

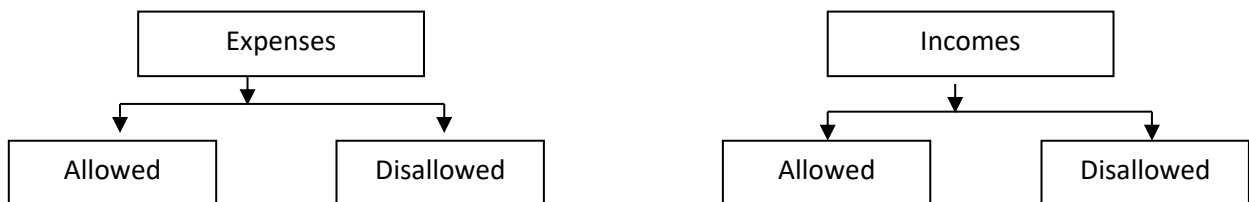
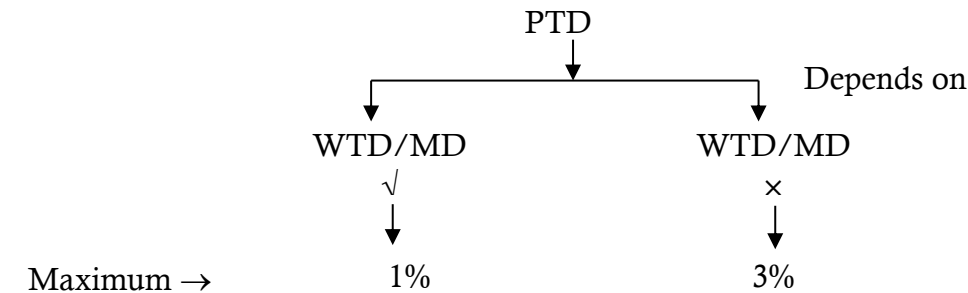
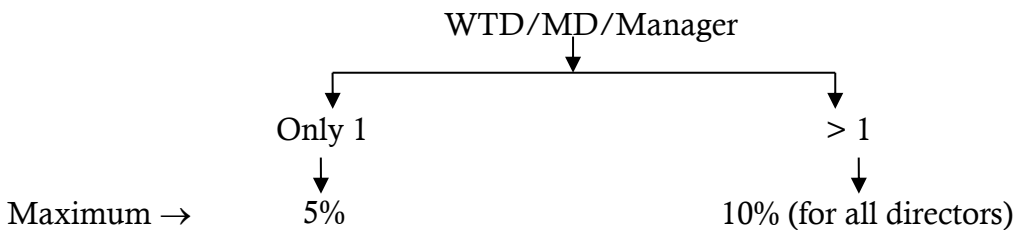
FINAL ACCOUNTS OF COMPANIES

MANAGERIAL REMUNERATION

Section 197 of Companies Act, 2013 : The total remuneration payable by a Public company to director, manager and managing director in any financial year **should not exceed 11% of net profit** of that company for financial year computed in a manner laid down in Section 198.

Percentage of remuneration allowed

WTD → Whole time director MD → Managing director PTD → Part time director



Forward approach	Backward approach
Gross Profit	Net Profit
+ Allowed incomes	- Disallowed incomes
- Allowed expenses	+ Disallowed expenses
= Net Profit for managerial remuneration	= Net Profit for managerial remuneration

COMPUTATION OF NET PROFIT

Allowed expenses	<ul style="list-style-type: none"> All Normal business expenses like salaries, rent etc. Interest on debt or any loan Actual repairs (Revenue nature) Depreciation as specified u/s 123 of Companies Act, 2013/Sch II Bonus as per payment of Bonus Act Compensation for breach of contract/Workment Compensation – Legal Loss on sale of fixed asset Charitable donations Directors fees
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Disallowed expenses	<ul style="list-style-type: none"> • Provisions like <ul style="list-style-type: none"> • Provision for tax • Provision for doubtful debt • Transfer to Reserve • Proposed/Declared dividend • Preliminary expenses written off • Expenditure on scientific research • Commission /salary to manager /director • Workmen compensation – Illegal/voluntary • Capital expenditure
Allowed Incomes	<ul style="list-style-type: none"> • Subsidy received from government (bounties) • Profit on sale of fixed assets (Revenue nature only) • Interest on investment • Transfer fees
Disallowed Incomes	<ul style="list-style-type: none"> • Premium on issue of share/debentures • Profit on sale of forfeited shares • Profit on sale of fixed asset (Capital nature)

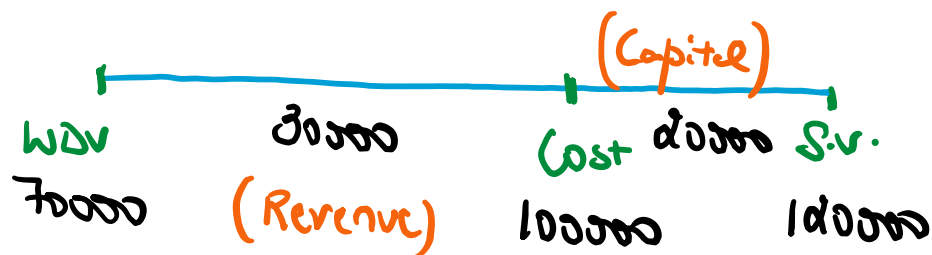
Fixed Assets

Original cost = 100000

W.D.V on date of sale = 70000

Sale value = 120000

Profit = 50000 (120000 - 70000)



Question

Following is the profit and loss account of Azad Ltd. for the year ended 31st March, 2020:

	Rs.		
To Office & administrative exp.	3,10,000	By Balance b/d	3,43,200
To Selling & distribution expenses	1,92,000	By Gross profit b/d	24,15,000
To Directors' fees	39,500	By Subsidies	1,39,300
To Managerial remuneration	1,70,000	By Interest on investment	9,500
To Interest on debentures	18,500	By Transfer fees	1,000
To Compensation for breach of contract	27,000	By Profit on sale of machinery (W.D.V. Rs.30,000)	25,000
To Donation to charitable trust	15,000		
To Depreciation on fixed assets	3,12,000		
To Preliminary Expenses	30,000		
To Investment revaluation reserve	12,500		
To Provision for taxation	7,10,000		
To General reserve	2,50,000		
To Balance c/d	8,46,500		
	29,33,000		29,33,000

Additional information:

- Original cost of the machinery sold was Rs. 40,000.
- Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 3,42,000.

You are required to calculate managerial remuneration in the following situations:

- when there is only whole-time director;
- when there are two whole-time directors; and
- when there are two whole-time directors, a managing director and a part-time director.

Solution

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

Particulars	Amount
Net Profit as per P&L A/c	8,46,500
Less: Balance b/d	(3,43,200)
Less: Capital Profit on sale of machinery (30,000+25,000-40,000)	(15,000)
Add: Managerial remuneration	1,70,000
Add: Depreciation on fixed assets	3,12,000
Less: Depreciation on fixed assets as per Companies Act	(3,42,000)
Add: Preliminary Expenses	30,000
Add: Investment revaluation reserve	12,500
Add: Provision for taxation	7,10,000
Add: General reserve	2,50,000
	16,30,800

Managerial remuneration:

- 1 whole-time director = $16,30,800 \times 5\% = 81,540$
- 2 whole-time directors = $16,30,800 \times 10\% = 1,63,080$
- 2 whole-time directors, 1 managing director & 1 part-time director = $16,30,800 \times 11\% = 1,79,388$

Remuneration in Case of Nil / Inadequate Profits

Where the effective capital of company is	Maximum Yearly remuneration
Negative or less than Rs. 5 crore	60 lacs
Rs. 5 crores & above but less than Rs. 100 crores	84 lacs
Rs. 100 crores & above but less than Rs. 250 crores	120 lacs
Rs. 250 crores & above	120 lacs + 0.01% of effective capital in excess of 250 crores

Provided that above limits can be increased if resolution passed by shareholders is special resolution. Also clarified that for a period < 1 year limits shall be pro rated

COMPUTATION OF EFFECTIVE CAPITAL

1.	Paid up Capital (Does not include share application money for which allotment is pending)	xx
+ 2.	Reserves & Surplus [Includes Securities Premium but excluding Revaluation Reserve]	xx
+ 3.	Long Term Borrowings [Like Debentures, Deposits payable after 1 year]	xx
(-) 4.	Accumulated Losses	(xx)
(-) 5.	Preliminary expenses not written off	(xx)
(-) 6.	Investments [If held by Non Investment Company]	(xx)
Effective Capital		xx

Question

The following extract of Balance Sheet of Star Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2020

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

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

Solution**Computation of effective capital:**

	Where Star Ltd. is a non- investment company	Where Star Ltd is an investment company
Paid-up share capital		
45,000, 14% Preference shares	45,00,000	45,00,000
3,60,000 Equity shares	2,88,00,000	2,88,00,000
Capital reserves	1,35,000	1,35,000
Securities premium	1,50,000	1,50,000
15% Debentures	1,95,00,000	1,95,00,000
Public Deposits	11,10,000	11,10,000
Profit and Loss account (Dr. balance)	(45,75,000)	(45,75,000)
Investments	(2,25,00,000)	-
Effective capital	2,71,20,000	4,96,20,000

SCHEDULE III TO THE COMPANIES ACT 2013

PART I – BALANCE SHEET

Name of the Company.....

Balance Sheet as at

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
A.	EQUITY AND LIABILITIES			
1.	Shareholder's funds			
a	Share capital			
b	Reserves and surplus			
c	Money received against share warrants			
2.	Share application money pending allotment			
3.	Non-Current Liabilities			
a	Long-term borrowings			
b	Deferred tax liabilities (Net)			
c	Other long term liabilities			
d	Long-term provisions			
4.	Current Liabilities			
a	Short-term borrowings			
b	Trade payables			
c	Other current liabilities			
d	Short-term provisions			
	TOTAL			
B.	ASSETS			
1.	Non-Current Assets			
a	Property, Plant & Equipment			
i.	Tangible assets			
ii.	Intangible assets			
iii.	Capital work-in-Progress			
iv.	Intangible assets under development			
b	Non-current investments			
c	Deferred tax assets (net)			
d	Long-term loans and advances			
e	Other non-current assets			
2.	Current Assets			
a	Current investments			
b	Inventories			
c	Trade receivables			
d	Cash and cash equivalents			
e	Short-term loans and advances			
f	Other current assets			
	TOTAL			

OPERATING CYCLE:

It is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

R/M Period + WIP Period + FG Period + Collection Period

CONTINGENT LIABILITIES and COMMITMENTS (to the extent not provided for)

- a. Claims against the company not acknowledged as debt
- b. Guarantees
- c. Arrears of fixed cumulative dividends on preference shares
- d. Estimated amount of contracts remaining to be executed on capital account and not provided for
- e. Uncalled liability on shares and other investments partly paid
- f. Bills discounted not yet matured
- g. Other money for which the company is contingently liable & other commitments.

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company.....

Profit and loss statement for the year ended

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
I.	Revenue from operations			
II.	Other income			
III.	Total Revenue (I + II)			
IV.	Expenses:			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, work-in-progress and Stock-in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total Expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)			
VI.	Exceptional items			
VII.	Profit before extraordinary items and tax (V - VI)			
VIII.	Extraordinary Items			
IX.	Profit before tax (VII- VIII)			
X	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)			
XII.	Profit/(loss) from discontinuing operations			
XIII.	Tax expense of discontinuing operations			
XIV.	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit (Loss) for the period (XI + XIV)			
XVI.	Earnings per equity share:			
	(1) Basic			
	(2) Diluted			

Note: Any item of income or expenditure which exceeds 1% of the revenue from operations or Rs. 1,00,000 whichever is higher to be separately disclosed.

DIVISIBLE PROFITS

Profits for all previous years (excluding loss years) before dep.

(-) Dep. as per Companies Act (Sec 123, Sch II) (All years incl. loss years)

xx
(xx)
xx

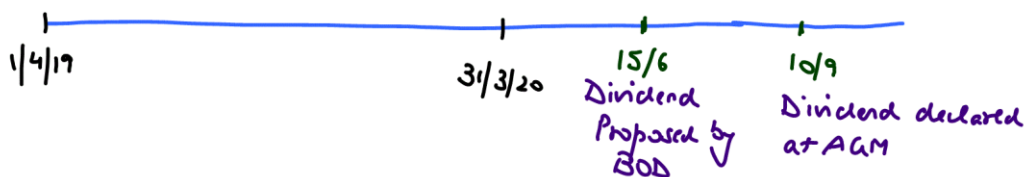
Dividend

- 1) It is paid to shareholders, PSH being paid first
 - 2) It is generally calculated on paid up capital i.e. Called up Capital - Calls in Arrears
 - 3) No Dividend on Calls in Advance
 - 4) Dividend to be declared/paid out of
 - a) Profits of Company for that year or previous years but after providing depreciation as per Sch II.
 - b) Money provided by CA or SA in pursuance of guarantee given by Govt.
- Note: Dividend to be declared/paid out of free reserves.

WITHDRAWAL FROM RESERVES

- 3 conditions to be fulfilled for declaration of dividend out of reserves:
- 1) Rate of D/D cannot exceed average of previous 3 years.
 - 2) Maximum amount that can be withdrawn from reserves $\leq 101\%$ of (Paid up Capital + Free Reserves)
 - 3) Minimum amount left in reserves after withdrawal $\geq 151\%$ of (Paid up Capital)

Dividend Adjustment



Earlier/OLD

FY 2019-20 : 31/3/20

P&L A/c - Dr
TO Proposed D/D

FY 2020-21 : Payment

Proposed D/D A/c - Dr
TO Bank A/c

Now

FY 2019-20

No Accounting Entry
Disclosure in notes of D/D Proposed

FY 2020-21

Declared : P&L - Dr
TO D/D Payable

Payment : D/D Payable - Dr
Bank

Example:

Profit for the year = 2000000

Opening P&L : 300000

Equity Share Capital = 5000000

Dividend Declared 10%. Transfer to General Reserve 5% of Profits

Note to Reserve & Surplus

1. P&L/Surplus

Opening

300000

+ Current Year

2000000

- Transfer to General Res.

(100000)

(2000000 x 5%)

- Dividend Payable

(500000)

(5000000 x 10%)

* - CDT Payable

(102776)

(500000 x 100 / 85) x 17.47%

1597224

100000

2. General Reserve

Adjustments

①

Trial Balance

	Dr	Cr.
Salary	50000	

Salary Payable 20000

②

Trial Balance

	Dr.	Cr.
Salary	80000	
o/s Salary		20000

P&L: Emp. Benefit Exp: Salary = 50000 + 20000 = 70000

P&L: Emp. Benefit Exp: Salary : 80000

B/s: Current Liab: OCL : o/s Salary = 20000

B/s: Current Liab: OCL : o/s Salary = 20000

③

Trial Balance

	Dr.	Cr.
Machinery	100000	

Dep. @ 10%

④

Trial Balance

	Dr.	Cr.
Machinery	150000	
Depreciation		20000

P&L : Depreciation = 1L x 10% = 10000

P&L : Depreciation = 20000

B/s : Tangible Fixed Assets
Machinery = 1L - 10000 = 90000

B/s : Tangible Fixed Assets
Machinery = 150000

5

Trial Balance

	Dr	Cr.
Machinery	200000	
Acc-Dep. / Provision for Dep.		50000

Dep. @ 10% on cost / 10% on WDV

PL : Depreciation = $2L \times 10\% = 20000$ / Dep. = $(2L - 50000) \times 10\% = 15000$

B/s : Tangible Fixed Assets

Machinery	200000
- Acc-Dep.	(70000)
(50000 + 20000)	<u>130000</u>

Machinery	200000
- Acc-Dep.	(65000)
(50000 + 15000)	<u>135000</u>

6

Trial Balance

	Dr.	Cr.
Machinery	200000	
Acc-Dep.		50000
Dep.	10000	

PL : Depreciation = 10000

B/s : Tangible Fixed Assets

Machinery	200000
- Acc-Dep.	(50000)
	<u>150000</u>

7

Trial Balance

	Dr.	Cr.
Opening Stock	50000	
Purchases	400000	
Closing Stock		30000

PL : Purchases 400000
Change in Inventory 20000
(50000 - 30000)

B/s : Current Assets
Inventories 30000

8

Trial Balance

	Dr.	Cr.
Closing Stock	50000	
Adjusted Purchases	30000	
<u>Op. Stock</u> <u>+ Purchases</u> <u>- closing Stock</u>		
<u>PA/L</u> : Purchases		30000
Change in Inventory		
<u>B/S</u> : Current Assets		
Inventory	50000	

9

If written

Closing Stock is 20000 more than opening stock

Then

Opening Stock = 30000
Purchases = 320000

<u>PA/L</u> : Purchases	320000
Change in Inv.	(20000)
<u>B/S</u> : Inventory	50000

10 Dividend Related

Case 1: Appearing in Trial Balance

a) Trial Balance

	Dr	Cr.
Dividend Payable / CD/ Payable	-	50000

Entry Passed : PA/L A/c - Dr
To D/D / CD/ Payable

B/S : Current Liab : DCL :- D/D / CD/ Payable

b) Trial Balance

	Dr	Cr.
Dividend / Interim D/D Paid	30000	

Entry Passed : Dividend A/c - Dr 30000
To Bank A/c 30000

B/S : Note to Res. & Surplus
PA/L / Surplus xx
- Dividend paid (30000)

c) Trial Balance

	Dr.	Cr.
Proposed D/D		20000

This case not possible as per AS-4 (Revised)

However if its appearing, show it under

Current Liab : Short term Provisions

Case 2: Appearing outside Trial Balance

a) Dividend Proposed → No Accounting Entry
Disclosure in notes to A/cs of Dividend proposed

b) Dividend Declared ① Note to Reserve & Surplus

Entry : PA/L - Dr
To Dividend Payable
To CD/ Payable

PA/L / Surplus	xx
- Dividend Payable	(xx)
- CD/ Payable	(xx)

② Current Liab : Other Current Liabilities
Dividend Payable xx
CD/ Payable xx

11 Share forfeiture & Reissue

Example: 20000 equity shares of 10 each fully called up
Calls in Arrears on 3000 Sh. @ 2/Share

①

Calls in Arrears	✓
Sh. Forfeiture	x

Share capital

20000 Sh. of 10 each	200000
- Calls in Arrears (3000 x 2)	(6000)
	<u>194000</u>

Dividend on: 194000

②

Calls in Arrears	✓
Sh. Forfeiture	✓
Sh. Reissue	x

Entry:

Sh. Capital - Dr	3000 x 10
To Sh. F.F. A/c	3000 x 8
To Calls in Arrears	3000 x 2

③

Calls in Arrears	✓
Sh. Forfeiture	✓
Sh. Reissue	✓

Reissued @ 5/Share

Entry:

Bank A/c - Dr	3000 x 5
Sh FF A/c - Dr	3000 x 5
To Sh. Capital	3000 x 10

Share capital

17000 Sh. of 10 each	170000
+ Share FF. A/c (3000 x 8)	24000
	<u>194000</u>

Dividend on: 170000

Sh FF A/c - Dr	3000 x 3
To Capital Res.	3000 x 3

Share capital

20000 Sh. of 10 each	200000
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Res. & Surplus

Capital Res.	3000 x 3
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Dividend on: 200000

Question

On 31st March, 2020, X Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 2020.

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

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

- (1) 50,000 fully paid equity shares were allotted as consideration for land.
- (2) The cost of assets were:
 - Building Rs. 32,00,000
 - Plant and Machinery Rs. 30,00,000
 - Furniture and Fixture Rs. 16,50,000
- (3) Trade Receivables for Rs. 4,86,000 due for more than 6 months.
- (4) Balances with banks include Rs. 56,000, the Naya bank, which is not a scheduled bank.
- (5) Loan from Public Finance Corporation repayable after 3 years.
- (6) The balance of Rs. 26,30,000 in the loan account with Public Finance Corporation is inclusive of Rs. 1,34,000 for interest accrued but not due.
- (7) Other long term loans (unsecured) includes:
 - Loan taken from Nixes Bank Rs. 13,80,000 (Amount repayable within one year Rs. 4,80,000)
 - Loan taken from Directors Rs. 8,50,000
- (8) Bills Receivable for Rs. 1,60,000 maturing on 15th June, 2020 has been discounted.
- (9) Short term borrowings includes:
 - Loan from Naya bank Rs. 1,16,000 (Secured)
 - Loan from directors Rs. 48,000
- (10) Transfer of Rs. 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.
- (11) Inventory of finished goods includes loose tools costing Rs. 5 lakhs (which do not meet definition of property, plant & equipment as per AS-10)

You are required to prepare the Balance Sheet of the Company as on March 31st 2020 as required under Part - I of Schedule III of the Companies Act, 2013. You are not required to give previous year figures.

Solution

X Ltd.
Balance Sheet as on 31st March, 2020

Particulars	Notes	Rs.
Equity and Liabilities		
(1) Shareholders' funds		
a) Share capital	1	79,85,000
b) Reserves and Surplus	2	30,21,000
(2) Non-current liabilities		
a) Long-term borrowings	3	42,66,000
(3) Current liabilities		
a) Trade Payables		8,13,000
b) Other current liabilities	4	6,84,000
c) Short-term provisions	5	3,80,000
d) Short-term borrowings	6	4,60,000
Total		1,76,09,000
Assets		
(1) Non Current assets		
a) Property, Plant & Equipment		
(i) Tangible assets	7	92,00,000
(2) Current assets		
a) Inventories	8	58,00,000
b) Trade receivables	9	17,50,000
c) Cash and cash equivalents	10	4,84,000
d) Short-term loans and advances		3,75,000
Total		1,76,09,000

Notes to accounts

No.	Particulars		Rs.
1.	Share Capital		
	Equity share capital		
	Issued & subscribed & called up		
	1,60,000 Equity Shares of Rs.50 each (of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
	Less: Calls in arrears	(15,000)	79,85,000
	Total		79,85,000
2.	Reserves and Surplus		
	General Reserve	9,41,000	
	Add: Current year transfer	<u>35,000</u>	9,76,000
	Profit & Loss balance		
	Profit for the year	5,80,000	
	Less: Appropriations:		
	Transfer to General reserve	<u>(35,000)</u>	5,45,000
	Securities Premium		15,00,000
	Total		30,21,000
3.	Long-term borrowings		
	Secured: Term Loan		
	Loan from Public Finance Corporation [repayable after 3 years (26,30,000 - 1,34,000 for interest accrued but not due)] (Secured by hypothecation of plant and machinery)		24,96,000
	Unsecured Loan		
	Bank Loan (Nixes Bank) (13,80,000-4,80,000)	9,00,000	

	Loan from Directors	8,50,000	
	Others	<u>20,000</u>	17,70,000
	Total		42,66,000
4.	Other current liabilities		
	Interest accrued but not due on borrowings	1,34,000	
	Unpaid dividend	70,000	
	Loan from Nixes bank repayable within one year	<u>4,80,000</u>	6,84,000
5.	Short-term provisions		
	Provision for taxation		3,80,000
6.	Short-term borrowings		
	Loan from Naya bank (Secured)	1,16,000	
	Loan from Directors	48,000	
	Others	<u>2,96,000</u>	4,60,000
7.	Tangible Assets		
	Land		25,00,000
	Building	32,00,000	
	Less: Depreciation	<u>(2,00,000)</u>	30,00,000
	Plant & Machinery	30,00,000	
	Less: Depreciation	<u>(6,00,000)</u>	24,00,000
	Furniture & Fittings	16,50,000	
	Less: Depreciation	<u>(3,50,000)</u>	13,00,000
	Total		92,00,000
8.	Inventories		
	Raw Materials		13,00,000
	Finished Goods		40,00,000
	Loose tools		<u>5,00,000</u>
	Total		58,00,000
9.	Trade receivables		
	Outstanding for a period exceeding six months		4,86,000
	Other Amounts		12,64,000
	Total		17,50,000
10.	Cash and cash equivalents		
	Cash at bank		
	With Scheduled Banks	3,58,000	
	With others	<u>56,000</u>	4,14,000
	Cash in hand		70,000
	Total		4,84,000

Contingent Liabilities and Commitments (to the extent not provided for)

Contingent Liabilities: Bills discounted but not matured 1,60,000