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COURSE MATERIAL

Quality Education
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FAST TRACK MATERIAL
ACCOUNTING _35e

(NEW EDITION THOROUGHLY REVISED & UPDATED UPTO JULY 2016. APPLICABLE FOR
NOV.2016 & MAY 2017 IPCC EXAMINATIONS. THIS MATERIAL IS SYNCHRONISED WITH
APRIL 2016 EDITION OF ICAI SM AND PM)

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</tbody>
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1. AVERAGE DUE DATE

For Problematic Purpose

1. Working Statement of Average Due Date

<table>
<thead>
<tr>
<th>Due date of transactions/bills/promissory notes</th>
<th>No of Days away from base date</th>
<th>Amount (Rs.)</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>XXX</td>
<td>XXX</td>
<td></td>
</tr>
</tbody>
</table>

2. While calculating no of Days either starting date or ending date to be ignored

If the resulting figure is fractions (total products/total amounts = fraction)
3. Fraction of years should be converted into No. of months by multiplying with 12.

4. Fraction of months should be converted into No. of days by multiplying with No. of days in the respective months i.e., 28/29/30/31.

5. Fraction of days should be rounded off to nearest day.

6. Calculation of the average due date when amount is lent in one installment and repayment is to be made in equal installment.

\[
\text{Average Due Date} = \text{Date of loan} + \frac{\text{Sum of days / months / years from the date of lending to the date of repayment of each installment}}{\text{No. of installments}}
\]

Notes:

i) The above formula is applicable only if repayment is made only in equal installment amounts.

ii) If the amounts are different, use products only.

For theory (Questions asked in previous 10 Years)

1. A promissory note executed by Mr. X is due on 12.8.2007. What is the maturity date of the promissory note including grace days? (M07 - 2 M) (PCC)

Answer:

Where the promissory note is due (including grace days) on public holiday, the preceding day shall be the due date. Hence, the due date is 14.8.2007.

2. Define Average Due Date. List out the various instances when Average Due Date can be used. (IPCC M14 - 4M)

For answer refer theory in the chapter

2. ACCOUNT CURRENT

<table>
<thead>
<tr>
<th>STEPS</th>
<th>PARTICULARS</th>
<th>INTEREST TABLE</th>
<th>FORWARD METHOD</th>
<th>BACKWARD METHOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Name</td>
<td>Receiver in account current with supplier (from_______to_____________) rate of interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Additional columns in normal ledger accounts</td>
<td>Due date, no. of days, interest amount / products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Recording of transactions</td>
<td>As usual of normal ledger posting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Identification of Due Date</td>
<td>As usual done in ADD chapter</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. No. of Days | Due Date to closing date | Due Date to closing date | Earliest due date to DD
---|---|---|---
| | | | In case of opening balance both days to be included
| | For all other cases either opening date or closing date to be ignored

6. Products of Closing balance | - | - | Closing bal x no.of days (total period of account current) (only post in to product column) where the amount is less (debit side or credit side)

7. How to calculate Interest | interest is to be calculated | Balance of products x rate of interest /100 x 1/365 or 366 | Products = No. of days x amt (one day interest to be calculated)

8. Where to Post Interest | Opposite side amount column to balance of interest column | opposite side amount column to balance of products | Same side amount column to balance of products

**Format of account current (in case of normal business transactions) where rate of interest is same on debit and credit products**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Amt (Rs.)</th>
<th>Due Date</th>
<th>No. of Days</th>
<th>Interest/Products</th>
<th>Date</th>
<th>Particulars</th>
<th>Amt (Rs.)</th>
<th>Due Date</th>
<th>No. of Days</th>
<th>Interest/products</th>
</tr>
</thead>
</table>

**Products of Balance (periodic Balance Method)-In case of Banks (or) where rate of interest is different on debit and credit products**

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Withdrawal (or) Debit (Rs.)</th>
<th>Deposit (or) credits (Rs.)</th>
<th>Balance (Rs.)</th>
<th>Balance Dr.(or) Cr.</th>
<th>Number of Days</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Dr</td>
</tr>
</tbody>
</table>

1. Record the transactions in a chronological order
2. No of days -Up to last transaction- transaction Date to next transaction Date.
   -For last transaction – the date of transaction as well as the date up to which the account current is prepared is included (both days are inclusive).
3. Calculate debit products/credit products according to Balance
4. Calculate interest for debits & credits products, enter the amount of interest as deposit/withdrawal as appropriate

**Red ink Interest:**
- Such interest is also called as negative interest
- In case due date of a transaction falls after the date of account current. Interest should be deducted.
- However interest from the date of closing to such date is written in ‘Red ink’ in the appropriate side of the account current, or it may be shown in the opposite side interest/ products column in the normal ink.
- Red ink means, the amount to be deducted.

**For theory (Questions asked in previous 10 Years)**
1. What is meant by ‘Red-Ink interest’ in an Account Current? (2 Marks) (November, 2007) (PCC)
2. What is Account current? (2 Marks, May, 2008) (PCC)
4. PROFIT/LOSS PRIOR TO INCORPORATION

**Working Notes for solving problems:**

**Working Note No: 1: Time Ratio**
- DOA (Date of Acquisition)
- DOI (Date of incorporation)
- DOBS (Date of balance sheet)

**Working Note No: 2: Sales Ratio**
- Only on the basis of pre incorporation months and post incorporation months not on the basis of when it is increased.
- One half (0.5) of average monthly sales is different from one and half (1.5) of average monthly sales.
- When no increase or decrease in average monthly sales then, consider the time ratio

**Working Note No: 3: Calculation of Gross Profit**
- It can be done by applying given G.P. % or by preparing trading a/c.

**Working Note No: 4: Individual expenses calculations as information given in question**

**NOTE:**
1. If selling price or purchase cost increased or decreased in pre / post incorporation periods, we shall identify total expenses to be bifurcated between pre and post on the basis of no. of units sold or purchased.
2. We need to prepare the balance sheet of company as per schedule – III of the Companies Act, 2013.
3. Audit fees – If it is company Audit fees → Charged to Post period
   i) If it is tax Audit fees → based on sales ratio to be charged to both periods
   ii) If nothing is given you can assume as Tax audit fee

**Format for Pre and Post bifurcation:**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Basis</th>
<th>Pre- Incorporation</th>
<th>Post - Incorporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>xxx</td>
<td>Sales</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Other Income</td>
<td>xxx</td>
<td>Time</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Employee Benefit Expenses:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Pre</th>
<th>Post</th>
<th>Time</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director Fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales man commission</td>
<td>xxx</td>
<td>Sales</td>
<td>xxx</td>
<td></td>
</tr>
</tbody>
</table>

### Financial Charges:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Pre</th>
<th>Post</th>
<th>Time</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debenture Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on purchase consideration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upto DOI</td>
<td>xxx</td>
<td>Pre</td>
<td>xxx</td>
<td>-</td>
</tr>
<tr>
<td>From DOI to date of payment</td>
<td>xxx</td>
<td>Post</td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Depreciation and Amortization charges</td>
<td>xxx</td>
<td>Time</td>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

### Other Expenses:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Pre</th>
<th>Post</th>
<th>Time</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight Expenses</td>
<td>xxx</td>
<td>Sales</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Preliminary Expenses</td>
<td>xxx</td>
<td></td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>General Expenses</td>
<td>xxx</td>
<td></td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Advertisement Exp.</td>
<td>xxx</td>
<td>Sales</td>
<td>xxx</td>
<td></td>
</tr>
<tr>
<td>Misc. Office Exp.</td>
<td></td>
<td></td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Bad debts</td>
<td>xxx</td>
<td></td>
<td>Credit Sales</td>
<td>xxx</td>
</tr>
<tr>
<td>Rates and Taxes</td>
<td>xxx</td>
<td></td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Repairs to Buildings</td>
<td>xxx</td>
<td></td>
<td></td>
<td>xxx</td>
</tr>
<tr>
<td>Postages and Tele-gram Expenses</td>
<td>xxx</td>
<td>Time</td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>Packing Expenses</td>
<td>xxx</td>
<td>Sales</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Total Expenses

| xxx | xxx | xxx |

#### Pre Incorporation P/L

| xxx | - |

#### Post Incorporation P/L

| - | xxx |

---

### Treatment of Pre-Incorporation Profit or Loss

- **Profit**
  - Transfer to Capital Reserve
  - It can be used for:
    - Writing off goodwill
    - Writing off Preliminary Expenses
    - Issue of Bonus shares etc.

- **Loss**
  - Transfer to Goodwill or set off against capital reserve

---

### 5. INSURANCE CLAIMS

- **Fire Insurance Policies**
  - Loss of stock policy
  - Loss of Profit policy

---

**Copyrists Reserved**

To **MASTER MINDS, Guntur**

---

**IPCC | 35e | Fast Track | Accounting**
TOPIC 1: LOSS OF STOCK POLICY:

Note: Insurable Value = Value of stock as on the date of fire

Closing Stock as on the date of fire

Normal Goods

Excludes
- Consigned goods
- Sales/return basis

Abnormal goods (As per specification)

Damaged goods (Net Realizable value)

Slow moving (At cost)

Memorandum Trading a/c

<table>
<thead>
<tr>
<th>Dr</th>
<th>Rs.</th>
<th>Cr</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Opening Stock (given)</td>
<td>XXX</td>
<td>By Sales (given)</td>
<td>XXX</td>
</tr>
<tr>
<td>To Purchases (given)</td>
<td>XXX</td>
<td>By Closing Stock (bal-fig)</td>
<td>XXX</td>
</tr>
<tr>
<td>To Gross Profit (refer below note)</td>
<td>XXX</td>
<td>(stock as on the date of fire)</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Loss of Stock Policy

Step – 1

Gross Claim

Loss of Stock

Stock as on the date of fire

Salvaged stock (if available)

Books of A/c’s Maintained

Yes

Available

Value as per inventory records

No

Destroyed

Prepare Memorandum

Step – 2

Net Claim

Amt. of Policy ≥ Stock as on the date of fire

Over Insurances

Net Claim = Gross Claim

Loss of Stock x sum insured

Amt. of Policy < Stock on the date of fire

Under Insurance (Avg. Clause)

Net Claim = Gross Claim

Loss of Stock x Insurable Value

- Consigned goods
- Sales/return basis

Damaged goods

Slow moving

Excludes

- Consigned goods
- Sales/return basis
**Special Adjustment:-**
- Change in Sale Price / Cost of Product (we must do on the basis of current year level and previous year levels)
- Effect of errors (Eg.: Over/under Valuation of stock) (as given in previous page)
- Special Transactions (Invoiced goods but not dispatched)
- Firefighting expenses (lower of expenses and salvage value added to net claim directly)

**TOPIC 2: LOSS OF PROFIT POLICY:**

**Step – 1 Gross Claims**
- Short sales = \( \frac{(\text{Adjusted standard turnover} - \text{Actual sales during the indemnity period})}{X} \)
- \( \% \text{ of G.P} = \frac{\text{Adjusted Net Profit}}{\text{Sales}} \times 100 \)
- Least of these 3 conditions

**Step – 2 Net Claims**
- Policy Amt < GP on AAT
- Gross claim \( \times \frac{\text{Insured Amount}}{\text{GP on AAT}} \)
- Policy Amt \( \geq \) GP on AAT
- Net claim = Gross Claim
6. INVESTMENT ACCOUNTS
(As per AS-13)

CLASSIFICATION OF INVESTMENTS:

Fixed Income Securities (Debentures, Government Securities etc.)

1. Cost of Purchase:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Cum-interest</th>
<th>Ex-interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quotation Price</td>
<td>Cost + Interest accrued</td>
<td>Cost</td>
</tr>
<tr>
<td>Payment to seller</td>
<td>Quotation price</td>
<td>Quotation price + Interest accrued</td>
</tr>
<tr>
<td>Cost of investments</td>
<td>Amount paid – Interest accrued</td>
<td>Amount paid</td>
</tr>
</tbody>
</table>

NOTE:
1. Amount paid includes Quotation price, brokerage and stamp duties etc.,
2. Interest is to be calculated on Face Value
3. Brokerage is to be calculated on Quotation Price

2. Net sale proceeds:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Cum-interest</th>
<th>Ex-interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale proceeds</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Interest accrued</td>
<td>(XXX)</td>
<td>-</td>
</tr>
<tr>
<td>Less: Brokerage</td>
<td>(XXX)</td>
<td>(XXX)</td>
</tr>
<tr>
<td>Net sale proceeds</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

PROFIT / LOSS ON SALE OF INVESTMENTS: can be considered as balancing amount in the investment account. (i.e. no need to calculate profit for every transaction)

Note:
1. Cost of stock disposal of may be determined either by applying the FIFO or the average cost method.
2. If nothing is specified then follow average cost method (as assumption).
3. If nothing is specified whether Ex-Interest or Cum-interest then assume as Ex-interest only.
VARIABLE INCOME SECURITIES (INVESTMENT IN EQUITY SHARES):

Dividends

Pre-acquisition dividend
- Period for which investor did not hold the shares
  - Adjusted to cost
  - Entered on the credit side amount column of investment Account

Post-acquisition dividend
- For investor holding period
  - Treated as income
  - Entered on credit side income column of investment Account

TREATMENT OF RIGHT SHARES:

Treatment of right shares

If original shares acquired on cum-right basis
- Not-subscribed and sold in the market
  - To the extent of reduction in market value the amount is reduced from the carrying amount
- Subscribed
  - Balance credited to profit and loss account

If original shares acquired on ex-right basis
- Not-subscribed and sold in the market
  - Sale proceeds credited to Profit and loss account
- Subscribed
  - Added to the carrying amount of original holdings

In case of bonus shares there will be no cost of acquisition (face value must be increased).

CARRYING AMOUNT OF INVESTMENTS:

Investments

Current investments
- Lower of Cost or FV

Long term investments
- If other than temporary Decline – FV
- Other cases – at cost
### 7. Self-balancing ledgers

**Transfer of balance from creditor’s ledger to debtor’s ledger (vis-à-vis):**

<table>
<thead>
<tr>
<th>Amount transfer</th>
<th>Normal entry</th>
<th>Adjustment entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit balance to be transferred to creditors from debtors</td>
<td>Creditors A/c Dr To debtors A/c</td>
<td>Creditor led adj A/c Dr To general led adj A/c</td>
</tr>
<tr>
<td>Credit balance to be transferred to debtors from creditors</td>
<td>Creditors A/c Dr To debtors A/c</td>
<td>Creditor led adj A/c Dr To general led adj A/c</td>
</tr>
<tr>
<td>Debit balance to be transferred to debtors from creditors</td>
<td>Debtors A/c Dr To Creditors A/c</td>
<td>General led adj A/c Dr To creditors led adj A/c</td>
</tr>
<tr>
<td>Credit balance to be transferred to debtors from creditors</td>
<td>Debtors A/c Dr To Creditors A/c</td>
<td>General led adj A/c Dr To creditors led adj A/c</td>
</tr>
</tbody>
</table>

**Note:** FV = fair value / market value.
### Journal entries to be passed for various transactions (relates debtors)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Self Balancing Ledgers</th>
<th>Sectional Balancing Ledgers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Entry to record transaction</td>
<td>Adjustment Entry</td>
</tr>
<tr>
<td>1. Credit Sales</td>
<td>Customer A/c Dr (in DL) To Sales A/c (in GL)</td>
<td>DL Adj A/c Dr (in GL) To GLA A/c (in DL)</td>
</tr>
<tr>
<td>2. Bills receivable Dishonored</td>
<td>Customers A/c Dr (in DL) To B/R A/c (in GL)</td>
<td>- do -</td>
</tr>
<tr>
<td>3. Bad debts</td>
<td>Bad Debts A/c Dr (in GL) To Customers (in DL)</td>
<td>GLA A/c Dr (in DL) To DLA A/c (in GL)</td>
</tr>
<tr>
<td>4. Bill receivable received from customers</td>
<td>B/R A/c Dr (in GL) To Customers (in DL)</td>
<td>- do -</td>
</tr>
<tr>
<td>5. Cash received from customers</td>
<td>Cash A/c Dr (in GL) To Customers (in DL)</td>
<td>- do -</td>
</tr>
<tr>
<td>6. Discount allowed to customers</td>
<td>Discount A/c Dr (in GL) To Customers (in DL)</td>
<td>- do -</td>
</tr>
<tr>
<td>7. Sales returns</td>
<td>Sales Returns A/c Dr (in GL) To Customer A/c (in DL)</td>
<td>- do -</td>
</tr>
</tbody>
</table>

### DLA A/c in GL | GLA A/c in DL

<table>
<thead>
<tr>
<th>To balance b/d</th>
<th>xxx</th>
<th>By GLA A/c Cash Collections Discount Allowed</th>
<th>xxx</th>
<th>To DLA A/c Cash collections Discount allowed</th>
<th>xxx</th>
<th>By balance b/d</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>To GLA A/c Credit Sales Nothing Chargers</td>
<td>xxx</td>
<td>By Balance c/d</td>
<td>xxx</td>
<td>To balance c/d</td>
<td>xxx</td>
<td>By DLA A/c Sales Noting chargers</td>
<td>xxx</td>
</tr>
<tr>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

### NOTES:

i) In general ledger, DLA A/c appears like Debtors A/c

ii) In Debtors ledger, GLA A/c appears opposite to debtors A/c

### Journal entries to be passed for various transactions (relates creditors)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Self Balancing Ledgers</th>
<th>Sectional Balancing Ledgers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchases A/c Dr (in GL) To Suppliers (in CL)</td>
<td>GL Adj A/c Dr (in CL) To CL Adj A/c (in CL)</td>
</tr>
<tr>
<td>Credit purchases</td>
<td>Cash A/c Dr (in GL) To Suppliers (in CL)</td>
<td>-do-</td>
</tr>
<tr>
<td>Cash received from Supplies for returns After settlement etc.</td>
<td>Cash A/c Dr (in GL) To Suppliers (in CL)</td>
<td>-do-</td>
</tr>
</tbody>
</table>
### Cash Paid to Suppliers

<table>
<thead>
<tr>
<th>Suppliers A/c</th>
<th>Dr (in CL)</th>
<th>CL Adj A/c</th>
<th>Dr (in GL)</th>
<th>Total Creditors A/c</th>
<th>Dr (in GL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Cash A/c</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Cash A/c</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Debit Suppliers (individually)**

### Discount Allowed by Suppliers

<table>
<thead>
<tr>
<th>Suppliers A/c</th>
<th>Dr (in CL)</th>
<th>Total Creditors A/c</th>
<th>Dr (in GL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Discount A/c (in GL)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **- do-**

### Returns to Suppliers

<table>
<thead>
<tr>
<th>Suppliers A/c</th>
<th>Dr (in CL)</th>
<th>Total Creditors A/c</th>
<th>Dr (in GL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Purchase Returns A/c (in GL)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **- do-**

### Bills Payable Accepted (Drawn by Suppliers)

<table>
<thead>
<tr>
<th>Suppliers A/c</th>
<th>Dr (in CL)</th>
<th>Total Creditors A/c</th>
<th>Dr (in GL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Bills Payable A/c (in GL)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **- do-**

---

### DLA A/c in GL

<table>
<thead>
<tr>
<th>To GLA A/c</th>
<th>Payments</th>
<th>Discount received</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxx</td>
<td>By balance b/d</td>
<td>xxx</td>
</tr>
</tbody>
</table>

### GLA A/c in DL

<table>
<thead>
<tr>
<th>To balance b/d</th>
<th>By CLA A/c Payments Discounts Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

### To balance c/d

<table>
<thead>
<tr>
<th>By GLA A/c Credit purchases</th>
<th>To balance c/d</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxx</td>
<td>xxx</td>
</tr>
</tbody>
</table>

### Notes:

1. In General ledger, CLA A/c appears like creditors A/c
2. In creditors ledger, GLA A/c appears opposite to creditors A/c

### Rectification of Mistakes Taken Place:

- We will rectify in case of:
  - Single effect error / mistake – with the help of suspense A/c
  - Double effect i.e. not posted entry – write normal entry

### Theory (Questions asked in previous 10 Years)

1. What are the advantages of self-balancing ledger system? (N07 - 4 M)(PCC)
2. What is the difference between the Sectional and Self-balancing system? (J09 - 4 M) (PCC)

### 8. Amalgamation of Companies – I

#### I. Meaning of Amalgamation:

1. Two or more companies join to form a new company or
2. Absorption and blending of one by the other
3. Amalgamation includes ‘Absorption’.

#### II. Purpose / Advantages:

1. Economies of Large scale production.
2. Avoiding competition
3. Increasing efficiency
4. Expansion of business activities.
III. INVOLVING COMPANIES:
1. Amalgamating / Selling / Transferor / Vendor Company / Companies (SC)
   a) The company / companies, which are going in to liquidation or merging with other companies and closing their business permanently.
   b) AS-14 Accounting guidelines will not apply.
   c) Realization A/c is opened for the purpose of
      i) Transferring of all assets, Liabilities taken over by purchasing company at Book value.
      ii) Recording the purchase consideration.
      iii) Know the Profit/Loss on realization.
   d) All the necessary accounts opened and all will be closed automatically.
2. Amalgamated / Purchasing / Transferee / Vendee company (PC):
   a) The company which takes over the business of SC
   b) Incorporates the assets, liabilities takenover at agreed values.
   c) AS-14 is applicable for accounting of amalgamation in Purchasing company books.
   d) PC may be discharged in the form of Cash / Equity / Preference Shares / Debentures or in any other form.

IV. PROCESS INVOLVED:

V. COVERED UNDER AS 14 AMALGAMATIONS:

Types of Amalgamation

1. Amalgamation
   1. Two or more companies are wound up and a new company is formed to take over their business.
   2. At least three companies are involved.
      Ex: Two selling companies or more and one purchasing company.
   3. Only one Resultant Company is formed (New)
   4. Objective/Advantages:
      a) To cut competition
      b) To reap the economies of large scale
      c) Increasing the efficiency
      d) Expansion of business
   5. Examples:
      X Ltd., Y Ltd., Amalgamated to form Z Ltd.,
      6. Z Ltd., is new company.

2. Absorption
   1. An existing company takes over the business of one or more existing companies.
   2. At least two companies are involved.
      Ex: One or more selling companies one purchasing company.
   3. No new resultant company is formed.
   4. Objective/Advantages:
      a) To cut competition
      b) To reap the economies of large scale
      c) Increasing the efficiency
      d) Expansion of business
   5. Examples:
      X Ltd., takes over the business of Y Ltd.,
      6. No new company.

3. External Reconstruction
   1. A new company is formed to takes over the business of an existing company.
   2. Only two companies are involved.
      Ex: One selling company and one purchasing company.(New)
   3. Only one Resultant Company is formed.
   4. Objective/Advantages: To reorganize the financial structure of the company
   5. Examples:
      X Ltd., is formed to take over the business of Y Ltd.,
      6. X Ltd., is new Company.
VI. PURCHASE CONSIDERATION (PC):

**Meaning:** As per AS 14, “The aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the purchasing company to the shareholders of the selling company.

**Not to be included in PC:** Expenses of winding up, settlement of Liabilities made by purchasing company. Payment to debenture holders.

### Methods of Calculation of Purchase consideration

1. **Net Assets method / NAV method:**
   - Agreed value of XXX Assets taken over
   - (-) Agreed value of (XXX) Liabilities taken over
   - NAV of Business XXX Taken over/Pc Agreed.
   - If agreed values are not given, then book values are considered.
   - For cash and Bank balances. Whether it is taken over or not? Is important.
   - Fictitious assets have no realizable values, hence the value is –NIL–.
   - Ex: Preliminary expenses underwriting commission Deferred Advertising, P & L Dr. balance, Discount on issue of shares / debentures not written-off.
   - These should not be taken over while calculating ‘PC’.

2. **Payments method / Net Payments Method:**
   - The details of payments will be given either directly or indirectly.
   - **PC Means:** Total of
     - Value of cash given
     - Value of Equity shares given
     - Value of Pref. Shares given
     - Value of other benefits given to the share holders only (Equity and Preference)
     - If some details like equity and preference shares are given, but balance in cash means, it is NAV method.
   - Complete payments details should be given. Then only, it is payments method.

3. **Intrinsic Value Method:**
   - Present worth of equity share is known as intrinsic value.
   - If shares of both SC and PC are listed in a Stock Exchange, market price is called as intrinsic value. Hence SWAP Ratio is applicable.
   - Ex: Share of SC is 20
     - Share of PC is 40
   - SWAP Ratio is 1:2 (one share every two is issued)
   - Otherwise,
     - Present worth of Assets (-) Amount payable to pref. share holders.
     - = Intrinsic Net worth of Eq. Share holders.
     - PSV = Intrinsic Networth
     - No.of Eq.Shares
   - It is also covered under payments method.

VII. TYPES OF AMALGAMATIONS AS PER AS-14:

IF ALL THE 5 BELOW MENTIONED CONDITIONS ARE NOT FILLED

1. All the assets and liabilities of the SC become, after amalgamation, the assets and liabilities of the PC.
2. No adjustment is intended to be made to the book values of the assets and liabilities of the SC, when they are incorporated in the books of PC, Except to ensure uniformity of accounting policies.
3. The business of the SC is intended to be carried on, after the amalgamation by the PC.
4. Equity shareholders of SC should be given Equity Shares only in PC, Except cash may be paid for fractional shares.
5. Eq. share holders of SC holding not less than 90% of the face value, become equity share holders of the PC by virtue of amalgamation.
   - (Equity shares already held in SC Prior to amalgamation is not considered for calculating 90%).
VIII.

1. It treats Amalgamation as a Non-event.
3. No need to pass entry for statutory reserves, in PC books.
4. No Goodwill A/c is recorded in PC books.
5. All costs for bringing SC business in PC books should be expensed immediately. No such costs should be capitalized in PC books.
6. Carry forward of retained earnings in PC gives more flexibility to the PC to declare dividends.
7. PC is mainly discharged by shares, cash paid for fractional shares.
8. Assets and Liabilities are recorded at book values.
9. Difference between PC and paid-up share capital should be adjusted against
   a) Free Reserves of SC
   b) Free Reserves of PC
   c) Debiting to Profit & Loss A/c

   If PC = Paid up share => No Profit / Loss
   If PC > Paid up share => Loss should be adjusted as above.
   If PC < Paid up share => Profit should be credited to capital reserve A/c.

IX. DISSenting SHARE HOLDERS: Share holders of SC, who are not willing to accept the scheme of Amalgamation are called 'Dissenting shareholders'. These share holders are to be discharged as per the terms separately agreed.

X. PASSING OF ENTRIES FOR PAR VALUE OF SHARE: If the purchasing company is left with large amount of Goodwill and securities premium, then these two accounts can not be adjusted.

So to avoid this, purchasing company may pass entries of shares issue at par value only, but the intrinsic values are being maintained.

XI. ACCOUNTING TREATMENT:

1. In selling company books.
   a) For transferring all assets (other than provisions) to Realisation A/c with book values.
      Realisation A/c Dr
      To Assets A/c (Individuals)
   b) For transferring all liabilities (including provisions on assets) to Realisation A/c with book values.
      Liabilities A/c (Individually) Dr (Liability linked reserves also)
      Provisions A/c (on Assets) Dr
      To Realisation A/c
c) For PC due from purchasing company
   Purchasing company A/c Dr
   To Realisation A/c

d) For receipt of PC
   Cash / Bank / Equities / Pref. / Others shares of PC A/c Dr
   To Purchasing company A/c.

e) For transferring Pref. Share Capital to Pref. Share holders
   Pref. share capital A/c Dr
   To Pref. Share holders A/c

f) For transferring Eq. Share Capital Reserves and surplus to Eq. Share holders A/c.
   Eq. Share Capital A/c Dr (Paid-up value)
   Reserves/surplus A/c Dr (Not linked with liabilities)
   To Eq. Share holders A/c

g) For the Assets sold by SC, which are not taken over by PC
   Bank A/c Dr
   To Realisation A/c

   **Note:** No need record Profit / Loss on sale separately.

h) For the liabilities discharged by SC, which are not taken over by PC
   Realisation A/c Dr
   To Bank A/c

i) For Expenses met by SC
   Realisation A/c Dr
   To Bank A/c

j) For Expenses of SC, met by PC — No Entry-

k) For expenses paid by SC, reimbursed by PC
   i) Purchasing company A/c Dr
      To Bank A/c
   ii) Bank A/c Dr
       To Purchasing Company A/c

l) For discharging to Pref. Share holders
   Pref. Share holders A/c Dr
   Realisation A/c Dr (Premium on Redemption)
   To Bank / Pref. shares of PC A/c
   To Realisation A/c (Discount on Redemption)

m) For Profit / Loss on Realisation Transferred to Eq. Share holders
   i) Realisation A/c Dr
      To Eq. Share holders A/c
      (For profit)
   ii) Eq. Share holders A/c Dr
       To Realisation A/c
      (For loss)

n) For settlement of Eq. Share holders
   Eq. Share holders A/c Dr
   To Cash / Bank / Eq. Shares / Pref. Shares of PC

2. **Journal Entries in the books of purchasing company.**

a) For business purchased and PC due to SC
   Business purchase A/c Dr
   To Liquidators of SC
b) For incorporating the business of SC in PC books at agreed values.
   Assets (Individually) A/c Dr
   Goodwill A/c Dr. (loss on purchase in case of Amalgamation in the nature
   of purchase)
   To Liabilities A/c (Individually)
   To Reserves A/c (Balance of unutilized reserves only in the nature of merger)
   To Business Purchase A/c
   To Capital Reserve A/c (Profit on Amalgamation)

c) For discharging PC
   Liquidators of SC A/c Dr
   Discount on issue of shares A/c Dr. (In case issued at discount)
   To Bank A/c
   To Eq. Share Capital A/c
   To Pref. Share Capital A/c
   To Securities Premium A/c (In case issued at premium)
   To Debentures A/c (Any other securities)

d) For liquidation expenses borne by PC
   Goodwill / Capital Reserve A/c (In case of purchase)
   Profit & Loss /Reserves A/c (only in case of merger)
   To Bank A/c

e) For cancellation of mutual Owings
   i) Creditors A/c Dr
      To Debtors A/c
   ii) Bills payable A/c Dr
      To Bills receivable A/c

f) For making provision for unrealized profits on stocks
   Goodwill /Capital Reserve A/c Dr (In case of purchase)
   Profit & Loss A/c /Reserves A/c Dr (In case of merger)
   To stock A/c / Stock Reserve A/c

g) For creation / maintaining statutory reserves of SC in PC books
   Amalgamation Adjustment A/c Dr
   To Statutory Reserves (Individually) A/c
   This entry is recorded only, in case of Amalgamation in the nature of purchase. This is not required
   in case of merger.

9. INTERNAL RECONSTRUCTION – I & II

**MEANING:** Reconstruction means reorganization of a company’s financial structure.
1. Alteration of share capital

- Consolidation of shares
  - Eg: FV of Rs. 10 each to FV of Rs 100 each
- Sub-division of shares
  - Eg: FV of Rs. 100 each to FV of Rs 10 each
- Conversion of Shares into stock (Vis-à-Vis)
  - Only when shares are fully paid
- Increase in capital
  - By Making fresh issue

2. Reduction of share capital

- Reducing the face value
  - Un-paid value
    -ESC (old FV) A/c Dr
    -To ESC (new FV) A/c
  - Paid up value
    -ESC (old FV) A/c Dr
    -To ESC (new FV) A/c
    -To Reconstruction A/c

- Refunding the face value excess amount paid
  - ESC (old FV) A/c Dr
  -To ESC (new FV) A/c
  -To Bank A/c

3. Compromises and Arrangement

- For assets
  - Increasing value of assets
    - Asset A/c Dr
    -To reconstruction A/c
  - Decreasing value of assets
    -Reconstruction A/c Dr
    -To Asset A/c

- For liabilities
  - Settlement of liabilities (or) paid in cash
    -Liability A/c Dr
    -To cash A/c
    -To Asset A/c
    -To Reconstruction A/c
  - Decreasing Liabilities
    -Liability A/c Dr
    -To Reconstruction A/c

4. Variation in Shareholders Rights

- For preference shareholders
  - Increasing the rate of dividend
- For equity shareholders
  - Conversion of Cumulative to non-cumulative (or) vis-a-vis
  - Reduction in Paid up value
  - Acquiring Fresh share

Share Surrender:

- Equity share capital A/c Dr.
  -To Share surrender A/c

For utilization

- For issue of new shares
  - Share Surrender A/c Dr.
  -To Share Capital A/c
  -Transfer to Reconstruction A/c (unissued)
  -Share Surrender A/c Dr.
  -To Reconstruction A/c
10. NON-TRADING CONCERNS

INTRODUCTION:
A Non-profit organization is a legal and accounting entity that is operated for the benefit of the society as a whole rather than benefit of a sole proprietor or group of partners or share holders.

In the society there are some organizations which do not have profit making as their objective. Their main objective may be social, educational, religious or charitable and they take the form of clubs, societies or charitable bodies and so on.

FINANCIAL STATEMENTS:
These organizations prepare at the year end the following three Financial Statements
1. Receipts and Payments A/c
2. Income and Expenditure A/c
3. Balance Sheet

RECEIPTS AND PAYMENTS A/C:
- Receipts and payments account is merely a cash book
- It is summary of all cash transactions,
- It starts with opening cash and bank balance and ends with closing cash and bank balance
- All the receipts are shown on left hand side i.e. debit side and all the payments are written on right hand side i.e. credit side,

Receipts & Payments Account for the year ended xx.xx.xxxx

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts</td>
<td>Payments</td>
</tr>
<tr>
<td>To Opening Balance:</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>By Salaries</td>
</tr>
<tr>
<td>Bank</td>
<td>By Rent</td>
</tr>
<tr>
<td>To Subscriptions:</td>
<td></td>
</tr>
<tr>
<td>1996-97(previous year)</td>
<td>By Electricity</td>
</tr>
<tr>
<td>1997-98(current year)</td>
<td>By Purchase of Investment</td>
</tr>
<tr>
<td>1998-99(future year)</td>
<td>By Purchase of Furniture</td>
</tr>
<tr>
<td>To Donation</td>
<td>By Closing Balance:</td>
</tr>
<tr>
<td></td>
<td>*** Cash</td>
</tr>
<tr>
<td>To Sale of Sports Equipment</td>
<td>*** Bank</td>
</tr>
</tbody>
</table>

INCOME AND EXPENDITURE ACCOUNT: The Income and Expenditure Account is equivalent to the Profit and Loss Account of a business enterprise. It is prepared by matching the revenues against the expenses for a specified period, usually a year.
However, since this is not a profit-making institution, it is known as Income and Expenditure, and the balance is not known as profit and loss but known as deficit or surplus.

**Income and Expenditure Account for the year ended xx.xx.xxxx**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Expenditure</th>
<th>Rs.</th>
<th>Income</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Salaries</td>
<td>***</td>
<td>By Subscriptions</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>Add. Outstanding</td>
<td>***</td>
<td>Add: Outstanding</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>To Rent</td>
<td>***</td>
<td>Less: Pain in Advance</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>To Insurance Premium</td>
<td>***</td>
<td>By Donation</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>Less: Prepaid</td>
<td>***</td>
<td>By Admission fees</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>To Excess of Income over Expenditure</td>
<td>***</td>
<td></td>
<td>***</td>
<td></td>
</tr>
</tbody>
</table>

**Distinction between the Receipts and Payments Account and the Income and Expenditure Account**

<table>
<thead>
<tr>
<th>Receipts and Payments Account</th>
<th>Income and Expenditure Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is almost like a Real Account.</td>
<td>It is almost like a Nominal Account.</td>
</tr>
<tr>
<td>It is a summary of the cash transactions of a particular period.</td>
<td>It is a summary of expenses and income of a particular period.</td>
</tr>
<tr>
<td>It includes both capital and revenue items</td>
<td>It includes only revenue items</td>
</tr>
<tr>
<td>It does not include non-cash transactions</td>
<td>It includes both cash and non-cash transactions</td>
</tr>
</tbody>
</table>

**BALANCE SHEET:**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Rs.</th>
<th>Assets</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital fund</td>
<td>***</td>
<td>Building</td>
<td>***</td>
</tr>
<tr>
<td>Add: Surplus</td>
<td>***</td>
<td>Furniture</td>
<td>***</td>
</tr>
<tr>
<td>Subscriptions Received in advance</td>
<td>***</td>
<td>Sports Equipment</td>
<td>***</td>
</tr>
<tr>
<td>Outstanding Wages</td>
<td>***</td>
<td>Cash at Bank</td>
<td>***</td>
</tr>
<tr>
<td></td>
<td>***</td>
<td>Cash in Hand</td>
<td>***</td>
</tr>
</tbody>
</table>

It is a statement of all assets and liabilities of a business. It may be prepared in the order of validity or in the order of preference.

**SUBSCRIPTIONS:**

<table>
<thead>
<tr>
<th>Receipts and Payments A/c</th>
<th>Amount</th>
<th>Payments A/c</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Subscription</td>
<td>XXX</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income and Expenditure A/c</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Subscription</td>
<td>XXX</td>
<td></td>
</tr>
</tbody>
</table>

**METHODS OF COMPUTING SUBSCRIPTIONS AMOUNT:**

1. In Statement form:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions (From Receipts and Payments A/c)</td>
<td>XXX</td>
</tr>
<tr>
<td>Add: Outstanding at the end</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Outstanding at the beginning</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Subscriptions received in advance</td>
<td>XXX</td>
</tr>
<tr>
<td>Add: Subscriptions in advance at the beginning</td>
<td>XXX</td>
</tr>
<tr>
<td>Subscriptions to be shown in Income and Expenditure A/c</td>
<td>XXX</td>
</tr>
</tbody>
</table>
2. In Account form:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance b/d</td>
<td>XXX</td>
<td>By Balance b/d</td>
<td>XXX</td>
</tr>
<tr>
<td>(O/S at the beginning)</td>
<td></td>
<td>(Received in advance at the beginning)</td>
<td></td>
</tr>
<tr>
<td>To Income and Expenditure A/c</td>
<td>XXX</td>
<td>By Receipts and Payments A/c</td>
<td>XXX</td>
</tr>
<tr>
<td>(b/f)</td>
<td></td>
<td>(Received in the current year)</td>
<td></td>
</tr>
<tr>
<td>To Balance c/c</td>
<td>XXX</td>
<td>By Balance c/d</td>
<td>XXX</td>
</tr>
<tr>
<td>(Received in advance at the ending)</td>
<td></td>
<td>(Outstanding at the ending)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>

**TREATMENT OF SPECIAL ELEMENTS:**

1. **Donation:**
   - Donations received from persons, firms, companies in the form of money should be added directly to the capital fund if the amount is large and non-recurring.
   - Small and recurring donations collected or received should be credited to Income and Expenditure Account of the period concerned.
   - Donations received for specific Capital Expenditure should be credited to Special Fund Account. Donations received for any special capital expenditure should be credited to capital fund.
   - When specific direction has been given in the rules and regulations of the organization, it should be treated accordingly.

**LEGACY:** It is an amount or other item of value received from a deceased person under the terms of a will. The amount received as legacy may be big or small. The legacy may be for a specific purpose or just general. If it is for a specific purpose, then it should be capitalized in the name of the ‘fund’ for that particular purpose. Otherwise, it is directly added to capital fund.

**GOVERNMENT AID:** Government may help non-profit organizations by way of a grant in aid or subsidy

**CONSUMABLE ITEMS:** Many non-profit organizations consume some consumable items such as stationary, sports material, medicines etc. In such a case the amount of consumables consumed debited to income and expenditure account.

**HONORARIUM:** A token payment made to a person who has voluntarily undertaken the service which would normally command a fee. It is thus an expression of gratitude rather than a payment for the work done.

**TYPES OF PROBLEMS:**

1. Preparation of Income and Expenditure Account and balance sheet when receipts and payments and other information is given.
2. Preparing income and expenditure account and balance sheet from receipts and payments account, opening balance sheet and other information.
3. Preparing receipts and payments accounts from income and expenditure account and closing balance sheet.
4. Preparing opening and closing balance sheet from receipts and payments accounts and income and expenditure account,
5. Preparation of receipts and payments account from opening and closing balance sheet and additional information.
6. Preparing income and expenditure account and balance sheet from trial balance.

11. ACCOUNTS FROM INCOMPLETE RECORDS

ACCOUNTING Procedure:
1. Capital Comparison method:
   a) Opening & closing Statement of affairs
      
      | Liabilities         | PY   | CY   | Assets         | PY   | CY   |
      | capital (b/f)       | Opening | closing | All Assets(at FV) | XXX | XXX |
      | Liabilities         | XXX  | XXX   | XXX            | XXX  | XXX   |

   b) Calculation of profit by capital comparison method
      
      | Dr                              | Capital A/c | Cr                        |
      |---------------------------------|-------------|---------------------------|
      | Particulars                     | Amount      | Particulars               | Amount      |
      | To Drawings                     | XXX         | By Balance b/d (a)        | XXX         |
      | To Interest on drawings         | XXX         | By Cash/ Bank(deposited)  | XXX         |
      | To Net loss(b/f)*               | XXX         | By Interest on capital    | XXX         |
      | To Balance b/d (b)              | XXX         | By Net Profit(b/f)*       | XXX         |
      |                                 | XXX         |                           | XXX         |

   *Net profit/Loss only one will come as balancing amount

   Alternatively it can be calculated by preparing in statement form also

2. Conversion method:

   **Cash Book**
   
<table>
<thead>
<tr>
<th>Dr</th>
<th>Cash</th>
<th>Bank</th>
<th>Cr</th>
<th>Cash</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particulars</td>
<td></td>
<td></td>
<td>Particulars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Balance b/d</td>
<td>XXX</td>
<td>XXX</td>
<td>By Capital Payments</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>To Capital Receipt</td>
<td>XXX</td>
<td>XXX</td>
<td>By Revenue Payments</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>To Revenue Receipts</td>
<td>XXX</td>
<td>XXX</td>
<td>By Balance c/d</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>
Debtors Account

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance b/d</td>
<td>XXX</td>
<td>By Cash A/c</td>
<td>XXX</td>
</tr>
<tr>
<td>To Sales(credit) A/c</td>
<td>XXX</td>
<td>By Discount allowed A/c</td>
<td>XXX</td>
</tr>
<tr>
<td>To B/R (Dishonour)</td>
<td>XXX</td>
<td>By Bills Receivable A/c</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td>By Balance c/d</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Creditors Account

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Cash A/c</td>
<td>XXX</td>
<td>By Balance b/d</td>
<td>XXX</td>
</tr>
<tr>
<td>To Discount received A/c</td>
<td>XXX</td>
<td>By Purchases A/c</td>
<td>XXX</td>
</tr>
<tr>
<td>To Bills payable A/c</td>
<td>XXX</td>
<td>By B/P (Dishonour)</td>
<td>XXX</td>
</tr>
<tr>
<td>To Balance c/d</td>
<td>XXX</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>

Bills Receivable Account

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Balance b/d</td>
<td>XXX</td>
<td>By Debtors A/c (Dishonour)</td>
<td>XXX</td>
</tr>
<tr>
<td>To Debtors A/c</td>
<td>XXX</td>
<td>By Cash A/c (Discounted)</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td>By Discount A/c (Discounted)</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td>By Cash A/c (Matured)</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td>By Creditors A/c (Endorsed)</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td>By Balance c/d</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Bills Payable Account

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Cash A/c (Matured)</td>
<td>XXX</td>
<td>By Balance b/d</td>
<td>XXX</td>
</tr>
<tr>
<td>To Creditors A/c (Dishonour)</td>
<td>XXX</td>
<td>By Creditors A/c</td>
<td>XXX</td>
</tr>
<tr>
<td>To Balance c/d</td>
<td>XXX</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>

* Prepare necessary expenses or income accounts depending upon the problem and then prepare trading and Profit & Loss A/c and Capital A/c.
* You can identify one balancing amount in each and every account that you prepared and that amount can help to another account or another information to complete B/S.

ACCOUNTING FLOWS:

1. Creditors A/c
   (1) Purchases
   (2) COGS
   (3) GP%
   (4) Sales
   (5) Debtors A/c
   (6) Cash received from debtors
   (7) Cash A/c
How to follow to accounting Flows

1. By preparing Creditors account – identify credit purchase (add cash purchase if any to get total purchase)
2. from purchases calculate COGS by adjusting opening and closing stock
3. Apply percentage of gross profit to COGS to get total sales (which may consist cash & credit sales)
4. Complete debtors A/c with credit sales to may get a balancing number as cash recd. From debtors
5. you can complete cash a/c by identifying another any balancing amount

\[ \text{COGS} \rightarrow \text{Purchases} \rightarrow \text{Creditors} \rightarrow \text{Cash paid to Creditors} \]

2. GP % → Sales → Cash Sales → Cash A/c
   \[ \downarrow \]
   Credit Sales → Debtors A/c
   \[ \downarrow \]
   Cash Received from Debtors → Cash A/c

3. Debtors Account → Sales
   \[ \downarrow \]
   GP% → COGS → Purchases
   \[ \downarrow \]
   Creditors A/c ← Credit Purchases
   \[ \downarrow \]
   Cash paid

12. PARTNERSHIP ACCOUNTS

MEANING: According to Sec. 4 of the Indian Partnership Act, 1932 the term ‘Partnership’ is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.

WHY: To distribute Profits/losses to partners and there after their own estate is liable for losses.

PARTNERSHIP DEED: It is an agreement between partners in the firm.

If there is partnership deed

\[ \text{NO} \]

Salary to a partner: Not given

Sharing of profits/losses: Equally

Interest on capital: Not given

Interest on Advances/Loans: @ 6% p. a is allowed

In absence of an agreement: The interest and salary payable will be only if there is profit. If insufficient profit: profit will be distributed in Ratio of Interest on capital of each partner.

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CAPITAL ACCOUNTS MAINTENANCE:

Partner’s capital a/c’s

Fluctuating Capital

Only partners’ capital a/c’s are maintained for all adjustments (Drawings, salary, interest, commission)

Fixed Capital

Partners Capital a/c’s

Current a/c’s

only capital adjust.

Remaining

Adjustments (addition/withdrawn)

P & L Appropriation for the year ending

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Dr. Amt(Rs.)</th>
<th>Particulars</th>
<th>Cr. Amt(Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Int. on capital</td>
<td>xx</td>
<td>By P &amp; L a/c (Net profit subject to appropriations)</td>
<td>xxx</td>
</tr>
<tr>
<td>A</td>
<td>B</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>xxx</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To salary to partner</td>
<td>xxx</td>
<td>By Interest on Drawings</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>A</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>B</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>xxx</td>
<td>xxx</td>
</tr>
<tr>
<td>To commission</td>
<td>xxx</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Reserve</td>
<td>xxx</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Profit t/f to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A’s capital/current a/c’s</td>
<td>XX</td>
<td></td>
<td>XXX</td>
</tr>
<tr>
<td>B’s capital/current a/c’s</td>
<td>XX</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>XXX</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

GOODWILL:
It is the value of Reputation of a firm in respect profits expected in future over and above the normal profits earned by other similar firms belonging to same Industry.

Methods for valuation

1. Calculate Capital Employed (CE)
2. Calculate avg profits
3. NRR (Normal rate of return)
4. Normal profit (NP) = CEX NRR.
5. Super profit (sp) = Avg profit (-) NP
6. Good will = ESP x No of years of purchase

ACCOUNTING TREATMENT:

i) Only purchased goodwill should be recorded in the books i.e, self generated goodwill should not be recorded.

ii) In case of change in PSR, admission, retirement or death Goodwill is valued and adjusted through Capital A/c’s in gaining & Sacrificing ratio.
**Journal Entry:** When adjustment is made

Gaining partner’s capital a/c Dr
To Sacrificing partner’s capital a/c

**Reconstitution of Partnership Firm:** Any change in existing agreement of Partnership amounts to reconstitution of firm. This takes place when there is

- Change in PSR
- Admission
- Retirement
- Death

**Adjustments when there is reconstitution of firm:**

1. Revaluation of Assets & Liabilities
2. Adjustment of Goodwill:
   i) Valuation of Goodwill
   ii) Gaining & sacrificing ratio
   iii) Adjustment entry
3. Distribution of accumulation profits to old partners in old ratio
4. Change in PSR, retirement, death
5. Capital adjustments

**Revaluation A/C**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Particulars</th>
<th>Cr.</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Asset a/c (if decrease in value)</td>
<td>xxx</td>
<td>By Asset a/c (if increase in value)</td>
<td>xxx</td>
</tr>
<tr>
<td>To liability A/c</td>
<td>xxx</td>
<td>By Liability A/c (if decrease in value)</td>
<td>xxx</td>
</tr>
<tr>
<td>To Unrecorded liability A/c (if not recorded)</td>
<td>xxx</td>
<td>By unrecorded asset A/c (if not recorded)</td>
<td>xxx</td>
</tr>
<tr>
<td>To (old) partners capital A/c’s</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- A (in old ratio)</td>
<td>xx</td>
<td>By (old) partners capital A/c’s</td>
<td></td>
</tr>
<tr>
<td>- B (in old ratio)</td>
<td>xx</td>
<td>- A (in old ratio)</td>
<td>xx</td>
</tr>
<tr>
<td>(if Net Gain)</td>
<td>xxx</td>
<td>- B (in old ratio)</td>
<td>xx</td>
</tr>
</tbody>
</table>

When partners decide to record without effecting old values of assets & liabilities memorandum revaluation a/c is prepared & these old values will be appearing in the B/S of firm (new).

**Memorandum revolution a/c**

- First part
  - Same as revolution a/c
  - Balance here is transferred to old partners in old PSR
- Second Part
  - Reverse of Same as revolution a/c
  - Balance here is transferred to capitals a/c of all partners in new PSR

1. Distribution of Accumulated profits/losses
   i) For transfer of reserves & accumulated profits:
      - Reserves A/c Dr. xxx
      - P & L A/c Dr. xxx
2. Adjustment of capital A/c’s:

Adjustment of Capital a/c’s

AS individual partners capital is fixed

Here one partners capital is taken as base capital & then Remaining partners Capitals are calculated basing on the base capital

As firms capital is fixed

Here Total firms capital remains same though there is any reconstitution of the firm

1. Calculate old capitals of existing partners
2. Calculate New partners capitals taking firms Capital fixed (2)-(1)

Surplus

Pay off

Deficit

Ask Partners to bring amount

3. Joint Life Policy:

Joint Life policy (created to settle the partner who going out )

Individua policy

Each partner Will take his own policy & profits will be shared by all partners

Joint Life policy

Taken on all partners & Must be surrender wholly

Cash to be paid to outgoing partners & profit will be shared by all partners

4. Accounting treatment of JLP:

<table>
<thead>
<tr>
<th>Situation</th>
<th>Expense Method</th>
<th>Asset Method</th>
<th>Reserve Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. When premium</td>
<td>JLP Insurance Premium A/c Dr. To Bank A/c</td>
<td>JLP A/c Dr. To Bank A/c</td>
<td>JLP A/c Dr. To Bank A/c</td>
</tr>
<tr>
<td>paid:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. T/f to P &amp; L/ P &amp; L app. a/c</td>
<td>P &amp; L A/c Dr. To JLP Ins. Premium</td>
<td>P &amp; L A/c Dr. To JLP A/c</td>
<td>P &amp; L Appro. A/c Dr. To JLP Reserve A/c</td>
</tr>
<tr>
<td>3. On retirement death</td>
<td>Insurance co. A/c Dr. To All capital/current A/c</td>
<td>Ins. Co. A/c Dr. To JLP A/c</td>
<td>Ins. Co. A/c Dr. To JLP A/c</td>
</tr>
</tbody>
</table>
Sec. 37 of partnership Act. 1932:
If after death partners’ capital accounts are not settled then the partner is entitled to receive
1. Share of profit in proportion of capital outstanding balance as on date of death
   (Or)
2. 6% interest on capital which is outstanding as on the date of death.
   Whichever is higher of the above.

Special points:

a) Interest on loan is payable even though there are no profits as it is a charge (not an appropriation)

b) If there is any hidden goodwill (i.e., when the value of goodwill is not specifically given)

Then goodwill has to be calculated on basis of net worth of the firm

\[
\text{Net worth (Including Goodwill)} = XXX
\]
\[
\text{(Incoming Partners capital x Reciprocal of his Share)}
\]
\[
\text{Less: Net worth (Excluding Goodwill)} = XXX
\]
\[
\text{Value of Goodwill} = XXX
\]

Net worth = \[
\frac{\text{Sundry Assets - Outside Liabilities}}{\text{Capital of Partners}} + \text{Accumulated Profits & Reserves}
\]

(c) Proportionate capital means capital account balances in PSR.

(d) In case if date of closing books and date of death of partners is different than for calculation of
goodwill (average profits calculation); Profits are to be considered from date of death.

(e) If there is change in profit sharing ratio during a year (i.e., in between); the profit must be adjusted
   accordingly for two periods.

(f) Expenses are to be adjusted to P & L Account not to P & L appropriations

(g) Outstanding Expenses, Income accrued etc., are to be considered while preparing balance sheet.

(h) If there is a situation that remaining Partners agree to bring sufficient cash to discharge claim of
   retiring partners: then there will be 2 balances which are to be found in capital accounts

   » Closing capital balances
   » Amount brought by the partners to discharge claim

In this situation, prepare balance sheet and find out the capital balances as a balancing figure; taking
that amount find out the total cash that is to be brought and share it in profit sharing ratio and the
balance will be closing balance of partners.

(i) In case of retirement/death

   After making all adjustments the capital accounts of retiring/deceased partners is to be closed and the
   balance of this account will be

   » Paid immediately
   » If can’t be paid immediately; it can be transferred to loan account carrying interest at agreed rate
j) In case while preparing P & L adjustment account; if there are 2 values (partners capitals and Net profit) as unknown values; then prepare balance sheet [find capital balance (total)]

From the above, get net profit (which is to be shared in PSR).

If taken those values to Partners capital accounts and balancing figure will be Partners capital balances.

k) If there is any outstanding liability of the firm; paid by partner; it should be adjusted to capital account of the partner.

l) If there is any existing goodwill in the balance sheet; it must be written off whether specified or not specified in the question.

m) Goodwill adjustment is made in current accounts if there is a current account maintained.

n) If salary is paid to incoming partner before becoming a partner is debited to P&L account.

13. HIRE PURCHASE SYSTEM

- Hire Purchase
  - Basic requirements
  - Accounting procedures
  - Interest calculations
  - For normal transactions
  - Repossession of goods

In The Books of Hire Purchaser
- Cash price method:
  1. Asset a/c
  2. Hire vender a/c
  3. Depreciation a/c
  4. Interest a/c
  5. Interest suspense a/c

In the books of hire vendor
- Sale price method:
  1. Hire purchaser a/c
  2. Interest a/c
  3. Interest suspense a/c

- Interest suspense method:
  1. Hire purchaser a/c
  2. Interest a/c
  3. Interest suspense a/c

Complete repossession
- In the books of hire purchaser
- In the books of hire vender
- Books of a/c s closed & balance will be transferred to p&l a/c

Partial repossession
- In the books of hire purchaser
- In the books of hire vender
- Books of a/c s are continued with agreed values
Methods to be used for bifurcation of interest and principal amount from installment amount in different cases:

<table>
<thead>
<tr>
<th>Cash Price</th>
<th>Rate of Interest</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ (available)</td>
<td>✓ (available)</td>
<td>Normal</td>
</tr>
<tr>
<td>X (not available)</td>
<td>✓ (available)</td>
<td>Backward (annuity method)</td>
</tr>
<tr>
<td>x (not available)</td>
<td>X (not available)</td>
<td>Equation (assumption: principal amount in each installment is same)</td>
</tr>
<tr>
<td>✓ (available)</td>
<td>x (not available)</td>
<td>Proportion method (in proportion of outstanding balance of Hire Purchase Price)</td>
</tr>
</tbody>
</table>

ACCOUNTING ENTRIES FOR NORMAL TRANSACTIONS:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>In the books of Hire purchaser</th>
<th>In the books of vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash price method</td>
<td>Int susp. method</td>
<td>Sale price method</td>
</tr>
<tr>
<td>On entering into the agreement</td>
<td>Asset A/c Dr. To Hire Vendor A/c</td>
<td>Asset A/c Dr. Interest Suspense A/c Dr. To Hire Vendor A/c</td>
</tr>
<tr>
<td>When down payment is made/received</td>
<td>Hire Vendor A/c Dr. To Bank A/c</td>
<td>Hire Vendor A/c Dr. To Bank A/c</td>
</tr>
<tr>
<td>When an installment becomes due</td>
<td>Interest A/c Dr. To Hire Vendor A/c</td>
<td>Interest A/c Dr. To Interest Suspense A/c</td>
</tr>
<tr>
<td>When an installment is paid/received</td>
<td>Hire Vendor A/c Dr. To Bank A/c</td>
<td>Hire Vendor A/c Dr. To Bank A/c</td>
</tr>
<tr>
<td>When depreciation is charged on the asset</td>
<td>Depreciation A/c Dr. To Asset A/c</td>
<td>Depreciation A/c Dr. To Asset Account</td>
</tr>
<tr>
<td>On transfer of depreciation to profit and loss account</td>
<td>Profit and Loss A/c Dr. To Depreciation A/c</td>
<td>Profit and Loss A/c Dr. To Asset Account</td>
</tr>
<tr>
<td>On transfer of interest to profit and loss account</td>
<td>Profit and Loss A/c Dr. To Interest A/c</td>
<td>Profit and Loss A/c Dr. To Interest A/c</td>
</tr>
</tbody>
</table>

IN THE CASE OF REPOSSESSION:

<table>
<thead>
<tr>
<th>COMPLETE REPOSSESSION</th>
<th>PARTIAL REPOSSESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the books of hire purchaser</td>
<td>In the books of hire purchaser</td>
</tr>
<tr>
<td>1. For closing Hire Vendor A/c</td>
<td>1. On repossession of goods:</td>
</tr>
<tr>
<td>Hire Vendor A/c Dr. To Asset A/c (With balance in Hire Vendor A/c)</td>
<td>Goods Repossessed A/c Dr. To Hire Purchaser A/c</td>
</tr>
<tr>
<td>2. For closing of Asset A/c (i) Profit and Loss A/c Dr. To Asset A/c (If book value of asset is greater than balance in vendor A/c)</td>
<td>2. For amount spent on recondition of goods repossession:</td>
</tr>
<tr>
<td>Asset A/c Dr. To Profit and Loss A/c (If vendor A/c balance is greater than book value of asset)</td>
<td>Goods repossession A/c Dr. To Bank / Cash A/c</td>
</tr>
<tr>
<td>3. For sale of goods repossession</td>
<td>3. For sale of goods repossession</td>
</tr>
<tr>
<td>Bank / Cash A/c Dr. To Goods repossession A/c</td>
<td>Bank / Cash A/c Dr. To Goods repossession A/c</td>
</tr>
<tr>
<td>4. For transfer of profit on sale of goods repossession:</td>
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<td>Goods Repossessed A/c Dr. To Profit and Loss A/c</td>
<td>Goods Repossessed A/c Dr. To Profit and Loss A/c</td>
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**14. CASH FLOW STATEMENT**

**MEANING:** Cash flow means inflow and outflow of cash and cash equivalents during the specified period of time in three segments.

**OBJECTIVE:** As it is form part of financial statements member can get the position of company.

**SPECIAL ATTENTION:**
- a. Foreign currency transactions – effect of exchange rate in cash and cash equivalents be reported as a separate part of the reconciliation.
- b. Extraordinary items: Cash flows should be classified as arising from Operating, Investing or Financing activities as appropriate.
- c. Acquisitions and disposals of subsidiaries and other business units: - The aggregate cash flows should be classified as investing activities.

**NOTE POINTS:**
1. Non-cash transactions should not be disclosed in cash flow statements
2. For Financial Enterprises – Interest and Dividends are Operating Activities.

**NET BASIS REPORTING:**
- Cash receipts and payments on behalf of customers
- Items of quick turnover, short maturity and large amounts.

**Note:**

![Diagram of cash flow statement classification](image-url)
Features of cash equivalents:

i) Having less risk

ii) Recoverable within three months

iii) Known amount of money

Tax Treatment:

Tax
(Is it related to investing / financing)

Yes

Investing
Capital gain tax
TDS on Interest received

Financing
Corporate dividend tax

No

Operating
15. ACCOUNTING FOR BONUS SHARES

1. **MEANING:**
   Bonus issue means issue of shares at free of cost to the existing equity shareholders, by means of capitalization of profits (i.e. Converting profits or reserves into paid up capital).

   ![Diagram showing the process of capitalization involving issuing fully paid up shares and converting partly paid up into fully paid up shares.]

   **Sources for capitalization**

   - Issue of fully paid shares
   - Converting Partly paid up into fully paid up
   - Free Reserves (available for distribution as dividend)
   - Securities Premium
   - Capital redemption reserve (CRR)
   - Capital reserve (realised in cash)
   - Free Reserves & capital reserve realised in cash

2. Revaluation reserves, statutory reserves cannot be utilized for bonus issue.

3. **As per SEBI:** No company shall, pending conversion of FCDs/PCDs, issue any by way of bonus unless similar benefits is extended to the holders of such FCDs /PCDs through reservation of shares in proportion to such convertible part of FCDs or PCDs.

   The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

4. **Extract of sec 63(2) of companies Act 2013:**
   a. The partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
   b. Declaration of the bonus issue in lieu of dividend shall not be made.
   c. If the subscribed and paid up capital exceeds the authorized share capital as a result of bonus issue, a resolution shall be passed by the company at its general body meeting for increasing the authorized capital. A return of bonus issue along with a copy of resolution authorizing the issue of bonus shares is also required to be filed with the registrar of companies.

16. COMPANY FINAL ACCOUNTS

   ![Diagram showing the process of company final accounts involving managerial remuneration, dividend, and preparation of financial statements.]

   **Company Final Accounts**

   - Managerial Remuneration
   - Dividend
   - Preparation of Financial Statements (as per Sch III of Co. Act 2013)
Note:

1. With effect from 1st Oct, 2014 dividend and income distribution tax is leviable on gross dividend / income and not on the net dividend / income distributed to shareholders and unit holders as per Income- tax Act, 1961.

2. The rate of DDT is fifteen per cent (excluding surcharge of 12% plus secondary and higher education cess is (2+1) 3%).

Alternatively

We can apply the direct rate of 20.36%(apprx.) on net dividend payable to shareholders which is inclusive of surcharge(12%) and educational cess(3%)

Grossing up of Rate of Dividend (15/85*100) = 17.65%
Add: surcharge @ 12% on rate of dividend = 02.12%
Add cess @3% (2%+1%) on total = 00.59%
Total applicable rate = 20.36%