GOVERNMENT ARTS AND SCIENCE COLLEGE
(Affiliated to Manonmaniam Sundaranar University, Tirunelveli.)
KANYAKUMARI-629401

STUDY MATERIAL FOR B.COM

CORPORATE ACCOUNTING - II

VI - SEMESTER

ACADEMIC YEAR 2022-23

PREPARED

BY,

DEPARTMENT OF COMMERCE

III B. COM

PART III - MAJOR CORE -17

CORPORATE ACCOUNTING – II

Objectives

1. To know the preparation of liquidator's final statement of accounts.
2. To prepare the final accounts of banking company in a schedule form
3. To train the students to prepare final accounts under double account system.

Unit I: Introduction- Liquidator's final statement of accounts. (13hours)

Unit II: Accounts of Banking Companies – Rebate on Bills discounted- Final Accounts.

Unit III: Double Account System- Accounts of Electricity companies - Replacement of Asset - Calculation of Reasonable Return- Disposable of surplus.

Unit IV: Holding companies- Preparation of Consolidated balance sheet.

Unit V: Human Resource accounting –Objectives -Methods of Human Resource Value Accounting. (8 hours)

Text Books

1. S.P.Jain & K.L.Narang, Advanced Accountancy, Kalyani Publishers, New Delhi.
2. T.S.Reddy & A.Murthy,Corporate Accounting, Margham Publications, Chennai.

Reference Books

1. R.L.Gupta and M.Radhaswamy, Advanced Accountancy, Sultan Chand &Sons, New Delhi.
2. M.C.Shukla and T.S.Grewal, Advanced Accountancy, Sultan Chand &Co., New Delhi.
3. Dr.M.A.Arulanandam&K.S.Raman, Advanced Accountancy, Himalaya Publishing House, Mumbai.
4. P.C.Tulsian, Corporate Accounting, Tata McGraw Hill Companies.

UNIT - I LIQUIDATION OF A COMPANY

What is liquidation of a company?

Liquidation is a formal insolvency procedure in which a company is brought to an end; all of its assets are liquidated and the proceeds from the sale of assets is used to repay creditors. There are two main types of liquidations for insolvent companies– compulsory liquidation and creditor's voluntary liquidation.

Liquidator

The person appointed for conducting the liquidation proceedings of the company is called 'Liquidator'. (In case of Voluntary winding up an Insolvency Professional). The company must submit a statement of affairs to the liquidator. The general duties of the liquidator are to take into his custody all the property of the company and actionable claims and make the payments as per the order laid down in the Companies Act.

Liquidator's final statement of account (format)

Particulars	Rs	Particulars	Rs
To Balance B/D	xxx	B y Secured Creditors	xxx
To Asset Realized		By Liquidation Expenses	xxx
Debtors	xxx	By Liquidators Remuneration	xxx
Building	xxx	By Debenture Holders	xxx
Plant & Machinery	xxx	By Preferential Creditors	xxx
Stock	xxx	By Unsecured Creditors	xxx
To amount received from directors	xxx	By Preferential Shareholders	xxx
To contributions made by the contributories	xxx	By Equity Shareholders	xxx
	xxx		Xxx

Unsecured creditors:

If the amount available is sufficient to make full payment of unsecured creditors, thecommission is calculated as follows:Amount available x % of commission /100 (3% commission means 3/100).If the amount available is not sufficient to make payment to unsecured creditors thecommission is calculated as follows:Amount available x % of commission /100 + % of commission (3% commission means 3/103)

1. From the following information prepare liquidator's final statement of account.

- Cash at bank 1,00,000
- Surplus from securities 10,10,000
- Expenses of liquidation 30,000
- Liquidators remuneration 7,000
- Preferential creditors 2,00,000
- Unsecured creditors 7,00,000
- Preferential shareholders 1,00,000
- Equity shareholders 1,00,000

Solution

Particulars	Rs	Particulars	Rs
To cash	1,00,000	By liquidation expenses	30 ,000
To surplus from securities	10,10,000	By liquidators remuneration	7,000
		By Preferential Creditors	2,00,000
		By Unsecured Creditors	7,00,000
		By Preferential Shareholders	1,00,000
		By Equity Shareholders	73,000
	11,10,000		11,10,000

2. Raj ltd went into liquidation. Its assets realized Rs.2,75,000 excluding amount realized bythe sale of securities held by Secured creditors

- Share capital (per share 10) 1,50,000
- Secured creditors (Securities realized Rs. 42,000) 40,000
- Preferential Creditors 4,000
- Unsecured Creditors 1,25,000
- Debentures having floating charge 1,75,000
- Liquidation expenses 4,000
- Liquidators remuneration 6,500

Prepare liquidator's final statement of account.

Solution

Particulars	Rs	Particulars	Rs
To assets realized	2,75,000	By liquidation expenses	4,000
To surplus (42000-40000)	2,000	By liquidators remuneration	6,500
		By debentures	1,75,000
		By preferential creditors	4,000
		By unsecured creditors	87,500
	2,77,000		2,77,000

3. X Ltd. Went into voluntary liquidation on April 1,2005. The relevant details are given below

liabilities	Rs	Assets	Rs.
Share capital	4,00,000	Land and building&machinery	80,000
5000 shares of Rs. 100		Other fixed assets	2,60,000
Each Rs. 80 per share		Stock	1,05,000
paid		Debtors	1,00,000
Loans (secured by	1,00,000	Loans	40,000
mortgage of		Cash	5,000
landbuilding,machinery)		Profit loss a/c	1,10,000
Unsecured loan and			
liabilities (including	2,00,000		
preferential dues			
10,000)			
	7,00,000		7,00,000

Land and building & machinery were realized by secured creditors for Rs. 1,20,000.

Other fixed assets fetched Rs.40,000, debtors Rs. 20,000, stock Rs. 10,000 loans were wholly bad. The liquidator is entitled to a fixed remuneration of Rs.1,000 plus 2% of the amount paid to unsecured creditors. The liquidators pocket expenses amounted to Rs.1,000. Prepareliquidator's final statement of account.

Solution

Particulars	Rs	Particulars	Rs
To cash	5,000	By secured creditors	1,00,000
To assets realized		By liquidation expenses	1,000
Land building	1,20,000	By liquidators	
Fixed assets	40,000	remuneration	1,000
Debtors	20,000	Fixed amount	200
Stock	10,000	On preferential	
To call money	1,00,000	creditors 10000x2%	3584
(5000x20)		On unsecured	
		creditors	10,000
		2/102x182800 By preferential creditors By unsecured creditors	1,79,216
	2,95,000		2,95,000

4. From the particulars given below prepare liquidation final accounts allowing for his remuneration at 2 % on the amount realized on assets and 2% on the amount distributed to unsecured creditors other than preferential creditors.

Unsecured creditors	2,24,000
Debentures	75,000
Buildings realized	1,30,000
Other assets realized	7,500
Preferential creditors	70,000
Cash	20,000
Machinery realized	1,10,500
Liquidation expenses	2,000

A call ofRs.2 per share on the partly paid 10,000 equity shares was made and duly paid exceptin case of one shareholder owning 500 shares.

Solution

Particulars	Rs	Particulars	Rs
To cash	20,000	By liquidation expenses	2,000
To asset realized		By liquidators remuneration	
Building	1,30,000	On assets realized 248000x2/100	4,960
Other assets	7,500	On unsecured creditors	
Machinery	1,10,500	135040x2/102	2,648
To call money 9500x2	19,000	By debentures	75,000
(10000-500)		By preferential creditors	70,000
		By unsecured creditors	1,32,392,
	2,87,000		2,87,000

5. The following was the balance sheet of X Ltd as on 31.3.2008

Liabilities	Rs	Assets	Rs
Share capital		Land	40,000
14% ,4000 preference share of Rs.100 each	4,00,000	Buildings	1,60,000
fully paid up		Plant and machinery	5,40,000
8000, Equity shares of Rs.100 each Rs.60 per	4,80,000	Patents	40,000
share paid up		Stock	1,00,000
Secured loans		Sundry debtors	2,30,000
14% Debentures	2,30,000	Bank	60,000
Interest accrued on above debenture	32,200	Profit and loss a/c	2,40,000
Loan on mortgage of land and building	1,50,000		
Sundry creditors	1,17,800		
	14,10,000		14,10,000

On 31.3.2008 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to Rs.30,000.the assets realized the following sums- land 80,000, building 2,00,000, plant machinery 5,00,00, patent 50,000,stock 1,60,000, sundry debtors 2,00,000. The expenses of liquidation amounted to 29,434.The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts distributed among unsecured creditors other than preferential creditors. All payments were made on 30.6.2008. Interest on mortgage loan shall be ignored at the time of payment. Prepare the liquidators final statement of account.

Solution

Particulars	Rs	Particulars	Rs
To assets realized		By loan on mortgage	1,50,000
Bank	60,000	By liquidation expenses	29,434
Sundry debtors	2,00,000	By liquidators remuneration	
Stock	1,60,000	2% of assets realised1190000	23,800
Land	80,000	2% of 87800 unsecured	1,756
Buildings	2,00,000	creditors	2,30,000
Plant and machinery	5,00,000	14 % debentures	40,250
patent	50,000	Interest on	30,000
		debentures230000x3/12x14%	87,800
		By preferential creditors	
		By unsecured creditors	4,00,000
		By preference shareholders	56,000
		Preference capital	2,00,960
		Arrears dividend	
		By equity shareholders	
	12,50,000		12,50,000

6. Prakash Processors Ltd went into liquidation on 31.12.07 when their balance sheet was asfollows

Liabilities	Rs	Assets	Rs
10,000-10% cumulative preference shares	10,00,000	Land & building	5,00,000
of Rs. 100 each fully paid		Machinery & plant	12,50,000
5,000 equity shares of Rs.100 each 75 paid	3,75,000	Patents	2,00,000
15000 equity shares of Rs.100 each 60	9,00,000	Stock	2,75,000
paid	5,00,000	Sundry debtors	5,50,000
15% Debentures secured by a floating	75,000	Bank	1,50,000
charge	6,37,500	p/l a/c	5,62,500
Interest outstanding on debentures			
Creditors			

	34,87,500		34,87,500

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of Rs.76,000. The assets realized as follows land 6,00,000.machinery 10,00,000 patents 1,50,000, stock 3,00,000, sundry debtors 4,00,000. Liquidation expenses 54,500.
The liquidators is entitled to a commission of 3 % on assets realized except cash.
Assuming the final payment including those on debentures is made on 30.6.2008.
Prepare the liquidators finalstatement of account.

Solution

Particulars	Rs	Particulars	Rs
To assets realized		By liquidation expenses	54,500
Bank	1,50,000	By liquidators Remuneration	73,500
Land	6,00,000	2450000-3%	5,00,000
Machinery	10,00,000	By 15% debentures	75,000
Patents	1,50,000	Interest outstanding (31.12.07)	37,500
Stock	3,00,000	Interest (1.1.08-30.6.08)	76,000
Sundry debtors	4,00,000	By preferential creditors	5,61,500
To call on holders of	39,750	By unsecured creditors	
equity shares @ 2.65		By preference shareholders	10,00,000
		Preference capital	2,00,000
		Arrears dividend(10% for 2	61,750
		years)	
		By equity shareholders	
	26,39,750		26,39,750

Total equity paid up value 375000+900000 1275000
Balance available after payment to preference shareholders (2600000-2578000) 22000
Loss to be borne by 20000 equity shares 1253000
Loss per share 125300/20000 = 62.65
Therefore amount of call on holders of Rs.60 paid shares (62.65-60) 2.65
Refund to holders of Rs.75 paid shares (75-62.65) 12.35

UNIT - II BANKING COMPANIES

Meaning of Rebate on Bills Discounted:

Rebate on Bills Discounted is also known as Discount Received in Advance, or,Unexpired Discount or, Discount Received but not earned.

Format

Profit and loss account for the year ended 31 March year

Particulars	Schedule	Year ended current year	Year ended- previous year
I. Income Interest earned Other income	 13 14		
Total			
II. Expenditure Interest expended Operating expenses Provisions and contingencies	 15 16		
TOTAL			
III. Profit / Loss Net profit / loss (-) for the year Profit / loss (-) brought forward			
Total			
IV. Appropriations Transfer to statutory reserves Transfer to other reserves Transfer to government/ Proposed dividend Balance carried over to Balance sheet			
Total			

Schedule 13 : Interest earned

I. Interest/discount on advance/bills
II. Income on investments
Ill. Interest on balances with Reserve Bank of India and other inter-bank funds
IV. Others

Schedule 14 : Other income
I. Commission, exchange and brokerage
II. Profit on sale of investments
Less: Loss on sale of investments
III. Profit on revaluation of investments
Less: Loss on revaluation of investments
IV. Profit on sale of land, buildings and other assets
Less: Loss on sale of land, buildings and other assets
V. Profit on exchange transactions
Less : Loss on exchange transactions
VI. Income earned by way of dividends, etc. from subsidiaries/companies and/or joint ventures abroad/ in India

Schedule 15: Interest expended

Interest on deposits

- Interest on Reserve Bank of India/Inter bank borrowings
- Others

- Commission, exchange and brokerage
- Profit on sale of investments Less: Loss on sale of investments
- Profit on revaluation of investments Less: Loss on revaluation of investments
- Profit on sale of land, buildings and other assets Less: Loss on sale of land, buildings and other assets
- Profit on exchange transactions Less : Loss on exchange transactions
- Income earned by way of dividends, etc. from subsidiaries/companies and/or joint ventures abroad/ in India
- Miscellaneous income

Schedule 16 : Operating expenses As on 31-3-19..... As on 31-3-19.....
(current year) (previous year)

- Payment to and provisions of employees
- Rent, taxes and lighting
- Printing and stationery
- Advertisement and publicity
- Depreciation on bank's property
- Director's fees, allowances and expenses
- Auditors' fees and expenses (including branch auditors)
- Law charges

- Postages, Telegrams, Telephones, etc.
- Repairs and maintenance
- Insurance
- Other expenditure

FORM A :- Form of Balance Sheet

Capital & liabilities	schedule	Year ended current year	Year ended-previous year
Capital	1		
Reserve and surplus	2		
Deposits	3		
Borrowings	4		
Other liabilities and provisions	5		
Total			
ASSETS			
Cash and balances with Reserve	6		
Bank of India			
Balance with banks and money at	7		
Call and short notice			
Investment	8		
Advances	9		
Fixed assets	10		
Other assets	11		
Total			
Contingent liabilities Bill for collection.	12		

Schedule 1 Capital • For Nationalized Banks Capital (Fully owned by Central Government) • For Banks Incorporated Outside India • Capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head) • Amount of deposit kept with the RBI under section 11(2) of the Banking Regulation Act, 1949 III. For Other Banks Authorized capital Issued capital Subscribed capital Called-up capital Less : Calls unpaid Add : Forfeited shares **Schedule 2 : Reserves and surplus** • Statutory reserves Opening balance Additions during the year Deductions during the year • Capital reserves Opening balance	**Schedule 6 :** **Cash and balances with Reserve Bank of India** Cash in hand (including foreign currency notes) Balances with Reserve Bank of India • in current account • in other accountsTotal (I + II) **Schedule 7 : Balances with banks and money at call and short notices** 1. In India (i) Balances with banks • in current accounts • in other deposit accounts (ii) Money at call and short notice • with banks • with other institutionsTotal (I + II) Outside India • in current accounts • in other deposit accounts • Money at call and short notice Total (I + II + III) Grand total: (I + II)

Additions during the year
Deductions during the year
- Share premium
Opening balance
Additions during the year
Deductions during the year
- Revenue and other reservesOpening balance
Additions during the year
Deductions during the year
- Balance in Profit and LossAccount

Total: (I + II + III+ IV + V)

Schedule 3 : Deposits

A. I. Demand deposits
- From banks
- From others
- Savings bank deposits
- Term deposits
- From banks
- From others

Total: (I + II + III)
B.(i) Deposits of branches in India
(ii) Deposits of branches outside India
Total

Schedule 4 :Borrowings

As on 31-3-19...... As on 31-3-19......
(Current year) (Previous year)
I. Borrowings in India
- Reserve Bank of India
- Other banks
- Other institutions and agencies

II Borrowings outside India
Total (I + II)
Secured borrowings included in I and II above – Rs.

Schedule 5 : Other liabilities and provisions

As on 31-3-19...... As on 31-3-19......
(current year) (previous year)
- Bills payable
- Inter-office adjustments

(net)III Interests accrued
IV. Others (including provisions)

Schedule 8 : Investments

1. Investment in Indian in
- government securities
- Other approved securities
- shares
- Debentures and Bonds
- Subsidiaries and/or joint ventures
- Other (to be specified)

Total :
II. investment outside India in
- Government securities (including local authorities)
- Subsidiaries and/or joint venture abroad
- Other investments (to be specified)

Total
Grand Total (I+II)

Schedule 9 : Advances

As on 31-3-19...... As on 31-3-19......
(current year) (pervious year)
A (i) Bills purchased and discounted
- Cash credits, overdrafts and loans repayable on demand
- Term loans

Total
B. (i) Secured by tangible assets
- Covered by bank / government guarantees
- Unsecured

Total:
C.I. Advances in India
- Priority sector
- Public sector
- Banks
- Others

Total:
II. Advances outside India
- Due from banks
- Due from others
- Bills purchased and discounted
- Syndicated loans
- Other

sTotal:

Total :	Grand Total (CI + CII) **Schedule 10 :Fixed assets** As on 31-3-19...... As on 31-3-19....... (current year) (previous year) I. Premises At cost on 31st March of the preceding Year Additions during the year

Deductions during the year
Depreciation to date
II Other fixed assets (including furniture andfixtures)
At cost as on 31st March of the preceding year Addition during the year
Deductions during the year
Depreciation to date
Total (I+ II)

- From the following information prepare p/l a/c for the year ended 31.3.04.

Interest on loans	5, 18,000
Interest on fixed deposits	5, 50,000
Commission received	16,000
Salaries	1, 08,000
Discount on bills discounted	2, 92,000
Rebate on bills discounted	98,000
Interest on investments	4, 46,000
Interest on current account	84,000
Rent	36,000
Interest on overdraft	3, 08,000
Directors fees	6,000
Auditors fees	2,000
Interest on savings bank deposit	1, 36,000
Postage	3,000
Printing and stationery	6,000
Locker rent	1,000
Depreciation on bank assets	10,000
Sundry charges	4,000

particulars	schedule	Year ended current year
I. Income		
Interest earned	13	15,64,000
Other income	14	23,000
Total		15,87,000
II. Expenditure		
Interest expended	15	7,70,000
Operating expenses	16	1,71,000
Provisions and		3,80,000
contingencies(80000+ 300000)		
TOTAL		13,21,000
III. Profit / Loss Net profit / loss (-) for the year Profit / loss (-) brought forward		2,66,000
Total		2,66,000
IV. Appropriations		
Transfer to statutory		66,500
reserves266000*25/1 00		
Balancec over to Balance		1,99,500

a rr i e d					
sheet					
Total					2,66,000

Other information- provision for bad debts 80000, provision for income

tax 3, 00,000 .Profit and loss account for the year ended 31 march year

Schedule -13 interest earned	S-14 other income	S-15 interest expended	S-16 operating expenses
518000+446000+292000+308000	16000+2000+1000+4000	550000+84000+136000	108000+36000+6000+2000+3000+6000+1000
156400	23000	770000	171000

- Prepare p/l a/c on 31.3.04

Interest and discount earned	3, 16, 28,000
Income on investment	1, 18, 10,000
Interest received on balance with RBI	42, 43,000
Commission,exchange , brokerage	29,07,000
Profit on sale of investment	1, 14,000
Interest on deposit paid	3, 14, 04,000
Interest on RBI loan paid	33, 62,000
Salaries	97,17,000
Depreciation on bank assets	3,79,000
Rent and Lighting	11, 68,000
Auditors fees	41,000
Law charges	22,000
Postage	4, 03,000
Other expenses	17, 99,000
Balance of profit b/d from last year	10,00,000

Adjustments: provision for income tax 51.75 % on profit .transfer to revenue reserve 5 %Transfer to proposed dividend 2,00,00.

Profit and loss account for the year ended 31 March year

particulars	schedule	Year ended current year
I. Income		
Interest earned	13	4,76,81,000
Other income	14	30,21,000
Total		5,07,02,000
II. Expenditure		
Interest expended	15	3,47,66,000
Operating expenses	16	1,35,36,000
Provisions and contingencies		1,24,200
TOTAL		4,95,44,000
III. Profit / Loss		
Net profit / loss (-) for the year		11,58,000
Profit / loss (-) brought forward		10,00,000
Total		21,58,000
IV. Appropriations		
Transfer to statutory reserves		2,89,500
Transfer to other reserves		57,900
Proposed dividend		2,00,000
Balance carried over to Balance		16,10,600
sheet		
Total		21,58,000

Schedule -13 interest earned	S-14 other income	S-15 interest expended	S-16 operating expenses
31628000,11810000,4243000	2907000,114000	31404000,3362000	9717000,116800,379000,7000,41000,22000,403000,1799000
47681000	3021000	34766000	13536000

- .Prepare p/l a/c on 31.3.07

Interest on fixed deposit	4,30,000
Interest on loans	6,50,000
Discount on bills discounted	4,15,000
Interest on over draft	2,10,000
Interest on cash credit	4,10,000
Interest on savings bank deposits	1,25,000
Salaries and allowance	1,40,000
Rent tax, insurance	40,000
Locker rent	5,000
Repairs to bank property	2,000

Commission,exchange and brokerage	24,000
Directors fees	25,000
Transfer fees	2,000
Provident fund contribution	12,000
Local committee fees and allowances	10,000
Audit fees	40,000
Printing and stationery	4,000
Loss on government securities	5,000
Loss on sale of furniture	2,000
Postage and telegram	2,500

Depreciation 10,000
Advertisement 4,000
Legal charges 2,500

Adjustment – Rebate on bills discounted 31.3.06- 19,000. Rebate on bills discounted 31.3.07- 26,000.
Bad debts to be written off 40,000 , Provide for taxation 50,000.

Profit and loss account for the year ended 31 march year

particulars	**schedule**	**Year ended current year**
I. Income Interest earned Other income	 13 14	 16,78,000 24,000
Total		17,02,000
II. Expenditure Interest expended Operating expenses Provisions and contingencies(40+50)	 15 16	 5,55,000 2,64,000 90,000
TOTAL		9,09,000
III. Profit / Loss Net profit / loss (-) for the year Profit / loss (-) brought forward		 7,93,000
Total		7,93,000
IV. Appropriations Transfer to statutory reserves Balance carried over to Balance sheet		 1,98,250 5,94,750
Total		7,93,000

S-13	RS	S-14	RS	S-15	RS	S-16	RS
Loan	650000	Locker	5000	f.d	430000	Salary	140000
o.d	210000	Commission	24000	saving	125000	Rent	40000
cash	410000	Transfer	2000			Repair	2000
credit	415000+	fees				Director fees	25000
discount	19000-	- loss on	-5000			P,f	12000
on bills	26000	securities	7000			local	10000
+		Loss on sale				Audit	12000
opening		of furniture				Printing	4000
rebate –						postage	2500
closing						depreciation	10000
rebate						Advertisement	4000
						local	2500
	1678000		24000		555000		264000

4. Prepare balance sheet for 31.3.08

Share capital	4,00,000
Reserve Fund	6,20,000
Fixes Deposit	42,60,000
Saving Bank Deposits	19,00,000
Current A/C	23,20,000
Money At Call And Short Notice	1,80,000
Investments	25,00,000
P/L A/C (Cr) 1.4.07	1,35,000
Dividend for 2007	40,000
Premises	2,95,000
Cash in hand	38,000
Cash with RBI	10,00,000
Cash with other banks	6,00,000
Bills discounted and purchased	3,80,000
Loans, cash credit and overdraft	51,00,000
Bills payable	7,000
Unclaimed dividend	6,000
Rebate on bills discounted	5,000
Short loans (borrowings from other banks)	4,75,000
Furniture	1,16,400
Other assets	33,600
Net profit 2008	1,55,000

Balance sheet as on 31.3.2008

Capital & liabilities	schedule	Year ended current year
Capital Reserve and surplus Deposits Borrowings	1 2 3 4	4,00,000 8,70,000 84,80,000 4,75,000
Other liabilities and provisions	5	18,000
Total		1,02,43,000
ASSETS		
Cash and balances with	6	10,38,000
ReserveBank of India		
Balance with banks and money	7	7,80,000
atCall and short notice		
Investment	8	25,00,000
Advances	9	54,80,000
Fixed assets	10	4,11,400
Other assets	11	33,600
Total		1,02,43,000
Contingent liabilities Bill for collection .	12	Nil nil

Schedule -1 *****capital 4,00,000

Schedule -2*** reserve fund 620000
+ p/l a/c 135000
- dividend 40000-95000
+ net profit 155000-25%of 155000 211250
+ statutory reserve 38750
Total 870000
Schedule 3 F.D+S+B+CURRENT 8480000
Schedule4 short loan 475000
Schedule 5 b/p+ unclaimed dividend+rebate 18000
Schedule6 cash+cashrbi 1038000
Schedule7 money + cash with other banks 780000
Schedule8 investments 2500000
Schedule 9 bill discounted + purchased 5480000
Schedule 10 Premises + furniture 4,11,400
Schedule 11 other assets 33600

5. prepare p/l a/c and b/s

Statutory reserve	120000
Bad debts	12800
Operating expenses	18200
Current a/c	2024500
Interest paid	16000
Deposit a/c	692000
p/l brought forward	22900
B/R for customers	150000
Endorsement and guarantee	24400
Commission	4500
Cash	22500
interest earned	55000
balance with RBI	203000
Balance With Foreign Bank	120600
Bills For Collection	150000
Borrowings From Banks	648200
Cash And Overdraft	1545700
Investments	988200
Bills discounted	622800
Premises	221700
Share capital	200000

Adjustments -

rebate on bills discounted	6400
interim dividend	20000

P/L A/C

Particulars	schedule	Year ended current year
I. Income		
Interest earned(55+224-6400)	13	73000
Other income	14	4500
Total		77500
II. Expenditure		
Interest expended	15	16000
Operating expenses	16	18200
Provisions and contingencies(bad debts		12800

TOTAL		47000
III. Profit / Loss		30500
Net profit / loss (-) for the year		22900
Profit / loss (-) brought forward		
Total		53400
IV. Appropriations		
Transfer to statutory reserves		7625
Proposed dividend		20000
Balance carried over to Balance sheet		25775
Total		53400

B/S

Capital & liabilities	schedule	Year ended current year
Capital- **200000**	1	2,00,000
Reserve and surplus	2	1,53,400
Deposits	3	27,16,500
Borrowings	4	6,48,200
Other liabilities and provisions(rebate)	5	6,400
Total		3724500

ASSETS		
Cash and balances with ReserveBank of India	6	2,25,500
Balance with banks and money atCall and		
short notice	7	1,20,600
Investment		
Advances	8	9,88,200
Fixed assets	9	21,68,500
Other assets	10	2,21,700
	11	-
Total		3724500
Contingent liabilities .(150000+575000) Bill for collection.	12	207500 Nil

- Prepare p/l a/c and b/s

Particulars	Rs	Rs
Share capital	-	9,00,000
Fixed deposits	-	3,50,000
Savings bank accounts	-	2,50,000
Current account	-	6,00,000
Reserve fund	-	3,00,000
Interest and discount	-	3,00,000
Money at call and short notice	3,00,000	-
Cash on hand	3,00,000	-
Cash at bank	3,60,000	-
Investment in governments securities	1,80,000	-
Loans and cash credit	13,48,000	-
Furniture less depreciation	30,000	-
Premises less depreciation	2,52,000	-
Borrowings from city commercial bank	-	1,20,000
Unclaimed dividends	-	36,000
Pension fund	-	90,000
Rent	-	12,000
Commission received	-	48,000
Interest on deposit and borrowing	1,80,000	-
Salaries	48,000	-
Audit fess	6,000	-
Directors fees	3,000	-
Depreciation on banks property	6,000	-
Printing and stationery	3,000	-
Non-banking assets	30,000	-
Other expenditure	1,800	-
p/l a/c balances	-	42,000
	30,48,000	30,48,000

Adjustments

Provision for bad debts 15000, provide rebate on bills discounted 3000, acceptance on behalfof customers 450000, bills for collection 420000.

Solution

Particulars	schedule	Year ended current year
I. Income		
Interest earned(300000-3000)	13	2,97,000
Other income	14	60,000

Total		3,57,000
II. Expenditure		
Interest expended	15	1,80,000
Operating expenses	16	67,800
Provisions and contingencies(bad debts		15000
TOTAL		2,62,800
III. Profit / Loss		
Net profit / loss (-) for the year		94,200
Profit / loss (-) brought forward		42,000
Total		1,36,200
IV. Appropriations		
Transfer to statutory reserves		23550
Balance carried over to Balance sheet		112650
Total		136200

B/S

Capital & liabilities		schedule	Year ended current year
Capital		1	9,00,000
Reserve and surplus		2	4,36,200
Deposits		3	12,00,000
Borrowings		4	1,20,000
Other liabilities and		5	1,44,000
provisions(rebate, bad debts,			
unclaimed dividends, pension fund)			
Total			28,00,200
ASSETS			
Cash and balances with Reserve		6	3,00,000
Bank of India			
Balance with banks and money at		7	6,60,000
Call and short notice			
Investment		8	1,80,000
Advances		9	13,48,200
Fixed assets		10	2,82,000
Other assets		11	30,000
Total			28,00,200
Contingent	liabilities	12	4,50,000
.(150000+575000)			4,20,000

Bill for collection.		

- Prepare p/l a/c and b/s .

PARTICULARS	Rs	Rs
Share capital	-	7,50,000
Loans advance	80,20,000	-
Bank premises	5,32,500	-
Government securities	15,30,000	-
General reserves	-	4,50,000
Deposits	-	96,46,000
Interest and discounts	-	8,00,000
Interest on deposits and borrowings	2,00,000	-
Balance with other banks	1,00,500	-
Money at call notice	85,500	-
General expenses	82,500	-
Rent rate	6,900	-
Directors fees	4,200	-
Auditors fees	1,200	-
Bills discounted	90,000	-
Furniture (dep 1.4.07—20000)	80,000	-
Borrowings from other banks	-	1,05,000
Salaries	85,500	-
Computer	35,000	-
p/l a/c 1.4.07	-	37,500
miscellaneous income	-	300
commission	-	10,000
interim dividend	30,000	-
cash in hand and with RBI	9,15,000	-
	1,17,98,800	1,17,98,800

A. Bills Worth 50000 were received for collection

- Interest accrued on investment 12000
- Rebate on bills discounted 15000
- Debts amounting to Rs. 65000 were doubtful and provision is to be made for the same
- Furniture depreciation 105 on furniture

particulars	schedule	Year ended current year
I. Income		
Interest earned (800+12-15000)	13	7,97,000
Other income	14	10,300
Total		8,07,300
II. Expenditure		
Interest expended	15	2,00,000
Operating expenses	16	1,90,300
Provisions and contingencies(bad debts		65,000
TOTAL		4,55,300
III. Profit / Loss		
Net profit / loss (-) for the year		3,52,000
Profit / loss (-) brought forward		37,500
Total		3,89,500
IV. Appropriations		
Transfer to statutory reserves		88,000
Proposed dividend		30,000
Balance carried over to Balance sheet		271,500
Total		3,89,500

B/S

Capital & liabilities	schedule	Year ended current year
Capital	1	7,50,000
Reserve and surplus	2	8,09,500
Deposits	3	96,46,000
Borrowings	4	1,05,000
Other liabilities and provisions(rebate, BILLS	5	80,000
DISCOUNTED)		
Total		1,13,90,500
ASSETS		
Cash and balances with Reserve Bank of India	6	9,15,000
Balance with banks and money at Call and short notice		
Investment	7	1,86,000
Advances- LOANS, BILLS DISCOUNTED		
Fixed assets	8	15,30,000
Other assets	9	81,10,000
	10	6,37,500
	11	12,000
Total		1,13,90,500
Contingent liabilities.	12	---

Bill for collection.		50,000

Fixed assets- 532500+80000-10000 +35000 = 637500

- The following particulars are extracted from the trial balance of C banking Company for theyear ended 31.3.2008

1. Interest and discount 1, 96, 34,680
2. Rebate on bills discounted 1.4.07 65,040
3. Bills discounted and purchased 67, 45,400

It is ascertained that proportionate discount not yet earned on the bills discounted which willmature during 2008-09 amounted to Rs.92, 760
Give journal entries and ledger a/c

Solution

Particulars	DEBIT	CREDIT
1. Rebate On Bills Discounted a/c DR TO Interest and discount a/c (being last year rebate)	65040	65040
2. Interest and discount a/c DR To Rebate On Bills Discounted a/c (being current rebate)	92760	92760
3. Interest and discount a/c DR To profit and loss a/c (being current profit)	19634680	19634680

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Rebate on Bills Discounted a/c

Date	Particulars	RS	Date	particulars	RS
31.3.08	To Interest and discount	65040	1.4.08	By balance b/d	92760
31.3.08	a/c	92760	31.3.08	By Interest and discount	65040
	To balance c/d			a/c	
		157800			157800

Interest and discount a/c

Date	particulars	RS	Date	particulars	RS
31.3.08	To rebate To p/l account	92760 19634680	31.3.08	By sundries By rebate	19662400 65040
		19727440			19727440

- The following is an extract from the trial balance of a bank 31.3.08

Bills discounted	51, 50,000
Rebate on bills discounted not yet due 1.4.07	30,501
Discount received	1, 45,500

An analysis of the bills discounted as shown above shows the following

Date of bill	amount	Term months	Discounted %
January 13	7,50,000	4	12
February 17	6,00,000	3	10
March 6	4,00,000	4	11
March 16	2,00,000	2	10

Find out the amount of discount received

Solution

Calculation of rebate on bills discounted

Date of bill	Maturity	No of days after march 31	amount	discount	Total annual discount	Proportionate discount
January 13	May 16	46	7,50,000	12	90000	11342(90*46/365)
Feb 17	May 20	50	6,00,000	10	60000	8219
March 6	July 9	100	4,00,000	11	44000	12055
March 16	May 19	49	2,00,000	10	20000	2685
						34301

Discount a/c

31.3.08 31.3.08	To p/l a/c To rebate	1,41,700 34,301	31.3.08 31.3.08	By sundries By rebate (1.4.07)	1,45,500 30,501
		1,76,001			1,76,001

Particulars	DEBIT	CREDIT
1. Rebate On Bills Discounted a/c DR TO Interest and discount a/c (being last year rebate)	30501	30501
2. Interest and discount a/c DR To Rebate On Bills Discounted a/c (being current rebate)	34301	34301
3. Interest and discount a/c DR To profit and loss a/c (being current profit)	141700	141700

UNIT - III DOUBLE ACCOUNT SYSTEM

Meaning of Double Account System:

These undertakings are usually incorporated under Special Acts and, as a result, the form of accounts is prescribed by, special statute. These public utility undertakings are generally run by Government or by local authorities (except Electric Supply Companies and Tramways)

Main Features of Double Account System:

- Generally, a public utility undertaking needs a large amount of capital which is invested in the acquisition of fixed assets. Therefore, fixed assets, fixed liabilities and current assets, current liabilities are to be separately dealt with. Fixed Assets and fixed or long- term liabilities are recorded in Receipts and Expenditure on Capital Account. Similarly, current assets and current liabilities are recorded in the General Balance Sheet.
- Revenue Account and Net Revenue Account are prepared instead of Profit and Loss Account and Profit and Loss Appropriation Account.
- Normally, no adjustment of asset is made in the Capital Account.
- Depreciation is not deducted from the asset concerned but the same is shown as a liability by way of a fund. And, as such, fixed assets are recorded at book value.
- Any kind of funds and reserve — e.g., Sinking Fund, Depreciation Fund, General Reserve, Capital Reserve, the Balance of Revenue/Net Revenue Account — are shown in the liabilities side of the General Balance Sheet.
- Discount and Premiums are permanently treated as capital items.
- Loan capital (debentures) Shares and Stocks are treated as capital items.
- Interest on Loan and Debentures (i.e., all fixed interests) are to be charged against Net Revenue Account.

Advantages of Double Account System:

The advantages of Double Account System are:

- As Depreciation fund is compulsorily created and invested in outside securities, it helpsto replace an asset without affecting the liquid resources, viz., Cash, of the concern.

- Revenue account represents the operating activities which expresses the operating result of the undertaking while extraneous items are recorded on Net Revenue Account which expresses the real operational result.
- The capital account helps us to understand the source of capital in various forms and the application of same in the form of various fixed assets. Thus, it can easily be followed by an ordinary person.

- Since these concerns enjoy almost monopoly rights given by the Govt., the Govt, may understand whether the concern supplies the efficient service at reasonable cost or not after analysing its prescribed format of accounting.

- The undertakings may compile at ease various statistical returns which reflect the service given to the public since the accounts are published in a standardized form.

Disadvantages of Double Account System:

- Capital Account incorporates the value of an asset whose life is very short. Those assetsappear in the account at their scrap value—although these are shown at a higher value.

- Since all Assets are recorded at cost and not the written-down value, the Balance Sheetdoes not exhibit a real position.

- Capital account includes the items like preliminary expenses which are also consideredin Single Account System.

- It is not always possible to understand the accounting statements and forms by theordinary people.

- In order to replace an asset for improved means it may not always be possible todetermine exactly the amount of revenue expenditure items which should be charged.

- Since repairs and renewal expenditures are charged to revenue account of the same year, profit of the undertaking, particularly on that year when no expenditures on repairs and renewals are incurred, is affected. That is why, in order to overcome this difficulty, some undertakings may even open a separate account viz., Repair and Renewal Reserve.

- Proper distinctions between revenue expenditure and capital expenditure is notpossible under this system.

Double accounting system

particulars	debit	credit
1. For the amount spent on new works New work a/c (amount to be capitalized) Replacement a/c (amount to be written off to revenue) To bank (actual amount spent)	 Xxx xxx	. xxx
2.For the sale of old materials Bank a/c DR To replacement a/c	 xxx	 xxx
3.for the value of old materials used in the construction New works a/c DR To replacement a/c	 xxx	 xxx
4. For the balance in the replacement a/c Revenue a/c To replacement a/c	 Xxx	 xxx
5.for the amount entirely spent on new extension New works a/c DR To bank a/c	 Xxx	 xxx

Sum:1

The Indian gas company rebuilt and re-equipped part of their works at a cost ofRs.50,00,000. The parts of the old works, thus superseded cost Rs.30,00,000. The capacity of

the new works is double the capacity of the old. Rs. 2,50,000 is realized by the sale of old materials and old materials worth Rs.1,50,000 are used in the construction of the new works of Rs.50,00,000. The costs of labour and materials are 25% higher now than when the old works were built. Journalise the aboveSoln:

Calculation of Estimated replacement co

Original cost of the old works	**30,00,000**
ADD: increase in the cost of material and labour 30,00,000x25/100	**7,50,000**
Estimated replacement cost	**37,50,000**

Calculation of Amount to be captalised

Actual cost of new works	**50,00,000**
LESS: Estimated cost of replacement	**37,50,000**
Amount to be capitalized	**12,50,000**

Calculation of Amount to be transferred to revenue A/c

Estimated cost of replacement **Less material sold 2,50,000** **Material used 1,50,000**	**37,50,000** **4,00,000**
Amount to be charge to revenue a/c	**33,50,000**

Journal entries

Date	Particulars	Debit	Credit
	New works a/c Dr Replacement a/c Dr To Bank a/c (being the current cost of replacement charged to replacement a/c and the balance is capitalized)	12,50,000 37,50,000	 50,00,000
	New works a/c Dr To replacement a/c (being the cost of old materials used in new works)	1,50,000	 1,50,000
	Bank a/c Dr To replacement a/c (being old materials realized credited to replacement a/c)	2,50,000	 2,50,000
	Revenue a/c Dr To replacement a/c (being the new current cost of replacement transferred to revenue a/c)	33,50,000	 33,50,000

SUM2:

Electric supply ltd re built and re equipped one of their mains at a cash cost of RS 40,00,000. The cost of old main was Rs 15,00,000. RS. 90,000 was realized from sale of old materials. Four old motors valued at RS 160000 salvaged from the old main were used in the reconstruction. The cost of labour and materials is respectively 20% and 15% higher now than when the old main then was built. The proportion of labour to materials in the main and now is 1:2 .Show the journal entries for recording the above transaction, if the accounts are maintained under double account system.

Solution:

Calculation of break-up cost of old lines

Ratio between cost is 1:2

Material cost = 1500000x2/3 = Rs 10,00,000Labour cost = 1500000x1/3 =

Calculation of Estimated cost of replacement

Item	Original cost	Increase due to price change	Estimated cost
Materials Labour	1000000 500000	1000000x15/100 = 150000 500000x20/100 = 100000	1150000 600000
		Estimated cost of replacement	1750000

Calculation of amount to be capitalized

Cost of re building new main 40,00,000
LESS: estimated cost of replacement 17,50,000

Amounted to be capitalized 22,50,000

Calculation of amount to be transferred to revenue account

Estimated cost of replacement **17,50,000**
Less material sold 90,000
Material used 1,60,000 **2,50,000**
Amount to be charge to revenue a/c **15,00,000**

Sum 3:

An Electric Supply company rebuilds it's mains at the cost of RS.12,00,000. This includes value of RS 13,800 material of old main used for new one. The original mains were constructed at a cost of RS. 1,00,000. The ratio of material and labour therein was 7:3. The increase in material prices is 25% and wages rates 30%. Materials worth RS.25,700 from old works was sold. Show the journal entries under double accounts system and prepare necessary ledger accounts.

Solution:Calculation of Break-up cost of old mainsRatio 7:3 1,00,000----------
materials 70,000labour 30,000

item	Original cost	Increase due to price changes	Estimated cost
Materials Labour	70000 30000	70000x25/100 = 17500 30000x30/100 = 9000	87500 39000
		Estimated cost of replacement	126500

New Mains Account

Particular	Rs	particular	Rs
To balance b/d To bank (captilised) To replacement (old materials)	1,00,000 10,73,500 13,800	By balance c/d	11,87,300
	11,87,300		11,87,300

Particular	Rs	Particular	Rs
To bank (current cost of replacement)	1,26,500	By bank(sale of old materials) By new main (old materials used) By revenue a/c	25,700 13,800 87,000
	1,26,500		**1,26,500**

Replacement Account

Calculation of amount to be capitalized

Cost of re building new main LESS: estimated cost of replacement	12,00,000 1,26,500
Amounted to be capitalized	10,73,500

Calculation of amount to be transferred to revenue account

Estimated cost of replacement **Less material sold 23700** **Material used 13800**	**126500** **39500**
Amount to be charge to revenue a/c	**87000**

New main a/c Replacement a/c To bank a/c	dr dr	1073500 126500	 1200000
New main a/c To replacement a/c	dr	13800	 13800
Bank a/c dr To replacement a/c		25700	 25700
Revenue a/c dr To replacement a/c		87000	 87000

Specimen format of double accounting system

Revenue a/c for the year ending….

Particular	Amount	Particular	Amount
A GENERATION To Fuel To oil,wastage,water To salary of engineers	 Xxx Xxx Xxx	By sale of energy for light By sale of energy for power By sale of energy under special contracts	Xxx Xxx Xxx
B DISTRIBUTION To salary of engineers To wages &gratuities To repairs	 Xxx Xxx Xxx	By public lights By rent receivable By transfer fees By other items	Xxx Xxx Xxx Xxxx
C PUBLIC LAMPS To attendance&repairs To payments	 Xxx Xxx	By miscellaneous receipts By sale of ashes By receiving and disconnection fees	Xxx Xxx Xxx
D RENT,RATES&TAXES To rent payable To rent & taxes	 Xxx Xxx		
E MANAGEMENT EXPENSES To director's remuneration To management To general establishment To auditors of the company	 Xxx Xxx Xxx Xxx		
F LAW CHARGES To law charges	 Xxx		
G DEPRECITION To lease To building	 Xxx Xxx		
H SPECIAL CHARGES To bad debts	 Xxx		
To balance carried to net Revenue a/c	Xxxxx		Xxxxx

Net revenue account for the year ending…

Particular	Amount	Particular	Amount
To interest on security deposits To interest on fixed loan To contingency reserve To dividend control reserve To reserve for rebate to consumers To balance carried to balance sheet	Xxx Xxx Xxx Xxx Xxx Xxx	By balance b/d By balance brought from revenue a/c By interest on bank a/c	Xxx Xxx Xxx
	XXX		XXX

Receipts and expenditure on capital a/c for the year ending(or) Capital a/c

Expenditure	Exp in pre.yr	Exp in during .yr	Total Exp	Receipts	Rec.in pre.yr	Rec .in during .yr	Total Rec
To pre expenses To land To machinery To main To plant	XXX XXX XXX XXX XXX	XXX XXX XXX XXX XXX	XXX XXX XXX XXX XXX	By loans By equity shares By debentures By pref.Shares	XXX XXX XXX XXX	XXX XXX XXX XXX	XXX XXX XXX XXX
TOTAL Expenses	XXX	XXX	XXX	Total receipts	XXX	XXX	XXX
To balance of capital a/c transferred to GBS							

General Balance Sheet

Particular	Amount	Particular	Amount
Capital a/c (balance c/d from capital	XXX	Stores	XXX
a/c)	XXX	Sundry	XXX
Sundry creditors for capital a/c	XXX	debtors	XXX
Sundry creditors on open a/c	XXX	Cash at bank	XXX
Net revenue a/c	XXX	Cash in hand	xxxx
Reserve fund a/c	XXX		
Deperication fund			

1. **The** figures given below relate to the city electric supply company ltd .prepare revenuea/c for the year ended 31.3

Sale of current	1,04,000
Sale of meters	4,000
Cost of generation	28,000
Cost of distribution	4,000
Rent rate and taxes	4,000
Management expenses	25,600

Solution

Revenue a/c of city electric supply co. Ltd for the year ended 31.3.2008

Payments	Rs	Receipts	Rs
To Cost of generation	28000	**By Sale of current**	104000
To Cost of distribution	4000	**By Sale of meters**	4000
To Rent rate and taxes	4000		
To Management expenses	25600		
To balance carried to net revenue a/c	46400		
	108000		108000

The following are the balances on 31.3.2005 in the books of south Chennai electric companylimited

Particulars	debit	credit
Land 1.4.04	60,000	-
Land expanded during the year	2,000	-
Machinery1.4.4	2,40,000	-
Machinery expended during the year	2,000	-
Mains including the cost of laying	80,000	-
Mains expended during the year	20,400	-
Ordinary shares	-	2,19,600

Debentures	-	80,000
Sundry creditors	-	400
Depreciation fund	-	1,00,000
Sundry debtors for current supplied	16,000	-
Other debtors	200	-
Cash	2,000	-
Cost of generation of electricity	14,000	-
Cost of distribution of electricity	2,000	-
Rent and taxes	2,000	-
Management expenses	4,800	-
Depreciation	8,000	-
Sale of current	-	52,000
Rent of meters	-	2,000
Interest on debentures	4000	-
Interim dividend	8,000	-
Balance of net revenue a/c 1.4.04	-	11,400
	465400	4,65,400

Prepare revenue a/c, net revenue a/c, capital a/c and general balance sheet.**Solution**

Revenue a/c for the year ended 31.3.2005

Payments	Rs	Receipts	Rs
To Cost of generation of electricity	**14,000**	**By Sale of current**	**52,000**
To Cost of distribution of electricity	**2,000**		
To Rent and taxes	**2,000**	**By Rent of meters**	**2,000**
To Management expenses	**4,800**		
To Depreciation	**8,000**		
To balance carried to net revenue a/c	**23,200**		
	54,000		**54,000**

Net Revenue a/c for the year ended 31.3.2005

Particulars	RS	Particulars	RS
To Interest on debentures	4,000	By balance b/d	11,400
To Interim dividend	8,000	By balance from revenue a/c	23,200
To balance carried to general B/s	22,600		
	34,600		34,600

Receipts and expenditure on capital a/c for the year ending 31.3.2005

Expenditure	Upto 31.3.04	During 04-05	Total	Receipts	Upto 31.3.04	During 04-05	Total
To land To machinery To main Total expenses	60,000 2,40,000 80,000 3,80,000	2,000 2,000 20,400 24,400	62,000 2,42,000 1,00,400 4,04,400	By equity shares By debenture Total receipts	2,19,600 80,000 299600	- - -	2,19,600 80,000 2,99,600
				By balance c/d			1,04,800
			4,04,400				4,04,400

General balance sheet as on 31.3.2005

Liabilities	Rs	Assets	Rs
Total capital receipts Creditors Depreciation fund Net revenue a/c	2,99,600 400 1,00,000 22,600	Total capital expenses Sundry debtors Other debtors cash	4,04,400 16,000 200 2,000
	4,22,600		4,22,600

3. The following are the balances of KumaranElectric Company Ltd as on 31.12.2005

Particulars	Dr	Cr
Land acquired during 2015	5,000	-
Machinery as on 31.12.2014	2,50,000	-
Mains as on 31.12.2014	1,00,000	-
Ordinary shares (100 each)	-	2,70,000
6% debentures	-	90,000
Share premium	-	10,000
Sundry creditors	-	5,000
Depreciation fund	-	1,10,000
Debtors for power supplies	20,000	-
Other debtors	1,000	-
Cash	2,000	-
Cost of generation of power	19,000	-
Cost of distribution of power	2,000	-
Rent and taxes	2,000	-

Management expenses	9,000	-
Depreciation	10,000	-
Sale of current	-	92,000
Meter rent	-	3,000
Interest on debentures	4,000	-
Interim dividend	11,000	
Net revenue 31.12.2014	-	17,000
Land 31.12.04	70,000	-
Machinery expended during 2015	2,000	-
Mains expended during 2015	90,000	-
Total	**5,97,000**	**5,97,000**

During the year there was an issue of 70 shares at premium Of Rs.2 per share which was fully subscribed and paid up. Prepare revenue a/c, net revenue a/c, capital a/c and general balancesheet**.**

Revenue a/c for the year ended 31.3.2005

Payments	Rs	Receipts	Rs
To Cost of generation of electricity	19,000	By Sale of current	92,000
To Cost of distribution of power	2,000	By Rent of meters	3,000
To Rent and taxes	2,000		
To Management expenses	9,000		
To Depreciation	10,000		
To balance carried to net revenue a/c	53,000		
	95,000		95,000

Net Revenue a/c for the year ended 31.3.2005

Particulars	RS	Particulars	RS
To Interest on debentures To Interim dividend To balance carried to general B/s	4,000 11,000 55,000	By balance b/d By balance from revenue a/c	17,000 53,000
	70,000		70,000

Receipts and expenditure on capital a/c for the year ending 31.3.2005

Expenditure	Upto 31.3.04	During 04-05	Total	Receipts	Upto 31.3.04	During 04-05	Total
To land To machinery To main Total expenses	70000 250000 100000 420000	5000 2000 90000 97000	75000 252000 19,00,000 5170000	By equity shares By debenture By premium Total receipts	200000 90000 8600 298600	70000 - 1400 714000	270000 90000 10000 370000

				By balance c/d			147000
			517000				517000

General balance sheet as on 31.3.2005

Liabilities	Rs	Assets	Rs
Total capital receipts	370000	Total capital	517000
Creditors Depreciation fund Net revenue a/c	5000 110000 55000	expenses Sundry debtors Other debtors cash	20000 1000 2000
	540000		540000

Opening capital = closing capital – current issue

200000=

270000-70000Premium 8600=1000-1400

3. Prepare final a/c under double a/c system

Land buildings	1,80,000	Equity share capital	5,00,000
Additions	40,000	6 % debentures	2,00,000
Machinery	8,00,000	Loan from government	4,00,000
Additions	20,000	Reserves	80,000
Mains	3,00,000	Sundry creditors	1,20,000
Additions	30,000	Sale of electricity	8,50,000
Power generation ex	4,30,000	Rent received on equipments	40,000
Distribution ex	70,000	Provision for depreciation	1,60,000
Rent	20,000	Net revenue	82,000
Sundry debtors	1,28,000		
Stores in hand	1,68,000		
Cash	12,000		
Management ex	1,65,000		
Interest on	9,000		
debentures	60,000		
Interim dividend			

Payments	Rs	Receipts	Rs
To Cost of generation of electricity	4,30,000	By Sale of electricity	8,50,000
To Cost of distribution of power	70,000	Rent received on	40,000
To Rent and taxes	20,000	equipments	
To Management expenses	1,65,000		
To Depreciation			
Machinery 30000			
Mains 20000			
Land 2000	52,000		
To balance carried to net revenue a/c	1,53,000		
	8,90,000		8,90,000

Provide depreciation machinery 30,000 , mains 20,000 land and

building 2,000.Revenue a/c for the year ended 31.3.2005

Net Revenue a/c for the year ended 31.3.2005

Particulars	RS	Particulars	RS
To Interest on debentures To Interim dividend To balance carried to general B/s	9,000 60,000 1,66,000	By balance b/d By balance from revenue a/c	82,000 1,53,000
	2,35,000		2,35,000

Receipts and expenditure on capital a/c for the year ending 31.3.2005

Expenditure	Upto 31.3.04	During 04-05	Total	Receipts	Upto 31.3.04	During 04-05	Total
To land To machinery To main Total expenses	180000 800000 300000 1280000	40000 20000 30000 90000	220000 820000 330000 1370000	By equity shares By debenture By premium Total receipts	500000 200000 400000 1100000	- - -	500000 200000 400000 1100000
				By balance c/d			2,70,000
			1370000				

General balance sheet as on 31.3.2005

Liabilities	Rs	Assets	Rs
Total capital receipts	1100000	Total capital	1370000
Creditors	120000	expenses	
Net revenue a/c	166000	Sundry debtors	128000
Provision for		Stores in hand	168000
depreciation		cash	12000
160000			
Machinery 30000	212000		
Mains 20000			
Land 2000			
	1678000		1678000

Reasonable Return:

The Electricity (Supply) Act, 1948, imposes restrictions on electricity undertakings on earning too high a profit, by means of the concept of reasonable return, which stipulates the following:

- A yield at the standard rate which is the Bank Rate stipulated by the Reserve Bank of Indiafrom time to time, plus 2% on the Capital Base.
- Income derived from investments excluding investments made against the ContingenciesReserve.
- An amount equal to ½% on any loans advanced by the Board.
- An amount equal to ½% on the amounts borrowed from organisations or institutionsapproved by the State Government.
- An amount equal to ½% on the amounts realised by the issue of debentures.
- An amount equal to ½% on the accumulations in the Development Reserve.
- Any other amount as may be allowed by the Central Government, having regard to theprevailing tax structure in the country.

The procedure for computing the capital base is given below:

An electricity company must adjust the rates so that the clear profit in any year does not exceed the reasonable return by more than 20 per cent of the reasonable return. In case it exceeds, it should be credited to Customers Rebate (or Benefit) Reserve.

Moreover, even the surplus within 20 per cent of the reasonable return has to be disposed ofas follows:

- 1/3 of the surplus not exceeding 5 per cent of the reasonable return will be at the disposal ofthe undertaking.
- Of the balance, 1/2 will be transferred to the Tariffs and Dividend Control Reserve.
- The balance left will be distributed among consumers by way of reduction of rates or byway of special rebate.

- City electricity ltd. Earned a profit of 8,45,000 during the year ended 31.3.04 after debentureinterest at 7.5 % on Rs.2,50,000. With the help of following figures given below, show the disposal of profits

Original cost of fixed assets	1, 00,00,000
Formation and other expenses	5, 00,000
Monthly average of current assets – net	25,00,000Reserve fund (represented by 4 %
Loan from electricity board	15, 00,000
Total depreciation written to date	20, 00,000
Tariff and dividend control reserve	50,000
Security deposits received from customers	2,00,000Assume bank rate to be 6 %

Solution

Calculation of capital base

Original cost of fixed assets	1,00,00,000	
Formation and other expenses	5,00,000	
Monthly average of current assets – net	25,00,000	
Contingency reserve fund investments	2,50,000	1,32,50,000
- Loan from electricity board	15,00,000	
Total depreciation written to date	20,00,000	
7.5 % debentures	2,50,000	
Tariff and dividend control reserve	50,000	
Security deposits received from customers	2,00,000 ---------------------------	40,00,000

Capital base 92,50,000

- **Calculation of reasonable rate of return**

8 % on capital base 925000	740000
½ % on loan from electricity board	7500
½ % on debentures	1250

Income from reserve fund investments 40000----------
788750 ==== reasonable return

- **Calculation of surplus =Clear profit + reasonable return**
  845000+788750=56250
- **Calculation of disposal of surplus**

1/3 for the company limited to 5 % of reasonable return 18750 (39438 or 1875 which ever isless)
½ % of the balance to be credited to Tariff and dividend control reserve 18750
Balance credited to consumers benefit reserve 18750
Total 56250

- **Journal entry**

Net revenue a/c dr 37500
To Tariff and dividend control reserve a/c 18750
To consumer benefit reserve 18750
Being profit appropriated

UNIT – IV HOLDING COMPAINES

What is a holding company and subsidiary company?

A holding company is a parent company that has control over a subsidiary company. A subsidiary company may be for-profit or non-profit. The parent-subsidiary relationship has various legal and financial implications for both companies.

Advantages of Holding Company

- **Ease of formation**

It is quite easy to form a holding company. The promoters can buy the shares in theopen market. The consent of the shareholders of the subsidiary company is not required.

- **Large capital**

The financial resources of the holding and subsidiary companies can be pooled together.

The company can undertake large scale projects to increase its profitability.

- **Avoidance of competition**

Competition between holding and subsidiary companies can be avoided if they are inthe same line of business.

- **Economies of large scale operations**

The buying and selling of the holding company and the subsidiaries can be centralized. It can enjoy the advantage of quantity discount and better credit terms because of bulk purchases. It can also get better terms from buyers in case of sales.

- **Secrecy maintained**

Secrecy can be maintained as the authority and decision making are centralized. It canprotect itself from adverse publicity.

- **Risks avoided**

In case the subsidiaries undertake risky business and fail, the loss does not affect theholding company. It can sell its stakes in the subsidiary company.

Disadvantages of Holding Companies

- **Over capitalization**

Since capital of holding company and its subsidiaries may be pooled together it may result in over capitalization. Shareholders would get not get a fair return on their invested capital.

- **Misuse of power**

The financial liability of the members of a holding company is insignificant in comparison to their financial power. It may lead to irresponsibility and misuse of power.

- **Exploitation of subsidiaries**

The holding company may exploit the subsidiary companies. The subsidiaries may be compelled to buy goods from the holding at high prices. They might be forced to sell their produce to the holding company as very low prices.

- **Manipulation**

Information about subsidiaries may be used for personal gains. For example information of the financial performance of subsidiary companies may be misused to indulge in speculative activities.

- **Concentration of economic power**

There is concentration of economic power in the hands of those who manage the holding company. Such concentration of economic power is harmful to the general economic welfare.

- **Secret monopoly**

It may lead to the creation of secret monopolies. These secret monopolies may try to eliminate competitors and prevent entry of new firms. They may exploit consumers by chargingunreasonable prices.

1. B/s as on 31.12.08

Liabilities	A ltd	B ltd	Assets	A ltd	B ltd
Share capital Rs 1 each	15000	6000	Sundry assets	22000	14000
Reserves	3000	2000	Investments	10000	
p/l a/c	2000	1000	6000 shares in B Ltd		
sundry creditors	12000	5000			
	32000	14000		32000	14000

A Ltd acquired the shares on 31.12.08

Solution

Calculation of capital reserve or goodwill

Equity capital		6000
+ reserves	2000	
p/l a/c	1000-------	3000
Total value		9000
- investments		10000
Good will (-)		**1000**

Consolidated balance sheet as on 31.12.08

liabilities	RS	Assets	Rs
Share Capital	15000	Goodwill	1000
Reserves	3000	Sundry assets	
P/L	2000	A 22000	
Sundry Creditors A 12000		B 14000	36000
B 5000	17000		
	37000		37000

- **Balance sheet as on 1.1 09. H ltd acquired shares on 1.1.2009**

LIABILITIES	H	S	ASSETS	H	S
Share capital Rs.1	27,000	12,000	Sundry assets	45,000	26,000
Reserves	6,000	4,000	12000 shares in S Ltd	15,000	-
p/l a/c	4,000	2,000			
sundry creditors	23,000	8,000			
	60,000	26,000		60000	26,000

Solution

Calculation of capital reserve or goodwill

Share capital		12000	
+ reserve 4000			
p/l 2000		6000 -------	18000
- Investment			15000
Capital reserve (+)			3000

Consolidated balance sheet

LIABILITIES	Rs	ASSETS	Rs
Share capital	27,000	Sundry assets H 45,000	
Capital reserve	3,000	S 26,000	71,000

Reserves	6,000		
p/l a/c	4,000		
sundry creditors H 23,000 S 8,000	31,000		
	71000		71,000

- **Consolidate the following balance sheets**

LIABILITIES	H	S	ASSETS	H	S
Share capital Rs.1	1,400	1,000	Sundry assets	200	1,800
p/l a/c	-	300	900 shares in s ltd at cost	1,200	-
sundry creditors	-	500			
	1400	1800		1,400	1,800

When H ltd acquired the shares in S Ltd, the profit and loss a/c in the latter had a creditbalance of Rs.200

Solutions:

- calculation of capital profit

Balance of profit on the date of acquisition 200 Holding 200x9/10 = 180 Subsidiary 200x1/10=20

- Calculation of revenue profit

Profit as per b/s 300-200(adjustment profit)=100Holding 90 subsidiary 10

- Calculation of capital reserve or goodwillShare capital 900

+ capital profit 180 --- 1080

  - Investments 1200
  - Goodwill 120

- calculation of minority interest

Equity capital 100
+ capital profit 20
Revenue profit 10 ---30--------130

Consolidated balance sheet

LIABILITIES	Rs	ASSETS	Rs
Share capital	1400	Sundry assets	2000

Creditors	500	Goodwill	120
p/l	90		
minority interest	130		
	2120		2120

- The summarized balance sheet of H Ltd and S Ltd as on 31.12.2004 were as follows.

Liabilities	H ltd	S ltd	Assets	H ltd	S ltd
Equity shares Rs.100	2,50,000	1,00,000	Plant	1,20,000	54,700
each	-	60,000	Land	75,000	90,000
Reserve capital	1,20,000	-	Investments in S ltd	1,70,000	-
General reserve	28,600	18,000	Stock	70,000	18,000
Profit or loss	50,000	-	Debtors	21,000	20,000
Bank overdraft	-	4,200	Amount owing byS ltd	1,000	-
Bills payable (including	23,500	-	Bank	7,250	4,000
Rs.1500 to H ltd)	-	500	Bills Receivable	7,900	-
Creditors	-	4,000	(including Rs.1500 to S		
Creditors Hltd			LTD)		
Others					
	4,72,150	1,86,700		4,72,150	1,86,700

H ltd acquired 800 equity shares of Rs. 100 each in S ltd on 1.4.2004. Prepare consolidatedBalance sheet.

- Sundry creditors of H ltd include Rs.6000 due to S ltd.
- The directors are advised that the land of S ltd are undervalued by Rs.

10,000 and its palntover valued by Rs.5000

- A cheque for Rs. 500 sent to H ltd by S ltd on 31.12.2004 was not by the former until 3.1.2005

Solution

Proportion 800:200 4:1

Revenue profit

Current year profit 18000

Upto1.4.2004 18000x3/4=4500

capital profit After 14.2004

18000x1/4=13500 revenue profit

Revenue profit Rs.13500

Holding company

13500x4/5=10800

Minority interest

13500x1/5=2700

Calculation of capital profit

Capital Reserve 60000

+ Capital profit 4500
Increase land value 10000
-------- 74500
- Decrease plant value 5000

Capital profit 69500

Capital profit 69500 holding company 69500x4/5=55600

Minority shareholders
69500x1/5=13900
<u>Calculation of minority interest</u> Sharecapital
80000
+ capital profit 55600
- Investment 170000
- **Good will 34400**

<u>Minority interest</u>
Shares purchased 20000
+ capital profit 13900
Revenue profit 2700
Minority interest 36600

Consolidated balance sheet of H LTD and S ltd as on 31.12.2004

Liabilities	**Rs**	**Assets**	**Rs**
Equity share capital	**250000**	**Goodwill**	**34400**
General reserve	**120000**	**Plant –decresase 120000+54700-**	**169700**
p/l a/c 28600+10800	**39400**	**5000**	
bank o.d	**50000**	**Land+increase75000+90000+10000**	**175000**
bills payable -Inter		**Stock 70000+18000**	**88000**
co.owing 4200-1500	**2700**	**Debtors- interowings21000+20000-**	
Creditors – inter co.		**6000**	**35000**
owing23550+4000-6000	**21550**	**Bank7250+4000**	**11250**
Minority interest		**Bills receivable –interco.**	
	36600	**Owings7900-1500**	**6400**
		Cheque in transit 1000-500	**500**
	520250		**520250**

UNIT - V
HUMAN RESOURCE ACCOUNTING

Human resource accounting

The American Association of Accountants (AAA) defines HRA as follows: 'HRA is a process of identifying and measuring data about human resources and communicating this information to interested parties'.

Objectives of HRA:

- Providing cost value information about acquiring, developing, allocating andmaintaining human resources.
- Enabling management to monitor the use of human resources.
- Finding depreciation or appreciation among human resources.
- Assisting in developing effective management practices.
- Increasing managerial awareness of the value of human resources.
- For better human resource planning.
- For better decisions about people, based on improved information system.
- Assisting in effective utilization of manpower.

Benefits of HRA:

- The system of HRA discloses the value of human resources, which helps in proper interpretation of return on capital employed.
- Managerial decision-making can be improved with the help of HRA.
- The implementation of human resource accounting clearly identifies human resources as valuable assets, which helps in preventing misuse of human resources by the superiors as well as the management.
- It helps in efficient utilization of human resources and understanding the evil effects of labour unrest on the quality of human resources.
- This system can increase productivity because the human talent, devotion, and skills are considered valuable assets, which can boost the morale of the employees.
- It can assist the management for implementing best methods of wages and salary administration.

Limitations of HRA:

- The valuation methods have certain disadvantages as well as advantages; therefore, there is always a bone of contention among the firms that which method is an ideal one.

- There are no standardized procedures developed so far. So, firms are providing only as additional information.
- Under conventional accounting, certain standards are accepted commonly, which is not possible under this method.
- All the methods of accounting for human assets are based on certain assumptions, which can go wrong at any time. For example, it is assumed that all workers continue to work with the same organization till retirement, which is far from possible.
- It is believed that human resources do not suffer depreciation, and in fact they always appreciate, which can also prove otherwise in certain firms.

- The lifespan of human resources cannot be estimated. So, the valuation seems to be unrealistic.

Need for HRA*:*

- Under conventional accounting, no information is made available about the human resources employed in an organization, and without people the financial and physical resources cannot be operationally effective.
- The expenses related to the human organization are charged to current revenue instead of being treated as investments, to be amortized over a period of time, with the result that magnitude of net income is significantly distorted. This makes the assessment of firm and inter-firm comparison difficult.
- The productivity and profitability of a firm largely depends on the contribution of human assets. Two firms having identical physical assets and operating in the same market may have different returns due to differences in human assets. If the value of human assets is ignored, the total valuation of the firm becomes difficult.
- If the value of human resources is not duly reported in profit and loss account and balance sheet, the important act of management on human assets cannotbe perceived.
- Expenses on recruitment, training, etc. are treated as expenses and written off against revenue under conventional accounting. All expenses on humanresources are to be treated as investments, since the benefits are accrued over aperiod of time.

Methods of Valuation of Human Assets:

There are a number of methods suggested for the valuation of human assets. Many of these methods are based on the valuation of physical and financial assets while others take into account human consideration. Major methods of valuation of human assets are historical cost, replacement cost, standard cost, present value of future earnings, and expected realizable value.

Historical Cost:

Historical cost is based on actual cost incurred on human resources. Such a cost may be of two types – acquisition cost and learning cost. Acquisition cost is the expense incurred on training and development. This method is very simple in its application but it does not reflect the true value of human assets. For example, an experienced employee may not require much training and, therefore, his value may appear to below though his real value is much more than what is suggested by historical cost method.

Replacement Cost:

As against historical cost method which takes into account the actual cost incurred on employees, replacement cost takes into account the national cost that may be required to acquire a new employee to replace the present one.

In calculating the replacement cost, different types of expenses are taken into account which may be in the form of acquisition and learning cost. Replacement cost is generally much higher than the historical cost.

For example, Friedman has estimated that the replacement cost of an executive in middle management level is about 1.5 to 2 times the current salary paid in that position. Replacement cost is much better indicator of value of human assets though it may present certain operational problems. For example, true replacement of a person may not be found easily with whose cost the valuation is done.

Standard Cost:

Instead of using historical or replacement cost, many companies use standard cost for the valuation of human assets just as its used for physical and financial assets. For using standard cost, employees of an organization are categorized into different groups based on their hierarchical positions.

Standard cost is fixed for each category of employees and their value is calculated. This method is simple but does not take into account differences in employees put in the same group. In many cases, these differences may be quite vital.

Present value of future earnings:

In this method, the future earnings of various groups of employees are estimated up to the age of their retirement and are discounted at a predetermined rate to obtain the present value of such earnings. This method is similar to the present value of future earnings used in the case of financial assets. However, this method does not give correct value of human assets as it does not measure their contributions to achieving organizational effectiveness.

Acquisition Cost Method:

Under this method the costs of acquisition, namely, the costs incurred in recruitment. Hiring and induction of employees are taken into account. The process involves capitalization of historic costs. The cost so capitalized has to be written off over a period of time for which the employee remains with the firm.

If for some reason the employee leaves the organization prematurely, the unamortized cost remaining in the books has to be written off against the profit and loss account of the particular year.

Replacement Cost Method:

While in the case of acquisition cost past costs are considered, under this approach one takes in to account how much it costs to replace a firm's existing resources and thus represents a current value approach. So this is a method resource and thus represents a current market conditions. This exercise may be redundant unless the management desires to replace its present resources. It is also difficult exercise as in many cases the replacement may not be exactly similar.

Present Value of Future Earnings Method:

This model is developed by Lev and Schwartz and is popular in India. This is also known as capitalization of salary method. Under this method the future earnings of an employee or grades of employees are estimated up to the age of retirement and are discounted at a rate appropriate to the person or the group in order to obtain the present value.

The model may be expressed as follows:

V = the human capital value of a person y years old

I (t) = the person's annual earnings up
to retirementR = discount rate specific
to the person
T= retirement age.
The above formula does not take into account the probability of a person dying beforeretirement or leaving the organization.

Expected realizable value:

The above methods discussed so far are based on cost consideration. Therefore these methods may provide information for record purpose but do not reflect the true value of human assets.

As against these methods

Expected realizable value is based on the assumption. And this is true also. That there is no direct relationship between cost incurred on an individual and his value to organization can be defined as the present worth of the set of future services that he is expected to provide during the period he remains in the organization.

Flamholtz has given the variables affecting an individual's expected realizable value (IERV):

Individual conditional values and his like hood of remaining in the organization. The former is a function of the individual's abilities and activation level. While the later is a function of such variables as job satisfaction, commitment, motivation, and other factors.

Economic Value Method:

The economist's concept of the value of an asset is equal to the present worth of itsestimated future economic benefits. This approach has a strong theoretical appeal.

But this method involves the following steps:

- Estimation of the future benefits, and
- Ascertaining the present value of such benefits by using an appropriate interest (discount)rate.

Competitive Bidding Method:

This is also known as the opportunity cost method. Opportunity cost is defined as the measurable value of benefits that could be obtained by choosing an alternative course of action. In the case of HRA. Opportunity costs are determined by a process of competitive bidding in which various divisions and departments bid for the services of various officers. The amount of bid is added to the capital employed of the successful bidder for determining the return on investment.