

III B.COM

CORPORATE ACCOUNTING

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UNIT III

FINAL ACCOUNTS OF COMPANIES

The financial statements of an organization made up at the end of an accounting period, usually the fiscal year.

For a manufacturer, the final accounts consist of

- (1) manufacturing account,
- (2) trading account,
- (3) profit and loss account, and
- (4) profit and loss appropriation account.
- (5) balance sheet

A commercial company's final accounts will include all of the above except the manufacturing account. Together, these accounts show the gross profit, net income, and distribution of net income figures of the company . .

Corporate dividend tax

Corporate dividend tax, is a kind of tax that charge on dividend paid by corporate to its share holders, hence tax on dividend in the hands of shareholders are exempted in order to avoid double taxation. The company deducts 15% tax on amount paid as dividend. This is called dividend distribution tax.

PERMISSIBLE MANAGERIAL REMUNERATION

Managerial remuneration means remuneration paid to managerial personnel like directors, managing directors, whole-time directors and manager

Category	Maximum Permissible Managerial Remuneration
Whole-Time Director (One), Managing Director (One) Manager (One)	5%
Whole-Time Director (more than one), Managing Director (more than one), Managing Director, Manager with one or more Whole-Time Director	10%
Overall Limit for Total Managerial Remuneration	11%
Part Time Director with one or more Whole-Time Director or Managing Directors	1%
Part Time Director without Whole-Time Director or Managing Directors	3%

Profit calculation for managerial remuneration

Profit before tax as per P&L Statement	xxxxxxx
Add the following items if debited to P&L Statement before arriving profit before tax	xxxx
Managerial remuneration	xxxx
Provision forBad doubtful debts	xxxx
Loss on sale/disposal/discarding of assets.	xxxx
Loss on sale of investments/ Ex-gratia to worker	xxxx
fixed assets written off/ Special depreciation	xxxx
Less the following if credited to P&L statement for arriving at profit before tax:	xxxx
Capital profit	xxxx
Profit/discount on redemption of shares or debentures	xxxx
Profit on sale of investments	xxxx
Write back of provision for doubtful debts	xxxx

Trading Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Opening stock	Xx	By Sales	xx
To Purchases	xx	(less return)	
(less return)		By Closing stock	xx
To Direct wages	xx		
To Direct expenses	xx		
Carriage inward			
Duty and clearing charges			
Fuel and energy			
Octroi duty etc.			
To Gross profit (GP) b/d	xx		
	xx		xx

Profit & Loss Account

Dr. Particulars	Amount	Cr. Particulars	Amount
To Gross loss c/d	xx	By Gross profit (GP) c/d By	xx
To General and administrative Expenses- Salaries Rent, rates and taxes, Stationary and printing, Telephone bill, General expenses, Trade expenses , Insurance premium , Loss by fire, theft, etc. Discount allowed , Office lighting , Depreciation, Bad debt written off, Repairs , Audit fee Preliminary expenses written ,	xx	Other income Rent received Discount received (Cr.) Sale of scrap material Commission received Interest received Dividend received Bad debt recovered	xx
To Selling and distribution expenses- Carriage outward, Packaging material, Salesman commission, Conveyance Advertisement, Export duty etc.	xx		
To Financial Expenses - Interest paid, Tax paid etc.	xx		
To Net profit (NP) b/d	xx		
	xx		xx

Profit and Loss Appropriation Account.

Meaning - It is a special account that a firm prepares to show the distribution of profits/losses among the partners or partner's capital.

Appropriation is the act of setting aside money for a specific purpose. In accounting, it refers to a breakdown of how a firm's profits are divided up, or for the government, an account that shows the funds a government department has been credited with.

What is the difference between P&L and P&L appropriation account?

The difference between P&L and P&L appropriation account is that while P&L account records the profit for the year, P&L appropriation account records the uses of the profit by distinguishing the activities for which the profits will be distributed to.

PROFIT AND LOSS APPROPRIATION ACCOUNT FOR THE YEAR ENDED

Dr.

Cr.

	Rs.		Rs.
To Transfer to Reserves		By Balance brought forward	
To General Reserve		From last year	
To Sinking Fund		By Net Profit from the Profit	
To Expenses of Last year		And Loss A/c	
To Interim Dividend		By Transfer from Reserves	
To Proposed Dividend		By Transfer from Reserves no	
To Surplus Carried to Balance Sheet		Longer required	

Balance Sheet

Liabilities	Amount	Assets	Amount
Capital	xx	Fixed Assets	xx
Add Net Profit or		Land and building	
Less Net Loss		Plant and machinery	
Less drawings		Furniture	
Long-term loan		Fixture and fittings	
Current liability		Marketable securities	
Trade creditors/sundry	xx	Current assets	xx
creditors (Crs)		Investments	
Bills Payable (B/P)		Cash in hand	
Bank overdraft		Cash at bank	
Outstanding expenses	xx	Trade debtors/sundry	xx
e.g. Outstanding		debtors (Drs)	
Rent/Tax/Wages etc.		Bills Receivable (B/R)	
		Prepaid expenses like	
		Prepaid Rent/Tax/Wages	
	xx		xx

Problem - 1 Calculation of Managerial Remuneration

From the following information determine the maximum remuneration available to a full time director of a manufacturing company. The profit & loss account of the company showed a net profit of Rs.4000000 after making into account the following items

	Rs.
(i) Depreciation (including special depreciation of Rs.40000)	100000
(ii) Provision for income tax	200000
(iii) Donation to political parties	50000
(iv) Ex-gratia payment to a worker	10000
(v) Capital profit on sale of assets	15000

Statement of profit for the purpose of managerial remuneration

	Rs.	Rs.
Net profit (given)		4000000
<u>Add:</u> Special depreciation	40000	
Provision for income tax	200000	
Ex-gratia payment to a worker	<u>10000</u>	<u>250000</u>
		4250000
<u>Less:</u> Capital profit on sale of assets		<u>15000</u>
Net profit available for managerial remuneration		<u>4235000</u>
Remuneration to full time director at maximum 5%		
= Rs.4235000x5/100= Rs.211750		

Problem - 2 Calculation of Managerial Remuneration

Determine managerial remuneration payable to the part time director and the manager of a company from the following information. Before charging such commission the profit and loss account showed a credit balance of Rs.2305000 for the year ended 31.3.2018 after taking into account the following: Rs.

(i) Profit on sale of investments	205000
(ii) Subsidy received from government	410000
(iii) Loss on sale of fixed asset	65000
(iv) Ex-gratia to an employee	30000
(v) Compensation paid to injured workmen	75000
(vi) Provision for taxation	279000
(vii) Bonus to foreign technicians	312000
(viii) Multiple shift allowance	100000
(ix) Special depreciation	75000
(x) Capital expenditure	510000

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

Statement of profit for the purpose of managerial remuneration

	Rs.	Rs.
Net profit (given)		2305000
<u>Add:</u> Capital expenditure	510000	
Special depreciation	75000	
Provision for taxation	279000	
Ex-gratia payment to a worker	<u>30000</u>	<u>894000</u>
		3199000
<u>Less:</u> Capital profit on sale of investments		<u>205000</u>
Net profit available for managerial remuneration		<u>2994000</u>
Director remuneration = $\text{Rs.}2994000 \times 1/100 =$		29940
Managers remuneration = $\text{Rs.}2994000 \times 5/100 =$		<u>149700</u>
Total managerial remuneration =		<u>179640</u>

Problem - 3 Calculation of Managerial Remuneration

The manager of Slow Ltd., is entitled to get a salary of Rs.2500 per month plus 1% commission on the net profits after such salary and commission. The following is the profit and loss of the company on 31.3.18

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To salaries	192500	By gross profit	900000
To general expenses	74000	By subsidy from government	60000
To depreciation	82000	By profit on sale of assets	100000
To expenditure on research cost of apparatus	14000	cost price Rs.250000 and written down value Rs.180000	
To manager's salary	30000		
To manager's commission	6000		
To provision for bad debts	17500		
To provision for income tax	240000		
To proposed dividend	100000		
To balance c/d	304000		
	1060000		1060000

Depreciation as per income tax rules amounted to Rs.81000. Calculate the remuneration payable to the manager.

Statement of profit for the purpose of managerial remuneration

	Rs.	Rs.
Net profit (given)		304000
<u>Add:</u> Depreciation (Rs.82000-81000)	1000	
Expenditure on research	14000	
Manager's salary	30000	
Manager's commission	6000	
Provision for bad debts	17500	
Provision for income tax	240000	
Proposed dividend	<u>100000</u>	<u>408500</u>
<u>Less:</u> Capital profit on sale of asset (Rs.250000-180000 = 70000)		712500
		<u>30000</u>
Net profit available for managerial remuneration		<u>682500</u>
 (i) Manager's commission = $\text{Rs.}682500 \times 5/105 =$		32500
(ii) Salary already paid =	30000	
Commission payable = $\text{Rs.}682500 - 30000 \times 1/101 =$	<u>6460</u>	
Company must recover from manager $\text{Rs.}36000 - 32500 = \text{Rs.}3500$ because he should be paid only Rs. 32500 as commission as per companies act.	<u>36460</u>	

Problem - 4 Calculation of Managerial Remuneration Assignment

From the following profit and loss account of Apple Ltd for 31.12.2019, calculate commission due to managing director at 5% of net profit. Salary of managing director is to be treated as part payment of the commission.

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To opening stock	11000	By sales	170000
To bonus (includes Rs.500 for 2018)	5000	By closing stock	15000
To directors fees	3000	By other income	
To managing director salary	2000	Discount	2000
commission	1000	Profit on sale of fixed assets	1000
To development rebate reserve	800		
To provision for taxation	3000		
To establishment expenses	40000		
To loss on sale of investment	200		
To net profit	122000		
	188000		188000

The book value of the fixed assets sold was Rs.2000 and the original cost was Rs.2600.

Problem - 5 Preparation of Profit & Loss Appropriation Account

The accounts of Titan Ltd., showed an amount of Rs.300000 to the credit of profit and loss account on 31.3.2018 out of which the directors decided to place Rs.60000 to general reserve and Rs.42000 to debenture redemption fund. At the annual general meeting held on 15.6.2018, it was decided to place Rs.20000 to development reserve and to pay a bonus of 2.5% of the profit to the directors additional remuneration.

The payment of the half yearly dividends on Rs.500000 6% cumulative preference shares on 30.9.2017 and 31.3.2018 was confirmed and a dividend @ 10% was declared on the equity share capital of the face value of Rs.600000. The balance of profit & loss account is to be carried forward to next year. Prepare Profit and Loss Appropriation Account.

Profit & Loss Appropriation Account

Dr.	Rs.	Cr.	Rs.
To general reserve	60000	By net profit as per	300000
To debenture redemption fund	42000	profit & loss	
To development reserve	20000	account	
To directors remuneration (Rs.300000x2.5/100)	7500		
To preference share dividend (Rs.500000x6/100)	30000		
To equity share dividend (Rs.600000x10/100)	60000		
To corporate dividend tax (Rs.30000+60000x15/100)	13500		
To balance of profit carried forward to balance sheet(b.f.)	67000		
	300000		300000

Problem - 6 Preparation of Profit & Loss Appropriation Account

Nathi Ltd., has a credit balance on P & L account of Rs. 300000 on 1.4.2017 and the net profit for the year 2017-18 is Rs.3000000. It was decided that the following decisions be carried out regarding provisions, reserves and dividends:

(i) General reserve Rs.350000

(ii) Investment allowance reserve Rs.350000

(iii) Provision for taxation @ 50%

(iv) Dividend equalisation fund account Rs.200000

(v) Dividend on 10% preference shares of Rs.2000000

(vi) Dividend at 15% on 300000 equity shares of Rs.10 each fully paid.

Prepare Profit & Loss Appropriation Account and give journal entries for the payment of dividend

Profit & Loss Account

Dr.	Rs.	Cr.	Rs.
To provision for taxation (Rs.3000000x50/100)	1500000	By net profit before tax	3000000
To net profit c/d	1500000		
Journal entries	3000000		3000000

1. Proposed equity dividend A/c Dr.	450000	
Proposed preference dividend A/c Dr.	200000	
To equity dividend payable A/c		450000
To preference dividend payable A/c		200000
(Being preference and equity dividend declared)		

2. Dividend bank A/c Dr.	650000	
To bank A/c		650000
(Being dividend amount transferred to dividend bank)		

3. Equity dividend A/c Dr.	450000	
Preference dividend A/c Dr.	200000	
To Dividend bank A/c		650000
(Being preference and equity dividend paid)		

4. Profit & Loss Appropriation A/c Dr.	97500	
To corporate dividend tax A/c		97500
(Being corporate dividend tax provided)		

Profit & Loss Appropriation Account

Dr.	Rs.	Cr.	Rs.
To general reserve	350000	By balance b/d	300000
To investment allowance reserve	350000	By net profit after	1500000
To dividend equalization fund	200000	tax	
To proposed preference	200000		
dividend($\text{Rs.}2000000 \times 10/100$)			
To proposed equity dividend	450000		
($\text{Rs.}3000000 \times 15/100$)			
(300000 shares \times Rs.10 = Rs.3000000)			
To corporate dividend tax	97500		
($\text{Rs.}200000 + 450000 \times 15/100$)			
To balance of profit carried	152500		
forward to balance sheet (b.f.)			
	1800000		1800000

Problem - 7 Preparation of Profit & Loss Appropriation Account Assignment

Kushi Ltd., had Rs.2100000 on 31.3.2018 after making provision for depreciation and taxation Rs.130400, profit was brought forward from last year. Following recommendations were made by the directors of the company to appropriate profits.

- (i) To transfer Rs.630000 to general reserve.
- (ii) To pay Rs.85000 as ex-gratia bonus to employees.
- (iii) To declare dividend @ 5% on equity shares.
- (iv) To transfer Rs.45000 to staff gratuity reserve.
- (v) To transfer Rs.50000 to development rebate reserve.
- (vi) To transfer Rs.90000 to deferred taxation reserve.

The company's capital consisted of 100000 equity shares of Rs.10 each fully paid. For the year ending at 31.3.2018 the directors transferred Rs.40000 to dividend equalization reserve and Rs.30000 to debenture redemption fund account. Prepare Profit and Loss Appropriation Account.

Problem - 8 Prepare Trading and Profit and Loss Account and Balance Sheet

The Alfa manufacturing Company Limited was registered with a nominal capital of Rs. 6, 00,000 in Equity Shares of Rs 10 each. The following is the list of balances extracted from its books on 31st December, 2014:

Particulars	Rs.	Particulars	Rs.
Wages	84865	Salary	14500
Calls in arrears	7500	Directors fees	5725
Premises	300000	Bad debts	2110
Plant & machinery	330000	Debenture interest paid	9000
Interim dividend paid on 1.4.2014	37500	Subscribed capital	400000
Stock on 1.1.2014	75000	6% Debentures	300000
Fixtures	7200	Profit & loss account (Cr.)	14500
Sundry debtors	85000	Sundry creditors	38000
Goodwill	25000	Bills payable	50000
Cash in hand	750	Sales	415000
Cash at bank	39900	General reserve	25000
Purchases	185000	Bad debts reserve 1.4.2014	3500
Preliminary expenses	5000	Freight and carriage	13115
General expenses	16835		

Adjustments :

- Depreciate Plant and Machinery by 10%.
- Write off Rs 500 from Preliminary Expenses.
- Provide half year's Debenture interest due.
- Leave Bad and Doubtful Debts Reserve at 5% on Sundry Debtors.
- Stock on 31st December, 2014, was Rs. 95,000.

Prepare final account of the company.

Trading & Profit and Loss a/c of Alpha Manufacturing Company
for the year ended 31.12. 2014

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To opening stock	75000	By sales	415000
To purchases	185000	By closing stock	95000
To wages	84865		
To freight and carriage	13115		
To gross profit c/d (bal.fig.)	152020		
	510000		510000

To salaries	14500	By gross profit	152020
To interest on deb. 9000			
+ outstanding <u>9000</u>	18000		
(Rs.300000x6/100 =18000/2)			
To general expenses	16835		
To preliminary expenses	500		
To directors fees	5725		
To provision for bad debts			
(Rs.87000x5/100) = 4350			
+ bad debts = <u>2110</u>			
6460			
-Existing provision = <u>3500</u> (Bad debts	2960		
reserve)			
To depreciation on P & M	33000		
(Rs.330000x10/100)			
To net profit (bal.fig.)	60500		
	152020		152020

Profit and Loss Appropriation a/c

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To interim dividend	37500	By balance b/d	14500
To corporate dividend tax (Rs. 37500x15/100)	5625	By net profit	60500
To profit transferred to balance sheet (bal.fig.)	31875		
	75000		75000

Balance sheet of Alpha Manufacturing Company as on 31.12.2014

Liabilities	Rs.	Assets	Rs.
<u>Share capital:</u>		<u>Fixed Assets:</u>	
Authorized - 60000 equity shares of Rs.10 each	<u>600000</u>	Goodwill	25000
Subscribed - 40000 equity shares of Rs.10 each	400000	Premises	300000
Less: calls in arrears	<u>7500</u>	Plant & machinery	330000
	392500	-Depreciation	<u>33000</u>
		Fixtures	7200
<u>Reserves & Surplus:</u>		<u>Current Assets:</u>	
General reserve	25000	Stock	95000
Profit and loss account	31875	Debtors	87000
<u>Secured loans:</u>		-Provision for doubtful debts	<u>4350</u>
6% Debentures	300000	Cash in hand	750
<u>Current liabilities :</u>		Cash at bank	39900
Sundry creditors	50000	<u>Miscellaneous expenditure :</u>	
Bills payable	38000	Preliminary expenses	4500
Corporate dividend tax	5625	(Rs.5000-500)	
<u>Outstanding expenses</u>			
interest on debentures	9000		
	852000		852000

Problem - 9 Prepare Trading and Profit and Loss Account and Balance Sheet

The authorized capital of Inter-State Distributors Ltd. is Rs 7,50,000, consisting of 3,000 6% cumulative preference shares of Rs 100 each and 4500 equity shares of Rs.100 each. The following is the trial balance drawn up on 31st December 2015:

Dr.	Rs.	Cr.	Rs.
Goodwill	100000	Paid up capital :	
Debtors	167500	3000 6 % cumulative preference shares	300000
Freehold premises at cost	390000	3000 equity shares(Rs.75 called up)	225000
Stock on 1.1.2015	241500	5% mortgage debentures (secured on freehold properties)	210000
Salaries	103500	Creditors	125520
Delivery expenses	102000	General reserve	82725
Rent & taxes	38250	Profit & loss a/c	58500
General expenses	21000	Reserve for taxation	8800
Furniture at cost	75000	Sales	918600
Purchases	476500	Share forfeiture account	2000
Bills receivable	6000		
Freight and carriage inward	3750		
Investments 600 shares of Rs.100 each in Sunrise ltd.,	60000		
Debenture interest –half year	5250		
Final dividend for 2014	20250		
Preference dividend-half year	9000		
Balance at bank in current a/c	97500		
Cash in hand	14145		
	1931145		1931145

Adjustments :

- (a) The value of stock on 31st December 2015 was Rs 2, 15,000.
 - (b) Depreciation on freehold premises is to be provided at 2 ½ % and on furniture at 6%.
 - (c) The directors propose to pay the second half year's dividend on preference shares and a 10% dividend on equity shares.
 - (d) Shares have been forfeited on non-payment of Rs. 35 per share.
- You are required to prepare final accounts of the company.

Trading & Profit and Loss a/c of Inter-State Distributors Ltd.
for the year ended 31.12. 2015

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To opening stock	241500	By sales	918600
To purchases	476500	By closing stock	215000
To freight and carriage	3750		
To gross profit c/d (bal.fig.)	411850		
	1133600		1133600

To salaries	103500	By gross profit	411850
To delivery expenses	102000		
To rent and rates	38250		
To general expenses	21000		
To debenture interest 5250			
+ outstanding <u>5250</u>	10500		
(Rs.210000x5/100=Rs.10500-5250)			
To depreciation:			
freehold pre.(Rs.390000x2.5/100)	9750		
furniture (Rs.75000x6/100)	4500		
To net profit (bal.fig.)	122350		
	411850		411850

Profit and Loss Appropriation a/c

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To preference dividend 9000 + o/s. pre. dividend <u>9000</u> (Rs.300000x6/100= Rs.18000-9000)	18000	By balance b/d 58500 -final dividend <u>20250</u> 2014	38250
To equity dividend (Rs.225000x10/100)	22500	By net profit	122350
To corporate dividend tax (Rs.22500 +18000x15/100)	6075		
To profit transferred to balance sheet (bal.fig.)	114025		
	160600		160600

Balance sheet of Inter-State Distributors Ltd. for the year ended 31.12. 2015

Liabilities	Rs.	Assets	Rs.
<u>Share capital:</u>		<u>Fixed Assets:</u>	
Authorized capital :		Goodwill	100000
3000 6% cumulative preference shares of Rs.100 each	<u>300000</u>	Freehold Premises	390000
4500 Equity shares of Rs.100 each	<u>450000</u>	Less :depreciation	<u>9750</u>
Paid up capital :		Furniture	75000
3000 6% preference shares of Rs.100 each	300000	Less :depreciation	<u>4500</u>
3000 Equity shares of Rs.100 each Rs.75 paid up	225000	Investments 600sharesxRs.100	60000
Share forfeiture -50shares	2000	<u>Current Assets:</u>	
<u>Reserves & Surplus:</u>		Stock	215000
General reserve	82725	Debtors	167500
Profit and loss account	114025	Cash in hand	14145
<u>Secured loans:</u>		Cash at bank	97500
5% First mortgage Debentures	210000	Bills receivable	6000
<u>Current liabilities : Creditors</u>	125520		
<u>Provisions : Provision for tax</u>	8800		
Proposed preference dividend	9000		
Proposed equity dividend	22500		
Corporate dividend tax	6075		
Outstanding exp. Interest o/s	5250		
	1110895		1110895

Calculation of no. of shares forfeited

called up amount = Rs.75 per share

non payment = Rs.35 per share

paid up amount = Rs.40 per share

number of shares forfeited = $\text{Rs.}2000 / \text{Rs.}40$
= 50 shares

Problem - 10 Prepare Trading and Profit and Loss Account and Balance Sheet

Moon Ltd., has an authorized capital of Rs.500000 divided into 5000 equity shares of Rs.100 each on 31.12.2016 of which 2500 shares were fully paid. The following trial balance has been provided.

Dr.	Rs.	Cr.	Rs.
Opening stock	50000	Sales	325000
Purchases	200000	Discount received	3150
Wages	70000	Profit & loss account	6220
Discount allowed	4200	Creditors	35200
Insurance (upto 31.3.2017)	6720	Reserves	25000
Salaries	18500	Loan from managing director	15700
Rent	6000	Share capital	250000
General expenses	8950		
Printing	2400		
Advertisements	3800		
Bonus	10500		
Debtors	38700		
Plant	180500		
Furniture	17100		
Bank	34700		
Bad debts	3200		
Calls in arrears	5000		
	660270		660270

Adjustments :

- (i) Closing stock was valued at Rs.191500
 - (ii) Depreciation on plant is to be provided at 15 % and on furniture at 10%.
 - (iii) The directors declared interim dividend on 15.8.2016 for six months ending 30.06.2016 @ 6 %
 - (iv) A tax provision of Rs.8000 is considered necessary.
- Prepare final accounts of the company.

Trading & Profit and Loss a/c of Moon Ltd.
for the year ended 31.12. 2016

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To opening stock	50000	By sales	325000
To purchases	200000	By closing stock	191500
To wages	70000		
To gross profit c/d (bal.fig.)	196500		
	516500		516500

To discount allowed	4200	By gross profit	196500
To insurance	6720	By discount received	3150
- prepaid (Rs.6720x3/12)	<u>1680</u>		
To salaries	18500		
To rent	6000		
To general expenses	8950		
To printing	2400		
To advertising	3800		
To bonus	10500		
To bad debts	3200		
To depreciation:			
plant.(Rs.180500x15/100)	27075		
furniture (Rs.17100x10/100)	1710		
To provision for tax	8000		
To net profit (bal.fig.)	100275		
	199650		199650

Profit and Loss Appropriation a/c

Dr.	Particulars	Rs.	Cr.	Particulars	Rs.
	To interim dividend (2500 shares x Rs.100 =Rs.250000- Rs.5000 (calls in arrear)=Rs.245000x6/100)	14700		By balance b/d	6220
	To corporate dividend tax (Rs.14700x15/100)	2205		By net profit	100275
	To profit transferred to balance sheet (bal.fig.)	89590			
		106495			106495

Balance sheet of Moon Ltd. for the year ended 31.12. 2016

Liabilities	Rs.	Assets	Rs.
<u>Share capital:</u>		<u>Fixed Assets:</u>	
Authorized capital :		Plant	390000
5000 Equity shares of Rs.100 each	<u>500000</u>	Less :depreciation	<u>27075</u>
Issued capital :		Furniture	17100
2500 Equity shares of		Less :depreciation	<u>1710</u>
Rs.100 each	250000		15390
Less : calls in arrears	<u>5000</u>	<u>Current Assets:</u>	
	245000	Stock	191500
<u>Reserves & Surplus:</u>		Debtors	38700
Reserve	25000	Bank	34700
Profit and loss account	89590	Prepaid insurance	1680
Unsecured loans – loan from M.D.	15700		
<u>Current liabilities :</u>			
Creditors	35200		
<u>Provisions :</u>			
Provision for tax	8000		
Interim dividend payable	14700		
Corporate dividend tax	2205		
	435395		435395

Problem - 11 Prepare Trading and Profit and Loss Account and Balance Sheet

Orange Ltd., was registered with a nominal capital of Rs.1200000 in equity shares of Rs.10 each .
The following trial balance has been extracted on 31.03.2018.

Dr.	Rs.	Cr.	Rs.
Premises	600000	Sales	830000
Stock on 1.4.2017	150000	6% Debentures	600000
Furniture	14400	Profit & Loss account	29000
Calls in arrears	15000	Bills payable	76000
Plant & machinery	660000	Sundry creditors	100000
Interim dividend paid	75000	General reserve	50000
Sundry debtors	174000	Provision for doubtful debts (1.4.17)	7000
Goodwill	68000	Subscribed, called up & paid up capital	800000
Cash and bank balances	63300		
Purchases	370000		
Preliminary expenses	10000		
Wages	169730		
General expenses	13670		
Advertising	20000		
Freight	26230		
Salaries	29000		
Directors fees	11450		
Bad debts	4220		
Debenture interest paid	18000		
	2492000		2492000

The following Adjustments have to be made :

- (i) Stock on 31.3.2018 was valued at Rs.190000
- (ii) Write off Rs. 2000 from preliminary expenses.
- (iii) Provide for half years debenture interest.
- (iv) The provision for doubtful debts on 31.3.2018 should be equal to 1% sales.
- (v) Directors fees are outstanding to the extent of Rs.550 and salaries Rs.1000
- (vi) Depreciate plant by 5%, premises by 2% and write off Rs.2400 on furniture.
- (vii) Goods to the value of Rs.3000 were distributed as free samples during the year,
but no entry was made in this respect. Prepare final accounts of the company.

Trading & Profit and Loss a/c of Orange Ltd.
for the year ended 31.3. 2018

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To opening stock	150000	By sales	830000
To purchases 370000		By closing stock	190000
Less: free samples <u>3000</u>	367000		
To wages	169730		
To freight	26230		
To gross profit c/d (bal.fig.)	307040		
	1020000		1020000

To salaries	29000		By gross profit	307040
Add : outstanding	<u>1000</u>	30000		
To general expenses		13670		
To directors fees	11450	12000		
Add : outstanding	<u>550</u>			
To advertisement	20000	23000		
Add: free samples	<u>3000</u>			
To debenture interest	18000	36000		
Add: outstanding	<u>18000</u>			
To bad debts	4220			
Add: new provision	<u>8300</u>			
(Rs.830000x1/100)	12520			
Less : existing provision	<u>7000</u>	5520		
To depreciation:				
plant.(Rs.660000x5/100)		33000		
premises (Rs.600000x2/100)		12000		
furniture		2400		
To preliminary expenses written off		2000		
To net profit (bal.fig.)		137450		
		307040		307040

Profit and Loss Appropriation a/c

Dr.	Particulars	Rs.	Cr.	Particulars	Rs.
	To interim dividend	75000		By balance b/d	29000
	To corporate dividend tax (Rs.75000x15/100)	11250		By net profit	137450
	To profit transferred to balance sheet (bal.fig.)	80200			
		166450			166450

Balance sheet of Orange Ltd. for the year ended 31.03.2018

Liabilities	Rs.	Assets	Rs.
<u>Share capital:</u>		<u>Fixed Assets:</u>	
Authorized capital :		Goodwill	68000
120000 Equity shares of Rs.10 each	<u>1200000</u>	Plant	660000
Issued capital :		Less :depreciation	<u>33000</u>
80000 Equity shares of			627000
Rs.10 each	800000	Premises	600000
Less : calls in arrears	<u>15000</u>	Less : depreciation	<u>12000</u>
	785000		588000
<u>Reserves & Surplus:</u>		Furniture	14400
General Reserve	50000	Less :depreciation	<u>2400</u>
Profit and loss account	80200		12000
<u>Secured loans</u> – 6% Debentures	600000	<u>Current Assets:</u>	
		Stock	190000
<u>Current liabilities :</u>		Debtors	174000
Creditors	100000	Less: provision for	<u>8300</u>
Bills payable	76000	doubtful debts	165700
Salaries outstanding	1000	Cash and Bank balances	63300
Directors fees outstanding	550	<u>Miscellaneous expenditure</u>	
Corporate dividend tax	11250	Preliminary expenses	10000
		Less: written off	<u>2000</u>
			8000
	1722000		1722000

Problem - 12 Prepare Trading and Profit and Loss Account and Balance Sheet

Big Bull Ltd., has a nominal capital of Rs.600000 divided into equity shares of Rs.10 each . The following trial balance has been extracted on 31.03.2019.

Dr.	Rs.	Cr.	Rs.
Calls in arrear	7500	6% Debentures	300000
Premises (Rs.60000 added on 1.7.19)	360000	Profit & loss account on 1.1.2019	14500
Machinery	300000	Creditors	50000
Interim dividend paid	7500	General reserve	25000
Purchases	185000	Share capital (called up)	460000
Preliminary expenses	5000	Bills payable	38000
Freight	13100	Sales	415000
Directors fees	5740	Provision for doubtful debts	3500
Bad debts	2110		
4% government securities	60000		
Stock on 1.1.2019	75000		
Furniture	7200		
Sundry debtors	87000		
Goodwill	25000		
Cash	750		
Bank	39900		
Wages	84800		
General expenses	16900		
Salaries	14500		
Debenture interest	9000		
	1306000		1306000

Prepare final accounts of the company for the year ended 31.12.2019 in the prescribed form after taking into account the following adjustments :

- (i) Depreciate machinery by 10% and furniture by 5%
- (ii) Write off half of preliminary expenses.
- (iii) Wages include Rs.10000 paid for the construction of a compound wall to the premises and no adjustment was made.
- (iv) Provide 5% for bad debt on sundry debtors.
- (v) Transfer Rs.10000 to general reserve.
- (vi) Provide for income tax Rs.25000
- (vii) Stock on 31.12.2019 was Rs.101000.

Trading & Profit and Loss a/c of Big Bull Ltd.
for the year ended 31.12. 2019

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To opening stock	75000	By sales	415000
To purchases	185000	By closing stock	101000
To wages 84800			
Less : wages for <u>10000</u>	74800		
premises			
To freight	13100		
To gross profit c/d	168100		
(bal.fig.)			
	516000		516000

To directors fees	5740	By gross profit	168100
To bad debts 2110			
Add: new provision <u>4350</u>			
(Rs.87000x5/100) 6460			
Less: existing provision <u>3500</u>	2960		
To preliminary expenses written off (Rs.5000x1/2) 2500	2500		
To general expenses 16900	16900		
To salaries 14500	14500		
To debenture interest 9000 (Rs.300000x6/100=18000)			
Add: outstanding <u>9000</u>	18000		
To depreciation :			
Machinery (Rs.300000x10/100) (Rs.360000- Rs.60000 = Rs.300000)	30000		
Furniture (Rs.7200x5/100) 360	360		
To provision for income tax 25000	25000		
To net profit (bal.fig.) 52140	52140		
	168100		168100

Profit and Loss Appropriation a/c

Dr.	Particulars	Rs.	Cr.	Particulars	Rs.
	To interim dividend	7500		By balance b/d	14500
	To corporate dividend tax (Rs.7500x15/100)	1125		By net profit	52140
	To general reserve	10000			
	To profit transferred to balance sheet (bal.fig.)	48015			
		66640			66640

Balance sheet of Big Bull Ltd. for the year ended 31.12.2019

Liabilities	Rs.	Assets	Rs.
<u>Share capital:</u>		<u>Fixed assets:</u>	
Authorized capital :	<u>600000</u>	Premises	360000
60000 shares of Rs.10		Add: wrong debit to wages	<u>10000</u>
Issued capital :		Machinery	300000
46000 Equity shares of		Less: depreciation	<u>30000</u>
Rs.10 each	460000	Furniture	7200
Less : calls in arrears	<u>7500</u>	Less: depreciation	<u>360</u>
	452500	Goodwill	25000
		Investments – 4% Govt. securities	60000
<u>Reserves & Surplus:</u>		<u>Current assets:</u>	
General Reserve (Rs.25000+10000)	35000	Sundry debtors	87000
Profit and loss account	48015	Less : provision	<u>4350</u>
<u>Secured loans :</u>		Cash	750
6% Debentures	300000	Bank	39900
<u>Current liabilities :</u>		Closing stock	101000
Creditors	50000	<u>Miscellaneous expenditure:</u>	
Bills payable	38000	Preliminary expenses	5000
Provision for income tax	25000	Less: written off	<u>2500</u>
Corporate dividend tax	1125		2500
Outstanding Debenture interest	9000		
	958640		958640

Problem - 13 Prepare Trading and Profit and Loss Account and Balance Sheet Assignment

Following is the trial balance extracted from the books of Foster Company Ltd., on 1.1.2019

Dr.	Rs.	Cr.	Rs.
Stock on 1.1.2019	7000	Authorized capital:	
Purchases	30000	2,000 equity shares of	200000
Wages	8000	Rs. 100 each	
Carriage	2000	Issued share capital	
Building	50000	Rent received	100000
Motor vehicle	37000	Sales	3500
Debtors	9600	Creditors	105000
Salaries	15000	Bank overdraft	16800
Bank interest and charges	400	P & L a/c	12200
Travelling expenses	4000		22500
Machinery	80000		
Discount allowed	1500		
Cash in hand	1000		
Printing	2000		
Repairs	1500		
Directors remuneration	2500		
Audit fees	500		
Calls in arrears	3000		
Interim dividend	5000		
	260000		260000

Adjustments:

- a) Closing stock on 31.12.2019 was 6,000.
- b) Outstanding wages were Rs. 1,000.
- c) Depreciate machinery by Rs. 2,000, building by 7,000 and motor vehicle by Rs. 620.
- d) Directors declared a final dividend of 20% on paid up capital
- e) Create a provision for bad debts at 5% on debtors.

You are required to prepare profit and loss account for the year ended 31.12.2019 and balance sheet as on that date.

Problem - 14 Prepare Trading and Profit and Loss Account and Balance Sheet

The Silver Ore Co Ltd., was formed on 1.4.2017 with an authorized capital of Rs.600000 in shares of RS.10 each of these 52000 shares had been issued and subscribed but there were calls in arrear on 100 shares. From the following the trial balance prepare final accounts of the company.

Dr.	Rs.	Cr.	Rs.
Cash at bank	105500	Share capital	519750
Plant	40000	Sale of Silver	179500
Mines	220000	Interest on F.D. upto 31. December	3900
Promotion expenses	6000	Dividend on investment	3200
Advertising	5000		
Cartage on plant	1800		
Furniture and buildings	20900		
Administrative expenses	28000		
Repairs to plant	900		
Coal and oil	6500		
Royalties paid	10000		
Railway truck and wagons	17000		
Wages of mines	74220		
Cash	530		
Investment – shares of tin mines	80000		
Brokerage on the above	1000		
6% F.D. in Syndicate Bank	89000		
	706350		706350

Adjustments:

- a) Depreciate plant and railways by 10%, furniture and buildings by 5%
- b) Write of a third of promotion expenses.
- c) Value of silver ore on 31.3.2018 was Rs.15000.
- d) The directors forfeited on 31.12.2017 100 shares on which only Rs.7.50 has been paid.

Trading & Profit and Loss a/c of Silver Ore Company Ltd.
for the year ended 31.03. 2018

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To royalties	10000	By sales	179500
To wages of mines	74220	By stock of silver	15000
To coal and oil	6500		
To depreciation on plant (41800x10/100)			
(Rs.40000+1800 =41800)	4180		
on railway (17000x10/100)	1700		
To repairs to plant	900		
To gross profit c/d (bal.fig.)	97000		
	194500		194500

To administrative expenses	28000	By gross profit	97000
To promotion expenses(Rs.6000x1/3)	2000	By interest on F.D. 3900	
To advertising	5000	+ accrued <u>1335</u>	5235
To depreciation on furniture (Rs.20900x5/100)	1045	(Rs.89000x6/100x3/12) Jan, Feb, March	
To net profit (bal.fig.)	69390	By dividend on investment	3200
	105435		105435

Balance sheet of Silver Ore Company Ltd. for the year ended 31.03.2018

Liabilities	Rs.	Assets	Rs.
<u>Share capital:</u>		<u>Fixed assets:</u>	
<u>Authorized capital :</u>	<u>600000</u>	Mines	220000
60000 shares of Rs.10		Railway truck & wagons	17000
		Less: deprecation	<u>1700</u>
			15300
<u>Issued capital :</u>	<u>520000</u>	Plant	41800
52000 Equity shares of Rs.10 each		Less: depreciation	<u>4180</u>
			37620
<u>Subscribed capital :</u>	519750	Buildings and furniture	20900
51900 shares of Rs.10 each		Less: depreciation	<u>1045</u>
(52000shares -100 shares)	519000		19855
Add: share forfeiture	<u>750</u>	Investment - shares in tin mines	81000
(100 shares x Rs.7.50)		<u>Current Assets:</u>	
<u>Reserves & Surplus:</u>		Stock of Silver ore	15000
Profit and loss account	69390	Cash at bank	105500
		Cash in hand	530
		Accrued interest	1335
		<u>Loans and advances :</u>	
		Fixed deposit	89000
		<u>Miscellaneous expenditure:</u>	
		Promotion expenses (Rs.6000-2000)	4000
	589140		589140

Problem - 15 Prepare Trading and Profit and Loss Account and Balance Sheet Assignment

From the following the trial balance prepare final accounts of the Delhi Chemicals Ltd., for the year 2018.

Dr.	Rs.	Cr.	Rs.
Opening stock 1.1.2018	100000	Sales	135000
Purchases	55000	Bills payable	10000
Bills receivables	7500	Creditors	7500
Sales returns	5000	Purchases Returns	10000
Debtors	25000	Commission received	5000
Discount	2500	Discount received	3500
Insurance	6000	Reserve	15000
Plant & machinery	12500	Provision for doubtful debts	6000
Cash	7500	Equity share capital	75000
Bank	5000	10% Preference share capital	50000
Bad debts	4000		
Advertisement	6500		
Wages	3500		
Salary	4500		
Auditors fees	2500		
Directors fees	4000		
Investments	66000		
	317000		317000

Adjustments:

- a) Value of stock on 31.12.2018 was Rs.125000
- b) Outstanding wages Rs. 1500 and salary Rs.500
- c) Provide 5% for discount on debtors and creditors.
- d) Depreciate plant and machinery @ 10%
- e) Provide Rs.2500 on debtors for bad debts and 10% for doubtful debts.
- f) Insurance prepaid Rs.1000
- g) Transfer to reserve Rs.5000
- h) Proposed dividend 5% on equity share capital

Profit prior to Incorporation

- ❑ Profit of a business for the period prior to the date company into existence is referred to as Pre-Incorporation profit.
- ❑ Hence prior period item are those item which is done before incorporation of the company. Profit prior to incorporation is the profit earned or loss suffered during the period before incorporation.
- ❑ It is a capital profit and not legally available for distribution as dividend because a company cannot earn a profit before it comes into existence.
- ❑ Profit earned after incorporation is revenue profit, which is available for dividend. Profit of prior period and post period however divided separately because the prior period profit and loss hence always credited and charged from capital reserve A/c. Post period profit and loss thus credited and charged from Profit & Loss A/c.

- ❑ When a running business is taken over from a date prior to its incorporation/commencement, the profit earned up to the date of incorporation/commencement (incorporation, in case of private company; and commencement, in case of public company) is known as 'Pre-incorporation profit'.
- ❑ The same is to be treated as capital profit since these are profits which have been earned before the company came into existence.
- ❑ In short, the profit earned after the date of purchase of business is called 'Post-incorporation or Post-acquisition profit' and the profit earned before the date of purchase of business is termed as 'Pre-incorporation profit'.

Method of Computation of Profits/Loss Prior to Incorporation:

In order to ascertain the profit prior to incorporation a Profit and Loss Account is to be prepared at the date of incorporation. But in practice, the same set of books of accounts is maintained throughout the accounting year.

A Profit and Loss Account is prepared at the end of the year and thereafter the profits (or losses) between the two periods are allocated:

- (i) From the date of purchase to the date of incorporation or pre-incorporation period;
- (ii) From the date of incorporation to the closing of the accounting year or post-incorporation period.

Method of Accounting of Profit/Loss Prior to Incorporation:

Steps may be suggested for ascertaining profit or loss prior to incorporation:

Step I:

A Trading Account should be prepared at first for the whole period, i.e., between the date of purchase and the date of final accounts, in order to calculate the amount of gross profit.

Step II: Calculate the following two ratios:

(i) Sales Ratio:

Amount of sales should be calculated for the pre-incorporation and post-incorporation periods.

(ii) Time Ratio:

It is calculated after considering the time period, i.e., one is required to calculate the period falling between the date of purchase and the date of incorporation and the period between the date of incorporation and the date of presenting final accounts.

Step III:

A statement should be prepared for calculating the amount of net profit before and after incorporation separately on the following principle:

- (i) Gross Profit should be allocated for the two periods on the basis of sales ratio which will present the gross profit for the two separate periods, viz. pre-incorporation and post-incorporation.
- (ii) Fixed Expenses or expenses incurred on the basis of time, viz., Rent, Salary, Depreciation, Interest, etc. should be allocated for the two periods on the basis of time ratio.
- (iii) Variable Expenses or expenses connected with sales should be allocated for the two periods on the basis of sales ratio.
- (iv) Certain expenses, viz., partners' salary, directors' salary, preliminary expenses, interest on debentures, etc. are not apportioned since they relate to a particular period. For example, partners' salary is to be charged against pre-acquisition profit whereas directors' remuneration, debenture interest, etc. are to be charged against post-acquisition profit.

List of Expenses: Allocated on the basis of Sales/Turnover:

- (a) Gross Profit
- (b) Selling Expenses
- (c) Advertisement
- (d) Carriage Outwards
- (e) Godown Rent
- (f) Discount Allowed
- (g) Salesmen's Salaries
- (h) Commission to Salesmen
- (i) Promotion Expenses for Sales
- (j) Distributions Expenses (Variable Portions)
- (k) Free Samples given
- (l) Expenses incurred for After-Sale Service, etc.
- (m) Delivery Van Expenses.

List of Expenses: Allocated on the basis of Time:

(a) Office and Administration Expenses

(b) Salaries to Office Staff

(c) Rent, Rates and Taxes

(d) Depreciation on Fixed Assets

(e) Printing and Stationery

(f) Insurance

(g) Audit Fees

(h) Miscellaneous Expenses

(i) Distribution Expenses (Fixed Portion)

(j) Travelling Expenses (General)

(k) Interest of Debenture

(l) General Expenses

(m) Expenses Fixed in Nature.

Application/Accounting Treatment of Profit/Loss Prior to Incorporation:

(a) Pre-incorporation Profit:

Since “Profit prior to Incorporation” is a Capital Profit the same should be written off against:

- (i) Preliminary Expenses Account
- (ii) Formation Expenses Account
- (iii) Liquidation Expenses Account
- (iv) Write down the value of Fixed Assets, if any
- (v) Goodwill Account
- (vi) Balance, if any, transferred to Capital Reserve.

(b) Pre-incorporation Loss:

Since “Pre-incorporation Loss” is a Capital Loss the same is adjusted against

- (i) Any Capital Profit
- (ii) Debited to Goodwill Account
- (iii) Writing-off Fictitious Assets
- (iv) Capital Reserve.

Ruling/Format

In the Books of Statement of Profit Pre- and Post-incorporation

Particulars	Total	Basis of Allocations/ Apportionment	Pre-incorporation Profit		Post-incorporation Profit	
			Dr. Rs.	Cr. Rs.	Dr. Rs.	Cr. Rs.
Gross Profit	• • •	Sales Ratio	—	• • •	—	• • •
Less: Expenses and Losses						
Fixed Expense	• • •	Time Ratio	• • •	—	• • •	—
(Variable Expenses before		Sales Ratio	• • •	—	• • •	—
Incorporation)	• • •	—	• • •	—	—	—
Expenses after	• • •	—	—	—	• • •	—
Incorporation	• • •		• • •	—	• • •	—
Net Profit c/d	• • •		• • •	—	• • •	—
			• • •	• • •	• • •	• • •
Net Profit b/d	—	Actual	—	• • •	—	• • •
Dividend	—	Actual	—	• • •	—	• • •
Any Income	—		• • •	—	—	—
Net Profit	—		—	—	• • •	—
—Transferred to	—		• • •	—	—	—
Capital Reserve	—		—	—	—	—
—Net Profit	—		—	—	—	—
transferred to	—		—	—	—	—
P & L App. A/c	—		—	—	—	—
			• • •	• • •	• • •	• • •

Alternatively

Profit & Loss Account for the year ended

Dr.					Cr.				
Expenses	Basis of allocation	Pre-incorporation	Post-incorporation	Total	Incomes	Basis of allocation	Pre-incorporation	Post-incorporation	Total
		Rs.	Rs.				Rs.	Rs.	
To Fixed					By Gross b/d		• •	• •	
Expenses:	Time Ratio	• • •	• • •		- Specific Income		• •	• •	
Source					(Related to pre-incorporation				
(Adm. Exp.)					Period)				
- Variable	Sales Ratio	• • •	• • •		- Specific Income		• •	—	
Expenses					(Related to post-incorporation				
(Selling					period)				
Overheads)									
- Specific Exp.		• • •	—						
(Before in-									
corporation)									
- Specific									
Expenses		—	• • •						
(After incor-									
poration)									
Net Profit :							—	• •	
- Capital		• • •	—						
Reserve		—	• • •						
Net Profit		• • •	• • •				• • •	• • •	

Note : Students may follow any one of the two methods.

Problem 1 Computation of ratios

X Ltd. was incorporated on 1.8.2009 to take over the running business of M/s Kumar Bros. with assets from 1.4.2009. The accounts of the company were closed on 31.3.2010. The average monthly sales during the first four months of the year (2009-10) was twice the average monthly sales during each of the remaining eight months. Calculate time ratio and sales ratio.

Time ratio:

Pre-incorporation period (1.4.2009 to 1.8.2009) April, May, June = 4 months

July

Post incorporation period (1.8.2009 to 31.3.2010) Time ratio = 8 months

August, Sep., Oct., Nov., Dec., Jan., Feb., March
= 4 : 8 or 1 : 2

Sales ratio:

Average monthly sale before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post-incorporation month is x, then

Weighted sales ratio = 4 mon. \times 2x : 8 mon. \times 1x

= 8x : 8x or 1 : 1

Problem 2 Ascertaining pre and post incorporation profits

S. Ltd was registered on 1st January 2009 to buy over the business of M/s P. Ltd. as on 1st October 2008 and obtained its certificate for commencement of business on 1st February 2009. The accounts of the company for the period ended 30th September 2009 disclosed the following facts:

- (i) The turnover for the whole period amounted to Rs. 3,00,000 of which Rs. 50,000 related to the period from 1st October 2008 to 1st February 2009.
- (ii) The Trading Account showed a Gross Profit of Rs. 1,20,000.

(iii) The following items appear in the Profit and Loss Account:

	Ks.	
Directors' fees	2,000	
Auditor's fees	1,000	
Rent, Rates and Taxes etc.	5,400	
Bad Debts (of which Rs. 1,000 related to Book Debts created before 1st February 2009)	3,000	
Salaries	18,000	
Advertising	6,000	
Travelling Expenses and Salaries	9,000	
Commission on sales	1,200	}
General Expenses	2,100	
Debenture Interest	4,000	
Preliminary Expenses	2,000	
Depreciation on Plant	1,200	
Printing and Stationery	1,500	
Interest to vendors @ 12% on Rs. 50,000 from 1.10.2008 to 31.5.2009	4,000	
Prepare a statement showing the amount of profit made before incorporation and after incorporation.		

Time Ratio :

Pre incorporation - 1.10.2008 – 1.2.2009

oct., nov., dec., jan., = 4 months

Post incorporation - 1.2.2009 – 30.09.2009

Feb., mar., april, may, june, july, august, sep. = 8 months

Time ratio = 4 : 8 or 1:2

Sales Ratio :

Pre incorporation sales

= Rs.50000

Post incorporation sales = Rs.300000 - 50000

= Rs.250000

Sales ratio = 50000: 250000 or 1:5

Interest to vendors – 1.10.2008- 31.5.2009

Pre incorporation – 1.10.2008-1.2.2009 = 4 months

Post incorporation - 1.2.2009-31.5.2009 = 4 months

4:4 or 1:1

In the Books of S. Ltd.
Statement of Profit Pre- and Post-incorporation

Particulars	Amount	Basis of Apportion	Profit for the pre-incorporation period		Profit for the post-incorporation period	
			Dr. Rs.	Cr. Rs.	Dr. Rs.	Cr. Rs.
Gross profit	Rs. 1,20,000	Turnover (1: 5)		20,000		1,00,000
Less: Expenses and Losses						
Directors' fees	2,000	Actual	—		2,000	
Auditor's fees	1,000	"	—		1,000	
Rent, Rates & Taxes	5,400	Time (1 : 2)	1,800		3,600	
Bad debts	3,000	Actual	1,000		2,000	
Salaries	18,000	Time (1 : 2)	6,000		12,000	
Advertising	6,000	Turnover (1 : 5)	1,000		5,000	
Travelling Expenses	9,000	" " "	1,500		7,500	
Commission on Sales	1,200	" " "	200		1,000	
General Expenses	2,100	Time (1 : 2)	700		1,400	
Debenture Interest	4,000	Actual	—		4,000	
Preliminary Expenses	2,000	"	—		2,000	
Dep. on Plant	1,200	Time (1 : 2)	400		800	
Printing & Stationery	1,500	Time (1 : 2)	500		1,000	
Interest to vendors	4,000	Time (1 : 1)	2,000		2,000	
Net Profit Transferred to:						
— Capital Reserve			4,900		—	
— P & L Appropriate			—		54,700	
			<u>20,000</u>	<u>20,000</u>	<u>1,00,000</u>	<u>1,00,000</u>

Problem 3 Computation of ratio

Rajan a small scale industrialist decided to convert his firm into a limited company with effect from 1.4.2016. But he obtained the certificate of incorporation on 1.8.2016 and the certificate to commence business on 1.10.2016. His accounts were closed on 31.12.2016. Find out time ratio.

Solution :

Pre incorporation period – 1.4.2016 to 1.8.2016 = 4 months

(APRIL, MAY, JUNE AND JULY)

Post incorporation period – 1.8.2016 to 31.12.2016 = 5 months

(AUGUST, SEPTEMBER, OCTOBER, NOVEMBER AND DECEMBER)

Time ratio = 4 : 5

Problem 4 Computation of ratios

A company was incorporated on 1.2.2018 to purchase the business of Mars Ltd., as from 1.11.2017, there were 10 employees before incorporation but 5 more were appointed on 1.2.2018. You are required to ascertain the weighted time ratio for dividing salaries between pre and post incorporation periods, assuming that the accounts are finalized on 31.10.2018.

Solution :

There were 10 employees in the pre incorporation period ie., from 1.11.2017 to 1.2.2018
= 3 months (November, December & January)

There were 15 (10+5) employees in the post incorporation period ie., from 1.2.2018 to 31.10.2018 = 9 months (feb, mar, apr, may, june, july, aug, sep, oct,)

Weighted time ratio = 10 employees x 3 months : 15 employees x 9 months
= 30 : 135 or 2 : 9

Problem 5 Computation of ratios

A and B agreed to sell their business to a limited company from 1.1.2017 but the company was legally incorporated on 1.5.2017 and prepared final accounts on 31.12.2017. It was observed that the sales were uniform upto the date of incorporation but went up by 50% on average thereafter. Calculate the weighted sales ratio.

Solution :

Sales went up on an average by 50% after incorporation. If weightage of 1 is given to each month before incorporation, the weightage for post incorporation will be 1.5

Pre incorporation period = 1.1.2017 to 1.5.2017 = 4months

Post incorporation period = 1.5.2017 to 31.12.2017 = 8 months

Weighted sales ratio = 4 months x1 : 8 months x1.5

= 4:12 or 1 : 3

Problem 6 Computation of ratio

Mani Ltd., was formed on 1.7.2016 to acquire the business of John with effect from 1.1.2016. When the company's first accounts were prepared on 31.12.2016 the following were noted:

- (i) Sales for the year was Rs.300000
- (ii) Sales in January, February, April and May were only 50% of the annual average. Sales of August, September and December were twice the annual average.

Calculate the weighted sales ratio.

Solution:

Pre incorporation period - 1.1.2016 to 1.7.2016 = 6 months

Post incorporation period – 1.7.2016 to 31.12.2016 = 6 months

Average monthly sales = Rs.300000/12 months = Rs.25000 p.m.

Sales for jan, feb, april and may = Rs.25000 x 50/100 = Rs.12500 x 4 months = Rs.50000

Sales for aug, sep, and december = Rs.25000 x 2 = Rs.50000 x 3 months = Rs.150000

Sales for remaining 5 months ie., march, june, july, oct., nov

= Rs.300000 – 50000 - 150000 = Rs.100000/5 months = Rs.20000

Pre incorporation sales = jan, feb, march, april, may and june

= 12500 + 12500 + 20000 + 12500 + 12500 + 20000 = Rs.90000

Post incorporation sales = july, aug, sep, oct, nov and dec.

= 20000 + 50000 + 50000 + 20000 + 20000 + 50000 = Rs.210000

Sales ratio = 90000 : 210000 or 3 : 7

Problem 7 Ascertaining pre and post incorporation profits

P Ltd., was incorporated on 31.7.2017 to purchase the business of H Ltd., as on 1.4.2017.

The books of accounts disclosed the following on 31.3.2018.

- (i) Sales for the year was Rs.3210400 (1.4.2017 to 31.7.2017 Rs. 802600 and 1.7.2017 to 31.3.2018 Rs.2407800)
- (ii) Gross profit for the year Rs.412800, Managing director salary Rs.12000, Preliminary expenses written off Rs.18000, Company secretary's salary Rs.58000.
- (iii) Bad debts written off Rs.14890 (prior to 31.7.2017 Rs.4020, after 31.7.2017 Rs.10870)
- (iv) Depreciation on machinery Rs.25200, general expenses Rs.51000, advertising expenses Rs.7400, interest on debentures Rs.20000.

You are required to prepare a statement apportioning properly the net profit of the company as between (a) profits available for distribution (b) profits prior to incorporation.

Statement showing pre and post incorporation profits of P Ltd., for the year ended
31.03.2018

Particulars	Basis of apportionment	Total Rs.	Pre incorporation	Post incorporation
Gross Profit (A)	Sales ratio - 1 : 3	412800	103200	309600
<u>Expenses :</u>				
Managing directors salary	Allocation	12000	--	12000
Preliminary expenses	"	18000	--	18000
Company sec. salary	"	58000	--	58000
Interest on debentures	"	20000	--	20000
Bad debts written off	Actual	14890	4020	10870
Depreciation on machinery	Time ratio – 1:2	25200	8400	16800
General expenses	"	51000	17000	34000
Advertising	Sales ratio – 1:3	7400	1850	5550
Total expenses (B)		206490	31270	175220
Net profit	(A-B)	206310	71930	134380

Working notes:

Time ratio :

Pre incorporation 1.4.2017 to 31.7.2017 = 4 months

Post incorporation 31.7.2017 to 31.3.2018 = 8 months

Time ratio = 4 : 8 or 1 : 2

Sales ratio:

Pre incorporation sales = Rs.802600

Post incorporation sales = Rs.2407800

Sales ratio = 802600 : 2407800 or 1:3

(a) Profits available for distribution / Post incorporation profit
= Rs.134380

(a) Profits prior to incorporation = Rs.71930

Problem 8 Ascertaining pre and post incorporation profits

A co., ltd., was incorporated on 1.5.2018 to take over the business of X co., as a going concern from 1.1.2018. the profit and loss account for the year ending 31.12.2018 was given

Dr.	Rs .	Cr.	Rs.
To rent and rates	12000	By gross profit	155000
To insurance	3000		
To electricity charges	2400		
To salaries	36000		
To directors fees	3000		
To auditors fees	1600		
To commission	6000		
To advertisement	4000		
To discount	3500		
To office expenses	7500		
To carriage	3000		
To bank charges	1500		
To preliminary expenses	6500		
To bad debts	2000		
To interest on loan	3000		
To net profit	60000		
	155000		155000

The total turnover for the year ending 31.12.2018 was Rs.500000 divided into Rs.150000 for the period upto 1.5.2018 and Rs.350000 for the remaining period. Ascertain the pre and post incorporation profits.

Solution :

Time ratio :

Pre incorporation period 1.1.2018 to 1.5.2018 = 4 months

Post incorporation period 1.5.2018 to 31.12.2018 = 8 months

Time ratio = 4 : 8 or 1 : 2

Sales ratio :

Pre incorporation sales (given) = Rs.150000

Post incorporation sales (given) = Rs.350000

Sales ratio = 150000 : 350000 or 3 : 7

Statement showing pre and post incorporation profits of A Co, Ltd., for the year ended 31.12.2018

Particulars	Basis of apportionment	Total Rs.	Pre incorporation	Post incorporation
Gross profit (A)	Sales ratio – 3:7	155000	46500	108500
Expenses:				
Rent and rates	Time ratio – 1 :2	12000	4000	8000
Insurance	“	3000	1000	2000
Electricity	“	2400	800	1600
Salaries	“	36000	12000	24000
Auditors fees	“	1600	533	1067
Office expenses	“	7500	2500	5000
Bank charges	“	1500	500	1000
Interest on loan	“	3000	1000	2000
Directors fees	Allocation	3000	--	3000
Preliminary expenses	“	6500	--	6500
Commission	Sales ratio – 3: 7	6000	1800	4200
Advertisement expenses	“	4000	1200	2800
Discount	“	3500	1050	2450
Carriage	“	3000	900	2100
Bad debts	“	2000	600	1400
Total expenses (B)		95000	27883	67117
Net Profit	(A – B)	60000	18617	41383

Problem 9 Ascertaining pre and post incorporation profits

A company was incorporated on 1.5.2018 to take over the running business from 1.1.2018. The accounts were made upto 31.12.2018 as usual trading and profit and loss account gave the following result:

Dr. Particulars	Rs.	Cr. Particulars	Rs.
To opening stock	140000	By sales	1200000
To purchases	910000	By closing stock	150000
To gross profit	300000		
	1350000		1350000
To rent, rates and taxes	18000	By gross profit	300000
To directors fees	20000		
To salaries	51000		
To office expenses	48000		
To travellers commission	12000		
To discounts	15000		
To bad debts	3000		
To audit fee	8500		
To depreciation	6000		
To debenture interest	4500		
To net profit	114000		
	300000		300000

It is ascertained that the sales for November and December are one and half times the average of those for the year, whilst those for February and April are only half the average, all the remaining months having average sales. Ascertain the pre and post incorporation profits.

Solution:

Time ratio:

Pre incorporation period - 1.1.2018 to 1.5.2018 = 4 months

Post incorporation period – 1.5.2018 to 31.12.2018 = 8 months

Time ratio = 4 : 8 or 1 : 2

Sales ratio:

Average sales = Rs.1200000/12 months = Rs.100000

Pre incorporation sales = Jan. & March (avg.sales) (Rs.100000x2) = Rs.200000

Feb. & April (1/2 of avg.sales) (Rs.100000x1/2x2) = Rs.100000

Rs.300000

Post incorporation sales May to Oct. avg.sales Rs.100000x6 = Rs. 600000

Nov. & Dec. Rs.100000x1.5 timesx 2 months = Rs. 300000

Rs.900000

Sales ratio = Rs.300000 : 900000 or 1 : 3

Statement showing pre and post incorporation profits for the year ended
31.12.2018

Particulars	Basis of apportionment	Total Rs.	Pre incorporation	Post incorporation
Gross profit (A)	Sales ratio – 1:3	300000	75000	225000
Expenses:				
Rent , rates & Insurance	Time ratio – 1 :2	18000	6000	12000
Salaries	“	51000	17000	34000
Office expenses	“	48000	16000	32000
Audit fees	“	8500	2833	5667
Depreciation	“	6000	2000	4000
Directors fees	Allocation	20000	--	20000
Debenture interest	“	4500	--	4500
Travellers Commission	Sales ratio – 1 : 3	12000	3000	9000
Discount	“	15000	3750	11250
Bad debts	“	3000	750	2250
Total expenses (B)		186000	51333	134667
Net Profit	(A – B)	114000	23667	90333

Problem 10 Ascertaining pre and post incorporation profits

- A company was incorporated on 1.5.2019 acquiring the business of a sole trader with effect from 1.1.2019. the accounts of the company were closed for the first time on 30.9.2019, disclosing a gross profit of Rs.168000. The establishment expenses were Rs.42660, directors fees Rs.3000 p.m., preliminary expenses written off Rs.4000, rent upto June 2019 was Rs.300 p.m which was thereafter increased to Rs.750 p.m. Salary to the manager was at Rs.1500 p.m who was appointed as a director at the time of incorporation of the company.

Prepare a statement showing profits prior and subsequent to incorporation assuming that the net sales were Rs.2460000, the monthly average of which for the first four months of 2019 was half of that of the remaining period.

Solution :

Time ratio:

Pre incorporation period – 1.1.2019 to 1.5.2019 = 4 months

Post incorporation period – 1.5.2019 to 30.9.2019 = 5 months

Time ratio = 4:5

Sales ratio:

Monthly average sales for the first four months is half of the remaining five months, weightage on that four months is $\frac{1}{2}$ each and for subsequent 5 months is 1 each

Sales ratio = $4 \times \frac{1}{2} : 5 \times 1 = 2 : 5$

Rent:

Before incorporation = Rs.300x 4 months (jan,feb,mar,apr.)
= Rs.1200

After incorporation = may & june – Rs.300x2 = 600
+ jul.aug.sep- Rs.750x3 = 2250 = Rs.2850

Statement showing pre and post incorporation profits for the year ended
30.09.2019

Particulars	Basis of apportionment	Total Rs.	Pre incorporation	Post incorporation
Gross profit (A)	Sales ratio – 2 : 5	168000	48000	120000
Expenses :				
Establishment expenses	Time ratio – 4 : 5	42660	18960	23700
Directors fees(3000x5mon)	Allocation	15000	--	15000
Preliminary expenses written off	"	4000	--	4000
Rent	Actual	4050	1200	2850
Manager's alary(1500x4mon)	Allocation	6000	6000	--
Total expenses (B)		71710	26160	45550
Net Profit	(A – B)	96290	21840	74450

Problem 11 Ascertaining pre and post incorporation profits

Kaveri Ltd., was incorporated on 1.5.2016 to take over the running business of Saveri Ltd., with effect from 1.1.2016. From the following details for the year ended 31.12.2016 prepare a statement showing profit or loss made during pre and post incorporation periods.

Particulars	Rs.	Particulars	Rs.
Gross profit	300000	Underwriting commission	20000
Salaries	48000	Insurance premium paid for	
Advertising	6000	the year ending 31.3.2017	12000
Commission to partners	8000	Interest on loans taken	
Carriage outward	16000	(including Rs.2000 on loan	
Provision for doubtful debts	6000	taken after incorporation)	14000
Depreciation	18000		

The following additional data was available:

- Average monthly sales during the first four months of the year was twice the average monthly sales during each of the remaining eight months.
- 20% of the underwriting commission is to be written off.
- Commission to partners was paid for their work before incorporation.
- Salaries includes salary paid to a director of the company Rs.6000.

Solution :

Time ratio:

Pre incorporation period – 1.1.2016 to 1.5.2016 = 4 months

Post incorporation period – 1.5.2016 to 31.12.2016 = 8 months

Time ratio = 4:8 or 1 : 2

Sales ratio:

Average monthly sales before incorporation was twice the average sale per month of the post incorporation period. If weightage for each post incorporation month is 1

Weighted sales ratio = $4 \times 2 : 8 \times 1 = 8 : 8$ or 1 : 1

Adjusted time ratio for insurance premium:

Insurance premium for the period of 12 months from 1.4.2016 to 31.3.2017

No. of months in the current year is 9 months from 1.4.2016 to 31.12.2016

Pre incorporation - April = 1 month

Post incorporation - May to December = 8 months

Adjusted time ratio for insurance premium = 1: 8

Insurance premium for nine months = Rs. $12000 \times 9/12 = \text{Rs. } 9000$

Statement showing pre and post incorporation profits of Kaveri Ltd., for the year ended 31.12.2016

Particulars	Basis of apportionment	Total Rs.	Pre incorporation	Post incorporation
Gross profit (A)	Sales ratio – 1 : 1	300000	150000	150000
Expenses :				
Directors salary	Allocation	6000	--	6000
Other salaries(48000-6000)	Time ratio -1 : 2	42000	14000	28000
Depreciation	"	18000	6000	12000
Commission to partners	Allocation	8000	8000	--
<u>Interest on loan</u>				
On post incorporation loan	"	2000	--	2000
On other loans (14000-2000)	Time ratio – 1 : 2	12000	4000	8000
Advertising	Sales ratio - 1 : 1	6000	3000	3000
Carriage outwards	"	16000	8000	8000
Pro. For doubtful debts	"	6000	3000	3000
Underwriting commission (Rs.20000x20/100)	Allocation	4000	--	4000
Insurance premium	Adjusted time ratio 1:8	9000	1000	8000
Total expenses (B)		129000	47000	82000
Net Profit	(A – B)	171000	103000	68000

Problem 12 Ascertaining pre and post incorporation profits

SR & Co. Ltd ., was incorporated on 01.07.2017 to purchase the business of Nisha as on 01.04.2017. Certificate of commencement was received on 01.08.2017. The accounts of the company as on 31.03.2018 shows the net profit of Rs.80000 after charging the following:

- (i) Directors salary Rs.10000
- (ii) Salaries Rs.20000 (4 employees in pre incorporation period and 6 employees in post incorporation period.)
- (iii) Wages Rs.10200 (5 workers at Rs.80 per month in pre incorporation period and 10 workers at Rs.100 per month in post incorporation period)

The sales were Rs.300000 of which Rs.75000 were in pre incorporation period. Calculate profit earned in the pre and post incorporation periods.

Solution :

Gross profit before charging wages:	Rs.
Net profit	80000
Add: Salaries	20000
Directors fees	<u>10000</u>
Gross profit	110000
Add : Wages	<u>10200</u>
Gross profit before charging wages	<u>120200</u>

Time ratio:

Pre incorporation period - 01.04.2017 to 01.07.2017 = 3 months

Post incorporation period - 01.07.2017 to 31.03.2018 = 9 months

Weighted time ratio = 3 months x 4 employees : 9 months x 6 employees
= 12 : 54 or 2 : 9

Actual wages :

Pre incorporation = 3 months x Rs.80 x 5 workers	= Rs.1200
Post incorporation = 9 months x Rs.100 x 10 workers	= Rs.9000

Sales ratio :

Pre incorporation sales	= Rs.75000
Post incorporation sales	= Rs.300000-Rs.75000 = Rs. 225000
Sales ratio	= Rs.75000 : Rs.225000 or 1 : 3

Statement showing pre and post incorporation profits of SR Co. Ltd., for the year
ended 31.03.2018

Particulars	Basis of apportionment	Total Rs.	Pre incorporation	Post incorporation
Gross profit	Sales ratio – 1 : 3	120200	30050	90150
Less : Wages	Actual	<u>10200</u>	<u>1200</u>	<u>9000</u>
Gross profit (A)		110000	28850	81150
Expenses :				
Salaries	Weighted time ratio - 2 : 9	20000	3637	16363
Directors salary	Allocation	10000	--	10000
Total expenses (B)		30000	3637	26363
Net Profit	(A – B)	80000	25213	54787

Problem 13 Ascertaining pre and post incorporation profits

Rama Udyog Limited was incorporated on August 1, 2008. It had acquired a running business of Rama & Co. with effect from April 1, 2008. During the year 2008-09, the total sales were Rs.36,00,000. The sales per month in the first half year were half of what they were in the later half year. The net profit of the company, Rs.2,00,000 was worked out after charging the following expenses:

(i) Depreciation Rs.1,08,000, (ii) Audit fees Rs.15,000, (iii) Directors' fees Rs.50,000, (iv) Preliminary expenses Rs.12,000, (v) Office expenses Rs.78,000, (vi) Selling expenses Rs.72,000 and (vii) Interest to vendors upto August 31, 2008 Rs.5,000.

Ascertain pre-incorporation and post-incorporation profit for the year ended 31st March, 2009.

Solution :

Time ratio :

Pre incorporation period - 01.04.2008 to 01.08.2008 = 4 months

Post incorporation period - 01.08.2008 to 31.03.2009 = 8 months

Time ratio = 4 : 8 or 1: 4

Sales ratio :

The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is Re.1 then it should be 50 paise per month in the first half year.

sales from 01.04.2008 to 30.09.2008 = Rs.0.50

sales from 01.10.2008 to 31.03.2009 = Rs.1

pre incorporation sales (i.e. from 01.04. 2008 to 01.08.2008) = 4mon. \times Rs..50 = Rs.2

post incorporation sales(i.e. from 01.08.2008 to 31.03.2009)

$(2 \text{ (aug, sep.)} \times \text{Rs..50} + 6 \text{ (oct. to march)} \times \text{Rs.1}) = \text{Rs. } 1+6 = \text{Rs.7.}$

sales ratio is 2:7.

Gross profit :

Gross profit = Net profit + All expenses

= Rs.2,00,000 + Rs.(1,08,000+15,000+50,000+12,000+78,000+72,000+5,000)

= Rs.2,00,000 +Rs.3,40,000 = Rs.5,40,000.

Interest to vendors :

Rs.5000/5 months (April to August) = Rs.1000 per month

Pre incorporation period = 01.04.2008 to 01.08.2008 = 4 months = Rs.1000x4months = Rs.4000

Post incorporation period = balance 1 month ie august = 1 month = Rs.1000x1month = Rs.1000

Statement showing pre and post incorporation profits of Rama Udyog Co. Ltd.,
for the year ended 31.03.2009

<i>Particulars</i>	<i>Basis of Allocation</i>	<i>Total Amount Rs.</i>	<i>Pre-incorporation Rs,</i>	<i>Post-Incorporation Rs.</i>
Gross Profit (A)	Sales ratio- 2:7	5,40,000	1,20,000	4,20,000
Depreciation	Time ratio -1:2	1,08,000	36,000	72,000
Audit Fees	"	15,000	5,000	10,000
Director's Fees	Allocation -Post	50,000	-	50,000
Preliminary Expenses	"	12,000	-	12,000
Office Expenses	Time ratio -1:2	78,000	26,000	52,000
Selling Expenses	Sales ratio -2:7	72,000	16,000	56,000
Interest to vendors	Actual	<u>5,000</u>	<u>4,000</u>	<u>1,000</u>
Total expenses (B)		340000	87000	253000
Net Profit		200000	33000	167000

Problem 14 Ascertaining pre and post incorporation profits Assignment

The promoters of the proposed new company ZED Ltd. purchased a running business on 1st January, 2017 from Mr. Ant. The new company was incorporated on 1st May 2017. The profit and loss account for the year ended 31st December, 2017 was as under:

Particulars	Rs.	Particulars	Rs.
To Rent, rates, insurance	24000	Gross profit	300000
To electricity	7200	Discount received	12000
To Preliminary expenses	9800		
To Directors sitting fees	11000		
To Interest paid to vendors	20000		
To net profit	240000		
	312000		312000

Following further information are available:

Sales up to 30 April, 2017 was Rs. 6, 00,000 out of total sales of Rs. 30, 00,000 for the year. Purchases up to 30 April, 2017 was Rs. 6, 00,000 out of total purchase of Rs. 18, 00,000 of the year. Interest paid to vendors was @ 12% on Rs. 2, 00,000 p.a. till the payment was made. From the above information, prepare statement of profit and loss for the year ended 31st December, 2017 showing pre and post- incorporation profits

Problem 15 Ascertaining pre and post incorporation profits Assignment

XYZ limited was incorporation on 1st July, 2016 to acquire the business from 1st April, 2016. It commenced its business on 1st august, 2016. Its profit and loss account for the year ending 31st march, 2017 is an under.

Particulars	Rs.	Particulars	Rs.
To office salaries	60,000	By gross profit b/d	5,20,000
To selling commission	78,000		
To carriage outward	42,250		
To rent and taxes	1,20,000		
To debenture interest	25,400		
To printing and stationery	15,000		
To advertising expenses	65,000		
To net profit	1,14,350		
	5,20,000		5,20,000

Additional information:

Sales for the pre-incorporation period was @ Rs. 5, 00,000 per month. Total sales for the year ended 31st march, 2017 was Rs. 65, 00,000.

Prepare statement of profit and loss in the columnar form for the year ended 31st march, 2017 allocating various items on suitable basis in the pre-incorporation and post incorporation period.

UNIT IV

HOLDING COMPANIES

A holding company is a business entity—usually a corporation or limited liability company (LLC). Typically, a holding company doesn't manufacture anything, sell any products or services, or conduct any other business operations. Rather, holding companies hold the controlling stock in other companies.

What is a Holding Company?

Under the companies Act, 1956, a holding company is any company which holds more than half of the equity share capital of other companies or controls the composition of the board of directors of other companies.

Holding company first came into existence in the US. It was created to overcome the restrictions imposed by the Anti-trust legislation. They were formed because businessmen wanted to have concerns under common control and within the framework of law.

Definition of Holding Company

In the words of Haney,

“a form of business organization which is created for the purpose of combining other corporations by owning a controlling amount of their stock”.

Types of holding companies

The following are the different types of holding companies:

1. **Parent holding company**: It comes into existence when an organization in existence acquires controlling stake in existing companies or starts new companies under its control. For e.g. Tata Tea has acquired controlling stake in Tetley, a UK tea company. In this case, Tata Tea is the parent holding company.
2. **Offspring company**: A new company started by some existing company with the objective of exercising control. For example, ECC (Engineering Construction Corporation Ltd.,) was set up by L&T (Larsen & Toubro Ltd.,) as its subsidiary. L&T is the parent holding company and ECC is the offspring company.

3. Pure holding company: A company which is established primarily for uniting and controlling the subsidiaries. For e.g. in the Tata group, Tata Sons Ltd., was established for uniting and controlling the various subsidiaries. TV Sundaram Iyengar and Sons is the holding company of the TVS group.

4. **Proprietary holding company:** A company which holds the entire stock issued by its subsidiaries.

5. **Intermediate holding company:** A holding company of a subsidiary, but is itself controlled by another holding Company.

6. **Finance holding company:** It does not control the affairs of other companies. It earns profits by financing the operations of other firms.

7. **Investment holding company**: It does not control the affairs of other companies. It invests in the securities of a number of companies. Its members derive the benefit of diversified investment.
8. **Primary holding company**: A holding company which is not a subsidiary of any other company. For example, Unilever Ltd., set up HLL (Hindustan Lever Limited) as its subsidiary. Unilever Ltd., which is the holding company is not a subsidiary of any other company and is therefore a primary holding company
9. **Mixed holding company**: A holding company which runs its own business and also controls the business of its subsidiaries. For e.g. ICI Ltd., set up Indian Explosive as its subsidiary. ICI Ltd., runs its own business and also controls the business of Indian Explosives.

What Is a Subsidiary?



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graph TD; A([What Is a Subsidiary?]) --- B([It's a company owned and controlled by another company]); A --- C([Owning company is called a "parent" or "holding" company]); A --- D([The system protects assets of various properties from each other's liabilities]);
```

It's a company owned and controlled by another company

Owning company is called a "parent" or "holding" company

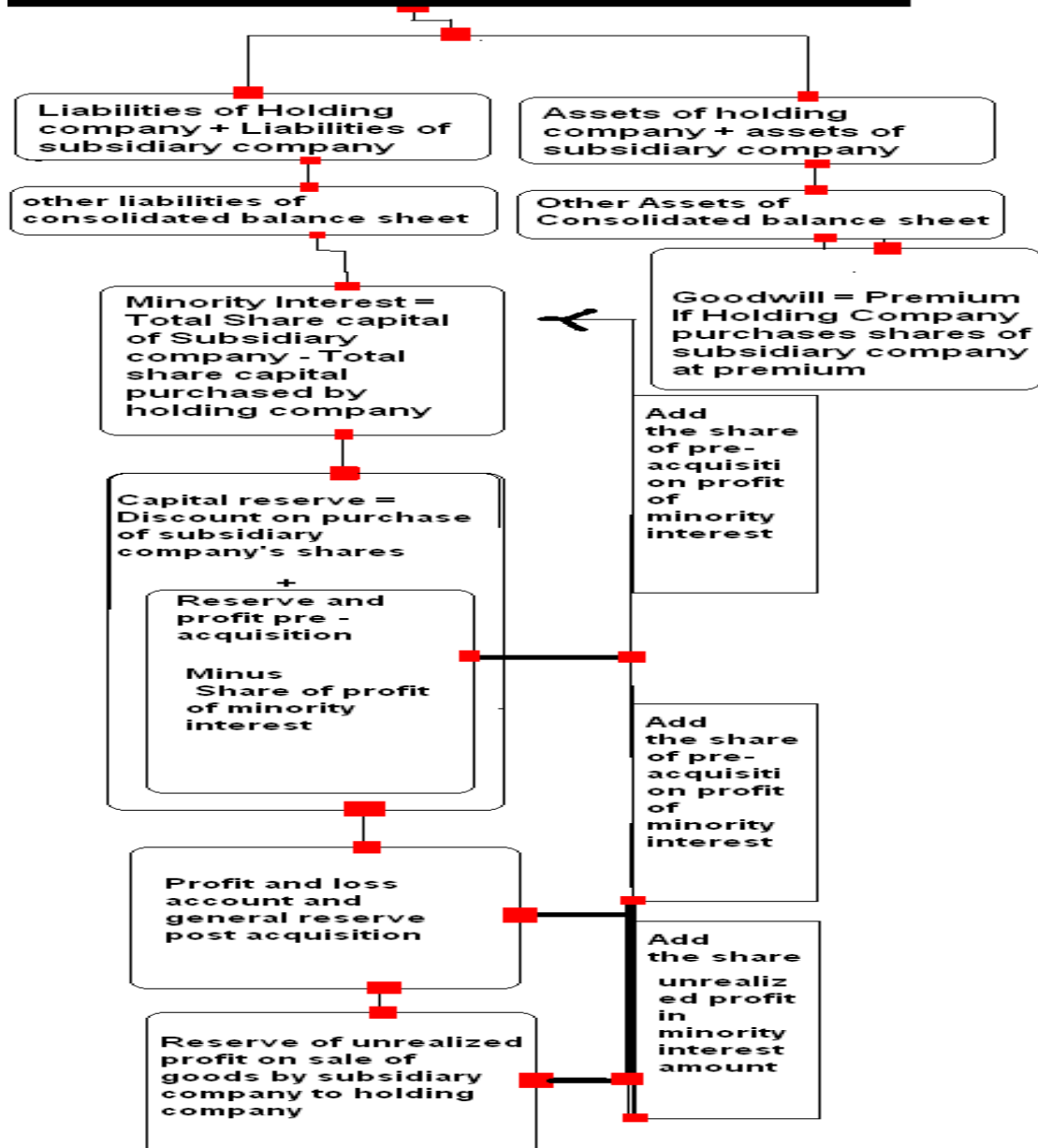
The system protects assets of various properties from each other's liabilities

Subsidiary Company

- ❖ A subsidiary company is a company that is completely or partially owned by another company, which may be a parent company that also has business operations or a holding company whose sole purpose is to own its subsidiaries.
- ❖ The holding or parent company must own more than 50% of the subsidiary company. If it owns 100%, the subsidiary company is called a "wholly owned subsidiary."

= Means Joint the balance sheet of H. Co. & S. Co.

= Means Joint the balance sheet of H. Co. & S. Co.



Points to be considered for the Preparation of consolidated Balance Sheet

1. Elimination of investment account
2. Minority interest
3. Cost of control or goodwill
4. Revenue profits or post acquisition profits
5. Revenue losses or post acquisition losses
6. Capital profits and losses or pre acquisition profits and losses
7. Revaluation of assets and liabilities
8. Bonus shares issued by the subsidiary company
9. Dividends from the subsidiary company
10. Preference shares in the subsidiary company
11. Debentures in subsidiary company
12. Elimination of common transactions or mutual obligation
13. Contingent liabilities
14. Provision for unrealized profits in stocks.
15. Abnormal losses.

Steps involved in the Preparation of consolidated Balance Sheet

Step 1 – Computation of Holding - Minority ratio

Step 2 – Ascertaining pre acquisition profits or capital profits

Step 3 – Computation of post acquisition profits or revenue profits

Step 4 – Computation of minority interest

Step 5 – Computation of goodwill or cost of control or capital reserve

Step 6 – Calculation and elimination of unrealized profit included in stock

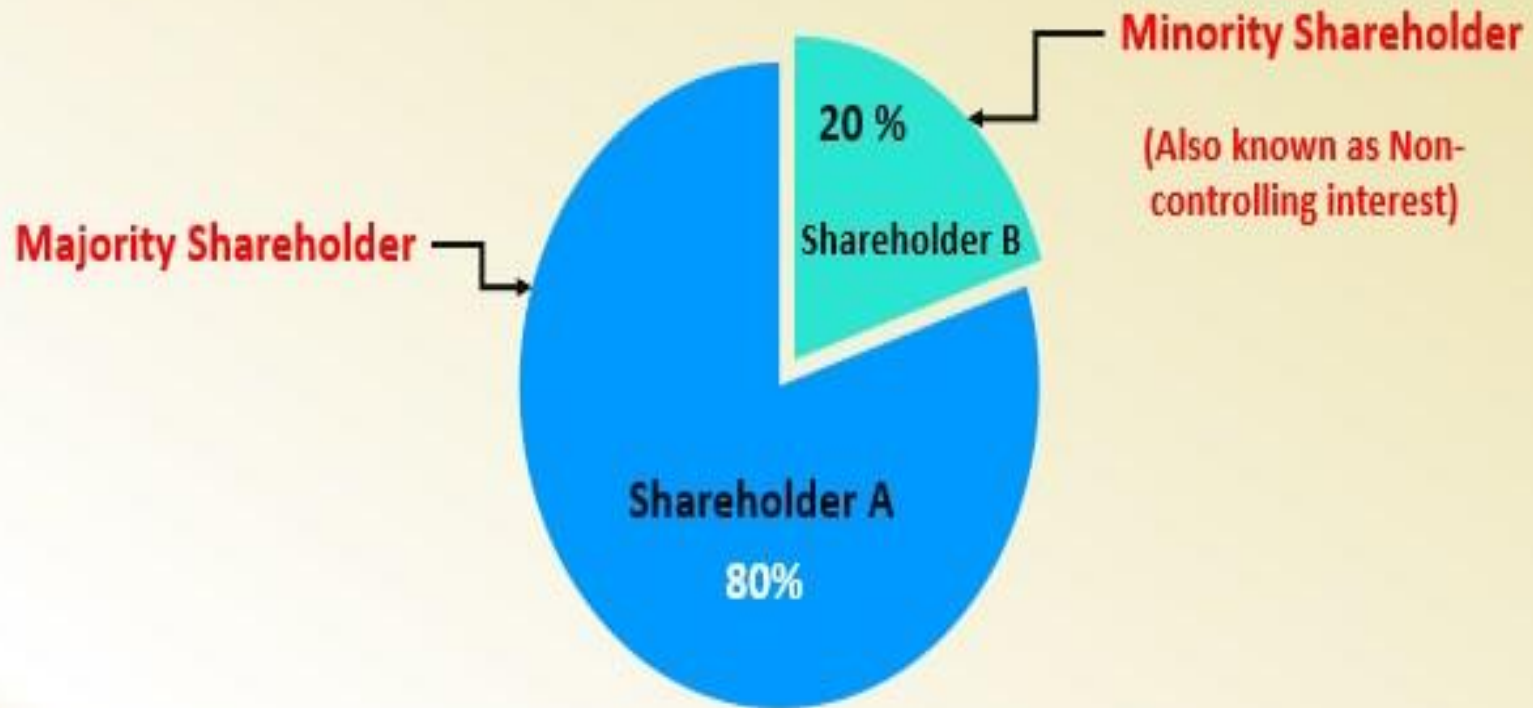
Step 7 – Elimination of inter company debts

Step 8 – Preparation of consolidated balance sheet.

MINORITY INTEREST

- A minority interest is ownership or interest of less than 50% of an enterprise. The term can refer to either stock ownership or a partnership interest in a company.
- The minority interest of a company is held by an investor or another organization other than the parent company.
- Minority interests generally come with some rights for the stakeholder such as the participation in sales and certain audit rights.
- A minority interest shows up as a non current liability on the balance sheet of companies with a majority interest in a company. This represents the proportion of its subsidiaries owned by minority shareholders.

Minority Interest



Pine - Apple Inc

Computation of Minority Interest

Face value of minority equity shares		xxx
Face value of minority preference shares		xxx
Minority share of capital profits		xxx
Minority share of revenue profits		xxx
Minority share of bonus shares issued		<u>xxx</u>
Less : Minority share of capital loss	xxx	xxx
Minority share of revenue loss	<u>xxx</u>	<u>xxx</u>
Minority interest		xxx

Cost of control : It is the penalty or excess paid by the holding company to acquire the controlling interest of the subsidiary company.

Computation cost of control or capital reserve

Amount paid for shares purchased by the holding company in the subsidiary		xxx
Add: Holding company's share of capital loss		<u>xxx</u>
		xxx
Less : Face value of shares purchased	xxx	
Holding company's share of capital profits	xxx	
Holding company's share of bonus shares issued by subsidiary	xxx	
Holding company's share of dividend paid out of capital profits	<u>xxx</u>	<u>xxx</u>
Goodwill or capital reserve		xxx

Revenue profits: Profits earned by a subsidiary company after the date of acquisition of shares by the holding company are called revenue profits or post acquisition profits.

These profits may be a part of the profit and loss account of the subsidiary company or they might have been transferred to reserve or proposed as dividend.

Capital profits: All the accumulated profits of the subsidiary company on the date of purchase of shares by the holding company are called as capital profits or pre acquisition profits. They may be in the form of general reserve, reserve fund, share premium, profit and loss account etc.,

Computation of capital profits:

General reserve, capital reserve, P & L A/c. and other reserves of subsidiary on the date of purchase of shares	xxx
Less: Bonus shares issued by subsidiary from pre acquisition profits	xxx
Dividend paid by subsidiary out of pre acquisition profits	<u>xxx</u>
	xxx
Add: Subsidiary company profits during the current year before purchase of assets	xxx
Profit on revaluation of assets and liabilities of the subsidiary on the date of purchase	xxx
Less : Loss on revaluation of assets and liabilities of subsidiary on the date of purchase	xxx
Net capital profits	xxx

Problem 1 Elimination of investments

Balance Sheet as on 31st Dec. 2004

<i>Liabilities</i>	<i>H Ltd.</i> Rs.	<i>S Ltd.</i> Rs.	<i>Assets</i>	<i>H Ltd.</i> Rs.	<i>S. Ltd.</i> Rs.
Share Capital of Rs. 10 each	1,00,000	50,000	Sundry Assets	1,50,000	80,000
Creditors	1,00,000	30,000	Investments: 5,000 shares at par	50,000	
	2,00,000	80,000		2,00,000	80,000

Prepare a consolidated Balance Sheet

SOLUTION:

**H Ltd and its subsidiary S Ltd.
Consolidated Balance Sheet as on 31st Dec. 2004**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital: 10,000 Shares of Rs. 10 each, fully paid	1,00,000	Sundry Assets: H Ltd.	1,50,000
Sundry Creditors: H Ltd. 1,00,000 S Ltd. 30,000	1,30,000	S Ltd.	80,000
	2,30,000		2,30,000

Problem 2 Goodwill

The following are the Balance Sheet of H and S as at 31st December on which date H acquires all the shares of S:

	H	S		H	S
	Rs.	Rs.		Rs.	Rs.
Share Capital	5,00,000	1,00,000	Sundry Assets	7,50,000	1,90,000
Reserve		25,000	Shares in S (at cost)	2,00,000	
Profit & Loss A/c	1,00,000	15,000			
Creditors	3,50,000	50,000			
	9,50,000	1,90,000		9,50,000	1,90,000

Show the consolidated Balance Sheet.

SOLUTION:

Since cost of shares is in excess of the net worth at the date of acquisition, the price paid for goodwill would be arrived at as follows:

	Rs.
Cost of Shares	2,00,000
Less: Net worth of Equity	
(Capital: Rs 1,00,000 +	
Reserve: Rs 25,000	
P & L A/c Rs 15,000)	1,40,000
Paid for Goodwill	60,000

Consolidated Balance Sheet as at 31st Dec.

	Rs.		Rs.
Share Capital	5,00,000	Sundry Assets (Rs. 7,50,000	
Profit & Loss	1,00,000	+ 1,90,000)	9,40,000
Creditors (Rs 3,50,000 + 50,000)	4,00,000	Goodwill	60,000
	10,00,00		10,00,000

Problem 3 Capital Reserve

Balance Sheet as on 31st March

Balance Sheet as on 31st March

	H	S		H	S
	Rs.	Rs.		Rs.	Rs.
Share Capital: in Re 1 shares	12,000	6,000	Sundry Assets	20,000	12,000
Reserve	3,000	2,000	Investment: 6,000 shares in		
Profit % Loss	2,000	1,000	S Ltd.	7,500	
Sundry Creditors	10,500	3,000			
	27,500	12,000		27,500	12,000

H Ltd. has acquired shares on 31st March.

Prepare consolidated Balance Sheet.

SOLUTION:

Consolidated Balance Sheet
as on 31st March

	Rs.		Rs.
Share Capital: in Re. 1 paid up	12,000	Sundry Assets: H:	20,000
Capital Reserve	1,500	S:	12,000
Reserve (H. Ltd)	3,000		
Profit & Loss A/c (H Ltd.)	2,000		
Sundry Creditors : H :	10,500		
S :	3,000		
	13,500		
	32,000		32,000

Note: The Reserve and Profit and Loss Account balances of the Subsidiary Company do not figure in the consolidated Balance Sheet as they are considered together with share capital in the calculation of Capital Reserve.

	Rs.	Rs.
Cost of shares -		7500
less : net worth - capital	6000	
- reserve	2000	
- p&l	1000	9000
capital reserve		<u>Rs.1500</u>

Problem 4 Goodwill given in the Balance Sheet

The Balance sheet of C Ltd., and D Ltd., as on 31.12.2016 are as follows

Liabilities	C Ltd., Rs.	D Ltd., Rs.	Assets	C Ltd., Rs.	D Ltd., Rs.
Share capital (in shares of Rs.10 each)	200000	100000	Sundry assets	132500	138200
General reserve	18000	20000	Goodwill	--	20000
Profit & Loss A/c	24500	23000	Shares in D Ltd., at cost	140000	--
Creditors	30000	15200			
	272500	158200		132500	158200

In the case of D Ltd., profit for the year ended 31.12.2016 is Rs.12000 and transfer to reserve is Rs.5000. The holding of C Ltd., in D Ltd., is 90% acquired on 30.06.2016. Draft a consolidated Balance Sheet of C Ltd., and its subsidiary.

Working notes:

1. Holding - Minority ratio

C Ltd., acquired 90% of shares in D Ltd.,

Minority holding in D Ltd., $100 - 90 = 10\%$

Ratio = 90 : 10 or 9 : 1

2. Revenue profits

Profit for the current year = Rs . 12000

Profit made after 30.06.2016 or revenue profits = $\text{Rs.}12000 \times 6/12 \text{ mon.} = \text{Rs.}6000$

Holding company's share = $\text{Rs.}6000 \times 9/10 = \text{Rs.}5400$

Minority's share = $\text{Rs.}6000 \times 1/10 = \text{Rs.}600$

3. Capital profits

	Rs.
General reserve of D Ltd.,	20000
Profit & loss account of D Ltd.,	<u>23000</u>
	43000
Less: Revenue profit	<u>6000</u>
Capital profit	<u>37000</u>

Holding company's share = Rs. $37000 \times 9/10$ = Rs. 33300

Minority company's share = Rs. $37000 \times 1/10$ = Rs. 3700

4.Minority interest

Rs.

Face value of minority shares Rs. $100000 \times 1/10$ = 10000

Add: Minority share of capital profit = 3700

Minority share of revenue profit = 600

Minority interest = 14300

5.Cost of control or Goodwill

Rs.

Amount paid by C Ltd., for shares purchased in D Ltd., = 140000

Less : Face value of shares purchased Rs. $100000 \times 90/100$ = 90000

Holding company's share of capital profits = 33300 123300

Goodwill 16700

Add : Goodwill in D Ltd.'s balance sheet 20000

Goodwill to be shown in consolidated balance sheet 36700

Consolidated Balance sheet of C Ltd., and its subsidiary D Ltd., as on 31.12.2016

Liabilities	Rs.	Assets	Rs.
Share capital		Goodwill	36700
20000 shares of Rs.10 each	200000	Sundry assets	
General reserve	18000	C Ltd., 132500	
Profit & loss a/c 24500		D Ltd., <u>138200</u>	270700
Add: C's revenue profit <u>5400</u>	29900		
Creditors C Ltd., 30000			
D Ltd., <u>15200</u>	45200		
Minority interest	14300		
	307400		307400

Problem 5 Inter company Owings

From the balance sheets and information given below, prepare a Consolidated Balance Sheet:

	H Ltd.	S Ltd.		H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Sundry Assets	80,000	12,000
Rs. 10 fully paid	1,00,000	20,000	Stock	61,000	24,000
Profit & Loss A/c	40,000	12,000	Debtors	13,000	17,000
Reserve	10,000	6,000	Bills Receivable	1,000	
Bills Payable		3,000	Shares in S Ltd. at cost	15,000	
Creditors	20,000	12,000			
	1,70,000	53,000		1,70,000	53,000

- (a) All the profits of S Ltd. have been earned since the shares were acquired by H Ltd. but there was already the Reserve of Rs. 6, 00,000 on that date.
- (b) The bills accepted by S Ltd. are all in favour of H Ltd. which has discounted Rs. 2,000 of them.
- (c) Sundry assets of S Ltd. are undervalued by Rs. 2,000.
- {d) The stock H Ltd. includes Rs. 5,000 bought from S Ltd. at a profit to the latter of 25% on cost.

Note : Out of 2,000 shares of S Ltd. 1,500 are held by H Ltd. and 500 by outsiders. The proportion is thus 3 : 1. $2000 \times \frac{3}{4} = 1500$, $2000 \times \frac{1}{4} = 500$ holding minority ratio = 15000 : 5000 (20000-15000) or 15 : 5 or 3 : 1

Pre-acquisition reserve Rs. 6,000 : $\frac{3}{4} = \text{Rs. } 4,500$ and $\frac{1}{4} = 1,500$

Post-acquisition profit Rs. 12,000 : $\frac{3}{4} = \text{Rs. } 9,000$ and $\frac{1}{4} = \text{Rs. } 3,000$

Minority Interest :

1/4th of capital

Pre-acquisition Reserve

Post-acquisition Profit

Add : 1/4th of Revaluation Profit Rs. $2000 \times \frac{1}{4}$

Rs.
5,000
1,500
3,000
<hr/>
9,500
500
<hr/>
10,000

Goodwill or Cost of Control :

Cost of acquiring 3/4th of share capital Rs. $20000 \times \frac{3}{4}$

Less : Equity paid-up capital

Pre-acquisition Reserve

Revaluation Profit Rs. $2000 \times \frac{3}{4}$

Rs.	Rs.
15,000	15,000
15,000	
4,500	
1,500	
<hr/>	<hr/>
	21,000
	6,000

Capital Reserve :

NB : Unrealised profit on goods worth Rs. 5,000 bought from S Ltd. at a profit of 25% on cost

125% = Rs. 5,000

25% = Rs. $\frac{5,000 \times 25}{125} = \text{Rs. } 1,000$

3/4th of Rs. 1,000 = Rs. 750 is the share of H Ltd. Rs. $1000 \times \frac{3}{4} = \text{Rs. } 750$

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.

as at 31st March, 2006

	Rs.		Rs.
Share Capital :		Fixed Assets : Rs.80000+12000	
Authorised :		Sundry Assets 92,000	
....Share is of Rs. 10 each	Add : Appreciation 2,000	
Issued and Subscribed :			94,000
10,000 Shares of Rs. 10 each,		Current Assets :	
fully called up	1,00,000	Stock 61000+24000 85,000	
Reserves and Surplus :		Less : Unrealised profit 750	
Capital Reserve	6,000		84,250
General Reserve	10,000	Debtors Rs.13000+17000	30,000
Profit & Loss A/c :			
H Ltd. 40,000			
Share of profit in S Ltd. 9,000			
	49,000		
Less : Share of unrealised profit	750		
	48,250		
Minority Interest	10,000		
Current Liabilities :			
Creditors Rs.20000+12000	32,000		
Bills Payable Rs.3000-1000	2,000		
	2,08,250		2,08,250

Problem 6 Inter-Company Owings

The following are the Balance Sheets of H Ltd. and its subsidiary S Ltd. as on 31st December 2004

Balance Sheet as on 31st Dec. 2004					
<i>Liabilities</i>	<i>H Ltd</i>	<i>S Ltd</i>	<i>Assets</i>	<i>H Ltd</i>	<i>S Ltd.</i>
	Rs.	Rs.		Rs.	Rs.
Share Capital of Re. 1 per share	10,000	8,000	Buildings	4,000	
Reserves	4,000	3,000	Plant	1,000	6,000
Bills Payable	2,000	1,000	Stock	4,000	6,000
Creditors	5,000	4,000	Shares in S Ltd	6,000	
Profit & Loss A/c	4,000	2,000	Debtors	5,000	3,000
			Bills Receivable	3,000	2,000
			Cash	2,000	1,000
	25,000	18,000		25,000	18,000

Debtors of H Ltd. include Rs. 2,000 due from S Ltd. and Bills payable of H Ltd. included a bill of Rs. 500 accepted in favour of S Ltd. A Loan of Rs. 1,000 given by H Ltd. to S Ltd. was also included in the items of debtors and creditors respectively. Rs. 500 was transferred by S Ltd. from Profit and Loss Account to Reserve out of current year's profit. Shares were purchased on 30th June 2004 at par. Prepare consolidated Balance Sheet.

Working:*Analysis of Profits of S Ltd.*

Reserves (Rs 3,000 - Rs 500)

Profit for the year (Rs 2,000 + 500) $2500 \times 6/12$

1.1.2004 – 30.6.2004 – 6 months, 30.6.2004 -31.12.2004- 6 months

Less: Minority Interest $3750 \times 1/4 = 937.50$ Holding Company's share $3750 \times 3/4 = 2812.50$ *Cost of Control Capital reserve*

Amount paid for shares

Less: Paid up value of shares $8000 \times 3/4 = 6000$

Share of capital Profit

Capital Reserve

Minority Interest

Paid up value of shares

Add: Share of Capital Profit

Share of Revenue Profit

Minority Interest

Capital

2,500

1,250

3,750

937.50

2,812.50

6,000

2,812.50

Revenue

1,250

1,250

312.50

937.50

Rs 6,000

8,812.50

2812.50

2000.00

937.50

312.50

3,250.00

 $1250 \times 1/4 =$

312.50

 $1250 \times 3/4 =$

937.50

Holding minority ratio - 6000 shares : 2000 (8000-6000)

6000 : 2000 or 6 : 2 or 3 : 1

SOLUTION:

Consolidated Balance Sheet
as on 31st Dec. 2004

<i>Liabilities</i>		<i>Rs.</i>	<i>Assets</i>		<i>Rs.</i>
Share Capital (in Rs. 1 shares)		10,000	Building: H Ltd.		4,000
Reserves		4,000	Plant: H Ltd	1,000	
Capital Reserve		2,812.50	S Ltd.	6,000	7,000
Profit & Loss A/c			Stock H Ltd.	4,000	
H Ltd.	4,000		S Ltd.	6,000	10,000
S Ltd.	937.50	4,937.50	Debtors:		
Bills Payable:			H Ltd.	5,000	
H Ltd.	2,000		S Ltd.	3,000	
S Ltd.	1,000			8,000	
	3,000		Less: Inter Co. dealings	3,000	5,000
Less: Inter Co. Bills	500	2,500	Bills Receivable:		
Creditors:			H Ltd.	3,000	
H Ltd.	5,000		S Ltd.	2,000	
S Ltd.	4,000			5,000	
	9,000		Less: Inter Co. Bills	500	4,500
Less: Inter Co. dealings			Cash: H Ltd.	2,000	
(2,000 + 1,000)	3,000	6,000	S Ltd.	1,000	3,000
Minority Interest		3,250			
		33,500			33,500

Problem 7 Unrealized profit

H. Ltd. acquired 4,000 shares of S. Ltd. on 1.1.2000. Their Balance Sheets as at 31.12.2000 stood as follows:

Balance Sheets
as at 31st December 2000

<i>Liabilities</i>	<i>H. Ltd. Rs.</i>	<i>S. Ltd. Rs.</i>	<i>Assets</i>	<i>H. Ltd. Rs.</i>	<i>S. Ltd. Rs.</i>
Share Capital :			Fixed Assets	80,000	45,000
10,000 Equity Shares			Investments :		
of Rs. 10 each, fully paid	1,00,000	—	4,000 shares in S. Ltd., as per	40,000	—
5,000 Equity Shares			Stock	20,000	10,000
of Rs. 10 each, fully paid	—	50,000	Debtors	25,000	10,000
General Reserve (1.1.1983)	40,000	10,000	Cash and Bank	5,000	10,000
Profit & Loss A/c	20,000	10,000			
Creditors	10,000	5,000			
	<u>1,70,000</u>	<u>75,000</u>		<u>1,70,000</u>	<u>75,000</u>

On 1.1.2000, the Profit and Loss Account of S. Ltd. showed a credit balance of Rs. 4,000. Stock of H. Ltd. includes Rs. 2,500 for goods at invoice price from S. Ltd. on which the latter company made a profit of 25% on cost.

Prepare a Consolidated Balance Sheet as at 31.12.2000.

Solution :

Workings :

1. Proportion of holding shares : Rs.

$$\text{H. Ltd.'s share in S. Ltd.} = \frac{4,000}{5,000} = \frac{4}{5}$$

$$\text{S. Ltd. } 5000-4000 = \frac{1,000}{5,000} = \frac{1}{5}$$

3. Current Profits : Revenue profit Rs.

$$\begin{array}{r} \text{Profit \& Loss A/c S Ltd} \\ (10,000 - 4,000) \\ \hline 6,000 \\ \hline 6,000 \end{array}$$

$$\text{H. Ltd. Rs. } 6,000 \times \frac{4}{5} = 4,800$$

$$\text{S. Ltd. Rs. } 6,000 \times \frac{1}{5} = 1,200$$

5. Capital Reserve : Rs.

$$\begin{array}{r} \text{Cost of shares} \\ \text{Less : Nominal value} \\ \text{of shares held } 40,000 \\ \text{Capital Profit } 11,200 \\ \hline 51,200 \\ \hline 11,200 \end{array}$$

2. Capital Profit : Rs.

$$\begin{array}{r} \text{General Reserve S Ltd} \\ \text{Profit and Loss A/c " } \\ \hline 10,000 \\ 4,000 \\ \hline 14,000 \end{array}$$

$$\text{H. Ltd. Rs. } 14,000 \times \frac{4}{5} = 11,200$$

$$\text{S. Ltd. Rs. } 14,000 \times \frac{1}{5} = 2,800$$

4. Minority Interest : Rs.

$$\begin{array}{r} \text{Share Capital (1,000 \times Rs. 10)} \\ \hline 10,000 \\ \text{Add : Capital Profit} \\ \text{Add : Current Profit} \\ \hline 2,800 \\ 1,200 \\ \hline 14,000 \end{array}$$

6. Unrealised Profit on Stock Rs.

$$\begin{array}{r} \text{Invoice Value of goods taken} \\ \text{from S. Ltd. Rs. 2,500} \\ \hline \therefore \text{Rs. } 2,500 \times \frac{25}{125} = 500 \end{array}$$

$$\text{H. Ltd.'s share} = \text{Rs. } 500 \times \frac{4}{5} = 400^{**}$$

Rs.50000x4/5

H. Ltd. and its subsidiary S. Ltd.
Consolidated Balance Sheet
as at 31st December 2000

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Share Capital :			Fixed Assets :		
<i>Authorised</i>			H. Ltd.	80,000	
<i>Issued and Paid-up</i>			S. Ltd.	45,000	
10,000 Equity shares of Rs. 10					1,25,000
each, fully paid		1,00,000	Investments		Nil
Reserve and Surplus			Current Assets, Loans		
Capital Reserve			<i>and Advances</i>		
General Reserve		11,200	Stock :		
Profit and Loss A/c :		40,000	H. Ltd.	20,000	
H. Ltd.	20,000		S. Ltd.	10,000	
S. Ltd.	4,800			30,000	
	24,800		Less : Unrealised Profit		
Less : Unrealised Profit on stock	400		on stock	400	
		24,400			29,600
Minority Interest		14,000	Debtors :		
<i>Secured Loan</i>		Nil	H. Ltd.	25,000	
<i>Unsecured loan</i>		Nil	S. Ltd.	10,000	
Current Liabilities and Provisions					35,000
Creditors :			Cash at Bank :		
H. Ltd.	10,000		H. Ltd.	5,000	
S. Ltd.	5,000		S. Ltd.	10,000	15,000
		15,000	Misc. Expenditure		Nil
		<u>2,04,600</u>			<u>2,04,600</u>

Problem 8 Unrealized profit

The Balance sheet of H Ltd., and S Ltd., as on 31.03.2017 are as follows

Liabilities	H Ltd., Rs.	S Ltd., Rs.	Assets	H Ltd., Rs.	S Ltd., Rs.
Equity Share capital	800000	200000	Fixed Assets	550000	100000
General reserve	150000	70000	75% Shares in S Ltd.,	280000	--
Profit & Loss A/c	90000	55000	at cost		
Creditors	120000	80000	Stock	105000	177000
			Other current assets	225000	128000
	1160000	405000		1160000	405000

Draw a consolidated balance sheet as at 31.03.2017, after taking into consideration the following information:

- (i) H Ltd., acquired the shares on 31.07.2016
- (ii) S Ltd., earned a profit of Rs.45000 for the year ended 31.03.2017
- (iii) In January 2017 S Ltd., sold to H Ltd., goods costing Rs.15000 for Rs.20000. on 31.03.2017 half of these goods were lying as unsold in the godown of H.ltd.,

Working notes:

1. Holding – Minority ratio: H Ltd., acquired 75% shares in S Ltd.,

$$\text{Minority} = 100 - 75 = 25\% \quad 75:25 \text{ or } 3 : 1$$

2. Revenue profits :

Current year profit of S Ltd is given Rs.45000

Profit earned after 31.07.2016 from Aug.to March 2017 is 8 months = $\text{Rs.}45000 \times \frac{8}{12} = \text{Rs.}30000$

Holding company's share = $\text{Rs.} 30000 \times \frac{3}{4} = \text{Rs.}22500$

Minority share = $\text{Rs.}30000 \times \frac{1}{4} = \text{Rs.}7500$

3. Capital profits:

General reserve of S Ltd on 31.03.2017 = 70000

Profit and loss account of S Ltd., as on 31.03.2017 = 55000

125000

Less : revenue profit 30000

capital profit 95000

Holding company's share = $\text{Rs.}95000 \times \frac{3}{4} = \text{Rs.}71250$

Minority share = $\text{Rs.}95000 \times \frac{1}{4} = \text{Rs.}23750$

4. Minority interest :	Rs.
Face value of minority share Rs.200000x25/100	= 50000
Add: Minority share of capital profits	= 23750
Minority share of revenue profits	= <u>7500</u>
Minority interest	= <u>81250</u>

5. Cost of control or goodwill:	Rs.
Amount paid for shares purchased by H Ltd., in S Ltd.,	= 280000
Less : Face value of shares purchased Rs.200000x75/100	= 150000
Holding company's share of capital profit	= <u>71250</u> <u>221250</u>
Goodwill	= <u>58750</u>

6. Provision for unrealized profit in stock:

Profit in stock of H Ltd acquired from S Ltd = (Rs.20000-15000) = 5000x1/2 =
Rs.2500

Consolidated Balance sheet of H Ltd., and its subsidiary S Ltd., as on 31.03.2017

Liabilities			Rs.	Assets			Rs.
Share capital			800000	Goodwill			58750
General reserve			150000	Fixed assets			
Profit & loss a/c	90000			H Ltd.,	550000		
Add: H's revenue profit	<u>22500</u>			S Ltd.,	<u>100000</u>		650000
	112500		110000	Stock			
Less: Provision for	<u>2500</u>			H Ltd.,	105000		
unrealized profit				S Ltd.,	<u>177000</u>		
					282000		
Creditors	H Ltd.,	120000		Less: Provision for	<u>2500</u>		279500
	S Ltd.,	<u>80000</u>	200000	unrealized profit			
Minority interest			81250	Other current assets			
				H Ltd.,	225000		
				S Ltd.,	<u>128000</u>		353000
			1341250				1341250

Problem 9 Mutual obligation in bills

From the following Balance sheet of H Ltd., and S Ltd., as on 31.12.2018, prepare a consolidated Balance sheet.

Liabilities	H Ltd., Rs.	S Ltd., Rs.	Assets	H Ltd., Rs.	S Ltd., Rs.
Share capital (shares of Rs.10 each)	1000000	200000	Fixed Assets	800000	120000
Profit & Loss A/c	400000	120000	Shares in S Ltd., at cost (15000 shares)	150000	--
Reserves	100000	60000	Stock	610000	240000
Creditors	200000	120000	Debtors	130000	170000
Bills payable	--	30000	Bills receivable	10000	--
	1700000	530000		1700000	530000

- (i) All profits of S Ltd., have been earned after the shares were acquired by H Ltd., but there was already a reserve of Rs.60000 on that date.
- (ii) All the bills payable of S Ltd., were accepted in favour of H Ltd.,
- (iii) The stock of H Ltd., includes Rs.50000 purchased from S Ltd., The profit added was 25% on cost.

Working notes:

1. Holding – Minority ratio:

Total shares S Ltd., = $\text{Rs.}200000/\text{Rs.}10 = 20000$

Shares acquired by H Ltd in S Ltd ., = 15000

Minority shares = $(20000-15000) = 5000$

Ratio 15000 : 5000 or 3 : 1

2. Revenue profits :

Profit earned by S Ltd., after shares were acquired by H Ltd., = Rs.120000

Holding company's share = $\text{Rs. } 120000 \times 3/4 = \text{Rs.}90000$

Minority share = $\text{Rs. } 120000 \times 1/4 = \text{Rs.}30000$

3. Capital profits:

Reserve of S Ltd Rs.60000

Holding company's share = $\text{Rs.}60000 \times 3/4 = \text{Rs.}45000$

Minority share = $\text{Rs.}60000 \times 1/4 = \text{Rs.}15000$

4. Minority interest :

	Rs.
Face value of minority share 5000shares xRs.10	= 50000
Add: Minority share of capital profits	= 15000
Minority share of revenue profits	= <u>30000</u>
Minority interest	= <u>95000</u>

5. Cost of control or goodwill:

	Rs.
Amount paid for shares purchased by H ltd., in S ltd.,	= 150000
Less : Face value of shares purchased 15000 sharesxRs10.= 150000	
Holding company's share of capital profit	= <u>45000</u> <u>195000</u>
Capital reserve	<u>45000</u>

6. Provision for unrealized profit in stock:

Profit in stock of H ltd acquired from S ltd = Rs.50000x25/125 = Rs.10000

Consolidated Balance sheet of H Ltd., and its subsidiary S Ltd., as on 31.12.2018

Liabilities	Rs.	Assets	Rs.
Share capital 100000 shares of Rs.10 each	1000000	Fixed assets	
Profit & loss a/c 400000		H Ltd., 800000	
Add: H's revenue profit <u>90000</u>		S Ltd., <u>120000</u>	920000
490000		Stock	
Less: Provision for <u>10000</u>	480000	H Ltd., 610000	
unrealized profit		S Ltd., <u>240000</u>	
		850000	
Reserves	100000	Less: Provision for <u>10000</u>	840000
Capital reserve	45000	unrealized profit	
		Debtors	
Creditors H Ltd., 200000		H Ltd., 130000	
S Ltd., <u>120000</u>	320000	S Ltd., <u>170000</u>	300000
Bills payable 30000		Bills receivable 10000	
Less: Mutual obligation <u>10000</u>	20000	Less : Mutual <u>10000</u>	--
		Obligation	
Minority interest	95000		
	2060000		2060000

Problem 10 Issue of bonus shares

The summarized Balance Sheet of H Ltd. and its S Ltd. on 31st December 2004 are as follows:

<i>Liabilities</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>	<i>Assets</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>
Share Capital (in shares of Rs. 10 each)	5,00,000	1,00,000	Assets	5,00,000	1,70,000
Reserves	80,000	30,000	8,000 shares in S Ltd.	1,40,000	
Profit and Loss	60,000	40,000			
	6,40,000	1,70,000		6,40,000	1,70,000

S Ltd. had the credit balance of Rs. 30,000 in the Reserves when H Ltd. acquired shares in S Ltd. decided to make a bonus issue out of post-acquisition profits of two shares of Rs. 10 each fully paid for every five shares held. Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares. Also make the consolidated Balance Sheet after the issue of bonus shares.

Workings:

1. Cost of Control before the issue of Bonus shares.		Rs.
Cost of 8,000 shares in S Ltd.		1,40,000
Less: Face value of 8,000 shares of Rs 10 each	80,000	
Share of Capital Profit Rs 30,000 $\times \frac{8,000}{10,000}$ (Rs.30000x4/5)	<u>24,000</u>	1,04,000
Cost of Control or Goodwill		<u>36,000</u>
2. Cost of Control After the issue of Bonus share:		Rs.
Cost of 8,000 shares in S Ltd.		1,40,000
Less: Face value of 8,000 shares of Rs 10 each held before issue of Bonus share	80,000	
Face value of 3,200 shares (2 Bonus shares of every 5 shares: $\frac{8,000 \times 2}{5} = 3,200$)	3200 shares x Rs.10 32,000	
Share in Reserves:		
(Rs 30,000 $\times \frac{8,000}{10,000}$)	<u>24,000</u>	1,36,000
Cost of Control or Goodwill:		<u>4,000</u>
3. Calculation of Minority Interest:		Rs.
Share capital held by outsiders before the issue of Bonus Shares (2,000 \times Rs 10)		20,000
Add: 2,000 $\times \frac{2}{5} = 800$ Bonus shares of Rs 10 each		8,000
Add: Share in Reserves		6,000
(Rs. 30,000 $\times \frac{2,000}{10,000}$) Rs.30000x1/5		
Minority Interest:		<u>34,000</u>

$$\text{Holding Minority ratio} = 8000 : 2000 \{ (Rs.100000/Rs.10)=10000 - 8000 \}$$

$$= 8 : 2 \text{ or } 4 : 1$$

SOLUTION:**Consolidated Balance Sheet of H Ltd. and its
Subsidiary S Ltd. as on 31st Dec 2004**

Liabilities	Rs.	Assets	Rs.
Share Capital:		Goodwill ²	4,000
50,000 shares of Rs. 10 each	5,00,000	Assets:	
Reserves	80,000	H Ltd.	5,00,000
Profit and Loss A/c	60,000	S Ltd.	1,70,000
Minority Interest	34,000		
	6,74,000		6,74,000

Problem 11 Issue of bonus shares

Parent Ltd. acquired 6,000 equity shares of Rs.10 each in Subsidiary Ltd. on Dec.31, 2000. The summarized Balance Sheets of Parent Ltd. and Subsidiary Ltd. as on that date were:

Balance Sheets as at 31st December 2000					
Liabilities	Parent Ltd. Rs.	Sub. Ltd. Rs.	Assets	Parent Ltd. Rs.	Sub. Ltd. Rs.
<i>Capital A/c</i>			<i>Fixed Assets</i>	2,53,000	1,28,000
<i>Authorised</i>	4,00,000	1,20,000	Investment in		
<i>Issued and Paid-up :</i>			Subsidiary Ltd. at cost		
60,000 shares of Rs. 5 each	3,00,000	—	6,000 shares of Rs. 10 each	1,00,000	—
8,000 shares of Rs. 10 each	—	80,000	Stock in hand	30,000	10,000
Capital Reserve	—	34,000	Bills Receivable	2,000	—
General Reserve	20,000	10,000	(including Rs. 1,000 from		
Profit and Loss A/c	50,000	10,000	Subsidiary Ltd.)		
Bills Payable			Debtors and balance at Bank	20,000	17,000
(Including Rs. 1,000 to					
Parent Ltd.)	—	3,500			
Creditors	35,000	17,500			
	<u>4,05,000</u>	<u>1,55,000</u>		<u>4,05,000</u>	<u>1,55,000</u>

Note : (Re. : Balance Sheet of Parent Ltd.) Contingent Liability for Bills discounted Rs. 1,200.

On 1.1.2000 Subsidiary Ltd. utilised part of its Capital Reserve to make a Bonus issue of one share for every four shares held.

You are required to prepare the Consolidated Balance Sheet as on 1.1.2000, and show therein how your figures are made up.

Solution :

1. Proportion of holding shares :

	Rs.	
Parent Ltd.'s share in S. Ltd.	$\frac{6,000}{8,000} = \frac{3}{4}$	
Sub. S. Ltd. 8000-6000	$\frac{2,000}{8,000} = \frac{1}{4}$	

3. There will be no current profit

since the shares are acquired at 31.12.2001, i.e., at the time of preparing final accounts. 31.12.2000

5. Capital Reserve :

Cost of Shares	Rs. 1,00,000
Less : Face value of shares held (6,000 × Rs. 10)	60,000
Capital Profit	25,500
F.V. of Bonus issue	15,000
	<u>1,00,500</u>
Rs. 20,000 × 3/4 = 15,000	
Capital Reserve	<u><u>500</u></u>

2. Capital Profit :

	Rs.
Capital Reserve	34,000
Less : Bonus Issue	<u>20,000 - 80000 × 1/4</u>
	14,000
Revenue Reserves	10,000
Profit & Loss A/c	10,000
	<u>34,000</u>
Parent Ltd. Rs. 34,000 × $\frac{3}{4}$ =	25,500
Subsidiary Ltd. Rs. 34,000 × $\frac{1}{4}$ =	8,500
4. Minority Interest :	Rs.
Share Capital (2,000 × Rs. 10)	20,000
Capital Profit	8,500
F.V. of Bonus issue	
(Rs. 20,000 × $\frac{1}{4}$)	5,000
	<u><u>33,500</u></u>

Parent Ltd. and its subsidiary Subs. Ltd.
Consolidated Balance Sheet
as at 1st January 2001

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Share Capital :			Fixed Assets :		
<i>Authorised</i>		<u>520000</u>	Parent Ltd.	2,53,000	
<i>Issued & Paid-up</i>			Sub. Ltd.	1,28,000	
60,000 share of Rs. 5 each,					3,81,000
fully paid		3,00,000	Investments		Nil
Reserve & Surplus			Current Assets, Loans and		
General Reserve		20,000	Advances :		
Capital Reserve		500	Stock		
Profit & Loss A/c		50,000	Patent Ltd.	30,000	
Minority Interest		33,500	Sub. Ltd.	10,000	
Secured Loans		Nil			40,000
Unsecured Loans		Nil	Debtors & Bank Balances		
Current Liabilities &			Parent Ltd.	20,000	
Provisions			Sub. Ltd.	17,000	
Creditors :					37,000
Parent Ltd.	35,000		Bills Receivable		
Sub. Ltd.	17,500		Parent Ltd.	2,000	
		52,500	Less : Acceptance by Sub. Ltd.		
Bills Payable :			per contra	1,000	
Sub. Ltd.	3,500				1,000
Less : Bills held by Parent			Misc. Expenditure		Nil
per contra	1,000				
		2,500			
		<u>4,59,000</u>			<u>4,59,000</u>

Problem 12 Issue of bonus shares Assignment

The Balance Sheets of H. Ltd. and S. Ltd.

Balance Sheets
as at 31st December 2000

<i>Liabilities</i>	<i>H. Ltd. Rs.</i>	<i>S. Ltd. Rs.</i>	<i>Assets</i>	<i>H. Ltd. Rs.</i>	<i>S. Ltd. Rs.</i>
Share Capital : (Rs. 10 each)	4,00,000	1,00,000	Fixed Assets	3,50,000	1,00,000
General Reserve	1,00,000	40,000	Investments :		
Profit and Loss A/c	50,000	30,000	8,000 shares in S. Ltd.	1,00,000	—
Creditors	50,000	10,000	Current Assets	1,50,000	80,000
	<u>6,00,000</u>	<u>1,80,000</u>		<u>6,00,000</u>	<u>1,80,000</u>

S. Ltd. has a credit balance of Rs. 40,000 in the General Reserve when H. Ltd. acquired share in S. Ltd. S. Ltd. capitalized Rs. 20,000 out of profits earned after the acquisition of its shares by H. Ltd. by making a bonus issue of one share for every five shares held. Prepare a consolidated Balance Sheet.

Problem 13 Capital expenses given in the balance sheet

The following are the balance sheets of H Ltd., and S Ltd., as on 31.3.2019

Liabilities	H Ltd., Rs.	S Ltd., Rs.	Assets	H Ltd., Rs.	S Ltd., Rs.
Share capital Rs.10 each fully paid	600000	200000	Machinery	300000	100000
General reserve	150000	70000	Furniture	70000	45000
Profit & Loss A/c	70000	50000	70% Shares in S Ltd., at cost	260000	--
Creditors	90000	60000	Stock	175000	189000
			Debtors	55000	30000
			Cash at bank	50000	10000
			Preliminary expenses	--	6000
	910000	380000		910000	380000

H Ltd., acquired the shares of S Ltd., as on 30.06.2018. on 1.4.2018 S Ltd's., general reserve and profit & loss account was at Rs.60000 and 20000 respectively. No part of preliminary expenses written off in the year 31.03.2019. Prepare consolidated balance sheet.

Holding company's share = $\text{Rs.}84000 \times 7/10 = \text{Rs.}58800$

Minority share = $\text{Rs.}84000 \times 3/10 = \text{Rs.}25200$

4. Minority interest :

Rs.

Face value of minority share $\text{Rs.}200000 \times 3/10 = 60000$

Add: Minority share of capital profits = 25200

Minority share of revenue profits = 9000

Minority interest = 94200

5. Cost of control or goodwill:

Rs.

Amount paid for shares purchased by H Ltd., in S Ltd., = 260000

Less : Face value of shares purchased $\text{Rs.}200000 \times 7/10 = 140000$

Holding company's share of capital profit = 58800 198800

Goodwill 61200

Consolidated Balance sheet of H Ltd., and its subsidiary S Ltd., as on 31.03.2019

Liabilities	Rs.	Assets	Rs.
Share capital	600000	Goodwill	61200
60000 shares of Rs.10 each		Machinery	
Profit & loss a/c 70000		H Ltd., 300000	
Add: H's revenue profit <u>21000</u>	91000	S Ltd., <u>100000</u>	400000
		Stock	
General Reserve	150000	H Ltd., 175000	
		S Ltd., <u>189000</u>	364000
Creditors H Ltd., 90000		Debtors	
S Ltd., <u>60000</u>	150000	H Ltd., 55000	
		S Ltd., <u>30000</u>	85000
		Furniture	
Minority interest	94200	H Ltd., 70000	
		S Ltd., <u>45000</u>	115000
		Cash at bank	
		H Ltd., 50000	
		S Ltd., <u>10000</u>	60000
	1085200		1085200

Problem 14 Cash-in-Transit & Mutual Obligation

X Ltd. purchased 750 shares in Y Ltd. on 1.7.2006. The following were their Balance Sheets on 31.12.2006.

<i>Liabilities</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>	<i>Assets</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Buildings	2,05,000	1,25,000
Shares of Rs. 100 each	3,00,000	1,00,000	Stock	1,00,000	80,000
General Reserve			Debtors	1,00,000	40,000
1.1.2006	1,00,000	70,000	Investments	1,00,000	—
Profit & Loss A/c	1,00,000	60,000	(in Y Ltd.)		
Creditors	80,000	40,000	Bills Receivable	40,000	45,000
Bills Payable	50,000	20,000	Bank	60,000	20,000
Current Account :			Current Accounts :		
X Ltd.	—	20,000	Y Ltd.	25,000	—
	6,30,000	3,10,000		6,30,000	3,10,000

Additional information:

1. Bills Receivable of X Ltd. include Rs. 10,000 accepted by Y Ltd.
 2. Debtors of X Ltd. include Rs. 20,000 payable by Y Ltd.
 3. A cheque of Rs. 5,000 sent by Y Ltd. on 20th December was not yet received by X Ltd. till 31st December 2006.
 4. Profit and Loss Account of Y Ltd. showed a balance of Rs. 20,000 on 01.01.2006.
- You are required to prepare a consolidated Balance sheet of X Ltd. and Y Ltd. as on 31st December 2006.

Working notes:

1. Holding-Minority Ratio :

Total shares in subsidiary Rs. 1,00,000 , Rs. 100 = 1,000 shares

Shares possessed by X Ltd. = 750 shares

Minority Shares = 250 shares - 1000-750

Ratio = 750 : 250 or 3 : 1

2. Revenue Profits

Profit & Loss Account (Y Ltd.) on 31.12.2006 : Rs. 60,000

Less : Profit & Loss Account (Y Ltd.) on 1.1.2006 : Rs. 20,000

Profit for 2006 40,000

Profit made by Y Ltd. after 1.7.2006 (Revenue) Rs. 40,000 \times 1/2 = Rs. 20,000 July to December – 6 months

Holding Company's share : 20,000 \times 3/4 = Rs. 15,000

Minority's share 20,000 \times 1/4 = Rs. 5,000

3. Capital Profit :

General Reserve of Y Ltd. on 1.1.2006 Rs. 70,000

Add : Profit & Loss A/c of Y Ltd. 1.1.2006 Rs. 20,000

Current year's capital profit

Rs. 40,000 \times 6/12 Rs. 20,000

Capital Profit: 1,10,000

Holding Company's share Rs. 1,10,000 \times 3/4 = 82,500

Minority' Share Rs. 1,10,000 \times 1/4 = 27,500 - 110000x1/4

4. Minority Interest :

Face value of Minority shares Rs. 100 \times 250 = Rs. 25,000

Add : Minority share of capital profit = 27,500

Minority share of revenue profit = 5,000

Minority Interest : 57,500

5. Cost of Control or Goodwill :

Amount paid by X Ltd. for shares in Y Ltd. = Rs. 1,00,000

Less : Face value of shares : 750 \times Rs. 100 : Rs. 75,000

Holding Co's. share of Capital 82,500

Profit 1,57,500

Capital Reserve 57,500

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

as on 31st December, 2006

<i>Liabilities</i>		<i>Rs.</i>	<i>Assets</i>		<i>Rs.</i>
Shares Capital :			Buildings :		
3,000 shares of Rs. 100 each		3,00,000	X Ltd.	2,05,000	3,30,000
General Reserve		1,00,000	Y Ltd.	1,25,000	
Profit & Loss A/c	1,00,000		Stock :		
Add : Holding Co's. share	15,000	1,15,000	X Ltd.	1,00,000	1,80,000
Capital Reserve		57,500	Y Ltd.	80,000	
Creditors :			Debtors :		
X Ltd.	80,000		X Ltd.	1,00,000	1,40,000
Y Ltd.	40,000		Y Ltd.	40,000	
	1,20,000			1,40,000	
Less : Mutual Obligation	20,000	1,00,000	Less : Mutual Obligation	20,000	1,20,000
Bills Payable :			Bills Receivable :		
X Ltd.	50,000		X Ltd.	40,000	85,000
Y Ltd.	20,000		Y Ltd.	45,000	
	70,000			85,000	
Less : Mutual Obligation	10,000	60,000	Less : Mutual Obligation	10,000	75,000
Current Account :			Bank :		
X Ltd.	20,000		X Ltd.	60,000	80,000
Less : Mutual Obligation	20,000	—	Y Ltd.	20,000	
Minority Interest		57,500	Current Account :		
			Y Ltd.	25,000	
			Less : Cash-in transit	5,000	
				20,000	
			Less : Mutual Obligation	20,000	—
			Cash-in-transit		5,000
		7,90,000			7,90,000

Problem 15 Two class of shares

Following are the Balance Sheets of A Ltd. and B Ltd. on 31st March, 2006

	A Ltd. Rs.	B Ltd. Rs.		A Ltd. Rs.	B Ltd. Rs.
Pref. Capital (Rs. 10)	10,000	4,000	Assets	9,000	42,000
Equity Capital (Rs. 10)	20,000	30,000	Investments in B Ltd. :		
Reserves	4,000	1,000	2,250 Equity Shares	30,000	—
Profit & Loss	5,000	5,000	250 Pref. Shares	4,000	—
Creditors	4,000	2,000			
	43,000	42,000		43,000	42,000

On 1.4.2005 the date of purchase of shares of B Ltd. by A Ltd., there was debit balance of Rs. 1,000 in the P & L A/c of B Ltd. and reserves of B Ltd. were nil.
Prepare Consolidated Balance Sheet.

Working notes:

1. Calculation of Goodwill :

Cost of Equity Shares	Rs.	Rs.
Cost of Pref. Shares		30,000
		<u>4,000</u>
		34,000
Less : Face value of Equity Shres 2250xRs.10	22,500	
Less : Face value of Pref. Shares 250xRs.10	<u>2,500</u>	
	25,000	
Less : Shares of Loss $\frac{1,000 \times 3}{4}$	<u>- 750</u>	24,250
Goodwill		<u><u>9,750</u></u>

$$\frac{*2,250 \text{ shares}}{3,000 \text{ shares}} = \frac{3}{4}$$

2. Consolidated Profit :

Profit of A Ltd.	Rs.	Rs.
Profit of B Ltd. as per B/S	5,000	5,000
Add : Reserves	1,000	
Add : Loss of prior period	<u>1,000</u>	
	Rs. <u><u>7,000</u></u>	
Share of A Ltd. is the profit $\left(\frac{7,000 \times 3}{4} \right)$		5,250
		<u><u>10,250</u></u>
		Rs.

3. Minority Interest :

Equity Capital $\left(\frac{30,000 \times 1}{4} \right)$	7,500
Pref. Capital $\left(\frac{4,000 \times 3}{8} \right)$	1,500
Revenue Profit $\left(\frac{7,000 \times 1}{4} \right)$	1,750
	<u>10,750</u>
Less : Loss of prior Period $\left(\frac{1,000 \times 1}{4} \right)$	<u>- 250</u>
	10,500

4. Since reserves in prior period were nil, the amounts of reserve of Rs. 1,000 has been transferred to reserves only out of current year's profit, hence it has been added in order to find out Total Profit of the current year.
5. Ratio in Pref. Capital : Pref. share is of Rs. 10, hence $\text{Rs. } 4,000 \div 10 = 400$ shares; $400 \text{ shares} - 250 \text{ shares} = 150 \text{ shares}$, $250 : 150$ or $10 : 6$ or $5 : 3$ or $5/8 : 3/8$.
6. Ratio in Equity shares : Equity share is of Rs. 10, hence $30,000 \div 10 = 3,000$ shares; $3,000 - 2,250 \text{ shares} = 750 \text{ shares}$. $2,250 : 750$ or $450 : 150$ or $30 : 10$ or $3 : 1$ or $3/4 : 1/4$
7. Creditors = $\text{Rs. } 4,000 + 2,000 = \text{Rs. } 6,000$

SOLUTION :**Consolidated Balance Sheet
as on 31st March, 2006**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital :		Fixed Assets :	
Equity Capital	20,000	Goodwill	9,750 ¹
Pref. Capital	10,000	Other Assets	
Reserves & Surplus :		(9,000 + 42,000)	51,000
Reserves	4,000		
Profit & Loss	10,250 ²		
Current Liabilities :			
Minority Interest	10,500 ³		
Creditors	6,000 ⁷		
	60,750		60,750

Problem 16 Two class of shares

The following are the Balance Sheets of H. Ltd. and its subsidiary S. Ltd. as at 31.12.2018

Balance Sheets as at 31st December 31.12.2018					
Liabilities	H. Ltd. Rs.	S. Ltd. Rs.	Assets	H. Ltd. Rs.	S. Ltd. Rs.
Share Capital :			Fixed Assets	8,00,000	1,20,000
10,000 Equity Shares of Rs. 100 each	10,00,000	—	Investments :		
10,000 Equity shares of Rs. 10 each, fully paid	—	1,00,000	8,000 Equity Shares in S. Ltd.	1,00,000	—
5,000, 8% Preference shares of Rs. 10 each, fully paid	—	50,000	Current Assets	2,50,000	65,000
General Reserve	1,00,000	20,000			
Sundry Creditors	50,000	10,000			
Dividend due on Preference Shares	—	5,000			
	<u>11,50,000</u>	<u>1,85,000</u>		<u>11,50,000</u>	<u>1,85,000</u>

S. Ltd. had Rs. 15,000 in General Reserve as on 1.1.2018. No dividend has been declared by S. Ltd. in 2018

Prepare a Consolidated Balance Sheet as at 31st Dec. :

Workings :

1. Proportion of Holding Shares :

	Rs.	
H. Ltd.'s share in S. Ltd.	$= \frac{8,000}{10,000}$	$= \frac{4}{5}$

S. Ltd.	10000-8000	$= \frac{2,000}{10,000}$	$= \frac{1}{5}$
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3. Current Profits :

	Rs.	
General Reserve	20000-15000	<u>5,000</u>
H. Ltd. Rs. 5,000 $\times \frac{4}{5}$		4,000
S. Ltd. Rs. 5,000 $\times \frac{1}{5}$		1,000

5. Minority Interest :

	Rs.	
Equity Share Capital (2,000 \times 10)		20,000
Pref. Share Capital		50,000
Capital Profit		3,000
Current Profit		1,000
Dividend due on Pref. Shares		<u>5,000</u>
		79,000

2. Capital Profit :

	Rs.	
General Reserve		<u>15,000</u>

H. Ltd. Rs. 15,000 $\times \frac{4}{5}$	=	12,000
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S. Ltd. Rs. 15,000 $\times \frac{1}{5}$	=	3,000
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4. Goodwill

	Rs.	
Cost of Shares		1,00,000
Less : Face value	80,000	
Cap. Profit	<u>12,000</u>	
		92,000
Goodwill		<u><u>8,000</u></u>

**H. Ltd. and its subsidiary S. Ltd.—Consolidated B/S
Balance Sheet**

as at 31st December 31.12.2018

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
<i>Share Capital :</i>			<i>Fixed Assets :</i>		
<i>Authorised</i>			H. Ltd.	8,00,000	
<i>Issued & Paid-up</i>			S. Ltd.	1,20,000	
10,000 Equity shares of		10,00,000			9,20,000
Rs. 100 each, fully paid			Goodwill :		8,000
<i>Reserve & Surplus :</i>			<i>Investment :</i>		Nil
General Reserve	1,00,000		<i>Current Assets,</i>		
Profit of S. Ltd.	4,000	1,04,000	<i>Loans & Advances :</i>		
		79,000	H. Ltd.	2,50,000	
<i>Minority Interest</i>		Nil	S. Ltd.	65,000	
<i>Secured Loans</i>		Nil			3,15,000
<i>Unsecured Loans</i>		Nil	<i>Misc. Expenditure</i>		Nil
<i>Current Liabilities and</i>					
<i>Provisions :</i>					
Sundry Creditors :					
H. Ltd.	50,000				
S. Ltd.	10,000	60,000			
		<u>12,43,000</u>			<u>12,43,000</u>

Problem 17 Two class of shares

H. Ltd. acquires 80% of both classes of shares of S. Ltd., on 1.1.2001, at a total cost of Rs. 1,00,000. The Balance Sheets of the two companies as on that date are:

<i>Liabilities</i>	H. Ltd. Rs.	S. Ltd. Rs.	<i>Assets</i>	H. Ltd. Rs.	S. Ltd. Rs.
Share capital :			Fixed Assets	2,50,000	1,40,000
40,000 Equity Shares of Rs. 10 each, fully-paid	4,00,000	—	Investments		
5,000 Equity Shares of Rs. 10 each, fully paid	—	50,000	in share of S. Ltd.	1,00,000	
5,000, 8% Pref. Shares of Rs. 10 each, fully paid	—	50,000	Current Assets	1,50,000	20,000
General Reserve (1.1.2001)	50,000	30,000			
Profit & Loss A/c	20,000	10,000			
Sundry Creditors	30,000	20,000			
	<u>5,00,000</u>	<u>1,60,000</u>		<u>5,00,000</u>	<u>1,60,000</u>

S. Ltd. had Rs. 5,000 in Profit and Loss Account as on 1.1.2001. The dividend in respect of Preference shares for 2001 is still payable.

Prepare a Consolidated Balance Sheet as at 31.12.2001.

Workings :

1. Proportion of holding shares :

H. Ltd.'s share in S. Ltd. = Rs. 80% (i.e., $\frac{4}{5}$)

S. Ltd. = 20% (i.e., $\frac{1}{5}$)

3. Current Profits :

Profit and Loss A/c

(Rs. 10,000 - Rs. 5,000)

Less : Preference Dividend

(8% on Rs. 50,000)

H. Ltd. Rs. 1,000 $\times \frac{4}{5}$

S. Ltd. Rs. 1,000 $\times \frac{1}{5}$

5. Capital Reserve :

Cost of Shares

Less : Face value of

Equity shares 40,000

Pref. shares 40,000

Capital Profit 28,000

Capital Reserve :

2. Capital Profit :

Profit and Loss A/c
General Reserve

H. Ltd. Rs. 35,000 $\times \frac{4}{5}$ =

S Ltd. Rs. 35,000 $\times \frac{1}{5}$ =

4. Minority Interest :

Equity Share Capital

(50,000 $\times \frac{1}{5}$)

Preference share capital

(Rs. 50,000 $\times \frac{1}{5}$)

Capital Profit

Current Profit

Preference Dividend

(Rs. 4,000 $\times \frac{1}{5}$)

Rs.

5,000

30,000

35,000

28,000

7,000

10,000

10,000

7,000

200

800

28,000

28,000

10,000

7,000

200

800

28,000

28,000

10,000

7,000

200

800

28,000

28,000

10,000

7,000

200

800

28,000

28,000

10,000

7,000

200

800

28,000

28,000

1,08,000

8,000

50000x4/5

50000x4/5

H. Ltd. and its subsidiary S. Ltd.
Consolidated Balance Sheet
as at 31st December 2001

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Share Capital :			Fixed Assets :		
<i>Authorised</i>			H. Ltd.	2,50,000	
<i>Issued and Paid-up</i>			S. Ltd.	1,40,000	
40,000 Equity shares					3,90,000
of Rs. 10 each, fully paid		4,00,000	Investment :		Nil
Reserve and Surplus :			Current Assets,		
Capital Reserve		8,000	Loans & Advances :		
General Reserve		50,000	H. Ltd.	1,50,000	
Profit and Loss A/c			S. Ltd.	20,000	
H. Ltd.	20,000				1,70,000
S. Ltd.	800		Misc. Expenditure		Nil
Pre. Dividend					
(Rs. 4,000 $\times \frac{4}{5}$)	3,200				
		24,000			
Minority Interest :		28,000			
Secured Loan :		Nil			
Unsecured Loan :		Nil			
Current Liabilities and Provision :					
Sundry Creditors :					
H. Ltd.	30,000				
S. Ltd.	20,000				
		50,000			
		<u>5,60,000</u>			<u>5,60,000</u>

Problem 18 Revaluation of Assets

From the following Balance Sheets of H. Ltd. and its subsidiary S. Ltd. drawn up at 31.12.1999, prepare a Consolidated Balance Sheet as at that date, having regard to the following:

- (i) Reserve and Profit and Loss Account (Cr.) of S. Ltd. stood at Rs. 25,000 and Rs. 15,000, respectively, on the date of acquisition of its 80% shares held by H. Ltd. on 1.1.1999, and'
- (ii) Machinery (Book value Rs. 1,00,000) and Furniture (Book value Rs. 20,000) of S. Ltd. were revalued at Rs. 1,50,000 and Rs. 15,000, respectively, for the purpose of fixing the price of its shares, there was no purchase or sale of these assets since the date of acquisition.

Balance Sheets of H. Ltd. and S. Ltd.
as at 31st December 1999

<i>Liabilities</i>	<i>H. Ltd. Rs.</i>	<i>S. Ltd. Rs.</i>	<i>Assets</i>	<i>H. Ltd. Rs.</i>	<i>S. Ltd. Rs.</i>
<i>Share Capital :</i>					
Shares of Rs. 100 each	5,00,000	1,00,000	Machinery	3,00,000	90,000
Reserves	2,00,000	75,000	Furniture	50,000	17,000
Profit and Loss A/c	1,00,000	25,000	Other Assets	4,40,000	1,43,000
Creditors	1,50,000	50,000	(Current)		
			Shares in S. Ltd.		
			800 at Rs. 200 each	1,60,000	—
	<u>9,50,000</u>	<u>2,50,000</u>		<u>9,50,000</u>	<u>2,50,000</u>

Workings

1. Proportion of holding shares :		Rs.	2. Capital Profit		Rs.
H. Ltd.'s share in S. Ltd.	=	$\frac{800}{1,000} = \frac{4}{5}$ (i.e., 80%)	Reserve		25,000
S. Ltd.	=	$\frac{200}{1,000} = \frac{1}{5}$ (i.e., 20%)	Profit and Loss		15,000
					<u>40,000</u>
3. Current Profit :		Rs.	Add : Undervaluation of		
Reserve (75,000 – 25,000)		50,000	Machinery (1,50,000 – 1,00,000)		50,000
Profit & Loss A/c					<u>90,000</u>
(25,000 – 15,000)		10,000	Less : Overvaluation of		
		<u>60,000</u>	Furniture (20,000 – 15,000)		5,000
Less : Depreciation on					<u>85,000</u>
Machinery (100000-90000)			H. Ltd. Rs. 85,000 $\times \frac{4}{5}$		68,000
undercharged @ 10%			S. Ltd. Rs. 85,000 $\times \frac{1}{5}$		17,000
(Rs. $\frac{10,000}{1,00,000} \times 100$) on			4. Minority Interest :		Rs.
Rs. 50,000 $\times 10/100$		5,000	Share Capital (200 \times Rs. 100)		20,000
		<u>55,000</u>	Add : Capital Profit		17,000
Add: : Dep. overcharged			Add : Current Profit		11,150
on Furniture @ 15% (20000-17000)					<u>48,150</u>
(Rs. $\frac{3,000}{20,000} \times 100$)		750	5. Cost of Control/Goodwill :		Rs.
on Rs. 5,000 $\times 15/100$		<u>55,750</u>	Cost of Shares		1,60,000
H. Ltd. Rs. 55,750 $\times \frac{4}{5}$		44,600	Less : Nominal value of (100000 \times 80/100)		
S. Ltd. Rs. 55,750 $\times \frac{1}{5}$		11,150	Shares held	Rs. 80,000	
			Cap. Profit	Rs. 68,000	
					<u>1,48,000</u>
			Goodwill		<u>12,000</u>

H. Ltd. and its subsidiary S. Ltd.
Consolidated Balance Sheet
as at 31st December 1999

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Share Capital :			Fixed Assets :		
Authorised		Goodwill		12,000
Issued and Paid-up			Machinery		
5,000 Equity Shares			H. Ltd.	3,00,000	
of Rs. 100 each, fully paid		5,00,000	S. Ltd.	90,000	
Reserve and Surplus :			Add : Under-		
Reserve :			valuation	50,000	
H. Ltd.	2,00,000			1,40,000	
S. Ltd. (50,000 × $\frac{4}{5}$)	40,000	2,40,000	Less : Depreciation	5,000	
				1,35,000	4,35,000
Profit & Loss A/c :			Furniture :		
H. Ltd.	1,00,000		H. Ltd.	50,000	
S. Ltd. (44,600 – 40,000)	4,600		S. Ltd.	1,7000	
		1,04,600	Less : Overvaluation	5,000	
Minority Interest :		48,150		12,000	
Secured Loan :		Nil	Add : Depreciation	750	
Unsecured Loan :		Nil		12,750	
Current Liabilities and Provisions :					62,750
Creditors :			Investments :		Nil
H. Ltd.	1,50,000		Current Assets, Loans and Advances :		
S. Ltd.	50,000		Current Assets		
		2,00,000	H. Ltd.	4,40,000	
			S. Ltd.	1,43,000	
					5,83,000
			Misc. Expenditure		Nil
		<u>10,92,750</u>			<u>10,92,750</u>

Problem 19 Revaluation of Assets

A ltd., acquired 1600 ordinary shares of Rs.100 each in B ltd., on 31.12.2019. Their balance sheet was given been below

Liabilities	A ltd., Rs.	B ltd., Rs.	Assets	A ltd., Rs.	Bltd., Rs.
Share capital 5000 ordinary shares of Rs.100 each	500000	--	Land & buildings	150000	180000
2000 ordinary shares of Rs.100 each	--	200000	Plant & machinery	240000	109400
Capital reserve	--	120000	Investments in B ltd.at cost	340000	--
General reserve	240000	--	Stock	120000	36000
Profit & Loss A/c	57200	36000	Debtors	44000	40000
Bank overdraft	80000	--	Bills receivable (including Rs.3000 from B ltd.,)	15800	--
Bills payable (including Rs.4000 to A ltd.,)	--	8400	Cash at bank	14500	8000
Creditors	47100	9000			
	924300	373400		924300	373400

Following additional information was available ;

- (i) B Ltd., had made a bonus issue on 31.12.2019 of one ordinary share for every two shares held by its shareholders. Effect has yet to be given in the accounts for the issue.
- (ii) The directors are advised that the land and building of B Ltd., are undervalued by Rs.20000 and plant & machinery of B Ltd., overvalued by Rs.10000. the assets have to be adjusted accordingly.
- (iii) Sundry creditors of A Ltd., include Rs.12000 due to B Ltd., Prepare consolidated balance sheet.

Working notes:

1. Holding – Minority ratio:

Total shares in B Ltd., = 2000

Shares acquired by A Ltd., = 1600

Minority share = $2000 - 1600 = 400$ shares

Ratio 1600 : 400 or 4 : 1

2. Bonus issue not yet recorded in B Ltd., = $\text{Rs.}200000 \times \frac{1}{2} = \text{Rs.}100000$

Holding Company's share = $\text{Rs.}100000 \times \frac{4}{5} = \text{Rs.}80000$

Minority share = $\text{Rs.}100000 \times \frac{1}{5} = \text{Rs.}20000$

3. Revenue profits : NIL Since shares are purchased on the date of balance sheet.

4. Capital profits:

	Rs.
Capital Reserve of B Ltd (given)	= 120000
Less: Bonus issue made	= <u>100000</u>
	20000
Add: Profit & loss a/c.	36000
Undervaluation of land and buildings	<u>20000</u>
	76000
Less: Overvaluation of plant and machinery	<u>10000</u>
-	<u>66000</u>

Holding company's share = $\text{Rs.}66000 \times \frac{4}{5} = \text{Rs.}52800$

Minority share = $\text{Rs.}66000 \times \frac{1}{5} = \text{Rs.}13200$

4. Minority interest :

Rs.

Face value of minority share 400 shares x Rs.100 = 40000

Add: Bonus issue = 20000

Minority share of capital profits = 13200

Minority interest = 73200

5. Cost of control or goodwill:

Rs.

Amount paid for shares purchased by A Ltd., in B Ltd., = 340000

Less : Face value of shares purchased 1600 shares x Rs.100 = 160000

Holding company's share of capital profit = 52800 292800

Goodwill 47200

Consolidated Balance sheet of A ltd., and its subsidiary B ltd., as on 31.12.2019

Liabilities	Rs.	Assets	Rs.
Share capital		Goodwill	47200
50000 ordinary shares of Rs.100 each	500000	Land & Building	
		A ltd., 150000	
General reserve	240000	B ltd., 180000	
Profit & loss a/c	57200	Add: undervaluation <u>20000</u>	350000
Bank overdraft	80000	Plant & Machinery	
Bills payable 8400		A ltd., 240000	
Less: Mutual obligation <u>3000</u>	5400	B ltd., <u>109400</u>	
Creditors A ltd., 47100		349400	
B ltd., <u>9000</u>		Less: overvaluation <u>10000</u>	339400
56100			
Less: Mutual obligation <u>12000</u>	44100		
Minority interest	73200		

		Debtors	
		A ltd., 44000	
		B ltd., <u>40000</u>	
		84000	
		Less: mutual obli. <u>12000</u>	72000
		Stock	
		A ltd., 120000	
		B ltd., <u>36000</u>	156000
		Cash at bank	
		A ltd., 14500	
		B ltd., <u>8000</u>	22500
		Bills receivable 15800	
		Less: mutual obli. <u>3000</u>	12800
	999900		999900

Problem 20 Assets written off from revenue profits

The following is the balance sheets of A Ltd., and B Ltd., as at 31.12.2017

Liabilities	A Ltd., Rs.	B Ltd., Rs.	Assets	A Ltd., Rs.	Bltd., Rs.
Equity share capital , Rs.10 each	100000	50000	Sundry assets	66250	69100
Revenue reserves	9000	10000	Shares in B Ltd., at cost	70000	--
P & L A/c on 1.1.2017	8500	8000	Goodwill	--	10000
Profit for the year less reserves	3750	3500			
Creditors	15000	7600			
	136250	79100		136250	79100

Profit for the year of B Ltd., was Rs.6000 out of which Rs.2500 was transferred to reserves. The holding of A Ltd., in B Ltd., is 90% acquired a year ago on 31.12.2016. Write off from sundry assets of A Ltd., Rs.9000 and Rs.3100 from Bltd., out of the revenue profits. Draft a consolidated balance sheet.

Working notes:

1. Holding – Minority ratio:

A Ltd's holding in B Ltd., is given = 90%

Minority = $100 - 90 = 10\%$

Ratio 90 : 10 or 9 : 1

2. Revenue profits :

	Rs.
Profit earned for the year before transfer to reserve	= 6000
Less: Sundry assets written off	= <u>3100</u>
	<u>2900</u>

Holding company's share = $\text{Rs. } 2900 \times 9/10 = \text{Rs. } 2610$

Minority share = $\text{Rs. } 2900 \times 1/10 = \text{Rs. } 290$

3. Capital profits:

	Rs.
P & L a/c	= 8000
Add: Revenue reserve before transfer (Rs.10000-2500)	= <u>7500</u>
	<u>15500</u>

Holding company's share = $\text{Rs. } 15500 \times 9/10 = \text{Rs. } 13950$

Minority share = $\text{Rs. } 15500 \times 1/10 = \text{Rs. } 1550$

4. Minority interest :

	Rs.
Face value of minority share Rs.50000x 10/100	= 5000
Add: Minority share of revenue profits	= 290
Minority share of capital profits	= <u>1550</u>
Minority interest	= <u>6840</u>

5. Cost of control or goodwill:

	Rs.
Amount paid for shares purchased by A ltd., in B ltd.,	= 70000
Less : Face value of shares purchased Rs.50000 x90/100	= 45000
Holding company's share of capital profit	= <u>13950</u>
	<u>58950</u>
	11050
Add: Goodwill in B ltd's balance sheet	<u>10000</u>
Goodwill to be shown in the consolidated balance sheet	<u>21050</u>

Consolidated Balance sheet of A ltd., and its subsidiary B ltd., as on 31.12.2017

Liabilities	Rs.	Assets	Rs.
Share capital		Goodwill	21050
10000 shares of Rs.10 each	100000	Sundry assets	
Revenue reserve	9000	A ltd., 66250	
Profit & loss a/c 8500		Less: written off <u>9000</u>	
Add: Profit for 2017 3750		57250	
A's revenue profit <u>2610</u>		B ltd., 69100	
14860		Less: written off <u>3100</u> <u>66000</u>	123250
Less : assets written off <u>9000</u>	5860		
Creditors A ltd., 15000			
B ltd., <u>7600</u>	22600		
Minority interest	6840		
	144300		144300

Problem 21 Dividends paid out of Pre-acquisition Profit

Holders Ltd. acquired 4,000 shares of Rs. 10 each, on 30.6.2000, for Rs. 52,000 in Subs. Ltd. Holders Ltd. received 10% dividend for 1999, but the dividends, as received, has been credited to Profit and Loss Account of Holders Ltd.

The following are the Balance Sheets as at 31.12.2000:

<i>Liabilities</i>	Holders Ltd. Rs.	Subs. Ltd. Rs.	<i>Assets</i>	Holders Ltd. Rs.	Subs. Ltd. Rs.
Share Capital in Rs. 10 Shares	60,000	50,000	Investments in Subs. Ltd. (4,000 shares)	52,000	—
General Reserve (1.1.2000)	12,000	10,000	Sundry Assets	64,000	96,000
Profit and Loss A/c :					
Balance on 1.1.2000	4,000	8,000			
Balance of 2000					
Profit	30,000	20,000			
Sundry Creditors and Provisions	10,000	8,000			
	<u>1,16,000</u>	<u>96,000</u>		<u>1,16,000</u>	<u>96,000</u>

Prepare a Consolidated Balance Sheet as at 31.12. 2000.

Workings :

1. Proportion of holding shares :	Rs.	2. Capital Profit :	Rs.
H. Ltd.'s share in Subs. Ltd.	= $\frac{4,000}{5,000} = \frac{4}{5}$	General Reserve	10,000
S. Ltd. 5000-4000	= $\frac{1,000}{5,000} = \frac{1}{5}$	Profit and Loss A/c	8,000
			<u>18,000</u>
3. Current Profit : 30.6.2000-1.12.2000	Rs.	Add : Profit and Loss A/c	
Profit & Loss A/c = 6 months		(profit for 1.1.2,000 to	
(Rs. 20,000 - Rs. 10,000)	10,000	30.6.2000 (Rs. 20,000 $\times \frac{1}{2}$)	10,000
Holders Ltd. Rs. 10,000 $\times \frac{4}{5}$	<u>8,000</u>	1.1.2000 - 30.06.2000 =	<u>28,000</u>
		6 months	
Subs. Ltd. Rs. 10,000 $\times \frac{1}{5}$	2,000	H. Ltd. Rs. 28,000 $\times \frac{4}{5} =$	22,400
4. Minority Interest :	Rs.	S. Ltd. Rs. 28,000 $\times \frac{1}{5} =$	5,600
Share Capital (1,000 \times Rs. 10)	10,000		
Add : Capital Profit	5,600	5. Capital Reserve :	Rs.
Add : Current Profit	2,000	Cost of Shares	52,000
	<u>17,600</u>	Less : Nominal value of (4000x10)	
		Shares held	40,000
		Capital Profit	22,400
		Dividend for 1999	<u>4,000</u>
			66,400
		Capital Reserve	<u>14,400</u>

(Rs.40000x10/100)

Holders Ltd. and its subsidiary Subs. Ltd.
Consolidated Balance Sheet
as at 31st December 2000

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Share Capital :			Sundry Assets		
Authorised			Holders Ltd.	64,000	
Issued and Paid-up			Subs. Ltd.	96,000	
6,000 Equity shares					1,60,000
of Rs. 10 each, fully paid		60,000			
Reserve and Surplus :					
Capital Reserve		14,400			
General Reserve		12,000			
Profit and Loss A/c :					
Holders Ltd. balance on 1.1.2000	4,000				
Profit for the year 2000	30,000				
	<u>34,000</u>				
Less : Dividend received					
from Subs. Ltd.	4,000				
	<u>30,000</u>				
Add : Current Profit of Subs. Ltd.	8,000				
	<u>38,000</u>				
Minority Interest					
Sundry Creditors :		17,600			
Holders Ltd.	10,000				
Subs Ltd.	<u>8,000</u>				
		18,000			
		<u>1,60,000</u>			<u>1,60,000</u>

Problem 22 Dividends paid out of Pre-acquisition Profit

The following is the balance sheets of H Ltd., and S Ltd., as on 31.03.2019

Liabilities	H Ltd., Rs.	S Ltd., Rs.	Assets	H Ltd., Rs.	S Ltd., Rs.
Share capital shares of Rs.100 each	500000	400000	Fixed assets	250000	200000
General reserve	100000	100000	Investments in S Ltd.,	250000	--
Profit & Loss A/c	200000	150000	Current assets	400000	550000
Current liabilities	100000	100000			
	900000	750000		900000	750000

The following further information is furnished:

- H Ltd., acquires 2000 shares of S Ltd., on 01.04.2018 when the latter's general reserve and profit & loss were Rs.250000 and Rs.100000.
- On 30.06.2018 S Ltd., declared 20% dividend out of pre acquisition profits of H Ltd., credited the amount received to its profit & loss account.
- On 31.10.2018 S Ltd., issued bonus shares in the ratio of 3 shares for 5 shares held out of the general reserve. H Ltd., made no entry in the books for the bonus shares received.
- S Ltd., owed H Ltd., Rs.50000 on 31.03.2019 on account of goods supplied on credit. However all of those goods were already disposed off by S Ltd., Prepare consolidated balance sheet.

Working notes:

1. Pre and post bonus capitals of S Ltd.,

Capital after bonus = Rs.400000

Bonus issue = Rs.400000x3/8 = Rs.150000

Pre bonus capital = Rs.400000 – 150000 = Rs.250000

2. Holding – Minority ratio:

Total pre bonus shares in S Ltd., = Rs.250000/ Rs.100 = 2500 shares

Less : Shares purchased by H Ltd., = 2000

Minority shares = 500

Ratio 2000 : 500 or 4 : 1

3. Capital profits:

	Rs.	Rs.
General reserve	250000	
Less: Bonus issue	<u>150000</u>	100000
Profit & Loss A/c	100000	
Less: Dividend paid 30.06.2018 Rs.250000x20/100	<u>50000</u>	<u>50000</u>
		<u>150000</u>

Holding Company's share = Rs.150000x4/5 = Rs. 120000

Minority share = Rs.150000x1/5 = Rs.30000

4. Revenue profits:

	Rs.
Profit & loss account	150000
Less : opening p&l after dividend (Rs.100000-50000)	<u>50000</u>
	<u>100000</u>

Holding company's share = $\text{Rs.}100000 \times \frac{4}{5} = \text{Rs.}80000$

Minority share = $\text{Rs.}100000 \times \frac{1}{5} = \text{Rs.}20000$

5.Minority interest :

	Rs.
Face value of pre bonus minority share $\text{Rs.}250000 \times \frac{1}{5}$	= 50000
Add: Bonus issue $\text{Rs.}150000 \times \frac{1}{5}$	= 30000
Minority share of capital profits	= 30000
Minority share of revenue profits	= <u>20000</u>
Minority interest	= <u>130000</u>

6. Cost of control or goodwill:

	Rs.
Amount paid for shares purchased by H Ltd., in S Ltd.,	= 250000
Less : Face value of shares purchased 2000 shares $\times \text{Rs.}100$	= 200000
Holding company's share of capital profit	= 120000
Holding company's share of bonus issue $150000 \times \frac{4}{5}$	= 120000
Holding company's share of dividend $\text{Rs.}50000 \times \frac{4}{5}$	= <u>40000</u>
Capital reserve	<u>480000</u> <u>230000</u>

Consolidated Balance sheet of H Ltd., and its subsidiary S Ltd., as on 31.03.2019

Liabilities	Rs.	Assets	Rs.
Share capital 5000 shares of Rs.100 each	500000	Fixed Assets	
General reserve	100000	H Ltd., 250000	
Capital reserve	230000	S Ltd., <u>200000</u>	450000
Profit & loss a/c 200000		Current Assets	
Add: H's revenue profit <u>80000</u>		H Ltd., 400000	
280000		S Ltd., <u>550000</u>	
Less: H's dividend <u>40000</u>	240000	950000	
Current liabilities		Less: mutual obl. <u>50000</u>	900000
H Ltd., 100000			
S Ltd., <u>100000</u>			
200000			
Less: Mutual obligation <u>50000</u>	150000		
Minority interest	130000		
	1350000		1350000

Problem 23 Dividends paid out of Capital Profit

The following is the balance sheets of X Ltd., and its subsidiary Y Ltd., as on 31.03.2016

Liabilities	X Ltd., Rs.	Y Ltd., Rs.	Assets	X Ltd., Rs.	Y Ltd., Rs.
Equity Share capital shares of Rs.100 each	600000	200000	Buildings	412000	120000
General reserve	380000	8000	Machinery	100000	96000
Profit & Loss A/c	320000	144000	Furniture	20000	12400
Creditors	60000	64400	Stock	136000	80800
			Investments	448000	--
			Debtors	112000	63200
			Cash	132000	44000
	1360000	416400		1360000	416400

Additional information:

- X Ltd., acquired 80% equity shares in Y Ltd., on 01.07.2015 at a cost price of Rs.448000.
- In the profit and loss account of X Ltd., interim dividend declared by Y Ltd., on 01.07.2015 at the rate of 10% p.a. is included.
- Creditors of X Ltd., include an amount of Rs.24000 in respect of purchase from Y Ltd., and stock of X Ltd., also included stock at cost price of Rs.12000 purchased from Y Ltd., which sells the goods by adding 25% profit on the cost price.
- On 01.04.2015 in the books of Y Ltd., profit and loss account credit balance was Rs.112000 from which the company declared 10% interim dividend. During the year 2015-16 profit of the company was constant . Prepare consolidated balance sheet.

Working notes:

1. Holding – Minority ratio:

X Ltd., purchased 80% shares in Y Ltd.,

Minority share = $100 - 80 = 20\%$

Ratio 80 : 20 or 4 : 1

2. Revenue profits:

	Rs.
Profit & loss account	112000
Less : 10% interim dividend $\text{Rs. } 200000 \times 10/100$	<u>20000</u>
	92000
Less: Profit and loss account balance	<u>144000</u>
	<u>52000</u>

Profit after 01.07.2015 (July to March 2016 = 9 months) = $\text{Rs. } 52000 \times 9/12 = \text{Rs. } 39000$

Holding company's share = $\text{Rs. } 39000 \times 4/5 = \text{Rs. } 31200$

Minority share = $\text{Rs. } 39000 \times 1/5 = \text{Rs. } 7800$

3. Capital profits:

	Rs.
Profit and loss a/c	92000
General reserve	8000
Current year profit $\text{Rs. } 52000 \times 3/12$ (April to June = 3 months)	<u>13000</u>
	<u>113000</u>

Holding Company's share = $\text{Rs. } 113000 \times 4/5 = \text{Rs. } 90400$

Minority share = $\text{Rs. } 113000 \times 1/5 = \text{Rs. } 22600$

4. Interim dividend paid out of capital profits = Rs.20000

Holding company's share = $\text{Rs.}20000 \times \frac{4}{5} = \text{Rs.}16000$

Minority share = $\text{Rs.}20000 \times \frac{1}{5} = \text{Rs.}4000$

5.Minority interest :

Rs.

Face value of pre bonus minority share $\text{Rs.}200000 \times \frac{1}{5} = 40000$

Add: Minority share of capital profits = 22600

Minority share of revenue profits = 7800

Minority interest = 70400

6. Cost of control or goodwill:

Rs.

Amount paid for shares purchased by X Ltd., in Y Ltd., = 448000

Less : Face value of shares purchased $\text{Rs.} 200000 \times \frac{4}{5} = 160000$

Holding company's share of capital profit = 90400

Holding company's share of dividend = 16000 266400

Goodwill 181600

7. Provision for unrealized profit in stock :

Stock with X Ltd., purchased from Y Ltd., Rs.12000

Provision to be made = $\text{Rs.}12000 \times \frac{25}{125} = \text{Rs.}2400$

Consolidated Balance sheet of X ltd., and its subsidiary Y ltd., as on 31.03.2016

Liabilities	Rs.	Assets	Rs.
Share capital 6000 shares of Rs.100 each	600000	Goodwill	181600
General reserve	380000	Buildings	
Profit & loss a/c 320000		X ltd., 412000	
Add: X's revenue profit <u>31200</u>		Y ltd., <u>120000</u>	532000
351200		Machinery	
Less: X's dividend <u>16000</u>		X ltd., 100000	
335200		Y ltd., <u>96000</u>	196000
Less: unrealized profit <u>2400</u>	332800	Furniture	
Sundry creditors		X ltd., 20000	
X ltd., 60000		Y ltd., <u>12400</u>	32400
Y ltd., <u>64400</u>		Cash	
124400		X ltd., 132000	
Less: Mutual obligation <u>24000</u>	100400	Y ltd., <u>44000</u>	176000
Minority interest	70400		

		Debtors X ltd., 112000 Y ltd., <u>63200</u> 175200 Less: mutual obli. <u>24000</u> 151200 Stock X ltd., 136000 Y ltd., <u>80800</u> 216800 Less: unrealized profit <u>2400</u> 214400	
	1483600		1483600

Problem 24 Debentures in Subsidiary

The following is the balance sheets of A Ltd., and B Ltd., as on 31.12.2018

Liabilities	A Ltd., Rs.	B Ltd., Rs.	Assets	A Ltd., Rs.	B Ltd., Rs.
Share capital shares of Rs.50 each	250000	100000	Fixed assets	175000	75000
General reserve	50000	--	Stock	45000	20000
Profit & Loss A/c	40000	--	Debtors	30000	15000
6% Debentures	--	50000	6% Debentures in B Ltd., acquired at par	30000	--
Trade creditors	37500	22500	Shares in B Ltd., 1500 at Rs.40	60000	--
			Cash at bank	37500	12500
			Profit & loss a/c	--	50000
	900000	750000		900000	750000

A Ltd., acquired the shares on 01.04.2018. The profit and loss account of B Ltd., showed a debit balance of Rs.75000 on 01.01.2018. Trade creditors of B Ltd., include Rs.10000 for goods supplied by A Ltd., on which A Ltd., made a profit of Rs.1000. Half of the goods were still in stock on 31.12.2018. Prepare consolidated balance sheet.

Working notes:

1. Holding – Minority ratio:

Total shares in subsidiary Rs.100000/Rs.50 = 2000 shares

Less : Shares purchased by A ltd., = 1500

Minority shares = 500

Ratio 1500 : 500 or 3 : 1

2. Revenue profits:

Rs.

Profit & loss account debit balance of B ltd., 01.01.2018 75000

Less : profit and loss account debit balance on 31.12.2018 50000

25000

Profit made by B ltd after 01.04.2018 (April-December = 9 months) = $25000 \times 9/12 = \text{Rs.}18750$

Holding company's share = $\text{Rs.}18750 \times 3/4 = \text{Rs.}14063$

Minority share = $\text{Rs.}18750 \times 1/4 = \text{Rs.}4687$

3. Capital Loss:

Rs.

Profit & loss account of B ltd., 01.01.2018 75000

Less: Capital profit of current year (January to March = 3 months)

= $\text{Rs.}25000 \times 3/12$ 6250

68750

Holding Company's share = $\text{Rs.}68750 \times 3/4 = \text{Rs.}51563$

Minority share = $\text{Rs.}68750 \times 1/4 = \text{Rs.}17187$

4.Minority interest :

	Rs.
Face value of minority share 500 shares x Rs.50	= 25000
Add: Minority share of revenue profits	= <u>4687</u>
	29687
Less: Minority share of capital loss	<u>17187</u>
Minority interest	<u>12500</u>

5. Cost of control or goodwill:

	Rs.
Amount paid for shares purchased by A ltd., in B ltd.,	= 60000
Add: Holding company's share of capital loss	<u>51563</u>
	111563
Less : Face value of shares purchased 1500 shares xRs.50	<u>75000</u>
Goodwill	<u>36563</u>

6. Profit charged by A ltd., included in stock of B ltd., = $\text{Rs.}1000 \times \frac{1}{2} = \text{Rs.}500$

Consolidated Balance sheet of A ltd., and its subsidiary B ltd., as on 31.12.2018

Liabilities		Rs.	Assets		Rs.
Share capital			Goodwill		36563
5000 shares of Rs.50 each		250000	Fixed Assets		
General reserve		50000	A ltd.,	175000	
Profit & loss a/c	40000		B ltd.,	<u>75000</u>	250000
Add: A's revenue profit	<u>14063</u>		Stock		
	54063		A ltd.,	45000	
Less: unrealized profit	<u>500</u>	53563	B ltd.,	<u>20000</u>	
6% Debentures	50000			65000	
Less : Mutual obligation	<u>30000</u>	20000	Less: unrealized	<u>500</u>	64500
Trade creditors			profit		
A ltd.,	37500				
B ltd.,	<u>22500</u>				
	60000				
Less: Mutual obligation	<u>10000</u>	50000			
Minority interest		12500			

		Debtors <div> <div>A ltd.,30000</div> <div>B ltd.,<u>15000</u></div> <div>45000</div> <div>Less : mutual obligation<u>10000</u></div> <div>Cash at bank</div> <div>A ltd.,37500</div> <div>B ltd.,<u>12500</u></div> </div>	<div>35000</div> <div>50000</div>
	436063		436063

Problem 25 Preference shares in Subsidiary

The balance sheets of H Ltd., and S Ltd., as on 31.12.2017 were as follows:

Liabilities	H Ltd., Rs.	S Ltd., Rs.	Assets	H Ltd., Rs.	S Ltd., Rs.
Share capital			Land & Buildings	310000	160000
10% Preference shares of Rs.100 each	--	100000	Machinery less 10% depreciation	270000	135000
Equity share capital shares of Rs.100 each	1000000	400000	3000 shares in S Ltd.,	450000	--
General reserve	100000	50000	Stock at cost	220000	150000
Profit & Loss A/c	40000	30000	Debtors	155000	90000
01.01.2017			Cash & Bank	85000	195000
Profit for 2017	200000	80000			
Creditors	150000	70000			
	1490000	730000		1490000	730000

H Ltd., acquired 3000 equity shares in S Ltd., on 01.07.2017. As on the date of acquisition H Ltd., found that the value of Land and Buildings and Machinery of S Ltd., should be Rs.150000 and Rs.192500 respectively. Prepare consolidated balance sheet.

Working notes:

1. Holding – Minority ratio:

Total shares in S Ltd., Rs.400000/Rs.100 = 4000 shares

Less : Shares purchased by H Ltd., = 3000

Minority shares = 1000

Ratio 3000 : 1000 or 3 : 1

2.Revaluation of machinery:

Book value of machinery on 31.12.2017 after 10% depreciation = Rs.135000

Book value on 01.01.2017 = Rs.135000x100/90 (100-10) = Rs.150000

Less : 10% Depreciation for 6 months (Jan-June) = Rs.150000x10/100x6/12 = 7500

142500

Revaluation value as on 01.07.2017 192500

Profit on revaluation 50000

3. Capital profits:	Rs.
General reserve	50000
Profit & loss account 01.01.2017	30000
Current year profit after preference dividend	
= Rs.80000- (Rs.100000x10/100)x6/12 (Jan-June)	35000
Add: Profit on revaluation of machinery	<u>50000</u>
	165000
Less: Loss on revaluation of land and buildings	<u>10000</u>
(Rs.160000 – Rs.150000)	<u>155000</u>
Holding company's share = Rs.155000x3/4 = Rs.116250	
Minority 's share = Rs.155000x1/4 = Rs.38750	

4. Revenue profits :

Current years profit after preference dividend (Rs.80000 – 10000)	= Rs.70000
Profit after 01.07.2017 = Rs.70000x6/12 (July-Dec.)	= Rs.35000
Less : Depreciation on increased value after 01.07.2017	
= Rs.50000x10/100x6/12	= <u>2500</u>
	<u>32500</u>

Holding company's share = Rs.32500x3/4 = Rs.24375
Minority 's share = Rs.32500x1/4 = Rs.8125

5.Minority interest :

	Rs.
Face value of minority share 1000 shares x Rs.100	= 100000
Add: Minority share of capital profits	= 38750
Minority share of revenue profits	= 8125
Preference capital	= 100000
10 % preference dividend	= <u>10000</u>
Minority interest	<u>256875</u>

6. Cost of control or goodwill:

	Rs.
Amount paid for shares purchased by H ltd., in S ltd.,	= 450000
Less : Face value of shares purchased 3000 shares xRs.100	=300000
Holding company's share of capital profits	= <u>116250</u> <u>416250</u>
Goodwill	<u>33750</u>

Consolidated Balance sheet of H Ltd., and its subsidiary S Ltd., as on 31.12.2017

Liabilities	Rs.	Assets	Rs.
Share capital 10000 shares of Rs.100 each	1000000	Goodwill	33750
General reserve	100000	Land & Buildings	
Profit & loss a/c 40000		H Ltd., 310000	
Add: Profit for 2017 200000		S Ltd., <u>150000</u>	460000
Add: H's revenue profit <u>24375</u>	264375	Machinery	
Creditors		H Ltd., 270000	
H Ltd., 150000		S Ltd., 135000	
S Ltd., <u>70000</u>	220000	Add: Appreciation <u>50000</u>	
Minority interest	256875		455000
		Less : Depreciation <u>2500</u>	452500
		Stock	
		H Ltd., 220000	
		S Ltd., <u>150000</u>	370000

		Debtors	
		H ltd., 155000	
		S ltd., <u>90000</u>	245000
		Cash at bank	
		H ltd., 85000	
		S ltd., <u>195000</u>	280000
	1841250		1841250

Problem 26 Revaluation of Assets Assignment

From the following balance sheet of H. Ltd. and its subsidiary S Ltd. drawn up at 31.12.2010. Prepare a consolidated Balance sheet as on that date having regard to the following.

- i) Reserve and profit and loss account (cr.) of S. Ltd. stood at Rs. 50,000 and 30,000 respectively, on the date of acquisition of its 80% shares. Held by H Ltd. as on 1/01/2010 and
- ii) Machinery (Book value Rs. 2,00,000) and furniture (Book value Rs. 40,000) of S Ltd. were revalued at Rs.3,00,000 and Rs. 30,000 respectively for the purpose of fixing the price of its shares there was no purchase or sale of these assets since the date of acquisition.

Balance sheets of H Ltd. S Ltd. as at 31st December, 2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital					
Shares of Rs. 100 each	10,00,000	2,00,000	Machinery	6,00,000	1,80,000
Reserves	4,00,000	1,50,000	Furniture	1,00,000	34,000
Profit & loss A/c	2,00,000	50,000	Other Assets (current)	8,80,000	2,86,000
Creditors	3,00,000	1,00,000	Shares in S Ltd. 1600 at Rs. 200 each	3,20,000	--
	19,00,000	5,00,000		19,00,000	5,00,000

Problem 27 Issue of Bonus shares Assignment

H Ltd. acquired 12,000 Equity shares of Rs. 10 each in S Ltd. on December 31, 2010. The summarized Balance sheets of H Ltd. and S Ltd. as on that date were. Balance sheet as on 31st December, 2010

Liabilities	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Capital A/c Authorised			Fixed Assets	5,08,000	1,58,000
Issue and paid up	8,00,000	2,40,000	Investment in S Ltd. at cost 12000 shares of Rs. 10 each	2,00,000	--
12,000 shares of Rs. 5 each	6,00,000		Stock in hand	60,000	20,000
18,000 shares of Rs. 10 each		1,80,000	Bills receivable (including Rs. 2000 from S Ltd.)	4,000	
Capital Reserve		68,000	Debtors and balance at bank	4,000	34,000
General Reserve	40,000	20,000			
Profit and loss A/c	1,00,000	20,000			
Bills payable (including Rs. 2000 to H Ltd.)		7,000			
Creditors	70,000	35,000			
	8,10,000	3,10,000		8,10,000	3,10,000

Note : (Re Balance sheet of H Ltd.) contingent liability for bills discounted Rs. 2400) On 31.12.10 subsidiary Ltd. utilized part of its capital Reserve to make a bonus issue of every Four shares held, effect of bonus not given in above balance sheet. You are required to prepare the consolidated balance sheet as on 31.12.10

Problem 28 Capital expenses Assignment

Balance sheets as on 31st March, 2010.

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital			Fixed Assets	3,00,000	1,00,000
Equity Shares of Rs. 10 each fully paid	5,00,000	2,00,000	60% shares in S Ltd. at cost	1,62,400	—
General Reserve	1,00,000	50,000	Current Assets	2,77,600	2,39,000
Profit and loss Account	60,000	35,000	Preliminary Expenses	—	6,000
creditors	80,000	60,000			
	<u>7,40,000</u>	<u>3,45,000</u>		<u>7,40,000</u>	<u>3,45,000</u>

H Ltd. acquired the share on 1st April 2009 on which date General Reserve and profit and loss Account of S Ltd. showed balances of Rs. 40,000 and Rs. 8,000 respectively. No part of preliminary expenses was written off during the year ending 31st March, 2010. prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as on 31st March 2010.

A decorative graphic on the left side of the slide featuring three balloons in light green, light blue, and light purple, each with a yellow streamer and small yellow triangular flags.

UNIT V

ACCOUNTS OF BANKING COMPANIES



DEFINITION

Section 5 of banking regulation act defines banking as “the accepting, for the purpose of lending or investment, of deposit of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.

Features of banking company

- *The borrowing, raising, or taking up of money.*
- *The lending or advancing of money either upon or without security.*
- *The granting and issuing of letters of credit, travellers cheques and circular notes.*
- *The buying and selling of bullion.*
- *The buying and selling of foreign exchange including foreign bank notes.*
- *Contracting for public and private loans negotiating and issuing the same.*
- *Undertaking and executing trust.*



Continued

- *The acquisition, constructing, maintenance and alternation of any building or works necessary or convenient for the purpose of the company.*
- *Carrying on and transacting every kind of guarantee and indemnity business.*
- *The collecting and transmitting of money and securities.*
- *Undertaking the administration of estates as executor, trustee or otherwise*



General Information

- *No banking company can carry on business in India unless its subscribed capital is not less than one-half of the authorized capital and its paid up capital is not less than one – half of subs. capital.*
- *A banking company cannot create any charge upon its uncalled capital.*
- *Every banking co. shall transfer a sum equal to 25% of profits to statutory reserve.*
- *A bank can open a branch only at the permission or reserve bank*



Accounting System

The accounting system of a banking company is different from that of a trading or manufacturing company. A bank has a large number of customers whose acc are to be maintained in such a way so that these should be kept upto date.

Features Of Banking Acc System

- *Entries in the personal ledgers are made directly from vouchers.*
- *From such entries in personal acc each day summary sheets in total are prepared.*
- *The general ledger's trial balance is extracted and agreed every day.*
- *A trial balance of detailed personal ledger is prepared periodically and get agreed with general ledger.*
- *Two vouchers are prepared for every transaction not involving cash- debit and credit voucher.*

A decorative background on the left side of the slide featuring a green balloon at the top, a blue balloon in the middle, and a purple balloon at the bottom, all with yellow streamers and triangular flags.

Books Required

- *Receiving cashier's counter cash book.*
- *Paying cashier's counter cash book.*
- *Current accounts ledger.*
- *Loan ledger.*
- *Cash credit ledger.*
- *Investment ledger.*
- *Saving bank accounts ledger.*
- *Recurring deposits accounts ledger.*
- *Bill discounted and purchased ledger.*

Principal Books Of Accounts Are:

- *Cash book: This book gives the summary of the receiving cashier's counter cash book and paying cashier's cash book.*
- *General ledger: This ledger contains control acc for subsidiary ledger listed above and acc of expenses and assets not covered by the subsidiary ledger.*

Notes And Instruction For Compilation

- *The formats of balance sheet and profit n loss acc cover all items likely to appear in these statement.*
- *The words 'current year' and 'previous year' used in the formats are only to indicate the order of presentation and may not appear in acc.*
- *Figures should be rounded off to nearest thousand.*

BANKS PREPARE THEIR ACCOUNTS ACCORDING TO BANKING REGULATION ACT, 1949. THE FINAL ACCOUNTS OF BANK ARE IN VERTICAL FORMAT . THE FINAL ACCOUNTS CONSIST OF :-

- a) PROFIT and LOSS ACCOUNT
- b) PROFIT and LOSS APPROPRIATION ACCOUNT
- c) BALANCE SHEET

THERE ARE 16 SCHEDULES IN THE FINAL ACCOUNTS OF BANKS.

BALANCE SHEET OF XYZ BANK AS ON 31ST MARCH 2008

<i>PARTICULARS</i>	<i>SCHEDULE NO.</i>	<i>AMT.</i>
Capital	1.	
Reserves and surplus	2.	
Deposits	3.	
Borrowings	4.	
Other liabilities	5.	
TOTAL		
Cash in hand and with RBI	6.	
Bal. with other banks and money at		
Call and short notice	7.	
Investments	8.	
Advances	9.	
Fixed assets	10.	
Other assets	11.	
TOTAL		
CONTINGENT LIABILITIES	12.	

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31ST MARCH, 2008.

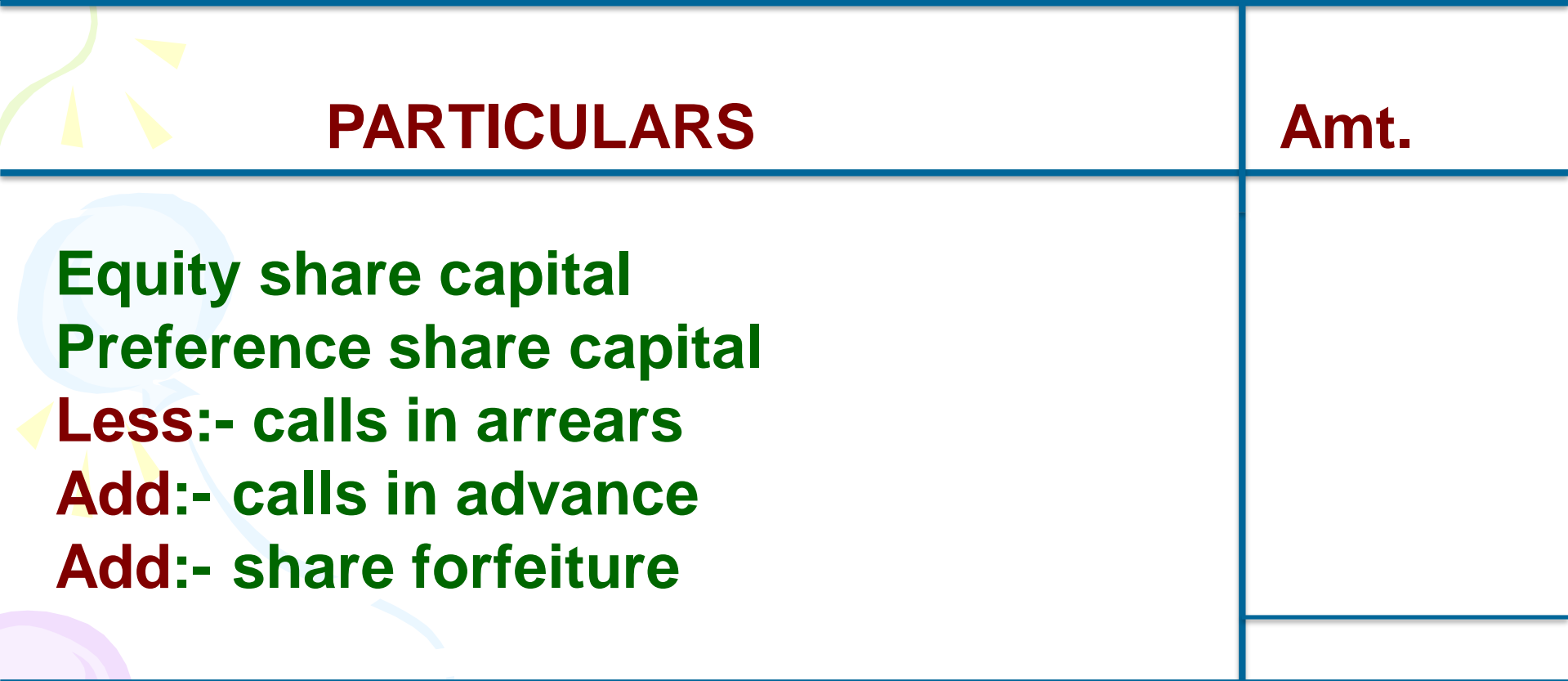
PARTICULARS	SCHEDULE NO.	AMOUNT
INCOMES:-		
Interest earned	13.	
Other incomes	14.	
TOTAL(A)		
EXPENDITURE:-		
Interest expanded	15.	
Operating expenses	16.	
Provision and contingencies	-	
TOTAL (B)		
PROFIT (A-B)		

PROFIT AND LOSS APPROPRIATION ACCOUNT

PARTICULARS	AMOUNT
Net profit during the year	
Profit of the last year	
TOTAL PROFIT AVAILABLE FOR APPROPRIATION	
Statutory reserve	
General reserves or other reserves	
Dividends	
SURPLUS TO BALANCE SHEET	

WORKING NOTES :-

CAPITAL (SCHEDULE NO. 1)



PARTICULARS	Amt.
Equity share capital Preference share capital Less:- calls in arrears Add:- calls in advance Add:- share forfeiture	

RESERVES AND SURPLUS (SCHEDULE NO. 2)

PARTICULARS	AMOUNT
<i>Statutory Reserve</i>	
<i>General reserve</i>	
<i>Capital reserve</i>	
<i>Investment Fluctuation Reserve</i>	
<i>Workmen compensation fund</i>	
<i>Sinking fund</i>	
<i>Surplus (P/L app. a/c)</i>	
<i>Building fund</i>	
<i>Depreciation fund</i>	
<i>Tax fund</i>	
<i>Capital redemption reserve</i>	

DEPOSITS (SCHEDULE NO. 3)

PARTICULARS	AMOUNT
<i>Fixed deposits</i>	
<i>Saving deposits</i>	
<i>Current account</i>	
<i>Recurring deposit</i>	
<i>L/C a/c</i>	
<i>Other deposits except income tax deposit</i>	

BORROWING (SCHEDULE NO. 4)

PARTICULARS	AMOUNT
<i>Borrowing from RBI</i>	
<i>Borrowing from other banks</i>	
<i>Borrowing in India or outside in India</i>	

OTHER LIABILITIES (SCHEDULE NO. 5)

PARTICULARS	AMOUNT
<i>Bills payable</i>	
<i>Outstanding expenses</i>	
<i>Unpaid dividend</i>	
<i>Incomes received in advance</i>	
<i>Interoffice adjustment</i>	
<i>Reserve for unexpired discount</i>	

CASH IN HAND AND WITH RBI (SCHEDULE NO. 6)

PARTICULARS	AMOUNT
<i>Cash in hand with bank</i>	
<i>Balance with RBI</i>	

BALANCE WITH OTHER BANKS AND MONEY AT CALL AND SHORT NOTICE (SCHEDULE NO. 7)

PARTICULARS	AMOUNT
<i>Balance with other banks</i>	
<i>Money at call and short notice</i> <i>(short term loan given by bank to its</i> <i>Esteem customers)</i>	

INVESTMENTS (SCHEDULE NO. 8)

PARTICULARS	AMOUNT
<i>Government securities</i>	
<i>Bonds</i>	
<i>Mutual funds</i>	
<i>Equity shares of other companies</i>	
<i>Gold etc.</i>	

ADVANCES (SCHEDULE NO. 9)

PARTICULARS	AMOUNT
<i>Term loan</i>	
<i>Bank overdraft</i>	
<i>Cash credit and bill discount</i>	

FIXED ASSETS (SCHEDULE NO. 10)

PARTICULARS

AMOUNT

Premises

Furniture

Fixtures

Equipments

Land and building

Plant and machinery

motor vehicles

Computers etc.

OTHER ASSETS (SCHEDULE NO. 11)

PARTICULARS	AMOUNT
<i>Prepaid expenses</i>	
<i>Silver</i>	
<i>Non-banking asset</i>	
<i>Inter branch adjustment</i>	
<i>Accrued incomes</i>	
<i>Stamps in hand</i>	

CONTINGENT LIABILITIES (SCHEDULE NO. 12)

PARTICULARS

AMOUNT

BR/ bills for collection

Forward exchange transactions

Future contracts

Acceptance, endorsement and guarantee

Liability for bill rediscounted

Disputed liabilities

Income tax under appeal

Income tax deposits

Claims not acknowledged as debt

Liability for partly paid investments

INTEREST EARNED (SCHEDULE NO. 13)

PARTICULARS	AMOUNT
<i>Interest on term loan</i>	
<i>Interest on cash credit</i>	
<i>Interest on bank overdraft</i>	
<i>Discount on bill discounted</i>	
<i>Income on investments</i>	
<i>Interest in balance with RBI</i>	
<i>Any other interest income</i>	

OTHER INCOMES (SCHEDULE NO. 14)

PARTICULARS	AMOUNT
<i>Draft making charges</i>	
<i>Commission, exchange and brokerage</i>	
<i>Locker rents</i>	
<i>Dividends</i>	
<i>Profit on exchange transactions</i>	
<i>Transfer fees and registration fees</i>	
<i>Profit on sale of fixed assets</i>	
<i>Less:- loss on sale of fixed assets</i>	
<i>Profit on sale of investments</i>	
<i>less:- loss on sale of investments</i>	
<i>Profit on revaluation of fixes assets or</i>	
<i>Investments and miscellaneous incomes</i>	

INTEREST EXPANDED (SCHEDULE NO. 15)

PARTICULARS	AMOUNT
<i>Interest on fixed deposits</i>	
<i>Interest on recurring deposits</i>	
<i>Interest on saving deposits</i>	
<i>Interest on borrowings from RBI and other banks</i>	
<i>Interest on any other deposit</i>	

OPERATING EXPENSES (SCHEDULE NO. 16)

PARTICULARS	AMOUNT'
<i>Rent , rates and taxes</i>	
<i>Insurance , salary , director fee ,</i>	
<i>Management fee , printing and stationary ,</i>	
<i>Audit fee , depreciation , provident fund of</i>	
<i>employees,</i>	
<i>general expenses, law charges,</i>	
<i>Advertisement and publicity , repair and</i>	
<i>Maintenance , sundry charges etc .</i>	

PROVISIONS AND CONTINGENCIES



PARTICULARS	AMOUNT
<i>Bad debts</i> <i>Provision for doubtful debts</i> <i>Provision for tax</i> <i>Provision for contingencies</i> <i>Provision for depreciation</i> <i>Other provisions</i>	

Explanation of some terms relating to balance sheet

MONEY AT CALL AND SHORT NOTICE :-

This item appears on the assets side of a bank balance sheet and represents temporary loans to Bill Brokers 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 ' . It also includes deposits repayable within 10 days or less than 15 days notice lent in the inter bank call money market . The rate of interest on which money is lent fluctuate every day , sometimes very sharply (more than 30 %) , depending on the demand and supply of money .

ADVANCES :-

Advances appear on the Assets side as fourth head and include loans , cash credits , bank overdrafts and bills discounted and purchased . Banks generally advance money to their customers in the form of loans , cash credits , overdrafts and purchasing and discounting of bills .

PROVISIONS IN RESPECT OF DOUBTFUL ADVANCES ARE DEDUCTED FROM ADVANCES TO THE EXTENT NECESSARY AND THE EXCESS PROVISION FOR DOUBTFUL DEBTS IS INCLUDED UNDER “ OTHER LIABILITIES AND PROVISIONS” .

CASH CREDIT :-

It is an arrangement by which the customer is granted the right to borrow money from time to time upto a certain limit . Cash credit is usually given on hypothecation or pledge of stock . The bank usually charges a higher bank interest on the actual amount withdrawn than that charged on loan because the bank has to keep the amount allowed as cash credit .

OVERDRAFT :-

This facility is available to a customer who operates a current account with the bank . This facility is granted to customers who have high goodwill and need for honest dealings .

LOAN :-

Loan is advance of fixed amount to a customer to be withdrawn in lump sum by him . Interest is charged on the total amount of the loan agreed to be paid to a customer whether he uses the full amount of the loan or not . So , customers prefer to take cash credit and pay interest at a little higher rate .

DISCOUNTING OF BILLS :-

Discounting of a bill means making the payment of the bill before the maturity date of the bill . While making payment of the bill , the bank deducts the discount for the unexpired period for the amount of the bill discounted . The bank keeps the bill with it till the maturity date and get its payment for the customer on the due date.

PURCHASING AND DISCOUNTING OF BILLS :-

The bank may purchase or discount clean or documentary bills at the current rate of interest .

NON-BANKING ASSETS :-

A banking company is not allowed to deal directly or indirectly in the purchase or sale or barter of goods except in connection with its legitimate banking business . But a bank can always lend against the security of assets . The bank may have to take possession of the asset given as a security if the loanee fails to repay the loan .

REBATE ON BILLS DISCOUNTED OR UNEXPIRED DISCOUNTS :-

This item is like interest received in advance and represents unearned discounts for those bills which will mature after the closing of the financial accounts .

JOURNAL ENTERIES FOR REBATE ON BILLS DISCOUNTED .

PARTICULARS	Dr. AMT	Cr. AMT
<i>Rebate on bill discounted a/c Dr</i> <i>To discount earned</i>		
<i>Discount earned a/c Dr</i> <i>To P/L a/c</i>		

PARTICULARS	Dr. AMT	Cr. AMT
<i>Bill discounted a/c</i> <i>Dr.</i> <i>To customer</i> <i>To discount earned a/c</i>		
<i>Discount earned a/c</i> <i>Dr.</i> <i>To P/L a/c</i> <i>To rebate on bill discounted</i>		

If the date of bill is not given and months of maturity after close of year is given, add 3 days of grace to calculate the bill date .

NON-PERFORMING ASSETS

❑ The RBI has issued guidelines for provision for loss on advances or credit facilities granted by the banks. These guidelines are known as prudential norms. Non-performing Assets (NPA) means a credit facility in respect of which the interest and/or installments has remained past due for a specified period. Thus, a credit facility that ceases to generate income for the bank is termed as Non-performing Asset.

❑ Accordingly, any loan facility which is overdue for interest or installment for a period of 180 days is considered as NPA. This period applies for term loan, overdraft as well as other advances. However, for agricultural loans, overdue for two harvest seasons is considered as NPA. With effect from March 2004, banks have to classify their assets as NPAs if they fail to recover either a portion of principal or interest within 90 days instead of 180 days applicable earlier.



Classification of Advances:

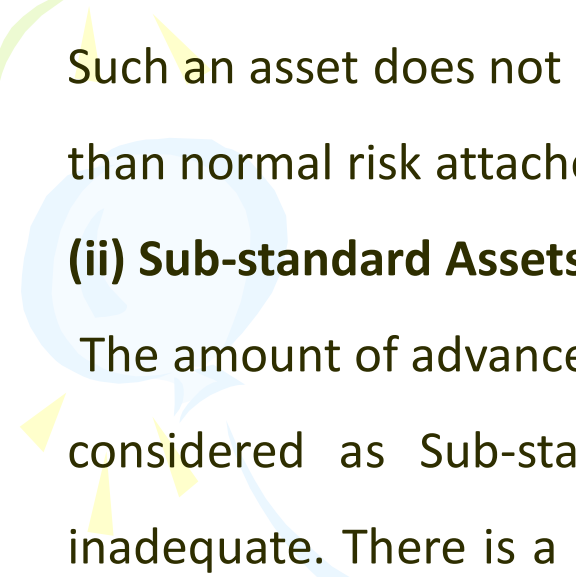
As per prudential norms, the advances of a bank are classified as under:

(i) Standard Assets:


The advance which is not NPA is called Performing Asset or Standard Asset.

Such an asset does not create any problem to the bank. It does not earn more than normal risk attached to the business.

(ii) Sub-standard Assets:



The amount of advance which is NPA for a period not exceeding 18 months is considered as Sub-standard Asset. The security available to the bank is inadequate. There is a distinct possibility that the bank will suffer some loss if deficiencies are not corrected immediately in future.





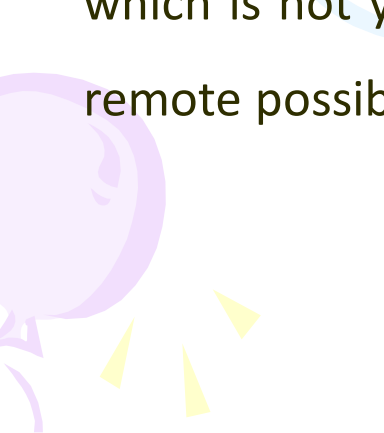
(iii) Doubtful Asset:

The amount of advance which is NPA for a period of exceeding 18 months is considered as doubtful asset. This type of an asset is considered as weak because its collection is considered as highly improbable. For this purpose, the unsecured and secured portions are to be considered separately. The unsecured portion has to be fully provided. Provision is also to be made against secured portion as per certain percentages.



(iv) Loss Asset:

The amount of advance which is identified by the bank or the auditor but which is not yet written off. The bank must write it off even though there is remote possibility of recovery of certain amount.



Provision for Non Performing Assets - NPA

Assets	% of provision
(i) Standard Asset	0.40
(ii) Sub-standard Asset	10
(iii) Doubtful Asset	
(a) On Unsecured Portion	100
(b) On Secured Portion:	
Doubtful for up to 1 years	20
Doubtful for 1 to 3 years	30
Doubtful beyond 3 years on 31-3-2004	50
Doubtful beyond 3 years on 31-3-2005	60
Doubtful beyond 3 years on 31-3-2006	75
Doubtful beyond 3 years on 31-3-2007	100
(iv) Loss Assets	100

Problem 1 Rebate on Bills Discounted

In respect of the following transactions of the Prosperity Bank Ltd., you are required to indicate the necessary journal entries as well as their treatment in the Profit and Loss Account and Balance Sheet in respect of the year ended 31.12.1992:

(a) The following bills were discounted at 5%:

	Discounted on	Amount	Due date inclusive of 3 days of grace
(i)	28.12.1992	50,000	31.1.1993
(ii)	29.7.1992	1,00,000	30.11.1992
(iii)	29.10.1992	4,00,000	30.4.1993
(iv)	31.12.1992	30,000	3.3.1993

(b) The Bank has accepted Bills on behalf of its customers amounting to Rs. 2,00,000 at nominal commission of 2%.

(c) The Bank has advanced an amount of Rs. 5,00,000 having a covering for the same through bills worth Rs. 2,00,000 and goods on key-loan basis Rs. 4,00,000.

Solution :

Unexpired discount 31.12.1992 to be calculated as :

			Rs.
On Rs. 50,000 @ 5% for 31 days	$\left(\text{Rs. } 50,000 \times \frac{5}{100} \times \frac{31}{365} \right)$	=	212
On Rs. 4,00,000 @ 5% for 120 days (Jan.-31+feb.-28+mar.-31+apr.30=120)	$\left(\text{Rs. } 4,00,000 \times \frac{5}{100} \times \frac{120}{365} \right)$	=	6,575
On Rs. 30,000 @ 5% for 62 days (Jan.-31+feb.-28+mar.-3=62)	$\left(\text{Rs. } 30,000 \times \frac{5}{100} \times \frac{62}{365} \right)$	=	255
			<u>7,042</u>

In the Books of Prosperity Bank Ltd. *Journal Entries*

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1992 July 1	(i) Interest and Discount A/c Dr. To Rebate on Bills Discounted A/c (Proportionate Discount on unexpired bills adjusted at the end of the year.)		7,042	7,042

			Rs.	Rs.
Dec. 31	(ii) Customers' Liability for Acceptance A/c Dr. Customers' Current A/c (Rs.200000x2/100) Dr. To Acceptance on behalf of Customers' A/c " Commission A/c (Bills accepted on customers' behalf and earned commission @ 2%.)		2,00,000 4,000	2,00,000 4,000
Dec. 31	(iii) Loans and Advances A/c Dr. To Cash A/c (Amount advanced on security of bills and goods on key loan.)		5,00,000	5,00,000

Problem 2 Rebate on Bills Discounted

As on 31st December 2000, the books of the Hercules Bank include, among others, the following balances:

	<i>Rs.</i>
Rebate on bills discounted 1.1.2000	3,20,000
Discount received	46,00,000
Bills discounted and purchased	3,15,47,000
Bills for collection	12,00,000

Throughout 2000, the Bank's rate for discounting has been 18% and the rate of commission on bills for collection, 4%. On investigation and analysis, the average due date for the bills discounted and purchased is calculated as 15th February 2001 and that for bills for collection as 15th January 2001. Show the calculation of the amount to be credited to the Bank's Profit and Loss Account under discount earned for the year 2000. Show also the journal entries required to adjust the above-mentioned accounts.

Solution :

In the Books of Hercules Bank Journal Entries

2000			Rs.	Rs.
Dec. 31	Rebate on Bills Discounted A/c	Dr.	3,20,000	
	To Interest and Discount Received A/c			3,20,000
	(Proportionate discount on unexpired bills brought forward from the previous year transferred.)			
	Interest and Discount Received A/c	Dr.	7,00,084	
	To Rebate on Bills Discounted A/c			7,00,084
	(Adjustment of proportionate discount on unexpired bills adjusted at the end to the year.) (Feb.-14+mar.-31 =45)			
	Rs. $3,15,47,000 \times \frac{18}{100} \times \frac{45}{365}$ (15 Feb. to March 31)			
	Interest and Discount Received A/c	Dr.	42,19,916	
	To Profit and Loss A/c			42,19,916
	(Net amount transferred to P & L A/c.)			

* Balance of Interest and Discount Received A/c

Add : Opening Balance of Rebate A/c

Less : Closing Balance of Rebate A/c

Rs.
46,00,000
3,20,000

49,20,000
7,00,084

42,19,916

Problem 3 Rebate on Bills Discounted

On 31.03.1998 a bank held the following bills discounted by it earlier.

Date of bill 1998	Term of bill (months)	Discounted @% p.a.	Amount of bill Rs.
(i) January, 17	4	17	730000
(ii) February, 7	3	18	1460000
(iii) March, 9	3	17.5	364000

You are required to calculate the rebate on bills discounted. Also show the necessary journal entry for the rebate.

Working notes:

- (i) Discount on Rs.730000 for 50 days@17% = $\text{Rs.}730000 \times 17/100 \times 50/365 = \text{Rs.}17000$
maturity 4 months = Jan.17 to May 17
After 31.03.1998 (April = 30 days + May 17 days + grace 3 days= 50 days)
- (ii) Discount on Rs.1460000 for 40 days @18% = $\text{Rs.}1460000 \times 18/100 \times 40/365$
=Rs.28800
maturity 3 months = Feb. 7 to may 7
After 31.03.1998 (April = 30 days+ May 7 days + grace 3 days = 40 days)
- (iii) Discount on Rs.364000 for 73 days @ 17.5% = $\text{Rs.}364000 \times 17.5/100 \times 73/365$
= Rs.12740
maturity 3 months = March 9 to June 9
After 31.03.1998 (April = 30 days + May = 31 days + June = 9 days +grace 3 days
= 73 days)

Calculation of discount

Date of bill	Date of maturity	No. of days away from 31.03.1998	Discount rate	Amount of bill Rs.	Discount Rs.
January 17	May 20	50	17%	730000	17000
February 7	May 10	40	18%	1460000	28800
March 9	June 12	73	17.5%	364000	12740
					58540

Journal entry

Date	Particulars	Dr.	Cr.
31.12.1998	Discount received A/c Dr. To rebate on bills discounted A/c (Bering adjustment made for discount not yet earned on discounted bills)	58540	58540

Problem 4 Rebate on Bills Discounted

The trial balance of the Nedungadi Bank Ltd., as on 30.06.2014 shows the following balances:

	Rs.
Interest and discount	4540600
Rebate on bills discounted (01.07.2013)	4750
Bills discounted and purchased	337400

The unexpired discount as on 30.06.2014 is estimated to be Rs.5560. Draft journal entries and calculate the amount of interest and discount to be credited to profit and loss account.

Journal entry

Particulars	Dr.	Cr.
1. Rebate on bills discounted A/c Dr. To discount A/c (Being transfer of opening unexpired discount)	4750	4750
2. Discount received A/c Dr. To rebate on bills discounted A/c (Being adjustment made for discount not yet earned on discounted bills)	5560	5560

Calculation of amount of interest and discount

Interest and discount given	4540600
Add: Opening balance of rebate on bills discounted	<u>4750</u>
	4545350
Less: Closing balance of rebate on bills discounted	<u>5560</u>
Interest and discount to be credited to P & L A/c	<u>4539790</u>

Problem 5 Non Performing Assets – NPA

On 31.03.2018 Bharat Commercial Bank Ltd., finds its advances classified as follows : Rs.

Standard assets	1491300
Sub standard assets	92800
Doubtful assets (secured)	
: doubtful for one year	25660
: doubtful for one to 3 years	15640
: doubtful for more than 3 years	6580
Loss assets	10350

Calculate the amount of provisions to be made by the bank against the above mentioned advances.

Calculation of provision

Particulars	Amount Rs.	% required as provision	Provision Rs.
Standard assets	1491300	0.40	5965
Sub standard assets	92800	10	9280
Doubtful assets – upto 1 year	25660	20	5132
- 1 to 3 years	15640	30	4692
- more than 3 years	6580	50	3290
Loss assets	10350	100	<u>10350</u>
Total provision required			<u>38709</u>

Problem 6 Rebate on Bills Discounted Assignment

Calculate rebate on bills discounted as on 31.03.2000

Date of bill	Term of bill (months)	Discounted @% p.a.	Amount of bill Rs.
(i) 15.01.2000	5	8	25000
(ii) 10.02.2000	4	7	15000
(iii) 25.02.2000	4	7	20000
(iv) 20.03.2000	3	9	30000

Problem 7 Non Performing Assets – NPA Assignment

From the following information find out the amount of provision to be shown in Profit and loss account of a bank

Rs. in lakhs

Standard assets	8000
Sub standard assets	6000
Doubtful assets (secured)	
: doubtful for one year	1000
: doubtful for 3 years	1600
: doubtful for more than 3 years	400
Loss assets	1200

Problem 8 Preparation of Profit & Loss Account

From the following particulars prepare a profit and loss account of New Bank Ltd., for the year ended 31.12.2016

Particulars	Rs.in '000	Particulars	Rs.in '000
Interest on loans	260	Interest on cash credits	225
Interest on fixed deposit	280	Rent and taxes	20
Rebate on bills discounted	50	Interest on overdrafts	56
Commission charged to customers	9	Directors and auditors fee	4
Establishment expenses	56	Interest on savings bank account	70
Discount on bills discounted	200	Postage	2
Interest on current accounts	45	Sundry charges	2
Printing & advertisements	3		

Working notes:

Schedule 13: Interest earned

Rs.in '000

Interest on loans	260
Discount on bills discounted	200
Interest on cash credits	225
Interest on overdrafts	56
Total	741

Schedule 14: Other Income

Rs.in '000

Commission charged to customers	9
Total	9

Schedule 15: Interest expended

Rs.in '000

Interest on fixed deposits	280
Interest on current accounts	45
Interest on savings bank account	70
Total	395

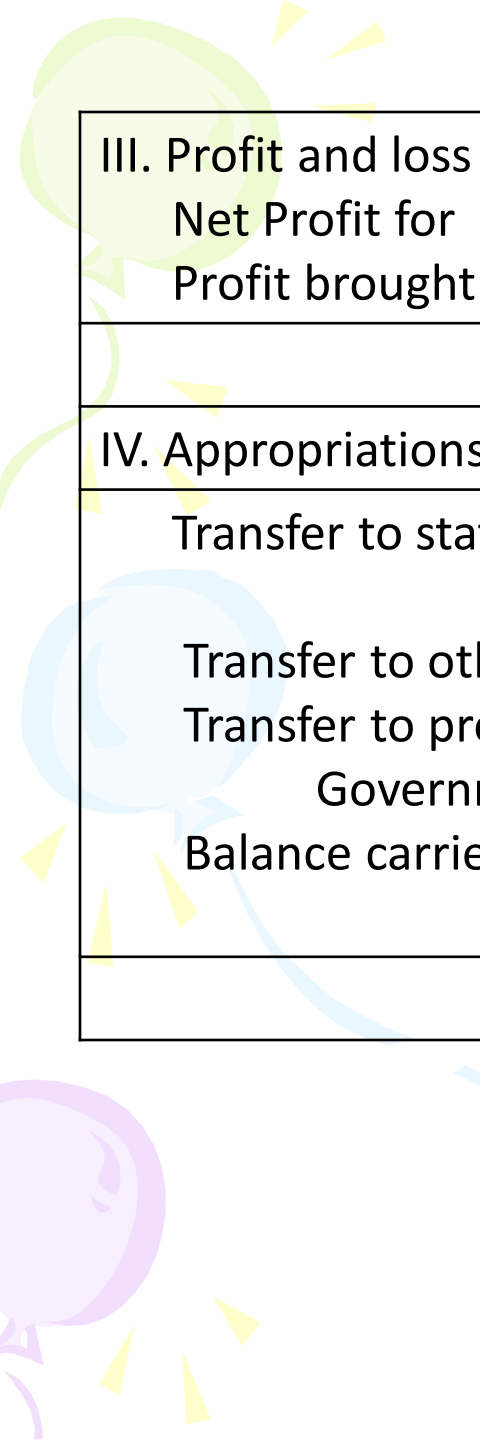
Schedule 16: Operating expenses Rs.in '000

Establishment expenses	56
Printing and advertisements	3
Rent and rates	20
Directors and auditors fee	4
Postage	2
Sundry charges	2
Total	87

Provisions and contingencies - NIL

New Bank Ltd.,
Profit & Loss Account for the year ended 31.12.2016

Particulars	Schedule no.	Year ended 31.12.2016 Current year Rs. in '000	Year ended 31.12.2015 previous year
I. Income			
Interest earned	13	741	
Other income	14	9	
Total		750	
II. Expenditure			
Interest expended	15	395	
Operating expenses	16	87	
Provisions and contingencies		--	
Total		482	



III. Profit and loss			
Net Profit for the year I –II		268	
Profit brought forward		--	
Total		268	
IV. Appropriations			
Transfer to statutory reserve 25% of 268		67	
Transfer to other reserves		--	
Transfer to proposed dividend/ Government		--	
Balance carried to Balance sheet(bal.fig.)		201	
Total		268	

Problem 9 Preparation of Profit & Loss Account

From the following particulars relating to Lakshmi Bank Ltd., prepare a profit and loss account for the year ended 31.12.2017

Particulars	Rs.	Particulars	Rs.
Rent received	72000	Salaries & allowances	218800
Exchange and commission	32800	Postage	5600
Interest on fixed deposit	1100000	Sundry charges	4000
Interest on savings bank a/c	272000	Directors & auditors fees	16800
Interest on overdrafts	216000	Printing	8000
Discount on bills discounted	780000	Law charges	3600
Interest on current accounts	168000	Locker rent	1400
Interest on cash credits	892000	Transfer fees	2800
Depreciation on bank property	20000	Interest on loans	1036000

Working notes:

Schedule 13: Interest earned

Rs.

Interest on overdrafts	216000
Discount on bills discounted	780000
Interest on cash credits	892000
Interest on loans	1036000
Total	2924000

Schedule 14: Other Income

Rs.

Locker rent	1400
Transfer fees	2800
Exchange and commission	32800
Rent	72000
Total	109000



Schedule 15: Interest expended

Rs.

Interest on fixed deposits	1100000
Interest on current accounts	168000
Interest on savings bank account	272000
Total	1540000

Schedule 16: Operating expenses

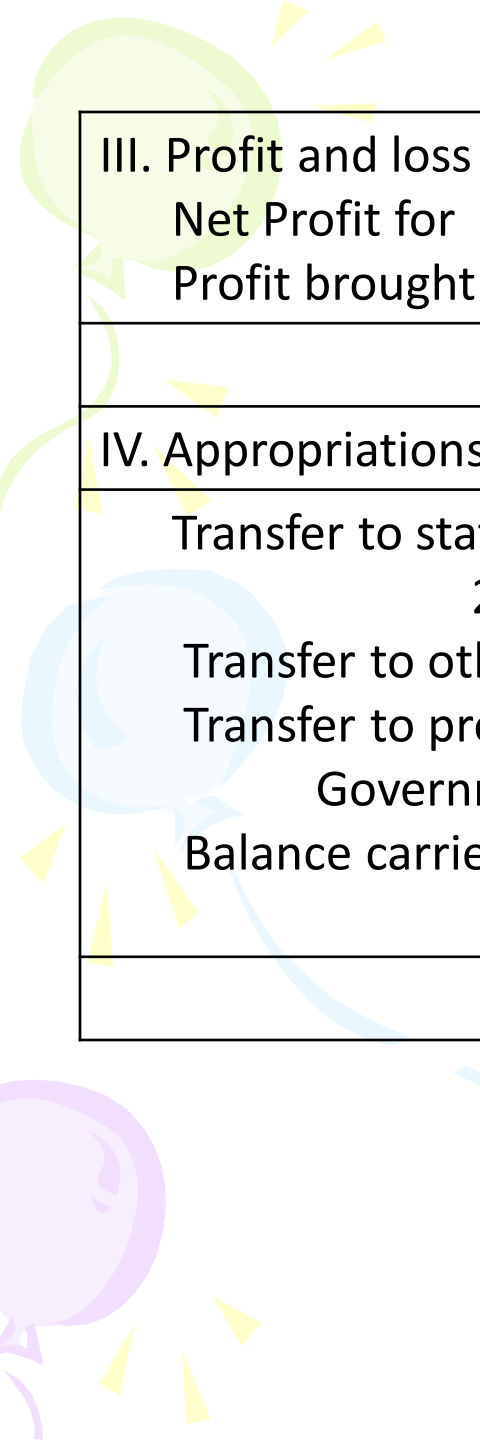
Rs.

Depreciation on bank property	20000
Salaries and allowances	218800
Postage	5600
Sundry charges	4000
Directors and auditors fees	16800
Printing	8000
Law charges	3600
Total	276800

Provisions and contingencies - NIL

Lakshmi Bank Ltd.,
Profit & Loss Account for the year ended 31.12.2017

Particulars	Schedule no.	Year ended 31.12.2017 Current year Rs.	Year ended 31.12.2016 previous year
I. Income			
Interest earned	13	2924000	
Other income	14	109000	
Total		3033000	
II. Expenditure			
Interest expended	15	1540000	
Operating expenses	16	276800	
Provisions and contingencies		--	
Total		1816800	



III. Profit and loss			
Net Profit for the year I –II		1216200	
Profit brought forward		--	
Total		1216200	
IV. Appropriations			
Transfer to statutory reserve 25% of 1216200		304050	
Transfer to other reserves		--	
Transfer to proposed dividend/ Government		--	
Balance carried to Balance sheet (bal.fig.)		912150	
Total		1216200	

Problem 10 Preparation of Profit & Loss Account

The following are the figures extracted from the books of Bheema Bank Ltd., as on 31.12.2018

Particulars	Rs.	Particulars	Rs.
Interest and discount received	3695738	Interest paid on deposits	2032542
Commission exchange and brokerage	200000	Rent received	55000
Directors fees and allowances	55000	Salaries and allowances	175000
Postage	62313	Rent and taxes paid	87973
Stationery	17625	Profit on sale of investment	200000
Preliminary expenses	15000	Deprecation on building	27375
		Audit fees	5000

Additional information:

- (i) A customer to whom a sum of Rs.1000000 has been advanced has become insolvent. It is expected that only 50% can be recovered from his private estate.
- (ii) For the remaining debts, a provision of Rs.150000 was necessary.
- (iii) Rebate on bills discounted as on 31.12.2017 Rs.12000 and on 31.12.2018 Rs.16000
- (iv) Provide Rs.650000 for taxation
- (v) Write off preliminary expenses.

Prepare profit and loss account in accordance with the law.

Working notes:

Schedule 13: Interest earned

Rs.

Interest and discount received	3695738
Add: Rebate on bills discounted 31.12.2017	<u>12000</u>
	3707738
Less : Rebate on bills discounted 31.12.2018	<u>16000</u>
Total	3691738

Schedule 14: Other Income

Rs.

Commission, exchange & brokerage	200000
Rent received	55000
Profit on sale of investments	200000
Total	455000

Schedule 15: Interest expended

Rs.

Interest paid on deposits	2032542
Total	2032542

Schedule 16: Operating expenses

Rs.

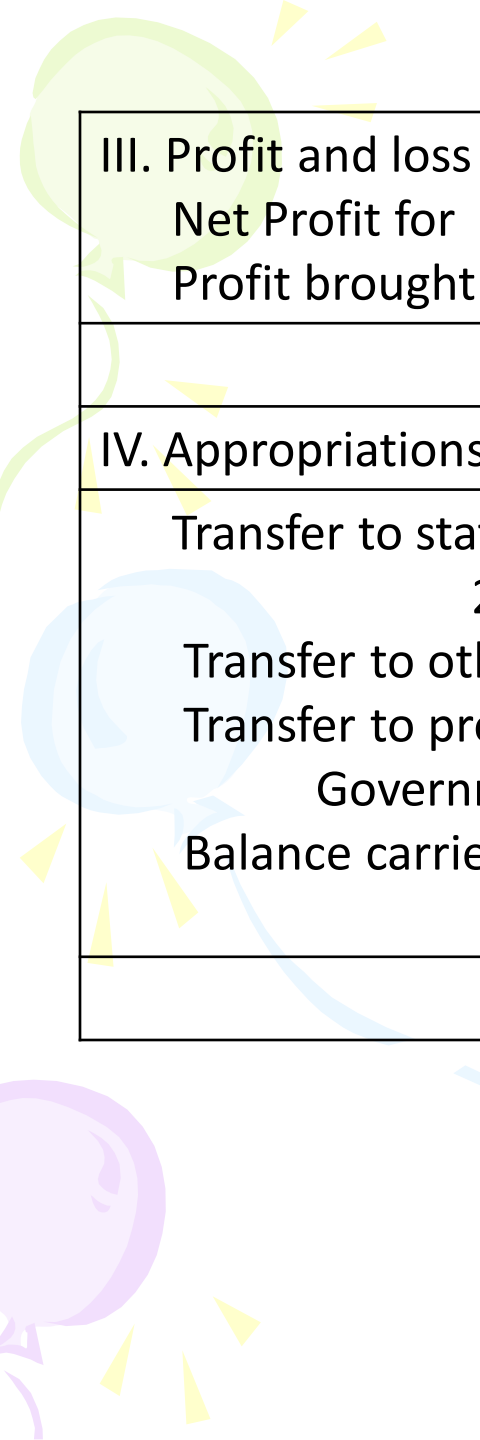
Directors fees and allowances	55000
Postage	62313
Stationery	17625
Preliminary expenses	15000
Salaries and allowances	175000
Rent and taxes paid	87973
Deprecation on building	27375
Audit fees	5000
Total	445286

Provisions and contingencies

Bad debts Rs.1000000x50/100	500000
Provision for bad debts	150000
Provision for taxation	650000
Total	1300000

Bheema Bank Ltd.,
Profit & Loss Account for the year ended 31.12.2018

Particulars	Schedule no.	Year ended 31.12.2018 Current year Rs.	Year ended 31.12.2017 previous year
I. Income			
Interest earned	13	3691738	
Other income	14	455000	
Total		4146738	
II. Expenditure			
Interest expended	15	2032542	
Operating expenses	16	445286	
Provisions and contingencies	--	1300000	
Total		3777828	

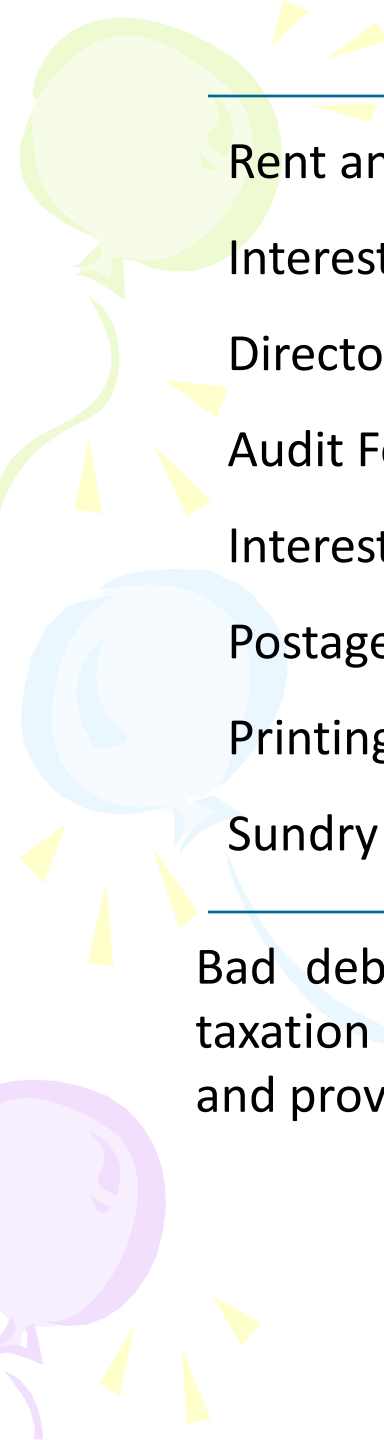


III. Profit and loss			
Net Profit for the year I –II		368910	
Profit brought forward		--	
Total		368910	
IV. Appropriations			
Transfer to statutory reserve 25% of 368910		92228	
Transfer to other reserves		--	
Transfer to proposed dividend/ Government		--	
Balance carried to Balance sheet (bal.fig.)		276682	
Total		368910	

Problem 11 Preparation of Profit & Loss Account Assignment

From the following information, prepare Profit and Loss Account of Yes Bank Ltd. for the year ended 31-3-2016.

Particulars	Rs. in lakhs
Interest on Loans	25.90
Interest on Fixed Deposits	27.50
Commission	0.82
Rebate on Bills Discounted	4.90
Salaries and Allowances	5.40
Discount on Bills Discounted (Net)	14.60
Interest on Cash Credit	22.30
Depreciation on Bank's Property	4.00



Rent and Rates	1.80
Interest on Overdraft	15.40
Director's Fees	0.30
Audit Fees	0.50
Interest on Saving Deposits	6.80
Postage	0.14
Printing and Stationery	0.29
Sundry Expenses	0.15

Bad debts to be written off amounted to ` 3.80 lakhs. Provision for taxation may be made at 35%. Transfer 25% of profits to Statutory Reserve and provide ` 3 lakhs for dividends.

Problem 12 Preparation of Profit & Loss Account

From the following information, prepare Profit and Loss Account of South Bank Ltd. as on 31st March 2016.

Particulars	Rs.in '000
Interest and Discounts	3045
Income from Investments	115
Interest on Balances with RBI	820
Commission, Exchange and Brokerage	110
Profit on Sale of Investments	1225
Interest on Deposits Interest to RBI	161
Payment to and Provision for Employees	1044
Rent, Taxes and Lighting	210
Printing and Stationery	180
Advertisement and Publicity	95
Depreciation	92
Repairs and Maintenance	220

Director's Fees	120
Auditor's Fees	20
Law Charges	70
Postage and Telephones	56
Insurance	48

Other Information:

(i) Interest and discount mentioned above is after adjustment for the following:

Particulars`	(Rs. in'000)
Tax provision for the year	2,20
Provision during the year for doubtful debts	1,02
Loss on sale of investments	12
Rebate on bills discounted	58

(ii) 25% of profit is transferred to Statutory Reserves.

5% of profit is transferred to Revenue Reserve.

Profit brought forward from last year Rs. 16,000.

Working notes:

Schedule 13: Interest earned

Rs. in'000

Interest and Discount (3045+220+102+58+12)	3437
Income on Investment	115
Interest on RBI Deposit	180
Others Nil	--
Total	3732

Schedule 14: Other Income

Rs. in'000

Commission, Exchange and Brokerage	820
Profit on Sale of Investment	98
Total	918

Schedule 15: Interest expended

Rs.

Interest paid on Deposits	1225
Interest to RBI	161
Total	1386

Schedule 16: Operating expenses**Rs. in'000**

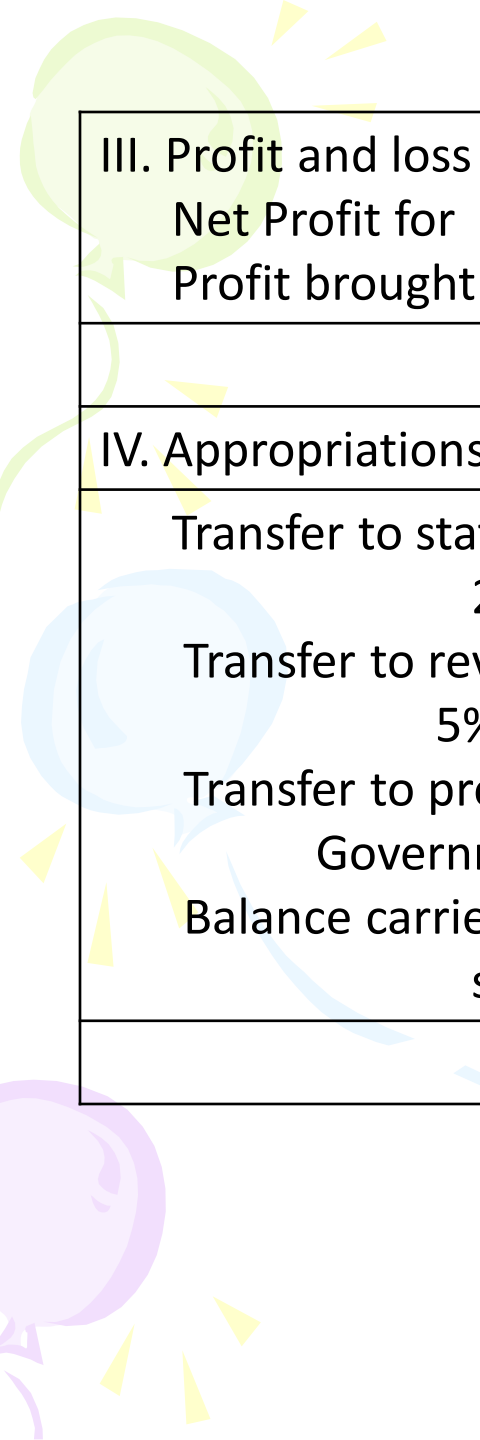
(i) Payment to and provisions for employees	1044
(ii) Rent, Taxes and Lighting	210
(iii) Printing and Stationery	180
(iv) Advertisement and Publicity	95
(v) Depreciation on Bank's Property	92
(vi) Directors' Fees, Allowances and Expenses	220
(vii) Auditor's Expenses	120
(viii) Law Charges	230
(ix) Postage and Telephones	70
(x) Repairs and Maintenance	48
(xi) Insurance	56
Total	2365

Provisions and contingencies**Rs. in'000**

Tax provision for the year	220
Provision during the year for doubtful debts	102
Rebate on bills discounted	58
Total	380

South Bank Ltd.,
Profit & Loss Account for the year ended 31.03.2016

Particulars	Schedule no.	Year ended 31.03.2016 Current year Rs.	Year ended 31.03.2015 previous year
I. Income			
Interest earned	13	3732	
Other income	14	918	
Total		4650	
II. Expenditure			
Interest expended	15	1386	
Operating expenses	16	2365	
Provisions and contingencies	--	380	
Total		4131	



III. Profit and loss			
Net Profit for the year I –II		519	
Profit brought forward		16	
Total		535	
IV. Appropriations			
Transfer to statutory reserve 25% of 519		129.75	
Transfer to revenue reserves 5% of 519		26	
Transfer to proposed dividend/ Government		--	
Balance carried to Balance sheet (bal.fig.)		379.25	
Total		535	

Problem 13 Preparation of Profit & Loss Account Assignment

From the following information, prepare Profit and Loss Account of Swadesh Bank Ltd. as on 31st December 2019.

Particulars	Rs.in '000
Interest on fixed deposits	430
Interest on loans	650
Discount on bills discounted	415
Interest on over drafts	210
Interest on cash credits	410
Interest on savings bank deposits	125
Salaries and allowances	140
Rent, taxes, insurance and lighting	40
Locker rent	5
Repairs to bank property	2
Commission, exchange and brokerage	24
Directors fees and allowances	25
Transfer fees	2
Provident fund contribution	12

Local committee fees and allowance	10
Audit fees	12
Printing and stationery	4
Loss on sale of government securities	5
Loss on sale of furniture	2
Postage	2
Depreciation	10
Advertisement	4
Legal charges	3

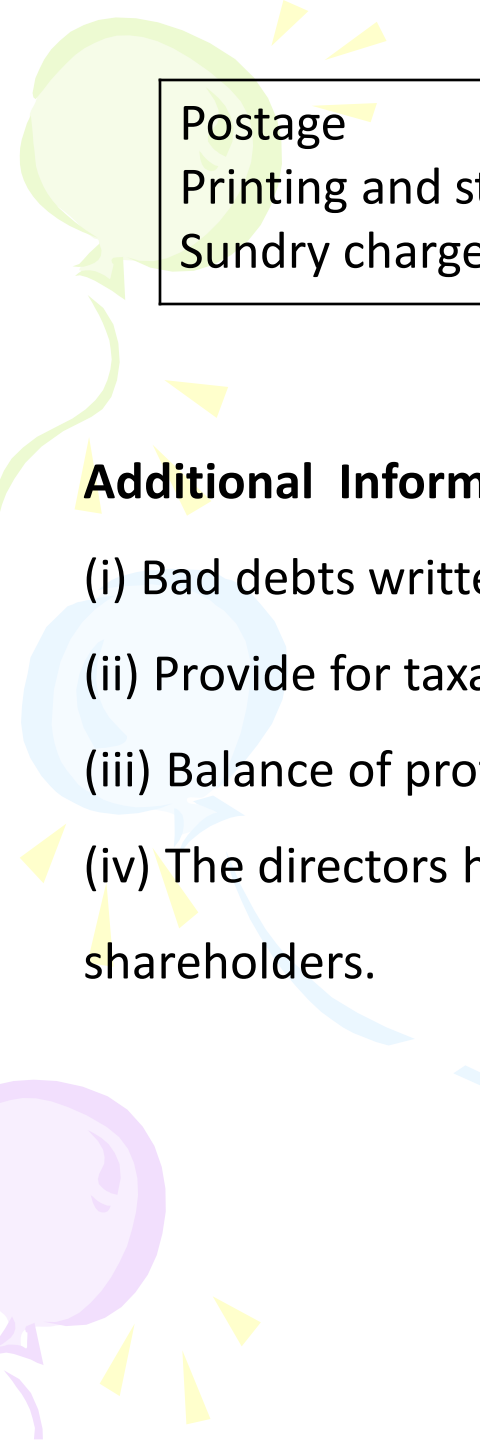
Additional Information:

- (i) Rebate on bills discounted on 31.12.2018 Rs.19000
- (ii) Rebate on bills discounted on 31.12.2019 Rs.26000
- (iii) Bad debts written of Rs.40000
- (iv) Provide for taxation Rs.50000

Problem 14 Preparation of Profit & Loss Account Assignment

From the following information, prepare Profit and Loss Account of ABC Bank Ltd. as on 31st March 2017.

Particulars	Rs.
Interest on loan	259000
Interest on fixed deposits	275000
Rebate on bills discounted required	49000
Commission	8200
Establishment	54000
Discount on bills discounted	195000
Interest on cash credits	223000
Interest on current account	42000
Rent and taxes	18000
Interest on overdraft	154000
Directors fees	3000
Auditors fees	1200
Interest on savings bank deposits	68000



Postage	1400
Printing and stationery	2900
Sundry charges	1700

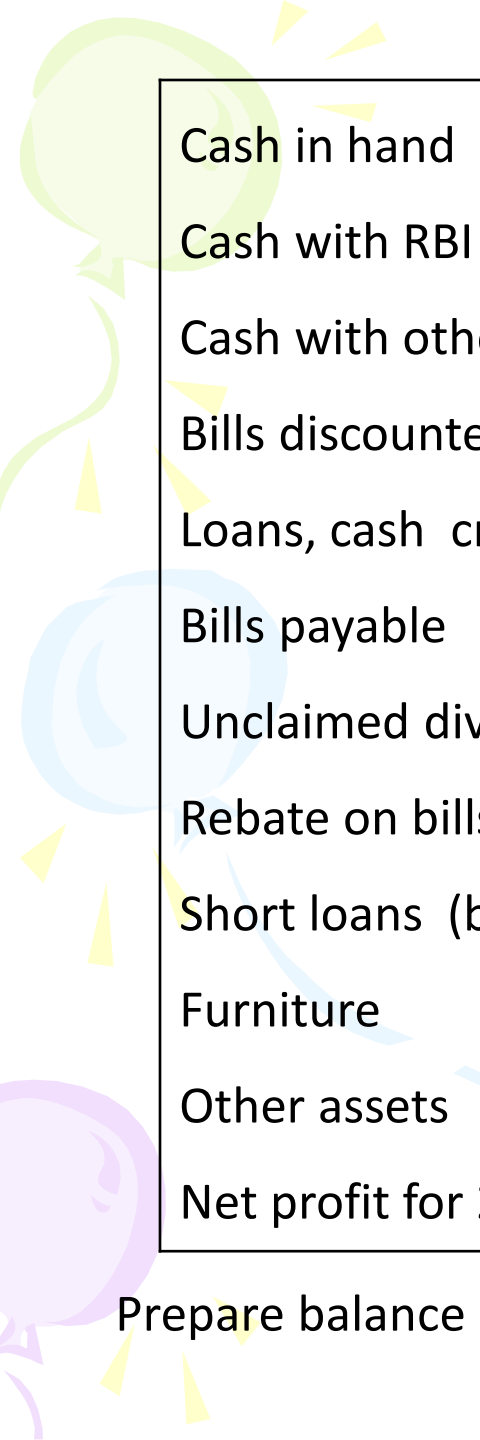
Additional Information:

- (i) Bad debts written of Rs.40000
- (ii) Provide for taxation @ 55%
- (iii) Balance of profit from last year was Rs.120000.
- (iv) The directors have recommended a dividend of Rs.20000 for the shareholders.

Problem 15 Preparation of Balance Sheet

On 31.12.2016, the following balances stood in the books of Asian Bank Ltd., after preparation of its profit and loss account.

Particulars	Rs.in '000
Share capital: Issued and subscribed	4000
Reserve fund	6200
Fixed deposits	42600
Savings bank deposits	19000
Current accounts	23200
Money at call and short notice	1800
Investments	25000
Profit and loss account (cr.) 01.01.2016	1350
Dividend for 2015	400
Premises	2950



Cash in hand	380
Cash with RBI	10000
Cash with other banks	6000
Bills discounted and purchased	3800
Loans, cash credits and overdrafts	51000
Bills payable	70
Unclaimed dividend	60
Rebate on bills discounted	50
Short loans (borrowing from other banks)	4750
Furniture	1164
Other assets	336
Net profit for 2016	1550

Prepare balance sheet of the bank as on 31.12.2016

Working notes:

Schedule 1: Capital

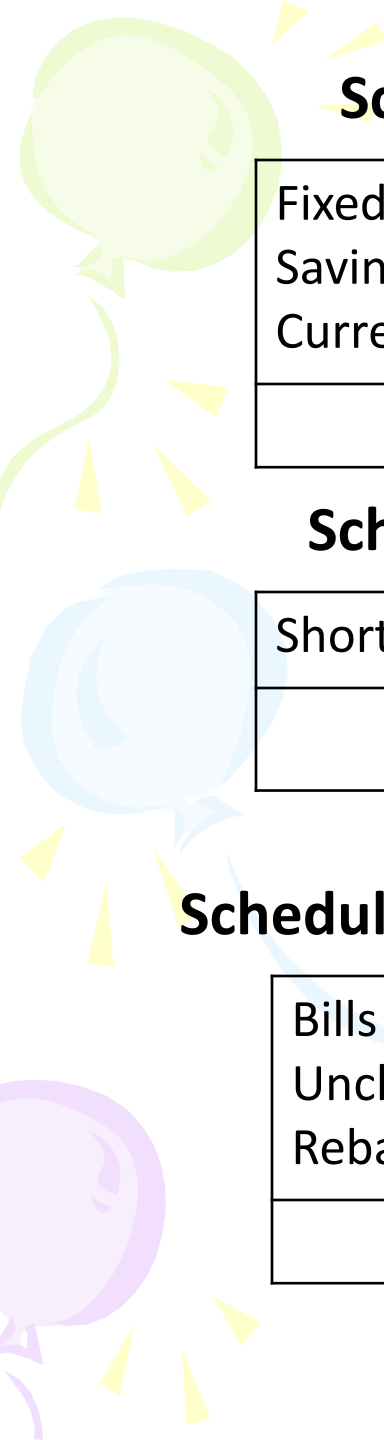
Rs. in'000

Issued and subscribed capital	4000
Total	4000

Schedule 2: Reserves and surplus

Rs. in'000

Reserve fund		6200
Profit and loss account 1.1.2016	1350	
Less : Dividend for 2015	<u>400</u>	
	950	
Add: Net profit for 2016	1550	
Less : Statutory reserve	<u>387.5</u>	2112.5
1550x25/100		
Statutory reserve		387.5
Total		8700



Schedule 3: Deposits

Rs. in'000

Fixed deposits	42600
Savings bank deposits	19000
Current accounts	23200
Total	84800

Schedule 4: Borrowings

Rs. in'000

Short loans	4750
Total	4750

Schedule 5: Other liabilities and provisions

Rs. in'000

Bills payable	70
Unclaimed dividend	60
Rebate on bills discounted	50
Total	180

Schedule 6: Cash and balances with RBI**Rs. in'000**

Cash in hand	380
Cash with RBI	10000
Total	10380

**Schedule 7: Balance with banks and money at call
and short notice****Rs. in'000**

Money at call and short notice	1800
Cash with other banks	6000
Total	7800

Schedule 8: Investments**Rs. in'000**

Investments	25000
Total	25000

Schedule 9: Advances**Rs. in'000**

Bills discounted and purchased	3800
Loans , cash credits and overdrafts	51000
Total	54800

Schedule 10: Fixed Assets**Rs. in'000**

Premises	2950
Furniture	1164
Total	4114

Schedule 11: Other Assets**Rs. in'000**

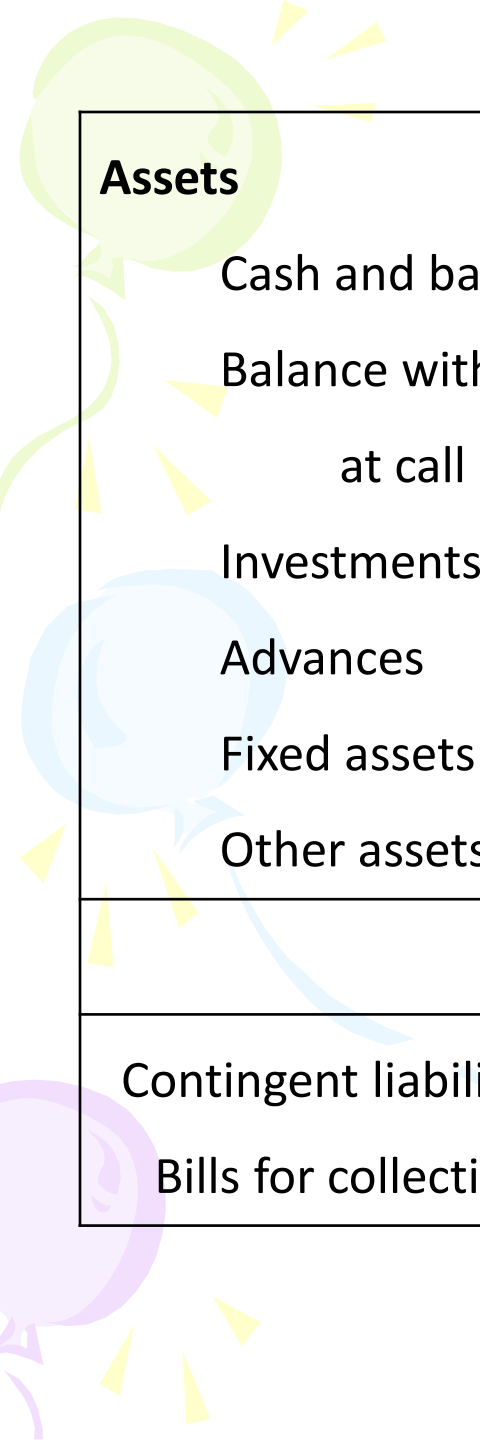
Other assets	336
Total	336

Schedule 12: Contingent liabilities**Rs. in'000**

Bills for collection	NIL
Total	NIL

Asian Bank Ltd.,
Balance Sheet as on 31.12.2016

Particulars	Schedule no.	Year ended 31.12.2016 Current year Rs.in'000
Capital and liabilities		
Capital	1	4000
Reserves and surplus	2	8700
Deposits	3	84800
Borrowings	4	4750
Other liabilities and provisions	5	180
		102430

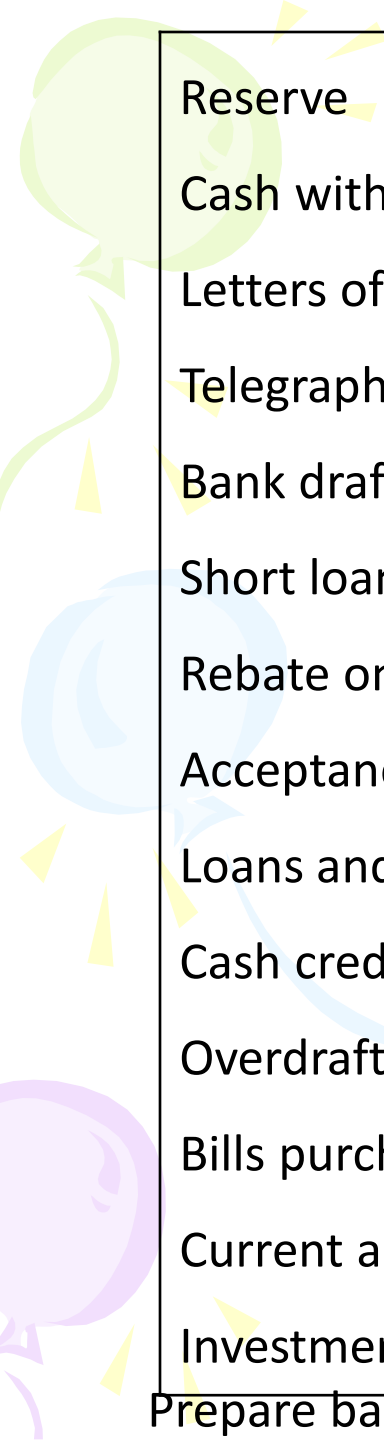


Assets		
Cash and balance with RBI	6	10380
Balance with banks & money at call and short notice	7	7800
Investments	8	25000
Advances	9	54800
Fixed assets	10	4114
Other assets	11	336
		102430
Contingent liabilities	12	Nil
Bills for collection	--	--

Problem 16 Preparation of Balance Sheet

From the following particulars of XY Bank Ltd., having its own premises, prepare balance sheet in the prescribed form as on 31.12.2015

Particulars	Rs.in '000
Authorized capital	4000
Subscribed capital 400000 shares of Rs.10 each Rs.5 paid	2000
Investments	7000
Bills discounted (in India)	15000
Profit and loss (cr.)	850
Endorsement on bills for collection	100
Liability of customers for acceptance	5000
Money at call and short notice	9000
Cash in hand	2000
Cash With RBI	4000
Premises	1000
Bills for collection	100



Reserve	3000
Cash with State Bank	4000
Letters of credit issued	500
Telegraphic transfers payable	800
Bank drafts payable	1200
Short loans	40
Rebate on bills discounted	10
Acceptance for customers	5000
Loans and advances	10000
Cash credits	10000
Overdrafts	1000
Bills purchased (payable outside India)	1000
Current and deposit accounts	56000
Investment fluctuation fund	100

Prepare balance sheet of the bank as on 31.12.2015

Working notes:

Schedule 1: Capital

Rs. in'000

Authorized, Issued and subscribed capital 400000 shares of Rs.10 each	4000
Called up and paid up capital 400000 shares of Rs.10 each Rs.5 called and paid	2000
Total	4000

Schedule 2: Reserves and surplus

Rs. in'000

Reserves	3000
Profit and loss account	850
Investment fluctuation fund	100
Total	3950

Schedule 3: Deposits

Rs. in'000

Current and deposit accounts	56000
Total	56000

Schedule 4: Borrowings

Rs. in'000

Short loans	40
Total	40

Schedule 5: Other liabilities and provisions

Rs. in'000

Telegraphic transfers payable	800
Bank drafts payable	1200
Rebate on bills discounted	10
Total	2010

Schedule 6: Cash and balances with RBI

Rs. in'000

Cash in hand	2000
Cash with RBI	4000
Total	6000

Schedule 7: Balance with banks and money at call and short notice

Rs. in'000

Money at call and short notice	9000
Cash with SBI	4000
Total	13000

Schedule 8: Investments

Rs. in'000

Investments	7000
Total	7000

Schedule 9: Advances

Rs. in'000

Loans and advances	10000
Bills discounted	15000
Cash credits	10000
Overdrafts	1000
Bills purchased	1000
Total	37000

Schedule 10: Fixed Assets

Rs. in'000

Premises	1000
Total	1000

Schedule 11: Other Assets

Rs. in'000

Other assets	Nil
Total	Nil

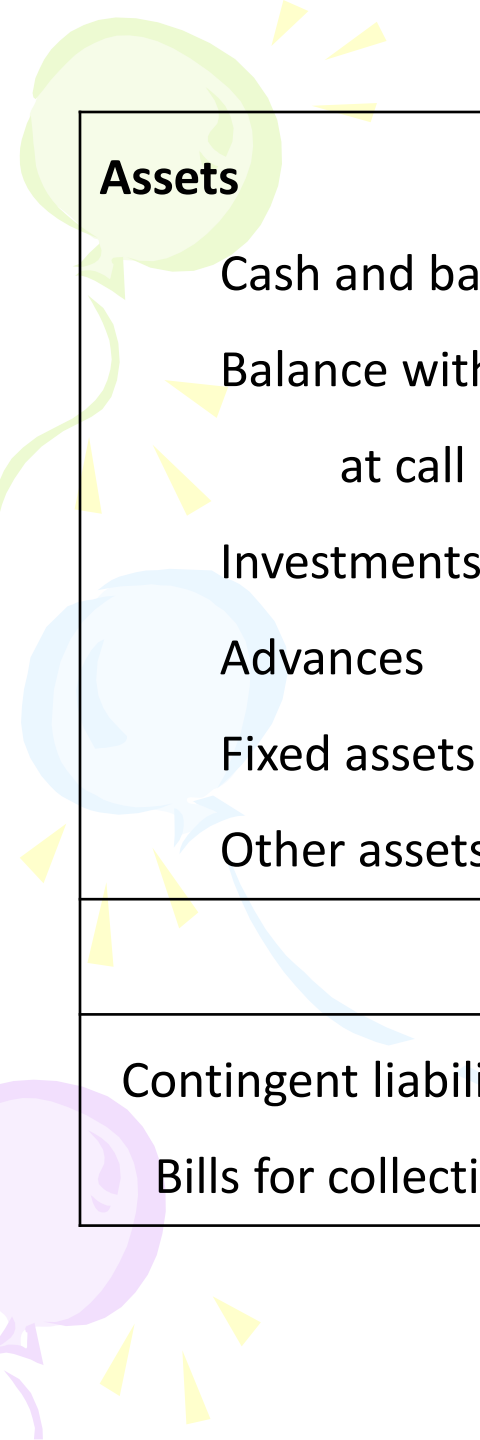
Schedule 12: Contingent liabilities

Rs. in'000

Endorsement on bills for collection	100
Liability for customers acceptances	5000
Letters of credit issued	<u>500</u>
	<u>5600</u>
Bills for collection	Nil
Total	5600

XY Bank Ltd.,
Balance Sheet as on 31.12.2015

Particulars	Schedule no.	Year ended 31.12.2015 Current year Rs.in'000
Capital and liabilities		
Capital	1	2000
Reserves and surplus	2	3950
Deposits	3	56000
Borrowings	4	40
Other liabilities and provisions	5	2010
		64000



Assets		
Cash and balance with RBI	6	6000
Balance with banks & money at call and short notice	7	13000
Investments	8	7000
Advances	9	37000
Fixed assets	10	1000
Other assets	11	Nil
		64000
Contingent liabilities	12	5600
Bills for collection	--	Nil

Problem 17 Preparation of Profit & Loss Account and Balance Sheet

From the following balances extracted from the books of Tushar Bank Ltd., prepare the Profit and Loss Account for the year ended 31st March 2015 and the Balance Sheet as on that date.

Particulars Rs.

Current accounts	1,60,00,000
Savings Accounts	60,00,000
Fixed and time deposits	19,00,000
Acceptances	4,00,000
Unclaimed dividend	60,000
Dividend 2013-2014	1,00,000
Profit and Loss A/c (Credit) on 1-4-2015	4,20,000
Reserve fund	7,00,000
Share Capital: 20,000 shares of Rs. 50 each.	10,00,000
Interest and discount received	15,00,000
Interest paid	4,00,000
Borrowings from other banks	14,00,000
Money at call	6,00,000
Investments (Market value Rs. 62,00,000)	60,00,000

Premises (After depreciation upto 31-3-2014 Rs. 2,00,000)	24,00,000
Sundry creditors	60,000
Bills payable	16,00,000
Bills for collection	2,80,000
Salaries	1,60,000
Rent and taxes	40,000
Audit fee	4,000
Printing	10,000
General expenses	6,000
Cash in hand	1,20,000
Cash with R.B.I.	30,00,000
Cash with other banks	26,00,000
Bills discounted and purchased	12,00,000
Loans, overdrafts and cash credits	1,40,00,000

Adjustments :

- 1) Authorized share capital is Rs. 20,00,000 divided into 40,000 shares of Rs. 50 each.
- 2) Rebate on bills discounted amounted to Rs. 10,000.
- 3) Create a provision for taxation Rs. 2,00,000.
- 4) Provision for bad and doubtful debts is required to be made at Rs. 60,000.
- 5) Provide 5% depreciation on the original amount of premises.

Working notes:

Schedule 13: Interest earned

Rs.

Interest and Discount	15,00,000	
Less :Rebate on bill discount	<u>10,000</u>	14,90,000
	Total	14,90,000

Schedule 14: Other Income

Rs.

Other income		Nil
	Total	Nil

Schedule 15: Interest expended

Rs.

Interest Paid		4,00,000
	Total	4,00,000

Schedule 16: Operating expenses

Rs.

Salaries	1,60,000
Rentals Taxes	40,000
Audit Fees	4,000
Printing	10,000
General Expenses	6,000
Depreciation on Premises $(Rs.2400000+200000) \times 5/100$	1,30,000
Total	3,50,000

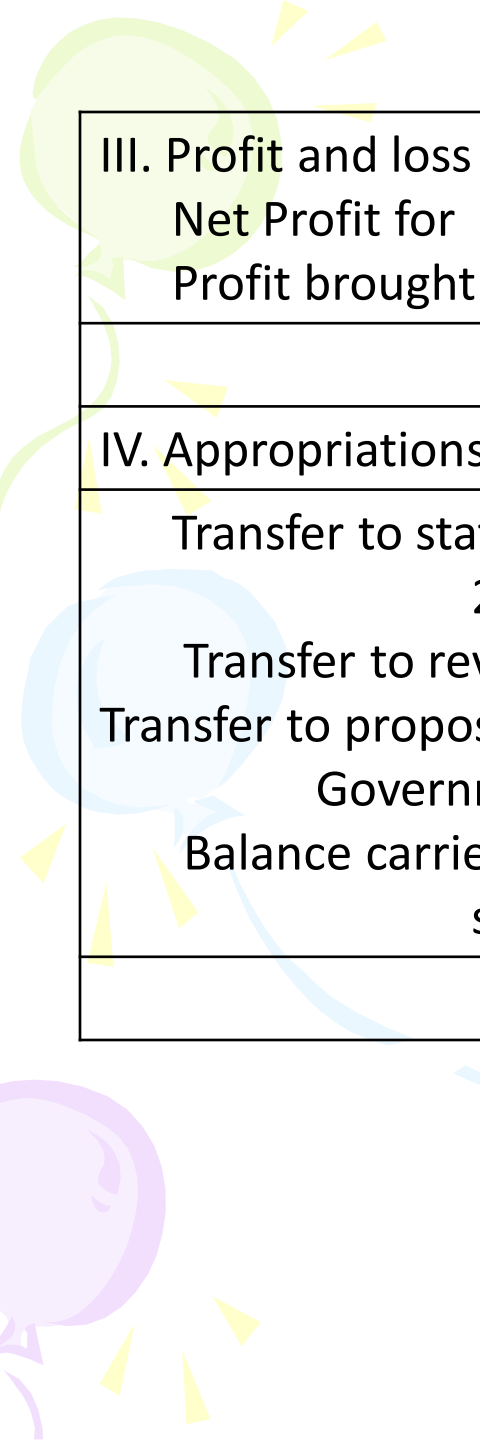
Provisions and contingencies

Rs.

Provision for tax	2,00,000
other provisions	60,000
Total	2,60,000

Tushar Bank Ltd.,
Profit & Loss Account for the year ended 31.03.2015

Particulars	Schedule no.	Year ended 31.03.2015 Current year Rs.	Year ended 31.03.2014 previous year
I. Income			
Interest earned	13	14,90,000	
Other income	14	Nil	
Total		14,90,000	
II. Expenditure			
Interest expended	15	4,00,000	
Operating expenses	16	3,50,000	
Provisions and contingencies	--	2,60,000	
Total		10,10,000	



III. Profit and loss			
Net Profit for the year I –II		4,80,000	
Profit brought forward		4,20,000	
Total		9,00,000	
IV. Appropriations			
Transfer to statutory reserve 25% of 480000		1,20,000	
Transfer to revenue reserves		--	
Transfer to proposed dividend/ Government		1,00,000	
Balance carried to Balance sheet (bal.fig.)		6,80,000	
Total		9,00,000	

Working notes:

Schedule 1: Capital

Rs.

Authorized Capital 40,000 shares of Rs. 50 each	<u>20,00,000</u>
Issued Capital 20,000 shares of Rs. 50 each fully paid	10,00,000
Total	10,00,000

Schedule 2: Reserves and surplus

Rs.

Reserve Fund	7,00,000
25% statutory reserve	1,20,000
Balance of P & L Appropriation A/c.	6,80,000
Total	15,00,000

Schedule 3: Deposits

Rs.

Current Accounts	1,60,00,000
Saving Account	60,00,000
Fixed and time deposits	19,00,000
Total	2,39,00,000

Schedule 4: Borrowings

Rs.

Borrowing from other Banks	14,00,000
Total	14,00,000

Schedule 5: Other liabilities and provisions

Rs.

Unclaimed dividend	60,000
Sundry Creditors	60,000
Bills payables	16,00,000
Rebate on bills discounted	10,000
Provision for taxation	2,00,000
Total	19,30,000

Schedule 6: Cash and balances with RBI

Rs.

Cash in hand	1,20,000
Cash with R.B.I.	30,00,000
Total	31,20,000

Schedule 7: Balance with banks and money at call and short notice

Rs.

Money at call	6,00,000
Cash with other Banks	26,00,000
Total	32,00,000

Schedule 8: Investments

Rs.

Investments (Market Value Rs. 62,00,000)	60,00,000
Total	60,00,000

Schedule 9: Advances

Rs.

Loans overdrafts & cash credits	1,40,00,000
Less : provision	<u>60,000</u>
Bills discounted and purchased	12,00,000
Total	1,51,40,000

Schedule 10: Fixed Assets

Rs.

Premises	24,00,000	
Less : Depreciation (5% on original cost)	<u>1,30,000</u>	22,70,000
Total		22,70,000

Schedule 11: Other Assets

Rs.

Other assets	Nil
Total	Nil

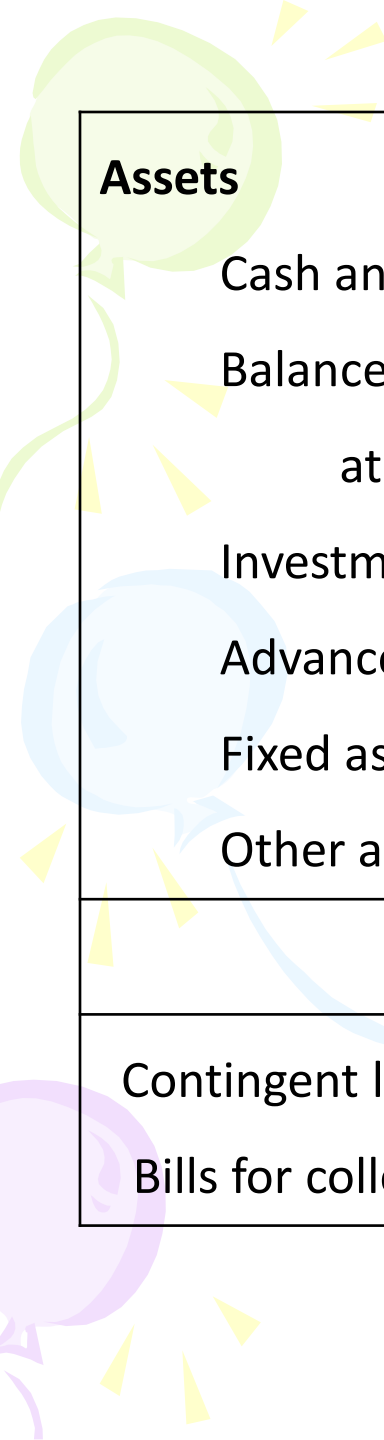
Schedule 12: Contingent liabilities

Rs.

Acceptances on behalf of customer	<u>4,00,000</u>
Bills for collection	2,80,000
Total	4,00,000

Tushar Bank Ltd.,
Balance Sheet as on 31.03.2015

Particulars	Schedule no.	Year ended 31.03.2015 Current year Rs.
Capital and liabilities		
Capital	1	10,00,000
Reserves and surplus	2	15,00,000
Deposits	3	2,39,00,000
Borrowings	4	14,00,000
Other liabilities and provisions	5	19,30,000
		2,97,30,000



Assets		
Cash and balance with RBI	6	31,20,000
Balance with banks & money at call and short notice	7	32,00,000
Investments	8	60,00,000
Advances	9	1,51,40,000
Fixed assets	10	22,70,000
Other assets	11	Nil
		2,97,30,000
Contingent liabilities	12	4,00,000
Bills for collection	--	2,80,000

Problem 18 Preparation of Profit & Loss Account and Balance Sheet

The following is the Trial Balance of Poona City Bank Ltd. as on 31st December 2015

Particulars.	Debit Rs.	Credit Rs.
Share Capital (3,000 share of Rs.10 each)		3,00,000
Statutory Reserve		4,00,000
Deposits:-		
Fixed		2,78,000
Saving		4,50,000
Current		3,74,000
Cash in hand	2,90,000	
Cash with RBI	4,20,000	
Interest and discount		3,00,000
Commission and Brokerage		50,000
Interest on Fixed Deposit	30,000	
Interest on Saving Deposit	20,000	
Interest on Current Deposit	12,500	
Salaries (including Rs.12,000 to Manager)	1,31,000	
Rent, Insurance and Taxes	4,000	
Postage	900	
Printing and Stationery	7,000	

Audit Fees	4,000	
Depreciation	3,300	
Investment on shares	84,000	
Loans, Cash credit and Overdrafts	4,90,000	
Bills discounted and Purchased	1,60,000	
Government Bonds	1,80,000	
Furniture	40,000	
Premises	3,00,000	
Branch Adjustment Account		24,700
	21,76,700	21,76,700

Additional Information:

1. Rebate on Bills discounted Rs.27,000.
2. Create Reserve for Doubtful Debts of Rs.11,000.
3. Acceptances on behalf of customers Rs.80,000.

You are required to prepare Profit and Loss Account for the year ended 31st December 2015 and Balance Sheet as on that date.

Working notes:

Schedule 13. Interest earned

Rs.

Interest & Discount	3,00,000	
Less: Rebate on bills discounted	27,000	2,73,000
TOTAL		2,73,000

Schedule 14. Other Income

Rs.

Commission and Exchange	50,000
TOTAL	50,000

Schedule 15. Interest expended

Rs.

Interest on Fixed Deposit	30,000
Interest on Saving Deposit	20,000
Interest on Current Deposit	12,500
TOTAL	62,500

Schedule 16. Operating expenses

Rs.

Salaries (including Rs.12,000 to Manager)	1,31,000
Rent, Insurance and Taxes	4,000
Postage	900
Printing and Stationery	7,000
Audit Fees	4,000
Depreciation	3,300
TOTAL	1,50,200

Provision and contingencies

Rs.

Reserve for Doubtful Debts	11,000
TOTAL	11,000

Poona City Bank Ltd. ,
Profit and Loss Account for the year ended 31st
December 2015

Particulars	Schedule no.	Year ended 31.12.2015 current year Rs.
I Income		
Interest earned	13	2,73,000
Other income	14	50,000
Total		3,23,000
II Expenditure		
Interest expended	15	62,500
Operating expenses	16	1,50,200
Provisions and contingencies		11,000
Total		2,23,700

III Profit & Loss		
Net Profit for the year I - II		99,300
Profit brought forward		--
Total		99,300
IV Appropriations		
Transfer to Reserve Fund		24,825
25% of 99300		
Transfer to revenue reserves		--
Transfer to Proposed dividend/Government		--
Balance carried over to Balance Sheet (bal. fig.)		74,475
		99,300

Working notes:**Schedule 1. Capital**

Rs.

Share Capital (30,000 shares ×Rs.10 each)	3,00,000
TOTAL	3,00,000

Schedule 2. Reserves and Surplus

Rs.

Statutory Reserve Opening Balance in trial balance	4,00,000
Additions during the year (P&L)	24,825
Balance in P&L Appropriation A/c (Surplus)	74,475
TOTAL	4,99,300

Schedule 3. Deposits

Rs.

Fixed Deposit	2,78,000
Saving Deposit	4,50,000
Current Deposit	3,74,000
TOTAL	11,02,000

Schedule 4. Borrowings

Rs.

Borrowings	Nil
TOTAL	Nil

Schedule 5. Other Liabilities and Provisions

Rs.

Rebate on Bills discounted	27,000
Branch Adjustment Account	24,700
TOTAL	51,700

Schedule 6. Cash and bank balances with RBI

Rs.

Cash in Hand	2,90,000
Cash with RBI	4,20,000
TOTAL	7,10,000

Schedule 7. Balances with banks & money at call & short notice

Rs.

Balance with other banks	Nil
TOTAL	Nil

Schedule 8. Investments

Rs.

Investment in shares	84,000
Government bonds	1,80,000
TOTAL	2,64,000

Schedule 9. Advances

Rs.

Loans, Cash credit and Overdraft	4,90,000
Bills Discounted and Purchased	<u>1,60,000</u>
	6,50,000
Less: Reserve for Doubtful Debts	11,000
TOTAL	6,39,000

Schedule 10. Fixed Assets

Rs.

Furniture	40,000
Premises	3,00,000
TOTAL	3,40,000

Schedule 11. Other Assets

Rs.

Other Assets	Nil
TOTAL	Nil

Schedule 12. Contingent Liabilities

Rs.

Acceptance on behalf of customers	80,000
TOTAL	80,000
Bills for collection	Nil

Poona city Bank Ltd.,
Balance Sheet as on 31.12.2015

Particulars	Schedule no.	Year ended 31.12.2015 current year Rs.
Capital and liabilities :		
Capital	1	3,00,000
Reserves and Surplus	2	4,99,300
Deposits	3	11,02,000
Borrowings	4	--
Other Liabilities and Provisions	5	51,700
Total		19,53,000

ASSETS :		
Cash and Balance with RBI	6	7,10,000
Balances with Banks & Money at call & Short Notice	7	--
Investments	8	2,64,000
Advances	9	6,39,000
Fixed Assets	10	3,40,000
Other Assets	11	--
Total		19,53,000
Contingent Liabilities	12	80,000
Bills for collection		--

Problem 19 Preparation of Profit & Loss Account and Balance Sheet

The following is the Trial Balance extracted from the books of Town Bank Ltd. ,

Particulars	Debit Rs.	Particulars	Credit Rs.
Balances with banks	46350	Share capital	300000
Investment in Govt. bond	194370	Security deposit of employees	15000
Other investments	155630	SB Accounts	7420
Gold bullion	15130	Current Accounts	97000
Interest accrued on investments	24620	Fixed Deposits	113050
Silver	2000	Reserve fund	140000
Constituent's liability for acceptances etc.,	56500	Borrowings from banks	77230
Building	65000	Profit and loss a/c	6500
Furniture	5000	Bills for collection	43500
Money at call	26000	Acceptances and endorsements	56500
Loans	200000	Interest	72000
Bills discounted	12500	Commission	25300
Interest	7950	Discounts	42000
Bills for collection	43500	Rent	600
Audit fees	5000	Profit on bullion	1200

Loss on sale of furniture	1000	Miscellaneous income	2700
Directors fees	1200	Accumulated	20000
Salaries	21200	depreciation on	
Postage	50	building	
Managing directors remuneration	12000		
Loss on sale of investments	30000		
Cash in hand	25000		
Cash with RBI	50000		
Branch Adjustment Account	20000		
	1020000		1020000

Additional Information:

1. Bad debts Rs.500
2. Rebate on Bills Rs.1000.
3. Current year depreciation on building Rs.2000.
4. Some current accounts are over drawn to the extent of Rs.25000 and total of credit balances is Rs.122000.You are required to prepare Profit and Loss Account and Balance

Working notes:**Schedule 13. Interest earned**

Rs.

Interest	72000
Discount	<u>42000</u>
	114000
Less: Rebate on bills discounted	1000
TOTAL	113000

Schedule 14. Other Income

Rs.

Commission	25300
Rent	600
Profit on bullion	1200
Miscellaneous income	<u>2700</u>
	29800
Less : Loss on sale of furniture	1000
Loss on sale of investments	<u>30000</u>
	31000
TOTAL	-1200

Schedule 15. Interest expended

Rs.

Interest	7950
TOTAL	7950

Schedule 16. Operating expenses

Rs.

Salaries (including MD's salary)	33200
Directors fees	1200
Postage	50
Audit fees	5000
Depreciation on building (adjustment)	2000
TOTAL	41450

Provision and contingencies

Rs.

Bad debts	500
TOTAL	500

Town Bank Ltd. ,
Profit and Loss Account for the year ended

Particulars	Schedule no.	Year ended .. current year Rs.
I Income		
Interest earned	13	113000
Other income	14	-1200
Total		111800
II Expenditure		
Interest expended	15	7950
Operating expenses	16	41450
Provisions and contingencies		500
Total		49900

III Profit & Loss		
Net Profit for the year I - II		61900
Profit brought forward		6500
	Total	68400
IV Appropriations		
Transfer to Reserve Fund		15475
25% of 61900		
Transfer to revenue reserves		--
Transfer to Proposed dividend/Government		--
Balance carried over to Balance Sheet (bal. fig.)		52925
		68400

Working notes:**Schedule 1. Capital**

Rs.

Share Capital	3,00,000
TOTAL	3,00,000

Schedule 2. Reserves and Surplus

Rs.

Reserve fund	140000
Statutory Reserve	15475
Balance in P&L Appropriation A/c (Surplus)	52925
TOTAL	208400

Schedule 3. Deposits

Rs.

Savings Deposit	7420
Fixed Deposit	113050
Current Deposit (Rs.97000+Rs.25000)	122000
TOTAL	242470

Schedule 4. Borrowings

Rs.

Borrowings from bank	77230
TOTAL	77230

Schedule 5. Other Liabilities and Provisions

Rs.

Security deposit of employees	15000
Rebate on bills discounted	1000
TOTAL	16000

Schedule 6. Cash and bank balances with RBI

Rs.

Cash in Hand	25000
Cash with RBI	50000
TOTAL	75000

Schedule 7. Balances with banks & money at call & short notice

Rs.

Balance with other banks	46350
Money at call and short notice	26000
TOTAL	72350

Schedule 8. Investments

Rs.

Government bonds	194370
Other investments	155630
Gold bullion	15130
TOTAL	365130

Schedule 9. Advances

Rs.

Loans	200000	
Overdraft	<u>25000</u>	
	225000	
Less : Bad Debts	<u>500</u>	224500
Bills Discounted		12500
TOTAL		237000

Schedule 10. Fixed Assets

Rs.

Building	65000	
Less : Accumulated depreciation	20000	
current year depreciation	<u>2000</u>	<u>22000</u>
Furniture		5000
TOTAL		48,000

Schedule 11. Other Assets

Rs.

Branch adjustment account	20000
Silver	2000
Interest accrued on investments	24620
TOTAL	46620

Schedule 12. Contingent Liabilities

Rs.

Acceptances and endorsements	56500
TOTAL	56500
Bills for collection	43500

**Town Bank Ltd.,
Balance Sheet as on**

Particulars	Schedule no.	Year ended ... current year Rs.
Capital and liabilities :		
Capital	1	300000
Reserves and Surplus	2	208400
Deposits	3	242470
Borrowings	4	77230
Other Liabilities and Provisions	5	16000
Total		844100

ASSETS :		
Cash and Balance with RBI	6	75000
Balances with Banks & Money at call & Short Notice	7	72350
Investments	8	365130
Advances	9	237000
Fixed Assets	10	48000
Other Assets	11	46620
Total		844100
Contingent Liabilities	12	56500
Bills for collection		43500

Problem 20 Preparation of Profit & Loss Account and Balance Sheet

The following is the Trial Balance of Big Bank Ltd. , as on 31.12.2017

Particulars	Debit Rs.	Credit Rs.
Share capital 7500 shares of Rs.100 each		750000
Loans and advances	8020000	
Bank premises	532500	
Government securities	1530000	
General reserve		450000
Deposits		9646000
Interest and discounts		800000
Interest on deposits and borrowings	200000	
Balance with other banks	100500	
Money at call & short notice	85500	
General expenses	82500	
Rent, rates and taxes	6900	
Directors fees	4200	
Auditors fees	1200	
Bills discounted	90000	
Furniture (dep. Upto 1.1.2017 Rs.20000)	80000	
Borrowings from other banks		105000
Salaries and allowances	85500	

Computer	35000	
Profit and loss account 01.01.2017		37500
Miscellaneous income		300
Commission		10000
Interim dividend	30000	
Cash in hand and with RBI	915000	
	11798800	11798800

Additional Information:

1. Bills worth Rs.50000 was received for collection
2. Interest accrued on investments Rs.12000.
3. Rebate on bills discounted Rs.15000.
4. Debts amounting to Rs.65000 were doubtful and provisions is to be made for the same.
5. Depreciation to be charged at 10% on the original cost of the furniture.

Prepare Profit and Loss Account and Balance Sheet.

Working notes:**Schedule 13. Interest earned**

Rs.

Interest & Discount	800000
Interest accrued on investments	<u>12000</u>
	812000
Less: Rebate on bills discounted	15000
TOTAL	797000

Schedule 14. Other Income

Rs.

Commission	10000
Miscellaneous income	300
TOTAL	10300

Schedule 15. Interest expended

Rs.

Interest on deposits and borrowings	200000
TOTAL	200000

Schedule 16. Operating expenses

Rs.

General expense	82500
Rent, rates and taxes	6900
Directors fees	4200
Auditors fees	1200
Depreciation on furniture (Rs.80000+20000)x10/100	10000
Salaries and allowances	85500
TOTAL	190300

Provision and contingencies

Rs.

Provision for doubtful debts	65000
TOTAL	65000

Big Bank Ltd. ,
Profit and Loss Account for the year ended 31.12.2017

Particulars	Schedule no.	Year ended 31.12.2017 current year Rs.
I Income		
Interest earned	13	797000
Other income	14	10300
Total		807300
II Expenditure		
Interest expended	15	200000
Operating expenses	16	190300
Provisions and contingencies		65000
Total		455300

III Profit & Loss		
Net Profit for the year I - II		352000
Profit brought forward 2017		37500
Total		389500
IV Appropriations		
Transfer to Reserve Fund		88000
25% of 352000		
Transfer to revenue reserves		--
Transfer to interim dividend/Government		30000
Balance carried over to Balance Sheet (bal. fig.)		271500
		389500

Working notes:**Schedule 1. Capital**

Rs.

Share Capital 7500 shares of Rs.100 each	750000
TOTAL	750000

Schedule 2. Reserves and Surplus

Rs.

General reserve	450000
Statutory reserve	88000
Profit and loss account balance	271500
TOTAL	809500

Schedule 3. Deposits

Rs.

Deposits	9646000
TOTAL	9646000

Schedule 4. Borrowings

Rs.

Borrowings from other banks	105000
TOTAL	105000

Schedule 5. Other Liabilities and Provisions

Rs.

Rebate on bills discounted	15000
TOTAL	15000

Schedule 6. Cash and bank balances with RBI

Rs.

Cash in Hand and with RBI	915000
TOTAL	915000

Schedule 7. Balances with banks & money at call & short notice

Rs.

Balance with other banks	100500
Money at call and short notice	85500
TOTAL	186000

Schedule 8. Investments

Rs

Government securities	1530000
TOTAL	1530000

Schedule 9. Advances

Rs.

Loans and advances	8020000
Bills discounted	<u>90000</u>
	8110000
Less : provision for doubtful debts	65000
TOTAL	8045000

Schedule 10. Fixed Assets

Rs.

Bank premises		532500
Furniture	80000	
Less :Depreciation	<u>10000</u>	70000
Computer		35000
TOTAL		637500

Schedule 11. Other Assets

Rs.

Interest accrued on investments	12000
TOTAL	12000

Schedule 12. Contingent Liabilities

Rs.

Acceptances and endorsements	Nil
TOTAL	Nil
Bills for collection	50000

Big Bank Ltd.,
Balance Sheet as on 31.12.2017

Particulars	Schedule no.	Year ended 31.12.2017current year Rs.
Capital and liabilities :		
Capital	1	750000
Reserves and Surplus	2	809500
Deposits	3	9646000
Borrowings	4	105000
Other Liabilities and Provisions	5	15000
Total		11325500

ASSETS :		
Cash and Balance with RBI	6	915000
Balances with Banks & Money at call & Short Notice	7	186000
Investments	8	1530000
Advances	9	8045000
Fixed Assets	10	637500
Other Assets	11	12000
Total		11325500
Contingent Liabilities	12	Nil
Bills for collection		50000

Problem 21 Preparation of Profit & Loss Account and Balance Sheet Assignment

The following is the Trial Balance of Madras Bank Ltd. , as on 31.12.2018

Particulars	Debit Rs.in'000	Credit Rs. in '000
Issued capital 20000 shares of Rs.100 each		2000
Money at call and short notice	800	
Reserve fund		700
Cash in hand	650	
Deposits		2500
Cash at bank	950	
Borrowings from SBI		500
Investments in Government securities	900	
Secured loans	1500	
Cash credits	500	
Premises less depreciation	580	
Furniture less depreciation	120	
Rent	5	60
Interest and discount		800
Commission and brokerage		70
Interest paid on borrowings	50	

Audit fees	10	
Directors fees	8	
Non banking assets	80	
Deprecation on banks property	13	
Printing	3	
Advertisement	1	
Stationery	5	
Postage	2	
Other expenses	3	
Interest paid on deposits	300	
Salary and allowances paid to staff	150	
	6630	6630

Additional Information:

1. Provide Rs.20000 for doubtful debts.
2. Provide Rs.10000 on bills discounted
3. Acceptance on behalf of customers Rs.400000
4. Provide Rs. 60000 for taxes. Prepare Profit and Loss Account and Balance Sheet.

UNIT V

ACCOUNTS OF INSURANCE

COMPANIES

INTRODUCTION

- **REGULATION OF INSURANCE BUSINESS IN INDIA**

- **INSURANCE ACT-1938**

- **IRDA ACT-1999**

- **INSURANCE AMENDMENT ACT-2002**

- *IRDA has prescribed in specified formats for preparation of financial statements of insurance business in part V of 'schedule A' of IRDA regulations 2002.*
- *Insurance Act, 1938 & IRDA Act, 1999 provide legal framework of insurance accounting in India.*
- *Financial statements also to be in conformity with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI).*

Types of insurance

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graph TD; A[Types of insurance] --> B[LIFE INSURANCE]; A --> C[GENERAL INSURANCE];
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LIFE
INSURANCE

GENERAL
INSURANCE



TYPES OF LIFE INSURANCE PLANS

TERM LIFE INSURANCE:

A term life insurance is one of the simplest and most affordable life insurance plans that you can buy. It provides coverage for death risk for a specified period. In the event of death of the policyholder, the sum assured amount is paid to the nominee in lump sum or as monthly pay-outs. This type of life insurance gives you maximum coverage with minimum premium. You can also widen up the coverage by buying additional riders.

Some insurance companies have come up with innovative term insurance plans where they offer return of premiums to the insured at the end of the policy term.

UNIT LINKED INSURANCE PLANS (ULIPS):

ULIPs give you the triple advantage of insurance, wealth creation and tax-saving investment. In ULIPs the money that you pay as premium is partly invested on funds and partly on risk cover. You can choose the funds to invest depending upon your risk appetite and investment horizon.

ENDOWMENT PLANS:

Similar to a ULIP, endowment plans are types of life insurance that offers a mix of insurance coverage and investment opportunity. Sum assured is paid to the nominee or family in case of death or sum assured amount plus accumulated bonus in case the insured outlives the policy term.

MONEY BACK POLICY:

As the term suggests, in this type of life insurance policy the insured receives a specified sum in intervals during the policy term as well as sum assured amount on death or on maturity. Investors also get accrued bonuses on maturity.

WHOLE LIFE INSURANCE:

A whole life insurance covers the insured during the entire lifetime of the individual or in some cases up to 100 years. Sum assured is paid to nominee on death of the policy holder. In the rare event that the policyholder lives more than 100 years, the maturity amount is paid to the insured.

CHILD PLAN:

A child insurance plan helps to build capital for important events in a child's life such as higher education, overseas studies, marriage, etc. Most child plans provide one time pay-out or annual payments after the child reaches 18 years of age. In case the parent passes away during the policy term, payment is made to the child or family. Some insurance companies waive off the premiums in case of death of the policyholder and make the payment after maturity period.

RETIREMENT PLAN:

This type of insurance plan helps you build a substantial amount of capital to live a worry-free retirement life. You can opt for annual payments or a single pay-out after the age of 60 years. In case of the death of the insured, payment is made to the nominee either based on coverage, fund value or 105% of premiums paid.

LIFE INSURANCE

Life insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death or the happening of any contingency dependent on human life.

GENERAL INSURANCE

It is the insurance other than the life insurance . General insurance business include fire, marine or miscellaneous business.



FIRE INSURANCE

It is a contract of insurance in which the insurer undertakes to compensate the insured for the actual loss incurred due to happening of a specified peril.



MARINE INSURANCE

Insurance on the risks of transportation of goods is one of the oldest and most vital form of insurance. The value of goods shipped by business firms each year cost millions of rupees. These goods are exposed to damage or loss from numerous transportation perils and sea perils. The goods can be protected by marine insurance contracts

Marine Insurance



REINSURANCE

If the risk involve in the subject matter is heavy it may be reinsured with other insurance company. Such insurance is called as reinsurance.

REINSURANCE ACCEPTED AND REINSURANCE CEDED

When a company gets reinsurance business it has to pay commission to some other company. This commission is called commission on reinsurance accepted .

When a company passes on a part of business to some other company then this company which gives business get commission from the company to whom such business is given. Such a commission is called commission on reinsurance ceded.



PROVISION FOR UNEXPIRED RISKS

It is a provision created to meet the claims which may arise in respect of the policies which remain unexpired at the end of the year. It is to be made as follows:

	% of net premium
I. Marine Insurance	100%
II. Fire Insurance	50%

The companies may maintain such reserve at a higher percentage . The excess reserve over the minimum reserve is called as additional reserve.



ACCOUNTS OF INSURANCE COMPANIES

- **ACCOUNTING POINT OF VIEW: BUSINESS OF INSURANCE**

1. LIFE INSURANCE BUSINESS

2. GENERAL INSURANCE BUSINESS

- **INCOMES**

➤ **MAJOR INCOME- PREMIUM**

➤ **OTHER SOURCES - I. INTEREST**

**II. DIVIDENDS ON
INVESTMENTS**

**III. RENT EARNED FROM
PROPERTIES LET OUT ETC.**

EXPENSES

1. *Settlements of claim*
 2. *Annuities*
 3. *Bonus payment*
 4. *Commission paid to agent*
 5. *Office & managerial expenses*
 6. *Income tax & Other taxes*
- *Profit or loss = All incomes – Revenue expenses*

BOOKS FOR MAINTENANCE OF ACCOUNTS

1. Statutory Book :- Consist of 3 registers

- **Register of policies:-** Name & address of policy holder, date of policy etc
- **Register of claims:-** Date of claim, name & address of claimant etc
- **Register of licensed insurance:-** Name of Insurance agent, address, no. of license, commission due etc

2. Subsidiary Book :- Register of proposal, premium register, general cash book, commission register, cash receipt register etc

FINAL ACCOUNTS OF LIFE INSURANCE COMPANIES

1. REVENUE ACCOUNT

Sets out all income & expenses relating to the insurance business.

income includes

- a) Premium after adjusting reinsurance ceded & reinsurance accepted**
- b) Income from investments**

Expenses includes

- a) Commission**
- b) Operating expenses**
- c) Benefits paid**
- d) Bonus paid**
- e) Change in valuation of liability against life policies in force**

2. PROFIT AND LOSS ACCOUNT

All income and expenses relating to shareholders account.

income comprises of:-

- a) Depreciation relating to assets held by shareholder's fund, investment expenses, directors fund.
- b) Transfer of funds to policy holder's fund.
- c) Preliminary expenses written off.

3. BALANCE SHEET

includes:-a)share holders fund

b) policy holders fund

c) investments related to policy holder's fund
and assets held to cover linked liabilities

4. RECEIPTS AND PAYMENTS ACCOUNT

Cash flow statements of insurance company needs to be worked out as directed method as per IRDA requirements.

MAJOR ITEMS ARE:-

- A) OPERATING ACTIVITIES:-** *Receipts and payments from policy holders, payment to reinsurers agent, employee expenses & investment income.*
- B) INVESTING ACTIVITIES:-** *Purchase and sales of investment, purchase of fixed assets*
- C) FINANCING ACTIVITIES:-** *Issue of share capital or raising of funds from other sources.*

• **SEGMENTAL REPORTING :-**

Have to prepare segment wise revenue account and balance sheet of the business. The company has to report segment results separately for :-

- Participating
- Non participating
- Pension
- Annuity business
- unit linked business

FINAL ACCOUNTS OF GENERAL INSURANCE COMPANIES

A) REVENUE ACCOUNT

A separate revenue account is prepared for each type of business. Eg: fire, marine etc.

It records: incomes & expenses of particular business, profit/loss is transferred to profit & loss account.

B) PROFIT & LOSS ACCOUNT

It records incomes & expenses of general nature and it show how profit has been appropriated in addition to profit/loss of different business. Its balance is shown in balance sheet.

C) BALANCE SHEET

It records various assets and liabilities of General insurance companies.

Explanation of special terms used in revenue account of Insurance Companies

1. Claims:

Claims is the amount which is payable by the insurance company at the time of happening of event or at the time of attaining certain age in the case of life insurance. This is the first item which appears on the debit side of revenue account. While calculating the amount of claim, all claims intimated and accepted at the end of year, expenses relating to claims are to be added. Out of the total claims, claims outstanding at the beginning of the year and reinsurance recoveries are to be deducted.

Claims Paid		Rs.
Add:	Claims outstanding at the end	—
Add:	Reinsurance claims payable at the end	—
Add:	Expenses relating to settlement of claims e.g., legal expenses, survey expenses, medical expenses	—
Less:	Claim Outstanding (opening balance)	—
Less:	Reinsurance claims recovered.	—
	Net claims	—

2. Bonus in cash:

Bonus is the share of profit which a policy holder gets from the life insurance company. This is in case where the policy is with profit policy. It is paid in cash, it is shown on the debit side of the revenue account as an expenses.

3. Bonus in reduction of premium:

Bonus in reduction of premium is bonus which is not payable in cash but which is utilized by the policyholder to adjust premium due from him. If it is given in trial balance then it will be shown in the debit side of revenue account as expenses. But if it is given as adjustment then it is shown both on the debit and credit side (by adding to the premium) of revenue account.

Accounting entry:

Bonus in Reduction of Premium A/c ...Dr.
To Premium Account

4. Reversionary bonus:

In the case of policies with profit, the policyholder has a right to take bonus in cash, adjust against the future premium due from the policyholders or it can be paid on the maturity of the policy, together with the policy amount. Bonus paid at the end along with the policy amount is called reversionary bonus.

5. Interim bonus:

Interim bonus is the bonus payable on the maturity of the policy pending the ascertainment of profit.

6. Annuity and consideration for annuity granted:

Annuity refers to fixed annual payment made by the insurance company to the insured on his attaining a specified age in consideration of a lump-sum money received in the beginning. The annual payment is called annuity which is shown on debit side of revenue account as expense and the lump-sum received in the beginning is called “Consideration for Annuities Granted” which is shown on the credit side of Revenue Account as income

7. Surrender value:

Surrender value is the amount which a policyholder can get in cash from the life insurance company, if he is unable to pay the future premium. It is the present cash value of the policy. Amount paid as surrender value is an expenditure and is shown on debit side of revenue account.

8. Expenses of management:

The details regarding management expenses can be given either in the revenue account or in the form of an attached schedule of working note.

The followings are the Expenses of Management:

- (i) (a) Commission to insurance agent less that on reinsurances
- (b) Allowances and commission other than commission in sub item
- (c) Preceding
- (ii) Salaries etc. other than to agents
- (iii) Travelling expenses
- (iv) Director's fees

- (v) Auditor's fees
- (vi) Medical fees
- (vii) Law charges
- (viii) Advertisement
- (ix) Printing and stationary
- (x) Other expenses of management (accounts to be specified)
- (xi) Rent for office belonging to and occupied by the insurer.
- (xii) Rents for other offices occupied by the insurer.

9. Premium:

Premium received during the year, plus outstanding at the end of the period, plus bonus in reduction of premium reduced by the amount of premium outstanding at the beginning of the period and reinsurance premium paid during the year. The net amount should be shown in the outer column.

Premium paid at the time of insurance agreement is called “First Premium’. Premiums paid subsequently are known as Renewal Premium. In case total premium is paid only once, is called ‘Single Premium’. Life insurance premiums are collected monthly, quarterly half yearly or yearly but general insurance premiums are normally collected or charged for one year. It is income of the insurance company.

The amount of insurance premiums to be credited to Revenue Account may be ascertained as under:

	Rs.
Premiums Received during the year	
Add : Outstanding premium at the end of the year	—
Add : Reinsurance premiums received during the year	—
Add : Bonus in Reduction of Premium	
Less : Outstanding premium in the beginning of the year	—
Less : Reinsurance premium paid during the year	—
Net Premium (to be credited to Revenue Account)	

10. Reinsurance:

When one company in order to reduce the risk wants to pass some business to another company, it is called reinsurance. The company which makes a contract with other company for reducing risk will get commission which is called "Commission on reinsurance business ceded and is shown on the credit side of revenue account. The company which accepts such business is required to pay commission on reinsurance business accepted and such commission will become an expense and will be shown on the debit side of revenue account.

11. Interest, dividend and rents:

If the company received any interest, dividend and rent on its investment, the income tax thereon should be deducted out of the gross receipt of interest, dividend etc. The net balance may be shown in outer column. If there is outstanding amount of interest, dividend etc., it should be added in this item.

12. Commission on reinsurance accepted:

The company which has accepted reinsurance, will pay commission to the company which has given reinsurance. The payment made as commission is called 'commission on reinsurance accepted'. It is the expenses of the company, therefore, it is debited to revenue account.

Maximum limit of commission:

Commission on direct insurance by agents cannot exceed 5% of the premium in case of fire and marine businesses and 10% in case of miscellaneous business. If the policies have been affected through principal agents the maximum limit is 10% for fire and marine insurance and 15% in case of miscellaneous insurance

13. Commission of reinsurance ceded:

An insurance company will receive commission from other insurance companies, if it shifts a part of its business to other insurance company. Such commission is called 'commission on reinsurance ceded' and is credited to revenue account.

14. Paid up policy:

If a policy holder stops payment of premiums and does not opt for surrender value then he has another option i.e., to get it paid up for smaller value. In such cases he receives the paid up value of policy at the maturity. A policy can be got paid up only if it has remained in force for at least two years.

Paid up value is calculated as follows:

Paid up value of policy = $\text{Sum assured} \times \frac{\text{Number of premium paid}}{\text{Total number of premium payable}}$

15. Fines on revival of policies:

If the insured does not pay premium within grace period granted to him then his policy gets lapsed i.e., the contract stands to seize and insurance company in that case will not be responsible for any claim. However, if the insured is allowed to revive his policy upon payment of some fine then the fines on revival of policies becomes a source of income and is shown as income in revenue account.

16. Assignment fee:

A policy holder can assign his policy by paying me assignment fee. It is credited trade to revenue account.

17. Life assurance fund:

This represents the excess of the revenue receipts over revenue expenditures related with life business. The fund is available to meet the liability on all policies outstanding. Revenue account is prepared every year to ascertain the balance of life assurance fund at the end of the year. In the preparation of revenue account, the opening balance life assurance fund is the starting point.

Adjustment Entries:

Following entries are recorded at the time of preparing final accounts for recording unrecorded transactions in the books of insurance company:

(i) For Premium Outstanding at the End of the Year :

Outstanding Premium A/c	Dr.
To Premium A/c	

(Being the premium outstanding for the year)

(ii) For Premium Received in Advance :

Premium A/c	Dr.
To Premium Received in Advance A/c	

(Being the premium received in advance)

(iii) For Outstanding claims at the End of the Year :

Claims A/c	Dr.
To Claims Outstanding A/c	

(Being the claims outstanding at the end of the year)

(iv) For Outstanding claim written off :

Claims Outstanding A/c	Dr.
To Claims A/c	

(Being the outstanding claims written off)

- (v) **For expenses relating to claims such as survey expenses, legal expenses etc. but included in other expenses :**

Claims A/c Dr.

To Management Expenses A/c

To Survey/Legal Expenses A/c

(Being the expenses relating to claims changed to claims account)

- (vi) **For Claims covered under reinsurance :**

Reinsurance Company A/c Dr.

To Claims A/c

(Being the claims recovered under reinsurance)

- (vii) **For Interest Accrued but not Due :**

Interest Accrued A/c Dr.

To Interest A/c

(Being the interest accrued but not due)

- (viii) **For Interest Due but not received :**

Outstanding Interest A/c Dr.

To Interest A/c

- (ix) **For Bonus in reduction of premium :**

Bonus in Reduction of Premium A/c Dr.

To Premium A/c

(Being the bonus in reduction of premium adjusted)

- (x) **For Rent of own building :**

Rent A/c Dr.

To Rent of own Building A/c

(Being the rent of own building changed)

- (xi) **For Commission on reinsurance accepted due but not paid :**

Commission on Reinsurance Accepted A/c Dr.

To Reinsurance Company

(Being commission payable on reinsurance accepted)

- (xii) **For Commission on reinsurance ceded due :**

Reinsurance Company Dr.

To Commission on Reinsurance Ceded

(Being the commission earned reinsurance ceded, made due)

Ascertainment of Profit:

Ascertainment of profit in the case of life insurance is done after the expiration of a two-year period. For this purpose a valuation balance sheet is prepared. The balance of life insurance fund is compared with the amount of net liability as per actuarial valuation. In case the balance of life insurance fund on the valuation date is more than the net liability, there is said to be a surplus. In a reverse case there will be a deficiency.

The form of the valuation balance sheet is given below:

Form I			
Valuation Balance Sheet of...			
as at			
Liabilities	Rs.	Assets	Rs.
Net Liability under business as shown in the summary of valuation of policies (Form H)		Balance of Life Insurance Fund as shown in the balance sheet	
Surplus, if any*		Deficiency, if any*	

* Only one figure will be there.

FORMAT OF REVENUE ACCOUNT

PARTICULARS	SCHEDULE	Amt.	Amt.
INCOME			
1. Premium earned (Net)	1		
2. Other income	-		
3. Changes in provision for unexpired risk	-		
4. Interest, dividend and rent received	-		
Total (A)			
EXPENSES			
5. Claims incurred (Net)	2		
6. Commission	3		
7. Operating expenses	4		
Total (B)			
Operating Profit /loss form Fire/Marine (A-B)			

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)**

<i>Particulars</i>	<i>Schedule</i>	<i>Current Year (Rs. '000)</i>	<i>Previous Year (Rs. '000)</i>
Premiums earned-net			
(a) Premium	1		
(b) Insurance ceded			
(c) Re-insurance 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	3		
Other Expenses (to be specified)			
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 against life policies in force			
(a) Gross **			
(b) Amount ceded in Re-insurance			
(c) Amount accepted in Re-insurance			
Total (C)			
Surplus/(Deficit) (D) = (A) – (B) – (C)			
Appropriations			
Transfer to Shareholders' Account			
Transfer to Other Reserves (to be specified)			
Transfer to Funds for Future Appropriations			
Total (D)			

FORM A-PL**Name of the Insurer :****Registration No. and Date of Registration with the IRDA****PROFIT & LOSS ACCOUNT** for the year ended 31st March, 20...Shareholders' Account
(Non-technical Account)

<i>Particulars</i>	<i>Schedule</i>	<i>Current Year (Rs. '000)</i>	<i>Previous Year (Rs. '000)</i>
Balance brought forward from/transferred 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			
Provisions (Other than taxation)			
(a) For diminution in the value of investments (Net)			
(b) Others (to be specified)			
Total (B)			
Profit/(Loss) before tax			
Provision for Taxation			
Profit/(Loss) after tax			
Appropriations :			
(a) Brought forward Reserve/Surplus from the Balance Sheet			
(b) Interim dividends paid during the year			
(c) Proposed final dividend			
(d) Dividend distribution on tax			
(e) Transfer to reserves/other accounts (to be specified)			
Profit carried forward to the Balance Sheet.			

Balance Sheet as at

<i>Particulars</i>	<i>Schedule</i>	<i>Current Year (Rs. 000)</i>	<i>Previous Year (Rs. 000)</i>
Sources of Funds			
Share Capital	5		
Reserves and Surplus	6		
Fair Value Change Account			
Borrowings	7		
Total			
Application of Funds			
Investments	8		
Loans	9		
Fixed Assets	10		
Current Assets			
Cash and Bank Balances	11		
Advances and Other Assets	12		
Sub-total (A)			
Current Liabilities	13		
Provisions	14		
Sub-Total (B)			
Net Current Assets (C) = (A – B)			
Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
Debit Balance in Profit & Loss Account			
Total			

Contingent Liabilities

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

Schedules Forming Part of Financial Statements Schedule 1 — Premium Earned (Net)

<i>No.</i>	<i>Particulars</i>	<i>Current Year (Rs. 000)</i>	<i>Previous Year (Rs. 000)</i>
	Premium from direct business written		
	Add: Premium on Reinsurance accepted		
	Less: Premium on Reinsurance ceded		
	Net Premium		
	Adjustment for change in reserve for unexpired risks		
	Total Premium Earned (Net)		

Notes: Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission under the head of reinsurance premiums.

Schedule 2—Claims Incurred (Net)

<i>Particulars</i>	<i>Current Year (Rs. '000)</i>	<i>Previous Year (Rs. '000)</i>
Claims paid		
Direct		
<i>Add : Re-insurance Accepted</i>		
<i>Less : Re-insurance ceded</i>		
Net Claims paid		
<i>Add : Claims Outstanding at the end of the year</i>		
<i>Less : Claims Outstanding at the beginning</i>		
Total Claims Incurred		

Notes:

- (a) Incurred But Not Reported (IBNR). Incurred But Not Enough Reported (IBNER) claims should be included in the amount for outstanding claims.
- (b) Claims include specific claims settlement cost but not expenses of management.
- (c) The surveyor fees, legal and other expenses shall also form part of claims cost.
- (d) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realisation.

Schedule 3—Commission

<i>Particulars</i>	<i>Current Year (Rs. '000)</i>	<i>Previous Year (Rs. '000)</i>
Commission paid		
Direct		
<i>Add : Re-insurance Accepted</i>		
<i>Less : Commission on Re-insurance Ceded</i>		
Net Commission		

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

Schedule 4—Operating Expenses Related to Insurance Business

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

Notes: Items of expenses and income in excess of one per cent of the total premiums (less reinsurance) or Rs. 5,00,000 whichever is higher, shall be shown as a separate line item.

Schedule 5—Share Capital

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

Notes:

- (a) Particulars of the different classes of capital should be separately stated.
- (b) The amount capitalised 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 – Share Capital Pattern of Shareholding
[As certified by the Management]

<i>Shareholders</i>	<i>Current Year</i>		<i>Previous</i>	
	<i>Number of Shares</i>	<i>% of Holding</i>	<i>Number of Shares</i>	<i>% of Holding</i>
Promoters				
— Indian				
— Foreign				
Others				
Total				

Schedule 6 – Reserves and Surplus

<i>No.</i>	<i>Particulars</i>	<i>Current Year</i> (Rs. '000)	<i>Previous Year</i> (Rs. '000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3.	Securities Premium		
4.	General Reserves		
	<i>Less : Debit Balance in Profit and Loss Account</i>		
	<i>Less : Amount utilised for Buy-back</i>		
5.	Catastrophe Reserve		
6.	Other Reserves (to be specified)		
7.	Balance of Profit in Profit and Loss Account		
	Total		

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

Schedule 7 – Borrowings

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

Notes :

- (a) The extent to which the borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.
- (b) Amounts due within 12 months from the date of Balance Sheet should be shown separately.

Schedule 8 – Investments

No. Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
Long-term investments		
1. Government Securities and Government Guaranteed Bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares		
(aa) Equity		
(bb) Preference		
(b) Mutual Funds		
(c) Derivative Instruments		
(d) Debentures/Bonds		
(e) Other Securities (to be specified)		
(f) Subsidiaries		
(g) Investment Properties—Real Estate		
4. Investments in Infrastructure and Social Sector		
5. Other than Approved Investments		
Short-term Investments		
1. Government Securities and Government Guaranteed Bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares		
(aa) Equity		
(bb) Preference		
(b) Mutual Funds		
(c) Derivative Instruments		
(d) Debentures/Bonds		
(e) Other Securities (to be specified)		
(f) Subsidiaries		
(g) Investment Properties—Real Estate		
4. Investment 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		
	<i>Secured</i>		
	(a) On mortgage of property		
	(aa) In India		
	(bb) Outside India		
	(b) On Share, Bonds, Govt. Securities, etc.		
	(c) Others (to be specified)		
	<i>Unsecured</i>		
	Total		
2.	Borrower-wise Classification		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Industrial Undertakings		
	(e) Others (to be specified)		
	Total		
3.	Performance-wise Classification		
	(a) Loans Classified as Standard		
	(aa) In India		
	(bb) Outside India		
	(b) Non-performing loans less provisions		
	(aa) In India		
	(bb) Outside India		
	Total		

Schedule 10 — Fixed Assets

[illegible]

Schedule 11 – Cash and Bank Balances

No. Particulars	Current Year (Rs. '000)	Previous Year (Rs. '000)
1. Cash (including cheques, drafts and stamps)		
2. Bank Balances		
(a) Deposit Accounts		
(aa) Short-term (due within 12 months)		
(bb) Others		
(b) Current Accounts		
(c) Other (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		

Note. Bank balance may include remittances in transit. If so, the nature and amount shall be separately stated.

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 of provision for taxation)		
6. Others (to be specified)		
Total (A)		
Others 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		
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)		

Notes:

- (a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.
- (b) The term 'officer' should conform to the definition of that term as given under the Companies Act, 1956.
- (c) Sundry debtors will be shown under item 8 (Others).

Schedule 13—Current Liabilities

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

Schedule 14 – Provisions

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

Schedule 15 – Miscellaneous Expenditure
(To the extent no written off or adjusted)

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

Problem 1 Ascertaining Correct Life Assurance Fund

A Life Insurance Company prepared its Revenue Account for the year ended 31.03.2016 and ascertained its Life Assurance Fund to be Rs.2835000. It was found later that the following had been omitted from the accounts.

- (a) Interest accrued on investment Rs.39000.
- (b) Income tax liable to be deducted thereon is estimated to be Rs.10500
- (c) Outstanding premium Rs.32800
- (d) Bonus utilized for deduction of premium Rs.6750
- (e) Claims intimated but not admitted Rs.17400
- (f) Claims covered under reinsurance Rs.6500.

What is the true Life Assurance Fund?

Statement showing Correct Life Assurance Fund

Particulars	Rs.	Rs.
Balance of Life Assurance Fund as on 31.03.2016		2835000
Add: Interest accrued on investments	39000	
Bonus utilized on reduction of premium	6750	
Outstanding premium	32800	
Claims covered under reinsurance	<u>6500</u>	<u>85050</u>
		2920050
Less: Bonus utilized in reduction of premium	6750	
Claims intimated but not admitted	17400	
Income tax on interest accrued	<u>10500</u>	<u>34650</u>
Correct Life Assurance Fund		<u>2885400</u>

Problem 2 Ascertaining Correct Life Assurance Fund

The Revenue account of Life Insurance Company showed the life fund at Rs.7317000 on 31.03.2017 before taking into account the following items:

- (a) Claims intimated but not admitted Rs.98250
- (b) Bonus utilized in reduction of premium Rs.13500
- (c) Interest accrued on investment Rs.29750.
- (d) Outstanding premium Rs.27000
- (e) Claims covered under reinsurance Rs.40500.
- (f) Provision for taxation Rs.31500

Pass journal entries giving effect to the above adjustments and show the adjusted life fund.

Journal entries

Particulars	Dr. Rs.	Cr. Rs.
1. Claims A/c Dr. To outstanding claims A/c (Being claims intimated but not admitted)	98250	98250
2. Bonus in reduction of premium A/c Dr. To premium A/c (Being the bonus in reduction of premium taken into account)	13500	13500
3. Accrued interest A/c Dr. To interest A/c (Being adjustment made for accrued interest)	29750	29750
4. Outstanding premium A/c Dr. To premium A/c (Being outstanding premium taken into account)	27000	27000
5. Reinsurance claims A/c Dr. To claims A/c (Being adjustment made for claims covered under reinsurance)	40500	40500
6. Revenue A/c Dr. To provision for taxation A/c (Being adjustment made for provision for taxes)	31500	31500

Statement showing Correct Life Assurance Fund

Particulars	Rs.	Rs.
Balance of Life Assurance Fund as on 31.03.2017		7317000
Add: Bonus utilized on reduction of premium	13500	
Interest accrued on investments	29750	
Outstanding premium	27000	
Reinsurance claims	<u>40500</u>	<u>110750</u>
		7427750
Less: Claims outstanding	98250	
Bonus in reduction of premium	13500	
Provision for taxation	<u>31500</u>	<u>143250</u>
Correct Life Assurance Fund		<u>7284500</u>

Problem 3 Ascertaining Correct Life Assurance Fund

A Life Insurance Company disclosed a fund of Rs. 2000000 and the balance sheet total Rs. 4500000 on 31.03.2018 before into consideration:

- (a) A claim of Rs.10000 intimated and admitted but not paid during the year
- (b) A claim of Rs.6000 outstanding in the books for 8 years and written back.
- (c) Interest on securities accrued Rs.800 but not received during the year.
- (d) Premium of Rs.600 is payable under reinsurance.
- (e) Reinsurance recoveries Rs.26000.
- (f) Bonus utilized in reduction of premium Rs.10000
- (g) Agent's commission to be paid Rs.8000

Pass journal entries giving effect to the above adjustments and show the adjusted life fund and the effect on balance sheet.

Journal entries

Particulars	Dr. Rs.	Cr. Rs.
1. Claims A/c Dr. To outstanding claims A/c (Being claims intimated but not admitted)	10000	10000
2. Outstanding claims A/c Dr. To claims A/c (Being claims outstanding written back)	6000	6000
3. Accrued interest A/c Dr. To interest A/c (Being adjustment made for accrued interest)	800	800
4. Premium A/c Dr. To outstanding premium A/c (Being premium payable under reinsurance)	600	600
5. Outstanding debtors A/c Dr. To claims A/c (Being claims receivable under reinsurance)	26000	26000
6. Bonus in reduction of premium A/c Dr. To premium A/c (Being adjustment made for provision for taxes)	10000	10000

7. Commission A/c Dr. To outstanding commission A/c (Being commission due to agent but not paid)	8000	8000
--	------	------

Statement showing Correct Life Assurance Fund

Particulars	Rs.	Rs.
Fund shown by Life Assurance Revenue A/c		2000000
Add: Interest accrued on securities	800	
Claims outstanding written back	6000	
Reinsurance recoveries	<u>26000</u>	
	32800	
Less: Premium payable under reinsurance	<u>600</u>	<u>32200</u>
		2032200
Less: Claims intimated but not admitted	10000	
Agent's commission	<u>8000</u>	<u>18000</u>
Correct Life Assurance Fund		<u>2014200</u>

Effect of entries on the Balance Sheet

Items	Liabilities		Assets	
	Increase Rs.	Decrease Rs.	Increase Rs.	Decrease Rs.
(a) Claim intimated and admitted but not paid during the year	10000	10000	--	--
(b) Claim of outstanding written back.	6000	6000	--	--
(c) Interest on securities accrued	800	--	800	--
(d) Premium payable under reinsurance.	600	600	--	--
(e) Reinsurance recoveries	26000	--	26000	--
(f) Bonus utilized in reduction of premium	--	--	--	--
(g) Agent's commission to be paid	8000	8000	--	--

Problem 4 Ascertaining Correct Assurance Fund Assignment

The Life Fund of a Life Insurance Company on 31.03.2016 showed a balance of Rs.5400000. However the following items were not taken into account while preparing Revenue Account for 2015-2016. Ascertain the correct life fund balance.

	Rs.
(a) Interest and dividend accrued on investments	20000
(b) Income tax deducted at source on the above	6000
(c) Reinsurance claims recoverable	7000
(d) Commission due on reinsurance premium paid	10000
(e) Bonus in reduction of premium	3000

Problem 5 Preparation of Revenue Account

The following balances were extracted from the New Bharat Life Insurance Company Ltd., as on 31.12.2018

Particulars	Rs.	Particulars	Rs.
Life assurance fund 1.1.2018	1500000	Income tax on dividends	8500
Premium	496000	Claims paid during the year	64900
Considerations for annuity granted	15000	Annuities	2050
Interest & dividends	100000	Bonus in reduction of	1600
Fines for revival of policies	750	premiums	
Reinsurance premium	20750	Medical fees	2400
Claims outstanding 1.1.2018	4500	Surrenders	4000
Commission	18650		
Management expenses	22000		

Prepare revenue account after making the following adjustments:

1. Outstanding balances - claims Rs.14000, premiums – Rs.4600
2. Further bonus for premium - Rs.2400
3. Claims under reinsurance - Rs. 8000

Working notes:

Schedule 1 Premium

Particulars	Current year Rs.	Previous year Rs.
Premium received	496000	
Add: Outstanding premium	4600	
Add : Further bonus in reduction of premium	2400	
Total	503000	

Schedule 2 Commission expenses

Particulars	Current year Rs.	Previous year Rs.
Commission paid	18650	
Total	18650	

Schedule 3 Operating expenses relating to insurance business

Particulars	Current year Rs.	Previous year Rs.
Management expenses	22000	
Medical fees	2400	
Total	24400	

Schedule 4 Benefits paid

Particulars	Current year Rs.	Previous year Rs.
Claims paid	64900	
Add : Outstanding claims on 31.12.2018	<u>14000</u>	
	78900	
Less : Outstanding claims on 1.1.2018	<u>4500</u>	
	74400	
Less : Claims under reinsurance	<u>8000</u>	
	66400	
Annuities	2050	
Surrenders	4000	
Bonus in reduction of premium (Rs. 1600 + Rs.2400)	4000	
Total	76450	

New Bharath Life Assurance Co., Ltd.,
Revenue Account for the year ended 31.12.2018

Particulars	Schedule no.	Current year Rs.	Previous year Rs.
Premiums earned - Net			
(a) Premium	1	503000	--
(b) Reinsurance ceded		(-)20750	--
© Reinsurance accepted		--	--
Income from investments			
(a) Interest and dividends		100000	--
Other income			
Consideration for annuities granted		15000	--
Fines for revival of policies		750	--
Total (A)		598000	--
Commission	2	18650	
Operating expenses	3	24400	
Total (B)		43050	
Benefits paid	4	76450	
Total ©		76450	
Surplus (D) = (A) – (B) – ©		478500	

Problem 6 Preparation of Revenue Account

From the following balances extracted from the books of LIC as on 31.03.2016, Prepare revenue account

Particulars	Rs. in '000	Particulars	Rs. in'000
Claims by death	330000	Life Assurance Fund 1.4.2015	6331000
Claims by maturity	215000	Premiums	2065000
Agents & canvasser's allowance	26500	Bonus in reduction of premium	1000
Salaries	44200	Income tax on interest and dividend	5700
Travelling expenses	1200	Printing & stationery	13900
Directors fees	8700	Postage	14300
Auditors fees	1000	Receipt stamps	2300
Medical fees	52000	Reinsurance premiums	40950
Commission	218000	Interest and dividend (gross)	272000
Rent	2800	Policy renewal fees	9600
Law charges	200	Assignment fees	540
Advertising	4300	Endowment fees	690
Bank charges	1500	Transfer fees	1400
General charges	2000		
Surrenders	47500		

Provide Rs.1500 ('000) for depreciation of furniture and Rs.220000 ('000) for depreciation on investments.

Working notes:

Schedule 1 Premium

Particulars	Current year Rs.in'000	Previous year Rs.
Premium received	2065000	
Total	2065000	

Schedule 2 Commission expenses

Particulars	Current year Rs. in' 000	Previous year Rs.
Commission paid	218000	
Total	218000	

Schedule 3 Operating expenses relating to insurance business

Particulars	Current year Rs.in'000	Previous year Rs.
Agents and canvassers allowance	26500	
Salaries	44200	
Travelling expenses	1200	
Directors fees	8700	
Auditors fees	1000	
Medical fees	52000	
Rent	2800	
Law charges	200	
Advertising	4300	
Bank charges	1500	
General expenses	2000	
Printing and stationery	13900	
Postage	14300	
Receipt stamps	2300	
Depreciation on furniture	1500	
Total	176400	

Schedule 4 Benefits paid

Particulars	Current year Rs. in'000	Previous year Rs.
Claims paid		
By death	330000	
By Maturity	215000	
Surrenders	47500	
Bonus in reduction of premium	1000	
Total	593500	

Life Insurance Corporation
Revenue Account for the year ended 31.03.2016

Particulars	Schedule no.	Current year Rs.in'000
Premiums earned - Net		
(a) Premium	1	2065000
(b) Reinsurance ceded		(-)40950
© Reinsurance accepted		--
Income from investments		
(a) Interest and dividends		272000
Other income		
Policy renewal fees		9600
Assignment fees		540
Endowment fees		690
Transfer fees		1400
Total (A)		2308280
Commission	2	218000
Operating expenses	3	176400
Depreciation in the value of investments		220000
Total (B)		614400
Benefits paid	4	593500
Total ©		593500
Surplus (D) = (A) – (B) – ©		1100380

Problem 7 Preparation of Revenue Account and Balance Sheet

Prepare revenue account and Balance sheet from the following information available as on 31.03.2017

Particulars	Rs. in '000	Particulars	Rs. in '000
Claims by death	16890	Life assurance Fund	353672
Agent's salaries and allowances	6420	(1.4.2016)	
Surrender values paid	2810	Outstanding interest on	1944
Actuarial expenses	1520	advances (31.3.2017)	
Premiums	94836	Bonus paid with claims	2700
Commission to agents	8900	Endowment assurance matured	24415
Salaries	13500	Annuities paid	1350
Medical fees	1200	Interest revenue	19060
Travelling expenses	1800	Rent, rates and taxes	5475
Director's fees	900	General charges	1860
Agents balance	750	Fees received	172

Claims outstanding (1.4.2016)	2376	Loans on mortgage	290560
Claims outstanding (31.3.2017)	3735	Freehold premises	122600
Loans on policies	38300	Furniture and fittings	64100
Reserve fund	146000	Cash on hand & deposits	76300
Bonus paid in cash	2825	Premium outstanding	2134
Advertisement	726	(1.4.2016)	
Consideration for annuities granted	12853	Premium outstanding	3143
Printing and stationery	650	(31.3.2017)	
Share capital	200000	Investments	146700
Sundry creditors	9200	Claim expenses	1432

Working notes:

Schedule 1 Premium

Particulars	Current year Rs.in '000	Previous year Rs.
Premium received	94836	
Less: Outstanding premium on 1.4.2016	2134	
Total	92702	

Schedule 2 Commission expenses

Particulars	Current year Rs.in '000	Previous year Rs.
Commission to agents	8900	
Total	8900	

Schedule 3 Operating expenses relating to insurance business

Particulars	Current year Rs. in '000	Previous year Rs.
Agents salary and allowances	6420	
Actuarial expenses	1520	
Salaries	13500	
Medical fees	1200	
Travelling expenses	1800	
Directors fees	900	
Rent rates and taxes	5475	
General charges	1860	
Advertising	726	
Printing and stationery	650	
Total	34051	

Schedule 4 Benefits paid

Particulars	Current year Rs.in '000	Previous year Rs.
Claims paid		
By death	16890	
By Maturity(Endowment assurance matured)	<u>24415</u>	
	41305	
Add: Claim expenses	<u>4132</u>	
	42737	
Less : Outstanding claims on 1.4.2016	<u>2376</u>	
	40361	
Annuities	1350	
Surrenders	2810	
Bonus paid in cash	2825	
Bonus in reduction of premium	2700	
Total	50046	

Revenue Account for the year ended 31.03.2017

Particulars	Schedule no.	Current year Rs. in'000
Premiums earned - Net	1	92702
Interest revenue		19060
Other income		
Consideration for annuities granted		12853
Fees received		172
Total (A)		124787
Commission	2	8900
Operating expenses	3	34051
Total (B)		42951
Benefits paid	4	50046
Total ©		50046
Surplus (D) = (A) – (B) – ©		31790
Appropriations :		
Transfer to shareholders account		--
Transfer to other reserves		--
Balance fund for future appropriations		31790
Total		31790

Working notes:

Schedule 5 Share Capital

Particulars	Current year Rs.in '000	Previous year Rs.
Share capital	200000	
Total	200000	

Schedule 6 Reserves and Surplus

Particulars	Current year Rs.in '000	Previous year Rs.
Reserve Fund	146000	
Life Assurance Fund on 1.4.2016	353672	
Add: Surplus transferred to Funds for future appropriations	<u>31790</u>	
Total	531462	

Schedule 7 Borrowings - NIL

Schedule 8 Investments

Particulars	Current year Rs.in '000	Previous year Rs.
Investments	146700	
Total	146700	

Schedule 9 Loans

Particulars	Current year Rs.in '000	Previous year Rs.
Loans on Mortgages	290560	
Loan on Policies	38300	
Total	328860	

Schedule 10 Fixed Assets

Particulars	Current year Rs.in '000	Previous year Rs.
Freehold Premises	122600	
Furniture and Fittings	64100	
Total	186700	

Schedule 11 Cash and Bank balances

Particulars	Current year Rs.in '000	Previous year Rs.
Cash on hand and deposits	76300	
Total	76300	

Schedule 12 Advances and other Assets

Particulars	Current year Rs.in '000	Previous year Rs.
Advances	--	
Other assets :		
Outstanding Premiums on 31.3.2017	3143	
Outstanding interest and dividend	1944	
Agent's balances	750	
Total	5837	

Schedule 13 Current Liabilities

Particulars	Current year Rs.in '000	Previous year Rs.
Sundry Creditors	9200	
Outstanding claims on 31.03.2017	3735	
Total	12935	

Schedule 14 Provisions - Nil

Schedule 15 Miscellaneous Expenditure - Nil

Balance Sheet as on 31.03.2017

Particulars	Schedule no.	Current year Rs. in'000
Sources of funds:		
Share capital	5	200000
Reserves and surplus	6	531462
Borrowings	7	--
Total		731462
Application of funds:		
Investments	8	146700
Loans	9	328860
Fixed assets	10	186700
Total I		662260
Current Assets:		
Cash and bank balances	11	76300
Advances and other assets	12	5837
Total (A)		82137
Current Liabilities	13	12935
Provisions	14	--
Total (B)		12935
Net Current Assets (A) – (B) = II		69202
Total I + II		731462

Problem 8 Preparation of Revenue Account and Balance Sheet

From the following Trial Balance of Long Life Assurance Company, prepare the Revenue Account and the Balance Sheet.

	Amount Rs. in lakhs		Amount Rs. in lakhs
Debit Balances:		Credit Balances:	
Income Tax on Interest, Dividend and Rents	30	Life Assurance Fund	
Income Tax Paid	25	Opening Balance	5,500
Claims paid (net of Reinsurances)		Premium less Reinsurances	2,000
By death	250	Outstanding Claims	
By maturity	170	(net of reinsurances)	
Property at cost (additions of Rs. 80 lakhs)	600	Opening Balances	
Furniture & Office Equipment at cost	50	By death	110
Annuities	150	By maturity	75
Stationery	8	Consideration of Annuities	
Cash at Bank	396	Granted	100
Cash in hand	4	Registration Fees	5
Surrenders (net of reinsurances)	5	Interest, Dividend & Rents	250
Commission	80	Contingencies Reserve	200
Expenses of Management	400	Provision for Taxation	50
Sundry Debtors	12	Property Depreciation	35
Loans on Policies	350	Furniture & Office Equipment	
Deposits with R.B.I.	30	Depreciation	5
Investment in Equity Shares of Companies	5,800	Sundry Creditors	30
	8,360		8,360

Other information's:

1. Premium less reinsurances include Rs. 8 crores first year's premium, Rs. 11 crores renewal premium and Rs. 1 crore single premium.
2. Premium outstanding at the end of the year Rs. 250 lakhs.
3. Commission on outstanding premium Rs. 7.5 lakhs.
4. Claims less reinsurances outstanding at the end of the year are Rs. 50 lakhs (by death) and Rs. 30 lakhs (by maturity).
5. Depreciation to be provided Rs. 10 lakhs on property and Rs. 1.6 lakhs on furniture and office equipment.
6. Income tax provision to be made for Rs. 20 lakhs.
7. Expenses of Rs. 3 lakhs and Rs. 10 lakhs are prepaid and outstanding respectively, at the end of the year.
8. Accrued interest, dividend and rent are Rs. 25 lakhs.

Working notes:

Schedule 1 — Premiums

<i>Particulars</i>	<i>Rs. in lakhs</i>
First Year's Premiums	800
Renewal Premiums	1,100
Single Premiums	100
Outstanding Premiums	250
	2,250

Schedule 2 — Commission

<i>Particulars</i>	<i>Rs. in lakhs</i>
Commission Paid	80.0
Add: Outstanding	7.5
	87.5

Schedule 3 — Operating Expenses Related to Business

<i>Particulars</i>		<i>Rs. in lakhs</i>
Management Expenses	400	
Add: Outstanding at the end of the year	10	
	410	
Less: Prepaid	3	407.0
Stationery		8.0
Depreciation Property 10 + furniture 1.6		11.6
		426.6

Schedule 4 — Benefits Paid (NET)

<i>Particulars</i>	<i>Rs. in lakhs</i>	
<i>Insurance Claims</i>		
(a) Claims by Death	250	
Add: Outstanding at the end of the year	50	
	300	
Less: Outstanding at the beginning of the year	110	190
(b) Claims by Maturity	170	
Add: Outstanding at the end of the year	30	
	200	
Less: Outstanding at the beginning of the year	75	125
(c) Annuities		150
(d) Surrenders		5
		<u>470</u>

Long Life Assurance Company
Revenue Account

<i>Particulars</i>	<i>Schedule</i>	<i>Rs. in lakhs</i>
Premium Earned—Net	1	2,250.0
Income from Investments:		
Interest, Dividends and Rent—Gross 250 (TB)+25 (adj.)		275.0
Other Income:		
Consideration for Annuities Granted		100.0
Registration Fees		5.0
Total (A)		2,630.0
Commission	2	87.5
Operating Expenses related to Insurance Business	3	426.6
Income Tax on Interest, Dividends and Rent		30.0
Provision for Income Tax		20.0
Total (B)		564.1
Benefits Paid (Net)		470.0
Total (C)	4	470.0
Surplus (D) = (A) – (B) – (C)		1,595.9
<i>Appropriations</i>		
Transfer to Shareholders' Account		—
Transfer to Other Reserves		—
Balance being Funds for Future Appropriations		1,595.9
Total (D)		1,595.9

Schedule 5 – Share Capital - Nil

Schedule 6 — Reserves and Surplus

<i>Particulars</i>		<i>Rs. in lakhs</i>
Contingency Reserve		200
Life Assurance Fund at the beginning of the year	5,500	
Add: Surplus as per Revenue A/c this year	1,595.9	7,095.9
		7,295.9

Schedule 7 Borrowings - Nil

Schedule 8 — Investments

	<i>Rs. in lakhs</i>
Investment in Equity Shares of Companies	5,800

Schedule 9 — Loans

	<i>Rs. in lakhs</i>
Loans on Policies	350

Schedule 10 — Fixed Assets

			<i>Rs. in lakhs</i>
Property at Cost: Opening		520	
Addition		80	
		600	
Less: Depreciation: Upto last year	35		
For the year	10	45	
			555.0
Furniture & Office Equipment at Cost: Opening		50	
Addition		Nil	
		50	
Less: Depreciation: Upto last year	5.0		
For the year	1.6	6.6	43.4
			598.4

Schedule 11 — Cash and Bank Balances

	<i>Rs. in lakhs</i>
Cash in hand	4
Cash at Bank	396
	400

Schedule 12 — Advances and Other Assets

	<i>Rs. in lakhs</i>
<i>Advances</i>	3
Prepaid Expenses	
<i>Other Assets</i>	
Interest, Dividend & Rent Receivable	25
<i>Outstanding Premium</i>	250
Deposits with Reserve Bank of India	30
Sundry Debtors	12
	320

Schedule 13 — Current Liabilities

	<i>Rs. in lakhs</i>
Sundry Creditors	30.0
Claims Outstanding	80.0
Outstanding Commission	7.5
Outstanding Expenses	10.0
	127.5

Schedule 14 — Provisions

		<i>Rs. in lakhs</i>
Provision for taxation : Opening	50	
This year	20	
	70	
Less: Income Tax Paid	25	
		45

Long Life Assurance Company
Balance Sheet

<i>Particulars</i>	<i>Schedule</i>	<i>Rs. in lakhs</i>
<i>Sources of Funds</i>		
Share Capital	5	—
Reserves & Surplus	6	7,295.9
Borrowings	7	—
Total		7,295.9
<i>Application of Funds</i>		
Investments	8	5,800.0
Loans	9	350.0
Fixed Assets	10	598.4
Current Assets:		6748.4
Cash and Bank Balances	11	400.0
Advances and Other Assets	12	320.0
Sub-Total (A)		720.0
Current Liabilities	13	127.5
Provisions	14	45.0
Sub-Total (B)		172.5
Net Current Assets (C) = (A) – (B)		547.5
Total		7,295.9
(Total of Schedules 8, 9, 10 and Net Current Assets)		7,295.9

Problem 9 Preparation of Revenue Account and Balance Sheet

From the following trial balance of National Assurance Co., Ltd., Prepare revenue account and Balance sheet as on 31.03.2016

Debit	Rs. in '000	Credit	Rs. in'000
Claims by death	76980	Life Assurance fund 1.4.2005	1470562
Claims by maturity	36420	Premiums	210572
Expenses of management	19890	Consideration for annuities	10620
Commission	26541	granted	
Dividends paid	20000	Interest, dividends & rents	52461
Income tax on interest etc.,	3060	Fines	92
Surrenders	21860	Annuities due but not paid	22380
Annuities	29420	Share capital 4000000 shares of	400000
Bonus paid in cash	9450	Rs. 100 each	
Bonus in reduction of premium	2500	Claims admitted but not paid	80034
Preliminary expenses	200		
Loan on company's policies	200000		

Freehold premises	300000		
Leasehold ground rent	200000		
House property	100000		
Stamps on hand	400		
Government securities	870890		
Furniture	20000		
Mortgages	309110		
	2246721		2246721

Additional information:

Rs. in'000

1. Management expense due	600
2. Premium outstanding	7400
3. Reinsurance premium	6000
4. Interest accrued	15400
5. Surrenders adjusted against loans	5000
6. Further bonus utilized in reduction of premium	1500
7. Further claim intimated	8000
8. Claim covered under reinsurance	10000

Working notes:

Schedule 1 Premium

Particulars	Current year Rs.in '000
Premium received	210572
Add : Outstanding premium on 31.3.2016	7400
Add : Bonus in reduction of premium	1500
Total	219472

Schedule 2 Commission expenses

Particulars	Current year Rs.in '000
Commission	26541
Total	26541

Schedule 3 Operating expenses relating to insurance business

Particulars	Current year Rs.in '000
Expenses of management	19890
Add : Expenses of management due	600
Total	20490

Schedule 4 Benefits paid

Particulars	Current year Rs.in '000
Claims paid	
By death	76980
By Maturity	<u>36420</u>
	113400
Add: Further claims intimated	<u>8000</u>
	121400
Less : Claims covered under reinsurance	<u>10000</u>
	111400
Annuities	29420
Surrenders	21860
Add: Surrenders adjusted against loans	<u>5000</u>
	26860
Bonus paid in cash	9450
Bonus in reduction of premium	2500
Add: Further bonus in reduction of premium	<u>1500</u>
	4000
Total	181130

National Insurance Co., Ltd.,
Revenue Account for the year ended 31.03.2016

Particulars	Schedule no.	Current year Rs.in'000
Premiums earned - Net		
(a) Premium	1	219472
(b) Reinsurance ceded		(-)6000
© Reinsurance accepted		--
Income from investments		
(a) Interest and dividends (52461+15400)		67861
Other income		
Consideration for annuities granted		10620
Fines		92
Total (A)		292045
Commission	2	26541
Operating expenses	3	20490
Total (B)		47031
Benefits paid	4	181130
Total ©		181130
Surplus (D) = (A) – (B) – ©		63884
Appropriations : Transfer to shareholders account	(dividend)	20000
Transfer to other reserves		--
Balance fund for future appropriations		43884
		63884

Working notes:**Schedule 5 Share Capital**

Particulars	Current year Rs.in '000
Share capital	400000
Less: Preliminary expenses	200
Total	399800

Schedule 6 Reserves and Surplus

Particulars	Current year Rs.in '000
Reserve	--
Life Assurance Fund on 1.4.2015	1470562
Add: Surplus transferred to Funds for future appropriations	<u>43884</u> 1514446
Total	1514446

Schedule 7 Borrowings - NIL

Schedule 8 Investments

Particulars	Current year Rs.in '000
Government securities	870890
Leasehold ground rents	200000
Total	1070890

Schedule 9 Loans

Particulars	Current year Rs.in '000
Loans on Mortgages	309110
Loan on Policies	200000
Less : Surrenders adjusted	<u>5000</u>
Total	504110

Schedule 10 Fixed Assets

Particulars	Current year Rs.in '000
Freehold Premises	300000
House property	100000
Furniture	20000
Total	420000

Schedule 11 Cash and Bank balances - Nil**Schedule 12 Advances and other Assets**

Particulars	Current year Rs.in '000
Advances - Income tax on interest etc .,	3060
Other assets :	
Outstanding Premiums	7400
Amount due from other insurers	10000
Accrued interest	15400
Stamps	400
Total	36260

Schedule 13 Current Liabilities

Particulars	Current year Rs.in '000
Claims admitted but not paid	80034
Further claims intimated	8000
Annuities due but not paid	22380
Management expenses due	600
Reinsurance premium due	6000
Total	117014

Schedule 14 Provisions - Nil**Schedule 15 Miscellaneous Expenditure - Nil**

Balance Sheet as on 31.03.2016

Particulars	Schedule no.	Current year Rs. in'000
Sources of funds:		
Share capital	5	399800
Reserves and surplus	6	1514446
Borrowings	7	--
Total		1914246
Application of funds:		
Investments	8	1070890
Loans	9	504110
Fixed assets	10	420000
Total I		1995000
Current Assets:		
Cash and bank balances	11	---
Advances and other assets	12	36260
Total (A)		36260
Current Liabilities	13	117014
Provisions	14	--
Total (B)		117014
Net Current Assets (A) – (B) = II		(-)80754
Total I + II		1914246

Problem 10 Preparation of Revenue Account and Balance Sheet Assignment

From the following trial balance Prepare revenue account and Balance sheet of Great Life Assurance Co., Ltd., as on 31.03.2018

Debit	Rs. in '000	Credit	Rs. in'000
Loans of life policies	4200	Premiums	365900
Expenses of management	18200	Profit on sale of	10800
Deposit with RBI -Government	200000	investments	
of India securities		Claims admitted but not	58400
Commission	9800	paid	
Freehold ground rents	168000	Sundry trade creditors	7700
Bonus in cash	4200	Life Assurance fund 1.4.17	2800000
Surrenders	21100	Considerations for annuities	12200
Claims by maturity	104700	granted	
Claims by death	172600	Interest, dividends and	120500
House property	59800	rents - gross	
Annuities	7600		
Loans on company policy	174600		

Outstanding premiums	21600		
Income tax on interest receipts	7100		
Agent's balance	6800		
Port trust debentures, interest and Principal guaranteed by govt.	528200		
Cash at bank current a/c	12700		
Cash in hand	1750		
Foreign government securities	142500		
Office furniture	1500		
Fully paid up share capital limited liability companies registered in India	121600		
Stock of policy stamps in hand	150		
Mortgage in India	661400		
Mortgage out of India	206400		
Loans on govt. securities	719000		
	3375500		2246721

Problem 11 Preparation of valuation Balance Sheet

A life insurance company gets its valuation made once in every two years. Its Life Assurance Fund on 31.03.2016 amounted to Rs.6384000 before providing Rs.64000 for the shareholder's dividend for the year 2015-16. Its actuarial valuation due on 31.03.2016 disclosed a net liability of Rs.6080000 under assurance annuity contracts. An interim bonus of Rs.80000 was paid to the policy holders during the two years ending 31.03.2016. Prepare a statement showing the amount now available as bonus to policy holders.

Valuation Balance Sheet as on 31.03.2016

Liabilities	Rs.	Assets	Rs.
To net liability as per actuarial valuations	6080000	By life assurance fund as per balance sheet	6384000
To surplus (bal.fig.)	304000		
	6384000		6384000

Statement showing bonus due to policy holders

Particulars	Rs.
Surplus as per valuation balance sheet	304000
Add: Interim bonus paid to policy holders	<u>80000</u>
	384000
Less: Dividend for 2015-16 due to share holders	<u>64000</u>
Net profit	<u>320000</u>
Policy holders will get 95% of Rs.320000	304000
Less: Bonus already paid to the policy holders	<u>80000</u>
Amount due to the policy holders	<u>224000</u>

Problem 12 Preparation of valuation Balance Sheet

The Life fund of a Life Assurance company was Rs.8648000 on 31.12.2017. the interim bonus paid was Rs.148000. The periodical actuarial valuation determined the net liability at Rs.7425000. Surplus brought forward from the previous valuation was Rs.850000. The directors of the company proposed to carry forward Rs.931000 and to divide the balance between share holders and the policy holders in the ratio of 1 : 10. Prepare a statement showing the amount now available as bonus to policy holders

Valuation Balance Sheet as on 31. 12.2017

Liabilities	Rs.	Assets	Rs.
To net liability as per actuarial valuations	7125000	By life assurance fund as per balance sheet	8648000
To surplus (bal.fig.)	1223000		
	8648000		8648000

Statement showing bonus due to policy holders

Particulars	Rs.
Surplus as per valuation balance sheet	1223000
Add: Interim bonus paid to policy holders	<u>148000</u>
	1371000
Less : Surplus at the beginning of the period	<u>850000</u>
Net profit	<u>521000</u>
Total surplus	1371000
Less : Surplus to be carried forward	<u>931000</u>
Amount available to share holders and policy holder	<u>440000</u>
Share holders will get $440000 \times 1/11$	40000
Policy holders will get $440000 \times 10/11$ = Rs. 400000	
Less: Interim dividend already distributed = Rs. <u>148000</u>	252000

Problem 13 Preparation of Revenue Account - Fire Insurance

The books of Prakash Insurance Company Ltd., contains the following information in respect of fire insurance as on 31.3.2016

Particulars	Rs. in '000	Particulars	Rs. in'000
Provision for unexpired risk (1.4.2015)	80000	Refund of double taxation	600
Estimated liability in respect of outstanding claims : 1.4.2015	10000	Management expenses	55000
31.3.2016	15000	Interest & Dividends	8000
Medical expenses regarding claims	1000	Legal expenses regarding claims	1500
Claims paid	70000	Profit on sale of investments	1750
Reinsurance premium	14500	Additional reserve on 31.3.2015	60000
Reinsurance recoveries	1500	Commission on reinsurance accepted	1000
Premiums	190000		
Commission on direct business	25000		
Commission on reinsurance ceded	3000		

Additional reserve is to be increased by 10% on the net premium income. Prepare revenue account keeping the reserve for unexpired risks at 50% of premium income.

Working notes:

Schedule 1 Premium

Particulars	Current year Rs.in '000
Premium received	190000
Less : Reinsurance premium	<u>14500</u>
net premium	175500
<u>Less:Unexpired risk:</u>	
Provision for unexpired risk $175500 \times 50/100$	87750
Additional reserve 60000	
Add: $175500 \times 10/100$	<u>17550</u>
	<u>77550</u>
	165300
Less : Provision for unexpired 1.4.2015	80000
Additional reserve 1.4.2015	<u>60000</u>
	<u>140000</u>
Change in provision for unexpired risk	25300
Total	150200

Schedule 2 Claims incurred

Particulars	Current year Rs.in '000
Claims paid	70000
Add : Medical expenses	1000
legal expenses	1500
outstanding claims 31.3.2016	<u>15000</u>
	<u>17500</u>
	87500
Less : Outstanding claims 1.4.2015	10000
Reinsurance recoveries	<u>1500</u>
	11500
Total	76000

Schedule 3 Commission

Particulars	Current year Rs.in '000
Commission on direct business	25000
Add: Commission on reinsurance accepted	<u>1000</u>
	26000
Less : Commission on reinsurance ceded	3000
Total	23000

Schedule 4 Operating expenses related to insurance business

Particulars	Current year Rs.in '000
Management expenses	55000
Total	55000

Prakash Insurance Co., Ltd., Revenue Account in respect of Fire Insurance business for the year ended 31.03.2016

Particulars	Schedule no.	Current year Rs.in'000
Premiums earned - Net	1	150200
Profit on sale of investments		1750
Other income – refund of double taxation		600
- interest & dividend		8000
Total (A)		160550
Claims	2	76000
Commission	3	23000
Operating expenses relating to insurance business	4	55000
Total (B)		154000
Operating profit from fire insurance business C = A - B		6550

Problem 14 Preparation of Revenue Account - Fire Insurance

From the following information prepare fire revenue account for the year ended 31.3.2006 of ABC fire insurance company ltd.,

Particulars	Rs. in '000	Particulars	Rs. in'000
Commission on reinsurance accepted	186458	Establishment	145500
Commission on direct business	195172	Bonus	24000
Depreciation on furniture	650	Stationery	35550
Depreciation on library	148	Newspaper	14062
Depreciation on motor car	6240	Legal expenses	23400
Loss on sale of motor car	12074	Electricity charges	16100
General managers salary	24000	Provident fund contribution	11875
Telephone	5100	Audit fees	2500
Postage	5150	Professional taxes	2875
Rent	62500	Bad debts written off	2506

Particulars	Rs. in '000	Particulars	Rs. in'000
Travelling expenses	45600	Commission on reinsurance	341208
Motor car expenses	45500	ceded	
Reserve for unexpired risk as at 31.3.2005	366594	Unpaid claims on 31.3.2005	1198
Additional reserves for unexpired risk at 31.3.2005	45824	Unpaid claims on 31.3.2006	6264
Premiums received less reinsurance	989980	Miscellaneous expenses	250
		Claims under policies	152930
		Less reinsurance paid during the year	

You are required to make 40% of the net premium received as provision for unexpired risk as at 31.03.2006 and 10% of the net premium additional reserve for the same

Working notes:

Schedule 1 Premium

Particulars	Current year Rs.in '000
Premium received	989980
<u>Less :Unexpired risk:</u>	
Provision for unexpired risk $989980 \times 40/100$	395992
Additional reserve $989980 \times 10/100$	<u>98998</u>
	494990
Less : Reserve for unexpired 31.3.2005	366594
Additional reserve 31.3.2005	<u>45824</u> <u>412418</u>
Change in provision for unexpired risk	82572
Total	907408

Schedule 2 Claims incurred

Particulars	Current year Rs.in '000
Claims paid	152930
Add : unpaid claims on 31.3.2006	<u>6264</u>
	159194
Less : unpaid claims on 31.3.2005	1198
Total	157996

Schedule 3 Commission

Particulars	Current year Rs.in '000
Commission on direct business	195172
Add: Commission on reinsurance accepted	<u>186458</u>
	381630
Less : Commission on reinsurance ceded	341208
Total	40422

Schedule 4 Operating expenses related to insurance business

Particulars	Current year Rs.in '000
General managers salary	24000
Rent	62500
Travelling expenses	45600
Motor expenses	45500
Establishment	145500
Bonus	24000
Stationery	35550
Newspaper	14062
Electricity charges	16100

Legal charges	23400
Provident fund contribution	11875
Telephone	5100
Postage	5150
Audit fees	2500
Professional tax	2875
Miscellaneous expenses	250
Depreciation - furniture	650
- library	148
- motor car	6240
Bad debts	2206
Loss on sale of motor car	12074
Total	485280

ABC Fire Insurance Co., Ltd.,
Revenue Account in respect of Fire Insurance business for the year ended 31.03.2006

Particulars	Schedule no.	Current year Rs.in'000
Premiums earned - Net	1	907408
Profit on sale of investments		--
Other income		--
Interest & dividend		--
Total (A)		907408
Claims	2	157996
Commission	3	40422
Operating expenses relating to insurance business	4	485280
Total (B)		683698
Operating profit from fire insurance business $C = A - B$		223710

Problem 15 Preparation of Revenue Account - Fire Insurance Assignment

From the following particulars of Z insurance company ltd., prepare fire revenue account for the year ended 31.3.2005

Particulars	Rs. in '000	Particulars	Rs. in'000
Claims paid	480000	Premium received	1200000
Claims outstanding 1.4.04	40000	Reinsurance premium paid	120000
Claims intimated but not accepted & paid on 31.3.05	10000	Commission	200000
Claims intimated and accepted but not paid on 31.3.05	60000	Commission on reinsurance ceded	10000
Commission on reinsurance accepted	5000	Provision for unexpired risk on 1.4.04	400000
Expenses of management	305000	Additional provision for unexpired risk on 1.4.04	20000
Bonus in reduction of premium	12000		

You are required to provide for additional reserve for unexpired risk at 1 % of the net premium in addition to the opening balance.

Problem 16 Preparation of Revenue Account & Profit and loss account- Fire Insurance

Zen pay insurance co., ltd., has furnished the following information for preparation of Fire revenue account and profit & loss account for the year ended 31.3.2016

Particulars	Rs. in '000	Particulars	Rs. in'000
Claims admitted but not paid	42376	Bad debts	2500
Commission paid	50000	Claims paid	15000
Commission on re insurance received	12000	P & L App. A/c.	10000
Share transfer fees	5000	Premium received less reinsurance	552000
Expenses of management	78000	Claims outstanding as on 1.4.2015	27000
Reserve for unexpired risk as on 1.4.2015	230000	Dividend on share capital	18500
Additional reserve on 1.4.2015	40000		

The following information has to be considered:

- 1.Premium outstanding at the end of the year Rs.40000 thousands.
2. Additional reserve at 10% of net premium to be maintained.
- 3.It is the policy of the company to maintain 50% of premium towards reserves for unexpired risks.

Working notes:

Schedule 1 Premium

Particulars	Current year Rs.in '000
Premium received	552000
Add: Premium outstanding on 31.3.2016	<u>40000</u>
	592000
<u>Less :Unexpired risk:</u>	
Reserve for unexpired risk $592000 \times 50/100$	296000
Additional reserve $592000 \times 10/100$	<u>59200</u>
	355200
Less : Reserve for unexpired 1.4.2015	230000
Additional reserve 1.4.2015	<u>40000</u>
	<u>270000</u>
Change in provision for unexpired risk	85200
Total	506800

Schedule 2 Claims incurred

Particulars	Current year Rs.in '000
Claims paid	15000
Add : Claims admitted but not paid on 31.3.2016	<u>42376</u>
	57376
Less : Claims outstanding on 1.4.2015	27000
Total	30376

Schedule 3 Commission

Particulars	Current year Rs.in '000
Commission paid	50000
Less: Commission on reinsurance	12000
Total	38000

Schedule 4 Operating expenses related to insurance business

Particulars	Current year Rs.in '000
Expenses of management	78000
Bad debts	2500
Total	80500

Zen Pay Insurance Co., Ltd.,
Revenue Account in respect of Fire Insurance business for the year ended 31.03.2016

Particulars	Schedule no.	Current year Rs.in'000
Premiums earned - Net	1	506800
Profit on sale of investments		--
Other income		--
Interest & dividend		--
Total (A)		506800
Claims	2	30376
Commission	3	38000
Operating expenses relating to insurance business	4	80500
Total (B)		148876
Operating profit from fire insurance business $C = A - B$		357924

Profit & Loss Account for the year ended 31.3.2016

Particulars	Current year Rs.in '000
Operating profit from fire insurance business	357924
Income from investments	--
Other income – share transfer fees	5000
Total (A)	362924
Provisions other than taxation	--
Other expenses	--
Total (B)	--
Profit before tax (A) - (B)	362924
Less : provision for taxation	--
Profit before tax	362924
Appropriations :	
Dividend on share capital	18500
Dividend distribution tax (18500x15/100)	<u>2775</u>
Transfer of reserve	21275
	341649
Balance of profit brought forward from last year	10000
Balance of profit carried forward to balance sheet	351649

Problem 17 Preparation of Revenue Account & Profit and loss account- Fire Insurance and Marine Insurance

From the following balances of United General Insurance Co., Ltd., as on 31.3.2018. Prepare (i) Fire revenue a/c (ii) Marine revenue a/c (iii) P & L a/c

Particulars	Rs. in '000	Particulars	Rs. in'000
Provision for unexpired risk on 1.4.2017 : Fire	500	Interest & Dividend	28
Marine	1640	Difference in exchange (Cr)	.6
Additional reserve on 1.4.2017 : Fire	100	Miscellaneous receipts	10
Bad debts : Fire	10	Profit on sale of land	120
Marine	24	Premium received : Fire	1200
Auditors fees	2.4	Marine	2160
Directors fees	10	Expenses of management	
Share transfer fees	1.6	Fire	290
Bad debts recovered	2.4	Marine	800
Claims paid & outstanding		Commission earned on	
:Fire	380	reinsurance ceded : Fire	60
Marine	760	Marine	120
Commission paid : Fire	180		
Marine	216		
Depreciation	70		

Provision for unexpired risk is to be kept at 50% of the premium for fire and at 100% for marine departments. The additional reserve in case of fire insurance is to be increased by 5% of the net premium.

Working notes: Schedule 1 Premium

Particulars	Fire Rs.in '000	Marine Rs.in '000
Premium received	1200	2160
<u>Unexpired risk:</u>		
Add: Provision for unexpired risk 1.4.2017	500	1640
Additional reserve 1.4.2017	<u>100</u>	<u>--</u>
	1800	<u>3800</u>
Less : Provision for unexpired 31.3.2018		
Fire 1200 x 50/100	<u>600</u>	
Marine 2160 x 100/100		<u>2160</u>
	1200	1640
Less : Additional reserve Fire - $1200 \times 5/100 = 60 + 100$	160	--
Total	1040	1640

Schedule 2 Claims incurred

Particulars	Fire Rs.in '000	Marine Rs.in '000
Claims paid	380	760
Total	360	760

Schedule 3 Commission

Particulars	Fire Rs.in '000	Marine Rs.in '000
Commission paid	180	216
Less: Commission on reinsurance	60	120
Total	120	96

Schedule 4 Operating expenses related to insurance business

Particulars	Fire Rs.in '000	Marine Rs.in '000
Expenses of management	290	800
Bad debts	10	24
Total	300	824

United General Insurance Co., Ltd.,
Revenue Account in respect of Fire Insurance business for the year ended 31.03.2018

Particulars	Schedule no.	Fire Rs.in '000	Marine Rs.in '000
Premiums earned - Net	1	1040	1640
Profit on sale of investments		--	--
Other income		--	--
Interest & dividend		--	--
Total (A)		1040	1640
Claims	2	380	760
Commission	3	120	96
Operating expenses relating to insurance business	4	300	824
Total (B)		800	1680
Operating profit/loss from fire and marine insurance business $C = A - B$		240	(-)40

Profit & Loss Account for the year ended 31.3.2018

Particulars	Current year Rs.in '000
Operating profit from fire insurance business	240
Operating loss from marine insurance business	<u>(-)40</u>
Net operating profit	200
Income from investments: interest and dividend	28
Profit on sale of land	120
Other income: Share transfer fees	1.6
Bad debts recovered	2.4
Miscellaneous receipts	10
Difference in exchange	0.6
Total (A)	362.6
Provisions other than taxation	--
Other expenses : Directors fees	10
Auditors fees	2.4
Depreciation	70
Total (B)	82.40
Profit before tax (A) - (B)	280.20

Problem 18 Preparation of Revenue Account , Profit and loss account and Balance Sheet - Marine Insurance

From the following details of Moon Shine Insurance Co., Ltd., carrying on marine insurance business for 15 months ended 31.3.2016. Prepare (i) revenue a/c (ii) P & L a/c (iii) Balance Sheet

Particulars	Rs. in '000	Particulars	Rs. in'000
Agents balance (Dr.)	146400	Shares in limited company	360000
Interest accrued but not due	8200	State Govt. securities	880000
Furniture & fixtures (cost Rs.12600)	8400	Claims less reinsurance	1060000
Share capital	1500000	Commission paid	62400
Balance of marine fund 1.4.2015	760000	Cash & bank balances	94400
Stock of stationery	2500	Unclaimed dividends	2400
Expenses of management	220000	P & L A/c (Cr.)	240000
Foreign taxes & insurance	12300	Sundry creditors	12600
Outstanding premium	21200	Due to reinsurers	60000
Donations paid	8600	Premium less reinsurance	1240000
Advance income tax payments	62000	Interest & Dividends	240000
Sundry debtors	9200	Transfer fees received	600
		Govt. of India securities	920000
		Debenture of public bodies	180000

Outstanding claims on 31.03.2016 were Rs.140000 thousands depreciation on furniture to be provided at 20% per annum.

Working notes:**Schedule 1 Premium**

Particulars	Current year Rs.in '000
Premium received	1240000
<u>Less :Unexpired risk:</u>	
Reserve for unexpired risk $1240000 \times 100 / 100$	1240000
Less : Reserve for unexpired 1.4.2015	<u>760000</u>
Change in provision for unexpired risk	480000
Total	760000

Schedule 2 Claims incurred

Particulars	Current year Rs.in '000
Claims paid	1060000
Add : Claims admitted but not paid on 31.3.2016	140000
Total	1200000

Schedule 3 Commission

Particulars	Current year Rs.in '000
Commission paid	62400
Total	62400

Schedule 4 Operating expenses related to insurance business

Particulars	Current year Rs.in '000
Expenses of management	220000
Foreign taxes and insurance	12300
Total	232300

Moon Shine Insurance Co., Ltd., Revenue Account in respect of Marine Insurance business for the year ended 31.03.2016

Particulars	Schedule no.	Current year Rs.in'000
Premiums earned - Net	1	760000
Profit on sale of investments		--
Other income		--
Interest & dividend		240000
Total (A)		1000000
Claims	2	1200000
Commission	3	62400
Operating expenses relating to insurance business	4	232300
Total (B)		1494700
Operating loss from marine insurance business C = A - B		(-)494700

Profit & Loss Account for the year ended 31.3.2016

Particulars 2100	Current year Rs.in '000
Operating loss from marine insurance business	(-)494700
Income from investments	--
Other income – share transfer fees	600
Total (A)	(-)494100
Provisions other than taxation	--
Other expenses - depreciation Rs.8400x20/100x15monts/12	2100
Donations	8600
Total (B)	10700
Loss before tax (A) - (B)	(-)504800
Less : provision for taxation	--
Loss before tax	(-)504800
Appropriations :	--
	(-)504800
Balance of profit brought forward from last year	240000
Balance of loss carried forward to balance sheet	(-)264800

Working notes:

Schedule 5 Share Capital

Particulars	Current year Rs.in '000
Share capital	1500000
Total	1500000

Schedule 6 Reserves and Surplus - NIL

Schedule 7 Borrowings - NIL

Schedule 8 Investments

Particulars	Current year Rs.in '000
Government of India securities	920000
State government securities	880000
Debentures of public bodies	180000
Shares in limited companies	360000
Total	2340000

Schedule 9 Loans - NIL

Schedule 10 Fixed Assets

Particulars	Current year Rs.in '000
Furniture	8400
Less : Depreciation $8400 \times 200 / 100 \times 15 / 12$	2100
Total	6300

Schedule 11 Cash and Bank balances

Particulars	Current year Rs.in '000
Cash and bank balances	94400
Total	94400

Schedule 12 Advances and other Assets

Particulars	Current year Rs.in '000
Advances - Income tax	62000
Other assets :	
Outstanding Premiums	21200
Agents balance	146400
Interest accrued but not due	8200
Sundry debtors	9200
Stock of stationery	2500
Total	249500

Schedule 13 Current Liabilities

Particulars	Current year Rs.in '000
Outstanding claims	140000
Due to reinsurers	60000
Sundry creditors	12600
Unclaimed dividends	2400
Total	215000

Schedule 14 Provisions

Particulars	Current year Rs.in '000
Provision for unexpired risk of marine business	1240000
Total	1240000

Schedule 15 Miscellaneous Expenditure

Particulars	Current year Rs.in '000
Debit balance in profit and loss account	264800
Total	264800

Balance Sheet as on 31.03.2016

Particulars	Schedule no.	Current year Rs. in'000
Sources of funds:		
Share capital	5	1500000
Reserves and surplus	6	--
Borrowings	7	--
Total		1500000
Application of funds:		
Investments	8	2340000
Loans	9	--
Fixed assets	10	6300
Total I		2346300
Current Assets:		
Cash and bank balances	11	94400
Advances and other assets	12	249500
Total (A)		343900
Current Liabilities	13	215000
Provisions	14	1240000
Total (B)		1455000
Net Current Assets (A) – (B) = II		(-)1111100
Miscellaneous expenditure	15	264800
Total I + II		1500000

Problem 19 Preparation of Revenue Account , Profit and loss account and Balance Sheet - Fire Insurance Assignment

Given below is the trial balance of Mysore fire insurance co., ltd., as on 31.3.2006 Prepare (i) revenue a/c (ii) P & L a/c (iii) Balance Sheet

Debit	Rs. in '000	Credit	Rs. in'000
Claims paid	114315	Reserve for unexpired risk	247495
Commission to agents	60590	Claims outstanding 1.4.05	5085
Expenses of management	199696	Premium income	403932
Depreciation	15419	Interest, dividend & rent	34692
Loss on sale of investment	23169	Share capital	250000
Income tax on interest, dividend and rent	10625	Investment reserve	24690
Agents balance	54792	P & L A/c balance 1.4.05	33581
Investment in govt. Bonds	386921	Provision for taxes	43618
Interest accrued on investment	6028	Sundry creditors	4919
Outstanding premium	4019		
Advances & deposits	12122		
Cash and bank balances	65650		
Furniture and motor car	94666		
	1048012		1048012

The entire authorized capital has been issued and subscribed, reserve for unexpired risk is at 50%, claims outstanding as on 31.3.06 amounted to Rs.3137 thousands, provide Rs.20000 thousands towards taxation.

Problem 20 Preparation of Revenue Account & Profit and loss account & Balance sheet - Fire Insurance and Marine Insurance

From the following trial balances of National Insurance Co., Ltd., as on 31.3.2006.
Prepare final accounts of the company for 2005-2006.

Particulars	Debit Rs. in '000	Credit Rs. in'000
Cash at bank	51500	
Capital		150000
Government securities	525000	
Claims paid : Marine	100000	
Fire	80000	
Commission : Marine	55000	
Fire	60000	
Provision for unexpired risk 1.4.05		
Marine		300000
Fire		125000
Additional reserve – Fire		50000
Expenses : Marine	105000	
Fire	102500	
Claims outstanding on 1.4.05		
Marine		15000
Fire		12500
General expenses	75000	

Premium outstanding		
Marine	10000	
Fire	7500	
Due to other insurance companies		17500
Interest on securities		32500
General reserve		25000
Profit and loss account		9000
Premiums received		
Marine		375000
Fire		350000
Dividend paid	15000	
Premises	250000	
Furniture	25000	
	1461500	1461500

Additional information:

1. Claims outstanding on 31.3.2006 – Fire Rs.12500 thousands, Marine Rs.12500 thousands.
2. A taxation reserve of Rs. 15000 thousands is required.
3. Depreciate premises by 5% and furniture by 10%
4. Additional reserve – fire is be increased by 5% of the net premiums.

Working notes: Schedule 1 Premium

Schedule 1 Premium

Particulars	Fire Rs.in '000	Marine Rs.in '000
Premium received	350000	375000
<u>Unexpired risk:</u>		
Add: Provision for unexpired risk 1.4.2005	125000	300000
Additional reserve 1.4.2005	<u>50000</u>	<u>--</u>
	525000	675000
Less : Provision for unexpired 31.3.2006		
Fire 350000 x 50/100	<u>175000</u>	
Marine 375000 x 100/100	350000	<u>375000</u>
Less : Additional reserve Fire - 350000x5/100=17500	67500	--
<u>+50000</u>		
Total	282500	300000

Schedule 2 Claims incurred

Particulars	Fire Rs.in '000	Marine Rs.in '000
Claims paid	80000	100000
Add : Outstanding claims on 31.3.06	<u>12500</u>	<u>12500</u>
	92500	112500
Less: outstanding claims on 1.4.05	12500	15000
Total	80000	97500

Schedule 3 Commission

Particulars	Fire Rs.in '000	Marine Rs.in '000
Commission on direct business	60000	55000
Total	60000	55000

Schedule 4 Operating expenses related to insurance business

Particulars	Fire Rs.in '000	Marine Rs.in '000
Expenses of management	102500	105000
Total	102500	105000

National Insurance Co., Ltd.,
Revenue Account in respect of Fire Insurance business for the year ended 31.03.2006

Particulars	Schedule no.	Fire Rs.in '000	Marine Rs.in '000
Premiums earned - Net	1	282500	300000
Profit on sale of investments		--	--
Other income		--	--
Interest & dividend		--	--
Total (A)		282500	300000
Claims	2	80000	97500
Commission	3	60000	55000
Operating expenses relating to insurance business	4	102500	105000
Total (B)		242500	257500
Operating profit from fire and marine insurance business $C = A - B$		40000	42500

Profit & Loss Account for the year ended 31.3.2006

Particulars	Current year Rs.in '000
Operating profit from fire insurance business	40000
Operating profit from marine insurance business	<u>42500</u>
Net operating profit	82500
Income from investments: interest and dividend	32500
Total (A)	115000
Provisions other than taxation	--
Other expenses : General expenses	75000
Depreciation : Premises $250000 \times 5/100$	12500
Furniture $25000 \times 10/100$	2500
Total (B)	90000
Profit before tax (A) - (B)	25000
Less : Provision for taxation	<u>15000</u>
Profit after tax	10000
Appropriations : Dividend paid	15000
Dividend distribution tax $15000 \times 15/100$	<u>2250</u>
	<u>17250</u>
	(-) 7250
Balance of profit brought forward from last year	<u>9000</u>
Balance of profit carried to balance sheet	1750

Working notes:

Schedule 5 Share Capital

Particulars	Current year Rs.in '000
Share capital	150000
Total	150000

Schedule 6 Reserves and Surplus

Particulars	Current year Rs.in '000
General reserve	25000
Balance of profit and loss account	1750
Total	26750

Schedule 7 Borrowings - NIL

Schedule 8 Investments

Particulars	Current year Rs.in '000
Government securities	525000
Total	525000

Schedule 9 Loans - NIL

Schedule 10 Fixed Assets

Particulars	Current year Rs.in '000
Premises 250000	
Less: deprecation <u>12500</u>	237500
Furniture 25000	
Less : Depreciation <u>2500</u>	22500
Total	260000

Schedule 11 Cash and Bank balances

Particulars	Current year Rs.in '000
Cash and bank balances	51500
Total	51500

Schedule 12 Advances and other Assets

Particulars	Current year Rs.in '000
Advances	--
Other assets : Outstanding Premiums	
Fire – 7500 + marine - 10000	17500
Total	17500

Schedule 13 Current Liabilities

Particulars	Current year Rs.in '000
Outstanding claims fire – 12500+marine - 12500	25000
Due to other insurance companies	17500
Total	42500

Schedule 14 Provisions

Particulars	Current year Rs.in '000
Provision for unexpired risk of	
Fire $350000 \times 50 / 100 = 175000 + 50000 + 17500$	242500
Marine $375000 \times 100 / 100$	375000
Provision for taxation	15000
Dividend distribution tax	2250
Total	634000

Schedule 15 Miscellaneous Expenditure - Nil

Balance Sheet as on 31.03.2006

Particulars	Schedule no.	Current year Rs. in'000
Sources of funds:		
Share capital	5	150000
Reserves and surplus	6	27500
Borrowings	7	--
Total		177500
Application of funds:		
Investments	8	525000
Loans	9	--
Fixed assets	10	260000
Total I		785000
Current Assets:		
Cash and bank balances	11	51500
Advances and other assets	12	17500
Total (A)		69000
Current Liabilities	13	42500
Provisions	14	634000
Total (B)		676500
Net Current Assets (A) – (B) = II		(-)676500
Miscellaneous expenditure	15	--
Total I + II		177500

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