CORPORATE ACCOUNTING

STUDY MATERIAL

B.COM

III SEMESTER

CORE COURSE

CU CBCSS

(2014 ADMISSION ONWARDS)

UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

THENJIPALAM, CALICUT UNIVERSITY P.O. MALAPPURAM, KERALA - 693 635

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Corporate Accounting

2014 Admission Onwards

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MODULE – 1

1.1 ACCOUNTING FOR SHARE CAPITAL

A company organisation grew out of the limitations and drawbacks of earlier forms of organisations – Individual proprietorship, Partnership, etc. A company represents the third state in the evolution of business organisations. The increased need of modern industry and commerce could not be fulfilled by the earlier organisations. Thus most of the large scale industries or business establishments are organised as Joint Stock Company.

DEFINITION

A company is a voluntary and autonomous association of certain persons with capital divided in to numerous transferable shares formed to carry out a particular purpose in common. It is created by following a process of law. It is an artificial person; it is invisible and intangible. According to Section 3(1) (i) of the companies Act 1956 defines a company as "company formed and registered under this act or an existing company".

CHARACTERISTICS OF A COMPANY

a. **Separate legal entity** – It is a distinct legal person existing independent of its members.
b. **Limited Liability** – Liability of the members is limited to the extent of the face value of shares held by them.
c. **Separation of ownership and management** – Though a company is an artificial person yet it acts through human beings who are called directors of the company. There is a divorce between ownership and management.
d. **Capital Contribution** – Capital is contributed by persons called shareholders in the name of shares and the share capital can be increased or reduced only in accordance with the provisions of the Indian Companies Act.
e. **Distribution of Profit** – Profit is distributed according to the provisions of the articles by the directors.
f. **Transferability of shares** – The shares of a company are freely transferrable except in case of a private limited company. Transferability of shares has given perpetual succession to a company.
g. **Common seal** – A company being artificial personality, it acts through natural persons, called directors and its distinct existence is evidenced by a common seal.

KINDS OF COMPANIES

ON THE BASIS OF INCORPORATION

a. **Chartered company-** Companies which are incorporated under a special charter by Royal Charter which lays down objectives, rights, duties etc. Of the companies are known as Chartered companies. For example, East India Company
b. **Statutory company -** Companies which are brought into existence and governed by special Acts of the legislature are known as statutory companies. For example, RBI, LIC, UTI etc.
c. **Registered company -** Companies which are formed and registered under the Companies Act 1956 or registered under the previous companies Act.

ON THE BASIS OF LIABILITY

a. **Limited company-** A company in which the liability of each member is limited to the extent of face value of shares held by him such company is called companies limited by shares.
b. **Guarantee company-** Where the liability of the members of a company is limited by Memorandum to a fixed amount which the members undertake to contribute to the assets of the company in case of its winding up, the company is called Guarantee Company.
c. **Unlimited company-** Unlimited companies are companies not having any limit on the liability of its members. In the event of winding up, the members are liable to the full extent of their fortunes to meet the obligations of the company.

ON THE BAIS OF PUBLIC INVESTMENT

a. **Private company**- A private company means a company which by its articles a) Restricts the transfer of its shares b) Number of members to two hundred c) Prohibits any invitation to the public for any shares d) Prohibits acceptance of deposits from the persons.
b. **Public company-** Public companies are those companies which are not private companies. All the above four restrictions are not imposed on such companies.

COMPANIES DEEMED TO BE PUBLIC

A private company will be deemed to be a public company in the circumstances given below:-

1. If 25% or more of its paid-up capital is held by one or more bodies corporate, or
2. If it holds 25% of the paid up capital of a public company, or
3. If its average annual turnover is not less than rupees ten crores subject to change in ceiling, or
4. If it invites deposits from the public or renews deposits from the public other than its members, directors or their relatives.

SHARE CAPITAL OF THE COMPANY

Capital is essential for a trading concern. A company collects capital by inviting the public to buy its shares through a document known as prospectus. The capital is usually divided into different units with definite value called shares. Section 2(46) of the companies act defines a share as “a share in the share capital of the company and includes stock except where a distinction between stock and share is expressed or implied”. A share is not a sum of money but is an interest measured by a sum of money, and made up of various rights contained in the contract. A share is a fractional part of the share capital which forms the basis of ownership in a company.

Share capital refers to the amount of capital raised or to be raised by a company by the issue of shares. The main divisions of share capital are as follows:-

1. **Authorised capital -** The amount of capital with which the company intends to be registered is called Nominal or Registered or Authorised capital. It is the maximum amount which the company is authorised to raise by way of public subscription.
2. **Issued capital** – The part of the authorised capital which is offered to the public for subscription is called issued capital.
3. **Subscribed capital** – It is that part of the issued share capital which is actually taken up by the public. If the whole issued share capital is not subscribed for by the public, the balance of the issued share capital is called unsubscribed share capital.
4. **Called up capital** – It is that portion of the subscribed capital which has been called up by the company. The difference between subscribed capital and called up capital is known as uncalled capital
5. **Paid up capital** – It represents the amount received against the calls made on the shares. The unpaid balance of the called up capital is known as calls in arrears.
6. **Reserve capital** – Under Sec 99, Reserve capital is the amount of uncalled capital which the company has, by special resolution, decided not to call up except in the event of winding up of the company; reserve capital is available only to the creditors at the time of winding up of the company. Whereas Capital reserve is the capital profit earned by the business, not by the normal trading concerns. Capital reserve cannot be distributed as dividend to share holders. Eg. Share premium, profit prior to incorporation, forfeited shares a/c.etc.

TYPES OF SHARES

The shares which can be issued by a company are of two types - Preference shares and Equity shares.

1. PREFERNCE SHARES

The preference shares are those which have some preferential rights over the other types of shares. A share to be preference share must have two preferential rights:

a. They have a preferential right to be paid dividend during the life time of the company.
b. They have a preferential right to the return of capital when the Company goes in to liquidation.

The preference shares are of the following types:-

1. **Cumulative and Non - cumulative Preference shares** – Cumulative preference shares are those its dividend accumulated until it is paid off. The arrears of one year are carried forward to next year. If dividend not to accumulate and carried forward to next year are called non-cumulative preference shares. Preference shares are always cumulative unless otherwise stated.
2. **Convertible and Non-Convertible Preference shares** - The holders of the shares have a right to get their preference shares converted into equity shares within a certain period is called Convertible preference shares. If the preference shares cannot be converted in to equity shares then it is said to be Non- convertible preference shares.
3. **Participating and Non-participating preference shares** - In addition to the fixed dividend, balance of profit (after meeting equity dividend) shared by some preference shares. Such shares are participating preference shares. The holders of the preference shares are entitled to a fixed dividend and not in the surplus profits; they are called Non-participating preference shares.
4. **Redeemable and Irredeemable preference shares** – If preference shares are returned after a specified period of time to share holders are called redeemable preference shares. If preference shares are not redeemed (it is continue till the winding up) known as irredeemable preference shares.

2. EQUITY SHARES

Equity shares, with reference to any company limited by shares, are those which are not preference shares [(Sec. 85(2)]. Equity shares are also known as Ordinary shares. Equity share holders will get dividend and repayment of capital after meeting the claims of preference share holders. There will be no fixed rate of dividend to be paid to the equity shareholders and its rate may vary from year to year. The rate of dividend is determined by the directors of the company.

SWEAT EQUITY SHARE

Sweat equity share means the equity shares issued by a company at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights.

STOCK

As per Section 94(1) (c) of the Companies Act, 1956, when all the shares of a company have been fully paid up, they may be converted in to stock if so authorised by the articles of association. It is another type of unit of share capital of a company. Share capital of a company cannot be offered directly in the form of stock. Stock is a consolidation of fully paid shares. It is a set of shares put together in a bundle and stock has no definite value.

Difference between shares and stock

Shares	Stock
Shares may be fully or partly paid up.	For the purpose of conversion into stock, shares must be fully paid up.
It is not possible to transfer fractions of a share.	Stock may be split up into fractional parts and transferred as such.
Shares are distinctively numbered.	Stock bears no such number.
It is originally issued by a company.	Stock cannot be issued originally.
It may be always registered.	It may or may not registered.
Shares are individual units of the capital of a company.	Stocks are aggregate of fully paid up shares.

ISSUE OF SHARES

When a public limited company gets the certificate of incorporation, it issues a prospectus or a statement in lieu of prospectus inviting public to subscribe to the share capital of the company. That is the invitation is made through a document called *prospectus*. The prospectus is simply an invitation to an offer but is not an offer. If one is interested, application, which is prescribed and printed by the company, is filled, signed and sent to the company along with the prescribed application amount. These applications are considered by the Board of directors who take decision as to their acceptance or rejection, within a reasonable time. If the share applications are accepted by the company then shares are allotted and thereby, there arises a contract between the company and the applicant. That is, allotment results in a binding contract between the company and the prospective shareholders. The allotment must be communicated to the person making the application so that it is legally complete. From the accounting point of view, the following may be noted:

1. Every prospectus must mention the number of shares issued i.e. offered to the public.
   The excess applications received over the issued shares are to be rejected;
2. Prospectus must mention *the minimum subscription*. No allotment shall be made unless the amount stated in the prospectus as minimum subscription has been subscribed and the sum payable on application for the amount so stated has been paid in cash and received by the company. The minimum amount of share capital is determined to cover 1) the purchase price of any property purchased or to be purchased, 2) preliminary expenses, 3) money borrowed for the foregoing matters and 4) working. If this minimum capital is not applied for, share cannot be allotted. As per the SEBI's guidelines the minimum application money to be paid shall not be less than 25% of the issue price. Statutory minimum application money as per Section 69(3) of the Companies Act is 5% of the nominal value of shares. Hence, 25% of the issue price cannot be less than 5% of the nominal value of shares.
3. Each application for shares must be accompanied by the prescribed application money. The application money must not be less than *5% of the nominal value of each share*.
4. All application money must be kept intact in a scheduled bank and should not be used unless a certificate of commencement of business from the registrar has been obtained.
5. If the allotment takes place, a *letter of allotment* is sent to the allottees. If no allotment of share is made, *a letter of regret* together with application money is sent to the applicants.
6. The directors make the allotment of shares on the basis of the application. The directors reserve the right to allot less number of shares applied for or to reject an application at their discretion. On allotment, the allottee has to pay a part of the amount of the face value of the shares called allotment money. After the receipt of the allotment money, the company issues *Share Certificate*.
7. The balance due on shares may be called by the company in instalments. Each such instalment is called a *Call* and the amount payable is known as *call money*, between two calls there must be a gap of one month.
8. Share capital Suspense Account – Application money received on shares is transferred to share capital account on allotment of shares. But if the Balance sheet of the company is to be prepared

after receipt of the application money but before allotment of shares, it will not be proper to show the application money as share capital because shares have not yet been allotted. In such a case, the application money received may be shown as share capital suspense account under the head share capital till the shares is allotted.

BOOK BUILDING

Book building is a process of fixing price for an issue of securities on a feedback from potential investors based upon their perception about a company. It involves selling an issue step-wise to investors at an acceptable price with the help of a few intermediaries/merchant bankers who are called book runners. Under book building process, the issue price is not determined in advance, it is determined by the offer of potential investors.

EMPLOYEES STOCK OPTION

Employees stock option means the option given to the whole time directors, officers or employees of a company, which gives such directors , officers, or employees the benefit or right to purchase or subscribe at a future date , the securities offered by the company at a pre-determined price.

ISSUE OF SHARES AT DIFFERENT VALUES

Shares may be issued at a price which is termed as: (i) at par; (ii) at a premium; and (iii) at a discount

(i) At par – if the price required to be paid to the company for the share is equal to the nominal value of that share, it is called issue at par, e.g., a Rs. 10 equity share issued at a price of Rs.10

(ii) At a premium – if the price required to be paid to the company for the share is more than the nominal value of that share, it is called at a premium , e.g., a Rs. 10 equity share issued at a price of Rs.15

(iii) At a discount – if the price required to be paid to the company for the share is less than the nominal value of that share, it is called at a discount, e.g., a Rs.10 equity share issued at a price of Rs.8

Accounting Treatment of Issue of Shares

Specimen Journal Entries

1. On receipt of application money:

    Bank A/c Dr

    To Share Application A/c

2. On transferring of application money to capital account

    Share application A/c Dr

    To Share Capital A/c

3. On allotment money due:

    Share allotment A/c Dr

    To Share capital A/c

4. On receipt of allotment money:

    Bank A/c Dr

    To Share allotment A/c

5. On making first call due:

    Share first call A/c Dr

    To Share capital A/c

6. On receipt of first call money:

    Bank A/c Dr

    To Share first call A/c

7. On making second call due:

    Share second call A/c Dr

    To Share capital A/c

8. On receipt of second call money:

    Bank A/c Dr

    To Share second call A/c

9. On making final call due:
   Share final call A/c Dr
   To Share capital A/c
10. On receipt of final call money:
   Bank A/c Dr
   To Share final call A/c

Illustration - 1

The authorised capital of a limited company is Rs. 2,00,000 divided in to 20,000 equity shares of Rs.10 each. Out of these, 15,000 shares have been issued to the public, payable Rs. 2 on application, Rs. 4 on allotment, Rs. 2 on first call and Rs. 2 on second and final call. Pass necessary journal entries and prepare Balance sheet. All amounts have been duly received.

Solution

Journal entries

Bank A/c Dr To Equity Share Application A/c (Receipt of Application money on 15000 shares @ Rs. 2/ share)		30,000	30,000
Equity Share application A/c Dr To Equity Share Capital A/c (Transfer of application money to share capital)		30,000	30,000
Equity Share allotment A/c Dr To Equity Share capital A/c (Allotment money due on 15,000 shares @ Rs.4 per share)		60,000	60,000
Bank A/c Dr To Equity Share allotment A/c (Allotment money received)		60000	60,000
Equity Share first call A/c Dr To Equity Share capital A/c (First call money due on 15,000 shares @ Rs.2 per share)		30,000	30,000
Bank A/c Dr To Equity Share first call A/c (First call money received)		30,000	30,000
Equity Share final call A/c Dr To Equity Share capital A/c (Final call money due on 15,000 shares @ Rs.2 per share)		30,000	30,000
Bank A/c Dr To Share final call A/c (Final call money received)		30,000	30,000

Liabilities		Assets	
Authorised Capital		Cash at Bank	1,50,000
20,000 Equity shares of Rs. 10 each	2,00,000		
Issued, Subscribed, called up and paid up capital			
15,000 Equity shares of Rs. 10	1,50,000		
	1,50,000		1,50,000

Calls in Arrears

It often happens that some share holders fails to pay the allotment / call money due by them to the company. The total of such unpaid amount is known as calls in arrears. Though it is an outstanding asset, it is not shown on the asset side of the balance sheet; instead it is shown as a deduction from called up capital on the liability side of the balance sheet. Where a company maintains calls in arrears account, the journal entry is as follows:

Calls in Arrears A/c Dr
To Share allotment /Particular Call A/c

On calls in arrears, if there is a provision in the articles of the company, directors may charge interest @ 5% for the period between the day fixed for payment of allotment or call money and the date of actual payment.

Calls in Advance

Some of the shareholders may pay the balance amount on their shares along with allotment money or call money though not demanded by the company. Such amounts received in advance by the company from its shareholders are known as Calls in advance.

Accounting entries

1. When calls in advance is to be credited to calls in advance account –
   Bank A/c Dr
   To Calls in Advance
2. When Call money becomes due, the amount of calls in advance will be adjusted against the amount due
   Calls in Advance A/c Dr
   To Particular Call A/c

A call in advance is a liability to the company. According to the provisions of articles of the company, interest not exceeding 6% per annum is paid to shareholders for the period from the date of receipt of calls in advance up to the date when calls is due for payment.

Issue of shares for purchase of Assets

If the shares have been allotted to any person or firm from whom the company has purchased any asset, the following entry will be passed:

Asset A/c Dr
To Share capital A/c

This fact should also be disclosed in the Balance sheet while showing the issued, subscribed and paid up capital.

Issue of shares to promoters

Promoters are persons firms or companies who promote a company. They are paid remuneration for their services. If the remuneration is paid in the form of shares, the following journal entry will be passed:

Goodwill A/c Dr
To Share capital A/c

Goodwill account is debited and should be shown on the asset side of the Balance sheet.

Under Subscription, Over Subscription and Pro-rata Allotment

The company does not receive application equal to the number of shares offered for subscription, there may be two situations:

(i) Under subscription
(ii) Over subscription

(i) Under Subscription

The issue is said to have been under subscribed when the company receives applications for less number of shares than offered to the public for subscription. In this case company is not to face any problem regarding allotment since every applicant will be allotted all the shares applied for. But the company can proceed with allotment provided the subscription for shares is at least equal to the minimum required number of shares termed as minimum subscription.

(ii) Over Subscription

When shares are issued by well managed and financially strong companies to the public, they often receive more number of application than that they offer through prospectus and intend to allot. This is known as over subscription. In this situation, it becomes necessary to refuse allotment to some applicants. For this the directors make a decision about allotment of shares on a proportionate or an equitable basis to the applicants. It is called pro-rata allotment. In this case no application is fully accepted or fully rejected. Each applicant gets allotment for certain number of shares on the basis of number of shares applied for, number of shares that the company intends to allot and total number of applications received. In case of over subscription, company has the following options:

Option I

(i) Rejection of Excess Applications and Money Returned

The company may reject the applications for shares in excess of the shares offered for issue and a letter of rejection is sent to such applicants. In this case the application money received from these applicants is refunded to them in full. The journal entry made is as follows:

Share Application A/c Dr
To Bank A/c
(Application money on … shares refunded to the applicants)

(ii) Excess application money adjusted towards sums due on allotment.

Journal entry made is:
Shares Application A/c Dr
To Share Allotment A/c
(Excess application money adjusted towards sums due on allotment)

If the application money received on partially accepted applications is more than the amount required for adjustment towards allotment money, the excess money is refunded. However, if the Articles of the company so authorise, the directors may retain the excess money as calls in advance to be adjusted against the call/calls falling due later on and the following entry is made:

Share Application A/c Dr
To Call-in-advance A/c

(The adjustment of excess share application money retained as call-in- advance in respect of ... shares).

Option II

Partial acceptance of Applications.

In some cases the company accepts the applications for subscription partially. It means that the company does not allot the full number of shares applied for. For example if an applicant has applied for 5000 shares and is allotted only 2000 shares, then the applications is said to have been partially accepted. The company may evolve some formula of accepting applications partially or making proportionate allotment/ the Prorata allotment which means that the applicants are allotted shares proportionately. In such a case the company adjusts the excess share money received on application towards share allotment money due on partially accepted applications. The journal entry recording the adjustment of application money towards share allotment money is as under:

Share Application A/c Dr

To Share Allotment A/c

(Share application money transferred to Share Allotment Account in respect of ... shares).

Illustration - 2

The Full Health Care Ltd has offered to public for subscription 20000 shares of Rs 100 each payable as Rs 30 per share on application, Rs 30 per share on allotment and the balance on call. Applications were received for 30000 shares. Applications for 5000 shares were rejected all together and application money was returned. Remaining applicants were allotted the offered shares. Their excess application money was adjusted towards some due on allotment. Calls were made and duly received. Make journal entries in the books of the company.

Solution

Journal entries Full Health Care Ltd

Bank A/c	Dr		900000	
To Share Application A/c				900000
(Application money received for 30000 shares @ Rs 30 per share)				
Share Application A/c	Dr		900000	
To Share Capital A/c				600000
To Bank A/c				150000
To Share Allotment A/c				150000
(Application money of 20000 shares transferred to share capital A/c on their allotment. That of 5000 shares returned and of 5000 shares adjusted towards sum due on allotment.				
Share Allotment A/c	Dr		600000	
To Share Capital A/c…				600000
(Allotment money due)				

Bank A/c Dr To Share Allotment A/c. (Allotment money received)		450000	450000
Share First and Final call A/c. Dr To Share Capital A/c (Call money due)		800000	800000
Bank A/c Dr To Share First and Final call A/c. (Call money received)		800000	800000

Issue of Shares at Premium

If a company issues its shares at a price more than its face value, the shares are said to have been issued at Premium. The difference between the issue price and face value or nominal value is called 'Premium'. If a share of Rs 10 is issued at Rs 12, it is said to have been issued at a premium of Rs 2 per share. The money received as premium is transferred to Securities Premium A/c. A company issues its shares at premium only when its financial position is very sound. It is a capital gain to the company. The Premium money may be demanded by the company with application, allotment or with calls The Companies Act has laid down certain restrictions on the utilisation of the amount of premium.

According to Section 78 of this Act, the amount of premium can be utilised for:

(i) Issuing fully-paid bonus shares;
(ii) Writing off preliminary expenses, discount on issue of shares, underwriting commission or expenses on issue;
(iii) Paying premium on redemption of Preference shares or Debentures.

Accounting treatment of Premium on issue of shares:

(a) Securities premium collected with share Application money :

If the Securities premium is collected on application and the company has taken decision about the allotment of shares, the following journal entry is made :

Share Application A/c. Dr

To Securities Premium A/c

(The amount of Securities premium received on application of the allotted shares is transferred to Securities Premium A/c)

(b) Premium collected with Allotment money or Calls.

If the company decides to demand the premium with share Allotment or/and share call money, the journal entry made is:

Share Allotment A/c Dr
Or/and
Share Call A/c Dr
To Securities Premium A/c
(Adjustment of share premium due on……shares @Rs…….per share.)

Illustration 3

Luxuary Cars Ltd. issued 100000 shares of Rs 10 each at a premium of Rs 5 per share, payable as: On application Rs. 4 (including Rs 2 premium) per share On allotment Rs 8 (including Rs 3 premium) per share On call Rs. 3 per share. Applications were received for 100000 shares and allotment was made to all. Make journal entries.

Solution **Journal entries**

Books of Luxury Cars Ltd.

Bank A/c Dr. To Share Application A/c (Amount received for 1,00,000 shares)		400000	 400000
Share Application A/c Dr To Share Capital A/c To Securities Premium A/c (Share application money transferred to share capital A/c and securities Premium A/c)		400000	 200000 200000
Bank A/c Dr To Share Allotment A/c (Share allotment money is received on 1,00,000 shares @ Rs 8 per share)		800000	 800000
Share Allotment A/c Dr To Share Capital A/c To Securities Premium A/c (Share allotment money made Due)		800000	 500000 300000
Share First and Final Call A/c Dr To Share Capital A/c (Share call money made due on 1,00,000 shares @ Rs 3 per share.)		300000	 300000
Bank A/c Dr To Share First and Final Call A/c (Share call money received on 1,00,000 shares @ Rs 3 per share.)		300000	 300000

Issue of Shares at discount

When the issue price of share is less than the face value, shares are said to have been issued at discount. For example if a company issues its shares of Rs 100 each at Rs. 90 each, the shares are said to be issued at discount. The amount of discount is Rs 10 per share (i.e. Rs 100 – Rs 90). Discount on shares is a loss to the company. The Companies Act, permits issue of shares at a discount subject to the following conditions. (sec. 79) –

(a) The issue must be of a class of shares already issued.

(b) Not less than 1 year has at the date of issue elapsed since the date on which the company became entitled to commence business.

(c) The issue at a discount is authorized by a resolution passed by the company in the general meeting & sanctioned by the company law board.

(d) The maximum rate of discount must not exceed 10% or such rate as the company law board may permit.

(e) The shares to be issued at a discount must be issued within two months of the sanction by the company law board or within such extended time as the company law board may allow.

Accounting Treatment of Shares Issued at Discount

The amount of discount is generally adjusted towards share allotment money and the following journal entry is made:

Share Allotment A/c Dr
Discount on issue of shares A/c Dr
To Share Capital A/c

Allotment money due on….shares @Rs ……per share after allowing discount @Rs ….per share.

Illustraion 4

Sri Krishna Agro Chemical Ltd. was registered with a capital of Rs 5000000 divided into 50000 shares of Rs 100 each. It issued 10000 shares at discount of Rs 10 per share, payable as : Rs 40 per share on application Rs 30 per share on allotment Rs 20 per share on call. Company received applications for 15000 shares. Applicants for 12000 shares were allotted 10000 shares and applications for the remaining shares were sent letters of regret and their application money was returned. Call was made. Allotment and call money was duly received. Make journal entries in the books of the company.

Solution **Journal entries**

Sri Krishna Agro Chemicals

1	Bank A/c Dr. To Share Application A/c (Application money received for 15000 shares @ Rs 40 per Share)		6,00,000	 6,00,000
2.	Share Application A/c Dr To Share Capital A/c (Application money of 10000 shares transferred to share Capital A/c on their allotment)		4,00,000	 4,00,000
3.	Share Application A/c Dr To Share Allotment A/c To Bank A/c (Application money of 3000 shares returned and of 2000 shares adjusted towards sum due on allotment)		2,00,000	 80,000 1,20,000

4.	Shares Allotment A/c Dr Share discount A/c Dr To Share Capital A/c. (Allotment money due)		3,00,000 1,00,000	4,00,000
5.	Bank A/c Dr To Share Allotment A/c (Allotment money received)		2,20,000	2,20,000
6.	Share First & Final Call A/c Dr To Share Capital A/c Amount due on call		2,00,000	2,00,000
7.	Bank A/c Dr To Share First & Final Call A/c (Call money received)		2,00,000	2,00,000

Forfeiture of Shares

When shares are allotted to an applicant, it becomes a contract between the shareholder & the company. The shareholder is bound to contribute to the capital and the premium if any of the company to the extent of the shares he has agreed to take. as & when the Directors make the calls. If he fails to pay the calls then his shares may be forfeiture by the directors if authorised by the Articles of Association of the company.

The Forfeiture can be only for non-payment of calls on shares and not for any other reasons. When the directors forfeiture the shares the person loses his membership in the company as well as the amount already paid by him towards the share capital and premium. His name is removed from the register of members. The directors must observe strictly all the legal formalities required by the Articles of Association before forfeiting the shares.

Share Capital A/c Dr (no of forfeited shares * amount called up per shares)
Security Premium A/c Dr (to the extent premium not received)
To Calls in Arrears A/c
To Share Forfeiture A/c (amount received towards share received)

Note: Once the security premium is collected it cannot be cancelled later on. Therefore if he Forfeited shares were issued at a premium and the premium money is already received on those Forfeited shares, security premium A/c will not be cancelled or debited.

Conditions for forfeiture of shares

The authority to forfeit shares is given to the Board of Directors in Articles of Association of the company. The Board of Directors has to give at least fourteen days notice to the defaulting members calling upon them to pay outstanding amount with or without interest as the case may be before the specified date. The notice must also state that if the shareholders fail to remit the amount mentioned therein within the stipulated period, their shares will be forfeited. If they still fail to pay the amount within the specified period of time, the Board of Directors of the company may decide to forfeit such shares by passing a resolution. The decision regarding the forfeiture of shares should be communicated to the concerned allottees and should be asked to return the allotment letters and share certificates of the forfeited shares to the company.

Accounting treatment for forfeiture of shares

When shares issued at par are forfeited the accounting treatment will be as follows:

(i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.

(ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.

(iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. This cancels the effect of debit to such calls which take place when the amount is made due.

The journal entry is :

Share capital A/c	Dr	(Amount called up)
To share forfeited A/c		(Amount paid)
To unpaid calls A/c		(Amount called but not paid)

Note : (i) Amount called up = No. of shares × called up per share

(ii) Amount paid = No. of shares × Amount paid per share

(iii) Amount called but not paid = No. of shares × Amount called but not paid per share

Illustration 4

X, a shareholder, holding 100 shares of Rs 10 each has paid application money of Rs 2 per share and allotment money of Rs 3 per share, but has failed to pay the first call of Rs 2 per share and second call of Rs 3 per share. His shares were forfeited. Make the journal entry to record the forfeiture of shares.

Solution **Journal entries**

	Share Capital A/c (100 × Rs 10) Dr		1000	
	To Share forfeited A/c (100 × Rs 5)			500
	To Share First Call A/c (100 × Rs 2)			200
	To Share Second and Final Call A/c (100 × Rs 3)			300
	(forfeiture of 100 shares)			

Illustration 5

Alpha Ltd. issued 10000 shares of Rs 100 each payable as: Rs 25 on application. Rs 25 on allotment Rs 20 on First call and Rs 30 on second and final call. 9000 shares were applied for and allotted. All the payments were received with the exception of allotment money, first call and second and final call money on 300 shares allotted to Ganesh. The Board of Directors decided to forfeit these shares. Make journal entry to record transaction relating to forfeiture of shares.

Solution **Journal entries**

Share Capital A/c (300 × Rs 100) Dr	30000	
To Share forfeited A/c (300 × Rs 25)		7500
To Share allotment A/c (300 × Rs 25)		7500
To Share first call A/c (300 × Rs 20)		6000
To Share second call A/c (300 × Rs 30)		9000
(300 shares of Rs 100 each forfeited due to non payment of allotment money and calls money)		

Forfeiture of shares issued at premium

In case shares are issued at premium and thereafter forfeited there can be two situations :

1. Premium on shares has been received prior to the forfeiture.
2. Amount of premium on shares has not been received and it still stands credited to the Securities Premium A/c.

1. Premium money has been received prior to the forfeiture

If the amount of premium on shares forfeited has been received by the company prior to the forfeiture, securities Premium A/c will not get affected. In this case the journal entry of forfeiture of shares will be similar to the entry made as if the shares had been issued at par.

The journal entry will be :

Share Capital A/c Dr
To Share forfeited A/c
To Unpaid Calls A/c./Calls in arrears A/c

(Forfeiture of share issued at premium)

Illustration 6

ABC Software Ltd. issued Rs 500000 capital divided into equity shares of Rs 10 each. The shares were issued at a premium of Rs 4 per share and were payable as : Rs 3 per share on application, Rs 7 (including premium) per share on allotment and the balance on call. All the shares applied for and were duly allotted. All the money was duly received except on 500 shares on which the call money was not received. Company decided to forfeit these shares. Make journal entry to record the forfeiture of 500 shares.

Solution

Journal entries

Share Capital A/c	Dr.	5000	
To Share Forfeited A/c			3000
To Share First & Final Call A/c			2000
(Forfeiture of 500 shares of Rs 10 each due to on non payment of call money of Rs 4 per share)			

2. Premium on shares has not been received and stands credited to Securities Premium A/c as due but not paid.

When a share is forfeited on which the amount of premium has been made due but has not been received, either wholly or partially, the Securities Premium A/c will be cancelled. At the time of making due, Securities Premium A/c will be credited. The journal entry will be as follows:

Share Capital A/c Dr
Securities Premium A/c Dr
To Share Forfeited A/c
To Unpaid call A/c.
(Forfeiture of shares originally issued at premium due to non payment of dues).

Illustration 7

The L & T Company Ltd. offered to public for subscription of 50,000 shares of Rs. 20 each at a premium of Rs. 5 per share. The amount was payable as under:

On application Rs. 5 per share

On allotment Rs. 12 per share (Including premium of Rs 5 per share)

On first call Rs. 4 per share

On Second and Final call Rs. 4 per share

Applications were received for all the shares. Allotment was made to all the applicants in full. Mr.A failed to pay allotment and call money on 200 shares held by him. Mr.B was allotted 300 shares. He did not pay the call money. Their shares were forfeited. Make necessary journal entry for the forfeiture only.

Solution **Journal entries**

	Share Capital A/c (200 × 20) Dr.		4000	
	Securities Premium A/c (200 × 5) Dr.		1000	
	To Share Forfeited A/c (200 × 5)			1000
	To Share Allotment A/c (200 × 12)			2400
	To Share First Call A/c (200 × 4)			800
	To Share Second and Final call A/c (200 × 4)			800
	(Forfeiture of 200 shares held by Mr.A who did not pay allotment and call money).			
	Share Capital A/c (200 × 20) Dr.		6000	
	To Shares forfeited A/c			3600
	To Share First Call A/c			1200
	To Share Second Call A/c			1200
	(Forfeiture of 300 shares held by Mr.B)			

Forfeiture of shares issued at discount

Discount on issue of shares is a loss to the company. When shares issued at a discount are forfeited for non payment of dues, the discount allowed on such shares is written back. At the time of issue of shares, Discount on issue of Shares A/c is debited and when forfeited, this account is credited to cancel the discount allowed on such shares. In this case the following journal entry is made :

Share Capital A/c Dr.

To Share Forfeited A/c

To Discount on Issue of Shares A/c

To Unpaid call A/c

(Forfeiture of shares originally issued at discount for non payment of dues).

Illustration 8

The Snow white Ltd. invited applications for 200 shares of Rs. 50 each at a discount of 10% payable as follows: On application Rs. 10 per share On allotment Rs. 20 per share On call Rs. 15 per share Whole of the issue was subscribed and paid for except the calls money on 200 shares which were forfeited by the company. Make journal entry for forfeiture of shares.

Solution **Journal entries**

Share Capital A/c (200 × 50)	Dr.	10000	
To Shares forfeited A/c (200 × 30)			6000
To Discount on Issue of Shares A/c (200 × 5)			1000
To Share First and Final call A/c (200 × 15)			3000
(Forfeiture of 200 shares of Rs 50 each issued at discount of 10% on non payment of call money)			

Reissue of Forfeited shares

Shares are forfeited because only a part of the due amount of such shares is received and the balance remains unpaid. On forfeiture the membership of the original allottee is cancelled. He/she cannot be asked to make payment of the remaining amount. Such shares become the property of the company. Therefore company may sell these shares. Such sale of shares is called 'reissue of shares'. Thus reissue of shares means issue of forfeited shares. The Directors may reissue the Forfeited shares at par, at premium or at a reissued at a discount; the maximum discount is restricted to the amount Forfeited on these shares + the original discount.

The maximum permissible discount at the time of reissue of forfeited shares is ascertained in different situations in the following manner:

(i) Shares originally issued at par: When the shares are originally issued at par, the maximum permissible discount for reissue of shares is equal to the amount forfeited on such shares

(ii) Shares originally issued at premium: In case of shares originally issued at premium, there can be two situations: (a) premium has not been received on the forfeited shares, and (b) premium has been received on such shares. The amount forfeited is the amount that has been received including the amount of premium if it has been received and the maximum discount that can be allowed on reissue of such shares is the amount so forfeited.

(iii) Shares originally issued at discount: In this case the actual amount received becomes the forfeited amount. But the maximum permissible discount on reissue of shares will be equal to the amount forfeited plus the amount of discount initially allowed on these shares at the time of their original issue.

Reissue of forfeited shares at a discount: When the shares forfeited are reissued at discount, Bank account is debited by the amount received and Share capital account is credited by the paid up amount. The amount of discount allowed is debited to Share Forfeited Account. This is for adjusting the amount of discount so allowed from the amount forfeited at the time of forfeiture.

Bank A/c (the amount received on reissue) Dr.
Share Forfeited A/c (the amount allowed as discount) Dr.
To Share Capital A/c (paid up amount)

The amount of discount is less than the amount forfeited; the remaining forfeited amount will be profit for the company. This profit is a capital gain to the company and is transferred to Capital Reserve account. Journal entry of the same will be as follows:

Share forfeited A/c Dr
To Capital Reserve A/c

In case, only a part of the forfeited shares are reissued and others remain cancelled, the amount forfeited on forfeited shares not reissued will remain in the Shares Forfeited Account. For adjustment of forfeited amount on share reissued will be calculated as:

$$\text{Amount to be adjusted} = \text{Total forfeited amount} * \frac{\text{No. of shares reissued}}{\text{Total No. of shares forfeited}}$$

Illustration 9

Jai Company Ltd. forfeited 200 shares of Rs 10 each, fully called up on which Rs. 7 have been received and final call of Rs. 3 per share remains unpaid. These shares were later on reissued for Rs. 8 per share fully paid up. Make journal entry for recording the forfeiture and reissue of shares.

Solution **Journal entries**

	Share Capital A/c To Shares Forfeited A/c To Shares Final call A/c (Forfeiture of 200 shares of Rs. 10 each due to non payment of final call of Rs 3 per share)	Dr	2000	 1400 600
	Bank A/c Shares Forfeited A/c To Share capital A/c (Reissue of 200 forfeited shares of Rs 10 each for Rs. 8 per share as fully paid up)	Dr Dr	1600 400	 2000
	Shares forfeited A/c To Capital Reserve A/c (The Balance amount in Share Forfeited A/c transferred to Capital Reserve A/c)	Dr	1000	 1000

Illustration 10

India infrastructure Ltd. has issued its shares of Rs. 20 each at a discount of Rs 2 per share. Mahima holding 100 shares did not pay final call of Rs 5 per share. Her shares were forfeited. Later on the company reissued 100 shares of these forfeited shares at (I) Rs. 15 per share (II) Rs. 20 per share, and (III) Rs. 25 per share Make journal entries for the forfeiture and reissue of the shares in the books of company.

Solution **Journal entries**

Share Capital A/c	Dr	2000	
To Shares Forfeited A/c			1300
To Discount on Issue of Shares A/c			200
To Shares Final Call A/c			500

(Forfeiture of 200 shares issued at discount for non payment of final call)

Reissue of shares: Reissued at Rs 15 per share

I.	(i) Bank A/c	Dr	1500	
	Discount on Issue of Shares A/c	Dr	200	
	Shares Forfeited A/c	Dr	300	
	To Share Capital A/c			2000
	(100 shares reissued at Rs 15 per share)			
	(ii) Shares Forfeited A/c	Dr	1000	
	To Capital Reserve A/c			1000

(Balance in share Forfeited A/c of 100 shares reissued transferred to Capital Reserve A/c)

II.	Bank A/c	Dr	2000	
	To Share Capital A/c			2000
	(100 shares reissued at Rs 20 per share)			
	Shares Forfeited A/c	Dr	1300	
	To Capital Reserve A/c			1300

(Balance in shares forfeited A/c transferred to Capital Reserve A/c)

III. Reissued at Rs. 25 per share

Bank A/c Dr		2500	
Discount on issue of share A/c Dr		200	
To Share Capital A/c			2000
To Securities Premium A/c			700
(Reissue of discounted shares at Rs 25 per share)			
Shares Forfeited A/c Dr		1300	
To Capital Reserve			1300
(Balance in shares forfeited A/c transferred to capital Reserve A/c)			

Illustration 11

A Company issued for public subscription 40,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share payable as under:

On application	Rs. 2 per share
On Allotment	Rs. 5 per share (including premium)
On first call	Rs. 2 per share
On final call	Rs. 3 per share

Applications were received for 70,000 Shares. Allotment was made pro-rata to the applicants for 50,000 shares, the remaining applications being refused. Money overpaid on applications was applied towards sum due on allotment. A, to whom, 1,500 shares were allotted, failed to pay the allotment and call money. B, to whom 2,000 shares were allotted, failed to pay the two calls. The shares of A and B were subsequently forfeited after the second call was made. 3,000 of the forfeited shares were reissued @ Rs. 8 per share fully paid. The reissued shares included all of A's shares. Pass journal entries in the books of the company to record the above transactions.

Solution

Working Notes :

40,000 shares were issued to applicants for 50,000 shares

Ratio of allotment is 4:5

A was allotted 1,500 shares so he applied for =1500×5 = 1875 shares

A paid on application 1875 × 2 = 3,750

A was allotted 1,500 shares and was to pay on application = 3,000

Surplus transferred to Share Allotment = 750

Total Amount due on allotment = 40,000 × 5 = 2,00,000

Less: Surplus adjusted from Share Application = 20,000

Balance amount due = 1,80,000

Less: Arrears from A (Due Rs. 7,500 Less: Surplus Application amount Rs 750) = 6,750

Amount received on allotment = 1,73,250

Amount due on share First Call = 40,000 × 2 = 80,000

Less: Arrears from A & B [(1,500+2,000) × 2] = 7,000

Hence amount received = 73,000

__Amount due on Second and Final Call = 40,000 × 3 = 1,20,000

Less: Arrears from A & B [(1,500+2,000) × 3] = 10,500

Amount Received = 1,09,50

Amount Forfeited A & B = 13,750

From A = 3,750

From B (2,000×5 = 10,000

Amount forfeited on 3,000 shares [From A Rs. 3,750

And From B (10,000 ÷ 2,000) × 1,500] = 3,750

\+ 7,500

= 11,250

Less: Discount allowed on re-issue = 6,000

Balance transferred to Capital Reserve = 5,250

Journal entries

Particulars		Dr	Cr
Bank A/c		1,40,000	
To Share Application A/c			1,40,000
(Being share application money received on 70,000 shares @ Rs. 2 per share)			
Share Application A/c		1,40,000	
To Share Capital A/c			80,000
To Share Allotment A/c			20,000
To Bank A/c			40,000
(Being share application money transferred to Share Capital account, Share Allotment account and balance refunded)			
Share Allotment A/c		2,00,000	
To Share Capital A/c			1,20,000
To Securities Premium A/c			80,000
(Being share allotment money due on 40,000 share@ Rs. 5 per shares, including premium of Rs. 2 per share)			
Bank A/c		1,73,250	
Calls in Arrears A/c		6,750,	
To Share Allotment A/c			1,80,000
(Being the amount received on share allotment)			
Share First Call A/c		80,000	
To Share Capital A/c			80,000
(Being share first call money due on 40,000 shares @ Rs. 2 per share)			
Bank A/c		73,000	
Calls in Arrears A/c		7,000	
To Share First Call A/c			80,000
(Being share first call money due on 36,500 shares @ Rs. 2 per share)			
Share Second and Final Call A/c		1,20,000	
To Share Capital A/c			1,20,000
(Being share second and final call money due on 40,000 shares @ Rs. 3 per share)			
Bank A/c		1,09,500	
Call in Arrears A/c		10,500	
To Share Second and Final Call A/c			1,20,000
(Being amount received on 36,500 shares @ Rs. 3 per share)			
Share Capital A/c		35,000	
Securities Premium A/c		3,000	
To Calls in Arrears A/c			24,250
To Share Forfeited A/c			13,750
(Being 3,500 shares forfeited for non-payment of call in arrears)			
Bank A/c		24,000	
Share Forfeited A/c		6,000	
To Share Capital A/c			30,000
(Being reissue of 3,000 shares @ Rs. 8 per share as fully paid)			
Share Forfeited A/c		5,250	
To Capital Reserve A/c			5,250
(Being the surplus of amount forfeited in respect of shares reissued transferred to Capital Reserve)			

Surrender of Shares

A shareholder who is not able to pay the call money may surrender his shares to the company. The company cancels such surrender shares. Surrender is a voluntary act on the part of the shareholder, whereas Forfeiture is a compulsory act on part of the company. The effect of both surrender & Forfeiture is the same, i.e. cancellation of the shares. The company can accept surrender of shares if permitted by its Articles of Association. The accounting treatment in respect of surrender of shares is same as that of Forfeiture of Shares.

Lien on Shares

Lien on shares is an equitable charge on shares to secure any debt which may be recoverable from the shareholder of the company. Right of lien can be exercised on dividends payable and final amounts to be settled on dissolution of the company.

Right Issue or Pre-emptive Right

According to Section 81(1) when a company proposes to issue further share capital , the new shares shall first be offered to existing share holders in proportion of their existing shareholding. Such right is called Pre-emptive right or right issue.

Advantages

a. Control of the company is retained in hands of the existing share holders.
b. Existing shareholders get right issue at a price lower than the market price of share.
c. The expenses of issue are lower than the fresh issue of shares.
d. When the right issues are made from time to time, the image of the company improves and the existing shareholders remain satisfied.
e. There is more certainty of getting capital in the case of right issue than the public issue.

Valuation of right issue

a. Calculate the market value of shares already held by a shareholder.
b. Add to the above price paid for the fresh shares.
c. Find out the average price of existing shares and fresh shares using following formula:-

$$\frac{\text{Market price of existing shares} + \text{Issue price of right shares}}{\text{No. of existing shares} + \text{No. of Right shares}}$$

d. The average price of the share should be deducted from market price, that amount is the value of right.

(Value of right = Market price of shares – Average price of shares)

1.2 REDEMPTION OF PREFERENCE SHARES

Under section 100 of the Companies Act, a company is not allowed to return to its shareholders the share money without the permission of the court. But permission of the court is not necessary, if the refund is to be made to the preference shareholders.

When the capital is raised by issuing redeemable preference shares, it is to be paid back by the company to such shareholders after the expiry of stipulated period whether the company is to be wound up or not. Preference shares which are repayable after the expiry of a stipulated period are called redeemable preference shares. As per the latest amendment, all preference shares are to be redeemed within ten years.

The following are the important provisions regarding the redemption of preference shares which are given under Section 80 of the Companies Act:

1. The shares shall be redeemable only if they are fully paid up. If the shares to be redeemed are partly paid up, they should be made fully paid up before they are redeemed.
2. Shares shall be redeemed either out of profits of the company available for dividends or out of proceeds of fresh issue of shares made for the purpose of redemption.
3. Premium if any, payable on redemption, should be provided out of the profits or out of the share premium account of the company.
4. Where any such shares are redeemed out of profits, an amount equal to face value of shares redeemed must be transferred to capital redemption reserve account.
5. The Capital Redemption Reserve Account can be utilised for issuing fully paid bonus shares to the shareholders.

The redemption of preference shares should not be regarded as a reduction of the authorised capital of the company and as such the reduced shares should remain as part of the authorised capital and must be shown in the balance sheet.

Capital Redemption Reserve (CRR)

If the preference shares are redeemed out of accumulated profit, it will be necessary to transfer an amount equal to the amount repaid on the redemption to Capital Redemption Reserve Account. If the company issues any fresh shares for redemption purpose, the transferred amount will be the difference between nominal value of shares redeemed and the nominal value of shares issued (i.e. amount transferred to CRR = Nominal value of shares redeemed – Nominal value of shares issued). The capital redemption reserve account can be used for issuing fully paid bonus shares.

The importance of creation of capital redemption reserve account is to a) protect the interest of creditors and b) maintain working capital. Redemption of preference shares involves repayment of capital before paying creditors of the company. It may affect the interest of creditors. In addition to that the working capital of the company will be depleted as a result of outflow of cash due to redemption. The amount is capitalized by creating the capital redemption reserve account. As a result this amount will not be available for distribution of dividend. It helps to protect the interest of creditors and on the other hand it replenishes working capital.

Accounting Entries

The redeemable preference shares can be redeemed by a) the proceeds of a fresh issue of equity shares/ preference shares, b) the capitalization of undistributed profit i.e. creating capital redemption reserve account, or c) a combination of both (a) and (b). Let us see the accounting entries required for redemption of preference shares.

i) When new shares are issued at par:

Bank A/c …………………Dr.
To Share Capital A/c.

ii) When new shares are issued at premium:

Bank A/c ……………………..Dr.
To Share Capital A/c
To Securities Premium A/c

iii) When new shares are issued at a discount:

Bank A/c ………………Dr.
Discount on Issue of Share Capital………..Dr.
To Share Capital A/c.

iv) Conversion of partly paid shares into fully paid shares:

a) Share Call A/c ………..Dr.
To Share Capital A/c
b) Bank A/c ……………..Dr.
To Share Call A/c.

v) When preference shares are redeemed at par:

Redeemable Preference Share Capital A/c ………………Dr.
To Preference shareholders A/c.

vi) When preference shares are redeemed at a premium:

Redeemable Preference Share Capital A/c ………………Dr
Premium of Redemption Preference Share Capital A/c….Dr.
To Preference shareholders A/c.

vii) Adjustment of premium on redemption:

Profit and Loss A/c………………..Dr.
Securities Premium A/c ……………….Dr.
To Premium of Redemption Preference Share Capital A/c

viii) Transferring the amount to Capital Redemption Reserve Account:

General Reserve A/c …………….Dr.
Profit and Loss A/c …………….Dr.
To Capital Redemption Reserve A/c

ix) Expenses on issue of shares:

Expenses on Issue of shares A/c…………….Dr.

To Bank A/c.

x) When payment is made to preference shareholders:

Preference Shareholders A/c ……………Dr.

To Bank A/c.

xi) When the fully paid bonus shares are issued:

Capital Redemption Reserve A/c ……………. Dr.

General Reserve A/c …………………………..Dr.

Securities Premium A/c ……………………………Dr.

Profit & Loss A/c …………………………….. Dr.

To Bonus to Shareholders A/c

xii) Capitalization of profit:

Bonus to Shareholders A/c ………………Dr.

To Equity share capital A/c

Illustration - 12

ABC Co. Ltd. had part of its share capital in 2000 preference shares of Rs.10 each fully paid up and these have become due for redemption. The preference share capital was to be redeemed out of a fresh issue of equity shares at par made particularly for this purpose and the general reserve of the company stood at Rs.25,000. Show the journal entries for the above transactions.

Solution

Journal entries

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2010 April 1	Preference share capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 2000 preference shares)		20,000	20,000
2010 April 1	Bank A/c Dr. To Equity Share Capital A/c (Being the amount received on issue of 2000 equity shares of Rs.10 each made for the purpose of redemption of preference shares as per Board’s Resolution dated).		20,000	20,000
2010 April 1	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid)		20,000	20,000

Illustration – 13

X Co. Ltd. Issued 50,000 Equity shares of Rs.10 each and 3000, 10% Preference shares of Rs.100 each, all shares being fully paid. On 31.3.08, Profit and Loss Account showed an undistributed profit of Rs..50,000 and General Reserve Account stood at Rs.1,20,000. On 2.4.08, the directors decided to issue 1500, 6% Preference shares of Rs.100 each for cash and to redeem the existing preference shares at Rs.105 utilizing as much as would be required for the purpose. Show the journal entries to record the transactions.

Solution **Journal entries**

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2008 April 2	10% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 3000 preference shares, with premium of 5%).		3,00,000 15,000	 3,15,000
"	Bank A/c Dr. To 6% Preference Share Capital A/c (Being the amount received on issue of 1500, 6% Preference shares of Rs.100 each made for the purpose of redemption of preference shares as per Board's Resolution dated…………).		150,000	 150,000
"	General Reserve A/c Dr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against general reserve)		15,000	 15,000
"	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue).		105,000 45,000	 150,000
"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid).		315,000	 315,000

Illustration – 13

X Co. Ltd. Issued 50,000 Equity shares of Rs.10 each and 3000, 10% Preference shares of Rs.100 each, all shares being fully paid. On 31.3.08, Profit and Loss Account showed an undistributed profit of Rs..50,000 and General Reserve Account stood at Rs.1,20,000. On 2.4.08, the directors decided to issue 1500, 6% Preference shares of Rs.100 each for cash and to redeem the existing preference shares at Rs.105 utilizing as much as would be required for the purpose. Show the journal entries to record the transactions.

Solution **Journal entries**

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2008 April 2	10% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 3000 preference shares, with premium of 5%).		3,00,000 15,000	 3,15,000
"	Bank A/c Dr. To 6% Preference Share Capital A/c (Being the amount received on issue of 1500, 6% Preference shares of Rs.100 each made for the purpose of redemption of preference shares as per Board's Resolution dated………..).		150,000	 150,000
"	General Reserve A/c Dr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against general reserve)		15,000	 15,000
"	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue).		105,000 45,000	 1,50,000
"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid).		315,000	 3,15,000

Illustration – 14

The Producers Ltd.'s Balance sheet shows the following balance s on 31-3-08. 30,000 equity shares of Rs.10 each fully paid; 18,000 10% Redeemable Preference shares of Rs.10 each fully paid; 4000, 15% Redeemable Preference shares of Rs.10 each, Rs.8 paid up. General Reserve Rs.12,000; Securities Premium Rs.15,000; Profit Loss Account Rs.80,000 and capital Reserve Rs.20,000. Preference shares are redeemed on 1-4-08 at a premium of Rs.2 per share. For redemption, 4000 equity shares of Rs.10 each are issued at 10% premium. A bonus issue of equity share was made at par, two shares being issued for every five held on that date. Show the journal entries to record the above transactions

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2008 April 1	10% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 18000 preference shares, with premium of 2%).		180,000 36,000	 216,000
"	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being the amount received on issue of 4000, Equity shares of Rs.10 each made with premium of 10% for the purpose of redemption of preference shares as per Board's Resolution dated…………).		44,000	 40,000 4,000
"	Securities Premium A/c Dr. Profit And Loss A/c Dr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against general reserve)		19,000 17,000	 36,000
"	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue).	"	120,000 20,000	 140,000

"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid).	"	216,000	216,000
"	Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c Being the amount utilised for issue of bonus shares in 5:2 ratio as per shareholders Resolution No. Dated…) 30,000x2/5xRs.10	"	120,000	120,000
"	Bonus to Shareholders A/c Dr. To Equity Share capital A/c (Being the amount capitalised by issue of bonus shares)		120,000	120,000

Illustration - 15

The preference shares were redeemed on April 1, 2008 at a premium of Rs.5.00 per share, the whereabouts of the holders of 1500 such shares not being known. At the same time, a bonus issue of equity share was made at par, one share being issued for every four equity shares held. Show the journal entries to record the above transactions and the Balance sheet as it would appear after the redemption. The following is the balance sheet of Black & White Co. Ltd. as at 31st March, 2008.

Liabilities	Amount(Rs.)	Assets	Amount(Rs.)
Issued & Subscribed Capital: 40,000 Equity shares of Rs.10 each fully paid 18,000, 8% Preference shares of Rs.10 each fully paid **Reserves & Surplus:** Profit & Loss Account **Current Liabilities:** Sundry Creditors	4,00,000 1,80,000 4,80,000 40,000	Fixed Assets Current Assets	7,00,000 4,00,000
	11,00,000		11,00,000

Solution

Journal Entries

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2008 April 1	8% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 18000 preference shares, with premium of Rs.5 each).		1,80,000 90,000	270,000
"	Profit And Loss A/c Dr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against Profit And Loss A/c)		90,000	90,000
"	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred equal to the nominal value of shares redeemed and proceeds of new issue).	"	1,80,000	1,80,000
'	Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c (Being issue of 1 bonus share to every 4 equity shares held as per shareholders Resolution No. Dated…) 40,000x1/4xRs.10		1,00,000	1,00,000
"	Bonus to Shareholders A/c Dr. To Equity Share capital A/c (Being the amount capitalised by issue of bonus shares)		1,00,000	1,00,000
"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid except 1500 share holders).		2,47,000	2,47,000

Balance Sheet

Liabilities	**Amount(Rs.)**	**Assets**	**Amount(Rs.)**
Issued & Subscribed Capital: 50,000 Equity shares of Rs.10 each fully paid (of the above shares, 10,000 shares have been allotted as fully paid bonus shars) **Reserves & Surplus:** Capital Redemption Reserve Account (Rs.180000-100000) Profit & Loss Account (Rs.480000-90000-180000) **Current Liabilities:** Sundry Creditors Outstanding claim (Pref. Shareholders)	5,00,000 80,000 2,10,000 40,000 22,500	Fixed Assets Current Assets (Rs.400000-247500)	7,00,000 1,52,500
	8,52,500		8,52,5000

1.3 BUY BACK OF SHARES

Buyback of shares means that any company may purchase their own shares or other specified securities. According to section 77A (1) of the companies Act 1999, a company may purchase its own shares or other securities out of:

(i) Its free reserves or
(ii) The securities premium account or
(iii) The proceeds of any shares or other specified securities.

Specified securities include employee's stock option or other securities as may be notified by the Central Government from time to time. Buyback of shares of any kind is not allowed out of fresh issue of shares of the same kind. In other words, if equity shares are to be bought back, preference shares or debentures may be issued for buyback of equity shares. Companies are allowed to buy back their own shares if they fulfil certain conditions as given in section 77A (2) of the companies Act 1999.

No company shall purchase its own shares or other specified securities unless:

(a) The buyback is authorised by its articles.
(b) A Special resolution has been passed in general meeting of the company authorising the buyback.
(c) The buyback is for less than 25% of the total paid up capital and free reserves of the company.
(d) It also provides that buyback shall not be exceeding 25% of total paid up capital.
(e) The debt equity ratio should not be more than 2:1 after such buyback.
(f) All the shares or other specified securities for buyback are fully paid up.
(g) The buyback of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf.
(h) The buyback in respect of shares or other specified securities other those specified in clause
(i) The buyback should be completed within 12 months from the date of passing the special resolution.

1. Entry for Assets sold for Buyback:

    Bank A/c Dr.
    Profit & Loss A/c Dr. (In Case of Loss)
        To Assets A/c
        To Capital Reserve A/c (In case of Profit)

2. Entry for issue of debentures or other securities for the purpose of buyback

    Bank A/c Dr
    Discount on issue Dr.
        To Debentures A/c
        To Other securities A/c
        To Securities Premium A/c

3. Entry for the cancellation of shares bought back :

    Equity Share Capital A/c Dr.
    Free Reserves or Securities Premium A/c Dr.
        To Shareholders A/c

4. Entry for transfer of nominal value of shares bought back to CRR

    General Reserves A/c Dr. Or
    Profit & Loss A/c Dr. Or
    Any other reserve A/c Dr.
        To Capital Redemption Reserve

5 Entry for making the payment of buyback shares:

    Shareholders A/c Dr.
        To Bank A/c

6 Entry for expenses incurred in buyback of shares:

    Buyback Expenses A/c Dr.
        To Bank A/c

7 Entry for transfer of buyback of expenses to P & L A/c

    Profit & Loss A/c Dr.
        To Expenses A/c

Advantages of Buy Back of Shares:

1. The buyback facility enables the companies to manage their cash effectively. Many co's in this country are faced with a problem of surplus cash without having any idea of where to invest them. It would be better for them to return surplus cash to shareholders rather than to go on spending simply for want to alternative.
2. Companies having large amount of free reserves are free is use funds to acquire shares and other specified securities under the buyback process.
3. Buyback shares in helpful co. to reduce its share capital.
4. Buyback of shares is helpful to improvement in the values of shares.
5. Avoid high financial risk and ensure maximum return to the shareholders.
6. Buyback of shares helps the promoters to formulate an effective defence's strategy against hostile takeover bids.

Disadvantages of buy back of shares:

1. All the control of buy back of shares in the hands of promoters, so results of co.'s which the position of minority shareholders in weak.
2. The promoters before the buy back, may understand the earnings by manipulating accounting policies and highlight other unfavourable factors affecting the earnings.
3. High buy back of share may lead to artificial manipulation of stock price in the stock exchange. Confusion is much more.

Escrow account

Under the scheme of buyback of shares, the company in order to perform its obligations, is required to open an Escrow Account i.e., cash deposited in a commercial bank. Or bank guarantee or deposit of acceptable securities or a combination the three.

Illustration - 16

The Balance sheet of ABC Ltd is given below:

Liabilities		Assets	
Paid up Capital		Fixed assets	80,00,000
8,00,000 Equity shares of Rs. 10 each	80,00,000	Stock	48,00,000
		Debtors	40,00,000
		Bank	72,00,000
Securities premium	8,00,000		
General Reserve	72,00,000		
	40,00,000		
13% Debentures	40,00,000		
Current liabilities			
	2,40,00,000		2,40,00,000

It was decided at the meeting of shareholders;

1. to buyback 20% of equity shares @ Rs.12 per share
2. to utilise general reserve for buyback of shares
3. to utilise securities premium for premium payable on buyback of shares

Pass journal entries

Solution

Journal entries

Mar 31	General Reserve A/c Dr		16,00,000	
	To Capital Redemption Reserve			16,00,000
	(Being nominal value of Rs.16,00,000 bought back out of general reserve)			
‘’	Equtiy share capital A/c Dr		16,00,000	
	Securities premium A/c Dr		3,20,000	
	To Shareholders A/c			19,20,000
	(Being amount due on buy back of 1,60,000 shares)			
‘’	Shareholders A/c Dr		19,20,000	
	To Bank A/c			19,20,000
	(Being amount paid for buyback of 1,60,000 shares @ Rs.10 each @ Rs. 12 per share)			

Illustration – 17

Following figures have been extracted from the books of Metals product Ltd. as on 31-03-2012.

Paid up capital – 9,00,000 e. Shares of Rs. 10 each	90,00,000
General Reserve	15,00,000
P/L A/c	5,00,000
Securities premium	3,00,000
14% Debentures	10,00,000
Bank balance	20,00,000

The company decided to buy back 25% of the paid up equity shares at face value. It was also decided to issue further 14% debentures of Rs. 10,00,000 at par for the purpose of buy back of shares. Journalise the above transactions relating to buyback of shares.

Solution

Journal entries

Mar 31	Bank A/c Dr To 14% Debenture (Being the issue of debentures of Rs.10,00,000 at par for the purpose of buyback)		10,00,000	10,00,000
‘’	Equtiy share capital A/c Dr To Shareholders A/c (Being the cancellation of 25% of the paid up capital on account of 25% shares bought back)		22,50,000	22,50,000
‘’	General Reserve A/c Dr To Capital Redemption Reserve A/c (Being amount paid for buyback of 1,60,000 shares @ Rs.10 each @ Rs. 12 per share)		12,50,000	12,50,000
‘’	Shareholders A/c Dr To Bank A/c (Being payment made t for shares bought back)		22,50,000	22.50,000

1.4 ISSUE AND REDEMPTION OF DEBENTURES

A Debenture is a unit of loan amount. When a company intends to raise the loan amount from the public it issues debentures. A person holding debenture or debentures is called a debenture holder. A debenture is a document issued under the seal of the company. It is an acknowledgment of the loan received by the company equal to the nominal value of the debenture. It bears the date of redemption and rate and mode of payment of interest. A debenture holder is the creditor of the company. As per section 2(12) of Companies Act 1956, “Debenture includes debenture stock, bond and any other securities of the company whether constituting a charge on the company’s assets or not”.

Types of Debentures

Debenture can be classified as under:

1. From Security point of view

(i) **Secured or Mortgage Debentures:** These are the debentures that are secured by a charge on the assets of the company. These are also called mortgage debentures. The holders of secured debentures have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company. In India, debentures must be secured. Secured debentures can be of two types:

(a) First mortgage debentures: The holders of such debentures have a first claim on the assets charged.

(b) Second mortgage debentures: The holders of such debentures have a second claim on the assets charged.

(ii) **Unsecured Debentures:** Debentures which do not carry any security with regard to the principal amount or unpaid interest are called unsecured debentures. These are called simple debentures.

2. On the basis of Redemption

(i) **Redeemable Debentures :** These are the debentures which are issued for a fixed period. The principal amount of such debentures is paid off to the debenture holders on the expiry of such period. These can be redeemed by annual drawings or by purchasing from the open market.

(ii) **Non-redeemable Debentures :** These are the debentures which are not redeemed in the life time of the company. Such debentures are paid back only when the company goes into liquidation.

3. On the basis of Records

(i) **Registered Debentures:** These are the debentures that are registered with the company. The amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.

(ii) **Bearer Debentures:** These are the debentures which are not recorded in a register of the company. Such debentures are transferrable merely by delivery. Holder of these debentures is entitled to get the interest.

4. On the basis of Convertibility

(i) **Convertible Debentures:** These are the debentures that can be converted into shares of the company on the expiry of pre decided period. The term and conditions of conversion are generally announced at the time of issue of debentures.

(ii) **Non-convertible Debentures :** The debenture holders of such debentures cannot convert their debentures into shares of the company.

5. On the basis of Priority

(i) First Debentures: These debentures are redeemed before other debentures.

(ii) Second Debentures : These debentures are redeemed after the redemption of first debentures

The procedure of issue of debentures by a company is similar to that of the issue of shares. A Prospectus is issued, applications are invited, and letters of allotment are issued. On rejection of applications, application money is refunded. In case of partial allotment, excess application money may be adjusted towards subsequent calls.

Difference between Shares and Debentures.

Shares	Debentures
1. Amount collected through shares Constitute capital of the company.	1. Amount collected through debentures Constitute borrowed fund of the company.
2. A shareholder is a member of the company.	2. A debenture holder is only a creditor.
3. A shareholder gets a share in the profits called dividend.	3. A debenture holder receives interest at a fixed rate.
4. A shareholder is entitled to vote at meetings.	4. A debenture holder is not entitled to vote.

Issue of Debenture takes various forms which are as under:

1. Debentures issued for cash

2. Debentures issued for consideration other than cash

3. Debentures issued as collateral security. Further, debentures may be issued

(i) At par, (ii) At premium, and (iii) At discount

Accounting treatment of issue of debentures ***for cash***

1. Debentures issued for cash at par: Following journal entries will be made: **(i) Application money is received**

Bank A/c Dr

To Debentures Application A/c

(Application money received for Debentures)

(ii) Transfer of debentures application money to debentures account on their allotment

Debentures Application A/c Dr

To Debentures A/c

(Application money transferred to debenture account on allotment)

(iii) Money due on allotment

Debentures Allotment A/c Dr

To Debentures A/c

(Allotment money made due)

(iv) Money due on allotment is received

Bank A/c Dr

To Debentures Allotment A/c

(Receipt of Debenture allotment money)

(v) First and final call is made

Debentures First and Final call A/c Dr

To Debentures A/c

(First and Final call money made due on .... debentures)

(vi) Debentures First and Final call money is received

Bank A/c Dr

To Debentures First and Final call A/c

(Receipt of Amount due on call)

Note: Two calls i.e. first call and second call may be made

Journal entries will be made on the lines made for first and final call.

Illustration 18

Star India Ltd. issued 5000 8% Debentures of Rs 100 each payable as follows
Rs 20 on Application
Rs 30 on Allotment
Rs. 50 on First and Final call
All the debentures were applied for and allotted. All the calls were duly received. Make necessary journal entries in the books of the company.

Bank A/c ... Dr To Debentures Application A/c (Application money received for		100000	100000
Debentures Application A/c Dr To 8% Debentures A/c (Application money transferred to		100000	100000
Debentures Allotment a/c Dr To 8% Debentures A/c (Allotment money due on 5000 debentures @ Rs 30 per		150000	150000
Bank A/c Dr To Debentures Allotment A/c (Allotment money received)		150000	150000
Debentures First and Final call A/c Dr To 8% Debentures A/c (Debentures first and final call money made due @ Rs 50 per		250000	250000
Bank A/c Dr To Debentures First and Final call A/c (Receipt of Debentures first and		250000	250000

Issue of Debentures at Premium and Discount

Debentures are said to be issued at premium when these are issued at a value which is more than their nominal value. For example, a debenture of Rs 100 is issued at Rs 110. This excess amount of Rs 10 is the amount of premium. The premium on the issue of debentures is credited to the Securities Premium A/c as per section 78 of the Companies Act, 1956.

Journal entry will be as follows:

Debentures Allotment A/c Dr
To Debentures Account
To Securities Premium A/c
(Amount due on allotment along with premium of Rs ....)

Illustration 19

A company has issued 5000 10% Debentures of Rs 100 each at a premium of 20% payable as Rs 60 on application Rs 60 on allotment (including premium) All the debentures were subscribed for and money was duly received. Make journal entries.

Solution

Journal entries

1.	Bank A/c Dr To Debentures Application A/c (Application money received)		300000	300000
2.	Debentures Application A/c Dr To 10% Debentures A/c (Application money transferred to Debenture A/c)		300000	300000
3.	Debentures Allotment A/c Dr To 10% Debentures A/c To Securities Premium A/c (Amount due on allotment along with premium)		300000	200000 100000
4.	Bank A/c Dr To Debentures Allotment A/c (Allotment money received)		300000	300000

When debentures are issued at less than their nominal value they are said to be issued at discount. For example, debenture of Rs 100 each is issued at Rs 90 per debenture. Companies Act, 1956 has not laid down any conditions for the issue of debentures at a discount as have been laid down in case of issue of shares at discount. However, there should be provision for issue of such debentures in the Articles of Association of the Company.

Journal entry for issue of debentures at discount (at the time of allotment) Debentures
Allotment A/c Dr
Discount on issue of debentures A/c Dr

To Debentures A/c
(Allotment money due. The amount of discount is @ Rs.... per debenture)

Illustration 20

A company has issued 2000 9% debentures of Rs 100 each at a discount of 10% payable as Rs 40 on application, Rs 50 on allotment Make necessary journal entries.

	Bank A/c Dr To Debentures Application A/c (Application money received		80000	80000
	Debentures Application A/c Dr To 9% Debentures A/c (Application money transferred to debenture A/c)		80000	80000
	Debentures Allotment A/c Dr Debentures Discount A/c Dr To 9% Debenture A/c (Amount due on allotment, along with discount amount Rs 10 per debenture)		100000 20000	120000
	Bank A/c Dr To Debentures Allotment (Receipt of allotment money)		100000	100000

Issue of Debentures for consideration other than cash

When a company purchases some assets and issues debentures as a payment for the purchase, to the vendors it is known as issue of debentures for consideration other than cash. Debentures can be issued to vendors at par, at premium and at discount

Accounting Treatment:

1. Purchase of Assets
   Sundry Assets A/c Dr
   (Individually)
   To Vendors A/c

   (Purchase of assets)

2. Allotment of debentures

   (i) **At par**

   Vendors' A/c Dr
   To Debentures A/c
   (Issue of debentures at par to vendors)

   (ii) **At discount**
   Vendors' A/c Dr
   Debentures Discount A/c Dr
   To Debentures A/c
   (Issue of debentures to vendors at a discount of Rs... per debenture)

Illustration 21

VG. Electronics Ltd. purchased machinery for Rs 198000 and issued 9% debentures of Rs 100 each to the vendors. Make journal entries if the debentures were issued

(a) at par
(b) at a premium of Rs 10
(c) at a discount of Rs 10

Solution **Journal entries**

	Machinery A/c Dr To Vendors A/c (Machine purchased)	198000	198000
	Vendors A/c Dr To 9% Debentures A/c (1980 debentures of Rs 100 each issued to vendors)	198000	1980000
	Vendors A/c Dr To 9% Debentures A/c To Securities Premium A/c (1800 debentures issued at a premium of Rs 10 per debenture)	198000	180000 18000

Issue of Debentures with conditions Stipulated to their Redemption (Journal entry)

(i) Issued at par redeemable at par

Bank A/c Dr
To Debentures Account
(Issue of debentures of Rs .... at par)

(ii) Issued at discount and redeemable at par

Bank A/c Dr
Discount on issue of Debentures A/c Dr
To Debentures A/c
(Issue of debentures of Rs ... at a discount of Rs ....)

(iii) Issued at premium redeemable at par

Bank A/c Dr
To Debentures A/c
To Securities Premium A/c

(Issue of ... debentures of Rs .... at a premium of Rs ....)

(iv) Issued at par, redeemable at premium

Bank A/c Dr
Loss on Issue of Debentures A/c Dr
To Debentures A/c
To Premium on Redemption of Debenture A/c
(Issue of ... debentures of Rs ... a redeemable at a premium of Rs ...)

(v) Issued at discount and redeemable at premium

Bank A/c Dr
Discount on Issue of Debentures A/c Dr
Loss on Issue of Debentures A/c Dr
To Debentures A/c
To Premium on Redemption of Debenture A/c
(Issue of ... debentures of Rs ... at a discount of Rs ... redeemable at a premium of Rs ....)

Illustration – 22

Make journal entries if 200 debentures of Rs 500 each have been issued as:

(i) Issued at Rs 500, redeemable at Rs 500
(ii) Issue at Rs 450; redeemable at Rs 500
(iii) Issued at Rs 550; redeemable at Rs 500
(iv) Issued at Rs 500; redeemable at Rs 550
(v) Issued at Rs 450; redeemable at Rs 550

	Bank A/c Dr To Debentures A/c (Issue of 200 debentures @ Rs. 500 each	100000	 100000
	Bank A/c. Dr. Discount on issue of Debentures A/c Dr. To Debentures A/c. (Issue of 200 debentures @ Rs.50 each at Rs. 450)	90000 10000	 100000
	Bank A/c Dr. To Debentures A/c To Securities Premium A/c. (Issue of 200 debentures of 500 each at Rs.550)	110000	 100000 10000
	Bank A/c Dr Loss on Issue of Debentures A/c Dr. To Debentures A/c. To redemption of debentures A/c (Issue of 200 debentures of 500 each at Rs.550)	100000 10000	 100000 10000
	Bank A/c Dr Loss on Issue of Debentures A/c Dr. Discount on issue of Debentures A/c. Dr. To Debentures A/c. To Premium on Redemption of debentures A/c (Issue of 200 debentures of 500 each at Rs.45 repayable at Rs.550)	90000 10000 10000	 100000 10000

Discount on issue of Debentures and loss on issue of debentures

In case company issues debentures on discount the total amount of discount is not charged to profit and Loss Account of the company in the accounting

The amount of debenture discount can be written off in two ways:

1. All debentures are to be redeemed after a fixed period.

When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spread between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount written off = $\dfrac{\textbf{Total amount of Discount}}{\textbf{No. of years}}$

Journal entry;-

P/L A/c Dr

To Discount on issue of Debenture

2. Debentures are redeemed in instalments

Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures redeemed

Interest on Debenture

Debenture interest is the rate of interest per annum that will be paid to the debenture holders. Companies generally pay interest on its debentures after every six months. Journal entries that are made in the books of the company are as follows;

(i) Payment of Interest on Debentures

Debenture Interest A/c Dr

To Bank A/c

(Interest on ....% Debentures paid for six months ending ...@ ....% pa)

(ii) Transfer of Debenture Interest to Profit and Loss A/c

Profit and Loss A/c Dr

To Debenture Interest A/c

(Debenture Interest transferred to Profit and Loss A/c)

Redemption of Non-convertible Debenture out of Profits

According to section 117 C(1) of the Companies Act, 1956, when debenture are to be redeemed out of profits, an adequate amount of profits is required to be transferred to Debenture Redemption Reserve every year before the redemption begins. It is to be noted that the Companies Act 1956, vide Section117C (1) does not spell out as to what is the adequate amount? For this one has to refer to SEBI Guidelines in this behalf. SEBI Guideline No. 10.3.2 (c)(a) stipulates that an amount equal to 50% of the debenture issue should be transferred to Debenture Redemption Reserve before the redemption begins. Implication of these provisions is that whenever redemption of debenture is made, at least an amount equal to 50% of the debenture issue should stand to the credit of the Debenture Redemption Reserve Account. Suppose a limited company issued debenture of Rs. 5 crores with the condition to start redemption in the third year. In such a case, before the debenture redemption begins in 3rd year, the Debenture Redemption Reserve Account should have a balance at least equal to 0.5 × Rs. 5 crores = Rs. 2.50 crores. This is applicable only in case of non-convertible debenture and non-convertible portion of partly convertible debenture.

Following accounting entries are to be recorded in this regard:

Accounting entry for creation of Debenture Redemption Reserve

Profit and Loss Appropriation a/c Dr.

To Debenture Redemption Reserve a/c

In the year of redemption, the debenture holders will be credited with the amount due according to the terms of redemption.

(i) If the debenture are redeemable at par, the par value of debenture to be redeemed will be transferred to debenture holders account by recording following entries :

Debenture a/c Dr.

To Debenture holders A/c

(ii) In case the debenture are redeemable at premium, the amount of premium will also be transferred to debenture holders account by recording following entry :

% Debenture a/c Dr.
Debenture Redemption Premium A /c Dr.
To Debenture holders A /c
(iii) For payment to debenture holders
Debenture holders a/c Dr.
To Bank a/c

Illustration 23

Gunjan Ltd. issued 5,00,000, 12% debenture of Rs. 100 each on April 1, 2002 redeemable at par on June1, 2003. The company received applications for 6,00,000 debentures and the allotment was made to all the applicants on pro-rata basis. The debenture were redeemed on due date. How much amount of Debenture Redemption Reserve is to be created before the redemption is carried out? Also record necessary journal entries regarding issue and redemption of debenture.

Solution **Journal entries**

Bank a/c Dr. Debenture application a/c (For receiving application money)		6,00,00,000	6,00,00,000
Debentures application a/c Dr. 12 % Debenture a/c Debenture allotment a/c (Debenture application money transferred to debenture account consequent upon allotment of debenture)		6,00,00,000	5,00,00,000 1,00,00,000
Interest a/c Dr. Debenture holders a/c (For interest due)		60,00,000	60,00,000
Debenture holders a/c Dr. Bank a/c (For payment of interest)		60,00,000	
Profit and Loss a/c Dr. Interest a/c (For writing off interest)			60,00,000
Profit and Loss a/c Dr. Debenture Redemption Reserve a/c (Appropriation of profit to DRR as per Sec.117C(1)of The Companies Act, 1956)		2,50,00,000	2,50,00,000
Interest a/c Dr. Debenture holders a/c (Interest due for two months)		10,00,000	10,00,000
12 % Debentures a/c Dr. Debenture holders a/c (Payment on redemption of debentures due to		5,00,00,000	5,00,00,000
Debenture holders a/c Dr. Bank a/c (Payment due to debenture holders discharged)		5,10,00,000	5,10,00,000
Profit and Loss a/c Dr. Interest a/c (Transfer of interest)		10,00,000	10,00,000
Debenture Redemption Reserve a/c Dr. General Reserve a/c (For transfer of DRR to general reserve)		2,50,00,000	2,50,00,000

Illustration 24

Ganeshan Ltd. has 800 lakhs 10% debenture of Rs. 100 each due for redemption on March 31, 2003. Assume that Debenture Redemption Reserve has a balance of Rs. 3,40,00,00,000 on that date. Record necessary entries at the time of redemption of debenture

Solution

Journal Entries

Mar.31	Profit and Loss Appropriation a/c Dr. Debenture Redemption Reserve (For transfer of profits to as per SEBI guidelines)		60,00,00,000	60,00,00,000
Mar.31	10 % Debenture a/c Dr. Debenture holders a/c (Amount becomes due to debenture holders on redemption)		8,00,00,00,000	8,00,00,00,000
Mar.31	Debenture holders a/c Dr. Bank a/c (Amount due to debenture holders paid)		8,00,00,00,000	8,00,00,00,000
Mar.31	Debenture Redemption Reserve Dr. General Reserve (Debenture Redemption Reserve transferred to General Reserve)		4,00,00,00,000	4,00,00,00,000

Financing of Debenture Redemption

The redemption of debentures require huge amount of cash whenever non- convertible debenture are to be paid off. To meet this requirement, the Board of Directors may decide, at their own discretion, to invest money appropriately and judiciously in securities or bonds of the other business entities. In this situation, funds allocated are invested periodically outside the business. For this purpose, an appropriate amount may be transferred to Debenture Redemption Sinking Fund. An appropriate amount will be calculated by referring to Sinking Fund Factor, depending upon the interest rate on investments and the number of years for which investments are made. Sinking Fund Factor at ‘r’ rate of interest for ‘n’ number of years will be the reciprocal of Future Value Factor annuity for ‘n’ years (FVIFA). Sinking Fund Factor = 1/FVIFA, ‘r’, ‘n’. FVIFA table is given in the appendix. Debenture Redemption Sinking Fund account will be credited every year so as to ensure that sufficient amount accumulates in this account before debenture redemption takes place. It is to be noticed that Debenture Redemption Sinking Fund will serve the purpose of Debenture Redemption Reserve as required by the Law. Therefore, for this purpose the amount transferred to Debenture Redemption Sinking Fund be treated same as Debenture Redemption Reserve. Therefore, the appropriated amount is transferred to Debenture Redemption Reserve Account instead of Debenture Redemption Sinking Fund to meet the statutory requirement. The journal entries in this regard can be categorised into three groups:

1. Entries at the end of first year

   Entries relating to issue of debenture, payment of interest and amortization of discount/ loss on issue of debenture have already been discussed in the earlier sections. The other related entries at the end of first year are as under:

   a) For transfer of profits to Debenture Redemption Reserve
      Profit and Loss Appropriation a/c Dr.
      Debenture Redemption Reserve a/c

   b) For purchase of Debenture Redemption Sinking Fund Investments withthe amount

of Debenture Redemption Reserve set aside above.
Debenture Redemption Sinking Fund Investment a/c Dr.
Bank a/c

2. Entries at the end of second and subsequent years

In the second and subsequent years the company will start receiving interest on previous years investments which will be transferred to Debenture Redemption Reserve. The company will purchase investments with the amount of Debenture Redemption Reserve kept aside and interest received on Debenture Redemption Sinking Fund Investments in the respective years. The journal entries are as under :

a) For receiving of interest on Debenture Redemption Sinking Fund Investments
Bank a/c Dr.
Interest on Debenture Redemption Sinking Fund Investment a/c

b) For interest received transferred to Debenture Redemption Reserve
Interest on Debenture Redemption Sinking
Fund Investment a/c Dr.
Debenture Redemption Reserve

c) For transfer of profits to Debenture Redemption Reserve
Profit and Loss Appropriation a/c Dr.
Debenture Redemption Reserve

d) For purchase of investments with the amount of Debenture Redemption Reserve and interest received
Debenture Redemption Sinking
Fund Investment a/c Dr.
Bank a/c

3. Year of Redemption

The year in which the redemption of debenture is due, the entries for receipt of interest, its transfer to Debenture Redemption Reserve and setting aside the profits for Debenture Redemption Reserve will be recorded as usual. But instead of purchase of investments, all investments purchased in previous years will be sold out to provide liquidity for redemption of debenture. After all the debentures are redeemed on maturity, Debenture Redemption Reserve account will be closed by transferring its balance to general reserve account. In case of redemption of debentures by draw of lots, withdrawal from Debenture Redemption Reserve can be made after redemption of 10 % of the debenture. Following entries are to be recorded :

(a) For receipt of interest on Debenture Redemption Sinking Fund Investments
Bank a/c Dr.
Interest on Debenture Redemption Sinking Fund Investment a/c

(b) For transfer of Interest to Debenture Redemption Reserve
Interest on Debenture Redemption
Sinking Fund Investment a/c Dr.
Debenture Redemption Reserve

(c) For transfer of profits to Debenture Redemption Reserve
Profit and Loss Appropriation a/c Dr.
Debenture Redemption Reserve

(d) (i) For sale of Debenture Redemption Sinking Fund Investments, (it is to be noted that gain or loss on sale of Debenture Redemption Sinking Fund Investments, if any, will be transferred to Debenture Redemption Reserve account.)

(ii) Investment sold at book value
Bank a/c Dr. (Sale price of Investment)
Debenture Redemption Sinking Fund Investment a/c
(Investment sold at cost price)

Or

(iii) Investment sold at less than book value
Bank a/c Dr.
Debenture Redemption Reserve Dr (Loss on sale of investments)
To Debenture Redemption Sinking Fund Investment a/c

Or

(iv) Investment sold at more than book value
Bank a/c Dr.
To Debenture Redemption Sinking Fund Investment a/c
To Debenture Redemption Reserve a/c(Gain on sale of Investment)

(e) On redemption of debenture at par, amount due to debenture holders
Debenture a/c Dr.
To
Debenture holders a/c

Or

In case the debenture are redeemed at premium, following entry will be recorded:
Debenture a/c Dr.
Debenture Redemption Premium a/c Dr.
To Debenture holders a/c

(f) Amount due to debenture holders paid :
Debenture holders a/c Dr.
Bank a/c

(g) After the debenture are redeemed, Debenture Redemption Reserve Account is transferred to General Reserve Account by recording the following entry :
Debenture Redemption Reserve Dr.
General Reserve a/c

Illustration - 25

Anshu Detergents Ltd. issued 2,00,000, 10 % debenture of Rs. 10 each on January 1, 2000 redeemable after 4 years. For this purpose, the company established a Debenture Redemption Sinking Fund Investment. The investments are expected to earn interest @ 4 % p.a. Sinking Fund Factor Table shows that Re. 0.2355 invested annually at @ 4 % will accumulate to Re. 1 at the end of 4th years. On December 31, 2003, the investments realised Rs. 15,00,000. The debentures were paid off as per terms of issue of debenture. Give journal entries to record transaction relating to issue and investment of reserve and redemption of debenture.

2000 Jan 1	Bank a/c Dr. Debenture application a/c (Debenture application money received		20,00,000	20,00,000
Jan 1	Debenture application a/c Dr. 10 % Debenture a/c (Application money transferred to 10 % debentures consequent upon allotment)		20,00,000	20,00,000
Dec. 31	Profit and Loss Appropriation a/c Dr. Debenture Redemption Reserve a/c (Profits transferred to Debenture Redemption Reserve)		4,71,000	4,71,000
Dec 31	Debenture Redemption Sinking Fund Investments a/c Dr. Bank a/c (Investments purchased)		4,71,000	4,71,000
2001 Dec 31	Bank a/c Dr. Interest on Debenture Sinking Fund Investments a/c (Interest received on investment)		18,840	18,840

Dec 31	Interest on Sinking Fund Investments a/c Dr. Debenture Redemption Reserve (Interest transferred to Sinking Fund)		18,840	18,840
Dec 31	Profit and Loss Appropriation a/c Dr. Debenture Redemption Reserve (Profits transferred to Debenture Redemption Reserve)		4,71,000	4,71,000
Dec 31	Debenture Sinking Fund Investments a/c Dr. Bank a/c (Rs. 4,71,000 + 18,840 = 4,89,840, investments purchased)		4,89,840	4,89,840
2002 Dec 31	Bank a/c Dr. Interest on Debenture Sinking Fund Investments a/c (Interest received on investment)		38,433.60	38,433.60
Dec 31	Interest on Sinking Fund Investments a/c Dr. Debenture Redemption Reserve (Interest transferred to Sinking Fund)		38,433.60	38,433.60
Dec 31	Profit and Loss Appropriation a/c Dr. Debenture Redemption Reserve (Profits transferred to Debenture Redemption Reserve)		4,71,000	4,71,000
Dec 31	Debenture Sinking Fund Investments a/c Dr. Bank a/c (Rs. 4,71,000 + 38,433.60= 5,09,433.60 investments purchased)		5,09,433.60	5,09,433.60
2003 Dec 31	Bank a/c Dr. Interest on Debenture Sinking Fund Investments a/c (4 % of Rs. 4,71,000 + Rs. 4,89,840 + Rs. 5,09,433.60, interest received)		58,810.94	58,810.94
Dec 31	Interest on Sinking Fund Investments a/cr. Debenture Redemption Reserve (Interest transferred to Sinking Fund)		58,810.94	58,810.94
Dec 31	Profit and Loss Appropriation a/c Dr. Debenture Redemption Reserve (Profits transferred to Debenture Redemption Reserve)		4,70,915.46	4,70,915.46
Dec 31	Bank a/c Dr. Debenture Sinking Fund Investments a/c Debenture Redemption Reserve (Investment sold at profit)			14,70,273.60 29,726.40
Dec 31	10 % Debenture a/c Dr. Debentureholders a/c (Payment to debentureholders due on redemption)		20,00,000	20,00,000
Dec 31	Debentureholders a/c Dr. Bank a/c (Payment made to debenture holders)		20,00,000	20,00,000
Dec 31	Debenture Redemption Reserve Dr. General Reserve (After redemption, Debenture Redemption Reserve Account closed by transferring to general reserve)			20,29,726.40

Notes to the Solution

Annual amount to be transferred from profits to Debenture Redemption Reserve
0.2355 × Rs. 20,00,000 = Rs. 4,71,000[1]

Illustration 26

Shiwaliks Ltd. issued 10,00,000, 7 % debenture of Rs. 100 each on April 12001 redeemable after four years. It has been decided to create Debenture Redemption Reserve for this purpose. The Debenture Redemption Sinking Fund Table shows that Re. 0.221926 invested in 8 % Government Securities will amount to Re. 1 in 4 years. On March 31, 2005 the balance at bank was Rs. 5,00,00,000. The debentures were redeemed according to the terms of offer document. You are required to prepare ledger accounts till the debenture are redeemed.

Solution

8 % Debenture Account

Dr. Cr.

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
2002 Mar.31	Balance c/f		10,00,00,000	2001 Apr.1	Bank		10,00,00,000
2003 Mar.31	Balance c/f Balance c/f		10,00,00,000	2002 Apr.1	Balance b/f Bank		10,00,00,000
2004 Mar.31	Debenture holders		10,00,00,000	2003 Apr.1	Balance b/f		10,00,00,000
2005 Mar.31			10,00,00,000	2004 Apr.1			10,00,00,000

Debenture holders Account

Dr. Cr.

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2005 Mar.31	Bank		10,00,00,000	2005 Mar.31	8 %Debentures		10,00,00,000

Debenture Redemption Reserve Account

Dr. Cr.

Date	Particulars	J. F.	Amount (Rs.)	Date	Particulars	J. F.	Amount (Rs.)
2002 Mar.31	Balance c/f		2,21,92,600	2002 Mar.31	Profit and Loss Appropriation		2,21,92,600[1]
2003 Mar.31	Balance c/f		4,61,60,608	Apr.1	Balance b/f		2,21,92,600
				2003 Mar.31	Interest on Debenture Redemption Sinking Fund Investments		17,75,408
					Profit and Loss App.		
			4,61,60,608				4,61,60,608

2004 Mar. 31	Balance c/f		7,20,46,056.64	2003 Apr. 1	Balance b/f		4,61,60,608.00
				2004 Mar. 31	Interest on Debenture Redemption Sinking Fund Investments		36,92,848.64
					Profit and Loss App.		2,21,92,600.00
			7,20,46,056.64				7,20,46,056.64
2005 Mar.31	General Reserve		10,00,02,341.17	2004 Apr. 1	Balance b/f		720,46,056.64
				2005 Mar. 31	Interest on Debenture Redemption Sinking Fund Investments		57,63,684.53
					Profit and Loss a/c.		2,21,92,600.00
			10,00,02,341.17				10,00,02,341.17

Interest on Debenture Redemption Sinking Fund Investment Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (Rs.)*	*Date*	*Particulars*	*J.F.*	*Amount (Rs.)*
2003 Mar. 31	Debenture Redemption Reserve		17,75,408	2003 Mar. 31	Bank		17,75,408
2004 Mar. 31	Debenture Redemption Reserve		36,92,848.64	2004 Mar. 31	Bank		36,92,848.64
2005 Mar. 31	Debenture Redemption		57,63,684.53	2005 Mar. 31	Bank		57,63,684.53

Debenture Redemption Sinking Fund Investment Account

Dr. Cr.

Date	*Particulars*	*J.F.*	*Amount (Rs.)*	*Date*	*Particulars*	*J.F.*	*Amount (Rs.)*
2002 Mar.31	Bank		2,21,92,600	2002 Mar.31	Balance c/f		2,21,92,600
Apr.1	Balance b/f		2,21,92,600	2003 Mar. 31	Balance c/f		4,61,60,608
2003 Mar. 31	Bank		2,39,68,008				
			4,61,60,608				4,61,60,608

				2003			
Apr.1	Balance b/f		4,61,60,608.00	Mar. 31	Balance c/f		7,20,46,056.64
2004 Mar. 31	Bank		2,58,85,448.64				
2005 Apr.1	Balance b/f		7,20,46,056.64	Mar. 31	2005 Bank [2]		7,20,46,056.64
			7,20,46,056.64				7,20,46,056.64

Bank Account

Dr.							Cr.
Date	*Particulars*	*J.F.*	*Amount (Rs.)*	*Date*	*Particulars*	*J.F.*	*Amount (Rs.)*
2005 Mar.31	Balance b/f		5,00,00,000.00	2005 Mar. 31	Debenture holders		10,00,00,000.00
	Interest on Debenture Redemption Sinking Fund Investment		36,92,848.64		Balance c/f		2,57,38,905.28
	Debenture Redemption Sinking Fund Investment		7,20,46,056.64				
			12,57,38,905.28				**12,57,38,905.28**

1 Amount to be appropriated = .221926 × Rs. 10,00,00,000 = Rs. 2,21,92,600.

2 It is assumed that Debenture Redemption Sinking Fund Investments are sold at no profit no loss.

Following are the journal entries to be recorded for discharging obligation in respect of convertible debenture:

(A) Redemption of debenture at par through conversion into shares:

(i) For amount due to debenture holders

% Debenture a/c Dr.

Debenture holders' a/c

(ii) For discharging debenture holders by issue of equity shares at par :

Debenture holders a /c Dr.

Equity share capital a /c

Or

(iii) For discharging Debenture holders by issue of equity share at premium :

Debenture holders a/c Dr.

Equity share capital a/c

Security premium a/c

Since shares are issued at premium, the number of shares to be issued will be equal to the amount of debenture to be redeemed divided by issue price.

(B) Redemption of debenture (at premium) through conversion into shares :

(i) *For amount due to*

x% debenture a/c Dr.
Debenture Redemption Premium Dr.

Debenture holders a/c

(ii) *For discharging debenture holders by issue of shares at par :*

Debenture holders a/c Dr.
Equity share capital a/c

(iii) *For discharging debenture holders by issuing share at premium :*

Debenture holders a/c Dr.
Equity share capital a/c
Securities premium a/c

Illustration 27

Swati Detergents Ltd. issued 90,00,000, 6% debenture of Rs. 100 each redeemable after 4 years by converting them into equity shares of Rs. 10 each. Record journal entries for issue and redemption of debenture. Ignore entries for payment of interest.

Solution

Journal entries

	Bank a/c Dr. Debenture application a/c (Debenture application money received)		90,00,00,000	90,00,00,000
	Debenture application a/c Dr. 6 % Debenture a/c (Application money transferred to 6% debenture account consequent upon allotment)		90,00,00,000	90,00,00,000
	6 % Debenture a/c Dr. Debenture holders (For amount due to debenture holders on redemption)		90,00,00,000	90,00,00,000
	Debenture holders a/c Dr. Equity share capital a/c (For amount due to debenture holders discharge by issue of equity shares)		90,00,00,000	90,00,00,000

Redemption of Debenture through open market operations

The Companies Act, 1956 permits the issuer company to purchase and hold or cancel the debenture through open market purchases, obviously at favourable prices, provided the Articles of Association provide for this. When company purchases its own debentures with no intention to cancel them, it is treated like any other investment and when such debentures are subsequently sold in the market it will be similar to the sale of any other investment. A Company may also purchase the debenture with an intention to cancel them. It is assumed that the Company has sufficient amount in Debenture Redemption Reserve before initiating the purchase of debenture for cancellation. The debentures may either be purchased:

(a) On the date(s) when interest on these debenture is due, or
(b) On the date(s) between the two interest dates.

Therefore, the accounting treatment for purchase of debenture in the two situations above will be different due to accrual and non-accrual of interest.

(A) When purchase of debenture is on due date

(i) When debenture are purchased for investment purpose, the following journal entry is recorded

Investment in own debenture a/c Dr.
Bank a/c

(ii) When own debenture are subsequently sold in the market, following entry is recorded

Bank a/c Dr.
Investment in own debenture a/c

Or

When investment is sold at a price below its purchase price

Bank a/c Dr.
Loss on sale of investment Dr.
Investment in own debenture a/c

Or

When investment is sold at a price below its purchase price

Bank a/c
Investment in own debenture a/c
Gain on sale of investments a/c

It is to be noted that gain or loss on sale of investment is transferred to profit and loss account.

On Cancellation of Own Debenture

Debenture purchased from the open market will be cancelled only after passing the resolution by Board of Directors to this effect. The following journal entries are to be recorded for the cancellation of debenture :

When debenture are purchased at nominal value of debenture

x % Debenture a/c Dr.
Investment in own debenture a/c

Or

When own debenture are purchased at price below nominal value of debenture

x % Debenture a/c Dr.
Own debenture a/c
Profit on cancellation a/c

Balance in profit on cancellation of debenture will be transferred to captial reserve or may be utilised to write off discount/loss on issue of debenture. In this regard the following journal entry is recorded :

Gain on cancellation a/c Dr.
Capital Reserve

Or

Gain on cancellation a/c Dr.
Discount/Loss a/c

Purchase of Debenture on a day other than the due date of Interest

Ex-Interest and Cum-Interest Quotations

It is assumed that the debentures were purchased immediately after the date of payment of interest and therefore no interest has accrued on the date of purchase of debenture. However, in real life, it may not be possible because the company will be guided by the prices prevailing in the market to its advantage. In such a situation the company purchases debenture from the market as and when it is beneficial to do so. The interest accrued from the date of last payment of interest needs to be considered. The problem of ex-interest (exclusive of interest) and cum-interest (cumulative of interest) arises only when the debentures are purchased on the date(s) other than the date(s) on which interest is due. In such a situation, total cash to be paid on such debenture need to be bifurcated into the capital portion (real price) and the revenue portion (interest accrued from the date last it was paid up to the date of purchase) i.e. the interest for the expired period. Therefore, it is very important to know whether the price quoted

Following accounting entries are to be recorded:

1. *For Purchase of own debenture with the actual price paid, i.e., Ex-interest or Cum-interest*

Own Debenture a/c	Dr.	(Ex-interest price or real price)
Interest on debenture a/c	Dr.	(Interest accrued)
Bank a/c		(Total

2. *Debenture purchased are now being cancelled*

x % Debenture a/c	Dr.	(Nominal value of debenture)
Own Debenture a/c		(Real price)
Gain on cancellation		(Difference in nominal value and real price)

Debenture purchased for immediate cancellation

When debentures are purchased for immediate cancellation, then, the interest on remaining debenture will be paid at the time when interest be- comes due.

Illustration 28

Doorstep Delivery Ltd. has 1,00,000 9 % Debenture of Rs. 100 each outstanding on April 1, 2002. The interest is payable on March 31 and September 30 every year. On July 1, 2002 company purchased 8,000 Debentures at Rs. 97 (cum- interest) for immediate cancellation. Record journal entries for purchase of debenture and cancellation and payment of interest on September 30, 2002.

2002 July 1	Own debenture a/c Dr. Interest on debenture Dr. Bank a/c (Own debenture purchased)		7,58,000 18000	7,76,000
July 1	9% Debenture a/c Dr. Own debenture a/c Profit on cancellation a/c (Own debenture purchased are now cancelled)		8,00,000	7,58,000 42,000
Sept.30	Interest on debenture a/c Dr. Debenture holders a/c (Interest due on debenture)		4,14,000	
	Debenture holders a/c Dr. Bank a/c (Interest due paid to debenture holders)			4,14,000
Sept.30	Profit and Loss a/c Dr. Interest on debenture a/c (For transfer of half yearly interest)		4,14,000	4,14,000

Illustration 29

Cripton India Ltd. has 1,00,000, 9% Debenture of Rs. 100 each outstanding on April 1, 2002. The company pays interest on Sept. 30 and March 31 every year. Company purchased 10,000 debentures at Rs 96. (Ex-Interest) on May 1, 2002. It further purchased 2,000 debentures at Rs. 98 (cum-interest) on January 1, 2003. These entire debentures were cancelled on March 31, 2003. Record the journal entries for purchase of debenture, payment of interest and cancellation of debenture.

Solution **Journal entries**

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
2002 May 1	Own debenture a/c Dr. Interest on debenture a/c Dr. Bank a/c (Own debenture purchased)		9,60,000 7,500	 9,67,500
Sept.30	Interest on debenture a/c Dr. Debenture holders a/c Interest on own debenture a/c (Interest due on debenture)		4,42,500	 4,05,000 37,500
Sept.30	Debenture holders a/c Dr. Bank a/c (Interest paid to debenture holders)		4,05,000	4,05,000
2003 Jan.1	Own debenture a/c Dr. interest on debenture a/c Dr. Bank a/c (Own debenture purchased)		1,91,500 4,500	1,96,000
Mar.31	Interest on Debenture a/c Dr. Debenture holders a/c Interest on own debenture a/c (Interest due on debenture)		4,.45,500	 3,96,000 49,500
Mar.31	Debenture holders a/c Dr. Bank a/c (Interest paid to debenture holders)		3.96,000	3.96,000
Mar.31	Interest on own debenture a/c Dr. Profit and Loss a/c Interest on own debenture transferred to profit and loss account)		87,000	87,000
Mar.31	Profit and Loss a/c Dr. Interest on Debenture a/c (Transfer of debenture interest)		87,000	87,000

Note to the Solution

1) May 1, 2002
   - (i) Interest accured on debenture purchased $10{,}000 \times Rs.\,100 \times \frac{9}{100} \times \frac{1}{12} = 7{,}500$
2) Sept. 30, 2002
   - (i) Interest on debenture held by outsiders $90{,}000 \times Rs.\,100 \times \frac{9}{100} \times \frac{6}{12} = 4{,}05{,}000$
   - (ii) Interest on own debenture $10{,}000 \times Rs.\,100 \times \frac{9}{100} \times \frac{5}{12} = 37{,}000$
3) Jan 1, 2003
   - (i) Interest accrued on debenture a/c purchased $2{,}000 \times Rs.\,100 \times \frac{9}{100} \times \frac{3}{12} = 4{,}500$
4) 31 Mar, 2003
   - (i) Interest on debenture held by outsiders $88{,}00{,}000 \times Rs.\,100 \times \frac{9}{100} \times \frac{6}{12} = 3{,}96{,}000$
   - (ii) Interest on own debenture $10{,}00{,}000 \times Rs.\,100 \times \frac{9}{100} \times \frac{6}{12} = 45{,}000$
   - (iii) Interest on own debenture 45,000 + 4,500 $= 49{,}500$

MODULE - 2
FINAL ACCOUNTS OF LIMITED LABILITY COMPANIES

Every company registered under the Act shall prepare its Balance Sheet, Statement of Profit and Loss and notes thereto in accordance with the manner prescribed in Schedule VI to the Companies Act, 1956. To harmonise the disclosure requirements with the Accounting Standards and to converge with the new reforms, the Ministry of Corporate Affairs vide Notification No. S.O. 447(E), dated 28th February 2011 replaced the existing Schedule VI of the Companies Act, 1956 with the revised one.

Government vide Notification No. S.O. 653(E) dated 30th March 2011 made applicable the revised Schedule VI for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 01st April 2011. The requirements of the Revised Schedule VI however, do not apply to companies as referred to in the proviso to Section 211 (1) and Section 211 (2) of the Act, i.e., any insurance or banking company, or any company engaged in the generation or supply of electricity or to any other class of company for which a form of Balance Sheet and Profit and Loss account has been specified in or under any other Act governing such class of company.

Key Features of Revised Schedule VI

- The revised schedule contains General Instructions, Part I – Form of Balance Sheet; General Instructions for Preparation of Balance Sheet, Part II – Form of Statement of Profit and Loss; General Instructions for Preparation of Statement of Profit and Loss.
- The Revised Schedule VI has eliminated the concept of 'schedule' and such information is now to be furnished in the notes to accounts.
- The revised schedule gives prominence to Accounting Standards (AS) i.e. in case of any conflict between the AS and the Schedule, AS shall prevail.
- The revised schedule prescribes a vertical format for presentation of balance sheet therefore, no option is there to prepare the financial statement in horizontal format. It ensures application of uniform format.

Balance Sheet

- All Assets and liabilities classified into current and non-current and presented separately on the face of the Balance Sheet.
- Number of shares held by each shareholder holding more than 5% shares now needs to be disclosed.
  Details pertaining to aggregate number and class of shares allotted for consideration other than cash, bonus shares and shares bought back will need to be disclosed only for a period of five years immediately preceding the Balance Sheet date.
- Any debit balance in the Statement of Profit and Loss will be disclosed under the head "Reserves and surplus." Earlier, any debit balance in Profit and Loss Account carried forward after deduction from uncommitted reserves was required to be shown as the last item on the asset side of the Balance Sheet.
- Specific disclosures are prescribed for Share Application money. The application money not exceeding the capital offered for issuance and to the extent not refundable will be shown separately on the face of the Balance Sheet. The amount in excess of subscription or if the requirements of minimum subscription are not met will be shown under "Other current liabilities."

- The term “sundry debtors” has been replaced with the term “trade receivables.” ‘Trade receivables’ are defined as dues arising only from goods sold or services rendered in the normal course of business. Hence, amounts due on account of other contractual obligations can no longer be included in the trade receivables.
- The Old Schedule VI required separate presentation of debtors outstanding for a period exceeding six months based on date on which the bill/invoice was raised whereas, the Revised Schedule VI requires separate disclosure of “trade receivables outstanding for a period exceeding six months from the date the bill/invoice is due for payment.”
- “Capital advances” are specifically required to be presented separately under the head “Loans & advances” rather than including elsewhere.
- Tangible assets under lease are required to be separately specified under each class of asset. In the absence of any further clarification, the term “under lease” should be taken to mean assets given on operating lease in the case of lessor and assets held under finance lease in the case of lessee.
- In the Old Schedule VI, details of only capital commitments were required to be disclosed. Under the Revised Schedule VI, other commitments also need to be disclosed.

Statement of Profit and Loss

- The name has been changed to “Statement of Profit and Loss” as against ‘Profit and Loss Account’ as contained in the Old Schedule VI.
- Unlike the Old Schedule VI, the Revised Schedule VI lays down a format for the presentation of Statement of Profit and Loss. This format of Statement of Profit and Loss does not mention any appropriation item on its face. Further, the Revised Schedule VI format prescribes such ‘below the line’ adjustments to be presented under “Reserves and Surplus” in the Balance Sheet.
- As per revised schedule VI, any item of income or expense which exceeds one per cent of the revenue from operations or `100,000 (earlier 1 % of total revenue or `5,000), whichever is higher, needs to be disclosed separately.
- In respect of companies other than finance companies, revenue from operations need to be disclosed separately as revenue from (a) sale of products, (b) sale of services and (c) other operating revenues.
- Net exchange gain/loss on foreign currency borrowings to the extent considered as an adjustment to interest cost needs to be disclosed separately as finance cost.
- Break-up in terms of quantitative disclosures for significant items of Statement of Profit and Loss, such as raw material consumption, stocks, purchases and sales have been simplified and replaced with the disclosure of “broad heads” only. The broad heads need to be decided based on materiality and presentation of true and fair view of the financial statements.

COMPARITIVE ANALYSIS BETWEEN OLD SCHEDULE VI AND REVISED SCHEDULE VI

Particulars	Old Schedule VI	Revised Schedule VI
Parts	Part I (Balance Sheet), Part II (Profit and Loss Account), Part III (Interpretation) and Part IV (Balance sheet Abstract of company's general business profile)	Only two parts - Part I (Balance Sheet) and Part II (Statement of Profit and Loss) Part III (Interpretation) and Part IV (Balance sheet Abstract of company's general business profile) omitted.
Format of Balance Sheet	Horizontal and Vertical formats are prescribed.	Only vertical format is prescribed.
Rounding off (R/off) of Figures appearing in financial statement	(a) Turnover of less than ` 100 Crs - R/off to the nearest Hundreds, thousands or decimal thereof  (b) Turnover of ` 100 Crs or more but less than ` 500 Crs - R/off to the nearest Hundreds, thousands, lakhs or millions or decimal thereof  (c) Turnover of `500 Crs or more - R/off to the nearest Hundreds, thousands, lakhs, millions or crores, or decimal thereof.	(a) Turnover of less than `100 Crs- R/off to the nearest Hundreds, thousands, lakhs or millions or decimal thereof  (b) Turnover of `100 Crs or more- R/off to the nearest lakhs, millions or crores, or decimal thereof
Net Working Capital	Current Assets & Liabilities are shown together under application of funds. The net working capital appears on balance sheet.	Assets & Liabilities are to be bifurcated into current & Non- current and to be shown separately. Hence, net working capital will not be appearing on Balance sheet.
Fixed Assets	There was nobifurcation	Fixed assets to be shown under non-
	required into tangible & intangible assets.	current assets and it has to be bifurcated into Tangible & intangible assets.
Borrowings	Short term & long term borrowings are grouped together under the head Loan funds sub- head Secured / Unsecured.	Long term borrowings to be shown under non - current liabilities and short term borrowings to be shown under current liabilities with separate disclosure of secured / unsecured loans. Period and amount of continuing default as on the balance sheet date in repayment of loans and interest to be separately specified.
Finance lease obligation	Finance lease obligations are included in current liabilities.	Finance lease obligations are to be grouped under the head non- current liabilities.
Deposits	Lease deposits are part of loans & advances.	Lease deposits to be disclosed as long term loans & advances under the head non-current assets.
Investments	Both current & non - current investments to be disclosed under the head investments.	Current and non - current investments are to be disclosed separately under current assets & non-current assets respectively.

Loans & Advances	Loans & Advance are disclosed along with current assets.	Loans & Advances to be broken up in long term & short term and to be disclosed under non-current & current assets respectively.
Deferred Tax Assets / Liabilities	Deferred Tax assets / liabilities to be disclosed separately.	Deferred Tax assets / liabilities to be disclosed under non-current assets/ liabilities as the case may be.
Cash & Bank Balances	Bank balance to be bifurcated in scheduled banks & others.	Bank balances in relation to earmarked balances, held as margin money against borrowings, deposits with more than 12 months maturity, each of these to be shown separately.
Profit & Loss (Dr Balance)	P & L debit balance to be shown under the head.	Debit balance of Profit and Loss Account to be shown as negative.
	Miscellaneous expenditure & losses.	figure under the head Surplus. Therefore, reserve & surplus balance can be negative.
Sundry Creditors	Creditors to be broken up in to micro & small suppliers and other creditors.	It is named as Trade payables and there is no mention of micro & small enterprise disclosure.
Other current liabilities	No specific mention for separate disclosure of Current maturities of long term debt. No specific mention for separate disclosure of Current maturities of finance lease obligation.	Current maturities of long term debt to be disclosed under other current liabilities. Current maturities of finance lease obligation to be disclosed.
Separate line item Disclosure criteria	Any item under which expense exceeds one per cent of the total revenue of the company or `5,000 whichever is higher ; shall be disclosed separately.	Any item of income / expense which exceeds one per cent of the revenue from operations or `1,00,000, whichever is higher; to be disclosed separately.
Expense classification	Function wise & nature wise.	Expenses in Statement of Profit and Loss to be classified based on nature of expenses.
Finance Cost	Finance cost to be classified in fixed loans & other loans.	Finance cost shall be c classified as interest expense, other borrowing costs & Gain / Loss on foreign currency transaction & translation.

FORMAT OF REVISED SCHEDULE VI

The Ministry of Corporate Affairs specified the format of Schedule VI vide Notification No. S.O. 447(E), dated 28th February 2011 as follows:

- General Instructions for preparation of Balance Sheet and Statement of Profit and Loss of a company
- Part I – Form of Balance Sheet
- General Instructions for Preparation of Balance Sheet
- Part II – Form of Statement of Profit and Loss
- General Instructions for Preparation of Statement of Profit and Loss

General Instructions for preparation of Balance Sheet and Statement of Profit and Loss of a Company

1. Where compliance with the requirements of the Act, including the Accounting Standards as applicable to companies, require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head / sub-head or any changes inter se, in the financial statements or statements forming part thereof, the same shall be made and the requirements of the Schedule VI shall stand modified accordingly.
2. The disclosure requirements specified in Parts I and II of this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 1956. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act, 1956 shall be made in the notes to accounts in addition to the requirements set out in this Schedule.
3. Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required

    (a) Narrative descriptions or disaggregation of items recognised in those statements and

    (b) Information about items that do not qualify for recognition in those statements. Each item on the face of the Balance Sheet and the Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.

4. Depending upon the turnover of the company, the figures appearing in the Financial Statements may be rounded off as below:

Turnover	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions or decimals thereof.
(ii) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.
Once a unit of measurement is used, it should be used uniformly in the Financial Statements.	

5. Except in the case of the first Financial Statements laid before the Company (after its incorporation), the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.

6. For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

Note :

This part of Schedule sets out the minimum requirements for disclosure on the face of the Balance Sheet and the Statement of Profit and Loss (hereinafter referred to as "Financial

Statements" for the purpose of this Schedule) and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the Company's financial position or performance or to cater to industry / sector specific disclosure requirements or when required for compliance with the amendments to the Companies Act, 1956 or under the Accounting Standards.

Part I

Form of Balance Sheet

Name of the Company ....

Balance Sheet as at .... (Rupees in ....)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of current reporting period
(1)	(2)	(3)	(4)
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share Warrants			
(2) Share application money pending allotment			
(3) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other long-term liabilities			
(d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. ASSETS			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
TOTAL			

General Instructions for Preparation of Balance Sheet

1. An asset shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within twelve months after the reporting date; or

(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

2. An operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have duration of 12 months.

3. A liability shall be classified as current when it satisfies any of the following criteria: (a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

4. A receivable shall be classified as a 'trade receivable' if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

5. A payable shall be classified as a 'trade payable' if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

6. A company shall disclose the following in notes to accounts:

A. Share capital

For each class of share capital (different classes of preference shares to be treated separately):

(a) The number and amount of shares authorized;

(b) The number of shares issued, subscribed and fully paid, and subscribed but not fully paidl;

(c) Par value per share;

(d) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;

(e) The rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;

(f) Shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) Shares in the company held by each Shareholder holding more than 5 per cent shares specifying the number of shares held;

(h) Shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;

(i) For the period of five years immediately preceding the date as at which the balance sheet is prepared :

- aggregate number and class of shares allotted as fully paid up pursuant to contract(s) without payment being received in cash.
- aggregate number and class of shares allotted as fully paid up by way of bonus shares.
- aggregate number and class of shares bought back.

(j) Terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date;
(k) Calls unpaid (showing aggregate value of calls unpaid by directors and officers);
(l) Forfeited shares (amount originally paid up).

B. Reserves and Surplus

(i) Reserve and surplus shall be classified as ;
(a) Capital Reserves;
(b) Capital Redemption Reserve;
(c) Securities Premium Reserve;
(d) Debenture Redemption Reserve; (e) Revaluation Reserve;
(f) Share Options Outstanding Account;
(g) Other Reserves (specify the nature and purpose of each reserve and the amount in respect thereof);
(h) Surplus i.e. balance in Statement of Profit & Loss disclosing allocations and +-

(Additions and deductions since the last Balance Sheet to be shown under each of the specified heads)
(ii) A reserve specifically represented by earmarked investments shall be termed as a 'fund'.
(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

C. Long-term borrowings:

(i) Long-term borrowings shall be classified as:
(a) Bonds/debentures;
(b) Term loans;

- from banks;
- from other parties;

(c) Deferred payment liabilities; (d) Deposits;
(e) Loans and advances from related parties;
(f) Long term maturities of finance lease obligations; (g) Other loans and advances (specify nature).
(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
(iv) Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment becomes due.
(v) Particulars of any redeemed bonds/ debentures which the company has power to reissue shall be disclosed.

(vi) Terms of repayment of term loans and other loans shall be stated.

(vi) Period and amount of continuing default as on the Balance Sheet date in repayment of loans and interest shall be specified separately in each case.

D. Other Long-term liabilities

Other long term liabilities shall be classified as :

(a) Trade payables; and

(b) Others.

E. Long-Term Provisions

The amounts shall be classified as :

(a) Provision for employee benefits;

(b) Others (specify nature).

F. Short-term borrowings

(i) Short-term borrowings shall be classified as :

(a) Loans repayable on demand

- from banks;
- from other parties.

(b) Loans and adv ances from related parties.

(c) Deposits.

(d) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Period and amount of default as on the Balance Sheet date in repayment of loans and interest, shall be specified separately in each case.

G. Other current liabilities

The amounts shall be classified as:

(a) Current maturities of long-term debt;

(b) Current maturities of finance lease obligations;

(c) Interest accrued but not due on borrowings;

(d) Interest accrued and due on borrowings;

(e) Income received in advance;

(f) Unpaid dividends;

(g) Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital. The terms and conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether the company has sufficient authorized capital to cover the share capital amount resulting from allotment of shares out of such share application money. Further, the period for which the share application money has been pending beyond the period for allotment as mentioned in the document invitingapplication for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable i.e. the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under 'Other current liabilities'.

(h) Unpaid matured deposits and interest accrued thereon;

(i) Unpaid matured debentures and interest accrued thereon;

(j) Other payables (specify nature).

H. Short-term provisions

The amounts shall be classified as:

(a) Provision for employee benefits;

(b) Others (specify nature).

I. Tangible assets

(i) Classification shall be given as:

(a) Land;

(b) Buildings;

(c) Plant and Equipment;

(d) Furniture and Fixtures;

(e) Vehicles;

(f) Office equipment;

(g) Others (specify nature).

(ii) Assets under lease shall be separately specified under each class of asset.

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

(iv) Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

J. Intangible assets

(i) Classification shall be given as:

(a) Goodwill.

(b) Brands /trademarks.

(c) Computer software.

(d) Mastheads and publishing titles.

(e) Mining rights.

(f) Copyrights, and patents and other intellectual property rights, services and operating rights.

(g) Recipes, formulae, models, designs and prototypes.

(h) Licenses and franchise.

(i) Others (specify nature).

(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses/reversals shall be disclosed separately.

(iii) Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

K. Non-current investments

(i) Non-current investments shall be classified as trade investments and other investments and further classified as:

(a) Investment property;
(b) Investments in Equity Instruments;
(c) Investments in preference shares
(d) Investments in Government or trust securities;
(e) Investments in debentures or bonds;
(f) Investments in Mutual Funds;
(g) Investments in partnership firms
(h) Other non-current investments (specify nature)

Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.

(iii) The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;
(b) Aggregate amount of unquoted investments;
(c) Aggregate provision for diminution in value of investments

L. Long-term loans and advances

(i) Long-term loans and advances shall be classified as:

(a) Capital Advances;
(b) Security Deposits;
(c) Loans and advances to related parties (giving details thereof);
(d) Other loans and advances (specify nature).

(ii) The above shall also be separately sub-classified as:

(a) Secured, considered good;
(b) Unsecured, considered good;
(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

M. Other non-current assets

Other non-current assets shall be classified as:

(i) Long Term Trade Receivables (including trade receivables on deferred credit terms);
(ii) Others (specify nature);
(iii) Long term Trade Receivables, shall be sub-classified as:

(i) (a) Secured, considered good;
(b) Unsecured considered good;
(c) Doubtful.

(ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

N. Current Investment

(i) Current investments shall be classified as:

(a) Investments in Equity Instruments;
(b) Investment in Preference Shares
(c) Investments in government or trust securities;
(d) Investments in debentures or bonds;
(e) Investments in Mutual Funds;
(f) Investments in partnership firms;
(g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) The following shall also be disclosed:

(a) The basis of valuation of individual investments;
(b) Aggregate amount of quoted investments and market value thereof;
(c) Aggregate amount of unquoted investments;
(d) Aggregate provision made for diminution in value of investments.

O. Inventories

(i) Inventories shall be classified as:

(a) Raw materials;
(b) Work-in-progress;
(c) Finished goods;
(d) Stock-in-trade (in respect of goods acquired for trading);
(e) Stores and spares;
(f) Loose tools;
(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

P. Trade Receivables

(i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated.

(ii) Trade receivables shall be sub-classified as:

(a) Secured, considered good;
(b) Unsecured considered good;
(c) Doubtful.

(iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iv) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Q. Cash and cash equivalents

(i) Cash and cash equivalents shall be classified as:

(a) Balances with banks;
(b) Cheques, drafts on hand;
(c) Cash on hand;
(d) Others (specify nature).

(ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

(iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

(v) Bank deposits with more than 12 months maturity shall be disclosed separately.

R. Short-term loans and advances

(i) Short-term loans and advances shall be classified as:
(a) Loans and advances to related parties (giving details thereof);
(b) Others (specify nature).

(ii) The above shall also be sub-classified as:
(a) Secured, considered good;
(b) Unsecured, considered good;
(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

S. Other current assets (specify nature)

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.

T. Contingent liabilities and commitments (to the extent not provided for)

(i) Contingent liabilities shall be classified as:
(a) Claims against the company not acknowledged as debt;
(b) Guarantees;
(c) Other money for which the company is contingently liable.

(ii) Commitments shall be classified as:
(a) Estimated amount of contracts remaining to be executed on capital account and not provided for;
(b) Uncalled liability on shares and other investments partly paid;
(c) Other commitments (specify nature).

U. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares shall also be disclosed separately.

V. Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilized amounts have been used or invested.

W. If, in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion, shall be stated.

Part II

Form of Statement of Profit And Loss

Name of the Company ....

Balance Sheet as at .... (Rupees in ....)

Particulars	Note No.	Figures as at the end of current eporting period	Figures as at the end of previous reporting period
(1)	(2)	(3)	(4)
I Revenue from operations			
II Other income			
III **Total revenue (I+II)**			
IV **Expenses**			
(a) Cost of materials consumed			
(b) Purchases of stock-in-trade			
(c) Changes in inventories of finished g oods, work-in-progress and stock-in-trade			
(d) Employee benefits expense			
(e) Finance costs			
(f) Depreciation and amortisation expense			
(g) Other expenses			
Total expenses			
V Profit / (Loss) before exceptional and extraordinary items and tax (III - IV)			
VI Exceptional items			
VII Profit / (Loss) before extraordinary items and tax (V – VI)			
VIII Extraordinary items			
IX Profit / (Loss) before tax (VII – III)			
X Tax expense:			
(1) Current tax			
(2) Deferred tax			
XI Profit / (Loss) for the period from continuing operations (IX - X- XIV)			
XII Profit / (Loss) from discontinuing operations			
XIII Tax expense of discontinuing operations			
XIV Profit / (Loss) from discontinuing operations (after tax) (XII - XIII)			
XV Profit / (Loss) for the year (XI + XIV)			
XVI Earnings per equity share:			
(1) Basic			
(2) Diluted			

General Instructions for Preparation of Statement of Profit and Loss

1. The provisions of this Part shall apply to the income and expenditure account referred to in sub-section (2) of Section 210 of the Act, in like manner as they apply to a statement of profit and loss.

2. (A) In respect of a company other than finance company revenue from operations shall disclose separately in the notes revenue from

   (a) sale of products; (b) sale of services;
   (c) other operating revenues; Less:
   (d) Excise duty.

   (B) In respect of a finance company, revenue from operations shall include revenue from

   (a) Interest; and
   (b) Other financial services

   Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

3. Finance Costs

   Finance costs shall be classified as:
   (a) Interest expense;
   (b) Other borrowing costs;
   (c) Applicable net gain/loss on foreign currency transactions and translation.

4. Other Income

   Other income shall be classified as:
   (a) Interest Income (in case of a company other than a finance company);
   (b) Dividend Income;
   (c) Net gain/loss on sale of investments;
   (d) Other non-operating income (net of expenses directly attributable to such income).

5. Additional Information

   A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:-

1. (i) (a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses];
   (b) Depreciation and amortization expense;
   (c) Any item of income or expenditure which exceeds one per cent of the revenue from operations or `1,00,000, whichever is higher;
   (d) Interest Income;
   (e) Interest Expense;
   (f) Dividend Income;
   (g) Net gain/ loss on sale of investments; (h) Adjustments to the carrying amount

of investments;

(i) Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

(j) Payments to the auditor as (a) auditor,(b) for taxation matters, (c) for company law matters, (d) for management services, (e) for other services, (f) for reimbursement of expenses;

(k) Details of items of exceptional and extraordinary nature;
(l) Prior period items;
(ii) (a) In the case of manufacturing companies - (1) Raw materials under broad heads;
(2) Goods purchased under broad heads.

(b) In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.

(c) In the case of companies rendering or supplying services, gross income derived form services rendered or supplied under broad heads.

(d) In the case of a company, which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if purchases, sales and consumption of raw material and the gross income from services rendered is shown under broad heads.

(e) In the case of other companies, gross income derived under broad heads.

(iii) In the case of all concerns having works in progress, works-in progress under broad heads.

(iv) (a) The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as to which the balance- sheet is made up.
(b) The aggregate, if material, of any amounts withdrawn from such reserves.

(v) (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.
(b) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.

(vi) Expenditure incurred on each of the following items, separately for each item:- (a) Consumption of stores and spare parts;
(b) Power and fuel;
(c) Rent;
(d) Repairs to buildings;
(e) Repairs to machinery;
(f) Insurance;
(g) Rates and taxes, excluding, taxes on income;
(h) Miscellaneous expenses.

(vii) (a) Dividends from subsidiary companies;
(b) Provisions for losses of subsidiary companies.

(viii) The profit and loss account shall also contain by way of a note the following information, namely:-

(a) Value of imports calculated on C.I.F basis by the company during the financial year in respect of –

I. Raw materials;

II. Components and spare parts; III. Capital goods.

(b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters;

(c) Total value if all imported raw materials, spare parts and components consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption;

(d) The amount remitted during the year in foreign currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related;

(e) Earnings in foreign exchange classified under the following heads, namely:- I. Export of goods calculated on F.O.B. basis;
2. Royalty, know-how, professional and consultation fees;
3. Interest and dividend;
4. Other income, indicating the nature thereof.

Illustration 1

From the following particulars of Ronald Ltd. , prepare its Balance Sheet as at 31st March, 2013 (as per Revised Schedule VI of the Companies Act, 1956) along with Notes to Accounts.

	`
Authorised Equity Share Capital (10,000 shares @Rs10)	1,00,000
Authorised 6% Preference Share Capital (1,000 shares @Rs100)	1,00,000
Issued Equity Share Capital (7,000 shares @Rs10)	70,000
Issued 6% Preference Share Capital (1,000 shares @Rs100)	1,00,000
Subscribed Equity Share Capital (5,000 shares,` 8 called up, Calls in arrear` 3 on 100 shares)	
Subscribed 6% Preference Share Capital (1,000 shares @Rs100)	1,00,000
500, 5% Debentures of` 1000 each	5,00,000
Short term loan from bank	10,000
Debtors	5,000
Provision for Doubtful Debts	200
Provision for Taxation	1,000
General Reserve	4,000
Statement of P/L (Dr)	6,000
Marketable Securities	500

Solution:

Balance Sheet of Ronald Ltd. as at 31st March, 2013

Particulars	Note No.	31.03.2013	31.03.2012
I. EQUITY AND LIABILITIES			
Shareholders Funds			
(a) Share Capital	1	1,39,700	
(b) Reserves and Surplus	2	(2,000)	
Non- Current Liabilities			
Long- term borrowings	3	5,00,000	
Current Liabilities			
(a) Short term borrowings	4	10,000	
(b) Short term provisions	5	1,200	
TOTAL			
II. ASSETS			
Current Assets			
(a) Current Investments	6	500	
(b) Trade Receivables	7	5,000	
TOTAL			

Particulars		Amount (Rs)
1. Share Capital		
Authorised Capital		
10,000 equity shares of ` 10 each		1,00,000
1000 6% Preference shares of `100 each		1,00,000
		2,00,000
Issued Capital		
7,000 shares of ` 10 each		70,000
1000 6% Preference shares of `100 each		1,00,000
		1,70,000
Subscribed Capital		
Subscribed and fully paid up		1,00,000
1000 6% Preference shares of `100 each		
Subscribed but not fully paid up		
5000 equity shares of ` 10 each, `8 called up	40,000	
Less calls-in-arrear	(300)	39,700
		1,39,700
2. Reserves and Surplus		
General Reserve	4,000	
Statement of P/L	(6,000)	(2000)
3. Non-current Liabilities		
500, 5% Debentures of ` 1000 each		5,00,000
4. Current Liabilities Short term borrowings Short term loan from bank		10,000
5. Current Liabilities		
Short term provision		
Provision for Tax	1,000	
Provision for Doubtful Debts	200	1,200
6. Current Assets		
Current Investments		
Marketable Securities		500
7. Current Assets		
Trade Receivables		
Debtors		5000

Illustration 2

From the following ledger balances of Sunshine Co. Ltd., prepare a Balance Sheet of the company as on 31st March 2014 as per Schedule VI of the Companies Act.

Particulars	Rs.	Particulars	Rs.
Equity Share Capital	2600000	Advances to employees	150000
General Reserves	30000	Discount on issue of debentures(unwritten off)	12500
12% Debenture	400000	Tools and equipment	375000
Land & Buildings	1554970	Gratuity Fund	300000
Goodwill	1000000	Debtors	138520
Bank Overdraft	245100	Cash at Bank	157160
Proposed Dividend	82000	Stores & Spares	177800
Prepaid insurance	25000	Profit & Loss A/c	21490
Mutual Fund	168000	Bills Receivable	44600
Interest payable	32400	Sundry Creditors	92560

Solution: Notes to the Financial Statement:

1. Reserve and Surplus

General Reserve	30000
Profit & Loss A/c (Cr. Bal.)	21490
Total	51490

2. Tangible Fixed Assets

Land & Buildings	1554970
Tools & Equipment	375000
Total	1929970

3. Trade Receivables

Sundry Debtors	138520
Bills Receivable	44600
Total	183120

Balance Sheet of Sunshine Company Limited as on 31st March 2014

`Particulars	Note No.	Amount (Rs.)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital		2600000
(b) Reserves and surplus	1	51490
2 Share application money pending allotment:		Nil
3 Non-current liabilities:		
(a) Long-term borrowings		400000
(b) Long-term provisions		300000
4 Current liabilities:		
(a) Short-term borrowings		245100
(b) Trade payables	2	92560
(c) Other current liabilities		32400
(d) Short-term provisions		82000
TOTAL		3803550

II.ASSETS		
1Non-current assets:		
(a)Fixed assets		
(i) Tangible assets	3	1929970
(ii) Intangible assets		1000000
(b) Other non-current assets		12500
2 Current assets:		
(a) Current investments		168000
(b) Inventories		177800
(c) Trade receivables		183120
(d) Cash and cash equivalents		157160
(e) Short-term loans and advances		150000
(f) Other current assets		25000
TOTAL		3803550

Illusration 3

From the following Ledger balances of TISCO CO. LTD., prepare a Balance Sheet of the company as on 31st March 2014 as per Schedule VI of the Companies Act.

Particulars	Rs.	Particulars	Rs.
Plant & machinery	300000	Premises	500000
6% Debenture	400000	Fixed Deposits	250000
Provision for workmen, compensation	65000	Provision for taxation	90000
General Reserves	40000	Loan from Bank of India	250000
Cash in hand	17000	Discount on issue of Debentures(unwritten off)	55000
Equity Share capital	600000	Bills Receivable	120000
Sundry creditors	58000	Bank overdraft	75000
Advance salary to staff	35000	Security deposits	62000
Shares of Reliance Co. Ltd	99000	Goodwill	90000
Commission Receivable	50000		

Solution: Notes to the Financial Statement:

1 .Long Term borrowings

6% Debentures	400000
Loan from Bank of India	250000
TOTAL	650000

2. Tangible Assets

Plant & Machinery	300000
Premises	500000
TOTAL	800000

3Cash & Cash equivalent

Cash in hand	17000
Fixed Deposit	250000
TOTAL	267000

Balance Sheet of TISCO CO. LTD. as on 31st March 2014

Parti	Note No.	Amount (Rs.)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital		600000
(b) Reserves and surplus		40000
2 Share application money pending allotment:		Nil
3 Non-current liabilities:		
(a) Long-term borrowings	1	650000
(d) Long-term provisions		65000
4 Current liabilities:		
(a) Short-term borrowings		75000
(b) Trade payables	2	58000
(d) Short-term provisions		90000
TOTAL		1578000
II.ASSETS		
1Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	3	800000
(ii) Intangible assets		90000
(b) Long-term loans & advances		62000
(e) Other non-current assets		55000
2 Current assets:		
(a) Current investments		99000
(c) Trade receivables		120000
(d) Cash and cash equivalents		267000
(e) Short-term loans and advances		35000
(f) Other current assets		50000
TOTAL		1578000

Illustration 4

From the following ledger balances of Reality Limited as on 31st March 2014. You are required to prepare the Balance Sheet as on 31st March 2014 as per Revised schedule VI of the Indian Companies Act, 1956.

Particulars	Rs	Particulars	Rs
Furniture and Fixtures	4,85,600	General Reserve	4,20,000
8% Govt. Bonds	2,50,000	Sundry Creditors	1,73,500
Securities Premium	80,000		
Plant and machinery	18,50,000		
Copyrights	88,250	Bank Overdraft	3,15,000
Sundry Debtors	1,95,000	Public Deposit	5,60,000
Underwriting Commission writtenoff	35,000	Rent payable	41,000
Cash at Hand	1,05,200	Provision for Pension fund	90,000
Prepaid insurance	56,000	Equity Share Capital	15,50,000
Loan to director	28,000	Provision for Taxation	31,550
Stock in trade	1,68,000		

Solution: Notes to the Financial Statement:

1. Reserve and Surplus

General Reserve	4,20,000
Securities Premium	80,000
Total	5,00,000

2. Trade payables

Sundry Creditors	1,73,500
Rent payable	41,000
Total	2,14,500

3. Tangible Fixed Assets

Furniture and Fixtures	4,85,600
Plant and machinery	18,50,000
Total	23,35,600

Balance Sheet of Reality Limited as on 31st March 2014

Particulars	Note No.	Amount (Rs.)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital		15,50,000
(b) Reserves and surplus	1	5,00,000
2 Share application money pending allotment:		Nil
3 Non-current liabilities:		
(a) Long-term borrowings		5,60,000
(d) Long-term provisions		90,000
4 Current liabilities:		
(a) Short-term borrowings		3,15,000
(b) Trade payables	2	2,14,500
(d) Short-term provisions		31,550
TOTAL		32,61,050
II.ASSETS		
1Non-current assets:		
(a)Fixed assets		
(i) Tangible assets	3	23,35,600
(ii) Intangible assets		88,250
(e) Other non-current assets		35,000
2 Current assets:		
(a) Current investments		2,50,000
(b) Inventories		1,68,000
(c) Trade receivables		1,95,000
(d) Cash and cash equivalents		1,05,200
(e) Short-term loans and advances		28,000
(f) Other current assets		56,000
TOTAL		32,61,050

Illustration 5

From the following particulars, prepare Statement of profit and loss for the year ending March 2013, as per the revised Schedule VI:]

Balances	Rs.	Rs.
Plant and Machinery	1,60,000	
Land	6,74,000	
Depreciation on Plant and Machinery	16,000	
Purchases (Adjusted)	4,00,000	
Closing stock	1,50,000	
Wages	1,20,000	
Sales (Net)		
Salaries	80,000	10,00,000
Bank overdraft		
10% debentures (issued on 1st April, 2012)		2,00,000
Equity share capital– shares of Rs. 100 each (fully		1,00,000
paid) Preference share capital– 1,000; 6% shares of		2,00,000
Rs. 100 each (fully paid)		1,00,000
	16,00,000	16,00,000

Additional information

(i) Equity dividend @ 10% declared on paid up capital.
(ii) Dividend on the preference share capital paid in full.
(iii) Rs. 2,00,000 transferred to general reserve.

Solution

Statement of Profit and Loss for the year ending 31st March, 2013

Particulars	Note No.	Amount (Rs.)
I. Income		
Revenue from operations (Sales)		10,00,000
Total		
II. Expenses		10,00,000
Cost of materials consumed (Adjusted purchase)		4,00,000
Employees benefit expenses		2,00,000
Finance cost	1	10,000
Depreciation and amortisation		16,000
Total		6,26,000
Profit before tax (I-II)		3,74,000

Notes to Accounts

Particulars	Amount Rs.	Amount Rs.
Employee Benefit Expenses		
(i) Wages	1,20,000	
(ii) Salary	80,000	2,00,000

Illustration 6

Given is the Trial Balance of Marathon Limited as on 31st March, 2012. You are require to prepare the Profit and loss Account and Balance Sheet on 31st March, 2012

	Dr.	Cr.
Authorised Share capital divided into 8,000, 6% preference shares of `100 each and 20,000 equity shares of `100 each		28,00,000
Subscribed Capital		
5,000 6% preference shares of `100 each		5,00,000
Equity Share Capital		8,00,000
Capital Reserve		5,000
Purchases - Coco, Tea, Coffee	58,800	
- Bakery products	36,200	
Wages and Salary	15,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Coco, Tea and Coffee		82,000
- Bakery products		44,000
Coal and Firewood	3,290	
Carriage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repair	4,250	
Rent of Rooms		48,000
Receipt from Billiards		5,700
Miscellaneous Receipts		2,800
Discount Received		3,300
Transfer Fee		700
Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Stock on hand, 1st April, 2011		
Coco, Tea, Coffee	12,800	
Bakery products	5,260	
Cash in Hand	2,200	
Cash with Bank	76,380	

Preliminary and Formation Expenses	8,000	
2000, 8% debentures of `100 each		2,00,000
Profit and Loss Account		41,500
Sundry Creditors		42,000
Sundry Debtors	19,260	
Investment	2,72,300	
Goodwill at Cost	5,00,000	
General Reserve		2,00,000
	19,75,000	**19,75,000**

Additional Information:

— Wages and Salaries outstanding 4,280

— Stock as on 31st march, 2012

— Coco, Tea, Coffee 22,500

— Bakery Products 16,400

— Provide 5% depreciation on Furniture and Fittings and 2% on Land and Building. The equity capital on 1st April, 2011 stood at `7, 20,000, that is 6,000 shares fully paid and 2,000 shares of `60 paid. The directors made a call of ` 40 per share on 1st October, 2011. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued at `90 per share as fully paid. The director proposes a dividend of 8% on equity shares, transferring any amount that may be required from general reserve. Ignore taxation.

	Particulars	Notes	Amount (`)
I	Revenue from Operations	10	1,79,700
II	Other Receipts	11	6,800
III	**Total Revenue (I + II)**		**1,86,500**
IV	**Expenses**		
	Purchase of Stock in Trade	12	95,000
	Change in Inventories of Finished Goods	13	(20,840)
	Employee Benefit Expenses	14	19,580
	Other Operating Expenses	15	23,840
	Selling and Administrative Expenses	16	8,360
	Finance Costs	17	16,000
	Depreciation and Amortization Expenses	18	21,315
	Total expenses		1,63,255

V	**Profit(Loss) for the period (III-IV)**	**23,245**
	Balance from Previous Years	41,500
	Transfer from General Reserve	29,255
	Less: Proposed Dividend	
	- Preference Share Capital @6%	30,000
	- Equity Share Capital @ 8%	64,000
	Profit (Loss) carried to Balance Sheet	**0**

Balance Sheet of Marathon Limited as on 31st March, 2012

Particulars	Notes	Amount (`
I Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	13,00,000
(b) Reserve and Surplus	2	1,75,745
2. Non-current liabilities		
(a) Long term liabilities	3	2,00,000
3. Current liabilities		
(a) Trade Payables	4	46,280
(b) Short Term Provisions	5	1,10,000
TOTAL		**18,32,025**
II Assets		
1. Non-Current Assets		
(a) Fixed assets		
(i) Tangible Fixed Assets	6	9,14,985
(ii) Intangible Assets (Goodwill)		5,00,000
(b) Non – Current Investments		2,72,300
2. Current Assets		
(a) Inventories	7	38,900
(b) Trade Receivables		19,260
(c) Cash and Cash Equivalents	8	78,580
(d) Other Current Assets	9	8,000
TOTAL		**18,32,025**

Notes to the Financial Statements

1. Share Capital

Equity Share Capital	
- Authorised Equity Share Capital : 20,000 Equity Shares of `100 each	20,00,000
- Issued and Subscribed 8,000 Equity Shares of `100 each	8,00,000
Preference share capital	
Authorised Preference Share Capital	
- 8,000, 6% Preference Shares of `100 each	8,00,000
- Issued and Subscribed 5,000 6% Preference Shares of `100 each	5,00,000
	13,00,000

2.	**Reserve and Surplus**		
	- Capital Reserve	5,000	
	- General Reserve	2,00,000	
	Less : Amount used to pay dividend on Equity and Preference Share Capital	29,255	1,70,745
			1,75,745
3.	**Long Term Borrowings**		
	- 2000, 8% Debentures of `100 each		2,00,000
4.	**Trade Payables**		
	- Sundry Creditors		42,000
	- Wages and Salaries Outstanding		4,280
			46,280
5.	**Short term Provisions**		
	- Interest on Debentures		16,000
	- Proposed Preference Dividend		30,000
	- Proposed Equity Dividend		64,000
			1,10,000
6.	**Tangible Assets**		
	- Freehold Land and Building	8,50,000	
	Less : Depreciation @2%	17,000	8,33,000
	- Furniture and Fitting	86,300	
	Less : Depreciation @5%	4,315	81,985
			9,14,985
7.	**Inventories**		
	- Coco, Tea, Coffee		22,500
	- Bakery Products		16,400
			38,900
8.	**Cash and Cash Equivalents**		
	- Cash at Bank		76,380
	- Cash in Hand		2,200
			78,580
9.	**Other Current Assets**		
	- Preliminary and Formation Expenses		8,000
10.	**Revenue from Operations**		
	Sale of products		
	- Coco, Tea and Coffee	82,000	
	- Bakery Products	44,000	1,26,000
	Sale of services		

- Rent of Rooms	48,000	
- Receipt from Billiards	5,700	53,700
		1,79,700
11. Other Receipts		
- Miscellaneous Receipts		2,800
- Discount Received		3,300
- Transfer Fee		700
		6,800
12. Purchases of Stock in Trade		
- Coco, Tea and Coffee		58,800
- Bakery Products		36,200
		95,000
13. Change in Inventories of Finished Goods		
- Coco, Tea, Coffee		
Opening Stock	12,800	
Less: Closing Stock	22,500	(9,700)
- Bakery Products		
Opening Stock	5,260	
Less : Closing Stock	16,400	(11,140)
		(20,840)
14. Employee Benefit Expenses		
Wages and Salaries		15,300
Add: Outstanding Wages and Salaries		4,280
		19,580
15. Other Operating Expenses		
- Rent Rates and Taxes		8,900
- Coal and Firewood		3,290
- Laundry		750
- Carriage		810
- Repair		4,250
- Sundry Expenses		5,840
		23,840
16. Selling and Distribution Expenses		
- Advertising		8,360
17. Finance Cost		
- Interest on Debentures		16,000
18. Depreciation and Amortization Expenses		
- Land and Building		17,000
- Furniture and Fittings		4,315
		21,315

Illustration 7

You are required to prepare financial statements from the following trial balance of Mehul Company Ltd. for the year ended 31st March, 2012

Mehul Company Ltd.
Trial Balance as at 31st March, 2012

Particulars	`	Particulars	`
Stock	68,000	Equity Shares Capital (Shares of `10 each)	2,50,000
Furniture & Fixtures	50,000	11% Debentures	50,000
Discount	4,000	Bank Loans	64,500
Loan to Directors	8,000	Bills Payable	12,500
Advertisement	2,000	Creditors	15,600
Bad Debts	3,500	Sales	4,26,800
Commission	12,000	Rent Received	4,600
Purchases	231,900	Transfer Fees	1,000
Plant and Machinery	86,000	Profit & Loss Appropriation Account	13,900
Rentals	2,500	Provision for Depreciation on Plant & Machinery	14,600
Current Account	4,500		
Cash	800		
Interest on Bank Loan	11,600		
Preliminary Expenses	1,000		
Wages	90,000		
Consumables	8,400		
Freehold Land	1,54,600		
Tools and Equipments	24,500		
Goodwill	26,500		
Debtors	28,700		
Bills Receivables	15,300		
Dealer Aids	2,100		
Transit Insurance	3,000		
Trade Expenses	7,200		
Distribution Freight	5,400		
Debentures Interest	2,000		
	8,53,500		**8,53,500**

Additional Information :

- Closing stock as on 31st march, 2012, `82,300
- Depreciation on furniture & fixtures @5%, Freehold land @2% and Tools and Equipments @5% to be provided.

Solution

Profit and Loss Account of Mehul Company Ltd. for the year ended on 31st March, 2012

	Particulars	Notes	Amount (`)
I	Revenue from Operations		4,26,800
II	Other Receipts	8	5,600
III	**Total Revenue (I + II)**		**4,32,400**
IV	**Expenses**		
	Purchase of Stock in Trade	9	2,31,900
	Change in Inventories of Finished Goods	10	(14,300)
	Employee Benefit Expenses	11	90,000
	Other Operating Expenses	12	48,100
	Selling and Administrative Expenses	13	2,000
	Finance Costs	14	13,600
	Depreciation and Amortization Expenses	15	6,817
	Total Expenses		3,78,117
V	**Profit (Loss) for the Period (III-IV)**		**54,283**
	Balance from Previous Years		13,900
	Profit (Loss) carried to Balance Sheet		**68,183**

Balance Sheet of Mehul Company Ltd. as on 31st March, 2012

Particulars	Notes	Amount (`)
I Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	2,50,000
(b) Reserve and Surplus	2	68,183
2. Non-Current Liabilities		
(a) Long Term Liabilities	3	1,14,500
3. Current liabilities		
(a) Trade Payables	4	28,100
TOTAL		**4,60,783**

II Assets

1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Fixed Assets	5	2,93,683
(ii) Intangible Assets (Goodwill)		26,500
Current Assets		
(a) Inventories		82,300
(b) Trade Receivables		28,700
(c) Cash and Cash Equivalents	6	5,300
(d) Short Term Loan and Advances	7	23,300
(e) Other Current Assets		1,000
TOTAL		**4,60,783**

Notes to the Financial Statements

1. Share Capital

- Equity Share Capital	
Authorised Share Capital	
25,000 equity shares of `10 each	2,50,000
Issued and Subscribed	
25,000 equity shares of `10 each	2,50,000
	2,50,000

2. Reserve and Surplus

- Balance as per last Balance Sheet	13,900
Add : Balance in Current Year Profit	54,283
	68,183

3. Long Term Borrowings

11% Debentures of `100 each	50,000
Bank Loan	64,500
	1,14,500

4.Trade Payables

Sundry Creditors	15,600
Bills Payables	12,500
	28,100

5. Tangible Assets

	Book value	Depreciation	Net value
Freehold Land and Building	1,54,600	3,092	1,51,508
Furniture and Fixtures	50,000	2,500	47,500
Plant and Machinery	86,000	14,600	71,400
Tools and Equipments	24,500	1,225	23,275
Total	3,15,100	14,600	2,93,683

Cash and Cash Equivalents	
Cash at Bank	4,500
Cash in Hand	800
	5,300
7. Short Term Loans and Advances	
Loan to Directors	8,000
Bills Receivables	15,300
	23,300
8. Other Income	
Rent Received	4,600
Transfer Fee	1,000
	5,600
9. Purchase of Stock in Trade	
Purchases	2,31,900
10. Change in Inventories of Finished Goods	
Closing Stock	82,300
Less : Opening Stock	68,000
	14,300
11. Employee Benefit Expenses	
Wages	90,000
12. Other Operating Expenses	
Consumables	8,400
Bad Debts	3,500
Discount	4,000
Rentals	2,500
Commissions	12,000
Dealer's Aid	2,100
Transit Insurance	3,000
Trade Expenses	7,200
Distribution Freight	5,400
	48,100
13. Selling and Administrative Expenses	
Advertisements	2,000
14. Finance Costs	
Interest on Bank Charges	11,600
Debenture Interest	2,000
	13,600
15. Depreciation and Amortization Expenses	
Freehold Land and Building	3,092
Furniture and Fixtures	2,500
Tools and Equipments	1,225
	6,817

MODULE – 3
ACCOUNTING FOR AMALGAMATION AND INTERNAL RECONSTRUCTION

The popular meaning of "amalgamation" is the dissolution of one or more companies and transfer of business of dissolved entities to another entity. Companies and business entities come together to form a single entity for various reasons, including but not limited to the objective of effecting tax savings. It is essential to be well versed with the accounting treatment to be accorded for such transactions.

Important terms in Amalgamation – defined:

"Transferor Company" means a company, which is amalgamated into another company. The company selling its business is also called "**Vendor Company".**

The company into which a transferor company is amalgamated is called the **"Transferee Company".** The Company which acquires (or buys) the business is also called the **"Vendee Company".**

1) *Amalgamation in the nature of merger (**Pooling of interests)***

- **Amalgamation deemed to be in the nature of merger if following conditions are** Business of vendor company must be carried on by the purchasing company.
- All assets and liabilities of vendor company transferred to purchasing company.
- Recorded in new company of assets and liabilities taken over at Book Value of vendor company. (Except to comply with accounting policy)
- Equity shareholders holding 90% shares (except already held) agree to become shareholders in new company.
- Disbursement of Purchase Consideration only in shares except cash for fraction of shares.

2) ***Amalgamation in the nature of purchase***

An amalgamation in the nature of purchase takes place, when any one or more of the condition specified for the amalgamation in the nature of merger is not satisfied. Under this nature of amalgamation one company acquires another company and equity shareholders of the combining entities do not continue to have proportionate share in the equity of the combined entity or the business of the combined entity is not intended to be combined after the amalgamation.

Differences between amalgamation and external reconstruction

1. Amalgamation of companies involves liquidation of two or more companies, while external reconstruction involves liquidation of only one company,
2. Amalgamation of companies results in combination of companies, but external reconstruction does not result in any such combination.

Differences between absorption and external reconstruction

1. Absorption of companies does not involve formation of a new company, however, external reconstruction involves formation of a new company,
2. Absorption of companies results in liquidation of one or more companies while external reconstruction results in liquidation of only one company.
3. Absorption of companies involves combination of companies, whereas external reconstruction does not involve any combination.

Purchase Consideration

Purchase Consideration refers to the consideration payable by the purchasing company to the vendor company for taking over the assets and liabilities of Vendor Company.

Para 3(g) of Accounting Standard – 14 defines the term purchase consideration as the "aggregate of the shares and other securities issued and the payment made in the form of ach or other assets by the transferee company to the shareholders of the transferor company". Although, purchase consideration refers to total payment made by purchasing company to the shareholders of Vendor Company, its calculation could be in different methods, as explained below:

a. Lump sum method
b. Net payments method
c. Net Assets Method
d. Other basis for purchase consideration

Lump sum Method: strictly speaking, this is not a method. Where the purchase consideration amount is mentioned in the problem itself, it is called Lump Sum consideration. This method, does not involve any calculation regarding purchase consideration.

Net Payments Method: under this method, the purchase consideration will be the total of payments made (in any form)by purchasing company to vendor company, on any basis. Generally, purchasing company decides the payment to be made towards liabilities of Vendor Company, not taken over and towards expenses. The total of such payment s will be the purchase consideration.

Net Assets Method: under this method, purchase consideration will be the excess of value of assets taken over by the purchasing company, over the value of liabilities taken over. that is, under this method, the purchase consideration will be

Purchase Consideration = Assets taken over – Liabilities taken over

Other basis of arriving at Purchasing Consideration

1. Intrinsic value
2. Exchange Ratio

How to identify the method of purchase consideration, applicable for the given problem?

1. If the problem specifies the method to be adopted – adopt the method specified
2. If the method is not specified in the problem, but the amount of purchase consideration is given, it is lump sum method and does not need any calculation
3. When the payments made by purchasing company to vendor company is given, with the statement "Balance in……" then, "Net Asset Method" must be adopted.
4. When the payment made by purchasing company to Vendor Company is given liability wise or any other item wise without the statement "Balance in….." then, "Net Payments Method" must be adopted.

Discharge of purchase consideration

Discharge of purchase consideration refers to the form in which, the purchase consideration is discharged by the purchasing company. Under net payments method calculation and discharge of purchase consideration would be one and the same. Under net Assets Method and Lump Sum Method based on the information in the problem the mode of discharge must be ascertained. When the problem is silent about the mode of discharge of purchase consideration, it must be assumed that purchase consideration is discharged by issue of equity shares of purchasing company.

Closing of Books of Transferor Company

Closing vendor company books involves the following steps and entries. While solving problems students are advised to follow the below order strictly to avoid confusion in both amalgamation in the nature of purchase and amalgamation in the nature of merger:

Accounting Entries in the books of Transferor Company

1. For transfer of various assets including cash at their book value

   Realisation Account Dr.

   To concerned Asset Account

Note: cash and bank balance is transferred to realization account only when it is taken over by the transferee company.

Gross value of assets and provisions against that are separately transferred to realization account. For example: Balance of debtors Rs 20,000 and provision for doubtful debts Rs 10,000 are transferred separately because in the ledger book, there are two separate accounts, namely, debtor account showing a balance of Rs 20,000 (debit0 and provision for doubtful debts accounts showing a balance of RS 10,000 (credit) and both these accounts are to be closed for final closure of books of the transferor company.

2. For transfer of various liabilities including debenture at their book value and statutory reserve

   Concerned Liability Account Dr.
   To Realisation Account

3. For purchase consideration due

   Purchasing company account Dr.
   To Realisation Account

4. For the payment of realization expenses

   a. If it is paid By

   Transferor company: Realisation Account Dr.
   To Cash/Bank Account

   b. <u>If it is paid by Purchasing Company</u>:

   i. For making payment

   Purchasing company account Dr.
   To cash/bank account

   ii. For collecting the amount from purchasing company

   Cash/ Bank Account Dr.
   To Purchasing Company Account

5. For sale of assets not taken over by the Transferee Company

   Cash/Bank Account Dr.
   To Realisation Account

6. For payments of liabilities not taken over by the Transferee company (including debenture if not taken over)

   Realisation Account Dr.
   To Cash/Bank Account

7. For preference share capital due:

   i. Payable at par

   Preference Share Capital Account Dr.
   To Preference Share Holder's Account

   ii. Payable at a higher value

   Preference Share Capital Account Dr. (with face value)
   Realisation Account Dr. (with premium on redemption0
   To Preference Shareholders Account

   iii. Payable at a lower value

   Preference Share Capital Account Dr.
   To Realisation Account
   To Preference Shareholders Account

8. For closing realisation account
   i. In case of profit
      Realisation Account Dr.
         To Equity Share Holders Account ii. In case of loss
      Equity Share Holders Account Dr.
         To Realisation Account

9. For transfer of Share Capital, reserves and profits
      Equity Share Capital Account Dr.
      Reserve Account Dr.
      Profit and Loss Account Dr.
         To Equity Shareholder's Account

10. For transfer of preliminary expenses, underwriting commission, discount on issue of shares and debentures and Profit and loss account (loss) etc.
      Equity Shareholder's Account Dr.
         To Preliminary Expenses Account
         To underwriting Commission Account
         To discount on Issue of shares and Debentures Account
         To Profit and Loss Account

Note: in case of amalgamation in the nature of merger, only share capital must be transferred to equity shareholders account and all other items belonging to shareholders must be transferred to realisation account. In case of amalgamation in the nature or purchase, all items relating to equity shareholders must be transferred to the equity shareholders account other then statutory reserves, which must be transferred to realisation account.

11. For the receipt of purchase consideration 5
      Equity Shares in Purchasing Company Account Dr.
      Preference Shares in purchasing of Transferee Company account Dr.
      Cash/Bank Account Dr.
         To Purchasing Company Account

12. For the final payment made of preference shareholders
      Preference Shareholder's Account Dr.
         To Cash/Bank Account
         To shares or debentures in Transferee company account (if distributed)

13. For the final payment made to Equity Shareholders
      Equity shareholders Account Dr.
         To Equity shares in purchasing company Account
         To Cash/Bank Account

<u>Note</u>: When purchasing company issue debenture of discharge of vendor company debentures, in the books of vendor company the debentures must be shown as taken over, by purchasing company and credited to realisation account and later in the books of purchasing company the discharge must be recorded by way of entry for exchange (as per requirements of AS 14)

I. **Opening Entries in the Books of Transferee Company** or Purchasing Company

The accounting treatment under External Reconstruction in the books of transferee , only Business Purchase Method (i.e., Amalgamation in the nature of purchase) is applied because it involves substantial changes in values of assets and liabilities. Moreover, there is only one company and in fact, there is no merger.

The following entries will be passed in the books of purchasing company in the case of external reconstruction.

A. Opening Entries in the case of Amalgamation in the nature of purchase (Business Purchase Method)

1. For Purchase Consideration payable

   Business Purchase account Dr.
   To liquidators of Transferor company
   (With the amount of purchase consideration)

2. For incorporation of Assets and Liabilities

   Plant and machinery account (revised value) Dr.
   Land and building account (revised value) Dr.
   Other fixed assets account (revised value) Dr.
   Debtors account (revised value) Dr.
   Stock account (revised value) Dr.
   Bank account Dr.
   Goodwill account (balancing figure)(if any)
   To Creditors
   To Bills Payable
   To Other liabilities
   To Capital Reserve account (bal. fig) (if any)

<u>Note:</u>

1. Revised value or fair value and not book values of assets and liabilities taken over are recorded.
2. Reserves and surplus are not incorporated along with assets and liabilities. But to carry forward "Statutory Reserve" a separate entry is passed through "amalgamation adjustment account"
3. The difference between purchase consideration and fair value of net assets (Assets – Liabilities0 is transferred to capital reserve or goodwill account as the case may be.

3 For incorporation of Statutory Reserves:

   Amalgamation Adjustment account Dr.
   To Statutory Reserve account

(With the amount of statutory reserves such as development rebate reserve, investment allowance reserve, export profit reserve etc.)

4. When there is no need for maintaining statutory reserves:

   Statutory Reserve account Dr.
   To Amalgamation Adjustment account

5. For discharge of Purchase Consideration

   Liquidator of Transferor Company account Dr.
   Discount on issue of securities account Dr.
   To Bank account
   To Equity share capital account
   To Preference share capital account
   To Debenture account
   To Securities premium account

7

(With the amount paid in different form and separate recording of par value of securities issued and discount or premium if any one issue of securities)

6. For making payment of debentures and other liabilities of transferor company:

Debenture/items of liability (i.e. creditors) account Dr.
Discount on issue of debentures account Dr.
To debentures account
To premium on issue of debentures account

(With the issue of new debenture of transferee company to debenture holders of transferor company)

7. For incurring formation expenses:

Formation expenses/preliminary expenses account Dr.
To Bank account

8. For set off goodwill against Capital Reserve:
Capital reserve account Dr.
To Goodwill account

Treatment of realisation expenses Various circumstances

1. Payment by transferor company and also burden on transferor company:
Realization account Dr.
To cash

Note: no entry in the books of the transferee company

2. Payment by transferee company and also burden on transferee company: (payment in the form of reimbursement)

A. In the books of Transferor Company]

a. At the time of payment

Transferee Company account Dr.
To Cash account

b. At the time of reimbursement
Cash account Dr.
To transferee company account

B. In the Books of Transferee Company

a. In case of Pooling of Interest Method
Profit and loss or Reserve account Dr.
To Cash account

b. In case of Purchase Method
Goodwill or Capital Reserve Account Dr.
To Cash Account

3. Payments by Transferor company out of cash retained out of cash taken over by the Transferee Company In this case, as cash has been retained out of the cash taken over by the transferee company, the burden will be on the transferee company. As transferor company is not be bear these expenses, it transfers at the time of transfer of assets, only that part of cash to realisation account which is actually handed over to the transferee company. On payment of realisation expenses the following entry is passes:

Realisation Account Dr.
To Cash Account

Illustration - 1

Liabilities and assets of Star Ltd., and Moon Ltd., as at 31st March, 2012 are as under.

Liabilities	Star Ltd.	Moon Ltd.	Assets	Star Ltd.	Moon Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity Shares of			Goodwill	15,000	--
Rs.10 each	2,10,000	1,50,000	Land	--	30,000
9% Redeemable			Building	--	75,000
Pref. Shares of			Plant	3,00,000	1,35,000
Rs.100 each	90,000	--	Fixtures	5,000	15,000
Securities Premium	10,500	--	Vehicles	10,000	15,000
Capital Redemption			Stocks	1,20,000	75,000
Reserve	60,000	--	Debtors	80,000	50,000
General Reserve	49,500	75,000	Advances	50,000	35,000
8% Debentures	60,000	90,000	Cash at Bank	20,000	20,000
Creditors	1,20,000	1,35,000			
	6,00,000	4,50,000		6,00,000	4,50,000

On 1st April, 2012, Sun Ltd. was formed by amalgamating in the nature of purchase Star Ltd. and Moon Ltd., on the following terms:

1. Sun Ltd., is to take over 8% Debentures and to convert these into 60-10% Debentures of Rs.1,000 each to Debenture holders of Star Ltd.
2. The Debenture holders of Moon Ltd. insisted that they should be allotted equity shares in Sun Ltd., Accordingly they were allotted 7,500 shares of Rs.10 each @Rs.12 per share.
3. Preference shareholders of Star Ltd. insisted for allotment of 900 – 11% Redeemable preference shares of Rs.100 each.
4. The Equity shareholders of Star Ltd. are to be allotted 10 equity shares at par for 7 equity shares held by them. The shares of Sun Ltd., are of Rs.10 each.
5. The assets of Star Ltd. are taken over at book value except plant which is taken over at Rs.1,90,000.
6. The assets of Moon Ltd. are valued as under:

   Goodwill Rs.30,000; Land Rs.1,50,000; Building Rs.45,000; Plant Rs.1,20,000; other Fixed Assets Rs.15,000; All Current Assets Rs.1,50,000; All Current Liabilities Rs.1,50,000.

   The balance of consideration is to be paid by allotment of Equity Shares at par to Moon Ltd.

Your are required to show

(i) Purchase consideration payable to Star Ltd., and Moon Ltd., and

(ii) Balance Sheet of Sun Ltd.

Solution

(i) Calculation of Purchase Consideration

Star Ltd.

900 – 11% preference Shares of Rs.100 each	90,000
30,000 Equity Shares of Rs.10 each	3,00,000

	3,90,000
	==========

Moon Ltd.

Assets taken Over:

Goodwill	30,000
Land	1,50,000
Building	45,000
Plant	1,20,000
Other Fixed Assets	15,000

All Current Assets	1,50,000

	5,10,000
Less: All Current Liabilities	1,50,000

Net Assets taken over	3,60,000
	===========

Payment

7,500 Equity Shares of Rs.10 each issued at Rs.12 to Debenture holders	90,000
27,000 Equity Shares at par (Balancing figure)	2,70,000

	3,60,000
	===========

Sun Ltd.

BALANCE SHEET *as on April 1st 2012*

			Rs.
1. Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital			
64,500 Equity Shares of Rs.10 each fully paid up			6,45,000
900 – 11% Preference Shares of Rs.100 each fully paid up			90,000
(Of the above 64,500 Equity Shares of Rs.10 each issued for consideration other than cash)			
(b) Reserves and Surplus:			
	Capital Reserve		5,000
	Securities Premium		15,000
(2)	Non Current Liabilities		
	Long term Borrowings:		
	Secured Loans:		
	60 10% Debentures of Rs.1,000 Each		60,000
(3)	Current Liabilities : Creditors		2,70,000
	Total Equity and Liabilities		10,85,000
II. **Assets**			
(1)	Non-Current Assets		
	Land		1,50,000
	Building		45,000
	Plant (Rs.2.90,000 + Rs.1,20,000)		4,10,000
	Other Fixed Assets (Rs.5,000 + Rs.10,000 + Rs.15,000)		30,000
	Goodwill		30,000
(2)	Current Assets		
	All Current Asset of Star Ltd.	2,70,000	
	Add: agreed Value of Current Assets of Moon Ltd.	1,50,000	
Total Assets			4,20,000
			10,85,000

Working Note:

(1) Capital Reserve has been calculated as under:

All assets (at book value and taking Plant at Rs.2,90,000) except goodwill of Star Ltd;

Less : Creditors Rs. 1,20,000 and 8 % Debentures Rs.60,000.

Less : Purchase Consideration Paid -

Capital Reserve - 50000

Illustration - 2

White Ltd. agreed to acquire the business of Green Ltd. as on 31st March 2012 on which date the liabilities and assets of Green Ltd. were as follows:

Liabilities	Rs.	*Assets*	Rs.
Capital (in fully paid shares of Rs. 10 each	6,00,000	Goodwill	1,00,000
		Land and Buildings	3,00,000
General Reserve	1,70,000	Plant	3,40,000
Profit and Loss Account	1,10,000	Stock	1,68,000
6% Debentures	1,00,000	Debtors	56,000
Creditors	20,000	Cash	36,000
	10,00,000		10,00,000

The consideration payable by White Ltd. was :

(i) A cash payment f Rs.20.50 for every share in green Ltd., (ii) the issue of 90,000 Rs.10 Shares of an agreed value of Rs.12.50 per share, and (iii) 6% debentures of Green Ltd. are taken over by White Ltd. and are discharged by the issue of such an amount of fully paid 5% Debentures in White Ltd. at 96% as is sufficient to discharge the 6% Debentures in Green ltd. at a premium of 20%. The directors of White Ltd. valued Land and Buildings at Rs.4,00,000 and created a provision of 5% on debtors against doubtful debts. The expenses of liquidation of Rs.6,000 were paid by White Ltd.Give Journal Entries to close the books of Green Ltd., and to record the acquisition of business in the books of White Ltd.

Solution

Calculation of Purchase Consideration

Shareholders to get :	Rs.
Cash for 60,000 shares @Rs.2.50	1,50,000
Shares : 90,000 shares @ Rs.12.50	11,25,000

	12,75,000
	=============
Face value of shares issued 90,000 x Rs.10	9,00,000
Securities Premium 90,000 x Rs. 2.50	2,25,000

	11,25,000
	=============
Face value of 5% Debentures issued by White Ltd. Rs.1,20,000 x 100/96 =	1,25,000

JOURNAL ENTRIES IN THE BOOKS OF GREEN LTD.

2012			Rs.	Rs.
March 31	Realisation Account Dr.		10,00,000	
	To Goodwill Account			1,00,000
	To Land & Building Account			3,00,000
	” Plant Account			3,40,000
	” Stock Account			1,68,000
	” Debtors Account			56,000
	” Cash Account			36,000
	(Being transfer of various assets taken over by White Ltd. to Realisation Account)			

	6% Debentures Account Dr Creditors Account Dr. To Realisation Account (Being transfer of creditors and 6% debentures taken over by White Ltd. to Realisation Account)		1,00,000 20,000	 1,20,000
	White Ltd. Dr To Realisation Account (Being purchase price payable by White Ltd. as per agreement... dated.....)		12,75,000	 12,75,000
	Cash Account Dr. Shares in White Ltd. Dr. To White Ltd. (Being receipt of the purchase price from White Ltd) Realisation Account Dr. To Shareholders Account (Being profit on realisation transferred)		1,50,000 11,25,000 3,95,000	 12,75,000 3,95,000
	Share Capital Account Dr. General Reserve Account Dr. Profit and Loss Account Dr. To Shareholders Account (Being balances transferred to Shareholders A/c)		6,00,000 1,70,000 1,10,000	 8,80,000
	Shareholders Account Dr. To Cash Account To Shares in White Ltd. (Being distribution of shares in White Ltd. and cash among the Shareholders)		12,75,000	 1,50,000 11,25,000

JOURNAL ENTRIES IN THE BOOKS OF WHITE LTD.

			Rs.	Rs.
	Business Purchase Account Dr. To Liquidator of Green Ltd. (Being purchase price payable for the purchase of the business of Green Ltd. as per agreement ... dated...)		12,75,000	 12,75,000
	Land and Building Account Dr. Plant Account Dr. Stock Account Dr. Debtors Account Dr. Cash Account Dr. Goodwill Account (Balancing Figure) Dr. To Provision for Doubtful Debts Account " 6% Debentures Account " Creditors Account " Business Purchase Account (Being incorporation of various assets and liabilities taken over)		4,00,000 3,40,000 1,68,000 56,000 36,000 3,97,800	 2,800 1,00,000 20,000 12,75,000
	6% Debentures Account Dr. Goodwill Account Dr. Discount on 5% Debentures Account Dr, To 5% Debentures Account		1,00,000 20,000 5,000	

	(Being discharge of 6% debentures of Green Ltd., at a premium of 20% by issue of Rs.1,25,000 debentures at a discount of 4%; the excess amount of Rs.20,000 payable to 6% debenture holders is debited to Goodwill A/c)			1,25,000
	Liquidator of Green Ltd. Dr.		12,75,000	
	To Cash Account			1,50,000
	” Share Capital Account			9,00,000
	” Securities Premium Account			2,25,000
	(Being payment of Purchase price)			
	Goodwill Account Dr.		6,000	
	To Cash Account			6,000
	(Being expenses of liquidation of Green Ltd. debited to Goodwill Account)			

Illustration 3

A Ltd acquired the business of B Ltd on 31 March 2012 for a purchase consideration of Rs.2,50,00,000 to be paid by fully paid equity shares of Rs.10 each. The balance sheets of two companies on the date of acquisition were as follows:

	A Ltd	B Ltd		A Ltd	B Ltd
Equity shares of Rs.10 each fully paid			Land & Building	12000000	8000000
			Plant & Machinery	20000000	18000000
General	25000000	15000000	Furniture	1000000	2000000
Reserve			Stock	5500000	4000000
Development	12000000	1800000	Sundry Debtors	4500000	4000000
Rebate Reserve			Bank	2000000	1700000
P&L A/c	1000000	3700000			
Workmen	1000000	5300000			
Compensation Fund	1500000	2400000			
Current Liabilities	4500000	9500000			
	45000000	37700000		45000000	37700000

Pass the necessary journal entries in the books of A Ltd when amalgamation is in the nature of (i) merger and (ii) purchase.

Also prepare the Balance sheet of A Ltd after amalgamation assuming that Development Rebate Reserve and Workmen Compensation Fund of B Ltd are required to be continued in the books of A Ltd.

Solution:

(i) **When amalgamation is in the nature of merger: Entries in the books of A Ltd.**

2012 Mar 31	Land & Building A/c Dr Plant & Machinery A/c Dr Furniture A/c Dr Stock A/c Dr Sundry Debtors A/c Dr Bank A/c Dr General Reserve A/c (Bal. Fig) Dr To Development Rebate Reserve A/c To Workmen Compensation Fund A/c To Current liabilities A/c To Liquidators of B Ltd A/c (purchase consideration due and assets and liabilities taken over)		8000000 18000000 2000000 4000000 4000000 1700000 2900000	 3700000 2400000 9500000 25000000
	Liquidators of B Ltd A/c Dr To Equity Share capital A/c (payment of purchase consideration in equity shares)		25000000	 25000000

Balance Sheet of A Ltd as on 1 April 2012 (after amalgamation)

Share Capital		*Fixed Assets*	
5000000 equity shares		Land & Building	20000000
of Rs.10 Each, fully paid		Plant &	38000000
up *Reserves & Surplus*	50000000	Machinery	3000000
General Reserve		Furniture	
Development Rebate	9100000	*Current Assets*	
Reserve	4700000	Stock	9500000
Workmen Compensation	3900000	Sundry Debtors	8500000
Fund		Bank	3700000
P & L A/c	1000000		
Current liabilities	14000000		
	82700000		82700000

(ii) **When amalgamation is in the nature of purchase: Entries in the books of A Ltd.**

2012 Mar 31	Land & Building A/c Dr Plant & Machinery A/c Dr Furniture A/c Dr Stock A/c Dr Sundry Debtors A/c Dr Bank A/c Dr To Current liabilities A/c To Liquidators of B Ltd A/c To Capital Reserve A/c (Bal. Fig) (purchase consideration due and assets and liabilities taken over)		8000000 18000000 2000000 4000000 4000000 1700000	 9500000 25000000 3200000
	Liquidators of B Ltd A/c Dr To Equity Share capital A/c (payment of purchase consideration in equity shares)		25,00,000	 25,00,000
	Amalgamation Adjustment A/c Dr To Development Rebate Reserve A/c To Workmen compensation Fund A/c (statutory reserves incorporated)		61,00,000	 37,00,000 24,00,000

Balance sheet of A Ltd as on 1st April 2012

Share Capital		Fixed Assets	
5000000 equity shares		Land & Building	20000000
of Rs.10Each, fully paid		Plant &	38000000
up Reserves & Surplus	50000000	Machinery	3000000
Capital Reserve		Furniture	
General Reserve	3200000	Current Assets	9500000
Development Rebate	12000000	Stock	8500000
Reserve	4700000	Sundry Debtors	3700000
Workmen Compensation		Bank	
Fund		Miscellaneous Expenditure	6100000
P & L A/c		Amalgamation Adjustment	
Current liabilities	3900000	A/c	
	88800000		88800000

Illustration – 4

Deva Ltd., and Asura Ltd., carrying on similar business agreed to amalgamate by transferring their undertakings to a new company Devasura Ltd.

Liabilities and assets of the two companies as on the date of transfer were as follows:

Liabilities	Deva Ltd.	Asura Ltd.	Assets	Deva Ltd.	Asura Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital			Land and Building	4,65,000	2,55,000
Equity Shares of			Plant and Machinery	5,60,000	3,58,000
Rs.100 each	5,00,000	3,00,000	Furniture & Fittings	79,000	34,000
6% Preference Shares			Stock	81,500	52,000
of Rs. 100 each	5,00,000	2,50,000	Debtors	56,000	24,600
5% Debentures	--	40,000	Cash at Bank	87,000	22,500
General Reserve	2,00,000	70,000	Cash in Hand	6,400	3,900
Surplus Account	1,15,000	55,000	Preliminary Expenses	55,100	
Sundry Creditors	75,000	35,000			
	13,90,000	7,50,000		13,90,000	7,50,000

The terms of agreement were as follows:

(a) The purchase consideration consisted of :

(i) the assumption of liabilities of both the companies, (ii) the discharge of the debentures in Asura Ltd., at a premium of 5% by Devasura Ltd. by the issue of 7% debentures; (iii) the issue of 10 equity shares of Rs.10 each at a premium of Rs.2 per share for each preference share held in both the companies, (iv) the issue of 10 equity shares of Rs.10 each at a premium of Rs.2 per share and Rs.22 in cash for each equity share in Deva Ltd., and 5 equity shares of Rs.10 each at a premium of Rs.2 per share and Rs.80 in cash for every equity share in Asura Ltd.
(b) All the assets and liabilities of the two companies were taken over at their book values except that a provision @5% to be raised on debtors. (c) In order to raise working capital and to pay the purchase consideration Devasura Ltd. decided to issue 30,000 equity shares of Rs.10 each at a premium of Rs.2.50 per share.You are required to:

Pass Journal Entries in the books of Deva Ltd., to close its accounts, and (b) show the opening Balance Sheet of Devasura Ltd., assuming amalgamation in the nature of purchase.

Solution

JOURNAL ENTRIES IN THE BOOKS OF DEVA LTD.

				Rs.	Rs.
	Realisation A/c To Realisation A/c (Transfer of assets on amalgamation)	Dr.		13,84,900	 13,34,900
	Sundry Creditors A/c To Realisation A/c (Transfer of liability on amalgamation)	Dr.		75,000	 75,000
	Devasura Ltd. To Realisation A/c (Purchase consideration on amalgamation)	Dr.		13,10,000	 13,10,000
	Realisation A/c Preference Share Capital A/c To Preference Shareholders A/c (Amount due to pref. shareholders on amalgamation)	Dr. Dr.		1,00,000 5,00,000	 6,00,000
	Equity Shares in Devasura Ltd. Bank To Devasura Ltd. (Equity shares & cash received as purchase consideration)	Dr. Dr.		12,00,000 1,10,0000	 13,10.000
	General Reserve A/c Surplus A/c Equity Share Capital A/c To Equity Shareholders A/c (Being the transfer of general reserve, profit and loss & equity share capital to Equity Shareholders A/c)	Dr. Dr. Dr.		2,00,000 1,15,000 5,00,000	 8,15,000
	Equity Shareholders A/c To Realisation A/c To Preliminary Expenses A/c (Being loss on realisation transferred to equity shareholders account)	Dr.		1,05,000	 49,900 55,100
	Preference Shareholders A/c Equity Shareholders A/c To Equity Shares in Devasura Ltd. To Bank (Being 10 shares of Rs.10 each in Devasura Ltd. at a premium of Rs.2 per share issued against each preference share and equity share and in addition Rs.22 per equity share paid in cash to equity shareholders account)	Dr. Dr.		6,00,000 7,10,000	 12,00,000 1,10,000

BALANCE SHEET OF DEVASURA LTD.

as on ....

	Rs.
I. Equity and Liabilities	
(1) Shareholders' Funds	
(a) Share Capital	
1,70,000 Equity Shares of Rs.10 each fully paid up	17,00,000
(Of the above shares 1,40,000 shares issued for consideration other than cash)	
(b) Reserves and Surplus:	
Securities Premium	3,55,000

(2) Non-Current Liabilities	
Long-term Borrowings:	
Secured Loan : 7% Debentures	42,000
(3) Current Liabilities	
Sundry Creditors	1,10,000
Total Equity and Liabilities	22,07,000
II. Assets	
(1) Non-Current Assets	
Fixed Assets:	
(i) Tangible Assets:	
Land & Building	7,20,000
Plant & Machinery	9,18,000
Furniture & Fittings	1,13,000
(ii) Intangible Asset : Goodwill	1,01,000
(2) Current Assets	
Stock	1,33,500
Debtors (Rs.80,600 – Rs. 4,030 Provision)	76,570
Cash at Bank	1,44,850
Total Assets	22,07,000

Working Notes:

(1) *Calculation of Goodwill*

	Deva Ltd. Rs.	*Asura Ltd.* Rs.
Purchase consideration (2)	13,10,000	7,20,000
Less : Agreed value of net assets acquired		
(i.e., Assets – Crs. – Debentures)	12,57,100	6,71,770
Goodwill	52,900	48,200
Total Goodwill		1,01,130

(2) Calculation of Purchase Consideration

	Deva Ltd. Rs.	*Asura Ltd.* Rs.
Equity shareholders to get.:		
Equity shares : 5,000 x 10 x Rs.12	6,00,000	
Cash for 5,000 shares @Rs.22	1,10,000	
Equity shares 3,000 x 5 x Rs.12		1,80,000
Cash for 3,000 shares @Rs.80		2,40,000
Preference shareholders to get :		
Equity shares : Fro 5,000 Preference shares @10		
Equity shares issued @Rs.12 i.e., 5,000x10xRs.12	6,00,000	
Equity Shares : For 2,500 Preference shares @10		
Equity Shares issued @Rs.12, i.e., 2,500 x 10 x Rs.12		3,00,000
	----------------	-------------------
Purchase Consideration	13,10,000	7,20,000
	==========	=============

Internal Reconstruction of Companies

Internal reconstruction refers to the internal reorganisation of the financial structure of a company. It is the internal reorganisation either by alteration or by reduction in share capital. The alteration is done reduction, consolidation or subdivision of share capital.

Procedures of Internal reconstruction.

a. A company can reduce its share capital only if the Articles of Association permit it and a special resolution is passed to that effect.
b. The company must apply to the court for an order confirming the capital reduction.
c. The order of the court confirming the reduction must be placed before the Registrar of Companies and a certified copy of the order and the minutes of the reduction must be filed with the Registrar for registration.

Distinction between Internal Reconstruction and External Reconstruction.

a. In external reconstruction, an existing company is liquidated. But, in the case of internal reconstruction no company is liquidated.
b. In the case of external reconstruction a new company is formed. But in internal reconstruction, no new company is formed.

Distinction between Internal Reconstruction and Amalgamation.

a. In amalgamation, at least two companies are liquidated, whereas, in internal reconstruction, no company is liquidated.
b. In the case of amalgamation a new company is formed to take over the business of the amalgamating companies. But, in internal reconstruction no new company is formed.
c. Amalgamation is a case of combination: whereas internal reconstruction is only a reorganisation.

Distinction between Internal Reconstruction and Absorption.

a. In absorption, one company is liquidated: while, there is no liquidation in internal reconstruction.
b. Absorption is a case of combination, whereas internal reconstruction is a case of alteration and reduction of capital.

Capital reduction account

It is a temporary account opened at the time of internal reconstruction for transferring the part of capital which is lost or unrepresented by asset. The balance of capital reduction account after writing off losses will be transferred to capital reserve account.

Accounting Entries

1. For reduction of Equity Share Capital:

(Old) Equity Share Capital Account Dr.
To (new) Equity Share Capital Account
To Capital Reduction Account

2. For reduction of Preference Share Capital:

(Old) Preference Share Capital Account Dr.
To (new) Preference Share Capital Account
To Capital Reduction Account

3. For reduction of the amount due to debenture holders:

Debenture holders Account Dr.
To Capital Reduction Account

4. For reduction of the amount due to

Creditors: Creditors Account Dr.
To Capital Reduction Account

5. For appreciation in the value of Assets:

Assets Account Dr.

To Capital Reduction Account

6. For the payment of Reconstruction expenses:

Reconstruction Expenses Account Dr.

To Bank Account

7. For utilization of capital reduction account in writing off accumulated losses and various fictitious assets:

Capital Reduction Account Dr.

To Profit and Loss account (loss)
To Preliminary Expenses
To Discount of issue of shares or debentures account
To underwriting commission account
To Advertising Suspense's account
To Reconstruction Expenses account
To Good will account
To Patents or Trade Marks account
To Fixed assets account (over valued assets0
To Other assets account
To Capital Reserves account (if some balance is still left

Illusration 1

The following is the Balance Sheet of Unhealthy Ltd. as on 31st December 2010.

Liabilities	Rs.	Assets	Rs.
Issued, Subscribed, Called up,		Patents at cost	4,25,000
Paid up capital:		Lease hold premises	65,400
Preferenc.share of Rs.100 each	3,75,000	Plant and machinery	21,100
Ord. share of Rs.100 each	2,50,000	Stock in hand	27,500
Sundry Creditors	15,000	Sundry Debtors	38,250
Bank overdraft	10,000	Cash in hand	250
		Discount on issue of shares	9,000
		Preliminary Expenses	6,000
		Advertisement suspense A/c	57,500
	6,50,000		6,50,000

The following scheme of reconstruction was resolved and adopted;

i. The preference shares be reduced to an equal number of shares of rs. 50 each
ii That the ordinary shares be reduced to an equal number of shares of Rs.25 each
iii That the ordinary shares be reduced to an equal number of shares of Rs.25 each

Preliminary expenses, Advertisement Suspense Account and discount on issue of shares to be written off entirely; Rs.15,400 off the leasehold premises. Rs. 7,500 off the stock, 20% off to plant and machinery and sundry debtors and the balance available to be used to write off patents.

Pass the journal entries and prepare the Balance Sheet giving effect to the above.

Solution

Journal

	Particulars		**Dr. Rs.**	**Cr. Rs.**
	Preference Share Capital A/c (3750 x 50)	Dr.	1,87,500	
	Ord. Share Capital A/c (2500 x 75)	Dr.	1,87,500	
	To Capital Reduction Account			3,75,000
	(Being the preference shares reduced to Rs.50 each and the ordinary shares reduced by Rs.75 each)			
	Capital Reduction A/c	Dr.	3,75,0000	
	To Advertisement Suspense A/c			57,500
	” Discount on issue of shares			9,000
	” Preliminary expenses			6,000
	” Leasehold premises A/c			15,400
	” Stock			7,500
	” Plant and machinery A/c			4,220
	” Reserve for Doubtful Debts A/c			7,650
	” Patents A/c (Balancing figure)			2,67,730
	(Being the baove items written off against capital reduction			

Balance Sheet

as at 31st March, 2010

Liabilities	Rs.	Assets		Rs.
Issued, subscribed, called-up,		Lease hold premises	65,400	
paid-up capital:		Less: Written-off	15,400	50,000
3750 preference shares of		Plant and machinery	21,100	
Rs.50 each	1,87,500	Less: Written-off	4,220	16,880
2500 ordinary shares of Rs.		Patents	4,25,000	
Rs.25 each	62,500	Less:Written-off	2,67,730	1,57,270
Sundry creditors	15,000	Stock in hand	27,500	
Bank overdraft	10,000	Less:Written-off	7,500	20,000
		Sundry Debtors	38,250	
		Less:R.D.D.	7,650	30,600
		Cash in hand		250
	2,75,000			2,75,000

Illustration 2

The Balance Sheet of Gloomy Ltd., as at 31st December 2010 was as follows:

Liabilities	Rs.	Assets	Rs.
Share capital:		Goodwill	15,000
2000 5% Cumulative pre.		Freehold premises	2,00,000
shares of Rs.100 each	2,00,000	Plant and Machinery	3,00,000
4000 Equity shares of		Stock in trade	50,000
Rs.100 each	4,00,000	Debtors	40,000
6% Debentures:	1,00,000	Cash in hand	5,000
Bank overdraft	35,000	Profit and Loss Account	2,25,000
Creditors	1,00,0000		
	8,35,000		8,35,000

The company has got the following scheme of capital reduction approved by the court.

(i) The preference shares to be reduced to Rs.60 per share fully paid up and equity shares to Rs.40 per share fully paid up. (ii) The debenture holders to take over stock in trade and book debts in full satisfaction of the amount due to them. (iii) The good will account to be eliminated. (iv) The value of freehold premises to be increased by 10%. (v) The value of plant and machinery to be depreciated by 33 1/3%. (vi) Expenses of reconstruction amounted to Rs.4,000.

Give the journal entries for the above and prepare the revised Balance Sheet.

Solutions

Journal

	Particulars		**Dr. Rs.**	**Cr. Rs.**
	Preference Share Capital A/c	Dr.	80,000	
	(200 x 40)			
	Equity share capital A/c	Dr.	2,40,000	
	(4,000 x 60)			
	To Reconstruction A/c			3,20,000
	(Being the reduction of preference share capital and equity share capital)			
	Debentures A/c	Dr.	1,00,000	
	To Debenture holders			1,00,000
	(Debenture transferred to debenture holders A/c			
	Debenture holders A/c	Dr.	1,00,000	
	To Stock in trade			50,000
	” Debtors A/c			40,000
	” Reconstruction A/c			10,000
	(Stock and debtors taken over by debenture holders in full satisfaction of their claim)			
	Freehold premises A/c	Dr.	20,000	
	To Reconstruction			20,000
	(Being the appreciation in the value of freehold premises credited to reconstruction)			
	Reconstruction expenses A/c	Dr.	4,000	
	To Cash			4,000
	(Payment of reconstruction expenses)			
	Reconstruction A/c	Dr.	3,50,000	
	To Profit and Loss A/c			2,25,000
	” Reconstruction expenses			4,000
	” Goodwill			15,000
	” Plant and machinery A/c			1,00,000
	” Capital reserve (Balancing Figure)			6,000
	(Being the above losses written off and the balance Reconstruction Account transferred to Capital Reserve)			

Balance Sheet Gloomy Ltd. as at 31st December 2010

Liabilities	Rs.	Assets		Rs.
Share capital:		Freehold premises	2,00.000	
Issued, subscribed, called-up,		Add: Appreciation	20,000	2,20,000
paid-up capital:		Plant and machinery	3,00,000	
P. share capital 2,000 5%		Less: Depreciation	1,00,000	2,00,000
cumulative pre.share of		Cash	5,000	
Rs. 60 each	1,20,000	Less: Reconstruction. Exp.	4,000	1,000
4000 E. shares of Rs.40				
each	1,60,000			
Capital reserve	6,000			
4% debentures	1,00,000			
Bank overdraft	35,000			
	4,21,000			4,21,000

Note:1. The excess amount in reconstruction account transferred to capital reserve. 2. Capital reduction A/c, reorganization account and reconstruction A/c are the same.

Illustration 3

M/s. Suri and Co. promoted Unlucky Ltd. in 2010. The working of the company was no to successful. On 31st December 2012, Balance Sheet of unlucky stood as follows:

Liabilities	Rs.	Assets	Rs.
Authorised capital		Land and buildings	1,00,000
20,000 shares of Rs.100 each	20,00,000	Machinery	2,60,000
Subscribed capital:		Furniture	20,000
19,000 shares of Rs.100 each		Stock	3,70,000
fully paid	16,00,000	Debtors	1,80,000
Creditors	1,00,000	Goodwill	2,00,000
Suri and Co.	1,00,000	Profit and Loss Account	9,70,000
	21,00,000		21,00,000

The company to be reconstructed on the basis of the following scheme:

i 19,0000 shares of Rs.100 each are to be reduced to an equal number of fully paid shares of Rs.40each

ii The debt of Rs.1,00,000 due to Suri & Co. was also to be reduced, the remaining 1,000 unissued shares being issued to them as fully paid up shares of Rs.40 each in fully settlement of the amount due to them.

iii. The amount thus rendered available, by the reduction of capital and by the about arrangement with Suri & Co., is to be utilized in wiping off the Goodwill and the Profit and Loss Account and in writing down the value of machinery.

Give journal entries in the implementation of reconstruction scheme. Also prepare the Balance Sheet immediately after reconstruction.

Solution **Journal**

	Particulars		**Dr. Rs.**	**Cr. Rs.**
	Share capital A/c (Old)	Dr.	19,00,000	
	To Share capital (New)			7,60,000
	” Capital reduction			11,40,000
	(Being the share capital reduced to Rs.40)			
	Suri & Co.	Dr.	1,00,000	
	To Share capital (New)			40,000
	” Capital reduction			60,000
	(Being the debt due to Suri and Co. Settled)			
	Capital reduction A/c	Dr.	12,00,000	
	To Profit and Loss A/c			9,70,000
	” Goodwill			2,00,000
	” Machinery			30,000
	(Loss and Goodwill written off and the value of machinery is reduced)			

Balance Sheet Gloomy Ltd.
as on 31st March 2012

Liabilities	Rs.	Assets	Rs.
Issued, subscribed, called-up		Land and buildings	1,00,000
Capital:		Machinery	2,30,000
20,000 shares of Rs.40 each	8,00,000	Furniture	20,000
Creditors	1,00,000	Stock	3,70,000
		Debtors	1,80,000
	9,00,000		9,00,000

MODULE – 4

FINAL ACCOUNTS OF BANKING COMPANIES

A bank is a financial institution which deals with money and credit. It accepts deposits and lends money to those who are in need of it. It helps to transfer money from one place to another. Banker is a person or company carrying on the business of receiving money and collecting drafts for customers subject to the obligation of honouring the cheques drawn upon him from time to time by customers up to the amount available on their customers.

Banking. According to Banking Regulation Act, 1949. Section 5 Banking is defined as "the accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise

Section 6 of the Act states that in addition to the business of banking, a banking company may engage in any one or more of the following business:

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

Classification of Bank Advances.

a. Bills purchased and discounted – It is the advances given to customers on the security of bills, pronote etc. The amount after deducting the discount from the amount of the bill is credited in the customer's account.
b. Loans – A loan is an advance of a fixed amount give to a customer for a specified period. Interest is charged on the whole amount loaned.
c. Cash credit – It is a form secured advance by a bank. Under this arrangement the bank allows a fixed limit within which the customers can withdraw on the bank. Interest is charged on the amount actually withdrawn.
d. Overdraft – Under this arrangement, the bank agrees to allow its customers to overdraw from his current account up to a certain limit either with or without security.

Accounting System

The accounting system of a banking company is different from that of a trading or manufacturing enterprise. A bank has large number of customers whose accounts are to be maintained in such a way so that these should be kept up to date and checked regularly. The following are the main features of a bank's accounting system are as follows:

1. Entries in the personal ledgers are made directly from the vouchers
2. From such entries in the personal ledgers each day summary sheets in total are

prepared which are posted to the control accounts in the general ledger.

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

Books required by Bank

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

The principal books of accounts are

1. Cash Book
2. General Ledger

Slip system of posting - Slip system of posting is made from slips prepared inside the organisation itself or from slips filled in by its customers. So entries are not made in the books of original entry or subsidiary books, but posting of entries is done from slips. In a banking company, the main slips are pay- in -slips, withdrawal slips and cheques and all these slips are filled in by clients of the bank. These slips serve the basis of entry in the ledgers.

Final Accounts of Banks

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

Profit and Loss Account

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

Form B

FORM OF PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH

(000s omitted)

	Schedule No	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Income			
Interest earned	13		
Other income	14		
Total			
II. Expenditure Interest expended Operating expenses	15		
Provisions and contingencies	16		
Total			

III. Profit/ Loss Net profit / loss for the year(I-II) Profit/loss brought forward Total			
IV. Appropriations Transfer to statutory reserves Transfer to other reserves Transfer to government/ Proposed Dividend Balance carried over to Balance sheet Total			

SCHEDULE 13 – INTEREST EARNED (000s omitted)

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

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

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

SCHEDULE 14 – OTHER INCOME (000

	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Commission, exchange and brokerage II. Profit on sale of investments Less: Loss on sale of investments III. Profit on revaluation of investments Less: Loss on revaluation of investments IV. Profit on sale of land, buildings and other assets Less: Loss on sale of land, buildings and other Assets V. Profit on exchange transactions Less: Loss on exchange transactions VI. Income earned by way of dividends etc. from subsidiaries/ companies and/or joint ventures abroad/in India VII. Miscellaneous income		
Total		

SCHEDULE – 16 OPERATING EXPENSES

(000s omitted)

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

Balance Sheet

The Balance Sheet of Banking Company is prepared according to Form A in Third Schedule. Form A is reproduced as follows:

FORM OF BALANCE SHEET

BALANCE SHEET OF …… (here enter name of the banking company)

as on 31st March (Year) (000s omitted)

	Schedule No	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
Capital & Liabilities			
Capital	1		
Reserves & Surplus Deposits Borrowings	2		
Other Liabilities and Provisions	3		
Total	4		
	5		
Assets			
Cash and balances with RBI			
Balances with banks & money at call and short notice			
Investments Advances Fixed Assets Other Assets Total	6		
Contingent liabilities	7		
Bills for collection	8		
	9		
	10		
	11		
	12		

SCHEDULE 1 – CAPITAL

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. For Nationalized Banks Capital (Fully owned by Central Government Total		
II. For Banks Incorporated Outside India Capital		
(The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head)		
Amount of deposit kept with the RBI under section 1(2) of Banking Regulations		

Act, 1949 Total For other Banks Authorised capital ……. Shares of Rs….. each Issued capital ……. Shares of Rs….. each Subscribed capital ……. Shares of Rs….. each Called up capital ……. Shares of Rs….. each Less: Calls unpaid Add: Forfeited shares		

SCHEDULE 2 – RESERVES & SURPLUS

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

SCHEDULE 3 – DEPOSITS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
A. I. Demand Deposits (i) From Banks (ii) From Others II. Saving Bank Deposits III. Term Deposits (i) From Banks (ii) From Others		
Total (I+II+III)		
B. (i) Deposits of branches in India (ii) Deposits of branches outside India		

SCHEDULE 4 – BORROWINGS

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

Secured borrowings included in I & II above – Rs.

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

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

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

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

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

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. In India (i) Balances with banks (a) In current accounts (b) In other deposit accounts (ii) Money at call and short notice		

SCHEDULE 8 – INVESTMENTS

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

SCHEDULE 9 – ADVANCES

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
A. (i) Bills purchased and discounted (ii) cash credits, overdrafts and loans repayable on demand		
(iii) Term loans Total		
B. (i) secured by tangible assets (ii)covered by bank/Government guarantees		
(iii) unsecured Total		
C. I. Advances in India (i) priority sectors (ii) public sector (iii) banks		
(iv) others Total		
II. Advances outside India (i) Due from banks (ii) Due from others (a) Bills purchased and discounted (b) Syndicated loans (c) Others Total Grand Total (CI+CII)		

SCHEDULE 10 – FIXED ASSETS

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

SCHEDULE 11 – OTHER ASSETS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Inter-office adjustments (net) II. Interest accrued III. Tax p[aid in advance/ tax deducted at source IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims		
VI. Others		

SCHEDULE 12 – CONTINGENT LIABILITIES

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

Guidelines of the Reserve Bank of India for the Preparation of Final accounts of Banking Companies.

Statutory Reserve Ratio

Section 17 of Banking Regulation Act of 1949 deals with the term statutory reserve. Therefore, every banking company to create a reserve fund before any dividend is declared, a sum equal to 25% of the net profit of each year.

Cash Reserve Ratio (CRR)

As per Section 42(i) of RBI Act 1934, every scheduled bank shall maintain with the RBI equal to at least 3% of its time and demand liabilities (i.e., deposits received for fixed periods as well as of its demand liabilities) as cash reserve. It is called Cash Reserve Ratio. The Act empowers RBI to prescribe cash reserve of scheduled banks ranging from 3% to 15%. Presently Cash Reserve Ratio is 4%.

Statutory Liquidity Ratio (SLR)

As per Section 24 of the Banking Regulation Act1949 every commercial bank is required to maintain not less than 25% of its total time and demand liabilities in liquid assets in the form of cash, gold, and unencumbered Government securities and other securities within India. It is called SLR. At present the norm of SLR is 21.5 %.

Rebate on Bills Discounted/ Unexpired Discount

Rebate on bills discounted is the interest received in advance and represents unearned discounts for those bills which will mature after the close of the financial year. Rebate on bills discounted for the current year is debited to discount account. In the Profit and Loss account this item is deducted from Interest earned, schedule No.13 and in Balance sheet it is shown on the liability side under the head other liabilities and provisions schedule No.5. If it is given as a ledger balance, it is shown under schedule No.5 only.

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

If rebate on bills discounted is given in trial balance, it should e taken to Balance sheet under "Other Liabilities and Provisions". If it is given under adjustments, it should be deducted from "Interest and Discount" in Profit and loss Account and should be taken to Balance sheet under "Other Liabilities and Provisions". At the commencement of next accounting year it is transferred to Interest and Discount
Account by reversing the above entry.

Illustration - 1

Given below is an extract from the trial balance of a Bank as on March 31, 2012.

	Dr. Rs. ('000)	Cr. Rs.('000)
Bills discounted	1,264	
Rebate on Bills discounted (or unexpired discount) on April 1, 2011		8
Discount Received		85

An analysis of the Bills discounted as shown above shows the following:

Amount Rs.	Due Date 2012	Rate of Discount % p.a.
1,40,000	June 4	5
4,36,000	June 10	4.5
2,82,000	June 24	6
3,80,000	July 5	4

Find out the amount of discount to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. How the relevant items will appear in Bank's Balance Sheet.

SOLUTION

CALCULATION OF UNEXPIRED DISCOUNT

Due Date of Bill	*No. of days after 31st March*	*Amount*	*Rate of Discount % p.a.*	*Total Annual Discount*	*Proportionate Discount for days after 31st March*
2012		Rs.		Rs.	Rs.
June 4	65	1,40,000	5	7,000	1,246 (7,000 x 65/365)
June 10	71	4,36,000	4.5	19,620	3,816 (19,620 x 71/365)
June 24	85	2,82,000	6	16,920	3,940 (16,920 x 85/365)
July 5	96	3,80,000	4	15,200	3,998 (15,200 x 96/365)
					13,000

DISCOUNT ACCOUNT

	To Unexpired Discount 31.3.2012	13000	2012 March 31	By Sundries	85,000
	P/L A/c (Bal. fig.)	80,000		By Unexpired Discount A/c	8,000
		93,000			93,000

JOURNAL ENTRIES

	Rs.	Rs.
Unexpired Discount A/c To Discount A/c (Being unexpired discount brought forward from the previous year, credited to Discount A/c)	8,000	8,000
Discount A/c To Unexpired Discount A/c Being the provision for unexpired discount required at the end of the year)	13,000	13,000
Discount A/c To Profit and Loss A/c (Being discount earned for the year 2011-09 trnasferred)	80,000	80,000

BALANCE SHEET

As on 31-3-2012

Liabilites	*Rs. ('000)*	*Assets*	*Rs. ('000)*
Unexpired Discount or		Bills discounted	1,264
Bills Discounted	13		

Branch Adjustments or Inter - office Adjustments

Banks usually have a net work of branches spread over different places. Various transactions take place between head office and branches and also between branches themselves. The head office will record this transactions after advises are received from branches. Unless advises are received such items will remain unadjusted under the heading Branch Adjustments. If such entries may remain unadjusted in the head office of the bank at the close of the financial year, such entries are recorded in the balance sheet. If it is a debit balance, it is comes under the Schedule No. 11 of asset side and if it is a credit balance, it comes under the schedule No.5 of liability side.

Clean bill

These are the bills to which no documents such as bill of lading, insurance policy etc are attached.

Discounting of bills

Discounting of bill means making the payment of the bill before the maturity date of the bill.

Bills for Collection These are the drafts and bills drawn by sellers of goods on the purchasers of goods and sent to the bank for collection. If some bills are left uncollected at the end of the year, they are shown under the head Bills for collection.

Money at call and Short Notice

This item appears on the assets side of a bank Balance sheet and represents temporary loans to bill brokers, stock brokers and other banks. If the loan is given for one day, it is called “money at call” and if the loan cannot be called back on demand and will require at least a notice of three days for calling back, it is called “money at short notice”. The rate of interest on which money is lent fluctuates every day.

Non-banking Assets

These are the temporary assets acquired by the bank for granting loans and advances. Eg. Immovable properties, stock, title deeds etc. Such assets are acquired by a bank from defaulters in satisfaction of their outstanding to the bank. In short, the asset acquired in satisfaction of the claim of the bank is called Non-banking assets. It showed under the schedule No. 11 Other assets. Such assets acquired should be disposed of within a period of seven years from the date of their acquisition.

Interest on doubtful debts treated in a bank

When loan advanced become bad and doubtful, interest due on such loan is not credited to P/L Account. Instead, interest suspense account is credited. Unlike interest account, interest suspense account is not credited to P/L Account. If any portion of interest suspense is realised in subsequent year, then that portion will be credited to interest account and subsequently credited to P/L Account.

Items of Contingent liabilities in the case of Banking Company

Contingent liabilities are liabilities of the bank, which may or may not arise in future. The liabilities are –

a. Liability for partly paid investments.
b. Liability on account of forward exchange contract.
c. Guarantees given to customers.
d. Acceptances, endorsements and other obligations.
e. Claims against the bank not acknowledged as debt.

Non Performing Assets (NPA)

An asset becomes non performing asset when it ceases to generate income for the bank as per the terms of contract. A non performing asset is defined as a credit facility in respect of which interest/instalment remains “past due” for a period of 90 days.

Classification of Bank Advances and its Provisioning. (**Asset Classification)**

Banks are required to classify advances into four categories which are given below –

a. Standard assets – It consists of all performing assets and advances backed by Government guarantees irrespective of liability. It is also called performing assets.

Standard assets are those assets which do not disclose any problem and which do not carry more than the normal risk attached to the business. A general provision of a minimum of .40 % of total standard assets should be made.

b. Substandard assets – These are the assets which are classified as Non Performing Assets for a period not exceeding two years. These assets indicate the possibility of loss in realising them. There is no certainty to recover them in full. A general provision of 15% of the total outstanding is made for these type assets.

c. Doubtful assets – An asset which has remained NPA for a period exceeding two years should be treated as doubtful. 100 percent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 25 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful: The provision is made on the following basis -

Doubtful 1 - Up to one year – 25%
Doubtful 2 – One to three years – 40 %
Doubtful 3 – More than three years - 100%

d. Loss assets - These are assets which are considered to be uncollectable. Where the loss on assets has been identified by bank or internal auditor or the RBI inspector but the amount has not been written off wholly or partially is known as loss assets. It is also called Bad assets. A provision of 100% of the outstanding should be provided.

Illustration - 2

On 31st March 2012 Dhan Laxmi Commercial Bank Ltd. finds its advances classified as follows:

Particulars	Amount (Rs.'000)
Standard Assets	7,45,650
Sub-standard Assets	46,400
Doubtful Assets (Fully Secured)	
Upto one year	12,830
One year to three years	7,820
More than three years	3,290
Loss Assets	5,175

Calculate the amount of Provision to be made by the bank against the above mentioned advances. Assume that a provision of 0.50% is required on Standard Assets.

Solution **CALCULATION OF PROVISION REQUIRED ON ADVANCES**

	Amount	*Percentage required as Provision*	*Provision (Rs.'000)*
Standard Assets	7,45,650	0.50	3,728.25
Sub-standard Assets	46,400	15	6,960.00
Doubtful Assets			
Up to one year	12,830	25	3,208.00
One year to three years	7,820	40	3,128.00
More than three years	3,290	100	3,290.00
Loss Assets	5,175	100	5,175.00
Total Provision Required			**25,489.25**

Illustration - 3

While closing its books of accounts on 31st March, 2012 a Non-banking Finance Company has its advances classified as follows:

	(Rs. in Lakhs)
Standard Assets	16,800
Sub-standard Assets	1,340
Secured Positions of Doubtful Assets	
Upto one year	320
One year to three years	90
More than three years	30
Unsecured Portions of Doubtful Debts	97
Loss Assets	48

Calculate the amount of Provision, which must be made against the Advances

Solution **CALCULATION OF PROVISION REQUIRED ON ADVANCES**

	Amount Rs. in Lakhs	*Percentage required as Provision*	*Provision (Rs. in Lakhs)*
Standard Assets	16,800	0.40	67.2
Sub-standard Assets	1,340	15	201
Doubtful Assets			
Up to one year	320	25	80
One year to three years	90	40	36
More than three years	30	100	30
Unsecured Portion of Doubtful Debts	97	100	97
Loss Assets	48	100	48
Total Provision Required			559.2

Illustration - 4

From the following information, prepare Profit and Loss Account of Vasari Bank Ltd. for the period ended on 31st March, 2012. Working should form part of your answer.

	Rs.('000)		Rs.('000)
Interest on loans	300	Interest on cash credits	240
Interest on fixed deposits	275	Interest on saving bank deposit	87
	10	Postage, telegrams and stamps	10
and Brokerage	20	Printing and Stationery	20
and allowance	150	Sundry Expenses	10
on bills(gross)	152	Rent	15
on temporary overdrafts		Taxes and licences	10
current account	30	Audit Fees	10

Additional Information:

Rebate on bills discounted	30
Salary of managing director	30
Bad Debts	40

i. Provision for income tax is to be made @55% (round off to the nearest thousand) ii. Interest of Rs.4,000 on doubtful debts was wrongly credited to interest on loan account iii. Provide Rs.15,000 as dividend.

Solution

THE VASARI BANK LTD.
PROFIT & LOSS ACCOUNT
For the year ended 31st March, 2012

Rs.('000)

		Schedule No.	Year ended 31-3-2012
I	Income		
	Interest Earned	13	688
	Other Income	14	30
			718
II	Expenditure		
	Interest Expended	15	362
	Opening Expenses	16	255
	Provisions and Contingencies (40 + 55% of 61)	--	74
			691
III	Profit/Loss		
	Net Profit for the year		27
	Profit brought forward		--
			27
IV	Appropriations		
	Transfer to Statutory Reserve (25% of 27)		6.75
	Transfer to Other Reserve		--
	Transfer to Govt./Proposed Dividend		15.00
	Balance carried over to Balance Sheet		5.25
			27.00

Working Notes: **SCHEDULE 13 – INTEREST EARNED**

Rs. ('000)

		Year ended 31-3-2012
I	Interest/Discount on advances/bills (300 + 152 + 240 + 30 -30 -4)	688
II	Income on Investments	--
III	Interest on balances with RBI and other inter bank funds	--
IV	Others	--
		688

SCHEDULE 14 – OTHER INCOME

Rs. ('000)

I	Commission, Exchange and Brokerage (10 + 20)	30
II	Locker Rent	--
III	Transfer Fees	--
		30

SCHEDULE 15 – INTEREST EXPENDED

Rs. ('000)

I	Interest on Deposits (275 + 87)	362
		362

SCHEDULE 16 – OPERATING EXPENSES Rs. ('000)

I	Payment to Employees	150
II	Rent, Taxes and Lighting	15
III	Printing and Stationery	20
IV	Advertisement and Publicity	--
V	Depreciation on Bank Property	--
VI	Director's Fees and Allowances	30
VII	Audit Fees	10
VIII	Law Charges	--
IX	Postage, Telegrams & Telephones	10
X	Sundry Charges (10 +10)	20
		255

Illustration - 5

Following figures are extracted from the books of the New Bank Ltd. as on 31st March, 2012.

	Rs.('000)		Rs.('000)
Interest and discount received	3,695	Payment to Employees	200
Interest paid on deposits	2,032	Directors' Fees and Allowances	30
Issued and Subscribed Capital	1,000	Rent and Taxes Paid	100
Statutory Reserve under Sec. 17	800	Postage and Telegrams	50
Commission, Exchange & Brokerage	200	Depreciation on Bank's Properties	30
Rent Received	55	Stationery, etc.	50
Profit on sale of investments	200	Advertisement and Publicity	15
Audit Fees	5		

The further information is given : (a) A customer to whom a sum of Rs. 10,00,000 has been advanced has become insolvent and it is expected only 50% can be recovered from his . Interest due at 18% on his debt has not been provided in the books. (b) There were also other for which a provision of Rs.1,50,000 was found necessary by the auditors. (c) Rebate on bills discounted as on 1st April, 2011 Rs. 12,000. Rebate on bills discounted as on 31st March 2012 Rs. 16,000 (d) Provide Rs.6,50,000 for income tax. (e) The Directors desire to declare 10% dividend. Prepare Profit and Loss Account in accordance with the Law. Make necessary assumptions.

Solution

THE NEW BANK LTD.
PROFIT & LOSS ACCOUNT

For the year ended 31st March, 2012 Rs.('000)

		Schedule No.	Year ended 31-3-2012
I	**Income**		
	Interest Earned	13	3,879
	Other Income	14	455
			4,334
II	Expenditure		
	Interest Expended	15	2,032
	Opening Expenses	16	480
	Provisions and Contingencies	--	1,300
			3,812
III	Profit/Loss		
	Net Profit for the year		522
	Profit brought forward		--
			522
IV	Appropriations		
	Transfer to Statutory Reserve (25% of 522)		130.5
	Transfer to Other Reserve		--
	Transfer to Govt./Proposed Dividend		100.0
	Balance carried over to Balance Sheet		291.5
			522.0

Working Notes:

SCHEDULE 13 – INTEREST EARNED

Rs. ('000)

		Year ended 31-3-2012
I	Interest/Discount on advances/bills (3695 + 180+ 16 - 12)	3,879
II	Income on Investments	--
III	Interest on balances with RBI and other inter bank funds	--
IV	Others	--
		3,879

SCHEDULE 14 – OTHER INCOME

Rs. ('000)

I	Commission, Exchange and Brokerage	200
II	Locker Rent	55
III	Transfer Fees	--
IV	Profit on Sale of Investments	200
		455

SCHEDULE 15 – INTEREST EXPENDED

Rs. ('000)

I	Interest on Deposits	2,032
		2,032

SCHEDULE 16 – OPERATING EXPENSES

Rs. ('000)

I	Payment to Employees	200
II	Rent, Taxes and Lighting	100

III	Printing and Stationery	50
IV	Advertisement and Publicity	15
V	Depreciation on Bank Property	30
VI	Director's Fees	30
VII	Audit Fees	5
VIII	Law Charges	--
IX	Postage, Telegrams & Telephones	50
		480

Illustration - 6

From the following Ledger balances of Hyderabad Bank Limited as on the March 2012 prepare Profit and Loss Account and Balance Sheet.

	Rs.('000)		Rs.('000)
Fixed Deposits	325	Share capital:	
Saving Deposits	1,775	5,000 Equity Shares of Rs.100 each	
Current Accounts	3,875	Rs. 50 paid	250
Money at Call and Short Notice	240	Statutory Reserve	150
Investments	1,550	Profit and Loss Account	
		(Cr.) on 1.4.2011	130
Interest accrued and paid	100	Bills payable	400
Payment to Employees	40	Unclaimed Dividend	5
Rent, Taxes & Lighting	10	Sundry Creditors	25
General Expenses	5	Bills for Collection	70
Dividend for 2011-08	25	Acceptances on behalf of Customers	100
Premises (after Rs.50,000)		Non Banking Assets	120
Depreciation upto 31.3.2011	600	Bills Discounted and Purchased	250
Cash in hand	75	Loans, Overdrafts and Cash Credits	3,500
Cash at Reserve Bank	705	Interest and Discount	325
Cash at other Banks	520		
Borrowed from Banks	280		

Rebate on Bills Discounted amounted to Rs.2,500. Allow 50% Depreciation on premises at original cost. Provide Rs.25,000 for Doubtful Debts.

Solution

HYDERABAD BANK LTD.
PROFIT AND LOSS ACCOUNT
For the year ended 31st March 2012

		Schedule No.	Year ended 31-3-2012
I	**Income**		
	Interest Earned	13	322.5

	Other Income	14	----
			322.5
II	Expenditure		
	Interest Expended	15	100
	Opening Expenses	16	87.5
	Provisions and Contingencies	--	25.0
			212.5
III	Profit/Loss		
	Net Profit for the year		110.0
	Profit brought forward		130.0
			240.0
IV	Appropriations		
	Transfer to Statutory Reserve (25% of 110)		27.5
	Transfer to Other Reserve		--
	Transfer to Govt./Proposed Dividend		25.0
	Balance carried over to Balance Sheet		187.5
			240.0

SCHEDULE 16 – OPERATING EXPENSES

Rs. ('000)

I	Payment to Employees	40
II	Rent, Taxes and Lighting	10
III	Printing and Stationery	--
IV	Advertisement and Publicity	--
V	Depreciation on Bank Property	32.5
VI	Director's Fees, allowances and expenses	--
VII	Auditor's Fees, allowances and expenses (including branch auditors)	--
VIII	Law Charges	--
IX	Postage, Telegrams & Telephones	--
X	Repairs and Maintenance	--
XI	Insurance	--
XII	Other expenditure (General Expenses)	5.0
		87.5

HYDERABAD BANK LTD.
BALANCE SHEET
as on 31st March, 2012

	Schedule No.	As on 31-3-2012
Capital and Liabilities		
Capital	1	250.0

Reserves and Surplus	2	365.0
Deposits	3	5,975.0
Borrowings	4	280.0
Other Liabilities and Provisions	5	657.5
		7,527.5
Assets		
Cash and balance with RBI of India	6	780.0
Balances with Banks & Money at Call and Short notice	7	760.0
Investments	8	1,550.0
Advances	9	3.750.0
Fixed Deposits	10	567.5
Other Assets	11	120.0
Contingent Liabilities	12	--
Bills for Collection		--
		7,527.5

SCHEDULE 1 – CAPITAL

Rs. ('000)

Issued, Subscribed and Called-up Capital (5,000 shares of Rs.100 each) Rs.50 paid up)	250
	250

SCHEDULE 2 – RESERVES & SURPLUS

Rs. ('000)

			As on 31-3-2012
I	Statutory Reserves		
	Opening Balance	150	
	Additions during the year	27.5	177.5
II	Capital Reserve		
	Opening Balance		--
	Additions during the year		--
	Deductions during the year		--
III	Securities Premium		
	Opening Balance		--
	Additions during the year		--
	Deductions during the year		--
IV	Revenue and other Reserves		
	Opening Balance		--
	Additions during the year		--
	Deductions during the year		--
V	Balance in the Profit and Loss Account		187.5
	Total (I, II, III, IV & V)		365

SCHEDULE 3 – DEPOSITS

Rs. ('000)

I	Demand Deposits	3,875
II	Saving Bank Deposits	1,775
III	Term Deposits	325
	Total (I,II, & III)	5,975

SCHEDULE 4 – BORROWINGS

Rs. ('000)

I	Borrowings in India	

	(i) Reserve Bank of India	
	(ii) Other Banks	
	(iii) Other institutions and agencies	
III	Borrowings outside Idnia	
	Total (I & II)	280

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS Rs. (’000)

I	Bills Payable	400
II	Sundry Creditors	25
III	Unclaimed Dividend	5
IV	Others : Rebate on bills discounted	2.50
	Provision for D/D	225
	Total	657.50

SCHEDULE 6 – CASH AND BALANCES IWTH RESERVE BANK OF INDIA Rs. (’000)

I	Cash in Hand	750
	(including foreign currency notes)	--
II	Balances with Reserve Bank of India	--
	(i) in current Account	
	(ii) In Other Accounts	
	Total (I & II)	780.0

SCHEDULE 7 – BALANCES WITH BANKS AND MONEY AT ACALL AND SHORT NOTICE Rs. (’000)

I	Balances with banks	520
II	Money at cal and short notice	240
	Total (I &II)	760

SCHEDULE 9 – ADVANCES Rs. (’000)

I	Bills purchased and discounted	250
II	Cash credits, overdrafts and loans repayable on demand	3,500
III	Term loans	--
	Total	3750

SCHEDULE 10 – FIXED ASSETS Rs. (’000)

I	Premises	650
	At cost as on 31st March of the preceding year	--
	Additions during the year	--
	Deductions during the year	--
	Depreciation to date	82.50
	Total	567.50

SCHEDULE 11 – OTHER ASSETS Rs. (’000)

I	Non-Banking Assets	120
	Total	120

SCHEDULE 12 – CONTINGENT LIABILITY Rs. (’000)

		NIL
		NIL

MODULE – 5
FINAL ACCOUNTS OF INSURANCE COMPANIES

Insurance is a form of contract under which one party agrees in return of a consideration to pay an agreed amount of money to another party to compensate for a loss, damage or some uncertain event. There are two types of insurance i.e., Life insurance and General Insurance.

<u>Life Insurance</u> – under this type of insurance the corporation guarantees to pay a certain sum of money to the policy holder on reaching a certain age or on his death whichever is earlier. Life insurance has an element both of protection and investment.

<u>General Insurance</u> – it includes all other types of insurance except life insurance. e.g. – Fire, Marine, Accident, Theft.etc. Under this type of insurance the insurer undertakes to indemnify the loss suffered by the insured on happening of a certain event in consideration for a fixed premium.

Insurance Regulatory and Development Authority (IRDA)

In order to regulate the insurance business, the government set up in 1996, the Insurance Regulatory Authority (IRA). Now this authority is known as the Insurance Regulatory and Development Authority. In 2002, the authority came with regulations for the preparation of the financial statement of insurance companies.

Preparation of Financial Statements

Final Accounts of Life Insurance Companies

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

Revenue Account (Form A-RA)

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

FORM A – RA

Name of the insurer

Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 20….

Policyholders' Account (Technical Account)

No.	Particulars	Sched ule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premiums earned – net			
	(a) Premium	1		
	(b) Reinsurance ceded			
	(c) Reinsurance accepted			
	Income from investments			
	(a) Interest, dividends & rent – Gross			
	(b) Profit on sale/redemption of investments			
	(c) (Loss on sale/redemption of investments)			
	(d) Transfer/ Gain on revaluation/change in fair value*			
	Other income (to be specified) Total (A)			
	Commission			
	Operating Expenses related to insurance business			
	Provision for doubtful debts Bad debts written off Provision for tax			
	Provisions (other than taxation)			
	(a) For diminution in the value of investments (net)			
	(b) Others (to be specified) Total (B)	2		
	Benefits Paid (Net) Interim Bonuses paid			
	Change in valuation of liability in respect of life policies	3		
	(a) Gross**			
	(b) Amount ceded in Reinsurance			
	(c) Amount accepted in Reinsurance			
	Total (C)			
	Surplus (Deficit) (D)=(A)-(B)-(C)			
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Other Reserves (to be specified) Balance being Funds for Future Appropriations Total (D)	4		

Profit And Loss Account (Form A-PL)

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

FORM A - PL

Name of the insurer
Registration No. and Date of Registration with the IRDA

Profit and Loss Account for the year ended 31st March, 20….

Shareholders' Account (Non-technical Account)

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

Notes to Form A-RA and A-PL:

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

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

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

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

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

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

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

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

Balance Sheet (Form A-BS)

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

No.	Particulars	Sched ul	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Sources of Funds *Shareholders' Funds:* Share Capital Reserves and Surplus Credit/[Debit] Fair Value Change Account **Sub-Total** Borrowings *Policyholders' Funds:* Credit/[Debit] Fair Value Change Account Policy Liabilities Insurance Reserves Provision for Linked Liabilities **Sub-Total** Funds for Future Appropriations **Total**	 5 6 7		
	Application of Funds Investments Shareholders' Policyholders' Assets held to Cover Linked Liabilities Loans Fixed Assets Current Assets Cash and Bank Balances Advances and Other Assets Sub- Total (A) Current Liabilities Provisions Sub- Total (B) Net Current Assets (C)=(A)- (B) Miscellaneous Expenditure (to the extent not written off or adjusted) Debit Balance in Profit and Loss Account (Shareholders' Account) **Total**	 8 8A 8B 9 10 11 12 13 14 15		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE 1 - PREMIUM

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

SCHEDULE 2

COMMISSION EXPENSES

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

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

SCHEDULE 3

OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
.	Employees' remuneration & welfare benefits Travel, conveyance and vehicle running expenses Training expenses Rents, rates & taxes Repairs Printing & stationery Communication expenses Legal & Professional charges Medical fees Auditors' fees, expenses etc (a) As auditor (b) As adviser or in any other capacity, in respect of: (i) Taxation matters (ii) Insurance matters (iii) Management services; and (c) In any other capacity Advertisement and publicity Interest and bank charges Others(to be specified) Depreciation Total		

SCHEDULE 4 –
BENEFITS PAID [NET]

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

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

SCHEDULE 5
SHARE CAPITAL

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

SCHEDULE 5A – PATTERN OF SHAREHOLDING [As certified by the Management]

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

SCHEDULE 6 – RESERVES AND SURPLUS

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

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

SCHEDULE 7 – BORROWINGS

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

SCHEDULE 8 – INVESTMENTS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		

3.	Other investments		
	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties – Real Estate		
	Investments in Infrastructure and Social sector		
	Other than Approved Investments		
	Short –term Investments		
	Government securities and Government Guaranteed Bonds		
4.	including treasury bills		
5.	Other approved securities		
	Other investments		
1.	(a) Shares		
	(aa) Equity		
2.	(bb) Preference		
3.	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified) (f) Subsidiaries		
	(g) Investment Properties – Real Estate		
	Investments in Infrastructure and Social sector		
	Other than Approved Investments		
	Total		

SCHEDULE 9– LOANS

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

4.	**Maturity-wise Classification** (a) Short Term (b) Long Term Total		

SCHEDULE 10– FIXED ASSETS

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

SCHEDULE 11– CASH AND BANK BALANCES

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

SCHEDULE 12– ADVANCES AND OTHER ASSETS

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

SCHEDULE 13– CURRENT LIABILITIES

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

SCHEDULE 14– PROVISIONS

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

1. 2. 3. 4.	For taxation (less payments and taxes deducted at source) For proposed dividends For dividend distribution tax Others (to be specified) Total		

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

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

Types of Life Insurance Policies

1. Whole life policy - In this type of policy, the sum assured becomes payable to the beneficiary only on the death of the insured. The insured has to pay the premium throughout his life.
2. Endowment policy - It is a policy which runs for a fixed period or up to a particular age to the insured.
3. With profit policy - In this policy, the policy holder to receive , in addition to the sum assured , a share in the profit made by the Life insurance Corporation.
4. Without profit policy - In this policy, the holder gets only the stated sum on the maturity of the policy.

Explanation of items in the final accounts of Life Insurance Company

Claims - The amount paid or payable by the insurance company to the insured for the losses occurs or the particular event happens is called claims. A claim is usually the expenditure of an insurance company.

Annuity - Annuity is an annual payment which a life insurance company guarantees to pay for a lumpsum money received in the beginning.

Surrender value of a policy - Surrender value is the amount paid by the insurance company to the insured for surrendering all claims of the policy to the company.. Usually this amount will get after the payment of two annual premiums.

Bonus in Reduction of Premium - Here, instead of paying bonus in cash to the policy holders, the insurance company deducts the amount from the premium payable to it. The amount of bonus so adjusted in the premium amount is called bonus in reduction of premium.

Consideration for Annuities Granted – Any lumpsum payment received by the insurance company in lieu of granting annuity is called consideration for annuities granted.

Reinsurance - When an insurance company undertakes a big policies in large amount, they reduce their risks by re-insuring it with other insurance companies. Such a process is called reinsurance.

Double insurance - If the same subject matter is insured with more than one insurance company, it is known as Double insurance.

Life assurance fund - It is an accumulated reserve fund which is created from excess of income over expenditure in every year.

Reversionary bonus - Reversionary bonus is a bonus which is paid by the insurance company along with the maturity value of the policy.

Commission on reinsurance ceded and Commission on reinsurance Accepted

Insurance companies earn commission from other insurance companies for giving them business under reinsurance contract. This commission is called **commission on reinsurance ceded.** If some other insurance companies give insurance to us, commission paid on such reinsurance is called **commission on reinsurance accepted**.

Illustration – 1

The Life Assurance Fund of an insurance company on 31.03.2009 showed a balance of Rs. 87, 76,500. It was later found that the following were not taken into consideration:

1	Dividend from investment	-	4, 80,000
2	Income tax on the above	-	48,000
3	Bonus in reduction of premium	-	8, 77,500
4	Claims covered under reinsurance	-	4, 23,000
5	Claims intimated but not accepted by the company	-	7, 62,000

Ascertain the correct balance of Fund.

Solution		**Rs.**	**Rs.**
Balance of Life Assurance fund			87, 76,500
Add-	Dividend	4, 80,000	
	Recovered under Reinsurance	4, 23,000	
		………..	9, 03,000
			………….
			96, 79,500
Less-	Claims intimated	7, 62,000	
	Income-Tax	48,000	
	Bonus in reduction of premium	8, 77,500	
		…………..	16, 87,500
			………….
Correct balance of Life Assurance Fund			79, 92,000
			…………

Illustration - 2

Following balances are extracted from the books of Bharat Assurance Company as on 31st March, 2012.

Life fund on 1st April, 2011 Rs. 15,70,562; Claims by death Rs. 1,16,980. Claims by maturity Rs. 96,420; Premium Rs. 2,70,572; Management expenses Rs.29,890; Commission Rs. 36,541; Consideration for annuities granted Rs.10,620; Interest, dividend and rent Rs.52,461; Income tax on profit Rs.3,060; Surrenders Rs.21,768; Annuities Rs. 29,420; Bonus paid in cash Rs.9,450; Bonus paid in reduction of premium Rs.3,500; Preliminary expenses Rs.600; Claims admitted but not paid at the end of the year Rs. 80,034; Annuities due but not paid Rs.22,380; Capital paid up Rs.6,00,000; Govt. Securities Rs.16,90,890; Sundry Assets Rs.5,68,110.

Additional relevant date; claims covered under reinsurance Rs.10,000. Further claims intimated Rs.8,000. Further bonus utilised in reduction of premiums Rs.1,500. Interest accrued Rs.15,400. Premiums outstanding Rs.7,400. Prepare a Revenue Account and the Balance Sheet taking all figures in thousands Rs.

Solution

Bharat Assurance Company
REVENUE ACCOUNT
for the year ending 31st March, 2012

Particulars	Schedule	Current Year	Previous Year
Premiums Earned (Net)	1	2,79,472	
Income from Investments:			
Interest, Dividend and Rent (52,461 +15,400)		67,861	
Other Income:			
Consideration for Annuities Created		10,620	
Total (a)		3,57,953	
Commission	2	35,541	
Operating Expenses Related to Insurance Business	3	29,890	

Total (b)		66,431	
Benefits Paid (Net)	4	2,62,588	
Bonus in Cash		9,450	
Bonus in Reduction of Premium (3,500 + 1,500)		5,000	
Total (c)		2,77,038	
Surplus (D) = (a) – (b) – (c)		14,484	

BALANCE SHEET OF BHARAT ASSURANCE COMPANY
as on 31st March, 2012

Particulars		*Schedule*	*Current Year*	*Previous Year*
Sources of Funds				
Share Capital		5	5,99,400	
Reserves and Surplus		6	15,81,986	
Borrowings		7	--	
Total			21,81,386	
Application of Funds				
Investments		8	16,90,890	
Loans		9	--	
Fixed Assets		10	--	
Current Assets				
Cash and Bank Balances	--	11		
Advances & Other Assets	6,00,910	12		
Sub Total (A)	6,00,910			
Current Liabilities	1,10,414	13		
Provisions	--			
Sub Total (B)	1,10,414			
Net Current Assets (C) = (A) – (B)			4,90,496	
Total			21,81,386	

Schedules Forming Part of Financial Statements

SCHEDULE 1 – PREMIUMS EARNED (NET)

Premiums Received	2,70,572
Add : Bonus Utilized in Reduction of Premium	1,500
Premiums Outstanding	7,400
Total	2,79,472

SCHEDULE 2 – COMMISSION

Commission Paid	36,541
Net Commission	36,541

SCHEDULE 3 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Management Expenses	29,890
Total	29,890

SCHEDULE 4 – BENEFITS PAID (NET)

Insurance Claims:		
(a) Claims by Death : Paid	1,16,980	
Less : Covered under Reinsurance	10,000	
	1,06,980	
Add : Further Claims Intimated	8000	1,14,980
(b) Claims by Maturity		96,420
(c) Annuities		29,420
(d) Surrenders		21,768
Total		2,62,588

SCHEDULE 5 – SHARE CAPITAL

Paid up Share Capital	6,00,000
Less : Preliminary Expenses	600
Total	5,99,400

SCHEDULE 6 – RESERVES AND SURPLUS

Life Assurance Fund on 1/4/2011		15,70,562	
Add : Surplus as per Revenue A/c	14,484		
Less : Income Tax on Profit	8,060		
		11,424	15,81,986
Total			15,81,986

SCHEDULE 8 - INVESTMENTS

Government Securities	16,90,890
Total	16,90,890

SCHEDULE 12 – ADVANCES AND OTHER ASSETS

Other Assets	
Interest Accrued on Investments	15,400
Outstanding Premiums	7,400
Amount Due from Other Insurance Companies	10,000
Sundry Assets	5,68,110
Total	6,00,910

SCHEDULE 13 – CURRENT LIABILITIES

Claims Outstanding (80,034 + 8,000)	88,034
Annuities Due	22,380
Total	1,10,414

Illustration - 3

Following were the balances extracted from the Trial Balance of the India Life Assurance Society at 31st March, 2012.

	(Rs.'000)		(Rs.'000)
Balance of account at the Beginning of the year	20,00,000	Claims admitted but note paid	6,000
		Surrenders	20,000
Govt. Securities	10,00,000	Single premiums	80,000
Profit on realization of assets	2,000	Consideration for annuities granted	50,000
Investment Fluctuation A/c	10,000	Interest, dividends and rent received	70,000
Claims under policies by death	60,000	Depreciation on furniture	3,000
Claims under policies by maturity	1,00,000	Administrative expenses	36,000
loans on mortgages	5,60,000	Salaries	3,000
Loans on policies	3,00,000	Auditors' fee	1,500
Freehold property and furniture	1,03,000	Directors' fee	300
Agents' Balances owing	3,600	Legal expenses	1,000
Sundry Creditors	2,000	Advertising	1,400
Outstanding Premiums	24,000	Printing, Stationery and others	10,800
commission paid	24,000	Cash at Bank	1,68,400
Interest accrued but not due	3,000	Provision for depreciation	3,000
Premiums (other than single)	2,00,000		

Prepare a Revenue Account and Balance Sheet.

Solution

Indian Life Assurance Society
REVENUE ACCOUNT
for the year ending 31st March 2012

Particulars	*Schedule*	*Current Year*	*Previous Year*
		Rs.('000)	*Rs.('000)*
Premiums Earned (Net)	1	2,80,000	
Income from Investments		--	
Interest, Dividends and Rent		70,000	
Other Income:			
Consideration for Annuities Granted		50,000	
Profit on Realisation of Assets		2,000	
Total (A)		4,02,000	
Commission	2	24,000	
Operating Expenses Related to Insurance Business	3	57,000	
Total (B)		81,000	
Benefits paid (net)	4	1,80,000	
Total (C)		1,80,000	
Surplus (D) = (A) – (B) – (C)		1,41,000	

BALANCE SHEET OF INDIAN LIFE INSUREANCE SOCIETY
as on *31st March, 2012*

Particulars		*Schedule*	*Current Year*	*Previous Year*
Sources of Funds			*Rs.('000)*	*Rs.('000)*
Share Capital		5	--	
Reserves and Surplus		6	21,51,000	
Borrowings		7	--	
Total			21,51,000	
Application of Funds				
Investments		8	10,00,000	
Loans		9	8,60,000	
Fixed Assets		10	1,00,000	
Current Assets				
Cash and Bank Balances	1,68,400	11		
Advances & Other Assets	80,600	12		
Sub Total (A)	1,99,000			
Current Liabilities	8,000	13		
Provisions	--	14		
Sub Total (B)	8,000			
Net Current Assets (C) = (A) – (B)			1,91,000	
Total			21,51,000	

Schedules Forming Part of Financial Statements
SCHEDULE 1 – PREMIUMS EARNED (NET)

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Premiums (Other than single)	2,00,000	
Single Premiums	80,000	
Total	2,80,000	

SCHEDULE 2 – COMMISSION

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Commission	24,000	
Total	24,000	

SCHEDULE 3 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Salaries	3,000	
Administration Expenses	36,000	
Printing, Stationery, etc.	10,800	
Legal Expenses	1,000	
Auditors' Fees	1,500	
Advertising	1,400	
Directors' fees	300	
Depreciation on Furniture	3,000	
Total	57,000	

SCHEDULE 4 – BENEFITS PAID (NET)

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Insurance claims		
(a) Claims by Death	60,000	
(b) Claims by Maturity	1,00,000	
(c) Annuities/Pension Payment	--	
(d) Other Benefits – Surrenders	20,000	
Total	1,80,000	

SCHEDULE 6 – RESERVES AND SURPLUS

Particulars		Current Year	Previous Year
		Rs.('000)	Rs.('000)
Investment fluctuation A/c		10,000	
Life Assurance Fund at the beginning of the year	20,00,000		
Add : Surplus as per Revenue A/c	1,41,000	21,41,000	
Total		21,51,000	

SCHEDULE 8 – INVESTMENTS

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Investments in Governmental Securities	10,00,000	
Total	10,00,000	

SCHEDULE 9 – LOANS

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Secured		
On Mortgage	5,60,000	
On Policies	3,00,000	
Total	8,60,000	

SCHEDULE 10 – FIXED ASSETS

Particulars		Current Year	Previous Year
		Rs.('000)	Rs.('000)
Freehold Property and Furniture	1,03,000		
Less: Depreciation Provision	3,000	1,00,000	
Total		1,00,000	

SCHEDULE 11 – CASH AND BANK ABALANCES

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Cash at Bank	1,68,400	
Total	1,68,400	

SCHEDULE 12 – ADVANCES AND OTHER ASSETS

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Advances		
Other Assets		
Interest Accrued but not Due	3,000	
Outstanding Premiums	24,000	
Agents' Balances Owing	3,600	
Total	30,600	

SCHEDULE 13 – CURRENT LIABILITIES

Particulars	Current Year	Previous Year
	Rs.('000)	Rs.('000)
Sundry Creditors	2,000	
Claims Outstanding	6,000	
Total	8,000	

Determination of Profit in Life Insurance Business

A life policy is generally taken for a number of years. The premium received for such long term contract cannot be treated as income for ascertaining the profits for that year. The future premium may or may not be received depends on the existence of the insured. Thus on a particular date a liability of the corporation is to be calculated as the premium to be received in future will generally be less than the amount payable as claims. There is a gap between claims which are expected to arise and premium which are expected to be received. The gap is known as Net liability. It becomes desirable to create a reserve equal to its net liability in order to ascertain the profit. The Life insurance business made the valuation of net liability every year in order to ascertain the profit. This is done by a person called Actuary. The process by which net liability is ascertained by this person is known as actuarial valuation. The net liability is compared with life assurance fund on a particular datein order to ascertain the surplus or deficiency. This comparison is made by preparing a Valuation Balance sheet, which is given as follows: -

Valuation Balance Sheet

Liabilities	Amount	Assets	Amount
Net Liability as per Actuary's valuation Surplus (Bal. Fig)		Life Assurance Fund Deficit (Bal. Fig)	

Only surplus and not deficiency will be shown in the Balance sheet. With profit policy holders have a right to participate in the profits of life insurance business to the extent of 95% of true profit. The balance 5% may be utilized for such purpose as determined by the central government. For calculation of true profit, surplus as disclosed by the valuation Balance sheet must be adjusted.

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

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

Illustration - 4

A Life Assurance Corporation get its valuation made once in every two years. The life assurance fund on 31st March, 2012 amounted to Rs.41,92,000 before providing for Rs.32,000 for the shareholders' dividend for the year 2011-12. Its actuarial valuation on 31st march, 2012, disclosed net liability of Rs.40,40,000 under the assurance and annuity contracts. An interim bonus of Rs.40,000 was paid to the policy holders during the period ending 31st March, 2012.

Prepare a statement showing the amount now available as bonus to policy holders.

Solution

VALUATION BALANCE SHEET

as on 31st March, 2012

	Rs.		Rs.
To Net Liability as per Actuary's Valuation	40,40,000	By Life Assurance Fund as per Balance Sheet	41,92,000
To Surplus	1,52,000		
	41,92,000		41,92,000

Profits made : Surplus as per Valuation Balance Sheet	1,52,000
Add: Interim bonus paid to policy holders	40,000

	1,92,000
Less : Dividend for 2011-12 due to shareholders	32,000

	1,60,000
Policyholders will get 95% of Rs.1,60,0000	1,52,000
Less : Already paid as interim bonus	40,000
Amount now due to the policyholders	1,12,000

Final Accounts of General Insurance Companies

General insurance companies may be doing more than one business e.g., fire, marine etc.

Fire insurance - In this insurance, the company undertakes to compensate loss caused by fire in consideration of premium received.

Marine insurance - In this insurance, in consideration of premium received, the company undertakes to compensate loss caused by marine risks as per terms of insurance.

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

Revenue Account (Form B-RA)

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

FORM B – RA

Name of the insurer
Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 20…. Policyholders' Account (Technical Account

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

Profit And Loss Account (Form B-PL)

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

FORM B-PL

Name of the insurer
Registration No. and Date of Registration with the IRDA

Profit and Loss Account for the year ended 31st March, 20….
Shareholders' Account (Non-technical Account)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Operating Profit/ (Loss) (a) Fire Insurance			
   2. 3. 4. 5.	(b) Marine Insurance (c) Miscellaneous Insurance Income from investments (d) Interest, dividends & rent – Gross (e) Profit on sale/redemption of investments Less: Loss on sale of investments Other income (to be specified) Total (A) Provisions (other than taxation) (a) For diminution in the value of investments (net) (b) For Doubtful Debts (c) Others (to be specified) Other Expenses (a) Expenses other than those directly related to the insurance business (b) Bad debts written off (c) Others (to be specified) Total (B) Profit before tax Provision for taxation Profit after tax Appropriations (f) Interim dividends paid during the year (g) Proposed final dividend (h) Dividend Distribution Tax (i) Transfer to Reserves or other accounts (to be specified) Balance of Profit/Loss brought forward fro last year Balance carried forward to the Balance Sheet			

Balance sheet
FORM B – BS

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

Name of the Insurer

Reg,N o and date of registration with IRDA

Balance Sheet as at 31st March, 20….

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Sources of Funds			
	Shareholders' Funds:			
	Share Capital			
	Reserves and Surplus	5		
	Fair Value Change Account	6		
	Borrowings			
	Total			
	Application of Funds	7		
	Investments			
	Loans			
	Fixed Assets			
	Current Assets	8		
	Cash and Bank Balances	9		
	Advances and Other Assets	10		
	Sub-Total (A)			
	Current Liabilities	11		
	Provisions	12		
	Sub-Total (B)			
	Net Current Assets (C)=(A)-(B)	13		
	Miscellaneous Expenditure (to the extent not written off or adjusted)	14		
	Debit Balance in Profit and Loss Account			
	Total	15		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS SCHEDULE 1 – PREMIUM EARNED [NET]

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premium for direct business written Add: Premium on reinsurance accepted Less: premium on reinsurance ceded Net Premium Total Premium Earned (Net)		

Note: Reinsurance premiums whether on business cede or accepted are to be bought into account, before deducting commission under the head of reinsurance premiums.

SCHEDULE 2 – CLAIMS INCURRED [NET]

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
Claims paid Direct Add: Reinsurance accepted Less: Reinsurance ceded Net Claims paid Add: Claims outstanding at the end of the year Less: Claims outstanding at the beginning Total Claims Incurred		

SCHEDULE 3 – COMMISSION

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

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

SCHEDULE 4 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1. 2. 3. 4.	Employees' remuneration & welfare benefits Managerial remuneration Travel, conveyance and vehicle running expenses Rents, rates & taxes		
5. 6. 7. 8. 9. 10.	Repairs Printing & stationery Communication expenses Legal & Professional charges Medical fees Auditors' fees, expenses etc (a) As auditor (b) As adviser or in any other capacity, in respect of: (j) Taxation matters (ii) Insurance matters (iii) Management services; and (c) In any other capacity Advertisement and publicity Interest & bank charges Others(to be specified) Depreciation Total		

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

SCHEDULE 5 – SHARE CAPITAL

SCHEDULE 5 – SHARE CAPITAL

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

Notes:

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

SCHEDULE 5A – PATTERN OF SHAREHOLDING [As certified by the Management]

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

SCHEDULE 6 – RESERVES AND SURPLUS

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

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

SCHEDULE 7 – BORROWINGS

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

SCHEDULE 8 – INVESTMENTS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	**Other investments**		
	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified) (f) Subsidiaries		
	(g) Investment Properties – Real Estate		
	Investments in Infrastructure and Social sector		
	Other than Approved Investments		
	Short –term Investments		
	Government securities and Government Guaranteed Bonds		
4.	**including treasury bills**		
5.	**Other approved securities**		
	Other investments		
1.	**(a) Shares**		
	(aa) Equity		
2.	**(bb) Preference**		
3.	**(b) Mutual Funds**		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified) (f) Subsidiaries		
	(g) Investment Properties – Real Estate		
	Investments in Infrastructure and Social sector		
	Other than Approved Investments		
	Total		

SCHEDULE 9– LOANS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	**Security-wise Classification** Secured (a) On mortgage of property (aa) In India (bb) Outside India (b) On Shares, Bonds, Govt. Securities, etc. (c) Others (to be specified) Unsecured Total **Borrower-wise Classification**		

SCHEDULE 10– FIXED ASSETS

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

SCHEDULE 11– CASH AND BANK BALANCES

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

SCHEDULE 12– ADVANCES AND OTHER ASSETS

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

SCHEDULE 13– CURRENT LIABILITIES

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

SCHEDULE 14– PROVISIONS

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

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

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

Reserve for Unexpired Risk

Policies in general insurance are only for one year. These can be taken by the insured at any time during the year.. premium on such policies is always paid in advance. There may be such policies which are issued during the year but risks covered remain unexpired at the accounting year. Hence a reserve for unexpired risk is made at 50% of the net premium in case of fire insurance and 100%of the net premium in marine insurance is made. Opening balance for reserve for unexpired risk is added to the premium and closing balance of reserve for unexpired risk is deducted from the premium. The net premium should be shown in revenue account. The closing balance of reserve for unexpired risk should be shown in the balance sheet under the head 'provisions'. At present reserve for unexpired risk will be created as follows:

a. 50% of net premium for fire insurance, marine cargo business and miscellaneous insurances.
b. 100% of net premium for marine hull business.

In addition to the above reserve, a company can maintain more reserves. Then it is called Additional Reserve.

Illustration - 5

Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2012 from the following details:

	Rs.		Rs.
Claims Paid	4,90,000	Expenses of Management	2,00,000
Legal Expenses Regarding Claims	10,000	Provision against Unexpired Risk on 1st April, 2011	5,50,000
Premium Received	13,00,000	Claims Unpaid on 1st April 2011	50,000
Re-insurance Premium Paid	1,00,000	Claims Unpaid on 31st March, 2012	80,000

Solution

Name of the Insurer:

Registration No. and Date of Registration with the IRDA :

FIRE INSURANCE REVENUE ACCOUNT

for the year ended 31st March, 2012

Particulars	*Schedule*	*Amout (Rs.)*
(1) Premium Earned	1	11,50,000
(2) Other Income		--
(3) Interest, Dividend and Rent		--
Total (A)		11,50,000
(4) Claims Incurred	2	5,30,000
(5) Commission	3	3,00,000
(6) Operating Expenses related to Insurance Business	4	2,00,000
Total (B)		10,30,000
Operating Profit (A) – (B)		1,20,000

Scheduled 1: Premium Earned (Net)

Premium Received		13,00,000
Less : Re-insurance Premium		1,00,000
Net premium		12,00,000
Adjustment for Change in Reserve for Unexpired Risk (1)		50,000
		11,50,000

Scheduled 2: Claims Incurred

Claims paid including Legal Expenses (Rs.4,90,000 + Rs.10,000)	5,00,000
Add : Claims Outstanding at the end of the year	80,000
Less : Claims Outstanding at the beginning of the year	50,000
Total Claims Incurred	5,30,000

Scheduled 3: Commission

Commission paid	3,00,000
	3,00,000

Scheduled 4: Operating Expenses

Expenses of Management	2,00,000
	2,00,000

Working Note (1):

Change in the Provision for Unexpired Risk	Rs.
Unexpired Risk Reserve on 31st March, 2012 = 50% of Net Premium ie., 50% of Rs.12,00,000 (See Schedule 1)	6,00,000
Less : Unexpired Risk Reserve as on 1st April, 2011	5,50,000
Change in the Provision for Unexpired Risk	50,000

Scheduled 2: Claims Incurred (Net)

Particulars	Fire	Marine
	Rs.('000)	Rs.('000)
Claims Paid	1,80,000	3,80,000
Survey Expenses regarding Claims	10,000	--
Total	1,90,000	3,80,000

Scheduled 3: Commission

Particulars	Fire	Marine
	Rs.('000)	Rs.('000)
Commission Paid	90,000	1,08,000
Less : Commission Earned on Reinsurance Ceded	30,000	60,000
Net Commission	60,000	48,000

Scheduled 4: Operating Expenses Related to Insurance Business

Particulars	Fire	Marine
	Rs.('000)	Rs.('000)
Management Expenses	1,45,000	4,00,000
Bad Debts	5,000	12,000
Total	1,50,000	4,12,000

Illustration - 6

From the following balances of Hi-Fi General Insurance Company Ltd., as on 31st march, 2012, Prepare (i) Fire Revenue Account (ii) Marine Revenue Account and (iii) Profit & Loss Account.

	Rs.'000		Rs.'000
Survey Expenses (fire)	10,000	Commission earned on	
Additional Reserve Opening (fire)	50,000	reinsurance ceded	
Commission paid: Marine	1,08,000	Marine	60,000
Fire	90,000	Fire	30,000
Commission paid & Outstanding		Management Expenses:	
Marine	3,80,000	Fire	1,45,000
Fire	1,80,000	Marine	4,00,000
Fire Fund – Opening	2,50,000	Marine Premium Less	
Marine Fund-Opening	8,20,000	Reinsurance	10,80,000
Bad Debts recovered (General)	1,200	Fire Premium Less	
Share transfer fees (General)	800	Reinsurance	6,00,000
Directors Fees (General)	5,000	Profit on sale of land (General)	60,000
Auditors fees (General)	1,200	Misc. receipts (General)	5,000
Bad debts : Marine	12,000	Difference in exchange (Cr.)	
Fire	5,000	(General)	300
		Interest, dividends etc. received	
		(General	14,000
		Depreciation (General)	35,000

In addition to usual reserve, additional reserve in case of fire insurance is to be increased by 5% of net premium.

Solution

Hi-Fi General Insurance Co. Ltd.
REVENUE ACCOUNTS
for the year ended 31st March, 2012

Particulars	*Schedule*	*Fire*	*Marine*
		Rs.('000)	Rs.('000)
Premiums Earned (Net)	1	5,20,000	8,20,000
Total (A)		5,20,000	8,20,000
Claims Incurred (Net)	2	1,90,000	3,80,000
Commission	3	60,000	48,000
Operating Expenses Related to Insurance Business	4	1,50,000	4,12,000
Total (B)		4,00,00	8,40,000
Operating Profit from Fire Insurance Business (C) = (A) – (B)		1,20,000	(20,000)

PROFIT AND LOSS ACCOUNT OF Hi-Fi GENERAL INSURANCE CO. LTD.
for the year ending 31st March, 2012

	Particulars		Rs.('000)
1.	Operating Profit from Fire Insurance	1,20,000	
	Less : Operating Loss from Marine Insurance	20,000	1,00,000
2.	Income from Investments:		
	Interest, Dividends and Rent		14,000
3.	Other Income:		
	Profit on Sale of Land		60,000
	Bad Debts Recovered		1,200
	Share Transfer Fees		800
	Difference in Exchange		300

	Miscellaneous Receipts	5,000
	Total (A)	1,81,300
4.	Provisions (Other than taxation)	--
5.	Other Expenses:	
	Directors' Fees	5,000
	Auditors' Fees	1,200
	Depreciation	35,000
	Total (B)	41,200
	Profit before Tax (A) – (B)	1,40,100

SCHEDULE – 1 PREMIUMS EARNED (NET)

Particulars			Fire	Marine
Premium Less Reinsurance			6,00,000	10,80,000
Less : Adjustment for Increase in Reserve for Unexpired Risks:				
	Fire	Marine		
	Rs.	Rs.		
Reserve for Unexpired Risks at the end of the year	3,00,000	10,80,000		
	(50%)	(100%)		
Addition Reserve at the end of the year (Rs.50,000 old to be continued + 5% of Rs.6,00,000				
Net Premium	80,000	--		
	3,80,000	10,80,000		
Less : Reserve for Unexpired Risks at the beginning of the year				
(including additional reserve)	3,00,000	8,20,000	80,000	2,60,000
Total Premiums Earned (net)			5,20,000	8,20,000

SCHEDULE – 2 CLAIMS INCURRED (NET)

Particulars	*Fire*	*Marine*
Claims Paid	1,80,000	3,80,000
Survey Expenses regarding Claims	10,000	--
Total	1,90,000	3,80,000

SCHEDULE – 3 COMMISSION

Particulars	Fire	Marine
Commission Paid	90,000	1,08,000
Less : Commission Earned on Reinsurance Ceded	30,000	60,000
Net Commission	60,000	48,000

SCHEDULE – 4 OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Particulars	*Fire*	*Marine*
Management Expenses	1,45,000	4,00,000
Bad Debts	5,000	12,000
Total	1,50,000	4,12,000

Illustration - 7

Following figures are extracted from the books of Z Insurance Company Ltd. at at 31-3-2012:

	Rs.		Rs.
Claims Paid Less Reinsurance		Building (Cost Rs.1,25,000)	87,000
Fire	80,000	Office Equipment (Cost Rs.48,000)	30,000
Marine	62,000	Cash in Hand	56,000
General Reserve	1,18,000	Cash at Bank	1,04,000
Commission Paid :		Premium less Reinsurance	
Fire	48,000	Fire	2,10,000
Marine	39,000	Marine	1,63,000
Share Capital (20,000 shares of Rs.100 each)	2,00.000	Tax Deducted at Source	9,000
Expenses of Management:		Furniture (cost Rs.18,000)	12,000
Fire	53,000	Premiums Due:	
Marine	36,000	Fire	28,000
Investments at Cost:		Marine	20,000
Central Govt. Securities		Due from Other Insurers	27,000
deposited with RBI	19,21,000	Directors' fee	4,000
Other Central Govt. Securities	1,23,000	Commission on Reinsurance Ceded	
State Govt. Securities	2.22.000	Fire	23,000
Share in Companies	2,49,000	Marine	2,000
Depreciation	21,000	Dividends	20,000
Additional Reserve:(1-4-2011)			
Fire	2,000	Interest on Investments	1,00,000
Marine	16,000	Due to Other Insurers	43,000
Interest Accrued	25,000	Contingency Reserve	39,000
		Investment Reserve	47,000

Following further information is also given.

(1) Claims outstanding on 31=3=2012 are " Fire Rs.17,000, Marine Rs.6,000. (2) Market value of investment is Rs. 24,01,000. (3) Increase additional Reserve by 10% of net premium for the year for Fire . (4) Maintain reserves for unexpired risks at 50% of Premium for the year in case of Fire insurance and 100% of Premium for the year in case of Marine insurance.

Prepare Revenue Accounts, Profit and Loss Account and Balance Sheet.

Solution

Z Insurance Company Ltd.

REVENUE ACCOUNTS IN RESEPCT OF FIRE BUSINESS & MARINE BUSINESS

for the year ending 31st March, 2012

	Particulars	*Schedule*	*Fire*	*Marine*
1.	Premium Earned (Net)	1	2,88,000	1,23,000
2.	Profit on Sale/Redemption of Investments		--	--
3.	Others		--	--
4.	Interest, Dividends & Rent (Gross)		--	--
	Total (A)		2,88,000	1,23,000
1.	Claims Incurred (Net)	2	83,000	66,000
2.	Commission	3	25,000	37,000
3.	Operating Expenses Related to Insurance Business	4	53,000	36,000

Total (B)		1,61,000	1,39,000
Operating Profit (C) = (A) – (B)		1,27,000	
Operating Loss (C) = (A) – (B)			16,000

PROFIT AND LOSS ACCOUNT OF Z INSURANCE CO. LTD.

for the year ending 31st March, 2012

	Particulars	Rs.	Rs.
1.	Operating Profit from Fire Insurance	1,27,000	
	Less : Operating Loss from marine Insurance	16,000	1,11,000
2.	Income from Investments:		
	Interest, Dividends and Rent (Gross)		1,20,000
3.	Other Income		--
4.	Provisions (Other than Taxation):		
	Diminution in the Value of Investments		
	(Book Value Rs.25,15,000 – Market Value		
	Rs. 24,01,000 – Investment Reserve Rs.47,000)		67,000
5.	Other Expenses	Rs.	
	Directors' Frees	4,000	
	Depreciation	21,000	25,000
	Total (B)		92,000
	Profit before Tax (C) = (A) – (B)		1,39,000

BALANCE SHEET OF Z INSURANCE COMPANY LTD.

as on 31st March, 2012

Particulars		Schedule	Rs.
Sources of Funds			
Share Capital		5	20,00,000
Reserves and Surplus		6	4,10,000
Borrowings		7	--
	Total		24,10,000
Application of Funds			
Investments		8	25,15,000
Loans		9	--
Fixed Assets		10	1,29,000
Current Assets:	Rs.		
Cash and Bank Balances	1,60,000	11	
Advances and Other Assets	1,09,000	12	
Sub Total (A)	2,69,000		
Current Liabilities	66,000	13	
Provisions	4,37,000	14	
Sub total (B)	5,03,000		
Net Current Assets (C) = (A) – (B)			-2,34,000
Total			24,10,000

Schedules Forming Part of Financial Statements

SCHEDULE – 1 PREMIUMS EARNED (NET)

Particulars	Fire	Marine
Premium Less Reinsurance	2,10,000	1,63,000
Adjustment for Change in Reserve for Unexpired Risks:		
Add : Reserve for Unexpired Risks on 1-4-2011	2,04,000	1,23,000

Additional Reserve on 1-4-2011			1,32,000	16,000
			5,46,000	3,02,000
	Fire	Marine		
	Rs.	Rs.		
Less : Reserve for Unexpired Risks				
on 31-3-2012	1,05,000	1,63,000		
	(50%)	(100%)		
Addition Reserve On 31-3-2012	1,53,000	16,000		
	(1,32,0000 old +10% more of Net Premium)	(Old to be maintained)		
	2,58,000	1,79,000	2,58,000	1,79,000
			2,88,000	1,23,000

SCHEDULE – 2 CLAIMS INCURRED (NET)

Particulars	*Fire*	*Marine*
Claims Paid less Reinsurance	80,000	62,000
Add: Outstanding Claims at the end of the year	17,000	6,000
	97,000	68,000
Less : Outstanding Claim at the beginning of the year	14,000	2,000
Total	83,000	66,000

SCHEDULE – 3 COMMISSION

Particulars	Fire	Marine
Commission	48,000	39,000
Less : Commission on Reinsurance Ceded	23,000	2,000
Net Commission	25,000	37,000

SCHEDULE – 4 OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Particulars	*Fire*	*Marine*
Expenses of Management	53,000	36,000
Total	53,000	36,000

SCHEDULE – 5 SHARE CAPITAL

Particulars	*Rs.*
Paid-up Share capital :20,000 shares of Rs.100 each fully paid up	20,00,000
Total	20,00,000

SCHEDULE – 6 RESERVES AND SURPLUS

Particulars	*Rs.*	*Rs.*
General Reserve		1,18,000
Investment Reserve as on 1-4-2011	47,000	
Add : provision made during the year	67,000	1,14,000
Contingency Reserve		39,000
Balance of Profit in Profit & Loss Account		1,39,000
Total		4,10,000

SCHEDULE – 8 INVESTMENTS

Particulars	*Rs.*
Central Government Securities deposited with RBI	19,21,000
Other Central Government Securities	1,23,000
State Government Securities	2,22,000
Shares in Companies	2,49,000
Total	25,15,000

SCHEDULE – 10 FIXED ASSETS

Particulars	Rs.	Rs.
Building at cost	1,25,000	
Less : Depreciation to date	38,000	87,000
Furniture at cost	18,000	
Less : Depreciation	6,000	12,000
Office Equipment at cost	48,000	
Less : Depreciation	18,000	30,000
Total		1,29,000

SCHEDULE – 11 CASH AND BANK BALANCES

Particulars	*Rs.*
Cash in Hand	56,000
Cash at Bank	1,04,000
Total	1,60,000

SCHEDULE – 12 ADVANCES AND OTHER ASSETS

Particulars	*Rs.*
Advances	
Tax deducted at source from Interest, Dividends and Rent	9,000
Total (A)	9,000
Other Assets	
Interest Accrued	25,000
Outstanding Premiums	48,000
Due from Other Insurers	27,000
Total (B)	1,00,000
Total (A) + (B)	1,09,000

SCHEDULE – 13 CURRENT LIABILITIES

Particulars	*Rs.*
Due to Other Insurers	43,000
Outstanding Claims	23,000
Total	66,000

SCHEDULE – 14 PROVISIONS

Particulars			*Rs.*
	Fire	Marine	
	Rs.	Rs.	
Reserve for Unexpired Risks	1,05,000	1,63,000	
Additional Reserve	1,53,000	16,000	
	2,58,000	1,79,000	
Total Reserve for Unexpired Risks (Rs. 2,58,000 + Rs.1,79,000)			4,37,000