CORPORATE ACCOUNTING

UNIT-I: COMPANY LIQUIDATION: Meaning – Modes - Contributory Preferential Payments – Statements of Affairs - Liquidator's Remuneration - Preparation of Liquidator's Final Statement of Account (Including problems)

UNIT-II: AMALGAMATION (AS-14): Amalgamation: In the nature of merger and purchase – Calculation of Purchase Consideration – Accounting Treatment in the books of transferor and transferee companies. (Including problems)

UNIT-III: INTERNAL RECONSTRUCTION AND ACQUISITION OF BUSINESS: Internal Reconstruction: Accounting treatment – Preparation of final statement after reconstruction- Acquisition of business when new set of books are opened- Debtors and Creditors taken over on behalf of vendors- When same set of books are continued(Including problems)

UNIT-IV: ACCOUNTS OF BANKING COMPANIES: Books and Registers maintained – Slip system of posting – Rebate on Bills Discounted – NonPerforming Assets – Legal Provisions relating to final accounts - Final Accounts. (Including problems)

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UNIT-I: COMPANY LIQUIDATION

Meaning

Company liquidation typically refers to the process of winding up a company's affairs, selling off its assets, and distributing the proceeds to its creditors and shareholders. There are various reasons why a company might undergo liquidation, such as insolvency, bankruptcy, or simply as part of a planned exit strategy.

The process of liquidation can be voluntary, where the company's shareholders or directors decide to wind up the company's affairs, or it can be involuntary, such as when creditors petition the court to force the company into liquidation due to unpaid debts.

During liquidation, a liquidator is appointed to oversee the process and ensure that the company's assets are sold off in an orderly manner and that the proceeds are distributed fairly among creditors and shareholders according to their priority.

Once the assets are sold and the proceeds distributed, the company is typically dissolved, meaning it ceases to exist as a legal entity. This can have various legal and financial implications for the company's directors, shareholders, and creditors, depending on the circumstances of the liquidation.

Modes

There are generally two main modes of company liquidation:

1. **Voluntary Liquidation**: This occurs when the company's shareholders or directors make the decision to wind up the company's affairs. There are two types of voluntary liquidation:

   a. **Members' Voluntary Liquidation (MVL)**: This occurs when the company is solvent, meaning it can pay off its debts in full within a short period, typically 12 months. Shareholders typically initiate an MVL when they want to retire, restructure the company, or close it down.

   b. **Creditors' Voluntary Liquidation (CVL)**: This occurs when the company is insolvent, meaning it cannot pay its debts as they fall due. In a CVL, the company's directors decide to liquidate the company voluntarily, usually because they believe it is in the best interests of creditors to do so.

2. **Involuntary Liquidation**: This occurs when creditors petition the court to force the company into liquidation due to unpaid debts. This process is also known as compulsory liquidation, and it usually happens when the company is unable to pay its debts and has not responded to demands for payment from creditors

In both voluntary and involuntary liquidation, a liquidator is appointed to oversee the process and ensure that the company's assets are sold off, its debts are paid, and any remaining funds are distributed to creditors and shareholders according to their priority.

Contributory Preferential Payments

Contributory preferential payments refer to a specific order of priority in which creditors are paid during the liquidation process of a company. These payments are made from the company's assets and are distributed according to the legal hierarchy established by insolvency laws.

In many jurisdictions, contributory preferential payments typically include certain categories of creditors who are given priority over others. These categories often include:

1. **Secured Creditors**: These are creditors who hold security or collateral against their debts, such as mortgage lenders or holders of liens on the company's assets. They are typically paid first from the proceeds of the sale of the secured assets.
2. **Employee Claims**: Employees are often given preferential treatment in liquidation proceedings, especially for certain types of claims such as unpaid wages, salaries, holiday pay, and redundancy payments. These claims usually have a statutory priority over other unsecured debts.

3. **Government Authorities**: Certain debts owed to government authorities, such as unpaid taxes or contributions to employee benefit schemes like social security, may also be prioritized.
4. **Unsecured Creditors**: After the secured creditors, employee claims, and government authorities have been paid, any remaining assets are distributed among unsecured creditors. These may include suppliers, trade creditors, lenders without security, and other general creditors.

The specific order and priority of preferential payments can vary depending on the jurisdiction and the applicable insolvency laws. It's essential for creditors and stakeholders to understand their rights and priorities in the liquidation process, as well as any statutory limitations or provisions that may apply.

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Statements of Affairs

A Statement of Affairs is a financial document that provides a snapshot of a company's financial position at a specific point in time, typically at the commencement of insolvency proceedings. It outlines the company's assets, liabilities, and other relevant financial information.

Key components of a Statement of Affairs include:

1. **Assets**: This section lists all the assets owned by the company, including tangible assets such as property, equipment, and inventory, as well as intangible assets such as intellectual property and goodwill. Each asset is typically valued at its estimated realizable value, which may differ from its book value.
2. **Liabilities**: This section lists all the company's debts and obligations, including both secured and unsecured debts. Secured debts are those for which the creditor holds security or collateral, while unsecured debts do not have any specific assets pledged as security.
3. **Claims of Creditors**: Creditors of the company are typically categorized based on the nature and priority of their claims. This section details the claims of each creditor, including the amount owed and whether the debt is secured or unsecured.
4. **Estimated Deficiency**: The Statement of Affairs may also include an estimate of the deficiency or shortfall between the company's assets and liabilities. This provides an indication of the extent to which the company is insolvent and unable to meet its financial obligations.

The preparation of a Statement of Affairs is often a legal requirement in insolvency proceedings, such as voluntary or compulsory liquidation. It helps to provide transparency and clarity regarding the company's financial position, facilitating the orderly distribution of assets to creditors and stakeholders.

Liquidator's Remuneration

The liquidator's remuneration refers to the compensation paid to the individual or firm appointed as the liquidator to oversee the liquidation process of a company. Liquidators play a crucial role in winding up the affairs of the company, selling off its assets, settling its debts, and distributing any remaining funds to creditors and shareholders. As such, they are entitled to be remunerated for their services.

The basis and amount of the liquidator's remuneration can vary depending on several factors, including:

1. **Type of Liquidation**: Whether the liquidation is voluntary or compulsory, solvent or insolvent, can influence how the liquidator's remuneration is determined.
2. **Complexity of the Case**: The complexity of the company's affairs, the number and nature of its assets and liabilities, and the extent of any legal or regulatory issues involved can impact the amount of work required by the liquidator and, consequently, their remuneration.
3. **Time Spent**: Liquidators may be compensated based on the time spent on the case, typically at an hourly rate. This can include time spent on administration, negotiations with creditors, asset realization, legal proceedings, and other tasks related to the liquidation process.
4. **Value of Assets Realized**: In some cases, liquidators may receive a percentage of the value of assets realized during the liquidation process as part of their remuneration.
5. **Court Approval**: In certain jurisdictions or for certain types of liquidations, the liquidator's

The preparation of the liquidator's final statement of account is a critical step in the liquidation process, as it provides a comprehensive summary of the liquidator's activities, the company's financial position during liquidation, and the distribution of assets to creditors and shareholders. However, there can be various complexities and problems that may arise during this process. Here's an overview:

1. **Asset Realization Issues**: One common problem is difficulty in realizing the full value of the company's assets. This could be due to market conditions, disputes over ownership or title, or challenges in selling certain types of assets, such as specialized equipment or intellectual property.
2. **Debts and Liabilities**: Identifying and resolving outstanding debts and liabilities can be challenging, especially if there are disputed claims or complex contractual arrangements. Creditors may challenge the liquidator's decisions regarding the validity or priority of their claims, leading to delays in the distribution process.
3. **Legal and Regulatory Compliance**: Liquidators must ensure compliance with legal and regulatory requirements throughout the liquidation process. This includes fulfilling reporting obligations to relevant authorities, obtaining court approvals where necessary, and adhering to statutory guidelines for asset distribution and creditor payments.
4. **Creditor Disputes**: Disputes among creditors, such as competing claims or disagreements over the priority of payments, can complicate the preparation of the

final statement of account. Resolving these disputes may require negotiation, mediation, or even litigation, which can prolong the liquidation process.

5. **Taxation Issues**: Liquidators must address tax implications arising from the liquidation, including income tax, capital gains tax, and VAT liabilities. Determining the tax treatment of asset sales, distributions to creditors, and other transactions requires careful consideration of applicable tax laws and regulations.
6. **Distribution Challenges**: Ensuring fair and equitable distribution of assets to creditors and shareholders can be challenging, particularly if there are insufficient funds to satisfy all claims in full. Liquidators must prioritize payments according to legal requirements and creditor priorities, which may involve complex calculations and negotiations.
7. **Finalization and Approval**: Once the final statement of account is prepared, it must be reviewed and approved by relevant stakeholders, including creditors, shareholders, and regulatory authorities. Obtaining consensus and resolving any outstanding issues may require additional time and effort.

Addressing these problems requires diligent management, effective communication with stakeholders, and adherence to legal and procedural requirements. Experienced professionals, such as insolvency practitioners and legal advisors, can provide valuable expertise and guidance throughout the process.

example problem of liquidators final statement of acccounts

Certainly! Let's consider a hypothetical example problem involving the preparation of a liquidator's final statement of accounts:

Scenario:

XYZ Company, a manufacturing firm, has entered into compulsory liquidation due to insolvency. You have been appointed as the liquidator to wind up the company's affairs and distribute its assets to creditors and shareholders. After conducting an exhaustive review of the company's financial records and assets, you are now tasked with preparing the final statement of accounts.

Key Information:

1. XYZ Company's assets include:
    - Machinery and equipment valued at $500,000
    - Inventory valued at $200,000
    - Accounts receivable totaling $100,000
    - Intellectual property (patents) valued at $300,000
2. The company's liabilities consist of:
    - Secured debt (mortgage) of $400,000
    - Unsecured trade creditors totaling $300,000
    - Employee claims for unpaid wages, holiday pay, and redundancy payments totaling $150,000
    - Outstanding taxes owed to the government of $50,000
3. The liquidator's remuneration is to be determined based on a percentage of the assets realized, with a cap of 5% of the total assets.

Tasks:

1. Prepare a comprehensive final statement of accounts outlining:
   - Total assets realized
   - Total liabilities paid
   - Distribution of remaining funds to creditors and shareholders
   - Liquidator's remuneration
2. Address any potential issues or challenges that may arise during the preparation of the final statement of accounts.

This example problem highlights the complexities involved in the liquidation process, including asset valuation, creditor prioritization, and remuneration calculation. It requires careful analysis, attention to detail, and adherence to legal and regulatory requirements to ensure a fair and equitable distribution of asset

Problems on Liquidation of Companies

1. Preparation of Liquidator's Statement of Account:

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Balance Sheet of the company on the date of liquidation on 1.1.1993

	Rs.		Rs.
Share Capital :		Fixed Assets	4,00,000
4,000 Equity Shares of Rs. 100 each, called Rs. 80	3,20,000	Book-Debts	3,00,000
1,000 Pref. Shares of Rs. 100 each, called Rs. 70	70,000	Loss as on Date	1,00,000
Loan from Bank (Secured on Building and Machinery)	1,50,000		
Trade Creditors	2,60,000		
	8,00,000		8,00,000

The assets realised as follows: 1.4.1994 : Fixed Assets Rs. 1,00,000; Book Debts Rs. 1,00,000, Expenses paid Rs. 4,000. 1.6.1994 : Fixed Assets (final) Rs. 2,00,000, Book Debts Rs. 1,00,000. 1.8.1994 : Book Debts (final payment) Rs. 50,000. The liquidator is entitled to 5% on collections and 2% on the account paid to Equity shareholders.

Prepare the statement on the assumption that disbursements are made in accordance with law, as and when cash is available.

Solution:

In the books of the Company (in Liquidation)
Liquidator's Statement of Account

Dr.					Cr.
1994		Rs.	1994		Rs.
April 1	To *Assets realised :*		April 1	By Liquidator's Remuneration	
	Book Debts	1,00,000		(5% on Rs. 1,00,000)	5,000
				" Expenses	4,000
				" Balance c/d	91,000
		1,00,000			1,00,000
1994			1994		
April 1	To Balance b/d	91,000	June 1	By Liquidator's Remuneration :	
June 1	" Book Debts	1,00,000		@ 5% on Rs. 1,00,000 = 5,000	
	" Surplus from Securities (Rs. 3,00,000 – Rs. 1,50,000)	1,50,000		@ 2% on Rs. 5,882 = 118	5,118
				" Trade Creditors	2,60,000
				" Pref. Shareholders	70,000
				" Eq. Shareholders (@ Rs. 1.47 per share)	5,882
		3,41,000			3,41,000
1994			1994		
Aug. 1	To Book Debts	50,000	Aug. 1	By Liquidator's Remuneration : @ 5% on Rs. 50,000 = 2,500	
				@ 2% on Rs. 46,569 = 931	3,431
				" Eq. Shareholders (@ Rs. 11.64 per share)	46,569
		50,000			50,000

UNIT-II: AMALGAMATION (AS-14): Amalgamation: In the nature of merger and purchase–Calculation of Purchase Consideration Accounting Treatment in the books of transferor and transferee companies. (Including problems

Let's break down the topic of amalgamation, particularly focusing on the nature of merger and purchase, calculation of purchase consideration, and the accounting treatment in the books of transferor and transferee companies.

1. Amalgamation in the Nature of Merger and Purchase:

Amalgamation refers to the combination of two or more companies into a single entity. It can occur in two main ways: in the nature of merger or in the nature of purchase.

- **Merger**: In a merger, two or more companies merge their operations to form a new entity, with the original companies ceasing to exist as separate legal entities.
- **Purchase**: In a purchase, one company acquires the assets and liabilities of another company, which may or may not continue to operate as a separate legal entity.

2. Calculation of Purchase Consideration:

The purchase consideration in an amalgamation represents the value exchanged between the amalgamating companies. It is typically calculated as the sum of the fair values of the assets transferred, liabilities assumed, and any consideration paid in cash or shares.

The formula for calculating the purchase consideration can be represented as:

Purchase Consideration = Fair Value of Net Assets Transferred + Cash/Share Consideration Given +/- Goodwill or Negative Goodwill

3. Accounting Treatment in the Books of Transferor and Transferee Companies:

- **Transferor Company**: The transferor company records the transfer of its assets, liabilities, and reserves to the transferee company at their fair values. Any excess of the purchase consideration over the net assets transferred is recognized as goodwill in the transferor's books.
- **Transferee Company**: The transferee company records the assets, liabilities, and reserves acquired from the transferor company at their fair values. The purchase consideration paid is allocated to the assets and liabilities acquired. Any excess of the purchase consideration over the fair value of net assets acquired is recognized as goodwill in the transferee's books.

Example Problem:

Let's consider Company A merging with Company B in the nature of merger. Company A's net assets have a fair value of $500,000, and Company B agrees to issue shares worth $600,000 to acquire Company A. Determine the purchase consideration and the accounting treatment in the books of both companies.

Solution:

Purchase Consideration = Fair Value of Net Assets Transferred + Consideration Paid = $500,000 + $600,000 = $1,100,000

In Company A's books:

- Assets transferred at fair value ($500,000)
- Liabilities transferred at fair value ($X)
- Goodwill recognized ($1,100,000 - $500,000 = $600,000)

In Company B's books:

- Assets acquired at fair value ($500,000)
- Liabilities assumed at fair value ($X)
- Consideration paid ($600,000)
- Goodwill recognized ($600,000)

This example illustrates the calculation of purchase consideration and the accounting treatment in the books of transferor and transferee companies in the context of amalgamation.

When two or more companies doing similar business go into liquidation and a new company is formed to take over their business, it is known as amalgamation. For example, if a new company Z Ltd is formed to take over X Ltd and Y Ltd which are existing companies, it is an example of amalgamation. In above example X Ltd & Y Ltd are transferor company and Z Ltd. is transferee company. The transferor company ceases to function as a separate entity. So all accounts given in its balance sheet must be closed. Amalgamation is of two types i.e. amalgamation in the nature of merger or amalgamation in the nature of purchase.

ACCOUNTING ENTRIES IN THE BOOKS OF TRANSFEREE COMPANY Accounting Treatment in the books of Transferee Company will be different in both the types of amalgamation. There are two methods for this: (1) The Pooling of Interest Method: This method is applicable in case of amalgamation in the Nature of Merger. In this case, the amalgamation is accounted for as if separate businesses of amalgamated companies were intended to be carried on by the transferee company. That is when only minimum changes are made in aggregating the individual financial statements of the transferor companies. The following factors are considered in this method: • The assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amount and in the same form as at the date of amalgamation. • The balance of profit and loss account of the transferor company is aggregated with the balance of the transferee company or transferred to general reserve. • The identity of the reserves is preserved and they are shown in the balance sheet of the transferee company in the same form in which they appeared in the Balance Sheet of the transferor company. • The difference between the amounts recorded as share capital issued plus any additional consideration in the form of cash on the one hand and the amount of share capital of the transferor company on the other hand is adjusted in Reserves or Profit and Loss as the case may be.

The following journal entries are made in the books of Transferee Company, in case of amalgamation in the nature of merger

For recording the purchase consideration:

Business Purchase A/c Dr. (with amt. of purchase consideration)

To Liquidator of Transferor Co. (Being purchase consideration becoming due)

If debit Balance of Total of Assets exceeds the total of liabilities and purchase consideration, then the difference is adjusted in general reserve, being the balancing figure.

For recording the assets and liabilities taken over:

Sundry Assets A/c	Dr.	(Book Value)
To Sundry Liabilities A/c		(Book Value)
To Provision for Doubtful Debts A/c		(Book Value)
To Profit and Loss A/c		(Book Value)
To Reserves A/c		(Adjusted Value)
To Business Purchase		(Purchase Consideration)
(Being assets and liabilities taken over)		

Whereas, if Debit Balance of total of assets are less as compared to the total of liabilities side, then the difference is adjusted in Debit balance of Profit and Loss Account; being the balancing figure.

Sundry Assets A/c	Dr.	(Book Value)
Profit & Loss A/c (Dr. Balance)	Dr.	(Balancing Figure)
To Sundry Liabilities A/c		(Book Value)
To Provision for Doubtful Debt A/c		
To Business Purchase A/c		(Purchase Consideration)

On discharge of Purchase Consideration:

Liquidator of the Transferor Co	Dr.	(Purchase Consideration)
To Share Capital A/c		(With face value)
To Securities Premium A/c		(With Premium Amount)
To Bank A/c		
(Being purchase consideration satisfied)		

If the Transferee co. bears the liquidation expenses:

General Reserve A/c	Dr.
To Bank A/c	
(Liquidation expenses paid by Transferee Co.)	

For the formation expenses of the transferee Co:

Preliminary Expenses A/c	Dr.
To Bank A/c	
(Being formation expenses paid by Transferee Co.)	

(2) The Purchase Method: This method is adopted when the amalgamation is in the Nature of Purchase:

- The assets and liabilities of the transferor company are incorporated in the books of the transferee company either at the book value or at the revised price.

- The General Reserve, capital reserve or any other reserve of the transferor company other than the statutory reserve should not be included in the books of the financial statements of the transferee company.
- In order to preserve the identity of the statutory reserve of the transferor company such as Investment Allowance Reserve, Development Allowance Reserve, Export Profit +Reserve, etc. in the books of Transferee Company for legal compliance by debiting Amalgamation adjustment A/c and crediting the Statutory reserve A/c.
- If the purchase consideration exceeds the value of net assets, such as excess is called as goodwill and is debited in the books of Transferee Company. If the purchase consideration is lower than the value of net assets acquired, the difference is credited to Capital Reserve being capital profits.

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For recording the Purchase Consideration

Business Purchase A/c	Dr.(Amt.of purchase consideration)
To Liquidator of Transferee Co.	
(Being purchase consideration becoming due)	

For recording the assets and liabilities taken over if total of debit exceeds the total of credit:

Sundry Assets A/c	Dr.	(At revised values)
Goodwill A/c	Dr.	(Balancing figure)
To Sundry Liabilities		(Revised value)
To Business Purchase		(Purchase Consideration)
(Being assets and liabilities taken over)		

For recording the assets and liabilities taken over if total of credit exceed the total of debit:

Sundry Assets A/c	Dr.	(At revised values)
To Sundry Liabilities A/c		(Revised value)
To Business Purchase A/c		(Purchase Consideration)
To Capital Reserve A/c		(Balancing figure)
(Being assets and liabilities taken over)		

On discharge of purchase consideration: Liquidator of Transferor Co. Dr. (Purchase Consideration)

To Share Capital A/c (With face value)
To Securities Premium (With premium amount)
To Bank A/c
(Being Purchase consideration satisfied)

If the Transferee co. bears the Liquidation expenses:

Goodwill A/c Dr.
To Bank A/c
(Being Liquidation expenses paid by Transferee Co.)

For the Formation expenses of the transferee Co:

Preliminary Expenses A/c Dr.
To Bank A/c
(Being Formation expenses paid by transferee Co.)

To record the Statutory Reserve of the Transferee Co:

Amalgamation Adj. A/c Dr.
To Statutory Reserve
(Being record of Statutory Reserve of Transferor Co. by Transferee Co.)

14.3 ACCOUNTING ENTRIES IN THE BOOKS OF TRANSFEROR COMPANY

Accounting treatment in the books of the transferor company is similar in both the cases whether the nature is of Merger or Purchase:

All assets which are taken over by the Transferee Company are transferred to Realization A/c at their book values

Realization A/c Dr.
To Sundry Assets (Individually)

(Transfer of various assets taken over by the Transferee Co.)

It should be noted that:

- If the Transferee Co. does not take over Cash and Bank balance, these should not be transferred to Realisation A/c.
- Fictitious Assets should not be transferred to the Realisation A/c.
- Goodwill and other Intangible Assets should be transferred to the Realisation A/c.
- Provisions should be transferred to the credit side of the Realisation A/c.

All liabilities which are taken over by the Transferee Company are transferred to Realisation A/c at their Book values.

Liabilities A/c	**Dr.**
To Realisation A/c	
(Transfer of liabilities to the Realisation A/c)	

It should be noted that:

- The outside liabilities including debentures shall be presumed to be taken over and then discharged by the Transferee Company. Debentures and other outside liabilities are transferred to credit side of Realisation A/c.
- Accumulated profits should not be transferred to the Realisation A/c.
- If any fund denotes liability it, should be transferred to Realisation A/c.

For Purchase consideration to be paid by the Transferee Company:

Transferee Company	**Dr.**
To Realisation A/c	
(Being Purchase Consideration agreed upon)	

For recording Purchase Consideration:

Bank A/c	**Dr.**
Shares in Transferee Co	**Dr.**
To Transferee Co.	
(Being purchase consideration received)	

On Sale of assets not taken over by the Transferee Company:

Bank A/c	Dr.
Realisation A/c	Dr.
To Assets A/c	
(Being cash recovered from the sale of Assets)	

If some Liability is not taken over by the Transferee Company:

Liabilities A/c	Dr.
Realisation A/c	Dr. (if excess payment is made)
To Bank A/c	

(Being Liabilities met)

Payment of Liquidation expenses borne by the Transferor Co:

Realisation A/c Dr.

To Bank A/c

(Being payment of expenses of Liquidation)

Or

For payment of Liquidation expenses when borne by the Transferor Co. and later reimbursed by Transferee Co.:

Transferee Co. A/c Dr.

To Bank A/c

(Being expenses of Liquidation to be met by Transferee Co.)

Bank A/c Dr.

To Transferee Co.

(Being Liquidation expenses received from Transferee Co.) Or

For payment of Liquidation Expenses by Transferee Co:- No Entry –

Realisation Expenses should never be included in the Purchase consideration.

For paying the Liability not shown in the Balance Sheet:

Realisation A/c Dr.

To Bank A/c

(For payment of Contingent liability)

If Realization A/c shows the Profit:

Realisation A/c Dr.

To Equity Shareholders A/c

(Being Profit on realization transferred to Equity Shareholders A/c) Or

If Realisation A/c shows the Loss:

Equity Shareholders A/c Dr.

To Realisation A/c

(Being Loss on realization transferred to Equity Shareholders A/c)

Entitlements of Equity Shareholders:

Equity Share Capital A/c Dr.

Reserve A/c Dr.

Contingency Fund A/c Dr.

Dividend Equalization Fund A/c Dr.

Workmen Compensation Fund A/c Dr.

Insurance Fund A/c Dr.

Profit and Loss A/c Dr.

To Equity Shareholders A/c

(Being Credit balances transferred to Equity Shareholders A/c)

Equity shareholders claim is reduced by Debit balances of P&L A/c and Fictitious Assets:

Equity Shareholders A/c Dr.

To Profit and Loss A/c

To Preliminary Expenses A/c

To Discount on Issue of Shares A/c

(Being Debit balances transferred to Equity Shareholders A/c)

For paying Equity Shareholders:

Equity Shareholders A/c Dr.

To Bank A/c

To Shares in Transferee Co.

(Being payment to Equity Shareholders)

UNIT-III: INTERNAL RECONSTRUCTION AND ACQUISITION OF BUSINESS:

Internal Reconstruction: Accounting treatment – Preparation of final statement after reconstruction- Acquisition of business when new set of books are opened- Debtors and Creditors taken over on behalf of vendors-When same set of books are continued(Including problems

Internal reconstruction and acquisition of business are significant events in the life of a company, often undertaken to streamline operations, improve efficiency, or expand market presence. Here's a breakdown of the topics you mentioned:

1. **Internal Reconstruction:**

Internal reconstruction refers to the reorganization of a company's capital and structure without winding up its operations. It involves changes such as altering the capital structure, writing off accumulated losses, converting shares, or rearranging assets and liabilities to strengthen the financial position of the company.

Accounting Treatment:

The accounting treatment during internal reconstruction involves several steps:

- Identifying the need for reconstruction and determining its objectives.

- Assessing the assets and liabilities of the company to determine their realizable values and actual worth.

- Writing off any accumulated losses or revaluing assets and liabilities to reflect their true values.

- Adjusting the capital structure by converting debentures, shares, or other securities.

- Recording the reconstruction entries in the books of accounts and preparing the necessary financial statements.

Preparation of Final Statement after Reconstruction:

After completing the internal reconstruction process, the company prepares final financial statements to reflect the updated capital structure, asset values, and financial position. This may include a revised balance sheet, profit and loss statement, and other relevant reports.

2. **Acquisition of Business:**

Acquiring another business can be a strategic move to expand market share, diversify product offerings, or enter new markets. The accounting treatment for business acquisition depends on whether a new set of books is opened or the same set of books is continued.

New Set of Books Opened:

If a new set of books is opened for the acquired business, the acquiring company records the acquisition as an investment. Assets, liabilities, and equity of the acquired company are recorded at their fair values on the acquisition date. Any excess of the purchase price over the fair value of net identifiable assets is recorded as goodwill.

Debtors and Creditors Taken Over on Behalf of Vendors:

When debtors and creditors are taken over on behalf of vendors, the acquiring company assumes responsibility for these accounts as part of the acquisition. These amounts are recorded in the books of the acquiring company, and adjustments may be made to reflect any differences in valuation or terms.

Same Set of Books Continued:

If the same set of books is continued after the acquisition, the acquiring company consolidates the financial statements of both entities. This involves combining the financial data of the acquiring company and the acquired company as if they were a single entity, often using consolidation techniques such as equity or full consolidation.

Including Problems:

Problems encountered during the acquisition process may include discrepancies in asset valuation, integration challenges, legal or regulatory issues, or cultural differences between the two companies. These problems require careful consideration and resolution to ensure a successful acquisition and seamless integration of the acquired business into the acquiring company.

Overall, internal reconstruction and business acquisition are complex processes that require careful planning, analysis, and accounting treatment to ensure accurate financial reporting and compliance with regulatory requirements.

Accounting entries for alteration of capital

a. For increasing its share capital

i. Bank A/c Dr

To Share Application & Allotment A/c

ii. Share Application & Allotment A/c Dr

To Share Capital A/c

b. For consolidation of shares:

Share Capital (old) A/c Dr

To Share Capital (New) A/c

c. For subdivision of shares:

Share Capital (old) A/c Dr

To Share Capital (New) A/c

d. For conversion of shares into stock:

Share Capital A/c Dr

To Stock A/c

e. For conversion of stock into shares:

Stock A/c Dr

To Share Capital A/c

Reduction of Share Capital

Reduction of capital is unlawful except when sanctioned by the court because conservation of capital is one of the main principles the Company Act. In order to reduce the share capital, the company must be authorized by its articles of association, a special resolution

must be passed at general meeting, and confirmation of court etc. is required. A company can reduce its share capital by any of the following ways:

a. By reducing the liability of the shareholders for uncalled capital.
b. By paying off the surplus capital.
c. By reducing paid up capital which is not represented by available assets.

internal reconstruction. This account will be closed as soon as the scheme is carried out. The balance in Capital Reduction A/c can be used to write off fictitious assets, past losses and excess value of assets. The entry is as follows:

Capital Reduction A/c Dr
To P&L A/c (Debit balance)
To Goodwill A/c
To Preliminary Expenses A/c
To discount on issue of shares/ debentures A/c
To Patents/ Trademarks A/c
To Plant & Machinery A/c
To other Assets A/c
To Capital Reserve A/c (Bal. Fig)

Accounting entries for reduction of share capital

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

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

b. For paying off surplus capital:

i. Share Capital A/c   Dr
    To Shareholders A/c

ii. Shareholders A/c   Dr
    To Bank A/c

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

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

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

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

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

Capital Reduction Account

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

Capital Reduction A/c   Dr
    To P&L A/c (Debit balance)
    To Goodwill A/c
    To Preliminary Expenses A/c
    To discount on issue of shares/ debentures A/c
    To Patents/ Trademarks A/c
    To Plant & Machinery A/c
    To other Assets A/c
    To Capital Reserve A/c (Bal. Fig)

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

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

The company suffered losses and the following scheme was adopted:

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

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

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

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

x. The balance being used to write off patents.

Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

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

Balance Sheet as on 1 April 2011 (after reconstruction)

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

UNIT-IV: ACCOUNTS OF BANKING COMPANIES: Books and Registers maintained – Slip system of posting – Rebate on Bills Discounted – NonPerforming Assets – Legal Provisions relating to final accounts - Final Accounts. (Including problems)

Unit IV covers the accounting practices specific to banking companies. Let's delve into each aspect mentioned:

1. **Books and Registers Maintained:**

Banking companies maintain various books and registers to record their financial transactions and operations. These may include:

- Cash Book: Recording cash receipts and payments.

- Ledger: Maintaining accounts of customers, loans, and other transactions.

- Deposit Register: Recording deposits made by customers.

- Loan Register: Recording loans granted to customers.

- Investment Register: Recording investments made by the bank.

- Fixed Assets Register: Recording fixed assets owned by the bank.

2. **Slip System of Posting:**

The slip system of posting is a method used by banks to record transactions quickly and accurately. It involves using pre-printed slips for different types of transactions, such as deposits, withdrawals, and transfers. These slips are then posted to the relevant accounts in the ledger.

3. **Rebate on Bills Discounted:**

Banks often discount bills of exchange for their customers, providing them with immediate cash in exchange for the bill. The rebate on bills discounted refers to the interest earned by the bank when discounting bills before their maturity date. This interest income is recognized in the bank's financial statements.

4. **Non-Performing Assets (NPAs):**

Non-performing assets are loans or advances that have stopped generating income for the bank. This typically occurs when borrowers fail to repay their loans or interest for a specified period, usually 90 days or more. NPAs can adversely affect the financial health of a bank and are closely monitored by regulators.

5. **Legal Provisions Relating to Final Accounts:**

Banks are subject to various legal provisions and regulations governing the preparation and presentation of their final accounts. These may include requirements set forth by regulatory authorities such as the central bank or banking legislation in the jurisdiction where the bank operates. Compliance with these legal provisions ensures transparency and accountability in the reporting of financial information.

6. **Final Accounts:**

The final accounts of a banking company typically consist of the following:

- Balance Sheet: Showing the bank's financial position at a specific date, including its assets, liabilities, and equity.

- Profit and Loss Account: Summarizing the bank's revenues, expenses, and net profit or loss for a specific period, usually a year.

7. **Including Problems:**

Challenges and problems encountered in the accounts of banking companies may include:

- Managing non-performing assets and minimizing their impact on the bank's financial performance.

- Ensuring compliance with regulatory requirements and legal provisions in financial reporting.

- Dealing with complexities in accounting for various financial instruments, such as derivatives and structured products.

- Addressing risks associated with lending activities, including credit risk, market risk, and operational risk.

Addressing these problems requires careful risk management, robust internal controls, and adherence to accounting standards and regulatory g

General Ledger

It is actually the key ledger of the accounting system of a bank. It contains the total amount in respect of all current accounts, total savings accounts, total loan accounts, total bills payable account, total expenses and total revenue accounts. Each ledger is kept under self balancing system. A trial balance can easily be prepared which helps to prepare the final account as well. Besides the above ledgers overdue fixed deposit ledger, fixed deposit interest ledger, loan ledger, investment ledger may also be prepared.

Registers

In addition to the books and ledgers, few registers are maintained in a bank. The main registers are as under:

a) Bills for collection Register
b) Securities Register
c) Document Register
d) Standing Order Register
e) Cheques Dishonour Register
f) Draft Issue Register
g) Draft Payable Register
h) D.D. Register
i) Foreign Letters of Credit Register

17.4 SOME IMPORTANT TERMS

Some important terms particularly related to the accounting of a banking company are discussed hereunder:

Statutory Reserve

According to section 17 of the Banking Regulation Act, it is obligation for a banking company operating in India (including foreign banks) to create a reserve fund and transfer to it at least 25 per cent of its profit as disclosed in profit & loss account before any dividend is declared. Such transfer of profits to reserve fund should be continued even after the aggregate amount of reserve fund exceeds its paid up capital. This reserve is called Statutory Reserve. It is to be written in liabilities side of the balance sheet under the head 'Reserve & Surplus'.

Unexpired Rebate on Bills Discounted

The amount of discount on bills discounted is to be credited to 'Discount Received a/c'. There may be some bills which have not been matured or due on the accounting date. Thus, if the maturity date of a bill falls after the end of the accounting year then the amount of discount related to the period falling after the end of the year will be called 'unexpired Rebate or discount'. In other words, unexpired discount on bills discounted means the discount which has not been earned by the bank till the date of the accounting year or the discount which has been received but related to the coming year. If unexpired discount is given in the trial balance then it will be shown only in the liabilities side of the balance sheet.

Customer's Acceptance & Endorsement

The credit of a bank is more acceptable than that of its customers. Hence, a bank is often requested by a customer to accept or endorse a bill of exchange on his behalf or give a guarantee of repayment of a loan raised by the customer. To safeguard its interests the bank may require the customer to deposit a security for an appropriate amount against a guarantee, or an acceptance or endorsement by the bank on behalf of the customer. A record of guarantee given or the particulars of the bill accepted or endorsed as well as the particulars of the security collected from the customer will have to be recorded in different registers. Outstanding amount of acceptances, endorsements and other obligations at the end of the year has to be shown as 'Contingent Liabilities' in schedule 12 of the balance sheet of the bank.

Bills for Collection

A bank receives a large number of bills receivable from its customers for collection on the due date of the bills. The bank keeps these bills with itself till maturity and on realization credits the amounts to the clients concerned. The bank keeps a systematic record of all such bills in a separate register which is called Bills for Collection Register. The total amount of all the bills lying with the bank for collection at the end of the year is shown separately at the foot of the balance sheet of the bank.

Restrictions on Loan & Advances

The RBI is authorized to determine the policy in relation to advances to be followed by banks. It may give direction to banks regarding the purposes for which advances may or may not be given. It may lay down the margins to be maintained in respect of secured loans. It may prescribe the amount of advances that may be made to any company, firm or individual. It may fix the rate of

interest and other conditions on which advances or other financial accommodation may be made or guarantees may be given.

As per provisions of the law, a bank cannot grant loans or advances:

(a) on the security of its own shares

(b) to any of its directors

(c) to any firm in which any of its directors is interested as partner, manager or guarantor

(d) to any company of which any of its director is director, manager, employee, guarantor or in which he holds substantial interest

(e) to any individual in respect of whom any of its director is a partner or guarantor

CRR, SLR, Repo Rate & Reverse Repo Rate

The CRR is cash reserve ratio under which a certain percentage of the total bank deposits has to be kept in the current account with the RBI. Thus, the bank cannot lend the money to corporate or individual borrowers and bank cannot use the money for investment purposes. The bank does not earn anything on it.

The SLR is statutory reserve ratio under which a certain percentage of total bank deposits has to be invested in specified securities predominantly Central Govt. or State Govt. securities. As the money goes into investment as Govt. securities, it earns some amount of interest on the investment.

The repo rate is a rate at which banks borrow from RBI for short period up to 7 or 14 days but predominantly overnight. The RBI manages this repo rate which is the cost of credit for a bank. This becomes a floor below which the short term interest rates do not go. The higher the repo rate means the cost of short term money is high. The lower the repo rate means the cost of short term money is low. The higher repo rate may slow down the economy growth and lower the repo rate may enhance economy growth.

The reverse repo rate is a rate which the RBI offers to banks when they deposit their surplus cash with the RBI for shorter periods. In other words, it is the rate at which the RBI borrows from the commercial banks. When bank have excess funds but do not have any other lending or investment options, they deposit the surplus funds with the RBI and earn interest on the deposited funds.

The reverse repo rate has an inverse relationship with the money supply in the economy. During high levels of inflation in the economy, the RBI increase the reverse repo rate which encourages the banks to park more funds with the RBI to earn higher returns on idle cash.

17.5 P & L ACCOUNT AND BALANCE SHEET OF BANKING COMPANIES

Every banking company is required to prepare its annual accounts in accordance with section 29 of the BR Act.

(a) The final accounts must be prepared in the forms set out in the third schedule to the act or as near there to circumstances admit.

(b) The final accounts must be signed by the manager or principal officer of the company and at least three directors of the company.

(c) The accounts and balance sheet together with the auditor's report should be published in the prescribed manner. Three copies of the same must be furnished as returns to the RBI within three months from the end of the accounting period.

(d) The banking company shall send to the Registrar of Joint Stock Companies three copies of profit and loss account and balance sheet and of the auditor's report.

The prescribed format of P&L, Balance Sheet and sixteen schedules are given in the Unit 16 under the heading 16.2.7. In addition to these schedules, banks may prepare schedule 17 for notes on accounts and schedule 18 for disclosure of accounting policies.

For the year ending on March 31, 2021, the balances of The Narmada Bank Ltd. are given hereunder:

	₹
Interest on loan	2,50,000
Interest on fixed deposit	36,000
Salaries	30,000
Postage	5,000
Printing & stationery	6,000
Telephone & internet	4,000
Rent	7,000
Interest on saving bank deposit	20,000
Commission received	1,40,000
Legal charges	15,000
Insurance	9,000
Interest on cash credit account	3,40,000
Interest on overdraft	1,20,000

Prepare P&L Account for the year ended on March 31, 2021.

Solution

Narmada Bank Ltd.

P&L A/c for the year ending on March 31, 2021

		Schedule	Year ended 31-03-2021 [₹ in '000]
I	Income		
	Interest earned	13	710.00
	Other income	14	140.00
	Total		850.00
II	Expenditure		
	Interest Expenses	15	56.00
	Operating Expenses	16	76.00
	Provisions & Contingencies	-	---
			132.00
III	Profits/Losses		
	Net Profit for the year		718.00[1]
IV	Appropriations:		

	Transfer to Statutory Reserve		179.50[2]
	Transfer to other Reserve		---
	Proposed Dividend		---
	Balance c/f to Balance Sheet		538.50[3]
	Total		718.00

[1] 850 – 132 = 718

[2] $\frac{718X25}{100} = 179.50$

[3] 718 – 179.5 = 538.50

Schedule 13: Interest Earned

		Year ended 31-03-2021 [₹ in '000]
	Interest on loan	250
	Interest on cash credit	340
	Interest on overdraft	120
		710

Schedule 14: Other Incomes

		Year ended 31-03-2021 [₹ in '000]
	Commission Received	140

Schedule 15: Interest Expenses

		Year ended 31-03-2021 [₹ in '000]
(i)	Interest on fixed deposit	36
(ii)	Interest on saving bank deposit	20
		56

Schedule 16: Operating Expenses

		Year ended 31-03-2021 [₹ in '000]
i.	Salaries	30
ii.	Telephone & Internet	4
iii.	Postage	5
iv.	Printing & Stationery	6
v.	Rent	7
vi.	Insurance	9
vii.	Legal charges	15
		76

The following balances appeared in the books of Kaveri Bank Ltd. as on March 31, 2021

	₹
Share capital 20,000 share ₹ 100each)	20,00,000
Reserve fund	5,00,000
Local bills discounted	6,00,000
Overdraft	10,00,000
Cash credit	5,00,000
Term loan	4,00,000
Investment in shares	5,60,000
Demand deposit:	
From banks	10,00,000
From others	5,00,000
Term Deposit:	
Banks	3,20,000
Others	2,80,000
Borrowing in India: other banks	8,00,000
Bills payable	1,00,000
Unclaimed dividend	2,50,000
Cash in hand	3,60,000
Cash with bank in India	7,40,000
Stationery & stamps	1,40,000
Building	15,00,000

Furniture & fixture	2,00,000
P&L A/c credit balance (Current year Profit 2,00,000)	2,50,000

Make Statutory Reserve @25%. Prepare Balance Sheet as per banking law.

Solution

Balance sheet of Kaveri Bank Ltd. as on March 31, 2021

Capital & Liabilities	Schedule	₹
Capital	1	20,00,000
Reserve & Surplus	2	7,50,000
Deposits	3	21,00,000
Borrowings	4	8,00,000
Other Liabilities & Provisions	5	3,50,000
Total		60,00,000
Assets		
Cash & balances with RBI	6	3,60,000
Balances with banks, money at call & short notice	7	7,40,000
Investment	8	5,60,000
Advances	9	25,00,000
Fixed assets	10	17,00,000
Other assets	11	1,40,000
Total		60,00,000
Contingent Liabilities	12	Nil
Bills for collection		Nil

Schedule 1: Capital

Authorized capital [20,000 shares of ₹ 100 each]	20,00,000
Total	20,00,000

Schedule 2: Reserve & Surplus

(i)	Statutory Reserve	25,000
(ii)	Revenue & other Reserve	5,00,000
(iii)	P&L Account	2,25,000
	Total	7,50,000

Schedule 3: Deposits

I. Demand deposit	
(i) From banks	10,00,000
(ii) From others	5,00,000
II. Savings Bank deposit	Nil
III. Term Deposit	
(i) From banks	3,20,000
(ii) From others	2,80,000
Total	21,00,000

Schedule 4: Borrowings

I.	Borrowing in India	8,00,000
II.	Borrowings outside India	Nil
	Total	8,00,000

Schedule 5: Other Liabilities & Provisions

I.	Bills payable	1,00,000
II.	Inter office adjustments (net)	---
III.	Interest accrued	---
IV.	Unclaimed dividend	2,50,000
	Total	3,50,000

Schedule 6: Cash & Balances with RBI

Cash in hand (including foreign currency notes)	3,60,000
Total	3,60,000

Schedule 7: Balances with Banks & Money at call & short notice

I	In India	
(i)	Balance with banks	7,40,000
(ii)	Money at call and short notice	Nil
	Total	7,40,000
II	Outside India	
(i)	Balance with banks	Nil
(ii)	Money at call and short notice	Nil
	Total	Nil
	Grand Total (I+II)	7,40,000

Schedule 8: Investments

I Investment in India	
Shares	5,60,000
Total	5,60,000
II Investment outside India	Nil

Total	Nil
Grand Total (I+II)	5,60,000

Schedule 9: Advances

I.	Bills purchased & discounted	6,00,000
II.	Cash credit and overdraft	15,00,000
III.	Term loan	4,00,000
	Total	25,00,000

Schedule 10: Fixed Assets

I	Premises	15,00,000
II	Furniture & Fixtures	2,00,000
	Total	17,00,000

Schedule 11: Other Assets

Stationery & Stamps	1,40,000
Total	1,40,000

UNIT-V: ACCOUNTS OF INSURANCECOMPANIES AND INSURANCE CLAIMS: Introduction – Formats-Revenue Account–Net Revenue Account - Balance Sheet - Valuation Balance Sheet – Net Surplus – General Insurance - Preparation of final accounts with special reference to Fire and Marine Insurance - Insurance claims- Meaning – Loss of Stock and Assets – Average Clause – Treatment of Abnormal Loss - Loss of Profit. (Including problems)

Unit V focuses on the accounting practices specific to insurance companies, including the handling of insurance claims. Let's break down each aspect mentioned:

1. **Introduction:**

Introduction to the accounting principles and practices followed by insurance companies. This may include an overview of the unique characteristics of insurance business, such as risk assessment, premium collection, and claim settlement.

2. **Formats - Revenue Account - Net Revenue Account - Balance Sheet:**

Insurance companies prepare financial statements similar to other businesses, including:

- Revenue Account: Showing the company's revenues and expenses related to insurance operations.

- Net Revenue Account: Adjusting the revenue account for reinsurance premiums and claims.

- Balance Sheet: Presenting the company's financial position, including assets, liabilities, and equity.

3. **Valuation Balance Sheet - Net Surplus - General Insurance:**

Valuation balance sheet refers to the balance sheet prepared by insurance companies, which includes the valuation of assets and liabilities based on actuarial principles. The net surplus represents the excess of assets over liabilities, indicating the company's financial strength.

4. **Preparation of Final Accounts with Special Reference to Fire and Marine Insurance:**

Final accounts for insurance companies, particularly fire and marine insurance, involve specific considerations such as underwriting results, claims experience, and investment income. These accounts are prepared in accordance with accounting standards and regulatory requirements applicable to the insurance industry.

5. **Insurance Claims - Meaning:**

Insurance claims refer to requests made by policyholders or beneficiaries for compensation under insurance policies. These claims may arise due to various events, such as loss of property, damage to assets, or liability claims.

6. **Loss of Stock and Assets - Average Clause - Treatment of Abnormal Loss - Loss of Profit:**

- Loss of Stock and Assets: Insurance companies assess and compensate for losses suffered by policyholders due to damage or destruction of their stock or assets covered under the insurance policy.

- Average Clause: A provision in insurance policies that adjusts the amount of claim payable based on the insured's under-insurance or over-insurance relative to the actual value of the property.

- Treatment of Abnormal Loss: Insurance companies analyze and handle abnormal losses, which may result from extraordinary events or unforeseen circumstances not covered by standard insurance policies.

- Loss of Profit: Insurance companies may provide coverage for loss of profit or business interruption resulting from insured events such as fire, natural disasters, or other perils.

7. **Including Problems:**

Challenges faced by insurance companies and in handling insurance claims may include:

- Assessing the extent of loss accurately and fairly.

- Adhering to policy terms and conditions while processing claims.

- Dealing with fraudulent or exaggerated claims.

- Managing risks associated with underwriting and investment activities.

- Ensuring compliance with regulatory requirements and accounting standards.

Addressing these problems requires effective risk management, sound underwriting practices, and efficient claims processing procedures within insurance companies.

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20___

Policyholders' Account (Technical Account)

Particulars	*Schedule*	*Current Year*	*Previous Year*
		(₹'000)	(₹'000)
Premiums earned – net (a) Premium (b) Reinsurance ceded (c) Reinsurance accepted	1		
Income from Investments (a) Interest, Dividends & Rent – Gross (b) Profit on sale/redemption of investments (c) (Loss on sale/redemption of investments) (d) Transfer/Gain on revaluation/change in fair value*			
Other Income (to be specified)			
TOTAL (A)			
Commission	2		
Operating Expenses related to Insurance Business	3		
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)	4		
Interim Bonuses Paid			
Change in valuation of liability in respect of life policies (a) Gross** (b) Amount ceded in Reinsurance (c) Amount accepted in Reinsurance			
TOTAL (C)			
SURPLUS/(DEFICIT) (D) = (A)-(B)-(C)			
APPROPRIATIONS			
Transfer to Shareholders' Account			
Transfer to Other Reserves (to be specified)			

Transfer to Other Reserves (to be specified)			
Balance being Funds for Future Appropriations			
TOTAL (D)			

Notes :

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

** *represents Mathematical Reserves after allocation of bonus*

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

(*a*) Interim Bonuses Paid:

(*b*) Allocation of Bonus to policyholders:

(*c*) Surplus shown in the Revenue Account:

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

See Notes appended at the end of Form A-PL

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20____

Shareholders' Account (Non-technical Account)

Particulars	*Schedule*	*Current Year*	*Previous Year*
		(₹'000)	*(₹'000)*
Amounts transferred from/to the Policyholders Account (Technical Account)			
Income From Investments			
(*a*) Interest, Dividends & Rent – Gross (*b*) Profit on sale/redemption of investments (*c*) (Loss on sale/redemption of investments)			
Other Income (to be specified)			
TOTAL (A)			
Expenses other than those directly related to the insurance business			
Bad debts written off			
Provisions (Other than taxation)			
(*a*) For diminution in the value of investments (Net) (*b*) Provisions 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 be specified)			
Profit carried to the Balance Sheet			

Notes to Form A-RA and A-PL.

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

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

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

(*d*) Items of expenses and income in excess of one percent of the total premiums (less reinsurance) or ₹ 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.

Bcom II year - IV Sem
CORPORATE ACCOUNTING
Important concept.
PART-A-SHORT TYPE

1) Liquidator
2) contributory
3) Preferential creditors
4) Amalgamation, Absorption, Reconstruction — Definations
5) Capital Reduction
6) Internal Reconstruction VS External Reconstru
7) Rebate on Bills
8) Non-Banking Assets
9) Statutory Reserves
10) Slip System of position
11) Re-insurance
12) IRDA
13) Reserve for unexpired Rule
14) Valuation of Balance Sheet
15) Average clause

PART-B-ESSAY TYPE

1) Liquidator — Problem
2). What is purchase consideration
Explain Methods of purchase considerations
. Amalgamation in the nature of mergen
VS
Amalgamation in the nature of purchase
AND

problems.

3) Internal Reconstruction – Theory (Journal Entries)

AND

Internal Reconstruction – problem

4) BANKS – Profit & Loss Account
– Balance Sheet (format Based)

5). Difference between General Insurance and Life Insurance

- What is Insurance? Explain various types of Insurance

*. Explaination of terms in LIC

AND

Problem of Revenue A/c

SHORT PROBLEMS

1. Liquidator Remenuration (A-22 – SHQ 1 to 3)
2. Calculation of purchase consideration (B/20 – SHQ – 1 to 2)
3. Calculation of Rebate on Bills (E-35 – 27 & 28)
4. Calculation of Premium Income, Commission Benefits paid (LIC) (F-21 – SHQ 1, 2, 3, 4, 5)
5. Insurance claims – Loss of stock calculation