chapter 1. Average due Date & Account current

step for calculation

(i) Resume anyone date as base date.
(ii) Calculate no. of days /month/year from base date till each due date.
(iii) Calculate product for weighted average (Amt*days/month/year)
(iv) Average due date = $base\ date\ \pm \frac{sum\ of\ product}{sum\ of\ amount}$

Note:- 1. Starting date should be ignored while counting no. of days, due date will be including in counting no. of days.
2. Due date will be given in question. Sometimes maturity period is given for bills, in such cases add three days as Grace .
3. Due date can never be on holidays in such cases pre pone due date to a working date.
4. Following are holidays.
Sunday, 2nd October, 26th January, 15th August

Account Current

whenever any A/C (of party) is prepared along with interest detail is for each transaction such A/c are called account current.

Method :-

1. A/c current with interest column.
   A/c of party is prepared and interest is calculated from date of transaction to date of a/c current closing.
   Note:- Transaction date will be due date of such settlement.
2. A/c current with products.
   A/c current is product along with product column. Interest is calculate at closing of A/c current .

BONUS SHARE

Companies provide bonus to its existing share holder by two methods

1. By converting existing partly paid shares into fully paid up. (Bonus Call)
2. By issue of new fully paid shares.

1. Converting of existing partly shares into fully paid :- in this method the amount of call money receivable from share holder is adjusted against payable as dividend.

   " Accounting Entries "

   (i) On due of Share final Call

   Share final Call A/c Dr
   To Share Capital

   (ii) Provision for Bonus

   Free Reserve A/c Dr. (capital Res. Use realized in Cash only)
   To Bonus for equity share holder

   (iii) Bonus Adjusted against Final Call

   Bonus for equity share holder A/c Dr.
   To share capital final call

2. Issue of fresh shares :-

   Company can issue additional share to its existing shares holders without consideration subject to fulfillment of following conditions.

   (i) only fully paid shares can be issue as bonus.

   (ii) The outstanding shares must be fully paid

   In absence any instruction:- if existing shares are partly paid we will presume that call has been made and received.

   (iii) The following reserve can be used for issue of fully paid bonus share.

   (a) Capital redemption Reserve.
   (b) Securities Premium
   (c) Capital Reserve
   (d) Dividend Equity Res.
   (e) General Reserve
   (f) P&L appropriation

" Accounting Entries "

(i) Provision for Bonus

Free Reserve a/c Dr.

To Bonus for Equity Share holder

(ii) Issue of fresh Share

Bonus to Share Holder A/c Dr.

To equity Share Capital

Notes: 1. On redemption Of pref. shares

Pref. Share Capital a/c Dr.

Premium on Redemption of Pref. shares

To pref. Share holder

2. On payment of Pref. Share Holder

Pref. Share Holder a/c Dr.

To bank

3. Provision made fro pref. share Redemption

Free Reserve a/c Dr.

To Capital Redemption Reserve

4. Written off premium on Redemption of pref. share

Security Premium a/c Dr.

To premium on Redemption of pref. share

5. Interest on Debenture transfer to P&L

P&L a/c Dr.

To Interest on Deb.

PRE & POST INCORPORATION PROFIT

Pre incorporation profits means profit earned for company before incorporation of company. These profit are considered to be Capital Reserve for company . if there is pre incorporation loss , it is called capital loss to be shown in Balance sheet as loss.
if profit & loss a/c is given for Pre& post period combined, than following steps are applied for calculation of pre& post profits.

- Prepare trading accounts for whole period.
- Prepare Profit & Loss account for Pre & post period. All income and expenses should be split in pre & post period using appropriate Ratios.
  Note: 1. Ratio for apportionment can be time Ratio, sales ratio or any other ratio given in question.
  2. Following items should be split using Sales ratio.
  Gross Profit, Selling Expenses, Commission, Discount
  freight outwards , Bad debts
  3. Following items are split using time ratio
  salary, Rent, Interest, Office exp. , Printing, stationery ,audit fees
  4. Following items are either pre or post
  Post:- director salary, deb. Int., company exp., pro. For tax,
  proposed dividend, auditor fees
  Pre:- partner interest on capital, salary to partner
  5. Sales ratio is calculated on the basis of sales in pre period and sales in post period.
  6. Presentation in Balance sheet.

Capital Reserve (pre profit) P&L (post profit)	Loss (pre loss)

INSURANCE CLAIM

Types of insurance claim

(i) Loss of stock (ii) Loss of profit

(i) Loss of Stock:- when stock is destroyed by fire tec. Than in order to calcu late the insurance claim. We first prepare Memorandum Trading a/c to ascertain the stock on the date of fire involved.

step 1. Calculation of gross profit ratio of previous year.

$$GP\ ratio = \frac{GP}{net\ sales} \times 100$$

step 2. For this we prepared trading a/c OR a/c of previous year and get GP ratio. If there are more than one year we have to calculate Average GP ratio.

Opening and closing stock are always to be taken at Original Cost .

Step 3. Insurance Claim

stock on the date of fire		xxx
add:- fire fighting expenses		xxx
Less:- stock salvage		(xxx)
	loss by fire	xxx

$$claim = \frac{Loss\ by\ fire}{stock\ on\ the\ date\ of\ fire} \times policey\ amount$$

Note :- 1. यदि बीमित राशि (Insured amount) बीमा योग्य राशि (Insurable amount) से अधिक है तो सम्पूर्ण दावा स्वीकार करेगें।

2. Average clause :- यदि बीमित राशि (Insured amount) बीमा योग्य राशि (Insurable amount) से कम है तो दावा निम्न प्रकार से स्वीकार करेगें।

$$claim = \frac{insured\ amount}{insurable\ amount} \times Loss\ of\ stock$$

असामान्य मद का लेखा (Accounting of Abnormal items)

असामान्य मदः– ऐसा माल जिसकी बिक्री कम हो रही है या जिसको लागत मूल्य से कम पर बेचा जा रहा है।

(i) ऐसे माल का जितना मूल्य अपलिखित (Written down) किया गया है उसे उस अवधि के closing stock में Add करेगें।

(ii) ऐसे माल को जिस अवधि में बेचा जा रहा है, उस अवधि opening stock में से सम्पूर्ण लागत घटा देगें तथा ऐसे माल के बिक्री की राशि को sales में से Less करेगें।

"Loss of profit "

1. Calculation of short sales

sale of indemnity period for last year		xxx
(आग लगने से पहले का वर्ष, अगर आग 15.6.14 को लगी है तो 16.6.13 से 15.6.14)		
Add:- Increase (if any)		+++
less:- Sale of indemnity period current year		- - -
	short sales	xxx

2. calculation of gross profit Rate

$$GP\ Ratio = \frac{Net\ profit + insured\ standing\ charged}{net\ sales} \times 100$$

3. (a) Loss of stock = short sales × GP Rate

(b) claim for additional exp. (Whichever is lower)

(i) Actual additional exp.

(ii) GP on additional sales

(iii) $\frac{Expenditure + GP\ on\ adjusted\ turnover}{GP\ on\ adjusted\ Turnover + uninsured\ standing\ charged}$

Gross Claim = a+b

4. Calculation of insurable amount

sale of 12 month before date of fire		xxx
Add:- Increase (if any)		+++
	adjusted sales	xxx

Insurable amount = adjusted sales × GP Rate

5.Calculation of total loss of profit

Gross claim	xxx
less: goods salvage	- - -
	xxx

6. Amount of claim $= \frac{Insured\ amount}{insurable\ amount} \times$ gross claim

Note:- यदि Additional Exp. के द्वारा बिक्री के बारे में कुछ नही दिया हुआ है तो इस वर्ष क्षतिपूर्ति अवधि के दौरान हुई बिक्री को मानेगें।

Self balancing ledgers

there are there ledgers

1. Debtors ledger OR Sales ledger:- it has account of each customer.
2. Creditors ledger OR purchase Ledger:- It has account of each suppliers.
3. General Ledger :- It has all the balance account ex. Capital, Res&surplus, B/R, B/P, sales , purchase, expenses, fixed assets a/c.

Self balancing of ledger :-in this method all the three ledger are made independent by preparing following adjustment a/c.

1. In general ledger
   (i) Debtor ledger adjustment (Total Debtor a/c)
   (ii) Creditor ledger adjustment (Total creditor a/c)
2. In Debtors ledger a/c
   (i) general ledger adjustment a/c (opposite of Total Debtors a/c)
3. In creditors ledger a/c
   (i) general ledger adjustment a/c (opposite of Total Creditors a/c)

Debtors ledger adjustment account in general ledger

To Bal b/d (dues from customers in the beg.)	By bal b/d (advances from customer in the beg)
To General ledger adjustment a/c	By General Ledger adjustment a/c
credit sales	Cash (Received)
B/R (Dishonored)	Bank (cheque received)
Bank (cheque dishonored)	B/R (drawn)
Interest & cartage charged	Return inwards (sales return)
B/R (cancelled upon Renewal)	Discount allowed
Discount (disallowed)	Rebate & Allowances
Creditors (Endorsed B/R Dish)	Bad Debts
To Bal c/d (Advances from customer at the end)	Transfer to creditors
	By Bal c/d(dues from customers at the end)

Creditors ledger adjustment account in general ledger

To Bal b/d (Advances to suppliers in the beg.)	By bal b/d (Due to suppliers in the beg)
To General ledger adjustment a/c	By General Ledger adjustment a/c
Cash (paid)	Credit Purchase
Bank (cheque issued)	Cheque dishonored
B/P (accepted)	Endorsed B/R (dishonoured)
B/R (Endorsed)	Interest & cartage (charged by supplires)
Return outwards (Purchase Return)	B/P (withdrawn)
Discount Received	Discount returned
Rebate & allowances	
Transfer from Debtors ledger	
To Bal c/d (Due to suppliers at the end)	By Bal c/d(Advances to suppliers at the end)

INVESTMENT ACCOUNT

Investment are broadly classified in two categories
1. Short term investment OR Current Investment
2. Long Term Investment OR Permanent Investment

The other classified of investment based on Return are :-
(i) Fixed interest bearing investment ex. Debenture , Bonds etc.
(ii) Equity Investment

<u>EX- Interest & Cum Interest</u>

In case of fixed interest bearing interest whenever they purchase or sold the amount to be paid or received is not only for the investment but also the accrued interest.
if question is excluding interest then it is ex-interest price and therefore interest has to be paid separately.
if the market quotation is including accrued interest than it is called cum interest price.

" Accounting Entries "
(i) On purchase of investment
Investment a/c Dr. (Net Cost)
Interest a/c Dr. (Interest)
To Bank (Total Payment)

(ii) On received of interest
Bank a/c Dr.
To interest on investment

(iii) Sale of investment
Bank A/c Dr. (Total amount)
To investment a/c (Net sales)
To interest a/c (Interest)
(iv) profit or loss on sale of investment

in case of profit	in case of loss
Investment A/c	P&L a/c Dr.
To P&L	To investment

Notes:-

1. Investment means assets held for earning income or for capital appreciation excluding stock.
2. Investment can be current investment or long term investment.
   current investment means investment held for sale within 12 months.
   Long term investment means investment other than current investment.
3. Investment should recognised in books of account at

Purchase Price	xxx
Add: Taxes on purchase	xxx
Add: legal expenses(stamp duty)	xxx
Add: Expenses on purchase (comm..)	xxx
Less: pre acquisition dividend	(xxx)
Less: sale of rights	(xxx)
Cost of investment	xxx

4. Valuation of investment
   current investment should be valued at cost price or fair value, whichever is lower. Where fair value means market price or expected market price of Invst. Long term investment should be valued at cost price only. However is there is permanent declining than provision for decline should be made.
5. Investments should be disclosed in financial statements after fixed assets in B/S. its profit or loss on sale should be recognised in P&L a/c.
6. For the purpose of sale of investment entity can be used.
   1st – weighted average method OR
   2nd – FIFO method
7. If weighted average method applied cost is calculated as follow.
   $$\frac{purchase\ of\ all\ invest - pre\ acq.dividen - sale\ of\ rights}{total\ face\ value\ of\ investment} \times closing\ face\ value$$
8. If FIFO method is applied , than cost of remaining investment is considered.

"Accounting Treatment"

investment for accounting purpose can be two types.

(i) Interest bearing investment

(ii) Dividend bearing investment

<u>Interest</u> <u>bearing</u> <u>investment</u>

following investment a/s is prepared for interest bearing investment

Investment A/c

Particulars	Face value	Interest	Amount	Particulars	Face value	Interest	Amount
To Bal B/d				By bank (sale)			
To Bank (pur)				By Bank (Int)			
To P&L (B.f.)				By P&L (B.f)			
				By Bal c/d			

* value of investment on purchase of investment

Purchase price (Ex-interest)	xxx
(+) Taxes/exp on purchase	+++
value	xxx

* commission is always calculated on quotation given in the question.
if Ex-int price given in the question than comm. Calculated on Ex-int.
if Cum-int price given in the question than comm. Calculated on Cum-int.

* value of investment on sale of investment

sale price	xxx
(-) Commission	- - -
value	xxx

* P&L sale of investment is not calculated.

<u>DIVIDEND</u> <u>BEARING</u> <u>INVESTMENT</u>

Whenever have earning in from of dividend than following investment a/c is prepared.

INVESTMENT A/C

particulars	Face value	dividend	Amt.	particulars	Face value	dividend	Amt.
To Bal b/d	**xxx**	-	xxx	By Bank (sale)	xxx	-	xxx
To Bank (pur)	**xxx**	-	Xxx	By Bank (divid.)			
To Bonus share	**xxx**	-	-	Pre Acq.	-	-	Xxx
To P&L	**-**	xxxx	xxx	Post Acq.	-	xxx	-
				By Bank (sale of rights)	-	-	Xxx
				By P&L		xxx	Xxx
				By Bal c/d			

Notes :-

1. Pre. Acquisition dividend is recovering of excess amount paid on purchase of investment.
   if (i) dividend for period
   (ii) is relating to before Acquisition
   than it is called pre acquisition dividend.
2. Whenever dividend cannot be identified , assume it is to be Post Acquisition Dividend.
3. Sale of rights is assumed to be recovering of extra amount paid on purpose of investment. Sale of rights does not effect no. of shares.
4. Bonus share are given by company free of cost hence do not effect amount column.
5. If question is salient on method, use weighted average method for valuation.

"Accounts for incomplete records / Single Entry "

Single entry is not any system its represents information and records, which are not properly kept. It reflect incomplete records.
for such incomplete records we can
(i) Convert them into final a/c OR (ii) Calculation of profit

(i) <u>Conversion of incomplete records into final A/c</u>
whenever incomplete information is processed in such way that final account gets prepared such procession is called conversion of incomplete records .
it involved 7 rules.

1. All information gathered by accountant should be processed <u>two times</u>
   journal entries should be made for information.
   if any item is difficult to be posted than prepared its account.
   following a/c are generally prepared.
   (i) Debtors / BR a/c
   (ii) Creditors / BP a/c
   (iii) Old Balance sheet
   (iv) Current Balance sheet
   (v) Current Trading and P&L a/c
   (vi) Fixed Assets a/c (if required)
   (vii) Expenses a/c (if required)
   (viii) Cash & Bank a/c
   <u>Note</u> :- Debtors and BR a/c are connected to each other and Creditors and BP a/c are connected to each other hence they should closed each with case.
2. Sometimes GP Ratio of entity is given
   $GP\ Ratio = \frac{GP}{sales} \times 100$
   This ratio is used to calculate sales OR cost of goods sold.
   ¼ sales means 1/3 of cost and 1/7 cost means 1/8 of sales

   <u>Note</u> (i) if there is any difference in cash or bank a/c than it should be related missing value. If cash&bank can not be related , assume capital introduced or Drawing.
   (ii) if question gives information of (a) cash , (b) Bank prepare separate a/c but if question gives cash&bank , than prepare single Cah&bank a/c
3. Sometimes questions gives us tallied a/c, information from such tallied a/c should be posted <u>once</u> . do not prepare tallied a/c again in solution.

4. Sometimes in any question values are missing for certain transaction. If value are to be find out, they should be processed by using given information. Generally such information is supported by any relation with values.
5. Sometimes question gives certain ratio to based on which missing should be calculated . ratio can be like current ratio, liquidity ratio etc.
6. Whenever farmers are required to make their accounts following are special features.

   (i) Badli Worker :- these workers do not take consideration in cost. But take produce as their remuneration. (journal entry)

   Expenses A/c Dr.
   To Sales
   (being exp. & sales recorded)

   (ii) Captive consumption:- it means own consumption of captive consumption

   Drawing a/c Dr.
   To sales
   (being goods captive consumption)

   (iii) Captive labour:-it means at time labour is required at farm and family member work at farm.

   Labour a/c Dr.
   To capital
7. If question information about debtor collection(lag period) or creditors collection period (lag period) than we should calculate amount of sales or purchase based on lag .

   Debtors lag period

   $$collection\ period = \frac{amount\ of\ sales\ (credit\ sales)}{closing\ debtors}$$

   if closing debtors are given along with lag period than

   credit sales= closing debtors×lag period

   Creditors lag period

   $$creditors\ lag\ period = \frac{amount\ of\ purchase\ (credit\ purchase)}{closing\ credtiors}$$

   if closing creditors are given along with lag period than

   credit purchase= closing creditors× lag period

   Note:- creditors lag period should not used for calculation of purchase of previous year since it represents current purchase only.

II **Calculation of profit from incomplete records**

If profit is to be calculated without preparing trading and P&L a/c than following steps are applying

step 1. Prepare opening Balance sheet / statement of affairs from available information.

step 2. Prepare closing Balance sheet/ statement of affairs from available information.

All assets should be recorded at Cost Price.

Step 3. Prepare capital A/c

To Drawing	xxx	By bal c/d	xxx
To bal c/d	xxx	By net profit (b.f)	xxx

Not for profit organisatioin

NPO means those entities whose objective is not to earn profit but to attain their defined goals. Such orgnisation have objective ton serve society at large.
Example of NPO:-
Bill& Milenda gate foundation, Ajim Premji educational trust, ICAI

NPO use <u>fund based</u> accounting on grants received .
following aspects are to be covered.
1. Fund based Accounting
2. Final accounts of NPO
   (a) Income & Expenditure A/c / statement of activities
   (b) Receipts and Payments A/c
   (c) Balance Sheet

1. **<u>Fund Based Accounting</u>** :-fund means profit accumulated with specific objective.
   Journal Entries
   (i) On receipt of grants with specific objectives
   Bank a/c Dr.
   To Specific fund
   (Being grants received)
   (ii) For purchase of investments
   Investment a/c Dr.
   To Bank
   (Being investment purchase)
   (iii) On receipt of interest
   Bank a/c Dr.
   To specific fund
   (being amount transferred)
   Note:- All income from specific fund will be transferred to specific fund.
   (iv) On sale of investment
   Bank a/c Dr.
   To Investment
   (being investment sold)
   Note:- profit or loss on sale of investment will be transferred to fund a/c
   (v) On purchase of assets as per specific fund restriction
   Assets a/c Dr.
   To Bank

(being assets purchase)

(vi) specific fund transferred into general fund

Specific fund a/c Dr.

To general fund

(being amount transferred)

Note:- general fund means grants but where restriction are existing. It is also called capital fund .

Example:- A NPO received required grant of 5,00,000 for purchase of equipments and 2,00,000 for purchase of furniture. NPO incurred 4,00,000 on equipment and 1,80,000 on furniture. NPO maintain general fund. Journalise.

Solution (i) Bank a/c Dr. 7,00,000

To equipment fund 5,00,000

To furniture fund 2,00,000

(being amount received in fund)

(ii) Equipment a/c Dr. 4,00,000

furniture a/c Dr. 1,80,000

To Bank 5,80,000

(Being assets purchased)

(iii) Equipment fund a/c Dr. 4,00,000

Furniture Fund a/c Dr. 1,80,000

To General fund 5,80,000

(being amount transferred)

statement of funds

Particulars	Equipment fund	Furniture fund
Grant received	5,00,000	2,00,000
Less:- expended	(4,00,000)	(1,80,000)
Closing balance	1,00,000	20,000

Balance sheet of NPO

General fund	5,80,000	Furniture	1,80,000
Equipment fund	1,00,000	Equipment	4,00,000
Furniture Fund	20,000	Bank	1,20,000

Example 2:- A NPO received grants for building . Govt. Grants 6,00,000 and private grants 2,00,000. It purchased investment for 5,00,000 . it earned received on investment 40,000. Sold investment 5,00,000 for 5,50,000. Purchased building 5,75,000.

Solution:- (i) Bank a/c Dr. 8,00,000

To building Fund 8,00,000

(ii) Investment a/c Dr. 5,00,000
To Bank 5,00,000
(iii) Bank a/c Dr. 40,000
To building fund 40,000
(Being interest received & transferred to building fund)
(iv) Bank a/c Dr. 5,50,000
To Building fund (b.f) 50,000
To investment 5,00,000
(v) Building a/c Dr. 5,75,000
To Bank 5,75,000
(vi) Building fund a/c Dr. 5,75,000
To General fund 5,75,000

Example 3 opening Bal. of building fund 5,00,000. Grants received for building 7,00,000. Income from investment 80,000. Building purchased 10,00,000. prepare building fund account

Solution:- Building fund A/c

		By Bal B/d	5,00,000
To general fund	10,00,000	By Bank	7,00,000
To Bal c/d	2,80,000	By bank (income)	80,000

Example 4. ICAI have following opening bal. building fund 20,00,000 represented by bank 4,00,000 and 12% investment 16,00,000.

It received 15,00,000 during the year from members for building fund. It was constructing building 12,00,000 expended in last year which was unpaid in last year. During the year it further incurred 7,00,000 construction and it paid 19,00,000 to construction. Building was completed at year end. Journalise

solution :- (i) Bank a/c Dr. 15,00,000
To building fund 15,00,000
(ii) Building under construction a/c dr. 7,00,000
To contractor 7,00,000
(iii) Contractor a/c Dr. 19,00,000
To Bank 19,00,000
(iv) Building a/c Dr. 19,00,000
To building under construction 19,00,000
(v) Bank a/c Dr. 1,92,000
To building fund 1,92,000 (16,00,000*12%)
(being interest received)

Note:- for understand this question make opening balance sheet)

Fund based accounting – Expenses fund

these are grants received for meeting certain expenses. These grants are to be used for payment of certain objectives based expenditure for example.

(a) Prize distribution (prize fund) (b) Seminar exp. (seminar fund)
(c) Research Exp. (Research fund (d) Tournament exp (tournament fund)

" **Journal Entries** "

(i) on receipt of grant

Bank a/c Dr.
To Exp. Fund
(Being amount received)

(ii) on purchase of investment

Investment a/c Dr.
To bank
(Being investment purchase)

(iii) on receipt of income from investment

Bank a/c Dr.
To Expenses fund
(being amount received on investment)

(iv) on sale of investment

Bank a/c Dr.
To investment
(being investment sold)

Note:- Any profit or loss will be transferred to expenses fund.

(v) On payment of Expenses

Expenses fund a/c Dr.
To Bank
(Being expenses fund used for Expenses)

Example:- following balance are appearing in trail balance of ICAI.
prize fund 10,00,000(Cr.), Prize fund Investment 7,00,000 (Dr.), Int. on prize fund 20,000 (Cr.), prize distributed 2,00,000 (Dr.), Bank 1,20,000 (Dr.)

Solution:- Balance sheet

Prize fund	10,00,000	Prize fund investment	7,00,000
Add: Int. on prize fund	20,000	Bank a/c	1,20,000
Less: prize distributed	(2,00,000)		
	8,20,000		8,20,000

3. **Subscription**

every NPO receive subscription from its members. Which is not grant but contribution by members to NPO. These funds are without any restriction and are paid by members annually. following subscription a/c is prepared

Subscription A/c

To bal b/d (outstanding)	xxx	By bal b/d (advance received)	xxx
To income & expenditure	xxx	By Bank	xxx
To Bal c/d (Advance received)	xxx	By Bal c/d (outstanding)	xxx

4. **Accounting treatment of Entrance fees**

(i) It may be treated exclusively as Revenue receipt and thus, be credited to Income &Expenditure a/c.

(ii) It may be treated exclusively as Capital receipt and thus , be added to capital fund a/c

(iii) Some portion of entrance fees (40%) may be treated as a Revenue receipt and thus, be credited to Income & Expenditure a/c and remaining portion (60%) may treated as a Capital fund.

5. **Accounting Treatment of Donations and Legacies**

(a) General donation:- these donation are treated as revenue receipts, are credited to Income & Expenditure a/c

(b) Specific donation:- these donations are treated as Capital receipts and thus, are transferred to a 'special fund a/c' maintained for purpose . any income related to such specific fund a/c added to respective fund. any expenditure relating to such specific fund a/c deducted from the respective fund.

6. **Expenses**

Expenses A/c

To bal b/d (Advance received)	xxx	By bal b/d (outstanding)	xxx
To Bank	xxx	By income & expenditure	xxx
To Bal c/d (outstanding)	xxx	By Bal c/d (Advance received)	xxx

7. **Income**

Income A/c

To bal b/d (outstanding)	xxx	By bal b/d (advance received)	xxx
To income & expenditure	xxx	By Bank	xxx
To Bal c/d (Advance received)	xxx	By Bal c/d (outstanding)	xxx

Expenses

	outstanding	prepaid
Current year	Add	Less
previous year	Less	Add

Income

	Accrued (Arrear)	Unearned (Rec. in advance)
Current year	Less	Add
previous year	Add	Less

Balance sheet

Outstanding Unearned	Prepaid Accrued

How to prepare Final account of NPO

Final a/c of NPO includes
(i) Income & Expenditure a/c
(ii) Receipts & payment a/c
(iii) Balance sheet opening & closing

- All balance given in tallied a/c , should be posted <u>once.</u> All adjustments should be adjusted <u>Twice.</u> Receipts and payment a/c should be prepared only if required in question.
- If NPO has any trading activity than such trading activities should by reported in separate trading a/c. such profit or loss will be transferred to Income& Expenditure a/c. example of trading activities can be canteen, sports shop, book shop etc.
- Entrance fees can be either transferred to Income & Expenditure a/c OR shown in Balance sheet.
- Donation will be capitalised if required in question. Capitalisation means to shown in Balance sheet.
- Assets a/c will be prepared if it has adjusted .
- Expenses a/c can be prepared if it has adjustment.

Accounting treatment of Specific Items

Items	Accounting treatment
1. Subscription	Credited to Income & Exp. A/c
2. Life membership fees	Added to Capital fund
3. Entrance fees	Added to Capital fund
4. Amount of consumable item (ex. Stationery , sports)	Debited to Income & Exp. A/c
5. (a) profit on sale assets	Credited to Income & Exp. A/c
(b) loss on sale assets	Debited to Income & Exp. A/c
6. Sale of old materials	Credited to Income & Exp. A/c
7. Sale of newspapers	Credited to Income & Exp. A/c
8. Depreciation	Debited to Income & Exp. A/c
9. General donations	Credited to Income & Exp. A/c
10.Specific donations	Transferred to specific fund a/c
11.General Aids	Credited to Income & Exp. A/c
12.Specific Aids	Added to Capital fund
13. Interest on general fund investment	Credited to Income & Exp. A/c
14. Interest on specific fund investment	Added to respective fund.

Note :-

The following items appearing in the Receipts & Payment a/c are not shown in the Income & Expenditure a/c

(a) Opening and closing Balance of Cash & Bank

(b) Capital Receipts

(c) Capital payment

(d) Expenses paid for the previous year OR following year

(e) Income received for the previous year OR following year

CASH FLOW SATATEMENT (AS-3)

Cash flow statement means a statement which reports flow of cash and cash equivalent . this report is prepared as part of final account.

Methods of cash flow preparing

(i) Cash flow from cash accounts . (Direct Method)

(ii) Cash flow from balance sheet. (Direct method+ indirect method)

(iii) Cash flow from Two balance sheet. (Indirect method)

Format (Direct method)

Cash flow statement

Cash flow from operating activities	xxx
Cash flow from Investing activities	xxx
Cash flow from Financing activities	xxx
Total	xxx
Add:- opening bal. of cash & cash equivalent	xxx
closing balance of Cash & Cash equivalent	xxx

<u>Cash</u> <u>flow</u> <u>from</u> <u>operating</u> <u>activities</u> :- it means flow of cash and cash equivalent from principal revenue generating activities and incidental items. For example

cash collected from Debtor

cash paid to creditors

cash paid for expenses

Note:- payment of income tax is considered to be cash flow from operating activities

<u>Cash</u> <u>flow</u> <u>investing</u> <u>Activities</u> :- it means cash & cash equivalent arising from flow of cash from fixed assets and investment . its include income arising from disposal of fixed assets and investment. For example

sale & purchase of fixed assets

sale & purchase of Investment

Dividend Income

Interest Income

<u>Cash</u> <u>flow</u> <u>from</u> <u>financing</u> <u>Activities</u> :- it means flow of cash and cash equivalent arising from capital & loan. It also includes service cost of capital and loan. Loan means loan borrowed short term, long term, secured , unsecured , Bank overdraft as considered as loan as per AS-3. For example

Issue of share capital

Buy back of share capital

Loan raised
loan repaid
Dividend paid
Interest paid

Cash & cash equivalent:- its include Bank balance (Not overdraft), short term investment releasable in 3 months, these investment are called marketable investment.

Cash flow can be prepared from 3 source of information

(i) By combing cash a/c (not yet asked in examination)
(ii) By analysing Balance sheet and P&L a/c
(iii) By analysing Balance sheet only

(II) CFS from 2 balance sheet and P&L a/c

cash flow can be prepared by analysis of a/c, appearing in 2 balance sheet and P&L for this purpose account are required to be prepared and find out flow of cash.

Following account are to be prepared

(i) Fixed assets a/c (By gross method OR By net method)
(ii) Investment a/c
(iii) provision for taxation a/c
(iv) proposed dividend a/c with unpaid dividend
(v) current assets A/c (Debtors, BR, Stock)(Note Cash & Bank a/c are not prepared)
(vi) Loan a/c
(vii) Reserve & Surplus a/c
(viii) Current Liabilities A/c (Creditors, BP)
(ix) Share capital a/c

<u>How to prepare Fixed assets account</u>

this account to be prepared by any of following method

(a) Gross Method (b) Net method

whenever Opening & closing Bal. of accumulated depreciation is available , than prepare gross method a/c otherwise prepare net method account.

(a) Gross Method

Fixed assets a/c

To Bal b/d To Bank (purchase) To revaluation (Profit)	By assets Disposal a/c (Cost of assets sold) By Revaluation (loss) By Bal c/d

Depreciation fund/ Provision for Dep./ accumulated Dep. a/c

To assets Disposal a/c (Dep. Of assets sold) To Bal c/d	By Bal b/d By Dep. (P&L)

Assets Disposal A/c

To fixed assets a/c To P&L (profit on sale of fixed assets)	By Accumulated Dep. a/c By Bank By P&L (Loss on sale of fixed assets

Note :- 1. If date of sale & purchase is missing , assume 1st day of year

2. If dep. Rate is given and all sale& purchase is on 1st day of year, then

Dep. Is calculated as follow Dep.= $\frac{Closing\ Bal.}{100-Dep.Rate} \times$ Dep. Rate

(b) Net method

Fixed assets A/c

To Bal b/d To Bank (purchase) To Revaluation profit To P&L (profit on sale)	By Revaluation Loss By Depreciation By Bank (Sale) By P&L (Loss on sale) By bal c/d

(ii) Provision for taxation a/c

To Bank (tax paid) To bal c/d	By Bal b/d By P&L (new provision made)

Note:- In absence of information we assume Bal b/d paid this year and Bal c/d provision made for current year.

(iii) Proposed dividend a/c

To Bank (dividend paid) To unpaid dividend To Bank (interim dividend) To Bal c/d	By Bal b/d By P&L (proposed dividend)

Unpaid dividend a/c

To Bank To Bal c/d	By Bal b/d By proposed dividend

(iv) Investment a/c

To Bal b/d To Bank (purchase) To P&L (profit on sale)	By Bank (sale) By P&L (loss on sale) By Bank (pre acquisition dividend) By Bal c/d

Note:- 1. Pre acquisition dividend is considered to be recovery of cost of investment as per AS-13

2. Post acquisition dividend is shown as inflow in CFIA and P&L as income.
3. If question is silent, we assumed dividend is received as Post Acq dividend

(v) Share capital a/c

To Bank (if share capital redemption) To bal c/d	By Bal b/d By Bank (public issue) By P&L (bonus issue)

Note:- 1. Security premium is shown as cash inflow from financial activities

2. If any premium is paid on redemption of Pref. share capital, than it shown as CFFA outflow and shown in P&L appropriation.

(v) Debenture a/c

To Bank (Redemption) To bal c/d	By Bal b/d By Bank (issue)

Note:- premium on redemption is as shown as CFFA outflow and is charged inP&L as expenses.

(vii) P&L appropriation a/c

To General Reserve To premium on pref share To Interim dividend To capital Redemption Reserve To proposed dividend To Bal c/d	By Bal b/d By Net profit

Note:- 1. Always prepare combined expenses a/c i.e. prepaid expenses and outstanding expenses should prepaid combined.

(III) Cash flow from 2 Balance sheet Only

1. Indirect method , we don't need P&L account.
2. Cash flow from operating activities can be calculated by indirect method. Cash flow From IA & FA can be calculated by direct method only.
3. Account which give operating flow are not prepared it means following account are not prepared.
   (i) Debtors , BR a/c
   (ii) Creditors, BP a/c
   (iii) Stock a/c
   (iv) Expenses O/s, prepaid a/c
4. Cash flow from operating activities is calculated as follow

Net profit	xxx
less :- Non operating Income	
profit on sale of Fixed assets	
interest income	
Dividend income	
Add:- Non operating / non cash Exp.	
Loss on sale of Fixed assets	
Depreciation	
Goodwill written off	
profit before change in working Capital	xxx
(+/-) change in debtors/ BR, stock	
(+/-) Change in Creditors/BP	
(+/-) change in outstand exp.	
Cash profit before Tax	xxx
(-) Tax paid	
cash flow from operating activities	xxx

AS-1 Disclosure of Accounting polices

1. Accounting polices means specific accounting principal and methods of applying such principal in preparation and presentation of financial statement .
   Note:-(i) Financial statement means , Income statement, Cash flow statement , Balance sheet and note to accounts.
   (ii) Principal means defined solution to defined problems.
2. Example of accounting policies
   (i) Valuation of stock at lower of cost or market price
   (ii) charging of Depreciation on assets
   (iii) methods of Depreciation
   (iv) treatment of Goodwill
   (v) treatment of investment valuation
   (vi) Treatment of foreign exchange
   (vii) treatment of borrowing cost (interest)
3. All accounting policies , significant in nature should be disclosure at one place. If any policy is not material , disclosure is not required.
4. Following are fundamental accounting assumption.
   (i) **Going concern:**- it means that business would continue for foreseeable period. There is no necessity or decision to curtail of entity.
   Example:- plant 1,00,000 life 10 years, scrap 10,000 cal. Dep for first year.
   Solution:- 9,000 on the assumption that business would continue 10 year.
   (ii) **Consistency:-** it means is always assumed that some accounting polices would be followed every year.
   Example:- plant 1,00,000 life 10 years, scrap 10,000 cal. Dep for second year.
   Solution:- 9,000 on the assumption of going concern.
   on the assumption of consistency.
   (iii) **Accrual Assumption:-** it is assume that entity record all income & exp. on period basis. They are not recorded on payment basis.
   example. In Trail Balance following balance. Salary 1,00,000. O/S 10,000
   Solution:- in P&L salary 1,00,000 add:- o/s and in B/S show o/s in liab. Side.
5. Fundamental accounting assumption should not be disclosure, if followed. They should be disclosure , only if not followed.
6. Change in accounting policy whenever any policy is changed, following disclosure are required – (i) Old policy (ii) New policy (iii) Reason of changing policy (iv) impact of such changes on current year and future year
   following are reason of changes
   (i) To comply with law (ii) to comply with AS (iii) for better presentation.

AS-2 Valuation of Inventory

1. This AS is mandatory in nature for entities.
2. Inventory:- its means assets (a) held for sale in ordinary course for business (b) in process of production(W.I.P),(c) in form of Raw material held for consumption.
3. Exclusive from AS-2
   (i) under construction/constructed building of any builder/ real state Developer .
   (ii) stock of shares and Debenture held by brokers.
   (iii) Service provider example CA, Doctor
   (iv) Natural Recourse like live stock
4. Valuavtion of finished goods/W.I.P
   value= lower of cost price OR net realisation value
   Note:- (i) lower will be selected on item by item basis
   (ii) cost price will be either

cost techniques
- (a) Calculated Or (3rd preference)
- (b) Identical using standard cost OR (1st preference)
- (c) Identical using Retail price method (2nd preference)

Example 1 HUL ltd. Has stock of shampoo of 100 packets. Standard cost as per CWA is Rs. 50 per packet. Find out cost of stock

solution:- Actual Cost (3rd pref.)– not given in question
Standard cost (1st pref.) - 50
Retail cost (2nd pref.)– not given in question

stock=100*50 =5000
NRV= not given
lower = 5000

example 2 HUL ltd. Has stock of 100 packets of shampoo. Its retail price is Rs. 90 per packet. GP rate is 25% of sales.

solution:- Retail price= 90 , Gross profit= 22.5 (25% of 90)
cost= 90-22.5= 67.50

value=67.50*100 =6750
NRV= 90*100
lower = 6750

(iii) how to calculate cost price of stock

direct material cost	xxx
add:-cost of conversion	
direct labour	
variable production overhead	
fixed production overhead	
add:- Other cost	
Total cost of production	xxx
÷ No. of units	xxx
cost per unit	xxx

Example:- HUL manufacture Lux shampoo in the month of march it produced 1,00,000 packets of shampoo.

Direct material of chemical consumed	6,00,000
Direct labour used in shampoo	2,00,000
Indirect material (Bottle)	1,00,000
Fixed production overhead (March)	2,50,000
Transport cost to stores	50,000
Assume normal production	1,20,000

calculation cost per unit

Solution valuation of stock – (March lot)

Direct material of chemical consumed	6,00,000
Direct labour used in shampoo	2,00,000
Indirect material (Bottle)	1,00,000
fixed production overhead	208333

$$\left\{\frac{overhead}{normal\ production} \times Actual\ production, = \frac{2{,}50{,}000}{1{,}20{,}000} \times 100000\right\}$$

Other cost	50000
Total cost	1158333
÷ no. of units	1,00,000
cost per uint	11.58

(iv) fixed production will be taken in actual cost on recovery basis.

Overhead Recovered= $\frac{Fixed\ production\ overhead}{normal\ production}$ ×rate×units production

if actual production is very high, than take actual production as dominator

Overhead Recovered= $\frac{Fixed\ production\ overhead}{actual\ \ production}$ ×rate×units production

(v) Cost of Direct material should includes

Purchase price	xxx
add:-Taxes on purchase	
Commission on purchase	
Freight	
less: Trade discount	xxx
Direct material	xxx

(vi) following cost are not include in stock

(a) Abnormal loss due to fire etc.

(b) storage cost (godown cost)

(c) Borrowing cost

(d) Office Administration Cost

(e) Selling & distribution Expenses

(vii) Cost formula

(a) if stock in hand is unique , not similar to each other, than use specific identification method . for example Concept Car of Honda.

(b) If stock in hand is similar, than use general identification method (lot based valued) we can use FIFO or weighted Average for stock val.

(viii) Net realisable Value

NRV=expected selling price – expected selling exp. – expected cost of completion

expected means management estimate . such estimate can be, made due to contract received. It can be general price also.

5. <u>Valualtion of raw material stock</u>

stock of raw is value at cost price only, if Finish goods in which such raw materail is to be applied, is expected to be sold at cost price or above.

stock of raw material is valued at cost price OR replacement price whichever is lower.

If Finish goods in which such materail is to be applied is expected to be sold below cost price.

6. <u>Disclosure requirment</u>

(i) Accouting policey of valuation

(ii) value of stock in financial statement

Note:- how to treat normal/ abnormal loss

value of abnormal loss=$\frac{Cost\ of\ production}{Total\ inputs - normal\ loss}$

AS-6 Depreciation Accounting

1. This AS is mandatory for all entnties.
2. Depreciation is systematic allocation of depreciable value of depericable Assets , written off over useful life of assets, irrespective of actual use, using appropriate method.
3. Meaning of depreciable assets:- those assets which have limited life but life more than one year and assets is held for use in production of goods/ services, adminstratve use, rental.
   example :-

No.	Assets	Life more than one year	Limited life	Held for use in production
1.	Car	yes	yes	Yes
2.	Car given in Rent	yes	yes	Yes
3.	Investment in share	-	-	No
4.	Furniture	yes	yes	Yes
5.	Car held for stock	-	-	X
6.	Building	yes	yes	Yes
7.	Immovable property	yes	yes	No
8.	Vacant building	-	-	x
9.	Gold	-	-	X

4. **Meaning of depreciable value** :-depreciation is always calculated in such manner that its sum total is equal to depreciable value.
   Depreciable value= cost price – estimated scrap price
   example:- calculate depreciable amount and Dep of Car.
   cost price 1,00,000 scrap value 20,000 life 5 years
   Solution:- Dep. $=\frac{1,00,000-20000}{5} = 16000$ Depreciable amount=1,00,000-20,000=80,000
   Example:- Calculate Dep. And depreciable amount of Car.
   cost price 1,00,000 , Dep rate 30% WDV. Life 5 year
   Solution:- Calculation of dep.

1st year dep.	2nd year	3rd year	4th year	5th year	Total depreciable amt.
30,000	21,000	14,700	10290	7203	83,193

5. Systematic allocation means any method of charging depreciation, which gives systematic expenses on assets. There are two methods of systematic allocation.
   (i) Straight line method (SLM)
   (ii) Written down method (WDV)
   generally entities apply WDV method for Plant, machinery, furniture and SLM method for building.

Formula

$$SLM=\frac{Cost\ price-scrap\ value}{useful\ life}$$

$$WDV=1-\left(\frac{Scrap\ value}{cost\ price}\right)^{\frac{1}{life}}$$

example cost price 1,00,000 , scrap value = 10,000 life = 5 year

solution $SLM=\frac{1{,}00{,}000-10{,}000}{5}=18000$

WDV since Rate is missing it should be calculated

$$WDV=1-\left(\frac{Scrap\ value}{cost\ price}\right)^{\frac{1}{life}} \qquad 1-\left(\frac{10000}{1{,}00{,}000}\right)^{\frac{1}{5}}$$

$=1-(.10)^{\frac{1}{5}}$ =1-.631 = 36.89 %

6. Useful life:- it means expected life of assets for which assets will be used. useful life is estimated by management . for this purpose following factor are taken into accounts.
   - Change in technology
   - wear and tear
   - applicable laws
7. Depreciation methods can be changed from WDV to SLM or vice versa if required. If method is changed . it is called change in accounting policy and it should be done retrospectively(from beginning) .
   following is clause are requires
   - Old policy
   - New policy
   - Reasons for change in policy
   - effect of policy

   following are reasons of change
   - Better presentation
   - compliance with law
   - compliance with AS

   Example:- x ltd charged dep. On SLM basis from 31.03.2013 it charged to WDV basis. Impact of charge is 20,00,000 as expenses. Disclose it and when method can be changed.

   Solution:- As per AS-6 Dep. accounting changed in methods of Dep from SLM to WDV should be on retrospective basis. Following disclosure are required
   -old policy of Dep. Is SLM
   - New policy of Dep. Is WDV
   - Reasons of change in method

- Effect of change ie. Expenses of 20,00,000

following reasons of change can be

- Better presentation
- compliance with law
- compliance with AS

8. Whenever life of assets or scrap value of assets is changed, it is done on prospective(from current) basis . it means whatever dep. Has been charged will not be altered but future dep. Will be computed on new basis.

   Example:- A ltd purchased a new machine for 5,00,000 on 1.1.2007 and estimated its scrap value to be 50,000 . life 5 years.

   On 31.12.2009 it increased life by more 3 years. Prepare machine A/c

   Solution:- Machinery A/c

To Bank	5,00,000	By dep. (5,00,000-50,000/5)	90000
		By Bal c/d	410000
To Bal b/d	4,10,000	By Dep. (410000-50000/4)	90000
		By Bal c/d	320000
To Bal b/d	3,20,000	By Dep. (32000-50000/3+3)	45000
		By bal c/d	275000

9. Whenever assets are revalued, Dep. Is calculated on revalued amount.
10. This AS is not applicable on assets generated from nature

    For Example:- Mine, Oil &Natural Gas, Live stock, Water, Energy etc.

AS-7 Construction Contracts

1. Construction contract means any contract for construction or deconstruction of assets or growth of assets, which are to be constructed in sequence or they are inter-depended on each other.
2. This AS is applicable only on contractor.
3. Service contracts are not included in construction contracts.
4. Construction contracts can be of two types.

   (i) Cost plus contracts

   (ii) Fixed price contracts

   cost plus contracts are those contracts under which consideration amount is not fixed . here is consideration is calculated on <u>cost incurred +specific %</u>

   Fixed price contracts are those contracts under which a fixed amount is transferred.
5. Calculation of profit

	Contract Revenue × Degree of compellation	=xxx
less:- Contract costs incurred up to date		(xxx)
	Total profit	xxx
less:- Profit recognised Earlier		(xxx)
	Current profit	xxx

6. Meaning of contracts Revenue :- Contracts Revenue means following

	Initial Contracts amount	xxx
Add:-	(i) Variation	
	(ii) indention	
	(iii) Escalation	
	(iv) Claim	
Less:-	Penalty	
	Contract Revenue	xxx

7. Contract cost incurred include following

	(i) Direct cost incurred	xxx
Add:-	indirect Cost incurred	xxx

8. Whenever any contracts is expected to held loss, than provision should be made for expected loss in future.

   Total Revenue –total cost= loss recognised = provision

AS-9 Revenue Recognition

1. This As is mandatory in nature and is to be applied on all entities.
2. Revenue means gross inflow of cash and receivable arising from sale of goods, rendering of services or from interest, dividend or royalty. It does not include revenue arising from
   - Sale of fixed assets
   -exchange difference
   - holding gains from current/ non current assets
   - Remission of liabilities
3. Revenue recognition means timing of recording of revenue in natural course of transaction.
4. Sale of goods revenue from sale of goods should be recognised if all of following condition are satisfied
   (i) Ownership of goods have been transferred to buyer. generally ownership gets transferred through invoice .
   (ii) Risk & Rewards incident to ownership have been transferred . generally Risk & Rewards gets transferred by delivery of goods.
   (iii) There should be no uncertainty regarding consideration and its collection
5. <u>Rendering of Services:-</u> Revenue from services is recognised if all of following condition are satisfied
   (i) services have been performed . it means services have been rendered wholly or partly revenue can be recognised on completed method or Percentage of completion method.
   under completed contract method revenue is recognised when services have been wholly performed.
   under percentage of completion method, revenue is recognised on the basis of portion of services performed.
   (ii) there should be no uncertainty regarding consideration and its collection
6. <u>Revenue from dividend, Interest and Royalty</u>:- Revenue is recognised from dividend, interest or royalty , if all of following condition are satisfied .
   (i) There should be no uncertainty regarding consideration and its collection
   (ii) performance has been completed
   <u>Dividend:</u>- Right to receive dividend has been established.
   <u>Interest:-</u> Time period have expired
   <u>Royalty:-</u> Conditions of royalty agreement have been satisfied.
7. Revenue from insurance claims or price revisions shall be recognised . if its collection and amount is certain.
8. Disclosure Requirements :- (i) Revenue recognised policy (ii) if major revenue has not been recognised fact should be given.

AS-10 Accounting for fixed Assets

1. This AS is mandatory in nature and all entities should follow it.
2. Fixed assets means assets held for use in production of goods or rendering of services or for administrative use.
   Example:- Plant & Machinery, furniture , land & building etc.
3. Recognition of fixed assets:- fixed assets should be recognised in book at cost or at revalued amount.
   - meaning of cost
   (a) purchased fixed Assets

purchase price	xxx	
add:- Taxes on purchase	xxx	
Installation expense		xxx
Trail Run expenses		xxx
Interest on loan till assets is ready for use	xxx	
Cost of assets	xxx	

   (b) Self generated fixed Assets:-these are recognised at cost incurred for generation of assets. These expenses do not include economic cost.
   (c) Exchanged Fixed assets:- whenever fixed assets are acquired in exchange, than value of fixed assets is fair value of assets obtained OR for value of assets given. Whichever is more clearly evident .
   Note:- Assume lower value as more clearly evident.
   (d) Improvement of fixed Assets:-whenever expenditure is incurred on improvement of aasets, than such expenditure is capitalised provided performance of assets have improved beyond standard and expenditure is material .
4. Revaluation of fixed Assets:-it means change in value of fixed assets.
   (a) upward revaluation entry
   Fixed Assets a/c Dr.
   To Revaluation Reserve
   (b) Downward Revaluation entry
   Revaluation Reserve (if any) a/c Dr.
   Profit & Loss a/c Dr.
   To fixed assets
   (c) Revaluation policy and basis of revaluation should disclosed in notes to account
   (d) Revaluation of fixed assets is not mandatory
   (e) Revaluation Reserve cannot be used for payment of dividend or for written off losses or for bonus issue.
5. Disclosure requirement:- (i) Gross block, net block, Dep. Shall be disclosed.
   (ii) Revaluation policy should be disclosed.

AS-14 Accounting for amalgamation

1. Amalgamation involves companies which are transferred to transferee companies under section 394 of co. act 1956.
2. Transferor company(Old Company) should get liquated after amalgamation.
3. Purchase consideration means securities transferred by transferee (New co.) company to shareholder (Eq./pref.) of transferor company.
4. These are two method of accounting in transferee company.
   (i) Pooling of interest method (merger method)
   (ii) Purchase method
5. If all of following condition are satisfied , than according is done as per pooling of interest method.
   (i) shareholder holding at least 90% face value of equity share (excluding inter company holding) should agree to become eq. share holder of New company.
   (ii) such share holder should be paid in equity share only and cash to settle fraction.
   (iii) all assets & liability should be transferred by Old co. to New co.
   (iv) All assets & liability should be taken over at book value.
   (v) New company should carry on same old business that of old company.
6. While applying pooling of interest method, any difference in value of assets & liability and purchase consideration , should be transfer to reserve a/c.
   all credit Reserve of old co. will maintained by new company.
7. While applying purchase method, any difference in consideration and value of assets& liability acquired, will be transfer to goodwill OR capital Reserve.
8. Goodwill will be amortised in 5 year period.
9. If old co. has statutory reserve, such reserve will be maintained by new co. as well through amalgamation adjusted a/c, when time period of has expired it will be cancelled by debiting statutory Reserve and crediting amalgamation adjustment account.
10. Disclosure requirements:-
    (i) names of companies taken over along with purchase consideration.
    (ii) Treatment of difference in purchase consideration and net assets acquired in case of purchase and merger.
    (iii) Amortisation policy of goodwill.

Amalgamation

1. **Meaning**:- amalgamation means where two or more company are combined to form a new company. Example= x ltd + y ltd = z ltd
   Absorption:- it means where one company takeover another company
   Example x ltd + y ltd = x ltd
   External Reconstruction:- it means where one company is reconstruction to form a new company . example x Ltd. (old company) = y Ltd (New co.)
   * accounting treatment is same for amalgamation, absorption, external reconstruction, such accounting is given by AS-14.
2. **Calculation of purchase consideration:-** there are two methods of calculation
   (a) Net payment method (1st preference)
   (b) Net assets method (2nd preference)
   (a)Net payment method means purchase consideration is calculated by adding all payment made by new company to share holder of old company.

   new co. $\xrightarrow{\text{Payment}}$ Eq. share holder/pref. holder of old co.

   Format

Payment To	Payment In	Working	Amount
Eq. shareholder	Eq. share Pref. share Cash Debenture		
Pref. share holder	Eq. share Pref. share Cash Debenture		

Example 1. A Ltd. took over B Ltd and agree to pay following amount. 3 share of A Ltd for 5 shares held of B Ltd. @ 12 per share. Rs. 2 per share in cash. B Ltd. have 1,00,000 equity share . calculate P.C.

Solution :-

Payment To	**Payment In**	**Working**	**Amount**
Eq. shareholder	Eq. share	$(\frac{3}{5} \times 1{,}00{,}000)12$	7,20,000
Eq. shareholder	Cash	$2\times 1{,}00{,}000$	2,00,000
		P.C	9,20,000

Example 2 A ltd. took over B ltd. and agreed to issue 3 equity share for every 4 pref. share held. Value of new share is Rs. 15. To issue 4 pref. share for every 5 equity share hold. Value of new prf. Share is Rs. 17. To pay Rs. 3 per share in cash. Equity

share of old company 1,00,000 and 50,000 pref. share. Calculated P.C
Solution:-

Payment To	Payment In	Working	Amount
pref shareholder	Eq. share	$(\frac{3}{4} \times 50{,}000)15$	562500
Eq. shareholder	Pref. share	$(\frac{4}{5} \times 1{,}00{,}000)17$	13,60,000
pref shareholder	Cash	3× 1,00,000	3,00,000
Eq. shareholder	Cash	3× 50,000	150000
		P.C	2372500

Example 3:- A ltd. took over B ltd. and agreed to pay consideration. (i) to issue 5 eq. share for every 7 held @ Rs. 14 each. (ii) to pay Rs. Per share in cash. No of equity share of old company is 1,00,000. Calculate P.C.
Solution:-

Payment To	Payment In	Working	Amount
Eq. shareholder	Eq. share	$(\frac{5}{7} \times 1{,}00{,}000)14$=71,428*14	99,9992
Eq. shareholder	Cash	.57*14	8
Eq. shareholder	Cash	5× 1,00,000	5,00,000
		P.C	1500000

Note:- 1. whenever swap ratio is multiple with no. of share and there are fraction, such fractional share will be settled in cash.

(swap ratio × no. of shares)

whole no.   Fractional share

Issue share   paid in cash

2. Whenever Swap ratio is missing than it will be calculated using value of share

$$Swap\ ratio = \frac{value\ of\ old\ company}{value\ of\ new\ company}$$

Such value can be market value , intrinsic value or paid up capital

Market Value (1st preference)
Intrinsic value (2nd preference)
Paid up capital (3rd preference)

3. **How to calculate intrinsic value :-** intrinsic value means fundamental value calculated on the basis of net assets of company from internal information for its calculation. It is presumed that company is hypothetically liquidated .

Formula :

	Sundry assets at market value	xxx
less:-	Sundry liabilities at market value	(xxx)
	pref. share capital payable	(xxx)
	Total	xxx

÷ No. of shares	xx
Intrinsic value	xxx

Note:1 intrinsic value can be calculated only for equity share since pref. share have fixed payable value.

2.If market value/ payable value are missing, than use book value of assets and liability

3. Losses, preliminary expenses are not having any market value, hence ignored in intrinsic calculation.

4. Goodwill is realisable assets hence it will be included in calculation of intrinsic value .

5. Expenses of liquidation are to be ignored since, intrinsic value is calculated on hypothetically liquidation.

Example A Ltd. took over B ltd. and agreed to issue 4 equity share for every 5 equity share held. No. of share of old company 10,000. Intrinsic value old company 30/- and Intrinsic value of new company 35/-. Calculate P.C.

solution:-

Payment To	**Payment In**	**Working**	**Amount**
Eq. shareholder	Eq. share	$(\frac{4}{5} \times 10{,}000)35$	2,80,000
Eq. shareholder	Cash	$\left(\frac{5\times30-4\times35}{5}\right)10000$	20,000
		P.C	3,00,000

Note:- whenever question provide swap ratio and values (Intrinsic Value or market value) of both companies , than cash per share should be calculated.

$$\boldsymbol{cash\ per\ share} = \frac{(No.of\ share\ surendered \times value\ of\ old\ co.)-(No.of\ share\ obtained \times value\ of\ new\ co.}{No.of\ share\ surendered}$$

cash per share will be ignored , if such amount is negative.

Note:- if question requires calculation of cash per share, than following steps are applied.

step 1. Calculate Intrinsic value of Old & New company.

step 2. Calculate cash per share.

note:- cash per share is not calculated on pref. shares.

Example : A Ltd took over B ltd.

	A	B		A	B
Eq. share @ 10 Profit & loss creditors	70000 40000 50000	60000 30000 30000	Fixed assets Current assets	60,000 1,00,000	70,000 50,000

Market value of Fixed assets is Rs. 70,000, & 60,000 respective of A& B ltd. A ltd. issued 3 eq. share for every 7 eq. share held. A ltd paid necessary cash. Find P.C.

solution:- (i) Calculation of Intrinsic value

		A	B
	fixed assets	70,000	60,000
	current assets	1,00,000	50,000
less:-	creditors	(50,000)	(30,000)
	Total	1,20,000	80,000
	÷ No. of shares	7000	6000
	Intrinsic value	17.14	13.33

Payment To	**Payment In**	**Working**	**Amount**
Eq. shareholder	Eq. share	$(\frac{3}{7} \times 6{,}000) = 2571 \times 17.17$	44,067
Eq. shareholder	Cash	$.42 \times 17.14$	7
Eq. shareholder	Cash	$\left(\frac{7\times13.13-3\times17.14}{7}\right)6000$	35906
		P.C	79980

Note:- Issue price in purchase consideration

Whenever issue price in purchase consideration is to be applied following preference are generally assumed.

(i) Apply entry amount given in question (given can be par value, paid value)

(ii) Apply Intrinsic value , if available

(iii) Apply paid up value of New. Co.

4. Meaning of capital employed

capital employed in calculation of goodwill

it means share holder funds

	Sundry assets at market value	xxx
less:-	short term liabilities payable value	(xxx)
	Long term liabilities payable value	(xxx)
	Capital employed	xxx

<u>Capital employed in electricity company</u>

	sundry assets (at book value)	xxx
	preliminary exp.(at book value)	xxx
	current assets (at book value)	xxx
Less:-	All liabilities	(xxx)
	capital employed	xxx

<u>Otherwise capital employed (in accounts & financial management)</u>

fixed assets (at market value)	xxx
current assets (at market value)	xxx

Trade Investment	xxx
Less:- short term liabilities	(xxx)
Capital employed	xxx

5. Books of new company in nature of merger

merger:- it means where two or more company amalgamate/ absorb/ get external reconstruction and share holder of old company also get amalgamate with new company.

if all of following conditions are satisfied. Than we call such amalgamation is called merger.

(i) shareholder holding at least 90% face value of equity share (excluding inter company holding) should agree to become eq. share holder of New Co.

(ii) such share holder should be paid in equity share only and cash to settle fraction.

(iii) all assets & liability should be transferred by Old co. to New co.

(iv) All assets & liability should be taken over at book value.

(v) New company should carry on same old business that of old company.

Following entries are journalized by new company.

(i) On the agreement date

Business purchase a/c Dr. (P.C.)
 To liquidator of Old company (P.C.)
(Being business purchased)

(ii) on date of amalgamation

Sundry Assets a/c Dr. (at Book Value)
 To sundry liabilities (at Book value)
 To Business purchase (P.C.)
 To Reserve of Old company (Book Value)
(Being sundry Assets & liabilities taken over)

Note:- any difference in above entry will be transferred to Gen. Res./P&L

(iii) Liquidator of old company a/c Dr. (P.C)
 To eq. share capital
 To pref. share capital
 To security premium
 To cash
(Being purchase consideration paid)

(iv) Payment of liabilities

liabilities a/c Dr.

To new liabilities

(being liabilities settled)

(v) payment of expenses

General Reserve a/c Dr.

To cash

(Being expenses paid)

(vi) Contra cancellation

Creditors a/c Dr.

To Debtors

(Being contra debt cancelled)

(vii) Any other entry as given in question.

Note:- there would be no entry for creation of statutory Reserve, since they get created in 2nd entry

6. Net assets Method

whenever certain/ selected assets & liabilities are taken over , than net assets method should be applied, it means we are not taking over old company completely.

Net Assets Method

Assets taken over at agreed value		xxx
Less:- sundry liabilities taken over at agreed value		(xxx)
	P.C.	xxx

following entries are journalized by new company.

(i) Business purchase a/c Dr. (P.C.)

To liquidator of Old company (P.C.)

(Being business purchased)

(ii) Sundry Assets a/c Dr. (at agreed Value)

To sundry liabilities (at agreed value)

To Business purchase (P.C.)

(Being sundry Assets & liabilities taken over)

Note:- any difference in above entry is considered as goodwill (Dr.) or Capital Reserve (Cr.)

(iii) Liquidator of old company a/c Dr. (P.C)

To eq. share capital

To pref. share capital

To security premium

To cash

(Being purchase consideration paid)

(iv) Goodwill a/c Dr.

To cash

(Being expenses paid)

Note:- whenever there is any stock transfer between group companies (old/ new) than any unrealised profit on closing stock will eliminated.

Journal Entries

(i) In the nature of purchase

Goodwill a/c Dr. (Amount of profit on stock)

To stock

(ii) In the nature of Merger

General Reserve a/c Dr. (Amount of profit on stock)

To Stock

7. Books of old company

(i) Transfer All Assets & liabilities to Respective accounts

Eq. share capital, Res & surplus, loss ⟶ Equity share holder

Pref. share capital ⟶ Pref. share Holder

Cash (if not taken over) ⟶ Cash

Balance A/c ⟶ Realisation A/c

(ii) Dispose off assets & liabilities

Sell purchase consideration to new co., cash sold , cash liabilities

(iii) Expenses (pay off)

Realisation a/c Dr.

To cash

(iv) Purchase consideration realise and share holder distribute

(v) Pack up of accounts

pref. share capital ⟶ Realisation

Realisation ⟶ Equity share holder

Equity share Holder ⟶ Tally

Cash ⟶ Equity share Holder

Realisation A/c (nature of this a/c is real account)

To fixed assets To current assets	By current liabilities

8. Reserves in accounts

No.	Name of Reserve	Nature	Remarks
1.	Profit& Loss a/c	Free Reserve (for distribution of dividend)	Can be used to write of any loss
2.	General Res.	Free Reserve	Can be used to write of any loss
3.	Retained Earning	Free Reserve	Can be used to write of any loss
4.	Surplus	Free Reserve	Can be used to write of any loss
5.	Security Premium	Non free Reserve (section 78)	Used for (i) Bonus share (ii) premium on Red. Of Pref. share (iii) Preliminary Exp. W/F (iv) Capital Losses
6.	Capital Reserve	- Do -	- Do -
7.	Revaluation Res.	- Do- (AS-10)	Used for charging Revolution losses.
8.	Workman Compensation fund	- Do -	Fund means investment are kept to pay injured employs. It would liability if given in Que.
9.	Workman accident fund	- Do -	Investment will kept to pay compensation for accident (death)
10.	Insurance fund	- Do-	Investment will be kept to pay employs insurance claims.
11.	Provident fund	Liability	-
12.	Employees profit sharing Reserve	Liability	A kind of bonus for employees
13.	Sinking fund	Non Free Reserve	Investment will be kept to redemption of Debenture

Company final accounts

1. Provision of schedule VI

(i) Fixed Assets

(a) Report as follows

Gross fixed assets	xxx
(-) Accumulated Dep.	(xxx)
Net fixed assets	xxx

(b) Report as notes

- Revaluation details of fixed assets
- if any assets is in construction reported as Capital W.I.P

(ii) Investments:- market value of investment should be disclosed along with investment in balance sheet.

(iii) Current assets

(a) Stock report as follows

finished goods	xxx	
work in progress	xxx	
Raw material	xxx	xxx

(b) Debtors report as follows

Debts exceeding 6 months	xxx	
Other debtors	xxx	
(-) provision for doubtful debts	(xxx)	xxx

(c) Bank report as follows

scheduled banks	xxx	
Other banks	xxx	xxx

(d) Advance report as follows

Staff advance	xxx	
Income tax advance	xxx	
other advance	xxx	xxx

(iv) Miscellaneous Expenditure report as follows

preliminary Expense (to the extant not written off) xxx

(v) Share capital report as follows

Authorised share capital		
Equity share capital	xxx	
preference share capital	xxx	
	xxx	
Issued & paid up share capital		
Equity share Capital	xxx	
(-) calls in arrear	(xxx)	xxx

Preference share capital	xxx	
(-) calls in arrears	(xxx)	xxx

Report as notes:- Bonus share capital (if issued)

share issued for non cash consideration

(vi) Reserve & Surplus

Report all Reserve & surplus as separate items

(vii) Secured loan

Report nature of security and principal of loan

(viii) Unsecured loan

Report principal terms of loan.

(ix) Current liabilities & provisions

(a) all current liabilities should be reported as separate item

(b) Bank overdraft is Non current liabilities

(c) Interest due on loan is current liabilities

(d) Interest accrued but not due is current liabilities.

(x) Contingent liabilities

All contingent liabilities should be shown in foot note to balance sheet.

Example of contingent liabilities

- Bill discounted but not matured
- Dividend in arrears
- Claim against company

(xi) following notes should be given for example

- Directors Remuneration
- Auditors Remuneration
- Depreciation

Director remuneration

there are limits placed by companies act 1956 an amount of directors remuneration . such limits can be can be classified as follows.

Case A:- company earning adequate profits

Limits	Rate
Over all limits	11% of profit
Whole time directors	5% of profit
Two whole time directors	10% of profit
Part time directors (Without whole time directors)	3% of profit
Part time director (with whole time directors)	1% of profit
Manager	1% of profit

Profit to be used in above limits are calculated under sections 349

Profit	c/d – b/d	xxx
Add:-Transfer to general Reserve		
Transfer to sinking fund		
Transfer to other Reserve		
proposed dividend		
	Net profit	xxx
	add:- Tax	
	profit Before Tax	xxx
Add:- Provision		
Preliminary Expenses Written Off		
Less:- Accrued expenses of provision		
Add:- Dep. Charged		
Less:- Dep. As schedule XVI /205/350		
Capital profit on sale of fixed assets (Sale proceeds- original cost)		
Add:- Expenses on scientific research		
Director Remuneration if charged in P&L		
	Profit u/s 349	xxx

Case B:- Company not earning adequate profit

in such cases directors Remuneration is given as per following limits

Effective Capital	Minimum Remuneration
Less than 5 Cr. 5 Cr. To 100 Cr. 100 Cr. To 250 Cr. 250 or above	30,00,000 per Annum 42,00,000 per Annum 60,00,000 per Annum 60,00,000 per Annum +.01 of effective Cap.

Calculation of effective Capital

- In case of Non-investment Company

Equity Share capital	xxx
add:-pref. share capital	
capital Res. Realised in cash	
Security premium	
Debentures	
Less:- Losses, preliminary Expenses	
investments	
effective capital	**xxx**

In case of Investment company

Investment deducted above are not to be deducted if company is investment co.

note:- (i) Above limits of Case A & Case B can be exceeded with permission from central Govt.

(ii) Above limits applied to public ltd. company only. Hence private limited co. can pay remuneration without limit.

Provision for Tax

following accounts are to be prepared

Provision for Tax

To income tax	xxx	By Bal b/d	xxx
To Bal c/d	xxx	By P&L (new provision)	xxx

Advance Tax

To Bal b/d	xxx	By income tax	xxx
To Bank (tax paid)	xxx	By Bal c/d	xxx

Income Tax

To Advance tax	xxx	By provision for tax	xxx
To P&L (saving in tax)	xxx	By P&L (Additional tax)	xxx
		By Bal c/d	xxx

following Journal entries are required

1. On creation of provision for Tax

    P&L a/c Dr.

    To provision for Tax

2. On payment of Advance Tax

    Advance tax a/c Dr.

    To Bank

3. On assessment Order

    - provision for Tax a/c Dr.

      To income Tax a/c

      (being provision transferred)

    - Income tax a/c Dr.

      To Advance Tax

      (being advance tax transferred)

    - P&L a/c Dr. OR Income tax a/c Dr.

      To Income Tax To P&L a/c

      (Being amount charged / transferred to P&L)

4. If appeal is filed against assessment order, than it is not treated as final order, but additional provision is created for tax incurred. If there is high probability of losing appeal

    P&L a/c Dr.

    To provision for tax

Note:- if there is high probability to win appeal case, than additional provision is not required . rather fact is mentioned as contingent liabilities.

Example:- Trail Balance	Dr.	Cr.
provision for Tax		3,00,000
Advance Tax	3,50,000	

Adjustments

1. Create provision for tax for current year Rs. 50,000
2. During the year assessment completed at Rs. 70,000 against which provision was Rs. 55,000 and Advance Tax 56,000

Solution:- Provision for Tax

To income tax	55,000	By Bal c/d	3,00,000
To Bal c/d	295000	By P&L	50,000

Advance Tax

To Bal b/d	350000	By income tax	56,000
		By Bal c/d	2,94,000

Income Tax

To Advance Tax	56,000	By provision for Tax	55,000
To Bal c/d	14,000	By P&L	15,000

P&L Appropriation A/c

P&L appropriation

To Pref. dividend	By Bal b/d
To Eq. Interim divided	By net profit
To Eq. dividend proposed	
To Corporate dividend tax	
To General Res.	
To Bal c/d	

Note: 1 whenever equity dividend is paid, preference dividend should also be paid.

2. Corporate dividend tax is calculated on amount of equity & pref. dividend. It should be recognised if given in question.
3. As per new rules transfer to General Reserve is not mandatory on the basis of % of dividend as in old rules. Now company will decide appropriate amount of transfer.
4. In case dividend is paid out of general Reserve than Average dividend of 5 years is replaced with avg. dividend of 3 years now.

Calculation of dividend amount

1. Dividend is always calculated on paid up share capital. Dividend is not allowed in advance.

Equity share capital called up		xxx
(-) Calls in arrear		(xxx)
	Paid up capital	xxx

Dividend is calculated as above amount

2. As per section 205A , arrear of dep. Under schedule XIV/350 should be charged before calculating divisible profit.

Divisible profits

profit earned in earlier year up to current year before charging Dep.		xxx
	(-) Dep. As per schedule XIV	(xxx)
	Divisible profits	xxx

Divisible profit are calculated in law for directors report. It has no relation to accounts.