PERIYAR UNIVERSITY

Reaccredited by NAACwith 'A++' Grade -StateUniversity,Salem-636 011, TamilNadu,India.

CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)-ONLINEDEGREEPROGRAMMES BACHELOR OF COMMERCE (B.COM)

IV SEMESTER

CORPORATE ACCOUNTING-II

SELF-LEARNING MATERIAL

Subject Matter Expert

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CORPORATE ACCOUNTING -II

Subject Code	Subject Name	Category	L	T	P	S	Credits	Inst. Hours	Marks		
									CI A	External	Total
	Corporate accounting		5	-	-	-	4	5	25	75	100

Course Objectives	
LO1	To Acquire Communication Awareness , They Are Going To Get For The Industry.
LO2	To Make The Customer Realize That You Can Provide Them With Information And Other Essential
LO3	To Explore The Skill Of Writing Business Proposals
LO4	To Develop A Plan For The Meetings And Interviews
LO5	To Analyse The Skills Required For Non-Verbal Communication

SYLLABUS

UNIT	Details	No. of Hours	Course Objectives
I	**UNIT 1 - Amalgamation, Internal & External Reconstruction Amalgamation** : Meaning - Purchase Consideration - Lump sum Method, Net Assets Method, Net Payment Method, Intrinsic Value Method - Types of Methods of Accounting for Amalgamation -The Pooling of Interest Method - The Purchase Method(Excluding Inter-Company Holdings). Internal & External Reconstruction Internal Reconstruction – Conversion of Stock – Increase and Decrease of Capital – Reserve Liability - Accounting Treatment of External Reconstruction	15	C1

II	**UNIT II – Accounting of Banking Companies** : Final Statements of Banking Companies (As Per New Provisions) - Non-Performing Assets - Rebate on Bills Discounted- Profit and Loss a/c - Balance Sheet as Per Banking Regulation Act 1949.	15	C2
III	**UNIT III - Insurance Company Accounts**: Meaning of Insurance – Principles – Types – Preparation of Final Accounts of Insurance Companies – Accounts of Life Insurance Business – Accounts of General Insurance Companies -New Format	15	C3
IV	**UNIT IV- Consolidated Financial Statements :** Introduction-Holding & Subsidiary Company-Legal Requirements Relating to Preparationof Accounts -Preparation of Consolidated Balance Sheet (Excluding Inter-Company Holdings).	15	C4
V	**UNITV- Liquidation of Companies** : Meaning-Modes of Winding Up – Preparation of Statement of Affairs and Statement of Deficiency or Surplus (List H) Order of Payment – Liquidators Remuneration- Liquidator‘s Final Statement of Accounts.	15	C5
	Total	**30**	
Course Outcomes			

Course Outcomes	On completion of this course, students will;	Program Outcomes
CO1	Understand The Accounting Treatment Of Amalgamation, Internal And External Reconstruction	PO4, PO6
CO2	Construct Profit And Loss Account And Balance Sheet Of Banking Companies In Accordance In The Prescribed Format.	PO4, PO6
CO3	Synthesize And Prepare Final Accounts Of Insurance Companies In The Prescribed Format	PO4, PO6
CO4	Give The Consolidated Accounts Of Holding Companies	PO4, PO6
CO5	Preparation Of Liquidator‘S Final Statement Of Account	PO4, PO6

Reading List

1.	S.P. Jain And K.L Narang. Advanced Accountancy, Kalyani Publishers, New Delhi.
2.	Dr.K.S .Raman And Dr. M.A. Arulanandam , Advanced Accountancy, Vol. II, Himalaya Publishing House, Mumbai.
3.	R.L. Gupta And M. Radhaswamy, Advanced Accounts, Sultan Chand, New Delhi.
4.	M.C. Shukla And T.S. Grewal, Advanced Accounts Vol.II, S Chand & Sons, New Delhi
5.	T.S. Reddy And A.Murthy, Corporate Accounting II, Margham Publishers, Chennai

References Books

1.	B.Raman, Corporate Accounting, Taxmann, New Delhi
2.	M.C.Shukla, Advanced Accounting,S.Chand, New Delhi
3.	Prof. Mukeshbramhbutt, Devi Ahilya Publication, Madhya Pradesh
4.	Anil Kumar , Rajesh Kumar, Advanced Corporate Accounting, Himalaya Publishing House, Mumbai.
5.	Prasanth Athma, Corporate Accounting, Himalaya Publishing House, Mumbai.

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CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)-ONLINE DEGREE PROGRAMMES

BACHELOR OF COMMERCE (B.COM)

CORPORATE ACCOUNTING-II

Unit I Amalgamation, Internal & External Reconstruction Amalgamation			
Meaning - Purchase Consideration - Lump sum Method, Net Assets Method, Net Payment Method, Intrinsic Value Method - Types of Methods of Accounting forAmalgamation -The Pooling of Interest Method - The Purchase Method(Excluding Inter-Company Holdings). Internal & External Reconstruction Internal Reconstruction – Conversion of Stock – Increase and Decrease of Capital – Reserve Liability - Accounting Treatment of External Reconstruction.			
Section1.1	**Amalgamation, Internal & External Reconstruction Amalgamation**	**PPT**	**Video**
1.1.1	Meaning Of Amalgamation		
1.2	Types Of Amalgamation		
1.3	Accounting Problems Relating To Amalgamation And External Reconstruction		
1.4	Different Types Purchase Consideration		
1.5	Methods Of Accounting For Amalagamation		
1.6	External Reconstruction		
1.7	Internal Reconstruction (Or) Capital Reduction		
Unit II Accounting of Banking Companies			
Accounting of Banking Companies Final Statements of Banking Companies (As Per New Provisions) - Non-Performing Assets - Rebate on Bills Discounted- Profit and Loss a/c - Balance Sheet as Per Banking Regulation Act 1949.			
Section 2.1	Introduction	**PPT**	**Video**
2.1.	Definition Of Banking Companies		
2.2	Business Of Banking Companies		
2.3	Classification Of Bank Advances		
2.4	Accounting System		
2.5	Final Accounts Of Banks		
2.6	Profit And Loss Account		
2.7	Balance Sheet		
2.8	Guidelines Of The Reserve Bank Of India For The Preparation Of Final Accounts Of Banking Companies		

2.9	Branch Adjustments Or Inter - Office Adjustments		
2.10	Classification Of Bank Advances And Its Provisioning. (Asset Classification)		
Unit III Insurance Company Accounts:			
Insurance Company Accounts: Meaning of Insurance – Principles – Types – Preparation of Final Accounts of Insurance Companies – Accounts of Life Insurance Business – Accounts of General Insurance Companies -New Format			
Section 3.1	Insurance	**PPT**	**Video**
3.1.1	Meaning Of Insurance		
3.2.1	Principles Of Insurance		
3.3	Types Of Insurance		
3.3.1	General Insurance		
3.3.2	Life Insurance		
3.4	Companies Carrying On Insurance Business		
3.5	Preparation Of Final Accounts Of Insurance Companies		
3.6	Life Insurance Company Account New Format		
3.7	Explanation Of Items In The Final Accounts Of Life Insurance		
3.8	Determination Of Profit In Life Insurance Business		
3.9	Final Accounts Of General Insurance		
3.10	Reserve For Unexpired Risk		
Unit IV	**CONSOLIDATED FINANCIAL STATEMENTS**		
	Meaning - Modes of Winding Up – Preparation of Statement of Affairs and Statement of Deficiency or Surplus (List H) Order of Payment – Liquidators Remuneration- Liquidator‘s Final Statement of Accounts.		
Section 4.1	Introduction	**PPT**	**Video**
4.1.2	Meaning Of Holding Company		
4.1.3	Definition Of Holding Company		
4.1.4	Meaning Of Subsidiary Company		
4.2	Preparation Of Consolidated Balance Sheet		
4.3	Steps Involved In Preparation Of Consolidated		

Unit V	**LIQUIDATION OF COMPANIES**		
	Meaning - Modes of Winding Up – Preparation of Statement of Affairs and Statement of Deficiency or Surplus (List H) Order of Payment – Liquidators Remuneration- Liquidator‘s Final Statement of Accounts.		
Section 5.1	Liquidation Of Companies	**PPT**	**Video**
5.1.1	Introduction Of Liquidation Of Companies		
5.1.2	Meaning Of Liquidation Of A Company		
5.1.3	Meaning Of Liquidator		
5.2	Modes Of Winding Up		
5.2.1	Compulsory Winding Up - By The Court		
5.2.2	Procedure For Compulsory Winding Up		
5.3.1	Voluntary Winding Up Of A Company		
5.3.2	Procedure For Voluntary Winding-Up		
5.4	Subject To The Supervision Of The Court		
5.4.1	Implications Of Company Winding Up		
5.5	Meaning Of Contributory		
5.6	Order Of Payment In The Liquidation Of A Company		
5.7	Secured Creditors		
	Preferential Creditors		
5.7.2	Unsecured Creditors		
5.8	Liquidator’s Final Statement Of Account		

UNIT-I

1.1 AMALGAMATION, EXTERNAL AND INTERNAL RECONSTRUCTION

1.1.1MEANING OF AMALGAMATION

The term ‘Amalgamation’ is used when two or more existing business go in for liquidation and a new company is formed to take over the assets and liabilities. An amalgamation happens when two or more companies combine to form a completely new entity. This process is a distinct form of a merger in which neither company that is involved survives as a legal entity and a completely new brand or legal entity is formed. This new entity houses the combined assets and liabilities of both the involved companies.

Ex: A Ltd and B Ltd agrees to amalgamate and form a new company called ‘AB’ Ltd.

At the end of the year, instead of preparing two separate balance sheets, a combined single amalgamated balance sheet is prepared to find out the true and fair nature of the business

1.2. TYPES OF AMALGAMATION

1. **AMALGAMATION IN THE NATURE OF MERGER:**
   Amalgamation in the nature of a merger As the name suggests, this is the type of amalgamation which works as a merger. In this, the transferee or the stronger company absorbs the transferor or the weaker company and the two entities pool their shareholders’ interest, as well as the assets and liabilities. Businesses of both the companies continue to run under the newly formed entity and if the shareholders of the transferor meet the minimum requirements, then they can become shareholders in the new company as well.
2. **AMALGAMATION IN THE NATURE OF PURCHASE:**
   Amalgamation in the nature of a purchase If the shareholders of the transferor company fail to meet the minimum requirements and conditions, then they cannot retain their position in the new entity and the amalgamation process takes place like a purchase which is made by the stronger transferee company wherein only the shareholders of the transferee company become shareholders in the new entity.

Accounting Problems Relating To Amalgamation And External Reconstruction:

1.3 PURCHASE CONSIDERATION

Purchase consideration is the amount which is given to the vendor company for the acquisition of business. They are usually governed by the terms of agreement between the transferor (selling) and transferee (purchasing) companies.

1.4 DIFFERENT TYPES PURCHASE CONSIDERATION :

- **Net Assets Methods**
- **Net Payment Method**
- **Lump Sum Method**
- **Intrinsic Value Method (Or) Share Exchange Method**

A. NET ASSETS METHODS:

Purchase consideration is calculated by taking over the net assets of the business

Net assets = Agreed value of assets taken over – Agreed value of liabilities taken over.

 When a company takes over another company, it implies that both assets and liabilities are taken over.
 The term ‘Assets’ taken over includes cash and bank balances also.
 Losses shown on the asset side of the balance sheet are not to be taken as assets.
 Any specific assets not taken over should be ignored while computing the purchases price.
 ‘Liabilities’ includes all amounts due to third parties.
 Accumulated profits do not form part of ‘liabilities’ they belong to shareholders.
 Staff provident funds, workmen’s saving bank account, workmen’s profit sharing fund etc denotes liabilities to third parties.

B. NET PAYMENT METHOD:

The purchase consideration is calculated by adding all payments made by the company in the form of shares, debentures, cash etc. The total purchase consideration consists of shares, debentures, cash and premium also.

C. LUMP SUM METHOD:

The purchase price to be paid may be mentioned in the agreement directly. The lump sum is to be taken as purchase consideration, eliminating the need to compute it.Me

D. INTRINSIC VALUE METHOD (OR) SHARE EXCHANGE METHOD:

Purchase consideration is ascertained on the basis of the ratio in which the shares of the purchasing company are exchanged with those of the selling company. The exchange ratio is generally determined on the basis of ‘Intrinsic values’ of the respective companies’ shares.

Intrinsic values = Assets available for equity shareholders / Number of equity shares.

All amounts due to third parties and even preference shareholders must be reduced from total assets to ascertain the assets available to equity shareholders.

1.5 METHODS OF ACCOUNTING FOR AMALAGAMATION

There are two main methods of accounting for amalgamations:

a. **The Pooling of interest methods**
b. **The Purchase method**

A. THE POOLING OF INTEREST METHODS:

The term pooling of interests refers to an accounting method that was used to combine the balance sheets of two companies that went through a merger or acquisition. The pooling of interests method allowed the merged or acquired company's assets and liabilities to be transferred to the acquirer at their book values. The pooling-of-interests method was phased out in 2001 and replaced by purchase accounting to account for business combinations.

- The pooling of interests method governed how the balance sheets of two companies that were merged would be combined.
- It combined the assets and liabilities of both companies into one at book value.
- Intangible assets were not included, making the pooling of interests a preferred accounting method as it did not result in amortized costs or negatively impacted earnings.
- This method was replaced by the purchase accounting method, which itself was replaced by the current method, the purchase acquisition method.
- The adjustment by FASB to incorporate impairment tests before including amortized expenses reduced the impact of the purchase accounting method.
- Companies must account for assets and liabilities acquired from another business after a merger or acquisition takes place. There are accounting rules set in place that dictate the process. Pooling of interests was a popular method used in the past to account for the balance sheets of companies that were merged or acquired.
- This method allowed assets and liabilities to be transferred from the acquired company to the acquirer at book values. The assets and liabilities were simply summed together for a net number in each category when combining both balance sheets. Past financial statements were then reevaluated. Intangible assets, such as goodwill, were not included in the calculation of the pooling of interests.

- The pooling of interests method was fairly popular among companies as it did not include goodwill reductions. This eliminated the need for the new company to pay any amortized costs and also had a positive impact on corporate earnings. As such, this gave the acquired company's financial ratios a boost.

ADVANTAGES OF THE POOLING OF INTERESTS METHOD

The pooling of interests was an accounting method that companies used when they merged with or acquired another company. It allowed companies to combine their balance sheet with the target company's and assume its assets and liabilities. It allowed the acquirer to use the book values of the assets and liabilities without having to account for goodwill. Without the need for goodwill reductions, the company didn't need to pay any amortized costs. This had a positive impact on earnings and boosted the acquirer's financial ratios.

B. THE PURCHASE METHOD:

Under the purchase method, the transferee company accounts for the amalgamation either

a. By incorporating the assets and liabilities at their existing carrying amounts or
b. By allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Many amalgamations recognise that adjustments may have to be made to the consideration in the light of one or more future events. When the additional payment is probable and can reasonably be estimated at the date of amalgamation, it is included in the calculation of the consideration. In all other cases, the adjustment is recognised as soon as the amount is determinable [AS 4].

Accounting Treatment for Amalgamation

In the books of selling company

1. For Transferring Assets to Realisation A/c

Realisation A/c Dr

To Sundry assets A/c

2. For transferring liabilities taken over:

Liabilities A/c Dr

To Realisation A/c

3. For purchase consideration receivable:

Purchasing Co.'s A/c Dr

To Realisation A/c

4. for receiving purchase consideration

Bank A/c Dr

Shares in purchasing Co. A/c Dr

Debentures in purchasing Co. A/c Dr

To Purchasing Co. A/c

b. If expenses are to be borne by the purchasing company

Purchasing co. A/c Dr

To Bank A/c

c. Bank A/c Dr

To Purchasing Co.

(Being expenses paid reimbursed by the purchasing company)

5. For realizing assets not taken over

Bank A/c Dr

To Realisation A/c

6. For payment of liabilities not taken over:

Liability A/c Dr

ealisation A/c (any premium) Dr

To Bank A/c

To Realisation A/c (any discount)

7. For payment of Realisation expenses:

a. If expenses are to be borne by selling company

Realisation A/c Dr

To Bank A/c

8. For discharging the debentures:

a. Repayable at a premium:

Debentures A/c Dr

Realisation A/c (premium) Dr

To Debenture holders A/c

b. Repayable at discount:

Debentures A/c (face value) Dr

To Bank A/c

To Debentures in purchasing Co.

9. For discharge of preference share capital:

a. For repayment at premium:

Preference share capital A/c (face value) Dr

Realisation A/c(premium) Dr

To preference shareholders.

For repayment at discount:

Preference share capital A/c(face value) Dr

To Preference shareholders

To Realisation A/c

b. For payment to preference shareholders:

Preference shareholders A/c Dr

To Bank A/.c

To Shares in purchasing co.

10. For transfer of equity share capital and Accumulated profits:

Equity share capital A/c Dr

General Reserve A/c Dr

Profit and Loss A/c Dr

Any other reserves A/c Dr

To Equity shareholders A/c

11. For transfer of accumulated losses:

Equity shareholders A/c Dr

To profit & Loss A/c

To preliminary expenses A/c

To Discount on issue of shares etc.

12. For Realisation profit or loss:

For profit:

Realisation A/c Dr

To Equity shareholders A/c

For Loss:

Equity shareholders A/c Dr

To Realisation A/c

13. For final payment to the equity shareholders:

Equity shareholders A/c Dr

To Bank A/c

To Shares in purchasing co.

Journal entries in the books of Purchasing Company

1. For purchase consideration payable:

Business purchase A/c Dr

To Liquidator of Transferor company

2. For Assets and Liabilities:

Sundry Assets A/c Dr

To Sundry liabilities

3. For payment of purchase price:

Liquidator of selling co. A/c Dr

To Bank A/c

To Share capital A/c

To Share premium A/c

To Debentures A/c

(Being purchase price paid in the form of cash, shares and debentures)

PROBLEMS:

1. Raman Ltd agrees to purchase the business of Krishna Ltd on the following terms:

   a. For each of the 10,000 shares of Rs.10 each in Krishna Ltd .2 shares in Raman Ltd of Rs.10 each will be issued at an agreed value of Rs. 12 Per share. In addition, Rs.4 per share cash also will be paid.

b. 8% Debentures worth Rs.80,000 will be issued to settle the Rs.60,000 9% debentures in Krishna Ltd.
c. Rs.10,000 will be paid towards expenses of winding up.

Calculate the purchase consideration.

SOLUTION :

Calculation of purchase consideration

Shares to be issued for shareholders of the selling Co,	Rs
10,000 x 2x 12	2,40,000
Add: Cash to be paid for shareholders of the selling Co	
10,000x 4	40,000
Purchase consideration	**2,80,000**

2. Amalgamation in the Nature of Merger

Alpha Ltd and Beta Ltd were amalgamated on 1st April 2021. A new company Gemma Ltd. Was formed to take over the business of the existing companies. The balance sheets of Alpha Ltd and Beta Ltd as on 31 st March 2021 are given below:

Liabilities	**Alpha Ltd Rs**	**Beta Ltd Rs**	**Assets**	**Alpha Ltd Rs**	**Beta Ltd Rs**
Share Capital	1000	800	Fixed assets	1200	1000
Equity Shares of Rs.100 each			Loans and Advances	880	565
15 % Pref.Shares of Rs.100 each	400	300			
Reserve and surplus					
Revaluation reserve	100	80			
General Reserve	200	150			
P& L A/c	80	60			
Secured loan					
12 % Debentures of Rs.100	96	80			

each **Current Liabilities** Provisions	 204 **2080**	 95 **1565**		 **2080**	 **1565**

OTHER INFORMATION:

i. 12% debentures of Alpha Ltd and Beta ltd are discharged by Gamma Ltd by issuing adequate number 0f 16% debentures of Rs.100 each to ensure that they continue to receive the same amount of interest.

ii. Preferensce share holders of Alpha Ltd and Beta ltd have received same number of 15% preference shares of Rs.100 each of Gamma Ltd.

iii. Gamma Ltd has issued 1.5 equity shares for each equity share of Alpha Ltd and 1 equity share of Beta Ltd. The face value of shares issued by Gamma Ltd is Rs.100 each.

SOLUTION:

Notes of Accounts:

	Rs in lakh
1.Share capital	
Issued and paid up capital	
Equity shares of Rs.100 each	2300
15 % Preference shares of Rs. 100 each	700
	3000
2.Reserves and surplus	
Revaluation reserve (100+80)	180
General Reserve (W.N.3)	-
Profit & Loss a/c (W.N.3)	34
	214
3.Long term borrowings:	
16 % debentures o Rs.100 each (W.N.2)	132
4.Tangible Assets:	
Fixed Assets(1200+1000)	2200

Balance Sheet of Gamma Ltd as on 1.4.2021

	Note No	Rs.in lakh
1.Equity and liabilities		
(i)Share holders fund		
Share capital	**1**	3000
Reserves and surplus	**2**	214
(ii) Non-current liabilities		
Long term borrowings	**3**	132
(iii)Current liabilities(204+95)		299
		3645
Total (i)+(ii)+(iii)		
2.Assets:		
(i) Non-current assets:		
Tangible assets		2200
Intangible assets		
(ii) Current assets: (880+ 565)		1445
Total (i)+ (ii)		**3645**

Working Note: 1

Purchase Consideration

	Alpha Ltd	Beta Ltd	Total
Equity Shares for shareholders Alpha Ltd (1000x1.5)	**1500**	**-**	1500
Equity Shares for shareholders of Beta Ltd (800x 1)	**-**	**800**	800 **2300**
Preference shares for shareholders of Alpha Ltd & Beta Ltd.	**400**	**300**	700 **3000**
Purchase Consideration Share capital of Transfer Co Alpha & Beta	**1400**	**1100**	2500

Excess of purchase Consideration over share capital.			**500**

Working Note: 2

Statement of Debentures of Transferor Companies

	Alpha Ltd	**Beta Ltd**	**Total**
Value of Debentures issued by Gamma Ltd	96x 12/16 = 72	80x 12/16=60	132
Face value of Debentures of Transferor Co	96	80	176
Excess of face value of debentures settled over value of debentures issued.	**(24)**	**(20)**	**(44)**

Net excess payment to be adjusted in the Balance sheet of Transferee Co against reserves= 500-44=456.

Working Note: 3

Reserves to be shown in Balance sheet

	General Reserve	**Profit & Loss a/c**
Alpha Ltd	200	80
Beta Ltd	150	60
	350	**140**
Less: Excess payment to be adjusted	350	106
		34
Balance to be shown in Balance sheet	-	

3. **The following are the abridged balance sheets of P ltd and S Ltd as on 31 st March 2019.**

Liabilities	**P Ltd** ***(in Rs' 000')***	**S Ltd** ***(in Rs '000')***		**P Ltd** ***(in Rs '000')***	**S Ltd** ***(in Rs' 000')***
Equity share capital of Rs.100 each	8000	3000	Fixed Asset	11,000	4730
10% Preference shares	-	1000	Current Assets	4000	1970
General reserve	4610	980			
Statutory reserve	390	125			
Profit & loss a/c	563	355			
12% Debentures	-	250			
Current Liabilities	1437	990			
	15,000	**6700**		**15,000**	**6700**

On 1 st April 2019 , P Ltd takes over S Ltd on the following terms:

- P Ltd will issue 3,50,000 equity Shares of Rs.10 each at par to the equity shareholders of S Ltd.
- P Ltd P Ltd will issue 11,000 Preference shares of Rs.100 each at par to the Preference shareholders of S Ltd.
- The debentures of S Ltd will be converted in to equal number of 12.5 % debentures of the same demonization.

You are informed that the statutory reserves of S Ltd are to be maintained for two more years. You are required to show the balance sheet of P Ltd immediately after the above mentioned scheme of amalgamation has been implemented assuming that:

- The Amalgamation is in the nature of Merger
- The Amalgamation In the nature of Purchase

SOLUTION:

a) When the Amalgamation is in the nature of Merger

Balance Sheet of P Ltd as on 1.4.2019

	Note No	**Rs.in lakh**
1.Equity and liabilities		
(i)Share holders fund		
Share capital	**1**	2,26,00,000
Reserves and surplus	**2**	64,23,000
(ii) Non-current liabilities		
Long term borrowings	**3**	2,50,000
(iii)Current liabilities		24,27,000
Total (i)+(ii)+(iii)		**21,7,00,000**
2.Assets:		
(i) Non-current assets:		
Tangible assets	**4**	1,57,30,000
Intangible assets		
(ii) Current assets:		5970,000
Total (i)+ (ii)		**21,7,00,000**

Working Note: 1

	Rs
P Ltd's General reserve	46,10,000
Add: S Ltd's General reserve	9,80,000
	55,90,000
Less: Excess Purchase consideration over share capital of S Ltd (46,00,000-40,00,000)	6,00,000
General reserve to be shown in Balance sheet	**49,90,000**

b) When Amalgamation is in the nature of Purchase

Balance Sheet of P Ltd as on 1.4.2019

	Note No	**Rs.in lakh**
1.Equity and liabilities		
(i)Share holders fund		
Share capital	**1**	2,26,00,000
Reserves and surplus	**2**	65,48,000
(ii) Non-current liabilities		
Long term borrowings	**3**	2,50,000
(iii)Current liabilities		24,27,000
Total (i)+(ii)+(iii)		**2,18,25,000**
2.Assets:		
(i) Non-current assets:		
Tangible assets	**4**	1,57,30,000
Intangible assets		
(ii) Current assets:		5970,000
Total (i)+ (ii)		**2,18,25,000**

Working Note: 2

Calaculatin of Capital reserve or Goodwill

		Rs
Total assets of S Ltd taken over		67,00,000
Less: Debentures of S Ltd	2,50,000	
Less: Current Liabilities of S Ltd	9,90,000	12,40,000
		54,60,000
Less: Consideration payable to : Equity shareholders Pref. share holders	35,00,000 11,00,000	46,,00,000
Capital reserve to be shown in B/S		**8,60,000**

1.6 EXTERNAL RECONSTRUCTION

MEANING:

'Reconstruction' of a company involves reorganization of its 'Financial structure'. If the reorganization is accomplished without liquidating the company. It is internal reconstruction. When the reorganization of a company financial structure necessitates the winding up of the company and floatation of a new company with the same assets and shareholders, it is termed as 'External reconstruction.

1.7 INTERNAL RECONSTRUCTION (OR) CAPITAL REDUCTION

MEANING OF INTERNAL RECONSTRUCTION:

Reconstruction refers to Reorganizations of the capital structure of a company. Reconstruction may be necessary for those companies whose financial position is bad. Such reconstruction can be 'External' or 'Internal'.

External Reconstruction means a new company is formed to take over the business of an existing company which will be liquidated.

Internal Reconstruction means the capital of a company is reorganized to enable it to make a fresh beginning after eliminating accumulated losses.

Model of Journal Entries

1. **For consolidation of shares**
   Share capital (10) A/c Dr

   To Share capital (100)

2. **For sub-division of Shares:**
   Share capital (100) A/c Dr

   To Share capital (10)

3. **For conversion of Shares in to stock**
   Equity share capital A/c Dr

   To Equity share capital stock A/c

4. **When uncalled capital is reduced or extinguished:**
   Share capital (100) A/c Dr

   To share capital A/c (60)

5. For refunding surplus capital

Share capital (100) A/c Dr

To share capital A/c (80)

To Shareholders A/c (20)

6. For Reduction of share capital,(changes in face value or dividend %)

Share capital (old) A/c Dr

To Share capital (New) A/c

To Capital Reduction A/c

7. For Reduction of Capital (No change of rights)

Share capital A/c Dr

To Capital Reduction A/c

8. For any sacrifice made by debenture or creditors:

Debentures A/c Dr

Creditors A/c Dr

To Capital Reduction A/c

9. For Appreciation in the value of assets:

Asset A/c Dr

To Capital Reduction A/c

10. for payment of Reconstruction expenses:

Reconstruction Expenses A/c Dr

To bank A/c

11. for payment of contingent liability:

Contingent liability A/c Dr

To Bank A/c

12. When shares are surrendered by shareholders

Share capital A/c Dr

To surrendered shares A/c

13. When surrendered shares are reissued:

Surrendered Shares A/c Dr

To share capital A/c

14. For canceling unissued Surrendered shares:

Surrendered shares A/c Dr

To capital Reduction A/c

15. For writing off losses and reducing assets

Capital Reduction A/c Dr

To P&L A/c

To Preliminary expense

To Goodwill

To Patents

To Reconstruction expenses

To Contingent liability

To Discount on issue of shares

To Assets (reduced amount)

To Capital Reserve A/c (balance if any)

PROBLEMS:

1.Bee Ltd. has 60,000 equity share of Rs.100 each, Rs.80 per share called up. The company decides to pay off Rs.20 per share of the paid up capital and the same time to reduce the Rs.100 shares to Rs.60 shares fully paid by canceling the unpaid amount. Show journal entries .

SOLUTION:

Books of Bee Ltd.
Journal entries

Date	Particulars	L.F	Debit Rs	Credit Rs
	Share capital (Rs 10) A/c Dr		4,80,000	
	To Share capital (Rs 60) A/c			3,60,000
	To Share holders A/c			1,20,000
	(Being reduction of 60,000 equity shares of Rs.100 each, Rs.80 per shares paid to 60,000 shares of Rs.60 each fully paid and refund of Rs.20 per share by cancelling the unpaid amount).			
	Share holders A/c Dr		1,20,000	
	To Bank A/c			1,20,000
	(Being the amount paid to share holders)			

2.ABC Company Ltd passed resolution and got court permission for the reduction of its share capital by Rs.5,00,000 for the purpose mentioned as under:

- To write off the debit balance of profit and loss acount Rs.2,10,000 .
- To reduce the value of plant and machinery by 9,00,000 and goodwill by Rs.40,000
- To reduce the value of investment by Rs.80,000.

The reduction was made by converting 50,000 preference share of Rs.20 each fully paid to the same number of preference share of Rs.15 each fully paid and by converting 50,000 equity share of Rs.20 each on which Rs.15 is paid up in to 50,000 equity share of Rs.10 each fully paid up. Give journal entries for the following transaction in connection with internal reconstruction.

SOLUTION:

Books of ABC Ltd.
Journal entries

Date	Particulars	L. F	Debit Rs	Credit Rs
	Preference Share capital A/c (Rs.20) Dr		10,00,000	
	To Preference Share capital A/c (Rs.15)			7,50,000
	To Capital Reduction A/c			2,50,000
	(Being conversion of 50,000 equity shares of Rs 20 each to shares fully paid in to shares of Rs.15 each fully paid and the balance transferred to capital reduction A/c).			
	Equity Share capital A/c (Partly paid) Dr		7,50,000	
	To Equity Share capital A/c (Fully paid)			5,00,000
	To Capital Reduction A/c			2,50,000
	(Being conversion of Partly paid shares in to Fully paid and the balance transferred to capital reduction A/c).			
	Capital Reduction A/c Dr		5,00,000	
	To P&L A/c			2,10,000
	To Plant & Machinery			90,000
	To Goodwill A/c			40,000
	To Investment A/c			80,000
	To Capital Reserve A/c (B/F)			80,000
	(Being loss written off , assets written down and balance of capital reduction transferred to capital reserve A/c)			

3. XYZ Ltd resolved to reduce its capital to 50,000 fully paid Rs.5 shares and to eliminate securities premium account. The company's balance sheet prior to implementation o f the scheme was:

Liabilities	Rs.	Assets		Rs.
Share capital: 50,000 Equity shares of Rs.10 each	5,00,000	Land and Building		1,62,000
Securities premium A/c	50,000	Plant and Machinery		2,07,000
Creditors	62,000	Goodwill		1,00,000
Bank overdraft	73,000	Stock		92,000
		Debtors		74,000

		P&L A/c		50,000
	6,85,000			**6,85,000**

It was resolved to apply the sum available under the scheme:

- To write off the debit balance of profit and loss account
- To write off the Goodwill A/c
- To reduce the book value of the assets by the following amounts:

  Plant and machinery – Rs.67,000
  Stock - Rs.33,600
  Land and Building - Rs.42,000
- To provide a bad debts reserve of 10 % of the book value of debtors.

Pass journal entries and prepare the revised Balance sheet after the scheme implementation.

SOLUTION:

Books of XYZ CO Ltd.
Journal entries

Date	Particulars	L. F	Debit Rs	Credit Rs
	Share capital A/c Dr		2,50,000	
	To Capital Reduction A/c			2,50,000
	(Being reduction of 50,000 equity shares by Rs.5 each).			
	Securities Premium A/c Dr			
	To Capital Reduction A/c		50 ,000	
	(Being Securities Premium A/c transferred to Capital Reduction A/c).			50,000
	Capital Reduction A/c Dr		3,00,000	
	To P&L A/c			50,000
	To Plant & Machinery A/c			67,000
	To Land & Building A/c			42,000
	To Goodwill A/c			1,00,000
	To Stock A/c			33,600
	To provision of bad debts			7400
	(Being loss written off , assets written down)			

Balance Sheet of XYZ CO Ltd as on

	Note No	Rs
1.Equity and liabilities		
(i)Share holders fund		
Share capital	**1**	2,50,000
Reserves and surplus	**2**	-
(ii) Non-current liabilities		
Long term borrowings	**3**	-
(iii)Current liabilities		62,000
Trade payables		73,000
Short term borrowings		
Total (i)+(ii)+(iii)		**3,85,000**
2.Assets:		2,60,000
(i) Non-current assets:	**4**	
Tangible assets		-
Intangible assets		
(ii) Current assets:		58,400
Stock		66,600
Trade receivables (74,000-7400)		
		3,85,000
Total (i)+ (ii)		


CHECK YOUR PROGRESS


1. When two or more companies carrying on similar business decide to combine, a new company is formed, it is known as ....

(A) Amalgamation

(B) Absorption

(C) Internal reconstruction

(D) External reconstruction

ANSWER:Amalgamation

2. Which of the following statement is correct?

(A) The amount of Goodwill or Capital Reserve is recorded in the books of purchasing company only

(B) The amount of Goodwill or Capital Reserve is recorded in the books of vendor company only.

(C) Goodwill = Net Assets – Purchase price

(D) The face value of shares of purchasing company will be taken in to account while calculating purchase consideration.

ANSWER: The amount of Goodwill or Capital Reserve is recorded in the books of purchasing company only

3. The Amalgamation Adjustment Account appears in the books, it is shown under the heading of ....in the balance sheet.

(A) Reserve and Surplus

(B) Fixed Assets

(C) Investments

(D) Miscellaneous Expenditure

ANSWER: Reserve and Surplus

4. As per AS-14 purchase consideration is payable to__________________.

(A) Shareholders

(B) Creditors

(C) Debenture holders

(D) Bank

ANSWER: Shareholders

5. When liquidation expenses is paid and borne by seller company then it is debited to______

(A) Bank A/c

(B) Goodwill A/c

(C) Realisation A/c

(D) Capital Reserve A/c.

ANSWER: Realisation A/c

Amalgamation and external reconstruction problems:

6. Ram Ltd., and Shyam Ltd., has agreed to amalgamate. A new company Rajesh Ltd has been formed to take over the combined concern on 31st Dec 1998. After negotiations, the assets of the two companies have been agreed upon as shown below:

Balance sheet as on 31.12.98

Liabilities	Ram	Shyam	Assets	Ram	Shyam
Share capital: Shares of Rs.10 each	1000000	500000	Land & Buildings	500000	300000
Reserve fund	-	50000	Plant and Machinery	200000	250000
P&L A/c	50000	50000	Good will	-	50000
Creditors	80000	50000	Furniture	110000	-
			Stock	150000	20000
			Debtors	120000	20000
			Bank	50000	10000
	1130000	650000		1130000	650000

Prepare the balance sheet of Rajesh Ltd., assuming

- The entire purchase price is paid off in the form of equity shares of Rs.100 each in Rajesh Ltd.
- The amalgamation is in the nature of merger.

7. 'X' Ltd and 'Y' Ltd agree to amalgamate as from 31st Dec 1993 on which date their respective Balance sheet were as follows:

Liabilities	**X**	**Y**	**Assets**	**X**	**Y**
Share capital: Share of Re.1 each	80000	25000	Cash in hand	100	50
Sundry creditors	3000	1000	Cash at bank	3400	450
Reserves	7500	4000	Sundry debtors	22500	6000

Profit & Loss A/c	2500	1000	Plant	12000	4500
			Stock	15000	7000
			Premises	30000	10000
			Patents	10000	3000
	93000	31000		93000	31000

Draw up the Balance sheet of the new company'XY'Ltd which was incorporated to take over the amalgamated concerns and state the number of shares in the new company which will be allotted to the shareholders of the old companies. (Assuming the same face value).

8. Sun Ltd. And Moon Ltd. are two companies carrying on business in the same line of activity. Their balance sheets as on 31.12.1994 are:

BALANCE SHEET

Liabilities	**Sun**	**Moon**	**Assets**	**Sun**	**Moon**
Fully paid equity shares of Rs.10 each	600000	200000	Land and Buildings	100000	-
General Reserve	400000	200000	Plant and Machinery	700000	300000
Secured loan	600000	100000	Investment	100000	-
Current liabilities	600000	400000	Stock	900000	400000
			Debtors	300000	100000
			Cash at bank	100000	100000
	2200000	900000		2200000	900000

The two companies decided to amalgamate into Mars Ltd. The following further information is given:

- ➔ All assets and liabilities of the two companies are taken over
- ➔ Each share in Moon Ltd is valued at Rs.25 for the purpose of amalgamation
- ➔ Shareholders of Moon Ltd and Sun Ltd are paid off by issue of sufficient number of equity shares of Rs.10 each in Mars Ltd as fully paid at par.
- ➔ Each share in Sun Ltd. is valued at Rs.15 for the purpose of amalgamation.

Show the journal entries to close the books of both the companies.

Internal reconstruction or Capital reduction problems

9. Paradise Ltd. Has 50000 equity share of Rs.100 each, Rs.80 per share called up. The company decides to pay off Rs.30 per share of the paid up capital and to reduce the Rs.100 shares to Rs.50 shares fully paid by canceling the unpaid amount. Show journal entries

10. In order to provide funds for capital reduction scheme, a debenture holder of Rs.400000 has agreed to take over stock worth Rs.100000 and book debts of Rs.80000 in full satisfaction of the amount due to him. Pass journal entry to record the above transaction.

11. Give journal entries for the following transaction in connection with internal reconstruction:

- 30000 equity shares of Rs.10 each fully paid reduced to shares of rs.5 each fully paid
- 300 9% debentures of rs.1000 each converted into 1500 12% debentures of Rs.100 each.
- The debit balance of profit and loss account Rs.150000 and the preliminary expenses Rs.30000 were written off.
- The value of plant and machinery and stock were written down by Rs.60000 and Rs.30000 respectively.

12. Given below is the Balance sheet of a Company as on 31.3.2002

Liabilities	**Rs.**	**Assets**	**Rs.**
Share capital: 2000 Preference shares of Rs.100 each	200000	Goodwill	120000
3000 Ordinary shares of Rs.100 each	300000	Fixed assets	250000
Securities premium	50000	Current assets	180000
Other liabilities	150000	Preliminary expenses	15000
		P&L A/c	135000
	700000		700000

During 2002-03, the following resolutions were implemented;

- To reduce the face value of the preference and Equity shares to Rs.50 each

- To write off other assets (except real assets) by utilizing securities premium to the required extent.

Prepare the Balance sheet after the reconstruction and also the journal entries there on.

UNIT- II

ACCOUNTINGOFBANKINGCOMPANIES

2.1:INTRODUCTION

A bank is a financialinstitutionwhichdealswithmoneyandcredit.Itacceptsdepositsandlends money to those who are in need of it. It helps totransfer moneyfromoneplacetoanother. Banker is a personor company carrying on thebusiness of receiving money andcollecting drafts for customers subject to the obligation ofhonouring the cheques drawn uponhimfromtime to time by customers up to the amount available on their customers.

2.1.2 DEFINITIONOF BANKINGCOMPANIES

Banking.

AccordingtoBankingRegulationAct, 1949Section5Bankingisdefinedas“theaccepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise.

2.2. BUSINESSOFBANKINGCOMPANIES:

Section6oftheActstatesthatinadditiontothebusiness ofbanking, a bankingcompanymay engage in any one or more of the following business:

- Theborrowing,raising,or takingupofmoney
- Thelendingoradvancingof moneyeither uponorwithoutsecurity
- The drawing, making, accepting, discounting,buying,selling,collectinganddealingin b bills of exchange, hundies, promissory notes, coupons, drafts, billsof lading,railway receipts, warrants, debentures, certificates, scrip and other instruments, and securities whether transferable or negotiable or not.
- Thegrantingandissuingofletter ofcredit,travellerschequesandcircularnotes
- On receiving of all kindsof bonds,scrip’s orvaluableson depositorforsafe custody orotherwise.
- Thebuying,sellinganddealinginbullion
- Thecollectingandtransmittingofmoneyandsecurities
- Contractingforpublicandprivateloansandnegotiatingandissuingth esame
- Carryingonandtransactingeverykindofguaranteesandindemnityb usiness
- Undertakingandexecutingtrusts,etc…

2.3 CLASSIFICATIONOFBANKADVANCES

a. **Bills purchased and discounted**–It is the advances given to customers on the security of bills, pronote etc. The amount after deducting the discount from the amount of the bill is credited in the customer’s account.
b. **Loans**–A loan is and advance of a fixed amount give to a customer for a specified period. Interest is charged on the whole amount loaned.

c. **Cash credit** –It is a form secured advance by a bank. Under this arrangement the bank allows a fixed limit within which the customers can withdraw on the bank. Interest is charged on the amount actually withdrawn.

d. **Overdraft**– Under this arrangement, the bank agrees to allow its customers toverdrawfromhiscurrentaccountuptoacertainlimiteitherwithorwithout security.

2.4. ACCOUNTING SYSTEM

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

1) Entriesinthepersonalledgers aremadedirectlyfromthevouchers
2) From such entries in the personal ledgers each day summary sheets in total are prepared which are posted to the control accounts in the general ledger.
3) Thegeneralledger'strialbalanceisextractedandagreedeveryday.
4) Allentriesinthepersonal ledgersandsummarysheets arecheckedbypersons other than those who have recorded entries. It helps in detection of mistakes.
5) Atrialbalanceof detailedpersonalledgersi spreparedperiodicallyan dgetsagreed with the general ledger control accounts.
6) Twovouchersarepreparedforeverytransactionnot involvingcash.

BooksrequiredbyBank

1. ReceivingCashier'sCounter CashBook.
2. PayingCashier'sCounterCash Book.
3. CurrentAccountsLedger.
4. SavingBankAccountsLedger.
5. FixedDepositAccountsLedger.
6. Investmentledger.
7. BillsDiscountedandPurchasedLedger.
8. LoanLedger.
9. CashCreditLedger.
10. Customers'Acceptances,endorsementsandGuaranteeLedger.
11. RecurringDepositsAccountsLedger,etc.Theprincipalbooksofaccountsare
    1. CashBook
    2. General Ledger

Slip system of posting - Slip system of posting is made from slips prepared inside the organisation itself or fromslips filled in by its customers. So entries arenot made in thebooks of original entry or subsidiary books, but posting of entries is done from slips. In a banking company, the mainslips arepay- in-slips, withdrawalslips andcheques andalltheseslips are filled in by clients of the bank. These slips serve the basis of entry in the ledgers.

2.5FINALACCOUNTSOFBANKS

The Banking Regulation act, 1949 prescribes formats of preparing final accounts of the Bankingcompanies. Thethirdscheduleofsection29givesforms'A'for thebalancesheet andForm'B' for Profit andloss account. Thebalancesheet consists of total12 schedules. Schedule 1 to schedule 5 depicts capital and liabilities and schedule 6 to schedule 11 shows Assets of the bank and schedule 12 shows contingent liabilities and there is no specificschedule prescribes for bills for collection.

2.6. PROFIT ANDLOSSACCOUNT

Abankingcompanyis requiredtopreпареits Profit and LossAccountaccordingtoFormB to the Banking Regulation Act, 1949. Form B is given as follows:

FORM B

FORM OF PROFIT &LOSS ACCOUNTFORTHEYEARENDED31ST MARCH

	Schedule No	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Income Interest earned Other income	13 14		
Total			
II. Expenditure Interest expended Operating expenses Provisions and contingencies Total	15 16		
III.Profit/Loss Netprofit/loss for the year(I-II)			
Profit/loss brought forward Total			
IV.Appropriations Transfer to statutory reserves Transfer to other reserves Transfer to government/ Proposed Dividend Balance carried over to B/S			
Total			

SCHEDULE13–INTERESTEARNED (000somitted)

	Year ended 31.3..(Current Year)	**Year ended 31.3.(Previous Year)**
I. Interest/discountonadvances/bills II. Incomeoninvestments III. InterestonbalanceswithReserveBankof India and other inter-bank funds IV. Others		
Total		

SCHEDULE14–OTHERINCOME

	Yearended 31.3… (CurrentYear)	Yearended 31.3… (Previous Year)
I. Commission,exchangeandbrokerage II.Profitonsaleofinvestments Less:**Lossonsaleofinvestments** **III.** Profitonrevaluationofinvestm ents Less:**Lossonrevaluationof investments** **IV.** Profitonsaleofland,buildings andother assets Less:Lossonsaleofland,buildings and other assets. **V.**Profitonexchangetr ansactions Less: **Loss on exchangetransactions** **VI.** Income earned by way of dividends etc. from subsidiaries / companies and /or joint ventures abroad / in India **VII.** MiscellaneousIncome		
Total		

Note:UnderitemsIItoVlossfiguresmaybeshowninbrackets

SCHEDULE15–INTERESTEXPENDED (000somitted)

	Year ended 31.3..(Current Year)	Year ended 31.3.(Previous Year)
I. Interestondeposits II. InterestonReserveBankofIndia/inter-bank borrowings III. Others		
Total		

SCHEDULE–16OPERATINGEXPENSES

(000somitted)

		Yearended (Current year)	Year ended (Previous Year)
i.	Paymentstoandprovisionsfor employees		
ii.	Rent,taxesandlighting		
iii.	Printingandstationary		
iv.	Advertisementandpublicity		
v.	Depreciationonbank's property		
vi.	Directors'fees,allowancesandexpenses		
vii.	Auditor'sfees,allowancesandexpenses (including branch auditors)		
viii.	Lawcharges		
ix.	Postages,telegrams,telephones,etc		
x.	Repairsandmaintenance		
xi.	Insurance		
xii.	Otherexpenditure		

2.7. BALANCESHEET

TheBalanceSheet ofBankingCompanyis preparedaccordingtoFormAinThird Schedule. Form A is reproduced as follows:

FORMOFBALANCESHEETBALANCESHEETOF……

(hereenternameofthebankingcompany as on31st March(Year) (000somitted)

	ScheduleNo	As on (Current Year)	As on (Previous Year)
Capital&Liabilities			
Capital	1		
Reserves&Surplus	2		
DepositsBorrowings	3 4		
OtherLiabilitiesandProvisions	5		
Total			
Assets			
CashandbalanceswithRBI	6		
Balanceswithbanks&moneyatcalland	**7**		
Shortnotice			
Investments	8		
Advances	9		
FixedAssets	10		
OtherAssets	11		
Total			
Contingentliabilities	12		
Billsforcollection			

SCHEDULE1-CAPITAL

	As on 31.3…. (CurrentYear)	As on 31.3… (PreviousYear)
I. ForNationalizedBanks Capital(FullyownedbyCentral Government) **II. ForBanksIncorporatedOutside India** Capital (Theamountbroughtinbybanksby way of start-up capital as prescribed by RBI should be shown under this head) Amountof depositwith the RBIunder Section 11(2) of Banking Regulation Act, 1949		
Total **III. ForOther Banks** AuthorizedCapital …….sharesofRs………each Issued Capital …….sharesofRs………each Subscribed Capital …….sharesofRs…… … eachCalled-up Capital …….sharesofRs………each		
Less: Calls unpaid Add:Forfeitedshares		

SCHEDULE2–RESERVES&SURPLUS

	As on 31.3…. (CurrentYear)	As on 31.3…. (PreviousYear)
I. **Statutory Reserves** Opening Balance Additionsduringthe year Deductionsduringtheyear II. **Capital Reserves** OpeningBalance Additionsduringtheyear Deductionsduringtheyear III. **Shares Premium** OpeningBalance Additionsduringtheyear Deductionsduringtheyear		
IV. RevenueandotherReserves OpeningBalance Additions during the year Deductionsduringtheyear **V. BalanceinProfitandLoss Account** Total(I+II+III+IV+ V)		

SCHEDULE3–DEPOSITS

	Ason31.3…. (Current Year)	As on 31.3…. (PreviousYear)
A.I.**DemandDeposits** i) FromBanks **ii)** FromBanks **II.SavingsBankDeposits** **III.TermDeposits** i) Frombanks ii) Fromothers		
Total(I+II+ III)		
B.i)DepositsofbranchesinIndia ii)Depositsofbranches outsideIndia		
Total		

SCHEDULE4–BORROWINGS

	Ason31.3…. (Current Year)	As on 31.3…. (PreviousYear)
I. BorrowingsinIndia i) ReserveBankofIndia ii) Otherbanks iii) Otherinstitutionsandagencies **II. BorrowingsoutsideIndia** **Total**(I+ II) Secured borrowings included in I & II above – Rs.		

SCHEDULE5–OTHERLIABILITIESANDPROVISIONS

	Ason31.3…. (CurrentYear)	As on 31.3…. (PreviousYear)
I. Billspayable II. Inter-officeadjustments(net) III. Interestaccrued IV. Others(includingprovisions) Total		

SCHEDULE6–CASHANDBALANCESWITHRESERVEBANK OF INDIA

	Ason31.3… (Current Year)	**As on 31.3… (PreviousYear)**
I. Cashinhand(including foreign currency notes) II. BalanceswithRBI (i) inCurrentAccount (ii) inOtherAccounts Total(I+II)		

SCHEDULE7 –BALANCESWITHBANKS&MONEYATCALL&SHORT NOTICE

	Ason31.3…. (Current Year)	As on 31.3…. (PreviousYear)
I.InIndia (i) Balanceswithbanks (a) inCurrentAccounts b)inOtherDeposit Accounts (ii) Moneyatcallandshort notice a) Withbanks b) Withotherinstitutions		
Total		
II.OutsideIndia (i) inCurrent Accounts (ii) inOtherDepositAccounts (iii) Moneyatcallandshortnotice		
Total		
GrandTotal(I +II)		

SCHEDULE8–INVESTMENTS

	Ason31.3…. (Current Year)	As on 31.3…. (PreviousYear)
I.InvestmentsinIndiain i) Governmentsecurities ii) Otherapprovedsecurities iii) shares iv) DebenturesandBonds v) Subsidiariesand/orjointventures vi) Others (tobespecified		
Total		
II.InvestmentsoutsideIndiain i) Governmentsecurities(including localauthorities) ii) Subsidiariesand/orjointventures abroad		
iii) Otherinvestments(tobespecified) Total GrandTotal(I +II)		

SCHEDULE9–ADVANCES

	Ason31.3…. (CurrentYear)	As on 31.3…. (PreviousYear)
A.i)Billspurchasedanddiscounted ii) Cashcredits,overdraftsandloans repayable on demand iii) Termloans		
Total		
B.i)Securedbytangibleassets ii) CoveredbyBank/Government guarantees iii) Unsecured		
Total		

C.I.AdvancesinIndia i) PrioritySectors ii) PublicSector iii) Banks iv) Others		
Total		
II.AdvancesoutsideIndia		
i) Duefrom banks ii) Duefromothers a) Billspurchasedanddiscounted b) Syndicatedloans c) Other s Total		
GrandTotal(C.I.+C.II.)		

SCHEDULE10–FIXEDASSETS

	As on 31.3… (CurrentYear)	**As on 31.3… (PreviousYear)**
I. Premises Atcostason31st Marchoftheprecedingyear Additions during the year Deductionsduringtheyear Depreciation to date **II. OtherFixedAssets(including furniture and fixtures)** Atcostason31st Marchoftheprecedingyear Additions during the year Deductionsduringtheyear Depreciation to date		
Total(I+II)		

SCHEDULE11–OTHERASSETS

	Ason31.3…. (CurrentYear)	**As on 31.3…. (PreviousYear)**
I. Inter-officeadjustments(net) II. Interestaccrued III. Tax paid in advance / tax deducted at source IV. Stationeryandstamps V. Non-banking assets acquired in satisfaction of claims VI. Others @		
Total		

@ In case there is any unadjusted balance of loss, the same maybeshown under this item with appropriate foot-note.

SCHEDULE12–CONTINGENTLIABILITIES

	Ason31.3…. (CurrentYear)	As on 31.3…. (PreviousYear)
I. Claims against the bank not acknowledged as debts II. Liabilityforpartlypaidinvestment III. Liability onaccountofoutstanding forward exchange contracts IV. Guarantee given on behalf of constitutents a) InIndia b) OutsideIndia V. Acceptances,endorsementsand,other obligations VI. Other items for which the bank is contingentlyliable		
Total		

2.8GUIDELINESOFTHERESERVEBANKOFINDIAFORTHEPREPARATIONOF FINAL ACCOUNTS OF BANKING COMPANIES.

StatutoryReserveRatio:

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

CashReserveRatio(CRR):

As per Section42(i) of RBI Act 1934, everyscheduled bankshall maintain withtheRBI equal toat least 3% of its time and demand liabilities(i.e., depositsreceived for fixed periods aswell asof its demand liabilities) as cash reserve. It is called Cash Reserve Ratio. The Act empowers RBIto prescribe cash reserve of scheduled banks ranging from 3% to 15%. Presently Cash Reserve Ratio is 4%.

StatutoryLiquidityRatio(SLR):

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

RebateonBillsDiscounted/UnexpiredDiscount :

Rebateonbills discountedis theinterest receivedinadvanceandrepresents unearneddiscountsfor those bills which will mature after the close of the financial year. Rebate onbills discountedfor the current year is debited to discount account. In the Profit and Loss account this item is deducted from Interest earned,schedule No.13 and in Balance sheet it is shown on the liabilityside under the head other liabilities and provisions scheduleNo.5. If it is given asaledger balance, it is shown under schedule.

InterestanddiscountA/c

D

To Rebate on bills discounted.

If rebate on bills discounted is given in trial balance,it shouldetakento Balancesheet under “Other Liabilities andProvisions”.Ifitisgivenunderadjustments,itshould be deductedfrom“Interest andDiscount”inProfitandlossAccountandshouldbetaken to Balance sheet under “Other Liabilities andProvisions”.

2.9. BRANCHADJUSTMENTS ORINTER -OFFICEADJUSTMENTS

Banks usuallyhavea net workof branchesspreadover differentplaces. Varioustransactionstakeplace between head office and branches and also between branches themselves. The head office will record this transactions after advises are received from branches. Unless advises are received such items will remain unadjusted under the heading Branch Adjustments.Ifsuchentries may remain unadjusted in the head officeofthebankatthecloseofthefinancialyear,such entries arerecordedinthebalancesheet. Ifit is a debit balance, it is comes under theSchedule No. 11 of asset side and if it is a credit balance, it comes under the schedule No.5 of liability side.

Cleanbill

Thesearethebillstowhich nodocumentssuchas bill oflading,insurancepolicyetcareattached.

Discountingof bills

Discountingofbill means makingthepayment ofthebillbeforethematuritydateofthebill. Bills for Collection

Thesearethedraftsandbills drawnbysellers of goods onthepurchasers ofgoods andsent tothebank for collection. If some bills are left uncollected at the end of the year, they are shown under the head Bills for collection.

MoneyatcallandShortNotice:

This item appears on the assets side of a bank Balance sheet and represents temporary loans tobill brokers, stock brokers and other banks. If the loan is given for one day, it is called “money at call” and if theloan cannot becalled back on demand and will requireat least a notice of threedays for calling back, it is called “money at short notice”. Therateof interest on which money is lent fluctuates every day.

Non-bankingAssets:

These are the temporary assets acquired by the bank for granting loans and advances. Eg. Immovable properties, stock,titledeeds etc.Such assets are acquired by a bank from defaultersin satisfaction of their outstanding to the bank. In short, the asset acquired in satisfaction of the claim of the bank is called Non-banking assets. It showed under the scheduleNo.11Otherassets. Such assets acquired should be disposed of within a period of seven years from the date of their acquisition.

Interestondoubtfuldebtstreatedinabank:

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

ItemsofContingentliabilitiesinthecaseofBankingCompany

Contingentliabilitiesareliabilitiesofthebank,whichmayormaynotariseinfuture.Theliabilitiesare

a. Liabilityfor partlypaidinvestments.
b. Liabilityonaccountofforwardexchangecontract.
c. Guaranteesgiventocustomers.
d. Acceptances,endorsementsandotherobligations.
e. Claimsagainstthebanknotacknowledgedasdebt.NonPerformingAssets(NPA)

Anasset becomes nonperformingasset whenit ceases togenerateincome for thebankas per theterms of contract. A non performing asset is defined as a credit facility in respect of which interest/instalment remains "past due" for a period of 90 days.

2.10. CLASSIFICATIONOFBANKADVANCESANDITSPROVISIONING.(ASSETCLASSIFICATION)

Banksarerequiredtoclassifyadvancesintofourcategorieswhicharegivenbelow–

a. Standardassets–Itconsistsofallperformingassets and advances backed byGovernmentguarantees irrespective of liability. It is also called performingassets.

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

b. Substandard assets – These aretheassets which areclassified as Non Performing Assetsfor a period not exceeding two years. These assets indicate the possibility ofloss in realisingthem. There is no certainty to recoverthem in full. A general provision of 15% of the total outstanding ismade forthese type assets.

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

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

d. Loss assets - These are assets which are considered to be uncollectable.Wheretheloss on assets has been identifiedbybankor internalauditor or theRBIinspector buttheamounthasnotbeenwrittenoff whollyor partially is known as loss assets. It is also called Bad assets.A provision of 100% of the outstanding should be provide.

Non-performingassets(N.P.A)–Provisionfor doubtfuldebts

PROBLEMS:

1.On31stmarch2018,bharatcommercialbankltd,findsirsadvancesclassifiedas follows:

	(Rs)
Standerdassets	14,91,300
Substandardassets	92800
Doubtfulassets(secured)	
:doubtfulfor one year	25660
:doubtfulforoneyearto3years	15640
:doubtfulformorethan3years	6580
Lossassets	10350

calculatetheamountofprovisiontobemadebythebankagainsttheabovementionedadvances.

Solution:

	Amount (Rs)	**% required asprovision**	**Provision**
Standardassets	14,91,300	0.40	5965.2
Substandardassets	92800	15	13,920
Doubtfulassetsone year	25660	25	6,415
:oneyearto3 years	15640	40	6,256
:morethan3 years	6580	100	6,580
Lossassets	10350	100	10,350
Totalprovisionrequired			**49,486.2**

REBATEONBILLDISCOUNTED:

2. calculatetherebateonbillsdiscounted

Dateofbill	Term of bill (months)	Discounted @% p.a	Amountof bill
I. January,17	4	17	7,30,000
II. February,7	3	18	14,60,000
III. March,9	3	17.5	3,64,000

Youarerequiredtoshowthenecessaryjournal entryfortherebate.

SOLUTION:

Dateofbill	Dateof maturity	Noofdaysaway from 31.3.18	Discountrate	Amount of bill Rs.	Discount for days after 31.12.18
January,17	May 20	50	17%	7,30,000	17000
February,7	May 10	40	18	14,60,000	28,800
March,9	June12	73	17.5	3,64,000	12,740
Closingrebate Onbills					58,540

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Date	Particulars	L.F	Dr	Cr
31.12.18	Discountreceived A/c TorebateonbilldiscountedA/c (Adjustmentmadefordiscountnotyetearnedondiscountedbills)		58,400	58,400

Workingnotes:

DiscountonRs7,30,000for50days@17%pa=$7,30,000 \times \frac{17}{100} \times \frac{50}{365}$ =17000

DiscountonRs14,50,000for40days@18%pa=$14,50,000 \times \frac{18}{100} \times \frac{40}{365}$ = 28,800

DiscountonRs3,64,000for73days@17.5%pa=$3,64,000 \times \frac{17.5}{100} \times \frac{73}{365}$ = 12,740

3. Fromthefollowinginformationrelatingtolakshmibankltd., preparetheprofit & loss A/cfor year ended 31 st December 2017.

	Rs		Rs
Rentreceived	72,000	Salariesandallowances	2,18,800
Exchange and commission	32,800	Postage	5,600
Interest on fixed deposit	11,00,000	Sundrycharges	4000
Interest on savings bank A/c	2,72,000	Directors&Auditorsfees	16,800
Interest on overdrafts	2,16,000	Printing	8,000
Discount on bill discounted	7,80,000	Law charges	3,600
Interest on current account	1,68,000	Locker rent	1,400
Interest on cash credits	8,92,000	Transfer fees	2,800
Depreciationonbankproperty	20,000	Interestonloans	10,36,000

SOLUTINON:

Thelakshmibankltd ProfitandlossaccountFortheyearended31st December2017

	Schedule No.	Yearended 31st dec 17
I. **Income**		
Interestearned	13	29,24,000
Other income	14	1,09,000
Total		30,33,000
II. **Expenditure**		
Interest earned	15	15,40,000
Operatingexpenses	16	2,76,000
Provisionsandcontingencies		-
Total		18,16,800
III. Profit/Loss		
Netprofit/lossfortheyear(I-II)		12,16,200
Profit/loss brought forward		-
		12,16,200
IV. Appropriations		
Transfertostatutoryreserves (25% of net profit)		3,04,050
Transfer to other reserves		--
Transfer togovernment/ Proposed Dividend		--
Balancecarriedover toB/S		9,12,150
		12,16,200

Workingnotes:

Schedule13:InterestEarned

	Rs
Interest on over draft	2,16,000
Discountonbilldiscounted	7,80,000
Interest on cash credit	8,92,000
Interest on loans	10,36,000
	29,24,000

Schedule14:OtherIncome

	Rs
Locker rent	1,400
Transferfees	2,800
Exchangeandcommission	32,800
Rent	72,000
	1,09,000

Schedule15:InterestExpended

	Rs
Interestonfixed deposit	11,00,000
Interestonsavingsbankaccount	2,72,000
Interest on current A/cs	1.68,000
	15,40,000

Schedule16:OperatingExpences

	Rs
Depreciationonbankproperty	20,000
Salariesandallowances	2,18,800
Postage	5,600
Sundrycharges	4000
Directors&auditorsfees	16,800
Printing	8000
Lawcharges	3,600
	2,76,800

CheckYourProgress

1. Asper sec.17ofthebankingregulationact everybankhastotransfer ofprofit tostatutoryreverce fund account:
   a) 10%
   b) 20%
   c) 25%
   d) 14%

Ans: c)25%

2. Banksshowtheprovisionfor incometaxunderthe head:
   a) Contingencyaccounts
   b) Contingencyliabilities
   c) Otherliabilitiesandprovision
   d) Borrowing

Ans:c)Otherliabilitiesandprovision

3. Theheadingotherassetsdoesnot include
   a) Silver
   b) Interestaccrued
   c) Inter-officeadjustment
   d) Gold

Ans:d)Gold

4. Incomefromstandardassetsistoberecognicedon:
   a) Cashbasis
   b) Accuralbasis
   c) Normal basis
   d) None of the above

Ans:B)Accuralbasis

5. SubstandardassetsisonewhichhasbeenclassifiedasNPAforaperiodnotexceeding.
   a) 1year
   b) 2years
   c) 3years
   d) 4years

Ans :1year

6. Fromthefollowingparticulars,preparetheProfitandLossAccountofChennaiBank Ltd., for the year ending 31.3.1992

	(Rs.In '000)
Intereston deposits	3200
Commission(Cr)	100
Interestonloans	2490
Sundrycharges(Dr)	100
Rentandtaxes	200
Establishment	500
Discountonbillsdiscounted	1490
Intereston overdrafts	1600
Interestoncash credits	2320
Auditor'sfees	35
Director'sfees	16
Bad debtstobe writtenoff	300

7. Fromthefollowinginformationrelatingto AdarshBankltd.,prepareprofit andlossAccount for the year ended 31.3.1994, along with the necessary schedules:

Interest/discountonadvances/bills	31628000	Advertisementandpublicity	87000
Income oninvestments	11810000	Depreciationonbank's property	292000
InterestonbalanceswithRBI	4243000	Director'sfees,allowancesandexp.	7000
Commission,exchangeandbrokerage	2907000	Auditor'sfeesandexpenses	41000
Profitonsalesofinvestments	114000	Lawcharges	22000
Intereston deposits	31404000	Postage,telegramandtelephones	312000
InterestonRBIborrowings	3362000	Repairsandmaintenance	91000
Paymenttoandprovisionsfor employees	9717000	Insurance	915000
Rent	955000	Otherexpenditure	884000
Printingandstationery	213000	BalanceofP&LA/c	1524000

Thefollowingadjustmentsaretobemade:

- Makeaprovisionfor incometax(includingsurcharge)@51.75%
- Everyyear, thebanktransfers25%ofprofitto statutoryreservesand 5%ofprofit to revenue reserve.

8. Fromthefollowinginformationprepareprofitandlossaccountofvasavi BankLtd., for the period ended on 31.3.1995

Interestonloans	300000	Interestontemporary overdraftincurrentaccount	30000
Interestonfixed deposits	275000	Postage,telegramandstamps	10000
Commission	10000	Printingandstationery	20000
Exchangeandbrokerage	20000	Sundryexpenses	10000
Salariesandallowances	150000	Rent	15000
Discountonbills(gross)	152000	Taxesandlicenses	10000
Interestoncash credit	240000	Auditfees	10000
Interestonsavingsbankdeposits	87000		

Additionalinformation:

- ✶ RebateonbillsdiscountedRs.30000
- ✶ SalaryofmanagingdirectorRs.30000
- ✶ BaddebtsRs.40000
- ✶ Provisionforincometaxistobemadeat55%(roundofftonearest1000)
- ✶ InterestofRs.4000 ondoubtfuldebtswaswrongly credited tointerest onloansaccount.

9. Fromthe following TrialBalance, prepare a Balance sheet ofIndianBankLtd ason 31.3.96

	Dr	**Cr**
LandandBuildings	25	
Plant andMachinery	30	
Furniture	12	
Cashinhand	10	
CashwithRBI	5	
Cashwithotherbanks	8	
Moneyatcall	200	
Gold	15	
Governmentsecurities	25	
Termloan	60	
Cashcredits	80	
Sharecapital		120
Statutoryreserve		15
Netprofit beforeappropriation		60
P&LA/c		40
Fixeddeposits		60
Savingsdeposit		70
Currentaccount	15	80
Billspayable		10
Borrowingsfromotherbanks		30
	485	485

Additionalinformation:

- ➢ AcceptancesandendorsementsRs.215000
- ➢ BillsforcollectionRs.125000
- ➢ ClaimsagainstthebanknotacknowledgedasdebtRs.75000

Calculatecashreserverequired3%ofdemandandtime liabilitiesandstatutoryliquid reserve required at 30% of demand and time liabilities.

10. FromthefollowingbalancesofsaraswathiBankLtd.,ason31.12.1984,prepareits balance sheet in the prescribed form:

Paidupsharecapital (Rs.100 each)	2000000	Stampsand stationery	10000
Billdiscounted	1800000	Cashinhand	500000
eserve fund	770000	Cashwithreservebank	1300000
Cashcredit	2000000	Branchadjustments(Dr.)	170000
Overdrafts	800000	Investments	950000
Unclaimeddividends	10000	Loans(cr)	1200000
Loans	4600000	Recurringdeposits	1000000
Currentdeposits	3800000	Fixeddeposits	2000000
Furniture	40000	Cashcertificates	1000000
Profit &LossAccount(cr.)	220000	Contingencyreserve	170000

Adjustments:

- RebateonbillsdiscountedRs.10000.
- ProvideRs.80000 fordoubtfuldebts
- Bank’sacceptancesonbehalfofcustomerswereRs.650000

UNIT – III

INSURANCE COMPANY ACCOUNTS

3.1 : INSURANCE :

Insurance is a means of protection from financial loss in which, in exchange for a fee, a party agrees to compensate another party in the event of a certain loss, damage, or injury. It is a form of risk management, primarily used to protect against the risk of a contingent or uncertain loss.

An entity which provides insurance is known as an insurer, insurance company, insurance carrier, or underwriter. A person or entity who buys insurance is known as a policyholder, while a person or entity covered under the policy is called an insured.

3.1.1 MEANING OF INSURANCE :

An insurance is a legal agreement between an insurer (insurance company) and an insured (individual), in which an insured receives financial protection from an insurer for the losses he may suffer under specific circumstances.

Under an insurance policy, the insured needs to pay regular amount of premiums to the insurer. The insurer pays a predetermined sum assured to the insured if an unfortunate event occurs, such as death of the life insured, or damage to the insured or his property.

3.2.1 PRINCIPLES OF INSURANCE

In insurance, there are 7 basic principles that should be upheld, ie Insurable interest, Utmost good faith, proximate cause, indemnity, subrogation, contribution and loss of minimization.

1. Principle of Utmost Good Faith

This is a primary principle of insurance. According to this principle, you have to disclose all the informationthat is related to the risk, to the insurance company truthfully.

You must not hide any facts that can have an effect on the policy from the insurer. If some fact is disclosedlater on, then your policy can be cancelled. On the other hand, the insurer must also disclose all the featuresof a life insurance policy.

2. Principle of Insurable Interest

According to this principle, you must have an insurable interest in the life that is insured. That is, you will suffer financially if the insured dies. You cannot buy a life insurance policy for a person on whom you have no insurable interest.

3. Principle of Proximate Cause

While calculating the claim for a loss, the proximate cause, i.e., the cause which is the closest and the main reason for a loss should be considered.

Though it is a vital factor in all types of insurance, this principle is not used in Life insurance.

4. Principle of Subrogation

This principle comes into play when a loss has occurred due to some other person/party and not the insured.In such a case, the insurance company has a legal right to reach that party for recovery.

5. Principle of Indemnity

The principle of indemnity states that the insurance will only cover you for the loss that has happened. Theinsurer will thoroughly inspect and calculate the losses. The main motive of this principle is to put you in the same position financially as you were before the loss. This principle, however, does not apply to life insurance and critical health policies.

6. Principle of Contribution

According to the principle of contribution, if you have taken insurance from more than one insurer, both insurers will share the loss in the proportion of their respective coverage.

If one insurance company has paid in full, it has the right to approach other insurance companies to receive a proportionate amount.

7. Principle of Loss Minimisation

You must take all the necessary steps to limit the loss when it happens. You must take all the necessaryprecautions to prevent the loss even after purchasing the insurance. This is the principle of loss minimization.

3.3 Types of Insurance

Insurance is a legal contract between a person and an insurance business in which the insurer promises to provide financial protection (Sum guaranteed) against unforeseen events for a certain price (premium). The many types of insurance plans available today may be grouped into two groups

- **General insurance**
- **Life insurance**

3.3.1 General Insurance

General insurance plans are one of the types of policies that provide coverage in the form of sum assured against damages besides the policyholder's demise. In general, general insurancerefers to a variety of insurance plans that provide financial protection against losses caused as a result of liabilities such as a bike, automobile, house, or health. The following are examples of several types of general insurance policies :

Some of The Kinds Of General Insurance offered In India Are As Follows :

- Health Care Coverage
- Automobile Insurance
- Home Owners Insurance
- Insurance Against Fire
- Insurance For Travel

a) Health Care Coverage

Health insurance is a form of insurance policy that covers the costs of medical treatment. Health insurance policies either cover or repay the cost of treatment for any included disease or injury. Various forms of health insurance cover a wide range of medical bills.
Its typically provides defense against

- Inpatient care
- Critical illness treatment
- Post – hospitalization medical bill
- Procedure for day care

A few types of health insurance policies also cover resident care and pre-hospitalization costs. The following are some of the several types of health insurance policies available in India :

1) Individual Health Insurance

Provides coverage to a single person.

2) Family Floater Insurance

This type of insurance allows your complete family to be covered under one policy, which often includesthe husband, wife, and two children.

3) Critical Illness Coverage

A sort of health insurance that covers a variety of life-threatening illnesses such as stroke, heart attack, renalfailure, cancer, and other comparable conditions. When a policyholder is diagnosed with a serious illness, they get a lump sum payment.

4) Senior Citizen Health Insurance:

These insurance policies are designed for people over the age of 60.

5) Group Health Insurance

This is a type of insurance that a business provides to its employees.

b) Automobile Insurance

Motor insurances are forms of insurance that provide financial help in the event that your automobile is involved in a crash. In India, there are several types of motor insurance coverage available, including :

1) Car Insurance

This plan covers privately owned four-wheelers. There are two kinds of automobile insurance plans: third-party insurance and extended coverage policies.

2) Bike Insurance

These are forms of automobile insurance that protect privately-owned two-wheelers in the event of anaccident.

3) Commercial Vehicle Insurance :

A sort of automobile insurance that covers any vehicle utilized for commercial purposes.

c) Homeowners' Insurance

A homeowner's insurance, as the name implies, provides full coverage for the belongings and infrastructure of your property against physical destruction or damage. In other words, house insurance protects you from both natural and man-made disasters such as fire, earthquake, tornado, burglary, and robbery.The followingare examples of several types of house insurance policies :

1) Home Building Insurance

Serves to protect the house's foundation from destruction in the event of a disaster.

2) Public Liability Coverage

Protects the insured residential property from any harm caused by a visitor or third-party while on the premises.

3) Standard Fire and Special Perils Policy

Protection against fires, natural disasters (e.g., earthquakes, landslides, and storms, and floods), and anti-social human-caused activities (e.g., strikes, and riots)

3.3.2 Life Insurance

Life insurance policies provide protection against unforeseen circumstances such as the policyholder's death or incapacity. Aside from providing financial security, many types of life insurance plans enable policyholders to optimize their savings by making recurring payments to various equity and debt fund alternatives. You may get a life insurance policy to protect your family's financial future against the ups and downs of life. The insurance coverage includes a substantial sum that will be paid to your loved ones if something occurs to you. Based on your financial needs, you may pick the length of the life insurance policy, the amount of coverage, and the payment choice.

The following are the many types of life insurance policies :

- Term Life Insurance
- Unit-Linked Insurance Plans
- Whole Life Insurance
- Endowment Plans
- Child Plan for Educations

1. Term Life Insurance

Term insurance is the purest and most inexpensive type of life insurance, allowing you to choose a high level of coverage for a certain period of time. With a low-cost term life insurance policy, you can protect your family's financial future (term insurance plans generally do not have any cash value, and thus, are available at lower rates of premium as compared to other life insurance products.)

If you die within the policy time, your nominees will get the agreed sum Assured, depending on the payment type you choose (some term insurance plans offer multiple payout options as well)

2. Whole Life Insurance

Whole life insurance plans, often known as 'conventional' life insurance plans, give protection for the policyholder individual's complete life (typically till age 100), as opposed to any other type of life insurance that only provides coverage for a set number of years.

While a whole life insurance policy pays a death benefit, it also has a savings component that helps the policy accumulate cash value over time. Whole life insurance policies have a 100-year maturity period. If the insured person survives beyond the maturity age, the entire life insurance policy becomes a matured endowment.

3. Endowment

Endowment plans fundamentally give financial protection against life's risks while also allowing policyholders to save consistently over a certain length of time. If the policyholder survives the policy term, the endowment plan matures, and the policyholder receives a lump sum payment.

If something occurs to you (as the life insured), the life insurance endowment policy pays your family (beneficiaries) the whole sum assured.

4. Unit-Linked Insurance Plan (ULIP)

ULIPs are insurance policies that combine investment and insurance advantages into one contract. A portionof your payment for a Unit Linked Insurance Plan is invested in a range of market-linked equities and debt instruments.

The leftover premium is used to provide life insurance coverage for the duration of the policy. ULIPs provide you with the freedom to allocate premiums to different instruments based on your financial needs and market risk tolerance.

5. Plans for Children

Child plans are life insurance policies that assist you in financially securing your child's life goals, such as higher education and marriage, even if you are not there. To put it another way, child plans combine savings and insurance benefits to help you prepare for your child's future requirements at the appropriate age. The money obtained on maturity can be utilized to help your child meet his or her financial needs.

3.4 COMPANIES CARRYING ON INSURANCE BUSINESS

The following are some of the major investments and developments in the Indian insurance sector.

- On January 2024, CCI has approved the merger of Shriram LI Holdings Private Limited (SLIH) with Shriram Life Insurance Company Limited (SLIC)

- Private insurers like HDFC, ICICI and SBI have been some tough competitors for providing life as well as non-life products to the insurance sector in India.

- The IPO of Life Insurance Corporation (LIC) of India was the largest IPO ever in India and the sixth biggest IPO globally of 2022. As of November 2022, listing of LIC accounted for more than a third of resources mobilised in the primary equity market until November 2022

3.5. PREPARATION OF FINAL ACCOUNTS OF INSURANCE COMPANIES :

Insurance is a form of contract under which one party agrees in return of a consideration to pay an agreed amount of money to another party to compensate for a loss, damage or some uncertainevent.

There are two types of insurance i.e., Life insurance and General Insurance.

Life Insurance – under this type of insurance the corporation guarantees to pay a certain sum of money to the policy holder on reaching a certain age or on his death whichever is earlier. Life insurance has an element both of protection and investment.

General Insurance – it includes all other types of insurance except life insurance. e.g. – Fire, Marine, Accident, Theft.etc. Under this type of insurance the insurer undertakes to indemnify the loss suffered by the insured on happening of a certain event in consideration for a fixed premium. Insurance Regulatory and Development Authority (IRDA)

3.6. LIFE INSURANCE COMPANY ACCOUNT NEW FORMAT

In order to regulate the insurance business, the government set up in 1996, the Insurance Regulatory Authority (IRA). Now this authority is known as the Insurance Regulatory and Development Authority. In 2002, the authority came with regulations for the preparation of the financial statement of insurance companies.

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

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

FORM A – RA

Name of the insurer :

Registration No. and Date of Registration with the IRDA

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

Policyholders' Account (Technical Account)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premiums earned – net			
	(a) Premium	1		
	(b) Reinsurance ceded			
	(c) Reinsurance accepted			
	Income from investments			
	(a) Interest, dividends & rent – Gross			
	(b) Profit on sale/redemption of investments			
	(c) (Loss on sale/redemption of investments)			
	(d) Transfer/ Gain on revaluation/change in fair value*			
	Other income (to bspecified)			
	Total (A)			
	Commission	2		
	Operating Expenses related to insurance business	3		
	Provision for doubtful debts Bad debts written off Provision			
	for tax			
	Provisions (other than taxation)			
	(a) For diminution in the value of investments (net)			
	(b) Others (to be specified)			
	Total (B)			
	Benefits Paid (Net) Interim Bonuses paid	4		
	Change in valuation of liability in respect of life Policies			
	(a) Gross**			
	(b) Amount ceded in Reinsurance			
	(c) Amount accepted in Reinsurance			
	Total (C)			
	Surplus (Deficit) (D)=(A)-(B)-(C)			
	Appropriations			
	Transfer to Shareholders' Account Transfer to Other Reserves (to be specified) Balance being Funds for Future Appropriations			
	Total (D)			

PROFIT AND LOSS ACCOUNT(FormA-P&L)

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

FORM A – P& L

Name of the insurer

Registration No. and Date of Registration with the IRDA

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

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

Notes to Form A-RA and A-P&L:

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

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

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

(d) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or Rs.5,00,000 whichever is higher, shall be shown as a separate line item.

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

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

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

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

BALANCE SHEET

(FORM A-BS)

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

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

SCHEDULES FORMING PART OF FINANCIALSTATEMENTS

SCHEDULE 1 - PREMIUM

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

SCHEDULE -2 - COMMISSION EXPENSES

Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
Commission paid direct - First Year Premiums Renewal Premiums Single Premiums Add: Commission on Re-insurance AcceptedLess: Commission on Re-insurance Ceded Net Commission		

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

SCHEDULE 3
OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
.	Employees' remuneration & welfare benefitsTravel, conveyance and vehicle running expenses Training expenses Rents, rates & taxesRepairs Printing & stationery Communication expenses Legal & Professional charges Medical fees Auditors' fees, expenses etc (a) As auditor (b) As adviser or in any other capacity, in respect of: (i) Taxation matters (ii) Insurance matters (iii) Management services; and (c) In any other capacity Advertisement and publicityInterest and bank charges Others(to be specified) Depreciation Total		

SCHEDULE 4 –
BENEFITS PAID [NET]

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

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

SCHEDULE 5 - SHARE CAPITAL

No.	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
	Authorised capital Equity shares of Rs…..eachIssued Capital Equity shares of Rs…..eachSubscribed Capital Equity shares of Rs…..eachCalled-up Capital Equity shares of Rs…..each Less: Calls unpaid Add: Shares forfeited (Amount originally paidup) Less: Par value of equity shares bought back Less: Preliminary Expenses Expenses including commission or brokerage on underwriting or subscription of shares Total		

SCHEDULE 5A – PATTERN OF SHAREHOLDING [As certified by the Management]

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

SCHEDULE 6 – RESERVES AND SURPLUS

No.	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
.	Capital Reserve Capital Redemption ReserveShare Premium Revaluation Reserve General Reserves Less: Debit balance in P&L A/c, if any Less:Amount utilized for buyback. Catastrophe Reserve Other Reserves (to be specified) Balance of Profit in P&L A/c		

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

SCHEDULE 7 – BORROWINGS

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

SCHEDULE 8 – INVESTMENTS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Long –term Investments		
1.	Government securities and Government Guaranteed Bondsincluding treasury bills		
2.	Other approved securities		

3.	Other investments		
	(a) Shares		
	(b)) Equity		
	(b) Preference		
	(c) Mutual Funds		
	(d) Derivative Instruments		
	(e) Debentures/Bonds		
	(f) Other securities (to be specified)		
	(g) Subsidiaries		
	(h) Investment Properties – Real Estate		
	Investments in Infrastructure and Social		
	sectorOther than Approved Investments		
4.	Short –term Investments		
5.	Government securities and Government Guaranteed		
1.	Bondsincluding treasury bills		
	Other approved securitiesOther investments		
2.	(a) Equity		
3.	Preference		
	(a) Mutual Funds		
	(b) Derivative Instruments		
	(c) Debentures/Bonds		
	(d) Other securities (to be specified)		
	(e) Subsidiaries		
	(g) Investment Properties – Real Estate		
	Investments in Infrastructure and Social sector		
	Other than Approved Investments		
	Total		

SCHEDULE 9– LOANS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	**Security-wise Classification**		
	Secured		
	(a) On mortgage of property		
	(aa) In India		
	(bb) Outside India		
	(b) On Shares, Bonds, Govt. Securities, etc.		
	(c) Others (to be specified)		
	(d) Unsecured		
	Total		
2.	**Borrower-wise Classification**		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Companies		
	(e) Loans against policies		
	(e) Others (to be specified) Total		

3.	**Performance-wise Classification** (a) Loans classified as standard(aa) In India (bb) Outside India (b) Non-standard loans less provisions(aa) In India (bb) Outside India Total		

4.	**Maturity-wise Classification** (a) Short Term (b) Long TermTotal		

SCHEDULE 10– FIXED ASSETS

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

SCHEDULE 11– CASH AND BANK BALANCES

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

SCHEDULE 12– ADVANCES AND OTHER ASSETS

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

SCHEDULE 13– CURRENT LIABILITIES

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

SCHEDULE 14– PROVISIONS

No	particulars		
1.	For taxation (less payments and taxes deducted at source)		
2. 3. 4.	For proposed dividends For dividend distribution taxOthers (to be specified) Total		

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

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

3.7. EXPLANATION OF ITEMS IN THE FINAL ACCOUNTS OF LIFE INSURANCE COMPANY

Claims - The amount paid or payable by the insurance company to the insured for the losses occurs or the particular event happens is called claims. A claim is usually the expenditure of an insurance company.

Annuity - Annuity is an annual payment which a life insurance company guarantees to pay for a lumpsum money received in the beginning.

Surrender value of a policy - Surrender value is the amount paid by the insurance company to the insured for surrendering all claims of the policy to the company.. Usually this amount will get after the payment of two annual premiums.

Bonus in Reduction of Premium - Here, instead of paying bonus in cash to the policy holders, the insurance company deducts the amount from the premium payable to it. The amount of bonus so adjusted in the premium amount is called bonus in reduction of premium.

Consideration for Annuities Granted – Any lumpsum payment received by the insurance company in lieu of granting annuity is called consideration for annuities granted.

Reinsurance - When an insurance company undertakes a big policies in large amount, they reduce their risks by re-insuring it with other insurance companies. Such a process is called reinsurance.

Double insurance - If the same subject matter is insured with more than one insurance company, it is known as Double insurance.

Life assurance fund - It is an accumulated reserve fund which is created from excess of income over expenditure in every year.

Reversionary bonus - Reversionary bonus is a bonus which is paid by the insurance company along with the maturity value of the policy.

Commission on reinsurance ceded and Commission on reinsurance Accepted

Insurance companies earn commission from other insurance companies for giving them business under reinsurance contract. This commission is called commission on reinsurance ceded**.** If some other insurance companies give insurance to us, commission paid on such reinsurance is called commission on reinsurance accepted.

3.8. DETERMINATION OF PROFIT IN LIFE INSURANCE BUSINESS

A life policy is generally taken for a number of years. The premium received for such long term contract cannot be treated as income for ascertaining the profits for that year. The future premium may or may not be received depends on the existence of the insured. Thus on a particular date a liability of the corporation is to be calculated as the premium to be received in future will generally be less than the amount payable as claims. There is a gap between claims which are expected to arise and premium which are expected to be received. The gap is known as Net liability. It becomes desirable to create a reserve equal to its net liability in order to ascertain the profit. The Life insurance business made the valuation of net liability every year in order to ascertain the profit. This is done by a person called Actuary. The process by which net liability is ascertained by this person is known as actuarial valuation. The net liability is compared with life assurance fund on a particular date in order to ascertain the surplus or deficiency. This comparison is made by preparing a Valuation Balance sheet, which is given as follows: -

Valuation Balance Sheet

Liabilities	Amount	Assets	Amount
Net Liability as per Actuary'svaluation Surplus (Bal. Fig)		Life Assurance FundDeficit (Bal. Fig)	

Only surplus and not deficiency will be shown in the Balance sheet. With profit policy holders have a right to participate in the profits of life insurance business to the extent of 95% of true profit. The balance 5% may be utilized for such purpose as determined by the central government. For calculation of true profit, surplus as disclosed by the valuation Balance sheet must be adjusted.

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

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

3.9. Final Accounts of General Insurance Companies

General insurance companies may be doing more than one business e.g., fire, marine etc.

Fire insurance - In this insurance, the company undertakes to compensate loss caused by fire in consideration of premium received.

Marine insurance - In this insurance, in consideration of premium received, the company undertakes to compensate loss caused by marine risks as per terms of insurance.

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

Revenue Account (Form B-RA)

General insurance company may be doing more than one business like fire, marine, accidental etc. For each type of business a separate Revenue Account is to be prepared in the prescribed form B-RA. The form of Revenue Account is given below:

FORM B – RA

Name of the insurer

Registration No. and Date of Registration with the IRDARevenue Account for the year ended 31st March, 20….

Policyholders'Account (Technical Account

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Premiums Earned (Net)	1		
2.	Others (to be specified)			
3.	Change in Provisions for unexpired risk			
4.	Interest, Dividend & Rent - Gross			
	Total (A)			
1.	Claims Incurred			
2.	Commission			
3.	Operating Expenses related to insurance business	2		
4.	Others (to be specified)	3		
	Total (B)	4		
	Operating Profit/ (Loss) from Fire/ Marine/			
	Miscellaneous business (C)=(A-B)			
	Appropriations			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	Total (C)			

Profit And Loss Account (Form B-PL)

The P&L A/c is prepared to calculate the overall profit of the general insurance business. Operating profits (or losses) of fire, marine and miscellaneous insurance are taken in the P&L A/c. income from investments, profit or loss on sale of investments, bad debts, provision for doubtful debts etc. are taken in the P&L A/c.

FORM B-PL

Name of the insurer

Registration No. and Date of Registration with the IRDA

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

Shareholders' Account (Non-technical Account)

No.	Particulars	Schedule	Current Year (Rs.'000)	Previous Year (Rs.'000)
1.	Operating Profit/ (Loss) (a) Fire Insurance	1		
	(b) Marine Insurance			
	(c) Miscellaneous Insurance			
2.	Income from investments	2		
	(a) Interest, dividends & rent – Gross			
	(b) Profit on sale/redemption of investments			
	Less: Loss on sale of investments			
3.	Other income (to be specified)	3		
	Total (A)			
4.	Provisions (other than	4		
	taxation)			
	(a) For diminution in the value of investments			
	(net)			
5.	(b) For Doubtful Debts			
	(c) Others (to be specified)			
	Other Expenses			
	(a) Expenses other than those directly related			
	to the insurance business			
	(b) Bad debts written off			
	(c) Others (to be specified)			
	Total (B)			
	Profit before tax Provision			
	Profit after tax Appropriations			
	(f) Interim dividends paid during the year			
	(g) Proposed & final dividend			
	(h) Dividend Distribution Tax			
	Transfer to Reserves or other accounts (to be specified)			
	Balance of Profit/Loss brought forward for last Year			
	Balance carried forward to the Balance Sheet			

BALANCE SHEET FORM B – BS

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

Name of the Insurer
Reg,N o and date of registration with IRDA

Balance Sheet as at 31st March, 20….

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

SCHEDULES FORMING PART OF FINANCIAL

STATEMENTSSCHEDULE 1 – PREMIUM EARNED [NET]

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premium for direct business written Add: Premium on reinsurance accepted Less: premium on reinsurance ceded Net Premium		

Note: Reinsurance premiums whether on business cede or accepted are to be boughtinto account, before deducting commission under the head of reinsurance premiums.

SCHEDULE 2 – CLAIMS INCURRED [NET]

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
Claims paid Direct Add: Reinsurance accepted Less: Reinsurance ceded Net Claims paid Add: Claims outstanding at the end of the year Less: Claims outstanding at the beginning **Total Claims Incurred**		

SCHEDULE 3 – COMMISSION

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
Commission paid Direct Add: Commission on Re-insurance Accepted Less: Commission on Re-insurance Ceeded Net Commission		

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

SCHEDULE 4 – OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

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

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

SCHEDULE 5 – SHARE CAPITAL

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

Notes:

(a) Particulars of the different classes of capital should be separately stated.
(b) The amount capitalized on account of issue of bonus shares should be disclosed.
(c) In case any part of the capital is held by a holding company, the same should beseparately disclosed.

SCHEDULE 5A – PATTERN OF SHAREHOLDING [As certifiedby the Management]

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

SCHEDULE 6 – RESERVES AND SURPLUS

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

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

SCHEDULE 7 – BORROWINGS

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

SCHEDULE 8 – INVESTMENTS

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

	(aa) Equity		
2.	(bb) Preference		
3.	(b) Mutual Funds		
	(c) Derivative Instruments		
	(d) Debentures/Bonds		
	(e) Other securities (to be specified) (f) Subsidiaries		
	(g) Investment Properties – Real Estate		
	Investments in Infrastructure and Social sector		
	Other than Approved Investments		
	Total		

SCHEDULE 9– LOANS

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

SCHEDULE 10– FIXED ASSETS

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

SCHEDULE 11– CASH AND BANK BALANCES

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

SCHEDULE 12– ADVANCES AND OTHER ASSETS

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

SCHEDULE 13– CURRENT LIABILITIES

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

SCHEDULE 13– PROVISIONS

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

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

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

3.10. RESERVE FOR UNEXPIRED RISK

Policies in general insurance are only for one year. These can be taken by the insured at any time during the year.. premium on such policies is always paid in advance. There may be such policies which are issued during the year but risks covered remain unexpired at the accounting year. Hence a reserve for unexpired risk is made at 50% of the net premium in case of fire insurance and 100%of the net premium in marine insurance is made. Opening balance for reserve for unexpired risk is added to the premium and closing balance of reserve for unexpired risk is deducted from the premium. The net premium should be shown in revenue account. The closing balance of reserve for unexpired risk should be shown in the balance sheet under the head 'provisions'. At present reserve for unexpired risk will be created as follows:

a. 50% of net premium for fire insurance, marine cargo business and miscellaneous insurances.
b. 100% of net premium for marine hull business.

In addition to the above reserve, a company can maintain more reserves. Then it is called Additional Reserve.

PROBLEMS

1.A Life Assurance Company Prepaid Its Revenue A/C For The Year Ended 31.3.2016 And AscertainedIts Life Assurance Fund To Be Rs. 28,35,000. Its Was Found Later That The Following Has Been Omitted From The Accounts :

a) Interest Accrued On Investment Rs 39,000
Income Tax Liable To Be Deducted there on is Established To Be Rs. 10,500
b) Outstanding Premium Rs.32,800
c) Bonus Utilized For Reduction Of Premium Rs. 6,750
d) Claims Intimated But Not Admitted Rs.17,400
e) Claims Covered Under Reinsurance Rs.6,500

What Is The True Life Assurance Fund ?

SOLUTION:

Statement Showing Correct Life Assurance fund

Particulars	**Rs**	**Rs**
Balance of life assurance fund as on 31.3.2016		28,35,000
Interest accrued on investment (gross)	39,000	
Bonus utilized on reduction of premium	6,750	
Outstanding premium	32,800	
Claims covered under reinsurance	6,500	85,050
		29,20,050
Less : bonus utilized in reduction of premium	6,750	
Claims intimated but not admitted	17,400	
Income tax on interest accrued	10,500	34,650
Correct life assurance fund		**28,85,400**

3. Prepare from the following a life insurance revenue A/C and Balance Sheet as on11.3.2006.

Particulars	Rs.	Particulars	Rs.
Claims by death	16,890	Outstanding interest on Advances (31.3.2006)	1,944
Agent'salaries& Allowances	6,420	Bonus paidwith claims	2,700
Surrender values paid	2,810	Endowment assurancematured	24,415
Actuarial expenses	1,520	Annuities paid	1,350
Premiums	94,836	Interest revenue	19,060
Commission to agents	8,900	Rent,rates&t axes	5,475
Salaries	13,500	General charges	1,860
Medical fees	1,200	Fees received	172
Travelling expenses	1,800	Bonus paid in cash	2,825
Director'sfees	900	Advertisement	726
Agents balances	750	Consideration for annuities	12,853
Claim expenses	1,432	Printing and stationery	650
Premium outstanding(1.4.2005)	2,134	Claims O/S (1.4.05)	2,376
Premium outstanding(31.3.2006)	3,143	Claims O/S (31.3.06)	3,735
Investments	1,46,700	Loans on policies	38,300
Share capital	2,00,000	Loans on mortgages	2,90,560
Sundry creditors	9,200	Freehold premises	1,22,600
Life assurance fund(1.4.05)	3,53,672	Furniture & fittings	64,100
Reserve fund	1,46,000	Cash hold and deposit	76,300

SOLUTION: REVENUE ACCOUNT FOR THE ENDED 31-3-17

Particulars		**Current year (Rs.000)**	**Previous year (Rs .000)**
Premium earned –	**1**	92,702	-
NetInterest revenue		19,060	-
Other income (to be specified):			
Consideration for annuities		12,853	-
grantedFees received		172	-
Total (A)		1,24,787	-
Commission	**2**	8,900	-
Operating expenses related to insurancebusiness	**3**	34,051	-
Total (B)		42,951	-
			-
Benefits paid (net):	**4**	50,046	
Total (c)		50,046	-
Surplus (D)= (A)-(B)-(C)		31,790	-
Appropriations :		-	-
Transfer to shareholders account		- 31,790	-
			-
Transfer to other reserves			-
Balance being funds for futureappropriations		31,790	
Total (D)			

Balance sheet as on 31-03-2017

Particulars	Schedule	CurrentYear (Rs.'000)	Previous Year (Rs.'000)
Source of funds :			
(a) share capital	5 6	2,00,000	
(b) reserve and surplus	7	5,31,462	
(c) borrowing		-	
Total (A)		**7,31,462**	
Application of funds :	8		
Investment	9	14,700	
loans	10	3,28,860	
Fixed asset		1,86,700	
Total (B)		**6,62,260**	
Current asset :			
Cash and bank balance	11	76,300	
Advance and other asset	12	5,837	
Sub-Total (C)		**82,137**	
Current liability	13	12,935	
Provisions	14	-	
Sub-Total (D)			
		12,935	
Net current asset (A-B)		69,202	
Total		**7,31,462**	

SCHEDULE 1 – PREMIUM EARNED [NET]

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Premium received Less; outstanding premium on 1.4.2016	94,836 2,134	
	Total	**92,702**	

SCHEDULE 2 – commission expencess

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Commission to agents	8,900	
	Total	**8,900**	

SCHEDULE 3
OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000
.	Agents salaries and allowance Actual expenses salaries Medical expenses Travelling expenses Directors fees Rents, rates & taxes General charges Advertisement Printing and stationary Total	6,420 1,520 13,500 1,200 1,800 900 5,475 1,860 726 650 **34,051**	

SCHEDULE 4 –
BENEFITS PAID [NET]

No.	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
.	Insurance Claims:		
	Claims by Death	16,890	
	Claims by Maturity	24,415	
		41,305	
	Add : claim expenses	1,432 **42,737**	
	Less : outstanding claims on 1-4-2016	2,376	
	Net claims Annuities Surrenders Bonus paid in cash Bonus paid with claims	**40,361** 1,350 2,810 2,825 2,700 **50,046**	

SCHEDULE 5 - SHARE CAPITAL

No.	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
	Share capital	2,00,000 **2,00,000**	

SCHEDULE 6- RESERVES & SURPLUS

No.	Particulars		Current Year (Rs.'000	PreviousYear (Rs.'000
	Reserve funds		1,46,000	
	Life assurance fund on 1-4-16	3,53,672		
	Add: surplus transferred to fund for future appropriation	31,790	3,85,462	
			5,31,462	

SCHEDULE 8 – INVESTMENTS

No.	Particulars	Current Year (Rs.'000	PreviousYear (Rs.'000
	Reserve fund investment	1,46,700 **1,46,700**	

SCHEDULE 9 – loans

No	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Loans on mortgage	2,90,560	
	Loans on policies	38,300	
		3,28,860	

SCHEDULE 10 – Fixed assets

No	Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
	Freehold premises	1,22,600	
	Furniture and fittings	64,100	
		1,86,700	

SCHEDULE 11 – CASH AND BANK BALANCE

No	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
	Cash on hand and deposits	76,300	
		76,300	

SCHEDULE 12 – ADVANCES AND OTHER ASSETS

No	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
	Advances	-	
	Other assets :		
	Outstanding premium	3,143	
	Outstanding interest and dividend	1,944	
	Agents balance	750	
		5,837	

SCHEDULE 13 – CURRENT LIABILITIES

No.	Particulars	Current Year (Rs.'000	Previous Year (Rs.'000
	Sundry creditors	9,200	
	Outstanding claims	3,735	
		12,935	

Schedule 14 – provisions – nil

Schedule 15 – miscellaneous expenditure – nil

Check Your Progress

1. Which of the following is the regulator of insurance sector in India ?

a) RBI
b) AMFI
c) IRDA
d) SEBI

Answer : c. IRDA

2. Which Of The Following is the only public sector company in the field of life insurance?

a) General & insurance company
b) New India assurance company
c) Oriental insurance company
d) Life Insurance Corporation of India

Answer : d) Life Insurance Corporation of India

3. Which of the following terms is NOT related to the insurance sector?

a) Indemnity
b) Coverage
c) Misuse Alert
d) Annuity

Answer : c. Misuse Alert

4. With which of the fields is actuarial science associated

a) Insurance
b) Banking
c) Micro-finance
d) Space technology

Answer : Insurance

5. What does the term FSDC, used in financial sectors stand for?

a) Financial Security and Development Council
b) Financial Stability and Development Council
c) Fiscal Security and Development Convention
d) Fiscal Stability and Development Council

Answer : b. Financial Stability and Development Council

6. The revenue account of Life Assurance Company shows the Life Assurance Fund on 31.12.1988 at Rs.6221310, before taking into account the following:

Claims covered under reinsurance	12000
Bonus utilized in reduction of life insurance premium	4500
Interest accrued on securities	8260
Outstanding premium	5420
Claims intimated but not admitted	26500

What is the Life Assurance Fund after taking into account the above omissions?

7. The Revenue account of Life Insurance Company showed a balance of Rs.475000 at the end of 1983 before considering the following items:'

Bonus in reduction of premiums	40000
Outstanding premiums	100000
Interest accrued on Investments	20000
Claims intimated but not admitted	35000
Claims recovered under reinsurance	3000

8. The following figures relate to Life Insurance Corporations for the year ended 31.3.1996. Prepare the Revenue Account.

Claims	39000
Management expenses	14000
Director's fees	4000
Audit fees	3000
Medical expenses	500
Agent's commission	5000
Depreciation	4000
Bonus in reduction of premium	1500
Consideration for annuities granted	16500
Surrenders	9000
Premium received	151000
Life Fund (1.4.95)	1150000
Interest received	40000
Rent received	10000
Claims cancelled	500
Annuities	1500

- ✓ Premium outstanding Rs.9000
- ✓ Claims outstanding Rs.3000

Note: Claims cancelled owing to some inherent defect in the policy or any other reason would reduce the total claim. Hence, the claim cancelled should be deducted from claims.

9. On 31.12.1994, the books of National Insurance Co. disclosed the following particulars in respect of fire Insurance:

Reserve for unexpired risk on 31.12.93	600000
Additional reserve for unexpired risk on 31.12.93	100000
Premiums received	450000
Interest, rent and dividend (gross)	80000
Income tax deducted there from	10000
Sundry income	2000

Claims paid during 1994	400000
Claims outstanding on 31.12.93	25000
Claims outstanding on 31.12.94	30000
Claims recoverable under reinsurance	10000
Commission to agents	50000
Outstanding commission to agents on 31.12.94	6000
Expenses of management (including Rs.5000 legal expenses paid in connection with claims)	80000
Sundry expenses	5000
Commission on reinsurance ceded	5000

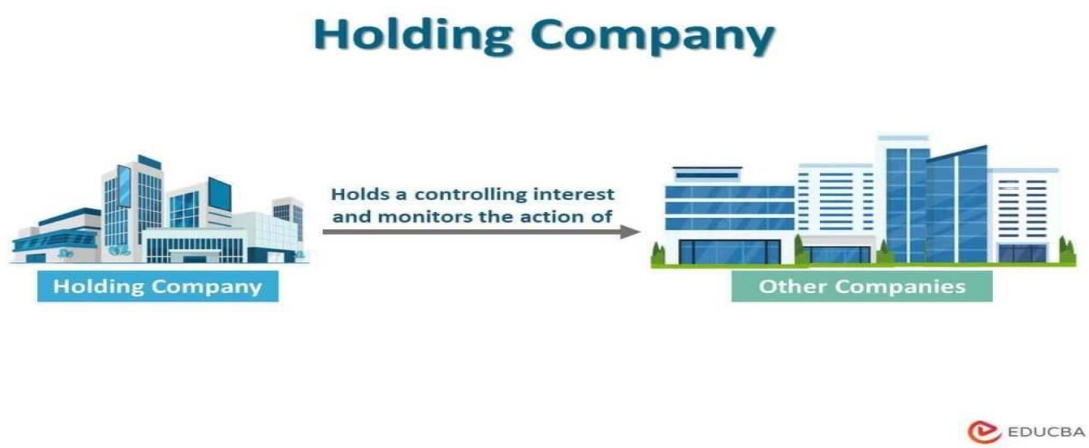
Keep a reserve for unexpired risk equal to 50% of the premiums and increase the additional reserve by Rs.20000

UNIT-IV

CONSOLIDATED FINANCIAL STATEMENTS

4.1 INTORDUCTION

Economics of large scale production have given impetus to business combinations. Mergers and acquisition have become the orders of the day in the corporate world. Acquiring controlling interest in a company provides control over its working without affecting its independentexistenceandidentity.



The 'Holding company' method of business combinations facilitates creation of closely linked group of companies with interest in mutual well being. Thus, acquiring control over other companies has become a favourate method to build up n industrial empire.

4.1.2. MEANING OF HOLDING COMPANY

A Holding company is a company which holds the shares of another company. While the first is called holding company, the company which is so controlled is termed as 'Subsidiary company'. The main advantage of getting a control over another company is elimination of competition to enjoy the economies of large scale production and get an assured market for the products of the company.

4.1.3. DEFINITION OF HOLDING COMPANY

Sec 4 of the Indian companies Act 1956 provides that a holding company is one if it

- Controls the Board of Directors of another company
- Holds more than half of the nominal value of equity shares capital of another company
- Controls a holding company which inurns controls another subsidiary company.

4.1.4 MEANING OF SUBSIDIARY COMPANY

According to sec4 (1) of the companies Act, a company is a subsidiary of another company if, but only if,

1. The other company controls the composition of its board of directors or
2. The other company
    - Holds more than half in nominal value of its equity share capital or
    - If it is a company formed before 1 st April 1956 with both equity and preference share holders having the same voting rights, the other company, exercises or control more than half of its voting power or
    - It is a subsidiary of any company which is that other company's subsidiary

4.2 PREPARATION OF CONSOLIDATED BALANCE SHEET

1.Basic philosophy of consolidation- elimination of investment account:

Usually a holding company shows the shares acquired in a subsidiary as an investment on the asset side of its balance sheet. This shows the amount paid by the holding company for the shares acquired in the subsidiary .

2. Minority Interest

The Holding company usually acquires the majority of shares of the subsidiary company. The remaining portion is acquired by the outsiders. The outsiders are collectively called minority shareholders. Minority interest should be shown in the Balance sheet on the liability side.

Number of Shares Purchased by outsiders (No of shares * Value)	xxx	
(+) Proportionate capital profit	xxx	
(+) Proportionate Revenue profit	xxx	
(-) Proportionate capital loss	xxx	
(-) Proportionate Revenue loss	xxx	
Total		xxx

3. Capital profit / pre-acquisition profit

The profit earned by the subsidiary company up to the date of acquisition is called capital profit. The capital profit is shared between the holding company and minority shareholders in the respective ratio of shares held by them. The portion of capital profit of the holding company is added to the number of shares held by them for Goodwill (or) capital reserve. The remaining share of capital profit is added to the minority shareholders.

4.Revenue profit /post-acquisition profit

The profit earned by the subsidiary company after the date of acquisition is called revenue profit or post acquisition profit. It is also shared by the holding company and minority shareholders. The Holding company share of revenue profit is added to the existing profit and loss account and the rest of the amount is added to the minority shareholders.

5. Cost of control (or) Goodwill (or)Capital Reserve

Holding company purchases the shares of the subsidiary company at a price above the face value, the excess value is called cost of control or Goodwill. While purchasing the shares of a subsidiary company, the holding company may either makes a profit or loss. If it makes a profit the same will be credited to capital reserve account. It is makes a loss, it is debited to goodwill or cost of control.

4.3 STEPS INVOLVED IN PREPARATION OF CONSOLIDATED BALANCE SHEET

Step:1 Computation of Holding –Minority ratio :

(a) The numbers of shares of the subsidiary Co held by the holding Co should be ascertained.

(b) The number of shares hold by minority share holders in the subsidiary shhuold be noted.

(c) The ratio of their respective holding should be computed.

Step: 2

Ascertaining Pre-Acquisition Profits or Capital Profit:

P& L a/c balance and any reserve appearing in the balance sheet of subsidiary Co on the date of acquisition of shares by the holding Co are to be considered as a capital profit.

Step: 3

Ascertaining Post-Acquisition Profits or Revenue Profit:

The Reserves created and the profits earned by the subsidiary Co after the date of acquisition of shares by the holding Co are to be considered as a revenue profit.

Step: 4

Computation of Minority Interest:

Minority Interest refers to the claim of the minority or outside share holders in the net assets of the subsidiary or in the share capital, reserves, profits etc., of the subsidiary Co.

Step: 5 Computation of Goodwill/ Cost of Control or Capital Reserves:

As a holding company invests a huge sum of money in the shares of subsidiary Company, it is necessary to find out the profit or loss on investment made before proceeding to consolidate the balance sheet. If the holding Co get less then what it has invested in the shares of subsidiary; the excess amount paid should be taken as 'Cost of control or Goodwill'. On the other hand, if the holding Co gets more than what it has invested in shares, the excess amount received should taken as 'Capital Reserve'.

Step:6 Computation and elimination of unrealized profit included in stock:

The unrealized profit included in stock should be calculated and treated in the CBS .

Step: 7

Elimination of inter-company debts:

The inter- company debts have to be cancelled . Elimination of common transactions or mutual obligation or mutual indebtdness.

Step:8 preparation of consolidated balance sheet:

After following the above mentioned seven steps, all the required information for preparation of consolidated balance sheet should be available.

4.4 PROBLEMS:

1. The Balance sheet of C ltd and D Ltd. As at 31 st December 2016 are as follows.

Liabilities	**C Ltd**	**D Ltd**	**Assets**	**C Ltd**	**D Ltd**
Share Capital(at Rs.10 each)	2,00,000	1,00,000	Sundry assets	1,32,500	1,38,200
General reserve	18,000	20,000	Goodwill	-	20,000
Creditors	30,000	15,200	Shares in 'D'Ltd at cost	1,40,000	-
P&L A/c	24,500	23,000			
	2,72,500	**1,58,200**		**2,72,500**	**1,58,200**

In the case of D Ltd ., profit for the year ended 31 st December 2016 is Rs.12,000 and transfer to reserve is Rs.5,000. The holding of C Ltd in D ltd is 90% acquired on 30 th June 2016. Prepare a consolidated Balance sheet from the following Balance sheets.

SOLUTION:

Consolidated balance sheet of C Ltd and its subsidiary D Ltd as on 31.12.2016

(As per schedule VI)

S.No		***Note No***	***Rs***
	I. Equity and liabilities:		
	(i) Share holders funds:		
	Share capital	1	2,00,000
	Reserves and surplus	2	47,900
	(i) Minority Interest (W.N.4)		14,300
	(ii) Current liabilities		
	Trade payables	3	45,200
	Total (i)+ (ii)+ (iii)		**3,07,400**
	II. Assets:		
	(i) Non-current assets		
	Tangible assets	4	2,70,700
	Intangible assets	5	36,700
	(ii) Current assets:		
	Total (i)+ (ii)		**3.07,400**

Working Notes

1. **Holding – minority Ratio**

   C Ltd acquired 90 % of shares in D Ltd.

   Minority holding in D ltd-10%

   Ratio= 90:10 or 9:1

2. **Revenue profits:** **Rs**

   Profit from the current year ,given 12,000

   Profit made after June 30th or revenue profit = 12,000x 6/12 6000

   Holding company's share = 6000 x9/10 5400

   Minority's share = 6000x1/10 600

3. **Capital profits:** **Rs**

General reserve of D Ltd 20,000

Profit & Loss a/c of D ltd 23,000

43,000

Less: Revenue profit 6000

Capital profits **37,000**

Holding company's share = 37,000 x 9/10 = 33,300

Subsidiary company's share =37,000 x 1/10 = 3700

Note: Since it is clearly stated that the profit of DLtd for the year 2016 is RS.12,000. It is assumed that the transfer to reserve of Rs.5000 is a part of the Rs.12,000.

4. **Minority Interest:** **Rs**

Face value of minority shares 1,00,000 x 10/100= 10,000

Add: Minority share of capital profit 3700

Add: Minority share of revenue profit 600

Minority Interest **14,300**

5. **Cost of control or Goodwill** **Rs**

Amount paid by C Ltd for shares purchased in D Ltd 1,40,000

Less: Face value of shares purchased 1,00,000 x 90/100 = 90,000

Less: Holdig Company's share of capital profit =33,300 1,23,300

Goodwill **16,700**

Add: Goodwill in D Ltd's Balance sheet 20,000

Goodwill to be shown in consolidated balance sheet **36,700**

UNREALIZED PROFIT IN STOCK:

2. On 31st March 2018 the balance sheet of H Ltd and its subsidiary S Ltd stood as follows:

Liabilities	H Ltd Rs	S Ltd Rs	Assets	H Ltd Rs	S Ltd Rs
EquityShare Capital	8,00,000	2,00,000	Sundry assets	5.50,000	1,00,000
General reserve	1,50,000	70,000	Stock	1,05,000	1,77,000
Creditors	1,20,000	80,000	75 % Shares in 'S'Ltd at cost	2,80,000	-
P&L A/c	90,000	55,000	Other current assets	2,25,000	1,28,000
	11,60,000	**4,05,000**		**11,60,000**	**4,05,000**

Draw a consolidated Balance sheet as at 31 st march, 2018 after taking in to consideration the following information:

(i) H Ltd acquired the shares on 31 st July , 2017.

(ii) S Ltd earned profit of Rs.45,000 for the year ended 31 st march 2018.

(iii) In January 2018 S ltd sold to H Ltd goods costing Rs.15,000 for rs.20,000.

On 31 st March ,2018 half of these goods were lying as unsold in the godown of H Ltd.

SOLUTION:

Consolidated balance sheet of H Ltd and its subsidiary S Ltd as on 31.03.2018

(As per schedule VI)

S.No		***Note No***	***Rs***
	I. Equity and liabilities:		
	(j) Share holders funds:		
	Share capital	1	8,00,000
	Reserves and surplus	2	2,60,000
	(iii) Minority Interest (W.N.4)		81,250
	(iv) Current liabilities		

	Trade payables	3	2,00,000
	Total (i)+ (ii)+ (iii)		**13,41,250**
	II. Assets:		
	(iii) Non-current assets		
	Tangible assets	4	6,50,000
	Intangible assets	5	58,750
	(iv) Current assets:		
	Stock	6	2,79,500
	Other current assets	7	3,53,000
	Total (i)+ (ii)		**13,41,250**

Working Notes

1. **Holding – minority Ratio**

H Ltd acquired 75 % of shares in S Ltd.

Minority holding in S ltd-25 %

Ratio= 75:25 or 3:1

2. **Revenue profits:** **RS**

Profit from the current year of S Ltd ,given 45,000

Profit earned by S Ltd after July 31th or revenue profit = 45,000x 8/12 30,000

Holding company's share = 30,000 x3/4

22,500

Minority's share = 30,000 x1/4 7500

3. Capital profits: **Rs**

General reserve of S Ltd on 31.3.18			70,000
Profit & Loss a/c of S Ltd on31.3.18			55,000
			1,25,000
Less: Revenueprofit			30,000
Capital profits			**95,000**
Holding company's share	= 95,000 x 3/4	= 71,250	
Subsidiary company's share	= 95,000 x 1/4	= 23,750	

4. Minority Interest: **Rs**

Face value of minority shares 2,00,000 x 25/100=	50,000
Add: Minority share of capital profit	23,750
Add: Minority share of revenue profit	7500
Minority Interest	**81,250**

5. Cost of control or Goodwill **Rs**

Amount paid by H Ltd for shares purchased in S Ltd		2,80,000
Less: Face value of shares purchased 2,00,000 x 3/4	= 1,50,000	
Less: Holdig Company's share of capital profit	=71,250	2,21,250
Goodwill		**58,750**

6. Provision for unrealized profit in stock

Profit in stock of H Ltd acquired from S Ltd

(20,000-15,000)x 1/2= 5000 x 1/2= 2500.

MUTUAL OBLIGATION IN BILLS

3. **From the following balance sheet relating to H Ltd and S Ltd .Prepare consolidated Balance sheet .**

Liabilities	**H Ltd** **Rs**	**S Ltd** **Rs**	**Assets**	**H Ltd** **Rs**	**S Ltd** **Rs**
Share Capital (shares of Rs.10 each)	10,00,000	2,00,000	Sundry assets	8,00,000	1,20,000
General reserve	1,00,000	60,000	Stock	6,10,,000	2,40,000
Creditors	2,00,000	1,20,000	Debtors	1,30,000	1,70,000
P&L A/c	4,00,000	1,20,000	Bills receivable	10,000	-
Bills payable	-	30,000	Shares in 'S'Ltd at cost (15,000 shares)	1,50,000	-
	17,00,000	**5,30,000**		**17,00,000**	**5,30,000**

(i) All the profits of S Ltd have been earned after the shares were acquired by H Ltd. But there was already a reserve of Rs.60,000 on that date.

(ii) All the Bill payable of S Ltd were accepted in favour of H Ltd.

(iii) The stock of H Ltd includes Rs.50,000 purchased from S Ltd .the profit added was 25 % on cost.

SOLUTION:

Consolidated balance sheet of H Ltd and its subsidiary S Ltd as on 31.12.2020

(As per schedule VI)

S.No		***Note No***	***Rs***
	I. Equity and liabilities:		
	(k) Share holders funds:		
	Share capital	1	10,00,000
	Reserves and surplus	2	6,25,000

	(v) Minority Interest (W.N.4)		95,000
	(vi) Current liabilities	3	3,40,000
	Trade payables		
	Total (i)+ (ii)+ (iii)		**20,60,000**
	II. Assets:		
	(v) Non-current assets		
	Tangible assets	4	9 ,20,000
	Intangible assets	5	8,40,000
	(vi) Current assets:		
	Stock	6	**3,00,000**
	Total (i)+ (ii)		**20,60,000**

Working Notes

1. **Holding – minority Ratio**

Total shares in S Ltd 2,00,000/10 = 20,000

Shares acquired by H Ltd of in S Ltd = 15,000

Minority shares **5000**

Ratio= 15,000:5000 or 3:1

2. **Revenue profits:** **Rs**

Profit earned by S Ltd after shares were acquired by H Ltd in S Ltd		1,20,000
Revenue profits	= 1,20,000	
Holding company's share	= 1,20,000 x3/4	90,000
Minority's share	= 1,20,000 x1/4	30,000

3. Capital profits: **Rs**

Reserve of S Ltd on the date of purchase of shares in S Ltd by H ltd		60,000
Capital profits		60,000
Holding Company's share	= 60,000 x 3/4 =	45,000
Minority share	=60,000 X 1/4=	15,000

4. .Minority Interest: **Rs**

Face value of minority shares 5000 x 10	50,000
Add: Minority share of capital profit	15,000
Add: Minority share of revenue profit	30,000
Minority Interest	**95,000**

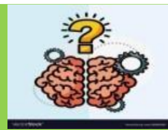
5. Cost of control or Goodwill **Rs**

Amount paid by H Ltd for shares purchased in S Ltd		1,50,000
Less: Face value of shares purchased 15,000 x 10	= 1,50,000	
Less: Holding Company's share of capital profit	=45,000	1,95,000
Goodwill		**45,000**

6. Provision for unrealized profit in stock

Profit in stock of H Ltd acquired from S Ltd		50,000
Profit included in stock 25 % on cost		
Or 20 % on sale price	= 50,000 x 20/100	10,000

Provision to be made = 10,000.



CHECK YOUR PROGRESS

1. Which of the following is the holding company?

   a. A company who acquires more than 50 % share in another company.

   b. A company who controls the composition of the board of directors of other company.

   c. A company who controls a company which is holding company of another subsidiary.

   d. All of the above.

Answer : All of the above

2. The shares of outsiders in the net assets in subsidiary company is known as under

   a. Outsiders liability

   b. Assets

   c. Minority interest

   d. Subsidiary company's liability

Answer : Minority interest

3. Pre- Acquisition profit in subsidiary company is considered as

   a. Revenue profit

   b. Capital profit

   c. Goodwill

   d. None of the above

Answer : Revenue profit

4. Excess of Cost of investment over paid up value of the shares is considered as

   a. Goodwill

   b. Capital reserve

   c. Minortiy interest

   d. None of the above

Answer: Goodwill

5. Profit earned before acquisition of share is treated as
    a. Revenue profit
    b. Capital profit
    c. Goodwill
    d. None of the above

Answer: Capital profit

6. From the following summarized Balance sheets of H Ltd. and S Ltd. as on 31.12.94, prepare a Consolidated Balance sheet of the two companies:

Liabilities	H	S	Assets	H	S
Share capital: Shares of Rs.10 each fully paid	2500000	1250000	Fixed Assets	1810000	1575000
Reserves	750000	500000	Investments(100000 shares in S Ltd)	1100000	-
Creditors	225000	200000	Current assets	565000	375000

H Ltd. purchased the shares in S Ltd on 1.1.1994, when reserves in S Ltd. stood at Rs.300000 and in H Ltd at Rs.450000.

7. From the Balance Sheets given below, prepare consolidated Balance sheet:

Liabilities	H	S	Assets	H	S
Shares of Rs.10 each	500000	100000	Fixed assets	400000	60000
Profit & Loss A/c	200000	60000	Stock	300000	120000
Reserves	60000	30000	Debtors	75000	85000
Bills payable	-	15000	Bills receivable	20000	-
Creditors	110000	60000	Shares in S Ltd. 7500 at cost	75000	-
	870000	265000		870000	265000

Other information:

- The bills accepted by S Ltd are all in favour of H Ltd
- The stock of H Ltd. includes Rs.25000 bought from S Ltd. at a profit to latter of 20% on sales
- All the profit of S Ltd. has been earned since the shares were acquired by H Ltd. but there was already the reserve of Rs.30000 at that date.

Hint: Full provision should be made for 'unrealised profit in stock'.

8. Given below are the Balance sheets of a Holding company and its subsidiary company as on 31.12.1991

Liabilities	H	S	Assets	H	S
Share capital: (shares of Rs.10 each)	500000	200000	Sundry assets	530000	300000
Reserve fund 1.1.91	50000	20000	Investments in 60% shares of subsidiary	150000	-
Profit for 1991	50000	30000	Preliminary expenses	-	10000
Creditors	80000	60000			
	680000	310000		680000	310000

Holding company acquired the shares in subsidiary company on 1.7.91. Prepare the consolidated Balance Sheet.

9. From the Balance sheet and information given below, prepare a consolidated Balance sheet.

Liabilities	H	S	Assets	H	S
Share capital: (Rs.10 per share fully paid)	100000	20000	Sundry assets	80000	12000
Profit and Loss A/c	40000	12000	Stock-in-trade	61000	24000
Reserves	10000	6000	Debtors	13000	17000
Creditors	20000	12000	Bills receivable	1000	-

Bills payable	-	3000	Shares in S Ltd. 1500 shares at cost.	15000	-
	170000	53000		170000	53000

Additional Information:

- All profits of S Ltd have been earned since the shares were acquired by H.co. Ltd. but the reserve of Rs.6000 was already there at the time.
- Bills accepted by S co. Ltd. are all in favour of H Co. Ltd. which has discounted Rs.2000 of them.
- Sundry assets of S Co. Ltd. under valued by Rs.2000
- The stock -in-trade of H Co. Ltd. includes Rs.5000 bought form S Co. Ltd at a profit to the latter of 25% on cost.

10. Prepare a consolidated Balance sheet from the following Balance sheets:

Liabilities	H	S	Assets	H	S
Capital: Re.1 shares	1400	1000	Sundry assets	885	1510
Creditors	350	190	Shares in 'S'Ltd 900 shares at cost	1125	-
P&L A/c	260	320			
	2010	1510		2010	1510

On the date of acquisition of shares by H Ltd. in S Ltd., the credit balance on latter's profit and loss account was Rs.220. No dividends have been declared since that date.

UNIT-V

5.1 LIQUIDATION OF COMPANIES

5.1.1 INTRODUCTION OF LIQUIDATION OF COMPANIES

Liquidation or Winding up is a process by which a company is dissolved. Winding up is the process by which a company's assets are collected and sold to pay off its debts. Any monies remaining after all debts, expenses and costs have been paid off are distributed amongst the company's shareholders. The company will be dissolved and will no longer exist after winding up.

5.1.2. MEANING OF LIQUIDATION OF A COMPANY

The setting up or closure of a company is done through a legal process under the purview of law (or) A company comes into being through a legal process and also comes to an end by law.

"Liquidation is the legal procedure by which the company comes to an end".

5.1.3 MEANING OF LIQUIDATOR

The job of realsing various assets and paying various liabilities in a systematic manner is generally performed by a person is called liquidator.

5.2 .MODES OF WINDING UP

A Company may be wounded up in any of the following ways:

1.By the court- Compulsory Winding Up

2. Voluntary Winding Up

   a) Member's Voluntary Winding Up

   b) Creditor's Voluntary Winding Up

3. Winding up subject to Supervision of court.

5.2.1. Compulsory Winding Up - By the Court

A court order initiates this mode. It usually occurs when the company cannot pay its debts, breaches legal requirements, or when it is just and equitable to wind up. The court appoints an official liquidator to manage the process, which includes selling assets, paying creditors, and distributing any surplus among the shareholders.

5.2.2. Procedure for Compulsory Winding Up

The following steps outline the legal process for such a winding up:

- **Filing a Petition:** The process begins with filing a petition to the tribunal, accompanied by a detailed statement of the company's affairs, requesting the winding up.
- **Tribunal's Review:** The tribunal reviews the petition. If the petition is filed by someone other than the company, the tribunal may require the company to submit its objections and statement of affairs within 30 days.
- **Appointment of a Liquidator:** The tribunal appoints a liquidator to oversee and manage the winding-up process, ensuring the company's assets are fairly distributed to its creditors and shareholders.
- **Preparation and Approval of Reports:** The liquidator prepares a preliminary report, which, upon approval, is finalized and submitted to the tribunal to sanction the winding-up order.
- **Submission to the Registrar of Companies (ROC):** The liquidator must submit a copy of the winding-up order to the ROC within 30 days. Failure to do so results in penalties.
- **Final Approval by ROC:** Upon satisfactory review, the ROC officially dissolves the company by removing its name from the register.

5.2.3. Publication in the Official Gazette: The ROC publishes a notice in India to announce the company's dissolution formally. Compulsory Winding Up of Company

The compulsory winding up of a private limited company is a legal process overseen by the tribunal. This action is typically initiated for several reasons, including:

- **Unpaid Debts:** The company fails to settle its debts, prompting creditors to seek legal redress through winding up.
- **Special Resolution:** The company's members pass a special resolution acknowledging the need to dissolve the company due to insurmountable challenges or other reasons.
- **Unlawful Acts:** The company or its management engages in illegal activities, compromising its integrity and legal standing.
- **Fraud and Misconduct:** Involvement in fraudulent practices or serious misconduct tarnishes the company's reputation and operational legality.
- **Non-compliance with ROC Filings:** Failure to file annual returns or financial statements with the Registrar of Companies (ROC) for five consecutive years signals operational dysfunction and possible abandonment.

- **Tribunal's Discretion:** The tribunal, upon reviewing the company's situation, may determine that winding up is in the best interest of the public, creditors, and other stakeholders.

5.3.1 Voluntary Winding Up of a Company

This occurs when the members or creditors of the company decide to wind up the company's affairs. It can be initiated by a resolution of the members (shareholders) if the company is solvent and can pay its debts or by the creditors if it is insolvent. The company appoints a liquidator to conduct the winding-up process without court intervention.

As mentioned above, Voluntary winding up is initiated by the members of a company under circumstances that don't involve court intervention. This process can commence under two primary conditions:

- **By Special Resolution:** The company members pass a special resolution for winding up, indicating their collective decision to dissolve the company.
- **By Expiry or Event as Per Articles of Association:** The company is wound up voluntarily due to the expiry of its duration as stipulated in its Articles of Association or upon the occurrence of an event mentioned in the Articles that mandates dissolution.

Documents Required for Voluntary Winding up of a Company

For the voluntary winding up of a company, the following documents are required:

- Special Resolution (Form-26): A document proving the company's decision to wind up.
- Declaration of Solvency (Form 107): A statement showing the company can pay its debts.
- Directors' Affidavit: A sworn statement verifying financial documents like the auditor’s report and accounts up to the most recent date before declaring solvency.
- Liquidator's Consent: Agreement from the appointed liquidator to undertake the winding-up process.
- Notice of Winding Up Resolution: A published notice in the Official Gazette about the company's decision to wind up.
- Notice of Liquidator Appointment: A published notice in the Official Gazette about the liquidator's appointment.

- Preliminary Liquidator's Report: An initial report from the liquidator outlining the winding-up plan.
- Final Liquidator's Report and Accounts: The liquidator's comprehensive final report and financial statements were presented at the last shareholders' meeting.
- Notice of Final Meeting: Announcement of the company's conclusive gathering.
- Meeting Return: Documentation of the final report, accounts, and meeting minutes to be submitted to the company registration office.

5.3.2.Procedure for Voluntary Winding-up

To conduct a voluntary winding up of a company under the provisions of the relevant ordinance and company law, the following detailed procedure is to be followed:

Step 1: Declaration of Solvency

Directors assess the company's financial position and declare its ability to pay all debts. This declaration, made on Form 107 as per Rule 269, is supported by an auditor's report.

The board convenes to decide on proposing voluntary winding up to the shareholders and schedules a General Meeting (Annual or Extraordinary) as per Section 362.

Step 2: Shareholders' Approval

At the General Meeting, shareholders review the directors' proposal and, upon agreement, pass a Special Resolution to wind up the company voluntarily.

A liquidator is appointed during this meeting, and his remuneration is fixed. The appointment of the liquidator effectively dissolves the Board of Directors, as stated in Sections 358 and 364.

Step 3: Notification of Resolution

The resolution to wind up is published in the Official Gazette and newspapers within 10 days, ensuring public notification. A copy is also filed with the Registrar in compliance with Section 361.

Step 4: Liquidator's Appointment Notification

The company must inform the Registrar about the liquidator's appointment or any changes, along with the liquidator's consent, within 10 days of such occurrence, as mandated by Section 366.

Step 5: Liquidator's Public Announcement

The appointed liquidator must announce his role in the Official Gazette and to the Registrar within 14 days of appointment, using Form 110 as prescribed under Rule 271, according to Section 389.

Step 6: Creditors' Meeting

Should the liquidator determine that the company cannot fully settle its debts, he must convene a creditors' meeting, presenting a financial statement that outlines the company's assets and liabilities, as per Section 368.

Step 7: Documentation of Creditors' Meeting

The liquidator must file a return, including the creditors' meeting notice and other relevant documents, with the Registrar within 10 days of the meeting, adhering to Section 368.

Step 8: Annual General Meeting

Suppose the winding-up process extends over a year. In that case, the liquidator must call an annual general meeting of the shareholders and seek court approval for extending the winding-up duration, as outlined in Section 387(5).

Step 9: Filing of General Meeting Documentation

A return, including the notice of each general meeting, financial statements, and minutes, must be filed with the Registrar within 10 days post-meeting, as required by Section 369.

Step 10: Final Report and Meeting

Upon completing the winding-up process, the liquidator compiles a final report and financial account, summoning a meeting of members to present these documents. This step is conducted on Form 111 as per Rule 279, following Section 370.

Step 11: Notice of Final Meeting

The final meeting notice is published in the Gazette and newspapers at least 10 days before the scheduled date, ensuring compliance with Section 370.

Step 12: Submission of Final Documents

Within a week following the final meeting, the liquidator submits a copy of the final report and accounts to the Registrar using Form 112, as dictated by Rule 279 and Section 370, marking the completion of the winding-up process.

5.4. Subject to the Supervision of the Court

In this mode, the winding-up process starts voluntarily, but the court oversees the process. The court may decide to intervene and supervise the winding-up process to protect the interests of various stakeholders, ensuring that the process is conducted fairly and transparently.

Winding-up of Company Subject to the Supervision of the Court

When a company resolves through a unique or extraordinary resolution to undergo liquidation or winding up, a court may issue an order to supervise the process upon request from creditors, members, or other stakeholders.

Understanding Court-Supervised Company Liquidation: In instances where a company is being wound up voluntarily, it's essential for the process to be carried out under the oversight of a court. This ensures that the liquidation proceedings are regulated and transparent, providing an added layer of scrutiny and protection for all parties involved.

5.4.1. Implications of Company Winding Up

Winding up a company brings about significant changes affecting various stakeholders. Here's a breakdown of the key consequences:

For the Company

The company continues to exist as a legal entity until officially dissolved, retaining all rights associated with such an entity. However, its management shifts to the appointed liquidator(s) who oversee operations until dissolution.

For Shareholders

Shareholders face a new form of statutory liability as contributors. Any share transfers or changes in shareholders' status post the initiation of winding up, if not sanctioned by the liquidator, are considered null and void.

For Creditors

- **Legal Actions:** Creditors are barred from initiating or continuing any legal proceedings against the company without court permission.
- **Execution of Decrees:** If creditors have previously obtained decrees against the company, they are prevented from enforcing them.

- **Debt Claims:** Creditors must formally submit and validate their claims with the liquidator to be considered for repayment.

For Management

Upon a liquidator's appointment, the powers held by the company's directors, chief executive, and other officers are suspended, except for specific actions like notifying stakeholders of the winding-up resolution, appointing a liquidator, and similar procedural tasks.

Regarding Company Assets

Any disposition of the company's assets post the commencement of winding up is invalid without either the liquidator's consent or court approval.

These consequences collectively ensure that the winding-up process is orderly, with the liquidator playing a central role in managing the company's affairs, settling debts, and, ultimately, distributing any remaining assets to the rightful claimants.

5.5. MEANING OF CONTRIBUTORY

Every person liable to contribute to the assets of a company in the event of its being wound up and includes any holder of shares which are fully paid up. This contribution is for an amount sufficient for payment of the company debts and liabilities and costs and expenses of winding up

5.6 ORDER OF PAYMENT IN THE LIQUIDATION OF A COMPANY

The company liability should be discharged in the following order:

- Secured creditors
- Cost of liquidation
- Legal charges
- Liquidator remuneration
- Cost of winding up
- Preferential creditors
- Debenture holders having floating charge on assets
- Unsecured creditors
- Preference shareholders
- Equity shareholders.

5.7 SECURED CREDITORS

A secured creditor is one who holds some security for a debt due to him from the company such as pledge, mortgage, charge or lien. Secured creditors may be fully secured or partly secured. If they are fully secured, the value of security offered to hem would be more than the amount due but in case of partly secured creditors, the value of security would be less than the amount due to them.

In such a case, the partly secured creditors are secured to the extent of the value of security offered to them for the remaining they will be treated as unsecured creditors.

5.7.1 PREFERENTIAL CREDITORS

Preferential creditors are those creditors which have to be paid or met before nay payment is made to any creditors except the cost of liquidations and the remuneration payable to the liquidator.

5.7.2.UNSECURED CREDITORS:

An unsecured creditor is an individual or institution that lends money without obtaining specified assets as collateral. This poses a higher risk to the creditor because it will have nothing to fall back on should the borrower default on the loan. If a borrower fails to make a payment on a debt that is unsecured, the creditor cannot take any of the borrower's assets without winning a lawsuit first.

A debenture holder is an unsecured creditor.

5.8 LIQUIDATOR’S FINAL STATEMENT OF ACCOUNT:

It is the duty of liquidator to realize the assets o the company under liquidation and settle the account of every creditor proving his claim against the company. It is necessary for him to prepare a statement showing how much he realized and how the same was disbursed among the claimants. In other words, he has to maintain a proper cash book for recording his receipts and payments and has to submit a summary of the same to the court in case of compulsory winding up and to the company in case of voluntary winding up. Such document is called Liquidator’s final statement of account.

FORMAT FOR LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT:

Recepits	**Rs**	**Payments**	**Rs**
To Assets realized Land & Building Free hold property Cash in hand Debtors Stock Furniture Machinery	 Xxx Xxx Xxx Xxx Xxx xxx	By Legal expenses	Xxx
To Surplus from secured creditors	Xxx	By Liquidation remuneration % Amount/Assets realized xxx % Preferential Creditors xxx % Unsecured Creditors xxx	 Xxx
To Receipt of unpaid calls	Xxx	By Liquidation Expenses	xxx
		By Debenture holders	xxx
		By Preferential Creditors	xxx
		By Unsecured Creditors	xxx
	xxx		**xxx**

PROBLEMS:

1. A liquidator is entitled to receive remuneration@ 2 % of the assets realized and 3 % on the amount distributed among the unsecured creditors. The assets realized Rs.70,00,000 against which payment was made as follows:

   Liquidation expenses Rs.50, 000
   Preferential Creditors Rs.1, 50,000 and
   Secured Creditors Rs.4, 00,000; unsecured creditors: Rs. 30, 00,000.
   Calculate the total remuneration payable to the liquidator.

SOLUTION:

Calculation of Liquidators Remuneration		**Rs**
(i)	Liquidator's commission on assets realized(70,00,000x 2/100)	1,40,000
(ii)	Liquidator's commission on amount paid to preferential creditors (1,50,000x 3/100)	4500
(iii)	Liquidator's commission on amount distributed among unsecured creditors(26,55,500 x3/103)	77,345

Total liquidator's remuneration 2,21,845

Working Notes:

Calculation of amount available to unsecured creditors

= 70,00,000- (50,000+ 1,50,000+40,00,000+1,40,000+4500)

= 26,55,500.

2.The following particulars relate to a limited company which went in to voluntary liquidation:

Preferential Creditors Rs.25,000

Unsecured creditors: Rs. 58,000

6 % Debentures -30,000

The assets realized Rs.80,000. The expenses of liquidation amounted to Rs.1500 and the liquidator's remuneration was agreed at 2 ½ % on the amount realized and 2 % on the amount paid to unsecured creditors including preferential creditors. Show the liquidator's final statement of account.

SOLUTION:

Liquidator's final statement of account.

Recepits	**Rs**	**Payments**		**Rs**
To Assets realized	**80,000**	By Legal expenses		**-**
		By Liquidation remuneration		
		% Amount/Assets realized		
		80,000x 2 ½ %	2000	
		Preferential Creditors		
		25,000x2%on	500	
		Unsecured Creditors		
		20,558x2%	412	2912
		By Liquidation Expenses		1500
		By Debenture holders		30,000
		By Preferential Creditors		25,000
		By Unsecured Creditors		**20,588**
	80,000			**80,000**

Working Notes:

Calculation of amount available to unsecured creditors

= 80,000- (2000+500+1500+30,000+25,000)

= 21,000 x 2/102 = 20,588

3. The following particulars relate to a limited company which went in to voluntary liquidation. You are required to prepare the liquidator's final statement of accountallowing for his remuneration at 3 % on the assets realized and 2 ½ % on the amount paid to unsecured creditors.

Share capital issued:

5000 preference shares of Rs.100 each (fully paid)

30,000 Equity shares of Rs.100 each (fully paid)

12,000 Equity shares of Rs.100 each (Rs.8 paid up)

Assets realized Rs.9,24,000 excluding amount realized by sale of securities held by the secured creditors.

Preferential Creditors Rs.24,000

Unsecured creditors: Rs. 8,51,094

Debentures having a floating charge on the assets -3,00,000

Liquidation expenses-Rs.9000

A call of Rs.2 per share on the partly paid equity shares was duly paid except in case of one shareholder owning 1200 shares.

SOLUTION:

Liquidator's final statement of account.

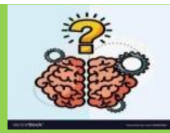
Recepits	Rs	Payments		Rs
To Assets realized	9,24,000	By Legal expenses		-
To Surplus from secured creditors (Rs.1,62,000-Rs.1,38,000)	24,000	By Liquidation remuneration On Amount/Assets realized 9,48,000 x 3 %	28,440	
		On Preferential Creditors 24,000 x2 ½ %	600	
To receipt of call money on 10,800bequity shares @ Rs.2 per share	21,600	Unsecured Creditors 5,92,741 x 2 ½ %	14,819	43,859
		By Liquidation Expenses		9000
		By Debenture holders		3,00,000
		By Preferential Creditors		24,000
		By Unsecured Creditors		**5,92,741**
	9,69,600			**9,69,600**

Working Notes:

Calculation of amount available to unsecured creditors

= 9,69,600- (28,440+600+9000+3,00,000+24,000)

= 6,07,560 x 2.5/ 102.5= Rs.14,819.



CHECK YOUR PROGRESS

1. The first item in order of payment to be made by liquidator is:

a) Secured creditors

b) Preferential creditors

c) Liquidation expenses

d) Preferential creditors

Answer: Liquidation expenses

2. Liquidator's statement of receipts and payment is know as:

a) Cash flow statement

b) Cash book

c) Liquidator's final statement of account

d) Deficiency account

Answer: Liquidator's final statement of account

3. The liquidator final statement of account is prepared

a) Only in case of creditor voluntary winding up

b) Only in case of members voluntary winding up

c) Only in case of compulsory winding up

d) None of the above

Answer: Only in case of members voluntary winding up

4. The Job of realizing assets and paying liabilities is performed by a Person

a) Liquidator

b) Auditor

c) Registrar of the Company

d) None of the above

Answer: Liquidator

5. At the time of liquidation of company, the liquidator has to file a statement of receipt and payment is known as

a) Statement of affairs

b) Liquidator report

c) Liquidator final statement of account

d) None of the Above

Answer: Liquidator final statement of account

6. From the following particulars, calculate the remuneration payable to liquidator.

a. Amount available for distribution to unsecured creditors before paying Liquidator's remuneration – 280800

b. Liquidator's remuneration – 2% on the amount paid to unsecured creditors.

Hint: It is assumed that the amount available for unsecured creditors is not sufficient to pay them fully.

7. The following particulars relate to a limited company which has gone into voluntary liquidation. You are required to prepare the liquidator's final account, allowing for his remuneration @ 2% on the amount realised and 2% on the amount distributed among unsecured creditors other than preferential creditors.

- Preferential creditors – 10000
- Unsecured creditors – 32000
- Debentures – 10000

The assets realised the following sums:

- Land and buildings – 20000
- Plant and Machinery – 18650
- Fixtures and Fittings – 1000

The liquidation expenses amount to Rs.1000

8. The Ultra Optimist Ltd were into liquidation. Its assets realised Rs.350000 excluding amount realised by sale of securities held by the secured creditors. The following was the positions:

Share capital: 1000 shares of Rs.100 each	
Secured creditors (securities realised Rs.40000)	35000
Preferential creditors	6000
Unsecured creditors	140000
Debentures having a floating charge on the assets of the company	250000
Liquidation expenses	5000
Liquidation remuneration	7500

Prepare the liquidators final statement of account.

9. The following particulars are related to a company which has gone into liquidation. You are required to prepare liquidator's final statement of account allowing for his remuneration at 2%

on the amounts realised on assets and 2% on the amount distributed to unsecured creditors other than preferential creditors.

Unsecured creditors	224000
Preferential creditors	70000
Debentures	75000
The assets realsied the following amounts:	
Cash in hand	20000
Land and Buildings	130000
Plant and Machinery	110500
Furniture & Fittings	7500

The liquidation expenses amounted to Rs.2000

A call of Rs.2 per share on the partly paid 10000 equity shares was made and duly paid except in case of one shareholder owning 500 shares.

10. Vijay Ltd. Went into liquidation with the following liabilities:

- Secured creditors – Rs.30000 (securities realized – Rs.35000)
- Preferential creditors – Rs.700
- Unsecured Creditors – Rs. 40500

Liquidator’s expenses are Rs.352. He is entitled to a remuneration of 4% on the amounts realized (including securities with creditors) and 2% on the amount distributed to unsecured creditors. The various assets realsied Rs.36000. Prepare the liquidator’s final statement of account.