Some Special Adjustments of Finalization for Accounts of Trading Concern

Adjustment No. 1

Goods costing ₹60,000 consigned to Mr. Z (consignee) for sale on 10% commission. Mr. Z sold 3/4th of the goods at a profit of 25% on sales. The unsold stock to be valued at cost. Mr. Z sent an advance of ₹30,000 which was credited to his Suspense Account. This will be shown in Trial Balance. The unsold stock to be valued at cost. Mr. Z sent an advance of ₹30,000 which was credited to his Suspense Account. This will be shown in Trial Balance.

Adjustments for No. 1

Dr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goods Sent on Consignment A/c	60,000	By Z's A/c	60,000
To Z's A/c - Commission	6,000	By Closing Stock A/c (N- 5)	15,000
To, Profit and Loss A/c (Profit on Consignment) (N-2)	9000		
	75,000		75,000

Calculation of Sales:

₹45,000 (cost) + 1/3 of ₹45,000 = ₹60,000 is the amount of Total Sales. ₹60,000 ×¼ = ₹15,000 i.e. Closing Stock.

Dr. **Mr. Z's Account** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Consignment A/c	60,000	By Z's Suspense A/c (N-1)	30,000
		By Consignment A/c	6,000
		By Balance c/d (N-3)	24,000
	60,000		60,000

Dr. **Trading Account (Extract) for the year ended ....** Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
To Purchase (Say) Less: Consignment goods purchase	1,60,000 60,000	1,00,000		

Balance Sheet (Extract)

as at 31.03.xxxxx

Liabilities	Amount (₹)	Assets	Amount (₹)	Amount (₹)
		Closing Stock (say) Add: Consignment Stock	1,00,000 15,000	1,15,000

Impact in Accounts

- N-1= Suspense Account to be cancelled. (Now transferred to Z's Account)
- N-2 = In Profit and Loss Account Credit side, the Profit on Consignment will appear.
- N- 3 = Amount receivable from consignee Mr. Z ₹ 24,000 shall be shown in Asset Side of Balance Sheet.
- N-4= Deduct ₹60,000 from Purchases.
- N-5= Consignment stock with Mr. Z ₹15,000 will be shown in Balance Sheet, Asset side, closing stock.

Adjustment No. 2

On 01.01.14 A entered into a Joint Venture with B on equal profit sharing basis. B supplied goods costing ₹27,000 which were recorded in Purchase Day Book. A sold these goods at a Profit of 25% on Sales and included in Sales Account. B spent ₹1,200 for dispatch of theses gods for which no entry was mode. The Joint Venture Suspense Account is showing ₹800 in Trial Balance and it represents expenses made by A.

Adjustment for No.2

(a) For goods supplied by B wrongly entered in the Purchase Day Book. So, the rectifying entry is:

Particulars		L.F.	Dr. Amount (₹)	Cr. Amount (₹)
Joint Venture A/c To, Purchase A/c	Dr.		27,000	 27,000
Sundry Creditors A/c To B's A/c	Dr.		27,000	 27,000

(b) Goods Sold by A at a 25% of Profit but wrongly entered in the sales Account:

Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
Sales A/c Dr.		36,000	
To Joint Venture A/c (27,000 +1/3 of 27,000)			36,000

(c) B Spent some expenses for dispatch of goods:

Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
Joint Venture A/c Dr.		1,200	
To B's A/c			1,200

(d) Joint Venture suspense account transferred to Joint Venture :

Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
Joint Venture A/c Dr.		800	
To Joint Venture Suspense A/c			800

(e) For Joint venture Profit and Loss :

Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
Joint Venture A/c Dr.		7,000	
To Profit and Loss A/c			3,500
To, B's A/c			3,500

Dr. **Joint Venture Account** Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Purchase A/c (N-4)		27,000	By Sales A/c (N-3)	36,000
To, B's A/c		1,200		
To, Joint Venture Suspense A/c (N-5)		800		
To, Profit on Venture				
-P/L A/c - (N-1)	3,500			
- B	3,500	7,000		
		36,000		36,000

Dr. **B's Account** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
		By, Joint Venture A/c – Purchase	27,000
		By, Joint Venture A/c – Expenses	1,200
To, Balance c/d (Balance due to B) (N=2)	31,700	By, Joint Venture A/c –Profit and Loss	3,500
	31,700		31,700

Impact in Accounts

N-1 = Amount shown in the Profit and Loss Account

N-2 = Amount shown in the Liability side of the closing Balance Sheet.

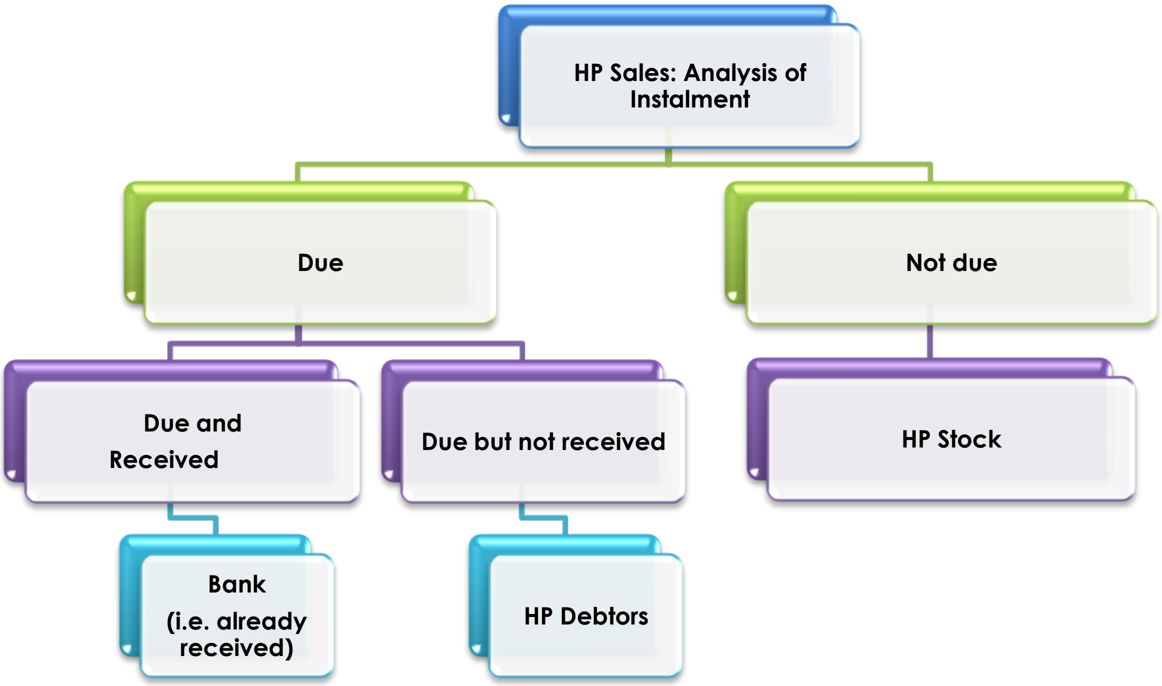
N-3 = ₹ 36,000 to be deducted from sales

N- 4 = ₹ 27,000 to be deducted from purchases and also to be deducted from creditors.

N-5 = Suspense account will be cancelled and closed.

Adjustment No. 3

Sales include ₹40,000 from Hire Purchase (HP) Sales. HP Sales = Cost Price + 33 % of Cost Price. 40% of Installments have not fallen due as yet.



Steps are:

<u>1st Step</u>

Particulars		L.F.	Amount (₹)	Amount (₹)
Sales A/c	Dr,		40,000	
To, Hire Purchase Sale s A/c				40,000

- **<u>Deduct</u> from the <u>Sales.</u>**

<u>2nd Step</u>

Cost of Goods sold —

= ₹40,000 – ¼ of ₹40,000

= ₹40,000 – ₹10,000

= ₹30,000

- Deduct from Purchase.

3rd Step

Matured Installments (fall on due = 60%)

= 60% of ₹40,000

= ₹24,000

∴ **Profit from Hire Purchase Sales (Matured)**

= ¼ × ₹24,000

= ₹6,000

- In the Profit and Loss Account (Cr.)

4th Step:

Installment not yet matured

= 40% of ₹40,000

= ₹16,000

- This should be deducted from "Debtors" in Balance Sheet.

5th Step:

Cost Price of installment not yet matured

= ¾ × ₹16,000

= ₹12,000

- It is to be shown in Balance Sheet Asset as Hire Purchase Stock.

Payment of Bonus Act, 1965

Applicability:

The Act extends to the whole of India. It applies to –

(i) every factory [as defined in Sec 2(m) of Factories Act, 1948]

(ii) every other establishment in which 20 or more persons are employed on any day during any accounting year. [Sec. 1(3)]

Act does not apply to certain categories of employees (Sec 32):

Nothing in this Act shall apply to—

(i) employees employed by the Life Insurance Corporation of India;

(ii) seamen as defined in clause (42) of section 3 of the Merchant Shipping Act, 1958

(iii) employees registered or listed under any scheme made under the Dock Workers (Regulation of Employment) Act, 1948), and employed by registered or listed employers;

(iv) employees employed by an establishment engaged in any industry carried on by or under the authority of any department of the Central Government or a State Government or a local authority;

(v) employees employed by—
  (a) the Indian Red Cross Society or any other institution of a like nature (including its branches);
  (b) universities and other educational institutions;
  (c) institutions (including hospitals, chambers of commerce and social welfare institutions) established not for purposes of profit;

(vi) employees employed by the Reserve Bank of India;

(vii) employees employed by—
  (a) the Industrial Finance Corporation of India;
  (b) any Financial Corporation established under section 3, or any Joint Financial Corporation established under section 3A, of the State Financial Corporations Act, 1951;
  (c) the Deposit Insurance Corporation;
  (d) the National Bank for Agriculture and Rural Development;]
  (e) the Unit Trust of India;
  (f) the Industrial Development Bank of India;
  (g) the Small Industries Development Bank of India
  (h) the National Housing Bank;
  (i) any other financial institution 46 [(other than a banking company)], being an establishment in public sector, which the Central Government may, by notification in the Official Gazette, specify, having regard to -
    1. its capital structure;
    2. its objectives and the nature of its activities;
    3. the nature and extent of financial assistance or any concession given to it by the Government; and
    4. any other relevant factor;

(viii) employees employed by inland water transport establishment, operating on routes passing through any other country.

<u>Amount of Bonus:</u>

As understood from the act, there are provisions of payment of minimum and maximum bonus to the employees in an accounting year so that they are not deprived from the receipt of bonus. The bonus is payable even if there are losses in that particular accounting year. This ensures a regular sustained income to the employees which are in addition to their salary or wages.

1. Minimum Bonus:

Subject to the other provisions of this Act, every employer shall be bound to pay to every employee in respect of the accounting year commencing on any day in the year 1979 and in respect of every subsequent accounting year, a minimum bonus which shall be 8.33 per cent of the salary or wage earned by the employee during the accounting year or one hundred rupees, whichever is higher, whether or not the employer has any allocable surplus in the accounting year:

Provided that where an employee has not completed fifteen years of age at the beginning of the accounting year, the provisions of this section shall have effect in relation to such employee as if for the words "one hundred rupees", the words "sixty rupees" were substituted.

2. Maximum Bonus:

Where in respect of any accounting year referred to in section 10, the allocable surplus exceeds the amount of minimum bonus payable to the employees under that section, the employer shall, in lieu of such minimum bonus, be bound to pay to every employee in respect of that accounting year bonus which shall be an amount in proportion to the salary or wage earned by the employee during the accounting year subject to a maximum of twenty per cent of such salary or wage.

In computing the allocable surplus under this section, the amount 'set on' or the amount 'set off' under the provisions of section 15 shall be taken into account in accordance with the provisions of that section.

3. Calculation of bonus with respect to certain employees

Where the salary or wage of an employee exceeds three thousand and five hundred rupees per mensem, the bonus payable to such employee, shall be calculated as if his salary or wage were three thousand and five hundred rupees per mensem.

<u>SOME PRACTICAL EXAMPLES:</u>

Situation 1:

Raghu is an employee of Super Company based out of Kolkata. The amount of bonus payable to him during the year 2013-14 is ₹14,000. The company deducted a sum of ₹ 5,000 against the, "Puja Bonus" already paid to him during the said year. Raghu was paid the remaining amount of ₹ 9,000. He files a suit against the company for recovery of the deducted amount. Would Raghu succeed?

Solution:

No, Raghu would not succeed.

It is to be noted that adjustment of "Puja Bonus" already paid is possible, since any interim or customary bonus paid by the employer may be deducted from bonus payable during that accounting year.

Situation 2:

Wonderful Garments Limited has 250 employees working under it. The company suffered losses for the year 2012 and 2013, but it had paid minimum bonus to its employees. In the year 2014, the company has earned huge profits. After mitigating the previous losses the company is having sufficient surplus and wants to distribute the whole amount among its employees. It requires the following advice in this regard:

- **What could the minimum amount of bonus that the company has to pay.**
- **Can the company distribute its entire amount of huge surplus as bonus to employees**
- **Can garments be distributed as bonus?**

Solution:

- The amount of minimum bonus shall be 8.33% of salary or wage earned by the employee during the year or ₹100, whichever is higher.
- The entire amount of surplus cannot be distributed as bonus. The maximum amount of bonus shall be 20% of salary or wage earned by the employee during the year.
- Distribution of garments in place of cash is not possible, as bonus shall always be paid in cash, i.e. in money only.

Situation 3:

The management of Shanti Mills Ltd. entered into an agreement with their employees to pay them bonus based on production in lieu of Bonus based on profits, from the accounting year 2014. The employees further agreed to forego their right to receive minimum bonus and instead accept 25% of their salary/wage as bonus based on productivity. Is such an agreement valid?

Solution:

The agreement of Shanti Mills Ltd. with its employees is void in so far as it purports to deprive the employee of their right to minimum bonus; and in so far as it purports to entitle the employees to receive bonus exceeding 20% of salary or wages. The employees are entitled to receive minimum bonus.

Halsey Premium Plan & Rowan Premium Plan

Individual Bonus Plan: The bonus to be paid to the worker is computed on the basis of savings in the hours. It is to pay to the workers a basic time rate plus a portion of the wages equivalent of the time saved as related to the agreed/allowed time for the work.

The individual bonus schemes commonly used as:

- **Halsey Premium Bonus Plan and,**
- **Rowan Premium Bonus Plan**

Halsey Premium Bonus Plan:

F.A. Halsey, an American engineer has suggested this wage incentive plan in the year 1891.

The basic features of Halsey Premium bonus plan are as follows:

- For each unit or job, a standard time is determined.
- Time rate is guarantees for the worker.
- When the worker completes the job or operation in less time than allowed time (standard time), he is paid 50% of time saved as bonus.
- The employer will gain for remaining 50% of time saved by the worker.
- If the job is completed in more than the standard time, wages for standard time are guaranteed.

Drawback:

- The major drawback of the system is that employer is not protected against over speeding jobs by workers resulting in waste.

- **The formula for computing the total wages is as follows:**

$$\text{Total Wages} = (\text{Time taken} \times \text{Hourly rate}) + \left[\frac{50}{100} \times \text{Time saved} \times \text{Hourly rate}\right]$$

Rowan Premium Bonus Plan:

James Rowan in Glassgow introduced this wage incentive scheme in the year 1898. This scheme is a modification of Halsey Plan as regards payment of premium.

The basic features of Rowan Plan are as follows:

- For each unit or job, a standard time is ascertained.
- Time rate is guaranteed for the worker.

- Bonus is paid upon the time saved calculated as a proportion of time taken to the time allowed (Standard time).
- The employer shares the benefit of increased output. It protects the employer against loose rate setting.

- **The formula for computation of total earnings is as follows:**

$$\text{Total Wages} = (\text{Time taken} \times \text{Hourly rate}) + \left[\frac{\text{Time saved}}{\text{Standard time}} \times \text{Time taken} \times \text{Hourly rate}\right]$$

Example: 1

In a factory guaranteed wages at the rate of ₹1.80 per hour are paid in a 50 hour week. By time and motion study it is estimated that to manufacture one unit of a particular product 20 minutes are taken, the time allowed is increased by 25%. During the week A produced 180 units of the product. Calculate his wages under the following method:

- Halsey premium bonus.
    - Rowan premium Bonus.

Answer:

- Calculation of wages under Halsey premium Bonus

Standard time for actual production	=180×25/60	=75 hours
Earning under Halsey plan	=(50×1.8)+50/100(75-50)×1.8	
	=90+22.5	=₹112.50

- Calculation of wages under Rowan premium Bonus

Standard time for actual production	=180×25/60	=75 hours
Earning under rowan plan	=(50×1.8)+(75-50/75)×(50×1.8)	
	=90+30.00	=₹120.00

- Which bonus plan is more profitable for an efficient worker, can be explained by the following example:

Example:

Which is a better plan out of Halsey 50 percent bonus scheme and Rowan bonus scheme for an efficient worker? In which situation the worker get same bonus in both schemes?

Answer:

Which bonus plan is more profitable for an efficient worker?

Let us understand this with the help of following illustration:

Time allowed for a job	= 100 hours	
Rate of wages	= ₹5 per hour	
Time taken to the job	= Worker M (highly efficient)	=30 hours
Time saved	= Worker M (highly efficient)	= 100-30 = 70 hours

❖ Bonus under Rowan Premium Bonus system

$$= \frac{\textbf{Time taken}}{\textbf{Time allowed}} \times \textbf{Time saved} \times \textbf{Rate per hour}$$

Therefore, bonus payable to worker M (highly efficient)

$$= \frac{\textbf{30 hours}}{\textbf{100 hours}} \times \textbf{70 hrs} \times \textbf{₹ 5 per hr} = \textbf{₹105}$$

❖ Bonus under Halsey Premium Bonus (50%) system

= 50% × Time saved × Rate per hour

Therefore, bonus payable to Worker M (highly efficient)

= (50% x 70hrs x ₹5 per hr) = ₹175

Thus, from the above illustration we can see that for a highly efficient worker the Halsey Bonus Plan (%) is more profitable as it gives him more bonuses.

Situation where worker gets same bonus under both plans:

Bonus under Rowan Premium Bonus system = Bonus under Halsey Premium Bonus (%) system

(Time taken /Time allowed) x time saved x rate per hour = 50% × Time saved × Rate per hour

Therefore,

Time Taken = % x Time Allowed

Thus, from the above calculation we can see, a worker will get the same bonus under both Halsey and Rowan bonus plans, if the time taken to complete the job is % of the time total time allowed.

Flowcharts

Flowcharting is a graphic technique that can be used by analysts to represent the inputs, outputs and processes of a business in a pictorial form.

A **flowchart** is a type of diagram that represents an algorithm, workflow or process, showing the steps as boxes of various kinds, and their order by connecting them with arrows.

Flowcharts are used in designing and documenting complex processes or programs.

Symbols used in Flowcharts:

Start / Stop	Assignment / Calculation	Input / Output	Decision Making	Connector	Flow Lines	Subroutine

Types of Flow charts:

- *Document flowcharts*, showing controls over a document-flow through a system
- *Data flowcharts*, showing controls over a data-flow in a system
- *System flowcharts* showing controls at a physical or resource level
- *Program flowchart*, showing the controls in a program within a system

Notice that every type of flowchart focuses on some kind of control, rather than on the particular flow itself.

Advantages of flowchart are:

- Logical representation of problem steps
- Help to make the complex logic simpler
- A visual aid in conceptualization of the problem
- A tool for efficient programming
- Helps in debugging
- Support program documentation

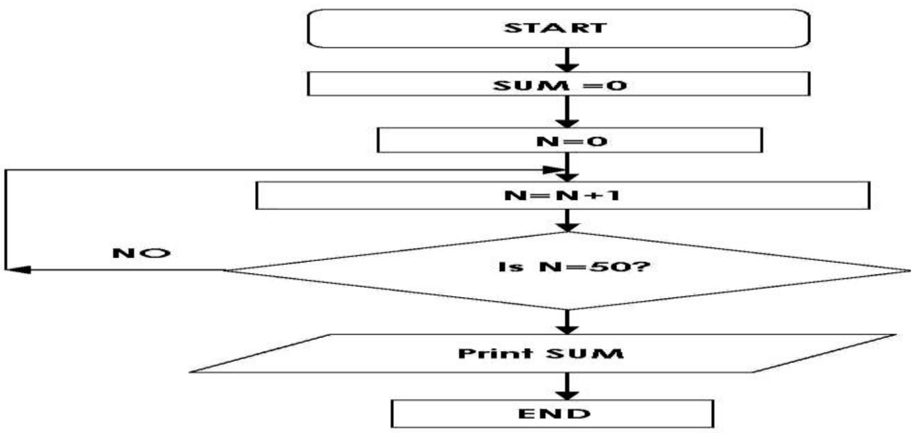
Limitations of using flowcharts :

- Sometimes, the program logic is quite complicated. In that case, flowchart becomes complex.
- If alterations are required, the flowchart may require redrawing completely.
- As the flowchart symbols cannot be typed, reproduction of flowchart becomes a problem.

An example of flowchart:

- **Draw a flowchart to find the sum of first 50 numbers.**

Solution:



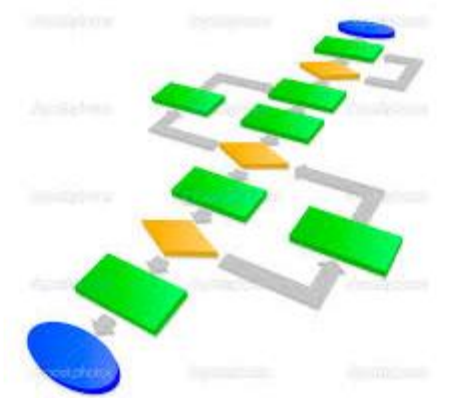
Sum of first 50 natural numbers

Flowcharts are recognized as one of the most important ways to effectively communicate ideas between people who may differ in knowledge, education, and position.

Without flowcharts, you can spend a ton of energy explaining how the process is to be done.

Once a Flow Chart is completed it can then be used for:

- Training
- Troubleshooting
- Testing
- Inspecting a process



Warehousing

"Warehouse" means —

- a public warehouse appointed under section 57 of the Customs Act, or
- a private warehouse licensed under section 58 of the Customs Act.

Differences between Public Warehouse & Private Warehouse:

Public Warehouse: They are appointed by AC/ DC (Assistant Commissioner / Deputy Commissioner) u/s 57. All dutiable goods imported by any importer may be deposited.

Private Warehouse: It is licensed by AC/ DC u/s 58. License may be suspended/ cancelled. Only goods of licensee may be deposited. However, if public warehouse facility is not available, goods belonging to other importer may also be deposited.

Warehousing Bond:

As per section 59 of the Customs Act, the importer of any goods who wants to deposit the goods in a warehouse (who has presented bill of entry for warehousing) shall execute a bond binding himself in a sum equal to twice the amount of the duty assessed (u/s 17 or 18) on such goods—

a) to observe all the provisions of this Act and the rules and regulations in respect of such goods;

b) to pay on or before a date specified in a notice of demand, —

   i. all duties, and interest, if any, payable u/s 61(2).

   ii. rent and charges claimable on account of such goods under this Act, together with interest @ 24% on the same from the date so specified.

c) to discharge all penalties incurred for violation of the provisions of this Act and the rules and regulations in respect of such goods.

The Assistant Commissioner of Customs or Deputy Commissioner of Customs may permit an importer to enter into a general bond in such amount as may be approved by them in respect of the warehousing of goods to be imported by him within a specified period.

A bond executed by an importer in respect of any goods shall continue in force even if the goods have been transferred to another warehouse or the title of the goods has been transferred to another person.

However, where the whole of the goods or any part thereof are transferred to another person, the proper officer may accept a fresh bond from the transferee in a sum equal to twice the amount of duty assessed on the goods transferred and thereupon the bond executed by the transferor shall be enforceable only for a sum mentioned therein less the amount for which a fresh bond is accepted from the transferee.

Warehousing Period for which goods may be remain in Warehouse: Any warehoused goods may be left in the warehouse in which they are deposited or in any warehouse to which they may be removed, till the expiry of the following periods after the date on which the proper officer has made an order u/s 60 of the Customs Act permitting the deposit of the goods in a warehouse.

- **In the case of capital goods intended for use in any 100% EOU (Export Oriented Undertaking):** till the expiry of five years from the date of order. The period can be extended by the Principal Commissioner or Commissioner of Customs for such period as he deems fit. Interest @ 15% p.a. to be charged after the expiry of five years till the date of payment of duty.

- **In the case of goods other than capital goods intended for use in any 100% EOU:** till the expiry of three years from the date of order. The period can be extended by the Principal Commissioner or Commissioner of Customs for such period as he deems fit. Interest @ 15% p.a. to be charged after the expiry of three years till the date of payment of duty.

- **In the case of any other goods:** till the expiry of one year from the date of order. The period can be extended by the Principal Commissioner or Commissioner of Customs for 6 months and Principal Chief Commissioner or Chief Commissioner for such period as he deems fit. If the goods are likely to deteriorate, the Principal Commissioner or Commissioner of Customs may reduce the period as he deems fit. Interest @ 15% p.a. to be charged after the expiry of 90 days from the date of deposit of goods in warehouse till the date of payment of duty.

Example:

Certain goods were imported on 29.05.14 and deposited into warehouse on 02.06.14 for 8 months. Before expiry of warehousing period, bill of entry was filed on 29.01.15 and assessed at duty of ₹ 50,000 on 29.01.15. The duty was paid on 10.02.15. The interest payable will be:

- Date of expiry of 90 days (from 02.06.14): 30.08.14
- No. of days for which interest is payable: 10.02.15 – 30.08.14 = 164 days
- Interest: ₹ 50,000 × 15% p.a. × 164 days ÷ 365 days = ₹ 3,370.

Clearance of warehoused goods for home consumption:

As per section 68, the importer of any warehoused goods may clear those goods for home consumption, if–

(a) a bill of entry for home consumption in respect of such goods has been presented in the prescribed form;
(b) the import duty leviable on such goods and all penalties, rent, interest and other charges payable in respect of such goods have been paid; and
(c) an order for clearance of such goods for home consumption has been made by the proper officer.

The owner of any warehoused goods may, at any time before an order for clearance of goods for home consumption has been made in respect of such goods, relinquish his title to the goods upon payment of rent, interest, other charges and penalties that may be payable in respect of the goods and upon such relinquishment, he shall not be liable to pay duty thereon.

The owner of any such warehoused goods shall not be allowed to relinquish his title to such goods regarding which an offence appears to have been committed under this Act or any other law for the time being in force.

Clearance of warehoused goods for exportation:

As per section 69, any warehoused goods may be exported to a place outside India without payment of import duty if –

(a) a shipping bill or a bill of export in the prescribed form or a label or declaration accompanying the goods as referred to in section 82 has been presented in respect of such goods;
(b) the export duty, penalties, rent, interest and other charges payable in respect of such goods have been paid; and
(c) an order for clearance of such goods for exportation has been made by the proper officer.

Reportable Segments

An enterprise deals in multiple products / services and operates in different geographical areas. Multiple products / services and their operations in different geographical areas are exposed to different risks and returns.

Information about multiple products / services and their operation in different geographical areas are called segment information. Such information is used to assess the risk and return of multiple products / services and their operation in different geographical areas.

Disclosure of such information is called segment reporting.

Reportable segment is a business segment or a geographical segment identified on the basis of their definitions for which segment information is required to be disclosed by the statement.

Business segment or geographical segment which has been identified as reportable segment shall be further dividend to include sub-segments based on the following conditions:

- Segment Revenue from sales to external customers and internal transfer is 10% or more than total external and internal revenue of all segments.

Or

- 10% or more of segment result
  (Segment result means: If some segments are in loss then total of loss of all loss-making segments or if some segments are in profit, total profit of all profit-making segments. Whichever is higher i.e., total profit or total loss figure in absolute term.)

Or

- Segment asset is 10% or more than total assets of all segments.

- All the above three criteria must be applied first and –

- Further, Management may at its discretion choose any segment as reportable segment even if such segment does not fulfill the criteria stated above.

- Ensure whether at least 75% of total external revenue should be in the reportable segments.

- If 75% of total external revenue is not in the reportable segments, then additional reportable segments should be indentified ignoring 10% threshold limits until at least 75% of total external revenue is included in reportable segments.

Note: Any segment, which was reportable segment in the previous year on the fulfillment of 10% threshold limit, should be reportable segment during current year even if 10% threshold limit in current year is not fulfilled.

Example: 1

The Chief Accountant of BHD Ltd. gives the following data regarding its six segments:

							₹ in Lakhs
Particulars	**M**	**N**	**O**	**P**	**Q**	**R**	**Total**
Segment Assets	**50**	**25**	**10**	**5**	**5**	**5**	**100**
Segment Results	**(50)**	**(140)**	**80**	**10**	**(10)**	**10**	**(100)**
Segment Revenue	**200**	**320**	**200**	**90**	**90**	**100**	**1000**

Determine the reportable segments as per AS – 17.

Solution:

As per AS -17 a business segment or a geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue — external and internal of all segments. Hence, M,N,O and R reportable segments as the revenue is 10% or more of the total revenue.

Or,

Its segment result whether profit or loss is 10% or more of

- The combined result of all segments in profit; or
- The combined result of all segments in loss, in absolute terms.

Hence M,N and O have at least 10% of Total Segment Result i.e. ₹200 lakhs.

Or,

Its segment assets are 10% or more of the total assets of all segments. M,N and O have at least 10% of Total Segment Assets.

Reportable segments are – M, N, O and R.

Sweat Equity Shares

Section 2(88) of Companies Act 2013 defines Sweat Equity Shares as under:

Sweat equity shares means equity shares issued by the company to its directors or employees at a discount or for consideration other than cash, for their providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

The conditions for issue of such shares by a company are specified in the section 54(1) of Companies Act, 2013 as under:

(a) Issue of sweat equity shares is authorised by a special resolution passed by the Company;

(b) The resolution specifies the number of shares, current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(c) Not less than one year has, at the date of the issue elapsed since the date on which the Company had commenced business;

(d) Where the sweat equity shares of a Company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf.

(e) If the equity shares of a Company are not listed on a recognised stock exchange the sweat equity shares are issued in accordance with such rules as may be prescribed.

Provisions applicable to equity shares of the Company to apply to sweat equity shares [Section 54(2)]

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to equity shares.

Example : 1

Adbhut Ltd. allotted 500 sweat equity shares of ₹100 each to its Directors at a discount of 6%.

Journal Entry:

Bank A/c Dr.	₹47,000	
Discount on issue of Shares (Sweat Equity) A/c Dr.	₹3,000	
To, Equity Share Capital (Sweat Equity) A/c		₹50,000

(Being allotment of 500 sweat equity shares of ₹100 each to Directors at a discount of 6%, balance amount of ₹94 per share duly received).

Example : 2

Balance amount was duly received. 700 sweat equity shares of ₹100 alloted to employees at par in consideration of technical know-how.

Technical Know-how A/c Dr.	₹70,000	
To Equity Share Capital (Sweat Equity) A/c		₹70,000

(Being allotment of 700 sweat equity shares of ₹100 each to employees at par, in consideration of technical know-how).