

THE WAY OF ASKING THEORY QUESTIONS

IN EXAMINATION POINT OF VIEW FOR PCC /IPCC

FUNDAMENTALS OF ACCOUNTING:

1. What are Fundamental Accounting Assumptions? Write short notes on them.

Ans: The Fundamental Accounting Assumptions are-

- a. **Going Concern:** The enterprise is normally viewed as a going concern, that is as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of operation.
- b. **Consistency:** It is assumed that accounting policies are consistent from one period to another.
- c. **Accrual:** Revenues and Costs are accrued, that is recognized as they are earned or incurred and recorded in the Financial Statements of the periods to which they relate.

AVERAGE DUE DATE:

1. What is ADD, areas where ADD is calculated?

Ans: Definition: Average Due Date (ADD) is an equated date of payment on which a single payment can be made in lieu of several payments due for payment on different dates, without loss of interest to either party. Thus, ADD is the Arithmetic Average of various payments.

Areas where ADD method is followed:

- a. For calculation of ADD when various payments are due on different dates and single payment is to be made by debtor. (Including the settlement of various bills due on different dates).
- b. For calculating Interest on drawings made by partners on different dates.
- c. For settlement of Contra Accounts. **E.g.** X & Y sells goods to each other on different dates.
- d. For calculation of ADD when amount is lent by the creditor in one installment and repayment of the amount lent is to be made in various installments.

ACCOUNT CURRENT:

1. What is an Account Current? Explain Briefly.

Ans: Account Current: Account current is a statement in the debit and credit form i.e., in the ledger form recording the transactions between the two parties in a chronological order or time sequence order. It is the copy of the accounts appearing in the books of sender with an additional column for interest. It is sent by one party to another usually by the agent to his principal or by the banker to his client.

An account current bears the following characteristics:-

- a. It is an ordinary form of ledger account.
- b. The transactions are arranged in a sequential manner.
- c. There is an additional column of interest on each side of the account.
- d. It is the copy of accounts of one party in the books of another party.
- e. Any of the two parties can prepare this account.
- f. The interest columns are purely on the memorandum basis and are not a part of double entry.

2. What is meant by Red Ink Interest?

Ans: Sometimes, the due date of the transactions fall beyond the date of settlement i.e., the date on which the account is prepared, in such cases, the days are counted from the settlement date to the date of transaction. These days are written with a negative sign in the days column or with a positive sign on the opposite side where the transaction does not appears. The

products were written with Red Ink. So the interest on such products is called as Red Ink Interest. This Red Ink Interest is treated as a negative interest.

3. What are various methods of accounting in an account current?

Ans: There are three ways of preparing an Account Current:

- Interest Tables method
- The Method of Products
- The Method of product of balances.

a. Interest Tables method:

- Format:** According to this method, all the transactions are arranged in the form of an account. There are two additional columns on both the sides of such an account.

➤ One Column is meant to indicate the number of days counted from the due date of each transaction to the date of rendering the account. If no specific date is mentioned as the date on which payment is due, the date of the transactions is presumed to be the due date.

➤ The other column is meant for writing interest.

- Calculation of Interest:** With the help of ready made tables (Simple Interest Tables), interest due on different amounts at given rates for different periods of time is found out and this is entered against each item separately. The interest columns of both the sides are totaled up and the balance is drawn.

b. The Method of Products:

- Format:** The method of preparing the Account Current is the same as in the method of interest tables, the method of calculating the interest alone remains the same but for minor modifications.

- Product Column:** In this method the Product Column replaces the Interest Column of the Interest Method. The product is obtained by multiplying the amount of the transaction by the number of days from the Due Date to the date of the Account. The Product column is then balanced so as to ascertain the figure on which the interest (net) is to be calculated.

- Calculation of Interest:** The interest is then calculated for a single day on the balance in the product column and is posted to the Account Current on the side opposite to the side where the "Product Balance" stands.

- Net Interest:** This method calculates the net interest directly, i.e., interest payable and interest due are mutually set off and only the net interest due/receivable is reflected in the Account Current. Interest on the individual transactions is not reflected as in the Interest Method.

- Procedure:** Steps involved in this method is summarized as follows:

- Find out the balance of the products as in point (iii).
- Calculate Interest at the given rate on the balance of the products for a single day,
- Enter the interest on the appropriate side in the amount column. This entry is made on the side opposite to the side on which the balance of product appears.

c. The Method of product of balances:

- Meaning:** This method is also known as periodic balance method and is usually adopted in the case of banks where the balance of the account is taken out after every transaction.

- Format:** The format of preparation of Account Current is as given below.

Date	Particulars	Dr.	Cr.	Nature of Balance (Dr./Cr.)	Balance Amount	Days	Dr. Product	Cr. Product

iii. Purpose of Columns: The usage of the date and the particulars column are to denote the date and the details of the transactions. The other columns are for the following purposes:

- The debits/credits to the account are entered in the Dr./Cr. Columns respectively.
- The Nature of the balance i.e. whether the account has a Dr./Cr. balance is reflected in the "Nature of Balance" Column.
- The Amount of balance is reflected in the "Balance Amount" Column.
- In the "Days" Column the no. of days from the date of the transaction to that of the next transactions is recorded.
- "Dr. Product"/ "Cr. Product" consists of the product of the Dr. /Cr. column and the Days column.

iv. Calculation of Interest: The Interest is calculated as under:

- The Columns are filled up to the date of the account as specified in point (c).
- The total of the Dr. Product and the Cr. Product Columns are arrived at.
- The interest for one day is calculated for the Dr./Cr. Products, at the appropriate rates and netted off to arrive at the net interest.

v. Posting of Interest: The interest amount is posted as follows: If the Dr. Product is greater than the Cr. Product the interest is posted to the Debit of the account, else it is posted to the Credit of the Account.

STATUTORY REPORT:

1. Write short note on Contents of Statutory report?

Ans: Contents of Statutory Report [Sec. 165 (3)]

- a. The total number of shares allotted, distinguishing shares allotted as fully paid or partly paid, otherwise than in cash and in case of partly paid up share stating the extent to which they are so paid up and in both cases the consideration for which they have been allotted.
- b. The total amount of cash received in respect of shares allotted for cash.
- c. An abstract of the Receipts and Payment A/c up to date within 7 days of the report, showing under the different headings the receipts of the company from shares, debentures and other sources, payments made, balance in hand and an account or estimate of the preliminary expenses of the company, showing separately any commission or discount paid, or to be paid on the issue or sale of shares or debentures.
- d. The names, addresses and occupations of the director, auditor, manager and secretary and the change if any.
- e. The particulars of any contract which, or the modification or the proposed modification of which, is to be submitted to the meeting for its approval together in the latter case with the particulars of the modification or the proposed modification.
- f. The extent, if any, to which each underwriting contract has not been carried out and the reasons thereof.
- g. The call-in-arrears from director and manager of the company.
- h. The particulars of any commission or brokerage paid or payable in connection with the issue or sale of shares and debentures to any director or manager.

DEPARTMENTAL ACCOUNTS:

1. Write short notes on Basis of allocation of common expenditure among different departments?

Ans: Apportionment of Common Expenses:

No.	Items of Expenses and Income	Basis of Apportionment
a.	Salesmen's commission, discounts allowed	Sales (turnover) of each

	(including provision for such discounts), bad debts, carriage outwards, advertisement, packing expenses etc.	department.
b.	Discounts received (including provision for such discounts) etc.	Purchases of each department
c.	Rent, rates and taxes, repairs and maintenance of building etc.	Floor space of each department
d.	Depreciation of assets, fire insurance premium etc.	Asset values of each department
e.	Workmen's compensation insurance, employer's contribution to Employees State Insurance etc.	Wages of each department
f.	Canteen expenses, medical benefits, safety measures and such other labour welfare expenses etc.	No. of workers of each department.

Notes:

- Expenses incurred for the direct benefit of a particular department should be allocated to the department concerned. **E.g.:** Special Advertisement, Insurance of Stock, Departmental Salaries.
- If expenses incurred for the benefit of more than one department are not capable of accurate measurement, should be distributed on arbitrary basis (i.e., either in turnover ratio or in the cost of goods sold etc.) E.G., Salary paid to the General Manager, Expenses of Accounts dept. etc.
- Expenses which cannot be apportioned satisfactorily should be left intact and finally to be debited to General P & L A/c.

FINANCIAL STATEMENT OF NOT FOR PROFIT ORGANISATION:

- 1. Explain the accounting treatment of donation received for specific purpose in the case of charitable society?**

Ans:

- Donation may have been raised either for meeting some revenue or capital expenditure.
- When expenditure intended for the revenue purpose are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account.
- When any investments are purchased out of a special fund or an asset is acquired there from, these are disclosed separately.
- Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. In such case expenses are not charged to Income & Expenditure Account.
- The term 'Fund' is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. scholarship fund, recreation fund etc
- Other wise, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Sports Goods Account etc.

UNDER WRITING:

- 1. What are the terms used in under writing?**

Ans:

- a. Marked Applications:**

- i. The application forms bearing the stamp of the underwriter are termed as “Marked Application forms.
- ii. The benefit of marked applications is given to the concerned underwriters in whose favour application forms have been marked.

b. Unmarked Applications:

- i. The application forms which do not bear the stamp of the underwriter are termed as ‘Unmarked Application forms’.
- ii. The benefit of unmarked applications is given first to the company to the extent of issue not underwritten by underwriters (in case any part of the issue is not underwritten).
- iii. In case there is surplus, the benefit of surplus unmarked applications will be given to the underwriters in the ratio of their gross liability.

c. Full Underwriting:

- i. When the entire issue is underwritten such underwriting is termed as ‘full underwriting’. For example, X Ltd. decided to make a public issue of 1,00,000 Equity Shares of Rs. 10 each which is entirely underwritten by A,B,C and D in the ratio of 2:2:1:1.
- ii. In such a case the benefit of unmarked applications is given to the underwriter in the ratio of their gross liability i.e., 2:2:1:1.

d. Partial Underwriting:

- i. When only a part of issue is underwritten, such underwriting is termed as ‘Partial Underwriting’. For example, X Ltd., decided to make a public issue of 1,00,000 Equity Shares of Rs. 10 each out of which 90,000 shares are underwritten by A, B, C and D in the ratio of 2:2:1:1. It means 10,000 shares are underwritten by the company itself.
- ii. In such a case, the benefit of unmarked applications will first be given to the company.
- iii. In case there is surplus, such surplus will be distributed among other underwriters in the ratio of their gross liability.

e. Sole Underwriting:

- i. When the issue is underwritten only by one underwriter, such underwriting is termed as ‘Sole Underwriting’. For example, if an issue of 1,00,000 shares of Rs. 10 each of X Ltd., is underwritten by A, it is a case of sole underwriting.
- ii. In such a case, the distinction between marked and unmarked applications is not of such significance.

f. Joint Underwriting:

- i. When the issue is underwritten by two or more underwriters, such underwriting is termed as ‘Joint Underwriting’. For Example, if an issue of 1,00,000 shares of Rs. 10 each of X Ltd., is underwritten by A, B, C and D in the ratio 2:2:1:1, it is a case of joint underwriting.
- ii. In such a case the benefit of unmarked applications is given to the underwriters in the ratio of their gross liability.
- iii. The benefit of marked applications is given to the concerned underwriters in whose favour applications have been marked.

g. Firm Underwriting:

- i. **Meaning:** Firm underwriting refers to a definite commitment by the underwriter to take up a specified number of securities irrespective of the number of securities subscribed by the public.

For example, the entire issue of X Ltd., is underwritten as follows:

A. 1,60,000 shares (firm underwriting 3,600 shares)

B. 1,60,000 shares (firm underwriting 2,000 shares)

C. 80,000 shares (firm underwriting 1,200 shares)

D. 80,000 shares (firm underwriting 10,000 shares)

In this case only 4,63,200 shares (i.e., 4,80,000 shares – firm underwriting of 16,800 shares) will be offered to public and 16,800 shares will be taken up by the underwriters even if the issue is oversubscribed.

ii. Treatment: The benefit of firm underwriting may be given either.

- To an individual underwriter on the basis of his individual firm underwriting, or
- To all the underwriters in the ratio of their gross liability

In other words, firm underwriting shares may be treated at par with either 'Marked Applications' or 'Unmarked Applications'.

2. Write a short note on firm underwriting and partial underwriting along with firm underwriting?

Ans: In firm underwriting the underwriter decides to subscribe upto a certain number of shares /debentures irrespective of the nature of public response to issue of securities. He gets these securities even if the issue is fully subscribed or over-subscribed. These securities are taken over by the underwriter in addition to his liability for securities not subscribed by the public.

Under partial underwriting along with firm underwriting, unless otherwise agreed, individual underwriters does not gets the advantage of firm underwriting in determination of number of shares/debentures to be taken up by him.

3. Pass the accounting entries relating to firm underwriting in the books of Company and Underwriter.

Ans:

Entries in the books of AB Co.Ltd (Company)

Particulars	Dr. (Rs.)	Cr. (Rs.)
a. A's Account To Equity Share Capital Account. (Being allotment of underwritten equity shares in pursuance of firm underwriting contract, vide Board's resolution).	Dr. XXX	XXX
b. Underwriting commission on issue of Shares Account To A's Account (Being underwriting commission due to the underwriter under the firm underwriting contract)	Dr. XXX	XXX
c. Bank Account To A's Account (Being money received in full settlement of account from under writer)	Dr. XXX	XXX

Entries in the books of A (Underwriter)

Particulars	Dr. (Rs.)	Cr. (Rs.)
a. Underwriting Account To AB Co. Ltd Account (Being the liability to take up necessary number of shares of the company in pursuance of firm underwriting contract recorded)	Dr. XXX	XXX
b. AB Co. Ltd Account To Underwriting Account (Being underwriting commission income credited to underwriting A/c)	Dr. XXX	XXX

c. AB Co. Ltd Account To Bank Account (Being balance money paid to the co. in full settlement of account)	Dr.	XXX	XXX
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SELF BALANCING LEDGERS (SBS):**1. What are the advantages of Self-balancing Ledger system?****Ans: Advantages of Self-balancing ledger:-**

- A number of book keepers can work on different ledgers.
- Arithmetic accuracy of each ledger can be proved independently.
- Each ledger is of a suitable size.
- A complete trial balance can be prepared without balancing subsidiary ledgers, thus facilitating the quick assessment.
- Since error can be localized, delay in detection is minimized, thereby saving labour and time of the book keepers.

LIQUIDATION OF COMPANIES:**1. Write short notes on Over-riding Preferential Creditors?**

Ans: Overriding Preferential payment (Section 529A): This section gives priority in payment to workmen's dues and debts due to secured creditors to the extent they could not be paid because of the former ranking pari passu with the later.

Example: The following details have been extracted from the books of a company at the time of the liquidation:

Secured creditors (with assets charged in their favour Rs.2,00,000)	3,00,000
Workmen's dues	1,00,000
Preferential creditors (excluding workmen's dues)	50,000
Unsecured creditors	2,00,000
Other assets	2,50,000

The assets available will be used as follows:

- Assets charged in favour of secured creditors worth Rs.2,00,000 will be shared by Secured Creditors and workers in the ratio of 3:1.
 - Share of secured creditors $2,00,000 \times \frac{3}{4} = 1,50,000$
 - Share of workers $2,00,000 \times \frac{1}{4} = 50,000$
- Over-riding preferential payments amount to:**

Secured creditors to the extent of their security being used for workmen's dues:	50,000
Balance of workmen's dues (1,00,000 – 50,000)	50,000
	1,00,000

c. Other Assets will be used as follows:

Over-riding preferential payments	1,00,000
Preferential creditors	50,000
Unsecured creditors	1,00,000
	2,50,000

2. What are the contents of "Liquidators' Statement of Account"? How frequently does a liquidator has to submit such statement?

Ans: It is a final statement A/c that is to be submitted by official Liquidator/Liquidator to the court/members creditors as the case may be in the event the company is finally being wound up.

PROFORMA**Name of the company****Nature of Winding Up – voluntary/ compulsory****Liquidator Final A/c****[In pursuance of sec. 497 & 509 of the companies Act]**

Receipts	Rs.	Payments	Rs.
To Realisation from sale of Assets [not specifically pledged]	XXX	By Legal Charges	XXX
To Realisation from Assets specifically pledged XXX		By Liquidator remuneration	XXX
Less: amount paid to Secured creditors XXX	XXX	By Expenses of Liquidation	XXX
To Receipts from contributory (to the extent of uncalled capital)	XXX	By Amt. paid to Debenture holders	XXX
		By Preferential Creditors	XXX
		By Unsecured Creditors	XXX
		By Preference Share Holders (at the rate of ---per share)	XXX
		By Equity Share Holders (at the rate of --- per share)	XXX
	XXX		XXX

Liquidator's statement of account of the winding up is prepared for the period starting from the commencement of winding up to the close of winding up. If winding up process is not completed within one year after its commencement, Liquidator's Statement of account pursuant to Section 551 of the Companies Act, 1956 (Form No.153) is to be filed by a Liquidator within a period of two months of the conclusion of one year and thereafter on interval of six months.

3. What is meant by B list of contributories"? What is the liability of contributories included in this list?

Ans: B list Contributories: The shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, before the date of winding up may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors as existed on the date of transfer of shares.

- When the existing assets available with the liquidator are not sufficient to cover the liabilities.
- When the existing shareholders fail to pay the amount due on the shares to the liquidator.

AMALGAMATION OF COMPANIES:

1. What are the two main methods of accounting amalgamation of Companies?

Ans: Method of accounting of amalgamation:

- Purchase method
- Pooling of interest method

2. Distinguish between Pooling of interest method and purchase method of recording transactions relating to amalgamation.

Ans:

Sl. No	Basis	Pooling of interest method	Purchase method of recording transaction
a.	Applicability	The pooling of interest method is applied in case of an amalgamation in the nature of merger.	Purchase method is applied in the case of an amalgamation in the nature of purchase.
b.	Recording	In the pooling of interest method all the reserves of the transferor Co. are also recorded by the transferee Co. in its books of account	In the purchase method the transferee Co. records in its books of accounts only the assets and liabilities taken over the reserves, except the statutory reserves of the transferor company are not aggregated with

			those of the transferee Co.
c.	Adjustment of the differences	Under the pooling of interest method, the difference between the consideration paid and the share capital of the transferor company is adjusted in the general reserve or other reserves of the transferee company.	Under the purchase method, the difference between the consideration and net assets taken over is treated by the transferee company as goodwill or capital reserve.
d.	Statutory reserves	In this method, the statutory reserves are recorded by the transferee co. like all other reserves without opening Amalgamation and Adjustment A/c.	In the purchase method, while incorporating the statutory reserves, the transferee Co. has to open amalgamation adjustment account debiting it with the amt. of the statutory reserves being incorporated.

3. What are the conditions that are to be satisfied for 'Amalgamation in the nature of Merger' in an Amalgamation?

Ans: According to AS-14 on Accounting for Amalgamation, the following conditions must be satisfied for an amalgamation in the nature of merger:

- After amalgamation, all the assets and liabilities of the transferor company becomes the assets and liabilities of the transferee company.
- Shareholders holding not less than 90% of the face value of the equity shares of the transferor company becomes the equity shareholders of the transferee company by virtue of amalgamation.
- The business of the transferor company is intended to be carried on after the amalgamation by the transferee company.
- Purchase consideration should be discharged only by issue of equity shares in the transferee company except that cash may be paid in respect of any fractional shares.
- No adjustments are required to be made in the book values of the assets and liabilities of the transferor company, when they are incorporated in the financial statements of the transferee company.

If any one of the condition is not satisfied in a process of amalgamation, it will not be considered as amalgamation in the nature of merger.

4. What are the methods for calculating purchase consideration?

Ans: Different methods in computing the "Purchase Consideration".

- Lumpsum Method:** Under this method purchase consideration will be paid in lump sum as per the valuation of purchasing companies valuationer.

E.g., If it is stated that A Ltd. takes over the business of B Ltd. for Rs.15,00,000 here the sum of the Rs.15,00,000 is the Purchase Consideration.

- Net Assets Method:** Under this method P.C. shall be computed as follows:

Particulars	Rs.
Agreed value of assets taken over	XXX
Less: Agreed value of Liabilities taken over	XXX
Purchase Consideration	XXX

Note:

- The term "agreed value" means the amount at which the transferor company has agreed to sell and the transferee company has agreed to take over a particular assets or a liability Otherwise book value will be the agreed value.
- Fictitious assets (i.e., preliminary expenses, underwriting commission, discount on issue of shares, discount on issue of debentures and debit balance in P & L A/c) are not taken over.

- c. **Payment Method:** Under this method P.C. should be calculated by aggregating total payments made by the purchasing company.

E.g.: A Ltd. had taken over B Ltd. and for that it agreed to pay Rs.5,00,000 in cash 4,00,000 Equity Shares of Rs.10 each fully paid at an agreed value of Rs.15 per share then the P.C. will be ascertained as follows:

Particulars	Rs.
Cash	5,00,000
4,00,000 E. Shares of Rs.10 each fully paid, at Rs.15 per share	60,00,000
Purchase Consideration	65,00,000

Note: A modified method of indicating consideration is to say how much a shareholder get per share on the transfer of the company's business to transferee company.

5. **Distinguish between Amalgamation in the nature of purchase and Amalgamation in the nature of merger?**

Ans:

Basis of Distinction	Amalgamation in Nature of Merger	Amalgamation in Nature of Purchase
a. T/f of Assets & Liabilities	There is transfer of all assets & liabilities.	There need not be transfer for all assets & liabilities.
b. Equity Shareholders holding 90%	Equity shareholders holding 90% equity shares in transferor company become shareholders of transferee company.	Equity shareholders, need not become shareholders of transferee company.
c. Purchase Consideration	Purchase consideration is discharged wholly by issue of equity shares (except cash for fractional shares)	Purchase consideration need not be discharged wholly by issue of equity shares.
d. Same Business	The same business of the transferor company is intended to be carried on by the transferee company.	The business of the transferor company need not be intended to be carried on by the transferee company.
e. Recording of Assets & Liabilities	The assets & liabilities taken over are recorded at their existing carrying amounts except where adjustment is required to ensure uniformity of accounting policies.	The assets & liabilities taken over are recorded at their existing carrying amounts or the basis of their fair values.
f. Recording of Reserves of Transferor Co.	All reserves are recorded at their existing carrying amounts and in the same form.	(a) Only statutory reserves are recorded at their existing carrying amounts as follows: Amalgamation adjustment A/c Dr. To Statutory Reserve A/c (b) Other reserves are not recorded at all.
g. Recording of Balance of Profit & Loss A/c of Transferor	The balance of P&L A/c should be aggregated with the corresponding balance of the transferee co. or transferred to the General	The balance of P&L A/c losses its identify and is not recorded at all.

Co.	Reserve.	
h. Difference between the Purchase Consideration and Share Capital/Net Assets of transfer co.	The excess of the purchase consideration over the share capital of transferor company is debited to Reserves and the excess of share capital over purchase consideration is credited to reserves.	The excess of purchase consideration over the net assets is treated as Goodwill and the excess of net assets over purchase consideration is treated as Capital Reserve.

HIRE PURCHASE:**1. Pass Accounting Entries for Repossessed goods under HP system of Debtors method.?**

Ans: The following entries will be made in respect of repossessed goods.

1.	For goods repossessed on default of Purchaser. Goods repossessed A/c To HP Debtor A/c (installment due) To HP Stock A/c (installment not due)	Dr.
2.	For difference between installment the unpaid and value of repossessed goods or loading amount only. In Case of Loss:- HP Adjustment A/c To Goods Repossessed A/c In Case of Profit:- The above entry will be reversed	Dr.
3.	For sale of goods repossessed Bank A/c To Goods repossessed A/c	Dr.
4.	For profit on sale of goods repossessed. Goods repossessed A/c To H.P. Adjustment A/c (in case of loss entry will be reversed)	Dr.

ISSUE & REDEMPTION OF DEBENTURES:**1. State the guidelines of SEBI regarding issue of convertible debentures for disclosure and investor protection?**

Ans: SEBI has prescribed the following guidelines for the issue of convertible debentures for disclosure and investor protections:

- Issue of fully Convertible Debentures, having a conversion period of more than 36 months will not be permissible, unless the conversion is made optional with “put” and “call” option.
- Premium amount on conversion, time of conversion, in stages, if any shall be determined in advance and must be stated in the prospectus. Interest rates for the above debentures will be fixed by the issue.
- Any public or right issue of debt instruments shall have to be compulsorily rated by the approved credit rating agencies, irrespective of their maturity or conversion period.
- Any conversion in part or whole of the debenture will be optional at the hands of the debenture-holders, if the alteration takes place at or after 18 months, from the date of allotment, but before 36 months.
- Issue of debentures with maturity of 18 months or less are exempted from the necessity of appointment of Debenture Trustee or creating a Debenture Redemption Reserve.

- f. Premium amount at the time of conversion for the Partly Convertible Debenture (PCD) should also be determined in advance and must be stated in the prospectus. Redemption amount, period of maturity, yield on redemption for the PCD's or NCD's must be shown in the prospectus.
- g. The discount on the non-convertible portion of the PCD's in case they are traded and procedure for their purchase on spot trading basis must be disclosed in the prospectus.
- h. Before roll over of any NCDs or non-convertible portion of the PCD's fresh credit rating shall be optioned within a period of six months to the due date of redemption, and communicated to debenture holder before roll over and fresh trust deed shall be made.
- i. Letter of information regarding all over should be vetted by SEBI with regard to the credit rating, debenture holder resolution, option for conversion and such other item which SEBI may prescribe from time to time.
- j. In case, the non-convertible portions of PCD's or NCD's are to be rolled over with or without change in the interest rate, a compulsory option should be given to those debenture holders who want to withdraw and in case from the debenture programme.
- k. SEBI may prescribe additional disclosure requirement from time to time after due notice.

PARTNERSHIP ACCOUNTS:

1. Explain Garner Vs. Murray Rule applicable in case of partnership firms?

Ans:

- a. **Loss of Insolvent Partner:** If upon dissolution, a Partner has become insolvent and the debit Balance in his Capital Account is remaining unpaid, such loss should be borne by the Solvent Partners in the proportion of their Capital at the date of dissolution.
 - b. **Capital:** The Capital for this purpose is the balance in Partner's Capital Account before adjusting therein the amount of profit or loss on the realization of assets.
 - c. **Making Good the Realisation Loss:** The loss on the realization should be contributed in cash by the solvent partners and the profit, will not be taken into account for determining the proportion in which the loss of insolvent partner should be borne by the solvent partners.
- 2. How to calculate Interest on Deceased partners loan as per Sec. 37 of Indian Partnership Act?**

Ans: Disposal of the amount due to the Retiring on Deceased Partner: In the absence of an agreement in this regard, the outgoing partner at his option is entitled to receive either interest @ 6% p.a. till the amount is paid off or a share of the profit which has been earned by using the amount due to him. [Sec. 37] Which ever is lower.

Application on Section 37 of Indian Partnership Act, 1932

For e.g.: A, B & C were partners sharing profits and losses in the ratio of 2:2:1. C retired on 1st July, 2003 on which date the capitals of A, B and C after all necessary adjustments stood at Rs. 73,875, Rs. 63,875 and Rs. 42,250 respectively. A and B continued to carry on the business for six months without settling the A/c of C. During the period of six months from 01.07.2003, a profit of Rs. 20,500 is earned by the use of the firm's property. State which of the two options available under section 37 of the Indian Partnership Act, 1932 should be exercised by C.

Solution:

- a. Share in the subsequent profits attributable to the use of his property;

$$= \frac{\text{Rs. } 42,250}{\text{Rs. } 1,80,000} \times 2,500 = \text{Rs. } 4,812$$

- b. Interest @ 6% p.a. on the use of his property = Rs. 42,250 x $\frac{6}{12} \times \frac{6}{100}$ = Rs. 1,267.50

C should exercise option. Since the amount payable to him under this option is more as compared to the amount payable to him under option.

BANK ACCOUNTS:**1. Write short notes on Slip system of posting and double voucher system.**

Ans: Slip system of posting: This system is used in the case of banking companies, in this entries in the personal ledgers are made directly from vouchers, instead of being posted from day book. Pay-in-slips and cheques are used as slips. This become the basis of most of the transactions directly recorded in the account of the customer's. Lots of time and labour of the bank staff is saved, because the slips are filled in by the customers themselves. The vouchers entered into different personal ledgers are summarized on summary sheets every day, total of which are posted to the different control accounts which are maintained in general ledger.

Double Voucher System: For the transaction not involving cash, two vouchers are prepared by the bank one debit voucher and the other credit voucher. This system of maintaining two vouchers are called double voucher system. The vouchers are sent to different clerks who make entries in book under their charge.

2. Write short notes on Acceptances and Endorsements?

Ans:

- a. A bank has a more acceptable credit as compared to that of its customers. On the basis of this, it is often called upon to, accept or endorse bills on behalf of its customers.
- b. In such a case, the bank undertakes a liability towards the party which agrees to receive a bill in payment of a debt or agreed to discount the bill after the same has been accepted by the bank.
- c. As against this liability, the bank has a correspondence claim against the customer on whose behalf it has undertaken to be a party to the bill, either as an acceptor or as an endorser.
- d. The liabilities which are outstanding at the end of the year, and the corresponding assets are disclosed as contingent liability in the financial statement.
- e. To be on the safer side, usually the bank asks the customers to deposit a security equivalent to the amount of the bill accepted on his behalf.
- f. A record of the particulars of the bills accepted as well as of the securities collected from the customers is kept in the Bill Accepted Register.
- g. A bank may not treat this book as part of system of its accounts.
- h. In these cases, no further record of the transaction is kept until the bill matures for payment.
- i. If the bill, at the end of its term, has to be retired by the bank, and the amount cannot be collected from the customer on demand. The bank reimburses itself by disposing of the security deposited by the customer.

3. Write a short notes on Assets Classification borrower-wise in Bank Accounts?

Ans: The classification of advances as performing and non-performing and is borrower-wise and non-account wise. If one of the accounts of the borrower is non-performing (NPA), then other accounts which are otherwise performing, have to be classified as NPA only. The Reserve Bank of India has made clear that for purpose of classification as NPA, the most adverse category in any borrower's account should be adopted as a prudential measure.

For example, if any borrower has three days of facilities, one of which is classified as standard, second sub-standard and the third is classified as doubtful., all the outstandings in the said borrowers account should be classified as doubtful assets under prudential norms.

4. What do you mean by Standard assets, Sub-standard assets and Doubtful assets of a bank?

Ans:

- a. **Standard Assets:** Standard Assets are those assets which does not show any problem and also does not carry more than normal risk attached to the business. They are not non-performing assets.

The provision of 0.25% is made on these standard assets as a matter of abundant caution, thought there could be no risk of non-recovery/default.

- b. Sub-standard Assets:** These are the assets which are classified as non-performing assets for a period not exceeding eighteen months. These assets have a well defined credit weaknesses that prejudice the liquidation of the debt and are characterized by the distinct possibility that the bank will bear some loss, if deficiency are not corrected.

A provision of 10% of total outstanding should be made on such assets.

- c. Doubtful Assets:** The assets which remained a non-performing assets for a period exceeding 18 months are called doubtful assets. These advances are so weak that its collection in full is difficult. Depending on the age of the doubtful assets and the security, various percentage of provisioning is recommended for doubtful assets.

5. What is the % of NPA provision to be made by banks in respect of fully secured doubtful advances of more than 3 years old?

Ans: % of NPA provision for doubtful of advance of more than 3 years is 100%.

ELECTRICITY COMPANIES:

1. Write a short notes on Disposal of Surplus in Electricity Company?

Ans: Disposal of Surplus: The law intends to prevent an electricity undertaking from earning unreasonable profits. That is why, it has defined Reasonable Return, Clear Profit, Capital Base. Excess of Clear Profit over Reasonable Return is called as 'Surplus' required to be credited to Customers Rebate Reserve and Surplus upto 20% of Reasonable Return is to be disposed off as follows:

- $\frac{1}{3}$ rd of such surplus not exceeding 5% of Reasonable Return at the disposal of the Company,
- $\frac{1}{2}$ of the balance to be credited to Tariffs, Dividend Control Reserve.
- $\frac{1}{2}$ of the balance to be credited to Customers Rebate Reserves.

2. Write a short notes on Accounting treatment for replacement of an asset in Electricity Company?

Ans: Journal Entries:

1. To Record the Total Current Cash Cost of Old Asset:		
Asset A/c	Dr.	[with Current Cash Cost to be Capitalised (as per Step 2)]
Replacement A/c	Dr.	[Current Cost of old Asset (as per Step 1)]
To Bank A/c		(Current Cash Cost of New Asset)
2. To Record the Value of Old Materials reused:		
Asset A/c	Dr.	(with the given value of old materials reused)
To Replacement A/c		
3. To Record the sale proceeds of Old Materials sold:		
Bank A/c	Dr.	(with the given Sale Proceeds of Old Materials Sold)
To Replacement A/c		
4. To Record the amount to be written off to Revenue:		
Revenue A/c	Dr.	[with the amount to be written off to Revenue A/c (as per Step 3)]
To Replacement A/c		

Note: Hence, the total amount capitalized is calculated as follows:

A.	Current Cash Cost to be Capitalized	xxx
B.	Add: Value of Old Materials reused	xxx
C.	Total amount Capitalized (A + B)	xxx

3. Write short notes on Reasonable returns in electricity supply companies.?**Ans: Reasonable return in electricity supply companies:**

The law seeks to prevent an electricity undertaking from earning too high a profit. For this purpose, concept of Reasonable Return has been propounded. Reasonable Return is the normal return which Electricity Company can earn. The following is the procedure to compute the Reasonable Return and disposal of any surplus profits earned.

Computation of Reasonable Return:

Particulars	Rs.
Yield on Capital Base = Capital Base X Standard Rate of Return (Note)	XXX
Add: Income on Investments other than Investment against Contingencies Reserve	XXX
Add: $\frac{1}{2}$ % of Loans advanced by the Electricity Boards	XXX
Add: $\frac{1}{2}$ % of amount borrowed from State Government approved Organisation/Institutions	XXX
Add: $\frac{1}{2}$ % of amount raised by the Issue of Debentures	XXX
Add: $\frac{1}{2}$ % on balance in Development Reserve	XXX
Reasonable Return	XXX

Note: Standard Rate = Reserve Bank of India Rate + 2%.

The term “Capital Base” used above can be identified as:

- The original cost of fixed assets available for use and necessary for the purpose of the undertaking less contributions, if any made by the consumers for constructions of service lines and also amounts written off.
- The original cost of work in progress.
- The cost of intangible assets.
- The amounts of investments compulsory made against contingencies reserve; and
- The monthly average of the stores, materials supplies and cash and bank balances held at the end of each month of the year of account.

4. Main features of ‘double account’ system of presentation of financial information in the case of public utility concern?

Ans: Double accounts system is the name given to the system of preparing the final accounts of certain statutory companies formed by special Acts of Parliament, usually public utility undertakings (for example Electricity Companies). This method is not a special method of keeping accounts but it is a special method of presenting the accounts under the normal double entry system.

In this system, separate accounts in respect of capital and revenue are prepared in order to show clearly the capital receipts and the manner in which the amounts thereof have been invested. The final accounts prepared under the double accounts system normally consists of:

- Revenue Account.
- Net Revenue Accounts.
- Capital Account (Receipts and Expenditure).
- General Balance Sheet.

The Revenue account is certain to the Profit and Loss Account of a company with some exception. The Net Revenue Account resembles with appropriation portion of the Profit and Loss Account of the Company. The Capital Account shows the total amount of capital raised and its sources and also the manner and the extent to which this capital has been applied in the acquisition of fixed assets for the purpose of carrying on the business. Other items are included in the General Balance Sheet.

The Double Account system in its pure form does no longer exist but the statements submitted to State Government by electricity companies generally follow the principle of double account system. For presenting accounts to the shareholders, electricity companies normally follow Schedule VI of the Companies Act, 1956.

5. Write short notes on “Receipt and payment on capital account” and “General balance sheet” of a public utility?

Ans: Receipt and payment on capital account and “General balance sheet” of a public Utility:

Under the double accounts system, the balance sheet is split into two parts:

- a. Receipts and expenditure (payment) on capital account and
- b. General balance sheet.

The main object of the former is to show the total amount of capital raised with its sources and the way and the extent to which this capital has been applied in the acquisition of fixed assets for the purpose of carrying on the business of the undertaking. It thus discloses the receipt and expenditure on capital account, that is the receipt from issue of shares, debentures and loans and the expenditure out of such receipts on acquisition of and addition of fixed assets. The receipt and expenditure on capital account is shown in a columnar form:

There are three columns:

- a. One showing the amount at the commencement of the period.
- b. Another disclosing the amount received or spent during the period.
- c. The third showing the balance at the end of the period.

The general balance sheet contains other assets and liabilities and the balance of the receipt and expenditure on capital account. It is drawn up in the usual way, showing on the liabilities side, resources, depreciation fund, current liabilities and other credit balances and total of receipts as per capital accounts, on the assets side total of expenditure as per capital account, floating assets and other debit balances.

6. What is meant by Clear Profits?

Ans: Clear Profit: It is the difference between the total income and total expenditure including specific appropriations. The following are the specific appropriations for computing clear profit.

- a. Brought Forward Losses of Previous years to the extent permitted by State Government.
- b. Taxes on Income and Profits
- c. Amount written off in respect of Intangible Assets and New Issue Expenses (note)
- d. Contribution to the Contingencies Reserve
- e. Contribution towards arrears of Depreciation
- f. Contribution to Development Reserve
- g. Other Special Appropriations permitted by the State Government.

INSURANCE COMPANY ACCOUNT:

1. Computation of “premium income”, “claims expense” and “commission expense” in the case of an insurance company?

Ans:

- a. **Premium:** It is the consideration paid by insured to get his risk covered. The aggregate of premium received together with premium receivable (outstanding) as reduced by premium on re-insurance ceded, if any, is shown in the credit side of revenue account. Thus the net figure of premium to be shown in revenue account is arrived in the following manner.

Premium Received (direct)	Rs.	
Add: Premium Received (Reinsurance accepted)	Rs.	
Add: Premium outstanding	Rs.	
Add: Bonus in Reduction of premium	Rs.	
Less: Premium of Reinsurance ceded	Rs.	
Net Premium	Rs.	

The reserve for unexpired risk and additional reserve are created on the net premium only.

- b. Claims:** The insurance company covers various risks for a consideration called 'Premium' and in case the risk covered falls with the insured, the insurance company is liable to compensate. The amount paid as claim is written in the debit side of revenue account.

In addition to this, insurance companies, are required to incur expenditure as 'legal expenses' and 'medical expenses' in connection with claim. This expenditure since directly related to claim are basically incurred to reduce the liability of claim are also accounted for under the head 'claims'. Thus following shall be treatment of various adjustments under the head 'Claim'.

Claim:

Particulars	Rs.	Rs.
Claim paid during the year		-
Add: i Claim outstanding at, the closer of year,	-	
ii Medical Expenses re-claims,	-	
iii Legal expenses re-claims,	-	
iv Survey expenses.	-	
Less: i Claims outstanding at the beginning of the year	-	
ii Re insurance claim recoveries.	-	-

- c. Commission:** When making final accounts of an Insurance Company is prepared terms with respect to commission are:

- a. Commission on direct business.
 - b. Commission on reinsurance ceded and
 - c. Commission on reinsurance accepted.
- a. The commission paid by an insurance company for carrying out work by its agents is called commission on Direct Business and shown in 'Direct side of Revenue Account.
 - b. Where reinsurance premium is payable then commission is recoverable in such reinsurance business, the commission so paid by re-insurer is 'Commission on Re-insurance business ceded' for the reinsured Company and is shown on 'Credit' side of revenues account.
 - c. There is 'Commission on Reinsurance Accepted' for the insurance company accepting the risk of other insurance company and is reflected in 'Debit' side of revenue account. The presentation is as follows:

Dr.	Revenue Account		Cr.
Debit	Rs.	Credit	Rs.
Commission on direct business	-	Commission on reinsurance	-
Commission on re-insurance accepted	-	ceded	

2. Write short notes on Re-insurance?

Ans:

- a. When an Insurance Company wants to part with some risk on an insurance policy, a part of the risk may be insured with some other insurer, is called, 're-insurance ceded' and original company is called 'reinsured'. In this case reinsured company surrender proportionate premium to the other insurer and receive proportionate commission to re-insurance ceded.
- b. In case of claim, original company pay to the policy holder and in turn receives proportionate claim from the other company. For the insurer with whom risk has been reinsured, this is called 're-insurance accepted.
- c. There are two types of re-insurances. (a) Fluctuative Re-insurance and (b) Treaty Re-insurance.
 - i. **Fluctuative Re-insurance:** In this type of re-insurance each risk is negotiated separately. Re-insurance of each risk is affected by ceding company and accepted by the

accepting company. Both companies have free choice for offer and acceptance. Since each transaction is negotiated separately, this involves large volume of work.

- ii. **Treaty Re-insurance:** Under this type of re-insurance an agreement (Treaty) is entered between insurance companies to offer re-insurance and accept re-insurance compulsorily. The treaty may be for a specific type of risk or insurances of a specific geographical area. It is mandatory for both, ceding company to offer and insurer to accept within the limits of Treaty.

3. Write short notes on Reserve for Unexpired Risks in an insurance Company?

Ans: Insurance policies are usually issued for a period of 1 year. However, at the year end, risks remain unexpired on most of the policies. Thus, total premium received cannot be taken as income of the current year. Since, risk is not reduced with passage of time, the premium relating to the next year is not calculated in proportion to unexpired period there is an unexpired liability under various policies. In order to cover this unexpired risk a reserve is created. This reserve is known as Unexpired Risk Reserve.

As per recommendation of the Executive Committee of the General insurance Council, the reserve for unexpired risk has to be created at following rates:

- a.** For Marine Business – 100% of Net Premium
- b.** For Other Business – 40% of Net Premium

However, as per Income Tax Rules, a provision of 50% of net premium may be created for other business.

The journal entry for creating provision at the end of year is:

Revenue A/c Dr.

To Reserve for Unexpired Risk A/c.

Reserve for unexpired risk account is shown in Balance Sheet (liabilities side)

Next year, opening balance of Reserve for Unexpired Risk Account will be transferred to credit side of revenue account by making following entry:

Reserve for Unexpired Risk A/cDr.

To Revenue A/c.

4. What are the accounting entries pertaining to re-insurance business ceded to and by an insurance company? What are the corresponding commission entries?

Ans: When an insurance company wants to part with some risk on an insurance policy, a part of the risk be insured with some other insurer. This is called Re-insurance ceded. The original company is called Re-insured. In this case re-insured company surrenders proportionate premium to the other insurer and receives proportionate commission to re-insurance ceded.

In case of claim, original company:

Pays to the policy holder and in turn recovers proportionate claim from the other company. For the answer with whom risk has been re-insured, this is called re-insurance accepted.

A Insurance Company cedes re-insurance business to 'B' Insurance Company. 'C' Insurance company further cedes re-insurance business to A Insurance company. Accounting entries pertaining to re-insurance business ceded to and by A Insurance Company as follows:

1. Re-insurance Premium (or re-insurance ceded) A/c To B Insurance Company A/c (Being premium on re-insurance business ceded to B insurance co. recorded)	Dr.
2. C Insurance Company A/c To Reinsurance Premium (or reinsurance accepted) A/c (Being premium on business ceded by C insurance company recorded)	Dr.
3. B Insurance company A/c To claims (On re-insurance ceded) A/c (Being claim receivable from B company for part of insurance business ceded)	Dr.

4. Claims (on re-insurance accepted) A/c To C Insurance Company A/c (Being claims on re-insurance business accepted from Z company recorded)	Dr.
5. B Insurance Company A/c To Commission (on reinsurance ceded) A/c (Being commission due on re-insurance business ceded to B insurance company recorded)	Dr.
6. Commission (on re-insurance accepted) A/c To C Insurance Co. A/c (Being commission due on re-insurance business ceded to C company debited)	Dr.

5. Explain the significance of 'average clause' in a Fire Insurance Policy?

Ans: In the interest of the business, business units take a fire insurance policy to indemnify itself against the loss of stock and other assets resulting from the fire.

A fire insurance policy generally includes an average clause to discourage the under insurance of stock or any other asset.

The impact of this clause is that:

- If the value of stock or any other asset insured on the date of fire is more than the amount of policy taken, the full value of stock or any other asset destroyed does not become payable to the business unit.
- But, insurance company agrees to pay the proportion of the loss which the amount of policy taken bears to the total value of stock or any other assets on the date of the fire.

Following formula is used for computing average clause:

$$= \frac{\text{Value of stock destroyed}}{\text{Value of stock on the date of fire}} \times \text{Value of Insurance Policy}$$

Thus, Insurance Company accept the insurance claim in a proportionate reduction to the actual loss and stock or any asset on the date of such loss.

SHARE CAPITAL:

1. Describe the conditions, which have to be fulfilled by a Joint Stock Company to buy-back its equity shares?

Ans: According to Section 77A of the companies Act, 1956 a joint stock company has to fulfill the following conditions to buy-back its own equity shares:

- There must be an authorization in the articles for the buy-back.
- A special resolution must be passed in general meeting of the company for authorizing the buy-back and it must be completed within 12 months of passing S.R.
- The buy-back should not exceed 25% of the total paid-up capital and free-reserves of the company in particular financial year.
- All the shares of the company must be fully paid-up.
- The ratio of the debt owned by the company is not more than twice the capital and its free reserves after such buy back.
- The buy-back is made out of the free-reserves or out of the proceeds of the fresh issue.
- The buy-back of the shares listed on any recognized stock exchange is in accordance with the regulation made by the SEBI on this behalf.

2. What are Sweat Equity Shares? What are the conditions, which must be fulfilled by a Joint Stock Company to issue these shares?

Ans: The Companies (Amendment) Act, 1999 has introduced with the help of Section 79A a new type of equity shares called "Sweat Equity Shares". "Sweat equity shares are the equity shares issued by a company to its employees or director at a discount or for consideration other than

cash for providing know-how or making available right in the nature of intellectual property right or value addition by whatever name called”.

When the following conditions are fulfilled by the company, then only a company may issue sweat equity shares:

- a. Sweat equity shares will be issued only when it is authorized and a special resolution is passed by the company in general meeting.
- b. The resolution specifies the number of shares, current market price, the consideration if any and the class or classes of directors or employees to whom such equity shares are to be issued.
- c. Not less than one year has, at the time of the issue, elapsed since the date on which the company was entitled to start the business.
- d. The sweat equity shares of company, whose equity shares are listed on a stock exchange are issued in reference with the regulation made by the Securities and Exchange Board of India on this behalf.
- e. In case of company whose equity shares are not listed on any stock exchange, the Sweat equity shares are issued on reference with the guidelines as may be prescribed.

3. Write short notes on Dividend on partly paid shares?

Ans:

- a. As per the provisions given in the articles of the company, in case of partly paid-up shares, the dividends are payable either on the nominal, called up or the paid up amount of shares.
- b. In the absence of any such provision, Table A would be applied.
- c. In this case the amount to be paid as dividend will be calculated on the amount paid-up on the shares and at the time of calculation, the date on which the amount were paid must be taken into account.
- d. Calls paid in advance do not rank for payment of dividend.
- e. But the interest may be paid on such calls, the rate of interest is 6% p.a as per Table A; different rates may be prescribed by the articles of the company.
- f. According to Section 93, of the companies Act, 1956 a company may if so authorized by its article, pays a dividend in proportion to the amount paid on each share, where a larger amount is paid on some shares than on others.
- g. But where the articles are silent and Table A has been excluded, the amount of dividend payable will have to be calculated on the nominal amount of shares.
- h. According to Clause 88 to Table A dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect where of the dividend is paid.
- i. But in case nothing is paid upon any of the shares of the company, dividends may be declared and paid as per the nominal amount of the shares.

INTERNAL RECONSTRUCTION:

1. What is meant by Internal Reconstruction?

Ans: In case of internal reconstruction, the company's existing financial structure is reorganized without dissolving the existing company and without forming a new company. Taking a wider meaning of the term 'Internal Reconstruction'. It includes:

- a. Alteration of Share Capital under Section 94 to 97.
- b. Reduction of Share Capital under Section 100 to 105.
- c. Variation of Shareholders' Rights under Section 106.
- d. Scheme of Compromise/Arrangement under Sections 391 to 393 and 394A.

PREPARATION OF FINANCIAL STATEMENTS:**1. Which parties are Interested in Financial Statements?**

Ans: The users of financial statements include present and potential investors, employees, lenders, supplier and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their information needs. These needs include the following:

- a. **Investors:** The providers of risk capital are concerned with the risk inherent in, and return provided by, their investments. They need information to determine whether they should buy, hold or sell. They are also interested in information which enables them to assess the ability of the enterprise to pay dividends.
- b. **Employees:** Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.
- c. **Lenders:** Lenders are interested in information which enables them to determine whether their loans, and the interest attaching to them, will be paid when due.
- d. **Suppliers and other trade Creditors:** Suppliers and other creditors are interested in information which enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuance of the enterprise as a major customer.
- e. **Customers:** Customers have an interest in information about the continuance of an enterprise, especially when they have a long-term involvement with, or are dependent on, the enterprise.
- f. **Governments and their agencies:** Governments and their agencies are interested in the allocation of resources and therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises and determine taxation policies, and to serve as the basis for determination of national income and similar statistics.
- g. **Public:** Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

While all of the information needs to these users cannot be met by financial statements, there are needs which are common to all users. As providers of risk capital to the enterprise, investors need more comprehensive information than other users. The provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

2. Give the Four qualitative Characteristics which the financial statements should observe?

Ans:

- a. **Understandability:** Financial Statements should be readily understandable by the users. This means that all required information should be disclosed, clearly and properly.
- b. **Relevance:** Financial Statements should contain only relevant information. Information, which is likely to influence the economic decisions of the users, is said to be relevant. Relevance of an item of information is related to its materiality.
- c. **Reliability:** Financial Statements should be reliable, i.e. free from material error and bias. This means that the transactions and events in Financial Statements are-
 - i. Are faithfully represented.
 - ii. Reported in terms of its substance and economic reality, rather than merely their legal form.
 - iii. Reported in a neutral fashion, i.e. free from bias.

- iv. Reported based on the principle of prudence.
- d. **Comparability:** Financial Statements should be useful for inter-firm comparison (i.e. between different Firms in the same industry), and intra-firm comparison (i.e. within the Firm for different periods, branches/divisions, products, etc.). Comparability can be achieved only if the financial effect of any change in accounting policies is disclosed properly.
- e. **True and Fair View:** Financial Statements are required to show an true and fair view of the performance, financial position and cash flows of the enterprise.
3. **One of the Characteristics of Financial Statements is neutrality- Do you agree with this statement?**

Ans:

- a. Yes. One of the essential characteristics of Financial Statement is Neutrality.
- b. It means the Financial Statements are free from Bias-impartial.
- c. In order to make the Financial Statements more Reliable-Neutrality is more important. The Financial Statements prepared and reported should be free from Material misstatements and bias.
- d. Hence Neutrality is one of the important characteristics of Financial Statements.
4. **Write the Procedure for Calculation of Managerial Remuneration (or) How to calculate Profits as per Sec. 349 for the sale of calculating Managerial Remuneration?**

Ans: Calculation of Net Profits [Sec. 349]: Sec. 349 lays down the manner in which net profits for the purposes of calculation of managerial remuneration shall be calculated.

The various items which are required to be included or excluded or deducted or not to be deducted as per Sec. 349 are given below:

Items to be included in/excluded from Profits for Computing Manager's Remuneration

Items to be included in profits	Items to be excluded from profits
a. Bounties and subsidies received from any Government or any public authority constituted or authorized in this behalf by any government.	a. Premium on shares or debentures. b. Profit on sale of forfeited shares. c. Profits of capital nature including those from the sale of the undertaking of the company. d. Profits of capital nature from the sale of any immovable property or fixed assets.

Items to be / Not to be deducted from Profit for Computing Manager's Remuneration

Item to be deducted from Profits	Item not to be deducted from Profits
a. All the usual working charges; b. Directors' remuneration; c. Bonus of Commission paid or payable to any person employed or engaged by the company; d. Excess Profit Tax and Business Tax; e. Interest on Debentures, Mortgages, Loans and Advances. f. Expenses of Repairs not of Capital Nature g. Contribution to Charitable and other funds, not directly related to the business of the company not exceeding Rs. 50,000 or 5% of the average net profit during the three financial years immediately preceding, whichever is greater . However, these limits can be exceeded with the consent of the company in general meeting;	a. Income-tax and super tax paid by the company or any other tax on the income of the company not falling under Clause (d) above. b. Any Compensation, Damages or Payments made voluntarily and not paid due to any legal liability. c. Capital Losses.

h. Depreciation to the extent specified in Sec. 350; i. Past losses arising after 1st April, 1956 to the extent not already deducted in any subsequent year; j. Any compensation or damages to be paid due to any legal liability including the one arising from a breach of contract; k. Any sum paid by way of insurance to cover any liability discussed in above clause. l. Bad debts written off or adjusted during the accounting year.	
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5. Write a short notes on Transfer of Profit to Reserve Rules?

Ans:

- a.** Yes, a Company can transfer more than 10% of its profits to reserves. In such an event a minimum dividend has to be declared as stated below:
- b.** Minimum dividend rate should be equal to average rate of dividend declared in preceding three years.
- c.** Where bonus shares have been issued in the preceding three years, the distribution of dividend, a minimum distribution of dividend equal to the average amount (quantum and not the rate) of the dividend declared for the three years is ensured.
- d.** However, the minimum distribution in the above two cases need not be ensured if net profits after tax have fallen by at least 20% of the net profits of the average net profits after tax of the two preceding financial years.
- e.** Where no dividend is declared the amount proposed to be transferred to its reserves from the current profits must be less than the average amount of dividends declared to the shareholders over the three preceding financial years.

ACCOUNTS IN COMPUTERISED ENVIRONMENT:

1. What are the advantages and disadvantages of outsourcing the accounting functions?

Ans:

a. Advantages are:

- i.** Organisation can concentrate on their core area Less number of human resource is required.
- ii.** Organisation is able to utilized the expertise knowledge and experience of the outsourcing agency.
- iii.** It is economical for the organisation.
- iv.** Labour turnover does not effects the functioning of accounts department.
- v.** Accounts are maintain and stored in the hand of professionals.

b. Disadvantages are:

- i.** Outsourcing agency is unable to meet the standard desirable.
- ii.** Various hidden costs are involved, which was not initially envisaged.
- iii.** There is a fear of confidentiality loss and security of accounts.
- iv.** Delay in obtaining services from third party.
- v.** Organisation Looses their control from various financial activities.

2. Explain the factors to be considered before selecting the pre-packaged accounting software?

Ans: It is very difficult task for an organisation is choose appropriate accounting software from the bundle of software available in the market. Some basic criteria should be considered while selecting the software.

- a. **Fulfillment of business needs:** Buyers try to match his own requirement with the available softwares.
- b. **Easy to use:-** Such software which is easily operative should be selected.
- c. **Provides maximum reports:** Some software packages are available in the market which might provide extra reports or such report as they wants.
- d. **Goodwill of the Vendor:** A stable vendor with good past records will always be preferred because their continuous support is essential for any software.
- e. **Cost comparison:** First analyse various software the select most economic software.
- f. **Regular update:** Vendor normally provides regular updates to take care of the changes of law as well as add new feature to the existing software. So, select the vendor whose past record in this context is good.

3. What are the advantages and disadvantages of customized accounting packages?

Ans:

a. Advantages are:

- i. Such softwares suitable match with the organizational structures.
- ii. It covers all functional areas of the organizations.
- iii. The input screens can be tailor made so that is matches with the input documents for data entry.
- iv. Reports are available as per the specification of the organisation.
- v. Various tools such as Barcode can used as input devices.

b. Disadvantages are:

- i. Development of such software is a time taking process.
- ii. Of input specifications are incomplete or improper resulting in a defecting or inappropriate system.
- iii. Lack of documentation.
- iv. Inadequate control measures.
- v. Regular undates are not possible.
- vi. It is costlier than pre-packaged accounting.
- vii. Less reliability.
- viii. Gestation period is very high.

4. What are the advantages and disadvantages of an ERP package ?

Ans:

a. Advantages are:

- i. Large volume of information are available through such package.
- ii. It is an integrated package so it reduces the possibility of duplication of data entry.
- iii. It is a generalised package which covers most of the common functionalities of any specific module.
- iv. Reports or ERP are standardized across industry and are generally acceptable to the user.

- v. Various reports are available in such package. These reports are standardized and generally acceptable to the user.

b. Disadvantages are:

- i. **It is less flexible:** In which user may have to modify their business procedure at times to be able to effectively use the ERP.
- ii. **Implementation is very difficult:** Many of the consultants doing the implementation of the ERP may not be able to fully appreciate the business procedure to be able to do a good implementation of an ERP.
- iii. **It is very expensive:** ERP are normally priced at an amount which is often beyond the reach of small and medium sized organisation. However, there are some ERP coming into the market which are moderately priced and may be useful to the small businesses.
- iv. **It is a very complex software:** Generally an ERP package has large number of options to choose from. Further the parameter settings and configuration market it a little complex for the common users.

The End