

12. PREPARATION OF FINANCIAL STATEMENTS

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 11

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 11

NO. OF PROBLEMS IN 43e OF CA INTER: CLASSROOM - 15, ASSIGNMENT - 18

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

MODEL NO.	N - 11	M - 12	N - 12	M - 13	N - 13	M - 14	N - 14	M - 15	N - 15	M - 16	N - 16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)	M-19 (O)	M-19 (N)	N-19 (O)	N-19 (N)
Model – 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	5
Model – 2	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10
Model – 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 4	-	-	16	-	16	8	10	-	-	-	-	-	-	16	-	-	-	16	-	-	-

Model - 1 : Schedule-III

Model - 2 : Managerial Remuneration

Model - 3 : Dividend

Model - 4 : Balance sheet Problems

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR 1	-	-	-	-	-	-	-
CR 2	-	-	-	-	-	-	-
CR 3	-	-	-	-	-	N18-5M	-
CR 4	EX-1	EX-1	-	-	-	-	-
CR 5	EX-3	-	-	-	-	-	-
CR 6	EX-4	-	-	-	-	-	-
CR 7	-	-	-	-	-	-	-
CR 8	-	-	-	-	-	-	-
CR 9	ILL - 1	Ex - 3	-	-	-	-	-
CR 10	ILL - 2	Ex - 4	-	-	M18 (N&O)	-	-
CR 11	ILL - 4	Ex - 5	-	-	-	-	-
CR 12	EXAMPLE	EXAMPLE	-	-	-	-	-
CR 13	PQ - 4	-	-	M18 (N&O)	N18 (N&O)	-	-
CR 14	Q - 5	-	-	-	-	-	-
CR 15	ILL - 7	ILL - 5	-	-	-	-	-
ASG 1	-	-	-	-	-	-	-
ASG 2	-	-	-	-	-	-	-
ASG 3	EX-2	EX-2	-	-	-	-	-
ASG 4	-	-	-	-	-	-	-
ASG 5	-	-	-	-	-	-	-
ASG 6	-	-	-	-	-	-	-
ASG 7	-	-	-	-	-	-	-
ASG 8	-	-	-	-	-	-	-
ASG 9	-	-	-	-	-	N19(N)-5M	-
ASG 10	-	-	-	-	-	-	-

ASG 11	ILL - 3	-	-	N18 (N&O), N 17	-	-	-
ASG 12	PQ - 2	-	13	-	-	-	-
ASG 13	-	-	-	-	-	N19(O)	-
ASG 14	-	-	-	-	-	N09 - 4M	-
ASG 15	PQ - 3	-	4	-	-	-	-
ASG 16	-	-	-	-	-	M18(O) - 16M	-
ASG 17	PQ-5	-	-	-	-	-	-
ASG 18	ILL - 6	ILL - 2	-	-	-	-	-

THEORY

A. INTRODUCTION: Company is a form of business organisation wherein two or more individuals join together and create a separate legal entity distinct from them. Separate legal identity and framework for this form of organisation makes it unique and a popular form of business organisation. Presently Companies are governed by “The Companies Act, 2013” and thus compliance under the Act is inevitable.

DEFINITION: As per section 2(20) of the Companies Act, 2013, “Company” means a company incorporated under this Act or under any previous company law.

CHARACTERISTICS OF COMPANY:

- Voluntary Association of Persons
- Separate legal Entity
- Limited Liability
- Perpetual Succession
- Common seal
- Transferability of Shares

B. MAINTENANCE OF BOOKS OF ACCOUNTS:

- a) As per **Section 128** of the Companies Act, 2013, Every company shall prepare and keep at its registered office **books of account** and other relevant books and papers **and financial statements** for every financial year which give a **true and fair view** of the state of the affairs of the company, and
- b) Such books shall be **kept on accrual basis and** according to the **double entry system** of accounting:
- c) Section 128(5) further states that the books of account of every company relating to a period of **not less than eight financial years** immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years together with the vouchers relevant to any entry in **such books of account shall be kept in good order.**

C. PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS:

1. Final Accounts:

Under Section 129 of the Companies Act, 2013, at the annual general meeting of a company, the Board of Directors of the company shall lay financial statements before the company, Financial Statements as per Section 2(40) of the Companies Act, 2013, inter-alia include -

- a) A Balance Sheet as at the end of the financial year;
- b) A Profit and Loss Account, or in the case of a company carrying on any activity not for profit, an Income and Expenditure account for the financial year;
- c) Cash Flow Statement for the financial year;
- d) A Statement of Changes in Equity, if applicable; and

- e) Any explanatory note annexed to, or forming part of, any document referred to in sub Clause (i) to sub-clause (iv):

2. **Requisites of Financial Statements:** It shall give a true and fair view of the state of affairs of the company as at the end of the financial year.

3. **Provisions Applicable:**

Except in case of Companies for which Specific Act is applicable, all other Companies shall prepare and present Balance Sheet as per Form set out in Part I of Schedule III and Statement of Profit and Loss as per Part II of Schedule III

4. **Points to be kept in mind:**

- a) Requirements of Schedule III to the Companies Act;
- b) Other statutory requirements;
- c) Accounting Standards issued by the Institute of Chartered Accountants of India on different accounting matters and notified by the Central Government (AS 1 to AS 32);
- d) Statements and Guidance Notes issued by the Institute of Chartered Accountants of India; which are necessary for understanding the accounting treatment / valuation / disclosure suggested by the ICAI.
- e) The Electricity Act, 2003 does not specify any format for presentation of Financial Statements. Therefore, Schedule III of the Companies Act, 2013 is followed by Electricity Companies in preparation of their financial statements.

5. **Schedule III:**

It consists of general instructions for preparation of Balance Sheet and Statement of Profit and Loss of a Company.

- a) The **disclosure requirements specified in Part - I and Part II of this Schedule are in addition to** and not in substitution of the disclosure requirements **specified in the Accounting Standards** prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the **Companies Act** shall be made in the notes to accounts in addition to the requirements set out in this Schedule.
- b) **Notes to accounts** shall **contain information in addition to that presented in the Financial Statements** and shall provide where required (a) narrative descriptions or desegregations of items recognized in those statements and (b) information about items that do not qualify for recognition in this statements.
- c) **Each item** on the face of the Balance Sheet and Statement of Profit and Loss **shall be cross-reference to** any related information in the **notes to accounts**.
- d) Depending upon the turnover of the company, the figures appearing in the Finance Statements may be rounded off as below:

Turnover	Rounding off
i) Less than one hundred crore rupees	To the nearest hundreds, lakhs of millions, or decimals thereof
ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crore, or decimals thereof

Once a unit measurement is used, it should be used uniformly in the financial statements.

- e) Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.
- f) **As vs Schedule III:** where compliance with the requirements of the Act Including Accounting Standards as applicable to the Companies, require any change in treatment or disclosure

including addition, amendment, substitution or deletion in the head / sub – head or any changes inter se, in the Financial Statements or Statements forming part thereof, the same shall be made and the requirements of the Schedule III shall stand modified accordingly.

Definition of Terms:

Terms	Description
Current & Non – Current Assets	<p>Current Assets: An Asset shall classified as Current when it satisfies any of the following criteria –</p> <ol style="list-style-type: none"> It is expected to be realized in, or is intended for sale or consumption in the Company's normal Operating Cycle, It is held primarily for the purpose of being traded, It is expected to be realized within 12 months after the Reporting date. It is cash or cash Equivalent unless it is restricted from being exchanged or used to settle a Liability for at least 12 months after the Reporting Date. <p>Non – Current Assets: All other Assets shall be classified as Non – Current.</p>
Current Liabilities & Non – Current Liabilities	<p>Current Liabilities: A Liability shall classified as Current when it satisfies any of the following –</p> <ol style="list-style-type: none"> It is expected to be settled in the Company's normal Operating Cycle, It is held primarily for the purpose of being traded, It is due to be settled within 12 months after the Reporting Date, or The Company does not have an unconditional right to defer settlement of the Liability for at least 12 months after the reporting date (Terms of a Liability that could, at the option of the counterparty, result in its settlement by the issue of Equity Instruments do not affect its classification). <p>Non – Current Liabilities: All other Liabilities shall be classified as Non – Current.</p>
Operating Cycle (OC)	An Operating Cycle is the time between the Acquisition of Assets for processing & their realization in cash or cash Equivalents. Where the Normal Operating Cycle cannot be identified, it is assumed to have duration of 12 months.
Trade Receivable / Payable (TR / TP)	<ul style="list-style-type: none"> A Receivable shall be classified as a Trade Receivable, if it is in respect of the amount due on account of Goods Sold or Services Rendered in the normal course of Business. A payable shall be classified as a Trade payable, if it is in respect of the amount due on account of Goods Purchased or Services Received in the Normal Course of business.
Other Terms	For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

- 6. Form of preparing a Balance Sheet:** Line items, sub-line items and sub-totals shall be presented as addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry / sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.

PART - I - Form of BALANCE SHEET

Name of the Company : _____

Balance Sheet as at : _____

			Particulars	Notes No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
			1	2	3	4
1	a		EQUITY AND LIABILITIES: Shareholder's funds Share capital			

	b	Reserves and Surplus			
	c	Money received against share warrants			
2		Share application money pending allotment			
3	a	Non-current liabilities			
	b	Long term borrowings			
	c	Deferred tax liabilities (Net)			
	d	Other long term liabilities			
		Long term provisions			
4	a	Current liabilities			
	b	Short term borrowings			
	c	Trade Payable			
	d	Other current liabilities			
		Short - term provisions			
		TOTAL			
1	a	ASSETS:			
	i	Non-current assets			
	ii	Fixed assets			
	iii	Tangible assets			
	iv	Intangible assets			
		Capital Work - in progress			
	b	Intangible assets under development			
	c	Non current investments			
	d	Deferred tax assets (Net)			
	e	Long term loans and advances			
		Other non-current assets			
2	a	Current Assets			
	b	Current Investments			
	c	Inventories			
	d	Trade receivables			
	e	Cash and cash equivalents			
	f	Short - term loans and advances			
		Other current assets			
		TOTAL			

7. General instructions on preparation of Balance Sheet:

a) Share Capital:

- i) The number and amount of shares authorized;
- ii) The number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
- iii) Par value per share;
- iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.
- v) The rights, preference and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital.
- vi) Shares in the company held by each shareholder holding more than 5 percent shares specifying the number of shares held;
- vii) Shares reserved for issue under options and contracts / commitments for the sale of shares / disinvestments, including the terms and amounts.
- viii) For the period of five years immediately preceding the date as at which the Balance Sheet is prepared:
 - Aggregate number and class of shares allotted as fully paid up pursuant to contracts without payment being received in cash.
 - Aggregate number and class of shares allotted as fully paid up by way of bonus shares.

- Aggregate number and class of shares bought back.
 - ix) Calls unpaid (showing aggregate value of calls unpaid by directors and officers)
 - x) Forfeited shares (amount originally paid up)
- b) Reserves and Surplus:**
- i) Reserves and surplus shall be classified as:
 - Capital Reserve;
 - Capital Redemption Reserve;
 - Securities Premium Reserve;
 - Debentures Redemption Reserve;
 - Revaluation Reserve
 - Share Options Outstanding Account.
 - Other Reserves - (specify the nature and purpose of each reserve and the amount in respect thereof);
 - Surplus i.e. balance in Statement of Profit & Loss disclosing allocation and appropriations such as dividend, bonus shares and transfer to / from reserves etc. (Additions and deductions since last balance sheet to be shown under each of the specified heads)
 - ii) A reserve specifically represented by earmarked investments shall be termed as a 'fund'.
 - iii) Debit balance of statements of profit and loss shall be shown as negative figure under the head 'Surplus', Similarly, the balance of 'Reserves' and 'Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.
- c) Long - term Borrowings:**
- i) Long - term borrowings shall be classified as:
 - Bonds / debentures
 - Term loans
 - From banks
 - From other parties
 - Deferred payment liabilities.
 - Deposits
 - Loans and advances from related parties
 - Long term maturities of finance lease obligations.
 - Other loans and advances (specify nature)
 - ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
 - iii) Where loans have been guaranteed by directors and others, the aggregate amount of such loans under each head shall be disclosed.
 - iv) Terms of repayment of term loans and other loans shall be stated.
 - v) Period and amount of continuing default as on the balance sheet date in repayment of loans and interest shall be specified separately in each case.
- d) Other Long Term Liabilities:**
- Other Long term Liabilities shall be classified as:
- i) Trade payable
 - ii) Others

e) Long - term provisions:

The amounts shall be classified as:

- i) Provision for employee benefits
- ii) Others (specify nature)

f) Short - term borrowings:

i) Short - term borrowings shall be classified as:

- Loans repayable on demand
 - From banks
 - From Other parties
- Loans and from related parties
- Deposits
- Other loans and advances (specify nature).

ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

iv) Period and amount of default as on the balance sheet date in repayment of loans and interest shall be specified separately in each case.

g) Other Current liabilities:

The amounts shall be classified as:

- i) Current maturities of long term debt;
- ii) Current maturities of finance lease obligations.
- iii) Interest accrued but not due on borrowings;
- iv) Interest accrued and due on borrowings;
- v) Income received in advance
- vi) Unpaid dividends
- vii) Applications money received for allotment of securities and due for refund and interest accrued thereon. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under 'Other current liabilities'.
- viii) Unpaid matured deposits and interest accrued thereon.
- ix) Unpaid matured debentures and interest accrued thereon.
- x) Other payments (specify nature)
- xi) Interest on debentures

h) Short - term provisions

The amounts shall be classified as:

- i) Provision for employee benefits
- ii) Others (specify nature)

i) Tangible Assets:

i) Classification shall be given as:

- Land.
- Buildings.

- Plant and Equipment.
- Office equipment.
- Furniture and Fixtures.
- Others (specify nature).
- Vehicles.
- ii) Assets under lease shall be separately specified under each class of asset.
- iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.
- iv) Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

j) Intangible assets:

- i) Classification shall be given as:
 - Goodwill.
 - Brands/trademarks.
 - Computer software.
 - Mastheads and publishing titles.
 - Mining rights.
 - Copyrights, and patents and other intellectual property, rights, services and operating rights.
 - Recipes, formulae designs and prototypes.
 - Licenses and franchise.
 - Others (specify nature).
- ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses/reverse shall be disclosed separately.
- iii) Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

k) Non-current investments

- i) Non-current investments shall be classified as trade investments and other investments further classified as:
 - Investment property;
 - Investments in Equity Instruments;
 - Investments in preference shares
 - Investments in Government or trust securities;
 - Investments in debentures or bonds;
 - Investments in Mutual Funds;
 - Investments in partnership firms
 - Other non-current investments (specify nature)

Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

- ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.
- iii) The following shall also be disclosed:
 - Aggregate amount of quoted investments and market value thereof;
 - Aggregate amount of unquoted investments;
 - Aggregate provision for diminution in value of investment

l) Long -term loans and advances:

- i) Long-term loans and advances shall be classified as:
 - Capital Advances;
 - Security Deposits;
 - Loans and advances to related parties (giving details thereof);
 - Other loans and advances (specify nature).
- ii) The above shall also be separately sub-classified as:
 - Secured, considered good;
 - Unsecured, considered good;
 - Doubtful.
- iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
- iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any Director is a partner or a director or a member should be separately stated.

m) Other non-current assets:

Other non-current assets shall be classified as:

- i) Long Term Trade Receivables (including trade receivables on deferred credit terms);
- ii) Others (specify nature)
- iii) Long term Trade Receivables, shall be sub-classified as:
 - - ▶ Secured, considered good;
 - ▶ Unsecured considered good;
 - ▶ Doubtful
 - Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
 - Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated

n) Current Investments**i) Current investments shall be classified as:**

- Investments in Equity Instruments;
- Investment in Preference Shares
- Investments in government or trust securities;
- Investments in debentures or bonds;
- Investments in Mutual Funds;
- Investments in partnership firms
- Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

ii) The following shall also be disclosed:

- The basis of valuation of individual investments
- Aggregate amount of quoted investments and market value thereof
- Aggregate amount of unquoted investments;
- Aggregate provision made for diminution in value of investments.

o) Inventories**i) Inventories shall be classified as:**

- Raw materials;
- Work-in-progress;
- Finished goods;
- Stock-in-trade (in respect of goods acquired for trading);
- Stores and spares;
- Loose tools;
- Others (specify nature).

ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.**iii) Mode of valuation shall be stated****p) Trade Receivables:****i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the Date they are due for payment should be separately stated.****ii) Trade receivables shall be sub-classified as:**

- Secured, considered good;
- Unsecured considered good;
- Doubtful.

iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

iv) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

v) Bills receivable

q) Cash equivalents:

i) Cash and cash equivalents shall be classified as:

- Balances with banks;
- Cheques, drafts on hand;
- Cash on hand;
- Others (specify nature).

ii) Earmarked balances with banks (for example, for unpaid dividend shall be separately stated.

iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

v) Bank deposits with more than 12 months maturity shall be disclosed separately.

r) Short-term loans and advances:

i) Short-term loans and advances shall be classified as:

- Loans and advances to related parties (giving details thereof);
- Others (specify nature).

ii) The above shall also be sub-classified as:

- Secured, considered good;
- Unsecured, considered good;
- Doubtful.

iii) Allowance for bad and doubtful loans and advances shall be disclosed under relevant heads separately.

iv) Loans and advances due by directors or other officers of the company or any them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any is a partner or a director a member shall be separately stated.

s) Other current assets (specify nature): This is an all-inclusive heading which incorporates current assets that do not fit into any other asset categories

t) Contingent liabilities and commitments:

(To the extent not provided for)

i) Contingent liabilities shall be classified as:

- Claims against the company not acknowledged as debt;
- Guarantees;
- Other money for which the company is contingently liable

ii) Commitments shall be classified as:

- Estimated amount of contracts remaining to be executed on capital account and not provided for;

- Uncalled liability on shares and other investments partly paid
 - Other commitments (specify nature).
- u) The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares shall also be disclosed separately.
- v) Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilized amounts have been used or invested.
- w) If, in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion, shall be stated.

PART - II - FORM OF STATEMENT OF PROFIT AND LOSS:

Name of the Company: _____

Profit and Loss Statement for the year ended: _____

Particulars		Note No.	Figures for the current reporting period	Figures for the previous reporting period
I	Revenue from operations		xxx	xxx
II	Other Income		xxx	xxx
III	Total Revenue (I + II)		xxx	xxx
IV	Expenses:			
	Cost of materials consumed		xxx	xxx
	Purchases of Stock in Trade		xxx	xxx
	Changes in inventories of finished goods		xxx	xxx
	Changes in Work in progress and stock in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expenses			
	Other expenses			
	Total Expenses			
V	Profit before exceptional and extraordinary items and tax (III -IV)		xxx	xxx
VI	Exceptional items		xxx	xxx
VII	Profit before extraordinary items and tax (V - VI)		xxx	xxx
VIII	Extraordinary items		xxx	xxx
IX	Profits before tax (VII - VIII)		xxx	xxx
X	Tax Expense:			
	(1) Current tax		xxx	xxx
	(2) Deferred tax		xxx	xxx
XI	Profit (Loss) for the period (IX - X)		xxx	xxx
XII	Earnings per equity share:			
	(1) Basic		xxx	xxx
	(2) Diluted		xxx	xxx

8. General instructions on preparation of Profit & Loss Statement:

- a. In respect of a company other than a finance company revenue from operations Shall disclose separately in the notes revenue from

- i) Sale of products;
- ii) Sale of services;
- iii) Other operating revenues;

Less:

- iv) Excise duty.

b. In respect of a finance company, revenue from operations shall include revenue from:

- i) Interest; and
- ii) Other financial services

Revenue under each of the above heads shall disclose separately by way of notes to accounts to the extent applicable.

c. Finance Costs:

Finance costs shall be classified as:

- i) Interest expense;
- ii) Other borrowing costs;
- iii) Applicable net gain/loss on foreign currency transactions and translation.

d. Other Income:

Other income shall be classified as:

- i) Interest Income (in case of a company other than a finance company);
- ii) Dividend Income;
- iii) Net gain/loss on sale of investments
- iv) Other non-operating income (net of expenses directly attributable to such income)

e. Additional Information:

A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:

i)

- ▶ Employee Benefits Expense [separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses].
- ▶ Depreciation and amortization expense;
- ▶ Any item of income or expenditure which exceeds one per cent of the revenue from operations or Rs.1,00,000, whichever is higher;
- ▶ Interest Income;
- ▶ Interest Expense;
- ▶ Dividend Income;
- ▶ Net gain/loss on sale of investments;
- ▶ Adjustments to the carrying amount of investments;
- ▶ Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
- ▶ Payments to the auditor as
 - auditor,
 - for taxation matters,

- for company law matters,
- for management services,
- for other services,
- for reimbursement of expenses;
- ▶ Details of items of exceptional and extraordinary nature;
- ii) Prior period items;
- iii)
 - ▶ In the case of manufacturing companies,
 - Raw materials under broad heads.
 - Goods purchased under broad heads.
 - ▶ In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.
 - ▶ In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads.
- iv) In the case of all concerns having works in progress, works-in-progress under broad heads.
- v) Expenditure incurred on each of the following items, separately for each items:
 - ▶ Consumption of stores and spare parts.
 - ▶ Power and fuel
 - ▶ Rent
 - ▶ Repairs to buildings
 - ▶ Repairs to machinery
 - ▶ Insurance
 - ▶ Rates and taxes, excluding, taxes on income.
 - ▶ Miscellaneous expenses
- vi)
 - ▶ Dividends from subsidiary companies
 - ▶ Provisions for losses of subsidiary companies

Note: Broad heads shall be decided taking into account the concept of materiality and presentation of true and fair view of financial statements.

D. COMPUTATION OF MANAGERIAL REMUNERATION:

- a) Managerial Remuneration is calculated as a percentage on profit.
- b) Managerial remuneration payable by a company is governed by various sections (Sec.197, 198) of the Companies Act, 2013 and Schedule - V under the Companies Act, 2013.
- c) **Overall Limit:** As per **Sec. 197**, **total managerial remuneration** payable by a public company, to its directors, including managing director and whole time director, and its manager in respect any financial year **shall not exceed 11% of net profits**.
 - i) **Net profit** basing on which the remuneration is payable shall be **computed** in the manner laid down in **Sec. 198**
 - ii) For calculation of Net profits, the **remuneration of the directors shall not be deducted from the gross profits**.
 - iii) With the approval of central government, the company in general meeting may authorize the payment of remuneration exceeding 11%.
- d) **Individual Limits:** As per Sec. 197 of Companies Act 2013

- i) The remuneration payable to any **one managing director or whole time director or manager** shall **not exceed 5% of net profits**.
- ii) If there is **more than one such** director remuneration shall **not exceed 10% of net profits to all** such directors and manager taken together.
- iii) The remuneration payable **to directors who are neither managing directors nor whole time directors** shall **not exceed**:
 - 1% of net profits - If there is a **managing director or whole time director or manager**.
 - 3% of net profits - In any other case

e) **Provisions of Schedule V of the Companies Act, 2013:**

It consists of totally four parts.

Part - I deals with the **conditions** to be fulfilled **for the appointment** of a Managing Director (or) Whole time Director (or) Manager without approval of the Central Government.

Part - II deals with **remuneration** payable to managerial person **by companies having profits and having no profits or inadequate profits**.

Part - III specifies the **provisions applicable to part I and II**.

Part - IV deals with the **Central Government power** to relax any rules.

f) **Part - II of Schedule - V consists of five sections:**

Section - I: Remuneration payable by companies having profits:

This section specifies that **remuneration** is payable by companies having **profits** will be subject to the provisions of **Sec. 197**

Section - II: Remuneration payable by companies having no profits or inadequate profit without central government approval.

	Where the effective capital* is	Maximum Managerial remuneration payable
1.	Negative or less than 5 crores	60 lakhs
2.	5 crores and above but less than 100 crores	84 lakhs
3.	100 crores and above but less than 250 crores	120 lakhs
4.	250 crores and above	120 lakhs plus 0.01% of the effective capital in excess of Rs.250 crores.

Notes:

1. Above limits shall be doubled if special resolution is passed by shareholders
2. It is hereby clarified that for a period less than one year, the limits shall be pro-rated.

3. * Effective Capital:

Explanation I - For the purposes of Section II of this Part,

Paid-up share capital (excluding share application money or advances against shares)	XXX
Add: Share premium	XXX
Reserves and surplus (excluding revaluation reserve)	XXX
Long-term loans and deposits repayable after one year (Note)	XXX
Less: Investments (Other than investments held by an investment company)	XXX
Accumulated losses	XXX
Preliminary expenses not written off	XXX
Effective Capital	XXX

Note: Long-term loans do not include working capital loans, over drafts, interest due on loans unless funded, bank guarantee, etc., and other short-term arrangements.

g) Sec 198: Ascertainment of profit for managerial remuneration:

Computation of Net Profits: In computing "Net Profits"

Treatment	Items
A. Credit shall be given for	Subsidies received from Government / Public Authority.
B. Credit shall not be given for	<ol style="list-style-type: none"> 1. Premium on Issue or Sale of Shares or Debentures. 2. Profit on Sale of Forfeited Shares 3. Profits of capital nature, including profit from sale of whole or part of undertaking(s). 4. Profits from Sale of any Immovable Property or Fixed Assets of Capital Nature (See Note below) 5. Change in carrying amount of an Asset or liability recognised in Equity Reserves, including Surplus in P&L A/c, on measurement of the Asset or Liability at Fair Value.
C. Deductible Items	<ol style="list-style-type: none"> 1. All usual working charges. 2. Directors' Remuneration. 3. Bonus or Commission Payable to Employees / Technicians, etc. 4. Any tax on excess or abnormal profits notified by Central Govt. 5. Any tax on business profits imposed for special reasons and notified by Central Govt. 6. Interest on Debentures issued by the Company. 7. Interest on Mortgages executed by the Company. 8. Interest on Loans & Advances secured by a charge on its Fixed or Floating Assets. 9. Interest on Unsecured Loans and Advances. 10. Expenses on Repairs (excluding Repairs of capital nature.) 11. Outgoings including contribution to Charitable Funds u/s 181, 12. Depreciation to the extent specified u/s 123, i.e. Depreciation in the manner specified in Schedule 13. Brought forward Unabsorbed Losses of earlier years [Loss of earlier years shall be computed in accordance with Sec.198] 14. Compensation or Damages paid on account of any legal liability including a liability arising from a breach of contract. 15. Insurance against risk of meeting liability arising from breach of contracts 16. Bad Debts written off or adjusted.
D. Non-deductible Items	<ol style="list-style-type: none"> 1. Income Tax, Super Tax or any other Tax on Income Payable 2. Any compensation, damages or payments made voluntarily 3. Loss of capital nature, including Loss on Sale of part or whole of undertaking(s) other than Loss on Sale of Assets where WDV > Sale Value. 4. Change In carrying amount of an Asset or Liability recognised in Equity Reserves, including Surplus in P & L A/c, on measurement of the Asset or Liability at Fair Value.

Notes:

1. "Remuneration" means any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income Tax Act, 1961 and includes reimbursement of any Direct Taxes to the managerial person.
2. A director **may receive a fee for each meeting of the board or** a committee thereof, attended by him. But the **remuneration referred to above shall not include such fees.** It should be noted here that no fee is payable to whole - time director or managing director for attending the meeting of the board or committee thereof.

3. The **provision of this Section shall not apply to a private company unless it is a subsidiary of a public company.**
4. The amount of **depreciation to be deducted shall be** the amount of depreciation on assets as shown by the books of the company at the end of financial year **as per part 'C' of Schedule - II** of the Companies Act, 2013.
5. If any asset is sold or discarded before depreciation has been provided in full, the excess, if any, of the written down value over sale proceeds or scrap value shall be written off in the financial year in which it is sold or discarded.

E. DIVIDEND DISTRIBUTION RULES:

1. Meaning of Dividend:

- a) **Dividend** ordinarily means that portion of divisible profits or reserves which is distributed among the shareholders of a company according to the no. of shares held by each of them and the rights attached thereto.
- b) Such a distribution **may involve payment of cash** i.e. Dividend **or** may not i.e. **in the form of Bonus shares.**

2. Sources for Dividend Distribution: As per Section 123 (1) **dividend shall be declared or paid** by a company for any financial year **only out of the following:**

- a) Out of the **profits** of the company **for that financial year** arrived at **after providing for depreciation** in accordance with the provisions of section 123(2), or
- b) Out of the **profits for any previous financial years** arrived at **after providing for depreciation** in accordance with the provisions of that sub section **and remaining undistributed** i.e. Reserves subject to fulfilment of conditions in Companies (Declaration and payment of Dividend) Rules, 2014 **or**
- c) Out of **both the above;**
- d) Out of the **moneys provided by the Central Government** or any State Government for the payment of dividend by the Company in pursuance of any guarantee given by that government.

3. Interim Dividend:

- a) The term **"Dividend"** includes **interim dividend** as per Section 2(35) of the Companies Act, 2013.
- b) As per Section 124(3), the Board of Directors of a company **may declare** interim dividend during any financial year **out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought** to be declared.
- c) **In case** the company has incurred **loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend**, such interim dividend **shall not be** declared at a rate **higher than the average dividends declared by the company during the immediately preceding three financial years.**

4. Companies (Declaration and Payment of Dividend) Rules, 2014:

- a) The **rate** of dividend declared **shall not exceed the average of the rates** at which dividend was **declared** by it **in the three years immediately preceding that year.** Provided that this rule shall not apply to a company, which has not declared any dividend in each of the three preceding financial year.
- b) The **total amount to be drawn** from such accumulated profits **shall not exceed one-tenth of** the sum of its **paid-up share capital and free reserves** as appearing in the latest audited financial statement.
- c) The **amount so drawn** shall **first be utilized to set off the losses** incurred in the **financial year in which dividend is declared** before any dividend in respect of equity shares is declared.

- d) The **balance of reserves** after such withdrawal **shall not fall below fifteen per cent of its paid up share capital** as appearing in the latest audited financial statement.
- e) **No company shall declare** dividend **unless** carried over **previous losses and depreciation not provided** in previous year are **set off** against profit of the company of the current year.
- f) **The loss or depreciation, whichever is less**, in previous years is set off against the profit of the company for the year for which dividend is declared or paid.

5. Transfer to Reserves:

- a) The Board of Directors are **free** and **can appropriate a part of the profits to the credit of a reserve or reserves as per section 123 (1)** of the Companies Act, 2013.
- b) Appropriation of a part of profit is **sometimes made under law**.
For example, under the Banking Regulation Act, a fixed percentage of the profit of a banking company must first be transferred to the General Reserve before any dividend can be distributed.
- c) Apart from appropriations aforementioned, it **may also be necessary to provide for losses and arrears of depreciation and to exclude capital profit**, as mentioned earlier, to arrive at the amount of divisible profit.

6. Meaning of Capital reserve:

- a) It is the reserve which does **not** include any amount regarded as **free for distribution** through the Profit and Loss account.
- b) **Securities Premium and Capital Redemption Reserve** Account should not be credited to capital reserve; these accounts have **to be kept separate**.
- c) Only profits or a **surplus of a capital nature can be credited** to such a reserve. For instance:
 - i) Profit prior to incorporation.
 - ii) Capital profit on sale of fixed assets when these are not available for distribution as dividends in the circumstances mentioned below:
 - ▶ Where the profit on sale of a fixed asset has not been realized; or
 - ▶ Where the profit on sale of fixed assets though realized is likely to be wiped out by the deficiency on revaluation of other assets; or
 - ▶ Where the Articles of Association do not permit distribution of such profit as a dividend.
 - iii) The excess of the value of net assets over the price paid for the acquisition of a business.
 - iv) Profit on re-issue of forfeited shares.
 - v) The credit balance in the Capital Reduction Account

7. Dividend on preference shares:

- a) Holders of preference shares are **entitled to** receive a dividend at a **fixed rate before** any dividend is **declared on equity shares**.
- b) But such a right can be exercised **subject to** there being **profits** and the Directors recommending payment of the dividend.

8. Dividend on partly paid shares:

- a) **Provision in Articles: Dividend is payable** depending on the provision in this regard that there may be in the Articles.
- b) **No Such Provision:**
 - i) In such a case the amount of dividend payable will be **calculated on the amount paid up on shares**, and while doing so, the **dates** on which the amounts were paid must be taken into account.

- ii) Amount of dividend payment will have **to be calculated on nominal portion** of the amount paid up on those shares.
- iii) If and so long as **nothing is paid upon any of the shares** in the company, **dividends** may be **declared and paid according to the nominal** amounts of the shares.
- iv) In the case of **fresh issue** of capital, the holders thereof, unless precluded by the terms of issue, are **entitled to receive dividend pari passu** with the shares already issued.

9. **Calls in Advance:** Calls paid in advance do not rank for payment of dividend.

10. **Payment of Dividend:**

- a) As per Section 124 of the Companies Act, 2013 where a **dividend** has been **declared** by a company **but has not been paid or claimed** within thirty days from the date of the declaration to any shareholder entitled to the payment of the dividend, the company shall, within seven days from the date of expiry of the said period of thirty days, **transfer** the total amount **to** a special account called the **Unpaid Dividend Account**.
- b) If it remains **unpaid or unclaimed for a period of seven years** from the date of such transfer then the amount shall be **transferred** by the company along with interest accrued, if any, thereon **to the Fund "Investor Education and Protection Fund"** established under section 125.

11. **Dividend distribution tax:**

- i) DDT is **chargeable on any amount declared, distributed or paid as dividends** (whether interim or otherwise).
- ii) The dividends chargeable to DDT may be out of the current profits or accumulated profits.
- iii) The rate of DDT is fifteen per cent (excluding surcharge of 12% plus secondary and higher education cess is (2+1) 3%).
Note: As per the Finance Act, 2018 in place of Secondary and Higher education cess, Health and education cess has been introduced @ 4%.
- iv) DDT shall be **payable even if no income-tax is payable** by the domestic company on its total income.
- v) DDT is **payable to the credit of the Central Government within 14 days** of declaration, distribution or payment whichever is earliest.
- vi) As per AS 4 (Revised), Final dividend declared after the balance sheet date is recognised in the financial year in which it has been approved by the shareholder, i.e., there is no provision for dividend on the balance sheet date (to be disclosed by way of note only).
- vii) In view of this, DDT on dividend, being directly linked to the amount of the dividend concerned, should also be reflected in the accounts of the same financial year even though the actual tax liability in respect thereof may arise in a different year.
- viii) With effect from 1st Oct, 2014 dividend and income distribution tax is leviable on gross dividend / income and not on the net dividend / income distributed to shareholders and unit holders as per Income- tax Act, 1961.

Example: X Ltd., a domestic company, has distributed on 5th April 2015, dividend of Rs. 230 lakh to its shareholders. Compute the Dividend Distribution tax payable by X Ltd.

Answer:

Calculation of Corporate dividend tax

Particulars	Rs. in lakh
Dividend distributed by X Ltd.	230
Add: Increase for the purpose of grossing up of dividend $(15 \times 230 / 100 - 15)$	<u>40.58</u>
Gross dividend	<u>270.59</u>

Dividend distribution tax @ 15% [15% of Rs. 270.59 lakh]	40.59
Add: Surcharge @ 12%	<u>4.88</u>
	45.47
Add: Health and Education cess @ 4%	<u>1.8188</u>
Dividend Distribution tax	<u>47.2888</u>

12. Disclosure and Presentation of DDT in Financial Statements

- Since the DDT liability relates to distribution of profits as dividends which are disclosed as appropriation /allocation of profit in the 'Notes to Accounts' of 'Reserves and Surplus', it is appropriate that the liability in respect of DDT should also be disclosed therein.
- DDT liability should be recognised in the accounts of the same financial year in which the dividend concerned is recognised.
- DDT liability should be disclosed separately in the 'Notes to Accounts' of 'Reserves and Surplus', as follows:
- | | | |
|-----------------------------------|--------------|-------|
| Dividend | xxxxx | |
| Dividend Distribution tax thereon | <u>xxxxx</u> | xxxxx |
- Provision for Dividend Distribution tax should be disclosed separately under the head 'Short Term Provisions' in the balance sheet.

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: State under which head these Accounts should be classified in Balance Sheet as per Schedule III of the Companies Act

- Share Application Money received in excess of issued Share Capital.
- Share Option Outstanding Account.
- Unpaid Matured Debentures and interest accrued thereon.
- Uncalled Liability on Shares and other partly paid investments.
- Calls Unpaid.
- Intangible Assets under Development
- Money received against Share Warrants
- Long Term Maturity of Finance Lease Obligation
- Current Maturity of long term Debt.
- Claims against the Company not acknowledged as debt.
- Bank Overdraft.
- Preliminary Expenses.
- Employee's earned leave payable on retirement.
- Cheques / Drafts on hand.
- Calls – in – Advance.
- Bills payables
- Outstanding expenses
- Cheques/drafts on hand
- Bill Discounted but not yet matured.

(SOLVE PROBLEM NO 1 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 2: Schedule - III - Operating cycle, WIP disclosure

Vasudha Ltd provides following information:

- i) Raw Material Stock Holding Period: 3.5 months, Work-in-Progress Holding Period: 1 month
 Finished Goods Holding Period: 4.5 months, Debtors Collection Period: 6 months
 You are required to compute the Operating Cycle of Vasudha Ltd, What would happen if the Trade Payables of the Company are paid in 14 months - whether these should be classified as Current or Non-Current Liability?
- ii) The Management of Kshitij Ltd contents that the Work-in-Progress is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of Opening and Closing Work-in-Progress would be more or less than same, Accordingly, the Management had not separately disclosed the Work-in-Progress in its Financial Statements. Comment in line with Schedule III.

(ANS.: OPERATING CYCLE: 15 MONTHS; II) SCHEDULE III REQUIRES DISCLOSURE OF CHANGES IN INVENTORIES IN WIP IN P&L A/C)
 (SOLVE PROBLEM NO 2,3 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 3: Sagar Ltd has issued convertible bonds for Rs. 65 Crores which are due to mature on 30th September, 2018.

While preparing financial statements for the year ending 31st March, 2018, company expects that bond holders will not exercise their option of converting bonds to equity shares. How should the company classify the convertible bond as per requirement of Schedule-III to the Companies Act, 2013 as on 31st March, 2018?

Also state, whether classification of convertible bonds as per schedule-III to the companies Act will changes if the company expects that convertible bond holders will convert their holdings into equity shares of Sagar Ltd.

(A) (N18 (N) - 5M)

(SOLVE PROBLEM NO 4 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 4: In the financial statements of the financial year 2014-15, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of Rs. 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment.

(NEW SM)

(SOLVE PROBLEM NO 5 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 5: Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 20X1:

Amount (Rs in lakhs)

Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of Rs 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

(NEW SM) (MTP N17)

(SOLVE PROBLEM NO 6 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 6: Sumedha Ltd. took a loan from bank for Rs 10,00,000 to be settled within 5 years in 10 equal half yearly installments with interest. First installment is due on 30.09.20X1 of Rs.1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Sumedha Ltd. for the year ended 31st March, 20X1 according to Schedule III. (NEW SM)

(SOLVE PROBLEM NO 7 ASSIGNMENT PROBLEMS AS REWORK)

PROBLEM 7: From the following information, prepare the relevant notes to accounts:

Amount (Rs in lakhs)

Closing stock of materials	39.8
Closing stock of WIP	200.00
Closing stock of finished goods	400.00
Loose tools	12.00
Stores & spares	8.00
Sundry Debtors	80.00
Provision for doubtful debts	8.00
Premium on Red. of debentures	20.00
Buildings	200.00
Plant and equipment	100.00
Vehicles	25.00
Furniture and fixtures	30.00
Provision for Depreciation:	
Buildings	10.00
Plant and equipment	20.00
Vehicles	5.00
Furniture and fixtures	3.00

(SOLVE PROBLEM NO 8 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 8: X Ltd. is a group engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in leasing of properties –mobile towers. The accountant showed the rent arising from leasing of such properties as other income in the statement of profit and loss. Comment whether the classification of the rent income made by the accountant is correct or not in schedule III to the Company Act 2013. (N19(N)-5M)

(SOLVE PROBLEM NO 9 ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 9: (PRINTED SOLUTION AVAILABLE) The following is the Draft Profit & Loss A/c of Mudra Ltd., the year ended 31st March, 2015:

Particulars	Amount	Particulars	Amount
To Administrative, Selling and distribution expenses	8,22,542	By Balance b/d	5,72,350
To Directors fees	1,34,780	By Balance from Trading A/c	40,25,365
To Interest on debentures	31,240	By Subsidies received from Govt.	2,73,925
To Managerial remuneration	2,85,350		
To Depreciation on fixed assets	5,22,543		
To Provision for Taxation	12,42,500		

To General Reserve	4,00,000		
To Investment Revaluation Reserve	12,500		
To Balance c/d	14,20,185		
	48,71,640		48,71,640

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 5,75,345.

You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013. (A) (NEW SM) (ANS.: PROFIT U/S 198: RS. 27,35,383; MAXIMUM MANAGERIAL REMUNERATION: RS. 3,00,892)

(SOLVE PROBLEM NO. 10 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If instead of Directors fees it is Director's remuneration.

Note: _____

PROBLEM 10: The following extract of Balance Sheet of X Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2015

Particulars	Amount
Liabilities:	
Authorized capital:	
20,000, 14% preference shares of Rs.100	20,00,000
2,00,000 Equity shares of Rs.100 each	2,00,00,000
	2,20,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of Rs.100 each fully paid	15,00,000
1,20,000 Equity shares of Rs.100 each, Rs.80 paid-up	96,00,000
Share suspense account	20,00,000
Reserves and surplus:	
Capital reserves (Rs. 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
Secured loans:	
15% Debentures	65,00,000
Unsecured loans:	
Public deposits	3,70,000
Cash credit loan from SBI (short term)	4,65,000
Current Liabilities:	
Trade Payables	3,45,000
Assets:	
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account	15,25,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if X Ltd. is an investment company? (A) (NEW SM, SIMILAR: MTP1 M18 (N&O))

(ANS.: WHERE X LTD. IS A NON-INVESTMENT COMPANY RS. 90,40,000, WHERE X LTD. IS AN INVESTMENT COMPANY RS. 1,65,40,000) (SOLVE PROBLEM NO. 11, 12 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If CRR OF Rs.1,20,000 is also given in the question

Note: _____

PROBLEM 11: Due to inadequacy of profits during the year ended 31st March, 2015, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilized from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

Particulars	Rs.
17,500 9% Preference shares of Rs.100 each, fully paid up	17,50,000
8,00,000 Equity shares of Rs.10 each, fully paid up	80,00,000
General Reserves as on 1.4.2014	25,00,000
Capital Reserves as on 1.4.2014	3,00,000
Revaluation Reserves as on 1.4.2014	3,50,000
Net profit for the year ended 31st March, 2015	3,00,000

Average rate of dividend during the last five year has been 12%.

(B) (NEW SM)

(ANS: AMOUNT CAN BE UTILIZED FROM RESERVES RS. 6,57,500)

(SOLVE PROBLEM NO. 13 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If Average rate of dividend during the last five year has been 9%.
2. If General Reserve balance is Rs.15,00,000 instead of Rs.25,00,000.

Note: _____

PROBLEM 12: X Ltd. proposed to distribute dividend amounting to Rs. 425 lacs for the year ended 31st March, 2015. The Dividend Distribution tax liability (@ 17.304%) arises as per Income-tax Act, 1961. In this case, calculate the grossing-up of dividend and separately disclosed the charge for DDT in the 'Notes to Accounts' of 'Reserves and Surplus'.

(C) (NEW SM) (ANS: DDT RS. 86.52 LACS.) (SOLVE PROBLEM NO. 14 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 13: From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 2014 as required by Part I, revised Schedule III of the Companies Act.

Particulars	Debit Rs.	Credit Rs.
Equity Share Capital (Face value of Rs. 100 each)		50,00,000
Call in Arrears	5,000	
Land & Building	27,50,000	
Plant & Machinery	26,25,000	
Furniture	2,50,000	
General Reserve		10,50,000
Loan from State Financial Corporation		7,50,000
Stock:		
Raw Materials	2,50,000	
Finished Goods	10,00,000	
Provision for Taxation		6,40,000
Sundry Debtors	10,00,000	

Advances	2,13,500	
Profit & Loss Account		4,33,500
Cash in Hand	1,50,000	
Cash at Bank	12,35,000	
Unsecured Loan		6,05,000
Trade payables (for Goods and Expenses)		8,00,000
Loans & advances from related parties		2,00,000

The following additional information is also provided:

- 10,000 Equity shares were issued for consideration other than cash.
- Debtors of Rs. 2,60,000 are due for more than 6 months.
- The cost of the Assets were:
Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500
- The balance of Rs. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.
- Balance at Bank includes Rs. 10,000 with omega Bank Ltd., which is not a Scheduled Bank.
- Transfer Rs 20,000 to general reserve is proposed by Board of directors.
Board of directors has declared dividend of 5% on the paid up capital.

(C) (NEW SM, MTP1 N18 (N&O), MTP2 N18 (N&O), MTP1 M18 (N&O)) (ANS.: TOTAL OF BALANCE SHEET: RS.94,73,500)

(SOLVE PROBLEM NO. 15,16 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What would be the impact on the above question?

- If instead of "declared dividend" it is "Proposed dividend"
- If an additional point is given that, Company had a contract for the erection of machinery at Rs.10,00,000 which is still incomplete.

PROBLEM 14: The following is the Trial Balance of Omega Limited as on 31.3.20X2:

(Figures in Rs.'000)

Particulars	Debit	Particulars	Credit
Land at cost	220	Equity Capital (Shares of Rs. 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.X2)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

- The authorized share capital of the company is 40,000 shares of Rs 10 each.
- The company on the advice of independent valuer wish to revalue the land at Rs 3,60,000.
- Declared final dividend @ 10%.

- iv) Suspense account of Rs 4,000 represents cash received for the sale of some of the machinery on 1.4.20X1. The cost of the machinery was Rs 10,000 and the accumulated depreciation thereon being Rs 8,000.
- v) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Omega Limited's Balance Sheet as on 31.3.20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.20X2 as per Schedule III. Ignore previous years' figures & taxation.

(C) (NEW SM) (ANS.: BALANCE SHEET TOTAL: RS. 10,82,000)

(SOLVE PROBLEM NO. 17 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If it is given in the additional information that, "On 31st March, the Company issued bonus shares to shareholders on 1:3 basis. No entry relating to this has yet been made."
2. If it is given in the additional information that, Bills Discounted but not matured amounted to Rs.2,00,000

Note: _____

PROBLEM 15: (PRINTED SOLUTION AVAILABLE) You are required to prepare a Profit and Loss Account and Balance Sheet from the following Trial Balance extracted from the books of the international Hotels Ltd., on 31st March, 2015.

Particulars	Debit (Rs.)	Credit (Rs.)
Authorized Capital divided into 5,000 6% Preference Shares of Rs.100 each and 10,000 equity shares of Rs.100 each		15,00,000
Subscribed Capital:		
5,000 6% Preference Shares of Rs.100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars etc	45,800	
Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700
Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Stock on hand, 1st April, 2014:		
Wines, Cigarettes, Cigars etc	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of Rs.100 each (6%)		2,00,000
Profit and Loss Account		41,500

Trade payables		42,000
Trade receivables	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve		2,00,000
	19,75,000	19,75,000
Wages and Salaries Outstanding	1,280	
Stock on 31st March, 2015:		
Wines Cigarettes and Cigars, etc.	22,500	
Foodstuffs	16,400	
Depreciation:		
Furniture and Fittings @ 5% p.a.: Land & Buildings @ 2% p.a.		

The Equity capital on 1st April, 2014 stood at Rs.7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs.60 paid. The directors made a call of Rs.40 per share on 1st October 2014. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs.90 per share as fully paid. The Directors declare a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

(C) (NEW SM)

(ANS.: NET PROFIT FOR THE PERIOD RS. 22,245) (SOLVE PROBLEM NO. 18 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If Market Value of Investments is Rs.2,50,000.
2. If Preliminary Expenses included Rs.2,000 audit fees.

Note: _____

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS**PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 9, 15.****PROBLEM NO. 9**

Calculation of Net Profit u/s 198 of the Companies Act, 2013:

Particulars	Amount	Amount
Balance from Trading A/c		40,25,365
Add: Subsidies received from Government		2,73,925
		42,99,290
Less: Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on fixed assets as per Schedule II	5,75,345	(15,63,907)
Profit u/s 198		27,35,383

Maximum Managerial remuneration under Companies Act, 2013 = 11% of Rs.27,35,383 = Rs. 3,00,892

PROBLEM NO: 15**Statement of Profit and Loss of International Hotels Ltd. for the year ended 31st March, 2015**

Particulars	Note	Amount
I. Revenue from operations	11	1,83,200
II. Other income (Discount received)		3,300
III. Total Revenue (I + II)		1,86,500

IV. Expenses:		
Cost of materials consumed	12	25,060
Purchases of Inventory-in-Trade	13	45,800
Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	14	(9,700)
Employee benefits expense	15	29,580
Other operating expenses	16	18,000
Selling and administrative expenses	17	14,200
Finance costs	18	12,000
Depreciation and amortization expense	19	21,315
Other expenses	10	8,000
Total expenses		1,64,255
V. Profit (Loss) for the period (III - IV)		22,245

Balance Sheet of International Hotels Ltd. as on 31st March, 2015

Particulars	Note	Amount
Equity and Liabilities		
1. Shareholders' funds		
a) Share capital	1	13,00,000
b) Reserves and Surplus	2	1,74,745
2. Non-current liabilities		
a) Long-term borrowings	3	2,00,000
3. Current liabilities		
a) Trade Payables	4	42,000
b) Other current liabilities	5	13,280
c) Short-term provisions	6	94,000
Total		18,24,025
ASSETS		
1. Non-current assets		
a) Fixed assets		
i) Tangible assets	7	9,14,985
ii) Intangible assets (Goodwill)		5,00,000
b) Non-current investments		2,72,300
2. Current assets		
a) Inventories	8	38,900
b) Trade receivables		19,260
c) Cash and cash equivalents	9	78,580
Total		18,24,025

Notes to Accounts

Particulars	Amount	Amount
1. Share Capital		
Equity share capital		
Authorised:		
10,000 Equity shares of Rs. 100 each		10,00,000
Issued & subscribed		
8,000 Equity Shares of Rs. 100 each		8,00,000
Preference share capital		
Authorised:		
5,000 6%Preference shares of Rs. 100 each		5,00,000
Issued & subscribed		
5,000 6%Preference shares of Rs. 100 each		5,00,000
Total		13,00,000
2. Reserves and Surplus		

Capital reserve		5,000
General reserve	2,00,000	
Less: Amount used to pay dividend	(30,255)	1,69,745
Surplus (Profit & Loss A/c)	22,245	
Add: Balance from previous year	41,500	
Transfer from General Reserve	30,255	
Appropriations		
Proposed Dividend	(94,000)	-
Profit (Loss) carried forward to Balance Sheet	0	0
Total		1,74,745
3. Long-term borrowings		
Secured 6% Debentures		2,00,000
Total		2,00,000
4. Trade Payables		42,000
5. Other current liabilities		
Wages and Salaries Outstanding	1,280	
Interest on debentures	12,000	13,280
6. Short-term provisions		
Proposed dividend		
Preference Dividend		30,000
Equity Dividend		64,000
Total		94,000
7. Tangible assets		
Freehold land & Buildings	8,50,000	
Less: Depreciation	(17,000)	8,33,000
Furniture and Fittings	86,300	
Less: Depreciation	(4,315)	81,985
Total		9,14,985
8. Inventories		
Wines, Cigarettes & Cigars, etc.		22,500
Foodstuffs		16,400
Total		38,900
9. Cash and cash equivalents		
Cash at bank		76,380
Cash in hand		2,200
Total		78,580
10. Other expenses		
Preliminary Expenses		8,000
Total		8,000
11. Revenue from operations		
Sale of products		
Wines, Cigarettes, Cigars etc.	68,400	
Food	57,600	1,26,000
Sale of services		
Room Rent	48,000	
Billiards	5,700	
Miscellaneous Receipts	2,800	
Transfer fees	700	57,200
Total		1,83,200
12. Cost of materials consumed		
Opening Inventory	5,260	

Add: Purchases during the year	36,200	
Less: Closing Inventory	(16,400)	25,060
Total		25,060
13. Purchases of Inventory-in-Trade		
Wines, Cigarettes etc.		45,800
Total		45,800
14. Changes in inventories of finished goods work-in-progress and Inventory-in-Trade:		
Wines, Cigarettes etc.		
Opening Inventory	12,800	
Less: Closing Inventory	(22,500)	(9,700)
Total		(9,700)
15. Employee benefits expense		
Wages and Salaries	28,300	
Add: Wages and Salaries Outstanding	1,280	29,580
Total		29,580
16. Other operating expenses		
Rent, Rates and Taxes		8,900
Coal and Firewood		3,290
Laundry		750
Carriage and Cooliage		810
Repairs		4,250
Total		18,000
17. Selling and administrative expenses		
Advertising		8,360
Sundry Expenses		5,840
Total		14,200
18. Finance costs		
Interest on Debentures		12,000
Total		12,000
19. Depreciation and amortization expense		
Land and Buildings	17,000	
Furniture & Fittings	4,315	21,315
Total		21,315

ASSIGNMENT PROBLEMS

PROBLEM 1: State under which head these Accounts should be classified in Balance Sheet as per Schedule III of the Companies Act

- i) Share Application Money pending allotment.
- ii) Revaluation Reserve.
- iii) Proposed Dividend.
- iv) Bills Receivable.
- v) Dividend Distribution Tax @ 20%
- vi) Arrears of Fixed Cumulative Dividends on Preference Shares.
- vii) Proposed Dividend
- viii) Debt Balance of Profit & Loss A/c
- ix) Computer Software under Development

- x) Building under construction
- xi) Uncalled Liability on Partly paid Debentures held as investments.
- xii) Calls unpaid

PROBLEM 2: KAY Ltd is in the process of finalizing its accounts for year ended 31st March, 2014 and furnishes the following information.

- a) Finished Goods normally are held for 30 days before sale.
- b) Sales realization from Debtors usually takes 60 days from date of Credit Invoice.
- c) Raw Materials are held in stock to cover one month's production requirements.
- d) The holding period in respect of Unfinished Goods is 30 days
- e) Being a monopoly, KAY Ltd enjoys a credit period of 12.5 months from its suppliers who sometimes at the end of their credit period opt for conversion of their dues into long term debt of KAY Ltd.

Compute the Operating Cycle of KAY Ltd as per Schedule III of Companies Act. As the suppliers of the Company are paid off after a credit period of 12.5 months should this be part of Current Liability? Would your answer be the same if the Creditors are settled in 330 days?

PROBLEM 3: The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Schedule III. (NEW SM)

PROBLEM 4: Astha Ltd. has FCCBs worth Rs. 100 crore which are due to mature on 31st December, 2016. While preparing the financial statements for the year ending 31st March, 2016, it is expected that the FCCB holders will not exercise the option of converting the same to equity shares. How should the company classify the FCCBs on 31st March, 2016? Will your answer be different if the company expects that FCCB holders will convert their holdings into equity shares of Astha Ltd.?

PROBLEM 5: In the financial statements of the financial year 2014-15, Beta Ltd. has mentioned in the notes to accounts that during financial year, 96,000 equity shares of Rs. 40 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment

PROBLEM 6: Past Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 20X1:

	Amount (Rs in lakhs)
Securities Premium Account	160
Capital Reserve	120
General Reserve	180

The company had an accumulated loss of Rs 500 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

PROBLEM 7: Ideal Quality Ltd. took a loan from bank for Rs 35,00,000 to be settled within 5 years in 10 equal half yearly installments with interest. First installment is due on 30.09.2019 of Rs.3,50,000. Determine how the loan will be classified in preparation of Financial Statements of Ideal Quality Ltd. for the year ended 31st March, 2019 according to Schedule III.

PROBLEM 8: (a) From the following information, prepare the relevant Notes to Accounts:

Particulars	Cost	Provision for Depreciation / Amortization
Buildings	400	20
Plant and Equipment	200	40
Vehicles	50	10
Furniture and Fixtures	60	6
Brands	200	20
Computer Software	90	54

(b) Bills discounted but not yet matured

300 Lakhs Share of X Ltd of Rs. 10 each, Rs. 8 paid up held as investments.

6 Lakhs, 14% Debentures of Rs. 100 each, Rs. 80 paid up held as Investments.

PROBLEM 9: Combine Ltd. is a group engaged in manufacture and sale of industrial and consumer products. One of its division deals with the real estate. The real estate division is continuously engaged in leasing of real estate properties. The accountant showed the rent arising from leasing of real estate as 'other income' in the Statement of Profit and Loss. State, whether the classification of the rent income made by the accountant is correct or not in light of Schedule III to the Companies Act. 2013?

PROBLEM 10: The following is the Profit and Loss Account of the Lalataksha Papers Ltd for the year ending 31st March.

Particulars	Rs.	Particulars	Rs.
To Admin Selling & Finance Expenses	5,75,804	By Balance b/d	4,12,632
To National Defense Fund	20,000	By Balance from Trading Account	38,35,414
To Directors Fees	54,780	By Interest on Investments	10,964
To Interest on Debentures	21,380	By Transfer fee	537
To Managing Director's Remuneration	3,70,500	By Profit on Sale of Plant Amount Realized 40,000	
To Depreciation of Fixed Assets	4,69,713	Less: Book Value (32,000)	8,000
To Provision for Taxation	11,40,000		
To General Reserve	5,00,000		
To Debenture Sinking Fund	4,800		
To Investment Revaluation Reserve	9,800		
To Balance c/d	11,00,770		
	42,67,547		42,67,547

As an Auditor you are required to comment on the Managerial Remuneration

(ANS: MAXIMUM REMUNERATION PAYABLE TO THE MANAGING DIRECTOR U/S 197: RS.1,35,662; MAXIMUM REMUNERATION PAYABLE UNDER SCHEDULE V: RS.6,00,000)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If instead of Directors fees it is Director's remuneration.

PROBLEM 11: Kumar Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(Rs in lakhs)
Paid up equity share capital	120
Paid up Preference share capital	20

Reserves (including Revaluation reserve Rs 10 lakhs)	150
Securities premium	40
Long term loans	40
Deposits repayable after one year	20
Application money pending allotment	720
Accumulated losses not written off	20
Investments	180

Kumar Ltd. has only one whole-time director, Mr. X. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Part II of Schedule XIII, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years.

(A) (NEW SM, RTP N17)

(ANS.: EFFECTIVE CAPITAL: RS. 1,80,00,000)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If in addition Short term deposit of 5 lakhs also given in above question.

PROBLEM 12: The following extract of Balance Sheet of Star Ltd. (Non-investment) company was obtained:

Balance Sheet (Extract) as on 31st March, 20X1

Particulars	Amount
Liabilities:	
Authorized capital:	
60,000, 14% preference shares of Rs.100	60,00,000
6,00,000 Equity shares of Rs.100 each	6,00,00,000
	<u>6,60,00,000</u>
Issued and subscribed capital:	
45,000, 14% preference shares of Rs.100 each fully paid	45,00,000
3,60,000 Equity shares of Rs.100 each, Rs.80 paid-up	2,88,00,000
Share suspense account	60,00,000
Reserves and surplus:	
Capital reserves (Rs. 4,50,000 is revaluation reserve)	5,85,000
Securities premium	1,50,000
Secured loans:	
15% Debentures	1,95,00,000
Unsecured loans:	
Public deposits	11,10,000
Cash credit loan from SBI (short term)	3,95,000
Current Liabilities:	
Trade Payables	10,35,000
Assets:	
Investment in shares, debentures, etc.	2,25,00,000
Profit and Loss account (Dr. balance)	45,75,000

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

(A) (NEW SM, RTP N16)

(ANS.: WHERE STAR LTD. IS A NON-INVESTMENT COMPANY RS. 2,71,20,000, WHERE STAR LTD. IS AN INVESTMENT COMPANY RS. 4,96,20,000)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If CRR of Rs.3,00,000 is also given in the question.

PROBLEM 13: XYZ Ltd. Proposes to declare 10% dividend out of general reserves due to inadequacy of profits in the year ending 31-03-2019.

From the following particulars, ascertain the amount that can be utilized from general reserves. According to the companies Rules, 2014:

8,00,000 Equity shares of Rs.10 each fully paid up	80,00,000
General reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%

(N19 (O) - 4M)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If Average rate of dividend during the last five year has been 9%
2. If General Reserve balance is Rs.15,00,000 instead of Rs.25,00,000.

PROBLEM 14: A company provided Rs.10,00,000 for dividend payment. Is the corporate Dividend tax payable in this case? If yes, please compute corporate dividend and disclose as it would appear in Profit and Loss Account of the company.

(C) (N09) (ANS.: DDT RS. 2,03,576.47)

PROBLEM 15: On 31st March, 2015 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2015:

Credit Balances:

Particulars	Amount
Equity shares capital, fully paid shares of Rs. 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation (Secured by hypothecation of Plant & Machinery Repayable within one-year Rs. 12,00,000)	10,50,000
Loans: Unsecured (Long term)	8,47,000
Sundry Creditors for goods & expenses (Payable within 6 months)	14,00,000
Profit & Loss Account	7,00,000
Provision for Taxation	8,16,900
	1,33,63,000

Debit Balances:

Particulars	Amount
Calls in arrear	7,000
Land	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000
Inventories: Finished goods	14,00,000
Raw Materials	3,50,000
Trade Receivables	14,00,000
Advances: Short-term	2,98,900
Cash in hand	2,10,000
Balances with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trade marks	4,00,000
	1,33,63,000

The following additional information is also provided in respect of the above balances:

1. 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.
2. Cost of Building Rs. 28,00,000

3. Cost of Plant & Machinery Rs. 49,00,000
Cost of Furniture & Fixture Rs. 4,37,500
4. Trade receivables for Rs. 3,80,000 are due for more than 6 months.
5. The amount of Balances with Bank includes Rs. 18,000 with a bank which is not a scheduled Bank and the deposits of Rs. 5 lakhs are for a period of 9 months.
6. Unsecured loan includes Rs. 2,00,000 from a Bank and Rs. 1,00,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2015 as required under Schedule III of the Companies Act, 2013.

(C) (NEW SM) (ANS.: BALANCE SHEET TOTAL: RS.1,32,62,900)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If it is given in the additional information that, Bills Discounted but not matured amounted to Rs.2,00,000.

PROBLEM 16: On 31st March, 2018, SR Ltd. Provides the following ledger balances after preparing its profit and loss account for the year ended 31st March, 2018.

Particulars	Amount (Rs.)	
	Debit	Credit
Equity share capital, fully paid shares of Rs.50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long-Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:

1. 50,000 fully paid equity shares were allotted as considered for land.
2. The cost of assets were:

Building	Rs.32,00,000
Plant and Machinery	Rs.30,00,000
Furniture and Fixture	Rs.16,50,000
3. Trade Receivables for Rs.4,86,000 due for more than 6 months.
4. Balances with banks include Rs. 56,000 with Naya Bank, which is not a scheduled bank.
5. Loan from Public Finance Corporation repayable after 3 years.

6. The balance of Rs.26,30,000 in the loan amount with public finance corporation is inclusive of Rs.1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.
7. Other long term loans (unsecured) includes:
- | | |
|-----------------------------------|--------------|
| Loan taken from Nixes Bank | Rs.13,80,000 |
| (Amount repayable within one year | Rs.4,80,000) |
| Loan taken from Directors | Rs.8,50,000. |
8. Bills receivable for Rs.1,60,000 maturing on 15th June, 2018 has been discounted.
9. Short term borrowings includes:
- | | |
|---------------------|-----------------------|
| Loan from Naya bank | Rs.1,16,000 (Secured) |
| Loan from directors | Rs. 48,000 |
10. Transfer of Rs. 35,000 to general reserve has been proposed by the board of directors out of the profits for the year.
11. Inventory of finished goods includes loose tools costing Rs.5 lakhs (which do not meet definition of property, plant & equipment as per AS - 10)

You are required to prepare the Balance sheet of the company as on March 31st, 2018 as required under Part - I of schedule III of the companies Act, 2013.

You are not required to give previous year figures. (M18 (O) - 16M) (ANS.: BALANCE SHEET TOTAL: RS. 1,76,09,000)

CONCEPT QUESTIONS:

What would be the impact on the above question?

1. If the Loose tools met the definition of PPE as per AS-10.

PROBLEM 17: Ring Ltd. was registered with a nominal capital of Rs 10,00,000 divided into shares of Rs 100 each. The following Trial Balance is extracted from the books on 31st March, 20X2:

Particulars	Rs	Particulars	Rs
Buildings	5,80,000	Sales	10,40,000
Machinery	2,00,000	Outstanding Expenses	4,000
Closing Stock	1,80,000	Provision for Doubtful Debts	6,000
Loose Tools	46,000	(1-4-20X1)	
Purchases (Adjusted)	4,20,000	Equity Share Capital	4,00,000
Salaries	1,20,000	General Reserve	80,000
Directors' Fees	20,000	Profit and Loss A/c	50,000
Rent	52,000	(1-4-20X1)	
Depreciation	40,000	Creditors	1,84,000
Bad Debts	12,000	Provision for depreciation:	
Investment	2,40,000	On Building 1,00,000	
Interest accrued on investment	4,000	On Machinery <u>1,10,000</u>	2,10,000
Debenture Interest	56,000	14% Debentures	4,00,000
Advance Tax	1,20,000	Interest on Debentures accrued but not due	28,000
Sundry expenses	36,000	Interest on Investments	24,000
Debtors	2,50,000	Unclaimed dividend	10,000
Bank	60,000		
	24,36,000		24,36,000

You are required to prepare statement of Profit and Loss for the year ending 31st March, 20X2 and Balance sheet as at that date after taking into consideration the following information:

- a) Closing stock is more than opening stock by Rs 1,60,000;
- b) Provide to doubtful debts @ 4% on Debtors;
- c) Make a provision for income tax @ 30%.
- d) Depreciation expense included depreciation of Rs 16,000 on Building and that of Rs 24,000 on Machinery.
- e) The directors declared a dividend @ 25% and transfer to General Reserve @ 10%.
- f) Bills Discounted but not yet matured Rs 20,000.

(C) (NEW SM, SIMILAR: RTP M17) (ANS.: NET PROFIT FOR THE PERIOD RS.2,12,800)

CONCEPT QUESTION:

What would be the impact on the above question?

1. If the market value of investment is Rs.2,00,000?
2. If an additional point is given that, Company had a contract for the erection of machinery at Rs.10,00,000 which is still incomplete.

PROBLEM 18: Preparation of Financial Statements: You are required to prepare financial statements from the following trial Balance of Haria Chemicals Ltd. for the year ended 31st March, 2015.

Haria Chemicals Ltd.

Trial Balance as at 31st March, 2015

Particulars	Rs.	Particulars	Rs.
Stock	6,80,000	Equity Share Capital (Shares of Rs.10 each)	25,00,000
Furniture	2,00,000	11% Debentures	5,00,000
Discount	40,000	Bank loans	6,45,000
Loan to Directors	80,000	Trade payable	2,81,000
Advertisement	20,000	Sales	42,68,000
Bad debts	35,000	Rent received	46,000
Commission	20,000	Transfer fees	10,000
Purchases	23,19,000	Profit and Loss A/c	1,39,000
Plant and Machinery	8,60,000	Depreciation provision:	
Rentals	25,000	Machinery	1,46,000
Current account	45,000		
Cash	8,000		
Interest on bank loans	1,16,000		
Preliminary expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold land	15,46,000		
Tools & Equipments	2,45,000		
Goodwill	2,65,000		
Trade receivables	4,40,000		
Dealer aid	21,000		
Transit insurance	30,000		
Trade expenses	37,000		
Distribution freight	54,000		
Debentures interest	55,000		
	85,35,000		85,35,000

Additional information: Closing stock on 31.03.2015: Rs.8,23,000.

(C) (NEW SM)

(ANS.: TOTAL OF BALANCE SHEET: RS.46,66,000)

CONCEPT QUESTION:

What would be the impact on the above question?

1. If Preliminary expenses include Rs.3,000 audit fee.

ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM 1: State giving reason whether the Trade Receivables are Current Assets or Non – Current Assets as per schedule III in the following cases.

Case	Operating Cycle Period	Expected Realisation Period
1	11 Months	10 Months
2	11 Months	12 Months
3	11 Months	13 Months
4	14 Months	13 Months
5	14 Months	15 Months

PROBLEM 2: State giving reason whether the Trade Payables are Current Liabilities or Non – Current Liabilities as per Schedule III in the following cases:

Case	Operating Cycle Period	Expected Realisation Period
1	11 Months	10 Months
2	11 Months	12 Months
3	11 Months	13 Months
4	14 Months	13 Months
5	14 Months	13 Months

PROBLEM 3: H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of the asset by H Ltd., as per the Schedule III.

PROBLEM 4: X Ltd paid Rs. 25 Lakhs as advance to Y Ltd. towards the purchase of printing machinery on 15-01-2018 with delivery instruction to deliver the same in the last week of June, 2018. Further on 15-02-2018 X LTD. Purchased two diesel generator sets from Y Ltd. For Rs.30 Lakhs on 90 Days credit term. In the accounts for 2017-2018, X Ltd. Intends to adjust the advance paid against credit purchased and show the net amount of Rs.5 lakhs as due from them. Comment.

PROBLEM 5: The Managing Director of Anil Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of Rs. 25,000 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself. During the year, Anil Ltd. made net profit of Rs. 43,00,000 before charging MD's remuneration, but after charging provision for taxation of Rs. 17,20,000. Compute remuneration payable to the Managing Director.

(A) (MTP N15)

(ANS.: MANAGERIAL REMUNERATION RS.3,01,000)

PROBLEM 6: From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 2012 as required by part I, schedule III of the Companies Act, 2013. Give notes at the foot of the Balance Sheet as may be found necessary.

Particulars	Debit (Rs.)	Credit (Rs.)
Equity Capital (Face value of Rs.100)		10,00,000

Calls in Arrears		1,000	
Land		2,00,000	
Building		3,50,000	
Plant and Machinery		5,25,000	
Furniture		50,000	
General Reserve			2,10,000
Loan from State Financial Corporation			1,50,000
Stock:			
Finished Goods	2,00,000		
Raw Material	<u>50,000</u>	2,50,000	
Provision for Taxation			68,000
Trade receivable		2,00,000	
Advances		42,700	
Dividend payable			60,000
Profit and Loss Account			86,700
Cash Balance		30,000	
Cash at Bank		2,47,000	
Loans (Unsecured)			1,21,000
Trade payables (For Goods and Expenses)			2,00,000
		18,95,700	18,95,700

The following additional information is also provided:

- 2,000 Equity Shares were issued for consideration other than cash.
- Debtors of Rs. 52,000 are due for more than six months.
- The cost of assets:**
Buildings Rs.4,00,000; Plant and Machinery Rs. 7,00,000; Furniture Rs. 62,500
- The Balance of Rs.1,50,000 in the loan account with State Finance Corporation is inclusive of Rs. 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
- Balance at Bank includes Rs. 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- The company had contract for the erection of machinery at Rs.1,50,000 which is still incomplete.

(C) (NEW SM) (ANS.: TOTAL OF BALANCE SHEET RS. 18,94,700)

PROBLEM 7: The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars		Rs.	Particulars		Rs.
Inventory 01-04-2018			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secured Loans:		
			Short-term	4,500	
			Long-term	21,000	25,500
Salaries and wages		40,200	Fixed Deposits (unsecured):		
			Short-term	1,500	
			Long-term	3,300	4,800
General Charges		16,500	Trade payables		3,27,000

Interim Dividend paid (inclusive of Dividend Distribution Tax)		27,000			
Building		1,01,000			
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non-Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			24,34,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2019 and Company's Balance Sheet as on that date:

- Inventory on 31st March, 2019 Raw material Rs. 25,800 & finished goods Rs. 60,000.
- Outstanding Expenses: Manufacturing Expenses Rs. 67,500 & Salaries & Wages Rs. 4,500.
- Interest accrued on Securities Rs. 300.
- General Charges prepaid Rs. 2,490.
- Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
- Current maturity of long term loan is Rs. 1,000.

The Taxation provision of 40% on net profits is considered

(RTP-N19)

(PROFIT AFTER TAX: 29,430; TOTAL OF BALANCE SHEET: 8,14,350)

PROBLEM 8: You are required to prepare a Balance Sheet as at 31st March 2018, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount	Particulars	Amount
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Other advances	14,88,000	Trade receivables	49,00,000
Cash and Bank Balances	38,40,000	Miscellaneous Expenses	2,32,000
Staff Advances	2,20,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000		
Loose Tools	2,00,000	Stores	16,00,000
General Reserve	62,00,000	Fixed Assets (WDV)	2,26,00,000
Capital Work-in- progress	8,00,000	Finished Goods	30,00,000

Additional Information:

- Share Capital consist of
 - 1,20,000 Equity Shares of Rs. 100 each fully paid up.
 - 40,000, 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
- The company declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%. (15% CDT, surcharge 12%, Education Cess 2% and SHEC @ 1%)
- Depreciate Assets by Rs. 20,00,000.

(RTP N18 (N&O), SIMILAR: RTP N16) (ANS.: TOTAL OF BALANCE SHEET: RS. 3,74,68,000)

PROBLEM 9: Shweta Ltd. has the Authorized Capital of Rs. 15,00,000 consisting of 6,000 6% Preference shares of Rs. 100 each and 90,000 equity Shares of Rs.10 each. The following was the Trial Balance of the Company as on 31st March, 2018:

Particulars	Dr.	Cr.
Investment in Shares at cost	1,50,000	
Purchases	14,71,500	
Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30th Sep (1st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of Rs. 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000
Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhow fees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	44,72,850	44,72,850

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at Rs. 4,27,500.
2. Purchases include Rs. 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include Rs. 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include Rs. 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of Rs. 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non-current investments.
8. Interest on Debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation Rs.12,000.

10. Technical Knowhow Fees is to be written off over a period of 10 years.

11. Salaries and Wages include Rs. 30,000 being Director's Remuneration.

12. Trade receivables include Rs. 18,000 due for more than six months.

(RTP M19)

(PROFIT AFTER TAX:16,650; TOTAL OF BALANCE SHEET:24,58,950)

PROBLEM 10: Kapil Ltd. has authorized capital of Rs. 50 lakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31st March, 2017:

Particulars	Rs.	Particulars	Rs.
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000
Patterns	3,75,000	Calls in Arrear @ Rs. 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of Rs. 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was Rs. 7,08,000. Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off Rs.16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date. (RTP M18 (N&O)) (ANS.: BALANCE SHEET TOTAL: RS. 40,25,500; PROFIT: RS. 2,80,000)

THE END

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