THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC] and to secure all its citizens:

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the [unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

MUTUAL FUNDS

Introduction

It is financial institution as trust that pool the money of number of investor to invest in portfolio of securities such as share, debenture or other securities, & to generate higher return from this investment and income earned through this investment and capital appreciation realised is passed back to unit holder.

Accounting

1. It shall **mark to market** all its investment made.
2. Unrealised gain arising out of appreciation on investment cannot be distributed.
3. Income should be recognised on **accrual basis**, So if Purchase investment cum-interest then interest portion cannot be treated as cost of purchase rather must be debited to interest recoverable account. If sale of investment cum interest then interest portion must not be treated as sale value rather it must be credited to interest recoverable account. On sale of investment cost should be derived by multiplying average cost (exclusive of such interest) of investment purchased.
4. In question if say Distribution certain percentage of **realised earning** then Realised earning means sum of capital gain and dividend actually receipt, dividend accrued should not be consider.
5. If question direct **management expenses** cannot exceed certain % of average fund invested during the year then it cannot exceed. Excess payment will not be allowed.
6. **Dividend equalisation reserve**

   Logically new unit holder not entitle to any share in income of MF Scheme earned by the investment made by unit holder exist before new unit holder bought the unit, but mutual fund while distribution allocate the same amount to all unit holder, So to compensate for such an equalisation payment is recovered on sale of new unit. It is calculated as follows:

   Dividend equalisation reserve = $\frac{Earing\ of\ current\ year\ up\ to\ date\ of\ sale\ of\ new\ unit}{Number\ of\ unit\ on\ the\ date\ of\ sale}$ x New unit sold

7. Calculation of Net Assets Value

Market value of portfolio	XXXX
Cash balance at year end	XXXX
Other Receivable / Assets	XXXX
Less: Other Payable / Liabilities	XXXX
NET ASSETS VALUE	XXXX
Number of unit	XXXX
Net Assets Value per unit (NAV/Number of unit)	XXXX

Journal entry

Journal entry	Narration
Bank A/c Dr. To, unit capital	Being amount received on sale of unit.
Investment A/c Dr. To, Bank	Being investment purchased.
Bank A/c Dr. To, interest on investment	Being income received on investment made.
Revenue A/c Dr. To, investment account	Being investment revalue at year end, this entry is made for reduction in the value of investment
Investment A/c Dr. To, Unrealised Appreciation Reserve	Being investment revalue at year end, this entry is made for increase in the value of investment
Unrealised Appreciation Reserve Dr. To, Investment A/c	Unrealised Appreciation Reserve would be cancelled at the beginning of next year.
Bank A/c Dr. Revenue A/c (b.f) To, investment A/c	For sale of investment
Bank A/c Dr. To, Unit Capital To, Dividend equalisation reserve To, Unit premium	Being unit sold

PRACTICAL QUESTION

1. Income should be recognised on **accrual basis**, So if Purchase investment cum-interest then interest portion cannot be treated as cost of purchase rather must be debited to interest recoverable account. If sale of investment cum interest then interest portion must not be treated as sale value rather it must be credited to interest recoverable account. On sale of investment cost should be derived by multiplying average cost (exclusive of such interest) of investment purchased.

Question 1

A fund purchased 10,000 debentures of a company on June 1, 2012 for 10.7 lakh and further 5,000 debentures on November 1, 2012 for ` 5.45 lakh. The debentures carry fixed annual coupon of 12%, payable on every 31 March and 30 September. On February 28, 2013 the fund sold 6,000 of these debentures for ` 6.78 lakh. Nominal value per debenture is ` 100. Show Investment in Debentures A/c in books of the fund.

Solution

Investment in debenture A/c

Date	Particular	Unit	Total cost	Interest	Amount	Date	Particular	Unit	Total cost	Interest	Amount
			Rs.in lakh								
01.06.2012	To Bank	10000	10.7	0.2	10.5	30.09.2012	By interest			0.6	
						28.02.2013	By bank	6000	6.78	0.3	6.48
01.11.2012	To bank	5000	5.45	0.05	5.4						
						31.03.2013	BY interest			0.54	
28.02.2013	To Profit						on 9000 unit				
	on disposal				0.12	31.03.2013	By Balance c/d	9000			
	6.48-6.36										
31.03.2013	To Revenue										
	interest										
	recoverable (b.f)			1.19							
		15000	16.15	1.44	16.02			15000	6.78	1.44	6.48

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2. **Dividend equalisation reserve**

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   Dividend equalisation reserve = $\frac{Earing\ of\ current\ year\ up\ to\ date\ of\ sale\ of\ new\ unit}{Number\ of\ unit\ on\ the\ date\ of\ sale}$ x New unit sold

Question 2

On 1.4.2011, a mutual fund scheme had 18 lakh units of face value of ` 10 each was outstanding. The scheme earned `162 lakhs in 2011-12, out of which ` 90 lakhs was earned in the first half of the year. On 30.9.2011, 2 lakh unist were sold at a "NAV" of ` 70.
Pass Journal entries for sale of units and distribution of dividend at the end of 2011-12.
Answer

Allocation of earning to new and old unit holder	
Old unit holder- 18 Lakh	Old and New unit holder-20 lakh
90 lakh	162-90= 72 lakh

Dividend equalisation reserve = $\frac{Earing\ of\ current\ year\ up\ to\ date\ of\ sale\ of\ new\ unit}{Number\ of\ unit\ on\ the\ date\ of\ sale}$ x New unit sold

= $\frac{90\ lakh\ Rupees}{18\ lakh} x2$

= 10 Lakh

Journal entry

<u>Date</u>	<u>Particular</u>	<u>Dr.</u>	<u>Cr.</u>
30.9.2011	Bank A/c Dr. To Unit Capital To Reserve To Dividend Equalization (Being the amount received on sale of 2 lakhs unit at a NAV of ` 70 per unit)	150	 20 120 10
30.9.2012	Dividend Equalization Dr. Revenue A/c Dr. To Bank (Being the amount distributed among 20 lakhs	10 162	 172

	unit holders @ ` 8.60 per unit)		

3. Calculation of Net Assets Value

Market value of portfolio	XXXX
Cash balance at year end	XXXX
Other Receivable / Assets	XXXX
Less: Other Payable / Liabilities	XXXX
NET ASSETS VALUE	XXXX
Number of unit	XXXX
Net Assets Value per unit (NAV/Number of unit)	XXXX

Question 3

A Mutual Fund raised 100 lakh on April 1, 2012 by issue of 10 lakh units of ` 10 per unit. The fund invested in several capital market instruments to build a portfolio of ` 90 lakhs. The initial expenses amounted to ` 7 lakh. During April, 2012, the fund sold certain securities of cost ` 38 lakhs for ` 40 lakhs and purchased certain other securities for ` 28.20 lakhs. The fund management expenses for the month amounted to ` 4.50 lakhs of which ` 0.25 lakh was in arrears. The dividend earned was ` 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2012 was ` 101.90 lakh.

Determine NAV per unit.

Solution

calculation of NAV

Market value of Portfolio			101.9
Add: Cash balance (WN-1)			9.35
Less: Liabilities for expenses			-0.25
Total		A	111
No. of unit		B	10
	NAV	A/B	11.1

Working Note-1

Cash Balance

Opening balance	Nil	
Initial issue of unit		100
Initial expenses		-7
Puchase of portfolio		-90
Sales of securities		40
Puchase of other securities		-28.2
Fund Management expenses 4.5-0.25		-4.25
Dividend		1.2
Distribution 75% of realised earning (40-38=2,) (2+1.2)x.75		-2.4
		9.35

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Human resources accounting

For human resources accounting discounted wages & salary model given by lev & Schwartz model.

Value = present value of expected salary to employee.

Journal entry.

HR Assets A/C Dr.
To, social equity

NBFC (Non-Banking Financing Company)

1. ***Income recognition****- Income on performing assets on accrual basis. Income on non performing assets on cash basis.*

2. ***Classification of advance & Provision***

Classification	***Period***		***Rate of provision***	
	31.03.2017	31.03.2018	31.03.2017	31.03.2018
Standard	Normal assets		.35%	.40%
Sub standard	As NPA for 14 month	As NPA for 12 month	10%	
Doubtful	As sub standards for 14 month	As sub standards for 12 month	unsecure 100%, secure for 1year 20%, for 1-3 year 20%, >3year 50%	
Loss	Classified as loss assets.		100%	

3. **Hire purchase & leasing company- Notes**
4. **Capital Adequacy Ratio-** All NBFC should have CAR (Capital Adequacy Ratio) of 15%

Meaning: Measurement of adequacy of capital resources of bank in relation to risks associated with its operation.
Computation: Capital Funds / Risk Adjusted Assets & Off Balance Sheet Items
Components of Capital Funds

- Capital Funds are classified in two categories:

Tier I and tier II.

- Tier I Fund includes Paid Up capital, Statutory Reserves, Free Reserves as reduced by equity investments in subsidiaries, intangible assets & current b/f losses.
- Tier II Fund includes undisclosed reserves, general provision and loss reserves, hybrid debt capital instruments and subordinated assets.
- Tier II Capital cannot exceed 100% of Tier I Capital.