INTEGRAL UNIVERSITY, LUCKNOW

DIRECTORATE OF DISTANCE EDUCATION

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CORPORATE ACCOUNTS

CONTENTS

UNIT-1 ACCOUNTING FOR SHARE CAPITAL

CONTENTS

INTRODUCTION

A company is an association of persons who contribute money or money's worth to a common stock and uses it for a common purpose. In the words of Justice James, "a company is an association of persons united for a common object". Sec 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 Company

1. It is a voluntary association of persons
2. It has a separate legal entity
3. It has a common seal
4. It has a perpetual succession.

Kinds of Companies

I. On the basis of formation

1. Chartered companies – Those companies which are incorporated under a special charter by the king or sovereign such as East India Company.
2. Statutory companies – These companies are formed by the special Act of legislature or parliament like RBI.
3. Registered companies – Such companies are incorporated under the Companies Act 1956 or were registered under any previous Companies Act.

On the basis of liability

1. Limited companies- In these companies, the liability of each member is limited to the extent of face value of shares held by him.
2. Guarantee companies – The liability of member of such companies are limited to the amount he has undertaken to contribute to the assets of the company in the event of its winding up.
3. Unlimited Companies – In these companies, the liability of the members is unlimited and members are personally liable to the creditors of the company fop making up the deficiency. Such companies are rare these days.

On the basis of public investment

1. Private Companies – These are companies by its Articles,
(i) limits the number of members to 50,
(ii) Prohibits the invitation to the public to subscribe their shares or debentures and
(iii) Restricts the transferability of their shares. 2. Public companies – These are companies other than private companies.

SHARE CAPITAL

Total capital of the company is divided into units of small denominations; each one is called a share. According to Sec 2(46) of the Companies Act 1956, share has been defined 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.

Classes of Shares

A. Preference Shares

Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. The holder of preference shares will get a fixed rate o dividend.

Types of preference shares

1. **Cumulative preference shares** – In case of these shares, the arrears of dividend are carried forward and paid out of the profits of the subsequent years.
2. **Non-cumulative preference shares** – If dividend not to accumulate and not to carried forward to next year, these are called non-cumulative preference shares.
3. **Participating preference shares** – In addition to a fixed dividend, balance of profit (after meeting equity dividend) shared by some preference shareholders. Such shares are participating preference shares.
4. **Non-participating preference shares** – These shares get only a fixed rate of dividend. These do not get share in the surplus profit.
5. **Redeemable preference shares** – If preference shares are returned after a specified period to shareholders, these preference shares e shares are called redeemable preference shares.
6. **Convertible preference shares** – These shares are given the right of conversion into equity shares within a specified period or at a specified date according to the terms of issue.

B. Equity Shares

Equity shares are those which are not preference shares. Equity shares do not carry any preferential gain in respect of dividend or repayment of capital. So these are known as ordinary shares. There will be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary from year to year. In winding up, the equity capital is repaid last. However, equity shareholder gets full voting power.

Types of share capital

1. Authorized (Registered or Nominal) Capital – It is the maximum amount of capital which the company is authorized to raise by way of public subscription.
2. Issued Capital – The part of authorized capital which is offered top the public for subscription is called issued capital.

3. Subscribed Capital – That part of the issued capital for which applications are received from the public is called subscribed capital.
4. Called-up Capital – That part of subscribed capital which has been called-up or demanded by the company is called called-up capital.
5. Paid-up Capital – The part of called-up capital which is offered and actually paid by the members is known as paid-up capital. Any unpaid amount of balance on the called-up capital is known as unpaid capital or calls in arrears.
6. Reserve Capital – It is that portion of the uncalled capital which is called-up only at the event of company's winding up.

Difference between equity shares and preference shares

Equity shares	Preference shares
1 It is an ownership security	1. It is a hybrid security
2 Dividend rate is not fixed	2. Dividend rate is fixed
3 Capital is repaid only in winding up	3. Capital is repaid after a stipulated period
4 These shares have voting rights	4 These shares generally do not have voting rights
5 Face value is lower	5 Face value is higher

Issue of Share Capital

The shares can be issued either at par, premium or at discount. Shares are said to be issued at par when a shareholder is required to pay the face value of the shares to the company. Shares are said to be issued at premium when a shareholder is required to pay more than the face value to the company. Shares are said to be issued at discount when the shareholder is required to pay less amount than the face value to the company. For example, a company issues the shares having the face value of Rs.10 at Rs.10; it is the issue at par. If it is issued at Rs. 12, the issue is at premium. If it is issued at Rs.8, the issue is at discount.

The issue price of the shares can be received in one instalment or it can be received in different instalments. If the issue is in different instalments, it may be paid on application, allotment and on one or more calls. The amount on application is called application money, the amount dues on allotment is called allotment money and the rest amount is called call money. As per SEBI guidelines the application money on issue must not be less than 25% of issue price (as per Cos Act, it is 5%).

Allotment of shares

Allotment of shares means the acceptance of offer of the applicant for the purchase of shares. Directors have the discretionary power to reject or accept the applications. But the public company cannot allot its shares unless the minimum subscription has been subscribed by the public and the amount of application has been received. After the allotment of shares to the applicants who will become the shareholders of the company.

Journal Entries for Share Issue

1. On receipt of application money:
Bank A/c Dr
To Share Application A/c
2. On acceptance of application:
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
(Note: similar entries may be passed for second call, third call, if any.)

Illustration 1

Bharat Trading Co. Ltd.with a registered capital of Rs.100000 issued 5000 equity shares of Rs.10 each, payable Rs.2 on application, Rs.2 on allotment, Rs.3 on first call and Rs.3 on final call. Pass journal entries assuming the shares issued were fully subscribed and the money has been received.

Solution:

Bank A/c Dr To Share Application A/c (Application money received)			10000	10000
Share application A/c Dr To Share Capital A/c (Transfer of application money to share capital)			10000	10000
Share allotment A/c Dr To Share capital A/c (Allotment money due)			10000	10000
Bank A/c Dr To Share allotment A/c (Allotment money received)			10000	10000
Share first call A/c Dr To Share capital A/c (First call money due)			15000	15000
Bank A/c Dr To Share first call A/c (First call money received)			15000	15000
Share final call A/c Dr To Share capital A/c (Final call money due)			15000	15000
Bank A/c Dr To Share final call A/c (Final call money received)			15000	15000

Issue of shares at premium

Shares are said to be issued at premium when a shareholder is required to pay more than the face value to the company. The excess amount received over the face value is called share premium. It is a capital receipt. The share premium shall be transferred to “Securities Premium A/c”. It should be shown on the liability side of balance sheet under the head “Reserves and Surplus”.

Journal entries:

(a) If premium is received with application money:

(i) Bank A/c Dr

To Share application A/c

(ii) Share application A/c Dr (with total)

To Share capital A/c (application money)

To Securities premium A/c (premium)

(b) If premium is received with allotment money:

(i) Share allotment A/c Dr (total)

To Share capital A/c (allotment money due)

To Securities premium A/c (premium)

(ii) Bank A/c A/c

To Share allotment A/c

Issue of shares at discount

Shares are said to be issued at discount when the shareholder is required to pay less amount than the face value to the company. Discount on issue of shares is a capital loss and it should be debited to a separate account called "Discount on issue of shares A/c". It is shown on the assets side of balance sheet under "Miscellaneous Expenditure". The rate of discount should not exceed 10% of nominal value of shares. Generally the discount on issue is recorded at the time of allotment. It is also noted that a newly registered company cannot issue shares at discount. The journal entry is Share allotment A/c Dr (allotment money due)

Discount on issue of shares A/c Dr (discount)

To Share capital A/c (Total)

Illustration 2

A Ltd. Issued 5000 shares of Rs.10 each at a premium of Rs.5 per share. The amount was payable as Rs.3 on application, Rs.7 on allotment (incl. Premium) and the balance on first and final call. All shares were subscribed and money duly received. Show the journal entries.

Solution:

Bank A/c Dr To Share Application A/c (Application money received)		15000	15000
Share application A/c Dr To Share Capital A/c (Transfer of application money to share capital)		15000	15000
Share allotment A/c Dr To Share capital A/c To Securities premium A/c (Allotment money due with premium)		35000	10000 25000
Bank A/c Dr To Share allotment A/c (Allotment money received)		35000	35000
Share first and final call A/c Dr To Share capital A/c (First and final call money due)		25000	25000
Bank A/c Dr To Share first and final call A/c (First and final call money received)		25000	25000

Illustration 3

Balu Ltd. Issued 20000 shares of Rs.10 each at a discount of 10% payable as Rs.2 on application, Rs.3 on allotment and Rs.4 on first and final call. 20000 applications were received and all were **accepted. Pass journal entries.**

Solution:

Bank A/c Dr To Share Application A/c (Application money received)		40000	40000
Share application A/c Dr To Share Capital A/c (Transfer of application money to share capital)		40000	40000
Share allotment A/c Dr Discount on issue of shares A/c Dr To Share capital A/c (Allotment money due at 10% discount)		60000 20000	80000
Bank A/c Dr To Share allotment A/c (Allotment money received)		60000	60000
Share first and final call A/c Dr To Share capital A/c (First and final call money due)		80000	80000

When both Preference and Equity Shares are issued

When a company issues both preference and equity shares the journal entries are written separately for each type of share capital.

Under subscription of shares

Sometimes the applications for shares received will be less than the number of shares issued. This is called under subscription. In such a case, the allotment will be equal to the number of shares subscribed and not to the shares issued.

Over subscription of shares

Sometimes the applications for shares received will be more than the number of shares issued. This is called over subscription. When there is over subscription, it is not possible to issue shares to all applicants. In such a situation company shall reject some applications altogether, allot in full on some applications and make a pro-rata allotment on some applications. Pro-rata allotment means that allotment on every application is made in the ratio which the number of shares allotted bears to number of shares applied. In case of applications fully rejected will be returned to the applicants. In pro-rata allotment the excess application will be adjusted either on allotment and or on calls. Any surplus left even after the adjustment will be refunded to the applicants. Journal entries are

1. When application money is returned:

   Share application A/c Dr

   To Bank A/c

2. When excess application is adjusted towards allotment or call:

   Share application A/c Dr (total)

   To share allotment A/c (amount adjusted towards allotment)

   To Call (if any) (amount adjusted towards call)

Illustration 4

Sun Ltd.makes an issue of 100000 equity shares of Rs.10 each payable Rs.3 on application, Rs.5on allotment and Rs.2 on first and final call. Applications were received for 250000 shares. The company returned the applications on 24000 shares and excess application money from remaining applicants was carried forward in part satisfaction on amount due on allotment on the shares allotted to them. The balance of allotment was received. The company did not make the first and final call. Journalize the transactions.

Solution:

Bank A/c Dr To Share Application A/c (Application money received for 250000 shares)		750000	750000
Share application A/c Dr To Share Capital A/c To Bank A/c (Transfer of application money to share capital and 24000 applicants rejected and refunded)		372000	300000 72000
Share allotment A/c Dr To Share capital A/c (Allotment money due)		500000	500000
Share application A/c Dr Bank A/c Dr To Share allotment A/c (Excess application money adjusted and balance received in cash)		378000 122000	500000

Calls in Arrears and Calls in Advance

Sometimes shareholders may fail to pay the allotment money and or call money. Such dues are called calls in arrears. It is shown in the balance sheet as a deduction from the called-up capital. Directors are authorized to charge interest on calls in arrears at a rate as per Articles. In its absence, the interest does not exceed 5% pa. When a shareholder pays more money than called up, the excess money is called calls in advance. The company must pay interest on calls in advance at a rate prescribed by Articles. In its absence, the company is liable to pay interest @6%pa. But the shareholder is not entitled to any dividend on calls in advance.

Forfeiture of shares

The cancellation of shares due to non-payment of allotment money or call money within a specified period is called forfeiture of shares. It is the compulsory termination of membership of the defaulting shareholders. He also losses whatever amount he has paid to the company so far. A company can forfeit the shares only if it is authorized by its Articles. The forfeiting is done only after giving 14 days notice to the defaulting shareholders. The balance of forfeited shares A/c should be shown by way of an addition to called up capital on the liability side of balance sheet till the shares are reissued.

Journal entries

1. Forfeiture of shares which were issued at par:

Share Capital A/c	Dr	(amount called up)	
To share allotment A/c			(allotment unpaid)
To share call A/c		(call unpaid)	
To forfeited shares A/c			(total amount paid)

2. Forfeiture of shares which were issued at premium:

   (a) When allotment money(incl. premium) and call money not paid

Share Capital A/c Dr (amount called up)
Security premium A/c Dr (premium unpaid)
To share allotment A/c (allotment unpaid)
To share call A/c (call unpaid)
To forfeited shares A/c (total amount paid)

(b) When call money not paid

Share Capital A/c Dr (amount called up)
To share call A/c (call unpaid)
To forfeited shares A/c (total amount paid)

3. Forfeiture of shares which were issued at discount:

Share Capital A/c Dr (amount called up)
To share allotment A/c (allotment unpaid)
To share call A/c (call unpaid)
To forfeited shares A/c (total amount paid)
To discount on issue of shares A/c (amount of discount)

Illustration 5

Kerala Ltd issued 5000 shares of Rs.10 each at par payable as Rs.3 on application, Rs.2 on allotment, Rs.3 on first call and Rs.2 on final call. Mr. Ali was allotted 50 shares and who failed to pay allotment money and first call. Give journal entries if those shares were forfeited.

Solution:

	Share Capital A/c Dr (50x8) To share allotment A/c (50x2) To first call A/c (50x3) To forfeited shares A/c (50x3) (forfeiture of 50 shares due to non-payment of allotment and first call)		400	100 150 150

Illustration 6

Malabar Ltd issued 5000 shares of Rs.10 each at a premium of Rs.2 payable as Rs.3 on application, Rs.4 on allotment (incl. premium), Rs.3 on first call and Rs.2 on final call. Mr. Ajay was allotted 50 shares and who failed to pay allotment money and first call. Give journal entries if those shares were forfeited.

Solution:

Solution:

	Share Capital A/c Dr (50x8) Security premium A/c (50x2) To share allotment A/c (50x4) To first call A/c (50x3) To forfeited shares A/c (50x3)		400 100	200 150 150
	(forfeiture of 50 shares due to non-payment of allotment and first call)			

Illustration 7

Jay Ltd issued 5000 shares of Rs.10 each at a discount of 10% payable as Rs.3 on application, Re.1 on allotment, Rs.3 on first call and Rs.2 on final call. Mr. Raju was allotted 50 shares and who failed to pay first call and final call. Give journal entries if those shares were forfeited.

Solution:

Share Capital A/c Dr		500	
(50x10)			150
To first call A/c			100
(50x3)			200
To final call A/c			50
(50x2)			
To forfeited shares A/c			
(50x4)			
To discount on issue of shares A/c			
(50x1)			
(forfeiture of 50 shares due to non-payment of first and final call)			

Reissue of forfeited shares

Forfeited shares may be reissued by the company either at pr, premium or discount. But the discount on reissue should not exceed the amount forfeited.

Journal entries

1. On reissue at par (issued at par or premium):
   Bank A/c Dr (amount received on reissue)
   To share capital A/c (amount paid up)
2. On reissue of at a discount (issued at par or premium).
   Bank A/c Dr (amount received on reissue)
   Forfeited shares A/c Dr (amount of discount on reissue)
   To share capital A/c (amount paid up)
3. On reissue at a premium (issued at par or premium):
   Bank A/c Dr (amount received on reissue)
   To share capital A/c (amount paid up)
   To security premium A/c (premium on reissue)
4. On reissue at a discount (issued at a discount):
   Bank A/c Dr (amount received on reissue)
   Discount on issue of shares A/c Dr (amount of original discount)
   Forfeited shares A/c Dr (excess of discount on reissue over original issue)
   To share capital A/c (amount paid up)

If all forfeited shares have been reissued, the credit balance in forfeited shares A/c (capital profit) shall be transferred to capital Reserve A/c by passing the following entry

Forfeited shares A/c
To capital reserve A/c

If all forfeited shares are not reissued, only the profit on shares which are issued is transferred to Capital reserve A/c.

Illustration 8

The directors of A Ltd resolved that 2000 equity shares of Rs.10 each, Rs.7.50 paid, be forfeited for non-payment of final call of Rs.2.50. 1800 of the above shares were reissued for Rs.6 per share. Show the journal entries.

Corporate Accounts

Notes

Solution:

	Share capital A/c Dr (2000x10) To final call A/c (2000x2.50) To Forfeited shares A/c (2000x7.50) (2000 shares forfeited due to nonpayment of final call)		20000	5000 15000
	Bank A/c Dr (1800x6) Forfeited shares A/c Dr (1800x4) To Share Capital A/c (1800x10) (1800 of forfeited shares reissued @ Rs.6)		10800 7200	18000
	Forfeited shares A/c Dr To Capital Reserve A/c(1800x7.5)-)- (1800x4) (surplus received on forfeiture & reissue transferred)		6300	6300

Illustration 9

Arjun Ltd invited applications for 10000 shares of Rs.100 each at a premium of 5% payable as Rs.25 on application, Rs.45 on allotment (incl. premium) and Rs.35 on first and final call. The applications received for 9000 shares and all of these shares were accepted. All money dues were received except the call on 100 shares which were forfeited. Of these 50 shares were reissued @ Rs.90 as fully paid. Pass journal entries.

Solution:

	Bank A/c Dr To Share Application A/c (Application money received)		225000	225000
	Share application A/c Dr To Share Capital A/c (Transfer of application money to share capital)		225000	225000
	Share allotment A/c Dr To Share capital A/c To Security premium A/c (Allotment money due)		405000	360000 45000
	Bank A/c Dr To Share allotment A/c (Allotment money received)		405000	405000
	Share final call A/c Dr To Share capital A/c (Final call money due)		315000	315000
	Bank A/c Dr To Share final call A/c (Final call money received)		311500	311500
	Share capital A/c Dr To share final call A/c To Forfeited shares A/c (100 shares forfeited)		10000	3500 6500
	Bank A/c Dr Forfeited shares A/c Dr To share capital A/c (50 shares reissued @ Rs.90)		4500 500	5000
	Forfeited shares A/c Dr To Capital reserve A/c(65x50)-(500) (Balance of forfeited shares A/c transferred)		2750	2750

Surrender of shares

Sometimes a shareholder is not able to pay further calls and returns his shares to the company for cancellation. Such voluntary return of shares to the company by the share holder himself is called surrender of shares. The accounting treatment of surrender of shares is the same as that of forfeiture of shares.

REDEMPTION OF PREFERENCE SHARES

When the preference shares are issued it is to be paid back by the company to such shareholders after the expiry of a stipulated period whether the company is to be wound up or not.

As per Sec 80 of the Companies Act, a company limited by shares can redeem the preference shares, subject to the following conditions

1. The shares to be redeemed must be fully paid up.
2. Such shares can be redeemed either out of profit or out of the proceeds of fresh issue of shares. But these cannot be redeemed out of fresh issue of debentures or out of sale proceeds of any property of the company.
3. Premium payable on redemption must be provided out of profits of company or out of company's security premium account.
4. When shares are redeemed out of profit, a sum equal to the nominal amount of shares so redeemed must be transferred out of profit to a reserve account namely Capital Redemption Reserve A/c.
5. The Capital Redemption reserve A/c can be utilized only for the issue of fully paid up bonus shares.

The preference shares can be redeemed either at par or at premium (but not at discount). Premium on redemption is provided out of existing security premium account or security premium on fresh issue. If they are not sufficient, the redemption premium should be provided out of P&L A/c or General Reserve.

Methods of Redemption

There are three methods for redemption of preference shares. They are:

(a) Redemption out of fresh issue of shares
(b) Redemption out of profits
(c) Redemption partly out of fresh issue and partly out of profit

Accounting Procedure for Redemption

1. Ensure that the redeemable preference shares are fully paid. If they are partly paid, the following entries are passed to make them fully paid.

(a) Preference Share Final Call A/c Dr
To Preference Share Capital A/c
(b) Bank A/c Dr
To Preference Share Final Call A/c

2. Entry for total amount due to preference shareholders
Preference Shares Capital A/c Dr (face value)
Premium on Redemption A/c Dr (premium on redemption)
To Preference Shareholders A/c (total amount payable on redemption)

3. Entry for issue of equity shares either with or without premium
Bank A/c Dr (amount received)
Discount on issue of shares A/c Dr (if shares issued at discount)
To Equity share capital A/c (face value of shares issued)
To Security Premium A/c (if shares issued at premium)

4. Entry for providing premium on redemption
Security premium A/c or P& L A/c or General Reserve A/c Dr
To Premium on Redemption A/c
5. Entry for appropriation from divisible profits to meet deficiency of amount on redemption (or if redemption is out of profit)
P & L A/c or General Reserve A/c Dr
To Capital Redemption Reserve A/c
6. Entry for payment to preference shares
Preference Shareholders A/c Dr
To Bank A/c

Illustration 10

Sun Ltd had 8000, 8% redeemable preference shares of Rs.25 each, Rs.20 called up. The company decided to redeem the preference shares at 5% premium by the issue of sufficient number of equity shares of Rs.10 each fully paid up at a premium of 10%. Pass journal entries relating to redemption.

Solution:

Nominal value of shares to be redeemed 200000
Premium on redemption ``` 10000
Total amount required for redemption 210000

No. of shares to be issued (except premium) $\frac{200000}{10} = 20000$

	Preference share final call A/c Dr To 8% preference share capital A/c (pref share final call due)		40000	40000
	Bank A/c Dr To preference share final call A/c (final call money received)		40000	40000
	Bank A/c Dr To equity share capital A/c To security premium A/c (issue of 20000 equity shares of Rs.10 each at 10% premium)		220000	200000 20000
	Security premium A/c Dr To premium on redemption A/c (provided premium on redemption at 5% out of security premium A/c)		10000	10000
	8% preference share capital A/c Dr Premium on redemption A/c Dr To preference shareholders A/c (amount due to preference shareholders)		200000 10000	210000
	Preference shareholders A/c Dr To Bank A/c (payment to preference shareholders)		210000	210000

Use of equation for determining the face value of shares to be issued

An equation can be applied when the given amount of premium in security premium A/c in the balance sheet plus amount of premium to be obtained from fresh issue of shares is not sufficient to pay premium on redemption of preference shares. It is due to security premium A/c given in balance sheet cannot be used for redeeming the face value of shares. (a) When fresh issue is to be made at a premium: [Redeemable preference share capital + premium on redemption] = [{Balance in security premium A/c in B/S} + {Revenue profit available for redemption} + {N} + {N x % rate of premium on fresh issue}]

(b) When fresh issue of shares is to be made at a discount: [Redeemable preference share capital + premium on redemption] = [{Balance in security premium A/c in B/S} + {Revenue profit available for redemption} + {N} - {N x % rate of discount on fresh issue}]

Note: N=Nominal value of fresh issue of shares to be made for redemption

Illustration 13

Determine the amount of fresh issue of shares from the following information relating to A Ltd. Redeemable preference shares Rs.200000, premium on redemption 10%, divisible profits available Rs.60000, balance in general reserve Rs.40000 and security premium A/c Rs.15000. if fresh issue is made (i) at a premium of 5% and (ii) at a discount of 10%.

Solution

(i) if fresh issue is made at a premium of 5%:

[Redeemable preference share capital + premium on redemption] = [{Balance in security premium A/c in B/S} + {Revenue profit available for redemption} + {N} + {N x % rate of premium on fresh issue}]

$$[200000 + 20000] = [15000 + 60000 + 40000 + N + 0.05N]$$

$$1.05N = 220000 - 115000$$

$$N = \frac{105000}{1.05} = \text{Rs. } \underline{100000}$$

(ii) If fresh issue is made at a discount of 10%:

[Redeemable preference share capital + premium on redemption] = [{Balance in security premium A/c in B/S} + {Revenue profit available for redemption} + {N} - {N x % rate of discount on fresh issue}]

$$[200000 + 20000] = [15000 + 60000 + 40000 + N - 0.1N]$$

$$0.9N = 220000 - 115000$$

$$N = \frac{105000}{0.9} = \text{Rs. } \underline{116667}$$

BUY BACK OF SHARES

Buy back is a method of cancellation of share capital. It simply means buying of own shares. It leads to reduction in the share capital of a company.

Objectives of buy back

1. To return surplus cash to investors
2. To improve the financial health
3. To increase the EPS
4. To increase the market price of the share

Advantages of buy back

1. It helps to return the surplus cash to investors
2. It helps to increase the EPS
3. It increases promoter's holding in the company
4. It helps to restructure the capital base of the company

Disadvantages of buy back

1. It implies under valuation of company's stock
2. It may be used as a tool of insider trading
3. It may be used for manipulating the prices of shares.

Methods of buy back

As per SEBI guidelines, there are two methods of buy back of shares. They are:

1. Buy back through tender offer – Under this, a company can buy back its shares from its existing shareholders on a proportionate basis.
2. Buy back from the open market – A company can also buy back its shares from the open market either through stock exchanges or book building process.

DEBENTURES

The term 'debenture' has been derived from the Latin word 'debere', which means 'to borrow'. Debenture is an instrument in writing given by a company acknowledging debt received from the public.

The Companies Act defines debenture as "debenture includes debenture stock, bonds or any other securities of a company, whether constituting a charge on the assets of the company or not".

Features of Debenture

1. It is an instrument of debt issued by company under its seal.
2. It carries fixed rate of interest.
3. Debenture is a part of borrowed capital.
4. It is repaid after a long period.
5. It is generally secured.

Difference between shares and debentures

Share	Debenture
1. The person holding share is called shareholder	1. The person having debenture is called debenture holder
2. It is part of owned capital	2. It is a part of borrowed capital
3. Dividend is paid on shares	3. Interest is paid on debenture
4. Rate of dividend varies year to year	4. Rate of interest is fixed
5. Shareholder has voting right	5. Debenture holder doesn't have voting right
6. It can't be converted into debenture	6. It can be converted into share

Classification of debentures

1. Secured or Mortgage debentures – These debentures are secured either on a particular asset or on the assets of the company in general.
2. Unsecured or Naked debentures – These debentures do not create any charge on the assets of the company.
3. Registered debentures – These debentures arte payable to the persons recorded in the register of debenture holders of the company and these are transferable only with the knowledge of the company.
4. Bearer debentures – In these debentures company maintains no register of debenture holders and these are transferable by mere delivery.
5. Redeemable debentures – These debentures are repayable after a fixed period either in lump sum or in instalments.
6. Perpetual or Irredeemable debentures – These debentures are not repayable during the life time of the company.
7. Convertible debentures – These debentures can be converted into the shares within or after a Specified period, at the option of the holder.
8. Non-Convertible debentures – These debentures can't be converted into shares.

Issue of Debentures

Issue of debentures can be studied in the following two points of view

a. For consideration in cash: Debentures can be issued either at par, at premium or at discount. The entry will be

Bank A/c Dr
Discount on issue of debentures A/c Dr (if issue at discount)
To Debentures A/c
To Security premium A/c (if issue at premium)

b. For consideration other than cash: The entries are

i. For purchase of assets
Sundry Assets A/c Dr
To Vendor A/c

ii. For issuing debentures for payment of purchase consideration
Vendor A/c Dr
To Debentures A/c

c. As collateral security: When debentures are issued as subsidiary or secondary security in addition to the principal security against a loan or bank over draft such an issue of debentures is called issue of debentures as collateral security.

2. From price point of view

From this point of view debentures can be issued either at par, at premium or at discount.

a. When debentures are issued at par
Bank A/c Dr (with face value)
To debentures A/c

b. When debentures are issued at discount
Bank A/c Dr (net amount received)
To Discount on issue of Debentures A/c (amount of discount)
To Debentures A/c (with face value)

c. When debentures are issued at premium
Bank A/c Dr (total amount)
To Debentures A/c (with face value)
To Security premium A/c (amount of premium)

Illustration 14

X Ltd issued 1000, 9% debentures of Rs.100 each. Write journal entries when they are issued

(a) at par,

(b) at 20% premium and

(c) at 10% discount.

Solution:

(a)	Bank A/c Dr		100000	
	To 9% debentures A/c			100000
	(issue of 1000, 9% debentures at Rs.100)			
(b)	Bank A/c Dr		120000	
	To 9% debentures A/c			100000
	To Security premium A/c			20000
	(issue of 1000, 9% debentures at Rs.100 at 20% premium)			
(c)	Bank A/c Dr		90000	
	Discount on issue of debentures A/c Dr		10000	
	To 9% debentures A/c			100000
	(issue of 1000, 9% debentures at Rs.100 at 10% discount)			

Illustration 15

A company issued 10000 debentures of R.100 each for subscription. Debenture moneys are payable as Rs.30 on application, Rs.40 on allotment, Rs.20 on first call and Rs.10 on second call. A person who9 holds 200 debentures fails to pay the amount due at the time of allotment. He however pays this amount with the first call money. Another person, who is holding 400 debentures, has paid all the calls in advance at the time of allotment. Give journal entries in the books of company.

Solution:

	Bank A/c Dr To Debenture Application A/c (Application money received)		300000	300000
	Debenture application A/c Dr To Debentures A/c (Transfer of application money to debentures A/c)		300000	300000
	Debenture allotment A/c Dr To Debentures A/c (Allotment money due)		400000	400000
	Bank A/c Dr To Debenture allotment A/c To Debentures calls in advance (Allotment money on 9800 debentures and call on 400 debentures as advance received)		404000	392000 12000
	Debenture first call A/c Dr To Debentures A/c (First call money due)		200000	200000
	Debentures calls in advance A/c Dr To Debentures first call A/c (transfer of calls in advance to first call A/c)		8000	8000
	Bank A/c Dr To Debenture allotment A/c To Debenture first call A/c (First call money received along with allotment due on 200 debentures)		200000	8000 192000
	Debenture final call A/c Dr To Debentures A/c (Final call money due)		100000	100000
	Bank A/c Dr Debentures calls in advance A/c Dr To Share final call A/c (Final call money received)		96000 4000	100000

3.From condition of redemption point of view

There are six cases on the basis of terms of issue and conditions of redemption of debentures. They are as follows:

a. Issued at par and redeemable at par.

b. Issued at premium and redeemable at par.

c. Issued at discount and redeemable at par.

d. Issued at par and redeemable at premium.

e. Issued at discount and redeemable at premium.

f. Issued at premium and redeemable at premium.

A. When issued at par and redeemable at par.

Bank A/c Dr

To Debentures A/c

B. When issued at premium and redeemable at par.

Bank A/c Dr (face value+ premium)

To Debentures A/c (face value)

To security premium A/c (premium)

C. When issued at discount and redeemable at par.
Bank A/c Dr (amount received)
Discount on issue of debentures A/c Dr (discount)
To Debentures A/c (face value)
D. When issued at par and redeemable at premium.
Bank A/c Dr (amount received)
Loss on issue of debentures A/c Dr (premium on redemption)
To debentures A/c (face value)
To premium on redemption A/c (premium on redemption)
E. When issued at discount and redeemable at premium.
Bank A/c Dr (amount received)
Loss on issue of debentures A/c Dr (issue discount+ redemption premium)
To debentures A/c (face value)
To premium on redemption A/c (redemption premium)
F. When issued at premium and redeemable at premium.
Bank A/c Dr (amount received)
Loss on issue of debentures A/c Dr (redemption premium)
To debentures A/c (face value)
To security premium A/c (issue premium)
To premium on redemption A/c (redemption premium)

Illustration 16

Journalize the following transactions at the time of issue of debenture of Rs.100.

a. A debenture issued at Rs.95, repayable at Rs.100.
b. A debenture issued at Rs.95, repayable at Rs.105.
c. A debenture issued at Rs.100, repayable at Rs.105.
d. A debenture issued at Rs.105, repayable at Rs.100.
e. A debenture issued at Rs.102, repayable at Rs.105.

Solution:

a.	Bank A/c	Dr		95	
	Discount on issue of debentures A/c	Dr		5	
	To Debentures A/c				100
	(issue of debenture at Rs.95, repayable at Rs.100)				
b.	Bank A/c	Dr		95	
	Loss on issue of debentures A/c	Dr		10	
	To debentures A/c				100
	To premium on redemption A/c				5
c.	(issue of debenture at Rs.95, repayable at Rs.105)				
	Bank A/c	Dr		100	
	Loss on issue of debentures A/c	Dr		5	
	To debentures A/c				100
d.	To premium on redemption A/c				5
	(issue of debenture at Rs.100, repayable atRs.105)				
e.	Bank A/c	Dr		105	
	To Debentures A/c				100
	To security premium A/c				5
	(issue of debenture at Rs.105, repayable atRs.100)				
	Bank A/c	Dr		102	
	Loss on issue of debentures A/c	Dr		3	
	To debentures A/c				
	To security premium A/c				100
	To premium on redemption A/c				2
	(issue of debenture at Rs.102, repayable atRs.105)				3

Discount or Loss on issue of debentures

Discount or loss on issue of debentures and premium on redemption are capital losses. They are shown in the balance sheet under the head "Miscellaneous Expenditure". Being the losses, they are to be written off against capital reserve or security premium A/c. In its absence it is written off to P& L A/c during the life of debentures. The entry is Capital reserve/ Security premium A/c/ P & L A/c Dr To Discount / Loss on issue of debentures A/c.

Notes

REDEMPTION OF DEBENTURES

Redemption of debentures refers to the discharge of liability on account of debentures. It simply means repayment of debentures. As per Companies Act, the debentures should be redeemed in accordance with the terms and conditions of issue.

The following entries are passed for redemption of debentures.

a. When debentures are redeemed at par

i. Debentures A/c Dr
To debenture holders A/c

ii. Debenture holders A/c Dr
To Bank A/c

b. When debentures are redeemed at premium

i. Debentures A/c Dr
Premium on redemption A/c Dr
To debenture holders A/c

ii. Security premium/ General reserve/P&L A/c Dr
To Premium on redemption A/c

iii. Debenture holders A/c Dr
To Bank A/c

Sources of redemption of debentures

Debentures can be deemed out of the following sources

1. Redemption out of fresh issue.

A company may issue new shares or debentures or both for redeeming the existing debentures.

Illustration 17

Moon Ltd 10%, 5000 debentures of Rs.100 each, redeemable at 5% premium. The company issued 40000 equity shares of Rs.10 each at 10% premium and 1000, 9% debentures of Rs.100 each at par **for the purpose of redemption. Pass journal entries.**

Solution

10% Debentures A/c Dr		500000	
Premium on redemption A/c Dr		25000	
To Debenture holders A/c			525000
(10% debentures due for redemption)			
Bank A/c Dr		440000	
To Equity share capital A/c			400000
To Security premium A/c			40000
(issue of 40000 equity shares at 10% premium for redemption)			
Bank A/c Dr		100000	
To 9% Debentures A/c			100000
(issue of 1000 debentures of Rs.100 each)			
Security premium A/c Dr			
To Premium on redemption A/c		25000	
(provision for redemption premium)			25000
Debenture holders A/c Dr			
To Bank A/c		525000	
(payment to debenture holders)			525000

2. Redemption out of Capital

If debentures are redeemed out of capital, no amount of divisible profit is kept aside for Redeeming debentures. Redemption out of Capital reduces the liquid resources available to the company. As per the guidelines issued by SEBI, a company has to create Debenture Redemption Reserve (DRR) equivalent to 50% o the amount of debenture issue before redemption of debentures commences. But the creation of DRR is not required in the following cases

a. Debentures with maturity of 18 months or less

b. Fully convertible debentures.

3. Redemption out of profit

When sufficient profits are transferred from P & L Appropriation A/c to the Debenture Redemption Reserve A/c at the time of redemption of debentures, such redemption is said to be out of profits. It reduces the profits available for dividend. The following entry is passed for transfer of profit

P & L Appropriation A/c Dr

To Debenture Redemption Reserve A/c

As per guidelines of SEBI, creation of DRR (50% of amount of debentures issued) is compulsory for debentures with maturity period of more than 18 months. On the completion of redemption of all debentures, the DRR A/c is close by transferring it to general reserve. The entry is as follows

Debenture Redemption Reserve A/c Dr

To General Reserve A/c

Illustration 18

Abin Ltd issued 12000 debentures of Rs.100 each on 1 October 2010 in the terms of redemption that 1/3 of debentures are redeemable every six months. Journalize the transaction.

Solution:

2010	Bank A/c Dr		1200000	
Oct 1	To 8% Debentures A/c			1200000
	(issue of 12000, 8% debentures)			
2011	P & L Appropriation A/c Dr		400000	
Mar	To Debenture Redemption Reserve A/c			400000
31	(Transfer of amount for debenture redemption)			
	8% Debentures A/c Dr			
	To Debenture holders A/c			
	(amount due to debenture holders)		400000	
	Debenture holders A/c Dr			400000
	To Bank A/c			
	(payment to debenture holders)		400000	
	8% Debentures A/c Dr			400000
2011	To Debenture holders A/c			
Sep	(amount due to debenture holders)		400000	
30	Debenture holders A/c Dr			400000
	To Bank A/c			
	(payment to debenture holders)		400000	
	P & L Appropriation A/c Dr			400000
	To Debenture Redemption Reserve A/c			
2012	(Transfer of amount for debenture			
Mar	redemption)		800000	
31	8% Debentures A/c Dr			800000
	To Debenture holders A/c			
	(amount due to debenture holders)		400000	
	Debenture holders A/c Dr			400000
	To Bank A/c			
	(payment to debenture holders)		400000	
	Debenture Redemption Reserve A/c Dr			400000
	To General Reserve A/c			
	(transfer of DRR to GR after redemption)		1200000	
				1200000

4. Redemption by Sinking Fund

Under this method of redemption, every year a part of the profit (fixed amount) is set aside and sinking fund (Debenture Redemption Fund) is created. Sinking fund I invested in outside securities. The interest received o such investments along with the amount set aside from profit will again be invested as usual. It continues till the date of redemption of debenture. The investment will be sold and the cash thus realized will b used to repay the debentures. Under this method, sinking fund A/c (Debenture Redemption Fund A/c) and sinking fund investment A/c (Debenture Redemption Fund Investment A/c) will be opened. After the redemption, balance of sinking fund A/c is transferred to general reserve. The following entries are required under this method.

At the end of first year:

i. For the amount set aside every year

P & L Appropriation A/c Dr

To Sinking Fund A/c

ii. For investment of sinking fund

Sinking Fund Investment A/c Dr

To Bank A/c

At the end of second and subsequent years:

i. For interest received on investment

Bank A/c Dr

To Interest on Sinking Fund Investment A/c

ii. For transferring interest to sinking fund

Interest on Sinking Fund Investment A/c Dr

To Sinking Fund A/c

iii. For annual amount set aside

P & L Appropriation A/c Dr

To Sinking Fund A/c

iv. For investment of annual installment and interest

Sinking Fund Investment A/c Dr

To Bank A/c

At the end of last year:

All the entries except entry (iv) in second and subsequent year should be passed.

i. For amount realized on sale of investment

Bank A/c Dr

To Sinking Fund Investment A/c

ii. For profit on sale of investment

Sinking Fund Investment A/c Dr

To Sinking Fund A/c

(Note: if loss the above entry is reversed)

iii. For amount due to debenture holders

Debentures A/c Dr

Premium on redemption A/c Dr (if redemption at premium)

To Debenture holders A/c

iv. For amount paid to debenture holders

Debenture holders A/c Dr

To Bank A/c

v. For transfer of balance in sinking fund A/c

Sinking Fund A/c Dr

To General Reserve A/c

Illustration 19

On 1 January 2007, Balu Ltd issued 1000, 6% debentures of Rs.100 each repayable at the end of 4 year at a premium of 10%. It is decided to create a sinking fund for the purpose; the investment is expected to yield 5% net. Sinking fund table shows that Re.0.232012 invested annually amounts to Re.1 at 5% in 4 years. Investments were made in multiples of 100 only. On 31 December 2010, the balance at the bank was Rs.40000 and the investment realized Rs.82000. the debentures were paid off. Give journal entries and show ledger accounts except for debenture interest.

Solution:

Amounts annually set aside = (100000+10% premium)x 0.232012 = Rs.25521

2007	Bank A/c Dr		100000	
Jan 1	Loss on issue of debentures A/c Dr		10000	
	To 6% Debentures A/c			100000
	To premium on redemption of debentures A/c			10000
	(issue of 1000, 6% debentures of Rs.100 each redeemable at 10% premium)			
Dec 31	P & L Appropriation A/c Dr		25521	
	To Sinking Fund A/c			25521
	(Transfer of profit to sinking fund)		25500	25500
	Sinking Fund Investment A/c Dr			
2008	To Bank A/c		1275	
Dec	(investment made to nearest multiple of 100)			1275
31	Bank A/c Dr			
	To Interest on Sinking Fund Investment A/c		1275	
	(interest received @ 5% on investment)			1275
	Interest on Sinking Fund Investment A/c Dr			
	To Sinking Fund A/c		25521	
	(transfer of interest to sinking fund)			25521
	P & L Appropriation A/c Dr			
	To Sinking Fund A/c		26800	
	(Transfer of profit to sinking fund)			26800
	Sinking Fund Investment A/c Dr			
	To Bank A/c		2615	
	(investment with interest 25521+1275)			2615
	Bank A/c Dr			
2009	To Interest on Sinking Fund Investment			
Dec	A/c		2615	
31	(interest received @ 5% on investment)			2615
	Interest on Sinking Fund Investment A/c Dr			
	To Sinking Fund A/c		25521	
	(transfer of interest to sinking fund)			25521
	P & L Appropriation A/c Dr			
	To Sinking Fund A/c		28100	
	(Transfer of profit to sinking fund)			28100
	Sinking Fund Investment A/c Dr			
	To Bank A/c		4020	
	(investment with interest 25521+2615)			4020
	Bank A/c Dr			
	To Interest on Sinking Fund Investment A/c		4020	
	(interest received @ 5% on investment)			4020
2010	Interest on Sinking Fund Investment A/c Dr			
Dec	To Sinking Fund A/c		25521	
31	(transfer of interest to sinking fund)			25521
	P & L Appropriation A/c Dr			
	To Sinking Fund A/c			
	(Transfer of profit to sinking fund)		82000	
	Bank A/c Dr			82000
	To Sinking Fund Investment A/c			
	(sale of investment)		1600	

	Sinking Fund Investment A/c Dr			1600
	To Sinking Fund A/c			
	(transfer of profit on sale of investment)		100000	
	6% Debentures A/c Dr		10000	
	Premium on redemption of debentures A/c Dr			110000
	To Debenture holders A/c		110000	
	(amount due to debenture holders)			110000
	Debenture holders A/c Dr			
	To Bank A/c		10000	
	(amount paid to debenture holders)			10000
	Sinking Fund A/c Dr			
	To loss on issue of debentures A/c		101594	
	(redemption provided out of sinking fund)			101594
	Sinking Fund A/c Dr			
	To General Reserve A/c			
	(transfer of balance in sinking fund A/c to GR)			

6% Debentures A/c

2007 Dec 31	To Balance c/d	100000	2007 Jan 1	By Bank	100000
2008 Dec 31	To Balance c/d	100000	2008 Jan 1	By Balance b/d	100000
2009 Dec 31	To Balance c/d	100000	2009 Jan 1	By Balance b/d	100000
2010 Dec 31	To Debenture holders A/c	100000	2010 Jan 1	By Balance b/d	100000

Premium on Redemption of debentures A/c

2007 Dec 31	To Balance c/d	10000	2007 Jan 1	By loss on issue of debentures A/c	10000
2008 Dec 31	To Balance c/d	10000	2008 Jan 1	By Balance b/d	10000
2009 Dec 31	To Balance c/d	10000	2009 Jan 1	By Balance b/d	10000
2010 Dec 31	To Debenture holders A/c	10000	2010 Jan 1	By Balance b/d	10000

Debenture holders A/c

2010 Dec 31	To Bank A/c	110000	2010 Dec 31	By 6% Debentures A/c	100000
				By premium on redemption of debentures A/c	10000
		110000			110000

Sinking Fund A/c

2007 Dec 31	To Balance c/d	25521	2007 Jan 1	By P&L Appn A/c	25521
				By Balance b/d	25521
				By interest on S.F.I	1275
	To Balance c/d	52317		By P&L Appn A/c	25521
		52317			52317
2008 Dec 31	To Balance c/d	80453	2008 Jan 1	By Balance b/d	52317
				By interest on S.F.I	2615
			Dec 31	By P&L Appn A/c	25521
		80453			80453
2009 Dec 31	To loss on issue of debentures	10000	2009 Jan 1	By Balance b/d	80453
	To general reserve (balance transferred)	101594		By interest on S.F.I	4020
			Dec 31	By P&L Appn A/c	25521
				By S.F.I(profit on sale)	1600
		111594			111594

Sinking Fund Investment A/c

2007 Dec 31	To Bank	25500	2007 Dec 31	By Balance c/d	25500
2008 Jan 1	To Balance b/d	25500			
Dec 31	To Bank	26800	2008 Dec 31	By Balance c/d	52300
		52300			52300
2009 Jan 1	To Balance b/d	52300			
Dec 31	To Bank	28100	2009 Dec 31	By Balance c/d	80400
		80400			80400
2010 Jan 1	To Balance b/d	80400			
Dec 31	To Sinking Fund A/c (profit)	1600	2010 Dec 31	By Bank	82000
		82000			82000

Bank A/c

2010 Dec 31	To Balance b/d	40000	2010 Dec 31	By Debenture holders A/c	110000
	To S.F.I A/c	82000		By Balance b/d	12000
		122000			122000

5. Redemption by Insurance Policy

This is an alternative to sinking fund method. Under this method, an insurance policy is purchased by paying annual premium. Such policy will mature on the date of redemption. This method provides funds for redemption and covers the risk involved in the transactions. Under this method the following entries are passed.

During all the years till the policy maturity:

i. For amount of premium paid at the beginning of the year

Debenture Redemption Policy A/c Dr

To Bank A/c

ii. For setting aside the profit at the end of the year

P & L Appropriation A/c Dr

To Debenture Redemption Fund A/c

During the last year in addition to the above two entries

i. For realizing the insurance policy

Bank A/c Dr

To Debenture Redemption Policy A/c

ii. For the transfer of profit on realization

Debenture Redemption Policy A/c Dr

To Debenture Redemption Fund A/c

(Note: if loss the entry is reversed)

iii. For amount due to debenture holders

Debentures A/c Dr

Premium on redemption A/c Dr (if redemption at premium)
To Debenture holders A/c
iv. For amount paid to debenture holders
Debenture holders A/c Dr
To Bank A/c
v. For transfer of balance in Debenture Redemption Fund A/c
Debenture Redemption Fund A/c Dr
To General Reserve A/c

Illustration 20

Athul Ltd issued 1000, 6% debentures of Rs.100 each at par redeemable after 5 years at premium of 10%. An insurance policy was taken at the time of issue of debentures on 1 April 2006 for the amount in order to provide for the necessary funds required for the redemption. The annual premium paid at the beginning of every year Rs.18280. show the accounts for redemption.

ion:

6% Debentures A/c

2007 Mar 31	To Balance c/d	100000	2006 Apr 1	By Bank (first year)	100000
2011 Mar 31	To Debenture holders A/c	100000	2010 Apr 1	By Balance b/d	100000

Premium on redemption of debentures A/c

2007 Mar 31	To Balance c/d	10000	2006 Apr 1	By loss on issue of debentures A/c	10000
2011 Mar 31	To Debenture holders A/c	10000	2010 Apr 1	By Balance b/d	10000

Debenture Redemption Fund A/c

2007 Mar 31	To Balance c/d	18280	2007 Mar 31	By P&L Appn A/c	18280
			Apr 1	By Balance b/d	18280
2008 Mar 31	To Balance c/d	36560	2008 Mar 31	By P&L Appn A/c	18280
		36560			36560
			2008 Apr 1	By Balance b/d	36560
2009 Mar 31	To Balance c/d	54840	2009 Mar 31	By P&L Appn A/c	18280
		54840			54840
			2009 Apr 1	By Balance b/d	54840
2010 Dec 31	To Balance c/d	73120	2010 Mar 31	By P&L Appn A/c	18280
		73120			73120
			2010 Apr 1	By Balance b/d	73120
2011 Mar 31	To loss on issue of debentures A/c	10000		By P&L Appn A/c	18280
	To General Reserve	100000	2011 Mar 31	By Debenture Redemption Policy (profit on realization – B.F)	18600
		110000			110000

Debenture Redemption Policy A/c (Investment)

2006 Apr 1	To Bank	18280	2007 Mar 31	By Balance c/d	18280
2007 Apr 1	To Balance b/d	18280	2008 Mar 31	By Balance c/d	
	To Bank	18280			36560
		36560			36560
2008 Apr 1	To Balance b/d	36560	2009 Mar 31	By Balance c/d	
	To Bank	18280			54840
		54840	2010 Mar 31		54840
2009 Apr 1	To Balance b/d	54840		By Balance c/d	
	To Bank	18280			73120
		73120			73120
2010 Apr 1	To Balance b/d	73120	2011 Mar 31	By Bank (realization of policy)	110000
	To Bank	18280			
2011 Mar 31	To Deb. Red. Fund (profit-B.F)	18600			
		110000			110000

Debenture holders A/c

2011 Mar 31	To Bank A/c	110000	2011 Mar 31	By 6% Debentures A/c	100000
				By premium on redemption of debentures A/c	10000
		110000			110000

6. Redemption by Conversion

Sometimes the debenture holders of a company are given the option to convert their debentures into the shares or new debentures within a stipulated period. The new shares or debentures can be issued either at par or at premium or at discount. The following entry will be made for the purpose.

Old Debentures A/c Dr

Discount on issue of shares/debentures A/c Dr (if issue at discount)

To New Share Capital/ Debenture A/c

To Premium on issue of shares/ debentures A/c (if issue at premium)

Illustration 22

On 1 April 2009, Fast Ltd issued 800, 12% debentures of Rs.1000 each at Rs.950 each. Debenture holders had an option to convert their holdings into 6% preference shares of Rs.100 each at a premium of Rs.25 per share. On 31 March 2010, one year's interest had accrued on these debentures which were not paid. A holder of 50 debentures notified his intention to convert his holding into 13% preference shares. Journalize the transactions and prepare the Balance sheet as on 31 March 2010.

Solution:

2009 Apr 1	Bank A/c Dr Discount on issue of debentures A/c Dr To 12% Debentures A/c (issue of 800, 12% debentures of Rs.1000 each at Rs.950)		760000 40000	 800000
2010 Mar B31	Interest on debentures A/c Dr To sundry debenture holders A/c (interest due on debentures)		96000	 96000
B	12% Debentures A/c Dr To 13% Preference Share Capital A/c To security premium A/c (conversion of 50 debentures to 400,13% preference shares of Rs.100 each at a premium of Rs. 25)		50000	 40000 10000
	Sundry debenture holders A/c Dr To Bank A/c (interest on 50,12% debentures paid on conversion)		6000	 6000
	P&L A/c Dr To interest on debentures A/c (interest on debentures transferred to P&L A/c)		96000	 96000

Liabilities	Rs.	Assets	Rs.
Share capital: 400 13%		Bank (760000-6000)	754000
		Discount on issue of	40000
preference shares of Rs.100 each	40000	debentures	96000
		P & L A/c	
750 12% Debentures	750000		
of	90000		
Rs.1000 each	10000		
Sundry debenture holders	890000		890000
Security premium			

Own Debentures

The directors can purchase debentures whenever they find the market price favorable to the company. Such purchased debentures can be either cancelled by the company or may be kept as an investment called own debentures and may be utilized for reissue when needed afterwards.

Purchase of own debentures are to be treated in account in the same way as an ordinary investment. The entry will be:

Own Debentures A/c Dr (with purchase price)

To Bank A/c

The own debentures A/c will appear on the assets side of B/S (under "investments") until it is cancelled or reissued

As and when the company wants to cancel investment in own debentures the following entry will be passed

Debentures A/c Dr (with face value)

Loss on redemption of debentures A/c Dr (for loss)

To own debentures A/c (with purchase price)

To Profit on redemption of debentures A/c (for profit)

For transfer of profit on redemption:

Profit on redemption of debentures A/c Dr

To Capital Reserve

REVIEW QUESTIONS

1. Describe characteristics of company. Discuss about kinds of companies.
2. Define share capital. What are the difference between equity shares and preference shares?
3. Describe the process of issue and allotment of share capital.
4. Describe the process of surrender of shares.
5. Describe the process of redemption of preference shares. What are methods of redemption?
6. What is the use of equation for determining the face value of shares to be issued?
7. Define debentures. What are difference between shares and debentures?

FURTHER QUESTION

1. Corporate Accounting-V. K. Goyal, Ruchi Goyal
2. Corporate Accounting-Tulsian
3. Corporate Accounting-Mukherjee & Hanif, Amitabha Mukherjee Mohammed Hanif
4. Corporate Accounting-Naseem Ahmed
5. Corporate Accounting-K.K. Verma

UNIT-2 FINAL ACCOUNTS OF COMPANIES

CONTENTS

INTRODUCTION

It is not obligatory to sole proprietors and partnership firms to prepare the final accounts as per the statute. But, according to Section 210 of Indian Companies Act 1956 it is a statutory obligation to a joint stock company to prepare its final accounts. The final accounts of a company consist of (a) Balance Sheet and (b) Profit and Loss Account.

Balance Sheet

The Balance sheet of companies must be prepared according to the prescribed form given in Part I of Schedule VI of the Companies Act. As per the Companies Act, the Balance sheet of companies can be prepared in two forms – (i) Horizontal Form and (ii) Vertical Form.

Horizontal Form

VERTICAL FORM

Name of the Company.................
Balance Sheet at.........................

	Schedule No.	Figures at the end of current financial year	Figures at the end of previous financial year
1	2	3	4
I. Sources of Funds			
(1) Shareholders' funds:			
(a) Capital			
(b) Reserves and Surplus			
(2) Loans funds.			
(a) Secured loans			
(b) Unsecured loans			
Total			
II. Application of Funds			
(1) Fixed assets:			
(a) Gross block			
(b) Less: depreciation			
(c) Net block			
(d) Capital work-in-progress			
(2) Investments			
(3) Current assets, loans and advances			
(a) Inventories			

(b) Sundry debtors (c) Cash and bank balances (d) Other current assets (e) Loans and advances Less: Current liabilities & Provisions (a) Current liabilities (b) Provisions Net Current Assets (4) (a) Miscellaneous expenditure to the extent not written off or adjusted (b)Profit and Loss Account Total			

Profit and Loss Account

In Companies Act, there is no specified format for preparation of Profit and Loss Account of companies. It is not required to split the Profit and Loss Account into three sections (Trading Account, Profit and Loss Account and Profit and Loss Appropriation Account). Only the Profit and Loss Account is prepared which cover items appearing in Trading Account and Profit and Loss Appropriation Account. But it is desirable to split the Profit and Loss Account into three sections so that Gross profit, Net profit and Surplus carried to balance sheet may be ascertain\ed. Under this Trading and Profit and Loss Account items are called as items 'above the line' and the Profit and Loss Appropriation Account items are called as items 'below the line'. The section of Profit and Loss Appropriation Account is prepared in the following manner.

To Transfer to Reserves To Income tax for previous year not provided for To Interim dividend To Proposed dividend To Corporate Dividend Tax To Surplus (Bal. Fig) carried to Balance Sheet		By Last Year's Balance b/d By Net Profit for the year b/d By Amount withdrawn from General Reserve or any Other Reserves By Provision such as income tax provision no longer required	

Thus the account showing the disposal of divisible profits is called Profit and Loss Appropriation Account. The credit balance of Profit and Loss Appropriation Account is shown on the liability side of the Balance sheet under the head 'Reserves and Surplus'. Debit balance is shown on the assets side of the balance sheet under the head 'Miscellaneous expenditure'.

Illustration1

For the year ended 31st December 2011, the profit of Sunder Ltd. before charging depreciation on fixed assets and managerial commission amounted to Rs.300000. De3preciatio for the year charged Rs.60000 and a commission of 10% of profit(before charging such commission) was payable to the manager.

The paid up capital of the company consisted Rs.1000000 divided into 5000, 6% preference shares of Rs.100 each and 50000 equity shares of Rs.10 each. Interim dividend at Re.0.5 per share was paid during the year. There was a credit balance of Rs. 35000 in the Profit and Loss Account brought from the previous year. Te following proposals was passed:

a. To pay the year's dividend on the preference shares
b. To pay a final dividend on equity shares at Re.0.50 per share top make a total dividend of Re. 1 per share for that year.
c. To provide for taxation @50% on the net profit
d. To transfer Rs.25000 to General Reserve.
e. To carry forward the balance.
Show the Profit and Loss Appropriation Account.

Solution:

Net profit before charging depreciation and managerial commission	300000
Less Depreciation	60000
	240000
Less Managerial commission (10%)	24000
	216000
Less Provision for taxation (50%)	108000
	108000

Profit and Loss Appropriation Account

To Transfer to General Reserves	25000	By Last Year's Balance b/d	35000
To Interim dividend paid on equity shares (50000x.50)	25000	By Net Profit for the year b/d	108000
To Preference dividend (500000x6%)	30000		
To final dividend paid on equity shares (50000x.50)	25000		
To Surplus (Bal. Fig) carried to Balance Sheet	38000		
	143000		143000

Difference between Reserves and Provisions

Difference between Reserves and Provisions

Reserves	Provisions
1. It is an appropriation of profit. Hence it is debited to Profit and Loss Appropriation Account	1. It is a charge against profit. Hence it is debited to Profit and Loss Account
2. It needs not be created when profits are inadequate.	2. It must be made irrespective of whether profit or loss.
3. It is shown on the liability side of balance sheet under the head 'Reserves and Surplus'.	3. It is usually shown by way of deduction from the amount of the item for which it is created
4 It can be utilized for distribution of dividend.	4. It cannot be utilized for distribution of dividend.

Provision for taxation

Income tax is payable in the assessment year on the income earned during the previous year. A company will estimate the tax payable for the current accounting period and on this basis it will make provision for taxation. Provision for taxation is debited to Profit and loss Account and it will appear on the liability side of balance sheet under the head 'Provisions'. When assessment completed, the provision for tax will be adjusted. If the assessed tax is more than the provision made in the previous year, the excess has to be shown on the debit side of Profit and Loss Appropriation Account. If the assessed tax is less than the opening provision, such excess provision should be credited to the Profit and Loss Appropriation Account.

Dividend

The divisible profit (profit available to shareholders) of a company is distributed among the shareholders of the company on the basis of number of shares held. This is called dividend. The Board of Directors recommends the amount of dividend and the shareholders in their annual general meeting declare the dividend recommended by the Board of Directors. Dividend is usually paid on paid up capital.

Proposed dividend

It is the dividend recommended by Board of Directors after the close of the books of account. When it I approver by the shareholders in the annual general meeting, it becomes final dividend.

Interim dividend

Interim dividend refers to the dividend paid by the company before the preparation of final accounts. It is declared between two annual general meetings.

Final dividend

It is the dividend which is proposed and declared at the end of the accounting year after the close of the books of account.

Unclaimed dividend

It refers to the dividend not yet claimed by the shareholders within 30 days of declaration of dividend. It is shown as a current liability in the balance sheet.

Corporate Dividend Tax (CDT)

The companies distributing dividend are required to pay tax on such dividends. It is called Corporate Dividend Tax (CDT). CDT is payable on any amount declared, distributed or paid by a company as dividend. At present, the rate of CDT is 16.995 %(17%). Corporate Dividend Tax is shown on the debit side of Profit and Loss Appropriation Account and on the liability side of Balance sheet under the head 'Current liabilities and Provisions' (Provisions).

Transfer to Reserves

Generally, Board of Directors has the discretionary power regarding the transfer of profit to the reserve. However, as per Section 205(2A) of the Act, it is compulsory for a company to transfer certain minimum amount to the reserve at a rate not exceeding 10%. Amount of transfer to reserve depends on the rate at which dividend is to be declared as follows:

i. If the dividend proposed exceeds 10% but not exceed 12.5% of the paid up capital, the amount to be transferred to the reserve shall not be less than 2.5% of the current profits.

ii. If the dividend proposed exceeds 12.5% but not exceed 15% of the paid up capital, the amount to be transferred to the reserve shall not be less than 5% of the current profits.

iii. If the dividend proposed exceeds 15% but not exceed 20% of the paid up capital, the amount to be transferred to the reserve shall not be less than 7.5% of the current profits.

iv. If the dividend proposed exceeds 20% of the paid up capital, the amount to be transferred to the reserve shall not be less than 10% of the current profits.

Illustration 2

The following is the trial balance of the Good Hope Ltd. as on 31st December 2011.

Debtors and Creditors	250000	200000
Purchases and Sales	647000	983500
Returns	4700	3500
Fixed Assets at cost	1597900	
Promotion expenses	13520	
Share capital (Rs.100 per share)		1250000
Sinking fund		250000
Reserve fund		47600
Bad debt Reserve		10000
Cash	17750	
Manufacturing expenses	21000	
Wages	75000	
Unclaimed dividends		1700
Interest on investments		11400
Depreciation	70000	
Administrative expenses	34680	
4% Debentures		300000
Interest on debentures	6000	
Sales expenses	8000	
Bad debts	3400	
Depreciation fund		202400
Bill s payable		9300
Profit and Loss Account		10600
Investments	350000	
Sundry expenses	1050	
Stock on 1st January 2011	130000	
Goodwill at cost	50000	
	3280000	3280000

Adjustments:

a. Closing stock amounted to Rs.137000

b. Maintain the reserve for debtors @ 5%

c. Write off preliminary expenses.

d. Add Rs.10000 to sinking fund

e. Provide for debenture interest.

Solution:

Good Hope Ltd.

Illustration 3

Following is the trial balance of Standard Ltd as on 31st March 2011:

Stock on 31st March 2010	75000	
Sales		350000
Purchases	245000	
Wages	50000	
Discount		5000
Furniture and fittings	17000	
Salaries	7500	
Rent	4950	
Sundry expenses	7050	
Profit and loss appropriation Account on 31st March 2010		15030
Dividend paid	9000	
Share capital		100000
Debtors and creditors	37500	17500
Plant and machinery	29000	
Cash and bank	16200	
Reserve		15500
Patent and trade mark	4830	
	503030	503030

Profit and Loss Account
For the year ended 31st December 2011

To Opening stock	130000	By Sales 983500	
To Purchases 647000		less: Returns 4700	978800
Less: Returns 3500	643500	By Closing stock	137000
To Manufacturing expenses	21000		
To Wages	75000		
To Gross Profit c/d	246300		
	1115800		1115800
To Preliminary expenses	13520	By Gross profit b/d	246300
To Depreciation	70000	By Interest on investment	11400
To Administrative expense	34680		
Interest on debentures 6000 Add: Outstanding 6000	12000		
To Sales expense	8000		
To Bad debt 3400 Add: New provision 12500 15900 Less: Old Provision 10000	5900		
To Sundry expenses	1050		
To Net profit c/d	112550		
	257700		257700
To Transfer to sinking fund	10000	By Last year balance b/d	10600
To Surplus carried to B/S	113150	By Profit for the year	112550
	123150		123150

Good Hope Ltd.
Balance Sheet
As on 31st December 2011

Share Capital		*Fixed Assets*	
12500 shares of Rs.100 each	1250000	Fixed assets	1597900
Reserves & Surplus		Goodwill	50000
Sinking fund 250000		*Investments*	350000
Add: Additions 10000	260000	*Current Assets*	
Reserve fund	47600	Sundry Debtors 250000	
Depreciation fund	202400	Less: Provision 12500	237500
P & L A/c	113150	Cash	17750
Secured Loan		Closing stock	137000
4% Debentures	300000	*Miscellaneous Expenditure*	Nil
Unsecured loan	Nil		
Current liabilities & Provisions			
Sundry creditors	200000		
Unclaimed dividend	1700		
Bills Payable	9300		
Debenture interest outstanding	6000		
	2390150		2390150

Prepare Profit and loss account for the year ended 31stMarch 2011 and balance sheet as on that date after taking into consideration the following adjustments:

a. Stock on 31st March 2011 was valued at Rs.82000

b. Depreciation on fixed assets @ 10%

c. Make a provision for income tax @ 50%

d. Provide corporate dividend tax @ 10%.

Solution:

Standard Ltd

Profit and Loss Account

For the year ended 31st March 2011

To Opening stock	75000	By Sales	350000
To Purchases	245000	By Closing stock	82000
To Wages	50000		
To Gross profit c/d	62000		
	432000		432000

	7500		
To Salaries	4950	By Gross profit b/d	62000
To Rent	7050	By Discount	5000
To Sundry expenses			
To Depreciation on			
plant and machinery	2900		
patents and trademark	483		
furniture and fittings	1700		
To provision for Income tax	21209		
To Net Profit c/d	21208		
	67000		67000
			15030
To Dividend paid	9000	By Balance b/d	21208
To Corporate dividend tax	900	By Net Profit for current year	
(10% of dividend 9000)			
To Balance c/d (Surplus	26338		
carried to Balance sheet)	36238		36238

Balance Sheet of standard Ltd
As on 31st March 2011

Liabilities	Rs.	Assets	Rs.
Share Capital	100000	*Fixed assets:*	
Reserves & Surplus:		Plant and machinery29000	
Reserve	15500	Less Depreciation 2900	26100
Profit and loss Account	26338	Furniture and fittngs17000	
Current liabilities and		Less Depreciation 1700	15300
provisions:		Patents and trademark4830	
Creditors	17500	Less Depreciation 483	4347
Provision for taxation	21209	*Current assets:*	
Corporate dividend tax	900	Stock	82000
		Debtors	37500
		Cash at bank	16200
	181447		181447

REVIEW QUESTIONS

1. Define balance sheet and its component. What are its applications?
2. What is profit and loss account? Describe its applications.
3. What are the difference between reserves and provisions?
4. What is provision for taxation?
5. Define dividend. What is the difference between proposed dividend and interim dividend?
6. Describe corporate dividend tax.

FURTHER READINGS

1. Corporate Accounting-V. K. Goyal, Ruchi Goyal
2. Corporate Accounting-Tulsian
3. Corporate Accounting-Mukherjee & Hanif, Amitabha Mukherjee Mohammed Hanif
4. Corporate Accounting-Naseem Ahmed
5. Corporate Accounting-K.K. Verma

UNIT-3 AMALGAMATION OF COMPANIES

CONTENTS

INTRODUCTION

There are many forms of business combinations to obtain the economies of large scale production or to avoid the cut throat competition. They are amalgamation, absorption, external reconstruction etc.

The term amalgamation is used when two or more existing companies go into liquidation and a new company is formed to take over the business of liquidated companies. The term absorption is used when an existing company takes over the business of one or more existing companies which go into liquidation. In external reconstruction, one existing company goes into liquidation and a new company is formed to take over the former company.

Definitions as per Accounting Standard 14 (AS-14)

a. Amalgamation – means an amalgamation pursuant to the provisions of the Companies Act 1956 or any other statute which may be applicable to companies.

b. Transferor Company – means the company which is amalgamated into another company.

c. Transferee Company – means the company to which a 6ransferor company is amalgamated.

d. Reserve – means the portion of earnings, receipts or other surpluses of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than provision for depreciation or diminution in the value of assets or for a known liability.

Types of Amalgamation

As per AS-14 there are two types of amalgamation (1) Amalgamation in the nature of merger and (2) Amalgamation in the nature of purchase.

Amalgamation in the nature of Merger (Pooling Interest Method)

An amalgamation should be considered to be an amalgamation in the nature of merge when all the following conditions are satisfied:

i. All the assets and liabilities of the Transferor Company or companies before amalgamation should become the assets and liabilities of the transferee company.
ii. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (excluding the proportion held by the transferee company) should become the shareholders of the transferee company.
iii. The consideration payable to the above mentioned shareholders should be discharged by the transferee company by the issue of the equity shares and cash can be payable in respect of fractional shares.
iv. The business of the Transferor Company/ companies is intended to be carried on by the transferee company.
v. No adjustment is intended to be made to the book values of the assets and liabilities of the Transferor Company/ companies when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase

An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified for amalgamation in the nature of merger is not satisfied.

Difference between Amalgamation in the nature of merger and Amalgamation in the nature of purchase

Merger	Purchase
1. There is a genuine mpooli9ng of assets and liabilities of the transferor companies as well as the share holders' interest. As such the shareholders of all the transferor companies conti9nue to have substantial or proportionate share in the equity or management of Transferee Company.	1. One company acquires another. As a consequencx3, the shareholders of the transferor company normally do not continue to have a proportionate share in the equity management of the transferee company.
2. Assets, liabilities and reserves of the transferor company are recorded by the transferee company at their book values.	2. Assets, liabilities and reserves of the transferor company are recorded by the transferee company either at book value or at values revised on the basis of their fair values.
3. The balance of P&L A/c of the transferor company aggregated with the balance of the P&L A/c of the transferee company.	3. The balance of P&L A/c of the transferor company is not included in the books of the transferee company.
4. All reserves whether capital or revenue 0of Transferor Company are merged into the reserves of Transferee Company.	4. Only statutory reserves of Transferor Company are taken in the books of Transferee Company in order to preserve their identity.
5. It is always intended to continue the business of transferor company.	5. It may not be intended to continue the business of Transferor Company.
6. All the assets of Transferor Company become the assets of the transferee company.	6. All the assets of Transferor Company may or may not become the assets of the transferee company.
7. Purchase consideration is usually valued at the par value of the shares issued.	7. Purchase consideration is usually valued at the market price of the shares issued.

Purchase Consideration

Purchase consideration is the amount which is paid by the transferee company for the purchase the business of Transferor Company. As per

AS-14, consideration for amalgamation means the aggregate of shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Purchase consideration does not include any payment to outsiders including debenture holders. The purchase consideration may be calculated in the following ways:

1. **Lump Sum Method**: When the transferee company agrees to pay a fixed sum to the transferor company, it is called lump sum payment of purchase consideration. For example, X Ltd purchases the business of Y Ltd for a consideration of 1000000.

2. **Net worth (Net Assets) Method**: Under this method, the net worth of the assets taken over by the transferee company is taken as purchase consideration. Here, Purchase consideration = Assets taken over at agreed values – Liabilities taken over at agreed values. The following points are noted while calculating purchase consideration under his method:

a. Cash balance is usually included in assets. But if it is not taken over, it will not be included.

b. Fictitious assets should never be added.

c. Accumulated profits and reserves should not be considered.

d. The term ‘liabilities’ include all liabilities to third parties. But ‘trade liabilities’ include only trade creditors and bills payable.

e. The term ‘business’ will always means both the assets and liabilities.

Illustration 1

The following is the Balance Sheet of Amrita Ltd

Liabilities	Rs.	Assets	Rs.
Share capital	60000	Goodwill	28000
Debentures	10000	Land & building	16000
Sundry creditors	6000	Plant & Machinery	28000
General reserve	4000	Stock	16000
Profit & Loss A/c	20000	Debtors	8000
		Cash	2000
		Preliminary expenses	2000
	100000		100000

Bangalore Ltd takes over the business of Amrita Ltd. the value agreed for various assets are: Goodwill Rs.22000, Land & Building Rs.25000, Plant and Machinery Rs.24000, Stock Rs.13000 and Debtors Rs.8000. Bangalore Ltd does not take over cash but agrees to assume the liability of sundry creditors at Rs.5000. Calculate the purchase consideration.

Solution:

Calculation of purchase consideration

Value of assets taken over:		
	Goodwill	22000
	Land & Building	25000
	Plant and Machinery	24000
	Stock	13000
	Debtors	8000
		92000
Less: Liabilities taken over:		

Sundry creditors	5000	
Debentures	10000	15000
Purchase consideration		77000

3. **Net Payment method**: Under this method, purchase consideration is the aggregate of all payments in the form of cash, shares, securities etc. to the shareholders of the transferor company by the transferee company. The following points are considered while calculating purchase consideration under this method:

a. The assets and liabilities taken over by the transferee company are not considered.

b. Purchase consideration includes the payments to shareholders only.

c. Any payments made by the transferee company to some other party on behalf of the transferor company are to be ignored.

Illustration 2

The balance sheet of Jay Ltd as on 31 March 2011isas follows:

Liabilities	Rs.	Assets	Rs.
Share capital	200000	Goodwill	40000
General reserve	35000	Land & building	90000
Profit & Loss A/c	20000	Plant & Machinery	75000
Debentures	50000	Stock	52000
Sundry creditors	25000	Debtors	58000
		Cash	15000
	330000		330000

Jay Ltd decides to amalgamate into a new company New Ltd which will take over the assets and liabilities of Jay Ltd in the term that holders of each share of Rs.10 in the company would receive one share of Rs.10 each, Rs.5 paid up and Rs.4 in cash. The liquidation expense of Rs.5000 is met by New Ltd. calculate purchase consideration.

Solution:

Calculation of purchase consideration

Holder of each share of Rs.10 each will get one share of Rs. 10 each Rs.5 paid up = 100000

Holder of each equity share will get Rs.4in cash (2000x4)

= 80000

Purchase consideration

= 180000

(Note: Liquidation expense is not included in purchase consideration)

4. **Share exchange or Intrinsic value Method**: Under this method purchase consideration is calculated on the basis of intrinsic value of shares. The intrinsic value of a share is calculated by dividing g the net assets available le for equity shareholders by the number of equity shares. This value determines the ratio of exchange of the shares between the transferee and transferor companies.

Steps in accounting procedure of amalgamation, absorption and external reconstruction

a. Calculation of purchase consideration.

b. Ascertainment of discharge of purchase consideration.
c. Closing the books of transferor companies.
d. Passing opening entries in the books of purchasing or transferee .

Accounting entries in the books of transferor company

1. For transferring assets to Realization A/c:
Realization A/c Dr
To Assets A/c (individually at book value)
(Note :(a). Fictitious assets should not be transferred to Realization A/c (b). If cash in hand and bank are not taken over by transferee company should not be transferred to Realization A/c. But it can be taken as opening balance of cash or bank A/c and (c). Other assets, even if they are not taken over, should be transferred to Realization A/c)

2. For transferring liabilities(outside liabilities only) to Realization A/c:
Liabilities A/c Dr (individually at book value)
To Realization A/c
(Note :(a). If any liability is not taken over by transferee company should not be transferred to Realization A/c, (b). Items in the nature of provisions are to be transferred to Realization A/c and c). Any fund which denotes both liability and reserve, the portion of liability should be transferred to Realization A/c).

3. For purchase consideration due from transferee company:
Transferee Company A/c Dr
To Realization A/c

4. On receiving or discharging purchase consideration:
Equity shares in Transferee company A/c Dr
Preference shares in Transferee company A/c Dr
Debentures in Transferee company A/c Dr
Cash/ Bank A/c Dr
To Transferee company A/c

5. For sale of assets not taken over by transferee company:
Cash/ Bank A/c Dr (Sale proceeds)
To Realization A/c

6. For discharging liabilities not taken over by transferee company:
Liability A/c Dr
Realization A/c Dr (if excess amount paid)
To Cash/ Bank A/c
To Realization A/c (If less payment is made)

7. For liquidation (realization) expenses:
a. If liquidation expenses are met by transferor company.
Realization A/c Dr
To Cash/ Bank A/c
b. If liquidation expenses are met by transferee company.
No entry is required.

8. For closing preference share capital:
Preference share capital A/c Dr
Realization A/c Dr (if excess amount paid)
To Preference shareholders A/c
To Realization A/c (if less amount paid)

9. For paying off Preference shareholders:

Preference shareholders A/c Dr
To Preference shares in Transferee company A/c
To Cash/ Bank A/c (if any)
To Debentures A/c (if any)
10. For transferring equity share capital, reserves etc.
Equity share capital A/c Dr
General reserve A/c Dr
P&L A/c Dr
Dividend equalization reserve A/c Dr
Security premium A/c Dr
To equity shareholders A/c
11. For transferring fictitious assets:
Equity shareholders A/c Dr
To P&L A/c
To preliminary expenses
To Discount/ expense on issue of shares/ debentures
12. For closing Realization A/c:
a. For loss on realization (if debit > credit).
Equity shareholders A/c Dr
To Realization A/c
b. For profit on realization (if credit > debit).
Realization A/c Dr
To Equity shareholders A/c
13. For payment to equity shareholders:
Equity shareholders A/c Dr
To Equity shares in Transferee company A/c
To Cash/ Bank A/c (if any)
After payment to equity shareholders, all accounts in the book of transferor company will be closed.

Accounting entries in the books of transferee company (Amalgamation in the nature of purchase)

1. For purchase consideration due and assets and liabilities taken over:
Assets A/c Dr (At revised, otherwise at book value)
Goodwill A/c Dr (if credit > debit)
To Liabilities A/c (At revised, otherwise at book value)
To Liquidator of transferor company (purchase consideration)
To Capital reserve (if debit > credit)
2. For payment of purchase consideration:
Liquidator of transferor company A/c Dr
To Share capital A/c
To Debenture A/c
To Bank A/c
(Note: if shares are issued at premium, security premium A/c is credited with premium. If shares are issued at discount, discount on issue of shares A/c is debited with discount).
3. For payment of liquidation expenses by transferee company:
Goodwill/ Capital reserve/ P&L A/c Dr
To Cash/ Bank A/c
4. For payment of formation expenses:
Preliminary expenses A/c Dr

To Cash/ Bank A/c

5. If there are both Goodwill and Capital reserve A/c, Goodwill may be set off against Capital reserve:

Capital Reserve A/c Dr

To Goodwill A/c

6. If any liability (including debenture) is discharged by transferee company:

Liability A/c Dr (Amount payable)

To Share capital/ Debenture/ Bank A/c

7. To record Statutory Reserves of transferor company:

Amalgamation Adjustment A/c Dr

To Statutory Reserve A/c

(Note: Amalgamation adjustment A/c is shown on the assets side of the company's Balance Sheet under the head "Miscellaneous Expenditure").

Illustration 3

X Ltd acquired the business of Y Ltd on 31 March 2011 for a purchase consideration of Rs. 55000 to be paid by fully paid equity shares of Rs.10 each. The balance sheets of both the companies on the date of acquisition were as follows:

	X Ltd	Y Ltd		X Ltd	Y Ltd
Equity shares of Rs.10			Land & Building	21500	13500
each	55000	32500	Plant & Machinery	40000	25000
10 % Preference shares	....	6000	Furniture	7500	5000
of Rs.10 each			Investment	12500	8000
General Reserve	17000	11000	Inventories	25000	22500
Development	....	4000	Sundry Debtors	8500	5000
Allowance Reserve			Cash & Bank	3000	1500
P&L A/c	7000	5000	Advance Tax	3500	3000
Work men					
Compensation Fund	3000	1500			
10% Debentures	20000	10000			
Fixed	7500	5000			
Deposit(unsecured)	5000	5500			
Sundry creditors	3000	....			
Bills Payable	4000	3000			
Provision for tax	121500	83500		121500	83500

Debenture holders of Y Ltd will be issued equity shares in X Ltd. Journalize the transactions in the books of X Ltd sand the Balance sheet after amalgamation assuming that the amalgamation is in the nature of purchase. Also give journal entries in the books of the transferor company to close the books.

Solution:

In the books of Y Ltd (Transferor company)
Closing entries

	Particulars		L.F.	Debit	Credit
	Realization A/c	Dr		83500	
	To Land & Building A/c				13500
	To Plant & Machinery A/c				25000
	To Furniture A/c				5000
	To Investment A/c				8000
	To Inventories A/c				22500
	To Sundry Debtors A/c				5000
	To Cash & Bank A/c				1500
	To Advance Tax A/c				3000
	(transfer of various assets to Realization A/c)				
	10% Debentures A/c	Dr		10000	
	Fixed Deposit A/c	Dr		5000	
	Sundry creditors A/c	Dr		5500	
	Provision for tax A/c	Dr		3000	
	To Realization A/c				23500
	(transfer of various liabilities to Realization A/c)				
	X Ltd A/c	Dr			
	To Realization A/c			55000	
	(purchase consideration due from X Ltd)				55000
	Equity Shares in X Ltd A/c	Dr			
	To X Ltd A/c			55000	
	(purchase consideration received)				55000
	10% Preference share capital A/c	Dr		6000	
	To Preference shareholders A/c				6000
	(amount payable to Preference shareholders				
	Preference shareholders A/c	Dr		6000	
	To Equity Shares in X Ltd A/c				6000
	(distribution of equity shares received from X Ltd)			32500	
	Equity share capital A/c	Dr		11000	
	General reserve A/c	Dr		4000	
	Development Allowance reserve A/c	Dr		5000	
	P&L A/c	Dr		1500	
	Workmen compensation Fund A/c	Dr			54000
	To equity shareholders A/c				
	(transfer of equity shareholders funds)			5000	
	Equity shareholders A/c	Dr			5000
	To Realization A/c				
	(transfer of loss on realization)			49000	
	Equity shareholders A/c	Dr			49000
	To Equity shares in X Ltd A/c				
	(distribution of equity shares received from X Ltd)				

Realization A/c

To Land & Building A/c	13500	By 10% Debentures A/c	10000
To Plant & Machinery A/c	25000	By Fixed Deposit A/c	5000
To Furniture A/c	5000	By Sundry creditors A/c	5500
To Investment A/c	8000	By Provision for tax A/c	3000
To Inventories A/c	22500	By X Ltd (PC)A/c	55000
To Sundry Debtors A/c	5000	By Equity shareholders A/c	5000
To Cash & Bank A/c	1500	(realization loss)-Bal. figure	
To Advance Tax A/c	3000		
	83500		83500

To Realisation A/c	55000	By Equity shares in X Ltd. A/c	55000
	55000		55000

Preference shareholders A/c

To Equity shares in X Ltd A/c	6000	By 10%Preference share capital A/c	6000
	6000		6000

Equity shareholders A/c

To Realisation A/c (loss)	5000	By Equity share capital A/c	32500
To Equity shares in X Ltd. A/c	49000	By General reserve A/c	11000
		By Development Allowance reserve	4000
		By P&L A/c	5000
		By Workmen compensation Fund A/c	1500
	54000		54000

Opening Entries in the books of X Ltd (Transferee Company)

	Land & Building A/c	Dr		13500	
	Plant & Machinery A/c	Dr		25000	
	Furniture A/c	Dr		5000	
	Investment A/c	Dr		8000	
	Inventories A/c	Dr		22500	
	Sundry Debtors A/c	Dr		5000	
	Cash & Bank A/c	Dr		1500	
	Advance Tax A/c	Dr		3000	

ACCOUNTING FOR INTERNAL RECONSTRUCTION

There are two types or reconstruction, namely external reconstruction and internal reconstruction. In external reconstruction, a new company is formed to take over the assets and liabilities of an existing company which goes into liquidation. But in internal reconstruction, there will be neither liquidation of an existing company nor formation of a new company. Internal reconstruction means an internal rearrangement that gives a new look to the capital structure, adjusts the rights of shareholders, debenture holders and creditors along with some adjustments in the values of assets and writing off fictitious assets. Internal reconstruction may be done due to the accumulate losses, shortage of working capital, overvaluation of assets etc.

Difference between Internal reconstruction and External reconstruction

Internal reconstruction	External reconstruction
1. The company does not loss its identity	1. The company losses its identity
2. The overvalued assets are revalued at their net worth and the losses written off.	2. The newly formed company takes over the assets and liabilities of the liquidated company at agreed values.
3. No new company is formed nor is any existing company liquidated. It is the internal matter of a single company.	3. A new company is formed in place of the old company.
4. Debenture holds, creditors and bank overdraft may continue.	4. These parties will have to be settled.

Forms or Methods of Internal reconstruction

1. Alteration of share capital.
2. Reduction of share capital.
3. Variation of shareholders' rights.
4. Scheme of compromise.

Alteration of Share Capital

According to Sec. 94 of the Companies Act, a limited company can, if authorized by its articles of association, alter the capital clause of its memorandum of association in any of the following ways.

a. By increasing its share capital by issue of new shares.

b. By consolidating existing shares of smaller amounts into shares of larger amo9unts.

c. By subdividing the existing share into shares of smaller amounts.

d. By converting fully paid shares into stock 0or stock into fully paid shares.

Accounting entries for alteration of capital

a. For increasing its share capital

i. Bank A/c Dr
To Share Application & Allotment A/c

ii. Share Application & Allotment A/c Dr
To Share Capital A/c

b. For consolidation of shares:

Share Capital (old) A/c Dr
To Share Capital (New) A/c

c. For subdivision of shares:

Share Capital (old) A/c Dr
To Share Capital (New) A/c

d. For conversion of shares into stock:

Share Capital A/c Dr
To Stock A/c

e. For conversion of stock into shares:

Stock A/c Dr
To Share Capital A/c

Illustration 7

A Ltd having a share capital of Rs.500000 divided into 5000 shares of Rs.100 each, resolves to subdivide the shares into 50000 shares of Rs.10 each. Pass the journal entry.

Solution

Share Capital (Rs.100) A/c	Dr	500000	
To Share Capital (Rs.10) A/c			500000

Illustration 8

X Ltd resolves to convert its 50000 equity shares of Rs.10 each fully paid into Rs.500000 worth of equity stock. Journalize the transaction.

Solution:

Equity Share Capital A/c	Dr	500000	
To Equity Stock A/c			500000

Illustration 9

B Ltd having an equity share capital of Rs.100000 divided into 10000 shares of Rs.10 each resolves to consolidate the shares into 1000 shares of Rs.100 each. Pass the journal entry.

Solution:

Equity Share Capital (Rs.10) A/c	Dr	100000	
To Equity Share Capital (Rs.100) A/c			100000

Reduction of Share Capital

Reduction of capital is unlawful except when sanctioned by the court because conservation of capital is one of the main principles the Company Act. In order to reduce the share capital, the company must be authorized by its articles of association, a special resolution must be passed at general meeting, and confirmation of court etc. is required. A company can reduce its share capital by any of the following ways:

a. By reducing the liability of the shareholders for uncalled capital.

b. By paying off the surplus capital.

c. By reducing paid up capital which is not represented by available assets.

Accounting entries for reduction of share capital

a. For reducing the liability in respect of uncalled capital:

Share Capital (old) A/c Dr

To Share Capital (New) A/c

b. For paying off surplus capital:

i. Share Capital A/c Dr

To Shareholders A/c

ii. Shareholders A/c Dr

To Bank A/c

c. For reducing or cancelling paid up capital which is not represented by available assets:

i. For reducing paid up capital by changing its face value:

Share Capital (old) A/c Dr

To Share Capital (New) A/c

To Capital Reduction A/c

ii. For reducing paid up capital without changing its face value:

Share Capital A/c Dr (amount of reduced capital)

To Capital Reduction A/c

Capital Reduction Account

Capital Reduction Account is a new account opened for transferring that part of capital which is lost or not represented by the assets. It is a temporary account opened for carrying out internal reconstruction. This account will be closed as soon as the scheme is carried out. The balance in Capital Reduction A/c can be used to write off fictitious assets, past losses and excess value of assets. The entry is as follows:

Capital Reduction A/c Dr

To P&L A/c (Debit balance)

To Goodwill A/c

To Preliminary Expenses A/c

To discount on issue of shares/ debentures A/c

To Patents/ Trademarks A/c

To Plant & Machinery A/c

To other Assets A/c

To Capital Reserve A/c (Bal. Fig)

Illustration 10

The following is the balance sheet of Brahma Ltd as on 31 March 2011.

Liabilities	Amount	Assets	Amount
5000 Equity shares of Rs.100 each fully paid	500000	Plant & Machinery	173000
7500 10% Preference shares of Rs.100 each fully paid	750000	Patents	850000
Sundry creditors	50000	Stock in trade	55000
		Sundry debtors	77000
		Profit & Loss A/c	145000
	1300000		1300000

The company suffered losses and the following scheme was adopted:

i. Equity shares are to be reduced to an equal number of shares of Rs.25 each.

ii. The preference shares to be reduced to an equal number of shares of Rs.50 each.

iii. The amount available to be used to write off Rs.39240 of plant and machinery and Rs.15000 of stock in trade.

iv. Made a provision of Rs.15300 for doubtful debt.

v. The balance being used to write off patents.

Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011 Mar 31	Equity Share Capital (Rs.100) A/c Dr		500000	
	To Equity Share Capital (Rs.25) A/c			125000
	To Capital Reduction A/c			375000
	(reduction of equity share capital to Rs.25 each)			
	10% Preference Share Capital (Rs.100) A/c Dr		750000	
	To Preference Share Capital (Rs.50) A/c			375000
	To Capital Reduction A/c			375000
	(reduction of preference share capital to Rs.50)			
	Capital Reduction A/c Dr		750000	
	To P&L A/c			145000
	To Plant & Machinery A/c			39240
	To Stock in trade A/c			15000
	To Provision for doubtful debts A/c			15300
	To Patents (Bal. Fig)			535460
	(utilization of capital reduction A/c)			

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
5000 Equity shares of Rs.25each fully paid	125000	Plant & Machinery(173000-39240)	133760
7500 10% Preference shares of Rs.50 each fully paid	375000	Patents (850000-535460)	314540
Sundry creditors	50000	Stock in trade (55000-15000)	40000
		Sundry debtors (77000-15300)	61700
	550000		550000

Variation of Shareholders' rights

Under this, the shareholders rights are altered by changing the rate of dividend or changing the classes of shares. For example, it can be done by changing the cumulative preference shares to non-cumulative preference shares or from 10% preference shares into 7% preference shares etc.

Scheme of compromise or arrangement

Here a compromise or arrangement is made with creditors or debenture holders while settling their liabilities. This scheme involves the following:

a. For sacrifice by debenture holders:

Debentures A/c Dr (with amount sacrificed)

To Capital Reduction A/c

b. For exchange of debentures for new debentures or shares:

Debentures A/c (old) Dr

To Debentures/ Share Capital A/c (New)

c. For sacrifice by creditors:

Creditors A/c Dr (with amount sacrificed)

To Capital Reduction A/c

d. For agreement to receive shares or debentures in settlement of claims of creditors:

Creditors A/c Dr

To Share Capital/ debentures A/c

Miscellaneous journals

a. For appreciation of fixed assets:

Fixed assets A/c Dr (with amount of appreciation)

To Capital Reduction A/c

b. For expense incurred on reconstruction:

Capital Reduction A/c Dr

To Bank A/c

Illustration 6

The balance sheet of Gloomy Ltd as on 31 March 2011 was as follows:

Liabilities	Amount	Assets	Amount
4000 Equity shares of Rs.100 each fully paid	400000	Goodwill	15000
		Freehold premises	200000
2000 5% Preference shares of Rs.100 each fully paid	200000	Plant & Machinery	300000
		Stock in trade	50000
6% Debentures	100000	Sundry debtors	40000
Bank overdraft	35000	Cash in hand	5000
Sundry creditors	100000	Profit & Loss A/c	225000
	835000		835000

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

a. Preference shares to be reduced to Rs.60 per share fully paid up and equity shares to Rs.40 per share fully paid up.

b. The debenture holders to take over stock in trade and book debts in full satisfaction of the amount due to them.

c. The value of freehold premises to be increased by 10%.

d. The value of plant and machinery to be depreciated by 33 1/3 %.

e. The goodwill account to be eliminated.

f. Expenses of reconstruction amounted to Rs.4000.

Journalize the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011	Equity Share Capital (Rs.100) A/c Dr		400000	
Mar	To Equity Share Capital (Rs.40) A/c			160000
31	To Capital Reduction A/c			240000
	(reduction of equity share capital to Rs.40 each)			
	5% Preference Share Capital (Rs.100) A/c Dr		200000	
	To 5%Preference Share Capital(Rs.60)A/c			120000
	To Capital Reduction A/c			80000
	(reduction of preference share capital to Rs.60)			
	6% Debentures A/c Dr			
	To Stock in trade A/c			
	To Sundry debtors A/c		100000	
	To Capital Reduction A/c (Bal. Fig)			50000
	(stock and debtors taken over by debenture			40000
	holders)			10000
	Freehold premises A/c Dr			
	To Capital Reduction A/c			
	(Freehold premises appreciated by 10%)			

			20000	20000
	Capital Reduction A/c Dr			
	To P&L A/c			
	To Goodwill A/c			15000
	To Plant and machinery A/c		350000	225000
	To Bank A/c (expenses)			100000
	To Capital Reserve A/c			4000
	(utilization of capital reduction A/c)			6000

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
4000 Equity shares of Rs.40each fully paid	160000	Freehold premises(200000+20000)	220000
2000 5% Preference shares of Rs.60 each fully paid	120000	Plant & Machinery(300000-100000)	200000
Capital Reserve	6000	Cash in hand(5000-4000)	1000
Bank overdraft	35000		
Sundry creditors	100000		
	421000		421000

Surrender of shares

Under reconstruction, the shareholders may be required to surrender a part of their share holdings. Such surrendered shares may be reissued to other parties (creditors, debenture holders etc.) in whole or in part satisfaction of their claims. The entries required are as follows:

i. On surrender of shares:

Share capital A/c Dr

To Surrendered shares A/c

ii. On reissue of surrendered shares:

Surrendered shares A/c Dr

To Share capital A/c

iii. On cancellation of unissued surrendered shares:

Surrendered shares A/c Dr

To Capital Reduction A/c

Illustration 7

A company has equity share capital of Rs.1000000 consisting 10000 shares of RS.100 each. It is resolved

a. To subdivide the shares into shares of Rs.10 each

b. To ask their shareholders to surrender 50% of their shares

c. To issue 60% of the surrendered shares to 15% debenture holders of Rs.400000 in full settlement of their claims
d. To cancel the unissued surrendered shares.
Give entries in the books of the company.

Solution:

Journal

	Equity Share Capital (Rs.100) A/c Dr To Equity Share Capital (Rs.10) A/c (subdivision of equity shares into Rs.10 each)		1000000	1000000
	Equity Share capital A/c Dr To Surrendered shares A/c (50% of shares surrendered)		500000	500000
	Surrendered shares A/c Dr 15% Debentures A/c Dr To Equity Share capital A/c To Capital Reduction A/c (issue of 60% surrendered shares to debenture holders in full settlement of their claims)		300000 400000	300000 400000
	Surrendered Shares A/c Dr To Capital Reduction A/c (cancellation of unissued surrendered shares)		200000	200000

REVIEW QUESTIONS

1. Describe the Types of Amalgamation.
2. Discuss about Amalgamation in the nature of purchase.
3. Describe the Accounting For Internal Reconstruction.
4. What are Difference between Internal reconstruction and External reconstruction?
5. Describe the process of Alteration of Share Capital.
6. Describe the process of Reduction of Share Capital.
7. Describe the process of Surrender of shares.

FURTHER QUESTION

1. Corporate Accounting-V. K. Goyal, Ruchi Goyal
2. Corporate Accounting-Tulsian
3. Corporate Accounting-Mukherjee & Hanif, Amitabha Mukherjee Mohammed Hanif
4. Corporate Accounting-Naseem Ahmed

Corporate Accounting-K.K. Verma

UNIT-4 FINAL ACCOUNTS OF BANKING COMPANIES

CONTENTS

INTRODUCTION

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

Business of banking companies

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

i. The borrowing, raising, or taking up of money

ii. The lending or advancing of money either upon or without security

iii. The drawing, making, accepting, discounting, buying, selling, collecting and dealing in b bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not.

iv. The granting and issuing of letter of credit, travelers cheques and circular notes

v. On receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise.

vi. The buying, selling and dealing in bullion

vii. The collecting and transmitting of money and securities

viii.Contracting for public and private loans and negotiating and issuing the same

ix. Carrying on and transacting every kind of guarantees and indemnity business

x. Undertaking and executing trusts, etc…

Important provisions of the Banking Regulation Act 1949

1. Statutory Reserve

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

2. Cash Reserve Ratio (CRR)

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

3. Statutory Liquidity Ratio (SLR)

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

4. Non – Banking Assets

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

5. Minimum Capital and Reserves

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

a. If it has places of business in more than one state Rs.500000, and if any such place of business is situated in Mumbai or Kolkata or in both, Rs.1000000.

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

Accounting System

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

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

Books maintained by banks

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

10. Customers' Acceptances, endorsements and Guarantee Ledger.
11. Recurring Deposits Accounts Ledger, etc.

The Slip System

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

Advantages of Slip system

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

Disadvantages of Slip system

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

Final Accounts of Banks

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

Profit and Loss Account

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

Form B

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

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

SCHEDULE 13 – INTEREST EARNED (000s omitted)

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

SCHEDULE 14 – OTHER INCOME (000s omitted)

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

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

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

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

SCHEDULE 16– OPERATING EXPENSES

(000s omitted)

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

Illustration 1

Following figures have been obtained from the books of Rai Bank Ltd for the year ending 31stMarch 2011(figures in '000):

Issued and subscribed capital Rs.1000, Interest and discount earned Rs.3800, Commission and exchange earned Rs.195, Interest paid Rs.2000, Salaries and wages Rs.210, Directors fees Rs.35, Rent and taxes Rs.70, Postage and telegrams Rs.61, Profit on sale of investments Rs.240, Loss on sale of investments Rs.38, Rent received Rs. 62, Depreciation Rs.31, Stationary Rs.60 and Auditors fees Rs.8.

Additional information:

a. The profit and loss account had a balance of Rs.10,00,000 on 1st April 2010.

b. An advance of Rs.12,00,000 has become doubtful and it is expected that only 50% of the amount due can be recovered from the security.

c. The provision of tax is made at 50%.

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

Solution:

Rai Bank Ltd

Profit and Loss Account

For the year ending 31st March 2011 (000s omitted)

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

SCHEDULE 13 – INTEREST EARNED (000s omitted)

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

SCHEDULE 14 – OTHER INCOME (000s omitted)

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

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

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

SCHEDULE 16– OPERATING EXPENSES (000s omitted)

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

Balance Sheet

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

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

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

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 2 – RESERVES & SURPLUS

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

SCHEDULE 3 – DEPOSITS

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

SCHEDULE 4 – BORROWINGS

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

Secured borrowings included in I & II above – Rs.

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

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

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

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

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

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

SCHEDULE 8 – INVESTMENTS

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

SCHEDULE 9 – ADVANCES

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
A. (i) Bills purchased and discounted (ii) cash credits, overdrafts and loans repayable on demand		

(iii) Term loans		
Total		
B.		
(i) secured by tangible assets		
(ii)covered by bank/Government guarantees		
(iii) unsecured		
Total		
C.		
I. Advances in India		
(i) priority sectors		
(ii) public sector		
(iii) banks		
(iv) others		
Total		
II. Advances outside India		
(i) Due from banks		
(ii) Due from others		
(a) Bills purchased and discounted		
(b) Syndicated loans		
(c) Others		
Total		
Grand Total (CI+CII)		

SCHEDULE 10 – FIXED ASSETS

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

SCHEDULE 11 – OTHER ASSETS

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

SCHEDULE 12 – CONTINGENT LIABILITIES

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

Explanation of some items relating to Balance Sheet

1. Money at call and short notice: It represents temporary loans to bill brokers, stock brokers and other banks. If the loan is given for one day, it is called “money at call” and if the loan cannot be called back on demand and will require at least a notice of three days for calling back, it is called “money at short notice”.

2. Advances: Advances include Bills discounted and purchased, loans, cash credit and overdraft.

3. Inter - office adjustments: Every head office will have a number of transactions with its branches. The head office makes necessary adjustments in its books on the receipt of information from the branches. On the date of balance sheet some transaction may remain unadjusted in the books of the head office. Such entries are recorded in the balance sheet under the sub-heading ‘Branch Adjustments’ and may appear on the assets side under the heading ‘Other Assets’ if it has a debit balance and on t e liabilities side under the heading ‘Other Liabilities’ if it has a credit balance.

4. Bills for Collection: When the bank receives bills receivables from its customers for collection, it keeps them till maturity. On the date of maturity when bills are collected, customers account is credited with the amount collected. If some bills remain outstanding, such bills are treated by the banks as outstanding bills for collection. It is shown as ‘Contingent Liability (Schedule 12)’.

5. Acceptance, endorsement and other obligation: This represents bank’s liability on account of bills endorsed or accepted on behalf of its customers. For greater security, the drawer of bill wants acceptance of the drawee’s bank. The bank incurs a liability by accepting bills on behalf of customers. On the maturity of bill, the bank pays and collects the amount from its customers. At the end of the accounting period, if tee is any outstanding bills it is shown on the ‘Contingent Liability (Schedule 12)’.

Illustration 3

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

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

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

Non-Performing Assets (NPA)

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

Asset Classification

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

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

Rebate on bills discounted or unexpired discounts

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

Interest and discount A/c Dr

To Rebate on bills discounted.

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

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

Illustration 4

In respect 0f the following transactions of Best Bank Ltd pass necessary journal entries as well as their treatment in the P&L A/c and Balance Sheet for the year ended 31st March 2011. The following bills are discounted at 5%.

The following bills are discounted at 5%.

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

Solution:

Calculation of Rebate on bills discounted

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

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

Illustration 5

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

Share capital (20000 shares of Rs.100 each)	2000000
Reserve Fund investments	1000000
General expenses	182000
Current accounts	20244000
Interest paid	161000
Savings bank account	2920000
Fixed deposits	4000000
Profit and loss Account(on 31st March 2010)	230000
Discount received	180000
Rebate on bills discounted	64000
Commission, exchange and brokerage	44000
Cash	227000
Interest received	532000
Cash with RBI	2012000
Owing by foreign correspondents	200000
Short loans	6482000
Loans and advance to customers	15585000
Investments	9883000
Bills discounted	6228000
Premises	2218000

Adjustments:

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

Solution:

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

(000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	712	
Other income	14	44	
Total		756	
II. Expenditure			
Interest expended	15	161	
Operating expenses	16	182	
Provisions and contingencies		129	
Total		472	
III. Profit/ Loss			
Net profit / loss for the year(I-II)		284	
Profit/loss brought forward		430	
Total		714	
IV. Appropriations			
Transfer to statutory reserves (284x25%)		71	
Transfer to other reserves			
Interim Dividend paid		200	
Balance carried over to Balance sheet		443	
Total		714	

SCHEDULE 13 – INTEREST EARNED (000s omitted)

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

SCHEDULE 14 – OTHER INCOME (000s omitted)

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

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

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

SCHEDULE 16– OPERATING EXPENSES (000s omitted)

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

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

	Schedule No	As on 31.3.2011	As on 31.3.2010

Capital & Liabilities			
Capital	1	2000	
Reserves & Surplus	2	1514	
Deposits	3	27164	
Borrowings	4	6482	
Other Liabilities and Provisions	5	193	
Total		37353	
Assets			
Cash and balances with RBI	6	2239	
Balances with banks & money at call and short notice	7	200	
Investments	8	10883	
Advances	9	21813	
Fixed Assets	10	2218	
Other Assets	11	------	
Total		37353	
Contingent liabilities	12	1600	
Bills for collection		500	

SCHEDULE 1 - CAPITAL

	As on 31.3.2011	As on 31.3.2010
Authorised capital: 20000 Shares of Rs.100 each		
Issued capital: 20000 Shares of Rs.100 each		
Subscribed capital: 20000 Shares of Rs.100 each	2000	
Called up capital: 20000 Shares of Rs.100 each		
Rs.100 each fully paid	2000	
Less: Calls unpaid		
Add: Forfeited shares		
Total		

SCHEDULE 2 – RESERVES & SURPLUS

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

SCHEDULE 3 – DEPOSITS

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

SCHEDULE 4 – BORROWINGS

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

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

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

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

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

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

	As on 31.3.2011	As on 31.3.2010
I. In India		
Balances with banks		
Money at call and short notice		
Total		
II. Outside India	200	
Grand Total (I+II)	200	

SCHEDULE 8 – INVESTMENTS

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

SCHEDULE 9 – ADVANCES

	As on 31.3.2011	As on 31.3.2010
A.		
(i) Bills purchased and discounted	6228	
(ii) cash credits, overdrafts and loans repayable on demand	15585	
(iii) Term loans		
Total	21813	

SCHEDULE 10 – FIXED ASSETS

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

SCHEDULE 11 – OTHER ASSETS

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

SCHEDULE 12 – CONTINGENT LIABILITIES

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

REVIEW QUESTIONS

1. Describe about Business of banking companies.
2. Discuss about The Slip System of banking.
3. Discuss about Explanation of some items relating to Balance Sheet
4. What are Non-Performing Assets (NPA). How they are treated in balance sheet?
5. Give the Classification of Asset in short.
6. How Rebate on bills discounted or unexpired discounts treated in balance sheet?

FURTHER QUESTION

1. Corporate Accounting-V. K. Goyal, Ruchi Goyal
2. Corporate Accounting-Tulsian
3. Corporate Accounting-Mukherjee & Hanif, Amitabha Mukherjee Mohammed Hanif
4. Corporate Accounting-Naseem Ahmed
5. Corporate Accounting-K.K. Verma

UNIT-5 FINAL ACCOUNTS OF INSURANCE COMPANIES

CONTENTS

INTRODUCTION

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

Types of Insurance

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

1. Life Insurance

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

2. General Insurance

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

FINANCIAL STATEMENTS OF INSURANCE COMPANIES

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

Final Accounts of Life Insurance Companies

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

Revenue Account (Form A-RA)

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

FORM A – RA

Name of the insurer

Registration No. and Date of Registration with the IRDA

Revenue Account for the year ended 31st March, 20….

Policyholders' Account (Technical Account)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premiums earned – net			
	(a) Premium	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	2		
	Operating Expenses related to insurance business			
	Provision for doubtful debts	3		
	Bad debts written off			
	Provision for tax			
	Provisions (other than taxation)			
	(a) For diminution in the value of investments (net)			
	(b) Others (to be specified)			
	Total (B)			
	Benefits Paid (Net)	4		
	Interim Bonuses paid			
	Change in valuation of liability in respect of life policies			
	(a) Gross**			
	(b) Amount ceded in Reinsurance			
	(c) Amount accepted in Reinsurance			
	Total (C)			
	Surplus (Deficit) (D)=(A)-(B)-(C)			
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Other Reserves (to be specified)			
	Balance being Funds for Future Appropriations			
	Total (D)			

Notes:

*Represents the deemed realized gain as per norms specified by the Authority.

**Represents Mathematical Reserves after allocation of bonus

The total surplus shall be disclosed separately with the following details:

(a) Interim bonuses paid

(b) Allocation of bonus to policyholders

(c) Surplus shown in the Revenue Account

(d) Total Surplus: [(a)+(b)+(c)]

Profit And Loss Account (Form A-PL)

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

FORM A - PL

Name of the insurer

Registration No. and Date of Registration with the IRDA

Profit and Loss Account for the year ended 31st March, 20....

Shareholders' Account (Non-technical Account)

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

Notes to Form A-RA and A-PL:

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

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

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

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

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

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

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

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

Balance Sheet (Form A-BS)

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

FORM A - BS

Name of the insurer

Registration No. and Date of Registration with the IRDA

Balance Sheet as at 31st March, 20....

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Sources of Funds			
	Shareholders' Funds:			
	Share Capital	5		
	Reserves and Surplus	6		
	Credit/[Debit] Fair Value Change Account			
	Sub-Total			
	Borrowings	7		
	Policyholders' Funds:			
	Credit/[Debit] Fair Value Change Account			
	Policy Liabilities			
	Insurance Reserves			
	Provision for Linked Liabilities			
	Sub-Total			
	Funds for Future Appropriations			
	Total			
	Application of Funds			
	Investments			
	Shareholders'	8		
	Policyholders'	8A		
	Assets held to Cover Linked Liabilities	8B		
	Loans	9		
	Fixed Assets	10		
	Current Assets			
	Cash and Bank Balances	11		
	Advances and Other Assets	12		
	Sub-Total (A)			
	Current Liabilities	13		
	Provisions	14		
	Sub-Total (B)			
	Net Current Assets (C)=(A)-(B)			
	Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
	Debit Balance in Profit and Loss Account (Shareholders' Account)			
	Total			

CONTINGENT LIABILITIES

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

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE 1 - PREMIUM

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

SCHEDULE 2 – COMMISSION EXPENSES

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

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

SCHEDULE 3 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Employees' remuneration & welfare benefits		
2.	Travel, conveyance and vehicle running expenses		
3.	Training expenses		
4.	Rents, rates & taxes		
5.	Repairs		
6.	Printing & stationery		
7.	Communication expenses		
8.	Legal & Professional charges		
9.	Medical fees		
10.	Auditors' fees, expenses etc		
	(a) As auditor		
	(b) As adviser or in any other capacity, in respect of:		
	(i) Taxation matters		
	(ii) Insurance matters		
	(iii) Management services; and		
	(c) In any other capacity		
	Advertisement and publicity		
11.	Interest and bank charges		
12.	Others(to be specified)		
13.	Depreciation		
14.	Total		

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

SCHEDULE 4 – BENEFITS PAID [NET]

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

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

SCHEDULE 5 – SHARE CAPITAL

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

Notes:

(a) Particulars of the different classes of capital should be separately stated.

(b) The amount capitalized on account of issue of bonus shares should be disclosed.

(c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE 5A – PATTERN OF SHAREHOLDING

[As certified by the Management]

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

SCHEDULE 6 – RESERVES AND SURPLUS

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

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

SCHEDULE 7 – BORROWINGS

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

SCHEDULE 8 – INVESTMENTS-SHAREHOLDERS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	Other investments		
	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified)		
	(f) Subsidiaries		
	Investment Properties – Real Estate		
4.	Investments in Infrastructure and Social sector		
5.	Other than Approved Investments		
	Short –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	Other investments		
	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified)		
	(f) Subsidiaries		
	Investment Properties – Real Estate		
4.	Investments in Infrastructure and Social sector		
5	Other than Approved Investments		
	Total		

SCHEDULE 8 A– INVESTMENTS-POLICYHOLDERS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties – Real Estate		
4.	Investments in Infrastructure and Social sector		
5.	Other than Approved Investments		
	Short –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties – Real Estate		
4.	Investments in Infrastructure and Social sector		
5	Other than Approved Investments		
	Total		

SCHEDULE 8 B– ASSETS HELD TO COVER LINKED LIABILITIES

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties – Real Estate		
4.	Investments in Infrastructure and Social sector		
5.	Other than Approved Investments		
	Short –term Investments		
1.	Government securities and Government Guaranteed Bonds including treasury bills		
2.	Other approved securities		
3.	(a) Shares		
	(aa) Equity		
	(bb) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified)		
	(f) Subsidiaries		
	(g) Investment Properties – Real Estate		
4.	Investments in Infrastructure and Social sector		
5	Other than Approved Investments		
	Total		

SCHEDULE 9– LOANS

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

SCHEDULE 10– FIXED ASSETS

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

SCHEDULE 11– CASH AND BANK BALANCES

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

SCHEDULE 12– ADVANCES AND OTHER ASSETS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Advances		
1.	Reserve deposits with ceding companies		
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net provision for taxation)		
6.	Others (to be specified)		
	Total (A)		
	Other Assets		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business (including reinsurers)		
6.	Due from subsidiaries/holding company		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	Total (B)		
	Total (A+B)		

SCHEDULE 13– CURRENT LIABILITIES

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

SCHEDULE 14– PROVISIONS

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

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

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

Explanation of some items in final accounts

1. Claims – Claim is the amount payable by the insurance company. In life insurance business, claims may arise due to two reasons i.e., by death or maturity.

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

Determination of profit in life insurance business

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

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

As per Section 28 of the Life Insurance Corporation Act 1956, 95%of the surplus must be distributed to policyholders in the form of bonus in respect of with profit policies. The balance 5% may be utilized for such purpose as determined by the central government. Bonus payable to policyholders is calculated as follows:

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

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

Reserve for Unexpired Risk

The reserve maintained to meet any possible liability in respect of those policies which are not expired at the end of an accounting year is called reserve for unexpired risk. Opening balance for reserve for unexpired risk is added to the premium and closing balance of reserve for

unexpired risk is deducted from the premium. The net premium should be shown in revenue account. The closing balance of reserve for unexpired risk should be shown in the balance sheet under the head 'provisions'. At present reserve for unexpired risk will be created as follows: a. 50% of net premium for fire insurance, marine cargo business and miscellaneous insurances.
b. 100% of net premium for marine hull business. In addition to the above reserve, a company can maintain more reserves. Then it is called Additional Reserve.

REVIEW QUESTIONS

1. Describe the characteristics of financial statements of insurance companies.
2. Describe the explanation of some items in final accounts.
3. How determination of profit in life insurance business is calculated?
4. How reserve for unexpired risk is treated in balance sheet?

FURTHER QUESTION

1. Corporate Accounting-V. K. Goyal, Ruchi Goyal
2. Corporate Accounting-Tulsian
3. Corporate Accounting-Mukherjee & Hanif, Amitabha Mukherjee Mohammed Hanif
4. Corporate Accounting-Naseem Ahmed
5. Corporate Accounting-K.K. Verma

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1. Corporate Accounting-V. K. Goyal, Ruchi Goyal
2. Corporate Accounting-Tulsian
3. Corporate Accounting-Mukherjee & Hanif, Amitabha Mukherjee Mohammed Hanif
4. Corporate Accounting-Naseem Ahmed
5. Corporate Accounting-K.K. Verma
6. Corporate Accounting- S N Maheshwari & S K Maheshwari
7. Corporate Accounting-Rajasekaran & Lalitha