SYLLABUS

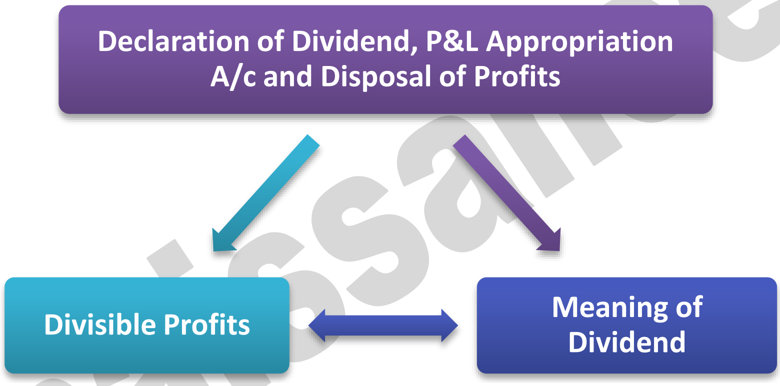
Class – B.Com. II Year

Subject – Corporate Account

UNIT-I	Company profits: Declaration of dividend , profit and loss appropriation account and disposal of profits, Managerial remuneration, Profit or loss prior to and post incorporation, Final accounts of companies
UNIT-II	Valuation of goodwill, Valuation of shares, Accounts of public utility companies
UNIT-III	Holding companies, Liquidation of companies
UNIT-IV	Accounting for merger as per AS 14, internal reconstruction of a company as per Indian Accounting Standard 14 (Excluding inter company holdings and reconstruction scheme)
UNIT-V	Accounting of banking companies; Accounts of insurance companies with claim settlement

UNIT-I

1. Declaration of Dividend, P&L Appropriation a/c and Disposal of Profits



Divisible Profits

Divisible profits represent the portion of the profits earned by the company which is available for the distribution of dividend in shareholders.
At first, provisions for income tax as required u/s (198) of Companies Act 2013 and provision for depreciation u/s 123(1)(a) are made out of the profits of current year. Then out of remaining profit sufficient amounts are transferred to the reserves and funds of the company. Now the balance available in the profit and loss account is called divisible profits. The divisible profits are distributed in shareholders in the following two forms:

(1) In the form of dividend
(2) In the form of Bonus

Meaning of dividend

Dividend is the portion of company's profit which can be distributed in the shareholders. U/s 2(14) dividend includes interim dividend. The interim dividend is included in the definition of dividend to control the delay in the payment of dividend to the shareholder and declaration of interim dividend by the companies. U/s 205(1) the directors are empowered to declare interim dividend.

Provision of Company's act regarding divided

(1) Out of profits- Dividend can be declared and paid out of the profits of current year. The profits must be calculated after providing for depreciation u/s 123(1)(a).

(2) Previous year's profit- If there are undistributed profits of previous year, then divided can be declared and paid out of such profits also, provided that the provisions for depreciation is made u/s 123(a).

(3) Guarantee by Government- Dividend can be distributed out of the money received from the central or state government as guarantee.

(4) Provision for depreciation- Dividend can be distributed out of profits only when the depreciation is provided for, but the central Government can exempt any company from this provision in public interest. Provisions to provide depreciation are given u/s 123(1)

(5) **Cash payment of dividend** – Dividend must be paid in cash (or cheque) and not in kind. The bonus shares can be issued for the capitalization of profits. Alternatively the partly paid up shares can be converted in to the fully paid up shares by using the profits of company.

(6) **Payment of registered shareholders only** – Payment of dividend is made to the registered shareholders only or to the persons or bankers as ordered by them.

(7) **Period for the payment of dividend** – Dividend must be paid within 30 days from the declaration of dividend.

(8) **Rate of dividend by directors** – The rate of dividend is decided by directors.

Appropriation of Profits

At the time of disposal or appropriation of profits the two main points should be taken care of – First the shareholder should be paid dividend at an appropriate rate, and the second, the creation or reserves and funds to strengthen the financial position of the company. The transfers to various provisions, reserves, and funds out of profits are called appropriation or disposal of profits. An account is prepared for this purpose after preparing profit and loss account. The remaining balance in the profit and loss appropriation account is shown in the Balance Sheet.

Distinction between Profit & Loss Account and Profit & Loss Appropriation Account

In profit loss account all the items of charge against are taken, while in profit & loss appropriation account all the item of Appropriation of profit ate taken. Profit & Loss account is called 'above line' and profit & loss appropriation account is called 'below line.'

Items to be debited to profit & Loss appropriation account –

1. The loss of last year brought forward.
2. The loss of current year transferred from profit & loss account of current year.
3. Transfer to various reserves.
4. Transfer to sinking fund for redemption of debentures, dividend equalization fund, employees' welfare fund etc.
5. bonus (if provided for from this account)
6. Interim dividend paid
7. Proposed dividend
8. Corporate dividend tax u/s 115 – 0
9. Balance to be carried forward.

Items to be credited to profit & /Loss appropriation account –

1. The credit balance of last year brought forward
2. The profit of current year transferred from profit & loss account
3. Transfer from various reserves
4. The reserves created in the past but now not required.

2. Managerial Remuneration

Managerial Remuneration

Overall managerial remuneration – Section 197 puts a maximum limit (exclusive of any fees payable to directors, for attending meeting of the Board or any committee of the Board) of 11% of the net profits on total remuneration payable by the company to its directors, including managing directors and its manager (if any).

Managerial remuneration includes any expenditure incurred by the company –

1. In providing any rent-free accommodation, or any other benefit or amenity in respect of accommodation free of charge;
2. In providing any other benefit or amenity free of charge or at a concessional rate.
3. In respect of any obligation or services which, but for such expenditure by the company, would have been incurred by the person concerned; and
4. To affect any insurance on the life of, or to provide any pension, annuity or gratuity for, the person concerned or his spouse or child.

However, if in any financial year a company has no profits or its profits are inadequate, the company any pay to its managing or whole-time director or manager remuneration according to schedule XIII, part II, section II

The managerial remuneration will be calculated according to the following rates –

S.No	Managerial Personnel	Maximum % of Net profit
1.	Overall limit to all the managerial Personnel (S.198)	11
2.	All directors, when the company is having managing director, whole time director or manager.	1
3.	All directors, when the company is not having a managing director, whole-time director or manager	3
4.	Manager	5
5.	Managing director ore whole-time director when there is one	5
6.	Managing director or whole-time directors when there is more than one	10

3. Profit and loss Prior to and Post incorporation

In corporate world, it is a normal practice that a company, which is not yet incorporates, acquires the running business of another company, partnership firm or sole trader. The incorporation of the purchasing company takes place on a later date.

Accounting Treatment of Pre-incorporation Profit/Loss-

Profit prior to incorporation

Any profit prior to incorporate may be dealt with as follows –

1. Credited to capital reserve account
2. Credited to goodwill account to reduce the amount of goodwill arising from acquisition of business
3. Utilized to write down the value of fixed assets acquired.

Loss Prior to incorporation

Any loss prior to incorporation may be dealt with as follows –

1. Debited to goodwill account
2. Debited to capital reserve account arising from acquisition of business.
3. Debited to a suspense account, which can be written off later as a fictitious assets.

Post incorporation profit /Loss

The post incorporation profit is a revenue profit available at company's disposal. This can be used for distribution of dividend to shareholders. It can be used to write off revenue losses. If there is post incorporation loss it is taken to profit & loss account. The final balance of profit & loss account will be shown in balance sheet. Debit balance is shown on asset side and credit balance on liabilities side.

Basis of distribution of expenses

Basis	Items
1. Time ratio	Rent, Salaries, Insurance Premium, Tax, Rates, Printing, Stationery, Postage, Depreciation, fixed expenses, General expenses, sundry expenses, Bank charges, Repairs, Electricity expenses, Office expenses, Administrative expenses etc.
2. Sales Ratio	Selling expenses, Advertisement, Discount allowed, Bad debts etc.
3. Prior to incorporation	Salary and commission to vendor.
4. Post incorporation	Expenses and discount on issue of shares and debentures, underwriting Commission, Preliminary expenses, formation expenses, Audit fees, Interest on debentures, Directors fees, Managing director's remuneration, Subscription to political party by the company, Goodwill written off.

4. Final Account of companies

As per 129 of Companies Act, 2013, the board of directors of every company is required to present in the annual general meeting the statement of profit and loss and the balance sheet on the last day of the financial year. In the meeting, the director's reports and auditor's reports too will be presented.

The statement profit and loss and balance sheet shall related –

(a) in case of first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than 9 months; and

(b) in case of subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which of the accounts were last. Submitted and ending with a day which shall not precede the day of the meeting by more than 6 months, or in cases where extension of time has been granted for holding the meeting as per the provision of the Act, by more than 6 months and the extension so granted. The period to which accounts aforesaid relate is referred to in this Act as a financial year and it may be less than or more the calander year but it shall not exceed 15 months, provided that it may extend to 18 months where special permission has been granted in that behalf by the register.

Proforma of balance sheet

As per of Companies Act 2013, every company has to present a true and fair view of company's state of affairs relating to the last day of the financial year to which the company's balance sheet is related. The proforma for this should be as per part I of schedule III of the Act or as may be prescribed by the Central Government. Similarly a true and fair view of the profit or loss for the period corresponding to the period of the statement of profit and loss, should be presented in the form as prescribed in part II of schedule III. It should be noted that the statement of profit and loss is the annexure of balance sheet and always presented after the balance sheet. Balance sheet of a company shall be presented in the following form-

PART I – FORM OF BALANCE SHEET
Name of the Company….
Balance sheet (as at…) (Rupees in……)

Particulars	Notes No.	Figure as at the end of current reporting period	Figure as at the end of the reporting period
I. EQUITY AND LIABILITIES			
(1) Shareholder's funds			
(a) Share capital			
(b) Reserves and surplus			
(c) money received against share Warrants			
(2) Share application money pending allotment			
(1) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (net)			
(c) Other long term liabilities			
(d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. ASSETS			
(1) Non-current assets			
(a) fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivable			
(d) Cash and cash equivalents			
(e) short-term loans and advances			
(f) Other current assets			
TOTAL			

UNIT — II

5. EVALUATION OF GOODWILL

Meaning and definition of goodwill

Goodwill, also known as reputation or fame is a scale to measure the popularity of the business. Customers like only one or a few out of many businessmen engaged in the same filed due to goodwill only. The businessmen with good reputation gain favour among the customers and those with no fame do not gain any favour among the customers.

LR Dicksee – "When a man pays for goodwill, he pays for something which places him in the position of being able to earn more money than he would be able to do by his own unaided efforts."

Characteristics or salient features of goodwill –

1) Intangible assets
2) Goodwill is a capital item
3) Goodwill is not a fictitious or unreal asset
4) Friend in good time only
5) Goodwill affects and is affected by the earning capacity
6) Fluctuating asset
7) First in last out
8) Undetectable from business
9) Sign of growth

Methods for valuation of goodwill –

Goodwill affects and is affected by profits of business directly or indirectly. If the profit earning capacity of a business is high its goodwill is also high. So at the time we think of the valuation of goodwill, there is profit in our conscious or sub-conscious mind. If we are going to buy a running business and the vendor demands for goodwill, we think whether we will be able to earn that much amount of profit as is demanded by the vendor as goodwill.

There are several methods for valuation of goodwill, but the basis of the valuation of goodwill in all the methods is profit, because goodwill and profit are closely interrelated. These methods are as under –

1) Average profit method
2) Super profit method
3) Capitalization method
4) Annuity method

1) Average profit method – The basis of the valuation under this method is that how much the normal annual profit the business has earned during some previous years?

To calculate the value of goodwill –

Goodwill = Future probable or maintainable profit x No. of years purchase

2) Super profit method – Generally all the accountants agree that the goodwill is the result of additional profit. This additional profit is called super profit. Only those businesses have the goodwill which earns super profits. If there is no super profit, there is no goodwill.

Capital employed =

Total of the list of assets – total of the list liabilities

Average capital employed =

Closing capital employed – Half of current year's profit

To Calculate super profit – This is calculate by the following formula –

Future probable or maintainable profit	…………..
Less: Normal return i.e. (capital or average capital employed x Normal rate of return)	…………..
Super profit	**…………..**

Goodwill = Super profit x number of years' purchase.

3) Capitalization method – Under this method, goodwill is the sum equal to the capital required to earn the super profit of the business at normal rate of return.
Under this ethod goodwill can be found out by any of the following two formulae –

1) By capitalization of super profit:

$$\text{Goodwill} = \frac{Super\ \ Profit\ \ x\ 100}{Normal\ \ rate\ \ of\ \ return}$$

2) By capitalization of maintainable profit:

$$= \frac{Future\ \ probable\ \ or\ maintainable\ \ \ profit\ \ x\ 100}{Normal\ \ rate\ \ of\ \ return}\ x\ Capital\ employed\ or\ average\ capital\ employed$$

4) Annuity method – Valuation of goodwill, time factor has been totally ignored. The amount of goodwill is to be paid today and the super profit, on the basis of which it is calculated, will be earned in future and that too in annual installments. The goodwill under the super profit method, is the total of the amount of the installments of super profits, whereas the present value of all the super profits to be earned in future years should be the value of goodwill.
Goodwill = Super profit x value of annuity

6. VALUATION OF SHARES

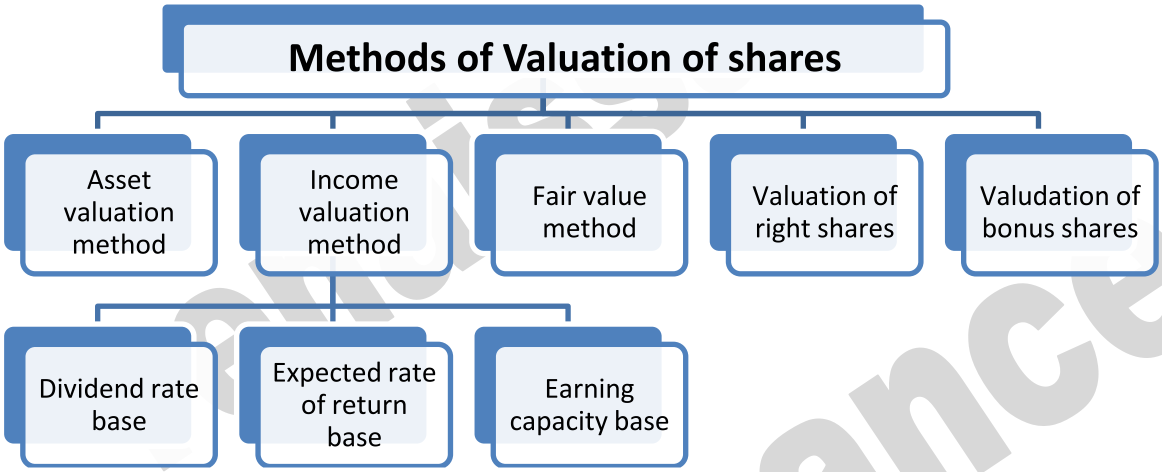
Meaning and definitions of shares –

Under section 2(46) of companies act, 1956 "Share means share in the share capital of a company and includes stock except where a distinction between share and stock is expressed or implied."

In other words we can say that share or stock is a unit of ownership of a company.

Valuation of shares –

Valuation of share means the computation of the value of a share on which it can be bought or sold, transferred or assessed under tax laws.



1) Asset valuation method –

$$\text{Value per share} = \frac{Net\ Assets}{No.of\ shares}$$

Net assets – List of revalued figures of real assets (-) List of external liabilities

2) Income or yield valuation method –

The underlying concept of this method is how much income or dividend a company is paying or can pay to its shareholders or what is the earning capacity of the company?

If this figure is higher the value of shares too will be higher and if this figure is lower the value of share will also be lower. There are following three bases for the valuation of shares under this method.

1) On the basis of dividend rate
2) On the basis of expected rate of return
3) On the basis of earning capacity

1) On the basis of dividend rate -

$$\text{Value per share} = \frac{Actual\ rate\ of\ dividend}{Normal\ rate\ of\ dividend} \text{ x paid-up value per share}$$

$$\text{Actual rate of dividend} = \frac{Dividend\ received}{Paid\ up\ value\ of\ shares} \text{ x } 100$$

2) On the basis of expected rate of return –

$$\frac{Expected\ Return}{Total\ paid-up\ equity\ capital} \text{ x } 100$$

The value of shares is calculated as under –

$$\text{value per share} = \frac{Expected\ rate\ of\ return\ or\ expected\ rate\ of\ divided}{Normal\ rate\ of\ return\ or\ normal\ dividend\ rate} \text{ x paid-up value per share}$$

Expected rate of return = $\frac{Profit\ available\ \ for\ equity\ \ share\,holders}{Paid\ \ up\ equity\ \ share\ capital}$ x 100

3) On the basis of earning capacity –

Under this method the following formulae is used –

value per share = $\frac{Actual\ \ rate\ \ of\ \ earning}{Normal\ \ rate\ \ of\ \ earning}$ x *paid-up value per share*

Expected rate of return = $\frac{Profit\ \ availabl\ e}{Capital\ \ employed}$ x *100*

3) Fair value method –

This is not a new method, but the average of the two values of a share as per net assets method and income valuation method (earning capacity). This is calculated by the following formula –

Fair value = $\frac{Intrinsic\ \ value\ + Value\ \ as\ per\ \ earning\ \ capacity}{2}$

Right shares –

If an existing company makes further issue of shares, they must be proposed to the existing shareholders u/s 81 of companies act. This is the right of existing shareholders, which is called 'Right shares'.

The value of right is calculated by the following formula –

Value of right =

(1) the market value of one existing share -

$\frac{Market\ \ value\ \ of\ \ existing\ \ shares\ \ held + Value\ \ of\ new\ \ shares}{No.of\ \ old\ \ shares\ \ held + New\ \ shares}$

OR

(2) $\frac{New\ \ Shares}{Total\ \ Shares\ \ (Old + New)}$ x *(Market value of old share – value of new share)*

Bonus Shares

1) Value of a share before bonus issue = $\frac{Net\ \ Assets}{No.of\ \ share\ \ before\ \ the\ \ bonus\ \ issue}$

2) Value of a share after bonus issue = $\frac{Net\ \ Assets}{No.of\ \ old\ \ shares + No.of\ \ new\ \ shares}$

7. ACCOUNTS OF PUBLIC UTILITY COMPANIES

Public utility companies are incorporated under special statutes passed by parliament or state legislative assemblies. They are issued licece by the government.

Double account system is a special accounting system adopted by public utility companies to prepare, present and publish their annual accounts in a specialized way under which revenue and capital items are categorized under fixed and current basis. Fixed items and current items are shown in different accounts.

Main characteristics of Double account system –

1) Balance sheet in two parts
2) Profit & loss account in two parts
3) columns
4) Expenditure side
5) Receipts side
6) Receipts and expenditure of fixed nature
7) Balance of capital account
8) General balance sheet
9) Revenue account
10) Net revenue account

Objects of double account system

Double account system is adopted by public utility companies to achieve the following objectives:

1) To maintain the fixed assets out of revenue
2) The show the relation between asset and capital in a better way
3) Comparison with previous year

Merits, advantages or importance of double account system

1) Information of additions in current year
2) Standardized formats
3) Public information
4) Separate information for current assets and liabilities
5) Extent of capitalization
6) Operating result

Preparation of Final Accounts under Double account System

In this system while preparing the final accounts, different accounts are to be prepared and at the end balance sheet is prepared.

i) Revenue account – It is as good as the ordinary profit and loss account of any trading concern, showing on the debit side all items of expenditure and showing on the credit side all items of income.

ii) Net revenue account

iii) Capital account

iv) General balance sheet

Net Revenue Account

(For the year ending………)

Particulars	Amount	Particulars	Amount
To Interest on Bank loan		By Balance b/d (From last year)	
To Sinking Fund		By Balance from Revenue A/c	
To Reserve Fund		By Interest receivable and accrued	
To Interest on debenture		By Non-operating income	
To Debenture holder's trustee's remuneration			
To Contingencies reserve			
To Income Tax			
To Dividend proposed & paid			
To Interim Dividend			

Formal of Capital Account

Receipts and Expenditure on Capital Account

For the year ending 31st March ....

Dr. Cr.

To Expenditure	Expenditure upto end of previous year	Expended During the year	Total Expenditure	By Receipts	Receipts upto end of previous year	Receipts during the year	Total Receipts
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Building				Equity share capital			
Land including law charges incidental to acquistition				Preference share capital			
Plant				Share Premium			
Mains				Debenture stock			
Service connections				Mortgages and Bonds (long term)			
Transformer, etc.							
Meters and fees for certifying under the Act							
General Stores							
Special itmes (to be specified)							
Preliminary Expenses (to be specified)							
Organisation Exp.							
Parliamentary Exp.							
Balance				Balance			

(iv) General Balance Sheet : The general balance sheet displays the balance of capital account on the appropriate side and the current assets and liabilities. In the case of electricity supply companies total of the expenditure as per capital account is shown on the assets side

General Balance Sheet

(As on.........)

Liabilities	Amount	Assets	Amount
Capital A/c Sundry Creditors Balance of Net Revenue A/c (Cr.) Reserve Fund Depreciation fund Special items (to be specified)		Capital A/c Stores in hand Sundry debtors Cash at Bank Cash in Hand Investments Short working A/c Balance of Net Revenue A/c Dr.	

Unit III

8. Holding Company (with one subsidiary company)

Holding Companies

Meaning of Holding and Subsidiary Company

Normally, holding company is also called parent company. Similarly subsidiary company is also known as Offspring Company. When one company's control is in the hands of the company and also the majority of (more than 50%) paid up equity share capital is in the hands of the former company, then it is called holding company and the other is called subsidiary company.

Definitions

When a company purchases more than 50% shares of another company, the purchasing company is called holding company and the selling company is called subsidiary company. Two companies are defined in following.

A. Holding Company – According to section 2(19) of companies act, 1956: Clause 4(4) of the said section defines a holding company as :
   A company shall be deemed to be the holding company of another, if but only if, that other is its subsidiary.
   Meaning of holding company cannot be understood well without understanding the meaning of subsidiary company.
B. Subsidiary Company – According to sec. 4 of Companies Act 1956:
   i. Company is that in which other company controls the compositions of its Board of Directors.
   ii. More than half of total voting rights are under the control of another company.
   iii. Another company holds more than of the nominal value of ita equity share capital

Advantages of Holding Companies

1. Eliminate competition and advantage of monopoly
2. Consolidation of knowhow and economical benefits.
3. Separate entity of subsidiary companies.
4. Separate accounts and results
5. Control on many companies by less investment
6. Research, reduction in cost and improvement in the quality

Disadvantages of Holding Companies

Following are the disadvantages of holding companies –

1. Fraud and manipulation in accounts
2. Oppression of minority shareholders or outside shareholders
3. Exploitation of subsidiary companies by the holding company through fraudulent policies
4. Earning capacity and economical condition are not known
5. Exploitation of labour and customers
6. Centralization of monopoly and economic power

Procedure for preparing consolidated

Balance Sheet

(i) **Calculation of goodwill or capital reserve:-** When the price paid by holding company is more than the holding company share in sum of subsidiary company's share capital reserve and surplus up to the date of purchase and P & L arising on revaluation of assets, the excess is capital loss and it is called goodwill as cost of control. If the position is Reverse that is the price paid is lower, than the difference is capital profit and it will be transferred to capital reserve A/c.

The goodwill or capital reserve is calculated as under-

Share of holding company in share capital subsidiary company -
+ Share in pre acquisition profits -
- Share in pre acquisition loss -
+ Share in pre acquisition reserve -
+ Share in revaluation profit on assets -
- Share in revaluation loss on assets -
-
- Cost of Share (Purchase consideration)
Ans. (+) Capital Reserve -
Ans. (-) Goodwill
-

(2) Calculation of the amount of consolidated profit and loss account- Consolidated profit or loss means the amount which comes by adding the share of .holding company in the post acquisition profit of subsidiary company, to the balance in the profit and loss account of holding company. Consolidated profit or loss is calculated as under is-

Balance in the P & L A/c of holding company ………
+ Share of holding company in the post acquisition
Profits of subsidiary company +………
-

Consolidate profit to be shown in balance sheet

(3) Consolidated Reserves-This is calculated as under-

Balance in the Reserve account of holding company ………
+ Share of holding company in the post acquisition
Reserves of subsidiary company +……..
Consolidate reserve to be shown in balance sheet --------

(4) Calculation of minority Interest-The remaining shareholders in the subsidiary company are called minority shareholders and their share in the net assets of subsidiary company is called minority interest. This is calculated as under-

Share in equity share capital of subsidiary company —
+ Share in total profit of subsidiary company —
- Share in total losses of subsidiary company —
+ Share in reserves of subsidiary company —
+ Share in revaluation profit on assets of subsidiary company —
- Share in revaluation loss on assets of subsidiary company —
- Share in fictitious assets written off —
Minority Interest —
—

(5) Inter company transaction-The transactions between holding company and subsidiary company are called inter company transaction. In consolidated balance sheet these transactions are eliminated. Inter company transactions are as under-

(i) **Bills receivable and Bills payable-The** amount of mutual bills drawn on each other by holding and subsidiary company is deducted from the total amount of bills receivable and bills payable in the consolidated balance sheet. But the discounted bills receivable will be mentioned in consolidated balance sheet.

(ii) **Debtors and creditors-The** amount of common debtors and creditors between holding company and subsidiary company will be deducted from total debtors as well as from total creditors in consolidated balance sheet.

(iii) **Unpaid dividend-The** dividend receivable from subsidiary company by the holding company is mentioned in the assets side of holding company and in liability side of subsidiary company. This is eliminated in consolidated balance sheet. Only the dividend payable to minorities will be shown in the liability side of the consolidated balance sheet.

(iv) Proposed dividend-When a subsidiary company proposes dividend, it is debited to profit and loss account and mentioned in the liabilities side of subsidiary company. But the holding company does not show this in its balance sheet. At the time of making consolidated balance sheet this amount is added to profit & loss account. The portion of proposed dividend related to minority shareholders is either shown separately or added to the minority interest in consolidated balance sheet.

(v) Inter-company debentures-When holding and subsidiary company have bought the debentures in each other, these are called mutual debentures. The aggregate amount of mutual debentures is deducted from total debentures in the liability side as well as total investments in the assets side of consolidated balance sheet.

(vi) Loans and advances-If there is mutual borrowings these are also eliminated in consolidated balance sheet.

(vii) Unrealised profits and stock reserve-There are frequent purchase and sale transactions between holding and subsidiary company. The portion of the mutual purchase which is unsold at the end of year includes profits charged by the selling company. This is called unrealised profit. The holding company's share is unrealised profit is called stock reserve. This amount of stock reserve is deducted from the total stock of both the companies on the assets side and amount of consolidated profit and loss account on the liabilities side in consolidated balance sheet.

(6) Goodwill already appearing in balance sheet-If goodwill appears in the balance sheets of both the companies this is also aggregated in consolidated balance sheet. If capital reserve arises as a result of acquisition of shares it is deducted from goodwill in consolidated balance sheet and if goodwill arises it is added to the goodwill in consolidated balance sheet.

(7) Preference shares-If none of the preference shares in subsidiary company is purchased by holding company, the total amount of preference shares is added to the minority interest. If the holding company has purchased the preference shares also in subsidiary company, it is used only for the calculation of goodwill or capital reserve and not used for the distribution of profit between the two companies. For this purpose the ratio of equity shares only between holding company and minority interest is used.

(8) Interim dividend-If a subsidiary company has paid any interim dividend it will be out of pre or post acquisition profit. If it is out of pre-acquisition profits it will be deducted from pre-acquisition profits. So the cost of acquisition of shares will be reduced. Now the goodwill or capital reserve will be calculated. If interim dividend is paid out of post-acquisition profits it is deducted there from and the remaining post acquisition profit will be divided in holding company and minority shareholders. The holding company will add its portion in interim dividend to its profits in the balance sheet.

(9) Issue of Bonus Shares-If Bonus shares are issued after the acquisition of shares by holding company in subsidiary company, it will increase the number of shares held by holding company and minorities. But the ratio of holding between them will not be changed. It is important to note that whether the Bonus shares are issued out of pre or post acquisition profits, the treatment in both the cases will be as under-

(i) **Issue of Bonus shares out of pre acquisition profits-** In this case the amount of goodwill or capital reserve on the acquisition will not be changes because the prior profit is converted into capital.

(ii) Issue of Bonus share out of post acquisition profits- In such a case the goodwill or capital reserve will be affected because the revenue profit (Post acquisition profits) is converted in a capital profit(i.e. share capital) If the issue of bonus shares is not accounted for in the books of subsidiary company the calculation of capital reserve or goodwill should be made after the issue of bonus share. The value of goods will reduced because of increase in the paid up value of share capital.

(10) Revaluation of assets of subsidiary company- To calculate the amount of goodwill or capital reserve arising due to the acquisition of shares by holding company in subsidiary company, it is necessary to revalue the assets of the subsidiary company on the date of acquisition of shares. The effect of revaluation will be as follows-

- **(i)** The profit on revaluation is added and loss on revaluation is deducted for the calculation of goodwill or capital reserve.
- **(ii)** The assets are mentioned at revalued figures in balance sheet.
- **(iii)** Additional depreciation must be charged on asset in case of profit on revaluation and excess depreciation must be written back in case of loss on revolution.

Particulars	Total (100%)	% of Holding Company	% of Minority Interest
1. Paid up Share Capital :			
(a) Equity share capital	......		
(b) Preference share capital	......		
2. Pre-acquisition profits or losses :			
(a) Profit & Loss A/c	......		
(b) General Reserve	......		
(c) Capital Reserve	......		
3. Profit/loss on revaluation of assets & liabilities:	......		
Intrinsic value of shares	......	......	......
Less - Cost of shares	×	......	×
(–) Goodwill or Capital Reserve (+)*	×	*	×
4. Post acquisition Profits and Losses :			
(a) Profit and Loss A/c	......	......	......
(b) General Reserve	......	......	......
(c) Capital Reserve	......	......	
Minority Interest			......

9. Liquidation of companies

The word liquidation has not been used anywhere in the companies act 1956. It is the word winding up which has been used in this act. Liquidation of a company means total closure of the business of the company. In other word we can say liquidation mean by which the dissolution of a company is brought about and its assets, realized and applied in payment of its debts and when all the debts are paid off the balance, if any remaining is paid back to the members in proportion to the contribution made by them towards the capital of the company.

Winding-up or liquidation of company may take place in any one of the following ways :

1. Voluntary winding up
2. Winding up under supervision of the court.
3. Winding up by the court or compulsory winding up

1. Voluntary winding up : Voluntary winding up means winding up by the members or creditors of a company without interference by the court. The object of a voluntary winding up is that the company, i.e. the members as well as the creditors are left free to settle their affairs without going to the court. They may however apply to the court for any directions, if and when necessary. Voluntary winding up can take place under the following circumstances:

A. When the period if any fixed for the duration of the company by the articles has expired or the event, if any has occurred. Then the company in general meeting may pass an ordinary resolution for its voluntary winding up.

B. A company may at any time pass a special resolution that it be wound up voluntarily.

Types of voluntary winding up :

1. Members voluntary winding up : When the members of the company decide to wind it up even when its financial position is so sound that it can pay all its debts, this winding up is called members voluntary winding up.

2. Creditors voluntary winding up : if there is a voluntary winding up in which declaration of solvency has not been made by the directors this winding up is called creditors voluntary winding up.

2. Liquidation under supervision of the court : According to section 522 of the companies act, at any time after a company has passed a resolution for voluntary winding up the court may make an order that the voluntary winding up shall continues subject to the supervision fo the court with such liberty for creditors, contributories or others to apply to the court and generally on such terms and conditions as the court thinks just. This type of liquidation is called liquidation under supervision of the court.

3. Compulsory liquidation: A company may be wound up by the court under the following circumstances and this type of winding-up is called compulsory winding-up or winding-up by court:

1. If the company has by special resolution, resolved that the company may be wound up by the court;
2. If the default is made in delivering the statutory report to the registrar or in holding the statutory meeting;
3. If the company does not commence its business within a year from its incorporation or suspends it for a whole year;
4. If the number of members is reduced, in the case of a public company, below seven, and in the case of a private company below two;
5. If the company is unable to pay its debts;
6. If the court is of the opinion that it is just and equitable that the company should be wound up.

LISTS OF STATEMENT OF AFFAIRS

Following eight-lists are used in the statement of affairs:

List A: Those assets are recorded in this list which is not specifically pledged and on which there is no charge or mortgage.

List B: Those assets are recorded in this list which is specifically pledged either with fully secured creditors or with partly secured creditors.
List C: Preferential creditors are recorded in this list. These creditors are described in Section 530 of the Companies Act, 1956 and a detailed description of these creditors has been given earlier in this chapter.
List D: Such debentures and creditors who have a floating charge in the assets of the company are recorded in this list.
List E: Unsecured creditors are recorded in this list with their names, occupations and addresses.
List F: Preference shareholders with their names and amounts are recorded in this list.
List G: Equity shareholders with their names and amounts are recorded in this list.
List H: Description of deficiency or surplus is shown in this list.

Other information's about Statement of Affairs

1. About Surplus: A Company, whose financial position is very sound, may also be dissolved. In such a case there may be surplus in the statement of affairs. If the company's financial position is weak, there will be deficit.
2. Calls in arrears. The amount receivable on calls in arrears is shown in List A. The amount which is not recoverable on calls in arrears is shown as deduction from called up capital.
3. Uncalled up Capital: Uncalled up capital is shown as a note at the end of the statement of affairs.
4. Unclaimed dividend: Unclaimed dividend is shown as unsecured creditors, but this amount will be paid only after payment of other unsecured creditors.
5. Contingent Liabilities: Contingent liabilities are shown as unsecured creditors. Bills discounted are contingent liabilities.
6. Debentures: If no other information is given, then debentures are always treated as having a floating charge on all the assets of the company.

Liquidator's final statement of account: The liquidator is required to realize the assets of the company and distribute the proceeds among the parties having claims against the company. In order to record all daily cash payments the liquidators maintains a proper cash book. At the end of the last year of winding up he prepares an account which is known as liquidator's final statement of account.

Statement of affairs : Where the court has made a winding up order or appointed the official liquidators as provisional liquidators, unless the court in its discretion otherwise orders, there shall be made out and submitted to the official liquidators a statement as to the affairs of the company in the prescribed form verified by an affidavit. This is called statement of affairs.

Contributories: Contributories means all those persons who are responsible to make payment to the company at the time of its winding up. Unless the court dispenses with the settlement of a list of contributories, the liquidator prepares the list of contributories. If the name of a shareholder falls in the list of contributories he becomes liable to pay only such amount which has so far not been called and paid by hum on the shares held by him.

Summary format of Liquidator's Final Statement of Account

Liquidator's Final Statement of Account

Receipts	Estimate-Value	Value realised	Payments	Amount
Opening cash in hand			Legal charges	
Opening cash at bank			Liquidator's remuneration :	
Assets realised :				
			Cost of winding up	
			Debentures	
Surplus from fully secured creditors			Unsecured creditors :	
			Preferential	
			Other	
Calls from contributories			Return to Contributories :	
			Preference shareholders	
			Equity shareholders	

UNIT IV

ACCOUNTING FOR AMALGAMATION OF COMPANIES

(i) Amalgamation : Amalgamation means an Amalgamation pursuant to the provisions of the Companies Act 1956, or any other statute which may be applicable to companies, in which two or more companies amalgamation with each other and maintain their identity.

(ii) Transferor Company : Transferor company means the company which is amalgamated into another company. It was known as vendor company prior to this standard.

(i) Transferee Company : Transferee company mean the company into which a transferee company is amalgamated. It was know as purchase company prior to this standard.

TYPE OF AMALGAMATION

According to AS 14 there are two types of amalgamation :

(1) Amalgamation in the nature of merger.
(2) Amalgamation in the nature of purchase.

1. **Amalgamation in the nature of merger :** amalgamation in the nature of merger is an amalgamation which satisfies all the following five conditions :

(i) All the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company by virtue of the amalgamation, other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees :

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agrees to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional share.

(iv) The business of the transferor company is intended to be carried on after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

2. **Amalgamation in the nature of purchase :** amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions which have been discussed in amalgamation in the nature of merger.

Journal entries in the books of Transferee Company as per pooling of interests method (Merger)

Items	Entries	Dr.	Cr.
1. For purchase consideration	Business Purchase A/c Dr. To Liquidator of transferor company Company (Being record of purchase consideration)	P.C.*	P.C.*
2. For the transfer of assets and liabilities	Sundry assets A/c Dr. Fictitious assets A/c Dr. General reserve A/c Dr. To Sundry liabilities A/c To Sundry reserves A/c To Profit and loss a/c To Business Purchase A/c →	Balance sheet values (Balancing fig.) →	Balance sheet values** P.C.*

	To General reserve A/c → (Being Sundry Assets, Liabilities and reserves taken over from transferor company and balancing figure as General Reserve)	→	(Bal. figure)
3. Payment of Purchase consideration	Liquidator of vendor Co. A/c Dr. Discount on issues of shares A/c Dr. To Equity share Capital A/c → To Pref. Share capital a/c → To Bank A/c (Being payment of purchase consideration)	P.C.* → →	Shares given by transferee co.
4. Conversion of debentures	Debentures of Vendor Co. A/c Dr. To Debentures A/c (Being conversion of debentures)	B/S value **	B/S value **
5. Liquidation exps. (if paid by transferee	General Reserve A/c Dr. To Bank A/c (Being liquidation expenses of transferor company paid by transferee company)	Liqui. Exps.	Liqui. Exps.
6. Preliminary exps. Of transferee Company	Preliminary expenses A/c Dr. To Bank A/c (Being preliminary expenses paid)	Preli. Exp.	Preli. Exp.

Journal entries in the books of transferee company in case of purchase method

Items	Particulars	Dr.	Cr.
1. For purchase consideration	Business purchase A/c Dr. To Liquidator of transferor Co. A/c (Being Business Purchases)	P.C.*	P.C.*
2. For transfer of Assets & liabilities	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry external liabilities A/c To Business Purchase a/c To Capital Reserve A/c (Being various assets and liabilities taken over and balancing figure debited to Goodwill A/c)	Agreed Values** Bal. figure	Agreed Values** P.C. (Bal. figure)
3. Payment of purchase price	Liquidator of transferor Co. A/c Dr. To Equity Share Capital A/c To Preference Share Capital A/c To Debentures A/c To Bank A/c (Being payment of purchase consideration)	P.C.**	Issued shares Issued shares Issued deben. Cash Payment
4. Liquidation & preliminary exps.	Preliminary expenses A/c Dr. Goodwill A/c Dr. To Bank A/c (Being Payment of Preliminary Expenses and liquidation expenses paid)	Prel. Exps. Of transferee co. Liq. exps.of transferor co.	Paid amount
5. Conversion of Debenture	Debentures of Transferor Co. A/c Dr. To Debentures A/c	Value of debenture	Value of

	(of Transferee Company)		debentures
6. Statutory reserves of transferor company	Amalgamation Adjustment A/c Dr. To Various Statutory Reserves A/c (Being incorporation of statutory reserves of Transferor Company)	Amount of Statu. Res.	Amount of Statu. Res.

Journal entries in the books of Transferor Company

Either amalgamation in the nature of merger or in the nature of purchase, in both the cases the following journal entries in the books of Transferor company:-

Realisation A/c Dr. To Sundry Assets A/c (at Balance Sheet value) (Being sundry assets transferred to Realisation A/c)
(2) Transfer of fictitious assets to equity shareholders A/c- Equity shareholders A/c Dr. To Discount on share and debentures a/c To Preliminary Expenses A/c (formation expenses) To Underwriting Commission A/c To Expenses on issue of share and debentures To Development expenses A/c To Profit and Loss A/c (Dr. balance) (Being fictitious assets accounts transferred to equity shareholders a/c)
(3). Transfer of liabilities to realisation a/c Sundry liabilities A/c (at B/S value) Dr. To Realisation A/c (Being sundry liabilities accounts transferred to Realisation A/c) Note:- All the external liabilities, whether or not taken over by transferee company, are transferred to realisation account.)
(4) Transfer of equity share capital, reserves, and credit balance of profit and loss account to equity shareholders a/c- Equity share capital A/c Dr. Sundry reserve and funds A/c Dr. Securities premium A/c Dr. To Equity shareholders A/c (Being transfer to equity shareholders A/c)
(5) Purchase consideration- P.C. Transferee Company Dr. To Realisation A/c (Being Purchase consideration due)
(6) On receipt of purchase consideration- Shares in Transferee Company A/c Dr. Debentures in Transferee Company Dr. Bank A/c Dr. To Transferee Company (Being Purchase consideration received)
(7) In case of amalgamation in nature of purchase, the entry for the sale of the assets not taken over by the transferee company will be as under- Bank A/c Dr. To Realisation A/c (Being sale of assets)
(8) In case of amalgamation in nature of purchase, the entry for the payment of external liabilities not taken over by the transferee company- Realisation A/c Dr.

To Bank A/c (Being payment of liability)
(9) Transfer of preference share capital account to preference shareholders account- Preference share Capital A/c Dr. To Preference Shareholders A/c (Being balance of Pref. Share capital transferred to Pref. Shareholders A/c)
(10) On payment to preference shareholder- Preference shareholders A/c Dr. Realisation (Premium) A/c Dr. To Bank A/c To Realisation (discount) A/c (Being payment made to Pref. Shareholders)
(11) Transfer of realisation profit to equity shareholders account- Realisation A/c Dr. To Equity Shareholder A/c (Being realisation profit transferred to equity shareholders A/c)
(12) Transfer of realisation loss to equity shareholder account- Equity Shareholders A/c Dr. To Realisation A/c (Being realisation loss transferred to equity shareholders A/c)
(13) On payment of liquidation expenses by transferor company- Realisation A/c Dr. To Bank A/c (Being liquidation expenses paid)
(14) On payment to equity shareholders- Equity Shareholders A/c Dr. To Equity Shares in Transferee Company A/c To Debentures in Transferee Company A/c To Bank A/c (Being payment of equity shareholders)

Necessary Ledger accounts

Realisation A/c

Step No.	Particulars	Amount	Step No.	Particulars	Amount
1	To Sundry Assets A/c	Book Values	2.	By Sundry Liabilities A/c	Book value
5.	To Bank A/c		3.	By Transferee Co. A/c	
6.	To Pref. Shareholder A/c		4.	By Bank A/c	
7.	To Bank A/c		8.	By Pref. Equity Shareholders A/c	
8.	To Equity Shareholders A/c		8.	To Equity Shareholders A/c	

Transferee Company

1. To Realisation A/c (Purchase consideration due)		2. By Equity Shares in transferee company By Pref. shares in transferee company By Debenture in transferee Company By Bank A/c	P.C. received	

Preference Shareholders A/c

2 To Realisation A/c (Discount) 3 To Bank or pref. Share in transferee co. A/c		1.By Equity Shares Capital A/c 2. By Realisation A/c (Premium)	

Equity Shareholders A/c

2 To Fictitious Assets A/c To Profit & Loss A/c (Loss) 3 To Realisation A/c (Loss) 4 To Equity shares in transferee company To Bank A/c To Debentures in transferee Co.		1 By Equity Share capital A/c 2 By General Reserve A/c By Profit and Loss A/c (Profit) 3 By Realisation A/c (Profit)	

INTERNAL RECONSTRUCTION

When the prescribed scheme of financial arrangement keeps intact the entity of the existing company, i.e., neither a new company is formed nor the existing company goes into liquidation, then it is called internal reconstruction. Thus in internal reconstruction the objective of reconstruction is achieved without going into the process of liquidation. It means internal reconstruction and reorganization are synonymous in use. The following are included in internal reconstruction:

(1) Alternation in share capital (2) Reduction in share capital

1. **Alternation in Share Capital**

Section 94 to 98 of Companies Act deal with alternation of share capital. If may take the form of fresh issue of new shares, conversion of fully paid shares with stock, cancellation of uninsured capital, consolidation of existing shares, sub division of existing shares.

(a) Increase its Share Capital by making fresh issue.
(b) Convention of Shares into Stock and Vice versa
(c) Cancellation of uninsured Shares
(d) Consolidation of shares of smaller denomination into share of higher denomination.

2. **Reduction in Share Capital**

Reduction of Share Capital is possible only if the Articles permit and a special resolution is passed to that effect. Reduction in share capital of a company may take one or many of the following forms :

(a) Reducing or extinguishing the uncalled liability on any shares or;
(b) Writing off paid up share capital which is lost or unrepresentative by available assets; or
(c) Return of paid up capital in excess of company's requirements;
(d) Any other form approved by the Court.

Reduction in share capital u/s 100 of the Companies Act, 1956 becomes necessary (must) when the company wants to write off past losses or when the value of assets is just equal to share capital i.e. capital is lost, the capital is more than what is required. If Articles of Association permit, the company passes a special resolution for reduction in share capital, which must be approved by the Court.

Entries in the Books

1. When capital reduction is in the form of writing off paid up capital which is lost :
   Share Capital A/c ....Dr.
   To Capital Reduction A/c (By the amount of reduction)

2. Capital Reduction A/c is used to write off several tangible, intangible and fictitious assets :
   Capital Reduction A/c .... ..Dr.
   To Profit & Loss A/c (Debit balance)

   To Discount on issue of Debenture A/c
   To Preliminary Expenses A/c
   To Goodwill A/c
   To Patents A/c
   To Other Assets A/c

3. On payment of any contingent liability :
   Capital Reduction A/c .... ..Dr.
   To Contingent liability (Mention the name of liability)
   Normal entry for payment shall be made.

4. When there is increase in the value of any asset after revaluation :
   Particular Assets A/c .... ..Dr.
   To Capital Reduction A/c (Amount of increase)

UNIT V

Banking

Banking is defined in 'Banking Regulation Act, 1949' as under—
"Banking means accepting, for the purpose of lending or investment, of deposits of money the public, repayable on demand or otherwise and withdrawable by cheques, order or otherwise".

In simple words banking means to accept public deposits in various account and to reinvest .o lend the same to the needy persons. Interest is paid to public on its deposits and charged the borrowers. The public deposit can be withdrawn by the depositors with the help of es, drafts, withdrawal forms etc)

(A) To accepts deposits from public

1) **Current deposit accounts –**
2) **Saving deposit accounts –**
3) **Fixed deposit account-**
4) **Recurring deposit account**
5) **Home savings accounts-**
6) **Other deposit accounts-**

(B) To accepts deposits from public

1) **Ordinary loan –**
2) **Overdraft-**
3) **Cash credit-**
4) **Discounting of bills of exchange-**

(C) Agency functions of banks

Besides the above functions, the banks perform certain agency functions also for its met's. For the services the bank charges a certain commission from it's clients. The various agency services are-
1. The bank helps its customers in transferring funds from one place to another or one branch to another.
2. The banks accept bills of exchange on behalf of their trusted customers.
3. The bank makes payments on behalf of it's customer like payment of loans, interest, bills, donations, telephone bills, electricity bills etc. and debits to their account.
4. The bank preserves the jewellery, important documents and Wills' of the customers and executes them after their death.
5. The bank collects the funds, cheques, drafts, bills of exchange, interest, dividends etc. from others and credits them to its customers' accounts.
6. The bank may also act as a correspondent, agent or representative of its customers.
7. The bank buys and sells stocks and shares of private as well as public/government securities on behalf of it's customers!)

(D) Other functions of banks

These include issuing of currency notes by the RBI and purchase and sale of foreign currency etc. Bank also provides financial assistance for inland and foreign trade. According to section 6 of Banking Regulation Act, there are certain other functions of banks as under-
1. To manage the loan or advance of securities related to any assets.
2. To manage and formulate the assets of trust.
3. To establish the funds, institution and facilities for the benefit of employees and public.
4. For banking function, necessary convenient building should be either constructed or seized or modified to serve banking functions.

5. Do any work for the management of the assets of banking company.
6. To acquire either a person's or company's business or a part thereof which come under banking function.
7. All the other functions necessary for the purpose of aforesaid functions or any other function which would be published in the Central Govt. Gazette.

Account books of bank

The accounts of a banking company are based on peculiar system. In modern then is a tarp number of transactions in a days routine. it is necessary to hater a proper system of recording to know the latest positions of the customers' accounts and also the monetary balance of the bank. So the banks adopt such an accounting system in which theyt are in a position to know all the details of various aspects as and when required. To fulfill this purpose following books are mainly used by the banks—

(1) Current account ledger –
(2) Savings bank ledger
(3) Short loans ledger –
(4) Customer's loan ledger
(5) Fixed deposit ledger-
(6) Investment ledger
(7) Receiving cashier's counter cash book-
(8) Paying cashier's counter cash book-
(9) Net cash book-
(10) Cash balance book –
(11) General cash book or day book-
(12) General ledger-

Slip system

Slip system is very popular in banks. In banks the accounting is simply based on the double entry system only but to increase the speed of recording the posting is made from slips prepared by the customer himself. So entries are not made in the books of original entry or subsidiary books, but posting of entries is done from slips prepared by the customer himself. So entries are not made in the books of original entry or subsidiary books, but posting of entries is done from slips.

Functioning of slip system

When the customer deposits the amount in the bank through cash, cheque or draft, he has to fill in pay-in- slip. The receiving cashier signs on its counterfoil and stamps it and returns it back to the customer concerned. At present, apart from cash deposits, no pay-in- slip is stamped or signed by bank clerks. The customer drops the cheque enclosed with pay-in-slip in the cheque drop-box and keeps with him the unsigned and unstamped counter foil of pay-in-slip

Merits of advantages of slip system

1. Distribution of work
2. Determination of the functions and fixation of liabilities-
3. Easy evaluation of accounts-
4. Time saving
5. Non- requirement of primary books
6. Reliability—
7. Information of day-to-day affairs—

Disadvantages of slip system

1. **Unsuitable for customers-**
2. **Unsafe –**
3. **Chances of fraud –**
4. **Heavy transactions-**
5. **Verification of books difficult-**

Important legal facts

1. Regulation of capital— As per Banking Regulation Act, 1949, all banking companies, related with the banking business in India, should have their subscribed capital not less than 50% of their authorized capital. In the same way the paid up capital also should be more than 50% of subscribed capital. Secondly the banking company should have in it's capital structure only equity shares, preference shares can be the part of capital provided these shares have been issued before 1st July 1944.

2. Liquid reserve—Every bank, in order to fulfill the requirements of it's customers should have in proper quantity the liquid assets available. According to the banking act u/s 24 it has become compulsory for every bank to maintain minimum liquid reserves. There should be always reserves of gold and other valuable securities too.

3. Cash reserve—All the banks in India under the control of Reserve Bank of India have to have a certain cash reserve with the RBI as it is statutory. This is called 'Cash Reserve Ratio CRR' At present it is 4%of its time and demand liabilities. In the same way a reserve well known as 'Statutory Liquidity Ratio (SLR) is also compulsory. At present it is 19.5% of time and demand liabilities of bank.
4. Commission, brokerage and discount—No banking company can pay more than 2.5% of it's paid up value of shares as commission, brokerage or discount, either directly or indirectly, or in any other from.

5. Charge on unpaid capital—According to the Banking Regulation Act, u/s 14 (1) no bank can create a charge on its unpaid capital.

6. Restrictions on payment of dividend—No banking company can distribute its profits as dividend unless it writes off it's capital expenditure like preliminary expenses, commission on sale of shares, brokerage, discount, organizational expenses or any other expenses.

7. Reserve fund—Under section 17 of the act every banking company incorporated in India, shall create a reserve fund, out of the profits of the current year before any dividend is declared. A sum not less than 25% of such profits is to be kept as 'Statutory Reserve'. The central government may give certain relaxations, if the amount in the reserve fund together with the share premium account is not less than the paid up capital of the banking company Profit & loss account and balance sheet of banks

Form 'B'

Profit and loss account

	Schedule No.	Year ended 31.3....... (Current year)	Year ended 31.3....... (Previous year)
		₹	₹
I. Income			
Interest earned	13		
Other income	14		
Total			
II. Expenditure			
Interest expended	15		
Operating expenses	16		
Provisions and contingencies			
Total			
III. Profit/loss			
Net profit/loss (–) for the year			
Profit/loss (–) brought forward			
Total			
IV. Appropriations			
Transfer to statutory reserves			
Transfer to other reserves			
Transfer to government/proposed dividend			
Balance carried over to balance sheet			
Total			

Note: 1. *Total income includes income of foreign branches at ₹....*

2. *Total expenditure includes expenditure of foreign branches at ₹....*

3. *Surplus/Deficit of foreign branches at ₹......*

Schedule 13 - Interest earned *('000s omitted)*

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

Schedule 14 - Other income *('000s omitted)*

	Year ended 31.3....... (Current year)	Year ended 31.3....... (Previous year)
	₹	₹
I. Commission, exchange and brokerage		
II. Profit on sale of investments (*Less* : Loss on sales of investments)		
III. Profit on revaluation of investments (*Less* : Loss on revaluation of investments)		
IV. Profit on sale of land, buildings and other assets (*Less* : Loss on sale of land, buildings and other assets)		
V. Profit on exchange transactions (*Less* : Loss on exchange transactions)		
VI. Income earned by way of dividends, etc., from subsidiaries/companies and/or joint ventures abroad/in India		
VII. Miscellaneous income		
Total		

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

Schedule 15 - Interest expended *('000s omitted)*

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

Schedule 16 - Operating expenses *('000s omitted)*

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