FINAL ACCOUNTS OF COMPANIES

Treatment of important items

(i) Disposal of profits

	Rs
Surplus in the Statement of Profit and Loss:	
As per the last B/S (if any)	----
Add Profit for the year	----

Less Appropriation:	
(i) Transfer to General Reserve ---	
(ii) Transfer to Capital Redemption Reserve (on redemption of preference shares out of profit and on buy-back of equity shares) ---	
(iii) Proposed dividend on equity shares ---	
(iv) Proposed dividend on preference shares ---	
(v) Corporate dividend tax (or Dividend distribution tax) ---	

	----

③ **Accounting Treatment for Interim Dividend**

(i) For opening a separate bank A/C for interim dividend.

Interim dividend bank A/C -- Dr.
To Bank A/C ---- Cr.

(ii) For the payment of interim dividend

Interim dividend A/C -- Dr.
To Interim Dividend Bank A/C -- Cr

(iv) For the transfer of interim dividend ~~tax~~ paid as well as corporate dividend tax paid

Surplus A/C --- Dr.
To Interim dividend ~~tax~~ A/C ---- Cr.
To Corporate dividend tax A/C --- Cr.

(iii) For the payment of corporate dividend tax

Corporate dividend tax A/C -- Dr.
To Bank A/C -- Cr.

(2) Transfer of Profits to Reserves

As per Section 123 of the Companies Act, 2013, a company may, before the

P.T.O.

declaration of any dividend in any financial year, transfer voluntarily such percentage of its profits for that financial year as it may appropriate to the reserves of the company.

(C) Corporate Dividend Tax

As the liability in respect of C.D.T. is related to distribution of profits as dividend, it should be deducted from surplus of the same year in which the dividend is recorded as a deduction from surplus.

It should be disclosed in the ~~pla~~ notes to Balance Sheet as follows:

Reserves and Surplus:

	Surplus	---
Less	Dividend on equity shares	(–) ---
	Dividend on preference shares	(–) ---
Less	Corporate dividend tax (Dividend distribution tax)	(–) ---
		---

It may be noted that current rate of CDT is 15% on dividend paid plus surcharge @ 10% of tax, plus education cess @3% (i.e. total rate of 16.995) for the financial year 2012-13. (4)

(4) Imp Accounting Treatment for Final Dividend

(i) For proposing the final dividend

Surplus A/c ---Dr.
To Proposed dividend A/c-Cr.
To Provision for CDT A/c-Cr.

(ii) For declaring the final dividend

Proposed dividend A/c--Dr.
To Dividend payable A/c--Cr.

(iii) For opening a separate bank A/C for paying dividend

Dividend bank A/c--Dr.
To Bank A/c ---Cr.

(iv) For the payment of dividend

Dividend payable A/c--Dr.
To Dividend bank A/c-Cr.

(v) For the transfer of unpaid or unclaimed dividend

Dividend payable A/c--Dr.
To Unpaid/Unclaimed dividend A/c ---Cr.

(vi) For the payment of Corporate dividend tax (5)

Not required

Provision for CDT A/c--Dr.
To Bank A/c --- Cr.

(vii) For the transfer of unpaid or unclaimed dividend to Investors' Education and Protection Fund at the end of 7 years

Unpaid/Unclaimed Dividend A/c ---Dr.
To IEPF A/c ----Cr.

(viii) For the actual payment out of IEPF A/c

IEPF A/c ---Dr.
To Dividend Bank A/c ----Cr.

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(6) Payment of interest out of capital

A company may pay interest out of capital in the following 2 cases:

(i) where interest is paid on calls-in-advance accepted by the company u/s 50.

(ii) where interest is paid on the paid-up share capital

(6)

issued for financing construction works, buildings or plants which can not be made profitable for a long period. The interest amount may be charged as part of the cost of construction of the works or building or the provision of the plant.

(7) Interest on investment

(i) Bank A/c ---Dr.
To Interest on investment A/c--Cr.

(ii) Accrued interest on investment--Dr. (if any)
To Interest on investment A/c Cr.

Accrued interest should be shown as addition to I.O.I. under Other income in the Statement of Profit and Loss and as Other current assets under the head Current Assets in the Balance Sheet.

(8) Interest on debenture

(i) Interest on debentures A/c--Dr.
To Bank A/c --- Cr.

(7)

(ii) Interest on debentures A/c--Dr.
To Interest accrued & due A/c ---- Cr.

Interest accrued and due A/c would be shown as addition to interest on debentures under Finance cost in the Statement of profit and Loss, and as other current liabilities under the head Current Liabilities in the Balance Sheet.

Income tax on debenture interest, deducted at source has to be deposited with income-tax authorities. Any tax still not deposited till the end of the accounting period must be shown as short term provisions under the head Current Liabilities in the Balance Sheet.

(9) Profit on revaluation of assets

Asset A/c ---Dr.
To Revaluation reserve A/c--Cr.

Profit on revaluation of assets would be added to the concerned Fixed Asset A/c and also added to Revaluation Reserve in the Notes to Accounts.

(10) Treatment of prior-period items

Prior-period items may be defined as expenses (charges) or incomes (credits) which arise in the current accounting period as a result of errors and omissions in the preparation of financial statements of one or more periods.

(i) For prior-period expenses

Profit & Loss A/c --Dr.
To Prior-period expense A/Cs --- Cr.

(ii) For prior-period incomes

Prior-period income A/c --Dr.
To Profit & Loss A/c --- Cr.

(11) Capital redemption reserve

9

In case the preference shares have been redeemed during the accounting year out of profits or other free reserves, it is necessary to capitalise the profits and free reserves by creating Capital Redemption Reserve. If it has not been done on the finalisation of trial balance, the company will have to make entry for Capital Redemption Reserve before the financial statements are prepared.

Surplus A/c --- Dr.
General reserve A/c -- Dr.
To Capital redemption reserve A/c ----- Cr.

(12) Provision for tax

Profit and Loss A/c -- Dr.
To Provision for Tax A/c ------ Cr.

While tax expense is reflected in the Statement of Profit and Loss, Provision for

tax is shown in the (10)
Balance Sheet as Short-term provision (sub-heading) under the main heading of Current Liabilities.

Imp.
(13) Income tax payments

(i) For advance tax paid

Advance tax A/c --Dr.
To Bank A/c --- Cr.

Advance tax until final adjustments are made, is reflected in the Balance Sheet as short-term loans and advances under the main heading Current Assets or as long-term loans and advances under the main heading Non-current Assets as the case may be.

(ii) For tax deducted at source (say, on interest income received)

Bank A/c ---Dr.
TDS A/c ---Dr.
To Interest received A/c--Cr.

TDS would be disclosed in the Balance Sheet as short-term loans and advances (sub- (11)
heading) under the main heading: Current Assets.

Imp.
(14) Tax due on final assessment

Profit & Loss A/c ---Dr.
To Provision for tax A/c --Cr.

(if the actual tax liability as determined is more than the provision for tax i.e. estimated liability)

or

Provision for tax A/c--Dr.
To P&L A/c --- Cr.

(if the actual tax liability is less than the provision for tax)

Imp.
(15) Year-end adjustment of provision for tax, advance tax paid and TDS

(i) Provision for tax A/c--Dr.
To Advance tax A/c--Cr.
To TDS A/c --- Cr.

If the sum-total of advance tax paid and TDS is less than the provision for tax A/C, the difference should be transferred from Provision for tax A/C to Liability for tax A/C.

(ii) Provision for tax A/C -- Dr.
To Liability for tax A/C ---- Cr.

Liability for tax until paid is shown as other current liability under the head Current Liabilities. As soon as it is paid, the following entry is passed:

(iii) Liability for tax A/C -- Dr.
To Bank A/C ---- Cr.

In case the advance tax paid, tax deducted at source etc. is more than the actual tax liability or the provision for tax, the excess is treated as Refund due

Refund due A/C -- Dr.
To Provision for tax A/C -- Cr.

Refund due is shown under Other current assets or under Long-term Loans and Advance as the case may be, until it is received. On receipt of Refund, the entry is:

(ii) Bank A/C -- Dr.
To Refund due A/C -- Cr.

(v)	Preference Dividend Bank Account To Bank Account (Being transfer of cash to preference dividend bank account)	Dr.	30,000	30,000
(vi)	Preference Dividend Account To Preference Dividend Bank Account (Being payment of preference dividend)	Dr.	30,000	30,000
(vii)	Surplus To Bonus Issue Account (Capitalisation of divisible profits for making partly shares as fully paid)	Dr.	4,00,000	4,00,000
(viii)	Equity Share Final Call Account To Equity Share Capital Account (Being final call of ₹ 5 made on 80,000 equity shares)	Dr.	4,00,000	4,00,000
(ix)	Bonus Issue Account To Equity Share Final Call Account (Being Issue of bonus shares)	Dr.	4,00,000	4,00,000
(x)	Securities Premium Account General Reserve Account To Bonus Issue Account (Being capitalisation of securities premium account and general reserve for issuing fully paid bonus shares to existing equity shareholders)	Dr. Dr.	2,50,000 1,50,000	 4,00,000
(xi)	Bonus Issue Account To Equity Share Capital Account (Being issue of fully paid bonus shares)	Dr.	4,00,000	4,00,000
(xii)	Surplus Account To Equity Dividend Account To Corporate Dividend Tax Account (Being declaration of equity dividend)	Dr.	1,87,192	 1,60,000 27,192
(xiii)	Equity Dividend Bank Account To Bank Account (Being payment of equity dividend)	Dr.	1,60,000	1,60,000
(xiv)	Equity Dividend Account To Equity Dividend Bank Account (Being payment of equity dividend)	Dr.	1,60,000	1,60,000
(xv)	Corporate Dividend Tax Account To Bank Account [Being payment of Corporate Dividend Tax (5,099 + 27,192) on preference and equity dividend]	Dr.	32,291	32,291

① Imp

Illustration 14 (Final Accounts)

The following are the balances of Johri Aabhushan Bhandar Co. Ltd. as on 31 March, 2013 :

Credit Balance	₹	Debit Balance	₹
Share Capital (₹ 100 Shares)	40,00,000	Premises	30,72,000
12% Debentures	30,00,000	Plant	33,00,000
Profit and Loss Statement	4,00,000	Stock	7,50,000
Bills payable	3,70,000	Debtors	8,70,000

Creditors	4,00,000	Goodwill	2,50,000
Sales	41,50,000	Cash and Bank	5,44,000
General Reserve	2,50,000	Calls in Arrear	75,000
Bad-Debts Provision on		Interim Dividend Paid	3,92,500
01.04.2012	35,000	Purchases P&L	18,50,000
		Preliminary Expenses	50,000
		Wages P&L	9,79,800
		General Expenses P&L	68,350
		Salaries P&L	2,02,250
		Bad-debts P&L	21,100
		Debentures Interest paid P&L	1,80,000
	1,26,05,000		1,26,05,000

Informations :

P&L (i) Depreciate plant by 15%.

P&L (ii) Write off ₹ 5,000 from preliminary expenses.

P&L (iii) Half year's Debenture Interest due.

P&L (iv) Create 5% provision on debtors for doubtful debts.

P&L (v) Provide for income tax @ 50%.

P&L (vi) Stock on 31 March, 2013 was ₹ 9,50,000.

(vii) A claim of ₹ 25,000 for workmen compensation is being disputed by the company.

(viii) The Board declared a dividend of 12% on paid up capital including interim dividend after a transfer of 2½% of net profits

(ix) The Corporate Dividend Tax is 17%.

Prepare Final Accounts of the company. [B. Com. (Hons.) Delhi]

Johri Abhushan Co.
Balance Sheet As At 31 March 2013

	Particulars	Note	₹	₹
I	**EQUITY AND LIABILITIES**			
	(i) Shareholders' Funds			