MAR GREGORIOS COLLEGE OF ARTS & SCIENCE

Block No.8, College Road, Mogappair West, Chennai – 37

Affiliated to the University of Madras
Approved by the Government of Tamil Nadu
An ISO 9001:2015 Certified Institution

DEPARTMENT OF COMMERCE (ACCOUNTING & FINANCE)

SUBJECT NAME: CORPORATE ACCOUNTING

SEMESTER: III

PREPARED BY: PROF.M.PARTHIBAN

- To make the students familiarize with corporate accounting procedures
- To enable the students to acquire conceptual knowledge about the preparation of the company accounts.

OUTCOME:

- The students will learn the accounting procedures of corporate undertaking and their financial statement preparations

UNIT – I Share Capital Issue of Shares - Types of Shares – Forfeiture of Shares- Reissue of Shares- Redemption of Preference Shares.

UNIT – II Debentures & Underwriting Issue of Debentures – Redemption of Debentures- Profit prior to incorporation. Underwriting of Shares & Debentures.

UNIT – III Final Accounts Final Accounts - Preparation of Profit & Loss account and Balance sheet- Managerial Remuneration.

UNIT –IV Valuation of Goodwill & Shares Valuation of Goodwill & Shares – Meaning – Methods of valuation.

UNIT – V Accounting for Insurance Companies Insurance Accounts- Types- Final accounts of Life Insurance- Profit determination of Life Insurance

Note: Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

TEXT BOOK:

1. Raj Kumar Sah-Concepts Building Approach to Corporate Accounting-Cengage,New Delhi.
2. Gupta,R.L&Radhaswamy, M ,Advanced Accounts, Sulthan Chand, New Delhi.

BOOK REFERENCE:

1. Jain,S.P&Narang,N.L., Advanced Accounting, Kalyani Publications.
2. Shukla&Grewal&Gupta ,Advanced Accounting ,S. Chand & Co., New Delhi
3. ReddyT.S.& Murthy ,A ,Corporate AccountingMargham Publications, Chennai

UNIT I

ACCOUNTINGFORSHARECAPITAL

A company is an association of persons who contribute money or money's worth to acommonstockandusesitforacommonpurpose.InthewordsofJusticeJames,"acompanyisanassociation of persons united for a common object". Sec 3(1) (i) of the Companies Act 1956definesacompanyas"companyformedandregisteredunderthisActoranexistingcompany".

CharacteristicsofCompany

1. Itisavoluntaryassociationofpersons
2. Ithasaseparatelegalentity
3. Ithasacommonseal
4. Ithasaperpetualsuccession.

KindsofCompanies

I. Onthebasisofformation

1. Charteredcompanies–Thosecompanieswhichareincorporatedunderaspecialcharterbythekingorsovereignsuchas EastIndiaCompany.
2. Statutorycompanies–ThesecompaniesareformedbythespecialActoflegislatureorparliamentlikeRBI.
3. Registeredcompanies–SuchcompaniesareincorporatedundertheCompaniesAct1956orwereregisteredunderanypreviousCompaniesAct.

Onthebasisofliability

1. Limitedcompanies-Inthesecompanies,theliabilityofeachmemberislimitedtotheextentof face valueofsharesheldbyhim.
2. Guarantee companies – The liability of member of such companies are limited to theamount he has undertaken to contribute to the assets of the company in the event of itswinding up.
3. UnlimitedCompanies–Inthesecompanies,theliabilityofthemembersisunlimitedandmembers are personally liable to the creditors of the company fop making up thedeficiency.Suchcompaniesarerarethesedays.

Onthebasisofpublicinvestment

1. PrivateCompanies–ThesearecompaniesbyitsArticles,(i)limitsthenumberofmembersto50,(ii)prohibitstheinvitationtothepublictosubscribetheirsharesordebenturesand (iii)restrictsthetransferabilityoftheirshares.
2. Publiccompanies–Thesearecompaniesotherthanprivatecompanies.

SHARECAPITAL

Total capital of the company is divided into units of small denominations; each one iscalledashare.AccordingtoSec2(46)oftheCompaniesAct1956,sharehasbeendefinedas ashare in the share capital of the company; and includes stock except where a distinctionbetweenstockandshareisexpressedorimplied

ClassesofShares

A. PreferenceShares

Shares which enjoy the preferential rights as to dividend and repayment of capital intheeventofwindingupofthecompanyovertheequitysharesarecalledpreferenceshares.Theholderofpreferenceshareswillgetafixedrateodividend.

Typesofpreferenceshares

1. **Cumulativepreferenceshares**– Incaseoftheseshares,thearrearsofdividendarecarriedforwardandpaidoutoftheprofitsofthesubsequentyears.
2. **Non-cumulative preference shares** – If dividend not to accumulate and not to carriedforwardtonextyear,thesearecallednon-cumulativepreferenceshares.
3. **Participating preference shares** – In addition to a fixed dividend, balance of profit (aftermeetingequitydividend)sharedbysomepreferenceshareholders.Suchsharesareparticipatingpreferenceshares.
4. **Non-participating preference shares** – These shares get only a fixed rate of dividend.Thesedonotgetsharein thesurplusprofit.
5. **Redeemablepreferenceshares**–Ifpreferencesharesarereturnedafteraspecifiedperiodto shareholders, these preference shares e shares are called redeemable preferenceshares.
6. **Convertiblepreferenceshares**– Thesesharesaregiventherightofconversionintoequityshareswithinaspecifiedperiodorataspecifieddateaccordingtothetermsofissue.

B. EquityShares

Equitysharesarethosewhicharenotpreferenceshares.Equitysharesdonotcarryanypreferentialgaininrespectofdividendorrepaymentofcapital.Sotheseareknownasordinaryshares.Therewillbenofixedrateofdividendtobepaidtotheequityshareholdersandthisratemayvaryfromyeartoyear.Inwindingup,theequitycapitalisrepaidlast.However,equityshareholdergetsfullvotingpower.

Typesofsharecapital

1. Authorized (Registered or Nominal) Capital – It is the maximum amount of capital whichthecompanyisauthorizedtoraisebywayofpublicsubscription.
2. IssuedCapital– Thepartofauthorizedcapitalwhichisofferedtopthepublicforsubscriptioniscalledissuedcapital.
3. Subscribed Capital – That part of the issued capital for which applications are receivedfromthepublic iscalledsubscribedcapital.
4. Called-upCapital– Thatpartofsubscribedcapitalwhichhasbeencalled-upordemandedbythecompanyiscalledcalled-upcapital.
5. Paid-up Capital – The part of called-up capital which is offered and actually paid by themembers is known as paid-up capital. Any unpaid amount of balance on the called-upcapitalisknownasunpaidcapitalorcallsinarrears.
6. Reserve Capital – It is that portion of the uncalled capital which is called-up only at theeventofcompany’swindingup.

Differencebetweenequitysharesandpreferenceshares

Equityshares	Preferenceshares
1 Itisanownershipsecurity 2 Dividendrateisnotfixed 3 Capitalisrepaidonlyinwindingup 4 Theseshareshavevotingrights 5 Facevalueislower	1. Itisahybridsecurity 2. Dividendrateisfixed 3. Capitalisrepaidafterastipulatedp eriod 4 Thesesharesgenerallydonothavevot ingrights 5 Facevalueishigher

IssueofShareCapital

The shares can be issued either at par, premium or at discount. Shares are said to beissuedatparwhenashareholderisrequiredtopaythefacevalueofthesharestothecompany.Shares are said to be issued at premium when a shareholder is required to pay more than theface value to the company. Shares are said to be issued at discount when the shareholder isrequiredtopaylessamountthanthefacevaluetothecompany.Forexample,acompanyissuestheshareshavingthefacevalueofRs.10atRs.10;itistheissueatpar.IfitisissuedatRs.12,theissueisatpremium.IfitisissuedatRs.8,theissueisatdiscount.

The issue price of the shares can be received in one instalment or it can be received indifferent instalments. If the issue is in different instalments, it may be paid on application,allotment and on one or more calls. The amount on application is called application money, theamount dues on allotment is called allotment money and the rest amount is called call money.As per SEBI guidelines the application money on issue must not be less than 25% of issue price(asperCosAct,itis5%).

Allotmentofshares

Allotment of shares means the acceptance of offer of the applicant for the purchase ofshares.Directorshavethediscretionarypowertorejectoracceptheapplications.Butthepubliccompany cannot allot its shares unless the minimum subscription has been subscribed by thepublic and the amount of application has been received. After the allotment of shares to theapplicantswhowillbecometheshareholdersofthecompany.

JournalEntriesforShareIssue

1. Onreceiptofapplicationmoney:
   BankA/c Dr
   ToShareApplicationA/c
2. Onacceptanceofapplication:
   ShareapplicationA/c
   ToShareCapitalA/c

3. Onallotmentmoneydue:
   ShareallotmentA/c Dr
   TosharecapitalA/c

4. Onreceiptofallotmentmoney:
   BankA/c Dr
   ToShareallotmentA/c
5. Onmakingfirstcalldue:
   SharefirstcallA/c Dr
   TosharecapitalA/c
6. Onreceiptoffirstcallmoney:
   BankA/c Dr
   TosharefirstcallA/c

(Note:similarentriesmaybepassedforsecondcall,thirdcall,ifany.)

Illustration1

BharatTradingCo.Ltd.witharegisteredcapitalofRs.100000issued5000equitysharesofRs.10each,payableRs.2onapplication,Rs.2onallotment,Rs.3onfirstcallandRs.3onfinalcall.Passjournal entries assuming the shares issued were fully subscribed and the money has beenreceived.

Solution:

Journal

BankA/c Dr ToShareApplicationA/c (Applicationmoneyreceived)		10000	10000
ShareapplicationA/c Dr ToShareCapitalA/c (Transferofapplicationmoneytosharecapital)		10000 10000	10000
ShareallotmentA/c Dr TosharecapitalA/c (Allotmentmoneydue)		10000	10000
BankA/c Dr To Share allotmentA/c(Allotmentmoneyreceived)		15000	10000
SharefirstcallA/c Dr TosharecapitalA/c(Firstcallmoneydue)		15000	15000
BankA/c Dr TosharefirstcallA/c(F irstcallmoneyreceived)		15000	15000
SharefinalcallA/c Dr TosharecapitalA/c (Finalcallmoneydue)		15000	15000

BankA/c Dr ToSharefinalcallA/c (Finalcallmoneyreceived)			15000

Issueofsharesatpremium

Sharesaresaidtobeissuedatpremiumwhenashareholderisrequiredtopaymorethant he face value to the company. The excess amount received over the face value is called sharepremium. It is a capital receipt. The share premium shall be transferred to "Securities PremiumA/c". It should be shown on the liability side of balance sheet under the head "Reserves andSurplus".

Journalentries:

(a) Ifpremiumisreceivedwithapplicationmoney:

(i) BankA/c Dr
 ToShareapplicationA/c

(ii) ShareapplicationA/c Dr(withtotal)
 ToSharecapitalA/c (applicationmoney)
 ToSecuritiespremiumA/c (premium)

(b) Ifpremiumisreceivedwithallotmentmoney:

(i) ShareallotmentA/c Dr(total)
 ToSharecapitalA/c (allotmentmoneydue)
 ToSecuritiespremiumA/c (premium)

(ii) BankA/c A/c
 ToShareallotmentA/c

Issueofsharesatdiscount

Shares are said to be issued at discount when the shareholder is required to payless amount than the face value to the company. Discount on issue of shares is a capitalloss and it should be debited to a separate account called "Discount on issue of sharesA/c". It is shown on the assets side of balance sheet under "Miscellaneous Expenditure".The rate of discount should not exceed 10% of nominal value of shares. Generally thediscount on issue is recorded at the time of allotment. It is also noted that a newlyregisteredcompanycannotissuesharesatdiscount.Thejournalentryis

ShareallotmentA/c Dr (allotmentmoneydue)
DiscountonissueofsharesA/cTo Dr (discount)
 SharecapitalA/c (Total)

Illustration2

ALtd.Issued5000sharesofRs.10eachatapremiumofRs.5pershare.The amountwaspayableasRs.3onapplication,Rs.7onallotment(incl.Premium)andthebalanc eonfirstand final call. All shares were subscribed and money duly received. Show the journalentries.

Solution:

	BankA/c Dr To Share ApplicationA/c(Applicationmoneyreceiv ed)		15000	15000
	ShareapplicationA/c Dr ToShareCapitalA/c (Transferofapplicationmoneytosharecapital)		15000	15000
	ShareallotmentA/c Dr ToSharecapitalA/c To Securities premium A/c(Allotmentmoneyduewithpremium)		35000	10000 25000
	BankA/c Dr To Share allotmentA/c(Allotmentmoneyreceiv ed)		35000	35000
	SharefirstandfinalcallA/cT oSharecapitalA/c Dr (Firstandfinalcallmoneydue)		25000	25000
	BankA/c Dr TosharefirstandfinalcallA/c(Fi rstandfinalcallmoneyreceived)		25000	25000

Illustration3

BaluLtd.Issued20000sharesofRs.10eachatadiscountof10%payableasRs.2onapplication, Rs.3onallotmentandRs.4onfirstandfinalcall.20000applicationswerereceivedandallwere ***accepted.Passjournalentries.***

Solution:

BankA/c Dr To Share ApplicationA/c(Applicationmoneyreceived)		40000	40000
ShareapplicationA/c DrToShar eCapitalA/c (Transferofapplicationmoneytosharecapital)		40000	40000
ShareallotmentA/c Dr DiscountonissueofsharesA/cDr ToSharecapitalA/c (Allotmentmoneydueat10%discount)		60000 20000	80000
BankA/c Dr To Share allotmentA/c(Allotmentmoneyreceive d)		60000	60000
SharefirstandfinalcallA/cToSharec apitalA/c Dr (Firstandfinalcallmoneydue)		80000	80000

BankA/c Dr ToSharefirstandfinalcallA/c(Firstandf inalcallmoneyreceived)		80000	80000

WhenbothPreferenceandEquitySharesareissued

Whenacompanyissuesbothpreferenceandequitysharesthejournalentriesarewrittenseparatelyfor eachtypeofsharecapital.

Undersubscriptionofshares

Sometimes the applications for shares received will be less than the number of sharesissued.Thisiscalledundersubscription.Insuchacase,theallotmentwillbeequaltothe numberofsharessubscribedandnottothesharesissued.

Oversubscriptionofshares

Sometimes the applications for shares received will be more than the number of sharesissued.Thisiscalledoversubscription.Whenthereisoversubscription,itisnotpossible toissueshares to all applicants. In such a situation company shall reject some applications altogether,allot in full on some applications and make a pro-rata allotment on some applications. Pro-rataallotment means that allotment on every application is made in the ratio which the number ofshares allotted bears to number of shares applied. In case of applications fully rejected will bereturnedtotheapplicants.Inpro-rataallotmenttheexcessapplicationwillbeadjustedeitheronallotment and or on calls. Any surplus left even after the adjustment will be refunded to theapplicants.Journal entriesare

1. Whenapplicationmoneyisreturned:ShareapplicationA/c Dr
   ToBankA/c
2. Whenexcessapplicationisadjustedtowardsallotmentorcall:Share applicationA/c Dr (total)
   TohareallotmentA/c (amountadjustedtowardsallotment)ToCall (ifany) (amountadjustedtowardscall)

Illustration4

Sun Ltd.makes an issue of 100000 equity shares of Rs.10 each payable Rs.3 on application, Rs.5on allotment and Rs.2 on first and final call. Applications were received for 250000 shares. Thecompanyreturnedtheapplicationson24000sharesandexcessapplicationmoneyfromremainingapplicantswascarriedforwardinpartsatisfactiononamountdueonallotmentontheshares allotted to them. The balance of allotment was received. The company did not make thefirstandfinalcall.Journalizethetransaction

Solution:

BankA/c Dr ToShareApplicationA/c (Applicationmoneyreceivedfor250000shares)		750000	750000
ShareapplicationA/c DrTo ShareCapitalA/c ToBankA/c (Transferofapplicationmoneytosharecapitaland2400 0applicantsrejectedandrefunded)		37200 0	300000 72000
ShareallotmentA/c Dr ToSharecapitalA/c(Allo tmentmoneydue)		500000	500000
ShareapplicationA/cDr BankA/c ToShareallotmentA/c Dr (Excessapplicationmoneyadjustedandbalancer eceivedincash)		378000 122000	500000

CallsinArrearsandCallsinAdvance

Sometimes shareholders may fail to pay the allotment money and or call money. Suchduesarecalledcallsinarrears.Itisshowninthebalancesheetasadeductionfromthecalle d-upcapital. Directors are authorized to charge interest on calls in arrears at a rate as per Articles. Inits absence, the interest does not exceed 5% pa. When a shareholder pays more money thancalledup,theexcessmoneyiscalledcallsinadvance.Thecompanymustpayinterestonca llsinadvanceataratepr escribedbyArticles.Initsabsence,thecompanyisliabletopayinterest @6%pa.Butthesh areholderisnotentitledtoanydividendoncallsinadvance.

Forfeitureofshares

Thecancellationofsharesduetonon-paymentofallotmentmoneyorcallmoneywithin aspecifiedperiodiscalledforfeitureofshares.Itisthecompulsoryterminationofmembership ofthedefaultingshareholders.Healsolosseswhateveramounthehaspaidtothecompanysof ar.Acompanycanforfeitthesharesonlyifitisauthorizedbyits Articles.Theforfeitingisdoneon lyafter giving 14 days notice to the defaulting shareholders. The balance of forfeited shares A/cshould be shown by way of an addition to called up capital on the liability side of balance sheettillthesharesarereissued.

Journalentries

1. Forfeitureofshareswhichwereissuedatpar:

   ShareCapitalA/c Dr (amountcalledup)
   ToshareallotmentA/c (allotmentunpaid)
   TosharecallA/c (callunpaid)
   ToforfeitedsharesA/c (totalamountpaid)

2. Forfeitureofshareswhichwereissuedatpremium:

(a) Whenallotmentmoney(incl.premium)andcallmoneynotpaid

ShareCapitalA/c Dr (amountcalledup)
SecuritypremiumA/c Dr (premiumunpaid)
ToshareallotmentA/c (allotmentunpaid)
TosharecallA/c (callunpaid)
ToforfeitedsharesA/c (totalamountpaid)

Whencallmoneynotpaid
ShareCapitalA/c Dr (amountcalledup)
TosharecallA/c (callunpaid)
ToforfeitedsharesA/c (totalamountpaid)

3. Forfeitureofshareswhichwereissuedatdiscount:

ShareCapitalA/c Dr (amountcalledup)
ToshareallotmentA/c (allotmentunpaid)
TosharecallA/c (callunpaid)
ToforfeitedsharesA/c (totalamountpaid)
TodiscountonissueofsharesA/c (amountofdiscount)

Illustration5

Kerala Ltd issued 5000 shares of Rs.10 each at par payable as Rs.3 on application, Rs.2 onallotment,Rs.3onfirstcallandRs.2onfinalcall.Mr.Aliwasallotted50sharesandwhofailedt opayallotmentmoneyandfirstcall.Givejournalentriesifthoseshareswereforfeited.

Solution:

ShareCapitalA/c Dr(50x8) ToshareallotmentA/c (50x2) TofirstcallA/c (50x3) ToforfeitedsharesA/c (50x3) (forfeitureof50sharesduetonon-paymentof allotmentandfirstcall)		400	 100 150 150

Illustration6

Malabar Ltd issued 5000 shares of Rs.10 each at a premium of Rs.2 payable as Rs.3 onapplication, Rs.4 on allotment (incl. premium), Rs.3 on first call and Rs.2 on final call. Mr. Ajaywasallotted50sharesandwhofailedtopayallotmentmoneyandfirstcall.Givejournalen triesifthoseshareswereforfeited.

Solution:

Share Capital A/cSecuritypremiumA/c(50x2) Dr(50x8) ToshareallotmentA/c (50x4) TofirstcallA/c (50x3) ToforfeitedsharesA/c (50x3) (forfeitureof50sharesduetonon-paymentofallotmentandfirstcall)		400 100	 200 150 150

Illustration7

JayLtdissued5000sharesofRs.10eachatadiscountof10%payableasRs.3onapplication,Re.1on allotment, Rs.3 on first call and Rs.2 on final call. Mr. Raju was allotted 50 shares and whofailedtopayfirstcallandfinalcall.Givejournalentriesifthoseshareswereforfeited.

Solution:

	ShareCapitalA/c Dr (50x10) TofirstcallA/c (50x3) TofinalcallA/c (50x2) ToforfeitedsharesA/c (50x4) TodiscountonissueofsharesA/c (50x1) (forfeitureof50sharesduetonon-paymentoffirstandfinalcall)		500	 150 100 200 50

Reissueofforfeitedshares

Forfeitedsharesmaybereissuedbythecompanyeitheratpr,premiumordiscount.Butthediscountonreissueshouldnotexceedtheamountforfeited.

Journalentries

1. Onreissueatpar(issuedatparorpremium):
   BankA/c Dr(amountreceivedonreissue)
   TosharecapitalA/c (amountpaidup)
2. Onreissueofatadiscount(issuedatparorpremium):
   BankA/c Dr (amount received on reissue)ForfeitedsharesA/c Dr(amountofdiscountonreissue)
   TosharecapitalA/c (amountpaidup)

3. Onreissueatapremium(issuedatparorpremium):
   BankA/c
   Dr(amountreceivedonreissue)
   TosharecapitalA/c (amountpaidup)
   TosecuritypremiumA/c (premiumonreissue)

4. Onreissueatadiscount(issuedatadiscount):

BankA/c Dr(amountreceivedonreissue)
DiscountonissueofsharesA/c(amountoforiginaldiscount)
ForfeitedsharesA/c Dr(excessofdiscountonreissueoveroriginal issue)
TosharecapitalA/c (amountpaidup)

Ifallforfeitedshareshavebeenreissued,thecreditbalanceinforfeitedsharesA/c(capital profit) shall be transferred to capital Reserve A/c by passing the following entryForfeitedsharesA/c Dr
TocapitalreserveA/c
Ifallforfeitedsharesarenotreissued,onlytheprofitonshareswhichareissuedis transferredtoCapital reserveA/c.

Illustration8

ThedirectorsofALtdresolvedthat2000equitysharesofRs.10each,Rs.7.50paid,beforfeitedfor non-payment of final call of Rs.2.50. 1800 of the above shares were reissued for Rs.6 pershare.Showthejournalentries.

Solution:

	SharecapitalA/c Dr (2000x10) TofinalcallA/c(2000x2.50) To Forfeitedshares A/c(2000x7.50) (2000sharesforfeitedduetononpaymentof finalcall)		20000	 5000 15000
	BankA/c Dr(1800x6) ForfeitedsharesA/c Dr(1800x4) ToShareCapitalA/c(1800x10) (1800offorfeitedsharesreissued@Rs.6)		10800 7200	18000
	ForfeitedsharesA/c Dr ToCapitalReserveA/c(1800x7.5)-)-(1800x4) (surplusreceivedonforfeiture&reissue transferred)		6300	6300

Illustration9

Arjun Ltd invited applications for 10000 shares of Rs.100 each at a premium of 5%

payable asRs.25 on application, Rs.45 on allotment (incl. premium) and Rs.35 on first and final call. Theapplications received for 9000 shares and all of these shares were accepted. All money dues werereceivedexceptthecallon100shareswhichwereforfeited.Ofthese50shareswerereissued@Rs.90asfullypaid.Passjournalentries.

Solution:

BankA/c Dr ToShareApplicationA/c(Applicationmoneyreceived)		225000	225000
ShareapplicationA/c DrToShareCapitalA/c (Transferofapplicationmoneytosharecapital)		225000	225000
ShareallotmentA/c Dr ToSharecapitalA/c ToSecuritypremiumA/c (Allotmentmoneydue)		405000	360000 45000
BankA/c Dr To Share allotmentA/c(Allotmentmoneyreceived)		405000	405000
SharefinalcallA/c Dr ToSharecapitalA/c(Finalcallmoneydue)		315000	315000
BankA/c Dr ToSharefinalcallA/c(Finalcall moneyreceived)		311500	311500
SharecapitalA/cDr To share final call A/cToForfeitedsharesA/c (100sharesforfeited)		10000	3500 6500
Bank A/cDr Forfeitedshares A/cDr TosharecapitalA/c (50sharesreissued@Rs.90)		4500 500	5000
Forfeitedshares A/cDr ToCapitalreserveA/c(65x50)-(500) (BalanceofforfeitedsharesA/ctransferred)		2750	2750

Surrenderofshares

Sometimes a shareholder is not able to pay further calls and returns his shares to thecompanyforcancellation.Suchvoluntaryreturnofsharestothecompanybytheshareholderhimself is called surrender of shares. The accounting treatment of surrender of shares is thesameasthatofforfeitureofshares.

REDEMPTIONOFPREFERENCESHARES

When the preference shares are issued it is to be paid back by the company to suchshareholders after the expiry of a stipulated period whether the company is to be wound up ornot.

AsperSec80oftheCompaniesAct,acompanylimitedbysharescanredeemthepreferenceshares,subjecttothefollowingconditions

1. Thesharestoberedeemedmustbefullypaidup.
2. Such shares can be redeemed either out of profit or out of the proceeds of fresh issue ofshares. But these cannot be redeemed out of fresh issue of debentures or out of saleproceedsofanypropertyofthecompany.
3. Premium payable on redemption must be provided out of profits of company or out ofcompany'ssecuritypremiumaccount.
4. When shares are redeemed out of profit, a sum equal to the nominal amount of shares soredeemedmustbetransferredoutofprofittoareserveaccountnamelyCapitalRedemption ReserveA/c.
5. TheCapitalRedemptionreserveA/ccanbeutilizedonlyfortheissueoffullypaidupbonusshares.

The preference shares can be redeemed either at par or at premium (but not at discount).Premium on redemption is provided out of existing security premium account or securitypremiumonfreshissue.Iftheyarenotsufficient,theredemptionpremiumshouldbe providedoutofP&LA/corGeneralReserve.

MethodsofRedemption

Therearethreemethodsforredemptionofpreferenceshares.Theyare:

(a) Redemptionoutoffreshissueofshares
(b) Redemptionoutofprofits
(c) Redemptionpartlyoutoffreshissueandpartlyoutofprofit

AccountingProcedureforRedemption

1. Ensurethattheredeemablepreferencesharesarefullypaid.Iftheyarepartlypaid,thefollowing entriesarepassedtomakethemfullypaid.
   (a) PreferenceShareFinalCallA/c Dr
   ToPreferenceShareCapitalA/c
   (b) BankA/c Dr
   ToPreferenceShareFinalCallA/c

2. Entry for total amount due to preference
   shareholdersPreferenceSharesCapitalA/c Dr(facevalue)
   PremiumonRedemptionA/c Dr(premiumonredemption)
   ToPreferenceShareholdersA/c (total amountpayable
   onredemption)
3. Entryforissueofequityshareseitherwithorwithoutpremium
   BankA/c Dr(amountreceived)
   DiscountonissueofsharesA/c
   Dr(ifsharesissuedatdiscount)
   ToEquitysharecapitalA/c (face value of shares
   issued)ToSecurityPremiumA/c (ifsharesissuedatpremium)
4. Entryforprovidingpremiumonredemption
   SecuritypremiumA/corP&LA/corGeneralReserveA/cDr
   ToPremiumonRedemptionA/c
5. Entryforappropriationfromdivisibleprofitstomeetdeficiencyofamountonredem ption
   (orifredemptionisoutofprofit)
   P&LA/corGeneralReserveA/c
   D
   rToCapitalRedemptionReserveA/c
6. Entry for payment to preference
   sharesPreferenceShareholdersA/c Dr
   ToBankA/c

Illustration10

SunLtdhad8000,8%redeemablepreferencesharesofRs.25each,Rs.20calledup.Thecompa nydecided to redeem the preference shares at 5% premium by the issue of sufficient number ofequity shares of Rs.10 each fully paid up at a premium of 10%. Pass journal entries relating toredemption.

Solution:

Nominalvalueofsharestoberedeemed 200000
Premiumonredemption 10000
Totalamountrequiredforredemption 210000
No.ofsharestobeissued(exceptpremium) $\frac{200000}{10}$ = 20000

PreferencesharefinalcallA/c DrTo8%p referencesharecapitalA/c (prefsharefinalcalldue)		40000	40000
BankA/c Dr ToprefrencesharefinalcallA/c (finalcallmoneyreceived)		40000	40000
BankA/c Dr		220000	

ToequitysharecapitalA/cTosecurit ypremiumA/c (issueof20000equitysharesofRs.10eachat 10%premium)			200000 20000
SecuritypremiumA/c Dr TopremiumonredemptionA/c (providedpremiumonredemptionat5%outof securitypremiumA/c)		10000	10000
8%preferencesharecapitalA/c Dr PremiumonredemptionA/c Dr TopreferenceshareholdersA/c (amountduetopreferenceshareholders)		200000 10000	210000
PreferenceshareholdersA/cDr ToBankA/c (paymenttopreferenceshareholders)		210000	210000

Illustration11

:ThefollowingaretakenfromthebalancesheetofRajaLtdason31December2011.10 000equitysharesofRs.10eachRs.100000
10000, 8% preference sharesofRs.10 each
Rs.100000CapitalreserveRs.50000
GeneralreserveRs.30000
P&LA/cRs.85000

Thecompanyredeemsthepreferencesharesons1January2012.Givejournalentries.

Solution:

	GeneralreserveA/cD r P&LA/cD r TocapitalredemptionreserveA/c (transferofanamountequaltonominalvalueofsh aresredeemedtoCRRA/c)		30000 70000 100000	100000 100000
	8%preferencesharecapitalA/cDr TopreferenceshareholdersA/c (amountduetopreferenceshareholders)		100000	100000
	PreferenceshareholdersA/cD r ToBankA/c (paymenttopreferenceshareholders)			

Illustration12

: A company has 10000, 11% redeemable preference shares of Rs.100 each fully paid. Thecompanyredeemsthesharesatpar.Forthepurposeitissued50000equitysharesofRs.10eachand balance is made available from the accumulated profit (P & L A/c). The issue was fullysubscribed.Givejournalentries.

Solution:

	BankA/c Dr To equity share capital A/c(freshissueof50000sharesatRs.10)		500000	500000
	P&LA/c Dr TocapitalredemptionreserveA/c (amounttransferredtoCRR)		500000	500000
	11%PreferencesharecapitalA/cDr TopreferenceshareholdersA/c (amountduetopreferenceshareholders)		1000000	1000000
	Preference shareholdersA/cDr To bank (paymenttopreferenceshareholders)		1000000	1000000

Useofequationfordeterminingthefacevalueofsharestobeissued

Anequationcanbeappliedwhenthegivenamountofpremiuminsecuritypremium A/cinthe balance sheet plus amount of premium to be obtained from fresh issue of shares is notsufficienttopaypremiumonredemptionofpreferenceshares.Itisduetosecuritypremium A/cgiveninbalancesheetcannotbeusedforredeemingthefacevalueofshares.

(a) Whenfreshissueistobemadeatapremium:

[Redeemablepreferencesharecapital+premiumonredemption]=[{Balanceinsecuritypremium A/c in B/S} + {Revenue profit available for redemption} + {N} + {N x % rate ofpremiumonfreshissue}]

(b) Whenfreshissueofsharesistobemadeatadiscount:

[Redeemablepreferencesharecapital+premiumonredemption]=[{Balanceinsecuritypremium A/c in B/S} + {Revenue profit available for redemption} + {N} - {N x % rate ofdiscountonfreshissue}]

Note:N=Nominalvalueoffreshissueofsharestobemadeforredemption

Illustration13

Determinetheamountoffreshissueofsharesfromthefollowinginformationrelatingto A Ltd.Redeemable preference shares Rs.200000, premium on redemption 10%, divisible profitsavailableRs.60000,balanceingeneralreserveRs.40000andsecuritypremiumA/cRs.15000.iffreshissueismade(i)atapremiumof5%and(ii)atadiscountof10%.

Solution

(i) iffreshissueismadeatapremiumof5%:

[Redeemable preference share capital + premium on redemption] = [{Balance in securitypremiumA/cinB/S}+{Revenueprofitavailableforredemption}+{N}+{Nx%rateofpremiumonfreshissue}]

[200000+20000]=[15000+60000+40000+N+0.05N]1.0

5N=220000-115000

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

(ii) Iffreshissueismadeatadiscountof10%:

[Redeemable preference share capital + premium on redemption] = [{Balance in securitypremiumA/cinB/S}+{Revenueprofitavailableforredemption}+{N}-{Nx%rateofdiscountonfresh issue}]

[200000+20000]=[15000+60000+40000+N-0.1N]0

.9N=220000-115000

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

BUYBACKOFSHARES

Buybackisamethodofcancellationofsharecapital.Itsimplymeansbuyingofownshares.Itleadstoreductioninthesharecapitalofacompany.

Objectivesofbuyback

1. Toreturnsurpluscashtoinvestors
2. Toimprovethefinancialhealth
3. ToincreasetheEPS
4. Toincreasethemarketpriceoftheshare

Advantagesofbuyback

1. Ithelpstoreturnthesurpluscashtoinvestors
2. IthelpstoincreasetheEPS
3. Itincreasespromoter'sholdinginthecompany
4. Ithelpstorestructurethecapitalbaseofthecompany

Disadvantagesofbuyback

1. Itimpliesundervaluationofcompany'sstock
2. Itmaybeusedasatoolofinsidertrading
3. Itmaybeusedformanipulatingthepricesofshares.

Methodsofbuyback

AsperSEBIguidelines,therearetwomethodsofbuybackofshares.Theyare:

1. Buybackthroughtenderoffer–

Underthis,acompanycanbuybackitssharesfromitsexistingshareholdersonaproportion ate basis.

2. Buybackfromtheopenmarket–Acompanycanalsobuybackitssharesfromtheopenmarketeitherthroughstockexchanges orbookbuildingprocess.

UNIT II

DEBENTURES

The term ‘debenture’ has been derived from the Latin word ‘debere’, which means ‘toborrow’.Debentureisaninstrumentinwritinggivenbyacompanyacknowledgingdebtreceived fromthepublic.

The Companies Act defines debenture as “debenture includes debenture stock, bonds oranyothersecuritiesofacompany,whetherconstitutingachargeontheassetsofthecompany ornot”.

FeaturesofDebenture

1. Itisaninstrumentofdebtissuedbycompanyunderitsseal.
2. Itcarriesfixedrateofinterest.
3. Debentureisapartofborrowedcapital.
4. Itisrepaidafteralongperiod.
5. Itisgenerallysecured

Differencebetweensharesanddebentures

Share	Debenture
1. Thepersonholdingshareiscalledshareholder	1. Thepersonhavingdebentureiscalleddebentureholder
2. Itispartofownedcapital	2. Itisapartofborrowedcapital
3. Dividendispaidonshares	3. Interestispaidondebenture
4. Rateofdividendvariesyeartoyear	4. Rateofinterestisfixed
5. Shareholderhasvotingright	5. Debentureholderdoesn’thavevotingright
6. Itcan’tbeconvertedintodebenture	6. Itcanbeconvertedintoshare

Classificationofdebentures

1. SecuredorMortgagedebentures–Thesedebenturesaresecuredeitheronaparticularassetorontheassetsofthecompanyingeneral.
2. UnsecuredorNakeddebentures–Thesedebenturesdonotcreateanychargeontheassetsofthecompany.

3. Registered debentures – These debentures arte payable to the persons recorded in theregisterofdebentureholdersofthecompanyandthesearetransferableonlywiththe knowledgeofthecompany.
4. Bearer debentures – In these debentures company maintains no register of debentureholdersandthesearetransferablebymeredelivery.
5. Redeemable debentures – These debentures are repayable after a fixed period either inlumpsumorininstalments.

6. PerpetualorIrredeemabledebentures–Thesedebenturesarenotrepayableduringthelife timeofthecompany.

7. Convertibledebentures–
Thesedebenturescanbeconvertedintothe shareswithinorafteraSpecifiedperiod,attheoptionof theholder.

8. Non-Convertibledebentures–Thesedebenturescan'tbeconvertedintoshares.

IssueofDebentures

Issueofdebenturescanbestudiedinthefollowingtwopointsofview

1. Fromconsiderationpointofview
   a. Forconsiderationincash:Debenturescanbeissuedeitheratpar,atpremiumoratdiscount.Theentrywillbe
      BankA/c Dr
      DiscountonissueofdebenturesA/c
      Dr(ifissueatdiscount
)ToDebenturesA/c
      ToSecuritypremiumA/c (ifissueatpremium)
   b. Forconsiderationotherthancash:Theentriesare
      i. Forpurchaseofassets
         SundryAssetsA/c Dr
         ToVendorA/c
      ii. ForissuingdebenturesforpaymentofpurchaseconsiderationVendorA/c Dr
         ToDebenturesA/c
   c. Ascollateralsecurity:Whendebenturesareissuedassubsidiaryorsecondarysecurityinadditiontotheprincipalsecurityagainstaloanorbankoverdraftsuchanissueofdebenturesiscalledissueofdebenturesascollateralsecurity.
2. Frompricepointofview
   Fromthispointofviewdebenturescanbeissuedeitheratpar,atpremiumoratdiscount.
   a. Whendebenturesareissuedatpar
      BankA/c Dr(withfacevalue)
      TodebenturesA/c
   b. Whendebenturesareissuedatdiscount
      BankA/c Dr(netamountreceived)
      ToDiscountonissueofDebenturesA/c

(amountofdiscount)To

DebenturesA/c (withfacevalue)

c. Whendebenturesareissuedatpremium

BankA/c Dr(totalamount)

ToDebenturesA/c (withfacevalue)

ToSecuritypremiumA/c (amountofpremium)

Illustration14

:XLtdissued1000,9%debenturesofRs.100each.Writejournalentrieswhentheyareissued(a) atpar,(b)at20%premiumand(c)at10%discount.

Solution:

(a)	BankA/c Dr To9%debenturesA/c (issueof1000,9%debenturesatRs.100)		100000	100000
(b)	BankA/c Dr To 9% debentures A/cToSecuritypremiumA/c (issueof1000,9%debenturesatRs.100at 20%premium)		120000	100000 20000
(c)	BankA/c Dr DiscountonissueofdebenturesA/c Dr To9%debenturesA/c (issueof1000,9%debenturesatRs.100at 10%discount)		90000 10000	100000

Illustration15

A company issued 10000 debentures of R.100 each for subscription. Debenture moneys arepayable as Rs.30 on application, Rs.40 on allotment, Rs.20 on first call and Rs.10 on second call.Apersonwho9holds200debenturesfailstopaytheamountdueatthetimeofallotment.He however pays this amount with the first call money. Another person, who is holding 400debentures,haspaidallthecallsinadvanceatthetimeofallotment.Givejournalentriesint hebooksofcompany.

Solution:

BankA/c Dr ToDebentureApplicationA/c(Application moneyreceived)		300000	300000
DebentureapplicationA/c DrToDeb enturesA/c (Transferofapplicationmoneytodebentures A/c)		300000	300000
DebentureallotmentA/c Dr ToDebenturesA/c(Allotme ntmoneydue)		400000	400000
BankA/c Dr To Debenture allotment		404000	392000 12000

A/cToDebenturescallsinadvance (Allotmentmoneyon9800debenturesandcall on400debenturesasadvancereceived)		200000	
Debenturefirst call A/cDr ToDebenturesA/c (Firstcallmoneydue)		8000	200000 8000
DebenturescallsinadvanceA/cDr ToDebenturesfirstcallA/c (transferofcallsinadvancetofirstcallA/c)		200000	8000 192000
BankA/c Dr ToDebentureallotmentA/cToDebentu refirstcallA/c (Firstcallmoneyreceivedalongwithallotment dueon200debentures)		100000	100000
DebenturefinalcallA/c Dr ToDebenturesA/c (Finalcallmoneydue)		96000 4000	100000
BankA/c Dr DebenturescallsinadvanceA/cDr ToSharefinalcallA/c (Finalcallmoneyreceived)			

3.Fromconditionofredemptionpointofview

Therearesixcasesonthebasisoftermsofissueandconditionsofredemptionofdebentures.Theyareasfollows:

a. Issuedatparandredeemableatpar.
b. Issuedatpremiumandredeemableatpar.
c. Issuedatdiscountandredeemableatpar.
d. Issuedatparandredeemableatpremium.
e. Issuedatdiscountandredeemableatpremium.
f. Issuedatpremiumandredeemableatpremium.

A. When issued at par and redeemable at par.BankA/c Dr
 ToDebenturesA/c

B. Whenissuedatpremiumandredeemableatpar.
 BankA/c Dr (facevalue+premium)
 ToDebenturesA/c (facevalue)
 TosecuritypremiumA/c (premium)

C. Whenissuedatdiscountandredeemableatpar.
 BankA/c Dr (amountreceived)
 DiscountonissueofdebenturesA/c Dr

(discount)ToDebenturesA/c (facevalue)

D. Whenissuedatparandredeemableatpremium.

BankA/c Dr (amountreceived)
LossonissueofdebenturesA/c Dr (premiumonredemption)TodebenturesA/c (facevalue)
TopremiumonredemptionA/c (premiumonredemption)

E. Whenissuedatdiscountandredeemableatpremium.

BankA/c Dr (amountreceived)
LossonissueofdebenturesA/c Dr (issuediscount+redemptionpremium)
TodebenturesA/c (facevalue)
TopremiumonredemptionA/c (redemptionpremium)

F. Whenissuedatpremiumandredeemableatpremium.

BankA/c Dr (amountreceived)
LossonissueofdebenturesA/c Dr (redemptionpremium)TodebenturesA/c (facevalue)
TosecuritypremiumA/c (issuepremium)
TopremiumonredemptionA/c (redemptionpremium)

Illustration16

JournalizethefollowingtransactionsatthetimeofissueofdebentureofRs.100.

a. AdebentureissuedatRs.95,repayableatRs.100.
b. AdebentureissuedatRs.95,repayableatRs.105.
c. AdebentureissuedatRs.100,repayableatRs.105.
d. AdebentureissuedatRs.105,repayableatRs.100.
e. AdebentureissuedatRs.102,repayableatRs.105.

Solution:

a. BankA/c Dr DiscountonissueofdebenturesA/c Dr To Debentures A/c(issueofdebentureatRs.95,repayableat Rs.100)		95 5	 100
b. BankA/c Dr LossonissueofdebenturesA/cTodebenturesA/c Dr To premium on redemption A/c(issueofdebentureatRs.95,repayableat Rs.105)		95 10	 100 5
c.			

BankA/c	Dr		100	
LossonissueofdebenturesA/cTodeben turesA/c	Dr		5	100
To premium on redemption A/c(issueofdebentureatRs.100,repayable atRs.105)				5
BankA/c	Dr		105	
ToDebenturesA/c				100
TosecuritypremiumA/c (issueofdebentureatRs.105,repayableatRs.100)				5
BankA/c	Dr		102	
LossonissueofdebenturesA/cTodeben turesA/c	Dr		3	100
TosecuritypremiumA/c				2
To premium on redemption A/c(issueofdebentureatRs.102,repayableatRs.105)				3

DiscountorLossonissueofdebentures

Discountorlossonissueofdebenturesandpremiumonredemptionarecapitallosses.Theyareshowninthebalancesheetunderthehead“MiscellaneousExpenditure”.Beingthelosses,theyaretobewrittenoffagainstcapitalreserveorsecuritypremiumA/c.Initsabsenceitiswrittenoffto P&LA/cduringthelifeofdebentures.Theentryis

Capitalreserve/SecuritypremiumA/c/P&LA/cDr

ToDiscount/LossonissueofdebenturesA/c.

REDEMPTIONOFDEBENTURES

Redemptionofdebenturesreferstothedischargeofliabilityonaccountofdebentures.Itsimplymeans repayment of debentures. As per Companies Act, the debentures should be redeemed inaccordancewiththetermsandconditions ofissue

Thefollowingentriesarepassedforredemptionofdebentures.

a. Whendebenturesareredeemedatpar
   i. DebenturesA/c Dr
      TodebentureholdersA/c
   ii. DebentureholdersA/c Dr
      ToBankA/c
b. Whendebenturesareredeemedatpremium
   i. DebenturesA/c Dr
      PremiumonredemptionA/c
      D
      rTodebentureholdersA/c
   ii. Securitypremium/Generalreserve/P&LA/c
      Dr

ToPremiumonredemptionA/c

iii. DebentureholdersA/c Dr

ToBankA/c

Sourcesofredemptionofdebentures

Debenturescanbedeemedoutofthefollowingsources

1. **Redemptionoutoffreshissue.**

Acompanymayissuenewsharesordebenturesorbothforredeemingtheexisting debentures.

Illustration17

Moon Ltd 10%, 5000 debentures of Rs.100 each, redeemable at 5% premium.The companyissued40000equitysharesofRs.10eachat10%premiumand1000,9%debenturesofRs.100eachatpar***forthepurposeofredemption.Passjournalentries.***

Solution

10% Debentures Dr A/cPremiumonredemptionA/c Dr ToDebentureholdersA/c (10%debenturesdueforredemption)		500000 25000	 525000
BankA/c Dr ToEquitysharecapitalA/cToSecuritypremiumA/c (issueof40000equitysharesat10%premium forredemption)		440000	 400000 40000
BankA/c Dr To9%DebenturesA/c (issueof1000debenturesofRs.100each)		100000	 100000
SecuritypremiumA/c Dr ToPremiumonredemptionA/c(provisionforredemptionpremium)		25000	 25000
DebentureholdersA/c DrToBan kA/c (paymenttodebentureholders)		525000	 525000

1. **RedemptionoutofCapital**

If debentures are redeemed out of capital, no amount of divisible profit is kept aside forRedeemingdebentures.RedemptionoutofCapitalreducestheliquidresourcesavailabletothe company. As per the guidelines issued by SEBI, a company has to create DebentureRedemption Reserve (DRR) equivalent to 50% o the amount of debenture issue beforeredemption of debentures commences. But the creation of DRR is not required in thefollowingcases

a. Debentureswithmaturityof18monthsorless
b. Fullyconvertibledebentures.

2. Redemptionoutofprofit

When sufficient profits are transferred from P & L Appropriation A/c to the DebentureRedemptionReserveA/catthetimeofredemptionofdebentures,suchredemptionissaidtobeoutofprofits.Itreducestheprofitsavailablefordividend.Thefollowingentryispassedfortransferofprofit

P&LAppropriationA/c Dr
ToDebentureRedemptionReserveA/c

AsperguidelinesofSEBI,creationofDRR(50%ofamountofdebenturesissued)is compulsoryfordebentureswithmaturityperiodofmorethan18months.Onthecompletion of redemption of all debentures, the DRR A/c is close by transferring it togeneralreserve.Theentryisasfollows

DebentureRedemptionReserveA/c
D
rToGeneralReserveA/c

Illustration18

AbinLtdissued12000debenturesofRs.100eachon1October2010inthetermsofredemption that1/3ofdebenturesareredeemableeverysixmonths.Journalizethetransaction.

Solution:

2010 Oct1	BankA/c Dr To8%DebenturesA/c (issueof12000,8%debentures)		1200000	1200000
2011 Mar 31	P&LAppropriationA/c Dr ToDebentureRedemptionReserveA/c(Transfer of amount for debentureredemption)		400000	400000
	8%DebenturesA/c Dr ToDebentureholdersA/c (amountduetodebentureholders)		400000	400000
	DebentureholdersA/c Dr ToBankA/c (paymenttodebentureholders)		400000	400000
2011 Sep 30	8%DebenturesA/c Dr To Debenture holders A/c(amountduetodebentureholders)		400000	400000
	DebentureholdersA/c Dr ToBankA/c (paymenttodebentureholders)		400000	400000
	P&LAppropriationA/c			

2012 Mar 31	Dr ToDebentureRedemptionReserveA/c (Transferofamountfordebenture redemption)		800000	800000
	8%DebenturesA/c Dr To Debenture holders A/c(amountduetodebentureholders)		400000	
	DebentureholdersA/c Dr ToBankA/c (paymenttodebentureholders)		400000	400000
	DebentureRedemptionReserveA/cTo Dr GeneralReserveA/c (transferofDRRtoGRafterredemption)		1200000	400000 1200000

Note:AmountequaltothevalueofdebenturesredeemedistransferredfromP&LAppropriationA/ctoDRRA/c

2.

RedemptionbySinkingFund

Under this method of redemption, every year a part of the profit (fixed amount) is set asideandsinkingfund(DebentureRedemptionFund)iscreated.SinkingfundIinvestedinoutsidesecurities. The interest received o such investments along with the amount set aside fromprofit will again be invested as usual. It continues till the date of redemption of debenture.The investment will be sold and the cash thus realized will b used to repay the debentures.Under this method, sinking fund A/c (Debenture Redemption Fund A/c) and sinking fundinvestment A/c (Debenture Redemption Fund Investment A/c) will be opened. After theredemption, balance of sinking fund A/c is transferred to general reserve. The followingentriesarerequiredunderthismethod.

Attheendoffirstyear:

i. Fortheamountsetasideeveryyear

P&LAppropriationA/c Dr

ToSinkingFundA/c

ii. Forinvestmentofsinkingfund

SinkingFundInvestmentA/c

D

rToBankA/c

Attheendofsecondandsubsequentyears:

i. Forinterestreceivedoninvestment

BankA/c Dr

ToInterestonSinkingFundInvestmentA/c

ii. Fortransferringinteresttosinkingfund

InterestonSinkingFundInvestmentA/c

D

rToSinking FundA/c

iii. Forannualamountsetaside

P&LAppropriationA/c Dr

ToSinkingFundA/c

iv. ForinvestmentofannualinstallmentandinterestSinkingFundInvestmentA/c Dr

ToBankA/c

Attheendoflastyear:

Alltheentriesexceptentry(iv)insecondandsubsequentyearshouldbepassed.

i. For amount realized on sale of investmentBankA/c Dr

ToSinkingFundInvestmentA/c

ii. Forprofitonsaleofinvestment

SinkingFundInvestmentA/c

D

rToSinkingFundA/c

(Note:iflosstheaboveentryisreversed)

iii. Foramountduetodebentureholders

DebenturesA/c Dr

PremiumonredemptionA/c Dr(ifredemptionatpremium)

ToDebentureholdersA/c

iv. Foramountpaidtodebentureholders

DebentureholdersA/c Dr

ToBankA/c

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

ToGeneralReserveA/c

Illustration19

On 1 January 2007, Balu Ltd issued 1000, 6% debentures of Rs.100 each repayable at theend of 4 year at a premium of 10%. It is decided to create a sinking fund for the purpose; theinvestment is expected to yield 5% net. Sinking fund table shows that Re.0.232012 investedannuallyamountstoRe.1at5%in4years.Investmentsweremadeinmultiplesof100only.On31December2010,thebalanceatthebankwasRs.40000andtheinvestmentrealizedRs.82000.thedebentures were paid off.Give journal entries and show ledger accounts except for debentureinterest.

Solution:

Amountsannuallysetaside=(100000+10%premium)x0.232012=Rs.25521

2007 Jan1	BankA/c Dr			100000 10000	

	LossonissueofdebenturesA/c Dr To6%DebenturesA/c TopremiumonredemptionofdebenturesA/c (issueof1000,6%debenturesofRs.100each redeemableat10%premium)			100000 10000
Dec 31	P&LAppropriationA/c Dr ToSinkingFundA/c		25521	25521
	(Transferofprofittosinkingfund)		25500	25500
2008 Dec 31	SinkingFundInvestmentA/c Dr ToBankA/c (investmentmadetonearestmultipleof100)		1275	1275
	BankA/c Dr ToInterestonSinkingFundInvestmentA/c(interestreceived@5%oninvestment)		1275	1275
	InterestonSinkingFundInvestmentA/c Dr ToSinkingFundA/c (transferofinteresttosinkingfund)		25521	25521
	P&LAppropriationA/c Dr ToSinkingFundA/c (Transferofprofittosinkingfund)		26800	26800
	SinkingFundInvestmentA/c Dr ToBankA/c (investmentwithinterest25521+1275)		2615	2615
2009 Dec 31	BankA/c Dr ToInterestonSinkingFundInvestment A/c (interestreceived@5%oninvestment)		2615	2615
	InterestonSinkingFundInvestmentA/cDrToSinkingFundA/c (transferofinteresttosinkingfund)		25521	25521
	P&LAppropriationA/c Dr ToSinkingFundA/c (Transferofprofittosinkingfund)		28100	28100
	SinkingFundInvestmentA/c Dr ToBankA/c		4020	4020

	(investmentwithinterest25521+2615)			
	BankA/c Dr To Interest on SinkingFund InvestmentA/c(interestreceived@5%oninvestment)		4020	4020
2010 Dec 31	InterestonSinkingFundInvestmentA/c Dr ToSinkingFundA/c (transferofinteresttosinkingfund)		25521	25521
	P&LAppropriationA/c Dr ToSinkingFundA/c (Transferofprofittosinkingfund)		82000	82000
	BankA/c Dr ToSinkingFundInvestmentA/c (saleofinvestment)		1600	

	SinkingFundInvestmentA/c			1600
	Dr			
	ToSinking FundA/c		100000	
	(transferofprofitonsaleofinvestment)		10000	
	6%DebenturesA/c			
	DrPremi			110000
	umonredemptionofdebenturesA/cDr		110000	
	ToDebentureholdersA/c			110000
	(amountduetodebentureholders)			
	DebentureholdersA/c Dr			
	ToBankA/c		10000	
	(amountpaidtodebentureholders)			10000
	SinkingFundA/c Dr			
	TolossonissueofdebenturesA/c(re		101594	
	demptionprovidedoutofsinkingfund)			101594
	SinkingFundA/c Dr			
	ToGeneralReserveA/c			
	(transferofbalanceinsinkingfundA/ctoGR)			

6%DebenturesA/c

2007 Dec31	ToBalancec/d	100000	2007 Jan1	ByBank	100000
2008 Dec31	ToBalancec/d	100000	2008 Jan1	ByBalanceb/d	100000
2009 Dec31	ToBalancec/d	100000	2009 Jan1	ByBalanceb/d	100000
2010 Dec31	ToDebentureholders A/c	100000	2010 Jan1	ByBalanceb/d	100000

PremiumonRedemptionofdebenturesA/c

2007 Dec31	ToBalancec/d	10000	2007 Jan1	BylossonissueofdebenturesA/c	10000
2008 Dec31	ToBalancec/d	10000	2008 Jan1	ByBalanceb/d	10000
2009 Dec31	ToBalancec/d	10000	2009 Jan1	ByBalanceb/d	10000
2010 Dec31	ToDebentureholders A/c	10000	2010 Jan1	ByBalanceb/d	10000

DebentureholdersA/c

2010 Dec 31	ToBankA/c	110000	2010 Dec31	By6%Debentures A/c	100000
				Bypremiumon redemptionof debenturesA/c	10000
		110000			110000

SinkingFundA/c

2007 Dec 31	ToBalancec/d	25521	2007	ByP&LAppnA/c	25521
			Jan1	ByBalanceb/d	25521
				ByinterestonS.F.I	1275
	ToBalancec/d	52317		ByP&LAppnA/c	25521
		52317			52317
2008 Dec 31			2008 Jan1	ByBalanceb/d	52317
	ToBalancec/d	80453		ByinterestonS.F.I	2615
			Dec31	ByP&LAppnA/c	25521
		80453			80453
2009 Dec31	Tolossonissueofdebentures	10000	2009 Jan1	ByBalanceb/d	80453
				ByinterestonS.F.I	4020
	To general reserve(balancetransferred)	101594	Dec31	By P&L Appn A/c	25521
				By S.F.I(profit onsale)	1600
		111594			111594

SinkingFundInvestmentA/c

2007 Dec31	ToBank	25500	2007 Dec31	ByBalancec/d	25500
2008 Jan1	ToBalanceb/d	25500			
Dec31	ToBank	26800	2008 Dec31	ByBalancec/d	52300
		52300			52300
2009 Jan1	ToBalanceb/d	52300			
Dec31	ToBank	28100	2009 Dec31	ByBalancec/d	80400
		80400			80400
2010 Jan 1	ToBalanceb/d	80400			
Dec31	ToSinkingFundA/c(profit)	1600	2010 Dec31	ByBank	82000
		82000			82000

BankA/c

2010 Dec31	ToBalanceb/d	40000	2010 Dec31	ByDebentureholdersA/c	110000
	ToS.F.IA/c	82000		ByBalanceb/d	12000
		122000			122000

1. **RedemptionbyInsurancePolicy**

This is an alternative to sinking fund method. Under this method, an insurance policy ispurchased by paying annual premium. Such policy will mature on the date of redemption.Thismethodprovidesfundsforredemptionandcoverstheriskinvolvedinthetransactions.Underthis methodthefollowing entriesarepassed

Duringalltheyearstillthepolicymaturity:

i. Foramountofpremiumpaidatthebeginningoftheyear DebentureRedemptionPolicyA/c Dr
ToBankA/c

ii. Forsettingasidetheprofitattheendoftheyear
P&LAppropriationA/c Dr
To Debenture Redemption Fund A/c

Duringthelastyearinadditiontotheabovetwoentries

i. Forrealizingtheinsurancepolicy
BankA/c Dr
ToDebentureRedemptionPolicyA/c

ii. For the transfer of profit on realization DebentureRedemptionPolicyA/c Dr
ToDebentureRedemptionFundA/c
(Note:iflosstheentryisreversed)

iii. Foramountduetodebentureholders
DebenturesA/c Dr
PremiumonredemptionA/c Dr(ifredemptionatpremium)
ToDebentureholdersA/c

iv. Foramountpaidtodebentureholders
DebentureholdersA/c Dr
ToBankA/c

v. FortransferofbalanceinDebentureRedemptionFundA/c DebentureRedemptionFundA/c Dr
ToGeneralReserveA/c

Illustration20

Athul Ltd issued 1000, 6% debentures of Rs.100 each at par redeemable after 5 years atpremium of 10%. An insurance policy was taken at the time of issue of debentures on 1 April2006 for the amount in order to provide for the necessary funds required for the redemption.The annual premium paid at the beginning of every year Rs.18280. show the accounts forredemption.

Solution:

6%DebenturesA/c

2007 Mar31	ToBalancec/d	100000	2006 Apr1	ByBank(firstyear)	100000
2011 Mar31	ToDebentureholdersA/c	100000	2010 Apr1	ByBalanceb/d	100000

PremiumonredemptionofdebenturesA/c

2007 Mar31	ToBalancec/d	10000	2006 Apr1	Bylossonissueof debentures A/c	10000
2011 Mar31	ToDebentureholdersA/c	10000	2010 Apr1	ByBalanceb/d	10000

DebentureRedemptionFundA/c

2007 Mar31	ToBalancec/d	18280	2007 Mar31	ByP&LAppnA/c	18280
2008 Mar31	ToBalancec/d	36560	Apr1 2008 Mar31	By Balance b/d ByP&LAppn A/c	18280 18280
		36560			36560
2009 Mar31	ToBalancec/d	54840	2008 Apr1 2009 Mar31	By Balance b/d ByP&LAppn A/c	36560 18280
		54840			54840
2010 Dec31	ToBalancec/d	73120	2009 Apr1 2010 Mar31	By Balance b/d ByP&LAppnA/c	54840 18280
		73120			73120
2011 Mar31	Tolossonissueof debenturesA/c ToGeneralReserve	10000 100000	2010 Apr1 2011 Mar 31	By Balance b/d ByP&LAppnA/c ByDebenture RedemptionPolicy (profitonrealization–B.F)	73120 18280 18600
		110000			110000

DebentureRedemptionPolicyA/c(Investment)

2006 Apr1	ToBank	18280	2007 Mar 31	ByBalancec/d	18280
2007 Apr1	ToBalanceb/d ToBank	18280 18280	2008 Mar31	ByBalancec/d	36560
		36560			36560
2008 Apr1	ToBalanceb/d ToBank	36560 18280	2009 Mar 31	ByBalancec/d	54840
		54840			54840
2009 Apr 1	ToBalanceb/d ToBank	54840 18280	2010 Mar 31	ByBalancec/d	73120
		73120			
2010 Apr 1 2011 Mar31	ToBalanceb/d ToBank ToDeb.Red.Fund(profit-B.F)	73120 18280 18600	2011 Mar 31	ByBank (realizationofpolicy)	110000
		110000			110000

DebentureholdersA/c

2011 Mar31	ToBankA/c	110000	2011 Mar31	By6%Debentures A/c Bypremiumon redemptionof debenturesA/c	100000 10000
		110000			110000

1. **RedemptionbyConversion**

Sometimesthedebentureholdersofacompanyaregiventheoptiontoconverttheirdebentures into the shares or new debentures within a stipulated period. The new shares ordebenturescanbeissuedeitheratparoratpremiumoratdiscount.Thefollowingentrywill bemade forthepurpose.

OldDebenturesA/c Dr

Discountonissueofshares/debenturesA/cDr (ifissueatdiscount)

ToNewShareCapital/DebentureA/c
ToPremiumonissueofshares/debenturesA/c(ifissueatpremium)

Illustration22

On1April2009,FastLtdissued800,12%debenturesofRs.1000eachatRs.950each.Debentureholders had an option to convert their holdings into 6% preference shares of Rs.100 each at apremium of Rs.25 per share. On 31 March 2010, one year's interest had accrued on thesedebentureswhichwerenotpaid.Aholderof50debenturesnotifiedhisintentiontoconverthisholdinginto13%preferenceshares.JournalizethetransactionsandpreparetheBalancesheetas on31March2010.

BankA/c Dr DiscountonissueofdebenturesA/c Dr To12%DebenturesA/c (issueof800,12%debenturesofRs.1000each atRs.950)		760000 40000	800000
InterestondebenturesA/c Dr TosundrydebentureholdersA/c(interestdueondebentures)		96000	96000
12%DebenturesA/c Dr To13%PreferenceShareCapitalA/cTosecuritypremiumA/c (conversionof50debenturesto400,13%preferencesharesofRs.100eachata premiumofRs.25)		50000	40000 10000
SundrydebentureholdersA/cToBankA/c Dr (intereston50,12%debenturespaidon conversion)		6000	6000
P&LA/c Dr TointerestondebenturesA/c (interestondebenturestransferredtoP&LA/c)		96000	96000

Liabilities	Rs.	Assets	Rs.
Sharecapital: 40013%		Bank(760000-6000) Discountonissueof	754000 40000
preferenceshares ofRs.100each 75012%Debentures of	40000 750000 90000 10000	debentures P&LA/c	96000

	Rs.1000 eachSundrydeben tureholders Securitypremium	890000		890000

OwnDebentures

Thedirectorscanpurchasedebentureswhenevertheyfindthemarketpricefavorabletoth ecompany.Suchpurchaseddebenturescanbeeithercancelledbythecompanyormaybekepta s an investment called own debentures and may be utilized for reissue when neededafterwards.
Purchaseofowndebenturesaretobetreatedinaccountinthesamewayasanordinaryinvest ment.Theentrywillbe:

OwnDebenturesA/c Dr
(withpurchaseprice)ToBa
nkA/c

TheowndebenturesA/cwillappearontheassetssideofB/S(under“investments”)untilitiscan celledorreissued

Asandwhenthecompanywantstocancelinvestmentinowndebenturesthefollowingentry willbepassed

DebenturesA/c Dr (with face value)LossonredemptionofdebenturesA/c Dr
(forloss)
TaowndebenturesA/c
(withpurchasepric e)ToProfitonredemptionofdebenturesA/c(forprofit)

Fortransferofprofitonredemption:

ProfitonredemptionofdebenturesA/cDr
ToCapitalReserve

Illustration23

:AcompanypurchasedRs.30000,6%DebenturesofRs.100eachatRs.95eachforinvestment.After sixmonthsthedebentureswerecancelled.Showjournalentries.

Solution:

	OwnDebenturesA/c Dr ToBankA/c (300owndebenturespurchasedforinvest mentatRs.95)		28500	28500
	6%DebenturesA/c Dr ToowndebenturesA/c ToProfitonredemptionofd ebenturesA/c (cancellationofdebenturesheldas investment)		30000	28500 1500
	ProfitonredemptionofdebenturesA/c Dr ToCapitalReserve (transferofprofitonredemptiontoC.R)		1500	1500

PROFITPRIORTOINCORPORATION

Profit prior to incorporation is that profit which a company gets between the period ofdateofbuyinganddateofincorporation.Suppose,AcompanybuysXYZCompanyon1stJan.2010 and it has to incorporate at1st April2010. Then profit between1st Jan.2010 and1stApril2010 will be profit prior to incorporation. This profit cannot be used for paying dividend toshareholders. Because current shareholder’s capital is not involved for this profit, so this will becapitalized profit and it will be transferred to capital reserve account. If company gets loss priorto incorporation, itwillbetransferredto goodwillaccount.

s.no.	Natureof items	Basisofallocation	Examples
a.	Profit/ loss	Salesratio	Grossprofit,gross loss
b.	Fixedexpenses(incurred onthebasisof time)	Time ratio orweightedtimeratio	Printing stationery, rent, rates, salary,interest, insurance, depreciation,establishment,bankcharges,postage, auditfees*
c.	Variable expenses(connectedwithsales)	Salesratioorweightedsalesratio	Discountallowed,baddebts, commission, remuneration to sales man,advertisement, carriageoutward
d.	Variableexpenses(connected withpurchase)	Purchaseratio	Carriageinward
e.	Expenses of company(solely incurred by thecompany on afteritsincorporation)	Wholly to the postincorporationperiod.	Preliminary expenses, director's fees,debenture interest, directors salary,discount on debentures, good will returnoff donations givenby the companyaudit fees
f.	Expensesoffirm	Whollytothepre incorporation period.	Partner'ssalary,drawings.

ProfitPriortoIncorporation.

1.WeightedSales Ratio

Incorporationdateis 1.4.2007accounting period1.1.2007to 31.12.2007 the salesof thefirmwasdoubled intheafterincorporationperiod.FindWeightedSalesRatio?

1.1.2007   1.4.2007   31.12.2007

3:9

3:18=1:6

weightedsalesratio=1:6

2.A Company was incorporated on 1.5.1994 to take over a business from 1.1.1994.The accounts were made up to 31.12.1994. As usual and the trading profit and lossaccountthe followingresult.

Particulars	RS	Particulars	RS
Toopeningstock	1,40,000	Bysales	12,00,000

Topurchase To grossprofit	9,10,000 3,00,000	Byclosingstock	1,50,000
	13,50,000		13,50,000
To Rent&TaxesTo Director feesTo Salaries ToOfficeexpenses ToTravellingcommission TO Discount TO BaddebtsTo Auditfees ToDepreciation To Debenture InterestTo Net profit	18,000 20,000 51,000 48,000 12,000 15,000 3,000 8,500 6,000 4,500 1,14,00	ByGrossProfit	3,00,000
	3,00,000		3,00,000

It is ascertained sales for November and December are one and half time of theaverage of those for the year. While those for February and April are only half theaverage andallremaining monthhavingaveragesales.

Findtheprofitandpreandpostincorporationperiod.

1.1.1.1994 TO 1.5.1994 : 1.5.1994to 31.12.1994

4:8

Averagesales=12,00,000 /12 =1,00,

January-1,00,000
February–50,000
March – 1,00,000
April– 50,000
May–1,00,000
June– 1,00,000
July–1,00,000
August– 1,00,000
September–1,00,00
October –1,00,000
November –1,50,000
December –1,50,000

Preincorporationsales :

post3,00,000: 9,00,000

3:9

particulars		Preincorporation	Postincorporation	particulars	Basis	Preincorporation	Postincorporation

TosalariesTo debentureinte rest To DepreciationTo rent To directors feesTo officeexpensesT ravellerscommis sion To discountTo bad debtsTo audit feesTO CAPITALR ESERVE TONETPROFIT	T T T T S S S T	17000 - 2000 6000 - 16000 3000 3750 750 2833 23667	34000 4500 4000 12000 20000 32000 9000 11250 2250 5667 90333	Bygr osspr ofit	Sales	75,000	2,25,000
		75,000	2,25,000			75,000	2,25,000

UNDERWRITING

Whyisitcalledunderwriting?

Underwriting is the process through which an individual or institution takes on financialrisk for a fee. The term underwriter originated from the practice of having each risk-taker writetheirnameunderthetotalamountof risktheywerewillingtoacceptforaspecifiedpremium.

Underwriting

STATEMENT SHOWING LIABILITY OF UNDERWRITERS<u>GROSSLIABILITYBASIS</u>

Particular	No.ofshares
Grossliabilityofeachunderwriters	xxx
(-)unmarkedapplicationintheratioof gross liability	xxx
Balance left	xxx
(-)markedapplication	xxx
Netliabilityoftheunderwriter	xxx

FULLUNDERWRITIN G

1. A company issued 20000 shares of Rs.10 Each at per which were underwritten as followsX – 10000 shares Y – 6000 shares Z – 4000 shares application were received & 18000 shareswhich included marked application as follows X – 4000 shares ,Y – 2000 shares ,Z – 10000sharesPrepare a statement showing how many more shares underwriters will have to takeundertheunderwriting contract.

WORKINGS:

No.ofsharesissued 20000 Application received 18000
(-)applicationreceived 18000(-)marked application
16000(4000+2000+10000)2000Unmarkedapplication
2000

Statement showing liability of underwriters(Grossliability basis)

Particulars	X	Y	Z	Total
Grossliability	10000	6000	4000	20000
(-) unmarked applications(5:3:2) 10000:6000:4000	1000	600	400	2000
Balance left	9000	5400	3600	18000
(-)marked applications	4000	2000	10000	16000
	5000	3400	(-)6400	-
(-)excessofZshares (5:3)	4000	2400	6400	-
Netliabilityofunderwriters	1000	1000	-	2000

Firmunderwriting:

1. Vijayltdissued20,000shares whichwereunderwrittenasfollows:
X -12000Shares Y-5000 sharesand Z – 3000 shares.The underwriters made applications forhimunderwritingasX-1600 Shares Y-600 sharesand Z – 2000 shares.The totalsubscriptions excluding firm underwriting but including marked applications were for 10000shares.The markedapplicationswere asX-2000Shares Y-4000 sharesand Z – 1000 shares.You are required to showtheallocation ofliabilityoftheunderwriters.

Statement showing liability of underwritersGrossliability basis

Particulars	X	Y	Z	Total
Grossliability	12,000	5,000	3,000	20,000
Lessunmarkedapplication12:5:3B	1,800	750	450	3,000
alance	10,200	4,250	2,550	17,000
Lessmarked+firmunderwriting	3,600	4,600	3,000	11,200
	6,600	- 350	- 450	-
LessExcessofyand	800	350	450	-
ztoXNET LIABLITY	5,800	-	-	~~5,800~~
ADDFirmunderwriting	1,600	600	2,000	4,200
Totalliablity	**7,400**	**600**	**2,000**	**10,000**

Netliability
No.ofapplicationissued 20000
Lessapplicationreceived 14200

Netliability 5800
Firm 4200

Totalliability 10000
----

totalapplicationreceived 14200
lessmarkedand firm 11200
----
unmarkedapplication 3000
----

2. A company made a public issue of 125000 shares . The entire issue was undertaken byfourpartiesA 30 % , B25 % , C 25% ANDD 20%respectively.A,B,C,Dhas agreed on firmunderwriting of 4000, 6000, nil, 15000 respectively.The total subscriptions excluding firmunderwriting including marked application were for 90000 shares .marked applications receivedwereasunder A- 24000 , B-20000C- 12000D- 24000. Ascertain the liability of the individualunderwriters.

Netliability
received1,25,000No.ofapplicationissued
Lessapplicationreceived1,15,000
(90+25) -------
Netliability 10,000
Firm 25,000

Totalliability 35,000
----

total application 1,25,000
lessmarkedandfirm 1,15,000
----
unmarkedapplication 10,000

Statementshowingliabilityofunderwriters

Grossliabilitybasis

particulars	A	B	C	D	Total
Grossliability	37,500	31,25	31,25	25,000	1,25,00
Lessunmarkedapplication3	3,000	0	0	2,000	0
0:25:25:20	34,500	2,500	2,500	23,000	10,000
Lessmarkedapplication,firmu	28,000	28,75	28,75	39,000	1,15,00
nderwriting	6,500	0	0	-16,000	0
	6,000	26,00	12,00	16,000	1,05,00
Less excess D	500	0	0	-	0
	500	2,750	16,75	-	-
share30:25:25LessB	-	5,000	0	-	-
	4000	-2,250	5,000	15,000	-
share30:25		2,250	11,75		-
Netliability		-	0		~~10,000~~
Addfirmunderwriting		6,000	1,750		25,000
			10,00		
			0		
			-		
Totalliability	4000	6,000	10,00 0	15,000	35,000

3. K ltd has issued 25000 shares. A 15,000shares(firm underwriting 2500 shares)B 7500shares(firmunderwriting1000 shares)c2500shares(firmunderwriting500shares).Outofthe total issue 22,500 shares including firm underwriting were subscribed an 8000 shares B5000sharesc2000shares. Calculatetheliabilityofeachunderwriter.

Statement showing liability of underwritersGrossliability basis

Particulars	A	B	C	Total
Grossliability	15,000	7,500	2,500	25,000
Lessunmarkedapplication12:5:3B	2,100	1,050	350	3,500
alance	12,900	6,450	2,150	21,500
Lessmarked+firmunderwriting	10,500	6,000	2,500	11,900
	2,400	450	- 350	-
LessExcessofyand	233	117	350	-
ztoXNET LIABLITY	2,333	167	-	~~2,500~~
ADDFirmunderwriting	2,500	1,000	500	4,000
Totalliablity	**4,667**	**1,333**	**500**	**6,500**

Netliability **totalapplicationreceived22500**

No.ofapplicationissued 25000 **lessmarkedandfirm 19000**

Lessapplicationreceived 22500 **-----------**

------- Unmarkedapplication 3500

Netliability 2500 **----------**

Firm 4000

Totalliability 6,500

UNIT III
FINALACCOUNTSOFCOMPANIES

It is not obligatory to sole proprietors and partnership firms to prepare the final accountsas per the statute. But, according to Section 210 of Indian Companies Act 1956 it is a statutoryobligationtoajointstockcompanytoprepareitsfinalaccounts.Thefinalaccountsofa companyconsistof(a)BalanceSheetand(b)ProfitandLossAccount.

BalanceSheet

TheBalancesheetofcompaniesmustbepreparedaccordingtotheprescribedformgiven in Part I of Schedule VI of the Companies Act. As per the Companies Act, the Balance sheet ofcompaniescanbepreparedintwoforms–(i)HorizontalFormand(ii)VerticalForm.

VerticalForm

VerticalformofbalancesheetinsertsasPartBofPartIofScheduleVItotheCompaniesAct,1956byGSRNo.220(E)dated12-3-1979isasfollows:

VERTICALFORM

NameoftheCompany……………..
BalanceSheetat……………………..

	Schedule No.	Figures attheend ofcurrent financialyear	Figuresatthee nd ofprevious financialyear
1	2	3	4
I. SourcesofFunds			
(1) Shareholders’funds:			
(a) Capital			
(b) ReservesandSurplus			
(2) Loansfunds:			
(a) Securedloans			
(b) Unsecuredloans			
Total			
II. ApplicationofFunds			
(1) Fixedassets:			
(a) Grossblock			
(b) Less:depreciation			
(c) Netblock			
(d) Capitalwork-in-progress			
(2) Investments			
(3) Currentassets, loans andadvances			
(a) Inventories			

(b) Sundrydebtors (c) Cashandbankbalances (d) Othercurrentassets (e) LoansandadvancesL ess: Currentliabilities&Provisions (a) Currentliabilities (b) Provisions NetCurrentAssets (4)(a)Miscellaneousexpendituretothe extent not written off oradjusted (b)ProfitandLossAccount Total			

ProfitandLossAccount

In Companies Act, there is no specified format for preparation of Profit and Loss Accountof companies.It is not required to split the Profit and Loss Account into three sections (TradingAccount,ProfitandLossAccountandProfitandLossAppropriationAccount).Onlythe ProfitandLoss Account is prepared which cover items appearing in Trading Account and Profit and LossAppropriation Account. But it is desirable to split the Profit and Loss Account into three sectionsso that Gross profit, Net profit and Surplus carried to balance sheet may be ascertain\ed. Underthis Trading and Profit and Loss Account items are called as items 'above the line' and the Profitand Loss Appropriation Account items are called as items 'below the line'. The section of ProfitandLossAppropriationAccountispreparedinthefollowingmanner.

ToTransfertoReserves ToIncometaxfor previousyearnot providedfor ToInterimdividend ToProposeddividend ToCorporateDividend Tax ToSurplus(Bal.Fig) carriedtoBalanceSheet		ByLastYear'sBalanceb/d ByNetProfitfortheyearb/d ByAmountwithdrawnfrom GeneralReserveoranyOther Reserves ByProvisionsuchasincome taxprovisionnolonger required	

Thustheaccountshowingthedisposalofdivisibleprofitsiscalled ProfitandLossAppropriation Account. The credit balance of Profit and Loss Appropriation Account is shown onthe liability side of the Balance sheet under the head 'Reserves and Surplus'. Debit balance isshownontheassetssideofthebalancesheetunderthehead'Miscellaneousexpenditure'.

Illustration1

Fortheyearended31stDecember2011,theprofitofSunderLtd.beforechargingdepreciationonfixed assets and managerial commission amounted to Rs.300000. De3preciatio for the yearcharged Rs.60000 and a commission of 10% of profit(before charging such commission) waspayabletothemanager.

ThepaidupcapitalofthecompanyconsistedRs.1000000dividedinto5000,6%preferencesharesofRs.100eachand50000equitysharesofRs.10each.InterimdividendatRe.0.5pershare waspaidduringtheyear.TherewasacreditbalanceofRs.35000intheProfitandLossAccountbroughtfromthepreviousyear.Tefollowingproposalswaspassed:

a. Topaytheyear'sdividendonthepreferenceshares
b. TopayafinaldividendonequitysharesatRe.0.50persharetopmakeatotaldividendofRe.1per shareforthatyear.
c. Toprovidefortaxation@50%onthenetprofit
d. TotransferRs.25000toGeneralReserve.
e. Tocarryforwardthebalance.

ShowtheProfitandLossAppropriationAccount.

Solution:

Netprofitbeforechargingdepreciationandmanagerialcommission	300000
LessDepreciation	60000
	240000
LessManagerialcommission(10%)	24000
	216000
LessProvisionfortaxation(50%)	108000
	108000

ProfitandLossAppropriationAccount

ToTransfertoGeneral Reserves	25000	ByLastYear'sBalanceb/d	35000
ToInterimdividendpaid onequityshares (50000x.50)	25000	ByNetProfitfortheyearb/d	108000
ToPreferencedividend (500000x6%)	30000		
Tofinaldividendpaidon equityshares(50000x.50)	25000		
ToSurplus(Bal.Fig) carriedtoBalanceSheet	38000		
	143000		143000

DifferencebetweenReservesandProvisions

Reserves	Provisions
1. Itisanappropriationofprofit.Henceit is debited to Profit and LossAppropriationAccount 2. Itneedsnotbecreatedwhenprofitsar einadequate. 3. Itisshownontheliabilitysideofbal ance sheet under the head'ReservesandSurplus'. 4. Itcanbeutilizedfordistributionofdi vidend.	1. It is a charge against profit.HenceitisdebitedtoProfit andLossAccount 2. Itmustbemadeirrespectiveofw hetherprofitorloss. 3. It is usually shown by way ofdeduction from the amount oftheitemforwhichitiscreated. 4. It cannot be utilized fordistributionofdividen d.

Provisionfortaxation

Income tax is payable in the assessment year on the income earned during the previousyear.Acompanywillestimatethetaxpayableforthecurrentaccountingperiodandon thisbasisitwillmakeprovisionfortaxation.ProvisionfortaxationisdebitedtoProfitandlossAccountanditwillappearontheliabilitysideofbalancesheetunderthehead'Provisions'.Whenassessmentcompleted, the provision for tax will be adjusted. If the assessed tax is more than the provisionmade in the previous year, the excess has to be shown on the debit side of Profit and LossAppropriationAccount.Iftheassessedtaxislessthantheopeningprovision,suchexcessprovisionshouldbecreditedtotheProfitandLossAppropriationAccount.

Dividend

Thedivisibleprofit(profitavailabletoshareholders)ofacompanyisdistributedamongtheshareholders of the company on the basis of number of shares held. This is called dividend. TheBoard of Directors recommends the amount of dividend and the shareholders in their annualgeneralmeetingdeclarethedividendrecommendedbytheBoardofDirectors.Dividendisusuallypaidon paidupcapital.

Proposeddividend

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

Interimdividend

Interim dividend refers to the dividend paid by the company before the preparation offinalaccounts.Itisdeclaredbetweentwoannualgeneralmeetings.

Finaldividend

It is the dividend which is proposed and declared at the end of the accounting year afterthecloseofthebooks ofaccount.

Unclaimeddividend

Itreferstothedividendnotyetclaimedbytheshareholderswithin30daysofdeclaration ofdividend.Itisshownasacurrentliabilityinthebalancesheet.

CorporateDividendTax(CDT)

Thecompaniesdistributingdividendarerequiredtopaytaxonsuchdividends.Itiscalled Corporate Dividend Tax (CDT). CDT is payable on any amount declared, distributed or paid by acompany as dividend. At present, the rate of CDT is 16.995 %(17%). Corporate Dividend Tax isshown on the debit side of Profit and Loss Appropriation Account and on the liability side ofBalancesheetunderthehead'CurrentliabilitiesandProvisions'(Provisions).

TransfertoReserves

Generally, Board of Directors has the discretionary power regarding the transfer of profitto the reserve. However, as per Section 205(2A) of the Act, it is compulsory for a company totransfercertainminimumamounttothereserveataratenotexceeding10%.Amountoftran sfertoreservedependsontherateatwhichdividendistobedeclaredasfollows:

i. If the dividend proposed exceeds 10% but not exceed 12.5% of the paid up capital, theamounttobetransferredtothereserveshallnotbelessthan2.5%ofthecurrentprofits.
ii. Ifthedividendproposedexceeds12.5%butnotexceed15%ofthepaidupcapital,theamoun ttobetransferredtothereserveshallnotbelessthan5%ofthecurrentprofits.
iii. If the dividend proposed exceeds 15% but not exceed 20% of the paid up capital, theamounttobetransferredtothereserveshallnotbelessthan7.5%ofthecurrentprofits.
iv. Ifthedividendproposedexceeds20%ofthepaidupcapital,theamounttobetransferredtother eserveshallnotbelessthan10%ofthecurrentprofits.

Illustration2

ThefollowingisthetrialbalanceoftheGoodHopeLtd.ason31st December2011.

DebtorsandCreditors	250000	200000
PurchasesandSales	647000	983500
Returns	4700	3500
FixedAssetsatcost	1597900	
Promotionexpenses	13520	
Sharecapital(Rs.100pershare)		1250000
Sinkingfund		250000
Reservefund		47600
BaddebtReserve		10000
Cash	17750	
Manufacturingexpenses	21000	
Wages	75000	
Unclaimeddividends		1700
Interestoninvestments		11400
Depreciation	70000	
Administrativeexpenses	34680	

4%Debentures		300000
Interestondebentures	6000	
Salesexpenses	8000	
Baddebts	3400	
Depreciationfund		202400
Billspayable		9300
ProfitandLossAccount		10600
Investments	350000	
Sundryexpenses	1050	
Stockon1st January2011	130000	
Goodwillatcost	50000	
	3280000	3280000

Adjustments:

a. ClosingstockamountedtoRs.137000
b. Maintainthereservefordebtors@5%
c. Writeoffpreliminaryexpenses.
d. AddRs.10000tosinkingfund
e. Providefordebentureinterest.

Solution:

GoodHopeLtd

ProfitandLossAccount
Fortheyearended31st December2011

ToOpeningstock	130000	BySales 983500	
ToPurchases 647000		less:Returns	978800
Less:Returns 3500	643500	4700B	137000
ToManufacturingexpenses	21000	yClosingstock	
ToWages	75000		
ToGrossProfitc/d	246300		
	1115800		1115800
ToPreliminaryexpensesTo	13520	ByGrossprofitb/d	246300
Depreciation	70000	ByInterestoninvestment	11400
To Administrative expense	34680		
Interestondebentures 6000 Add:Outstanding 6000	12000		
ToSalesexpense	8000		
ToBaddebt 3400 Add:Newprovision 12500 15900 Less:OldProvision 10000	5900		
ToSundryexpenses	1050		
ToNetprofitc/d	112550		
	257700		257700
ToTransfertosinkingfund	10000	ByLastyearbalanceb/d	10600
ToSurpluscarriedtoB/S	113150	ByProfitfortheyear	112550
	123150		123150

GoodHopeLtd.BalanceSheetAson31stDecember2011

ShareCapital		*Fixed*	
12500sharesofRs.100each	1250000	*Assets*Fixedass	1597900
Reserves&Surplus		etsGoodwill	50000
Sinkingfund 250000		*InvestmentsCurr*	350000
Add:Additions	260000	*entAssets*	
10000	47600	Sundry	
Reservefund	202400	Debtors250000Less:Provis	237500
Depreciationfund	113150	ion	17750
P&LA/c		12500	137000
SecuredLoan	300000	Cash	Nil
4%Debentures	Nil	Closingstock	
Unsecuredloan		*MiscellaneousExpenditure*	
*Currentliabilities&Provisions*S	200000		
undry	1700		
creditorsUnclaimeddivide	9300		
nd	6000		
BillsPayable			
Debentureinterestoutstanding	2390150		2390150

Illustration3

FollowingisthetrialbalanceofStandardLtdason31stMarch2011:

Stockon31stMarch2010	75000	
Sales		350000
Purchases	245000	
Wages	50000	
Discount		5000
Furnitureandfittings	17000	
Salaries	7500	
Rent	4950	
Sundryexpenses	7050	
ProfitandlossappropriationAccounton31stMarch2010		15030
Dividendpaid	9000	
Sharecapital		100000
Debtorsandcreditors	37500	17500
Plantandmachinery	29000	
Cashandbank	16200	
Reserve		15500
Patentandtrademark	4830	
	503030	503030

PrepareProfitandlossaccountfortheyearended31stMarch2011andbalancesheetas onthatdateaftertakingintoconsiderationthefollowingadjustments:

a. Stockon31stMarch2011wasvaluedatRs.82000
b. Depreciationonfixedassets@10%
c. Makeaprovisionforincometax@50%
d. Providecorporatedividendtax@10

Solution:

Standard
LtdProfitandLossAcco
unt
Fortheyearended31stMarch2011

ToOpeningstock	75000	BySales	350000
ToPurchases	245000	ByClosingstock	82000
ToWages	50000		
ToGrossprofitc/d	62000		
	432000		432000
	7500		
ToSalaries	4950	ByGrossprofitb/d	62000
ToRent	7050	ByDiscount	5000
ToSundryexpenses			
ToDepreciationon			
plantandmachinery	2900		
patentsandtrademark	483		
furnitureandfittings	1700		
ToprovisionforIncometax	21209		
ToNetProfitc/d	21208		
	67000		67000
			15030
ToDividendpaid	9000	ByBalanceb/d	21208
ToCorporatedividendtax (10%ofdividend9000)	900	ByNetProfitforcurrentyear	
ToBalancec/d(Surplus carriedtoBalancesheet)	26338		
	36238		36238

BalanceSheetofstandardLtd
Ason31stMarch2011

Liabilities	Rs.	Assets	Rs.
ShareCapital	100000	*Fixedassets:*	
Reserves&Surplus:		Plantandmachinery29000	
Reserve	15500	LessDepreciation 2900	26100
ProfitandlossAccount	26338	Furnitureandfittngs17000	
Current liabilities and provisions:		LessDepreciation 1700	15300
		Patentsandtrademark4830	
Creditors	17500	LessDepreciation 483	4347
Provisionfortaxation	21209	*Currentassets:*	
Corporatedividendtax	900	Stock	82000
		Debtors	37500
		Cashatbank	16200
	181447		181447

Illustration4

Prepare the final accounts of JanakiLtd.for the year ended 31st March 2011 and the Balancesheetasonthatdate.Thebalancesinthebooksafterclosingthetradingaccountaregivenbelow:

Equitysharecapital(Authorizedandsubscribedin sharesofRs.100each)		400000
8%PreferenceShareCapital(Authorizedand subscribedinsharesofRs.100each)		200000
Plantatcost	300000	
Landandbuildingatcost	500000	
Depreciationupto31stMarch2010:		
Onplant		100000
Onlandandbuilding		150000
Dividendequalizationreserve		10000
Investmentinshares	200000	
Stock	70000	
Cashatbank	60000	
Debtors	50000	
ProfitandlossAccounton1stApril2010		25000
Creditors		30000
Incometaxdeductedatsourceondividend	2200	
Establishment expenses	15000	
Rentsandtaxes	6000	
Auditfee(includingRs.1000paidforotherservices)	2500	
Managing Director's minimum remuneration	12000	
Director'sfees	2000	
Sundryexpenses	6000	
Dividend(Gross)		10000
Miscellaneousreceipts		2300
TradingAccountBalance		304400
Incometaxforpreviousyearnotprovidedfor	6000	
	1231700	1231700

1. Depreciationistobechargedonthewrittendownvalueofplant@10%andlandandbuilding@5%.
2. Thedirectorsproposetorecommendadividendof15%onequityshares.
3. Provisionfortaxationistobemade@55%.
4. ThemanagingdirectorisentitledtoS5%ofthenetprofitssubjecttoaminimumofRs.12000perannum.
5. AsumofRs.15000istobetransferredtoDividendequalizationreserve.

Providecorporatedividendtax@10%.

Solution:

JanakiLtd
ProfitandLossAccount
Fortheyearended31st March2011

ToEstablishmentexpenses	15000	ByGrossprofitb/d	304400
ToRentandtaxes	6000	ByDividend	10000
ToauditorsFee:		ByMiscellaneousreceipts	2300
Auditfee 1500			
Otherservices 1000	2500		
ToDirector'sfees	2000		
ToSundryexpenses	6000		
ToDepreciation:			
Plant(200000x10%)	20000		
Land&building (350000x5%)	17500		
ToMD'sremuneration@5%	12385		
ToProvisionfortaxation (235315x55%)	129423		
ToNetProfitc/d	105892		
	316700		316700
ToProposeddividend:			
8%onpreferenceshare capital	16000	ByBalanceb/d	25000
		ByNetProfitb/d	105892
15%onequityshare capital	60000		
ToCorporateDividendTax (10%onproposeddividend)	7600		
Totransfertodividend EqualizationReserve	15000		
Toincometaxforprevious yearnotprovidedfor	6000		
TosurpluscarriedtoB/S	26292		
	130892		130892

BalanceSheetofJanakiLt
dAson31st March2011

Liabilities	Rs.	Assets	Rs.
ShareCapital		*Fixedassets:*	
Authorized,Subscribed and PaidupCapital:		Land&Building 500000	
		Less:Depreciation 167500	332500
4000 Equity shares of Rs.100eachfullypaidup.	400000	Plant 300000	
		LessDepreciation 120000	180000
2000Preferencesharesof Rs.100eachfullypaidup	200000	*Investments*inshares	200000
		Currentassets,Loansand	

*Reserves & Surplus:*Dividend EqualizationReserve(01.04.10)10000 Providedforyear 15000Profit and loss Account*Current liabilities and provisions:* A. CurrentLiabilities: Creditors MD's remunerationpayable(12385-12000) B. Provisions:Provision for taxationProposed DividendCorporatedividendtax	25000 26292 30000 385 129423 76000 7600	*Advances:* *A. Currentassets* StockDebtor sCashatbank *B. LoansandAdvances:* Incometax deducted atsource	70000 50000 60000 2200
	894700		894700

Exercise:

1. AmulyaLtd.wasregisteredwithanauthorizedcapitalofRs.3000000inequitysharesofRS.10each.FollowingisthelistofbalancestakenfromitsbooksOn31st March2011:

Purchases	925000	Generalexpenses	84175
Wages	424325	Stockon1st April2010	375000
Manufacturingexpenses	65575	Goodwill	100000
Salaries	70000	Cashinhand	28750
Baddebts	10550	Cashatbank	199500
Directors'fee	31125	Subscribedandfullypaid capital	2000000
Debentureinterestpaid	45000		
Preliminaryexpenses	25000	Profitandlossaccount(cr.)	72500
Callsinarrears	37500	6%debentures	1500000
Plantandmachinery	1500000	Sundrycreditors	290000
Premises	1650000	Billspayable	167500
Interimdividendpaid	187500	Sales	2075000
Furnitureandfixtures	35000	Generalreserve	125000
Sundrydebtors	436000		

PrepareProfitandLossAccountfortheyearended31st March2011andtheBalancesheet asonthatdateaftermakingthefollowingadjustments:

a. Depreciateplantandmachineryby10%.
b. Providehalfyear'sinterestondebentures.
c. WriteoffRs.2500frompreliminaryexpenses.
d. MaketheprovisionforbadanddoubtfuldebtsRs.4250onsundrydebtors.
e. Stockon31st March2011wasRs.455000.
f. IgnoreCorporateDividendTax.

Ans:(GrossprofitRs.740100,NetprofitRs.297500,SurpluscarriedtobalancesheetRs.182500

UNIT –IV Valuation of Goodwill & Shares

AccordingtoKohler"Goodwillisthecurrentvalueofexpectedfutureincomeinexcess ofnormalreturnoninvestmentinnettangibleassets"

Differentmethodsofvaluationofgoodwill:-

1. Years'PurchaseofAverageProfitMethod:

Under this method, average profit of the last few years is multiplied by one or morenumber of years in order to ascertain the value of goodwill of the firm. It is also called PurchaseofPastProfitMethodorAverage ProfitBasisMethod.

AverageProfit= $\frac{TotalProfitsforalltheyears}{Numberofyears}$

ValueofGoodwill= Average ProfitxYears'Purchase

2. Years'PurchaseofWeightedAverageMethod:

This method is the modified version of Years' Purchase of Average Profit Method. Underthis method, each and every year's profit should be multiplied by the respective number ofweights, e.g. 1, 2, 3 etc., in order to find out the value of product which is again to be divided bythetotalnumberofweightsforascertainingtheweightedaverageprofit.Therefore,theweighted average profit is multiplied by the years' purchase in order to ascertain the value ofgoodwill.Thismethodisparticularlyapplicablewherethetrend ofprofitisrising.

WeightedAverageProfit= $\frac{TotalProfitsforalltheyears}{Numberofyears}$

Value of Goodwill = Weighted Average Profit x Years Purchase

1. Capitalisation Method:

Under this method, the value of the entire business is determined on the basis of normal profit. Goodwill is taken as the difference between the Value of the Business minus Net Tangible Assets.

Under this method, the following steps should be taken into consideration for ascertaining the amount of goodwill:

(i) Expected Average Net Profit should be ascertained;
(ii) Capitalized value of profit is to be calculated on the basis of normal rate of return;
(iii) Net Tangible Assets (i.e. Total Tangible Assets – Current Liabilities) should also be calculated;
(iv) To deduct (iii) from (ii) in order to ascertain the value of Goodwill.

Capitalized Value of Profit = Profit (Adjusted)/Normal Rate of Return x 100 Value of Goodwill = Capitalized Value of Profit – Net Tangible Assets

3. AnnuityMethod:

Underthismethod,Super-profit(excessofactualprofitovernormalprofit)isbeingconsideredasthevalueofannuityoveracertain numberofyearsand,forthispurpose,

compoundinterestiscalculatedatacertainrespectivepercentage.Thepresentvalueofthesaid annuitywillbethevalueofgoodwill.

Value of

Goodwill,V=

$$\frac{a}{i}\left(1-\frac{1}{(1+i)^n}\right)$$

Where
V = Present value of Annuitya= AnnualSuperProfit
n = Number of YearsI= RateofInterest

4. Super-ProfitMethod:

Super-profitrepresentsthedifferencebetweentheaverageprofitearnedbythebusiness and the normal profit (on the basis of normal rate of return for representative firms inthe industry) i.e.,the firm’santicipatedexcessearnings.Assuch,ifthereis no anticipatedexcessearningovernormalearnings,therewillbenogoodwill.

Super-Profit = Average Profit (Adjusted) – Normal ProfitValueofGoodwill=Super-ProfitxYears’Purchase

5. CapitalisationofSuper-ProfitMethod:

Underthemethod,toconsidersuper-profitinplaceofordinaryprofitagainstthenormalrateofreturn. Thesameiscalculated as:

$$Value\ of\ Goodwill = \frac{Super - profit}{Normal\ Rates\ of\ Returns} \times 100$$

ValueofGoodwill=Super-Profit/Normal RatesofReturnsx100

6. SlidingScaleValuationMethod:

Under this method, the distribution of profit which is related to super-profit may vary from yearto year. In other words, in order to find out the value of goodwill, sliding scale valuation may beconsidered relatingtosuper-profitsofanenterprise.

FactorsAffectingtheValueofGoodwill

1. LocationalFactor:

If the firm is centrally located or located in a very prominent place, it can attract, morecustomers resulting in an increase in turnover. Therefore, locational factor should always beconsideredwhileascertainingthe valueofgoodwill.

2. TimeFactor:

Timedimensionisanotherfactorwhichinfluencesthevalueofgoodwill.Thecomparatively old firm will enjoy more commercial reputation than the other one since the oldone is better known to its customers although both of them may have the samelocationadvantages.

3. NatureofBusiness:

Thisisanother factorwhich alsoinfluencesthevalueofgoodwillwhichincludes:
(i) Thenatureofgoods;
(ii) Riskinvolved;
(iii) Monopolisticnatureofbusiness;

(iv) BenefitsofpatentsandTrademarks;and
(v) Easyaccessofrawmaterials,etc.

4. CapitalRequired:

More buyers may be interested to purchase a business which requires comparativelysmall amount of capital but rate of earning profit is high and, consequently, raise the value ofgoodwill. On the contrary, for a business which requires large amount, of capital but the rate ofearning profitiscomparativelyless, nobuyer will beinterestedtohavethebusiness and,hence,goodwillofthesaidfirmispulleddown.

5. TrendofProfit:

Value ofgoodwillmay alsobe affected due to thefluctuationin the amountof profit(i.e. on the basis of rate of return). If the trend of profit is always rising, no doubt value ofgoodwillwill behigh,andviceversa.

6. EfficiencyofManagement:

The efficient management may also help to increase the value of goodwill by increasingprofits through proper planned production, distribution and services. Therefore, in order toascertain the value of goodwill, it must be noted that such efficiency in management must notbe stopped.

7. OtherFactors:

(i) Conditionofthemoneymarket;
(ii) Possibilityofcompetition;
(iii) Governmentpolicy;and
(iv) Peaceandsecurityin thecountry.

1. Calculateamountofgoodwillonthebasisof3yearpurchaseofthelastyearsofaverageprofits.Theprofitsforthelast5yearsare4800,7200,10000,3000,and5000.

Solution
AverageProfit=TotalProfit/NumberOfYears
=4800+7200+10000+3000+5000/5
=Rs.6000
Goodwill=AverageProfitXNumber OfYearPurchases
= 6000x3=Rs.18000

2. Calculate the average profit of the last years. Capital employed Rs.50, 000.trading results,2002 profit- 12,200.2003 profits- 15,000. 2004 loss –Rs.2000. 2005 profit Rs.21,000 Market rateofinterestoninvestment8%.

Solution
AverageProfit=TotalProfit/NumberOfYears

=12200+15000+21000-2000/4=Rs.11,550

3. Goodwill is to be valued at 3 years purchase of 5 years average profits. The profits for the lastyears of the firm were 10, 000, and 15000,15000,20000,30000. The capital employed in thebusiness is Rs.1, 50,000 and normal rate of return is 10%. Calculate the value of goodwill on thebasisof4yearspurchaseofsuperprofit.

Solution

1. AverageProfit= TotalProfit/NumberOfYears
=10,000+15000+15000+20000+30000/5
=Rs.18,000

2. NormalProfit=CapitalEmployedNormalRateofReturn
=150000X10%=Rs.15,000

3. SuperProfit=AverageProfit-NormalProfit
=18000-15000=3000

4. Goodwill =SuperProfitXNumber ofYearPurchases
= 3200x3=9,600

4.FromthefollowingparticularsrelatingtothebusinessofMr.R.Computethevalueofgoodwill on the basis of 3 years purchase of super profits taking the average of last 4 years.Capital invested Rs.12, 000. Market value of return on investment is 12%. Rate of risk of returnon capital invested 3%. Managerial remuneration of the proprietor if employed elsewhere Rs.30,000p.a.tradingresultsareprofit60,000 , profit72,000,profit 8,000andprofit88,000.

Solution
1. AverageProfit= TotalProfit/NumberOfYears
=60000+72000+8000+88000/4=57000

Averageprofit	= 57,000
-managerialremuneration	= 30,000

Adjustedaverageprofit	= 27,000

2. NormalProfit=CapitalEmployedNormalRateofReturn
=120000X15%=18,000

3. SuperProfit=AverageProfit-NormalProfit
=27000-18000=9000

4. Goodwill=SuperProfitXNumberofYearPurchases
=9000x3=27000

5. from the following particulars find out the value of goodwill as per annuity method.
CapitalemployedRs.3,00,000.Normalrateof returnis10%.Present valueofRe.1forfiveyearsat 10% 3.78. Normal profit for five years 30,000,34,000,34000, 36,000 , 38,000. Non recurring income1,600andNonrecurringexpensesRs.1,600.

Solution
1. AverageProfit= TotalProfit/NumberOfYears

=30000+32000+34000+36000+38000/5

Averageprofit
=34,000A
dd nonrecurring
expenses=1000Less non recurring
income=1600Adjustedaveragepro
fit=33,400

2. NormalProfit=CapitalEmployedNormalRateOfReturn
=3,00,000X10%=30,000
3. SuperProfit=AverageProfit-NormalProfit
=33400-30000=3400

4. Goodwill=SuperProfitxAnnuitytablevalue
= 3400 x3.78= 12,852

6.Thenetprofitofacompanyafterprovidingtaxationforthepastfiveyearsare80,000,85,000 ,92,000,105000,and1,18,000.CapitalemployedRs.8, 00,000. Normalrateofreturnis10%oncapitalemployed.Calculatethevalueofgoodwillonthebasisof1.Fiveyears purchaseofsuperprofit method2.capitalisationofsuperprofitmethod.

Solution
1. AverageProfit= TotalProfit/NumberOfYears
=80000+85000+92000+105000+118000/5
= 96,000

2. NormalProfit=CapitalEmployedNormalRateOfReturn
=8,00,000X10%=80,000

3. SuperProfit=AverageProfit-NormalProfit
=96000-80000=16000

4. Yearpurchaseofsuperprofit=superprofitxno.ofyearofpurchase
=16000x5=80,000

5. Capitalisationofsuperprofit
Goodwill=superprofit/normalrateofreturnx100
=16000/10x100=1,60,000

7. The net profit of a company after providing taxation for the last 5 year are 40000, 42000,45000, 46000 and 47000. The capital employed in the business is Rs. 4, 00,000. On which areasonable return of 10% is expected. It is expected that the company will be able to maintainitssuperprofitforthenextfiveyears.

1. Calculategoodwillon5yearspurchase ofsuper profit

2. Calculategoodwillundercapitalizationmethod

3. Calculate goodwill under annuity methods of super profit taking the present value of annuityofonerupeefor5yearsat 10% interestas3.78.

Solution

1. AverageProfit=TotalProfit/NumberofYears
=40000+42000+45000+46000+47000/5
= 44,000
2. NormalProfit=CapitalEmployedNormalRateOfReturn

=4,00,000X10%=40,000

3. SuperProfit=AverageProfit-NormalProfit
=44000-40000=4000

4. 5yearpurchaseofsuperprofit=superprofitxno.Ofyearsofpurchase
=4000x5=Rs.20,000

5. Capitalisationofsuperprofit
Goodwill=superprofit/normalrateof returnx100
=4000/10x100=Rs.40,000

6. Annuitymethod=superprofitannuityvalue
= 4000x3.78=Rs.15,120

8.Thebalancesheet ofSLtd.ason30.6.1998wasasfollows.

Liabilities	Rs.	Assets	Rs.
10%preferencesharecapital	1,00,000	Goodwill	20,000
20,000equitysharesofRs.10		Fixedassets	3,60,000
each	2,00,000	Investment(5% government	40,000
Reserves(includingprovision		bonds)	
fortax20000)	2,00,000	Currentassets	2,00,000
9%debentures		Preliminaryexpenses	15,000
creditors	1,00,000		
	35,000		
	6,35,000		6,35,000

Theaverageprofitofthecompanyaftertaxis62000.Fixedassetsareundervaluedby10000.normal rate of return 10%. You are required to value the goodwill of the company at 4timesthesuperprofits.

Solution

1. Calculationofaveragecapitalemployed.

Particulars		Rs.
Assets		370000
Fixedassets360000+10000		200000
Currentassets		570000
Lessexternalliabilities		
Provisionfortax	20000	
9%debentures	100000	
Creditors	35000	155000
Capitalemployed		415000
Less½ofnetprofit60000x1/2		30000
		385000

2. Calculationofadjustedaverageprofit

Averageprofit =62000
Lessinterestreceivedfromnonbusinessinvestment =2000

(40000x5%)
Adjustedaverageprofit = 60000

3. NormalProfit=CapitalEmployedNormalRateofReturn
=3,85,000X10%=38,500

4. SuperProfit=AverageProfit-NormalProfit
=60000-38500=21500

5. Goodwill=superprofitxno.Ofyearsofpurchase
=21500x4=86000

Valuationofshares

DifferentmethodsofValuation ofshares

1. NetAssetMethod:

This is also known as Balance Sheet Method or Intrinsic Method or Break-up ValueMethod or Valuation of Equity basis or Asset Backing Method. Here the emphasis is on thesafety of investment as the investors always need safety for their investments. Under thismethod, net assets of the company are divided by the number of shares to arrive at the netasset valueofeachshare.

TotalValueofEquityshares=NetAssets–Preferencesharecapital

Valueofone Equityshare=NetAssets–Preferencesharecapital/NumberofEquityshares

2. YieldMethod:

Under the Net Asset Method, the weightage is given on the safety of the investment.One, who invests money on shares, always needs safety. Even if the return is low, safety isalways looked upon. At the same time under the yield method, the emphasis goes to the yieldthat an investor expects from his investment. The yield, here we mean, is the possible returnthat an investor gets out of his holdings—dividend, bonus shares, right issue. If the return ismore, the price of the share is also more. Under this method the valuation of shares is obtainedbycomparingtheexpectedrateofreturnwithnormal rateof return

ValuePerShare=Expected RateOfReturn/NormalRateOfReturnXpaidupvaluepershare

3. FairValueMethod:

There are some accountants who do not prefer to use Intrinsic Value or Yield Value forascertaining the correct value of shares. They however, prescribe the Fair Value Method whichis the mean of intrinsic value and Yield Value method and the same provides a better indicationaboutthevalueofsharesthantheothermethods.

FairValue=(IntrinsicValue+YieldValue)/2

1. From the following information, calculate value per equity share.2000,9%preferencesharesofRs.2,00,000
50,000 equity shares of Rs.10 each of Rs. 8 paid up Rs. 4, 00,000ExpectedprofitperyearbeforetaxRs.2,18,000
Rate oftax50%
Transfer to general reserve every year 20% of profitNormalrateofearning15%

Solution

Calculationofexpectedrate ofreturn

Particulars	Rs
Profitbeforetax Less tax 50%on 218000Profitbeforetax Lesstransfertogeneralreserve20%on109000 Lessdividendforpreferenceshareholders9%on200000	2,18,000 1,09,000 1,09,000 21,800 87,200 18,000
Profitavailabletoshareholders	69,200

Expectedrateof return=profitavailable/paidupcapitalx100
=69200/400000x100=17.3

Valuepershare= Expected rateofreturn/normalrateofreturn xpaidupvalueper share
=17.3/15x8=9.22

2. Balancesheetof XLtdason31.3.2013

Liabilities	Rs.	Assets	Rs.
6%preferencesharesofRs. 100each	50,000	Goodwill Machinery	10,000 1,00,000
2000equitysharesofRs.100 each	2,00,000	Stock Debtors	30,000 60,000
Reservefund	50,000	Cash	1,00,000
P/la/c	20,000	Preliminaryexpenses	40,000
Debentures	12,000		
Creditors	8,000		
	3,40,000		3,40,000

Depreciate machinery by Rs.25, 000. Average profits for the last five years Rs.15,000. Goodwillshould be calculated on the basis of 3 years purchase of average profit of last five years.Calculatethevalueof equity shares onthebasisofnet assetmethod.

Solution

Particulars		Rs.
Assets		
Goodwill15000x3		45000
Machinery100000-25000		75000
Stock		30000
Debtors		60000
Cash		100000
		310000
Lessexternalliabilitiesdebentures	12000	
Creditors	8000	20000
		290000
Lesspreferentialsharecapital		50000
Amountavailabletoequityshareholders		240000

Valuepershare= Assetsavailabletoequityshareholder/numberofequityshares
=24000/2000=120

3.On31.12.2002thebalance sheetofacompanyisgivenbelow

Liabilities	Rs.	Assets	Rs.
Issued capital Rs.10 eachReserve P/La/c 5% DebenturesCurre ntliabilities	4,00,000 90,000 20,000 1,00,000 1,30,000	GoodwillFixe d assetsCurrenta ssets	40,000 5,00,000 2,00,000
	7,40,000		7,40,000

On 31.12.2002 the fixed assets were valued at Rs.3, 50,000 and the goodwill at Rs.50,000. Thenet profits for three years were 51600, 52000 and 51650.of which 20% was transferred toreserve. The return on investment expected is 10%.compute the value per equity shares under1.Netassetmethod2.Yieldmethod.

Solution

1. Netassetsmethod

Particulars		Rs.
Assets		
Goodwill		50000
Fixedassets		350000
Current assists		200000
		600000
Less:Liabilitiesdebentures	100000	
Creditors	130000	230000
Amountavailabletoequity shareholders		370000

Noofequityshares=totalvalueofshares/facevaluepershare
=400000/10=40000
Valuepershare=assetsavailabletoequityshareholder/number ofequityshares
=370000/40000=9.25

2. Yieldmethod.

Average Profit=51600+52000+51650/3=
51750Less Transfer To Reserve 20%On
51750=10350Profit
AvailableToShareHolders=41400
ExpectedRateofReturn=ProfitAvailableToShareholders/PaidUpCapitalX100
=41400/400000x100=10.35
ValueperShare=Expected Rate of Return/NormalRateofReturnXpaidupvaluepershare
=10.35/10x10=10.35

4. Thebalancesheet ofBltdason31.3.2005 isgivenbelow

Liabilities	Rs.	Assets	Rs.
4000,10%preferenceshares of 100each 60,000equitysharesof10	400000 600000	Sundryassetsatbookvalue	1200000

each Bills payableCred itors	50000 150000		
	1200000		1200000

The market value of 60% of the assets is estimated to be 15% more than the book value andthat ofthe remaining40%at10%less thanbookvalue.
There is an unrecorded liability of Rs.10, 000 Find out the value of equity shares on the basis ofthe assumption that preference shareholder have no prior claim as to payment of dividend orrepaymentofcapital.

Solution
Sundryassets60%of12,00,000=720000isincreased15%=108000(720000+108000=828000)
Sundryassets40%of12,00,000=4,80,00isdecreased10%=48,000(480000-48000=432000)

Particulars	Rs
Market value of assetsLess – bills payableCreditors Unrecordedliabilities	1260000 50000 150000 10000
Amountavailabletoequityshareholders	1050000

This amount is to be divided in the ratio of paid up capital400000:600000
Amount available to preference shareholders = 1050000x2/5=420000Valuepershare=420000/4000=105
Amount available to equity shareholders=1050000x3/5=630000Valuepershare=630000/6000 0=10.5

UNIT – V Accounting for Insurance Companies

Insurance is a contract whereby one party agrees for a consideration called premium toindemnifytheotheragainstapossiblelossortopayastatedsumofmoneyonthehappeningo faparticular event. This agreement or contract when put in writing is known as **policy**. The personwhoseriskiscoverediscalled**insuredorassured**andthecompanyorcorporationwhich insuresis known as **insurer, assurer or underwriter**. The consideration in return for which the insureragreestomakegoodthelossisknownas**premium**.

TypesofInsurance

Fromaccountingpointofview,theinsurancemaybedividedintotwoasfollows:

1. LifeInsurance

A life insurance contract is a long term contract in which the assured must pay thepremium at stated intervals and the insurer guarantee to pay a certain sum of money to theassuredonthehappeningoftheeventwhichiscertain(eitherdeathorexpiryofthefixedperiod).Section 2 of Indian Insurance Act 1938 defines life insurance as “life insurance business is thebusinessofeffectingcontractsuponhumanlife”.

2. GeneralInsurance

All insurance other than life insurance is general insurance. Under this type of insurance,the insurer undertakes to indemnify the loss suffered by the insured on happening of a certaineventinconsiderationforafixedpremium.Usuallyalltheseareshorttermagreementsforayear.Fire insurance, marine insurance, accident insurance, burglary insurance, third party insuranceetc.aretheexamplesforgeneralinsurance.

FINANCIALSTATEMENTSOFINSURANCECOMPANIES

InsuranceRegulatoryandDevelopmentAuthority(IRDA)hasissuedtheregulationsregardingthepreparationoffinancialstatements.

FinalAccountsofLifeInsuranceCompanies

Thefinalaccountsofalifeinsurancecompanyconsistof(a)RevenueAccount,(b)P&LA/cand (c)BalanceSheet.

RevenueAccount(FormA-RA)

RevenueAccountispreparedaspertheprovisionsofIRDAregulations2002andcomplieswiththerequirementsofScheduleAasfollows:

FORMA–RA

Nameoftheinsurer

RegistrationNo.andDateofRegistrationwiththeIRDA

RevenueAccountfortheyearended31st March,20….

Policyholders’Account(TechnicalAccount)

No.	Particulars	Schedule	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
	Premiumsearned–net (a) Premium (b) Reinsuranceceded (c) ReinsuranceacceptedI ncomefrominvestments (a) Interest,dividends&rent–Gross (b) Profitonsale/redemptionofinvestments (c) (Lossonsale/redemptionofinvestments) (d) Transfer/Gainonrevaluation/changeinfai rvalue* Otherincome(tobespecified)To tal(A) Commission Operating Expensesrelatedto insurance businessProvisionfordoubtfuldebts BaddebtswrittenoffPr ovisionfortax Provisions(otherthantaxation) (a) Fordiminutioninthevalueofinvestments(net) (b) Others (to bespecified)Total(B) Benefits Paid (Net)InterimBonuses paid Changeinvaluationofliabilityinrespectoflifepolicies (a) Gross** (b) AmountcededinReinsurance (c) AmountacceptedinReinsuranceT otal(C) Surplus(Deficit)(D)=(A)-(B)-(C)A ppropriations TransfertoShareholders'Account Transfer to Other Reserves (to be specified)BalancebeingFundsforFutureAppropri ationsTotal(D)	 1 2 3 4		

Notes
: *RepresentsthedeemedrealizedgainaspernormsspecifiedbytheAuthority.
**RepresentsMathematicalReservesafterallocationofbonus
Thetotalsurplusshallbedisclosedseparatelywiththefollowingdetails:

(a) Interimbonusespaid
(b) Allocationofbonustopolicyholders
(c) SurplusshownintheRevenueAccount
(d) TotalSurplus:[(a)+(b)+(c)]

ProfitAndLossAccount(FormA-PL)

TheP&LA/cispreparedtocalculatetheoverallprofitofthelifeinsurancebusiness.Theincomesorexpensesthatarenotrelatedtoanyparticularfundarerecordedinthe P&LA/c.

FORMA-PL

Nameoftheinsurer

RegistrationNo.andDateofRegistrationwiththeIRDA

ProfitandLossAccountfortheyearended31st March,20….

Shareholders'Account(Non-technicalAccount)

No.	Particulars	Schedule	CurrentYear (Rs.'000)	Previous Year (Rs.'000)
	Amountstransferredfrom/tothePolicyholdersAccount(TechnicalAccount)			
	Incomefrominvestments			
	(a) Interest,dividends&rent–Gross			
	(b) Profitonsale/redemptionofinvestments			
	(c) (Lossonsale/redemptionofinvestments)Otherincome(tobespecified)			
	Total(A)			
	Expensesotherthanthosedirectlyrelatedtotheinsurancebusiness			
	BaddebtswrittenoffProvisionfortax			
	Provisions(otherthantaxation)			
	(a) Fordiminutioninthevalueofinvestments(net)			
	(b) Provisionfordoubtfuldebts			
	(c) Others (tobespecified)Total(B)			
	Profit(Loss)beforetaxProvision for taxationAppropriations			
	(a) Balanceatthebeginningoftheyear			
	(b) Interimdividendspaidduringtheyear			
	(c) Proposedfinaldividend			
	(d) DividendDistributionTax			
	(e) TransfertoReserves/otheraccounts(tobespecified)			
	Profitcarried....................totheBalanceSheet			

NotestoFormA-RAandA-PL:

(a) PremiumincomereceivedfrombusinessconcludedinandoutsideIndiashallbeseparatelydisclosed.
(b) Reinsurance premiums whether on business ceded or accepted are to be brought intoaccountgross(i.e.,beforedeductingcommissions)undertheheadreinsurancepremiums
(c) Claimsincurred shall comprise claimspaid, specific claimssettlement costswhereverapplicableandchangeintheoutstandingprovisionsforclaimsattheyear-end.
(d) Items of expenses and income in excess of one percent of the total premiums (lessreinsurance)orRs.500000whicheverishigher,shallbeshownasaseparatelineitem.
(e) Feesandexpensesconnectedwithclaimsshallbeincludedinclaims.
(f) Underthesub-head“Others”shallbeincludeditemslikeforeignexchangegainsorlossesandotheritems.
(g) Interest, dividends and rentals receivable in connection with an investment should bestated at gross amount, the amount of income tax deducted at source being includedunder“advancetaxespaidandtaxesdeductedatsource”.
(h) Incomefromrentsshallincludeonlytherealizedrent.Itshallnotincludeanynotionalrent.

BalanceSheet(FormA-BS)

BalanceSheetofLifeInsuranceCompanyispreparedinverticalformat.TheformofBalance Sheet isasfollows:

FORMA-BS

Nameoftheinsurer

RegistrationNo.andDateofRegistrationwiththeIRDA

BalanceSheetasat31st March,20….

No.	Particulars	Schedule	CurrentYear (Rs.’000)	PreviousYear (Rs.’000)
	SourcesofFunds			
	Shareholders’Funds:			
	ShareCapital	5		
	ReservesandSurplus	6		
	Credit/[Debit]FairValueChangeAccount			
	Sub-Total			
	Borrowings	7		
	Policyholders’Funds:			
	Credit/[Debit]FairValueChangeAccount			
	PolicyLiabilities			
	InsuranceReserves			
	ProvisionforLinkedLiabilities			
	Sub-Total			
	FundsforFutureAppropriations			
	Total			

ApplicationofFundsI nvestmentsSharehol ders'Policyholders' AssetsheldtoCoverLinkedLiabilitiesLoans Fixed AssetsCurrentAss ets Cash and Bank BalancesAdvancesandOthe rAssets**Sub-Total(A)** CurrentLiabilities Provisions **Sub-Total(B)** NetCurrentAssets(C)=(A)-(B) MiscellaneousExpenditure(totheextentnotwritt enofforadjusted) DebitBalanceinProfitandLossAccount(Shareholders'A ccount) **Total**	8 8A 8B 9 10 11 12 13 14 15		

CONTINGENTLIABILITIES

No.	Particulars	Current Year (Rs.'000)	PreviousYear (Rs.'000)
1. 2. 3. 4. 5. 6. 7.	Partlypaid-upinvestments Claims,otherthanagainstpolicies,notacknowledgedas debtsbythecompany Underwritingcommitmentsoutstanding(inrespectof sharesandsecurities) Guaranteesgivenbyoronbehalfofthecompany Statutorydemands/liabilitiesindispute,notprovidedforReinsura nceobligationstotheextentnotprovidedforin accounts Others(tobespecified) Total		

SCHEDULESFORMINGPARTOFFINANCIALSTATEMEN TSSCHEDULE1-PREMIUM

No.	Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
1. 2. 3.	FirstYearPremiumsR enewalPremiumsSin glePremiums TotalPremium		

SCHEDULE2–COMMISSIONEXPENSES

Particulars	CurrentYear(Rs.'000)	Previous Year(Rs.'000)
Commissionpaid Direct-FirstYearPremiumsRenew alPremiumsSinglePremi ums Add:CommissiononRe-insuranceAcceptedLess: CommissiononRe-insuranceCeded NetCommission		

Note:Theprofit/commission,ifany,aretobecombinedwiththeRe-insuranceacceptedorRe-insuranc ecededfigures.

SCHEDULE3–OPERATINGEXPENSESRELATEDTOINSURANCEBUSINESS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14.	Employees' remuneration & welfare benefits Travel, conveyance and vehicle running expenses Trainingexpenses Rents, rates & taxes Repairs Printing & stationery Communication expenses Legal & Professional charges Medicalfees Auditors' fees, expenses etc (a) Asauditor (b) As adviserorinanyothercapacity,inrespectof: (i) Taxation matters (ii) Insurance matters (iii) Management services; and (c)Inanyothercapacity Advertisement and publicity Interest and bank chargesOthers(to be specified)Depreciation Total		

Note:Itemsofexpensesandincomeinexcessofonepercentofthetotalpremiums(lessreinsur ance)orRs.500000whicheverishigher,shallbeshownasaseparatelineitem.

SCHEDULE4–BENEFITSPAID[NET]

No.	Particulars	CurrentYear(Rs.'000)	Previous Year(Rs.'000)
1.	InsuranceClaims:		
	(a) ClaimsbyDeath		
	(b) ClaimsbyMaturity		
	(c) Annuities/Pensionpayment		
	(d) Otherbenefits,specify.(		
2.	Amountcededinreinsurance):		
	(a) ClaimsbyDeath		
	(b) ClaimsbyMaturity		
	(c) Annuities/Pensionpayment		
	(d) Otherbenefits,specify.A		
3.	mountacceptedinreinsurance:		
	(a) ClaimsbyDeath		
	(b) ClaimsbyMaturity		
	(c) Annuities/Pensionpayment		
	(d) Otherbenefits,specify.		
	Total		

Notes:(a)claimsincludespecificclaimssettlementcosts,whereverapplicable.

(b)Legalandotherfeesandexpensesshallalsoformpartoftheclaimscost,whereverapplicable.

SCHEDULE5–SHARECAPITAL

No.	Particulars	CurrentYear(Rs.'000)	Previous Year(Rs.'000)
1.	Authorisedcapital		
	EquitysharesofRs…..eachIssu		
2.	edCapital		
	EquitysharesofRs…..eachSub		
3.	scribedCapital		
	EquitysharesofRs…..eachCall		
4.	ed-upCapital		
	EquitysharesofRs…..eachLes		
	s:Callsunpaid		
	Add:Sharesforfeited(Amountoriginallypaidup)Less:		
	Par value of equity shares bought		
	backLess:PreliminaryExpenses		
	Expensesincludingcommissionorbrokerageonunderwritin		
	gorsubscriptionofshares		
	Total		

Notes:

(a) Particularsofthedifferentclassesofcapitalshouldbeseparatelystated.
(b) Theamountcapitalizedonaccountofissueofbonussharesshouldbedisclosed.
(c) Incaseanypartofthecapitalisheldbyaholdingcompany,thesameshouldbeseparatelydisclosed.

SCHEDULE5A–PATTERNOFSHAREHOLDING
[AscertifiedbytheManagement]

Shareholders	CurrentYear		PreviousYear	
	No.of Shares	%of Holding	No.of Shares	%of Holding
Promoters				
*Indian				
*Foreign				
Others				
Total				

SCHEDULE6–RESERVESANDSURPLUS

No.	Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
1.	CapitalReserve		
2.	CapitalRedemptionReserveShar		
3.	ePremium		
4.	RevaluationReserveGen		
5.	eralReserves Less:DebitbalanceinP&LA/c,ifanyLes s:Amountutilizedforbuyback.		
6.	CatastropheReserve		
7.	OtherReserves(tobespecified)Ba		
8.	lanceofProfitinP&LA/c		
	Total		

Note:Additionstoanddeductionsfromthereservesshallbedisclosedundereachofthespecifiedheads.

SCHEDULE7–BORROWINGS

No.	Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
1.	Debentures/BondsB		
2.	anks		
3.	Financial		
4.	InstitutionsOthers(tobe specified)		
	Total		

SCHEDULE8–INVESTMENTS-SHAREHOLDERS

No.	Particulars	Current Year(Rs.'000)	PreviousYear (Rs.'000)
	Long–termInvestments		
1.	GovernmentsecuritiesandGovernmentGuaranteedBonds includingtreasurybills		
2.	Otherapprovedsecurities		
3.	Otherinvestments		
	(a)Shares		
	(aa)Equity		
	(bb)Preference		
	(b)MutualFunds		
	(c)DerivativeInstruments		
	(d)Debentures/Bonds		
	(e)Othersecurities(tobespecified)		
	(f)Subsidiaries		
	InvestmentProperties–RealEstate		
4.	InvestmentsinInfrastructureandSocialsector		
5.	OtherthanApprovedInvestments		
	Short–termInvestments		
1.	GovernmentsecuritiesandGovernmentGuaranteedBonds includingtreasurybills		
2.	Otherapprovedsecurities		
3.	Otherinvestments		
	(a)Shares		
	(aa)Equity		
	(bb)Preference		
	(b)MutualFunds		
	(c)DerivativeInstruments		
	(d)Debentures/Bonds		
	(e)Othersecurities(tobespecified)		
	(f)Subsidiaries		
	InvestmentProperties–RealEstate		
4.	InvestmentsinInfrastructureandSocialsector		
5	OtherthanApprovedInvestments		
	Total		

SCHEDULE8A–INVESTMENTS-POLICYHOLDERS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
	Long–termInvestments		
1.	GovernmentsecuritiesandGovernmentGuaranteedBonds includingtreasurybills		
2.	Otherapprovedsecurities		
3.	(a)Shares		
	(aa)Equity		
	(bb)Preference		
	(b)MutualFunds		
	(c)DerivativeInstruments		
	(d)Debentures/Bonds		
	(e)Othersecurities(tobespecified)		
	(f)Subsidiaries		
	(g)InvestmentProperties–RealEstate		
4.	InvestmentsinInfrastructureandSocialsector		
5.	OtherthanApprovedInvestments		
	Short–termInvestments		
1.	GovernmentsecuritiesandGovernmentGuaranteedBonds includingtreasurybills		
2.	Otherapprovedsecurities		
3.	(a)Shares		
	(aa)Equity		
	(bb)Preference		
	(b)MutualFunds		
	(c)DerivativeInstruments		
	(d)Debentures/Bonds		
	(e)Othersecurities(tobespecified)		
	(f)Subsidiaries		
	(g)InvestmentProperties–RealEstate		
4.	InvestmentsinInfrastructureandSocialsector		
5	OtherthanApprovedInvestments		
	Total		

SCHEDULE8B–ASSETSHELDTOCOVERLINKEDLIABILITIES

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
	Long–termInvestments		
1.	GovernmentsecuritiesandGovernmentGuaranteedBonds includingtreasurybills		
2.	Otherapprovedsecurities		
3.	(a)Shares		
	(aa)Equity		
	(bb)Preference		
	(b)MutualFunds		
	(c)DerivativeInstruments		
	(d)Debentures/Bonds		
	(e)Othersecurities(tobespecified)		
	(f)Subsidiaries		
	(g)InvestmentProperties–RealEstate		
4.	InvestmentsinInfrastructureandSocialsector		
5.	OtherthanApprovedInvestments		
	Short–termInvestments		
1.	GovernmentsecuritiesandGovernmentGuaranteedBonds includingtreasurybills		
2.	Otherapprovedsecurities		
3.	(a)Shares		
	(aa)Equity		
	(bb)Preference		
	(b)MutualFunds		
	(c)DerivativeInstruments		
	(d)Debentures/Bonds		
	(e)Othersecurities(tobespecified)		
	(f)Subsidiaries		
	(g)InvestmentProperties–RealEstate		
4.	InvestmentsinInfrastructureandSocialsector		
5	OtherthanApprovedInvestments		
	Total		

SCHEDULE9–LOANS

No.	Particulars	Current Year(Rs.'000)	PreviousYear (Rs.'000)
1.	**Security-wiseClassification** Secured (a) On mortgageof property(aa)InIndia (bb)OutsideIndia (b) OnShares,Bonds,Govt.Securities,etc. (c) Loansagainstpolicies (d) Others (to bespecified)Unsecured Total		
2.	**Borrower-wiseClassification** (a) CentralandStateGovernments (b) BanksandFinancialInstitutions (c) Subsidiaries (d) Companies (e) Loansagainstpolicies (e)Others(tobespecified) Total		
3.	**Performance-wiseClassification** (a) Loansclassifiedasstandard(aa)InIndia (bb)OutsideIndia (b) Non-standardloanslessprovisions(aa)InIndia (bb)OutsideIndia Total		
4.	**Maturity-wiseClassification** (a) ShortTerm (b) LongTerm Total		

SCHEDULE10–FIXEDASSETS

Particulars	Cost/GrossBlock				Depreciation				NetBlock	
	Opening	Additions	Deductions	Closing	UptoLast Year	For theYea	On Sales/Adjust	ToDate	Asatyear end	PreviousY ear
GoodwillIntangibles (specify)Land-Freeh oldLeaseholdProper tyBuildings Furniture&FittingsI nformationTechno logyEquipmentVeh icles Office EquipmentOthers(Speci fynature)Total Workinprogress Grand TotalPreviousYear										

SCHEDULE11–CASHANDBANKBALANCES

No.	Particulars	CurrentYe ar (Rs.'000)	Previous Year (Rs.'000)
1.	Cash(includingcheques,draftsandstamps)		
2.	BankBalances		
	(a) DepositAccounts		
	(aa)Short-term(duewithin12monthsofthedateofBal anceSheet)		
	(bb)Others		
	(b) CurrentAccounts		
	(c) Others(tobespecified)		
3.	Moneyatcallandshortnotice		
	(a) Withbanks		
	(b) With otherinstitutions		
4.	Others(tobes pecified)		
	Total		
	Balanceswithnon-scheduledbanksin2and3above		
	CashandBankBalances		
	1. InIndia		
	2. OutsideIndia		

	Total		

SCHEDULE12–ADVANCESANDOTHERASSETS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
	Advances		
1.	ReservedepositswithcedingcompaniesAp		
2.	plication money for		
3.	investmentsPrepayments		
4.	AdvancestoDirectors/Officers		
5.	Advancetaxpaidandtaxesdeductedatsource(Netprovisionfortaxation)		
6.	Others(tobespecified)T		
	otal(A)		
	OtherAssets		
1.	IncomeaccruedoninvestmentsO		
2.	utstandingPremiums		
3.	Agents'balances		
4.	ForeignAgenciesBalances		
5.	Duefromotherentitiescarryingoninsurancebusiness(includingreinsurers)		
6.	Duefromsubsidiaries/holdingcompany		
7.	DepositwithReserveBankofIndia[Pursuanttosection7ofInsuranceAct,1938]		
8.	Others(tobespecified)T		
	otal(B)		
	Total(A+B)		

SCHEDULE13–CURRENTLIABILITIES

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	Agents'balances		
2.	Balancesduetootherinsurancecompanies		
3.	Depositsheldonre-insuranceceded		
4.	Premiumsreceivedinadvance		
5.	Unallocatedpremium		
6.	Sundrycreditors		
7.	Duetosubsidiaries/holdingcompany		
8.	Claimsoutstanding		
9.	Annuitiesdue		
10.	DuetoOfficers/Directors		
11.	Others(tobespecified)		
	Total		

SCHEDULE14–PROVISIONS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	Fortaxation(lesspaymentsandtaxesdeductedatsource)		
2.	Forproposeddividends		
3.	Fordividenddistributiontax		
4.	Others(tobespecified)		
	Total		

SCHEDULE15–MISCELLANEOUSEXPENDITURE
(Totheextentnotwrittenofforadjusted)

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	Discountallowedonissueofshares/debentures		
2.	Others(tobespecified)		
	Total		

Explanationofsomeitemsinfinalaccounts

1. Claims– Claimistheamountpayablebytheinsurancecompany.Inlifeinsurancebusiness,claimsmayariseduetotworeasonsi.e.,bydeathormaturity.
2. Annuity – It is an annual payment which a life insurance company guarantees to pay forlumpsummoneyreceivedinthebeginning.
3. Surrendervalue– Ifaninsuredisunabletopaythefurtherpremium,hecangethispolicypaidfromthecompany.Itisthepresentcashvalueofthepolicywhichaholdergetsfromthecompanyonsurrenderingalltherightsofthepolicy.
4. Bonusinreductionofpremium– insteadofpayingbonusincash,theinsurancecompanymaydeductthebonusfromthepremiumduefromtheinsured.Thisisknownasbonusinreductionofpolicy.
5. Consideration for annuities granted - Any lump sum payment received by the insurancecompanyinlieuofgrantingannuityiscalledconsiderationforannuitygranted.
6. Re-insurance– Whenacompanyacceptsabusinessofmorevalueandinordertoreducetherisk,maypassonsomebusinesstotheothercompany,itiscalledreinsurance.
7. Commission on Reinsurance Accepted or Ceded – The Company which passes somebusiness to the other company gets some commission which is known as commission onreinsurancebusinessceded.Commissionpaidonreinsurancebusinessacceptedisknownas CommissiononReinsuranceAccepted.

Illustration1

FromthefollowinginformationprepareRevenueAccountofSafeInsuranceCo.Ltd.ason31stMarch2011(figures in000s):

ClaimsbydeathRs.152280,ClaimsbymaturityRs.60220,PremiumsRs.1411380,TransferfeesRs.258,ConsiderationforannuitiesgrantedRs.164254,annuitiespaidRs.106922,BonusincashRs.4832, Expenses of Management Rs.63840, Commission Rs.19148, Interest and dividendRs.195680,IncometaxRs.11420,SurrendersRs.26280,BonusinreductionofpremiumRs.1960,DividendstoshareholdersRs.11000andLifeAssuranceFundRs.3042000.

Solution:

FORMA–RA

Name of the insurer: Safe Insurance Co. Ltd.RegistrationNo.andDateofRegistrationwiththeIRDA

RevenueAccountfortheyearended31st March,2011Policyholders'Account(TechnicalAccount)

No.	Particulars	Schedule	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
	Premiumsearned–net			
	(a) Premium	1	1411380	
	(b) Reinsuranceceded(-)			
	(c) Reinsuranceaccepted(+)			
	Incomefrominvestments			
	(a) Interest,dividends&rent–Gross			
	(b) Profitonsale/redemptionofinvestments		195680	
	(c) (Lossonsale/redemptionofinvestments)			
	(d) Transfer/Gainonrevaluation/changeinfairvalue			
	Other income (to be specified):Considerationforannuitiesgranted Transferfee			
	Total(A)		164254	
	Commission		258	
	Operating Expensesrelatedto insurance		1771572	
	businessProvisionfordoubtfuldebts	2	19148	
	BaddebtswrittenoffPr	3	63840	
	ovisionfortax			
	Provisions(otherthantaxation)			
	(a) Fordiminutioninthevalueofinvestments(net)			
	(b) Others (to bespecified):Incometax			
	Total(B)			
	Benefits Paid			
	(Net)InterimBonuses		11420	
	paid		94408	
	Changeinvaluationofliabilityinrespectoflifepolicies	4	363494	
	Total			
	(C)Surplus (Deficit)			
	(D)=(A)-(B)-(C)Appropriations			
	TransfertoShareholders'Account		363494	
	Transfer to Other Reserves (to be		1313670	

	specified)BalancebeingFundsforFutureAppropriations Total(D)		1313670	
			1313670	

SCHEDULE1-PREMIUM

No.	Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
1. 2. 3.	FirstYearPremiumsR enewalPremiumsSin glePremiums	1411380	
	TotalPremium	1411380	

SCHEDULE2–COMMISSIONEXPENSES

Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
Commissionpaid Direct-FirstYearPremiumsRenew alPremiumsSinglePremi ums Add:CommissiononRe-insuranceAcceptedLess:Co mmissiononRe-insuranceCeded	19148	
NetCommission	19148	

SCHEDULE3–OPERATINGEXPENSESRELATEDTOINSURANCEBUSINESS

No.	Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14.	Employees' remuneration & welfare benefitsTravel,conveyanceandvehiclerunningexpe nsesTrainingexpenses Rents,rates&taxesR epairs Printing & stationeryCommunication expensesLegal& Professional chargesMedicalfees Auditors' fees, expensesetcAdvertisementa ndpublicityInterest and bank chargesOthers(tobespecifie d): ExpensesofmanagementD epreciation Total	 63840 63840	

SCHEDULE4–BENEFITSPAID[NET]

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	InsuranceClaims:		
	(a) ClaimsbyDeath	152280	
	(b) ClaimsbyMaturity	60220	
	(c) Annuities/Pensionpayment	106922	
	(d) Otherbenefits:		
	SurrendersBo	26280	
	nusincash	4832	
	BonusinreductionofpremiumDi	1960	
	videndtoshareholders	11000	
	Total	363494	

Illustration2

FromthefollowingtrialbalanceofGuaranteeLifeInsuranceco.LtdprepareRevenueAccountandBalanceSheetasat31st March2011(figuresin000s).

Claimspaidandoutstanding	115200	
Surrenders	3300	
Reversionarybonuspaidandoutstanding	12300	
Establishmentcharges	23500	
Commissiontoagents	48500	
Medicalfees	10100	
Directorsandauditorsfees	24000	
Stationeryandprinting	4800	
Postageandtelegram	1050	
Officerent	4200	
Sundryexpenses	800	
Bankchargesandcommission	950	
Investments	4047400	
Loansandpolicies	174700	
Outstandinginterest	69800	
Outstandingpremiums	23200	
Cashatbank	29600	
Fineandfeesreceived		300
Interestanddividendreceived		225300
Premiumsreceivedandoutstanding		330800
Premiums received in advance		9000
Claims admitted but not paid		210000
Claimsintimatedbutnotadmitted		20000
Sundrycreditors		18000
Lifefundinthebeginningoftheyear		3780000

	4593400	4593400

Solution:

FORMA–RA

Nameoftheinsurer:GuaranteeLifeInsuranceCo.Ltd

.RegistrationNo.andDateofRegistrationwiththeIRDA

RevenueAccountfortheyearended31st March,2011Policyholders'Account(TechnicalAccount)

No.	Particulars	Schedule	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
	Premiumsearned–net			
	(a)Premium	1	330800	
	Incomefrominvestments			
	(a)Interest,dividends&rent–Gross		225300	
	Otherincome(tobespecified):			
	Finesandfees		300	
	Total(A)		556400	
	Commission	2	48500	
	Operating Expensesrelatedto insurance business	3	69400	
	Others(tobespecified):			
	Total(B)		117900	
	BenefitsPaid(Net)	4	130800	
	Total(C)		130800	
	Surplus(Deficit)(D)=(A)-(B)-(C)		307700	

FORMA-BS

Nameoftheinsurer:GuaranteeLifeInsuranceCo.Ltd

.RegistrationNo.andDateofRegistrationwiththeIRDA

BalanceSheetasat31st March,2011

No.	Particulars	Schedule	Current Year(Rs.'000)	Previous Year(Rs.'000)
	SourcesofFunds			
	Shareholders'Funds:			
	ShareCapital	5	----------	
	ReservesandSurplus	6	4087700	
	Credit/[Debit]FairValueChangeAccount			
	Sub-Total		4087700	
	Borrowings	7	---------	
	Policyholders'Funds:			
	Credit/[Debit]FairValueChangeAccount			
	PolicyLiabilities			
	InsuranceReserves			
	ProvisionforLinkedLiabilities			

	Sub-Total		----------	
	FundsforFutureAppropriations		----------	
	Total		4087700	
	ApplicationofFunds			
	Investments	8	4047400	
	Loans	9	174700	
	FixedAssets	10	---------	
			4222100	
	CurrentAssets			
	CashandBankBalances	11	29600	
	AdvancesandOtherAssets	12	93000	
	Sub-Total(A)		122600	
	CurrentLiabilities	13	257000	
	Provisions	14	---------	
	Sub-Total(B)		257000	
	NetCurrentAssets(C)=(A)-(B)		-134400	
	MiscellaneousExpenditure(totheextentnot writtenofforadjusted)	15	----------	
	Total		4087700	

SchedulesformingpartofA-RA

Particulars	Amount	Amount
Schedule1–Premiumearned–net		
Premiumreceivedandoutstanding		**330800**
Schedule2–Commission		
Commissionpaidtoagents		**48500**
Schedule3–operatingexpensesrelatedtoinsurancebusiness		
Establishmentcharges	23500	
Medicalfees	10100	
Stationeryandprinting	4800	
Directorsandauditorsfees	24000	
Postageandtelegram	1050	
Officerent	4200	
Sundryexpenses	800	
Bankchargesandcommission	950	**69400**
Schedule4–Benefitspaid(Net)		
Claimspaidandoutstanding	115200	
Surrenders	3300	
Reversionarybonuspaid	12300	130800

SchedulesformingpartofA-BS

Particulars	Amount	Amount
Schedule5–ShareCapital		**Nil**

Schedule6–ReservesandSurplus		
LifeFundatthebeginning	3780000	
Add:Surplus	307700	**4087700**
Schedule7–Borrowings		**Nil**
Schedule8–Investments		**4047400**
Schedule9–Loans		**174700**
Schedule10–FixedAssets		**Nil**
Schedule11–CashandBankBalances		**29600**
Schedule12–AdvancesandOtherAssets		
OutstandingInterest	69800	
OutstandingPremium	23200	**93000**
Schedule13–CurrentLiabilities		
SundryCreditors	18000	
Premiumsreceivedinadvance	9000	
Claimsadmittedbutnotpaid	210000	
Claimsintimatedbutnotadmitted	20000	**257000**
Schedule14–Provisions		**Nil**
Schedule15–MiscellaneousExpenditure		**Nil**

Determinationofprofitinlifeinsurancebusiness

Alifeinsurancecompanyearnsprofitwhenthelifeinsurancefundexceedsitsnetliability.Th enetliabilityistheexcessofpresentvalueoffutureclaimsofcurrentpoliciesoverthepresentvalue of premiums to be received in future in respect of current policies. Net liability is to becompared with life assurance fund on a particular date in order to calculate the surplus ordeficiency. Usually this comparison is made by preparing a statement called Valuation BalanceSheet.Itsformatisasfollows:

Liabilities	Amount	Assets	Amount
Net LiabilitySurplus(Bal.Fig)	***** ***** *****	LifeFundDeficit (Bal.Fig)	***** ***** *****

As per Section 28 of the Life Insurance Corporation Act 1956, 95%of the surplus must bedistributedtopolicyholdersintheformofbonusinrespectofwithprofitpolicies.Thebalance 5%may be utilized for such purpose as determined by the central government. Bonus payable topolicyholdersiscalculatedasfollows:

SurplusasperValuationBalanceSheet		****Less:Actuari
alexpenses	****	
Dividendspayabletoshareholders	****	****
		****
Add:Interimbonuspaid		****
NetSurplus		****

95%ofnetprofitispayableasbonustopolicyholders.Whilepayingtheabovebonus,interimbonuspaidalreadyhastobe deducted.

Illustration3

Alifeinsurancecompanygetsitsvaluationmadeonceineverytwoyears.Itslifeassurancefundon 31st December 2011 was Rs.5555000 before providing for 55000 being the shareholders'dividend for 2011. Its actuarial valuation on 31st December 2011 disclosed a net liability ofRs.3500000. an interim bonus of Rs.100000 was paid to policyholders during the previous twoyears.ShowValuationBalanceSheet,NetProfitfortheperiodandDistributionofsurplus.

Solution:

ValuationBalanceSheetason31stDecember2011

Liabilities	Amount	Assets	Amount
Net LiabilitySurplus(Bal.Fig)	3500000 2055000	LifeFund	5555000
	5555000		5555000

<u>CalculationofNetprofit:</u>

SurplusasperValuationBalanceSheet	2055000
Less:Dividendspayabletoshareholders	55000
	2000000
Add:Interimbonuspaid	100000
NetSurplus	2100000

<u>Distributionofsurplus</u>

Bonustopolicyholders(2100000x95%)	1995000
Less:interimbonusalreadypaid	100000
Balanceduetopolicyholders	1895000

FinalAccountsofGeneralInsuranceCompanies

Thefinalaccountsofageneralinsurancecompanyconsistof(a)RevenueAccount,(b)P&LA/cand(c)BalanceSheet.

RevenueAccount(FormB-RA)

General insurance company may be doing more than one business like fire, marine,accidentaletc.ForeachtypeofbusinessaseparateRevenueAccountistobepreparedin theprescribedformB-RA.TheformofRevenueAccountisgivenbelow:

FORMB–RA

Nameoftheinsurer

RegistrationNo.andDateofRegistrationwiththeIRDA

RevenueAccountfortheyearended31st March,20….

Policyholders'Account(TechnicalAccount)

No.	Particulars	Schedule	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	PremiumsEarned(Net)	1		
2.	Others(tobespecified)			
3.	ChangeinProvisionsforunexpiredrisk			
4.	Interest,Dividend&Rent-Gross			
	Total(A)			
1.	ClaimsIncurred	2		
2.	Commission	3		
3.	OperatingExpensesrelatedtoinsurancebusiness	4		
4.	Others(tobespecified)			
	Total(B)			
	OperatingProfit/(Loss)fromFire/Marine/ Miscellaneousbusiness(C)=(A-B)			
	Appropriations			
	TransfertoShareholders'Account			
	TransfertoCatastropheReserve			
	TransfertoOtherReserves(tobespecified)			
	Total(C)			

ProfitAndLossAccount(FormB-PL)

TheP&LA/cispreparedtocalculatetheoverallprofitofthegeneralinsurancebusiness. Operatingprofits(orlosses)offire,marineandmiscellaneousinsurancearetakenintheP&LA/c.income from investments, profit or loss on sale of investments, bad debts, provision for doubtfuldebtsetc.are takeninthe P&LA/c.

FORMB-PL

Nameoftheinsurer

RegistrationNo.andDateofRegistrationwiththeIRDA

ProfitandLossAccountfortheyearended31st March,20….

Shareholders'Account(Non-technicalAccount)

No.	Particulars	Schedule	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	**OperatingProfit/(Loss)** (a)FireInsurance			

2. 3. 4. 5.	(b) MarineInsurance (c) MiscellaneousInsuranceI ncomefrominvestments (d) Interest,dividends&rent–Gross (e) Profitonsale/redemptionofinvestmentsLe ss:Lossonsaleofinvestments **Otherincome**(tobespecified)To tal(A) **Provisions(otherthantaxation)** (a) Fordiminutioninthevalueofinvestments(net) (b) ForDoubtfulDebts (c) Others(tobespecified) OtherExpenses (a) Expensesotherthan those directly relatedtotheinsurancebusiness (b) Baddebtswrittenoff (c) Others(tobespecified) Total(B) Profit before taxProvision fortaxationProfitaftertax **Appropriations** (f) Interimdividendspaidduringtheyear (g) Proposedfinaldividend (h) DividendDistributionTax (i) TransfertoReservesorotheraccounts(tobes pecified) Balance of Profit/Lossbroughtforward fro lastyear BalancecarriedforwardtotheBalanceSheet			

BalanceSheet(FormB-BS)

BalanceSheetofLifeInsuranceCompanyispreparedinverticalformat.TheformofBalance Sheetisasfollows:

FORMB-BS

Nameoftheinsurer

RegistrationNo.andDateofRegistrationwiththeIRDA

BalanceSheetasat31st March,20….

No.	Particulars	Schedule	CurrentYear (Rs.’000)	PreviousYear (Rs.’000)
	SourcesofFunds			
	Shareholders’Funds:			
	Share	5		
	CapitalReservesandS	6		
	urplus			
	FairValueChangeAccountBorro			
	wings	7		
	Total			
	ApplicationofFunds	8		
	InvestmentsLoan	9		
	s	10		
	Fixed			
	AssetsCurrentAss	11		
	ets	12		
	Cash and Bank			
	BalancesAdvancesandOthe	13		
	rAssets	14		
	Sub-Total			
	(A) CurrentLiabiliti			
	esProvisions**Sub-**	15		
	Total(B)			
	NetCurrentAssets(C)=(A)-(B)			
	MiscellaneousExpenditure (to theextent notwrittenofforadjusted)			
	DebitBalanceinProfitandLossAccount			
	Total			

CONTINGENTLIABILITIES

No.	Particulars	Current Year(Rs.’000)	Previous Year(Rs.’000)
1.	Partlypaid-upinvestments		
2.	Claims,otherthanagainstpolicies,notacknowledgedas debtsbythecompany		
3.	Underwritingcommitmentsoutstanding(inrespectof sharesandsecurities)		
4.	Guaranteesgivenbyoronbehalfofthecompany		
5.	Statutorydemands/liabilitiesindispute,notprovidedfor		
6.	Reinsuranceobligationstotheextentnotprovidedforin		

	accounts		
7.	Others(tobespecified)		
	Total		

SCHEDULESFORMINGPARTOFFINANCIALSTATEMENT

SSCHEDULE1–PREMIUMEARNED[NET]

No.	Particulars	Current Year(Rs.'000)	PreviousYear (Rs.'000)
	Premium for direct business writtenAdd:Premiumonreinsuranceaccep tedLess: premium on reinsurance cededNetPremium TotalPremiumEarned(Net)		

Note:Reinsurancepremiumswhetheronbusinesscedeoracceptedaretobeboughtintoaccount ,beforedeductingcommissionundertheheadofreinsurancepremiums.

SCHEDULE2–CLAIMSINCURRED[NET]

Particulars	CurrentYear (Rs.'000)	Previous Year (Rs.'000)
ClaimspaidDirect Add:ReinsuranceacceptedLe ss: Reinsurance cededNetClaimspaid Add:Claimsoutstandingattheendoftheyear Less:ClaimsoutstandingatthebeginningTotalCla imsIncurred		

SCHEDULE3–COMMISSION

Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
Commissionpaid Direct Add:CommissiononRe-insuranceAcceptedLess: CommissiononRe-insuranceCeded NetCommission		

Note:Theprofit/commission,ifany,aretobecombinedwiththeRe-insuranceacceptedorRe-insurance cededfigures.

SCHEDULE4–OPERATINGEXPENSESRELATEDTOINSURANCEBUSINESS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1. 2. 3.	Employees'remuneration&welfarebenefits Managerialremuneration Travel,conveyanceandvehiclerunningexpenses		

4.	Rents,rates&taxes		
5. 6. 7. 8. 9. 10. 11. 12. 13. 14.	Repairs Printing & stationeryCommunication expensesLegal& Professional chargesMedicalfees Auditors'fees,expensesetc (a) Asauditor (b) Asadviserorinanyothercapacity,inrespectof: (j)Taxationmatters (ii) Insurancematters (iii) Managementservices;and (c) In any other capacityAdvertisementandp ublicityInterest & bank chargesOthers(to be specified)Depreciation Total		

Note:Itemsofexpensesandincomeinexcessofonepercentofthetotalpremiums(lessreinsurance)orRs.500000whicheverishigher,shallbeshownasaseparatelineitem.

SCHEDULE5–SHARECAPITAL

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1. 2. 3. 4.	Authorisedcapital EquitysharesofRs…..eachIssu edCapital EquitysharesofRs…..eachSub scribedCapital EquitysharesofRs…..eachCall ed-upCapital EquitysharesofRs…..eachLes s:Callsunpaid Add:EquitySharesforfeited(Amountoriginallypaidup)Less:Parvalueofequitysharesboughtback Less:PreliminaryExpenses Expensesincludingcommissionorbrokerageonunderwritingorsubscriptionofshares Total		

Notes:

(a) Particularsofthedifferentclassesofcapitalshouldbeseparatelystated.
(b) Theamountcapitalizedonaccountofissueofbonussharesshouldbedisclosed.
(c) Incaseanypartofthecapitalisheldbyaholdingcompany,thesameshouldbeseparatelydisclosed.

SCHEDULE5A–PATTERNOFSHAREHOLDING
[AscertifiedbytheManagement]

Shareholders	CurrentYear		PreviousYear	
	No.of Shares	%of Holding	No.of Shares	%of Holding
Promoters *Indian *Foreign Others Total				

SCHEDULE6–RESERVESANDSURPLUS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1. 2. 3. 4. 5. 6. 7.	CapitalReserve CapitalRedemptionReserveSecu ritiesPremium GeneralReserves Less:DebitbalanceinP&LA/c,ifanyLes s:Amountutilizedforbuyback. CatastropheReserve OtherReserves(tobespecified)Ba lanceofProfitinP&LA/c Total		

Note:Additionstoanddeductionsfromthereservesshallbedisclosedundereachofthespecifiedheads.

SCHEDULE7–BORROWINGS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1. 2. 3. 4.	Debentures/BondsB anks Financial InstitutionsOthers(tobe specified) Total		

SCHEDULE8–INVESTMENTS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
 1. 2.	**Long–termInvestments** GovernmentsecuritiesandGovernmentGuaranteedBondsinclud ingtreasurybills Otherapprovedsecurities		

3.	Otherinvestments		
	(a) Shares		
	(aa)Equity		
	(bb)Preference		
	(b) MutualFunds		
	(c) DerivativeInstruments		
	(d) Debentures/Bonds		
	(e) Othersecurities(tobespecified)		
	(f) Subsidiaries		
	(g) Investment Properties – Real		
4.	EstateInvestmentsinInfrastructureandSocialsec		
5.	torOtherthanApprovedInvestments		
	Short–termInvestments		
1.	GovernmentsecuritiesandGovernmentGuaranteedBondsincludingtreasurybills		
2.	Otherapproved		
3.	securitiesOtherinvestments		
	(a) Shares		
	(aa)Equity		
	(bb)Preference		
	(b) MutualFunds		
	(c) DerivativeInstruments		
	(d) Debentures/Bonds		
	(e) Othersecurities(tobespecified)		
	(f) Subsidiaries		
	(g) Investment Properties – Real		
4.	EstateInvestmentsinInfrastructureandSocialsec		
5	torOtherthanApprovedInvestments		
	Total		

SCHEDULE9–LOANS

No.	Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
1.	Security-wise Classification		
	Secured		
	(a) On mortgage of property (aa)InIndia		
	(bb) Outside India		
	(b) On Shares, Bonds, Govt. Securities, etc.		
	(c) Others (to be specified) Unsecured		
2.	Total		
	Borrower-wise Classification		

	(a) CentralandStateGovernments		
	(b) BanksandFinancialInstitutions		
	(c) Subsidiaries		
	(d) IndustrialUndertakings		
	(e) Others(tobespecified)		
	Total		
3.	**Performance-wiseClassification**		
	(a) Loansclassifiedasstandard(a a)InIndia		
	(bb)OutsideIndia		
	(b) Non-performingloanslessprovisions(a a)InIndia		
	(bb)OutsideIndia		
	Total		
4.	**Maturity-wiseClassification**		
	(a) ShortTerm		
	(b) LongTerm		
	Total		

SCHEDULE10–FIXEDASSETS

Particulars	Cost/GrossBlock				Depreciation				NetBlock	
	Opening	Additions	Deductions	Closing	UptoLast Year	FortheYear	On Sales/Adjustm	ToDate	Asatyear end	Previous Year
GoodwillIntangibles (specify)Land-Freeh oldLeaseholdProper tyBuildings Furniture&FittingsI nformationTechno logyEquipment Vehicles Office EquipmentOthers(Speci fynature)Total WorkinprogressGra ndTotal PreviousYear										

SCHEDULE11–CASHANDBANKBALANCES

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	Cash(includingcheques,draftsandstamps)		
2.	BankBalances		
	(a) DepositAccounts		
	(aa)Short-term(duewithin12months)(bb)Others		
	(b) CurrentAccounts		
	(c) Others(tobespecified)		
3.	Moneyatcallandshortnotice		
	(a) Withbanks		
	(b) WithotherinstitutionsO		
4.	thers(tobespecified)		
	Total		
	Balanceswithnon-scheduledbanksin2and3above		

SCHEDULE12–ADVANCESANDOTHERASSETS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
	Advances		
1.	Reserve deposits with ceding		
2.	companies Application money for		
3.	investmentsPrepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net		
6.	provisionfortaxation)		
	Others (to be specified) Total(A)		
	Other Assets		
1.	Income accrued on investments		
2.	OutstandingPremiums		
3.	Agents' balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business		
6.	(includingreinsurers)		
7.	Due from subsidiaries/holding company		
8.	Deposit with Reserve Bank of India [Pursuant tosection7ofInsuranceAct,1938]		
	Others (to be specified) Total(B)		
	Total(A+B)		

SCHEDULE13–CURRENTLIABILITIES

No.	Particulars	Current Year(Rs.'000)	Previous Year(Rs.'000)
1.	Agents'balances		
2.	Balancesduetootherinsurancecompanies		
3.	Depositsheldonre-insuranceceded		
4.	Premiumsreceivedinadvance		
5.	Unallocatedpremium		
6.	Sundrycreditors		
7.	Duetosubsidiaries/holdingcompany		
8.	Claimsoutstanding		
9.	DuetoOfficers/Directors		
10.	Others(tobespecified)		
	Total		

SCHEDULE14–PROVISIONS

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	ReserveforUnexpiredRisk		
2.	Fortaxation(lesspaymentsandtaxesdeductedatsource)		
3.	Forproposeddividends		
4.	Fordividenddistributiontax		
5.	Others(tobespecified)		
	Total		

SCHEDULE15–MISCELLANEOUSEXPENDITURE
(Totheextentnotwrittenofforadjusted)

No.	Particulars	CurrentYear (Rs.'000)	PreviousYear (Rs.'000)
1.	Discountallowedonissueofshares/debentures		
2.	Others(tobespecified)		
	Total		

ReserveforUnexpiredRisk

Thereservemaintainedtomeetanypossibleliabilityinrespectofthosepolicieswhicharenotexpiredattheendofanaccountingyeariscalledreserveforunexpiredrisk.Openingbalancefor reserve for unexpired risk is added to the premium and closing balance of reserve forunexpired risk is deducted from the premium. The net premium should be shown in revenueaccount. The closing balance of reserve for unexpired risk should be shown in the balance sheetunderthehead'provisions'.Atpresentreserveforunexpiredriskwillbecreatedasfollows:

a. 50% of net premium for fire insurance, marine cargo business and miscellaneousinsurances.
b. 100%ofnetpremiumformarinehullbusiness.
   Inadditiontotheabovereserve,acompanycanmaintainmorereserves.ThenitiscalledAdditionalReserve.

Illustration4

Fromthefollowingfigurestakenfromthebooksof AsiaInsuranceCo.Ltddoingthefireinsurancebusiness,preparethefinalaccountsfortheyear2010-2011.

Firefundon1st April2010	930000
GeneralReserve	450000
Investments	3600000
PremiumClaim	2701533
spaid	602815
Sharecapital–	900000
Equityshares@Rs.100eachAdditionalReser	330000
veon1st April2010	75000
ProfitandlossAccount(credit)Re	112525
insurancepremium	21119
ClaimsrecoveredfromreinsurersCo	48016
mmissiononreinsuranceceded	250000
Advanceincometax	20000
agents'balance(Debit)	299777
Commissionondirectbusiness	60038
Commissiononreinsuranceaccepted	22300
Outstandingpremium	60000
Claimsintimatedbutnotpaidon1st April2010	431947
Expensesofmanagement	36000
Audit fees	5804
(General)Rateand tax	67500
(General)Rent(General)	153000
Incomefrom	22500
investmentsSundrycreditors	182462
Cashinhandandbankbalances	

Thefollowingfurtherinformationmayalsobenoted:

1. Expensesofmanagementincludesurveyfeesandlegalexpensesof Rs.36000andRs.20000relating toclaims
2. Claimsintimatedbutnotpaidon31st March2011Rs.104000
3. Incometaxtobeprovided@55%
4. Proposeddividend8%
5. TransfertogeneralreserveRs.200000
6. Reserveforunexpiredrisktobekept@40%ofnetpremium.

Solution:

FORMB–RA

Name of the insurer: Asia Insurance Co. LtdRegistrationNo.andDateofRegistrationwiththe IRDA

RevenueAccountfortheyearended31stMarch,2011Policyholders'Account(TechnicalAccount)

No.	Particulars	Schedule	Current Year	Previous Year
1.	PremiumsEarned(Net)	1	2483405	
2.	Others(tobespecified)			
3.	ChangeinProvisionsforunexpiredrisk			
4.	Interest,Dividend&Rent-Gross			
	Total(A)		2483405	
1.	ClaimsIncurred	2	681696	
2.	Commission	3	311799	
3.	OperatingExpensesrelatedtoinsurancebusiness	4	375947	
4.	Others(tobespecified)			
	Total(B)		1369422	
	OperatingProfit/(Loss)fromFirebusiness (C)=(A-B)		1113963	
	Appropriations			
	TransfertoShareholders'Account			
	TransfertoCatastropheReserve			
	TransfertoOtherReserves(tobespecified)			
	Total(C)		1113963	

FORMB-PL

Nameoftheinsurer:AsiaInsuranceCo.Ltd

RegistrationNo.andDateofRegistrationwiththeIRDA

ProfitandLossAccountfortheyearended31stMarch,2011Shareholders'Account(Non-technicalAccount)

No.	Particulars	Schedule	Current Year	Previous Year
1.	**OperatingProfit/(Loss)**			
	(a) FireInsurance		1113963	
	(b) MarineInsurance			
	(c) MiscellaneousInsurance			
2.	Incomefrominvestments			
	(a) Interest,dividends&rent–Gross		153000	
	(b) Profitonsale/redemptionofinvestmentsLess:Lossonsaleofinvestments			
3.	**Otherincome**(tobespecified)		1266963	
	Total(A)			
4.	**Provisions(otherthantaxation)**			
	• Fordiminutioninthevalueofinvestments(net)			

	• ForDoubtfulDebts • Others(tobespecified)			
5.	OtherExpenses (a) Expensesotherthanthosedirectlyrelatedtotheinsurancebusiness (b) Baddebtswrittenoff (c) Others(tobespecified) Rent 67500 Ratesandtaxes 5804 auditfees 36000		109304	
	Total(B)		109304	
	Profit before tax		1157659	
	Provision fortaxation(-)		636712	
	Profit after tax		520947	
	Appropriations			
	(a) Interimdividendspaidduringtheyear			
	(b) Proposedfinaldividend(900000x8%)		72000	
	(c) DividendDistributionTax			
	(d) TransfertoReservesorotheraccounts (to be specified)generalreserve		200000	
			272000	
			248947	
	Balance of Profit/Lossbroughtforward from lastyear		75000	
	BalancecarriedforwardtotheBalanceSheet		323947	

FORMB-BS

Nameoftheinsurer:AsiaInsuranceCo.Ltd
RegistrationNo.andDateofRegistrationwiththeIRDA
BalanceSheetasat31st March,2011

No.	Particulars	Schedule	Current Year	Previous Year
	SourcesofFunds			
	Shareholders'Funds:			
	ShareCapital	5	900000	
	ReservesandSurplus	6	973947	
	FairValueChangeAccount			
	Borrowings	7		
	Total		**1873947**	
	ApplicationofFunds			
	Investments	8	3600000	
	Loans	9		
	FixedAssets	10		

		3600000
CurrentAssets		
CashandBankBalances	11	182462
AdvancesandOtherAssets	12	292300
Sub-Total(A)		474762
CurrentLiabilities	13	126500
Provisions	14	2074315
Sub-Total(B)		2200815
NetCurrentAssets(C)=(A)-(B)		-1726053
MiscellaneousExpenditure(totheextentnot writtenofforadjusted)	15	
DebitBalanceinProfitandLossAccount		
Total		**1873947**

SchedulesformingpartofB-RA

Particulars	Amount	Amount
Schedule1–Premiumearned–net		
Premium	2701533	
less:Reinsurance	112525	
Netpremium	2589008	
Adjustmentforchangesforreserveforunexpiredrisk		
Add:Openingbalanceofreserve(930000+330000)	1260000	
	3849008	
less:closingbalanceofreserve:		
2589008x40% =1035603		
Additionalopening=330000	1365603	**2483405**
Schedule2–Claimsincurred		
Claimspaid	602815	
Add:Surveyfees	36000	
Legalexpenses	20000	
	658815	
less:Claimsrecoveredfromreinsurance	21119	
Netclaimspaid	637696	
Add:outstandingattheend	104000	
	741696	
less:outstandingatthebeginning	60000	**681696**
Schedule3–Commission		
Commissionpaid	299777	
Add:Reinsurancecommissionaccepted	60038	
	359815	
Less:Reinsurancecommissionceded	48016	**311799**
Schedule4-operatingexpensesrelatedtoinsurancebusiness		
ExpensesofManagement	431947	

less:surveyfeesandlegalexpenses(36000+20000)	56000	**375947**

SchedulesformingpartofB-BS

Particulars	Amount	Amount
Schedule5–ShareCapital		**900000**
Schedule6–ReservesandSurplus		
GeneralReserve	450000	
Add:Additional	200000	
	650000	
BalanceinP&LA/c	323947	**973947**
Schedule7–Borrowings		**Nil**
Schedule8–Investments		**3600000**
Schedule9–Loans		**Nil**
Schedule10–FixedAssets		**Nil**
Schedule11–CashandBankBalances		**182462**
Schedule12–AdvancesandOtherAssets		
Advanceincometax	250000	
Agents'balances	20000	
outstandingpremium	22300	**292300**
Schedule13–CurrentLiabilities		
SundryCreditors	22500	
Claimsintimatedbutnotpaid	104000	**126500**
Schedule14–Provisions		
Reserveforunexpiredrisk(closing)	1365603	
Provision for taxProposeddividend	636712	
	72000	**2074315**
Schedule 15 – Miscellaneous Expenditure		Nil

Illustration5:FromthefollowingtrialbalanceofZenithInsuranceCompanyLtdprepareRevenueAccountforFireandMarinebusinessandProfitandLossAccountfortheyearended31st March2011andaBalanceSheetonthatdate:

InvestmentsFreehol	406980	
d	306142	
premisesLeaseholdpr	12604	
emisesAgents	46212	
balancesSundrydebt	17918	
ors	4513	
AdvanceincometaxoninterestanddividendClaimspai		
dandoutstanding:	102412	
FireMa	261512	
rine		
Expensesof management:Fire	96512	
Marine	142218	
Commission:		
FireMa	34921	
rine	62857	
Interest	919	
accruedOffice	14761	
furniturePreliminary	90212	
expenses	101738	
Cashandbankbalance		400000
Sharecapital(4000shares@Rs.100each)Cla		
imsadmittedbutnotpaid:		4620
FireMa		9808
rine		44962
Creditors		
Duetoreinsurers:Fire		2471
MarineInterest		4143
anddividendOther		19512
incomesPremiumrec		807
eived:		
FireMa		356418
rine		859960
	1702701	1702701

Provisionforunexpiredriskistobemadeat50%ofthepremiumreceivedforfirebusiness and100%ofthepremiumreceivedformarinebusiness.

Solution:

FORMB–RA

Name of the insurer: Zenith Insurance Co. LtdRegistrationNo.andDateofRegistrationwiththeIRDA

RevenueAccountfortheyearended31stMarch,2011Policyholders'Account(TechnicalAccount)

No.	Particulars	Schedule	Fire	Marine
1.	PremiumsEarned	1	178209	-----------
2.	(Net)Others(tobespecifie			
3.	d)			
4.	ChangeinProvisionsforunexpiredriskInterest,Div			
	idend&Rent-Gross		178209	------------
1.	Total	2	102412	261512
2.	(A)ClaimsIncurr	3	34921	62857
3.	edCommission	4	96512	142218
4.	Operating Expensesrelatedto insurance			
	businessOthers(tobespecified)		233845	466587
	Total(B)		-55636	-466587
	OperatingProfit/(Loss)fromFirebusiness(C)=(A-B)			
	Appropriations			
	TransfertoShareholders'AccountTr			
	ansfertoCatastropheReserve			
	TransfertoOtherReserves(tobespecified)Total(C)			
			-55636	-466587

FORMB-PL

Name of the insurer: Zenith Insurance Co. LtdRegistrationNo.andDateofRegistrationwiththeIRDA

ProfitandLossAccountfortheyearended31stMarch,2011Shareholders'Account(Non-technicalAccount)

No.	Particulars	Schedule	Current Year	Previous Year
1.	**OperatingProfit/(Loss)**			
	(a) FireInsurance		-55636	
	(b) MarineInsurance		-466587	
	(c) MiscellaneousInsuranceI			
2.	ncomefrominvestments			
	(a) Interest,dividends&rent–Gross		19512	
	(b) Profitonsale/redemptionofinvestmentsLe ss:Lossonsaleofinvestments			
3.	**Otherincome**(tobespecified)		807	
	Total(A)			
			-501904	

4.	**Provisions(otherthantaxation)** (a) Fordiminutioninthevalueofin vestments(net) (b) ForDoubtfulDebts (c) Others(tobespecified)			
5.	OtherExpenses (a) Expensesotherthanthosedirectlyrel atedtotheinsurancebusiness (b) Baddebtswrittenoff (c) Others(tobespecified)T otal(B)		----------	
	BalancecarriedforwardtotheBalanceSheet(A)-(B)		-501904	

FORMB-BS

Name of the insurer: Zenith Insurance Co. LtdRegistrationNo.andDateofRegistrationwiththeIR DA

BalanceSheetasat31stMarch,2011

N o.	Particulars	Sched ule	Current Year	Previous Year
	SourcesofFunds			
	Shareholders'Funds:			
	Share	5	309788	
	CapitalReservesandS urplus	6	----------	
	FairValueChangeAccountB orrowings	7	-----------	
	Total		**309788**	
	ApplicationofFundsI nvestments	8	406980	
	Loans	9	----------	
	Fixed AssetsCurrentA ssets	10	333777	
			740757	
	Cash and Bank Balances	11	101738	
	AdvancesandOthe rAssets	12	69562	
	Sub-Total(A)		171300	
	CurrentLiabilities	13	66004	
	Provisions	14	1038169	
	Sub-Total(B)		1104173	
	NetCurrentAssets(C)=(A)-(B)		-932873	
	MiscellaneousExpenditure (to theextent notwrittenofforadjusted)	15		
	DebitBalanceinProfitandLossAccount		501904	
	Total		**309788**	

SchedulesformingpartofB-RA

Particulars	Fire	Marine
Schedule1–Premiumearned–net		
Premium(Net)	356418	859960
less:closingbalanceofreserve:		
50%offireand100%ofmarine	178209	859960
	178209	------------
Schedule2–Claimsincurred		
Claimspaid	**102412**	**261512**
Schedule3–Commission		
Commissionpaid	**34921**	**62857**
Schedule4-operatingexpensesrelatedtoinsurancebusiness		
ExpensesofManagement	**96512**	**142218**

SchedulesformingpartofB-BS

Particulars	Amount	Amount
Schedule5–ShareCapital		
Paidupshares	400000	
less: Preliminary	90212	**309788**
expenses**Schedule6–**		**Nil**
ReservesandSurplusSchedule7–		**Nil**
Borrowings		**406980**
Schedule 8 –		**Nil**
InvestmentsSchedule 9 –		
LoansSchedule10–	306412	
FixedAssets	12604	
Freehold	14761	**333777**
premisesLeaseholdp		
remisesOfficefurnitu		**101738**
re		
Schedule11–CashandBankBalances		
CashinhandandBankbalances	4513	
Schedule12–AdvancesandOtherAssets	46212	
AdvanceincometaxA	17918	**69562**
gents’	919	
balancesSundry		
debtorsAccruedinte		
rest	44962	
	14428	
Schedule13–CurrentLiabilities	6614	**66004**
SundryCreditors		
Claimsadmitted but		
notpaid(4620+9808)Duetoreinsurers		
	178209	**1038169**
Schedule14–Provisions	859960	**Nil**
Reserveforunexpiredrisk(closing)Fire		

Exercises:

1. FollowingwerethebalanceextractedfromthetrialbalanceoftheSouthernLifeInsuranceCo.Ltd.at 31st March2011:

	Rs.000s		Rs.000s
Balanceofaccountatthe beginningoftheyear	2000000	Claimsadmittedbutnot paid	6000
Govt.Securities	1000000	Surrenders	20000
Profitonrealizationof assets	2000	Singlepremiums	80000
Investmentfluctuation account	10000	Considerationforannuities granted	50000
Claimsunderpoliciesby death	60000	Interest,dividendsandrent received	70000
		Depreciationonfurniture	3000
Claimsunderpoliciesby maturity	100000	Administrativeexpenses	36000
		Salaries	3000
Loansonmortgages	560000	Auditor’sfees	1500
Loansonpolicies	300000	Director’sfees	300
Freeholdpropertyand	103000	Legalexpenses	1000
furniture	3600	Advertising	1400
Sundrycreditors	2000	Printing,stationeryand	
Outstandingpremiums	24000	others	10800
Commissionpaid	24000	Cashatbank	168400
Interestaccruednotdue	3000	Provisionfordepreciation	3000
Premium(otherthan single)	200000		

PrepareaRevenueAccountandBalancesheet.

Ans:(Profit:Rs.141000andBalancesheetTotal:Rs.2151000)

2. FromthefollowingbalancesofMysoreGeneralInsuranceCo.Ltd.ason31st March2011,prepareR evenueAccounts,Profit&LossAccountandBalancesheet.

Claimspaidlessr einsurance:		Building(cost Rs.125000)Office equipment (costRs.48000)	87000
FireMa	80000		30000
rine	62000	Cash in	56000
General reserveCommissionpaid:	118000	handCashat bank	104000
FireMa	48000	Premiumlessreinsurance:Fire	210000
rine	39000	Marine	163000
Sharecapital(20000sharesof		Tax deducted at	9000
Rs.100each)	200000	sourceFurniture(costRs.1 8000)Premiumdue:	12000
Expensesof managementFire			
Marine	53000	FireMa	28000
Reserveforunexpiredrisk	36000	rine	20000
		Claimsoutstandingon1st	

(1st April2010):		April2010:Fir	
Fire	204000	eMarine	14000
Marine	123000	Duefrom other	2000
Investmentsatcost	2515000	insurersDirector'sfees	27000
Depreciation	21000	Commissiononreinsurancec	4000
Additionalreserves(1st		eded:	
April2010):		FireMa	
Fire	132000	rine	23000
Marine	16000	Dividends(Credit)	2000
Interestaccrued	25000	InterestoninvestmentsDu	20000
Contingencyreserve	39000	etootherinsurers	100000
Investmentreserve	47000		43000

Followingfurtherinformationisalsogiven:

(a) Claimsoutstandingon31st March2011are:FireRs.17000,MarineRs.6000
(b) MarketvalueofinvestmentsisRs.2401000.
(c) Increaseadditionalreserveby10%ofnetpremiumfortheyearforfire.
(d) Maintainreservesforunexpiredrisksat50%ofpremiumfortheyearincaseoffireinsuranceand100%ofpremiumfortheyearincaseofmarineinsurance.

Ans:(Fireprofit:Rs.127000,Marineloss:Rs.16000,BalancecarriedtoBalancesheet:Rs.139000andBalancesheettotal:Rs.2410000).