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CENTRE FOR DISTANCE AND ONLINE EDUCATION

Advanced Accountancy Paper-I

For

M. Com. Part-I

Semester - I

(In accordance with National Education Policy 2020)
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Preface

Accounting is the process of (a) recording transactions as well as events and (b) presenting financial performance in the form of financial statements called income statement and position statement. It is also called as a language of business in modern age in which the focus of accounting has changed in respect of disclosure of financial statements in true and fair view especially in the interest of various stakeholders of the business and other organizations. Managerial perspective of accounting is emerging for efficient and effective utilization of resources through performance measurement and management where accounting works as information system and controlling system.

We hope that this book will prove to be useful to students at M. Com. Part-I. The text of this book has been divided into eight chapters as four chapters for Semester-I. The students are expected to do practical according to each unit shown in the syllabus.

In Semester-I on Advanced Accountancy Paper-I expects that the students should be prepared for (a) identifying accounting policies and making valuation of inventories, (b) preparation of accounts of hotels and hospitals, (c) preparation of consolidated financial statements of group of companies and (d) application of accounting process for insurance companies. The accounting standards are playing very important role in harmonization of accounting practices at national and similarly IFRSs at international level. The first unit introduced the concept of Accounting Standards, its objectives and need. It has also covered Introduction to IFRS and Distinction between Indian GAAP and IFRSs. The second unit focuses on preparation and presentation of consolidated financial statements of holding company and its subsidiary companies with considering Accounting Standard 21. The third and forth units describe the process of presentation of final accounts of Insurance Companies- (Life and General Insurance).

We express our deep sense of gratitude to Hon. Vice-Chancellor Prof. (Dr.) D. T. Shirke, Pro-Vice-Chancellor Prof. P. S. Patil and Prof. (Dr.) D. K. More, Director the Centre for Distance and Online Education for giving us opportunity to contribute this book. We are thankful to writers of units for their contribution. Suggestions for improvement in the book are welcome from stakeholders of all corners.

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M. Com. Part-I
SIM IN ADVANCED ACCOUNTANCY PAPER I

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Each Unit begins with the section objectives -

Objectives are directive and indicative of :

1. what has been presented in the unit and
2. what is expected from you
3. what you are expected to know pertaining to the specific unit, once you have completed working on the unit.

The self check exercises with possible answers will help you understand the unit in the right perspective. Go through the possible answers only after you write your answers. These exercises are not to be submitted to us for evaluation. They have been provided to you as study tools to keep you in the right track as you study the unit.

Dear Students

The SIM is simply a supporting material for the study of this paper. It is also advised to see the new syllabus 2023-24 and study the reference books & other related material for the detailed study of the paper.

Unit-1

Introduction to Accounting Standard

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 - 1.2.4 Disclosure of Accounting Policies (AS-1)
 - 1.2.5 Valuation of Inventories (AS-2)
- 1.3 Summary
- 1.4 Terms to Remember
- 1.5 Answers to Check your progress
- 1.6 Exercise
- 1.7 Reference for further study

1.0 Objectives :

After studying this Unit you will be able to:

1. Understand the term accounting standard.
2. Describe the accounting standards issued in India.
3. The International Financial Reporting Standards.
4. Make application of AS-1 and analyze disclosure of accounting policies accordingly.
5. Make application of AS-2 for valuation of inventories

1.1 Introduction :

Accounting is called the language of business as accounting performs the functions of language for the business. It communicates a result of business operations to various users such as proprietor, management, creditors, investors, employees, government and regulatory authorities etc. Accounting has its own history. It is as old as money itself. It is broader than the book-keeping. Book-keeping mainly concerned with recording day-to-day transactions in a significant and orderly manner.

A standard is a particular level of performance, goal or target. It is established by customs, professional or government authorities, common sense, regulatory or legal bodies etc., after extensive observation, testing, research etc. In accounting, it is a chosen set of accounting policies about the principles and methods to be adopted. This unit covers accounting standards and introduction to IFRSs, AS-1 Disclosure of Accounting Policies and AS-2 Valuation of Inventories (AS-2).

1.2 Subject Matter :

Before going to know accounting standards, we must know what exactly accounting is. So firstly we should try to understand meaning of accounting.

1.2.1 Accounting Standards:

In India, Accounting Standard Board (ASB) is authorized to issue accounting standards. The Accounting Standard Board of the Institute of Chartered Accountants of India (ICAI) was constituted on 21st April, 1977 to formulate accounting standard applicable to Indian enterprises. Accounting standards establish rules relating to

recognition, measurement and disclosures. They ensure that all enterprises that follow them are comparable and they also ensure that their financial statements are true and fair and transparent.

1.2.1.1 Meaning of Accounting Standards: Accounting Standard is defined as “written documents issued from time to time by institutions of the accounting profession or institutions which has sufficient involvement and which are established expressly for this purpose”. Accounting standards deal mainly with financial measurements and disclosures used in producing a set of fairly presented financial statements. They attempt to limit theoretically possible flexibility and to give practitioners realistic working guidelines. Accounting standards enables accountants to attain both uniformity and flexibility in accounting practices.

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information. Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

1.2.1.2 Objectives of Accounting Standards: The process of accounting should be well-regulated in order to ensure transparency, consistency, comparability, adequacy and correctness of financial statements. The financial statements should be presented with true and fair view. Hence, the following are the specific objectives of accounting standards:

- 1) To standardize different accounting policies and practices in order to eliminate non-comparability.
- 2) To provide standard accounting policies valuation norms and disclosure requirements.
- 3) To eliminate confusion about information presented through the financial statement.
- 4) To bring consistency in accounting and presentation of financial results.

1.2.1.3 Procedure of Setting Accounting Standards: Since The Institute of Chartered Accountants of India (ICAI) recognized the need to harmonize the diverse accounting policies and practices, they constituted an Accounting Standards Board (ASB) on 21st April 1977.

In India, the procedure of setting accounting standards is streamlined in the following steps:

- 1. To determine the broad Area:** Firstly, the ASB determines the broad areas in which the accounting standard needs to be formulated and priority in regard to their selection.
- 2. To constitute the study Group:** The subject-specific study group is constituted to assist ASB in formulation of accounting standards. The group consists of members of ICAI and experts. The group develops proper primary draft of accounting standard.
- 3. To hold dialogue and Consider view:** The ASB holds dialogue with the representatives of Government, public sector undertaking, industries and the organizations to consider their view in regards to formation of accounting standards.
- 4. To prepare Draft:** On the basis of the work of the study group and views of various experts referred to above a draft of proposed accounting standard is prepared. The draft includes the following points:
 - a) A statement of concepts and fundamental accounting principles relating to the standard.
 - b) The preparation and disclosure requirement in complying with the standard.
 - c) Definition of the terms used in the standards.
 - d) The class of entities to which the standard will apply.
 - e) Date from which the standard will be effective
 - f) Issue of draft.
- 5. To invite comments on Draft :** The draft of the proposed accounting standard is issued for comments by the members of the ICAI and the public at large.

6. **To Finalize the draft:** After considering the comments, the draft of the proposed accounting standard is finalized by ASB. This final draft is sent to the Council of the ICAI.
7. **To Issue Accounting Standard :** The Council of the ICAI considers the final draft of the proposed standard, and if found necessary, modify the same in consultation with ASB. The accounting standard on the relevant subject will then be issued under the authority of the council.

ICAI has issued 32 Accounting Standards (ASs). However, AS -8 on “Research and Development” and AS-6 on Depreciation was withdrawn consequent to issue of AS-26 and AS-10 (Revised) “respectively”. Effectively, there are 29 accounting standards at present. However, only the AS-1 to AS-5, AS-7 and AS-9 to AS-29 are notified by the Central Government u/s 133 of the Companies Act, 2013.

1.2.1.4 List of Accounting Standards in India:

- 1) AS-1 Disclosure of Accounting Policies
- 2) AS-2 Valuation of Inventories
- 3) AS-3 Change in Financial Statements
- 4) AS-4 Contingencies and Events Occurring after Balance Sheet Date
- 5) AS-5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
- 6) AS-6 Depreciation Accounting (withdrawn and included in AS-10)
- 7) AS-7 Accounting for Construction Contracts (Revised)
- 8) AS-8 Accounting for Research and Development (withdrawn and included in AS-26)
- 9) AS-9 Revenue Recognition
- 10) AS-10 Accounting for Fixed Assets
- 11) AS-11 Effects of Changes in Foreign Exchange Rates (Revised)
- 12) AS-12 Accounting for Government Grants
- 13) AS-13 Accounting for Investments
- 14) AS-14 Accounting for Amalgamation

- 15) AS-15 Accounting for Retirement Benefits in the financial statement of Employer
- 16) AS-16 Borrowing Costs
- 17) AS-17 Segment Reporting
- 18) AS-18 Related Party Disclosure
- 19) AS-19 Leases
- 20) AS-20 Earning Per Share
- 21) AS-21 Consolidated Financial Statements
- 22) AS-22 Accounting for Taxes on Income
- 23) AS-23 Accounting for Investment in Associates in Consolidated Financial Statements
- 24) AS-24 Discounting Accounting
- 25) AS-25 Interim Financial Reporting
- 26) AS-26 Intangible Assets
- 27) AS-27 Financial Reporting on Interest in Joint Venture
- 28) AS-28 Impairment of Asset
- 29) AS-29 Provisions, Contingent Liabilities and Contingent Assets (Revised)

1.2.1.5 Need of Accounting Standards:

Suppose accounting standards are not there, what will happen? In such situation, whether accounts maintained by different entities and at different places are comparable? There will be confusion and we cannot compare their performance. We cannot find the presentation of financial statements with true and fair view.

Accounting Standards are required to harmonize the diverse accounting policies and practices. They provide comparability to accounting data. They remove confusing variations. Accounting standards facilitate uniform preparation and reporting of financial statements. They ensure that their financial statements are true and fair and transparent.

In short we can understand the need of accounting standards with the following points:

- 1) Accounting standards are required to bring uniformity in accounting methods by proposing standard accounting treatments.
- 2) Accounting standards give a sense of faith and reliability to different users of accounting information.
- 3) Accounting standards make the financial statements of different business units, for different years comparable.
- 4) Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone.
- 5) Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimized.
- 6) Accounting standards lay down the terms and conditions for accounting policies and practices which help the auditor when they become the basis for auditing the books of accounts.

Check Your Progress-1

A) Choose the most appropriate alternative among given alternatives:

- 1) The Accounting Standard Board (ASB) of the Institute of Chartered Accountants of India (ICAI) was constituted on
 - (a) 21st April 1977
 - (b) 1st April 1877
 - (c) 21st August 1977
 - (d) 21st August 2007
- 2) Accounting Standards arepolicy documents.
 - (a) verbal
 - (b) audio
 - (c) written
 - (d) unwritten

- 3) Accounting Standards are issued by
- (a) ICWAI
 - (b) ICAI
 - (c) ICICI
 - (d) IDBI
- 4) Accounting Standards are issued todifferent accounting policies.
- (a) standardize
 - (b) devise
 - (c) identify
 - (d) advertize
- (B) State whether the following statement is 'True' or 'False':
- 1) Accounting Standard-3 is related to Foreign exchange rate.
 - 2) Accounting Standards and Indian Accounting Standards are same.
 - 3) Accounting Standards are applicable to the companies working in India.
 - 4) Accounting Standards in India are issued by The Institute of Cost Accountants of India.

1.2.2 International Financial Reporting Standards (IFRSs):

International Financial Reporting Standards (IFRSs) is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standard Board (IASB). The IASB is the independent standard setting body of the IFRS Foundation, its head-quarter is London. The IFRSs are followed in more than 114 countries of the world. Following the IFRSs is like speaking one accounting language all over the world.

1.2.2.1 Introduction to IFRS: IFRSs are a set of high quality, understandable and enforceable global accounting standards which includes:

- 1. International Accounting standards (IASs)
- 2. International Financial Reporting standard (IFRSs)
- 3. International Financial Reporting Interpretations (IFRIs)

4. Standing Interpretations (SIs)

1.2.2.2 List of IFRSs:

International Accounting Standards

Sr. No.	IAS	Description
1	IAS-1	Presentation of Financial Statements
2	IAS-2	Inventories
3	IAS-3	Consolidated Financial Statements (originally issued in 1976, effective 1 Jan 1977, Superseded in 1989 by IAS-27 and IAS-28)
4	IAS-4	Depreciation Accounting (withdrawn in 1999, replaced by IAS-16, 22 and 38, all of which were issued or revised in 1998)
5	IAS-5	Information to be Disclosed in Financial Statements (originally issued in Oct.1976, effective 1 Jan. 1997, Superseded by IAS-1 in 1997)
6	IAS-6	Accounting Responses to Changing Prices (Superseded by IAS-15, which was withdrawn in Dec 2003)
7	IAS-7	Cash Flow Statements
8	IAS-8	Accounting Policies, Changes in Accounting Estimates and Errors
9	IAS-9	Accounting for Research and Development Activities (Superseded by IAS-38, effective 1 July 1999)
10	IAS-10	Events after the Balance Sheet Date
11	IAS-11	Construction Contracts
12	IAS-12	Income Taxes
13	IAS-13	Presentation of Current Assets and Current Liabilities (Superseded by IAS-1)
14	IAS-14	Segment Reporting
15	IAS-15	Information Reflecting the Effects of Changing Prices (withdrawn in Dec.2003)

16	IAS-16	Property, Plant and Equipment
17	IAS-17	Leases
18	IAS-18	Revenue
19	IAS-19	Employee Benefits
20	IAS-20	Accounting for Government Grants and Disclosure of Government Assistance
21	IAS-21	The Effects of Changes in Foreign Exchange Rates
22	IAS-22	Business Combinations
23	IAS-23	Borrowing Costs
24	IAS-24	Related Party Disclosures
25	IAS-25	Accounting for Investments (Superseded by IAS-39 and IAS-40 effective 2001)
26	IAS-26	Accounting and Reporting by Retirement Benefit Plans
27	IAS-27	Consolidated and Separate Financial Statements
28	IAS-28	Investments in Associates
29	IAS-29	Financial Reporting in Hyperinflationary Economies
30	IAS-30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Superseded by IFRS-7 effective 2007)
31	IAS-31	Interests in Joint Ventures
32	IAS-32	Financial Instruments: Presentation (Disclosure provisions superseded by IFRS-7 effective 2007)
33	IAS-33	Earnings Per Share
34	IAS-34	Interim Financial Reporting
35	IAS-35	Discontinuing Operations (Superseded by IFRS-5 effective 2005)
36	IAS-36	Impairment of Assets
37	IAS-37	Provisions, Contingent Liabilities and Contingent Assets

38	IAS-38	Intangible Assets
39	IAS-39	Financial Instruments: Recognition and Measurement
40	IAS-40	Investment Property
41	IAS-41	Agriculture

(Source: <https://www.ifrs.org>)

International Financial Reporting Standards

Sr. No.	IFRS	Description
1	IFRS-1	First-time Adoption of International Financial Reporting Standards
2	IFRS-2	Share-based Payment
3	IFRS-3	Business Combination
4	IFRS-4	Insurance Contracts
5	IFRS-5	Non-current Assets held for Sale and Discontinued Operations
6	IFRS-6	Exploration for and Evaluation of Mineral Assets
7	IFRS-7	Financial Instruments: Disclosures
8	IFRS-8	Operating Segments
9	IFRS-9	Financial Instruments
10	IFRS-10	Consolidated Financial Statements
11	IFRS-11	Joint Agreements
12	IFRS-12	Disclosure of Interest in other Entities
13	IFRS-13	Fair Value Measurement
14	IFRS-14	Regulatory Deferral Accounts
15	IFRS-15	Revenue from Contracts with Customers
16	IFRS-16	Leases

(Source: <https://www.ifrs.org>)

Financial statements consist of (1) A statement of financial position, (2) A statement of comprehensive Income, (3) A statement of changes in equity and (4) A cash flow statement or statement of cash flow.

1.2.2.3 Convergence of IFRSs with ASs in India: India made a commitment to G20 to follow IFRSs from 2011, however this date was postponed and the IFRSs are implemented from April 2016 for specific companies.

There are two approaches to move accept this framework: (a) adoption of IFRSs and (b) convergence of IFRSs with Accounting Standards. India has accepted second option i.e. convergence of IFRSs with its own accounting standards. The convergence gives a scope for making country specific changes. It was decided that the converged standards with the IFRSs be named as Indian Accounting Standards (Ind ASs).

Now India have two sets of accounting standards viz., existing accounting standards under Companies (Accounting Standard) Rules, 2006 and IFRSs converged Indian Accounting Standards (Ind ASs). Ind AS are named and numbered in the same way as the corresponding IFRSs. The Ministry of Corporate Affairs has notified Ind ASs as Companies (Indian Accounting Standards) Rules 2016 with the roadmap of implementation.

1.2.2.4 List of Ind ASs:

Ind ASs	Title	Corresponding IAS/IFRS No.
Ind AS 1	Presentation of Financial Statements	IAS 1
Ind AS 2	Inventories	IAS 2
Ind AS 7	Cash Flow Statements	IAS 7
Ind AS 8	Accounting Policies, Change in Accounting Estimates and Errors	IAS 8
Ind AS 10	Events after the Balance Sheet Date	IAS 10
Ind AS 11	Construction Contracts (See Note)	IAS 11
Ind AS 12	Income Taxes	IAS 12
Ind AS 16	Property, Plant and Equipment	IAS 16

Ind AS 17	Leases	IAS 17
Ind AS 18	Revenue (See Note)	IAS 18
Ind AS 19	Employee Benefits	IAS 19
Ind AS 20	Accounting for Govt. Grants and Disclosure of Government Assistance	IAS 20
Ind AS 21	The Effects of changes in the Foreign Exchange Rates	IAS 21
Ind AS 23	Borrowing Costs	IAS 23
Ind AS 24	Related Party Disclosure	IAS 24
Ind AS 27	Separate Financial Statements	IAS 27
Ind AS 28	Investments in Associates and Joint Ventures	IAS 28
Ind AS 29	Financial Reporting in Hyper Inflationary Economies	IAS 29
Ind AS 32	Financial Instruments: Presentation	IAS 32
Ind AS 33	Earnings Per Share	IAS 33
Ind AS 34	Interim Financial Reporting	IAS 34
Ind AS 36	Impairment of Assets	IAS 36
Ind AS 37	Provisions, Contingent liabilities and Contingent Assets	IAS 37
Ind AS 38	Intangible Assets	IAS 38
Ind AS 40	Investment Property	IAS 40
Ind AS 41	Agriculture	IAS 41
Ind AS 101	First time adoption of Indian Accounting Standards (Ind AS)	IFRS 1
Ind AS 102	Share Based Payments	IFRS 2
Ind AS 103	Business Combination	IFRS 3
Ind AS 104	Insurance Contracts	IFRS 4

Ind AS 105	Non-current assets held for sale and discontinued operations	IFRS 5
Ind AS 106	Exploration for and evaluation of mineral resources	IFRS 6
Ind AS 107	Financial Instrument: disclosure	IFRS 7
Ind AS 108	Operating Segment	IFRS 8
Ind AS 109	Financial Instruments	IFRS 9
Ind AS 110	Consolidated Financial Statements	IFRS 10
Ind AS 111	Joint Arrangement	IFRS 11
Ind AS 112	Disclosure of interest in other entities	IFRS 12
Ind AS 113	Fair Value Measurement	IFRS 13
Ind AS 114	Regulatory Deferral Accounts	IFRS 14
Ind AS 115	Revenue from Contracts with Customers (See Notes)	IFRS 15

(Source: www.mca.gov.in)

Note: The Ind AS 115 ‘Revenue from Contracts with Customers’ has been postponed for implementation and in place thereof Ind AS 11 ‘Construction Contracts’ and Ind AS 18 ‘Revenue’ have been notified by MCA. However, now The Ministry of Corporate Affairs notified Ind AS 115 for application by Ind AS companies from financial year beginning or after 1st April 2018.

1.2.3 Distinction between GAAPs and IFRSs:

We have seen meaning of IFRSs in earlier discussion. GAAPs are Generally Accepted Accounting Principles which are territorially different for e.g.- Indian GAAPs are different from US GAAPs.

Indian GAAPs include Accounting Principles or accounting standards which are country based GAAPs. IFRSs are international GAAPs, which any country can adopt or converge with IFRSs. Old Accounting Standards are useful only in India however IFRSs or Ind AS are useful worldwide. Indian GAAPs enables access to Indian stock market whereas IFRSs enable access to global capital market. Indian GAAPs are based on conceptual framework which is a set of guiding principles. IFRSs are based on less precise guidance. In Indian GAAPs perspective, financial statements are

prepared on the basis of historical cost. However, as per IFRSs, financial statements are prepared on the basis of fair value.

We can compare IFRSs and Indian GAAP on the basis of the following points:

	IFRS	Indian GAAPs
1.	<p>Presentation and Disclosures:</p> <p>IAS-1 prescribes minimum structure of financial statements and contains guidance on disclosures;</p> <p>IAS-1 requires disclosure of critical judgments made by management in applying accounting policies;</p> <p>IAS-1 prohibits any items to be disclosed as extra-ordinary items;</p> <p>IAS-1 requires a “Statement of Changes in Equity” which comprises all transactions with equity holders.</p>	<p>There is no separate standard for disclosure. For Companies, format and disclosure requirements are set out under Schedule VI of the Companies Act.</p> <p>No such requirement under Indian GAAP.</p> <p>AS-5 specifically requires disclosure of certain items as Extra-ordinary items.</p> <p>Under Indian GAAP, this is typically spread over several captions such as share capital, reserves and surplus, P&L debit balance etc.</p>
2	<p>True and Fair Override</p> <p>In extremely rare circumstances the true and fair override is allowed, such as, when management concludes that compliance with a requirement in an IAS would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation. However proper disclosures would be required under these circumstances.</p>	<p>True and fair override is generally not permitted under Indian GAAP. Further in terms of hierarchy local legislations are more superior. The Accounting Standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in the country.</p>

3	Small and Medium Sized Enterprises No standard as yet on small and medium sized enterprises.	Detailed guidance on applicability of various accounting standards to SME's exists.
4	Inventories IAS-2 prescribes same cost formula to be used for all inventories having a similar nature and use to the entity. There are certain additional requirement in IAS-2 which are not contained in AS-2 which are as under: (a) Purchase of inventory on deferred settlement terms- excess over normal price is to be accounted as interest over the period of financing. (b) Measurement criteria are not applicable to commodity broker-traders. (c) Exchange differences are not includible in inventory valuation.	AS-2 requires that the formula used in determining the cost of an item of inventory needs to be selected with a view to providing the fairest possible approximation to the cost incurred in bringing the item to its present location and condition. However, there is no stipulation for use of same cost formula in AS-2 as compared to IFRS.
5	Cash Flow Statements There is no exemption of preparing cash flow statement. Bank overdrafts are to be treated as a component of cash/ cash equivalents under IAS-7.	Exemption for SME's. AS-3 is silent.

	<p>IAS-7 allows interest and dividend paid to be classified either under Operating Activities or Financing Activities.</p> <p>IAS-7 prohibits separate disclosure of extraordinary items in Cash Flow Statements.</p> <p>IAS-7 deals with cash flows of consolidated financial statements.</p>	<p>AS-3 mandates disclosure of interest and dividend paid under Financing Activities only.</p> <p>AS-3 requires disclosure of extraordinary items.</p> <p>AS-3 does not deal with cash flows relating to consolidated financial statements.</p>
6	<p>Proposed Dividends</p> <p>IAS-10 provides that proposed dividend should not be shown as liability.</p>	<p>AS-4 specifically requires such disclosure as the same is mandated by statutory requirement.</p>
7	<p>Prior Period Items and Changes in Accounting Policies</p> <p>In case of change in accounting policy, IAS-8 requires retrospective effect to be given by adjusting opening retained earnings.</p> <p>The definition of prior period items is broader under IAS-8 as compared to AS-5 since IAS-8 covers all the items in the financial statements including balance sheet items.</p> <p>IAS-8 requires retrospective restatement of prior period figures by restatement of opening balances of</p>	<p>No specific guidance given except for change in method of depreciation should be considered as change in accounting policy and is accounted retrospectively. The effect of changes in accounting policies are reflected in the current year P & L.</p> <p>AS-5 covers only incomes and expenses in the definition of prior period items.</p> <p>AS-5 requires prior period items to be included in the determination of net profit or loss for the current period.</p>

	assets, liabilities and equity for the earliest period practicable.	
8	<p>Revenue Recognition</p> <p>In case of revenue from rendering of services, IAS-18 allows only percentage of completion method. IAS-18 requires effective interest method to be followed for interest income recognition. Under IAS-18, payments received in advance for goods yet to be manufactured or third party sales cannot be recognized as revenue until such goods are delivered to the buyer.</p> <p>Deals with accounting of barter transactions.</p> <p>For multiple element contracts, the standard broadly requires that each element is fair valued and recognized when the underlying service is performed.</p>	<p>AS-9 allows completed service contract, method or proportionate completion method.</p> <p>AS-09 requires interest income to be recognized on a time proportion basis. AS-9 permits recognition when the goods are manufactured, identified and ready for delivery in such cases.</p> <p>No guidance on barter transaction.</p> <p>No specific guidance in the standard.</p>
9	<p>Fixed Assets & Depreciation</p> <p>IAS-16 mandates component accounting.</p> <p>Depreciation is based on useful life.</p> <p>Major repairs and overhaul expenditure are capitalized as if it is a separate component.</p>	<p>As-10 recommends but does not force component accounting.</p> <p>Depreciation is based on higher of useful life or Schedule XIV rates. In practice most companies use Schedule XIV rates.</p> <p>Major repair and overhaul expenditure are expensed.</p>

	<p>Under IAS-16, if subsequent costs are incurred for replacement of a part of an item of fixed assets, such costs are required to be capitalized and simultaneously the replaced part has to be de-capitalized.</p> <p>In case of change in method of depreciation, IAS-16 requires effect to be given prospectively. Change in method of depreciation is treated as change in accounting estimate under IAS-16.</p> <p>Estimates of residual value needs to be updated.</p> <p>Revaluation is an allowed alternative treatment; however, revaluation will have to be done regularly.</p> <p>Depreciation on revaluation portion cannot be recouped out of revaluation reserve and will have to be charged to the P&L account.</p> <p>Provision on site-restoration and dismantling is mandatory.</p>	<p>AS-10 provides that only that expenditure which increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book values. g. an increase in capacity.</p> <p>AS-6 requires retrospectively re-computation of depreciation and any excess or deficit on such re-computation is required to be adjusted in the period in which such change is affected.</p> <p>AS-6 considers this as change in accounting policy. Estimates of residual value are not updated.</p> <p>No need to update revaluation regularly.</p> <p>Depreciation on revaluation portion can be recouped out of revaluation reserve.</p> <p>No guidance in the standard. However, guidance note on oil and gas issued by ICAI, requires capitalization of site restoration cost.</p>
10	<p>Foreign Exchange</p> <p>IAS-21 is based on the concept of functional currency v reporting currency. It therefore provides</p>	<p>AS-11 is based on the concept of integral and non-integral operations. It therefore provides guidance on what</p>

	<p>guidance on what should be the functional currency of an enterprise.</p> <p>Foreign exchange differences cannot be capitalized unless they are in respect of borrowings and the exchange differences are in effect an adjustment of interest cost.</p>	<p>operations are integral and what are not in respect of an enterprise.</p> <p>Foreign exchange differences are not capitalized, as per the Companies (Accounting standard) Rules and AS-11 except for exchange differences on borrowings to the extent they are an adjustment of interest cost.</p>
11	<p>Government Grants</p> <p>In case of non-monetary assets acquired at nominal/ concessional rate, IAS-20 permits accounting either at fair value or at acquisition cost.</p> <p>In respect of grant related to a specific fixed asset becoming refundable. IAS-20 requires retrospective re computation of depreciation and prescribes charging off the deficit in the period in which such grant becomes refundable.</p> <p>IAS-20 requires separate disclosure of unfulfilled conditions and other contingencies if grant has been recognized.</p>	<p>As-12 requires accounting at acquisition cost.</p> <p>As-12 requires enterprise to compute depreciation prospectively as a result of which the revised book value is provided over the residual useful life.</p> <p>AS-12 has no such disclosure requirement.</p>
12	<p>Business Combinations</p> <p>Business combinations are dealt with under IFRS-3.</p> <p>IFRS-3 allows only purchase method. Option of pooling method given under IAS-22 has been withdrawn.</p>	<p>Business combinations are dealt with various standards such as AS-14, AS-21, AS-23, AS-27 and AS-10.</p> <p>AS-14 allows both Pooling of Interest Method and Purchase Method. Pooling method is allowed subject to certain conditions.</p>

	<p>IFRS-3 requires valuation of assets & liabilities at fair value. Even contingent liabilities are fair valued.</p> <p>IFRS-3 requires Goodwill to be tested for impairment. It requires recognition of negative goodwill immediately in Profit & Loss A/c. subject to conditions.</p> <p>IFRS-3 requires recognition of negative goodwill immediately in P & L A/c. subject to conditions.</p> <p>IFRS-3 Reverse Acquisition is accounted assuming acquirer is the acquiree.</p> <p>Under IFRS-3, provisional values can be used provided they are updated retrospectively within 12 months with actual values.</p>	<p>AS-14 requires valuation at carrying value in the case of pooling method. In the case of purchase method either carrying value or fair value may be used. Contingent liabilities are not fair valued. Under AS-21, AS-23 and AS-27, goodwill is determined based on book values rather than fair values.</p> <p>AS-14 requires amortization of goodwill. AS-21, AS-23 and AS-27 are silent. AS-10 also recommends amortization of goodwill. AS-28 requires impairment testing.</p> <p>AS-14 requires it to be credited to Capital Reserve.</p> <p>AS-14 does not deal with reverse acquisition.</p> <p>AS-14 contains no such similar provision.</p>
13	<p>Employee Benefits:</p> <p>IAS-19 provides an option to recognize actuarial gains and losses either by following “Corridor Approach” or immediately in Profit & Loss A/c. Under corridor approach, actuarial gains/losses are recognized over a period of time.</p>	<p>AS-15 (revised) does not admit “Corridor Approach”. All actuarial gains and losses are recognized immediately in the profit and loss account.</p>

	<p>Under IAS-19, the discount rate used to discount post-employment benefit obligations should be determined by reference to market yields of high quality corporate bonds or, in case there is no deep market in such bonds, on the basis of market yields of Govt. bonds.</p> <p>Under IAS-19, the liability for termination benefits has to be recognized based on constructive obligation for e.g. Announcement of a formal plan.</p> <p>Under IAS there is no concept of deferral.</p>	<p>AS-15 (revised) allows use of only market yields on Govt. bonds.</p> <p>Termination benefits are dealt with under AS-29, which are required to be recognized based on legal obligation rather than constructive obligation.</p> <p>VRS expenditure can be deferred under Indian GAAPs over 3-5 years.</p>
14	<p>Borrowing Costs</p> <p>IAS-23 prescribes borrowing costs to be recognized as expense as benchmark treatment. It allows capitalization as an allowed alternative.</p> <p>IAS23 requires disclosure of capitalization rate used to determine the amount of borrowing costs.</p>	<p>AS-16 mandates capitalization of borrowing costs, where the relevant conditions are fulfilled.</p> <p>AS-16 does not require such disclosure.</p>
15	<p>Segment Reporting</p> <p>IAS-14 prescribes treatment of revenue, expenses, profit/loss, assets and liabilities in relation to Associates & Joint Ventures in consolidated financial statements.</p> <p>IAS-14 encourages reporting of vertically integrated activities as</p>	<p>AS-17 is silent on the aspect of treatment in consolidated financial statements.</p> <p>AS-17 does not make any distinction between vertically integrated segment</p>

<p>separate segments but does not mandate the disclosure.</p> <p>IAS-14 provides that a business segment can be treated as reportable segment only if, inter alia, majority of its revenue is earned from sales to external customers.</p> <p>Under IAS-14, if a reportable segment ceases to meet threshold requirements, then also it remains reportable for one year if the management judges the segment to be of continuing significance.</p> <p>In case of change in identification of segments, IAS-14 requires restatement of prior period segment information. In case it is not practicable, IAS-14 requires disclosure of data for both the old and new bases of segmentation.</p>	<p>and other segments.</p> <p>AS-17 does not contain any such stipulation.</p> <p>Under AS-17, this is mandatory irrespective of the judgment of management.</p> <p>AS-17 requires only disclosure of the nature of the change and financial effect of the change, if reasonably determinable.</p>
<p>16 Related Party Disclosures</p> <p>The definition of related party under IAS-24 includes post employment benefit plans (e.g. gratuity fund, pension fund) of the enterprise or of any other entity, which is a related party of the enterprise.</p> <p>The definition of Key management persons (KMPs) under IAS-24 includes any director whether executive or otherwise i.e. Non-executive directors are also related</p>	<p>AS-18 does not include this relationship.</p> <p>AS-18 read with ASI-18 excludes non-executive directors from the definition of the key management persons. AS-18 does not specifically cover indirect authority and responsibility.</p>

<p>party. Further, under IAS-24, if any person has indirect authority and responsibility for planning, directing and controlling the activities of the enterprise, he will be treated as a Key Management Person (KMP).</p> <p>The definition of related party under IAS-24 includes close members of the families of KMPs as related party as well as of persons who exercise control or significant influence.</p> <p>IAS-24 requires compensation to KMPs to be disclosed category wise including share-based payments.</p> <p>IAS-24 mandates that no disclosure should be to the effect that related party transactions were made on arm's length basis unless terms of the related party transaction can be substantiated.</p> <p>NO concession under IAS-24 where disclosure of information would conflict with the duties of confidentiality in terms of statute or regulating authority.</p> <p>Under IAS-24, the definition of "control" is restrictive as it requires power to govern the financial and operating policies of the management of the enterprise.</p>	<p>AS-18 covers relatives of KMPs.</p> <p>AS-18 read with ASi-23 requires disclosure of remuneration paid to key management persons but does not mandate category-wise disclosures.</p> <p>AS-18 contains no such stipulations.</p> <p>AS-18 provides exemption from disclosure in such cases.</p> <p>Under AS-18, the definition is wider as it refers to power to govern the financial and/or operating policies of the management.</p>
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	<p>The definition of “control” under IAS-24 is restrictive on the count that it does not include control over composition of Board of Directors.</p> <p>IAS-24 requires disclosure of terms and conditions of outstanding items pertaining to related parties.</p> <p>IAS-24 does not prescribe a rebuttable presumption of significant influence.</p> <p>No exemption.</p>	<p>AS-18 includes control over composition of Board of directors in the definition of “control”.</p> <p>No such disclosure requirement is contained in AS-18.</p> <p>AS-18 prescribes a rebuttable presumption of significant influence if 20% or more of the voting power held by any party.</p> <p>Transactions between state controlled enterprises are not required to be disclosed under AS-18.</p>
17	<p>Leases</p> <p>Under IAS- 17 it has been clarified that land and building, elements of a lease of land and building need to be considered separately. The land element is normally an operating lease unless title passes to the lessee at the end of the lease term .The buildings element is classified as an operating or finance lease by applying the classification criteria.</p> <p>IFRIC 4 requires lease accounting for service contracts that convey right to use specific assets. The definition of residual value is not included in IAS-17.</p>	<p>AS-19 ‘Accounting for Lease’ as it stands at present does not deal with lease agreements to use lands. Hence, the classification criteria are applicable only to building as separate asset. To be in line with IAS-17,a suitable modification is required in As-19 to bring lease agreements for use of land within the purview and prescribe separate classification criteria for land as stated in revised IAS-17.</p> <p>No such requirement under Indian GAAP.</p>

	<p>IAS-17 specifically excludes lease accounting for investment property and biological assets.</p> <p>IAS-17 does not prohibit upward revision in value of unguaranteed residual value during the term of lease.</p> <p>In case of sale and lease back, IAS-17 requires excess of sale proceeds over the carrying amount to be deferred and amortized over the lease term.</p> <p>IAS-17 does not require any separate disclosure for assets acquired under finance lease segregated from assets owned.</p> <p>IAS-17 prescribes initial direct cost incurred by lessor to be included in lease receivable amount in case finance lease and in the carrying amount of the asset in case of operating lease and does not mandate any accounting policy related disclosure.</p> <p>IAS-17 requires assets given on operating leases to be presented to the nature of the asset.</p>	<p>AS-19 defines residual value.</p> <p>There is no such exclusion under AS-19.</p> <p>AS-19 permits only downward revision.</p> <p>AS-19 requires excess or deficiency both to be deferred and amortized over the lease term in proportion to the depreciation of the leased asset. Schedule VI mandates separate disclosure of leaseholds.</p> <p>AS-19 requires initial direct cost incurred by lessor to be either charged off at the time of incurrence or to be amortized over the lease period and requires disclosure for accounting policy relating thereto in the financial statements of the lessor.</p> <p>AS-29 requires assets given on operating lease to be presented in the balance sheet under Fixed Assets.</p>
18	<p>Earnings per share</p> <p>IAS-33 requires separate disclosure of basic and diluted EPS for continuing operations and discontinued</p>	<p>AS-20 does not require any such separate computation or disclosure.</p>

	<p>operations.</p> <p>IAS-33 deals with computation of EPS in case of Share-based payment transactions.</p> <p>IAS-33 prescribes treatment of written put options and forward purchase contracts in computing EPS.</p> <p>IAS-33 requires change in accounting policy in be given retrospective effect for computing EPS, which means EPS to be adjusted for prior period presented.</p> <p>IAS-23 does not require disclosure of EPS with and without extra-ordinary items.</p> <p>IAS-33 does not deal with the treatment of application money held pending allotment.</p> <p>IAS-33 requires disclosure of anti-dilutive instruments even though they are ignored for the purpose of computing dilutive EPS.</p> <p>IAS-33 does not require disclosure of face value of share.</p>	<p>AS-20 does not contain any such provision. The Guidance note issued by ICAI on “Employee Share-Based Payments” deals with the same.</p> <p>AS-20 is silent on this aspect.</p> <p>AS-20 does not permit such treatment.</p> <p>AS-20 requires EPS/DEPS with and without extra-ordinary items to be disclosed separately.</p> <p>Under AS-20, application money held pending allotment should be included in the computation of diluted EPS.</p> <p>AS-20 does not mandate such disclosure.</p> <p>Disclosure of face value is required under As-20.</p>
19	<p>Consolidated Financial Statements</p> <p>Under IAS-27, it is mandatory to prepare CFS and an entity should</p>	<p>Under As-21,it is not mandatory to prepare CFS. However, listed</p>

<p>prepare separate financial statements in addition to CFS only local regulations so require.</p>	<p>companies are mandatorily required but the terms of listing agreement of SEBI to prepare and present Consolidated financial statements.</p>
<p>Under IAS-27, exemption from preparation of CFS is granted if certain conditions are fulfilled.</p>	<p>There is no such exemption under As-21.</p>
<p>Under IAS-27, a subsidiary cannot be excluded from consolidation under any circumstances.</p>	<p>Under As-21, a subsidiary can be excluded from consolidation if (1) the subsidiary is acquired and held with an intention to dispose; (2) the subsidiary operates under severe long terms restrictions impairing its ability to transfer funds to parent.</p>
<p>Under IAS-27, while determining whether entity has power to govern financial and operating policies of another entity, potential voting rights currently exercisable should be considered.</p>	<p>AS-21 is silent.</p>
<p>Under IAS-27, the definition of “control” requires power to govern the financial and operating policies of the management of the enterprise.</p>	<p>Control means the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or control over composition of board of directors for obtaining economic benefits.</p>
<p>Use of uniform accounting policies for like transactions while preparing CFS is mandatory under IAS-27.</p>	<p>AS-21 gives exemption from following uniform accounting policies if the same is not practicable.</p>

<p>Under IAS-27, minority interest has to disclose within equity but separate from parent shareholders equity.</p>	<p>Under AS-21, minority interest has to be separately disclosed from liability and equity of parent shareholder.</p>
<p>Under IFRS-3, goodwill/capital reserve on consolidation is computed on fair values of assets/liabilities.</p>	<p>Under AS-21, goodwill/capital reserve on consolidation is computed on the basis of carrying value of assets/liabilities.</p>
<p>Under IAS-37, 3 month's time gap is permitted between balance-sheet dates of financial statements of subsidiary and parent.</p>	<p>Under AS-21, six months time gap is allowed.</p>
<p>IAS-27 prescribes that deferred tax adjustment as per IAS-12 should be made in respect of timing difference arising out of elimination of unrealized profit.</p>	<p>No deferred tax is to be created on unrealized profit.</p>
<p>Acquisition accounting requires drawing up of financial statements as on the date of acquisition for computing parent's portion of equity in a subsidiary.</p>	<p>Under As-21, for computing parent's portion of equity in a subsidiary at the date on which investment is made, the financial statements of immediately preceding period can be used as basis of consolidation if it is impracticable to draw financial statement of the subsidiary as on the date of investment.</p>
<p>IAS-27 does not require additional disclosure of list of all subsidiaries including the name, country of incorporation, proportion of ownership interest and if different proportion of</p>	<p>AS-21 requires additional disclosure of list of all subsidiaries including the name, country of incorporation, proportion of voting power held.</p>

	<p>voting power held.</p> <p>SIC-12 requires consolidation of SPV's when certain criteria are met.</p>	<p>No such guidance under As-21.</p>
20	<p>Accounting for Taxes on Income</p> <p>IAS-12 is based on Balance Sheet Approach or the temporary difference approach.</p> <p>Differed taxes are determined on temporary differences such as (a) Revaluation of fixed assets, (b)Business combinations, (c)Consolidation adjustment (d) Undistributed profits, (e)Foreign currency translation adjustment.</p> <p>FBT is included as part of the related expense which gave rise to FBT.</p> <p>In the case of unabsorbed losses, deferred tax asset is recognized if there is convincing evidence of future reversals.</p>	<p>AS-22 is based on income statement approach or the timing difference approach.</p> <p>Deferred taxes are not determined on temporary differences.</p> <p>FBT is included as a tax expense.</p> <p>In the case of unabsorbed losses, deferred tax asset is recognized if there is virtual certainty of future reversals.</p>
21	<p>Accounting for Associate in Consolidated Financial Statement.</p> <p>Under IAS-28, potential voting rights currently exercisable are to be considered in assessing significant influence.</p> <p>As per IAs-28, difference between balance sheet date of investor and associate cannot be more than three</p>	<p>Under ASI-28 potential voting rights are not considered for determining voting power in assessing significant influence.</p> <p>Under AS-23, no period is specified. Only consistency is mandated.</p>

	<p>months.</p> <p>In case uniform accounting policies are not followed by investor & investee, necessary adjustments have to be made while preparing consolidated financial statements of investor.</p> <p>While recognizing losses of associates/joint ventures under IAS-28, carrying amount of investment in equity and other long term interests to be considered.</p> <p>For identification of goodwill/capital reserve, IAS-28 envisages net fair value basis on acquisition.</p> <p>Under IAS-28 it is necessary to subject the investments in associates/joint ventures to the test of impairment.</p>	<p>Under AS-23, if it is not practicable to make such adjustments, exemption is given, but appropriate disclosures are made.</p> <p>Under AS-23, losses are to be recognized to the extent of investment plus incurred obligations plus payments made towards guaranteed obligations.</p> <p>AS-23 prescribes historical cost basis on acquisition, for computation of goodwill/capital reserves.</p> <p>If decline in value of investments in an associate is permanent, provision for diminution to be made Impairment testing is not required under AS-23.</p>
22	<p>Interim Financial Reporting</p> <p>Under IAS-34, minimum components of Interim Financial Report include- Statement showing changes in equity.</p> <p>Under IAS-34, in case of any change in accounting policy, figures of prior interim periods of the current financial year and comparable figures of corresponding previous periods to be restated.</p> <p>Under IAS-34, separate guidance is available for treatment of provision for Leave encashment, Interim Period</p>	<p>No such disclosure is required under AS-25, since the concept of SOCIE does not prevail under Indian GAAP.</p> <p>AS-25, requires restatement of figures of prior interim periods of the current financial year only.</p> <p>AS-25 does not address these issues specifically.</p>

	Manufacturing Cost Variances, Foreign Currency Translation Gains and Losses.	
23	<p>Intangible Assets</p> <p>There is no presumption under IAS-38 as regards useful life of an intangible asset.</p> <p>Under IAS-38, intangible assets having “Indefinite useful life” cannot be amortized. Indefinite useful life means where, based on analysis, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflow for the entity. Indefinite is not equal to Infinite. Such assets should be tested for impairment at each balance-sheet date and separately disclosed.</p> <p>IAS-38 does not require any impairment testing if there are no indications of impairment.</p> <p>Under IAS-38, if Intangible Asset is ‘held for sale’ then amortization should be stopped.</p> <p>Under IAS-38, R&D expenditure that</p>	<p>Under AS-26, there is a rebuttable presumption that the useful life of intangible assets will not exceed 10 years.</p> <p>There is not concept of indefinite useful life in As-26. Theoretically, even for such assets, amortization would be mandatory, though the threshold period could exceed beyond 10 years.</p> <p>AS-26 requires test of impairment to be applied even if there is no indication of that asset being impaired for following assets:</p> <ul style="list-style-type: none"> -Intangible asset not yet available for use -Intangible asset amortized over ^ 10 years. <p>There is no such stipulation under AS-26</p> <p>AS -26 is silent on this.</p>

	<p>relates to an in-process R&D project acquired separately or in a business combination shall be accounted as Intangible asset.</p> <p>Under IAS-38, Revaluation Model is allowed for accounting Intangible Asset provided active market exists.</p>	<p>AS-26 does not permit revaluation model.</p>
24	<p>Financial Reporting of Interests in Joint Ventures</p> <p>Under IAS-31, when the investments are made by venture capital organization, mutual funds, unit trusts and similar entities then those investments are classified as held for trading and accounted for as per IAS-39.</p> <p>IAS-31 not to apply if parent is exempt from preparing CFS under IAS-27. Similar exemption for investor satisfying same conditions as parent.</p> <p>IAS-31 permits both proportionate consolidation method and equity method for recognizing interest in a jointly controlled equity in CFS, Equity method prescribed in IAS-31 is similar to that prescribed in IAS-28.</p> <p>Accounting for subsidiary where joint control is established through contractual agreement should be done as joint venture, i.e. either proportionate consolidation or equity</p>	<p>There is no such provision under AS-27 and the standard on financial instruments is applicable from 2009 on recommendatory basis and mandatory from 2011.</p> <p>There is no such specific provision under AS-27.</p> <p>AS-27 permits only proportionate consolidation method.</p> <p>Accounting for subsidiary where joint control is established through contractual agreement should be done as subsidiary –i.e. full consolidation.</p>

	accounting as the case may be.	
25	Impairment of Assets	
	<p>Impairment losses on goodwill are not subsequently reversed.</p> <p>Goodwill acquired on business combination is allocated to each CGU based on the benefit it would enjoy from the synergies of the combination.</p>	<p>Impairment losses on goodwill are subsequently reversed only if the external event that caused impairment of goodwill no longer exists and is not expected to recur.</p> <p>Goodwill is allocated to CGU's based on bottom up and top-down tests.</p>
26	Provisions, Contingent Assets and Contingent Liabilities	
	<p>IAS-37 requires discounting of provisions.</p> <p>IAS-37 requires provisioning on the basis of constructive obligation on restructuring costs.</p> <p>IAS-37 requires disclosure of Contingent Assets in Financial Statements.</p> <p>IAS-37 provides certain basis and statistical methods to be followed for arriving at the best estimate of the expenditure for which provision is recognized.</p> <p>IAS-37 defines obligation but does not make a distinction between present</p>	<p>AS-29 prohibits discounting.</p> <p>AS-29 requires recognition based on legal obligation.</p> <p>AS-29 prohibits it.</p> <p>AS-29 does not contain any such guidance and relies on judgment of management.</p> <p>AS-29 defines present obligation and possible obligation as well.</p>

	obligation and possible obligation.	
27	Financial Instruments IAS-32 and IAS-39 deal with financial instruments and entity's own equity in detail including matters relating to hedging.	As-30 and AS-31 corresponding to IAS-39 and IAS-32 respectively have been issued. It is recommendatory in 2009 and mandatory from 2011. It may however be noted that these standards have not yet been incorporated in the Companies (Accounting Standard) Rules.
28	Share based Payments IFRS-2 covers share based payments both for employees and non employees. Under IFRS option that have a value are compulsorily charged to the P&L account over the vesting period.	The ICAI guidance note deals with only employee share based payments. Fair valuation is not mandatory. Therefore in many cases there would be no charge to the profit and loss account on issue of options to employees.
29	First Time Adoption Detail first time adoption rules exist.	No first time adoption rules.

Source: D'Souza, Dolphy (2009).

Check Your Progress-2:

(A) Choose the most appropriate alternative among given alternatives:

- 1) IFRS denotes
 - (a) Indian Financial Reporting Standards
 - (b) International Financial Reporting Standards
 - (c) Indonesia Financial Reporting Station
 - (d) International Financial Reports Standards
- 2)is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standard Board (IASB).
 - (a) Indian Financial Reporting Standards

- (b) Indonesia Financial Reporting Station
 - (c) International Financial Reports Standards
 - (d) International Financial Reporting Standards
- 3) International Accounting Standard-7 is related to
- (a) Inventories
 - (b) Depreciation
 - (c) Cash Flow Statement
 - (d) Construction Contracts
- (B) State whether the following statement is 'True' or 'False':
- 1) International Accounting Standard-6 is related to Depreciation Accounting.
 - 2) International Accounting Standard-33 is related to Earning Per Share.
 - 3) IFRS-10 is related to Consolidated Financial Statements.

1.2.4 AS-1 Disclosure of Accounting Policies

This accounting standard is related to the disclosure of accounting policies adopted by accountants in preparing financial statements. There are different areas where more than one method can be followed for accounting. These methods are followed in preparation of financial statements. In such situation where different methods are available and the specific method is followed, this method should be disclosed as accounting policy, according to this standard.

It is generally assumed that financial statements are prepared on the basis of fundamental accounting assumptions. As per this accounting standard, the fundamental accounting assumptions are: Going Concern, Consistency and Accrual. If nothing is written about them, it is assumed that they are followed. However, if they are not followed, it must be disclosed. In detail we can discuss about the fundamental accounting assumptions as follows:

- (a) **Going Concern:** The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

- (b) **Consistency:** It is assumed that accounting policies are consistent from one period to another.
- (c) **Accrual:** Revenues and cost are accrued, that is, recognized as they are earned or incurred (not as money received or paid) and recorded in the financial statements of the periods to which they relate. The accrual concept forces the matching of revenues against relevant costs.

For the purpose of selecting accounting policies, the important considerations are: Prudence, Substance over form and Materiality.

- (a) **Prudence:** It means making right estimates which are required under conditions of uncertainty while preparing financial statements. Profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.
- (b) **Substance over form:** It means that transaction should be recorded in accordance with actual happening and economic reality of the transactions, not by its legal form. We can understand it by example of finance lease. In finance lease, the lessee in substance is the owner of the asset whilst the lessor is merely the legal owner. The accounting of finance lease (AS-19) is based on the substance rather than form of the transaction. Based on this principle the lessee capitalizes the lease equipment as fixed assets, being owner in substance; whereas, the lessor records the investment made as a debtor.
- (c) **Materiality:** It refers to disclosure of all the items and facts which are sufficient enough to influence the decisions of reader or user of financial statement. In other words, financial statements should disclose all "material" items. The International Accounting Standards Committee defines audit materiality as: "Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have, if it is to be useful."

According to this standard, disclosures are necessary to be made are (a) accounting policies adopted to prepare financial statements, (b) change in accounting policies and (c) effect of change in accounting policies on financial statements. The change in the accounting policies which has a material effect in current period or in latter period, should be disclosed.

Illustration-1:

ABC Ltd. sold its building to XYZ Ltd. for 100 lakhs on 30-09-2011 and gave possession of the property to XYZ Ltd. However, documentation and legal formalities are pending. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the building is ₹ 40 lakhs as on 31-03-2012. Do you agree with this treatment? If you do not agree, explain the reasons with reference to the accounting standard.

Solution:

As per AS-1 Disclosure of Accounting Policies, principles of prudence, substance over form and materiality should be looked into, to ensure true and fair consideration in a transaction. Here, the economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. Hence, ABC Ltd. should record the sale and recognize the profit of ₹ 60 lakhs in its financial statements for the year ended 31-03-2012, value of building should be removed balance sheet. Therefore the treatment given by the company is not correct.

1.2.5 AS-2 Valuation of Inventories:

The purpose of this standard is to formulate the method of computing cost of inventories, determine the value of closing inventory. As per this standard, inventories are those assets which (a) held for sale in the ordinary course of business, (b) in the process of production for such sale (raw material and work-in-progress) or (c) in the form of material or supplies to be consumed in the production process or in the rendering of services (stores, spares, raw material, consumables). Inventories do not include machinery.

1.2.5.1 Measurement: As far as measurement of inventories is concerned, inventories should be valued at lower of cost and net realizable value. Cost of

inventories should include the (a) cost of purchase, (b) cost of conversion and (c) other costs incurred in bringing the inventories to their present location and position.

- (a) **Cost of Purchase:** The costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.
- (b) **Cost of Conversion:** The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed production overheads allocated to each unit of production is not increased as a consequence of low production or idle plant. Un allocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are assigned to each unit of production on the basis of the actual use of the production facilities.

A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion

of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products as well as scrap or waste materials, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

- (c) **Other Costs:** Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include overheads other than production overheads or the costs of designing products for specific customers in the cost of inventories.

Interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories.

The net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. The comparison between cost and net realizable value should be made item by item or by group of items. The historical cost of inventories should normally be determined by using First in First out (FIFO) average cost or Last in First Out (LIFO) method of valuation. The base stock method of valuation may be used in exceptional circumstances only. Inventory of consumable stores and maintenance supplies should ordinarily be valued at cost.

1.2.5.2 Disclosure: The financial statements should disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used; and (b) the total carrying amount of inventories and its classification appropriate to the enterprise. As per this accounting standard, the financial statement should disclose: (1) accounting policy adopted in measuring inventories, (2) cost formula used and (3) classifications of inventories are: a) raw materials and components, b) work-in-progress, c) finished goods, d) stock-in-trade, e) stores and spares, f) loose tools and g) others.

Illustration-2:

The normal waste is 4% of input in production process. 10,000 MT of input were put in process resulting in a wastage of 500 MT. Cost of input is ₹ 2,000 per MT. The entire quantity of waste is on stock at the year end. What would you take the value of inventories in financial statement according to Accounting Standard?

Solution:

In this example, we have to take into consideration the details given in AS-2 Valuation of Inventories. As per this AS, abnormal amounts of waste materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. So the value of inventories is determined as shown below:

Calculation of Value of Inventory

Particulars	Quantity (MT)	Amount (₹)
Total Cost	10,000	2,00,00,000
Less: Normal Waste @5%	400	--
Total Cost of Expected Input	9,600	2,00,00,000
Less: Cost of Abnormal Waste to be charged to Profit & Loss A/c. $(2,00,00,000/9,600) \times 100]$	100	2,08,333
Cost of Inventory	9,500	1,97,91,667

Illustration-3:

Particulars	Quantity Kg.	Amount (₹)
Opening Stock: Finished Goods	1,000	25,000
Raw Materials	1,100	11,000
Purchases	10,000	1,00,000
Labour		76,500
Overheads (Fixed)		75,000
Sales	10,000	2,80,000
Closing Stock: Finished Goods	900	
Raw Materials	1,200	

The expected production for the year was 15,000 kg. of the finished goods. Due to fall in market demand the sales price for the finished goods was ₹ 20 per kg. and the replacement cost for the raw material was ₹ 9.50 on the closing day. Calculate the value of closing stock.

Solution:

Particulars	Amount (₹)	Quantity (units)	₹ (cost per unit)
Purchases	1,00,000	10,000	10.00
Add: Opening Stock of materials	11,000	1,100	10.00
Less: Closing Stock of materials	9,000	900	10.00
Cost of Purchases	1,02,000	10,200	10.00
Add: Direct Labour	76,500		7.50
Add: Production Overheads (Fixed)*	75,000		5.00
Total Cost per unit			22.50

*Overheads per unit = $75,000/15,000 = 5.00$ per unit

Hence, closing stock should be valued at NRV (i.e. ₹ 20 per unit), since it is less than cost (i.e. ₹ 22.50 per unit).

Check Your Progress-3:

(A) Choose the most appropriate alternative among given alternatives:

1) Disclosure of Accounting Policies is

- (a) Accounting Standard-1
- (b) Accounting Standard-2
- (c) Accounting Standard-3
- (d) Accounting Standard-4

2) Accounting Standard-2 is on

- (a) Depreciation Accounting
- (b) Revenue Recognition
- (c) Valuation of Inventories

- (d) Disclosure of Accounting Policies
- 3) While selecting the accounting policies, which of the following factor should be considered?
1. Prudence 2. Substance over form 3. Materiality 4. Net Realizable Value
- (a) 1, 2 and 3
(b) 2, 3 and 4
(c) 1, 2 and 4
(d) 1, 3 and 4
- 4) Cost of inventories include
1. Cost of purchase 2. Cost of conversion 3. Cost of maintenance of machine
4. Other cost
- (a) 1, 2 and 3
(b) 2, 3 and 4
(c) 1, 2 and 4
(d) 1, 3 and 4
- 5) Inventories include
1. Building of Storage 2. Stock of raw material
3. Work-in-progress 4. Stock of finished goods
- (a) 1, 2 and 3
(b) 1, 3 and 4
(c) 1, 2 and 4
(d) 2, 3 and 4
- 6) are fundamental accounting assumptions.
1. Going Concern 2. Consistency 3. Accrual 4. Materiality
- (a) 1, 2 and 3
(b) 1, 2 and 4
(c) 1, 3 and 4

(d) 2, 3 and 4

(B) State whether the following statement is 'True' or 'False':

- 1) Inventories include stock of raw material.
- 2) Accrual is one of the fundamental accounting assumptions.
- 3) Differential methods adopted for accounting treatment are called accounting policies.

1.3 SUMMARY:

Accounting Standard is defined as “written documents issued from time to time by institutions of the accounting profession or institutions which has sufficient involvement and which are established expressly for this purpose”. Accounting standards enables accountants to attain both uniformity and flexibility in accounting practices. Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information. This unit covered objectives of accounting standards, procedure of setting accounting standards, list of accounting standards in India and need of accounting standards.

International Financial Reporting Standards (IFRSs) is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standard Board (IASB). IFRSs are a set of high quality, understandable and enforceable global accounting standards which includes (a) International Accounting standards (IASs), (b) International Financial Reporting standard (IFRSs), (c) International Financial Reporting Interpretations (IFRIs) and (d) Standing Interpretations (SIs). This unit covers list of IFRSs, the discussion on convergence of IFRSs with ASs in India, and list of Ind ASs.

We have seen the comparison between IFRSs and Indian GAAP. AS-1 Disclosure of Accounting Policies is related to the disclosure of accounting policies adopted by accountants in preparing financial statements. As per this accounting standard, the fundamental accounting assumptions are: Going Concern, Consistency and Accrual. For the purpose of selecting accounting policies, the important considerations are: Prudence, Substance over form and Materiality. The disclosures are necessary according to this standard.

As per AS-2 Valuation of Inventories, inventories are those assets which (a) held for sale in the ordinary course of business, (b) in the process of production for such sale (raw material and work-in-progress) or (c) in the form of material or supplies to be consumed in the production process or in the rendering of services (stores, spares, raw material, consumables). Inventories do not include machinery. As far as measurement of inventories is concerned, inventories should be valued at lower of cost and net realizable value. Cost of inventories should include the (a) cost of purchase, (b) cost of conversion and (c) other costs incurred in bringing the inventories to their present location and position. The financial statements should disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used; and (b) the total carrying amount of inventories and its classification appropriate to the enterprise.

1.4 TERMS TO REMEMBER:

1. **Accounting Standard:** It is written document issued from time to time by institutions of the accounting profession or institutions which has sufficient involvement and which are established expressly for this purpose.
2. **International Financial Reporting Standard(IFRS):** It is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standard Board (IASB).
3. **Fundamental Accounting Assumptions:** As per AS-1, the fundamental accounting assumptions are: Going Concern, Consistency and Accrual.
4. **Going Concern:** The accounting is made with assumptions that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materiality the scale of the operations. It will continue its operations in foreseeable future.
5. **Consistency:** It is assumptions that accounting policies are consistent from one period to another.
6. **Accrual:** Accrual is such a principle of accounting according to which revenue or cost are recorded in the financial statements of the period which they relate, whether they are received or not or paid or not.
7. **Prudence:** Prudence means making right estimates which are required under conditions of uncertainty while preparing financial statements.

8. **Substance over form:** Substance over form means that transaction should be recorded in accordance with actual happening and economic reality of the transactions, not by its legal form.
9. **Materiality:** Materiality refers to disclosure of all the items and facts which are sufficient enough to influence the decisions of reader or user of financial statement.
10. **Inventories:** They are the assets which (a) held for sale in the ordinary course of business, (b) in the process of production for such sale (raw material and work-in-progress) or (c) in the form of material or supplies to be consumed in the production process or in the rendering of services (stores, spares, raw material, consumables). Inventories do not include machinery.
11. **Cost of Inventories:** Cost of inventories should include the (a) cost of purchase, (b) cost of conversion and (c) other costs incurred in bringing the inventories to their present location and position.

1.5 ANSWERS TO CHECK YOUR PROGRESS:

Check Your Progress-1:

- | | | | |
|----------------|------------|-----------|------------|
| (A) 1) – (a) | 2) – (c) | 3) - (b) | 4) - (a) |
| (B) 1) – False | 2) – False | 3) – True | 4) – False |

Check Your Progress-2:

- | | | |
|----------------|-----------|-----------|
| (A) 1) – (b) | 2) – (d) | 3) - (c) |
| (B) 1) – False | 2) – True | 3) – True |

Check Your Progress-3:

- | | | | | |
|---------------|-----------|-----------|----------|----------|
| (A) 1) – (a) | 2) – (c) | 3) - (a) | 4) - (c) | 5) – (d) |
| 6) – (a) | | | | |
| (B) 1) – True | 2) – True | 3) – True | | |

1.6 EXERCISE:

1. What is the meaning of Accounting Standards? What are its objectives?
2. What is the procedure for setting Accounting standards?
3. What is the need of Accounting Standards?

4. What is the meaning of IFRS and its broader composition?
5. What are the first five IFRS? What are International Accounting Standards?
6. Distinguish between Indian GAAPs and IFRS.
7. Describe the areas of different accounting policies being adopted by different enterprises.
8. Write a short note on the followings:
 - (a) Objectives of Accounting Standard
 - (b) International Financial Reporting Standards
 - (c) Ind ASs
 - (d) Disclosure of Accounting Policies
 - (e) Fundamental Accounting Assumptions
 - (f) Valuation of Inventories
 - (g) Disclosure requirements under AS-2
9. X Ltd. follows the accounting policy for retirement benefits as shown below:

At the end of the year, actuarial valuation is done in respect of employees who have opted for pension scheme. On the basis of this valuation, the contribution is made to pension fund. The contribution to the gratuity fund is also made on the basis of the actuarial valuation. Leave encashment is accounted for on Pay AS YOU GO Method. Comment on these policies.

(Clue: Para 10 (c) of AS-1 Fundamental Accounting Assumption- especially 'Accruals'.)
10. Amit Health Care Ltd. as consistently followed LIFO method in the past for inventory valuation, so they continue to follow the same. Is it right?
11. A Ltd. deals with three products, X, Y and Z, which are neither similar nor interchangeable. On 31st March 2018 at the closing of accounts, the historical cost and net realizable value of the items of stock are determined as follows:

Items	Historical cost (₹ in lakhs)	NRV (₹ in lakhs)
X	120	95
Y	88	88
Z	45	60

what will be the value of stock at 31st March 2018?

(Ans.: ₹ 228 lakhs)

12. Sumedh Ltd. produces chemical Z which has the break-up of the production cost per unit as follows:

Raw Material	₹ 5
Direct Labour	₹ 2
Direct Expenses	₹ 3
Normal Capacity	5,000 units per annum
Actual production	4,000 units
Fixed production overhead	₹ 20,000 per annum

The company has 2,000 units of unsold stock lying with it at the end of year. You are required to value the closing stock.

(Ans.: ₹ 28,000)

13. Indrajeet Founders Ltd. purchased a raw material @ ₹ 400 per kg. The finished goods in which raw material is used are expected to be sold at lower than cost. At the end of the year, the company has 10,000 kg. of raw material in stock. The company does not know the selling price of raw material and cannot calculate realizable value of raw material. However replacement cost of raw material is ₹ 300 per kg. How will you value the stock of raw material?

(Ans.: Closing Stock of raw material will be equal to replacement cost

i.e. 10000 kg. X ₹ 300 per kg. = ₹ 30 lakhs)

1.7 Reference for Further study :

1. Rawat, D. S., Students' Guide to Accounting Standards, Taxmann Publication (P.) Ltd., New Delhi.
2. Gupta, M. P. and Agarwal, B. M. (2018). Grewal's Accountancy (CA Foundation), S. Chand and Company Ltd., New Delhi.
3. Maheshwari, S. N.; Maheshwari, Suneel K. and Mahaeshwari, Sharad K. (2016). An Introduction to Accountancy, Vikas Publishing House Pvt. Ltd., Noida.
4. D'Souza, Dolphy (2009). Students Guide to Indian Accounting Standards and GAAP, Snow White Publication Pvt. Ltd., Mumbai.

(Disclaimer: Partial information has been given about accounting standards just for introducing them to students. For details, students may refer original documents regarding such standards, available on the website of Ministry of Corporate Affairs: www.mca.gov.in)



Unit-2

Accounts for Holding Company (Group Accounts up to two subsidiaries – AS-21)

Index:

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Subject Matter
 - 2.2.1 Holding/Parent Company
 - 2.2.2 Subsidiary Company
 - 2.2.3 Accounting Standard 21 (AS 21)
 - 2.2.4 Accounting of Holding Company
 - 2.2.5 Consolidation Procedure
 - 2.2.6 Important Points
 - 2.2.7 Illustrations
- 2.3 Summary
- 2.4 Terms to Remember
- 2.5 Answers to Check your Progress
- 2.6 Exercise
- 2.7 Reference for further study

2.0 Objectives :

After studying this unit, you will be able to learn:

- The concept of Holding and Subsidiary Company.
- Consolidation of Group Accounts.
- Differentiate between Wholly owned and partly owned subsidiaries
- AS 21 and its effect on Consolidated Financial Statements.
- Accounting of Holding Company/Consolidation Procedure.
- Preparation of Consolidated Profit & Loss A/c and Consolidated Balance sheet

2.1 Introduction :

Due to Globalization, holding company acquires more importance as a form of combination to expand the business. Holding company and its subsidiaries represents a group. The holding company and each one of the subsidiaries are legally separate entities. There are certain advantages for a business firm to combination of companies such as reducing cost through large scale production, product diversification, minimize competition, effective tax saving etc. Formation of holding company is the most popular way for achieving these objectives. A company controlled by a holding company is termed as a subsidiary company and company controlled by the subsidiary company is termed as a subsidiary of the principal holding company.

2.2 Subject Matter

2.2.1 Holding/Parent Company :

According to section 2(46) of Companies Act 2013 a holding company is one, which has one or more as its subsidiaries. In other words, a holding company may be defined as, a company which holds or controls another company.”

A holding company may acquire control over the subsidiary company in any one of the following three ways.

- i. Holding more than half of the shares having voting power in the subsidiary company
- ii. Controlling in the subsidiary composition of the board of directors of the subsidiary; and
- iii. Controlling the holding company which controls the subsidiary.

If holding company may acquire the whole of the shares of a subsidiary company, in this case the subsidiary is called a wholly-owned subsidiary. If there is partial holding the subsidiary is called a partly-owned subsidiary. The other shareholders of such a subsidiary are called minority shareholders. A holding company may have a number of subsidiaries. The control can be made by the holding company directly or indirectly. When a company acquires majority of the equity shares of another company, it is called as direct holding and when a holding company acquires control over another company through its subsidiary company then, it is called an indirect holding. For example, if Q Ltd is the subsidiary of R Ltd

and R Ltd is the subsidiary of P Ltd then Q Ltd is also deemed to be the subsidiary of P Ltd.

2.2.2 Subsidiary Company :

Section 2 (87) of the Companies Act, 2013 Subsidiary company means a company in which the holding company-

- i. Controls the composition of the Board of Directors; or
- ii. Exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies;

In Short, Subsidiary As per the 2013 Act, a ‘subsidiary’ is as an entity of which the holding company controls more than one-half of the total share capital (either directly or indirectly) or controls composition of the board of directors.

It should be noted that holding company and subsidiary companies are separately incorporated companies and they have separate legal entity.

2.2.3 Accounting Standard 21 (AS-21) :

Objective

The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by a parent (also known as holding enterprise) to provide financial information about the economic activities of its group. These statements are intended to present financial information about a parent and its subsidiary as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources.

Scope

This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent. This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

Definitions

For the purpose of this Statement, the following terms are used with the meanings specified:

Control : (a) the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or

(b) control of the composition of board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

A parent is an enterprise that has one or more subsidiaries.

A group is a parent and all its subsidiaries.

Consolidated financial statements are the financial statements of group presented as those of a single enterprise.

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities. Minority interest is that part of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary (ies), by the parent.

It may be noted that all the notes appearing in the separate financial statement of the parent enterprise and its subsidiaries need not be included in the notes to the consolidated financial statement.

Consolidation Procedures :

According to para 13 of AS-21, in preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps should be taken:

- a) the cost to the parent of its investment in each subsidiary and the parent's portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, should be eliminated;
- b) any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements;

- c) when the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a capital reserve in the consolidated financial statements;
- d) minority interests in the net income of consolidated subsidiaries for the reporting period should be identified and adjusted 340 AS 21 against the income of the group in order to arrive at the net income attributable to the owners of the parent; and
- e) minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the net assets consist of:
 - i) the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and
 - ii) the minorities' share of movements in equity since the date the parent-subsidiary relationship came in existence.

Presentation of consolidated financial statement

Consolidated Financial Statements are not substitute for separate financial statements of a holding company and its subsidiaries. The holding company and its subsidiaries must prepare separate financial statements as per governing law and the Consolidated Financial Statements made by the holding company are in addition to the separate financial statements. The holding company which is required to prepare the Consolidated Financial Statements should consolidate the financial statements of all its subsidiaries, whether domestic or foreign.

Scope of consolidated financial Statements

- (1) A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign
- (2) A subsidiary should be excluded form consolidation when:
 - (a) Control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or

- (b) It operates under severe long term restrictions with significantly impair its ability to transfer fund to the parents. In consolidated financial statement such subsidiaries should be accounted for investments in accordance with accounting standard (AS13).

Disclosure:

Following disclosures should be made:

- (a) In consolidated financial statements, a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and if different proportion of voting power held.
- (b) In consolidated financial statements, where applicable:
 - 1) The nature of the relationship between the parent and a subsidiary, if the parent does not own directly or indirectly through subsidiaries, more than one-half of the voting power of the subsidiary;
 - 2) The effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for reporting period and on the corresponding amounts for the preceding period, and
 - 3) The names of the subsidiary (ies) of which reporting date(s) is/are different from that of the parent and the difference in reporting dates.

2.2.4 Accounting of Holding Company :

The 2013 Act mandates preparation of consolidated financial statements (CFS) by all Companies, including unlisted Companies, having one or more subsidiaries, joint ventures or associates. Previously, the Securities and Exchange Board of India (SEBI) required only listed Companies to prepare CFS. Mandating preparation of CFS is a step in the right direction to align the reporting requirements to the international reporting practices, since standalone financial statements do not present a true picture from an economic entity perspective.

Check your progress-1

A) Choose the correct alternative from given alternatives

- 1) Holding Company acquire the whole shares of a subsidiary company is called as -----
 - a) Partly-owned subsidiary
 - b) Wholly-owned subsidiary

- c) Partly and wholly owned subsidiary d) No of above
- 2) The controlling company is called as _____
- a) Main Company b) Holding Company
- c) Subsidiary company d) Minority company

B) State True or False

- 1) Cost of control account is credited with capital profit.
- 2) Inter Company Owings on account of dividends will be shown in the consolidated balance sheet on the asset side.

C) Fill in the blanks

- 1) A company will be a holding company of another if it holds more than _____ percent of both equity and preference share capital
- 2) The accounting standard _____ mandates an Indian company to present consolidated financial statements.

2.2.5 Consolidation Procedure :

The consolidation procedure includes aggregation of financial items of holding company and subsidiary company with certain adjustments. The consolidation procedure includes the following steps.

- 1) Financial statements of parent & subsidiaries to be combined on a line by line basis by adding like items of assets, liabilities, income & expenses
- 2) In the Consolidated Financial Statements the holding company's portion of equity in each subsidiary company and the cost of investment in each subsidiary company is eliminated.
- 3) A comparison is made between the cost of investment and the equity obtained in the subsidiary company. If cost is more than equity obtained the difference is treated as goodwill and if cost is less than equity obtained the difference is treated as capital reserve.
- 4) Net income pertaining to Minority shareholders to be deducted before arriving at net income attributable to parent.

- 5) Minority interest in net assets to be shown separately from liability & equity pertaining to parent's shareholders.
- 6) Tax expense in CFS to be aggregate of tax expense in the separate financial statements of the parent and its subsidiaries.
- 7) Where acquisition made in a step – by – step manner, consolidation to be done from date when the parent actually acquires control of the subsidiary.
- 8) Intra group balances and intra-group transactions and resulting unrealized profits should be eliminated in full. Unrealized losses should also be eliminated unless cost cannot be recovered.
- 9) Financial statements used in consolidation to be drawn up to same reporting date. If reporting dates are different, adjustments for effects of significant transactions/events between the two dates to be made. In any case, the difference between reporting dates should not be more than six months.
- 10) Consolidation should be prepared using uniform accounting policies, unless it is not practicable to use the same. If accounting policies followed are different, the fact should be disclosed together with proportion of such items.
- 11) An investment in an enterprise should be accounted for in accordance with Accounting Standard-AS-13, From the date that the enterprise ceases to be a subsidiary and does not become an associate.

2.2.6 Important Points :

The basic principle of preparing a Consolidated Balance Sheet is to combination of assets and liabilities of holding company and subsidiary company. But there are some important adjustments related to this combination. Therefore the following important points should be considered while preparing a Consolidated Balance Sheet.

1. Pre-acquisition and Post-acquisition Profit/Loss :

This is the most important point in the preparation of a Consolidated Balance Sheet. The total profit /loss that is current profit /loss and accumulated profit/loss of a subsidiary company is to be divided into two parts – i) Pre-acquisition profit/loss (Capital Profit) and ii) Post-acquisition profit/loss (Revenue Profit) on the basis of

the date of acquisition of shares of the subsidiary company. For this purpose a time ratio is to be calculated.

The profit/loss before the date of acquisition of shares is treated as Pre-acquisition profit/loss and the profit/loss after the date of acquisition of shares is treated as Post-acquisition profit/loss. All items such as capital reserve, general reserve, share premium, profit/loss A/c, revaluation profit/loss etc. are taken into consideration for calculating Pre-acquisition profit/loss and Post-acquisition profit/loss.

Pre-acquisition profit/loss is to be further divided as per Majority Ratio and Minority Ratio. Majority's share in pre-acquisition profit/loss is considered for calculating Cost of Control. Minority's share in pre-acquisition profit/loss is taken into account in calculating Minority Interest.

Post-acquisition profit/loss is to be also divided as per Majority Ratio and Minority Ratio. Majority's share in post-acquisition profit/loss is transferred to Profit and Loss A/c of Holding Company in the Consolidated Balance Sheet, and Minority's share in post-acquisition profit/loss is taken into account in calculating Minority Interest.

For Example – From the following information calculate the share of minority shareholders and holding company in the pre-acquisition and post acquisition profit

Extracts of balance sheets of H & S Ltd as at 31 st march 2018

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd.Rs.
Equality shares of Rs 10 each fully paid	10,00000	5,00,000	Investment in S Ltd.	5,00,000	
Profit & Loss A/C.	3,00000	3,00000			

H Ltd. acquired 30,000 equity shares in S Ltd. on 1-7-2017 The profit and loss account of S Ltd. on 1.4.2017 was ₹ 2,00,000

Calculation of pre-acquisition and post-acquisition profit

In this example date of acquisition is 1 st July 2017

Pre-acquisition period = 1 st April to 30th June 2017

Post-acquisition period = 1 st July 2017 to 31 st March 2018

$$\begin{aligned}\text{Share of holding company} &= \frac{30,000}{50,000} \times 100 \\ &= 60 \%\end{aligned}$$

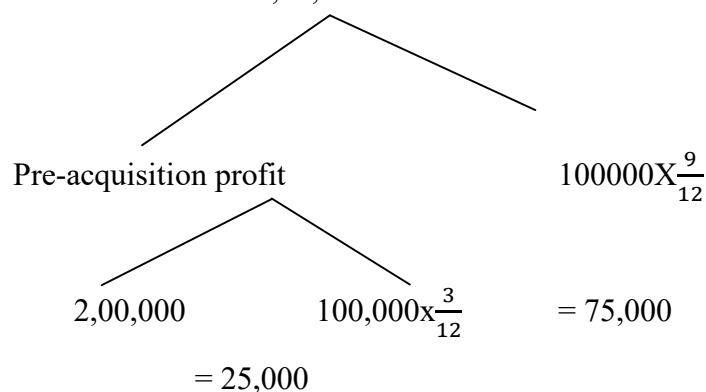
$$\begin{aligned}\text{Share of minority} &= \frac{20,000}{50,000} \times 100 \\ &= 40 \%\end{aligned}$$

Profit earned during the year by S Ltd.

Profit for the year ended 31.3.2018 = ₹ 30,0000

Less profit for last year 1.4.2017 = $\frac{\text{Rs.1,00,000}}{\text{Rs.2,00,000}}$

Profit as on 31/3/2018 = 3,00,000



Pre-acquisition profit = ₹ 2,25,000

Post-acquisition profit = ₹ 3,00,000 – ₹ 2,25,000 = Rs.75,000

2. Inter Company or Intergroup Transaction :

An intercompany transaction is one between a Holding Company and its Subsidiaries. All types of inter-company/intergroup or mutual transactions such as Debtors/Creditors, Bills Receivables/Bills Payables, inter-company loans, inter-

company advances, inter-company debentures etc. are to be eliminated from the Consolidated Balance Sheet, when balances are same.

Sometimes the balances of inter-company debtors and creditors are not the same. This is due to cash-in-transit. Cash-in-transit should be shown separately on the asset side of the Consolidated Balance Sheet. If inter-company bills are discounted then such bills are not eliminated. If the inter-company transaction of debentures takes place at a different price than the paid-up value, the difference is adjusted to Goodwill. Excess of purchase price over the paid-up value of debentures be added to Goodwill and vice-versa.

For Example: - From the following information show the calculation amount of Inter company transaction

Extracts of balance sheet of H Ltd. and S Ltd. as at 31 st March 2016

Liabilities	H Ltd. Rs.	S Ltd. Rs	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital in ₹ 1 share	10,000	8000	Shares in S Ltd.	6000	
Bills Payable	2000	1000	Debtors	5,000	3,000
Creditors	4000	2000	Bills Receivable	3000	2000

Debtors of H Ltd. include ₹ 2000 due from S Ltd. and bills payable of H Ltd include a bill of ₹ 500 accepted in favor of S Ltd. A loan of ₹ 1000 given by H Ltd. to S Ltd. was also included in items of debtors and creditors respectively. Shares were purchased on 30 th June 2016 at par.

Amount of Inter Company transaction

a) Bills payable	H Ltd. ₹ 2000
	S Ltd. ₹ <u>1000</u>
	Rs.3000
Less inter Company bills	<u>Rs.500</u>
	<u>Rs.2500</u>
b) Debtors	H Ltd. ₹ 5000
	S Ltd <u>Rs.3000</u>
	<u>Rs.8000</u>

Less inter Company debtors	₹ 3000
	₹ <u>5000</u>
c) Bills Receivable	H Ltd. ₹ 3000
	S Ltd. ₹ <u>2000</u>
	₹ 5000
Less inter Company bills receivable	₹ <u>500</u>
	₹ 4,500

3. Revaluation of Assets :

At the time of acquiring shares in a subsidiary company, holding company revalue the assets & liabilities to arrive fair price to be paid for its shares. Profit/loss on revaluation of asset is to be treated as capital profit/loss. Revised values of assets are shown in the Consolidated Balance Sheet.

It should be noted that any profit or loss due to change in the amount of depreciation on account of revaluation of the asset after the date of acquisition is a revenue profit or loss.

For Example – The extracts of balance sheet of X Ltd. and Y Ltd. as on 31 st December 2017 were as follows.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd.Rs.
Ordinary shares of ₹ 10 each paid up	24,00000	1200000	Plant at cost less depreciation	960000	850000
Profit & loss A/c	600000	100000	Fixtures investment At cost 96000 shares	260000	80000
			Trade investment At cost 96000 shares Of Y Ltd at cost	1080000	30000

- 1) On 1 st January 2017 X Ltd. acquired from the shareholders of Y Ltd. 96000 shares in Y Ltd. and allotted in consideration there of 72000 of its own shares at a premium of ₹ 5 per share
- 2) The consideration for the shares of Y Ltd. was arrived at interlaid by valuing the plant at ₹ 10,44,444 and valuing fixtures at ₹ 83211
- 3) The depreciated figures for plant and fixtures at 31 st December 2017 are after providing depreciation for 2017 at the rates of 10 % and 5% p.a. respectively, on the book values as at 1 st January 2017. Calculate the profit or loss on revaluation of asset

Profit on revaluation of plant in Y Ltd.

$$\text{plant book value on 1 st January 2017} = ₹ 850000 \times \frac{100}{90} = ₹ 9,44,444$$

(before depreciation)

Revaluation of plant ₹ 10,44,444

Profit ₹ 1,00,000

Loss on revaluation of fixtures in Y Ltd.

$$\text{Fixture book value on 1 st January 2017} = 80,000 \times \frac{100}{95} = ₹ 84,211$$

(Before depreciation)

Revaluation of fixtures ₹ 83211

Loss ₹ 1000

4. Unrealized Profit :

An unrealized intercompany profit exists only when there is a sale of goods by one company in Holding or Subsidiary at a profit and the same goods remain unsold and appear as an asset in the balance sheet. Such unrealized profit is deducted from Profit and Loss A/c in the Consolidated Balance Sheet and also from stock in the Consolidated Balance Sheet.

There are two different opinions about the treatment of unrealized profit. Some people take into consideration only the holding company's share in the unrealized profit as adjustment and some people take into consideration the full amount of unrealized profit as adjustment. However, according to AS-21, it is necessary to

consider the total profit on stock as unrealized without taking note of minority interest.

For Example -On 31st March 2018, the extract of balance sheet of H Ltd. and its subsidiary S Ltd. stood as follows

Liabilities	H Ltd. Rs.	S Ltd. Rs.
Equity Share Capital	8,00,000	2,00,000
General Reserve	1,50,000	70,000
Profit And Loss A/c	90,000	85,000
Assets		
Fixed Assets	5,50,000	1,00,000
75% shares in S Ltd. (at cost)	2,80,000	-
Stock	1,05,000	17,77,000
Current assets	2,25,000	1,28,000

Calculate the unrealized profit after taking into following information

- H Ltd. acquired the shares on 31st July 2017
- S Ltd. earned a profit of ₹ 45,000 for the year ended 31st March 2018
- In January 2018, S Ltd. sold to H Ltd. goods costing ₹ 50,000 of ₹ 20,000. On 31st March 2018, half of this goods were lying as unsold in the godowns H Ltd.

Calculation of Unrealized profit

Unrealized profit in respect of stock with H Ltd.

Total profit charged by S Ltd. = ₹ 20,000 – ₹ 15,000 = ₹ 5,000

Half of goods remained unsold on 31st March 2018

Unrealized profit = $5000 \times \frac{1}{2} = ₹ 2500$

The entire profit of ₹ 2500 unrealized profit as per latest accounting standard (AS21)

5. Issue of Bonus Shares by Subsidiary Company :

Bonus shares are issued out of the profit or reserves. Issue of bonus shares by subsidiary company will reduce its profit or reserves and increase its share capital. It affects decrease of cost of control or increase in capital reserve.

For Example :- Following are the extracts from the balance sheets of H Ltd. and its subsidiary S Ltd. as on 31st December, 2016

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share Capital (in ₹ 10 shares)	50,000	10,000	Shares in S Ltd. (800 shares)	10,000	
General Reserve on 1 st January, 2016	10,000	5,000			
Profit for the year	10,000	5,000			

The shares are acquired by H Ltd. on 1 st July, 2016. On 31 st December 2016 S Ltd. decided to issue bonus shares out of general reserve in the ratio of 1 bonus share for every five held. No effect has yet been given in the books of both the companies regarding issue of bonus shares. You are required to calculate the cost of control and minority interest before and after issue of bonus shares.

Solution:

Before issue of bonus shares:

a) Cost of Control	₹
Amount paid for shares	10,000
Less: Paid up value of shares	8,000
Less : share of capital profit $7500 \times \frac{8}{10}$	<u>6000</u> <u>14000</u>
Capital Reserve	4000

b) Minority Interest	
c) Paid up value of the shares	2,000
Add : Share of Capital Profit $7,500 \times 2/10$	1,500
Share of Revenue profit $2,500 \times 2/10$	500
	<u>4000</u>

after issue of bonus shares:

a) Cost of control	
Amount paid for the shares	10,000
Less. Paid up value of shares	9,600
Share of capital Profit $5,500 \times 8/10$	<u>4,400</u>
Capital Reserve	4,000
b) Minority Interest	
paid up value of shares	2,400
add : share of Capital profit $5,500 \times 2/10$	1,100
share of revenue profit $2,500 \times 2/10$	<u>500</u>
	<u>4,000</u>

6. Proposed Dividend :

If subsidiary company has proposed dividend on its shares but holding company has not passed any entry for such dividend the amount of proposed dividend may be added back to subsidiary company's profit. The profits may then be analyzed between capital and revenue in the usual way

7. Dividend paid by Subsidiary Company out of Pre-acquisition Profit : There are two effects of this transaction:

Receiving Effect: Such dividend received by holding company should be used to reduce the cost of investment in subsidiary company. It should not be credited to Profit and Loss A/c. If it is already credited to Profit and Loss A/c, it should be corrected as, "Deducted from Profit and Loss A/c of Holding company and added to the Cost of Control."

Paying Effect: It will reduce the pre-acquisition profit of the subsidiary company.

For Example : - H Ltd. acquires 4000 shares of ₹ 10 each at ₹ 15 per share in S Ltd. on 1st October, 2017. The issued share capital of S Ltd. consists of 5,000 shares of ₹ 10 each. In 2012, S Ltd. declares a dividend of 20 per cent on its paid up capital for the year ending 31st December, 2017, the profit and loss account of S Ltd. shows the following position:

Profit and loss A/c balance on 1st January, 2017	30000
Profit for the year (2017)	24000
Calculate share of holding Company in total dividend	
Pre-acquisition profits.:	₹
Balance of profit and loss A/C on 1 st January, 2017	30000
Profit for 9 months (pre-acquisition) of 2017	<u>18,000</u>
	48,000
Post- acquisition profits:	
Profit for 3 months (post-acquisition) of 2017, $24,000 \times \frac{1}{4}$	<u>6000</u>
Dividends payable by S Ltd.	
Total dividend ($50,000 \times 20/100$)	10,000
Share of holding company in total dividend $10,000 \times 4/5$	8000

8. Unclaimed Dividend :

If there is unclaimed dividend in the balance sheet of subsidiary company it should be divided into two parts:

Dividend not claimed by holding company will be cancelled by the corresponding unclaimed dividend appearing as an asset in the books of holding company.

Dividend not claimed by other shareholders will be appeared in the consolidated balance sheet.

9. Minority Interest :

The share of minority shareholders in the subsidiary company is called as Minority Interest. It is calculated as the total of minority's share in Equity Share Capital, Bonus Share Capital, Pre-acquisition Profit and Postacquisition Profit of subsidiary company. It is shown on the liability side of the Consolidated Balance Sheet.

For Example - Following is the extract of balance sheet of H Ltd. and S Ltd. H Ltd. acquired $\frac{3}{4}$ of the shares capital of S Ltd. on 31 st December 2017

Liabilities	H Ltd. Rs.	S Ltd. Rs.
Share capital (in ₹ 10 share)	20,000	10,000
General Reserve	5,000	3,000
Profit & Loss A/C	3,000	2,000
Assets		
Fixed Assets	20,000	10,000
Share in S Ltd.	10,000	

Calculate the Minority Interest

Calculation of Minority Interest

Paid up value of shares	2,500
Add- share of capital profits ($3000 \times \frac{1}{4}$)	750
Add- share revenue profits ($2000 \times \frac{1}{4}$)	<u>500</u>
Minority interest	3,750

10. Cost of Control :

The cost of control means the holding company's share in the subsidiary company. It is calculated as the total of majority's share in Equity Share Capital, Bonus Share Capital, Pre-acquisition Profit of subsidiary company and Dividend paid by subsidiary company.

For Example – H Ltd. acquires $\frac{3}{4}$ of the share capital of S Ltd. on 31 st December 2019. The extracts of the balance sheets of the two companies are as under

Liabilities	H Ltd. Rs.	S Ltd. Rs.
Share capital (in ₹ 10 shares)	40,000	20,000
General Reserve	10,000	6,000
Profit & Loss A/C	6,000	4,000
Assets		
Fixed assets	40,000	20,000
Shares in S Ltd.	20,000	

From the above information calculate the cost of control

Calculation of cost of control

Amount paid of shares in S Ltd.		20,000
Less-paid up value of shares ($20000 \times \frac{3}{4}$)	15,000	
Less-share of General reserve ($6000 \times \frac{3}{4}$)	4,500	
Less-share of profit & loss A/c balance ($4000 \times \frac{3}{4}$)	<u>3,000</u>	<u>22,500</u>
Capital reserve		2,500

11. Goodwill or Capital Reserve :

Goodwill or capital reserve is calculated by deducting the cost of control and the cost of investment that is purchase price of shares in the subsidiary company. If the Purchase Price of Shares (Cost of Investment) is more than the Cost of Control, the difference is treated as Goodwill and if the Purchase Price of Shares (Cost of Investment) is less than the Cost of Control, the difference is treated as Capital Reserve.

For Example - The following are the extracts from the balance sheet of H Ltd. and S Ltd. as on 31 st March 2018

Liabilities	H Ltd. Rs.	S Ltd.Rs.
Share Capital of ₹ 10 each fully paid	4,00,000	1,00,000
Profit & Loss Account as on 1/4/2017	1,00,000	30,000
Profit for the year	50,000	20,000
Assets		
Investment (8000 shares in S Ltd. acquired on 1/7/2017)	2,00,000	

Calculate the amount of Goodwill

Calculation Amount of Goodwill

cost of shares		2,00,000
Less paid up value of shares	80,000	
Share of capital profits *	<u>28,000</u>	
		<u>1,08,000</u>
Good will or cost of control		92,000

*Analysis of profit of S Ltd.

particulars	capital profit	Revenue Profit
P & L A/c bal on 1/4/2017	30,000	-
profit earned during the year		
Capital profit $20000 \times \frac{1}{4}$	5,000	
Revenue profit $20000 \times \frac{3}{4}$	-	15,000

	35,000	15,000
Less minority interest $\frac{1}{5}$	7,000	3,000
	28,000	12,000

12. Preference Shares :

If the subsidiary company has issued preference shares the accounting treatment is as follows:

If the holding company holds preference shares in the subsidiary company, the paid-up value will be deducted from the cost thereof to the holding company in the same way as in case of equity shares. The difference is adjusted to goodwill or capital reserve.

If the preference shares held by outsiders, the minority interest will also include the paid up amount of shares held and the amount in respect of dividend accrued to the date of consolidation..

For Example - If the holding company purchases 500 Preference Shares of ₹ 10 each fully paid a sum of ₹ 7000, the excess ₹ 2000, of the cost of shares over the paid up value will be charged to goodwill.

However, if the Company purchases 500 preference shares of ₹ 10 each fully paid a sum of ₹ 4000 only, the sum of ₹ 1000 excess of paid up value over the cost of shares will be shown as a capital reserve.

13. Subsequent Purchases of Shares in Subsidiary Company:

If a company makes two or more investments in another company at different dates and eventually obtains control over the other company, the consolidated financial statements are presented only from the date on which holding – subsidiary relationship comes into existence.

14. Consolidation of More Than One Subsidiary :

There are two methods of acquiring control over more than one subsidiary – i) Direct Holding, and ii) Indirect Holding. In direct holding the parent company

acquire control over each subsidiary separately by purchasing the majority of shares in each company. In this case consolidation is made by opening a separate cost of control account and minority interest account for each of the subsidiaries on the lines of consolidation of one subsidiary.

In indirect holding the parent company acquire control on any company through its subsidiary. In this case the calculations regarding sub-subsidiary are made first. The capital profit of the sub-subsidiary is divided between the minority and the immediate holding company in proportion to the equity shares held respectively. The share of the holding company is then considered directly for calculation of goodwill or capital reserve.

Check your progress-2

- 1) If the cost of control is less than the cost of investment, the difference is treated as-----
 - a) Capital Reserve
 - b) Good will
 - c) Capital
 - d) Revenue Reserve
- 2) The controlled company is called as-----
 - a) Subsidiary company
 - b) Holding company
 - c) Minority company
 - d) None of above

B) State True or False

- 1) Issue of bonus shares by the subsidiary company out of capital profits will no effect on cost of control.
- 2) Taxation provision made by the subsidiary company will appear in the consolidated balance sheet as capital profit

C) Fill in the blanks

- 1) The share capital of the _____ company does not appear in the consolidated balance sheet.
- 2) _____ capital not held by holding company is shown along with minority interest.

2.2.7 Illustrations :

Illustration -1. From the following balance sheet of H Ltd. and its subsidiary S Ltd, prepare a consolidated balance sheet. As on 31st March 2018

Balance Sheet
as on 31st March, 2018

Liabilities	H Ltd. Rs	S Ltd Rs	Assets	H Ltd. Rs	S.Ltd Rs
Share Capital (in shares of Rs.10each)	40,000	20,000	Sundry Assets	40,000	30,000
Sundry Liabilities	20,000	10,000	Investments in shares of S Ltd.(1,000 shares)	20,000	
	60,000	30,000		60,000	30,000

Solution :

Consolidated Balance Sheet
as on 31st March, 2018

	Particulars	Rs.
I.	Equity and Liabilities	
	1. Shareholders' Funds	
	Share Capital	40,000
	2. Non-Current/Liabilities	
	Accounts Payable:	
	Sundry Liabilities	H Ltd. 20,000
	S Ltd. 10,000	
		30,000
	Assets	70,000

1. Non-Current/Current Assets:	
Sundry Assets	H Ltd. 40,000
S Ltd. 30,000	
	70,000

Illustration - 2. From the following balance sheet of H Ltd., and its subsidiary S Ltd, prepare a consolidated balance sheet as on 31st March 2018.

Balance Sheet
as on 31st March, 2018

Liabilities	H Ltd. Rs.	S Ltd Rs.	Assets	H Ltd. Rs.	S.Ltd Rs.
Share Capital (in Rs 10 shares)	30,000	15,000	Shares, in S Ltd. 1200 shares)	12,000	
Sundry Liabilities	15,000	7,500	Other Assets	33,000	22,500
	45,000	22,000		45,000	22,500

H Ltd. acquires shares in S Ltd., on 31st December 2018

Solution

In the present problem, H Ltd. Holds only 4/5 of the share capital while the rest 1/5 is held by the minority. The consolidated balance sheet will appear as under.

Consolidated Balance Sheet
as on 31st March, 2018

	Particulars	Rs.
I.	Equity and Liabilities	
	1. Shareholders' Funds	
	Share Capital	30,000
	2. Minority Interest	
	3. Non-Current/Liabilities	3,000
	Accounts Payable:	
	Sundry Liabilities	H Ltd. 15,000
		S Ltd. 7,500
	Assets	22,500
	2. Non-Current/Current Assets:	55,500
	Sundry Assets	H Ltd. 33,000
		S Ltd. 22,500
		55,500
		55,000

Illustration-3. HLtd. acquires 3/4 of the share capital of S Ltd. On 31st December 2018, When the balance sheets of the two companies are as under:

Balance Sheets
as on 31st December 2018

<i>Liabilities</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>	<i>Assets</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>
Share Capital (in Rs. 10 Shares)	20,000	10,000	Fixed Assets	20,000	10,000
General Reserve	5,000	3,000	Current Assets	13,000	12,000
Profit and Loss A/c	3,000	2,000	Shares in S Ltd	10,000	---
10% Debentures	10,000	5,000			
Sundry Creditors	5,000	2,000			
	43,000	22,000		43,000	22,000

You are required to prepare the consolidated balance sheet as on 31st December 2018

Solution

**Consolidated Balance Sheet
as on 31st December 2018**

	<i>Particulars</i>	Rs.
I.	Equity and Liabilities	
1.	Shareholders' Funds	
	Reserves & Surplus	20,000
	General Reserve	5,000
	Capital Reserve (W. N-1)	1,250
	P& L (Surplus)	3,000
2.	Minority Interest (W.N- 2)	3,750
3.	Non-current Liabilities	
	<i>H Ltd.</i> 10,000	
	10% Debentures <i>S Ltd.</i> 5,000	15,000
4.	Current Liabilities	
	Accounts Payables: <i>H Ltd.</i> 5,000	
	Sundry Creditors: <i>S Ltd.</i> 2,000	7,000
II.	Assets	55,000
1.	Non-current Assets:	
	<i>H Ltd.</i> 20,000	30,000
	Fixed Asset: <i>S Ltd.</i> 10,000	
2.	Current Assets:	
	<i>H Ltd.</i> 13,000	
	<i>S Ltd.</i> 12,000	25,000
		55,000

Wrong Note

	<i>Particulars</i>	Rs.
1.	Cost of Control:	
	Amount Paid of Shares in S Ltd	10,000
	Less: Paid up Value of Shares 7,500	

	Share of General Reserve (3/4)	2,250	
	Share of Profit and Loss A/c Balance (3/4)	1,500	11,250
	Capital Reserve		1,250
2.	Minority Interest:		
	Paid up Value of Shares		2,500
	Add: Share of Capital Profit		750
	Share of Revenue Profits		500
			3,750

Illustration-4. The Following are the balance sheets of H Ltd. and its subsidiary S Ltd. as on 31st December 2018

Balance Sheets
as on 31st December 2018

<i>Liabilities</i>	<i>H Ltd.</i>	<i>S Ltd.</i>	<i>Assets</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
	<i>Rs</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Share Capital (in 10 Shares)	40,000	20,000	Fixed Assets	60,000	30,000
General Reserve	20,000	10,000	Current Assets	70,000	50,000
Profit and Loss A/c balance as on 1 Jan. 2018	10,000	8,000	1600 Shares in S Ltd	20,000	
Profit of the year	20,000	12,000			
12% Debentures	40,000	20,000			
Sundry Creditors	20,000	10,000			
	1,50,000	80,000		1,50,000	80,000

H Ltd. acquired shares in S Ltd. on 1st July 2018. S. Ltd. had a balance of ₹ 8,000 in general reserve on 1 January, 2018. On account of fire, goods costing

₹ 4,000 of S Ltd. were destroyed in March 2018. The loss had been charged to the profit and loss account for the year.

You are required to prepare a consolidated balance sheet.

Consolidated Balance Sheet

as on 31st December 2018

	Particulars	Note No.	₹
I.	Equity and Liabilities		
1.	Shareholders' Funds		
	Share Capital (₹ 10 Shares)		40,000
	Reserves & Surplus		
	General Reserve	20,000	
	Capital Reserve	12,800	
	P & L (Surplus) :		
	<i>H Ltd.</i> 30,000		
	<i>S Ltd.</i> 7,200		
	37,200		70,000
2.	Minority Interest		10,000
3.	Non-current Liabilities		
	12% Debentures		
	<i>H Ltd.</i> 40,000	2	
	<i>S Ltd.</i> 20,000		60,000
4.	Current Liabilities		
	Accounts Payables:	<i>H Ltd.</i> 20,000	
	Sundry Creditors:	<i>S Ltd.</i> 10,000	30,000
			2,10,000
II.	Assets		
1.	Non-current Assets :		
	Fixed Assets		
	<i>H Ltd.</i> 60,000		
	<i>S Ltd.</i> 30,000		90,000
2.	Current Assets		
	<i>H Ltd.</i> 70,000		
	<i>S Ltd.</i> 50,000		1,20,000
			2,10,000

Working Note

	<i>Particulars</i>	Rs.
1.	Cost of Control:	
	Amount Paid of Shares	20,000
	Share of Capital Profit 16,000	
	Capital Reserve 16,800	32,800
		12,800
2.	Minority Interest:	
	Paid up Value of Shares	4,000
	Add: Share of Capital Profit	4,200
	Share of Revenue Profits	800
		10,000
3.	Analysis of Profits of S Ltd Capital Profit	Revenue Profit
	General Reserve as on 1 January 2018 8,000	--
	Profit and Loss A/c balance as on 1 January 2018 8,000	--
	Profit for the year before transfer of reserve and writing off loss of stock (12,000 + 2,000 + 4,000) presumed evenly earned during the year 9,000	9,000
	25,000	9,000
	Less : Loss of Stock in March, 2018 4,000	--
	21,000	9,000
	Less : Minority Interest (1/5) 4,200	1,800
	Share of Holding Company 16,800	7,200

Illustration-5. On 1st August, 2018 H Ltd. purchased 8,000 shares in S Ltd. @ ₹ 175 Per Share. The balance sheet of S Ltd. as at 31st March, 2018 is as follows:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Share Capital (fully paid shares of ₹ 100 each)	10,00,000	Goodwill	1,00,000
Reserves (as on 1.4.2017)	4,00,000	Fixed assets (cost Rs. 20,00,00)	16,00,000
Profit and Loss A/c	3,00,000	Current assets	6,00,000
10% Debentures of Rs. 100 each	2,00,000		
Sundry Creditors	4,00,000		
	23,00,000		23,00,000

Additional information:

- The opening balance in the profit and loss account was ₹ 1,60,000 out of which dividend amounting to ₹ 1,00,000 was paid in September, 2017
- H Ltd. held 50% of the debentures of S Ltd.
- Sundry creditors include ₹ 40,000 payable to H Ltd.

You are required to ascertain the (i) minority interest; and (ii) cost of control (capital reserve)

Solution

Date of acquisition: 1.8.2017

Date of Balance: 31.3.2018

Pre Acquisition Period: 4 months

Post Acquisition Period: 8 months

Ratio of shareholding in S Ltd. 8000 : 2000

(i) Computation of Minority Interest

	Rs.
Share Capital	2,00,000
Share of Capital Profits	1,08,000
Share of Revenue Profits	32,000
	3,40,000

(ii) Computation of Cost of Control

	Rs.
Cost of investment = 8,000 x Rs 175 =	14,00,000
Less : Pre – acquisition dividend ₹ 1,00,000 x 4/5	80,000
	13,20,000
Less : Paid up value of shares 8,00,000	
Share of capital profit 4,32,000	13,20,000
Cost of Control (Goodwill)	88,000

Analysis of Profits of S Ltd.

	Capital Profits (Rs)	Revenue Profits (Rs)
Reserves as on 1.4.2017	4,00,000	--
Profit and Loss A/c as on 1.4.2017	1,60,000	--
Profit earned during the year		
Rs (3,00,000 + 1,00,000 – 1,60,000)	80,000	1,60,000
	6,40,000	1,60,000
Less: Dividends paid in September 2017	1,00,000	-

	5,40,000	1,60,000
Holding Company Shares (4/5)	4,32,000	1,28,000
Minority Interest (1/5)	1,08,000	32,000

Illustration-6. The following are the Balance Sheets of Honda Ltd. and its subsidiary StarLtd. as on 31st December 2016

Balance Sheets
as on 31st December 2016

<i>Liabilities</i>	<i>Honda Ltd. ₹</i>	<i>Star Ltd. ₹</i>	<i>Assets</i>	<i>Honda Ltd. ₹</i>	<i>Star Ltd. ₹</i>
Share Capital in ₹ 1 Share	1,00,000	80,000	Building	40,000	--
Reserves	40,000	30,000	Plant	10,000	60,000
Bills Payable	20,000	10,000	Stock	40,000	60,000
Creditors	50,000	40,000	Shares in Star Ltd.	60,000	--
Profit and Loss A/c balance	40,000	20,000	Debtors	50,000	30,000
			Bills Receivable	30,000	20,000
			Cash	20,000	10,000
	2,50,000	1,80,000		2,50,000	1,80,000

Debtors of Honda Ltd. include ₹ 20,000 due from Star Ltd. and bills payable of Honda Ltd. included a bill of ₹ 5,000 accepted in favour of Star Ltd. A loan of ₹ 10,000 given by Honda Ltd. to Star Ltd. was also included in the items of debtors and creditors, respectively. ₹ 5,000 was transferred by Star Ltd. from Profit and Loss Account to Reserve out of current year's profit. Shares were purchased on 30th June, 2016 at par. Prepare a Consolidated Balance Sheet.

Solution :

Consolidated Balance Sheet

	<i>Particulars</i>	Note no.	₹
I.	Equity and Liabilities		
1.	Shareholders' Funds		
	Share Capital	1	1,00,000
	Reserves & Surplus	2	1,17,500
2.	Minority Interest	3	32,500
3.	Current Liabilities	4	85,000
	Total (1) + (2) + (3)		3,35,000
II.	Assets		
1.	Non-current Assets:	5	1,10,000
2.	Current Assets:	6	2,25,000
	Total (1) + (2)		3,35,000

Working Notes

	<i>Particulars</i>	
1.	Share Capital :	
	Shares of Rs. 1 each	----
	Issued & Subscribed	
	Fully paid up	
	10,000 Shares of Rs 10 each	1,00,000.00
2.	Reserves & Surplus :	
	Reserves	40,000.00
	Capital Reserve (WN 2)	28,125.00
	P& L (Surplus):	
	<i>Honda Ltd.</i> 40,000.00	49,375.00
	<i>Star Ltd.</i> 9,370.50	
3.	Minority Interest	1,17,500.00

				Paid up value of Shares	20,000.00
				Add : Share of Capital Profit	9,375.00
				Share of Revenue Profits	3,125.00
					32,500.00
4.	Current Liabilities				
	Bills Payable	<i>Honda</i> Ltd.	20,000		
		<i>Star</i> Ltd.	10,000		
			30,000		
			5,000	25,000.00	
	Less: Inter co. Bills	<i>Honda</i> Ltd.	50,000		
	Creditors	<i>Star</i> Ltd.	40,000	60,000.00	
	Less: Inter co. Creditors (2,000+1,000)			85,000.00	
5.	Non - Current Assets:				
	Fixed Assests – Tangible:	Building	<i>Honda</i>	40,000.00	
			<i>Star</i>	----	
		Plant	<i>Honda</i>	10,000.00	
			<i>Star</i>	60,000.00	
				1,10,000.00	
6.	Current Assets :				
	Inventories	<i>Honda</i> Ltd.	40,000		
		<i>Star</i> Ltd.	60,000		
				1,00,000.00	
	Account Receivable	<i>Honda</i> Ltd.	50,000		
	Trade Receivable	<i>Star</i> Ltd.	30,000		
			80,000		
			30,000		
				50,000.00	

Less : Inter Co. Debtors	<i>Honda Ltd.</i>	30,000	
Bills Receivable	<i>Star Ltd</i>	20,000	
		50,000	
		5,000	
			45,000.00
Less : Inter Co. Bills	<i>Honda Ltd.</i>	20,000	
Cash and Cash Equivalents :	<i>Star Ltd.</i>	10,000	
			30,000.00
			2,25,000.00

Working Notes:

(1) Analysis of Profits of Star Ltd.	Capital Profits	Revenue Profits
Reserves (₹ 30,000 – 5000)	25,000.00	---
Profit for the year (20,000 + 5,000), presumed to have been earned evenly during the year 1991	12,500.00	12,500.00
	37,500.00	12,500.00
Less: Minority Interest (1/4)	9,375.00	3,125.00
Share of Holding Company	28,125.00	9,375.00
(2) Cost of Control		
Amount Paid for Shares		
Less: Paid up value of Shares	60,000.00	
Share of Capital profit	28,125.00	88,125.00
Capital Reserve		28,125.00

Illustration-7. The Following are the extracts from the Balance Sheet of Honda Ltd. and Suzuki Ltd. as on 31st March 2018

<i>Liabilities</i>	<i>Honda Ltd. ₹</i>	<i>Suzuki Ltd. ₹</i>	<i>Assets</i>	<i>Honda Ltd. ₹</i>	<i>Suzuki Ltd. ₹</i>
Share Capital (Equity Shares of ₹ 10 each fully paid)	4,00,000	1,00,000	Stock	95,000	42,000
P & L A/c as on 1.4.2017	1,00,000	30,000	Investment (8,000 shares in Suzuki Ltd. acquired on 1.7.2017)	2,00,000	
Profit of the year	50,000	20,000			

Stock of Honda Ltd. includes ₹ 6,000 relating to stock purchased from Suzuki Ltd. Which Follows the practice of charging 25% extra on the cost for determining the selling price.

You are required to show how the above items will appear in the consolidated Balance Sheet.

Solution

- Unrealised Profit on stock

Unrealise Profit:	₹
Cost of Stock for Honda Ltd.	6,000
Rate of Profit Charge by Suzuki Ltd.	25%

The Stock reserve has to be created for full amount of ₹ 1,200 as required by As 21.

2.	Analysis of Profit of Suzuki Ltd.	Capital Profit ₹	Revenue Profit ₹
	P & L as on 1.4.2017	30,000	
	Profit earned during the year	5,000	15,000
		<u>35,000</u>	<u>15,000</u>
	Less: Minority Interest 1/5	7,000	3,000
		<u>28,000</u>	<u>12,000</u>
3.	Consolidated Profit & Loss A/c:		1,00,000
	Profit and loss Balance of Honda Ltd. as o 1.4.2017		50,000
	Profit for the year	12,000	
	Share of Revenue Profit from Suzuki Ltd.	1,200	10,800
	Less: Stock Reserve*		<u>1,60,800</u>
4.	Minority Interest:		<u>20,000</u>
	Paid up Value of shares		7,000
	Add: Share of Capital Profits		3,000
	Add: Share of Revenue Profits		<u>30,000</u>
5.	Cost of Control:		
	Cost of Shares:		2,00,000
	Less: Paid up value of Shares	80,000	
	Share of Capital Profits	28,000	1,08,000
	Goodwill		<u>92,000</u>

Consolidated Balance Sheet as on 31st March 2018

	<i>Particulars</i>	₹
I.	Equity and Liabilities	
1.	Shareholders' Funds	
	Share Capital	4,00,000
	Reserves & Surplus:	
	P & L Statement Consolidated	1,60,800
2.	Minority Interest	30,000
II.	Assets	
1.	Non-current Assets:	
	Fixed Assets	
	Intangible:	
	Goodwill	
2.	Current Assets:	92,000
	Inventories:	
	<i>Honda Ltd.</i>	95,000
	<i>Suzuki Ltd.</i>	42,000
		<u>1,37,000</u>
	Less: Stock Reserve	1,200
		1,35,800

Illustration-8. Following are the balance sheets of Hot Ltd. and its subsidiary Soft Ltd. as on 31st March, 2017

<i>Liabilities</i>	<i>Hot Ltd.</i>	<i>Soft Ltd.</i>	<i>Assets</i>	<i>Hot Ltd.</i>	<i>Soft Ltd.</i>
	₹	₹		₹	₹
Equity share capital: Share of ₹ 10 each fully paid	6,00,000	2,00,000	Plant and machinery	3,90,000	1,35,000
General reserve	3,40,000	80,000	Furniture	80,000	40,000
Profit and Loss account	1,00,000	60,000	80% Shares in Soft Ltd. (at cost)	3,40,000	--
Creditors	70,000	35,000	Stock	1,80,000	1,20,000
			Debtors	50,000	30,000
			Cash at bank	70,000	50,000
	11,10,000	3,75,000		11,10,000	3,75,000

Additional information:

1. Profit and loss account of Soft Ltd. stood at ₹ 30,000 on 1st April 2016 whereas general reserve stood at Rs. 80,000 even on this date.
2. Hot Ltd. acquired 80% shares in Soft Ltd. on 1st October, 2016.
3. Soft Ltd.'s plant and machinery which stood at ₹ 1,50,000 on 1st April 2016 was considered worth ₹ 1,80,000 as on 1st October, 2016, this figure is to be considered while consolidating the balance sheets.

You are required to prepare consolidated balance sheet as on 31st March 2017.

Solution :

Consolidated Balance Sheet as on 31st March 2017

<i>Particulars</i>			
I. Equity and Liabilities			
Shareholders' Funds:			
1. Share Capital:			
Equity shares of ₹ 10 each fully paid			6,00,000
Reserves & Surplus:			3,40,000
General Reserve			
Statement of P& L (Surplus)	1,00,000		
Add: H Ltd., Shares in S Ltd.			
Revenue Profit	10,500		1,10,500
2. Minority Interest (WN 5)			75,125
3. Current Liabilities:			
Trade Payables:			
Sundry Creditors :			
	Hot Ltd.	70,000	
	Soft Ltd.	35,000	1,05,000
			12,30,625
II. Assets			
1. Non-current Assets:			
Fixed Assets			
Tangible:			
Plant & Machinery:			
	Hot Ltd.	3,90,000	
	Soft Ltd.	1,70,625	5,60,625
Furniture:			
	Hot Ltd.	80,000	
	Soft Ltd.	40,000	1,20,000
Intangible:			
Goodwill (WN 3)			
			50,000
2. Current Assets:			
Inventories:			
	Hot Ltd.	1,80,000	
	Soft Ltd.	1,20,000	

			3,00,000
Trade Receivable:			
Debtors:	Hot Ltd.	50,000	
	Soft Ltd.	30,000	
			80,000
Cash and cash equivalents:			
Bank:	Hot Ltd.	70,000	
	Soft Ltd.	50,000	
			1,20,000
			12,30,625

Working Notes:

1) Revised value of Plant and Machinery	₹
Book value of Soft Ltd. plant and machinery as on 1.4.2016	1,50,000
Less: Book value of plant and machinery as on 31.3.2017	1,35,000
Depreciation for full year	15,000
Rate of depreciation = $\frac{₹ 15,000}{₹ 1,50,000} \times 100 = 10\%$	
Depreciation for six months	
(i.e. up to 30.9.2016) = $15,000 \times \frac{6}{12} = ₹ 7,500$	₹
Book value as on 1.10.2016 = $(₹ 1,50,000 - ₹ 7,500) =$	1,42,000
Appreciation made = ₹1,80,000	
	₹1,42,500
	₹37,500
Book value as on 31.3.2017	1,35,000
Appreciation	37,500
	1,72,500
Less: Depreciation for six months @ 10% p.a.	1,875
Revised Value as on 31.3.2017	1,70,625
2) Capital Profits	₹
General Reserve	80,000

	Profit and Loss Account as on 1.4.2016	30,000	
	Current year's profit up to 1.10.2016		
	(₹ 60,000 – ₹ 30,000) 6/12	15,000	
	Appreciation in value of plant and machinery	37,500	
	(1,80,000-1,42,500)		
		<u>1,62,500</u>	
	Hot Ltd.'s share = ₹1,62,500 x 80%	1,30,000	
	Minority shareholders share (₹ 1,62,500 – ₹ 1,30,000)	32,500	
3)	Cost of Control/Goodwill	₹	
	Amount paid for 80% shares in Soft Ltd.	3,40,000	
	Less: Paid-up value of 80% shares in Soft Ltd.	1,60,000	
	Hot Ltd.'s share of capital profit	1,30,000	2,90,000
	Cost of Control / Goodwill	<u>50,000</u>	
4)	Revenue Profits	₹	
	Profit after 1.10.2016 (₹ 60,000 – ₹ 30,000) = 30,000	15,000	
	½		
	Less: Depreciation respect of increase in the value of plant		
	And machinery for six months	1,875	
		<u>13,125</u>	
	Hot Ltd.'s share = ₹ 13,125 x 80% = ₹ 10,500		
	Minority shareholder's share = ₹13,125 – ₹ 10,500 = ₹ 2,625		
5)	Minority Interest	₹	
	Paid-up value of 20% Shares	40,000	
	Add: Capital Profits	32,500	
	Revenue Profits	2,625	
		<u>75,125</u>	

Illustration-9. A Ltd. acquired 32,000 equity shares of ₹ 10 each in B Ltd. on 1st July, 2016. The balance sheets of the two companies as on 31st December 2016 were as follows:

<i>Liabilities</i>	<i>A Ltd.</i>	<i>B Ltd.</i>	<i>Assets</i>	<i>ALtd.</i>	<i>BLtd.</i>
	₹	₹		₹	₹
Share Capital	10,00,000	4,00,000	Land and Building	3,60,000	3,80,000
Reserves	4,80,000	2,00,000	Plant and Machinery	4,80,000	2,70,000
Profit and Loss A/c	1,14,400	1,64,000	Investment in B Ltd. (at cost)	6,60,000	--
Bank Overdraft	2,00,000	---	Stock	2,88,000	84,000
Bills Payable	---	26,000	Sundry Debtors	88,000	80,000
Sundry Creditors	1,39,600	40,000	Bills Receivable	29,600	---
			Cash	28,400	16,000
	19,34,000	8,30,000		19,34,000	8,30,000

1. The Profit and loss account of B Ltd. showed a balance of ₹ 60,000 on 1st January 2016, out of which a dividend of 10 per cent was paid on 1st August. The dividend was credited by A Ltd. to its profit and loss account. Profit may be assumed to have accrued evenly throughout the year.
2. The plant and machinery of B Ltd. which stood at ₹ 3,00,000 on 1st January 2016 was considered as worth ₹ 3,60,000 on the date of acquisition by A Ltd. Plant and machinery is depreciated at 10 per cent.

Prepare the consolidated balance sheet of A Ltd. and its subsidiary as at 31st December 2016.

Solution :

Consolidated Balance Sheet as on 31st March 2017

	<i>Particulars</i>	₹
I.	Equity and Liabilities	
1.	Shareholders' Funds:	
	Share Capital:	
	Fully paid shares of ₹ 10 each	10,00,000
	Reserves & Surplus:	
	General Reserve	4,80,000
	Statement of P& L (Surplus)	1,37,000
2.	Minority Interest (WN 6)	1,67,050
3.	Non- Current Liabilities:	
	Bank Overdraft	2,00,000
4.	Current Liabilities :	
	Accounts Payables:	26,000
	Bills Payable	A Ltd. 1,39,600
	Sundry Creditors	B Ltd. 40,000
		21,89,650
II.	Assets	
1.	Non-current Assets:	
	Fixed Assets	
	Tangible:	
	Land & Building:	A Ltd. 3,60,000
		B Ltd. 3,80,000
	Plant & Machinery: See Note (iii)	8,21,250
	Intangible:	
	Goodwill (WN 3)	14,400
2.	Current Assets:	
	Inventories:	A Ltd. 2,88,000
		B Ltd. 84,000

Account Receivable:				
Sundry Debtors:	A	Ltd.	88,000	
	B	Ltd.	80,000	1,68,000
Bills Receivable:				
Cash & Cash Equivalents:	A	Ltd.	28,400	
	B	Ltd.	16,000	44,400
				21,89,650

Working Notes:			
1)	Plant and Machinery A/c-B Ltd.		₹
	1.1.16 Balance		3,00,000
	1.7.16 Less: Depreciation for 6 Months at 10%		15,000
			1,85,000
	Appreciation in value		75,000
			2,60,000
	1.2.16 Less: Depreciation for 6 months on old value	15,000	
	Depreciation on appreciation of ₹ 75,000 for 6 months	3,750	18,750
			3,41,250
2)	Plant and Machinery in the Consolidated Balance Sheet:		
	A Ltd.		4,80,000
	B Ltd. (as per W.N. (ii) above)		3,41,250
3)	Capital Profits in B Ltd.		8,21,250
	Reserve on 1.1.16		2,00,000
	Profit and Loss Account Balance as on 1.1.16	60,000	
	Less: Dividend paid	40,000	20,000
	Profit for 2016 : ₹ 1,64,000 – ₹ 20,000 = ₹ 1,44,000		

	Profit upto (1/2 of ₹ 1,44,000)	72,000
	Appreciation in value of plant and machinery	75,000
		3,67,000
	Less: Minority Interest (1/5 th)	73,400
	Share of A Ltd. (Holding Company)	2,93,600
4)	Revenue Profits in B Ltd.:	
	Profit from 1.7.16 to 31.12.16	72,000
	Less: Depreciation on ₹ 75,000 (the increase in the value of plant	
	And machinery as per WN (ii) above)	3,750
		68,250
	Less: 1/5 th due to Minority Interest	13,650
	Share of A Ltd. (Holding Company)	54,600
5)	Minority Interest	
	Paid-up value of 8,000 Shares	80,000
	Add: Share of Capital Profits	73,400
	Share of Revenue Profits	13,650
		1,67,050
6)	Cost of Control/Goodwill	
	Amount paid for 32,000 shares	6,60,000
	Less: Dividend received out of pre-acquisition profits	32,000
		6,28,000
	Less: Paid-up value of shares	3,20,000
	Capital Profits – share in	2,93,600
	Goodwill	14,400
7)	Consolidated Profit and Loss A/c:	1,14,400
	A Ltd.: P & L Accounts Balance	32,000

Less: Pre-acquisition dividend credited to investment A/c	82,400
	54,600
Add: Share of Revenue Profits in B Ltd.	1,37,000

Illustration-10. The Balance sheets of H Ltd. and its subsidiary S Ltd. as on 31st March, 2014 are as follows:

		<i>H Ltd</i>		<i>S Ltd</i>	
		₹	₹	₹	₹
I	Equity and Liabilities				
1.	Shareholder's funds:				
	(a) Share capital-authorized, issued, subscribed and paid- up:				
	Preference share capital	10,00,000			
	Equity share capital of Rs. 100 each as fully paid-up	50,00,000	60,00,000	15,00,000	
	(b) Reserves and Surplus:				15,00,000
	General reserve	34,00,000		60,000	
	Surplus	36,00,000		10,80,000	
2.	Current Liabilities:	10,00,000	70,00,000	4,41,500	11,40,000
	(a) Trade payables	---		2,41,500	
	(b) Bills Payable		10,000		6,83,000
			1,40,00,000		33,23,000

II.	Assets				
1.	Non Current assets:				
	(a) Fixed assets:				
	Land	35,60,000		7,00,000	
	Properties	37,60,000		4,00,000	
	Plant and Machinery	14,00,000	87,20,000	9,13,000	20,13,000
	(b) Long-term investment:				
	12,000 shares of S Ltd. on 1 st April, 2013		18,00,000		
	Current assets				
2.	(a) Inventories	13,60,000	34,80,000	5,06,000	
	(b) Trade receivables and cash	21,20,000		8,04,000	13,10,000
			1,40,00,000		33,23,000

The other information are:

- 1) Surplus of H Ltd. includes dividend of 10% received from S Ltd.
- 2) On 1st April, 2013 surplus of S Ltd. stood at ₹ 7,75,000 and general reserve at ₹ 30,000 S Ltd. revalued plant and machinery of S Ltd. at the time of purchase of shares by ₹ 2,00,000 more than its book value.
- 3) Inventory of H Ltd. includes ₹ 80,000 of inventory at cost purchased from S Ltd. Further, trade receivables of S Ltd. include ₹ 2,40,000 for the sale to H Ltd. on which S Ltd. makes a profit of ₹ 60,000.
- 4) S Ltd. made a bonus issue during the year out of pre-acquisition profits for ₹ 6,00,000. This is not recorded in the books.

Prepare consolidated balance sheet.

Solution :

Consolidated Balance Sheet as on 31st March 2014

	<i>Particulars</i>	₹
I	Equities and Liabilities	
2.	Shareholders' Funds	
	(a) Share Capital	
	Preference Share Capital	10,00,000
	Equity Share Capital	50,00,000
		<u>60,00,000</u>
	(b) Reserves and Surplus	
	General Reserve	34,00,000
	Capital Reserve	36,00,000
	Surplus	
	Add: Post acquisition profits to S Ltd.	3,88,000
	Less: Unrealised Profit	20,000
	Less: Pre-acquisition Dividend (10% of 12,00,000)	1,20,000
		<u>38,48,000</u>
2	Minority Interest	
3	Current Liabilities	5,68,000
	Trade Payables:	
	H Ltd.	10,00,000
	S Ltd.	4,41,500
		<u>14,41,500</u>
	Less: Mutul Owings	
	Bills Payable	2,40,000
		<u>12,01,500</u>
		2,41,500
		<u>1,54,63,000</u>
II	Assets	
1.	Non-Current Assets	42,60,000
	(a) Land (₹ 35,60,000 + 7,00,000)	41,60,000
	(b) Properties (₹ 37,60,000 + 4,00,000)	

(c) Plant and Machinery			
H Ltd.	14,00,000		
S Ltd. (Rs. 9,13,000 + 2,00,000)	11,13,000	25,13,000	
2. Current Assets			
Inventories (Rs. 13,60,000 + 5,06,000)	18,66,000		
Less: Unrealised Profit	20,000	18,46,000	
Trade receivables and cash(Rs. 21,20,000 + 8,04,000)	29,24,000		
Less: Mutul Owings	2,40,000	26,84,000	
		1,54,63,000	

Working Notes:

1) Ratio of share capital held by H Ltd. and minority Shareholders =
4:1

2) Computation pre-acquisition Profits/Capital Profits

₹

General Reserve	30,000
Add: Surplus as on 1 st April 2013	7,75,00
Add: Profit on Revaluation of Plant and Machinery	2,00,000
	<u>10,05,000</u>
Less: Bonus issue	6,00,000
H Ltd.'s Share (4/5 th)	<u>4,05,000</u>
	3,24,000

Minority Interest (1/5th) 81,000

3) Computation of Cost of Control

₹

Paid up value of 12,000 equity shares held by H Ltd.	12,00,000
Add: 4/5 th share in Pre-acquisition profits and reserves	3,24,000

Add: Bonus shares received	4,80,000
Intrinsic value of shares on the date of acquisition	<u>20,04,000</u>
Investments by H Ltd in S Ltd. for 12000 Shares	<u>18,00,000</u>
Less: intrinsic value of shares on the date of acquisition	(20,04,000)
Capital reserve	<u>2,04,000</u>
4) Post Acquisition Profits	<u>₹</u>
Profits for the post acquisition period (₹ 10,80,000 – 7,75,000)	3,05,000
Add: Transfer to reserves (₹ 60,000 – 30,000)	30,000
Add: Dividend paid (10% of 15,00,000)	1,50,000
	<u>4,85,000</u>
H Ltd. share in Post-acquisition profits of S Ltd.	<u>3,88,000</u>
Minority Interest in Post-acquisition of S Ltd.	97,000
5) Computation of Minority Interest	<u>₹</u>
Paid up value of 3000 equity shares	3,00,000
Add: 1/5 th share in Pre-acquisition profits and reserves	81,000
1/5 th share in Post-acquisition profits	97,000
Bonus shares	1,20,000
Minority Interest	<u>5,98,000</u>
Less: Dividend already paid	30,000
	<u>5,68,000</u>

6) Computation of Unrealised Profit

Rate of profit on sale value = $60,000 / 2,40,000 \times 100 = 25\%$

Profit included in sales of ₹ 80,000 = 25% of ₹ 80,000 = ₹ 20,000

Interim Dividend paid by S Ltd. has been assumed to be paid out of revenue profits.

Illustration-11 : From the following summarized balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 2017, prepare a consolidated balance sheet as at that date, having regard to the following:

- (i) Reserves and Profit and Loss Account of S Ltd. stood at 25,000 and 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2016.
- (ii) Machinery (Book-value 1,00,000) and Furniture (Book value 20,000) of S Ltd. were revalued at 1,50,000 and 15,000 respectively on 1st April, 2016 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

	H ltd ₹	S ltd ₹		H ltd ₹	S ltd ₹
Equity and Liabilities			Non-current assets		
Shareholders Fund			Fixed assets		
Share Capital of Rs 100 each	6,00,000	1,00,000	Machinery		
			Furniture	3,00,000	90,000
				1,50,000	17,000
Reserves	2,00,000	75,000	Other non-current assets	4,40,000	1,50,000
Profit and Loss Account	1,00,000	25,000	Non-current Investments		
			Shares in S Ltd		
			800 shares at 200 each	1,60,000	
Trade Payables	1,50,000	57,000			
Total			Total		

Solution

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2017

Particulars		Note No	Amount ₹
Equity and Liabilities			
(1)	Shareholder's Funds		
(a)	Share Capital		6,00,000
(b)	Reserves and Surplus	1	3,44,600
(2)	Minority Interest (W.N.5)		48,150
(3)	Current Liabilities		
(a)	Trade Payables	2	2,07,000
	Total		11,99,750
Assets			
(1)	Non-current assets		
(a)	Property, Plant and Equipment		
(i)	Tangible assets	3	5,97,750
(ii)	Intangible assets	4	12,000
(b)	Other non-current assets	5	5,90,000
	Total		11,99,750

Notes to Accounts

		₹	
1. Reserves and Surplus			
Reserves		2,00,000	
Add: 4/5th share of S Ltd. s post-acquisition reserves (W.N.3)		40,000	2,40,000

	Profit and Loss Account		1,00,000	
	<i>Add:</i> 4/5th share of S Ltd. s post-acquisition profits (W.N.4)		4,600	1,04,600
2.	Trade Payables			3,44,600
	H Ltd.		1,50,000	
	S Ltd.		57,000	2,07,000
3.	Tangible Assets			
	Machinery			
	H. Ltd.		3,00,000	
	S Ltd.	1,00,000		
	Add: Appreciation	50,000		
		1,50,000		
	Less: Depreciation (1,50,000 X 10%)	(15,000)	1,35,000	
	Furniture			
	H. Ltd.		1,50,000	
	S Ltd.	20,000		
	Less: Decrease in value	(5,000)		
		15,000		
	<i>Less:</i> Depreciation (15,000 X 15%)	(2,250)	12,750	5,97,750
4.	Intangible assets			
	Goodwill [WN 6]			12,000
5.	Other non-current assets			
	H Ltd.		4,40,000	
	S Ltd.		1,50,000	5,90,000

Working Notes

1. Pre-acquisition profits and reserves of SLtd.	₹
Reserves	25,000
Profit and Loss Account	15,000
	40,000
H Ltd.'s = $\frac{4}{5}$ (or 80%) \times 40,000	32,000
Minority Interest = $\frac{1}{5}$ (or 20%) \times 40,000	8,000
2. Profit on revaluation of assets of SLtd.	
Profit on Machinery ₹ (1,50,000 – 1,00,000)	50,000
Less: Loss on Furniture ₹(20,000 – 15,000)	5,000
Net Profit on revaluation	45,000
H Ltd.'s share $\frac{4}{5} \times 45,000$	36,000
Minority Interest $\frac{1}{5} \times 45,000$	9,000
3. Post-acquisition reserves of SLtd.	
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 75,000 – 25,000)	50,000
H Ltd. s share $\frac{4}{5} \times 50,000$	40,000
Minority interest $\frac{1}{5} \times 50,000$	10,000
4. Post -acquisition profits of SLtd.	
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = 25,000 – 15,000)	10,000
Add: Excess depreciation charged on furniture @15% on 5,000 i.e. (20,000 – 15,000)	750
Less: Under depreciation on machinery @ 10% on 50,000 i.e. (1,50,000 – 1,00,000)	10,750 (5,000)

Adjusted post-acquisition profits	5,750
H Ltd. s share $\frac{4}{5} \times 5,750$	4,600
Minority Interest $\frac{1}{5} \times 5,750$	1,150
5. Minority Interest	
Paid-up value of $(1,000 - 800) = 200$ shares	
held by outsiders 200×100 (or $1,00,000 \times 20\%$)	20,000
Add: $\frac{1}{5}$ th share of pre-acquisition profits and reserves	8,000
$\frac{1}{5}$ th share of profit on revaluation	9,000
$\frac{1}{5}$ th share of post-acquisition reserves	10,000
$\frac{1}{5}$ th share of post-acquisition profit	1,150
	48,150
6. Cost of Control or Goodwill	
Price paid by H Ltd. for 800 shares (A)	1,60,000
Less: value of the shares	
Paid-up value of 800 shares held by H Ltd. i.e. 800×100 (or $1,00,000 \times 80\%$)	80,000
Add: $\frac{4}{5}$ th share of pre-acquisition profits and reserves	32,000
$\frac{4}{5}$ th share of profit on the revaluation	36,000
value of shares on the date of acquisition (B)	1,48,000
Cost of control or Goodwill (A – B)	12,000

Check your progress - 3

A) Choose the correct alternative from given alternatives

- 1) Minority interest means the share of minority shareholders in ----- of subsidiary company
 - a) Net Assets
 - b) Capital employed
 - c) Shareholders fund
 - d) All of above
- 2) Revaluation Profit is treated as ----- profit / loss.
 - a) Revenue
 - b) Pre – acquisition
 - c) Post – acquisition
 - d) None of above

B) State True or False

- 1) Minority of subsidiary is entitled to revenue profits.
- 2) A subsidiary company cannot acquire shares in the holding company.

C) Fill in the blanks

- 1) Any profit or loss due to change in the amount of depreciation on account of revaluation of the asset after date of acquisition is a _____
- 2) The _____ company called as subsidiary company.

2.3 Summary

According to section 2(46) of the companies Act 2013, a holding Company is one which has one or more as its subsidiaries According to section 2(87) of the Companies Act 2013, subsidiary company means a company in which the holding company controls the composition of the board of capital. Holding company acquire the whole of the shares of a subsidiary company is called as a wholly owned subsidiary. Holding company acquire the shares partial called as partly owned subsidiary company. A holding company may have a number of subsidiaries. Holding company control subsidiary company either directly or indirectly when a holding company acquires majority equity shares of subsidiary company is called as direct holding. If holding company acquires control over another company through its subsidiary company then it is called an indirect holding. Holding company and

subsidiary companies are separately incorporated companies and they have separate legal entity

The objective of AS(21) Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by a parent (also known as holding enterprise) to provide financial information about the economic activities of its group. These statements are intended to present financial information about a parent and its subsidiary as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources. This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent. This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

The 2013 Act mandates preparation of consolidated financial statements (CFS) by all companies including unlisted companies having one or more subsidiaries, joint ventures or associates. Consolidated financial statements normally include consolidated balance Sheet, Consolidated statement of profit and loss, and notes, explanatory material that form an integral part thereof and also consolidated cash flow statement (in case a parent present its own cash flow statement). Consolidated financial statements are presented, to the extent possible, in the same format as adopted by the parent for its separate financial statement. Financial statements of parent & subsidiaries to be combined by adding like items of assets, liabilities, income & expenses. In the Consolidated Financial Statements the holding company's portion of equity in each subsidiary company and the cost of investment in each subsidiary company is eliminated. A comparison is made between the cost of investment and the equity obtained in the subsidiary company. If cost is more than equity obtained the difference is treated as goodwill and if cost is less than equity obtained the difference is treated as capital reserve. The share of minority in the equity of the subsidiary is shown on the liability side of Consolidated Balance Sheet as 'Minority Interest'

2.4 Terms to Remember

1. **Holding Company:** A company which holds or controls another company by purchasing majority equity shares of another company or by having power to appoint directly or indirectly the whole or a majority of the board of directors of another company.
2. **Subsidiary Company:** A company controlled by another company that is holding company is called as subsidiary company.
3. **Consolidated Balance Sheet:** A combined balance sheet of a holding company and its subsidiary or subsidiaries companies.
4. **Minority Interest :** The share of other shareholders (other than holding) in the subsidiary company is called as minority interest.
5. **Cost of Control :** Holding company's share in the subsidiary company is called as cost of control.
6. **Goodwill :** If the purchase price of shares (Cost of investment) is more than the cost of control, the difference is treated as goodwill
7. **Capital Reserve :** If the purchase price of shares (cost of investment) is less than the cost of control, the difference is treated as capital reserve

2.5 Answers to Check your progress

Check Your Progress-1

- | | |
|--------------|-----------|
| A) 1 – b, | 2 –b |
| B) 1 – True, | 2 – False |
| C) 1 – 50, | 2 – 21 |

Check Your Progress-2

- | | |
|--------------------|----------------------|
| A) 1 – a, | 2 – a, |
| B) 1 – True | 2 – False, |
| C) 1 – Subsidiary, | 2 – Preference Share |

Check Your Progress-3

- A) 1 – b, 2 – b.
 B) 1 – False, 2 – True.
 C) 1 – revenue profit or loss, 2 – Controlled.

2.6 Exercise

- State the procedure of consolidation while preparing a balance sheet
- Explain the difference between pre – acquisition and post acquisition profit or loss.
- What is impact of AS - 21 on holding company accounting
- Write Short Notes
 - Holding company
 - Subsidiary company
 - Minority interest
 - cost of control
 - Revaluation of Assets
 - Unrealized profit.
- Parent Ltd. acquired 60,000 shares of ₹ 1 each in Subsidiary Ltd. on December 31, 2016 The Summarised Balance Sheet of Parent Ltd. and Subsidiary Ltd. as on that were:

<i>Liabilities</i>	<i>Parent Ltd.</i> ₹	<i>Sub- sidiary Ltd.</i> ₹	<i>Assets</i>	<i>Parent Ltd.</i> ₹	<i>Sub- sidiary Ltd.</i> ₹
Autorised Capital	4,00,000	1,20,000	Fixed Assets	2,53,000	1,28,000
Issued-and Paid-up Capital 6,00,000 Shares of 50 paise each	3,00,000		Investments in Subsidiary Ltd. at cost; 60,000		
80,000 Shares of ₹ 1 each		80,000	Shares of ₹ 1 each	1,00,000	--
Capital Redemption Reserve		54,000	Stock in hand	30,000	10,000
			Bills	2,000	--
			Receivable (including ₹		

			700 from subsidiary Ltd.)		
Revenue Reserve	20,000	10,000	Debtors	20,000	37,000
P & L A/c	50,000	10,000			
Bills Payable (including Rs. 1,000 to Parent Ltd.)		3,500			
Creditors	35,000	17,500			
	4,05,000	1,75,000		4,05,000	1,75,000

Note :

On Balance Sheet of Parent Ltd.: There is a contingent liability for bills receivable discounted of ₹ 1,200

You are given the following information :

- 1) On 1st January 2017 Subsidiary Ltd. utilized part of its capital reserve to make a bonus issue of 1 share for every 4 shares held and applied the balance of the reserve to write down its fixed assets.
- 2) Stock in hand of parent Ltd. includes Rs 4,800 for goods of invoice price bought from Subsidiary Ltd. While invoicing goods to Parent Ltd. Subsidiary Ltd. adds 20% to cost.

You are required to prepare to prepare the Summarised Consolidated Balance Sheet as on 1st January 2017 and show there in how your figures are made up.

6. A & Co. Ltd. acquired 8,000 Equity Shares of B & Co. Ltd. on 1st January 2016. The following are the Balance Sheets of the two companies as 31st December 2016

<i>Liabilities</i>	<i>Parent Ltd. ₹</i>	<i>Sub-sidiary Ltd. ₹</i>	<i>Assets</i>	<i>Parent Ltd. ₹</i>	<i>Sub-sidiary Ltd. ₹</i>
Equity Shares of Rs 100 each	20,00,000	10,00,000	Land & Buildings.	5,00,000	3,00,000
General Reserve			Plant &		

1 Jan. 2016	4,00,000	2,00,000	Machinery	5,00,000	6,00,000
Profit and Loss A/c			Stock	1,50,000	1,00,000
1 Jan. 2016	1,00,000	60,000	Sundry Debtors	1,00,000	1,20,000
Sundry					
Sundry Creditors	1,00,000	1,00,000	Investment:		
Profit for the year	2,00,000	80,000	Shares of B & Co. Ltd.	10,00,000	
2016					
Bills Payable	30,000	10,000	Bills Receivable	80,000	10,000
			Cash and Bank		
			Balance	5,00,000	3,20,000
	28,30,000	14,50,000		28,30,000	14,50,000

- 1) Bills receivable of A & Co. Ltd. includes ₹10,000 accepted by B & Co. Ltd.
- 2) Sundry Debtors of A & Co. Ltd. include ₹ 50,000 due from B & Co. Ltd.
- 3) Stock of B & Co. Ltd. includes goods purchased from A & Co. Ltd. for ₹ 60,000 which were invoiced by A & Co. Ltd. at a profit of 25 per cent on cost

Prepare a consolidated Balance Sheet of A & Co. Ltd. and subsidiary B & Co. Ltd.

7. The Balance Sheet of H Ltd. and S Ltd. as on 31st December 2016 were as under:

<i>Liabilities</i>	<i>H Ltd.</i>	<i>S Ltd.</i>	<i>Assets</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
	₹	₹		₹	₹
Share Capital:			Land and		
Shares of Rs 100 each	2,00,000	50,000	Building	60,000	---
General Reserve	30,000	10,000	Plant and		
Profit and Loss A/c			Machinery	2,00,000	---
Balance on			Stock	40,000	85,000
1 st Jan. 2016	40,000	20,000	Sundry Debtors	10,000	30,000

Profit for 2016	50,000	25,000	Cash and Bank		
Creditors	30,000	30,000	Balances	10,000	10,000
Bank Overdraft	20,000	---	300 shares in S		
Bills Payable	15,000	---	Ltd. at cost	65,000	---
			Bills Receivable	---	10,000
	3,85,000	1,35,000		3,85,000	1,35,000

Shares were acquired by H Ltd. on 30th June 2016. Bills receivable held by S Ltd. are all accepted by H Ltd included in the debtors of Y Ltd. is ₹ 6,000 owing by H Ltd. in respect of goods supplied. Assuming profits to accrue evenly throughout the year prepare consolidate balance sheet.

8. The following were Balance Sheets of X Ltd. and Y Ltd. as on 31st March 2013.

<i>Liabilities</i>	<i>X Ltd. Rs</i>	<i>Y Ltd. ₹</i>	<i>Assets</i>	<i>X Ltd. ₹</i>	<i>Y Ltd. ₹</i>
Share Capital			Land and		
Equity Shares of ₹ 100 each	20,00,000	1,50,000	Buildings	5,00,000	1,75,000
General Reserve	1,00,000	50,000	Plant and		
P & L A/c:			Machinery	14,95,000	1,40,000
Bal. on 1.4.12	1,50,000	80,000	Stock	1,50,000	1,30,000
Profit for 2012-13	1,60,000	1,00,000	Sundry Debtors	1,40,000	
Sundry Creditors	1,20,000	90,000	Cash and Bank		
Bank Overdraft	1,00,000	---	Balance	25,000	10,000
			1,200 Shares in		
Bills Payable	40,000	---	Y		
			Ltd. at cost	3,60,000	15,000
			Bills Receivable	---	---
	26,70,000	4,70,000		26,70,000	4,70,000

Consider the following information and prepare the consolidated Balance Sheet as at 31st March 2013:

- 1) The shares of Y Ltd. were acquired by X Ltd. on 1st October, 2012.
- 2) The Plant and Machinery of Y Ltd. is to be revalued on 1st April 2012 at ₹ 2,25,000. Depreciation at 12 ½% has been charged in 2012-13
- 3) Bills receivable held by Y Ltd. are all accepted by X Ltd.
- 4) The creditors of X Ltd. include ₹ 20,000 out of ₹ 40,000 purchase made for Y Ltd. on 1.12.2012 on which ltd. that is part of ₹ 40,000 purchases.

2.7 Reference for further study –

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Unit-3

Accounting of Life Insurance Companies

Structure of Unit:

3.0 Objectives

3.1 Introduction

3.2 Presentation of Subject matter

3.2.1 Important Basic Terminologies

3.2.2 Types of Insurance

3.2.2.1 Life Insurance

3.2.2.2 Life Assurance Fund

3.2.2.3 Valuation of Balance sheet

3.2.3 Provision for Insurance Act, 1938 & Insurance (Amendment) Act, 2015

3.2.3.1 IRDA Act 1999 & Provisions Under Insurance (Amendment) Act, 2015

3.2.3.2 Books Maintained by Insurance Companies

3.2.3.3 IRDA Regulations 2002

3.2.4 Structure of Schedule A and C for Life Insurance

3.2.4.1 Forms/Financial statements for Life Insurance Companies

3.2.4.2 Journal Entries for Life Insurance

3.2.5 Illustrations on Life and General Insurance

3.3 Summary

3.4 Terms to Remember

3.5 Answers to Check Your Progress

3.6 Exercise

3.7 References to Further Study

3.0 Objectives:

After studying this unit you will be able to:

1. Understand the concept, types of Life insurance
2. Learn insurance terminologies and journal entries
3. Understand the accounting provisions under Insurance Act 1938, 1999, 2002 and Insurance (Amendment) Act 2015.
4. Know the forms of financial statements for insurance companies
5. Prepare financial statements of insurance companies.

3.1 Introduction:

In 1938, the Insurance Act was passed at first. After independence the government of India set up life insurance corporation to regulate the life insurance business. Now, after globalization the insurance business is flourished due to the entry of private sector insurance companies. The main object is to sell their insurance products to minimize the financial and economic risk in the life of a policyholder. Insurance is a contract between two parties viz. 'Insured' and 'Insurer'. Insurer undertakes and bears the risk to cover the specified losses which are suffered by the 'Insured'. The insured has to pay for a specific consideration monthly, quarterly, half yearly or yearly is called 'Premium'.

The term 'Insurance Contract' is known as 'Insurance Policy'. The period of the policy is paid either on the death or on maturity of the period of the policy, the event whichever is earlier. Broadly insurance contract is classified into two main parts i.e. Life Insurance and General Insurance. It is said that life is full of risk which can't be predicted when what will be happened. Life insurance covers the risk against the life of an insured. This topic is particularly related to life insurance accounting only. This topic will gain you in preparation of financial statements of life insurance companies under IRDA Act.

3.2 Presentation of Subject Matter

This topic contains the various terminologies related to life insurance business, various types of life insurance, insurance provisions according to the Insurance Act 1938, 1999, 2002 and Insurance (Amendment) Act 2015. It also presents the accounting treatment for life insurance companies etc..

3.2.1 Important Basic Terminologies:

The following are some of the basic terminologies which help in insurance business.

1. **Insurance Policy:** It is a valid document of contract between the Insurer and Insured. Insurance policy covers the detailed information about the name and personal details of the policyholder, policy amount, maturity date, premium and the amount paid at the time of occurring an event or at the time of maturity of the policy.
2. **Premium:** It is an expenditure that incurred by the insured on his policy. It is the payment made by the insured to the Insurer in respect of the contract of insurance. It is paid at shorter intervals such as monthly, quarterly, half yearly or annually every year for the given period.
 - a) **First Years Premium:** Which is paid in the first year of the policy.
 - b) **Renewal Premiums:** These premiums are paid from next year or 2nd year onward.
 - c) **Single Premium:** The premium paid in lumpsum in the beginning of policy.
3. **Claims:** A Claim is made by the insured or spouse or relative when a policy fall due for payment. The claim can be made on death of insured or the maturity of policy in case of Life Insurance. In case of General Insurance, the claim arises only when the loss occurs as stated events in the policy. The calculation of claim or claim due/outstanding at the end is calculated in following situations:
 - a) Claim intimated and accepted but not paid
 - b) Claim intimated but not accepted and paid.

In this case the adjustment entry is made as –

Claims A/c Dr.
To Claims intimated & accepted but not paid A/c.
To Claims intimated but not accepted & paid A/c.

Claim

	Amt in ₹
Total Claim in year	Xxx Xxx
Less: Outstanding in the beginning i.e. intimated in	Xxx
..... year or earlier	xxx
Add: Outstanding at the end i.e. intimated in year	
whether accepted in year	
Less: Reinsurance Claim	
Claim to be shown in Revenue Account	Xxx

In the next year, at the beginning a reverse entry is passed, so that the payment of the claim intimated in the last / previous year will not have any effect on claim A/c in the next year.

On the other hand, if the insurance company rejects any claim, the amount of such claim should transfer to the Insurance Fund A/c and not to the claim A/c.

Claim = Claim intimated + Survey Fees + Medical Expenses – Claims received on insurance.

4. **Surrender Value:** Surrender value is that amount which the Insurer agrees to pay to the insured when he desires to realize the amount of policy before the maturity of the policy date. Such amount is calculated by a fixed formula.
5. **Commission:** Generally Insurance company appoints agents to collect premium from the insured. In this case, commission is paid to the agents on generated amount of premium by them. Commission paid to agent is an expenses and shown to the Debit Side of 'Revenue A/c'.
6. **Bonus:** Bonus is applicable only to the Life Insurance. Bonus is the share of profit which an insured or policyholder receives from the Insurer or the Life insurance Company. A Life Insurance policy may be 'with profit' or 'without profit'. A holder with 'with profit' get addition / the amount of bonus with policy, while a holder with 'without profit' only receives the policy amount on maturity. If the actuary determines the excess amount over the net liabilities of life fund, it is distributed among the shareholders and policyholder as a bonus as

per the norms. The profit of LIC is distributed among the shareholders and policy holders. The policy holders get 95% of the profit of LIC by way of bonus. The bonus may be of following types:

- a) **Cash Bonus:** It is paid on declaration of bonus in cash.
- b) **Revisionary Bonus:** It is paid with the policy amount at the time of maturity but it is not paid in cash at the time of declaration. Such bonus is called as Reversionary bonus. This bonus is added in the claims. This amount is not shown to Revenue account if it is not paid.
- c) **Bonus in reduction of Premium:** Bonus is not paid in cash but adjusted against the future premiums.

In such as case the Journal Entry is passed –

Bonus in Reduction of Premium A/c..... Dr
To Premium A/c`

- d) **Interim Bonus:** It is not possible to determine the exact profit or bonus if it is paid to the insured for the period which valuation is not complete.

7. **Paid up Policy:** If any policyholder cannot continue to pay premiums on his life policy. The policyholder can discontinue the payment and convert the policy into a 'Paid-up Policy'. The insured amount gets reduced by way of the following formula –

$$\text{Paid up Value} = \frac{\text{No.of premium paid} \times \text{Sum Assured}}{\text{Total No.of premium Assured payable}}$$

**** Other conditions will remain unchanged.**

8. **Annuity:** Annuity is a contract which provides earnings for a specific period of time or for a number of years or for a whole life. The person who benefited the payment is called an 'annuitant'. This payment is usually given monthly, quarterly, half yearly or yearly.

In another words, it is fixed annual payment received regularly till the life of insured. This is in consideration of lump-sum money paid by him in the beginning of the policy.

9. **Re-insurance:** If the insurer is unable to bear the whole risk of a policy, it will reinsurance a part of risk with some other insurer. In this case the insurer is said to have ceded a part of its business to other insurer. It means the risk of the insurance is being underwritten by another insurance company.

Reinsurance business is an agreement between the ceding company and the Reinsurer. It involves to cede (give) and to accept. Therefore the other company accepts the risk against the share of premium.

At the time of claim, it is divided into two companies (insurers) in the agreed proportion of the risk.

It is nothing but the passing of some risk to the other insurer if it is not borne by the earlier insurer fully. It helps in reducing the risk of the insurer itself.

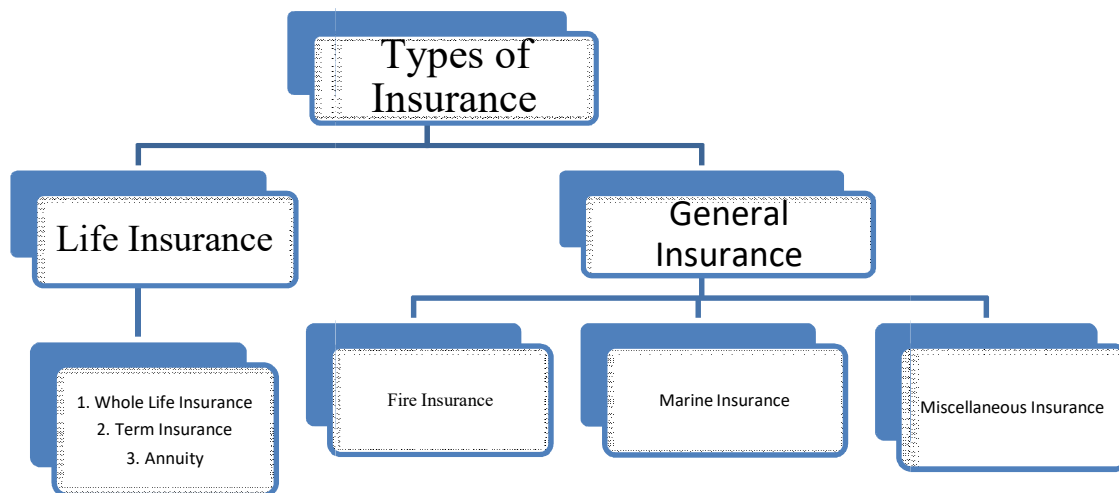
- a) **Coinsurance:** It is the concept of division of large risk between the insurers. One insurance company offers the contract with the other company to the certain percentage of sum insured and transfer the some risk. It reduces the burden of risk of one insurer and they can bear the risk together. The first insurer serve as a leader and acts on behalf of the others.
- b) **Ceding Company:** The ‘Ceding Company’ is an insurance company which shifts part or all of the risk to another insurance company.
- c) **Reinsurer:** The ceding company shares the premium that has received to cover the risk with other insurer called ‘Reinsurer’.

In such as case, in return Reinsurance company pays commission to the ceding company for giving a business.

- d) **Commission on Re-insurance accepted / ceded:** Commission on Reinsurance accepted is needed to be paid and as such it is added in commission which paid and debited to Revenue A/c. Commission on Reinsurance ceded is received and it is credited to Revenue A/c.

3.2.2 Types of Insurance:

Insurance is mainly classified into two broad types viz. Life Insurance and General Insurance.



3.2.2.1 Life Insurance:

It involves the risk related to the life of an insured. In case of the maturity of the policy, the holder can get the benefit of the policy amount while the nominee will get benefit in case of death of an insured. The policy amount is only paid on the happening of an event first. i.e. maturity or death. This is also known as 'Assurance'. Life insurance is further classified into three types:

- i) Whole Life Assurance,
 - ii) Term assurance
 - iii) Annuity.
- i) **Whole Life Assurance:** The policy amount is paid only on the death of insured.
- ii) **Term Insurance:** The policy amount is paid in 'lumpsum' on maturity of term e.g. 15 years to 20 years.
- iii) **Annuity:** Instead of full payment of policy, it is paid in installments e.g. monthly; on maturity of the policy.

3.2.2.2 Life Assurance Fund:

It is an excess of revenue receipts over revenue expenditure connecting to life Insurance business. Such fund is available to pay the aggregate liability on all policies outstanding. Every year Revenue account is to be prepared to find out the balance of life insurance fund at the end of the year.

While preparation of Revenue Account, the opening balance of the life insurance fund is considered at first. The items of revenue income are credited to the fund and revenue expenses items are debited. The balance is called closing balance of the revenue fund.

Illustration 1

The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31st March, 2023 at Rs. 70 lakhs before taking into account the following items:

Claims covered under re-insurance Rs. 15,000.

Outstanding premium Rs. 7500.

Claims intimated but not admitted Rs. 30,000.

Bonus utilized in reduction of life insurance premium Rs. 8000

Interest accrued on securities Rs. 10,000.

Calculate Life Assurance Fund.

Solution:

Statement showing Life Assurance Fund

Particulars	Amount ₹	Amount ₹	Amount ₹
Balance of Fund as on 31st March, 2023			70,00,000
Add: Interest on securities		10,000	
Premium outstanding		7,500	17,500
			70,17,500
Less:			
Claims outstanding	30,000		
Covered under re-insurance	15,000	15,000	
Bonus in reduction of premium		8000	23,000
Balance of Life Assurance Fund			69,94,500

3.2.2.3 Valuation of Balance Sheet

Valuation of Balance Sheet is the alternate method of ascertaining the profit or

surplus. The insurer cannot take the profit from the life assurance fund as it is made by life insurance business. Therefore there is need to calculate the net liability on all outstanding policies to determine the profit of the insurance company. It is calculated by the actuaries or expertise. Previously before nationalization, the insurance companies were calculated this once in three years but since nationalization, such calculation is done once every two years. The difference between the present value of future liability and the present value on future premium is known as the net liability. The profit is ascertained for comparing the life insurance fund and net liability related to policies.

The life insurance fund is more than the net liability then the difference shows the profit and vice versa for inter-valuation period.

According to Section 28 of the Life Insurance Corporation Act, **95% of the profit of life business must be distributed to the policyholders in the form of “Bonus” on with-profit policies and the remaining 5% has to be utilized as per the government decision.**

The profit or loss of life insurance business is ascertained by preparing a statement known as ‘**Valuation Balance Sheet**’ shown as below:

Valuation Balance Sheet as on.....

To Net liability as per actuary’s valuation	By Life Assurance Fund as per Balance Sheet
To Surplus (Net Profit)	By Deficiency (Net loss)

In this case following **Journal entries** are generally passed-

Particular	Entry
Surplus/Net Profit transferred to P&L A/c as per Valuation Balance Sheet	Life Assurance Fund A/c... Dr To Profit and Loss A/c
Bonus paid in cash	Profit and Loss A/c... Dr To Bonus (in cash) Payable A/c
Revisionary Bonus payable transferred to Life Assurance Fund	Profit and Loss A/c...Dr To Life Assurance Fund A/c

♦ **The balance on the profit & loss A/c is carried forward and shown in balance sheet.**

Illustration: 2

The Janata Life Insurance Co. Ltd presents the following information:

1. Life insurance fund - Rs 17,00,000 on 31st March, 2023.
2. Net liability as per actuarial valuation on 31st March, 2023- Rs 14,40,000.
3. An interim bonus paid to policyholders during last two years - Rs 20,000.
4. Proposed to carry forward Rs 55,000 for distribution between the policyholders and the shareholders.

Show -(a) the Valuation Balance Sheet,

(b) the net profit for the two-year period, and

(c) the distribution of the profits in the books of Janata Life Insurance Co. Ltd.

Solution:

In the Books of Janata Life Insurance Co. Ltd.

a) Valuation Balance Sheet as on 31st March, 2023

Liabilities	Amount ₹	Assets	Amount ₹
To Net liability	14,40,000	By Life Assurance Fund	17,00,000
To Net Profit	2,60,000		
	17,00,000		17,00,000

(b) Net profit for the two-year period	Amount (Rs)
Profit as per Valuation Balance Sheet	2,60,000
<i>Add:</i> Interim Bonus paid during the previous two years	20,000
Net Profit	2,80,000
(c) Distribution of the profits	
Net Profit	2,80,000
Less: Amount proposed to be carried forward	55,000
Balance	2,25,000
Share of policyholders (95% of Rs.2,25,000)	2,13,750
Less: Interim bonus paid	20,000
Amount due to policyholders	1,93,750

3.2.3 Provisions of the Insurance Act, 1938 and Insurance (Amendment) Act 2015:

The General Insurance Business is governed in India by the Insurance Act 1938; which is related to British Insurance Act. On May, 1971 the government nationalized the General Insurance business by an ordinance and passed the General Insurance (Nationalisation) Act, 1972. There were 63 domestic and 44 foreign insurance companies operating in India. General Insurance Companies is a holding company and having subsidiaries in all four zones of country i.e. the Oriental Fire and General Insurance Company Ltd., The New India Assurance Co. Ltd., the National Insurance Company Ltd. (Oriental Insurance Co.) and the United India Insurance Company.

The following are some of the relevant provisions which have been amended by IRDA Act, 1999 and Insurance (Amendment) Act 2015.

- i) Forms for Final Accounts [Sec. 11 (1)] :** Every insurer has to prepare the final accounts related to the insurance business transactions such as shareholders funds, balance sheet, profit and loss account, separate account of receipt and payment, revenue account as per the regulations of Insurance Laws (Amendment) Act, 2015.
- ii) Audit [Sec. 12] :** Every insurer should make the audit of final statements and transactions of insurance business annually by an auditor as per the Companies Act, 2013. The balance sheet, profit and loss account, revenue account and profit and loss appropriation account of the companies get audited and imposed the liabilities and penalties as per section 174 of the companies Act, 2013.
- iii) Register of Policies [Sec. 14(1)] :** Every insurer should maintain (i) a record of policies, consist of the name and address of the policyholder, the date of policy was effected, assignment or nomination etc; (ii) a record of claims, date of claim, claim discharged/rejected, (iii) a record of policies and claims in respect of (i) and (ii) may be maintained manually as well as electronic way under this Act.
- iv) Approved investments (Section 27B(1)):** A General insurance company should invest its funds only in approved securities listed under sec.27B(1).
- v) Payment of commission to authorized agents (Section 40(1)):** Any person who is an authorized agent or intermediary liable to get remuneration or reward in the form of commission as per specified by the regulations under Insurance

(Amendment) Act 2015.

- vi) **Limit on expenditure (Sections 40B and 40C):** As per the Insurance (Amendment) Act 2015 in India no insurer should spend as expenses of management in any financial year, there is limit on expenditure under the section 40B and 40C as specified by the regulations.
- vii) **Sufficiency of assets [Section 64VA(1)]:** As per the Insurance (Amendment) Act 2015 under this section, every insurer and re-insurer should maintain an surplus value of assets over the value of liabilities and not less than 50% of the amount of minimum capital as stated under section 6 and arrived as specified by the regulations.

***** Note: For detailed information the students should refer THE INSURANCE LAWS (AMENDMENT) ACT, 2015 NO. 5 OF 2015, Bharat Ka Rajpatra dt 20th March, 2015)***

3.2.3.1 Insurance Regulatory and Development Authority Act, 1999 and Provisions under Insurance (Amendment) Act, 2015.

The IRDA Act, 1999 provides the protection regulates, promotes and develops the insurance business in respect to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business Act, 1972 for closing the monopoly of LIC and GIC with its subsidiaries. On 29th December 1999 this Act was published in Gazette of India.

Amendments for the Insurance Act, 1938 by IRDA Act 1999:

The following are the important amendments made to the Insurance Act, 1938:

- i) Mandatory to prepare balance sheet, profit and loss act, receipt and payment A/c, Revenue A/c.
- ii) Insurer must keep separate accounts relating to funds of shareholders and policyholders.
- iii) In case of life insurance business the insurer has to submit a prescribed return, certificate to the authority while in case of GIC to show the report about Solvency margin.

The Insurance Laws (Amendment) Bill, 2015 has been passed by the Union

Cabinet in March, 2015. The major reform related amendments in the Insurance Act, 1938, the General Insurance Business (Nationalisation) Act, 1972 and the Insurance Regulatory and Development Authority (IRDA) Act, 1999. The Insurance Laws (Amendment) Act 2015 so enacted by replacing the Insurance Laws (Amendment) Ordinance, 2014, which came into force on 26th December 2014.

The passage of this Amendment Act 2015 on the way for major reform related amendments in the following acts: –

- ◆ Insurance Act, 1938
- ◆ The General Insurance Business (Nationalisation) Act, 1972
- ◆ The Insurance Regulatory and Development Authority (IRDA) Act, 1999.

The Insurance (Amendment) Act, 2015 will eliminate old and unnecessary provisions in the legislations and incorporates certain provisions to provide Insurance Regulatory and Development Authority of India (IRDAI) with the flexibility to discharge its functions more effectively and efficiently. It also provides for enhancement of the foreign investment limit in an Indian Insurance Company from 26% to an explicitly composite limit of 49% with the safeguard of Indian ownership and control.

As per the Insurance (Amendment) Act 2015, The GIC and the insurance companies specified in section 10A of the Insurance Act, 1938 states that the companies have to increase their capital for growing their business in rural areas and social sectors, to meet solvency margin. In this case the Central Government may empower in this regard and holding share should not be less than 51% at any time.

The Insurance (Amendment) Act, 2015 will handover responsibility of appointing insurance agents to insurers and provides for IRDAI to regulate their eligibility, qualifications and other aspects. It facilitates agents to work with great efforts across companies in various business categories with the safeguard and there will be no any conflict of interest is allowed by IRDAI regulations.

IRDAI is empowered- (i) to regulate key aspects of operational areas like solvency, investments, expenses and commissions and to formulate regulations for payment of commission and control of management expenses.

(ii) to the Authority for regulating the functions, code of conduct, etc., of surveyors and loss assessors.

- iii) to expand the scope of insurance intermediaries to include insurance brokers, re-insurance brokers, insurance consultants, corporate agents, third party administrators, surveyors and loss assessors and such other entities by the Authority from time to time.
- iv) to insure the properties in India with a foreign insurer consulting with IRDAI; which was earlier done with the approval of the Central Government.

3.2.3.2 Books Maintained by Insurance Companies:

The most important part of the insurance business operations is to issue policies against the risks assumed and to cover the insured for losses according to the policies. These operations are termed as the recording of receipts of premium and settlement of claims for losses. The divisional offices and have to maintain the financial documentations in this regard.

Under The Insurance Act, 1938 the insurance companies or functional divisions, branches have to maintain following books of accounts:

1. Statutory Books
2. Cash Receipt Book
3. Daily Cash Balance Book
4. Bank Transfer Journal
5. Registers – Salvage, Remittance Received, Claim Recovery, Stationery, Trunk Call, Policy Stamp
6. Cash Disbursement book
7. Claims Disbursement book
8. Journal & Ledgers
9. Asset Register
10. Co-insurers Register
11. Dishonoured Cheques
12. Premium Register
13. Shortage Register
14. Other Register (as per the requirements)

a) Claims Provision:

At the end of the year ended the divisions or branches have to determine the outstanding liability for outstanding claims. The outstanding liability at the year-end is determined at the divisions/branches where the liability originates for outstanding claims. Every division prepares a claims statement. The Head Office considers on the basis of divisional/ branch report a further provision in respect of outstanding claims.

The company at its head office makes an additional provision over and above that made by Divisions/Branches on the Divisional Auditors' Reports.

b) Claim Paid:

Every insurance company has to disclose the information of relevant revenue accounts, claims paid separately. The divisional offices first complete the necessary procedure and formalities to make settlement of the claim with certain evidences. The Branches/ divisional offices have to submit the record to the Head Office, for re-insurance adjustments, statements at regular intervals as to claims paid or provided for. Sometimes a final statement at the year-end is also prepared showing month-wise records also produced for communication.

A liability for outstanding claims should be brought to accounts in respect of both direct business and inward reinsurance business.

The liability should include:

- (a) Future payments in relation to unpaid reported claims;
- (b) Claims Incurred But Not Reported (IBNR) including inadequate reserves [sometimes referred to as Claims Incurred But Not Enough Reported (IBNER)], which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims at the beginning and at the end of the financial period.

At the end of each financial year, as required by IRDA the actuarial valuation of the claims liability of an insurer is made by the appointed actuary, and the shortfall, if any is provided as IBNR/IBNER.

c) Co-Insurance:

It is the concept of division of large risk between the insurers. One insurance company offers the contract with the other company to the certain percentage of sum

insured and transfer the some risk. It reduces the burden of risk of one insurer and they can bear the risk together. The first insurer serve as a leader and issue of documents, collect premiums and settle the claims and acts on behalf of the others. The Incoming Co-insurer book is premium based which is given by leading insurer as dummy documents. The entries are made in the Premium Register from which the Premium Account is credited and the Leading Insurer Company's Account debited.

As per the advices received from the leading insurer the Claims Paid Account is debited with a credit to the co-insurer and such advices are entered into the Claims Paid Register. It is a practice to treat all claims paid advices relating to the accounting year received upto 31st January of the subsequent year from leading insurer as claims paid. The share of the insurer (outgoing co-insurance) for premium and claims are shown to the respective accounts and the share of other co-insurers is credited or debited to their personal accounts.

d) Outstanding Premium:

This is the amounts due for uncollected premium where the company is allowed relaxation to the provisions of the Insurance Act. The outstanding balances are temporarily outstanding and recovered within the stipulated period after the year-end. Otherwise the premium receivable and due but which remains uncollected at the year-end.

e) Commission:

Insurance Act, 1938 and Insurance (Amendment) Act 2015 relate the basis and rates of commission payable to agents.

f) Loan:

The following items are revealed in the balance sheet under Schedule of IRDA Regulations, 2002 in case of Preparation of Financial Statement and Auditors' Report of Insurance Companies.

1. Loans on:

i) mortgages of property within India/outside India.	vi) personal security.
ii) security of municipal and other public rates	vii) To Subsidiary Companies (other than Reversionary).
iii) stocks and shares.	viii) Reversions and Life Interests purchased.
iv) Insurer's policies within their surrender value.	ix) Loans on Reversions and Life Interests.
v) Loans to Subsidiary Reversionary Companies.	x) Debentures and Debenture stocks of Subsidiary Reversionary Companies.
	xi) Ordinary stocks and share of Subsidiary Reversionary Companies.

Term loans are followed by bridge loans to such undertakings pending completion of all formalities. It is further noted that except for housing and other loans to staff which are recorded at the Divisions/Regional level, other loans are usually dealt with at Head Office.

Check Your Progress -1

A) Multiple Choice Questions:

- i) is the valid document of contract between Insurer and Insured.
a) Insurance Policy b) Insurance
c) Premium Receipt d) None of These
- ii) is made by the insured or spouse or relative when a policy all due for payment.
a) Claim b) Policy c) Document d) None of these
- iii) is applicable to life insurance only.
a) Surrender Value b) Bonus c) Commission d) All of these
- iv) Under Section of Insurance Act, 1938 investment is classified into different types.
a) 40 B b) 44C c) 27 B d) 29B

B) State whether True or False:

- i) Insurance company is termed as Insured.
- ii) Surrender value is a policy amount.
- iii) Term Loans are followed by Bridge Loans.
- iv) The Insurance Laws (Amendment) Bill, 2015 has been passed by Union Cabinet in March, 2015.
- v) Annuity is a contract which never provided earnings for a specific period of time.

3.2.3.3 Insurance Regulatory and Development Authority (IRDA) Regulations, 2002:

IRDA, after consultation with the Insurance Advisory Committee, in exercise of the powers conferred by Sec. 114 A of the Insurance Act 1938 (4 of 1938) published the Insurance Regulatory and Development Authority (Preparation of financial Statements and Auditors report of Insurance Companies) Regulations 2000 in the official gazette on 14th August, 2000.

The guidelines are revised and new guidelines are set for vide notification dated 30th March, 2002.

As per IRDA guidelines, the insurance business shall comply with the requirements given in schedule 'A' for Life Insurance Business and Schedule 'B' for General Insurance Business. The report of the auditors shall be in conformity with the requirements of schedule 'C'.

3.2.4 Schedule A and C for Life Insurance Companies:

The following are the structure of schedules A & C given under IRDA Act, Regulations.

Schedule A : For Life Insurance Business :

Part I : Accounting Principles for preparation of financial statement. Part II : Disclosures forming part of financial statements

Part III : General Instructions for preparation of financial statements. Part IV : Contents of Management Report

Part V : Preparation of Financial Statements

Form A – RA : Revenue Account (Policyholders A/c.) Form A – PL : Profit and Loss A/c

Form A - BS : Balance Sheet and 15 Schedules forming part of financial statements.

The following are some of the contents of the IRDA Regulations, 2002.

1. Preparation of financial statements, management report and auditors report :

- a) An insurer carrying on Life Insurance Business, after the commencement of these regulations, shall comply with the requirements of Schedule A.
- b) The report of the auditors on the financial statements of every insurer and reinsurer shall be in conformity with the requirements of Schedule 'C' or as near thereto as the circumstances permit.

Schedule C : (See Regulation 3) : Auditors Report :

The auditors shall express their opinion about whether the balance sheet, Revenue Act, Profit and Loss A/c, Receipt and Payment A/c, true and fair for the financial year. The auditor should comply other provisions as stated in IRDA 2002, regulations.

(Refer Annexure I for details about Insurance Companies Regulation, 2002)

3.2.4.1 Forms / Financial Statements for Life Insurance Companies

Life Insurance Companies have to prepare following financial statements in the prescribed forms:

Form A-RA Name of the Insurer:

**Registration No. and Date of Registration with the IRDA REVENUE
ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20_.**

Policyholders' Account (Technical Account)

Particulars	Schedule	Current Year	Previous Year
		(₹ '000)	(₹ '000)
Premiums earned – net			
(a) Premium	1		
(b) Reinsurance ceded			
(c) Reinsurance accepted-			

Income from Investments			
(a) Interest, Dividends & Rent – Gross			
(b) Profit on sale/redemption of investments			
(c) (Loss on sale/ redemption of investments)			
(d) Transfer/Gain on revaluation/change in fair value			
Other Income (to be specified)			
TOTAL (A)			
Commission	2		
Operating Expenses related to Insurance Business	3		
Provision for doubtful debts			
Bad debts written off			
Provision for Tax			
Provisions (other than taxation)			
(a) For diminution in the value of investments (Net)			
(b) Others (to be specified)			
TOTAL (B)			
Benefits Paid (Net)	4		
Interim Bonuses Paid			
Change in valuation of liability in respect of life policies			
(a) Gross			
(b) Amount ceded in Reinsurance			
(c) Amount accepted in Reinsurance			
TOTAL (C)			
SURPLUS/ (DEFICIT) (D) =(A)+(B)+(C)			
APPROPRIATIONS			
Transfer to Shareholders' Account			
Transfer to Other Reserves (to be specified)			
Balance being Funds for Future Appropriations			
TOTAL (D)			

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

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

FORM A-PL

Name of the Insurer:

Registration No. and Date of Registration with the IRDA

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20.

Shareholders' Account (Non-technical Account)

Particulars	Schedule	Current Year (000)s	Previous Year (000)s
Amounts transferred from/to the Policyholders Account (Technical Account)			
Income From Investments			
(a) Interest, Dividends & Rent – Gross			
(b) Profit on sale/redemption of investments			
(c) (Loss on sale/ redemption of investments)			
Other Income (To be specified)			
TOTAL (A)			
Expense other than those directly related to the insurance business			
Bad debts written off			
Provisions (Other than taxation)			
(a) For diminution in the value of investments (Net)			
(b) Provision for doubtful debts			
(c) Others (to be specified)			
TOTAL (B)			
Profit/ (Loss) before tax			
Provision for Taxation			
Profit / (Loss) after tax			
APPROPRIATIONS			

(a) Balance at the beginning of the year.			
(b) Interim dividends paid during the year			
(c) Proposed final dividend			
(d) Dividend distribution on tax			
(e) Transfer to reserves/ other accounts (to be specified)			
Profit carried over to the Balance Sheet			

Notes to Form A-RA and A-PL.

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

FORM A-BS**Name of the Insurer:****Registration No. and Date of Registration with the IRDA BALANCE SHEET
AS AT 31ST MARCH, 20,**

Particulars	Schedule	Current Year (000)s	Previous Year (000)s
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS:			
Share capital	5		
Reserve & Surplus	6		
Credit/[Debit] Fair value change account			
Sub-Total			
Borrowings	7		
POLICYHOLDERS' FUNDS:			
Credit/[Debit] Fair value change account			
Policy Liabilities			
Insurance Reserve			
Provision for linked liabilities			
Sub-Total			
Funds for future Appropriations			
TOTAL			
APPLICATION OF FUNDS			
Investments			
Shareholders'	8		
Policyholders'	8A		
Assets Held to Cover Linked Liabilities	8B		
Loans	9		
Fixed assets	10		
Current assets			
Cash and Bank Balances	11		
Advances and Other Assets	12		
Sub-Total (A)			

Current Liabilities	13		
Provisions	14		
Sub-Total (B)			
Net Current Assets (C) = (A – B)			
Miscellaneous Expenditure (to the extent not written off or adjusted)	15		
Debit Balance in Profit & Loss Account (Shareholders' Account)			
TOTAL			

CONTINGENT LIABILITIES

Sr. No.	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Partly paid-up investments		
2.	Claims, other than against policies, not acknowledged as debts by the company		
3.	Underwriting commitments outstanding (in respect of shares and securities)		
4.	Guarantees given by or on behalf of the Company		
5.	Statutory demands/ liabilities in dispute, not provided for		
6.	Reinsurance obligations to the extent not provided for in accounts		
7.	Others (to be specified)		
	TOTAL		

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1 PREMIUM

Sr. No.	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1	First year premiums		
2	Renewal Premiums		
3	Single Premiums		
	Total Premium		

SCHEDULE- 2 COMMISSION EXPENSES

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

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

SCHEDULE – 3 OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Sr. No.	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Employees' remuneration & welfare benefits		
2	Travel, conveyance and vehicle running expenses		
3	Training expenses		
4	Rents, rates & taxes		

5	Repairs		
6	Printing & stationery		
7	Communication expenses		
8	Legal & professional charges		
9	Medical fees		
10	Auditors' fees, expenses etc		
	a) as auditor b) as adviser or in any other capacity, in respect of i) Taxation matters ii) Insurance matters iii) Management services; and c) in any other capacity		
11	Advertisement and publicity		
12	Interest & Bank Charges		
13	Others (to be specified)		
14	Depreciation		
	TOTAL		

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

SCHEDULE – 4 BENEFITS PAID [NET]

Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1. Insurance Claims (a) Claims by Death, (b) Claims by Maturity, (c) Annuities/Pension payment, (d) Other benefits, specify		

2. (Amount ceded in reinsurance):		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities/Pension payment,		
(d) Other benefits, specify		
3. Amount accepted in reinsurance:		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities/Pension payment,		
(d) Other benefits, specify		
TOTAL		

Notes: (a) Claims include specific claims settlement costs, wherever applicable.

(b) Legal and other fees and expenses shall also form part of the claims cost, wherever applicable.

SCHEDULE – 5 SHARE CAPITAL

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Authorised Capital		
	Equity Shares of Rs each		
2.	Issued Capital		
	Equity Shares of ₹ each		
3.	Subscribed Capital		
	Equity Shares of ₹ each		
4.	Called-up Capital		
	Equity Shares of ₹ each		
	Less : Calls unpaid		
	Add : Shares forfeited (Amount originally paid up)		
	Less : Par value of Equity Shares bought Back		

	Less : Preliminary Expenses Expenses including commission or		
	brokerage on Underwriting or subscription of shares		
	TOTAL		

Notes: a) Particulars of the different classes of capital should be separately stated.

b) The amount capitalised on account of issue of bonus shares should be disclosed.

c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE – 5A PATTERN OF SHAREHOLDING

[As certified by the Management]

Shareholder	Current Year		Previous Year	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Promoters				
• Indian				
• Foreign				
Others				
TOTAL				

SCHEDULE – 6 RESERVES AND SURPLUS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3.	Share Premium		
4.	Revaluation Reserve		
5.	General Reserves Less: Debit balance in Profit and Loss Account, if any Less: Amount utilized for Buy-back		
6.	Catastrophe Reserve		
7.	Other Reserves (to be specified)		

8.	Balance of profit in Profit and Loss Account		
	TOTAL		

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

SCHEDULE – 7 BORROWINGS

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

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

SCHEDULE- 8 INVESTMENTS-SHAREHOLDERS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares		
	i) Equity		
	ii) Preference		
	(b) Mutual Funds		
	(c) Derivative Instruments		

	(d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares i) Equity ii) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

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

SCHEDULE- 8A INVESTMENTS-POLICYHOLDERS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		

3.	(a) Shares (aa) Equity (bb) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	(a) Shares i) Equity ii) Preference (b) Mutual Funds (a) Derivative Instruments (b) Debentures/ Bonds (c) Other Securities (to be specified) (d) Subsidiaries (g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

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

SCHEDULE- 8B

ASSETS HELD TO COVER LINKED LIABILITIES

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		

3.	(a) Shares i) Equity ii) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	(a) Shares i) Equity ii) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

Notes: (applicable to Schedules 8 and 8A & 8B):

- (a) Investments in subsidiary/holding companies, joint ventures and associates shall be separately disclosed, at cost.
- (i) Holding company and subsidiary shall be construed as defined in the Companies Act, 1956:
- (ii) Joint Venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

- (iii) Joint control - is the contractually agreed sharing of power to govern the financial and operating policies of an economic activity to obtain benefits from it.
- (iv) Associate - is an enterprise in which the company has significant influence and which is neither a subsidiary nor a joint venture of the company.
- (v) Significant influence (for the purpose of this schedule) -means participation in the financial and operating policy decisions of a company, but not control of those policies. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policymaking process, material inter-company transactions, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiaries, 20 percent or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20 percent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence is clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
- (b) Aggregate amount of company's investments other than listed equity securities and derivative instruments and also the market value thereof shall be disclosed.
- (c) Investment made out of Catastrophe reserve should be shown separately.
- (d) Debt securities will be considered as "held to maturity" securities and will be measured at historical costs subject to amortisation
- (e) Investment Property means a property [land or building or part of a building or both] held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.
- (f) Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments

SCHEDULE – 9 LOANS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	SECURITY-WISE CLASSIFICATION		
	<i>Secured</i>		
	(a) On mortgage of property		
	i) In India		
	ii) Outside India		
	(b) On Shares, Bonds, Govt. Securities, etc.		
	(c) Loans against policies		
	(d) Others (to be specified)		
	<i>Unsecured</i>		
	TOTAL		
2.	BORROWER-WISE CLASSIFICATION		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Companies		
	(e) Loans against policies		
	(f) Others (to be specified)		
	TOTAL		
3.	PERFORMANCE-WISE CLASSIFICATION		
	(a) Loans classified as standard		
	i) In India		
	ii) Outside India		
	(b) Non-standard loans less provisions		
	i) In India		
	ii) Outside India		
	TOTAL		

4.	MATURITY-WISE CLASSIFICATION		
	(a) Short Term		
	(b) Long Term		
	TOTAL		

Notes:

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

SCHEDULE – 10 FIXED ASSETS

(₹ '000)

Particulars	Cost/ Gross Block				Depreciation				Net Block	
	Opening	Additions	Deductions	Closing	Up to Last Year	For The Year	On Sales/ Adjustments	To Date	As at year end	Previous Year
Goodwill										
Intangibles (specify)										
Land-Freehold										
Leasehold Property										
Buildings										
Furniture & Fittings										
Information Technology Equipment										
Vehicles										

Office Equipment										
Others (Specify nature)										
TOTAL										
Work in progress										
Grand Total										
PREVIOUS YEAR										

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

SCHEDULE- 11 CASH AND BANK BALANCES

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts		
	i) Short-term (due within 12 months of the date of Balance Sheet)		
	ii) Others		
	(b) Current Accounts		
	(c) Others (to be specified)		
3.	Money at Call and Short Notice		
	(a) With Banks		
	(b) With other Institutions		
4.	Others (to be specified)		
	TOTAL		
	Balances with non-scheduled banks included in 2 and 3 above		
	CASH & BANK BALANCES		
1	In India		
2	Outside India		
	TOTAL		

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

SCHEDULE – 12 ADVANCES AND OTHER ASSETS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	ADVANCES		
1.	Reserve deposits with ceding companies		
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6.	Others (to be specified)		
	TOTAL (A)		
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' Balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business (including reinsures)		
6.	Due from subsidiaries/ holding company		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		
	TOTAL (B)		
	TOTAL (A+B)		

Notes: a) The items under the above heads shall not be shown net of provisions for doubtful amounts. The amount of provision against each head should be shown separately. b) The term 'officer' should conform to the definition of that term as given under the Companies Act, 1956. c) sundry debtors will be shown under item 8 (Others)

SCHEDULE – 13 CURRENT LIABILITIES

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Agents' Balances		
2.	Balances due to other insurance companies		
3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated premium		
6.	Sundry creditors		
7.	Due to subsidiaries/ holding company		
8.	Claims Outstanding		
9.	Annuities Due		
10.	Due to Officers/ Directors		
11.	Others (to be specified)		
	TOTAL		

SCHEDULE – 14 PROVISIONS

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

SCHEDULE – 15 MISCELLANEOUS EXPENDITURE

(To the extent not written off or adjusted)

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Discount Allowed in issue of shares/ debentures		
2.	Others (to be specified)		
	TOTAL		

Notes:

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

3.2.4.2 Journal Entries for Life Insurance Business :

1.	For Premiums outstanding at the end of the year.	Outstanding Premium A/c ...Dr. To Premium A/c.
2	For Premium received in Advance	Premium A/c. ...Dr. To Premium received in Advance
3	For Bonus in Reduction of Premium	Bonus in Reduction of Premium A/c. ...Dr. To Premium A/c.
4	For outstanding claim at the end of the year	Claims A/c. ...Dr. To Claims outstanding
5	Outstanding Claims written Off	Claims outstanding A/c. ...Dr. To Claims A/c.
6	Expenses relating to claims	Claims A/c. ...Dr. To Management Expenses To Survey Expenses
7	For Claims covered under Reinsurance	Reinsurance Co. A/c. ...Dr. To Claims A/c

8	For claims in respect of Reinsurance Ceded	Reinsurance Ceded Co. A/c. ...Dr. To Claims
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3.2.5 Illustration on Life Insurance:

Illustration 3. From the following balance as at 31st March, 2022 in the books of Life Insurance Corporation Ltd., Prepare Profit & Loss A/c and Balance Sheet.

(All figures in Rs)

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Life Assurance Fund (01.04.2021)	17,00,000	Interest & Rents Received (Gross)	1,08,000
Annuities Paid (In India 36,250)	40,875	Travelling Expenses	975
General Reserve	1,12,500	Other Expenses of Management	375
Deposit with RBI Govt. Securities	1,05,000	Rent Paid	1,800
Indian Govt. Securities	5,45,000	Agents Balances (Dr. Bal.)	9,000
Foreign Govt. Securities	37,500	Advances to Ceding Co.s	23,500
Loan on Companies Policies	1,05,000	Due from Re-insurers	19,250
Cash in hand	3,500	Due to Re-insurers	23,750
Cash with Bankers on Deposit (Short Term) A/c	10,000	Sundry Creditors	900
Cash with Bankers on Current A/c	20,250	Premium First Year Renewal	2,95,000 60,000
State Govt. Securities	3,62,500	Reinsurance accepted	25,000
Furniture & Fixtures	19,500	Reinsurance ceded	35,000
Outstanding Premiums	33,000	Interim Bonus to policy holders	11,250

Leasehold Buildings	31,650	Commission Direct First year Renewal	20,250 1,000
Securities on which interest is guaranteed by the Govt.	2,25,000	Reinsurance accepted	6,000
Stocks of Shares of Companies incorporated in India	7,25,000	Reinsurance ceded	2,000
Share Capital (10000 Shares Rs.100/- each)	10,00,000	Claims : in India By Death (Rs.65,000) By maturity (Rs.70,000)	10,000 11,000
Mortgages in India	7,16,250	Bank Loan	10,875
		Salaries	15,200
		Auditors Fees	2,700
		Law Charges	1,700

Adjustments :

- i) 5% dividend is charged on share capital
- ii) Transfer the surplus amount if any to life fund for the year 31-03-2022.

Solution :

**In the books of Life Insurance Corporation Ltd.
Revenue Account for the year ended 31st March, 2022
(Policy holders Account)**

Particulars	Schedule No.	Rs.000	Current Year Rs 000	Previous Year Rs 000
Premiums earned – Net				
a) Premium	1	3,55,000		
b) Reinsurance cede		(35,000)		
c) Reinsurance accepted		25,000	3,45,000	
Income from investments				
a) Interest, Dividends & Rent - Gross			1,08,000	
b) Profit on sale redemption of investments				
c) (Loss on sale / redemption of investments)				
d) Transfer / Gain on revaluation change in fair value other income (to be specified)				
Total (A)			4,53,000	
Commission	2	25,250		
Operating Expenses related to Insurance Business	3	22,750		
Other Expenses (to be specified)		-		
Provisions (Other than taxation)				
a) For diminution in the value of investments (Net)		-		
b) Others (to be specified)				
Total (B)			48,000	
Benefits Paid (Net)	4	2,50,875		
Interim Bonuses paid change in valuation of liability against life policies in force		11,250		

a) Gross				
b) (Amt. ceded in Reinsurance)				
c) (Amt. accepted in Reinsurance)				
Total (C)			2,62,125	
Surplus [A-B-C]			1,42,875	
Appropriations				
Transfer to shareholders A/c			1,42,875	
Transfer to other Reserves (to be specified)			-	
Transfer to funds for future Appropriations			-	
Total (D)			1,42,875	

Form A

Profit & Loss Account for the year ended 31st March, 2022

(Shareholders Account)

(Rs. 000)

Particulars	Schedule No.	Current Year Rs 000	Previous Year Rs 000
Balance brought forward from / transferred to the policyholders A/c		1,42,875	
Income from investments			
a) Interest, Dividends & Rend gross			
b) Profit on sale / redemption of investments			
c) (Loss sale / redemption on investments			
Other Income (to be specified)			
Total (A)		1,42,875	
Expenses other than those directly related to the insurance business Provisions (other than taxation)			
a) For dilution in the value of investments (Net)			
b) Other (to be specified)			

Total (B)			
Profit / Loss before tax			
Provision for tax			
Profit / Loss after tax			
Appropriations :			
a) Brought forward Reserve surplus from the balance sheet			
b) Interim dividends paid during the year			
c) Proposal final dividend		(50000)	
d) Dividend distribution on tax			
e) Transfer to reserves / other accounts (to be specified)			
Profit carried forward to the Balance Sheet		92,875	

Balance Sheet as at 31st March 2022 (Shareholders Account)

Particulars	Schedule No.	Current Year Rs 000	Previous Year Rs 000
Sources of Funds :			
Shareholders Funds			
Share Capital	5	10,00,000	
Reserve & Surplus	6	19,05,375	
Credit / [Debit] Fair Value change account			
Sub Total		29,05,375	
Borrowings	7	34,625	
Policyholder's Funds			
Credit / [Debit] Fair Value Change account			
Policy Liabilities			
Insurance Reserves			
Provision for linked liabilities			
Sub Total			
Funds for future appropriations			
Total		29,40,000	

Application of Funds			
Investment	8	20,00,000	
Shareholders'			
Policyholders'			
Assets held to cover like liabilities			
Loans	9	8,21,250	
Fixed Assets	10	51,150	
Current Assets			
Cash & Bank Balance	11	33,750	
Advances and other assets	12	84,750	
Sub Total (A)		1,18,500	
Current Liabilities	13	900	
Provisions	14	50,000	
Sub Total (B)		50,900	
Net Current Assets © = A-B		67,600	
Miscellaneous Expenditure (to the extent not written off or adjusted)			
Debit balance in P & L A/C (Shareholders' A/c)			
Total [Sch. 8, 9, 10 &(C)]		29,40,000	

Schedules :
Schedule No. 1 : Premium

Particulars	Current Year Rs 000	Previous Year Rs 000
1. First Year Premiums	2,95,000	
2. Renewals Premiums	60,000	
3. Single Premiums	--	
Total Premiums	3,55,000	
Premiums income from business written :		
1. In India		
2. Outside India		
Total Premium (Net)	3,55,000	

Schedule No. 2 : Commission Expenses

Particulars	Current Year Rs 000	Previous Year Rs 000
Commission Paid		
Direct – First Year Premiums	20,250	
- Renewal Premiums	1,000	
- Single Premiums	--	
Add : Commission on Reinsurance Accepted	6,000	
Less : Commission on Reinsurance Ceded	(2000)	
Net Commission	25,250	

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

Schedule No. 3 : Operating Expenses related to Insurance Business.

Particulars	Current Year Rs 000	Previous Year Rs 000
1. Employees' remuneration & welfare benefits	15,200	
2. Travel, Conveyance and vehicle running expenses	975	
3. Rents, rates and taxes	1,800	
4. Repairs	--	
5. Printing & Stationery	--	
6. Communication Expenses	--	
7. Legal & Professional Charges	1,700	
8. Medical Fees	--	
9. Auditors fees, expenses etc.	2,700	
a) as auditor	--	
b) as advisor / in any other capacity in respect of	--	
i) Taxation matter	--	
ii) insurance matter	--	
iii) management Services &	--	
iv) in any other capacity	--	
10. Advertisement & Publicity	--	

11. Interest and Bank charges	--	
12. Others (to be specified)	375	
13. Depreciation	--	
Total	22,750	

Schedule No. 4 : Benefits Paid (Net)

Particulars	Current Year Rs 000	Previous Year Rs 000
1. Insurance Claims		
a) Claims by death	1,00,000	
b) Claims by maturity	1,10,000	
c) Annuities / Pensions in Payment	40,875	
d) Other benefits, specify		
2. (Amount ceded in reinsurance)		
a) Claims by death		
b) Claims by maturity		
c) Annuities / Pensions in Payment		
d) Other benefits, specify		
3. (Amount accepted in reinsurance)		
a) Claims by death		
b) Claims by maturity		
c) Annuities / Pensions in Payment		
d) Other benefits, specify		
Total	2,50,875	
Benefits paid to claimants :		
1. In India (36250 + 65000 + 70000)	1,71,250	
2. Outside India	79,625	
Total benefits paid (Net)	2,50,875	

Schedule No. 5 : Share Capital

Particulars	Current Year Rs.000	Previous Year Rs.000
1. Authorised Capital (E/S of Rs each)		
2. Issued Capital (E/S of Rs each)		
3. Subscribed Capital (E/S of Rs each)	10,00,000	
4. Called up Capital (E/S of Rs each)		
5. Less : Calls unpaid		
Add : Shares forfeited (Amount originally paid up)		
Less : Preliminary Expenses		
Expenses including commission or brokerage on underwriting or subscription of shares		
Total	10,00,000	

Schedule No. 5 A : Pattern of Shareholding (as certified by by the managemnt)

Particulars	Current Year Rs.000		Previous Year Rs.000	
	No. of Shares	% holding	No. of Shares	% holding
Promoters	--	--	--	--
Indian	--	--	--	--
Foreign	--	--	--	--
Others	--	--	--	--
Total	--	--	--	--

Schedule No. 6 : Reserve & Surplus

Particulars	Current Year Rs.000	Previous Year Rs.000
1. Capital Reserve		
2. Capital Redemption Reserve		
3. Share Premium		
4. Revaluation Reserve		
5. General Reserve	1,12,500	
Less : Debit Balance in P & L A/c if any		
Less : Amount utilized for buy-back		
6. Catastrophe Reserve		
7. Other Reserves (to be specified) Life fund		
Opening Balance 17,00,000		
Transfer during the year 93,875	17,93,875	
8. Balance of P & L A/c	--	
Total	19,05,375	

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

Schedule No. 7 : Borrowings

Particulars	Current Year Rs.000	Previous Year Rs.000
1. Debentures / Bonds		
2. Fixed Deposits		
3. Banks	10,875	
4. Financial Institutions		
5. Other entities carrying on insurance business	23,750	
Total	34,625	

Schedule No. 8 : Investments

Particulars	Current Year Rs.000	Previous Year Rs.000
Deposit with RBI	1,05,000	
Indian Govt. Securities	5,45,000	
State Govt. Securities	3,62,500	
Foreign Govt. Securities	37,500	
Securities guaranteed by the Govt.	2,25,000	
Stock & Shares of companies in corporate in India	7,25,000	
Total	20,00,000	

Schedule No. 9 : Loans

Particulars	Current Year Rs.000	Previous Year Rs.000
1. Security wise Classification		
a) Secured		
i) on mortgage of Property		
- in India	7,16,250	
- outside India		
ii) On Shares, Bonds, Govt. Securities etc.		
iii) Others (to be specified)		
b) Unsecured		
i) Loans against policies	1,05,000	
ii) Others (to be specified)		
Total	8,21,250	
2. Borrower wise Classification		
a) Central & State Govt.		
b) Banks & Financial Institutions		
c) Subsidiaries		
d) Companies		
e) Loans against policies		
f) Others (to be specified)		

Total		
3. Performance wise classification		
a) Loans Classified as standard		
i) In India		
ii) Outside India		
Total		
4. Maturity wise classification		
a) Short term		
b) Long term		
Total		

Schedule No. 10 : Fixed Assets

Particulars	Cost / Gross Block	Depreciation	Net Block
Goodwill			
Intangibles (specify)			
Land – Freehold			
Leasehold Property			31,650
Buildings			
Furniture & Fittings			19,500
Information Technology			
Equipment			
Vehicles			
Office Equipment			
Other (specify nature)			
Total			51,150

Schedule No. 11 : Cash & Bank Balances

Particulars	Current Year Rs.000	Previous Year Rs.000
1. Cash (including Cheques, drafts & stamps)	3,500	
2. Bank Balances		
a) Deposit Accounts		
i) Short term (due within 12 months of the date of B/S)	10,000	
ii) Others		
b) Current Accounts	20,250	
c) Others (to be specified)		
3. Money at call & short notice		
a) with banks		
b) with other institutions		
4. Others (to be specified)		
Total	33,750	

* (Balances with non-scheduled banks included in 2 & 3 above)

Schedule No. 12 : Advances and other assets

Particulars	Current Year Rs.000	Previous Year Rs.000
Advances		
1. Reserve deposits with ceding companies	23,500	
2. Application money for investments		
3. Prepayments		
4. Advances to Directors / officers		
5. Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6. Others (to be specified)		
Total (A)	23,500	

Other Assets		
1. Income accrued on investments	--	
2. Outstanding Premiums	33,000	
3. Agents balances	9,000	
4. Foreign Agencies balances	--	
5. Due from other entities carrying on insurance business (including reinsurances)	19,250	
6. Due from subsidiaries / holding		
7. Deposit with RBI (Pursuant to section 7 of Insurance Act, 1938)		
8. Others (to be specified)		
Total (B)	61,250	
Total (A + B)	84,750	

Schedule No. 13 : Current Liabilities

Particulars	Current Year Rs.000	Previous Year Rs.000
1. Agents balances		
2. Balance due to the insurance companies		
3. Deposits held on reinsurance ceded		
4. Premiums received in advance		
5. Unallocated Premium		
6. Sundry Creditors	900	
7. Due to Subsidiaries / holding company		
8. Claims outstanding		
9. Due to officers / directors		
10. Others (to be specified)		
Total	900	

Schedule No. 14 : Provisions

Particulars	Current Year Rs.000	Previous Year Rs.000
1. Reserve for unexpired risk		
2. For taxation (less advance tax paid and taxes deducted at source)		
3. For Proposed dividend	50,000	
4. For dividend distribution tax		
5. Others (to be specified)		
Total	50,000	

Illustration 4 : The following were the balance disclosed by the trial balance of the National Life Insurance Co. at 31st March,2023.

Particulars	₹
Balance of account at the beginning of the year	10,00,000
Government Securities	5,00,000
Profit on Realization of Assets	1,000
Investment fluctuation account	5,000
Claim under policies by death	30,000
Claims under policies by maturity	50,000
Loans on mortgage	2,80,000
Loans on policies	1,50,000
Freehold property & furniture	41,500
Force closed properties	10,000
Agents balance owing	1,800
Sundry creditors	1,000
Outstanding premiums	12,000
Commission paid	12,000
Interest accrued not due	1,500
Premium (other than single)	1,00,000
Claims admitted but not paid	3,000

Surrenders	10,000
Single premiums	40,000
Consideration for annuities granted	25,000
Interest, dividends & rent received	35,000
Depreciation furniture	1,500
Administration expenses	18,000
Salaries	1,500
Auditors fees	750
Directors fees	150
Legal expenses	500
Advertising	700
Printing stationery & other administration exp.	5,400
Cash at bank	81,700
Provision for depreciation	1,500

Prepare a Revenue account & Balance sheet.

Solution :

National Life Insurance Co.
Revenue Account
For the year ended 31st March, 2023

Particulars	Schedule	C.Y. Rs.	P.Y. Rs.
Premiums Earned – (Net)	1	1,40,000	-
a) Premium		-	
b) Reinsurance ceded		-	
c) Reinsurance accepted		-	
Income from investment			
a) Interest, dividends & Rents-Gross		35,000	
b) Profit on Sale /			
c) Loss on sale /			
d) Transfer / Gain on revaluation / Change in fair Value other Income			
Consideration for annuities granted		25,000	

Profit on realization of assets		1,000	
Total (A)		2,01,000	
Commission	2	12,000	
Operating expenses related to Insurance Business	3	28,500	
Total (B)		40,500	
Benefits paid (Net)	4	90,000	
Total (C)		90,000	
Surplus D = (A – B – C)		70,500	

Profits & Loss Account
For the year ended 31st March, 2023

Particulars		Amt. (Rs)
1. Operating Profit		70,500
2. Income from investments		-
3. Other Income		-
	Total (A)	70,500
4. Provisions (other than taxation)		-
5. Other Expenses		-
	Total (B)	NIL
Profit before tax		70,500
Provision for taxation		-
Profit after tax		70,500
Balance of prof. / Loss brought forward from last year		10,00,000
Bal. carried forward to Balance sheet		10,70,500

Balance sheet as on 31st March, 2023

Particulars	Schedule	Amt. (Rs)	P.Y. Rs
Sources of Funds :			
Share capital	5	-	
Reserve & Surplus	6	10,75,500	
Fair value change Account		-	
Borrowings	7	-	
Total		10,75,500	
Application of Funds :			
Investments	8A	5,00,000	
Shareholders, Policyholders			
Assets held to cover liked liab			
Loans	9	4,30,000	
Fixed Assets	10	40,000	
Current Assets			
Cash & bank balance	11	84,200	
Advances & other assets	12	25,300	
Sub-Total (A)		1,09,500	
Current liabilities	13	4,000	
Provisions	14	-	
Sub-Total (B)		4,000	
Net current Assets (C) (C = A – B)		1,05,500	
Miscellaneous Expenditure (to the extent not written off OR adjusted) Debit balance in P & L A/C (Shareholders A/C)		-	
Total [Sch. 8, 9, 10& (C)]		10,75,500	

Schedule 1. Premium

Particulars	C.Y. Rs	P.Y. Rs
First year premiums	-	
Renewal Premiums	1,00,000	
Single Premiums	40,000	
Total Premiums	1,40,000	

Schedule 2. Commission Expenses

Particulars	C.Y. Rs	P.Y. Rs
Commission		
Direct	12,000	
Add : Commission on Reinsurance Accepted	-	
Less : Commission on Reinsurance ceded	-	
Net Commission	12,000	

Schedule 3. Operating Expense Related to Insurance Business

Particulars	C.Y. Rs	P.Y. Rs
Employees remuneration & welfare Benefits	19,500	
Printing & Stationery & other	5,400	
Legal Expenses	500	
Audit fees	750	
Advertisement & Publicity	700	
Directors fees	150	
Depreciation	1,500	
Total	28,500	

Schedule 4. Benefits paid (Net)

Particulars	C.Y. Rs	P.Y. Rs
Insurance Claims		
a) Claims by Death	30,000	
b) Claims by Maturity	50,000	
c) Surrenders	10,000	
Total	90,000	
Benefits paid to claimants :		
1. In India	90,000	
2. Outside India	-	
Total Benefits Paid (Net)	90,000	

Schedule 5. Share Capital

Particulars	C.Y. Rs	P.Y. Rs
	-	-
Total	NIL	

Schedule 5. A. Pattern of Shareholding -- Nil Schedule 6. Reserves & Surplus :

Particulars	C.Y. Rs	P.Y. Rs
Investment Fluctuation Account	5,000	
Balance of Profit & Loss Account	10,70,500	
Total	10,75,500	

Schedule 8 A. Investments – Policyholders

Particulars	C.Y. Rs	P.Y. Rs
Government securities	5,00,000	
Total	5,00,000	

Schedule 9. Loans

Particulars	C.Y. Rs	P.Y. Rs
a) Secured		
1. On mortgage of property in India	2,80,000	
b) Unsecured		
2. Loans against policies	1,50,000	
Total	4,30,000	

Schedule 10. Fixed Assets

Particulars	Gross Block			Depreciation			Net Block	
	Op. Bal.	Additl	Clo. Bal.	Up to last	C.Y. for the year	To Date	C.Y.	P.Y.
Freehold Property & Furniture	41,500	-	41,500	-	1,500	1,500	40,000	41,500
Total	41,500	-	41,500	-	1,500	1,500	40,000	41,500

3.3 Summary:

Life insurance covers the risk against the life of an insured. Insurance is mainly classified into two broad types viz. Life Insurance and General Insurance. Life insurance is further classified into three types: i) Whole Life Assurance, ii) Term assurance and iii) Annuity.

It includes various terminologies related to insurance business like insurance policy, annuity, ceding company, claim, premium, reinsurer etc. The profit or loss of life insurance business is ascertained by preparing a statement known as 'Valuation Balance Sheet'. Valuation of Balance Sheet is the alternate method of ascertaining the profit or surplus.

As per IRDA guidelines, the insurance business shall comply with the

requirements given in schedule 'A' for Life Insurance Business and Schedule 'B' for General Insurance Business. The report of the auditors shall be in conformity with the requirements of schedule 'C'.

Under The Insurance Act, 1938 the insurance companies or functional divisions, branches have to maintain various books of accounts.

3.4 Terms to Remember:

1. **Ceding Company:** An insurer transfers whole or part of a risk to another insurance company.
2. **Reversionary Bonus-** The amount of bonus is paid at the time claim if it is not paid or payable or not paid immediately in cash, is called as Reversionary Bonus. 3.4 This amount is included in claims.

3.5 Answers to Check Your Progress

➤ Check Your Progress-1

- | | | | |
|-------------|-----------|-----------|----------|
| A) i) a | ii) a | iii) b | iv) c |
| B) i) False | ii) False | iii) True | iv) True |
| v) False | | | |

3.6 Exercise:

1. Short Answer Questions.

- a) Explain the terminologies:
 - i) Insurance Policy
 - ii) Premium
 - iii) Surrender Value
 - iv) Annuity
- b) Explain the term Bonus in detail.
- c) Explain the situations when a claim is calculated.
- d) Explain accounting provisions for claims and claim paid.

2. Long Answer Questions.

- a) Explain the provisions under Insurance Act 1938 and Insurance

(Amendment) Act 2015.

- b) Explain the provisions under Insurance Act 1999 and Insurance (Amendment) Act 2015.

3. Write Short Note on:

- a) Claims
- b) Re-Insurance
- c) Bonus
- d) IRDA Act, 2002

4. Problems for Practice:

1. From the following trial balance, of Smart Life Insurance to as on 31st March, 2023, Prepare Revenue Account & the Balance Sheet as on that date.

	Dr. (₹ '000)	Cr. (₹ '000)
Surrenders	14,000	-
Cash in hand & current A/C	14,600	
Cash on deposits	54,000	
Loans on company's policies	3,47,200	
Investments	46,10,000	
Freehold premises	80,000	
Agents Balances	18,600	
Interest & dividends received	-	2,25,400
Mortgages in India	9,84,400	-
Management Expenses	94,600	
Commission paid	18,600	
Paid up share capital 2,00,00,000 shares of Rs. 10 each	2,00,000	
Life Assurance fund on 1 st April, 2022	-	59,44,600
Bonus to policyholders	63,000	
Premium received	-	3,23,000

Claims paid	3,94,000	
	66,93,000	66,93,000

Additional Information :

- Claims admitted but not paid ₹ 1,80,00,000 and claims covered under reinsurance ₹ 46,00,000
- Management Expenses due ₹ 4,00,000 & interest accrued ₹ 38,600,000.
- Premiums outstanding ₹ 20,000,000.
- Bonus utilized in reduction of premium ₹ 40,00,000

- From the following balances as on 31st March, 2023 operatory in the books of Maharashtra Life Insurance Co.

Particular	₹ '000	Particular	₹ '000
Share Capital		Annuities paid	16,350
(Shares of Rs. 100 each)	4,00,000	(In India Rs. 12,500)	
Life Assurance Fund	6,80,000	Sundry creditors	360
On 1.4.2022		Premiums-first year	40,000
General Reserve	45,000	Renewal	1,02,000
Advances to ceding Co.	9,400	Reinsurance accepted	10,000
Due from Reinsures	7,700	Reinsurance ceded	14,000
Due to Reinsurers	9,500	Interim Bonus to Policyholder	4,500
Agents balances	3,600	Interest & Rents received (Gross)	43,200
Montages in India	2,86,500	Loans on companies policies	42,000
Claims :		Leasehold buildings	12,660
By death	44,000	Shares of companies	3,80,000
(In India Rs. 31,000)		(Indian)	
		Cash with current A/C	12,100

By maturity (In India Rs. 30,000)	40,000	Cash in hand	1,400
General Reserve	45,000	Outstanding premiums	13,200
Deposit with RBI	42,000	State Govt. Securities	1,45,000
Indian Govt. Securities	2,18,000	Bank loan	4,350
Foreign Govt. Securities	15,000	Salaries	6,000
Commission		Auditors fees	1,000
Direct – first year	8,000	Rent paid	800
Renewal	500	Legal Charges	760
Commission on Reinsurance Accepted	2,400	Travelling Expenses	100
		Other Expenses of management	440
Commission on Reinsurance ceded	800	Furniture & Fixture	7,800

Show Revenue A/c & Balance Sheet of General Insurance Company as per prescribed format.

3. The following were the balance disclosed by the Trial balance of the Indian Life Insurance Company at 31st March, 2022.

Particulars	₹
Balance of profit at the beginning of the year	16,00,000
Government Securities	20,00,000
Profit on Realization of Assets	4000
Investment fluctuation account	20,000
Claim under policies by death	1,20,000
Claims under policies by maturity	2,00,000
Loans on mortgage	11,20,000
Loans on policies	6,00,000
Freehold property & furniture	1,66,000
Foreclosed properties	40,000
Agents balance owing	7,200
Sundry creditors	4,000

Outstanding premiums	48,000
Commission paid	48,000
Interest accrued not due	6000
Premium (other than single)	4,00,000
Claims admitted but not paid	12,000
Surrenders	40,000
Single premiums	1,60,000
Consideration for annuities granted	1,00,000
Interest, dividends & rent received	1,40,000
Depreciation furniture	6000
Administration expenses	72,000
Salaries	6000
Auditors fees	3000
Directors fees	600
Legal expenses	2,000
Advertising	2,800
Printing stationery & other administration exp.	21,600
Cash at bank	3,36,800
Provision for depreciation	6000

Prepare a Revenue Account & Balance Sheet.

3.5 Reference for Further Study

1. Advanced Accountancy - Institute of Chartered Account of India.
2. Company Accounts and Audit – The Institute of Cost Accountants of India, CMA Bhawan, 12, Street, Kolkatta – Revised Edition – 2019.
3. Insurance Regulatory and Development Authority Act, 1999
4. Insurance Regulatory and Development Authority Regulations, 2002.
5. The Insurance Laws (Amendment) Act, 2015 No. 5 of 2015, Bharat Ka Rajpatra dt. 20th March, 2015.



Unit-4

Accounting of General Insurance Companies

Structure of Unit:

4.0 Objectives

4.1 Introduction

4.2 Presentation of Subject matter

4.2.1 Important Basic Terminologies

4.2.2 General Insurance

4.2.2.1 Types of General Insurance

4.2.2.1.1 Fire Insurance

4.2.2.1.2 Marine Insurance

4.2.2.1.3 Miscellaneous Insurance

4.2.3 Provision for Insurance Act, 1938 & Insurance (Amendment) Act, 2015

4.2.3.1 IRDA Act 1999 & Provisions Under Insurance (Amendment) Act, 2015

4.2.3.2 Books Maintained by Insurance Companies

4.2.3.3 IRDA Regulations 2002

4.2.4 Structure of Schedule B and C

4.2.4.1 Forms/Financial statements for General Insurance Companies

4.2.5 Illustration on General Insurance

4.3 Summary

4.4 Terms to Remember

4.5 Answers to Check Your Progress

4.7 Exercise

4.7 References to Further Study

4.0 Objectives:

After studying this unit you will be able to:

1. Understand the concept, types of General insurance
2. Learn insurance terminologies and journal entries
3. Understand the accounting provisions under Insurance Act 1938, 1999, 2002 and Insurance (Amendment) Act 2015.
4. Know the forms of financial statements for insurance companies
5. Prepare financial statements of insurance companies.

4.1 Introduction:

The insurance business other than Life Insurance business is well known as General Insurance. Generally, this insurance business consists of Fire insurance, Marine Insurance, Accidental Insurance etc. After globalization, there is vast demand to insurance business due to increase in several businesses. As the result, there is entry of private sector insurance companies to fulfill the need of business safety. The main object is to sell their insurance products to minimize the financial and economic risk in the life of a policyholder. Broadly speaking, insurance contract is classified into two main parts i.e. Life Insurance and General Insurance. Life insurance covers the risk against the life of an insured while other than life insurance business i.e. General insurance provides the safety against the heavy losses in the business and all. This topic will gain you in preparation of financial statements of General Insurance companies under IRDA Act.

4.2 Presentation of Subject Matter

This topic contains the various terminologies related to General insurance business, various types of insurance, insurance provisions according to the Insurance Act 1938, 1999, 2002 and Insurance (Amendment) Act 2015. It also presents the accounting treatment for general insurance business etc.

4.2.1 Important Basic Terminologies:

The following are some of the basic terminologies which help in insurance business.

1. **Claims:** In case of General Insurance, the claim arises only when the loss

occurs as stated events in the policy. The calculation of claim or claim due/outstanding at the end is calculated in following situations:

- a) Claim intimated and accepted but not paid
- b) Claim intimated but not accepted and paid.

In this case the adjustment entry is made as –

Claims A/c Dr.
 To Claims intimated & accepted but not paid
 A/c. To Claims intimated but not accepted & paid

Claim

	Amt in ₹
Total Claim in year	XxxXxx
Less: Outstanding in the beginning i.e. intimated in	Xxx
.....year or earlier	xxx
Add: Outstanding at the end i.e. intimated in year	
whether accepted in year	
Less: Reinsurance Claim	
Claim to be shown in Revenue Account	Xxx

In the next year, at the beginning a reverse entry is passed, so that the payment of the claim intimated in the last / previous year will not have any effect on claim A/c in the next year.

On the other hand, if the insurance company rejects any claim, the amount of such claim should transfer to the Insurance Fund A/c and not to the claim A/c.

Claim = Claim intimated + Survey Fees + Medical Expenses – Claims received on insurance.

2. **Bonus in Reduction of Premium:** Generally in case of general insurance most of the policies are taken for one year and after the maturity it is renewed with the same company or may be fresh policy by other company. It is the practice of insurance company that the company grants a reduction in premium at the prescribed rate if the insured or the policyholder does not claim about policy.

This rate of reduction gets increased every year usually for three years is the policyholder fails to make any claim year after year.

In such as case the Journal Entry is passed –

Bonus in Reduction of Premium A/c..... Dr
To Premium A/c`

For example: The General Insurance Company of India allows the following rates of reduction for a Motorbike; which is bonus in reduction in premium :

1st Year - 15%

2nd Year - 25%

3rd Year - 30%

The net premium received is ₹ 25,200/-

In this case bonus in reduction in premium is ₹ 2,800/-

This transaction is classified into two parts –

- i) First Premium
- ii) The total premium (without any reduction)

It is assumed that the premium received and then reduction granted separately. As a result, the total premium (without reduction) is treated as Revenue or income and bonus as an expenses.

The Revenue A/c will show ₹ 28,000/- (25200 + 2800/-) income on credit side and Rs. 2800/- as an expenses on Debit side.

3. Reserve for Unexpired Risks or Insurance Fund:

Every year Insurance companies close their books of accounts on 31st March but the risks under varied policies expire on that date is not closed. As a result, unexpired liability may occur during the remaining term of the policy, therefore a provision for unexpired risks is made. As per the Insurance Act, the provision for unexpired risks at 50% for fire, marine cargo & miscellaneous business except marine Hull is at 100%.

According to the section 44 of Rule 5 of the first schedule (6E), the insurance companies are allowed a deduction of 50% of net premium income in case of Fire &

Miscellaneous and 100% of the net premium income relating to the Marine Insurance business. The reserves are created under the Income Tax Act.

4. Additional Reserve for Unexpired Risk:

This additional provision is shown separately as Additional Reserve. It shows when:

1. This type of reserve for unexpired risk is only provided if the management may feel. It is debited to the Revenue A/c.
2. In case of normal reserve for unexpired risk, the balance will be shown in the balance sheet while it will be transferred to the credit side of Revenue A/c in the next years.

Illustration 1. Private Insurance Co. Ltd. presents you the following information:

On 31st December, 2022 the company had reserve for unexpired risk to the tune of Rs. 80 crores. It included Rs. 30 Crores of Marine Insurance business, Rs. 40 crores in Fire Insurance business and Rs. 10 Crores in Miscellaneous Insurance business.

- (i) Private Insurance Co. Ltd. has the practice to create reserves at 100% of net premium income in respect of Marine insurance policies and at 50% of net premium income in respect of Fire and Miscellaneous income policies.
- (ii) During 2023, the following business was carried out:

(₹ in crores)

Particulars	Marine ₹	Fire ₹	Miscellaneous ₹
1. Premium Collected from:			
a) Insured in respect of policies issued	36	86	24
b) Other Insurance companies in respect of risks undertaken	14	10	08
Insurance premium paid/payable to other insurance companies on business ceded	13.4	8.6	14

Show in the books of Private Insurance Co. Ltd:

(a) Pass journal entries relating to “Unexpired risks reserve”.

(b) “Unexpired risks reserve” A/c for 2023.

Solution:

(a) Journal of Private Insurance Co. Ltd.

(Rs. in crores)

Date	Particulars	Dr. ₹	Cr. ₹
Dec. 31, 2023	Marine Revenue A/c Dr. To Unexpired Risks Reserve A/c (Being the difference between closing provision and opening provision charged to marine revenue account)	6.60	6.60
	Fire Revenue A/c Dr. To Unexpired Risks Reserve A/c (Being the difference between closing provision and opening provision charged to fire revenue account)	3.70	3.70
	Unexpired Risks Reserve A/c Dr. To Miscellaneous Revenue A/c (Being the excess of opening balance over to closing balance Rs.1 (10- 9) credited to Misc. Revenue A/C)	1.00	1.00

*****Note:**

- Marine (100%):** Closing = $36 + 14 - 13.4 = \text{Rs. } 36.60$ [Closing-Opening] = $36 - 30 = \text{Rs. } 6.60$ Crores
- Fire (50%) :** Closing = $[(86 + 10 - 8.6) \times 50\% \text{ or } \frac{1}{2}] = \text{Rs. } 43.70$ crores less Opening Rs. 40 = Rs. 3.70 Crores

Miscellaneous (50%) : Closing = $[(24 + 8 - 14) \times 50\% \text{ or } \frac{1}{2}] = \text{Rs. } 9.0$ Crores

Here opening balance is more, hence opening less closing $(10 - 9) = ₹ 1.0$ Crores credited to Miscellaneous revenue A/C.

a)

Unexpired Risks Reserve A/c

(₹ in crores)

Dec 2023	Particular	Marine	Fire	Miscellaneous	Dec 2023	Particular	Marine	Fire	Miscellaneous
31	To Revenue A/C	--	--	1.0	Jan. 01	By Bal b/d	30.00	40.00	10.00
31	To Bal C/d	36.60	43.70	9.0	31	By Revenue A/c	6.60	3.70	---
	Total	36.60	43.70	10.00		Total	36.60	43.70	10.00

5. Re-insurance:

If the insurer is unable to bear the whole risk of a policy, it will reinsure a part of risk with some other insurer. In this case the insurer is said to have ceded a part of its business to other insurer. It means the risk of the insurance is being underwritten by another insurance company.

Reinsurance business is an agreement between the ceding company and the Reinsurer. It involves to cede (give) and to accept. Therefore, the other company accepts the risk against the share of premium.

At the time of claim, it is divided into two companies (insurers) in the agreed proportion of the risk.

It is nothing but the passing of some risk to the other insurer if it is not borne by the earlier insurer fully. It helps in reducing the risk of the insurer itself.

- a) **Coinsurance:** It is the concept of division of large risk between the insurers. One insurance company offers the contract with the other company to the certain percentage of sum insured and transfer some risk. It reduces the burden of risk of one insurer and they can bear the risk together. The first insurer serves as a leader and acts on behalf of the others.
- b) **Ceding Company:** The 'Ceding Company' is an insurance company which shifts part or all of the risk to another insurance company.
- c) **Reinsurer:** The ceding company shares the premium that has received to cover the risk with another insurer called 'Reinsurer'.

In such as case, in return Reinsurance company pays commission to the ceding

company for giving a business.

- d) Commission on Re-insurance accepted / ceded:** Commission on Reinsurance accepted is needed to be paid and as such it is added in commission which paid and debited to Revenue A/c. Commission on Reinsurance ceded is received and it is credited to Revenue A/c.

Journal Entries for Re-insurance Business:

The following are the main journal entries passed –

Sr. No	Transaction	Journal Entry
I	If A Insurance Co.cedes reinsurance business to B.	
1	If A Insurance Co.cedes reinsurance business to B.	Re-insurance Premium (on reinsurance ceded) A/c ...Dr. To B Insurance Co.
2	Commission due on reinsurance business ceded to B Insurance Co.	B Insurance Co A/c. ...Dr. To Commission (on reinsurance ceded)
3.	Claims Receivable from B Co. for part of Insurance business Ceded	B Insurance Co. A/c ...Dr. To Claims (on reinsurance ceded)
II	‘C’ Insurance Co. cedes reinsurance business to ‘A’	
1	1. Premium on business ceded by C Insurance Co.	C Insurance Co. A/c. ...Dr. To Re-insurance premium (on reinsurance accepted)
2	2. Commission due on reinsurance business ceded to C Co.	Commission (on reinsurance ceded) ...Dr. To C Insurance Co.
3	3. Claims on reinsurance business accepted from ‘C’ Co.	Claims (on reinsurance accepted) A/c. ...Dr. To C Insurance Co.

Illustration 2

Reliance Assurance Co. Ltd. presents the following information:

Premium received on new policies ₹2,95,000

Renewal premium ₹ 60,000

Reinsurance premium Accepted ₹ 45,000

Reinsurance ceded ₹ 35,000, calculate the amount credited to Revenue Account towards premium?

Calculation of Premium

Particulars	₹
Premium received in respect of new policies	2,95,000
<i>Add:</i> Renewal premium	60,000
	3,55,000
<i>Add:</i> Re-insurance premium accepted	45,000
	4,00,000
<i>Less:</i> Re-insurance ceded	(35,000)
Premium amount to be credited to Revenue A/c	3,65,000

4.2.2 General Insurance:

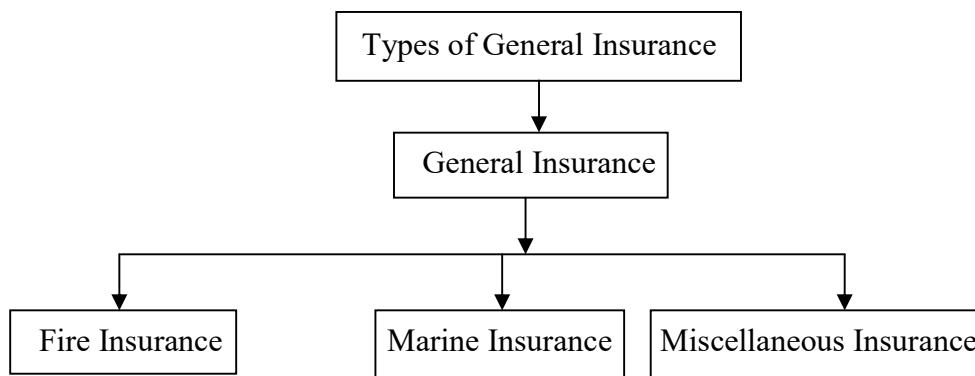
In simple words, General Insurance is other than life insurance policy. As per section 2 (6B), it includes fire, marine and miscellaneous insurance business.

In case of Fire insurance, there are policies like valued, specific, average, floating, excess, blanket, comprehensive, consequential loss, re-installment policies are to be issued by the insurer.

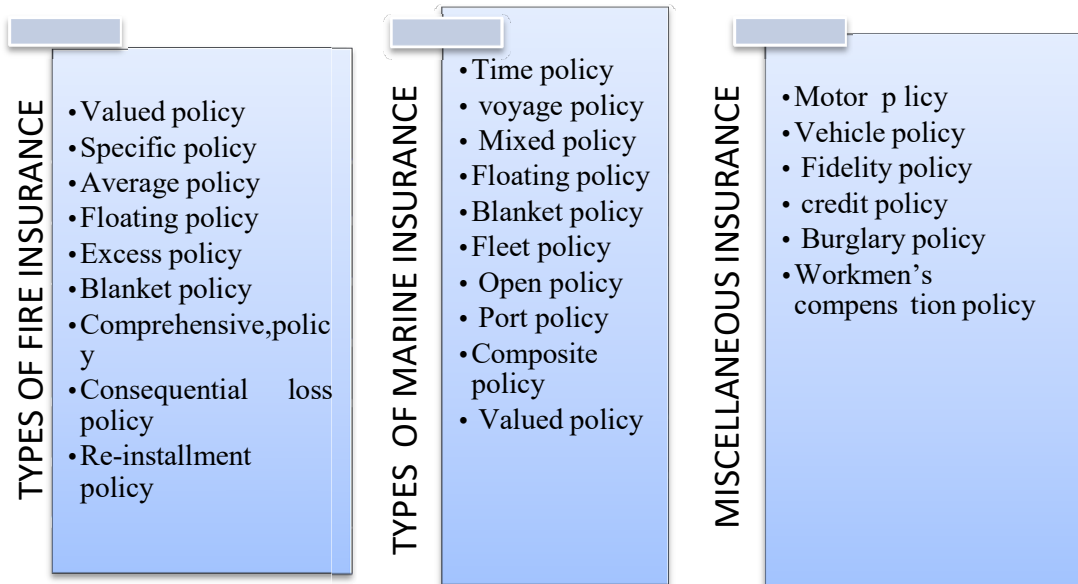
Similarly, Marine insurance includes time, voyage, mixed, floating, blanket, fleet, open, port, composite, valued policies etc. and the miscellaneous insurance relates to motor vehicle, fidelity, credit, burglary, loss of profit, workmen's compensation etc to be considered.

4.2.2.1 Types of General Insurance:

General Insurance is classified as:



There are various sub types under this insurance business.



4.2.2.1.1 Fire Insurance:

Fire insurance policy is to be taken for the safety against the risk of loss of property due to the fire broke out in the business by the uncertain causes. A fire insurance is an agreement between the two parties that one party undertakes to indemnify the other party for a consideration and agreed amount against the financial loss of property or good in further period due to fire. Following are the sub types of Fire Insurance:

Types of Fire Insurance Policies

- 1. Valued policy** – It is the policy where the value of property or goods is ascertained by the insurer to pay on the basis of loss of goods or property if the event occurred. Nowadays such policy is not more common.
- 2. Specific policy** – In this policy, the policy is insured for a specific amount of risk. The insurance company pays the whole amount of policy if the loss is incurred not more than the specified amount of the policy. Under this policy the value of property or goods is not considered.
- 3. Average policy** – According to the 'average clause' insured will get proportionate amount of actual loss of sum insured under average policy of

insurance.

$\text{Claim} = \text{Sum Insured} / \text{Stock at the date of fire} \times \text{loss of stock}$
--

4. **Floating policy** - It is the policy of single premium and single amount for good lying in different locations which covers several types of goods lying at different locations under one amount and for one premium. The average premium is considered for goods.
5. **Excess policy** – If the insured takes the another policy to cover maximum amount of stock than earlier policy was taken for lower amount of policy while fluctuation of his stock is considered the excess policy and previous one is known as first loss policy.
6. **Blanket policy** – When all the fixed as well as current assets are covered under one policy, known as Blanket policy.
7. **Comprehensive policy** - A policy of a certain specified amount which covers risk consisting of fire, flood, riots, strikes, burglary etc. is known as the comprehensive policy.
8. **Consequential loss policy** – This policy is taken when profit of any business is interrupted due to fire. Such policy is known as loss of profit policy.
9. **Re-insatement policy** – Re-insatement means replacement. Under this policy, the insurance company pays the amount for the destroyed assets or properties to replace or re-instate assets.
10. **Open declaration policy** – In this policy the insured declares the value of the subject matter associate the risk to it by depositing the amount with the insurance company.

4.2.2.1.2 Marine Insurance:

Marine insurance is taken by the ship or cargo owners against risk such as sinking of ship/cargo, loss by stealing etc. There are three types of marine insurance as follows: Cargo Insurance, Hull Insurance and Freight Insurance. The persons who insure cargo, hull or freight are known as underwriters.

Marine losses are classified into total loss and partial loss. Total loss is divided into actual total loss and constructive total loss, while partial loss is divided into general average loss and particular average loss.

Types of Marine Insurance Policies –

Generally following are the insurance policies are taken for all marine hazards to

cover all losses.

1. **Time policy** – This policy covers the risk of the subject matter for a specified or particular period of time. Generally it is taken for hull insurance if it may be taken for cargo.
2. **Voyage policy** – This policy preferred for marine transit from one place to another for carried out the cargo or goods.
3. **Mixed policy** - This is the combined policy of time and voyage policy. It relates to the subject matter on a specified voyage is insured for a specified time.
4. **Floating policy** – It is taken for regular shipment of goods for a specific time by one policy. When the goods are shipped, the value of policy can be considered.
5. **Blanket policy** – The premium is paid from the beginning of the policy taken and further adjusted at the end as per the risk for certain period.
6. **Fleet insurance policy** - This policy is taken for the whole fleet of ships.
7. **Open policy** – **Under** this policy the insured is unaware about the value of subject matter and the policy amount while taking from insurer. It can be considered later to the limit of the sum assured.
8. **Port policy** - It covers the ship when it is reached to the place at a port.
9. **Composite policy** – This policy is underwritten by the different underwriters, it is known as composite policy. In this case the liability of underwriters is distinct and separate.
10. **Valued policy**—The insured and the underwriters are determined the value of the subject matter while taking the policy.

4.2.2.1.3 Miscellaneous Insurance:

Miscellaneous Insurance policies are included the following various types of policies:

1. **Motor Vehicle Insurance** - Motor Vehicle insurance policies are taken for the risk of damage by accident, loss by theft etc. death/injury of any person by accident. i.e Third party insurance.
2. **Fidelity Insurance**- This policy is taken by the employer against the frauds or malpractices done while handling the cash or goods or any other valuable things etc. by the employee to avoid the loss and to get safety against it.
3. **Credit Insurance** – If any bad debts occurred due to the insolvency of any

debtor, the said policy is taken to protect the insured against the losses.

4. **Burglary Insurance** – This policy undertakes to indemnify the insured against losses from burglary or theft.
5. **Workmen's Compensation Insurance** – If any worker suffers from injury or death while working, such policy is taken by the insurer for payment of compensation.
6. **Professional Liability Insurance** – If any loss in work of any client is occurred due to professionals like doctors, C.As, Lawyers etc. such policy is taken by professionals.

4.2.3 Provisions of the Insurance Act, 1938 and Insurance (Amendment) Act 2015:

The General Insurance Business is governed in India by the Insurance Act 1938; which is related to British Insurance Act. On May, 1971 the government nationalized the General Insurance business by an ordinance and passed the General Insurance (Nationalisation) Act, 1972. There were 63 domestic and 44 foreign insurance companies operating in India. General Insurance Companies is a holding company and having subsidiaries in all four zones of country i.e. the Oriental Fire and General Insurance Company Ltd., The New India Assurance Co. Ltd., the National Insurance Company Ltd. (Oriental Insurance Co.) and the United India Insurance Company.

The following are some of the relevant provisions which have been amended by IRDA Act, 1999 and Insurance (Amendment) Act 2015.

- i) **Forms for Final Accounts [Sec. 11 (1)]** : Every insurer has to prepare the final accounts related to the insurance business transactions such as shareholders funds, balance sheet, profit and loss account, separate account of receipt and payment, revenue account as per the regulations of Insurance Laws (Amendment) Act, 2015.
- ii) **Audit [Sec. 12]** : Every insurer should make the audit of final statements and transactions of insurance business annually by an auditor as per the Companies Act, 2013. The balance sheet, profit and loss account, revenue account and profit and loss appropriation account of the companies get audited and imposed the liabilities and penalties as per section 174 of the companies Act, 2013.
- iii) **Register of Policies [Sec. 14(1)]** : Every insurer should maintain (i) a record of policies, consist of the name and address of the policyholder, the date of policy

was effected, assignment or nomination etc; (ii) a record of claims, date of claim, claim discharged/rejected, (iii) a record of policies and claims in respect of (i) and (ii) may be maintained manually as well as electronic way under this Act.

- iv) **Approved investments (Section 27B(1)):** A General insurance company should invest its funds only in approved securities listed under sec.27B(1).
- v) **Payment of commission to authorized agents (Section 40(1)):** Any person who is an authorized agent or intermediary liable to get remuneration or reward in the form of commission as per specified by the regulations under Insurance (Amendment) Act 2015.
- vi) **Limit on expenditure (Sections 40B and 40C):** As per the Insurance (Amendment) Act 2015 in India no insurer should spend as expenses of management in any financial year, there is limit on expenditure under the section 40B and 40C as specified by the regulations.
- vii) **Sufficiency of assets [Section 64VA(1)]:** As per the Insurance (Amendment) Act 2015 under this section, every insurer and re-insurer should maintain an surplus value of assets over the value of liabilities and not less than 50% of the amount of minimum capital as stated under section 6 and arrived as specified by the regulations.

**** Note: For detailed information the students should refer THE INSURANCE LAWS (AMENDMENT) ACT, 2015 NO. 5 OF 2015, Bharat Ka Rajpatra dt 20th March,2015)**

4.2.3.1 Insurance Regulatory and Development Authority Act, 1999 and Provisions under Insurance (Amendment) Act, 2015.

The IRDA Act, 1999 provides the protection regulates, promotes and develops the insurance business in respect to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business Act, 1972 for closing the monopoly of LIC and GIC with its subsidiaries. On 29th December 1999 this Act was published in Gazette of India.

Amendments for the Insurance Act, 1938 by IRDA Act 1999:

The following are the important amendments made to the Insurance Act, 1938:

- i) Mandatory to prepare balance sheet, profit and loss act, receipt and payment A/c, Revenue A/c.

- ii) Insurer must keep separate accounts relating to funds of shareholders and policyholders.
- iii) Restriction for directly or indirectly investment outside India
- iv) The Insurance Co, can make investment in infrastructure and social sectors on direction of the Regulatory Authority by protecting interests of policyholders. In this amendment 10% to 15% commission is raised on fire and marine policies respectively.
- v) The Insurance Company should maintain solvency margin.
- vi) GIC has to create a 'Catastrophe Reserve' to fulfill the future liabilities against the insurance policies.

The Insurance Laws (Amendment) Bill, 2015 has been passed by the Union Cabinet in March, 2015. The major reform related amendments in the Insurance Act, 1938, the General Insurance Business (Nationalisation) Act, 1972 and the Insurance Regulatory and Development Authority (IRDA) Act, 1999. The Insurance Laws (Amendment) Act 2015 so enacted by replacing the Insurance Laws (Amendment) Ordinance, 2014, which came into force on 26th December 2014.

The passage of this Amendment Act 2015 on the way for major reform related amendments in the following acts: –

- ◆ Insurance Act, 1938
- ◆ The General Insurance Business (Nationalisation) Act, 1972
- ◆ The Insurance Regulatory and Development Authority (IRDA) Act, 1999.

The Insurance (Amendment) Act, 2015 will eliminate old and unnecessary provisions in the legislations and incorporates certain provisions to provide Insurance Regulatory and Development Authority of India (IRDAI) with the flexibility to discharge its functions more effectively and efficiently. It also provides for enhancement of the foreign investment limit in an Indian Insurance Company from 26% to an explicitly composite limit of 49% with the safeguard of Indian ownership and control.

As per the Insurance (Amendment) Act 2015, The GIC and the insurance companies specified in section 10A of the Insurance Act, 1938 states that the companies have to increase their capital for growing their business in rural areas and social sectors, to meet solvency margin. In this case the Central Government may empower in this regard and holding share should not be less than 51% at any time.

The Insurance (Amendment) Act, 2015 will handover responsibility of appointing insurance agents to insurers and provides for IRDAI to regulate their eligibility, qualifications and other aspects. It facilitates agents to work with great efforts across companies in various business categories with the safeguard and there will be no any conflict of interest is allowed by IRDAI regulations.

IRDAI is empowered- (i) to regulate key aspects of operational areas like solvency, investments, expenses and commissions and to formulate regulations for payment of commission and control of management expenses.

- ii) to the Authority for regulating the functions, code of conduct, etc., of surveyors and loss assessors.
- iii) to expand the scope of insurance intermediaries to include insurance brokers, re-insurance brokers, insurance consultants, corporate agents, third party administrators, surveyors and loss assessors and such other entities by the Authority from time to time.
- iv) to insure the properties in India with a foreign insurer consulting with IRDAI; which was earlier done with the approval of the Central Government.

4.2.3.2 Books Maintained by Insurance Companies:

The most important part of the insurance business operations is to issue policies against the risks assumed and to cover the insured for losses according to the policies. These operations are termed as the recording of receipts of premium and settlement of claims for losses. The divisional offices and have to maintain the financial documentations in this regard.

Under The Insurance Act, 1938 the insurance companies or functional divisions, branches have to maintain following books of accounts:

1. Statutory Books
2. Cash Receipt Book
3. Daily Cash Balance Book
4. Bank Transfer Journal
5. Registers – Salvage, Remittance Received, Claim Recovery, Stationery, Trunk Call, Policy Stamp
6. Cash Disbursement book

7. Claims Disbursement book
8. Journal & Ledgers
9. Asset Register
10. Co-insurers Register
11. Dishonoured Cheques
12. Premium Register
13. Shortage Register
14. Other Register (as per the requirements)

a) Claims Provision:

At the end of the year ended the divisions or branches have to determine the outstanding liability for outstanding claims. The outstanding liability at the year-end is determined at the divisions/branches where the liability originates for outstanding claims. Every division prepares a claims statement. The Head Office considers on the basis of divisional/ branch report a further provision in respect of outstanding claims.

The company at its head office makes an additional provision over and above that made by Divisions/Branches on the Divisional Auditors' Reports.

b) Claim Paid:

Every insurance company has to disclose the information of relevant revenue accounts, claims paid separately. The divisional offices first complete the necessary procedure and formalities to make settlement of the claim with certain evidences. The Branches/ divisional offices have to submit the record to the Head Office, for re-insurance adjustments, statements at regular intervals as to claims paid or provided for. Sometimes a final statement at the year-end is also prepared showing month-wise records also produced for communication.

A liability for outstanding claims should be brought to accounts in respect of both direct business and inward reinsurance business.

The liability should include:

- (a) Future payments in relation to unpaid reported claims;
- (b) Claims Incurred But Not Reported (IBNR) including inadequate reserves [sometimes referred to as Claims Incurred But Not Enough Reported (IBNER)],

which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims at the beginning and at the end of the financial period.

At the end of each financial year, as required by IRDA the actuarial valuation of the claims liability of an insurer is made by the appointed actuary, and the shortfall, if any is provided as IBNR/IBNER.

c) Co-Insurance:

It is the concept of division of large risk between the insurers. One insurance company offers the contract with the other company to the certain percentage of sum insured and transfer the some risk. It reduces the burden of risk of one insurer and they can bear the risk together. The first insurer serve as a leader and issue of documents, collect premiums and settle the claims and acts on behalf of the others. The Incoming Co-insurer book is premium based which is given by leading insurer as dummy documents. The entries are made in the Premium Register from which the Premium Account is credited and the Leading Insurer Company's Account debited.

As per the advices received from the leading insurer the Claims Paid Account is debited with a credit to the co-insurer and such advices are entered into the Claims Paid Register. It is a practice to treat all claims paid advices relating to the accounting year received upto 31st January of the subsequent year from leading insurer as claims paid. The share of the insurer (outgoing co-insurance) for premium and claims are shown to the respective accounts and the share of other co-insurers is credited or debited to their personal accounts.

d) Outstanding Premium:

This is the amounts due for uncollected premium where the company is allowed relaxation to the provisions of the Insurance Act. The outstanding balances are temporarily outstanding and recovered within the stipulated period after the year-end. Otherwise the premium receivable and due but which remains uncollected at the year-end.

e) Commission:

Insurance Act, 1938 and Insurance (Amendment) Act 2015 relate the basis and rates of commission payable to agents. The General Insurance Corporation has regulated the commission structure under the provisions of General Insurance

Nominalisation Act.

It is noted that all expenses of management are debited to a control account in the general ledger under “Expenses of Management” with a supporting subsidiary ledger viz., “Analysis of Management Expenses” wherein expenses for each classified category are posted and reconciled with the control account.

Management Expenses Accounts Classification Schedule is generally annexed to the Trial Balance and forms a part thereof. Such expenses are shown separately under fire, marine and miscellaneous revenue accounts and as to the basis of such apportionment, a note is appended to the accounts. Provision for outstanding expenses is made at the divisional office level.

f) Loan:

The following items are revealed in the balance sheet under Schedule of IRDA Regulations, 2002 in case of Preparation of Financial Statement and Auditors' Report of Insurance Companies.

1. Loans on:

i) mortgages of property within India/outside India.	vi) personal security.
ii) security of municipal and other public rates	vii) To Subsidiary Companies (other than Reversionary).
iii) stocks and shares.	viii) Reversions and Life Interests purchased.
iv) Insurer's policies within their surrender value.	ix) Loans on Reversions and Life Interests.
v) Loans to Subsidiary Reversionary Companies.	x) Debentures and Debenture stocks of Subsidiary Reversionary Companies.
	xi) Ordinary stocks and share of Subsidiary Reversionary Companies.

Term loans are followed by bridge loans to such undertakings pending completion of all formalities. It is further noted that except for housing and other loans to staff which are recorded at the Divisions/Regional level, other loans are usually dealt with at Head Office.

g) Investments:

By the provisions of Sec. 27B of the Insurance Act, 1938 there are various types of investments. The investments are specified and generally included in the Balance Sheet under Schedule of IRDA (Preparation of Financial Statement and Auditors' Report of Insurance Companies) Regulations, 2002 but as per the guidelines presently the following are the types under IRDA (5th Amendment) Regulations, 2013 :

- i. Central Government Securities **Investment Not less than 20%**
- ii. Central Government Securities, State Government Securities and other approved securities **Investment Not less than 30% (including(i) above)**
- iii. Approved investments as specified in Section 27B of the Act and Other Investment as specified in Section 27B(3) of the Act and Schedule II to these Regulations, (all taken together) subject to Exposure /Prudential Norms as specified in Regulation 9 **Investment Not exceeding 70%**
- iv. Other investments as specified under Section 27B (3) of the Act, subject to Exposure I Prudential Norms as specified in Regulation 9 ---**Investment Not more than 25%.**
- 5. **Housing and loans to State Government for Housing and Fire Fighting equipment, by way of subscription or purchase of -**

I . Investments in Housing

- a. Bonds/ Debentures issued by HUDCO, National Housing Bank
- b. Bonds/Debentures of Housing Finance Companies either duly accredited by National Housing Banks, for house building activities, or duly guaranteed by Government or carrying current rating of not less than 'AA' by a credit rating agency registered under SEBI (Credit Rating Agencies) Regulations, 1999 .
- c. Asset Backed Securities with underlying Housing loans, satisfying the norms specified in the Guidelines issued under these regulations from time to time.-----

----- **Total Investment in housing (i.e.,) investment in categories (i), (ii), (iii) and (iv) above taken together. should not be less than 5% of the investment Assets.**

II. Investment in Infrastructure:

Infrastructure facility' should have the meaning as given in clause (h) of regulation 2 of IRDA (Registration of Indian Insurance Companies) (Amendment) Regulations, 2008 as amended from time to time **Total investment in Infrastructure (i.e.,) investment in categories (i), (ii),(iii) and (iv) above taken together should not be less than 10% of the Investment Assets**

The investment department, Head office of General Insurance Business generally maintains the following accounting books and records:

Purchase Registers Application, Bought/Sold Notes (contracts), Copies of the Delivery Instructions, Purchase Registers Application, Allotment and Call Money Registers, Rights Issue/Bonus Issue Registers, Sales Redemption Registers, Term Loans Registers, Fixed Deposits/Participation Certificates/Bills Register, Underwriting Registers, Dividend and Interest Reconciliation Register, Safe-custody Receipts issued by banks, Cash/Bank Book, Investments sub-ledgers General Ledgers, schedules etc.

4.2.3.3 Insurance Regulatory and Development Authority (IRDA) Regulations, 2002:

IRDA, after consultation with the Insurance Advisory Committee, in exercise of the powers conferred by Sec. 114 A of the Insurance Act 1938 (4 of 1938) published the Insurance Regulatory and Development Authority (Preparation of financial Statements and Auditors report of Insurance Companies) Regulations 2000 in the official gazette on 14th August, 2000.

The guidelines are revised and new guidelines are set for vide notification dated 30th March, 2002.

As per IRDA guidelines, the insurance business shall comply with the requirements given in schedule 'A' for Life Insurance Business and Schedule 'B' for General Insurance Business. The report of the auditors shall be in conformity with the requirements of schedule 'C'.

4.2.4 Structure of Schedule B and C:

The following are the structure of schedule B given under IRDA Act, Regulations.

Schedule B : For General Insurance Business :

Schedule C : (See Regulation 3) : Auditors Report :

Here we are going to study about only Schedule no. B

Schedule B : For General Insurance Business :

Part I : Accounting Principles for preparation of financial statements. Part II : Disclosures forming part of financial statements

Part III : General Instructions for preparation of financial statements. Part IV : Contents of Management Report

Part V : Preparation of Financial Statements

Form B – RA : Revenue Account (Policyholders A/c.) Form B – PL : Profit and Loss A/c

Form B - BS : Balance Sheet and 15 Schedules forming part of financial statements. The following are some of the contents of the IRDA Regulations, 2002.

1. Preparation of financial statements, management report and auditors report :

- a) An insurer carrying on Life Insurance Business, after the commencement of these regulations, shall comply with the requirements of Schedule A.
- b) An insurer carrying on General insurance business, after the commencement of these regulations, shall comply with the requirements of Schedule B. Provided that this sub regulations shall apply, mutatis mutandis, to reinsurers until separate regulations are made for them.
- c) The report of the auditors on the financial statements of every insurer and reinsurer shall be in conformity with the requirements of Schedule 'C' or as near thereto as the circumstances permit.

Schedule C : (See Regulation 3) : Auditors Report :

The auditors shall express their opinion about whether the balance sheet, Revenue Act, Profit and Loss A/c, Receipt and Payment A/c, true and fair for the financial year. The auditor should comply other provisions as stated in IRDA 2002, regulations.

(Refer Annexure I for details about Insurance Companies Regulation, 2002)

4.2.4.1 Forms/Financial statements of General Insurance Business

The following are the forms of financial statements of General Insurance business

FORM B-RA

Name of the Insurer

Registration No and Date of Registration with the IRDA REVENUE

ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.

	Particulars	Schedule	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Premiums earned (Net)	1		
2.	Profit/ Loss on sale/redemption of Investments			
3.	Others (to be specified)			
4.	Interest, Dividend & Rent – Gross			
	TOTAL (A)			
1.	Claims Incurred (Net)	2		
2.	Commission	3		
3.	Operating Expenses related to Insurance Business	4		
	TOTAL (B)			
	Operating Profit/(Loss) from Fire/Marine/Miscellaneous Business C= (A - B)			
	APPROPRIATIONS			
	Transfer to Shareholders' Account			
	Transfer to Catastrophe Reserve			
	Transfer to Other Reserves (to be specified)			
	TOTAL (C)			

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

FORM B-PL**Name of the Insurer****Registration No and Date of Registration with the IRDA****PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20__.**

	Particulars	Sched ule	Current Year (₹ '000)	Previous Year (₹ '000)
1.	OPERATING PROFIT/(LOSS)			
	(a) Fire Insurance			
	(b) Marine Insurance			
	(c) Miscellaneous Insurance			
2.	INCOME FROM INVESTMENTS			
	(a) Interest, Dividend & Rent – Gross			
	(b) Profit on sale of investments			
	Less: Loss on sale of investments			
3.	OTHER INCOME (To be specified)			
	TOTAL (A)			
4.	PROVISIONS (Other than taxation)			
	(a) For diminution in the value of investments			
	(b) For doubtful debts			
	(c) Others (to be specified)			
5.	OTHER EXPENSES			
	(a) Expenses other than those related to Insurance Business			
	(b) Bad debts written off			
	(c) Others (To be specified)			
	TOTAL (B)			
	Profit Before Tax			
	Provision for Taxation			
	APPROPRIATIONS			
	(a) Interim dividends paid during the year			

	(b) Proposed final dividend (c) Dividend distribution tax (d) Transfer to any Reserves or Other Accounts (to be specified)			
	Balance of profit/ loss brought forward from last year			
	Balance carried forward to Balance Sheet			

Notes: to Form B-RA and B- PL

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

FORM B-BS**Name of the Insurer****Registration No and Date of Registration with the IRDABALANCE SHEET AS
AT 31ST MARCH, 20__.**

		Sched ule	Current Year (₹ '000)	PreviousYear (₹ '000)
	Sources of Funds			
	Share Capital	5		
	Reserves And Surplus	6		
	Fair Value Change Account			
	Borrowings	7		
	Total			
	Application of Funds			
	Investments	8		
	Loans	9		
	Fixed Assets	10		
	Current Assets			
	Cash and Bank Balances	11		
	Advances and Other Assets	12		
	Sub-Total (A)			
	Current Liabilities	13		
	Provisions	14		
	Sub-Total (B)			
	Net Current Assets (C) = (A - B)			
	Miscellaneous Expenditure (To The Extent Not Written off Or Adjusted)	15		
	Debit Balance in Profit and Loss Account			
	TOTAL			

CONTINGENT LIABILITIES

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

SCHEDULES FORMING PART OF FINANCIAL STATEMENTS

SCHEDULE – 1 PREMIUM EARNED [NET]

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	Premium from direct business written		
	Add: Premium on reinsurance accepted		
	Less : Premium on reinsurance ceded		
	Net Premium		
	Adjustment for change in reserve for unexpired Risks		
	Total Premium Earned (Net)		

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

SCHEDULE – 2 CLAIMS INCURRED [NET]

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	Claims paid		
	Direct Add :Re-insurance accepted Less :Re-insurance Ceded Net Claims paid		
	Add :Claims Outstanding at the end of the Year		
	Less :Claims Outstanding at the beginning		
	Total Claims Incurred		

Notes:

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

SCHEDULE- 3 COMMISSION

Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
Commission paid		
Direct Add: Re-insurance Accepted Less: Commission on Re-insurance Ceded Net Commission		

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

**SCHEDULE – 4 OPERATING EXPENSES RELATED TO INSURANCE
BUSINESS**

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

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

SCHEDULE – 5 SHARE CAPITAL

	Particulars	Current Year (₹ '000).	Previous Year (₹ '000).
1.	Authorised Capital		
	Equity Shares of Rs each		
2.	Issued Capital		
	Equity Shares of ₹ each		
3.	Subscribed Capital		
	Equity Shares of ₹ each		
4.	Called-up Capital		
	Equity Shares of ₹ each		
	Less : Calls unpaid		
	Add : Equity Shares forfeited (Amount originally paid up)		
	Less : Par Value of Equity Shares bought back		
	Less : Preliminary Expenses Expenses including commission or brokerage on Underwriting or subscription of shares		
	TOTAL		

Notes: (a) Particulars of the different classes of capital should be separately stated.

(b) The amount capitalised on account of issue of bonus shares should be disclosed.

(c) In case any part of the capital is held by a holding company, the same should be separately disclosed.

SCHEDULE – 5A SHARE CAPITAL PATTERN OF SHAREHOLDING

[As certified by the Management]

Shareholder	Current Year		Previous Year	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Promoters				
• Indian				
• Foreign				
Others				
TOTAL				

SCHEDULE – 6 RESERVES AND SURPLUS

	Particulars	Current Year (₹ '000)	PreviousYear (₹'000)
1.	Capital Reserve		
2.	Capital Redemption Reserve		
3	Share Premium		
4	General Reserves Less: Debit balance in Profit and LossAccount Less: Amount utilized for Buy-back		
5	Catastrophe Reserve		
6	Other Reserves (to be specified)		
7	Balance of Profit in Profit & Loss Account		
	TOTAL		

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

SCHEDULE – 7 BORROWINGS

	Particulars	Current Year (₹ '000).	PreviousYear (₹ '000).
1.	Debentures/ Bonds		
2.	Banks		
3.	Financial Institutions		
4.	Others (to be specified)		
	TOTAL		

Notes: The extent to which the borrowings are secured shall be separately disclosed stating the nature of the security under each sub-head.

- b) Amounts due within 12 months from the date of Balance Sheet should be shown separately

Schedule –8 Investments

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	LONG TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares i) Equity ii) Preference (b) Mutual Funds (c) Derivative Instruments (d) Debentures/ Bonds (e) Other Securities (to be specified) (f) Subsidiaries (g) Investment Properties-Real Estate		
4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	SHORT TERM INVESTMENTS		
1.	Government securities and Government guaranteed bonds including Treasury Bills		
2.	Other Approved Securities		
3.	Other Investments		
	(a) Shares i) Equity ii) Preference (b) Mutual Funds (a) Derivative Instruments (b) Debentures/ Bonds (c) Other Securities (to be specified) (d) Subsidiaries (e) Investment Properties-Real Estate		

4.	Investments in Infrastructure and Social Sector		
5.	Other than Approved Investments		
	TOTAL		

Notes:

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

measured at historical cost subject to amortisation.

- (e) Investment Property means a property [land or building or part of a building or both] held to earn rental income or for capital appreciation or for both, rather than for use in services or for administrative purposes.
- (f) Investments maturing within twelve months from balance sheet date and investments made with the specific intention to dispose of within twelve months from balance sheet date shall be classified as short-term investments

SCHEDULE – 9 LOANS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	SECURITY-WISE CLASSIFICATION		
	Secured		
	(a) On mortgage of property		
	i) In India		
	ii) Outside India		
	(b) On Shares, Bonds, Govt. Securities		
	(c) Others (to be specified)		
	Unsecured		
	TOTAL		
2.	BORROWER-WISE CLASSIFICATION		
	(a) Central and State Governments		
	(b) Banks and Financial Institutions		
	(c) Subsidiaries		
	(d) Industrial Undertakings		
	(e) Others (to be specified)		
	TOTAL		
3.	PERFORMANCE-WISE CLASSIFICATION		

	(a) Loans classified as standard i) In India ii) Outside India (b) Non-performing loans less provisions i) In India ii) Outside India		
	TOTAL		
4.	MATURITY-WISE CLASSIFICATION		
	(a) Short Term		
	(b) Long Term		
	TOTAL		

Notes:

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

SCHEDULE – 10 FIXED ASSETS

(₹ '000)

	Particulars	Cost/ Gross Block				Depreciation Net Block					
		Open ing	Addi ons	Dedu ctions	Closing	Upto Last Yea r	For The Ye ar	On Sales/ Adjus tments	To Date	As at year end	Pre vious Ye ar
	Goodwill										
	Intangibles (specify)										
	Land- Freehold										

Leasehold Property											
Buildings											
Furniture & Fittings											
Information Technology Equipment											
Vehicles											
Office Equipment											
Others (Specify nature)											
TOTAL											
Work in progress											
Grand Total											
PREVIOUS YEAR											

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

SCHEDULE- 11 CASH AND BANK BALANCES

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Cash (including cheques, drafts and stamps)		
2.	Bank Balances		
	(a) Deposit Accounts		
	i) Short-term (due within 12 months)		
	ii) Others		
	(b) Current Accounts		
	(c) Others (to be specified)		
3.	Money at Call and Short Notice		

	(a) With Banks		
	(b) With other Institutions		
4.	Others (to be specified)		
	TOTAL		
	Balances with non-scheduled banks included in 2 and 3 above		

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

SCHEDULE – 12 ADVANCES AND OTHER ASSETS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
	ADVANCES		
1.	Reserve deposits with ceding companies		
2.	Application money for investments		
3.	Prepayments		
4.	Advances to Directors/Officers		
5.	Advance tax paid and taxes deducted at source (Net of provision for taxation)		
6.	Others (to be specified)		
	TOTAL (A)		
	OTHER ASSETS		
1.	Income accrued on investments		
2.	Outstanding Premiums		
3.	Agents' Balances		
4.	Foreign Agencies Balances		
5.	Due from other entities carrying on insurance business (including reinsurers)		
6.	Due from subsidiaries/ holding		
7.	Deposit with Reserve Bank of India [Pursuant to section 7 of Insurance Act, 1938]		
8.	Others (to be specified)		

	TOTAL (B)		
	TOTAL (A+B)		

Notes:

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

SCHEDULE – 13 CURRENT LIABILITIES

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Agents' Balances		
2.	Balances due to other insurance companies		
3.	Deposits held on re-insurance ceded		
4.	Premiums received in advance		
5.	Unallocated Premium		
6.	Sundry creditors		
7.	Due to subsidiaries/ holding company		
8.	Claims Outstanding		
9.	Due to Officers/ Directors		
10.	Others (to be specified)		
	TOTAL		

SCHEDULE – 14 PROVISIONS

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1	Reserve for Unexpired Risk		
2	For taxation (less advance tax paid and taxes deducted at source)		
3	For proposed dividends		
4	For dividend distribution tax		

5	Others (to be specified)		
	TOTAL		

SCHEDULE – 15 MISCELLANEOUS EXPENDITURE
(To the extent not written off or adjusted)

	Particulars	Current Year (₹ '000)	Previous Year (₹ '000)
1.	Discount Allowed in issue of shares/ Debentures		
2.	Others (to be specified)		
	TOTAL		

Notes:

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

Check Your Progress -1

A) Multiple Choice Questions:

- i) In case of reserve for unexpired risk, the balance will be shown in the balance sheet.
 - a) Abnormal b) normal c) general d) None of these
- ii) Schedule is related to General Insurance Business.
 - a) A b) B c) C d) None of these
- iii) The ‘..... Company’ is an insurance company which shifts part or all of the risk to another insurance company.

- a) Ceding b) general c) life d) Marine
- iv) As per the guidelines is related to preparation of Financial Statements.
- a) Part V b) Part I c) Part II d) Part III
- v) The General Insurance Business is governed in India by the Insurance Act
- a) 1972 b) 1938 c) 2015 d) 2002
- vi) Under Section of Insurance Act, 1938 investment is classified into different types.
- a) 40 B b) 44C c) 27 B d) 29B

B) State whether True or False:

- i) Balance sheet consists of 15 schedules.
- ii) Commission on Reinsurance ceded is received and it is debited to Revenue A/c.
- iii) schedule 'A' is related to General Insurance Business
- iv) If the insurer is unable to bear the whole risk of a policy, it will reinsure a part of risk with some other insurer
- v) According to the section 44 of Rule 5 of the first schedule (6E), the insurance companies are allowed a deduction of 50% of net premium income in case of Fire & Miscellaneous.

C) Fill in the Blanks:

- i)% of the net premium income relating to the Marine Insurance business.
- ii) is the concept of division of large risk between the insurers.
- iii) The ceding company shares the premium that has received to cover the risk with other insurer called
- iv) Schedule is related to Auditors report.
- v) Form A – PL means
- vi) Investment in Central Government securities not more than

4.2.5 Illustrations on General Insurance

Illustration 3

From the following information of Fire Insurance division of a General Insurance Company, calculate the amount of claim to show in the Revenue Account for the year ended 31st March, 2023:

Particulars	Direct Business	Re-Insurance
Claim paid during the year	23,35,000	350,000
Claim Payable — 1st April, 2022	3,81,500	43,500
31st March, 2023	4,06,000	26,500
Claims received	—	1,15,000
Claims Receivable — 1st April, 2022	—	32,500
31st March, 2023	—	56,500
Expenses of Management (includes Rs.17,500 Surveyor's fee and Rs.22500 Legal expenses for settlement of claims)	1,15,000	—

Solution:

General Insurance Company Amount of Claim

Particulars	Amt ₹
Claims paid - Direct (23,35,000 + 17500 + 22500)	23,75,000
Add: Re-insurance accepted (3,50,000 + 26500 - 43,500)	3,33,000
	27,08,000
Less : Re-insurance ceded (1,15,000 + 56,500 - 32,500)	(1,39,000)
	25,69,000
Add : Claims outstanding at the end of the year	4,06,000
	29,75,000
Less : Claims outstanding at the beginning of the year	(3,81,500)
Total claims incurred	25,93,500

****Note: "claims incurred during the year" includes expenses incurred on settlement of claim- surveyor's fee (₹ 17,500) and legal expenses (₹ 22,500).**

Illustration 4

The following is the particulars of Mahindra General Insurance Co. for the year 2021-2022. Prepare Revenue Account in the prescribed form for the year ended 31st March, 2022.

Particulars	Related to Direct Business ₹	Related to Reinsurance Business ₹
Premiums :		
Amount Received	60,00,000	4,80,000
Receivable at the beginning	3,60,000	48,000
Receivable at the end	4,80,000	72,000
Amount Paid	0.00	7,20,000
Payable at the beginning	--	60,000
Payable at the end	--	84,000
Claims :		
Amount Paid	36,00,000	3,60,000
Payable at the beginning	1,20,000	24,000
Payable (Closing)	2,40,000	36,000
Amount recovered	--	2,40,000
Opening Receivables	--	36,000
Closing Receivables	--	24,000
Commission :		
Amount Paid	1,44,000	21,600
Amount Received	---	28,800

Other Information :

- The net premium income of the company during the year 2020-2021 was Rs. 48,00,000/- on which reserve for unexpired risk @50% and additional reserve @7.5% was created. This year, the balance to be carried forward is 50% of net premium on reserve for unexpired risk and 5% on additional reserve.
- Interest, dividend and rent received ₹ 60,000/-
- Income tax in respect of above ₹ 12,000/-
- Management expenses including ₹ 12000/- related to legal expenses regarding claims ₹ 2,64,000/-

- v) Provision for income tax existing at the beginning of the year was ₹ 3,90,000/- the income tax actually paid during the year ₹ 3,36,000/- and the provision necessary at the year end ₹ 4,14,000/-

Solution :

Form B – RA

Name of the Insurer : Mahindra General Insurance Co. Revenue Account for the year ended 31st March, 2022

Particulars	Schedule	Amount ₹
1. Premium earned [Net]	1	54,06,000
2. Profit / Loss on sale / Redemption of investment	-	
3. Other	-	
4. Interest, dividend & rent (Gross)	-	60,000
Total (A)		54,66,000
1. Claims incurred [Net]	2	38,88,000
2. Commission	3	1,36,800
3. Operating Expenses related to insurance business	4	2,40,000
Total (B)		42,64,800
Operating Profit / Loss from Insurance business (C)		
C = (A – B)		12,01,200
Appropriations :		
Transfer to Shareholders A/c		
Transfer to Catastrophe Reserve		
Transfer to other Reserve		
Total (D)		

Schedule No. 1 : Premium Earned (Net)

Particulars	Amount ₹
Premium received from Direct Business * (See w. note 1)	61,20,000
Add : Premium on reinsurance accepted ₹ (4,80,000 + 72,000 – 48000)	5,04,000
	66,24,000
Less : Premium on reinsurance ceded ₹ (7,20,000 + 84,000 – 60,000)	(7,44,000)
Net Premium	58,80,000
Adjustment for change in reserve for unexpired risk **(See w. note 2)	(4,74,000)
Total Premium earned (Net)	54,06,000

Schedule No. 2 : Claims Incurred (Net)

Particulars	Amount ₹
Claims Paid (Direct)	36,00,000
Add : Legal expenses regarding claims	24,000
	36,24,000
Add : Reinsurance accepted	3,60,000
	39,84,000
Less : Reinsurance ceded ₹ 2,40,000 + 24,000 – 36000)	(2,28,000)
	37,56,000
Add : Claims outstanding (closing) (2,40,000 + 36,000)	2,76,000
Less : Claims outstanding (opening) (1,20,000 + 24,000)	(1,44,000)
Total Claim incurred	38,88,000

Schedule No. 3 : Commission

Particulars	Amount ₹
Commission paid direct	1,44,000
Add : Reinsurance accepted	21,600
	1,65,600
Less : Reinsurance ceded	(28,800)
Net Commission	1,36,800

Schedule No. 4 : Operating Expenses related to Insurance Business

Particulars	Amount ₹
Expenses of Management ₹ (2,64,000 – 24,000)	2,40,000

Working Notes :**1. Calculation of premium received from direct business**

Particulars	Amount ₹
Premium on direct business	60,00,000
Add : Premium outstanding (closing)	4,80,000
	64,80,000
Less : Premium outstanding (Opening)	(3,60,000)
	61,20,000

2. Calculation of change in reserve for unexpired risk

Particulars	Amount ₹
Reserve for unexpired risk for the year 2021-22 (58,80,000 x 50%)	29,40,000
Add : Additional Reserve for unexpired risk for the year 2021-22 (58,80,000 x 5%)	2,94,000
	32,34,000
Less : Reserve for unexpired risk for the yr. 2020-2021 (48,00,000 x 50%)	(24,00,000)
Additional reserve for unexpired risk for the year (48,00,000 x 7.5%)	(360,000)
	4,74,000

Illustration 5 : From the following information prepare the revenue account of National Fire Insurance Company Ltd. for the y.e. 31st March, 2020.

	Particulars	On Direct Business ₹	On Reinsurance Ceded ₹	On Reinsurance accepted ₹
a)	Total Premium	15,00,000	5,00,000	10,00,000
	In India	80%	80%	80%
b)	Total Claim	3,00,000	10,0000	2,00,000

	Outside India	20%	20%	20%
c)	Commission	1,50,000	50,000	1,00,000
d) Expenses & others :				Amt. ₹
- Employees remuneration & welfare benefits				1,15,500
- Managerial Remuneration				1,00,000
- Travel conveyance & vehicle running expenses				29,500
- Rent Rates & Taxes				15,000
- Policy stamp				1,500
- Medical fees				3,500
- Printing & stationary				5,000
- Repairs				10,000
- Interest & Bank charges				2,500
- Auditors fees ,expenses etc.				4,000
- Legal & professional charges				3,000
- Communication expenses				2,500
- Advertisement & publicity				3,000
- Furniture & fixture (cost Rs.50,000)				29,000
- Rate of depreciation on furniture – 10% on original list				
- Provision for unexpired risk (as on 1.4.2019)				5,00,000
- Additional provision for risk (as on 1.4.2019)				50,000
- Bad debts				2,500
- Indian & foreign taxes				47,500
- Interest ,dividend & rent received (Gross)				50,000
- Income tax deducted at source there on				5,000
- Profit & sale of motor car				2,500
- Double income tax refund				7,500

Accounting policy regarding additional provision in fire : 50% of net premium of the year.

Solution

Form A-RA

Five insurance revenue A/c for the y.e. 31st March, 2020

	Particulars	Schedule	Current yr. ₹	Previous year ₹
1)	Premium earned (net)	1	20,00,000	
2)	Other income:			
	a) Profit on sale of motor car		2,500	
	b) Double income tax refund		7,500	
3)	Charge in provision for Unexpired risk (5,00,000 + 50,000)		5,50,000	
4)	Interest, Dividend & rent (Gross)		50,000	
	Total (A)		26,10,000	
1)	Claims incurred (Net)	2	4,00,000	
2)	Commission	3	2,00,000	
3)	Operating Expenses related to insurance Business	4	3,00,000	
4)	Other Expenses :			
	Bad debts		2,500	
	Indian & foreign Taxes		47,500	
	Total (B)		9,50,000	
	Operating profit from Insurance Business (A - B)		16,60,000	

Schedule : 1. Premium Earned (Net)

Particulars	Current yr. ₹	Previous year ₹
Premium for Direct Business written	15,00,000	
Add : Premium on Reinsurance accepted	10,00,000	
Less : Premium on Reinsurance ceded	(5,00,000)	
Net Premium	20,00,000	

Premium Income from business affected in India (80%) [20,00,000 X 80%]	16,00,000	
Outside India (20%) [20,00,000 X 20%]	4,00,000	
	20,00,000	

Schedule : 2. Claims incurred (Net)

Particulars	Current yr. ₹	Previous year ₹
Claim		
Direct	3,00,000	
Add : Re-insurance accepted	2,00,000	
Less : Re-insurance ceded	(1,00,000)	
Total claim incurred	4,00,000	
Claim paid to claimants		
In India (80%) – [4,00,000 X 80%]	3,20,000	
Outside India (20%) – [4,00,000 X 20%]	80,000	
	4,00,000	

Schedule : 3. Commission

Particulars	Current yr. ₹	Previous year ₹
Commission		
Direct	1,50,000	
Add : Commission on Reinsurance accepted	1,00,000	
Less : Commission on Reinsurance ceded	(50,000)	
Total	2,00,000	

Schedule : 4. Operating Expenses Related to Insurance business.

	Current yr. ₹	Previous year ₹
Employees Remunerations & welfare benefits	1,15,500	
Managerial Remuneration	1,00,000	
Travel conveyance & vehicle running exp.	29,500	

Rent, Rates & Taxes	15,000	
Policy Stamps	1,500	
Medical fees	3,500	
Printing & Stationery	5,000	
Repairs	10,000	
Interest & Bank Charges	2,500	
Audition fees, expenses etc	4,000	
Legal & Professional Charges	3,000	
Communication expenses	2,500	
Advertisement & Publicity	3,000	
Dep. On Furniture & fixture (50,000 X 10%)	5,000	
Total	3,00,000	

Working Notes :

Changes in Provision for unexpired Risks.

Particulars		Amount ₹
1. Minimum Provision @ 50% of ₹ 20,00,000		10,00,000
2. Add : Additional Provision @ 5% & ₹ 20,00,000		1,00,000
Total		11,00,000
Less : Opening balance of provision		
i) Minimum Provision	5,00,000	
ii) Additional Provision for unexpired risk	50,000	(5,50,000)
Charge in provision for unexpired risk		5,50,000

Illustration 6

The following figures have been extracted from the books of Ideal Insurance Company Ltd. in respect of their Marine Business for the year 2022-23

Particulars	₹
Direct Business Income received	25,00,000
Reserve for unexpired risks as on 1.4.2022	30,00,000
Claims outstanding as on 1.4.2022 (net)	10,00,000
Bad debts	5,00,000
Commission paid on Direct Business	2,50,000
Expenses of Management	2,50,000

Income tax deducted at source	1,50,000
Income from investments & dividends (Gross)	5,00,000
Rent received from properties	2,50,000
Investment in Government Securities as on 1.4.2022	50,00,000
Investment in Shares as on 1.4.2022	20,00,000
Profit & Loss Account (Cr) balance as on 1.4.2022	5,00,000
Other expenses	62,500
Reinsurance premium receipts	2,50,000
Outstanding claims as on 31.3.2023 (net)	15,00,000
Direct claims paid (Gross)	12,50,000
Reinsurance claims paid	2,00,000

Prepare a Revenue Account and Profit & Loss A/C for the year after taking into account the following further information

- i) Market Value of investments as on 31st March, 2023 is as follows :
 - a) Government securities ₹ 52,50,000
 - b) Shares ₹ 9,00,000
- ii) All direct risks are reinsured for 20% of the risk.
- iii) Provide 25% commission on reinsurance accepted.
- iv) Provide 65% for Income tax
- v) Claim a commission of 25% on reinsurance ceded.

Solution :

Form B – Revenue Account

Revenue Account for the year ended 31st March, 2023

	Particulars	Schedule No.	Current year ₹	Previous year ₹
1.	Premium earned (net)	1	30,00,000	
2.	Profit / Loss on Sale / redemption of investment		-	
3.	Other		-	

4.	Interest, Dividend & Rent (Gross) (5,00,000 + 2,50,000)		7,50,000	
	Total (A)		37,50,000	
	Claims incurred (Net)	2	17,00,000	
	Commission	3	1,87,500	
	Operating expenses related to insurance business	4	8,12,500	
	Total (B)		27,00,000	
	Operating Profit / Loss from Marine			
	Business C = A – B		10,50,000	
	Appropriations -			
	Transfer to shareholders A/c		-	
	Transfer to Catastrophe Reserve		-	
	Transfer to other Reserves (to be specified)		-	
	Total (C)		10,50,000	

Form B – Profit & Loss A/c
For the year ended 31st March, 2023

	Particulars	Schedule	Current year ₹	Previous year ₹
1.	Operating Profit from Marine Insurance		10,50,000	
2.	Income from investments		-	
3.	Other Income		-	
	Total (A)		10,50,000	
4.	Provision (other than taxation) Diminution in the value of investment in shares	1,00,000		
	Less : incensement in the value of investment in Govt. Securities	2,50,000	(1,50,000)	

5.	Other expenses		-	
	Total (B)		(1,50,000)	
	Profit before tax (A – B) i.e.			
	[10,50,000 – (-1,50,000)]		12,00,000	
	Less : Provision for taxation(10,50,000 × 65%		(6,82,500)	
	Total		5,17,500	
	Appropriations		NIL	
	Balance of profit / Loss brought forward from last year		5,00,000	
	Total		10,17,500	

Schedule 1. Premium earned (Net)

Particulars	Current year ₹	Previous year ₹
Premium from direct business	25,00,000	
Add : Premium on reinsurance Accepted	2,50,000	
	27,50,000	
Less : Premium on reinsurance ceded	(5,00,000)	
Net Premium	22,50,000	
Adjusted for change in reserve for unexpired risk [opening – closing] [30,00,000 – 22,50,000]	7,50,000	
Premium Earned (Net)	30,00,000	

Schedule 2. Claims incurred (Net)

Particulars	Current yr. ₹	Previous year ₹
Claims paid Direct	12,50,000	
Add : Reinsurance accepted	2,00,000	
	14,50,000	
Less : Reinsurance Ceded	(2,50,000)	

Net claims paid	12,00,000	
Add : Claims outstanding at the end of the year	15,00,000	
	27,00,000	
Less : Claims outstanding of the beginning of the year	(10,00,000)	
Total claims incurred	17,00,000	

Schedule 3. Commission

Particulars	Current yr. ₹	Previous year ₹
Commission paid : Direct	2,50,000	
Add : Reinsurance accepted	62,500	
	3,12,500	
Less : Commission on reinsurance Ceded	(1,25,000)	
Net Commission	1,87,500	

Schedule 4. Operating Expenses

Particulars	Current yr. ₹	Previous year ₹
Expenses & Management	2,50,000	
Bad debts	5,00,000	
Other expenses	62,500	
	8,12,500	

W. Notes :Provision for income tax :

Particulars	Current year ₹	Previous year ₹
Income (excluding revaluation)	9,00,000	
Add : Tax deducted at source	1,50,000	
	10,50,000	
Provision @ 65% of ₹ 10,50,000	6,87,500	
Less : Tax deducted of source	1,50,000	
	5,37,500	

Illustration 7 : The following are the balance of Reliance Insurance Co Ltd. as on 31st March, 2023

Particulars	₹	Particulars	₹
Capital	3,20,00,000	Balances of funds (1.4.2022)	
Unclaimed dividend	8,50,000	Fire Insurance	8,00,00,000
Amount due to other Insurance Companies	34,50,000	Marine Insurance	9,50,00,000
		Miscellaneous Insurance	2,18,65,000
Sunday creditors	72,50,00	Deposit & Suspense A/c (Cr)	22,80,000
Due from other Insurance Companies	64,50,000	Profit & Loss A/c (Cr)	80,40,000
		Agents Balances (Dr)	1,35,00,000
Cash in hand	3,50,000	Interest accrued but not due (Dr)	22,50,000
Balance in current A/C withbank	74,80,000	Furniture & Fixture WDV (Cost Rs.1,00,00,000)	58,00,000
Stationery Stock	1,40,000	Foreign Taxes – Marine	8,00,000
Expenses of Management		Outstanding Premium	82,00,000
Fire Insurance	2,80,00,000	Donationpaid (80G Benefit not allowed)	10,00,000
Marine Insurance	1,60,00,000	Transfer fees	1,00,000
Miscellaneous Insurance	40,00,000	Reserve for Bad debts	11,70,000
Other	30,00,000	Income Tax paid	1,20,00,000
Mortgage Loan (Dr)	9,75,00,000	Govt. Securities Deposited	
Sunday Debtors	25,00,000	With RBI	37,00,000
Equity Shares of Joint		Govt. Securities	10,20,00,000

Stock companies	2,25,00,000	Debentures	4,65,50,000
Claims less Reinsurance		Premium less Re-insurance	
Fire	4,50,00,000	Fire	17,62,50,000
Marine	3,58,90,000	Marine	10,22,50,000
Miscellaneous	68,00,000	Miscellaneous	2,62,25,000
Interest & Dividend Received on Investment (Net)	46,80,000	Tax deducted of Source	11,70,000
Commission			
Fire	5,00,00,000		
Marine	3,50,00,000		
Miscellaneous	80,00,000		

You are required to make the following provisions

- i) Depreciation on Furniture 10% on original cost
- ii) Depreciation on investment of joint stock companies shares Rs. 10,00,000
- iii) Transfer to General Reserve –
- iv) Outstanding claims as on 31.3.2023

Fire	2,00,00,000
Marine	50,00,000
Miscellaneous	32,50,000

- v) Provision for tax @ 50%
- vi) Proposed dividends @ 20% provision for the unexpired risks is to be made as follows :
 - a) On Marine policies - 100% premium less Reinsurance
 - b) On their policies – 50% Premium Less Reinsurance

You are required to prepare the Revenue & Profit & Loss A/C for the year ended 31.3.2023 (CA – Adopted)

Solution :

Form B – R A Reliance Insurance Co. Ltd.
Revenue Account for the year ended 31st March, 2023 Fire, Marine & Misc.
Insurance Business

Particulars	Schedule	Fire C.Y. (₹ '000)	Marine C.Y. (₹ '000)	Misc C.Y. (₹ '000)
Premium earned (net)	1	1,68,125	95,000	34,977
Interest, Dividends & Rent	-	-	-	-
Gross Double Income Tax Refund	-	-	-	-
Profit on sale of motor car	-	-	-	-
Total (A)		1,68,125	95,000	34,977
Claims incurred (net)	2	65,000	40,890	10,050
Commission	3	50,000	35,000	8,000
Operating Exp. Related to Insurance business		28,000	16,000	4,000
Bad debts	-	-	-	-
Indian & Foreign Taxes		-	800	-
Total (B)		1,43,000	92,690	22,050
Profit from Marine Insurance business (A-B)		25,125	2,310	12,927

Schedule 1. Premiums Earned (Net)

(Rs '000)

	Fire C.Y.	Marine C.Y.	Misc C.Y.
Premiums less reinsurance (net)	1,76,250	1,02,250	26,225
Less- Change in provision for unexpired Risk	(8,125)	(7,250)	(8,752)
Premiums earned (net)	1,68,125	95,000	34,977

Schedule 1. Premiums Earned (Net)

(₹ '000)

	Fire C.Y.	Marine C.Y.	Misc C.Y.
Claims incurred (Net)	65,000	40,890	10,050

Schedule 3. Commission paid

(₹ '000)

Commission paid	50,000	35,000	8,000
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Schedule 4. Operating Expenses Related to insurance business

(₹ '000)

Expense of Management	28,000	16,000	4,000
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Form B – PL Reliance Insurance Co. Ltd.**P & L A/C for the y.e. 31st March, 2023**

(₹ '000)

Particulars	Schedule	C.Y.	P.Y.
Operating profit / Loss			
Fire		25,125	
Marine		2,310	
Miscellaneous		12,927	
Income from investments			
a) Interest, Dividends & Rent (Gross) other income		5,850	
Transfer fees		100	
Total (A)		46,312	
Provision (other than taxation)			
Depreciation of furniture		1,000	
Depreciation of Investment		1,000	
Other Expenses :-			
Expenses of Management		3,000	
Donation		1,000	
Total (B)		6,000	

Profit before Tax (A – B)	40,312
Provision for taxation	20,656
Profit after tax	19,656
Profit	
1) Dividend paid during the year	-
2) Proposed final dividend	6,400
3) Dividend Distribution Tax	-
4) Transfer to General Reserves or other Accounts (to be specified)	1,000
	12,256
Balance of P/C brought forward from last yr.	8,040
Bal. Carried forward to B/S	20,296

Working Notes

a) Provision for taxation	
Net profit before tax	40,312
Add. Donation	1,000
Taxable profit	41,312
Tax – 50%	
b) Reserve for unexpired risk 50% of net premium for fire & for marine & miscellaneous & other 100% of net premium	

Illustration 8 : A Fire Insurance Co. Ltd. commenced its business on 1.4.2022. It submits you the following information for the year ended 31.3.2023:

Particulars	₹
Premiums received	30,00,000
Re-insurance premiums paid	2,00,000
Claims paid	14,00,000
Expenses of Management	6,00,000
Commission paid	100,000
Claims outstanding on 31.3.2023	2,00,000
Create reserve for unexpired risk @50%	

Prepare Revenue account for the year ended 31.3.2023.

Solution:**Form B – RA****Name of the Insurer: A Fire Insurance Co. Ltd.****Registration No. and Date of registration with the IRDA:.....****Revenue Account for the year ended 31st March, 2023**

	Particulars	Schedule	Current year ended 31 st March 2023
1.	Premium earned (Net)	1	14,00,000
	Total (A)		14,00,000
1.	Claims incurred (Net)	2	16,00,000
2.	Commission	3	100,000
3.	Operating Expenses related to insurance business	4	4,00,000
	Total (B)		23,00,000
	Operating Profit/(Loss) from Fire Insurance Business [C =(A – B)]		(9,00,000)

Schedule 1**Premium earned (Net)**

Particulars	₹
Premium received from direct business written	30,00,000
Less: Premium on re-insurance ceded	(2,00,000)
	28,00,000
Adjustment for change in reserve for unexpired riskNet Premium Earned	14,00,000
	14,00,000

Schedule 2**Claims incurred (Net)**

Particulars	₹
Claims paid – Direct	14,00,000
Add: Claims outstanding on 31.3.2015	2,00,000
Total claims incurred	16,00,000

Schedule 3 Commission

Particulars	Rs
Commission paid	1,00,000
Net commission	1,00,000

Schedule 4

Operating expenses related to insurance business

Particulars	Rs
Expenses of Management	6,00,000

4.3 Summary:

General Insurance which provides the safety against the heavy losses in the business and all, General Insurance is other than life insurance policy. As per section 2 (6B), it includes fire, marine and miscellaneous insurance business.

In case of Fire insurance, there are policies like valued, specific, average, floating, excess, blanket, comprehensive, consequential loss, re-installment policies are to be issued by the insurer. Similarly, Marine insurance includes time, voyage, mixed, floating, blanket, fleet, open, port, composite, valued policies etc. and the miscellaneous insurance relates to motor vehicle, fidelity, credit, burglary, loss of profit, workmen's compensation etc to be considered.

The General Insurance Business is governed in India by the Insurance Act 1938; which is related to British Insurance Act. On May, 1971 the government nationalized the General Insurance business by an ordinance and passed the General Insurance (Nationalisation) Act, 1972. There are some of the relevant provisions which have been amended by IRDA Act, 1999 and Insurance (Amendment) Act 2015.

Insurance Act, 1938 and Insurance (Amendment) Act 2015 relate the basis and rates of commission payable to agents. As per IRDA guidelines, the insurance business shall comply with the requirements given in schedule 'B' for General Insurance Business. The report of the auditors shall be in conformity with the requirements of schedule 'C'.

4.4 Terms to Remember:

1. **Ceding Company:** An insurer transfers whole or part of a risk to another insurance company.
2. **Catastrophic Loss:** A loss due to severe consequences such as bankruptcy to a

4.5 Answers to Check Your Progress

- **Check Your Progress- 1**
- **Q.1. A) i) b , ii) b, iii) a, iv) a, v) a, vi) a**
- **B) i) True ii) False iii) False iv) True v) True**
- **C) i) 100 ii) Coinsurance iii) Reinsurer' iv) C v) Profit and Loss A/c vi) 20**

4.6 Exercise:

1. Short Answer Questions.

- a) Explain the situations when a claim is calculated.
- b) Explain accounting provisions for claims and claim paid.
- c) What is unexpired risk reserve and additional risk for unexpired risk.
- d) Explain the types of General insurance.

2. Long Answer Questions.

- a) Explain the types of Marine Insurance.
- b) Explain the types of Fire Insurance.
- c) Explain the types of Miscellaneous Insurance.

3. Write Short Note on:

- a) Claims
- b) Re-Insurance
- c) Reserve for Unexpired insurance

4. Problems for Practice:

1. Following is the trial balance of General Insurance Co. on 31st March, 2023 wasas:

Particulars		₹	₹
Funds at 1.4.2022	Fire marine		6,10,000 9,20,000
Premiums	Fire marine		1,70,000 3,56,000
Management expenses	Fire marine	37,500 42,500	
Interest & dividends			1,23,500
Interest reserve fund			36,000
Claims paid & outstanding	Fire marine	61,000 53,500	
Provident fund			46,000
Transfer fees			1500
Auditors fees		2000	
Direction fees		3500	
Motor car		12,000	
Preference share capital			4,00,000
Ordinary share capital			4,00,000
Forfeited share account			3500
Fire claims outstanding			10500
Marine claims outstanding			8500
Sundry creditors			1,11,000
Debtors for premiums		3500	
Fire claims recoverable		4500	
Furniture (original cost 45000)		40,000	
Taxes		13,500	
Reserve funds			1,13,500
Commission	Fire Marine	11000 13500	
Investments		30,00,000	
Cash		15,500	
Bank		75,000	
Land & building		5,00,000	
Profit & loss A/c (1.4.2022)			61,000

Amt. due to other offices			28,500
Amount due from offices		6000	
		38,99,500	38,99,500

Other Information :

- i) Depreciate furniture by 10% on original cost and motor car by 15%
- ii) Provide 40% of premium for unexpired risks and ₹ 3,500 for investment Reservefund in addition to existing balance.

Prepare Revenue A/c of Fire & Marine Dept, Profit & Loss A/c for the year ending 31.3.2023 & Balance sheet as on that date.

(Ans. Rev. A/c Fire profit 6,02,500 Marine 1019100)

2. Prepare Revenue Account and Profit & Loss A/C for Fire Insurance business for the year ended 31st March, 2023 from the following.

Profit & Loss A/C bal. 1.4.2022	1,25,000
Reserve for unexpired risk 1.4.2022	82,500
Fire Insurance premium	2,00,000
Interest & dividend (Cr) [Fire Insurance Fund]	5,000
Sunday general expenses	6,000
Interest & Dividend Less income tax (Cr)	12,500
Dividend to Shareholders	25,000
Transfer fees	15
Fire Insurance claim paid & outstanding	1,05,000
Fire Insurance commission	4,000
Fire Insurance expenses of management	42,500
Fire Insurance contribution to fire brigades	1,400
Additional fire insurance reserve 1.4.2022	77,500

The provision for unexpired risk on the basis of 50% of the fire premium income & carry forward the additional reserve.

(Ans. Revenue A/c – 34,600, P & L N/P. 41,115)

3. From the following figures prepare Revenue Account, P & L A/C and Balance sheet as on 31st March, 2023

Fire Fund (1.4.2022)	5,90,000	Profit & Loss A/C (Cr)	12,500
General Reserve	2,25,000	Reinsurance premium	56,263
Investments	18,00,000	Claims Recovered from	
Premiums	13,00,767	Reinsurers	10,560
Claims paid	3,01,408	Commission on Reinsurance ceded	24,008
Share capital – Dividend Into E/s of Rs. 100 each	5,00,000	Advance income tax paid	1,25,000
Commission on Direct Business	1,49,889	Expenses on Management	2,15,974
Commission on Reinsurance Accepted	30,019	Audit fees	18,000
Outstanding premium	11,150	Rent	33,750
Claims intimated but not Paid (1.4.2022)	30,000	Income from investments	76,500
Cash in hand / at bank	66231	Sundry Creditors	11,250
		Agenda balance (Dr)	10,000

Other Information :

- 1) The directors propose dividend @ 30% & dividend distribution tax is payable @ 11% which includes surcharge.
- 2) Income Tax to be provided at 40%
- 3) Claim intimated but not paid on 31st March, 2023 ₹ 52,000
- 4) Expenses of management include survey fees & legal expenses of ₹ 18,000 & ₹ 10,000 relating to claims.
- 5) Transfer of ₹ 1,12,500 to be made from current profits to General Reserve
- 6) The company maintains a reserve for unexpired risk @ 50% of the Net premium income.

Problem 4. Aasara Fire Insurance Co. Ltd. commenced its business on 1.4.2022. It submits you the following information for the year ended 31.3.2023:

Prepare Revenue account for the year ended 31.3.2023 from the following

information:.

Particulars	₹
Premiums received	60,00,000
Re-insurance premiums paid	4,00,000
Claims paid	28,00,000
Expenses of Management	12,00,000
Commission paid	2,00,000
Claims outstanding on 31.3.2023	4,00,000
Create reserve for unexpired risk @50%	

4.3 Reference for Further Study:

1. Advanced Accountancy- Institute of Chartered Accountant of India
2. Company Accounts and Audit- The Institute of Cost Accountants of India, CMA Bhawan, 12, Street, Kolkata - Revised Edition-2019
3. Insurance Regulatory and Development Authority Act, 1999,
4. Insurance Regulatory and Development Authority Regulations, 2002;
5. The Insurance Laws (Amendment) Act, 2015 NO. 5 OF 2015, Bharat Ka Rajpatra dt 20th March, 2015

