



**M.COM.
SEMESTER - III**

**ADVANCED FINANCIAL
ACCOUNTING**

SUBJECT CODE : 72201

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***Revised Syllabus of Courses of
Master of Commerce (M.Com) Programme at Semester III***

***Group A: Advanced Accounting, Corporate Accounting and
Financial Management***

1. Advanced Financial Accounting

Modules at a Glance

SN	Modules	No. of Lectures
1	Foreign Currency Conversion (As per Accounting Standard/s applicable)	15
2	Final Accounts & Statutory Requirements for Banking Companies	15
3	Accounting & Statutory Requirements of (Insurance Companies	15
4	Accounting & Statutory Requirements of Co-operative Societies	15
Total		60

SN	Modules/ Units
1	Foreign Currency Conversion (As per Accounting Standard/s applicable)
	Requirements as per Accounting standard/s Foreign Branches
2	Final Accounts & Statutory Requirements for Banking Companies
	Final Accounts of Banking Companies Provisioning of Non- Performing Assets Form & Requirements of Final Accounts
3	Accounting & Statutory Requirements of (Insurance Companies
	<ul style="list-style-type: none"> Accounting Provision for insurance Act and Insurance Regulation and Development Authorities for <ol style="list-style-type: none"> Life Insurance Business General Insurance Business Forms and Requirements of Final Accounts for <ol style="list-style-type: none"> Life Insurance Business General Insurance Business
4	Accounting & Statutory Requirements of Co-operative Societies
	<ul style="list-style-type: none"> Accounting Provision of Maharashtra State Co-operative Societies Act and Rules Forms and Requirements of Final Accounts

ACCOUNTING AND STATUTORY REQUIREMENTS OF BANKING COMPANIES

Unit structure

- 1.1. Introduction
- 1.2. Important Accounting provisions of Banking Regulation Act 1949.
- 1.3. Books of Accounts
- 1.4. Provisioning of Non-Performing Assets
- 1.5. Final Accounts
- 1.6. Some important transactions
- 1.7. Illustrations
- 1.8. Exercises

1.1. INTRODUCTION

1.1.1 Meaning of Banking Companies:

A bank is a commercial institution, permitted to accept, collect, transfer, lend and exchange money and claims to money both the domestically and internationally and thereby conduct smooth banking activities.

1.1.2. Definition:

Banking companies are governed by the Banking Regulation Act of 1949 and also subject to the companies act. 1956.

According to Banking Regulation act, 1949 Banking means – “The accepting, for the purpose of lending or investment, of deposit of money from the public repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise.’

1.1.3 Business of Banking Companies:

As per section 6 of the Act, banking companies may engage in the following business in addition to their usual banking business.

1. The borrowing, raising or taking up on money, the lending or advancing of money either upon or without security, the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, 'hundies', promissory notes, drafts, bills of lading, railways receipt, warrants, debentures, certificates, scrip's and other instruments and securities whether transferable or negotiable or not; granting and issuing of letters of credit, traveller's cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or other, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities.
2. Acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as on attorney on behalf of customers but excluding the business of (managing agent or secretary and treasurer) of a company.
3. Contracting for public and private loans and negotiating and issuing the same.
4. The effecting, insuring, guaranterring, underwriting, participating in managing and carrying out of any issue, public or private of state, municipal or other loans or of shares, stock, debentures or debenture stock of any Company Corporation or association and of the lending of money for the purpose of any such issue.
5. Carrying on and transacting every kind of guarantee and indemnity business.
6. Managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims.
7. Acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances which may be connected with any such security.
8. Undertaking and executing trusts.

9. Undertaking the administration of estates as executor, trustee or otherwise.
10. Establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object.
11. The acquisition, construction maintenance and alteration of any building or works necessary or convenient for the purpose of the company.
12. Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company.
13. Acquiring and undertaking the whole or any part of the business of any person or company, when such business is of a nature enumerated or described in section 6.
14. Doing all such other things as are incidental or conclusion to the promotion or advancement of the business of the company.
15. Any other form of business which the central Government may by notification in the official Gazette, specify as a form of business in which it is lawful for a banking company to engage.

No Banking Company shall engage in any form of business other than those referred to in section 6.

1.1.4 Restrictions on Business:

The Banking Companies are restricted from conducting certain activities.

A bank can not directly or indirectly deal in the buying or selling or bartering of goods, except in connection with the realization of security given to or held by it, or engage in any trade or buy or sell of barter goods for others otherwise than in connection with bills of exchange, immovable property, except that required for its own use, however acquired, must be disposed of within seven years from the date of acquisition.

1.1.5 Non-Banking Assets:

The case in which the customer to whom a bank sanctioned loan against some security and if he fails to repay the same, the bank decides to acquire such property kept as security to satisfy its claim. Such property or assets termed as 'Non-Banking Assets'. These Assets are exhibited in schedule 11 – "Other Assets".

1.2. IMPORTANT ACCOUNTING PROVISIONS OF BANKING REGULATION ACT 1949.

1.2.1 Minimum Capital and reserves – Section 11.

According to the provision of section 11 (2) of the Banking Regulation Act 1949 the following are the limits imposed on value of paid up Capital and Reserves of a banking Company.

1) In the case of Banking Company incorporated outside India. If it has a place or places of business in the city of Bombay or Calcutta or both Rs. 20 lakhs.

If the places of business are other than Bombay or Calcutta Rs. 15 lakhs. In addition 20% of the profits earned in India must be added to the sums mentioned above.

2) In the case of a banking company incorporated in India.

a) If it has places of business in more than one state and it has a place or places of business in Bombay or Calcutta or both Rs. 10 lakhs.

b) If it has places of business in more than one state but not in Bombay or Calcutta Rs. 5 lakhs.

c) If it has places of business in one state but not in Bombay or Calcutta. Rs. 1 lakhs in respect of its principle place plus Rs. 10,000 for each of its other places of business in the same district and Rs. 25,000 in respect of each place of business outside the district. The total need not exceed Rs. 5 lakhs. In case there is only one place of business Rs. 50,000.

(In case of companies, which have commenced business after the commencement of the Banking Companies (Amendment) Act of 1962, a minimum of Rs. 5 lakhs is required)

d) If it has all its places of business in one state / Rs. 5 lakhs and if the places of business are also in / plus Rs. 25,000 Bombay or Calcutta. / In respect of each place of business situated outside the city of Bombay or Calcutta. The total need not exceed Rs. 10 lakhs.

1.2.2 Restriction on commission Brokerage, Discount, etc. on sale of shares-section B:

A Banking company is not allowed to pay directly or indirectly commission, Brokerage, Discount or remuneration in any form in respect of any shares issued by it, any amount exceeding two and one-half percent of the paid up value of the said shares.

1.2.3 Restriction on payment of dividend – section 15:

A Banking company shall not pay dividend unless all of its capitalized expenses (including preliminary expenses, organization expenses, share selling commission, Brokerage, amount of losses incurred and any other item. Of expenditure not represented by tangible assets) have been completely written-off. However, a banking company may pay dividend on its shares without writing off.

1.2.4 Statutory Reserve – Section 17:

Section 17 of the act lays down that every banking company should create a reserve fund by transferring to it at least 20 percent of its annual profit as disclosed by its profit and loss account before any declaration of dividend, such reserve is known as statutory Reserve. The transfer of profit to reserve fund should be continued even after the accumulated amount of reserve fund and share premium account together exceed its paid up capital. Unless the central government grant on exemption in this regard on the recommendation of Reserve Bank of India.

1.2.5 Cash Reserves – Section 18:

Every Banking Company requires to maintain a balance equal to 3 percent of its time and demand liabilities with RBI (a non scheduled bank has to keep similar balances either in cash or deposit with RBI)

1.2.6 Restrictions on loans and Advances –section 20

A Bank can not

- i) grant loans and advances on the security of its own shares and
- ii) grant or agree to grant loan or advance to or on behalf of
 - a) Any of its directors;
 - b) Any firm in which any of its directors is interested as partner, manager or guarantor;

- c) Any company of which any of its directors is a director manager, employee or guarantor or in which he holds substantial interest; or
- d) Any individual in respect of whom any of its directors is a partner or guarantor.

1.3. BOOKS OF ACCOUNTS

In order to have immediate entry of voluminous transaction and enables continuous internal check on the record of these transactions, Banks are required to maintain subsidiary books along with its principal books of accounts.

A) Subsidiary books

- i. Receiving cashier's counter cash book;
- ii. Paying cashier's counter cash book;
- iii. Current accounts ledger.
- iv. Savings bank accounts ledger
- v. Fixed deposit accounts ledger
- vi. Investments Ledger
- vii. Loans Ledger
- viii. Bills discounted and purchased ledger
- ix. Customer's acceptances endorsements and guarantee ledger

B) Principal Books

- i. Cash book : It records all cash transactions
- ii. General Leger : It contains control Accounts of all subsidiary ledgers and different assets and liabilities account

1.4. PROVISIONING OF NON-PERFORMING ASSETS

Meaning:

The 'Non-Performing Assets' refers to those assets which fails to generate expected returns to the bank due to borrowers default in making repayment.

In accordance with the international practice and the directives of RBI, the bank should recognized income on Non-Performing Assets (NPA) when it is actually received and not on accrual basis.

Similarly, the RBI has accepted the definition of a NPA given by Narasimham committee from March 1995 onwards –

‘as an advance where, as on the bank’s balance sheet date, (a) interest on a term loan account is past due or (b) a cash credit / overdraft account remains out of order or (c) a bill purchased / discounted is unpaid or overdue or (d) any amount to be received in respect of any other account remains past due, for a period more than 180 days. (e) in respect of agricultural finance / advance (eg crop loans) interest and / or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years. The period of 180 days has been reduced to 90 days effective from March 31, 2004.

A ‘past due’ account has been defined as an amount which remains outstanding 30 days beyond the due date.

Assets classification and provisioning

In order to make adequate provisions, assets have been classified as follows:

- i. Standard assets – These are the assets which does not disclose any problems and does not carry more than normal risk attached to the business therefore no provision is to be made against them.
- ii. Substandard assets – These assets exhibit problems and would include assets classified as non-performing for a period not exceeding two years. Hence the provision is to be made at the rate of 10 percent of the total outstanding amount of substandard assets.
- iii. Doubtful assets – these are the assets which remain non performing for a period exceeding two years and would also include loans in respect of which installments are overdue for a period exceeding two years.

The provision for doubtful assets as follows:

Period for which the advance Has been considered As doubtful	Provision requirements (%)
Upto one year	20
One to three years	30
More than three years	50

- iv. Loss assets – Loss assets are those assets where the loss has been identified but the amounts have not been returned off.

Illustration

Exe bank Ltd. having the following advances as on 31st March 2009 and provision is to be made against them.

	Bills Purchased and Discounted	Cash credit, overdraft	Term loans
i) Standard Assets	5,150	4,925	2,375
ii) Sub-standard Assets	4,000	1,500	1,000
iii) Doubtful Assets:			
- upto one year	--	500	1,800
- One to 3 years	--	1,800	700
- More than 3 years	--	1,275	550
iv) Loss Assets		350	225
	9,150	10,350	6,650

Solution

	Amount (Rs.)	% of Provision	Amount of Provision (Rs)
i) Standard Assets	12,450	Nil	Nil
ii) Sub-standard Assets	6,500	10%	650
iii) Doubtful Assets:			
- upto one year	2,300	20%	460
- One to 3 years	2,500	30%	750
- More than 3 years	1,825	50%	912.5
iv) Loss Assets	575	100%	575
Total Provision on Advances			3,347.5

1.5. FINAL ACCOUNTS

The Banking Regulation act, 1949 prescribes formats of preparing final accounts of the Banking companies. The third schedule of section 29 gives forms 'A' for the balance sheet and Form 'B' for Profit and loss account. The balance sheet consists of total 12 schedules. Schedule 1 to schedule 5 depicts capital and liabilities and schedule 6 to schedule 11 shows Assets of the bank and schedule 12 shows contingent liabilities and there is no specific schedule prescribes for bills for collection.

THE THIRD SCHEDULE
(See Section 29)
Form 'A'
FORM OF BALANCE SHEET

Balance Sheet of..... (here enter the name of the Banking Company)			
Balance Sheet as on 31 st March _____ (year) (000's omitted)			
Capital & Liabilities	Schedule No.	As on 31.3..... (Current Year)	As on 31.3..... (Previous Year)
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
Total			
Assets			
Cash and balance with Reserve Bank of India	6		
Balances with banks and money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
Total			
Contingent liabilities	12		
Bills for collection			

Form 'B'
FORM OF PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH

(000's omitted)			
	Schedule No.	Year ended 31.3... (Current Year)	Year ended 31.3... (Previous Year)
I. Income			
Interest earned	13		
Other income	14		
Total			
II. Expenditure			
Interest expended	15		
Operating expenses	16		
Provisions and contingencies			
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			

- NOTE:** 1. The total income includes income of foreign branches of Rs. _____
 2. The total expenditure includes expenditure of foreign branches at Rs. _____
 3. Surplus / deficit of foreign branches Rs. _____

SCHEDULE 1 --- CAPITAL

	As on 31.3.... (Current Year)	As on 31.3... (Previous Year)
I. For Nationalized Banks Capital (Fully owned by Central Government)		
II. 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 with the RBI under Section 11(2) of Banking Regulation Act, 1949		
Total		
III. For Other Banks Authorized Capital shares of Rs..... each Issued Capital shares of Rs..... each Subscribed Capital shares of Rs..... each Called-up Capital shares of Rs..... each Less: Calls unpaid Add: Forfeited shares		

SCHEDULE 2 – RESERVES & SURPLUS

	As on 31.3.... (Current Year)	As on 31.3... (Previous Year)
I. Statutory Reserves Opening Balance Additions during the year Deductions during the year		
II. Capital Reserves Opening Balance Additions during the year Deductions during the year		
III. Shares Premium Opening Balance Additions during the year Deductions during the year		
IV. Revenue and other Reserves Opening Balance Additions during the year Deductions during the year		
V. Balance in Profit and Loss Account Total (I + II + III + IV + V)		

SCHEDULE 3 – DEPOSITS

	As on 31.3.... (Current Year)	As on 31.3.... (Previous Year)
A. I. Demand Deposits		
i) From Banks		
ii) From Banks		
II. Savings Bank Deposits		
III. Term Deposits		
i) From banks		
ii) 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.... (Current Year)	As on 31.3.... (Previous Year)
I. Borrowings in India		
i) Reserve Bank of India		
ii) Other banks		
iii) Other institutions and agencies		
II. Borrowings outside India		
Total (I + II)		
Secured borrowings included in I & II above – Rs.		

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

	As on 31.3.... (Current Year)	As on 31.3.... (Previous Year)
I. Bills payable		
II. Inter-office adjustments (net)		
III. Interest accrued		
IV. Others (including provisions)		
Total		

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF India

	As on 31.3... (Current Year)	As on 31.3... (Previous Year)
I. Cash in hand (including foreign currency notes)		
II. Balances with RBI		
(i) in Current Account		
(ii) in Other Accounts		
Total (I + II)		

SCHEDULE 7 – BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE

	As on 31.3.... (Current Year)	As on 31.3.... (Previous Year)
I. In India		
(i) Balances with banks		
(a) in Current Accounts		
b) in Other Deposit Accounts		
(ii) Money at call and short notice		
a) With banks		
b) With other institutions		
Total		
II. Outside India		
(i) in Current Accounts		
(ii) in Other Deposit Accounts		
(iii) Money at call and short notice		
Total		
Grand Total (I + II)		

SCHEDULE 8 – INVESTMENTS

	As on 31.3.... (Current Year)	As on 31.3.... (Previous Year)
I. Investments in India in		
i) Government securities		
ii) Other approved securities		
iii) shares		
iv) Debentures and Bonds		
v) Subsidiaries and / or joint ventures		
vi) Others (to be specified)		
Total		
II. Investments outside India in		
i) Government securities (including local authorities)		
ii) Subsidiaries and / or joint ventures abroad		
iii) Other investments (to be specified)		
Total		
Grand Total (I + II)		

SCHEDULE 9 – ADVANCES

	As on 31.3.... (Current Year)	As on 31.3.... (Previous Year)
A. i) Bills purchased and discounted		
ii) Cash credits, overdrafts and loans repayable on demand		
iii) Term loans		
Total		
B. i) Secured by tangible assets		
ii) Covered by Bank / Government guarantees		
iii) Unsecured		
Total		

C. I. Advances in India		
i) Priority Sectors		
ii) Public Sector		
iii) Banks		
iv) Others		
Total		
II. Advances outside India		
i) Due from banks		
ii) Due from others		
a) Bills purchased and discounted		
b) Syndicated loans		
c) Others		
Total		
Grand Total (C. I. + C. II.)		

SCHEDULE 10 – FIXED ASSETS

	As on 31.3... (Current Year)	As on 31.3... (Previous Year)
I. Premises		
At cost as on 31 st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
II. Other Fixed Assets (including furniture and fixtures)		
At cost as on 31 st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
Total (I + II)		

SCHEDULE 11 – OTHER ASSETS

	As on 31.3.... (Current Year)	As on 31.3.... (Previous Year)
I. Inter-office adjustments (net)		
II. Interest accrued		
III. Tax paid in advance / tax deducted at source		
IV. Stationery and stamps		
V. Non-banking assets acquired in satisfaction of claims		
VI. Others @		
Total		

@ In case there is any unadjusted balance of loss, the same may be shown under this item with appropriate foot-note.

SCHEDULE 12 – CONTINGENT LIABILITIES

	As on 31.3.... (Current Year)	As on 31.3.... (Previous Year)
I. Claims against the bank not acknowledged as debts		
II. Liability for partly paid investment		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantee given on behalf of constituents		
a) In India		
b) Outside India		
V. Acceptances, endorsements and, other obligations		
VI. Other items for which the bank is contingently liable		
Total		

SCHEDULE 13 – INTEREST EARNED

	Year ended 31.3... (Current Year)	Year ended 31.3... (Previous Year)
I. Interest / discount on advances / bills		
II. Income on investments		
III. Interest on balances with Reserve Bank of India and other inter-bank funds		
IV. Others		
Total		

SCHEDULE 14 – OTHER INCOME

	Year ended 31.3... (Current Year)	Year ended 31.3... (Previous Year)
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		
VII. Miscellaneous Income		
Total		

Note : Under items II to V loss figures may be shown in brackets

SCHEDULE 15 – INTEREST EXPENDED

	Year ended 31.3... (Current Year)	Year ended 31.3... (Previous Year)
I. Interest on deposits		
II. Interest on Reserve Bank of India / inter-bank borrowings		
III. Others		
Total		

SCHEDULE 16 – OPERATING EXPENSES

	Year ended 31.3... (Current Year)	Year ended 31.3... (Previous Year)
I. Payments to and provisions for employees		
II. Rent, taxes and lighting		
III. Printing and stationery		
IV. Advertisement and publicity		
V. Depreciation on bank's property		
VI. Directors' fees, allowances and expenses		
VII. Auditor' fees and expenses (including branch auditors' fees and expenses)		
VII. Law charges		
IX. Postages, telegrams, telephone, etc.		
X. Repairs and maintenance		
XI. Insurance		
XII. Other expenditure		
Total		

**GUIDELINES OF RBI FOR COMPILATION OF FINANCIAL
STATEMENTS BALANCE SHEET**

Item	Schedule	Coverage	Notes and instructions for compilation
(1)	(2)	(3)	(4)
Capital	1	Nationalized Banks Capital (fully owned by Central Government)	The capital owned by Central Government as on the date of the Balance Sheet, including contribution from Government, if any, for participating in World Bank, Projects, should be shown.

**Banking
Companies
incorporated
outside India**

(i) The amount brought in by banks by way of start-up capital as prescribed by RBI, should be shown under this head.

(ii) The amount or deposits kept with RBI under sub-section 2 of Section 11 of the Banking Regulation Act, 1949 should also be shown.

Other Banks
(Indian)

Authorized
Capital

(... shares of
Rs... each)

Issued Capital
(... Shares of
Rs... Each)

Subscribed
Capital

(... Shares of
Rs.... Each)

Called-up
Capital

(... Shares of
Rs... each)

Less: **Calls
unpaid**

Add: **Forfeited
shares:**

**Paid-
up Capital**

Authorized, Issued, Subscribed, Called-up Capital should be given separately. Calls-in-arrears will be deducted from Called-up Capital while the paid-up value of forfeited shares should be added, thus arriving at the paid-up capital. The necessary items which can be combined should be shown under one head, for instance, "Issued and Subscribed Capital".

Notes: General

The changes in the above items, if any, during the years, say, fresh contribution made by the Government, fresh issue of capital, capitalization of reserves, etc., may be explained in the notes.

Reserves and Surplus	2	(I) Statutory Reserves	Reserves created in terms of Section 17 or another section of Banking Regulation Act, must be separately disclosed.
		(II) Capital Reserves	The expression 'capital reserve' shall not include any amount regarded as free for distribution through the Profit and Loss Account. Surplus on revaluation should be treated as Capital Reserves. Surplus on translation of the financial statements of foreign branches (which includes fixed assets also) is not a revaluation reserve.
		(III) Share Premium	Premium on issue of share capital may be shown separately under this head.
		(IV) Revenue and other Reserves	The expression 'Revenue Reserve' shall mean any reserve other than those separately classified. This expression 'reserve' shall not include any amount, written-off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability.
		(V) Balance of Profit	Includes balance of profit after appropriation. In case of loss the balance may be shown as a deduction.

Notes : General

Movement in various categories of reserves should be shown as indicated in the schedule.

Deposits**A. (I) Demand Deposits**

Includes all bank deposits repayable on demand. Include all demand deposits of the non-banking sectors.

(i) from banks

(ii) from others

Credit balances in overdrafts, cash credit accounts, deposits payable at call, overdue deposits, inoperative current accounts, matured time deposits and cash certificates, certificate of deposits, etc. are to be included under this category.

(ii) Saving Bank Deposits

Includes all savings bank deposits (including inoperative savings bank accounts).

(III) Term Deposits

Includes all types of bank deposits repayable after specified term.

(i) from banks

(ii) from others

Includes all types of deposits of the non-banking sector, repayable after a specified term. Fixed deposits, cumulative and recurring deposits, annuity deposits, deposits mobilized under various schemes, ordinary staff deposits, foreign currency non-resident deposit accounts, etc., are to be included under this category.

B. The total of these two items will agree with the total deposits.

(i) **Deposits of branches in India**

(ii) **Deposits of branches outside India** **Notes : General**

(a) Interest payable on deposits which is accrued but not due should not be included but shown under other liabilities.

b) Matured time deposits and cash certificates, etc., should be treated as demand deposits.

c) Deposits under special schemes should be included under the term deposits, if they are not payable on demand. When such deposits have matured for payment they should be shown under demand deposits.

d) Deposits from banks will include deposits from the banking system in India, co-operative banks, foreign banks, which may or may not have presence in India.

**Borrow 4
ings**

(I) **Borrowings in India** Includes borrowing / refinance obtained from Reserve Bank of India

(i) Reserve Bank of India

(II) **Other Banks** Includes borrowings / refinance obtained from commercial banks (including co-operative banks).

(iii) **Other institutions and agencies.** Includes borrowings / refinance obtained from industrial Development Bank of India, Export-Import of Bank of India,

National Bank for Agriculture and Rural Development and other institutions, agencies (including liability against participation certificates, if any).

(II)
**Borrowings
outside India**

Includes borrowings of Indian branches abroad as well as borrowings of foreign branches.

Secured
borrowings
included
above

This item will be shown separately. Includes secured borrowings / refinance in India and outside India.

Note: General

(i) The total of I and II will agree with the total borrowings shown in the Balance Sheet.

(ii) Inter-office transactions should not be shown as borrowings.

(iii) Funds raised by foreign branches by way of certificate of deposits, notes, bonds, etc., should be classified depending upon documentation, as 'deposits', ' borrowings', etc.

(iv) Refinance obtained by banks from Reserve Bank of India and various institutions are being brought under the head 'Borrowings'. Hence, advances will be shown at the gross amount on the assets side.

Other Liabilities and Provisions	5	I. Bills Payable	Includes drafts, telegraphic transfers, traveler cheques, mail transfers payable, pay slips, bankers cheques and other miscellaneous items.
		II. Inter-office Adjustments	The inter-office adjustments balance, if the credit should be shown under this head. Only net position of inter-office accounts, inland as well as foreign, should be shown here.
		III. Interest Accrued	Includes interest accrued but not due on deposits and borrowings.
		IV. Others (including provisions)	Includes net provision for income tax and other taxes like interest tax (less advance payment, tax deducted at source, etc.,) surplus in aggregate in provisions for depreciation in securities, contingency funds which are not disclosed under any of the major heads such as unclaimed dividend, provisions and funds kept for specific purpose, unexpired discount, outstanding charges like rent, conveyance, etc. Certain types of deposits like staff security deposits, margin deposits, etc. where the repayment is not free, should also be included under this head.

Notes: General

i) For arriving at the net balance of inter-office adjustments all connected inter-office accounts should be aggregated and the net balance should only be shown, representing mostly items in transit and unadjusted items.

(ii) the interest accruing on all deposits, whether the payment is due or not, should be treated as a liability.

iii) it is proposed to show only pure deposits under the head 'deposits', and hence, all surplus provisions for bad and doubtful debts, contingency funds, secret reserves, etc., which are not netted off against the relative assets, should be brought under the head 'others' (including provisions).

**Cash 6
and
Balanc
es with
the
Reserv
e Bank
of India**

**I. Cash in
hand
(including
foreign
currency
notes)**

Includes cash in hand, including foreign currency notes and also of foreign branches in the case of banks having such branches.

**II. Balance
with RBI**

i) In current
Account

ii) in other
Accounts

**Balance with
banks and
money at call
and short
notice** **7**

I. In India Includes all balance with banks in India (including co-operative banks). Balances in current accounts and deposit accounts should be shown separately.

i) Balance with Banks

a) in current accounts

b) in other deposit accounts

ii) Money at call and short notice Includes deposits repayable within 15 days notice, lent in the inter-bank call money market.

a) with banks

b) with other institutions

II. Outside India Includes balances held by foreign branches and balances held by Indian branches of the banks outside India. Balance held with foreign branches by other branches of the bank, should not show under this head but should be included in the inter-branch accounts. The amounts held in 'current accounts' and 'deposit accounts' should be shown separately.

i) Current accounts

ii) Deposits

iii) Money at call and short notice Includes deposits usually classified in foreign currencies as money at call and short notice.

Investment **8**

I. Investment in India Includes Central and State Government securities and Government treasury bills. These securities should be at the book value. However, the difference between the

i) Government securities

book value and market value should be given in the notes to the Balance Sheet.

- | | |
|---|--|
| ii) Other approved securities | Securities other than Government securities, which according to the Banking Regulation Act, 1949, are treated as approved securities, should be included here. |
| iii) Shares | Investment in shares of companies and corporations not included in item (ii) should be included here. |
| iv) Debentures and Bonds | Investments in debentures and bonds of Companies, Corporations not included in item (ii) should be included here. |
| v) Investments in subsidiaries / joint ventures | Investment in subsidiary / joint ventures (including R. R. Bs) should be included here. |
| vi) Others | Includes general investments, if any, like gold, commercial paper and other instruments in the nature of shares / debentures / bonds. |

II. Investment outside India

- | | |
|--|---|
| i) Government securities (including local authorities) | All foreign Government securities including securities issued by local authorities may be classified under this head. |
| ii) Subsidiaries and / or joint ventures abroad | All investments made in the share capital of subsidiaries, floated outside India and / or joint |

Advances

		ventures abroad, should be classified under this head.
iii) Others		All other investments outside India may be shown under this head.
A. i) Bills purchased and discounted		In classification under Section 'A', all outstanding – in India as well as outside – less provisions made, will be classified under three heads as indicated, and both secured and unsecured advances will be included under these heads including overdue installments.
ii) Cash credits, overdrafts and loans repayable on demand		
iii) Terms loans		
B. i) Secured by tangible assets		All advances or part of advances which are secured by tangible assets may be shown here. The item will include advances in India and outside India.
ii) Covered by Bank / Government Guarantee		Advances in India and outside India to the extent they are covered by guarantees of Indian and foreign governments and Indian and foreign banks and DICGC & ECGC are to be included.
iii) Unsecured		All advances not classified under (i) and (ii) will be included here. Total of 'A' should tally with the total of 'B'.
C.I. Advances in India		Advances should be broadly classified into 'Advances in India' and 'Advances outside India'.
i) Priority sectors		Advances in India will be

- ii) Public sector further classified on the
- iii) Banks sartorial basis as
- iv) Others indicated.

C.II.
Advances
outside India

- i) Due from banks
- ii) Due from others
- a) Bills purchased and discounted
- b) Syndicated loans
- c) Others

Advances to sectors which for the time being are classified as priority sectors according to the instructions of the Reserve Bank are to be classified under the head 'Priority sectors'. Such advances should be excluded from the item (ii) i.e., advance to public sector. Advances to Central and State Government and other Government undertakings including Government companies and corporations, which are, according to the statutes, to be treated as Public sectors companies, are to be included in the category 'Public sector'. All advances to the banking sector including co-operative banks, will come under the head 'Banks'. All the remaining advances will be included under the head 'Others' and typically this category will include non-priority advances to the private, joint and co-operative sectors

Note: General

- i) The gross amount of advances including refinance and rediscounts but excluding provisions made to the satisfaction of auditors should be shown as advances.

ii) Term loans will be loans not repayable on demand.

iii) Consortium advances would be shown net of share from other participating banks / institutions.

Fixed Assets **10**

I. Premises

i) At cost as on 31st March of the preceding year

ii) Addition during the year

iii) Deductions during the year

iv) Depreciation to due

Premises wholly or partly owned by the banking company for the purpose of business, including residential premises should be shown against 'premises'. In the case of premises and other fixed assets, the previous balance, additions there to, deductions there from, during the year, and also the total depreciation written-off should be shown. Where sums have been written off on reduction of capital and revaluation of assets, every Balances Sheet after the first Balance Sheet, subsequent to the reduction or revaluation should show the revised figures for a period of five years, with the date and amount of revision made.

II. Other Fixed Assets (including furniture and fixtures)

i) At cost on 31st March of the preceding year

Motor vehicles and all other fixed assets other than premises but including furniture and fixtures should be shown under this head.

ii) Additions
during the
year

iii) deductions
during the
year

iv) Depreciation
to date

Other Assets 11

**I. Inter-office
Adjustments
(net)**

The inter-office adjustment balance, if in debit, should be shown under this head. Only net position of inter-office accounts, inland as well as foreign, should be shown here. For arriving at the net balance of inter-office adjustment accounts, all connected inter-office accounts should be aggregated and the net balance, if in debit, only should be shown, representing monthly items in transit and unadjusted items.

**II. Interest
Accrued**

Interest accrued but not due on investments and, advance and interest due but not collected on investment, will be the main components of this item. As banks normally debit the borrowers account with the interest due on the Balance Sheet date, usually there may not be any amount of interest due on advances. Only such interest as can be realized in the ordinary course should be shown under this head.

III. Tax paid in advance / tax deducted at source	The amount of tax deducted at source on securities, advance tax paid etc. to the extent that these items are not set off against relative tax provisions should be shown against this item.
IV. Stationery and Stamps	Only exceptional items of expenditure on stationery like bulk purchase of security paper, loose leaf or other ledgers, etc. which are shown as quasi-asset to be written-off over a period of time, should be shown here. The value should be on a realistic basis and cost escalation should not be taken into account, as these items are for internal use.
V.Non-banking assets acquired in satisfaction of claims	Immovable properties / tangible assets acquired in satisfaction of claims are to be shown under this head.
VI. Others	This will include items like claims which have not been met, for instance, clearing items, debit items representing addition to assets or reduction in liabilities, which have not been adjusted for technical reasons, want of particulars, etc., advances given to staff by a bank as an employer and not as a banker, etc. Items which are in the nature of expenses, which are pending

adjustments, should be provided for and the provision netted against this item, so that only realizable value is shown under this head. Accrued income other than interest may also be included here.

Contingent Liabilities 12

I. Claims against the bank not acknowledged as debts

Liabilities on partly paid shares, debentures, etc., will be included in this head.

II. Liabilities for partly paid investments

III. Liabilities on account of outstanding forward exchange contracts

Outstanding forward exchange contracts may be included here

IV. Guarantees given on behalf of constituents

Guarantees given for constituents in India and outside India may be shown separately.

i) in India

ii) outside India

V) Acceptances, endorsement and other obligations

This item will include letters of credit and bills accepted by the bank on behalf of customers.

VI. Other items for which the Bank is contingently liable Arrears of cumulative dividends, bills rediscounted under under-writing contracts, estimated amount of contracts remaining to be executed on Capital Account and not provided for, etc., are to be included here.

Bills for Collection

Bills and other items in the course of collection and not adjusted will be shown against this item in summary version only, a separate schedule is proposed.

Profit and Loss Account

Interest earned

13

I. Interest / discount on advance / bills

Includes interest and discount on all types of loans and advances, cash credit, demand loans, overdrafts, export loans, term loans, domestic and foreign bills purchased and discounted (including those rediscounted), over interest and also interest subsidy, if any, relating to advances / bills

II. Income on investments

Includes all income derived from the investment portfolio by way of interest and dividend.

III. Interest on balances with the Reserve Bank of India and other inter-bank funds

Includes interest on balances with Reserve Bank and other banks, call loans, money market placements etc.

		IV. Others	Includes any other interest / discount income not included in the above heads.
Other Income	14	I. Commission, exchange and brokerage	Includes all remuneration on services such as commission on collections, commission / exchanges on remittances and transfers, commission on letters of credit, letting out of lockers and guarantees, commission on Government business, commission on other permitted agency business including consultancy and other services, brokerage, etc., on securities. It does not include foreign exchange income.
		II. Profit on sale of investments, Less: Loss on sale of investments.	Includes profit / loss on sale of securities, furniture, land and buildings, motor vehicle, gold, silver, etc. Only the net position should be shown. If the net position is a loss, the amount should be shown as a deduction. The net profit / loss on revaluation of assets may also be shown under this item.
		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.	

		<p>V. Profit on exchange transactions.</p> <p>Less: Loss on exchange transaction</p> <p>VI. Income earned by way of dividends etc. from subsidiaries, companies, joint ventures abroad / in India.</p> <p>VII. Miscellaneous income.</p>	<p>Includes profit / loss on dealing in foreign exchange, all income earned by way of foreign exchange, commission and charges on foreign exchange transactions excluding interest which will be shown under interest. Only the net position should be shown. If the net position is a loss, it is to be shown as a deduction.</p> <p>Includes recoveries from constituents for godown rents, income from bank's properties, security charges, insurance etc., and any other miscellaneous income. In case, any item under this head exceeds one percentage of the total income, particulars may be given in the notes.</p>
Interest Expended	15	I. Interest on deposits	Includes interest paid on all types of deposits including deposits from banks and other institutions.
		II. Interest on Reserve Bank of India / inter-bank borrowings	Includes discount / interest on all borrowings and refinance from the Reserve Bank of India and other banks.
		III. Others	Includes discount / interest on all borrowings / refinance from financial institutions. All other payments like interest on participation certificates, penal interest paid, etc. may also be included here.

Operating Expenses	16	I. Payments to and provisions for employees	Includes staff salaries / wages, allowances, bonus, and other staff benefits, like provident fund, pension, gratuity, liveries to staff, leave fare concessions, staff welfare, medical allowance to staff, etc.
		II. Rent, taxes and lighting	Includes rent paid by the banks on buildings and municipal and other taxes paid (excluding income-tax and interest tax) electricity and other similar charges and levies. House rent allowance and other similar payments to staff should appear under the head 'Payments to and Provisions for Employees'.
		III. Printing and Stationery	Includes books and forms, and stationery used by the bank and other printing charges, which are not incurred by way of publicity expenditure.
		IV. Advertisement and Publicity	Includes expenditure incurred by the bank of advertisement and publicity purposes including printing charges of publicity matter.
		V. Depreciation on bank's property	Includes depreciation on bank's own property, motor cars and other vehicles, furniture, electric fittings, vaults, lifts, leasehold properties, non-banking assets, etc.
		VI. Director's fees, allowances and expenses	Includes sitting fees and all other items of expenditure incurred on behalf of the directors. The daily

allowance, hotel charges, conveyance charges, etc. which though in the nature of reimbursement of expenses incurred, may be included under this head. Similar expenses of Local Committee members may also be included under this head.

VII. Auditor's fees and expenses (including branch auditor's fees and expenses)	<p>Includes the fees paid to the statutory auditors and branch auditors for the professional services rendered and also all expenses for performing their duties, even though they may be in the nature of reimbursement of expenses. If external auditors have been appointed by the banks themselves for internal inspections and audits and other services, the expenses incurred in that context including fees may not be included under this head but should be shown under 'other expenditure'.</p>
VIII. Law charges	<p>All legal expenses and reimbursement of expenses incurred in connection with legal services are to be included here.</p>
IX. Postage, telegraphs, telephones, etc.	<p>Includes all postal charges like stamps, telegrams, telephones, teleprinter etc.</p>
X Repairs and maintenance	<p>Includes repairs to bank's property, their maintenance charges, etc.</p>

XI. Insurance	Includes insurance charges on bank's property, insurance premia paid to Deposit Insurance and Credit Guarantee Corporation, etc. to the extent they are not recovered from the concerned parties.
XII. Other expenditure	All expenses other than those not included in any of the other heads, like, licence fees, donations, subscriptions to papers, periodicals, entertainment expenses, travel expenses, etc., may be included under this head. In case, any particular item under this head exceeds one percentage of the total income, the particulars may be given in the notes.
Provisions and contingencies	Includes all provisions made for bad and doubtful debts, provisions for taxation, provisions for diminution in the value of investments, transfers to contingencies and other similar items.

Disclosure of Accounting Policies

In order that the financial position of banks represent a true and fair view, the Reserve Bank of India has directed the banks to disclose the accounting policies regarding the key areas of operations along with the notes of account in their financial statements for the accounting year ending 31.3.1991 and onwards, on a regular basis. The accounting policies disclosed may contain the following aspects subject to modification by individual banks:

1) General

The accompanying financial statements have been prepared on the historical cost and conform to the statutory provisions and practices prevailing in the country.

2) Transactions involving Foreign Exchange

- a) Monetary assets and liabilities have been translated at the exchange rates, prevailing at the close of the year. Non-monetary assets have been carried in the books at the historical cost.
- b) Income and expenditure items in respect of Indian branches have been translated at the exchange rates, ruling on the date of the transaction and in respect of overseas branches at the exchange rates prevailing at the close of the year.
- c) Profit or losses on pending forward contracts have been accounted for.

3) Investments

- a) Investments in Governments and other approved securities in India are valued at the lower of cost or market value.
- b) Investments in subsidiary companies and associate companies (i.e., companies in which the bank holds at least 25 percent of the share capital) have been accounted for on the historical cost basis.
- c) All other investments are valued at the lower of cost or market value.

4) Advances

- a) Provisions for doubtful advances have been made to the satisfaction of the auditors:
 - i) In respect of identified advances, based on a periodic review of advances and after taking into account the portion of advance guaranteed by the Deposit Insurance and Credit Guarantee Corporation, the Export Credit and Guarantee Corporation and similar statutory bodies;
 - ii) In respect of general advances, as a percentage of total advances taking into account the guidelines issued by the Government of India and the Reserve Bank of India.
- b) Provisions in respect of doubtful advances have been deducted from the advances to the extent necessary and the excess have been included under "Other Liabilities and Provisions".
- c) Provisions have been made on a gross basis. Tax relief, which will be available when the advance is written-off, will be accounted for in the year of write-off.

5) Fixed Assets

- a) Premises and other fixed assets have been accounted for at their historical cost. Premises which have been revalued are

accounted for the value determined on the basis of such revaluation made by the professional values; profit arising on revaluation has been credited to Capital Reserve.

b) Depreciation has been provided for on the straight line/diminishing balance method.

c) In respect of revalued assets, depreciation is provided for on the revalued figures and an amount equal to the additional depreciation consequent of revaluation is transferred annually from the Capital Reserve to the General Reserve / Profit and Loss Account.

6) Staff Benefits

Provisions for gratuity / pension benefits to staff have been made on an accrual / casual basis. Separate funds for gratuity / pension have been created.

7) Net Profit

a) The net profit disclosed in the Profit and Loss Account is after:

i) provisions for taxes on income, in accordance with the statutory requirements.

ii) provisions for doubtful advances.

iii) adjustments to the value of “current investments” in Government and other approved securities in India, valued at lower of cost or market value.

iv) transfers to contingency funds.

v) other usual or necessary provisions.

b) Contingency funds have been grouped in the Balance Sheet under the head “Other Liabilities and Provisions”.

1.6. SOME IMPORTANT TRANSACTIONS

1.6.1 Rebate on Bills Discounted:

Rebate on Bills Discounted is the Discount income not earned by the bank of discounting off the Bill of the Bill as it gets mature after the closing date of its accounting year.

Journal entries :

- i) On discounting of Bill
 Bills Discounted and purchased A/c Dr (with its full value)
 To Customer's Account (with the proceeds value)
 To Discount A/c (with the amount of Discount earned during the year)

To Rebate on Bills Discounted (with the amount of unearned Discount)

'Rebate on Bills Discounted' appears on Liabilities side of Balance sheet under – "other liabilities and provisions" (schedule-5) as it is the income received in advance.

- ii) At the beginning of Accounting year entry will be Rebate on Bills Discounted A/c Dr.

To Discount A/c (with the amount of unearned Discount)

Illustration 1:

On 1st January 2008 Ajmer Bank Ltd. Discounted a bill of Rs. 3, 00,000 @ 10 percent p.a. The Bills falls due on 31st May 2008 and bank closes its account on 31st March every year. Pass necessary journal entry.

Journal Entry

Solution:

1 Jan, 08	Bills discounted and purchased A/c Dr To Customers' A/c To Discount A/c To Rebate on bills discounted (Being the bills discounted)	3,00,000	2,87,500 7,500 5,000
1 April, 08	Rebate on bills discounted A/c Dr. To Discount A/c (Being in next accounting year Rebate on bills discounted transferred to discount A/c)	5,000	5,000

$$\text{Note : Discount for 3 months} = 3,00,000 \times \frac{10}{100} \times \frac{3}{12} = 7,500$$

$$\text{Rebate on bills for 2 months} = 3,00,000 \times \frac{10}{100} \times \frac{2}{12} = 5,000$$

Illustration 2:

Following are the details of bills discounted by UCO Bank Ltd. During the year ended 31/3/08

Date of Bill 2009	Amount (Rs.).	Term (Months)	Rate of Discount p.a. (%)	Discount (Rs.)
Jan 15	1,00,000	4	12	4,000
March 5	1,50,000	3	15	5,625
Feb. 6	80,000	5	18	6,000
Total	3,30,000			15,625

Calculate Rebate on bills discounted and show the necessary Journal entry.

Date of Bill 2009	Date of maturity	No. of days outstanding after 31/3/2008	Amount (Rs.)	Discount (%)	Total amount of discount (Rs.)	Portion of Discount o/s after 31/3/2008 (Rs.)
Jan 15	May 18	(30 + 18) 48	1,00,000	12	12,000	1,578.08
March 05	June 08	(30+31+8) 69	1,50,000	15	22,500	4,253.42
Feb 06	July 09	(30+31+30+9) 100	80,000	18	14,400	3,945.21
Total						9,776.71

Journal Entry:

Bills discounted and purchased A/c Dr. 3, 30,000

To Customer A/c (3, 30,000 – 5,848.29-9776.71)

To Discount A/c (15625-9776.71) 5848.29

To Rebate on bills discounted 9776.71

1.6.2 AcceptanceEndorsement and other obligations

The Bank accepts or encloses a bill on behalf of its customers who has raised loan or made purchases on credit basis and a customer deposit equal amount of security into the bank. On maturity bank pays amount to the party on behalf of its customer and at the same time claims same amount from its customer. It is shown under the heading 'contingent Liabilities' (Schedule -12)

1.6.3 Bills for collection

Many bank customers usually handover bills receivables to the bank for the purpose of its collection on maturity when the bills get mature, bank credit the amount to the respective client's account. The 'Bills for collection' is shown at the foot of the Balance sheet.

1.6.4 Provisions and contingencies

There is no separate schedule given by the Banking Regulation Act,1949 regarding provisions and contingencies but it is shown in the profit and loss account under the heading 'Provisions and contingencies'. It includes provisions for bad and doubtful debts, Provision for income tax provisions for Rebate on bills discounted and such other required provisions and contingencies. It is included in schedule – 5 'other liabilities and provisions' with sub-heading – IV – others".

1.7 SOLVED PROBLEMS

Illustration 1

A Smruti Bank Ltd. Provides you the following balances as on 31st March 2009.

Particulars	Amount (Rs.)
Share capital (Issued and subscribed)	39,000
Current account	8,58,000
Money at call and short notices	9,885
Rebate on bills discounted	22,500
Commission exchange and brokerage	27,000
Interest on loans	77,700
Interest on fixed deposit	82,500
Commission Received	2,400
Salaries and allowances	31,500
Reserve for building	39,000
Unclaimed discount	936
Unexpired discount	1,950
Investment of cost: Central and State Government	
- Securities	3,90,000
- Debentures	15,600
- Bullion	93,600
Reserve fund	62,400
Fixed deposit	1,56,000
Directors fees and allowances	3,600
Rent and taxes paid	16,200
Postage and telegram	6,000
Rent received	9,000
Interest on balances with RBI	60,825
Profit on sale of Investment	
Loans, advances, overdraft and cash credit	3,90,000
Bills payable	78,000
Borrowings from banks in India	9,750
Branch adjustment	2,25,966
Furniture and fixtures	1,23,900
Non banking assets acquired	2,730
Interest accrued on investment	10,140
Dividend fluctuation fund	23,400

Profit and loss A/c (Credit balance)	7,800
Locker rent	3,000
Transfer fees	1,500
Interest on saving bank deposits	20,400
Interest on cash credit	66,900
Premises at cost	3,90,000
Additions to premises	78,000
Advance payment of tax	4,290
Silver bullion	7,800
Saving Bank deposit	2,34,000
Cash balances with RBI	1,32,600
Cash balances with other banks	46,800
Depreciation Fund on premises	3,12,000

Other Information:

- 1) There was a claim of rupees 7,800 against bank but not acknowledge as debt.
- 2) Bank transfer reserve for building to depreciation fund of premises
- 3) Directors decided to declare 10 percent dividend
- 4) Provide rupees 1, 05,000 for income tax and rupees 15,000 for doubtful debts.
- 5) Transfer 20 percent of profit to statutory reserve. Prepare final accounts of the bank.

Solution:

**Smruti Bank Ltd.
Balance Sheet as on 31st March 2009**

	Schedule No.	As on 31 st March 2009
<u>Capital and Liabilities</u>		
Capital	1	39,000
Reserves and surplus	2	1,01,625
Deposits	3	12,48,000
Borrowings	4	9,750
Other Liabilities and provisions	5	5,58,036
Total		19,56,411

<u>Assets</u>	6	1,32,600
Cash and balances with Reserve Bank of India	7	56,685
Balances with banks and money at call and short notice	8	4,99,200
Investments	9	4,25,100
Advances	10	5,91,900
Fixed Assets	11	2,50,926
Other Assets		19,56,411
Total	12	
Contingent liabilities		7,800
Bills for collection		

Profit and Loss account for the year ended 31st March 2009

	Schedule No.	As on 31 st March 2009
<u>I. Income</u>		
Interest earned	13	2,49,225
Other income	14	42,900
Total		2,92,125
<u>II. Expenditure</u>		
Interest expended	15	1,02,900
Operating expenses	16	57,300
Provisions and contingencies		1,20,000
Total		2,80,200
<u>III. Profit / Loss</u>		
Net profit / Loss (-) for the year		11,925
Profit / Loss (-) brought forward		7,800
Total		19,725
<u>IV. Appropriations</u>		
Transfer to statutory reserves		2,385
Transfer to other reserves		3,900
Transfer to Government / proposed dividend		13,440
Balance carried over to Balance sheet		19,725
Total		19,725

Schedule 1 – Capital

	As on 31 st March 2009
Authorized Capital	39,000
Issued and subscribed	39,000
Total	39,000

Schedule 2 - Reserves and surplus

		As on 31 st March 2009
I. Statutory Reserves		
Opening Balance	62,400	
Additions during the year	2,385	64,785
II. Revenue and other Reserves		
Dividend fluctuation fund		23,400
III. Balance in profit and loss Account		13,440
Total (I + II + III)		1,01,625

Schedule 3 – Deposits

		As on 31 st March 2009
A. I. Demand Deposits : From banks		8,58,000
II. Saving Bank Deposits		2,34,000
III. Term Deposits : Fixed Deposits		1,56,000
Total (I + II + III)		12,48,000
B. I. Deposits of branches in India		12,48,000
II. Deposits of branches outside India		--
Total		12,48,000

Schedule 4 – Borrowings

		As on 31 st March 2009
I. Borrowings in India: other banks		9,750
Total		9,750

Schedule 5–other liabilities and provision

		As on 31 st March 2009
I. Bills payable		78,000
II. Others : Rebate for bills discount		2,250
Provision for tax and doubtful debts		1,20,000
Unclaimed Discount		936
Unexpired Discount		1,950
Depreciation fund on premises		3,51,000
Proposed dividend		3,900
Total (I + II)		5,58,036

Note : Depreciation fund on premises = 3,12,000 + 39,000
= 3, 51,000

Schedule 6 – Cash and Balances with RBI

	As on 31 st March 2009
I. Balances with RBI	1,32,600
Total	1,32,600

Schedule 7 – Balances with Banks and money at calls & short notice

	As on 31 st March 2009
I. Balances with other banks in India	46,800
II. Money at call & short notice	9,885
Total (I + II)	56,685

Schedule 8 – Investments

	As on 31 st March 2009
I. Investment in Government securities	3,90,000
Debentures	15,600
Bullion	93,600
Total	4,99,200

Schedule 9 – Advances

	As on 31 st March 2009
I. Bills purchased and discounted	35,100
II. Cash credits, overdrafts and loans repayable on demand	3,90,000
Total	4,25,100

Schedule 10 – Fixed Assets

	As on 31 st March 2009
I. Premises	3,90,000
Opening Balance	78,000
Additions during the year	<u>4,68,000</u>
II. Other Fixed Assets	1,23,900
Total (I + II)	5,91,900

Schedule 11 – Other Assets

	As on 31 st March 2009
I. Inter office adjustments	2,25,966
II. Interest accrued on investment	10,140
III. Advance payment of tax	4,290
IV. Non banking Assets acquired in satisfaction of claims	2,730
V. Other : Silver bullion	7,800
Total	2,50,926

Schedule 12 – Contingent Liabilities

	As on 31 st March 2009
I. Claims against the bank not acknowledged as debt	7,800
Total	7,800

Schedule 13 – Interest earned

	As on 31 st March 2009
I. Interest / discount on Advances / bills:	
Interest on loans	7,77,000
Interest on cash credits	66,900
II. Interest on balances with Reserve Bank of India and other inter-bank funds	60,825
III. Others: Discount on bills discounted	43,800
Total	2,49,225

Schedule 14- Other income

	As on 31 st March 2009
I. Commission exchange and brokerage	27,000
II. Profit on sale of investment	28,500
III. Miscellaneous income: Rent Received	9,000
Locker rent	3,000
Transfer fees	1,500
Commission received	2,400
Total	42,900

Schedule 15 – Interest expanded

	As on 31 st March 2009
I. Interest on Fixed deposits	82,500
II. Interest on saving bank deposit	20,400
Total	1,02,900

Schedule 16 – Operating Expenses

	As on 31 st March 2009
I. Rent and Taxes paid	16,200
II. Directors fees, allowances and expenses	3,600
III. Postage and telegram	6,000
IV. Other expenditure	31,500
Total	57,300

Illustration 2:

On 31st March 2010 the following trial balance was extracted from Amin Bank Ltd. You are required to prepare profit and loss account for the year ended 31st March 2010 and also the balance sheet as on that date.

Debit Balances	Amount (Rs.)
Insurance charges on bank property	2,899
Depreciation on banks property	3,523
Fees paid to statutory auditor	21,944
Staff salaries and medical allowances	1,45,366
Rent on building and municipal taxes	9,035
Interest due but not collected on investment	33,280
Land and building at cost	4,693
Other fixed Assets	24,570
Loss on sale of other fixed Assets	2,795
Repairs and maintenance	1,508
Legal charges	221
Tax deducted at source	93,873
Cash in hand	27,482
Balances with RBI: Current A/c	9,75,026
Other Accounts	12,805
Printing and stationary	2,418
Printing charges of publicity matters	520
Stationary and stamp	1,846
Term loans	9,11,599
Licence fee	12,155
Directors sitting fees	4,524
Other expenditure	9,295
Balance with other bank: In current A/c	7,139
In other deposit A/c	3,560
Money call and short notices with bank	325
Cash credit and overdraft	12,96,984
Investment:	
Government treasury bills	12,78,576
Other approved securities	4,91,452
Joint ventures	16,380
Debentures and bonds of companies	19,721
Non banking Assets acquired in satisfaction of claims	6,500
Interest on RBI borrowings	5,785
Bills purchased and discounted	2,84,089
Interest paid on deposit: From banks	59,280
Other institution	2,37,159
Inter-office adjustment (net)	16,562

Credit Balances	Amount (Rs.)
Issued, subscribed and paid up share capital: 3250 shares of Rs. 10 each	32,500
Interest on debentures and bonds	1,86,706
Rebate on bills discounted	42,939
Depreciation on building to date	1,417
Statutory Reserve	97,591
Revenue Reserves	71,500
Depreciation on other fixed assets to date	12,610
Demand deposits : From banks	13,39,050
From others	10,9,540
Saving bank deposits	15,41,865
Term deposits	19,04,760
Commission on remittances and transfer	53,582
Letting out lockers	5,920
Interest on balances with RBI and other	44,811
Inter-bank funds	
Income earned by way of dividend from joint venture	2,274
Interest on advances, cash credit and overdraft	4,04,859
Interest accrued	16,328
Profit on sale of investment	2,275
Bills payable	71,162
Borrowings from RBI	37,700
Profit and loss account	45,500

Adjustments:

1. The authorized capital of bank is rupees 65,000 divided into 6,500 shares of Rupees 10 each, 50 percent of it is issued and subscribed.
2. The provision for income tax to be made @ 45 percent
3. All advances are in India and they are classified as follows:
priority sectors 12, 46,336; public sector 4, 98,534; banks 3, 94,198; others 3, 53,604. Advances secured by tangible assets Rs. 11, 21,702; covered by bank/ Government guarantees Rs. 8, 72,435 and remaining are unsecured 4, 98,535.
4. Bank Transfer 20 percent of profit to statutory reserve and 15 percent to revenue reserves.
5. contingent liabilities:
 - i) Claim against the bank not acknowledged as debt Rs. 2,150.
 - ii) Liability on account of outstanding forward exchange contracts Rs. 640.
 - iii) Acceptance, endorsement and other obligations 4542.

Solution 2:

Amin Bank Ltd.
Balance Sheet as on 31st March 2010

	Schedule No.	As on 31 st March 2010
Capital & Liabilities		
Capital	1	32,500
Reserves & Surplus	2	3,14,691
Deposits	3	48,95,215
Borrowings	4	37,700
Other Liabilities and provisions	5	2,12,329
Total		54,92,435
Assets		
Cash and balances with Reserve Bank of India	6	10,15,313
Balances with banks and money at call and short notice	7	11,024
Investments	8	18,06,129
Advances	9	24,92,672
Fixed Assets	10	15,236
Other assets	11	1,52,061
Total		54,92,435
Contingent Liabilities		7,332

PROFIT & LOSS A/C FOR THE YEAR ENDED ON
31ST MARCH, 2010

	Schedule No.	As on 31-3-10
I. Income: Interest earned	13	6,36,376
Other Income	14	61,256
Total		6,97,632
II. Expenditure: Interest expended	15	3,02,224
Operating expenses	16	2,13,408
Provisions and contingencies		81,900
Total		5,97,532
III. Profit / Loss:		
Net Profit / Loss (-) for the year		1,00,100
Profit / Loss (-) brought forward		45,500
Total		1,45,600
IV. appropriations:		
Transfer to statutory reserves		29,120
Transfer to other reserves		21,840
Transfer to Government/proposed dividend		
Balance carried over to Balance Sheet		94,640
Total		1,45,600

Schedule 1 – Capital

	As on 31 st March 2010
For other banks	
Authorized capital	
6500 shares of Rs. 10 each	65,000
Issue capital	
3250 shares of Rs. 10 each	32,500
Subscribed capital:	
3250 shares of Rs. 10 each	32,500
Called-up capital:	
3250 shares of Rs. 10 each	32,500
	32,500

Schedule 2 – Reserves and surplus

	As on 31 st March 2010
I. Statutory reserves:	
Opening balance	97,591
Additions during the year	29,120
	1,26,711
II. Revenue and other reserves	
Opening balance	71,500
Additions during the year	21,840
	93,340
III. Balance in profit and loss A/c	94,640
Total (I + II + III)	3,14,691

Schedule 3 – Deposits

	As on 31 st March, 2010
I. Demand deposits: From banks	13,39,050
From others	1,09,540
II. Savings bank deposits	15,41,865
III. Term deposits	19,04,760
Total (I + II + III)	48,95,215

Schedule 4 – Borrowings

	As on 31 st March, 2010
I. Borrowings in India : Reserve bank of India	37,700
Total	37,700

Schedule 5– Other Liabilities and provisions

	As on 31st March, 2010
Bills payable	71,162
Interest accrued	16,328
Others: Rebate on bills discounted	42,939
Provision for income tax	81,900
Total	2,12,329

Schedule 6 – Cash and balances with RBI

	As on 31st March, 2010
I. Cash in hand	27,482
II. Balances with RBI:	
In current A/c	9,75,026
In other A/c	12,805
Total	10,15,313

**Schedule 7 – Balances with banks & money at call
& short notice**

	As on 31st March, 2010
I. Balances with banks:	
In current A/c	7,139
In other deposit A/c	3,560
II. Money at call & short notice	325
Total (I + II)	11,024

Schedule 8 – Investment

	As on 31st March, 2010
Investments in:	
Government treasury bills	12,78,576
Other approved securities	4,91,452
Debentures and bonds of companies	19,721
Subsidiaries and joint venture	16,380
Total	18,06,129

Schedule 9 – Advances

	As on 31st March, 2010
A)	
i) Bills purchased and discounted	2,84,089
ii) Cash credit, overdraft and loans repayable on demand	12,96,984
iii) Terms loans	9,11,599
Total	24,92,672

B)	
i) Secured by tangible assets	11,21,702
ii) Covered by bank / Government guarantees	8,72,435
iii) Unsecured	4,98,535
Total	24,92,672
C)	
I) Advances in India :	
i) Priority sectors	12,46,336
ii) Public sector	4,98,534
iii) Banks	3,94,198
iv) Others	3,53,604
Total	24,92,672
II) Advances outside India	--

Schedule 10 – Fixed Assets

	As on 31 st March, 2010
I) Premises: At cost	4,693
Depreciation to date	(1,417)
	3,276
II) Other fixed assets (including Furniture and fixtures):	
At cost	24,570
Depreciation to date	(12,610)
	11,960
Total (I + II)	15,236

Schedule 11 – Other Assets

	As on 31 st March, 2010
Inter office adjustments	16,562
Interest due on investment but not collected	33,280
Tax deducted at source	93,873
Stationary and stamps	1,846
Non banking assets acquired in satisfaction of claims	6,500
Total	1,52,061

Schedule 12 – Contingent Liabilities

	As on 31st March, 2010
Claim against the bank not acknowledge as debts	2,150
Liability on account of outstanding forward exchange contracts	640
Acceptance, endorsement and other obligations	4,542
Total	7,332

Schedule 13 – Interest earned

	As on 31st March, 2010
Interest on advances, cash credit and overdraft	4,04,859
Interest on debentures and bonds	1,86,706
Interest on balances with RBI and other inter bank funds	44,811
Total	6,36,376

Schedule 14 – Other income

	As on 31st March, 2010
Commission on remittances and transfer	53,582
Profit on sale of investment	2,275
Loss on sale of other fixed assets	(2,795)
Income earned by way of dividend, etc	2,274
From subsidiaries / companies	
Miscellaneous income:	
Letting out lockers	5,920
Total	61,256

Schedule 15 – Interest expanded

	As on 31st March, 2010
Interest on deposits:	
From banks	59,280
From other Institution	2,37,159
Interest on RBI / inter bank borrowings	5,785
Total	3,02,224

Schedule 16 – Operating Expenses

	As on 31 st March, 2010
Staff salaries and medical allowances	1,45,366
Rent on building and municipal taxes	9,035
Printing and stationery	2,418
Printing charges of publicity matters	520
Depreciation on banks property	3,523
Directors fees, allowances and expenses	4,524
Fees paid to statutory auditor	21,944
Law charges	221
Repairs and maintenance	1,508
Insurance charges on bank property	2,899
Other expenditure: license fee	12,155
Other expenses	9,295
Total	2,13,408

Illustration 3

From the following information, prepare final accounts of Jetty Bank Ltd. as on 31st March, 2010

Debit Balances	Amount (Rs.)
Inter-office Adjustments (Net)	135
Interest on investment not collected but accrued	365
Stationery and stamp	410
Interest on deposits	2,100
Interest on RBI and Inter-Bank borrowings	820
Investment: <u>In India</u>	
Government securities	2,215
Other approved securities	1,600
Subsidiaries and Joint Ventures	310
Mutual fund	225
Commercial paper	60
Unit Trust of India	365
<u>Outside India</u>	
Foreign Government securities (Issued by local authorities)	665
Subsidiaries and Joint Ventures	234
Rent, Taxes, lighting	500
Printing and stationery	775
Depreciation on land and Building	400

Directors Fees, allowances and expenses	663
Law charges	220
Non-banking assets acquired in satisfaction of claims	900
Tax paid in advance	516
Land and Building at cost	1,295
Other fixed assets	615
Bills purchased and discounted	785
Cash credit, overdrafts and loans	1,315
Terms loans	771
Balance with RBI	1,710
Balance with other Banks	644
Money at call and short notices	224
	20,837

Credit Balances	Amount (Rs.)
Authorised, issued and subscribed capital	2,000
Deposits Repayable on demand	225
Certificates of deposits from non-bank sectors	311
Saving Bank deposits	1,775
Term Deposits: From Banks	1,100
Cumulative and Recurring deposits	1,322
Interest on Balances with other banks	775
Interest / discount on advances / bills	1,120
Income on investment	1,335
Commission, exchange and brokerage	330
Profit on sale of land and building	1,000
Income earned by way of dividend from subsidiaries	925
Statutory Reserves	885
Capital Reserves	700
Revenue and other Reserves	435
Borrowings in India : RBI	1,100
Other banks	375
Borrowings outside India	446
Profit on sale of investment (Net)	1,135
Profit on exchange transactions (Net)	531
Bills Payable	411
Inter-office Adjustment (Net)	225
Interest accrued	800
Other provisions	665
Interest on call loans	911
	20,837

Adjustments:

1. Advances amounting Rs. 1,439 are secured by tangible assets; Rs. 1,210 covered by guarantees of Indian and foreign governments and banks; and remaining are unsecured.
2. Advances are made both in India and outside India:
 Advances in India on sectoral basis – priority sector Rs. 860; public sector Rs. 574; Banks Rs. 287 and other Rs. 193
 Advances outside India – Due from Banks Rs. 623 and due from others Rs. 334
3. Provision is to be made for income tax at the rate of 30%.
4. Dividend is proposed at the rate of 15 percent.
5. The contingent liabilities appears as on 31st March 2010 as follows.
 - i) Acceptance, endorsement and other obligations Rs. 310.
 - ii) Claims against bank not acknowledged as debt Rs. 620.
6. Out of total deposits, Rs. 1,317 are deposits of branches outside India.

Solution:**Balance Sheet of Jetty Bank Ltd. as on 31-03-10**

	Schedule No.	As on 31 st March 2010
Capital & Liabilities		
Capital	1	2,000
Reserves & Surplus	2	3,528.8
Deposits	3	4,733
Borrowings	4	1,921
Other Liabilities and provisions	5	3,176.2
Total		15,359
Assets		
Cash and balances with RBI	6	1,710
Balances with banks and money at call and short notice	7	868
Investments	8	5,674
Advances	9	2,871
Fixed Assets	10	1,910
Other assets	11	2,326
Total		15,359
Contingent Liabilities	12	930
Bills for collection	--	--

**PROFIT & LOSS A/C FOR THE YEAR ENDED ON
31ST MARCH, 2010**

	Schedule No.	As on 31-3-10
I. Income:		
Interest earned	13	4,141
Other Income	14	3,921
Total		8,062
II. Expenditure:		
Interest expended	15	2,920
Operating expenses	16	2,558
Provisions and contingencies		775.2
Total		6253.2
III. Profit / Loss:		
Net Profit for the year		1808.8
IV. Appropriations:		
Transfer to statutory reserves		361.76
Transfer to other reserves		--
Transfer to proposed dividend		300
Balance carried over to Balance Sheet		1147.04
Total		1,808.8

Schedule 1 – Capital

	As on 31 st March 2010
Authorized, Issue, Subscribed capital:	2,000
	2,000

Schedule 2 – Reserves and surplus

	As on 31 st March 2010
I. Statutory reserves:	
Opening balance	885
Additions during the year	361.76
	1246.76
II. Capital reserve	700
III. Revenue and other reserves	435
IV. Balance in profit and loss A/c	1147.04
Total	3,528.8

Schedule 3 – Deposits

	As on 31st March, 2010
A) I. Demand deposits:	
Bank deposits repayable on demand	225
Certificate of deposits from non bank	311
II. Savings bank deposits	1,775
III. Term deposits	1,100
Cumulative and recurring deposits	1,322
Total (I + II + III)	4,733
B)	
I) Deposits of branches in India	3,416
II) Deposits of branches outside India	1,317
Total (I +II)	4,733

Schedule 4 – Borrowings

	As on 31st March, 2010
I. Borrowings in India : RBI	1,100
Other Banks	375
II. Borrowings outside India	446
Total (I + II)	1,921

Schedule 5 – Other Liabilities and provisions

	As on 31st March, 2010
I) Bills payable	411
II) Inter office adjustment	225
III) Interest accrued	800
IV) Others: Provision for tax	775.2
Dividend	300
Total (I + II + III + IV)	3176.2

Schedule 6 – Cash and balances with RBI

	As on 31st March, 2010
I. Cash in hand	--
II. Balances with RBI:	1,710
Total	1,710

**Schedule 7 – Balances with banks & money at call
& short notice**

	As on 31st March, 2010
I. In India: Balances with banks:	644
Money at call & short notice	224
Total	868
II. Outside India	--
Total (I + II)	868

Schedule 8 – Investment

	As on 31st March, 2010
I. Investments in India in:	
Government securities	2,215
Other approved securities	1,600
Subsidiaries and joint ventures	310
Others: mutual fund 225	
Commercial papers 60	
UTI 365	650
Total	4,775
II. Investment outside India in:	
Government securities (including local authorities)	665
Subsidiaries and joint ventures abroad	234
Total	899
Grand Total (I + II)	5,674

Schedule 9 – Advances

	As on 31st March, 2010
A)	
i) Bills purchased and discounted	785
ii) Cash credit, overdraft and loans repayable on demand	1,315
iii) Terms loans	771
Total	2,871
B)	
i) Secured by tangible assets	1,439
ii) Covered by bank / Government guarantees	1,210
iii) Unsecured	222
Total	2,871

C)	
I) Advances in India :	
i) Priority sectors	860
ii) Public sector	574
iii) Banks	287
iv) Others	193
Total	1,914
II) Advances outside India	
i) Due from banks	623
ii) Due from others	334
Total	957
Grand Total (C. I + C. II)	2,871

Schedule 10 – Fixed Assets

	As on 31 st March, 2010
I) Premises: At cost	1,295
II) Other fixed assets (including Furniture and fixtures)	615
Total (I + II)	1,910

Schedule 11 – Other Assets

	As on 31 st March, 2010
i) Inter office adjustments	135
ii) Interest accrued	365
iii) Tax paid in advance	516
iv) Stationary and stamps	410
v) Non banking assets acquired in satisfaction of claims	900
Total	2,326

Schedule 12 – Contingent Liabilities

	As on 31 st March, 2010
i) Claim against the bank not acknowledge as debts	620
ii) Acceptance, endorsement and other obligations	310
Total	930

Schedule 13 – Interest earned

	As on 31st March, 2010
I) Interest / discount on advances / bills (911 + 1120)	2,031
II) Income on investment	1,335
III) Interest on balances with other bank	775
Total	4,141

Schedule 14 – Other income

	As on 31st March, 2010
I) Commission, exchange and brokerage	330
II) Profit on sale of investments	1,135
III) Profit on sale of land, buildings and other assets	1,000
IV) Profit on exchange transactions	531
V) Income earned by way of dividend etc, from subsidiaries / companies	925
Total	3,921

Schedule 15 – Interest expanded

	As on 31st March, 2010
I) Interest on deposits:	2,100
II) Interest on RBI / inter bank borrowings	820
Total	2,920

Schedule 16 – Operating Expenses

	As on 31st March, 2010
I) Rent, taxes and lighting	500
II) Printing and stationery	775
III) Depreciation on banks property	400
IV) Directors fees, allowances and expenses	663
V) Law charges	220
Total	2,558

Illustration 4

The following are the balances of merchant Bank Ltd. for the year ended 31st March, 2008. Prepare profit and loss account for the year ended 31st March, 2008 and also balance sheet as on that date.

Debit Balances	Amount (Rs.)
Balance with RBI	1,500
Premises at cost	860
Additions during the year	900
Other fixed assets	1,300
Balances with other banks in current account	3,300
Balances with banks in other deposit A/c	1,000
Money at call and short notices	3,000
Inter-office adjustment	800
Interest accrued	800
Stationary and stamps	1,750
Tax paid in advance	380
Non banking assets acquired in satisfaction of claims	240
Medical allowances	410
Allowances to employees	525
Staff provident fund	230
Other provisions for employees	333
Expenses on books and forms	125
Insurance charges	400
Telephone and stamp	360
Subscription to periodicals	250
Rent and taxes	155
Audit fees and expenses	600
Interest on deposits	930
Interest on inter bank borrowings	630
Bills purchased and discounted	1,830
Cash credit, overdraft and loans	2,070
Term loans	1,330
Investment: In Government securities	3,450
Shares	3,000
Debentures and bonds	782
Subsidiaries	2,200
Total	32,470

Credit Balances	(Rs. In' 000) Amount (Rs.)
Issued, subscribed and called up capital:	
30,000 shares of Rs. 100 each	3,000
Rent received	310
Miscellaneous income	400
Income earned from subsidiaries	830
Commission on remittances and transfer	730
Interest on balance with RBI	840
Dividend on shares	350
Profit on sale of investment	650
Depreciation to date (Premises)	350
Depreciation to date (other assets)	210
Revenue reserves	910
Profit on sale of other assets	1,100
Borrowings: From NABARD	1,200
From RBI	1,100
From Co-operative Banks	980
Capital reserves	1,400
Statutory reserves	1,000
Share premium	590
Bills payable	2,000
Inter office adjustment	900
Interest on loans and advances	1,940
Discount on bills purchased	960
Balances in profit and loss A/c	2,220
Interest accrued	1,500
Interest on debentures and bonds	500
Demand deposits: From banks	2,790
From others	1,210
Fixed deposit	1,050
Saving bank deposit	1,450
Total	32,470

Other Information:

- 1) On 31st March, 2008 advances appears as follows:

(Rs. In '000)

	Bills purchased and discounted	Cash credit, overdraft, loans	Term loan
Standard assets	1,030	985	475
Sub-standard assets	800	300	200
Doubtful assets:			
- upto 1 year	--	100	360
- 1 year to 3 year	--	360	140
- more than 3 years	--	255	110
Loss assets	--	70	45
Total	1,830	2,070	1,330

The provision is yet to be made on above advances.

- 2) Depreciation to be charged on premises Rs. 1, 53,000 and other assets Rs. 1, 10,000.
- 3) Directors declare interim dividend @ 10 Percent
- 4) Claims against the bank not acknowledged as debt Rs. 7, 80,000. Liability for partly paid investment Rs. 5, 95,000.

Solution:

MERCHANT BANK LTD.
Balance Sheet as on 31-3-2008

	Schedule No.	As on 31 st March 2010 (Rs. In '000)
Capital & Liabilities		
Capital	1	3,000
Reserves & Surplus	2	8,299.5
Deposits	3	6,500
Borrowings	4	3,280
Other Liabilities and provisions	5	4,950
Total		26029.5
Assets		
Cash and balances with RBI	6	1,500
Balances with banks and money at call and short notice	7	4,330
Investments	8	9,432
Advances	9	4560.5
Fixed Assets	10	2,237
Other assets	11	3,970
Total		26,029.5
Contingent Liabilities	12	1,695
Bills for collection	--	--

**PROFIT & LOSS A/C FOR THE YEAR ENDED ON
31ST MARCH, 2008**

	Schedule No.	As on 31-3-10 (Rs. In '000)
I. Income: Interest earned	13	4,590
Other Income	14	4,020
Total		8,610
II. Expenditure: Interest expended	15	1,560
Operating expenses	16	3,651
Provisions and contingencies		919.5
Total		6,130.5
III. Profit / Loss:		
Net Profit / Loss (-) for the year		2,479.5
Profit / Loss (-) brought forward		2,220
Total		4,699.5
IV. Appropriations:		
Transfer to statutory reserves		495.9
Transfer to other reserves		
Transfer to Government / proposed dividend		300
Balance carried over to Balance Sheet		3,903.6
Total		4,699.5

Schedule 1 – Capital

	As on 31 st March 2008
Authorized capital 30,000 shares of Rs. 100 each	3,000
Issue capital 30,000 shares of Rs. 100 each	3,000
Subscribed capital: 30,000 shares of Rs. 100 each	3,000
Called-up capital: 30,000 shares of Rs. 100 each	3,000

Schedule 2 – Reserves and surplus

	As on 31st March 2008
I. Statutory reserves:	1,000
Additions during the year	495.9
	1,495.9
II. Capital reserve	1,400
III. Shares Premium	590
IV. Revenue and other Reserves	910
V. Balance in profit and loss account	3,903.6
Total (I + II +III +IV + V)	8,299.5

Schedule 3 – Deposits

	As on 31st March, 2008
I. Demand deposits:	
i) From banks	2,790
ii) From others	1,210
II. Savings bank deposits	1,450
III. Term deposits	1,050
Total (I + II + III)	6,500

Schedule 4 – Borrowings

	As on 31st March, 2008
I. Borrowings in India :	
Reserve Bank of India	1,100
Other Banks: From NABARD	1,200
From Co-operative banks	980
Total	3,280

Schedule 5 – Other Liabilities and provisions

	As on 31st March, 2008
I) Bills payable	2,000
II) Inter office adjustment (Net)	900
III) Interest accrued	1,500
IV) Others: Interim Dividend	300
Provision on tax	250
Total	4,950

Schedule 6 – Cash and balances with RBI

	As on 31st March, 2008
I. Balances with RBI	1,500
Total	1,500

**Schedule 7 – Balances with banks & money at call
& short notice**

	As on 31st March, 2008
In India:	
i) Balances with banks:	
a) In current Accounts	330
b) In other deposit accounts	1,000
ii) Money at call & short notice	3,000
Total	4,330

Schedule 8 – Investment

	As on 31st March, 2008
I. Investments in India:	
i) Government securities	3,450
ii) Shares	3,000
iii) Debentures and bonds	782
iv) Subsidiaries and / or joint ventures	2,200
Total	9,432

Schedule 9 – Advances

	As on 31st March, 2008
i) Bills purchased and discounted	1,750
ii) Cash credit, overdraft and loans repayable on demand	1,714.5
iii) Terms loans	1,096
Total	4,560.5

Schedule 10 – Fixed Assets

	As on 31st March, 2008
I) Premises: At cost	860
Additions during the year	900
Depreciation to date (350+153)	(503)
II) Other fixed assets (including Furniture and fixtures) at cost	1,300
Depreciation to date (210 + 110)	(320)
Total (I + II)	2,237

Schedule 11 – Other Assets

	As on 31st March, 2008
i) Inter office adjustments (net)	800
ii) Interest accrued	800
iii) Tax paid in advance / tax deducted at source	380
iv) Stationary and stamps	1,750
v) Non banking assets acquired in satisfaction of claims	240
Total	3,970

Schedule 12 – Contingent Liabilities

	As on 31st March, 2008
i) Claim against the bank not acknowledge as debts	780
ii) Liability for partly paid investments	595
ii) Acceptance, endorsement and other obligations	320
Total	1,695

Schedule 13 – Interest earned

	As on 31st March, 2008
I) Interest / discount on advances / bills	
Discount on bills purchased	960
Interest on loans and advances	1,940
II) Income on investment	
Interest on debentures and bonds	500
Dividend on shares	350
III) Interest on balances with RBI and other inter bank Funds	840
Total	4,590

Schedule 14 – Other income

	As on 31st March, 2008
I) Commission on remittance and transfer.	730
II) Profit on sale of investments	650
III) Profit on sale of land, buildings and other assets	1,100
IV) Income earned by way of dividend etc, from subsidiaries / companies	830
V) Miscellaneous income:	
Rent received	310
Other miscellaneous income	400
Total	4,020

Schedule 15 – Interest expanded

	As on 31st March, 2008
I) Interest on deposits:	930
II) Interest on RBI / inter bank borrowings	630
Total	1,560

Schedule 16 – Operating Expenses

	As on 31st March, 2008
I. Allowances to employees	525
II. Medical allowances	410
III. Staff providend fund	230
IV. Other provision for employees	333
V. Rent, taxes and lighting	155
VI. Expenses on books and forms	125
VII. Depreciation on banks property (153 + 110)	263
VIII. Audit fees and expenses	600
IX. Postage and telephones	360
X. Insurance	400
XI. Other expenditure:	
Subscription to periodicals	250
Total	3,651

I. Provisions on Advances:**(Rs. In '000)**

Assets	Bills Purchased & Discounted	Cash Cr., Overdraft, loans	Term loans	% of provision	Bills Purchased & Discounted	Cash Cr., Overdraft, loans	Term loans
Standard Assets	1,030	985	475	--	--	--	--
Sub-standard Assets	800	300	200	10%	80	30	20
<u>Doubtful assets:</u>							
- upto 1 year	--	100	360	20%	--	20	72
- 1 to 3 years	--	360	140	30%	--	108	42
- More than 3 years	--	255	110	50%	--	127.5	55
Loss Assets	--	70	45	100%	--	70	45
	1,830	2,070	1,330		80	355.5	234

Total Provision on Advances = Rs. 669.5

$$\text{II} \quad \text{Interim dividend } 30,00,000 \times \frac{10}{100} = 3,00,000$$

$$\text{III} \quad \text{Provision on Tax} = 2,50,000$$

Illustration – 5

Kranti Bank Ltd. provides you the following balances as on 31st March, 2007. Prepare profit and loss account and balance sheet from the given balances and other information.

Particulars	Amount
Annuity deposit	18,81,630
Matured time deposits	13,85,980
Pay slips and bankers cheques	46,000
Bills purchased and discounted	6,80,110
Borrowings from: PNB bank of India	46,000
Rajgrih co-operative bank	69,000
Statutory reserve fund	32,200
Profit and loss A/c (Credit)	23,000
Deposits repayable within 15 days notice (in India)	23,460
Deposits with Wilson Financial agency (in India)	5,29,000
Capital reserve	92,000
Saving bank deposits	9,30,580
Term loans	32,75,200
Prepaid Insurance	161
Non banking assets acquired in satisfaction of claims	691
Remuneration for consultancy and other services	46,000
Land and building (cost Rs. 1,38,000)	94,300
Furniture and Fixtures (Cost Rs. 23,920)	16,790
Interest paid on deposits	28,750

Cash balance	1,93,200
Balances with RBI	1,84,000
Share premium	5,000
Contingency fund	27,600
Repairs and maintenance of buildings	19,320
Directors fees, allowances and expenses	4,600
Payment to and provision for employees	2,990
Fees paid to statutory auditor	2,990
Traveling allowances	3,910
Postage and telephone	1,380
Advertisement and publicity	1,380
Other expenditure	690
Profit on exchange transaction	4,600
Income on investment	1,20,750
Investment in India: share capital of subsidiaries	2,34,600
Government bonds	2,31,380
Branch adjustment – A/c (Credit)	17,940
Share capital	8,00,000

Other Adjustments:

1. Authorized capital in equity shares of Rs. 100 each, Rs. 16, 00,000. Issued, sub scribed and called up capital Rs. 50 per share.
2. Bills accepted by bank of behalf of customer amounting Rs. 33,000.
3. Depreciation on Land & building Rs. 3,680 and furniture Rs. 1,610 is to be provided.
4. Transfer 20% of net profit to statutory reserve.

**Kranti Bank Ltd.
Balance Sheet as on 31st March 2007**

	Schedule No.	As on 31-3-07
Capital & Liabilities		
Capital	1	8,00,000
Reserves & Surplus	2	2,52,250
Deposits	3	41,98,190
Borrowings	4	1,15,000
Other Liabilities and provisions	5	91,540
Total		54,56,980

Assets		
Cash and balances with RBI	6	3,77,200
Balances with banks and money at call and short notice	7	5,52,460
Investments	8	4,65,980
Advances	9	39,55,310
Fixed Assets	10	1,05,800
Other assets	11	230
Total		54,56,980
Contingent Liabilities	12	33,000
Bills for collection		

**PROFIT & LOSS A/C FOR THE YEAR ENDED ON
31ST MARCH, 2007**

	Schedule No.	Year ended 31.03.07
I. Income:		
Interest earned	13	1,20,750
Other Income	14	50,600
Total		1,71,350
II. Expenditure:		
Interest expended	15	28,750
Operating expenses	16	42,550
Provisions and contingencies		
Total		71,300
III. Profit / Loss:		
Net Profit / Loss (-) for the year		1,00,050
Profit / Loss (-) brought forward		23,000
Total		1,23,050
IV. Appropriations:		
Transfer to statutory reserves		20,010
Transfer to other reserves		--
Transfer to Government / proposed dividend		--
Balance carried over to Balance Sheet		1,03,040

Schedule 1 – Capital

	As on 31 st March 2007
Authorized capital	
16,000 shares of Rs. 100 each	16,00,00
Issue capital	
16,000 shares of Rs. 50 each	8,00,000
Subscribed capital:	
16,000 shares of Rs. 50 each	8,00,000
Called-up capital:	
16,000 shares of Rs. 50 each	8,00,000

Schedule 3 – Deposits

Schedule 4 – Borrowings

Schedule 5 – Other Liabilities and provisions

	As on 31 st March, 2007
I) Bills payable: Pay slips and bankers' cheques	46,000
II) Inter office adjustment	17,940
III) Others (including provisions) - Contingency Fund	27,600
Total	91,540

Schedule 6 – Cash and balances with RBI

	As on 31st March, 2007
I. Cash in hand	1,93,200
II. Balances with RBI	1,84,000
Total	3,77,200

Schedule 7 – Balances with banks & money at call & short notice

	As on 31st March, 2007
In India:	
i) Balances with banks:	
ii) Money at call & short notice:	
Deposits repayable within 15 days notice	23,460
Deposits with Wilson financial agency	5,29,000
Total	5,52,460

Schedule 8 – Investment

	As on 31st March, 2007
Investments in India:	
Government bonds	2,31,380
Share capital of subsidiaries	2,34,600
Total	4,65,980

Schedule 9 – Advances

	As on 31st March, 2007
Bills purchased and discounted	6,80,110
Terms loans	32,75,200
Total	39,55,310

Schedule 10 – Fixed Assets

	As on 31st March, 2007
I) Premises: At cost	1,38,000
Depreciation to date (43,700 + 3,680)	(47,380)
	90,620
II) Other fixed assets (including Furniture and fixtures) At cost as on 31 st March of the preceding year.	23,920
Depreciation to date (7,130 + 1, 610)	8,740
	15,180
Total (I + II)	1,05,800

Schedule 11 – Other Assets

	As on 31st March, 2007
Non banking assets acquired in satisfaction of claims.	69
Prepaid Insurance	161
Total	230

Schedule 12 – Contingent Liabilities

	As on 31st March, 2007
Bills accepted on behalf of customer	33,000

Schedule 13 – Interest earned

	As on 31st March, 2007
Income on investment	1,20,750
Total	1,20,750

Schedule 14 – Other income

	As on 31st March, 2007
I. Commission brokerage and exchange:	
Remuneration for consultancy and other services	46,000
II. Profit on exchange transactions	4,600
Total	50,600

Schedule 15 – Interest expanded

	As on 31st March, 2007
I) Interest paid on deposits:	28,750
Total	28,750

Schedule 16 – Operating Expenses

	As on 31 st March, 2007
Payment to and provision for employees	2,990
Advertisement and publicity	1,380
Depreciation on bank's property (3,680 + 1,610)	5,290
Director's fees, allowances and expenses	4,600
Fees paid to statutory auditor	2,990
Traveling expenses	3,910
Postage and telephone	1,380
Repairs and maintenance of building	19,320
Other expenditure	690
Total	39,859

Summary:

A bank is a commercial institution, which accepts deposits and repay on demand; lend; transfer and invest the money. Banking companies are governed by Banking Regulation Act, 1949 and also subject to the companies Act, 1956.

Section 6 of the Banking Regulation Act prescribes various business of banking companies which includes borrowing, raising or taking up of money, acting as an agent for any government or local authority or any other person; contracting, guaranteeing and so on. Also the banks are restricted to deal in buying, selling or bartering of goods and also not allowed to engage in any trade related to bills of exchange received for collection or negotiation or such of its business.

The various accounting provisions regarding minimum capital and reserves; restriction on commission, brokerage, discount on sale of shares, restrictions on payment of dividend, statutory reserves, cash reserves and restrictions on loans and advances given under various sections of Banking Regulation Act, 1949.

The banks keep subsidiary and principal books of accounts to minimize the errors in maintaining records of voluminous transactions.

The recommendation of Narsimham Committee report on Non-performing Assets was accepted by RBI and accordingly issued directives to all the banks regarding income recognition, assets classification and loan provisioning. The assets have been

classified as standard assets, sub-standard assets, doubtful assets and loss assets and provisioning norms for each category is given.

The final accounts of banking companies are prepared as per the formats given under form 'A' for balance sheet and form 'B' for profit and loss account. Out of 16 schedules, form A contains 12 schedules and form B contains the remaining 4 schedules.

1.8 EXERCISES:

Q.1 State whether the followings are True or False:

- 1) All nationalized Banks are governed by the Banking Regulation Act.
- 2) Section 6 of the Banking Regulation Act, 1949 prescribes requirements of minimum paid-up capital and reserves to be maintained by banking companies.
- 3) It is voluntary for all Banking companies to publish their Balance Sheet in newspapers.
- 4) The assets and liabilities of Banking Companies are shown vertically along with the figures of last year.
- 5) The commission, exchange and brokerage are shown in Schedule 15 of the Bank's Profit and loss account.
- 6) Every bank needs to create a reserve fund by transferring 20 percent of its annual profit after the declaration of dividend.
- 7) Money at call is refundable at 24 hours' notice and money at short notice is refundable at 7 days notice.
- 8) The income from non-performing assets should not be taken into profit and loss account unless income had been realized.
- 9) A credit facility is classified as non-performing if interest and / or installment of principal have remained unpaid for two quarters after it has become past due.
- 10) The assets which do not yield positive returns become non-performing assets.

Answer: **True** - 1; 4; 7; 8; 9; 10;
 False - 2; 3; 5; 6;

Q.2 Multiple choice Question

- 1) For internal purpose, banks may close their accounts on _____.
 i) 31st December

- ii) 30th June
 - iii) 31st March
 - iv) 30th September
- 2) The principal books of a banking company that gives the summary of the receiving cashier's counter cash books and the paying cashiers counter cash book.
- i) General Ledger
 - ii) Saving Bank accounts ledger
 - iii) Cash book
 - iv) Investment Ledger
- 3) The _____ of section 29 of the Banking Regulation Act, 1949 prescribes formats of Balance sheet and profit and loss account of banking companies.
- i) Third schedule
 - ii) Second schedule
 - iii) Sixth schedule
 - iv) Fourth schedule
- 4) It is the last item to appear under 'Capital and liabilities of the Balance Sheet of a bank.
- i) Reserves and surplus
 - ii) Deposits
 - iii) Borrowings
 - iv) Other liabilities and provision.
- 5) It is shown by way of a footnote and details are given in schedule 12.
- i) Contingent Liabilities
 - ii) Other Assets
 - iii) Investments
 - iv) Other liabilities and provisions.
- 6) Bills purchased and discounted are shown in _____ on the Balance sheet of a Bank.
- i) Schedule 10
 - ii) Schedule 8
 - iii) Schedule 9
 - iv) Schedule 12

- 7) Every Bank needs to maintain a cash reserves of at least _____ of the total of its demand and time liabilities.
- i) 3 percent
 - ii) 5 percent
 - iii) 7 percent
 - iv) 20 percent
- 8) In respect of sub-standard assets, a general provision of _____ of the total outstanding should be created.
- i) 20 percent
 - ii) 10 percent
 - iii) 30 percent
 - iv) None of the above
- 9) The assets which does not disclose any problems and which does not carry more than normal risk attached to the business.
- i) Standard assets
 - ii) Sub-standard assets
 - iii) Doubtful assets
 - iv) Loss assets
- 10) Section 20 of the Banking Regulation Act, 1949 deals with _____.
- i) Cash Reserves
 - ii) Restrictions on loans and advances
 - iii) Statutory Reserves
 - iv) Final account

Answers: 1 – iv; 2 – iii; 3 – I; 4 – iv; 5 – I; 6 – iii; 7 – I; 8 – ii;
9 – I; 10 – ii.

Q.3 Match the following

A)

- | | |
|---------------------------|-----------------------------------|
| 1) Principal Books | a) Personal ledger |
| 2) Contingent liabilities | b) Schedule 11 |
| 3) Share Premium | c) Cash book and General ledger |
| 4) Subsidiary Books | d) Reserves and surplus |
| | e) Schedule 12 |
| | f) Bills purchased and discounted |

Answer: 1-c; 2-e; 3-d; 4-a

B)

- | | | |
|----|----------------------|----------------|
| 1) | Income on investment | a) Schedule 8 |
| 2) | Stationery and stamp | b) Schedule 2 |
| 3) | Balance of profit | c) Schedule 5 |
| 4) | Bills payable | d) Schedule 11 |
| | | e) Schedule 13 |
| | | f) Schedule 16 |

Answer: 1-e; 2-d; 3-b; 4-c.

Q.4 Define Banking Companies and write a note on 'Business of banking companies.

Q.5 Explain the provisions given by Banking Regulation Act, 1949 with regard to following –

- i) Statutory Reserve
- ii) Minimum capital and Reserves
- iii) Restrictions on Payment of Dividend

Q.6 Explain in brief the classification of assets and provisioning of NPA.

Q.7 Explain the following terms:

- 1) Non-banking assets
- 2) Doubtful assets and loss assets
- 3) Rebate on bills discounted
- 4) Bills for collection
- 5) Provisions and contingencies

Q.8 The asset of the Bank is bifurcated as performing and non-performing assets and accordingly income to be recognized.

	Interest Earned	Interest Received
<u>Performing Assets</u>		
Cash credit and overdraft	10,50,000	8,68,000
Bills purchased and discounted	2,10,000	2,10,000
Term loans	1,68,000	1,12,000
<u>Non-performing Assets</u>		
Cash credit and overdraft	2,10,000	16,800
Bills purchased and discounted	1,40,000	28,000
Term loans	1,05,000	7,000

Answer: Income Recognized – Rs. 14, 79,800.

Q.9 The following are the balances of Armo Bank Ltd. for the year ended 31st March, 2008.

Debit Balances	Amount (Rs.)
Money at call and short notices	1,82,000
Constituents, Liability for acceptance & endorsement	3,95,500
Non-banking assets acquired in satisfaction of claims	14,000
Land and Building	35,000
Furniture and fixtures	4,55,000
Advances	14,00,000
Investment in Government bonds	13,60,590
Gold bullion	1,05,910
Other investment	10,89,410
Balances with RBI	2,16,300
Cash in hand	1,08,150
Interest accrued on investment	1,72,340
Interest on deposits	55,650
Bills receivable being bills for collection	3,04,500
Law charges	35,000
Loss on sale of building	7,000
Printing and stationery	350
Rent, taxes and lighting	1,48,400
Repairs and maintenance	8,400
Bills discounted and purchased	87,500
Directors Remuneration	84,000
Branch adjustment	1,40,000
Loss on sale of investment	2,10,000
Deposits with other Banks	5,25,000
Total	71,40,000

Credit Balances	Amount (Rs.)
Term deposits from banks	51,940
Demand deposits	1,61,350
Share capital	20,00,000
Provision for depreciation on furniture & fixtures	1,40,000
Security deposits of employee	1,05,000
Statutory Reserves	9,80,000
Share Premium account	7,30,000
Borrowings from institutions and agencies	5,40,610
Profit and loss account	45,500
Rent received	4,200
Profit on bullion	8,400
Acceptance and endorsement	3,95,500

Bills for collection	3,04,500
Commission, exchange and brokerage	1,77,100
Discount on advances	2,94,000
Other miscellaneous income	18,900
Current ledger control account	6,79,000
Interest on balances with RBI	5,04,000
Total	71,40,000

Adjustment:

- 1) Depreciation on Furniture and Fixtures for the year amounted to Rs. 35,000 and proposed dividend is 8 percent.
- 2) Transfer 20 percent to statutory Reserve from the profit earned during the year.
- 3) Rebate on bills discounted Rs. 35,000.
- 4) Current account ledger depicts credit balance Rs. 8, 54,000 after the overdrawn to the extent of Rs. 1, 75,000.
- 5) Liability for partly paid investment Rs. 80,000.

Answer: Current year profit Rs. 1, 50,240

Balance sheet Total Rs. 58, 91,200

Q.10 On 31st March, 2009 the following balances was extracted from Oasis Bank Ltd. You are required to prepared profit and loss account for the year ended 31st March 2009 and also the balance sheet as on that date.

Particulars	Amount (Rs.)
Capital Reserve	1,50,000
Interest accrued on Government Bonds	26,125
Bills for collection	9,95,500
Investment in Government Bonds	55,000
Investment in Gold bullion	1,32,000
Current Deposits	25,02,500
Reserve Fund	6,87,500
Interest and discount received	3,19,000
Profit and loss account (Credit Balance)	46,860
Brokerage, exchange and commission received	96,525
Capital	4,00,000
Loans and advances	22,93,500
Saving account	9,08,600
Cumulative and recurring deposits	19,34,900
Sundry creditors	25,025
Debts due to banks (secured)	6,71,000
Branch adjustments (Credit)	2,50,525
Balances : Cash and hand	71,885

Cash with other banks	3,30,000
Liabilities for partly paid investment	8,34,240
Furniture and office equipment	27,500
Depreciation on assets	27,500
Interest paid on Inter-Bank borrowings	66,000
Brokerage, exchange and commission paid	5,500
Rebate on bills discounted	825
Non-banking assets	2,750
Customer's liability for acceptance	8,34,240
Investments in shares	8,74,500
Payment to employees	1,32,000
Auditor's fees	5,500
Repairs and maintenance	22,000
Advertisement and publicity	16,500
Premises	1,87,000
Current a/c balance with other Banks	49,500
Short notices with other institutions and Agencies	33,000

Additional Information:

- 1) The authorized capital of the bank is Rs. 800,000 divided into 16,000 shares of Rs. 50 each. Out of this 8,000 shares issued, subscribed and paid-up.
- 2) Current account includes Rs. 4, 67,500 debit balances being overdraft. One of the accounts for Rs. 5,500 including interest Rs. 550 is doubtful.
- 3) During the year, a property was acquired in satisfaction of a claim amounting to Rs. 2,750 and was sold Rs. 1,980. The loss resulting there from remained unadjusted in the books.
- 4) Bank guaranteed Rs. 1, 00,000 on behalf of its constituents.
- 5) Provision for taxation is Rs. 55,000.

Answers: Provisions and contingencies – Rs. 59,950
Profit for the current year – Rs. 63,404
Balance sheet total – Rs. 81,79,490

Q.11 Yashoda Bank Ltd. provides you the following balances you are asked to prepare Profit and Loss account and Balance Sheet.

Particulars	Amount (Rs.)
Share capital	3,40,000
Statutory Reserves	1,04,000
Other Reserves	1,00,000
Term Loans	17,00,000

Cash credit	37,62,100
Bills purchased	27,89,700
Rebate on bills discounted	81,600
Deposits from other Banks	14,87,500
Current deposits	23,23,900
Saving account	29,44,400
Legal charges	62,500
Repairs	2,62,000
Insurance on bank property	95,500
Entertainment expenses	71,100
Directors sitting fees	1,51,000
Printing charges	67,000
Rent and Taxes	35,000
Bonus and other staff benefits	2,30,000
Profit and loss account (credit Balances)	13,94,000
Interest paid on deposits	12,71,600
Discount on domestic Bills purchased	7,59,900
Commission received on letter of credit	4,98,100
Bank property	81,600
Cash with RBI	39,100
Interest received on loans and advances	21,86,200
Investments	2,58,100
Stationery and stamps	1,38,000
Cash with Exe Bank Ltd.	4,84,500
Income on investments	13,600

Other Information

- 1) The Bank provided depreciation on its property at the rate of 12 percent p.a.
- 2) Tax to be provided at 40 percent.
- 3) Directors declared dividend at 10 percent.
- 4) Liabilities on partly paid investment Rs. 81,600

Answer: Profit for current year Rs. 22, 51,344
Balance sheet total Rs. 98, 89,580



ACCOUNTS OF INSURANCE COMPANIES

Unit Structure

- 2.1 Introduction
- 2.2 Life Introduction Business
- 2.3 Statutory Books and Subsidiary Books
- 2.4 Some Important Terms
- 2.5 Preparation of financial Statements
Form A-RA; Form A-PL and Form A-BS
- 2.6 Illustrations
- 2.7 Procedure To Ascertain Profit Or Loss Of The Life Insurance Business
- 2.7 General Insurance Business
- 2.8 Some Important Terms
- 2.9 Preparation of Financial Statements
Form B-RA; Form B-PL and Form B-BS
- 2.10 Summary
- 2.11 Exercises

2.1 INTRODUCTION

The business of Insurance in India is governed by The Insurance Act, 1938 along with the regulations framed by Insurance Regulations and Development Authorities Act, 1999 (IRDA)

Insurance is an agreement or contract of indemnity between 'insurer' and 'insured'. Insurer is one party agrees to provide protection against loss or damage in the form of promise to pay for such loss to other party known as 'insured' in consideration for a fixed sum of money known as 'premium'.

The terms and conditions of such insurance contract in the written is called 'Insurance Policy'.

Insurance are of the types –

- I) Life Insurance
- II) General Insurance
 - a) Fire insurance
 - b) Marine insurance
 - c) Miscellaneous insurance

2.2 LIFE INSURANCE BUSINESS

In case of Life Insurance, the insurer guarantees to pay a certain sum of money to the assured on completing a stipulated period or in the event of the death to his legal representative. It covers risks and gives protection for the investment.

Section 2(II) of the Insurance Act, 1938 has defined 'Life Insurance Business' as the business of effecting. Contracts of insurance upon human life, including any contract whereby the payment of money is assured on death or the happening of any contingency dependent on human life, and any contract which is subject to payment of premiums for a term dependent on human life and shall be deemed to include

- a) The granting of disability and double or triple indemnity accident benefits, if so provided in the contract of insurance;
- b) The granting of annuities upon human life; and
- c) The granting of superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of person engaged or who have been engaged in any particular profession, trade or employment or of the dependents of such persons.

2.3 STATUTORY BOOKS AND SUBSIDIORY BOOKS

A] Statutory Books –

The Insurance Act, 1938, requires the following books to be maintained by all insurance company –

- I. Register of Policies** – It contains all the details in respect of each policy such as name and address of the policy holder, the date when the policy was effected and a record of any assignment of the policy.
- II. Register of claims** – All the particulars of claims are recorded – date of claim, name and address of claimant, the date on which the claim was discharged, the case of a claim which is rejected and reasons for rejection.
- III. Register of agents** – It contains all the information of licensed insurance agents such as name and address of the agent, date of appointment, etc.

B] Subsidiary books –

Apart from statutory books, the insurance companies also maintain the following books

- I. **Ledgers** – Life insurance Fund ledger; revenue ledger and miscellaneous ledger
- II. **Cash books** – Receipts cash books and expenditure cash books.
- III. **Journal** – Journal for recording transactional relating to outstanding premium and claims and inter-departmental transfer.
- IV. First year premium book
- V. Renewal premium book
- VI. Surrender policy book

2.4 SOME IMPORTANT TERMS

- I. **Whole life policy** –
Policy under which, amount of policy is received only when the insured expired.
- II. **Endowment policy** –
Amount of policy received by the insured either he/she reaches certain age or expired whichever is earlier.
- III. **With profit policies** -
Policy holder is entitled to share in profit of insurer along with the guaranteed amount payable on maturity
- IV. **Without profit policies** –
On maturity policy holder received only fixed sum of money stated in the policy
- V. **Bonus** –
The share of profit enjoyed by insured is called bonus –
 - a) 'Reversionary bonus' is one which is paid only on maturity of the policy along with guaranteed amount.
 - b) 'Bonus in cash' is paid immediately
 - c) 'Bonus in reduction of premium' is normally adjusted by policy holder against the future premium due from him.
 - d) 'Interim bonus' is paid on maturity of policy before deciding the exact profit amount
- VI. **Premium** –
First year's premium is the premium paid for the first year of the life insurance policy and premium paid for the subsequent year is termed as renewal premium. Single premium is the total of all the premiums amount, paid by the policy holder once at the initiation of policy period

VII. Surrender value –

It is the amount which is life insurance company agrees to pay when policy holder discontinue to pay further premium and surrender the policy.

VIII. Claims –

It is the amount payable by an insurer against the policy either on maturity (known as claim by maturity or survivance) or on the death of the policy holder (known as claim by death).

IX. Re-insurance –

Re-insurance is the transfer of part of risk by the insurance company on another insurance company. When the insurance company find it difficult to carry risk involves huge amount, it makes an arrangement for reinsurance by giving away a part of its business to another company (known as accepting company or re-insurance) and receives commission from accepting company

X. Annuities –

The insurance company agrees to pay a fixed sum of money at regular intervals of time to the policy holder during a specified period in return for a lump sum paid in advance known as annuities

2.5. PREPARATION OF FINANCIAL STATEMENTS

The financial statement of the life insurance companies consist of Revenue account, Profit & loss account and Balance sheet. These statements to be prepared in accordance with the provisions of IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002 and comply with the requirements of schedule 'A'. The Insurer needs to prepare Revenue A/C in form A-RA; profit & loss A/C in form A-PL and Balance sheet in form A-BS.

The Revenue account contains total 4 schedules- schedule 1 – Premium; schedule 2- Commission expenses; Schedule 3- Operating expenses and schedule 4 – Benefits paid. It also shows the items having no specific schedule such as Income from Investments, Interim bonus paid; Provision for doubtful debts; tax and such other provisions. The bottom section of Revenue account exhibits appropriators of surplus such as transfer to shareholders accounts, transfer to other reserves, etc. The remaining balance of revenue account is transferred to life Insurance Fund account.

The profit and loss account shown all expenses and income not directly related to Insurance business

The Balance Sheet of like insurance companies are prepared in 'vertical form' having two sections – sources of fund and application of fund. The schedule 5,6 and 7 deals with sources of fund and schedule 8 to schedule 15 shows the application of Fund. The contingent liabilities is disclosed as part of financial statement by way of notes to Balance Sheet.

FROM A-RA

Name of the Insurer:

Registration No. and Date of Registration with the India:

Revenue Account for the year ended 31st March, 20...

Policyholder's Account (Technical account)

Particulars	sche dule	Current Year (RS'000)	Previous Year (Rs'000)
Premiums earned – net			
(a) Premium	1		
(b) Re-insurance ceded			
(c) Re-insurance accepted			
Income from investments			
(a) Interest, Dividends and Rent –Gross			
(b) Profit on sale / redemption of Investments			
(c) (Loss on sale / redemption of Investments)			
(d) Transfer / Gain on revaluation /change in fair value*			
Other Income (to be specified)			
Total (A)			
Commission	2		
Operating Expenses related to Insurance Business	3		
Provision for doubtful debts			
Bad debts written off			
Provision for tax			

Provision (other than taxation)			
(a) For diminution in the value of investment (Net)			
(b) Other (to be specified)			
Total (B)			
Benefits Paid (Net)	4		
Interim Bonuses Paid			
Change in valuation of liability in respect of life policies			
(a) Gross**			
(b) Amount ceded in Reinsurance			
(c) Amount accepted in Reinsurance			
Total (c)			
Surplus / (Deficit) (D) = (A) - (B) - (C)			
Appropriations			
Transfer to Shareholders' Accounts			
Transfer to other Reserves (to be specified)			
Balance being Funds for Future appropriations			
Total (D)			

Notes:

* Represents the deemed realized gain as per norms specified by the authority.

** Represents Mathematical Reserves after allocation of bonus.

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

- a) Interim bonuses Paid;
- b) Allocation of Bonus to Policyholders;
- c) Surplus shown in the Revenue Account;
- d) Total Surplus [(a) + (b) + (c)].

See Notes appended at the end of Form A-PL.

FROM A-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA:

Profit and Loss Account for the year ended 31st March, 20..

Shareholders' Account (Non-technical Account)

Particulars	Schedule	Current Year (RS'000)	Previous Year (Rs'000)
Amounts transferred from /to the Policyholders' Account (Technical account)			
Income from investments (a) Interest, dividends and Rent – Gross (b) Profit on sale /redemption of Investments (c) (Loss on sale/ redemption on Investments)			
Other income (to be specified)			
Total (A)			
Expenses other than those directly related to the insurance business			
Bal debts written off			
Provisions (other than taxation)			
(a) For diminution in the value of investments (Net) (b) Provisions for doubtful debts (c) Others (to be specified)			
Total (B)			
Profit / (Loss) before tax			
Provision for Taxation			
Profit / (Loss) after tax			
Appropriations (a) Balance at the beginning of the year (b) Interim dividends paid during the year (c) Proposed final dividend (d) Dividend distribution on tax			

(e) Transfer to reserves/ other accounts (to be specified)			
Profit carried... to the Balance Sheet			

Notes to Form A-RA and A-PL:

- (a) Premium income received from business concluded in and outside India shall be separately disclosed.
- (b) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums.
- (c) Claims incurred shall comprise claims paid, specific claims settlement costs wherever applicable and change in the outstanding provision for claims at the year end.
- (d) Items of expenses and income in excess of one per cent of the total premiums (less re-insurance) or Rs. 5,00,000 whichever is higher, shall be shown as a separate line item.
- (e) Fees and expenses connected with claims shall be included in claims.
- (f) Under the sub-head "Others" shall be included items like foreign exchange gains or losses and other items.
- (g) Interest, dividends and rentals receivable in connection with an investment should be stated as gross amount, the amount of income-tax deducted at source being included under "advance taxes paid and taxes deducted at source".
- (h) Income from rent shall include only the realized rent. It shall not include any notional rent.

FORM A-BS

Name of the Insurer:

Registration No. and Date of Registration with the IRDA:

Balance Sheet as at 31st March, 20 ...

Particulars	sche dule	Current Year (RS'000)	Previous Year (Rs'000)
SOURCES OF FUNDS			
Shareholders' Funds:			
Share Capital	5		
Reserves and Surplus	6		
Credit / [Debit] Fair Value Change Account			
Sub total			
Borrowings	7		
Policyholders' Funds:			
Credit/ [Debit] Fair Value Change Account			
Policy Liabilities			
Insurance Reserves			
Provision for Linked Liabilities			
Sub Total			
Funds for Future Appropriations			
Total			
APPLICATION OF FUNDS			
Investments			
Shareholders'	8		
Policyholders'	8a		
Assets Held to Cover Linked Liabilities	8b		
Loans	9		
Fixed Assets	10		
Current Assets			

Cash and Bank Balances	11		
Advances and other Assets	12		
Sub total (A)			
Current Liabilities	13		
Provisions	14		
Sub total (B)			
Net Current Assets (C) = (A)- (B)			
Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
Debit balance in profit and loss account (Shareholders' Account)			
Total			

CONTINGENT LIABILITIES

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Partly paid-up investments		
2. Claims, other than against policies, not acknowledge as debts by the company		
3. Underwriting commitments outstanding (in respect of shares and securities)		
4. Guarantees given by or on behalf of the company		
5. Statutory demands/liabilities in dispute, not provided for		
6. Reinsurance obligations to the extent not provided for in accounts		
7. Others (to be specified)		
Total		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS**SCHEDULE 1****Premium**

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. First year premiums		
2. Renewal premiums		
3. Single premiums		
Net Premium		
Total Premiums		

SCHEDULE 2**Commission Expenses**

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
Commission paid		
Direct First year premiums		
Renewal premiums		
Single premiums		
Add: Commission on Re-insurance Accepted		
Less: Commission on Re-insurance Ceded		
Net commission		

Note : The profit/commission, if any, are to be combined with the Re-insurance accepted or Re-insurance ceded figures.

SCHEDULE 3
Operating Expenses Related to Insurance Business

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Employees' remuneration and welfare benefits		
2. Travel, conveyance and vehicle running expenses		
3. Training expenses		
4. Rents, rates and taxes		
5. Repairs		
6. Printing and stationery		
7. Communication expenses		
8. legal and professional charges		
9. Medical fees		
10. Auditors' fees, expenses etc. (a) as auditor (b) as adviser or in any other capacity, in respect of i. taxation matters ii. insurance matters iii. management services, and (c) in any other capacity		
11. Advertisement and publicity		
12. Interest and Bank Charges		
13. Others (to be specified)		
14. Depreciation		
Total		

Note: Items of expenses and income in excess of one per cent of the total premiums (less reinsurance) or Rs. 5,00,000 whichever is higher, shall be shown as a separate line item.

SCHEDULE 4
Benefits Paid (Net)

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Insurance Claims (a) Claims by Death (b) Claims by Maturity (c) Annuities/ Pension Payments (d) Other Benefits, specify		
2. (Amounts ceded n reinsurance): (a) Claims by Death (b) Claims by Maturity (c) Annuities / Pension Payments (d) Other Benefits, specify		
3. Amount accepted in reinsurance: (a) Claims by Death (b) Claims by Maturity (c) Annuities / Pension Payments (d) Other Benefits, specify		
Total		

Note:

- (a) Claims include specific claims settlement costs, wherever applicable.
- (b) Legal and other fees and expenses shall also form part of the claims cost, wherever applicable.

SCHEDULE 5
Share Capital

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Authorized capital Equity shares of Rs..... each		
2. Issued capital Equity shares of Rs.....each		
3. Subscribed capital Equity shares of Rs.....each		
4. Called-up capital Equity shares of Rs..... each		
Less: Calls unpaid		
Add: Shares forfeited (amount originally paid up)		
Less: Par value of Equity Shares bought back		
Less: Preliminary Expenses Expenses including commission or brokerage on underwriting or subscription of shares		
Total		

Note:

- (a) Particulars of the different classes of capital should be separately stated.
- (b) The amount capitalized account of issue of bonus shares should be disclosed.
- (c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE 5A**Pattern of Shareholding [As certified by the Management]**

Particulars	Current Year		Previous Year	
	Number of Shares	% of Holding	Number of Shares	% of Holding
1. Promoters Indian Foreign				
2. Others				
Total				

SCHEDULE 6
Reserves and Surplus

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Capital Reserve		
2. Capital Redemption Reserve		
3. Share Premium		
4. Revaluation Reserve		
5. General Reserves Less: Debit balance in profit and loss account, if any Less: Account utilized for buyback		
6. Catastrophe Reserve		
7. Other Reserve (to be specified)		
8. Balance of profit in profit and loss account		
Total		

Note: Additions to and deductions from the reserves shall be disclosed under each of the specified heads.

SCHEDULE 7
Borrowings

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Debentures / Bonds		
2. Banks		
3. Financial Institutions		
4. Others (to be specified)		
Total		

Note:

- (a) The extent to which the borrowing are secured shall be separately disclosed stating the nature of the security under each sub-head.
- (b) Amounts due within 12 months from the date of balance sheet should be shown separately.

SCHEDULE 8
Investments – Shareholders

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
LONG TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments (a) Shares (aa) Equity (bb) Preference (b) Mutual funds (c) Derivative instruments (d) Debentures/ Bonds (e) Other securities (to be specified) (f) Subsidiaries investment properties – Real Estate		
4. Investments in infrastructure and Social Sector		
5. Other than approved investments		
SHORT TERM INVESTMENT		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other approved securities		
3. Other investments a) Shares (aa) Equity (bb) Preference b) Mutual funds c) Derivative instruments d) Debentures/ Bounds e) Other securities (to be specified) f) Subsidiaries g) Investment properties – Real Estate		
4. investments in infrastructure and social sector		
5. Other than approved investments		
Total		

NOTE: See Notes appended at the end of schedule 8B.

SCHEDULE 8A
Investments – Policyholders

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
LONG TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments <ul style="list-style-type: none"> a) Shares <ul style="list-style-type: none"> (aa) Equity (bb) Preference b) Mutual funds c) Derivative instruments d) Debentures/ bonds e) Other securities (to be specified) f) Subsidiaries g) Investment properties – Real Estate 		
4. Investments in infrastructure and social sector		
5. Other than approved investments		
SHORT TERM INVESTMENT		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other approved securities		
3. Other investments <ul style="list-style-type: none"> a) Shares <ul style="list-style-type: none"> (aa) Equity (bb) Preference b) Mutual funds c) Derivative instruments d) Debentures/ Bonds e) Other Securities (to be specified) f) Subsidiaries g) Investment properties – Real Estate 		
4. Investments in infrastructure and social sector		
2. Other than approved investments		
Total		

Note: See Notes appended at the end of Schedule 8B.

SCHEDULE 8B
Assets Held to Cover Linked Liabilities

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
LONG TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments (a) Shares aa) Equity bb) Preference (b) Mutual funds (c) Derivative instruments (d) Debentures/ bonds (e) Other securities (to be specified) (f) Subsidiaries (g) Investment properties –Real Estate		
4. Investments in infrastructure and social sector		
5. Other than approved investments		
SHORT TERM INVESTMENT		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other approved securities		
3. Other investments a) Shares (aa) Equity (bb) Preference b) Mutual funds c) Derivative instruments d) Debentures/ Bounds e) Other securities (to be specified) f) Subsidiaries g) Investment properties – Real Estate		
4. Investments in infrastructure and social sector		
5. Other than approved investments		
Total		

Note (applicable to Schedules 8, 8A and 8B):

- a) Investments in subsidiary /holding companies, joint ventures and associates shall be separately disclosed, at cost.
 - I. Holding company and subsidiary shall be construed as defined in the Companies Act, 1956.
 - II. Joint venture is contractual arrangements whereby two or more parties undertake an economic activity, which is subject to joint control.
 - III. Joint control is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.
 - IV. Associate is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.
 - V. Significant influence (for the purpose of this schedule) means participation in the financial and operating policy decisions of a company, but not control of those policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
- b) Aggregate amount of company's investment other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.
- c) Investment made out of Catastrophe reserve should be shown separately.
- d) Debt securities will be considered as "held to maturity" securities and will be measured at historical cost subject to amortization.
- e) Investment Property means a property (land or building or part of a building or both) held to earn rental income or for capital appreciation or for both use in services or for administrative purposes.

- f) Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments.

SCHEDULE 9
Loans

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1.SECURITY-WISE CLASSIFICATIONS		
Secured		
a) On mortgage property (aa) in India (bb) outside India b) Shares, Bonds, Government securities etc. c) Loans against policies d) Others (to be specified)		
Unsecured		
Total		
2. BORROWER-WISE CLASSIFICATION		
a) Central and state government b) Banks and financial institutions c) Subsidiaries d) Companies e) Loans against policies f) Other (to be specified)		
Total		
3.PERFORMANCE-WISE CLASSIFICATION		
a) Loans classified as standard (aa) in India (bb) outside India		
a) Non-standard loans less provisions (aa) in India (bb) outside India		
Total		
4. MATURITY-WISE CLASSIFICATION		
a) short-term		
b) long-term		
Total		

Notes:

- a) Short-term loans shall include those, which are repayable within 12 months from the date of balance sheet. Long-term loans shall be the loans other than short-term loans.
- b) Provisions against non-performing loans shall be shown separately.
- c) The nature of the security in case of all long-term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.
- d) Loans considered doubtful and the amount of provision created against such loans shall be disclosed.

SCHEDULE 10**Fixed Assets**

particular	Cost / Gross Block				Depreciation				Net Block	
	Opening	additions	deductions	closing	Up to last Year	For the Year	On Sales / Adjustment	To Date	As at year and	Previous year
Goodwill										
Intangibles (specify)										
Land-freehold										
Leasehold Property										
Buildings										
Furniture and Fittings										
Information Technology Equipment										
Vehicles										
Office Equipment										
Others (specify nature)										
Total										
Work in progress										
Grand total										
Previous Year										

Note: Assets included in land, property and building above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE 11

Cash and Bank Balances

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Cash (including cheques, drafts and stamps)		
2. Bank Balance		
a) Deposit accounts		
(aa) Short term (due within 12 months of the date of balance sheet)		
(bb) Others		
b) Current accounts		
c) Others (to be specified)		
3. Money at call and short notice		
a) With banks		
b) With other institutions		
4. Others (to be specified)		
Total		
Balance with non-scheduled banks included in 2 and 3 above		
CASH AND BANK BALANCES		
1. In India		
2. Outside India		
Total		

Note : Bank balance may include remittances in transit. If so, the nature and amount shall be separately stated.

SCHEDULE 12
Advances and Assets

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
ADVANCES		
1. Reserve deposits with ceding companies		
2. Application money for investments		
3. Prepayments		
4. Advances to Directors / officers		
5. Advance tax paid taxes deducted at source (net provision for taxation)		
6. Others (to be specified)		
Total (A)		
OTHERS ASSETS		
1. Income accrued on investments		
2. Outstanding Premiums		
3. Agents' Balance		
4. Foreign Agencies Balance		
5. Due from other entities carrying on insurance business (including reinsures)		
6. Due from subsidiaries / holding company		
7. Deposit with Reserve Bank of India (pursuant to Section 7 of Insurance Act, 1938)		
8. Others (to be specified)		
Total (B)		
Total (A+B)		

Notes:

- a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.

- b) The term 'offer' should conform to the definition of that term as given under the Companies Act, 1956.
- c) Sundry debtors will be shown under item 8 (Others).

SCHEDULE 13
Current Liabilities

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Agents' Balance		
2. Balance due to other insurance companies		
3. Deposits held on re-insurance ceded		
4. Premium received in advance		
5. Unallocated premium		
6. Sundry creditors		
7. Due to subsidiaries / holding company		
8. Claims outstanding		
9. Annuities due		
10. Due to officers / directors		
11. Others (to b specified)		
Total		

SCHEDULE 14
Provisions

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. For taxation (less payments and taxes deducted at source)		
2. For proposed dividends		
3. For dividend distribution tax		
4. Others (to be specified)		
Total		

SCHEDULE 15**Miscellaneous Expenditure (To the extent not written off a adjusted)**

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Discount allowed in issue of shares / debentures		
2. Others (to be specified)		
Total		

Notes:

- a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:
1. some benefit from the expenditure can reasonably be expected to be received in future, and
 2. the amount of such benefit is reasonably determinable.
- b) The amount to carried forward in respect of any included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue / other benefits related to the expenditure.

2.6. SOLVED PROBLEMS**Illustration 1**

From the following balances of the Axis Life assurance Company Ltd., prepare its revenue account and balance sheet for the year ended 31st March 2006.

Life Assurance Fund at the beginning of the year	2,60,000
Claims admitted but not paid	780
Interest, dividend and rent received	9,100
Loans on life interest	26,000
Loans of mortgages	46,800
Claims by death	7,800
Claims by maturity	13,000
Single premium	10,400
Government securities	1,30,000

Registration and other fees received	260
Surrenders	2,600
Investment fluctuation account	1,300
Considerations for annuities granted	6,500
Deprecation on furniture	390
Provision for depreciation	390
Loans on policies	39,000
Amount due from other insurance company	468
Annuities due	260
Free hold property and furniture	13,390
Salaries	390
Directors fees	39
Promotional expenses	182
Audit fees	195
Law charges	130
Postage and stationary	1404
Office expenses	4680
Bank balance	21892
Commission on Re-insurance accepted	3120
Outstanding premium	3120
Interest accrued on investment but not due	390
Renewal premiums	26,000

Solution**Revenue A/C for the year ended 31st March, 2006**

Particulars	Schedule	Amount (Rs)	Amount (Rs)
Premiums earned-net premium	1		36,400
Income from investment:			
Interest, dividend and rent		9,100	
Consideration for annuities granted		<u>6,500</u>	15,600
Other income:			
Registration and other fees received			260
Total (A)			52,260

Commission	2		3,120
Operating expenses related to Insurance Business	3		7,410
Total (B)			10,530
Benefit paid (Net)	4		23,400
Total (C)			23400
Surplus / (Deficit) (D) = (A)-(B)-(C)			18,330

Balance Sheet as at 31st March 2006

Particulars	Schedule	Amount (Rs)	Amount (Rs)
SOURCES OF FUNDS			
Shareholders fund:			
Share capital	5		-
Reserves and surplus	6		2,79,630
Borrowings	7		-
Total			2,79,630
APPLICATION OF FUNDS			
Investments	8	1,30,000	
Loans	9	1,11,800	
Fixed Assets	10	13,000	2,54,800
Cash and bank balance	11	21,892	
Advances and other Assets	12	3,978	
Sub-Total (A)		25,870	
Current liabilities	13	1,040	
Sub-Total (B)		1,040	
Net Current Assets (C) = (A - B)			24830
Total			2,79,630

SCHEDULE 1
Premium

Particulars	Amount (Rs)
Renewal premiums	26,000
Single premium	10,400
Total premium	36,400

SCHEDULE 2
Commission Expenses

Particulars	Amount (Rs)
Commission on Re- insurance accepted	3,120
Net commission	3,120

Schedule 3
Operating Expenses Related to Insurance Business

Particulars	Amount (Rs)
Salaries	390
Directors fees	39
Postage and stationery	1,404
Law charges	130
Audit fees	195
Promotional expenses	182
Office expenses	4,680
Deprecation on furniture	390
Total	7,410

SCHEDULE 4
Benefit Paid (Net)

Particulars	Amount (Rs)
Insurance claims	
a) Claims by death	7800
b) Claims by maturity	13000
c) Surrenders	2600
Total	23400

SCHEDULE 6
Reserves and surplus

Particulars	Amount (Rs)
Life assurance fund	2,60,000
Investment fluctuation account	13000
Surplus	18330
Total	279630

SCHEDULE 8
Investments – shareholders

Particulars	Amount (Rs)
Government securities	1,30,000
Total	1,130,00

SCHEDULE 9
Loans

Particulars	Amount (Rs)
Loans on mortgages	4,6,800
Loans on life interest	26,000
Loans on policies	39,000
Total	111800

SCHEDULE 10
Fixed Assets

Particulars	Amount (Rs)
Free hold property and furniture	13390
less depreciation	390
Total	13,000

SCHEDULE 11
Cash and bank balance

Particulars	Amount (Rs)
Bank balance	21,892
Total	21892

SCHEDULE 12
Advances and Assets

Particulars	Amount (Rs)
Interest accrued on investment but not due	390
Outstanding premium	3,120
Due from other insurance companies	468
Total	3978

SCHEDULE 13
Current liabilities

Particulars	Amount (Rs)
Claims admitted but not paid	780
Annuities due	780
Total	1040

Illustration 2

Following are the balance available for the year ended 31st March 2007 of Nutan Life Insurance Company Ltd. You are required to prepare revenue account and balance sheet for the year ended 31st March 2007.

Particulars	Amounts (Rs)
Insurance claims	
Claims by death	1,95,000
Claims by maturity	56,250
Other benefits	99,690
General reserve	15,70,560
Life Assurance fund of the begging of the year	31,41,126
First year premium	13,8,126
Traveling and conveyance	31,840
Interest dividend and rent received	15,7,383
Cash and bank balance	20,7,270
Office building	5,00,000
Office equipment	2,00,000

Outstanding premium	1,46,380
Advances to directors	1,57,650
Other sundry assets	1,20,300
Loans against policies	5,02,780
Surrenders	65,304
Employees remuneration and welfare benefit	20,000
Training expenses	17,830
Single premium	67,3590
Interest and bank charges	20,000
Agents balances (Dr)	2,95,500
Deposit with RBI	2,00,000
Commission on re-insurance accepted	1,09,623
Consideration for annuities granted	31,860
Amount due to other insurance companies	87,000
Agents balance outstanding	1,00,191
Subscribed and paid up capital	20,00,000
Brokerage on underwriting of shares	2000
Government bonds	33,81,670
Investment in other approved securities	10,00,000
Investment in mutual fund	16,90,800
Claims outstanding	1,20,051

Adjustments –

Interest dividend and rents outstanding (NET) Rs. 35000 and interest and rent accrued Rs. 65,300.

Depravation on office building Rs. 40,000 and on office equipment Rs. 10,000.

Bonus utilized in reduction of premium Rs. 14,500

Insurance claims arises due to the death of policy holder Rs. 80,000.

Solution**Revenue Account for the year ended 31st March 2007**

Particulars	Schedule	Amount (Rs)	Amount (Rs)
Premiums earned – net			
Premium	1		8,26,216
Income from other investments			
Interest, dividend and rent		1,57,383	
Add: outstanding and accrued consideration for annuities granted		<u>1,00,300</u>	2,57,683 31,860
Total (A)			11,15,759
Commission	2		1,09,623
Operating expenses related to Insurance Business	3		1,39,670
Total (B)			2,49,293
Bonus paid	4		4,96,244
Bonus utilized in reduction of premium			14,500
Total (C)			5,10,744
Surplus/ (Deficit) (D) = (A)-(B)-(C)			3,55,752

Balance Sheet as at 31st March 2007

Particulars	Schedule	Amount (Rs)
SOURCES OF FUND		
Shareholders fund		
Share capital	5	19,98,000
Reserves and surplus	6	50,67,408
Sub-Total		70,65,408
Total		70,65,408

APPLICATION OF FUND		
Investments : Shareholders	8	50,72,470
Loans	9	5,02,780
Fixed assets	10	6,50,000
		62,25,250
Current assets		
Cash and bank balance	11	2,07,270
Advances and other assets	12	10,20,130
Sub-Total (A)		12,27,400
Current liabilities	13	3,87,242
Sub-Total (B)		3,87,242
Net Current Assets (C) = (A – B)		8,40,158
Total		70,65,408

SCHEDULE 1
Premium

Particulars	Amount (Rs)
First year premium	1,38,126
Single premium	6,73,590
Add: Bonus utilized in reduction of premium	14,500
Total premiums	826216

SCHEDULE 2
Commission expenses

Particulars	Amount (Rs)
Commission on re-insurance accepted	1,09,623
Net commission	1,09,623

SCHEDULE 3
Operating Expenses Related to Insurance Business

Particulars	Amount (Rs)
Employee's remuneration and welfare benefit	20,000
Traveling and conveyance	31,840
Training expenses	17,830
Interest and bank charges	20,000
Depreciation on office building	40,000
Depreciation on office equipment	10,000
Total	1,39,670

SCHEDULE 4
Benefit Paid (Net)

Particulars	Amount (Rs)
Insurance claims	
Claims by death	1,95,000
Add: further claims arises due to death	80,000
	2,75,000
Claims by maturity	56,250
Surrenders	65,304
Other benefit	99,690
Total	4,96,244

SCHEDULE 5
Share Capital

Particulars	Amount (Rs)
Subscribed and paid up capital	20,00,000
Less: brokerage on underwriting of shares	2000
Total	19,98,000

SCHEDULE 6
Reserves and Surplus

Particulars	Amount (Rs)
Life Assurance fund at the beginning of the year	31,41,126
General reserves	15,70,560
Surplus	3,55,722
Total	50,67,408

SCHEDULE 8
Investments

Particulars	Amount (Rs)
Government bonds	33,81,670
Other approved securities	10,00,000
Investment in mutual fund	6,90,800
Total	50,72,470

SCHEDULE 9
Loans

Particulars	Amount (Rs)
Loans against policies	5,02,780
Total	5,02,780

SCHEDULE 10
Fixed Assets

Particulars		Amount (Rs)
Office building	5,00,000	4,60,000
Less depreciation	40,000	
Office equipment and furniture	2,00,000	1,90,000
Less depreciation	10,000	
Total		6,50,000

SCHEDULE 11
Cash and Bank Balance

Particulars	Amount (Rs)
Cash and Bank balance	2,07,270
Total	2,07,270

SCHEDULE 12
Advances and Assets

Particulars	Amount (Rs)
Advances of directors	1,57,650
Sundry assets	1,20,300
Interest, dividend and rent accrued	65,300
Interest, dividend and rent outstanding	35,000
Agents balance	2,95,500
Outstanding premium	1,46,380
Deposit with RBI	2,00,000
Total	10,20,130

SCHEDULE 13
Current Liabilities

Particulars		Amount (Rs)
Agents balances		1,00,191
Amount due to other insurance companies		87,000
Claims outstanding	1,200,51	
Add: further claims arises due to death	<u>80,000</u>	2,0,051
Total		3,87,242

Illustration 3

Prepare Revenue account and Balance sheet from the following balance of Sanjivani Life Insurance Company Ltd. for the year ended 31st March 2005.

Debit:

Particulars	Amounts (Rs)
Agents balances owing	2,10,000
Repairs	10,000
Furniture and fittings	2,00,000
Loans on government securities	11,00,990
Amount due from other Insurance Company	3,30,000
Commission on reinsurance accepted	62,390
Deposits with ceding companies	11,00,000
Surrenders less assurance	5,25,000
Interim bonus paid	2,10,000
Sundry debtors	4,35,000
Commission paid for single premium	77,600
Buildings	6,50,000
Printing and stationary	12,000
Insurance claim : claim by maturity	23,41,900
Claim by death :	7,66,400
Outstanding premium	3,32,100
Auditors fees	25,000
Investment in government bonds	22,75,100
Re-insurance accepted claims by maturity	8,11,900
Preliminary expenses	11,000
Investment in infrastructure bonds	10,81,000
Bank balance	4,33,300
Advertisement	41,000
Re-insurance irrecoverable	35,000
Total	1,36,76,680

Credit:

Particulars	Amounts (Rs)
Premium deposits	6,72,000
First year premium	29,82,500
Commission on re-insurance ceded	59,300
Renewal premium	23,11,900
Deposits held on re-insurance ceded	3,39,100
Balance of account at the beginning of the year	19,52,000
Single premium	11,00,000
Sundry creditors	1,72,780
Borrowings from financial institutions	4,95,000
Re-insurance ceded – claims by maturity	2,12,400
Share capital	20,00,000
General reserves	5,00,000
Profit on realization of assets	35,000
Surplus on revaluations of reversions	2,44,700
Total	1,30,76,680

Adjustments

1. The company had a paid up capital of rupees 20,00,000 divided into 20,000 shares of rupees 100 each.
2. Re-insurance obligations to the extent not provided for in accounts Rs. 1,50,000.
3. Transfer 15% of surplus to general reserve
4. Provide Rs. 1,70,000 for taxation
5. Claims by death covered under re-insurance Rs. 86,000 and interest accrued on investment Rs. 59,000.
6. The company hold Rs. 7,64,000 government securities (not included in the agents balance) deposited by chief agent as security.
7. Provide depreciation on furniture Rs. 5000 and on building Rs. 20,000.

Solution**Revenue Account for the Year Ended 31st March 2005**

Particulars	Schedule	Amount (Rs)	Amount (Rs)
Premium earned-net			
Premium	1		63,94,400
Income from Investment			
Interest, dividend and rent accrued		59,000	
Surplus on revaluation of reversions		2,44,700	3,03,700
Profit on realization of assets			35,000
Total (A)			67,33,100
Commission	2		80690
Operating expenses related to insurance business	3		1,13,000
Re-insurance irrecoverable			35000
Provision for tax			1,70,000
Total (B)			398690
Benefits paid (Net)	4		41,46,800
Interim bonuses paid			2,10,000
Total (C)			43,56,800
Surplus/ (D)= (A)–(B)-(C)			19,77,610
Appropriations			
Transfer to general reserve (15%)			2,96,642
Balance being funds for future appropriations			16,80,968
Total (D)			19,77,610

Balance Sheet as at 31st March 2005

Particulars	Schedule	Amount (Rs)	Amount (Rs)
SOURCES OF FUNDS			
Shareholders fund			
Share capital	5	19,89,000	
Reserves and surplus	6	44,29,610	
Sub-Total			64,18,610
Borrowings	7		11,67,000
Total			75,85,610
APPLICATION OF FUNDS			
Investments			
Shareholders	8		41,20,100
Loans	9		11,00,990
Fixed Assets	10		8,25,000
Current Asset			
Cash and bank balance	11	4,33,300	
Advances and other Assets	12	25,52,100	
Sub-Total (A)		29,85,400	
Current Liabilities	13	12,75,880	
Provisions	14	1,70,000	
Sub-Total (B)		14,45,880	
Net Current Assets (C) = (A – B)			15,39,520
Total			75,85,610

Note : Contingent liabilities : Reinsurance obligation to the extent not provided for in amounts to ₹ 1,50,000.

SCHEDULE 1
Premium

Particulars	Amount (Rs)
First year premiums	29,82,500
Renewal premiums	23,11,900
Single premiums	11,00,000
Total premiums	63,94,400

SCHEDULE 2
Commission expenses

Particulars	Amount (Rs)
Commission paid for single premium	77,000
Add: commission on re-insurance accepted	62,390
Less: commission of re-insurance ceded	(59,300)
Net commission	80,690

SCHEDULE 3
Operating Expenses Related to Insurance Business

Particulars	Amount (Rs)
Repairs	10,000
Printing and stationary	12,000
Auditors fees	25,000
Advertisement and publicity	41,000
Depreciation on furniture	5000
Depreciation of building	20,000
Total	1,13,000

SCHEDULE 4
Benefits Paid (Net)

Particulars	Amount (Rs)
Insurance claims	
Claims by death	7,66,400
Claims by maturity	23,41,900
Surrenders less re-insurance	5,25,000
Amounts ceded in Re-insurance	
Claims by death	(86,000)
Claims by maturity	(2,21,400)
Amount Accepted in re-insurance	
Claims by maturity	8,11,900
Total	41,46,800

SCHEDULE 5
Share Capital

Particulars	Amount (Rs)
Issued, subscribed, and called up 20,000 shares of Rs. 100 each	20,00,000
Less: preliminary expenses	11,000
Total	19,89,000

SCHEDULE 6
Reserves and Surplus

Particulars		Amount (Rs)
Balance of account at the beginning of the year		19,52,000
General reserve	5,00,000	
Add: Transfer from surplus	2,96,642	
		7,96,642
Balance fund		16,80,968
Total		44,29,610

SCHEDULE 7
Borrowings

Particulars	Amount (Rs)
Borrowings from financial institutions	4,95,000
Premium deposits	6,72,000
Total	11,67,000

SCHEDULE 8
Investments Shareholders

Particulars	Amount (Rs)
Government Securities	7,64,000
Government bonds	22,75,100
Investment in infrastructure bonds	10,81,000
Total	41,20,100

SCHEDULE 9
Loans

Particulars	Amount (Rs)
Loans on government securities	11,00,990
Total	11,00,990

SCHEDULE 10
Fixed Assets

Particulars		Amount (Rs)
Building	6,50,000	6,30,000
Less: depreciation	(20,000)	
Furniture	2,00,000	
Less: depreciation	(5000)	1,95,000
Total		8,25,000

SCHEDULE 11
Cash and Bank Balance

Particulars	Amount (Rs)
Bank balance	4,33,300
Total	4,33,300

SCHEDULE 12
Advances and Assets

Particulars	Amount (Rs)
Deposits with ceding companies	11,00,000
Other Assets	
Outstanding premium	3,32,100
Income accrued on investment	59,000
Claims covered under re-insurance	86,000
Due from other insurance company	3,30,000
Sundry debtors	4,35,000
Agents balance	2,10,000
Total	25,52,100

SCHEDULE 13
Current Liabilities

Particulars	Amount (Rs)
Security hold against investment	7,64,000
Deposited by chief agent	
Deposits hold on re-insurance ceded	3,39,100
Sundry creditors	1,72,780
Total	12,75,880

SCHEDULE 14
Provisions

Particulars	Amount (Rs)
Provision for tax	1,70,000
Total	1,70,000

**2.7 PROCEDURE TO ASCERTAIN PROFIT OR LOSS
OF THE LIFE INSURANCE BUSINESS**

The profit or loss of the life insurance business is to be ascertained after every two years by preparing 'Valuation Balance sheet':

In case of life insurance business, the claims arise either on death or expiry of policy period. Hence, a deficiency may arise due to the difference between the present value of the future premium to be received and the present value of future liability on all policies in force. This deficiency is termed as 'net liability'. The estimation of such liability is done of mathematicians well versed in tedious calculations of life insurance – known as 'actuaries'. After the valuation of net liability by appointed actuary, it is compared with Life Assurance fund by preparing Valuation Balance sheet and thereby find out profit or loss of a Life Insurance Company.

Valuation Balance Sheet of _____ as at _____

Particulars	Rs.	Particulars	Rs.
Net Liabilities	xxx	Life Insurance Fund	xxx
Surplus (if any)	xxx	Deficit (if any)	xxx
	xxx		xxx

Illustration 4

Gipsy Life insurance company provides following information to prepare Valuation Balance Sheet and profit distribution statement for the year ended on 31st March 2005 and also give journal entries.

	Amount is Rs.
Life insurance fund (as on 1-4-2004)	1,83,865
Interim Bonus Paid	27,500
Revenue account balance (as on 31-3-05)	2,64,000
Net Liability as per Valuation (as on 31-3-05)	1,81,500

The company declared a reversionary bonus of Rs. 210 per Rs. 1,000 and gave the policy holders an options to take bonus in cash Rs. 120 per Rs. 1,000. Total business of the company was Rs. 7,48,000. The company issued with profit policy only, $\frac{3}{4}$ of the policy holders in value opted for cash bonus.

Solution

Gipsy Life Insurance Company
Valuation Balance sheet as at 31-3-05

Particulars	Rs.	Particulars	Rs.
Net Liabilities	1,81,500	Life Insurance Fund	2,64,000
Surplus	82,500		
	2,64,000		2,64,000

Profit Distribution Statement

Particulars	Amount (Rs)
Surplus as per Valuation Balance sheet	82,500
Add: Interim Bonus Paid	27,500
Profits available for distribution	1,10,000
Share of policy holders (95%)	1,04,500
Less: Interim Bonus Paid	27,500
Amount due to policy holders	77,000
Shares of shares holders (5%)	5,500

Note: 95% of the surplus must be utilized for the benefit of policy holders and 5% of the surplus to be given to shareholders.

Journal Entries:

Particulars		Dr RS.	Cr Rs.
Life Insurance fund A/C To Profit & loss A/C To [Being profit revealed by Valuation Balance sheet transferred to profit & loss A/C]	Dr	82,500	82,500
Profit and loss A/C To To Bonus in cash A/C [Being bonus payable @ Rs. 120 per 1,000 on $\frac{3}{4}$ of Rs. 7,48,000]	Dr	67,320	67,320
Profit and loss A/C To To life insurance fund A/C [Being the amount @ Rs. 210 per Rs. 1,000 on $\frac{1}{4}$ of Rs. 7,48,000 transferred to life insurance fund in respect of reversionary bonus.]	Dr		

Illustrations 5

Jai Hind Life Insurance Company Ltd. provides information to prepare Valuation Balance sheet and a statement showing amount due to policy holders as on 31st March 2008

Life assurance fund as on 31st March 2008 amounted to Rs. 1,55,104, before providing dividend for the year 2007-08. It's actuarial valuation as on 31st March 2008 discloses net liability of Rs. 1,49,480 under the assurance and annuity contracts. Interim bonus paid Rs. 1,480 for the period ending 31st March 2008.

Solution**Valuation Balance Sheet as on 31-3-08**

Particulars	Rs.	Particulars	Rs.
Net Liabilities	1,49,480	Life Insurance Fund	1,55,104
Surplus	5,624		
	1,55,104		1,55,104

Profit Distribution Statement

Particulars	Amount (Rs)
Surplus as per Valuation Balance sheet	5,624
Add: Interim Bonus Paid to policy holders	1,480
	7,104
Less: Dividend to shareholders (for 2007-08)	1,184
Profit for 2 years ending on 31-3-08	5,920
Policy holder entitled for 95% of Rs. 5,624	5,624
Less: Already paid interim bonus	1,480
Amount due to policy holders	4,144

2.8 GENERAL INSURANCE BUSINESS

General Insurance Business is the business other than Life Insurance. It is carried by General Insurance Corporation of India through its subsidiary companies and many private companies also involve in General Insurance business.

Section 2(60) of the Insurance Act 1938 has defined 'General Insurance Business' as fire, marine or miscellaneous insurance business, whether carried on singly or in combination with one or more of them. Fire insurance business means the business of effecting, otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against the fire insurance policies. Marine Insurance Business means the business of effecting contracts of insurance upon vessels of any descriptions, including cargoes, freights and other interests which may be legally insured in or in relation to such vessels, cargoes and freights, goods wares, merchandise and property of whatever description insured for any transit by land or water, or both and whether or not including warehouse risks or similar risks in addition or incidental to such transit, and includes any other risks customarily included among the risks insured against in marine insurance policies.

2.9 SOME IMPORTANT TERMS

- **RESERVED FOR UNEXPIRED RISK:**

General Insurance Policies are taken for one year period and so risk is covered for 12 months from the date of insurance. The policies are issued throughout the year and remain in force even after the close for the current financial year and the entire

premium for his period is collected in advance. For e.g. this period is collected in advance. For e.g. a policy is issued on 15 January 2006 and it will be in force up to 14 January 2007 so the premium received on such policy covers partly current year 2005-06 and partly next year 2006-07. the risk may happen on any day during the lifetime of policy. The premium received on individual policy is not separated on time basis. Therefore a provision against unexpired risk is made to meet future claims arises under such policies

Reserves for unexpired risks are laid down as follows.

Fire and miscellaneous business 50% of the premium, net of re-insurance, during the preceding 12 months.

Marine cargo business 50% of the premium, net of re-issue during the preceding 12 months.

Marine hull business 100% of the premium, net of re-issue during the preceding 12 months.

However, an insurance company may keep additional reserve if it feels so.

Accounting Treatment

The opening balance of reserve for unexpired risk is credited to revenue account and closing balance is debited to revenue account.

Illustration 6

Give the journal entries and unexpired risk reserve account from the following information of Biji General Insurance Company Ltd. for the year ended on 31st March 2009.

- I. Total reserve for unexpired risk as on 31st March 2008.

Marine Insurance policies	Rs. 285
Fire Insurance policy	Rs. 380
Miscellaneous Insurance policies	<u>Rs. 95</u>
Total	<u>Rs. 760</u>
- II. Reserves to be created for the year ending 31st March 2009:

Marine Insurance policy – 100% of net premium	
Fire and miscellaneous - 50% of net premium insurance policies.	

- III. During the year the premium received:
- | | |
|--|---------|
| Marine Insurance business | Rs. 345 |
| Fire insurance business | Rs. 817 |
| Miscellaneous insurance business | Rs. 228 |
| Premium collected from other insurance companies in respect of risk undertaken | |
| Marine insurance business | Rs. 133 |
| Fire insurance business | Rs. 95 |
| Miscellaneous insurance business | Rs. 76 |
- V. Premium paid to other insurance companies on business ceded
- | | |
|----------------------------------|-----------|
| Marine insurance business | Rs. 127.3 |
| Fire insurance business | Rs. 81.7 |
| Miscellaneous insurance business | Rs. 133 |

Solution

In the Books of Biji General Insurance Company Ltd. Journal Entries

Date	Particulars	Dr Rs.	Cr Rs.
31 st March 2009	Unexpired Risk Reserve (Fire) A/C	380	
	Unexpired Risk Reserve (Marine) A/C	285	
	Unexpired Risk Reserve (Miscellaneous) A/C	95	
	To To fire Revenue A/C	380	
	To To marine Revenue A/C	285	
	To s Revenue A/C To	95	
	[Being opening balance of reserve is credited to revenue A/C]		
	Marine Revenue A/C (note I) To	347.7	
	To Unexpired Risk Reserve A/C		347.7

	[Being the reserve created at 100% of net premium income]		
	Fire Revenue A/C (note I)	415.15	
	To unexpired Risk Reserve A/C		415.15
	[Being the reserve created at 50% of net premium income]		
	miscellaneous Revenue A/C (note I)	85.5	
	To unexpired risk reserve A/C		85.5
	[Being the reserve created at 50% of net premium income]		

Calculation on Net Premium Income

Particulars	Marine	Fire	Miscellaneous
Premium collected from policyholders.	342	817	228
Premium collected from other Insurance company	133		
Less: Premium paid to other Insurance Company	(127.3)	(81.7)	(133)
To other insurance company			
	347.7	830.3	171
Percentage of reserve	100%	50%	50%
Amount of reserve to be created	347.7	415.15	85.5

Unexpired Risk Reserve Account

Date	Particulars	Marine	Fire	Miscellaneous	Date	Particular	Marine	Fire	Miscellaneous
31, March 2000	To revenue A/C	285	380	95	31 st March 09	By balance b/d	285.	380	95
	To balance C/D	347.7	415.15	85.5		By Revenue A/C	347.7	415.15	85.5
		632.7	795.15	180.5			632.7	795.15	180.5

2.10 PREPARATION OF FINANCIAL STATEMENT.

The General insurance company in India prepares its financial statements in accordance with provision of IRDA regulations, 2002. The financial statements consist of revenue account, profit and loss account and vertical balance sheet in form B-RA, form B-PL and Form B-BS respectively'. Revenue accounts

for fire, marine and miscellaneous insurance business to be prepared separately. Revenue account contains schedule-1, schedule-2, schedule-3, and schedule -4 and given operating profit or loss from insurance business which is transferred to profit and loss account.

Items not directly related to the insurance business are exhibited in profit and loss account for e.g. transfer fees, diminution in the value of investment bad debts written-off.

Balance sheet contains source of funds and application of fund. Sources of funds consists of schedule-5, schedule-6 and schedule-7 and application of funds consist of schedule-8 to schedule 15. Contingent liabilities are disclosed at the bottom of Balance Sheet.

Form B-BA

Name of the Insurer:

Registration No. and Date of Registration with the IRDA:

Revenue Account for the year ended 31st March, 20...

Particulars	sche dule	Current Year (RS'000)	Previous Year (Rs'000)
1. Premiums eamed – net	1		
2. Profit /Loss on Sale/Redemption of Investments			
3. Other (to be Specified)			
4. Interest, Dividends and Rent - Gross			
Total (A)			
1. Claims Incurred (Net)	2		
2. Commission	3		
3. Operating Expenses related to Insurance Business	4		
Total (B)			
Operating profit/ (Loss) from Fire / Marine /Miscellaneous Business C = (A-B)			

Appropriations			
Transfer to Shareholder Account			
Transfer to Catastrophe Reserve			
Transfer to other Reserves (to be specified)			
Total (c)			

Note: See Notes appended at the end of Form B-PL

FORM B-PL

Name of the Insurer

Registration No. and Date of Registration with the IRDA:

Profit and Loss Account for the year ended 31st March, 20...

Particulars	sche dule	Current Year (RS'000)	Previous Year (Rs'000)
1. Operating Profit / (Loss)			
a) Fire insurance			
b) Marine insurance			
c) Miscellaneous insurance			
Income form Investment			
Interest, Dividend and Rent – Gross			
Profit on sale of investments			
Less: Loss on sale of investments			
3. Other income (to be specified)			
Total (A)			
4. Provisions (other than taxation)			
a) For diminution in the value of investments			
b) For doubtful debts			
c) Others (to be specified)			

Other Expenses			
a) Expenses other than those related to insurance business			
b) Bad debts written off			
c) Others (to be specified)			
Total (B)			
Profit Before Tax			
Provision for Taxation			
Appropriations			
a) Interim dividend paid during the year			
b) Proposed final dividend			
c) Dividend distribution tax			
d) Transfer to any reserves/ other accounts (to be specified)			
Balance of profit/ loss brought forward from last year			
Balance carried forward to Balance Sheet			

Notes to Form B-RA and B-PL:

- a) Premium income received from business concluded in and outside India shall be separately disclosed.
- b) Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums.
- c) Claims incurred shall comprise claims paid, specific claims settlement costs wherever applicable and change in the outstanding provision for claims at the year end.
- d) Items of claims at the year end.
- e) Fees and expenses connected with claims shall be included in claims.
- f) Under the sub-head "others" shall be included items like foreign gains or losses and other items.

- g) Interest, dividends and rentals receivable in connection with an investment should be stated as gross amount, the amount of income-tax deducted at source beings included under ‘advance taxes paid and taxes deducted at source’.
- h) Income from rent shall include only the realized rent. It shall not include any national rent.

FROM B-BS

Name of insurer:

Registration No. and Date of Registration with the IRDA:

Balance Sheet as at 31st March, 20...

Particulars	sche dule	Current Year (RS'000)	Previous Year (Rs'000)
Sources of Funds			
Share capital	5		
Reserves and surplus	6		
Fair value change account			
Borrowings	7		
Sub Total			
Application of Funds			
Investments	8		
Loans	9		
Fixed assets	10		
Current assets			
Cash and bank balance	11		
Advances and other assets	12		
Sub Total (A)			
Current Liabilities	13		
Provisions	14		
Sub Total (B)			

Net current assets (C)= (A-B)			
Miscellaneous expenditure (to the extent not written off or adjusted)	15		
Debit balance profit and loss account			
Total			

Contingent Liabilities

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
Partly paid-up investments		
Claims, other than against policies, not acknowledged as debts by the company		
Underwriting commitments outstanding (in respect of shares and securities)		
Guarantees given by or on behalf of the company		
Statutory demands / liabilities in dispute, not provided for		
Reinsurance obligations to the extent not provided for in accounts		
Others (to be specified)		
Total		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE 1

Premium Earned (Net)

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
Premium from direct business written		
Add: premium on reinsurance accepted		
Less: premium on reinsurance ceded		
Net premium		
Adjustment for change in reserve for unexpired risks		
Total premium earned (Net)		

Note: Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission, under the head of reinsurance premiums

SCHEDULE 2

Claims Incurred (Net)

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
Claims paid		
Direct		
Add: Re-insurance accepted		
Less: Re-insurance ceded		
Net claims paid		
Add: claims outstanding at the end of the year		
Less: claims outstanding at the beginning		
Total Claims Incurred		

Notes:

- a) Incurred But Not Reported (IBNR), Incurred But Not Enough Reported (IBNER) claims should be included in the amount for outstanding claims.
- b) Claims includes specific claims settlement cost but not expenses of management.
- c) The surveyor fees, legal and other expenses shall also form part of claims cost.
- d) Claims cost should be adjusted for estimated salvage value if there is a sufficient certainty of its realization.

SCHEDULE 3

Commission

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
Commission paid		
Direct		
Add: re-insurance accepted		
Less: commission on re-insurance ceded		
Net Commission		

Note: The profit / commission, if any, are to be combined with the re-insurance accepted or Re-insurance ceded figures.

SCHEDULE 4

Operating Expenses Related to Insurance Business

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Employees remuneration and welfare benefits		
2. Travel, conveyance and vehicle running expenses		
3. Training expenses		
4. Rents, rates and taxes		
5. Repairs		
6. Printing and stationery		
7. Communication		
8. Legal and professional charges		
9. Auditors fees, expenses etc.		
a) As auditor b) As adviser or in any other capacity, in respect of I. Taxation matters II. Insurance matters III. Management services, and c) In any other capacity		
10. Advertisement and publicity		
11. interest and bank charges		
12. others (to be specified)		
13. depreciation		
Total		

Note: Items of expenses and income in excess of one per cent of the total premiums (less reinsurance) or Rs. 5,00,000 whichever higher, shall be shown as a separate line item.

SCHEDULE 5**Share Capital**

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Authorized Capital Equity shares of Rs....each		
2. Issue Capital Equity shares of Rs....each		
3. Subscribed Capital Equity shares or Rs....each		
4. Called-up Capital Equity shares of Rs....each		
Less: calls unpaid		
Add: Equity shares forfeited (amount originally paid up)		
Less: Par value of equity shares bought back		
Less: preliminary expenses Expenses including commission or brokerage on underwriting or subscription of shares		
Total		

Notes:

- a) Particulars of the different classes of capital should be separately stated.
- b) The amount capitalized on account of issue of bonus shares should be disclosed.
- c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE 5A**Pattern of Shareholding [As certified by the Management]**

Shareholder	Current Year		Previous Year	
	Number of Shares	% of Holding	Number of Shares	% of Holding
1. Promoters Indian				
Foreign				
2. Others				
Total				

SCHEDULE 6
Reserves and Surplus

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Capital reserve		
2. Capital Redemption reserve		
3. Share premium		
4. General reserves Less : Debit balance in Profit and Loss Account, if any Less : Amount utilised for Buy back		
5. Catastrophe reserve		
6. Other reserves (to be specified)		
7. Balance of profit in profit and loss account		
Total		

Note: Additions to and deductions from the reserves shall be disclosed under each of the specified heads.

SCHEDULE 7
Borrowings

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Debentures / Bonds		
2. Banks		
3. Financial Institutions		
4. Others (to be specified)		
Total		

Note:

- a) The extent to which the borrowing are secured shall be separately disclosed stating the nature of the security under each sub-head.
- b) Amounts due within 12 months from the date of Balance Sheet should be shown separately.

SCHEDULE 8
Investments

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
LONG TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments a. Shares (aa) equity (bb) preference b. Mutual funds c. Derivative instruments d. Debentures/ bonds e. Other securities (to be specified) f. Subsidiaries g. Investment properties – Real Estate		
4. Investments in infrastructure and social sector		
5. Other than Approved Investments		
SHORT TERM INVESTMENT		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other approved securities		
3. Other investments a) Shares (aa) Equity (bb) Preference b) Mutual funds c) Derivative instruments d) Debentures/ Bounds e) Other securities (to be specified) f) Subsidiaries g) Investment properties – Real Estate		
4. Investments in infrastructure and social sector		
5. Other than Approved Investments		
Total		

Notes:

- a) Investments in subsidiary / holding companies, joint ventures and associated shall be separately disclosed, at cost.
 - I. Holding company and subsidiary shall be construed as defined in the Companies Act, 1956.
 - II. Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
 - III. Joint control is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.
 - IV. Associate is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.
 - V. Significant influence (for the purpose of this schedule) means participations in the financial and operating policy decisions representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
- b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.
- c) Investments made out of Catastrophe reserve should be shown separately.
- d) Debt securities will be considered as "held to maturity" securities and will be measured at historical cost subject to amortization.
- e) Investment Property means a property (land or building or part of a building or both) held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.

- f) Investments maturing within twelve months from Balance Sheet date investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments.

SCHEDULE 9
Loans

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1.SECURITY-WISE CLASSIFICATIONS		
Secured		
a) On mortgage property (aa) in India (bb) outside India b) On shares, Bonds, Government securities etc. c) Others (to be specified)		
Unsecured		
Total		
2. BORROWER-WISE CLASSIFICATION		
a) Central and state government b) Banks and financial institutions c) Subsidiaries d) Industrial Undertakings e) Other (to be specified)		
Total		
3.PERFORMANCE-WISE CLASSIFICATION		
a) Loans classified as standard (aa) in India (bb) outside India		
a) Non-performing standard loans less provisions (aa) in India (bb) outside India		
Total		
4. MATURITY-WISE CLASSIFICATION		
a) short-term		
b) long-term		
Total		

Notes:

- a) Short-term loans shall include those, which are repayable within 12 months from the date of Balance Sheet. Long-term loans shall be the loans other than short-term loans.
- b) Provisions against non-performing loans shall be shown separately.
- c) The nature of the security incase of all long-term secured loans shall be specified in each case. Secured loans for the purposes of this schedule, means loans secured wholly or partly against an asset of the company.
- d) Loans considered doubtful and the amount of provision created against such loans shall be disclosed.

SCHEDULE 10**Fixed Assets**

particular	Cost / Gross Block				Depreciation				Net Block	
	Opening	additions	deductions	closing	Up to last Year	For the Year	On Sales / Adjustment	To Date	As at year and	Previous year
Goodwill										
Intangibles (specify)										
Land-freehold										
Leasehold Property										
Buildings										
Furniture and Fittings										
Information technology equipment										
Vehicles										
Office Equipment										
Others (specify nature)										
Total										
Work in progress										
Grand total										
Previous year										

Note: Assets included in land, property and building above exclude Investment Properties as defined in note (e) to Schedule 8.

SCHEDULE 11
Cash and Bank Balances

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Cash (including cheques, drafts and stamps)		
2. Bank Balance		
a) Deposit accounts		
(aa) Short term (due within 12 months)		
(bb) Others		
b) Current accounts		
c) Others (to be specified)		
3. Money at call and short notice		
a) With banks		
b) With other institutions		
4. Others (to be specified)		
Total		
Balance with non-scheduled banks included in 2 and 3 above		

Note : Bank balance may include remittances in transit. If so, the nature and amount shall be separately stated.

SCHEDULE 12
Advances and Other Assets

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
ADVANCES		
1. Reserve deposits with ceding companies		
2. Application money for investments		
3. Prepayments		
4. Advances to Directors / officers		
5. Advance tax paid taxes deducted at source (net provision for taxation)		
6. Others (to be specified)		
Total(A)		

OTHERS ASSETS		
1. Income accrued on investments		
2. Outstanding Premiums		
3. Agents' Balance		
4. Foreign Agencies Balance		
5. Due from other entities carrying on insurance business (including reinsures)		
6. Due from subsidiaries / holding		
7. Deposit with Reserve Bank of India (pursuant to Section 7 of Insurance Act, 1938)		
8. Others (to be specified)		
Total (B)		
Total (A+B)		

Notes:

- The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately.
- The term 'officer' should conform to the definition of that term as given under the Companies Act, 1956.
- Sundry debtors will be shown under item 9 (Others).

SCHEDULE 13
Current Liabilities

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Agents' Balance		
2. Balance due to other insurance companies		
3. Deposits held on re-insurance ceded		
4. Premium received in advance		
5. Unallocated premium		
6. Sundry creditors		
7. Due to subsidiaries / holding company		
8. Claims outstanding		
9. Due to officers / directors		
10. Others (to b specified)		
Total		

SCHEDULE 14
Provisions

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Reserve for Unexpired Risk		
2. For taxation (less advance tax paid and taxes deducted at source)		
3. For proposed dividends		
4. For dividend distribution tax		
5. Others (to be specified)		
Total		

SCHEDULE 15
**Miscellaneous Expenditure (To the extent not written off a
adjusted)**

Particulars	Current Year (RS'000)	Previous Year (Rs'000)
1. Discount allowed in issue of shares / debentures		
2. Others (to be specified)		
Total		

Notes:

- a) No item shall be included under the head "Miscellaneous Expenditure" and carried forward unless:
1. some benefit from the expenditure can reasonably be expected to be received in future, and
 2. the amount of such benefit is reasonably determinable
- b) The amount to carried forward in respect of any included under the head "Miscellaneous Expenditure" shall not exceed the expected future revenue / other benefits related to the expenditure.

Illustration 7

From the following information of the Junk Fire Insurance co. Ltd. you are required to prepare revenue account for the year ended 31st March 2010.

Particulars	Amount Rs. In Lakhs
Reserve for unexpired risk as on 31-3-09	776
Rent, rates and taxes	22
Premium from direct business	830
Premium on re-insurance ceded	47
Auditors fees relating to insurance matters	12
Profit on sale of investment	175
Bad debts	26
Contribution to provident fund	88
Bonus to employees	64
Additional reserve as on 31-3-09	82
Medical expenses	16
Traveling expenses	09
Interest, dividend and rent received	320
Printing and stationary	13
Depreciation on office equipment	12
Survey fees relating to claims	15
Commission paid on direct business	152
Claims outstanding as on 31-3-2010	102
Claims outstanding as on 31-3-2009	74
Claims paid: direct	1,100
Re-insurance accepted	231
Re-insurance ceded	169
Commission on re-insurance ceded	29

The required for unexpired risk as on 31-3-2010 is 50% of the net premium received.

Solution:

Junk Fire Insurance Co. Ltd.
Revenue account for the year ended 31st March 2010

Particulars	Schedule	Amount Rs. in Lakhs
Premiums earned net	1	1,249.5
Profit on sale of investment		17.5
Interest, dividend and rent		320
Total (A)		1,744.5
Claims incurred (net)	2	1,205
Commission	3	123
Operating expenses related to insurance business	4	262
Total (B)		1,590
Operating profit from fire insurance business C = (A – B)		154.5

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE 1
Premium Earned (net)

Particulars		Amount Rs. in Lakhs
Premium from direct business		830
Less premium on reinsurance ceded		(47)
Net premium		783
Adjustment for change in reserve for unexpired risk		
Reserve for unexpired risk as on 31-3-2009	776	
Add aditioanl reserve as on 31-3-09	82	858
Less resene for unexpired risk as on 31-3-10		391.5
Total premium earned		1,249.5,

SCHEDULE 2
Claims Incurred (net)

Particulars		Amount Rs. in Lakhs
Claims paid : Direct	1,100	
Add: Re-insurance accepted	231	
Less: Re-insurance ceded	(169)	
Net claims paid		1162
Add: claims outstanding as on 31-3-10	102	28
Less: claims outstanding as on 31-3-09	74	
Surveyor fees		15
Total claims incurred		1205

SCHEDULE 3
Commission

Particulars	Amt Rs. in Lakhs
Commission paid: Direct	152
Less: commission on re-insurance ceded	29
Net commission	123

SCHEDULE 4
Operating Expenses related to Insurance Business

Particulars	Amt Rs. in Lakhs
Contribution to Provident Fund	88
Bonus to employees	64
Traveling expenses	9
Rent, Rates and taxes	22
Printing and stationery	13
Auditors fees related to insurance matters	12
Bad debts	26
Medical expenses	16
Depreciation on office equipment	12
Total	262

Illustration 8

Jetty Marine Insurance Co. Ltd provides following information's as on 31st March 2006 and 31st March 2007. You are required to prepare Revenue account for two years.

Particulars	Amt (Rs) 31-3-06	Amt (Rs) 31-3-07
Commission on Direct business	350,000	3,77,500
On re-insurance ceded	3,52,000	2,64,000
On re-insurance accepted	2,47,500	2,75,000
Interest and bank charges	1,10,000	1,14,000
Repairs and maintenance	83,000	92,000
Depreciation on office buildings	40,000	50,000
Audit fees	35,000	50,000
Printing charges	72,000	89,000
Employees salary	13,75,000	14,85,000
Miscellaneous expenses	66,000	63,000
Managers salary	55,000	65,000
Claims paid	8,38,750	15,64,750
Premium from direct business	65,00,000	66,00,000
Re-insurance accepted	10,00,000	10,80,000
Re-insurance ceded	11,61,000	12,10,000

Adjustments

1. Claims outstanding as on:

31-3-05 Rs. 3,76,750

31-3-06 Rs. 4,92,250

31-3-07 Rs. 6,11,050

2. Interest, dividend and rent accrued Rs. 3,30,000 for the year ended on 31-3-07
3. Reserve for unexpired risks as on 31st March 2005 was Rs. 55,20,000 and additional reserve was Rs. 6,62,400. The company's policy is to provide reserve for unexpired risk at @ 100% and addition reserves @ 12% of net premium received.

Solution

Jelly Marine Insurance Co. Ltd
Revenue A/C for the year ended on 31-3-06 & 31-3-07

Particulars	Schedule	Current Year 31-3-07 Amt (Rs)	Previous Year 31-3-06 Amt (Rs)
Premium earned	1	63,23,280	54,21,720
Interest, dividend & rent		3,30,000	
Total (A)		66,53,280	54,21,720
Claims incurred	2	16,83,550	9,54,250
Commission	3	3,88,500	2,45,500
Operating expenses related to marine business	4	20,08,000	18,36,000
Total (B)		40,80,050	30,35,750
Operating profit from marine business [C= A–B]		25,73,230	23,85,970

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS
SCHEDULE 1
Premium Earned (net)

Particulars	Current Year 31-3-07 Amt (Rs)	Previous Year 31-3-06 Amt (Rs)
premium from direct business	66,00,000	65,00,000
Add: premium on reinsurance accepted	10,80,000	10,00,000
Less: premium on reinsurance ceded	(12,10,000)	(11,61,000)
Net premium (A)	64,70,000	63,39,000
Adjustment for change in reserve for		
Unexpired risks		
Add reserve for unexpired risks at the beginning of the year	63,39,000	55,20,000
Additional reserve to the beginning of the year	7,60,680	6,62,400

(B)	70,99,680	61,82,400
Less reserve for unexpired risks at the end of the year	64,70,000	63,39,000
Additional reserve at the end of the year	7,76,400	7,60,680
(C)	72,46,400	70,99,680
Total premium (A + B - C)	63,23,280	54,21,720

SCHEDULE 2

Claims Incurred (net)

Particulars	31-3-07 Rs.	31-3-06 Rs.
Claims paid	15,64,750	8,38,750
Add outstanding at the end of the year	6,11,050	4,92,250
Less outstanding at the beginning of the year	(4,92,250)	(3,76,750)
Total claims incurred	16,83,550	9,54,250

SCHEDULE 3

Commission

Particulars	31-3-07 Rs.	31-3-06 Rs.
Commission paid Direct	3,77,500	3,50,000
Add re-insurance accepted	2,75,000	2,47,500
Less re-insurance ceded	(2,64,000)	(3,52,000)
Net commission	3,88,500	2,45,500

SCHEDULE 4

Operating Expenses Related to Insurance Business

Particulars	31-3-07 Rs.	31-3-06 Rs.
Employees salary	14,85,000	13,75,000
Repairs and maintenance	92,000	83,000
Printing charges	89,000	72,000
Audit fees	50,000	35,000
Managers salary	65,000	55,000
Miscellaneous expenses	63,000	66,000
Depreciation office building	50,000	40,000
Total	20,08,000	18,36,000

Illustrations 9

Akbar Ali General Insurance Company Ltd. furnishes you the following balance as on 31st March 2009. you are required to prepare i) fire revenue account ii) marine revenue account iii) profit and loss account and iv) Balance Sheet as per the requirements of law.

Particulars	Amount (Rs. in '000)		
	Fire	marine	
Expenses of management	500	600	
Commission paid	823	752	
Commission on reinsurance ceded	316	471	
Claims paid less reinsurance	7,131	9,016	
Claims O/S (as on 31-3-09)	240	273	
Premium less reinsurance	13,356	17,841	
Reserve for unexpired risks (as on 31-3-08)	11,100	13,260	
Additional reserve (as on 31-3-08)	1,110	1,326	
Audit fees	52	65	
Directors sitting fees		44	
Income from Investment			826
Share transfer fees			110
Borrowings from banks			218
Bank balances			1,516

Cash balances			189
Deposits held on reinsurance companies			143
Outstanding premium			2,100
Advances to banks and financial institution			2,901.25
Agents balances			510
Sundry debtors			990
Sundry creditors			281
Advances to directors			122
Investments			
Government securities			17,102.4
Other approved securities			12,771.35
Equity shares			1,000
Mutual fund			1,200
General reserves			920
Other reserves			116
Furniture and fittings			800
Building			1100
Deposits with RBI			373
Share capital			1,000

Adjustments

1. Share capital consists of 30,000 equity shares of Rs. 100 each. Issued, subscribed and called-up 20,000 equity shares of Rs. 50 each.
2. The company directors declared dividend at 10% out of profits earned during the year.
3. Expenses of management include surveyor fees and legal expenses of Rs. 82,000 and Rs. 64,000 respectively relating to fire insurance claims
4. Provision for tax is to be made at 30%
5. The reserves for unexpired risk to be created at 50% of net premium income for fire insurance and at 100% of net premium income for Marine Insurance as on 31st March 2009. Addition reserve for fire and Marine Insurance is to be maintained at 15% and 10% of net premium income.

Solution

Akbar Ali General Insurance Co. Ltd.
Revenue A/C for the year ended as on 31-3-09

Particulars	Schedule	Amount (Rs. in '000)	
		Fire	Marine
premiums earned net	1	16,884.6	12,801.9
Total (A)		16,884.6	12,801.9
Claims incurred (net)	2	7,517	9,289
Commission	3	507	281
Operating expenses related to	4	409	709
Insurance Business			
Total (B)		8,433	10,279
Operating profit from fire and marine business (C = A – B)		8,451.6	2,522.9

Profit & Loss A/C for the year ended on 31-3-09

Particulars		31-3-09 amount (Rs. in '000)
Operating profit		
Fire insurance	8,451.6	
Marine insurance	2,522.9	10,974.50
Income from investments		826
Total (A)		11,800.50
Other expenses		
Share transfer fees		110
Total (B)		110
Profit before tax		11,690.50
Provision for tax (30%)		3,507.15
Profit after tax		8,183.35
Appropriations		
Proposed final dividend		100
Balance, carried forward to balance sheet		8,083.35

Balance Sheet as at 31st March 2009

Particulars	Schedule	Amount (Rs. in '000)
Sources of fund		
Share capital	5	1,000
Reserves and surplus	6	9,119.35
Borrowings	7	218
Total		10,337.35
Application of funds		
Investments	8	32,073.75
Loans	9	2,901.25
Fixed assets	10	1,900
		36,875
Current Assets		
Cash and Bank Balance	11	1,705
Advances and other assets	12	4.095
Sub total (A)		5,800
Current liabilities	13	424
Provisions	14	31,913.65
Sub total (B)		32,337.65
Net current assets (C= A – B)		(26,537.65)
Total		10,337.35

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE 1
Premium Earned (net)

Particulars	31-3-09 Amount (Rs. in '000)	
	Fire	Marine
Premium less reinsurance	13,356	17,841
Adjustments for change in reserves for unexpired risks		
Add reserve for unexpired risks (1-4-08)	11,100	31,260
Additional reserve (1-4-08)	1,110	1,326
	25,566	32,427
Less reserve for unexpired risks (31-3-09)	6,678	17,841
Additional reserve (31-3-09)	2,003.4	1784.1
	(8,681.4)	(19,625.1)
Total premium	16,884.6	12,801.9

SCHEDULE 2**Claims Incurred (net)**

Particulars		31-3-09 Amount (Rs. in '000)	
		Fire	marine
Claims less reinsurance		7,131	9,016
Add claims O/S at the end		(240)	273
Add surveyor fees	82		
Legal expenses	64	146	
		7,517	9,289

SCHEDULE 3**Commission**

Particulars		31-3-09 Amount (Rs. in '000)	
		Fire	marine
Commission paid		823	752
Less commission on reinsurance ceded		(316)	(471)
Net commission		507	281

SCHEDULE 4**Operating Expenses Related to Insurance Business**

Particulars		31-3-09 Amount (Rs. in '000)	
		Fire	marine
Expenses of management		500	600
Less surveyors fees	82		
Legal expenses	64	146	
Auditors fees		52	65
Directors sitting fees			44
Total		406	709

SCHEDULE 5**Share capital**

Particulars	Amount (Rs. in '000)
Authorized capital	
30,000 equity shares of Rs. 100 each Issued, subscribed and called-up capital	3,000
20,000 equity shares of Rs, 50 each	1,000
Total	1,000

Schedule 6**Reserves and Surplus**

Particulars	Amount (Rs. in '000)
General reserves	920
Other reserves	116
Balance of profit in profit & loss A/C	8,083.35
Total	9,119.35

SCHEDULE 7**Borrowings**

Particulars	Amount (Rs. in '000)
Borrowings from banks	218
Total	218

SCHEDULE 8**Investments**

Particulars	Amount (Rs. in '000)
Government securities	17,102.40
Other approved securities	12,771.35
Equity shares	1,000
Mutual fund	1,200
Total	32,073.75

SCHEDULE 9
Loans

Particulars	Amount (Rs. in '000)
Advances to banks and Financial Institutions	901.25
Total	901.25

SCHEDULE 10
Fixed Assets

Particulars	Amount (Rs. in '000)
Buildings	800
Furniture and fittings	1,100
Total	1,900

SCHEDULE 11
Cash and Bank Balances

Particulars	Amount (Rs. in '000)
Cash	189
Bank Balance	1,516
Total	1,705

SCHEDULE 12
Advances and other Assets

Particulars	Amount (Rs. in '000)
Advances to directors	122
Outstanding premiums	2,100
Agents balances	510
Deposits with RBI	373
Sundry debtors	990
Total	4,095

SCHEDULE 13
Current Liabilities

Particulars	Amount (Rs. in '000)
Deposits held on re-insurance ceded	143
Sundry creditors	281
Total	424

SCHEDULE 14
Provisions

Particulars	Amount (Rs. in '000)
Reserve for unexpired risk	
Fire Rs. 8,681.4	
Marine Rs. 19,625.1	28,306.5
Tax provision	3,507.15
Proposed dividends	100
Total	31,913.65

Illustration 10

From the following figures appearing in the books of Ayush General Insurance Company Ltd. carries on fire insurance business, show the final accounts for the year ended on 31st March 2009.

A. Items directly related to Fire Insurance business

Electricity charges	525
Communication	490
Salaries to staff	2,000
Depreciation	500
Interest and dividend received rent received on accommodation	493
Facilities provided to employees	247

B. Items indirectly related to Fire Insurance business

Refund of double taxation	230
Miscellaneous receipts	115
Professional tax	150
General charges	110
Loss on realization on investment	799
Auditors fees	100
Other common items	
Claims paid on direct business	8950
Amount due to reinsure	4870
Sundry creditors	961
Commission paid on direct business	490
Investment in government bonds	9885
Investment in infrastructure bonds	3365
Commission on reinsurance accepted	250
Claims paid on reinsurance	1306
Reserve for unexpired risk	10,000
Additional reserve	2100
Premium less reinsurance	17500
Share capital	18500
Outstanding claims at the beginning of the year	725
Advance to directors	6500
Application money for investment	8500
Lease hold property	865
Vehicles	207
General reserve	2499
Investment fluctuation reserve	1090
Loans given to other company	700
Agents balance (Dr)	5000
Balance due from reinsure	4050
Bank balance	4100
Cash balance	488

Adjustments

1. Transfer 20% to general reserve from current year profit
2. Rs. 110 income tax deducted at source from interest and dividend received
3. The market value of investment is Rs. 11790
4. Outstanding claims due as on 31st March 2009 Rs. 644
5. It is the policy of the company to maintain 50% of net premium towards reserve for unexpired risk and additional reserve to be increased by 10% of net premium for the year ended on 31st March 2009.

Solution

Ayush General Insurance Company Ltd. Revenue Account for the year ended 31st March 2009

Particulars	Schedule	Amount (Rs)
Premium earned net	1	17000
Interest, dividends and rent gross (493 + 247 + 110)		850
Total (A)		17850
Claims incurred (net)	2	10175
Commission	3	740
Operating expenses related to Insurance Business	4	3515
Total (B)		14430
Operating profit from fire insurance business C = (A – B)		3420

Profit and Loss Account for the year ended 31st March 2009

Particulars	Amount (Rs)
Operating profit from fire insurance	3420
Income from investments : Loss on realization of investment	(799)
Refund of double tax	230
Other income	
Miscellaneous receipts	115
Total (A)	2966

Provisions	
Additional provision for investment	370
Other expenses	
Professional tax	150
General charges	110
Auditors fees	100
Total (B)	730
Profit before tax (Total A – Total B)	2236
Appropriations	
Transfer to general reserve (20%)	447.2
Balance carried forward to balance sheet	1788.8

Balance Sheet as at 31st March 2009

Particulars	Schedule	Amount (Rs)
Sources of fund		
Share capital	5	18500
Reserves and Surplus	6	6195
Borrowings	7	
Total		24695
Application of funds		
Investments	8	13250
Loan	9	700
Fixed assets	10	1072
Total		15022
Current Assets		
Cash and bank balance	11	4588
Advance and other assets	12	24050
Subtotal (A)		28638
Current liabilities	13	6475
Provisions	14	12490
Subtotal (B)		18965
Net current asset (C) = (A – B)		9673
Total		24695

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE 1 Premium Earned (net)

Particulars		Amount (Rs.)
Premium less: reinsurance		17500
Adjustment for change in reserve for unexpired risks		
Reserve for unexpired risk at the beginning of the year	10,000	
Additional reserve	2100	12,100
Less: reserve for unexpired risk at the end of the year	8750	
Additional reserve (2100 + 1750)	3850	(12,600)
Total premium earned (net)		17000

SCHEDULE 2 Claims incurred (net)

Particulars	Amount (Rs.)
Claims paid on direct business	8950
Add: re-insurance accepted	1306
Net claims paid	10256
Add : claims O/S at the end of the year	644
Less : claims O/S at the beginning	(725)
Total claims incurred	10175

SCHEDULE 3 Commission

Particulars	Amount (Rs.)
Commission paid on direct business	490
Add: re-insurance accepted	250
Net commission	740

SCHEDULE 4
Operating Expenses Related to Insurance Business

Particulars	Amount (Rs.)
Salaries to staff	2000
Communication	490
Electric charges	525
Depreciation	500
Total	3515

SCHEDULE 5
Share Capital

Particulars	Amount (Rs.)
Authorized, issued and paid up equity share capital	18500
Total	18500

SCHEDULE 6
Reserves and Surplus

Particulars		Amount (Rs.)
General reserve	2499	2946.2
Add: transfer from P & L account	<u>447.2</u>	
Investment fluctuation reserve	1090	1460
Add: additional provision	370	
Balance of profit in P & L account		1788.8
Total		6195

SCHEDULE 8
Investments

Particulars	Amount (Rs.)
Investment in government bonds	9885
Investment in infrastructure bonds	3365
Total	13250

SCHEDULE 9
Loans

Particulars	Amount (Rs.)
Loans given to other company	700
Total	700

SCHEDULE 10
Fixed Assets

Particulars	Amount (Rs.)
Leasehold property	865
Vehicles	207
Total	1072

SCHEDULE 11
Cash and bank balance

Particulars	Amount (Rs.)
Cash balance	488
Bank balance	4100
Total	4588

SCHEDULE 12
Advances and other Assets

Particulars	Amount (Rs.)
Application money for investment	8500
Advances to directors	6500
Agents balance	5000
Due from re-insurer	4050
Total	24050

SCHEDULE 13
Current Liabilities

Particulars	Amount (Rs.)
Balance due to other reinsure	4870
Sundry creditors	961
Outstanding claims	644
Total	6475

SCHEDULE 14
Provision

Particulars	Amount (Rs.)
Reserve for unexpired risk	12600
Less: tax deducted at source	(110)
Total	12490

2.11 SUMMARY

Insurance is a contract of indemnity whereby the insurer undertakes inconsideration for a fixed sum of money, to make good the loss suffered by the insured against a specified risk or any other contingency.

The business of insurance in India is governed by The Insurance Act, 1938 and regulated under the framework of Insurance Regulation and Development authorities Act, 1999.

In case of life insurance a specified amount becomes payable on the death of the insured or on maturity of the policy. General insurance covers losses caused by fire, accident and loss incidental to marine business.

The insurance companies in India need to maintain statutory books i.e. register of agents. Besides these books they also maintain subsidiary books i.e. ledgers, journal cash book etc.

There are some important terms related to Insurance Business.

Premium is the amount paid by the policy holder to the insurance company at regular intervals or at one stroke

Claims is the amount payable by an insurer against the policy either on maturity or on the death of the policy holder.

Re-insurance, the insurance company transfer part of its risk on another insurance company in an anticipation for commission against it, is known as reinsurance.

Annuities is a fixed sum of money which the insurance company pays periodically in a series to policy holder in return for a lump sum paid in advance.

Reserve for unexpired risk: In case of general insurance, the reserve for unexpired risk is created every year against the premium received in advance, in order to meet any loss that may raise on any day during the lifetime of policy. The reserve for unexpired risk should be 50% of net premium in case of fire and other miscellaneous insurance and 100% of net premium in case of marine insurance business.

The life insurance companies prepare its revenue account in form A-RA, profit and loss account in form A-PL and balance sheet in form A-BS where as general insurance companies prepare its revenue account in form B-RA, profit and loss account in form B-PL and balance sheet in form B-BS as prescribed in the Act . separate revenue account is prepared for fire insurance, marine insurance and other miscellaneous insurance.

2.12 EXERCISE

Fill in the blanks :

1. The life insurance Fund account appears on the _____ and the various securities that represent the investment of life insurance fund appear on the _____ .
2. Premium received for the first time of each insurance policy is separately recorded in the _____ book.
3. _____ book is maintained to record second and subsequent premium received after the first one.
4. The ceding company which gives business to a reinsurance company is to receive commission from the later known as _____ .

5. The revenue account of a insurance company is to be prepared in accordance with provisions of _____ .
6. The details of commission expenses of a general insurance company is shown under _____.
7. Balance sheet of insurance company is prepared in _____ as prescribed by IRDA.
8. The reserve for unexpired risk in case of Fire and miscellaneous business is _____ of the net premium.
9. In case of general insurance business, a reserve for _____ is created every year so as to ascertain the profit.
10. _____ means the business of effecting contracts of insurance other than life insurance, fire insurance and marine insurance.

Answers :

1. liabilities side, assets side;
2. new premium book;
3. Revenue premiums
4. reinsurance leded
5. IRDA regulations 2002
6. schedule – 3
7. vertical format
8. 50%
9. unexpired risk
10. miscellaneous insurance business

2. True or False :

1. A life insurance company maintenance life insurance fund ledger, revenue ledger and miscellaneous ledger.
2. In case of a 'without profits' policy, the policy holder gets the amount specified in the policy plus bonuses declared on each valuation.
3. Reinsurance is the insurance of an already insured risk.
4. The annuity paid during the lifetime of the policy holder, it is called perpetuity.
5. The major sources of income of a life insurance company are in the nature of interest / dividend on securities and rent from properties let out.
6. The main purpose of preparing profit and loss account of Life Insurance Company is to show in a summarized form the

income and expenditure relating to life insurance business during on accounting period.

7. The major items of expenditure of a general insurance company are the payment of claims.
8. In case of general insurance business a common revenue account is prepared for fire, marine and other miscellaneous insurance business.

Answers : 1-T, 2-F, 3-T, 4-T, 5-F, 6-F, 7-T, 8-F

3) Match the following :

I)

- | | |
|---|------------------|
| 1) Investment of policy holder | A) Schedule -5 |
| 2) Share holder's fund | B) Schedule – 8 |
| 3) Employees' remuneration & welfare benefits of life insurance business. | C) Schedule – 8A |
| 4) Investments of share holders fund | D) Schedule – 3 |
| 5) Claims incurred in general insurance business | E) Schedule – 6 |
| 6) Reserve for unexpired risk | F) Schedule - 6 |
| | G) Schedule - 14 |

Answers : 1-C; 2-A; 3-D; 4-B; 5-E; 6-G

II)

- | | |
|--|----------------------------------|
| 1) Statutory books | A) Form B-Bs |
| 2) Revenue account of life insurance business | B) Income and Expenditure ledger |
| 3) Balance sheet of general insurance business | C) Expenditure Cash book |
| 4) Cash book | D) Register of Agents |
| | E) Form A-RA |
| | F) Form A-BS |

Answers : 1-D; 2-E; 3-A; 4-C;

4) Explain the following terms :

- i) Annuities
- ii) Whole –life and endowment policies
- iii) With profit and without profit policies

- iv) Bonus in reduction of premium
- v) Statutory books
- vi) Schedule
- vii) Commission Expenses

5) Answer the following :

- i) Explain the forms and requirements of preparing final accounts of life insurance business.
- ii) Write a brief note on 'valuation Balance Sheet'
- iii) Distinguish between life insurance and General insurance business.
- iv) Explain the preparation of revenue account of general insurance business.
- v) What is 'Reserve for unexpired risk'?

6) Jagrut Life Insurance company Ltd. provides the following information and ask to prepare valuation balance sheet and profit distribution statement for the year ended on 31st March 2008. Also given journal entries.

	Amount (Rs.)
life insurance fund as on 1-4-2007	5,51,595
Interim bonus paid	82,500
Balance of revenue account as on 31-3-2008	7,92,000
Net liability as per valuation as on 31-3-08	5,44,500

The company declared reversionary bonus of Rs. 210 per Rs. 1,000 and gave the policy holder an option to take bonus in cash Rs. 120 per Rs. 1,000. Total business of the company was Rs. 22,44,000. The company issued with-profit policy only, $\frac{3}{4}$ of policy holder in value opted for cash bonus.

Answer : Amount due to policy holders Rs. 2,31,000.

7) Prepare revenue account of Manorama Life Insurance Company for the year ended 31st March 2006. Also prepare valuation Balance Sheet.

Particulars	Amount (Rs.)
Claims by death	5,32,980
Pension payment	2,10,770
First year premium	9,87,966

Renewal premium	39,51,864
Consideration for annuity granted	5,74,889
Claims by death paid against reinsurance accepted	3,74,227
Transfer fees received	903
Balance of life insurance fund at the beginning of the year	1,06,47,000
Expenses of management	2,23,440
Bonus paid in cash	16,912
Commission	67,018
Dividend paid to shareholders	38,500
Interest and dividend received	6,84,880
Income tax	24,99,740
Surrenders	91,980
Bonus in reduction of premium	6,860
Net liability as per valuation as on 31 st March 2006	77,35,000

Answer : Balance of life insurance fund as on 31-3-06 Rs. 15,07,3,345, Surplus Rs. 73,38,345

8) Niraj Life Insurance company Ltd. provides the following balances as on 31st March 2009. You are required to prepare Revenue account, profit and loss account and vertical Balance sheet as on that date.

Debit balances	Amount (Rs.in '000)
Sundry debtors	6,300
Advances to directors	33,000
Deposits with RBI	13,050
Repairs and maintenance	300
Advertisement and publicity	1,230
Commission paid for renewal premium	2,328
Commission on reinsurance accepted	1,871.7
Interim Bonus paid	6,300
Provision for doubtful debts	1,050
Surrenders	15,750
Communication	360
Auditor fees related to insurance matters	750
Outstanding premium	9,963
Money at call and short notices	12,999

Office equipment	6,000
Leasehold property	19,500
Underwriting commission	330
Insurance claims by maturity	70,257
Insurance claims by deaths	22,992
Investment in approved securities	68,253
Investment in debentures	32,430
Re-insurance accepted claims by maturity	24,357
Loans against mortgage of property	33,029.7
Amount due from other insurance company	9,900
Total	3,92,300.4

Credit balances	Amount (Rs.in '000)
Surplus on revaluation of reversions	7,341
Balance due to other insurance company	5,183.4
Commission on reinsurance ceded	1,779
Renewal premium	1,58,832
Single premium	33,000
Deposits held on reinsurance ceded	10,173
Claims by maturity against reinsurance ceded	6,372
Share capital	60,000
Borrowings from Indraprasad bank	14,850
Premium deposits	20,160
Profit on sale of investment	1,050
Balance of account at the beginning of the year	58,560
General reserves	15,000
Total	3,92,300.4

Adjustment :

1. Issued, subscribed and paid up capital, 6,00,000 Equity shares of Rs. 100 each.
2. Bonus utilized in reduction of premium Rs. 57,31,000.
3. Guarantees given by or on behalf of the company Rs. 87,50,000.
4. Outstanding advertisement and publicity 8,10,000 and prepaid communication charges Rs. 2,49,000.

5. Interest and rent accrued Rs. 17,70,000.
6. Allocate 20% of surplus to general reserves.

Answer : Balance of fund as per revenue account Rs. 4,96,29,840. Total sources / application of fund as per vertical balance sheet Rs. 23, 02,77,300.

9) As per General Insurance Company Ltd. furnishes you with following balances of its Fire insurance business as on 31st March 2005

Debit balances	Amount (Rs.in '000)
Mutual fund	339
Survey expenses related to claims	33
Training provided to employees in respect of insurance	53
Investments : Equity shares of Aryan Company Ltd.	1,441
Claims less reinsurance	46
Other approved securities	1,990
Commission on direct business	14
Bad debts	13
Director's setting fees related to insurance business	45
Furniture and fittings	180
Claims o/s at the end	13
Land and building	210
Loss on sale of investment	62
Printing and stationery expenses incurred for insurance	29
Cash and bank balance	101
o/s premium	73
Newspapers and periodicals	15
Sundry debtors	29
Miscellaneous expenses	25
Depreciation on furniture	36
Interest and bank charges	<u>61</u>
Total	<u>4,808</u>

Credit balances	Amount (Rs.in '000)
Amount due to directors	77
Share capital	750
Premium less reinsurance	1,889
Investment fluctuation reserve	363
Reserve for unexpired risk	990
Dividend received on Equity shares held	48
General reserve	310
Borrowings from ABC Ltd.	69
Additional reserves	85
Other reserve	85
Interest received on approved securities	110
Claims o/s at the beginning	<u>32</u>
Total	<u>4,808</u>

Adjustments :

1. Provision for tax to be made at 50%
2. Income Tax deducted at source from interest and dividend received Rs. 52,000.
3. Market value of investment as on 31st March 2005 is as follows :
Equity shares of Aryan Company Ltd. Rs. 11,30,000; mutual fund Rs. 3,10,000 and other approved securities 18,00,000.
4. Provide for unexpired risk at 50% of net premium and additional reserve at 12% of net premium.

You are required to prepare :

Revenue account, profit and loss account and Balance Sheet as per the prescribed form.

Answer :

Operating profit from Fire insurance business Rs. 15,91,820.

Profit & Loss account balance Rs. 7,11,410.

Total sources / Application of fund Rs. 24,55,410

10) Gold General Insurance Company carries marine insurance business and provides the information of its business as on 31st March 2010.

Debit balances	Amount (Rs.in 100)
Establishment expenses	34,300
Contribution to provident fund	28,400
Rent paid	25,110
Depreciation on motor car	9,500
Claims paid directly	1,20,670
Commission	65,450
Income tax on interest	3,190
Investment : real estate	8,00,000
National saving certificate	3,68,060
Shares in companies	1,50,000
o/s premium	83,000
Fired deposit with Aruna bank	50,000
Agents balances	60,000
Cash balances	29,600
Building	2,50,000
Directors traelling expenses	1,500
Printing and stationery	8,100
Motor car	<u>1,10,000</u>
Total	<u>21,96,880</u>

Credit balances	Amount (Rs.in 100)
Interest rent and dividend received	88,270
Bad debts recovered	10,000
Reserve for unexpired risk	1,45,810
Additional reserve	76,790
Premium less reinsurance	3,04,810
Claims o/s at the beginning of the year	2,200
Miscellaneous receipts	3,000
Share capital	10,00,000
Employees security deposits	33,000
Contingency reserve	2,00,000
General reserve	2,50,000
Other reserve	<u>83,000</u>
Total	<u>21,96,880</u>

Additional Information :

1. Equity share capital consist of 10,000 shares of Rs. 100 each.
2. Depreciation on building Rs. 25,000 is to be provided.
3. Direct claim includes Rs. 45,000 covered by reinsurer.
4. Provision for unexpired risk to be made at 100% of net premium and additional reserve to be raised by 5% of net premium.

Prepare revenue account, profit & Loss account and vertical Balance Sheet as at 31st March 2010.



FOREIGN CURRENCY CONVERSION

Unit Structure

- 3.1 Introduction
- 3.2 Rules for Conversion
- 3.3 Branch Accounting
- 3.4 Solved Problems
- 3.5 Exercise

3.1 INTRODUCTION

A Foreign branch usually maintains a complete set of books under double entry principles. So, the accounting principles of a Foreign Branch will be the same as those applying to an Inland Branch. Before a Trial Balance of the Foreign Branch is incorporated in the H. O. books, it has to be converted home currency.

3.2 RULES FOR CONVERSION:

In case of fluctuating rates of exchange, the following rules for conversion are applied:

No	Nature of Account	Exchange Rate Applicable
1.	Fixed Assets	Rates ruling at the time they were acquired.
2.	Fixed Liabilities	Rates ruling as on the date of the Trial Balance.
3.	Current Assets & Liabilities	Rates ruling as on the date of the Trial Balance.
4.	Remittance sent by the branch	At the actual rates at which they were made.
5.	Goods received from H. O. as well as goods returned to H. O.	At the rate ruling on the date of dispatch or the date of receipt.
6.	The Nominal A/c's (except next two)	Average rate ruling during the accounting period.

7.	Depreciation on Fixed Assets	Rate of conversion applicable in case of the particular asset concerned [as indicated in (a) above].
8.	Opening and Closing stocks	Rates ruling of on the opening and closing dates respectively.
9.	Balance in H. O. A/c	Value at which the Branch A/c appears in H. O. books on the date.

3.3 BRANCH ACCOUNTING (FOREIGN BRANCH)

FOREIGN BRANCHES

When a branch is established abroad it is called as a Foreign Branch. The accounting arrangements for a foreign branch are exactly the same as for any independent branch up to the Trial Balance. But in this case accounts are maintained in foreign currency to correspond with the local conditions the main problem which the Head Office has to face is the restatement of accounts one currency into another. In order to incorporate the Trial Balance of a foreign branch in the books of the head office it must be translated (using appropriate exchange rates) into the currency of the Head Office.

Rules for conversion of Branch Trial Balance when Exchange Rates are 'Stable'

Exchange rate is said to be stable, when it does not vary to a great extent from time to time. In this situation, a fixed exchange rate can be used to convert the branch Trial Balance into the currency of the Head Office with the exception of (a) Remittances, and (b) Head office Current Account.

- a. Remittances: These are converted at the actual rates at which they were made.
- b. Head Office Current Account: The actual figures shown for the Branch Current Account in the books of the Head Office (after taking into consideration in-transit items).

When the foreign branch Trial Balance is converted into local currency, a new Trial Balance takes birth known as "Difference on Exchange Account" is opened to make the Trial Balance agree.

Closing of Difference on Exchange Account

i. For debit entry on trial balance

Profit and Loss Account Dr.

OR

Exchange Reserve Account Dr. (if any)

To Difference on Exchange Account

ii. For credit entry on trial balance

Difference on Exchange Account Dr.

To Exchange Reserve Account Big Differences)

(If the difference is very small, it can credited to Profit & Loss account)

The format of the new Trial Balance of the branch is generally drawn up as follows:

Foreign Branch Converted Trial Balance as at 31st December, 2006

Sr. No.	Heads of Accounts	L. F.	Currency		Rate of Exchange	Rupees	
			Dr. \$	Cr. \$		Dr. Rs.	Cr. Rs.

3.4 SOLVED PROBLEMS

Q.1 ABC Ltd. has a branch in New York as on 31st March 2011 the trial balance of the branch was as follows:

Particulars	Dr. \$	Cr. \$
Head office account	-	8,500
Goods from head office	44,000	-
Furniture	9,000	-
Bank Balance	1,250	-
Cash	250	-
Rent	1,200	-
Outstanding Expenses	-	800
Sundry debtors	3,150	-
Sales	-	61,000
Stock – 1.4.2010	8,500	-
Salaries	2,800	-
Insurance	150	-
	70,300	70,300

The branch account in head office shows debit balance Rs. 2,14,500 and goods sent to branch credit balance of Rs. 13,12,500.

Depreciation furniture @ 10% p.a.

Stock at branch 31st March 2011 was \$ 7,500

Furniture was purchased in 1997 when 1\$ = Rs. 20

Exchange Rates were:

On 1.4.2010 1\$= Rs. 28

On 31.3.2011 1\$= Rs. 30

Average rate 1\$= Rs. 29

You are required to prepare branch trial balance by converting in rupees and prepare branch trading and profit and loss a/c for the year ended 31.3.2011 and balance sheet as on that date.

Solution:

**Converted Trial Balance as on 31st March 2011
In the Books of Branch**

Sr. no.	Particulars	Dr. (\$)	Cr. (\$)	Rate	Dr. (\$)	Cr. (Rs)
1	Head office account		8,500	Actual	-	214,500
2	Sales		61,000	29	-	1,769,000
3	Goods from Head Office	44,000	-	Actual	1,312,500	
4	Stock on 1-4-10	8,500	-	28	238,000	
5	Furniture	9,000	-	20	180,000	
6	Cash in box	250	-	30	7,500	
7	Bank Balance	1,250	-	30	37,500	
8	Salaries	2,800	-	29	81,200	
9	Rent	1,200	-	29	34,800	
10	Insurance	150	-	29	4,350	
11	Outstanding expenses	-	800	29		24,000
12	Sundry debtors	3,150	-	30	94,500	-
13	Difference in Exchange	-	-	30	17,150	-
		70,300	70,300		2,007,500	2,007,500

**In the books of Branch, Trading & Loss a/c
for the year ended 31st March 2011**

Particulars	Dr. Amt	Particulars	Cr. Amt
To Opening stock a/c	238,000	By Sales	1,769,000
To Goods from H. O.	1,312,500	By Closing stock	225.000
To Rent	34,800		
To Gross profit c/d	408,700		
	1,994,000		1,994,000
To Salaries	81,200	By Gross profit b/d	408.700
To Insurance	4,350		
To Depreciation	18,000		
To Diff. in exchange	17,150		
To Net profit c/d	288,000		
	408.700		408.700

Balance sheet as on 31st March 2011

Liabilities		Amt	Assets		Amt
Head office a/c	2,14,500		Furniture	1,80,000	
Add: Net profit	2,88,000	5,02,500	Less: Depreciation	18,000	1,62,000
Outstanding expenses		24,000	Cash in box		7,500
			Bank balance		37,500
			Sundry debtors		94,500
			Closing Stock		2,25,000
		5,26,500			5,26,500

Q.2 Kedar Ltd. Mumbai had a branch in Washington U. S. A. which is in the nature of an integral operation as defined under AS 11.

The following Trial Balance as on 31st March 2011 is available from respective books.

particular	Mumbai H. O. Rs. In thousand		Washington Branch (Dollars in thousand)	
Shares Capital	-	2,000	-	-
Branch and H. O. Current A/c	120	-	-	7
Reserves & Surplus	-	1,000	-	-
Commission Receipts	-	256	-	100
Land	500	-	-	-
Building	1,000	-	-	-
Building depreciation provision	-	200	-	-
Plant & Machinery	2,500	-	200	-
Depreciation provision	-	600	-	130
Office Expenses	25	-	18	-
Rent	-	-	12	-
Stock	100	-	20	-
Branch stock reserve & provision	-	4	-	-
Wages & salaries	75	-	45	-
M D's Salary	30	-	-	-
Debtors & Creditors	280	200	60	30
Purchase & Sales	240	520	20	123
Goods sent to branch	-	100	5	-
Cash and Bank	10	-	10	-
	4,880	4,880	390	390

The following additional information is also available;

- Stock on 31.3.2011 at Mumbai Rs. 1,50,000 and at Washington \$ 3,125.
- Head office sends goods to the foreign branch at cost plus 25%
- Depreciation is to be provided on building and on plant and machinery @ 10% on written down values respectively.
- Provide 5% for doubtful debts.
- The managing director is entitled to 2% commission on net profits and income tax is to be provided @47.5%.
- The rates of exchange for conversion of foreign branch trial balance are

Opening rate 1\$ = 2	Closing rate 1\$ = 24
Average rate 1\$ = 22	for fixed assets 1\$ = 18

You are required to:

- Convert the Washington foreign branch trial into rupees.
- Prepare the trading and P & L a/c for the year ended 31.3.2011 and the balance sheets showing the head office and branch performance and position separately to the extent possible.

Solution:

Converted Branch Trial Balance as on 31st March 11

(in thousand)

Sr. No.	Particulars	Dr (\$)	Cr (\$)	Rate	Dr (Rs)	Cr (Rs)
1	Plant & Machinery	200	-	18	3,600	-
2	Prov for plant n machinery	-	130	18	-	2,340
3	Debtors n creditors	60	30	24	1,440	720
4	Stock as on 1-4-2004	20	-	20	400	-
5	Cash/bank balance	10	-	24	240	-
6	Purchases/Sales	20	123	22	440	2,706
7	Goods sent to Branch	5	-	Actual	100	-
8	Wages/Salaries	45	-	22	990	-
9	Rent	12	-	22	264	-
10	Office expenses	18	-	22	396	-
11	Commission recd	-	100	22	-	2,200
12	Branch /H.O. Current a/c	-	7	Actual	-	120
13	Diff	-	-		216	-
		390	390		8,086	8,086

**Trading & Profit and Loss a/c for the year ending 31st March
2011**

Particular		Amt	Particular		Amt
To opening stock	100,000	400,000	By sales	520,000	
To purchases	240,000	440,000	By goods sent to branch	100,000	
To wages & salaries	75,000	990,000	By closing stock	150,000	
To goods from H.O.	-	100,000			
To gross profit c/d	355,000	851,000			
	770,000	2,781,000		770,000	2,781,000
To Office Expenses	25,000	396,000	By gross profit b/d	355,000	851,000
To M. D's salary	30,000	-	By opening stock reserve	4,000	
To depreciation	-	-	By commission recd	256,000	2,200,000
Building	80,000	-			
Plant & machinery	190,000	126,000			
To R. D. D.	14,000	72,000			
To stock reserve A/c	15,000	-			
To M. D. Commission	5,220	-			
To rent	-	264,000			
To diff. in exchange	-	216,000			
To provision for tax	121,496	939,075			
To net profit c/d	134,284	1,037,925			
	615,000	3,051,000		615,000	3,051,000

Balance sheet as on 31st March 2011

Liabilities	Amt	Assets		Amt
Share Capital	2,000,000	Land		500,000
Reserve & Surplus	1,000,000	Building	1,000,000	
Profit & Loss a/c	1,172,209	Less: Prov for Dep	280,000	720,000
Creditors	920,000	Plant & Machinery	6,100,000	
O/s M.D's Commission	5,220	Less: Prov for Dep	3,256,000	2,844,000
Provision for L.T.	1,060,571	Debtors	1,720,000	
		Less: RDD @5%	86,000	1,634,000
		cash & Bank		250,000
		closing stock	225,000	
		Less: Stock reserve	15,000	210,000
	6,158,000			6,158,000

Journal Entry for Stock Reserve:

- | | | | |
|---------------------------------------|----|--------|--------|
| 1. For Closing Stock Reserve- | | | |
| Profit & Loss A/c | Dr | 15,000 | |
| To Stock Reserve A/c | Cr | | 15,000 |
| 2. For Opening Stock Reserve – | | | |
| Stock Reserve A/c | Dr | 4,000 | |
| To Profit & Loss A/c | Cr | | 4,000 |

Q.3 The following balance appeared in the books of Surat branch of firm in London as on 31st December 2010.

Particular	Dr. Rs.	Cr. Rs.	Particular	Dr. Rs.	Cr. Rs.
Sales	-	225,000	Stock as on 1 st Jan 2008	25,200	-
Debtors	78,000	-	Purchases	150,000	-
Bills Receivable	20,800	-	Wages/salaries	9,600	-
Head Office account	-	66,400	Rent, Rates, Taxes	7,200	-
Cash at Axis Bank	57,980	-	Furniture	9,820	18,200
Miscellaneous Exp	3,000	-	Bills payable		52,000
			Creditors		
				361,600	361,600

Stock on 31st December 2010 was Rs. 65,000. Surat branch a/c in the books of London head office showed a debit balance of Rs. 2,680 on 1st December 2010.

Furniture was purchased from a remittance of Rs. 350 received from London H. O. which exactly covered the cost of the item.

The rates of exchange were:

31.12.2009 Rs. 28/1 pound

31.12.2010 Rs. 26/1 pound

The average rate for 2008 may be taken at Rs. 24 per 1 pound.

Prepare the trading and p&l account and balance sheet of Surat branch in the books of London H. O. assuming the branch operations to be integral to the main operation.

Solution:

Converted Trail Balance as on 31st Dec. 2010

Sr. No.	Particulars	Rs.	Rs.	Rate	Pound	Pound
1	Stock as on 1.1.10	25,200	-	28	900	-
2	Purchases	1,50,000	-	24	6,250	-
3	Sales	-	2,25,000	24	-	9,375
4	Debtors	78,000	-	26	3,000	-
5	Creditors	-	52,000	26	-	2,000
6	Bills receivable	20,800	-	26	800	-
7	Bills payable	-	18,200	26	-	700
8	Wages/Salaries	9,600	-	24	400	-
9	Rent, rates, taxes	7,200	-	24	300	-
10	Miscellaneous exp	3,000	-	26	115	-
11	Furniture	9,820	-	-	350	-
12	Cash at Axit Bank	57,980	-	26	2,230	-
13	Head office a/c	-	66,400		-	2,680
14	Diff. in exchange	-	-		410	-
					14,755	14,755

Trading and profit n Loss a/c for the year ending 31.12.2010

Particular	Amt	Particular	Amt
To opening stock a/c	900	By sales	9,375
To purchases	6,250	By closing stock	2,500
To wages/salaries	400		
To gross profit c/d	4,325		
	11,875		11,875
		By gross profit b/d	4,325
To rent, rates and taxes	300		
To difference in exchange	410		
To N. P. c/d	3,615		
	4,325		4,325

Balance sheet as on 31st Dec 2010

Liabilities		Amt	Assets	Amt
Head office a/c	2,680	6,295	Debtors	3,000
Add: N. P	3,615		Bills Receivable	800
		2,000	Furniture	350
Creditors			Cash at Axis bank	2,230
Bills payable			Closing Stock	2,500
		700	Miscellaneous Exp	115
		8,995		8,995

Q.4 Kaun Banga Karedpati Computers Ltd. has head office at Mumbai and Branch at California. The branch submits the foll trial balance as on 31st Mar. 2011.

Particulars	Dr. US \$	Cr. US \$	Assets	Dr. US \$	Cr. Us \$
Head office a/c	-	11,606	Salaries	71,130	-
Goods received			Office rent	44,316	-
From H.O.	12,725		Taxes & insurance	13,655	-
Purchases & sales	5,06,323	7,87,777	Debtors and	1,17,117	-
Stock (1.4.10)	13,100		creditors	37,119	1,57,617
Plant & machinery	27,650		Printing & stationary	16,303	-
Furniture & fixtures	18,220		Postage & telegrams	14,784	-
Cash in hand	3,233		Freight	14,784	-
Cost at bank	60,180		conveyance	1,145	-

- The branch a/c in H. O. showed a debit balance of Rs. 5,11,100 and goods sent to branch a/c showed a credit balance of Rs. 5,66,600.
- Plant & machinery was acquired when US\$ Rs. 46. furniture was acquired by branch on 1st Jan'11 when Rs. 100 were equivalent to US \$ 2.50 H. O. office charges depreciation on plant & machinery @20% p.a. & on furniture & fixture @10% p.a. The closing stock as on 31st Mar'11 at branch was US \$

16,550. The exchange rates were as under 1st Apr.'10 US \$ 38.50 31st Mar'11 US \$ 2.50 Aug US \$ 44 convert the branch trial balance into rupees & prepare profit & loss a/c for the year ended 31st Mar'11 prepare balance sheet of California branch of Kaun Banega Karodpati Ltd. as on 31st Mar'11 the foreign operation is in the nature of an integral operation.

Solution:

Converted Trial Balance for the year ending 31st Mar'11

Particulars	Dr. (\$)	Cr. (\$)	Rate	Dr. ₹	Cr. ₹
Head office a/c	-	11606	Actual		511100
Goods received from H. O.	12725		Actual	566600	
Purchases & sales	506323	787777	44	22278212	34662188
Stock (1.4.10)	13100		38.50	504350	
Plant & Machinery	27650		46	1271900	
Furn & fixtures	18220		40	728800	
Salaries	71130		44	3129720	
Office rent	44316		44	1949904	
Taxes & insurance	13655		44	600820	
Drs/ & creditors	117117	157617	40	4684680	6304680
Priting & creditors	37119		44	1633236	
Printing stationery	37119		44	717332	
Postage & telegram	16303		44	650496	
Freight	14784		44	50380	
Conveyance	1145		44	129320	
Cash in hand	3233		40		
Diff. in exchanges				2407200	
Cash at bank	60180		40	175018	
Diff in exchange				41477968	41477968

**In the books of branch Trading and Profit & Loss a/c for year
ended 31st Mar'11**

Particulars	Amt	Particulars	Amt
To opening stock	5,04,350	By sales	34662188
To purchases	2,22,78,212		6,62,000
To goods from H. O.	5,66,600	By closing stock (16550 x 40)	
To gross profit c/d	1,19,75,026		
	35324188		35324188
To salaries	31,29,720	By gross profit b/d	1,19,75,026
To office rent	19,49,904		
To taxes & insurance	6,00,820		
To printing & stationary	16,33,236		
To postage & telegram	7,17,332		
To freight	650496		
To conveyance	50380		
To depreciation	327260		
To diff in exchange	1,75,018		
To net profit c/d	27,40,860		
	1,19,75,026		1,19,75,026

Balance sheet as on 31st Mar'11

Liabilities	Amt	Amt	Assets	Amt	Amt
Head office a/c	5,11,100		Plant & mach.	12,71,900	
(+) Net profit	2740860	3251960	(-) & fixtures	2,54,380	10,17,520
			(-) dep ⁿ	728800	6,55,920
creditors		63,04,680	Debtors	72,880	46,84,680
			Cash in hand		1,29,320
			Cash at bank		24,07,200
			Closing stock		6,62,000
		9556640			9556640

Q.5 XY Ltd has a branch in NewYork. At the end of each year (Dec' 31) a trial balance sent by the branch in dollar currency is converted into rupee currency at the head office. (Bhopal)

The foll trial balance for the year has been compiled at the branch as on 31st Dec.'10

Particulars	Dr. \$	Cr. \$
Bill receivable	2,500	-
Sundry debtors	3,800	-
Sundry creditors	-	1,100
Purchases	1,3,500	-
Sales	-	22,800
Furniture & fixtures	1,340	-
Stock (1 st Jan'10)	2,000	-
Establishment expenses	2,000	-
Salaries	1,400	-
Rent, rates & taxes	400	-
Sundry expenses	1,450	-
Depreciation on furniture & fixtures	128	-
Remittances to H. O.	1,502	-
Head office account	-	6,920
Cash on hand & at bank	800	
	30,820	30,820

The stock in hand on Dec 31st '10 was \$ 2,500 the rates of exchange were:-

Dec 31'09 to June 30'10 1 \$ = 34 July 1st '10 to 31st Dec '10 1\$ = 36.

In the Bhopal books the balance of New York branch a/c & of the remittances from New York branch a/c appear as 1,78,847 & Rs. 37,068 respectively. The original furniture & fixture were bought when the rate of exchange was \$ 1 = Rs. 30. Convert the above trial balance into rupee currency & prepare the final a/c of the branch.

Solution:

Converted trial bal. as on 31st Dec.'10 in bks of brch

Particulars	Dr. \$	Cr.\$	Rate	Dr.₹	Cr.₹
Bills receivable	2500		36	90,000	
Sundry debtors	3,800		36	1,36,800	
Sundry creditors		1100	36		39,600
Purchases & sales	13500	22800	35	472500	798000
Furn & fixtures	1340		30	40,200	
Stock 1 st Jan 2010	2000		34	68,000	
Establishment expenses	2000		35	70,000	
Salaries	1400		35	49,000	
Rent, rates & taxes	400		35	14,000	
Sundry expenses	1450		35	50,750	
Dep. On furn & fixture	128		30	3840	
Remittance to H. O.	1502		Actual	37068	
H O. account		6920	Actual		178847
Cash on hand & at bank	800		36	28800	
Diff in exchange					44511
				1060958	1060958

**In the books of XY Ltd Co. Trading & Profit and Loss a/c for
the year ending 31st Dec'10**

Particulars	₹	Particulars	₹
To opening stock	68,000	By sales	7,98,000
To purchases	4,72,500	By closing stock (\$ 2500x 36)	90,000
To gross profit b/d	3,47,500		
	8,88,000		8,88,000
To establishment exps	70,000	By gross profit b/d	3,47,500
To salaries	49,000	Bu diff. in exchange	44511
To rent rates & taxes	14,000		
To sundry expenses	50,750		
To Dep ⁿ on furniture	3,840		
To net profit c/d	2,04,421		
	3,92,011		3,92,011

Balance sheet as on 31st Dec'10

Liabilities	₹	₹	Assets	₹
H. O. current a/c	1,78,847		Furn & fixture	40,200
(+) net profit	2,04,421			
	383268		Bills receivable	90,000
(-) remittance	37068	346200	Sundry debtors	1,36,800
Sundry creditors		39,600	cash in hand & at bank	28800
			Closing stock	90,00
		3,85,800		3,85,800

3.5 EXERCISE

Q.1 White Collier Ltd have branch in Canada. On 31st December 2010 the trial balance of the branch was as given below.

Particulars	Dr. \$	Cr. \$
Stock as on 1.1.2010	7,500	-
Head office account	-	9,000
Sales	-	81,000
Goods from head office a/c	45,000	-
Furnitures and fixtures	10,000	-
Owing for expenses	-	-
Rent	1,000	-
Taxes. Insurance etc	250	-
Salaries	13,000	-
Sundry debtors	12,250	-
Cash in hand	1,050	-
Cash in bank	950	1,000
	91,000	91,000

The branch account in the head office showed a debit balance of Rs. 1,12,500 and goods sent to branch account a credit balance of Rs. 8,07,500.

Furniture and fixtures are acquired on 1.1.2010. 1 pound = Rs. 15. Provide depreciation @ 10% p.a.

The exchange rates were:>

January 1 pound = Rs. 17.50

December 1 pound = Rs. 18.50

Average 1 pound = Rs. 18.00

The stock at branch on 31st December 2010 were valued at 4500 pounds. Prepare Trading, P & L A/c Balance Sheet of Canada branch account for the year ended 31.12.2010

Q.2 Zenith Computers Ltd. has H. O. at Mumbai and branch at Boston U. S. A. The branch submits the following trail branch as on 31st March 2011.

Particular	Dr. \$	Cr. \$
H. O. account	-	12,707
Goods received from H. O.	11,600	-
Purchases and sales	387,516	610,416
Stock as on 1.4.2010	14,316	-
Plant & Machinery	34,120	-
Furniture and fixtures	16,316	--
Cash at bank	3,816	-
Cash in hand	1,314	-
Salaries	68,016	-
Office rent	42,340	-
Taxes and insurance	11,672	-
Debtors and creditors	125,430	127,977
Printing and stationary	12,148	-
Postage and telegram	11,010	-
Courier charges	6,316	-
Internet charges	2,718	-
Legal expenses	2,452	-
	751,100	751,100

The branch account in head office showed a debit balance or Rs. 5,84,222 and goods sent to branch account showed a credit balance of Rs. 5,56,800. Plant & Machinery was acquired by the branch as on 31st December 2010, when 1US \$ = Rs. 45. Furniture & fixtures were acquired by the Boston branch on 30th June 2010 when Rs. 100 was equal to US \$ 2.50. H. O. provides depreciation on the P&M @ 25 % p.a. and on furniture and fixture @ 10% p.a.

The Boston branch reported closing stock of US\$ 15,350 on 31st March 2002. The exchange rates were at under.

1.4.2010 US \$ 1 = 43.50
31.3.2011 Rs. 100 = US \$ 2.00
Average US \$ 1 = 45.50

Convert the branch trial balance into rupees and prepare branch profit and loss a/c for the year ended 31st March 2011. also you are required to prepare balance sheet of Boston branch Zenith Computers Ltd. as on 31st March 2011.

Q.3 GHCL & Co. has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch furnishes you with its trail balance as on 31st March 2011 and the additional information given thereafter.

Particulars	Dr. Rs.	Cr. Rs.	Particulars	Dr. Rs.	Cr. Rs.
Stock on 1.4.2004	300	-	Rent, rates & taxes	360	-
Purchases and sales	800	1,200	Sundry charges	160	-
Sundry debtors	400	-	Computers	240	-
Sundry creditors	-	300	Bank balance	420	-
Bills of exchange	120	240	New York office a/c	-	1,620
Wages and salaries	560	-			
				3,360	3,360

Additional Information:

- Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- Unsold stock of Mumbai branch was worth Rs. 4,20,000 on 31st march 2011.
- The rates of exchange may be taken as follows:
 - On 1.4.2010 @ Rs. 40 per US \$
 - On 31.3.2011 @ 42 per US \$
 - Average exchange rate for the year @ Rs. 41 per US \$
 - Conversion in \$ shall be made upto two decimal accuracy.

You are asked to prepare in US \$ the revenue statement of the year ended 31st March 2011 and the balance sheet as on that date of Mumbai branch as would appear in the book of New York head office of GHCL & Co.

You are informed that Mumbai branch account showed a debit balance of US \$ 39,609.18 on 31.03.2011 in New York books and there were no items pending reconciliation. The foreign operation is in the nature of an integral operation.

Q.4 The foll. Balance appeared in the books of PQR Branch of the firm in Sydney on 31st Dec. 2010.

Particulars	Dr. Rs.	Cr. Rs.	Particulars	Dr. Rs.	Cr. Rs.
Stock as on 1 st Jan '10	50,400		Wages & salaries	19,200	
Purchases	3,00,000		Rent rates & taxes	14,400	
Debtors	1,56,000		Miscellaneous exp	6,000	
Bills receivable	41,600		Furniture & fitting	19,640	
Sales		4,50,000	Cash at bank	1,15,960	
Creditors		1,04,000	Head office a/c		1,32,800
Bills payable		36,400			
				7,23,200	7,23,200

1. Stock as on 31st Dec'10 was Rs. 1,43,000 PQR Branch a/c in the books of Sydney head office showed Dr. balance on £5,360 on 31st Dec'10.
2. Furniture which exactly were purchased from a remittance of £ 700 received from Sydney head office which exactly covered the cost of item.
3. The rates of exchange were: 31st Dec' 09 Rs. 28 per £, 31st Dec'10 Rs. 26 per £. Average rate for year 2010 may be taken at Rs. 24 per £.
4. Prepare trading profit and loss a/c and balance sheet of PQR branch in the books of Sydney head office assuming branch operation to be integral to the main operations.

Q.5 KBK Ltd has a branch in Sydney, Australia at the end of 31st Mar 2011 the foll. ledger of the Sydney office.

Sydney (Australia Dollars thousand)

Particulars	Dr. A\$	Cr. A\$	Particulars	Dr. A\$	Cr. A\$
Plant & machinery (cost)	200	-	Goods sent to branch	5	
Prov. For plant & machinery	-	130	Wages & salaries	45	
Debtors / creditors	60	30	Rent	12	
Stock (1.4.10)	20		Office expenses	18	
Cash/bank balance	10		Commission receipts		100
Purchases/sales	20	123	Branch H. O.		
			Current a/c		7
				390	390

Theory Question

1. What is Foreign Branch Accounting.
2. Short note on Conversion of Foreign Branch Trial Balance.



ACCOUNTING FOR CO-OPERATIVE SOCIETY

Unit Structure

- 4.1. Introduction
- 4.2. Maharashtra state Co-operative society Act and Rules.
- 4.3. Types of Co-operative Society
- 4.4. Calculation of Net Profit
- 4.5. Appropriation of Net Profit
- 4.6. Explanation of various items in the final Accounts & other related matters.
- 4.7. Applicability of various Taxes
- 4.8 Solved Problem
- 4.9 Exercises

4.1 INTRODUCTION

Co-operative society came into existence due to the exploitation of the economically and socially weaker section of the society; by manufactures / big businessmen / whole / Retailers.

The Co-operative movement first started in Europe; particularly in England and Germany.

When weaker section of society are finding out difficult with less earning; they were organised them self for mutual help. These organizations lead to firm a Co-operative society.

In Maharashtra Co-op movements, give way to Co-op. Sugar Factories, Left Irrigation, and Co-op Housing Society.

A Co-operating society is a voluntary organisation formed for the purpose of promoting & protecting interest of its members. The main objective of Co-operative society is to protecting interest of its members. it does earn profit which may be partly distributed among its members and partly kept as reserves.

A Co-operative society can be defined as an association of people usually of a limited means, who have voluntarily joined the

organisation making equitable contribution to the capital required and excepting a share and risks and benefits of the organisation. Normally a Co-operative society is a service organizations is not interested in making profit.

A Co-operative society is most important form of organisation in Indian economic screen. Co-operative societies are covered by different state Laws which differs from state to state. In Maharashtra, we have State Co-operative Societies Act & Rule 1961.

4.2 MAHARASHTRA STATE CO-OPERATIVE SOCIETIES ACT

The Co-operative Credit Societies Act, 1904 was first Law was comes in forces. At present, Co-operative societies are established in numerous economic activities such as : Banking, farming, credit, housing, marketing, consumer co-op, etc. There has been a central legislation, i.e. The Co-operative societies Act, 1912. However, most of states have enacted their separate Co-operative societies Act. In state of Maharashtra have separate Act, known as The Maharashtra Co-operative Societies Act, 1960. The Maharashtra Co-operative societies Rules 1961 and Maharashtra Ownership Flats Act, 1963.

These Acts has define various important terms, Accounting system and final Accounts format and so on.

4.2.1 Definitions :

Under Maharashtra Co-operative societies Act.

1) Co-operative Society : Under section 2(27) of the Act Society means a co-operative society registered or deemed to be registered under this Act. Co-operative society is distinct from its members.

2) Members : Member means a person joining in an application for the registration of a Co-operative society which is subsequently registered or a person dually admitted to a membership of existing society and includes associate member or nominal member.

- a) Associate Member means a member who holds jointly a share of society with others. such members name appears in share certificate subsequent to the name of member. (i.e. 2nd name)
- b) Nominal member means a person admitted to membership as such after registration in accordance with its Laws.

- c) Sympathizer member means a person who sympathies with aims and objects of the society.

3. Co-operative Year : The Act has Fixed 30th June, as accounting year. However most of societies, with prior approval of Registrar of Co-operative society follows 31st March, (i.e. financial year) as the year ending to confirm with Income Tax Act. On March 31st.

4. Working Capital : Under section 2(31) of the Act, working capital means funds at the disposal of society inclusive of paid-up share capital, funds built up out of profits a money raised by borrowing & other means.

5. Bye Law : Under Section 2(5) Bye Law means bye-law registered under Act for the time being in force and includes registered amendments of such bye law. The provisions of bye laws can not be contrary to the provisions of Co-operative society Act. The bye laws generally includes various provisions relating to internal management & object of society.

The Bye-laws generally includes the following clauses for internal management of Co-operative society.

- a) Name and Address
- b) Area of operation
- c) The manner in which the funds of society raised and limits of its funds.
- d) Objects of society
- e) Minimum amount of share capital held by each member.
- f) Terms and Qualifications for admissible to a member.
- g) Nomination to be made by existing member.
- h) Right, duties and liabilities of member as well as its managing committee members.
- i) Maximum Loan admissible to a member.
- j) Disposal of net profit.
- k) Responsibility for maintaining and preserving the records.

Audit : As per Rule 69 of Co-operative society audit shall be conducted by the certified auditors. The certified auditors includes the following :

- a) Practising Chartered Accounts.
- b) A person holding Government diploma in Co-operative dept. of accounts & audits.
- c) Retired officers of the state Government Co-operative department of accounts & audit.

4.2.2 Management and Administration

In any Co-operative society, it is not possible that members should look for day to day administration like a company, management of the day to day vests in the hands of managing committee. (sec. 73), however some powers are vested in General Body.

- General Body : General Body of Co-operative society is Final Authority. The following important powers are only with General Body.
 1. Amalgamation of one society with other society.
 2. Amendment of bye-laws by 2/3 majority.
 3. Adoption of accounts, appropriation of profits.
 4. Sanction of written off the Bad debts and Loss.
- Managing Committee : Members of society elects some members and form managing committee, to look for the whole of the day to day management of society. For division of labour, different sub-committees are formed such as purchase committee, Repair & maintenance committee, Accounts committee etc. as per need & type of the society.

The administrative functions includes following :

- a) Proper custody and maintenance of records as well as properties of society.
- b) To summon all meetings, including Annual General Body and records the proceedings.

4.2.3 Accounting System :

The Accounting System of Co-operative societies are on same time than of any commercial system.

Rule No. 65 of Maharashtra Co-operative societies Act gives a specific list of the following books to be maintain by society.

- **Accounting Books / Records**
 - Cash Book
 - General Ledger & Personal Ledger
 - Stock Register
 - Property Register.

- b) Register of members.
- c) Minutes Books.

And any other register which may be require as per needs of society as well as which are specified by the Government.

4.2.4 According to Rule 61 of the Act, & Rules; the society has to prepare, financial statements within 45 days of the close of accounting year. It contains.

- i) Receipts & disbursement A/c
- ii) Profit & Loss A/c
- iii) Balance Sheet

Rule 62 provides prescribed form of financial statement (in form N)

4.3 STATUTORY FORMATS OF FINAL ACCOUNTS

I) Trading A/c : There is no prescribed format for trading A/c. it should prepared in the usual manner disclosing gross profit or gross loss as the case may be.

FORMAT OF PROFIT AND LOSS A/C (N TYPE)

Particulars	Amt.	Amt.	Particulars	Amt.	Amt.
To Gross Loss (if any)	--	--	By Gross Profit (if any)	--	--
To Interest Paid	--	--	By Interest Recd. On Loans/investment	--	--
Add : Outstanding	--	--	By Dividend on Shares		
Less : Prepaid	--	--	By other Incomes -	--	--
To Bank Charges	--	--	a) Share Transfer fee		
To Salaries and Allowances	--	--	b) Rent Received	--	--
To Contribution	--	--	c) Discount and Interest Received		
To Provident Fund	--	--	d) Income from sale of Forms		
To Managing Director's Allowance and Salaries	--	--	e) Sundry Income		
To Managing Committee's Remuneration	--	--	By Net Loss transferred		
To Rent, Rates & Taxes	--	--		--	--
To Postage and Telegram	--	--			

To Audit Fees	--	--			
To Printing & Stationery	--	--			
To Supervision Charges	--	--			
To Depreciation on Assets	--	--			
To Reserve for Doubtful Debts	--	--			
To Other Expenses & Fees, if any	--	--			
To Net Profit transferred	--	--			

Balance Sheet (N Type)

Fig. of Previous Year	Liabilities	Amt.	Fig. of Previous Year	Assets	Amt.
--	Share capital	--	--	Cash Balance	--
	Authorized, Issued & paid-up			On hand	
	Purchased by the Government			At Bank	
	Purchased by Co-operative Societies			(also called Deposits)	
	Purchased by individuals		--	Investments	--
	Shares in Advance			Government Securities	
--	Less : Calls in Arrears			Shares in Co-operative institutions	
	Add : Calls in Advance			Fixed Deposits with Banks	
	Subscription / Deposits towards Shares		--	Provident Fund Investment	--
--	Reserve Fund and			(including advances to provident fund)	
--	Other Funds, And	--	--	Loans & Advances	--
	Reserve Fund			Loans	
	Building Fund			Cash Credits	
	Development Fund			Dues from the Managing Committee	

	Reserve for Doubtful Debts			Dues from Employees	
	Depreciation Fund		--	Sundry Debtors	--
	Dividend Fund			For Credit Sales	
	Bonus Equalisation Fund			For Advances	
	Other Equalisation Fund			Current Assets	--
--	Staff Provident Fund			Tool and equipments	
	Debentures			Closing Stock	
	Cash Credit			Work in Progress	
	Overdrafts		--	Fixed Assets	
	Loans			Land and Building	
	Government Loans			Plant & Machinery	
	Other Secured Loans			Livestocks	
--	Unsecured Loans	--		Deadstocks	
	From Banks			Vehicles	
	From Government		--	Other Expenses &	--
	Bills Payable			Losses (not written off)	
	Others			Preliminary Expenses	
--	Deposits			Advances	
	Fixed Deposits			Payment of Taxes	
	Savings Deposits			Goodwill	
--	Recurring Deposits			Deferred Revenue Expenses	
	Other Deposits			Expenses in connection with issue of Debentures	
--	Current Liabilities & Provisions	--	--	Other Debtors	--
	Sundry Liabilities			Advances paid	
	Outstanding Salaries etc.			Interest Accrued but not received	
	Advances			Other Dues	
--	Unclaimed Dividend	--	--	Losses	

--	Interest due but not paid	--		Add : Current Loss	--
--	Other Liabilities	--			
--	Profit & Loss Appropriation	--			
	Opening Balance				
	Add : Current years profit				

- e) Section 66 requires the societies to maintain Reserves fund, by transferring annually 25% of net profit.
- f) Rule 52 empowers the society to create Bonus/Dividend Equalisation fund, amount not exceeding 2% of paid up capital may be transferred each year, however accumulated balance should not exceed 9% of paid up capital.
- g) Any society should not pay dividend exceeding 15% of the capital. However, after getting approval from registrar of co-operative societies. Society can pay higher rate of dividend.
- h) Section 69 of the Act provides that society may set aside amount not exceeding 20% of the net profit for charitable purpose.
- i) Investment of funds.
Section 70 provides that funds of co-operative society shall be invested in a specific form only as given below.
 - i) Central Bank or State co-operative Bank.
 - ii) Trust Securities
 - iii) Any security issued by other societies having limited liabilities.
 - iv) Co-operative Bank
 - v) Specified by order of the Government.

4.4 TYPES OF CO-OPERATIVE SOCIETIES :

The Maharashtra Co-operative societies Act classifies societies under various categories as under :

4.4.1 Credit Co-operative Society :

This is oldest type of co-operative in India. It came into existence around 1904 with the passing of co-operative societies Act 1904.

The main purpose of this type of societies is to provide loans to members, at low rate of interest.

4.4.2 Consumers co-operative society :

It is formed by consumers. The consumers co-operative society purchases in bulk and in large quantities and sells it to members / to consumers at reasonable prices and also good quality.

Therefore consumers co-operative society eliminate intermediaries between buyers and sellers / manufacturers.

Categories :

Consumers co-operative society can be classified as under :

1) Primary Consumers society :

Such societies meets needs of direct customers. The controller goods purchased from central stores to which affiliated and others in bulk purchases in open market and sales at reasonable price to members, in some cases to non-members also.

2) Central Whole Stores :

These type of society deal in whole-sale business, and fulfil the needs of primary society.

3) Departmental stores :

In cities super market / Departmental stores are set up which stock are requirement of consumers under one roof. These type of societies need substantial amount for capital.

4.4.3 Industrial Co-operative Society :

It is organised by small producers to carry out certain production activities e.g. sugar mills / milk / cotton cloths co-operative societies.

4.4.4 Agricultural Marketing Society :

- i) It means that a society which is marketing agricultural produce
- ii) At least $\frac{3}{4}$ of its member are agriculturist.

4.4.5 Co-operative Bank :

For doing banking business as per section 5 of Bank Companies Act. / For doing Banking business permission of R.B.I. required.

4.4.6 Co-operative Housing Societies :

These type of societies are formed for the purpose providing to its members dwelling houses or flats acquired by its members with common amenities and services. In Maharashtra house construction activities are regulated by Maharashtra Ownership Flat Act, 1963.

4.4.7 Apex society

4.4.8 Central Bank

4.4.9 Farming society

4.4.10 Crop protection society

4.4.11 Federal society: It is a society which has not less than five members are societies and has also regulated 80% of voting rights is held by co-operative societies.

4.4.12 Lift Irrigation society.

4.5 CALCULATION OF NET PROFIT:

4.5.1 Net Profit

In accordance with Rule 49 A, net profit can be arrived at, by deductions the following expenses losses from the gross profit:

1. All interest paid + Accrued
2. All establishment & administrative expenses.
3. Depreciation
4. Provision for Taxation
5. Contribution to the education fund.
6. R.D.D.
7. Contribution to the Co-operative cadre employment fund.
8. Investment fluctuation fund.
9. Provision for capital Redemption fund.
10. Provision for retirement benefits to the employees of the society.
11. Contribution to sinking fund.

Net profit plus balance of profits brought forwards from previous year, shall be available for appropriation.

4.5.2 Appropriation of profits:

As per section 65(2) states that net profit may be appropriation by society, only after its approval in General Body.

Society may appropriate its profit for transfer to Reserve fund, or any other fund, Bonus / Dividend to its members on their shares.

According section 68, every society shall contribute annually towards the education fund and Rule No. 53 prescribed the rate of contribution.

	Class of society	Rate
1	Primary Consumers society	2 ps. Per ₹ 100 of working capital, maximum ₹ 1000/-
2	Urban Credit society	10% of the working capital, subject to maximum ₹ 500/-
3	Co-operative Sugar Factory	25 ps. Per ton of sequence crused subject to maximum ₹ 25,000/-
4	Backword class Housing society class Housing society.	₹ 1, per member ₹ 10 per member
5	Urban Credit Society	$\frac{1}{10}$ % of working capital subject to a maximum of ₹ 1000.

4.6 EXPLANATIONS OF VARIOUS IMPORTANT ITEMS IN FINAL ACCOUNTS.

4.6.1 Liabilities Side :

1 Share Capital :

Contribution by government and other co-operative societies should be shown separately.

Terms of redemption or conversion of any redeemable Preference should be shown.

Calls received in advance should be added to share capital.

2 Reserve Fund & other Funds :

Funds Statutory Reserves funds and other funds should be shown separately.

Bad and doubtful Debts reserve should be shown under this head, not to deducted from sundry Debtors.

Any addition or deduction should be shown separately.

3 Secured Loans :

Nature of security should be shown in each case.

If loan have been guaranteed by government or other Co-operative society etc. should mentioned.

4 Contingent liabilities which have not been provided should be shown by way of note on liability side.

5 Credit Balance in profit & Loss A/c :

Should be shown on liabilities side at last item.

4.6.2 Assets side :

Fixed Deposits and call deposits with central Bank should be shown under heading "Investment" not as Balance with Bank.

1 Investments :

The nature of each investment and mode of valuation should be maintained.

Investment of staff P.F. is to be shown under separate heading.

Quoted and unquoted investment should be separately.

2 Sundry Debtors :

Sundry Debtors are shown under separate head, and not under the head current assets, it includes advances to members of other debtors.

3 Current Assets :

Current Assets includes various type of stock in trade; only.

Mode of valuation should be of each type of stock should be maintained.

4 Fixed Assets:

Fixed Assets are shown in order of permantancy.

Under each head, cost of fixed at the beginning of year, additions or sale if any should be mentioned. Total balance in accumulated depreciation should deduct from cost of fixed Assets.

Goodwill is not be shown as Fixed Assets. However it is to be shown under the head miscellaneous Expenses.

5 Accumulated losses, after adjusting the reserves should be shown on Assets side.

Current year losses should shown separately on Assets side.

6 Maximum cash Balance :

Rule 107 C prescribed the maximum amounts of cash allowable to be kept by different types of society. i.e. Rs. 5,000 by Sugar Factory, Rs. 300 by housing society.

7 Payment by Cheques :

As per Rule 107 D, all payments exceeding ₹ 1000 shall be made by cheques, except loan sanction to members.

8 Federation :

Housing societies have to compulsorily become member of the District Housing Federation.

4.7 APPLICABILITY OF VARIOUS TAXES :

A Co-operative society is liable to file return of income & pay income Tax if it has a taxable income.

- As all Co-operative societies are subject to audit, therefore the due date for filing return of income for them is September 30th.
- Under section 194 C, while making payments to employee, contractors etc., society should deduct Income Tax, if payments exceeds particular amount, & pay TDS to the credit of Central Government on or before 7th of the subsequent month.
- Some societies provides various services to members as well as non-members. these charges are recovered from members other persons, may be subject to service Tax. The above charges collected by society may be chargeable to service tax under the category "Club or Association service."

- MVAT and Profession Tax – The definition of person under section 2(17) of MVAT, includes society. Thus society is a person under MVAT. If particular society is dealer and its turnover exceeds prescribed limit under MVAT, then it may be required to register and pay tax.
- Similarly, a society charged in any profession, trade etc., providing services to non-members may be required to obtain certificate of enrolment and pay professional Tax.
- If society have employed persons, with monthly salaries / wages exceeding 5,000 or more, then society is required to deduct profession tax and pay it to Government in such case also, society has to obtain certificate of Registration under profession Tax Act.

4.8 SOLVED PROBLEMS

Illustration 1 :

Actual Financial statement of Ketan Co-operative Housing Society Ltd. are given herewith, to get idea about the manner in which the are prepare.

The Ketan Co-operative Housing Society Limited Balance Sheet as on 31st March, 2011

Previous year	Liabilities	Amount Rs. & Ps.	Amount Rs. & Ps.	Previous Year	Assets	Amount Rs. & Ps.	Amount Rs. & Ps.
20,00,000.00	<u>Authorised Capital</u>		20,00,000.00	3,67,138.77	<u>Cash & Bank Balances</u>		
2,80,500.00	<u>Issued, Subscribed & Paid up</u>		2,80,500.00	8,663.45	Union Bank of India	17,076.27	
	Reserve & Other Funds			63,929.90	Maharashtra State Co-operative Bank Ltd.	8,712.45	
4,26,362.00	Building Repair Fund		4,26,362.00	0.00	Central Bank of India	45,482.90	
	Reserve Fund				Cash on Hand	0.00	
0.00	Opening Balance	2,53,433.38		4,39,732.12	<u>Investments (At Cost)</u>		71,271.62
2,53,433.38	Add: Trf. Fees & Admission Fees	10,500.00		100.00	Shares Of		
					Bombay Co-op. Housing	100.00	
2,53,433.38	<u>Sinking Funds</u>		2,63,933.38	5,000.00	Federation Ltd.		
	Opening Balance	9,93,472.00			Maharashtra Co-op. Housing	5,000.00	
7,436.00	Add: Additions During The Year	7,436.00			Society Ltd.		
					Fixed Deposit with		
94,462.00	Accrued Interest On F.D.	86,176.00		2,20,302.00	Union Bank of India	2,46,541.00	

9,93,472.00		10,87,084.00	10,14,800.00	Maharashtra State Co-op. Bank Ltd.	11,17,200.00	
60,004.00	Reserve for Construction Cost	60,004.00	1,56,821.00	Central Bank of India	2,13,906.00	
78,000.00	Premium shares	78,000.00	1,18,275.00	Accrued Interest on F.D.	1,07,564.00	16,90,311.00
4,67,500.00	Unsecured Loans to Capital Cost	4,67,500.00	15,25,298.00	Bonds of Rural Electrification Corp. Ltd.		11,40,000.00
6,27,000.00	<u>Secured Loans</u> Debentures	6,27,000.00	11,40,000.00	Accrued Interest On Bonds		37,594.00
	Members Contribution To:		36,920	<u>Loans & Advances</u> Members Dues (As Per Schedule)	11,27,760.00	
1,43,100.00	Lease Land	1,43,100.00	8,95,068.00	Staff Loan	31,000.00	
50,473.48	Major Repairs		2,563.00	Advances Against Exp.	2,563.00	
6,87,786.00	Opening Balance		10,970.00	B.e.s.t. Deposit	10,970.00	
	Add : Additions During The Year	1,10,559.48		Deposit With Registrar of		
7,38,259.48			1,66,000.00			
6,27,700.00	Less : Trf. To Income & Exp. A/c	2,76,559.48		Co-op Societies	1,305.00	
		2,76,559.48		Water Deposit With B.M.C.	5,300.00	
1,10,559.48				Electricity Deposit	1,050.00	
	Deposit Advances cum Tax Deducted At Source	0.00		Tax Deducted At Source Fixed Assets	1,443.00	
2,345.00	Payable To Contractors	0.00		(As Per Schedule)		9,09,028.00
1,29,918.00	Outstanding Expenses	1,45,703.00				
2,00,905.00						

3,33,168.00	Suspense Account (B-28)	1,45,703.00				
4,86,912	Opening Balance	7,09,240.00				
2,22,328.00	Add					
	Dues From Other Member	2,84,170.00				
7,09,240.00	Retention Money		9,93,410.00			
22,600		0.00				
35,500.00	Garbage & Debris Deposit	40,500.00				
55,000.00	Deposit for Major Repairs	90,000.00				
1,13,100.00	Income & Expenditure A/c		1,30,500.00			
7,38,398.39	As per Last Balance sheet	4,66,186.26				
18,778.75	Less : Deficit For the Year	1,39,677.02				
2,53,433.38	Transferred To Reserve Fund	0.00				
0.00	Add : Excess for the year	0.00				
4,66,186.26			3,26,509.24			
50,61,615.12			50,29,595.62	50,61,615.12		50,29,595.62

As Per Our Report of Even Date Attached

For The Ketan Co-operative Housing Society Ltd.

Chartered Accountants

The Ketan Co-operative Housing Society Ltd.
Income And Expenditure Account for the year ended 31st March, 2011

Previous Year	Expenditure	Amount Rs. P.	Previous Year	Income	Amount Rs. P.
	TO PROPERTY EXPENSES			BY CONTRIBUTION FROM MEMBERS	
89,439.00	Municipal Taxes	98,504.00	92,719.00	Municipal Taxes	1,01,802.00
1,68,459	Water Charges	2,03,579.00	7,13,116.00	Maintenance	7,25,116.00
2,00,613.00	Electricity Expenses	2,00,233.00	2,50,396.00	Water Charges	2,10,078.00
2,56,333.00	Repairs & Maintenance	1,07,159.00		BY OTHER COLLECTION	
0.00	Major Repairs Expenses	3,79,778.00			
21,700.00	Ground Rent	21,700.00	2,232.00	Service Charges	1,478.00
10,892.00	Pest Control Charges	17,110.00	6,151.00	Interest on Members Dues	5,370.00
	TO ADMINISTRATIVE EXPENSES		48,350.00	Half Rent	72,175.00
3,78,780.00	Salary & Staff Welfare	4,31,912.00	6,500.00	Transfer fees	0.00
25,102.00	Security Charges	30,750.00		BY OTHER INCOME	
				INTEREST	
22,336.00	Insurance Premium	29,453.00		On Saving Bank	7,442.00
22,871.00	Office Expenses	13,047.00	8,974.00	On Fixed Deposit	23,523.00
0.00	Meeting Expenses	24,576.00	27,677.25	On Bonds	84,510.00
3,251.00	Audit Fees	3,251.00	91,535.00	Miscellaneous Income	2,371.00
258.00	Education Fund	258.00	1,140.00	Sale of Scrap	0.00

24,815.00	Festival Expenses	36,431.50	26,500.00	Sundry Balances W/back	11,183.00
0.00	Printing, Stationery & Photocopy	7,604.00	0.00	BY TRF FROM MAJOR REAIRS FUND	2,76,559.48
4,000.00	Legal & Professional Fees	2,550.00		BY EXCESS OF EXPENDITURE OVER INCOME	1,39,677.02
0.00	Name Plate Making Charges	11,790.00			
170.00	Postage Telegram & Bank Charges	697.00	18,778.75		
175.00	Administrative Expenses	175.00			
48,877.00	Depreciation	50,727.00			
16,498.00	Sundry Balance W/off	0.00			
0.00	TO EXCESS OF INCOME OVER EXPENDITURE	0.00			
12,94,069.00		16,71,284.50	12,94,069.00		16,71,284.50
As Per Our Report of Even Date Attached		For The Yash Co-op. Housing Society Ltd.			
Chartered Accounts					

**The Ketan Co-operative Housing Society Ltd.
Income & Expenditure Account For The Year Ended 31/03/2011**

Previous Year	Expenditure	Wing A	Amount B	Previous Rs. P.	Income Year	Wing	Amount A	B	Rs. P.
3,78,780.00	To Salary & Staff Welfare	2,63,923.00	1,67,989.00	4,31,912.00		Interest			
89,439.00	Municipal Taxes	33,192.00	65,312.00	98,504.00	8,974.00	On saving Bank	1,447.00	5,995.00	7,442.00
1,68,459.00	Water Charges	64,620.00	1,38,959.00	2,03,579.00	6,151.00	On Members Dues	3,246.00	2,124.00	5,370.00
21,700.00	Ground Rent	8,170.00	13,530.00	21,700.00	27,677.25	On Fixed Deposit	9,038.00	14,485.00	23,523.00
2,56,333.00	Repairs & Maintenance	44,283.00	62,876.00	1,07,159.00	91,535.00	On Bonds	0.00	84,510.00	84,510.00
0.00	Major Repairs Expenses	22,481.00	3,57,297.00	3,79,778.00					
	Postage, Telegram &				2,232.00	Service Charges	774.00	704.00	1,478.00
170.00	Bank Charges	474.00	223.00	697.00	6,500.00	Transfer Fees	6,500.00	3,500.00	10,000.00
24,315.00	Festival Expenses	29,391.00	7,040.00	36,431.50	48,350.00	Hall Rent	0.00	72,175.00	72,175.00
2,00,613.00	Electricity Expenses	1,11,470.00	88,763.00	2,00,233.00	0.00	Membership Fees	200.00	300.00	500.00
25,102.00	Security Charges	0.00	30,750.00	30,750.00					
10,892.00	Pest Control Charges	8,050.00	9,060.00	17,110.00		Members Contribution			
22,336.00	Insurance Premium	14,726.50	14,726.50	29,453.00	92,719.00	Municipal Tax	33,186.00	68,616.00	1,01,802.00
3,251.00	Audit Fees	1,210.00	2,041.00	3,251.00	7,13,116.00	Maintenance	4,64,400.00	2,70,716.00	7,35,116.00
0.00	Meeting Expenses	0.00	24,576.00	24,576.00	2,50,396.00	Water Charges	80,880.00	1,29,198.00	2,10,078.00
48,877.00	Depreciation	20,290.00	30,436.20	50,727.00	7,436.00	Sinking Fund	3,340.00	4,096.00	7,436.00
22,871.00	Office Expenses & Conv.	4,778.00	8,269.00	13,047.00	6,93,186.00	Major Repairs	94,000.00	72,000.00	1,66,000.00
175.00	Administrative Exp.	175.00	0.00	175.00					
0.00	Printing, Stationery & Zerox	2,504.00	5,100.00	7,604.00	1,140.00	Miscellaneous Income	296.00	2,075.00	2,371.00
0.00	Name Patte Making Expenses	0.00	11,790.00	11,790.00	0.00	Sundry Balances W/Back	9,315.00	1,873.00	11,188.00
4,000.00	Legal & Professional Fees	0.00	2,550.00	2,550.00	26,500.00	Sale of Scrap	0.00	0.00	0.00
7,436.00	Trf. To Sinking Fund	3,340.00	4,096.00	7,436.00		Net Consideration From			
					0.00	Sale of Basement - 1483.25SFT	0.00	0.00	0.00
258.00	Education Fund	96.00	162.00	258.00		Trf. From Major Repairs Fund	94,000.00	1,82,559.48	2,76,559.48
6,93,186.00	Trf. To Major Repairs Fund	94,000.00	72,000.00	1,66,000.00		Excess of Expenditure over Income			
16,498.00	Sundry Balances W/off Trf. To Reserve Fund	0.00	0.00	0.00	18,778.75				
		6,700.00	3,800.00	10,500.00					
0.00	Excess of Income Over Expenditure			(1,39,672.02)					
	Total	66,747.20	(2,06,419.22)	17,15,548.48	19,94,691.00	Total	8,00,622.00	9,14,926.48	17,15,548.48
19,94,691.00		8,00,622.00	9,14,926.48	17,15,548.48					

Rakesh Co-operative Consumer's Society Ltd.
Balance Sheet as on 31st March, 2011

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital : Authorized			I. Cash & Bank Balances :		
20,000 shares of Rs. 10 each			Cash on Hand	25,000	
Subscribed			Cash at Bank	1,70,000	1,95,000
16,000 shares of Rs. 10 each			II. Investments		1,00,000
Fully paid up			III. Sundry Debtors		
(-) Calls in Arrears	1,60,000		Salary Advance		30,000
II. Reserve Funds & Other Funds :			IV. Current Assets :		3,000
Reserve Fund :	(10,000)	1,50,000	Closing Stock		1,40,000
Opening Balance			V. Fixed Assets		
Add : Transfer	15,000		Land	9,000	
Common Book Fund	84,875		Furniture	48,000	
Education Fund :			Less : Depreciation (2,400)	45,600	
Opening Balance			Equipment	20,000	74,600
Add : Transfer	8,000		VI. Other Items		
III. Current Liabilities & Provisions :	100	8,100	Interest Accrued		2,000
Creditors	20,000		on Investment		
Outstanding Salaries	2,000				
Outstanding Rent	1,000				
Commission Payable	4,000	27,000			
IV. Profit & Loss A/c :					
Opening Balance	-				
Add : Net Profit for the year	3,39,500				
Less : Transfer to Reserve Fund	(84,875)				
	2,54,625	-			
		5,44,600			
					5,44,600

**The Ketan Co-operative Housing Society Ltd.
Fixed Assets**

ASSETS	RATE OF DEP.	W.D.V. AS ON 01/04/10	ADDITIONS DURING THE YEAR	TOTAL	DEPRECIATION	W.D.V. AS ON 31/03/11
Buildings	5%	859733.00	0.00	859733.00	42987.00	816746.00
Suction Tank	5%	45252.00	0.00	45252.00	2263.00	42989.00
Furniture & Fixtures	10%	3796.00	0.00	3796.00	380.00	3416.00
Water Pump	10%	6404.00	0.00	6404.00	640.00	5764.00
Intercom	10%	44570.00	0.00	44570.00	4457.00	40113.00
		959755.00	0.00	959755.00	50727.00	909028.00

The Ketan Co-operative Housing Society Ltd.

DUE FROM MEMBERS B WING	AMOUNT	
SMT. K. A. GUJAR	1099434.00	
A	1099434.00	
A WING		
SMT. N. M. GANDHI	28331.00	
B	28331.00	
TOTAL (A + B)	1127765.00	
OUTSTANDING EXPENSES	A WING	B WING
WATER CHARGES	15673.00	8160.00
ELECTRICITY	13665.00	17896.00
AUDIT FEES	1210.00	2041.00
GROUND RENT	32680.00	54120.00
EDUCATION FUND	96.00	162.00
	63324.00	82379.00
TOTAL (A WING + B WING)	145703.00	

Illustration 2 :

Ashok Co-operative society Ltd. is loans and Rationing facilities to its members. The trial balance of the society as on 31st March, 2011 is as follows.

Trial Balance

Particulars	Dr. Rs.	Cr. Rs.
Share capital		40000
Bank Loan (Simple)		45000
Sahakari Sangh Share purchased	10000	
Stationery and Printing	4000	
Bank share purchased	2000	
Dead Stock	6000	
Interest on Members Loans		25000
Member's Loan	100000	
Member's deposit		75000
Purchase of rationing Grains	208900	
Discount		3000
Commission	10000	
Stock of rationing grains	2000	
Sale of rationing grains		206000
Office rent	20000	
Salaries	12000	
Traveling Expenses	4800	
Freight	200	
Coolie charges	2000	
Bank Current A/c	21000	
Bank Interest	46000	
Reserve Funds		60000
Cash Balance	5100	
	454000	454000

Adjustments :

1. Provide for audit fees due Rs. 2600
2. Provide depre on dead stock at 10%
3. Outstanding office salaries is Rs. 4000, rent Rs. 2000
4. Closing stock of rationing grains on 31.03.2011 was Rs. 106500

You are required to prepare trading, Profit & Loss A/c for the year ending on 31.03.2011 and balance sheet as on that date.

Solution :

Ashok Co-operative Society Ltd.
Trading and Profit & Loss A/c for the year ended 31.03.2011

Particulars	Rs.	Particulars	Rs.
To Opening Stock	2000	By Sales of rationing grains	206000
To Purchase of rationing grains	208900	By closing stock	106500
To Freight	200		
To Coolies charges	2000		
To Gross Profit	99400		
	312500		312500
To Printing & Stationery	4000	By Gross Profit	99400
To Rent, Rates & Taxes	20000		
Add : Outstanding	<u>2000</u>	By Interest on Members Loan	25000
To Salaries & allowances	12000		
Add : Outstanding Salary	<u>4000</u>	By Discount	3000
To Bank Interest	46000		
To Outstanding audit fees	2600		
To Depreciation on dead stock	600		
To other expenses & fees, if any			
Traveling expenses			
To Commission	4800		
To Net Profit	21400		
	127400		127400

Balance Sheet as on 30.03.2011

Liabilities	Rs.	Assets	Rs.
Share Capital		Cash Balance	5100
Issued & paid up	40000	Bank Current A/c	21000
Reserve Fund & other Funds		Investments	
Depreciation Fund	600	Sahakari Sangh Share purchase	1000
Other	6000	Bank Share Purchased	2000
Staff Provident Fund	NIL	Provident Fund Investment	NIL
Secured Loans	NIL	Loans & Advances	
Unsecured Loans		Member's Loan	100000
Bank Loans	45000	Sundry Debtors	NIL

Deposits		Current Assets	
Member's deposit	75000	Stock	106500
Current Liabilities & Provision		Fixed Assets	
Outstanding rent rates	2000	Dead stock	6000
Outstanding audit fees	2600	Other Expenses & Losses	
Outstanding office salaries	4000	Other Debtors	NIL
Unclaimed dividend	NIL	Losses	NIL
Internet due but not paid	NIL		
Other liabilities	NIL		
Profit & Loss Appropriation A/c	21400		
	250600		250600

Illustration : 3

From the following Trial Balance Damu Co-operative credit society Ltd. as on 30th June 2011 and other international prepare profit and loss A/c for the year ended 30th June, 2011 and Balance Sheet as on that date.

Trial Balance as on June 30th, 2011

Particulars	Rs.	Particulars	Rs.
Cash in hand	10700	Share Capital	800000
Cash with Bank	14000	Reserve Fund	20000
Fixed Deposit with M.S. Co-operative Bank	155000	Member's Deposits	2287200
Office furniture	17000	Dividend Equilisation Reserve	21000
Interest on Deposits	80000	Staff Provident fund	15000
Interest due on loans	8000	Profit & Loss Appropriation A/c Bal.	61000
Salary and allowances	3000	Interest	189000
Establishment for Executive officer	15000	Sundry Income	1000
Printing and stationery	1400	Education fund	1500
Traveling and conveyance	1600		
Insurance premium	4000		
Contribution to Provident Fund	12000		
Loan due from members	3050000		
	3398700		3398700

1. Interest due to members deposits Rs. 12000/-
2. Interest accrued due but not received Rs. 8000/-
3. Addition to Furniture during the year Rs. 7000/- charge Depreciation at 10% on closing Balances.
4. Salary due but not paid Rs. 4000/- whereas employee is given salary in advances on 30/06/2003 Rs. 1000/-
5. Audit fees unpaid for the year Rs. 5000/-
6. Authorized capital was Rs. 200000/- shares of Rs. 10 each.
7. Directors propose the following appropriations for the current year.
 - a) Dividend to share holders at 6%
 - b) Necessary amount to reserve Fund.
 - c) 5% of Net Profit (after contribution to Reserve Fund) to Co-operative Development Fund.
 - d) Contribution to Dividend caualisation Reserve Rs. 500/-
 - e) Transfer to Building Fund Rs. 2000/-

Damu Co-operative Credit Society Ltd.
Profit and Loss A/c for the year ended 30/06/2011

Particulars	Rs.	Particulars	Rs.
To Interest on Deposits 80000		By interest 189090	
Add: Interest due 12000	92000	Add: Interest due 8000	197000
To Salary and allowance 3000		By other income	
Add: Outstanding 4000		By Sundry income	1000
	34000		
Less: Advances 1000	33000		
To Printing and stationery	1400		
To Contribution to provident fund	12000		
To Depreciation on Furniture	1700		
To Outstanding Audit Fees	5000		
To Other expenses and fees			
-Establishing for creative officer 15000			
-Traveling & Conveyance 1600			
-Insurance Premium 4000	20600		
To Net Profit	32300		
	198000		198000

Damu Co-operative Society
Balance Sheet as on 30/06/2011

Liabilities	Rs.	Assets	Rs.
Share capital		Cash Balance	
Authorized Capital		Cash in Hand	10700
200000 Shares of Rs. 10 each	2000000	Cast at Bank	14000
Issued Capital		<u>Investments</u>	
80000 Shares of Rs. 10 each	800000	F.D. with M.S. Co-operative Bank	155000
Reserve Fund and other funds		Provident Fund Investment	NIL
Reserve Fund	20000	Loans and Advances	
Dividend Equalisation Reserve	21000	Loan due from Members	3050000
Staff Provident Fund	15000	Sundry Debtors	NIL
Co-operative Development Fund	3000	<u>Current Assets</u>	
Education Fund	1500	Interest due on loans	8000
Depreciation Fund	700	Add : Interest due	<u>8000</u>
Staff Provident Fund	NIL	<u>Fixed Assets</u>	16000
Secured Loans	NIL	Office furniture	10000
Unsecured Loans	NIL	Add : Addition	7000
Deposits		Other Expenses & Losses	
Members Deposits	2287200	Advance Salary	1000
Current Liabilities & Provisions		Other Debtors	
Outstanding Salary	4000	Losses	NIL
Outstanding Audit Fees	5000		
Unclaimed Dividend	NIL		
Interest due but not paid			
Interest due on Member's Deposits	2000		
Other Liabilities	NIL		
P & L appropriation A/c			
Opening	61000		
Current Year	32300		
	<u>3263700</u>		<u>3263700</u>

Memorandum Profit and Loss Appropriation Account

Particulars	Rs.	Particulars	Rs.
To Dividend	48000	By Balance b/d	61000
To Reserve Fund (25%)	8075	By Net Profit	32300
To Co-operative Development Fund	1211		
To Dividend Equalisation Fund	500		
To Building Fund	2000		
To Balance c/d	33514		
	93300		93300

Note : No appropriation out of current year's profit can be made without the approval of the general body.

Illustration 4:

The following are the balance of Katha Co-operative Housing Society Ltd. For the year ended on 30/06/2004.

	Dr.	Cr.
Purchase of Land		600000
Share Capital		75000
Construction of Building	1800000	
Reserve Fund		11600
Architect Fees for Building	40000	
Investment in Shares of Maharashtra Co-operative Society	8000	
Investment in shares of Mumbai Dist Co-op Bank	7000	
Audit Fees	1000	
Contribution from Members for Land		640000
For Building		951000
For Road Construction		51000
For shares M Co-operative Housing		45000
For Administrative Expenses		11500
Land Revenue	400	
Insurance Premium	5,000	
Electric Charges	1,800	
Printing & Stationery	1,200	

Salaries to staff	2,400	
Members personal A/c		14,000
Flat transfer premium		15,100
Dividend on shares		7,200
Interest on saving A/c		360
Furniture & Dead Stock	6,100	
Electrical Motors & Pumps	7,200	
Non Occupancy charges		4,000
Loans to members	6,20,000	
Fixed Deposit with (Mumbai Dist. Co-op)	80,000	
Saving A/c (MDCO-op)	3,100	
Cash on Hand	750	
Electrical Fittings	15,000	
Wages of cleaning water	3,300	
Income & Expenditure A/c (1.7.2011)		10,390
Loan from (M. Co-op Housing)	13,66,100	
	3202250	3202250

Adjustments :

1. Transfer of flat charges of 2 members during the year at Rs. 8000 per Flat is Receivable from member.
2. Provide Depreciation at 10% Furniture, Electrical Motor Pumps.
3. Interest Rs. 6000 on fix deposit with Bank is due but not received.
4. Bill of Rs. 500 for repairs of electrical motors is unpaid.

From the above mentioned information, you are required to prepare income and expenditure account for the year ended 30/06/2011 and Balance sheet as on that date.

Solution :

Katha Co-operative Housing Society Ltd.
Income and Expenditure Account for the year ended
30-06-2011

Dr.		Cr.	
Expenditure	Rs.	Income	Rs.
To Audit Fees	1000	By Contribution of Members for Administration Expenses	11500
To Land Revenue	400	By Dividend on Shares	7200
To Insurance Premium	5000	By Interest on Saving Account	360
To Electric Charges	1800	By Non-occupancy Charges	4000
To Printing and Stationery	1200	By Outstanding interest on Fixed Deposit	6000
To Salaries to Staff	2400		
To Wages for Cleaning Water-tanks	3300		
To Depreciation :			
Furniture 610			
Electric Motor & Pumps <u>720</u>	1330		
To Repairs of Electric Motor	500		
To Excess of Income over Expenditure	1213		
	29060		29060

Balance Sheet as at 30-06-2011

Liabilities	Rs.	Assets	Rs.
Share Capital		Cash Balance	
1500 Shares of Rs. 50 each fully paid	75000	Cash on hand	750
Reserve Fund and Other Fund		Saving A/c with Mumbai	3100
Reserve Funds	11600	Dist. Co-op. Bank	
Flat Transfer Premium		Investments	
15100		Shares of Maharashtra Co-op. Housing Finance Society	8000
Add: Receivable for the year 8000	23100	Shares of Mumbai Dist. Co-op. Bank	7000
Contribution of Members :			

For Land	640000	Fixed Deposits with Mumbai Dist. Co-op. Bank 80000	
For Construction of Building	951000	Add : Outstanding Interest 6000	86000
For Road Construction	51000	Loans and Advances	
For Shares of Maharashtra Co-op Housing Finance Society	45000	Loan to Members	620000
Secured Loans		Transfer Premium	8000
Loan from Maharashtra Co- op. Housing Finance Society	1366100	Fixed Assets	
Other Liabilities		Purchase of land	600000
Member's Personal A/c	14000	Construction of building 1800000	
Unpaid Expenses of Motor Repairing	500	Add: Architect Fees 40000	1840000
Profit & Loss Appropriation		Furniture & Dead Stock 6100	
Last Year's Balance 10390		Less : Depreciation (610)	5490
Add: Excess of Income of Current year 12130	22520	Electric Motor & Pumps etc. 7200	
		Less Depreciation (720)	6480
		Electric Fittings	15000
	3199820		3199820

Illustration 5 :

A cricket club gives you the following information :

**Income and Expenditure Account for the
year ended 31-12-2011**

Dr.			Cr.
Expenditure	Rs.	Income	Rs.
To Remuneration to coach	18000	By Donations & Subscriptions	102000
To Salaries and Wages	24000	By Bar Room : Receipts	24000
To Rent	12000	Less : Expenses	(20000) 4000
To Repairs	11000	By Bank Interest	2000
To Miscellaneous expenses	7000	By Hire – Club Hall	12000
To Honorarium of Secretary	18000		
To Depreciation on Equipment	5000		
To Surplus	25000		
	120000		120000

Balance Sheet As at 31/12/2011

Rs. P.	Liabilities	Rs. P.	Rs. P.	Assets	Rs. P.
2010		2011	2010		2011
	Capital Fund as on 31.12.2002	48000	25000	Equipment	2000
	Entrance Fees	10000	6000	Outstanding Subscription	8000
	Surplus	25000	5000	Cash in hand	4000
48000		83000	2500	Cash at bank	10000
4000	Subscriptions in advance	3000	20000	Fixed Deposit	50000
	Outstanding Liabilities :				
1500	Miscellaneous Expenses	1000			
2000	Salary & wages	3000			
3000	Honorarium to secretary	2000			
58500		92000	58500		92000

Prepare the Receipts and Payments Account of the Club for the year ended 31st December, 2011.

Solution :

**Receipts & Payments Account
Of the Club for the year ending 31st December, 2011**

Dr.			Cr.
Receipts	Rs. P.	Payments	Rs. P.
To Balance b/d		By Remuneration to coach	18000
Cash in hand	5000	By Salaries and Wages (Note I)	23000
Cash at bank	2500	By Rent	12000
To Donations & Subscriptions (Note IV)	99000	By Repairs	11000
To Bar receipts	24000	By Miscellaneous expenses (Note II)	7500
To Bank Interest	2000	By Honorarium to Secretary (Note II)	19000
To Hire-Club hall	12000	By Fixed Deposit	30000
To Entrance Fees	10000	By Bar expenses	20000
		By Balance c/d	
		Cash in hand	4000
		Cash at bank	10000
	154500		154500

Working Notes :

	Rs.
I. Salaries and Wages :	
As per income and expenditure account	24000
Add : outstanding at the beginning of the year	2000
	<u>26000</u>
Less : Outstanding at the end of the year	(3000)
	<u>23000</u>

W. Note II	Misc. Exp.	Hon to Sec.	Donations & Subscription
As per Income – Exp A/c	7000	18000	102000
Add: Op. Outstanding	1500	3000	6000
Add: Cl. Received in Advance	-	-	3000
	8500	21000	111000
Less : Cl. Outstanding	(1000)	(2000)	(8000)
Less : Op. Received in Advance	-	-	(4000)
	7500	19000	99000

Illustration 6 :

The following is the receipts and payments of a Books & Periodicals society for the year ended March 31, 2011.

Dr.		Cr.	
Receipts	Rs. P.	Payments	Rs. P.
To Cash at bank	12500	By Salaries	2500
To Subscriptions	52500	By Printing and Stationery	1250
To Annual day Receipts	26800	By Annual day expenses	1500
To Mushaira receipts	22500	By Mushaira expenses	10000
To Dividend on shares	2500	By Telephone charges	2500
		By Sundry expenses	2000
		By Shares purchased	75000
		By Postage and telegrams	2200
		By Building maintenance	6340
		By Cash at bank	13510
	116800		116800

The following further information is furnished :

1. The value of the building owned by the society stood at Rs. 50000 as at 1st April, 2010 Depreciation at 5 percent has to be provided.
2. there were 200 members paying subscription at the rate of Rs. 250 per annum each.
3. As on 1st April, 2010 subscription had been received in advance but subscriptions were outstanding to the extent of Rs. 1000. As at 31st March, 2011 subscriptions outstanding were Rs. 15000.
4. Postage stamps worth Rs. 250 were with the secretary at the beginning of the year and the stamps at the end of the year were of the value of Rs. 150.
5. The investment in shares at the beginning of the year was to the extent of Rs. 5000.
6. The amount of Rs. 250 in respect of the annual day receipts was yet to be received.
7. the rent of the theatre (amounting to Rs. 25000), where the mushaira (poetic symposium) was held is still to be paid.
8. Hire of telephone to the extend of Rs. 300 is paid in advance.

You are required to prepare the income and expenditure account for the year ended March 31, 2011 and the Balance Sheet.

Solution :

Opening Balance Sheet as on 1st April, 2010

Liabilities	Rs.	Assets	Rs.
Capital Fund (balancing figure)	68750	Building	50000
		Investment	5000
		Subscriptions outstanding	1000
		Postage stamps	250
		Cash at bank	12500
	68750		68750

**Income and Expenditure Account for the year ended
31st March, 2011.**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To salaries	2500	By Subscriptions	50000
To Printing and stationery	1250	By Annual day receipts	26800
To Telephone charges	2500	Add : Due	<u>250</u>
Less : paid in advance	(300)		27050
To Sundry expenses	2000	Less : Expenses	<u>1500</u>
To Postage & telegrams	2200	By Mushaira receipts	22500
Add stamps on 1/4/10	250	Less : expenses including outstanding	<u>(12500)</u>
	2450	By Dividend on shares	2500
Less : Stamps on 31-03-11	(150)		
To Building maintenance	6340		
To Depreciation on building	2500		
To Excess of income over expenditure	68960		
	88050		88050

Note :

Subscriptions due for 200 members @ Rs. 250	=	Rs. 50000
Subscriptions actually received during the year	=	52500
Add: outstanding at the end of the year	=	1500
		54000
Less : outstanding at the beginning of the year	=	1000
		53000
Subscriptions due for the year (200 × 250)	=	50000
Subscriptions received in advance	=	3000

Balance Sheet of the Literary Society as on 31st March 2011.

Liabilities	Rs.	Assets	Rs.
Capital Fund		Buildings 50000	
Opening balance 68750		Less depreciation (2500)	47500
Add : excess of income		Investments in 5000 shares	
Over expenditure <u>68960</u>	137710	Add purchased <u>75000</u> during the year	80000
Outstanding rent	2500	Postage stamps	150
Subscriptions received in advances		Subscriptions outstanding	1500
(as per note)	3000	Annual receipts due	250
		Prepaid telephone charges	300
		Cash at Bank	13510
	<u>143210</u>		<u>143210</u>

Illustration : 7

From the following Trial Balance of Hari Co-operative Purchases and Sales Society Ltd. as on 31.3.2011; prepare Trading and Profit & Loss Account for the year ended 31.3.2011 and Balance sheet as on that date after considering the adjustments given thereafter.

Trial Balance as on 31.3.2011

Particulars	Dr. Rs.	Cr. Rs.
Share capital	-	3,36,000
Reserve Fund	-	60,000
Creditors	-	40,000
Profit and Loss A/c 1.4.2010	-	1,76,000
Opening Stock	3,92,000	-
Furniture and Equipment	1,24,000	
Container Deposit	32,000	
Salaries	3,00,000	
Sundry Debtors	60,000	
Commission	88,000	
Rent and Taxes	60,000	
Postage	8,000	
Traveling and Conveyance	18,000	
Printing and Stationery	14,000	
Admission Fees	-	2,000
Purchase	63,40,000	-
Coolie Charges, Freight and Cartage	1,60,000	-
Investments	2,40,000	-
Sales	-	76,20,000
Cash in hand	6,000	-
Bank Balance	4,00,000	-
Development Fund	-	8,000
	82,42,000	82,42,000

Adjustments :

1. Closing Stock is valued at Rs. 4,40,000.
2. Outstanding Rent Rs. 4,000 and Commission Payable Rs. 20,000.
3. Rs. 8,000 Salary was paid as advance as on 31.3.2011.
4. Accrued Income on Investment Rs. 20,000.
5. Provide 10% depreciation on furniture and equipments.

Solution :

Hari Co-operative Society Ltd.
Trading A/c for the year ended 31.3.2011

Dr.		Cr.	
	Rs.		Rs.
To opening Stock	3,92,000	By Sales	76,20,000
To Purchases	63,40,000	By Closing Stock	4,40,000
To Coolie Charges, Freight and Cartage	1,60,000		
To Gross Profit transferred to Profit and Loss A/c	11,68,000		
	80,60,000		80,60,000

Profit and Loss A/c for the year ended 31.3.2011

Dr.		Cr.	
	Rs.		Rs.
To Salaries 3,00,000	2,92,000	By Gross Profit	11,68,000
Less : Advance <u>8,000</u>		By Accrued Income on Investments	20,000
To Traveling & Conveyance	18,000	By Admission Fees	2,000
To Rent & Taxes 60,000			
Add: Outstanding Rent <u>4,000</u>	64,000		
To Postage	8,000		
To Printing & Stationery			
To Provision for Audit Fees	600		
To Depreciation on furniture and Equipments	12,400		
To Commission 88,000			
Add: Outstanding <u>20,000</u>	1,08,000		
To Education Fund	170		
To Net Profit	6,72,830		
	11,90,000		11,90,000

**Profit & Loss Appropriation A/c [Memorandum]
For the year ended 31.3.2011**

Dr.		Cr.	
	Rs.		Rs.
To Reserve Fund (25% of N.P.)	1,68,208	By Balance b/d	1,76,000
To Balance Carried to Balance Sheet	6,80,622	By Net Profit	6,72,830
	8,48,830		8,48,830

Note : Contribution to Education Fund is as per the rate prescribed.

**Hari Co-operative Society Ltd.
Balance Sheet as on 31.3.2011**

Liabilities		Rs.	Assets	Rs.
I. Share Capital			I. <u>Cash & Bank Balance</u>	
Authorised ... shares of Rs. Each		?	Cash on Hand	6,000
Subscribed ... shares of Rs. Each		3,36,000	Cash at Bank	4,00,000
II. Reserve Funds and other Funds :			II. <u>Investments</u>	
Reserve Fund:			Investments	2,40,000
Opening Balance	60,000		Container Deposits	32,000
Add: Transfer	1,68,208	2,28,208	III. Sundry Debtors	60,000
Development Fund		8,000	Salary Advance	8,000
<u>Current Liabilities and Provisions</u>			IV. Current Assets	
Creditors	40,000		Closing Stock	4,40,000
Outstanding Rent	4,000		V. Fixed Assets	
Education Fund	170		Furniture and Equipments	1,24,000
Commission Payable	20,000		Less : Depreciation	1,11,600
Audit Fees payable	600	64,770	<u>12,400</u>	
P. & L A/c			VI. Other Items	
Opening Balance	1,76,000		Interest Accrued	20,000
Add : Net profit for the year	6,72,830			
	8,48,830			
Less : Transfer to Reserve fund	1,68,208	6,80,622		
		13,17,600		13,17,600

Illustration 8 :

From the following Trial Balance of Rakesh Co-operative Consumers Society Ltd., Pune as on 31.3.2011, prepare Trading and Profit & Loss Account for the year ended on 31.3.2010 and Balance Sheet as on that date after considering the adjustments given.

Trial Balance as on 31.3.2011

Particulars	Dr. Rs.	Cr. Rs.
Share capital	-	1,60,000
Calls in arrears	10,000	-
Reserve Fund	-	15,000
Common Goods Fund	-	5,000
Opening stock of Consumer's Goods	1,10,000	-
Furniture	48,000	-
Education Fund	-	8,000
Sundry Creditors	-	20,000
Sundry Debtors	30,000	-
Commission Payable	-	4,000
Salaries	71,000	-
Commission	17,400	-
Rent, Rate and Taxes	20,000	-
Postage	12,100	-
Land	9,000	-
Interest on Investment	-	10,000
Equipment	20,000	-
Purchases	16,40,000	-
Investment	1,00,000	-
Sales	-	20,60,500
Cash in hand	25,000	-
Cash at Bank	1,70,000	-
	22,82,500	22,82,500

Adjustments :

1. Outstanding rent payable on 31.3.2011 was Rs. 1,000.
2. Charge 5% depreciation on furniture.
3. Closing Stock of consumer's goods is valued at cost Rs. 1,40,000.
4. Interest accrued on Investment Rs. 2,000.
5. Outstanding salary on 31st March, 2011 was Rs. 2,000 & Rs. 3,000 paid in advance.
6. Authorized capital 20,000 shares of Rs. 10 each.

Solution :

Rakesh Co-operative Consumers Society Ltd.
Trading A/c for the year ended 31.3.2011

Dr.	Rs.	Cr.	Rs.
To opening Stock	1,10,000	By Sales	20,60,500
To Purchases	16,40,000	By Closing Stock	1,40,000
To Gross Profit transferred to Profit and Loss A/c	4,50,500		-
	22,00,500		22,00,500

Profit and Loss A/c for the year ended 31.3.2011

Dr.	Rs.	Cr.	Rs.
To Salaries 71,000		By Gross Profit	4,50,500
Add : Outstanding 2,000		By Interest on investment 10,000	
	73,000	Add : Accrued 2,000	12,000
Less : Advance 3,000	70,000		
To Rent, Rates and Taxes 20,000			
Add : Outstanding Rent 1,000	21,000		
To Education Fund	100		
To Postage	12,100		
To Depreciation on Furniture	2,400		
To Commission	17,400		
To Net Profit	3,39,500		
	4,62,500		4,62,500

Profit & Loss Appropriation A/c [Memorandum]
For the year ended 31.3.2011

Dr.	Rs.	Cr.	Rs.
To Reserve Fund	84,875	By Net Profit	3,39,500
To Balance Carried to Balance Sheet	2,54,625		
	3,39,500		3,39,500

Illustration 9:

From the following Trial Balance of Sadu Consumer's Co-operative Society Ltd. as on 31st March 2011 prepare the Final Accounts in the prescribed format.

Particulars	Dr. ₹	Cr. ₹	Particulars	Dr. ₹	Cr. ₹
Share Capital		1,00,000	Purchases	12,05,000	
Deposit from Members		50,000	Due from Customers	56,000	
Sales		14,50,000	Carriage inwards	4,000	
Purchases Returns		6,000	Sales Returns	3,000	
Due to Suppliers		11,000	Rent (for 10 months)	10,000	
Interest on investment		11,000	Audit Fees	2,000	
Rebate Received		2,000	Sales Tax	3,000	
Common Good Fund		4,000	Staff Salary	50,000	
Price fluctuation Fund		3,000	Printing and Stationery	10,000	
Reserve fund		25,000	Investments	2,00,000	
Cash in Hand	200		Stock in Trade	30,000	
Cash at Bank	76,200		Interest Paid	2,6000	
Furniture	10,000				
				16,62,000	16,62,000

Adjustments :

1. value of closing stock on 31st March, 2011 was ₹ 75000.
2. depreciation on Furniture @ 10% p.a. for full year.
3. Interest accrued on Deposits ₹ 5,000 and interest accrued on investment ₹ 1,200.
4. salary includes advance of ₹ 6,000 paid against salary of April, 2011.
5. outstanding Sales Tax of ₹ 2,000.

(Mar. 04, adapted)

Solution :

**In the Books of Sadu Consumer Co-operative Society Ltd.
Profit & Loss Account for the year ended 31-3-2011**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To opening Stock	30,000	By Sales	
To Purchases 12,05,000		Less : Returns 14,50,000	14,47,000
Less : Returns <u>6,000</u>	11,99,000	By Closing Stock <u>(-3,000)</u>	75,000
To Carriage Inwards	4,000		
To Gross Profits	2,89,000		
	15,22,000		15,22,000
To Interest Paid 2,600		By Gross profit b/d	2,89,000
Add : Outstanding <u>5,000</u>	7,600,	By Interest Received	12,200
To Salaries	44,000	By Rebate Received	2,000
To Rent	12,000		
To Sales Tax	5,000		
To Audit Fees	2,000		
To Printing and	10,000		
Stationery			
To Depreciation on	1,000		
Furniture			
To Net Profit Ltd. to B/s	2,21,600		
	3,03,200		3,03,200

Balance Sheet as at 31-3.2011

Liabilities	₹	Assets	₹
Share Capital		Cash Balance	
Authorized, issued & paid up	1,00,000	On hand 200	
Reserve Fund and other Funds		At Bank <u>76,200</u>	76,400
Reserve Fund 25,000		Investments	
Common Good Fund 4,000		Investments 2,00,000	
Price Fluctuation Fund <u>3,000</u>	32,000	Add : Interest <u>1,200</u>	2,01,200
		accrued	
Staff Provident Fund	NIL	Provident Fund vestments	NIL
Secured Loans	NIL	Loans & Advances	NIL
Unsecured Loans	NIL	Sundry Debtors	56,000
Deposits		<u>Current Assets</u>	
Deposits from Members 50,000		Closing stock	75,000
Add : Interest Accrued <u>5,000</u>	55,000	<u>Fixed Assets</u>	
<u>Current Liabilities & Provision</u>		Furniture	9,000
Suppliers 11,000		Other Expenses & Losses (not w/o)	
		Salary	6,000
Rent Payable 2,000		Losses	
Sales Tax Payable <u>2,000</u>	15,000		
Unclaimed Dividend	NIL		
Interest due but not paid	NIL		
Other liabilities	NIL		
Profit & Loss Appropriation			
Opening Balance ?			
Add : Current Year's 2,21,600	2,21,600		
Profit			
	<u>4,23,600</u>		<u>4,23,600</u>

Illustration 10 :

From the following Trial Balance of M.K.J. Consumer Society as on 31st March, 2011, prepare Final Accounts in the prescribed format.

Particulars	₹	Particulars	₹
Cash in Hand	80,500	Share Capital	5,00,000
Cash at Bank	20,500	Deposit from Members	5,00,000
Furniture	1,00,000	Sales	13,80,000
Purchase	12,15,000	Purchases Return	15,000
Debtors	58,000	Creditors	28,000
Carriage inward	7,000	Interest on investment	80,000
Sales Return	15,000	Rebate Received	3,000
Staff Salary for (11 Months)	55,000	Reserve Fund	12,000
Rent for (13 months)	13,000		
Audit Fees	6,000		
Printing and Stationery	8,000		
Investments @ 10% p.a.	9,00,000		
Stock in Trade	40,000		
	25,18,000		25,18,000

Adjustments :

1. Value of Closing stock as on 31st March, 2011 ₹ 85,000.
2. Depreciation of Furniture @ 10% p.a.
3. Interest Accrued on Deposits 56,000.
4. sales Tax 4,500 to be provided.

Solution :

M. K. J Consumer Society Limited
Balance Sheet as on 31st March 2011

Liabilities	₹	₹	Assets	₹	₹
<u>I. Share Capital</u>			<u>I. Cash Balance</u>		
Authorized Issued and Paid-up	5,00,000		On hand	80,500	
<u>II. Reserve Fund and Other Funds</u>			At Bank	<u>20,500</u>	1,01,000
Reserve Fund	12,000		(including Deposits)		
<u>III. Staff Provident Fund</u>	NIL		<u>II. Investments</u>		
IV. Secured Loans	NIL		Other / Miscellaneous	9,00,000	
V. Unsecured Loans	NIL		Add : Interest accrued	<u>10,000</u>	9,10,000
VI. <u>Deposits</u>			III. Provident Fund Investments		NIL
Deposit from members	5,00,000		IV. Loans and Advances		NIL
Add : Interest accrued on above	<u>56,000</u>	5,56,000	V. Sundry Debtors		
<u>VII. Current Liabilities and Provisions</u>			For Credit Sales		58,000
Sundry Liabilities	28,000		<u>VI. Current Assets</u>		
Outstanding Expenses			Closing Stock		85,000
- Salaries	5,000		<u>VII. Fixed Assets</u>		
- Interest	<u>4,500</u>	37,500	Deadstocks	1,00,000	
VIII. Unclaimed Dividend	NIL		Less : Depreciation	<u>10,000</u>	90,000
IX. Interest due but not paid	NIL		VIII. Other Expenses and Losses (not w/o)		NIL
X. Other Liabilities	NIL		IX. Other Debtors		
XI. Profit and Loss Appropriation			Advances paid		1,000
Opening Balance	?		X. Losses		NIL
Add : Current Year's profit	1,39,500	1,39,500			
Total		12,45,000			12,45,000

Profit and Loss Account for the Year ending 31st March 2011

Particulars	₹	Particulars	₹
To Interest Paid	56,000	By Gross Profit b/d	2,03,000
To Salaries and Allowances 55,000		By Interest Received	80,000
Add : Outstanding 5,000	60,000	By Interest Accrued	10,000
To Rent, Rates and Taxes	12,000	By Other Incomes	
To Audit Fees	6,000	Rebate received	3,000
To Printing and Stationery	8,000		
To Depreciation on Assets furniture	10,000		
To Other Expenses and Fees Sales tax	4,500		
To Net Profit transferred	1,39,500		
Total	2,96,000	Total	2,96,000

Illustration 11 :

From the following Trial Balance of Maru Co-operative society, for the year ended 31-12-2011 as follows :

Trial Balance

Particulars	₹	Particulars	₹
Investments in Shares	50,000	Share Capital	1,00,000
Printing and Stationery	10,000	Bank Loan @ 10% Interest P.A.	3,50,000
Investment in Bank Shares	70,000	Interest on Members Loan	3,50,000
Fixed Assets	50,000	Members Deposits	5,00,000
Members Loan	8,00,000	Sales	13,00,000
Purchase	11,90,000	Reserves and Other Funds	4,00,000
Office Rent	1,00,000		
Salaries	1,00,000		
Traveling Expenses	18,000		
Freight	12,000		
Coolie Charges	10,000		
Bank Balance	3,30,000		
Bank Interest Paid	2,60,000		
	30,00,000		30,00,000

- i) Provide Audit Fees for ₹ 6,000/-.
- ii) Provide Depreciation on fixed Assets @ 5%.
- iii) Outstanding Office Salaries ₹ 10,000.
- iv) Closing Stock ₹ 3,20,000.

You are required to prepare Trading, Profit and Loss Account for the ended 31st March, 2011 and Balance Sheet as on that date.
(Oct. 05, adapted)

Solution :

Maru Co-operative Society Limited
Balance Sheet as on 31st December 2011

Liabilities ₹	₹	Assets ₹	₹
<u>I. Share Capital</u>		<u>I. Cash Balance</u>	
Authorized Issued and Paid-up	1,00,000	At Bank (including deposits)	3,30,000
<u>II. Reserve Fund and Other Funds</u>		<u>II. Investments</u>	
Reserve Fund	4,00,000	<u>Other</u>	1,20,000
III. Staff Provident Fund	NIL	III. Provident Fund	
IV. Secured Loans	NIL	<u>Investments</u>	NIL
V. Unsecured Loans		<u>IV. Loans and Advances</u>	
From Banks	3,50,000	Loans	8,00,000
VI. Deposits		V. Sundry Debtors	NIL
Other Deposits	5,00,000	VI. Current Assets	
VII. Current Liabilities and Provisions		Closing Stock	3,20,000
Outstanding Expenses		VII. Fixed Assets	
- Salaries 10,000		Other / Miscellaneous	47,500
- Audit Fees 6,000	16,000	VIII. Other Expenses and Losses (not w/o)	NIL
VIII. Unclaimed Dividend	NIL	IX. Other Debtors	NIL
IX. Interest due but not paid	NIL	X. Losses	NIL
X. Other Liabilities	NIL		
XI. Profit and Loss Appropriation			
Opening Balance --			
Add : Current <u>2,51,000</u>	2,51,500		
Year's profit			
Total	16,17,500	Total	16,17,500

Trading Account for the Year ended 31st December 2011

Particulars	₹	Particulars	₹
To Purchases	11,90,000	By Sales	13,00,000
To Freight	12,000	By Closing Stock	3,20,000
To Coolie Charges	10,000		
To Gross Profit c/d	4,08,000		
Total	16,20,000	Total	16,20,000

**Profit and Loss Account for the Year ending
31st December 2011**

Particulars	₹	₹	Particulars	₹
To Interest Paid		2,60,000	By Gross Profit b/d	4,08,000
To Salaries and Allowances	1,00,000		By Interest Received	3,50,000
Add: Outstanding	<u>10,000</u>	1,10,000		
To Rent, Rates and Taxes		1,00,000		
To Audit Fees		6,000		
To Printing and Stationery		10,000		
To Depreciation on Assets		2,500		
To Other expenses and Fees Travelling		18,000		
To Net Profit transferred		2,51,500		
Total		7,58,000	Total	7,58,000

Illustration 12 :

The Balance Sheet and Receipt and Payments Accounts of Kadia Consumer's Co-operative Stores Ltd. Mumbai are given below :

**Kadia Consumer's Co-operative Stores Ltd. Mumbai
Balance Sheet as on 31st March, 2010**

Liabilities	₹	Assets	₹
Share Capital	60,000	Cash	2,500
Deposits from Members	37,500	Bank	1,000
Reserve Fund	10,000	Investment (Shares of DCCB)	8,000
Interest due	200	Government Securities	5,000
Creditors	3,000	Fixed Deposits	8,500
Sales Tax due	800	Interest due	300
Salaries Payable	500	Furniture	5,000
Dividend Payable	1,500	Debtors	38,500
Profit and Loss A/c	5,800	Stock	50,500
	<u>1,19,300</u>		<u>1,19,300</u>

Receipt and Payment A/c for the year ended 31st March, 2011

Receipts	₹	Payments	₹
To Balance b/d		By Share Capital	1,000
Cash	2,500	By Deposit Repaid	24,000
Bank	1,000	By Purchases	5,55,000
To Share Capital	3,000	By Sales Returns	3,500
To Deposits from member	5,000	By Carriage inward	10,000
To Sales	6,50,000	By Commission	2,500
To Purchases Returns	12,500	By Interest	2,150
To Sundry Income	2,000	By Sales Tax	5,500
To Sundry Debtors	6,30,000	By Dividend paid	3,250
To Sundry Creditors	4,70,000	By Bank charges	225
To Fixed Deposits	1,000	By Salaries	17,000
To Interest	3,000	By Contribution to PF	1,200
To Dividend	800	By Travelling Expenses	5,550
		By Rent	4,800
		By Allowance to MD	500
		By Postage & Telephones	1,490
		By Printing and Stationery	4,600
		By Audit Fees	750
		By Sundry Expenses	385
		By Debtors	6,15,000
		By Creditors	4,60,000
		By Furniture	5,000
		By Fixed Deposits	32,000
		By Balance c/d	
		Cash	4,400
		Bank	21,000
	17,80,800		17,80,800

Adjustments :

- Authorized Capital was 25,000 shares of ₹ 10 each.
- Stock on 31st March, 2008 was ₹ 55,000.
- Depreciate Furniture by ₹ 375.
- Provide for Doubtful Debts 300.
- Appropriation out of Profits of the year 2010-11 were as follows :

Reserve Fund	₹ 2,000
Dividend	₹ 600
Education Fund	₹ 1,000

Prepare Find Accounts strictly as per Rule No. 61 of Maharashtra Co-operative Societies Rules, 1961.

(M.Com Part-1, October 2008, adapted)

Solution :

Kadia Consumer's Co-operative Society Ltd.
Trading and Profit and Loss A/c for the year ended
31st March 2011

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening stock	50,000	By Sales	6,50,000
To Purchases	5,55,000	Less : Return	3,500
Less : Return	12,500	By closing Stock	55,000
To Carriage Inward	10,000		
To Gross Profit c/d	98,500		
	7,01,500		7,01,500
To Interest	2,150	By Gross Profit b/d	98,500
Less : Interest due (Op.)	200	By Interest	3,000
To Sales Tax	5,500	Less: Receivable (Op.)	300
Less : Due (Op.)	800	By sundry Income	2,000
To Salaries	17,000	By Dividend	800
Less : Due (Op.)	500		
To Dividend	3,250		
Less : Payment	1,500		
To Depreciation on Furniture	375		
To R & D	300		
To Commission	2,500		
To Bank charges	225		
To Postage	1,490		
To Contribution to PF	225		
To Travelling Expenses	1,490		
To Rent	4,800		
To Allowance	500		
To Printing and Stationery	4,600		
To Audit Fees	750		
To Sundry Expenses	385		
To Education Fund	1,000		
To Net Profit c/d	55,425		
	1,04,000		1,04,000

Profit & Loss Appropriation A/c

Particulars	₹	Particulars	₹
To Reserve Fund	2,000	By Opening	5,800
To Dividend Fund	600	Add : Current Year	<u>55,425</u>
To P/L transferred to B/S	58,625		61,225
	61,225		61,225

Balance Sheet as on 31st March, 2011

Liabilities	₹	Assets	₹
Share Capital		Cash / Bank Balances	
Authorized Capital :		Cash	4,400
25,000 shares of ₹ 10 each	2,50,000	Bank	21,000
Issued, Subscribed & paid up Capital	62,000	Investment	52,500
<u>Reserves and other Funds</u>		Investment in PF	
Reserve Fund	12,000	Loans and Advances	
Staff Provident Fund	-	Sundry Debtors	23,200
Secured loans	-	<u>Current Assets</u>	
<u>Unsecured loans</u>	-	Stock	55,000
Deposits	18,500	Fixed Assets	
<u>Current Liabilities</u>		Furniture	10,000
Creditors	13,000	Less : Depreciation	375
Proposed Dividend	600		9,625
Unpaid Dividend	-	Other Items	-
Interest accrued	-	P & L A/c	-
Other Liabilities		Current losses	-
Education Fund	1,000		
P & L A/c	58,625		
	1,65,725		1,65,725

Illustration 13 :

From the following Trial Balance of Nitin Co-operative Credit Society Ltd. as on 30th June 2011 and other information, prepare Profit and Loss A/c for the year ended 30th June, 2011 and Balance Sheet as on that date.

Trial Balance

Particulars	₹	Particulars	₹
Cash in Hand	700	Share Capital	7,50,000
Cash with Banks	14,000	Reserve Fund	50,000
Fixed Deposit with M.S. Co-operative Bank	1,55,000	Members Deposits	22,47,750
Office Furniture	7,000	Unpaid Dividend	2,100
Interest on Deposits	80,000	Dividend Equalisation Reserve	18,000
Interest due on Loans	8,000	Staff Provident Fund	20,000
Salary and Allowances	30,000	Profit & Loss Appropriation A/c Balance	31,000
Establishment for Executive Officer	5,000	Interest	1,78,000
Printing and Stationery	400	Renewal Fees	4,000
Traveling and Conveyance	600	Sundry Income	300
Insurance Premium	1,000	Co-operative Development Fund	2,000
Contribution to Provident Fund	2,000	Education Fund	500
Loan due from Members	30,00,000		
	33,03,700		33,07,700

Adjustment :

- Interest due to members deposits ₹ 5,000.
- interest accrued due but not received ₹ 2,000.
- Addition to Furniture during the year ₹ 1,000. Charge depreciation at 10% on closing balance.
- Salary due but not paid 300, whereas one employee is given salary in advance on 30-6-2011 ₹ 500.
- Audit fee unpaid for the year ₹ 3,000.
- Authorised Capital was ₹ 1,00,000 shares of 10 each.
- Directors propose the following appropriations for the current year.
 - Dividend to shareholders at 5%.
 - Necessary amount to Reserve Fund.
 - 5% of Net Profit (after contribution to Reserve Fund) to Co-operative Development Fund.
 - Contribution to Dividend Equalisation Reserve ₹ 2,000.
 - Transfer to Building Fund ₹ 10,000. **(Oct.07, adapted)**

Nitin Co-operative Credit Society Ltd.
Profit & Loss Account For the year ended 30-6-2011

Dr.

Cr.

Particulars	₹	Particulars	₹
To Interest on Deposits 80,000		By interest 1,78,000	
Add: Interest due 5,000	85,000	Add: Interest due 2,000	1,80,000
To Salary and allowance 30,000		By other income	
Add: Outstanding 300		-Renewal Fees 4,000	
	30,000	-Sundry Income 300	4,300
Less: Advances 500	29,800		
To Printing and stationery	400		
To Contribution to provident fund	2,000		
To Depreciation on Furniture	700		
To Outstanding Audit Fees	3,000		
To Other expenses and fees			
-Establishing for Executive officer 5,000			
-Traveling & Conveyance 600			
-Insurance Premium 1,000	6,600		
To Net Profit	56,800		
	1,84,300		1,84,300

Balance Sheet as on 30-6-2011

Liabilities	₹	Assets	₹
<u>Share capital</u>		Cash Balance	
<u>Authorized Capital</u>		Cash in Hand	700
1,00,000 Shares of ₹ 10 each	10,00,000	Cast at Bank	14,000
<u>Issued Capital</u>		Investments	
75,000 Shares of ₹ 10 each	7,50,000	F.D. with M.S. Co-operative Bank	1,55,000
<u>Reserve Fund and other funds</u>		Provident Fund	NIL
Reserve Fund	50,000	Investment	
Dividend Equalisation Reserve	18,000	Loans and Advances	
Staff Provident Fund	20,000	Loan due from Members	30,00,000
Co-operative Development Fund	2,050	Sundry Debtors	NIL
Education Fund	500	Current Assets	
		Interest due on loans	8,000

Depreciation Fund	700	Add : Interest due	<u>2,000</u>	10,000
Staff Provident Fund	NIL	Fixed Assets		
Secured Loans	NIL	Office furniture	6,000	
Unsecured Loans	NIL	Add : Addition	<u>1,000</u>	7,000
Deposits		Other Expenses & Losses		
Members Deposits	22,47,750	Advance Salary		500
Current Liabilities & Provisions		Other Debtors		
Outstanding Salary	300	Losses		NIL
Outstanding Audit Fees	3,000			
Unclaimed Dividend	NIL			
Unpaid Dividend	2,100			
Interest due but not paid				
Interest due on Member's Deposits	5,000			
Other Liabilities	NIL			
P & L appropriation A/c				
Opening 31,000				
Current Year <u>56,800</u>	87,800			
	31,87,200			31,87,200

4.9 EXERCISES:

Theory Questions :

- What are the special features in case of Co-operative society in Maharashtra?
- Write short notes on
 - Managing Committee
 - Bye-Law of Co-operative Society.
 - Education Fund
 - Consumer Co-operative society
- What are Books of Accounts maintain by Co-operative Society.
- How is the net profit is calculated by the Co-operative Society.
- What are the different types of Co-operative Societies.
- Write short notes on returns of Co-operative societies?

Particulars Questions :

1. The following particulars relate to a sports club :

**Receipts and Payments Accounts for the year ended
31st December 2010.**

Particulars	Rs.	Particulars	Rs.
To Balance 1 st January	8,400	By Secretary's salary	2,000
To Admission fee 09	2,000	By Printing & Stationery	5,200
To Admission fee 10	20,000	By Publicity	3,200
To Subscriptions 09	1,200	By Fire insurance	2,400
To Subscriptions 10	30,000	By Investments purchased	40,000
To Subscriptions 11	800	By Balance, 31 st December	15,600
To Rent received	6000		
	68,400		68,400

**Income and Expenditure Account for the year ended
31st December, 2010**

Particulars	Rs.	Particulars	Rs.
To Secretary's salary	3,000	By Admission fee	21,000
To Printing & Stationery	4,000	By Subscriptions	31,200
To Publicity	3,200	By Rents received	8,000
To Audit Fees	1,000		
To Fire insurance	2,000		
To Depreciation on equipment	18,000		
To Balance (Excess of income over expenditure)	28,600		
	60,200		60,200

The assets on 1st January, 2010 included :

₹

Advance to staff	10,000
Club Grounds and Pavilion	88,000
Sports Equipment	1,50,000
Furniture and Fixtures	28,000

Prepare the opening and closing Balance Sheets

Exercise 2

From the following Trial Balance Natu Co-operative Consumers Society Ltd. Pune as on 31-3-2011, prepare Trading and Profit and Loss Account for the year ended on 31-3-2011 and Balance Sheet as on that date after considering the adjustments given.

Trial Balance

Particulars	Dr. Rs.	Cr. Rs.
Share capital	-	1,60,000
Calls in arrears	10,000	-
Reserve Fund	-	15,000
Common Goods Fund	-	5,000
Opening stock of Consumer's Goods	1,10,000	-
Furniture	48,000	-
Education Fund	-	8,000
Sundry Creditors	-	20,000
Sundry Debtors	30,000	-
Commission Payable	-	4,000
Salaries	71,000	-
Commission	17,400	-
Rent, Rate and Taxes	20,000	-
Postage	12,100	-
Land	9,000	-
Interest on Investment	-	10,000
Equipment	20,000	-
Purchases	16,40,000	-
Investment	1,00,000	-
Sales	-	20,60,500
Cash in hand	25,000	-
Cash at Bank	1,70,000	-
	22,82,500	22,82,500

Adjustments :

- Outstanding rent payable on 31-03-2011 was ₹ 1,000.
- Charge 5% depreciation on furniture.
- Closing Stock of consumers' goods is valued at cost ₹ 1,40,000.
- Interest accrued on Investment ₹ 2,000.
- Investment includes ₹ 75,000 be investment of staff P.F.

Exercise 3 :

Co-operative Society rendering Loans and Rationing facilities to its members has the Trial Balance as on 31.3.2011 as follows :

Trial Balance

Particulars	Dr. Rs.	Cr. Rs.
Member Share Capital	--	14,100
Member's Deposit	--	30,000
Dead Stock	7,000	-
Stationery and Printing	750	-
Bank share Purchased	5,000	-
Sahakari Sangh Share Purchased	2,000	-
Bank Loan (Simple)	-	31,000
Members' Loan	83,250	-
Interest on Members Loans	-	53,150
Purchase of rationing Grains	1,20,000	-
Sale of rationing grains	-	1,27,500
Office rent	9,000	-
Salaries	10,550	-
Traveling Expenses	1,250	-
Freight	1,300	-
Coolie charges	900	-
Bank Current A/c	33,500	-
Bank Interest	26,250	-
Reserve and Other Funds	-	45,100
Cash Balance	100	-
	3,00,850	3,00,850

Adjustments :

1. Closing Stock of Rationing Grains on 31.3.2011 was Rs. 35,000/-.
2. outstanding Office Rent is Rs. 1,000/-.
3. provide for Audit Fees due Rs. 600/-.
4. Provide depreciation on Deadstock at 5%.
5. Provide Bad Debts Reserve Rs. 1,500/-.

You are required to prepare Trading, Profit & Loss Account for the year ending on 31.3.2011 and Balance Sheet as on that date.

**Trial Balance of Ramkupa Co-operative Society as on
31.3.2011**

	Dr. Rs.		Cr. Rs.
Purchases	24,00,000	Interest	89,000
Freight Inward	1,000	Transfer Fees	200
Stock (1-4-2011)	1,20,000	Dividend	23,000
Rent	5,600	Sales	28,00,000
Postage	2,000	Commission	32,000
Bank Interest	62,000	Rent received	6,000
Subscription to Periodicals	1,000	Share Capital	6,00,000
Advertisement	7,000	Reserve Fund	1,00,000
Staff Salaries	17,000	Building Fund	79,000
Electricity Charges	1,600	Bad Debts Funds	32,000
Repairs	1,000	Share Capital	
Meeting Expenses	2,000	Redemption Fund	16,000
Printing & Stationery	5,700	Depreciation Fund	5,000
Traveling Expenses	1,800	Education Fund	1,000
Cash	12,200		
Bank	52,000		
Shares in Co-op. societies	39,000		
Fixed Deposit	2,00,000		
Deposit with M.S.E.B.	500		
Library	300		
Building	3,91,500		
Debtors	4,60,000		
	37,83,200		37,83,200

Adjustments :

- a) Closing stock was valued at Rs. 1,50,000.
- b) Depreciate Building at 5% p.a.
- c) Provide for audit fees Rs. 5,000 and salary Rs. 15,000.
- d) Interest due but not received Rs. 700.
- e) Advance salary Rs. 1,500.
- f) Transfer Rs. 2,000 to Share Capital Redemption Fund.
- g) Transfer to education Fund Rs. 500.

Prepare Trading and Profit & Loss Account for the year ended 31.3.2011 and Balance sheet as on that date.

Exercise 5

From the following Trial Balance of Bharat Co-operative Purchase and Sales Society Ltd. as on 31.3.2011, prepare Trading and Profit & Loss Account for the year ended 31.3.2011 and Balance Sheet as on that date.

	Dr. Rs.		Cr. Rs.
Opening Stock	1,90,000	Share Capital	2,50,000
Furniture	60,000	Reserve Fund	50,000
Deposits	20,000	Creditors	30,000
Sundry Debtors	40,000	Profits & Loss A/c (1-4-2010)	90,000
Staff Salaries	1,50,000	Profit & Loss A/c (1-47-2010)	10,000
Commission	40,000	Admission Fees	2,000
Rent	20,000	Sales	39,00,000
Postage & Telegram	5,000	Co-operative Development Fund	5,000
Conveyance	10,000		
Printing & Stationary	6,000		
Dividend paid	6,000		
Purchases	32,00,000		
Freight & Cartage	90,000		
Investments	1,50,000		
Cash	3,000		
Bank Balance	3,47,000		
	43,37,000		43,37,000

Adjustments :

- Closing stock was valued at Rs. 3,00,000.
- Rent payable Rs. 3,000.
- Commission due but not paid Rs. 15,000.
- Salary of Rs. 500 was paid in advance.
- Outstanding audit fees amounted to Rs. 6,000.
- The society declared 5% dividend on its paid up capital as on 31.3.2010 for the year 2009-10. It transferred 25% of its profits for the year ended 31.3.2010 to Reserve Fund and also transferred Rs. 5,000 to Co-operative Development Fund. These appropriations were approved in the general meeting held on 1-09-09.
- Interest on investment due but not received Rs. 5,000.
- The Directors propose to recommend dividend of 10% for the current year.
- Depreciate furniture by 5%.

Exercise 6.

From the following Trial Balance of Manu Consumers Co-operative Society Ltd. prepare Trading and Profit & Loss Account for the year ended 31.3.2011 and a Balance Sheet as on that date.

	Dr. Rs.		Cr. Rs.
Purchases :		Sales :	
Provisions	1,29,000	Provisions	1,35,000
Cloth	25,000	Stationary	90,000
Stationary	60,000	Sugar	1,20,000
Sugar	1,14,000	Cloth	40,000
Freight & Octroi	7,000	Miscellaneous Income	500
Salary to Employees	25,000	Dividend	200
Printing & Stationary	1,500	Discount Received	3,500
Miscellaneous Expenses	500	Interest	1,200
Telephone Charges	500	Bills Payable	16,000
Commission	100	Security Deposit from Employees	5,000
Repairs	400	Share capital	4,00,000
Meeting Expenses and Conveyance	3,000	Reserve Fund	12,000
Contribution to Staff Provident Fund	3,000	Investment	
Professional Tax	1,000	Fluctuation Fund	10,000
Bonus to Staff	4,000	Share Capital	
Discount allowed	3,300	Redemption Fund	9,000
Interest	1,000	Depreciation Fund	6,000
Cash at Bank	90,000	Staff Provident Fund	25,000
Share of M.S.C.F.	3,500		
Advances	600		
Loans against		Rebate on Purchases	7,000
Staff provident Fund	10,000		
Opening Stock	65,000		
Building	2,88,000		
Furniture	20,000		
Staff P.F. investment	25,000		
	6,80,400		6,80,400

Additional Information :

- Closing stock was valued at Rs. 6,00,000.
- Outstanding audit fees Rs. 2,000.
- Depreciate Building and Furniture by 5% and 10% respectively.
- Interest due but not received Rs. 4,000.
- Directors propose to recommend dividend at 5%.

7. Ganesh Consumer's Co-operative Stores Ltd. Parel

Balance Sheet as on 31.3.2010

Liabilities	₹	Assets	₹
Share Capital	60,000	Cash	2,500
Deposits from Members	37,500	Bank	1,000
Reserve Fund	10,000	Investment (Shares of DCCB)	8,000
Interest due	200	Government Securities	5,000
Creditors	3,000	Fixed Deposits	8,500
Sales Tax due	800	Interest due	300
Salaries Payable	500	Furniture	5,000
Dividend Payable	1,500	Debtors	38,500
Profit and Loss A/c		Stock	50,500
Last Year 800			
2009-10 <u>5,000</u>	5,800		
	1,19,300		1,19,300

Receipts and Payments A/c for the year ended 31.3.2011

Receipts	₹	Payments	₹
To Balance b/d		By Share Capital	1,000
Cash	2,500	By Deposit Repaid	24,000
Bank	1,000	By Purchases	5,55,000
To Share Capital	3,000	By Sales Returns	3,500
To Deposits from member	5,000	By Carriage inward	10,000
To Sales	6,50,000	By Commission	2,500
To Purchases Returns	12,500	By Interest	2,150
To Sundry Income	2,700	By Education Fund	5,500
To Sundry Debtors	6,30,000	By Honorarium	3,250
To Sundry Creditors	4,70,000	By Sales Tax	5,500
To Fixed Deposits	1,000	By Dividend paid	3,250
To Interest	3,000	By Bank Charges	225
To Dividend	800	By Salaries	17,000
		By Contribution to Provident Fund	1,200
		By Travelling Expenses Directors	800
		Staff	4,750
		By Rent	4,800
		By Allowance to MD	500
		By Postage & Telephones	1,490
		By Printing and Stationery	4,600

		By Audit Fees	750
		By Sundry Expenses	385
		By Debtors	6,15,000
		By Creditors	4,60,000
		By Furniture	5,000
		By Fixed Deposits	32,000
		By Balance c/d	
		Cash	4,400
		Bank	21,000
	17,80,800		17,80,800

Adjustment :

- a) Authorised Capital 2,00,000 shares of Rs. 10 each.
- b) Stock on 31.3.2011 Rs. 1,05,000.
- c) Depreciate Furniture Rs. 500.
- d) Provide for Doubtful Debts Rs. 800.
- e) Outstanding on 31.3.2011.

	Rs.
Salaries	1,000
Interest Receivable	150
Interest Payable	100
Sales Tax due	1,200
f) Appropriation out of profits of the year 2009-2010 were as follows :	

	Rs.
Reserve Fund	7,000
Dividend	3,000
Honorarium	600
Education Fund	200

Prepare final accounts strictly as per MSC Act :

Exercise 8

Following is the trial balance of a S.I.E.S. College Employees Consumers Co-operative Society as on 31.3.2010. Prepare Trading Account and Profit & Loss Account for the year ended 31.3.2011 and Balance Sheet as on that date.

	Dr. Rs.		Cr. Rs.
Stock (1-4-2011)	16,000	Sales	6,45,900
Purchase	6,25,000	Returns	70
Carriage	3,750	Reserve Fund	9,000
Salaries	8,000	Govt. Loans	1,200
Miscellaneous Expenses	900	Govt. Grants	800
Interest on Govt. Loan	150	Education Fund	2,000
Legal Charges	100	Creditors	6,000
Printing & Stationery	1,000	Building Fund	35,330
Cash and Bank	31,000		
N.S.C. VIIIth issue	500		
Deposit with Govt.	200		
Electricity	300		
Advances	4,000		
Dead Stock	500		
Deposit with Consumers Federation	8,900		
	7,00,300		7,00,300

Adjustments :

- a) Audit fees due Rs. 4,000.
- b) Provide depreciation on Dead Stock at 10%.
- c) Provide for Bad Debts Rs. 100.
- d) Stock at the end of the year is valued at Rs. 15,000.
- e) Interest Accrued on investment Rs. 2,000.

Exercise 9.

Following is the trial balance of Madadev Co-operative Credit society Ltd. on 31.3.2010.

Prepare Final Accounts for the ended 31.3.2011 after taking into consideration additional information.

	Dr. Rs.		Cr. Rs.
Loans due	3,70,000	Share Capital	1,00,000
Contribution to Provident Fund	300	Reserve Fund	10,000
Insurance	200	Deposit from Members	2,70,000
Traveling Expenses	250	Dividend payable	300
Printing & Stationary	100	Dividend	
Salaries	5,000	Equalization Fund	4,000
Interest due on Bonus	1,000	Staff Provident Fund	3,000
Interest on Deposits	9,000	Profit & Loss	4,500
		Appropriation A/c	
Furniture	900	Interest	25,000
Fixed Deposit with Saraswat Co-op.Bank	29,150	Co-operative Development Fund	500
Cash with Bank	2,000	Education Fund	100
Cash	200	Miscellaneous Income	700
	4,18,100		4,18,100

Additional Information :

- a)** Interest due on members' deposits Rs. 4,000.
- b)** Interest due but not received Rs. 1,000
- c)** Outstanding salary Rs. 2,000.
- d)** Unpaid audit fees Rs. 1,000.
- e)** Authorized capital 50,000 shares of Rs. 10 each.
- f)** Directors propose to recommend dividend at 5%.

Objective Question :

Answer in brief :

1. Define Co-operative Society.
2. Define Co-operative year.
3. Define Bye-Laws of a Co-operative society.
4. State different type of member of a society.
5. Mention two powers of managing committee of Co-operative Society.
6. What is Education Fund.
7. State different types of consumers Co-operative society.
8. Mention two items shown under heading Current Assets.
9. Give two examples of contingent Liabilities.
10. Who Can become Nominal member of Co-operative Society.

Multiple Choice Questions :

1. Under The Maharashtra Co-operative Act, a society must prepare final A/c for the year ended.
 - i) In form VI
 - ii) in forms N
 - iii) As per schedule VI A
 - iv) in cash Basis
2. Persons who keeps custody / maintains Accounting Records.
 - a) The member
 - b) The Chairman
 - c) Accountant
 - d) The managing committee
3. Day to day management of society vests in
 - a) General Body
 - b) Staff
 - c) Audit Committee
 - d) The managing Committee
4. Explanation of a member can be done
 - a) by Registrar
 - b) by the Chairman
 - c) General Body
 - d) managing committee

5. As per society Act no part of profit distributed by way of Dividend.
 - a) Approval of General Body b) Board of Directors
 - c) Majority Member d) Non & Above
6. Receipts & payment A/c can be prepared by a Co-op. Society.
 - a) u/s 79 of MSCA b) Rule 61 of M.S.C.S. Rule
 - c) not required d) u/s 50 of Income tax Act 1961
7. Under M.S.C.S. Act, a society must prepared the following financial statement for accounting year.
 - a) Profit & Loss A/c b) Receipts a payment
 - c) Balance sheet d) All the above.
8. Under the Maharashtra Co-operative society Act, Audit of a Co-operative society can be conducted by
 - a) A chartered Accounts b) Cost Accountant
 - c) Employee & Co-operative d) Non of above
9. A member who holds jointly share of society, a his name appears first in share certificate.
 - a) Nominal member b) Associate member
 - c) Sympathizes member d) Non of the above
10. Amendment of Bye-Laws of the society can be done.
 - a) by General body $\frac{1}{2}$ members
 - b) by passing it in managing committee meeting.
 - c) by Registrar of societies
 - d) by General Body by $\frac{2}{3}$ majority subject to approval from Registrar.
11. Every society earning income, must pay Income Tax.
 - a) only on its Taxable income
 - b) Income of societies are not taxable
 - c) On Gross Profit, if it is consumer Co-operative society.
 - d) Only if it sales goods to non-member.
12. A consumer society can sale Goods
 - a) To member b) non-members
 - c) only on cash / credit d) All the above

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