,50,000		38,50,000	13,50,000

Share were acquired by H Ltd., on 1st July, 1994. Bills receivable held by S Ltd., are accepted by H Ltd., included in the debtors of S Ltd., is Rs.60,000 owing by H Ltd., in respect of goods supplies Prepare consolidated Balance sheet assuming that the reserve of S Ltd., is for the pre-acquistion period.

Solution 2

CONSOLIDATED BALANCE SHEET

as at 31st December 1994

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		FIXED ASSETS	
Shares of Rs. 199 each	20,00,000	Goodwill	95,000
Reserve & Surplus :		Land & Buildings	6,00,000
General Reserve	3,00,000	Plant and Machinery	2,00,000
Profit and Loss a/c	9,75,000	Current Assets :	
Current Liabilities		Stock	12,50,000
Minority Interest	4,20,000	Sundry Debtors	3,40,000
Creditors	7,40,000	Cash and Bank	
Bills payable	50,00,000	Balance	2,00,000
	44,85,000		44,85,000

	Rs.
1. **Profit of H Ltd., on 1st Januray 1994**	4,00,000
Profit of H Ltd., for 1994.	5,00,000
	9,00,000
Profit of S Ltd., for 1994 is Rs. 2,50,000 Profit of S Ltd., for half year from 1st July to 31st December 1994 is 2,50,000 x 1/2 = Rs.1,25,000 H's share in S Ltd., is 3000/5000 or 3/5 therefore share of Profit of H Ltd., in S Ltd., is 1,25,000/5x3	75,000
Total Profit	9,75,000

2.	Cost of shares		6,50,000
	Less :		
	Nominal value of Shares		
	(5,00,000 x 3/5)		3,00,000
	General Reserve of S Ltd.	1,00.000	
	Profit of S Ltd on		
	1st January 1994	2,00,000	
	Profit of S Ltd for		
	Six months from 1 January		
	1994 to 1st July 1994	1,25,000	

		4,25,000	
	H Ltd., Shares 4,25,000 x 3/3	2,55,000	5,55,000

	Good will		95,000

3.	Minority Interest		
	Share capital 5,00,000/5x2		2,00,000
	Add : General Reserve 1,00,000/5x2		40,000
	Profit on 1.1.1994 2,00,000/5x2		80,000
	Profit for 1984 2,50,000/5x2		1,00,000

			4,20,000

4.	Creditors of H Ltd	5,00,000	
	Less : Owned to S Ltd	60,000	

		4,40,000	
	Creditors of S Ltd	3,00,000	7,40,000

		1,00,000	

5.	Debtors of H Ltd			
	Debtors of S Ltd	3,00,000		
	Less : due by H Lt	60,000	2,40,000	3,40,000
6.	B/P of H Ltd		1,50,000	
	Less : Due to S Ltd		1,00,000	50,000

Note : B/R has been eliminated being inter-company transaction.

Illustration : 3

The following are the Balance Sheets of two cigarette companies. Union Ltd. and Hind Ltd (as on 31st March 1994)

		Union Ltd.		Hind Ltd.
Capital	(g)	10,00,00,000	(g)	3,00,00,000
General Reserve		2,40,00,000	(h)	50,00,000
Bills Payable	(i)	15,00,000	(i)	....
Profit and Loss A/c		1,29,00,000		44,00,000
Sundry Creditors ...	(j)	3,35,00,000		80,00,000
		17,19,00,000		4,74,00,000
Goodwill ...		2,00,00,000		44,00,000
Land and Buildings ...		2,40,00,000	(b)	1,00,00,000
Plant and Machinery...		5,20,00,000	(c)	1,90,00,000
Investment ...	(a)	2,88,00,000		
Stocks		.....	(b)	1,40,00,000
50,00,000				
Debtors	(c)	2,40,00,000		56,00,000
Bills Receivable	(d)	....	(e)	10,00,000
Cash and Bank Balance		91,00,000	(f)	24,00,000
		17,19,00,000		4,74,00,000

Prepare a Consolidated Balance Sheet taking into account the following particulars.

a) The investments consist of 24,00,000 shares of R.10 each fully paid in Hind Ltd. which were acquired on 1st July 1993.

b) Land and buildings and Plant and Machinery of Hind Ltd. on revaluation on 31st March 1994 came to Rs. 1,16,00,000 and Rs. 2,04,00,000 respectivelu which should be taken in the consolidated Balance sheet.

c) Stocks include goods which cost Union Ltd. Rs. 44,16,000

d) Debtors include (i) Loan of Rs.6,00,000 to Hind Ltd. and (ii) divided of Rs. 24,00,000 from Hind Ltd.

e) Bills Receivable all accepted by Union Ltd. were for Rs. 15,00,000 of which Bills for Rs. 5,00,000 had been discounted not yet matured.

f) Cash and Bank Balances of Rs.24,00,000 were arrived at after sending a cheque for Rs.6,00,000 to repay the loan of Union Ltd. which however had not been received by 31st march 1994.

g) Capital of Union Ltd. consists of 2,00,000 percent Preference shares of Rs.100 each and 80,00,000 Equity shares of Rs.10 each. Captial of Hind Ltd., consists of 30,00,000 Equity of shares of Rs.10 each.

h) General Reserve of Hind Ltd. was Rs. 40,00,000 on 31st April, 1993.

i) Details of Profit and Loss A/c are :

	Union Ltd.	Hind Ltd.
	Rs.	Rs.
Goodwill	2,00,00,000	44,00,000
1st April 1993	16,00,000	12,00,000
Profit for the year	95,00,000	32,00,000
	1,11,00,000	44,00,000
Dividend Receivable		
from Hind Ltd.	24,00,000	....
Less : Interim Div. on Pref.	1,35,00,000	44,00,000
Shares	6,00,000	....
	1,29,00,000	44,00,000

j) Sundry Creditors include Rs.32,00,000 due to Hind Ltd for goods supplied Dividend payable to outsiders has been paid off.

Solution 3

CONSOLIDATED BALANCE SHEET

as on 31st March 1994

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital			Fixed Assets		
2,00,000 6%			Goodwill		2,12,00.000
Pref Shares of			Land & Building		
Rs.100 each	2,00,00,000		Union Ltd	2,40,00,000	80,00,000
			Hindi Ltd	1,16,00,000	
Equity shares				----------------	3,56,00,000
Rs.10 each	8,00,00,000		Plant & Machinery		
	----------------	10,00,00,000	Union Ltd	5,20,00,000	
Reserves and			Hindi Ltd	2,04,00,000	
Suplus General				----------------	1,86,92,800
Reserve			Current Assets :		
Profit and Loss A/c			Stock		
Union Ltd	1,05,00,000		Union Ltd	1,36,92,800	
Hindi Ltd	40,12,800		Hindi Ltd	50,00,000	
	----------------	1,45,12,800		----------------	2,34,00,000
Current Liabilities			Debtors		
Bills payable creditors			Union Ltd	2,10,00,000	
Union Ltd	3,03,00,000		Hind Ltd	24,00,000	
Hind Ltd	56,00,000				
	----------------	3,59,00,000	Cash in Transit		
Minorities inst.		84,80,000	Cash & Bank		
			Union Ltd.,	91,00,000	
			Hind Ltd.,	24,00,000	1,15,00,000
				----------------	----------------
				18,33,92,800	18,33,92,800

1. Profit of Union Ltd. Rs.1,29,00,000 - Dividends Rs. 24,00,000 = 1,05,00,000
2. Profit of Hind Ltd as per B/S Rs.44,00,000 - Balance of April 1, 1993 Rs. 12,00,000 = Rs. 32,00,000; General Reserve of Hind Ltd., was Rs. 40,00,000 but now it has become Rs.50,00,000 hence Rs.10,00,000 profit has been transferred to it. So Rs.32,00,000 + 10,00,000 Rs. 42,00,000 - Minority Interest x 1 or Rs. 8,40,000 = Rs. 33,60,000; Rs. 57,60,000 - Preacquisition Profit 1/4 of Rs.57,60,000 or Rs. 14,40,000 = Rs. 43,20,000; Rs. 43,20,000 - Unrealised profit (48,00,000 - 44,16,000 Rs. 3,84,000; 3,07,200 = Rs.40,12,800)
3. Rs. 15,00,000 - 10,00,000 = Rs. 5,00,000
4. Rs. 3,35,00,000 - 32,00,000 = Rs. 3,03,00,000
5. Rs. 80,00,000 - 24,00,000 = Rs. 56,00,000
6.

Share Capital 3,00,000 x 1/5		60,00,000
Profit on 1.4.1993; 12,00,000 x 1/5		2,40,000
Profit for the year 42,00,000 x 1/5		8,40,000
Profit on Revaluation 30,00,000 x 1/5		6,00,000
General Reserve on 1.4.1993 Rs.4,00,000 x 1/5		8,00,000
		84,80,000

7.

Cost of Purchase of shares		2,88,00,000
Less : Capital 3,00,00,000 x 4/5=	2,40,00,000	
Profit on 1.4.1993 12,00,000 x 4/5=	9,60,000	
Profit upto July 1, 1993 14,40,000		
(Calculation shown in (2) above		
Profit on revaluation 33,00,000 x 4/5	24,00,000	
General Reserve 40,00,000 x 4/5	32,00,000	
		3,20,00,000
Capital Reserve		3,20,00,000
Goodwill as per B/S Rs. 2,00,00,000		
+ 44,00,000 - Capital Reserve Rs. 32,00,000		2,12,00,000

8.	Rs. 1,40,00,000 - 3,84,000 x 4/5 or 3,07,200	1,36,92,800
9.	Rs. 2,40,00,000 - 30,00,000	2,10,00,000
10.	Rs. 56,00,000 - 32,00,000	24,00,000

Exercise

1. Following are the summarised Balance Sheet of A Ltd. and its subsidiary B Ltd. on 31st March 1994.

	A Ltd., Rs.	B Ltd., Rs.		A Ltd., Rs.	B Ltd., Rs.
Capital :			Land & Building	1,75,00,000	1,25,000
Share of			Plant & Machinery	3,50,000	1,95,000
Rs.10 each	11,00,000	4,00,000	Furniture	60,000	25,000
Share Premium	1,30,000	-	Stock	2,00,000	1,35,000
General Reserve	-	1,00,000	Sundry Debtors	2,50,000	1,55,000
Profit & Loss A/c.	1,40,000	30,000	Due from B Ltd.,	35,000	
Sundry Creditors	95,000	1,50,000	Investments :		
			36,000 shares		
			in B Ltd at cost	3,90,000	
			Cash at Bank	5,000	45,000
	14,65,000	6,80,000		14,65,000	6,80,000

Prepare the consolidated B/S after taking the following into consideration :

i) On 1st April 1993 the date of acquisition of shares in B Ltd. by A Ltd has a reserve of Rs. 25,000 and a credit balance of Rs. 5,000 in Profit and Loss A/c.

ii) In determining the value of shares in B Ltd. Plant and machinery which ten stood in the books at Rs.2,25,000 was revalued at Rs. 2,70,000 and furniture etc., standing in the books at Rs. 30,000 was realued at Rs. 18,000. The new values were not incorporated in the books.

iii) B Ltd. purhased goods from A Ltd. of which Rs. 70,000 are still in stock A Ltd sells to B Ltd at cost pluse 25 percent.

Ans:

Consolidated B/S Rs. 17,36,400 Minority Interest Rs. 55,900 Capital Reserve Rs. 26,700.

Hint :

Dep. on increase amount of plant Rs. 6,000 will be deducted and dep. on decreased amount of furniture Rs. 2,000 will be added in profit for the purpose of Consolidated Profit.

Exercise 2

Following are the Balance Sheets of A Ltd., & B Ltd., on 31st December 1994.

	A Ltd., Rs.	B Ltd., Rs.		A Ltd., Rs.	B Ltd., Rs.
Equity shares	60,00,000	40,00,000	Goodwill		2,00,000
6% preferences shares	-	10,00,000	Fixed Assets	35,00,000	
			Investments	36,00,000	25,00,000
General Reserve	16,00,000	8,00,000	Stock	22,00,000	36,00,000
P & L A/c.	13,00,000	2,50,000	Debtors	21,00,000	25,00,000
Bills Payable	2,00,000	2,50,000	Bills Receivable	4,00,000	35,00,000
Creditors	23,00,000	28,50,000	Cash	2,00,000	45,00,000
Proposed Dividend	6,00,000	4,00,000			
	1,20,00,000	1,05,00,000		1,20,00,000	1,05,00,000

A Ltd purchased in B Ltd its 3/4th of equity share capital at a premium of 20% on 1st January 1994. Prepare a consolidated Balance Sheet in the books of A Ltd., as at 31st December 1994. The following further information is to be taken into account.

a) Profit and Loss Account of B Ltd, includes an amount of Rs. 2,00,000 brought forward from the year 1993.

b) Creditors of A Ltd., include an amount of Rs. 1,20,000 for purchases from B Ltd., which are still unsold B Ltd., sells goods as 20% above a cost.

c) B Ltd., remitted a cheque for Rs. 1,00,000 on 30th December 1994 which was received by A Ltd., in the month of January 1995.

d) Bills Receivable worth Rs. 2,00,000 out of total bills receivable of Rs. 2,50,000 Received from B Ltd. were discounted by A Ltd., and B Ltd., Amounting to Rs. 1,50,000.

e) The directions of A Ltd., and B Ltd., have proposed a dividend of 105 on equity share capital for the year 1994.

Ans : Consolidated B/S Rs. 1,85,65,000.

Prepared by

Dr. E. Raja Justus

Chapter 6

ACCOUNTS OF BANKING COMPANIES

According to the Banking Regulation Act, 1949 'Banking' means the accepting for the purpose of lending or investment, of deposits of money form the public, repaybale on demand or other wise and withdrawable by cheque, draft or otherwise. Banking company means any company which trasacts the business of Banking in India. Bank is an institution which deals with money and credit.

No Company other than a banking company shall use as part of its name any of the words 'bank', 'banker' or 'banking' and no company shall carry on business of banking in India unless it uses as part of its name at least one of such words.

No firm, individual or group ofindividuals shall for the purpose of carrying on any business use as part of its or his name any of the words 'banking' or banking company'

Functions of Modern Bank

Following are the main functions of a modern Bank:

1. **Accepting of deposits :** Bank receives deposits from individuals, firms associations, societies, companies and corporations etc. These deposits may be fixed, current or savings.
2. Giving of loans : Loans are given by banks in India for various purposes.
3. Purchase and sale of foreign exchange.
4. Financing of Internal and foreign trade.

Accounting Record in the Books of Bank

In the books of a bank, accounting is maintained through slip system. Following books are mostly mainted in banks.

1) General Cash book	2) Selectional cash
3) Cutomers Receipts Book	4) Counter payment

5) Cash Balance Bank
6) Bills Payable Register
7) Bills Discounting Register
8) Transfer Jounal
9) General Ledger
10) Current Account Ledger
11) Savings Account ledger
12) Fixed Deposit Ledger
13) Investment Ledger
14) Loan Ledger
15) Safe Deposit Value Register
16) Bill Register
17) Securities Register

Slip system :

Double entry system of book keeping is adopted in a bank. Accounting slip system is very popular in banks. When a person deposits amount in a bank. He has to fill in payin slip. The concerned officer signs on its counterfoil and returns it back to the concerned. That portion of pay in slip which is retained by the officer is sent to the cashier. Cashier makes record in the cash book on its basis. From cashier, this slip is sent to ledger keeper. There customers account is credited. This method is also adopted for transferring the amounts from one account to another. Slip system of accounting is also called unit media of posting.

Profit and Loss Account and Balance Sheet :

At the expiration of each calendar year every banking company in India, in respect of all business transacted by it, and every banking copany incorporated outside India, in respect of allbusiness transacted through its branches in India, shall prepare with refercnce to that year a Balance Sheet and Profit and Loss Account as on the last working day of the year in the form set out in Third Sechedule or as nearer there to as circumstances admit:

Provided that in the case of a banking company incorporated outside India, the Profit and Loss Account may be prepared as on a date not earlier than two months before the last working day of the year.

Balance Sheet and Profit and Loss Account shall be signed (a) in the case of a banking company incorported in India, by the manager or the principal officer of the company and where there are more than three directors of the company by at least three of those directors or where there are not more than three directors, by all the directors, and (b) in the case of a banking company incorporated outside India by the manager or agent of the principal office of the company in India.

Application of the Companies Act, 1956

Though Balance Sheet and Profit and Loss Account of a banking company are prepared according to the forms set out in the Third Schedule to the Banking Regulation Act, 1949, yet the requirements of the Companies Act, 1956, relating to Balance Sheet and Profit and Loss Account of company shall in so far as they are not inconsistent with this Act, apply to the Balance Sheet and Profit and Loss Account of a banking company also.

Amendment of the Form set out in the Third Schedule

The Central Government after giving not less than three months' notice of its intention to do so by a notification in the Official Gazette may from time to time by a like notification amend the forms set out in Third Schedule.

Audit

The Balance Sheet and Profit and Loss Account of a banking company shall be audited by a person duly qualified under any law for the time being in force to be an auditor of the company. Notwithstanding any thing contained in any law for the time being in force or in any contract to the contrary, every banking company shall, before appointing reappointing or removing any auditor or auditors, obtain the previous approval of the Reserve Bank.

Submission of Returns

Profit and Loss Account and Balance Sheet together with auditor's report shall be published in the prescribed manner and three copies thereof shall of furnished as returns to the Reserve Bank within three months from the end of the period to which they refer.

Copies of Balance Sheet and Profit and Loss Account to be sent to the Register

A banking company shall, within three months from the end of the period to which they refer, also send to the Registrar three copies of Profit and Loss Account and Balance Sheet and the auditor's report.

Display of audited Balance Sheet and Profit and Loss Account by companies incorporated outside India

Every banking company incorporated outside India shall, not later than the first Monday in August of any year in which it carries a business display in a conspicuous place in its principal office and in every branch office in India a copy of its last audited Balance Sheet and Profit and Loss Account and shall keep the copy so displayed until replaced by a copy of the subsequent Balance Sheet and Profit and Loss Account relating to its banking business as soon as they are available and shall keep the copies so displayed until copies or such subsequent accounts are available.

FORM OF PROFIT AND LOSS ACCOUNT

Profit and loss Account for the year ended...

	Expenditures	Income
		Income (Less provision made during the year for bad and doutful debts and other usual or necessary Provisions)
1.	Interest paid on Deposits and Borrowing etc.	Interest and Discount.
2.	Salaries, allowance and contribution to provident fund.	Commission, Exchange and brokers.
3.	Directors' and local committe Members' fees and allowences	Rent
4.	Rent, Taxes, Insurance Lighting etc.	Net profit on sale of investments, gold and silver, land premises and other assets (not credited to reserves or any other fund or account)
5.	Law charges	Income from non-banking assets and profit on sle of dealing with such assets.
6.	Postage, telegrams and Stamps.	Other receipts.
7.	Audit fees	Loss (if any)
8.	Description and repairs to the banking company's property.	
9.	Stationery, printing, Advertisment, etc.	
10.	Loss from sale or dealing with non-banking assets.	
11.	Other Expenses.	
12.	Balance of profit.	

EXPLANATION OF MAIN ITEMS OF ABOVE FORM

1. Interest paid

Here interest on fixed deposit, interest on current deposit and interest on savings bank deposit and interest borrowings made by bank are recorded.

2. Interest and Discount

(i) Interest here includes interest on loan, interest on advances, interest on cash credit and interest on overdraft.

(ii) Discount refers to discount on bill discounted by the customers.

3. Rebate on bills discounted

Unexpired discount on bills is called rebate. This rebate is deducted from discount in the credit side of Profit and Loss Account of the bank.

Reserve for bad and doubtful debts

Bad and doubtful debts and reserve made for bad and doubtful debts are not recorded in the debit or Profit and Loss Account of a bank but they are deducted from the amount of interest and discount which appears in the credit side of profit and Loss Account. In case of adjustment, this amount is also deducted from advances in the assets side of the Balance Sheet.

THE THIRD SCHEDULE (SEE SECTION 29)

FORM - A

Form of Balance Sheet

Balance Sheet as on ......

Capital and Liabilities	Rs.	Rs.	Property Assets	Rs.	Rs.
1. Capital			**1. Cash**		
Authorised capital			In hand and with Reserve Bank		
.... shares of Rs.			(Including foreign currency		
.... each Issued Capital :			notes).		
Shares of Rs. ....each					
Subscribed Capital					
shares of Rs. .... each					
Amount Called up at					

Rs. .... per share.

Less : Calls Unpaid

Add : Forefeited Shares.

2. Reserve Fund and other Reserves

Statutory Reserve Fund

General Reserve Sinking Fund

Balance with other Banks (Showing whether on deposit or Current Account)

i) Bills discounted and purchased other than Treasury Bills of the Central and State Government.

a. Payable in India

b. Payable outside India

Particulars

i) Debts considered good in respect of which the bank is fully secured.

ii) Debts considered good secured by the personal security.

iii) Debts considered good secured by the personal securities of one or more parties in addition to the personal security of the debtor.

iv) Debts considered doubtful or bad not provided for.

Capital and Liabilities	Rs.	Rs.	Property Assets	Rs.	Rs.
			i) Debts due by directors or officers of the bank or any of them either severally or jointly with any other person.		
			ii) Debts due by companies of firms of which the directors of the bank are intested		

as directors, partners or managing agents or in the case of private companies as me mbers.

ii) Debts due by companies of firms of which the directors of the bank are interested as directors, partners or managing agents or in the case of private companies as members.

iii) Maximum total amount of loans including temporary advances made at any time during the year to directors or managers or officers of the company.

iv) Maximum total amount of loans including temporary advances granted during the year to the companies or firms in which the directors of the Bank

i) are interested as directors, partners or managing agents or in the case of private companies as members.

ii) Due from Banking companies.

6. Bills for collection being bills receivable as per contra

i) Payable in India

ii) Payable outside Inida

7. Other Liabilities (to be specified pension or Insurance Fund, Unclaimed Dividends, Advance Payment, Rebate on Bills Discounted etc. Gratuity Funds, Staff Security Deposits, Provident Fund, Medical Fund, Creditors Circular Notes and Letters of Credit, Provision for Taxation Outstanding expenses, Creditors.

8. Acceptances, endorsements and other obligatins as per contra.

6. Bills for collecting being Bills Receivable as per Contra.

i) Payable in India.

ii) Payable outside India.

7. Constituents liabilities for Acceptances, Endorsements and other Obligations.

8. Premises (Less Depreciation)

9. Profit and Loss Account (as per last Balance Sheet) Less : Appropriations Add : Profit for your brought forward from profit and loss Account.	9. Furniture and Foxtures (Less Depreciation)
10. Contingent Liabilities (by way of note)	10. Other Assets including Silver, stamps in hand, accrued interest, Stationary in hand Library Books Discount on shares, silver Advance payment of Tax, Development Expenses Branch Adjustment Debit Prepaid Expenses, preminary Expenses, Underwriting commission, Deduction of Tax at sources.
	11. Non - banking assets Acquired in Satisfaction of claims (Stating mode of valuation)
	12. Profit and Loss
Total	Total

Capital and Liabilities	Rs.	Rs.	Property Assets	Rs.	Rs.
			i) Debts due by directors or officers of the bank or any of them either severally or jointly with any other person. ii) Debts due by companies of firms of which the directors of the bank are intested as directors, partners or managing agents or in the case of private companies as members. iii) Maximum total amount of loans including temporary advances made at any time during the year to directors or managers or officers of the company. iv) Maximum total amount of loans including temporary advances granted during the year to the companies or firms in which the directors of the Bank		

	i) are interested as directors, partners or managing agents or in the case of private companies as members. ii) Due from Banking companies.
6. Bills for collection being bills receivable as per contra i) Payable in India ii) Payable outside Inida	6. Bills for collecting being Bills Receivable as per Contra. i) Payable in India. ii) Payable outside India.
7. Other Liabilities (to be specified pension or Insurance Fund, Unclaimed Dividends, Advance Payment, Rebate on Bills Discounted etc. Gratuity Funds, Staff Security Deposits, Provident Fund, Medical Fund, Creditors Circular Notes and Letters of Credit, Provision for Taxation Outstanding expenses, Creditors.	7. Constituents liabilities for Acceptances, Endorsements and other Obligations.
8. Acceptances, endorsements and other obligatins as per contra.	8. Premises (Less Depreciation)
9. Profit and Loss Account (as per last Balance Sheet) Less : Appropriations Add : Profit for your brought forward from profit and loss Account.	9. Furniture and Foxtures (Less Depreciation)
10. Contingent Liabilities (by way of note)	10. Other Assets including Silver, stamps in hand, accrued interest, Stationary in hand Library Books Discount on shares, silver Advance payment of Tax, Development Expenses Branch Adjustment Debit Prepaid Expenses, preminary Expenses, Underwriting commission, Deduction of Tax at sources.
	11. Non - banking assets Acquired in Satisfaction of claims (Stating mode of valuation)
	12. Profit and Loss
Total	Total

EXPLANATION OF IMPORTANT TERMS IN THE BALANCE SHEET

1. Capital :

No banking company shall carry on business in India unless it satisfies the following conditions:

i) That the subscribed capital of the company is not less than one half of the authorised capital and the paid up capital is not less than one half of the subscribed capital and that, if the capital is increased, it complies with the conditions prescribed here within such period not exceeding two years as the Reserve Bank may allow.

ii) That the capital of the company consists of ordinary shares only or of ordinary shares or equality shares and such preferencial shares as may have been issued prior to the first day of July 1994.

Provided that above mentioned provisions will not apply to any banking company incorporated before 15th day of January 1937.

2. Paid - up Capital and Reserve:

a) The aggregate value of its paid up capital and reserves shall not be less than fifteen lakhs of ruppees and if it has a place or places of business in the city of Bombay or Calcutta twenty lakhs of rupees.

b) In the case of any banking company too which the above provisions do not apply the aggregatevalue of its paid up capital and reserves shall not be less than (i) if it has places of business in more than one state. Five lakhs of rupees and if any such place or places of business is or are situaged in the city of Bombay or Calcutta or both, ten lakhs of rupees (ii) if it has all its places of business in one state none of which is situated in the city of Bombay or Calcutta one lakh of rupees in respect of its other places of business situated in the same district in which it has its principal place of business plus twenty five thousand rupees in respect of each place of business situated elsewhere in the state otherwise than in the same district, provided that no banking company to which this provision applies shall be required to have paid up capital and reserves exceeding an aggregate value of five lakhs of rupees.

c) If it has its places of business in one state, one or more of which is or are situated in the city of Bombay or Calcutta five lakhs of rupees plus twenty thousand rupees in respect of each place of business situated outside the city of Bombay or Calcutta as the case may be provided that no such banking company shall be required to have paid up capital and reserves exceeding an aggregate value of ten lakhs of rupees.

3. Reserve Bank

Every banking company incorporated in India shall create a reserve fund and shall out of the balance of profit of each year disclosed in the Profit and Loss Account and before any dividend is declared transfer to the reserve fund a sum equivalent to not less than twenty percent of such profit. The Centra; Government may on the recommendations of the Reserve bank and having regard to their adequacy of the paid up capital and reserves of banking company in relation to its deposit liabilities declare by order in writing that the above provisions as may be specified in the order.

Provided that no such order shall be made unless, at the time it is made the amount in the reserve fund together with the amount in the share premium account is not less than the paid up capital of the banking company.

Where a banking company appropriates any sum or sums from the reserve fund or the share premium account, it shall within twenty one days from the date of such appropriation report the fact to the Reserve Bank explanning the circumstances relating to such appropriation, Reserve Bank may in any particular case extend this period as it thinks fit.

4. Other Liabilities

Under this heading may be included such items as the following :

Pension or Insurance Funds, Unclaimed Dividends Advance payments, Unexpired Discounts or Rebate, Liabilities to Subsidiary companies and any other liabilities.

5. Contingent Liabilities

These should be classified as under :

i) Claims against the banking company not acknowledged as debts.

ii) Claims against the banking company is contigently liable showing separately the amount of any guarantee given by the banking company on behalf of directors or officers.

iii) Arrears of cumulative preference dividends.

iv) Liability of bills of exchange re-discounted.

v) Liabilities on account of outstanding forward exchange contracts.

6. Money at Call and Short Notice

All those amounts are recorded under this heading which bank can receive on demand. Such amounts can be recovered by the bank at the most within one week. Rules in this context often change.

7. Investment

Treasury bills and gold are also shown in investments but silver is not shown here. It is shown under the heading 'Other Assets'. Investments include securities of the Central Government, State Government and Trustee Securities, shares debentures or bonds.

Where the value of investments shown in the outer column of the balance sheet is higher than the market value the market value shall be shown separately in breackets. If the amount of investment given in adjustments is more than the amount of investment given in the trial balance, the amount given in adjustment is recorded in the balance sheet and the excess of adjustement amount over the trial balance amount is transferred to 'Investment - Fluctualtion fund' Which appears in the liabilities side of Balance Sheet.

8. Bill for Collection

Amounts of these bills are recorded under this heading which bank has taken of behalf of its customers for collection on due dates. As bank has to receive the amounts of this bill on due dates from drawees it is asset for bank and as bank will give this amount to those from whome it has taken these bills for collection it is the liability of the bank. This is why 'Bills for Collection' appears both in the assets as well as in the liabilities side.

9. Acceptances and endorsements

Mostly in case of foreign bills, bank accepts or endorses bill on behalf of its customers. By doing so bank becoms liable to pay these bills ondue dates, hence it is liabilitiy to the bank, but bank recovers the amount of those bills from its customers, hence it appears in the asset side also. .

10. Premises

Premises whooly or partly occupied by the banking company for the purpose of business should be shown against 'Premises less Depreciation'. In the case of fixed capital expenditure the fixed orginal cost, additions thereto and deductions therefrom during the year should be stated as also the total depreciation written off.

11. Other Assets

Under this heading may be including such items as preliminary expenses. Formation and organization expenses, development expenditure, commission and brokerage on shares, interest accrued on investment but not collected and any other assets.

12. Non - Banking Assets.

The value of these assets shall not exceed the market value and in cases where the market value is not ascertainable, the estimated realizable value.

No banking company shall hold any immovable property howsoever acquired, Except such as is required for its own use, for any period exceeding seven years from the acquisition therefore or from the commencement of this Act, whichever is later or any extension of such period as may be allowed, and such property shall be disposed off within such period or extended period, as the case may be, provided that the banking company may, within the period of seven years as aforesaid deal or trade in any such property for the purpose of facilitation the disposal thereof; provided further that the Reserve Bank may in any particular case extend the aforesaid period of seven years by such extension would lie in the interest of the depositors of the banking company.

Non - banking assets means those assets which are not used in the ordinary course of business of banking, but they are such immovable and movable properties which come in the possession of banking for recovering the amount from customers.

PARTICULARS OF BOOK DEBTS.

According to Banking Regulation Act, 1949,

1. Debts considered good in respects of which the bank fully secured.
2. Debts considered good for which the bank holds no other security than the debtors' personal security.
3. Debts considered good, secured by the personal securities of one or more parties in addition to the personal security of the debtor.
4. Debts considered doubtful or bad, not provided for.
5. Debts due by directors or officers of the bank or any of them either severally or jointly, with any other person.

6. Debts due by companies or firms in which the Directors of the Bank are interested as directors, partners, or managing agents, or in the case of private companies, as members.
7. Maximum total amount of loans, including termporary advances made at any time during the year to directors or managers or offices of the person.
8. Maximum total amount of loans, including temporary advances granted during the years to the companies as members.
9. Due from other bank companies.

Illustration 1

Prepare the Profit and Loss Account of the C.S. Bank Ltd.,

For 1994 from the following particular

	Rs.
Interest on loans	25,90,000
Interest on Fixed Deposits	27,50,000
Rebate on bills discounted	4,90,000
Commission charged to customers	82,000
Establishment expenses	5,40,000
Discount on bill discounted	19,50,000
Interest on Cash Credit Account	22,30,000
Interest on Current Accounts	4,20,000
Rent and Taxes	1,80,000
Interest on Overdrafts	5,40,000
Directors' and Auditor's fees	42,000
Interest on Saving Bank Depositors	6,80,000
Postage and Telegram	14,000
Printing and Advertisement	29,000
Sundry Charges	17,000

Solution 1

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 1994

Expenditure	Rs.	Income	Rs.
Interest paid on Deposits	38,50,000	Interest and Discount	68,20,000
Establishment	5,40,000	Commission Charged to	

Director's Fees and		Customers	82,000
Allowances	42,000		
Rent, Taxes etc	1,80,000		
Postage and Telegram	14,000		
Printing and Advertisment	29,000		
Sundry Charges	17,000		
Balance C/d	22,30,000		
	69,02,000		69,02,000

Note

Interest on Deposits		Interest on Loans	25,90,000
Fixed	27,50,000	Interest on Cash Credit	22,30,000
Current	4,20,000		
Saving	6,80,000		
	38,50,000		73,10,000
		Rebate	4,90,000
			69,02,000

Illustration 2

From the following figures taken from the books of TNM Bank Ltd., you are required to prepared as at 31st December 1994 a Balance Sheet and profit and loss Account.

Share Capital (authorized and issued) 1,00,000 Shared of Rs. 100 each Rs.50 paid	50,00,000
Reserve Fund	35,00,000
Fixed Deposits	95,00,000
Saving Bank Deposits	3,00,00,000
Current Account	8,00,00,000
Money at call and short notice	30,00,000
Investment at cost	3,00,00,000
Interest paid	20,00,000

Salaries including salary to General Manager Rs.2,40,000/-

and Director's Fee Rs.50,000/-	8,00,000
Rent	2,00,000
General expenses including stationary Rs.50,000/- and Auditor's fees Rs.20,000/-	1,00,000
Credit Balance or Profit and Loss account 1st January 1994	21,00,000
Dividend for 1993	5,00,000
Building (after Dep. up to December 31, 1993, Rs.10,00,000/-)	6,00,000
Cash with Reserve Bank	1,50,00,000
Cash with other Bank	1,30,00,000
Borrowing from Banks	70,00,000
Interest and Discount	65,00,000
Bills discounted	50,00,000
Bills payable	80,00,000
Loan, Overdrafts and Cash Cr.	7,00,00,000
Unclaimed Dividends	3,00,000
Sundry Creditors	3,00,000
Bills for collection	14,00,000
Acceptances and endorsements on behalf of customers	20,00,000

Rebate on bills discounted for unexpired term amounted to Rs.50,000/- Allow 5% depreciation on premises on original cost. A provision for doubtful debts amounting to Rs.3,00,000/- is required. The bank has no business outside Inida.

Solution 2

PROFIT AND LOSS ACCOUNT

(For the year ended 31st December)

Expenditure	Rs.	Income	Rs.

(Less provision made during the Interest accruted and paid 20,00,000 year for bad and doubtful debts)

General Manager	2,40,000		Interest and Discount etc.,	61,50,000
Others	5,10,000			
		7,50,000		

and Director's Fee Rs.50,000/-	8,00,000
Rent	2,00,000
General expenses including stationary Rs.50.000/- and Auditor's fees Rs.20,000/-	1,00,000
Credit Balance or Profit and Loss account 1st January 1994	21,00,000
Dividend for 1993	5,00.000
Building (after Dep. up to December 31, 1993, Rs.10,00,000/-)	6,00,000
Cash with Reserve Bank	1,50,00,000
Cash with other Bank	1,30,00,000
Borrowing from Banks	70,00,000
Interest and Discount	65,00,000
Bills discounted	50,00,000
Bills payable	80,00,000
Loan, Overdrafts and Cash Cr.	7,00,00,000
Unclaimed Dividends	3,00,000
Sundry Creditors	3,00,000
Bills for collection	14,00,000
Acceptances and endorsements on behalf of customers	20,00,000

Rebate on bills discounted for unexpired term amounted to Rs.50,000/- Allow 5% depreciation on premises on original cost. A provision for doubtful debts amounting to Rs.3,00,000/- is required. The bank has no business outside Inida.

Solution 2

PROFIT AND LOSS ACCOUNT

(For the year ended 31st December)

Expenditure	Rs.	Income	Rs.
(Less provision made during the Interest accruted and paid 20,00,000 year for bad and doubtful debts)			
General Manager 2,40,000		Interest and Discount etc.,	61,50,000
Others 5,10,000			
	7,50,000		

BALANCE SHEET OF BADAMI BANK (As on 31st December 1994)

		Rs.			Rs.
Capital			Cash in hand	6,00,000	
Authorised and issued			With Res. Bank	1,50,000	1,56,00,000
1,00,000 shares of			Balance with other Banks		1,30,00,000
100 each Rs.50 paid	50,00,000		Money at call and short Notice		30,00,000
Reserve Fund and other			Investment		3,00,00,000
Reserves:			Advance:		
Transfer to this fund			I) Loans, cash, credit		
from current year's			and over draft	6,97,00,000	
profit under section 17	4,80,000	39,80,0000	ii) Bills Discounted	50,00,000	7,47,00,0000
Deposits and other			Bills for collection		
Accounts			being Bills receivable		
Fixed Deposits	95,00,000		Constituents Liabilities for		
saving Bank Deposits	3,00,00,000		acceptances, endorsements		
Current A/c	8,00,00,000	11,95,00,000	and other obligations as per contra		20,00,000
Borrowings from other			Premises :		
Banks and Agents			Original Cost		1,30,00,0000
Bills Payable		80,00,000	Less: Total dep.	16,50,000	1,13,50,0000
Bills for collection		14,00,0000	Furniture and Fixtures		
Other Liabilities			Less Dep.		
i) Sundry Creditors	3,00,000		Other Assets		
ii) Unclaimed Dividends	3,00,000		Non Banking Assets		
iii) Rebate	50,000	6,50,0000	Profit and Loss		
Acceptances,					
Endorsements and					
other Obligations					
as per Contra		20,00,000			
Profit & Loss Account					

Balance on 1st Jan.1984 2,10,000

Less : Dividend for 19835,00,000

16,00,000

Add: Current Years profit 24,00,000

Less : Trasferred to

statutody Rs. Fund 4,80,0000 35,20,000

15,10,50,0000 15,10,50,0000

BALANCE SHEET OF BADANMI BANK

(As on 31st December 1994)

Rs.

5. Rs.1,20,00,000/- = 1,30,00,000
6. Loan's Cash Credits and Overdrafts 7,00,00,000.00

   Less : Provision for doubtful debts 3,00,000.00

   6,97,00,000.00
7. 20 Percent of current years profits (24,00,000/-) is 4,80,000/- It has been transferred to statutory Reserve Fund according to section - 17

Exercise 1 :

The following figures are taken from the book of D Bank Ltd. Prepare Balance Sheet as at 31st December 1994 and Profit and Loss Account for the year ended on that date.

Expenditure	Rs.	Income	Rs.
Current Account	16,00,000	Share Capital	1,00,000
Saving Bank Account	6,00,000	Interest and discounts	1,50,000
Fixed and Time Deposits	1,90,000	Interest and accrued and paid	40,000
Sundry Creditors	6,000		
Bills payable	1,60,000	Salaries and Allowance	10,200
Bills for Collection	28,000	Salary to General Manager	4,800
Acceptances &		Director's fees	1,000

Endorsement on behalf of customers	40,000	Rent and Taxes	4,000
		General Exps.	600
Borrowing from Bank	1,40,000	Stationery and Printing	1,000
Unclaimed Dividends	6,000	Audit fees	400
Dividend for 1993	10,000	Money at call and Short Notice	60,00,000
Profit and Loss Account on 1.1.1994	42,000	Investment at cost	6,00,000
Reserve Fund	70,000	Premises (after Dep. upto 31.12.1993 Rs.20,000/-)	2,40,000
Cash with other Banks	2,60,000		
Bills discounted and Purchased	1,20,000	Cash in hand	12,000
Loans, Overdrafts and Cash Credit	14,00,000	Cash with Reserver Bank	3,00,000

Rebate on bills discounted for unexpired to Rs.1000; create provision for (a) Taxation Rs.20,000; (b) Doubtful Debts Rs.6,000 Allow 5% depreciation on premises on the original cost.

Ans : Profit Rs.49,000/- Profit Rs. 30,041,000

From the following particulars relaning to

TMM BANK LTD.

As at 31st December 1994, Prepare

Expenditure	Rs.	Income	Rs.
Investment at cost	4,00,00,000	Share Capital 1,00,000/- Shares of Rs.100/- each fully paid up	1,00,00,000
Interest accured And paid	25,00,000		
Salaries including Salary of Rs.2,50,000/- to the General Manager	70,000	Reserve Fund	40,00,000
		Fixed Deposits	90,00,000
		Savings Deposits	3,27,00,000
		Current Account	9,00,00,000
Director's fees	40,000	Interest and Discount	85,00,000
General Expenses	60,000	Profits and loss Account 1.1.1994	22,50,000
Audit fees	3,00,000		
Rent, Rates and Taxes	30,000	Borrowing from	

Printing and Stationary	7,00,000	other bank	77,50,000
Cash in hand	1,30,00,000	Bills payable	70,00,000
Cash with other Banks	1,50,00,000	Sundry creditors	5,00,000
Bills discounted and Purchase	80,00,000	Advances and3 endorsement on behalf of customers	17,00,000
Customers Acceptances And Acceptances	17,00,000	Bills for collection	15,00,000
Loans, Overdraft and Cash Creidit	7,50,00,000	Unpaid dividends	3,00,000
Billls for collection	15,00,000	Unpaid Dividends	3,00,000
Money at call & Short Notice	40,00,000		
Premises (Dep. @ 5%)	1,20,00,000		
Furniture (Dep. @ 10%)	5,00,000		

A provision for doubtful debts amounting to Rs.3,50,000 is Required A Provision for taxation of Rs.1,50,000 need also be created. Proposed dividend is Rs.7,00,000 and rebate on bills discounted amount Rs.50,000

Ans; Profits Rs.36,50,000 Balance sheet 17,04,00,000

Prepared by
Dr. E. Raja Justus

Chapter 7
ACCOUNT OF INSURANCE COMPANIES

Insurance is a kind of contract or agreement where one party known as 'insurer' undertakes to indemnify the loss suffered by the other party known as ' insured' in consideration of a certain sum of money knowns as "premium" The compensation against the loss is paid respect of specific reasons of loss agreed upon in the contract. The document containing the terms of an insurance contract is calling policy.

TYPES OF INSURANCE

Insurance are of two types for accounting purposes. They are life assurance and general insurance.

1. Life assurance

The life assurance business in India is now carried on by Life Insurance Corporation of India since 1956. It is a public corporation set up by the Government of India in the year 1956. The final account of their Life Insurance Company are prepared on the basic of the provisions laid by the Insurance Act of 1938.

2. General Insurance

All other types of insurance except life insurance except life insurance are called general insurance. If includes fire insurance, marine insurance, accident or motor vehicle insurance, insurances for burlargy, fidelity, third parties, workmen compensation and consequential loss.

1. Life Insurance

Statutory requirement for life insurance company.

The following books should be kept by all insurance business, as per the provisions of the Insurance Act, 1938.

(a) The register of policies containig;

i) The name and address of the policy holder.

ii) The date of commencement of the policy

iii) A record of any assignment of the policy

(b) The register of claims containing with details for,

i) The date of claim

ii) The name and address of the claimant

iii) The date on which the claim was discharged

iv) The date of rejection and the ground for rejection., If any claim is rejection.

v) The register of licensed insurance agents.

In addition to the above statutory books, following subsidiary account books are also maintained;

1. Register of Proposals and Proposal Advance Cash Book
2. First Year's Premium Cash book
3. Renewal Premium Cash book
4. Agency and Branch Cash Book
5. Petty Cash book
6. Claims Cash Book
7. General Cash Book, containing summarized entries in the above cash book
8. Bank cash book
9. Commission Register
10. Lapsed and Cancelled Policies book
11. Journal
12. Agency Ledger
13. Policv Loan Ledger

14. General Loan Ledger
15. Investment Ledger

FROM 'D'

FROM OF REVENUE ACCOUNT APPLICABLE TO THE INSURANCE BUSINESS

Revenue Account of .... for the year ended in respect of Life Insurance Business

	Business Within India Rs.	Business out of India Rs.	Total Rs.		Business Within India Rs.	Business out of India Rs.
1. Claims under policies (including Provision for claims due of intimated) less reinsurances; By death By maturity.				1. Balanced of life Assurance Fund at the begining of the year.		
2. Annuities less				2. Premium less Reinsurance Reinsurances. First year's Premium renewal of premium sigle premiums.		
3. Surrenders including surrenders of Bonus less Reinsurances.				3. Consideration for Annuities granted less reinsurances.		
4. Bonus in case less Reinsurances				4. Interest Dividends and rent less income tax thereon		
5. Bonus in Reduction of premium less reinsurances				5. Registration fees.		
6. Expenses of Management				6. Registration fees.		
i) a) Commission to Insurance agents less that on reinsurances.						
b) Allowances and commission other than commission including in subitem						
c) Preceding.						

ii) Salaries etc. other than to agents and those contained in item no.1

iii) Travelling Expenses

iv) Director's fees

v) Auditor's fees

vi) Medical fees

vii) Law charges

viii) Advertisement

ix) Printing & stationary

x) Other Expenses of management (account to be specified)

xi) Rents for office belonging to and occupied by the insure.

xii) Rents of other offices occupied by the insure.

7. bad Debts

8. Taxes

9. Other Expenditure to be specified

10. Balanced of life Assurance funds at the end of the year.

BALANCE SHEET

The balance sheet of all types of insurance business is to be prepared in the prescribed A. A specimen of balance sheet is stated as below.

FORM 'A'

FORM OF BALANCE SHEET

Balance Sheet as on ....

Liabilities	Rs.	Assets	Rs.
1. Shareholders capital (with details)		**1. Loans :**	
2. Reserve or Contingency A/cs		i) On Mortgages of property	
i) Investment Reserve account		ii) On security of Municipal and	

ii) Profits and loss Appropriation account

3. **Balance of funds and A/cs**

i) Life insurance funds

a) Business of India

b) Business outside India

ii) Fire Insurance Business account

iii) Marine Insurance Business Account

iv) Miscellaneous Insurance Business Account

v) Other account, if any to be specified

vi) Pension or superannuation account

vii) Debenture stock

4. Loans and Advances

i) Bills payable

ii) Estimated Liability in respect of out standing claims whether due or intimated

iii) Annuitis due and unpaid

iv) Outstanding Dividends

v) Amounts due to other person or badies carrying on Insurance Business.

vi) Sundry creditors including Outstanding expenses and taxes.

vii) Other liabilities

other public rates

iii) On stocks and shares

iv) On insurer's policies with in their surrender value

v) On personal security

vi) To subsidiary companies

vii) Reversion and life interest purchased

2. Investments:

i) Deposits with the reserve bank of India

ii) Government securities

iii) Municipal Securities

iv) Bonds, Debentures stocks and other securities where on interest is guaranteed by the government.

v) Railway securities

vi) Securities of incorporated Companies

vii) House property

viii) Freehold and Leasehold ground rents and rent charges

3. Agents Balance

4. Outstanding Premiums

5. Interest, Dividends and Rents outstanding

6. Interest Dividends and Rents accruing but not due.

viii) Contingent Liabilities to be specified

7. Amounts due from other persons or badies carrying or Insurance Business.
8. Sundry debtors
9. Bills Receivable
10. Cash
    i) At bankers on deposits account
    ii) At bankers on current account and and in hand
    iii) At call and short notice
11. Other Accounts (to be specified)

Annual Accounts

Annual Account of life insurance business includes revenue and balance sheet.

Revenue Account

A Specimen of revenue account of life insurance business prescribed in from 'D' of the Insurance Act, 1938 is presented below.

Illustration 1

Prepare Revenue Account and Balance Sheet as on 31st March 1994 from the following Trial Balance.

	Dr. Rs.	Cr. Rs.
Claims paid and Outstanding	2,25,500	
Establishment charges	37,500	
Surrenders	10,250	
Commission to Agents	59,500	
Reversionary bonus paid and outstanding	15,250	
Medicals fees	32,250	
Director's Remuneration	30,000	
Auditor's Fees	15,000	
Printing and Stationary	9,700	
Postage & Telegram	7,500	
Office Rent	12,000	
Bank charges	5,200	
Investment	45,00,000	

Loans on Policies	2,50,000	
Outstanding interest	18,750	
Outstanding Premium	21,300	
Cash at Bank	42,500	
Premium Received and Outstanding		6,35,000
Interest and Dividend received		4,56,800
Premium received in advanced		36,500
Claims admitted but not paid		3,50,000
Claims intimated but not admitted		40,000
Sundry creditors		2,75,000
Fines and fees received		4,000
Life Fund in the beginning of the year		37,42,500
Total Rs.	59,92,300	59,92,300

Solution

REVENUE ACCOUNT

For the year ended 31st March, 1994.

Dr. Cr.

	Rs.		Rs.
Claims under Policies paid and outstanding	2,25,500	Balanced of life Fund at the beginning of the year	37,42,500
Surrenders	10,250	Premium Received and outstanding	6,35,000
Reversionary paid	15,250	Interest and Dividends	4,56,800
Expenses of Management;		Fees and Fines received	4,000
Commission	59,500		
Medical fees	32,350		
Director Remuneration	30,000		
Audit Fees	15,000		
Printing and Stationary	9,700		
Postage & Telegram	7,500		
Office Rent	12,000		
Bank charges	5,200		

Establishment			
Expenses	37,500		
Balance of Life fund			
At close	43,78,550		
	48,38,300		48,38,300

BALANCE SHEET
As on 31st March 1994

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		FIXED ASSETS.	
Share Capital		Loan on Policies	2,50,000
Life fund at close	43,78,550	Investment	45,00,000
Premium Received		outstanding	
In Advance	36,500	Premium	21,300
Claims Admitted but		Outstanding Interest	18,750
Not paid	3,50,000		
Claims intimated but		cash at bank	42,500
Not admitted	40,000		
sundry Creditors	27,500		
	48,35,550		48,35,550

Illustration : 2

The balance recorded in the Trial Balance of advance Company Limited as on 31st March 1995 are stated below;

The claims by death Rs.95,850 claims by maturity Rs.77,970 Premium Rs.32,520 consideration for annuities granted Rs.32,750 income tax and paid Rs.9,750, Surrenders Rs. 31,650, Annuities Rs.41,750, Interest and Dividend Rs.29,750 Bonus paid in cash Rs.12,800 Bonus paid in reduction of Premium Rs.9,700 Fine Rs.170, Preliminary Expenses Balance Rs.7,000 claim admitted but not paid at the end of the year Rs.76,850, Annuities due not paid Rs.31,650, Capital Rs.60,000 Fixed Assets RS.6,35,000, Government Securities Rs.18,68,950.

Amount of Life Assurance Fund as the beginning of the year Rs.15,98,420.

Adjustments :

i) Premium Outstanding Rs.8,950

ii) Interest outstanding Rs.21,600

iii) Managerial expenses paid in advance Rs.3,200

iv) Further claims intimated Rs.11,500

v) Further bonus utilized in reduction of premium Rs.3,500

vi) Claims covered under reinsurance Rs.12,000

Solution:

REVENUE ACCOUNT OF X ASSURANCE COMPANY LIMITED

For the year ended 31st March 1995.

Dr. Cr.

	Rs.	Rs.		Rs.	Rs.
To Claims :			By Life Assurance		
By Death	95,850		Fund in the		
Add Intimated	11,500		beginning of the year		15,98,420
Less			By Premium	4,76,300	
Covered by			Add:		
Reinsurance	12,000		Outstanding		
			covered by		
	95,350		bonusutilised		
By maturity	77,970		in reduction		
		1,73,320	of premium	3,500	
					4,88,750
To Annuities		41,750	By Consideration		
To Surrenders		31,650	For annuities		
To Bonus paid			granted		32,750
in case		12,800	By interest and Dividend	29,750	
To Bonus in reduction of Premium	9,700		Add : Out standing	21,600	
					51,350
Add: Further Bonus utilized	3,500		Add fines		170
		13,200			

To Managerial				
Expenses	22,950			
Less : Paid				
In advance	3,200			
	-----------	19,750		
To Commission		32,520		
To Income Tax		9,750		
To Life Assurance				
Fund at the end of the year		18,35,700		
		---------------		---------------
		21,71,440		21,71,440
		---------------		---------------

BALANCE SHEET OF X ASSURANCE COMPANY LIMITED

As on 31st March 1995.

Liabilities	Rs.	Assets	Rs.
SHARE CAPITAL		GOVERNMENT	
Life Assurance Fund	18,36,700	Securities	18,68,950
Claim admitted but		Fixed Assets	6,35,000
Not paid	76,850	Interest Outstanding	21,600
Add: Further Claims		Premium Outstanding	8,950
Admitted	11,500	Managerial Expenses	
Annuities due but not		Paid in advance	3,200
Paid	31,650	Claims covered under	
		Reinsurance	12,000
		Preliminary Expenses	7,000
	--------------		--------------
	25,56,700		25,56,700

Ascertainment of profit of Life Insurance Business

The Life Insurance company cannot be said to have made a profit unless it has reserves equal to the net liabilities likely to arise in respect of policies already issued and still in force. The ascertainment of net liability is know as valuation and is done by an actuary. Profit is calculated by comparing the Life Assurance called Fund exceed net liability The comparision is made in a statement called "valuation Balanced Sheet"

Valuation Balance Sheet of .... as on ....

	Rs.		Rs.
To Net Liability as per Actuary's valuation		By Life Assurance Fund as per Balance Sheet (From A)	
To Surplus		By Deficiency	

Treatment of Profits A

The policy holders have a right to particular in the profit of the insurance company. Now their share is 95%. It was 92.5% before nationalization of life insurance.

Illustration : 3

The actuary's certificated disclosed the net liability on policies and annuities at Rs. 20,45,000 as on 31st March 1995. The following were the revenue items for the year.

	Rs.
Bonus in cash	92,000
Bonus in reduction of premium	5,000
Surrenders	60,000
Premium	33,00,000
Interest, Dividends and Rent, Net	11,00,000
Claims	20,40,000
Expense of Management	2,40,000
Commission	1,20,000
Annuities	8,30,000
Consideration for annuities granted	11,50,000
Life Assurance Fund on 1st April 1994	2,40,000
Interim Bonus Paid for the valuation period	1,60,000

Prepare the revenue account and ascertain the profit or loss made by the company. It was decided to write down the investment from Rs.39,50,000 to Rs.37,00,000 if the valuation revealed a surplus. There was an Investment fluctuation Reserve amounting to Rs.2,00,000

As a result of the valuation the declared a reversinary bonus of Rs.35/- per Rs.1,000 and gave the policyholders the option to get the bonus in cash @ Rs.22 per Rs.1,000. The total business in force was 4 crores. One fifth of the policyholders in value decided to get the bonus in cash. Pass journal entries to show the utilization of surplus.

Show the Revenue Account and Valuation Balance sheet.

Solution :

REVENUE ACCOUNT

For the year ended 31st March 1995

Dr. Cr.

	Rs.		Rs.
To Claims :		By Life Assurance	
To Claims	20,40,000	By Life Assurance	
To Annuities	8,30,000	Fund in the	
To Surrenders	33,00,000	Beginning of the year	42,40,000
To Bonus in cash	92,000	By Premiums	33,00,000
To Bonus in reduction		By considerations	
of premium	5,000	for annuities granted	11,50,000
To commission	,20,000	By interest Dividends	
To Expenses of		and Rent	11,00,000
Management	2,40,000		
To Life Assurance			
Fund at the end of the			
year	31,63,000		
	97,90,000		97,90,000

VALUATION BALANCE SHEET

As on 31st March 1995.

Liabilities	Rs.	Assets	Rs.
To Net Liability as		By Life Assurance Fund	
Per Acuatial		Fund as per	
Valuation	20,45,000	Balance Sheet	31,63,000
To Surplus	11,18,000		
	31,63,000		31,63,000

Calculation of the Amount due to the Policyholders:

Surpuls as revealed by valuation Balance Shee	11,18,000
Add : Interim bonus paid	1,60,000
	12,78,000
Less : Loss on investment to be written off	50,000
True surplus (Subject to taxation)	12,28,000
Policyholders will get 95%	11,66,600
Less Interim Bonus already paid	1,60,000
Amount due to policyholders	10,06,000

JOURNAL ENTRIES

			Dr. Rs.	Cr. Rs.
1995, March	31	Life Assurance Fund a/c	11,18,000	
		To Profit and Loss a/c		11,18,000
"	"	Profit and Loss a/c Dr	50,000	
		To Investment Fluctuation reserve a/c		50,000
		(Being additional provision made)		
1995 March	31	Investment Fluctuation Reserve a/c	2,50,000	
		To investment a/c		2,50,000
		(Being the loss on investment written down)		
1995 March	31	Profit and Loss a/c Dr	1,76,000	
		To Bonus in Cash payable a/c		1,76,000
		(Being bonus paid in cash)		
		(i.e. 4 crores x 1x22 / 1000x5)		
1995 March	31	Profit and Loss a/c	7,04,000	
		To Life Assurance Fund		7,04,000
		(i.e. 4 crores x 4x22 /1000 x 5)		

General Insuance

Insurance other than life is called general insurance. It is now functioning in India by the National Insurance company limited. It operates through four subsidiary companies. The Insurance Act, 1938 still continues to apply to general insurance. The polices for general insurance. The policies for general insurance is only for one year. Hence no question of future liability arises in general insurance. Separate revenue accounts should be prepared for each type of business like fire, marine, accidents etc.

The model of revenue account and profit and loss aaccount prepared by general insurance company are stated below.

FROM - F

Revenue Account .... for the year ended 19 ....

In respect of .... Business

Claims under polices less reinsurance paid during the year (a) (d)	Balance of Account at the beginning of the year.
	Reserve for unexpected Risks
Total estimated liability in respect of outstanding claims at the end of the year, whether due or intimated.	Additional Reserve if, any
Less : Outstanding at the end of Previous year (b)	* premiums less reinsurance
	(d) interest, dividends. and Rents. Less : income-tax thereon
* Commission:	Commission on reinsurances
Commission on direct business	* other incomes to be specified (e)
commission on Reinsurance accepted	Loss transferred to profit & loss Account
* Expenses of Management @ bad debts	
* United kingdom, Indian Dominion and Foreign Taxes	
* Other Expenditure to be specified	

Profit transferred to profit and loss a/c

Balance of Account at the end of the year as shown in the balance sheet

Reserve for Unexpired Risks

Being .... Per cent of Premium income of the year

Additional Reserve if any

Total Rs.	-------------	Total Rs.	---------

FROM - B

Profit and Loss Account of .... for the year ended 19 ....

	Rs.		Rs.
Indian Central Taxes on the insurer's profit not applicable to any particular fund or account		Interest Dividend and Rent not applicable to any particular fund or Account.	
Expenses of management not applicable to any particular fund or Account.		less income-tax thereon	
Loss on realization of investment not charged to reserves or any particular Fund or Account		Profit on realization of Investment not credited to Reserves, or any Particular Fund or account	
Depreciation of investments not charged to reserve or any particulai fund or account.		Appreciation of investment not credited of reserves or any particular fund or accound.	

FROM - B

Profit and loss account of .... for the year ended 19 ....

	Rs.		Rs.
Loss transferred from Revenue Account (details to be given)		Profit transferred from Revenues account (details to be given)	
Other Expenditure to be spacified		Transfer fees	
Balance for the year carried To Appropriation account		other income to be spacified	
		Balance being loss for the year carried to appropriation account.	
	-------------		-------------
	-------------		-------------

PROFIT AND LOSS APPROPRIATION ACCOUNT FOR THE YEAR ENDED 19 ....

	Rs.		Rs.
1. Balance being brought Forward from last year		1. Balance brought forward from last year Rs.	
2. Balance being loss for the year brought from profit and loss account as in form B		2. Less Dividends since paid in respect of last year (to be Specified and if free of tax to be stated)	
3. Dividends paid during the year on account of the current year to be specified, and free to tax to be stated		3. Balnce for the year brought from profit and loss account form B	
4. Transfer to any particular Fund or account (details to be given)		4. Balance being loss at end of the year as shown in the Balance sheet.	
5. Balance at end of the year as shown in the Balance sheet			
	-------------		-------------

Chapter 8

ACCOUNTS OF CO-OPERATIVE SOCIETIES

The balance sheet authenticiated by the Audit Officer shall be published each year by every co-operative society in the prescribed manner (sec31) It will be published (within one meeting by displaying it any conpicicuous place in the registered office and every branch office. In every co-operative year the Managing Committee is to lay before the general meeting a balance sheet made upto a date not more than months prior to the date of meeting, or on the last date of the quarter proceeding (Rule 65)

Under the rule every co-operative society shall sent to the Registrar such statements and returns and in such from as he may from time-time direct and shall sent at the close of each co-operative year within four months or such time as the Register may direct an annual return in the form set forth in the schedule consisting of

i) a each account

ii) a balance sheet

iii) a profit and loss account

iv) a profit and loss appropriation account and

v) trading account, where applicable

Working capital consists of owned capital and borrowed capital. Borrowed capital is the total of loans, deposits and other borrowings. Owned capital is the total of paid up share capital and accumulated reserve fund and other fund and other funds. (Rule 2) (K)

A. Forms of financial accounts

The forms of accounts to be included in the Annual Returns are different for central and Apex Societies and primary societies. The form of Audit statement under Rule is also prescribed. The forms of primary Societies for Annual Return under Rule are given below.

CASH-ACCOUNT

	Rs.		Rs.
1. Share Receipts		1. Share capital withdrawn	
2. Loans and deposits by members		2. Members deposits withdrawn	
3. Loans and deposits from non-members		3. Loans repaid to Government	

Receipts		Payments	
4. Loans and deposits from primary societies		4. Loans repaid to central societies	
5. Loans and deposits from central societies		5. Loans repaid to other societies	
6. Loans and deposits from government		6. Loans repaid to non-members	
7. Loans and deposits from other sources		7. Loans granted to Bank and societies	
8. Loans and deposits repaid by members		8. Loans granted to members	
9. Loans and deposits repaid by bank and societies		9. Interest paid on loans and deposits	
a) Central Banks			
b) Other Societies			
10. Interest received		10. Dividend and bonus paid	
11. Goods Sold		11. Stock purchased	
a) As owners		12. Good Purchased	
b) As Agents		13. Establishments and contingment charges	
12. Other income		14. Other expences	
13. Other Items		15. Other Items	
		16. Carried to Reserve Fund	
	---------------		----------------
Total		Total	
	---------------		----------------
Opening balance		Closing Balance	
Cash in hand		Cash in hand	
Cash at Bank		Cash at Bank	
	---------------		----------------
Grand Total			
	-------------		----------------

** Detail to be furnished separately.*

BALANCE SHEET AS ....

Liabilities	Rs.	Assets	Rs.	P.
1. Shares capital paid up		1. Cash and bank balance		
2. Reserve fund undersection 56 of		i) in hand		
W. Bengal Act XXVIII of 1973		ii) At banks		
3. Sinking Fund		2. Value of investment in		
4. Other Funds		a) Land and Building		
5. Provision for bad and doubful		b) Plant and machinery		
debts		c) shares in co-operative doubtful debts		
a) Doubtful debts		Societies.		
b) Bad Debt		d) Truustee securities		
6. Loans and Deposits from		3. Deposit with Banks		
a) Provincial and Central Banks		4. Other Assets		
b) Government		5. Loans due by members		
c) individuals		6. of which		
i) Members		i) Overdue		
ii) Non- Members		ii) Doubtful		
iii) Others		iii) Bad		
d) Societies		7. Loans due by Bank and Societies		
7. Interese due		8. Of which		
8. Dividend out standing		i) Over due ii) Doubtful iii) Bad		
9. Cost of management due		9. Interest due		
10. Other Items		i) Over due ii) Doubtful iii) Bad		
11. Undistributed profits carried		10. Value of stock in hand		
for ward		i) As owners ii) As agents		
	--------------		----------------	
Total (Net profit (+) or les(-)		Total		
	--------------		----------------	
Grand Total		Grand Total		
	--------------		----------------	

TRADING ACCOUNT

	Qty kg.Gr	Amt. Rs.p.		Qty kg.Gr	Amt. Rs.p.
1. To Stock at commencement			1. By sales		
2. To purchase			2. Others		
3. Cost incurred in purchasing the Stock			3. By stock at the closing of the year		
a) Wages					
b) Freight					
c) Carriage hire					
d) Godown rent rates and taxes					
4. Others					
Total			**Total**		
Cross profit and loss					
Grand Total			**Grand Total**		

PROFIT AND LOSS ACCOUNT

Loss	Rs.p.	Profit	Rs.p.
1. Interest paid and due		1. Interest received and earned	
2. Establishment and contingent charges paid and due		2. Gross profit transferred from Trading Account	
3. Depreciation of stock		3. Others items	
4. Debts written off			
5. Provision for			
i) Doubtful Debts			

ii) Bad Debts

6. Other items

	---------------		-----------------
Total		Total	
	---------------		-----------------
Profit (+) or loss (-)		Grand Total	
	---------------		-----------------

It is peculiar that the forms of statement of Account for audit Report prescribed under Rule are different to a large from the from to be included in Annual Return under Rule 58. Froms under Rule 120 are comprehensive to cover all short of business including banking business, although no separate forms are prescribed for co-operative Banking companies (Regulation) Act 1949.

The detailed froms under Rule are not reporoduced, but account are drawn up in the problems below in the line of such forms, as far as possible. The contents, in brief however, are considered here.

Payment side of Cash Account is headed "Disbursement items 1 - 10 on both the Receipt and Disbursement sides deal share capital debentures. Loans from Government, Loans from provincial bank of Ceentral societies, Overdraft from joint stock bank Deposits (current Saving Fixed) Loans investment and Deposits, ubterest adb itger 11 and 12 of Receipt side deal with sale of goods and other items and coincide with items (purchase of goods) and respectively in Disbursements side, items 11,12 and 14 in Disbursement's side deal with Dividend, Bonus and Dead Stock Purchased (Furniture, equipment etc. respectively.

In the balance sheet there are capital Reserves; Deposits Loans, Cash Credit and Overdaft; Debentures, Bill for collection (contra) Unpaid dividends, Bonus and cost of management; Interest payable; Sundries of other liabilities; and profits and loss account are shown one after in Liabilities.

In the Assets side there are Cash in hand and cash in bank investment, Deposits Sinking Fund Investment; Dues from Societies in Liquidation, Loan to individuals, Interest due; land and other fixed assets taken over in satisfaction of claims; Dead Stock; Value of stock in hand, Bills Receivable (Contra) Branch Adjustment; Sundry Assets are shown serially.

From of Trading Account is almost the same that under Rule Reproduced above. In Orifutmand loss Account Gross Loss Interest, Establishment and contingent charges, Miscellaneous, Depreciation, Bad Debts. And reserve to Bad and Doubtful Debts are shown in loss side. In profit side gross profit interest, Commission and Brokerage, and other incomes are shown in the stated order.

Unlike Rule 58, Rule 1320 prescribes forms of profit and loss appropriation Acount and statement of Actual Distribution of profit (Passed in General Meeting held....) In "LOSS" side are shown Reserve Fund, Dividend, Specification of other alotments and amount carried to next year, one after another Reserve Fund includes statutory one-fourth, entrance fees forfeited shares, lapsed dividend, additional interest and additional allotment (1-3)

Profit and loss Appropriation Statement is prepared to shown the appropriation as passed in the last Annual General Metting i.e., with respect to profit for year concerned is determined and appropriated after the accounts are prepared and laid in the A.G.M. Proposed appropriation of the profit of the year, however, may be shodown in profit and loss Appropriation Account (Proposed) in memorandum fashion, Provision of Sec 56-58 of W.B.C.S. Act 1973 and Clauses 97-102 of A.B.C.S. Rules 1974.

It may be noted that in practice the forms as such cannot be conveniently followed in everycase. So accounts are drafted in the above broad lines showing other details and particular in convenient and logical order as circumstances may require, in case Account in disbursement side "Paments" of "Disbursements" are preferable to "Expenditure" as is shown under Rule. Very often they are grouped on both the sides of Receipt and Expenditure as a) Revenue, b) capital and c) Appropriation Quantities in Trading Account are usually avoided in practice as units of different types of goods purchase or sole may be different. Rule provides for such varation in forms with the approval of the Register.

B. Stepts in Finalisation

It is be noted that cash account is to be submitted along with trading account, Profit and loss Account and Balance Sheet. This is peculiar to accounts co-operative Societies only. This may create difficulty unless cash posting are separately shown in Ledger Accounts. For convenience Ledgere Account should have, transfers etc, adjustment may be made through Cash book i.e. by contra Entries. These are to be posted in the cash column of Ledger Accounts. All other adjustment entries must be avoided for such purposes, and posting are to be made in the journal column of the ledger account.

First step in finalisation is the drawing of cash trial from the totals of cash columns in the ledger account. As already noted in the Chapter on finalisation, opening cash and bank balance are to be added in the credit side and closing cash and bank balance are similiary added in the debit side. Cash Account will be from cash trial in the appropriate from. As discussed above, receipts and payments are sometimes grouped under capital, Revenue and appropriations. Cash Account may also be prepared straightway from ledger balances without preparing cash trial.

Opening balance may be brought forward in total Coloumn in Ledger Accounts where the totals of cash column and journal column are extended. The accounts may be balance in total columns and with such balances Adjusted Trial Balance may be prepared for preparation or Trading Account. Profit and Loss Account and balance Sheet. Necessary adjustement entries may also be passed in the meantime.

Accounts of (1) consumers' Society, (2) Housing society and (3) Credit Society are shown below. General from of Audit Report is also Appended Separate Report is discussed later on under "Audit Report"

Problem 1

From the following Balance sheet as at 30.6.72 and Cash Trial 7 Other details for th e year ended 30.6.73 of Hari Rampur consumer's Co-operative Society Ltd prepare

a) Adjusted Trial Balance
b) Balance Sheet as at 30.6.73
c) Trading Account
d) Profit and Loss Account
e) Cash Account
f) Statement of Actual Distribution of profit and
g) Account of proposed Appropriation

BALANCE SHEET AS AT 30.6.72

Liabilities		Rs.	Assets	Rs.	
Authorised Capital			Furniture and Fixture	1,000	
2,000 Shares of Rs.		20,000	Less : Depreciation	100	
Issued and subscribed				--------	900
1,000 Shares of Rs.		10,000	Equipments	2,000	
Called up and paid up			Less : Depreciation	200	
1,000 Shares of Rs.10				--------	1,800
Rs.8/- Called up	8,000		Container Deposits		600
Less calles in Arrer	100		Closing Stock		9,950
	---------	7,900	Salary Advance		100
Reserve Fund		1,500	Sundry Debtors		1,000
Co-Operative Development			Bank		3,000

Fund		200	Cash	50
Outstanding Liabilities				
Creditors for purchases		2,500		
Commission payable		300		
Rent Due		50		
Audit Fee Due		400		
Undistributed Profit				
Balance Upto 30.6.71	400			
Profit for the year	4.150			
		4,550		
		17,400		17,400

2. CASH TRIAL FOR 1973-74

	Dr.	Cr.
Purchase	1,60,000	
Salaries	7,500	100
Commission	2,500	
Rent and Taxes	1,200	
Furniture and Fixture	400	
Postaged	200	
Cooly & Certage	4,000	
Container Deposits	500	500
Travelling & Expenses	450	
Printing & Stationery	350	
Audit fee	400	
Sales		1,90,000
Share Capital		400
Admission Fee		50
Calls in Arrear		100
Investments	6,000	
Dividend paid	395	

	1,83,895	1,90,950
Opening Balance		
Cash		50
Bank		3,000
Closing Balance		
Cash	105	
Bank	10,000	
	1,94,000	1,94,000

i) Provided depreciation at % furniture, Fixtures and Equipments.

ii) Closing Stock in Valued as Rs.11,000

iii) All the opening debts were collected and opening dues were paid, The are included in sales Account, Purchase Account and respective expensive account.

iv) Closing outstanding are Rent Rs.100; creditors for purchase Rs.1,000; debtors for sales 1,500; Commission Rs.500

v) Rs.200 Salary was advanced on 30.6.73.

vi) Provide for Audit fees According to Rules.

vii) In Annual General Meeting held on 30.11.72 5% dividend was declared on paid up capital as on 30.6.72 in addition to other statutory appropriations.

viii) Accured income from investments Rs.500

ix) Directors recommend 6% devedend for the current year in the addition to other appropriations which are must the Act and the Rules.

Attach the Audit Report Separate Report need not be given

a) Adjusted Trial Balance of Hari Rammpur Consumers Co-operative Society Ltd for the year ended 30.6.73

	Dr. Rs.	Cr. Rs.
Share Capital		8,400
Reserve Fund		1,500
Co-operative Development Fund		200
Creditors for purchase		1,000

Commission payable		500
Rent Due		100
Audit Fee outstanding		400
Profits and loss Appropriation A/C		400
Profit for		4,150
Opening Stock	9,950	
Furniture	1,300	
Equipments	1,800	
Container Deposits	800	
Salary Advance	200	
Sundry Debtors	1,500	
Accrued income	500	
Interest on investment (Due)	7,300	
Salaries	7,300	
Commission	2,700	
Rent and Taxes	1,250	
Postage	200	
Travelling and Conveyance	450	
Dividend Fee	395	
Admission Fee		50
Audit Fee	400	
Purchase	1,58,500	
Cooly and Cartage	4,000	
Investments	6,000	
Sales		1,90,500
Cash in hand at close	105	
Cash at Bank at close	10,000	
	2,07,700	2,07,700

Note : On Sales of Rs.1,90,500

250 = 25 x 2 = 50 x 2 = Rs.400

B.BALANCE SHEET AS AT 30th JUNE,1973

Liabilities		Rs.	Assets	Rs.	
Share Capital Paid up		8,400	Cash and Bank balance		
Reserve Fund		2,538	a) In hand		105
Other Funds			b) At bank		10,000
Co-Operative Development Fund		356	Investment		6,000
Cost of management Due			Other Assets		
Rent		100	Furniture & Fixture	900	
Commission		500	Added in the year	400	
Audit Fee		400		---------	
Other Items				1,300	
Creditors for purchase		1,000	Less Depreciation	110	
Undistributed profit carried forward				---------	1,620
Undistributed profit			Equipments	1,800	
Up to 30.3.72	2,961		Less Depreciation	180	
Profit for the year	16,600			---------	1,620
	---------	19,621	Contained Deposits		800
			Debtors for Sale		1,500
			Sale Advance		200
			Accured income of		
			Investments		500
			Value of Stock in hand		
			As owners		11,000
		------------			------------
		32,915			32,915

We report that we have audited the above Balance Sheet or Hari Rampur consumer's Co-operative Society as at 30.6.73 and the annexed profit & loss account for the year ended in the june, and have obtained all the information and explanation we have required In our opinion, the above account have been drawn up in conformity with law, and subject to our separate report of even date, the balance sheet exhibits a true and correct of the state of the society's affairs according to the best of our information and explantation given to us shown by the books and required under the Act, Rules and Bye-laws.

XYZ & Co

Chartered Accountants.

C. TRADING ACCOUNT FOR THE YEAR ENDED 30.6.73

To stock at		By Sales	1,90,500
Commencement	9,950	By Stock at	
To Purchases	1,58,500	the end of the year	11,000
To cost incurred			
In purchasing			
The Stock coolly and			
Cartage	4,000		
Total	1,72,450	Total	2,01,500
Gross Profit	29,050		
Grand Total	2,01,500	Grand Total	2,01,500

D. PROFIT AND LOSS ACCOUNT for the year ended 30th June, 1973

	Rs.		
To Estabilishment and Conmtingency		By Interest Received and Earned	500
" Charges paid and due		" Gross Profit transferred from	
" Salaries	7,300	" Trading Account	29,050
" Commission	2,700	" Admission Fee	50
" Rent and Taxes	1,250		
" Postaged	200		
" Travelling and Conveyance	450		
" Printing and Stationary	350		
" Audit Fee	400		

Depreciation.				
Furniture and Fixture	110			
Equipments	180			
	--------	290		
		------------		-------------
Total		12,940	Total	29,600
Profit		16,660		
		------------		-------------
Grand Total		29,600	Grand Total	29,600

E. STATEMENT OF ACTUAL DISTRIBUTION for the ended 30th June 1972

Passed in A.G.M. held on 30.11.72

	Rs.		Rs.
Estabilishment and Conmtingency		Interest Received and Earned	500
To Reserve Fund (1/2)	1,038	Balance of undistributed	
		Profit up to 30.6.71	400
To Co-operative Development	156	Profit for the year ending	
Fund (1/20) of 4,150-1,038	395	30.6.72	4,150
To Dividend (5%)			
To Balance to Balance sheet	2,961		
	-------------		------------
Grand Total	4,550	Grand Total	4,550

F) CASH ACCOUNT for the year ended 30th June 1973

Receipts	Rs.	Payments	Rs.
Revenue Receipts		Revenue Payments	
Cash Sales	1,89,000	Cash Purchases	1,57,500
Admission Fee	50	Salaries	7,300

Capital Receipt Share Capital	400	Commission	2,200
Call-in Arrear	100	Rent & Taxes	1,150
Container Deposits Refund	300	Postage	200
Salary Advance on 30.6.72 Refunded	100	Colly & Cartage	4,000 Dues
For sales on 30.6.72 collected	1,000	Travelling & Conveyance	
		Printing & Stationary	350
		Capital Payments :	
		Furniture & Fixture	400
		Container Deposits Investments	500
		Liabilities as on 30.6.72	6,000
		Creditor's for purchase	2,500
		Commission payable	300
		Rent Due	50
		Audit Fee Due	400
		Salary Advance	200
		Appropriations: Dividend paid	395
	-------------		-------------
	1,90,900		1,83,895
Opening Balance		Closing Balance	
Cash 50		Cash 105	
Bank 3,000		Bank 10,000	
--------	3,050	------------	10,105
	-------------		-------------
	1,94,000		1,94,000

G. PROFIT & LOSS APPROPRIATION ACCOUNT

for the year ended 30.6.73

(Not accounted for in the year under audit)

Balance of undeistributed profit as per

Balance sheet as at 30.6.73

	Rs.	Rs.
Balance of undistributed profit upto 30.6.72	2,961	

Profit for the year ended 30.6.73	16,600	
	19,621	
Proposed Appropriation :		
(1) Reserve Fund :		
1/4 of Rs.16,600 + Admission Fee Rs.50	4,215	
(2) Co-operative Development Fund 5% of (16,600 - 4,215)	622	
(3) Dividend	504	
6% on 8,400	504	
		5,341
Balance of Undisatribution profit to remain after A.G.M. if the above appropriations are sanctioned		14,280

* *For appropriations after 1974 see PP. 1352 - 1354.*

Problems: 2 (15,16,19-27)

From the following Balance sheet of Metropolitan House Building Co-operative Society as on 30.6.72 a trial Balance for 1972-73 and other details prepare necessary accounts in statutory forms as modified with Registrar's approval so as to show the item in logical fashion.

BALANCE SHEET AS AT 30.6.92

Liabilities	Rs.	Assets	Rs.
Container Deposit Refund	300	Postage	200
Share Capital	20,000	Cash in hand	100
Reserve Fund	1,000	Cash at Bank	
Co-operative Development fund	100	Current account	5,000
Capital fund for Development fund	80,000	Saving Bank Account	15,000
Advance Premium Deposit	50,000	Fixed Deposit	1,19,000
Advance Instalments	3,000	Outstanding Dues for Members:	

Advance Maintenance Charge	800	Instalments		6,000
Creditors for Expenses:		Maintenance		1,000
Salary and Wages	300	Interest		500
Electricity charges	200	Accured Bank Interest		600
Audit Fee	400	Sundry Assets :		
		Furniture & Fixture		1,000
		Electrical Installation		3,000
		Equipments of Children Park		2,000
		Income and Expenditure A/c		
		Deficit to be recouped :		
		Upto last year	2,000	
		Added Deficit in current year	600	2,600
	1,55,800			1,55,800

TRIAL BALANCE FOR 72-73

	Dr.	Cr.
Share Capital		19,000
Reserve Fund		1,000
Capital Fund for Development		80,000
Advance Premium Deposits (1.7.72)		50,000
Advance Instalment (1.7.72)		3,000
Advance Maintenance Charge (1.7.72)		800
Cash in hand	200	
Current Account	9,200	
Saving Bank Account	40,000	30,000
Fixed Deposits	1,50,000	40,000
Instalments Outstanding out of Balance on 1.7.72	1,000	
Accrued Bank Interest (1.7.72)	600	
Furniture and Fixture	1,500	
Electrical Installation	3,000	

Equipments for Children's Park	2,300	
Income and expenditure Account	2,600	
Instalment Collected		60,000
Instalment Paid to C.I.T	75,000	
Electric Charges	2,000	
Conveyance	100	
Conservancy	400	
Repairs	200	
Gardening	400	
Salary and wages	5,000	
Liveries	200	
Postage	50	
Prinding and Stationary	500	
Ground Rent	100	
Rates and Taxes	7,800	
Bank Charges	10	
Maintenance Charges	140	
Maintenance Charges		10,000
Interest From members		300
Bank Interest (Total Receipt)		8,200
	3,02,300	3,20,300

Accrued Interest as on 30.6.73

From Bank Rs. 1,000

From Members Rs.800

Instalment outsstanding as on 30.6.73 were Rs. 5,0000, Whereas Rs.5,000 was paid in advance.

Outstanding expences, Salary Rs.4000, Electric Charges Rs.800

Out of advance Premium Deposits Rs.10,000 is transferred to Instalments Account, Different between instalment be to collected and instalment to be paid to C.I.T. is made good by transfer from interest Account.

5. Provided Depreciation at 10% on Furniture and Fixture and Electrical Installation, and 20% on Equipment for Children's Park, all on closing balance in account.
6. Provide Audit Fee according to Rules.
7. Outstanding Maintenance Charges were Rs.1,200 while advance Maintenance Charge was Rs.500
8. It is discovered that advance premium Deposits paid by members will fall sort by Rs.9,000 upto 30.6.72 as payment for the flat owned by the Society itself was not separately considered. It is decided to make good that advance premium Deposits by brinking ino accounts the payments for its own flat in balance Sheet. In current year Rs.1,000 is instalment for the flot of the Society.

Managing Committee wants to show, by of explanatory statement, as to how the capital Fund for developments in invested, assuming Share capital Reserve Fund and premium Deposits are kept in tact.

CASH ACCOUNT

Receipts	Rs.	Rs.	Payments	Rs.	Rs.
Capital Receipt			Capital Payment		
Saving A/C		30,000	Share Capital		1,000
Fixed Deposits		40,000	Furniture and Fixture		500
Instalment		60,000	Equipments for Children park		300
Outstanding Receipt			Savings Account		25,000
Instalments		5,000	Fixed Deposits		31,000
Maintenance		500	Instalment Paid to C.I.T		75,000
Interest for members		500	Outstanding payment		
Bank Interest		600	Salary and wages		300
Revenue Receipt			Electricity Charge		200
Bank Interest		7,600	Audit Fee		400
Interest form Members		500	Outstanding payment		
Bank Interest		600	Salary and wages		300
Revenue Receipts			Electricity Charge	200	
Bank Interest		7,600	Audit Fee	400	
Interest from Members		300	Revenue Payments		

Maintenance Charges		10,000	Electric Charge	2,000	
			Conveyence	100	
			Conservancy	400	
			Repairs	200	
			Gardening	400	
			Salary and wages	5,000	
			Liveries	200	
			Postage	50	
			Printing and Stationary		500
			Ground Rent		100
			Rages and Taxes		7,800
			Bank Charges		10
			Contingencies		140
			Appropriation's payment		
			Co-operative Development Fund		100
		1,55,000			1,55.000
Oping Balance			Closing Balance		
Cash	100		Cash	200	
Current Account	5,100		Current Account	9,200	
		5,100			9,400
		1,60,000			1,60,000

PROFITS AND LOSS ACCOUNT for the year ended 30th June, 1973

	Rs.	Rs.		Rs.	Rs.
To Salaries		5,400	By Maintenance Charges	11,500	
To Rates & Taxes		7,800	(10,000-500+1,200+800)	11,500	
To Electric Charges		2,800	By Interest from Members		
To Conveyance		100	(300+800)	1,100	

To Conservancy		400	By Bank interest		
To Repairs		200	Received	7,600	
To Gardening		400	Add Accured	1,000	
To Liveries		50		----------	
To Postage		500		8,600	
To Printing and Stationary		500	Less Transfer to		
To Ground Rent		100	Instalment	2,000	
To Bank Charges		10		----------	6,600
To Contingencies		140	By Excess of Expenditure		
To Depreciation			Over Income		
Furniture	**150**				
Electrical Installation	**300**				
Equipments of park	**460**				
	--------	**910**			
To Audit Fee		**350**			
		----------			----------
		19,360			19,360

Note :

WORKING CAPITAL

Reserve Fund	1,000
Share Capital	19,000
Capital Fund	80,000
Premium Deposits	49,000

	1,49,000
Less Deposits Balance in Income and Expenditure Account as on 1.6.72	2,600

	1,46,400

Up to Rs. 50,000	[illegible]
Next Rs. 50,000	50
On Balance	20
	350

BALANCE SHEET as at 30th June 1973

	Rs.	Rs.		Rs.	Rs.
Share Capital		19,000	Cash in hand		200
Reserve Fund		1,000	Cash at Bank		
Capital Fund		80,000	Current Account		9,200
Advance Premium	50,000		Savings Account		10,000
Deposits	2,000		Fixed Deposits		1,10,000
Add Interest	52,000		C.I.T. Instalments		
Less Instalment	12,000		Paid for the year	75,000	
	40,000		Less from Members (c)	74,000	
Add adjustment against					
Instalments for				1,000	
Society's Own Flat	9,000		Outstanding Dues from		
		49,000	Members		Nil
Instalment for the year			Instalment		5,000
Amount from members			Maintenance		1,200
For the year	62,000		Interest		800
Add from Advance					
Premium Deposit	12,000		Accrued Bank Interest		1,000
			Sundry assets		
	74,000		As per Schedules		
Less paid to C.I.T. Contra	74,000		Instalments for Own Flat		5,890

	-------------	Adjustment with		
Advances from member	Nil	Premium Deposits	9,000	
Instalments	5,000	Add instalment for year	1,000	
Maintenance Charge	500		---------	10,000
Creditors for expenses		Income and Expenditure a/c		
Salary and Wages	400	Defict to be recouped		
Electricity Charges	800	Defict upto 30.6.72	2,600	
Audit Fee	350	Add Defict in the year	160	
			-----------	2,760
	1,56,050			1,56,050

Note : (60,000 - 5,000) + 3,000 (5,000 - Old balance 1,000) = Rs.62,000

SCHEDULE OF FIXES ASSETS.

Assets	Opening Rs.	Addition Rs.	Total Rs.	Depreciation Rs.	Net Rs.
Furniture and Fixture	1,000	500	1,500	150	1,350
Elcctrical installation	3,000	-	3,000	300	2,700
Equipments of Childern's Park	2,000	300	2,300	460	1,840
	6,000	800	6,800	910	5,890

INVESTMENT OF CAPITAL FUND FOR DEVELOPMENT

As on 30.6.73

	Rs.	Rs.	Rs.
Balance of cash and bank Deposits			
Cash in hand			200
Current Account			9,200
Saving Account			10,000

Fixed Deposits		1,10,000
		1,29,400
Less Amount Kept in tact		
Share Capital	19,000	
Reserve Fund	1,000	
Premium Fund	49,000	
		69,000
		60,400
Net Accruals :		
Receivable		
From Members	7,000	
Bank Interest	1,000	
	8,000	
Less Payables		
Advances from members	5,500	
Creditors for expenses	1,550	
	7,050	950
Sundry Assets		5,890
Instalments for Own flats		10,000
		77,250
Deficit to be recorded for General Fund 2,760		
Capital Fund for Development		80,000

Prepared by
Dr. M. Wilson