1

ISSUE OF SHARES-I

Unit Structure

1.0 OBJECTIVES:

After studying the unit the students will be able to:

- Define Company, Share Capital, Share.
- Explain the procedure for issue of shares.
- Understand the accounting entries.
- Elaborate the procedure of forfeiture.
- Know the meaning of Bonus share and Right Issue.

1.1 INTRODUCTION:

1.1.1 COMPANY:

Under the companies Act, 1956 a Company means "A Company formed and registered under that Act or under any previous Companies Act.

1.1.2 DISTINCTION FEATURES OF A COMPANY:

a) Voluntary Association
b) Independent Existence
c) Artificial Person
d) Compulsory Incorporation

e) Common Seal
f) Perpetual Succession
g) Limited Liability
h) Transferability of shares
i) Separation of Ownership and Management
j) Large Membership
k) Ability to raise large amount of Capital

1.2 SHARE CAPITAL :

(a) Authorised Capital: This is the Maximum Capital which the company can raise in its life time. This is mentioned in the Memorandum of the Association of the Company. This is also called as Registered Capital or Nominal Capital.

(b) Issued Capital: Part of the Authorised Capital which is issued to the public for Subscription is called as Issued Capital.

(c) Subscribed Capital: The issued Capital may not be fully subscribed by the public Subscribed Capital is that part of issued Capital which has been taken off by the public i.e. the capital for which applications are received from the public.

(d) Called – up Capital: The Company may not need to receive the entire amount of capital of capital at once. It may call up only part of the subscribed capital as and when needed in installments. Called – up Capital is the part of 'subscribed capital which the company has actually called upon the shareholders to pay. Called – up Capital includes the amount paid by the shareholder from time to time on application, on allotment, on various calls such as First Call, Second Call, Final Call etc. The remaining part of subscribe capital not yet called up is known as Uncalled Capital. The Uncalled Capital may be converted, by passing a special resolution, into Reserve Capital, Reserve Capital can be called up only in case of winding up of the company, to meet the liabilities arising then.

(e) Paid-up Capital: The Called-up Capital may not be fully paid. Some Shareholders may pay only part of the amount required to be paid or may not pay at all. Paid-up Capital is the part of called-up capital which is actually paid by the shareholders. The remaining part indicates the default in payment of calls by some shareholders, known as Calls in Arrears. Thus, Paid-up Capital is Called-up Capital – Calls in Arrears.

1.3 SHARE:

1.3.1 DEFINITION

A "share" has been defined by the Indian Companies Act, under sec.2(46) as "A share is the share in the Capital of the Company".

1.3.2 TYPES OF SHARES:

A Company can issue two types of shares – Equity and Preference.

(a) **Equity Shares:** Equity shares means that part of the share capital which is not a Preference share capital. It means all such shares which are not Preference shares. Equity shares are also called as Ordinary Shares.

(b) **Preference Shares:** Preference shares are those shares which fulfill both the following two conditions:
   (i) They carry preferential share right in respect of dividend at a fixed rate,
   (ii) They also carry preferential right in regard to payment of capital on winding up of the company.

Preference shares can be further classified as follows:

(1) **Cumulative and Non – Cumulative :** If in any year the profits are insufficient to pay the preference dividend then in case of cumulative preference shares this dividend can be paid in the subsequent year before any other dividend is paid. In other words the right to receive the dividend goes on accumulating till it is paid. In case of Non – cumulative preference shares the dividend can be paid only in that year. If there are insufficient profits then such preference shareholders do not get any dividend for that year.

(2) **Participating & Non-Participating Preference Shares:** Participating preference shares are entitled to participate in the surplus profits remaining after the payment of (a) Fixed dividend to Preference shareholders and (b) Dividend to the equity shareholders. They are also entitled to participate in the surplus funds remaining at the time of winding of the company after payment of (a) Preference share capital & (b) Equity Share Capital. Non – participating preference share are not entitled to participate in the surplus profits or surplus funds left over at the time of winding off.

1.4 PROCEDURE FOR ISSUE OF SHARES:

1.4.1 PROCEDURE

(a) Issue of Prospectus: Whenever shares are to be issued to the public the company must issue a prospectus. Prospectus means an open invitation to the public to take up the shares of the company thus a private company need not issue prospectus. Even a Public Company issuing it's shares privately need not issue a prospectus. However, it is required to file a "Statement in lieu of Prospectus" with the register of companies. The Prospectus contains relevant information like names of Directors, terms of issue, etc. It also states the opening date of subscription list, amount payable on application, on allotment & the earliest closing date of the subscription list.

(b) Application of Shares: A person intending to subscribe to the share capital of a company has to submit an application for shares in the prescribed form, to the company along with the application money before the last date of the subscription mentioned in the prospectus.

Over Subscription: If the no. of shares applied for is more than the no. of shares offered to the public then that is called as over Subscription.

Under Subscription: If the no. of shares applied for is less then the no. of shares offered to the public then it is called as Under Subscription.

(c) Allotment of Shares: After the last date of the receipt of applications is over, the Directors, Procide with the allotment work. However, a company cannot allot the shares unless the minimum subscription amount mentioned in the prospectus is collected within a stipulated period.
The Directors pass resolution in the board meeting for allotment of shares indicating clearly the class & no. of shares allotted with the distinctive numbers. Then Letters of Allotment are sent to the concerned applicants. Letters of Regret are sent to those who are not allotted any shares & application money is refunded to them.

Partial Allotment: In partial allotment the company rejects some application totally, refunds their application money & allots the shares to the remaining applicants.

Pro-rata Allotment: When a company makes a pro-rata allotment, it allots shares to all applicants but allots lesser shares then applied for E.g. If a person has applied for three hundred shares he may get two hundred shares.

(d) Calls on Shares: The remaining amount of shares may be collected in installments as laid down in the prospectus. Such installments are called calls on Shares. They may be termed as “Allotment amount, First Call, Second Call, etc.”

(e) Calls–in–Arrears: some shareholders may not pay the money due from them. The outstanding amounts are transferred to an account called up as “Calls-in-Arrears” account. The Balance of calls-in-arrears account is deducted from the Called-up capital in the Balance Sheet.

(f) Calls–in–Advance: According to sec.92 of the Companies Act, a Company may if so authorized by it’s articles, accept from a shareholder either the whole or part of the amount remaining unpaid on any shares held by them, as Calls in advance. No dividend is paid on such calls in advance. However, interest has to be paid on such calls in advance.

1.4.2 TERMS OF ISSUE OF SHARES:

A limited company may issue the shares on following different terms.

(a) Issue of Shares for Consideration other than cash or for cash or on capitalization of reserves.

(b) Issue of Shares at par i.e. at face value or at nominal value.

(c) Issue of Shares at a Premium i.e. at more than face value.

(d) Issue of Shares at a Discount i.e. at less than the face value.

ISSUE OF SHARES AT A PREMIUM:

When the shares are issued at a price higher than the nominal value of the shares then it is called as shares issued at a premium. The amount of premium is decided by the board of Directors as per the guide lines issued by SEBI. Such share premium collected by the company is credited to a separate A/c called as “Securities Premium A/c”. Although Securities Premium is a profit to the company, it is not a revenue profit, it is treated as capital profit, which can be utilized only for the following purposes as per sec. 78 of the Companies Act –

(a) Issue of fully paid bonus shares to the existing shareholders.

(b) Writing off the preliminary expenses of the company.

(c) Writing off the expenses of issue or the commission paid or discount allowed on any issue of shares / debentures.

(d) Providing the premium payable on redemption of preference shares or debentures. The company can utilize the security Premium for any other purpose only on obtaining the sanction of the court.

ISSUE OF SHARES AT A DISCOUNT:

The Companies Act, permits issue of shares at a discount subject to the following conditions. (sec. 79) –

(a) The issue must be of a class of shares already issued.

(b) Not less than 1 year has at the date of issue elapsed since the date on which the company became entitled to commence business.

(c) The issue at a discount is authorized by a resolution passed by the company in the general meeting & sanctioned by the company law board.

(d) The maximum rate of discount must not exceed 10% or such rate as the company law board may permit.

(e) The shares to be issued at a discount must be issued within two months of the sanction by the company law board or within such extended time as the company law board may allow.

1.5 ACCOUNTING ENTRIES:

1.5.1 JOURNAL ENTRIES

	Particulars	Debit	Credit
a)	For receipt of application money Bank A/c………………………………Dr. To Share Application A/c	 XXX	 XXX
b)	On Allotment 1) Transfer of Application money to Share Capital Share Application A/c..………….. Dr. To Share Capital A/c 2) Amount due to on Allotment Share Allotment A/c………………Dr. To Share Capital A/c To Securities Premium Account (if any)	 XXX XXX	 XXX XXX XXX

	3) Refund of excess Application money or rejected application Share Application A/c……………..Dr. To Bank Alc 4) Adjustment of excess application money towards allotment money due. Share Application A/c……………Dr. To Share Allotment A/c 5) Receipt of Allotment money. Bank A/c……………………………Dr. To Share Allotment A/c	XXX XXX XXX	XXX XXX XXX
c)	For making First Call Share First Call A/c……………………..Dr. To Share Capital A/c	XXX	XXX
d)	For receipt of First Call Money Bank A/c…………………………………Dr. To Share First Call A/c	XXX	XXX
e)	For calls in arrears Calls in Arrears A/c……………………..Dr. To Share First Call A/c	XXX	XXX
f)	For receipt if calls in advance Bank A/c…………………………………Dr. To Calls in Advance A/c	XXX	XXX

1.5.2 ISSUE OF SHARES TO VENDORS FOR CONSIDERATION OTHER THAN CASH

A Company may take over a running business i.e. assets & liabilities of another business. The Sellers of the business are known as Vendors. The company may offer shares to the Vendors in settlement of the purchase price of the business. The buying company does not receive any cash for shares offered to them.

The following entries are passed in case of such takover of the business:

(a) For recording takeover of the business

Sundry Assets A/c	Dr.	xxx	
To Sundry liabilities A/c			xxx
To Vendor A/c			xxx

(b) For issue of shares to Vendor

Vendor A/c	Dr.	xxx	
Discount of Issue of shares A/c	Dr. (if any)	xxx	
To Share Capital A/c			xxx
To Securities Premium A/c (if any)			xxx

1.6 FORFEITURE OF SHARES:

When shares are allotted to an applicant, it becomes a contract between the shareholder & the company. The shareholder is bound to contribute to the capital and the premium if any of the company to the extent of the shares he has agreed to take. as & when the Directors make the calls. If the fails to pay the calls then his shares may be forfeiture by the directors if authorised by the Articles of Association of the company. The Forfeiture can be only for non-payment of calls on shares and not for any other reasons.

When the directors forfeiture the shares the person looses his membership in the company as well as the amount already paid by him towards the share capital and premium. His name is removed from the register of members. The directors must observe strictly all the legal formalities required by the Articles of Association before forfeiting the shares.

1.6.1 ACCOUNTING ENTRIES

Share Capital A/c	Dr.	xxx	
(no of forfeited shares*amount called up per shares)			
Security Premium A/c	Dr.	xxx	
(to the extent premium not received)			
To Calls in Arrears A/c			xxx
To Share Forfeiture A/c			xxx
(amount received towards share received)			

Note: Once the security premium is collected it cannot be cancelled later on. Therefore if he Forfeited shares were issued at a premium and the premium money is already received on those Forfeited shares, security premium A/c will not be cancelled or debited.

1.6.2 FORFEITURE OF SHARE ISSUED AT A DISCOUNT:

If the Forfeited shares are issued at a discount, the proportion amount of discount allowed on such shares should be cancelled if the discount of shares has already been debited.

1.6.3 RE-ISSUE OF FORFEITED SHARES:

The Directors may reissue the Forfeited shares at par, at premium or at a reissued at a discount, the maximum discount is restricted to the amount Forfeited on these shares + the original discount.

Accounting Entries

Bank A/c	Dr.	xxx	
Share Forfeited A/c	Dr.	xxx	
To Share Capital A/c			xxx

Any profit on reissue of Forfeited shares represents capital profit & hence it should be transferred to capital reserve.

Share Forfeiture A/c	Dr.	xxx	
To Capital Reserve No.			xxx

1.7 ISSUE OF BONUS SHARES:

Profit making companies may desire to convert their profit into share capital. This can be done by issue of bonus shares. Issue of Bonus shares is also called as conversion of profit into share capital or capitalisation of profits. Bonus can be of two types-

(a) Making partly paid shares into fully paid by declaring bonus without requiring shareholders to pay for the same.

(b) Issue of fully paid equity shares as bonus shares to the existing equity shareholders.

1.7.1 Making partly paid shares into fully paid by declaring bonus without requiring shareholders to pay for the same.

Accounting Entries

(1) Making the call:

Equity Share Call A/c	Dr.	xxx	
To Equity Share capital A/c			xxx

(2) Declaring the bonus:

Capital reserve A/c	Dr.	xxx	
Investment Allowance A/c	Dr.	xxx	
Development Rebate Reserve A/c	Dr.	xxx	
General Reserve A/c	Dr.	xxx	
P & L A/c	Dr.	xxx	
To Bonus to equity shareholders A/c			xxx

1.7.2 Issue of fully paid equity shares as bonus shares to the existing equity shareholders.

Accounting Entries

(1) Declaring the Bonus:

Capital Redemption Reserve A/c……………..…..Dr. XXX
Securities Premium A/c ………………………..……..Dr. XXX

Capital Reserve A/c…………………………..……Dr.	XXX	
Investment Allowance A/c ……………………Dr.	XXX	
Development Rebate Reserve A/c …………..Dr.	XXX	
General Reserve A/c…………………………….Dr.	XXX	
P&L A/c….……………………………………..Dr.	XXX	
To Bonus to Equity Shareholders A/c		XXX

(2) Issue of Bonus Shares:

Bonus to Equity Shareholders A/c ……………Dr.	XXX	
To Equity Share Capital A/c		XXX

1.7.3 Adjusting Call Made Against bonus declared

Bonus to equity shareholders A/c …………Dr.	XXX	
To Equity Share Call A/c		XXX

Note: (1) Capital Reserve can be utilized for this bonus only if it is realized in cash.

(2) Capital Redemption Reserve and Securities Premium cannot be utilized for this type of bonus.

1.8 RIGHTS SHARES :

Under Sec.94 of Companies Act, A company can issue additional shares at any time by passing an ordinary resolution at its General Meeting. However, under Sec. 81 of that, such additional shares must be 1st offered to the existing equity shareholders in the proportion of the shares already held by them. Such additional shares are called "Rights Shares". Following legal provisions are pertinent in this regard.

a) The issue should be within the limits of the authorized capital, if not so, then the authorized capital must be increased first suitably.

b) The issue is to be made after two years from the formation of the company or after one year from the first allotment of shares.

c) The shares should be offered to the equity shareholders in proportion to the capital paid-up on their shares.

d) The offer should be made by a written notice specifying the no. of shares offered & the time limit for acceptance which should be atleast 15 days from the date of offer.

e) Unless prohibited by the Articles, the offer should include & specify the power of the shareholder to renounce (sale) the right shares to others.

f) The shares not taken up by the shareholders can be sold by the Board of Directors in a manner most beneficial to the company.

g) Such right offer need not be made to the existing shareholders, if

   i) A special resolution to that effect is passed by the shareholder in the General Meeting or

   ii) An ordinary resolution to that effect is passed and approved from the Central Govt. is obtained for issue of shares to persons other than the existing shareholders.

1.9 SURRENDER OF SHARES :

A shareholder who is not able to pay the call money may surrender it's shares to the company. The company cancels such surrender shares. Surrender is a voluntary act on the part of the shareholder, whereas Forfeiture is a compulsory act on part of the company. The effect of both surrender & Forfeiture is the same, i.e. cancellation of the shares. The company can accept surrender of shares if permitted by its Articles of Association. The accounting treatment in respect of surrender of shares is same as that of Forfeiture of Shares.

Check Your Progress

- **Fill in the blanks**

1. In case of forfeiture of share, Share Capital Account is debited by --------------------------
2. On forfeiture of shares amount already paid by the member is forfeited and credited to a separate account namely---------
3. In case of forfeiture of share the journal entry is -----------------
4. If the re-issue price is more than the paid-up value, here the re-issue is made at a-------------------------------------
5. If the forfeited shares are re-issued at discount the discount amount is debited to the --------------------------.
6. The formula for calculating the profit on re-issue is ------------.
7. After re-issue of forfeited shares the balance amount on the Forfeited Shares account is transferred to ------------------------
8. Authorised share capital is mentioned in the--------------------- of the Company.
9. If the shareholder may not pay the money due from him the outstanding amounts is called as -----------------------.

10. The Balance of calls-in-arrears account is deducted from the---------------------------in the Balance Sheet.
11. Bonus issue is made out of ------------------.

- **State whether true or false**
    1. No dividend is paid on calls in advance.
    2. Share holders have unlimited liability it means they may lose whatever they have paid for their shares and no more.
    3. Bonus Issue can be made out of Capital reserve.
    4. Share Premium can be used by the company for Writing off the preliminary expenses of the company.
    5. Right shares must be first offered to the existing equity shareholders in the proportion of the shares already held by them.
    6. In case of issue of shares at discount the maximum rate of discount may exceed 10%.
    7. Surrender is a mandatory act on the part of the shareholder

Answers of Check Your Progress

Fill in the blanks

1. **Amount called-up**
2. **Forfeited shares account**
3. **Share Capital A/c--------------------------Dr.(Amount called up)**
   To Share allotment/share call A/c (Amount un-paid)
   OR
   To Calls in arrears A/c
   To Share forfeited A/c (Amount received)
4. **Premium**
5. **Forfeited shares account**
6. **Amount forfeited Less Discount on Re-issue**
7. **Capital Reserve A/c**
8. **Memorandum of the Association**
9. **Calls-in-Arrears**
10. **Called-up capital**
11. **Accumulated profits**

State whether true or false
True, False, False, True, True, False, False

❖❖❖❖

2

ISSUE OF SHARES-II

Unit Structure

2.1 Solved problems
2.2 Exercises

2.1 SOLVED PROBLEMS

Problem – 1

Ashok Ltd. invited application for 15,000 shares of Rs.100/- each. The share amount was payable as under –

Rs.20/- on Application
Rs.30/- on Allotment
Rs.20/- on First Call &
Rs.30/- on Final Call

Applications were received for 10,000 shares. An applications were accepted by the directors. All moneys were called and duly received. Pass necessary journal entries and prepare ledger account and Balance Sheet.

Solution:

In the books of Ashok Ltd., Journal

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………Dr. To Equity Share Application A/c (Being application money received at Rs.20/- per share for 10,000 shares.)	2,00,000	2,00,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being 10,000 Equity Shares allotted to all applicants as per B D R no dated & application money received there on transferred to share capital.)	2,00,000	2,00,000

3	Equity Share Allotment A/c………..Dr. To Equity Share Capital A/c (Being allotment money due on 10,000 shares at Rs.30/- per share.)	3,00,000	3,00,000
4	Bank A/c……………………………..Dr. To Equity Share Allotment A/c (Being allotment money received)	3,00,000	3,00,000
5	Equity Share 1st Call A/c…………..Dr. To Equity Share Capital A/c (Being 1st call made on 10,000 equity share at Rs.20/- per share vide B D R no. __________ dated ___________)	2,00,000	2,00,000
6	Bank A/c ……………………………Dr. To Equity Share Call A/c (Being 1st Call amount received.)	2,00,000	2,00,000
7	Equity Share 2nd Call A/c…………..Dr. To Equity Share Capital A/c (Being 2nd Call made on 10,000 Equity share at Rs.30/- per share vide B D R no. __________ dated ___________)	3,00,000	3,00,000
8	Bank A/c ……………………………Dr. To Equity Share 2nd Call A/c (Being 2nd Call amount received.)	3,00,000	3,00,000

Problem – 2

A Company issued Rs.5,00,000/- new capital divided into Rs.10/- shares at a premium of Rs.4/- per share payable as

On Application Re.1/- per share

On Allotment Rs.4/- per share & Rs.2/- premium

On Final Payment Rs.5/- per share & Rs.2/- premium

Overpayments on application were to be applied towards sum due on allotment. Where no allotment was made money was to be returned in full. The issue was oversubscribed to the extent of 13,000 shares. Applicants for 12,000 shares were allotted only 1,000 shares and applicants for 2,000 were sent letters of regret. All money due on allotment and final call was duly received. Make the necessary entries in the company’s book.

Solution:

Journal of a Company

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………Dr. To Equity Share Application A/c (Being application money received on 63,000 shares at Re.1/- per share.)	63,000	63,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being application money on 50,000 shares transferred on Share Capital on allotment.)	50,000	50,000
3	Equity Share Application A/c………Dr. To Bank A/c (Being application money refunded on 2,000 shares application since no share were allotted to them.)	2,000	2,000
4	Equity share allotment A/c ………..Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 50,000 shares at Rs.6/- per share including Rs.2/- premium.)	3,00,000	2,00,000 1,00,000
5	Equity Share Application A/c………Dr. To Equity Share Allotment A/c (Being excess application money on 1,000 shares adjusted towards allotment money due.)	6,000	6,000
6	Bank A/c ……………………………Dr. To Equity Share Allotment A/c (Being allotment amount received.)	2,94,000	2,94,000
7	Equity Share 1st & Final Call A/c…..Dr. To Equity Share Capital A/c To Security Premium A/c (Being call made on 50,000 shares at Rs.7/- per share including Rs.2/- on premium.)	3,50,000	2,50,000 1,00,000

8	Equity Share Application A/c ……..Dr. To Equity Share 1st & Final Call A/c (Being excess application money adjusted towards 1st call.)	5,000	 5,000
9	Bank A/c …………………………… Dr. To Equity Share 1st & Final Call A/c (Being 1st & Final Call amount received.)	3,45,000	 3,45,000

Bank Account

Particulars	Amt.	Particulars	Amt.
To Equity Share Application	63,000	By Equity Share Application	2,000
To Equity Share Allotment	2,94,000	By Bal. C/d	7,00,000
To Equity Share 1st & Final call	3,45,000		
	7,02,000		**7,02,000**

Balance sheet of the Company

Liabilities	Amt.	Assets	Amt.
Equity Share Capital Securities Premium	5,00,000 2,00,000	Bank	7,00,000
	7,00,000		7,00,000

Problem – 3

P & Co. Ltd. issued 5,000 shares of Rs.100/- each. The share amount was payable as follows –
On Application – Rs.30/-
On Allotment – Rs.30/-
On First Call – Rs.20/-
On Final Call – Rs.20/-

The public applied for 5,500 shares. Applications for 100 shares were immediately rejected. In respect of applicant for 5,400 shares, directors decided that 5,000 shares would be allotted on

Prorata basis and the application money received on 400 shares would be used towards payment of allotment money. You are asked to prepare Cash Book and Ledger accounts assuming that all calls were made and received.

Solution:

Journal of P & Co. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………Dr. To Equity Share Application A/c (Being application money received on 10,500 shares at Rs.100/- per share.)	1,65,000	1,65,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being application money on 5,000 shares transferred on Share Capital on allotment.)	1,50,000	1,50,000
3	Equity Share Allotment A/c ……….Dr. To Equity Share Capital A/c (Being allotment money due on 5,000 shares at Rs.30/- per share)	1,50,000	1,50,000
4	Equity Share Application A/c………Dr. To Bank A/c (Being application money refunded on 100 shares at Rs.30/-.)	3,000	3,000
5	Equity Share Application A/c ……..Dr. To Equity Share Allotment A/c (Being allotment amount due.)	12,000	12,000
6	Bank A/c……………………………Dr. To Equity Share Allotment A/c (Being allotment money received.)	1,38,000	1,38,000
7	Equity Share Call A/c ……..Dr. To Equity Share Capital A/c (Being call made on 5,000 shares at Rs.20/- per share.)	1,00,000	1,00,000
8	Bank A/c …………………………… Dr.	1,00,000	

	To Equity Share 1st Call A/c (Being 1st Call amount received.)		1,00,000
9	Equity Share Final Call A/c………..Dr. To Equity Share Capital A/c (Being Final Call made on 5,000 shares at Rs.20/- per share.)	1,00,000	1,00,000
10	Bank A/c…………………………… Dr. To Equity Share Final Call A/c (Being Final Call amount received.)	1,00,000	1,00,000

Problem – 4

Modi Ltd. issued 4,500 Equity shares of Rs.200/- each payable Rs.20/- per share on application, Rs.80/- per share on allotment, Rs.50/- per share on first call & the balance as & when required. The application list was closed on that date, the analysis of the application showed as under –

From Maharashtra 3,500 shares
From U.P. 2,000 shares
From M.P. 500 shares

The directors allotted all the Maharashtra applications & half of the UP applications. All the applications from MP were absolutely rejected and the application money was refunded. But excess application money on UP was not refunded and was appropriated towards the allotment money due on the shares allotted to them. The balance of allotment money was duly received. Show the journal entries in the books of the company.

Solution :

Journal of Modi Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c …………………………….Dr. To Equity Share Application A/c (Being application money received on 6,000 shares at Rs.20/- per shares.)	1,20,000	1,20,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being application money on 6,000 shares transferred on Share Capital.)	90,000	90,000
3	Equity Share Allotment A/c………..Dr.	3,60,000	

	To Equity Share Capital A/c (Being allotment money due on 4,500 shares at Rs.80/- per shares.)		3,60,000
4	Equity Share Application A/c ………Dr. To Bank A/c (Being application money refunded on 500 shares at Rs.20/-.)	10,000	 10,000
5	Equity Share Application A/c………Dr. To Equity Share Allotment A/c (Being excess application money adjusted towards allotment.)	20,000	 20,000
6	Bank A/c ……………………………Dr. To Equity Share Allotment A/c (Being allotment amount received.)	3,40,000	 3,40,000
7	Equity Share 1st Call A/c…………..Dr. To Equity Share Capital A/c (Being call made on 4,500 shares at Rs.50/- per share.)	2,25,000	 2,25,000
8	Bank A/c ……………………….…..Dr. To Equity Share 1st Call A/c (Being 1st call amount received.)	2,25,000	 2,25,000
9	Equity Share 2nd Call A/c ………… Dr. To Equity Share Capital A/c (Being final call made on 4,500 shares at Rs.50/- per share.)	2,25,000	 2,25,000
10	Bank A/c……………………………Dr. To Equity Share 2nd Call A/c (Being Final call amount received.)	2,25,000	 2,25,000

Working note :

Categories	Maharashtra	UP	MP	Total
No. of Applicants Received	3,500	2,000	500	6,000
Application money Received	70,000	40,000	10,000	1,20,00
No. of shares Allotted	3,500	1,000		4,500
Applicant money	70,000	20,000		90,000

transfer to share capital	2,80,000	80,000		3,60,000
Allotment money due	-	-	10,000	10,000
Excess Applicant money refunded	-	20,000		20,000
Excess Applicant money adjusted towards allotment				
Allotment money received	2,80,000	60,000		3,40,000

Problem – 5

Gujarat Production Ltd. issued 20,000 shares of Rs.100/- each at a premium of Rs.10/- per share. The share amount was payable as under –

On Application	Rs.20/-
On Allotment	Rs.40/- (including premium of Rs.10/-)
On First Call	Rs.30/-
On Final Call	Rs.20/-

Applications were received for 30,000 shares. The shares were allotted as under.
To the applicants of 15,000 shares – full.
To the applicants of 10,000 shares – 5,000 shares &
To the applicants of 5,000 shares – nil.

The application money on the totally rejected applicants was refunded. The excess of application money received from applicants to whom partial allotments was made, was to be retained by the company for utilization against money due on allotment and the calls. The Director made all the calls except the final call. All the money was received except the first call on 1,000 shares.

Give Journal entries & the Balance Sheet of the company.

Solution:

Journal in the books of Gujarat Production Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………Dr. To Equity Share Application A/c (Being application money received on 30,000 shares at Rs.20/- per shares.)	6,00,000	6,00,000
2	Equity Share Application A/c ………Dr.	4,00,000	

	To Equity Share Capital A/c (Being application money on 20,000 shares transferred on Share Capital.)		4,00,000
3	Equity Share Allotment A/c……….Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 20,000 at Rs.30/- per share including Rs.10/- premium.)	8,00,000	 6,00,000 2,00,000
4	Equity Share Application A/c ……..Dr. To Bank A/c (Being application money refunded on 5,000 shares at Rs.20/-.)	1,00,000	 1,00,000
5	Equity Share Application A/c………Dr. To Equity Share Allotment A/c (Being excess application money adjusted towards allotment.)	1,00,000	 1,00,000
6	Bank A/c ……………………………Dr. To Equity Share Allotment A/c (Being allotment money due at Rs.40/- per share & premium at Rs.10/- each.)	7,00,000	 7,00,000
7	Equity Share 1st Call A/c….……....Dr. To Equity Share Capital A/c (Being call made on 20,000 shares at Rs.30/- per share.)	6,00,000	 6,00,000
8	Bank A/c …………………...……..Dr. To Equity Share 1st Call A/c (Being 1st call amount received.)	5,70,000	 5,70,000
9	Calls in Arrears A/c ……….……… Dr. To Equity Share 1st Call A/c (Being balance on call a/c transferred to call in arrears a/c.)	30,000	 30,000

Working Note:

Categories	A	B	C	Total
No. of Applicants Received	15,000	10,000	5,000	30,000
Application money Received	3,00,000	2,00,000	1,00,000	6,00,000
No. of shares Allotted	15,000	5,000	-	20,000

Applicant money transfer to share capital	3,00,000	1,00,000	-	4,00,000
Allotment money due	6,00,000	2,00,000	-	8,00,000
Excess Applicant money refunded	-	-	1,00,000	1,00,000
Excess Applicant money adjusted towards allotment	-	1,00,000	-	1,00,000
Allotment money received	6,00,000	1,00,000	-	7,00,000

Problem – 6

Doli Ltd. invited application for 10,000 shares of Rs.100/- each at a premium of Rs.5/- per share and payable as follows –

On Application - Rs.25/-

On Allotment - Rs.35/-

On Final Call - Rs.45/-

Applications were received or 15,000 shares and the company made a pro-rata allotment. Miss Lata holding 500 shares failed to pay the share allotment money & share final call money. Her shares were Forfeited and reissued at Rs.85/- per share.

Show the entries in the books of the company.

Solution:

Journal of Doli Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c ……………………………Dr. To Equity Share Application A/c (Being application money received on 15,000 shares at Rs.25/- per shares.)	3,75,000	 3,75,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being application money on 10,000 shares transferred on Share Capital.)	2,50,000	 2,50,000
3	Equity Share Allotment A/c……….Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 10,000 shares at Rs.35/- per share including Rs.5/- premium.)	3,50,000	 3,00,000 50,000
4	Equity Share Application A/c………Dr.	1,25,000	

	To Equity Share Allotment A/c (Being excess application money adjusted towards allotment.)		1,25,000
5	Bank A/c ……………………………Dr. To Equity Share Allotment A/c (Being allotment money received except on 500 shares held by Ms. Lata.)	2,13,750	 2,13,750
6	Equity Share Call A/c….……….....Dr. To Equity Share Capital A/c (Being 1st & final call made.)	4,50,000	 4,50,000
7	Bank A/c …………………...……..Dr. To Equity Share 1st Call A/c (Being 1st call amount received.)	4,27,500	 4,27,500
8	Calls in Arrears A/c ……….……… Dr. To Equity Share Allotment A/c To Equity Share 1st Call A/c (Being allotment & call money due from Lata transferred to call in arrears A/c.)	33,750	 11,250 22,500
9	Equity Share Capital A/c…………..Dr. To Call in arrears A/c To Share Forfeited A/c (Being 500 shares allotted to Ms. Lata Forfeited for non payment of allotment & call money.)	50,000	 33,750 16,250
10	Bank A/c…………………………… Dr. Share Forfeited A/c……………….. Dr. To Equity Share Capital A/c (Being 500 Forfeited shares reissued at Rs.85/- for cash.)	42,500 7,500	 50,000
11	Share Forfeited A/c…………………Dr. To Capital Reserve A/c (Being Credit balance in share Forfeited A/c after reissue of Forfeited shares to cancel representing capital profit transferred to Capital Reserve.)	8,750	 8,750

Working Note:

1) Default made by Lata in payment of allotment money
   = Allotment money due (–) Excess application money adjusted towards allotment.
   = (500 X 35) – (250 X 25)
   = 17,500 (–) 6,250
   = 11,250

2) Allotment money received

= Allotment money due (–) Excess application money adjusted towards allotment (–) Default of Ms. Lata
= 3, 50,000 (–) 1, 25,000 (–) 11,250
= 2, 13,750

Problem – 7

Bajaj Ltd. invited application for 15,000 shares of Rs.10/- each. The share amount was payable as follows –
On Application -Rs.4/-
On Allotment - Rs.4/- &
On First & Final Call - Rs.4/-

Application was received for 20,000 shares. Applications for 2,000 shares were rejected & allotment was made among the remaining applicants proportionately.

A person holding 200 shares did not pay the allotment & call moneys. The directors decided to forfeit these shares. They were reissued as fully paid at Rs.9/- per share. Give journal entries in the books of Bajaj Ltd.

Solution:

Journal of Bajaj Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………Dr. To Equity Share Application A/c (Being application money received on 20,000 shares at Rs.4/- per shares.)	80,000	80,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being 15,000 share allotted & application money transferred to Capital A/c.)	60,000	60,000
3	Equity Share Allotment A/c……….Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 13,000 shares at Rs.4/- per share.)	60,000	30,000 30,000
4	Equity Share Application A/c………Dr. To Equity Share Allotment A/c (Being excess application money adjusted towards allotment.)	12,000	12,000

5	Equity Share Application A/c ……...Dr. To Bank A/c (Being application money refunded on 2,000 shares at Rs.4/- each.)	8,000	 8,000
6	Bank A/c ……………………..……..Dr. To Equity Share Allotment A/c (Being allotment money received except on 200 shares.)	47,360	 47,360
7	Calls in Arrears A/c ……..……… Dr. To Equity Share Allotment A/c (Being allotment money due on 200 shares transferred to call in arrears)	640	 640
8	Equity Share Call A/c.……..……….Dr. To Equity Share Capital A/c (Being 1st Call made.)	60,000	 60,000
9	Bank A/c.…………………………… Dr. To Equity Share 1st Call A/c (Being 1st call amount received.)	59,200	 59,200
10	Call in Arrears A/c.………………… Dr. To Equity Share 1st Call A/c (Being allotment & call money due from transferred to call in arrears A/c.)	800	 800
11	Equity Share Capital A/c..…………Dr. To Call in arrears A/c To Share Forfeited A/c (Being 200 shares allotted, Forfeited for non payment of allotment & call money.)	2,000	 1,440 560
12	Bank A/c ……………………………Dr. Share Forfeited A/c.………………..Dr. To Equity Share Capital A/c (Being 200 Forfeited Share reissued at Rs.9/- each.)	1,800 200	 2,000
13	Share Forfeited A/c ………………. Dr. To Capital Reserve A/c (Being credit balance in share Forfeited are representing capital profit transferred to capital reserve.)	360	 360

Working Note:

1) Default made by a person holding 200 shares
   = (200 X 4) – (200 X 3/5 X 4)
   = 800 (–) 160
   = 640

2) Allotment money received
   = 60,000 (–) 12,000 (–) 640
   = 47,360

Problem – 8

Alpa Company was newly formed with an authorized capital of Rs.5,00,000/- divided into 50,000/- shares of Rs.10/- each. On 1st Jan. 2008 the company issued 25,000 shares at a premium of Rs.2/- per share payable as under on Application Rs.2/-, Allotment Rs.5/- (including premium) on Call Rs.5/-. (one month after allotment)

The issue was over subscribed to the extent of 5,000 shares. The directors went on to allotment on 10th January & on the same date the excess money received on application was returned. All money due on allotment & on calls was received with the following exceptions.

a) Shri Kulkarni who failed to pay the allotment & call money on 100 shares allotted to him, &
b) Mr. Joshi who failed to pay the call money on 200 shares allotted to him.

On 31st March, 2008 the directors Forfeited the shares on which Rs.7/- or less than Rs.7/- (including premium) had been received. They re-issued the shares so Forfeited to Shri Kamat at Rs.10/- per share.

Pass the journal entries (including cash) to record the above in the books of Alpa Company Ltd.

Solution:

Journal of Alpa Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1st Jan. 2008	(Receiving the application money) Bank A/c …………………………Dr. To Equity Share Application A/c (Being application money received on 30,000 shares at Rs.2/- per shares.)	60,000	60,000

1st Jan. 2008	Equity Share Application A/c ……Dr. To Equity Share Capital A/c (Being application money received transferred to Capital A/c.)	50,000	 50,000
1st Jan. 2008	Equity Share Allotment A/c………Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 25,000 shares at Rs.5/- per share including Rs.2/- as premium.)	1,25,000	 75,000 50,000
10th Jan. 2008	Equity Share Application A/c…….Dr. To Bank A/c (Being excess application money refunded on 50,000 shares at Rs.2/- each.)	10,000	 10,000
10th Jan. 2008	Bank A/c …………………………....Dr. To Equity Share Allotment A/c (Being allotment money received except on 100 shares of Mr. Kulkarni.)	1,24,500	 1,24,500
10th Jan. 2008	Calls in Arrears A/c ……….……..Dr. To Equity Share Allotment A/c (Being allotment money due from Mr. Kulkarni transferred to call in arrears A/c.)	500	 500
10th Feb. 2008	Equity Share 1st Call A/c…..……..Dr. To Equity Share Capital A/c (Being 1st Call made on 25,000 shares at Rs.5/- per share.)	1,25,000	 1,25,000
10th Feb. 2008	Bank A/c………………………… Dr. Call in Arrears Ac/…………….….Dr. To 1st & final Call A/c (Being 1st call amount received.)	1,23,500 1,500	 1,25,000
31st March, 2008	Equity Share Capital A/c….……. Dr. Security Premium A/c…………… Dr. To Call in Arrears A/c To Share Forfeited A/c (Being 300 shares cancelled.)	3,000 200	 2,000 1,200
31st March, 2008	Bank A/c…………………………...Dr. To Equity Share Capital A/c (Being 300 Forfeited shares reissued.)	3,000	 3,000
31st March, 2008	Share Forfeited A/c ………………Dr. To Capital Reserve A/c (Being profit transferred to Capital Reserve.)	1,200	 1,200

Working Note:

1) Allotment money received = due (–) default
   = 1,25,000 (–) 100 X 5
   = 1,24,500

2) Share Forfeited means amt., Forfeited which is paid towards.

Kulkarni	Joshi	Share Capital
100 X 2	200 X 2 + 3	
= 200	2 = application, 3 = premium	
With application	1,000 + 200 = 1,200	

Problem – 9

Emperor Ltd. invited application for 10,000 shares of Rs.10/- each at a premium of Rs.5/- per share payable as follows –

On application Rs.3/- per share, on allotment Rs.6/- per share including premium & the balance in two calls of equal amount.

Application was received for 18,000 shares & allotment was made on application of 15,000 shares at the rate of two shares for every three applied for G failed to pay the allotment money for the 40 shares allotted to him & these shares were Forfeited when he failed to pay the first call. L failed to pay the calls in respect of 120 shares allotted to him & these shares were Forfeited after the second call.

40 shares allotted to G originally & another 40 shares allotted to L were later issued to M as fully paid on payment of Rs.9/- per share.

Show the relevant entries in the Cash book & journal of Emperor Ltd.

Solution:

Journal of Emperor Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………Dr. To Equity Share Application A/c (Being application money received on 18,000 shares at Rs.3/- per shares.)	54,000	54,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being application money received transferred to Capital A/c.)	30,000	30,000

3	Equity Share Allotment A/c…………Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 10,000 shares at Rs.6/- per share including Rs.5/- as premium.)	60,000	 10,000 50,000
4	Equity Share Application A/c……..…Dr. To Bank A/c (Being application on 30,000 shares refunded.)	9,000	 9,000
5	Equity Share Application A/c ..…....Dr. To Equity Share Allotment A/c (Being excess application money adjusted towards allotment.)	15,000	 15,000
6	Bank A/c ……….……………….…..Dr. To Equity Share Allotment A/c (Being allotment received except on 40 shares allotted to G.)	44,820	 44,820
7	Call in Arrears A/c…..………….…...Dr. To Equity Share Allotment A/c (Being allotment money due from G transferred to call in arrears.)	180	 180
8	Equity Share First Call A/c……….. Dr. To Equity Share Capital A/c (Being 1st call made on 10,000 shares at Rs.3/- per share.)	30,000	 30,000
9	Bank A/c…..………………………… Dr. Calls in Arrears A/c………………… Dr. To 1st & Final Call A/c (Being call amount received.)	29,520 480	 30,000
10	Equity Share Capital A/c…………...Dr. Security Premium A/c ……………..…..Dr. To Call in Arrears A/c To Share Forfeited A/c (Being 40 shares cancelled.)	280 140	 300 120
11	Equity Share Final Call A/c ……..…Dr. To Equity Share Capital A/c (Being Final Call made on 9,960 shares at Rs.3/- per share.)	29,880	 29,880

12	Bank A/c ……………………..………Dr. Calls in Arrears A/c …………………Dr. To Equity Share Final Call A/c (Being Final Call amount received.)	29,520 360	 29,880
13	Equity Share Capital A/c ………..….Dr. To Call in Arrears A/c To Share Forfeited A/c (Being 120 shares cancelled.)	1,200	 720 480
14	Bank A/c …………………………..….Dr. Share Forfeited A/c ………………..…..Dr. To Equity Share Capital A/c (Being Forfeited 80 shares issued at Rs.9/- per share.)	720 80	 800
15	Share Forfeited A/c ……………….. Dr. To Capital Reserve A/c (Being profit transferred to Capital Reserve A/c.)	200	 200

Working Note:

Total allotment money received 10,000 X 6 = 60,000
Amt. received of 15,000 shares 5,000 X 3 = 15,000
Therefore, 60,000 (–) 15,000 = 45,000

Default made by G $= \dfrac{40 \text{ X } 6 \; - \; 40 \text{ X } 3/2}{180} = 60$

Allotment Due = 60,000 (–) 15,000 (–) 180
= 44,820

W .N. for (9)
40 shares are allotted to G. He has paid only application 3:2 money.
i.e. 60 shares X 3 = 180.
The shares are forfeited only after making 1st call.

Therefore, share capital already credited
= 3 on application + 1 on allotment + 3 on 1st call
= 7 per share

Therefore, share capital Dr. = 40 X 7 = 280
Security Premium due from him = 40 X 5 = 200

Excess application money received from him, adjusted towards allotment
= (60 – 40) X 3
= 60
This 60 is treated as received against security premium.

Therefore, Security Premium not received
= 200 (–) 60
= 140

Amt. to be Forfeited
= 40 shares X amt. received against share capital
= 40 X 3 = 120

W.N. for (14)
Amount forfeited from G's salary = 120
Discount given on reissue of these shares = 40 X 1 = 40
Therefore Profit = 120 (–) 40 = 80

Profit on L's share
Total shares allotted = 120
Amount Forfeited from him = application 3 + 1 allotment = 4
= 120 X 4
= 480

Out of this 40 shares are reissued.
Therefore, amount Forfeited on this 40 shares
= 40 X 4 = 160 -- (1)

These shares are re-issued at a discount of Re.1 per share.

Therefore, Discount to be adjusted towards Forfeiture
= 40 X 1 = 40 -- (2)

Therefore, profit on re-issue = (1) – (2)
= 160 (–) 40 = 120 transferred to Capital Reserve.

Therefore, L + G
120 + 80 = Total profit on re-issue of Forfeited shares.
= 200

Problem – 10

Wampire Ltd. invited application for 15,000 of it's equity shares of Rs.10/- each at a premium of Rs.5/- per share, payable Rs.3/- on application, Rs.6/- on allotment (including premium) Rs.3/- on 1^{st} call & Rs.3/- on final call. Application was received for 20,000 shares & it was decided to deal with the same as follows in arrangement with the stock exchange authorities.

a) To refuse allotment to applicants for 2,000 shares.
b) To give full allotment to applicants for 5,000 shares.
c) To allot the remaining shares pro-rata among other applicants.

d) To utilize the surplus received on application in part payment of amount due on allotment.

Ramesh holder of 200 shares (to whom full allotment was made) & Rajesh, holder of 400 shares (to whom pro-rata allotment was made) failed to pay the allotment money. Jayesh holder of 100 shares failed to pay the first & final call.

All these shares were Forfeited & re-issued 300 shares (Full allotment of Ramesh & 100 of Rajesh) at Rs.8/- per share.
Show the entries in the books of the company.

Solution:

Journal of Wimpier Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………….Dr. To Equity Share Application A/c (Being application money received on 22,000 shares at Rs.3/- per shares.)	 66,000	 66,000
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being application money received transferred to Capital A/c.)	45,000	 45,000
3	Equity Share Allotment A/c…………Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 15,000 shares at Rs.6/- per share including Rs.5/- as premium.)	90,000	 15,000 75,000
4	Equity Share Application A/c……….Dr. To Bank A/c (Being money received on 2,000 shares refunded at Rs.3/- each.)	6,000	 6,000
5	Equity Share Application A/c ..…....Dr. To Equity Share Allotment A/c (Being excess amount received on 10,000 shares adjusted towards allotment A/c.)	15,000	 15,000

6	Bank A/c ………..…………………..…..Dr. Calls in arrears A/c …………………Dr. To Equity Share Allotment A/c (Being allotment received except on 600 shares.)	72,000 3,000	 75,000
7	1st Call A/c ……..…..………….…....Dr. To Equity Share Capital A/c (Being 1st call made on 15,000 shares at Rs.3/- per share.)	45,000	 45,000
8	Bank A/c ……………………….……... Dr. Calls in Arrears A/c ………………...Dr. To Share 1st Call A/c (Being 1st call amount received except from Ramesh 200 shares Rajesh 400 shares, Jayesh 100 shares.)	42,900 2,100	 45,000
9	2nd Call A/c ………..………………… Dr. To Equity Share Capital A/c (Being 2nd call made on 15,000 shares.)	45,000	 45,000
10	Bank A/c ……………..…..…………...Dr. Calls in Arrears A/c ……………..…..Dr. To 2nd Call A/c (Being 2nd call amount received except from Ramesh, Rajesh & Jayesh.)	42,900 2,100	 45,000
11	Equity Share Capital A/c ………..…Dr. To Call in Arrears A/c To Share Forfeited A/c (Being 700 shares cancelled.)	9,400	 7,200 2,200
12	Bank A/c ………………………..………Dr. Share Forfeiture A/c ………………..Dr. To Equity Share Capital A/c (Being 300 Forfeited shares of Rs.10/- each re-issued at Rs.8/-.)	2,400 600	 3,000
13	Share Forfeited A/c ……………..….Dr. To Capital Reserve A/c (Being profit on shares Forfeited transferred to share capital.)	300	 300

Working Note:

W.N. for (11)

	Ramesh	Rajesh	Jayesh
Applied	200	600	100
Allotted	200	400	-
Security Premium	200 X 5	400 X 5	100 X 5
Due	1,000	2,000	500
		Excess app. money 200 X 3	
Security Premium Recd.	Nil	600	500
S.P. not received	1,000	1400	

Therefore, Dr. Total = 2,400

W.N. for (12) – Profit on re-issue of Forfeited shares.

Particulars	Ramesh	Rajesh
No. of shares Alloted	200	400
Amount paid (only application)	200 X 3 = 600	400 X 3 = 1,200

Therefore total amount forfeited = 300 + 600 = 900
Discount given on re-issue = 600
Therefore, 900 (–) 600 = 300 (profit)

Problem – 11

Body Builders Ltd. made an issue on 30,000 shares of Rs.10/- each payable Rs.3/- on application, Rs.5/- on allotment & Rs.2/- on call.

93,200 shares were applied for & owing to heavy over – subscription, allotment was made thus.

Applicants for 21,500 shares (in respect of application for 2,000 & more) received 10,200 shares.

Applicants for 50,600 shares (in respect of application for 1,000 or more but less than 2,000) received 12,600 shares.

Applicants for 21,100 shares (in respect of application for less than 1,000) received 7,200 shares.

Cash then received, after satisfying the amount due on application, was applied towards allotment & call money and any balance was then returned. All moneys due on allotment & call were realized.

Give journal entries including that of cash & write up the cash account & ledger account relating to this issue of shares in the books of the company.

Solution:

Journal of Body Builders Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	(Receiving the application money) Bank A/c ……………………………….Dr. To Equity Share Application A/c (Being application money received on 93,200 shares at Rs.3/- per shares.)	2,79,600	2,79,600
2	Equity Share Application A/c ………Dr. To Equity Share Capital A/c (Being application amount received transferred to Capital A/c.)	90,000	90,000
3	Equity Share Allotment A/c…………Dr. To Equity Share Capital A/c (Being allotment money due on 30,000 shares at Rs.5/- per share.)	1,50,000	1,50,000
4	Equity Share Application A/c……….Dr. To Equity Share Allotment A/c (Being excess application money adjusted towards allotment.)	1,32,900	1,32,900
5	Bank A/c ……………………..……...Dr. To Equity Share Allotment A/c (Being allotment received on 30,000 shares at Rs.5/- each.)	17,100	17,100
6	1st Call A/c ……..…..……………..…...Dr. To Equity Share Capital A/c (Being 1st call made on 30,000 shares at Rs.2/- per share.)	60,000	60,000
7	Equity Share Application A/c …….. Dr. To Equity Share 1st Call A/c (Being excess share application money adjusted against 1st call due.)	30,900	30,900

8	Bank A/c ……………………………. Dr. To Share 1st Call A/c (Being 1st Call money received on 30,000 shares at Rs.2/- each.)	29,100	 29,100
9	Equity Share Application A/c ……...Dr. To Bank A/c (Being excess application money refunded.)	25,800	 25,800

Working Note:

Particulars	Category I	Category II	Category III	Total
1) No. of Application Received	21,500	50,600	2,110	74,210
2) Application money Received	64,500	1,51,800	63,300	2,79,600
3) No. of shares Allotted	10,200	12,600	7,200	30,000
4) Applicant money transferred to share capital	30,600	37,800	21,600	90,000
5) Excess application money received (2 – 4)	33,900	1,14,000	41,700	1,89,600
6) Allotment money due (3 X 5 Rs.)	51,000	63,000	36,000	1,50,000
7) Excess Application amount adjusted towards allotment	33,900	63,000	36,000	1,32,900
8) Balance Allotment money received (2 – 4)	17,100	-		17,100
9) I – call	20,400	25,200	14,400	60,000
10) Excess application money adjusted towards call	-	25,200	5,700	30,900
11) Excess application money refunded	-	25,800	-	25,800
12) Call money received	2,04,001	-	8,700	29,100

Problem – 12

Yashwant Co. Ltd. issued 1, 20,000 Equity Shares of Rs.10/- each at a discount of 10%. It has complied with all the legal requirements for the issue of shares at discount. The share amount was payable along with the application. Applications were received for all the shares. You are asked to pass the journal entries & show the Balance sheet.

Solution :

Journal of Yashwant Co. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c ……………………….….Dr. To Equity Share Application A/c (Being share application money received.)	10,80,000	 10,80,000
2	Equity Share Application A/c ……..Dr. Discount on issue of Shares A/c …Dr. To Equity Share Capital A/c (Being application money received on 1,20,000 Equity shares of Rs.10/- each at Rs.9/- per share, Re.1/- share being discount allowed as sanctioned by the shareholder per General Meeting Resolution No.________ Dated __________ & Co. Law Board Letter No._______ Dated ___________.)	10,80,000 1,20,000	 1,20,000

Balance sheet as on __________

Liabilities	Amt.	Assets	Amt.
Share Capital : Authorized	 ?	Current Assets : Bank	 10,80,000
Issued Subscribed, Called-up & Paid up 1,20,000 Equity shares of Rs.10/- each fully paid.	12,00,000	Miscellaneous Expenditure : Discount on issue of Shares	 1,20,000
	12,00,000		**12,00,000**

Problem – 13

Amit Ltd. invited applications for 10,000 shares of Rs.100/- each at a discount of 6% payable as follows –

On Application	Rs. 25/-
On Allotment	Rs. 34/-
On First & Final Call	Rs. 35/-

The applications were received for 9,900 shares & all of these were accepted by the Directors. All money due were received except the first and final call on 10 shares which were Forfeited out of these 5 shares were issued at Rs.90/- as fully paid. Assuming that all the requirements of the law were complied with, pass entries in the Cash book & journal of the Co. Also prepare the Balance sheet of the Co.

Solution:

Journal of Amit Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Equity Share Application A/c ……..Dr. To Equity Share Capital A/c (Being application money on 9,900 shares at Rs.25/- per share transferred to Capital A/c on allotment.)	24,75,000	 24,75,000
2	Equity Share Allotment A/c……….Dr. Discount on issue of Share A/c … Dr. To Equity Share Capital A/c (Being allotment money due on 9,900 shares at Rs.40/- per share, including discount of Rs.6/- per share.)	3,36,600 59,400	 3,96,000
3	Equity Share 1st & Final Call A/c…Dr. To Equity Share Capital A/c (Being first & final call amount due on 9,900 Equity shares at Rs.35/- per share.)	3,46,500	 3,46,500
4	Equity Share Capital A/c ………...Dr. To Equity Share 1st & Final Call A/c To Discount on Equity Share A/c To Equity Share Forfeited A/c (Being Forfeiture of 100 Equity shares for non-payment of first & final call of Rs.35/- per share; the discount of Rs.6/- per share being written back & the amount of Rs.59/- actually paid being credited to Share Forfeited Account.)	1,000	 350 60 590

5	Discount on issue of Shares A/c ...Dr. Share Forfeited A/c ……………….Dr. To Equity Share Capital A/c (Being discount allowed on 5 Equity Shares reissued @ Rs.90/- as fully paid - the "Discount on issued of Shares" being Rs.6/- per share, the balance of Rs.5/- per share debited to Share Forfeited Accounts.)	30 20	 50
6	Share Forfeited A/c ……….…….. Dr. To Capital Reserve A/c (Being Profit remained after reissue of 50 shares transferred to Capital Reserve Account.)	275	 275

Cash Book

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Application Allotment A/c (Application money received on 9,900 Equity Shares @ Rs.25/-)	2,47,500	By Balance c/d	9,30,700
To Equity Share Application Allotment A/c (Allotment received on 9,900 Equity Share @ Rs.34/-.)	3,36,600		
To Equity Share first & Final Call A/c (First & Final Call received on 9890 Equity Share @ Rs.35/- per share.)	3,46,150		
To Equity Share Capital A/c (Reissue of 5 Equity Shares as fully paid up @ Rs.90/- per share.)	450		
	9,30,700		9,30,700
To Balance b/d	9,30,700		

Balance sheet of Amit Ltd. as on _________

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Share Capital : Equity Share Capital (excluding the shares previously issued); 9,895 shares of Rs.100/- each fully paid up.	9,89,500	**Current Assets :** Cash at Bank	9,30,700
Shares Forfeited A/c	295	Miscellaneous Expenditure : Discount on issue of Shares @ Rs.6/- on 9,895 shares.)	59,370
Reserves & Surplus: Capital Reserves	275		
	9,90,070		**9,90,070**

Problem – 14

Mumbai Cycle Co. Ltd. invited application for 2,000 Equity Shares of Rs.10/- each at par, payable as under –

On Application	Rs.3/- per share
On Allotment	Rs.2/- per share
On First Call	Rs.3/- per share
On Final Call	Rs.2/- per share

All the shares were subscribed for by the public. An applicant for 200 shares failed to pay the first call money & his shares were Forfeited after giving due notice. These Forfeited shares were re-issued at Rs.6/- per share, credited as Rs.8/- paid up. Make journal entries & show the Balance Sheet. The company has not made 2^{nd} call.

Solution:

Journal of Mumbai Cycle Co. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c …………………………..Dr. To Equity Share Application A/c (Being application money received on 2,000 shares at Rs.3/- per shares.)	6,000	6,000

2	Equity Share Application A/c……..Dr. To Equity Share Capital A/c (Being application amount received transferred to Capital A/c.)	6,000	 6,000
3	Equity Share Allotment A/c ………Dr. To Equity Share Capital A/c (Being allotment money due on 2,000 shares at Rs.2/- per share.)	4,000	 4,000
4	Bank A/c ………………….……....Dr. To Equity Share Allotment A/c (Being allotment received on 2,000 shares at Rs.2/- each.)	4,000	 4,000
5	1st Call A/c ………………………....Dr. To Equity Share Capital A/c (Being 1st call made on 2,000 shares at Rs.3/- per share.)	6,000	 6,000
6	Bank A/c ……………….…..……... Dr. Calls in Arrears A/c ……………….Dr. To Equity Share 1st Call A/c (Being call amount received on 1,800 shares at Rs.3/- per shares.)	5,400 600	 6,000
7	Equity Shares Capital A/c ……….Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being 200 shares of Rs.10/- each Rs.8/- paid up forfeited for non-payment of 1st call of Rs.2/- per share.)	1,600	 600 1,000
8	Bank A/c ……………………………Dr. Share Forfeiture A/c ………………Dr. To Equity Share Capital A/c (Being 200 Forfeited Equity Shares re-issued at Rs.6/- per share Cr. as Rs.8/- paid up.)	1,200 400	 1,600
9	Share Forfeiture A/c ………………Dr. To Capital Reserve A/c (Being profit on reissue of Forfeited shares, representing capital profit transferred to Capital Reserves.)	600	 600

Balance Sheet of Mumbai Cycle Co. Ltd. as on

Liabilities	Amt.	Assets	Amt.
Share Capital : Authorized Capital	?	Current Assets : Cash at Bank	16,600
Issued & Subscribed 2,000 Equity Shares of Rs.10/- each.	20,000		
Called up and Paid up: 2,000 Equity Shares of Rs.10/- each Rs.8/- called up & paid up	16,000		
Reserves & Surplus : Capital Reserve	600		
	16,600		**16,600**

Problem – 15

Dinu Ltd. issued 2,000 Equity shares of Rs.50/- each, at a discount of Rs.2/- per share, payable as follows –

On Application Rs.10/-
On Allotment Rs.28/-
On First & Final Call Rs.10/-

All the shares were duly subscribed for and the amounts were received except the first & final call on 100 shares. These shares were Forfeited & re-issued as fully paid. Pass journal entries of the Company.

Solution:

Journal of Dinu Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c ……………………….…..Dr. To Equity Share Application A/c (Being application money received on 2,000 shares at Rs.10/- per shares.)	20,000	20,000
2	Equity Share Application A/c….….Dr. To Equity Share Capital A/c (Being application amount received transferred to Capital A/c.)	20,000	20,000
3	Equity Share Allotment A/c ………Dr.	56,000	

	Discount on issue of Shares A/c... Dr. To Equity Share Capital A/c (Being allotment money due on 2,000 shares at Rs.30/- per share including discount Rs.2/- per share.)	4,000	 60,000
4	Bank A/c ……………………..……....Dr. To Equity Share Allotment A/c (Being allotment received on 2,000 shares at Rs.28/- each.)	56,000	 56,000
5	1st Call A/c …………………………....Dr. To Equity Share Capital A/c (Being 1st call made on 2,000 shares at Rs.10/- per share.)	20,000	 20,000
6	Bank A/c ………………..…..…….. Dr. Calls in Arrears A/c ……………….Dr. To Equity Share 1st Call A/c (Being call amount received on 1,900 shares at Rs.10/- per shares.)	19,000 1,000	 20,000
7	Equity Shares Capital A/c ………..Dr. To Discount on issue of shares A/c To Calls in Arrears A/c To Share Forfeiture A/c (Being 100 shares of Rs.50/- each forfeited for non-payment of 1st call of Rs.10/- per share.)	5,000	 200 1,000 3,800
8	Bank A/c ……………………………Dr. Discount on issue of Shares A/c…Dr. Share Forfeiture A/c ………………Dr. To Equity Share Capital A/c (Being 100 Forfeited Equity Shares re-issued at Rs.45/- per share Cr. as fully paid.)	4,500 200 300	 5,000
9	Share Forfeiture A/c ………………Dr. To Capital Reserve A/c (Being profit on reissue of Forfeited shares, representing capital profit transferred to Capital Reserves.)	3,500	 3,500

Problem – 16

D Ltd. issued 20,000 Equity Shares of Rs.10/- each at a premium of Rs.5/- per share payable as –
On Application Rs.6/- (including premium Rs.3)
On Allotment Rs.5/- (including premium Rs.2)
Balance in 2nd calls.

The applications were received for 35,000 shares. The allotment was made as follows –
Category A – Application 5,000 full allotment
Category B – Application 20,000 share allotted 15,000 shares on pro-rata basis
Category C – Application 10,000 share rejected

Excess amount received on application was adjusted against allotment money due. Both the calls made. One shareholder holding 500 shares failed to pay 2nd call. His shares were forfeited & reissued later at Rs.9/- per share. Give necessary journal entries & Balance Sheet.

Solution:

In the books of D Ltd.
Journal

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c …………………………..Dr. To Equity Share Application A/c (Being application money received for 35,000 shares at Rs.6/- per shares.)	2,10,000	 2,10,000
2	Equity Share Allotment A/c ………Dr. To Equity Share Capital A/c To Security Premium A/c (Being allotment money due on 20,000 shares at Rs.3/- per share for the capital & Rs.2/- per share for premium.)	1,00,000	 60,000 40,000
3	Equity Share Application A/c……..Dr. To Equity Share Capital A/c To Security Premium A/c (Being Equity share application money on 20,000 shares transferred as Rs.3/- per share to capital & Rs.3/- per share to premium.)	1,20,000	 60,000 60,000
4	Equity Share Application A/c ….....Dr.	30,000	

	To Equity Share Allotment A/c (Being excess application money on 5,000 shares towards allotment money due.)		30,000
5	Equity Share Application A/c ….....Dr. To Bank A/c (Being excess application money on 10,000 shares refunded.)	60,000	 60,000
6	Bank A/c ……………….…..…….. Dr. To Equity Share Allotment A/c (Being allotment money received.)	70,000	 70,000
7	Equity Shares 1st Call A/c ………..Dr. To Equity Share Capital A/c (Being 1st Call made on 20,000 shares @ Rs.2/- per share.)	40,000	 40,000
8	Bank A/c ……………………………Dr. To Equity Share 1st Call A/c (Being 1st Call amount received.)	40,000	 40,000
9	Equity Share 2nd Call A/c ……….. Dr. To Equity Share Capital A/c (Being 2nd call made on 20,000 shares at Rs.2/- per share.)	40,000	 40,000
10	Bank A/c ………………………….. Dr. Calls in Arrears A/c ……………… Dr. To Equity Share 2nd Call A/c (Being 2nd call received except on 500 shares.)	39,000 1,000	 40,000
11	Equity Share Capital A/c ………… Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being 500 Equity shares of Rs.10/- each fully called up, forfeited for non payment of call of Rs.2/- per share.)	5,000	 1,000 4,000
12	Bank A/c ..…………………………. Dr. Share Forfeiture A/c …………….. Dr. To Equity Share Capital A/c (Being 500 forfeited Equity Share reissued at Rs.9/- per share.)	4,500 500	 5,000
13	Share Forfeiture A/c ………………Dr.	3,500	

	To Capital Reserve A/c (Being credit balance in Share Forfeiture A/c after re-issued of forfeited share representing capital profit transferred to Capital Reserve.)		3,500

Working Note:

Category	A	B	C	Total
No. of application received	5,000	20,000	10,000	35,000
Application money received	30,000	1,20,000	60,000	2,10,000
No. of shares allotted	5,000	15,000	-	20,000
Allotment money due	25,000	75,000	-	1,00,000
Application money received transfer to share capital	30,000	90,000	-	1,20,000
Excess application money adjusted towards allotment	-	30,000	-	30,000
Excess application money refunded	-	-	60,000	60,000
Allotment money received	25,000	45,000	-	70,000

Balance Sheet as on ___________

Liabilities	Amt.	Assets	Amt.
<u>Share Capital</u> Authorized	?	Bank balance	3,03,500
Issued, Subscribed, Called up & Paid up 20,000 Equity shares of Rs.10/- each fully paid	2,00,000		
<u>Reserves & Surplus</u> Security Premium Capital Reserve	 1,00,000 3,500		
	3,03,500		**3,03,500**

Problem – 17

Anita Ltd. issued 30,000 Equity Shares of Rs.20/- each at a premium of Rs.4/-. The amount was payable as under –

On Application Rs.6/-
On Allotment Rs.8/-
On 1st Call Rs.5/-
On 2nd Call Rs.5/-
The applications were received for 80,000 shares. The allotment was made as under.

Category	Applied	Allotted
A	10,000	10,000
B	60,000	20,000
C	10,000	NIL

Mr. X belonging to Category A holding 200 shares failed to pay allotment & 1st call money. His shares were forfeited after 1st call was made.

Mr. Y belonging to Category B holding 200 shares failed to pay allotment & 1st call money. His shares were also forfeited after 1st call.

All other money was received properly. The forfeited share were reissued at Rs.18/-. Give necessary journal entries & prepare Balance sheet Excess application money to be adjusted against allotment & 1st call money.

Solution:

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c ………………………... Dr.	4,80,000	
	To Equity Share Application A/c		4,80,000
	(Being application money received.)		
2.	Equity share Allotment A/c …….. Dr.	2,40,000	
	To Equity Share Capital A/c		1,20,000
	To Securities Premium		1,20,000
	(Being allotment money due on 30,000 shares at Rs.4/- for the capital & Rs.4/- for premium.		
3.	Equity Share Application A/c …...Dr.	1,80,000	
			1,80,000

	To Equity Share Capital A/c (Being Equity Share application money on 30,000 transferred to Share capital.)		
4.	Equity Share Application A/c ......Dr. To Bank A/c	60,000	 60,000
5.	Equity Share Application A/c.......Dr. To Equity Share Allotment A/c	1,60,000	 1,60,000
6.	Bank A/c .... Dr. Securities Premium A/c............. Dr. Calls in Arrears A/c .... Dr. To Equity Share Allotment A/c	78,400 800 800	 80,000
7.	Equity Share 1st call A/c...............Dr. To Equity Share Capital Account (Being 1st Call made.)	1,50,000	 1,50,000
8.	Equity Share Application A/c ...... Dr. To Equity Share 1st Call A/c	80,000	 80,000
9.	Bank A/c .... Dr. Calls in Arrears A/c ....Dr. To Equity Share 1st Call A/c	68,800 1,200	 70,000
10.	Equity Share Capital A/c ....Dr. To Calls in Arrears A/c To Share Forfeiture A/c (Being 400 Equity shares of Rs.20/- each, Rs.15/- called up, forfeited for non payment of call.)	6,000	 2,000 4,000
11.	Equity Share 2nd Call A/c .... Dr. To Equity Share Capital A/c	1,48,000	 1,48,000
12.	Bank A/c .... Dr. To Equity Share 2nd Call A/c	1,48,000	 1,48,000
13.	Bank A/c .... Dr.	7,200 800	

	Share Forfeiture A/c …………..... Dr. To Equity Share Capital A/c		8,000
14.	Share Forfeiture A/c ……………. Dr. To Capital Reserve A/c	3,200	3,200

Working Note:

W.N.1:

Category	A	B	C	Total
No. of application received	10,000	60,000	10,000	80,000
Application money received	60,000	3,60,000	60,000	4,80,000
No. of shares allotted	10,000	20,000	-	30,000
Allotment money due	80,000	1,60,000	-	2,40,000
Application money received transfer to share capital	60,000	1,20,000	-	1,80,000
Excess application money adjusted towards allotment	-	2,40,000	-	2,40,000
Excess application money refunded	-	-	60,000	60,000
Allotment money received	78,400	-	-	78,400

W.N.2:
Excess Application money to be adjusted against call money.

Category	Adjusted
A	-
B	80,000
C	-

W.N.3:

Call due	=	1, 50,000
(-) adj.	=	80,000
		70,000

2.2 EXERCISE

Problem – 1

Ambica Ltd. issued 10,000 Equity Shares of Rs.10/- each at par. The amount was payable as under –

On Application	Rs.2/- per share
On Allotment	Rs.3/- per share
On 1st Call	Rs.3/- per share
On 2nd Call	Rs.2/- per share

The applications were received for 10,000 shares. All the applicants were allotted the share. All money was duly received. Give necessary journal entries & also prepare Balance Sheet.

Problem – 2

Jindal Ltd. issued 50,000 Equity Shares of Rs.10/- each at a premium of Rs.2.50/- per share payable as follows –

On Application	Rs.7.50/- (including premium)
On Allotment	Rs.2/-
On 1st & Final Call	Rs.3/-

Applications were received for 7,60,000 shares. The directors allotted 5,00,000 shares to the applicants of 5,10,000 shares on pro-rata basis & rejected applications for 2,50,000 shares. The excess application money on 10,000 shares was adjusted against allotment money due. The call was duly made & received on 20,000 shares. Prepare Cash book & Journal of Jindal Ltd. & Balance Sheet.

Problem – 3

N. Ltd. issued 50,000 shares of Rs.10/- each at a premium of Rs.6/- per share. The amount was payable as follows –

On Application	Rs.3/-
On Allotment	Rs.8/- (including premium)
On 1st & Final Call	Rs.5/-

The applications were received for 80,000 shares. The allotment was made as follows –

Category A 10,000 – Full
Category B 55,000 – 40,000 shares allotted
Category C 15,000 – Nil

All excess money paid on application was to be adjusted against allotment money due. The shares were fully called up and paid up except Mr. A who had applied for 1,100 shares failed to pay allotted money and call money. His shares were forfeited after the final call & reissued later at Rs.9/- per share.

Give necessary journal entries & prepare Balance sheet.

Working Note:

W.N. 1:

Category	A	B	C	Total
No. of application received	10,000	55,000	15,000	80,000
Application money received	30,000	1,65,000	45,000	2,40,000
No. of shares allotted	10,000	40,000	-	50,000
Allotment money due	80,000	3,20,000	-	4,00,000
Application money received transfer to share capital	30,000	1,20,000	-	1,50,000
Excess application money adjusted towards allotment	-	45,000	-	45,000
Excess application money refunded	-	-	45,000	45,000
Allotment money received	80,000	-	-	80,000

W.N. 2: Default of Mr. A

Applied	Allotted
1,100	800 (1,100 X 40,000 / 55,000)

Allotment money due.

800 X 8 (-) Excess application money adjusted [(1,100 – 800) X 3]	6,400 (900)
	5,500

W.N. 3: Allotment money received from Category B.

Allotment money due (-) Excess application adjusted	3,20,000 (45,000)
(-) Default of Mr. A	2,75,000 (5,500)
	2,69,500

Problem – 4

Granny Ltd. issued 30,000/- shares of Rs.10/- each at a premium of Rs.8/-. The amount was payable as under –

On Application	Rs.5/-
On Allotment	Rs.10/- (including premium Rs.8/-)
On 1st & final call	Rs.3/-

Applications were received for 80,000/- shares. The allotment was made as follows.

Category	Application	Allotment
A	10,000	10,000
B	60,000	20,000
C	10,000	NIL

Mr. X holding 300 shares from Category B failed to pay allotment & call money. His shares were forfeited after 1st call. All the call money was received except Mr. X. Give journal entries and Balance Sheet of Granny Ltd.

Working Note:

Category	A	B	C	Total
No. of application received	**10,000**	**60,000**	**10,000**	**80,000**
Application money received	**50,000**	**3,00,000**	**50,000**	**4,00,000**
No. of shares allotted	**10,000**	**20,000**	**-**	**30,000**
Allotment money due	**1,00,000**	**2,00,000**	**-**	**3,00,000**
Application money received transfer to share capital	**50,000**	**1,00,000**	**-**	**1,50,000**
Excess application money adjusted towards allotment	**-**	**2,00,000**	**-**	**2,00,000**
Excess application money refunded	**-**	**-**	**50,000**	**50,000**
Allotment money received	**1,00,000**	**-**	**-**	**1,00,000**

Problem – 5

Ravi Ltd. issued 30,000 Equity shares of Rs.20/- each at a premium of Rs.5/-. The amount was payable as under –

On Application	Rs.7/-
On Allotment	Rs.12/- (including premium)
On 1st Call	Rs.3/-
On 2nd Call	Rs.3/-

Applications were received for 80,000 shares. Allotment was made as follows.

Category	Applied	Allotted
A	10,000	10,000
B	60,000	20,000
C	10,000	NIL

Mr. Ali holding 200 shares from Category B failed to pay allotment & 1st call money. His shares were forfeited after 1st call. Mr. Sunil holding 400 shares category a failed to pay 1st & 2nd Call his shares was also forfeited. Excess money to be adjusted against allotment and call money. All the forfeited shares were reissued at Rs.18/- each.

Working Note:

W.N.1:

Category	A	B	C	Total
No. of application received	10,000	60,000	10,000	80,000
Application money received	70,000	4,20,000	70,000	5,60,000
No. of shares allotted	10,000	20,000	-	30,000
Allotment money due	1,20,000	2,40,000	-	3,60,000
Application money received transfer to share capital	70,000	1,40,000	-	2,10,000
Excess application money adjusted towards allotment	-	2,40,000	-	2,40,000
Excess application money refunded	-	-	70,000	70,000
Excess App. money adjusted towards 1st call	-	40,000	-	40,000
Allotment money received	1,20,000	-	-	1,20,000

W.N. 2 :

Default of Mr. Anil
Call amount due = 600

Excess application money (400 X 7) (-) Allotment money adjusted	2,800 2,400
	400

Default = 200

Mr. Sunil

Call amount due = 1,200
Default of Sunil = 1,200

W.N.: 3

1st Call amount received due (-) Excess Application Adjusted	90,000 (40,000)
(-) Default of Anil & Sunil	50,000 (1,400)
	48,600

Problem – 6

Kumar Ltd. issued 40,000 Equity shares of Rs.15/- each at a premium of Rs.5/-. Amount was payable as follows.

On Application Rs.6/-
On Allotment Rs.8/- (including premium)
On 1st & Final Call Rs.6/-

Application were received for 60,000 shares, allotment was made as followed –

Category	Applied	Allotted
A	10,000	10,000
B	45,000	30,000
C	5,000	NIL

X from Category A did not pay allotment & call money holding for 200 shares. Y from Category B holding 300 shares did not pay allotment & call money.

All other money was received. The expenses for issue of share amounted to Rs.40, 000/-. All the shares of X & Y were forfeited & reissued at Rs.12/- per share.

Working Note:

W.N.1:

Category	A	B	C	Total
No. of application received	**10,000**	**45,000**	**5,000**	**60,000**
Application money received	**60,000**	**2,70,000**	**30,000**	**3,60,000**
No. of shares allotted	**10,000**	**30,000**	**-**	**40,000**
Allotment money due	**80,000**	**2,40,000**	**-**	**3,20,000**
Application money received transfer to share capital	**60,000**	**1,80,000**	**-**	**2,40,000**
Excess application money adjusted towards allotment	**-**	**90,000**	**-**	**90,000**
Excess application money refunded	**-**	**-**	**30,000**	**30,000**
Allotment money received	**78,400**	**1,48,500**	**-**	**2,26,900**

W.N.2:

Default of Mr. Y

Holding	**450 shares**
(-) Allotted	**300 shares**
Excess	**150 shares**

Excess application received (150 X 6) = 900

Allotment money due (300 X 8) = 2,400	
(-) Excess application	**(900)**
Actual default	**1,500**

W.N.3:

Allotment received

Due	**2, 40,000**
(-) Adjusted	**90,000**
	1, 50,000
(-) Default	**1,500**
	1, 48,500

W.N. 4:

Securities Premium

X = 200 X 5 =	**1,000**	
Y = 300 X 5 =	**1,500**	
		2,500
Default of Mr. Y		**(900)**
		1,600

Allotment

200 X 3 =	**600**
300 X 3 =	**900**
	1,500

❖❖❖❖

3

ISSUE OF DEBENTURES

Unit Structure

3.0 Objectives
3.1 Introduction and Meaning
3.2 Definition
3.3 Features
3.4 Types of Debentures
3.5 Distinguish between Shares and Debentures
3.6 Debenture Interest
3.7 Issue of Debentures
3.8 Terms of redemption
3.9 Accounting entries
3.10 Treatment of discounts
3.11 Solved Problems
3.12 Exercise

3.0 OBJECTIVES :

After studying the unit the students will be able to

- Define Debentures
- Explain the types of Debentures
- Understand the difference between Shares and Debentures
- Know the terms of issue and redemption of Debentures
- Journalise the transactions
- Solve the problems

3.1 INTRODUCTION AND MEANING:

A Debenture is a document acknowledging a loan to company and executed under the common seal of the company, usually containing provisions as to payment, of interest and the repayment of principal amount and giving a charge on the assets of a such a company, which may give security for the payment over the some or all the assets of the company.

Issue of Debentures is one of the most common method of raising the funds available to the company. It is a important source of finance.

3.2 DEFINITION:

Debenture may be defined as a certificate issued by company under it's seal acknowledging a debt due by to it's holder. The essential characteristic of debentures is indebtedness Sec.2(12) of the Companies Act. 1956 a Debenture includes debenture stock bonds any other securities of a company whether constituting a charge on company assets or not.

A person who purchases a debenture is called a debenture holder.

3.3 FEATURES:

A Debenture has the following basic features:-

(a) It is document which creates or acknowledges a debt.

(b) It is in the form of certificate issued under the seal of the company.

(c) It usually shows the amount & date of repayment of the loan.

(d) If shows the rate of interest & date of interest payment.

(e) Normally debentures are secured & issued against the assets of the company.

3.4 TYPES OF DEBENTURES:

Different types of debentures can be classified as follows:-

I) **ON THE BASIS OF SECURITY:**

a) **Naked Debentures:** These Debentures are not secured against any assets of the Co. In case of winding of the company, debentures holders holding unsecured debentures treated as unsecured creditors.

b) **Secured Debentures:** These Debentures are secured by a charge on the assets of the company. These debentures are secured either on a particular assets called fixed charge or on the general assets of the company called floating charge. The debentures holder has a right to recover outstanding loan & interest out of such charge assets. These debentures are issued by the company under an agreement which is called "Mortgage Deed". Such mortgage is registered with Register of Companies.

II) **ON THE BASIS OF PERFORMANCE:**

a) **Redeemable Debentures:** The debentures are redeemed by repayment of the amount of debentures after a specified date, as per terms & conditions issued.

b) **Irredeemable Debentures:** In this case the issuing company does not fix any date by which debentures should be redeemed & the debentures holder cannot demand repayment of the sum of debenture from the company so long as it is going concern.

III) **ON THE BASIS OF PRIORITY:**

a) **First debentures:** As the name implies this type of debentures are repaid before the repayment of other debentures.

b) **Second debentures:** These debentures are paid after payment of first debentures.

IV) **ON THE BASIS OF CONVERTIBILITY:**

a) **Convertible debentures:** Holders of such debentures are given option to convert the debentures fully or partly into equity shares or preference shares or new debentures after a specified time.

b) **Nonconvertible debentures:** The holders of this type of debentures do not have any right to convert them into equity shares etc.,

v) **On the basis of Records:**

a) Bearer debentures: Just like bearer cheques these debentures can be transferred fredy. Payment of interest is made on productions of coupons attached with debentures.

b) Registered debentures: These are transferred only by transfer deed. The complete particulars in regard to such debentures are entered into register & the interest is paid only to those whose name appears in the register.

3.5 DISTINCTION BETWEEN SHARES & DEBENTURES

Shares		Debentures	
1.	Share capital is an ownership capital.	1.	Debentures capital is creditorship capital i.e. borrowing.
2.	A shareholder is the owner of the company.	2.	A debenture holder is the creditor of the company.

3.	Share capital is not returnable in the life time of the company. However, the redeemable preference shares are refunded during the life-time of the company.	3.	Debenture capital returnable during the lifetime of the company. The exception is the irredeemable debentures which are not redeemable during the life-time of the company.
4.	Shareholders enjoy the voting rights.	4.	Debentures holders do not have the voting rights.
5.	Dividend is payable on shares & it is an appropriation of profits	5.	Interest on debentures is payable at a fixed rate on specified date irrespective of profits of the company.
6.	Dividend depends on the profit of the company.	6.	Interest is paid on debentures & it is a charge on the revenue of the company.
7.	Shares are unsecured.	7.	Debentures are generally secured.
8.	In the event of winding up of the company shareholders are the last person in re-fund of their capital.	8.	Debenture holder being the creditors are paid prior to the shareholders. If secured they have priority even over the unsecured creditors.

3.6 DEBENTURE INTEREST:

Debentures being borrowed capital, they carry a specific rate of interest payable on specified date Debentures interest is expenditure & it is payable as an when interest is due whether there is a profit or loss. It is usually paid half-yearly. The amount of interest is calculated & paid on nominal value i.e., face value of Debentures.

The following Journal entries are passed.

a) When debentures interest is due:
Debenture Interest A/c Dr. (Gross amt.)
To Tax Deducted as source (With income tax)
To Debentures holder A/c (Net amt. payable)

b) When net amount due is paid:
Debentures Holder A/c Dr.
To Bank A/c

c) At the end of the year balance in debenture interest being expense transferred to P & L A/c
P & L A/c Dr.
To Debenture Interest A/c

3.7 ISSUE OF DEBENTURES:

3.7.1 Debentures can, be issued in three ways.

a) **At par:** Debenture is said to have been issued at par when the amount collected for it is equal to the nominal value of debentures. e.g. the issue of debentures of Rs. 100/- for Rs. 100/-.

b) **At Discount:** Debenture is said to have been issued at discount when the amount collected is less than the nominal value, for e.g., issue of debentures of Rs. 100/- for Rs. 95/-. The difference of Rs. 5/- is the discount and is called discount on issue of Debentures. This discount on issue of debentures is a capital loss & it is charged to P & L A/c over the period of its benefit to the company & it is shown under the head "Miscellaneous Expenditure" on the assets side of the Balance Sheet.

c) **At Premium:** When the price charged is more than it's nominal value, a debentures is said to be issued at a premium. e.g., issue of debentures of Rs. 100 each for Rs. 120, the excess amount over the nominal value i.e., Rs. 20 is the premium on issue of debentures. Premium received on issue of debentures is a capital gain & it is credited to "Securities Premium A/c". Premium on issue of debentures cannot be utilised for distribution of dividend. Premium on debentures is shown under the head Reserves & Surplus on the liability side of the Balance Sheet.

3.7.2 ISSUE OF DEBENTURES FOR CASH:

Debentures may be issue for cash at a par, at a discount or at a premium. When amount is payable in installments entries will be similar to the issue of shares. Any premium or discount on issue of debentures is usually adjusted at the time of making allotment. Premium payable on redemption of debentures is also adjusted at the time of issue of debentures.

3.7.2 ISSUE OF DEBENTURES FOR NON-CASH CONSIDERATION

Debentures may be issued for consideration other than cash such as acquisition of business, or assets. It should be noted that ouch debentures may be issue at par or at a premium or at a discount.

3.7.3 ISSUE OF DEBENTURES AS A COLLATERAL SECURITY

Debentures can be issued as collateral security against a loan or overdraft from bank or other financial institution. Collateral Security means an additional or parallel security. Debentures issued as collateral security is a contingent liability. However, it can become a definite liability only in the invent of default by the company in repaying the loan. No interest is payable on such debentures. Normally no entry is passed in the books for issue of such debentures. Only a note is given under loan concerned that such loans are secured by way of collateral security by issue of debentures. Normally no entry is passed in the books for issue of such debentures. Only a note, however, the following entry may be passed in the books in the issue of such debentures:

Debentures Suspense A/c Dr.
To Debentures A/c

On repayment & release of debenture, the entry pass is

Debentures A/c Dr.
To Debentures Suspense A/c

3.8 TERMS OF REDEMPTION:

Debentures may be redeemed (repaid) a) at a par b) at a premium or c) at a discount.

a) **Redeemable at par:** When debentures are to be redeemed at their face value they are said to be redeemable at par.

b) **Redeemable at a premium:** When debentures are to be redeemed at an amount higher than their face value they said to be redeemable at a premium. Premium payable on redemption of debentures is a capital loss for the company. Such premium even though payable on redemption must be provided as a liability at a time of issue of debentures. Loss on issue of debentures should be charged to the P & L A/c over the period of it's benefits to the company & it is shown under the head Miscellaneous Expenditure on the assets of the Balance Sheet.

c) **Redeemable at a discount:** When debentures are to be redeemed at an amount lower than their face value, they are said to be redeemable at a discount such discount is a capital profit for the company.

3.9 ACCOUNTING ENTRIES :

No.	Transaction	Accounting Entries
1)	Issue for cash (collection in installments)	
	a) Receipt of application money	Bank A/c Dr. To Debentures Application A/c
	b) Transfer of application money to debentures	Debentures Application A/c Dr. To Debentures A/c

	c) Allotment money due	Debentures Allotment A/c Dr. To Debentures A/c
	d) For receipt of allotment money	Bank A/c Dr. To Debenture Allotment A/c
	e) Call money due	Debenture Call A/c Dr. To Debentures A/c
	f) Receipt of call money	Bank A/c Dr. To Debenture Call A/c
Note: Discount or premium on issue of debentures should be adjusted at the time of making allotment entries for such will be the similar to the issue of shares.		
2)	Issue for cash (collection in lump sum)	
	a) Issue at par redeemable at par	Bank A/c Dr. To Debentures A/c
	b) Issue at discount redeemable at par.	Bank A/c Dr. Discount on issue of Debentures A/c Dr. To Debentures A/c
	c) Issued at premium redeemable at par.	Bank A/c Dr. To Debentures A/c To Securities Premium A/c
	d) Issued at par redeemable at premium.	Bank A/c Dr Loss on issue of debentures A/c Dr. To Debentures A/c To Premium on redemption of debentures A/c
	e) Issued at a discount redeemable at premium.	Bank A/c Dr. Loss on issue of debentures A/c Dr. To Debentures A/c To Premium on redemption of debentures A/c.

3)	Issue of Debentures for Non-cash consideration	
	a) On purchase of business	Sundry Assets A/c Dr. *Goodwill A/c Dr. To Sundry Liabilities A/c To Vendor A/c To Capital Reserve A/c
Note: Goodwill=P.C consideration – Net Assets. OR Capital Reserve = Net Assets – P. C		
	b) On issue of Debentures to Vendor	
	(i) Issue at per redeemable at par	Vendor A/c Dr. To Debentures A/c
	(ii) Issued at discount redeemable at par	Vendor A/c Dr. Discount on issue of Debentures A/c Dr. To Debentures A/c
	(iii) Issued at premium redeemable at par	Vendor A/c Dr. To Debentures A/c To Securities Premium A/c
	(iv) Issued at par redeemable at premium.	Vendor A/c Dr. Loss on issue of debenture A/c Dr. To Debentures A/c To Premium on redemption of debentures A/c
	(v) Issued at a discount redeemable at premium	Vendor A/c Dr. Loss on issue of debentures A/c Dr To Debentures A/c To Premium on redemption of debentures A/c
4)	Issue of Debenture as collateral security	No Entry

3.10 TREATMENT OF DISCOUNT ON ISSUE OF DEBENTURES :

Discount on issue of debentures is a capital loss & such loss is written off from books of account as early as possible. Following journal entries passed to write off discount.

P & L A/c Dr.
To Discount on issue of Debentures A/c

Balance on discount is shown in the balance sheet on the assets side under the head “Miscellaneous Expenditure”.

The amount of discount is written off in the following ways.

a) When debentures are redeemed after certain period.
In this case total discount on debentures is written off equally each year over the period of debenture tenure.

$$\text{Discount to be written off} = \frac{\text{Total Discount}}{\text{No.of years after which debentures will be redeemed}}$$

Check Your Progress

- **State whether true or false**

1. Registered debentures are transferred only by transfer deed.
2. Redeemable Debentures are redeemed at any time.
3. Debenture interest is payable only when a company makes profits.
4. When the price charged is more than its nominal value, a debenture is said to be issued at a premium.
5. If the debentures are redeemed at discount such discount is a revenue profit for the company.
6. Premium payable on redemption of debentures is a capital loss for the company.
7. No interest is payable on the debentures issued as a collateral security.

- **Fill in the blanks**

1. When debentures are to be redeemed at their face value they are to be said as----------------------------.
2. Accumulated balance of premium on redemption is shown under the head------------ on the assets of the Balance Sheet.
3. If the term on issue of debentures is 'Issued at par redeemable at premium' the journal entry is-----------------------
4. Debentures issued as collateral security is a ---------- liability.
5. The amount of interest is calculated and paid on------------- of Debentures.
6. Premium received on issue of debentures is a capital gain and it is credited to----------------------------.
7. Debentures which are secured by a charge on the assets of the company are termed as -----------------------

Answers for check your progress

State whether true or false

1. True, 2.False, 3.False, 4.True, 5.False, 6.True, 7. True

Fill in the blanks

1. **Redeemable at par.**
2. **Miscellaneous Expenditure**
3. **Bank A/c Dr**
   Loss on issue of debentures A/c Dr.
   To Debentures A/c
   To Premium on redemption of debentures A/c
4. **Contingent**
5. **face value**
6. **Securities Premium A/c.**
7. **Secured debentures**

3.11 SOLVED PROBLEMS :

Illustration: 1 A Ltd. issued 5000 debentures of Rs. 100 each at 10% discount redeemable at par after 10 years.

Total discount = 10% of Rs. 5, 00,000= Rs. 50,000

Discount returned off each year = $\frac{\text{Rs. } 50000}{10 \text{ years}}$

= Rs. 5.000 each year.

a) When debentures are redeemable in installment by annual drawings.

In this case, discount written off each year is proportionate to the debentures outstanding at the beginning of the year. At the end of the life of debentures the entire discount on issue of debenture is written off.

Illustration: 2 K Ltd., issued Rs. 1000000 15% debentures at 5% discount and redeemable at 10% premium. Debentures are to be redeemed in the following manner:

Year end	Face value of debentures to be redeemed Rs.
2	100000
3	200000
4	300000
5	400000

Give loss on issue of debentures account for the 5 Years.

Solution:

Bank A/c	950000	
Loss on issue of debentures A/c	150000	
To 15% debentures A/c		1000000

To Premium on redemption on debentures A/c 100000

Loss to be written off in each year.

In the books of K Ltd.
Loss on issue of debentures account

Particulars	AMT.	Particulars	AMT.
To 15% debentures A/c	1,50,000	By P & L A/c	37,500
		By Bal. C/d	1,12,500
	1,50,000		**1,50,000**
To Bal. B/d	1,12,500	By P & L A/c	37,500
		By Bal. C/d	75,000
	1,12,500		**1,12,500**
To Bal. B/d	75,000	By P & L A/c	37,500
		By Bal. C/d	75,000
	75,000		**75,000**
To Bal. B/d	41,250	By P & L A/c	26,250
		By Bal. C/d	
	41,250		**41,250**
To Bal. B/d	15,000	By P & L A/c	15,000
	15,000		**15,000**

Illustration: 3 (When amount of debentures is collected in installments)

YES Ltd., issued 1000 10% debentures of Rs. 1000 each payable at Rs. 250 on application & Rs. 750 on allotment. Application mere received for 1000 debentures. All the applicants mere allotted debentures. All the money were received. Pass the journal entries in the books of the Company.

Solution:

Journal of YES Ltd

Particulars	Dr.	Cr.
Bank A/c Dr. To Debenture Application A/c (Application money of Rs. 250 per debenture received on 1000 debenture as per details in debenture Application Book.)	250000	 250000

Debenture Application A/c Dr. To 10% Debenture A/c (Application money of Rs. 25 per debenture transferred to Debenture A/c on allotment of 1000 Debentures vide Board Resolution No. ....dated ....& per particulars in Debenture Application & Allotment Book)	250000	250000
Debenture Allotment A/c Dr. To 10% Debenture A/c (Allotment amount due on 1000 debentures at Rs. 750 per debenture vide Board Resolution No. .... dated ....& particulars in debenture Application & Allotment Book.)	750000	750000
Bank A/c Dr. To Debenture Allotment A/c (Allotment money of Rs. 750 per debenture received on 1000 debentures as per details in Allotment Book)	750000	750000

Balance Sheet of YES Ltd.

Liabilities	Amt.	Assets	Amt.
Unsecured Loans 10% Debentures	1000000	Bank	1000000

Note: Only the relevant items are shown in above Balance Sheet.

Illustration: 4 (When different conditions of issues and redemption are given)

City Enterprises Ltd., Issued 1000 debentures of Rs. 100/- each. You are asked to give journal entries on issue if.

1. The debentures are issued at par and redeemable at par.
2. Debentures are issued at discount of 5% but redeemable at par.
3. Debentures are issued at a premium of 5% but redeemable at a par.
4. Debentures are issued at a discount of 5% but redeemable at a premium of 5%.
5. Debenture issued at par but redeemable at 10% premium.

Solution:

Journal of City Enterprise Ltd.

Particulars	Dr.	Cr.
Bank A/c Dr.	100000	
To Debenture A/c		100000
(Issue of 1000 7% debenture of Rs. 100 each vide Board Resolution No. ....dated ....& per details in Debenture Application & Allotment Register)		
Bank A/c Dr.	95000	
Discount on issue of Debentures A/c Dr.	5000	
To 10% Debenture A/c		100000
(Issue of 1000 debentures of Rs. 100 each at a discount of 5% vide Board Resolution No. .... dated .... & per particulars in Debenture Application & Allotment Register)		
Bank A/c Dr.	105000	
To 10% Debenture A/c		100000
To Security Premium A/c		5000
(Issue of 1000 debenture of Rs. 100 each at Rs. 105 vide Board Resolution No. ....dated ....& particulars in Debenture Application & Allotment Register)		
Bank A/c Dr.	95000	
Loss of issue of Debenture A/c Dr.	10000	
To 10% Debenture A/c		100000
To Premium on redemption of Debentures A/c		5000
(Issue of 1000 debentures of Rs. 100 each at Rs. 95 but redemeable at Rs. 105 vide Board Resolution No. .... dated ....& particulars in Debenture Application & Allotment Register)		

Bank A/c Dr. Loss of issue of Debenture A/c Dr. To 10% Debenture A/c To Premium on redemption of Debentures A/c (issue of 1000 debentures at par redemeable at Rs. 110 vide Board Resolution No.......... dated .... & per detail in Debenture Application & Allotment Register)	100000 10000	 100000 10000

Illustration: 5 (When amount of debenture is collected in installments)

N Ltd. issued 1000, 8% Debenture of Rs. 100/- each at a discount of 10% Payable as Rs. 10/- on application, Rs. 30/- on allotment and Balance on final call All the money were duly received.

Pass necessary journal entries in the books of company.

Solution:

Journal of N Ltd.

Particulars	Dr.	Cr.
Bank A/c Dr. To 8% Debenture Application A/c (Being application money received)	10000	 10000
8% Debenture Application A/c Dr. To 8% Debenture A/c (Being application money transferred to Debenture A/c)	10000	 10000
8% Debenture Allotment A/c Dr. Discount on 8% Debenture A/c Dr. To 8% Debenture A/c (Being amount due on allotment)	30000 10000	 40000
Bank A/c Dr. To 8% Debenture Allotment A/c (Being Allotment money received)	30000	 30000
8% Debenture First Call A/c Dr. To 8% Debenture A/c (Being first call of Rs. 40 per share due)	40000	 40000

Bank A/c Dr. To 8% Debenture First Call A/c (Being first call money received)	40000	 40000
8% Debenture Final Call A/c Dr. To 8% Debenture A/c (Being final call of Rs. 10 per share due)	10000	 10000
Bank A/c Dr. To 8% Debenture Final Call A/c (Being final call received)	10000	 10000

Illustration: 6 R. Ltd. issued 10000, 10% debentures of Rs. 100 each at a premium of 10% Payable Rs. 40 on application, Rs. 30 on allotment, Rs. 25 on first call and Rs. 15 on final call Company received application for 14,000 debentures, out of Mich company received applications for 4000 debentures. All the money was duly received prepare Cash book and pass journal entries in the books of Company.

Solution:

In the books R. Ltd.
Cash Book (Bank column)

Dr. Cr.

Particulars	Amt.	Particulars	Amt.
To Debenture Application A/c (14000 Deb. *Rs.40)	5,60,000	By Debenture Application A/c (4000 Deb. *Rs.40) (Refunded)	1,60,000
To Debenture Allotment A/c (10000 Deb. *Rs.30)	3,00,000	By Bal. C/d (Bal. fig)	11,00,000
To Debenture First Call A/c (10000 Deb. *Rs.25)	2,50,000		
To Debenture Final Call A/c (10000 Deb. *Rs.15)	1,50,000		
	12,60,000		**12,60,000**

Journal of R Ltd.

Particulars	Dr.	Cr.
Debenture Application A/c Dr. To 10% Debentures A/c (Being 10000 debentures allotted at Rs. 40 each as per Board resolution dated.)	400000	 400000
Debenture Allotment A/c Dr. To 10% Debentures A/c To Security Premium A/c (Being allotment due on 10000 debentures at Rs. 30 each as per Board resolution dated)	300000	 200000 100000
Debenture First Call A/c Dr. To 10% Debentures A/c (Being first call due on 10000 debentures at Rs. 25 each as per Board resolution date ....)	250000	 250000
Debenture Final Call A/c Dr. To 10% Debentures A/c (Being final call due on 10000 debentures at Rs. 15 each as per Board Resolution dated ....)	150000	 150000

Illustration: 7 R. K. Ltd. issued 10,000, 10% Debentures of Rs. 100 each at a discount of 5%, payable Rs. 30 on application, Rs. 40 on allotment and Rs. 25 on First & final call. The Debentures are redeemable on a Premium of 8%. Company received applications for 18000 debentures and rejected applications for 3000 Debentures. On the remaining Debenture applications, pro-rata allotment was made. The excess money on application is to be adjusted against allotment money due. Mr. N who applied for 600 Debentures did not pay allotment money & call. Miss. Arti holding 300 Debentures did not pay final call All other Debenture holders paid the dues.

Pass journal entries in the books of Company.

Solution:

Journal of R.K. Ltd.

Particulars	Dr.	Cr.

Bank A/c Dr. To 10% Debenture Application A/c (Being application money received on 18000 debenture at Rs. 30 each)	540000	540000
Debenture Application A/c Dr. Loss of issue of Debenture A/c Dr. To 10% Debentures A/c (10000 Deb. Rs. 30) To Bank A/c (3000 Deb, *Rs. 30) (Refunded) To Debenture Allotment A/c (5000 Deb. *Rs. 30) advance. To Premium on Redemption of 11% Debenture A/c (10000 Deb. *Rs.8) (Being 10000 debenture allotted & loss on issue of debenture due to redemption of debenture at a premium of 8% recorded as per board resolution dated ....)	540000 80000	 300000 90000 150000 80000
Debenture Allotment A/c Dr. Loss of issue of Debenture A/c Dr. To 10% Debentures A/c (Being allotment money due on 10000 debentures at Rs. 40 & discount on issue i.e, loss of Rs. 5 each as per board resolution dated……….)	400000 50000	 450000
Bank A/c Dr. To Debenture Allotment A/c (Being allotment money received)	240000	 240000
Debenture First & Final call A/c Dr. To 10% Debenture A/c (Being first & final call due on 10000 debentures at Rs. 25 each as per board resolution dated)	250000	 250000
Bank A/c Dr. To Debenture First & Final Call A/c (Being first & final call received on 9300 (10000-400-300) debenture)	232500	 232500

Working note:

1. Number of Debentures allotted to Mr. N
   Debentures Applied Allotted

Total	(18000-3000) =15000	10000
Mr. N	600	400

2. Allotment dues of Mr. N.
   Gross allotment use
   (400 Debentures allotted*40 16000
   Less excess paid on applications
   of 200 Debentures @ 30 Rs. -6000
   Allotment dues of Mr. N. 10000

3. Allotment amount received
   Allotment money due, with discount 400000
   Less application amount adjusted on
   Pro-rata basis -150000
   Less N's Default of allotment dues -10000
   Allotment amount received 240000

3.12 EXERCISE :

Illustration: 1

J. Ltd. Took over the assets of Rs. 150000 & liabilities of A Ltd. For an agreed purchase consideration of Rs. 108000 is to be satisfied by the issue of 10% debentures of Rs. 100 each. Show journal entries in the books of J Ltd. Under the following circumstances:

a) When Debentures are issued at par

b) When Debentures are issued at 20% premium &

c) When Debentures are issued at 10% discount.

Working Note:

a) Number of Debentures to be issued = Purchase consideration $\div$ Issued price

b) Debenture issued at 20% premium

   Debenture = 108000 $\div$ 120= 900 Debentures of Rs. 100 each at 20% premium

c) Debenture issued at 10% discount

   Debentures= 108000 $\div$ 90=1200 Debentures of Rs. 100 each at 10% discount.

Illustration: 2

P.T. Ltd., took a loan of Rs. 100000 from a bank & deposited 1000, 8% Debentures of Rs. 100 each as Collateral security, Company again took a loan of Rs. 100000 after 3 months from a bank & deposited 1000, 8% Debentures of Rs. 100 each as a collateral securities.

With this amount company purchased plant & machineries for Rs. 150000 pass necessary Journal entries in the books of the company & prepare balance sheet.

Illustration: 3

J. Ltd. took over the assets of Rs. 150000 & liabilities of A Ltd. For an agreed purchase consideration of Rs. 108000 is to be satisfied by the issue of 10% debentures of Rs. 100 each. Show journal entries in the books of J Ltd. Under the following circumstances:

a) When Debentures are issued at par

b) When Debentures are issued at 20% premium &

c) When Debentures are issued at 10% discount.

Working Note:

a) Number of Debentures to be issued = Purchase consideration $\div$ Issued price

b) Debenture issued at 20% premium
Debenture = 108000 $\div$ 120= 900 Debentures of Rs. 100 each at 20% premium

c) Debenture issued at 10% discount
Debentures= 108000 $\div$ 90=1200 Debentures of Rs. 100 each at 10% discount.

Illustration: 4

P.T. Ltd., took a loan of Rs. 100000 from a bank & deposited 1000, 8% Debentures of Rs. 100 each as Collateral security, Company again took a loan of Rs. 100000 after 3 months from a bank & deposited 1000, 8% Debentures of Rs. 100 each as a collateral securities. With this amount company purchased plant & machineries for Rs. 150000 pass necessary Journal entries in the books of the company & prepare balance sheet.

❖❖❖❖

4

REDEMPTION OF PREFERENCE SHARES

Unit Structure

4.0 OBJECTIVES :

After studying this unit students will be able to:

- Know the Concept of Redemption and purpose of issuing redeemable Preference Shares.
- Understand various provision of the Companies Act regarding redemption of Preference Shares.
- Know the Methods of redemption of Preference Shares.
- Understand the Accounting procedure of redemption of Preference Shares.
- Prepare the Balance Sheet of the Company after redemption of Preference Shares.

4.1 INTRODUCTION :

Any company can issue two types & shares-viz. Equity Shares and Preference Shares. An Equity Share is defined as a share which is not a Preference Share. Sec 85 of the Companies Act, 1956 defines Preference Share Capital as that part of the Share Capital of a Company, limited by shares, which carries a preferential rights as to payment of fixed rate of dividend and repayment of capital before any payment is made to the Equity shareholders.

To redeem means to repay. Redemption is the process of repaying an obligation as per predetermined terms and conditions. All the Preference Shares issued after 15th June 1988 have to be redeemable Preference Shares. The Preference Shares issued prior to that date were required to be redeemed within Ten years from the 15th June 1988.

At present, any Preference Share issued by any company is required to be redeemable within maximum period of ten years from date of issue.

The dividend at specified rate is payable only if the company earn profits as Sec.205 of Companies Act. Thus dividend is not payable in event of losses suffered by company.

This class of shares provide funds to the company period which it needs funds and therefore repay the same.

4.2 LEGAL PROVISIONS:

4.2.1 PURPOSE OF ISSUING PREFERENCE SHARES:

A company may face difficulty in raising finance in dull primary market.

A company may raise finance required for the medium term project or additional capital required, by issue of redeemable Preference Shares, at the option of the company.

The purpose of issue of Preference Shares is to be provide funds in following situation.

(a) There is uncertainly of earning adequate profits for some period.
(b) To funds are required for specific period not more than ten years.

4.2.2 LEGAL PROVISIONS:

A company limited by shares if so authorized by its articles, may issue Preference Shares. However, the redemption can be effect only if the following conditions are fulfilled.

1. Only full paid Preference shares can be redeemed.

Thus partly paid up OR partly called up shares cannot be redeemed. In case shares which are partly called up; final call should be made. After receiving final call money the shares are fully paid up, then Preference Shares can be redeemed. If there are shares on which calls are in arrears either call should be received or these shares must be forfeited and then only the remaining shares can be redeemed.

2. The Preference shares can redeemed either out of

a) Proceeds of fresh issue of shares.
AND/OR
b) Divisible Profits.

3. The redemption may be in full of a single point of five or in parts of per terms of issue. The redemption may be
1. Payment by cheque

2. Conversion into Equity or Preference Share
3. Conversion into Debentures.

4. In case redemption out of accumulated Divisible Profit, it is necessary to transfer amount equal to face value of Preference Share redeemed to the Capital Redemption Reserve Account.

After the commencement of the Companies (Amendment) Act 1988, as company can not issue any Preference Share which are irredeemable or is redeemable after the expiry of a period of Ten years from the date of its issue.

4.3 IMPORTANT TERMS:

4.3.1 REDEMPTION OUT OF PROCEEDS OF FRESH ISSUE OF SHAREs.

The proceeds of fresh issue of shares (Equity Share and/or Preference Share) would basically mean the cash realized by way of issue of these shares on Capital. The fresh issued of shares may be at par or at premium or at discount. If fresh issue of shares are at par or premium, only face value of the fresh issue share is to be taken as the proceed of fresh issue. If shares are issued at discount, net amount received is considered as proceeds of fresh issue of shares.

e.g. A share of Rs.100/- (face value) is issued, i) at par or ii) at 20% premium or iii) at 5% discount, proceeds of issue of share in respect of (i) and (ii) above will equal to Rs.100/- only. In case of iii) it is net amount received on account of share is Rs.95/- only.

The time lag between the fresh issue and redemption should not be more than one month.

However conversion of Preference Share / outstanding Debentures into new Equity Shares can be considered on proceeds if fresh issue of share.

Making of a call as partly paid up shares can also not be considered as proceeds of fresh issue of shares.

Debentures may be issued for raising funds, but the proceeds from issue of Debentures cannot be considered as part of the proceeds of fresh issue of shares.

4.3.2 REDEMPTION OUT OF DIVISIBLE PROFITS:

Divisible Profits mean and include those profits, which are available for distribution by way of dividends among the shareholders.

a) The following are normally considered to be Divisible Profits.

i. Accumulated credits balance in Profit and Loss A/c
ii. Revenue Reserve/General Reserve.
iii. Dividend Equalization Reserve.
iv. Voluntary, Debenture Redemption Fund/Sinking Fund.
v. Investment Fluctuation Reserves.
vi. Workmen's Compensation Fund (only to extent, of Free Reserve)
vii. Development Rebate Reserve or Investment Allowance Reserve (utilized); Export Profits Reserve, [no longer required to carry forward as per income tax provisions.]

Capital Redemption Reserve A/c can be created, to the extent redemption out of divisible profits.

b) **<u>The following are not divisible profits.</u>**

i. Securities Premium Account.
ii. Profits Prior to Incorporation.
iii. Share Forfeited Account.
iv. Capital Resolve.
v. Revaluation Reserve.
vi. Capital Redemption Reserve.
vii. Investment Allowance Reserve (before the expire of the period as required under the Income Tax Act 1961). Transfer to C.R.R. A/c is not allowed from above profits.

4.3.3 CAPITAL REDEMPTION RESERVE [C.R.R.]:

Section 80 of the Companies Act ensures that there is no reduction in shareholders' funds due to redemption and the interest of outsiders is not impaired. Redemption of Preference Share requires that either fresh issue of share is made or distributable profits are retained and transferred to Capital Redemption Reserve Account. As capital Redemption Reserve can be used only for issue of fully paid up Bonus Shares, profits retained in the business ultimately get converted into Share Capital hence effectively there is no reduction in the capital of the company.

$$\text{C.R.R.} = \left(\begin{array}{c}\text{Nominal Value of Preference}\\ \text{Shares Capital}\end{array}\right) \text{Less} \left(\begin{array}{c}\text{Proceeds of Fresh}\\ \text{issue of shares}\end{array}\right)$$

Redemption of shares

Capital Amount

Premium Amount

Proceeds of fresh Issue or shares | Divisible profits | Security premium A/c | Other Reserve

Receive Funds | Transfer to Capital Redemption Reserve

4.4 METHODS OF REDEMPTION:

4.4.1 OUT OF PROCEEDS OF FRESH ISSUE OF SHARES.

One of the methods of redemption of Preference Shares is to use the proceeds of a fresh issue of shares. New shares may be issued at par or at premium or at discount.

Sometimes, problem does not specify the minimum number of shares to be issued for the purpose of redemption of Preference Share and to ensure compliance of section 80 of the Companies Act, 1956.

- In such case find out premium payable on redemption of Preference Share whether sufficient balance available in Securities Premium A/c plus premium received on new issue; otherwise new issue requires to increase to the extend of balance premium required.
- As certain the maximum amount of reserve and surplus available for redemption from given balance sheet before redemption and the additional information provided in the problem.

- Minimum proceeds of new issue shares:

  Nominal value of Preference Shares to be redeemed
  Less
  Maximum amount of reserve and surplus available for redemption

- Minimum number of shares

$$= \frac{\text{Minimum proceeds to comply with sec. 80}}{\text{Proceeds of one share}}$$

Proceeds of one share mean the face value of a share issued, if it is issued at par or premium. In case of issue of share at a discount, it refers to the discounted value [Face Value – Discount on issue].

Minimum number of shares calculated above should not be tractions. In case fractional shares should be rounded up to the next higher figure.

Minimum number of shares ascertained above should be a multiplied by face value of share, i.e. Rs.10/- or Rs.50/- or Rs.100/- as the case may be

Illustration 1

The Board of Directors of KM Ltd. decide to issue minimum number of Equity Shares of Rs.10/- each to redeem Rs.6,00,000/- Preference Shares at 10% premium. It has a General Reserve of Rs.1,20,000/- and Securities Premium Rs.1,00,000/-. Calculate the minimum number of Equity Share issued in each of the following cases:

Case I: If the new Equity Shares are issued at par
II: If the new Equity Shares are issued Rs.20/-
III. If the new Equity Shares are issued at Rs.9.50

Solution :

Redemption of Preference share capital Rs.6,00,000/-
Premium payable on redemption = $6{,}00{,}000 \times 10\%$ = Rs.60,000/- can be provided out of Securities Premium balance available.

Minimum proceeds of new issue of Equity shares

	Rs.	
Nominal value of Preference share to be redeemed		
Less: Maximum amount of Reserve available for	6,00,000	
Redemption proceeds of new issue of Equity share	(1,20,000)	
		4,80,000

Case I: When new issue Equity shares at par

$$\text{Minimum no. of shares} = \frac{\text{Minimum proceeds require}}{\text{Proceeds of one share}}$$

$$\frac{4{,}80{,}000}{10} = 48{,}000 \text{ Equity shares of Rs.10/- each at par}$$

Case II: When the new issue of Equity share of Rs.10/- @ Rs.20/-

Minimum No. of shares = $\frac{4{,}80{,}000}{10} = 48{,}000$ Equity shares of Rs. @ Rs.20/-

New Issue of Share Capital = 48,000 Equity shares of Rs.10/- @ Rs.10/- premium.

Case III: When the new issue of Equity share of Rs.10/- @ Rs. 9.50

Minimum no. of share = $\frac{4,80,000}{9.50} = 50,526.32$

$\therefore$ 50,527 Equity Share to be issued of Rs.10/- each @ Rs.0.50 discounts per share.

Illustration 2:

M.R. Ltd. decided to redeem 2,000 Preference Shares of Rs.100/- each at 10% premium on date of redemption the company had the General Reserve stood at Rs.50,000/- the Profit and Loss Account credit balance of Rs.40,000/- and Securities Premium Rs.10,000/-. Calculate the minimum number of Equity Share of Rs.50/- each issued in each of the following cases.

Case	I	If the new Equity Shares are issued Rs.48.00
	II	If the new Equity Shares are issued at par
	III	If the new Equity Shares are issued at Rs.55.00

Solution:

In the above problem Securities Premium is less than the premium payable on redemption of Preference Share. Therefore remaining premium payable on redemption of Preference Shares required to be provided out of Divisible Profit as new issue of Equity Share is at discount.

	Rs.	
Nominal value of Preference Share to be redeemed	2,00,000	
Less maximum amount of reserve available for redemption balance in General Reserve	50,000	
Cr. Balance in Profit & Loss A/c		40,000
		90,000
Less premium payable to be provided [20,000-10,000]	(10,000)	
		80,000
Proceeds of new issue of Equity Share		1, 20,000

Case I: When new issue of Equity Shares of Rs.50/- each @ Rs.48/-

Minimum no. of shares issue = $\frac{\text{Minimum porceeds require}}{\text{Proceeds of one share}}$

$= \frac{1,20,000}{48} = 2,500$ Shares

$\therefore$ 2500 Equity Shares of Rs.50/- each to be issued @ Rs.48/- per share.

CRR = Nominal value of Preference redeemed

= Proceeds of new issue
= 200,000 – 120000 = 80000.

Case II : Premium redemption = Sec. premium + Rs. 10,000 Bal. 10,000 from d divisible profits.

Minimum No. Of shares = $\frac{1,20,000}{50} = 2,400$

$\therefore$ 2,400 Equity Shares to be issued at par

Case III : The new Equity Share of Rs.50/- each issued at Rs.55/- i.e. Rs.5/- premium.

In case III premium payable on redemption can be provided out of balance in Securities A/c Premium A/c plus provision received on new issued of shares

Nominal value of Preference share	2, 00,000	
Less: Divisible profit available		- 90,000

For redemption (P & L A/c + General Reserve
Proceeds of new issue of Equity shares 1,10,000

Minimum No. of share to be issue

$$= \frac{\text{Minimum proceeds required}}{\text{Proceeds of one share}}$$

$= \frac{1,10,000}{50} = 2,200$ Equity share of Rs.50/- each @ Rs.55/-

C.R.R. = 2, 00,000 -1,10,000 = 90,000 (out of divisible profit)
Premium payable on redemption = 10% on Rs.2.00,000
=Rs.10,000

Provided out of Securities Premium

BAL B/d Rs. 10,000 + Received on new issue =
10,000 + 2,200 x 5 = 10,000 + 11,000 = 21,000 premium payable on redemption = Rs.20,000/- can be provided out of Rs.21,000/- balance in Securities Premium A/c

4.4.2 REDEMPTION OUT OF DIVISIBLE PROFIT:

A company may use the distributable profits in place of issuing new shares. To the extent redemption of Preference shares out of divisible profit, an amount equal to face value of shares redeemed is transferred to Capital Redemption Reserve A/c by debiting the distributable profits.

When Preference shares are redeemed out of divisible profit, there is no change in the percentage of share holding of the company and also future earning are not diluted. However payment to percentage share holders results in reducing working capital.

Divisible profits or distributable profits mean profits or reserves available to company for distribution to shareholders as dividends or otherwise as per provisions of laws applicable.

This is possible, if company has bank balance available to repay capital since repayment of redemption needs actual bank balance.

4.4.3 COMBINATION OF 4.4.1 & 4.4.2

A company may redeem the Preference shares partly from the new issued and partly out of divisible profits. In such case, divisible profits transfer to capital redemption reserve A/c to the extend redemption out of profit.

Generally redemption is carried out in combination depending upon availability of reserves and bank balances with company and its respected needs of funds.

4.5 ACCOUNTING PROCEDURE :

Accounting procedure, depends on the transaction effected by company these steps may be

a) If shares are not fully paid up convent into fully paid up by receiving required up amount or such share to be forfeited.
b) Measures to receive funds by sale of assets/Investments.
c) Receive money on fresh issue of shares
d) Ascertain amount payable to shareholders
e) Pay amount due
f) Transfer reserves to capital redemption reserve and security premium.
g) Issue of Bonus shares to Equity shareholders of so decided.

Following journal entries are passed for redemption of Preference shares along with other transaction given

a) For making call on partly paid Preference share.		
Share final call A/c Dr.	X	
To Preference share capital A/c		X
b. For receipt of final call due		
Bank A/c Dr.	X	
To Share final call A/c		X

a. For failure of shares		
Share Capital A/c [called up amount] Dr.	X	
To calls in Arrears		X
To Forfeited shares A/c		X

- **For reissue of forfeited shares**

  Bank A/c (amount received) Dr. X
  Forfeited shares A/c [Bal Fig.] Dr. X
  To Share Capital A/c X
  [Amount credited as paid up]

- **For transferring balance in forfeited shares A/c**

  Forfeited shares A/c Dr. X
  To Capital Reserve A/c X

- **For sale of Investment**

	Dr. (Rs.)	Cr. (Rs.)
a. **At cost**		
Bank A/c Dr.	X	
To Investment A/c		X
b. **At Profit**		
Bank A/c Dr.	X	
To Investment A/c		X
To Profit & Loss A/c		X
c. **At Loss**		
Bank A/c Dr.	X	
Profit & Loss A/c Dr.	X	
To Investment A/c		X

- **For issue of share**

a. **At par**		
Bank A/c Dr.	X	
To Share Capital A/c		X
b. **At Premium**		
Bank A/c Dr.	X	
To share capital A/c		X
To Securities Premium		X
c. **At Discount**		
Bank A/c Dr.	X	
Discount on issue of shares A/c Dr.	X	
To Share Capital A/c		X

- **For redemption of Preference shares**

a. for transferring the claim of Preference shareholders. [Towards Capital, premium and dividends unpaid]

Preference Share Capital A/c	Dr.	X	
Premium on Redemption of Preference Capital A/c	Dr.	X	
Dividend Preference Share A/c (if any)	Dr.	X	
To Preference shareholders A/c			X

b. For providing premium on redemption

Securities Premium A/c	Dr.	X	
Capital Reserve A/c	Dr.	X	
Profit and loss A/c	Dr.	X	
To premium on redemption of Preference share A/c			X

Note : It is prudent to use first Securities Premium then Capital Reserve realized in cash, balance if any required from divisible profits.

c. For creating capital redemption reserve

Profit and Loss A/c	Dr.	X	
And/or			
General Reserve A/c	Dr.	X	
Any other divisible Profit/Reserve A/c	Dr.	X	
To Capital Redemption Reserve A/c			X

Note:

$$C.R.R. = \begin{pmatrix} \text{Nominal Value of Preference} \\ \text{Shares redeemed} \end{pmatrix} \text{Less} \begin{pmatrix} \text{Proceeds of Fresh} \\ \text{issue of shares} \end{pmatrix}$$

d. For payment to Preference shareholder
Preference shareholders A/c Dr. X
To Bank A/c X

Note: In case any amount remains unpaid, the entry should be passed for the amount actually paid, and unpaid amount should be shown as current liability as "due to Preference shareholders"

- **For making partly paid up Equity shares into fully paid up, without asking shareholders to pay for call dues.**

a. For providing bonus issue
Profit and Loss A/c Dr. X
And/or
Revenue Reserves A/c Dr. X
To Bonus to shareholders A/c X

b. For making call money due
Equity share final call A/c Dr. X
To Equity share capital A/c X

c. For adjusting bonus issue
Bonus to shareholders A/c Dr. X
To Equity share final call X

- **For issue for fully paid Bonus shares.**

a. For providing bonus
Capital redemption reserve A/c Dr. X
Securities Premium A/c Dr. X
[If required]
To Bonus to shareholders A/c X

b. For issue of bonus shares
Bonus to shareholders A/c Dr. X
To Equity share capital X

Note:

For any other transaction given in examination problem; usual accounting entry should be pass.

CHECK YOUR PROGRESS

- Give the items which are not divisible profits.

- How to calculate Minimum precedes of new issue shares.
- Give the journal entry for reissue of forfeited shares.
- Fill in the blanks

1. The Preference shares can redeemed either out of Proceeds of fresh issue of shares or---.
2. In case redemption out of accumulated Divisible Profit, it is necessary to transfer amount equal ------------------to the Capital Redemption Reserve Account.
3. The time lag between the fresh issue and redemption should ------------------------------.
4. Section ------------------of the Companies Act ensures that there is no reduction in shareholders' funds due to redemption and the interest of outsiders is not impaired.

4.6 ILLUSTRATIONS (SIMPLE PROBLEM)

Illustration 1

Ketan Ltd. had 6000, 9% redeemable Preference Shares of Rs.50/- each fully paid. The company decides to redeem the shares at a premium of 10%. The company makes the following issues for the purpose of redemption.

a) 25,000 Equity Shares of Rs.10/- each at a premium of 10%.
b) 3,000, 9% Debenture of Rs.100/- each at a premium of Rs.10/- each.

The company has a General Reserve of Rs.3,75,000/- and Securities Premium of Rs.50,000/-. Pass journal entries to record above transactions.

Solution :

Ketan Ltd.

	Particulars	**Dr. (Rs.)**	**Cr.(Rs.)**
1.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 25000 Equity share at Rs.10/- each, issued at 10% premium]	2,75,000	 2,50,000 25,000
2.	Bank A/c Dr. To 9% Debentures A/c To Securities Premium A/c [Being 3,000, 9% Debentures of Rs.100/-	3,30,000	 3,00,000 30,000

	each, issued at 10% premium]		
3.	9% Preference Share Capital A/c Dr. Premium on Redemption of Preference Share A/c Dr. To Preference Shareholders A/c [Being the claim of transferred Preference shareholders to their accounts]	3,00,000 30,000	 3,30,000
4.	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c [Being premium on redemption of Preference share provided]	30,000	 30,000
5.	General Reserves A/c Dr. To Capital Redemption Reserve A/c [Being capital redemption reserve created to the extend redemption of profit]	50,000	 50,000
6.	Preference Shareholders A/c To Bank A/c [Being claim of Preference share holders paid]	3,30,000	 3,30,000

Note:

$$\text{C.R.R.} = \left(\begin{array}{c}\text{Face Value of Preference}\\ \text{Share to be redeemed}\end{array}\right) \text{Less} \left(\begin{array}{c}\text{Proceeds of New}\\ \text{issue of shares}\end{array}\right)$$

= 3, 00,000 - 2, 50,000
= 50,000

Illustration 2:

[Calculation of issue minimum number of shares]

N.Ltd. decided to redeem their Preference shares 10 premium as on 31st March 2009. On that date their position was as under

Balance sheet as on 31st March 2009

Liabilities	Rs.	Assets	Rs.
Issued Share Capital		Fixed Assets	2,10,000
10,000, 9% redeemable		Current Assets	1,45,000
Preference Share of		Investment	1,00,000
Rs.10/- each fully paid	1,00,000	Bank Bal.	50,000
20,000 Equity Share of			
Rs.10/- each fully paid	2,00,000		
Profit & Loss A/c	50,000		
Dividend Equalization			

Reserve 10% Debentures Sundry Creditors	20,000 1,00,000 3,50000		
	5,05,000		5,05,000

In order to facilitate the redemption of Preference share it was decided.

a) Part of Investment to be sold at 10% profit for Rs.55,000/-

b) To finance part of the redemption from company funds, subject to leaving a balance on Profit and Loss A/c of Rs.40,000/- and

c) To issue sufficient numbers of Equity Share of Rs.10/- each at a premium of Rs.2.50 per share to raise the balance fund required.

The Preference shares were redeemed on the due date and issue of Equity shares was fully subscribed.

You are requiring (i) the necessary journal entries to record above transactions (including cash) and (ii) The Balance Sheet after redemption.

Solution:

Working Notes:

					Rs.
(a)	Nominal value of Preference				
	Capital to be redeem			1, 00,000	
	Less: Divisible Profit available				
	Profit and Loss A/c		50,000		
	Add: Profit on sale of Investment		5,000		
	Less: Bal. requires to	55,000			
	P & Loss A/c Balance	- 40,000			
			15,000		
	Dividend Equalization Fund	20,000	(35,000)		
(b)	Proceeds of new issue of shares				65,000

(c) Minimum no. of shares to

$$= \frac{\text{Minimum proceeds require be issued}}{\text{Proceeds of one share}}$$

$$= \frac{65,000}{10} = 6,500 \text{ Shares.}$$

$\therefore$ 6,500 Equity Shares of Rs.10/- each to be issued @ premium of Rs.2.50

Premium on redemption of Preference Shares can be provided out of premium received on new issue.

N. Ltd.
Journal (31st March 2009)

No.	Particulars	Dr. (Rs.)	Cr.(Rs.)
1.	Bank A/c Dr. To Investment A/c To Profit & Loss A/c (Being part of Investment sold at 10% profit) cost of Investment sold $= 55{,}000 \times \frac{100}{110}$	5,500	 50,000 5,000
2.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 6500 Equity shares of Rs.10 each issued @ 2.50 premium]	81,250	 65,000 16,250
3.	9% Preference Share Capital A/c Dr. Premium on Redemption of Preference Share Capital A/c Dr. To Preference Shareholders A/c (Being the claim of Preference shareholders transferred to their accounts)	1,00,000 10,000	 1,10,000
4.	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares Capital A/c	10,000	 10,000
5.	Profit & Loss A/c Dr. Dividend Equalization Reserve A/c Dr. To Capital Redemption Reserve A/c [Being Capital Redemption Reserve created to the redemption out of profit]	15,000 20,000	 35,000
6.	Preference Shareholders A/c Dr. To Bank A/c [Being claim of Preference share holders paid]	1,10,000	 1,10,000

Bank A/c

Dr.			Cr.
To Bal b/fd.	50,000	Bank Preference Shareholders A/c	1,10,000
To Investment A/c	55,000	Bank Bal c/fd	76,250
To Equality Share Capital	65,000		
To Securities Premium A/c	16,250		
	1,86,250		1,86,250

Balance Sheet of N Ltd. as on 31st March 2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I I Share Capital			**I Fixed Assets**		2,21,250
Authorized		?	**II Investments**		50,000
Issued and paid up			**III Current Assets**		
26500 Equity shares of			Current Assets	1,45,000	
Rs. 10 each fully paid up		2,65,000	Bank Bal.	76,250	
III Reserve and surplus					
Capital Redemption Reserve		35,000			
Securities Premium received on new issue	16,250				
less premium on Redemption	(10,000)	6,250			
Dividend Equalization Reserve	20,000				
Less : transfer to C.R.R.	(20,000)	--			
Profit & Loss A/c	50,000				
Profit on sale on Investment	5,000				
Transferred to C.R.R.	(15,000)	40,000			
IV Secured Loans					
10% Debentures		1,00,000			
V Unsecured Loans		NIL			
V Current Liabilities &provisions					
Sundry Creditors		35,000			
		4,81,250			4,81,250

Illustration 3 : [Computation of C.R.R. and bonus shares]

The following is the balance sheet of T T Ltd. as at 31 March 2009

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed Assets	6,00,000
90,000,10% Preference share of Rs.10/- each fully paid	9,00,000	Investment	8,50,000
40,000 Equity Share of Rs.10/- each fully paid	4,00,000	Current Asset	5,10,000
Reserve and surplus		[Including Bank Bal. Rs.1,20,000]	
Securities Premium	60,000		
Profit & Loss A/c	4,00,000		
Current Liabilities			
Sundry Creditors	2,00,000		
	19,60,000		19,60,000

The Preference Shares are to be redeemed on 1st April 2009, at a premium of Rs.2/- per share. Part of Investment were sold @ 10% loss for Rs.7,20,000/- and issued 60,000 Equity Shares of Rs.10/- each at premium of Rs.10/- per share for redemption.

The company redeemed the Preference shares on 1st April 09 except in case of one shareholder holding 500 Preference Shares who could not be traced

Subsequently the company issued bonus share in the ratio of one Equity Share for every four Equity Shares held including the new issued.

You are required to pass journal entries and prepare balance sheet after above transactions.

Solution:

Working Notes:

1. Amount due and paid to Preference Shareholder

			Rs.
Preference Share Capital			9,00,000
Premium payable on redemption	(90000 x 2)		1,80,000
Preference shareholder claim		10,80,000	
Less : unpaid amount on 500 shares @ Rs.12/-			(6,000)
Amount paid to Preference shareholder			10,74,000

2. Redemption out of Divisible Profit

	Rs.
Nominal value of Preference Share Capital Redeemed	9,00,000

Less: Proceeds of new issue of Equity Shares [60,000 X 10]	(6,00,000)
Redemption out of profit [C.R.R.]	3,00,000

3. Cost of Investment sold $= 7,20,000 \times \frac{100}{90} = 8,00,000$

Investment costing Rs.8,00,000/- sold for Rs.7,20,000/-

4.

Bonus shares to be issued	No.	Rs.
Old Equity Share Capital	40,000	4,00,000
Add new issue of Equity Shares	60,000	6,00,000
	1,00,000	10,00,000

Add Bonus one bonus share for every four shares hold
Bonus shares to be issued

$= 100,000 \times \frac{1}{4}$ (Out of C.R.R.) =	25,000	2,50,000
Total Equity capital	1,25,000	12,50,000

Bank A/c

Dr. **Cr.**

	Rs.		Rs.
To Bal. b/fd	1,20,000	By Preference Shareholders A/c	10,74,000
To Investment A/c	7,20,000	By Bal. c/fd	9,66,000
To Equity Share Capital A/c	6,00,000		
To Securities Premium A/c	6,00,000		
	20,40,000		20,40,000

T.Y.Ltd.
Journal

	Particulars	Dr. Rs.	Cr. Rs.
1.	Bank A/c Dr.	7,20,000	
	Profit & Loss A/c Dr.	80,000	
	To Investment A/c		8,00,000
	[Being Investment sold at loss]		
2.	Bank A/c Dr.	12,00,000	
	To Equity Share Capital A/c		6,00,000
	To Securities Premium A/c		6,00,000
	[Being 60,000 Equity shares of Rs. 10 each issued @ Rs.20 per shares]		
3.	10% Preference Share Capital A/c Dr.	9,00,000	
	Premium of Redemption of Preference		

	Share Capital A/c Dr. To Preference Shareholder A/c [Being Preference shareholders claim transferred]	1,80,000	 10,80,000
4.	Securities Premium A/c Dr. To Premium on Redemption of Preference Share Capital A/c [Being Premium on Redemption of Preference Share Capital adjusted]	1,80,000	 1,80,000
5.	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c [Being C.R.R. created to extend redemption out of profit]	3,00,000	 300,000

6.	Preference Shareholders A/c Dr. To Bank A/c [Being Preference share holders claim paid except on 500 shares]	10,74,000	10,74,000
7.	Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c [Being bonus provided in the ratio of one share for every four Equity shares]	2,50,000	2,50,000
8.	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c [Being 25000 Equity shares issued as fully paid Bonus share]	2,50,000	2,50,000

Balance Sheet of N Ltd. as on 31st March 2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital			I. Fixed Assets		600,000
Authorized		?			
Issued and paid up			II. Investments		50,000
125,000 Equity shares of Rs. 10 each fully paid up [included 25000 Equity shares of Rs. 10 each issued on fully paid bonus share by capitaling C.R.R.]		12,50,000	III.Current Assets		
			Other Current Assets	390,000	
			Bank Bal.	966,000	13,56,000
II. Reserve and surplus					
Capital redemption Reserve	3,00,000				
(-) used for bonus	2,50,000	50,000			
Securities Premium of bal.	60,000				
Received on new issue	6,00,000				
(-) Paid on Redemption of Preference	1,80,000	480,000			
profit & loss A/c					
Op. bal.	4,00,000				
(-) Loss on sale of Investment	80,000				
(-) used for C.R.R.	3,00,000	20,000			
III. Current Liabilities					
Sundry Creditors	2,00,000				
Dues to Preference shareholders	6,000	206,000			
		20,06,000			20,06,000

Illustration 4

[Forfeiture and reissue of forfeiture shares]
The following were the balance of Z ltd. as on 31st December, 09
10,000 Equity shares of Rs. 100 each 10, 00,000
100,000, 10% Preference share of Rs. each

Fully called-up		10, 00,000
Less: calls in arrear [on 1500 shares] (6000)	9, 94,000	
Securities Premium		1, 20,000
Profit & Loss A/c		6, 40,000
Revenue Reserves		2, 60,000

Bank Balance 5, 60,000

Preference shares were redeemable on 1 July 2010 at a premium of 10%.

On getting a reminder about payment of calls-in-arrears, shareholders holding 1000 shares paid their dues on 1 April 09 along with interest Rs. 200 on calls-in-arrears. The shareholding the remaining share on which calls were due was not tracble consequently, the directors forfeited those shares and re-issued them as fully paid on 1 May 2010 on receiving Rs. 9 per share

On 15 June 10, 5000 Equity share of Rs. 100 were issued @ Rs. 120 per share for the purpose of redemption.

Repayments were compiled on 1 July 2010 except in the case of one shareholder, holding 1000 shares, who was expired.

Your are required to show the journal entries,

Solution:

In the books of Z Ltd.

Date	Particulars	Dr. Rs.	Cr. Rs.
1 April 10	Bank A/c Dr. To Calls in Arrears A/c To Interest on Calls in Arrear A/c [Being call dues as interest on arrears received]	4,200	 4,000 200
1 April 10	10% Preference Share Capital A/c Dr. To Calls in Arrear A/c To Share Forfeited A/c [Being 500 Preference shares of Rs. 10 forfeited for non-payment of call due]	5,000	 2,000 3,000
1 May 10	Bank A/c Dr. Share Forfeited A/c Dr. To 10% Preference Share Capital A/c [Being 500 forfeited Preference shares reissued as fully paid at Rs. 9 per shares]	4,500 500	 5,000
1 May 10	Share Forfeited A/c Dr. To Capital Reserve A/c [Being balance in Share Forfeited A/c transferred to Capital Reserve]	2,500	 2,500

15 June 10	Bank A/c Dr. To Equity Share Capital To Securities Premium A/c [Being 5,000 Equity shares of Rs. 100 issued at premium of Rs. 20 per shares]	6,00,000	 5,00,000 1,00,000
1 July 10	Profit & Loss A/c Dr. To Preference Dividend A/c [Being Preference dividend @ 10% on Rs.10,00,000 provided for 6 month]	50,000	 50,000
1 July 10	10% Preference Share Capital A/cDr. Premium on Redemption of Preference Share Capital A/c Dr. Preference Dividend A/c Dr. To Preference Shareholder's A/c [Being Preference shareholders claim transferred a long as its Preference dividend due for six months]	10,00,000 1,00,000 50,000	 11,50,000
1 July 10	Securities Premium A/c Dr. To Premium on Redemption of Preference Share Capital A/c [Being Premium Redemption of Preference Share Capital provided]	1,00,000	 1,00,000
1 July 10	Profit and Loss A/c Dr. To capital Redemption Reserve A/c [Being C.R.R. created to the extend as redemption out of profit] Note: CRR = Face value of Preference share redeemed - proceeds of new issue of shares = 10, 00,000 - 500,000	5,00,000	 5,00,000
1 July 10	Preference Shareholders A/c Dr. To Bank A/c [Being Preference shareholders claim paid except on 1000 shares]	11,38,500	 11,38,500
	Total Claim 1150,000 Less: Pref. share capital 1000 X 10 (10,000) Premium on redemption 10,000 X 10% (1000) Pref. dividend for 6 month 10000 X 10% X $\frac{6}{12}$ (500) Amount paid 11,38,500		

Illustration 5 : [Fully & partly paid Preference shares given]

The balance sheet of K Ltd. on date of redemption of Preference share is as follows.

Liabilities	Rs.	Assets	Rs.
10% Preference share capital [Rs.50/- each fully paid] 12% Preference share capital [Rs.100/- each Rs.75/- paid] Equity share capital Rs.10/- each Capital Redemption Reserve Securities Premium Profit & Loss A/c Other Liabilities	 2,00,000 1,50,000 4,00,000 75,000 3,00,000 2,75,000	Fixed Assets Investments [face value Rs.2,50,000/-] Other Current Assets Bank	6,40,000 3,00,000 4,50,000 110,000
	15,00,000		15,00,000

To redeem Preference share following resolution is passed.

a) Preference shares are to be redeemed at a premium of 10%
b) Investment are to be sold at a profit of 10%
c) 5,000 Equity shares of Rs. 10 each are to be issued of 50% premium, for the purpose of redemption of Preference shares.

Pass journal entries to record the above transactions and also prepare balance sheet after redemption of Preference shares.

Solution:

K Ltd.
Journal

Date/ No.	Particulars	L/F	Dr. Rs.	Cr. Rs.
1.	Bank A/c Dr. To Investment A/c To Profit & Loss A/c [Being sale of Investment at profit]		3,30,000	 3,00,000 30,000
2.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 5000 Equity shares of Rs. 10 each issued at 50% premium]		75,000	 50,000 25,000
3.	10% Preference Share Capital A/c Dr. Premium on Redemption of Preference Share Capital A/c Dr. To Preference Shareholders A/c [Being claims of Preference shareholders transferred]		2,00,000 20,000	 2,20,000

4.	Securities Premium A/c Dr. To Premium on Redemption of Preference Capital A/c [Being premium on redemption of Preference shares of written off]		20,000	20,000
5.	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c [Being C.R.R. created to the extend redemption of Preference share capital out of profit.		1,50,000	1,50,000
6.	Preference Shareholder's A/c Dr. To Bank A/c [Being Preference shareholders claim paid]		2,20,000	2,20,000

Note:

1. Only fully paid Preference shares can be redeemed as per sec. 80 companies Act.
2. As the call on 12% Preference share capital is not made some cannot be repaid.
3. C.R.R. = Nominal value of proceeds of new Preference share less issue of shares capital
   = 200,000 - 50,000
   = 150,000

Balance sheet (after redemption)

Liabilities	Rs.	Assets	Rs.
I. Share Capital		I. Fixed Assets	6,40,000
2,000, 12% Preference Share Capital		II. Other Current Assets	4,50,000
[Rs.100/- each, Rs.75/- paid up]		III.Bank	2,95,000
45,000, Equity Share of Rs.10/- each	1,50,000	[1,10,000 = 3,30,000 +	
fully paid		75,000 – 2,20,000]	
	4,50,000		
II. Reserves & Surplus.			
Capital Redemption Reserve			
(100000 + 150000)	2,50,000		
Securities Premium 75,000			
on new issue 25,000			
1,00,000			
(-) Premium on Redemption of Pref. Share Capital (20,000)			
Profit & Loss A/c 3,00,000	80,000		
Profit on Investment 30,000			
(-) Transfer to C.R.R. (1,50,000)			
Other Liabilities	1,80,000		
	2,75,000		
	13,85,000		13,85,000

Illustration 6: [Fresh Issue of shares at discount]

The Balance Sheet of RK Ltd. as on 31.3.08

Liabilities	Rs.	Assets	Rs.
3,000 9% Pref. Shares of Rs.100/- each 3,00,000 (-) Calling Arrears @ Rs.20/- (10,000)	2,90,000	Land and Building Plant Investment Stock	7,00,000 3,50,000 1,20,000 40,000
Equity Share Capital [Rs.10]	6,00,000	Debtors	92,000
Profit and Loss A/c	75,000	Bank	98,000
10% Debentures [Rs.100]	2,00,000		
Fixed Deposits	1,75,000		
Sundry Creditors	60,000		
	14,00,000		14,00,000

The Preference shares are due for redemption on 1 April 08 at a premium of Rs. 5 per shares. For the purpose of redemption, a minimum number of Equity shares of Rs. 10 each at 10% discount are issued by the company part of Investment costing Rs.1,00,000/- sold for Rs.1,05,000/-.

Pass necessary journal entries and prepare the balance sheet of the company after redemption of Preference shares.

Solution : 1) Calculation of minimum number of shares.

As minimum number of shares is to be issued, total Preference share capital is taken into consideration: so party paid share can be redeeming as soon as calls in arrears received.

Nominal Value of Preference share capital	300000	
Add: premium on redemption (3000 X 5)	+ 15000	315000
Less: i) Profit available for redemption		
Profit and loss A/c bal.	75000	
II) Profit on sale of Investment	5000	
III) Minimum proceeds of fresh issue		(80000)
		235000

Equity share of Rs.10 each to be issued @10% discount. Therefore proceed of one Equity share = 10-10% = Rs.9 per share

$$\text{Minimum number of shares} = \frac{\text{Minimum proceeds of new share}}{\text{Proceed of one share}}$$

$$= \frac{2,35,000}{9}$$

= 26111.11

= 26112 Equity shares of Rs. 10 each @ 10% discount.

Proceeds of fresh issue = 26112 X 9

= 2, 35,008

Capital redemption = Nominal value of Preference share to be redeem

Less

= Proceeds of fresh issue of shares.
= 2, 50,000 - 235008
= Rs. 14992

R.K. Ltd.
Journal

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
1.4.08	Bank A/c Dr.		1,05,000	
1	To Investment A/c			1,00,000
	To Profit & Loss A/c			5,000
	[Being Investment realized at profit]			
2	Bank A/c Dr.		2,35,008	
	Discount on issue of shares A/c Dr.		26,112	
	To Equity Share Capital A/c			2,61,120
	[Being 26112 Equity shares of Rs. 10 each issued of 10 discount]			
3	9% Preference Share Capital A/c Dr.		2,50,000	
	Premium on Redemption on Preference Share Capital A/c Dr.		12,500	
	To Preference Shareholders A/c			2,62,500
	[Being 2500 Preference shareholder transferred at 10% premium.]			
4	Profit and loss A/c Dr.		12,500	
	To Premium on Redemption of Preference Share Capital A/c			12,500
	[Being premium on Redemption of Preference Share Capital provided]			
5	Profit and Loss A/c Dr.		14,992	
	To Capital Redemption Reserve A/c			14,992
	[Being C.R.R. created out of Profit and Loss A/c to the extend redemption out of profit]			
6	Preference Shareholders A/c Dr.		2,62,500	
	To Bank A/c			2,62,500
	[Being Preference shareholder claim paid]			

R.K. Ltd.
Balance sheet as on 01 April 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share capital			I. Fixed Assets		
500 Preference Share of Rs.100/-			Land of Building	7,00,000	
each	50,000		Plant	3,50,000	10,50,000
Less: Calls in Arrears	(10,200)	40,000			
[pending redemption]			II. Investments		20,000
86,112 Equity Share of					
Rs.10/- each fully paid.		8,61,120	III. Current Assets		
			Loans in Advances	40,000	
II. Reserves & Surplus			Stock	92,000	
Capital Redemption Reserve		14,992	Debtors		
Profit and Loss A/c		52,508	Bank [1,05,000 +		
[75,000 = 5,000 – 12,500 -			98,000 + 2,35,008 -	1,75,508	3,07,508
14,992]			2,62,500]		
Retain for Redemption of					
partly paid Preference			IV. Miscellaneous		
Shares out of Profit			Expenditure		
			Discount on issue		
III. Secured Loans			of shares		26,112
10% Debentured		2,00,000			
IV. Unsecured Loans					
Fixed Deposits		1,75,000			
V. Current Liabilities					
Sundry Creditors		60,000			
		14,03,620			14,03,620

Illustration 7 : [Redemption by conversion]

The summarized Balance Sheet of H Ltd. as at 31st March 2009 was as follows.

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
9% Redeemable Preference		Goodwill	1,00,000
Share of Rs.100/-	3,00,000	Other Fixed Assets	7,11,000
Equity Shares of Rs.10/- each	4,00,000	Stock	3,50,000
Profit & Loss A/c	3,50,000	Sundry Debtors	2,45,000
7% Debentures.	4,00,000	Bill Receivable	50,000
Bank Loan	50,000	Advance Tax	1,25,000
Creditors	96,000	Discount on issue of	
		Debentures	15,000
	15,96,000		15,96,000

Preference Shares are redeemable (5% premium and Debentures are redeemable @ 10% premium)

For redemption of Preference Shares and the Debentures the company offered to the redeemable Preference shareholders and the Debenture holders the options to convert their holdings into Equity Shares, which are to be treated as worth Rs.12.50 each.

1/3rd of the Preference shareholders and 1/2 of the debenture holders agreed to do this. The company issued 40,000 Equity Shares of Rs.10/- each Rs.12.50 to the public for cash and with funds available paid off the bank loan and redeemed the remaining redeemable Preference Shares and Debentures.

Journalize above transaction and prepare Balance Sheet after above transaction.

Solution :

H. Ltd.
Journal

Date 1.4.09	Particulars	LF	Dr. Rs.	Cr. Rs.
1.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 40,000 Equity shares of Rs.10/- each issued @ Rs.2.50 premium per share]		5,00,000	 4,00,000 1,00,000
2.	9% Preference Share Capital A/c Dr. Premium on Redemption of Preference Share A/c Dr. To Preference Shareholders A/c [Being Preference shareholders claim transferred]		3,00,000 15,000	 3,15,000
3.	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c [Being premium on redemption provided]		15,000	 15,000
4.	Preference Shareholders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 8,400 Equity shares of Rs.10/- each issued @ Rs.12.50 as per option by 1,000 Preference shareholders]		1,05,000	 84,000 21,000
5.	Preference Shareholders A/c Dr. To Bank A/c [Being balance Preference share redeemed in cash]		2,10,000	 2,10,000
6.	7% Debentures A/c Dr. Premium on Redemption of Debentures A/c To 7% Debentures holders A/c [Being debenture holders claim transferred]		4,00,000 40,000	 4,40,000
7.	Securities Premium A/c Dr. To Premium on Redemption of Debentures A/c To Discount on issue of Debentures A/c		55,000	 40,000

	[Being premium on redemption of Debentures and discount on Debentures written off]			15,000
8.	Debenture holder's A/c Dr. To Equity Share Capital A/c To Security Premium A/c [Being half of debenture holders claim discharged by issuing Equity shares of Rs. 10 each @ Rs. 12.50]		2,20,000	 1,76,000 44,000
9.	Debenture holders A/c Dr. To Bank A/c [Being remaining debenture holders claim settled in cash]		2,20,000	 2,20,000
10.	Bank Loan A/c Dr. To Bank A/c [Being bank loan repaid]		50,000	 50,000

Working Notes:

1. No. of shares issued on conversion = $\frac{\text{Amount payable}}{\text{Issue price per share}}$

$\therefore$ No. of Equity Shares issued to Preference shareholders

$= \frac{1,05,000}{12.50}$ = 8,400 Equity shares of Rs.10/- each @ Rs.12.50

No. of shares issued to debenture = $\frac{2,20,000}{12.50}$ = 17,600 Equity shareholders of Rs.10/- each @ Rs.12.50

2.	Preference capital - redeemed -	3,00,000
	Fresh issue on conversion -	84,000
	To debenture holder	1,76,000
	For cash consideration	4,00,000
	C.R.R. required	NIL

H Ltd.
Balance sheet as on 1 April 2009

Liabilities	Rs.	Assets	Rs.

Liabilities	Rs.	Assets	Rs.
I. Share capital :		I Fixed Assets	
Authorized	?	Goodwill 1,00,000	
Issued paid up		Other fixed Assets 7,11,000	8,11,000
1,06,000 Equity shares of Rs.10/- each fully paid up	10,60,000	II Current Assets	
[In dues 66,000 Equity shares of Rs.10/- each issued on conversion to Preference shareholders and debenture holders]		Stock 3,50,000	
		Sundry debtors 2,45,000	
		Bank Bal. 20,000	6,15,000
		Loans & Advances	
		Bills receivable 50,000	
		Advance Tax 1,25,000	1,75,000
II. Reserves & surplus :			
Securities Premium 95,000			
Profit and Loss A/c 3,50,000	4,45,000		
III. Secured Loans :	NIL		
IV. Unsecured Loans :	NIL		
V. Current Liabilities :			
Sundry creditors	96,000		
	10,61,000		10,61,000

Illustration 8 [Computation of number of share for redemption]

M Ltd. has an issued share capital of 1000, 7% redeemable Preference shares of Rs. 100 each and 5000 Equity shares of Rs. 100 each. The Preference share redeemable at a premium of Rs.5 per share on 1st April 2009.

Balance sheet of M Ltd. as on 31st March 2009

Particulars	Rs.	Rs.
Sources of Funds		
Share Capital		
Issued and paid up		
1,000 7% Preference shares of Rs.100/- fully paid	1,00,000	
5000 Equity Shares of Rs.100/- each fully paid	5,00,000	6,00,000
Profit and Loss A/c		62,000
12% Debentures		2,00,000
Total		8,62,000
Application of funds		
Fixed Assets		8,04,000
Investments		40,000
Current assets		
Bank balance	60,000	
Less: Current Liabilities		
Trade Creditors	42,000	18,000
		8,62,000

In order to facilitate the redemption of the Preference shares, the company decided:

a) To sell all the Investment for Rs.45,000/-

b) To finance part of the redemption from company funds, subject to leave a balance of Rs.27,000/- in the profit and loss A/c

c) To issue sufficient Equity shares of Rs.100/- each at a premium of Rs.25/- per share to raise the balance funds required.

The Preference shares were redeemed on the due date and issue of Equity fully subscribed.

You are required to
i. The necessary journal entries to record above transactions.
ii. The balance sheet on comption (Inter C.A., 82 modified)

Solution :

M Ltd.
Journal

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
1.	Bank A/c Dr. To Investment A/c To Profit and Loss A/c [Being Investments sold at profit]		45,000	 40,000 5,000
2.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 600 Equity shares of Rs.100 each issued at Rs.25 premium per share]		75,000	 60,000 15,000
3.	7% Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c [Being 1000 Preference share capital and premium on redemption at 5% transfer]		1,00,000 5,000	 1,05,000
4.	Securities Premium A/c Dr. To Premium on Redemption of Preference Share Capital A/c [Being premium on redemption of Preference shares provided]		5000	 5,000
5.	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c [Being CRR created to the extend redemption out of profit]		40,000	 40,000
6.	Preference Shareholders A/c Dr. To Bank A/c [Being Preference shareholders claim paid]		1,05,000	 1,05,000

Balance sheet of M Ltd. as on 1/4/09

Particulars	Rs.	Rs.
I] Sources of Funds 1. Share Capital		

a. Issued and paid up		
5,600 Equity Shares of Rs.100/- each fully paid up		5,60,000
b. Reserves & Surplus		
Capital Redemption Reserve	40,000	
Securities Premium (15,000 – 5,000)	10,000	
Profit & Loss A/c (62,000 + 5,000 – 40,000)	27,000	77,000
Shareholders Fund		6,37,000
2. Loan Fund		
12% Debentures		2,00,000
Total		8,37,000
II] Application of Funds		
1. Fixed Assets		8,04,000
2. Net Current Assets		
Current Assets		
Bank balance (60,000+ 45,000+75,000 – 1,05,000)	75,000	
(-) Current Liabilities		
Trade Creditors	(42,000)	33,000
Total		8,37,000

Working Note:

1) Minimum no. of shares to be issued		Rs.	Rs.
Preference shares to be redeemed			1,00,000
(-) Profit available balance	62,000		
Profit on sale of Investment		5,000	
		67,000	
(-) Profit to be retained		(27,000)	(40,000)
Proceed of fresh issue			60,000

600 Equity shares of Rs.100/- each to be issued at premium of Rs.25/- per share.

2) CRR = Nominal value of Preference shares redeemed - proceed of new issue of shares.

1,00,000 - 60,000 = 40,000

Illustration 9 **:** [Preparation of various ledger Accounts]

The financial position of Lata Ltd. as on 31.03.09 was as follows.

Liabilities	Rs.	Assets	Rs.

Authorized Issue, Subscribed called up & paid up 5,000 8% Redeemable Preference Shares of Rs.10/- each fully paid up	5,00,000	Fixed Assets Current Assets Bank Balance	7,14,250 4,85,750 3,50,000
25,000 Equity shares of Rs.10/- each fully paid up	2,50,000		
Securities Premium	1,00,000		
Capital Redemption Reserve	50,000		
Profit & Loss A/c	3,05,000		
Sundry Liabilities	3,45,000		
	15,50,000		15,50,000

Preference shares were redeemable at 10% premium on 1st April 2009. It was decided to arrange this is as for as possible out of the company's resources subject to leaving a balance of Rs.55,000/- in the credit of the profit & Loss A/c. It was also decided to raise the balance amount by issue of Equity shares of Rs.10/- each at a premium of Rs.2.50 per share.

You are required to prepare the necessary ledger accounts, giving effects to the above arrangement in the company's books.

Solution :

Working Notes:

Fresh issue of shares	Rs.	
Preference share capital to be redeem	5,00,000	
Less profit available		
Profit & Loss A/c [3,05,000 – 55,000]		- 2,50,000
Proceeds of fresh issue of Equity shares		2,50,000

i.e. 25,000 Equity shares of Rs.10/- each @ 2.50 premium.

In the books of Lala Ltd.

8% redeemable Preference share capital A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Preference Shareholder A/c	5,00,000	By Bal b/d	5,00,000
	5,00,000		5,00,000

Equity share capital A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bal c/d	5,00,000	By Bal b/d By Bank A/c	2,50,000 2,50,000

	5,00,000		5,00,000
		By bal b/d	5,00,000

Security Premium A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Premium on Redemption of Preference Share Capital A/c To bal c/d	50,000 1,12,500	By Bal b/d By Bank A/c	1,00,000 62,500
	1,62,500		1,62,500
		By bal b/d	1,12,500

Capital redemption reserve A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bal c/d	7,50,000	By Bal b/d By P&L A/c	5,00,000 2,50,000
	7,50,000		7,50,000
		By bal b/d	7,50,000

Premium on 8% redeemable Preference share capital A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Preference Shareholder A/c	50,000	By Securities Premium A/c	50,000
	50,000		50,000

Preference shareholders A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bank A/c	5,50,000	By Preference Share Capital by Premium on Redemption A/c of By Preference Share A/c	5,00,000 50,000
	5,50,000		5,50,000

Profit & Loss A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Capital Redemption Reserve A/c	250,000	By Bal b/d	305,000

To Bal c/d	55,000		
	305,000		305,000
		By bal b/d	55,000

Bank A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bal b/d To Equity Share Capital A/c To Securities Premium A/c	350,000 250,000 62,500	By Preference Shareholders A/c By Bal c/d	 550,000 112,000
	662,500		662,500
To Bal b/d	112,500		

Illustration 10: [Converting partly Equity shares into fully paid and issue of fully paid bonus share]

The balance sheet of ABK Ltd. on 31st March 2009

Liabilities	Rs.	Assets	Rs.
10% Redeemable Preference Shares of Rs.10/- each Rs.7.50 paid up	1,50,000	I. Fixed Assets	
		Land & Buildings	4,95,000
		Plant & Machinery	1,21,000
Equity Shares of Rs.5/- each Rs.3/- paid up	1,50,000	Furniture	35,000
		II. Current Assets	
Security Premium	1,00,000	Stock	40,000
General Reserve	2,00,000	Debtors	91,500
Profit and Loss A/c	1,25,000	Cash & Bank	1,71,000
10% Debentures	1,00,000	Bills Receivable	10,500
Creditors	75,000	Prepaid Insurance	1,000
Bills Payable	42,000		
Outstanding Expenses	23,000		
	9,65,000		9,65,000

The 10% Preference shares due for redemption of 1st April 09, @ 10% premium.

At the annual general meeting of the company the following resolutions were passed.

1. To redeem the 10% Preference shares as per terms.
2. To issue 20,000 Equity shares of Rs. 5 each at a premium of Rs. 2 per share.
3. To declare bonus at the rate of Rs.2 per Equity share for the purpose of making the said shares fully paid.
4. To issue bonus shares to Equity shareholders including new shares in the ratio of one share for every two shares held.

Pass the necessary journal entries to record the above transactions and prepare the balance sheet.

Solution :

ABK Ltd.
Journal

No.	Particulars	LF	Dr. Rs.	Cr. Rs.
1.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 20,000 Equity shares of Rs.5/- each issued at a premium of Rs.2/- per share]		1,40,000	 1,00,000 40,000
2.	Preference Share Final Call A/c Dr. To 10% Preference Share Capital A/c [Being final call on redemption of Preferences shares made]		50,000	 50,000
3.	Bank A/c Dr. To Preference Share Final Call A/c [Being Preference share final call dues received]		50,000	 50,000
4.	10% Preference Share Capital A/c Dr. Premium on Redemption of Preference Share Capital A/c Dr. To Preference Shareholders A/c [Being amount due to Preference shareholders transferred]		200,000 20,000	 220,000
5.	Securities Premium A/c Dr. To Premium on Redemption of Preference Share Capital A/c [Being premium on redemption transferred]		20,000	 20,000
6.	Profit and Loss A/c Dr. To Capital Redemption Reserve A/c [Being C.R.R. created to the extend redemption out of profit]		1,00,000	 1,00,000
7.	Preference Shareholder's A/c Dr. To Bank A/c [Being Preference shareholder's dues on redemption paid]		2,20,000	 2,20,000
8.	Equity Share Final Call A/c Dr. To Equity Share Capital A/c [Being final call on 50,000 Equity shares @ Rs.2/- per share]		1,00,000	 1,00,000

9.	General Reserve A/c Dr. To Bonus to Equity Shareholders A/c [Being bonus @ Rs.2/- per Equity share on 50, shares]		1,00,000	 1,00,000
10.	Bonus to Equity Shareholder's A/c Dr. To Equity Share Final Call A/c [Being bonus adjusted with final calls dues]		1,00,000	 1,00,000
11.	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. To Bonus to Shareholders A/c [Being sanctioned at the rate of one Equity shares for every two shares of Rs.5/- paid]		1,00,000 75,000	 1,75,000
12.	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c [Being 35000 Equity shares of Rs.5/- each issued]		1,75,000	 1,75,000

Balance sheet of ABK Ltd. as on ... (After bonus)

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I Share capital			**I Fixed Assets**		
Issued, Paid up			Land & Building	4,95,000	
1,05,000 Equity shares of Rs.5			Plant & Machinery	1,21,000	
each fully paid up		5,25,000	Furniture	35,000	6,51,000
[includes Rs.200 on bonus by capitalizing General Reserve C.R.R. as securities]			**II Current Assets & Loans, Advances**		
II Reserves Surplus			**Current Assets**		
C.R.R.			Stock	40,000	
(-) Used for Bonus	1,00,000		Debtors	9,15,000	
Securities Premium	(1,00,000)	NIL	Cash & Bank Bd.	1,41,000	2,72,500
(+) Received on new issue	1,00,000		**Loans & Advances**		
(-) Use for Bonus shares	40,000		Bills Receivable	10,500	
(-) Premium on Redemption of Preference Shares	(75,000)		Prepaid Insurance	1,000	11,500
General Reserve	(20,000)	45,000			
(-) used for Bonus	2,00,000				
Profit & Loss A/c	(1,00,000)	1,00,000			
(-) C.R.R.	1,25,000				
III Secured Loans	(1,00,000)	25,000			
10% Debentures					
Unsecured Loans		1,00,000			
IV Current liabilities		NIL			
Creditors					
Bills Payable	75,000				
O/St. Expenses	1,42,000				
	23,000	1,40,000			
		9,35,000			9,35,000

Working notes: 1

Bank A/c

Particulars	Amt.	Particulars	Amt.
To Balance b/d To Equity Share Capital A/c To Securities Premium A/c To Preference Share Final Call A/c	1,71,000 1,00,000 40,000 50,000	By Preference Shareholders A/c By Bal c/fd	 2,20,000 1,41,000
	3,61,000		3,61,000

2. Only fully paid Preference shares can be redeemed. Therefore final call on Preferences shares is made and received.

3. Issue of partly paid shares (call) is provided out of general reserves

$$\frac{1{,}50{,}000}{7.5} = 5{,}000 \text{ shares} \times 2.50$$

4. C.R.R.

	Rs.
N.V. of Preference share capital redeemed	2, 00,000
Less: proceeds of fresh issued of shares	- 1, 00,000
C.R.R. Rs.	1, 00,000

Illustration 11 [Calls in arrears and proposed dividend]

The undernoted balance were extracted from the

Ledger of S Ltd.

No.	Particulars	Rs.
1.	1,00,000 10% Preference share of Rs.10/- each Less calls in arrears @ Rs.4/- per share Amount paid up	10,00,000 (2,000)
2.	Security Premium	9,98,000
3.	Investment Allowance Reserve	2,00,000
4.	General Reserve	7,50,000
5.	Profit and Loss A/c	2,50,000
6.	Proposed dividend since sanctioned on Preference Shares.	5,81,000 99,500

The directors redeemed the Preference shares of Rs.10/- each at Rs.12/- and for the purpose made a fresh issue of Equity shares of Rs.10/- each at Rs.9.50 for such amount as was necessary for the purpose after utilizing the available sources to the maximum extend and satisfying amount of sanction Preferences share dividend. Rs.4,00,000/- of the Investment allowance reserves is free for distribution as dividend.

Give journal entries recording above transactions.

Solution :

Journal of S Ltd.

No.	Particulars	Dr. Rs.	Cr. Rs.
1.	Bank A/c Dr. Discount on issue of shares A/c Dr. To Equity Share Capital A/c [Being 30200 Equity shares of Rs.10/- each issued @ Rs.9.50 each]	2,86,900 15,100	 3,02,000
2.	10% Preference Share Capital A/c Dr. Premium on Redemption of Preference Share A/c Dr. To Preference Shareholders A/c [Being amount payable to Preference shareholders on redemption of 99500 Preference shares of Rs.10 each of premium of Rs. 2 per share]	9,95,000 1,99,000	 11,94,000
3.	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c [Being premium payable on redemption of Preference share written off]	1,99,000	 1,99,000
4.	Investment Allowance Reserved A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Capital Redemption Reserve A/c [Being amount transferred C.R.R. to the extent required under law]	4,00,000 2,50,000 58,100	 7,08,100
5.	Preference shareholders A/c Dr. To Bank A/c [Being amount paid to Preference shareholders]	11,94,000	 11,94,000
6.	Proposed Preference Dividend A/c Dr. To Bank A/c [Being Preference dividend paid]	99,500	 99,500

Working Note :

1. Only fully paid Preference shares can redeemed

$\therefore\ 1{,}00{,}000 - \dfrac{2{,}000}{4} = 99{,}500$ Preference share can be redeemed.

2.

	Rs.	Rs.
$\dfrac{\text{Fresh issue of Equity Shares}}{\text{N.V. of Preference Share [99,500×10]}}$		9, 95,000
Less: Divisible profits		
Investment allowance Reserve	4, 00,000	
General Reserve	2, 50,000	
Profit and Loss bal.	58,100	7, 08,100
Proceeds of fresh issue of Equity share		2, 86,900

$\therefore$ No. of Equity share issued

$= \dfrac{\text{Proceeds of New Issue of Share}}{\text{Proceed of one share}}$

$= \dfrac{2{,}86{,}900}{9.50} = 30{,}200$ Equity shares

Illustration 12 (Determining issue of Equity share by using algebraic equation)

Balance sheet of MJ Ltd. as on 31st March 2009

Liabilities	Rs.	Assets	Rs.
10% Preference Shares of Rs.20/- each Rs.15/- paid up	3,75,000	Fixed Assets	6,64,000
Equity Shares of Rs.20/- each fully paid up	6,00,000	Bank Balance	1,10,000
Security Premium A/c	15,000	Other Current Assets	4,25,000
Profit and Loss A/c	45,000	Investments	51,000
Current Liabilities	1,25,000		
	11,50,000		11,50,000

The Board of director has recommended that

i) Investment to be realize for Rs.58,000/-

ii) Preference shares to be redeemed @ 10% premium.

iii) Issue of minimum number of Equity shares of Rs.20/- each @10% premium.

iv) Assuming that all the formalities required under section 80 Companies Act, were compiled with.

You are required to give the journal entries and prepare the Balance Sheet.

Solution :

MJ Ltd.
Journal

No.	Particulars	LF	Dr. Rs.	Cr. Rs.
1.	Preference Share Final Call A/c Dr. To 10% Preference Share Capital [Being final call of Rs.5/- per share on 25,000 Preference share made]		1,25,000	1,25,000
2.	Bank A/c Dr. To Preference Share Final Call A/c [Being amount of final call received]		1,25,000	1,25,000
3.	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Being 22,410 Equity Shares of Rs.20/- each issued @ 10% premium]		4,93,020	4,48,200 44,820
4.	Bank A/c Dr. To Investment A/c To Profit & Loss A/c [Being Investment sold at profit]		58,000	51,000 7,000
5.	10% Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c [Being amount payable on redemption of Preference Share plus premium on redemption transferred to Preference shareholders]		5,00,000 50,000	5,50,000
6.	Securities Premium A/c Dr. Profit and Loss A/c To Premium on Redemption of Preference Share A/c [Being Premium on Redemption as Preference Shares adjusted]		49,820 180	50,000
7.	Profit and loss A/c Dr. To capital redemption reserve A/c [C.R.R. created to the extent redemption out of profit]		51,800	51,800
8.	Preference Shareholders A/c Dr. To Bank A/c [Being amount due to Preference shareholder paid]		5,50,000	5,50,000

MJ Ltd.
Balance Sheet as on 31st March 2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I Share Capital			I Fixed Assets		6,64,000
Issued paid up			II Current Assets		
52,410 Equity Shares of			Other Current Assets		4,25,000
Rs.20/- each fully paid up		10,48,200	Bank		1,36,020
II Reserves and Surplus					
Capital Redemption					
Reserve		51,800			
Securities Premium		NIL			
Profit & Loss A/c	45,000				
(+) Profit on Sale of					
Investment	7,000				
	52,000				
(-) Premium on					
Redemption	(180)				
(-) C.R.R.	(51,800)	20			
III Current Liabilities		1,25,000			
Total		12,25,020	Total		12,25,020

Working Note:

Paid Preference shares can be redeemed. Therefore final call should make and received then only Preference shares can be redeemed.

1. Final call $= \dfrac{3,75,000}{15} = 25,000 \text{ Preference Shares} \times \text{Rs.}5/-$
   $= \text{Rs.}1,25,000/-$

2. The given balance in Securities Premium and premium received on new issue of shares is insufficient for providing premium payable. The number of new issue of share is to be determined by algebraic equation.

   Let N.V. of Equity share to be issued = x

   ∴ Premium received = 0.10x on new issue

   N.V. of Preference share capital = Balance in Securities Premium + Premium on redemption = Balance in Profit & Loss A/c + New issue + premium received on new issue

   5,00,000 + 50,000 = 5,000 + 52,000 + x + 0.10 x

   ∴ 5, 50,000 = 57,000 + 1.10x

   ∴ 5, 50,000 – 57,000 = 1.10x

   ∴ x = 4,48,182

   ∴ No. of fresh issue of Equity Share $= \dfrac{4,48,182}{20}$

   = 22,409.10
   = 22,410 Equity shares

i.e. 22,410 Equity shares of Rs.20/- each @ 10% premium (Rs.2/- per share)

3. Premium on redemption = Rs.50,000/-
   Sources of premium payable

Securities Premium [5000 + 44820]	49,820
Balance from Profit & Loss A/c	180
	50,000

4. C.R.R. = N.V. of Preference share less proceeds of fresh issue of shares
   = 5,00,000 – 4,48,200
   = Rs.51,800

5. **Bank A/c**

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance	10,000	By Preference Shareholder A/c	5,30,000
To Final Call A/c	1,25,000		
To Equity Share A/c	4,48,200	By Balance	1,36,020
To Securities Preference A/c	44,820		
To Investment A/c	58,000		
	6,86,020		6,86,020

Illustration 13 [New issue at discount]

KPM Ltd. decided to redeem their Preference shares on 31st December 2008 on that date their balance sheet was as under:

Liabilities	Rs.	Assets		Rs.
Share Capital		**Fixed Asset**	23,55,000	
50,000 Equity Shares of Rs.10/-		(-) Acc.Depn.	6,50,000	17,05,000
each	5,50,000	**Investment**		2,00,000
50,000; 9% Redeemable		**Current Asset**		3,50,000
Preference Shares of Rs.10/-		Bank Balance		2,20,000
Rs.5/- paid up	2,50,000			
75,000; 10% Preference				
Shares of Rs.10/- fully paid	7,50,000			
Reserves & Surplus				
Securities Premium	75,000			
Capital Reserve	25,000			
Dividend Equalization Reserve				
Profit & Loss A/c	2,10,000			
Secured Loan	2,45,000			
10% Debentures				
Current Liabilities	3,00,000			
	1,20,000			
	24,75,000			24,75,000

Preference shares are to be redeemed @ 5% premium. For the purpose of redemption the co. decided to issue, after carrying out the necessary formalities required under law. Minimum number of Equity shares of Rs. 10/- each at a discount of 10%

Redemption is duly carried out. Fixed assets costing Rs.4,50,000/-. Accumulated depreciation there on was Rs.90,000/- was sold for Rs.3,85,000/-. Investment was sold for Rs,2,90,000/-. Show necessary ledger accounts & prepare balance sheet after redemption.

In the books of KPM Ltd.

Preference Share Capital A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Preference Shareholder A/c	7,50,000	By Bal b/d	7,50,000
	7,50,000		7,50,000

Equity share capital A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bal c/d	7,00,000	By Bal B/d By Bank A/c By Discount on issue of Equity Shares A/c	5,00,000 1,80.000 20,000
	7,00,000		7,00,000

Securities Premium A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Premium on Redemption of Pref. Shares A/c To Bal c/d	37,500 37,500	By Bal B/d	75,000
	75,000		75,000

Dividend Equalization Reserve A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Capital Redemption Reserve A/c	2,10,000	By Bal B/d	2,10,000
	2,10,000		2,10,000

Premium on Redemption of Preference Shares A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Preference Shareholders A/c	37,500	By Securities Premium A/c	37,500

	37,500		37,500

Profit & Loss A/c

Dr. **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Capital Redemption Reserve A/c	3,60,000	By Bal B/d	2,45,000
		By Profit on Sale of Fixed Assets A/c	25,000
		By Profit on Sale of Investment A/c	90,000
	3,60,000		3,60,000

Fixed Asset (at cost)

Dr. **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Bal b/d	23,55,000	By Accumulated Depreciation A/c	90,000
To Profit & Loss A/c	25,000	By Bank A/c	3,85,000
		By Bal c/d	19,05,000
	23,80,000		23,80,000

Accumulated depreciation A/c

Dr. **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Fixed Asset A/c	90,000	By Bal B/d	6,50,000
To bal c/d	5,60,000		
	6,50,000		6,50,000

Preference Shareholders A/c

Dr. **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Bank A/c	7,87,500	By 10% Preference Share Capital A/c	7,50,000
		By Premium on Redemption of Preference Share A/c	37,500
	7,87,500		7,87,500

Investment A/c

Dr. **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Bal b/d	2,00,000	By Bank A/c	2,90,000

To Profit & Loss A/c	90,000		
	2,90,000		2,90,000

Capital Redemption Reserve A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bal b/d	5,70,000	By Dividend Equalization Reserve A/c By Profit & Loss A/c	2,10,000 3,60,000
	5,70,000		5,70,000

Discount on Issue of Shares A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Equity Share Capital A/c	20,000	By Bal B/d	20,000
	20,000		20,000

Balance sheet as on ______

Liabilities	Rs.	Assets	Rs.
I] Share Capital		**I] Fixed Asset**	
50,000 Redeemable Pref. Shares of Rs.5/- paid up	2,50,000	Opening bal. 23,55,000 (-) Asset sold (4,50,000)	19,05,000
70,000 Equity Shares of Rs.10/- fully paid	7,00,000	(-) Accum Dep^{n}.	
II] Reserves & Surplus		Opening bal. 6,50,000	
Capital Redemption Reserve	5,70,000	Adj. for sale (90,000)	5,60,000
Capital Reserve	25,000	Net block	13,45,000
Securities Premium	37,500	**II] Investment**	NIL
III] Secured loan		**III] Current Assets**	
10% Debentures	3,00,000	Other current Asset	3,50,000
IV] Current Liabilities	1,20,000	Bank balance	2,87,500
		IV] Miscellaneous expenditure	
		Discount on issue of shares	20,000
	20,02,500		**20,02,500**

Working Notes:

I. Only fully paid Preference Shares can be redeemed. As call on 9% Preference shares is not made, it is not redeemed

II. <u>Proceeds of new issue:</u>

Nominal value of Preference shares		7,50,000
Less : Profits available for redemption		
Dividend equalization reserve	2,10,000	
Profit & Loss A/c	3,60,000	5,70,000
Proceeds of new issue		1,80,000

No. of Equity shares of Rs.10/- issued at Rs.9/- each

$$\frac{\text{Proceeds reqired}}{\text{proceeds of one share}} = \frac{1,80,000}{9} = 20,000$$

$\therefore$ 20,000 Equity Shares of Rs. 10/- issued at Rs.9/-

III. Premium payable on redemption of Preference shares is provided from Securities Premium.

Illustration 14 [Minimum cash balance and bonus]

The following is the Balance Sheet of Y Ltd. as at 31st March 08

Liabilities	Rs.	Assets	Rs.
I Share capital		**I Fixed Assets**	9,23,000
Authorized			
25,000 12% Redeemable		**II Investments**	2,40,000
Preference Shares of Rs.20/- each	5,00,000	**III Current Assets And Loans & Advances**	
1,00,000 Equity Shares of Rs.20/- each	20,00,000	Inventory	50,000
	25,00,000	Stores	40,000
Issued, subscribed & paid up		Sundry Debtors	1,05,000
25000, 12% Redeemable		Bank Balance	1,85,000
Preference Shares of Rs.20/- each	5,00,000		
25,000 Equity Shares of Rs.20/- each	5,00,000	**IV Miscellaneous Expenditure**	40,000
		(to the extent not written off)	
		Preliminary EXP.	
II Reserves and Surplus			
Securities Premium	1,00,000		
General Reserve	2,50,000		
Profit & Loss A/c	62,500		
III Secured Loans	NIL		
IV Unsecured Loans			
Fixed Deposits	50,000		
V Current Liabilities			
Provisions	1,20,500		
	15,83,000		**15,83,000**

For the year ended 31/3/09, the company earned a Net Profit of Rs.1,75,000/- after providing Rs.40,000/- depreciation and writing off the half of Preliminary Expenditure.

The following additional information is available with regards to company's operations:

a) The company redeemed the Preference Shares at a premium of 5% along with the Preference dividend for the ended 31st March 09. All payments were made except to the holder of 500 Preference shares.

b) Investment costing Rs.2, 00,000/- sold for Rs.3,10,000/-.

c) Except Bank balances Other Current Assets and Current Liabilities as on 31st March 09 were the same as on 31.03.08.

d) The company issued Bonus Shares in the ratio of one share of every two Equity share held on 31.03.09.

e) The company repaid Fixed Deposit.

Journalize the transition which took place during year 2008-2009

Solution: **Journal of Y Ltd**.

No.	Particulars		Dr. Rs.	Cr. Rs.
1.	Bank A/c [Cash profit]	Dr.	2,35000	
	To Profit & Loss A/c			2,35,000
	[Being net profit made for the year ended 31.3.09]			
2.	Bank A/c	Dr.	3,10,000	
	To Investment A/c			2,00,000
	To Profit & Loss A/c			1,10,000
	[Being amount realized on sale of Investment]			
3.	Profit & Loss A/c	Dr.	60,000	
	To Preference Dividend A/c			60,000
	[Being Preference Dividend @ 12% on Rs. 500,000 Preference Share Capital]			
4.	12% Preference SHARE capital A/c	Dr.	5,00,000	
	Premium on Redemption A/c	Dr.	25,000	
	Preference dividend A/c	Dr.	60,000	
	To Preference Share holders A/c			5,85,000
	[Being the amount payable to Preference shareholder including dividend transfer]			
5.	Securities Premium A/c	Dr.	25,000	
	To Premium on Redemption A/c			25,000
	[Being Premium on Redemption of Preference Share Capital provided]			

6.	Profit & Loss A/c Dr. General Reserve A/c Dr. To Capital Redemption Reserve A/c [Being transfer to C.R.R. A/c on redemption of Preference Shares]	2,87,500 2,12,500	 5,00,000
7.	Preference Shareholder's A/c Dr. To Bank A/c [Being payments on redemption of 12% Preference Shares, including Preference dividend except on 500 shares]	5,73,300	 5,73,300
8.	Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c [Being amount adjusted for issuing Bonus Shares in the ratio of 1:2 on 25000 Equity Shares]	2,50,000	 2,50,000
9.	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c [Being Bonus Shares issued]	2,50,000	 2,50,000
10.	Fixed Deposit A/c Dr. To Bank A/c [Being Fixed Deposit repaid]	50,000	 50,000

Working Notes:

1. Profit and loss A/c Bal. as on 31.3.09

	Rs.	Rs.
Balance as on 31.3.08	62,500	
Profit for the year		1,75,000
Profit on sale of Investment	1,10,000	
Preference dividend paid		(60,000)
Balance used for C.R.R.		2,87,500

2. Payments to Preference shareholders

		Rs.	
Total claim including dividend			5,85,000
Less : $\frac{\text{unpaid on 500 shares}}{\text{Capital } 500 \times 20}$	10,000		
Premium @ 5%	500		
Preference dividend @ 12%	1,200	(11,700)	
Payments made to Preference shareholder		5,73,300	

Illustration 15 [Shares forfeited and calculation of fresh issue of shares]

The Balance Sheet of B.R. Ltd. as at 31st March 09

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.

2,000 Equity shares of Rs.100/- each fully paid		2,00,000	Fixed Assets		9,90,000
20,000 10% Redeemable Preference Shares of Rs.50/- each fully called up	10,00,000		Sundry Debtors		3,20,000
Less : calls in arrears @ Rs.10/- each	(5,000)	9,95,000	Inventories		2,00,000
Security Premium		10,000	Marketable Securities		4,00,000
Capital Redemption Reserve		50,000	Bank balance		60,000
General Reserve		2,10,000	(Miscellaneous Expenditures to the extent not written off)		
Profit & Loss A/c		1,60,000	Discount on Issue of Debentures		5,000
10% Debenture [Rs.100/- each]		2,00,000			
Sundry Creditors		1,50,000			
		19,95,000			**19,95,000**

10% Redeemable Preference Shares were due for redemption on 1st April 09 at a premium of 10%.

Company sent reminders for the final call on 500, 10% Preference Shares and could collect money from shareholders holding 300 shares and forfeited remaining defaulting shares.

Marketable securities sold for Rs.4,20,000/- Company issued adequate number of new Equity Shares of Rs.100/- each @ 25% premium, to the extent available profits were insufficient to back up the redemption.

10% Debenture also, due for redemption @5% Mr. Kale holding 200 Preference shares and 100 Debentures could not be traced and payment due to him on redemption of shares and Debentures could not be paid to him.

Prepare necessary ledger A/cs and prepare the Balance Sheet of the company after redemption.

Solution :

In books B.R. Ltd.

Equity Share Capital A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bal c/fd	8,00,000	By Bal b/fd By Bank A/c	2,00,000 6,00,000
	8,00,000		8,00,000

10% Preference Share Capital A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Share Forfeited A/c [200 x 50] To Preference Shareholder A/c	10,000 9,90,000	By Bal b/fd	10,00,000

	10,00,000		10,00,000

Calls in Arrears A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bal b/fd	5,000	By Bank A/c By Shares Forfeited A/c	3,000 2,000
	5,000		5,000

Shares forfeited A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Calls in Arrears A/c To Capital Reserve A/c	2,000 8,000	By 10% Preference Share Capital A/c	 10,000
	10,000		10,000

Securities Premium A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Premium on Redemption of Preference Shares A/c	99,000	By Balance b/fd	10,000
To Premium on Redemption of Debentures A/c	10,000	By Bank A/c	1,50,000
To Dis. on Issue Debentures A/c	5,000		
To Balance c/fd	46,000		
	1,60,000		1,60,000

General Reserve A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Capital Redemption Reserve A/c	2,10,000	By Bal b/fd	2,10,000
	2,10,000		2,10,000

10% Debentures A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Debenture holders A/c	2,00,000	By Bal b/fd	2,00,000
	2,00,000		2,00,000

Profit & Loss A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Capital Redemption Reserve A/c	1,80,000	By Balance b/fd	1,60,000
		By Marketable Securities A/c	20,000
	1,80,000		1,80,000

Preference Shareholders A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bank A/c	10,78,000	By 10% Preference Share Capital A/c	9,90,000
To Balance c/fd [dues to Mr. Kale] (200 x 55)	11,000	By Premium on Redemption Pref. Capital A/c	99,000
	10,89,000		10,89,000

Debenture holders A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Bank A/c	1,99,500	By 10% Debentures A/c	2,00,000
To Balance c/fd [dues to Mr. Kale] (100 x 105)	10,500	By Premium on Redemption of Debentures A/c	10,000
	2,10,000		2,10,000

Capital Reserves A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance c/fd	8,000	By Share Forfeited A/c	8,000
	8,000		8,000

Marketable securities A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/fd	4,00,000	By Bank A/c	4,20,000
To Profit and Loss A/c	20,000		
	4,20,000		4,20,000

Discount on Issue of Debentures A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/fd	5,000	By Securities Premium A/c	5,000
	5,000		5,000

Bank A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance B/fd	60,000	By Preference	
To Calls in Arrears A/c	3,000	Shareholders A/c	10,78,000
To Marketable		By Debenture holders	
Securities A/c	4,20,000	A/c	1,99,500
To Equity Share			
Capital A/c	6,00,000		
To Securities Premium			
A/c	1,50,000		
To Balance c/fd	44,500		
	12,77,500		12,77,500

Capital redemption reserve A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance c/fd	4,40,000	By Balance b/fd	50,000
		By General Reserve A/c	2,10,000
		By Profit and Loss A/c	1,80,000
	4,40,000		4,40,000

B.R. Ltd.
Balance sheet as on 1st April 2009

Liabilities		Rs.	Assets		Rs.

I Share Capital			**I Fixed Assets**		9,90,000
Authorized		?			
Issued, Subscribed, Called up and Paid up			**II Current Assets**		
8,000 Equity Shares of Rs.100/- each fully paid up		8,00,000	Inventories	2,00,000	
			Sundry Debtors	3,20,000	5,20,000
II Reserves & Surplus					
Capital Redemption Reserve		4,40,000			
Capital Reserve		8,000			
Securities Premium		46,000			
General Reserve	2,10,000				
(-) Used for C.R.R.	2,10,000	NIL			
Profit & Loss A/c	1,60,000				
(+) Profit on Sale of Investment	20,000				
	1,80,000				
(-) Used for C.R.R.	1,80,000	NIL			
III Secured Loans		NIL			
IV Unsecured Loans		NIL			
V Current Liabilities					
Sundry Creditors		1,50,000			
Dues to Mr. Kale					
Preference Shares Redemption	11,000				
Debentures Redemption	10,500	21,500			
Bank Overdraft		44,500			
		15,10,000			**15,10,000**

Working Notes: Fresh issue of Equity Shares

		Rs.
N.V. of Preference Share Capital		9, 90,000
Less: Divisible Profits [C.R.R.]		
General Reserve	2, 10,000	
Profit & Loss A/c	1, 80,000	(3, 90,000)
Proceeds of fresh issue of Equity Shares		6, 00,000

∴ 6,000 Equity Shares of Rs.100/- each issued at Rs.25/- premium per share.

4.7 KEY POINTS / KEY TERMS:

Only fully paid Preference Shares can be redeemed

- C.R.R. can be created only of Divisible Profits.
- Premium on redemption of Preference Share Capital should be provided first out of Securities Premium, Capital Reserve [realized in Cash], it they are inadequate, then form Divisible Profit.
- If in balance sheet, partly paid Preference share given, then make the final call and after call money received only fully paid Preference shares can be redeemed.
- C.R.R. = Face value of Preference Shares to be redeemed Less Proceeds of fresh issued of shares.
- Convection of Preference Shares into Equity Share, new Preference Shares amounts fresh issue of shares.
- For converting partly paid Equity Shares into fully paid by cap lasing Profit, only Free Reserves should be use.
- For issuing fully paid Bonus Shares, C.R.R. should be used first, then Security Premium then other divisible profit.
- Divisible Profits : Profit available for distribution as divided.
- Party paid Preference share : i) Can not be redeemed, ii) Final Call may made and after Preference shares fully paid up, then only Preference shares can be redeemed.
- $\text{C.R.R.} = \begin{pmatrix}\text{N.V. of Pref. Shares}\\ \text{Redemed}\end{pmatrix} \text{Less} \begin{pmatrix}\text{Proceeds of New}\\ \text{issue of shares}\end{pmatrix}$
- Proceeds of Fresh issue: Amount received on a/c of share capital. i.e.

  Rs.100/- issued at par, proceeds = Rs.100/-

  Rs.100/- issued @ Rs.140/-, proceeds = Rs.100/- (premium ignore)

  Rs.100/- issued @ Rs.96/-, proceeds = Rs.96/-.
- Unpaid amount of Preference shareholders, show in Balance sheet as current liabilities.
- Issued of partly paid bonus: utilized only divisible profits.
- Issue of fully paid bonus share: utilized first C.R.R., the Securities Premium lastly Revenue Reserve and Profit and loss A/c surplus.
- Revaluation Reserve (Profit can not be for Bonus as well as dividend)
- Workmen's compensation Fund : It is free Reserve to extent there is no compensation payable.
- Workmen's Profit sharing Fund / Provident Fund : There are liabilities, hence can not be used for C.R.R., payment of dividend and are of bonus share.

4.8 EXERCISES:

4.8.1 OBJECTIVE QUESTIONS:

- **Fill in the blanks.**

a) 1,000 Equity shares of Rs.100/- each issued at 20% premium, proceeds of Equity share capital will be Rs.___________.

b) Profits otherwise available for dividend is called as ___________.

c) No company can issue ___________ Preference shares.

d) Only ___________ Preference shares can be redeemed.

e) Premium on redemption of Preference share can be provided for either out of the ___________ of the company or its ___________ accounts.

f) ___________ Preference shares can not be redeemed.

g) Unpaid amount to some Preference shareholders who are non-traceable, their claim should be shown as ___________ in the Balance sheet.

h) ___________ should be use first for issue of fully paid Bonus Equity Shares.

i) Investment sold @ 10% Loss, for Rs.180, 000/-, Loss on sale amounts to Rs.___________.

j) $\text{C.R.R.} = \left(\underline{\hspace{3cm}}\right) \text{Less} \left(\begin{matrix}\text{Proceeds of New}\\ \text{issue of shares}\end{matrix}\right)$

k) Preference share redeemable within ___________ years can be issued.

l) Redeemable Preference shares can be issued only when it is authorized by its ___________.

m) Rs.6,00,000/-, 12% Debentures of Rs.100/- each converted into 10% Preference shares of Rs.10/- each @ Rs.15/-. C.R.R. =Rs.___________.

n) Rs.16, 00,000/- Preference shares to be redeem @ par. Free Reserve available for redemption Rs.4,00,000/-. Ascertain minimum number of Equity shares to be issue

   a) Equity shares of Rs.100/- each at par ___________.

   b) Equity shares of Rs.10/- each at premium___________.

   c) Equity shares of Rs.100/- each at 4% discount___________.

[Answer : a) Rs.1,00,000/-, b) Divisible Profit, c) Irredeemable Preference, d) Fully paid, e) Profit Security Premium, f) Partly paid up, g) current liabilities, h) C.R.R.,

i) Rs.20,000/-, j) N. value of Preference shares redeemed, k) 20, l) Articles of Association, m) Nil or Not Req., n) [a – 12,000/-, b – 40,000/-, c – 12,500/-]

- **Fill in the blanks.**

I. For redemption of Preference share, a company can issue Equity shares or __________ shares.

II. For redemption of Preference share amounting Rs.5, 00,000/-, new 2,000 Equity shares Rs.100/- issued @ 5% Discount, C.R.R. required Rs. __________ .

III. For redemption of 12% Preference share capital of Rs.12, 00,000/-.

a) When divisible Profit available Rs.6, 00,000/-, proceeds of new issue of shares = Rs. __________.

b) When 4,000 Equity Shares of Rs.100/- issued @ Rs.125/-, CRR = Rs. __________.

c) When 12% Debentures of Rs.10, 00,000/- issued @ 10% premium, C.R.R. = Rs. __________.

d) When 20,000, 10% Preference shares of Rs.50/- each issued @ 20% discount, C.R.R. = Rs. __________.

e) C.R.R. created Rs.7, 10,000/- out of Free Reserve, New Equity Shares of Rs.100/-, issued @ 2% discount for purpose of redemption of Preference shares.

IV. Rs.8,00,000/- 12% Preference shares are converted into Equity shares of Rs.100/- @ 25% premium, then C.R.R. __________ .

V. __________ section of Company Act 1956, relates to Redemption of Preference shares.

VI. Dividend Equalisation Reserve is __________ Reserve.

VII. Failure to pay call money on shares result into __________ of shares.

VIII. __________shares can be issued out of Capital Redemption Reserve.

IX. The calls made on shares can not be consider as __________ of fresh issue of shares.

X. Conversion of Preference shares into new Equity shares at par can be considered on proceeds of __________.

XI. On redemption of Preference share __________ is reduced.

XII. Loss on sale of Investment decreases __________ Reserve.

XIII. The issue of Debentures __________ be treated as proceeds of fresh issue of shares.

[Answer : I – Preference, II – Rs.3,10,000/-, III – (a – Rs.6,00,000/-, b – Rs.8,00,000/-, c – Rs.12,00,000/-, d – Rs.2,20,000/-, e – 4,900 shares), IV – Rs.1,60,000/-, V – Sec.80, VI – Free, VII – Forfeiture, VIII – Proceeds, IX – Fresh issue, X – Paid up share capital, XI – Free, XII – can not]

- **Select the most appropriate answer.**

i) For purpose of redemption of Preference share Company can issue ___________ .

a) Debentures at premium b) Equity shares
c) Bonds d) Fixed Deposits Certificates

ii) Profit on sale of Investment should be debited to ___________ .

a) Profit & Loss A/c b) Capital Reserve A/c
c) Investment A/c d) Sinking Fund A/c

iii) Issue of bonus of make partly paid profits can be used ___________.

a) C.R.R. b) Securities Premium
c) Profits prior to incorporation d) Profit & Loss Account

iv) Capital Redemption Reserve should be created only when redemption of Preference shares.

a) Some Preference shareholders non-traceable
b) Redemption out of divisible profits
c) Redemption out of issue of Equity shares
d) Redemption out of issue of Preference shares.

v) 50,000 Equity shares of Rs.10/- each, issued at Rs.20/-, for the purposed of redemption of Preference share capital amounting Rs.7, 50,000/-. How much amount to be transferred to C.R.R.

a) Rs.5, 00,000/- b) Rs.10, 00,000/-
c) Rs.2, 50,000/- d) Rs.2, 50,000/-

[Answer: (i – b), (ii – c), (iii – d), (iv – e), (v – c)]

- **Select the most appropriate answer and write again**.

i) Dividend paid to Preference shareholders on

a) Face value b) Called up
c) Paid up d) None of above

ii) Capital Redemption Reserve is created

a) Redemption of Debenture
b) Refund of Fixed Deposit
c) Redemption of Preference share capital
d) Redemption of Preference share capital out of Free Reserve

iii) Capital Redemption Reserve is created

a) Voluntarily
b) Redemption not out of proceeds of Debentures

c) Legal Requirements
d) All above the three

iv) A company can redeemed Preference shares
a) Only at par
b) At premium
c) Out of Free Reserve
d) All above the three

v) Preference share can be redeemed
a) Out of profits only
b) Out of proceeds of issue of shares
c) Partly out of issue of shares and balance of out of Free Reserve
d) All the above

vi) After redemption of Preference share, Bonus share issued to
a) Preference Shareholders
b) Old Equity Shareholders
c) New Equity Shareholder
d) Both b and c

vii) The terms & redemption is specified at time
a) Redemption of Preference share
b) Payment to Preference shareholder
c) Divided by Board of Directors
d) Issue of shares

[Answer : (i – c), (ii – d), (iii – c), (iv – d), (v – d), (vi – d), (vii – d)]

- **State whether the following statements are true or false.**

i) Only partly paid Preferences can be redeem.

ii) No company can issue irredeemable Preference shares.

iii) Preference share can be redeemed only out of Capital Profit.

iv) Only Equity Shares can be issued for purpose of redemption of Preference shares.

v) Conversion of Preference shares into Equity shares are also amounted to issue of Preference shares.

vi) Premium on redemption of Preference shares can be debited to Revaluation Reserve.

vii) No company can issue redeemable Preference share after 15th June 1988.

viii) Balance Security premium can be used for providing premium on redemption of Preference shares.

[Answer : True – ii, iv, viii, False – i, iii, v, vi, vii]

i) Divisible profit mean available for distribution as divided.

ii) A company can redeemed Preference share out of proceeds of fresh issue of Debentures.

iii) Company can redeemed Preference share out of proceeds of fresh issue of Debentures.

iv) Company can not issue irredeemable Preference share.

v) Paid up share capital is reduce due to redemption of Preference share capital.

vi) Premium or redemption of Preference share can be provided out of Revaluation Reserve.

vii) Preference divided is payable annual even though the company makes loss.

[Answer : True – i, iv, v, False – ii, iii, vi, vii]

- **Match the columns :**

I.

Group A	Group B
i) Unclaimed Dividend ii) Security Premium iii) apital Redemption Reserve iv) artly paid Preference share v) Partly called up Preference share	a) Premium on Redemption of Preference shares b) Share final call made c) Can not be redeem d) Current Liabilities e) Capital Reserve f) Redemption out of Free Reserve g) Can be redeem only after final call money received

[Answer : (1 – d), (2 – a), (3 – f), (4 – c), (5 – g)]

II.

Group A	Group B
i) Pre-incorporation Profit ii) Capital Redemption Reserve can be used iii) Preference Dividend iv) Redemption of Preference Share Capital v) 7,500 Preference Share of Rs.100/- redeemable at 10% premium, issued of new 60,000 Preference Share at Rs.10/- at 20% premium C.R.R. vi) 8,000 Equity share of Rs.100/-	a) Appropriation of Profit b) Proceeds of issue of Debentures c) Rs.1,50,000/- d) Not Free Reserve e) Fully Paid Bonus share f) Free Reserve + proceed of fresh issue of share g) Rs.2,16,000/- h) Rs.2,00,000/- i) Rs.1,90,000/- j) Can not be issued by Ltd. company

each, issued at 2% discount for redemption of Preference share capital Rs.10,00,000/- C.R.R. =	k) Partly paid Bonus share
vii) Irredeemable Preference Share	

[Answer: (i – d), (ii - e), (iii – a), (iv – f), (v – c), (vi - g), (vii – j)]

4.8.2 THEORY QUESTION:

1. Explain the provision of the Companies Act, 1956, regarding redemption of Preference Shares.
2. Distinguish between Redemption of Preference shares and buy – back of Equity shares.
3. Write short notes on
   a) Capital Redemption Reserve
   b) Profit otherwise available for dividend
   c) Proceeds of fresh issue of shares
   d) Issue of fully paid Bonus Shares
   e) Irredeemable Preference shares
   f) Various methods of Redemption of Preference Shares
   g) Profits not available for redemption of Preference shares
4. Redemption of Preference share of by way of conversion into Equity shares issued at premium.
5. Redemption of Preference share at premium by a way of conversion into New Preference Shares issued at discount.

4.8.3 PRACTICAL PROBLEMS:

Illustration 1

[For calculation of new issue to raised funds required]

The balance sheet of N J Ltd. as on 31st March 09 was as follows.

Liabilities	Rs.	Assets	Rs.

<u>Share Capital :</u> 1,500, 9% Preference Share of Rs.100/- each fully paid	1,50,000	<u>Fixed Assets :</u>	6,12,000
50,000 Equity of Rs.10/- each fully paid.	5,00,000	<u>Investments :</u>	90,000
<u>Reserve surplus :</u> Securities Premium	50,000	<u>Current Assets :</u> Bank Balance	63,000
Profit & Loss A/c	1,40,000	Other Current Assets	4,27,000
<u>Secured Loans :</u> 10% Debentures	2,00,000		
<u>Current Liabilities :</u> Sundry Creditors	1,52,000		
	11,92,000		11,92,000

In order to facilitate the redemption of Preference shares and 10% debenture, both redeemable at 10% premium the company decided:

a) To sell all Investments for Rs.1,12,000/-.
b) To finance part of redemption from company funds, subject to leaving a bank balance of Rs.40,000/-.
c) To issue minimum Equity shares of Rs.10/- each at a premium of Rs. 40 per share to raise the balance of funds required.

You are required to pass the necessary Journal entries to record above the transaction and prepare balance sheet as on completion of the above transactions.

I)

Working for issue of shares		**Rs.**	**Rs.**
9% Preference Share Capital		**1,50,000**	
10% Debentures	**<u>2,00,000</u>**	**3,50,000**	
Premium payable on redemption 10%			**<u>35,000</u>**
Total amount required			**3,85,000**
Less: i) Available bank bal. [63000-40000 required]		**23,000**	
ii) Sale of Investment		**<u>1,12,000</u>**	**<u>1,35,000</u>**
Funds from new issue of Equity share		**<u>2,50,000</u>**	

Number of Equity Shares $= \dfrac{\text{Amount required}}{\text{Proceed of one equity share}}$

$$= \frac{2,50,000}{50} = 5,000$$

$\therefore$ **500 Equity share of Rs.10/- each issued @ Rs.40/- premium**

II)

Face value of Preference Share	**1,50,000**
Less: Proceeds of new issue of share (5000 X 10)	**<u>50,000</u>**
C.R.R.	**<u>1,00,000</u>**

(Balance sheet total: 10, 79,000)

2. (Minimum Reduction in Revenue Reserve)
The Balance Sheet of BM Ltd. as at 31st December, 2008 is as follows :

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	1,85,000
750 redeemable		Current Assets :	
Preference shares of		Stock	60,000
Rs.100/- each fully paid		Debtors	10,000
10,000 Equity Shares of	75,000	Investments	30,000
Rs.10/- each fully paid		Bank	10,000
Reserves and Surplus:			
Securities Premium	1,00,000		
General Reserve			
Profit & Loss A/c	20,000		
Current Liabilities	30,000		
	25,000		
	20,000		
	2,95,000		2,95,000

The company decided to redeem its Preference shares at a premium of 10 per cent, on 31st January, 2009. A fresh issue of Equity shares of Rs.10/- each was made at Rs.14/- pre share, payable in full on 1st January, 2009. These were fully subscribed and all moneys were duly collected. All the Investments were sold realizing Rs.42,000/-. The Directors wish that only a minimum reduction should be made in the revenue reserves.

You are required to give the journal entries, including those relating to cash to record the above transactions and draw up the Balance Sheet as it would appear after redemption of Preference shares.

3. (Bonus to make fully paid shares, issue of fully paid Bonus share) The Bharat Steel Ltd. whose issued share capital on 31st December, 2008, consisted of 10,000 8% redeemable Preference shares of Rs.100/- each fully paid and 50,000 Equity shares of Rs.100/- each Rs.30/- paid up, decided to redeem Preference shares at a premium of Rs.10/- per share. The company's balance sheet as at 31st December, 200 showed a General Reserve of Rs.18,00,000/- and a Capital Reserve of Rs.1,70,000/-. The redemption was effected partly out of profits and partly out of the proceeds of a new issue of 7,000, 10% cumulative Preference shares of Rs.100/- each at a premium of Rs.40/- per share. The premium payable on redemption was met out of the premium received on the new issue.

   On 1st April, 2009, the company at its General meeting resolved that all the Capital Reserves be applied in the following manner:

   a) The declaration of bonus at the rate of Rs.10/- per share on Equity shares for the purpose of making the said Equity shares fully paid and

   b) The issue of bonus shares to the Equity shareholders in the ratio of one share for every shares held by them.

   You are required to pass journal entries.

4. (Redemption of Preference shares at premium)
   The following is the Balance Sheet of RK Ltd. as on 31st March 2009.

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	1,28,000
5,000 9% Redeemable		Investment	20,000
Pref. Shares of Rs.10/-		Current Assets	86,000
each fully paid		Cash at Bank	80,000
10,000 Equity shares of	50,000		
Rs.10/- each fully paid			
Securities Premium A/c			
Profit & Loss Account	1,00,000		
Sundry Creditors			
	30,000		
	1,04,500		
	29,500		
	3,14,000		3,14,000

The company exercised its option to redeem on 1st April, 2009, the whole of the Preference share capital at a premium of 10% per cent.

To assist in financing the redemption, all the Investments were sold for Rs.24, 000/-. On 1st May, 2009, the company made a bonus issue of two Equity shares fully paid for every Equity shares held on that date.

The appropriate resolutions having been passed the above transactions were duly completed.

You are required to five pass the journal entries to record the transactions in the books of the company and the balance sheet after above transaction.

5. RK Ltd. has issued 5,000 12% redeemable Preference shares of Rs.100/- each, Rs.80/- paid. In order to redeem these shares now being redeemable, the company issued for cash 20,000 Equity shares of redeemed, balance being met out of the General Reserve which stood at Rs.3,00,000/-. The company then declared the bonus issue of 10,000/- ordinary shares of Rs.10/- each to the existing ordinary shareholders out of reserve created for redemption purpose.
   Pass the necessary journal entries giving effect to the above transactions.

6. On 1st July, 2008 the following balances appeared in the books of Jai Ltd.

Particulars	Rs.
10% Preference share capital (Shares of Rs.100/- each redeemable on 31-12-2008, at a premium of Rs.5/- per share)	4,00,000
Security Premium A/c	1,00,000

Profit & Loss A/c (Cr.)	3,00,000

To provide a part of cash necessary for the repayment of Redeemable Preference Shares (which were redeemed on the due date), the company made an issue of 14% Preference Shares of Rs.100/- each at Rs.110/- per share payable in full on application.

Applications for 1,200 of the new shares were received on 1st November, 2008 and expenses of the issue amounting to Rs.10,000/- were paid on 30th November, 2005.

Show the Journal entries (including cash transactions) necessary to record the above transactions in the books of the company.

7. The following is the summarized Balance Sheet of A Ltd. as on 30th September, 2008.

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	3,00,000
10% Redeemable Preference shares of Rs.100/- each	60,000	Current Assets	1,57,000
Equity shares of Rs.100/- each fully paid up	2,00,000		
Security Premium	2,64,000		
Profit & Loss A/c	17,000		
Creditors	1,60,000		
	4,57,000		4,57,000

The Preference shares were redeemed on 10th October, 2008 at a premium of 15%. A bonus issue of two Equity share for every five shares held was made on the same date. No trace could be found of the holder of 20 Preference Shares.

You are required to give the journal entries in the book of the company and draw up the resultant Balance Sheet in a summarized form.

8. DT Ltd. has the following Balance Sheet as on 31-03-2009.

Liabilities	Rs.	Assets	Rs.
Issued, subscribed and fully paid up		Fixed Assets	19,00,000
20,000 Equity shares of Rs.100/- each	20,00,000	Current Assets (including Bank bal. Rs.4,50,000/-)	13,50,000
50,000 Preference Shares of Rs.10/- each	5,00,000		
Capital Reserve	2,00,000		
Security Premium A/c	1,00,000		
Profit & Loss A/c	2,00,000		
Current Liabilities	2,50,000		

	32,50,000		32,50,000

The Preference shares are to be redeemed at 10% premium. Fresh issue of Equity shares is to be made to the extent it is required under the Companies Act for the purpose of this redemption.

Show journal entries giving effect to the redemption and draw up the Balance Sheet of the company as it would appear immediately after the redemption.

9. On 1st April, 08 a company issued 4,000 12% Debentures of Rs.100/- each. The interest is payable on 30th and 31st March every year. The company is allowed to purchase its own Debentures which may be cancelled or kept or re-issued at the company's option. The company made the following purchases in the open market.

   On 31st July 2008 500 Debentures at Rs.96/- ex-interest
   On 30th Nov. 2008200 Debentures at Rs.97/- cum-interest

   The Debentures, which were purchased on 31st July 2008 were cancelled on 31st December, 2008. All payments were made on due dates.

   Give journal entries to record the above transactions and the relevant items in the Balance Sheet as on 31st March 2009.

10. (Forfeiture of Shares and their Reissue)

    A company issued 20,000 6% Redeemable Preference Shares of Rs.100/- each at par. At 30th June, 2009; the shares are to be redeemed at Rs.110/- a share and for the purpose of assisting the redemption 1,00,000 Equity Shares of Rs.10/- each were issued at 40% premium. On the above date, 500 of the Redeemable Preference Shares had been forfeited for non-payment of the last call of Rs.20/-, 400 of which had been re-issued as fully paid for Rs.80/- a share. The balance of Profit & Loss Account was Rs.15,40,000/- and the General Reserve Rs.2,00,000/-. On the same day, as the redemption took place, a bonus was declared of Rs.10, 00,000/- to the Equity shareholders.

Show the journal of the company to record the above transactions.

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5

REDEMPTION OF DEBENTURES-I

Unit Structure

5.0 OBJECTIVES :

After studying this chapter the students will be able to:

- Know the Terms of redemption
- Understand the Methods of redemption
- Explain the procedure of Conversion of debentures
- Understand how to create debenture redemption reserve as per rules.

5.1 MEANING OF REDEMPTION:

Redemption means repayment debenture is basically loan capital and has to be repaid as terms agreed at the time of issue.

According to sec. 80A of the companies Act, 1956 debentures issued by a company have to be redeemed within 10 years after issue.

Debentures are normally redeemed after expiry of a specified period. However, the company may redeem debentures before expiry of a specified period; if articles of association & debenture deed permit it. Even companies are allowed to purchase it own debentures in open market such own debentures may be kept by company as investment or it may be redeemed own debentures by cancellation.

5.2 TERMS OF REDEMPTION OF DEBENTURES

The debentures may be redeemable.

a) At Par Debentures are redeemed par i.e. at face value; face value of the debentures will be repaid on redemption.

b) At Premium The debentures may be redeemable at premium. In such case at time of redemption debenture hold will be paid face value of debentures plus premium on redemption of debentures. For example, a debenture of face value of Rs.100 may be redeemable at Rs.110 such premium payable on redemption is a capital loss for the company. Such premium on redemption must be provided as a liability at the time of issue of debenture.

c) At discount: At the time of redemption of debentures, the debenture-holders are paid something less than the face value of the debenture practically such debenture are not issued by any company. However the company may purchased it own debentures in open market when debentures are traded at less than face value, and redeemed own debentures at discount.

The amount to be paid to debentures holders depends upon the terms of issue. According to the terms of issue, the debentures may be redeemable fully in one lump sum at a given time or in installment or by drawing lots.

5.3 REDEMPTION OUT OF CAPITAL

This is the method of redemption of Debentures. Debentures may be redeemed out of capital. Payments to debenture-holders are not plain from date of issue of debenture. On redemption, the debenture-holders are paid out of cash and bank balance. This reduces working capital available with the company. As per SEBI guidelines, redemption of debentures wholly out of capital is not possible. And a company has to create debenture redemption reserve equivalent to 50% of the amount of debenture issue, before debenture redemption commences. Hence it will not be possible for a company to redeem debentures purely out of capital. Creation of debenture redemption reserve is not required for issue of debenture with a maturity period of 18 months or less.

Accounting Entries:

Date Sr. No.	**Particulars**	**L F**	**Dr. Rs.**	**Cr. Rs.**
1.	On debentures becoming due for payment a) Redemption at par Debentures A/c Dr. To debenture holders A/c b) Redemption at a premium Debentures A/c Dr. Premium on redemption of debentures A/c To Debenture holders A/c c) Redemption at discount Debenture A/c Dr. To debenture holders A/c To profit on redemption of debenture A/c		 (F.V.) X F.V. With premium F.V.	 X With amount payable with amount payable dis. on redemption Discount earned
2.	On redemption Debenture holders A/c Dr. To Bank A/c		 X	 X
3.	On transfer of premium on redemption Securities premium A/c Dr. **OR** Profit & Loss A/c Dr. To premium on redemption of debentures A/c **Note:** [Only it it is not provided at the time of issue of debentures]		 X X	 X
4.	On transfer of profit to D.R.F. Profit & Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c		 X	 X
5.	On transferring the balance on debenture redemption reserve Debenture redemption reserve A/c Dr. To General Reserve A/c		 X	 X

Illustration no.1 [Issue of debenture and redemption under various alternatives]

Give necessary journal entries both at time of issue and redemption of debentures in each of the following alternative cases.

I. K Ltd. Issued 5000, 9% debentures of Rs.100 each at par and redeemable at par at the end of five years.

II. K.P.M. Ltd. issued 5000, 9% debentures of Rs.100 each at 2.5% discount, redeemable at par at the end of five years.

III. O.K. Ltd. issued 5000, 9% debentures of Rs.100 each at a premium of 10% to be redeemed at par at the end of five years.

IV. Mama Ltd. issued 5000, 9% debentures of Rs.100 each at par, redeemable at 5% premium at the end of five years.

V. Yes Ltd. issued 5000, 9% debentures of Rs.100 each at a discount of 3%, redeemable at a premium of 7% at the end of five years.

VI. OM Ltd. issued 5000, 9% debentures of Rs.100 each at a discount of5% redeemable at a discount of 5% at the end of five years.

Solution:

All above companies issued debenture on 1st January 2001 debenture interest paid annually on 31st December every year. [Narration not required]

Solution:

Impotrtant Note: Even though redemption is out of capital, debenture redemption reserve is created as per 4/5 117c requirement of the companies amendment Act 2000

Solution:
Case I

Journal of K Ltd.

Date/ Year	Particulars	L F	Dr. Rs.	Cr. Rs.
1 Jan 01	1. On issue of 5000 debenture of Rs.100 each at par Bank A/c Dr. To 9% Debentures A/c		500,000	500,000
31 Dec 01	2. For debenture interest paid Debenture interest A/c Dr. To Bank A/c		45,000	45,000
31 Dec 01	3. For transferring debenture interest Profit and Loss A/c Dr. To debenture interest A/c		45,000	45,000
31 Dec 01	4. On transferring profit to D.R.R. Profit and Loss Appropriation A/c Dr. To Debentures redemption reserve A/c		100,000	100,000
31.12.02 31.12.03 31.12.04	Entry no.2, 3, 04 will be repeated every year with same amount.			

31.12.05				

31.12.05	5. On debentures are due for payment at par 9% Debentures A/c Dr. To Debenture holders A/c		500,000	500,000
31.12.05	6. On redemption Debenture holder's A/c Dr. To Bank A/c		500,000	500,000
31.12.05	7. On transfer of D.R.R. Debenture redemption reserve A/c Dr. To General Reserve A/c		500,000	500,000

Case II

Journal of K.P.M. Ltd.

Date	Particulars	L F	Dr. Rs.	Cr. Rs.
1 Jan 01	1. On issue Bank A/c Dr. Discount on issue of debentures A/c Dr. To 9% Debentures A/c		487,500 12,500	500,000
31 Dec 01	2. On payment debenture interest Debenture interest A/c Dr. To Bank A/c		45,000	45,000
31 Dec 01	3. On transferring debenture interest Profit and Loss of discount of issue of debentures. Profit & Loss A/c Dr. To Debenture interest To Discount on issue of debenture A/c		47,500	45,000 2500
31 Dec 01	4. On transferring profit to D.R.R. Profit and Loss Appropriation A/c Dr. To Debentures redemption reserve A/c		100,000	100,000
31.12.02 31.12.03 31.12.04 31.12.05	5. Entry no.2, 3, 04 will be repeated every year			
31.12.05	6. On debentures are due for payment at par 9% debentures A/c Dr. To Debenture holders A/c		500,000	500,000
31.12.05	7. On redemption Debenture holder's A/c Dr. To Bank A/c		500,000	500,000
31.12.05	8. On transfer of D.R.R. Debenture redemption reserve A/c Dr. To General Reserve A/c		500,000	500,000

Case III

Journal of O.K. Ltd.

Date	Particulars	L F	Dr. Rs.	Cr. Rs.
1 Jan 01	1. On issue Bank A/c Dr. To 9% Debentures A/c To securities premium A/c		550,000	500,000 50,000
31 Dec 01	2. On payment debenture interest Debenture interest A/c Dr. To Bank A/c		45,000	45,000
31 Dec 01	3. On transferring debenture interest Profit & Loss A/c Dr. To Debenture interest		45,000	45,000
31 Dec 01	4. On transferring profit to D.R.R. Profit and Loss Appropriation A/c Dr. To Debentures Redemption Reserve A/c		100,000	100,000
31.12.02 31.12.03 31.12.04 31.12.05	5. Entry no.2, 3, 04 will be repeated every year			
31.12.05	6. On debentures are due for payment at par 9% Debentures A/c Dr. To Debenture holders A/c		500,000	500,000
31.12.05	7. On redemption Debenture holder's A/c Dr. To Bank A/c		500,000	500,000
31.12.05	8. On transfer of D.R.R. Debenture redemption reserve A/c Dr. To General Reserve A/c		500,000	500,000

Case IV

Journal of Mama Ltd.

Date	Particulars	L F	Dr. Rs.	Cr. Rs.
1 Jan 01	1. On issue Bank A/c Dr. Loss on issue of debentures A/c Dr. To 9% Debentures A/c To Premium on redemption of debenture		500,000 25,000	500,000 25,000
31 Dec 01	2. On payment of debenture interest Debenture interest A/c Dr. To Bank A/c		45,000	45,000
31 Dec 01	3. On transferring debenture interest and w/off 1/5 of loss on issue of debenture Profit & Loss A/c Dr. To Debenture interest A/c To Loss on redemption of debenture		50,000	45,000 5,000

31 Dec 01	4. On transferring profit to D.R.R. Profit and Loss Appropriation A/c Dr. To Debentures redemption reserve A/c		100,000	100,000
31.12.02 31.12.03 31.12.04 31.12.05	5. Entry no.2, 3, 04 will be repeated every year			
31.12.05	6. On debentures are due for payment at 5% premium 9% debentures A/c Dr. Premium on redemption of debentures A/c To Debenture holders A/c		500,000 25,000	525,000
31.12.05	7. On redemption Debenture holder's A/c Dr. To Bank A/c		525,000	525,000
31.12.05	8. On transfer of D.R.R. Debenture redemption reserve A/c Dr. To General Reserve A/c		500,000	500,000

Case V

Journal of Yes Ltd.

Date	Particulars	L F	Dr. Rs.	Cr. Rs.
01.01.01	1. On issue Bank A/c Dr. Loss on issue of debentures A/c Dr. To 9% Debentures A/c To Premium on redemption of debenture		485,000 50,000	500,000 35,000
31.12.01	2. On payment of debenture interest Debenture interest A/c Dr. To Bank A/c		45,000	45,000
31.12.01	3. On transferring debenture interest and w/off 1/5 of loss on issue of debenture Profit & Loss A/c Dr. To Debenture interest A/c To Loss on redemption of debenture		55,000	45,000 10,000
31.12.01	4. For transferring profit to D.R.R. Profit and Loss Appropriation A/c Dr. To Debentures redemption reserve A/c		100,000	100,000
31.12.02 31.12.03 31.12.04 31.12.05	5. Entry no.2, 3, 04 will be repeated every year			

31.12.05	6. On debentures are due for payment at 5% premium 9% Debentures A/c Dr. Premium on redemption of debentures A/c To Debenture holders A/c		500,000 35,000	 535,000
31.12.05	7. On redemption Debenture holder's A/c Dr. To Bank A/c		 535,000	 535,000
31.12.05	8. On transfer of D.R.R. Debenture redemption reserve A/c Dr. To General Reserve A/c		 500,000	 500,000

Case VI

Journal of OM Ltd.

Date	Particulars	L F	Dr. Rs.	Cr. Rs.
01.01.01	1. On issue Bank A/c Dr. Discount on issue of debentures A/c Dr. To 9% Debentures A/c		 475,000 25,000	 500,000
31.12.01	2. On payment of debenture interest Debenture interest A/c Dr. To Bank A/c		 45,000	 45,000
31.12.01	3. On transferring debenture interest and w/off 1/5 of Discount on issue of debenture Profit & Loss A/c Dr. To Debenture interest A/c To Loss on issue of debenture A/c		 50,000	 45,000 5,000
31.12.01	4. For transferring profit to D.R.R. Profit and Loss Appropriation A/c Dr. To Debentures Redemption Reserve A/c		 100,000	 100,000
31.12.02 31.12.03 31.12.04 31.12.05	5. Entry no.2, 3, 04 will be repeated every year			
31.12.05	6. On debentures due for payment at discount 9% Debentures A/c Dr. To Debenture holders A/c To Discount on redemption A/c		 500,000	 475,000 25,000
31.12.05	7. On redemption Debenture holder's A/c Dr. To Bank A/c		 475,000	 475,000
31.12.05	8. On transfer of D.R.R. Debenture redemption reserve A/c Dr. To General Reserve A/c		 500,000	 500,000

Note: According to prudence and realization concepts, discount on redemption of debenture being gain, should be recorded at the time of redemption of debenture and not at the time of issue or allotment of debentures.

5.4 REDEMPTION OUT OF PROFIT :

Under this method the company holds a part of divisible profit, for redeeming the debentures. The amount of profit is reduced to the extent of debentures to be redeemed and hence not available for distribution by way of dividend among the shareholders. The existing liquid resources are not affected by redemption of debenture.

For redemption of debentures out of profit; adequate amount is appropriated from profit and loss appropriation A/c and it is transferred to Debenture Redemption Reserve A/c every year till debenture redeemed.

The companies' amendment Act 2000 has introduced Sec. 117 C dealing with the liability of a company to create "Debenture redemption reserve A/c" (DRR). DRR represents the retention out of profits made for the purpose of redeeming debentures. As it is created for a specific purpose out of revenue profits, it may be called as a "Specific Revenue Reserve".

DEBENTURE REDEMPTION RESERVE (D.R.R):
Following guidelines has been issued with regard to redemption of debentures.

- Every company shall create D.R.R in case of issue of debentures with maturity period of more than 18 months.
- D.R.R. shall be created for non-convertible debentures and non-convertible portion of partly convertible debentures.
- A company can create D.R.R. equivalent to at least 50% of the amount of debentures issue before starting the redemption of debentures.
- Withdrawal from D.R.R is permissible only after 10% of debenture liability have been actually redeemed by the company.
- DRR shall be treated as part of general reserve; for consideration of bonus issue proposal.
- The company shall create D.R.R. for redemption of debentures. A company can create D.R.R. by transferring adequate amount from profit & Loss appropriation A/c until such debenture redeemed debentures. However, it does not specify the percentage or amount to be transferred to D.R.R.

There are three options available to the company in regard:

5.4.1. DRR AMOUNT NOT INVESTED OUTSIDE BUSINESS

The amount of divisible profits with held by the company may be retained in the business itself as a source of internal finance. I.e. DRR amount not invested outside business to provide cash for redemption.

In such case following entries are passed.

1) On debentures becoming due for redemption

Debentures A/c	Dr. [with face value]
Premium on redemption of	
Debentures A/c	Dr. [with premium it any]
To Debenture holder A/c	Total amount to be paid

2) On redemption

Debenture holder's A/c	Dr. with the amount paid
To bank A/c	

3) On transfer of profit to D.R.R.

Profit & Loss appropriation A/c	Dr.
To Debenture redemption Reserve A/c	

Note: Every year adequate amount should be transferred to D.R.R.

4) On redemption of debenture balance, in D.R.R. can be transfer to general reserve A/c

Debenture redemption reverses A/c	Dr.
To General Reserve A/c	

5.4.2 SINKING FUND/DEBENTURE REDEMPTION FUND INVESTMENT METHOD.

In most cases, the debentures are redeemable in lump sum on a specified date. Therefore it is necessary to make an arrangement for the amount required to redeem debentures.

Sinking fund/Debenture redemption fund is created by setting aside a fixed sum of profit every year. The amount of annual appropriation should be such amount which required for payment on redemption, debenture holders. Such accumulate a fixed amount at the expiry of given period of time and at given rate of interest. For calculating annual appropriation towards Sinking fund, Sinking fund table can be used.

$$\text{Annual Appropriation} = \begin{array}{c}\text{Amount payable at the}\\ \text{time of Redemption of}\end{array} \times \begin{array}{c}\text{Relevant sinking}\\ \text{Fund Table value}\end{array}$$

The same amount is Invested in readily marketable securities. Income from such Investment (S.F. Investment) is credited to Sinking fund and along with annual appropriation. It is invested every year; till debenture, become due for redemption. When debentures become due for redemption, Sinking fund investment is realized. Any profit OR loss on sale of S.F. investment is transferred to Sinking fund A/c again any profit or loss on redemption of debenture is also transferred to Sinking fund. After redemption of debenture, balance in Sinking fund is free reserve, therefore it is transferred to general reserve, in case of partial redemption of debenture to the extent nominal value of debentures redeemed should be transferred to general reserve.

The accounting entries in such a case will be as follows:

I First year [At the end]

(1) On transfer of profit to Sinking fund account.

Profit and loss appropriation A/c	Dr.	with annual
To Sinking Fund A/c		Appropriation

(2) On purchase of S.F. investment

Sinking Fund Investment A/c	Dr.	With amount
To Bank A/c		invested.

Note: i) Sinking fund is also called debenture redemption reserve A/c

ii) Sinking fund balance is shown on the liabilities side of balance sheet under the head reserve and surplus. Sinking Fund Investment on the asset side under head investment.

II Second and subsequent years over the life of the debentures excepting the last year.

1.	On receipt of interest on Sinking Fund Investment Bank A/c Dr. To Interest on Sinking Fund Investment A/c	With the amount of interest received on S.F. investment
2.	On transfer of interest Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c	With the amount of interest received
3.	On transfer of annual appropriation Profit & Loss Appropriation A/c Dr. To Sinking Fund A/c	With the amount of interest received
4.	On investment purchased [Annual appropriation + Interest	

	received on S.F. investment] Sinking fund investment A/c Dr. To Bank A/c	

III In the last year when the Debentures becomes due for redemption (at the end of year).

1.	On receipt of interest on Sinking fund investment Bank A/c Dr. To Interest on Sinking Fund Investment		
2.	On transfer of interest Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c		
3.	For transferring annual appropriation Profit & Loss appropriation A/c Dr. To Sinking Fund A/c		
4.	On realization of Sinking fund investments a) at cost Bank A/c Dr. To Sinking Fund Investment b) At profit Bank A/c Dr. To Sinking Fund Investment To Sinking Fund A/c c) At Loss Bank A/c Dr. Sinking fund A/c Dr. To Sinking Fund Investment	Amount realized cost of invest Amount realized loss on sale	Profit cost

5.	On debentures are due for payment a) At par Debentures A/c Dr. To Debenture holder A/c b) i) At premium Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Debenture holder's A/c b) ii) On transferring premium On redemption of debentures (if it is not provided at time of issue of debentures] Sinking fund A/c Dr. To premium on redemption of debentures A/c c) At discount Debentures A/c Dr. To Debenture holder's A/c To Sinking Fund A/c	Nominal value of the Debentures X X X Face value	X X Amt.to be paid Dis. on redemption
6.	On payment/Redemption Debenture holder's A/c Dr. To Bank A/c	X	X
7.	On transfer of Sinking fund balance to general reserve Sinking fund A/c Dr. To General Reserve A/c		

Note: In case of partial redemption of debentures, to the extent of nominal value of debenture redeemed should be transferred to General Reserve.

Note: 3

i. No investment should be made in last year

ii. This method assures the availability of profit and sufficient cash for purchasing investment.

iii. Where only part of the debentures redeemed it must be ensured that the balance in Sinking fund is equal to 50% of the amount of debentures issue on the date of redemptions is obligatory. However, a company may create more reserve if it so desires.

5.5 SOLVED PROBLEMS :

Illustration No. 2 [Sinking fund created for redemption of debentures at the end of the specified period.]

On 1st January 06 S Ltd. issued 2000, 10% debentures of Rs.100 each @ 5% premiums, redeemable at par. The company decided to set aside every year a sum of Rs.63440 to be invested in 5% Govt. securities. The investments were sold at Rs.130200 at the end of third year and debentures were redeemed.

Give journal entries in the books of S Ltd.

Solution

Journal of S Ltd.

Date	**Particulars**	**L F**	**Dr. Rs.**	**Cr. Rs.**
01.01.06	Bank A/c Dr. To 10% Debentures A/c To Securities premium A/c [Being 2000, 10% debentures of Rs.100 each issued @ 5% premium]		210,000	 200,000 10,000
31.12.06	Profit and appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]		63,440	 63,440
31.12.06	Sinking fund investment A/c Dr. To Bank A/c [Being 5% Govt. securities purchased out of Sinking fund]		63,440	 63,440
31.12.07	Bank A/c Dr. To Interest on Sinking Fund Investment [Being into @ 5% received on Sinking fund investment]		3172	 3172
31.12.07	Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c [Being interest received on Sinking fund investment transferred to Sinking fund]		3172	 3172
31.12.07	Profit and Loss appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]		63,440	 63,440

31.12.07	Sinking fund investment A/c Dr. To Bank A/c [Being 5% Govt. securities purchased out of Sinking fund 63440 + 3172]		66,612	66,612
31.12.08	Bank A/c Dr. To Interest on Sinking Fund Investment A/c [Being interest received on Sinking fund investment 130052 x 5%]		6503	6503
31.12.08	Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c [Being interest on Sinking fund investment transferred to Sinking fund]		6503	6503
31.12.08	Profit & Loss appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debenture A/c]		63,440	63,440
31.12.08	Bank A/c Dr. To Sinking fund investment A/c To Sinking fund A/c [Being amount received on sale of Sinking fund investment of profit]		130,200	130,052 148
31.12.08	10% Debenture A/c Dr. To Debenture holder's A/c [Being 10% debenture due for redemption]		200,000	200,000
31.12.08	Debenture holder's A/c Dr. To Bank A/c [Being amount paid to debenture holders]		200,000	200,000
31.12.08	Sinking fund A/c Dr. To General Reserve A/c [Being balance in Sinking fund transferred on redemption of debentures]		200,143	200,143

Working Notes:

1. In year 2007, annual appropriation plus int. on Sinking fund investment received is invested.
2. Profit on sale Sinking fund investment is credited to Sinking fund.
3. On 31.12.08, no Sinking fund investment made as debentures are due for redemption on that date.

Illustration No. 3 [Debenture are issued at discount, Sinking fund created]

On 01/04/2004 P Ltd. issued 4,000, 12% debentures of Rs.100/- each @ 5% discount. The debentures as redeemable @ 4% premium in lump sum on 31/03/2007. The interest is payable on 30th September, and 31st March. The company closes the accounts on 31st March every year. It has been stipulated to annually appropriate Rs. 124,000 towards debenture redemption fund & invest the same in 10% IDBI bonds together with interest received. Interest is received on 31st March every year & investment is also made on the same day. On 31/03/2007, the investment is sold for Rs.2, 62,000 including bonus & the debenture are redeemed. Show relevant ledger accounts in the books of P Ltd.

In the books of P Ltd.
12% Debenture

Date	Particulars	Rs.	Date	Particulars	Rs.
31/03/05	To balance c/d	4,00,000	01/04/04	By Bank A/c By Disc. on issue of Debenture	380,000 20,000
		4,00,000			4,00,000
31/03/06	To bal c/d	4,00,000	01/04/05	By bal b/d	4,00,000
		4,00,000			4,00,000
31/03/07	To debenture holders A/c	4,00,000	01/04/06	By bal b/d	4,00,000
		4,00,000			4,00,000

Loss on issue of Debenture

Date	Particulars	Rs.	Date	Particulars	Rs.
01/04/04	To discount on issue of debenture To premium on redemption of debenture	20,000 16,000	31/03/05	By Profit & Loss A/c [36000 x 1/3] By Bal. c/d	12,000 24,000
		36,000			36,000
01/04/05	To bal c/d	24,000	31/03/06 31/03/06	By P & L A/c By bal c/d	12,000 12,000
		24,000			24,000
31/03/07	To bal. c/d	12,000	31/03/07	By P & L A/c	12,000
		12,000			12,000

Debenture Interest A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
30/09/04 31/03/05	To bank A/c To bank A/c	24,000 24,000	31/03/05	By P & L a/c	48,000
		48,000			48,000
30/09/05 31/03/06	To Bank A/c To Bank A/c	24,000 24,000	31/03/06	By P & L A/c	48,000
		48,000			48,000
30/09/06 31/01/07	To Bank To Bank	24,000 24,000	31/03/07	By P & L A/c	48,000
		48,000			48,000

Premium on redemption of Debenture A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/03/05	To balance c/d	16,000	01/04/04	By loss on issued debenture	16,000
		16,000			16,000
31/03/06	To bal c/d	16,000	01/04/05	By bal b/d	16,000
		16,000			16,000
31/03/07	To Debenture holders A/c	16,000	01/04/06	By bal b/d	16,000
		16,000			16,000

Debenture Redemption fund invest A/c

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31/03/05	To Bank A/c	1,24,000	31/03/05	By Bal. c/d	1,24,000
		1,24,000			1,24,000
01/04/05 31/03/06	To bal b/d To Bank A/c	1,24,000 1,36,400	31/03/06	By bal c/d	2,60,400
		2,60,400			2,60,400
01/04/06 31/03/07	To Bal. b/d To debenture redemption reserve profit	2,60,400 1,600	31/03/07	By Bank A/c	2,62,000
		2,62,000			2,62,000

Debenture redemption fund A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/03/05	To balance c/d	1,24,000	31/03/05	By profit & Loss appropriation	1,24,000
		1,24,000			1,24,000
31/03/06	To bal c/d	2,60,400	01/04/05	By bal b/d	1,24,000
			31/03/06	By Bank A/c (Int.)	12,400
			31/03/06	By Profit & Loss appropriation	1,24,000
		2,60,400			2,60,400
	To general reserve A/c (Bal. transferred)	4,12,040	31/03/06	By bal b/d	2,60,400
				By Bank A/c	26,040
				By profit & Loss appropriation A/c	1,24,000
				By debenture redemption reserve A/c	1,600
		4,12,040			4,12,040

9% Debenture holder A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31/03/07	To Bank A/c	4,16,000	31/03/07	By 9% Debenture A/c	4,00,000
			31/03/07	By premium on redemption of debenture	16,000
		4,16,000			4,16,000

5.5.1 INSURANCE POLICY METHOD:

Under this method, profit are set aside and created to debenture redemption fund account in the same manner as it is done in case of Sinking fund method. But instead of investing the amount of profit set aside, it is used to pay insurance premium on endowment policy, taken for redemption of debentures. The amount of policy taken is just equal to amount required for redemption of debentures. This is method differs from the Sinking fund method in respect of interest in investment. Interest will not be received in cash; however interest accrued at fixed rate and added to insurance policy. Amount Sinking fund investment are subject market fluctuation in prices of invest out. However in insurance policy method; at such the exact sum insured will be available at maturity.

Note: No practical problems required hence it is not given.

5.5.2 REDEMPTION OF DEBENTURES BY CONVERSION INTO SHARES/INTO NEW DEBENTURES.

Conversion means an act of changing one thing in another. Conversion of debenture means converting the debenture into equity/preference share or new debentures.

According to the term of issue of the debentures, the debenture holders may be given the right to exercise the option to convert their debentures into equity/preference shares at a stipulated rate, within a specified period. Such conversion may be made by issue of share/new debentures, at a discount on at par or at a premium on the face value of shares/ new debentures. If the debenture holders find the offer is beneficial to them, they will exercise their right and option for conversion as per different offers/otherwise they may not exercise their rights and such debentures will be redeemed in cash.

In case of partly convertible debentures part of the amount is discharged by issuing shares/new debentures and the balance amount is discharged in cash on redemption.

Sometimes debentures are issued at discount, are converted into shares issued at par. In such case provision of sec.79 of companies Act 1956 should not be violated. The issue price of the share must be equal to the amount actually received from debenture holders at the time issue of those debentures instead of the face value of debentures issued, should be considered.

$$Calculation\ of\ no.of share\ to\ be\ issued = \frac{Face\ value\ of\ debenture - Discount\ issue\ of\ debenture}{Face\ value\ of\ one\ share}$$

= No. of share issued at par

Illustration No.4 [Conversion of debentures originally issued at a of new share discount]

M Ltd. issued 10,000, 10% debentures of Rs.1000 each at Rs.50 redeemable after seven years. The company gave an option to the debenture holders to get their debentures converted into equity share of Rs.10 each at any time after expiry of two years.

A holding 240 debentures, informed the company in 4th year that he wanted to exercise the option of conversion of debentures into equity shares.

As certain no. of shares to be issued.

Solution:

$$\text{Calculation of no. of shares} = \frac{\text{Face value-Discount on issued}}{F.V./\,issued\ \ price\,of\ \ share}$$

$$= \frac{240,000-(240\times 50\,discount)}{10}$$

$$= \frac{240,000-12,000}{10} = \frac{228,000}{10}$$

= 228,00 equity shares.

The accounting entries in such a case will be as follows.

No.	**Particulars**	**LF**	**Dr. Rs.**	**Cr. Rs.**
1.	On transferring debentures			
	a) At par			
	Debentures A/c Dr.		x	
	To Debentures holders			x
	b) At premium			
	Debentures A/c Dr.		x	
	Premium on redemption of debenture A/c Dr.		x	
	To Debenture holders A/c			x
	c) At discount			
	Debentures A/c Dr.		x	
	To Debenture holders A/c			x
	To Profit on redemption of debentures			x
2.	For converting debentures into equity share issued at premium			
	Debenture holder A/c Dr.		x	
	To Equity share capital A/c			x
	To Securities premium A/c			x
3.	For converting debentures into preference			

	shares issued at par Debentures holder's A/c Dr. To Preference share capital A/c		x	x

4.	For converting debentures into new debentures issued at discount. Debentures holders A/c Dr. Discount on issue of new debentures A/c Dr. To New debentures A/c		x x	 x
5.	For redemption in cash Debenture holders A/c Dr. To Cash/Bank A/c		x	 x

$$\text{No. of shares/New debentures issue} = \frac{\text{Amount payable to debenture holder}}{\textit{Issued price per share / Debenture}}$$

Illustration No.5 [Calculation of no. equity shares]

1045, 12% debentures of Rs.100 redeemable @ 10% premium accepted conversion in 11% new debentures of 100 each issued @ 5% discount.

Solution:

Total amount payable on redemption 1045 x 100 = 104,500
Add; premium payable 10% = 10,450
Total Claim = **1, 14,950**
Issued price per debenture = F.V. - Discount
= 100 - 5 = Rs. 95 per debenture

$$\therefore \text{ New 11\% debentures issued} = \frac{\text{Claim of debenture holders}}{\textit{Issuepriceofonedebenture}}$$

$$= \frac{114950}{95} = 1210$$

$\therefore$ 1210, 11% new debentures 100 each issued @ Rs.95 per debenture.

Illustration No. 6 [Conversion of debenture into shares, new debentures]

A company gave notice of its intension to redeem its outstanding 25,000 9% debentures of Rs.100 each a premium of 5% and offered the debenture holders the following options.

A. To accept 10% preference shares of Rs.100 each at par.

B. To accept 12% debentures of Rs.100 each at Rs. 95.
C. To accept equity shares of Rs.20 @ Rs.40 per shares.
D. To have their holdings redeemed for cash, accordingly.
  I. 4200 debenture holders accepted the proposal (a)
  II. 9975 debenture holders accepted the proposal (b)
  III. 8400 debenture holders accepted the proposal (c)
  IV. Remaining debenture holders accepted the proposal (d)

Solution:

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No.	Particulars	LF	Dr. Rs.	Cr. Rs.
1.	Option A			
	9% Debentures A/c Dr.		420,000	
	Premium on redemption of debentures A/c Dr.		21,000	
	To 9% Debenture holder A/c			441,000
	[Being 4200 debenture of Rs.100 each redeemed @ 5% premium]			
2.	9% Debenture holders A/c Dr.		441,000	
	To 10% Preference share capital			441,000
	[Being 4410 10% preference share of Rs.100 each allotted to 4200 debenture holders as per option A]			
3.	Option B			
	9% Debentures A/c (9975 x 100) Dr.		997,500	
	Premium on redemption of debentures A/c Dr.		49,875	
	To 9% Debenture holders A/c			10,47375
	[Being 9975 debentures of Rs.100 each redeemed @ 5% premium]			
4.	9% Debenture holders A/c 9975 x 10 Dr.		1047375	
	Discount on issue 12% debentures A/c Dr.		55125	
	To 12% New debentures A/c			11,02500
	[Being 11025, 12% new debenture of Rs.100 each allotted at 5% discount to 9975, 9% debenture holders as per option A)			
5.	Option C			
	9% Debentures A/c (8400 x 100) Dr.		8,40,000	
	Premium on redemption of debentures A/c Dr.		42,000	
	To 9% Debenture holders A/c			882,000
	[Being 8400, 9% debenture of Rs.100 each			

	redeemed @ 5% premium)			

6.	9% Debenture holders A/c Dr. To Equity share capital A/c To Securities premium A/c [Being 22050 equity shares of Rs.20 each allotted to 9% debenture holder @ Rs.40 per share]		882,000	 441,000 441,000
7.	Option D 9% Debentures A/c (2425 x 100) Dr. Premium on redemption of debentures A/c Dr. To 9% Debenture holders A/c [Being remain 2425, 9% debenture of Rs.100 redeemed @ 5% premium]		 242,500 12,125	 254,625
8.	9% Debenture holders A/c Dr. To Bank A/c [Being remaining debentures redeemed in for cash]		254,625	 254,625
9	Profit & loss appropriation A/c Dr. To General Reserve A/c [Being transfer of an equal amount of nominal value of debentures redeemed in cash]		242,500	 242,500

Working: $No.of share / Debenture issued = \frac{Claim of debenture holders}{Issue price per unit}$

Proposal A = $\frac{441000}{10} = 4410$ 10% preference shares of Rs.100 at par

Proposal B = $\frac{1047,375}{95} = 11025$ 12% new debentures issued at 5% discount.

Proposal C = $\frac{882000}{40} = 22050$ Equity shares of Rs.20 issued @ Rs.40 per shares.

Proposal D remaining 9% debenture redeemed in cash.

Illustration 6: [Preference shares/Debenture conversion into equity share new debentures.]

The balance sheet of Jan Tan Ltd. as on 31st March 09 is given below

Liabilities	Rs.	Assets	Rs.
Authorize share capital		Fixed Assets	6,75,000
25000, 10% redeemable		Investments	
preference shares of Rs.10 each	2,50,000	Debenture redemption	
		Reserve investment	1,20,000
45000 equity shares of 20 each	9,00,000	Other investments	20,000
		Current Assets	
	11,50,000	Other current Assets	4,50,000
		Misc. Expenditure	
Issued and paid up capital 20000, 10% preference share of Rs.10 each fully paid	2,00,000	[to extend not w/off] Discount on issue of debentures	5,000
10,000 equity shares of Rs.20 each cully paid up	2,00,000		
Reserves & Surplus			
Sacrifices premium	60,000		
Profit & Loss A/c	2,40,000		
General Reserve	1,00,000		
Debentures redemption fund	1,20,000		
Secured Loans			
12% debentures [Rs.100 each]	2,40,000		
Unsecured Loans	--		
Current Liabilities			
Sundry Creditors	60,000		
Bank overdraft	50,000		
	12,70,000		12,70,000

10% preference shares and 12% debentures are due for redemption, both at 5% premium.

Accordingly company offered the holders the following options.

A. To Accept equity shares of Rs.20 each @ Rs.50
B. To accept 14% debentures of Rs.100 each @ 96
C. To have their holding redeemed for cash

Accordingly

I. 2100 preference shares and 200 debenture holders opted for option A
II. 4032 preference share holders and 2016 debenture holders opted for option B
III. Remaining preference share and debentures redeemed in cash.

ii) Debenture redemption investment sold for Rs. 142,000
iii) 1000 equity shares of Rs.20 each issued at Rs.60 for cash

You are required to open following ledger A/c

I. Equity share capital A/c
II. 12% debenture holder A/c
III. Securities premium A/c
IV. Debenture redemption reserve A/c
V. 10% preference share holders A/c
VI. Bank A/c

AND balance sheet after above transactions

Solution:

Dr. **I Equity share capital A/c** Cr.

	Rs.		Rs.
To Balance c/fd	237,220	By Balance b/fd By Bank A/c (1000 x 20) By 12% Debenture holders By 10% preference share holders A/c	2,00,000 20,000 8,400 8,820
	2,37,220		2,37,220

Dr. **II 12% Debenture holders A/c** Cr.

	Rs.		Rs.
To Equity share capital A/c To security premium A/c To 14% Debentures A/c To Bank A/c	8,400 12,600 2,11,680 19,320	By 12% Debentures A/c By premium on redemption of debenture	2,40,000 12,000
	2,52,000		2,52,000

Dr. **III Securities premium A/c** Cr.

	Rs.		Rs.
To Discount issue of 12% debentures To Premium on redemption of preference share To balance c/fd	5,000 10,000 1,10,830	By balance b/fd By Bank A/c By 12% Debenture holders By Preference share holder a/c	60,000 40,000 12,600 13,230
	1,25,830		1,25,830

Dr. **IV Debenture redemption A/c** Cr.

	Rs.		Rs.
To premium on redemption of 12% debentures To General Reserve A/c	12,000 1,30,000	By balance b/fd By Profit on sale of D.R.F. investment A/c	1,20,000 22,000
	1,42,000		1,42,000

Dr. **V 10% Preference share holder A/c** Cr.

	Rs.		Rs.
To Equity share capital	8,820	By preference share capital A/c	2,00,000
To Securities premium A/c	13,230	By premium on redemption of preference shares A/c	10,000
To bank A/c	1,45,614		
To 14% Debentures A/c	42,336		
	2,10,000		2,10,000

Dr. **14% Debenture A/c** Cr.

	Rs.		Rs.
To Balance c/fd	2,64,600	By 12% Debenture holders A/c	2,11,680
		By Discount on issue of 14% debenture A/c	8,820
		By Preference share holder A/c	42,336
		By Discount on issue of Debenture A/c	1,764
	2,64,600		2,64,600

Dr. **Discount on issue of 14% debentures** Cr.

	Rs.		Rs.
To 14% Debentures A/c	8,820	By balance c/fd	10,584
To 14% Debentures A/c	1,764		
	10,584		10,584

Dr. **VI Bank A/c** Cr.

	Rs.		Rs.
To Debenture redemption fund investment A/c	1,42,000	By balance b/fd	50,000
To Equity share capital	20,000	By 12% Debenture holders A/c	19,320
To securities premium	40,000	By 10% Preference share holder	1,45,614
To Balance c/fd	12,934		
	2,14,934		2,14,934

Dr. **VI profit & Loss A/c** Cr.

	Rs.		Rs.
To Capital redemption reserve	1,62,780	By balance b/fd	2,40,000
To balance c/fd	77,220		
	2,40,000		2,40,000

Dr. **VIII General reserve A/c** Cr.

	Rs.		Rs.
To balance c/fd	2,30,000	By balance b/fd By Debentures redemption fund A/c	1,00,000 1,30,000
	2,30,000		2,30,000

Jan Tan Ltd.

Balance sheet as on (After redemption)

Liabilities	**Rs.**	**Assets**	**Rs.**
I Share Capital Authorized share capital 25,000, 10% Rs.10 Each 45,000 equity shares Rs.20 each Issued and paid up capital 11861 Equity shares of Rs.20 each fully paid up [included 861 equity shares of Rs.20 each issued on conversion of preference shares and 12% Debentures] II Reserve & Surplus Capital redemption Reserve Securities Premium General Reserve Profit & Loss surplus III Secured Loans 14% debentures IV Unsecured Loans V Current liabilities & Provision Sundry creditors Bank Overdraft	 2,50,000 9,00,000 11,50,000 2,37,220 1,62,780 1,10,830 2,30,000 77,220 2,64,600 NIL 60,000 12,934	I Fixed Assets II Investments Other investments III Current Assets & loans advances Other current Assets I Miscellaneous expenditures [to the extent not w/off] Discount on issue of 14% debenture	6,75,000 20,000 4,50,000 10,584
Total Rs.	**11,55,584**		**11,55,584**

Working Notes:

I. Redemption of preference shares
20,000 x 10.50 (F.V. 10 + premium 5%)
= 210000

Option A	Option B	Option C
2100x10.5 =22050 Equity shares of Rs. 20 @ 50 No. of share issued =145614 $\frac{\text{Amount payable}}{\textit{Issuedprice}}$ $= \frac{22050}{50}$ = 441 equity shares of Rs.20 each @ Rs.30 Premium	4032x10.50 =42336 14% Debenture issued $= \frac{42336}{96}$ = 441, 14% debenture of 100 each @ 96	Remaining in cash 13868x10.50

II Redemption of 12% Debenture
2400x105 [F.V. 100 + Premium 5]
=252000

Option A	Option B	Option C
200x105 =21000 No. Equity shares $= \frac{21000}{50} = 420$ 19320 420 equity shares of Rs.20 @ 50 each	2016x105 =211680 No. of Debenture issued $= \frac{211680}{96}$ = 2205 14% debenture of Rs. 100 each @ 96	Balance in cash 184 x 105 = Rs.

III C.R.R. = Nominal value of preference shares redeemed
Less
Proceeds of fresh issue of shares
= 200,000 (8820+8420+20000)
= 200000 - 37220 = 162780 [Out profit and loss A/c]

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6

REDEMPTION OF DEBENTURES-II

Unit Structure

6.1 Key Terms
6.2 Exercise

6.1 KEY TERMS :

- Redemption of Debentures : Repayment of Debentures.
- Sinking Fund : It is a fund created out of Profit for the purpose of redemption of Debentures.
- Sinking Fund Investments : Annual Profit appropriated, along with Interest received, is invested in outside securities. Such investment is known as Sinking Fund Investment.
- Own Debentures : These are companies own Debenture, purchased in open market, for investment or for immediate cancellation.
- Premium on Redemption of Debentures : It is additional amount to Debenture holders at time of redemption. It is a Capital Loss to the company. Normally it is provided at the time of Issue of Debentures.

Key Points :

- Debenture may issued at par, or at discount or at premium. Similarly, Debentures may be redeemed at par, at discount or at a premium.
- Discount / Loss on issue of Debentures, is Capital Loss can be transferred to Securities Premium A/c or Profit & Loss A/c. Normally it is written off over the period of outstanding Debentures. Till the Loss / Discount not written off, it appears in the Balance sheet of the company on the asset side, under heading Miscellaneous Expenditure" (to extent not written off)

- Any Profit or Loss on sale of Sinking Fund investment should be transfer to Sinking Fund A/c.

- Redemption of Debentures, balance Sinking Fund A/c should be transferred to General Reserve A/c.
- Debenture may be redeem by conversion into shares on new Debenture issued.

$$\text{No. of Shares/Debenture issued} = \frac{\text{Amt. payable to debentureholders}}{\text{Issue price of Shares/Debentures}}$$

6.2 EXERCISES

6.2.1 OBJECTIVE QUESTIONS:

1. Fill in the blanks with suitable words:

A) After redemption of Debentures for transferring balance in Sinking Fund ___________ A/c is debited.

B) Interest accured on Debenture Redemption Fund Investment credited to ___________ A/c.

C) When Debentures are due for conversion ___________ A/c is debited.

D) New shares on Debenture issued on conversion amount payable to Debenture holders ___________ .

E) 40,000 9% Debentures of Rs.100/- are to be redeemed @ 12.50% premium on conversion into Equity Shares of Rs.10/- each issued at Rs.20/-. Equity shares issued = ___________ .

F) 40,000 9% Debentures of Rs.100/- each redeemable @ 12.50% premium are to be converted at to 96

No. of Debentures issued = ___________ .

G) Companies Act allows company to purchase ___________ Debentures from market as S.F. Investment.

H) Interest received on Own Debentures purchased as S.F. Investment is transferred to ___________ Account.

I) Profit or loss on cancellation of own Debenture held as S.F. Investment is transferred to ___________ Account.

J) Interest on Own Debentures can be transferred to ___________ Account.

K) Interest accrued on Debentures Redemption Fund Investment ___________ Account.

L) X Ltd. issued Rs.5,00,000/- Debentures at 5% Discount redeemable in 5 years equally. Discount on issue of Debentures will be written off in the ratio of _____________ .

M) Z Ltd. issued Rs.5,00,000/- Debentures @ 5% Discount redeemable at the end of 5^{th} year Annual Discount to be written off = Rs. _____________ .

N) Debentures may redeemed at _____________ or at _____________ .

O) _____________ is a special fund established out of Profit for redemption of Debentures.

P) Company may purchased Own Debentures for _____________ or for _____________ .

Q) Redemption of Debentures means _____________ .

R) Debentures can be redeemed by _____________ then in shares / New Debentures.

S) Premium or redemption of Debentures is normally provided at the _____________ .

T) Discount on issue of debenture is shown in Balance sheet under heading _____________ .

U) Sinking Fund for redemption of Debenture is also known as _____________ .

V) Annual Appropriation for Sinking Fund = Amt. payable at the time of Redemption × _____________ .

W) Amount of S.F. Investment purchased = Annual Appropriation + _____________ .

X) Any Profit on Loss on Sale of S.F. Investment is transferred to _____________ account.

Y) After redemption of Debentures, balance in Sinking Fund is transferred to _____________ .

Z) On partial Redemption Debentures, balance in S.F. Account is transferred to General Reserve to the extent _____________ .

[Answer: A) Sinking Fund, B) Debenture Redemption Fund Account, C) Debenture holder's Account, D) Issue price of one share, E) 2,25,000 Equity Shares, F) 46,875 New Debentures, G) Own, H) Sinking Fund, I) Sinking Fund, J) Profit and Loss Account, K) Debenture Redemption Fund, L) 5:4:3:2:1, M) 5,000, N) Par, Premium or Discount, O) Sinking Fund / D.R.F., P) Investment, immediate cancellation, Q) Discharge of Debentures Liability, R) Converting, S) Issue of Debentures, T) Miscellaneous

Expenditure, U) Debenture Redemption Fund, V) Relevant Annuity Table Value, W) Interest received on S.F. Investment, X) Sinking Fund Account, Y) General Reserve Account, Z) Nominal value of Debentures Redeemed.

2. STATE WHETHER TRUE OR FALSE

1) Debentures can be redeem only at par.
2) Annual Appropriation to Sinking is debited to Bank A/c.
3) After redemption of all Debenture, balance in Sinking Fund A/c is transferred to General Reserve.
4) Debentureholders are not entitled to invest if company is making Loss.
5) A company can purchased its own debentures from market.
6) Company may held its own Debentures as investment.
7) Debentures are always secured.
8) Security Premium can be used to write off Discount on issue of Debentures.
9) Capital Reserve can used to pay Debenture interest.
10) Loss on sale of Sinking Fund Investment is debited to Profit & Loss A/c.
11) Interest received on Sinking Fund Investment, is debited to Sinking Fund A/c.
12) Capital Redemption Reserve is created when Debentures are redeemed in cash.
13) A company can not issue unsecured Debentures.
14) Accrued Debenture Interest is added to Debentures.
15) Debentures hold get their money only on liquidation of company.

[Answer: True: 3, 5, 6, 8, False: 1, 2, 4, 7, 9, 10, 11, 12, 13, 14, 15.]

3. MULTIPLE CHOICE QUESTIONS :

1) The balance of Sinking Fund A/c is transferred to _____________ .

   a) Capital Reserve A/c   b) Balance sheet
   c) General Reserve A/c   d) None of the above

2) Profit on sale of Sinking Fund Investment with be debited to _____________ .

   a) Profit & Loss A/c   b) Sinking Fund Investment A/c
   c) Sinking Fund A/c   d) Revaluation A/c

3) Interest received on debenture redemption fund investment will be ______________ .
   a) Debited to Bank A/c
   b) Debited to Sinking Fund A/c
   c) Profit & Loss A/c
   d) Sinking Fund A/c

4) On Redemption of Debentures, account paid to Debenture holders A/c credited to ______________ .
   a) Debenture holders A/c
   b) Bank A/c
   c) Debentures A/c
   d) Sinking Fund A/c

5) On payment of debenture interest amount paid is debited to ______________ .
   a) Sinking Fund A/c
   b) Debenture Interest A/c
   c) Bank A/c
   d) Investment A/c

6) Balance in Discount on issue of Debentures is shown in Balance sheet.
   a) On Liabilities side
   b) Current Assets
   c) On Assets side
   d) None of the above

7) Premium on redemption of debenture not provided at the time of issue, transferred to ______________ .
   a) Profit & Loss A/c
   b) Trading A/c
   c) Sinking Fund A/c
   d) Debenture A/c

[Answer: (1 – c), (2 – b), (3 – a), (4 – b), (5 – b), (6 – c), (7 – c)]

4. Match the following Columns.

1)

Group “A”	Group “B”
a) Sinking Fund	i) Carries Fixed Rate Interest
b) Price including accrued interest	ii) Specified at the time of issue
c) Debentures	iii) Credited to S.F. A/c
d) Terms of Redemption	iv) Credited to Trading A/c
e) Interest received on S.F. Investment	v) P&L Appropriation debit
	vi) Cum – interest price
	vii) Ex – interest price

[Answer: (a – v), (b – vi), (c – i), (d – ii), (e – iii)]

2)

Group "A"	Group "B"
a) Sinking Fund b) Sinking Fund Investment c) Amount to be invested d) Redemption of Debentures e) Debenture interest	i) Balance Sheet Assets side ii) Annual appropriation Interest received on S.F. Investment iii) Profit & Loss A/c iv) Unsecured Loans v) Optional vi) Reduction in owed fund vii) Own Debenture viii)Reduction is own fund

[Answer: (a – v), (b – i), (c – ii), (d – vi), (e – iii)]

6.2.2 Theory Questions:

1. What do you mean by Redemption of debentures?
2. Distinguish between redemption of Preference shares and redemption of Debentures.
3. Discuss various methods of redemption of debentures.
4. Distinguish between redemption of Debentures out of Profit & out of capital.
5. Explain Own Debentures.

6.2.3 PRACTICAL PROBLEMS:

1) The following balances appeared in the books of a company as on 31.12.2008. 10% Mortgage Debentures Rs.6,00,000/-; Sinking Fund Rs.5,81,000/-; Sinking Fund Investment, 4% Government Loan purchased at par Rs.2,80,000/- and 5% Government paper purchased for Rs.3,01,000/- - F.V. 3,20,000/-.

   On 31st March 2009; the Investments were sold at Rs.105/- and Rs.98/- respectively and the Debentures were paid off at Rs.104/- together with accrued interest. The interest on Debentures had been paid up to 31st December, 2008.

   Write up the ledger accounts concerned.

2) On 30th June, 2008 the following balances stood in the books of Kumari Ltd.

Particulars	Rs.
10% First mortgage Debentures	7,50,000
Debenture redemption Reserve Fund	7,25,000
The above Fund was invested the following securities :	
Rs.3,60,000/-, 5% Government Loan	3,52,000
Rs.3,80,000/-, 4% Government Loan	3,73,000

To redeem the Debentures on 30th June, 2008 the above investments were sold on the same day under :

5% Government loan, at par, 4% Government Loan, at Rs.98/-

Draw up the necessary accounts; bring down their balances, if any, after the redemption of Debentures, and state how they will be disclosed in the balance sheet of the company.

3) Ext. Co. Ltd. has 4,000, 6% Debentures of Rs.100/- each outstanding on 1st January, 2009. There was a Sinking Fund amounting to Rs.3,50,000/- represented by 5% Mumbai Municipal Corporation Debentures of face value of Rs.3,60,000/-. Interest on these is payable on 30th June and 31st December every year and these were also the dates for the payment of interest as Debentures of the company. Half yearly interest of Rs.9,000/- was received up to 30th June, 2009.

On 31st December, 2009; further Rs.50,000/- was appropriated towards the Sinking Fund and corresponding investment in Mumbai Municipal Corporation Debentures were acquired with this amount and interests received on existing investments which amounted to Rs.9,000/-. The face value of investments made was Rs.60,000/-. Show ledger account in books of Ext. Ltd., relating to following :

a) Sinking Fund Account

b) Sinking Fund Investment Account; and

c) 6% Debenture Account.

4) The Balance Sheet of a Company as at 31st March, 2008 as follows :

Particulars	Rs.	Particulars	Rs.
Equity Share Capital	20,00,000	Sinking Fund Investment (Face value Rs.10,00,000/-)	10,00,000
Securities Premium	3,00,000	Other Assets	41,00,000
Debenture Redemption Reserve	10,00,000	Discount on issue of Debentures	40,000
General Reserve	4,00,000		
10% Debentures (Rs.100/- each)	12,00,000		
Premium on Redemption of Debentures	1,00,000		
Current Liabilities	1,40,000		
	51,40,000		51,40,000

On 1st April, 2008, the Board of Directors decided to and gave following options to remaining debenture holders :

a) to accept cash payment at 10% premium, or

b) to accept three shares of Rs.100/- each for four Debentures held in the company.

Debenture holders holding Rs.5,00,000/- Debentures opted for cash payment and balance of debenture holders opted for the conversion of their Debentures into shares. Journalise.

5) On 1st April, 2005, Apana Sapan Ltd. issued 1,000 10% Debentures of Rs.500/- each at par, payable @ Rs.525/-. As per terms of issue, the Board of Directors decided to provide Sinking Fund for redemption of Debentures and took an Insurance Policy to provide the necessary cash. The annual premium being Rs.1,65,000/-. On which the return is 3% p.a. compound interest, Insurance Premium paid on 1st April, 2005, 2006, 2007.

On 31st March 2008, Insurance Policy was surrendered and Debentures were redeemed as per terms surrendered and debentures were redeemed as per terms.

You are required to prepare necessary ledger accounts for the three year ended on 31st March 2006, 2007 & 2008.

6) The following balances appearent in the books on 1st January 2008.

Particulars	Rs.
12% Debentures A/c	15,00,000
Sinking Fund A/c	12,00,000
Sinking Fund Investments :	
6% Maha. Govt. Loan A/c	6,00,000
4% Sadar Bonds [F.V. Rs.6,50,000/-]	6,00,000

Following transaction took place during year.

a) Half yearly Debenture Interest paid on 30th June 08 and 31st Dec. 08.

b) On 31st December 08, Debentures redeemed @ 5% premium.

c) 6% Maha. Govt. Loan realized for Rs.6,20,000/- and 4% Sadar Bonds Rs.5,95,000/-.

d) Interest on Sinking Fund Investment received.

e) Annual contribution to Sinking Fund transferred Rs.50,000/-.

7) On 1st April, 2008 Z Ltd. issued 1,200 6% Debentures of Rs.500/- each at Rs.525/- each. Debenture holders had an option to convert their holding into 9% Preference shares of Rs.100/- each at a premium of Rs.20/- per share. On 31st March 09, one year's interest had accrued on these Debentures which was paid. All the Debenture holders notified intention to convert their holdings into 9% Preference shares.

Journalise the above transactions March 09.

8) On January 1, 2008 Tatal Ltd. gave notice of its intention to redeem its Rs.20,00,000/- 10% Debentures on 31st March, 2008 at 110 per cent offered the debentureholders the following options :

a) To apply the redemption money in subscribing :

   i) 11% Cumulative Preference shares of Rs.100/- each at Rs.125/- (opted by the holders of 9,800 Debentures) or

   ii) 8% Debentures at Rs.98/- per cent (opted by the holders of 8,800 Debentures)

b) To get their holding redeemed for cash if neither of the options under (a) was accepted.

Show as on 31st March, 2008 the journal entries to record the redemption.

9) On 01-04-2003 Z Ltd. issued 5,000 Debentures of Rs.100/- each at a discount of 5%. These Debentures were repayable at par on 31-03-2008 and a Sinking Fund was to be created out of profits by setting aside an equal amount of Rs.40,000/- on 31st December every year to be invested in 6% securities.

   You are requested to show the Sinking Fund Account and the investment Account in the books for four years.

10) The following balances appeared in books of R. Chiski Ltd. as on 01-04-05.

	Rs.
8% First Mortgage Debentures	18,00,000
Income received on Sinking Fund Investments	1,45,000
Discount on issue of Debentures	45,000
Sinking Fund Account	15,00,000
<u>Sinking Fund Investment :</u>	
a) 7% RBI Bonds	9,00,000
b) 9% Central Govt. Securities	6,00,000

On the same day the investments were sold as follows :

a) RBI Bonds at 10% Profit

b) 9% Central Govt. Securities at 5% Loss

On 1st April 2006 Debentures of Rs.12,00,000/- were redeemed at a premium of 6%. On the same day Gujarat Road Development Corporation Bonds of Rs.2,00,000/- were purchased at 5% premium. Annual contribution for Sinking Fund was Rs.1,50,000/-.

You are required to prepare for the year ended 31-03-06.

1) Debentures A/c

2) Sinking Fund A/c

3) Sinking Fund Investment A/c

4) General Reserve A/c

❖❖❖❖

7

BUY BACK OF EQUITY SHARE

Unit Structure

7.0 OBJECTIVES :

After studying this unit the students will be able to

- Know the Concept of Buy-Back of Shares
- Understand the Legal provision for Buy-Back of Shares
- Explain the Limits for Buy-Back of own Shares
- Elaborate the Methods of Buy-Back
- Do the Accounting procedure for Buy-Back

7.1 INTRODUCTION

The term Buy Back of Shares means buying or purchasing by a company of it own Shares / Securities.

U/s 77 of the Companies Act, 1956, a company limited by shares and a company limited guarantee and having a Share Capital cannot buy it own shares unless the consequent reduction of capital is effected and sanctioned in accordance with provisions of the Act.

The Companies (Amendment) Act 1999 introduced section 77A, 77AA and 77B, now permits to Buy Back its own Shares subject to fulfillment of certain conditions.

7.2 PURPOSES OF BUY-BACK OF OWN SHARES

Buying back of Equity Shares may be carried out, with the following purposes:

i) Higher Earnings per Shares for the remaining shareholders.

ii) Reduction of excess Share Capital

iii) Increase in Intrinsic value of Shares

iv) Utilization of Surplus idle funds lying in the company

v) Increase share holding of promoters.

vi) Financial restructuring of the business.

vii) Maintaining market value of Shares in the situation of slow down in economy.

The Buy-Back of Shares leads to the following benefits to the concerned company :

i) Share Capital Structure can be re-organised suitably.

ii) It reduces capital base and thus return on Equity Capital and Earning Per Share can be increases.

iii) By sub-division of shares and Buy-Back of Shares, company can avoid Corporate Divided Tax as cash resources are used for Buy-Back of Share.

iv) Holding of promoters can be increased.

v) Promoters can keep their control on the company due to buy back as less shares available for sale in the market.

vi) Buy-Back helps family rearrangements, as claims dissatisfied members can be settled.

7.3 BUY-BACK OF SHARES V/S REDEMPTION OF PREFERENCE SHARES

Buy-Back of Shares	Redemption of Preference Shares
a) Any share can be bought back.	a) Only Preference Shares can be redeemed.
b) The Buy-Back must be	b) As per Companies Act all

Authorized by its Articles.	Preference Shares are redeemable.
c) Buy-back date is not known on date of issue of shares.	c) Redemption date is known at the time of issue of Preference Shares.
d) Buy-back is governed by S.77A, 77AA, 77B of the Companies (Amendment) Act 1999, and subject to rules by SEBI.	d) Redemption of Preference Shares is governed by Sec.80 and 80A of the Companies Act, 1956.
e) Buy-back of any kind is not allowed out of fresh issue of shares of the same kind.	e) Redemption of Preference Share is possible by issuing new Preference Shares or by converting Preference Shares into Equity / Preference Shares.
f) Buy-back of Equity Shares can be out of Free Reserves, Securities Premium and / or out of proceeds of earlier issue of Preference Shares / Debentures / Specified Securities.	f) Redemption of Preference Shares can be only out of Free Reserves / Profit and / or out of proceeds of fresh issue of Equity / Preference Shares.
g) Premium payable on Buy-Back depends upon Market price / condition and many other factors.	g) Premium payable on Redemption of Preference Share is fixed and known at the time of issue of Preference Shares.
h) C.R.R. can be created out of Revenue Reserves and / or Securities Premium Account.	h) C.R.R. can be created only out of Divisible Profits.
i) Sec. 77A lays down the limits for Buy-Back of shares.	i) Question of limits by Companies Act does not arise, redemption is as per terms of issue of shares.
j) A declarations of solvency of company required to be file with SEBI and ROC.	j) No such declaration is required.
k) A defaulting company can not Buy-Back Shares.	k) Preference Shares required to be redeem as per terms specified at the time of issue

	of Preference Shares.
l) After Buy-Back, Debt : Equity Ratio should not exceeds 2:1.	l) No such condition of Debt : Equity Ratio.
m) If Buy-Back is less than 10% of total Paid-up Capital then Board Resolution is necessary. However, if it more than 10% special Resolution is mandatory. Maximum buy back permissible in a year is 25% of Paid-up Capital.	m) Only Board Resolution is necessary for Redemption of Preference Share Capital.

7.4 LEGAL PROVISIONS FOR BUY-BACK OF EQUITY SHARES UNDER COMPANIES (AMENDMENTS) ACT 1999

7.4.1 CONDITIONS OF BUY-BACK (U/S 77A)

Section 77A permits Buy-Back of own Shares only if following conditions are fulfilled.

1) The Buy-Back is authorized by the Articles of Association of the Company.

2) A special resolution has been passed in a General Meeting of the shareholders wherein such Buy-Back is authorized. Companies (Amendment) Act 2001 permits Board of Directors to Buy-Back upto 10% of total Equity Capital & Reserves of the company, without special resolution.

3) Only fully Paid-up Shares can be bought back.

4) If shares are listed on any stock exchange, then the guidelines of SEBI have to be complied with.

5) The Board of Directors must file a declaration of solvency with SEBI of Registrar of Companies in Form 4A.

6) After Buy-Back is completed, the company shall have to within 15 days extinguish & physically destroy the Securities / Shares so bought back. Buyback of shares for the purpose of investment is not allowed.

7) A further issue of shares of same kind is not permitted within a period of 6 months. The exception is a) Bonus issue, b) Discharge of obligation such as issue for conversion of securities or warrant, stock option scheme.

8) The company has to maintain Register of securities so bough back mentioning the necessary details in the form 4B.

9) Purchase of its own share, may be in the form of buy-back from existing shareholders on proportionate basis or purchase from open market or purchase of odd lots or acquisition of stock option or Sweat Equity issued to employees. But purchase of its own Shares through as Subsidiary Company or Investment Company is not allowed.

10) Buy-back of shares by a defaulter company is in matter of repayment of Deposit, Term Loans, Debentures or Preference Shares in pending or Interest / Dividend thereon.

11) A company can buyback its shares out of Free Reserves, Securities Premium Account or proceeds of any shares or other specified Security, but of not the same kind of shares.

7.4.2 LIMITS OF BUY-BACK OF OWN SHARES.

As per section 77A Company can buy back its own shares within the following limits.

1) Buy-back should not exceed more than 25% of the Paid-up Equity Capital in any financial year
2) Buy-back should not exceed 25% of the Paid-up Capital, Free Reserves & Securities Premium of the company. This is the upper limit in any financial year for a company to buyback its own shares.
3) Maximum account payable on buyback is 25% of Paid-up Capital & Free Reserves.
4) After buyback is completed, the Debt Equity Ratio should not be more than 2:1. The word debt includes all Secured and Unsecured Loan or Debts except Working Capital Loan (Short Term Loans).

7.4.3 TRANSFER TO CAPITAL REDEMPTION RESERVE (CRR) [Sec.77AA]

Capital Redemption Reserve should be created to the extent of nominal of own shares brought back out of Free Reserves & Securities Premium.

$$CRR = \begin{pmatrix} \text{Nominal Value Bought} \\ \text{Back of own shares} \end{pmatrix} - \begin{pmatrix} \text{Earlier issue of shares or} \\ \text{Other Specified Securities} \end{pmatrix}$$

7.5 SOURCES OF BUY-BACK

As per section 77A(1) buyback or purchase of own shares can be done only out of –

1) Its Free Reserves
2) Securities Premium Account
3) Proceeds of any shares or specified securities

7.5.1 FREE RESERVES

The term Free Reserves are those reserves which as per latest audited Balance Sheet are free for distribution as Dividend & includes balance in Securities Premium Account. Free Reserves should be net amount of Free Reserve after adjusting Fictitious Asset and revaluation was of Long Term Investment and Tangible Assets not provide for.

7.5.2 SECURITIES PREMIUM ACCOUNT

The term Security Premium Account represents premium received on account of shares, debenture & other financial instruments. Security Premium Account after making adjusting in respect of Miscellaneous Expenditure (not written off) forms of Free Reserves for the purpose of buyback.

7.5.3 PROCEEDS OF ANY EARLIER ISSUED OF SHARES OR SPECIFIED SECURITIES

It is provided that buy back of own shares can be made from out of the proceeds of an earlier issue of shares or any specified securities. Buy back of shares of any kind is not allowed out of the fresh issue of shares of same kind. Thus for buy back of Equity Shares, earlier issue of Preference Shares, Debentures etc. would be possible.

7.6 MODES OF BUYBACK

There are three important ways of buy-back.

7.6.1 BUYBACK THROUGH TENDER OFFER

A company can buyback its share from the existing shareholders on proportionate basis. A company has to make a public announcement of buy-back in new papers, or it should contain information as given, it as requires as per SEBI Buy Back Regulations. A company required to complied with SEBI Buy-back Regulations as follows procedure; within time limits.

7.6.2 BUY-BACK THROUGH OPEN MARKET OPERATIONS

After passing special resolution for buy-back, Maximum price to be offered should be specified. Company's appoints merchant banker for buy-back of shares through stock exchange operations.

7.6.3 ACQUISITION OF STOCK OPTION / SWEAT EQUITY

The buy back of own Equity Shares can be done by acquisition of odd lots (only for quoted shares and / or by acquisition of stock option / sweat shares from employees.

7.7 CALCULATION OF MAXIMUM POSSIBLE BUY-BACK OF SHARES / MAXIMUM OFFER PRICE

Limit I 25% of Paid-up Equity Share Capital can be brought back Total Paid Equity Share Capital X 25% = OR If offer price is given then maximum No. of shares available for buy back X offer price = **Which ever is higher**	X OR X	X
Limit II Buy back should not exceeds 25% of paid capital + Free Reserves + Security Premium = own funds X 25%		OR X
Limit III After buy back Debt: Equity Ratio should not exceeds 2:1 Own funds before less Buy-Back amount Buy-Back (Equity shares buy back X offer price) Minimum own funds offer buy back $= \frac{\text{Debts}}{2} = \frac{\text{Secured Loans} + \text{Unsecured Loans}}{2} =$ **Whichever is less**	X OR X	OR X
Maximum buy back amount available, least of I or II or III		**XX**

A. Maximum No. of Equity Shares buy back (When offer price is given)

$$= \frac{\text{Maximum Buy - back amounts avaialble}}{\text{Offer Price}}$$

25% of No. of Equity Shares

B. Calculation of Maximum offer price

$$= \frac{\text{Maximum Buy - Back amounts avaialble}}{\text{Maximum Buy - Back of shares / Shares to be brought back}}$$

7.8 ACCOUNTING PROCEDURES

The accounting entries for buy back of own shares are similar to the entries for redemption of preference shares.

1)	<u>For issue of Debentures</u> Bank Account …………………………………… Dr. To Debentures Account To Securities Premium Account (Being ______Debentures of Rs.______ each issued as per B.O.D. Resolution No.____ dated _______)	 XX	 XX XX
2)	<u>For decision of buy back of shares</u> a) At Par (Face Value) Equity Share Capital Account (NV) ………………Dr. To Equity Share holders Account (NV) b) At Premium Equity Share Capital Account (NV) ……………....Dr. Premium on buy back of share Account (Premium)..Dr. To Equity Shareholders Account (Total Amt. Payable) c) At Discount Equity Share Capital Account (NV)........…………...Dr. To Equity Shareholders Account (Amount Payable) To Capital Reserve Account (Discount on buyback) (Being entry for buyback of equity shares at par / premium / discount as case may be.)	 XX XX XX XX	 XX XX XX XX
3)	<u>For creating Capital Redemption Reserve</u> Securities Premium Account ………………...Dr. General Reserve / Profit & Loss Account …. Dr. To Capital Redemption Reserve Account (Being C.R.R. is created to the extent buy-back out of devisable profit / security premium) $\text{CRR} = \left(\begin{array}{c}\text{Nominal Value of} \\ \text{Share Bought Back}\end{array}\right) - \left(\begin{array}{c}\text{The proceeds of} \\ \text{fresh issue}\end{array}\right)$	 XX XX	 XX
4)	<u>For Adjusting premium on buyback</u> Security Premium Account (As per Latest Audited B/s)…Dr. Profit & Loss Account / Revenue Reserves Account (As per Latest Audited B/s) ………………………………Dr. To Premium on buy back of shares Account	 XX XX	 XX

	(Being premium on buy back adjusted)		

5)	<u>For payment to equity share holders</u> Equity Share holders Account ……………………….. Dr To Bank Account (Being amount due on buy back of share paid)	XX	 XX
6)	<u>For buy back expenses paid OR payable</u> Expenses for buy back of shares Account ………… Dr To Cash / Bank / Creditors for Expenses Account (Being buy back expenses paid / payable.)	XX	 XX
7)	<u>For writing off buy back expenses</u> Profit & Loss Account ………………………………… Dr To Expense for buy back of shares Account (Being buy back expense written off.)	XX	 XX

Note : Some companies treat buy back expenses as deferred revenue expenditure and written off over 3 to 5 years.

8) For any other transaction given, in the problem, usual accounting entry should be passed.

Check Your Progress

- Explain the benefits of Buy Back of Own Shares
- Which are the conditions of Buy Back as per sec. 77A?
- How to calculate the maximum possible Buy Back of Shares?

7.9 ILLUSTRATION :

Illustration 1 : (Various Alternative / option for buy-back)
The undernoted balances were extracted from Balance Sheet of Zee Ltd.

Particulars	Rs.
20,000 Equity Shares of Rs.10 each	2,00,000
Free Reserve	1,50,000
Securities Premium Account	1,00,000
10% Debentures	1,00,000

The directors of Zee Ltd. have decided to buy back Equity Shares. Conditions as per the Companies Act have been complied with. Ascertain the possible buy back of shares of Equity Shares.

(a) Buy back maximum Equity Shares at par.

(b) Buy back 4000 Equity Shares at best possible price.

(c) Buy back maximum Equity Shares at Rs.40/- per share.

(d) Buy back maximum Equity Shares @ 10% Discount.

(e) Maximum no. of Equity Share at Best possible price.

Solution :

Section 77A of Companies Act lays down the following limits of Buy-back of shares.

I) A buy back of share cannot be more than 25% of the paid up Equity Share Capital.

II) The Buy back (Buy-back Amount) does not exceed 25% of the Paid up Capital plus Free Reserves plus Security Premium of the company.

III) After Buy back Debt : Equity Ration should not exceed 2:1.

The applicabilities of the above limits have to be consider in various alternative in the problem.

a) Buy back maximum no. of Equity Share at par.

I) 25% of paid up Equity Capital
= 20,000 X 25% = 5000 Equity Shares at par

II) Buy back cannot exceeds 25% of Paid up Capital + Free Reserves.

Paid up Equity Share Capital + Free Reserves + Securities Premium	2,00,000 1,50,000 1,00,000
Total	4,50,000

Buy back = 4,50,000 X 25% = 11,250

Maximum no. of Equity Share = $\frac{1,12,500}{10}$ = 11,250

Therefore 11,250 Equity Share can be brought back. However it is limited to 5,000 shares as per Limit I.

III) Debt : Equity ratio after buy back should not exceeds 2:1

$$= \frac{\text{Debt}}{\text{Equity after buy back}}$$

$$= \frac{1,00,000\ (\text{Debentures})}{4,50,000 - \text{Buy back (as per I above)}}$$

$$= \frac{1,00,000}{4,50,000 - 50,000} = \frac{1,00,000}{4,00,000} = 0.25$$

Therefore company can buy back maximum 5,000 Equity Shares at par.

b) <u>Buy back 4,000 Equity Shares at Best possible price</u>

I) Buy back can not exceeds 25% of paid up Equity Share Capital.

= 20,000 X 25% = 5,000 Equity Share

$\therefore$ Buying back 4,000 Equity Shares within limit.

II) Buy back Amount = 4,50,000 X 25%

= 1,12,500

$$\therefore \text{Buy back price} = \frac{\text{Amt. available for buy back}}{\text{No.of Equity Shares to be bought back}}$$

$$= \frac{1,12,500}{4,000} = \text{Rs.}28.12$$

$\therefore$ 4,000 Equity shares can be brought back at Rs.28.12 per share. (at 18.12 premium)

III) Debt Equity Ratio after buy back

$$= \frac{\text{Debt}}{\text{Equity after buy back}} = \frac{1,00,000}{4,50,000 - 1,12,500}$$

$$= \frac{1,00,000}{3,37,500} = 0.30:1$$

Therefore company can buy back 4,000 Equity Shares @ Rs.28.12.

c) <u>Buy back maximum no. of Equity Share @Rs.40/- per share.</u>

I) Maximum no. of share can be brought back

Maximum = 20,000 X 25% = 5,000 shares

II) Buy back amount = 4,50,000 X 25% = Rs.1,12,500/-

Maximum no. of Equity Shares @ Rs.40/- per shares

$$= \frac{1,12,500}{40} = 2812.50$$

Therefore company can buy back 2,812 Equity Shares.

III) Debt : Equity ratio should not exceed 2:1 – It not exceeding 2:1

Therefore, company can buy back 2,812 equity shares at Rs.40/- per share.

d) <u>Buy back maximum Equity share @ Rs.9/- per share</u>

I) As per above I = 5,000 share

II) Maximum amount of Buy back = 4,50,000 X 25% = Rs.1,12,500/-

$$\text{Buy back of share possible @ Rs.9/-} = \frac{1,12,500}{9} = 12,500$$

However as per I limits it can not exceed 5,000 shares.

∴ The company can buy back 5,000 Equity Shares at Rs.9/- per share as per limits.

e) <u>Buy back of Maximum no. of Equity Shares at Best possible price</u>

I) Maximum No. of share = 20,000 X 25% = 5,000 shares

II) Maximum amount available = 4,50,000 X 25% = 1,12,500

$$\therefore \text{Maximum price} = \frac{1,12,500}{5,000} = \text{Rs.}22.50$$

III) Debt : Equity Ratio is less than 2:1 (as seen above)
Therefore Company can buy back 5,000 Equity Shares at Rs.22.50 per share.

Illustration 2 (Various option as per Limit u/s 77A)

Balance Sheet of Neena Ltd. as on …………

Liabilities	Rs.	Assets	Rs.
<u>I. Share Capital</u>		<u>I. Fixed Assets</u>	7,55,000
Authorized	?		
Paid up		<u>II. Investment</u>	1,00,000
20,000 10% Pref. shares of Rs.10/- each fully paid up.	2,00,000	<u>III. Current Assets & Loans and Advances</u>	
4,000 Equity shares of Rs.50/- each fully paid up.	2,00,000	a) Current Assets	
		Stock	50,000
		S. Debtor	1,20,000
<u>II. Reserve & Surplus</u>		Bank Bal	40,000
Security Premium	40,000		
General Reserve	1,50,000		
Profit & Loss A/c	2,00,000		
<u>III. Secured Loans</u>			
12% Debentures	1,00,000		
<u>IV. Unsecured Loans</u>			
Bank Loans	1,00,000		
<u>V. Current Liabilities and Provisions</u>	75,000		
	10,65,000		10,65,000

Ascertain the number of equity shares that can be bought back if –

(A) The buy back of maximum no. of shares at par.

(B) The buy back of maximum no. of shares at premium of Rs.25/-.

(C) The buy back of 800 Equity shares at Best possible price.

(D) The buy back of maximum no. of Equity share at Best Possible Price.

Consider above option separately individually.

Solution :

Option A : Buy back of maximum shares at par

i) Maximum No. of Equity share
= 4,000 X 25% = 1,000 Equity shares at par

ii) Total amount of buy back = 1,000 X 50
= Rs.50,000/-

Buy back amount should not exceed 25% of Paid-up Capital & Free Reserves.

Equity Share Capital	2,00,000	
Preference Share Capital	2,00,000	4,00,000
Add : Free Reserves		
General Reserve	1,50,000	
Profit & Loss Account	2,00,000	3,50,000
Security Premium		40,000
	Total	7,90,000

Maximum buy back amount = 7,90,000 X 25%
= 1,97,500

Total amount of buy back Rs.50,000/- is less than maximum amount calculated above.

iii) Debt : Equity ratio after buy back should not exceed 2:1.

Debt = Secured Loans + Unsecured Loans
= 1,00,000 + 1,00,000
= 2,00,000

Equity after buy back = 7,90,000 – 50,000
= 7,40,000

$\therefore$ Debt : Equity Ratio = $\frac{\text{Debt}}{\text{Equity after buy back}}$

$= \frac{2,00,000}{7,40,000}$

= 0.27

Which is less than 2:1.

Conclusion: As per option A, company can buy back 1,000 Equity Shares at par.

Option B: The buy back of maximum shares at premium of Rs.25/-

(Buy back price = FV + Premium on buy back = 50 + 25 = Rs.75/-)

i) Maximum no. of shares = 1,000 shares

ii) Total amount of buy back = 1,000 X 75
= Rs.75,000/-

Buy back amount of Rs.75,000/- does not exceeds 25% of Paid-up Capital plus Free Reserves. (Rs.1,97,500/- as per option A)

iii) Debt : Equity Ratio after buy back = $\frac{2,00,000}{7,90,000 - 75,000}$

$= \frac{2,00,000}{7,15,000}$

= 0.28:1

Conclusion: The company can buy back 1,000 Equity shares at Rs.75/-

Option C: The buy back of 800 Equity shares at best possible price.

i) Maximum no. of share = 1,000 Equity shares
Buy back of 800 Equity shares are within limit.

ii) Maximum buy back = 7,90,000 X 25%
= Rs.1,97,500/-

$\therefore$ Best possible buy back price

$= \frac{\text{Maximum amount available}}{\text{No. of Equity shares for buy back}}$

$= \frac{1,97,500}{800}$

= Rs.246.87/-

iii) Debt : Equity Ratio $= \dfrac{\text{Debt}}{\text{Equity after buy back}}$

$= \dfrac{2,00,000}{7,90,000 - 1,97,500}$

$= \dfrac{2,00,000}{5,92,500}$

$= 0.34:1$

Which is less than 2:1.

Conclusion : The company can buy back 800 Equity shares at Rs. 246.87/-.

Option D:

i) Maximum no. of Equity shares buy back = 1,000 shares

ii) Maximum buy back amount = Rs.1,97,500/-

$\therefore$ Best possible buy back price $= \dfrac{1,97,500}{1,000}$

= Rs.197.50/-

iii) Debt : Equity Ratio = 0.34:1 (As option C)

Conclusion: The company can buy back 1,000 Equity Shares @ Rs.197.50/-.

Illustration 3: (Buy back at par, out of fresh issue of Preference shares)

Bharat Ltd. decides to buy back 50,000 Equity Shares of Rs.10/- each; for this purpose the company issues 10% Preference Shares of RS.100/- each of the equivalent amount. Assume that the buy back is carried out actually on the legally permissible terms, each Journal entries.

Solution :

Journal in the books of Bharat Ltd.

No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c ……………………... Dr. To 10% Pref. Share Cap. A/c (Being 5,000 Preference Shares of Rs.100/- each issued at par.)		5,00,000	 5,00,000

2.	Equity Share Cap. A/c ……... Dr. To Equity Shareholder's A/c (Being amount payable on buy back.)		5,00,000	 5,00,000
3.	Equity Shareholder's A/c …… Dr. To Bank A/c (Being buy back amount paid to Equity shareholders.)		5,00,000	 5,00,000

Note: CRR is not to be created as buy back is out of proceeds of fresh issue of Preference Shares.

Illustration: 4 (Buy back at premium, out of Divisible profits.)

Z Ltd. decided to buy back 20,000 Equity Shares of Rs.10/-each @ Rs.5/- premium per share. Assume that there is sufficient balance in Securities Premium and Profit and Loss account. Pass journal entries.

Solution :

Journal entries in the books of Z Ltd.

No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c...…..Dr. Premium on buyback of shares A/c …………………………..…. Dr. To Equity shareholders A/c (Being amount payable on buy back of 20,000 Equity Shares @ Rs.15/- per share)		2,00,000 1,00,000	 3,00,000
2.	Securities Premium A/c ……. Dr. To Premium on buy back of shares A/c (Being premium on buy back adjusted.)		1,00,000	 1,00,000

3.	Profit & Loss A/c ……………..Dr. To Capital Redemption Reserve A/c (Being CRR created to the extent buy back out of Profit)		2,00,000	2,00,000
4.	Equity share holders A/c …....Dr. To Bank A/c (Being buy back amount paid to Equity shareholders.)		3,00,000	3,00,000

Illustration: 5 (Buy back at Discount and Issue of 12% Preference shares)

K.T. Ltd. bought back 6,000 Equity shares of Rs.20/- each at Rs.19/- per share. The company had issued 10,000 12% Preference Shares of Rs.10/- each at par, for the purpose of buy back.
Pass Journal entries.

Journal entries in the books of K.T. Ltd.

No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c ……………………… Dr. To 12% Pref. share Cap. A/c (Being 10,000 Equity shares of Rs.10/- each issued at par.)		1,00,000	1,00,000
2.	Equity Share Capital A/c ….... Dr. To Equity shareholder's A/c To Capital Reserve A/c (Being 6,000 Equity shares of Rs.20/- each brought back @ Rs.19/- per shares.)		1,20,000	1,14,000 6,000
3.	Profit & Loss A/c …………….. Dr. To Capital Redemption Reserve A/c (Being CRR created to the extent buy back of profit)		20,000	20,000

4.	Equity Shareholder's A/c …… Dr. To Bank A/c (Being payment on buy back)		1,14,000	 1,14,000

Illustration: 6 (Buy back of shares out of divisible profits.)

A company buy back 25,000 Equity shares of Rs.10/- each at Rs.40/- per share. The reserves of the company are as follows :
The company are as follows :

Security Premium Rs.20,00,000/-

General Reserve Rs.30,00,000/-

Profit & Loss A/c Rs.2,00,000/-

The company sold investment for Rs.16,50,000/- at 10% profit.
Pass the necessary entries in the books of the company for the above.

Solution :

Journal entries in the books of company

No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c ……………………… Dr. To Investment A/c To Profit & Loss A/c (Being investment sold at 10% profit) $\left[\text{Cost} = 16{,}50{,}000 \times \frac{100}{110}\right]$		16,50,000	 15,00,000 1,50,000
2.	Equity Share Cap. A/c ……… Dr. Premium on buy back of share A/c …………………………… Dr. To Equity shareholder's A/c (Being buy back of 25,000 Equity shares of Rs.10/- each at Rs.40/- per shares)		2,50,000 7,50,000	 10,00,000
3.	General Reserve A/c ……….. Dr. To Capital Redemption Reserve A/c (Being nominal value of shares brought back transfer of CRR)		2,50,000	 2,50,000

4.	Securities Premium A/c …..… Dr. To premium on buy back of shares A/c (Being premium on buy back adjusted)		7,50,000	7,50,000
5.	Equity Shareholder's A/c …….Dr. To Bank A/c (Being amount paid on buy back of shares)		10,00,000	10,00,000

Illustration: 7 (Maximum buy back of given price)

The Balance Sheet of Ketan Ltd. as on 31st March 2009 is as follows.

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs.10/- each	6,00,000	Fixed Assets	20,90,000
10% Preference Shares of Rs.100/- each	1,50,000	Investments	6,00,000
Securities Premium	1,20,000	Current Assets	8,10,000
General Reserve	2,00,000	(including Bank balance Rs.1,25,000/-)	
Profit & Loss A/c	1,80,000		
10% Debentures	10,00,000		
Term Loan from Dena Bank	8,00,000		
Current Liabilities	4,50,000		
	35,00,000		**35,00,000**

Keeping in view all the legal requirements, ascertain the maximum no. of Equity shares that Ketan Ltd. can buy back @ Rs.50/- per shares. Assume that the buy back is actually carried out. Investment costing Rs.3,00,000/- sold for Rs.3,20,000/-.

Pass Journal entries and prepare Balance sheet after buy back.

Solution :

<table>
<tr><th>Ascertain maximum no. of shares to be bought back.</th><th>Rs.</th></tr>
<tr><td>A) <u>Maximum 25% of Paid-up Equity Share Capital can be bought back.</u>
Rs.6,00,000 X 25% = Rs.1,50,000/-
= 15,000 Equity Shares
∴ Buy back = 15,000 shares X 50 = 7,50,000</td><td>7,50,000</td></tr>
<tr><td colspan="2">OR</td></tr>
<tr><td>B) <u>Buy back amount can not exceeds 25% Paid-up Capital plus Free Reserve</u>

<table>
<tr><td>Paid-up Capital
(Equity + Preference)
<u>Free Reserves</u> :
General Reserve
Profit & Loss A/c
Securities Premium</td><td>7,50,000

2,00,000
1,80,000
1,20,000</td></tr>
<tr><td>Total own funds</td><td>12,50,000</td></tr>
</table>
∴ Maximum amount of buy back = 12,50,000 X 25% = 3,12,500</td><td>3,12,500</td></tr>
<tr><td colspan="2">OR</td></tr>
<tr><td>C) <u>After buy back Debt : Equity ratio should not exceed 2:1</u>
∴ Minimum own funds required after buy back
$= \frac{\text{Debt}}{2}$
$= \frac{\text{Debentures} + \text{Bank Term Loan}}{2}$
$= \frac{10,00,000 + 8,00,000}{2}$
= 9,00,000
∴ Own funds before buy back – Minimum own funds required.
= 12,50,000 – 9,00,000</td><td>3,50,000</td></tr>
<tr><td>∴ Buy back amount can not exceed, minimum of A OR B OR C</td><td>3,12,500</td></tr>
</table>

∴ No. of Equity Shares brought back @ Rs.50/- per share.

$= \frac{312500}{50} = 6250$ Equity shares of Rs.10/- each @ Rs.50/- per share.

Journal entries in the books of Ketan Ltd.

No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c ……..………………….. Dr. To Investment A/c To Profit and Loss A/c (Being investment sold at profit)		3,20,000	 3,00,000 20,000
2.	Equity Share Capital A/c …… Dr. Premium on buy back of shares A/c ………………………..….. Dr. To Equity Shareholders A/c (Being 6,250 Equity shares of Rs.10/- each to be bought back @ Rs.50/- per shares.)		62,500 2,50,000	 3,12,500
3.	Securities Premium A/c …….. Dr. Profit & Loss A/c …………….. Dr. To Premium on buy back of shares A/c (Being premium payable on buy back adjusted)		1,20,000 1,30,000	 2,50,000
4.	General Reserve A/c ……….. Dr. To Capital Redemption Reserve A/c (Being CRR created to the extent of N.V. of Equity Shares bought back out of divisible profit.)		62,500	 62,500
5.	Equity shareholders A/c ……..Dr. To Bank A/c (Being buy back amount paid to Equity Shareholder's)		3,12,500	 3,12,500

Ketan Ltd.

Balance Sheet (After buy back) as on …………

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital Authorized		?	I. Fixed Assets		20,90,000
			II. Investments		3,00,000
Paid up 1500, 10% Pref. shares of Rs.100/- each fully paid up		1,50,000	III. Current Assets Other Current Assets		6,85,000
53,750 Equity shares of Rs.10/- each fully paid (After buy back & 6250 shares)		5,37,500	Bank Balance Op. Bal. (+) Sale of Invt. (–) Paid for buy back	1,25,000 3,20,000 (3,12,500)	1,32,500
II. Reserves & Surplus Capital Redemption Reserve		62,500			
Securities premium (1,20,000 – 1,20,000)		NIL			
General Reserve (2,00,000 – 62,500)		1,37,500			
Profit & loss A/c (1,80,000 + 20,000 – 1,30,000)		70,000			
III. Secured Loan 10% Debentures		10,00,000			
Term Loan from Dena Bank		8,00,000			
IV. Unsecured Loans		NIL			
V. Current Liabilities		4,50,000			
		32,07,500			**32,07,500**

Illustration : 8 (Maximum buy back at best possible price)

Balance sheet of YES Ltd. as on 31st March 09

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital			I. Fixed Assets		
Authorized		?	Cost	110,25,000	
			Less : Dep^n prov.	20,50,000	
Paid up 12% Preference Shares of Rs.5/- each		10,00,000	Net Block		89,75,000
			II. Investment		15,00,000
Equity shares of Rs.2/- each fully paid		20,00,000	III. Current Assets, Loans & Advances		
			a) Current Assets (including Bank bal. Rs.30,000/-)		65,00,000
II. Reserves and Surplus					
Securities Premium		6,00,000	b) Loans & Advances		1,25,000
Capital Reserves		1,00,000			
General Reserves		11,00,000			
Profit & Loss A/c		3,00,000			
III. Secured Loans					
9% Debentures		40,00,000			
IV. Unsecured Loans					
Fixed Deposits		50,00,000			
V. Current Liabilities		25,00,000			
Provision for Taxation		5,00,000			
		171,00,000			171,00,000

1) Fixed Asset costing Rs.20,00,000/- W.D.V. Rs.18,20,000/- sold for Rs.19,00,000/-
2) Investment costing Rs.10,00,000/- sold for Rs.12,50,000/-.
3) 10% Preference shares of Rs.5/- each issued at par, for purposed of buy back of security shares.
4) The company wish to buy back the maximum number of equity shares at maximum price as may be possible. Legal requirements have been complied by the company.

You are required to determine the –

i) Maximum shares can be brought back at best possible price.
ii) Pass journal entries for above transaction (Narration not required)
iii) Balance sheet after buy back.

Solution :

I. Limits of buy back u/s 77A, are with reference to latest audited balance sheet.

A) Buy back can not exceeds 25% of paid Equity share capital 20,00,000 X 25% = Rs.5,00,000/-

Equity shares can be brought back

$= \frac{5,00,000}{2}$

= 2,50,000 Equity Shares

Maximum 2,50,000 Equity shares can be brought back.

B) Buy back amount can not exceeds 25% of paid up share capital plus free Reserves.

Paid up Equity Share Capital	20,00,000	
Paid up Preference Share Capital	10,00,000	30,00,000
Add : Free Reserves		
Securities Premium	6,00,000	
General Reserve	11,00,000	
Profit & Loss Account	3,00,000	20,00,000
Own funds for buy back		50,00,000

Buy back amount = 50,00,000 X 25% = Rs.12,50,000/-

C) After buy back Debt : Equity ratio should not exceeds 2:1.

Debt = Secured Loans + Unsecured Loans
= 40,00,000 + 50,00,000 = 90,00,000

Minimum own funds after buy back

$= \frac{9,00,000}{2}$ = Rs.45,00,000/-

Paid up share capital	30,00,000
Add : Preference share issued	2,00,000
Free Reserves	20,00,000
Add : Capital Reserve	1,00,000
Own funds buy back	53,00,000
Post buy back Equity required	45,00,000

Hence buy back 8,00,000

Equity after buy back = 53,00,000 – 8,00,000 = 45,00,000

Therefore, buy back amount cannot exceed.
Lowest of B and C = Rs.8,00,000/-

Best possible price for buy back

$$= \frac{\text{Amt. available for buy back}}{\text{Maximum no. of Equity Shares for buy back}}$$

$$= \frac{8,00,000}{2,50,000}$$

= Rs.3.20

Conclusion : Company can buy back 2,50,000 Equity share for Rs.2/- each. @ Rs. 3.20 per share.

Journal entries in the books of YES Ltd.

No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c ……………………….Dr. Provision for Depreciation A/c..Dr. To Fixed Assets A/c To Profit & Loss A/c		19,00,000 1,80,000	 20,00,000 80,000
2.	Bank A/c ……………………… Dr. To Investment A/c To Profit & Loss A/c		12,50,000	 10,00,000 2,50,000
3.	Bank A/c ……………………….Dr. To 10% Preference Shares Capital A/c		2,00,000	 2,00,000
4.	Equity Share Capital A/c …… Dr. Premium on buy back of shares A/c ……………………………. Dr. To Equity shareholders A/c		5,00,000 3,00,000	 8,00,000
5.	Security Premium A/c ……… Dr. To Premium on buy back of shares A/c		3,00,000	 3,00,000
6.	General Reserve A/c ………. Dr. To Capital Redemption Reserve A/c		5,00,000	 5,00,000
7.	Equity shareholders A/c …… Dr. To Bank A/c		8,00,000	 8,00,000

Bank A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	30,000	By Equity shareholders A/c	8,00,000
To Fixed Assets A/c	19,00,000	By Balance c/d	25,80,000
To Investment A/c	12,50,000		
To 10% Preference Share Capital A/c	2,00,000		
	33,80,000		**33,80,000**

YES Ltd.

Balance sheet as on ……… (After buy back)

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital			I. Fixed Assets		
Authorized		?	Op.Cost		
			Less : cost of FA	10,25,000	
Issued Paid up 12,00,000, 12% Pref.Shares of Rs.5/- each fully paid				20,00,000	
			Less : Dep. provision	90,25,000	
		10,00,000	(20,50,000 – 1,80,000)	18,70,000	71,55,000
40,000, 10% Preference shares of Rs.5/- each fully paid		2,00,000	II. Investment		5,00,000
7,50,000 Equity shares of Rs.2/- each fully paid		15,00,000	III. Current Assets, Loans & Advances		
			a) Current Assets		
II. Reserves and Surplus			Other Current Assets		
			Bank bal.	64,70,000	
Securities Premium	6,00,000			25,80,000	90,50,000
(–) Used for buy back premium	3,00,000	3,00,000	b) Loans & Advances		1,25,000
Capital Reserves		1,00,000			
Capital Redemption Reserves		5,00,000			
General Reserve	11,00,000				
(–) used for CRR	5,00,000	6,00,000			
Profit & Loss A/c	3,00,000				

Profit on sale of fixed assets	80,000				
Profit on sale of investment	2,50,000	6,30,000			
Used for					
III. Secured Loans					
9% Debentures		40,00,000			
IV. Unsecured Loans					
Fixed Deposits		50,00,000			
V. Current Liabilities of provisions					
Current liabilities		25,00,000			
Provision for Taxation		5,00,000			
Total Rs.		168,30,000			168,30,000

Illustration : 9 (Maximum buy back at offer price)

The undernoted balances were extracted from the ledger of Delta Ltd.

1,00,000, 9% Preference shares of Rs.10/- each fully paid	10,00,000
4,00,000 Equity shares of Rs.10/- each, Rs.8/- paid up	32,00,000
Reserves Surplus	
Security Premium	8,00,000
General Reserves	12,00,000
Investment Allowance Reserves	4,00,000
Secured & Unsecured Loans	NIL

The company make final call on Equity shares amount of final call duly received.

The company decided to buy back maximum Equity shares as may be permitted by law at a price of Rs.80/- per share.

You are required to find number of Equity shares to be brought back and also pass necessary journal entries. (Narration not required)

Solution :

Share final should be made on only fully paid equity shares can be brought Back. Limits of buy back as per sec.77A of Companies Act (After final call, assuming amount received)

i) Buy back can not exceed 25% of paid up Equity Share Capital.

∴ 40,00,000 X 25% = Rs.10,00,000 i.e. 1,00,000 shares
∴ 1,00,000 Equity shares can be brought back

Amount of buy back = 1,00,000 X 80 = 80,00,000

OR

ii) Buy back can not exceeds 25% of paid up capital plus fees reserve

Paid up capital (Preference + Equity)	50,00,000
Add : Reserves	
General Reserve	12,00,000
Security Premium	8,00,000
Own funds for buy back	70,00,000

Buy back amount = 70,00,000 X 25% = 17,50,000

∴ Buy back amount least of above i.e. Rs.17,50,000/-

∴ No. of Equity shares brought back

$= \dfrac{\text{Maximum amount of buy back}}{\text{offer price}}$

$= \dfrac{17,50,000}{80}$

= 21,875 Equity shares of Rs.10 @ Rs.80/-

Journal of Delta Ltd.

No.	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
1.	Share Final Call A/c ………... Dr. To Equity Share Capital A/c		8,00,000	 8,00,000
2.	Bank A/c ……………………… Dr. To Share Final Call A/c		8,00,000	 8,00,000
3.	Equity Share Capital A/c ……. Dr. Premium on buy back of shares A/c ………………………………Dr. To Equity Share Capital A/c		2,18,750 15,31,250	 17,50,000
4.	Security Premium A/c ……….. Dr. General Reserve A/c …………Dr. To Premium on buy back of shares. A/c		8,00,000 7,31,250	 15,31,250

5.	General Reserve A/c ……….. Dr. To Capital Redemption Reserve A/c		2,18,750	2,18,750
6.	Equity Shareholders A/c ……. Dr. To Bank A/c		17,50,000	17,50,000

Illustration: 10 (Redemption of Pref. shares, buy of equity shares, sale of investments)

Balance sheet of C Ltd. as at 31st March 08

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital Authorized		?	I. Fixed Assets Gross Block Less : Dep^n	92,10,000 (25,65,000)	66,45,000
Issued, Paid up 1,00,000, 10% Pref. Shares of Rs.100/- each	100,00,000		II. Investment		55,00,000
Less : Calls in arrears (Rs.20/- per shares)	(20,000)	99,80,000	III. Current Assets, Loans & Advances Current Assets (including Bank Balance Rs.45,00,000/-)		265,00,000
5,00,000 Equity shares of Rs.10 each fully paid up		50,00,000	Loans & Advances		5,00,000
II. Reserves & Surplus Capital Reserve		2,00,000			
Securities Premium		10,00,000			
General Reserve		50,00,000			
Dividend Equalisation Reserve		25,00,000			
Profit & Loss A/c		120,00,000			
III. Secured Loan Term loan from Bank		25,00,000			

IV. Unsecured Loan V.Current Liabilities and Provisions		5,00,000 4,65,000			
		391,45,000			391,45,000

The transaction during April, May & June 2009 were as follows –

Date	Transactions
01/04/09	A shareholder holding 600 Preference shares paid off his dues and remaining shares forfeited.
01/04/09	Investments sold for Rs.95,00,000/-
01/04/09	10% Preference shares redeemed @ 5% premium, a shareholder, holding 1,000 Preferences shares were not traceable.
30/04/09	The company brought back 80,000 Equity shares of Rs.10/- each @ Rs.45/- per shares; buy back expenses paid Rs.20,000/-.
30/06/09	Cash profit earned by the company for three months, amounted Rs.15,20,000/- subject to tax provision @ 30%.
30/06/09	The issued of bonus share to Equity shareholders in the ratio of one share for every two shares held by them.

Assume that the buy back is carried out on legally permissible terms.
You are required to –

i) Pass necessary journal entries far above transactions. (Narration not required.)

ii) Prepare Balance sheet as on 30th June 2009.

Solution :

Journal entries in the books of C Ltd.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
April,01	Bank A/c …………………… Dr. To Calls in Arrears A/c (600 X 20)		12,000	 12,000

April,01	10% Preference Share Capital A/c (400 X 20)…………….. Dr. To Calls in Arrears A/c To Shares Forfeited A/c		40,000	 8,000 32,000
April,01	Share Forfeited A/c ………. Dr. To Capital Reserve A/c		32,000	 32,000
April,01	Bank A/c ……………..……. Dr. To Investment A/c To Profit & Loss A/c		95,00,000	 55,00,000 40,00,000
April,01	10% Preference Share Capital A/c ……………………….…. Dr. [1,00,000 – 400 forfeited shares) X 100] Premium on Redemption of Preference Shares A/c…..... Dr. To Pref. Shareholder's A/c		99,60,000 4,98,000	 104,58,000
April,01	Securities Premium A/c…....Dr. To Premium on Redemption of Preference shares A/c		4,98,000	 4,98,000
April,01	Profit & Loss A/c………….. Dr. To Capital Redemption Reserve A/c		99,60,000	 99,60,000
April,01	Pref. Shareholder's A/c ….. Dr. To Bank A/c [1,00,000 – 400 – 1000) X 105]		103,53,000	 103,53,000
April,30	Equity Share Capital A/c..…Dr. Premium on buy back shares A/c ………………………….. Dr. To Equity Shareholder's A/c		8,00,000 28,00,000	 36,00,000
April,30	Securities Premium A/c ......Dr. Profit & Loss A/c …………..Dr. To Premium on buy back of Shares A/c		5,02,000 22,98,000	 28,00,000

April,30	Dividend Equalisation Reserve A/c ……………………..……Dr. To Capital Redemption Reserve A/c		8,00,000	8,00,000
April,30	Equity Shareholder's A/c…..Dr. To Bank A/c		36,00,000	36,00,000
June,30	Cash/Bank A/c……………..Dr. To Profit & Loss A/c		15,20,000	15,20,000
June,30	Profit & Loss A/c………..… Dr. To Provision for Taxation A/c		4,56,000	4,56,000
June,30	Capital Redemption Reserve A/c ………………………….. Dr. To Bonus to shareholders A/c		21,00,000	21,00,000
June,30	Bonus to Shareholders A/c..Dr. To Equity Share Capital A/c		21,00,000	21,00,000
June,30	Buy back expenses A/c …..Dr. To Bank A/c		20,000	20,000
June,30	Profit & Loss A/c …………...Dr. To Buy Back expenses A/c		20,000	20,000

Working Notes :

1) Payments to Pref. shareholders

Total amount payable to Redemption	1, 04, 58,000
Less : Unpaid amount (1,000 X 105)	(1,05,000)
	1,03, 53,000

2) Bonus to Equity Share holders

Original Equity shares	5, 00,000
- Bought back	(80,000)
Bal. Equity Shares	4, 20,000

Bonus = 4, 20,000 X ½ = 2,10,000 shares X Rs.10/-
= 21, 00,000 (out of CRR)

Bank A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bal b/d	45,00,000	By Preference Shareholders A/c	103,53,000
To Calls in arrears A/c	12,000	By Equity Shareholders A/c	36,00,000
To Investments	95,000	By Buy-back Expenses A/c	20,000
To Profit & Loss A/c	15,20,000	By Bal c/d	15,59,000
	1,55,32,000		1,55,32,000

Balance sheet of C Ltd. as on 30th June 2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital			I. Fixed Assets		
Authorized :		?	Gross Block	92,10,000	
			(-) Depreciation provision	(25,65,000)	66,45,000
Issued, paid up : 6,30,000 Equity Shares of Rs.10/- each fully paid (includes of 2,10,000 Equity shares of Rs.10/- each issued as fully paid, by capitalization of CRR)		63,00,000	II. Investment		NIL
			III. Current Assets & Loans and Advances		
			Other Current Assets	2,20,00,000	
			Bank Balance	15,59,000	2,35,59,000
			Loans & Advances		5,00,000
II. Reserves & Surplus					
Capital Reserve	2,00,000				
(+) Forfeited Shares transfer	32,000	2,32,000			
CRR	99,60,000				
(+) on buy-back of Equity shares	8,00,000				
	1,07,60,000				
(-) Used for Bonus	(21,00,000)	86,60,000			
Securities Premium	10,00,000				
(-) Premium paid on Redemption of Pref. shares	(4,98,000)				
(-) Premium paid on buy-back of Equity shares	(5,02,000)	NIL			
General Reserve		50,00,000			
Dividend Equalisation Reserve	25,00,000				
(-) used for CRR	(8,00,000)	17,00,000			
Profit & Loss A/c	1,20,00,000				

(+) Profit on sale of investment	40,00,000				
(-) CRR	(99,60,000)				
(-) Premium on buy-back	(22,98,000)				
(+) Net Profit	15,20,000				
(-) Provision for taxation	(4,56,000)				
(-) buy-back expenses	(20,000)	47,86,000			
III. Secured Loans					
Term loan from Bank		25,00,000			
IV. Unsecured Loans		5,00,000			
V. Current Liabilities & Provisions		4,65,000			
Amount dues to Pref. Shareholders		1,05,000			
Provision for Taxation		4,56,000			
		3,07,04,000			3,07,04,000

7.10 KEY POINTS / TERMS :

- A company can buy-back its own shares out of Free Reserves, Security Premium and proceeds of an earlier issue of shares other than Equity Shares.
- Free Reserves includes balance in Security Premium.
- For purpose of buy-back a company can issued Preference Shares, Bonds Secured and Unsecured Loans.
- Equity Shares can be brought back at par or at premium or at discount.
- Free Reserve should be Net Reserve after adjusting Miscellaneous Expenses / Loss appearing on Asset side of latest audited Balance Sheet.
- Only fully paid Equity Shares can be brought back, if it is authorized by Article of Association.
- Maximum Buy-back amount.

  a) 25% of fully paid Equity share capital

  b) Own Fund after Buy-back = Debts X 2

  c) 25% of fully paid Equity Shares X offer price

  Whichever is less.

- $\text{Offer Price} = \dfrac{\text{Maximum Buy-Back amt. possible}}{\text{Maximum No. of Shares to be brought back}}$

- Buy-back expenses can be written off in the same year or over period of 2 to 5 years.

7.11 EXERCISES :

7.11.1 OBJECTIVES

A) Multiple Choice Questions :

1) A company can buy back
   a) Partly paid share   b) Fully paid share
   c) Partly called up   d) None of the above

2) A company can buy back
   a) Preference Shares   b) Equity Share
   c) Irredeemable Preference Shares
   d) Preference shares and Equity Shares

3) A company can buy-back Equity Shares out of
   a) Its Free Reserves
   b) The Proceeds of Preference Shares
   c) Its Securities Premium A/c
   d) Any or all of the above

4) No company can buy-back its Equity Shares if
   a) Partly paid shares   b) Partly called shares
   c) Defluating company   d) All of the above

5) Buy-back of Equity Shares in any financial shares shall not exceeds.
   a) 5% of its total capital
   b) 25% of Nominal Share Capital
   c) 25% of fully paid Equity Shares
   d) None of above

6) For buy-back amount payable by a company can not exceed.
   a) 25% of own funds   b) 25% of owed funds
   c) 25% of paid capital plus free reserves
   d) 25% of total liabilities

7) Authorised capital of Z Ltd. 50,000 Equity Shares, issued 40,000 shares subscribed 30,000 shares fully paid up. Company can buy-back
   a) 7,500 shares   b) 25% of 40,000 shares
   c) 12,500 shares   d) 15,000 shares

[Answers: 1 – b, 2 – d, 3 – d, 4 – d, 5 – c, 6 – c, 7 – a]

B) Fill in Blanks :

1) ___________ company can not buy-back its Equity Shares.
2) On buy-back of shares, there is a reduction in the Share Capital to the entire of the ___________ value of the shares bought back.
3) Company can not buy-back if Own Equity Shares, out of the proceeds of ___________ issue of same kind of shares.
4) Buy-back of Equity Shares shall not exceed ___________ % of Paid-up Equity share capital in any Financial Year.
5) Amount payable on Buy-back of Equity shares can not exceed ___________ Paid-up Capital plus Free Reserve.
6) For Buy-back of 25% of paid Equity Capital ___________ resolution required.
7) If buy-back is at discount, amount of discount should be credited to ___________ A/c.
8) Buy-back premium can be provided out of ___________ and / or ___________ A/c.
9) Buy-back of Equity Shares shall be compled with in ___________ months from date of Special Resolution.
10) If a company buy-back 1,000 Equity shares of Rs.10/- each @ Rs.60/-, out of Free Reserve, amount transferred to C.R.R. is Rs. ___________ .
11) The buy-back of shares may be from ___________ lots.
12) Capital Redemption Reserve can be used only for ___________ .

[Answer : 1) Defaulting, 2) Face Value, 3) An earlier, 4) 25%, 5) 25%, 6) Special, 7) Capital Reserve, 8) Security Premium, Divisiable Profit, 9) 12 months, 10) Rs.10,000/-, 11) Odd Lots, 12) Issue of fully paid up Bonus Shares]

C) State whether True or False.

1) Board of Directors can buy-back any member of shares.
2) Premium on buy-back can be provided out of Preference share capital.
3) Before buy-back, debts : Equity ratio should exceeds 2:1.
4) For buy-back of Equity shares, Free Reserves should be only as per latest audited Balance sheet.
5) On buy-back of shares by the company there is reduction in the share capital.
6) Buy-back of shares should be authorized by Articles of Association of the company.

7) After buyback of Equity shares, EPS of the company increases.

8) A defaulting company can buy-back its shares.

9) Only fully called shares can be brought.

10) Premium on buy-back can be provided only from Securities Premium.

11) Profit earned after audited Balance sheet can be used for buy-back.

12) Revalation Profit can not be used from providing premium on buy-back.

[Answer: True: iv, v, vi, vii, ix, xii, False : i, ii, iii, viii, x, xi]

D) Match the columns.

Group "A"	Group "B"
a) Date of buy-back of Equity Shares b) Buy-back Premium paid c) After buy-back Debt – Equity Should not d) Escrow Account	i) Exceeds 2:1 ii) Exceeds 1:2 iii) Security Premium / Free Reserve iv) Net know at time of issue v) Can not buy-back vi) With Bank vii) With Co-op. credit society

[Answer : (a – v), (b – iv), (c – iii), (d – i), (e – iv)]

Group "A"	Group "B"
a) Buy-back of Equity Shares b) Sec.77A, 77B of the Companies Act c) Redemption of Preference share d) Buy-back of party paid Equity Shares e) Buy-back of Equity Shares must be authorized by f) After buy-back of Equity Shares	i) Governs buy-back shares ii) Only fully paid iii) Not allowed iv) Articles of Association v) Out of Free Reserve & Security premium vi) Issue fully paid Bonus Shares vii) Share forfeited shares viii) Profit prior to incorporation

[Answer : (a – v), (b – i), (c – ii), (d – iii), (e – iv), (f – vii)]

7.11.2 THEORY QUESTIONS:

1) What is boy-back of shares?
2) How buy-back of Equity shares differs from Redemption of Preference shares?
3) What are the conditions of bay-back?
4) What are the limits of buy-back of Equity Shares?
5) Explain various sources of buy-back.
6) To the what extent CRR should be created buy-back of Equity Shares.
7) When buy-back of Equity Shares not possible?
8) What are advantages of buy-back of Equity Shares?

7.11.3 PRACTICAL PROBLEMS:

1) From the following find out maximum numbers of shares that can be brought back particulars.

Particulars	Rs.
a) Equity share Capital (Rs.10/- each)	10,00,000
b) Reserves and Surplus	2,00,000
Capital Redemption Reserve	4,00,000
Security Premium	6,00,000
General Reserve	5,00,000
c) Profit & Loss A/c	60,00,000

2) The following is the Balance sheet of O.R.K. Ltd. as on 30/09/2009.

Particulars	Rs.	Rs.
SOURCES OF FUNDS :		
Share Capital		
Authorized :		
Equity shares of Rs.10/- each		15,00,000
Issued :		
96,000 shares of Rs.10/- each (Rs.8/- paid up)		7,68,000
Reserves :		
Securities Premium	3,60,000	
Reserve Fund	1,20,000	
Investment Fluctuation Reserve	60,000	
Balance in Profit & Loss A/c	96,000	6,36,000
Loans :		
Loan from IDBI	4,40,000	
Unsecured loan from directors	1,60,000	6,00,000
Total Rs.		20,04,000

APPLICATIONS OF FUNDS :		
Fixed Assets (at WDV)		12,84,000
Investments		4,80,000
Current Assets		
Less : Current Assets	9,00,000	
Net Current Assets	6,60,000	2,40,000
Total Rs.		20,04,000

The company brought back 18,000 Equity shares at a price of Rs.20/- per share after completing the necessary legal provisions. Pass the necessary journal entries for the same. Assume adequate bank balance.

Also prepare the Balance Sheet after buy-back.

3) From the following find out the maximum no. of shares that are eligible for buy-back :
a) at a par
b) at Rs.50/- per share

Particulars	Rs.	Rs.
a) Share capital 4,00,000 Equity Shares of Rs.10/- each fully paid		40,00,000
10,000, 10% Preference shares of Rs.100/- each		10,00,000
b) Reserve & Surplus :		
Securities Premium	25,00,000	
General Reserve	10,00,000	
Profit & Loss A/c	5,00,000	40,00,000
c) Borrowings :		
10% Debentures	15,00,000	
Unsecured Loans	35,00,000	50,00,000
		140,00,000

The following information is available from the books of Raju Ltd.

Particulars	Rs.
Equity Shares Capital (Rs.10/- each)	15,00,000
Securities Premium	5,00,000
P&L A/c	11,00,000
Investments	8,00,000

The company decided to buy back 20% of its shares at Rs.12.50/- per share. For the same, the investment sold at a Profit of 60% of cost.

Pass journal entries in the books of Raju Ltd.

4) The Balance Sheet of Eros Ltd. as an 31st March, 2010

Liabilities	Rs.	Assets	Rs.
Share capital : Issued & Paid up 10,000 8% Redeemable Pref. Shares of Rs.50/- each	5,00,000	Sundry Assets Bank	14,00,000 6,50,000
50,000 Equity Shares of Rs.10/- each	5,00,000		
Capital Reserve	2,50,000		
General Reserve	1,00,000		
P&L A/c	4,00,000		
9% Debentures	3,00,000		
	20,50,000		20,50,000

It was deckled that 5,000 Equity shares to be bought back on 31st March, 2010 at a premium of 30% for this purpose the company decided to issue 800 Preference shares of Rs.50/- each at par, payable in full on application.

Pass necessary journal entries to record the transactions & prepare Balance Sheet after buy back.

5) The Balance Sheet of S.Y. Ltd. as on 31st March, 2010

Liabilities	Rs.	Assets	Rs.
Share Capital :		**Sundry Assets**	2,40,000
Issued & Paid up		Investments	60,000
10,000 Equity Shares of Rs.10/- each fully paid	1,00,000	(market value Rs.1,20,000/-)	
		Current Assets :	
500 Preference Shares of Rs.100/- each fully paid	50,000	Stock Debtors Bank Balance	75,000 60,000 1,65,000
Sinking Fund	50,000		
Securities Premium	1,00,000		
P&L A/c	80,000		
General Reserve	1,00,000		
10% Debentures	50,000		
Current Liabilities	70,000		
	6,00,000		6,00,000

It was decided :

a) to redeem Preference shares at 5% premium.
b) to sale the investment at market price.

c) to buy back maximum No. of Equity shares possible at the maximum price possible under the law.
d) temporary Bank overdraft was arranged if required.

6) Balance sheet M.D.C. Ltd. as on 31.03.10.

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	6,50,000
40,000 Equity Shares of Rs.10/- each	4,00,000	Current Assets	2,90,000
		Bank Balance	4,40,000
6,000 6% Redeemable Pref. Shares of Rs.50/- each Rs.25/- per share paid	1,50,000		
4,000 8% Redeemable Preference Shares of Rs.100/- each fully paid	4,00,000		
Reserves & Surplus :			
Security Premium A/c	1,20,000		
Dividend Equilisation Reserve	2,10,000		
Current Liabilities	1,00,000		
	13,80,000		13,80,000

M.D.C. Ltd. decided to buy-back the maximum number of Equity Shares at best possible price. To enable the buy-back to be carried out the company decides to issue, after carrying out the necessary formalities required under law, minimum number of new Preference shares of Rs.100/- each at par. The buy-back is duly carried out. Show Journal entries relating to the buy-back and new issue and also the balance sheet after redemption.

7) The summarized Balance Sheet of Tata Ltd. as on 31-12-2010 was as follows:

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	21,20,000
Issued and paid up		Investments	14,00,000
20,000 8% Redeemable Pref. Shares of Rs.100/- each	20,00,000	Current Assets	51,00,000
4,00,000 Equity Shares of Rs.10/- each	40,00,000	Bank Balance	13,30,000
Capital Reserve	5,00,000		
General Reserve	12,00,000		
P&L A/c	19,50,000		
Creditors	3,00,000		
	91,50,000		**91,50,000**

It was decided that 10,000 Equity shares will be bought back on 31.12.10 at a premium of 20%; for the purpose, the company decided to issue the requisite number of Preference shares of Rs.100/- each at par payable in full on 15 Dec. 2010.

Examine whether the company can do so. If so, record the entries, prepare the post-buy back balance sheet.

8) M. Ltd. had 20,000 Equity Shares of Rs.10/- each fully paid. The company decided to buy-back 5,000 shares of Rs.10/- each at 10% premium. For this purpose company issued 3,000 Preference Shares of Rs.100/- each at 20% premium and received the issue amount in full. The remaining amount of buy-back is taken from Profit & Loss A/c. After the buy-back of shares, company issued bonus shares from the capital redemption Reserve A/c. Pass journal entries.

9) Following is the Balance Sheet of Ketan Ltd.

Balance Sheet as on 31-03-2010

Liabilities	Rs.	Assets	Rs.
Equity Share Capital :		Fixed Assets	10,00,000
20,000 Equity Shares of Rs.10/- each Rs.8/- paid up	1,60,000	Current Assets	8,00,000
		Bank Balance	2,50,000
Preference Share Capital			
4,000 shares of Rs.100/- each fully paid up	4,00,000		
Security Premium A/c	30,000		
Capital Reserve A/c	2,00,000		
Profit & Loss A/c	4,80,000		
10% Debentures	3,00,000		
Creditors	4,80,000		
	20,50,000		20,50,000

Company made a final call on Equity Shares and it was received fully. The company decided to buy-back 20% of its Equity capital at 20% premium. The company is using its profits for the buy-back. Pass journal entries and prepare the Balance sheet of the company.

10) Following is the Balance Sheet of T.K. Ltd. as on 31-03-2010.

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed Assets	10,00,000
50,000 Equity Shares		Current Assets	6,00,000
of Rs.10/- each	5,00,000	Bank Balance	2,90,000
5,000 Preference Shares of Rs.100/- each	5,00,000		
Security Premium A/c	1,10,000		
Profit & Loss A/c	2,60,000		
Creditors	3,00,000		
Bills Payable	2,00,000		
Outstanding Expenses	20,000		
	18,90,000		18,90,000

Company decided to buy-back 20% of its Equity capital at 20% premium. Not having sufficient profits for buy-back, the company issued as many Equity shares as were necessary for buy-back. The amount is fully received and then the company purchased the shares. Company also issued 1,000 10% Debentures of Rs.100/- each. Pass journal entries and prepare the Balance Sheet of the company.

11) Inter-City Ltd. furnishes you with the following Balance Sheet as on 31st March, 2010.

Particulars	Rs. (in lakhs)	
SOURCES OF FUNDS :		
Share Capital		
Authorized, Issued, Subscribed & Called up :		
10% Preference shares of Rs.100/- each fully paid		200
Equity shares of Rs.10/- each fully paid		100
Reserves & Surplus :		
Capital Reserves	50	
Securities Premium	100	
General Reserve	900	
Profit & Loss A/c	150	1,200
Total Rs.		1,500
APPLICATIONS OF FUNDS :		
Fixed Assets (at cost)	450	
Less : Depreciation Provision	150	300
Investments (at cost, market value Rs.750 lakhs)		450
Net Current Assets		750
Total Rs.		1,500

The company redeemed Pref. Shares on 1st April, 2010. It also bought back 1,00,000 Equity Shares of Rs.10/- each at Rs.30/- per share.

Investment realized at market price.

Pass journal entries & prepare Balance Sheet after redemption of Preference share & buy-back of Equity shares.

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8

AMALGAMATION OF LIMITED COMPANIES-I

Unit Structure

8.0 OBJECTIVES:

After studying this unit the students will be able to:

- Understand the Concept of Amalgamation
- Calculate the amount of Purchase Consideration
- Know the Various methods of ascertaining Purchase Consideration.
- Make the Accounting Procedure for Amalgamation.

8.1 INTRODUCTION :

Amalgamation means coming together of two or more limited companies for betterment of the business. It includes dissolution of one or more limited companies and formation of one new company. There can be three situations as below :

a) Amalgamation- Here one or more than one existing limited companies come together and form a new limited company to take over their business.

b) Absorption- Here one existing limited company takes over the business of another existing limited company

c) External reconstruction - Here one limited company is newly formed to take over the business of another existing limited company which is a loss making company.

The I.C.A.I has issued Accounting Standard 14 governing the procedure and accounting of Amalgamation of companies.

8.2 ACCOUNTING STANDARD 14 ISSUED BY INSTITUTE OF CHARTERED ACCOUNTS OF INDIA :

i. **Scope:** Accounting Standard 14 [Accounting for Amalgamation], prescribed by the Institute of Chartered Accounts of India, deals with accounting for amalgamations. The meaning and types of amalgamation, according to AS 14 are explained below.

ii. **Amalgamation:** Amalgamation means an amalgamation pursuant to the provision of the Companies Act, 1956 or any other statute which may be applicable to the Companies, Amalgamation involves acquisition of one company by another. After Amalgamation, the acquired company is dissolved and ceases to exist.

iii. **Transferor Company:** Transferor Company means the Company which a transferor another Company (vendor company).

iv. **Transferee Company:** Transferee Company means the Company into whicha transferor Company is amalgamated (purchasing company).

v. **Types of Amalgamations :** (discussed in detail below)

8.3 TYPES OF AMALGAMATION:

The Companies Act 1956 has not specifically defined the term ‘Amalgamation’. However from several legal decisions, the definition of Amalgamation may be inferred. The Institute of Chartered Accountants has introduced Accounting Standard no.14 (AS-14) on Accounting for Amalgamations. The standard recognizes two types of Amalgamations.

(a) Amalgamation in the nature of merger.
(b) Amalgamation in the nature of purchase.

(a) Amalgamation in the nature of merger means which satisfies all the following conditions:

i. All the assets and liabilities of the transferor company are taken over by the transferee company.

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

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

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

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

(b) Amalgamation in the nature of purchase If Amalgamation does not satisfy any one of the above five conditions then it will be regarded as Amalgamation in the nature of purchase

8.4 DISTINCTION BETWEEN MERGER AND PURCHASE :

Merger	Purchase
1. Shareholders of the transferor company holding 90% of the face value of equity shares become shareholders of transferee company.	1. Shareholders of the transferor company may not become shareholders of transferee company.
2. There is a genuine polling of assets and liabilities of the amalgamating companies.	2. There is no genuine polling of assets and liabilities of the amalgamation companies.
3. There is poling of interest of shareholders also.	3. There may not be pooling of interest of shareholders
4. Values of assets and liabilities, reserves represent the same values of amalgamating	4. The values of assets and liabilities may be different than the amalgamating companies.

companies.	

In the syllabus of T.Y.B.Com of Mumbai University Amalgamation in the nature of merger is excluded, it is not discussed henceforth in this book.

8.5 PURCHASE CONSIDERATION :

8.5.1 MEANING

Purchase Consideration is the sale price of the business agreed mutually between the two parties, the transferor company (selling company) and the transferee company (purchasing company). The AS 14 defines the Purchase Consideration as " the aggregate of the shares and other securities issue and payment made in the form of cash or otherwise by the transferee company to the "SHAREHOLDERS OF THE TRANSFEROR COMPANY". In other words any payment made to or in satisfaction of other liabilities should not be included in the amount of purchase consideration. If any payment is made to the creditors, debenture holders or any other liabilities, then it should be assumed that such liability is taken over by the transferee company and then it is settled by the transferee company. It should also be noted that liquidation expenses of the transferor company should not be included in the purchase consideration.

8.5.2 METHODS OF PURCHASE CONSIDERATION:

a. **Lump-sum method**: The problem may give the amount of purchase consideration directly and hence there will not be any need to calculate the purchase consideration.
e.g. Alka techno Ltd. agrees to take over business of WLC Ltd for a sum of Rs.10 lakhs.

b. **Net Payment Method**: If the purchase consideration is not given Lum-sum then this method should be adopted. Here the purchase consideration is arrived at by adding up cash paid and the agreed values of shares, securities issued by the transferee company to share holders of transferor company in discharge of the purchase consideration.
e.g. Reena Engineers Ltd. takes over business of Ramesh Kashyap Ltd. and agrees to pay the purchase consideration as follows:

issue of 10,000 equity shares of Rs.10 each at Rs. 12 each and cash Rs. 50,000.

Hence the purchase consideration would be	Rs
10,000 equity shares of Rs.10 each at Rs. 12 each	1,20,000
Cash	50,000
Purchase consideration	**1,70,000**

c. **Net Assets Method** : If the purchase consideration can not be calculated by above two methods then this methods should be adopted. It is the aggregate of the assets taken over at agreed values less liabilities taken over at agreed values.

Assets taken over at agreed values,(excluding ficitious assets)	Rs.	Rs.
Goodwill	xx	
Land & Buildings	xx	
Plant & Machinery	xx	
Furniture & Fittings	xx	
Motor vehicles	xx	
Investments	xx	
Stock	xx	
Debtors	xx	
Cash & bank balances	xx	xxx
Less : Liabilities taken over at agreed value		
Creditors	xx	
Bills payables	xx	
Bank over draft	xx	
Debentures	xx	(xxx)
Purchase consideration		xxx

d. **Exchange of shares Method / Intrinsic value Method** : Under this method the intrinsic value of the shares of both the companies is calculated and then the transferor company issue the shares to the transferee company on the basis of these values.

8.6 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEROR COMPANY:

Step 1. Open following Ledger Accounts

1. Realisation A/c
2. Equity Shareholders A/c
3. Preference Shareholders A/c
4. Cash/ Bank A/c
5. Liabilities not taken over A/c
6. Transferee company's A/c
7. Equity Shares in transferee company A/c
8. Preference Shares in transferee company A/c

Step2. Pass following journal entries

Sr. no	Particulars	Dr. Rs	Cr. Rs
1.	Transfer all assets to realization A/c Whether taken over or not , at their book values.		

	Realisation A/c Dr.	xx	
	To Sundry assets A/c		Xx
	Note: 1.Fictitious assets should not be transferred to realization A/c		
	2. Cash & bank balance should be transferred to realization A/c only if it taken over by the transferee company		
	3. Debtors and R.D.D should be treated as separate A/c. Debtors should be transferred at their gross value on debit side and R.D.D should be transferred on the credit side of realisation A/c		
	4. This entry closes all Assets A/c		
2.	Transfer all liabilities which are taken over by the transferee company to realization A/c, credit side		
	Sundry liabilities A/c Dr.	xx	
	To Realisation A/c		xx
3.	Open separate A/c for Each liability not taken over and bring down the balance on the credit side.		
4.	Transfer Equity Share Capital and Reserves to Equity share holders A/c		
	Equity share Capital A/c Dr.	x	
	Securities Premium A/c Dr.	x	
	Capital Reserve A/c Dr.	x	
	Capital Redemption Reserve A/c Dr.	x	
	General Reserve A/c Dr.	x	
	Profit & Loss A/c Dr.	x	
	To Equity Shareholders A/c		x
5.	Transfer Preference Share Capital to Preference Shareholders A/c		
	Preference Share Capital A/c Dr.	x	
	To Preference Shareholders A/c		x
6.	Record the sale of business		
	Transferee Company A/c Dr.	x	
	To Realisation A/c		x
	(with the amount of purchase Consideration)		
7.	Receive the amount of purchase consideration		
	Equity shares in transferee company A/c Dr	x	

	Preference shares in transferee company A/c Dr.	x	
	Cash/ Bank A/c Dr.	x	
	To Transferee Company A/c		x

8.	Dispose off assets not taken over by the transferee company		
	Cash / Bank A/c Dr.	Xx	
	To Realisation A/c		Xx
	(No separate entry is required for profit/ loss on this transaction it is automatically adjusted in realization A/c)		
9.	Discharge the liabilities not taken over by the Transferee company.		
	Liability A/c Dr.	Xx	
	Realisation A/c (if loss) Dr.	Xx	
	To Cash / Bank A/c		xx
	To Realisation A/c (if Profit)		xx
10.	Payment of realization Expenses		
	Realisation A/c Dr.	Xx	
	To Cash/ Bank A/c.		Xx
11.	Settle the claim of preference shareholders		
	Preference shareholders A/c. Dr.	Xx	
	Realisation A/c. (if paid at premium) Dr.	Xx	
	To preference Shares in transferee Co. A/c		Xx
	To Cash/ Bank A/c.		Xx
	To Realisation A/c. (if paid at discount)		Xx
12.	Balance the Realisation A/c. and transfer the profit / loss on Realisation to Equity Shareholders A/c.		
	a. If Profit		
	Realisation A/c Dr.	Xx	
	To Equity shareholders A/c.		Xx
	OR		
	b. If loss		
	Equity shareholders A/c. Dr.	Xx	
	To Realisation A/c.		Xx
13.	Close the Equity shareholders A/c.		
	Equity shareholders A/c. Dr.	Xx	
	To Equity shares in transferee Co. A/c		Xx
	To Cash/ bank A/c		Xx

8.7 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEREE COMPANY :

Following Journal Entries are passed in the books of transferee company.

8.7.1 PURCHASE METHOD

Sr.no	Particulars	Dr. Rs	Cr.Rs.
1.	Recording Purchase of Business		
	Business Purchase A/c Dr.	xx	
	To Liquidator of transferor company		X
	(The entry should be passed at purchase consideration amount.)		
2.	Recording of assets and liabilities taken over		
	Sundry assets A/c Dr.	xx	
	(With Agreed values)		
	Goodwill A/c (if any) Dr.	xx	
	To Sundry Liabilities A/c		X
	To Business Purchase A/c		Xx
	To Capital Reserve A/c		Xx
3.	Recording Discharge of purchase consideration		
	Liquidator of transferor company A/c Dr.	Xx	
	Discount on issue of shares A/c Dr.	Xx	
	To Equity Share Capital A/c.		XX
	To Preference Share Capital A/c.		XX
	To Securities Premium A/c.		Xx
4.	Discharge of Liabilities of Transferor Company		
	Debentures of Transferor Company A/c Dr.	Xx	
	Discount on issue of Debentures A/c Dr.	Xx	
	To new Debentures A/c.		XX
	To Securities Premium A/c.		Xx
5.	Recording of payment of liquidation expenses		
	Capital Reserve/ Goodwill A/c. Dr.	Xx	
	To Cash/Bank A/c.		Xx
6.	Recording of Expenses incurred by the transferee company for its own formation.		
	Preliminary Expenses A/c. Dr.	Xx	
	To Cash / Bank A/c		Xx
7.	Recoding of Statutory Reserve of transferor company		
	Amalgamation adjustment A/c Dr.	Xx	
	To Statutory Reserve A/c.		XX
8.	Adjusting of mutual indebtedness of transferor & transferee company		
	Sundry Creditors A/c. Dr.	Xx	
	To Sundry Debtors A/c.		Xx

8.7.2 MERGER METHOD

Sr. no	Particulars	Dr. Rs	Cr.Rs.
1.	Recording Purchase of Business		
	Business Purchase A/c Dr.	xx	
	To Liquidator of transferor company		X
	(The entry should be passed at purchase consideration amount.)		
2.	Recording of assets and liabilities taken over		
	Sundry assets A/c Dr.	xx	
	General Reserve A/c (if any) Dr.	xx	
	To All Reserves of transferor co.(except General reserve)		
	To Sundry Liabilities A/c		X
	To Business Purchase A/c		Xx
	To General Reserve A/c (Balancing figure)		xx
3.	Recording Discharge of purchase consideration		
	Liquidator of transferor company A/c Dr.	Xx	
	Discount on issue of shares A/c Dr.	Xx	
	To Equity Share Capital A/c.		XX
	To Preference Share Capital A/c.		XX
	To Securities Premium A/c.		Xx
4.	Discharge of Liabilities of Transferor Company		
	Debentures of Transferor Company A/c Dr.	Xx	
	Discount on issue of Debentures A/c Dr.	Xx	
	To new Debentures A/c.		XX
	To Securities Premium A/c.		Xx
5.	Recording of payment of liquidation expenses		
	General Reserve/ A/c. Dr.	Xx	
	To Cash/Bank A/c.		Xx
6.	Recording of Expenses incurred by the transferee company for its own formation.		
	Preliminary Expenses A/c. Dr.	Xx	
	To Cash / Bank A/c		Xx
7.	Adjusting of mutual indebtedness of transferor & transferee company		
	Sundry Creditors A/c. Dr.	Xx	
	To Sundry Debtors A/c.		Xx

8.8 ILLUSTRATIONS :

Illustration: 1

Balance Sheet of Mihir Ltd as on 31st March 2009 is as follows:

Liabilities	Rs	Assets	Rs
Share Capital 10,000 Equity share of Rs 100	10,00,000	Goodwill	1,00,000
2,000 7% Preference Shares of Rs.100 each fully paid	2,00,000	Land & Building	5,00,000
Securities Premium	1,00,000	Furniture	80,000
Revenue Reserves	1,25,000	Sundry Debtors	4,50,000
Sundry Creditors	1,75,000	Stock	3,80,000
		Bank	90,000
	16,00,000		16,00,000

Mihir Ltd received the following offers:

1. Nishith Ltd. agrees to pay Rs.18,00,000 cash.
2. Waridhi Ltd agrees to take over on the following terms:
   a) Equity shareholders to given 25 Equity shares fully paid of Rs.10 each in Waridhi Ltd for every 2 Equity shares of Mihir Ltd.
   b) 7% Preference shareholders of Mihir Ltd to be issued 9% Preferance shares of Rs.100 each fully paid on 1:1 basis.
   c) Sundry Creditors to be paid in cash.
3. Roohi Ltd. Offers to take over business of Mihir Ltd.as follows:
   a) Assets to be revalued as follows:

Goodwill	2,00,000
Land & Building	7,00,000
Furniture	50,000
Sundry Debtors	4,00,000
Stock	3,40,000
Bank	90,000

b) Sundry creditors to be taken over subject to 5% discount.

c) 7% Preferance shareholders to be issued 10% Preferance shares of Rs. 100 each of same amount. Balance of purchase consideration to be discharged by issue of Equity shares of Rs.10 each at par.

4 Aashna Ltd. Agreed to take over Mihir Ltd. on the basis of intrinsic value of Equity share of Mihir Ltd., revaluing Goodwill at Rs.2,00,000.the entire purchase price to be paid by issue of 2,000 9% Preferance shares of Rs. 100 each at par and balance in Equity shares of Rs.10 each to be considered worth Rs. 12.50.each.

Calculate:

a) Purchase consideration
b) Statement of net assets taken over.
in each of the above cases

Solution:

1. Offer of Nishith Ltd.
   a) Purchase consideration: Rs.18,00,000
   b) Statement of net assets taken over

All assets taken over at agreed values:

Goodwill Land&Building Furniture SundryDebtors Stock Bank	1,00,000 5,00,000 80,000 4,50,000 3,80,000 90,000	 1600000
Less : Liabilities taken over Sundry Creditors Net assets taken over Purchase consideration Capital Reserve		 (1,75,000) 14,25,000 18,00,000 3,75,000

2. Offer of Waridhi Ltd.
   a) Purchase consideration

(10,000/2 x25) equity shares of Rs.10	12,50,000
9% Preference shares of Rs. 100 each	2,00,000
	14,50,000

b) Statement of net assets taken over
All assets taken over at agreed values:

Goodwill	1,00,000	
Land&Building	5,00,000	
Furniture	80,000	
SundryDebtors	4,50,000	
Stock	3,80,000	
Bank	90,000	1600000
Less : Liabilities taken over		
Sundry Creditors		(1,75,000)
Net assets taken over		14,25,000
Purchase consideration		14,50,000
Capital Reserve		25,000

3. Offer of Roohi Ltd.

a) Purchase consideration (Net assets method)
All assets taken over at agreed values:

Goodwill	2,00,000	
Land&Building	7,00,000	
Furniture	50,000	
SundryDebtors	4,00,000	
Stock	3,40,000	
Bank	90,000	17,80,000
Less : Liabilities taken over		
Sundry Creditors		(1,66,250)
Net assets taken over		14,33,750
Purchase consideration		14,33,750

b) Discharge of purchase consideration

10% Preferance shares of Rs. 100 each	2,00,000
1,23,375 Equity shares of Rs. 10 each	12,33,750
Total	**14,33,750**

4. Offer of Aashna Ltd.
 a) Purchase consideration Intrinsic value of equity shares method)
 All assets taken over at agreed values:

Goodwill Land&Building Furniture SundryDebtors Stock Bank	2,00,000 5,00,000 80,000 4,50,000 3,80,000 90,000	1700000
Less : Liabilities taken over Sundry Creditors 7% Preferance share capital Net amount payable to equity shareholders	 1,75,000 2,00,000	 (3,75,000) 13,25,000

b) Discharge of purchase consideration
 2,000 9% Preference shares of Rs. 100 each at par 2,00,000
 1,06,000 equity shares of Rs. 10 each at Rs. 12.50 13,25,000

Illustration: 2

The following is the Balance Sheet of Bad Dream Ltd as on 30th September, 2009

Balance Sheet as on 30th September, 2009

Liabilities	Rs	Assets	Rs
Authorised Share Capital		Land & Buildings	200000
10000 Equity Shares of Rs100	1000000	Plant & Equipments	300000
1000 6% Preference Shares of Rs 100 each	100000	Furnitures	65000
Total	1100000	Patents	45000
Issued capital		Sundry Debtors	149450
6,000 Equity Shares	600000	Inventory	68950
1000 6% Preference Shares of Rs 100 each	100000	Cash	3700
10% Debentures	100000	Profit & loss A/C	307900
Sundry Creditors	100000		
Bank Overdraft	240000		
	1140000		**1140000**

A new Company Good Morning Ltd was formed to take over this company. The Authorized capital of the new company was Rs 1500000 divided into 100000 Equity shares of Rs 10 each and 5000 7% Preference shares of Rs 100 each.

The terms and conditions agreed for this were as follows:

a) 10% debenture holders agreed to take new 9%Debentures of Rs.95000 in full satisfaction.

b) 6% Preference shareholders were to receive 3 new 7% Preference shares of Rs.100 each for every 4 old preference shares.

c) The equity shareholders to receive 30,000 Equity shares of Rs.10 each, credited as Rs.8 paid up

d) Good Morning Ltd. to issue 20,000 equity shares of Rs.10 each at par for cash

e) Good morning Ltd to make a call of Rs.2 per share on shares issued to Bad Dream Ltd.

You are required to give necessary Ledger A/c s to close the books of Bad Dream ltd and Journal entries in the books of Good Morning Ltd and Balance Sheet of Good Morning Ltd.

Solution:

Statement of Purchase consideration: (Net Payment method)

a) 750 7% Perferance shares of Rs.100 each	75000
b) 30,000 Equity shares of Rs.10 each Rs. 8 paid up	240000
	315000

Goodwill/Capital reserve (Net Assets taken over)

Land & Buildings	200000	
Plant & Equipments	300000	
Furnitures	65000	
Patents	45000	
Sundry Debtors	149450	
Inventory	68950	
Cash	3700	832100
Less: Liabilities taken over at agreed values		
10% Debentures	100000	
Sundry Creditors	100000	
Bank Overdraft	240000	440000
Net Assets taken over		392100
Purchase consideration		315000
Capital Reserve		77100

In the books of Bad Dream Ltd

Realization A/c

To Land & Buildings	200000	By 10% Debentures	100000
To Plant & Equipments	300000	By Sundry Creditors	100000
To Furnitures	65000	By Bank Overdraft	240000
To Patents	45000	By Good Morning	315000
To Sundry Debtors	149450	By Pref Shareholders A/c	25000
To Inventory	68950	By Equity Share holders A/c	52100
To Cash	3700		
	832100		832100

Equity Shareholders A/c

To Profit and Loss	**307900**	**By Equity Share Capital A/c**	**600000**
To Realisation A/c	**52100**		
To Equity Shares in Good Morning Ltd	**240000**		
	600000		**600000**

Good morning Ltd A/c

To Realisation A/c	315000	By Pref Shares in Good Mor A/c	75000
		By Equity Shares in Good mor	240000
	315000		315000

Preference Share Holders A/c

To Preference Shares in Good Morning Ltd	75000	By Preference Share capital A/c	100000
To Realisation A/c	25000		
	100000		100000

Equity Shares in Good morning Ltd

To Good morning Ltd	240000	By Equity Share Holders A/c	240000
	240000		240000

Preference Shares in Good Morning Ltd

To Good morning Ltd	75000	By Preference Share Holders A	75000
	75000		75000

Journal Entries in the Books of Good morning Ltd.

1	Business Purchase A/c	Dr	315000	
	To Liquidator of Bad dream Ltd			315000
	(Being Business Purchased)			
2	Land and Buildings	Dr	200000	
	Plant and Equipments	Dr	300000	
	Furnitures	Dr	65000	
	Patents	Dr	45000	
	Sundry Debtors	Dr	149450	
	Inventry A/c	Dr	68950	
	Cash	Dr	3700	
	To Business Purchase A/c			315000
	To Sundry Creditors			100000
	To Debentures			100000
	To Bank Overdraft			240000
	To Capital Reserve			77100
	(Being Sundry Assets and Liabilities taken over recorded)			
3	Liquidator of Bad dream Ltd	Dr	315000	
	To Equity Share Capital A/c			240000
	To 7%Preference Share Capital A/c			75000
	(Being Purchase Consideration Discharged.)			
4	Bank A/c	Dr	200000	
	To Equity Share Capital A/c			200000
	(Being 20000 Equity shares of Rs 10 each issued for cash.)			
5	Equity Share Call A/c	Dr	60000	
	To Equity Share Capital A/c			60000
	(Being call made at Rs 2 per share on 30000 equity shares)			
6	Bank A/c	Dr	60000	
	To Equity Share Call A/c			60000
	(Being Call amount received.)			

Balance Sheet of Good Morning Ltd.

Liabilities	Rs	Assets	Rs
Authorised Share Capital		Land & Buildings	200000
100000 Equity Shares of Rs10 each	1000000	Plant & Equipments	300000
5000 7% Preference Shares of Rs 100 each	500000	Furnitures	65000
Total	1500000	Patents	45000
Issued capital		Sundry Debtors	149450
50000 Equity Shares of Rs 10 each	500000	Inventory	68950
750 7% Preference Shares of Rs 100 each	75000	Cash	3700
Capital Reserve	77100	Bank Balance	20000
10% Debentures	100000		
Sundry Creditors	100000		
	852100		**852100**

Illustration: 3

The following are the Balance Sheets of P Ltd and S Ltd as on 31st March, 2009
Balance Sheet as on 31st March, 2009

Liabilities	P Ltd	S Ltd	Assets	P Ltd	S Ltd
Equity Share Capital (Rs 10 each)	500,000	300,000	Land and Building	250,000	155000
14% Preference Share Capital (Rs 100 each)	220,000	170,000	Plant and Machinery	325,000	170000
General Reserve	50,000	25,000	Furniture and Fittings	57,500	35000
Export Profit Reserve	30,000	30,000	Investments	125,000	95000
Profit and Loss A/c	75,000	50,000	Stock	90,000	103000
13% Debentures	50,000	35,000	Debtors	72,500	52000
Sundry Creditors	65,000	50,000	Cash and Bank	70,000	50000
	990,000	**660,000**		**990,000**	**660000**

P Ltd takes over S Ltd on 1st April, 2009. P Ltd discharges the Purchase Consideration as below:

a) Issued 35000 Equity Shares of Rs 10 each at par to the equity shareholders of S Ltd.

b) Issued 15% Preference Shares of Rs 100 each

to discharge the Preference share holders of S Ltd at 10% premium.

c) The Debentures of S Ltd will be converted into equivalent numbers of debentures of P Ltd.

You are required to give necessary ledger accounts to close the books of S Ltd and Journal entries in t the books of P Ltd and Balance sheet of P Ltd after absorption.

Solution:

Statement of Purchase consideration: (Net Payment method)

a) 35000 equity shares of Rs 10 each		350000
1870 15%Preference Shares of Rs 100 each		187000
(Old Preference Share Capital	170000	
Add : 10%Premium	17000)	
		537000

In the books of S Ltd
Realization A/c

To Land and Buildings	155000	By 13% Debentures	35000
To Plant and Equipments	170000	By Current Liabilities	50000
To Furnitures	35000	By P Ltd	537000
To Investment	95000	By Equity Share holders A/c	55000
To Inventory	103000		
To Sundry Debtors	52000		
To Cash	50000		
To Preference Share holders	17000		
	677000		677000

Equity Shareholders A/c

To Realisation A/c	**55000**	**By Equity Share Capital A/c**	**300000**
To Equity Shares in P Ltd	**350000**	**By General Reserve**	**25000**
		By Profit and Loss A/c	**50000**
		By Export Profit Rerve	**30000**
	405000		**405000**

P Ltd A/c

To Realisation A/c	537000	By Equity Shares in P Ltd	350000
		By Preference Shares in P Ltd	187000
	537000		537000

Preference Share Holders A/c

To Preference Shares in P Ltd	187000	By Preference Share capital A/c	170000
		By Realisation A/c	17000
	187000		187000

Equity Shares in P Ltd

To P Ltd A/c	350000	By Equity Share Holders A/c	350000
	350000		350000

Preference Shares in P Ltd

To P Ltd A/c	187000	By Equity Share Holders A/c	187000
	187000		187000

Journal Entries in the books of P Ltd

Sr.No	Particulars		Dr. Rs.	Cr. Rs.
i.	Business Purchase A/c	Dr.	5,37,000	
	To Liquidator of Q Ltd.			5,37,000
	(Being Business of Q Ltd. Purchased)			
ii.	Building A/c	Dr.	155000	
	Machinery A/c.	Dr.	170000	
	Furniture and Fittings	Dr	35000	
	Investment	Dr	95000	
	Stock	Dr.	103000	
	Debtors	Dr.	52000	
	Cash and Bank A/c.	Dr.	50000	
	To 13 % Debentures			35000
	To Current Liabilities			50000
	To Business Purchase			537000
	To Capital Reserve			38000
	(Being sundry assets & liabilities taken over of Q Ltd. Recorded)			
iv.	Liquidator of P Ltd. A/c	Dr.	1875000	
	To Equity share capital A/c			1250000
	To securities Premium A/c			625000
	(Being Purchase consideration discharge)			
v.	Liquidator of Q Ltd. A/c.	Dr.	537000	
	To Equity Share Capital A/c.			350000
	To 15% Preference Share Capital A/c.			187000
	(Being purchase consideration discharged)			
vi.	Amalgamation Adjustment A/c.	Dr.	30000	
	To Export profit reserve			30000
	(Being statutory reserve maintained)			
vii.	13% Debentures in Q Ltd. A/c.	Dr	35000	
	To 13% Debentures			35000

Balance Sheet as on 31st March, 2009

Liabilities	Rs	Assets	Rs
Equity Share Capital (Rs 10 each)	850,000	Land and Building	405,000
14% Preference Share Capital (Rs 100 each)	220,000	Plant and Machinery	495,000
15% Preference Share Capital (Rs 100 each)	187,000	Furniture and Fittings	92,500
General Reserve	50,000	Investments	220,000
Export Profit Reserve	60,000	Stock	193,000
Capital Reserve	38,000	Debtors	124,500
Profit and Loss A/c	75,000	Cash and Bank	120,000
13% Debentures	85,000	Amalgamation Adjustment A/c	30000
Current Liabilities	115,000		
	1,680,000		**1,680,000**

Illustration: 4

The following is the Balance Sheet of Time Pass Ltd as on 30th September, 2009

Balance Sheet as on 30th September, 2009

Liabilities	Rs	Assets	Rs
Issued capital		Land & Buildings	85000
18000 Equity Shares of Rs10	180000	Plant & Equipments	45000
General Reserve	24000	Furnitures	15000
Profit & loss A/C	10400	Trademarks	7000
12% Debentures	80000	Investments	23000
Sundry Creditors	63720	Sundry Debtors	60000
		Stock	112000
		Bank	11120
	358120		**358120**

Time Pass Ltd was absorbed by Busy Ltd., on the following terms and conditions:

All liabilities and all assets are to be taken over except Investments which were sold by Time Pass Ltd. at 90% of book value.

Debentures of Time Pass Ltd, to be discharged at a discount of 10% by the issue of 14% debentures of Rs 100 e each in Busy Ltd.

Trademarks were found useless.

Issue of one equity share of Rs 10 each in Busy Ltd., issued at Rs 12 and a cash payment of Rs 3 for every s hare in Time Pass Ltd.

a) Cost of absorption paid : Rs 1160
b) Time Pass Ltd. sold half the shares received from Busy Ltd. at Rs 15 per share.

You are required to give necessary Ledger A/c s to close the books of Time Pass Ltd. and Journal entries in the books of Busy Ltd.

Solution:

Statement of Purchase consideration: (Net Payment method)

a) 18000 Equity shares of Rs.10 each at Rs.12 per share	216000
b) Cash at Rs. 3 per share on 18000 Equity shares	54000
	270000

Goodwill/Capital reserve (Net Assets taken over)

Land & Buildings	85000	
Plant & Equipments	45000	
Furnitures	15000	
Sundry Debtors	60000	
Stock	112000	
Bank	11120	
		328120
Less :		
Liabilities taken over		
Debentures	80000	
Creditors	63720	143720
Net assets taken over		184400
Less :		
Purchase consideration		270000
Goodwill		85600

In the books of Time Pass Ltd
Realization A/c

To Land & Buildings	85000	By 10% Debentures	80000
To Plant & Equipments	45000	By Sundry Creditors	63720
To Furnitures	15000	By Busy Ltd.	270000
To Trademarks	7000	By Bank (Investment sold)	20700
To Sundry Debtors	60000	By Bank (shares sold)	27000
To Bank	11120		
To Investments	23000		
To Stock	112000		
To Equity Share holders A/c	103300		
	461420		461420

Equity Shareholders A/c

To Bank	209700	By Equity Share Capital A/c	180000
		By Profit and Loss A/c	10400
		By General Reserve	24000
To Equity Shares in Busy Ltd	108000	By Realisation A/c	103300
	317700		317700

Busy td A/c

To Realisation A/c	270000	By Equity Shares in Busy Ltd	216000
		By Bank	54000
	270000		270000

Bank A/c

To Equity shares in busy Ltd	135000		
To Realisation A/c	20700	By Equity Shareholders A/c	209700
To Busy Ltd.	54000		
	209700		209700

Equity Shares in Busy Ltd

To Busy Ltd.	216000	BY Bank	135000
To Realisation A/c	27000	By Equity Share Holders A/c	108000
	243000		243000

Journal Entries in the Books of Busy Ltd.

1	Business Purchase A/c Dr	270000	
	To Liquidator of Bad dream Ltd		270000
	(Being Business Purchased)		
2	Land and Buildings Dr	85000	
	Plant and Equipments Dr	45000	
	Furnitures Dr	15000	
	Sundry Debtors Dr	60000	
	Stock	112000	
	Bank	11120	
	Goodwill	77600	
	To Business Purchase A/c		270000
	To Sundry Creditors		63720
	To Debentures		72000
	(Being Sundry Assets and Liabilities taken over recorded)		
3	Liquidator of Time Pass Ltd Dr	270000	
	To Equity Share Capital A/c		180000
	To Securities Premium A/c		36000
	To Bank		54000
	(Being Purchase Consideration Discharged.)		
4	Goodwill A/c Dr.	1160	
	To Bank		1160
	(Being amalgamation expenses paid)		
5	Debentures in Time Pass A/c Dr.	72000	
	To Debentures A/c		72000
	(Being new debentures issued in satisfaction of old Debentures)		

Illustration 5

A Ltd and B Ltd agreed to amalgamate and form a new company C Ltd. which will take over all the assets and liabilities of the two companies.

The assets and liabilities of A Ltd. Are to be taken over at a book value for shares in C Ltd. At the rate of 5 shares in C Ltd. at 10% premium (i.e. Rs 11 per share) for every four shares in A Ltd.

In the case of B Ltd.

a) The debentures of B Ltd. would be paid off by the issue of an equal no. of debentures in C Ltd.

b) The 11.5% Preference Shareholders of B Ltd. would be allotted four 12% Preferences of Rs 100 each in C Ltd. for every five Preference shares in B Ltd.

c) Sufficient shares of C Ltd would be allotted to the equity share holders to cover the balance on their account after adjusting asset values by reducing Plant and Machinery by 10% and providing 5% on sundry debtors.

The summarized Balance Sheets of the two companies just prior to amalgamation were as follows:

Liabilities	A Ltd.	B Ltd	Assets	A Ltd.	B Ltd
Issued capital			Plant & Equipments	800000	800000
Equity Capital of Rs10 each	400,000	500000	Stock	65000	60000
11.5 Preference Shares of Rs 100 each.		300000	Profit and Loss A/c		140000
12% Debentures		200000	Sundry Debtors	95000	50000
Profit & loss A/C	500000		Bank	65000	40000
Sundry Creditors	75000	90000			
Contingency Reserve	50000				
	1,025,000	**1090000**		**1025000**	**1090000**

Show the Journal entries in the books of both the companies.

Solution:

Statement of Purchase consideration for A Ltd.

5 Equity Shares of Rs 10 each at 10% premium for every four shares in A Ltd.	550000

Statement of Purchase Consideration for B Ltd / Net Assets taken over of A Ltd.

	A Ltd.	B Ltd.
Plant and Equipments	800000	720000
Stock	65000	60000
Sundry Debtors	95000	47500
Bank	65000	40000
	1025000	**867500**
Less: Liabilities taken over		
Debentures		200000
Sundry Creditors	75000	90000
	-75000	-290000
Net Assets taken Over	950000	577500
Less:Purchase Consideration	-550000	
Capital Reserve	400000	
Purchase Consideration		577500

In the books of A Ltd and B Ltd
Realization A/c

To Plant & Equipments A/c	800000	800000	By Debentures A/c		200000
To Stock A/c	65000	60000	By Creditors A/c	75000	90000
To Sundry Debtors A/c	95000	50000	By C Ltd A/c	550000	577500
To Bank A/c	65000	40000	By Preference Shareholders A/c		60000
			By Equity Share holders A/c	400000	22500
	1025000	950000		1025000	950000

C Ltd A/c

To Realisation A/c	550000	577500	By Equity Shares in C Ltd	550000	337500
			By Preference Shares in C Ltd		240000
	550000	577500		550000	577500

Equity Shareholders A/c

To Profit and Loss A/c		**140000**	**By General Reserve A/c**	**50000**	
To Equity Shares in Good Morning Ltd A/c	**550000**	**337500**	**By Profit and Loss A/c**	**500000**	
To Realisation A/c	**400000**	**22500**	**By Equity Share Capital A/c**	**400000**	**500000**
	950000	**500000**		**950000**	**500000**

Preference Share Holders A/c

To Preference Shares in C Ltd		240000	By Preference Share capital A/c		300000
To Realisation A/c		60000			
		300000			300000

Equity Shares in C Ltd

To C Ltd	550000	337500	By Equity Share Holders A/c	550000	377500
	550000	337500		550000	377500

Preference Shares in C Ltd

To C Ltd	240000	By Preference Share Holders A/c	240000
	240000		240000

Journal Entries in the Books of C Ltd.

1	Business Purchase A/c Dr To Liquidator of A Ltd A/c To Liquidator of B Ltd A/c (Being Business Purchased)	1127500	 550000 577500
2	Plant and Equipments A/c Dr Stock A/c Debtors A/c Bank A/c To Business Purchase A/c To Sundry Creditors To Capital Reserve A/c (Being Sundry Assets and Liabilities taken over recorded)	800000 65000 95000 65000	 550000 75000 400000
3	Plant and Equipments A/c Dr Stock A/c Debtors A/c Bank A/c To Business Purchase A/c To Sundry Creditors To Debentures (Being Sundry Assets and Liabilities taken over recorded)	720000 60000 47500 40000	 577500 90000 200000
4	Liquidator of A Ltd Dr To Equity Share Capital A/c To Secuity Premium A/c (Being Purchase Consideration Discharged.)	550000	 500000 50000
5	Liquidator of B Ltd Dr To Equity Share Capital A/c To Preference Share Capital A/c (Being Purchase Consideration Discharged.)	577500	 337500 240000
6	Old Debentures A/c Dr To New Debenture A/c To Capital Reserve A/c (Being old Debentures settled at 10% discount.)	200000	 180000 20000

Balance Sheet of C Ltd.

Liabilities	Rs	Assets	Rs
Issued capital		Plant & Equipments	1520000
Equity Capital of Rs10 each	837500	Stock	125000
11.5 Preference Shares of Rs 100 each.	240000	Sundry Debtors	142500
12% Debentures	180000	Bank	105000
Sundry Creditors	165000		
Security Premium	50000		
Capital Reserve	420000		
	1892500		**1892500**

❖❖❖❖

9

AMALGAMATION OF LIMITED COMPANIES-II

Unit Structure

9.1 Solved problems

9.1 SOLVED PROBLEMS :

Illustration 1

On 31st March, 2000, Thin Ltd. was absorbed by thick Ltd., the latter taking over all the assets and liabilities of the former at book values. The consideration of the business was fixed at Rs 400000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company. The balance sheet of the two companies as on the 31st March, 2000 stood as under:

Liabilities	Thick Ltd	Thin Ltd	Assets	Thick Ltd	Thin Ltd
Equity Shares of Rs 10 each, fully paid	900000	200000	Plant & Equipments	412000	100000
			Stock	265500	60000
Profit & loss A/C	20502	12900	Cash at Bank	14000	8300
Workmen Compensation Fund	12000	9000	Sundry Debtors	221200	46000
General Reserve	180000	50000	Cash in Hand	869	356
Sundry Creditors	58567	30456	Goodwill	200000	60000
Staff Provident Fund	10200	4000	Prepaid Insurance		700
Provision for taxation	12300	5000	Income Tax Refund claim		6000
			Furniture	80000	30000
	1193569	311356		1193569	311356

Amalgamation expenses amounting to Rs 1000 were paid by Thick ltd. You are required to:

a) Show the necessary ledger accounts in the books of Thin Ltd.,
b) Show the necessary journal entries in the books of thick Ltd., and
c) Prepare the Balance Sheet of Thick Ltd. in vertical form after amalgamation.

Solution:

In the books of Thin Ltd.'s.

Realization A/c

To Goodwill A/c	60000	By Sundry Creditors A/c	30456
To Plant and Machinery A/c	100000	By Staff Provident Fund A/c	4000
To Furniture A/c	30000	By Provision for taxation A/c	5000
To Stock - in - Trade A/c	60000	By Thick Ltd. A/c	400000
To Sundry Debtors A/c	46000		
To Prepaid Insurance A/c	700		
To Income Tax Refund Claim A/c	6000		
To Cash in hand A/c	356		
To Cash at Bank A/c	8300		
To Equity Share holders A/c	128100		
	439456		439456

Equity Shareholders A/c

To Equity Shares in Thick Ltd A/c	400000	By Profit and Loss A/c	12900
		By General Reserve A/c	50000
		By Workmen Compensation Fund A/c	9000
		By Equity Share Capital A/c	200000
		By Realisation A/c	128100
	400000		400000

Thick Ltd A/c

To Realisation A/c	400000	By Equity Shares in Thick Ltd A/c	400000
	400000		400000

Equity Shares in Thick Ltd

To Thick Ltd	400000	By Equity Share Holders A/c	400000
	400000		400000

Journal Entries in the books of Thick Ltd.

1	Business Purchase A/c Dr	400000	
	To Liquidator of Thin Ltd A/c		400000
	(Being Business Purchased)		
2	Plant and Equipments A/c Dr	100000	
	Stock A/c	60000	
	Debtors A/c	46000	
	Goodwill A/c	197100	
	Furniture A/c	30000	
	Prepaid Insurance A/c	700	
	Income Tax Re-fund Claim A/c	6000	
	Cash in hand	356	
	Cash in Bank A/c	8300	
	To Business Purchase A/c		400000
	To Provision for Taxation A/c		5000
	To Staff Provident Fund A/c		4000
	To Sundry Creditors		30456
	To Workmen Compensation Fund A/c		9000
	(Being Sundry Assets and Liabilities taken over recorded)		
3	Liquidator of Thin Ltd A/c Dr	400000	
	To Equity Share Capital A/c		400000
	(Being Purchase Consideration Discharged.)		
4	Goodwill A/c Dr	1000	
	To Bank A/c		1000
	(Being amalgamation Expenses paid.)		

Balance Sheet of Thick ltd

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs 10 each, fully paid	1300000	Plant & Equipments	512000
General Reserve	41900	Furniture	110000
Profit & loss A/C	20502	Goodwill	260000
Workmen Compensation Fund	21000	Sundry Debtors	267200
		Cash in Hand	22525
Sundry Creditors	89023	Stock	325500
Staff Provident Fund	14200	Prepaid Insurance	700
Provision for taxation	17300	Income Tax Refund claim	6000
	1503925		1503925

Illustration : 2

On 31st March, 2009, Sky dud Ltd. was absorbed by Hidud Ltd.,

The balance sheet of the two companies as on the 31st March, 2009 stood as under:

Liabilities	Hidud Ltd	Skydud Ltd	Assets	Hidud Ltd	Skydud Ltd.
Equity Shares of Rs 10 each, fully paid	800000	500000	Plant & Equipments	1600000	830000
General Reserve	1000000	360000	Goodwill		20000
Profit & loss A/C		100000	Investments		170000
Loans	400000		Current Assets	1680000	690000
Bills Payable	100000	220000			
Sundry Creditors	460000	420000			
Provision for taxation	520000	110000			
	3280000	1710000		3280000	1710000

For the purpose of absorption the goodwill of Skydud was considered valueless. Plant and Equipments Are to be depreciated by Rs. 40000. The shareholders of Skydud Ltd are to be allotted sufficient number of Equity shares in Hidud Ltd, based on intrinsic value of equity shares of both the companies.

You are required to:

a) Show the necessary ledger accounts in the books of Skydud Ltd.,
b) Show the necessary journal entries in the books of Hijack Ltd., and
c) Prepare the Balance Sheet of Hijack Ltd. after amalgamation.

Solution:

In the books of Skydud Ltd.

Realization A/c

To Goodwill A/c	20000	By Sundry Creditors A/c	420000
To Plant and equipm. A/c	830000	By Bills Payable A/c	220000
To Investments	170000	By Provision for taxation A/c	110000
To Current Assets	690000	By Hidud Ltd. A/c	900000
		By Equity Share holders A/c	60000
	1710000		1710000

Equity Shareholders A/c

To Equity Shares in Hidud Ltd A/c	900000	By Equity Share capital A/c	500000
To Realisation A/c	60000	By General Reserve A/c	360000
		By Capital Reserve A/c	100000
	960000		960000

Hidud Ltd A/c

To Realisation A/c	900000	By Equity Shares in Hidud Ltd A/c	900000
	900000		900000

Equity Shares in Hidud Ltd

To Hidud Ltd	900000	By Equity Share Holders A/c	900000
	900000		900000

Journal Entries in the books of Hidud Ltd.

1	Business Purchase A/c	Dr	900000	
	To Liquidator of Skydud Ltd A/c			900000
	(Being Business Purchased)			
2	Plant and Equipments A/c	Dr	790000	
	Investments A/c	Dr.	170000	
	Current Assets A/c	Dr.	690000	
	To Business Purchase A/c			900000
	To Sundry Creditors			420000
	To Provision for Taxation A/c			110000
	To Bills Payable A/c			220000
	(Being Sundry Assets and Liabilities taken over recorded)			
3	Liquidator of Thin Ltd A/c	Dr	900000	
	To Equity Share Capital A/c			400000
	To Securities Premium			500000
	(Being Purchase Consideration Discharged.)			

Balance Sheet of Hidud Ltd. as on 1st April 2009

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs 10 each, fully paid	1200000	Plant & Equipments	2390000
General Reserve	1000000		
Securities Premium	500000	Investments	170000
Loans	400000	Current Assets	2370000
Bills Payable	320000		
Sundry Creditors	880000		
Provision for taxation	630000		
	4930000		4930000

Working Notes:

1.Calculation of Intrinsic Value of Equity shares:

	Hidud Ltd. Rs.	Skydud Ltd. Rs.
Equity share capital	800000	500000
General Reserve	1000000	360000
Profit and Loss A/c		100000
	1800000	960000
Less:		
Depreciation of Plant	40000	
Goodwill	20000	60000
Equity Shareholders Funds	1800000	900000
Number of Equity shares	80000	50000
Intrinsic value per equity share	22.50	18.00

2. Value of 4 shares of Hidud Ltd. = Value of 5 shares of Skydud Ltd.

3. Purchase consideration Rs. 900000 to be discharged by issue of 40000 Equity shares of Rs. 10 each at a premium of Rs.12.50 per share.

Illustration : 3

Eno Ltd. and Fanta .Ltd. agreed to amalgamate by transferring their undertakings to a new company, Fantino Ltd. formed for that purpose. On the date of transfer, Balance sheets of the two companies as on 31 March 2009 were as under:

Liabilities	**Eno Ltd. (Rs.)**	**Fanta Ltd (Rs.)**	**Assets**	**Eno Ltd. (Rs.)**	**Fanta Ltd. (Rs.)**
Authorized and Issued			Leasehold premises	60,000	31,000
Capital:			Freehold Property	3,000	
Ordinary Shares of			Debtors	18,000	5,000
Rs. 10 each	75,000	25,000	Investments	13,000	3,000
18% Debentures		3,000	Bank	10,000	2,000
Reserve		2,000			
Mortgage Loan (Secured on freehold Property)					
Sundry Creditors	4,000	10,000			
Profit & Loss A/c	20,000	1,000			
	1,04,000	**41,000**		**1,04,000**	**41,000**

The purchase consideration consisted of:

(a) The assumption of the liabilities of the both companies:

(b) The discharge of the Debentures in Fanta Ltd., by the issue of Rs. 3500, 18.5% Debentures in Fantino Ltd.

(c) Issue at a premium of Rs. 5 per share of ordinary shares of Rs. 10 each in Fantino Ltd. for the purpose of transfer, the assets are to be revalued as under:

	Eno Ltd. Rs.	Fanta Ltd. Rs.
Leasehold premises	65,000	35,000
Freehold Property	5,000	
Debtors	17,100	4,500
Investments	14,900	4,000
Goodwill	11,000	4,000

You are required to:

i) Prepare necessary ledger accounts in the books of Eno Ltd.

ii) Pass Journal Entries in the books Fantino Ltd. under Purchase Method.

iii) Indicate the basis on which the shares of Fantino Ltd. will be distributed among the shareholders of Eno Ltd. and Fanta Ltd. respectively.

Purchase Consideration:

	Eno. Ltd. Rs.	Fanto Ltd Rs.
Assets taken over:		
Leasehold premises	65,000	
Freehold Property	5,000	35,000
Debtors	17,100	
Investments	14,900	4,500
Goodwill	11,000	4,000
Bank	10,000	2,000
(A)	**1,23,000**	**49,500**
Less: Liabilities taken over:		
Mortgage Loan	5,000	
18% Debentures		3,500
creditors	4,000	10,000
(B)	9,000	13,500
Net Assets	**1,14,000**	**36,000**

No. of Shares = 1,14,000/15 36,000/15

= 7,600 2,400

Ratio of distribution = 7600 : 7500 2400:2500

= 76:75 24:25

In the books of Eno Ltd.
Realization A/c

	Rs.		Rs.
To Leasehold premises	60,000	By Mortgage Loan	5,000
To Freehold Property	3,000	By Sundry Creditors	4,000
To Debtors	18,000	By Fantino Ltd.-	
To Investments	13,000	(Purchase	1,14,000
To Bank	10,000	Consideration)	
To Equity Shareholders' A/c	19,000		
(Profit on Realization)			
	1,23,000		**1,23,000**

Fantino Ltd. A/c

	Rs.		Rs.
To Realization A/c	1,14,000	By Equity Shares in Fantino ltd	1,14,000
	1,14,000		**1,14,000**

Equity Shares in Fantino A/c

	Rs.		Rs.
To Fantino Ltd	1,14,000	By Equity Shareholders A/c	1,14,000
	1,14,000		**1,14,000**

Equity Shareholders A/c

	Rs.		Rs.
		By Share Capital	75,000
To Shares in Fantino Ltd. A/c	1,14,000	By Profit and Loss A/c	20,000
		By Realization A/c	19,000
	1,14,000		**1,14,000**

In the Book of Fanta Ltd.
Realization A/c

	Rs.		Rs.
	31,000	By Creditors	10,000
To Leasehold premises	5,000	By 18% Debentures	
To Debtors	3,000	By Fantino Ltd. A/c	3,000
To Investment	2,000	(Purchase Consideration)	
To Bank			36,000
To Equity Shareholders	8,000		
(Profit on Realization)			
	49,000		49,000

Equity Shareholders A/c

	Rs.		Rs.
To Equity Shares in Fantino Ltd.	36,000	By Share Capital A/c	25,000
		By Reserve A/c	2,000
		By Profit and Loss A/c	1,000
		By Realisation A/c	8,000
	36,000		**36,000**

Fantino Ltd. A/c

	Rs.		Rs.
To Realisation A/c	36,000	By Shares in Fantino Ltd.A/c	36,000
	36,000		**36,000**

Equity Shares in Fantino A/c

	Rs.		Rs.
To Fantino Ltd	36,000	By Equity Shareholders A/c	36,000
	36,000		36,000

Illustration: 4

The following are the Balance Sheets of Prabha Ltd. and Surya Ltd. as on 31st March 2008.

Balance Sheet as on 31st March 2008

Liabilities	Prabha Ltd Rs.	Surya Ltd. Rs.	Assets	Prabha Ltd Rs.	Surya Ltd. Rs.
Equity Share			Land & Buildings	50,000	46,500
capital (Rs.10each)	1,00,000	90,000	Plant & Machinery	65,000	51,000
15 % Preference			Furniture & Fittings	11,500	10,500
Share Capital			Investments	25,000	28,500
(Rs, 100 each)	44,000	51,000	stock	18,000	30,900
General Reserve	10,000	7500	Debtors	14,500	15,600
Export Profit			Cash and Bank	14,000	15,000
Reserve	6,000	6,000			
Investment					
Allowance					
Reserve		3,000			
Profit & Loss A/c	15,000	15,000			
13 % Debentures	10,000	10,500			
(Rs. 100 each)					
Current Liabilities	13,000	15,000			
	198,000	198,000		198,000	198,000

Prabha Ltd. takes over Surya: Ltd. on 1st April 2008. Prabha Ltd. discharges the purchase consideration as below:

a) Issued 10,500 equity shares of Rs.10 each at par to the equity shareholders of Surya Ltd.

b) Issued 15% preference shares of Rs.100 each to discharge the preference share holders of Surya Ltd. at 10% premium the debentures of Surya Ltd. will be converted into equivalent no. of debentures of Prabha Ltd.

The Statutory reserves of Surya Lts. (export profit Reserve and investment allowance reserve are to be maintain for 3 more years.)

Debtors of Prabha Ltd. include Rs.5000 due from Surya Ltd.

You are required to prepare necessary ledger accounts in the books of Surya Ltd. and the Balance Sheet of Prabha Ltd. after absorption

Solution: In The books of Surya Ltd.

Realization Account

To land & building	46,500	By 13% Debentures	10,500
To plant & Machinery	51,000	By current Liabilities	15,000
To furniture	10,500	By Prabha Ltd.	1,61,100
To Investment	28,500	By Equity share holders	16,500
To stock	30,900		
	15,600		
	15,000		
	5,100		
	203,100		203,100

Equity Share holder A/c

To Equity shares in Prabha Ltd.	105,000	By Equity share Capital	90,000
		By General Reserve	7,500
		By Export profit Reserve	6,000
To Realisation A/c	16,500	By Investment allowence reserve	3,000
		By Profit & Loss A/c	15,000
	1,21,500		1,21,500

Preference Shareholders A/c

To prefernce shares in prabha Ltd.	56,100	By preference Share Capital	51,000
		By Realisation	5,100
	56,100		56,100

Prabha Ltd. A/c

To Realisation A/c	1,61,100	By Equity shares in Prbha Ltd	1,05,000
		By preference shares in Prabha Ltd.	56,100
	1,61,100		1,61,100

Equity shares in Prabha Ltd.

To Prabha Ltd	1,05,000	By Equity share holders	1,05,000
	1,05,000		**1,05,000**

Preference shares in Prabha Ltd.

To Prabha Ltd	56,100	By Preference share holders	56100
	56100		56100

Statement of purchase consideration (Net Payment Method)

1. 10,500 Equity shares of Rs. 10 each		1,05000
2. To Preference shareholders	51000	
10% premium	5100	56100
		161100

i.e. 561 preference shares of Rs. 100 each

Prabha Ltd.

Balance Sheet as on 31st March 2008

Liabilities	Rs.	Assets	Rs.
Share capital		Land and Buildings	96500
20,500 Equity shares of Rs.10 each	2,05,000	Furniture & fittings	22,000
15% 1001 preference		Investments	53,500
Shares of Rs.100each	1,00,100	Stock	48,900
General Reserve	10,000	Debtors	25,100
Capital Reserve	11400	Cash at bank	29,000
Profit & Loss A/c	15000	Amalgamation	
Export Profit Reserve	12000	Adjustment A/c	9000
Investment Allowance reserve	3000		
13% Debentures (100each)	20,500		
Current Liabilities	23,000		
	4,00,000		**4,00,000**

Calculation of capital reserve on amalgamation

		Rs.
Assets of Surya Ltd. Taken over		1,98,000
Loss: 13 % Debentures	10,500	
Current Liabilities	15,000	25,500
Net assets taken over		1,72,500
Less: Purchase Consideration		1,61,100
Capital Reserve		**11,400**

Illustration : 5

The Balance sheets of Alpha Ltd. and beets Ltd. as on 31st March, 2008 were as Follows:

Liabilities	Alpha Ltd. Rs.	Beeta Ltd. Rs.	Assets	Alpha Ltd. Rs.	Beeta Ltd. Rs.
Equity Share Capital			Building	4,00,00	70000
(Rs.10 Each)	8,00,000	3,00,000	Machinery	4,00,000	150000
Export profit reserve	2,00,000	30000	Debtors	6,00,000	2,00,000
Profit & Loss A/c	2,65,000	2,37,000	Cash at Bank	2,50,000	37000
12%Debetores	5,00,000	3,00,000	Preliminary	50,000	20,000
(Rs. 100 each)			expenses		
	1,12,000	63000			
Bills payable	23,000	70,000			
	2200,000	**12,50,000**		**2200,000**	**12,50,000**

A new company Zinta Ltd. was formed to acquire all the assets and liabilities of Alpha Ltd. and Beeta Ltd.

a) Zinta Ltd. to have an authorized capital of Rs. 25,00,000 divided in 2,50,000 shares of Rs.10 each

b) Business of both the companies taken over for a total price of rs.30 Lakh to be discharged by Zinta Ltd. by issue of equity Shares of Rs. 10 each at a premium of 50%

c) The shareholders of Alpha Ltd. and Beeta Ltd. to get shares in Zinta Ltd. in the ratio of net asset valuation of their respective business.

d) The debentures of both the companies to be converted into equivalent number of 14 % Debentures in Zinta Ltd.

e) Export Profit reserve is to be maintained for two more years

f) The assets of the companies to be revalued at

	Alpha Ltd.	Beeta Ltd.
Building	10,00,000	11,50,000
Debtors	3,00,000	1,13,000

g) Liquidation expenses of Alpha Ltd & Beeta Ltd. amounting to Rs. 20,000 were paid by Zinta Ltd. you are required to give Journal Entries in the books of Zinta Ltd. and also prepare Balance sheet of Zinta Ltd. after amalgamation

1. Statement of purchase consideration total purchase consideration
   Lakh equity shares of Rs. 10 each issued
   At Rs.15 each 30,00,000
2. Statement of Net Assets

Building	10,00,000	1150,000
Machinery	3,00,000	1,13,000
Stock	5,00,000	1,43,000
Debtors	6,00,000	2,00,000
Cash at bank	2,50,000	37,000
	26,50,000	1643000
Less: Liabilities		
12% Debentures	500,000	300,000
Current Liabilities	1,12,000	63000
Bills Payable	23000	70000
R.D.D	1500	10000
	6,50,000	4,43,000
Net Assets	20,00,000	12,00,000

No. of shares to issued

Alpha Ltd. $\frac{200000}{3200000}$ X 2000000 = 125000 Shares

Beeta Ltd. $\frac{200000}{3200000}$ X 1200000 = 75000 Shares

Journal of Zinta Ltd.

Sr.No	Particulars		Dr. Rs.	Cr. Rs.
i.	Business Purchase A/c	Dr.	3000000	
	To Liquidator of Alpha Ltd.			1875000
	To Liquidator of Beeta Ltd.			1125000
	(Being Business of Alpha Ltd. & Beeta Ltd. Purchase)			
ii.	Building A/c	Dr.	1000000	
	Machinery A/c.	Dr.	300000	
	Stock	Dr.	500000	
	Debtors	Dr.	600000	
	Cash and Bank A/c.	Dr.	250000	
	To 12 % Debentures			500000
	To Sundry Creditors			112000
	To Bills Payable			23000
	To R.D.D.			15000
	To Business Purchase			1875000
	To Capital Reserve			125000
	(Being sundry assets & liabilities taken over of (Alpha Ltd. Recordable)			

iii.	Building A/c	1150000	
	Machinery A/c	113000	
	Stock A/c	143000	
	Debtors A/c.	200000	
	Cash and bank A/c	37000	
	To 12% Debentures		300000
	To Sundry Creditors		63000
	To Bills Payable		70000
	To R.D.D		10000
	To Business Purchase		1125000
	To Capital Reserve		75000
	(Being Sundry assets & liabilities taken over to Beeta Ltd. recorded)		
iv.	Liquidator of Alpha Ltd. A/c Dr.	1875000	
	To Equity share capital A/c		1250000
	To securities Premium A/c		625000
	(Being Purchase consideration discharge)		
v.	Liquidator of Beeta Ltd. A/c. Dr.	1125000	
	To Equity share Capital A/c.		750000
	To Securities premium A/c.		375000
	(Being purchase consideration discharge)		
vi.	Amalgamation Adjustment A/c. Dr.	230000	
	To Export profit reserve		230000
	(Being statutory reserve maintained)		
vii.	12% Debentures in Alpha Ltd. A/c. Dr.	5,00,000	
	12% Debentures in Beeta Ltd. A/c. Dr	3,00,000	
	To 14% Debentures		800000
viii.	Capital Reserve A/c. Dr.	20000	
	To Bank A/c.		20000
	(Being liquidation expenses of Alpha Ltd. and Beeta Ltd. Paid)		

Balance sheet of Zinta Ltd. as on 1st April 2008

Liabilities	Rs.	Assets	Rs.
Share Capital		Building	2150000
Authorized		Machinery	413000
250000 Equity shares	2500000	Stock	643000
Issued subscribed paid up		Debtors 800000	
2 lakh equity share	2000000	Less R.D.D (25000)	775000
Securities premium	1000000	Cash at Bank	267000
Export profit reserve	2,30000	Amalgamation	230000
Capital Reserve	180000	Adjustment A/c	
14% debentures	800000		
Sundry Creditors	175000		
Bills Payable	93000		
	4478000		4478000

Illustration 6

The following is the balance Sheet of Dalal Ltd. as on 31st March 2009.

Balance Sheet as on 31st March 2008

Liabilities	Rs.	Assets	Rs.
100000 Equity Shares		Buildings	526000
Of Rs. 10 each	100000	Plant & machinery	312000
General reserve	127500	Furniture	267000
Profit & loss A/c	222500	Trade marks	49000
12% Debentures	300000	Investments	120000
Creditors A/c	30500	Debtors	3,12000
Income tax Provision	60000	Stock	54000
		Preliminary Expenses	15,000
	20,15,000		**20,15,000**

Dalal Ltd. was absorbed by Nutan Ltd. on the following terms and conditions:

a) Assume all liabilities and to acquire all assets expect investments which were sold by Dalal Ltd. at 90% of book value

b) Discharge the debentures of Dalal Ltd. at a discount of 10% by the issue of 14 % debentures of Rs.100 each in Nutan Ltd.

c) Trade marks were found useless.

d) Issue of one equity share of Rs. 10 in Nutan Ltd. issued at Rs. 12 each and a cash payment of Rs. 4 for every share in Dalal Ltd.

e) Pay the cost of absorption Rs. 15000

f) Dalal Ltd. sold in the open market 25 % of shares received from Nutan Ltd. at Rs. 16 per share show necessary ledger accounts in the books of Dalal Ltd. and opening Journal Entries in the books of Nutan Ltd.

Solution:

Statement of purchase consideration	**Rs.**
100000 Equity share in Nutan Ltd. at Rs. 12 per share	1200000
Cash = 100000 x 4	400000
	1600000

In the Books of Dalal Ltd

Realization A/c

To Building	526000	By 12% Debentures	300000
To plant & machinery	312000	By creditors A/c	305000
To Furniture	267000	By income tare provision	60000
To Trade Marks	4900	By Nutan Ltd. A/c	1600000
To Investments	120000	By Cash	108000
To Debtors	312000	By equity shares in Nutan Ltd.	
To stock	360000		100000
To Bank	540000		
To cash (Expenses)	15000		
To Equity share holders	458000		
	2473000		**2473000**

Equity shareholders A/c

To preliminary Expenses	15000	By Equity share capital	1000000
To Equity shares in Nutan Ltd	900000	By General Reserve	127500
To Cash	893000	By profit & Loss A/c	222500
	1808000		**1808000**

Nutan Ltd.A/c

To Realization A/c	1600000	By Faculty shares in Nutan Ltd.	1200000
		By Bank	400000
	1600000		**1600000**

Equity shares in Nutan Ltd. A/c.

To Nutan Ltd	1200000	By Cash	400000
To Realization	100000	By Equity shareholders	900000
	1300000		**1300000**

Cash and Bank A/c.

To Nutan Ltd.	4,00000	By Realization	15000
To Realization (Investment sold)	108000	By Equity share holders	893000
To Equity share in Nutan Ltd.	400000		
	908000		**908000**

Illustration : 7

XY Ltd. was formed to take over the business of X Ltd. and Y Ltd. on 1st April 2009. The Balance sheets at X Ltd. & Y Ltd. as on that date were as under:

Balance sheets as on 31.03.09

Liabilities	X Ltd. Rs.	Y Ltd Rs.	Assets	X Ltd. Rs.	Y Ltd. Rs.
Share Capital					
Equity Shares of			Land & Building	150000	350000
Rs. 10 each full			Plant	100000	120000
Paid	200000	300000	Furniture	60000	80000
General Reserve	50000	80000	Stock	120000	80000
Profit & Loss A/c	40000	80000	Debtors	150000	330000
Investment Allowance			Bank Balance	20000	40000
Reserve	10000	20000			
Export profit Reserve	100000	200000			
10% Debentures	100000	250000			
Sundry creditors	100000	70000			
	600000	**100000**		**600000**	**100000**

The authorized capital of XY Ltd. was Rs. 1500000 divided in equity shares at Rs. 10/- each

XY Ltd. issued sufficient no of Equity share to discharge the claim of equity shareholders of both the companies

You are required to (1) give necessary ledger A/c's in the books of X Ltd. Y Ltd. (2) Give Necessary journal Entries in the books of XY Ltd. assuming that the amalgamation is in the nature of Also prepare balance sheet of XY Ltd.

In The Books of X Ltd. Y Ltd.

Realisation A/c

	X Ltd	**Y Ltd**		**X Ltd.**	**Y Ltd**
To Land & Building	150,000	350,000	By 10% Debentures	100,000	250,000
To Plant	100,000	120,000	By Creditors	100,000	10,000
To Furniture	60,000	80,000			
To Stock	12,000	80,000			
To Debetors	150,000	330,000	By XY Ltd	400,000	680,000
To Bank	20,000	40,000			
	600000	**1000000**		**600000**	**1000000**

Equity Share holders A/c

To Realisation	400000	680000	By Equity share Capital	200000	350000
			By Reserve	50000	80000
			By Profit Loss	40000	80000
			By Investment All	10000	20000
			By Reserve Export Profit	100000	200000
	400000	**680000**		**400000**	**680000**

XY Ltd.

Ro realization	400000	680000	By Equity Shares in XY Ltd	400000	680000
	400000	**680000**		**400000**	**680000**

Equity Shares In XY LTD. A/c.

To XY Ltd.	400000	680000	By Equity share holders	400000	680000
	400000	**680000**		**400000**	**680000**

Working Notes:

1. Purchase consideration	**X Ltd.**	**Y Ltd.**
All Assets taken over at agreed valuation		
Land Building	150000	35000
Plant	100000	120000
Furniture	10000	80000
Stock	120000	80000
Debtors	150000	330000
Bank	20000	40000
Less:	600000	1000000
Liabilities taken over at agreed valuation		
10% Debentures	100000	250000
Sundry creditors	100000	70000
Net assets taken over	400000	680000
2. Discharge of purchase consideration	**X Ltd.**	**Y Ltd**
40000 each of Rs.10/-	400000	680000
68000Equity shares of Rs.		
	400000	680000

Journal of XY Ltd.

Particulars		**Dr. Rs**	**Cr. Rs**
1. Business Purchase A1		1080000	
To Liqudator of x			400000
To Liqudators of Y in			680000
(Being business of X Ltd. & Y Ltd. Purchase			
2. Land and Buiding A/c	Dr	150000	
Plant A/c	Dr	150000	
Furniture A/c.	Dr.	60000	
Stock A/c	Dr.	120000	
Debetors A/c.	Dr.	150000	
Bank A/c	Dr.	200000	
To Business			400000
To Debentures A/c			100000
To Creditors A/c.			100000
(Being Assets and liabilities taken over of mind)			
3. Liquidator of X Ltd.		400000	
To Equity share consited			400000
(Being purchase consideration)			
4. Land and Building A/c.		350000	
Plant A/c.	Dr	120000	
Furniture A/c.	Dr.	80000	

Stock A/c.	Dr.	80000	
Debtors A/c.	Dr.	330000	
Bank A/c.	Dr.	40000	
To Business purchase			680000
To Debetures A/c.			250000
To creditors A/c			70000
(Being assets and liabilities of Y Ltd taken over)			
5. Liquidator of Y Ltd	Dr.	680000	
To Equity share capital			680000
(Being purchase consideration discharged)			
6. Amalgamation Adjustment		330000	
To investment allowance			30000
To export profit reserve			300000
7. 10% Debetures in X Ltd.	Dr.	100000	
10% Debetures in Y Ltd. A/c.	Dr	250000	
To 10% Debetures A/c.			350000
(Being new debentures issued in cancellation of old debentures)			

Balance Sheet XY Ltd. as on 1.04.09

Liabilities	Rs.	Assets	Rs.
		Land & Building	500000
Equity share capital		Plant	220000
10800 Equity shares		Furniture	140000
Of Rs. lot furnitures	1080000	Stock	200000
		Debetors	480000
Investment Allowance	30000	Bank	60000
Export Profit		Amalgamation	
Reserve	300000	Adj A/c	330000
10% Debentures	350000		
Creditors	170000		
	1930000		**1930000**

Illustration : 8

Following are Balance Sheets of Vasu Ltd. and Vasanti Ltd as on 31st March 2009

Liabilities	Vasu Ltd	Vasanti Ltd.	Assets	Vasu Ltd.	Vasanti Ltd.
Equity share Capital (Rs.100)	200000	80000	Premiers	50000	50000
			Equipments	15000	
Securities Premium	40000	80000	Furniture	50000	200000
			Investments	80000	50000
General Reserve	100000	100000	Inventory	205000	105000
12 Debentures	200000	200000	Receivables	135000	180000
Accounts Payable	160000	160000	Cash	1000	15000
			Preliminary Experts	20000	20000
	700000	**620000**		**700000**	**620000**

On the above date Vasu Ltd. absorbed the business of Vasanti Ltd. on the following terms and conditions

(a) It issued 3000 equity shares of Rs. 100 at a premium of 10% to the equity shareholders of Vasanti Ltd.

(b) It issued 10% debentures in discharged of 12% debentures of Vasanti Ltd.

(c) Premises of Vasanti Ltd are to be revalued at Rs.150000

You are required to give necessary ledger A/c in the books of Vasanti Ltd. journal entries in the books of Vasu Ltd. and Balance sheet of Vasu Ltd. after absorption.

In the books of Vasanti Ltd.

Realization A/c

To Premises	50000	By 120% debentures	200000
To Furniture	200000	By Accounts Payable	160000
To Investments	50000	By Vasu Ltd.	330000
To Inventory	105000		
To Receivables	180000		
To Cash	15000		
To Equity Shareholders A/c	90000		
	690000		**690000**

Equity shareholders A/c

To Preliminary To Equity shares in Vasu Ltd	20000 330000	By Equity Share Capital By securities Premium By General Reserve By Realization A/c	80000 80000 100000 90000
	350000		**350000**

Vasu Ltd A/c.

To Realization	330000	By Equity shares in Vasu Ltd	330000
	330000		330000

Equity Shares in Vasu Ltd.

To Vasu Ltd.	330000	By Equity share holders Ltd.	330000
	330000		330000

Journal of Vasu Ltd		**Dr. Rs**	**Cr. Rs.**
1. Business Purchase A/c	Dr.	330000	
• To liquidators Vasanti Ltd			330000
(Being Business Purchased)			
2. Premises A/c	Dr.	150000	
Furniture A/c.	Dr.	200000	
Investments A/c	Dr.	50000	
Inventory A/c	Dr	105000	
Receivables A/c.	Dr	180000	
Cash A/c	Dr.	15000	
To capital reserve			10000
To Business Purchase			330000
To 12% Debentures			200000
To A/c payable			160000
(Being assets and liabilities taken over)			
3. Liquidators of Vasanti Ltd.		330000	
To Equity share Capital			300000
To securities Premium			30000
(Being purchase consideration discharge)			
4. 12 % Debentures in Vasanti Ltd.	Dr.	200000	
To 10% Debentures in Vasu Ltd			200000
(Being debentures issued)			

Balance Sheet of Vasu Ltd as on 1st April 2009

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity Share Capital		Premises	200000
5000 Equity		Equipment	150000
Share of Rs.100/-	500000	Furniture	250000
Securities Premium	70000	Investment	130000
Capital Reserve	10000	Inventory	310000
General Reserve	100000	Receivable	315000
21% Debenture	200000	Receivable	315000
10% Debenture	200000	Cash	25000
Accounts Payable	920000		20000
	1400000		**1400000**

Working Notes:

1. Purchase consideration
   Net payment method
   3000 Equity shares of Rs. 100 at Rs. 110/- = 330000
   330000

2. Good will/ Capital Reserve
   All Assets taken over at agreed values

Premises	150000	
Furniture	200000	
Investments	50000	
Inventory	105000	
Receivable	180000	
Cash	15000	700000
Less: Liabilities taken over at agreed values		
12% Debentures	200000	
Accounts Payable	160000	360000
Net assets taken over		340000
Less purchase consideration		330000
Capital reserve		10000

Illustration :8

Balance sheet of Asha Ltd. & Nisha Ltd. as on 31st March 2009

Liabilities	Asha Ltd	Nisha Ltd.	Assets	Asha Ltd.	Nisha Ltd.
Share Capital			Land	60000	-
Equity Share of			Plant	240000	200000
Rs.10/- Fully Paid	500000	300000	Motor Vehicles	60000	
			Stock	150000	140000
Securities reserve	100000		Debtors	300000	175000
General Reserve	100000	100000	Bank	90000	45000
12% Debentures		100000			
Current Liabilities	200000	60000			
	900000	**560000**		**900000**	**560000**

Asha Ltd agreed to absorb Nisha Ltd on the following Terms and conditions

a) The shares of Nisha Ltd. are to be considered worth Rs. 15/- and shares of Asha Ltd. are to be considered worth Rs.14/- each

b) Asha Ltd shall issue 30000 equity shares to the shareholders Nisha Ltd. and balance of purchase consideration shall be paid in cash

c) The debenture holders of Nisha Ltd. agreed to take up 10% new debentures of Asha Ltd. at 5% discount

d) Cost of liquidation of Nisha Ltd. Rs.5000 to be paid and borne by Asha Ltd.

Show necessary ledger accounts in the books of Nisha Ltd. Journal Entries in the books of Asha Ltd. and balance sheet Asha Ltd. after abortion

In The books of Nisha Ltd. Realization A/c

To Plant	200000	By 12% Debentures	100000
To Stock	1400000	By current liabilities	60000
To Debtors	1750000	By Asha Ltd.	450000
To Bank	45000		
To equity share Holders profit	50000		
	610000		**610000**

Equity shareholders A/c

To equity shares In Asha Ltd To Cash	 420000 30000	BY equity share capital By General Reserve By realization	300000 100000 50000
	450000		**450000**

Asha Ltd. A/c

To realization A/c	450000	By equity shares In Asha Ltd.A/c By cash	420000 30000
	450000		**450000**

Equity shares in Asha Ltd.

To Asha Ltd	420000	By Equity share Holders A/c	420000
	420000		**420000**

Cash A/c

To Asha Ltd	30000	By equity share holders A/c	30000
	30000		**30000**

Journal of Asha Ltd

1. Business Purchase A/c		450000	
To Liquidator of Nisha Ltd.			450000
(Being business purchase)			
2. Plant A/c	Dr.	200000	
Stock A/c	Dr.	140000	
Debtors A/c	Dr.	175000	
Bank A/c	Dr.	45000	
Good will A/c	Dr.	50000	
To business purchase			450000
To 120% Debentures			100000
To Current liabilities			60000
(Being sundry assets and liabilities taken over recorded)			
3. Liquidator of Nisha Ltd.	Dr	450000	
To Equity share capital			300000
To Securities premium A/c			120000
To Cash A/c			30000
(Being Purchase consideration discharged)			

4. 12 % Debentures A/c Dr.	100000	
To 10% Debentures A/c		95000
To Capital Reserve		5000
(Being old debentures discharged)		
5. Goodwill A/c	5000	
To Cash		5000
6. Capital Reserve A/c Dr.	5000	
To Good will		5000
(Being Capital Reserve eliminated)		

Asha Ltd
Balance Sheets as on 1st April 2009

Liabilities	B	Assets	B
Share Capital		Good will	50000
8000 Equity shares	800000	Land	60000
Of Rs. 100/- Fully Paid		Plant	440000
Securities Premium	220000	Motor vehicles	60000
General reserve	100000	Stock	290000
10% Debentures	95000	Debtor	475000
Current Liabilities	260000	Bank	100000
	1475000		**1475000**

Illustration No.9
The Balance sheet of Priti Ltd. as on 31st March 2009 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital :		Goodwill	40,000
50,000 Equity Shares of		Plant and Machinery	3,00,000
Rs. 10 each fully paid	5,00,000	Stocks	1,60,000
20000 6 % Cumulative Preference Shares of Rs. 10 each fully paid	2,00,000	Sundry Debtors	2,40,000
5% Debentures of Rs.100 each	1,00,000	Cash at Bank	17,800
Bank Overdraft	40,000	Profit & Loss A/c.	2,80,200
Bills payable	28,000	Preliminary Expenses	10,000
Sundry Creditors	1,83,000	Commission & Brokerage on issue of Shares	8,000
Interest Accrued on Debentures	5,000		
	10,56,000		10,56,000

The Following sceme of reconstration was approved by all the concern parties a Sanctioned by the court.

1. The Company to go in liquidation and a new company, Priya Ltd, with an authorized Capital of Rs. 5,00,000 be formed to take over the business of Priti Ltd

2. Preferential creditors of Rs. 33000 included in the above balance sheet are to be paid in full.
3. Balance creditors to receive 60% of their claim in cash.
4. Preference shareholders to receive 5000 equity shares of Rs. 10 each at par in full satisfaction their claim
5. Equity share holders to allotted one share of Rs.10 each, credited as Rs. 4 paid up for every share held by them. They have also agreed to pay the balance Rs.6/- share immediately
6. Debentures holders to receive equal no of 12 % debentures of Rs.75 each in the new company. Interest due to them being waived.
7. Reconstruction Cost amounting to Rs.10000 paid by Priya L
8. Your required to give necessary ledger accounts in the books of Priti Ltd. and Balance sheet of Priya Ltd. After reconstructions.

Solution: 1. Purchase consideration(net payment Method)

To Preference share holders 5000 equity shares of Rs. 10 each fully paid	50,000
To Equity share holders 50000 equity shares Rs. 4 paid up	2,00,000
Total Purchase consideration	**2,50,000**

2.Goodwill/ Capital reserve

Assets taken over		
Plant & machinery	3,00,000	
Stock	1,60,000	
Debtors	2,40,000	
Cash Bank	17,800	
		7,17,800
Less liabilities taken over		
Debentures	75,000	
Bank overdraft	40,000	
Bills payable	28,000	
Creditors	1,23,000	
		2,66,000
Net assets taken over		4,51,800
Purchase consideration		2,50,000
Capital reserve		**2,01,800**

In the books of Priti Ltd.
Realisation Account

To Goodwill	40000	By debentures	100000
To Plant & Machinery	300000	By bank over draft	40000
To Stock	160000	By bills payable	28000
To Debentures	240000	By creditors	1,83000
To cash Bank	17800	By interest on debenture	5000
		By Priya Ltd.	250000
		By preference share holders	150000
		By Equity share holders	1800
	757800		**757800**

Equity shareholders account

To profit & loss A/c	280200	By equity share capital	500000
To Preliminary expences	10000		
To share issue expence	8000		
To Realisation A/c	1800		
To Equity share in Priya Ltd.	200000		
	500000		**500000**

Preference shareholders account

To Equity shares in Priya Ltd.	50000	By preference Capital	200000
To realization A/c	150000		
	200000		**200000**

Priya Ltd. A/c

To Realisation A/c	250000	By Equity shares in Priya Ltd	250000
	250000		**250000**

Equity share in Priya Ltd A/c

To Priya Ltd.	250000	By Equity share holders A/c	200000
		By Preference shareholders A/c	50000
	250000		**250000**

Journal Entries in the books of Priya Ltd.

Sr.No.	Particulars	Dr. Rs.	Cr. Rs.
1	Business purchase A/c. Dr.	250000	
	To Liquidator of Priti Ltd.		250000
	(Being business purchase recorded)		
2	Plant and Machinery A/c. Dr.	300000	
	Stock A/c. Dr.	160000	
	Debtors A/c. Dr.	240000	
	Cash Bank A/c. Dr.	17800	
	To Debentures A/c.		75000
	To Bank Overdraft A/c.		40000
	To Bills payable		28000
	To Creditors		123000
	To Business purchase		250000
	To Capital Reserve		201800
	(Being sundry assets and liabilities taken over recorded)		
3	Liquidator of Priti Ltd. A/c. Dr.	250000	
	To Equity Share Capital(fully paid)		50000
	To Equity Share Capital (partly paid)		200000
	(Being purchase consideration discharged.)		
4	Equity Share Call A/c Dr.	300000	
	To Equity Share Capital A/c		300000
	(Being call made on 50000 Equity shares at Rs. 6/ share)		
5	Bank A/c Dr.	300000	
	To Equity Share Call A/c		300000
	(Being Call amount received)		
6	Creditors A/c Dr.	123000	
	To Bank A/c		123000
	(being Creditors Paid)		
7	Debenture holders of Priti Ltd. A/c Dr.	75000	
	To 12% Debentures A/c		75000
	(Being new debentures issued)		
8	Capital reserve A/c Dr.	10000	
	To Bank		10000
	(Being cost of reconstruction paid)		

Balance sheet of Priya Ltd. as on 1st April, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital:		Plant & Machinery	300000
Authorised		Stock	160000
10000 Equity share of Rs.10 each	1000000	Debtors	240000
Issued, subscribed, paid up		Cash and Bank	144800
55000 Equity Shares of Rs. 10/-	550000		
Capital Reserve	191800		
12 % Debentures	75000		
Bills Payable	28000		
	844800		**844800**

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10

AMALGAMATION OF LIMITED COMPANIES-III

Unit Structure

10.1 SOLVED PROBLEMS :

Illustration 1 (Adjustment of rights of shareholders)

Chaitanya Limited is absorbed by New wave limited. Following are the Balance sheets of the above companies as on 31st March 1996.

Capital and Liabilities	Chaitanya Ltd. Rs.	New Wave Ltd. Rs.	Assets	Chaitanya Ltd. Rs.	New Wave Ltd. Rs.
Share Capital : Paid up Share Capital :			Sundry Assets	20,30,000	98,10,000
			Cash in hand	20,000	2,70,000
10,000 Equity Share of Rs. 100 each of 70 paid up	7,00,000	75,00,000			
1,00,000 Equity Shares of Rs. 100 each Rs 75 per Share paid up	8,50,000	22,00,000			
Reserve Fund P & L A/c	3,00,000	2,00,000			
Sundry Creditors	2,00,000	1,80,000			
	20,50,000	**1,00,80,000**		**20,50,000**	**1,00,80,000**

It was decided that the holder of every three shares in Chaityanya Limited was to receive five shares in New Wave Limited, plus as much cash as is necessary to adjust the rights of Shareholders of both companies in accordance with the intrinsic value of shares as per respective balance sheets.

Pass the necessary journal entries in the books of New Wave Limited and prepare the balance sheet giving effect to the above scheme of absorption (T.Y.B.com April 1996)

Solution

In the Books of New Wave Ltd.
Calculation of the Intrinsic Value of Shares

Particulars	Chaitanya Ltd. Rs.	New WaveLtd. Rs.
Sundry Assets	20,30,000	98,10,000
Cash in hand	20,000	2,70,000
Total Assets	20,50,000	1,00,80,000
Less : Sundry Creditors	2,00,000	1,80,000
Net Assets	18,50,000	99,00,000

Intrinsic Value $= \dfrac{\text{Net Assets Available to Equity Shareholders}}{\text{No. of Equity Shares}}$

$= \dfrac{18,50,000}{10,000}$ $\qquad = \dfrac{99,00,000}{1,00,000}$

= Rs/ 185/- $\qquad$ = Rs. 99/-

Calculation of amount to be paid in cash :

Intrinsic values of 3 shares in Chaitanya Ltd.	185 x 3 =	555
Intrinsic values of 5 shares in New Wave Ltd.	99 x 5=	495
Difference for every 3 shares Payable in Cash		60

Calculation of Purchase Consideration:(Net Payment Method)

1. Shares to be allotted :16,666 Shares x Rs. 99		=	16,49,934
2. Cash	10,000 x Rs. 60	=	2,00,000
3. Cash for Fraction of Shares (0.666 x 99)		=	66
			18,50,000

Journal of New Wave Ltd.
(Purchase Method)

		Debit Rs.	Credit Rs.
Business Purchase A/c	Dr.	18,50,000	
To Liquidators of Chaitanya Ltd. A/c			18,50,000
(Being Purchase Consideration due)			
Sundary Assets	Dr.	20,30,000	
Cash A/c	Dr.	20,000	
To Sundry Creditors A/c			2,00,000
To Business Pruchase A/c			18,50,000
(Being Assets and Liabilities taken over)			
Liquidators of Chaitanya Ltd. A/c	Dr.	18,50,000	
To Equity Share Capital A/c (16,666 x 75)			12,49,950
To Cash A/c			2,00,066
To Securities Permium A/c			3.99,984
(Being the Purchase Consideration settled)			

New Wave Ltd.

Balance Sheet
as on 31st March, 1996

Liabilities	Rs.	Rs.	Assets	Rs.	Rs
Paid up Capital 1,16,666 Shares of Rs 75/- per share paid up		87,49,950	Sundry Assets		
			Chaitanya Ltd.	20,30,000	
			New Wave Ltd.	98,10,000	1,18,40,000
			Cash in hand:		
			Chaitanya Ltd.	20,000	
			New Wave Ltd.	2,70,000	
				2,90,000	
Reserve Fund		22,00,000	Less : Cash Paid as Purchase Consideration	2,00,066	89,934
Securities Premium		3,99,984			
P&L A/c		2,00,000			
Sundry Creditors:					
Chaitanya Ltd.	2,00,000				
New Wave Ltd.	1,80,000	3,80,000			
		1,19,29,934			1,19,29,934

Illustration 2 (Absorption – Net Payment Method)

Premier Ltd. Agreed to acquire the business of Modern Auto Ltd. as on 31st March, 1997. The Balance Sheet of Modern Auto Ltd. as on that date was as under.

Liabilities	Rs.	Assets	Rs.
Share Capital :		Goodwill	10,000
6000 Equity Shares		Building	30,000
of Rs. 10 each fully paid	60,000	Machinery	34,000
		Stock	16,800
General Reserve	17,000	Book Debts	3,600
Profit and Loss Account	11,000	U.T.I. Bank Account	5,600
6% Debentures	10,000		
Sundry Creditors	2,000		
	1,00,000		**1,00,000**

The Consideration payable by Premier Ltd. was agreed as follows:

a) Cash payment equal to Rs. 2.50 per share in Modern Auto Ltd.

b) Issue of 9,000 Equity shares of Rs. 10 each of Premier Ltd. having as agreed value of Rs. 15 per share.

c) Issue of such an amount of fully paid 8% Debentures of Premier Ltd. at Rs. 96 each as is sufficient to discharge 6% Debentures, of Modern Auto Ltd. at 20% premium.

While computing purchase consideration. Premier Ltd. valued building and machinery at Rs. 60,000 each, stock at Rs. 14,200 and Book debts subject to 5% provision for discount. The cost of liquidation of Modern Auto Ltd. was Rs. 500.

Prepare:

(i) Necessary ledger Accounts in the books of Modern Auto Ltd.

(ii) Journalise the transaction in the books of Premier Ltd. Under Purchase Method

(T.Y.B.Com. 1997)

Solution:

Determination of Purchase Consideration:

To Whom	Amt	Mode of Discharge
Equity Shareholders	15,000	Cash (6,000 Equity Shares @ 2.5)
Equity Shareholders	1,35,000	9,000 equity shares of Rs. 10 each at Rs. 15
	1,50,000	

In the Book of Modern Auto Ltd. Realisation A/c

	Rs.		Rs.
To Sundry Assets : Goodwill 10,000 Building 30,000 Machinery 34,000 Stock 16,800 Debtors 3,600 Bank 5,600	1,00,000	By Creditors By 6% Debentures By Premier Ltd.	2,000 10,000 1,50,000
To Bank (Expenses)	500		
To Equity Shareholders (Profit)	61,500		
	1,62,000		**1,62,000**

Premier Ltd. A/c

	Rs.		Rs.
To Realisation A/c	1,50,000	By Cash By Equity Shares in P. Ltd.	15,000 1,35,000
	1,50,000		**1,52,000**

Journal of Premier Ltd.

	Debit Rs.	Credit Rs.
Building A/c Dr.	60,000	
Machinery A/c Dr.	60,000	
Stock A/c Dr.	14,200	
Book Debts A/c Dr.	3,600	
U.T.I. Bank A/c Dr.	5,600	
Goodwill A/c (Balance Figure)	20,780	
To Reserve for Discount on Debtors		180
To Creditors A/c		2,000
To Liquidators of Modern Auto Ltd. A/c		1,50,000
To 6 % Debentures (Modern Auto)		12,000
(Being Assets and Liabilities taken over)		
Liquidator of Moderyn Auto Ltd A/c Dr.	1,50,000	
To Cash A/c		15,000
To Equity Share Capital A/c		90,000
To Securities Premium A/c		45,000
(Being discharged Purchase Consideration)		
6% Debentures (Modern Auto) Dr.	12,000	
Discount on issue of Debentures Dr	500	
To 8% Debentures .		12,500
(Being 8% Debentures issued in settlement of 6% Debentures)		

Illustration 3

The following are the Balance Sheets of Maths Ltd. and Stats Ltd. as on 31st March 2002:

	Maths Ltd		Stats Ltd	
Share Capital				
42% Preference Shares of Rs 100 each fully paid	10			
Equity Shares of Rs. 10 each full paid	25	35	10	10
Reserve and Surplus		15		40
Shareholder's Fund		50		50
Loan Funds:				
Secured Loans	30			-
Unsecured Loans	20	50		-
		100		50
Represented by:				
Fixed Assets (W.D.V.)	-	50		4
Current Assets	400		60	
Less : Current Liabilities	350	50	14	46
		100		50

On that day the following scheme was agreed upon:

a) Stats Ltd took over the assets of Maths Ltd. for Rs. 5 Crores.

b) Stats Ltd allotted 10 lakhs Equity Shares Rs. 10 each at a premium of Rs. 40 per share in discharge to this takenover.

c) The Directors of Stats Ltd. revalued the fixed of Maths Ltd. at Rs. 1.10 crores. The other assets were recorded at the values appearing in the Balance Sheets of Maths Ltd.

d) Maths Ltd. dealt with the shares received from Stats Ltd. as under

i) Allotment in full settlement

To Secured lenders	60,000 shares
To Unsecured lenders	40,000 shares
To Preference Shareholders	20,000 shares

ii) Allotment in partial settlements

To Equity Shareholders	80,000 shares

iii) Sale in Mumbai Stock Exchange at Rs 60 per share 8,00,000 shares.

The sale proceeds were partially used to settle all the current liabilities.

You are asked to:

i) Prepare the necessary ledger accounts in the books of Maths Ltd.

ii) Prepare the Balance Sheets of Stats Ltd. in Horizontal form on completion of the above scheme as at 31st March 2002, under Purchase Method.

(T.Y.B.Com April 1998)

Solution :

In the Books of Maths Ltd.
Realisation A/c

Dr. **Cr.**

	Rs.		Rs.
To Assets Ltd.		By Secured Loans	30,00,000
Fixed Assets	50,00,000	By Unsecured Loans	20,00,000
Current Assets	4,00,00,000	By Current Liabilities	3,50,500
To Equity Shares in Stats Ltd. (Secured Loan)	30,00,000	By Stats Ltd. (Purchase Consideration)	5,00,00,000
To Equity Shares in Stats Ltd. (Unsecured Loan)	20,00,000	By Equity Shares in Stats Ltd. (Profit on Sale)	80,00,000
To Cash (Current Liability)	3,50,00,000		
To Equity Shareholders A/c (Profit on Realisation)	1,30,00,000		
	9,80,00,000		**9,80,00,000**

Cash A/c

	Rs.		Rs.
To Equity Shares in Stats Ltd.	4,80,00,000	By Realisation A/c (Expenses)	3,50,00,000
		By Equity Shareholders A/c	1,30,00,000
	4,80,00,000		4,80,00,000

Equity Shareholders A/c

Dr. **Cr**

	Rs.		Rs.
To Cash	1,30,00,000	By Equity Share Capital A/c	25,00,000
To Equity Shares in Stats Ltd.	40,00,000	By Reserve & Surplus	15,00,000
		By Realisation A/c	1,30,00,000
	1,70,00,000		**1,70,00,000**

Preference Shareholders A/c

Dr. **Cr.**

	Rs.			Rs.
To Equity Shares in Stats Ltd.	10,00,000		By Preference Share Capital A/c	10,00,000
	1,70,00,000			10,00,000

Stats Ltd A/c

Dr. **Cr.**

	Rs.		Rs.
To Realisation A/c.	5,00,00,000	By Equity Share in Stats Ltd.	5,00,00,000
	5,00,00,000		**5,00,00,000**

Equity Shares in Stats Ltd. A/c

Dr. **Cr.**

	Rs.		Rs.
To Stats Ltd.	5,00,00,000	By Realisation A/c	30,00,000
To Realisation A/c	80,00,000	By Realisation A/c	20,00,000
		By Preference Shareholders	10,00,000
		By Cash	4,80,00,000
		By Equity Share holders	40,00,000
	5,80,00,000		**5,80,00,000**

Stats Ltd.
Balance sheets as on 1st April 2002

Liabilities	Rs.	Assets	Rs.
Share Capital Authorised		Fixed Assets	1,14,00,000
Issued, Subscribed and paid up :		Investments	Nil
11,00,000 Equity Shares of Rs. 10 each	1,10,00,000	Current Assets	4,60,00,000
(Of the above, 10,00,000 Shares of Rs. 10 each are allotted for consideration other than cash)		Loans & Advances	Nil
Reserves and Surplus		Miscellaneous Expenditure : (Not Written off)	Nil
Capital Reserves	10,00,000		
Securities Premium A/c (10,00,000 Shares x Rs. 40)	4,00,00,000		
Other Reserves	40,00,000		
Secured Loans	Nil		
Unsecured Loans	Nil		
Current Liabilities and provisions			
Current Liabilities	14,00,000		
Provision	Nil		
	5,74,00,000		**5,74,00,000**

Working notes:

1. Purchase consideration on Lumpsum basis Rs. 5,00,00,000
2. Purchase consideration discharge by issue of 10,00,000. Equity Shares of Rs. 10 each for Rs. 50.
3. **Capital Reserves :**

	Rs.
Fixed Assets	1,10,00,000
Current Assets	4,00,00,000
	5,10,00,000
Less: Purchase Consideration	5,00,00,000
Capital Reserve	**10,00,000**

Illustration 4 (Absorption – Net Payment Method)

The following are the Balance Sheets of Fat Ltd. and Thin Ltd. as at 31st December, 2001:

	Fat Ltd		Thin Ltd	
Share Capital				
Equity Shares of Rs. 10 each full paid	50		20	
6% Preference Shares of Rs 100 each fully paid	-	50	15	35
Reserve and Surplus :				
Securiteis Premium	10		5	
Capital Reserve	15		10	
Other Reserves	40	65	15	30
Secured Loans		20		10
Unsecured Loans		15		5
Loan From Pvt. Ltd.		-		5
		150		85
Fixed Assets :				
Cost	90		40	
Less : Depreciation	30	60	15	25
Investments in Madhyam Ltd. at Cost		-		30
Loan to Thin Ltd.		5		-
Net Current Assets		85		30
		150		85

On that day Fat Ltd. absorbed Thin Ltd. on the following terms :

a) All the assets and liabilities of Thin Ltd. other than Investments is Madhyam Ltd. are taken over Rs. 40 lakhs.

b) Thin Ltd. to receive from Fat Ltd. 15% Debentures of Rs 12 lakhs at par and Equity Shares of the par value of Rs. 10 each at a premium of Rs. 4 per share for the balance.

c) The Preference Shareholders of Thin Ltd. are to be allotted the debentures received from Fat Ltd. and 10,000 Equity Shares of Fat Ltd. is full discharge of their interest in Thin Ltd.

d) The balance of Equity Shares received from Fat Ltd. and the Investments in Madhyam Ltd. are to be allotted to the Equity Shareholders of Thin Ltd.

e) The Direction of Fat Ltd. revalued the fixed assets taken over from Thin Ltd. at Rs. 41,00,000

You are asked to :

i) Show the relevant ledger accounts in the books of Thin Ltd.

ii) Show the Balance sheet of Fat Ltd. after giving effect to the above transactions as at 31st December, 2001. Under Purchase Method.

(T.Y.B.Com, 1998)

Solution :

In the Books of Thin Ltd.
Realisation A/c

Dr. Cr.

	Rs.		Rs.
To Assets Ltd.		By Provision for Depreciation	15.00
Fixed Assets 40.00		By Loans (Secured)	10.00
Net Current Assets 30.00	70.00	By Loans (Unsecured)	5.00
To Equity Shareholders A/c	6.60	By Loan (Fat Ltd)	5.00
		By Fat Ltd.	40.00
(Profit on Realisation)		By Preference Shareholders	1.60
	76.60		76.60

Equity Shareholders A/c

Dr. Cr.

	Rs.		Rs
To Investment in Madhyam Ltd.	30.00	By Equity Share Capital A/c	20.00
To Equity Shares in Fat Ltd. (1,90,000	26.60	By Securities Premium	5.00
		By Capital Reserve	10.00
		By other Reserves	15.00
		By Realisation A/c	6.60
	56.60		56.60

6% Preference Shareholders A/c

Dr. Cr.

	Rs.		Rs.
To 15% Debentures in Fat Ltd.	12.00	By Preference Share Capital A/c	15.00
To Equity Shares in Fat Ltd. (10,000)	1.40		
To Realisation A/c	1.60		
	15.00		15.00

Fat Ltd A/c

Dr. Cr.

	Rs.		Rs.
To Realisation A/c	40.00	By 15% Debentures in Fat Ltd.	12.00
		By Equity Shares in Fat Ltd $\left(\frac{28,00,000}{14} = 2,00,000\right)$	28.00
	40.00		40.00

Equity shares in Fat Ltd A/c

Dr.	Rs.		Cr. Rs.
To Fat Ltd. (2,00,000 x 14	28.00	By Preference Shareholders (10,000 x 14)	1.40
		By Equity Shareholdsers (1,90,000 x 14)	26.60
	28.00		28.00

15% Debentures in Fat Ltd A/c

Dr.	Rs.		Cr Rs.
To Fat Ltd	12.00	By Preference Shareholders	12.00
	12.00		12.00

Investment in Madhyam Ltd. A/c

Dr.	Rs.		Cr Rs.
To Balance b/d	30.00	By Equity Shareholders	30.00
	30.00		30.00

Fat Ltd.
Balance sheets as on 1st January, 2002

Liabilities	Rs.	Rs.		Assets	Rs.	Rs.
Share Capital				**Fixed Assets**		
Authorised				Cost (90+4)	131.00	
Issued, Subscribed and paid up : 7,00,000 Equity Shares of Rs. 10 each (Of the above, 2,00,000 Shares of Rs. 10 each are allotted for consideration other than cash)		70.00		Less : Depreciation	30.00	101.00
				Investments		Nil
				Current Assets		
				Net Current Assets (85+30)		115.00
				Loans & Advances		Nil
				Miscellaneous Expenditure : (Not Written off)		Nil
Reserves and Surplus						
Capital Reserves (15+11)	26.00					

Securities Premium A/c (10 + 8)	18.00					
Other Reserves	40.00	84.00				
Secured Loans :						
15% Debentures	12.00					
Secured Loans (20+10)	30.00	42.00				
Unsecured Loans(15+5)		20.00				
Current Liabilities and provisions		Nil				
		216.00		**Total**		**216.00**

Working Notes :

1. Purchase Consideration (Lumpsum Basis) Rs. 40 Lakhs
2. Purchase Consideration Settlement.

Payment to		**Rate Rs.**	**Rs.**
a) Equity Shareholders : Equity Shares in Fat Ltd	1,90,000	14.00	26.60
b) Preference Shareholders: (15% Debentures in Fat Ltd.)			12.00
Equity Shares in Fat Ltd.	10,000	14.00	1.40
Total			**40.00**

3. Capital Reserve on take over of Thin Ltd.

Assets taken over:		
Fixed Assets (as revalued)	Rs.	41.00
Net Current Assets	Rs.	30.00
	Rs.	71.00
Less : Loans taken over	Rs.	20.00
Value of Net Assets taken over	Rs.	51.00
Less : Purchase Consideration Paid	Rs.	40.00
Capital Reserve	Rs.	11.00

Illustration 5 (Purchase Consideration Nil)

The following are the Balance Sheets of Bada Ltd. and Choota Ltd. as on 31.03.2002:

		Bada Ltd. Rs.		Chotta Ltd. Rs
1. Sources of Funds				
Authorised Share Capital		500		25
a) Issued Share Capital				
for Cash fully paid Equity Share of Rs 10/- each or consideration other than cash		100		10
as Bonus share fully paid Equity share of Rs 10/- each out of General Reserve		400		15
		500		25
b) Reserve and Surplus :				
Capital Reserves		100		5
Revenue Reserve		1,900		70
		2,000		75
Owner's Fund		2,500		100
c) Loan Funds :				
Unsecured Debentures		500		100
Total Fund Rs.		3,000		200
d) **Fund Employed in**				
Fixed assets : Cost	600		5	
Less Depreciation	500	100	4	1
2. Investments :				
a) 2.5 Crore Shares of Chotta Ltd. fully paid at cost	20			
b) 1 Crore Unsecured Debentures of Chotta Ltd. of RS 100 each fully paid at cost	98			
c) 1 Crore fully paid Equity Shares of Rs 10/- each of Madhyam Ltd. at cost (Market Value Rs. 30 crores)		118	10	10
3. Current Assets , Loans and Advances :				
Current Assets	2,100		150	
Loans and Advances	3,000		100	

	5,100		250	
Less : Current Liabilities	1,500		50	
Provisions	818		15	
	2,318	2,782	65	185
4. Miscellaneous Expenditure to the extent not written of adjusted..				4
		3,000		200

On the day Bada Ltd. absorbed Chotta Ltd. taking over all the assets and liabilities. The consideration was Rs. Nil. You are asked to pass the journal entries in the books of Bada Ltd. and prepare the balance sheet of Bada Ltd in vertical form after absorption under purchase method, showing corresponding figures before absorption.

(T.Y.B.Com October 1999)

Solution:

Journal Entries
In the Books of Bada Ltd.

No.		Debit Rs.	Credit Rs.
	Fixed Assets A/c	1	
	Investment A/c	10	
	Current Assets A/c	250	
	To Investments in Shares of Chhota Ltd		20
	To Current Liabilities		65
	To Investment in Debentures of Chhota Ltd.		98
	To Capital Reserve (Balance Figure)		78
	(Being Premises of Chhota Ltd. taken over)		

Bada Ltd
Balance Sheet
(After Absorption)

	Rs.	**Rs**	**Rs.**
I. Sources of Funds			500
Authorised Share Capital			
a) Issued Share Capital for Cash fully paid Equity Share of Rs 10/- each	100		
For consideration other than cash as Bonus share fully paid Equity share of Rs 10/- each out of General Reserve	400	500	

b) Reserve and Surplus :			
Capital Reserves	178		
Revenue Reserve	1,900	2,078	
c) Owner's Fund		2,578	
d) Loan Funds :			
e) Unsecured Debentures		500	
f) Funds Employed in			3,078
II. Application of Funds			
1. Fixed Assets : cost	601		
Less : Depreciation	500	101	
2. Investments			
1 crore fully paid Equity Shares of Rs. 10 each of Madhyam Ltd. at cost (Market value Rs. 30 crore)		10	
3. Current Assets, Loans and Advances			
a) Current Assets	2,250		
b) Loans and Advances	3,100		
	5,350		
Less : Current Liabilities	(1,550)		
Provisions	(833)	2,967	
			3,078

Illustration 6 (Amalgamation – Valuation of Goodwill)

The Balance sheets of Bill Ltd. and Mona Ltd. as on 1st January 2002 were as under.

Liabilities	Bill Ltd Rs.	Mona Ltd Rs.	Assets	Bill Ltd. Rs.	Mona Ltd. Rs.
Equity Capital (of Rs 1/- each full paid)	31,000	33,500	Fixed Assets	45,000	29,000
			Current Assets	25,000	61,000
Profit and Loss A/c	19,000	1,500			
Current Liabilities	20,000	55,000			
	70,000	**90,000**		**70,000**	**90,000**

Oral Ltd. was formed to amalgamate the business of the two companies. The authorized capital of Oral Ltd. being Rs. 1,00,000 divided into Equity Shares of Re 1/- each of which 20,000 shares were issued for each at a premium of 25 paise per share and are fully paid.

The amalgamation took place on 1st January 2002 on the following terms:

a) All the assets and liabilities of Bill Ltd. and Mona Ltd. to be assured by Oral Ltd. for a total consideration of 80,000 shares of Oral Ltd.

b) The Fixed and Current Assets and Liabilities are taken over at book value.

c) Goodwill to be valued on the basis of 2.5 years purchase of past 3 years Average profit after deducting Normal Profit of 10% on Capital employed as on 1st January 2002 of each company

d) The trading profits for the year ending:

	Bill Ltd.	Mona Ltd.
	Rs.	Rs.
31.12.1999	7,050	5,500
31.12.2000	8,800	6,400
31.12.2001	8,900	6,850

e) Ignore taxation

You are required to ascertain and prepare :

a) number of shares to be issued by Oral Ltd. to share holders of Bill Ltd. and Mona Ltd. Stating the ratio thereof to their former holding

b) Balance sheet of Oral Ltd. amalgamation of Bill/Mona Ltd. Under Purchase Method.

(T.Y.B.Com October 1999)

Solution:

Valuation of Goodwill

	Bill Ltd Rs	**Mona Ltd. Rs.**
1. Capital Employed	50,000	35,000
2. Normal Rate of Return (NRR)	10%	10%
3. Standard Profit	5,000	3,500
4. Average Past Profit	8,250	6,250
5. Super Profit = Average profit – standard profit	3,250	2,750
6. Goodwill = no. of year purchased x Super profit	x 2.5 Yrs	x 2.5 Yrs
	8,125	6,875
Denomination of Purchase Consideration		
Fixed Assets	45,000	29,000
Current Assets	25,000	61,000
Goodwill	8,125	6,875
	78,125	**96,875**
Less : Current Liabilities	(20,000)	(55,000)
	58,125	41,875

Issue Price of One Equity Share in Oral Ltd $\frac{58.125+41,875}{80,000}$

= Rs. 1.25

Oral Ltd.
Balance Sheet

Liabilities	RS.	Assets	Rs.
Share Capital		Fixed Assets	74,000
Authorised		Goodwill	15,000
1,00,000 Equity Shares of Re 1/- each	1,00,000	Current Assets	86,000
		Bank	25,000
Issued and paid up:			
1,00,000 Equity Share of Re 1/- each fully paid	1,00,000		
(of the above 80,000 shares are issued to Vendors of business and consideration other than cash)			
Reserve and Surplus:			
Securities Premium	25,000		
Current Liabilities	75,000		
	2,00,000		2,00,000

Number of Shares to be issued to Bill Ltd and Mona Ltd by Oral Ltd.

	Bill Ltd.	Mona Ltd
Purchase Consideration	58,125	41,875
Issue Price per Share	1.25	1.25
No. of Shares	= 46,500	33,500

The ratio of Shares in Oral Ltd. to be issued to Shareholders of old Companies

=	46,500	33,500
	31,000	33,500
	1.5 : 1	1 : 1

For every 2 shares in Bill Ltd., new 3 shares in Oral Ltd.
For every one share in Mona Ltd., one new share in Oral Ltd.

Illustration 7 (Absorption – P. C. Lump sum)

M.D. Ltd. and M.L.D. Ltd. furnish you with their Balance Sheets as on 31st December 2001:

	M.D.Ltd Rs.		M.L.D. Ltd Rs.	
Source of Funds:				
Share Capital: Authorised	25		50	
Issued paid up				
Equity Shares of Rs. 10 each fully paid in cash		05		03
Reserve / Surplus:				
Capital Reserve	04		05	
Revenue Reserves	15	19	-	05
		24		08
Less : Debit Balance in Profit/Loss A/c		-		02
		24		06
Loan Funds:		06		04
Secured by a charge on Fixed Assets		30		10
	12		12	
Funds Represented by :	06		06	
Fixed Assets		06		06
Less : Depreciation		24		04
Net Current Assets		30		10

On the basis of the above the following decision were taken and approved by the Mumbai High Court:

a) Direction of M.L.D. Ltd. are to bring fresh Equity share Capital of Rs. 10 Lakhs at par.

b) The business of M.D. Ltd. to be absorbed by M.L.D. Ltd. for Rs. 27 Lakhs to be discharge in the form of Equity Shares of Rs. 10 each at par. Fixed Assets taken over from M.D. Ltd. are to be valued at Rs. 8 lakhs

c) M.L.D. Ltd. is to provide Rs. 3 lakhs for depreciation on its original fixed assets. Capital Reserve appearing in the books of M.L.D. Ltd. is to be utilized for this purpose and to write off the adverse balance in revenue statement.

d) Bank monies brought in under(a) above are to be utilized to pay – off all secured lenders.

You are asked to:

Prepare Balance Sheet of M.L.D. Ltd. in Horizontal form on the basis of the above information after absorption, under Purchase Method.

(T.Y.B.Com April, 2000)

Solution :

Calculation of Purchase consideration paid by M.L.D. Ltd. to M.D. Ltd. Lump sum Rs. 27,00,000.

Discharge by :

Issue of 2,70,000 Equity Shares of Rs. 10 each at par i.e. Rs 27,00,000.

Calculation of Goodwill / Capital Reserve in the books of M.L.D. Ltd.

	Rs.
Assets taken over	
Fixed Assets	8,00,000
Net Current Assets	24,00,000
	32,00,000
Less: Loan Funds (secured by a charge of FA)	6,00,000
	26,00,000
Add: Goodwill (Balance Figure)	1,00,000
Purchase: Consideration	27,00,000

In the Book of M.L.D. Ltd.
Balance Sheet
As on 31st December 2001

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital Authorised Capital	 50,00,000	Fixed Assets Goodwill	1,00,000 11,00,000
Issued: Paid up Equity Shares of Rs.10 each fully paid (including Rs. 27,00,000 shares issued for consideration other than cash for acquisition of business of M.D. Ltd.)	 40,00,000	Others Current Assets (24,00,000+4,00,000)	 28,00,000
	40,00,000		40,00,000

Additional Points :

1. Capital Reserve A/c	Dr. 5,00,000	
To Fixed Assets (Depreciation		3,00,000
To Profit and Loss A/c		2,00,000

Since Balance of Capital Reserve Account is completely utilized, there will be no balance in Balance Sheet.

2. Share Capital paid up

Original	Rs.	3,00,000
Given to M.D. Ltd.	Rs.	27,00,000
Fresh Issue	Rs.	10,00,000
		40,00,000

3. Amount raised by fresh issue Rs. 10,00,000 is used to pay loan funds (6,00,000 + 4,00,000) hence there is no Bank balance in Balance Sheet..

Illustration 8 (Dissented Shareholders)

Liabilities	Rs.	Assets	Rs.
Share Capital 2,500 Equity Shares RS. 100 each fully paid	2,50,000	**Fixed Assets** Land and Building 1,30,000 Plant and Machinery 75,000	2,05,000
Sundry Creditors	1,10,000	**Current Assets**	
Preferential Creditors	15,000	Stock 50,000 Debtors 57,000 Cash 1,000	1,08,000
		Preliminary Expenses	5,500
		Profit and Loss A/c	56,500
	3,75,000		**3,75,000**

The shareholders of the company resolved to take the company into voluntary liquidation and to form M/s Useful Limited, a new company with an authorized share capital of Rs. 10 lakh to take over the business on the following terms:

a) Preferential creditors of Rs. 15,000 are to be paid in full.

b) Unsecured creditors to receive 50 paise in a rupee in full settlement of their claims or par value of their claim in 7% Debentures of useful limited.

c) 2,500 Equity Shares of RS 100 each Rs. 60 paid to be distributed prorata to existing shareholders.

Five shareholders holding 200 shares dissented and their interest was purchased at Rs 50 per share by an assenting shareholder to whom the shares were transferred Half the unsecured creditors opted to be paid in cash, and the fund for this purpose were procured by calling up the balance of RS. 40 per share. Cost of liquidation amounting to Rs. 3,500 paid by Useful Ltd. as part of purchase consideration.

Journalise the above transaction in the books of Useful Limited and prepare the balance sheet in vertical form thereafter assuming the Plant and Machinery, Stock and Debtors were acquired at their book values and Land and Building is to be taken at Rs. 68000.

(T.Y.B.Com April 2000)

Solution

In the Book of Useful Ltd.
Calculation of Purchase Consideration

To Whom	What	How	Amount Rs.
1. Equity Shareholders	Equity Shares Capital	2,500 x 60	1,50,000

No effect of settlement of dissenting shareholders and transfer to shares in Balance Sheets.

Journal Entries
In the Book of Useful Ltd.

		Rs.	Rs,
1. Business Purchase A/c	Dr	1,50,000	
To Liquidator of Useless Ltd.			1,50,000
(Being taken over business of Useless Ltd)			
2. Land and Building A/c	Dr.	68,000	
Plant and Machinery A/c	Dr.	75,000	
Stock A/c	Dr.	50,000	
Debetors A/c	Dr.	57,000	
Cash A/c	Dr.	1,000	
To Preferential Creditors			15,000
To Unsecured Creditors			27,500
To Unsecured Creditors			55,000
To Business Purchase A/c			1,50,000
To Capital Reserve A/c			3,500
(Being Assets & Liabilities brought into the Books)			

3. Liquidator of Useless Ltd A/c To Equity Share Capital A/c (Being Purchase Consideration discharged)	Dr	1,50,000	1,50,000
4. Preferential Creditors A/c Unsecured Creditors A/c To Cash A/c (Being Preferential & Unsecured Creditors paid off)	Dr. Dr.	15,000 27,500	42,500
5. Unsecured Creditors A/c To 7% Debentures A/c (Being Unsecured Creditors settled on issue of 7% Debentures)	Dr.	55,000	55,000
6. Goodwill A/c To Cash A/c (Being paid for cost of Liquidation)	Dr.	3,500	3,500
7. Bank A/c To Equity Share Capital (2,500 x 40) A/c (Being collected a call of Rs. 40 per share)	Dr.	1,00,000	1,00,000

Useful Ltd.
Balance Sheet as on 31st December 1999

	Schedule No.	Rs.	Rs.
I. Sources of Funds			
1. Shareholder's Fund			
a) Capital	1	2,50,000	
b) Reserve and Surplus	2	3,500	2,53,500
2. Loan Funds :			
a) Secured Loans	3	55,000	
b) Unsecured Loans		Nil	55,000
Total			**3,08,5000**
II. Application of Funds			
1. Fixed Assets	4		
a) Gross Block	-	-	
b) Less : Depreciation	-	-	Nil
c) Net Block	-	-	1,46,500
d) Capital Work in Progress	-	-	Nil
2. Investments	-	-	Nil
3. Current Assets, Loans & Advances			
a) Inventories	-	50,000	-
b) Sundry Debtors	-	57,000	-
c) Cash and Bank Balances	-	55,000	-
d) Other Current Assets	-	Nil	-
e) Loans and Advances	-	Nil	-

		1,62,000	
Less : Current Liabilities and Provisions			
a) Liabilities	-	Nil	
b) Provisions	-	Nil	
Net Current Assets			1,62,000
4. a) Miscellaneous expenditure to the extent not written off or adjusted	-	-	Nil
b) Profit and Loss Account	-	-	Nil
Total			**3,08,500**

Schedules forming part of Balance Sheet:

Schedule 1 **Share Capital**

	Rs.
Authorised :	
10,000 Equity Shares of Rs 100 each	10,00,000
Issued and Subscribed :	
2,500 Equity Shares of RS. 100 Each	2,50,000
	2,50,000

Schedule 2 **Reserve and Surplus**

	Rs.
Capital Reserve	3,500
	3,500

Schedule 3 **Secured Loans**

	Rs.
7% Debentures	55,000
	55,000

Schedule 1 **Share Capital**

	Rs.
Goodwill	3,500
Land and Buildings	68,000
Plant and Machinery	75,000
	1,46,500

Working

	Rs.
Cash Balance	1,000
Received From Useless Ltd	1,00,000
Share Capital (2,500 x 40)	1,01,000
Less: Paid on preferential creditors	15,000
Paid to unsecured creditors	27,500
Liquidation Expenses	3,500
Balance	**55,000**

Illustration 9 (Ext – Reconstruction – Net Payment Method)

The following was the Balance Sheet of DT. Ltd. as on 30th June 2001

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	25,000
2,500 8% Cumulative Preference Shares of Rs. 100 each	2,50,000	Fixed Assets	12,85,000
		Stock	3,03,000
		Debtors	2,50,000
		Bank Balance	7,000
12,000 Equity Shares of Rs 100 each	12,00,000	Preliminary Expenses	25,000
9% Debentures	5,00,000	Profit and Loss A/c	6,00,000
Interest Accrued thereon	45,000		
Creditors	5,00,000		
	24,95,000		**24,95,000**

Note: Preference dividend was in arrears RS. 40,000

The following scheme of Reconstruction is duly sanctioned:

a) A new company TD Ltd. is formed with Rs. 15,00,000 as Authorised share capital divided into 15,00,000 Equity Shares of Rs. 10 each.

b) The Company will acquire DT Ltd. on the following conditions :

i) Old Companies Debentures will be paid by similar debentures in the new company. For the arrears of interest, equivalent amount of equity shares will be issued.

ii) The creditors will be paid for every Rs. 100 for their claim, Rs sixteen cash and ten equity shares in the new company.

iii) Preference shareholders are paid ten Equity shares in the new company for each shares held by them in the old company. They will not press for their dividend arrears.

iv) Equity Shareholders will be given ten equity shares in the new company for three shares held in the old company

v) Expenses of Rs. 20,000 will be borne by the new company, as a part of purchase consideration.

c) The new company will take the current assets at their book value except stock which will be reduced by Rs. 15,000 Intangible, assets are not to appear in the new balance sheet, appropriate adjustment being made in the values of fixed assets

d) Remaining equity shares in the new company are issued to the public and are fully paid.

You are required to prepare :

a) In the book of DT Ltd. (i) Realisation Account (ii) DT Equity Shareholders account

b) In the Book of DT. Ltd. i) Journal Entries (ii) Balance Sheet

Solution

Calculation of Purchase Consideration

	Rs.
To Preference Shareholders: 25,000 Equity Shares of Rs. 10/- each To Equity Shareholders $\frac{10}{3}$x12,000 = 40,000 shares of Rs. 10/- each	 2,50,000 4,00,000 6,50,000

Note: As per AS – 14 expenses are not covered by purchase consideration

	Rs.		Rs.
To Sundry Assets	18,70,000	By Liabilities 9% Debentures Interest on Debentures **Creditors :** By T.D. Ltd. By Equity Shareholders A/c (Loss)	5,00,000 45,000 5,00,000 6,50,000 1,75,000
	18,70,000		**18,70,000**

DT Equity Shareholders A/c

	Rs		Rs.
To Preliminary Expenses	25,000	By Equity Share Capital	12,00,000
To Profit & Loss A/c	6,00,000		
To Realisation (Loss)	1,75,000		
To Equity Shares in TD Ltd.	4,00,000		
	12,00,000		**12,00,000**

Journal of TD. Ltd.

	Dr Rs.	**Dr Rs,**
1. Business Purchase A/c Dr	6,50,000	
To Liquidator of DT Ltd.		6,50,000
(Being Purchase Consideration Due)		
2. Stock A/c Dr.	2,88,000	
Debetors A/c Dr.	2,50,000	
Bank A/c Dr.	7,000	
Fixed Assets Dr.	12,30,000	
To 9% Debenture A/c		5,45,000
To Creditors A/c		5,80,000
To Business Purchase A/c		6,50,000
(Being Assets & Liabilities taken over, balance being Fixed Assets)		
3. Liquidator of DT.Ltd A/c Dr	6,50,000	
To Equity Share Capital A/c		6,50,000
(Being Purchase Consideration discharged)		
4. Bank A/c Dr.	3,05,000	
To Equity Share Capital A/c		3,05,000
(Being amount received for issue of remaining shae to Public)		
5. 9% Debentures holder of DT Ltd A/c Dr.	5,45,000	
To 9% Debentures A/c		5,00,000
To Equity Shares Capital A/c		45,000
(Being Debentures holder's claim settled)		

6. Creditors A/c Dr.	5,80,000	
To Cash A/c		80,000
To Equity Share CApital A/c		5,00,000
(Being Creditors A/c Settled)		
7. Goodwill A/c Dr.	20,000	
To Cash A/c		20,000
(Being paid for Realisation Expenses)		

TD Ltd.
Balance Sheet
As on 1st July, 2001

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	12,50,000
15,000 Equity		**Current Assets:**	
Shares of Rs. 100	15,00,000	Stock	2,88,000
each		Debtors	2,50,000
Secured Loan:	5,00,000	Bank Balance	2,12,000
9% Debentures			
	20,00,000		20,00,000

Working note:

Cash A/c

	Rs.		Rs
To Sundry Liabilities	7,000	By Goodwill A/c	20,000
		By Creditors :	80,000
To Equity Share Capital	3,05,000	By Balance c/d	2,12,000
	3,12,000		3,12,000

Illustration 10

Madhuri Limited absorbed Shruti Limited on 31st March, 2001 on which day, the balance sheet of Shruti Limited was as under:

Balance Sheet
As on 31st March, 2001

Liabilities	Rs.	Assets	Rs.
Equity Share		Goodwill	30,000
Capital of Rs 10/-	5,00,000	Bank Balance	40,000
each		Inventories	1,55,000
5% Preference	2,00,000	Plant and Machinery	2,05,000
Shares of Rs 100		Debtors	85,000
each		Land and Buildings	2,50,000
Creditors	50,000	Preliminary Expenses	17,500
Bill Payable	30,000		
		Profit and Loss A/c	27,500
	7,80,000		7,80,000

The business of Shruti Limited was taken over by Madhuri Limited on the following terms and conditions:

a) For every 10 equity shares of Shruti Limited Madhuri Limited issued 11 fully paid equity shares of Rs. 10 each and paid Rs. 15 each.

b) Preference shares of Shruti Limited were paid 6% preference shares of Madhuri Limitd at a premium of 8%.

c) All assets and liabilities were taken over except cash to the extent of Rs. 7,000 which was left for meeting realization expenses.

d) Land and building was revalued at Rs. 3,00,000. All other assets and liabilities were taken over at the book value.

e) For the purpose of carrying out the above absorption. Madhuri limited made necessary arrangements of funds from bank.

Prepare :

i) Necessary ledger accounts in the book of Shruti Limited
ii) Balance sheet in the books of Madhuri Limited .

(T.Y.B.Com October, 2001)

Solution :

Purchase Consideration : **Rs.**

a) Issue of Equity Shares in Madhavi Ltd.

$\frac{11}{10}$ x 50m000 = 55,000 shares of Rs. 10 each = 5,50,000

b) Payment in cash $\frac{15}{10}$ x 50,000 = 75,000

c) Issue of 6% Preference Shares of Madhavi Ltd

2,000 x 108 = 2,16,000

8,41,000

In the book of Shruti Ltd.
Realisation A/c

	Rs		Rs.
To Goodwill	30,000	By Creditors	50,000
To Bank	33,000	By Bills Payable	30,000
To Inventories	1,55,000	By Madhavi Ltd.	8,41,000
To Plant & Machinery	2,05,000		
To Debtors	55,000		
To Land & Building	2,50,000		
To Preference Shareholders (Loss on Settlement)	16,000		
To Cash	7,000		
To Equity Shareholders A/c (Profit)	1,70,000		
	9,21,000		**9,21,000**

Equity Shareholders A/c

	Rs.		Rs.
To Preliminary Expenses	17,500	By Equity Capital	5,00,000
		By Realisation A/c	1,70,000
To Profit and Loss A/c	27,500		
To Equity Shares in Madhavi Ltd.	5,50,000		
To Cash	75,000		
	6,70,000		**6,70,000**

Preference Shareholders A/c

	Rs.		Rs.
To 6% Preference Shares in Madhavi Ltd	2,16,000	By Preference Capital	2,00,000
		By Realisation A/c	16,000
	2,16,000		**2,16,000**

Madhavi Ltd. A/c

	Rs.		Rs.
To Realisation A/c	8,41,000	By Equity Shares in Madhavi Ltd.	5,50,000
		By Preference Shares in Madhavi Ltd.	2,16,000
		By Cash	75,000
	8,41,000		**8,41,000**

Equity Shares in Madhavi Ltd. A/c

	Rs.		Rs.
To Madhavi Ltd.	5,50,000	To Equity Shareholders A/c	5,50,000
	5,50,000		**5,50,000**

6% Preference Shares in Madhavi Ltd. A/c

	Rs.		Rs.
To Madhavi Ltd	2,16,000	By Preference Shareholders A/c	2,16,000
	2,16,000		**2,16,000**

Cash A/c

	Rs.		Rs.
To Balance b/d	7,000	By Realisation A/c	7,000
To Madhavi Ltd.	75,000	By Equity Shareholders A/c	75,000
	82,000		**82,000**

Madhavi Ltd.
Balance Sheet
as on 31st March, 2001

Liabilities	Rs.		Assets	Rs.
Share Capital			**Fixed Assets :**	
55,000 Equity			Goodwill	1,73,000
Share of Rs 10/-			Land & Building	3,00,000
each	5,50,000		Plant & Machinery	2,05,000
2,000 6%			**Current Assets:**	
Preference Shares			Inventors	1,55,000
of Rs 100 each	2,00,000		Debtors	55,000
Reserve & Surplus				
Securities	16,000			
Premium				
Current Liabilities :				
Creditors	50,000			
Bill Payable	30,000			
Bank OD	42,000			
	8,88,000			**8,88,000**

Illustration 11

Following are the balance Sheet of Big Ltd. and Small Ltd as on 31st March 2001.

Liabilities	Big Ltd Rs	Small Ltd Rs.	Assets	Big Ltd Rs.	Small Ltd. Rs.
Equity Shares	10,00,000	3,00,000	Plant	8,00,000	-
			Computer	1,00,000	30,000
Reserves	3,00,000	70,000	Stocks	3,00,000	2,70,000
			Debtors	1,80,000	55,000
Bill Payable	50,000	10,000	Cash at Bank	1,00,000	75,000
Sundry Creditors	1,50,000	80,000	Bill Receivable	20,000	30,000
	15,00,000	**4,60,000**		**15,00,000**	**4,60,000**

Big Ltd takent over business of Small Ltd. for RS 3,00,000 in the form of Equity Shares of RS. 10/- each allotted at par, Included in bills payable of Big Ltd. are bills amounting to Rs. 30,000 accepted in favour of Small Ltd. for goods purchased. Of the above mentioned bills of Rs. 30,000 bills for Rs. 5,000 only still remain on the date of absorption in the hands of Small Ltd. The rest having been endorsed in favour of Creditors or got discounted with the bank.

On the date of absorption the stock of Big Ltd. include goods purchased from Small Ltd. at the invoice price of Rs. 15,000 Small Ltd. charging profit at 25% on cost.

Expenses of liquidation of Small Ltd. Rs. 7,000 were met by Big Ltd.

Prepare realization account and Equity shareholders account in the books of Small Ltd. Also pass necessary Journal Entries (narration not required) in the books of Big Ltd. and prepare in Balance Sheet after absorption of Small Ltd.

(T.Y.B.Com April 2002)

Solution :

In the Books of Small Ltd.
Realisation A/c

	Rs			Rs.
To Computer A/c	30,000		By Bills Payable A/c	10,000
To Stock A/c	2,70,000		By Sundry Creditors A/c	80,000
To Debtors A/c	55,000		By Big Ltd. A/c	3,00,000
To Cash at Bank A/c	75,000		By Equity Shareholders A/c (Loss)	70,000
To Bills Receivable A/c	30,000			
	4,60,000			**4,60,000**

Equity Shareholders A/c

	Rs.			Rs.
To Realisation A/c	70,000		By Equity Shares Capital A/c	3,00,000
To Equity Shares in Big Ltd. A/c	3,00,000		By Reserve A/c	70,000
	3,70,000			6,70,000

Journal of Big Ltd.

		Debit Rs.	Credit Rs.
2001 March, 31	Business Purchase A/c Dr.	3,00,000	
	To Liquidator of Small Ltd. A/c		3,00,000
	Computer A/c Dr.	30,000	
	Stock A/c Dr.	2,70,000	
	Debtors A/c Dr.	55,000	
	Cash at Bank A/c Dr.	75,000	
	Bills Receivable A/c Dr.	30,000	

	To Bills Payable A/c To Sundry Creditors A/c To Business Purchase A/c To Capital Reserve A/c		10,000 80,000 3,00,000 70,000
	Liquidator of Small Ltd. A/c Dr. To Equity Share Capital A/c	3,00,000	3,00,000
	Bills Payable A/c Dr. To bills Receivable A/c	5,000	5,000
	Capital Reserve A/c Dr. To Stock A/c	3,000	3,000
	Capital Reserve A/c or Goodwill A/c Dr. To Bank A/c	7,000	7,000

Big Ltd.
Balance Sheet as on 31st March 2001

Liabilities	Rs.		Assets	Rs.
Share Capital :			**Fixed Assets :**	
Issued and Subscribed			Plants	8,00,000
			Computers	1,30,000
1,30,000 Equity Shares of Rs. 10 each fully paid (Of the above Rs. 3,00,000 have been allotted to Vendors to pursuant to a contract without payment being received in cash)	13,00,000		**Current Assets, Loans and Advances :**	
			Current Assets	
			Stock	5,67,000
			Debtors	2,35,000
			Cash at Bank	1,68,000
			Loans and Advances	
			Bill Receivable	45,000
Reserve & Surplus				
Capital Reserve	60,000			
Other Reserve	3,00,000			
Current Liabilities and Provisions				
Current Liabilities				
Bill Payable	55,000			
Sundry Creditors	2,30,000			
Provisions	Nil			
	19,45,000			**19,45,000**

Illustration 12

The following were the Balance sheets of Amar Ltd and Akbar Ltd as at 31st March 2002.

Liabilities	Bill Ltd Rs.	Mona Ltd Rs.	Assets	Bill Ltd. Rs.	Mona Ltd. Rs.
Equity Share					
Capital			Land &	8,00,000	
(fully paid			Building		
share of Rs			Plant &		
10/- each)	15,00,000	6,00,000	Machinery	12,00,000	5,00,000
Securities	3,00,000	-	Furnitures,		
Premium			Fixtures and		
Foreign			Fittings		
Projects			Stock in	2,50,000	1,60,000
Reserve	-	31,000	Trade		
General	9,50,000	3,20,000	Sundry	7,70,000	4,10,000
Reserve		82,500	Debtors		
Profit and Loss			Cash at	2,20,000	1,10,000
A/c	2,87,000		Bank		
12%			Bills	1,00,000	62,000
Debentures	-	1,00,000	Receivable	-	8,000
Bills Payable	12,000	-			
Sundry					
Creditors	1,30,000	45,000			
Sundry					
Provisions	1,61,000	71,500		-	-
	33,40,000	12,50,000		33,40,000	12,50,000

At the bill receivable held by Akbar Ltd. were Amar Lts's acceptances. On 1st April 2002. Amar Ltd. took over Akbar Ltd. in an amalgamation in the nature of merger.

It was agreed that in discharge of consideration for the business, Amar Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in Akbar Ltd.

It was also agreed that 12% Debentures in Akbar Ltd. would be converted into 13% Debentures in Amar Ltd. of the same amount and denomination. Expenses of amalgamation amounting to Rs. 1,000 were borne by Amar Ltd.

You are required to

a) Pass Journal entries in the books of Amar Ltd. and
b) Prepare Balance Sheet of Amar Ltd. immediately after the merger

(T.Y.B.Com. March 2003)

Solution :

Purchase Consideration :

	Rs.
Equity Shares in Amar Ltd. $\left(\frac{3}{2} x 60{,}000\right)$ 90,000 Equity Shares of Rs. 10 each	9,00,000
	9,00,000

Journal of Amar Ltd.

	Dr. Rs.	Dr. Rs
Business Purchase A/c Dr.	9,00,000	
To Liquidator of Akbar Ltd.		9,00,000
(Being Pruchase of Akbar Ltd.)		
Plant and Machinery A/c Dr.	5,00,000	
Furniture, Fixtures & Fittings A/c Dr.	1,60,000	
Stock in Trade A/c Dr.	4,10,000	
Sundry Debtors A/c Dr.	1,10,000	
Cash at Bank A/c Dr.	62,000	
Bills Receivable A/c Dr.	8,000	
To Foreign Project Reserve A/c		31,000
To General Reserve A/c (Balance Figure)		20,000
To Profit & Loss A/c		82,500
To 12% Debentures A/c		1,00,000
To Sundry Creditors A/c		45,000
To Sundry Provisions A/c		71,500
To Business Purchase A/c		9,00,000
(Being brought into books the Assets and Liabilities taken over)		
Liquidator of Akbar Ltd. A/c	9,00,000	
To Equity Share Capital A/c Dr.		9,00,000
(Being issued 90,000 Equity Shares of Rs. 10 each in Settlement of Purchase Consideration)		
Bills Payable A/c Dr.	8,000	
To Bills Receivable A/c		8,000
(Being inter company Bills Receivable adjusted)		

12% Debentures A/c Dr. To 13% Debentures A/c (Being 12% Debentures in Akbar Ltd. converted into 13% Debentures)	1,00,000	 1,00,000
General Reserve A/c Dr. To Bank A/c (Being paid for expenses of amalgamation)	1,000	 1,000

Amar Ltd.
Balance Sheet (After Merger)
As on 31st March 2002

Liabilities	Rs.	Assets	Rs.
Share Capital :		**Fixed Assets :**	
24,000 Equity Shares of Rs. 10 each	24,00,000	Loans & Buildings	8,00,000
		Plants & Machinery	17,00,000
Reserve & Surplus		Furniture, Fixtures & Fittings	4,10,000
Securities Premium	3,00,000	**Current Assets :**	
Foreign Project Reserve	31,000	Stock	11,80,000
		Debtors	3,30,000
General Reserve	9,69,000	Cash at Bank	1,61,000
Profit & Loss Reserve	3,69,000		
Secured Loans :			
13% Debentures	1,00,000		
Current Liabilities			
Bill Payable	4,000		
Sundry Creditors	1,75,000		
Sundry Provisions	2,32,000		
	45,81,000		**45,81,000**

Illustration 13

X Ltd. agreed to acquire the assets excluding cash as 31st December, 2002 of Y Ltd. The Balance Sheet of Y Ltd. as on 31st December 2002 was as follows :

Liabilities	Rs.	Assets	Rs.

Equity Share Capital : Shares of Rs. 10 each	3,00,000	Goodwill	6,000
		Land & Buildings	1,20,000
		Plant & Machinery	2,00,000
		Stock	80,000
General Reserve	80,000	Debtors	30,000
Profit & Loss A/c	60,000	Cash	10,000
Debentures (Rs100 each)	50,000		
Creditors	10,000		
	5,00,000		**5,00,000**

The Consideration was as follows:

a) A cash payment of Rs 4/- for every shares of Y Ltd.

b) The issue of one equity of Rs. 20 each (market value of RS. 12.50) in the X Ltd. for every share of Y Ltd.

c) The issue of 1100 debentures of Rs. 50 each in X Ltd. to enable Y Ltd to discharge its debentures at a premium of 10%

d) The expenses of liquidation of Y Ltd. amounting to Rs. 40,000 were to be met themselves.

You are required to open necessary ledger accounts in the book of Y Ltd.

Solution :

Purchase Consideration

				Rs.
a)	Cash Payment	30,000 x 4	=	1,20,000
b)	Equity Shares in X Ltd.	30,000 x 12.50	=	3,75,000
				4,95,000

In the Book of Y Ltd.

Realisation A/c

	Rs		Rs.
To Goodwill	60,000	By Debentures	50,000
To Land & Building	1,20,000	Bills Creditors	10,000
To Plant & Machinery	2,00,000	By X Ltd	4,95,000
To Stock	80,000		
To Debtors	30,000		
To Cash (Creditors)	10,000		
To Cash (Expenses)	4,000		
To Equity Shareholders (Profit)	51,000		
	5,55,000		**5,55,000**

Equity Shareholder's A/c

	Rs		Rs.
To Equity Shares in X Ltd	3,75,000	By Equity Capital	3,00,000
To Cash	1,16,000	By General Reserve	80,000
		By Profit & Loss A/c	60,000
		By Realisation A/c	51,000
	4,91,000		**4,91,000**

X Ltd. A/c

	Rs		Rs.
To Realisation A/c	4,95,000	By Cash	1,20,000
		By Equity Shares in X Ltd	3,75,000
	4,95,000		**4,95,000**

Equity Shares in X Ltd. A/c

	Rs		Rs.
To X Ltd.	3,75,000	By Equity Shareholders	3,75,000
	3,75,000		**3,75,000**

Cash A/c

	Rs		Rs.
To Balance b/d	10,000	By Creditors	10,000
To X Ltd.	1,20,000	By Realisation A/c	4,000
		By Equity Shareholders A/c	1,16,000
	1,30,000		**1,30,000**

Illustration 14

On 31st March 2002, B Ltd. was absorbed by A Ltd. the latter taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 80,000 to be discharged by the transfer company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company.

The Balance sheet of the two companies as at 31st March 2002 were as under:

Balance Sheet

S on 31st March 2001

Liabilities	A Ltd Rs.	B Ltd Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital:			Goodwill	40,000	12,000
Authorised	3,00,000	1,00,000	Plant & Machinery	82,400	20,000
Issued and Subscribed Equity Shares of Rs. 10 each fully paid up	1,80,000	40,000	Furniture	16,000	6,000
			Stock in Trade	53,100	12,000
			Sundry Debtors	44,240	9,200
			Prepaid Insurance	-	140
General Reserve	36,000	10,000			
Profit & Loss A/c	4,100	2,580	Income Tax Refund Claim	-	1,200
Sundry Creditors	14,114	7,890	Cash in Hand	174	70
Bills Payable	2,040	800	Cash in Bank	2,8000	1,660
Provision for	2,460	1,000			
	2,38,714	62,270		2,38,714	62,270

Amalgamation expenses amounting to Rs. 200 were paid by A Ltd. You are required to:

1. Show the necessary Journal Entries in the book of A Ltd. assuming amalgamation in the nature of merger.
2. Prepare the balance Sheet of A Ltd. after the amalgamation

(T.Y.B.Com. Oct 2003)

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs
1	Business Purchase A/c Dr.		90,000	
	To Liquidators of B Ltd. A/c			90,000
	(Being purchased business)			
2	Goodwill A/c Dr.		12,000	
	Plant & Machinery A/c Dr.		20,000	
	Furniture A/c Dr.		6,000	
	Stock in Trade A/c Dr.		12,000	
	Sundry Debtors A/c Dr.		9,200	
	Prepaid Insurance A/c Dr.		140	
	Income Tax Refund Claim A/c Dr.		1,200	
	Cash in Hand A/c Dr.		70	
	Cash in Bank A/c Dr.		1,660	
	General Reserve A/c Dr.		27,420	
	To Sundry Creditors A/c			7,890

	To Bills Payable A/c To Provision for Taxation To Business Purchase A/c (Being Assets and Liabilities taken over)			800 1,000 80,000
3	Liquidator of B Ltd. A/c Dr To Equity Share Capital A/c (Being settled purchase consideration)		80,000	 80,000
4.	General Reserve A/c Dr. To Bank A/c (Being paid for expenses)		200	 200

Balance Sheet of A Ltd. as at 31st March, 2002

Liabilities	Rs.	Assets	Rs.
Share Capital :		**Fixed Assets :**	
Authoriesed :		Goodwill	52,000
3000 Equity Shares		Plants &	1,02,400
of Rs. 10 each fully	3,00,000	Machinery	22,000
paid up		Furniture	
Issued,		**Current Assets :**	
Subscribed & Paid		Stock in Trade	65,100
up :	2,60,000	Sundry Debtors	53,440
26,000 Equity		Cash in Hand	44
Shares of Rs. 10		Cash at Bank	4,460
each fully paid up		**Loans and**	
(Out of the above		**Advances**	
8,000 Equity		Prepaid Insurance	140
Shares of Rs 10		Income tax Refund	1,200
each fully paid up		Claim	
have been issued			
for consideration			
other than cash)			
Reserve & Surplus			
General Reserve	8,380		
Profit & Loss	4,100		
Reserve			
Current Liabilities			
and Provisions			
Sundry Creditors	22,004		
Bill Payable	2,840		
Provision for	3,460		
Taxation			
	3,00,784		**45,81,000**

Working Notes:

		Rs.
1.	Statement of Purchase Consideration: 8,000 Equity Shares of A Ltd. at RS. 10 at par	80,000
2.	General Reserve :	
	Equity Shares Capital of A Ltd.	40,000
	General Reserve	10,000
	Profit and Loss A/c	2,580
	Net Assets Taken over	52,580
	Less : Amalgamation Expenses	80,000
	∴ General Reserve	27,420
	Less : Amalgamation Expenses	200
	General Reserve of A Ltd.	27,620
3.	General Reserve of B Ltd	36,000
	Add : General Reserve of A Ltd.	27,620
	Balance c/f	8,380

Illustration 15 (Issue of Shares in fraction, unrealised profit in stock)

Following are the balance sheets of Galaxy Ltd. and Gemini Ltd., as on 31st March 2003

Balance Sheet
As on 31st March 2003

Liabilities	A Ltd Rs.	B Ltd Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital: (Rs. 10 each)			Fixed Assets	60,000	1,25,000
Reserve Fund	50,000	1,00,000	Loan to Gemini Ltd.	5,000	-
Foreign projects Reserve	20,000	30,000	Debtors	15,000	10,000
Creditors	5,000	-	Stock	10,000	15,000
Loan from Galaxy Ltd.	15,000	20,000	Cash at Bank	-	5,000
	-	5,000			
	90,000	**1,55,000**		**90,000**	**1,55,000**

Gemini Ltd. agreed to absorb Galaxy Ltd. on the following terms:

Gemini Ltd. shall give one share of Rs. 10 each at RS 35 per share for every 3 shares held in Galaxy Ltd. the amount for the fraction of shares shall be paid in cash calculated as per the market price of the share of Gemini Ltd.

Stock of Galaxy Ltd. includes goods worth Rs. 7,500 purchased from Gemini Ltd. which has a profit margin of 20% on cost.

Debtors of Gemini Ltd. includes Rs. 2,500 being amount due from Galaxy Ltd. but the Creditors of Galaxy Ltd. include Rs. 2,000 only being the amount due to Gemini Ltd.

The Difference between the Debtors and Creditors is due to cash in transit.

The shares of Gemini Ltd. are quoted in the market at Rs. 45 per share.

You are requested to pass the journal Entries in the books of Gemini Ltd. and the Balance Sheet after the absorption, assuming that the Foreign Projects Reserve is still to be maintained for 3 years.

Assume that the amalgamation is in the nature of Purchase.
(T.Y.B.Com April 2004)

Solution:

Purchase Consideration

Rs.

One Share in Gemini Ltd. for every 3 shares of Galaxy Ltd.

$\frac{5,000}{3}$ = 1,666 Equity Shares of Rs. 10 each @ Rs. 35 each full paid up 58,310 Cash – 0.67 share x Market value of share of Gemini Ltd (Rs 45) 30

Purchase Consideration **58,340**

Journal of Gemini Ltd.

(Amalgamation is in the nature of purchase)

	Dr. Rs.	Dr. Rs
Business Purchase A/c Dr. To Liquidator of Galaxy Ltd. A/c *(Being business of Galaxy Ltd. taken over)*	58,340	 58,340
Fixed Assets A/c Dr. Loan to Gemini Ltd. A/c Dr. Debtors A/c Dr. Stock A/c Dr. To Creditors A/c To Business Purchse A/c To Capital Reserve A/c (Bal Figure) (Being various assets and liabilities of Galaxy Ltd. taken over at agreed values)	60,000 5,000 15,000 10,000	 15,000 58,340 16,660
Liquidator of Galaxy Ltd. A/c Dr. To Equity Share Capital A/c (1.666 x 10) To Securities Premium A/c (1.666 x 25) To Cash/Bank A/c (Being Payment to purchase Consideration to liquidators of Galaxy Ltd.)	 58,340	 16,660 41,650 30
Goodwill A/c Dr. To Stock Reserve A/c (Being profit element in stock of Galaxy Ltd)	1,250	 1,250
Loan from Galaxy Ltd A/c Dr. To Loan to Gemini LTd A/c (Being inter – company loan set off)	5000	 5,000
Creditors A/c Dr. Cash to Transit A/c Dr. To Debtors Bank A/c (Being inter – company debts set off)	2,000 500	 2,500
Amalgamation Adjustment A/c Dr. To Foreign Projects Reserve A/c (Being Foreign Projects Reserve maintained	5,000	 5,000

Balance Sheet of Gemini Ltd.

As at 31st March 2003

Liabilities	Rs.	Assets	Rs.
Share Capital : 11,666 Equity Shares of Rs. 10 each fully paid up (of the above, 1,666 share have been Issued for consideration other than cash)	1,16,660	**Fixed Assets :**	1,85,000
		Current Assets : Stock 25,000 Less: Stock Reserve 1,250	23,750
		Debtors	22,500
		Cash in Transit	4,970
Reserve & Surplus	41,650	**Miscellaneous Expenditure :**	500
Securities Premium Capital Reserve 16,660 General Reserve 1,250 Less : Goodwill	15,410	Amalgamation Adjustment A/c	5,000
Reserve Fund	30,000		
Foreign Project Reserve	5,000		
Current Liabilities Creditors	33,000		
	2,41,720		**2,41,720**

Illustration 16 (Statutory Reserve to be maintained)

The Following is the Balance Sheet of Vikrant Ltd.

Liabilities	Rs.	Assets	Rs.
Issued and Paid up Equity Share Capital	5,00,000	Intangible Assets	50,000
		Fixed Assets	4,20,000
		Current Assets	1,10,000
Statutory Reserve (to be maintained for 3 more years)	10,000	Profit and Loss A/c	80,000
Debentures	1,00,000		
Creditors	50,000		
	6,60,000		**6,60,000**

Virat Ltd. agreed to absorb Vikram Ltd. on the following terms:

1. Virat Ltd. agreed to take over all the assets and liabilities
2. The assets of Vikrant Ltd. are to be considered to be worth Rs. 5,00,000
3. The Purchase price is to be paid one – quarter in ash and the balance in shares which are issued at the market price.

4. Liquidation expenses amounted to Rs. 300 agreed to be paid by Vikrant Ltd.
5. Market value of shares of RS. 10 each of Virat Ltd. is Rs. 12 per share.
6. Debentures of Vikrant Ltd. were paid.
7. The amalgamation is in the nature of purchase

You are required to show:

a) Purchase consideration

b) Ledger accounts in the books of Vikrant Ltd.

c) Opening entries in the book of Virat Ltd.

(T.Y.B.Com Oct 2004)

Solution:

Purchase Consideration

		Rs.
Market value of assets taken over		5,00,000
Less: Liabilities taken over	50,000	
Debentures	1,00,000	1,50,000
		3,50,000

Discharge of Purchase Consideration :

	Rs.
In Cash $\frac{1}{4}$ x Rs. 3,50,000	87,500
In Shares $\frac{3}{4}$ x Rs. 3,50,000	2,62,500
	3,50,000

In the Book of Vikrant LTd.
Realisation A/c

Dr. **Cr.**

Liabilities	Rs.	Assets	Rs.
To Intangible Assets A/c	50,000	By Debentures A/c	1,00,000
		By Creditors A/c	50,000
To Fixed Assets A/c	4,20,000	By Virat Ltd. A/c (Purchase Price)	3,50,000
To Current Assets A/c	1,10,000	By Shareholders A/c (Loss on Realisation)	80,300
To Bank A/c (Expenses)	300		
	5,80,300		**5,80,300**

Equity Shareholders A/c

Dr. Cr.

	Rs		Rs
To Realisation A/c	80,300	By Share Capital A/c	5,00,000
To Profit and Loss A/c	80,000	By Statutory Reserve A/c	10,000
To Bank A/c	87,200		
To Equity Shares in Virat Ltd	2,62,500		
	5,10,000		**5,10,000**

Virat Ltd A/c

Dr. **Cr.**

	Rs		Rs
To Realisation A/c	3,50,000	By Bank A/c	87,500
		By Equity Share in Virat	2,62,500
	3,50,000		**3,50,000**

Bank A/c

Dr. **Cr.**

	Rs.		Rs.
To Virat Ltd. A/c	87,500	By Realisation A/c	300
		By Shareholders A/c	87,200
	87,500		87,500

Equity Share in Virat Ltd. A/c

Dr. **Cr.**

	Rs.		Rs.
To Virat Ltd. A/c	2,62,500	By Equity Shareholders A/c	2,62,500
	2,62,500		**2,62,500**

Journal of Virat Ltd.

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs
1	Business Purchase A/c Dr. To Liquidators of Vikarant Ltd. A/c (Being purchased business of Vikrant Ltd)		3,50,000	 3,50,000
2	Sundry Assets A/c Dr. To Trade Creditors A/c To Debentures A/c To Business Purchase A/c (Being Assets and Liabilities taken over)		5,00,000	 50,000 1,00,000 3,50,000
3	Liquidator of Vikran Ltd. A/c Dr To Share Capital A/c To Securities Premium A/c To Bank A/c (Being purchase consideration settled)		3,50,000	 2,18,750 43,750 87,500
4.	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c (Being statutory reserve maintained)		10,000	 10,000
5	Debentures A/c Dr. To Bank A/c (Being payment to debenture holders of Vikrant Ltd.)		1,00,000	 1,00,000

Working Notes:

Number of shares to be issued to Vikrant Ltd.
Amount to be paid in form of equity share capital Rs. 2,62,500
Agreed value of one equity Share Rs. 12

Number of equity shares to be issued = $\frac{2,62,500}{12}$ i.e. 21,875 shares

Share Capital = 21,875 x 10
= 2,18,750

Securities Provision = 21,875 x 2
= 43,750

Illustration 17

The following are the Balance sheets as on 31.12.2004 of Nisha Ltd. and Usha Ltd.

Liabilities	A Ltd Rs.	B Ltd Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Equity Share Capital: (Rs. 10 per share)	2,00,000	1,20,000	Land & Building	70,000	-
15% Debentures	40,000	-	Plant and Machinery	2,20,000	1,00,000
Reserve Fund	76,000	5,000	Stock	35,000	18,000
Employee's Provident Fund	6,000	-	Debtors	25,000	16,000
Sundry Creditors	30,000	16,000	Bank	6,000	2,000
Profit & Loss A/c	4,000	-	Misc Exp.not W/o	-	-
			Advertisement Expenses		5,000
	3,56,000	**1,41,000**		**3,56,000**	**1,41,000**

The two companies agreed to amalgamation and form a new company M/s Ujala Ltd/ which takes over the assets and liabilities of both the companies.

The authorized capital of Ujala Ltd. is Rs. 20,00,000 consisting of 2,00,000 Equity Shares of Rs. 10 each. The assets of Nisha Ltd. are taken over at 90% of the book value with the exception of land and building which are accepted to book value.

Both the companies are to receive 10% of the net valuation of their respective business as Goodwill.

The purchase consideration is to be satisfied by Ujala Ltd. in its fully paid shares at 10% premium. In return of Debentures of Nisha Ltd. Debentures of the same amount and denomination are to be issued by Ujala Ltd.

Close the books of Nisha Ltd. and Usha Ltd. and show the Opening Balance sheet of Ujala Ltd. under Purchase Method.

(T.Y.B.Com. March 2005)

Solution:

Computation at Purchase Consideration

	Nisha Ltd		Usha Ltd		Total	
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Assets Taken over						
Land and Building	70,000				70,000	
Plant and Machinery	1,98,000		1,00,000		2,98,000	
Stock	31,500		18,000		49,500	
Debtors	22,500		16,000		38,500	
Bank	6,000	3,28,000	2,000	1,36,000	8,000	4,64,000
Less : Liabilities						
15% Debentures	40,000				40,000	
Sundry Creditors	30,000		16,000		46,000	
Employees Provident Fund	6,000	76,000		16,000	8,000	92,000
Net Assets Before Goodwill		2,52,000		1,20,000		3,72,000
Add : Goodwill (10% of Net Assets)		25,200		12,000		37,200
Purchase Consideration		2,77,200		1,32,000		4,09,200
No. of Shares (N.V.		25,200		12,000		37,200
Security Premium	2,52,000 + 25,200	2,77,200	1,20,000 +12,000	1,32,000	3,72,000 +37,200	4,09,200
P.C. Satisfied as Under			Nisha Ltd		Usha Ltd	
25,200 Eq. Shares of Ujala Ltd. at Rs. 11 each 12,000 Eq. Shares of Ujala Ltd. at Rs. 11 each			2,77,200		1,32,000	

In the Books of Nisha Ltd. and Usha Ltd.
Realisation A/c

	Nisha Ltd. Rs	Usha Ltd. Rs		Nisha Ltd. Rs	Usha Ltd. Rs
To Sundry Assets :			By Sundry Liabilities		
Land & Building	70,000		15% Debentures	40,000	-
Plant & Machinery	2,20,000	1,00,000	Sundry Creditors	30,000	16,000
Stock	35,000	18,000	Employee's		
Debtors	25,000	16,000	Provident Fund	6,000	
Bank	6,000	2,000	By Usha Ltd. (P.C.)	2,77,200	1,32,000
To Equity Share holders (Realisation Profit)	-	12,000	By Equity Shareholders (Realisation Loan)	2,800	
	3,56,000	**1,48,000**		**3,56,000**	**1,48,000**

Ujala Ltd. A/c

	Nisha Ltd. Rs	Usha Ltd. Rs		Nisha Ltd. Rs	Usha Ltd. Rs
To Realisation A/c (P.C.)	2,77,000	1,32,000	By Eq. Shares in Ujala Ltd.	2,77,200	1,32,000
	2,77,200	**1,32,000**		**2,77,200**	**1,32,000**

Equity Shareholders A/c

	Nisha Ltd. Rs	Usha Ltd. Rs		Nisha Ltd. Rs	Usha Ltd. Rs
To Advertisement Expenses		5,000	By Eq. Share Capital	2,00,000	1,20,000
To Realisation A/c (Loan)	2,800		By Reserve Fund	76,000	5,000
			By P & L A/c		
To Equity Shares in Ujala Ltd.	2,77,200	1,32,000	By Realisation A/c (Profit)	4,000	12,000
	2,80,000	1,37,000		2,80,000	1,37,000

Balance Sheet of Ujala Ltd.
As on 31.12.2004

Liabililties	Rs	Assets	Rs
Share Capital Authorised		**Fixed Assets**	
2,00,000 Equity Shares of		Goodwill	37,200
Rs. 10 each	20,00,000	Land & Building	70,000
		Plant & Machinery	2,98,000
Issued, Subscribed &		Investments	Nil
Paid up 37,200 Equity		**Current Assets,**	
Shares of Rs. 10 each	3,72,000	**Loans and Advances**	
Reserve & Surplus :		Stock	49,500
Securities Premium	37,200	Debtors	38,500
Secured Loans		Bank	8,000
15% Debentures	40,000	Miscellaneous	
Unsecured Loan	Nil	Expenditure	Nil
Current Liabilities and Provisions			
Sundry Creditors	46,000		
Employee's Provident Fund	6,000		
	5,01,200		**5,01,200**

10.2 KEY TERMS :

Amalgamation: Means coming together of two or more Ltd. companies. It includes Absorption as well as external reconstruction.

Purchase consideration: It is sale price of the business of transferor company agreed Between transferor and transferee company. Pooling of Interest: It means amalgamation in the nature of merger.

Statutory Reserve: Any reserve which is required to be maintained in the future for specified Number of years as per the law.

Transferee Company: The company which takes over the business of another company.

Transferor Company: The company which sales its business to another company. This company goes into liquidation.

Swap Ratio: It is the ratio in which the shares of two companies are exchanged. It is based on intrinsic value of shares of both the companies.

10.3 EXERCISES:

10.3.1 OBJECTIVE TYPE QUESTIONS

1. Which of the following statements is true with amalgamation?
a. Amalgamation signifies the merging of two or more companies into one.
b. Two or more companies form a new company.
c. Refers to an arrangement, whereby a previously unprofitable of weak Company, is reconstructed.
d. Both (a) and (b) above
e. All of the above (a),(b)and (c) above.

2. Reconstruction refers to an arrangement, whereby:
a. A Previously unprofitable or weak company is reconstructed by certain measures
b. It is a blend of two or more undertakings into one undertaking
c. Reconstruction includes absorption
d. In reconstruction the assets and liabilities are not valued
e. None of the above.

3. The assets Which is not taken under the net assets method of calculation purchase consideration is
a. Furniture
b. Preliminary expenses
c. Stock
d. Cash
e. Debtors

4. Pooling of Interest Method of
a. Valuation of Inventory
b. Calculation of purchase consideration
c. Accounting of amalgamation
d. Method of valuing good will
e. Method of valuing shares

5. In which of the following methods the purchase consideration is calculated on the basis of the agreed value of the shares of the transferor company?
a. Lump sum Method
b. Net assets Method
c. Net Payment Method
d. Intrinsic value Method
e. Purchase Method

6. The Adjustment entry passes to eliminate the inter-company Owings is

a. Debit Amalgamation Adjustment a/c, Credit Statutory reserve account
b. Debit sundry Creditors a/c,Credit Sundry Debtors a/c
c. Debit sundry Creditors a/c, Credit Statutory reserve a/c
d. Debit Amalgamation adjustment a/c, Credit sundry debtors
e. Debit sundry debtors, Credit Sundry Creditors

7.Under purchase Method, any excess of the amount of purchase consideration over the acquired assets of the transferor company should be recognized as-
a. Statuory Reserve
b. Amalgamation Adjustment
c. Equity shares
d. Good will

8.When there is goodwill arising in amalgamation in the financial statement of the transferee company such good will should be amortized to income and such amortization period should not exceed.
a. 12 years
b. 10 years
c. 5 Years
d. 7 years
e. 6 years

9. If there is a provision against an asset, such an asset is transferred to the Realization account at-
a. Gross figure
b. Net figure
c. Historical Values
d. Current market value
e. Net realizable value.

10. Slink Ltd. is acquired and absorbed by pink Ltd. Plink agrees to pay the following to slink for the acquisition.

a. Discharge of slink Limited's 20,000 10% debentures by issue of 15,000 12% debentures.
b. Two Equity shares of Rs. 20 for each equity share of slink. Slinks total issued shares are 5,000.
c. Cost of acquisition amountedto Rs. 14,000. This will be borne by pink Ltd.
d. Cash @ Rs.5 per debenture additionally to Slink's debenture holders and Rs. 4 per share to its equity holders.

The purchase consideration payable by plink Ltd. to Slink Ltd.is:

a. Rs.20,38,000
b. Rs.20,34,000
c. Rs.20,35,000
d. Rs.20,37,000
e. Rs.20,32,000

Based on the following information answer the questions 11 to 17.
Balance sheet as at 31st March 2009

Liabilities	X Ltd	Y Ltd.	Assets	X Ltd.	Y. Ltd
Equity Capital of Rs.10 each	2,00000	1,20000	Fixed assets	3,60000	1,40000
General Reserve	36000	10000	Current assets	40000	60000
Statutory Reserve	10000	8000			
Profit & Loss A/c	4000	2000			
Debentures	80000	40000			
Creditors	70000	20000			
	400000	**200000**		**400000**	**200000**

X Ltd. takes over Y Ltd., the purchase consideration is discharged by "X" as follows:

a. Issue 32000 shares of Rs. 5 each in X Ltd. (Face value Rs. 5) at a premium of Re.1/- share
b. Debentures of Y Ltd. will be absorbed in X Ltd. on the same terms and conditions.
c. Fixed assets of Y Ltd. are revalued at Rs. 160000.
d. Statutory reserve required to be maintained for next five years.

11. The Method of calculation of purchase consideration is

a. Net Assets Method
b. Net Payment Method
c. Lump-sum Method
d. Exchange of shares Method

12. Purchase consideration of Y Ltd is

a. Rs 32,000
b. Rs. 1,92,000
c. Rs. 1,60,000
d. Rs. 2,00,000

13. After all adjustments the balance in general reserve accounts is Rs.

a. Rs. 46,000
b. Rs.36,000
c. Rs. 26,000
d. Rs. 16,000

14. The total Equity share capital of X Ltd after Merger is

a. Rs.3,60,000
b. Rs.5,00,000
c. Rs.2,00,000
d. Rs.3,92,000

15.The total of balance sheet of X Ltd after merger is

a. Rs. 3,00,000
b. Rs. 4,00,000
c. Rs. 6,10,000
d. Rs. 6,00,000

16. The total value of fixed assets shown in the balance sheets after merger is

a. Rs.3,60,000
b. Rs.5,00,000
c. Rs.5,10,000
d. Rs.4,00,000

17. The Capital reserve / Goodwill that will appeared in the balance sheet X Ltd is

a. Capital reserve Rs. 42,000
b. Capital Reserve Rs. 32,000
c. Goodwill Rs. 42,000
d. Goodwill Rs. 32,000

Based on the following information answer the questions from 18 to 26. The following is the summarized balance sheet of Anila Products Ltd. as at 31st March 2009

Liabilities	Rs.	Assets	Rs.
20,000 equity shares of Rs. 10 each	2,00,000	Good will	50,000
5000 of preference shares Rs.10 each	50000	Free hold Property	1,25,000
Securities Premium	20000	Plant and Machinery	25,000
10% Debentures	50,000	Furniture	30000
General Reserve	45,000	Motor vehicle	20,000
Profit and Loss a/c	15,000	Stock	25,000
Creditors	5,000	Debtors	15,000
		Bank	75,000
		Cash	20,000
	3,85,000		**3,85,000**

On the above date Binita Ltd. absorbed Anila Ltd. by taking over all fixed assets (tangible & intangible) at 10% above book value and stock and debtors at 10% below book value, creditors at book value.

The purchase consideration was discharged by issue of 10% preference shares of same denomination and value and issue of 10000 Equity shares of Rs. 10 each at Rs. 15 each and balance in cash.

18. The Method of calculation of purchase consideration is

d. Net Assets Method
e. Net Payment Method
f. Lump-sum Method
g. Exchange of shares Method

19. Purchase consideration of Anila Ltd is

a. Rs 4,01,000
b. Rs. 3,85,000
c. Rs. 3,91,500
d. Rs. 3,51,000

20. After all adjustments the balance in general reserve accounts is Rs.

e. Rs. 46,000
f. Rs.36,000
g. Rs. 45,000
h. Rs. 16,000

21. The total Equity share capital of Binita Ltd after Merger is
a. Rs.3,60,000
b. Rs.3,50,000
c. Rs.2,00,000
d. Rs.3,92,000

23. The revalued amount of fixed assets after absoptions is
a. Rs.3,60,000
b. Rs.2,50,000
c. Rs.2,75,000
d. Rs.4,00,000

24. The revalued amount of current assets after absoptions is
a. Rs.1,35,000
b. Rs.1,31,000
c. Rs.2,75,000
d. Rs.1,21,500

25. The cash payment to be made by Binita Ltd to Anila Ltd is

a. Rs. 75,000
b. Rs. 76,000
c. Rs. 78,000
d. Rs. 79,000

26. The Capital reserve / Goodwill (arising out of absorpation)that will appear in the balance sheet Binita Ltd is

a. Capital reserve Rs. 42,000
b. Capital Reserve Rs. 55,000
c. Goodwill Rs. 42,000
d. Goodwill Rs. 55,000

10.3.2 PRACTICAL PROBLEMS

Exercises: 1

The following Balance Sheet are given as on 31st March, 2008:

Liabilities	Lock Ltd	Key Ltd.	Assets	Lock Ltd.	Key Ltd.
Share Capital			Fixed Assets	25000	15000
Shares of Rs.100 each			Investments	5000	----
Fully paid	20000	10000	Current Assets	20000	5000
Reserves	10000	8000			
Other liabilities	20000	2000			
	--------	--------		-------	--------
	50000	**20000**		**50000**	**20000**
	======	=====		=====	======

The following further information is given –

a) Investments of Lock Ltd. include Rs. 3000 representing shares in Key Ltd. having a face value of Rs.2000

b) Key Limited issued bonus shares on 1st April, 2008 in the ratio of one share for every two held out of Reserves and Surplus.

c) It was agreed that Lock Ltd. will take over the business of Key Ltd. on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Key Ltd

d) The value of shares in Lock Ltd. was considered to be Rs. 150 and the shares in Key Ltd. were valued at Rs.100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

e) Liabilities of Key Ltd. includes Rs.1000 due to Lock Ltd. for purchases from it on which Lock Ltd. made profit of 25% of the cost. The goods of Rs. 500 out of the said purchases Remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Key Ltd. and the opening journal entries in the Books Of Lock Ltd. and prepare the Balance Sheet as at 1st April, 2008 after the takeover.

Exercises: 2

Balance Sheet of Nitin Ltd as on 31st March, 2009.

Liabilities	**Rs**	**Assets**	**Rs**
Authorised Share Capital		Good will	68000
100000 Equity shares		Land & Building	200000
Of Rs. 10/-	1000000	Furniture	100000
Issued Capital		Investment	120000
30000 Equity Shares of Rs 10 each fully paid.	300000	Stock	140000
Securities Premium	100000	Debtor	139000
General reserve	220000	Bills Receivable	69000
Foreign Project Reserve	10000	Bank	26000
10% Debentures	100000	Preliminery Expenses	16000
Provision for Tax	50000		
Trade Liabilities	98000		
	878000		**878000**

Nutan Ltd agreed to take over assets (except investment) of Nitin Ltd. on the following conditions:

1. Debentures will be discharged at 8 % premium by issue of 12 % debentures at 4 % discount
2. Issue of 3 equity shares at Rs. 10/- at a price of Rs. 16 per share for every 2 shares of Nitin Ltd.
3. Payment of cash Rs 2 per equity share of Nitin Ltd.
4. Payment of absorption expenses Rs. 10000

Nitin Ltd. sold off the investments at 100000 and 60% at shares received from Nutan Ltd. at 15 each and paid of Income Tax Liability at Rs. 52800 and trade Liabilities at 10% discount

Nutan Ltd. revalued Land and building at Rs. 400000 and furniture at Rs. 80000 and debtors subject to 5% Provision.

Give Necessary ledger accounts of in the books of Nitin Ltd. and journal entries in the books of Nutan Ltd.

Exercises: 3

The following are the Balance Sheets as on 31.03.2009. of X Co. Ltd & Y.Co.Ltd.

Liabilities	X.Co. Ltd Rs	Y.Co. Ltd. Rs	Assets	X.Co Ltd. Rs	Y.Co. Ltd. Rs
Equity Share Capital (Rs. 100 Each)	100000	60000	Land & Building	30000	
Debentures	20000		Plant & Machinery	110000	50000
Reserve Fund	34000		Stock	16000	8000
Dividend Equalization Fund	4000		Debtors	14000	9000
Employees Provident Fund	3000		Cash	3000	1000
Sundry Creditors	10000	8000			
Profit & Loss A/c	2000				
Total	**173000**	**68000**	**Total**	**173000**	**68000**

The two companies agree to amalgamate and form a new company called Z Ltd., Which takes over the assets and liabilities of both the companies. The Authorized capital Z Ltd. is Rs. 10,00,000 consisting of 1,00,000 Equity shares of Rs.10 each.

The Assets of X Co. Ltd. are taken over at a reduced valuation of 10% with the exception of Land and Building which are accepted at book value.

Both companies are to receive 5% of the net valuation of their respective business as Goodwill. The entire purchase price is to be paid by Z Co. Ltd., in its fully paid shares. Is Return for Debentures in X Co. Ltd., Debentures of the same amount and denomination are to be issued by Z Co. Ltd.

Close the books of X Co. Ltd., and Y Co. Ltd. and show the opening Balance Sheet of Z Co. Ltd under purchase method in vertical form.

(T.Y.B.Com. April, 1997)

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11

INTERNAL RECONSTRUCTION-I

Unit Structure

11.0 OBJECTIVES :

After studying the unit the students will be able to:

- Understand the types of reconstruction.
- Know the alternation of share capital.
- Explain the procedure of reconstruction.
- Understand the Accounting entries for reconstruction.
- Solve the practical problems on the unit.

11.1 INTRODUCTION :

The term reconstruction means reorganizing the capital structure of a company including the reduction of the claim of both the classes of shareholders & the creditors against the company. Sick companies (loss making companies) may be taken over by the profit making companies however in case of c/f of huge losses, assets are overvalued or undervalued, in such cases company may go for reconstruction. It may be external or internal reconstruction.

11.2 TYPES OF RECONSTRUCTION :

The Company can be reconstructed internally or externally. It means two types of reconstruction is possible:

11.2.1 External Reconstruction:

In case of external reconstruction a new company is formed to take over the business of an existing company which has suffered huge losses & which is in bad financial position. The vendor company goes into liquidation & its business is taken over by the new company.

11.2.2 Internal Reconstruction:

In case of internal reconstruction, the capital structure of the company is reorganized to infuse new life in the company. It includes alteration, reduction and reorganization of share capital of the company.

11.3 ALTERATION OF SHARE CAPITAL :

A limited company if authorized by its Articles of Association can alter the capital clause of its Memorandum of Association. As per Sec. 94 to 97 of the Companies Act 1956 a company can alter its share capital. The alteration of share capital may be in following different ways: -

a] Increase in share capital by the issue of new shares.

b] Consolidation of shares:

Consilidation refers to conversion of shares of the smaller denomination into shares of larger denomination e.g: 5000 equity shares of Rs. 10 each can be consolidated into 500 shares of Rs. 100 each.

c] Subdivision of shares:

Sub division refers to conversion of shares of the larger denomination into shares of small denomination e.g: 5000 equity shares of Rs. 100 each can be subdivided into 50000 shares of Rs. 10 each.

d] Conversion of shares into stock:

A company may convert its shares into stock. Stocks may be in fractions which is not possible in case of shares. Conversion of shares into stock requires sanction of the Central Government.

e] Surrender of shares:

In a reconstruction scheme the shareholders may be required to surrender a part of their shareholdings. Such a surrender may be either before immediate cancellation or for issue to some of the creditors of the company in satisfaction of their claim.

f] Cancellation of Unissued shares:

In case a company cancels its unissued shares it does not require any accounting entry to be passed. The authorized shares capital of the company will stand reduced by the amount of unissued shares now cancelled.

11.4 LEGAL ASPECTS :

Internal reconstruction scheme should be framed by careful study and proper valuation of assets and liabilities. It involves a compromise or arrangement between the company and its members or/and its creditors. However following aspects should be carefully taken care of while framing the scheme of internal reconstruction –

a] For change in share capital in any form, it should be considered as per provisions of the M/A & A/A, and in case if required the company should alter the provisions in the M/A & A/A.

b] Company is required to give a notice to the Register of Companies within 30 days of its passing resolution.

c] Sanction of SEBI is necessary in certain cases.

d] Board Resolution is necessary to effect the alteration.

11.5 CAPITAL REDUCTION :

Internal reconstruction means the reduction of capital to cancel any paid-up share capital which is lost during the course of business i.e. not represented by the real value of the assets.

A company can reduce its share capital in the followings ways:

a] Writing off lost capital

b] Refunding surplus paid-up capital.

c] Reducing the liability of the members for uncalled capital.

A company can reduce its share capital only when each of the following condition is satisfied

a] The A/A of the company must permit such reduction.

b] The company passes special resolution for reducing its share capital.

c] The company obtains the confirmation of the court.

Reduction of capital will be effective only when it is sanctioned by the court and registered with Registrar of Companies. Court may at its discretion order the words "And Reduced" to be added to the name of the company for the period prescribed.

11.6 ACCOUNTING ENTRIES :

Capital Reduction Account is opened in the ledger to give effect of sacrifice made by shareholders & others as well as to write off accumulated losses, fictitious assets, & change in values of assets/liabilities.

1] **When the face value of share is changed:**

Share capital A/c (o/d) Dr.
(With paid up value of old shares)
  To Share Capital A/c (new)
    (With paid up value of new shares)
  To Capital Reduction A/c
    (With difference)

2] **When any sacrifice is made by the creditors:**

Creditors A/c (with sacrifice) Dr.
  To Capital Reduction A/c

3] **When there is reduction in share capital (face value of share is not changed)**

Share Capital A/c Dr.
  To Capital Reduction A/c
    (With the amount of reduction).

4] **When the value of any asset is appreciated:**

Asset A/c (increase in value) Dr.
  To Capital Reduction A/c

5] **When any sacrifice is made by the Debenture Holders**

Debentures A/c (increase in value) Dr.
  To Capital Reduction A/c

6] **When shares are consolidated:**

Share Capital A/c (say Rs. 10) Dr.
  To Share Capital A/c (say Rs. 100)

7] **When Shares are subdivided:**

Share Capital A/c (say Rs. 100) Dr.
  To Share Capital A/c (say Rs. 10)

8] **When capital reduction is utilised for writing off fictitious assets, losses and excess value of other assets:**

Capital Reduction A/c Dr.
To P/L A/c
To Goodwill A/c
To Preliminary Expenses A/c
To Discount on Shares/Debentures A/c
To Other Assets A/c
To Capital Reserve A/c (if any balance is left)

9] **When shares are converted into stock:**

Share Capital A/c Dr.
To Share Stock A/c

10] **When shares are surrendered:**

Share Capital A/c Dr.
To Share Surrendered A/c

11] **When surrendered shares are converted into preference shares:**

Share Surrendered A/c Dr.
To Preference Share Capital A/c

12] **When contingent liability/unrecorded liability is paid for:**

Capital Reduction A/c Dr.
To Bank A/c

(**Note:** No entry is required for amount foregone against such liability.)

13] **When recorded liability is paid for:**

Liability A/c Dr.
To Bank A/c

(**Note:** Any profit or loss should be transferred to Capital Reduction A/c)

14] **When recorded assets are disposed off:**

Bank A/c Dr.
To Assets A/c

(**Note:** Any profit or loss on sale should be transferred to Capital Reduction A/c)

15] **When Reconstruction expenses are paid**

Capital Reduction A/c Dr.
To Bank A/c

16] **When an unrecorded assets is sold off:**

Bank A/c Dr.

To Capital Reduction A/c

17] **When finance is raised by issue of shares**

Bank A/c Dr.

To Share Capital A/c

18] **When arrears of preference dividend are cancelled**:

No Entry

19] **When new debentures are exchanged for old debentures**:

Old Debentures A/c Dr.

To New Debentures A/c

20] **When arrears of preference dividend are settled by issue of deposit certificates cash/shares:**

Capital Reduction A/c Dr.

To Deposit Certificates/Cash/Share Certificate A/c

21] **When the rate of preference dividend is changed:**

Preference Share Capital (old) A/c Dr.

To Preference Share Capital A/c (new)

22] **When surrendered shares are issued to creditors:**

(a) Surrendered A/c Dr.

To Share Capital A/c

(b) Creditors A/c Dr.

To Capital Reduction A/c

Note: Profit or Loss on scheme to be transferred to capital Reduction A/c.

23] **When provision for taxation, Capital Reserve,Securities Premium is utilised:**

Provision for Taxation A/c Dr.

Capital Reserve A/c Dr.

Securities Premium A/c Dr.

To Capital Reduction A/c

Proforma:

Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To P & L A/c (Loss written off)	XX	By Share Capital A/c (Amount of reduction)	XX
To Goodwill A/c (Written off)	XX		
To Preliminary expenses A/c (Written off)	XX	By Debentures A/c (Amount of Reduction)	XX
To Discount on Shares/Debentures (Written off)	XX	By Creditors A/c (Amount of Sacrifice)	XX
To Assets A/c (Decrease in value)	XX XX	By Assets A/c (Increase in value)	XX XX
To Bank A/c (payment of unrecorded liability)	XX	By Bank A/c (sate of unrecorded assets)	
To Bank A/c (payment of Reconstruction Expenses)	XX		
To Bank A/c (Refund of Directors Fees)	XX		
To Capital Reserve (Balancing figure)			
	XXX		**XXX**

11.7 SOLVED PROBLEMS :

Problem – 1

Following is the Balance sheet of M/s. Life Care Ltd. as on 31st March, 2010.

Balance Sheet as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
50,000 – 8% Cumulative Preference Shares of Rs.10/- each.	5,00,000	Goodwill	1,00,000
40,000 – Equity Shares of Rs.10/- each.	4,00,000	Freehold Property	1,50,000
Security Premium	8,000	Leasehold Property	2,40,000
9% Debentures	1,00,000	Plant & Machinery	3,00,000
Accrued Debenture interest	6,000	Furniture	1,00,000
Sundry Creditors	1,00,000	Stock	50,000
Bank Overdraft	1,42,000	Debtors	1,00,000
		Preliminary Exp.	9,000
		Profit & Loss A/c	2,07,000
	12,56,000		12,56,000

Note –

1) Preference dividend was in arrears for 3 years.

2) There was a contingent liability of Rs.30,000/- for workmen compensation.

Following scheme of reconstruction was approved & implemented.

a) The Preference shares were reduced to Rs.8/- per share fully paid & Equity Shares to Rs.3/- per share fully paid.

b) One new Equity share of Rs.10/- each was issued of every Rs.50/- gross preference dividend in arrears.

c) After reduction, both classes of shares were consolidated into Rs.10/- shares.

d) The balance of Securities Premium was utilized.

e) Plant & Machinery was written of down to Rs.2,50,000/-.

f) Furniture was sold to Rs.75,000/-

g) Preliminary expenses debit balance in Profit & Loss A/c, debt of Rs.25,000/- & obsolete stock Rs.18,000/- were to be written off.

h) Contingent liability for which no provision has been made was settled at Rs.15,000/-. However, the amount of Rs.11,000/- was recovered from insurance company.

i) Debenture holders agreed to Forgo principal amount by Rs.50,000/- & accrued debenture interest in full.

Pass journal entries. Prepare capital reduction account & Balance sheet after reconstruction.

Solution :

Journal of Life Care Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	8% Preference Share Cap. A/c …………Dr. (50,000X10) To 8% Preference Share Capital A/c (50,000X8) To Capital Reduction A/c (50,000X2) (Being reduction in 8% Preference Capital.)	5,00,000	 4,00,000 1,00,000

2.	8% Preference Share Capital A/c..........Dr. (40,000X8) To 8% Preference Share Capital A/c (32,000X10) (Being consolidation of 8% Preference Shares.)	3,20,000	3,20,000
3.	Equity Share Capital A/c ....Dr. (40,000X10) To Equity Share Capital A/c (40,000X3) To Capital Reduction A/c (40,000X7) (Being reduction in Equity Share Capital)	4,00,000	1,20,000 2,80,000
4.	Equity Share Capital A/c .... Dr. (40,000X3) To Equity Share Capital A/c (12,000X10) (Being consolidation of Equity Shares.)	1,20,000	1,20,000
5.	Capital Reduction A/c .... Dr. To Equity Share Capital A/c $(8\%X5,00,000X\frac{3}{50}X10)$ (Being arrears of Preference dividend paid by issue of Equity shares.)	24,000	24,000
6.	Security Premium A/c .... Dr. To Capital Reduction A/c (Being Security Premium used.)	8,000	8,000
7.	Bank A/c ....Dr. Capital Reduction A/c .... Dr. To Furniture A/c (Being sale of Furniture at a loss of Rs.25,000/-)	75,000 25,000	1,00,000
8.	Capital Reduction A/c ....Dr. To Bank A/c (Being payment of contingent liability.)	15,000	15,000
9.	Bank A/c .... Dr. To Capital Reduction A/c (Being recovery of claim from insurance company.)	11,000	11,000
10.	9% Debentures A/c .... Dr. Accrued Debenture interest A/c .... Dr. To Capital Reduction A/c	50,000 6,000	56,000

11.	Capital Reduction A/c .... Dr.	3,91,000	
	To Plant & Machinery A/c		50,000
	(3,00,000 – 2,50,000)		
	To Preliminary Expenses A/c		9,000
	To Profit & Loss A/c		2,07,000
	To Sundry Debtors A/c		25,000
	To Stock A/c		18,000
	To Capital Reserve A/c		82,000
	(Being losses & Assets written off.)		

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Cap. A/c	24,000	By 8% Pref. Share Cap.	
(Preference Dividend)		A/c	1,00,000
To Furniture	25,000	By Equity Share Capital	
To Plant & Machinery A/c	50,000	A/c	2,50,000
To Preliminary Expenses	9,000	By Security Premium	8,000
To Profit & Loss A/c	2,07,000	By 9% Debentures	50,000
To Sundry Debtors A/c	25,000	By Accrued interest on	
To Stock	18,000	debentures	6,000
To Bank	15,000	By Bank (Insurance)	11,000
(Contingent liability)			
To Capital Reserve	82,000		
	4,55,000		4,55,000

Balance Sheet as on __________

Liabilities	Amt.	Assets	Amt.
I) Share Capital		I) Fixed Assets	
Authorized	?	Freehold Prop. 1,50,000	
		Leasehold Prop. 2,40,000	
Issued, Subscribed & Paid up		Plant & Mach. 2,50,000	6,40,000
40,000 8% Pref.			
Shares of Rs.10/-		II) Investment	
each. 4,00,000			
14,400 Equity		III) Current Assets, Loans & Advances	
shares of Rs.10/-		a) Current Assets	
each. 1,44,000	5,44,000	Stock 32,000	
		S. Debtors 75,000	1,07,000
	82,000		NIL

II) Reserves & Surplus		b) Loans & Advances	-
III) Secured Loan 9% Debentures	50,000 -	IV) Miscellaneous Expenditure (Not written off) Goodwill	1,00,000
IV) Unsecured Loans	-		
V) Current Liabilities & Provisions a) Current Liability S. Creditors 1,00,000 Bank O/D 71,000 b) Provisions	1,71,000 NIL		
	8,47,000		8,47,000

Problem – 2

Following is the Balance Sheet of Satya Ltd. as on 31st March, 2008.

Balance Sheet as on _________

Liabilities	Amt.	Assets	Amt.
<u>Share Capital</u>		Goodwill	3,00,000
1,50,000 Equity Shares of Rs.5/- each fully paid	7,50,000	Land & Building	2,40,000
		Equipment	2,10,000
		Sundry Debtors	2,00,970
5,000 6% Preference Shares of Rs.100/- each fully paid	5,00,000	Stock	3,32,440
		Investment	44,000
		Cash at Bank	21,000
		Profit & Loss A/c	7,51,590
8% Debentures	3,00,000		
Bank Overdraft	1,70,000		
Sundry Creditors (including Rs.22,000 int. on Bank Overdraft)	3,80,000		
	21,00,000		21,00,000

Preference dividend is in arrears for Five years.

Following scheme of reconstruction was approved by the court.

1) Equity Shares be reduced to Rs.150/- each of then to be consolidated into shares of Rs.10/- each.

2) 6% Preference shares be reduced to Rs.50/- each & then to be subdivided into shares of Rs.10/- each.

3) Interest accrued but not due on 8% debentures. For half year ended 31st March 2008 has not been provided in the above Balance Sheet. The debenture holders have agreed to received 30% of this interest in cash immediately & provision for the balance be made in the books of account.

4) Rs.20,000/- be paid to Preference shareholders in lieu of arrears of Preference dividend.

5) The debenture holders have also agreed to accept equal number of 9% debentures of Rs.60/- each in exchange of 8% debentures of Rs.100/- each.

6) Bank has agreed to take over 50% stock in full satisfaction of its claim including interest. The remaining stock be revalued at Rs.80,000/-.

7) Investment be sold for Rs.39,000/-.

8) Tangible Fixed assets be appreciated by 15% & provision be made for doubtful debts of Rs.18,000/-.

Give journal entries for the above scheme of reconstruction. Prepare Capital Reduction Account in the books of Satya Ltd. & Balance sheet of the company after reconstruction.

Solution :

Journal of Satya Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Shares Capital A/c (5) ……………Dr. To Equity Share Capital A/c (1.50) To Capital Reduction A/c (3.5) (Being 1,50,000 Equity Shares of Rs.5/- each reduced to Rs.1.50 each.)	7,50,000	 2,25,000 5,25,000
2.	Equity Share Capital A/c (1.50) …………Dr. To Equity Share Capital (10) (Being 1,50,000 Equity shares of Rs.1.50 consolidated into shares of Rs.10/- each.)	2,25,000	 2,25,000
3.	6% Preference Share Capital A/c (100) .. Dr. To 6% Preference Share Capital A/c (50) To Capital Reduction A/c (Being 6% Preference shares of Rs.100/- each reduced to shares of Rs.50/- each.)	5,00,000	 2,50,000 2,50,000

4.	6% Preference Share Capital A/c ……….Dr. To 6% Preference Shares Capital A/c (Being 6% Preference shares of Rs.50/- each subdivided into shares of Rs.10/- each.)	2,50,000	 2,50,000
5.	Capital Reduction A/c …………………….Dr. To Bank A/c To Interest on Debentures A/c (Being payment of accrued interest on debentures to the extent of 30% & provided for the balance.)	12,000	 3,600 8,400
6.	Capital Reduction A/c …………………… Dr. To Bank A/c (Being paid to preference share holders in lieu of arrears of dividend.)	20,000	 20,000
7.	8% Preferences A/c (100) ……………….Dr. To 9% Debentures A/c (60) To Capital Reduction A/c (Being exchanged 8% debentures by 9% debentures.)	3,00,000	 1,80,000 1,20,000
8.	Bank Overdraft A/c ………………………. Dr. Sundry Creditors A/c …………………….. Dr. (Interest on Bank Overdraft) To Stock A/c To Capital Reduction A/c (Being taken over 50% of the Stock by the bank in satisfaction of bank overdraft.)	1,70,000 22,000	 1,66,220 25,780
9.	Capital Reduction A/c …………………….Dr. To Stock A/c (Being reduction in Stock.)	86,220	 86,220
10.	Bank A/c …………………………………..Dr. Capital Reduction A/c …………………… Dr. To Investment A/c (Being sale of investment at a loss.)	39,000 5,000	 44,000
11.	Capital Reduction A/c …………………… Dr. To Profit & Loss A/c To Provision for doubtful debts A/c To Capital Reserve A/c (Being written off profit & loss account debit balance, provided for reduction redemption reserve & transferred the remaining amount to Capital Reserve Account.)	8,65,040	 7,51,590 18,000 95,470

12.	Land & Building A/c ....Dr. Equipment A/c .... Dr. To Capital Reduction A/c (Being appreciation in Land & Building & Equipment.)	36,000 31,500	 67,500

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Bank A/c	3,600	By Equity Share Capital A/c	5,25,000
To Int. on debentures	8,400	By 6% Preference Share Capital A/c	2,50,000
To Bank A/c	20,000	By 8% Debentures A/c	1,20,000
To Stock A/c	86,220	By Bank Overdraft & Creditors A/c	25,780
To Investment A/c	5,000	By Land & Building A/c	36,000
To Profit & Loss A/c	7,51,590	By Equipments A/c	31,500
To Provision for doubtful debts.	18,000		
To Capital Reserve	95,470		
	9,88,280		9,88,280

Satya Ltd.
Balance Sheet as on 31st March, 2009

Liabilities	Amt.	Assets		Amt.
<u>I) Share Capital</u>		<u>I) Fixed Assets</u>		
22,500 Equity Shares of Rs.10/- each.	2,25,000	Land & Building		2,76,000
25,000 6% Preference shares of Rs.10/- each.	2,50,000	Equipments		2,41,500
<u>II) Reserves & Surplus</u>		<u>II) Current Assets</u>		
Capital Reserve	95,470	S. Debtors	2,00,970	
		Less : Prov. for doubtful debts.	(18,000)	1,82,970
<u>III) Secured Loans</u>				
30,000 9% Debentures of Rs.60/- each.	1,80,000	Stock		80,000
Interest Payable	8,400	Cash at Bank		36,400
		Goodwill		3,00,000
<u>Current Liability</u>				
S. Creditors	3,58,000			
	11,16,870			11,16,870

Problem – 3

Following is the Balance sheet of Damyanti Ltd. as on 31st March, 2010.

Liabilities	Amt.	Assets	Amt.
16,000 12% Preference Shares of Rs.10/- each fully paid up	1,60,000	Goodwill	90,000
		Patents	50,000
		Land & Building	1,50,000
		Plant & Machinery	3,00,000
1,40,000 10% Preference shares of Rs.10/-, Rs.5/- per share paid up	70,000	Furniture	35,000
		Investment	85,000
		Sundry Debtors	3,00,000
		Bills Receivables	1,20,000
18,000 Equity Share of Rs.10/- each fully paid up	1,80,000	Bank	30,000
		Profit & Loss A/c	71,500
12% Debenture of Rs.100/- each	1,70,000		
11% Debentures of Rs.100/- each	2,80,000		
Interest due on debenture	21,500		
Sundry Creditors	3,50,000		
	12,31,500		12,31,500

The following scheme of reconstruction was submitted & approved by the court.

1) 12% Preference Shares of the Rs.10/- each fully paid were reduced to 13% Preference Shares of Rs.10/- each, Rs.6/- per share paid up.

2) 10% Preference share of Rs.10/- each, Rs.5/- per share paid up were reduced to 13% Preference shares of Rs.10/- each, Rs.4/- per share paid up.

3) Equity Shares of Rs.10/- each fully paid were reduced to the denomination of Rs.7/- each fully paid.

4) 11% Debenture holders agreed to accept 44,800 Equity Shares of Rs.5/- each in full settlement of their claims.

5) Debentures holders agreed to Forgo the interest due on debentures.

6) Sundry Creditors agreed to Forgo 20% of their claims.

7) The company recovered as damages as sum of Rs.60,000/- which was not recorded in the books.

8) Cost of reconstruction was paid Rs.3,000/-.

9) Assets are to be revalued as under : Land & Buildings Rs.2,05,000/-, Plant & Machinery Rs.2,50,000/-, Furniture Rs.10,000/-, Investment Rs.1,05,000/-, Sundry Debtors Rs.2,77,000/-.

10) All intangible assets & accumulated losses are to be written off.

You are required to –

i) Pass journal entries in the books of Damyanti Ltd.

ii) Prepare Capital Reduction Account & Balance Sheet after reconstruction.

Solution :

Journal of Damyanti Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	12% Preference Share Capital A/c ……..Dr.	1,60,000	
	To 13% Preference Share Capital A/c		96,000
	To Capital Reduction A/c		64,000
	(Being reduction in 12% Preference Capital.)		
2.	10% Preference Share Capital A/c ……..Dr.	70,000	
	To 13% Preference Share Capital A/c		56,000
	To Capital Reduction A/c		14,000
	(Being reduction in 13% Preference Capital.)		
3.	Equity Share Capital A/c …………………Dr.	1,80,000	
	To Equity Share Capital A/c		1,26,000
	To Capital Reduction A/c		54,000
	(Being reduction in Equity Share Capital.)		
4.	11% Debenture A/c ………………………Dr.	2,80,000	
	To Equity Share Capital A/c		2,24,000
	To Capital Reduction A/c		56,000
	(Being reduction in debentures.)		
5.	Interest due on Debenture A/c …………. Dr.	21,500	
	To Capital Reduction A/c		21,500
	(Being interest dues on debentures cancelled.)		

6.	Creditors A/c .... Dr. To Capital Reduction A/c (Being Creditors dues reduced.)	70,000	 70,000
7.	Bank A/c .... Dr. To Capital Reduction A/c (Being damages recovered.)	60,000	 60,000
8.	Capital Reduction A/c .... Dr. To Bank A/c (Being costs of reconstruction paid.)	3,000	 3,000
9.	Land & Building A/c ....Dr. Investment A/c .... Dr. To Capital Reduction A/c (Being increase in valuations.)	55,000 20,000	 75,000
10.	Capital Reduction A/c .... Dr. To Plant & Machinery A/c To Furniture A/c To Sundry Debtors A/c To Goodwill A/c To Patents A/c To Profit & Loss A/c To Capital Reserve A/c	5,01,500	 50,000 25,000 23,000 90,000 50,000 71,500 1,02,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Bank A/c	3,000	By 12% Preference	
To Plant & Machinery	50,000	Share Capital A/c	64,000
To Furniture A/c	25,000	By 10% Preference	
To Sundry Debtors A/c	23,000	Share Capital A/c	14,000
To Goodwill A/c	90,000	By Equity Share Capital	
To Patents A/c	50,000	A/c	54,000
To Profit & Loss A/c	71,500	By 11% Debenture A/c	56,000
To Capital Reserve A/c	10,200	By Interest due on	
		debentures	21,500
		By Sundry Creditors	70,000
		By Bank A/c	60,000
		By Land & Building A/c	55,000
		By Investment A/c	20,000
	4,14,500		4,14,500

Balance Sheet of Damyanti Ltd. as on 31st March, 2010
(And Reduced)

Liabilities	Amt.	Assets	Amt.
I) Share Capital		I) Fixed Assets	
Authorized	?	Land & Build. 2,05,000	
		Plant & Mach. 2,50,000	
Issued, Subscribed & Paid up		Furniture 10,000	4,65,000
16,000 13% Preference Shares of Rs.10/- each. Rs.6/- paid up 96,000		II) Investment	1,05,000
		III) Current Assets, Loans & Advances	
		a) Current Assets	
		S. Debtors 2,77,000	
14,000 13% Preference Shares of Rs.10/- each. Rs.4/- paid up 56,000	1,52,000	B. R. 1,20,000	
		Bank 87,000	4,84,000
		b) Loans & Advances (Unsecured Considered goods)	NIL
18,000 Equity Shares of Rs.7/- each	1,26,000	IV) Miscellaneous Expenditure (Not written off)	NIL
44,800, Equity Shares of Rs.5/- each.	2,24,000		
II) Reserve & Surplus			
Capital Reserves	1,02,000		
III) Secured Loans			
12% Debentures of Rs.100/- each	1,70,000		
IV) Unsecured Loans	NIL		
V) Current Liability & Provisions			
a) Current Liability			
Sundry Creditors	2,80,000		
b) Provisions	NIL		
	10,54,000		10,54,000

Problem – 4

Following is the Balance sheet of Spider Ltd. as on 31st March, 2009.

Liabilities	Amt.	Assets	Amt.
Share Capital		Fixed Assets	
7,000 10% Preference		Goodwill	50,000
Share of Rs.10/- each.	7,00,000	Patents & Trade marks	30,000
40,000 Equity Shares		Building	3,20,000
of Rs.10/- each.	4,00,000	Plant & Machinery	2,80,000
		Furniture	1,20,000
Reserve & Surplus			
Capital Reserve	40,000	Current Assets, Loans	
		& Advances	
Secured loans		Stock	1,55,000
6% Debentures of		Sundry Debtors	85,000
Rs.100/- each	2,00,000	Bank	85,000
Debentures interest		Cash	35,000
due	70,000		
		Miscellaneous	
Current Liabilities &		Expenditure	
Provisions		Discount on	
Sundry Creditors	1,40,000	debentures	35,000
		Profit & Loss A/c	3,55,000
	15,50,000		15,50,000

Note : Preference dividend is in arrears for three years. The following scheme of reconstruction was prepared & duly approved by the court.

1) The Preference Shares shall be converted into equal number of 11% Preference shares of Rs.50/- each.

2) The Equity Share shall be reduced to Rs.2/- each. However, the Face Value will remain the same.

3) 6% Debentures shall be converted into equal number of 7% debentures of Rs.85/- each. The debenture holders also agreed to waived 60% of the accrued interest.

4) Arrears of Preference dividend is to be reduced to one years dividend which is paid in cash.

5) The sundry creditors agreed to waived 40% of their claims & to accept Equity Shares for Rs.40,000/- in part settlement renewed claims.

6) The assets are to be revalued as under :

Building Rs.4,00,000/-, Plant & Machinery Rs.2,20,000/-, Furniture Rs.70,000/-, Stock Rs.1,00,000/-, Debtors Rs.70,000/-

7) Intangible assets & fictitious assets are to be written off.

Pass journal entries. Prepare Capital Reduction Account & Balance Sheet after reconstruction in the books of the Spider Ltd.

Solution :

Journal of Spider Ltd

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	10% Preference Share Capital A/c ……..Dr. To 11% Preference Share Capital A/c To Capital Reduction A/c (Being 10% Preference shares converted into 11% Preference Shares.)	7,00,000	 3,50,000 3,50,000
2.	Equity Share Capital A/c …………………Dr. To Capital Reduction A/c (Being reduction in Equity Shares.)	3,20,000	 3,20,000
3.	6% Debentures A/c ………………………Dr. To 7% Debentures A/c To Capital Reduction A/c (Being converted debentures into 7% debentures.)	2,00,000	 1,70,000 30,000
4.	Debentures Interest Due A/c …………….Dr. To Capital Reduction A/c (Being accrued interest on debentures waived.)	45,000	 45,000
5.	Preference Dividend A/c …………………Dr. To Cash / Bank A/c (Being paid on year's dividend.)	70,000	 70,000
6.	Creditors A/c ………………………………Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being settled sundry creditors.)	96,000	 40,000 56,000

7.	Building A/c .... Dr.	80,000	
	To Capital Reduction A/c		80,000
	(Being appreciation in building.)		
8.	Capital Reduction A/c .... Dr.	8,81,000	
	To Discount on Debentures A/c		35,000
	To Profit & Loss A/c		3,55,000
	To Goodwill A/c		50,000
	To Patent & Trademark A/c		30,000
	To Preference Dividend A/c		70,000
	To Plant & Machinery A/c		60,000
	To Furniture A/c		50,000
	To Stock A/c		55,000
	To Debtors A/c		15,000
	To Capital Reserve A/c		1,61,000
	(Being assets written off.)		

In the books of Spider Ltd.
Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Discount on debentures A/c	35,000	By 10% Preference Share Capital A/c	3,50,000
To Profit & Loss A/c	3,55,000	By Equity Share Capital A/c	3,20,000
To Goodwill A/c	50,000	By 6% Debentures A/c	30,000
To Patent & Trademark A/c	30,000	By Interest due on debentures A/c	45,000
To Preference Dividend A/c	70,000	By Creditors A/c	56,000
To Plant & Machinery A/c	60,000	By Building A/c	80,000
To Furniture A/c	50,000		
To Stock A/c	55,000		
To Debtors A/c	15,000		
To Capital Reserve A/c	1,61,000		
	8,81,000		8,81,000

Spider Ltd.

Balance sheet as on 31st March, 2009 (And Reduced)

Liabilities	Amt.	Assets		Amt.
<u>I) Share Capital</u>		<u>Fixed Assets</u>		
Authorized	?	Building	3,20,000	
		(+) Appreciation	80,000	4,00,000
11% Preference Share Capital of Rs.50/- each.	3,50,000	Plant & Mach.	2,80,000	
Equity Share Capital	1,00,000	(-) Written off	60,000	2,20,000
(4,00,000 – 3,20,000 + 20,000)				
		Furniture	1,20,000	
<u>II) Reserve & Surplus</u>		(-) Written off	50,000	70,000
Capital Reserve	2,01,000			
(40,000 + 1,61,000)		<u>Investment</u>		NIL
<u>III) Secured loans</u>		<u>Current Assets, Loans & Advances</u>		
7% Debentures	1,70,000	a) Current Assets		
Interest due on Debenture	45,000	Stock	1,55,000	
		(-) written off	55,000	1,00,000
<u>IV) Unsecured Loans</u>				
		Debtors	85,000	
<u>V) Current Liabilities & Provisions</u>		(-) R.D.D.	15,000	70,000
a) Current Liabilities		Cash Bank		50,000
Sundry Creditors	44,000	(35,000 + 85,000 – 70,000)		
(1,40,000 – 56,000 – 40,000)				
b) Provision	NIL	b) Loan & Advances		NIL
		<u>IV Miscellaneous Expenditure</u>		NIL
	9,10,000			9,10,000

Problem – 5

Following is the balance sheet of Natranga Ltd. as on 31st March, 2010.

Liabilities	Amt.	Assets	Amt.
Share Capital		Fixed Assets	
25,000 10% Preference Shares of Rs.10/- each.	2,50,000	Premises	3,25,000
Equity Share of Rs.10/- each.	4,50,000	Plant & Machinery	5,00,000
		Investment	1,50,000
Secured loans			
16% Debentures of Rs.100/- each	5,00,000	Current Assets, Loans & Advances	
		Stock	1,35,000
		Debtors	1,00,000
Current Liabilities & Provisions		Deposits & Advance	50,000
Sundry Creditors	2,10,000		
Bank Overdraft	1,30,000	IV Miscellaneous Expenditure	
Other Liability	1,10,000	Publicity Campaign Expenses	2,00,000
		Profit & Loss Account	1,90,000
	16,50,000		16,50,000

It is observed that the new product launched by the company has not succeeded even after three years of marketing. the management is of the opinion that the assets & liabilities are not valued correctly & also finds it difficult to raise finance.

To overcome the situation a scheme of reconstruction is prepared by the directors & approved by all authorities.

The salient features of the scheme are

1) Plant & Equipment having book value of Rs.10,000/- is obsolete. This is sold as scrap for Rs.36,000/-.
2) The auditors have pointed out that depreciation on plant is not provided to the extent Rs.30,000/-
3) Stock includes items valued Rs.50,000/- which is sold at a loss of 50%.
4) The present realizable value of investments is Rs.55,000/-.

5) Dividend on Preference Shares is in arrears for 3 years. This amount is not payable.

6) All losses & Fictitious assets are to be written off.

7) The expenses paid for forming & implementing scheme is Rs.10,000/-.

8) The paid up value of Equity Share is to be reduced to Rs.2/- per share & preference share to Rs.5/- per share. However, the face value remains unchanged.

9) The Creditors due are settled as.

   a) 30% immediate payment in Cash.

   b) 40% amount is cancelled.

   c) 30% paid by issue of 15% debentures.

10) Other Current liabilities includes Rs.45,000/- payable to directors towards remuneration. This liability is to be cancelled.

11) A call of Rs.3/- per share on Equity Share is made & received.

12) Bank Overdraft is paid off to the extent possible.

You are required to show :
i) Journal entries for above scheme of reconstruction.
ii) Balance sheet after reconstruction.

Solution :

Journal In the books of Natranga Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c …………………Dr. 10% Preference Share Capital A/c ……..Dr. To Capital Reduction A/c (Being reduction of Equity & Preference Share Capital.)	3,60,000 1,25,000	 4,85,000
2.	Creditors A/c ………………………………Dr. To Cash / Bank A/c (30%) To Capital Reduction A/c (40%) To 15% Debentures A/c (30%) (Being Creditors dues settled as per Scheme of reconstruction.)	2,10,000	 63,000 84,000 63,000
3.	Other Liabilities A/c ………………………Dr. To Capital Reduction A/c (Being dues to directors cancelled.)	45,000	 45,000

4.	Cash / Bank A/c …………………………..Dr. Capital Reduction A/c …………………… Dr. To Plant & Equipment A/c (Being sale of plant having book value of Rs.1,00,000/- for Rs.36,000/-.)	36,000 64,000	 1,00,000
5.	Capital Reduction A/c …………………….Dr. To Plant & Equipment A/c (Being depreciation provided.)	30,000	 30,000
6.	Cash / Bank A/c …………………………..Dr. Capital Reduction A/c ……………………Dr. To Plant & Machinery A/c (Being sale of stock having took value of Rs.50,000/- at a loss of 50%.)	25,000 25,000	 50,000
7.	Capital Reduction A/c …………………….Dr. To Investment A/c (Being reduction in value by Rs.95,000/-.)	95,000	 95,000
8.	Capital Reduction A/c ……………………Dr. To Profit & Loss A/c To Publicity Campaign Expenses A/c (Being brought forward losses & fictitious assets written off as per scheme of reconstruction.)	3,90,000	 1,90,000 2,00,000
9.	Capital Reduction A/c …………………….Dr. To Cash / Bank A/c (Being paid expenses on reconstruction.)	10,000	 10,000
10.	Cash / Bank A/c (45,000X3) …………… Dr. To Equity Share Capital A/c (Being receipt of all money on 45,000 shares @ Rs.3/- each.)	1,35,000	 1,35,000
11.	Bank Overdraft A/c ……………………… Dr. To Cash / Bank A/c (Being balance in Cash / Bank used to pay off overdraft.)	1,23,000	 1,23,000

Bank Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Plant & Equipment A/c	36,000	By Capital Reduction A/c	10,000
To Stock A/c	25,000	By Sundry Creditors A/c	63,000
To Equity Share Capital A/c	1,35,000	By Bank Overdraft A/c	1,23,000
	1,96,000		1,96,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Plant (Loss on sale)	64,000	By Equity Share Capital A/c	3,60,000
To Plant (Depreciation)	30,000	By Preference Share Capital A/c	1,25,000
To Stock	25,000	By Creditors	84,000
To Investment	95,000	By Other dues (Directors)	45,000
To Profit & Loss A/c	1,90,000		
To Publicity Expenses	2,00,000		
To Cash (Exp.)	10,000		
	6,14,000		6,14,000

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12

INTERNAL RECONSTRUCTION II

Unit Structure

12.1 Solved problems
12.2 Exercise

12.1 SOLVED PROBLEMS :

Problem – 1

The summarized Balance Sheet of M/s. Chetan Ltd. as on 31st December, 2009 is as under.

Liabilities	Rs.	Assets	Rs.
10% Preference Shares of Rs.10/- each	6,00,000	Goodwill	2,20,000
Equity Share of Rs.10/- each	10,00,000	Land & Building	9,00,000
10% Convertible Debenture of Rs.100/-	3,00,000	Furniture	2,25,000
Bank Overdraft	2,50,000	Investments	4,50,000
Sundry Creditors	3,20,000	Stock	3,00,000
Bills Payable	70,000	Debtors	2,00,000
Provision for Tax	80,000	Bills Receivable	75,000
		Profit & Loss A/c	2,50,000
	26,20,000		26,20,000

The scheme of reconstruction as approved by the court was as under –

1) Each existing Equity Share will be written down from Rs.10/- to Rs.5/-.
2) Each existing 10% Preference Share is to be written down from Rs.10/- to Rs.7/- of which Rs.3.5/- will be represented by 12% Preference Share & Rs.3.5/- by Equity Share.
3) Each convertible debenture is to be exchanged for Rs.50/- of non-convertible 10% debentures, Rs.25/- of 12% Preference Shares & Rs.25/- of Equity Shares.

4) The HSBC has agreed to apply for Rs.5,00,000/- of Equity Shares paying Cash in full on application.

5) The reduction of capital & Reserve are to be applied in eliminating fictitious assets & balance to be used in writing down the land & building & investments in the ratio of 3:1.

Give journal entries regarding reduction. Prepared Capital Reduction Account & resulting summarized Balance Sheet as on 1st January, 2010.

Solution :

Journal in the books of M/s. Chetan Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c ………………..Dr.	10,00,000	
	To Equity Share Capital A/c		5,00,000
	To Capital Reduction A/c		5,00,000
	(Being reduction of Equity Shares from Rs.10/- to Rs.5/- each.)		
2.	10% Preference Shares Capital A/c …..Dr.	6,00,000	
	To 12% Preference Share Capital A/c		2,10,000
	To Equity Share Capital A/c (3.5)		2,10,000
	To Capital Reduction A/c		1,80,000
	(Being reduction of 10% Preference Shares by Rs.3/- each & conversion of balance into 12% Preference Shares & Equity Shares.)		
3.	10% Convertible Debentures A/c ……..Dr.	3,00,000	
	To 10% Non-convertible Debentures A/c		1,50,000
	To 12% Preference Share Capital A/c		75,000
	To Equity Share Capital A/c		75,000
	(Being exchange of 10% convertible debenture into non-convertible debentures, 12% Preference Shares & Equity Shares.)		
4.	Bank A/c ………………………………… Dr.	5,00,000	
	To Equity Share Capital A/c		5,00,000
	(Being issue of Equity Shares of Rs.5,00,000/- to HSBC)		
5.	Capital Reduction A/c …………………..Dr.	6,80,000	
	To Goodwill A/c		2,20,000
	To Profit & Loss A/c		2,50,000
	To Land & Building A/c		1,75,500
	To Investment A/c		52,500
	(Being fictitious assets, land & investment etc. written off.)		

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c	2,20,000	By Equity Share Capital	
To Profit & Loss A/c	2,50,000	A/c	5,00,000
To Land & Building A/c	1,57,500	By 10% Preference	
To Investment A/c	52,500	Shares Capital A/c	1,80,000
	6,80,000		6,80,000

M/s. Chetan Ltd.
Balance Sheet as on 1st January, 2010
(After reconstruction)

Liabilities	Rs.	Assets	Rs.
<u>I. Share Capital</u>		I. Fixed Assets	
12% Preference		Land & Build. 9,00,000	
Shares of Rs.3.5/-		Less : w/off 1,57,500	7,42,500
each.	2,10,000	Furniture	2,25,000
Add : Issued to			
debenture holders	75,000	II. Investment	
		Book Value 4,50,000	
Equity Shares of Rs.5/-		(-) w/off 52,500	3,97,500
each	5,00,000		
Add : issued to		III. Current Assets,	
Debenture holders	75,000	Loans & Advances	
Preference shares		a) Current Assets	
holders	2,10,000	Stock	3,00,000
HSBC	5,00,000	Debtors	2,00,000
		Bills Receivable	75,000
<u>II. Reserve & Surplus</u>	NIL	Bank Balance	5,00,000
		b) Loan & Advances	NIL
<u>III. Secured Loans</u>			
10% Non-convertible		IV. Miscellaneous	
debentures	1,50,000	Expenditure	NIL
		(not written off)	
<u>IV. Unsecured Loans</u>	NIL		
<u>V. Current Liabilities & Provision</u>			
a) Current Liabilities			
Sundry Creditors	3,20,000		
Bills Payable	70,000		
Provision for Tax	80,000		
Bank Overdraft	2,50,000		
b) Provisions	NIL		
	24,40,000		24,40,000

Problem – 2

M/s. Katrina Ltd. whose Balance Sheet as at 31st December, 2009 is as given below.

Liabilities	Rs.	Assets	Rs.
Sources of Funds		Application of Sources	
2,00,000 Equity Shares of Rs.20/- each Rs.10/- paid up	20,00,000	Fixed assets 15,50,000 Goodwill 50,000	16,00,000
10% Preference Shares Capital		Investment at cost (Market value 1,00,000)	1,10,000
10,000 Shares of Rs.100/- each, Rs.50/- paid up	5,00,000	Current Assets & Loans & Advances	
Secured Loan		Current Assets	
9% Deb. 7,00,000		Stock 3,00,000	
(+) O/s int. 1,00,000	8,00,000	Debtors 5,00,000	
Loan from		B.R. 8,00,000	
ICICI Ltd. 1,80,000		16,00,000	
(+) O/s Int. 30,000	2,10,000	Less : Liab. S. Creditors 2,00,000	14,00,000
		Profit & Loss A/c	4,00,000
	35,10,000		35,10,000

Preference dividend is in arrears for 1 year. Following scheme of reconstruction is approved & agreed upon

1) Preference Shareholders to give up their claims, inclusive of dividends to the extent of 50% & balance to be paid off.
2) Debenture holders agree to give up their claims to receive interest in consideration of their rate of interest being enhanced to 12% henceforth.
3) ICICI Ltd. agree to give up 80% of their interest outstanding in consideration of their claim being paid off at once.
4) Sundry Creditors would like to grant a discount 20% if they were to be paid off immediately.
5) Balance of Profit & Loss A/c, Goodwill & 50% of the total sundry debtors to by written off.
6) Fixed Assets to be written down by Rs.50,000/-.
7) Investment to be reflected at their market value.

8) Cost of reconstruction is Rs.50,000/-.

9) To the extent required Equity Shareholders suffers on reduction of their rights.

10) The Equity shareholder bring in necessary as against their partly paid shares to leave working capital at Rs.30,000/-.

Pass necessary journal entries in the books of the company assuming that scheme has been put through fully & prepare the Balance Sheet after reconstruction. Ignore narration.

Solution :

In the books of Ms. Katrina Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
Dec. 31 1.	Preference Share Capital A/c ………..Dr. To Preference Shareholders A/c To Capital Reduction A/c	5,00,000	 2,50,000 2,50,000
2.	Capital Reduction A/c …………………Dr. To Preference Shareholders A/c	50,000	 50,000
3.	9% Debenture A/c ……………………. Dr. Interest o/s on debenture A/c ……….. Dr. To 12% Debentures A/c To Capital Reduction A/c	7,00,000 1,00,000	 7,00,000 1,00,000
4.	ICICI Loan A/c …………………………Dr. Outstanding interest A/c …………….. Dr. To Bank A/c To Capital Reduction A/c	1,80,000 30,000	 1,86,000 24,000
5.	Capital Reduction A/c …………………Dr. To Profit & Loss A/c To Goodwill A/c To Investment A/c To Debtors A/c To Fixed Assets A/c To Bank (Expenses) A/c	7,65,000	 4,00,000 50,000 10,000 2,50,000 50,000 5,000
6.	Creditors A/c ……………………………Dr. To Bank A/c To Capital Reduction A/c	2,00,000	 1,60,000 40,000
7.	Preference Shareholders A/c ……….. Dr. To Bank A/c	3,00,000	 3,00,000
8.	Equity Share Capital A/c …………….. Dr. To Capital Reduction A/c	4,01,000	 4,01,000
9.	Bank A/c ………………………………. Dr. To Equity Share Capital A/c	6,81,000	 6,81,000

Working Note :

Bank Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Capital A/c (Bal Figure)	6,81,000	By Creditors A/c	1,60,000
		By Expenses A/c	5,000
		By Loan Interest A/c	1,86,000
		By Preference Share Capital A/c	3,00,000
		By Closing Balance	30,000
	6,81,000		6,81,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Preference Dividend A/c	50,000	By Preference Shareholders A/c	2,50,000
To Sundries A/c	7,65,000	By Debenture Interest A/c	1,00,000
		By Interest A/c	24,000
		By Creditors A/c	40,000
		By Equity Share Capital A/c	4,01,000
	8,15,000		8,15,000

Balance Sheet as on 31st December, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	15,00,000
2,00,000 shares of Rs.20/- each Rs.11.4/- paid up	22,80,000	Investment	1,00,000
		Current Assets	
		Stock	3,00,000
Secured Loans		Sundry Debtors	2,50,000
12% Debenture	7,00,000	Bills Receivable	8,00,000
		Cash Balance	30,000
	29,80,000		29,80,000

Problem – 3

The summarized Balance Sheet of Vipul Ltd. as at 31st March, 2010 was as under :

Liabilities	Rs.	Assets	Rs.
Redeemable Preference shares of Rs.100/- each fully paid	15,00,000	Fixed assets	60,00,000
Equity Shares of Rs.100/- each fully paid	40,00,000	Cash on hand	10,00,000
Reserve	30,00,000	Cash at IDBI Bank	30,00,000
Creditors	50,00,000	Other Current Assets	40,00,000
Laons	10,00,000	Preliminary Expenses	5,00,000
	1,45,00,000		1,45,00,000

The company proposed to make a fresh issue of Capital to the public in June 2010. However, before doing so the directors desire to carry out the following scheme of reconstruction.

1) The fictitious assets shall be written off.
2) The fixed assets to be appreciated by 50%.
3) The goodwill of the company valued at Rs.28,00,000/- shall be brought into the books.
4) A provision of 20% shall be made against the other current assets for likely shortfall in its realization by ear – marking the requisite amount from the existing reserves.
5) The Preference shares shall be redeemed at 20% Premium.
6) The company to issue bonus shares in the ratio of one share for every two existing Equity Shares.
7) The Equity Capital thereafter to be sub-divided into shares of Rs.50/- each.

You are required to prepare Capital Reduction Account.

Solution :

In the books of Vipul Ltd.
Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Preliminary Expenses A/c	5,00,000	By Fixed Assets A/c	3,00,000
To preliminary Redemption of Preference Share A/c	3,00,000	By Goodwill A/c	28,00,000
To Capital Reserve A/c	30,00,000	By Reserve A/c	7,00,000
	38,00,000		38,00,000

Reserve Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Other Current Assets A/c	8,00,000	By Balance b/d	30,00,000
To Capital Redemption Reserve A/c	15,00,000		
To Capital Redemption A/c	7,00,000		
	30,00,000		30,00,000

Problem – 4

The balance sheet of Three Idiots Ltd. as at 31st December, 2009 was as under –

Liabilities	Rs.	Assets	Rs.
10,000 Equity Shares of Rs.50/- each fully paid	5,00,000	Goodwill	1,00,000
10%, 50,000 Debentures of Rs.10/- each	5,00,000	Other Assets	8,00,000
Interest on debenture	20,000	Profit & Loss A/c	3,00,000
Sundry Creditors	1,80,000		
	12,00,000		12,00,000

For the purpose of reconstruction of the company, necessary resolutions are passed on the following lines.

1) The Equity Shares are to be sub divided into Share of Re.1/- each & each shareholder shall re-surrender 80% of his holding.
2) Out of the surrendered shares, 1,00,000 shares will be converted to 8% Preference Shares of Rs.10/- each.

3) Debentures holders will reduced their claims by Rs.2,20,000/- & in consideration they are to get the entire Preference Shares Capital converted from Shares Surrendered.
4) Creditors claims are to be reduced to the extent of Rs.80,000/- & in consideration they are to received Equity Shares of Re.1/- each, amounting to Rs.50,000/- from the Shares surrendered.
5) Goodwill & profit & loss A/c (Dr.) are to be written off fully.
6) The remaining surrendered shares shall be cancelled.

You are required to give the journal entries for the above & prepare Balance sheet of the company after reconstruction.

Journal entries in the books of Three Idiots Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c (50) …………Dr. To Equity Share Capital A/c (1) (Being 10,000 Equity Shares of Rs.50/- each sub-dividend into shares of Re.1/- each.)	5,00,000	 5,00,000
2.	Equity Share Capital A/c ……………….Dr. To Share Surrendered A/c (Being surrender of 80% of shares.)	4,00,000	 4,00,000
3.	Shares Surrendered A/c ………………. Dr. To 8% Preference Share Capital A/c (Being converted Rs.1,00,000/- shares surrendered into 80% Preference Shares Capital.)	1,00,000	 1,00,000
4.	10% Debentures A/c ……………………Dr. Interest Debenture A/c ………………… Dr. To Capital Reduction A/c (Being reduction in the claim of debenture holders.)	2,00,000 20,000	 2,20,000
5.	Share Surrendered A/c ………………...Dr. To Equity Share Capital A/c (Being issued to Creditors out of surrendered Shares.)	50,000	 50,000
6.	Creditors A/c ……………………………Dr. To Capital Reduction A/c (Being reduced the claim of creditors.)	80,000	 80,000

7.	Capital Reduction A/c …………………..Dr. To Goodwill A/c To Profit & Loss A/c (Being written off Goodwill & Profit & Loss Account debit balance.)	4,00,000	 1,00,000 3,00,000
8.	Shares Surrendered A/c ………………. Dr. To Capital Reduction A/c (Being cancelled remaining Surrendered Shares.)	2,50,000	 2,50,000
9.	Capital Reduction A/c …………………..Dr. To Capital Reserve A/c (Being the balance on Capital Reduction transferred to Capital Reserve.)	1,50,000	 1,50,000

Three Idiots Ltd.
Balance sheet as on 31st March, 2009
(After reduced)

Liabilities	Rs.	Assets	Rs.
<u>Share Capital</u> 1,50,000 Equity Shares of Re.1/- each fully paid up	 1,50,000	<u>Fixed Assets</u> Other Assets	 8,00,000
10,000 Preference Shares of Rs.10/- each	1,00,000		
<u>Reserves & Surplus</u> Capital Reserve	 1,50,000		
<u>Secured Loan</u> 10% Debentures	 3,00,000		
<u>Current Liabilities</u> Creditors	 1,00,000		
	8,00,000		8,00,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c	1,00,000	By 10% Debentures A/c	2,00,000
To Profit & Loss A/c	3,00,000	By Interest A/c	20,000
To Capital Reserve A/c	1,50,000	By Share Surrendered A/c	2,50,000
		By Creditors A/c	80,000
	5,50,000		5,50,000

Problem – 5

Following is the balance sheet of Veer Ltd. as on 30th June 2009.

Liabilities	Rs.	Assets	Rs.
10,000 8% Cumulative Preference Shares of Rs.100/- each	10,00,000	Goodwill	90,000
8,000 Equity Shares of Rs.100/- each	8,00,000	Patents	30,000
9% Debentures of Rs.100/- each	7,00,000	Land & Building	10,00,000
(Secured on Land / Building)		Pant & Machinery	4,80,000
Interest payable to debenture holders	20,000	Investment (at cost)	50,000
Loan from Directors	2,00,000	Stock	4,80,000
Creditors	3,00,000	Debtors : Considered Goods 3,00,000 Considered Doubtful 70,000	3,70,000
UTI Bank Overdraft	2,80,000	Cash	5,000
		Preliminary Expenses	95,000
		Profit & Loss A/c	7,00,000
	33,00,000		33,00,000

Contingent Liabilities :
1) Claims for damages pending in the court totaling Rs.1,00,000/-
2) Arrears of Preference dividend Rs.30,000/-.

The board of directors agreed to present the realistic picture of the state of affairs of the company's position & the following scheme of reconstruction was duly approved.

1) The Preference shares were to be reduced to an equal number of fully paid Preference Shares of Rs.50/- each. Equity Share to an equal number of fully paid Equity Shares of Rs.30/- each.
2) All intangible assets, including patents to be written off.
3) Stock to be revalued at Rs.4,00,000/- & debtors considered doubtful to be written off.
4) Preference Shareholders agreed to waive half of the arrears of dividends & to receive Equity Shares in lieu of the balance.
5) Debenture holder agreed to take over part of the security of the book value of Rs.2,00,000/- for Rs.2,00,000/- in satisfaction of part of their claim & to provide further cash of Rs.1,00,000/- after deducting arrears of interest due to them on floating charge of the rest of the assets.
6) The contingent liability for claims for damage pending in the court of law materialized to the full extent. However, the

company could recover Rs.80,000/- from those who were responsible for such damages & settled the rest by issuing Equity Shares.

7) The Directors agreed to convert the loan into Equity Shares.

You are required to prepare –

i) Capital Reduction Account
ii) The Balance sheet after reconstruction

Solution :

In the books of Veer Ltd.
Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c	90,000	By Preference Share Capital A/c	5,00,000
To Patents	30,000	By Equity Share Capital A/c	5,60,000
To Preliminary Expenses A/c	95,000	By Cash A/c (claim recovery)	80,000
To Profit & Loss A/c	7,00,000	By Land & Building A/c (3,00,000 - 2,00,000)	1,00,000
To Stock (4,80,000 - 4,00,000)	80,000		
To Debtors	70,000		
To Preference Dividend A/c	1,50,000		
To Cash A/c (damages)	80,000		
To Damages A/c	20,000		
To Capital Reserve A/c	60,000		
	12,40,000		12,40,000

Working Note :

1) Equity Shares @ Rs.30/- each

	Nos.	Amount
Original (at Reduced Value)	8,000	2,40,000
Issued against arrears of Preference Dividend	500	15,000
Issued against claim for Damages	666.67	20,000
Loan from Directors converted	6,666.67	2,00,000
Closing Balance	15,833	4,75,000

2) **Cash Account**

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Balance b/d	5,000	By Debenture interest A/c	20,000
To Damages Claim A/c	80,000	By Recovery A/c	80,000
To Debenture holders A/c	1,00,000	By Balance c/d	85,000
	1,85,000		1,85,000

3) It is assumed that the debenture holder brought in gross Rs.1,00,000/- without deducting Rs.20,000/- for arrears of interest.

4) 9% debenture holders

	Amount
Balance	7,00,000
Less : Land / Building taken over	3,00,000
	4,00,000
Add : Further Cash brought in	1,00,000
Closing Balance	5,00,000

Veer Ltd. (Add reduced)
Balance Sheet as on 1st July 2009

Liabilities	Rs.	Assets		Rs.
Share Capital		Fixed Assets		
Authorized :	?	Goodwill	90,000	
		Less :w/off	90,000	NIL
Issued, Subscribed & Paid up :		Land & Budg.	10,00,000	
8% 10,000 Preference shares at Rs.50/- each	5,00,000	Less : given to Debenture Holders	2,00,000	8,00,000
15,833 Equity Share at Rs.30/- each	4,75,000			
Reserve & Surplus		Plant & Mach.	4,80,000	
Capital Reserve	60,000	Patents	30,000	
		(-) w/off	30,000	4,80,000
		as per scheme of reconstruction dt-		
Secured Loan				
9% Debenture	5,00,000			
(Secured by floating charge on all Assets)		Investment		50,000
Unsecured Loans		Current Assets, Loans & Advances		
Current Liabilities &				

<u>Provisions</u> a) Current Liabilities sundry Creditors UTI Bank Overdraft b) Provision	 3,00,000 2,80,000 NIL	a) Current Assets Stock Sundry Debtors (Unsecured, Considered Good) Cash Balance (Note) b) Loans & Advances Miscellaneous Expenditure (Not written off)	 4,00,000 3,00,000 85,000 NIL
	21,15,000		21,15,000

Problem – 6

Vicky Ltd. has prepared the Balance sheet as on 31st March, 2010 reading as follows –

Liabilities	Rs.	Assets	Rs.
<u>Share Capital</u>		<u>Fixed Assets</u>	
(In shares of Rs.100/- each)		Premises	5,00,000
		Plant & Equipment	8,00,000
Equity Share Capital	8,00,000		
10% Preference Share Capital	2,00,000	<u>Investment</u>	2,00,000
		<u>Current Assets</u>	
<u>Secured Loan</u>		Stocks	5,50,000
15% Debentures	5,00,000	Debtors	2,50,000
		Deposits & Advances	2,00,000
<u>Current Liabilities</u>		Profit & Loss A/c	3,00,000
Creditors	7,00,000	Publicity Campaign Expenses	2,00,000
Overdraft	5,00,000		
Other Liabilities	3,00,000		
	30,00,000		30,00,000

It is observed that the new product launched by the company is not succeeded even after three years of marketing. The management is of the opinion that assets & liabilities are not valued correctly & also finds difficult to raise Finances.

To overcome this situation a scheme of reconstruction is prepared by directors & approved by all authorities.
The salient features of scheme are :

1) Plant & Equipment having book value of Rs.2,00,000/- is obsolete. This is sold as scrap for Rs.50,000/-.
2) The auditors have pointed out that depreciation on plant is not provided to the extent of Rs.1,00,000/-.
3) Stock includes items valued Rs.50,000/- which is sold at a loss of 50%.
4) The present realization value of investments is Rs.1,00,000/-.
5) Dividend on Preference shares is in arrears for 3 years. This amount is not payable.
6) All losses & fictitious assets are to be written off.
7) The expenses paid for framing & implementing scheme is Rs.15,000/-.
8) The paid up value of Equity Shares is reduced to Rs.50/- per share & Preference Share to Rs.5/- per share. However, face value remains unchanged.
9) The Creditors dues are settled as :
   10% immediate payment, 45% amount is cancelled.
   45% new 16% debentures to be issued.
10) The other current liabilities include Rs.80,000/- payable to Directors towards remuneration. This liabilities is to be cancelled.
11) A call of Rs.20/- per share on Equity Share is made. It is paid by all shareholders.
12) 15% debentures holders agree for issue of 20,000 Equity Shares of Rs.5/- paid up for cash.
13) Bank overdraft is paid off to the extent possible.

You are required to show journal entries & Balance sheet.

Solution :

Journal of Vicky Pvt. Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31/03/10	Cash / Bank A/c …………………. Dr.	50,000	
	Capital Reduction A/c …………… Dr.	1,50,000	
	To Plant & Machinery A/c		2,00,000
	(Being sale of plant & machinery of the book value of Rs.2,00,000/- at Rs.50,000/-)		
2.	Capital Reduction A/c …………… Dr.	1,00,000	
	To Plant & Equipment A/c		1,00,000

	(Being the entry to provide for depreciation on Plant.)		
3.	Cash / Bank A/c …………………. Dr. Capital Reduction A/c …………… Dr. To Stock A/c (Being the entry for sale of stock of Rs.50,000/- at a loss of 50%.)	25,000 25,000	 50,000
4.	Capital Reduction A/c …………… Dr. To Investment A/c (Being the entry to reduce the value of investment from Rs.2,00,000/- to Rs.1,00,000/-.)	1,00,000	 1,00,000
5.	Capital Reduction A/c …………… Dr. To Profit & Loss A/c To Publicity & Campaign expenses A/c (Being the entry to written off all losses & fictitious assets.)	5,00,000	 3,00,000 2,00,000
6.	Capital Reduction A/c …………… Dr. To Cash / Bank A/c (Being the expenses incurred on implementing scheme of reconstruction.)	15,000	 15,000
7.	Equity Share Capital A/c …………..Dr. 10% Preference Share Capital A/c..Dr. To Capital Reduction A/c (Being the entry to reduce the paid up value of Equity Share from Rs.100/- to Rs.50/- & that of Preference share from Rs.100/- to Rs.30/-.)	4,00,000 1,40,000	 5,40,000
8.	Creditors A/c ………………………Dr. To Cash/Bank A/c To Capital Reduction A/c To New 16% Debenture A/c (Being settlement of the dues of Creditors.)	7,00,000	 1,00,000 3,15,000 3,15,000
9.	Other Liabilities A/c ……………… Dr. To Capital Reduction A/c (Being the entry to cancel Rs.80,000/ payable to directors.)	80,000	 80,000
10.	Cash / Bank A/c …………………..Dr. To Equity Share Capital A/c	1,60,000	 1,60,000

	(Being Rs.20/- per Equity Share received.)		
11.	Cash / Bank A/c …………………..Dr. To Equity Share Capital A/c (Being issue of 20,000 Equity Share @ Rs.5/- paid up.)	1,00,000	1,00,000
12.	Bank Overdraft A/c ……………….Dr. To Cash/Bank A/c (Being bank overdraft paid off.)	2,50,000	2,50,000

Schedules forming part of Balance Sheet.

Schedule 1 : Share Capital

	Rs.
Issued & Subscribed : 13,200 Equity Shares of Rs.100/- each Rs.50/- paid 10% Preference Shares of Rs.100/- Rs.50/- paid up	 6,60,000 60,000
	7,20,000

Schedule 2 : Secured Loan

	Rs.
10% Debentures New 16% Debentures	5,00,000 3,15,000
	8,15,000

Schedule 3 : Fixed Assets

	Rs.
Premises Plant & Equipments	5,00,000 5,00,000
	10,00,000

Schedule 4 : Investment

	Rs.
Investment	70,000
	70,000

Schedule 5 : Current Liabilities

	Rs.
Other liabilities	1,50,000
	1,50,000

Vicky Pvt. Ltd.
Balance sheet as at 31st March, 2010

	Schedule No.	Rs.	Rs.
I) Sources of Fund			
1) Shareholders Fund			
a) Capital	1	7,20,000	
b) Reserves & Surplus	-	45,000	7,65,000
2) Loan Funds			
a) Secured Loans	2	8,15,000	
b) Unsecured Loans	-	NIL	8,15,000
Total			**15,80,000**
II) Application of Funds			
1) Fixed Assets			
a) Gross Block	3	-	
b) Less : Depreciation	-	-	
c) Net Block	-	-	10,00,000
d) Capital Work in Progress	-	-	NIL
2) Investment	4	-	1,00,000
3) Current Assets, Loans & Advances			
a) Inventories	-	5,00,000	-
b) Sundry Debtors	-	2,50,000	-
c) Cash & Bank Balance	-	-	-
d) Other Current Assets	-	-	-
e) Loans & Advances	-	2,00,000	-
		9,50,000	
Less : Current Liabilities & Provisions			
a) Liabilities	5	4,70,000	
b) Provisions	-	NIL	
		4,70,000	
Net Current Assets			4,80,000
Total			**15,80,000**

Problem – 7

Monaco Ltd. had adverse trading for past few years resulting in accumulated losses & over valued assets. It's Balance sheet as on 31st March 2010 is as follows.

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	60,000
(in shares of Rs.10/- each)		Freehold Property	70,000
		Leasehold Property	1,50,000
50,000 Equity Share Capital	5,00,000	Plant	1,40,000
		Investment	80,000
40,000 Preference Share Capital	4,00,000	Stock	1,00,000
		Debtors	5,00,000
Securities Premium	30,000	Profit & Loss A/c	2,00,000
12% Debenture	1,20,000		
Accrued Interest	10,000		
Creditors	1,10,000		
Overdraft	1,30,000		
	13,00,000		13,00,000

Note : Preference dividend is unpaid for past three years.

The shareholders & the court approved the following scheme of reconstruction.

1) The paid – up value of preference shares and Equity shares was to be reduced by 50% & 85% respectively. The face value will remain unchanged.
2) The Preference dividend for one years is to be paid by allotment of Equity shares credited Rs.2/- per share. The remaining amount to be cancelled.
3) The debenture holders took over Freehold property which was mortgaged in their favour. This property realized Rs.1,40,000/-. The balance amount after adjusting principal & interest was handed over to the company.
4) The investments are sold for Rs.1,00,000/-.
5) Obsolete Stock worth Rs.25,000/- & irrecoverable debt worth Rs.15,000/- are to be written off along with goodwill & profit & loss A/c.
6) There was a claim against company not provided to the extent of Rs.1,00,000/-. This was settled for Rs.83,000/-.
7) A call @ Rs.3/- per share on revised Equity & Preference shares was made. This was paid by all shareholders.

8) The authorized capital was suitably revised from Rs.8,00,000/- to Rs.12,00,000/- which was equally divided between Equity & 8% Preference shares.

9) Remaining bank balance to be utilized to pay bank overdraft.

You are required to show journal entries & balance sheet after implementation of the scheme.

Solution :

Journal in the books of Monaco Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2009 March 31	8% Preference Share Capital A/c ……Dr.	2,00,000	
	To Capital Reduction A/c		2,00,000
	(Being reduced Preference share by 50%.)		
	Equity Share Capital A/c …………….. Dr.	4,25,000	
	To Capital Reduction A/c		4,25,000
	(Being 50,000 Equity shares of Rs.10/- each reduced by 75%.)		
	Capital Reduction A/c ……………….. Dr.	32,000	
	To Equity Share Capital A/c		32,000
	(Being 10,667 Equity shares of Rs.3/- each allotted to satisfy the arrears of preference dividend for 1 year.)		
	12% Debenture A/c ………………….. Dr.	1,20,000	
	Accrued Interest on Debenture A/c … Dr.	10,000	
	Bank A/c ………………………………. Dr.	10,000	
	To Freehold Property A/c		70,000
	To Capital Reduction A/c		70,000
	(Being Freehold property of Rs.70,000/- taken by debenture holders, remaining amount paid by the debenture holders.)		
	Bank A/c ………………………………. Dr.	1,00,000	
	To Investment A/c		1,80,000
	To Capital Reduction A/c		20,000
	(Being sold out investments at a profit of Rs.20,000/-.)		

	Capital Reduction A/c …………………Dr. To Stock A/c To Debtors A/c To Goodwill A/c To Profit & Loss A/c (Being written off Stock, Debtors, Goodwill & Profit and Loss debit balance as agreed upon.)	3,00,000	 25,000 15,000 60,000 2,00,000
	Capital Reduction A/c …………………Dr. To Bank A/c (Being settled the claim.)	83,000	 83,000
	Preference Share Call A/c ……………Dr. To 8% Preference Share Capital A/c (Being made a call on 40,000 Preference Share @ Rs.3/- each.)	1,20,000	 1,20,000
	Equity Share Call A/c …………………Dr. To Equity Share Capital A/c (Being made a call on 66,000 Equity shares @ Rs.3/- each.)	1,98,000	 1,98,000
	Bank A/c ………………………………. Dr. To Preference Share Call A/c To Equity Share Call A/c (Being collected call money.)	3,18,000	 1,20,000 1,98,000
	Bank A/c ………………………………. Dr. To Bank A/c (Being cleared Bank overdraft.)	1,30,000	 1,30,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Capital A/c	32,000	By Preference Capital A/c	2,00,000
To Stock A/c	25,000	By Equity Share Capital A/c	4,25,000
To Debtors A/c	15,000	By 12% Debenture A/c	70,000
To Goodwill A/c	60,000	By Bank A/c	20,000
To Profit & Loss A/c	2,00,000		
To Bank A/c	83,000		
To Capital Reserve A/c	3,00,000		
	7,15,000		7,15,000

Bank Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Freehold Property A/c	10,000	By Capital Reduction A/c	83,000
To Investment A/c	80,000	By Bank overdraft A/c	1,30,000
To Capital Reduction A/c	20,000	By Balance c/d	2,15,000
To Preference Share Capital A/c	1,20,000		
To Equity Share Capital A/c	1,98,000		
	4,28,000		4,28,000

Monaco Ltd.
Balance sheet as on 31st March, 2010
(And reduced)

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Authorized :		Leasehold Property 1,50,000	
60,000 Equity Share of Rs.10/- each	6,00,000	Plant 1,40,000	2,90,000
60,000 8% Preference share of Rs.10/- each	6,00,000		
	12,00,000	Current Assets, Loans & Advances	
Issued & Subscribed :		Stocks (1,00,000 – 25,000)	75,000
32,000 8% Preference share of Rs.10/- each	3,20,000	Debtors	4,85,000
61,000 Equity shares of Rs.10/- each Rs.5/- paid up	3,05,000	Bank	2,15,000
Reserve & Surplus			
Security Premium	30,000		
Current liabilities & provisions			
Creditors	1,10,000		
	10,65,000		10,65,000

Problem – 8

Following is the Balance Sheet of M/s. Aniruddha Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
Equity Share of Rs.10/- each	8,00,000	Fixed Assets	25,00,000
12% Cumulative Preference Share of Rs.100/- each.	9,00,000	Stock	15,00,000
10% Debentures	4,00,000	Sundry Debtors	16,00,000
Sundry Creditors	40,00,000	Bank	2,10,000
Provision for Tax	3,00,000	Preliminary Expenses	50,000
		Profit & Loss A/c	5,40,000
	64,00,000		64,00,000

Note : Preference Dividend for 3 years was in arrears.

Following scheme of reconstruction was approved :

1) Write off Fixed Assets by 25% Sundry Debtors by 15% & reduce the value of Stock to 65% of its book value.
2) Preference Shareholders to forgo arrears of Preference dividend.
3) Directors to give temporary loan of Rs.8,00,000/- to the company.
4) The company settled tax liability to the extent of Rs.6,80,000/- & to meet the expenses of reconstruction amounting to Rs.12,000/-.
5) Sundry Creditors to give a remission of 25% of their claims & a company to allot 11% Preference Shares of Rs.100/- each fully paid up in settlement of the balance amount.
6) 10% debentures to be converted into 13% debenture of Rs.1,50,000/- in full settlement of their claim.
7) Equity shares to be reduce to Rs.2/- each fully paid up & 12% Cumulative Preference Share to be reduced to 1,10,000 Cumulative Preference Share of Rs.2/- each fully paid up.
8) Written off debit balance in Profit & Loss Account & Preliminary Expenses.

Draft journal entries & prepare Capital Reduction Account & Balance Sheet after reconstruction.

Solution :

Journal in the books of M/s. Aniruddha Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Capital Reduction A/c …………………… Dr. To Fixed Assets A/c To Sundry Debtors A/c To Stock A/c (Being reduction in the value of assets.)	13,90,000	 6,25,000 2,40,000 5,25,000
2.	Bank A/c …………………………………...Dr. To Directors' Loan A/c (Being temporary loan raised from Directors.)	8,00,000	 8,00,000
3.	Provision for Tax A/c …………………….Dr. Capital Reduction A/c ……………………Dr. To Bank A/c (Being settlement of tax liability.)	3,00,000 3,80,000	 6,80,000
4.	Capital Reduction A/c ……………………Dr. To Bank A/c (Being payment of reconstruction expenses.)	12,000	 12,000
5.	Sundry Creditors A/c ……………………Dr. To Capital Reduction A/c To 11% Preference share Capital A/c (Being remission of liability of Sundry Creditors & allotment of 11% Preference Shares in settlement of balance amount.)	40,00,000	 9,60,000 30,40,000
6.	10% Debenture A/c ………………………Dr. To 13% Debenture A/c To Capital Reduction A/c (Being exchange of 13% Debentures in full settlement of 10% Debenture.)	4,00,000	 1,50,000 2,50,000
7.	Equity Share Capital A/c ………………..Dr. 12% Cumulative Preference Share Capital A/c ………………………………………Dr. To Equity Share Capital A/c To 12% Cumulative Preference Share Capital A/c To Capital Reduction A/c	8,00,000 9,00,000	 1,60,000 2,20,000 13,20,000

8.	Capital Reduction A/c …………………… Dr. To Preliminary Expenses A/c To Profit & Loss A/c (Being Profit & Loss A/c & Preliminary Expenses written off.)	5,90,000	 50,000 5,40,000
9.	Capital Reduction A/c ……………………Dr. To Capital Reserve A/c (Being balance of Capital Reduction Account transferred to Capital Reserves Account.)	1,58,000	 1,58,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Fixed Assets A/c	6,25,000	By Sundry Creditors A/c	9,60,000
To Stock A/c	5,25,000	By 10% Debentures A/c	2,50,000
To Debtors A/c	2,40,000	By Equity Share Capital A/c	6,40,000
To Bank A/c	3,80,000	By 12% Cumulative Preference Share Capital A/c	6,80,000
To Bank A/c	12,000		
To Preliminary A/c	50,000		
To Profit & Loss A/c	5,40,000		
To Capital Reserve A/c	1,58,000		
	25,30,000		25,30,000

Balance sheet of M/s. Aniruddha Ltd. as on 31st March, 2010

Liabilities	Rs.	Assets		Rs.
Share Capital		Fixed Assets	25,00,000	
80,000 Equity Share of Rs.2/- each	1,60,000	(-) Written off	6,25,000	18,75,000
30,400, 11% Preference Share of Rs.100/- each	30,40,000	Investment		NIL
1,10,000, 12% Cumulative Preference Share of Rs.2/- each	2,20,000	Current Assets & Loans & Advances		
		Stock	15,00,000	
		(-) Written off	2,25,000	9,75,000
Reserve & Surplus		S. Debtors	16,00,000	
Capital Reserve	1,58,000	(-) Written off	2,40,000	13,60,000
Secured Loans		Bank		3,18,000
13% Debentures	1,50,000	(2,10,000 + 8,00,000 – 6,80,000 – 12,000)		
Unsecured Loans				
Director's Loan	8,00,000	Miscellaneous Expenses		NIL
Current Liabilities & provisions	NIL			
	45,28,000			45,28,000

Problem – 9

The paid – up Capital of Fast traler Ltd. amounted to Rs.12,00,000/- consisting of 6,000 – 5% Cumulative Shares of Rs.100/- each and 60,000 Equity Shares of Rs.10/- each. The Preference dividend was in arrears for Rs.80,000/- (Contingent Liability)

The company incurred heavy losses continuously. Therefore, the Directors recommended to the shareholders the following scheme of reconstruction to provide a sum sufficient for the following purpose :

1) To write down the book value of Patents by Rs.2,00,000/-, Plant & Machinery by Rs.24,000/- and Tools & Equipments by Rs.8,000/-.
2) To write off the debit balance of Profit & Loss Account of Rs.2,96,000/-.
3) Any balance made available by the reduction of capital is to be utilized to write off "Experiment & research expenses"
4) The scheme duly approved & authorized provided the following.
   i) For every 15, 5% Preference Shares, 8 – 4% Cumulative Preference Shares of Rs.100/- each & 40 Equity shares of Rs.2/- each are to be issued.
   ii) For every Rs.20/- of Cumulative Preference Divided; 2 Equity shares of Rs.3/- each are to be issued.
   iii) For every 10 old Equity shares, 2 new Equity shares of Rs.2/- each are to be issued.

You are required to :
Pass journal entries in the books of the company to record the above transactions. Prepare Capital Reduction Account.

Solution :

Journal of Fast Traler Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	5% Preference Share Capital A/c ………Dr. To 4% Cumulative Preference Share Capital A/c To Equity Share Capital A/c To Capital Reduction A/c (Being issued 3200, 4% Preference shares of Rs.100/- each & 24,000 Equity Shares of 5% Preference shares Capital.	6,00,000	 3,20,000 48,000 2,32,000
2.	Capital Reduction A/c ………………………Dr.	18,000	

	To Equity Share Capital A/c (Being issued 6,000 Equity shares of Rs.3/- each in settlement of arrears of Preference dividend.)		18,000
3.	Equity Share Capital A/c ....Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being issued 12,000 Equity share of Rs.2/- each to the existing Equity shareholders.)	6,00,000	 24,000 5,76,000
4.	Capital Reduction A/c ....Dr. To Patents A/c To Plant & Machinery A/c To Tools & Equipment A/c To Profit & Loss A/c To Experiment & Research Expenses A/c (Being written off Patents, Plant & Machinery, Tools & Equipments, Profit & Loss A/c, Debit balance & Experiment & Research Expenses as agreed upon.)	7,96,000	 2,00,000 24,000 8,000 2,96,000 2,68,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Capital A/c	18,000	By 5% Preference Share Capital A/c	2,32,000
To Patents A/c	2,00,000	By Equity Share Capital A/c	5,76,000
To Plant & Machinery A/c	24,000		
To Tools & Equipment A/c	8,000		
To Profit & Loss A/c	2,96,000		
To Experiment & Research Expenses A/c	2,62,000		
	8,08,000		8,08,000

12.2 EXERCISE :

12.2.1 OBJECTIVES QUESTIONS

- **Filling the blanks.**

1) Capital Reduction is implemented per section ____________ of Companies Act.
2) The scheme of Capital reduction is to be approved by ____________ .
3) Fictitious assets are to be transferred to ____________ .
4) Balance in Capital Reduction should be transferred to ____________ .
5) The payment for contingent liability should be debited to ____________ .
6) And reduced words are to be shown as in Balance sheet as per ____________ required.
7) XYZ Ltd. has on 31st December, 2010 1,00,000 Equity shares at Rs.10/- each. It was decided to reduced share to Rs.8/- each. The reduction is ____________ .
8) The Preference shareholders agree to Forgo arrears of Preference dividend Rs.80,000/-. The amount transferred to Capital Reduction Account is ____________ .
9) Investment costing of Rs.36,000/- given to Bank for bank overdraft Rs.19,800/-. The Capital reduction is debited by Rs. ____________ .
10) Provision for taxation is Rs.1,62,000/-. The tax liability of the company is settled at Rs.1,40,000/- & it is paid immediately. Amount credited to Capital Reduction is ____________ .

(Ans – 1) 100, 2) High court, 3) Internal Reconstruction, 4) Capital Reserve, 5) Capital Reduction, 6) Company law, 7) 2,00,000, 8) Nil, 9) 16,200, 10) 22,000.)

1) The capital reduction means reduction in ____________ value of shares.
2) The sub division of shares does not result in ____________ of capital.
3) The shareholders can surrender shares for ____________ or ____________ .
4) The internal reconstruction results in proper valuation of ____________ & ____________ of company.

5) ____________ resolution is to be passed by shareholders for approval of scheme or reconstruction.

6) The Fictitious debit balances are to be transferred to ____________ Account.

7) The full balance of Capital is to be debited, if ____________ value is reduced.

8) Shareholders not approving scheme is called ____________ shareholders.

9) The expenses for forming & implementing scheme should be debited to ____________ .

10) The scheme of internal reconstruction can be utilized to provide ____________ for the company.

(Ans – 1) Paid-up Value, 2) Reduction, 3) Re-issue, cancellation, 4) Assets & Liability, 5) Special, 6) Capital Reduction, 7) Face, 8) dissenting, 9) Capital Reduction, 10) Funds.)

- **Match the following.**

1)

Group "A"	Group "B"
1) Capital Reduction	a) Transfer to Capital Reduction
2) Fictitious Balance	b) Section 100
3) Capital Reduction Scheme	c) No reduction of Capital
4) Consolidation of Share	d) Internal Reconstruction
5) Subdivision of Share	e) No Change in Capital

(Ans : 1 – b, 2 – a, 3 – d, 4 – e, 5 – c.)

2)

Group "A"	Group "B"
1) Surrender of share	a) Credit – Capital reduction
2) Cancellation of surrendered shares	b) Unchanged Capital
3) Surplus on revaluation of assets	c) Transfer to Capital Reserve
4) Loss on revaluation of assets	d) Transfer to Capital Reduction
5) Credit balance in Capital Reduction	e) Debit Capital Reduction

(Ans : 1 – b, 2 – a, 3 – c, 4 – e, 5 – d.)

3)

Group "A"	Group "B"
1) Balance sheet after reduction	a) Not transferable to Capital Reduction
2) Statutory Reserve	b) Transfer difference to Capital Reserve
3) Expenses of Scheme	c) Cancel present capital, raise new capital & difference to reduction
4) Reduction in paid up value of shares	d) Indicate, & reduced
5) Reduction in face value of debenture	e) Debit capital reduction account

(Ans – 1 – d, 2 – a, 3 – e, 4 – b, 5 – c.)

- **True or False.**

1) Capital Reduction & Internal reconstruction is synonym. – True
2) Consolidation of shares result in profit for a company. – False
3) Sub – division of shares result in gain for a company. – False
4) Provision for unrecorded liability indicates loss to a company. – True
5) Accounting for Internal & External reconstruction is in identical manner. – False
6) Authorised Share Capital is to be reduced to the extent of Capital Reduction. – False
7) Cancellation of contingent liability is treated as profit to the company. – False
8) Re – classification of surrendered shares should not be accounted. – True
9) The requirements of schedule VI is to be complied while preparing account after internal reconstruction. – True
10) Internal reconstruction scheme cannot be prepared to cover capital reconstruction. – False

12.2.2 PROBLEMS FOR PRACTICE

1) Following is the balance sheet of Harshal Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
6,000 10% Cumulative Preference Share of Rs.100/- each fully paid up	6,00,000	Goodwill	2,00,000
15,000 Equity share of Rs.100/- each, fully paid up	15,00,000	Land & Building	19,50,000
Loans	2,22,000	Plant & Machinery	70,000
Creditors	7,50,000	Stock	4,00,000
		Trade Debtors	2,88,000
		Bank Balance	1,26,000
		Profit & Loss A/c	38,000
	30,72,000		30,72,000

Note : Preference dividend was in arrears Rs.1,20,000/-. The Board of Directors of the company decided upon the following scheme of reconstruction, which was approved by all concerned.

1) Paid up value of Equity shares shall be reduced to Rs.50/- per share, face value being Rs.100/-.
2) Preference shares are to be converted into 13% debentures of Rs.100/- each with regard to their 80% of dues (including arrears of Preference dividend) & for the balance (including dividend arrears) Equity, shares of Rs.100/- each (Rs.50/- paid up shall be issued.)
3) All Equity shareholders agreed to pay the balance amount, making shares full paid up.
4) The Plant & Machinery was revalue at Rs.90,000/-.
5) The value of Stock was reduced by Rs.1,00,000/-.
6) Land & Building shall be written down to Rs.15,50,000/-.
7) Creditors agreed to Forgo their claims by 10%.
8) Loans was fully settled for Rs.2,00,000/-.
9) Goodwill, debit balance of profit & loss Account shall be written off.
10) Cost of reconstruction of Rs.5,000/- was paid.

Above resolution was carried out.

You are required to :

i) Pass journal entries in the books of the company.
ii) Prepare Capital Reduction Account
iii) Prepare Balance sheet after reconstruction

(Ans : Capital Reserve – Rs.4,000/-, Tally – 30,43,000/-)

2) The ledger balance of ZEE TV Ltd. include Building Rs.6,10,000/-, Furniture Rs.2,00,000/-, Computer Rs.3,00,000/-, Debtors Rs.3,00,000/-, Preliminary Expenses Rs.20,000/-, Cash at Bank Rs.80,000/-, Bills Receivable Rs.2,50,000/-, Stock Rs.40,000/-, 8% Preference Share Capital – 2,000 shares Rs.100/- each, Equity Share Capital – 80,000 shares of Rs.10/- each, 'A' 10% Debentures Rs.4,00,000/-, 'B' 12% Debenture Rs.5,00,000/-, Outstanding Interest for one year on Debentures Rs.1,00,000/-.

Creditors Rs.4,00,000/-, Bills Payable Rs.50,000/-, Outstanding Audit Fees Rs.50,000/-, Profit & Loss Account

The company has incurred heavy losses. The following scheme of reconstruction is agreed upon.

1) 8% Preference shares are to be reduced by Rs.20/- per share, Equity shares be reduced by Rs.5/- per share.
2) To settle the claim of holders of 'A' 10% Debenture by issue of new 11% Debenture of Rs.2,00,000/-, 'A' Debenture holders agree to forgo their interest.
3) To settle the claim of holders of 'B' 12% Debenture by issue of new 13% Debenture of Rs.5,00,000/- outstanding Debenture interest on 'B' 12% Debenture holders be paid.
4) To write off Fictitious assets & debit balance of Profit & Loss Account.
5) Director refund Rs.60,000/- fees previously received by them.
6) Computer was to be written down by Rs.20,000/-.

You are required to show :

a) Journal entries to record the above transactions in books of ZEE Ltd.
b) Balance sheet before reconstruction
c) Balance sheet after reconstruction.

Assume that all the formalities are duly complied.

(Ans : Balance sheet before reconstruction Tally – Rs.25,00,000/-, Balance sheet after reconstruction Tally – Rs.17,60,000/-, Capital Reduction – Rs.7,40,000/-.)

3) The following is the Balance sheet of Sunrise Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
Issued & Subscribed Capital		Goodwill	25,000
10% Preference share of Rs.100/- each	4,00,000	Patents	15,000
Equity share of Rs.10/- each	10,00,000	Furniture	35,000
12% Debenture	7,50,000	Plant & Machinery	6,00,000
Bank overdraft	50,000	Land & Building	6,50,000
Sundry Creditors	1,40,000	Stock in trade	80,000
Bills Payable	35,000	Sundry Debtors	90,000
		Bills Receivable	15,000
		Profit & Loss Account	8,20,000
		Preliminary Expenses	45,000
	23,75,000		23,75,000

The Preference dividend is in arrears for four years. The following scheme of capital reduction was sanctioned by the court & agreed by shareholders.

1) The Preference shares are to be reduced to Rs.50/- each & Equity shares are to be Rs.2/- each, both being fully paid.
2) Of the Preference dividend in arrears three – forth to be waived & remaining to be paid in cash.
3) The Debenture holders to take over Plant & Machinery at Rs.6,00,000/- in part satisfaction of their claim. The remaining claim should be converted into 14% Debentures.
4) Creditors agreed to reduce their claim by Rs.20,000/-, Bills Payable to be paid immediately.
5) Goodwill, Patents, Profit & Loss Account & Preliminary Expenses are to be written off.
6) The following assets are to be revalued as under – Furniture Rs.25,000/-, Stock in trade Rs.68,000/-, Land & Building Rs.5,80,000/-, Sundry Debtors Rs.80,000/-.
7) A secured loan of Rs.1,50,000/- at 12% per annum is to be obtained by mortgaging Land & Building for payment of bank overdraft, Bills Payable & reconstruction expenses Rs.15,000/-.

Pass journal entries to record above scheme & draft the Balance sheet of Sunrise Ltd. after reconstruction.

(Ans : Capital Reserve – Rs.8,000/-, Balance sheet Tally – 7,78,000/-.)

4) The Balance sheet of Colour's Ltd. as at 31st October, 2009 appeared as follows.

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
30,000 Equity shares of Rs.10/- each fully paid up	3,00,000	Fixed Assets 4,00,000 (at cost) (-) Dep^{n} Prov.3,00,000	1,00,000
1,000, 11% Preference shares of Rs.100/- each fully paid	1,00,000	Current Assets	
		Stock & Stores	1,20,000
		Receivables	2,90,000
		Other Current Assets	40,000
Secured loans		Miscellaneous Expenditure	
11% Deb. 1,00,000		Profit & Loss Account	3,28,000
Int. accured & due on deb. 22,000			
Bank O/D 1,26,000	2,48,000		
Unsecured loans 1,00,000			
Int. accrued & due 30,000	1,30,000		
Current Liabilities & Provisions			
Current Liabilities	1,00,000		
	8,78,000		8,78,000

The scheme of reconstruction has been agreed amongst the shareholders & the Creditors with the following Salient features.

1) Interest due on unsecured loans is waived.
2) 50% of the interest due on Debentures is waved.
3) The 11% Preference shareholders rights are reduced to 50% & the remaining were converted into 15% Debentures of Rs.100/- each.
4) Current liabilities would be reduced by Rs.10,000/- on account of the provision no longer required.
5) The Equity shareholders agree to convert the existing shares into new ten rupee shares of total value Rs.1,00,000/-.

6) The debit balance in the profit & loss account is to be written off totally, Rs.52,000/- should be provided for doubtful debts & the value of fixed assets should be increased by Rs.80,000/-.

Prepare the Capital Reduction Account & redraft the Balance sheet of the company based on the above scheme of reconstruction.

(Ans : Capital Reserve – Rs.1,000/-, Balance sheet Tally – Rs.5,78,000/-.)

5) Star One Ltd. was in serious Financial Crisis & the Directors considered in advisable to go in for a compromise scheme with its creditors.

Balance sheet as on 30th April, 2010

Liabilities	Rs.	Assets	Rs.
Preference share capital (Rs.100/- paid up)	5,00,000	Land	80,000
Equity share capital (Rs.10/- paid up)	7,00,000	Building	2,60,000
12% Debentures	2,00,000	Plant & Machinery	3,75,000
Creditors	2,80,000	Trade Marks	75,000
Bank Loan	2,15,000	Goodwill	1,50,000
		Stock	1,60,000
		Debtors	2,73,000
		Profit & Loss Account	5,12,000
		Discount on issue of Debenture	10,000
	18,95,000		18,95,000

Scheme as proposed by the directors is as follows :

1) Bank agreed to write interest amount outstanding of Rs.15,000/- included in the balance subject to immediate payment of 15% of their dues.

2) Land was revalued upward by 55% other tangible fixed assets are to be written down by 20% uniformly; all tangible & fictitious assets to be written off.

3) Debenture holder agreed to reduce their claim by 20% provided they are paid 20% immediately & balance being redeemed in 4 equal annual instalments.

4) Preference shareholders to reduce their shares to Rs.60/- paid up.

5) Equity share holders to reduce their shares to Rs.2/- per share fully paid up & subscribed to such number of shares to

meet the cash requirement of the scheme & also leave a cash balance of Rs.25,000/-.

Show Capital Reduction Account and the Balance sheet after carrying out the suggested scheme of reconstruction.

(Ans : Capital Reserve – Rs.3,81,000/-, Balance sheet tally amount – Rs.14,86,000/-)

6) The Balance sheet of Citizen Ltd. as at 31st October, 2010 was as under:

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed Assets	
1,50,000 Equity shares of Rs.10/- each fully paid	15,00,000	Gross Block 20,00,000 (-) Dep^n 15,00,000	5,00,000
5,000 11% Preference shares of Rs.100/- each fully paid	5,00,000	Current Assets	
		Stock & Stores	6,00,000
		Receivables	14,50,000
Secured loans		Other Current Assets	2,00,000
11% Deb. 5,00,000		Profit & Loss Account	16,40,000
Int. due on Debentures 1,10,000	6,10,000		
Bank overdraft	6,30,000		
Unsecured loan 5,00,000			
(+) Int. due 1,50,000	6,50,000		
Current Liabilities	5,00,000		
	43,90,000		43,90,000

The scheme of reconstruction has been agreed amongst the shareholders & the Creditors as follows –

1) Interest due on unsecured loans is waived.
2) 50% interest due on Debentures is waived.
3) 11% Preference shareholders rights are to be reduced to 50% & then converted into 15% Debentures of Rs.100/- each.
4) Current liability would be reduced Rs.50,000/-.

5) The Bank agreed to the arrangement & to increase cash credit or overdraft limits by Rs.1,00,000/- upon the shareholders agreeing to bring in a like amount by way of new Equity.

6) Besides additional subscription as above the Equity shareholders agree to convert the existing Equity shares into new ten rupees share of total value of Rs.5,00,000/-.

7) The debit balance in Profit & Loss Account is to be written off totally Rs.2,60,000/-should be provided for doubtful debts & the value of Fixed Assets be increased by Rs.4,00,000/-.

You are required to prepare Capital Reduction Account & Balance sheet after reconstruction.

(Ans : Capital Reduction – Rs.5,000/-, Balance sheet Tally – Rs.28,90,000/-.)

7) The following is the Balance sheet of Videocon Ltd. as on 31st December, 2009.

Liabilities	Rs.	Assets	Rs.
Issued Subscribed Capital :		Goodwill	75,000
30,000 Equity share of Rs.10/- each fully paid	3,00,000	Land & Building	2,50,000
2,000 12% Preference share of Rs.100/- each fully paid	2,00,000	Plant & Machinery	1,37,500
11% Debentures	1,25,000	Furniture	16,250
Sundry Creditors	22,750	Stock	1,31,500
Bank overdraft	68,375	Debtors	23,000
		Cash in hand	375
		Profit & Loss Account	82,500
	7,16,125		7,16,125

The Preference dividend was in arrears for 5 years.

The Capital Reduction scheme was submitted as under :

1) Equity shares to be reduced to Rs.5/- each.

2) All arrears of Preference dividend to be cancelled.

3) Each Preference share to be reduced to Rs.75/- & then exchanged for one new 12% Preference shares of Rs.50/- each & five Equity shares of Rs.5/- each.

4) The debit balance of Profit & Loss Account to be written off Plant & Machinery to be written down by Rs.47,500/- & goodwill is to be reduced as much as possible.

5) The Debentures are to be redeemed at a 5% premium, holders being given the option to subscribe at par for new 12% Debenture.

Approval of the court is obtained, 1,00,000 new Equity shares are issued at par (sufficient new Equity shares are increased by increasing authorized share capital) payable in full on application. The whole issue is underwritten for 2% commission & the issue was fully taken up. Holders of old Debentures of Rs.50,000/- exercised their option & subscribed for the new Debentures. Expenses in connection with the with the scheme amounted to Rs.3,375/- & were written off.

Journalise the transactions to record Reduction Scheme & set out new Balance sheet of the company.

(Ans : Balance sheet Tally – Rs.8,75,250/-.)

8) The following is the Balance sheet of Ragini Shdhana Ltd. as on 31st December, 2009.

Liabilities	Rs.	Assets	Rs.
20,000 Equity share of Rs.100/- each fully paid	20,00,000	Virar Works	16,00,000
18,000 7% Preference share of Rs.100/- each fully paid	18,00,000	Churchgate Works	12,00,000
"A" 8% Debentures (Secured on Virar work)	3,00,000	Stock on hand	9,00,000
"B" 8% Debentures (Secured on Churchgate work)	3,50,000	Sales Ledger Adjustment Account	5,00,000
Creditors	2,50,000	Cash at Bank	1,00,000
Bills Payable	2,00,000	Invention Expenses	2,00,000
		Profit & Loss Account	4,00,000
	49,00,000		49,00,000

A scheme of Reconstruction was duly prepared & sanctioned whereby :

1) Equity shares were to be reduced to Rs.10/- each fully paid.

2) Preference shares were to be reduced to share of Rs.80/- each fully paid, dividend being raised to 10%.
3) Debenture holders forgo their interest Rs.52,000/- which is included in Creditors.
4) 'B' Debenture holders agreed to take over Chuchgate works at Rs.5,00,000/- & to accept an allotment of 3,000 Equity shares in Ragini Sadhana Ltd. of Rs.10/- each at par. They settled their account by paying necessary amount by a crossed cheque to the company.
5) Stock on hand was to be written down by Rs.2,00,000/- & a provision for doubtful debts be created to the extent of Rs.25,000/-.

Any balance arising out of the above points to be applied as to 2/3 to write off the value of Virar works & 1/3 to Capital Reserve.

You are required to prepare –
1) Capital Reduction Account
2) Balance sheet after the above scheme is implemented.

(Ans : Capital Reserve – Rs.2,29,000/-, Balance sheet Tally amount – Rs.25,97,000/-)

9) Following is the Balance sheet of Star Pravah Ltd. as on 31st March, 2010.

Liabilities		Rs.	Assets		Rs.
Share Capital Authorized Issued Subscribed & Paid up 5,00,000 Equity shares of Rs.5/- each fully paid		25,00,000	Chennai Works		25,00,000
4,00,000 6% Preference shares of Rs.5/- each fully paid		20,00,000	Delhi Works		15,00,000
6% 'A' Debentures secured on Chennai works		1,00,000	Workmen Compensation Fund / Investment		55,000
6% 'B' Debentures secured on Delhi works		5,00,000	Stock		12,00,000
Workmen Compensation Fund			Sundry Debtors		45,000
Chennai	35,000		Discount on Debenture		
Delhi	20,000	55,000	'A'	3,500	
Bank overdraft		5,00,000	'B'	12,000	15,500
Sundry Creditors		2,00,000	Profit & Loss Account		16,19,500
		58,55,000			58,55,000

On 1st April, 2010; a scheme of reduce capital implemented as under :

1) The Equity shares were reduced to Rs.0.25/- each.
2) The Preference shares were reduced to Rs.3.75/- each & the rate of dividend to be 5%.
3) The ‘A’ & ‘B’ Debenture holders waived interest payment of Rs.47,000/- which was included in Sundry Creditors.
4) The Directors were to refund Rs.75,000/- fees, they had received earlier.
5) The ‘B’ Debenture holders formed a new company to take over the Delhi works for Rs.7,50,000/- & this price was satisfied on the same date by surrender of ‘B’ Debentures & allotment of Rs.50,000/- fully paid shares of Rs.5/- each in the new company.

The investments were valued at Rs.35,000/-, Stock Rs.60,000/- & Debentures at Rs.40,000/-. There was no actual liability to workmen at Delhi. The Assets were to be written down accordingly any fictitious assets were to be eliminated, only necessary reserves were to be retained & the balance available was to be written of the book value of the Chennai works.

Journalise the above transactions in the books of the company & prepare the balance sheet after the above scheme is carried out.

(Ans : Balance sheet Tally amount – Rs.23,38,000/-)

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13

PROFIT PRIOR TO INCORPORATION-I

Unit Structure

13.0 OBJECTIVES :

After Studying this unit the students will be able to:

- Know the Concept of Profit / Loss Prior to Incorporation
- Calculate the Various Ratios
- Understand the Methods of ascertain pre-incorporation Profit or Loss
- Solve the practical problems.
- Understand the Treatment of Profit or Loss Prior / Post Incorporation

13.1 INTRODUCTION :

In the present scenario, corporate form of organization is preferred. Many existing Non – Corporate concerns get themselves converted into a corporate one, Company is a separate legal entity and enjoy certain tax benefits. Hence existing Propriority / Partnership concern may get converted into a limited company. Therefore they decide to form a Ltd. Co. to take over their business. Formation of a limited co. requires number of formalities and is a time consuming task, such as name approval of proposed company, preparation of Memorandum of Association, Articles of Association etc. In such a situation the promoters who acquire running business, may continue business on behalf of company prior to its incorporation. Therefore for first year; profit earned upto incorporation is considered as profits prior to incorporation.

13.2 MEANING :

Profits prior to incorporation means profits earned between the date of acquisition of business & the date of incorporation. Such situation arises in the first year of operation of the co; when same books of A/c's of the Vender are continued by promoters. The Profit / Loss Prior to Incorporation is determined nationally by allocating various Income & Expenses, Profit or Losses for the entire period (i.e. pre & post incorporation) between two time periods an appropriate logical basis.

13.3 CALCULATION OF VARIOUS RATIOS :

13.3.1 TIME RATIO :

Time Ratio is used for dividing fixed expenses which arise evenly spread within entire period. Pre Incorporation period consist from business acquired up date of Incorporation. Post Incorporation starts from date of Incorporation till accounting period end. The entire period is normally of a year (12 months). But it can be longer or shorter period also depending upon situation.

Illustration 1 : Calculation & various Time Ratio

	Date of Business Acquired	Date of Incorporation	Accounting End	Time Ratio
a)	1st April 08	31st May 08	31st March 09	= 12 mths
	Pre Incorporation 2 Months		Post Incorporation 10 Months	= 1 : 5
b)	1st Jan 08	31st March 08	31st Dec 08	= 12 mths
	Pre Incorporation 3 Months		Post Incorporation 9 Months	= 1 : 3
c)	1st May 08	30th Sept 08	31st Dec 08	= 8 mths
	Pre Incorporation 5 Months		Post Incorporation 3 Months	= 5 : 3
d)	1st Jan. 08	1st April 08	31st March 09	= 15 mths
	Pre Incorporation 3 Months		Post Incorporation 12 Months	= 1 : 4

13.3.2 SALES RATIO / TURNOVER RATIO

Sales Ratio is used for dividing gross Profit, variable expenses etc. Sales Ratio is calculated by comparing sales of pre & post Incorporation period. However if sales are not even / uniform per month, then Weighted Average Sales ratio should be calculated.

Illustration : 2 (Various Sales Ratio)

a) Net Sales Rs.16,00,000/-
Pre Incorporation Sales Rs.5,00,000/-

Post Incorporation Sales = Net Sales (–) Pre Incorporation Sales
= 16,00,000 (–) 5,00,000
= Rs.11,00,000/-

Sales Ratio = 5:11

b) A Ltd. was incorporated on 1st May 08 to take over A & Co. business w.e.f. Feb. 08, period ended 31st Dec 08 monthly sales were doubled from 1st July.

Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	1	1	1	1	2	2	2	2	2	2
Pre – Incorporation			Post – Incorporation							
3			14							

Sales Ratio = 3:14

c) B Ltd. was incorporated on 1st May 08 to take over B & Co. business w.e.f. 1st Feb.08, period ending 31st Dec. 08. Monthly Sales were doubled from 1st Sept. 08.

Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	1	1	1	1	1	1	2	2	2	2
Pre – Incorporation			Post – Incorporation							
3			12							

Sales Ratio = 3:12 = 1:4

d) C Ltd. was incorporated on 1st June 08 to take over business from 1st Jan 08 Accounting year ends 31st December 2008. A sale for each months of July to December was twice the monthly sales of January to June 08.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	1	1	1	1	1	2	2	2	2	2	2

Pre – Incorporation	Post – Incorporation
5	13

Sales Ratio : 5:13

e) D Ltd. was incorporated on 1st May 08 to take over business from 1st March 08 for period ending 31st Dec.09. Trend of Sales were as under. Monthly Sales were doubled from 1st July & again from 1st Nov. monthly sales were double that of Oct. Month.

Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
1	1	1	1	2	2	2	2	4	4
2		18							

Sales Ratio = 2:18 = 1:9

13.3.3 WEIGHTED AVERAGE RATIO

This ratio is calculated when Sales / Incomes expenses are not uniform throughout the period.

Illustration : 3 (Calculated various Weight Average Ratio)

A) There are 5 employees upto Incorporation (3 months) and then 8 employees in post Incorporation period (9 months)

Salary Ratio : No. of employees X no. of months

Pre = 5 X 3 = 15

Post = 8 X 9 = 72

Salary Ratio = 5:24

B) X Ltd. was incorporated on 01/08/07 to take over business from 1st April 07 closes accounts on 31st March 08 due to decrease selling price by 20% from 1st Nov. 07 sales in terms of volume (quantities) were doubled from 1st Nov. 07. Ascertain Sales Ratio.

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
A	1	1	1	1	1	1	1	2	2	2	2	2
x B	100	100	100	100	100	100	100	80	80	80	80	80
=Sales	100	100	100	100	100	100	100	160	160	160	160	160
Pre 400					Post 1100							

Sales Ratio = 4:11

Note : Quality Sold X Selling Price (A X B)
(Assuming Selling Price = Rs.100/-)

13.3.4 SPECIFIC RATIO

Some expenses may be incurred during specific part of accounting period. This needs to allocated on basic given data.

a) Interest to vendors paid for period upto date of payment. A company incorporated on 31/07/07. The business taken over on 01/04/07. Interest paid on 31/10/07. This interest is paid upto 31/10/07. These expenses to be allocated as time ratio as follows.

Apr	May	Jun	July	Aug	Sep	Oct
1	1	1	1	1	1	1
4				3		

Ratio = 4:3

b) Expenses incurred for specific period or an specific date.
E.g. Profit or Loss an sale of Asset on a given date.
Bad Debt pertaining to specific period.
Depreciation an asset acquired during year.

13.3.5 SPECIFIC FOR FORM OF ORGANIZATION

The expenses or Income related to particular form or organization is not to be allocated. These are to be pre – Incorporation or post – Incorporation as case may be.

e.g. a) Directors Remuneration paid by company – Post Incorporation
b) Interest on Debenture Issued by company – Post Incorporation
c) Preliminary Expenses – Post Incorporation (Written off by company)
d) Remuneration or Salary to Partner – Pre Incorporation

13.4 METHODS OF ASCERTAINING PRE-INCORPORATION PROFIT / LOSS :

The pre – Incorporation Profit / Loss can be ascertained in three ways as follows :

i) By preparing separate Profit & Loss A/c for the period upto date of incorporation.

ii) By preparing usual Profit & Loss A/c for entire period and then dividing net Profit / Loss on appropriation basis between two periods.

iii) Combined or Equitable basis – as per available information

13.4.1 SEPARATE PROFIT & LOSS A/C

In this method books of A/c's are balanced and trial balance as on date of Incorporation is prepared. The Profit & Loss A/c, Balance Sheet can be prepared. However this method, being inconvenient & is practically unnecessary. As number of adjustment like depreciation, stock valuation, outstanding expenses prepaid expenses are usually carried out for preparing Final Accounts.

13.4.2 PREPARING PROFIT & LOSS A/C FOR ENTIRE PERIOD AND DIVIDING NET PROFIT / LOSS ON SALE BASIS OR TIME BASIS

Under this method, net Profit for both the period is estimate expense as well as Income are not uniform, some expense or Income may relate to either pre or post Incorporation period. Similarly all expenses or Income may not be in same proportion of Time or Sales basis. Therefore this method is not suitable for ascertainment of pre Incorporation Profit / Loss.

Normally Trading Account is to be prepared for full period as combined Account to as certain Gross Profit. The Gross Profit is to be transferred to Profit & Loss A/c on ratio of sales.

However, if information of Sales & Purchase for pre – post period & stock an date of information is available. The Trading Account can also be prepaid for pre & post period separately in columnar format.

13.4.3 COMBINED OR EQUITABLE BASIS

Under this method Trading Account is prepared for the entire period and gross Profit is ascertained. However if division of purchase, sales direct expenses, stock as on date of Incorporation & year end are available, then Trading Account can be prepared in two parts i.e. pre & post Incorporation, Gross Profit for pre & post Incorporation automatically is ascertained.

13.4.4 FOLLOWING PROCEDURE SHOULD BE FOLLOWED

a) Profit & Loss Account Credit side
b) Profit & Loss Account Debit side

a) Profit & Loss Account Credit Side

i) Gross Profit :

Gross Profit is generally divided into sales ratio. In case there is a change in sales price or cost price between two periods then actual Gross Profit is worked by considering change in turn over and / or cost. In case details of sales are not available, then it is assumed that sales are spread over equally / evenly in the entire period. So Gross Profit is divided in time ratio.

ii) Other Income :

1. Specific Income for a particular period monthly credited to that period e.g. share transfer fees should be credited in post Incorporation.
2. Discount received is on purchase basis, otherwise sales ratio.
3. Income received on time basis should be divided into time basis e.g. Income from investment, Rent received.

b) Profit & Loss Account Debit Side

i) Time Ratio :

Fixed Expenses / Period Expenses which are incurred with reference to time should be allocated on time basis e.g. Salaries, Audit Fees, Postage, Depreciation on Fixed Assets, Rates, taxes.

ii) Sales Ratio :

Variable Expenses / Fluctuating Expenses which are related to turnover should be allocated in sales ratio e.g. Bad Debts w/off Advertisement, Sales Commission, Carriage outward. However if any specific information is given in the problem, then expense should be allocated accordingly e.g. Rent paid for pre Incorporation period.

iii) Specific Expenses / Income :

Corporate expenses incurred are charged to post period Director Fees, M.D. Fees, Debenture Interest etc.
Expenses incurred by vendor are charged to pre Incorporation period.
Expenses for which specific information is available are allocated accordingly.

Illustration : 4 (Division on basis of information given)

4.1 Bad debts w/off in respects of debts taken from vendor should be debited to Pre-Incorporation & remaining bad debt, should be charged to Post-Incorporation.

4.2 Interest paid to vendor on purchase consideration should be allocated according to the ratio calculated with reference to actual period covered. E.g. A Ltd. was incorporated on 1st March 08 to take over business on 1st Jan 08 purchase consideration was discharged on 31st May 08. Interest paid to vendor Rs.20,000/-.

In above example interest is paid for the period 1st Jan 08 to 31st May 08 (5 months.)

Pre-Incorporation Interest = $\frac{20,000}{5} \times 3$

(1st March to 31st May 08 = 3 months)

4.3 Gross Profit is usually divided in Sales Ratio. However if there is change S.P. or C.P. or both, ratio should be work out accordingly. Z Ltd. increased its sales price by 20% in post period. However, cost of production remain same if pre – sales Rs.3,00,000/- & cost period sales Rs.15,00,000/- pre-incorporation G.P. was 20% on sales. Find Gross Profit for pre & post incorporation separately.

Pre	S.P.	G.P.	C.P.	G.P. = 3,00,000 x 20%
Let	100	20	80	(Pre) = 60,000
Revised (Post)	120	40	80	(cost remains same)

Post Incorporation G.P. = 15,00,000 X $\frac{40}{120}$ = Rs.5,00,000/-

4.4 Depreciation on Fixed Assets is usually divided in Time Ratio. However if Addition / Sales of fixed assets is given in the problem, then for division of depreciation should be after considering period for which it refers e.g. Y Ltd. was incorporated on 1st May 08 to take over business from 1st Jan 08, Y Ltd. closes its Books of Accounts on 31st Dec. 08.

Depreciation decided to Profit & Loss A/c amounted Rs.30,000/- includes depreciation @ 10% p.a. plant costing Rs.3,00,000/- which was purchased 1st Oct. 08.

	Depreciation	Pre	Post
a)	Dep. on plant purchased on 01/10/08 to 31/12/08 for Post-Incp. 3,00,000 X 10% X $\frac{3}{12}$	-	7,500
b)	Remaining Depreciation in Time Ratio (30,000 – 7,500) = 22,500 in 1:2	7,500	15,000
	Total Depreciation	7,500	22,500

Provision for Income Tax

Income Tax is payable at a specified percentage of Profit. Provision for Income Tax should be calculated at specified percentage net Profit for each period (pre/post) separately. However, if of Income Tax provision is specified for a specific amount, same should be allocated an ratio of net Profit pre & post period.

Pre-Incorporation Profit	Post-Incorporation Profit
75,000	1,25,000

1. Provision for Income Tax @ 30% of Profit.
   75,000 @ 30% = 22,500, 1,25,000 @ 30% = 37,500

2. Provision for Income Tax Rs.36,000/-
   Ratio of Profit 75:125 or 3:5
   Rs.13,500 Rs.22,500

13.5 ACCOUNTING TREATMENT :

i) Profit prior to Incorporation is a capital Profit & hence it should be transferred to Capital Reserve. Capital Reserve may be used to write off Goodwill, Share Issue Expenses, Discount on issue of Debenture etc.

ii) Loss prior to Incorporation should be debited to Goodwill Account.

iii) Post Incorporation Profit / Loss should be transferred to Profit & Loss Appropriation Account, being revenue profit.

The Final Account

The Final Account companies includes Profit & Loss Account & Balance sheet.

After preparing Profit & Loss Account as explain above, Balance Sheet is to be prepared. Since it includes Assets & Liabilities on a specific date, it should not be allocated. Same is prepared as simple statement.

13.6 PROFORMA OF PROFIT AND LOSS ACCOUNT UNDER EQUITABLE BASIS

Trading Accounts for the year / period

Dr. Cr.

Particulars	Pre	Post	Particulars	Pre	Post
To Stock A/c To Purchase A/c To Direct Expenses A/c To Gross Profit c/d			By Sales A/c By Stock A/c		

Note : If the period wise data of purchases, sales and direct expenses, stock on date of Incorporation is not available, columnar presentation is not possible.

Profit & Loss Account

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Salaries A/c	Time			By Gross Profit c/d	Sales		
To Rent A/c	Time			By Commission on purchase	Purch. or sales		
To Electricity A/c	Time			By Investment Income	Specific		
To Pre-Incorporation Specific Exp. A/c	Pre			By Share Transfer Fee	Post		
To Post-Incorp. Specific Exp. A/c	Post			By Goodwill A/c	(BF)	x	
To Administration Expenses A/c	Time			By Loss A/c	(BF)		x
To Interest on Deb. vendor A/c	Post-Specific						
To Bad debts A/c	Time						
To Advertisement A/c							
To Audit Fees A/c	Time						
To Provision for Income Tax A/c	Net Profit						
To Capital Reserve A/c	(BF)	x					
To Net Profit c/d	(BF)		x				

Note : The above basis would need to be changed as per specific data given.

Balance sheet as on _________

Liabilities	Amt.	Assets	Amt.
<u>Share Capital</u>	XXX	<u>Fixed Assets</u>	
		Goodwill	XXX
<u>Reserves & Surplus</u>		Tangible Assets	XXX
Security Premium	XXX		
Capital Reserve	XXX	<u>Investment</u>	XXX
Profit & Loss A/c	XXX		
		<u>Current Assets</u>	
<u>Loan</u>	XXX	Stock	XXX
		Debtors	XXX
<u>Current Liabilities</u>		Bank	XXX
Creditors	XXX		
		<u>Misc. Exp</u> (not w/off)	
		Preliminary Expenses	XXX

13.7 SOLVED PROBLEMS :

Illustration : 1 (Simple problem)

Jai Ltd. was incorporated on 1st March 08 to take over running business of JR & Co. with effects from 1st Jan. 08. The same books of accounts continued and following Profit & Loss Accounts for the year ended 31st December 2008, was prepared.

Profit & Loss Accounts for the year ended 31st December 2008

Dr. Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Salaries A/c	48,000	By Gross Profit b/d	3,72,000
To Office Rent A/c	12,000	By Discount earned	5,400
To Printing & Stationery A/c	6,000	By Share Transfer Fees	600
To Directors Fees A/c	7,250		
To Sundry Expenses A/c	3,000		
To Depreciation A/c	9,000		
To Advertisement Expenses A/c	24,000		
To Preliminary Exp. w/off	2,500		
To Sales Commission A/c	42,000		
To Loss on sale of old Furniture A/c	3,000		
To Audit Fees A/c	9,000		
To M.D. Remuneration A/c	6,250		
To Partner Salaries A/c	1,750		
To Interest paid to vendor A/c (upto 30/04/08)	6,000		
To Debenture Interest A/c	14,250		
To Discount on issue of Debentures A/c	4,000		
To Net Profit c/d	1,80,00		
	3,78,000		3,78,000

Other information :

1) Furniture was sold on 31st December 08.

2) Monthly average sale were double from 1st October 2008.

3) 50% of Advertising Expenses were related with sale and balance expenses for outdoor advertising were paid on monthly basis.

4) Purchase consideration was settle on 30/04/08 along with interest due upto that date.

Prepare Profit & Loss Account for the year 31st March appropriating between the pre and post Incorporation period.

Solution :

Jai Ltd.
Profit & Loss Account for the year ended 31st March 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Salaries A/c	TR	8,000	40,000	By Gross Profit		49,600	3,22,400
To Office Rent A/c	TR	2,000	10,000	c/d	SR	720	4,680
To Preliminary Exp.				By Discount		-	600
A/c	TR	1,000	5,000	earned	SR		
To Directors Fees	Post	-	7,250	By Share			
To Sundry Exp. A/c	TR	500	2,500	Transfer Fee	Post		
To Depreciation A/c	TR	3,000	6,000				
To Advertising Exp.							
A/c	W/N	3,600	20,400				
To Preliminary Exp.							
A/c	Post	-	2,500				
To Sales							
Commission A/c	SR	5,600	36,400				
To Loss on Sale of							
Furniture A/c	Post	-	3,000				
To Audit Fees A/c	TR	1,500	7,500				
To M.D.							
Remuneration A/c	Post	-	6,250				
To Partner's							
Salaries A/c	Pre	1,750	-				
To Interest paid to							
vendor A/c	W/N	3,000	3,000				
To Debenture Int.A/c	Post	-	14,250				
To Discount on							
issue Debentures	Post	-	4,000				
To Capital Reserve							
A/c	Pre	20,370	-				
To Net Profit c/d		-	1,59,630				

		50,320	3,27,680			50,320	3,27,680

Working Note :

1) Time Ratio = 1:5

Date of Acquisition	Date of Incorporation	Date of year end
1st Jan 08	1st March 08	31st Dec 08

Pre Incorporation 2 Months | Post Incorporation 10 Months

Time Ratio = 2:10 = 1:5

b) Sales Ratio = 2:13
Monthly average sales were doubled from 1st Oct. 08

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	1	1	1	1	1	1	1	1	2	2	2
Pre-Incop		Post Incorporation Period									
2		13									

$\therefore$ Sales Ratio = 2:13

c) Advertisement Expenses = Rs.24,000

	Pre	Post
a) Sales promotion Exp. in Sales Ratio (24,000 X 50% = 12,000 in 2:13)	1,600	10,400
b) Balance 50% in Time Ratio (12,000 in Time Ratio = 1:5)	2,000	10,000
	3600	**20400**

d) Interest paid to vendor Rs.6,000/- for the period from 01.01.08 to 30.04.08 (4 months)

$\therefore$ Pre (2 months) = 6,000 X $\frac{2}{4}$ = 3,000

$\therefore$ Post (2 months) = 6,000 X $\frac{2}{4}$ = 3,000

6,000

Illustration : 2 (Simple problem with basis allocation)

The Trading and Profit & Loss Accounts of M/s. Priti & Co. for the period ended 31st March 2008 is as under –

Trading and Profit & Loss Account

Dr. Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		45,000	By Sales	15,25,000	
To Purchases	7,12,000		(-) Return	(25,000)	15,00,000
(-) Return	(12,000)	7,00,000	By Closing Stock		47,000
To Wages		40,000			
To Carriage		12,000			
To Gross Profit c/d		7,50,000			
		15,47,000			15,47,000
To Salaries A/c		42,000	By Gross Profit b/d		7,50,000
To Travelling Exp. A/c		45,000	By Discount A/c		22,000
To Rent & Taxes A/c		18,000	By Share Transfer Fees A/c		3,000
To Directors Fees A/c		12,000			
To Discount A/c		18,000			
To General Exp. A/c		6,000			
To Depreciation A/c		48,000			
To Debenture Interest A/c		25,000			
To Interest on Purchase Consideration A/c		27,000			
To Salaries to Partners A/c		20,000			
To Carriage outwards A/c		29,000			
To Net Profit c/d		4,84,000			
		7,74,000			7,74,000

1) In order to acquire the business of the firm, Priti Ltd. was incorporated on 1st Sept. 07. However, the business was taken over with effect from 1st June 07. The purchase consideration was paid on 30th Sept. 07. The net sales upto 1st Sept. 08 was Rs.6,00,000/- and not purchase upto 1st Sept. 08 was Rs.3,00,000/-.

2) Depreciation included Rs.18,000/- on Assets acquired by Prity Ltd.

3) Rent was paid for the period from 1st July 08 to 30th Oct. 08 Rs.6,000/-. Remaining rent was on premises taken over from vendor.

4) Salaries includes salary of managing direct Rs.2,000/- p.m. from Incorporation.

You are required to determine pre & post Incorporation Profit.

Solution :

Profit & Loss Account for the period ending on 31st March 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Salaries A/c	WN8	8,400	33,600	By Gross Profit c/d	2:3	3,00,000	4,50,000
To Travelling Exp. A/c	SR	18,000	27,000	By Discount Earned A/c	Purch.	9,000	12,000
To Rent & Taxes A/c	WN5	6,600	11,400	By Share Transfer Fee A/c	Post	-	3,000
To Director's Fess A/c	Post	-	12,000				
To Discount A/c	SR	7,200	10,800				
To General Exp. A/c	TR	1,800	4,200				
To Depreciation A/c	WN4	9,000	39,000				
To Debenture Interest A/c	Post	-	25,000				
To Interest on purchase consideration A/c	WN7	20,250	6,750				
To Salaries to Partners A/c	Pre	20,000	-				
To Carriage outward	SR	11,600	17,400				
To Capital Reserve A/c	-	2,06,150	-				
To Net Profit c/d	-	-	2,77,850				
		3,09,000	4,65,000			3,09,000	4,65,000

Working Note :

1) Time Ratio = 3:7

Date of Acquisition	Date of Incorp.	Year end
1st June 07	1st Sept. 07	31st March 08

$\underbrace{\text{1st June 07 – 1st Sept. 07}}_{\text{Pre Incorporation 3 Months}}$ $\underbrace{\text{1st Sept. 07 – 31st March 08}}_{\text{Post Incorporation 7 Months}}$

Time Ratio = 3:7

2) Sales Ratio = 2:3
Pre = Rs.6,00,000/-
Post = Rs.15,00,000 (-) Rs.6,00,000 = Rs.9,00,000
$\therefore$ Sales Ratio = 6:9 i.e. 2:3

3) Purchases
Pre = Rs.3,00,000/-
Post = Rs.7,00,000 (-) Rs.3,00,000 = Rs.4,00,000
$\therefore$ Purchase Ratio = 3:4

4) Depreciation Rs.48,000/-

	Pre	Post
On Assets acquired in post period Remaining Depreciation – Rs.30,000/- in Time Ratio i.e. 3:7	– 9,000	18,000 21,000
	9,000	39,000

5) Rent and Taxes – Rs.18,000/-

	Pre	Post
Rent for July, Aug = 2m Sept, Oct. = 2m } Rs.6,000	3,000	3,000
Balance Rent 18,000 (–) 6,000 = Rs.12,000 in Time Ratio 3:7	3,600	8,400
	6,600	11,400

6) Salaries Rs.42,000/-

	Pre	Post
Salaries of M.D. Rs.2,000 X 7 month (post) Remaining Salaries Rs.42,000 (-) 14,000 = 28,000 in Time Ratio	- 8,400	14,000 19,600
	8,400	33,600

7) Interest paid on purchase consideration Rs.27,000/- for the period 1st June 07 to 30th Sept. 07 = 4 months

Pre (3 months) $= 27{,}000 \times \frac{3}{4} =$ 20,250

Remaining Post (1 months) $= 27{,}000 \times \frac{1}{4} =$ 6,750

27,000

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14

PROFIT PRIOR TO IN-CORPORATION-II

Unit Structure

14.1 SOLVED PROBLEMS :

Illustration: 1 (Calculation of Depreciation, Commission on Actual basis)

H Ltd. was incorporated on 1st June 08 to take over a business from 1st Jan 08. The accounts were made upto 31st December 08 as usual and Profit & Loss Accounts showed the following results.

Profit and Loss A/c for the year on ended 31st December 08

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Salaries A/c	24,000	By Gross Profit b/d	2,10,000
To Rent A/c	6,400	By Interest (from Bank F.D. made on 1st July 08)	12,000
To Directors Fees A/c	7,000		
To Bad debts	9,000		
To Travellers commission A/c	18,900		
To Audit Fees A/c	4,000		
To Office Expenses A/c	10,000		
To Discount A/c	6,000		
To Depreciation A/c	25,000		
To Debenture Interest A/c	9,000		
To Goodwill w/off	4,000		
To Advertisement A/c	7,200		
To Interest on purchase consideration (31/7/08)	35,000		

To Printing & Stationery A/c	6,600		
To Net Profit c/d	49,900		
	2,22,000		2,22,000

Additional Information :

1) It is ascertained that safe for February, August, October, November and December were only half the average sales, January were one and half the times of the average of the year end those for July twice the average. Annual net sales amounted Rs.6,00,000/-.
2) Bad debts written off were :
   a) A debt of Rs.4,000/- taken over from vendor
   b) A debt of Rs.5,000/- in respect of Goods sold in August 08.
3) Travellers commission was 2.5 of sales upto 30/06/08 then it is increase to 4% on Sales.
4) Office Rent was Rs.6,000/-p.a. upto 31st August 08, then it was increased by 20%.
5) Depreciation on Furniture amounted to Rs.1,000/- which was discard on 30th May 08, sold at Book value. Depreciation @ 10% on New Furniture costing Rs.60,000/- purchased on 01/10/08.
6) Allocate expenses in an appropriate manner.

Solution :

Profit & Loss A/c for the year ended 31st Dec.08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Salaries A/c	TR	10,000	14,000	By Gross Profit c/d	SR	98,000	1,12,000
To Rent A/c	WN4	2,500	3,900	By Interest A/c	-	-	12,000
To Directors Fees A/c	Post	-	7,000				
To Bad debts A/c	Act	4,000	5,000				
To Travellers Commission A/c	WN3	7,000	11,900				
To Audit Fees A/c	TR	1,667	2,333				
To Office Expenses A/c	TR	4,167	5,823				
To Discount A/c	SR	2,800	3,200				
To Depreciation A/c	WN5	10,375	14,625				
To Debenture Interest A/c	Post	-	9,000				
To Goodwill w/off	Post	-	4,000				
To Advertisement A/c	SR	3,360	3,840				
To Interest on purchase consideration A/c	WN	25,000	10,000				

To Printing & Stationery A/c	TR	2,750	3,850				
To Capital Reserve A/c	-	24,381	-				
To Net Profit c/d	-	-	25,519				
		98,000	1,24,000			98,000	1,24,000

Working Note :

1) Time Ratio = 5:7

Date of Acquisition	Date of Incorporation	Year end
01/01/08	01/06/08	31/12/08

Pre Incorporation 5 months — Post Incorporation 7 months

Time Ratio = 5:7

2) Sales Ratio = 7:8
Total Sales = Rs.6,00,000

$\therefore$ Average Monthly Sales = $\frac{6,00,000}{12}$ = 50,000

Pre		Post	
January	75,000	June	60,000
February	25,000	July	1,00,000
March	60,000	August	25,000
April	60,000	September	60,000
May	60,000	October	25,000
		November	25,000
		December	25,000
	2,80,000		3,20,000

$\therefore$ Remaining 5 months Sales
= Total Sales (-) Specific Sales Noted
= 6,00,000 (-) 3,00,000 = 3,00,000

$\therefore$ Remaining Monthly Sales = $\frac{300000}{5}$ = 60,000/- p.m.

3) Travellers commission 2.5% of sales upto 30/06/08, then increase to 4% of sales.

Pre = 2,80,000 X 2.5% 7,000

Post = June 60,000 X 2.5%	1,500	
July to Dec 2,60,000 X 4%	10,400	11,900
Total Commission		18,900

4) Office Rent was Rs.6,000/- p.a.
= Rs.500/- p.m. upto 31st August 08.

After 1st August, 08, it was increase by 20%
= 500 + 20% = Rs.600/- p.m.

Pre (upto 31st May 08) 500 X 5		2,500
Post June + July + August = 500 X 3	15,00	
Sept. to Dec = 600 X 4	2,400	3,900
		6,400

5) Depreciation

	Pre	Post
a) On Furniture discarded on 30/05/08	1,000	1,500
b) New purchase on 01/10/08 in post		
$60{,}000 \times 10\% \times \frac{3}{12}$		
Balance Depreciation = 25,000 – (1,000+1,500) = 22,500 in Time Ratio i.e. 5:7	9,375	13,125
	10,375	14,625

Total Depreciation = Rs.25,000/-

6) Interest on purchase consideration Rs.35,000/- paid for the period from 1st Jan 08 to 31st July 08 = 7 months

Pre = 1st Jan to 31st May = 5 months = $\frac{35000}{7} \times 5$ = 25,000

Post = June & July = 2 months = $\frac{35000}{7} \times 2$ = 10,000

Total Rs. = 35,000

Illustration : 2

Cho. Chang Ltd. was Incorporation on 1st July 08 to acquire the business of KT & Co. as on 1st April, 08. The purchase price of Goodwill was agreed to the sum equal to 75% of the Profit of the business for five years commencing from 1st April 08, payment to be made at the end of 5th year on ascertainment of the sum due.

The following is the trial balance of Cho. Chang Ltd as on 31st March 09.

Particulars	**Debit**	**Credit**
Equity Share Capital (Rs.10/- each)	-	2,00,000
Sundry Debtors	80,000	-
Stock (on 31.03.09)	1,55,000	-
Director's fees	20,000	-
Bills Receivable	18,000	-
Preliminary Expenses	20,000	-
Sundry Creditors	-	15,000
Net Profit for the year (as per agreement)	-	60,000
	2,75,000	2,75,000

Prepare –

a) Statement of Appropriation of Profit writing of 1/5th of the preliminary expenses.

b) Amount of Goodwill due for the year

Solution :

a) Statement of Appropriation Profit

	Pre-Incorporation		**Post-incorporation**	
	Rs.	**Rs.**	**Rs.**	**Rs.**
Net Profit for year Time Ratio				
Pre = 60,000 X $\frac{3}{12}$		15,000		45,000
Post = 60,000 X $\frac{9}{12}$				
<u>Less :</u> : i) Directors Fees			2,000	
ii) Preliminary Exp		-	4,000	(6,000)
20,000 X $\frac{1}{5}$				
		15,000		39,000

b) Goodwill = 60,000 X 75%

= Rs.45,000/-

Rs.45,000/- due for Goodwill base on Net Profit of year 07 – 08, however amount will be payable along with subsequent years value of Goodwill, at end of 5th year.

Illustration : 3 (Typical Sales Ratio, Rent & Taxes, Salaries, Travelling Expenses allocation)

R. Rice Ltd. was registered on 1st Jan. 08 to acquire the business of **Dalal** Co. as on 1st November 07. The accounts of the company for the period ended 30th September 08 disclosed the following expenses / Income :

Particulars	Rs.	Particulars	Rs.
Office Expenses	5,500	Formation Exp. (1/5 to be written off)	15,000
Rent & Taxes	6,900	Depreciation	4,400
Audit Fees	4,400	Printing & Stationery	1,650
Bad debts (of which Rs.1,000/- debts created before 31.12.07)	1,600	Commission	7,200
Salaries	44,800	Traveling Expenses	16,600
Debenture Interest	5,000	Interest to vendors	6,000
Discount Received	9,000	Discount on Debentures (1/10 to be written off)	10,000
Bad debts realized	1,500	Carriage Outwards	9,000

Additional Information :

a) Net Sales for the entire period amounted to Rs.5,00,000/- of which Rs.50,000/- related to the period from 1st Nov. 07 to 31st Dec. 07.

b) Cost of goods sold for the above period amounted to Rs.3,20,000/-.

c) There three employs upto 31st Jan. 08, four employees from Feb. 08 to 30th June 08 and there are 7 employees after wards.

d) Bad debts realized related to sales effected prior to Incorporation.

e) Purchase consideration was discharged on 31st January 08.

f) Rent was paid Rs.2,400/- p.a. upto 31st Mar 08, after it is increased by 25%.

g) Travelling expenses includes to Rs.10,000/- towards sales promotion, balances expenses were season railway parties to office staff.

Show pre and post Incorporation results.

Solution :

R. Rice Ltd.
Profit & Loss A/c for the year ended as on 30th September 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Office Salaries A/c	WN4	5,376	39,424	By Gross Profit c/d	SR	18,000	1,62,000
To Office Expenses A/c	TR	1,000	4,500	By Discount A/c	SR	900	8,100
To Rent & Taxes A/c	WN6	1,200	5,700	By Bad debts realized A/c	Pre	1,500	-
To Audit fees A/c	TR	800	3,600				
To Bad debts A/c	Act	1,000	600				
To Debenture Interest A/c	Post	-	5,000				
To Formation Expenses w/off	Post	-	3,000				
To Depreciation A/c	TR	800	3,600				
To Printing & Stationery A/c	TR	300	1,350				
To Commission A/c	SR	720	6,480				
To Travelling Expenses A/c	WN7	2,200	14,400				
To Interest to Vendor A/c	WN5	4,000	2,000				
To Discount on issue of Debenture A/c	Post	-	1,000				
To Carriage outwards A/c	SR	900	8,100				
To Capital Reserve	-	2,104	-				
A/c	-	-	71,346				
To Net Profit c/d							
		20,400	1,70,100			20,400	1,70,100

Working Note :

1) Time Ratio = 2:9

Date of Acquisition Date of Incorporation Year end

01/11/07	01/01/08	30/09/08
Pre Incorporation 2 months	Post Incorporation 9 months	

Time Ratio = 2:9

2) Sales Ratio = 1:9
Pre = 50,000
Post = 5,00,000 (-) 50,000 = 4,50,000
50:450 i.e. 1:9

3) Gross Profit = Net Sales Less Cost of Goods sold
= 5,00,000 (-) 3,20,000 = Rs.1,80,000

4) Salaries

Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
3	3	3	4	4	4	4	4	7	7	7
Pre		Post								
6		44								

Ratio = 3:22

Pre = 44,800 X $\frac{3}{25}$ = 5,376

Post = 44,800 X $\frac{22}{25}$ = 39,424

5) Interest paid to vendor Rs.6,000/- for the period
From 1st November 07 to 31st January 08 (3 months)
Pre (November and December) = $\frac{6000}{3} \times 2$ = Rs.4,000
Post = 6,000 (-) 4,000 = Rs.2,000 (1 month)

6) Rent & Taxes Rs.6,900/-

<u>Rent</u>

Pre = November, December = 200 X 2		400
Post = January, February & March = 200 X 3	600	
April to 30th September = 250 X 6	1,500	2,100
(200 + 25% increase)		
Total Rent		2,500

<u>Taxes</u> (6,900 – 2,500) = 4,400 in Time Ratio i.e. 2:9

Pre = 4,400 X $\frac{2}{11}$ = 800

Post = 4,400 X $\frac{9}{11}$ = 3,600

Rent and Taxes	Pre	Post
Rent	400	2,100
Taxes	800	3,600
Total	1,200	5,700

7) Travelling Expenses

	Pre	Post
Sales promotion exp. In Sales Ratio Rs.10,000/- in 1:9	1,000	9,000
Bal. Season passes in Time Ratio 16,600 (-) 10,000 = 6,600 in 2:9	1,200	5,400
Total	2,200	14,400

Illustration : 4 (Calculation of sales from G.P., Audit Fees typical adjustment)

Hari Ltd. was incorporated on 1st June 08, to take over the running business of JR & Sons with effects from 1st April 08.

The following Profit & Loss A/c was prepaid for the year ended 31st March 2009.

Particulars	Rs.	Particulars	Rs.
To Office Rent A/c	10,000	By Gross Profit b/d	2,00,000
To Printing & Stationery A/c	2,000	By Income from Investment A/c	6,000
To Office Expenses A/c	9,000	By Rent Received A/c	25,000
To Advertisement A/c	8,000		
To Travelling Exp. A/c	7,500		
To Debenture Interest A/c	10,000		
To Auditor Fees A/c	6,000		
To Directors Fees A/c	12,000		
To Bad debts A/c	4,700		
To Interest on Capital A/c	4,000		
To Electricity Charges A/c	3,000		
To Commission A/c	19,000		
To Depreciation A/c	24,000		
To Net Profit c/d	1,11,800		

	2,31,000		2,31,000

Additional Information :

1) Gross Profit upto 30th May 08 amounted to Rs.50,000/- @ Rate of 20% on Sales; however, it was increased to 25% from 1st June 08.
2) Office Rent was paid upto 31st July 08, there after Hari Ltd. purchased Own Building costing Rs.6,00,000/- on 1st August 08, depreciation charge on Building 2.5% p.a., part of Building was let out by company.
3) In lieu of interest on purchase consideration, the vendors would get 40% of the profit earned prior to Incorporation.
4) Investment was purchased on 1st October 08.
5) Board of Directors appointed Auditor on remuneration of 3,000/- p.a. to audit books of accounts from 1st April, 08, however, he resigned on 31st July after auditing upto 30th June 08. He was paid upto 30/06/08. The price Home & Co. accepted to audit from 1st July 08, they were paid accordingly.
6) Commission on sales was paid @ 2% on sales upto 31st May 08, after 1st June 08 it was increased by 1%.

Find out the Profit prior to Incorporation and subsequent to Incorporation.

Solution :

Hari Ltd.

Profit & Loss A/c for the year ended as on 31st March 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Office Rent A/c	WN3	5,000	5,000	By Gross Profit c/d	WN2	50,000	1,50,000
To Printing & Stationery A/c	TR	333	1,667	By Income from invest. A/c	Post	-	6,000
To Office Expenses A/c	TR	1,500	7,500	By Rent recd	Post	-	25,000
To Advertisement A/c	SR	2,353	5,647				
To Travelling Exp. A/c	SR	2,206	5,294				
To Debenture Interest A/c	Post	-	10,000				
To Audit Fees A/c	WN4	500	5,500				
To Director's Fees A/c	Post	-	12,000				
To Bad Debts A/c	SR	1382	3,318				
To Interest on Capital A/c	Pre	4,000	-				
To Electricity Charges A/c	TR	500	2,500				
To Commission A/c	WN5	1,000	18,000				

To Depreciation A/c	WN6	1,000	23,000				
To Profit to Vendor A/c	WN7	12,090	-				
To Capital Reserve A/c		18,136	-				
To Net Profit c/d		-	81,574				
		50,000	1,81,000			50,000	1,81,000

Working Note :

1) Time Ratio = 1:5

Date of Acquisition	Date of Incorporation	Year end
01/04/08	01/06/08	31/03/09

Pre Incorporation 2 months

Post Incorporation 10 months

Time Ratio = 1:5

2) Sales Ratio = 5:12

Gross Profit for pre-incorporation @ 20% was Rs.50,000/-

$\therefore$ Pre-sales = $\dfrac{\text{Gross Profit}}{\text{G.P.}} = \dfrac{50,000}{20\%}$ = Rs.2,50,000/-

$\therefore$ Post Gross Profit = 2,00,000 (-) Pre G.P. 50,000
= 1,50,000

Gross Profit ratio for post-Incorporation = 25%

$\therefore$ Post Sales = $\dfrac{\text{Gross Profit}}{\text{G.P.}} = \dfrac{1,50,000}{25\%}$ = Rs.6,00,000/-

Sale
Pre = 2,50,000/-
Post = 6,00,000/-
Sales Ratio = 5:12

3) Office Rent : Rs.10,000/- paid from 1st April 08 to 31st July 08 (4 months)

Pre = (April, May) $\dfrac{10,000}{4}$ X 2 = 5,000

Post = (June, July) $\dfrac{10,000}{4}$ X 2 = 5,000

4) Audit Fees

	Pre	**Post**
First Auditors Fees $\dfrac{3,000}{12}$ = 250/- p.m.	250 X 2 = 500	250 X 1 = 250

Audited April, May, June Months Price – Home & Co. Bal. fees in post period (6,000 – 750)	-	5,250
Audit Fees	500	5,500

5) Commission on Sales

	Pre	**Post**
a) 2% on Sales upto 31/05/08 = 50,000 X 2%	1,000	-
b) 3% on Rs.6,00,000/- post sales	-	18,000
	1,000	18,000

6) Depreciation

	Pre	**Post**
a) On Building on Rs.6,00,000/- @ 2.5% p.a. from 1st August 08 to 31st March 09 = 8 months **6,00,000 X 2.5% X $\frac{8}{12}$ (post)**	-	**18,000**
b) Balance Depreciation = 24,000 (-) 18,000 Rs.6,000/- in Time Ratio = 1:5	1,000	5,000
Total Rs.	1,000	23,000

7) Profit to vendor = 40% of Pre-Incorporation
= 30,226 X 40%
= Rs.12,090/-

Illustration : 5 (Typical and having different selling price)

Murali Ltd. was incorporated to take over running business of TR & Co. from 1st Jan 08. The following Profit & Loss A/c is prepared for the period ended 31st March 2009.

Profit & Loss A/c for the period ended 31st March 09

Dr. Cr.

Particulars	**Rs.**	**Rs.**	**Particulars**	**Rs.**	**Rs.**
To Cost of goods sold A/c		10,00,000	By Sales Cash	3,40,000	
To Administrative Expenses A/c		78,000	Retailers Wholesalers	2,40,000 6,40,000	

To Selling Expenses A/c		10,000	Exports	6,00,000	18,20,000
To Office Rent A/c		3,20,000	By Share Transfer Fees A/c		10,000
To Depreciation A/c		95,000	By Interest on Fixed Deposit A/c		42,000
To Interest paid to Vendor (purchase consideration paid (01/08/08)		35,000			
To Debenture Interest A/c		6,000			
To Preliminary Exp. A/c		4,000			
To Net Profit c/d		3,24,000			
		18,72,000			18,72,000

Additional Information :

1) Goods are sold on the following terms and conditions.

   a) At catalogue price at cash counter which is cost plus 100%.

   b) At catalogue price less 6.25% to retailers.

   c) At catalogue price less 20% to wholesalers.

   d) At catalogue price less 25% for exports.

2) TR & Co. sold goods through following channels only.

   a) At cash counter and retailers. However, Murali Ltd. discontinued the cash counter sale and retail, sale from the date of its Incorporation and decided to expand the Market through wholesalers and exports sales only.

3) Office Rent was Rs.10,000/- p.m. upto 31/08/08 and thereafter it increased by 20%. Balance Rent was for additional space acquired by the directors.

4) Average monthly administrative expenses doubted from date of Incorporation.

5) Depreciation includes Rs.5,000/- on the plant acquired in the post Incorporation period and Rs.15,000/- on plant which was transferred on 31st May 08 sister company.

6) Selling Expenses relates to export sales only.

7) Interest received on Fixed Deposits was from 1st April, 08.

Apportion the Profit between pre-Incorporation and post Incorporation period.

Solution :

Murali Ltd.

Profit and Loss Account for the period ended 31st March 09

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Administrative Expenses A/c	WN6	12,000	66,000	By Gross Profit c/d	WN4	3,80,000	4,40,000
To Selling Expenses A/c	Post	-	10,000	By Share transfer Fees A/c	Post	-	10,000
To Office Rent A/c	WN5	40,000	2,80,000				
To Depreciation A/c	WN7	32,000	63,000	By Interest on Fixed Deposit A/c	WN9	3,500	38,500
To Interest to vendor A/c	WN8	20,000	15,000				
To Debenture Int.A/c	Post	-	6,000				
To Preliminary Expenses A/c	Post	-	4,000				
To Capital Reserve A/c	-	2,79,500	-				
To Net Profit c/d	-	-	44,500				
		50,000	1,81,000			50,000	1,81,000

Working Notes :

1) Time Ratio = 4:11

Date of Acquisition 01/01/08 — Date of Incorporation 01/05/08 — Year end 31/03/09

Pre Incorporation 4 months — Post Incorporation 11 months

Time Ratio = 4:11

2) Let the cost price be Rs.100/-

$\therefore$ Cost counter price = 100 + 100 = Rs.200/- per unit

a) Catalogue Price = Rs.200/-

b) Retail Price = 200 – 6.25% = Rs.187.50

c) Wholesale Price = 200 – 20% = Rs.160/-

d) Export Price = 200 – 25% = Rs.150/-

3) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Sales}}$

S.P. (–) Cost = Gross Profit

	Gross Profit	G.P. Ratio= $\left(\frac{\text{S.P.}}{\text{Sales}}\right)$
Cash counter price	200 – 100 = 100	$\frac{100}{200}$
Retail Sales	187.50 – 100 = 87.50	$\frac{87.50}{187.50}$
Wholesale	160 – 100 = 60	$\frac{60}{160}$
Export Sale	150 – 100 = 50	$\frac{50}{150}$

4) Gross Profits

	Pre	Post
a) On case counter sales 3,40,000 X $\frac{100}{200}$	1,70,000	-
b) Retail Sales 2,40,000 X $\frac{87.50}{100}$	2,10,000	-
c) Wholesales 6,40,000 X $\frac{60}{160}$	-	2,40,000
d) Export Sales 6,00,000 X $\frac{50}{150}$	-	2,00,000
Total Gross Profit	3,80,000	4,40,000

Gross Profit = Sales (–) Cost of Goods Sold
= 18,20,000 (–) 10,00,000
= 8,20,000

5) Office Rent Rs.3,20,000/-

	Pre	Post
a) From 01/05/08 to 30/04/08 = 10,000 X 4 =	40,000	-
b) From 01/05/08 to 31/08/08 = 10,000 X 4 =	-	40,000
c) From 01/09/08 to 31/03/09 = 12,000 X 7 =	-	84,000

d) For Addition Space taken by directors = Post Incorporation [3,20,000 – (40,000 + 40,000 + 84,000)] = Rs.1,56,000/-	-	1,56,000
Total Rent	40,000	2,80,000

6)

Monthly Administrative Expenses were doubled from date of incorporation	**Pre**	**Post**
No. of Months	4	11
It was doubled from date of Incorporation	X 1	X 2
	4	22

Administrative Expenses Ratio = 4:22

Pre-incorporation = 78,000 X $\frac{4}{26}$ = Rs.12,000

Post-incorporation = 78,000 X $\frac{22}{26}$ = Rs.66,000

Rs.78,000

7) Depreciation : Rs.95,000/-

	Pre	**Post**
a) On Assets acquired in post period	-	5,000
b) On Assets transferred used 01/01/08 to 31/05/08 (5 months) pre $\frac{15000}{5}\times 4$ post $\frac{15000}{5}\times 1$	12,000	3,000
c) Balance Depreciation (95,000 – 20,000) = 75,000 in Time Ratio 4:11	20,000	55,000
	32,000	63,000

8) Interest paid to vendor Rs.35,000/- (from 01/01/08 to 01/08/08) = 7 months

Pre-Incorporation = $\frac{35,000}{7}\times 4$ Rs.20,000

Post-Incorporation = $\frac{35,000}{7}\times 3$ Rs.15,000

Rs.35,000

9) Interest received on fixed deposit from 1^{st} April 08 to 31^{st} March 09 (12 months)

Pre-Incorporation April 08 only one month 3,500

$$\left(\frac{42,000}{12} \times 1\right)$$

Post-Incorporation 1st May 08 to 31st March 09 (11 months)	38,500
Total Rs.	42,000

Illustration : 6 (Calculation of Sales commission on a provision for taxations)

The N.C. Ltd. was registered on 1st April 2008 to take over business of C.N. & Sons from 1st January 2008. From the following information calculate the Profit earned by the company in pre and post incorporation period.

1) Sales during year ended 31st Dec 08 amounted to Rs.7,20,000/- sales for the month of January, February, November and December 08 were half the monthly sales in each of remaining month.
2) Cost of goods sold Rs.2,20,000/-.
3) Rent and Taxes Rs.30,000/-.
4) Bad debts Rs.5,000/-.
5) Salaries (There are four employees in the Pre-Incorporation period and six employees in Post-Incorporation period) Rs.22,000/-.
6) Interest on purchase consideration (purchase consideration was paid on 1st June 08) Rs.30,000/-.
7) Partner's Remuneration Rs.11,000/-.
8) M.D. Remuneration Rs.40,000/-.
9) Commission sales paid 2% of sales upto Incorporation, then after in post-Incorporation 5% on sales.
10) Provision for Taxation @ 30% for entire period.
11) Donation given by the company Rs.11,000/-.
12) Preliminary Expenses amounted to Rs.15,000/-, agreed to be written off over five years.

Solution :

Profit & Loss Account for the year ended 31st December 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Rent & Taxes A/c	TR	7,500	22,500	By Gross Profit			
To Bad debts A/c	SR	1,000	4,000	c/d	SR	1,20,000	4,80,000
To Salaries A/c	WN4	4,000	18,000				
To Interest to							

vendors A/c	WN5	18,000	12,000				
To Partners Remuneration A/c	Pre	11,000	-				
To M.D. Remuneration A/c	Post	-	40,000				
To Sales Commission A/c	WN6	2,880	28,800				
To Donation A/c	Post	-	11,000				
To Preliminary Expenses w/off	Post	-	2,250				
To Provision for Taxation A/c	WN8	22,686	1,02,435				
To Capital Reserve A/c	-	52934	-				
To Net Profit c/d	-	-	2,39,015				
		1,20,000	4,80,000			1,20,000	4,80,000

Working Note :

1) Time Ratio = 1:3

Date of Purchase 01/01/08 — Date of Incorporation 01/04/08 — Year end 31/12/08

Pre Incorporation 3 months — Post Incorporation 9 months

Time Ratio = 1:3

2) Sales each of month January, February, November and December 2008 were half, for remaining each of monthly sales.

Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
0.5	0.5	1	1	1	1	1	1	1	1	0.5	0.5
Pre			Post								
2			8								

∴ Sales Ratio = 1:4

3) Gross Profit = Sales (-) Cost of goods sold
= 7,20,000 (-) 2,20,000
= 6,00,000

4) Salaries Rs.22,000/-. There are four employees in Pre-Incorporation period and six employees Post-Incorporation.

	Pre	Post
No. of months	3	9
X No. of employyes	X 4	X 6
	12	54

$\therefore$ Ratio = 2:9

Pre-Incorporation = 22,000 X $\frac{2}{11}$ = Rs.4,000

Post-Incorporation = 22,000 X $\frac{9}{11}$ = Rs.18,000

Total Salaries Rs.22,000

5) Interest on purchase consideration, Rs.30,000/- paid for the period from 1st January 08 to 1st June 08, for 5 months.

Pre = Jan. + Feb. + Mar. = 3 months = $\frac{30,000}{5}$ X 3 = Rs.18,000

Post = Apr. + May = 2 months = $\frac{30,000}{5}$ X 2 = Rs.12,000

6) Commission on sales 2% in Pre-Incorporation and 5% on Post-Incorporation sales

Pre-Incorporation sales commission

= 7,20,000 X $\frac{1}{5}$ = Rs.1,44,000 X 2% = 2,880

Post-Incorporation sales commission

= 7,20,000 X $\frac{4}{5}$ = Rs.5,76,000 X 5% = 28,800

7) Preliminary Expenses to be w/off over 5 years

= $\frac{15,000}{5}$ X $\frac{9}{12}$ (post months) = Rs.2,250/-, balance preliminary expenses should shown in Balance sheet.

8) Provision for Taxation @ 30%

	Pre		Post
Gross Profit	1,20,000		4,80,000
<u>Less :</u> Total Expenses	(44,380)		(1,38,550)
N.P.B.T.	75,620		3,41,450
<u>Less :</u> Tax @ 30%	(22,686)		(1,02,435)
Capital Reserve	52,934	N.P.	2,39,015

Illustration : 7

STC Ltd. was incorporated on 1st December 2007 to take over the business of C & Co. with effect from 1st April 2007. The accounts were maintained as usual upto 31st March 2008 and following balances were extracted from the books of accounts as on that date.

Particulars	Rs.
Stock on 1st April 2007	2,00,000
Carriage outwards	44,000
Purchases	20,50,000
Sales	25,60,000
Sales Return	60,000
Purchase Return	50,000
Preliminary Expenses	40,000
Office Expenses	48,000
Sundry Debtors	1,40,000
Sundry Creditors	1,80,000
Land & Building	16,00,000
Furniture	1,50,000
Bills Receivable	65,000
Bills Payable	2,25,000
Directors Fees	82,000
Salaries	1,20,000
Interest on purchase consideration	75,000
Capital Accounts of C & Co.	17,00,000
Bank Balance (Dr.)	41,000

Prepare the final accounts of STC Ltd. as on 31st March 08, after considering following information / adjustments.

1) Stock as on 31st March 08 valued Rs.7,50,000/-
2) Depreciation Land & Building by 2% and Furniture by 10% p.a.
3) Net sales turnover for the Pre-Incorporation was Rs.15,00,000/-.
4) Purchase consideration was agreed Rs.21,00,000/- to be satisfied by the issue on 31st January 08 of Rs.1,00,000/- Equity shares of Rs.10/- each fully paid at Rs.11.40/- per share and by in 12% Debentures at 4% discount.
5) Write off 1/5 of Preliminary Expenses.
6) The company deals in only one type of product. The unit cost of sales reduced by 10% in post Incorporation period as compared to post Incorporation period in the year.

7) Salaries includes Salaries of company Secretary Rs.24,000/- p.a. appointed on 1st December 07.

8) Provide Income Tax @ 40% for entire period and proposed Dividend @ 10%.

Solution :

S.T.C Ltd.
Trading Account for the year ended 31/03/08

Dr. Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock A/c		2,00,000	By Sales	25,60,000	
To Purchases	20,50,000		(-) Returns	(60,000)	25,00,000
(-) Returns	(50,000)	20,00,000	By Closing Stock A/c		7,50,000
To Gross Profit c/d		10,50,000			
		32,50,000			32,50,000

Profit & Loss Accounts for the year ended 31st March 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Office Expenses A/c	TR	32,000	16,000	By Gross Profit b/d	WN8	5,00,000	5,50,000
To Director's Fees A/c	Post	-	82,000				
To Co. Secretaries Salaries A/c	Post	-	8,000				
To Staff Salaries A/c	WN6	68,000	34,000				
To Carriage outwards A/c	SR	29,333	14,667				
To Preliminary Expenses A/c	Post	-	8,000				
To Interest paid to vendor A/c	WN9	60,000	15,000				
To Depreciation							
Land & building	TR	21,333	10,667				
Furniture	TR	10,000	5,000				
To Debenture Interest A/c	Post	-	20,000				
To Provision for Taxation A/c	WN10	1,11,734	1,34,666				
To Capital Reserve A/c		1,67,600	-				
To Net Profit c/d		-	2,02,000				

		5,60,000	5,50,000			5,60,000	5,50,000

Profit & Loss Account

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Proposed Dividend A/c	1,00,000	By Net Profit b/d	2,02,000
To Surplus carried to			
Balance sheet	1,02,000		
	2,02,000		2,02,000

STC Ltd.
Balance sheet as on 31st March 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital			Fixed Assets		
			Goodwill		4,00,000
Authorized		?	Land & Building	16,00,000	
			(-) Depreciation	(32,000)	15,68,000
Issued, Paid up			Furniture	1,50,000	
1,00,000 Equity			(-) Depreciation @	(15,000)	1,35,000
Shares of Rs.10/-			10%		
each fully paid		10,00,000			
(All above shares			Investment		NIL
issued to vendor					
for consideration			Current Assets &		
other than cash)			Loans Advances		
			a) Current Assets		
Reserves &			Stock	7,50,000	
Surplus			Debtors	1,40,000	
Securities Premium	1,40,000		Bank Balance	41,000	9,31,000
Capital Reserve	1,67,600		b) Loans &		
P&L A/c Surplus	1,02,000	4,09,600	Advances		
			Bills Receivable		65,000
Secured Loans					
12% Debentures		10,00,000	Miscellaneous		
			Expenditure		
Unsecured Loans		NIL	(to the extent not		
			w/off on adjusted)		
Current Liabilities			Preliminary Exp.	40,000	
& Provision			Less : : w/off (1/5)	(8,000)	32,000
a) Current Liab.			Discount on issue		
Sundry Creditors	1,80,000		of Debentures		40,000
Bills Payable	2,25,000				
Accrued Deb. Int	20,000	4,25,000			
(not due)					

b) Provisions Provision for Taxation Proposed Divd.	2,46,400 1,00,000	3,46,400			
		31,81,000			31,71,000

Working Notes :

1) Time Ratio = 2:1

Date of Acquisition 01/04/07 — Date of Incorporation 01/12/07 — Year end 31/03/08

$\underbrace{\hspace{4cm}}_{\text{Pre Incorporation 8 months}}$ $\underbrace{\hspace{4cm}}_{\text{Post Incorporation 4 months}}$

$\therefore$ Time Ratio = 2:1

2) Sales Ratio = 3:2

Gross Sales	25,00,000
(-) Sales Return	(60,000)
Net Sales	25,00,000

Pre Sales = Rs.15,00,000/-
Post Sales = Rs.10,00,000/- (Bal.)
$\therefore$ Sales = 3:2

3) Purchase consideration 21,00,000
<u>Less :</u> Equity shares 1,00,000 Equity shares of Rs.10/- each @ Rs.11.40/- per share (11,40,000)
12% Debentures @ Rs.96/- each 9,60,000

$\therefore \dfrac{9,60,000}{96}$ = 10,000, 12% Debentures of Rs.100/- each at 4% discount.

4) Accrued Debenture Interest (issued not due)

$= 10,00,000 \text{ X } \dfrac{12}{100} \text{ X } \dfrac{2}{12}$ = Rs.20,000/-

5) Purchase consideration 21,00,000
<u>Less :</u> Capital A/c of C & Co. 17,00,000
Goodwill 4,00,000

6) Salaries 1,20,000
<u>Less :</u> Company Secretary's Salaries (Post) 8,000

$\frac{24000}{12}$ X 4 Months

Salaries in Time Ratio 1,02,000

Pre 1,02,000 X $\frac{2}{3}$ = 68,000

Post 1,02,000 X $\frac{1}{3}$ = 34,000

7) Cost of Sales

Opening Stock	2,00,000
Purchases (20,50,000 – 50,000)	20,50,000
	22,00,000
Less : Closing Stock	(7,50,000)
Cost of Sales	14,50,000

	Pre	Post
Let pre – cost per unit X Sales Ratio	100 X 2	90 X 1
Cost of Production Ratio	200	90

Cost of Sales Ratio = 20:9

Pre-Cost of sales = 14,50,000 X $\frac{20}{9}$ = Rs.10,00,000

Post-Cost of Sales = 14,50,000 (-) 10,00,000
= 4,50,000

8) Gross Profit

	Pre	Post
Sales (-) Cost of sales	15,00,000 (10,00,000)	10,00,000 (4,50,000)
Gross Profit	5,00,000	5,50,000

9) Interest on purchase consideration Rs.75,000/- paid for the period 1^{st} April 07 to 31^{st} Jan. 08

Pre-Incorporation Interest = $\frac{75,000}{10}$ X 6 = Rs.60,000

Post-Incorporation Interest = 75,000 – 60,000
= 15,000

10) Provision for Taxation @ 40%

	Pre	Post
Credit Total Less : Debit Total	5,00,000 (2,20,666)	5,50,000 (2,13,334)
N.P.B.T.	2,79,334	3,36,666

Less : Income Tax @ 4%	(1,11,734)	(1,34,666)
Profit After Tax	1,67,600	2,02,000

Illustration: 8 (Typical – Payment to vendor in installments same books of Accounts continued)

Trial balance of A Ltd. as on 31.12.08

Particulars	Debit (Rs.)	Credit (Rs.)
Opening Stock	50,000	-
Purchase / Sales	6,00,000	7,50,000
Wages	25,000	
Carriage	30,000	
Salaries	24,000	
Rent	18,000	
Capital TR & Co.		5,00,000
10% Bank Loan (1st Oct 08)		1,00,000
Printing & Stationery	6,000	
Debtors / Creditors	50,000	40,000
Bad debts	10,000	
Audit Fees	10,000	
Sundry Expenses	4,000	
Plant & Machinery	2,00,000	
Land & Building	3,00,000	
Bank Balance	5,000	
Furniture & Fixture	58,000	
	13,90,000	13,90,000

Additional Information :

1) A Ltd. was incorporated on 1st July 2008 to take over business of TR & Co. as from 01.04.08. No entries relating to transfer of the business were entered in the books which were carried on without a break until 31st December 2008.

2) Purchase consideration agreed Rs.6,00,000/- and discharge as under :

a) 10,000 9% Preference shares of Rs.10/- each @ Rs.12/-.

b) Rs.3,00,000/- 12% Debenture issued at 5% discount.

c) Bal in Equity share of Rs.5/- each, at par shares were allotted on 1st July 2008 where as Debentures were allotted on 1st Oct. 2008. Provide interest on Purchase Consideration @ 12% p.a.

3) Monthly sales were doubled from 1st Oct. 2008.

4) Salary includes salary of company's secretary appointed on 1st July 2008 Rs.6,000/- & balance salary includes salary of manager Rs.1,000/- per month who resign on 1st August 08.

5) Bad debts includes Rs.8,000/- written off on 1st July 08.

6) Preliminary Exp. Amounted to Rs.12,000/- paid by directors, yet not accounted is to be written off over period of 5 years.

7) Gross Profit was 20% of sales throughout period.

8) Depreciate Land & Building by 6% p.a. & Plant & Machinery 15% p.a.

Solution :

Trading Account for the period ended on 31.12.2008

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	50,000	By Sales	7,50,000
To Purchases	6,00,000	By Closing Stock (Bal. fig)	1,05,000
To Wages	25,000		
To Carriage	30,000		
To Gross Profit (20% on Sales)	1,50,000		
	8,55,000		8,55,000

Profit & Loss Accounts for the year ended 31st December 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Salary A/c	WN	7,667	16,000	By Gross Profit			
To Rent A/c	TR	6,000	12,000	b/d	SR	37,500	1,12,500
To Bank Interest A/c		-	2,500	by Goodwill A/c	-	20,833	-
To Printing &							
Stationery A/c	TR	2,000	4,000				
To Bad Debts		8,000	2,000				
(Actual)							
To Audit Fees A/c	TR	3,333	6,667				

To Sundry Expenses A/c	TR	1,333	2,667				
To Interest payable vendor A/c	WN	18,000	8,550				
To Debenture Int.A/c		-	9,000				
To Preliminary Exp. w/off A/c	WN	-	1,200				
To Depreciation on Land & Building A/c	TR	4,500	9,000				
To Depreciation on Plant & Machinery A/c	TR	7,500	15,000				
To Net Profit c/d		-	23,583				
		58,333	1,12,500			58,333	1,12,500

A Ltd.
Balance sheet as on 31.12.2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital			Fixed Assets		
			Goodwill		1,20,833
Authorized		?	(1,00,000+20,833)		
			Land & Building	3,00,000	
Issued, Paid up			(-) Depreciation	(13,500)	2,86,500
10,000 10%			(9 months)		
Preference shares			Plant & Machinery	2,00,000	
of Rs.10/- each			(-) Depreciation	(22,500)	1,77,500
fully paid up		1,00,000	(9 months)		
39,000 Equity			Furniture & Fixture		58,000
shares of Rs.5/-					
each fully paid of			Investment		NIL
all above shares					
allotted vendor for			Current Assets &		
consideration in			Loans & Advances		
cash		1,95,000	Sundry Debtors	50,000	
			Stock in trade	1,05,000	
Reserve & Surplus			Bank balance	5,000	1,60,000
Security Premium	20,000				
P&L A/c	23,583	43,583	Miscellaneous Exp		
			(to the extend not		
Secured Loan			w/off)		
12% Debentures	3,00,000		Discount on issue		
(+) Interest due	9,000	3,09,000	of Debentures		15,000
			Preliminary Exp.	12,000	
Unsecured Loan			(-) w/off	(1,200)	10,800
10% Bank Loan	1,00,000				
(+) Interest due	2,500	1,02,500			
Current Liabilities					

& Provisions Sundry Creditors Interest payable to vendor Preliminary Expenses payable	40,000 26,550 12,000	78,550			
		8,28,633			8,28,633

Working Notes :

1)

TR & Co. Capital A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To 9% Preference Share Capital A/c	1,00,000	By Bal b/d (as per trial balance)	5,00,000
To Debentures A/c	2,85,000	By Goodwill (Bal fig.)	1,00,000
To Equity Share Capital A/c	1,95,000		
To Securities Premium A/c	20,000		
	6,00,000		6,00,000

2) Time Ratio

Date of take over	Date of Incorporation	Year end
01/04/08	01/07/08	31/12/08

$\underbrace{\text{01/04/08 to 01/07/08}}_{\text{Pre Incorporation 3 months}}$ $\underbrace{\text{01/07/08 to 31/12/08}}_{\text{Post Incorporation 6 months}}$

Pre Incorporation
3 months

Post Incorporation
6 months

∴ Time Ratio = 1:2

3) Sales Ratio

Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
1	1	1	1	1	1	2	2	2
Pre			Post					
3			9					

∴ Sales Ratio = 1:3

4) Salary Rs.24,000/-

	Pre	Post
Salary to Secretary	-	6,000
Salary to Manager (1,000 per month upto 31st July 08)	3,000	1,000

Other Salary (Bal. Rs.14,000/- in TR)	4,667	9,333
	7,667	16,333

5) Purchase Consideration

	Rs.	Rs.
9% Preference share Capital	1,00,000	
(+) Premium @ Rs.2/- per share	20,000	1,20,000
12% Debentures	3,00,000	
(-) 5% Discount on issue	(15,000)	2,85,000
Bal. in Equity shares of Rs.5/- each		1,95,000
$\frac{1,95,000}{5}$ = 39,000 Equity shares of Rs.5 each		
Purchase Consideration		6,00,000

Capital A/c ………………………………..Dr.	6,00,000	
Discount on issue of Debentures A/c ….Dr.	15,000	
To 9% Preference Share Capital A/c		1,00,000
To Securities Premium A/c		20,000
To Equity Share Capital A/c		1,95,000
To 12% Debentures A/c		3,00,000

Preliminary Expenses w/off
Over 5 years from 1st July 08 onwards

$= 12,000 \text{ X } \frac{1}{5} \text{ X } \frac{6}{12}$

= Rs.1,200/-

Interest on Purchase Consideration

	Pre	Post
a) On Shares allotted on 1st July 08 from 01.04.08 to 01.07.08 (Pre) $3,15,000 \text{ X } 12\% \text{ X } \frac{3}{12}$	9,450	-
b) For balance Purchase Consideration, by allotting Debentures on 01.10.08	8,550	8,550

Pre = From 01.04.08 to 30.06.08 = 3 months Post = From 1st July to 30th Sept. 08 = 3 months 2,85,000 X 12% X $\frac{6}{12}$		
Total Interest	18,000	8,550

Outstanding Interest payable to vendor Rs.26,550/-

Illustration : 9 (Division of Trading Account and P&L A/c)

The Dil Ltd. was Incorporation on 1st July 08 to acquire the business of M/s. Top & Son, with effect from 1st Jan. 08. The accounts were maintained as usual upto 31st December, 2008, on which date the following balances were extracted from the books.

Particulars	Debit (Rs.)
Purchase (upto 31st May 08, Rs.45,000/-)	1,35,000
Sales (upto 31st May 08, Rs.1,20,000/-)	4,80,000
Stock as on 1st January 08	50,000
Carriage Inwards (2% on Purchase)	2,700
Rent	15,000
Formation Expenses	6,000
General Expenses	18,000
Plant & Machinery	60,000
Sundry Debtors	40,000
Sundry Creditors	25,000
Carriage Outwards (2.5% on Sales)	10,000
Bills Receivable	22,000
Bills Payable	5,000
Interest on Purchase Consideration (upto 01/08/08)	21,000
Cash at Bank	9,000
Capital A/c of Top & Sons	90,000
Directors Fees	6,000
Land and Building	2,20,000
General Reserve (31.12.07)	14,700

Additional Addition :

1) Closing stock as on 31st May 08 and 31st December 08 was valued at Rs.60,000/- and Rs.1,10,000/- respectively.

2) Depreciation on Land & Building 5% p.a. and plant and machinery @ 20% p.a.
3) Rent upto 31st October 08 was Rs.1,000/- p.m., it was increased to 1,200 p.m. from 1st November 08, Rent includes advance paid to landlords.
4) Mangeri Salary at Rs.2,000/- p.m. is payable. The manager became a director on formation of the company. His remuneration as director is included in director's fees.
5) The Purchase Consideration was agreed at Rs.2,14,700/-, was satisfied on 01/08/08, by issued of 1,000 Equity shares of Rs.10/- each @ Rs.15/- per share and balance in 12% Debenture of Rs.100/- each at par.
6) Provide Income tax @ 40%.
7) Director's proposed Equity dividend @ 20%.

Prepare Final Accounts of the DIL Ltd. showing in Profit in the pre and post Incorporation periods after written off 1/6 of formation expenses.

Solution :

Trading Account for the ended 31st December 2008

Dr. Cr.

Particulars	Pre	Post	Particulars	Pre	Post
To Opening Stock A/c	50,000	60,000	By Sales	1,20,000	3,60,000
To Purchases A/c	45,000	90,000	By Closing Stock A/c	60,000	1,10,000
To Carriage Inward A/c (2% on Purchase)	900	1,800			
To Gross Profit c/d (Bal figure)	84,100	3,18,200			
	1,80,000	4,70,000		1,80,000	4,70,000

Profit & Loss Accounts for the year ended 31st December 08

Dr. Cr.

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
To Rent A/c	WN3	5,000	7,400	By Gross Profit b/d		84,100	3,18,200
To General Exp. A/c	TR	7,500	10,500				
To Carriage Outwards A/c	WN	3,000	9,000				
To Formation Exp. A/c		-	1,000				
To Interest paid to vendor A/c	WN6	15,000	6,000				
To Director's Fees A/c	Post	-	6,000				
To Depreciation A/c On Land & Build.	TR	4,583	6,417				

On Plant & Mach.	TR	5,000	7,000				
To Manager's Salary A/c	Pre	10,000	-				
To Debenture Int.A/c	Post	-	3,235				
To Provision for Taxation A/c	WN8	13,607	1,04,659				
To Capital Reserve A/c		20,410	-				
To Net Profit c/d		-	1,56,989				
		84,100	3,18,200			84,100	3,18,200

Profit & Loss Appropriation A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Proposed Dividend A/c	20,000	By Net Profit b/d	1,56,984
To Surplus Carried to Balance sheet	1,36,989		
	1,56,989		1,56,989

DIL Ltd. Balance sheet as on 31.12.2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
I. Share Capital			Fixed Assets		
			Goodwill		1,10,000
Authorized		?	Land & Building	2,20,000	
			(-) Dep^n	(11,000)	2,09,000
Issued, Paid up			Plant & Machinery	60,000	
1,000 Equity			(-) Dep^n	(12,000)	48,000
shares of Rs.10/-					
each fully paid up			II. Investment		-
(All the above		1,00,000			
Equity shares			III. Current Assets		
issued to vendor			& Loans &		
for consideration			Advances		
received in cash)			a) Current Assets		
			Stock	1,10,000	
II. Reserve &			Sundry Debtors	40,000	
Surplus			Bank balance	9,000	1,59,000
Security Premium	50,000				
Capital Reserve	20,410		b) Loans &		
(P.P.I.)			Advances		
P&L A/c Surplus	1,36,989	2,07,399	Bills Receivable	22,000	
			Rent Deposits	2,600	24,600
III. Secured Loan					
12% Debentures	64,700		IV. Miscellaneous		
(+) Accrued Int.	3,235	67,935	Exp.		
			(to the extend not		
IV. Unsecured			w/off)		
Loan			Formation Exp.	6,000	
			(-) w/off	(1,000)	5,000
V. Current					
Liabilities &					
Provisions					
a) Current Liab.					
S. Creditors	25,000				
Bills Payable	5,000				

O/s Carriage Outwards	2,000				
O/s Manager's Salaries	10,000	42,000			
b) Provisions					
Proposed Divd.	20,000				
Provision for Taxation	1,18,266	1,38,266			
		5,55,600			5,55,600

Working Notes :

1) Time Ratio

Date of take over	Date of Incorporation	Year end
01/01/08	01/06/08	31/12/08

Pre Incorporation 5 months — Post Incorporation 7 months

∴ Time Ratio = 5:7

2) Sales Ratio

Pre = Rs.1,20,000

Post	Rs.4,80,000
	Rs.1,20,000
	Rs.3,60,000

∴ Sales Ratio = 1:3

3) Rent Rs.15,000/-

	Pre	Post
a) From 01.01.08 to 31.05.08 (1,000X5)	5,000	-
b) The month June, July, Aug, Sept., Oct	-	5,000
c) For November, December 1200X2	-	2,400
Total Rent	5,000	7,400

Rent Deposit = 15,000 – (5,000 + 7,400) = 2,600

4) Carriage Outwards 2.5% of Sales

Pre = 1,20,000 X 2.5% =	3,000
Post = 3,60,000 X 2.5% =	9,000
Total	12,000
Less : Paid	(10,000)
Outstanding	2,000

5) Interest paid to vendor Rs.21,000/- for period 1st January 08 to 1st August 08 = 7 months out of which 5 months are pre & balance post.

Pre = $\frac{21,000}{7}$ X 5 = Rs.15,000

Post = 21,000 (-) 15,000 = Rs.6,000

6) Debenture Interest = 64,700 X 12% X $\frac{5}{12}$ = Rs.3,235/-

7) Goodwill

	Rs.
Top a son Capital Balance	90,000
Add : General Reserve Balance	14,700
Final Capital Balance	1,04,700
Add : Goodwill (Balancing figure)	1,10,000
Purchase Consideration	2,14,700

8) Provision for Tax

	Pre	Post
Profit & Loss Credit balance	84,100	3,18,200
Less : P&L A/c Dr. Exp.	(50,083)	(56,552)
N.P.B.T.	34,017	2,61,648
Less : Income Tax 40%	13,607	(1,04,659)
Profit after Tax	20,410	1,56,989

9) Closing stock as on 31st May 08 is opening stock for the post period.

14.2 KEY POINTS / KEY TERMS :

1) **Incorporation :** Date of Registration i.e. date on which company comes in existence.
2) **Pre-Incorporation :** Period from date of acquisition to date of Incorporation.
3) **Post-Incorporation :** Period from Incorporation to year end.
4) **Sales Ratio :** Ratio between sales of pre and post Incorporation it is used for dividing Gross Profit and Variable Expenses, Selling and Distribution Expenses.

5) **Time Ratio :** Ratio indication period of pre-Incorporation & post-Incorporation time. It is used to divide Fixed Expenses, Administrative Expenses.

6) **Interest paid to Vendor :** Interest is paid from date of acquisition to payment of purchase consideration, it should be divided considering actual period.

7) **Purchase Consideration :** It is the amount agreed to be paid to vendor for taking over business.

8) **Pre-Incorporation Profit :** Transfer to Capital Reserve

9) **Pre-Acquisition Loss :** Transfer to Goodwill

10) **Goodwill :** Excess of Purchase consideration over net assets taken over (Capital of vendor)

14.3 EXCERCISES :

14.3.1 THEORY QUESTIONS :

1) What is pre-Incorporation Profit?
2) What are different methods of ascertaining Pre-Incorporation Profit?
3) What are different bases of Allocation of Income / Expenses?
4) How would you treat Pre-Incorporation losses in Accounts?

14.3.2 OBJECTIVE TYPE QUESTIONS

- **Fill in the blanks :**

1) Interest on Debentures is ____________ expenditure.
2) Gross Profit are divided in the ratio of ____________ .
3) Interest paid to vendor is ____________ expenditure.
4) Share transferred fees received is ____________ Income.
5) Goodwill written off is charged to ____________ .
6) Audit fees are divided in the ratio of ____________ .
7) Fixed expenses are divided in the ratio of ____________ .
8) Depreciation on asset purchased after incorporation is charged to ____________ .
9) Managing directors renunciation charged to ____________ .
10) Interest on vendor's capital is charged ____________ period.

11) The provision for Income tax is allocated in the ratio of ___________ .

12) The pre-incorporation period loss considered as ___________ .

13) Vendor's salary is charged to ___________ period.

14) The fixed expenditure allocated in the ratio of ___________ .

15) Post-incorporation profit is transferred to ___________ .

- **Multiple Choice Questions :**

1) Profit post incorporation are available for ___________ .
   a) Acquisition of fixed asset b) Debenture interest
   c) Payment of dividend d) For drawing by owner

2) Share issue expenses written off should be charged to ___________ .
   a) Trading Account b) Liabilities
   c) Post incorporation Profit d) None of these

3) Goodwill written off is charged to ___________ .
   a) Current Liabilities b) Floating Assets
   c) Capital Account (share) d) None of these

4) Discount allowed to Customers by a limited company is charged to ___________ .
   a) Pre-incorporation period b) Post-incorporation period
   c) Post acquisition period d) None of these

5) Profit upto date of incorporation is ___________ .
   a) Capital Reserve b) Capital Profit
   c) Security Premium d) Revenue Reserve

6) Expenses exclusively relating to vendor should be charged to ___________ period.
   a) Pre-incorporation b) Post acquisition period
   c) Post-incorporation d) Both

7) The excess of purchased consideration over net assets taken over is debited to ___________ .
   a) Fixed Assets b) Goodwill
   c) Capital Reserve d) None of above

8) The date of taken over 1st January 2008, incorporation 1st June 08 year end – 31st December 2008. Time ratio is __________ .
   a) 5:1 b) 2:5

c) 1:6 d) None of these

9) Sales for the year Rs.15 Lakhs pre acquisition sales Rs.3 Lakhs, pre-incorporation Rs.2 Lakhs, Balance post-incorporation. The sales Ratio is ___________ .

a) 4:1 b) 3:5
c) 1:6 d) None of these

10) Purchased Consideration Rs.60,000/- net assets taken over Rs.45,000/-. The value of goodwill is ___________ .

a) Rs.25,000/- b) Rs.45,000/-
c) Rs.15,000/- d) Rs.60,000/-

- **Match the Column :**

1)

Group "A"	**Group "B"**
i) Pre acquisition Loss	a) Post incorporation
ii) Company related expenses	b) Goodwill
iii) Asset	c) Belongs to vendor
iv) Salaries	d) In Time Ratio
	e) In Sales Ratio

2)

Group "A"	**Group "B"**
i) M. D. Salaries	a) Note to Balance sheet
ii) Contingent Liabilities	b) No Allocations
iii) Share Capital	c) Post incorporation
iv) Purchase Consideration	d) Net Assets taken over

3)

Group "A"	**Group "B"**
i) Audit Fees	a) Time Ratio
ii) Depreciation on Assets Purchased	b) Sales Ratio
	c) Post-incorporation
iii) Gross Profit	d) Goodwill
iv) Pre-incorporation Loss	e) Sales Less Cost of Sales

4)

Group "A"	**Group "B"**
i) Pre-incorporation Profit	a) Belongs to vendor
ii) Net Profit upto pre-incorporation period	b) Date of incorporation
	c) Sales Ratio
iii) Dividing point for ascertaining pre / post incorporation period	d) Capital Reserve
	e) Time Ratio
iv) Rent	
v) Gross Loss	

- **State whether True / False**

1) The Profit made on acquisition is debited to General Reserve.
2) Profit after incorporation is post acquisition.
3) Discount on issue of Debenture is charged to pre acquisition period.
4) Advertisement expense is allocated on the basis of Sales.
5) Depreciation on fixed asset taken over by vendor is charged to post incorporation period.
6) Debenture Interest is debited to post incorporation.
7) Pre acquisition Profit belongs to vendor.
8) Interest paid on purchased consideration is allocated in Sales Ratio of pre incorporation & post incorporation period.
9) Business Commencement Certificate date should be considered for allocation of expenses.
10) Provision for Sales Tax is allocated in the ratio between pre acquisition & pre incorporation period.
11) The partner's salary before acquisition should be allocated to both the period in Sales ratio.
12) Bad debts realized should be debited to pre incorporation period.
13) The corporate expenses should be debited to post acquisition period.
14) The advertisement under the contract Rs.1,000/- month should be divided between pre & post incorporation period in Sales ratio.
15) The Gross Profit should be divided pre & post incorporation period in Sales ratio.

14.3.3 PRACTICAL QUESTIONS:

Example : 1

Sonu Ltd. was incorporated on 01-07-2008 to take over the business of A.K. Enterprises as a going concern with effect from 01-04-2007. Their Profit and Loss Account for the year ended 31-03-2007 is as follows :

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	75,000	By Sales (upto 30-06-01 Rs.60,000/-)	3,00,000
To Purchases	1,00,000		
To Administration Expenses	12,000	By Closing Stock	46,500

To Director's Fees	4,000		
To Selling Expenses	20,000		
To Audit Fees	6,000		
To Preliminary Expenses	3,000		
To Net Profit	1,26,500		
	3,46,500		3,46,500

Prepare a statement showing the Profit earned prior to and after incorporation.

Example : 2

TCSO Ltd. was incorporated on May 1, 2007 to take over the business of Ltd. as a going concern from 01-01-2007. The Profit and Loss Account for the year ending on 31-12-2007 is as follows :

Profit and Loss Account of TSCO Ltd.

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Rent and Taxes	50,000	By Gross Profit	4,20,000
To Insurance	6,000		
To Electricity charges	3,000		
To Salaries	60,000		
To Director's Fees	2,500		
To Auditor's Fees	6,000		
To Commission	24,000		
To Advertisement	12,600		
To Discount	3,000		
To Office Expenses	7,500		
To Carriage Outwards	9,000		
To Bank Charges	1,200		
To Preliminary Expenses	7,500		
To Bad debts	6,000		
To Interest on Loan	9,000		
To Net Profit	2,12,700		
	4,20,000		4,20,000

The total turnover for the year ending 31-12-07 was Rs.15,00,000/- divided into Rs.5,00,000/- for the period up to 01-05-07. Ascertain the profits earned prior to and post Incorporation period.

Example : 3

OT Ltd. was incorporated on 1st July, 2008 to take over the running business of Mr. R with effect from 1st April, 2008.
The following Profit & Loss Account for the year ended 31st March 09 was drawn up.

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Advertisement	10,600	By Gross Profit	2,00,000
To Managing Director's Remuneration	21,000	By Rent	5,000
		By Bad debts Realized	6,000
To Depreciation	4,000	By Income Tax Refund (2006)	4,300
To Salaries	18,000		
To Insurance	4,000		
To Preliminary Expenses	1,000		
To Rent and Taxes	6,000		
To Discount	700		
To Debenture Interest	40,000		
To Net Profit	1,10,000		
	2,11,000		2,11,000

The following details are available :

a) Average monthly turnover from July 2008 onwards was double than that of previous months.
b) Rent for the first four months was paid @ Rs.400/- per month and thereafter it is increased by Rs.50/- per month.
c) Bad debts realization of bad debts was in respect of bad debts written off during 2004.
d) Advertisement expenses were directly proportionate to the sales.

You are required to find out the Profit prior to Incorporation.

Example : 4

Mr. OP formed a private Ltd. Company under the name and style of Dut K. Ltd. to take over his existing business as from 1st April, 2007, but the company was not incorporated until 1st July, 2007. No entries relating to transfer of the business were entered in the books, which were carried on without a break until 31st March, 2008.

The following balances were extracted from the books as on 31-03-2008.

Particulars	Debit (Rs.)	Credit (Rs.)
Opening Stock	40,000	
Purchases	1,80,000	
Carriage Outwards	3,000	
Traveling Commission	30,000	
Office Salaries	20,000	
Administration Expenses	18,000	
Rent and Rates	24,000	
Director's Fees	8,000	
Fixed Assets	2,00,000	
Current Assets, excluding stock	54,000	
Preliminary Expenses	6,000	
Sales		3,20,000
Mr.X's Capital Account on 01-04-07		2,50,00
Current Liabilities		23,000

You are also given that –

a) Stock on 31st March, 2008 Rs.75,000/-

b) The Gross Profit ratio is constant and monthly sales in April 2007, February 2008 and March 2008 are double the average monthly sales for the remaining months of the year.

c) The Purchase Consideration was agreed to be satisfied by the issue of 5,000 Equity shares of Rs.100/- each.

d) The half preliminary expenses are to be written off.

You are required to prepare Profit & Loss Account for the year ended on 31st March, 2008 apportioning the Profit or Loss of the periods before and after incorporation. Depreciation shall be provided at 25% per annum on Fixed Assets.

Example: 5

B Ltd. company was incorporated on 1st March, 2008 to take over an existing business from 1st January, 2008. The Purchase Consideration was agreed at Rs.3,00,000/- to be satisfied by an issue of Rs.50,000/- 6% Mortgage Debentures; interest at 6% per annum to be payable on the Purchase Consideration from 1st January, 2008 to the date of settlement. The Debentures were issued on 1st June 2008 on which date the company also allotted 25,000 Equity shares of Rs.10/- each fully paid to vendor. The Profit & Loss Account of the business for the year to 31st December, 2008 appears as below :

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Purchase (after adjusting stocks)	16,50,000	By Sales (Jan.– April)	10,00,000
		By Sales (May & Dec.)	
To Gross Profit	5,50,000		12,00,000
	22,00,000		22,00,000
To Administrative Expenses	1,00,000	By Gross Profit	5,50,000
To selling Expenses	80,000		
To Carriage Outward	22,000		
To Depreciation	20,000		
To Debenture Interest (Gross)	18,750		
To Interest on Purchase Consideration	9,000		
To Director's Fees	10,000		
To Preliminary Expenses	4,000		
To Goodwill (Amount written off)	10,000		
To Dividend on Equity Shares	25,000		
To Net Profit	2,51,250		
	5,50,000		5,50,000

Prepare a statement apportioning the balance of profits between the periods prior to and since Incorporation.

Example : 6

S.R. Private Ltd. was incorporated on 1st May 2007 to acquire the business of Zero Lal as from January 1, 2007 on the basis of the Balance sheet dated December 31, 2007. The accounts for the year ended December 31, 2007 disclosed the following :

a) There was a gross Profit of Rs.5,50,000/-.

b) The sales for the year amount to Rs.10,80,000/- of which Rs.4,80,000/- was for the first six months.

c) The expenses debited to Profit and Loss Account included Director's fees Rs.25,000/-; Bad debts Rs.6,600/-; Advertising Rs.12,000/- (under a contract amounting to Rs.1,000/- per month); Salaries and General Expenses Rs.54,000/-, Preliminary Expenses written off Rs.3,000/-; Donation to the political party given by the company Rs.5,000/-.

Prepare a statement showing the amount of profit made before incorporation and state how it should be dealt with in the accounts of the company.

Example : 7

The TY Ltd., was registered on 1st May, 2008 to take over the business of TK form 1st January, 2008. The company was granted certificate to commence business on 1st June, 2008. From the following information calculate the Profit earned by the company in the 'pre' and 'post' incorporated periods.

a) The sales for the year ended 31st December, 2008 amounted to Rs.4,80,000/-. The trend of the sales was as under :

   January and February – twice the average monthly sales

   June and July – one and a half times the average sales in each month

   September, October and November – half the average sales in each month.

b) Cost of goods sold Rs.3,60,000/-.

c) Salaries Rs.36,000/-. (There were 5 employees in the pre-incorporation period and 6 employees in the post incorporation period.)

d) Bad debts Rs.12,000/-.

e) Interest on purchase price paid by the company to T.K. on 1st August, 2008 Rs.21,000/-.

f) Provision for Income-Tax Rs.40,000/-.

g) Expenses exclusively related to company Rs.15,000/-.

h) Advertising Rs.36,000/- (Rs.3,000/- per month under a contract)

i) Commission on Sales Rs.18,000/-.

j) Depreciation on machinery at 10% p.a. Rs.9,000/- (Machinery taken over from vendors Rs.60,000/- and balance on Machinery purchased on 1st October 2008).

❖❖❖❖

15

FINAL ACCOUNTS OF LIMITED COMPANIES-I

Unit Structure

15.0 Objectives
15.1 Introduction
15.2 Method of Preparation of Final accounts
15.3 Schedule VI of companies Act
15.4 Balance sheet as per Schedule VI
15.5 Vertical form of Balance Sheet
15.6 Income statement or Profit and Loss Account
15.7 Adjustment specifically applicable to Companies
15.8 Accounting standard – I

15.0 OBJECTIVES :

After studying the unit the students will be able to:

- Understand the methods of preparation of Final Accounts.
- Know the Requirements to Balance Sheet.
- Know the Requirements to Profit and Loss Account.
- Know the Account Standard I
- Understand the various adjustments
- Solve the practical Problems.

15.1 INTRODUCTION

Every Organization or entity which maintains the books of accounts day to day transactions needs to prepare the Final Accounts at the end of Interval - normally one year.

15.1.1 THE FINAL ACCOUNTS COMPRISES:

- **I.** Profit and Loss Account showing Income, expenses, gains and losses pertaining to the period.
- **II.** Balance sheet enlisting assets, receivables, payables and capital on the specific date.

These accounts or statement has to be prepared in accordance with the requirements of provisions of the law; applicable to it.

In addition to these, these accounts also need to comply with the statements and standard issued by The Institute of Chartered Accountants of India to the extent these are relevant on applicable.

The preparation and presentation of final accounts is essential for all entity irrespective of the form of organization and nature and volume of transactions.

The Objective of preparation of Final Accounts is to satisfy or ensure that these represent a true and fair view of affairs and profits of the entity.

15.2 THE METHOD OF PREPARATION OF FINAL ACCOUNTS :

Irrespective of the form of organization and nature of activity, some of the steps involved for this purpose are commonly applicable to all.

These Steps are: -

15.2.1 PREPARATION OF TRIAL BALANCE

Enlisting all balances extracted from books of accounts maintained during the specified period. This step is to satisfy that the arithmetic accuracy of accounting process is ensured.

15.2.2 SCRUTINISE THE ACCOUNTS

To ensure that the proper accounting effect is made for the following-

i. Provision is made for all unpaid expenses and outstanding income.
ii. Advance receipts of income, pre - payment of expenses is properly segregated.
iii. Accounting Errors - particularly affecting capital and revenue items are identified and rectified.
iv. Provision for all known losses, such as loss by fire or accident, depreciation, devaluation of investments, profit or loss on sale of investments or assets is shown in the accounts.
v. Statutory Provisions as required under applicable laws e.g. Transfer to Reserve, Dividend, Tax.

15.2.3 Compliance with Accounting Standards (AS) and Statements issued by the Institute of Chartered Accountants of India (ICAI)

The ICAI has issued several Standards and Statements to ensure the uniformity in prepare at and presentation of Final Accounts. In many cases, it is mandatory or compulsory to comply with these, Statements and Standards. The ICAI while issuing such Statements and Standards, specify the type of entity and accounting period covered by the same and also extent to which it is mandatory.

These Standards can he categorized as: -

a) Basic subject matters for preparation and presentation of Final Accounts which has general application eg.

i. Disclosure of Accounting Policies (AS 1)
ii. Valuation of inventories (AS 2)
iii. Depreciation (AS 6)
iv. Revenue Recognition (AS 9)
v. Fixed Assets (AS 10)
vi. Investments (AS 13)
vii. Prior Period - items (AS 5)
viii. Income Tax (AS 22)
ix. Intangible Assets (AS 26)
x. Contingencies & events after Balance Sheet (AS 4)

b) Special Transaction or Items

i. Construction Contracts (AS 7)

ii. Research & Development (AS 8)

iii. Foreign Exchange Translation (AS 11)

iv. Government Grants (AS 12)

v. Retirement Benefit Scheme (AS 15)

vi. Borrowing Costs (AS 16)

vii. Segment Reporting (AS 17)

viii. Related Party (AS 18)

ix. Leases (AS 19)

x. Earnings per share (AS 20)

xi. Amalgamation (AS 14)

xii. Consolidated Statements (AS 21)

xiii. Investments in Associates etc (AS 23)

xiv. Cash Flow Statements (AS 3)

xv. Discontinuing Operation (AS 24)

xvi. Interim Financial Reporting (AS 25)

xvii. Impairment of Assets (AS 28)

xviii. Financial Reporting of interest in Joint Venture (AS 27)

Till Date 28 AS have been issued. Of these AS enlisted as basic are Mandatory and should complied by every enterprise to whom these AS apply. The remaining AS, should be complied if there are transactions or events effected by the enterprise.

c) Statutory Requirements

Certain categories of enterprises are governed or represented by specific laws. These laws specify the provision relating to certain transactions or contracts as also form and requirements for the preparation and presentation of Final Accounts. Some such institutions are -

– Companies Act - for Companies

– Partnership Act - for Partnership Firm

– Bombay Public Trust Act - for Trusts, Associations & Societies.

– Maharashtra State Co-operative Societies Act - for Co-operative Societies

- Banking Regulation Act - for Banks
- Each of these laws require that the final Accounts prepared under these laws should

  i. Be in form prescribed under law.
  ii. Disclose the information required.

d) Forms of Presentation of Final Accounts

The final Accounts can be presented in convenient form. These are: -

i. **Horizontal Form or T form** showing Debits, Credits, Assets & Liabilities as two sides of the statements this is also traditional or account form.
ii. **Vertical or Columinar form** which shows all items as a single column after netting or setting off certain related items.

The form in which accounts should be presented if the form prescribed under the law. Where the law specify alternative form with options or such form is not specified the Final Accounts can be presented in any convenient form.

The present syllabus requires the study of preparation and presentation of Final accounts of Companies governed under Companies Act.

15.3 SCHEDULE VI OF COMPANY'S ACT :

The Companies Act 1956 contains elaborate provision for: -

i. Form of Balance Sheet.
ii. Requirement as to Profit & Loss A/c.
iii. Information to be disclosed in Final Accounts.

These requirements are specified in schedule W to the Companies Act.

Schedule VI is divided into 3 parts:

Part I - Balance Sheet

This part specifies the form of Balance sheet and information to be disclosed for every item therein.

Part II – Requirements as to profit & Loss A/c

Specifying the matters or items to be shown separately.

Part III - Interpretation of certain terms.

The schedule VI enables the companies to present its accounts in horizontal or vertical form as K may consider appropriate. The schedule also indicates both the forms and presentation as also the sequence in which these items should be enlisted. The choice of the form is with the company.

However present trend is to present statements in vertical form, supported by schedule to furnish other informal required to be disclosed.

The present syllabus required the study only on Horizontal form only.

The company Act also contains provision for maintenance of books of accounts and the method of accounting to be adopted. As now present provision.

The companies should maintain account as per actual method of according all items of incomes and expenses, gains or losses are should be included on accrual basis. This implies maturing costs and revenue with five periods.

The provisions of schedule VI - as per Vertical from of presentation are as mentioned: -

i. Corresponding figures for immediately preceding previous year should be stated. However in the case of first year after incorporation of company. This is not applicable.

ii. The figures for major group or heading be shows in statement. This can be supplemented by schedule to give the detail and other information required to be disclosed as per provision of schedule vi.

iii. Significant Accounting policies adopted for preparation and presentation of statement of accounts should be shown separately under a different schedule.

iv. The statement should be signed or authenticated at least by two Director and Secretary.

v. The final statement of accounts must accompanied by report of Director and Auditor.

vi. The final accounts as well as report of directors and auditor should be placed before and approved by meeting of shareholder at the annual general meeting.

15.4 BALANCE SHEET AS PER SCHEDULE VI :

The form of final accounts and the information to be disclosed are as under:

15.4.1 HORIZONTAL FORM OF BALANCE SHEET

Schedule VI part I
(see sec. 211)
A - HORIZONTAL FORM OF BALANCE SHEET
Balance sheet of ......(Here enter the name of the company) as at .... (Here enter the date as at which the balance sheet is made out)

Figures for the previous year Rs.	Liabilities	Figures for the current year Rs.	Figures for the previous year Rs.	As
	Share Capital: Authorized..... Share of Rs...... each Issued: (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class)... shares of Rs..... each Subscribed: (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class... shares of Rs..... each Rs..... called up) Of the above shares.... shares are allotted as fully paid-up pursuant to a contract without payments being received in cash. Of the above shares... shares are allotted as fully paid-up by way of bonus shares. (Specify the source from which bonus shares are issued, e.g., capitalization of profits or reserves or from share premium a/c) **Less:** Calls unpaid: (i) By directors. (ii) By others **Add:** Forfeited shares: (amount originally paid up) (Any capital profit on reissue of forfeited shares should be transferred to capital reserve). 1. Terms of redemption or conversion (if any)			**Fixed Assets:** Distinguishing as fa expenditure upon: (a) Goodwill (b) Land (c) Buildings (d) Leaseholds (e) Railway sidings (f) Plant and machin (g) Furniture and fitti (h) Development of p (i) Patents, tradema (j) Livestock (k) Vehicles etc. **Notes:** (1) Under each hea the additions there to from during the depreciation written o end of the year are to (2) Where the origi additions and deduct any fixed assets whi from a country o consequence of a c exchange at any time

of any redeemable preference capital are to be stated together with earliest date of redemption or conversion.

2) Particulars of any option on unissued share capital are to be specified.

3) In the case of subsidiary companies the number of shares held by the holding company as well as by the ultimate holding company and its subsidiaries shall be separately stated in respect of subscribed share capital. The auditor is not required to certify the correctness of such share holdings as certified by the management.

Reserves and Surplus:

1. Capital reserves
2. Capital redemption reserve
3. Share premium account (showing details of its utilization in the manner provided in Sec.78 in the year of utilization)
4. Other reserves specifying the nature of each reserves and the amount in respect thereof.

Less: Debit balance in profit and loss account (if any)

(The debit balance in the profit and loss account shall be shown as a deduction from the uncommitted reserves, if any)

5. Surplus, i.e., balance in profit and loss account after providing for proposed allocations, namely, dividend, bonus or reserves.
6. Proposed additions to reserves.
7. Sinking funds.

Notes:

(1) Additions and deductions since last balance sheet to be shown, under each of the specified heads. (2) The word fund in relation to any reserve should be used only where such reserve is specifically represented by earmarked investments.

Secured loans:

1. Debentures.
2. Loans and advances from banks.
3. Loans and advances from subsidiaries.
4. Other loans and advances.

Notes:

(1) Loans from directors and manager should be shown separately

(2) Interest accrued and due on secured loans should be included under the appropriate sub-heads under the head secured loans.

(3) The nature of security to be specified in each case.

(4) Where loans have been guaranteed by managers and / or directors, a mention thereof shall also be made and also the aggregate amount of such loans under each head.

(5) In case of debentures, terms of redemption or conversion (if any) are to be stated together with earliest date of redemption or conversion.

such asset, there ha
reduction in the liabi
expressed in Indian
payment, towards the
cost of the asset or fo
whole or part of mo
company from any
indirectly, in any fore
for the purpose of acc
in either case t
immediately before t
change in the rate
effect), the amount b
so increased or red
shall be added to, o
deducted from the
arrived at after such
shall be taken to be
asset.
Explanation. (1) In
the context other
expressions rate o
currency and Indian c
meanings respective
under sub-section (1)
income tax Act, 1961
explanation 3 of the
as far as may be, a
same paragraph as
sub-section (1).

2. In every case w
cannot be a
unreasonable expe
valuation shown by th
For the purpose of
valuation shall be the
an asset stood in th
the commencement
deduction of the
provided or written
diminution in value,
asset is sold the am
shall be shown as de
3. Where sums have
reduction of capital
assets, every balanc
balance sheet) subse
or revolution shall sh
and with the date of
of the original cost.
4. Each balance s
years subsequent
reduction shall show
reduction made.
5. Similarly, where s
by writing up the a
sheet subsequent to
show the increased f

Unsecured Loans:
1. Fixed deposits
2. Loans and advances from subsidiaries.
3. Short-term loans and advances:
(a) From banks
(b) From others.
[Short term loans include those which are due for repayment not later than one year as at the date of the balance sheet.]
4. Other loans and advances:
(a) From banks
(b) From others

Notes:
(1) Loans from directors and manager should be shown separately.
(2) Interest accrued and due on unsecured loans should be included under the appropriate subheads under the head unsecured loan.
(3) Where loans have been guaranteed by manager, and /or directors, mention thereof shall also be made together with the aggregate amount of such loans under each head. This does not apply to fixed deposits.

Current liabilities and provisions:
A. Current liabilities
1. Acceptances.
2. Sundry creditors.
(i) Total outstanding dues of small scale industrial undertaking (s); and
(ii) Total outstanding dues of creditors other than small scale industrial undertaking (s)
3. Subsidiary companies.
4. Advance payments and unexpired discounts for the portion for which value has still to be given, e.g., in the case of the following companies.
Newspaper, fire insurance,
theatres, clubs, banking, steamship companies etc.
5. Unclaimed dividends.
6. Other liabilities (if any)
7. Interest accrued but not due on loans.
The name (s) of the small scale industrial undertaking(s) to whom the company owe a sum exceeding Rs. 1 lakh which is outstanding for more than 30 days are to be disclosed.
B. Provisions
8. Provisions for taxation.
9. Proposed dividends.
10. For contingencies.
11. For provident fund scheme.
12. For insurance, pension and similar staff benefit schemes.

13. Other provisions.
A footnote to the balance sheet may be added

the increase in plac
Each balance sheet
subsequent to the c
shall also show the
made.

Investments:
Showing nature of in
valuation, for exam
value, and distinguish
1. Investments in
securities.
2. Investments in
bonds (showing se
paid up and partly
distinguishing the
shares and showing
investments in shares
of subsidiary compan
3. Immovable proper
4. Investment in the
firms.
5. Balance of unutil
issue.

Notes: (1) Aggregate
unquoted investment
value thereof shall be
(2) Aggregate a
unquoted investments
All unutilized monies
be separately discl
sheet of the company
which such unutiliz
invested.
Current Assets, Loa
(A) Current Assets
1. Interest accrued o
2. Stores and spare
3. Loose tools.
4. Stock-in-trade.
5. Works-in-progress
Notes:
(1) In respect of
valuation of stock sh
amount in respect o
also be stated separa
(2) Mode or valuati
shall be stated.
6. Sundry debtors:
(a) Debtors outst
exceeding six months
(b) Other debts
Less: Provision

Notes:
In regard to sundry d
given separately of

	show to separately 1. Claims against the company not acknowledged as debts. 2. Uncalled liability on shares partly paid 3. Arrears of fixed cumulative dividends. [The period for which the dividends are in arrear or if there is more than one class of shares, the dividends on each such class are in arrear shall be stated. The amount shall be stated before deductions of income tax except that in the case of tax-free dividends the amount shall be shown free of income tax and the fact that it is so shown shall be stated.] 4. Estimated amount of contracts remaining to be executed on capital account and not provided for. 5. Other moneys for which the company is contingently liable. [The amount of any guarantees given by the company on behalf of directors or other officers of the company shall be stated and, where practicable, the general nature and amount of each such contingent liability, if material, shall also be specified.]		(a) Debtors consider of which the company (b) Debts considere company holds no s debtors personal secu (c) Debts considered Debt due by directors company or any of t jointly with any other firms or private com which any director is or a member to be se Debts due from othe same management sub-section (IB) of S with the name of the The maximum amou other officers of the The provision to be s should not exceed stated to be consider any surplus of such created, should be s under reserves and s side) under a separ for doubtful or bad de 7. A. Cash balance o 7. B. Bank balance- (a) With scheduled b (b) With others. **Notes:** [In regard to bank ba given separately- (a) The balance lyin on current account deposit accounts. (b) The names of t scheduled banks a with each such bank call account and de maximum amount o during the year with e (c) The nature of the director or his relativ (other than schedule (b) above.) "All unutilized monies be separately discl sheet of the compan which such unutiliz inserted" **(B) Loans and adva** 8. (a) Advances an (b) Advances and loa in which the com subsidiaries is a partn 9. Bill of exchange.

			10. Advances reco kind or for value to b taxes insurance etc. 11. Balance with cu (Where payable o de **Notes:** The instructions reg apply to loans and ad **Miscellaneous expe** (to the extent not writ 1. Preliminary expen 2. Expenses incl brokerage on under shares or debentures 3. Discount allowed or debentures. 4. Interest paid construction (also sta 5. Development expe 6. Other sums (spec Profit and Loss Accou (Show here the debi loss account carried of the uncommitted re

15.4.2 GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET:

a) The information required to be given under any of the items or sub items in this form, if it cannot be conveniently included in balance sheet itself, shall be furnished in a separate schedule or schedule to be annexed to and to form part of the balance sheet. This is recommended when items are numerous.

b) Naye paise can also be given in addition to Rupees, if desired.

c) In the case of *[subsidiary companies] the number of shares held by the holding company as well as by the ultimate holding company and its subsidiaries must be separately stated.

The auditor is not required to certify the correctness of such shareholdings as certified by the management.

[(CC) The item 'Securities Premium Account' shall include details of its utilization in the manner provided in section 78 in the year of utilization]

d) Short - item loan will include those which are due for not more than one year as at the date of the balance sheet.

e) Depreciation written off or provided shall be allocated under the different asset heads and deducted in arriving at the value of fixed assets.

f) Dividends declared by subsidiary companies after the date of the balance sheet *[should] not be included unless they are in respect of period which closed on or before the date of the balance sheet.

g) Any reference to benefits expected from contracts to the extent not executed shall not be made in the balance sheet but shall be made in the Board's report.

h) The debit balance in the profit and loss Account shall be shown as a deduction from the uncommitted reserves if any.

i) As regards loans and advances, (1) [the amounts due from other companies under the same management within the meaning of sub-section (1B) of the section 370 should also be given with the names of the companies] the maximum amount due from every one of these at any time during the year must be shown.

j) Particulars of any redeemed debentures which the company has power to issue should be given.

k) Where any of the company's debentures are held by a nominee or a trustee for the company, the nominal amount of the debentures and the amount at which they are stated in the books of the company shall be stated.

l) A statement of investment (whether shown under investment or under current assets as stock-in-trade) separately classifying trade investments and other investments should be annexed to the balance sheet, showing the names of the bodies corporate (indicating separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate; provided that in the case of an investment company, that is to say, a company whose principal business is the acquisition of shares, stock, debentures or other securities, it shall be sufficient if the statement shows only the investments existing on the date as at which the balance sheet has been made out. In regard to the investments in capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner), shall be given in the statement.]

m) If in the opinion of the Board, any of the current assets, loans and advances have not a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion shall be stated.

n) Except in the case of the first balance sheet laid before the company after the commencement of the Act, the corresponding amounts for the immediately preceding financial year for all items shown in the balance sheet shall be also given in the balance sheet. The requirement in this behalf shall, in the case of companies preparing quarterly or half-yearly accounts etc, relate to the balance sheet for the corresponding date in the previous year.

o) The amounts to be shown under Sundry debtors shall include the amounts due in respect of goods sold or services rendered or in respect of other contractual obligations but shall not include the amounts which are in the nature of loans or advances.

1. Substituted by notification no. GSR 414, dated 21-3-1961.
2. Inserted, ibid.
3. Substituted by notification no. GSR 494 (E), dated 30-10-1973.

p) Current accounts with directors, [managing agents, secretaries and treasurers] and manager, whether they are in credit, or debit, shall be shown separately.

q) A small scale industrial undertaking has the same meaning as assigned to it under clause (i) of section 3 of the industries development and regulation Act 1951.

15.5 VERTICAL FORM OF BALANCE SHEET :

15.5.1 VERTICAL FORM OF BALANCE SHEET

Part 1 - VERTICAL FORM OF BALANCE SHEET
B. VERTICAL FORM
Name of the company...........
Balance Sheet as at............

	Schedule No.	Figures as at the end of current financial year	Figures as at the end of previous financial year
I. Sources of Funds (1) Shareholders' funds: (a) Capital (b) Reserve and surplus (2) Loan funds: (a) Secured loans (b) Unsecured loans			

TOTAL			
II. Application of funds			
(1) Fixed assets:			
(a) Gross block			
(b) Less: Depreciation			
(c) Net block			
(d) Capital work-in-progress			
(2) Investments			
(3) Current assets, loans and advance			
(a) Inventories			
(b) Sundry debtors			
(c) Cash and bank balances			
(d) Other current assets			
(e) Loans and advances			
Less:			
Current liabilities and provisions:			
(a) Liabilities			
(b) Provisions			
(4) (a) Miscellaneous expenditure to the extent not written off or adjusted			
(b) Profit and loss account			
TOTAL			

Notes: (1) Details under each of the above items shall be given in separate schedules. The schedules shall incorporate all the information required to be given under part 1A of the Schedule VI read with notes containing general instructions for preparation of Balance sheet.

(2) The schedules, referred to above, accounting policies and explanatory notes that may be attached shall form an integral part of the balance sheet.

Substituted by notification no. GSR 414, dated 21-3-1961
Inserted by Notification No. GSR 129 (E), dated 22-2-1999
Inserted by Notification No GSR 220(E), dated 12-3-1979

15.5.2 REQUIREMENTS TO INDIVIDUAL ITEMS ARE AS UNDER:

a) **Share Capital**
The presentation of share capital should be as given below:

	SCHEDULE **SHARE CAPITAL**	
a)	Authorized	
	.... Equity Shares of Rs. .... each	xx
	.... % Preference shares of Rs. .... each	xx
b)	Issued	
	.... Equity Shares of Rs. .... each	xx
	.... % Preference shares of Rs. .... each	xx
c)	Subscribed	
	.... Equity Shares of Rs. .... each	xx

		.... % Preference shares of Rs. .... each	xx
d)	Called up		
		.... Equity Shares of Rs. .... each	
		Rs. .... Calles up	xx
		.... % Preference shares of Rs. .... each	
		Rs. .... Called up	xx
		Called up	xx
e)	Less	Calls in arrears:	
		From directors xx	
		From others xx	xx
	Add:	Share forfeited A/c (Money's received)	xx
	Add:	Share application money	xx
		Paid up	**xx**

Notes:

i. Of the above shares....... Shares are allotted as fully paid up pursuant to a contract without payments being received in cash.

ii. Of the above shares....... Shares are allotted as fully paid up by way of bonus shares on capitalization of reserves.

iii. Where the information for a, b, c, d, or any of them is identical, shares may be combined.

iv. The amount of a, b and c should not be taken in totals.

v. Terms and conditions of redemption / conversion of preference shares along with the date of conversion or redemption must be given. Ratio of dividend on preference share capital should be disclosed.

vi. Calls in arrears by directors and others.

vii. When a public issue is made any money received will become a pad of share capital only after allotment is done.

viii. Share application moneys and calls in advance must be shown separately. ICAI has suggested that Share application money should be shown under "Current Liabilities" as this has to be repaid within a short period.

b) Reserves and surplus

Contents

The schedule should contain information about the following:

All reserves belonging to shareholders are shown under this head. It includes following items.

i. Capital Reserve - Profits arising due to non - business transactions or events such as:

- Profit prior to incorporation
- Profit on Re - issue of forfeited shares
- Profit on redemption of shares / debentures.

ii. Capital redemption reserve.

iii. Securities premium as per sec: 78 of Companies Act and as per Sec 80 of Companies Act.

iv. Statutory Reserve - As per legal requirements - under Companies Act & Income Tax Act e.g. - Export profit reserve.

v. Revaluation reserve (on revaluation of assets)

vi. Other reserves such as - General Reserve - Dividend Reserve etc.

As per schedule VI, the presentation is done as follows:

	Rs.
Capital reserve	
Capital redemption reserve	
Securities premium A/c	
Statutary reserves	
Other reserves	
Surplus i.e. balance in profit and loss A/c	

Notes:

1. Any addition or deduction from reserves since the last balance sheet.
2. Any debit balance of profit and loss A/c will be deducted from General reserves or other uncommitted reserves.
3. In the case of securities premium details of utilization should be specified.

c) Secured loans:

It refers to loans secured by a fixed or flotation charge on the assets or property of the company. the schedule should contain information about the following:

1. Debentures and bonds
2. Loans from banks and financial institutions.

3. Loans from subsidiaries.
4. Loans from directors.

As per schedule VI presentation is done as follows:

	Rs.
SECURED LOANS:	
Debentures	xx
Loans from banks	xx
Loans from subsidiaries	xx
Other Loans	xx
Total	**xx**

Notes:

1. Particulars of security for each loan should be stated.
2. Terms of redemption or conversion of loan should be stated.
3. Interest accrued and due on loans / debentures should be included under appropriate item.
4. Loan guaranteed by directors or managers should be disclosed.
5. Future installments payable under hire purchase agreements should be show under secured loan separately.
6. Debenture guaranteed by Government is not a secured loan as no asset is mortgaged against such loans.
7. Application moneys received against a debenture issue pending allotment should be shovel as short term deposit.

d) Unsecured Loans

These are the loans which are not secured by the assets of the organization.

1. Fixed deposits
2. Loans and advances from subsidiaries
3. Short term loans and advances.
4. Other loans and advances
5. Loans from directors.

Short term loans are those which are due for payment within one year from the date of balance sheet. Normally, such items are shown under current liabilities are expected to be repaid from current assets.

The presentation is as follows:

Rs.

UNSECURED LOANS:

Fixed Deposits	xx
Loans and advances from subsidiaries	xx
Short term loans and advances	
a) From banks	xx
b) From others	xx
Other loans and advances	
a) From banks	xx
b) From others	xx
Total	**xx**

Notes

i) Loans from Directors Manager should be shown separately.

ii) Interest accrued and due should be included under the appropriate item.

iii) Loans guaranteed by directors, Managers, should be disclosed separately.

iv) Terms of redemption or conversion should be disclosed.

e) Current liabilities and provisions:

As per ICAI used in Financial statements defines current liability

As per ICAI guidance note on terms used in financial statements defines current liability as liability including loans, deposits, bank overdraft which falls due for payment in a relatively short period, not more than 12 months from the date of balance Sheet.

As per Schedule VI, the presentation is done as follows.

		Rs.
CURRENT LIABILITIES AND PROVISIONS		
A.	**CURRENT LIABILITIES**	
1.	Acceptances	xx
2.	Sundry Creditors	
	i) Total outstanding dues to small scale Industrial undertakings	xx
	ii) Total outstanding dues of creditors other than Small scale industrial undertakings	xx
3.	Subsidiary companies	xx
4.	Advance received from customers	xx
5.	Unclaimed dividends	xx

6.	Other liabilities	xx
7.	Interest accrued but not due on loans	xx
		xx

B. PROVISIONS

8.	Provision for income tax	xx
9.	Proposed dividends	xx
10.	For contingencies	xx
11.	For provident fund scheme 1 gratuity	xx
12	For insurance, pension and similar staff benefit schemes	xx
		xx

Notes:

Provisions for doubtful debts, provision for depreciation and provision for fluctuation in the value of investment should be deducted from specific assets on asset side.

f) Contingent liabilities:

As per guidance note issued by ICAI contingent liability means an obligation relating to an existing condition or situation which may arise in future depending on future events.

Contents:

It includes the following:

- Uncalled liabilities on partly paid - up shares held by company as investment.
- Arrears of dividend on cumulative preference shares.
- Estimated amounts of contracts remaining to be executed on capital account.
- Disputed liabilities on account of income - tax, sales tax, excise duty, custom duty for which provisions has not been made.

Amount of any guarantees given by company on behalf of directors or other officers of the company. Workers claims. Not acknowledged as debts by company bills receivables discounted.

Note:

Contingent liabilities are shown as a footnote to the balance sheet. These are not included in the total.

g) Fixed assets:

As per As - 10 accounting for fixed assets "a fixed asset is an" asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business".

As per schedule VI, the presentation is done as follows:

Description	Cost				Accumulated Depreciation					
	Op. Bal	Addi tion	Deduc tion for sales or obslec enre	Cl. Bal	Op Bal	Provi, for the year	Provi, on assets sold	CIS Bal	Net WDV Op.	Net WDV Cl.
Goodwill										
Land										
Building										
Leaseholds										
Railway Siding										
Plant & Machinery										
Furniture & Fittings										
Development of Property										
Patents, trade marks designs										
Live Stock										
Vehicles										
Total										

h) Investments

As 13 define investments as assets held by an enterprise for earning income by way of dividends, interest, and rentals for capital appreciation or for other benefits to the investing enterprise. It represents outside investments. It may be long-term or current investment current investments are intended to be held for not more than one year. A company can value its investments at cost or at market price.

Contents:

It includes the following

- i. Government and trust securities
- ii. Shares, debentures or bonds
- iii. Immovable properties
- iv. Investment in the capital or partnership firm
- v. Investment in subsidiary companies.

As per schedule VI, the presentation is done as follows:

Investments

1. Investments in Government or Trust securities
2. Investments in shares / debentures or bonds (showing fully paid / partly paid and different classes of shares)
3. Immovable properties
4. Investments in the capital of partnership firms
5. Balance of unutilized monies raised by issue.

Notes:

- i. Fully paid - up and partly paid - up shares should be show separately
- ii. Each class of shares to be shown separately.

iii. Quoted and unquoted investments. In the case of quoted investments, market value should be disclosed by way of note.
iv. Nature of investment and mode of valuation whether at cost or at market value.
v. A statement of investments seperately classifying trade investments and other investments.
vi. Balance of investment fluctuation reserve should be disclosed.

i) Current assets and loans and advances

This is a common heading. It is divided into two parts.

A) Current assets
B) Loans and advances

As per ICAI guidance note, current assets are cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business.

The presentation is done as follows:

	Rs.	Rs.
CURRENT ASSETS, LOANS AND ADVANCES		
Stock in trade:		
Raw materials	xx	
Packing materials	xx	
Finished goods	xx	
Goods in transit	xx	
Work in progress	xx	xx
Sundry debtors (Unsecured) debts outstanding for a period exceeding six months:		
Considered good	xx	
Considered doubtful	xx	
Other debts		
Considered good	xx	
Less: provision for doubtful debts	xx	xx
Cash and bank balances		
Cash on hand	xx	
Cheques on hand	xx	xx
Bank balances with schedules banks		
Current A/c	xx	
Fixed deposit A/c	xx	
With other banks	xx	xx
LOANS AND ADVANCES		
Advances recoverable in cash or in kind	xx	
Balance with excise authorities'	xx	

Tax dedected at source and advance tax	xx	
Bills receivable	xx	
Expenses paid in advance	xx	xx

Notes:

i. Mode of valuation of stock and work in progress - Cost or market value whichever is less.

ii. Age wise classification showing debts outstanding for a period of more than six months and other debts.

iii. Classification based on security and recoverability:

   a) Debtors considered good in respect of which the company is fully secured.
   b) Debts considered good for which the company holds no security other than the debtors personal security.
   c) Debts considered doubtful or bad.
   d) Related party debts and maximum outstanding.

1. Debts due by directors or other officers of the company.
2. Debts due from other companies under the same management.
3. Maximum amount due by directors or other officers of the company at any time during the year.

   e) Deduct provision for bad and doubtful debts from the sundry debtors. The provisions should not exceed the amount considered doubtful or bad. Any surplus provision already created should be shown as "Reserve for bad and doubtful debts" under the head Reserves and surplus

iv. Bank balance with scheduled bank, and other banks.

v. Bank balance in current account, call account and deposit account should be separately disclosed with each bank. In the case of non - scheduled bank, besides above information maximum balance at any time during the year should be stated.

j) Miscellaneous expenditure (To the extent not written - off)

This refers to the deferred revenue expenditure to the extent not written - off.

Contents:

It includes the following items.

- Preliminary expenses.
- Capital issue expenditure.
- Debenture issue expenditure.
- Underwriting commission on issue of shares and debentures.
- Discount on issue of shares or debentures.
- Development expenditure.

Disclosure:

Amount unwritten off should be shown under this head

Profit and Loss A/c

Debit balance of profit and Loss A/c should be under this head. Any uncommitted reserve should be adjusted and net amount should be shown.

15.6 INCOME STATEMENT OR PROFIT AND LOSS ACCOUNT :

The Companies Act 1956, does not prescribe any format for the profit and Loss A/c, it is left to individual companies to choose the format which is appropriate. However, part II of schedule VI of companies Act lays down certain requirements which every company must comply. Every profit and loss A/c should satisfy the following requirements of disclosure. They are as under:

15.6.1 ITEMS TO BE DISCLOSED SEPERATELY IN PROFIT AND LOSS ACOUNT AS REQUIRED BY PART - II OF SCHEDULE - VI

............................Ltd.
PROFIT AND LOSS A/C
For the year ended------------

	Schedule current year	Previous year
INCOME Sales Other income Increase / Decrease in work in progress/stock of Finished goods		
Total		
Expenditure Cost of raw materials and spares Excise duty Employees remuneration and benefits Other expenses Interest Depreciation		
Total		
PROFIT BEFORE TAXATION AND EXTRA ORDINARY ITEMS: Extraordinary item PROFIT FOR THE CURRENT YEAR Prior period adjustments PROFIT BEFORE TAXATION Provision for taxation		

PROFIT AFTER TAX Balance BIF from the previous year		
TOTAL AVAILAEILE FOR APPROPRIATIONS		
APPROPRIATIONS Proposed dividend Corporate dividend tax General reserve Any other statutory reserves **BALANCE CIF TO NEXT YEAR**		
TOTAL		

1. The profit and loss account shall disclose every material future, including credits or receipts and debits or expenses in respect of non recurring or exceptional transactions.

2. **Items of income**
   a) Turnover: Aggregate amount of sales, amount and quantity of sales of each class of goods separately. (In case of service companies' gross income derived from services).

   b) i) Income from investments distinguishing between trade investments and other investments.
      ii) Other income by way of interest specifying nature of income.
      iii) TDs should be deducted in above two cases.

   c) i) Profits or losses on investments (showing distinctly the profits or losses from a partnership firm).
      ii) Profits or losses in respect of transactions of a kind, not usually undertaken by the company, if material.
      iii) Amount of material by which any items shown in profit and loss account are affected by any change in basis of accounting.
      iv) Miscellaneous income.

   d) Dividend from subsidiary companies.

3. Expense

i) Commission paid to sole selling agents (within the meaning of S.294)
ii) Commission paid to other selling agents.
iii) Brokerage and discount on sales (other than trade discount)

- **In case of manufacturing companies:**

Item wise breakup of value and quantity of all important basic raw materials consumed. (Items valuing 10% or more of the total value of the raw valuing 10% or more of the total value of the raw material consumed shall be shown as a separate item).

Value and quantity of opening and closing stocks of each class of goods produced.

Work-in-progress at the commencement and at the end of the accounting period.

- **In case of trading companies:**

Value and quantity of purchases, opening and closing stocks each class of goods. (Items valuing 10% or more of the total value of the purchases, stocks or turnover, shall be shown as a separate item).

i) Consumption of stores and spare parts
ii) Power and Fuel
iii) Rent
iv) Repairs to building
v) Repairs to machinery
vi) 1) Salaries, wages and bonus
2) Contribution to other bonus
3) Workmen and staff welfare expenses
vii) Insurance
viii) Rates and taxes, excluding taxes on income.
xi) Miscellaneous expenses, [Expenses totaling 1% of the total revenue of the company of Rs. 5,000 whichever is higher shall be shown as a separate item)

4. Depreciation, renewals or diminution in the value of fixed assets. (If no provision is made, the fact and the quantum or arrears of depreciation u/s 205 (2) to be disclosed.

5. Interest on debentures and other fixed loans, showing separately amount paid / payable to the Managing Director, Manager.

6. Donations to political parties, giving name of party / person.

7. Income tax.

8. Dividends paid and proposed stating that it is subject to deduction of tax.

9. Provision for losses of subsidiary companies.

10. Amounts reserved for repayment of share capital / loans.
11. i) Amount set aside to reserves, and any amounts withdrawn from such reserves.

ii) Amount, if material, set aside to provision for meeting specific liabilities, contingencies, commitments and the amounts withdrawn from such provisions.

12. Payment to Directors including Managing Directors, Manager, if any by the company, subsidiary of the company and any other person for following.

a) Managerial remuneration u/s 198.
b) Other allowance and commission including guarantee commission (details to be given)
c) Any other perquisite or benefits in cash or in kind. (Stating approximate money value where practicable).
d) Pension, gratuities, payments from provident funds, in excess of own subscription and interest thereon, compensation for loss of office, retirement consideration etc.

13. Computation of net profit u/s 349, with details of the commission payable as percentage of profits to the directors including Managing Directors, Manager (if any).

14. Payments to the Auditors (Whether as fees, expenses or otherwise for services rendered.

a) As auditor
b) As advisor, or in any other capacity, in respect of
   i) Taxation matters.
   ii) Company law matters.
   iii) Management services and
c) In any other manner.

15. In case of manufacturing cmpany's., in respect of each class of goods manufactured, detailed quantitative information in regards to -

a)	The licensed capacity (where license is in force	as on the last date of the year
b)	The installed capacity and	
c)	The actual production	

16. Following information to be included by way of note:
a) Value of imports on C.I.F. basis in respect of (i) raw materials (ii) components and spare parts (iii) capital goods.
b) Expenditure in foreign currency for royalty, know-how, professional and consultation fees, interest and other matters.
c) Value of imported raw materials, spare parts and components consumed; value of indigenous raw materials, spare parts and components consumed; and percentage of each to total consumption.

d) Dividends remitted in foreign currencies; number of non-resident shareholders; number of shares held by them on which dividends are due and the year to which dividends relate.

e) Earnings in foreign exchange, namely
(i) Exports (F.O.B. basis); (ii) royalty, know-how, professional and consultancy fees; (iii) interest and dividend (iv) other income, indicating the nature thereof.

15.7 ADJUSTMENT SPECIFICALLY APPLICABLE TO COMPANIES :

As stated earlier the final accounts of Companies, should be in compliance with the statutory provision of the Companies Act.

Such adjustments are: -

1. Managerial remuneration.
2. Provision for income tax (incl. minimum alternate tax)
3. Accounting for assessment of income tax.
4. Transfer to reserve, out of current year profit
5. Proposal of dividend-
6. Dividend distribution tax.
7. Issue of shares without consideration i.e. Capitalization of Reserve and issue of bonus shares.
8. Issue of shares, for non cash consideration

1. **Managerial remuneration.**

The remuneration to managerial personnel is payable as per term by the company and approved by the company law/registrar of companies.

This consist of (1) Salary, (2) Perquisites and (3) Commission as a percentage on profit or turnover. The schedules XIII to companies Act specify the mode or remuneration and monetary limit.

Where the remuneration is stated as percentage on profit or turnover the care should be taken too uncertain whether percentage is before or after applying the limit.

The amount so calculated, should be provided for to the extent not included in trial balance. Corresponding the same should be shown as current liability.

2. **Advance Tax / Tax deducted at source as income**

a) Payer of certain amount is required to deduct amount as income tax from payment to be made. The amount so deducted is to be treated as tax paid. The receiver receives net amount. The entry should be passed Tax Deducted at source (TDS) to income.

b The is required to estimate the tax payable on current income and pay the amount is through installments before end of financial year. The entry to be passed is.

Advance Tax Dr.
To bank A/c

3. Provision for income tax (incl. minimum alternative Tax).

Income tax payable as percentage on profit currently for year ending 31-3-2003, income tax is payable @ 35 on taxable income.

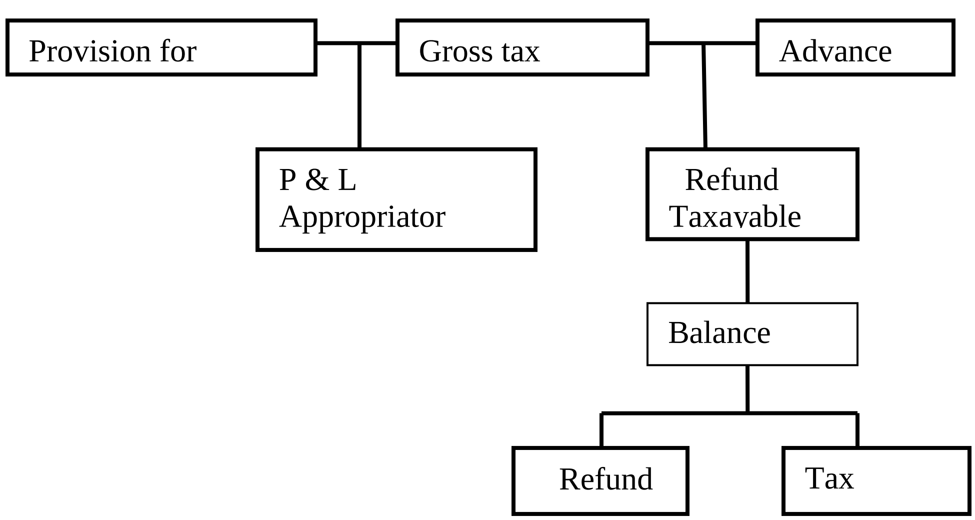
The provision should be made at above percentage or other information may be given. The entry would be: -

Profit & loss A/c Dr.
To provision for income tax

NOTE: As per accounting standard 22, deducting with income tax, advance tax, TDS and provision for income tax should be shown as net balance. If net amount is debit, then show under heading loan & advance. And if it is credit show it as current liabilities.

4. Completion of assessment.

The liability for income tax is determined by income tax officer after completion of assessment. On receipt of assessment order gross amount liability should be composed with (i) Advance tax & TDS difference would be refund or tax payable. This should be shown as current asset or current liability. And (II) provision for income tax- the difference should be shown as profit & loss appropriation account as prior period items.



Current assets Loan &

Current liabilities

5. Assessment under dispute.

After receipt of assessment order, the company has right to file an appeal and challenge the order. If the assessment is disputed the balance sheet should disclose advance tax and provision for that year till the disposal of the matter. The information of amount of tax subject to appeal should be shown as contingent liability.

Illustration:

Show necessary journal entries and disclosure of relevant items in final account.

Trial Balance
As at 31st March, 2009

	Dr (Rs.)	Cr (Rs.)
Advance income tax A.Y. 2008-2009	2, 00,000	
Advance income tax 2009-2010	1, 30,000	
Provision for income tax 2008-2009		1, 80,000

Adjustments: -

a) The income tax assessment for 2008-09 has been completed during the year and tax liability has been fixed at Rs. 2, 20,000. No effect has been given to this in the accounts.

b) Provision for income tax to be made for the A.Y. 2009-10 is for Rs. 1, 20,000

Solution:

Journal

	Dr (Rs.)	Cr (Rs.)
Profit & Loss A/c Dr.	1, 20,000	
To provision for income tax A/c		1, 20,000
(being provided for taxation for the year 2009-10)		
Provision for income tax A/c Dr.	1, 80,000	
P & L appropriation A/c Dr.	40,000	
To advance tax A/c		2, 00,000
To income tax payable A/c		20,000
(being entry to record completion of tax assessment and resulting deemed / provision)		

Provision for taxation A/c
2008-2009

To advance income tax To income tax payable	2, 00,000 20,000 (Bat. Fig)	By balance b/d By profit & Loss	1, 80,000 40,000
	2, 20,000		2, 20,000

Profit & Loss A/c
For the year ended 31st March, 2009

To provision for income tax A/c	2, 30,000
To prior period items:	
Provision for income tax	40,000

Balance sheet
as on 31st March, 2009

Liability	Amt.	Asset	Amt.
Current Liabilities		Loans & Advance:	
Income tax	20,000	Advance income tax	1, 30,000
		Less: Provision	
		For income tax 1, 20,000	10,000

6. Corporate dividend tax

As per the finance bill 1997, a provision was introduced regarding payment of tax by the company and therefore, dividend received by the share holder was not taxable. The dividend tax should be treated as appropriation of profit as it is payable on amount do dividend declared which is an appropriation of profit. This tax is an addition to income tax on profits of the company. The rate laid down by the finance Act, 2001 w.e.f. 1-6-2001 is 10% with a surcharge of 2%, making an effective rate of 10.2%. This tax rate is applicable for the year endeding 31.3.2002 it is addition to the proposed rate of dividend.

For the year ending 31st March 2003, corporate dividend tax is not is force.

While solving a problem, this adjustment should be shown, if specifically required.

7. Provision for the dividend

Dividends refer to the amount of the profit distributed among the shareholder. Preference shareholders are entitled to get dividend at the fixed rate. Preference dividend is paid before payment of the equity dividend.

If proposed dividend on equity capital is specified, the dividend on preference share capital at a given rate should be added to the amount proposed dividend.

Interim dividend: -

It is declared between two annual general meetings. It does not require approval of the shareholder. The amount of interim dividend is shown as debit profit & loss appropriation A/c Final dividend:

It is the dividend proposed by the directors and declared by the shareholders in the annual general meeting. Companies are required to pay dividend within 42 days from the date of declaration. After expiry of the period, the unpaid dividend is transferred to unpaid dividend bank A/c which is to be transferred to "Investors education & protection fund A/c".

Illustration: -

	Rs.
13.5% preference share capital	4, 00,000
Fully paid equity share capital	5, 00,000
The board of Directors declared a dividend of 15%	
Dividend distribution Tax @ 10.2%	

Solution: -

Preference dividend	
13.5% of 4, 00,000	54,000
Equity dividend	75,000
	1, 29,000
Dividend distribution tax 10.2%	13,158

Journal entry

Particulars	Dr.(Rs.)	Cr.(Rs.)
Profit and loss Appropriation A/c Dr. To proposed preference dividend A/c To proposed equity dividend A/c To dividend distribution tax	 75,000	1, 42,158 75,000 13,158

Profit and loss A/c

	Rs.
Appropriation	
Proposed dividend: preference	54,000
Equity	75,000
Dividend distribution tax	13,158

Schedule: Provisions

	Rs.
Provision for dividend tax	13,158
Preference dividend	54,000
Equity dividend	75,000

8. Transfer to reserves

As per the rules framed under the companies Act, companies are required to transfer certain percentages of their profit after tax to reserves to declare dividend out of current year's profit which is arrived at after making necessary provision for depreciation as required by the section 205 of the companies Act, 1956. The various rates of transfer based on the rate of dividend are as follows:

Rate of dividend	Transfer to reserves
Exceeds 10% but not 12½% of the paid capital.	2½% of the current profit
Exceeds 12.5% but not 15% of the paid up capital.	5% of the current profit
Exceeds 15% but not 20% of the paid up capital.	7½% of the current profit
Exceeds 20%	10% of the current profit

Illustration:

X Ltd. declared 15% dividend on equity share capital. The net profit of the company after tax is Rs. 4, 00,000. How much amount will be transferred to reserve? Pass journal entry for transfer to reserve.

Solution:

As the rate of dividend is 15%, the board should transfer 5% of the net profit to reserve i.e. 5% of Rs. 4, 00,000 = Rs. 20,000.

Journal Entry

Particulars	**Dr.(Rs.)**	**Cr.(Rs.)**
Profit and loss Appropriation A/c Dr. To General reserve (being transfer to general reserve)	20,000	20,000

9. Interest on debentures

Interest for the full period for which the accounts are prepared or for which the debentures have been outstanding during such period should be provided for.

Trial Balance
As on 31st March 2010

Particulars	Dr.(Rs.)	Cr.(Rs.)
14% Debentures		1,00,000
Interest on debentures	3,500	

Interest on debentures for the full year will be 14% of Rs. 1, 00,000 = Rs. 14,000. The amount paid is Rs. 3,500. The remaining amount Rs. 1, 03,500 is still due. Interest on debentures is paid half yearly. It means Rs. 7,000 is already due for payment but Rs. 7,000 is not yet payable. The former is 'Accrual and Due' or 'Outstanding' and the later is accrued but not due. Accrued and due interest will be shown in the balance sheet along with debentures under secured loans. And interest accrued will be shown under current liabilities. Interest on Debentures Rs. 14,000 will be debited to profit & Loss A/c.

Profit & Loss A/c

		Rs.
Interest on debentures	3,500	
Add accrued and due	3,500	
Add accrued but not due	7,000	14,000

Schedule: Secured Loans

	Rs.
14% debentures	1, 00,000
Accrued and due	3,500

Schedule: Current Liabilities

	Rs.
Interest on debentures Accrued but not due	7,000

10. Issue of bonus share.

Sometimes the company may not be in the position to pay cash dividend inspire of adequate profit due to adverse effect on working capital position. Prudent companies, later on issue bonus shares to the existing equity shareholders. Such shares are issued as per guidelines issued by the SEBI. Issue of bonus shares refers to conversion of reserves into share capital. Following two entries are passed.

1.	Profit and loss A/c	Dr.
	General reserve A/c	Dr.
	Securities Premium A/c	Dr.
	Capital redemption reserves A/c	Dr.
	To bonus to equity shareholder A/c	
2.	Bonus to equity shareholder A/c	Dr.
	To equity share capital A/c	
	To securities premium A/c (if any)	

The fact regarding issue of bonus shares should be disclosed in the balance sheet in schedule on share capital. Numbers of bonus share and the sum of bonus should be disclosed.

Illustration:

Share capital 2, 00,000 equity share of Rs. 10 each	20, 00,000
Securities premium	4, 00,000
General reserve	10, 00,000
Profit and loss A/c	8, 00,000

The company decided to issue bonus share at the rate of 3 shares for every four share held and decided to utilize securities premium. General reserve and profit and loss A/c show the effect on financial statements.

Solution:

No. of bonus share = $\frac{2,00,000}{4} \times 3 = 1,50,000$

Share of Rs. 10 each i.e. Rs. 15, 00,000

Journal

Particulars	Dr.(Rs.)	Cr.(Rs.)
Securities premium A/c Dr.	4, 00,000	
General reserve A/c Dr.	10, 00,000	
Profit and loss A/c Dr.	1, 00,000	
To bonus to equity shareholder A/c		15, 00,000
(being capitalization of profit for issue of bonus share)		
Bonus to equity shareholder A/c	15, 00,000	
To equity share capital A/c		15, 00,000
(being issue of bonus shares to existing equity shareholder)		

Schedule: Share capital
Journal Entry

Particulars	Dr.(Rs.)	Cr.(Rs.)
Issued and subscribed		
3, 50,000 equity shares of Rs. 10 each		35, 00,000
(Of the above shares 1, 50,000 shares are		
Issued as bonus shares out of securities premium		
General reserve and profit & loss A/c		35, 00,000

Schedule: Reserves and surplus
Journal Entry

Particulars	Dr.(Rs.)	Cr.(Rs.)
Securities premium	4, 00,000	
Less: Capitalized	4, 00,000	nil
General reserve	10, 00,000	
Less: Capitalized	10, 00,000	nil
Profit and loss A/c	8, 00,000	
Less: Capitalized	1, 00,000	17, 00,000

11. Tax deduction on payments (T.D.S. payable)

Some of the payments to be made by the company are subject to deduction of income tax. The person making such payment have to pay tax at applicable rate and balance to the person entitled thereto.

Some of the items covered are interest, dividend. There are other items also subject to similar condition. The rate of tax to such is 10.2% for the years ended 31-3-2002 item.

When a provision for such payment is required. The amount is current liabilities should be split in two parts as under:

Illustration

A company has received a sum of Rs. 5, 00,000 as fixed deposit on which interest is payable @ 14%. Interest for 3 months is to be provided. Tax deduction @ 10.2%

Journal Entry

Particulars		Dr.(Rs.)	Cr.(Rs.)
Interest on FDR	Dr.	17,500	
To TDS payable			1,785
To interest payable			15,715

12. Depreciation:

Section 205 (2) lays down that depreciation should be provided to the extent specified by section 350 i.e. at the rates specified in schedule XIV on reducing balance or straight line method. The schedule specify rate of depreciation on various assets. Depreciation is to be provided on Prorata period rate.

The law does not make it compulsory for a company to provide for depreciation on fixed assets. However, it provides that dividend cannot be declared without providing depreciation for previous and current year.

13. Profit on revaluation of fixed assets:

A company may fix assets for various purposes. Any profit on revolution should be accounted as follows:

Assets A/c Dr.
To capital reserve A/c

It should be added to fixed assets in the schedule and added to capital reserve in a schedule of 'Reserves and surplus'.

14. Special points to be considered:

At the time of giving effect to various adjustments, in the process of preparing final account, following points should be given special consideration:

1. Depreciation at a specified percentage as per the specified method should be computed to adjustments regarding purchase of asset, sale of assets or commission relating to fixed assets.

2. Provision for bad and doughtful debts specified rate should be computed on debtors balance after giving effect to the other adjustments regarding debtors. Such as additional bad debts, goods sent to customers on approval etc.

3. Provision for discount on debtors should be computed on the amount of debtors remaining after providing for bad and doughtful debts.

4. Provision for incomes / expenses as per accrual method should be made for full period where information is available directly or indirectly.

5. The interest on loans or debentures should be separated in balance sheet.
   Accrual but not be - Current liabilities
   Accrued and due - add to loan

6. Provision for the income tax should be made at specified rate on the net profit after charging all the expenses including managerial remuneration managerial remuneration may be as a certain percentage of net profit.
   If the provision for the both managerial remuneration and income tax is required to be made, firstly managerial remuneration should be provided and then on the remaining profit, provision for income tax should be made.

7. When dividend on equity share capital is declared, effect should be given for.
   i) Dividend on preference share capital at state percentage.
   ii) Transfer of profit to reserve.
   iii) Dividend tax

15.8 ACCOUNTING STANDARD-I :

Disclosure of Accounting policies

This AS deals with different accounting policies to be adopted by the concern in the preparation and presentation of financial statements and its disclosure in the such statement. In view of diverse according policies; disclosure of policies adopted is necessary for proper appreciation of statements. The purpose of

AS is to promote better understanding of statements by establishing the disclosure of significant accounting policies.

For this AS:

I] Fundamental accounting assumptions undertaking the preparation and presentation of statements. If these are followed, no disclosure is required. These assumptions are.

a) Going concern: An enterprise will continue in operation for foreseeable future. The liquidation or material curtailment of operation is neither necessary nor intended.

b) Consistency in policies from one period to another period - particularly where the different alternatives are generally accepted in given situation.

c) Accrual of revenue and costs is the basis of recognition thereof.

II] Considerations in selection of accounting policies.
Prime consideration is to enable representation of true and fair view of statement of affairs and profit or loss. Major considerations for them are:

a) Prudence - i.e. conservatism concept
b) Substance over legal term of transaction & events.
c) Materiality - Material item are those items the knowledge of which might influence the decisions of user of statements.
d) Statutory or legal requirements, as applicable to the entity.

III] The AS gives illustrative list of areas where different policies might be adopted by different enterprises. Some areas are:

i) Depreciation & amortization - re: method, period, rate
ii) Expenditure during construction.
iii) Translation of foreign currency item.
iv) Valuation of inventories.
v) Valuation of investments / Goodwill / Fixed assets.
vi) Profits on long-term contracts.
vii) Contingent liabilities.
viii) Retirement benefits.
ix) Method of accounting - accrual / cash

The ASB had issued separate AS for these items.

Disclosure:

- All significant accounting policies adopted should be disclosed so as to form part of financial statements.
- Any change in policy, which has a material effect, should be disclosed together with monetary effect of such change (Rs. AS 5)
- If fundamental assumptions are not followed or applicable, the fact should be disclosed.

❖❖❖❖

16

FINAL ACCOUNTS OF LIMITED COMPANY-II

Unit Structure

16.1 SOLVED PROBLEMS :

Illustration no.1

The Aurangabad Flour Mills Ltd. has an authorized capital of 1,200 equity shares of Rs. 100 each. The public have subscribed 720 equity shares of Rs. 100 each and have paid the full amount on these shares. The following is the Trial Balance of the company on 31st March, 2010.

	Dr. Rs.	Cr. Rs.
Stock of Wheat	16,000	
Stock of flour	9,500	
Purchasing of Wheat	4, 05,000	
Manufacturing expenses	80,000	
Sales of flour		5, 30,000
Salaries	12,000	
Wages	5,000	
Printing & Stationary	1,600	
Postage and Telegram	1,000	
Travelling expenses	1,250	
Audit fees	1,000	
Sundry expenses	400	
Interest on investment		260
Rent received		1,200
Profit and Loss appropriation A/c		6,500
Balance on 1.4.2009		
Directors fees	250	
Land	12,000	
Buildings	50,000	
Furniture	5,000	
Motor vehicles	24,000	
Stores and spare parts	15,000	
Advances	12,000	
Book debts	30,850	
6% Maharashtra state electricity board loan	5,000	
Share capital		72,000
General reserve		22,000
Dividend equalization reserve		14,000
Provision for taxation		8,350
Unclaimed dividends		1,050
Deposits		900
Trade creditors		77,190
Cash in hand	1,600	
Cash at bank	45,000	
	7, 33,450	**7, 33,450**

Other information:

1. Stock on 31.3.2010: Wheat - Rs. 20,000, Flour - Rs. 35,100.
2. Outstanding expenses were:
   Manufacturing expenses - Rs. 22,250; Salaries - Rs.600; Wages- Rs. 500; Printing and stationary - Rs. 1,200.
3. Interest accrued on investments - Rs. 150.
4. Provide Rs. 12,000 for taxation for the year 2010.

5. Provide depreciation on :
    a) Building at 5%
    b) Furniture at 10%
    c) Motor vehicles at 15%.

6. Directors propose the following appropriations of profit:
    a) To declare a dividend of 10% on equity capital.
    b) To transfer a sum of Rs. 3,500 to general reserve.
    c) To transfer Rs. 2,500 to dividend equalization reserve.

From the above, prepare the profit and loss account for the year ended 31st March, 2010 and the balance sheet as on that date.

Solution:

Profit & Loss A/c of Aurangabad Flour Mills Ltd.
For the year ended 31st March, 2010

	Rs.		Rs.

To stock of wheat		16,000	By sales of flour		5, 30,000
To stock of flour		9,500	Stock		
To purchase of wheat		4, 05,000	Wheat	20,000	
To mfg. expenses	80,000		Flour	35,100	55,100
Add: Outstanding	22,250	1, 02,250	By interest on		
To salaries	12,000		Investments	260	
Add: Outstanding	600	12,600	Add: interest		
To wages	5,000		Accrued	150	410
Add: Outstanding	500	5,500	By Rent		1,200
To printing & stationary	1,600				
Add: Outstanding	1,200	2,800			
To postage & Telegram		1,000			
To travelling expenses		1,250			
To Audit fees		1,000			
To sundry expenses		400			
To Director's Fees		250			
To Depreciation:					
Buildings	2,500				
Furniture	500				
Motor Vehicles	3,600	6,600			
To provision of taxation		12,000			
To net profit c/d		10,560			
		5,86,710			5, 86,710
To general reserve		3,500	By balance b/d		6,500
To dividend equalization Reserve		2,500	By net profit b/d		10,560
To proposed dividend		7,200			
To balance surplus - carried forward		3,860			
		17,060			17,060

Aurangabad Flour Mill Limited
Balance Sheet
as on 31st March, 2010

Liabilities	Rs.	Rs.	Assets	Rs	Rs

Share capital:			Fixed Assets:	.	.
Authorized			Land (cost)		
1,200 equity shares of			Building (cost) 50,000	12,000	
Rs. 100 each		1, 20,000	Less: Depreciation		
Issued & subscribed:			to-date 2,500		
720 equity shares of			Furniture (Cost) 5,000	47,500	
Rs.100 each			Less: Depreciation		
Fully called and			to-date 500		
paid up		72,000	Motor vehicles	4,500	
Reserves & Surplus			(Cost) 24,000		
Dividend equalization			Less: Depreciation		
Fund	16,500		to-date 3,600		
General Reserve	25,500		Investments:	20,400	84,400
Surplus			(at cost)		
- Profit & Loss A/c			6% Maharashtra State		
Balance	3,860	45,860	Electricity Board loan		
Secured Loans		Nil	Current Assets,		5,000
Unsecured Loans		Nil	Loss & Advances:		
Current liabilities			A. Current Assets:		
& Provisions			Interest Accrued		
A. Current Liabilities			on Investment		
Creditors - Trade	77,190		Stock of wheat	150	
Creditors for expenses	24,550		(at cost)		
Unclaimed Dividend	1,050		Stock of flour	20,000	
Deposits	900	1, 03,690	(at cost)	35,100	
B. Provisions			Stock & Spare parts	15,000	
Provision for Taxation	20,350		Books debts	30,850	
Proposed Dividend	7,200	27,550	Cash in hand	1,600	
			Cash at bank	45,000	
				1, 47,700	
			B. Loans & advances:		
			Advances	12,000	
					1, 59,700
		2, 49,100			**2, 49,100**

Illustration No. 2

The Trial balance of Alpha Ltd. as on 31st March, 2009 is given below:

Debit Balances	Rs.	**Credit Balances**	Rs.

Calls in Arrears	5,000	Authorized Capital	
Freehold buildings	2, 00,000	60,000 equity shares of	
Plant & Machinery	2, 40,250	Rs. 10 each	6, 00,000
Interim dividend paid	25,000	Issued & Subscribed	
Opening stock	1, 90,000	Capital	4, 00,000
Furniture	5,000	8% Debentures	
Patterns	51,500	(Secured)	2, 00,000
Patents	40,000	Profit & Loss A/c	21,400
Sundry Debtors	2, 77,000	Bill payable	90,000
Cash in hand	4,500	Sundry Creditors	1, 77,000
Cash at bank	88,000	Sales	12, 35,000
Purchases	6, 36,550	Discount received	11,800
Preliminary Expenses	8,000	Sinking fund	
Sinking Fund Investment	50,000	Redemption of	
Wages	2, 95,000	Debentures	50,000
Repairs & Renewals	12,000	Provision for	
Factory power	25,000	Doubtful debts	12,500
Rates & Taxes	13,500	Royalties received	3,500
Salaries	11,250	Interest on Sinking fund	
Travelling Expenses	10,750	Investment	2,000
Discount allowed	20,200	Sale of Machinery	20,000
Directors Fees	4,200		
Bad debts	2,500		
Debentures interest	8,000		
	22,23,200		**22, 23,200**

Additional Information:

1. A Machine acquired on 1st April 2007 at a cost of Rs. 25,000 and depreciated every year at 10% on written down value was sold during the year for Rs. 30,000. Its written down value is included in the plant and machinery at Rs. 2, 40,250.
2. Depreciate plant & machinery, furniture, pattern and patents at 10%.
3. Write of Rs. 2,000 from preliminary expenses.
4. Transfer Rs. 10,000 to sinking fund for redemption of debentures.
5. Maintain bad & doubtful debts provision at 5% on sundry debtors.
6. Stock was valued at Rs.80,750 (at cost).

You are required to prepare profit & loss account showing gross profit and net profit for the year ended 31st March, 2009 and a balance Sheet (in prescribed from) as on that date.

Company final accounts
Alpha Ltd.
Profit & Loss A/c for the year ended 31st March 2009

To opening stock		1, 90,000	By sales	12, 35,000
To purchases		6, 36,550		
To wages		2, 95,000	By closing stock	80,750

To repair & renewals		12,000		
To factory power		25,000	By discount received	11,800
To rates & Taxes		13,500		
To salaries		11,250	By royalties received	3,500
To travelling exp.		10,750		
To discount allowed		20,200		
To Directors fees		4,200		
To bad debts		2,500		
To Preliminary Exp. written off		2,000		
To Debenture int	8,000			
(+) O/s	8,000	16,000		
To loss on sale of mach		2,500		
To debenture asset		39,425		
To N.P. C/d		58,175		
		13, 31,050		**13, 31,050**

Profit & Loss appropriation A/c

To inter in dividend pd.	25,000	By balance b/d	21,400
To transfer to sinking fund	10,000	By N.P. b/d	58,175
To balance c/d	44,575		
	79,575		79,575

Profit & Loss on sale of machinery

1.		2.	
1/1/07 - Cost	25,000	Plant & Machinery	2, 40,250
Dep. for 07-08	(2,500)	(-) sold (WDV book value	(22,500)
1/4/08 - W.D.V.	22,500		2, 17,750
(-) Sale price	(20,000)	(-) Dep. (1070)	(21,775)
Loss -	2,500	Cl. bal.	1, 95,975

* To dep on fixed assets: - 21,775 + 500 + 5,150 + 4,000 = 31,425

Balance Sheet as on 31st March 2009

Liabilities	Rs.	Rs.	Rs.	Assets			
I. Share capital Authorized: 60,000 equity shares of Rs.10 each Issued; subscribed, called-up & paid	50,00 0 2,000 10,00	4, 00,00 0 (5,00 0)	6, 00,000 3, 95,000	I. Fixed assets Freehold buildings Plant & Machinery Furniture (-) Dep. Patterns (-) Dep. Patents (-) Dep. II.	5,000 (500) 51,50 0 (6,15 0) 40,00 0 (4,00 0)	2, 00,00 0 1, 95,97 5 4,500 46,35 0	4, 82,825 50,000

up 40,000 equity shares of Rs.10 each fully called-up (-) calls-in-arrears II. Reserves & Surplus Sinking fund for redemption of debentures (+) Interest received (+) Current year transfer Profit & Loss A/c III. Secured loans 8% Debentures (+) O/s debenture int. IV. Unsecured loans V. Current liabilities & provisional (+) Current liabilities Bills payable Sundry creditors	0 90,000 1,77,000	62,000 44,575 2,00,000 8,000	1,06,575 2,08,000 2,67,000 **9,76,575**	Investment Sinking fund investment III. Current Assets, Loans & Advances A) Current assets Sundry Debtors 2, 77,000 (-) R.D.D. (12,500) Cash in hand Cash at bank Closing stock IV. Miscellaneous Expenditure Preliminary expenses (-) written off	2,64,500 4,500 88,000 80,750	36,000 8,000 (2,000)	4,37,750 6,000 **9,76,575**

Illustration 3 :

The following balances relate to Himalaya Co. Ltd. as on 31st March, 2009:

	Dr. Rs.		Cr. Rs.
Motor car (Cost less Depreciation) Sundry Debtors Furniture (Cost less Depreciation) Plant (Cost less Depreciation) Compensation to employees Closing stock Rent and Taxes Selling Expenses Office expenses, etc. Security deposit Advance income tax Cash in hand Cash at bank	8,000 60,000 4,000 15,000 2,000 35,000 8,000 10,000 12,000 4,000 9,000 2,500 27,500	Share forfeiture Account Share Capital Profit & Loss (31.3.2008) Gross profit Development rebate reserve Bank overdraft 0 UCO Sundry creditors Liabilities for expenses	500 1, 00,000 1,500 54,150 1,350 25,000 11,000 3,500
	1, 97,000		**1, 97,000**

The following additional information is also available:

a) Share capital consists of:
   i) 15,000 10% cumulative preference shares of Rs. 100 each, out of which 500 shares are fully called up and paid-up.
   ii) 15,000 equity shares of Rs. 10 each, out of which 5,000 shares are fully called up and paid-up.

b) Transfer Rs. 900 to be development rebate reserve account on 31st March 2009.

c) Bank overdraft secured by the hypothecation of stock.

d) The manager is entitled to 5% commission on the net profit of the company.

e) Addition made to plant during the year ended 31st March, 2009 was Rs. 8,000.

f) Depreciation written off up to 31st March, 2008 and rates against each are as under:

	Amount (Rs.)	**Rate (%)**
Plant	2,000	15
Furniture	10,000	10
Motor Car	10,000	20

g) Provision for taxation to be made at Rs. 9,600.

h) The amount shown against shares forfeited account represents unadjusted profit on reissue of forfeited shares made during the year.

i) Sundry debtors include outstanding Rs. 1,000 for more than six months.

j) Office expenses include Rs. 1,500 as audit fee and Rs. 500 as audit expenses.

Your are required to draw:

i) The profit & loss account for the year ended on 31st March, 2009, and

ii) The balance sheet (in schedule VI-form 1) as on that date.

Profit & Loss A/c for the year ended 31/3/09

	Rs.			Rs.
To compensation to employees		2,000	By gross profit	54,150
To rent sales & Tax		8,000		
To selling expenses		10,000		
To audit fees	1,500			
To Audit expenses	500	2,000		
To office expense		10,000		
To Depreciation		3,050		
To prov. for tax		9,600		
To net profit c/d		9,500		
		54,150		54,150
To transfer to Rebate Reserve.		900	By balance b/d	1,500
To balance c/d		10,100	By N.P. b/d	9,500
		11,000		**11,000**

Himalaya Co. Ltd.
Balance Sheet as on 31st March 2009

Assets	Rs.	Rs.	Rs.	Assets	Rs.	Rs.	Rs.
I. Share capital Authorized: 15,000 1070 per shares of 100 each 15,000 equity shares of		15, 00,00 0 1, 50,00 0	16, 50,00 0 1,	I. Fixed assets Motor car (-) Dep. 20% Furniture (-) Dep. 10% Plant	8,000 1,660 4,000 400 15,00 0 1,050	6,400 3,600 13,95 0	23,95 0

Rs.10 each Issued subscribed, called-up & paid-up 500, 10% cumulative per share of 100 each fully paid. 5000 equity shares of Rs. 10 each. II. Reserves & surplus Capital reserve Developmen t rebate reserve (+) Current year transfer Profit & Loss A/c III. Secured loans Bank o/d (Secured by hypothecatio n of stock) IV. Unsecured loans V. Current liabilities & provisions A. Current liabilities Sundry creditors Liabilities for expenses B. Provisions Provisions for tax	1,300 900 11,00 0 3,500 9,600	50,00 0 50,00 0 500 2,250 10,10 0 25,00 0 14,50 0 9,600	00,00 0 12,85 0 25,00 0 24,10 0 **1, 61,95 0**	(-) Dep. 15% II. Investme nt III. Current Assets, Loans & Advance A. Current Assets Debtors (More than 6 months) 1,000 Debtors (Less than 6 months) 59,000 Closing stock Cash in hand Cash at bank B. Loans & Advances Security deposit Advance income tax	60,00 0 35,00 0 2,500 27,50 0 4,000 9,000	1, 25,00 0 13,00 0	1, 38,00 0 **1, 61,95 0**

Illustration 4:

The Trial balances of the Ajantha Ltd. on 31st March, 2009 was as under

Debit balances	Rs.	Credit balances	Rs.
Opening Stock	55,000	Share Capital	4, 00,000
Purchases	3, 70,000	Securities premium	40,000
Carriage inwards	5,000	General reserve	50,000
Salaries	55,000	Debenture redemption	
Advertisement	10,000	Fund	35,000

Sales expenses	12,000	Sales	5,20,000
Office expenses	25,100	Share transfer fees	100
Interest paid	5,000	Interest on debenture	
Interest paid on debentures	3,000	Redemption fund	
Audit fees	1,000	Investments	2,100
Direction fees	1,500	Sundry Income	9,000
Land & Buildings		Profit & Loss A/c	
(after deducting		(1.4.2008)	21,400
Depreciation up to		Creditors	77,000
31.3.2008 Rs. 5,000)	95,000	Deposits and loans	1, 20,000
Plant & Machinery		12% Mortgage	
(after deducting		Debentures	50,000
Depreciation up to			
31.3.2008 Rs. 12,000)	58,000		
Furniture			
(after deducting			
Depreciation up to			
31.3.2008 Rs. 6,000)	14,000		
Investments	1, 55,000		
Debtors	4, 05,000		
Cash at bank	24,000		
Cash in hand	6,000		
Prepaid expenses	5,000		
Preliminary expenses	20,000		
	13, 24,600		13, 24,600

Taking into account the following information, you are required to prepare the final accounts of the company in accordance with the provisions of companies Act, 1956.

a) Closing stock is valued at cost at Rs. 1, 90,000. However, its market value is Rs. 2, 10,000.

b) Charge depreciation on original cost of land & buildings at 5% and furniture and plant & machinery at 10%.

c) Write off half of the preliminary expenses.

d) Transfer Rs. 30,000 to general reserve and Rs. 5,000 to debenture redemption fund.

e) Make provision for taxation Rs. 30,000 and for final dividend at Rs. 10 per share.

f) Details of investments are as follows:
1,000 equity shares of Rs. 100 each fully paid up in subsidiary company:
Rs.1, 00,000. 250 shares of Rs. 100 each in A Ltd., Rs. 80 per share paid up:
Rs. 20,000. Debenture redemption fund investments Rs. 35,000.

g) Of the debtors, Rs. 2, 00,000 are outstanding for more than six months. All debtors are considered good but unsecured.

h) One of the customer directly paid Rs. 20,000 to one of the supplier since the intimation was not received in time effect is yet to be given.

The authorized capital of the company is Rs. 10, 00,000 divided into 10,000 equity shares of Rs. 100 each of which 4,000 shares are issued and fully paid up.

Solution: In the books of Ajantha Ltd.

Profit & Loss A/c for the year ended 31st March 2009

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To opening stock		55,000	By sales		5, 20,000
To purchase		3, 70,000	By share transfer fees		100
To carriage inward		5,000	By share income		9,000
To salaries		55,000			
To Advt.		10,000			
To sales expenses		12,000			
To office expenses		25,100			
To interest paid		5,000			
To Debenture interest	3,000				
+ O/s interest	3,000	6,000	By closing stock		1, 90,000
To audit fees		1,000			
To Directors fees		1,500			
To Debenture (C.Y.Dep)		14,000			
To preliminary expenses		10,000			
To prov. for tax		30,000			
To N.P. C/d		1, 19,500			
		7,19,100			**7, 19,100**

Profit & Loss appropriation A/c

To transfer to G.R.	30,000	By Balance b/d	21,400
To transfer to Deb. R.R	5,000	By N.P. b/d	1, 19,500
To proposed dividend	40,000		
To balance c/d	65, 900		
	1, 40,900		**1, 40,900**

Ajantha Ltd.
Balance Sheet as on 31st March 2009

Assets	Rs.	Rs.	Rs.	Assets
I. Share capital				I. Fixed assets
Authorized:				Land & Building
Rs.10,550 equity shares of Rs.100 each			10, 00,000	(-) Dep. prov. b/d
Issued, subscribed called up, paid-up				+ Current year dep.
4,000 equity shares of Rs.100 each			4, 00,000	Plant & Machinery
Reserves & surplus				(-) Dep. prov. b/d
Sec. Premium		40,000		+ Current year dep.
General reserves	50,000			Furniture
+ Current year transfer	30,000	80,000		(-) dep. prov. b/d
Deb. redemption fund	35,000			+ Current year dep.
+ Interest received on investment	2,100			II Investment
+ Current year transfer	5,000	42,100		1,000 equity shares of Rs. 100 each fully
Profit & Loss A/c		65,900	2, 28,000	250 shares of Rs.100 each in A Ltd. Rs.
Secured loans				80 paid up
1290 mortgage deb.		50,000		Deb. redemption fund investment
+ O/d interest.		3,000	53,000	III Current assets, loans & advances
Unsecured loans				A) Current assets
Deposits & loans			1, 20,000	Sundry debts: more than 6 months 2, 0
Current liabilities & provisions				Less than 6 months 2, 0
A) Current liabilities				(-) Direct receipt (2
Creditors 77,000				Cash at bank
(-) Direct payment (20,000)	--			Cash in hand
+ Advance paid 5,000		62,000		Closing stock
B) Provisions				B) Loans & advances
Provisions for tax	30,000			Prepaid expenses
Proposed dividend	40,000	70,000	1, 32,000	Advance to suppliers
				IV Miscellaneous expense preliminary ex
				(-) write off.
			9, 33,000	

Illustration No.5

Prepare a balance sheet in as at 31st March, 2009 from the following information of ABC Limited as required under part IB of schedule VI of the companies Act 1956 of Hind Plasto Ltd.

	Rs.
Term loan	10, 00,000
Sundry creditors	11, 45,000
Advances	3, 72,000
Cash and bank balance	2, 75,000
Staff advances	55,000
Provision for taxation	1, 70,000
Securities premium	4, 75,000
Loose tools	50,000
Investments	2, 25,000
Loss for the year	3, 00,000
Sundry debtors	12, 25,000

Miscellaneous expenses	58,000
Loans from debtors	2, 00,000
Provision for doubtful debts	20,200
Stores	4, 00,000
Fixed assets (W D V)	51, 50,000
Finished goods	7, 50,000
General reserve	20, 50,000
Capital work in progress	2, 00,000

Additional information:

a) Share capital consists of:
   i) 30,000 equity shares of Rs. 100 each fully paid up.
   ii) 10,000 10% redeemable preference shares of Rs.100 each fully paid up.

b) Term loans are secured.

c) Depreciation on assets Rs. 5, 00,000.

d) Schedule need not be given. However, groupings should form part of the answer.

Hind Plasto Ltd.
Balance Sheet as on 31st March 2009

Assets	Rs.	Rs.	Rs.	Assets	Rs.	Rs.	Rs.
I. Share capital Issued subscribed, called-up & paid-up 30,000 equity shares of 100 each fully paid. 10,000 10% redeemable per share of Rs.100/- fully paid up II. Reserves & surplus Sec. Premium General reserve 20, 50,000 (-) Loss for the years III Secured loans Term loan	20, 50,000 (3, 00,000) 11, 45,000 1, 70,000	30, 00,000 10, 00,000 4, 75,000 17, 50,000 10, 00,000 2, 00,000 11, 45,000	40, 00,000 22, 25,000 10, 00,000 2, 00,000 13, 15,000 87, 40,000	I Fixed assets (-) Depreciation Net block Capital work in progress II Investment III Current assets, Loans & Advances A) Current assets Bank balance (Scheduled bank) Unscheduled bank Cash balance Loose tools S. Drs. 12, 25,000 (-) R.D.D. (20,200) Stores Finished goods B) Loans & advances Advances	2, 00,000 50,000 25,000 50,000 12,04,800 4,00,000 7,50,000 3, 72,000 55,000	56, 50,000 (5, 00,000) 51, 50,000 2, 00,000 2, 25,200 26, 79,800 4, 27,000	53, 50,000 2, 25,200 31, 06,800 31,06,800 58,000 87, 40,000

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(secured on F.A.) IV Unsecured loans Loan from debtors V Current liabilities & provisions A) Current liabilities ???????? B) Provisions Provisions for tax		1,70,000		Staff advances IV Miscellaneous expenditure			

Illustration: 6

The following balances have been extracted from the books of Paramount Distribution Ltd. as on 31st March 2009.

Debit	Rs.	Credit	Rs.

Goodwill	25,000	Share capital	3, 00,000
Plant & Machinery at cost	1, 20,000	Development rebate reserve	17,250
Additions	20,000		
Furniture & Fixtures at cost	16,500	Gross profit	1, 38,000
Motor Carat cost	24,800	Miscellaneous receipts	6,800
Calls in arrears	2,000	Profit & loss	
Advance in payment of		Appropriation A/c	5,250
Income tax:		Term loan from bank	1, 00,000
2007-08	75,000	Provision for taxation:	
2008-2009	10,000	2007-08	80,000
Establishment expenses	45,000	Liabilities for expenses	
Rent and taxes	12,000	(including Rs.2,000	
Postage and Telegram	2,000	Interest on term loan)	25,000
Motor car expenses	6,000	Purchase ledger balances	45,000
Travelling & conveyance	4,500		
Advertisement	7,200	Provision for depreciation	
Director's fees	6,900		
Depreciation:		up to 31st March 2009	
On plant	8,500	On furniture & fixture	4,500
On Furniture	1,200	On motor car	9,800
On motor car	3,000	On plant & Machinery	55,000
Interest & Bank charges	10,000		
Auditor's remuneration (including Rs.800 for taxation work)	1,800		
Cash in hand	10,200		
Cash at bank	25,000		
Sales ledger balances	1, 90,000		
closing stock	1, 60,000		
	7, 86,600		7, 86,600

The following further particulars are available:

a) Share capital of Rs.3, 00,000 is represented by 1,000, 9% cumulative preference shares of Rs.100 each fully paid up and the balance by equity shares of Rs.10 each fully called up.
b) No effect has been given to the Board Resolution passed on 15th September, 2008 forfeiting 400 equity shares for non-payment of final call of Rs.5 per share.
c) 5,000 of the equity shares were issued for consideration other than cash as fully paid.
d) Term loan from bank is secured by hypothecation of fixed assets of the company.
e) Of the debtors, Rs.30, 000 are due for more than six months.
f) Advertisement includes Rs.1,200 paid for a hoarding of the company for the period 1st October, 2008 to 30th September, 2007.

g) Provision for taxation to be made at Rs. 18,650 for 2009-10 assessment years.
h) Preference dividend is in arrears for three years including current year.
i) No proposal has been made by Directors for dividend on either class of share.

Prepare final Accounts.

Solution: In the books of paramount distributors.

Profit & Loss for the year ended 31/3/09.

Particulars	**Rs.**	**Rs.**		**Rs.**
To establishment exp.		45,000	By G.P. b/d	1, 38,000
To rent & Taxes		12,000	By miscellaneous	
To postage & Telegram		2,000	receipts	6,800
To motor car expenses		6,000		
To travelling & Con.		4,500		
To advertisement	7,200			
(-) Prepaid	(600)	6,600		
To Directors fees		6,900		
To Depreciation: Plant		8,500		
Furniture		1,200		
Motor car		3,000		
To interest & Bank charge		10,000		
To Auditors remun.	1,000			
Taxation	800	1,800		
To I.T. prov.		18,650		
To balance C/d		18,650		
		1, 44,800		1, 44,800

Profit & Loss appropriation A/c

To balance c/d		23,900	By balance b/d	5, 250
			By balance b/d	18,650
		23,900		23,900

Working notes: -

Journal Entries for forfeiture

Equity share capital A/c (400x10)	Dr.	4,000	
To C.I.A. A/c (400 x 5)			2,000
To share forfeiture A/c			2,000

Paramount Distribution Ltd
Balance Sheet as on 31st March 2009

Liabilities	Rs.	Rs.	Rs.	Assets	Rs.	Rs.	Rs.
I. Share capital Authorized: Issued; subscribed, called-up & paid up 1,000 9% cumulative per shares of Rs.100 each fully paid-up. 3,000 equity share capital of Rs.10 each fully called up (-) Forfeited during the year Share forfeiture A/c (5,000 of above equity share are issued for consideration other than cash) II. Reserves & Surplus Development rebate reserve Profit & Loss A/c III. Secured loans Term loan from bank (secured by hypothecation of fixed asset) IV Unsecured loans V Current liabilities &	2,00,000 (4,000) 23,000 2,000 45,000 80,000 18,650	1,00,000 1,96,000 2,000 17,250 23,900 1,00,000 70,000 98,650	? 2,98,000 41,150 1,00,000 - 1,68,650 **6,07,800**	Fixed Assets Goodwill Plant & Machinery at cost Additions (-) Dep. Prov. Furniture (-) Dep. prov. Motor car at cost (-) Dep. prov. II Investments III Current assets, Loans & Advances A) Current assets Cash in hand Cash at bank Sales ledger balances (s.??) 1, 60,000 More than 6 months 30,000 Closing stock B) Loans & Advances Advance income tax 2007-08 2008-09 Prepaid advt.	1,20,000 20,000 (55,000) 16,500 (4,500) 24,800 (9,800) 10,200 25,000 1,90,000 1,60,000 75,000 10,000 600	25,000 85,000 12,000 15,000 3,85,200 85,600	1,37,000 4,70,800 **6,07,800**

Provisions A) Current liabilities O/s expenses Interest on term loan Purchase ledger balance B) Provision Provision for tax Provision for income tax							

Illustration 7

Following balances are extracted from the books of account of Modern Industries Limited as on 31st March 2009.

Particulars	Debit Rs.	Credit Rs.
Share capital		10, 00,000
1, 00,000 equity shares of Rs.10 each		
Freehold factory premises	7, 00,000	
Leasehold office premises	5, 00,000	
5,000, 6% Debentures of Rs. 100 each		5, 00,000
Bank balance	10,500	
General reserve		75,000
Motor Car	1, 15,000	
Plant & machineries	2, 70,000	
Sinking fund for leasehold premises		15,000
Sundry debtors	2, 50,000	
Computer	30,000	
Profit & Loss account:		
Year ended 31.3.2008 22,455		
Year ended 31.3.2009 <u>6,25,000</u>		
Less: Debenture interest 6, 47,000		6, 17,455
<u>30,000</u>		
Goodwill	2, 00,000	
Stock	1, 30,000	
Cash-in-hand	<u>1,955</u>	
	<u>22, 07,455</u>	**<u>22, 07,455</u>**

At the meeting of the Board of Directors, it was decided to provide:

1. 3% depreciation on freehold factory premises.
2. 10% bonus on the year's salary to office staff of Rs. 80,000.

3. 15% bonus on the year's wages to factory workers of Rs.1, 00,000.
4. 10% Sinking Fund on leasehold premises.
5. Rs. 3,000 as director's fees.
6. 15% dividend for the year to shareholders (ignore income tax)
7. Transfer Rs. 30,000 to General reserve account.

Prepare profit and loss account, profit and loss appropriation account and balance sheet in the prescribed form as per schedule VI of the companies Act, 1956, as on 31st March, 2009

Solution:

Modern Industries Limited
Profit and Loss A/c (Revised) for the year ended 31st March 2009

	Rs.		Rs.
To debenture interest	30,000	By Profits b/d	6, 25,000
To depreciation on premises	21,000		
To bonus to staff	8,000		
To bonus to workers	15,000		
To director's fees	3,000		
To net profit c/d	5, 48,000		
	6, 25,000		**6, 25,000**
To transfer to sinking Fund on lease hold	50,000	By balance b/d	22,455
		By net profit b/d	5, 48,000
To transfer to general reserve	30,000		
To proposed dividend	1, 50,000		
To balance C/d	3, 40,455		
	5, 70,455		**5, 70,455**

Modern Industries Limited
Balance Sheet as at 31st March 2009

	Rs.		Rs.
Share Capital		Fixed Assets	
Authorized		Freehold premises	
Issued, subscribed and called up		7, 00,000	
1, 00,000 equity share of Rs.10 each	10, 00,000	Less: Depreciation 21,000	6, 79,000
Reserved and Surplus:		Lease hold premises	5, 00,000
General Reserve 75,000		Plant and machinery	2, 70,000
Add: Additions 30,000	1, 05,000	Motor car	1, 15,000
Sinking fund		Computer	30,000
for lease hold 15,000		Goodwill	2, 00,000
Add: Addition 50,000	65,000	Investment	NIL

Profit and loss account	3, 40,000	Current Assets, Loans and advances	
Secured Loans:	5, 00,000	(A) Current assets	
6% debentures Rs. 5, 00,000			
Unsecured Loans	NIL	Sundry debtors	2, 50,000
Current liabilities & provisions		Stock	1, 30,000
(A) Current liabilities		Cash in hand	1,955
Directors fees	3,000	Bank balance	10,500
Bonus to office staff	8,000	(B) Loans and advance	NIL
Bonus to workers	15,000	Misc. Expenditure and Losses	NIL
Proposed dividend	1, 50,000		
	21, 86,455		21, 86,455

Illustration 8

The Auto Paris Manufacturing Co. Ltd. was registered with an authorized capital of Rs. 10, 00,000 divided into shares of Rs. 10 each, of which 40,000 shares had been issued and fully paid.

The following is the Trial Balance extracted on 31st March 2009.

	Debit Rs.	Credit Rs.
Stock (1st April 2008)	1, 86,420	
Purchases and sales	7, 18,210	11, 69,900
Returns	12,680	9,850
Manufacturing wages	1, 09,740	--
Sundry Manufacturing expenses	19,240	--
Carriage inwards	4,910	--
18% Bank loan (Secured)	--	50,000
Interest on bank loan	4,500	--
Office salaries and expenses	17,870	--
Auditors' fees	8,600	--
Director's remuneration	26,250	--
Preliminary expenses	6,000	--
Freehold premises	1, 64,210	--
Plant and machinery	1, 28,400	--
Furniture	5,000	--
Loose Tools	12,500	--
Debtors and Creditors	1, 05,400	62,220
Cash in hand	19,530	--
Cash at bank	96,860	--
Advance payment of tax	84,290	
P & L A/c on 1st April 2008	--	38,640
Share Capital	--	4, 00,000
	17, 30,610	**17, 30,610**

You are required to prepare Trading and profit & Loss Account for the year ended 31st March, 2009 and a balance sheet as at that date after taking into consideration the following adjustments.

i. On 31st March, 2009 outstanding Manufacturing Wages and outstanding Office salaries stood at Rs. 1,890 and Rs. 1,200 respectively. On the same date stock was valued at Rs. 1, 24,840 and loose tools at Rs. 10,000.

ii. Provide for interest on Bank Loan for 6 months.

iii. Depreciation on plant and machinery is to be provided @ 15% while on office furniture it is to be @ 10%

iv. Write off one-third of balance of preliminary expenses.

v. Make a provision for income tax @ 50%.

vi. The directors recommended a maiden (first) dividend @ 15% for the year ending 31st March 2009 after a transfer of 5% of net profits to General Reserve.

Solution:

The Auto Parts Mfg. Co. Ltd.
Trading and Profit & Loss A/c on 31st March, 2009

Cr. **Dr.**

Particulars	Rs.	Particulars	Rs.
To stock (1-4-2008)	1, 86,420	By sales A/c 11, 69,900	
To purchase A/c 7, 18,210		Less: Ret 12,680	
Less: Returns 9,850	7, 08,360		11, 57,220
To wages A/c 1, 09,740		By stock (31-3-2009)	1, 24,840
Add: Outstanding 1,890	1, 11,630		
To sundry Mfg. expenses A/c	19,240		
To carriage inwards	4,910		
	10, 30,560		
To gross profit c/d	2, 51,500		
	12, 82,060		**12, 82,060**
To interest on bank loan 4,500		By Gross Profit b/d	2, 51,500
Add: Outstanding 4,500	9,000		
To office salaries & Expenses 17,870			
Add: Outstanding 1,200	19,070		
To auditors' Fees	8,600		
To directors' Remuneration	26,250		
To Depreciation:			
L. Tools 2,500			
P & Mach. 19,260			
Furniture 500	22,260		
To preliminary expenses	2,000		
To provision for tax	82,160		
To net profit	82,160		
	2, 51,500		**2, 51,500**

Profit & Loss App. A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Dividends (15%)	60,000	By P & L A/c (1-4-08)	38,640
To general reserves		By Current Profits	82,160
(5% of N/P)	4,108		

To balance shown in the balance sheet	56,692 **1, 20,800**		**1, 20,800**

The Auto Parts Mfg. Co. Ltd.
Balance sheet as on 31.3.2009

Particulars	Rs.	Particulars		Rs.
Share capital	4, 00,000	Plant & Machinery	1, 28,400	
General Reserve A/c	4,108	- Dep.	19,260	1, 09,140
P & L A/c balance	56,692	Freehold premises		1, 64,210
18% Bank loan (Secured)	50,000	Furniture	5,000	
Proposed dividends	60,000	- Dep.	500	4,500
Outstanding expenses		Loose Tools	12,500	
Interest on bank loan	4,500	- Dep.	2,500	10,000
Mfg. Wages	1,890	Debtors		1, 05,400
Office salaries	1,200	Cash in hand		19,530
Creditors	62,220	Cash at bank		96,860
		Stocks		1, 24,840
		Advance Tax	84,290	
			-82,160	2,130
		Preliminary exp.	6,000	
		- W /off	2,000	4,000
	6,40,610			**6, 40,610**

Illustration 9

The following balances and particulars are extracted from the books of Pant Co. Pvt. Ltd. for the year ended 31st March 2009.

	Rs.
Share capital: Authorized, issued & Fully paid up (50,000 equity shares)	5, 00,000
General reserve (as at 1/4/08)	1, 50,000
Furniture (including addition of Rs. 5,000)	35,000
Office equipments (as at 1.4.08)	22,000
Motor car (Purchased on 30.12.2008)	30,000
Sundry debtors (unsecured)	8, 50,000
Advance to staff	10,000
Cash in hand	2,000
Balance with Bank of India (including fixed deposits of Rs. 1, 00,000)	1, 40,000
Loans (from Directors)	2,00,000
Liability for expenses and goods	2,67,000
Provision for tax (as on 1/4/08)	1,00,000
Profit & Loss a/c (as on 1/4/08)	3,000
closing stock (20,000 metres)	3,00,000
Advance tax paid	1,90,000
Depreciation written off up to 1/4/08 (Furniture: Rs. 5,000, Office equipment: Rs. 2,000)	7,000
Opening stock (10,000 metres)	1,50,000
Legal charges including Rs. 3,000 paid to auditors for tax representation	10,000
Salaries to staff	50,000
Miscellaneous expenses (including Rs. 4,000 for tour within India) Rs. 36,000 for foreign tour)	2,00,000
Purchase of cloth (2.10 lakh metres)	30,39,000
Audit fees	4,000
Interest on fixed deposit with bank	5,000
Sales (2 lakh metres) (including export sales of Rs. 10 lakhs)	35, 00,000

Further information:

a) Rate of depreciation - Furniture 10%, Office equipment 15% and motor car 20%.

b) M.D. is entitled to commission @ 10% of net profits after providing such commission subject to maximum of Rs. 36,000 p.a.

c) Debtors include Rs. 1, 50,000 outstanding for more than 6 months. Out of this Rs. 20,000 is considered doubtful for which provision is to be made in the accounts.

d) Tax liability for 1994 is estimated at Rs. 2, 00,000 for which provision is to be made.

e) Transfer to General reserve Rs. 50,000 out of net profits and proposed dividend is @ 6% on equity shares.

Prepare the Balance Sheet, and Profit & Loss Account for the year ended 31st March, 2009 in accordance with the requirements of companies Act, 1956.

Solution:

Pant Co. (P) Ltd.
Trading and Profit & Loss Account for the year ended 31.3.09

Particulars	Rs.	Particulars	Rs.
To Opening stock	1, 50,000	By Sales:	
To purchases	30, 39,000	- Domestic 25, 00,000	
To travelling expenses:		- Export 10, 00,000	35, 00,000
- Within India 4,000		By closing stock	3, 00,000
- Outside India 36,000	40,000	By Interest on fixed deposit	5,000
To paid to auditors			
- Audit fees 4,000			
- Tax representation fees 3,000	7,000		
To legal charges	7,000		
To salaries to staff	50,000		
To provision for bad debt	20,000		
To misc. expenses	1, 60,000		
To M.D.'s remuneration (T.N.I)	32,000		
To provision for taxation	2, 00,000		
To Net profit c/d	1, 00,000		
	38, 05,000		**38, 05,000**
To Proposed dividend	30,000	By Balance b/d (previous year)	3, 000
To General reserve	50,000		
To Balance c/d	23,000	By net profit b/d	1, 00,000
	1, 03,000		**1, 03,000**

Working Notes:

(1) Computation of M.D's remuneration:
Net profit after taxation provision

As per profit and loss A/c	Rs.1, 32,000
Add: Provision for taxation	Rs.2, 00,000
Add: Provision for bad debt	Rs. 20,000
	Rs.3, 52,000

M.D's remuneration: 3, 52,000 x (10+110) = Rs. 32,000

(2) According to Companies Act where during any financial year any addition has been made to an asset, the depreciation such asset will be calculated on a prorata basis from the date of such addition. As the Motor Car has been acquired on the last day of the Accounting year no depreciation on the same is chargeable.

Balance sheet as at 31.3.2009 of Pant Co. (P) Ltd.

Liabilities	Rs.	Assets	Rs.
Share capital Authorized, issued Subscribed & Fully paid up (50,000 equity shares of Rs.10 each fully paid up)	5, 00,000	Fixed Assets: Furniture 30,000 Addition during the year 5,000 35,000 Less: Depreciation 5,000	30,000
Reserve and Surplus: General reserve 1,50,000 Add: Appropriations during the year 50,000	2, 00,000	Office equipment 22,000	
Profit & Loss A/c	23,000	Less: Depreciation	
Secured loan:	--	2,000	20,000
Unsecured loan		Motor car	30,000
Loan from directors	2, 00,000	Investments	NIL
current liabilities & provisions: Liability for Goods and Expenses 2,67,000 Remuneration to M.D. 32,000	2, 99,000	Current assets, loans and advances Stock-in-trade	3, 00,000
Provision for taxation (1, 00,000 + 2, 00,000)	3, 00,000	Sundry debtors - Due for more than six months 1,50,000 - Others 7,00,000 8,50,000	
Proposed dividend	30,000	Less: provision for bad debt 20,000	8, 30,000
		Cash & Bank balance Cash in hand 2,000 Cash at bank 40,000 Fixed deposit 1,00,000	1, 42,000
		Advances: Advance tax paid 1,90,000 Advances to staff 10,000	2, 00,000
	15,52,000		**15,52,000**

Illustration 10

The following trial balance was extracted from the books of Cash Chemists Ltd. as March 31st 2009.

Debts	Rs.	Credits	Rs.
Cash in hand	250	Share capital (Rs.1,50,000 in Rs.10 shares) 8,000 shares issued	80,000
Unpaid calls	600	Provision for taxation	16,900
Professional charges	2,570	Profit and loss account	44,000
Income tax paid	10,000	Bank overdraft	16,000
Sundry sales ledger balances	1,27,000	Sales	10,42,000
Bank charges	1,430	Motor vehicles depreciation to 31st March, 2008	34,000
Advertising	3,000	Provision for doubtful debts at 31st March 2008	4,200
Office equipment at cost	10,600	Sundry purchase ledger balances	62,000
Motor expenses	5,000		
Purchases	8,72,400		
Motor vehicles at cost	83,900		
Stock on 31st March 2008	69,000		
Travelling expenses	14,900		
Rent, rafes etc	12,000		
Repairs and renewals	3,200		
Salaries and wages (including directors' Rs. 15,000)	69,500		
Trade expenses	6,400		
Printing stationary etc	4,900		
Electric charges	2,450		
	12,99,100		12,99,100

Debts amounting to Rs. 3,600 are to be written off as bad and the provision for bad debts is to be increased to Rs. 6,150. The sales ledger balances include goods supplied on sale or return basis amounting to Rs. 4,800. These goods cost Rs. 4,000 and at March 31, 2009 one half had been retained by the customer.

The stock in godown at March 31, 2009 is valued at Rs. 81,000. The motor expenses include licenses for the year ended December 31 which cost Rs. 1,200 and insurance for the year to September 30, 2009 which cost Rs. 2,000. No provision has been made for expenditure on repairs amounting to Rs. 800. The professional charges included Rs. 1,000 in respect of the costs of increasing the authorized capital from Rs. 80,000 to Rs. 1,50,000 during the year and these costs are to be written off though not as charge against revenue.

Depreciation of 20% on the original value of the motor vehicles and 10% on the office equipment is to be provided. Provision is to be made for electric charges estimated at Rs. 450 telephone charges of Rs. 520 and audit fee of Rs. 1,260. The income tax liability for the accounting year ended 31st March, 2008 (assessment year 2008-09) has been agreed at Rs. 15,050. For the accounting year ended on 31st March, 2009 (assessment year 2009-10) the provision for taxation is to be Rs. 23,500.

Prepare trading and loss account for the year ended 31st March 2009 and balance sheet as at that date.

Solution:

Cash Chemists Ltd.
Trading and profit and Loss Account
for the year ended 31st March 2009

	Rs.		Rs.
To stock as on 1.4.2008	69,000	By Sales 10, 42,000	
To Purchases	8, 72,000	Less Goods on sale on	
To Gross profit c/d	1, 81,200	return basis 2,400	10, 39,600
		By Stock on 31-3-09	
		In godown 81,000	
		One sale or return at cost	
		2,000	83,000
	11, 22,600		**11, 22,600**
To salaries and wages (includes Rs.15,000 for a director's fees)	69,500	By Gross Profit	1, 81,200
To electric charges	2,900		
To printing and stationery	4,900		
To trade expenses	6,400		
To Repairs and renewals	4,000		
To rent, rates etc.	12,000		
To travelling expenses	14,900		
To motor expenses	3,100		
To advertising	3,000		
To Bank charges	1,430		
To Professional charges	1,570		
To bad debts written off	3,600		
To provision for bad debts	1,950		
To depreciation:			
Motor vehicles 16,780			
Office equipment 1,060	17,840		
To telephone charges	520		
To Audit fees	1,260		
To provision for taxation	23,500		
To net profit c/d	8,830		
	1, 81,200		**1, 81,200**

Profit and Loss Appropriation Account

	Rs.		Rs.
To professional charges for increasing the authorized capital written off	1,000	By balance b/d	44,000
		By Profit for the year	8,830
To balance carried to balance sheet	53,680	By excess provision for Income tax written back:	
		Provision made 16,900	
		Actual liability 15,050	
	54,680		**54,680**

M/s Cash Chemists Ltd.
Balance Sheets as at 31st March 2009

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed Assets:	
Authorized:		i) Office equipment at cost 10,600	
15,000 share of Rs.10 each	1, 50,000	Less: depr. Written off 1,060	9,540
issues, Subscribed and paid		ii) Motor vehicles at cost 83,900	
up:		Less: Depreciation	
8,000 share of Rs.10 each		Written off up	
fully called up 80,000		to 31-3-2008 34,000	
Less: Calls in arrear 600	79,400	49,900	
Reserves and surplus:		Less: Depreciation	
Profit and loss account	53,680	written off during the year 16,780	33,120
Secured loans:		Current Assets, Loans and	
Bank overdraft	16,000	Advances	
Current liabilities and		A) Current assets:	
provisions:		i) Stock in trade	83,000
(A) Current liabilities:		ii) Sundry debtors 1, 27,000	
i) Creditors for purchases	62,000	Less: Goods out	
ii) Creditors for expenses	3,030	on sale or return basis 2,400	
iii) Liability towards income		1, 24,600	
tax Assessment year 2008-		Less: Bad Debts	
09 (15,050-10,000)	5,050	written off 3,600	
B) Provisions:		1, 21,000	
Provision for taxation (08-09)	23,500	Less: Provision for	
		bad debts 6,150	1, 14,850
		iii) Cash in hand	250
		B) Loans and advances:	
		Prepaid expenses	1,900
	2, 42,660		**2, 42,660**

Working notes:

1. Adjustment for outstanding and pre-paid expenses:

	Amount as per trial balance Rs.	Outstanding expenses (+) Rs.	Pre-paid expenses (-) Rs.	Expenses for the year Rs.
Electric charges	2,450	450	--	2,900
Repairs and renewals	3,200	800	--	4,000
Motor expenses	5,000	--	(Ins. 1,000 License 900)	3,100
Telephone charges	--	520	--	520
Audit fees	--	1,260	--	1,260
		3,030	1,900	

2. Provision for income-tax Rs. 16,900 as shown in the trial balance is assumed to be fully for the assessment year 2008-09. Therefore, the excess provision has been written back.

3. Income-tax paid (Rs.10,000) as shown in the trial balance is also assumed to be for the Assessment year 2008-09 so that when the assessment is over, liability for the balance amount is created. It is assumed that no advance tax has been paid for the assessment year 2009-10.

4. Provision for income-tax for the assessment year 2008-09 is shown under profit and loss account and not under profit and loss appropriation account since it is a charge on profits and not appropriation of profits.

Illustration 11

Fine Products Ltd. was registered with a nominal capital of Rs.5, 00,000 divided into equity shares of Rs.100 each. The following Trial Balances is extracted from the books on 31st March, 2008:

Debits	Rs.	Credits	Rs.
Buildings	2,90,000	Sales	5,20,000
Machinery	1,00,000	Salaries Outstanding	2,000
Closing Stock	90,000	Provision for Bad Debts	
Purchases (adjusted)	2,10,000	(1.4.2007)	3,000
Salaries	60,000	Equity share capital	2,00,000
Directors' fees	10,000	General reserve	40,000
Rent	26,000	Profit and loss	25,000
Depreciation	20,000	Sundry Creditors	92,000
Bad debts	6,000	Depreciation on:	
Interest Accrued on		Building 50,000	
investment	2,000	Machinery 55,000	1,05,000
12,000 Shares of A Ltd. of	1,20,000	14% Debentures	2,00,000
Rs.10 each Rs. 8 paid up	28,000	Interest on Debentures accrued	14,000
Debenture interest	23,000	but not due	12,000
Loose tools	60,000	Interest on Investment	5,000
Advance Tax	18,000	Unclaimed dividend	
Sundry Expenses	1,25,000		
Sundry Debtors	30,000		
Bank			
	12,18,000		**12,18,000**

You are required to prepare Trading and Profit and Loss Account for the year ending 31st March, 2008 and Balance Sheet as at that date after taking into consideration the following information:

i. Closing stock is more than opening stock by Rs. 30,000.
ii. Provide for doubtful debts @ 4% on Debtors.
iii. Make a provision for income tax for Rs. 76,000.
iv. Depreciation expense includes depreciation of Rs. 8,000 on Buildings and that of Rs. 12,000 on Machinery.
v. The directors recommended a dividend @ 25%.

Solution:

This problem has been solved considering 'Corporation Dividend Tax' @ 17%

Fine Products Ltd.
Profits and Loss Account for the year ended 31st March, 2008

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To purchases (Note 1)		2,10,000	By Sales		5,20,000
To gross profit c/d		3,10,000			
		5,20,000			5,20,000

To Salaries		60,000	By Gross Profit b/d		3,10,000
To Directors' Fees		10,000	By Interest on investment		12,000
To Rent		26,000			
To Depreciation on:					
Building	8,000				
Machinery	12,000	20,000			
To Bad Debts		6,000			
To Provision for Doubtful debts					
New (4% on Rs.1,25,000)	5,000				
Less: Old (1.4.2004)	3,000	2,000			
To Debenture interest		28,000			
To Sundry Expenses		18,000			
To provision for income tax		76,000			
To net Profit c/d		76,000			
		3,22,000			3,22,000
To General Reserve (Note 2)		7,600	By Balance b/f		25,000
To proposed dividend on equity shares		50,000	By Net profit (current year's Profit)		76,000
To corporate Dividend Tax @ 17%		8,500			
To Balance c/d		34,900			
		1,01,000			**1,01,000**

Balance Sheet of Fine Products Ltd.
as at 31st March, 2008

Liabilities	Rs.	Assets	Rs.	Rs.
Share Capital:		Fixed Assets:		
Authorized		Building (at cost)	2,90,000	
5,000 equity Shares of		Less: Provision for		
Rs.100 each	5,00,000	Depreciation	50,000	2,40,000
Issued and Paid up		Machinery (at cost)	1,00,000	
2,000 equity shares of		Less: Provision for		
Rs.100 each	2,00,000	Depreciation	55,000	45,000
Reserve & Surplus		Investments		
General Reserve (Note 3)	47,600	12,500 Shares of A Ltd. of		
Profit & Loss A/c	34,900	Rs.10 each, Rs.8 paid up		1,20,000
Secured Loans		Current Assets, Loans and		
14% Debentures	2,00,000	Advances		
Unsecured Loans	NIL	A. Current Assets:		
Current liabilities &		Interest Accrued on		
Provisions		Investment		2,000
A: Current Liabilities		Loose Tools		23,000
Sundry Creditors	92,000	Closing Stock		90,000
Unclaimed dividend	5,000	Sundry Debtors	1,25,000	
Salaries Outstanding	2,000	Less: Provision for Doubtful		
Interest on Debentures		Debts	5,000	1,20,000
accrued but not due	14,000	Bank Balance		30,000
B. Provisions		B. Loans and Advances:		
Provision for taxation	76,000			
Proposed Dividend on		Advance Tax		60,000
Equity Shares	50,000	Miscellaneous Expenditure		NIL
Corporate dividend tax	8,500			
	7,30,000			**7,30,000**

Working Notes:

1. It is given that purchases are adjusted. It means opening stock is already included in it (as opening stock is not appearing in the Trial Balance) and closing stock is already deducted from it. Therefore opening and closing stock will not be shown in the Profit and Loss Account. Only the closing stock will be shown in the Balance Sheet.

2. When proposed dividend exceeds 20% of the paid-up capital, the amount to be transferred to reserve should not be less than 10% of the current profits. Here, proposed dividend is 25%. Therefore the minimum amount to be transferred to General Reserve = 10% of Rs. 76,000 = Rs. 7,600.

3. General Reserve:

	Rs.
Opening Balance	40,000
Add: Transferred during the year	7,600
	47,600

Illustration 12

On 31st March 2009 the following balances appeared in the books of the Alfa Hotels Ltd:

Debits	Rs.	Credits	Rs.
Interests on Debentures	60,000	12% Mortgage Debentures	5,00,000
Rates and taxes	18,000	Share capital	40,00,000
Stock of provisions on 1.4.2008	2,50,000	General Reserve	5,00,000
		Unclaimed Dividends	15,000
Purchases of provisions	25,00,000	Provision for bad debts	50,000
Salaries and wages	7,50,000	Trade Creditors	2,50,000
Provident fund contribution	30,000	Expenses owing	80,000
Miscellaneous Expenses	50,000	Visitors' Credit balances	10,000
Directors Fees	24,000	Staff provident fund	7,50,000
Managing Director's Salary	2,15,000	Profit and loss A/c	81,000
Land	15,00,000	Income from Board and Lodging	51,00,000
Buildings	50,00,000	Miscellaneous Receipts	65,000
Furniture and Fittings	15,00,000	**Depreciation Account:**	
Linen, Crockery, Glassware	3,20,000	Buildings	20,00,000
		Furniture etc.	10,00,000
Cutlery and Utensils		Linen, Crockery, etc.	1,80,000
Sundry debtors	3,50,000		
Prepaid Expenses	25,000		
Advance against Purchase of buildings	15,00,000		
Cash in hand	15,000		
Balance at Bank	4,74,000		
	1,45,81,000		**1,45,81,000**

After taking the following information into account, prepare the Company's Balance Sheet as on 31st March, 2005 and its Profit and Loss Account for the year then ended:

i. Stock of provision on 31st March, 2008 was valued at Rs.3, 00,000.
ii. Provide Rs.1, 00,000 for depreciation of furniture and fittings; Rs. 20,000 for depreciation of linen, Crockery, glassware, etc.
iii. Make a provision for taxation @ 50%
iv. The directors decide to recommend a dividend @ 10% on the paid-up capital of the Company and transfer the remaining balance on Profit and Loss Account to General Reserve.

v. The entire paid-up share capital of the Company consists of fully paid equity shares of Rs. 10 each.

Solution:

This problem has been solved considering 'Corporate Dividend Tax' @ 17%.

Alfa Hotels Ltd.
Profit and Loss Account for the year ended 31st March 2009.

Dr. Cr.

Debits	Rs.	Credits	Rs.
To Stock of provisions on 1.4.2007	2,50,000	By income from Board and Lodging	51,00,000
To Purchases of provisions	25,00,000	By Miscellaneous Receipts	65,000
To Salaries and wages	7,50,000	By Stock of Provision on 31.3.2005	3,00,000
To P.F contribution	30,000		
To Miscellaneous Expenses	50,000		
To Rates and Taxes	18,000		
To Directors Fees	24,000		
To Managing Director's Salary (Note 1)	2,15,000		
To Interest on Debentures	60,000		
To Depreciation on:			
Furniture and Fittings	1,00,000		
Linen, Crockery, etc	20,000		
To provisions for taxation	7,24,000		
To net profit c/d	7,24,000		
	54,65,000		**54,65,000**
To Proposed dividend	4,00,000	By Balance b/f	81,000
To corporate Dividend tax	68,000	By net profit c/d (Current year's profit)	7,24,000
To general Reserve	3,37,000		
	8,05,000		**8,05,000**

Balance Sheet of Alfa Hotels Ltd. as at 31st March, 2009

Liabilities	Rs.	Assets	Rs.	Rs.
Share Capital:		**Fixed Assets:**		
Authorized:	* * *	Land		15,00,000
Issued and Subscribed		Buildings (at cost)	50,00,000	
4,00,000 equity Shares of		**Less:** Provision for	20,00,000	30,00,000
Rs.10 each fully paid	40,00,000	Depreciation		
Reserve & Surplus		Furniture and Fittings (at	15,00,000	
General Reserve (Note 2)	8,37,000	cost)		
Secured Loans		Less: Provision for	11,00,000	4,00,000
12% Mortgage	5,00,000	Depreciation		
Debentures	NIL	Linen, Crockery, Glassware,	3,20,000	
Unsecured Loans		etc (at cost)		
Current liabilities &		Less: Provision for	2,00,000	1,20,000
Provisions		Depreciation		
A: Current Liabilities		Investments		NIL
Trade Creditors	2,50,000	Current Assets, Loans and		
Visitors' Credit Balance	10,000	Advances		
Expenses Owing	80,000	**A. Current Assets**		3,00,000
Unclaimed Dividend	15,000	Stock of provisions	3,50,000	
B. Provisions		Sundry debtors	50,000	3,00,000
Provision for taxation	7,24,000	**Less:** Provision for Bad		
Proposed Dividend	4,00,000	Debts		4,74,000
Corporate Dividend Tax	68,000	Cash at bank		15,000
Staff provident fund	7,50,000	Cash in Hand		
		B. Loans and Advances:		25,000
				15,00,000

		Prepaid expenses		NIL
	76,34,000	Advance against purchase of Buildings Miscellaneous Expenditure		76,34,000

Working Notes:

1. Managerial Remuneration: Where in any financial year a company has no profits or its profits are inadequate, it may pay remuneration to a managerial person, by way of salary, dearness allowance, perquisites and any other allowances, not exceeding Rs. 75,000 per month of Rs. 9, 00,000 per annum if the effective capital of the Company is less than Rs. 1 crore. [Notification No. GSR 36(E) dated 16.1.2002 issued by the Department of Company Affairs.]

   In this problem, Company's capital is Rs. 40,00,000 and managerial remuneration paid is Rs. 2,15,000. Therefore, it is not violating rule for payment of managerial remuneration.

2. General Reserve:

	Rs.
Balance as per last Balance sheet	5, 00,000
Add: Amount transferred during the current year	3, 37,000
	8, 37,000

Illustration 13

The following is the Trial Balance of Bee Ltd. as on 31st March, 2008:

Debits	Rs.	Credits	Rs.
Stock as on 1.4.2007	75,000	Purchases Returns	10,000
Purchases	2,45,00	Sales	3,40,000
Wages	0	Discount	3,000
Carriage	30,000	Profit and Loss Account	15,000
Furniture	950,	Share Capital	1,00,000
Salaries	17,000	Creditors	17,500
Rent	7,500	General Reserve	15,500
Sundry trade	4,000	Bills payable	7,000
expenses	7,050		
Dividend paid	9,000		
Debtors	27,500		
Plant and Machinery	29,000		
Cash at bank	46,200		
Patents	4,800		
Bill Receivable	5,000		

	5,08,000		**5,08,000**

Prepare the Profit and Loss Account for the year ended 31st March, 2005 and a Balance Sheet as on that date after considering the following adjustments:

I. Stock as on 31st March, 2007: Rs. 88,000.

II. Provide for income tax at 50%.

III. Depreciate plant and machinery at 15%; furniture at 10%; and patents at 5%.

IV. On 31st March, 2007 outstanding rent amounted to Rs.800 and salaries Rs. 900.

V. The Board recommends payment of a dividend @ 15% per annum. Transfer the minimum required amount to General Reserve.

VI. Provide Rs. 510 for doubtful debts.

VII. Provide for managerial remuneration at 10% on profit before tax.

Solution:

This problem has been solved considering Corporate Dividend Tax @17%.

Bee Ltd.

Profit and Loss Account for the year ended 31st March, 2008

Dr. Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To opening stock		75,000	By Sales		3,40,000
To purchases	2,45,000		By closing stock		88,000
Less: Purchase returns	10,000	2,35,000			
To wages		30,000			
To carriage		950			
To Gross profit c/d		87,050			
		4,28,000			4,28,000

To salaries	7,500		By Gross profit b/d		87,050
Add: Outstanding salaries	900	8,400	By discount		3,000
To Rent	4,000				
Add: Outstanding Rent	800	4,800			
To Sundry trade expense		7,050			
To Depreciation on:					
Plant and machinery @15%	4,350				
Furniture @10%	1,700				
Patents @5%	240	6,290			
To provision for bad debts		510			
To Managerial remuneration (Note 1)		6,351			
To provision for taxation		28,324			
To net profit c/d		28,325			
		90,050			90,050
To dividend		9,000	By balance b/f		15,000
To proposed dividend (Note 2)		6,000	By net profit (Current year's profit)		28,325
To corporate dividend tax (Note 4)		2,550			
To General Reserve (Note 3)		1,416			
To Balance c/d		24,359			
		43,325			43,325

Balance Sheet of Bee Ltd. as at 31st March, 2008

Particulars	**Rs.**	**Rs.**	**Particulars**	**Rs.**	**Rs.**

Share Capital:			Fixed Assets:		
Authorized		?	Plant and Machinery	29,000	
Issued and Subscribed		1,00,000	Less: Depreciation	4,350	24,650
Reserves and Surplus			furniture	17,000	
General reserve (Note 3)		16,916	Less: Depreciation	1,700	15,300
Profit and loss account		24,359	Patents	4,800	
Current Liabilities and Provisions			Less: depreciation	240	4,560
A. Current liabilities			Investment		
Bills payable		7,000	Current Assets, Loans and Advances		
Creditors		17,500	A. Current Assets:		
Outstanding expenses:					
Salaries	900		Stock		88,000
Rent	800		Debtors	27,500	
Managerial remuneration	6,351	8,051	Less: Provision for bad debts	510	26,990
B. Provisions					
Provisions for taxation		28,324	Cash at bank		46,200
Proposed Dividend		6,000	B. Loans and Advances		
Corporate Dividend Tax (Note 4)		2,550	Bills Receivable		5,000
			Miscellaneous Expenditure		NIL
		2,10,700			**2,10,700**

Working Notes: (1) Calculation of profits for the purpose of managerial remuneration	Rs.
Profits before tax and managerial remuneration	63,000
Add: Provision for doubtful debts (being discount allowed)	510
	63,510
Managerial remuneration = 10% of Rs. 63,510 = Rs.6,351.	

2. Dividend of Rs.9,000 appearing in the Trial Balance is treated as interim, dividend. The Board recommends payment of dividend @ 15% p.a. It means that interim dividend is also a part of 15% dividend per annum. Therefore Rs.6,000 (Rs. 15,000 - Rs. 9,000) is to be provided as proposed Dividend.

3. Where proposed dividend exceeds 12.5% but does not exceed 15% of the paid-up capital, the amount to be transferred to Reserve should not be less than 5% of the current profit. Therefore, amount to be transferred to Reserve = 5% of Rs. 28,325 = Rs. 1,416.

4. Corporate dividend tax is payable on Rs. 15,000 (Rs. 9,000 paid + Rs. 6,000 proposed) @ 17% = Rs. 2,550.

Illustration 14

Anynymous Limited closed its books on 31st March every year. A newly appointed assistant drew up the following Trial Balance as on 31.3.2008:

Particulars	Dr.	Cr.	Particulars	Dr.	Cr.
Sh. Capital (4 lac eq. Sh. of Rs. 10 each)		40,00,000	Calls-in-arrears	12,000	
Purchases	40,00,000		Sales		55,00,000
Stock as on 1st April 2007	7,00,000		Debtors	14,50,000	
Creditors		5,00,000	Provision for doubtful debts		5,000
Bad debts	3,000		Bad debts recovered		200
Fixed assets at cost: Land	17,00,000		Fixed assets at cost: Buildings	25,00,000	
Fixed assets at cost: Furniture	5,00,000		Fixed assets at cost: Motor vehicle	3,10,000	
Accumulated depreciation: Building		60,000	Accumulated depreciation: Furniture		1,00,000
Motor vehicles		50,000	Salaries	3,50,000	
Postage & Telegram	10,000		Printing and stationery	15,000	
Motor vehicle expenses	45,000		Investments (at cost)	5,00,000	
Interest received		15,000	Director's fees	14,500	
Auditors Fees	5,000		Profit & Loss A/c (Cr. balance)		2,60,000
13% Debentures		18,00,000			
Cash and Bank balances	1,75,700				
			Total	1,22,90,200	1,22,90,200

The following information is available further:

a) The value of stock as on 31.3.2008 is Rs. 10, 00,000.

b) Anonymous Ltd. has appointed an agent during the year and goods were sent out at an invoice price of Rs.5, 00,000 which was determined by adding 25% margin on cost. As on 31.3.2008, the entire stock was still lying with the agent as unsold. The value of the closing stock shown above does not include the stock with the agent.

c) Depreciation should be provided on written-down values of the assets at the following rates:
Buildings 5%; Furniture 10%; and Motor vehicles 20%.

d) Market value of investments as on 31.3.2008 was Rs. 6, 50,000.

e) Provision for doubtful debts is required to be maintained at Rs.10,000. A provision for discounts or debtors is to be created at 0.5% of debtors.

f) The debenture has been issued on 1st October, 2007. Interest is payable semi-annually on 31st March and 30th September.

g) Provision for income tax to be created at 50%. The depreciation allowable for income tax calculation is Rs.3, 50,000.

h) The directors propose a dividend of 10% on capital.

You are required to prepare:
(i) Profit and Loss Account for the year ended 31st March, 2008; and (ii) Balance Sheet as on 31st March, 2008.

Solution:

Anonymous Limited

Profit and Loss Account for the year ended 31st March, 2008

Dr. Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To opening stock		7,00,000	By Sales		55,00,000
To purchases		40,00,000	By closing stock a/c	10,00,000	
To Gross profit c/d		22,00,000	Add: Stock with Agent (Note 1)	4,00,000	14,00,000
		69,00,000			**69,00,000**
To salaries		3,50,000	By Gross profit b/d		22,00,000
To postage & Telegram		10,000	By interest received		15,000
To printing & stationery		15,000	By bad debt recovered		200
To motor vehicle expenses		45,000			
To depreciation (Note 6)					
On buildings	1,22,000				
On furniture	40,000				
On vehicles	52,000	2,14,000			
To bad debts		3,000			
To provision for doubtful debts					
New	10,000				
Less: old	5,000	5,000			
To prov. for discount on debtors (Note 2)		7,200			
To director's fees		14,500			
To auditors fees		5,000			
To interest on debentures (Note 4)		1,17,000			
To provision for tax (Note 3)		6,46,750			
To net profit c/d		7,82,750			
		22,15,200			**22,15,200**
To proposed dividend (Note 5)		3,98,800	By balance b/d		2,60,000
To corporate dividend tax		67,796	By net profit b/d		7,82,750
To balance c/d		5,76,154			
		10,42,750			**10,42,750**

Balance Sheet of Anonymous Limited as at 31st March, 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital			Fixed Assets:		
Authorized (4,00,000 Shares of Rs.10 each)		40,00,000	Land		17,00,000
Issued & sub. (4,00,000 sh. of Rs.10 each)		40,00,000	Buildings (at cost)	25,00,000	
Called-up Capital Less: calls-in-arrears	40,00,000 12,000	39,88,000	Less: Accumulated depreciation	1,82,000	23,18,000
Reserves and surplus			Furniture (at cost)	5,00,000	
Profit & Loss A/c		5,76,154	Less: Accumulated depreciation	1,40,000	3,60,000
Secured loans:			Motor vehicles (at cost)	3,10,000	
13% Debentures Add: Accrued interest	18,00,000 1,17,000	19,17,000	Less: Accumulated depreciation	1,02,000	2,08,000
Unsecured loans:		NIL			
Current liabilities & Provisions			Investments:		
A. Current Liabilities			Investment (at cost) (Market value Rs. 6,50,000)		5,00,000
Sundry creditors		5,00,000			
B. Provision			Current Assets, Loans and advance		
Provision for taxation		6,46,750			
Proposed dividend		3,98,800	A. Current Assets		
To corporate dividend tax		67,796	Stock-in-trade Sundry-in-trade		14,00,000
			Sundry debtors	14,50,000	
			Less: Provision for doubtful debts	10,000	
				14,40,000	
			Less: provision for discount	7,200	14,32,800
			Cash and bank balances		1,75,700
			B. Loans & Advance		NIL
			Miscellaneous Expenditure		NIL
		80,94,500			**80,94,500**

Working Notes:

1) Cost of goods with the agent	Rs.
Invoice price of goods	5,00,000
Less: Margin included (25/125 × Rs.5,00,000)	1,00,000
	4,00,000

2) Provision for discount on debtors	Rs.
Balances of debtors as on 31.3.2008	14,50,000
Less: Provision for bad debts (new)	10,000
Good Debts	14,40,000
Provision for discount on debtors @ 0.5%	7,200

3) Provision for income tax	Rs.
Profit before tax	14,29,500
Add: Book depreciation	2,14,000
	16,43,500
Less: Depreciation as per I.T. rules	3,50,000
	12,93,500
Provision for tax @ 50%	6,46,750

4) Interest on debentures	Rs.
13% Interest for 6 months on Rs.18,00,000	1,17,000

5) Proposed Dividend	Rs.
Paid up share capital (Rs.40,00,000 -12,000)	39,88,000
Proposed dividend @ 10% on Rs.39,88,000	3,98,800

6. Calculation of depreciation	Building @5%	Furniture@10%	Motor vehicles @20%
Original cost (Rs.)	25,00,000	5,00,000	3,10,000
Less: Accumulated depreciation	60,000	1,00,000	50,000
Written-down value	24,40,000	4,00,000	2,60,000
Depreciation	1,22,000	40,000	52,000

Illustration 15

The following balances have been extracted from the books of Sure Success Ltd. as on 31st March 2009

Debit balances	Rs.	Credit Balances	Rs.
Land: at cost	37,250	Share capital	2,00,000
Buildings (cost less depreciation)	1,50,000	General reserve	80,000
Plant (cost less depreciation)	80,000	Share premium	20,000
Furniture (cost less depreciation)	15,000	Gross profit	1,02,250
Selling expenses	12,000	Provision for taxation (opening balance)	15,000
Director's fees	2,400	Bad debts rekeased	1,500
Administrative expenses	38,000	6% debentures (unsecured)	2,00,000
Sinking fund investment	40,800	Profit and loss account (opening balance)	5,000
Calls-in-arrear	3,000	Sinking fund for debenture Redemption	40,800
Bad debts	2,000	Sundry creditors	23,000
Sundry debtors	1,45,000	Interest on sinking fund Investment	2,500
Audit fees	1,000	Miscellaneous receipts	3,000
Advance payment of :		Liabilities for expenses	4,000
Income-tax for 2001	12,000		
Income-tax for 2002	8,000		
Closing stock	65,000		
Cash in hand	5,600		
Cash at bank	68,000		
Debenture interest	12,000		
	6,97,050		**6,97,050**

The following further particulars are available:

1. The basis of valuation of closing stock has been changed from this year resulting in an additional profit of Rs. 3,000 as compared to valuation on old basis.
2. Administrative expenses include Rs.6,000 paid to managing director, as an advance against his remuneration.
3. Sinking fund is to be credited with Rs.20,000 which together with the interest received would be invested on 1st April 2009.
4. Income-tax assessment for 2007-08 has been completed on 20th March, 2009 on a gross demand of Rs. 14,000 but no effect has been given in the books.
5. At a meeting held on 25th February, 2009 the board of directors decided to allot one fully paid bonus share against two shares held by members who are not in default in payment of calls. This was sanctioned by the members on 18th December, 2008 but no effect has been given to it.
6. The managing director is entitled to a remuneration calculated at 5 per cent of the net profits.
7. Provision for taxation are to be made as follows: (a) Income-tax at 45% (b) Special surcharge at 5% on income-tax.

8. Out of sundry debtors, Rs.40,000 are due for more than six months. There is no doubtful amount.

9. Depreciation written off up to last year at rates mentioned against each are as follows: (a) Building Rs.5,000 at 2½% (b) Plant Rs. 45,000 at 15% (c) Furniture Rs.5,000 at 10%

10. Market value of sinking fund investments on 31st March, 2009 Rs.42,000.

11. Calls-in-arrear are due on 1,000 shares, out of 20,000 shares of 10 each fully called up.

You are required to prepare the profit and loss account for the year ended 31st March 2009 and a balance sheet as at that date.

Solution:

Sure Success Ltd.
Profit and Loss Account
For the year ending 31st March, 2009

	Rs.		Rs.
To administration expenses (38,000-6,000)	32,000	By Gross profit b/d	1,02,250
To provision for depreciation	17,250	By Bad debts recovered	1,500
To selling expenses	12,000	By Miscellaneous receipts	3,000
To directors fees	2,400	By interest on sinking fund investment	2,500
To Audit fees	1,000		
To Debenture interest	12,000		
To bad debts	2,000		
To managing director's remuneration	1,530		
To provision for taxation 47.25% of Rs.29,070	13,735		
To balance c/d	15,353		
	1,09,250		**1,09,250**
To Sinking fund for redemption of debentures	21,319	By balance b/d	5,000
To balance c/d	- 16	By net profit for the year	15,335
		By excess provision for taxation; written back (15,000 - 14,000)	1,000
	21,335		**21,355**

Note: The basis of valuation of closing stock was changed this year resulting in an additional profit of Rs. 3,000 as compared to valuation on the previous basis.

Note regarding managerial remuneration.

	Rs.
Balance as per profit and loss account	15.335
Add: Income-tax provision	13,735

Managing director's remuneration	1,530
	30,600
Profit before tax and remuneration	
Remuneration at 5%	1,530

Balance Sheet of Sure Success Ltd.
as on 31st March, 2009

Liabilities	Rs.	Assets Rs.	Rs.
Share capital:		Fixed Assets	
Authorized		Land at cost	37,250
...shares...Rs...each		Building at cost 1,55,000	
Issued, subscribed 29,500		Less: Depreciation 8,750	1,46,250
Equity shares of Rs.10 each			
fully called up 2,95,000		Plant at cost 1,25,000	
Less: calls-in-arrear 3,000	2,92,000	Less: Depreciation	
		57,000	68,000
(Out of the above, 9,500		Furniture at cost 20,000	
shares of Rs.10 each have		Less: Depreciation 6,500	13,500
been issued as fully paid-up		Investments:	
as bonus shares out of		Against sinking fund for	
share premium and general		redemption of debentures	
reserve)		(Market value Rs.42,000)	40,800
Reserve and surplus:		Current Assets, Loans	
Share premium 20,000		and Advances:	
Less: Utilized for issue of		A) Current assets:	
bonus shares 20,000	--	Stock in trade	65,000
Profit and loss account	16	(at or below cost)	
Sinking fund for redemption		Debtors (unsecured	
of debentures:		considered good)	
Balances b/f 40,800		Due for more than	
Addition during		6 months 40,000	
the year 21,319	62,119	Other debts 1,05,000	1,45,000
General reserve 80,000		Cash in hand	5,600
Less: Utilized for		Cash in bank	68,000
Issue of bonus shares		B) Loans and advances:	
and for bonus suspense		(Unsecured considered	
account 80,000	-	good)	
Secured loans:	NIL	Due from managing	
Unsecured loans:		director	
6% debentures		(Maximum amount due	4,470
Current liabilities and	2,00,000	Rs.6,000)	
provisions:			
A) Current liabilities:			
Sundry creditors	29,000		
B) Provision taxation			
13,735			
Less: Advance payment			
8,000	5,735		
Bonus suspense account	5,000		
	5,93,870		**5,93,870**

Working Notes:

(i) Creditors: Sundry creditors	23,000
For expenses	4,000
For tax (14,000-12,000)	2,000

Total		**29,000**
(ii) Depreciation		Rs.
On building Rs.1,50,000 at 2½%		3,750
On plant Rs.80,000 at 15%		12,000
On furniture Rs.15,000 at 10%		1,500
		17,250
(iii) Transfer to debenture redemption fund:		
Annual installment		20,000
Add: Interest received	2,500	
Less: Income tax applicable to this item 47.25% i.e. 45% + 5% of 45%	1,181	1,319
		21,319
(iv) Advance against managing director's remuneration:		
Amount paid		6,000
Less: Amount payable		1,530
Balance due		4,470
(v) Bonus shares:		
Total number of shares		20,000
Less: 'Defaulting members', not eligible at present		1,000
		19,000

Bonus shares at the rate of 1 for 2, 9,500 of Rs. 10 each

Illustration 16

The following is the Balance Sheet of Trinity Ltd. as at 31.3.2008

Trinity Ltd.
Balance sheet as at 31st March 2008

Liabilities	Rs.	Assets	Rs.
Share capital Authorized 10,000 10% Redeemable Preference shares of Rs.10 each	1, 00,000	Fixed Assets Gross block Less: Depreciation	3, 00,000 1, 00,000 2, 00,000
90,000 Equity share of Rs.10 each	9, 00,000 10, 00,000	Investment	1, 00,000
Issued, Subscribed & paid-up Capital 10,000 10% Redeemable Preference shares of Rs.10 each	1, 00,000	Current assets and Loans & Advances Inventory 25,000 Debtors 25,000 Cash and Bank Balances 50,000	1, 00,000
10,000 Equity shares of Rs.10 each	1, 00,000	Misc. Expenditure to the extent not written off	20,000
(A)	2, 00,000		
Reserves and Surpluses General reserve	1, 20,000		

Share premium Profit and loss A/c (B) Current liabilities and Provisions (C)	70,000 18,500 2, 08,500 11,500		
Total (A+B+C)	**4, 20,000**	**Total**	**4, 20,000**

For the year ended 31.3.2009 the company made a net profit of Rs. 15,000 after providing Rs.20,000 depreciation and writing off the miscellaneous expenditure of Rs.20,000:

The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31.3.1996 was paid before 31.3.2009.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2008.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2009
5. To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of Rs. 30,000 after such redemption.
6. Investments were sold at 90% of cost on 31.3.2009.

You are required to

a) Prepare necessary journal entries to record redemption and issue of bonus shares.
b) Prepare the cash and bank account.
c) Prepare the balance sheet as at 31st March 2009 incorporating the above transaction.

Solution:

Journal entries in the books of Trinity Ltd.

(a)

	Dr. Rs.	Cr. Rs.
10% Redeemable preference Capital Dr. Premium on redemption of preference share Dr. To preference shareholders (Being the amount payable to preference shareholders on redemption)	1, 00,000 10,000	 1, 10,000
General Reserves A/c Dr. To capital redemption reserve (Being transfer to the later account on redemption of shares)	1, 00,000	 1, 00,000
Bank A/c Dr. Profit and loss A/c Dr. To investments (Being amount realized on sale of investments and loss thereon adjusted)	45,000 5,000	 50,000

Preference shareholders A/c Dr. To bank (Being payment made to preference shareholders	1, 10,000	 1, 10,000
Share premium A/c To premium on redemption of preference shares (Being amount of premium payable on redemption of preference shares)	10,000	 10,000
Capital redemption reserve A/c Dr. To bonus to shareholders (Amount adjusted for issuing bonus shares in the ratio of 1:1)	1, 00,000	 1, 00,000
Bonus to shareholders A/c Dr. To equity share capital (Being the issue of bonus shares)	1, 00,000	 1, 00,000

(b) Dr. **Cash and bank A/c** Cr.

	Rs.		Rs.
To balance b/f	50,000	By preference dividend	10,000
To cash from operations		By preference shareholders	1, 10,000
Profit 15,000		By balance c/f	30,000
Add: Depreciation 20,000			
Add: Miscellaneous Expenditure Written off 20,000	55,000		
To investments	45,000		
	1, 50,000		**1, 50,000**

(c)

Balance Sheet of Trinity Limited as at 31st March 2009 (after redemption)

	Rs.		Rs.
Share Capital		Fixed assets	
Authorized capital	10, 00,000	Gross block 3, 00,000	
Issued, subscribed and paid up capital 20,000 equity share of Rs.10 each fully paid	2, 00,000	Less: Depreciation up to 31.3.08 1, 00,000 For the year 20,000	
(10,000 shares have been allotted as bonus shares by capitalizing capital redemption reserve)		1,20,000	1, 80,000
		Investment (Market value Rs. 45,000)	50,000
Reserves and surpluses		**Current Assets, Loans and Advances**	
General reserve 20,000			
Share premium 60,000			
Profit and loss A/c 18,500	98,500	Inventory 25,000	
Current liabilities and provisions		Debtors 25,000	
Sundry creditors	11,500	Cash and bank balance 30,000	80,000
	3, 10,000		**3, 10,000**

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17

FINAL ACCOUNTS OF LIMITED COMPANIES-III

Unit Structure

17.1 Exercises

17.1 EXERCISES:

17.1.1 OBJECTIVE QUESTIONS:

- **Multiple Choice Questions**

1. Accounting Standard 1 is
   (a) Recommendatory (b) Mandatory
   (c) Optional (d) No longer valid
2. Purpose of Accounting Standard 1 is to establish a standard as to
   (a) The desirable accounting policies
   (b) The fundamental accounting assumptions
   (c) Disclosure of accounting policies
   (d) Preparation of final accounts
3. Vide Accounting Standard 1, fundamental accounting assumptions should
   (a) Always be disclosed
   (b) Be disclosed if not allowed
   (c) Be disclosed in notes to accounts
   (d) Be disclosed in auditor's report
4. Following is an example of an accounting policy
   (a) Going concern
   (b) Accrual
   (c) Treatment of retirement benefits
   (d) Disclosure
5. A concern should select an accounting policy which enables it to
   (a) Show good profits
   (b) Present a true and fair view of its state of affairs and profit or loss
   (c) Calculate the correct amount of cash in hand
   (d) Pay the proper amount of income-tax

6. According to AS 1, Disclosure should be made of
   (a) Fundamental accounting assumptions
   (b) All accounting principles
   (c) All significant accounting policies
   (d) All Accounting policies
7. According to AS 1, Disclosure should form part of
   (a) The final accounts (b) The Auditor's report
   (c) The Directors Report (d) The Books of Accounts
8. According to AS 1, any change in accounting policy
   (a) Should never be made
   (b) Is not possible
   (c) Should be disclosed
   (d) Requires permission of the Institute of Chartered Accountants of India

9. Which of the following should be deducted from the share capital to find out paid-up capital?
   (a) Calls-in-advance (b) Calls-in-arrears
   (c) Securities Premium (d) Bonus
10. Dividends are usually paid on
    (a) Authorized capital (b) Issued capital
    (c) Paid up capital (d) reserve capital
11. Which of the following is not shown under the head 'Share Capital' in the balance sheet of a company?
    (a) Preference Share Capital
    (b) Calls-in-arrears
    (c) Forfeited Shares
    (d) Preference Dividend
12. Which of the following items is not taken in Profit and Loss Appropriation Account
    (a) Proposed Dividend
    (b) Provision for Taxation
    (c) Transfer to general reserve
    (d) Transfer to dividend equalization reserve
13. Which of the following items cannot be shown as reserves?
    (a) Securities premium
    (b) Capital Reserve
    (c) Capital Redemption Reserve
    (d) None of the above
14. As per schedule VI, to the companies Act, 1956 'unclaimed dividends' are to be shown as
    (a) Current Assets (b) Current Liability
    (c) Reserves and Surplus (d) None of the above
15. Interim dividend of a company can be declared by

(a) Only by shareholders
(b) Board of directors after approval of stock exchange
(c) Board of directors
(d) None of the above

16. Which of the following is not an example of contingent liability?
(a) Liability in respect of bills discounted
(b) Interim dividend
(c) Liability under guarantee
(d) All (a), (b) and (c) of the above

17. Which of the following items cannot be shown under the heading 'Provision' with respect to balance sheet under the Companies Act, 1956?
(a) Provision for taxation
(b) Proposed dividends
(c) Provision for doubtful debt
(d) Unclaimed dividend

18. Which of the following is not an item under Current Assets, Loans and Advances under Part I of Schedule VI of the Companies Act, 1956?
(a) Interest accrued on investment
(b) Bills receivable
(c) Closing Stock
(d) Preliminary expenditure not written off

19. Which of the following is not a secured loan?
(a) Debentures (b) Fixed Deposits
(c) Term loan from banks (d) None of the above

20. Advance tax that appears in the trial balance is shown
(a) As a current liability in the balance sheet
(b) As an expense in the profit and loss account
(c) Under the head 'loans and advances' in the balance sheet
(d) Only in cash flow statement as an outflow of cash from operations

Answer: 1. b, 2. c, 3. b, 4. c, 5. b, 6.c, 7. a, 8. c, 9. b,10. c, 11. d, 12. b, 13. d, 14. b, 15. c ,16. b, 17. d, 18. d, 19. b, 20. c

- **Fill in the blanks.**

1. A financial year a company may be for a period less or more than ____________ year.

. Interest accrued on investments is required to be shown under ____________ in the balance sheet of a company.

4. Unutilised Monies from share issues is required to be shown under ____________ in the Balance Sheet of a company.

5. Livestock is required to be shown under ____________ in the Balance sheet of a company.

6. Interest accrued but not due on a Secured Loan is required to be shown under ____________ in the balance sheet of a company.

7. Uncalled amount of partly paid shares is required to be shown under ____________ in the balance sheet of a company.

8. Option on Unissued Shares is required to be shown under ___________ in the balance sheet of a company.

9. Arrears of Fixed cumulative Preference Dividends are required to be shown under ____________ in the balance sheet of a company.

10. According to Schedule VI, in case any addition is made to any asset during the financial year, depreciation should be calculated on a ____________ basis from the date of such addition.

11. Interest from Sinking Fund Investments is required under Schedule VI to be credited to the ____________ .

Answer: (1) a calendar, (2) Current Assets, (3) Investments, (4) Fixed Assets, (5) Current Liabilities, (6) Contingent Liabilities, (7) Share Capital, (8) Contingent Liabilities, (9) (10) pro-data, (11) P&L Account,

Match the following columns :

Column A	Column B
1. Debentures	a) Provisions
2. Fixed Deposits	b) Unsecured Loans
3. Acceptances	c) Misc. Expenditure not written off
4. Proposed Dividends	d) Sundry Creditors
5. Interest out of capital during construction	e) Sundry Debtors
6. Due for more / less than 6 months	f) Secured Loans
7. Tax Demand Letter Received	g) Profit and Loss Account
8. Disputed Tax Demand	h) Current Liabilities
9. Tax Demand Accepted Exceeds Provision for Tax	i) Debit P&L Appropriation Account
10. Provision for Tax More than Tax Demand Accepted	j) Show as Current Assets
11. Tax Paid Exceeds Accepted Tax Demand	k) No Entry
	l) Credit P&L Appropriation Account
	m) Show as Contingent Liability

Answer: (1) – (f), (2) – (b), (3) – (h), (4) – (a), (5) – (c), (6) – (e), (7) – (k), (8) – (n), (9) – (i), (10) – (m), (11) – (j).

State whether True or False.

1. Schedule XIV specifies the rates of depreciation for various categories of assets on the written down value basis.
2. Calls unpaid are added back to Authorised Share Capital in the Balance Sheet.
3. Any dividend remaining unpaid after 3 year from its due date can be transferred to capital reserve.
4. The brokerage and discount on sales, including the trade discount, related to turnover is to be disclosed separately in the Profit and Loss Account.
5. If the dividend is not claimed within 7 years from the date of its transfer to a special bank account, the amount is distributed to the remaining shareholders.
6. Capital profit realized in cash can be used for paying dividend.
7. Dividend can be paid out of capital, but interest cannot be paid out of capital.
8. One of the few assets that is usually not depreciated is Goodwill.
9. Amount paid on Forfeited Shares is added to Paid-up Capital in the Balance Sheet.
10. Sundry Debtors are to be classified as (i) Small Scale Industries; and (ii) others.
11. Unclaimed dividends are shown under Provisions in the Balance Sheet.
12. Under Secured Loans; Short Term Loans and Other Loans are to be shown separately.
13. Current liabilities are deducted from Current assets so as to show the amount of Net Current Assets in the Horizontal format of balance sheet.
14. The titles – ‘Sources of Funds’ and ‘Application of Funds’ appear in the horizontal format of balance sheet.
15. In Fixed Assets schedule, Closing WDV + Depreciation for the year = Opening Gross Block
16. Provision for bad debts is shown under Provisions in the Balance Sheet.
17. If the dividend is not claimed within 7 years from the date of its transfer to a special bank account, the company retains it.

18. Calls in advance are shown under Current Liabilities in the Balance Sheet.

True : 6, 8, 9, 18.

False : 1, 2, 3, 4, 5, 7, 10, 11, 12,13,14, 15, 16, 17.

17.1.2 PRACTICAL PROBLEMS

Illustration 1.

The following balance appeared in the books of Bright Ltd. as on 31st March 2009.

	Debit Rs.	Credit Rs.
Equity shares of Rs.10 each, fully paid up		6, 00,000
General reserve		2, 30,000
Unclaimed dividend		526
Trade creditors		42,858
Buildings (at cost)	2, 50,000	
Purchases	5, 00,903	
Sales		10, 83,947
Manufacturing expenses	3, 50,000	
Establishment charges	26,814	
General charges	31,078	
Machinery (at cost)	2, 30,000	
Furniture (at cost)	35,000	
Opening stock	1, 72,058	
Book debts	1, 02,380	
Investments	2,88,950	
Provision for depreciation on fixed assets		91,000
Advance payment of income tax	50,000	
Cash at Bank	72,240	
Director's Fees	1,800	
Interest on investments		8,544
Profit and Loss Account (1.4.2008)		16,848
Staff provident fund		37,500
	21, 11,223	**21, 11,223**

From the above mentioned balances and the following information prepare the company's balance sheet as on 31st March, 2009 and its Profit and Loss Account for the year ended on that data:

a) The stock on 31st March, 2009 was valued at Rs. 1, 48,680.

b) Provide Rs. 29,000 for depreciation of fixed assets and Rs. 8,000 for managing director's remuneration.

c) Interest accrued on investments amounted to Rs. 2,750.

d) Make a provision of Rs. 50,000 for income-tax.

e) The directors propose a dividend @ 8%.

f) Transfer Rs. 25,000 to general reserve.

(Answer: N/P Rs.74,268 Balance total RS. 10,60,000)

Illustration 2

From the following particulars furnished by Pioneer Ltd. prepare the balance sheet as at 31st March, 2009 as required by part I, Schedule VI of the companies Act. give notes at the foot of the balance sheet as may be found necessary:-

	Debit Rs.	Credit Rs.
Equity capital (Face value of Rs.100)		10, 00,000
Calls in arrear	1,000	
Land	2, 00,000	
Building	3, 50,000	
Plant and Machinery	5, 25,000	
Furniture	50,000	
General reserve		2, 10,000
Loan from State Financial Corporation		1, 50,000
Stock: Finished goods 2, 00,000		
Raw Materials 50,000	2, 50,000	
Provision for taxation		68,000
Sundry debtors	2, 00,000	
Advances	42,700	
Proposed dividend		60,000
Profit and loss Account		1, 00,000
Cash balance	30,000	
Cash at bank	2, 47,000	
Preliminary expenses	13,300	
Loans (Unsecured)		1, 21,000
Sundry creditors (For goods and expenses)		2, 00,000
Total	**19, 09,000**	**19, 09,000**

The following additional information is also provided:

1. Miscellaneous expenses included Rs. 5,000 audit fees and Rs.700 for out-of-pocket expenses paid to the auditors.
2. 2,000 equity shares were issued for consideration other than cash.
3. Debtors of Rs. 52,000 are due for more than six months.
4. The cost of assets:

Building	4, 00,000
Plant & Machinery	7, 00,000
Furniture	62,500

5. The balance of Rs. 1, 50,000 on the loan account with State Finance Corporation is inclusive of Rs. 7,500 for interest

accrued but not due. The loan is secured by hypothecation of the plant and machinery.

6. Balance at bank includes Rs. 2,000 with Perfect Bank Ltd. which is not a scheduled bank.

7. Bills receivable for Rs. 2, 75,000 maturing on 30th June, 2009, have been discounted.

8. The company had contract for the erection of machinery at Rs. 1, 50,000 which is still incomplete.

Notes: (i) Estimated amount of contract remaining to be executed on capital account and not provided for Rs. 1, 50,000. The company had given this contract for purchase of machinery.
(ii) Bills receivable discounted maturing on 31st June, 2009 amount to Rs. 2, 75,000.

(Answer: Balance Total Rs.19, 08,000)

Illustration 3

Trial Balance of Chintu Products Ltd. as on 31st March 2009

Debit	Rs.	Credit	Rs.
Machinery	36,00,000	Share capital	89,70,000
Building	24,00,000	Profit & Loss	
Land	6,00,000	Appropriation A/c	1,20,000
Furniture	2,40,000	Development rebate reserve	6,75,000
Sundry Debtors	6,00,000	General reserve	12,27,600
Salaries	7,50,000	Gross profit	28,50,000
Goods in Transit (at cost)	60,000	Sundry creditors	4,50,000
Postage and Telegram	4,500	Provision for taxation	9,000
Motor vehicles	4,50,000	Provision for doubtful debts	63,000
Repairs & maintenance	66,000		
Sales tax	12,000		
Royalty	11,400		
Travelling & conveyance	70,800		
Insurance	52,500		
Rebate and discount	20,400		
Audit fee	6,000		
Closing stock:			
Raw materials	12,00,000		
Work-in-progress	3,00,000		
Stores	1,80,000		
Finished goods	24,00,000		
Investment in national			
Savings certificates	1,50,000		
Security deposit	75,000		
Income-tax advance for			
Current year	7,80,000		
Gratuity paid	1,05,000		
Cash	15,000		
Bank balance-current A/c	1,65,000		
Bad debts	51,000		
	1,43,64,600		**1,43,64,600**

The following further particulars are available.

1. The company's Board of Directs are entitled to a remuneration of 3% on the annual net profit of the company. (before provision for taxation for the year)

2. Depreciation to be provided at the following rates:

Buildings	5%	Furniture	10%
Machinery	15%	Motor vehicles	20%

3. Repairs and maintenance expenses include Rs.24,000 spent on machinery, which the directors have decided to capitalize. No adjustment has so far been made.

4. Share capital is made up of 9, 00,000 equity shares of Rs. 10 each which were fully paid except in respect of 15,000 shares on which the final call of Rs. 2 per share remained unpaid.
5. Sundry debtors include Rs.90,000 outstanding for a period exceeding 6 months consisting of Rs. 45,000 considered as doubtful. The remaining debts are considered good.

6. Income-tax assessment for the preceding year has been completed during the year resulting in a gross demand of Rs. 3, 60,000 and no adjustment has been made for this.

7. Amount of provision for taxation related to last year and has been arrived at after deduction of advance payment of Rs. 3, 45,000 for that year.

8. Provision for taxation to be made for the year is Rs. 8, 70,000.

9. The Board of Directors have recommended payment of dividend aggregating Rs. 1, 35,000.

   You are required to prepare the profit and loss account for the year 31st March 2009 and the balance sheet as on that date.

Illustration 4: The following balances have been extracted from the books of Nitin Publishing Company Ltd. 31st March 2009.

	Rs.		Rs.
Plant and Machinery (Cost less depreciation)	85,000	Sales	5,80,000
Furniture and fixtures (Cost less depreciation)	12,000	Share capital	3,00,000
Motor car (Cost less depreciation)	15,000	Investment allowance reserve	17,250
Opening stock	1,35,000	Creditors for goods	45,000
Purchases	1,00,000	Term loan (bank)	1,00,000
Publication expenses	2,00,000	Liabilities for expenses	25,000
Royalties to authors	25,000	Provision for taxation (Year ended 31st March 2009)	80,000
Wages	40,000	Miscellaneous receipts	8,300
		Profit & Loss appropriation	5,250

Call in arrears	2,000	account	
Power	3,500		
Debtors	1,20,000		
Advance payment of income-tax for the year ended (i) 31st March 2008	75,000		
(ii) 31st March 2009	1,10,000		
Goodwill	25,000		
Establishment	45,000		
Rent & taxes	12,000		
Postage & Telegram	2,000		
Motor Car expenses	6,000		
Travelling & conveyance	4,500		
Electric charges	600		
Advertisement	6,600		
Directors fees	900		
Managing Director's Minimum remuneration	6,000		
Depreciation	20,083		
Interest & bank charges	10,000		
Audit fees	2,500		
Cash in hand	2,117		
Cash in bank	95,000		
	11,60,800		**11,60,800**

The following further particulars are available

1. Closing stock Rs. 1, 60,000
2. Managing director is entitled to a remuneration of Rs. 6,980.
3. Royalties to authors include Rs. 5,000 paid in advance.
4. Share capital of Rs. 3, 00,000 is represented by 1,000 9% Cumulative preference shares of Rs. 100 each fully paid-up and the balance by equity shares of Rs. 10 each fully called-up.
5. Term loan from bank is secured by hypothecation of fixed assets of the company.
6. No effect has yet been given to the Board Resolution passed on 15th September, 2008 forfeiting 400 equity shares for non-payment of final call of Rs. 5 per share.
7. Income-tax-assessment for the year ended 31st March, 2008 has been completed on 26th February, 2009 for a gross demand of Rs. 78,000 and the amount of demand remained unpaid on 31st March, 2009.
8. 5,000 of the equity shares were issued for consideration other than cash as fully paid.
9. Liabilities for expenses include interest accrued and due on term loan.
10. Profit & Loss Appropriation A/c balance has been arrived at as follows:

	Rs.
Balance from last year	7,500
Less: investment allowance reserve created for the year	(2,250)
	Rs. 5,250

11. Provision for taxation to be made for the current year Rs. 75,000.
12. Plant and machinery includes cost of new plant installed during the year Rs. 20,000.

13. Preference dividends are in arrears for three years including the current year.
14. No proposal has been made by the directors for dividend on either class of shares.
15. Depreciation charged up-to-date on the different is as follows:

		Rs.
(i)	Plant and machinery	55,000
(ii)	Furniture and fixtures	4,500
(iii)	Motor car	9,800

16. Of the debtors Rs. 35,000 is due for more than six months.

You are required to prepare the profit and loss account for the year ended 31st March, 2009 and the balance sheet on that date on the basis of the above information and taking into account the adjustments not made so far. No journal entries are required. Ignore last year figures.

Illustration 5:

The following trial balance has been drawn from the books of Samson Ltd. as on 31st March, 2009

Debit	Rs.	Credit	Rs.
Goodwill (at cost)	1,00,000	Share capital	1,00,000
Plant (at cost)		Gross profit	70,000
Opening balance 15,000		Creditors	30,000
Additions 6,000	21,000	Liabilities for expenses	8,500
Administrative expenses	30,000	Provision of taxation (last year's)	30,000
Managing director's minimum remuneration	6,000	Proposed dividend (last years)	4,500
Selling expenses	10,000	Secured loan	1,00,000
Director's fees	600	Unsecured loan	50,000
Dividend paid (last year's)	3,600	Miscellaneous receipts	2,000
Trade investments (at cost) in fully paid shares of Rs. 10 each	1,05,100	Depreciation provision	
Payment to auditors	3,000	Plant 8,900	
Security deposit	5,000	Furniture 2,200	11,100
Calls in arrear	2,000	Sale proceeds of old plant	3,000
Closing stock (at cost)	15,000	Profit & loss appropriation A/c (Opening balance)	4,000
Furniture (at cost) Opening balance	4,000		
Debtors	40,000		
Advance recoverable in cash	2,500		
Cash in hand	1,200		
Income-tax paid (last year)	28,500		
Interest on loan	7,500		
Advance payment of income tax	5,000		
Cash with scheduled bank	22,000		
Depreciation	1,100		
	4,13,100		**4,13,100**

The following further particulars are available:

1. Unsecured loan is from a director carried from last year, interest payable at 6% p.a. falling due on quarterly basis at the end of each quarter.
2. Liabilities for expenses include the last quarter's interest due on unsecured loan.
3. Payment to auditors include Rs.2,000 paid for taxation work.
4. Proposed dividend and dividend paid relate to last year's account.
5. Market value of trade investments is Rs.85,000.
6. Sundry debtors include Rs. 10,000 due for more than six months of which Rs.2,000 is considered doubtful.
7. Provision for taxation is to be made at 45 per cent. Assessment for last year has been completed without any dispute.
8. Secured loan is from the company's banks obtained against charge of all assets of the company.
9. Dividend for the year is proposed to be paid at 10%. No dividend is payable in respect of shares where there are calls in arrears.
10. Share capital is represented by 10,000 equity shares of Rs. 10 each fully called-up of which the last call of Rs. 2 per share on 1,000 shares has not been received.
11. A plant costing Rs.8,000 on which depreciation provision was Rs. 4,000 was sold for Rs.3,000.

Illustration 6:

The following information was obtained from ABC Company Ltd. as on 31-3-2009.

	Rs.
Profit and loss account - Debit balance as on 2009	2,00,000
Preliminary expenses	10,000
Plant and machinery	1,00,000
Furniture and fixtures	20,000
Motor Car	15,000
Sales	20,00,000
Miscellaneous receipts	1,20,000
Opening stock of finished goods	3,00,000
Consumption of raw materials	9,00,000
Closing stock of raw materials at cost	5,00,000
Bank overdraft	1,00,000
Securities premium	3,60,000
Share capital	6,00,000
Unsecured loan (taken on 1-1-2009 at 18%	3,00,000

interest due half-yearly)	
Sundry debtors (including Rs.1,00,000 over six months)	7,00,000
Salaries and wages	2,00,000
Office administrative expenses	4,00,000
Selling and distribution expenses	1,50,000
Sundry creditors	4,15,000
Income tax advances	3,00,000
Miscellaneous advances	40,000
Interim dividends	60,000

The following information is given:

1. Closing stock of finished goods at cost Rs. 6, 00,000

2. The original costs of fixed assets are
   Plant and Machinery Rs.2, 00,000
   Furniture and fixtures Rs. 30,000
   Motor car Rs. 25,000
   Depreciation is to be charged for the year on written down values @ 10% on plant and machinery and furniture and fixtures @ 20% on motor car.

3. The entire authorized share capital which consists of equity shares of Rs. 10 each has been issued and subscribed. The share capital is paid up to the extent of 30% and there are no calls in arrears.

4. Taxation provision is to be created for Rs. 3, 50,000

5. Preliminary expenses are to be written off.

6. The directors have proposed a final dividend of Rs.6 on each equity share in addition to the interim dividend already declared.

Prepare profit and loss account for the period ending 31-3-2009 and balance sheet as on that date for ABC Company Ltd.

Illustration 7:

The following is the Trial Balance of Subhash Limited as on 31.3.2008:

Debit	**Rs.**	**Credit**	**Rs.**
Land at cost	1,10000	Equity share capital (shares of Rs.10 each)	1,50,000
Plant and Machinery at cost	3,85,000	10% Debentures	
Debtors	48,000	General Reserves	
Stock (31.3.2008)	43,000	Profit and loss Account	1,00,000
Bank	10,000	Securities Premium	65,000
Adjusted purchases	1,60,000	Sales	

Factory expenses	30,000	Creditors	36,000
Administration expenses	15,000	Provision for Depreciation	20,000
Selling expenses	15,000	Suspense Account	3,50,000
Debenture interest	10,000		26,000
Interim Dividend paid	9,000		86,000
			2,000
	8,35,000		**8,35,000**

Additional information:

a) On 31.3.2008 the company issued bonus shares to the shareholders on 1:3 basis. No entry relating to this has yet been made.

b) The authorized share capital of the company is 25,000 equity shares of Rs. 10 each.

c) The company on the advice of independent valuer wishes to revalue the land at Rs. 1, 80,000.

d) Proposed final dividend 10% (in addition to interim dividend).

e) Suspense Account of Rs.2,000 represents cash received for the sale of some of the machinery on 1.4.2007. The cost of the machinery was Rs.5,000 and the accumulated depreciation thereon being Rs. 4,000.

f) Depreciation is to be provided on plant and machinery at 10% on cost.

g) Transfer necessary amount to General Reserve.

You are required to prepare Subhash Limited's Profit and Loss Account for the year ended 31.3.2008 and a balance sheet on that date in vertical form as per the provisions of Schedule VI of the Companies Act, 1956.

Your answer to include detailed schedules, only for the following:
(1) Share Capital; (2) Reserve and Surplus; and (3) Fixed Assets.
Ignore previous years' figures and taxation.

[Ans. Net Profit Rs.7, 405. Balance carried to Balance Sheet Rs. 8,005. Reserves & Surplus Rs. 10,755. Fixed Assets Rs. 22,750. Net Current Assets Rs.1,13,005 Balance Sheet Total Rs.1, 35,755]

8. Following Trial Balance is prepared from books of Usha Ltd. for the year ended 31st March, 2009:

Debit	Rs.	Credit	Rs.
Interest on Debenture	6,250	Sales	3,57,000
Unclaimed		Interest	2,000
Dividends paid	1,800	Provision for Doubtful Debts	1,850
Sundry Debtors	18,500	Share capital	2,00,000
Buildings at cost	2,50,000	5% Debentures	2,50,000

Plant & Machinery at cost	3,50,000	Sundry Creditors	13,100
4% Govt. Securities		Unclaimed Dividends	2,500
at cost	50,000	Security Deposit	2,000
Income tax paid		Fixed Deposit	25,000
Year End		Provision for	
31.3.2008 25,000		Depreciation till 31.3.2008:	
Year End		Buildings 25,000	
31.3.2009 <u>16,000</u>	41,000	Plant & Machinery <u>49,000</u>	
Purchases	1,18,500		74,000
Wages	31,550	Provision for	
Prepaid Expenses	1,750	Income tax 31.3.2008	
Bad Debts	600	General Reserve	
Opening Stock	7,750	Securities Premium	25,500
Directors Fees	7,350	Profit & Loss A/c	30,000
Audit Fees	1,850	as on 1.4.2008	5,100
Establishment Expenses	71,900		
Cash and Bank Balances	58,800		
Calls in Arrears	1,500		30,550
	10,19,100		**10,19,100**

You are further informed:

a) Stock on 31st March, 2009 was valued at Rs. 11,100. Market Price was Rs. 16,000.

b) Sales included in following:

i) Rs.37,500 made for and on behalf of consignors terms cash payment only on which 4% commission was due to the company and the net amount was not yet paid.

ii) Rs.3,000 sold on sale or return basis, costing Rs.2,000. 50% of these were approved by customer while for balance 50% no intimation has been received from customers regarding approval nor the time limit go vie such consent has elapsed.

iii) Rs. 2,000 returns outward to suppliers, by mistake were entered in sales register.

c) On 20th March the discounted dishonored bill of Rs. 500 was paid by the company on behalf of customer who has been declared insolvent. Nothing could be recovered from his estate by the company and the same was agreed to be written off as bad debts.

d) Provision for doubtful debts was desired at 10% on sundry debtors.

e) Directors resolved the following appropriations:

i) Transfer Rs.5,000 to general reserve and Rs.12,500 to debenture redemption reserve.

ii) Dividend at 10% on equity share capital.

f) Depreciation to be provided on Buildings at 5% p.a. and on Plant & Machinery at 10% p.a. on written down value basis.

g) Last year income tax assessment was completed without any modification or change.

h) Debentures were issued on 1st April, 2007 on floating charge of all assets.

i) Bank has credited by mistake Rs. 10,000 on 30th March, 2008 and rectified the said mistake on 5th May, 2008 and has also debited in the month of March, 2009 Rs.500 as Bank Charges and commission which has not been considered by the company in its books.

j) Authorized capital of the company was 50,000 equity shares of Rs.10 each out of which 20,000 equity shares were fully called up.

k) Provision for income tax for current year to be made at Rs. 20,000/-

Your are required to prepare Profit & Loss Account for the year ended 31st March, 2009 and Balance Sheet as on that date as required by the Companies Act, 1956.

[Ans. Net profit Rs. 20,650. Balance carried to Balance Sheet Rs. 13,850. Reserves & Surplus Rs. 66,450. Fixed Assets Rs. 4, 84,650. Net Current Assets Rs. 13,550. Balance Sheet Total Rs. 5, 48,200. Sales Rs. 3, 16,500. Debtors Rs.13, 050]

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20

ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS-I

Unit Structure

20.0 OBJECTIVES :

After studying the unit the students will be able to:

- Know the meaning of Foreign currency transactions
- Understand the Need for conversion
- Explain the Recognition of exchange fluctuation
- Know the Translation of foreign currency transactions
- Solve the practical problems on Foreign currency transactions

20.1 INTRODUCTION:

A transaction like sale or purchase of goods involves two parties. Whenever such transaction is entered with another party situated in India, the transaction is in Indian currency, recording of such transaction does not pose any problem. But if the other party is located outside India then the transaction entered might be in foreign currency and then we have to translate this transaction from foreign currency into India currency. This translation is done by applying the foreign exchange rates prevailing at the time of transaction. Accounting Standard No.11 deals with recording and translation of such type of foreign currency transactions.

20.2 ACCOUNTING STANDARD NO.11(REVISED) ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA :

This standard is applicable from 1.04.2004. This standard is mandatory in nature.

20.2.1 OBJECTIVE:

The transactions entered into by an organisation in foreign currency must be included in the financial statements of the organisation in its reporting currency.

20.2.2 SCOPE:

1. The standard should be applied in accounting for transactions entered in foreign currencies.
2. This standard also deals with accounting for foreign currency transactions in the nature of forward exchange contracts.
3. This standard does not specify the currency of presentation of financial statements. Normally an organisation prepares its financial statements in currency of home country.
4. The standard does not deal with the restatement of an enterprise's financial statements from its reporting currency into another currency for the convenience for user accustomed to that currency of for similar purpose.
5. This standard does not deal with the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency and the transactions of cash flows of a foreign operation.
6. This standard does not deal with the exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment interest cost.

20.2.3 DEFINITIONS:

The following terms are used in this Statement with meanings specified:

(a) **Average rate** is the mean of the exchange rates in force during a period.

(b) **Closing rate** is the exchange rate at the Balance Sheet date.

(c) **Exchange Difference** is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

(d) **Exchange rate** is the ratio for exchange of two currencies.

(e) **Fair value** is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(f) **Foreign Currency** is a currency other than the reporting currency of an enterprise.

(g) **Monetary items** are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.e.g. Cash, Receivables, Payables etc.

(h) **Non-monetary items** are assets and liabilities other than monetary items.e.g. Fixed Assets, Inventories, Investments etc.

(i) **Reporting currency** is the currency used in presenting the financial statements.

20.3 ACCOUNTING PROCEDURE:

Record the initial transaction entered in foreign currency by converting in Indian Rs. by multiplying the transaction amount with the foreign exchange rate as on the date of transaction.

Subsequently when the payment is made or is received in the same year it should be recorded at foreign exchange rate on the date of settlement. Any profit or loss arising due to exchange fluctuation should be treated as revenue item, and hence it should be transferred to profit and loss A/c. at the end of the year.

Any balance payable or receivable to or from a foreign party, at the end of year ,should be adjusted at the closing foreign exchange rate.

The foreign exchange rate for any payment made or received in the subsequent year should be compared with the closing rate of the earlier year to find the profit or loss on exchange fluctuations.

20.4 PROFORMA JOURNAL ENTRIES :

20.4.1 Transactions which need to be translated:

Following four types of transactions are required to be translated.

I. Import of goods

II. Export of goods

III. Purchase of Fixed Assets

IV. Foreign currency loans

X = Amount of transaction in Foreign Currency
$R_{1=}$ Foreign Exchange on the date of transaction
$R_{2=}$ Foreign Exchange on the date of settlement
$R_{3=}$ Foreign Exchange on the date of Year End
$R_{4=}$ Foreign Exchange on the date of settlement in the next year.

20.4.2 Import of goods

Sr. no	Particulars	Dr. Rs	Cr. Rs.
1.	**Purchase of goods/ raw materials**		

	Purchases A/c Dr.	X R_1	
	To Foreign Supplier A/c		X R_1
2.	**Payment to foreign supplier**		
	Foreign Supplier A/c Dr.	X R_1	
	Foreign Exchange Fluctuation A/c (if loss) Dr.	X$(R_2 - R_1)$	
	To Foreign exchange Fluctuation A/c (if Profit)		X$(R_1 - R_2)$
	To Bank A/c		X R_2
3.	Year end adjustments		
A.	**Adjusting closing balance payable to foreign suppliers**		
	A- If closing rate is more than transaction rate(loss i.e. $R_3 > R_1$)		
	Foreign Exchange Fluctuation A/c Dr.	X$(R_3 - R_1)$	
	To Foreign Supplier A/c.		X$(R_3 - R_1)$
	OR B if closing rate is less than the transaction rate (Profit i.e. $R_1 > R_3$)		
	Foreign Supplier A/c. Dr	X$(R_1 – R_3)$	
	To Foreign Exchange Fluctuation A/c		X$(R_1 – R_3)$
B.	Closing of nominal A/c.		
	A- If foreign exchange fluctuation A/c shows credit balance		
	Foreign Exchange Fluctuation A/c Dr.	XX	
	To Profit & Loss A/c		XX
	OR B- If foreign exchange fluctuation A/c shows Debit balance		
	Profit & Loss A/c Dr	XX	
	To Foreign Exchange Fluctuation A/c		XX
4.	Payment to foreign supplier in the next year		
	Foreign Supplier A/c Dr.	XR_3	
	Foreign Exchange Fluctuation A/c (if loss) Dr.	X$(R_4 - R_3)$	
	To exchange Fluctuation A/c(if profit)		X$(R_3 - R_4)$

Sr. no	**Particulars**	**Dr. Rs**	**Cr. Rs.**
1.	**Export of goods**		
	Foreign Customer A/c Dr.	X R_1	
	To Export Sales A/c		X R_1
2.	**Receiving Payment from Foreign Customer**		
	Bank A/c. Dr.	X R_2	

	Foreign Exchange Fluctuation A/c. (If Loss) Dr.	$X(R_2 – R_1)$	
	To Foreign Exchange Fluctuation A/c. (If profit)		$X(R_1 – R_2)$
	To foreign Customer A/c.		$X R_1$
3.	Year end Adjustments		
A	Adjusting Closing balance receivable from foreign customer		
	A- If closing rate is more than the transaction rate (Profit $R_3 > R_1$)		
	Foreign customer A/c Dr	$X(R_3 - R_1)$	
	To Foreign Exchange Fluctuation A/c		$X(R_3 - R_1)$
	Adjusting Closing balance receivable from foreign customer		
	B- If closing rate is less than the transaction rate (Loss ($R_1 > R_3$)		
	Foreign Exchange Fluctuation A/c Dr.	$X(R_1 – R_3)$	
	To Foreign customer A/c		$X(R_1 – R_3)$
B	Closing of nominal A/c.		
	A- If foreign exchange fluctuation A/c shows credit balance		
	Foreign Exchange Fluctuation A/c Dr.	XX	
	To Profit & Loss A/c		XX
	B- If foreign exchange fluctuation A/c shows Debit balance		
	Profit & Loss A/c Dr	XX	
	To Foreign Exchange Fluctuation A/c		XX
4.	**Receiving payment from foreign customer in the next Year**		
	Bank A/c. Dr.	$X R_4$	
	Foreign Exchange Fluctuation A/c. (If Loss) Dr.	$X(R_4 – R_3)$	
	To Foreign Exchange Fluctuation A/c. (If profit)		$X(R_3 – R_4)$
	To foreign Customer A/c.		$X R_3$

20.4.3 Purchase of Fixed Assets

Sr.no	Particulars	Dr. Rs	Cr. Rs.
1.	**Purchase of Fixed Assets**		
	Fixed Assets A/c Dr.	$X R_1$	
	To Foreign Supplier A/c.		$X R_1$
2.	**Payment To foreign supplier**		
	Foreign Supplier A/c Dr.	$X R_1$	
	Foreign Exchange Fluctuation A/c (if loss) Dr.	$X(R_2 - R_1)$	

	To exchange Fluctuation A/c		$X(R_1 - R_2)$
	To Bank A/c		$X R_2$
3.	**Year end adjustments**		
A	Adjusting closing balance payable to foreign suppliers		
	A- If closing rate is more than transaction rate (loss $R_3 > R_1$)		
	Foreign Exchange Fluctuation A/c Dr.	$X(R_3 - R_1)$	
	To Foreign Supplier A/c.		$X(R_3 - R_1)$
	B if closing rates is less than the transaction rate (Profit $R_3 > R_1$)		
	Foreign Supplier A/c. Dr	$X(R_1 – R_3)$	
	To Foreign Exchange Fluctuation A/c		$X(R_1 – R_3)$
B	Providing Depreciation		
	Depreciation A/c. Dr.	XX	
	To Fixed Assets A/c.		XX
	Note: Depreciation should be provided on original amount		
C	Closing of nominal A/c.		
	A- If foreign exchange fluctuation A/c shows credit balance		
	Foreign Exchange Fluctuation A/c Dr.	XX	
	To Profit & Loss A/c		XX
	B- If foreign exchange fluctuation A/c shows Debit balance		
	Profit & Loss A/c Dr	XX	
	To Foreign Exchange Fluctuation A/c		XX
	C- Profit & Loss A/c. Dr.	XX	
	To Depreciation A/c.		XX
4.	**Payment to foreign supplier in the next year**		
	Foreign Supplier A/c Dr.	$X R_3$	
	Foreign Exchange Fluctuation A/c (if loss) Dr.	$X(R_3 – R_4)$	
	To exchange Fluctuation A/c		$X(R_4 – R_3)$
	To Bank A/c		$X R_4$

Note: Accounting treatment of profit/loss arising out of fluctuation of foreign currency exchange rate while making payment for purchase of Fixed Assets by a Ltd company

According AS 11 profit/loss arising out of fluctuation of foreign currency exchange rate should be treated as revenue item. This is applicable even in case of fixed assets.

However, as per Schedule VI of Company Act 1956, requirements such exchange difference should be adjusted in the cost of respective fixed assets.

Since the syllabus of T Y B Com specifically states the application of AS 11 student should follow the AS11 and accordingly any such Profit/loss should be treated as revenue item.

20.4.4 Foreign Currency Loan Account

Sr.no	Particulars	Dr. Rs	Cr. Rs.
1.	**Availing the foreign currency loan**		
	Bank A/c Dr.	X R_1	
	To Foreign Currency Loan A/c		X R_1
2.	**Part Re-payment to foreign currency loan**		
	Foreign Currency Loan A/c Dr.	X R_1	
	Foreign Exchange Fluctuation A/c (if loss) Dr.	X(R_2- R_1)	
	To Foreign Exchange Fluctuation A/c		X(R_1- R_2)
	To Bank A/c		X R_2
3.	**Payment of Interest**		
	Interest A/c Dr.	XX	
	To Bank		XX
	(Interest Should be calculated on the loan in foreign currency & then it should be converted into Indian Rupees)		
4.	**Year end adjustments**		
A.	Adjusting closing balance payable to foreign currency loan		
	A- If closing rate is more than transaction rate(loss i.e. $R_3 > R_1$)		
	Foreign Exchange Fluctuation A/c Dr.	X(R_3 - R_1)	
	To Foreign currency loan A/c.		X(R_3 - R_1)
	Or B if closing rate is less than the transaction rate (Profit i.e. $R_1 > R_3$)		
	Foreign currency loan A/c. Dr	X(R_1 – R_3)	
	To Foreign Exchange Fluctuation A/c		X(R_1 – R_3)
B.	If the interest payment dates & year end date are different then provide for outstanding interest as follows		
	Interest A/c Dr	XX	
	To Outstanding Interest A/c		XX
	(Interest Should be calculated on the loan in foreign currency & then it should be converted into Indian Rupees)		

C.	Closing of nominal A/c.		
	A- If foreign exchange fluctuation A/c shows credit balance		
	Foreign Exchange Fluctuation A/c Dr.	XX	
	To Profit & Loss A/c		XX
	OR B- If foreign exchange fluctuation A/c shows Debit balance		
	Profit & Loss A/c Dr	XX	
	To Foreign Exchange Fluctuation A/c		XX
	C- Interest A/c		
	Profit & Loss A/c Dr	XX	
	To Interest A/c		XX
5.	**Payment to foreign Currency loan in the next year**		
	Foreign Currency loan A/c Dr.	XR_3	
	Foreign Exchange Fluctuation A/c (if loss) Dr.	$X(R_4 - R_3)$	
	To exchange Fluctuation A/c (if profit)		$X(R_3 - R_4)$
	To Bank		XR_4
6.	**Payment of Outstanding Interest in the Next Year**		
	Outstanding Interest A/c Dr.	$X R_3$	
	Foreign Exchange Fluctuation A/c (if loss) Dr.	$X(R_{4-} R_{3)}$	
	To Foreign exchange Fluctuation A/c		$X(R_{3-} R_4)$
	To Bank A/c		$X R_4$

Check Your Progress

- Define the following terms
    1. Average rate
    2. Closing Rate
    3. Exchange Rate
    4. Fair Value

5. Monitory Items
6. Non-Monitory Items

- Give the Journal Entries for the following transaction
    1. Payment to foreign supplier if there is profit.
    2. Availing the foreign currency loan.
    3. Yearend adjustments.

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21

ACCOUNTING FOR TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS-II

Unit Structure

21.1 PRACTICAL PROBLEMS :

Illustration No. 1

Pass Journal Entries for the following Foreign Exchange transactions in the books of Sonu Ltd. Sonu Ltd. of Pune exported goods worth $1,00,000 on 12th January, 2010 to Universal Traders of USA. The payment for the same was received as follows:

15th February, 2010	$ 50,000
2nd March, 2010	$ 10,000
12th April, 2010	$ 40,000

The company follows financial year as accounting year.
The Exchange Rate for $1 was as follows :

12th January, 2010	Rs. 46
15th February, 2010	Rs. 48
2nd March, 2010	Rs. 45
31st March, 2010	Rs. 49
12th April, 2010	Rs 50

Solution:

In the Books of Sonu Ltd.

Date	Particulars	Dr. Rs.	Cr. Rs
2010 Jan 12.	Universal Traders A/c Dr. To Export Sales A/c (Being goods exported at Exchange Rate being $ 1 = Rs 46)	4,60,000	 4,60,000
Feb 15	Bank A/c Dr. To Universal Traders A/c To Foreign Exchange Fluctuation A/c (Being amount received $ 50000 @ Rs 48, Fluctuation $ 50000 [48-46])	2,40,000	 2,30,000 1,00,000
Mar 2	Bank A/c Dr. Foreign Exchange Fluctuation Dr. To Universal Traders A/c (Being amount received $ 10000 @ Rs 45, Fluctuation $ 10000 [45-46])	4,50,000 10,000	 4,60,000

Mar 31	Universal Traders A/c Dr. To Foreign Exchange Fluctuation A/c (Being difference in Foreign Excahnge accounted for at the end of the year - $40000 [49 - 46])	1,20,000	1,20,000
Mar 31	Foreign Exchange Fluctuation A/c Dr. To Profit & Loss A/c (Briong profit on Foreign Exchange Fluctuation transferred to Profit & Loss A/c)	2,10,000	2,10,000
Apr 12	Bank A/c Dr. To Universal Traders A/c To Foreign Exchange Fluctuation A/c (Being amount received $ 50000 @ Rs 48, Fluctuation $ 50000 [48-46])	20,00,000	19,60,000 40,000

Universal Traders A/c

Date	Particulars	Rs	Date	Particulars	Rs
2010			2010		
Jan. 12	To Export Sales A/c (100000 x 46)	46,00,000	Feb. 15	By Bank A/c	24,00,000
Feb. 15	To Foreign Exchange Fluctuation A/c	1,00,000	Mar. 2	By Bank A/c	4,50,000
Mar. 31	To Foreign Exchange Fluctuation A/c (40000 x [49-46])	1,20,000	Mar.31	By Foreign Exchange Fluctuation A/c	10,000
			Mar.31	By Bal b/d	19,60,000
		48,20,000			**48,20,000**
Apr. 1	To bal c/d	19,60,000	Apr.12	By Bank	20,00,000
Apr. 12	To Foreign Exchange Fluctuation A/c	40,000			
		20,00,000			**20,00,000**

Foreign Exchange Fluctuation A/c

Date	Particulars	Rs	Date	Particulars	Rs

2010 Mar. 31 Mar 31	To Universal Traders To Profit & Loss A/c	10,000 2,10,000	2010 Feb. 15 Mar.31	By Universal Traders By Universal Traders	1,00,000 1,20,000
		2,20,000			**2,20,000**
			Apr.12	By Universal Traders	40,000

Illustration No. 2

Pass necessary Journal Entries in the books of N Ltd. Of Nasik.

A machine was imported on 20th January, 2010 from Jackie Chan of China for US $200000. The payment for the same was made as follows :
US $ 150000 on 27th February, 2010.
US $ 50000 on 15th March, 2010

The exchange rate for $ 1 was as follows :
On 20th January, 2010 Rs. 47.00
On 27th February, 2010 Rs. 46.50
On 15th March, 2010 Rs. 48.00
The company follows financial year as accounting year.

Solution :

In the Books of N Ltd., Nasik

Date	Particulars	Dr. Rs.	Cr. Rs
2010 Jan. 20	Machinery A/c Dr. To Jackie Chan A/c (Being machinery purchased at $ 200000 and Exchange rate of $ 1 was Rs 47)	94,00,000	 94,00,000
Feb 20	Jackie Chan A/c Dr. To Bank A/c To Foreign Exchange Fluctuation A/c (Being amount paid $ 150000 @ Rs 46.50, Fluctuation $ 150000 [46.5-47])	70,50,000	 69,75,000 75,000

Mar.15	Jackie Chan A/c Dr. Foreign Exchange Fluctuation A/c Dr. To Bank A/c (Being payment made $ 50000 @ Rs 48, Fluctuation $ 50000[48-47])	23,50,000 50,000	 24,00,000
Mar.31	Foreign Exchange Fluctuation A/c Dr. To Profit & Loss A/c (Being loss on foreign exchange transferred to Profit & Loss A/c)	25,000	 25,000

Jackie Chan A/c

Date 2010	Particulars	Rs	Date 2010	Particulars	Rs
Feb 20 Feb 20 Mar.15	To Bank A/c To Fluctuation Exchange A/c To Bank A/c	6975000 75000 2400000	Jan. 20 Mar.15	By Machinery By Fluctuation Exchange A/c	9400000 50000
		9450000			**9450000**

Foreign Exchange Fluctuation A/c

Date 2010	Particulars	Rs	Date 2010	Particulars	Rs
Mar. 15 Mar. 31	To Jackie Chan A/c To Jackie Chan A/c	50000 25000	Feb. 20	By Jackie Chan A/c	75000
		75000			75000

Illustration No. 3

Ashish Ltd. Has entered into the following transcations in foreign currency during the year ended 31st March. 2010.

You are required to pass necessary journal entries for the year ended 31st March, 2010.

Date 2009	Particulars
June 10	Goods worth $ 10000 exported to G of Germany
June 20	Payment received from G of Germany $ 10000
August 16	Raw Material imported worth $ 5000 from S of South Korea
August 31	Payment made to S of South Korea $ 5000

October 10	Payment received from SA of South Africa $ 20000 as advance.
October 15	Goods worth $ 2000 imported to SA of South Africa
November 3	A machine worth $ 12000 imported from UK industries of UK.
November 15	Payment made to UK industries of UK $ 6000
December 15	Payment made to UK industries of UK $ 6000

2010

January 15	Exported goods to BK Industries of Bangladesh worth $ 2000. Payment was outstanding as on 31st March, **2002**
March 15	Imported machinery worth $ 10000 from GK of Germany. Payment was outstanding as on 31st March, 2002

The exchange rate for $1 was as follows

Date	**Exchange Rate Rs.**
2009	
10th June	46.75
20th June	46.50
16th August	48.00
31st August	48.50
10th October	48.75
15th October	49.00
3rd November	48.60
15th November	48.70
15th December	48.40
2010	
15th January	49.00
15th March	49.50
31st Match	50.00

Solution:

In the Books of Ashish Ltd.

Date	Particulars	Dr. Rs.	Cr. Rs
2009 Jun 10.	G of Germany A/c Dr. To Export Sales A/c (Being goods exported of $ 10000 at exchange Rate $ 1 = Rs 46.75)	467500	467500

Jun 20	Bank A/c Dr. Foreign Exchange Fluctuation Dr. To G of Germany A/c (Being amount received $ 10000 @ Rs 46.5, Fluctuation $ 10000 [46.75-46,5])	465000 2500	 467500
Aug.16	Raw Material A/c Dr. To S of South Korea A/c (Being raw material purchased of $ 5000 at exchange rate $ 1 = Rs 48)	240000	 240000
Aug.31	S of South Korea A/c Dr. Foreign Exchange Fluctuation A/c Dr. To Bank A/c (Being amount paid $ 5000, Fluctuation $5000 [48.5-48])	240000 2500	 242500
Oct. 10	Bank A/c Dr. To SA of South Africa A/c (Being received advance of $ 20000 @ 48.75 from SA of South Africa)	975000	 975000
Oct. 15	SA of South Africa A/c Dr. Foreign Exchange Fluctuation A/c Dr. To Export Sales (Being amount received $ 50000 @ Rs 48, Fluctuation $ 50000 [48-46])	975000 5000	 980000
Nov. 3	Plant & Machinery A/c Dr. To UK Industries (Being purchased machinery at $ 10000 @ Rs. 48.60)	583200	 583200
Nov.15	UK Industries Dr. Foreign Exchange Fluctuation A/c Dr. To Bank A/c (Being amount paid $ 6000, Fluctuation $ 6000[48.70- 48.60])	291600 600	 292200
Dec.15	UK Industries A/c Dr To Foreign Exchange Fluctuation A/c To Bank A/c (Being amount paid $ 6000, Fluctuation $ 6000[48.60- 48.40])	291600	 1200 290400
2010 Jan. 15	BK Industries A/c Dr. To Export Sales A/c (Being goods exported $2000 @ 49)	98000	 98000
Mar.15	Plant & Machinery A/c Dr. To GK of Germany A/c (Being machinery purchased for $ 10000 @ Rs 49.5)	495000	 495000
Mar.31	BK Industries A/c Dr. To Foreign Exchange Fluctuation A/c (Being the difference in exchange rate accounted for - $ 2000 [50-49])	2000	 2000

Mar.31	Foreign Exchange Fluctuation A/c Dr. To GK of Germany A/c (Being the difference in exchange rate accounted for - $ 10000 [50-49.5])	5000	5000
Mar.31	Profit & Loss A/c Dr. To Foreign Exchange Fluctuation A/c (Being profit on foreign exchange fluctuation recorded)	12400	12400

Illustration No. 4

On 1st January, 2010 Deep technologist of Mumbai imported raw materials worth U.S $ 60000 from Watson Traders U.S.A When the exchange rate was Rs.39 per $ The payment for the same was made as follows:-

Date of payment	amount in U.S$	Rate per $
1st Feb 2010	17000	41
1st March 2010	10000	38
1st May 2010	25000	40
1st July 2010	8000	41

The exchange rate on 31st March was Rs.42 per $. Deep technologist follows financial year as accounting year. Journalise above transaction in the books of Deep technologist and prepare Watson traders account and foreign exchange fluctuation account in the books of Deep technologist.

Solution :

In the books of Deep technologist
Journal Entries

Date	Particulars	Dr. Rs	Cr. Rs.
2010 Jan.1	Purchases A/c. Dr. To Watson Traders (Being raw material purchased)	2340000	2340000
Feb.1	Watson Traders A/c. Dr. Foreign Exchange fluctuation Dr. To Bank A/c. (Being amount paid at Rs.41/$ and loss due to exchange fluctuation Rs.2/$ on payment of $ 17000 adjusted)	663000 34000	697000

Mar.1	Watson Traders A/c. Dr.	390000	
	To foreign exchange fluctuation A/c.		10000
	To Bank		380000
	(Being amount paid at Rs. 38/$ and profit due to exchange fluctuation Re.1/$ on payment of $ 10000 adjusted)		
Mar.31	Foreign exchange fluctuation A/c. Dr.	99000	
	To Watson Traders		99000
	(Being closing Balance $ 33000 payable adjusted at closing rate Rs. 42/ $)		
Mar. 31	Profit and Loss A/c. Dr.	123000	
	To Foreign exchange fluctuation A/c.		123000
	(Being nominal A/c. closed by transfer to P/L A/c.)		
May1	Watson Traders A/c. Dr.	1050000	
	To Foreign exchange fluctuation A/c.		50000
	To Bank		1000000
	(Being amount paid at Rs.40/$ and profit due to exchange fluctuation Rs.2/$ on payment of $ 25000 adjusted)		
July 1	Watson Traders A/c. Dr.	336000	
	To Foreign exchange fluctuation A/c.		8000
	To Bank		328000
	(Being amount paid at Rs.41/$ and profit due to exchange fluctuation Re.1/$ on payment of $ 8000 adjusted)		
2011Mar.31	Foreign exchange fluctuation A/c. Dr.	58000	
	To Profit & Loss A/c.		58000
	(Being nominal A/c.closed by transfer to P/L A/c.)		

WATSON TRADERS ACCOUNT

Date	Particulars	U.S.$	Rate	Rs.	Date	Particulars	U.S.$	Rate	Rs.
2010					2010				
Feb.1	To Bank	17000	41	697000	Jan.1	By Purchases A/c.	60000	39	2340000
					Feb.1	By Foreign exc.fluctuation A/c.			34000
Mar.1	To Bank	10000	38	380000					
	To Foreign exc. Fluctuation A/c.			10000	Mar.31	By Foreign Exc.fluctuation A/c.			99000
31	To Balance c/d	33000	42	1386000					
		60000	---	**2473000**			**60000**	----	**2473000**
2009					2009				
May1	To Bank	25000	40	1000000	April	By Balance b/d	33000	42	1386000
	To foreign exc.fluctuati on A/c.	-----	---	50000					
July 1	To Bank	8000	41	328000					
	To Foreign exc.fluctuati on A/c			8000					
		33000	**--**	**1386000**	**----**		**33000**	**----**	**1386000**

FOREIGN EXCHANGE FLUCTUATION ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
2010			**2010**		
Feb.1	To Watson Traders	34000	Mar.1	By Watson Traders	10000
Mar.31	To Watson Traders	99000	Mar.31	By Profit &Loss A/c.	123000
		133000			**133000**
2011			**2011**		
Mar.31	To Profit & Loss A/c.	58000	May1	By Watson Traders	50000
			July1	By Watson Traders	8000
		58000			**58000**

Illustration. 5

X took a foreign currency loan of US $ 500000 @ 10% p.a. on 1-1-2009. Interest is payable yearly with an installment for principal of US $ 100000. X closes the books of account as on 31st March every year. Exchange rates are as follows:

1-1-2009	32.25	31-12-2009	33.90
31-3-2009	32.50	31-3-2010	33.50

Accounting Year - Financial Year

Show the Ledger Accounts, from 1-1-2009 to 31-3-2009, 1-4-2009 to 31-3-2010.

Solution:

LEDGER

Dr. Loan Account Cr.

Date	Particulars	$	Rate	Rs.	Date	Particulars	$	Rate	Rs.
31-3-09	By Balance c/d	500000	32.50	16250000	1-1-09	By Bank	500000	32.25	16125000
					31-3-09	By P &L A/c. (Loss on FE on valuation)	(500000)	0.25	125000
				16250000					**16250000**
31-12-09	To Bank	100000	33.90	3390000	1-4-09	By Balance b/d	500000	32.50	16250000
31-3-10	To Balance c/d	400000	33.50	13400000	31-12-10	By P &L A/c. (Loss on FE on payment)	(100000)	1.40	140000
					31-3-10	By P &L A/c. (Loss on FE on valuation)	(400000)	1.00	400000
				16790000					**16790000**

Dr. Interest Account Cr.

Date	Particulars	$	Rate	Rs.	Date	Particulars	$	Rate	Rs.
31-3-09	To Outstanding Interest A/c	12500	32.50	406250	31-3-09	By P&L A/c.(transfer)	--	--	406250
				406250					**406250**
31-12-09	To Bank	37500	33.90	1271250	31-3-09	By P&L A/c.(ltd)	--	--	1606250
31-3 - 10	To Outstanding (400000x 10%x3/12)	10000	33.50	335000					
				1606250					**1606250**

Outstanding Interest Account

Dr. Cr.

Date	Particulars	$	Rate	Rs.	Date	Particulars	$	Rate	Rs.
31-3-09	To Balance c/d	12500	32.50	4,06,250	31-3-09	By Interest	12500	32.50	4,06,250
				4,06,250					**4,06,250**
31-12-09	To Bank	12500	33.90	423750	1-4-09	By Balance b/d	12500	32.50	4,06,250
31-3-10	To Balance c/d	10000	33.50	3,35,000	31-12-05	By P & L A/c. (Loss on F.E. On Payment)	(12500)	1.40	17,500
					31-3-10	By Interest	10000	33.50	3,35,000
				7,58,750					**7,58,750**

Illustration No. 6

Ashish had entered into the following transactions in foreign currency during the year ended 31st March 2009. You are required to write up the Foreign Exchange Difference Account in the ledger for the year ended 31-3-05 according to As 11(revised w.e.f. 1-4-2008).

Date	Particulars
10-6-08	Goods worth $ 10000 exported to G of Germany.
20-6-08	Payment received from G of Germany $ 10000
16-8-08	New material imported worth $ 5000 from S of South Korea.
31-8-08	Payment made to S of South Korea $5000.
10-10-08	Payment received from SA of South Africa $ 20000 as advance.
15-10-08	Goods worth $ 20000 exported to SA of South Africa.
3-11-08	A machine worth $ 12000 imported from UK industries of UK.
15-11-08	Payment made $ 6000 to UK industries in UK.
15-12-08	Payment made $ 6000 to UK industries in UK.
15-1-09	Exported goods to BK industries of Bangladesh worth $ 2000
	Payment was outstanding as on 31-3-05.
15-3-09	Imported machinery worth $ 10000 from GK of Germany.
	Payment is outstanding as on 31-3-05.

The exchange rate for $ 1 during the year was as follows.

Date	Exchange Rate (Rs.)	Date	Exchange Rate (Rs.)	Date	Exchange Rate (Rs.)
10-6-08	46.75	10-10-08	48.75	15-12-08	48.40
20-6-08	46.50	15-10-08	49.00	15-1-09	49.00
16-8-08	48.00	3-11-08	48.60	15-3-09	49.50
31-8-08	48.50	15-11-08	48.70	31-3-09	50.00

Solution :

In the Books of ASHISH

Foreign Exchange Fluctuation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
20-6-08	To G ($10000x[46.75-46.50])	2500	15-12-08	By UK industries [$ 6000(48.60-48.40)]	1200
31-8-08	To S [$ 5000x(48.00-48.50)]	2500	31-3-08	By BK Industries [$ 2000x(50-49)]	2000
15-10-08	To SA {$ 20000x((48.75 - 49.00)}	5000	31-3-09	By Profit & Loss A/c.[Net Loss(Tfd.)]	12400
15-11-08	To UK Industries [$ 6000x (48.60-48.70)]	600			
31-3-09	To GK [$ 10000x (49.50-50)]	5000			
		15600			**15600**

Note : Exchange difference on payables even in respect of fixed assets is to be adjusted in the Profit & Loss A/c. according to the AS 11 (revised w. e. f. 1-4-2004).

Illustration No. 7

From the following details of foreign currency transactions of M/s Fema for the year ended 31st March 2009, prepare the foreign currency fluctuations A/c for the year 1st April 2008 to 31st March 2009.

Import Particulars :

(a) On 15-4-2008 , goods worth \$ 5000 purchased from C of China . The rate of exchange is \$ 1= Rs.48.60. Payment is made on 30-5-2008 when the rate of exchange is \$ 1= Rs. 48.90.

(b) On 12-6-2008 advance amount \$ 1000 paid to F of France. The rate of exchange is \$ 1 = Rs. 48.50 .On 20-6-2008 goods imported worth \$ 10000 from F of France .The rate of exchange is 1\$ =48.00. On 30-6-2008 payment made to F of France \$9000. The rate of exchange is \$1 = Rs. 48.90.

(c) On 10-7-2008 , Machinery purchased from G of Germany for \$ 50000. The rate of exchange is \$ 1= Rs. 46.80 . On 28-7-2008 payment made to G of Germany \$50000. The rate of exchange is \$1 = Rs. 47.20.

(d) On 28-1-2009 goods purchased from K of Korea \$15000. Rate of exchange is \$1= Rs. 47.30. On 20-4-2009 payment made to K of Korea \$ 15000. The rate is \$1= Rs.47.80.

Export Particulars :

(e) On 28-5-2008,exported goods to C of Canada worth \$120000, rate of exchange is \$1=Rs.47.35. On 28-6-2008, payment received from C of Canada,\$ 40000at exchange rate of \$1=Rs.47.60.On 28-8-2008 payment received from C of Canada ,\$80000at exchange of rate of 1\$= Rs. 47.00.

(f) On 1-10-2008 advanced received from J of Japan \$ 10000 exchange rate being \$1=Rs. 46.00 On 15-10-2008, exported goods worth \$30000 of J of Japan at exchange rate of \$1= 46.25. On 28-12-2008, payment received from J of Japan ,\$20000 at exchange rate of \$1= Rs. 46.25.

(g) On 2-1-2008 exported goods to S of Sri Lanka \$40000. Exchange rate is \$1=Rs. 45.40 . On 20-3-2009, \$ 20000 received from S of Sri Lanka exchange rate being \$1= Rs.46.30. On 20-5-2009 \$ 20000 received from S of Sri Lanka exchange rate being \$ 1= Rs. 48.80

The rate of exchange on 31st March ,2009 was \$1=Rs. 45.60.

Solution :

Foreign Exchange Fluctuation Account for The Year Ended 31st March 2005

Dr. Cr.

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
30-5-08	To C of China {5000x(48.90-48.60)}	1500	28-6-08	By C of Canada {40000 x (47.60-47.35)}	10000
20-6-08	To F of France {1000 x (48.50-48.00)}	500	30-6-08	By F of France {9000 x(48.00-47.90)}	900
28-7-08	To G of Germany {50000x (47.20-46.80)}	20000	20-3-08	By S of Sri Lanka {20000x(46.30-45.40)}	18000
28-8-08	To C of Canada {80000 x (47.35-47.00)}	28000	31-3-09	By S of Sri Lanka{20000 x(45.60-45.40)}	4000
15-10-08	To J of Japan {10000x (46.25-46.00)}	2500	31-3-09	By K of Korea {15000x(47.30-45.60)}	25500
21-3-09	To Profit & Loss A/c.(Net Tfd)	5900			
		58400			**58400**

Illustration No. 8

On 1^{st} January 2009 MARINA LTD. an Indian importer purchased \$ 250000 worth goods from Gemini Trading Company of USA.

The payment for the import was made as follows:

On 10^{th} February 2009 ---- \$ 100000
On 15^{th} March 2009 ---- \$ 75000
On 20^{th} April 2009 ---- \$ 75000

Marina Limited closes its books on 31^{st} March every year.
The exchange rate for \$ 1 was follows :
1^{st} January 2009 ------ Rs. 49.00
10^{th} February 2009 ----- Rs. 49.50
15^{th} March 2009 ---- Rs. 47.60
31^{st} March 2009 ----- Rs. 45.00
20^{th} April 2009 ----- Rs. 46.75

(1) Pass Journal Entries.
(2) Prepare Gemini Trading Company Account and Foreign Exchange Fluctuation Account in the books of Marina Limited.

Solution :

IN THE BOOKS OF MARINA LTD.

JOURNAL

No	Date	Particulars	Dr. Rs.	Cr. Rs.
1	10-1-2009	Purchase A/c. Dr. To Gemini Trading Co. A/c. (Being import of goods from Gemini Trading Co. at the Exchange rate of Rs. 49.00 per $)	12250000	12250000
2	10-02-2009	Gemini Trading Co. A/c. Dr. Foreign Exchange Fluctuation A/c. Dr To Bank A/c.. (Being payment made of $ 100000 at the exchange rate of Rs.49.50 & Loss transferred to Foreign Exchange Fluctuation A/c).	4900000 50000	4950000
3	15-3-2009	Gemini Trading Co. A/c. Dr. To Bank A/c. To Foreign Exchange Fluctuation A/c.[Being payment made of $ 75000 and exchange gain of Rs. 1.40 (Rs. 49.00-Rs.47.60)]	3675000	3570000 105000
4	31-3-2009	Gemini Trading Co. A/c. Dr. To Foreign Exchange Fluctuation A/c. (Being entry for a year and monetary items for $ 75000 payable to suppliers Gain of Rs. 4 [Rs. 49 – Rs.45])	300000	300000
5	31-3-2009	Foreign Exchange Fluctuation A/c Dr. To Profit & Loss A/c. (Being Profit and Foreign Exchange Fluctuation transferred to Profit and Loss A/c.)	355000	355000
6	20-402009	Gemini Trading Co. A/c. Dr. Foreign Exchange Fluctuation A/c. To Bank A/c.. (Being payment made $ 75000and exchange loss of Rs. 1.75[Rs. 46.75-45.00])	3375000 131250	3506250
7	31-3-2010	Profit and Loss A/c. Dr. To Foreign Exchange Fluctuation A/c.(Foreign Exchange Fluctuation Account's Balance transferred to Profit and Loss A/c.))	131250	131250

Gemini Traders A/c.

Date	Particulars	U.S.$	Rate	Rs.	Date	Particulars	U.S.$	Rate	Rs.
2009					2009				
Feb.10	To Bank	100000	49.50	4950000	Jan.1	By Purchases A/c.	250000	49	12250000
					Feb.10	By Foreign exc.fluctuation A/c.			50000
Mar.15	To Bank	75000	47.60	3675000					
	To Foreign exc. Fluctuation A/c.			105000					
31	To Foreign exc. Fluctuation A/c.			300000					
31	To Balance c/d	75000	45	3375000					
		250000	**---**	**12300000**			**250000**	**----**	**12300000**
2010					2010				
April 20	To Bank	75000	46.75	3506250	April	By Balance b/d	75000	45	3375000
		-----	---		April 20	By Foreign Exchange Fluctuation A/c.			131250
		75000		**3506250**			**75000**		**3506250**

Foreign Exchange Fluctuation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2009 April 10	To Gemini trading co A/c	5000	2009 March 15	By Gemini trading co	105000
31-8-09	To Profit & loss A/c [$ 5000x(48.00-48.50)]	355000	31-3-10	By Gemini trading co	300000
		405000			**405000**
2009 April 20	To Gemini Trading Co.A/c	131250	2010 March 31	By Profit & loss A/c	131250
		131250			**131250**

Illustration No. 9

Yadav Ltd. entered into following transactions during the year 2008.

(a) Purchased raw materials worth US $ 7500 on 15th February 2008 from Ammy Inc., payment due after 30 days. The actual payment was however made on 31st March 2008.

(b) Goods exported to UK worth $ 6800 on 15th March 2008- Payment due after 15 days. The actual payment was received on 13th April 2008.

(c) Imported machinery worth £ 15000 on 15th April 2008 from Germany payment was made immediately.

(d) Special raw materials worth $ 15000 on were imported on 21st May 2008. The payment was made on 10th June 2008.

(e) Spare parts from machinery imported from UK on 30th June 2008 worth £ 10000, payment was due after one month which was duly made.

(f) Plant and Machinery worth £ 10000 was purchased from Sweden , the payment for the same was made in two equal installments on 20th Oct. 2008 and 20th Dec.2008.

(g) Raw materials worth £ 11000 imported from UK 0n 15th December 2008. Payment due after two months.

Pass journal entries (including for bank transactions) for the above Accounting year in calendar year. The exchange rate were:

Date	**US $**	**£**
2008 15-2	46.00	80.00
12-3-	46.10	80.20
15-3	47.00	80.40
31-3	48.00	82.40
13-04	47.10	81.20
15-04	47.50	81.60
21-05	48.20	81.80
10-06	47.90	82.00
30-06	46.20	81.00
30-07	48.20	81.20
20-08	48.25	81.40
15-10	48.80	82.00
20-10	48.60	83.30
15-12	47.90	82.60
18-12	48.00	82.60
20-12	48.40	82.90
31-12	47.50	82.00

Solution:

In the books of Yadav Ltd.
Journal Entries

Date	Particulars	Debit Rs.	Credit Rs.
2008			
15-2	Raw materials A/c Dr. To Ammy Inc. (Being raw materials imported at exchange rate Rs. 46/$.)	345000	 345000
15-3	UK Customer A/c. Dr. To Export Sales A/c. (Being goods exported to UK at exchange rate Rs. 80/£)	546720	 546720
31-3	Ammy Inc. A/c. Dr. Foreign Exchange Fluctuation A/c. Dr. To Bank (Being amount paid at exchange rate Rs. 48/$)	345000 15000	 360000
13-04	Bank A/c. Dr. To UK Customer A/c. To Foreign Exchange Fluctuation A/c. (Being amount received 6800 at exchange rate 81.20/£)	552160	 546720 5440
15-4	Machinery A/c. Dr. To Bank (Being machinery purchased at exchange rate Rs 81.60/£)	1224000	 1224000
21-05	Raw Materials A/c Dr. To USA Supplier (Being special raw materials purchased at exchange rate Rs.48.20/$)	723000	 723000
10-06	USA supplier A/c Dr. To bank To Foreign Exchange Fluctuation A/c (Being payment made at exchange rate Rs47.90/$)	723000	 718500 4500
30.06	Machinery A/c Dr. To UK Supplier A/c (Being machinery purchased at exchange rate Rs.81/ £)	810000	 810000

30.07	UK Supplier A/c Dr. Foreign Exchange Fluctuation A/c Dr. To Bank (being payment made to UK Supplier at exchange rate Rs.81.20/ £)	810000 2000	 812000
20.08	Plant & Machinery A/c Dr. To Swedish Supplier (Being plant & Machinery purchased at exchange rate Rs.81.40/ £)	814000	 814000
20-10	Swedish supplier A/c. Dr. Foreign Exchange Fluctuation Dr. To Bank (Being amount paid at exchange rate 83.30/ £)	407000 9500	 416500
15-12	Raw materials A/c. Dr. To UK Suppliers (Being raw materials imported at exchange rate 82.60/ £)	908600	 908600
20-12	Swedish supplier A/c. Dr. Foreign Exchange Fluctuation Dr. To Bank (Being amount paid at exchange rate 83.30/ £)	407000 7500	 414500
31-12	UK Supplier A/c. Dr. To Foreign Exchange Fluctuation A/c. (Being Foreign exchange fluctuation adjusted)	6600	 6600

Illustration No. 10

Jaya Traders purchased a machine for \$ 1200000 on 30th June 2007 . Out of this \$ 1000000 was financed by a foreign currency loan. The loan carried an interest rate of 10% p.a. On the date of acquisition the exchange rate was 1\$= Rs.45.00

The firm closes books on 31st December every year. Depreciation is provided at 10% on WDV basis. The company paid \$ 200000(Exchange rate Rs.46.50/\$) on 31st December 2007 and 150000 on31st December 2008(Exchange rate Rs. 47.00/\$) alongwith outstanding interest on respective dates.

You are required to prepare Machinery A/c. and Foreign currency loan A/c.for the years 31st December 2007 and 31st December 2008 in the books of Jaya Traders.

Solution:

In the Books of Jaya Traders
Foreign Currency Loan A/c.

Date	Particulars	U.S.$	Rate	Rs.	Date	Particulars	U.S.$	Rate	Rs.
2007					2007				
Dec.31	To BAnk	200000	46.50	9300000	June 30	By Machinery	1000000	45.00	45000000
					Dec.31	By Foreign Exchange fluctuation			300000
Dec.31	To Balance c/d	800000	46.50	37200000	Dec31	By Foreign Exchange fluctuation			1200000
				46500000					**46500000**
2008					2008				
					Jan.1	By Balance b/d.	800000	46.50	37200000
Dec.31	To Bank	150000	47.00	7050000	Dec31	By Foreign Exchange fluctuation			75000
	To Balance c/d	650000	47.00	30550000	Dec31	By Foreign Exchange fluctuation			325000
				37600000					**37600000**
2009					2009				
					Jan 1	By balance B/d	650000	47.00	30550000

Machinery A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2007			2007		
June 30	To Bank	9000000			
	To Foreign currency loan A/c	45000000	Dec 31	By Depreciation A/c	2700000
			Dec 31	By Balance C/d	51300000
		54000000			**54000000**
2008			2008		
Jan 01	To Balance b/d	51300000	Dec 31	By Depreciation	5130000
			Dec 31	By balance c/d	46170000
		51300000			**51300000**
2009			2009		
Jan 01	To Balance B/d	46170000			

Illustration No. 11

On 1st Jan.2008 Suhani Ltd. imported $ 100000 worth of goods from Jimmy Traders of U.S.A. The payment for the same was made on 15th April 2008.Suhani Ltd. closes it's accounts on 31st March every year. The exchange rates on the relevant dates were :--

1-1-2008	1$=Rs.46
31-3-2008	1$=Rs.45
15-4-2008	1$=Rs.48

Journalise the above transactions in the books of Suhani Ltd. in accordance with Accounting Standard 11.

In the books of Suhani Ltd.
Journal entries

Date	Particulars	Dr. Rs.	Cr. Rs.
2008			
1-1	Purchase A/c. Dr. To Jimmy Traders U. S. A. A/c. (Being goods purchased worth U.S.A.100000 at exchange rate Rs.46/$)	4600000	 4600000
31-3	Jimmy Traders of U.S.A. A/c. Dr. To Foreign Exchange Fluctuation A/c. (Being Exchange rate fluctuation at Rs.{46.00-45.00}per $ on amount payable to Jimmy Traders of U. S. A. adjusted)	100000	 100000
31-3	Foreign Exchange Fluctuation A/c. Dr. To Profit & Loss A/c. (Being profit on foreign exchange transfer to P& L A/c.)	100000	 100000
15-4	Jimmy Traders of U.S.A. A/c. Dr. Foreign Exchange Fluctuation A/c Dr. To Bank A/c. (Being amount paid to Jimmy Traders,U.S.$100000 at Rs.48.00/$)	4500000 300000	 4800000

Illustration No. 12

Mitul Ltd. an Indian Exporter, sold goods to Charlie Inc. at U.S. $ 25000 on 1-1-2008. 30 days later Mitul Ltd. received a remittance of U.S. $ 10000 being part payment. The Foreign Bank deducted $ 10 as charges while remitting the amount of Mitul Ltd. The local Bank deducted their charges of Rs.750 while crediting the amount to the account of Mitul Ltd. Mitul Ltd. closes it's account on 31st March every year. The Exchange rates were:-

1-1-2008 1$=Rs.46
31-1-2008 1$=Rs.45
31-03-2008 1$= Rs.48

Journalise the above transactions in the books of Mitul Ltd. as per According Standard 11.

Solution:

Journal Entries in the books of Mitul Ltd.

Date	Particulars	Dr. Rs.	Cr. Rs.
2008			
1-1	Charlie Inc. U.S. A/c. Dr. To Export Sales A/c. (Being goods sold worth U.S. $ 25000at Rs. 46/$)	1150000	1150000
31-1	Bank A/c. Dr. Bank charges Inc. U. S. A/c. Dr. Foreign Exchange Fluctuation A/c Dr. To Charlie Inc.,USA (Being $ 10000 received at rs.45/$ after deducting Bank charges of Rs.10x45 i.e. Rs.450+Rs.750)	448800 1200 10000	460000
31-3	Charlie Inc. U.S. A/c. Dr. To Foreign Exchange Fluctuation A/c. (Being amount receivable from Charlie Inc. U.S. $15000 adjusted at Rs. 2 / $ [48-46])	30000	30000
31-3	Foreign Exchange Fluctuation A/c. Dr. To Profit& Loss A/c. (Being Profit on Foreign exchange fluctuation A/c. transferred to P & L A/c.)	20000	20000

Illustration No. 13

Kadambari Food Products purchased food processing machinery from Watson Inc. USA for US $ 20000 on 1st Jan.2004. The price of the machinery was payable as 5000 US $ on 1-1-2004 and balance in 3 annual instalments of 5000 $ on 1st Jan each year. Pass necessary journal entries in the books of the firm for the year 2004,2005, 2006,2007 and 2008. The firm charges depreciation at 20% p.a. on W.D.V. method. The exchange rates per $ were:-

		Rs.
On	01-01-2004	40
	31-12-2004	41
	31-12-2005	42
	31-12-2006	39

The Firm follows Calendar year & Accounting year

Solution:

Journal of Kadambari Food Products

Date	Particulars	Dr. Rs.	Cr. Rs.
1-1-04	Machinery A/c. Dr. To Watson Inc.USA A/c. (Being Machinery purchased exchange rate 1$=40 Rs.)	800000	 800000
1-1-04	Watson Inc. USA A/c Dr. To Bank A/c. (Being amount paid @ exchange rate 1$= 40Rs.)	200000	 200000
31-12-04	Depreciation A/c. Dr. To Machinery A/c. (Being depreciation charged @ 20 % p.a. on W.D.V. Method)	160000	 160000
31-12-04	Watson Inc. USA A/c Dr. Foreign Exchange Fluctuation A/c. Dr. To Bank A/c. (Being 5000 US $ paid to Watson Inc. at exchange rate 1$=41 Rs.)	200000 5000	 205000
31-12-04	Foreign Exchange Fluctuation A/c. Dr. To Watson Inc. USA A/c (Being closing balance payable to Watson Inc. adjusted at exchange rate 1$=41 Rs.)	10000	 10000

31-12-04	Profit & Loss A/c. Dr. To Depreciation A/c. To Foreign Exchange Fluctuation A/c. (Being nominal A/c. transferred to P & L) A/c.)	175000	 160000 15000
31-12-05	Watson Inc.USA A/c Dr. Foreign Exchange Fluctuation A/c. Dr. To Bank A/c. (Being 5000 US $ paid to Watson Inc. at exchange rate 1$=42 Rs.)	205000 5000	 210000
31-12-05	Foreign Exchange Fluctuation A/c. Dr. To Watson Inc.USA A/c (Being closing balance payable to Watson Inc. at exchange rate 1$=42 Rs.)	5000	 5000
31-12-05	Depreciation A/c. Dr. To Machinery A/c. (Being depreciation Provided @ 20%)	128000	 128000
31-12-05	Profit & Loss A/c. Dr. To Depreciation A/c. To Foreign Exchange Fluctuation A/c. (Being nominal A/c. transferred to P & L) A/c.)	138000	 128000 10000
31-12-06	Watson Inc.USA A/c Dr. To Foreign Exchange Fluctuation A/c. To Bank A/c. (Being 5000 US $ paid to Watson Inc. USA at Rs. 39 / $)	210000	 15000 195000
31-12-06	Depreciation A/c. Dr. To Machinery A/c. (Being depreciation provided at 20 % p.a. W.D.V.)	102400	 102400
31-12-06	Profit & Loss A/c. Dr. To Depreciation A/c. (Being depreciation transferred to P & L A/c.)	102400	 102400
31-12-06	Foreign Exchange Fluctuation A/c. Dr. To Profit & Loss A/c (Being nominal A/c transferred to P & L A/c.)	15000	 15000

Working Note: Depreciation

Date	Particulars	Amount
1-1-04 31-12-04	Purchase Depreciation @ 20% W.D.V.	800000 160000
1-1-05	Opening Balance	640000
31-12-05	Depreciation @ 20% p.a. W.D.V.	128000
1-1-06	Opening Balance	512000
31-12-2006	Depreciation @ 20 % p.a. W. D. V.	102400
1-1-07	Opening Balance	409600

Illustration No. 14.

Anand Exports on 10-10-07 goods worth $ 200000 to A Ltd. in New York. The payment was received on 1-1-08. On the date of Export, the exchange rate was $1= Rs. 45. The dollars were actually received when the exchange rate was $1= Rs.48. Record the transactions in the book of Anand in accordance with AS11.

Solution :-

Journal of Anand

Date	No.	Particulars	Dr. Rs.	Cr. Rs.
2007 Oct.10	1	A Ltd. A/c Dr. To Sales A/c. (Being Exports of $200000 to A Ltd. transferred at 1$=Rs.45)	9000000	 9000000
01.01.2008	2	Bank A/c. Dr. To Foreign Exchange Fluctuation A/c To A Ltd. A/c. (Being the receipt of $ 200000 from A Ltd. translated at 1 $= Rs.48)	9600000	 600000 9000000
31.03.2008	3	Foreign Exchange Fluctuation A/c Dr. To Profit & Loss A/c (Being nominal A/c closed)	600000	 600000

Ledger of Anand

A Ltd. Account

Date	Particulars	$	Rate	Rs.	Date	Particulars	$	Rate	Rs.
10-1-07	To Sales	200000	45	9000000	18-1-07	By Bank	200000	48	9600000
18-1-07	To Gain on FE	(200000)	3	600000					
		200000		**9600000**			200000		**9600000**

Illustration No. 15

On 1st January 2008 Bhavesh imported $ 200000 worth of goods from John of USA. The payment for the import was made on 25-5-2008. Bhavesh closes its books on 31st March every year. The exchange rates on the relevant dates were:-

01.01.08	1$=Rs.46
31-3-2008	1$=Rs.45
1-5-2008	1$=Rs.48

Record the above transactions in the books of Bhavesh in accordance with AS11.

Solution :-

Journal of Bhavesh

Date	No.	Particulars	Dr. Rs.	Cr. Rs.
2007 Jan.1	1	Purchases A/c. Dr. To John Ltd. A/c. (Being imports of $ 200000 from John Ltd.translated at 1$= Rs.46)	9200000	9200000
2007 Mar.31	2	John Ltd. A/c. Dr. To Foreign Exchange fluctuation A/c. (Being gain [$200000xRs.1] on valuation on closing date accounted)	200000	200000
2007 Mar 31	3	Foreign Exchange fluctuation A/c Dr. To Profit & Loss A/c (being nominal A/c closed)	200000	200000
2007 May 15	3	John Ltd. A/c. Dr. Foreign Exchange fluctuation A/c Dr. To Bank (Being the payment of $ 200000 to John Ltd translated at 1 $= Rs.48)	9000000 600000	9600000
2008 Mar 31	4	Profit & Loss Dr. To Foreign Exchange fluctuation A/c (Being nominal A/c closed)	600000	600000

Ledger of Bhavesh

John of USA Ltd. A/c.

Date	Particulars	$	Rate	Rs.	Date	Particulars	$	Rate	Rs.
31-1-07	To Foreign Exchange Fluctuation A/c	200000	1	200000	1-1-07	By Purchases	200000	46	9200000
31-1-07	To Balance c/d	100000	45	9000000					
				9200000					**9200000**
25-5-07	To Bank	200000	48	9600000	1-4-06	By Balance b/d	200000	45	9000000
					15-4-02	By Loss on FE	(200000)	3	600000
				9600000					**9600000**

21.2 KEY TERMS :

- **Average rate:** It is the mean of the Foreign exchange rate.
- **Closing rate:** It is the Foreign Exchange rate as on Balance Sheet date.
- **Exchange rate**: It is the Foreign Exchange rate as given by the RBI
- **Foreign currency:** It is the Currency of the foreign country.
- **Foreign Currency transaction**: It is a transaction entered in a foreign currency.
- **Foreign Exchange Fluctuation Account:** it is an account through which profit or loss due to Foreign Exchange Fluctuation is recorded.
- **Forward rate**: It is the Foreign Exchange rate fixed by the terms of agreement for exchange between two foreign currencies at a specified future date.
- **Reporting currency**: It is the currency of the country in which the financial statements are prepared.
- **Settlement date:** It is the date on which foreign currency transaction is paid or received.

21.3 EXERCISES :

21.3.1 OBJECTIVE TYPE QUESTIONS

- **Multiple Choice Questions :**

1. The exchange rate at the balance sheet date is known as
   (a) Average Rate (b) Closing Rate
   (c) Non-monetary Rate (d) Monetary Rate

2. Reporting currency is the currency used
   (a) In recording the financial transactions
   (b) In presenting the financial statements
   (c) In settling the financial transactions
   (d) None of the above

3. Monetary items
   (a) Are assets and liabilities to be received or paid in money
   (b) Are assets to be received in fixed or determinable amounts of money
   (c) Are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money
   (d) None of the above

4. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the
   (a) Balance Sheet (b) Transaction
   (c) Settlement (d) None of the above

5. The contingent liability denominated in foreign currency at the balance sheet date is disclosed by using the
   (a) Average Rate (b) Closing Rate
   (c) Non-monetary Rate (d) Monetary Rate

Answers: 1. b, 2. b, 3. c, 4. b, 5. b.

- **Fill in the blanks.**

1. ____________ is the mean of the exchange rates in force during a period.

2. ____________ difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

3. ____________ rate is the ratio for exchange of two currencies.

4. ____________ value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

5. ____________ items are assets and liabilities other than monetary items.

6. ____________ currency is the currency used in presenting the financial statements.

7. Cash, receivable, and payable are examples of ____________ items.

8. Fixed assets, inventories and investments in Equity shares are examples of ____________ items.

9. The contingent liability denominated in foreign currency at the balance sheet date is disclosed by using the ____________ rate.

Answers: (1) Average Rate, (2) Exchange, (3) Exchange, (4) Fair, (5) Non-monetary, (6) Reporting, (7)Monitory, (8) Non-monetary, (9) Closing

- **State whether True or False.**

1. Exchange rate is the rate at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

2. Inventories is a non-monetary item.

3. A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the recording.

4. Closing rate is the exchange rate at the close of the date on which a transaction takes place.

5. Foreign Currency is a currency other than the Indian rupee.

6. Monetary items are defined by AS 11 as assets and liabilities other than non-monetary items.

7. Reporting currency is the currency used in recording the financial transactions.

8. Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at the closing exchange rates.

9. A foreign currency transaction arises when an enterprise buys or sells goods or services whose price is denominated in the reporting currency.

Answers: **True: 2**

False: 1, 3, 4, 5, 6, 7, 8, 9.

21.3.2 PRACTICAL PROBLEMS

1. Sailata Ltd. imported raw materials worth US $ 100000 from Silverline (USA) Inc. New York on 20th March 2008, when the exchange rate was US $1=Rs. 40.10 . Sailata agreed to pay the amount due to the Silverline (USA) Inc. in four equal instalments falling on 20th April, 20th May, 20th June, 20th July 2008 . Exchange rates on these dates were as follows :-

20th April 2008	Rs.40.60
20th May 2008	Rs. 40.00
20th June 2008	Rs. 39.70
20th July 2008	Rs.38.90

Prepare Silverline (USA) Inc. A/c. in the books of Sailata Ltd.

2. During the year ended 31-12-2008. A Ltd. entered into the following transactions in foreign currency. Pass Journal entries for the same (including for bank transactions) Also prepare the Foreign Currency Fluctuation A/c.

(a) A machine was imported on 10th January 2008 from A in Singapore worth US $ 14500. The payment for the same was made on 1February 2008.

(b) A machine was imported on 11 February 2008 from Machinery Manufacturers Inc. USA for US $5000. The payment for the same was made as:

i) US $ 2000 as advance on 11 February 2008

ii) US $ 5000 on 28 February 2008

iii) Balance on 31st March 2008

(c) Order for Machinery spares was placed on 10th September 2008 for US $ 5000. The bank made the payment for the same on delivery of spares after a week.

(d) Goods worth US $ 5700 exported to Excel Industries, Dubai on 2nd Nov.2008. The payment for the same was due after three months.

(e) Raw materials worth US $16000 Imported on 1st December 2008 from Five Pharma Ltd. USA . The payment for the same was to be made after two months.

The Foreign Exchange Rates for US $ were as under:-

Date	Rs./$
10.01.2008	47.50
1.02.08	47.90
11.02.08	48.10
28.02.08	49.00
31.03.08	50.10
10.09.08	48.20
17.09.08	47.50
02.11.08	47.60
01.12.08	48.90
31.12.08	47.00

3. Pass Journal entries for the following Foreign Currency transactions :-

K Ltd. invoiced goods to Graff Traders of West Germany for US $ 600000 on 10th March 2008. The payment for the same was received as follows.

On 15th March 2008	US $200000	Rs. 42/$
25th March 2008	US $150000	Rs. 43/$
25th April 2008	Balance	Rs.44/$

The exchange rate on 10th March 2008 was Rs. 40/$ and on 31st March 2008 Rs. 45/$.K Ltd. follows financial year as accounting year.

4. Ceat Ltd. purchased a machine for US $ 1000000 on 30th June 2006, from Thompson of USA ,out of which $800000 was financed by a foreign currency loan and the balance was received by way of Government Grant. The loan carried interest at 9% p.a. On the date of acquisition exchange rate was $1= Rs.40.

The Foreign currency loan was repaid in two equal annual instalments on 30th June 2007 and 30th June 2008 along with interest due there on.

Ceat Ltd provides depreciation at 20% p.a. WDV. Method on 31st March every year.

The exchange rate were as under:-

31st December 2006	Rs.42/$
31st March 2007	Rs. 44/$
30th June 2007	Rs.43/$
31st March 2008	Rs. 45/$
30th June 2008	Rs. 44/$

You are required to prepare following Ledger Accounts in the books of Ceat Ltd.

a) Machinery A/c.

b) Foreign currency loan A/c.

c) Interest A/c.

d) Depreciation A/c.

e) Outstanding interest A/c.

5. Radha Enterprises sold to Manhattan and Co. of USA goods on 31st December 2008 valued at $ 50000. Half the amount was paid by the Wales Co. on 31st January 2009,when the rate of exchange was 1$= Rs.48as against 1$= Rs.45 on 31st December 2008 The rate of exchange on 31st March2009 was 1$= Rs. 46

   Pass necessary Journal entries in the books of Radha enterprises and show the relevant extract of balance sheet as on 31st March 2009.

6. Kailas Ltd. borrowed from Uk , money market a sum of 100000 pounds on 1st January 2008 for a period of 6 months for working capital requirement. The loan was repaid on the due date together with interest at 6 %. The exchange rate for the pound sterling is given below:-

On 1st January 2008	1pound= Rs. 58
31st March 2008	1 Pound= Rs.59
30th June 2008	1 Pound= Rs.60

Pass necessary entries in the books of Kailas Ltd. for the above transactions and show the relevant extract of its balance sheet as on 31st March 2008.

7. Manoj trading Co. an Indian exporter sold goods to Tom Ltd. invoicing at $25000 on 1st January 2008. The exchange rate at the time of invoice was Rs.46.later Manoj Trading Co. received

remittance of $ 10000 being part payment. The foreign bank deducted $ 20 as charges while remitting the amount to Manoj trading co. the rate of exchange at the time of remittance was Rs.44 The local bank deducted their charges of Rs. 1000 while crediting the amount in the accounts of Manoj Trading Co.

Record the following transaction in the books of Manoj Trading Co.

8. Stock at cost to Progressive company ltd. on 31st march 2009 was valued at the cost of £10000 being purchased on 31st December 2008. the currency rate of exchange were:

   1£ =Rs.70 (31st March 2009) and Rs.68 (31st December 2008)

   The market value on 31st March 2009 of the stock was lower than its cost by 10% thereof when Progressive company ltd. paid half the amount due on the purchases. Show the entries passed by Progressive company ltd. on relevant extract of its balance sheet as on 31st March 2009.

❖❖❖❖

22

BUYBACK OF OWN DEBENTURES-I

Unit Structure

22.7 Accounting Entries for Own Debentures

22.8 Disclosure of Investment of Own Debentures in Balance sheet.

22.9 Debenture Trustees

22.0 OBJECTIVES:

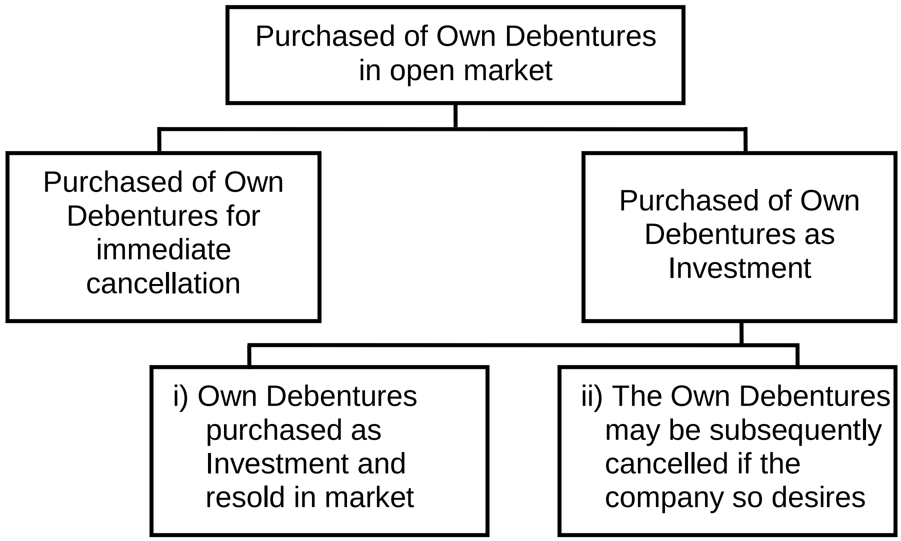
After studying the unit the students will be able to:

- Know the meaning of Own Debentures
- Understand the Accounting for interest on Own Debentures
- Record Own Debentures purchased cum – Interest / ex – interest transactions.
- Explain the procedure for Cancellation of Own Debentures.
- Solve the practical problems on the unit.

22.1 INTRODUCTION :

The companies Act, 1956 does not prohibits purchase of its Own Debentures by a company. A company if authorized by its Articles of Association, Debenture Deed etc.; can buy its Own Debentures in the open market, which were issued to public earlier. Acquisition of Own Debentures by a company is treated like purchase of any other investment, only difference is instead of debiting Investment Account, it is debited to Own Debentures Account. The Debentures so purchased by a company can be held as investment or it may purchase for immediate cancellation or it may resold in open market or company may cancelled afterwards if the company so desires. Debentures when purchased for investments are popularly known as “Own Debentures.”

Purchased of Own Debentures in open market



22.2 BENEFITS OF PURCHASE OF OWN DEBENTURES :

Purchase of Own Debenture benefits the company in following ways :

a) If market price of Own Debenture is less than face value of Debentures, by purchasing it in open market company may gain / profit on purchases. e.g. If face value of Debenture is Rs.500/- each, and it market price is Rs.475/-. The company can save Rs.25/- on cancellation.

b) If Debentures are redeemable at premium, by purchasing Own Debentures below face value, company can save premium payable on redemption of Debentures.

c) After purchase company saves on interest payable on such Debentures.

d) Resell of Own Debentures in open market, company can make profit, when market condition is favorable.

e) Sinking Fund may be invested in Own Debentures, so investment may not be open market risk.

22.3 DEBENTURE INTEREST AND INTEREST ON OWN DEBENTURE :

Debenture interest is calculated on face value of Debenture outstanding during fixed rate of interest. Debenture interest being expenses is debited when it due and at the end year it is transferred to Profit & Loss Account. Total Debenture interest payable can divided into three parts.

1. Interest on Own Debentures held as Investment. It is credited to Interest Own Debenture Account and at the end of the year it is credited to Profit & Loss Account as income.

2. Interest on Own Debentures held a Sinking Fund Investments : Interest on Own Debentures is credited to Sinking Fund Account and not to Profit & Loss Account.

3. Interest on Debentures held by outsiders : Debenture interest is payable to outsiders, therefore it is credited to Debenture holders.

However, once Own Debentures are resold in the open market, interest amount from date of sale, will be payable to outsider and upto date of sale it is credited to interest on Own Debentures.

Similarly, after cancellation Own Debentures, no interest accrues on Debentures cancelled. Interest on Own Debentures is recorded only upto date of cancellation or upto resell in open market.

According to Income Tax Act, 1961, a company is liable to deduct income tax at the prescribed rate on Gross amount of interest, the net amount is paid to Debenture holders. However, income tax act does not provide for deduction of tax on interest accrued but not due; while purchase / sale of Own Debentures.

22.3.1 ACCOUNTING ENTRIES FOR DEBENTURE INTEREST

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	For Debenture interest due.		
	Debenture Interest A/c ……………………… Dr.	XX	
	To Debenture holders A/c		XX
	To Interest on Own Debentures A/c		XX

2.	For payment & interest to outsiders Debenture holders A/c ……………………… Dr. To Bank A/c To TDS on Debenture Interest A/c (if any)	XX	 XX XX
3.	For transfer of Debenture interest Profit & Loss A/c ………………………………Dr. To Debenture Interest A/c	XX	 XX
4.	For transfer of interest on Own Debentures Interest on Own Debentures A/c ……………Dr. To Profit & Loss A/c OR To Sinking Fund A/c	XX	 XX XX

22.4 PURCHASE OF OWN DEBENTURES CUM-INTEREST AND EX-INTEREST :

Cum means with and ex-interest means without. When Own Debentures are purchase / resold before due date of payment of interest, if interest accrued included in the quotation price it is cum – interest. It is total amount to be paid by buyer to the seller. Similarly interest accrued not included in quotation price, it is ex-interest price.

When Own Debenture purchased in open market, it is required to make distinction between capital portion and revenue portion of total amount paid for acquiring the Own Debentures.

In case of cum-interest price it includes interest accrued from last payment of interest upto date of purchase.

Illustration : 1

On 1st November, 2007 Z Ltd. purchase Own 12% Debentures for 12,100 cum – interest (face value Rs.10,000/-). It due date of payment of interest on 12% Debentures is 31st December every year.

Solution :

Since it is cum-interest, interest for expired period is included in quotation price. i.e. Rs.12,100/- includes interest from 1st Jan. 07 to 1st Nov. 07. (10 months) Interest is always calculated on face value.

Interest accrued = 10,000 X $\frac{12}{100} \times \frac{10}{12}$ = Rs.1,000/-

Therefore, cost of Own Debenture = 12,100 – 1,000
= Rs.11,100/-

In above case, if it is then Z Ltd. require to pay for purchase of Own Debenture + Accrued Interest.

Amount paid up Z Ltd. = 12,000 (cost) + 1,000 (interest)
= Rs.13,100/-

In above case, the price of Rs.12,100/- represents the price actually paid for the purchasing Own Debentures.

$\therefore$ Cum-interest = Ex-interest (cost) + Accrued interest for expired period

Illustration : 2

On 31^{st} Aug. 08, KB Ltd. purchased Own, 400 12% Debentures of Rs.100/- each at Rs.120/- cum-interest. Interest payable half yearly on 30^{th} June & 31^{st} December every year.

Solution :

	Rs.
Cum-interest amount paid 400 X 120	48,000
Less : Interest for expired period of 2 months.	
Face value 400 X 100 = 40,000	
Accrued Interest for 2 month.	
40,000 X $\frac{12}{100} \times \frac{2}{12}$	(800)
Cost of Own Debenture	47,200

Illustration : 3

In continuation of above problem, on 30^{th} sep. 08 Z Ltd. purchased Own 500, 12% Debentures ex-interest @ Rs.125/- each interest payable on 30^{th} June and 31^{st} December every year.

Solution :

Total amount payable by Z Ltd.	Rs.
500 Debentures @ Rs.125/- each (cost = ex-int)	62,500
Add : Interest accrued for 3 months. (1st July 08 to 30th Sept. 08)	
$50{,}000 \times \frac{12}{100} \times \frac{3}{12}$	1,500
Total amount payable for purchased of Own Debentures	64,000

Brokerage paid, if any, should be added to cost of Own Debentures. It is to be calculated on quotation price.

22.5 PURCHASE OF OWN DEBENTURES :

A company can buy back its Own Debentures which are issued to public earlier, in open market, if it is authorized by Articles of Association and as per terms of issue of Debentures. While recording purchase / cancellation of Own Debentures / Resell of Own Debentures etc., following points should be considered.

i) Interest Accrued till date of purchase / sale interest is always calculated on face value and considering expired period (from last payment of interest till purchase / resell of Own Debentures.)

ii) Whether purchase / resell of Own Debenture is cum-interest of ex-interest.

iii) Brokerage paid is added to cost in case of purchaser, it is deducted from Gross amount in case of resell.

iv) If quotation price does not mentioned about cum or ex-interest, in the given problem. It is assumed that quotation price is ex-interest and suitable note should be given.

22.5.1 PURCHASE OF OWN DEBENTURE FOR IMMEDIATE CANCELLATION:

Own Debentures are purchase and immediately cancelled. Normally when Debentures traded below face value, company may purchased Own Debentures and cancelled immediately. So, company saves interest payable on Debentures and also premium payable on redemption if any. There can be profit on cancellation if it is purchase below face value. Normally combined entry passed for acquisition and cancellation of Own Debentures.

Journal entry

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	For purchased & cancellation of Own Debentures Debentures A/c ………………………………….Dr. (face value of Debenture purchased.) Debenture Interest A/c ……………………….. Dr. (accrued upto date of cancellation) To Bank A/c (Total amount paid) To Capital Reserve A/c (Profit on cancellation of Own Debentures)	 XX XX	 XX XX
2.	If Debentures are redeemed out of profit, addition entry required to transfer profit. Profit & Loss Appropriation A/c ………......... Dr. To Debenture Redemption Fund A/c (Amount equal to face value of Debentures cancelled.)	 XX	 XX

Illustration : 4

On 1st April, 09 M.D. Ltd. purchase Own 500, 12% Debenture of Rs.100/- each @ Rs.97/- cum-interest from open market for immediate cancellation. Debenture interest payable annually on 31st Dec. every year.

Solution :

Journal in the books of M.D. Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	12% Debentures A/c (face value) …………...Dr. Debenture Interest A/c ………………………. Dr. To Bank A/c To Capital Reserve A/c (Being 500 Own Debentures purchase for cancellation, interest @ 12% on Rs.50,000 for 3 months recorded.)	50,000 1,500	 48,500 3,000
2.	Profit & Loss Appropriation A/c …………….. Dr. To Debenture Redemption Reserve A/c (Being profit transferred to the extent of face value of Debentures cancelled.)	50,000	 50,000

22.5.2 PURCHASE OF OWN DEBENTURES AS INVESTMENT

Purchased of Own Debentures by a company is treated like purchase of any other Investment only difference is that instead of debiting Investment A/c, it is debited to Own Debentures at purchased cost. Interest accrued Own Debentures also should be accounted.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Own Debentures A/c (cost)…….....………… Dr. Debenture Interest A/c (accrued Int.) ………..Dr. To Bank A/c (Total Amt. paid)	XX XX	 XX

Illustration : 5 (Own Debentures are purchased as investments)

In the books of N.M. Ltd. the 12% Debentures Account shows a credit balance of Rs.5,00,000/- consisting of 5,000 Debentures of Rs.100/- each as on 1st April 08.

During the year Debentures were purchased in the open market as follows :

1st July, 500 Debentures at Rs.96/- ex-interest.
1st December, 400 Debentures at Rs.99/- cum-interest.

The Debentures, purchased were retained as investment of the company. Interest on Debentures was payable half yearly on 30th Sept. and 31st March every year.

You are required to passed journal entries in the books of N.M. Ltd.

Solution :

In journal of N.M. Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1st July 08	Own Debentures A/c ………………………..Dr. Debenture Interest A/c …………………….. Dr. To Bank A/c (Being 500 12% Debentures of Rs.100/- each at Rs.96/- ex-interest as investment and Debenture interest for the period of three months.)	48,000 1,500	 49,500
30th Sept. 08	Debenture Interest A/c …………….........Dr. To Interest on Own Debentures A/c To Debenture holders A/c (Being interest due @ 12% on Rs.4,50,000/- held by outsiders for 6 months and on Rs.50,000/- held by company for 3 months.)	28,500	 1,500 27,000

30th Sept. 08	Debenture holders A/c ……………….........Dr. To Bank A/c (Being payment for interest due to outsiders.)	27,000	27,000
1st April 08	Own Debentures A/c ………………………..Dr. Debenture interest A/c …………………….. Dr. To Bank A/c	38,800 800	39,600
31st Mar. 08	Debenture Interest A/c ………………..........Dr. To Interest on Own Debentures A/c To Debenture holders A/c (Being interest due @ 12% p.a. on Rs.4,10,000/- held by outsiders and Rs.50,000/- held by company for 6 month and on Rs.40,000/- for 4 months.)	29,200	4,600 24,600
31st Mar. 08	Debenture holders A/c ……………….........Dr. To Bank A/c (Being interest due on outsider paid.)	24,600	24,600
31st Mar. 08	Profit & Loss A/c ……………………………Dr. To Debenture interest A/c (Being Debenture interest transferred.)	60,000	60,000
31st Mar. 08	Interest on Own Debentures A/c …………..Dr. To Profit & Loss A/c (Being interest on Own Debenture transferred.)	6,100	6,100

22.5.3 FOR PURCHASE OF OWN DEBENTURES AS INVESTMENT AND RESELL OF OWN DEBENTURES IN OPEN MARKET.

A company may acquire its Own Debenture and subsequently the company may decide to resell in the open market. If market condition are favourable, company need funds, the company can earn some profit and funds available.

Accounting procedure should as follows.

i) For purchase of Own Debenture

ii) For resell of Own Debenture

iii) For Accounting for Debenture interest and Interest on Own Debentures.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	For Purchase of Own Debentures. Own Debenture A/c (ex-int.)…………………..Dr. Debenture Interest A/c (Cost accrued Int.)…..Dr. To Bank A/c (cum-int. amt. paid)	 XX XX	 XX
2.	Bank A/c (I) ……………………………………..Dr. To Own Debentures A/c (II) To Debentures on Own Interest A/c (III)	XX	 XX XX
Note :	I) Bank = cum-interest (–) Brokerage II) Own Debentures = Amt. received (–) Accrued Interest III) Accrued Interest = Debentures interest from last due date of interest or interest on purchased of Own Debentures which ever a earlier.		

Note : In case due date of Interest and year end of company are different, care should taken to account for accrued but not due; Debenture interest at the end of year.			
3.	For Profit / Loss on resale of Own Debentures. a) For Profit Own Debentures A/c ………………………..Dr. To Profit & Loss A/c b) For Loss Profit & Loss A/c ……………………………Dr. To Own Debentures A/c	 XX XX	 XX XX
Profit = Net Sales proceeds of Own Debentures XXX Less : Cost of Own Debentures sold (XX) Profit on Debentures XXX **OR** Loss on sale of Own Debentures XXX			
4.	For Interest due on Debentures / year end Debentures Interest A/c (I) ……………………Dr. To Debenture holders A/c (II) To Interest on Own Debentures (III)	 XX	 XX XX
Note : I) Debenture Interest = Total Interest due for the period (–) Debenture interest paid at the time of purchased, only if it is purchased after lat due date. II) Debenture holders = Interest payable for entire due period $= \left(\begin{array}{c}\text{Face value of Debentures}\\ \text{by outsiders}\end{array}\right) X \left(\begin{array}{c}\text{Rate of}\\ \text{Interest}\end{array}\right) X \frac{\text{No. of Months}}{12}$			
5.	For Debenture Interest paid to outsiders. Debenture holders A/c ………………………..Dr. To Bank A/c	 XX	 XX
6.	At the end of year a) For transferring Debenture Interest Profit & Loss A/c ……………………………Dr. To Debentures Interest A/c b) For transferring Interest on Own Debentures Interest on Own Debentures A/c …………Dr. To Profit & Loss A/c	 XX XX	 XX XX

Illustration : 6

On 01/01/08 12% Debenture A/c showed a credit balance of Rs.6,00,000/- (Rs.100/- each) Interest is payable on 30th June and December every year.

Company made following purchases and sale in the open market in respect of –

31/03/08 Rs.50,000/- Debentures acquired @ Rs.99/- cum-interest

30/04/08 Rs.20,000/- Debentures sold @ Rs.101/- ex-interest

01/10/08 Rs.40,000/- Debentures acquired @ Rs.96/- ex-interest

30/11/08 Rs.20,000/- Debentures sold @ Rs.108/- cum-interest, which was purchased on 31/03/08.

Company closes books on 31st December every year.

Pass journal entries (including cash).

Solution :

Journal

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31.03.08	Own Debentures A/c ……………………Dr. (49,500 – 1,500) Debenture Interest A/c ………………… Dr. $(50{,}000 X 12\% X \frac{3}{12})$ To Bank A/c (50,000X99%)	48,000 1,500	 49,500
30.04.08	Bank A/c ………………………………….Dr. $[(200 X 101) + \text{Int. } (20{,}000 X 12\% X \frac{4}{12})]$ To Own Debentures A/c (200X101) To Interest on Own Debentures A/c $(20{,}000 X 12\% X \frac{4}{12})$ (Being 200 Own Debentures sold @ Rs.101/- ex-interest.)	21,000	 20,200 800
30.04.08	Own Debentures A/c ……………………Dr. To Profit and Loss A/c (Profit on sale of Own Debentures transferred.) (i.e. $\frac{48000}{500} X 200 = 19{,}200$ cost)	1,000	 1,000
30.06.08	Debenture Interest A/c …………………Dr. To Debenture holders A/c $(5{,}70{,}000 X 12\% X \frac{6}{12})$ To Interest on Own Debentures A/c (Being half yearly Debenture interest provided.)	35,300	 34,200 1,100

Workings :

(No. of Debentures = 6,000 – 300 = 5,700 [face value = Rs.100/-])

Outsider

$(5,70,000 \times 12\% \times \frac{6}{12})$ = 34,200

On Own Debentures

$50,000 \times 12\% \times \frac{1}{12} = 500$

$30,000 \times 12\% \times \frac{2}{12} = 600$ 1,100

Total Interest 35,300

01.10.08	Own Debentures A/c ……………………Dr. (400 X 96) Debenture Interest A/c ………………… Dr. $(40,000 \times 12\% \times \frac{3}{12})$ To Bank A/c (Being 400, 12% Debentures acquired at Rs.96/- ex-int, interest accrued for 3 months.)	38,400 1,200	 39,600
30.11.08	Bank A/c (200 X 108) …………………..Dr. To Own Debentures A/c To Debenture Interest A/c $(20,000 \times 12\% \times \frac{5}{12})$	21,600	 20,600 1,000
30.11.08	Own Debentures A/c ……………………Dr. To Profit and Loss A/c (Being profit on sale of 200 Own Debenture transferred.)	1,400	 1,400

Workings :

	Rs.
Sale Proceeds	20,600
Less : Cost of Own Debentures	(19,200)
Profit on sale	1,400

31.12.08	Debenture Interest A/c …………………Dr. To Interest on Own Debenture A/c To Debenture holders A/c (Being Debenture interest due for six months.)	35,800	 2,800 33,000

Workings :

Debenture Interest on Own Debentures

Opening Bal X Month (300 X 3)	900
01.10 Purchased (300 + 400 = 700 X 2 months)	1,400
30.11 Sold 200 sold (700 – 200 = 500 X 1 month)	500
Interest on Own Debentures	2,800

Outsiders

Total Debentures	6,000
(-) Own Debentures	(500)
With outsiders	5,500

Debenture interest held by outsiders = 5,50,000 X 12% X $\frac{6}{12}$ = 33,000

31.12.08	Profit & Loss A/c ....Dr. To Debenture Interest A/c (Being Debenture Interest transferred.)	72,000	72,000
31.12.08	Interest on Own Debentures A/c ....Dr. To Profit & Loss A/c (Being Interest on Own Debentures transferred.)	3,900	3,900

22.6 OWN DEBENTURES HELD AS INVESTMENT AND LATER ON CANCELLATION OF OWN DEBENTURES :

A company may purchase Own Debentures treat as investment and later on cancelled Own Debentures to reduced liabilities. Cancellation Own Debentures may be on due date of interest or it may be cancelled on any time other than due date of interest. In such a case, care should be taken about Interest accrued for expired period up to date of cancellation. In such a case, following accounting procedure should be followed:

22.6.1 ACCOUNTING PROCEDURE

a) Acquisition of Own Debenture

b) Pass entry for cancellation of Own Debenture

c) Pass entry for accrued Debenture interest and interest on Own Debentures for expired period. i.e. From date of interest upto date of cancellation.

Note : i) After cancellation of Own Debentures, no interest accrues on Debentures cancelled.

ii) Profit on cancellation of Own Debenture is capital profit and hence it should be transferred to capital reserve.

22.6.2 ACCOUNTING ENTRIES

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	For Acquisition of Own Debentures Own Debentures A/c (ex-int. + brokerage)……..Dr. Debenture Interest A/c (accrued interest) …….. Dr. To Bank A/c (cum-int + brokerage)	 XX XX	 XX
2.	For cancellation of Own Debentures Debentures A/c (face value of deb. cancelled)...Dr. To Own Debentures A/c	 XX	 XX
3.	For Profit on cancellation of Own Debentures Own Debentures A/c (profit on cancelled)……..Dr. To Capital Reserve A/c (Profit = face value of Debentures – cost of Own Debentures)	 XX	 XX
4.	In case, loss on cancellation of Own Debentures Securities Premium / Profit & Loss A/c …………Dr. To Own Debentures A/c	 XX	 XX
5.	For interest due on Debentures cancelled and interest on Own Debentures Debenture interest A/c …………………………..Dr. To Interest on Own Debentures A/c Debenture interest = face value X rate of return X $\frac{\text{Expired period}}{12}$) Alternatively above entries can be combined as under – Debenture Interest A/c ………………………….. Dr. To Own Debentures A/c To Interest on Own Debentures A/c To Capital Reserve A/c **Note:** In case of loss on cancellation it should be accounted accordingly.	 XX XX	 XX XX XX XX

Illustration : 7

01.01.09 Parag Ltd. holds Own 400, 10% Debenture, of Rs.100/- each purchased @ Rs.88/- as Investment.

On 31.03.09 the company decided to cancel all above Own Debentures. Debenture interest payable on 30^{th} June and 31^{st} December every year.

Pass journal entries.

Solution :

In the books of Parag Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31.03.09	10% Debentures A/c (400X100)………..Dr. To Own Debentures A/c (400X88) To Profit on cancellation of Own Debentures A/c (Being 400, Own Debentures cancelled.)	40,000	 35,200 4,800
31.03.09	Debentures Interest A/c …………………Dr. To Interest on Own Debentures A/c (Being accrued interest on Debentures upto cancellation.) 400X100 = 40,000 $40{,}000 \text{ X } 10\% \text{ X } \frac{3}{12} = 1{,}000$	1,000	 1,000
31.03.09	Profit on Own Debentures A/c …………Dr. To Capital Reserve A/c (Being profit on cancellation of Own Debentures transferred.)	4,800	 4,800

Illustration : 8

On 1^{st} January 08, Z Ltd.'s books showed, credit balance 5,000, 6% Debentures on 30^{th} June and 31^{st} December every year.

The company made following purchases of Own Debentures in open market.

On 01.05.08, 400 Debentures purchased @ Rs.94/- ex-interest
On 01.09.08, 600 Debentures purchased @ Rs.95/- cum-interest
On 01.12.08, company decided to cancelled Own 1,000 Debentures

Pass entries for the year ended 31^{st} December 08.

Solution:

Journal in Z Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2008 May 1	Own Debentures A/c (400 X 94) ………Dr.	37,600	
	Debenture Interest A/c …………………Dr.	800	
	(40,000 X $\frac{6}{100}$ X $\frac{4}{12}$ = 800)		
	To Bank A/c		38,400
	(Being 400, 10% Debenture purchased @ Rs.94/- ex-interest, interest accrued for 4 months.)		
June 30	Debenture Interest A/c ………………… Dr.	14,200	
	To Debenture holders A/c		13,800
	(4,60,000 X $\frac{6}{100}$ X $\frac{6}{12}$ = 13,800)		
	To Interest on Own Debentures A/c		400
	(40,000 X $\frac{6}{100}$ X $\frac{2}{12}$ = 400)		
	(Being Debenture interest due for 6 months and on 400 Own Debentures for 2 months.)		
June 30	Debenture holders A/c …………………Dr.	13,800	
	To Bank A/c		13,800
	(Being Debenture interest due to outsides paid.)		
Sept. 1	Own Debentures A/c…………………....Dr.	56,400	
	(57,000 – Int. 600)		
	Debenture Interest A/c …………………Dr.	600	
	(60,000 X 60% X $\frac{2}{12}$)		
	To Bank A/c (600 X 95)		57,000
Dec. 1	10% Debentures A/c ……………………Dr.	1,00,000	
	To Own Debentures A/c (37,600+56,400)		94,000
	To Capital Reserve A/c (Bal fig.)		6,000
	(Being 1,000 Own Debentures of Rs.100/- each costing Rs.94,000/- cancelled.)		
Dec. 1	Debentures Interest A/c …………………Dr.	1,900	
	To Interest on Own Debentures A/c		1,900
	(Being interest on Own Debenture, upto cancellation accounted.)		

	a) On 400X100= 40,000 X 6% X $\frac{5}{12}$ =1,000 b) On 600X100=60,000 X 6% X $\frac{3}{12}$ = 900 1,900		
Dec. 31	Debenture Interest A/c …………………Dr. (4,00,000 X 6% X $\frac{6}{12}$) To Debenture holders A/c (Being Debenture interest due on 4,000 debentures of Rs.100/- each held by outsiders.)	12,000	12,000
Dec. 31	Debenture holders A/c ………………….Dr. To Bank A/c (Being Debenture interest paid.)	12,000	12,000
Dec. 31	Profit & Loss A/c ………………………..Dr. To Debenture Interest A/c (Being Debenture interest transferred.)	29,500	29,500
Dec. 31	Interest on Own Debentures A/c ………Dr. To Profit & Loss A/c (Being balance in interest Own Debentures transferred.)	2,300	2,300

22.7 ACCOUNTING ENTRIES FOR OWN DEBENTURES :

22.7.1 No Sinking Fund exists

Various entries are already given above steps wise

22.7.2 When Sinking Fund exists

Under Sinking Fund method of redemption, out of distributable profit some part of profit transferred to sinking Fund A/c. Amount appropriated is invested in Securities. As companies are allowed to buy their Own Debentures from market, instead of purchasing other securities, companies may buy their Own Debentures which are earlier issued to public. Own Debentures purchased is a part of Sinking Fund Investment. Therefore, interest on Own Debentures, profit or loss on cancellation / resell of redemption of Own Debentures are transferred to Sinking Fund A/c.

To the extent face value Debentures cancelled / redeemed; Sinking Fund balance transferred to General Reserve.

When entire Debentures are redeemed, balance in Sinking Fund transferred to General Reserve.

Sinking Fund is also known as Debenture Redemption Fund.

Accounting Entries

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	For Annual Appropriation		
	Profit & loss Appropriation A/c ………………... Dr.	XX	
	To Sinking Fund A/c		XX
2.	For purchase of Own Debentures as Sinking Fund Investment		
	Own Debentures / S.F. Investment A/c ……….Dr.	XX	
	Debenture Interest A/c …………………………Dr.	XX	
	To Bank A/c		XX
3.	For Debenture Interest due		
	Debenture Interest A/c …………………………Dr.	XX	
	To Debenture holders A/c		XX
	To Interest on Own Debentures A/c		XX
4.	For Debenture interest of outsiders paid		
	Debenture holders A/c …………………………..Dr.	XX	
	To Bank A/c		XX
5.	For transfer of interest on Own Debentures		
	Interest on Own Debentures A/c ………………Dr.	XX	
	To Sinking Fund A/c		XX
Above entries 1 to 5 to be repeated every year till Debentures are to be redeem.			
6.	In the last year, when Debentures are to redeem		
	For annual appropriation		
	Profit & Loss Appropriation A/c ………………...Dr.	XX	
	To Sinking Fund A/c		XX
7.	For Debenture Interest due.		
	Debenture interest A/c …………………………..Dr.	XX	
	To Debenture holders A/c		XX
	To Interest on Own Debentures A/c		XX
8.	For Debenture interest paid to outsider		
	Debenture holders A/c …………………………..Dr.	XX	
	To Bank A/c		XX

9.	For transfer of interest on Own Debenture Interest on Own Debentures A/c ……………….Dr. To Sinking Fund A/c	 XX	 XX
10.	For cancellation of Own Debentures, on redemption of Debentures Debentures A/c ………………………………….Dr. To Own Debentures / S.F. Investment A/c Note : Any Profit or Loss on cancellation should be transferred to Sinking Fund. a) For Profit Own Debentures A/c …………………………Dr. To Sinking Fund A/c b) For Loss on cancellation Sinking Fund A/c ……………………………..Dr. To Own Debentures A/c	 XX XX XX	 XX XX XX
11.	For redemption of Debentures held by outsiders a) At par Debentures A/c ………………………………...Dr. To Debenture holders A/c b) At Premium Debentures A/c ………………………………..Dr. Premium on Redemption of Debentures A/c..Dr. To Debenture holders A/c	 XX XX XX	 XX XX
12.	For payment to Debenture holders Debenture holders A/c …………………………..Dr. To Bank A/c	 XX	 XX
13.	For transferring premium on redemption Sinking Fund A/c …………………………………Dr. To Premium on redemption of Debentures A/c Note : if it is not provided at the time of issue of Debentures.	 XX	 XX
14.	For transferring balance Sinking Fund Sinking Fund A/c …………………………………Dr. To General Reserve A/c Note : In case of partial redemption of Debenture, Sinking Fund to the extent face value of Debentures redeemed should be transferred.)	 XX	 XX

Illustration : 9

Following balances appeared in book of Zeed Ltd. as on 1st April 08.

	Rs.
12% Debentures (Rs.100/- each)	10,00,000
Sinking Fund A/c	8,50,000
Sinking Fund Investments	
a) 5% Govt. Loan (FV 3,00,000)	2,80,000
b) Own Debentures (FV 6,00,000)	5,70,000

Annual Appropriation towards Sinking Fund Rs.60,000/-. 12% Debentures are due for redemption @ 5% premium on 31st March, 09. Debenture interest payable annually on 31st March every year. Own Debentures were cancelled. 5% Govt. Loan realized at 10% premium.

You are required to pass journal entries for the year ended 31st March 09, and prepare Sinking Fund A/c.

Solution :

Journal of Zeed Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2009 March 31	Debenture Interest A/c………………... Dr. To Debenture holders A/c To Interest on Own Debentures A/c (6,00,000X12%) (Being Debenture interest due for the year.)	1,20,000	 48,000 72,000
March 31	Debenture holders A/c …………………Dr. To Bank A/c (Being Debenture interest paid.)	48,000	 48,000
March 31	Interest on Own Debentures A/c ………Dr. To Sinking Fund A/c (Being interest on Own Debentures transferred.)	72,000	 72,000
March 31	Profit & Loss Appropriation A/c ……….Dr. To Sinking Fund A/c (Being annual appropriation transfer.)	60,000	 60,000
March 31	Bank A/c …………………………………Dr. To Sinking Fund A/c (Being 5% interest on Govt. loan received.)	15,000	 15,000

March 31	Bank A/c ……………………………….Dr. To Sinking Fund Investment A/c (5% Govt. Loan) To Sinking Fund A/c (Being Sinking Fund investment realized at Profit.)	3,30,000	2,80,000 50,000
March 31	12% Debentures A/c ……………………Dr. To Own Debentures A/c (Sinking Fund Investment) To Sinking Fund A/c (Being Own Debentures cancelled.)	6,00,000	5,70,000 30,000
March 31	12% Debentures A/c ……………………Dr. Premium on redemption of Debentures A/c……………………………………………Dr. To Debenture holders A/c (Being Debenture holders claim transferred.)	4,00,000 20,000	4,20,000
March 31	Debenture holders A/c …………………Dr. To Bank A/c (Being amount due to Debentures holders paid.)	4,20,000	4,20,000
March 31	Sinking Fund A/c ……………………….Dr. To Premium on redemption of Debenture A/c (Being premium on redemption of Debentures transferred.)	20,000	20,000
March 31	Sinking Fund A/c ………………………..Dr. To General Reserve A/c (Being balance in Sinking Fund transferred.)	10,57,000	10,57,000

Sinking Fund A/c

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Premium on redemption of Debentures A/c	20,000	By bal b/d	8,50,000
To General Reserve A/c (Bal. transferred)	10,57,000	By Interest on Own Debenture A/c	72,000
		By Profit & Loss Appropriation A/c	60,000
		By Sinking Fund Invest. A/c (Profit on sale of 5% Govt. Secu.)	50,000
		By Own Debentures A/c (Profit on cancellation of Own Debentures)	30,000
		By Interest on S.F. Invt. A/c	15,000
	10,77,000		**10,77,000**

22.8 DISCLOSURE OF INVESTMENT OF OWN DEBENTURES IN BALANCE SHEET :

Debenture issued to the public is liabilities. Normally Debentures are secured on some assets. Therefore, it is shown on liability side of Balance sheet. If Own Debentures purchased as investment, it appears as Investment on assets side, so long Own debentures are not cancelled or resold in the open market. Debenture interest accrued and due, remains unpaid Balance sheet date, it is added to Debentures. However, if Debenture interest accrued but not due is shown on liability side of Balance sheet under heading current liabilities. If due date of interest and date of Balance sheet is same, assuming interest paid on due date, then no interest is outstanding shown in Balance sheet.

Balance sheet as on _________ (Extracts only)

Liabilities	Rs.	Assets	Rs.
<u>Secured loans</u>		<u>Investment</u>	
10% Debentures	XXX	Own Debentures (face value __ market value __)	XXX
<u>Current Liabilities</u>			
Accrued but not due Debentures interest	XXX	<u>Current Assets</u>	
		Interest accrued on Own Debenture	XXX
		<u>Misc. expenditure</u>	
		(to the extend not w/off)	
		Discount on issue of Debentures	XXX
	XXX		XXX

22.9 DEBENTURES TRUSTEES :

Some people are elected by Debenture holders or the prospectus for issue of Debentures names a few persons. The persons so elected or named are called “Debenture Trustees”.

Debenture trustees are the persons appointed to look after the interest of Debenture holders Trustees look after the matter pertaining, for payment of Debenture interest, redemption of Debentures, security offered to Debenture holders, Sinking Fund if any, Sinking Investments etc.

As per Sec. 117B introduced by the Companies Amendment Act, 2000, a company is required to appoint Debenture Trustees, before making Public offer for subscription of Debentures.

Check Your Progress

- Give journal entry for Purchase of own debentures as investment.
- Define the following terms
    1. Cum- Interest
    2. Ex-Interest
    3. Sinking Fund
    4. Debenture trustees
- Show the extracts of Balance Sheet If Own Debentures are purchased as investment.
- Give the journal entries when the Own Debentures are purchased for immediate cancellation.

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23

BUY BACK OF OWN DEBENTURES-II

Unit Structure

23.1 Practical problems
23.2 Key terms
23.3 Exercise

23.1 PRACTICAL PROBLEMS :

Illustration : 1

BD Ltd. issued 1,000, 12% Debentures of Rs.100/- each on 1st January 2002. Interest payable half yearly on 30th June and 31st December every year.

It purchase Own Debentures as under :
1st July 2007 – 60 Debentures @ Rs.95/-
1st January 2008 – 100 Debentures @ Rs.96/-
1st July 2008 – 150 Debentures @ Rs.95/-

Company cancelled Own Debentures on 31st December 2008.

You are required to prepare following ledger accounts in the books BD Ltd. for two years 2007 and 2008.
a) Debentures Account
b) Own Debentures Account
c) Interest on Debentures Account
d) Interest on Own Debentures Account

Solution :

In the books BD Ltd.
12% Debentures Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.07	To Bal c/d	1,00,000	01.01.07	By bal b/d	1,00,000
		1,00,000			1,00,000
31.12.08	To Own Debentures A/c	31,000	01.01.08	By Bal b/d	1,00,000
31.12.08	To Bal c/d	69,000			
		1,00,000			1,00,000
			01.01.09	By Bal b/d	69,000

Own Debentures Account

Dr. Cr.

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
01.07.07	To Bank A/c	60	5,700	31.12.07	By bal b/d	60	5,700
		60	5,700			60	5,700
01.01.08	To Bal b/d	60	5,700	31.12.08	By 12% Debenture A/c	310	31,000
01.01.08	To Bank A/c	100	9,600				
01.07.08	To Bank A/c	150	14,250				
31.12.08	To Profit on cancellation of Debentures A/c	-	1,450				
		310	31,000			310	31,000

Interest on Debentures Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
30.06.07	To Bank A/c	6,000	31.12.07	By Profit & Loss A/c	12,000
31.12.07	To Bank A/c	5,640			
31.12.07	To Int. on Own Debentures A/c	360			
		12,000			12,000
30.06.08	To Bank A/c	5,040	31.12.08	By Profit & Loss A/c	12,000
30.06.08	To Int. on Own				
31.12.08	Debentures A/c	960			
31.12.08	To Bank A/c	4,140			
	To Int. on Own Debentures A/c	1,860			
		12,000			**12,000**

Interest on Own Debentures Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.07	To Profit & Loss A/c	360	31.12.07	By Debenture Interest A/c	360
		360			360
31.12.08	To Profit & Loss A/c	2,820	30.06.08	By Debenture Interest A/c	960
			31.12.08	By Debenture Interest A/c	1,860
		2,820			**2,820**

Illustration : 2

On 01.04.2005 CBI Ltd. had 20,000, 12% Debentures of Rs.100/- each. Interest on Debenture is payable half yearly on 30th Sept. and 31st March.

CBI Ltd. purchased on 1st July 07, 1,000 Debentures at Rs.97/- each cum-interest. On 1st January, 08 CBI Ltd. purchased 2,000 Debentures at Rs.99/- ex-interest. Own Debentures were cancelled on 31st March 08.

Give journal entries for the year ended 31st March 08.

Solution :

Journal in CBI Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2007 July 1	Own Debentures A/c (97,000 – 3,000).. Dr. Debenture Interest A/c ………………….Dr. $(1,00,000 \text{ X } 12\% \text{ X } \frac{3}{12})$ To Bank A/c (1,000 X 97) (Being 1,000, 12% Debenture purchase @ Rs.97/- cum-interest.)	94,000 3,000	 97,000
Sept. 30	Debenture Interest A/c ………………… Dr. To Debenture holders A/c To Interest on Own Debentures A/c (Being interest on 19,000 Debentures @ 12% p.a. held by outsiders and Interest Own 1,000 Debentures @ 12%, for 3 months.)	1,20,000	 1,17,000 3,000
Sept. 30	Debenture holders A/c ………………….Dr. To Bank A/c (Being Interest on outsider paid.)	1,17,000	 1,17,000
2008 Jan 1	Own Debentures A/c (2,000X99) …….. Dr. Debenture Interest A/c …………………Dr. $(2,00,000\text{X}12\%\text{X}\frac{3}{12})$ To Bank A/c (Being 2,000 Debenture purchased @ Rs.99/- ex-interest.)	1,98,000 6,000	 2,04,000

March 31	Debenture Interest A/c ………………….Dr. To Debenture holders A/c To Interest on Own Debentures A/c (Being interest on 17,000 Debentures @12% p.a. to the outsiders and 1,000 Own Debentures for 6 month, 2,000 Debentures for 3 months due.)	1,14,000	 1,02,000 12,000
March 31	12% Debentures A/c (3,000X100) ……Dr. To Own Debentures A/c (94,000+1,98,000) To Capital Reserve A/c (Being 3,000 Own Debentures of Rs.100/- each cancelled.)	3,00,000	 2,92,000 8,000
March 31	Debenture holders A/c …………………Dr. To Bank A/c (Being Debenture interest due to outsiders paid.)	1,02,000	 1,02,000
March 31	Profit & Loss A/c ……………………….. Dr. To Debenture Interest A/c (Being Debenture interest transferred.)	2,40,000	 2,40,000
March 31	Interest on Own Debentures A/c ………Dr. To Profit & Loss A/c (Being interest on Own Debentures transferred.)	15,000	 15,000
March 31	Profit & Loss Appropriation A/c ………..Dr. To Debenture redemption Reserve A/c (Being transfer of profit to DRF equivalent to face value of Debentures redemption of Debentures.)	3,00,000	 3,00,000

Illustration : 3

On 01.04.07 the following balance appears in the books S.I.E.S. Ltd.

12% Debentures (Rs.100/- each)	Rs.15,00,000/-
Sinking Fund	Rs.12,35,000/-
<u>Sinking Fund Investments :</u>	
Own Debentures (face value Rs.4,00,000)	Rs.3,75,000/-
10% Investments (face value Rs.9,00,000)	Rs.8,60,000/-

On 01.06.07 company purchased 500 Own Debentures at Rs.95/-ex-interest.

On 01.09.07 company purchased 2,000 Own Debentures @ Rs.99/- cum-interest.

On 01.02.08 company purchased 1,500 Own Debentures @ Rs.99/- cum-interest.

Interest on Debentures and S.F. Investments is receivable on half yearly basis on 30th Sept. & 31st March every year.

On 31.03.08 company sold S.F. Investment @ 94% ex-interest. Annual appropriation to Sinking Fund Rs.3,50,000/-. The company redeemed all Debentures by cancellation and by payments on 31st March 2008.

You are required various ledger accounts.

In the books S.I.E.S. Ltd.

12% Debentures Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.08 31.03.08	To Own Debentures A/c To Bank A/c (Payment to Outsider Debentureholders)	8,00,000 7,00,000	01.04.07	By Bal b/d	15,00,000
		15,00,000			15,00,000

Own Debentures Account

Dr. **Cr.**

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
1.04.07	To Bal b/d	4000	3,75,000	31.3.08	By 12% Debentures A/c	8000	8,00,000
1.06.07	To Bank A/c	500	47,500				
1.09.07	To Bank A/c	2000	1,88,000				
1.02.08	To Bank A/c	1500	1,42,500				
31.3.08	To Capital Reserve A/c (Profit on cancellation)	--					
		8000	8,00,000			8000	8,00,000

Sinking Fund Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.08	To S.F. Invt. A/c (loss on sale)	14,000	01.04.07	By Bal b/d	12,35,000
31.03.08	To General Reserve A/c (bal transferred)	18,21,500	30.10.07	By Bank A/c (Int. on S.F. Invt. 9,00,000 X 10%)	90,000
			31.03.08	By Bank A/c (S.F. Invt. Int.)	90,000
			31.03.08	By Profit & Loss Appro. A/c	3,50,000
			31.03.08	By Int. on Own Debenture A/c	70,500
		18,35,000			18,35,000

Sinking Fund Investment Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.07	To Bal b/d (face value 9,00,000)	8,60,000	31.03.08	By Bank A/c (9,00,000X94%)	8,46,000
			31.03.08	By Sinking Fund A/c (Loss transferred)	14,000
		8,60,000			8,60,000

Debenture Interest Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.07	To Bank A/c (1 Month)	500	31.03.08	By Profit & Loss A/c	1,80,000
01.09.07	To Bank A/c (2,000 X 5 mon)	10,000			
30.10.07	To Debenture holder A/c	57,000			
30.10.07	To Int. on Own Debentures A/c	28,500			
01.02.07	To Bank A/c (1,500 X 4)	6,000			
31.03.07	To Bank A/c	42,000			
31.03.07	To Interest on Own Debentures A/c	42,000			
		1,80,000			1,80,000

Interest on Own Debentures Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.08	To Sinking Fund A/c	70,500	30.10.07	By Debenture Int. A/c	28,500
			31.03.08	By Debenture Int. A/c	42,000
		70,500			70,500

Working Note : Interest on own Debentures

30.10.07	$4,000 \times 100 \times 25\% \times \frac{6}{12}$	=	24,000
	$500 \times 100 \times 12\% \times \frac{5}{12}$	=	2,500
	$2,000 \times 100 \times 12\% \times \frac{1}{12}$	=	2,000
Closing	6,500 Debentures	Total	Rs. 28,500
31.03.08	$6,500 \times 100 \times 12\% \times \frac{6}{12}$	=	39,000
	$1,500 \times 100 \times 12\% \times \frac{2}{12}$	=	3,000
	Interest on own Debentures		42,000

Illustration: 4 (Debentures purchased as Investment, part of Own Debentures cancelled on a subsequent date)

In the books of S.M. Mukund Ltd. the 12% Debentures Account show a credit balance of Rs.20,00,000/- consisting of 20,000 Debentures of Rs.100/- each as on 1st April, 2008.

During the year Debentures were purchased in the open market as follows.

1st July 08 500 Debentures at Rs.94/- ex-interest
1st Sept. 08 1,000 Debentures at Rs.97/- ex-interest
1st Oct 08 1,200 Debentures at Rs.94/-
31st Jan 09 400 Debentures at Rs.93/- cum-interest.
1st March 09 900 Debentures at Rs.96/- cum-interest.

The Debenture interest payable half yearly on 30th Sept. and 31st March every year.

Debentures held by company, purchased prior to 31st December 08 were cancelled on 31st December 08.

You are required to show the journal entries and ledger accounts in the books of S. Mukund Ltd. and also show the items would appear in the Balance sheet as on 31st March 2009.

Solution :

S. Mukund Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2008	Own Debentures A/c ……………………Dr.	47,000	
July 1	Debenture Interest A/c ………………….Dr.	1,500	
	To Bank A/c		48,500
	(Being 500, Own Debenture purchased @ Rs.94/- ex-interest.)		
Sept 1	Own Debentures A/c ……………………Dr.	97,000	
	Debentures Interest A/c ………………...Dr.	5,000	
	To Bank A/c		1,02,000
	(Being 1000, Own Debentures purchased at Rs.97/- ex-interest.)		
Sept 30	Debenture Interest A/c …………………Dr.	1,13,500	
	To Debenture holders A/c		1,11,000
	To Interest on Own Debentures A/c		2,500
	(Being interest due on 18,500 Debentures held by outsiders and on 1,500 Own Debentures.)		
Sept 30	Debenture holders A/c …………………Dr.	1,11,000	
	To Bank A/c		1,11,000
	(Being interest on Debenture held by outsiders paid.)		

Oct 1	Own Debenture A/c …………………….Dr. To Bank A/c (Being 1200, Debentures purchase @ Rs.94/-. No interest was accrued.)	1,12,800	 1,12,800
Dec 31	12% Debentures A/c ……………………Dr. To Own Debentures A/c To Capital Reserve A/c (Being 2700, Debentures of Rs.100/- each cancelled, profit on cancellation transferred to Capital Reserve A/c.)	2,70,000	 2,56,800 13,200
Dec 31	Debenture Interest A/c ………………….Dr. To Interest on Own Debentures A/c (Being accrued interest on Own Debenture cancelled.)	8,100	 8,100
2009 Jan 31	Own Debentures A/c ……………………Dr. Debenture Interest A/c ………………….Dr. To Bank A/c (Being 400, Own Debentures purchased at Rs.93/- cum-interest.)	35,600 1,600	 37,200
Mar 1	Own Debentures A/c …………………... Dr. Debenture Interest A/c ………………….Dr. To Bank A/c (Being 900, Own Debentures purchased at Rs.96/- cum-interest.)	81,900 4,500	 86,400
Mar 31	Debenture Interest A/c …………………Dr. To Debenture holders A/c To Interest on Own Debentures A/c (Being interest on 16,000 Debentures held by Outsider and 1,300 Own Debentures due.)	97,700	 96,000 1,700
Mar 31	Debenture holders A/c …………………Dr. To Bank A/c (Being interest on Debentures held by outsiders paid.)	96,000	 96,000
Mar 31	Profit & Loss A/c ……………………….. Dr. To Debenture interest A/c (Being Debenture interest transferred.)	2,31,900	 2,31,900
Mar 31	Interest on Own Debentures A/c ………Dr. To Profit & Loss A/c (Being interest Own Debentures transferred.)	12,300	 12,300

Mar 31	Profit & Loss Appropriation A/c ………..Dr. To Debenture Redemption Reserve A/c (Being amount equal to face value of Own Debentures cancelled transferred to DRF.)	2,70,000	 2,70,000

Ledger Accounts
12% Debentures Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.10.08	To Own Debentures A/c	2,70,000	01.04.09	By Bal b/d	20,00,000
31.03.09	To Bal c/d	17,30,000			
		20,00,000			20,00,000
			01.04.09	By Bal b/d	17,30,000

Own Debentures Account

Dr. **Cr.**

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
01.07.08	To Bank A/c	500	47,000	31.12.08	By 12% Debentures A/c	2700	2,70,000
01.09.08	To Bank A/c	1000	97,000	31.03.09	By Bal c/d	1300	1,17,500
01.10.08	To Bank A/c	1200	1,12,800				
31.12.08	To Capital Reserve A/c	-	1,32,000				
31.01.09	To Bank A/c	400	35,600				
01.03.09	To Bank A/c	900	81,900				
		4000	3,87,500			4000	3,87,500

Interest on Own Debentures Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.09	To Profit & Loss A/c	12,300	30.09.08	By Debenture Int. A/c	2,500
			31.12.08	By Debenture Int. A/c	8,100
			31.03.09	By Debenture Int. A/c	1,700
		12,300			12,300

Debenture Interest Account

Dr.					Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
01.07.08	To Bank A/c	1,500	31.03.09	By Profit & Loss A/c	2,31,900
01.09.08	To Bank A/c	5,000			
30.09.08	To Debenture holders A/c	1,11,000			
30.09.08	To Interest on Own Debentures A/c	2,500			
31.12.08	To Interest on Own Debentures A/c	8,100			
31.01.09	To Bank A/c	1,600			
01.03.09	To Bank A/c	4,500			
31.03.09	To Debenture holders A/c	96,000			
31.03.09	To Interest on Own Debentures A/c	1,700			
		2,13,900			2,31,900

S. Mukund Ltd.
Balance sheet as on 31st March 2009

Liabilities	Rs.	Assets	Rs.
<u>Reserves & Surplus</u>		<u>Investments</u>	
Capital Reserve	13,200	12% Own Debentures (face value Rs.1,30,000)	1,17,500
Debenture Redemption Reserve	2,70,000		
<u>Secured Loans</u>			
17,300, 12% Debentures of Rs.100/- each fully paid up	17,30,000		

Working Note :

1) 1st July 08 — 500 Debentures ex-interest purchased @ 94/- — 47,000

Interest accrued for 3 months

$50{,}000 \times 12\% \times \frac{3}{12} =$ — 1,500

Amt paid — 48,500

2) 1st Sept. 08 — 1,000 Debentures @ Rs.97/- purchased ex-int. — 97,000

Interest accrued $1{,}00{,}000 \times 12\% \times \frac{5}{12} =$ — 5,000

Amt paid — 1,02,000

3) 30th Sept.08 — Interest due

	held by outsiders 18,50,000 X 12% X $\frac{6}{12}$ =		1,00,000
	on Own Debentures		
1st July to 30th Sept.	50,000 X 12% X $\frac{3}{12}$ =	1,500	
	1,00,000 X 12% X $\frac{1}{12}$ =	1,000	2,500
	Total Debentures Interest Due		1,13,500

4) 1st Oct. 1,200 purchased at 94/- = 1,12,800
No interest accrued on interest paid on 30th Sept. 08

5) 31.12.08 cancellation 2,700 X 100 Debentures

6) 31.12.08 Interest on Own Debenture cancelled.
From 1st Oct. to 31.12.08 (3 months)
(500 + 1,000 + 1,200 = 2,700)

2,700 X 100 X 12% X $\frac{3}{12}$ = 8,100

7) 31 Jan 09	400 Debentures purchased @ 93/- cum-int.	37,200
	Less : Int. accrued 4 months.	
	(10th Oct. to 31st Jan. 09) 4,000 X 12% X $\frac{4}{12}$	(1,600)
	Cost of Own Debentures	35,600

8) 1st Mar 09	900 Debentures @ 96/- cum-interest	86,400
	Less : accrued interest (1st Oct. to 1st Mar 09)	
	9,00,000 X 12% X $\frac{5}{11}$	(4,500)
		81,900

9) 31st Mar 09 Debenture Int. on 20,000 (–) 2,700 Debenture cancelled
= 17,300 outstanding Debenture

Out 17,300 Debentures (–) 1,300 Own Debentures
= 16,000 Debentures held by outsiders.

Debentures interest payable to outsider

= 16,000 X 100 X 12% X $\frac{6}{12}$ = Rs.96,000

<u>Interest on Own Debentures</u>
On 400 Debentures 1st Feb and March

400 X 100 X 12% X $\frac{2}{12}$ = 800

On 900 Debentures purchased
1st March – one month

900 X 100 X 12% X $\frac{1}{12}$ = 900

Interest on Own Debentures 1,700

Illustration : 5 (Preparing Ledger Accounts)

On 1st Jan. 06, Rajesh Ltd. issued 20,000 12% Debentures of Rs.100/- each, at par. Accordingly to the terms of the issue, the Debenture holders had the option of getting the Debentures converted into Equity shares of Rs.10/- each @ Rs.20/- per share after 1st Jan. 08. The company had the right to buy at any time its Debentures in the open market for cancellation or / and as Investment.

On 1st April 07 the company purchased 1,000 Debentures @ Rs.99/- cum-interest.

On 31st Aug. 07, it purchased 2,000 Debentures at Rs.98/- ex-interest for immediate cancellation.

On 1st July 08 the company purchased 7,000 Debentures @ Rs.98/- ex-interest.

On 31st Dec. 08, Own Debentures were cancelled by the company and remaining Debentures were converted into Equity shares, as per option exercised by all Debenture holders Debenture interest payable on 30th June and 31st December every year.

Prepare 1) 12% Debenture Account, and 2) Own Debenture account 3) Debenture Interest Account for the year 2006, 2007 and 2008.

Solution :

Rajesh Ltd.
12% Debentures Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
2006 Dec.31	To Bal c/d	20,00,000	2006 Jan. 1	By Bank A/c	20,00,000
		20,00,000			20,00,000
2007 Aug.31	To Bank A/c	1,96,000	2007 Jan.1	By Bal b/d	20,00,000
Aug.31	To Capital Reserve A/c (Profit on cancellation)	4,000			
Dec.31	To Bal c/d	18,00,000			
		20,00,000			20,00,000
2008 Dec.31	To Own Deb. A/c	8,00,000	2008 Jan.1	By Bal b/d	18,00,000
	To Equity shares Capital A/c	5,00,000			
	To Securities Premium A/c	5,00,000			
		18,00,000			18,00,000

Own Debentures Account

Dr. **Cr.**

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
2007 Apr.1	To Bank A/c	1000	96,000	2007 Dec.31	By Bal c/d	1000	96,000
		1000	96,000			1000	96,000
2008 Jan.1 July 1 Dec.31	To Bal b/d To Bank A/c To Capital Reserve A/c (profit on cancellation)	1000 7000 -	96,000 6,86,000 18,000	2008 Dec.31	By 12% Deb. A/c	8000	8,00,000
		8000	8,00,000			8000	8,00,000

Debentures Interest Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
2006 Jun.30 Dec.31	To Bank A/c To Bank A/c	1,20,000 1,20,000	2006 Dec.31	By Profit & Loss A/c	2,40,000
		2,40,000			2,40,000
2007 Apr.1 Jun.30 Jun.30 Aug.31 Dec.31 Dec.31	To Bank A/c To Bank A/c To Int. on Own Deb. A/c To Bank A/c To Bank A/c To Int. on Own Deb. A/c	3,000 1,14,000 3,000 4,000 1,02,000 6,000	2007 Dec.31	By Profit & Loss A/c	2,32,000
		2,32,000			2,32,000
2008 Jun.30 Jun.30 Dec.31 Dec.31	To Bank A/c To Int. on Own Deb. A/c To Bank A/c To Int. on Own Deb. A/c	1,02,000 6,000 60,000 48,000	2008 Dec. 31	By Profit & Loss A/c	2,16,000
		2,16,000			2,16,000

Working Note :

1) 1st April 08 Purchased 1,000 Debentures @ Rs.99/- cum-int. 99,000
Less : Interest for expired period

$1,00,000 \times 12\% \times \frac{3}{12} =$ (3,000)

Cost of Own Debentures 96,000

2) 31st Aug 07 Purchased 2,000 Debentures @ Rs.98/- ex-int.=1,96,000
Profit = 2,00,000 – 1,96,000 = 4,000

$$\text{Deb. Int.} = 2{,}00{,}000 \times 12\% \times \frac{2}{12} = \text{Rs.}4{,}000$$

3) 1st July 08 Purchased 7,000 @ Rs.98/- ex-interest = Rs.6,86,000/-
Interest accrued = Nil

4) 31st Dec. 08 Remaining 10,000 Debentures of Rs.100/- each to be converted in Equity shares of Rs.10/- each @ Rs.20/- per share.

$$\therefore \text{No. of Equity shares issued} = \frac{10{,}00{,}000}{20} = 50{,}000$$

Equity shares of Rs.10/- each @ Rs.20/- (Rs.10/- premium per share.)

Illustration : 6 (Summary transaction given)

Ork Ltd. has issued 10% Debenture at par value of Rs.50,00,000/- divided into 10,000 Debentures of Rs.500/- each redeemable at any time after giving one month notice. Under terms of issue the company had power to purchase its Own Debentures in the open market and either resell them or cancelled them. On 1st January 2008, the following were the balances in the relevant accounts in the books of company.

1)	10% Debentures	Rs.45,00,000
2)	Own Debentures (face value Rs.10,00,000/-)	Rs.9,78,000
3)	Sinking Fund Account	Rs.32,00,000
4)	Sinking Fund Investment in 6% RBI bonds (face value Rs.24,00,000/-)	Rs.22,22,000

During 2008 the following transaction took place relating above.

a) Purchased Own Debentures (face value Rs.50,000/-) at Rs.52,000/-.

b) Resold Own Debentures out of opening balancing (face value Rs.4,00,000/-) Rs.4,18,000/-

c) Interest received on Sinking Fund Rs.1,94,000/- (including Own Debentures)

d) Own Debentures held on 31st Dec. 2008 cancelled.

e) Annual Appropriation towards Sinking Fund Rs.1,00,000/-

f) Investment in Sinking Fund in 6% RBI Bonds (face value Rs.3,00,000/-) Rs.2,65,000/-.

Show necessary ledger accounts for the year ended 31st Dec. 2008.

Solution :

Ork Ltd.

10% Debentures Account

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Own Debentures A/c To Bal c/d	6,50,000 38,50,000	By Bal b/d	45,00,000
	45,00,000		45,00,000
		By Bal b/d	38,50,000

Own Debentures Account

Dr. **Cr.**

Particulars	Face value	Rs.	Particulars	Face value	Rs.
To Bal b/d To Bank A/c To Sinking Fund A/c (Profit on sale) To Capital Reserve A/c	10,00,000 50,000 - -	9,78,000 52,000 26,800 11,200	By Bank A/c By 12% Deb. A/c	4,00,000 6,50,000	4,18,000 6,50,000
	10,50,000	10,68,000		10,50,000	10,68,000

***** Profit on cancellation of Own Debentures is Capital Profit.

Sinking Fund Investment Account

Dr. **Cr.**

Particulars	Face Value	Rs.	Particulars	Face Value	Rs.
To Bal b/d To Bank A/c	24,00,000 3,00,000	22,22,000 2,65,000	By Bal c/d	27,00,000	24,87,000
	27,00,000	24,87,000		27,00,000	24,87,000
To Bal b/d	27,00,000	24,87,000			

Sinking Fund Account

Dr. **Cr.**

Particulars	Reserve.	Particulars	Reserve.
To General Reserve A/c To Bal c/d	6,50,000 28,44,000	By Bal b/d By Bank A/c (int recd on S.F.Invt) By Profit & Loss Appropriation A/c	32,00,000 1,94,000 1,00,000
	34,94,000		34,94,000
		By Bal b/d	28,44,000

Note : To the extend face value of Debentures redeemed or Own Debenture cancelled, Sinking Fund become Free Reserve, so Rs.6,50,000/- transferred to General Reserve.

Illustration: 7 (When Debentures are purchased for immediate cancellation, there is no Sinking Fund.)

Mahavir Ltd. has 5,000, 6% Debentures of Rs.100/- each, as on 1st April, 2008, as per the terms of issue, the company purchased the following Debentures for immediate cancellation.

30th June 08	500 Debentures @ Rs.97/- cum-interest
31st Aug 08	1,000 Debentures @ Rs.100.50 cum-interest
1st Feb. 09	300 Debentures @ Rs.102/- ex-interest
1st March 09	200 Debentures @ Rs.97/- ex-interest.

Debenture interest is payable on 31st March annually every year. Income Tax as was deductible at the rate of 10.50% at source.

Pass journal entries in the books Mahavir Ltd. and prepare ledger accounts i) 6% Debentures A/c and ii) Debenture Interest A/c

Solution :

Mahavir Ltd

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2008 Jun.30	6% Debentures A/c (500X100) ………..Dr. Debenture interest A/c ………………….Dr. (50,000 X 6% X $\frac{3}{12}$) To Bank A/c (500X97) To Capital Reserve A/c (Being 500, 6% Own Debentures purchased at Rs.97/- cum-interest for immediate cancellation.)	50,000 750	 48,500 2,250
Aug.31	6% Debentures A/c (1,000X100)………Dr. Debenture Interest A/c …………………Dr. (1,00,000 X 6% X $\frac{5}{12}$) To Bank A/c (1,000X100.50) To Capital Reserve A/c (Being 1,000, 12% Debenture of Rs.100/- each purchased @ Rs.100.50 each cum-interest.)	1,00,000 2,500	 100,500 2,000

2009 Feb.1	6% Debentures A/c (300X100)…………Dr. Debenture Interest A/c ………………… Dr. (30,000 X 6% X $\frac{10}{12}$) Loss on cancellation of Deb. A/c ………Dr. To Bank A/c [(300 X 102) + 1500] (Being 300 Debentures purchased at Rs.102/- ex-interest, for expired period of 10 months.)	30,000 1,500 600	 32,100
Feb.1	Securities Premium A/c / P&L A/c ……Dr. To Loss on cancellation of Own Deb. A/c (Being loss on cancellation transferred.)	600	 600
Mar.1	6% Debentures A/c (200X100) ………..Dr. Debenture interest A/c …………………..Dr. (20,000 X 6% X $\frac{11}{12}$) To Bank A/c [(200X97) + 1100] To Capital Reserve A/c (Being 200, Own Debentures of Rs.100/- each purchased @ Rs.97/- ex-interest for immediate cancellation.)	20,000 1,100	 20,500 600
Mar.31	Debenture Interest A/c …………………Dr. To Debenture holders A/c To Income Tax Payable A/c (Being interest due on outstand 3,000 Debenture of Rs.100/- each for the year ended 31st Mar.09 subject T.D.S. @ 10.50%.)	18,000	 16,110 1,890
Mar.31	Debenture holders A/c …………………Dr. To Bank A/c (Being payment made to Debenture holders for interest due.)	16,110	 16,110
Mar.31	Income Tax Payable A/c ………………Dr. To Bank A/c (Being T.D.S. on Debenture interest deposited with government.)	1,890	 1,890
Mar.31	Profit & Loss A/c ………………………..Dr. To Debenture Interest A/c (Being Debenture interest transferred.)	23,850	 23,850
Mar.31	Profit & Loss Appropriation A/c ………..Dr. To Debenture Redemption Reserve A/c (Being transfer of face value of Debentures cancelled to Debenture Redemption Reserve.)	2,00,000	 2,00,000

Note : Income Tax Act does not provide for T.D.S. on interest for broken period, as it is accrued but not due. Hence, no tax is deducted in case of purchase of Debentures in middle of interest period.

Mahavir Ltd.

6% Debentures Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
2008			2008		
Jun.30	To Bank A/c (excl. Interest)	47,750	Apr.1	By Bal b/d	5,00,000
Jun.30	To Capital Reserve A/c (profit on cancellation)	2,250			
Aug31	To Bank A/c (100500-2500)	98,000			
Aug.31	To Capital Reserve A/c	2,000			
2009					
Feb.1	To Bank A/c (32100-1500-600)	30,000			
Mar.1	To Bank A/c (20500-1100)	19,400			
Mar.1	To Capital Reserve A/c	600			
Mar.31	To Bal c/d	3,00,000			
		5,00,000			5,00,000
			2009 Apr.1	By Bal b/d	3,00,000

Debentures Interest Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
2008			2009		
Jun.30	To Bank A/c	750	Mar.31	By Profit & Loss A/c	23,850
Aug.31	To Bank A/c	2,500			
2009					
Feb.1	To Bank A/c	1,500			
Mar.1	To Bank A/c	1,100			
Mar.31	To Debenture holders A/c	16,110			
Mar.31	To Income Tax Payable A/c	1,890			
		23,850			23,850

Illustration : 7 (Own Debentures and cancellation of Own Debentures)

On 01.04.05, Bhart Ltd. issued 25,000, 12% Debentures of Rs.100/- each @ 20% premium. These Debentures are redeemable at par after 3 years. Interest is payable annually on 31st March every year.

On 1st January 2007, company buys 3,000 Debentures, from open market at Rs.98/- cum-interest. These are sold away on 1st Oct. 2007 at Rs.110/- cum-interest per Debentures.

On 1st May 07, it buys 2,000 Debentures at Rs.103/- ex-interest. These are cancelled on 1st Aug. 07.

On 1st Feb. 08, it buys 2,000 Debentures at Rs.104/- cum-interest. These Debentures along with other Debentures are redeemed on 31st March 2008.

Pass journal entries, ignore creation of Debenture Redemption Reserve.

Solution :

Journal of Bhart Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2005	Bank A/c ……………………………… Dr.	30,00,000	
Apr.1	To 12% Debentures A/c		25,00,000
	To Securities Premium A/c		5,00,000
	(Being 25000, 12% Debentures of Rs.100/- each, issued at 20% premium.)		
2006	Debenture Interest A/c ………………Dr.	3,00,000	
Mar.31	To Bank A/c		3,00,000
	(Being Debenture interest paid.)		
Mar.31	Profit & Loss A/c ……………………..Dr.	3,00,000	
	To Debenture Interest A/c		3,00,000
	(Being Debenture interest transferred.)		
2007	Own Debentures A/c ……………….. Dr.	2,67,000	
Jan.1	Debenture Interest A/c ………………Dr.	27,000	
	To Bank A/c		2,94,000
	(Being 3000, Debentures @ Rs.98/- cum-interest, interest accrued for 9 months.)		
Mar.31	Debenture Interest A/c ………………Dr.	2,73,000	
	To Bank A/c		2,64,000
	To Interest on Own Debentures A/c		9,000
	(Being Debentures interest paid to outsiders on 22,000 Debentures of Rs.100/- each and Own 3000 Debentures for 3 months.)		

Mar.31	Profit & Loss A/c ……………………..Dr. To Debenture Interest A/c (Being Debenture transferred.)	3,00,000	 3,00,000
Mar.31	Interest on Own Debentures A/c ……Dr. To Profit & Loss A/c (Being interest on Own Debenture transferred.)	9,000	 9,000
May.1	Own Debentures A/c ……………….. Dr. Debenture Interest A/c ………………Dr. To Bank A/c (Being 2000, Own Debentures purchased @ Rs.103/- ex-interest, accrued interest for one month.)	2,06,000 2,000	 2,08,000
Aug.1	12% Debentures A/c …………………Dr. Debenture Interest A/c ………………Dr. Loss on cancellation of Deb. A/c ……Dr. To Own debentures A/c To Interest on Own Debentures A/c (Being 2000, Own Debentures purchased on 1st May 07 cancelled, interest accrued for 3 months.)	2,00,000 6,000 6,000	 2,06,000 6,000
Oct.1	Bank A/c ………………………………Dr. To Own Debenture A/c To Interest on Own Debentures A/c To Capital Reserve A/c (Being 3000, Own Debentures sold at Rs.110/- cum-interest, at profit.)	3,30,000	 2,67,000 18,000 45,000
2008 Feb.1	Own Debentures A/c …………………Dr. Debenture Interest A/c………………Dr. To Bank A/c (Being 2000, Own Debenture purchased @ Rs.104/- cum-interest, inter for expired period of 10 months.)	1,88,000 20,000	 2,08,000
Mar.31	Securities Premium A/c ……………..Dr. To Loss on cancellation of Own deb. A/c	6,000	 6,000
Mar.31	Debenture Interest A/c ………………Dr. To Bank A/c To Interest on Own Debentures A/c (Being Debenture on 21000, Debenture held by outsiders and on 2000, Own Debentures for 2 months.)	2,56,000	 2,52,000 4,000

Mar.31	12% Debentures A/c ………………..Dr. To Own Debentures A/c To Capital Reserve A/c (Being 2000, Own Debentures of Rs.100/- each cancelled.	2,00,000	 1,88,000 12,000
Mar.31	12% Debentures A/c …………………Dr. To Bank A/c (Being 21,000 Debentures held by outsiders redeemed at par.)	21,00,000	 21,00,000
Mar.31	Profit & Loss A/c ………………………Dr. To Debentures Interest A/c (Being Debenture interest transferred.)	2,84,000	 2,84,000
Mar.31	Interest on Own Debentures A/c ……Dr. To Profit and Loss A/c (Being interest on Own Debenture transferred.)	28,000	 28,000

Working Note :

1) 31.03.06 Debenture Interest = 25,00,000 X $\frac{12}{100}$ = Rs.3,00,000/-

2) 01.01.07

Purchase of 3,000 Own Debentures at Rs.98/- cum-interest.	2,94,000
Less : Interest accrued for 9 months.	
3,000 X 100 X 12% X $\frac{9}{12}$ =	(27,000)
Cost of Own Debentures purchased	2,67,000

3) 31.03.07

Debenture Interest	
Outsiders 22,000 X 100 X 12%	2,64,000
Own Debentures	9,000
(3,000 X 100 X 12% X $\frac{3}{12}$)	
Total Interest	2,73,000

4) 01.05.07

Purchased of Own 2000 Debentures at Rs.103/- ex-interest.	2,06,000
Interest accrued for 1 month	2,000
(2,000 X 100 X 12% X $\frac{1}{12}$)	
Total amount paid	2,08,000

5)	01.08.07	Cancellation of 2,000 Own Debenture	
		purchase on 01.05.07, face value	2,00,000
		Less : Cost of Own Debentures	2,06,000
		Loss on cancellation	(6,000)

Int. on Own Debenture cancelled for period 1st May 07 to 1st Aug. 07 = 3 months

$2,00,000 \text{ X } 12\% \text{ X } \frac{3}{12} = \text{Rs.}6,000/-$

6)	01.10.07	For resale of 3,000 Own Debentures purchased on 1st Jan. 07 @ Rs.110/- cum-interest.	3,30,000
		Less : Interest on Own Debentures for expired period from 1st April to1st Oct.07 6 months.	(18,000)
		$(3,000 \text{ X } 100 = 3,00,000 \text{ X } 12\% \text{ X } \frac{6}{12})$	
		Net Sales proceed	3,12,000
		Less : Cost of Own Debentures	2,67,000
		Profit on Sale of Own Debentures (transferred to Capital Reserve)	45,000

7)	01.02.07	2,000 Debentures purchased at Rs.104/- cum-interest. (2,000 X 104)	2,08,000
		Less : Int. accrued	(20,000)
		$(2,000 \text{ X } 100 \text{ X } 12\% \text{ X } \frac{10}{12})$	
		Cost of Own Debentures	1,88,000

8)	31.03.07	Cancellation of 2,000 Own Debentures Purchased on 01.02.07 face value (2,000 X 100)	2,00,000
		Less : Cost of Own Debentures	(1,88,000)
		Profit on cancellation	12,000

9) Remaining Debenture redeemed

Debentures issued	25,000
(-) Cancelled on 1st Aug.	2,000
	23,000
(-) Cancelled on 31st Mar 08 (Own)	2,000
Debentures with outsiders	21,000

Debentures with outsiders to be redeem at par
21,000 X 100 = Rs.21,00,000/-

10)31.03.07	Debenture interest		
	With outsiders (21,000 X 100 X 12%)	2,52,000	
	Own Debentures	4,000	
	(2,000 X 100 X 12% X $\frac{2}{12}$)		
	Total interest due	2,56,000	

11)31.03.07	Interest on Own Debentures	
	On 1st Aug. 07	6,000
	On 1st Oct. 07	18,000
	On 31st Mar 07	4,000
		28,000

23.2 KEY TERMS :

- **Own Debentures :** Debentures issued earlier and brought back by company.
- **Cum-interest :** It is price which included interest for expired period.
- **Cum-interest** = Ex-interest price + Interest accrued
- **Ex-interest :** Price does not include accrued interest. It is price paid for Capital portion.
- **Resale of Own Debentures :** Sale of Own Debentures which was purchased as investment.
- **Cancellation of Own Debentures :** Own Debentures purchased in open market and cancelled by company to reduced liabilities.
  - Profit on cancellation of Own Debenture should be transfer to Capital Reserve.
  - Loss on cancellation should be debited to Securities Premium / Profit & Loss Account.
- **Sinking Fund Investment:** Sinking Fund created for redemption of Debentures, can be invested in Own Debentures. Interest on S.F. Investment, profit or loss on sale of S.F. Investment should be transfer to Sinking Fund.
  - After redemption of Debentures, balance in S.F. should be transferred to General Reserve.

23.3 EXERCISES :

23.3.1 OBJECTIVE QUESTIONS:

- **Multiple Choices**

1) Interest on Own Debentures should be credited to ___________ Account.

   a) Own Debentures b) Investment Account

   c) Goodwill d) Profit & Loss Account

2) As per AS-13 Own Debentures should be treated as ___________ investment.

   a) Long term b) Current

   c) Temporary d) Trade

3) A company can purchased it Own Debentures only if it is authorized by ___________ .

   a) Stock Exchange b) Share holders

   c) Debenture holders d) Terms of issue of Deb.

4) Balance in Own Debenture Account should be carried over at ___________ .

   a) Market value b) Face value

   c) Cost d) Market value or cost whichever is less

5) Own Debentures can be ___________ and cancelled.

   a) Issue b) Purchased

   c) Reissue d) Redemption

6) The profit on cancellation of Own Debenture credited to ___________ Account.

   a) Security Premium b) Capital Reserve

   c) C.R.R. d) Goodwill Account

7) Purchase of Own Debentures is credited to ___________ Account.

   a) Own Debentures b) Bank Account

   c) Debentures d) Capital Reserve

- **Fill in the blanks with suitable words.**

1) ___________ of Own Debentures means Debentures issued by same company.

2) The Own Debentures can be held as ___________ .
3) Balance in Own Debentures indicates ___________ .
4) At the end of year, Balance is interest Own Debentures is transferred to ___________ Account.
5) On purchased of Own Debentures, ___________ Account is credited.
6) Cancellation of Own Debentures amounts to ___________ of Debentures.
7) As ___________ issued by I.C.A.I. in relation to Own Debentures.
8) Purchased of Debentures of ___________ company is called Own Debentures.
9) Own Debentures can be purchased ___________ or ___________ .
10) Interest on Own Debentures is transferred to ___________ Account at the end of year.
11) Cost of Own Debentures should be calculated by ___________ method.

- **Match the following**.

Group "A"	Group "B"
a) Own Debentures	i) Capital Reserve
b) AS – 13	ii) Is applicable
c) Profit on cancellation of Own Debentures	iii) Ex-interest price
d) Cost of Own Debenture	iv) Investment
e) Interest on Own Debentures as Sinking Fund Investment	v) Sinking Fund Creditor
f) Debenture Interest	vi) Profit and Loss debited
	vii) Sinking Fund debited

- State whether True or False

1) The Buy-Back of equity shares has to be authorised by Articles of Association.
2) Buy-Back of shares increases earning per share.
3) Before Buy-Back of shares debt-equity ratio can be more than 2:1.
4) Buy-Back should not exceed 25% of Issued capital.

5) Only fully paid shares can be brought Back.
6) Premium on Buy-Back can be provided out of securities premium.
7) Buy-Back of shares can be out of issue of equity shares.
8) Issue of Bonus shares is allowed, after Buy-Back of shares.
9) Buy-Back of shares is governed by section 77A of companies Act.
10) Buy-Back of shares reduces paid up share capital.
11) Terms of Buy-Back are stated at the time of issue of shares.
12) The Buy-Back amount payable should not exceeds 25% of Authorised share capital.
13) Buy-Back of shares amount to reduction of capital.
14) The shares brought back must be cancelled and destroyed after Buy-Back.
15) The directors can Buy-Back any number of shares, on and when they want.
16) Buy-Back cannot exceeds 25% of paid up capital and reserves on per latest audited Balance sheet.
17) A defaulting company cannot Buy-Back its own shares.

3.3.2 THEORY QUESTIONS:

1) How would you account for interest on Debentures and Own Debentures?
2) Write note on:
   a) Own Debentures
   b) Ex-interest & Cum-interest
   c) Purchase and cancellation of Own Debentures
   d) Debentures Trustees
3) Sinking Fund invested in Own Debentures

23.3.3 PRACTICAL PROBLEMS

1) On 1st Oct. 2008, a company purchased 500, 6% Debentures in open market 96% for immediate cancellation. Interest is payable on 30th June and 31st December every year. Pass journal entries, if quoted price is a) cum-interest b) ex-interest.

2) On 1st April, 2008 the following balances appeared in the books.
   6% Debentures (face value Rs.100/- each) Rs.6,00,000/-
   Own Debentures (3,000 Own Debentures) Rs.2,92,000/-

During the year ended 31st March, 09 following transactions take place;

01.05.09 Purchased 200 Own Debentures at Rs.95/- cum-interest

01.06.09 Purchased 300 Own Debentures at Rs.98/- ex-interest

01.08.09 Cancelled 1,000 Debentures out of opening balance in Own Debentures

01.11.09 Remaining Own Debentures cancelled.

Debenture interest was payable on 30th Sept and 31st March every year.

Pass journal entries to record above transactions and prepared Own Debentures Account.

3) 1st April 08, Sehgal Ltd. has 10,000, 12% Debentures of Rs.100/- outstanding.

The directors acquire in the open market for immediate cancellation as follows.

01.05.08 500 Debentures @ Rs.96/- ex-interest

01.09.08 1,000 Debentures @ Rs.97/- cum-interest

30.11.08 400 Debentures @ Rs.97/- ex-interest

01.12.09 1,900 Debentures @ Rs.104/- ex-interest

Debenture interest is payable half yearly on 30th Sept. & 31st March.

Show the following ledger accounts

a) 12% Debentures Account
b) Debenture interest Account

4) Zee – Kumar Ltd.'s Balance sheet as on 31st March 08 shows following balances.

a) 6% Debentures (Rs.1,000/- each) Rs.20,00,000/-
b) Own Debentures (200 Debentures) Rs.1,92,000/-

Debenture interest is payable half year on 30th Sept. & 31st March every year.

The following transactions taken places during year ended 31st March 2009.

01.05.08 Purchased 300, Own Debentures @ Rs.960/- cum-interest

01.09.08 Purchased 200, Own Debentures @ Rs.995/- ex-interest

01.11.08 All Own Debentures cancelled.

31.12.08 Purchase 400 Own Debentures @ Rs.985/- ex-interest

01.02.09 Purchase 600 Own Debentures @ Rs.995/- cum-interest

Show following ledger accounts for the year ended 31st March 2009.

a) 6% Debentures Account
b) Own Debentures Account
c) Debenture Interest Account
d) Interest on Own Debentures Account

5) Following balances appeared in the book of Shetty Ltd. as on 1st Jan. 08.

12% Debentures (Rs.100/- each)	Rs.10,00,000/-
Sinking Fund Account	Rs.7,50,000/-
Sinking Fund Investments	
Own Debentures (2,000 Debentures)	Rs.1,92,000/-
8% RBI Bonds (face value Rs.6,00,000/-)	Rs.5,58,000/-

Interest is receivable on Bonds and payable on Debentures on 30th June & 31st December every year.
On 1st April 08 company sold 50% of RBI Bonds at 95% of face value and utilized the proceeds to acquire Own Debentures of the face value of Rs.3,00,000/-.
On 1st May 08 company decided to cancelled Own Debentures held on 1st Jan. 08.

Pass necessary journal entries for the year ended on 31st December 08.

6) Hina Ltd. purchased for immediate cancellation 2008, 12% of its Own Debentures of Rs.100/- each on 31st December,2008 the dates of interest being 31st March and 30th September. Pass journal entries regarding cancellation of Debenture if :

a) Debentures are purchased at Rs.98/- ex-interest
b) Debentures are purchased at Rs.98/- cum-interest

7) On 1st January 08, A Ltd. has Rs.20,000, 12% Debentures. In accordance with the powers under the deed, the directors acquire in the open market for immediate cancellation as follows:

March 08, 31	Rs.1,000 at Rs.96/- cum-interest
August 08, 31	Rs.2,000/- at Rs.100/- cum-interest
December 08, 31	Rs.2,000 at Rs.98/- ex-interest

Debenture interest is payable half yearly on 30th June and 31st December; journalise the transactions for the year 31st December 2008.

8) Ami Ltd. issued Rs.2,50,000/- 6% Debentures on which interest is payable on 31st March and 30th September. The company has powers to purchase Debentures in the open market for cancellation. The following purchases were made during the year ended 31st December, 2008 and the cancellations were made on the following 31st March 09.

31st July	Rs.20,000/- nominal purchased for Rs.18,100/- ex-interest
1st September	Rs.30,000/- nominal purchased for Rs.29,000/- cum-interest.

Draw following ledger accounts for the year ended 31st March 09.

a) 6% Debenture Account
b) Debenture Interest Account
c) Own Debentures Account

9) KT Ltd. issued Rs.2,50,000/- 10% Debentures on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase Debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December 2008 and the cancellation were made on the following 31st March 2009.

1st March	Rs.15,000/- nominal value purchased for Rs.14,750/- ex-interest.
1st September	Rs.30,000/- nominal value purchased for Rs.29,980/-.

You are required to draw up the following accounts upto the date of cancellation.

1) Debentures Account
2) Own Debenture Investment Account
3) Debenture Interest Account
4) Interest on Own Debentures Account

Ignore taxation and make calculation to the nearest rupee.

10) The following balances appeared in the books of Z Ltd. at the beginning of the year 2008.

Particulars	Rs.
Sinking Fund Account	12,00,000
Sinking Fund Investment Account (8% Maha. Govt. Loan at par)	6,00,000
12% Debentures Account Rs.100/- each	15,00,000
Own Debentures Account (FV Rs.3,00,000/-)	5,75,000

The trustees have power to purchases, for immediate cancellation any Debenture available at a market, price below par, and to realize investments of the Sinking Fund for the purpose. The said debentures are due for redemption at the end of this year, at a premium of 5%. The under mentioned transactions took place during the year.

a) First half year's interest on Debentures was paid.

b) Immediately after six months, Debentures of Rs.2,00,000/- were purchased at Rs.1,93,500/- from market and cancelled. For this purpose investment of Rs.1,94,000/- were sold and Rs.1,93,500/- were realized.

c) Interest of Rs.48,000/- was received at the end of the year on the investments.

d) Second half yearly interest was paid on 6% Debentures.

e) Remaining investment was sold at the end of the year at Rs.4,09,600/- and the proceeds were utilized for redemption of Debentures.

f) Own Debenture were cancelled.

h) Remaining Debentures were fully redeemed at the end of the year.

Prepare the following ledger account and also show the workings :

1) 12% Debentures Account
2) Sinking Fund Investments Account
3) Sinking Fund Accounts and
4) Debentures Interest Account
5) Own Debentures Account

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Revised Syllabus of T.Y.B. Com

(w.e.f. academic year 2009-2010)

Financial Accounting and Auditing Paper – III

(Financial Accounting)

Topics At Glance

Sr. No.		Topics	No. of Lectures
1.		COMPANY ACCOUNTS (Including provisions of Companies Act relevant to specific sub topics)	
	1.1	Shares (Objectives, Accounting, Presentation, Disclosure)	14
	1.2	Debentures (Objectives, Accounting, Presentation, Disclosure)	
	1.3	Redemption of Preference Shares	10
	1.4	Redemption of Debentures (Including Purchase or buy back of own debentures)	14
	1.5	Buy Back Equity Shares	07
	1.6	Amalgamation of Companies (w.r.f. AS14) (excluding inter company holdings)	18
	1.7	Capital Reduction and Internal Reconstruction	09
	1.8	Ascertainment and Treatment of Profit Prior to Incorporation	08
	1.9	Preparation of Final Accounts of Companies	18
2		Investment accounting w.r.t. AS 13	11
3		Accounting for translation of foreign currency transactions vide as 11 (excluding foreign branches & forward exchange contracts and hedging contracts)	11
		Total	**120**

Sr. No.	Topics
1	**<u>COMPANY ACCOUNTS</u>** (Including provisions of Companies Act relevant to the specific sub topics)
1.1	**Share (Objectives, Accounting, Presentation, Disclosure)** (i) Shares & Share capital (ii) Issue of shares- by different modes IPO, Private Placements, Preferential, Rights, ESO, SWEAT and ESCROW account. (iii) Issue of shares at par, premium and discount. (iv) Application for shares including minimum subscription, price band. (v) Allotment of shares including over and under subscription and calls in arrears / received in advance. (vi) Issue of shares for cash including forfeiture and reissue of forfeited shares. (vii) Issue of shares for consideration other than cash. (viii) Capitalisation of reserves & issue of bonus shares.
1.2	**Debentures (Objectives, Accounting, Presentation, Disclosure)** (i) Issue of debentures at par, premium and discount. (ii) Issue of debentures with consideration of Redemption. (iii) Issue of debentures for cash receivable in installments or at a time. (iv) Issue of debentures for consideration other than cash.
1.3	**Redemption of Preference Shares** (i) Company Law/Legal Provisions for redemption. (ii) Sources of redemption including divisible profits and proceeds of fresh issue of shares. (iii) Premium on redemption from security premium and profits of company. (iv) Capital Redemption Reserve Account – creation and use.

1.4	**Redemption of Debentures (including purchase or buy back of own debentures)** (i) By payment from sources including out of capital and / or out of profits. (ii) Debenture redemption reserve & debentures redemption sinking fund excluding insurance policy. (iii) By conversion into new class of shares or debentures with options including at par, premium and discount. (iv) Purchase/buy back of own debentures for immediate cancellation or holding including ex and cum interest for purchase / sale price (excluding brokerage thereon.)
1.5	**Buy Back of Equity Shares** (i) Company Law / Legal Provisions (including related restrictions, power, transfer to capital redemption reserve account and prohibitions). (ii) Compliance of conditions including sources, maximum limits and debt equity ratio.
1.6	**Amalgamation of Companies (w.r.t. As 14) (excluding inter company holdings)** (i) In the nature of merger and purchase with corresponding accounting treatments of pooling of interests and purchase methods respectively. (ii) Computation and meaning of purchase consideration. (iii) Problems based on purchase method of accounting only
1.7	**Capital Reduction and Internal Reconstruction** (i) Need for reconstruction and Company Law provisions. (ii) Distinction between internal and external reconstructions. (iii) Methods including alteration of share capital, variation of share holder rights, sub division, consolidation, surrender and reissue/cancellation, reduction of share capital, with relevant legal provisions and accounting treatments for same.
1.8	**Ascertainment and Treatment of Profit to Incorporation with :** (i) Principles for ascertainment (ii) Preparation of separate, combined and columnar profit & loss a/c including different basis of allocation of expenses / incomes.

1.9	**Preparation of Final Accounts of Companies** (i) Relevant provisions of Companies Act related to Final Account (excluding cash flow statement) (ii) Vertical and horizontal formats of profit & loss a/c and balance sheet. (iii) AS. 1 in relation to final accounts of companies (disclosure of accounting policies)
2	**Investment Accounting w.r.t. AS 13**
2.1	(a) For shares (variable income bearing securities) (b) For debenture bonds etc. (fixed income bearing securities)
2.2	Accounting for transactions of purchase & sales of investments with ex & cum interest prices & finding cost of investment sold & carrying cost as per weighted average method.
2.3	Columnar format for investment account
3	**Accounting for Translation of foreign currency transactions vide AS 11 (Excluding foreign branches & forward exchange contracts and hedging contracts)**
3.1	In relation to purchase & sale of goods, services and assets and loan and credit transactions.
3.2	Computation and treatment of exchange differences.

<u>Pattern of question paper</u>

Maximum Marks 100 Duration 3 Hours

No of questions to be asked	9
No of questions to be answered	6
Question No.01 Compulsory - Practical question	20 Marks
Question No.02 Compulsory - Objective	16 Marks
Question No.03 to Question No.09	16 Marks each

Note :

(1) From Question No. 03 to Question No. 09 not more than one question may be theory including short problems / questions
(2) Student to answer any four out of Question No. 03 to Question No. 09.
(3) Objective questions to be based on all topics and include Inter alia questions like :

(a) Multiple choice (b) Fill in the blanks (c) Match the columns (d) True of False

Reference Books

Title of Books	Author /s	Publishers
Advanced Accounting	R.L. Gupta & M. Radhaswami	Sultan Chand & Sons
Advanced Accounts	M.C. Shukla & T.S. Grewal	S. Chand & Co.
Advanced Accounting	H. Chakraborthy	Navbharat
Financial Accounts	S.N. Maheshwari	Vikas
Advanced Accounting & Financial Accounting	Sehgal Ashok	Taxmann
Financial Accounting	Warren Carl	Thomson
Advanced Financial Accounting	Paul	New Central Book Agency
Financial Accounting for Management	Ambrish Gupta	Pearson Education

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Question Paper

T.Y.B.Com.

Financial Accounting and Auditing – Paper-III

April 2010

Duration: 3 Hours Total Marks: 100

N.B: (1) Question No.**1** and **2** are compulsory and carry **20 Marks** and **16 Marks** respectively.
(2) Attempt any **four** questions from question No. **3** to **9**.
(3) Figures to the right indicate full marks assigned to the question.
(4) All working notes should form part of your answer.

1. Following balances appeared in the books of Nervous Ltd. as on 31st March, 2009 **(20)**

Debit Balance	Rs.	Credit Balance	Rs.
Goodwill	2,50,000	10,000 7% Cumulative	10,00,000

		Preference shares of Rs. 100 each fully paid	
Land and Building	12,00,000	2,00,000 Equity Shares of Rs. 10 each fully paid	20,00,000
Plant and Machinery	11,00,000	8% Debenture of Rs. 100 each (secured on Land and Building)	10,00,000
Investments	1,20,000	Debenture interest due	40,000
Current Assets	17,20,000	Loan from Directors	2,00,000
Profit and Loss Account	8,50,000	Current Liabilities	10,00,000
	52,40,000		**52,40,000**

Note: (a) Claims for damages against the company pending in the court of law amounted to Rs. 1,00,000

(b) Arrears of Preference dividend Rs. 70,000.

The Board of Directors agreed to present the realistic picture of the state of affairs of the company's position and the following scheme of reconstruction was sanctioned, approved and implemented:

(i) Preference Shares were reduced to equal number of fully paid Preference Shares of Rs. 80 each.

(ii) Equity Shares were reduced to equal number of fully paid Equity shares of Rs. 2.50 each.

(iii) Preference shareholders waived half of the arrears of dividend and 14,000 Equity shares of Rs. 2.50 each fully paid were issued to them in lieu of the balance.

(iv) 8% Debenture holders took over part of the security having book value Rs. 3,60,000 at Rs. 5,00,000 in part satisfaction of their loan and 1,20,000 Equity Shares of Rs. 2.50 each fully paid were issued to them for the balance loan.

(v) Debenture holders waived their interest due on Debentures.

(vi) The claims for damages pending in the court of law were settled by issue of 12,000 Equity Shares of Rs. 2.50 each fully paid.

(vii) Directors converted their into Equity shares of Rs. 2.50 each fully paid.

(viii) All intangible and fictitious assets were written off.

(ix) The assets were revalued as under: Plant and Machinery Rs. 7,00,000, Investments Rs. 1,00,000.

You are required to prepare:

(i) Necessary Journal Entries to record the above scheme of reconstruction in the books of Nervous Ltd.

(ii) Capital Reduction Account in the books of Nervous Ltd., and

(iii) Balance Sheet of Nervous Ltd. after reconstruction.

2. (a) Rewrite the statements given in A Group with the corresponding most appropriate statement from B Group. **(8)**

A Group	B Group
• Internal Reconstruction	• No Special Rights
• Redemption of Preference Shares	• Employees
• Free Reserve	• Bankers
• Miscellaneous Expenditure	• Post Incorporation Period
• Equity Shareholder	• Time Ratio
• Sweat Shares are issued to	• Approval of Court is Necessary
• Share forfeited Account	• Discount on issue of debenture
• Allocation of Debenture interest in Pre and Post Period	• Dividend Equalisation Reserve
•	• Approval of Court is not Necessary
	• Schedule of Share Capital

(b) Choose the most appropriate answer from the following and rewrite the complete statement. **(8)**

(i) Profit or loss on sale of sinking fund investment is transferred to

- Profit and Loss A/c
- Sinking Fund A/c
- General Reserve A/c
- Security Premium A/c

(ii) Capital Redemption Reserve is not created out of

- Profit and Loss A/c
- General Reserve
- Dividend Equilisation Reserve
- Securities Premium

(iii) A Company must be registered/incorporated under:

- Income Tax Act 1961
- Partnership Act 1932

- Companies Act 1956
- Cooperative Societies Act 1960

(iv) Following is not a Fixed Asset

- Goodwill
- Copyright
- Loose tools
- Livestock

(v) Capital Redemption Reserve can be utilized for

- Conversion of partly paid Equity Shares into fully paid Equity Shares
- Payment of arrears of Preference dividend
- Issue of fully paid Bonus shares
- To write off discount on issue of debentures.

(vi) In the Balance Sheet of a limited Company unclaimed dividend appears under the heading.

- Provisions
- Share Capital
- Miscellaneous Expenditure
- Current Liabilities

(vii) When a Limited Co. takes over the business of another Limited Co. the excess of Net Assets value over purchase consideration is

- Goodwill
- Securities Premium
- Capital Gain
- Capital Reserve

(viii) A new company cannot issue shares at

- Par
- Premium
- Discount
- Par to Promoters

3. Mehul Plastics Ltd. was formed with an authorized capital of Rs. 40,00,000 dividend into 2,00,000 Equity Shares of Rs. 10 each, 20,000 8% Preference Shares of Rs. 100 each. **(16)**

The Company issued for public subscription 80,000 Equity shares of Rs. 10 each at a premium of Rs. 2.00 per share, payable as follows.

On application Rs. 3.00

On allotment Rs. 4.00 (Including Premium)

On 1^{st} Call Rs. 2.00 and

Final Call Rs. 3.00

The Company received applications for 1,40,000 Equity shares. Out of these, letters of regret were issued to the applicants of 20,000 shares. Full allotment was made to the applicants of 40,000 shares and pro-rata allotment was made to the balance applicants and the excess money received from them on application was adjusted towards allotment money due. All money due on allotment and call were received except from Mr. Kamal holding 500 shares, to whom full allotment was made, but who failed to pay the allotment and both calls. His shares were forfeited and reissued to Mr. Bhavesh at Rs. 9.00 per share credited as fully paid.

Give necessary journal entries (including cash transactions) in the books of the company and also give schedule of Share Capital and Reserves and Surplus as it would appear in the Balance Sheet of the Company.

4. Sunderam Brothers was taken over by Sundaram Ltd. on 1^{st} May, 2008, however the company was incorporated on 1^{st} Feb, 2009. **(16)**

The following was Trading and Profit and Loss account for the period from 1^{st} May, 2008 to 31^{st} March, 2009.

Dr. Cr.

	Rs.		**Rs.**
To Opening Stock	45,000	By Sales	8,60,000
To Purchases	2,00,000	By Closing Stock	1,65,000
To Wages	80,000		
To Gross Profit c/d	7,00,000		
	10,25,000		**10,25,000**
To Salaries	72,000	By Gross Profit b/d	7,00,000
To Rent (net)	39,000	By Discount	7,000
To Delivery Van Expenses	14,000		
To General Expenses	22,000		

To Advertisement Expenses	3,50,000		
To Bad Debts Written off	14,000		
To Debenture Interest	72,000		
To Directors Meeting Fee	8,000		
To Preliminary Expenses	4,000		
To Net Profit c/d	1,12,000		
	7,07,000		**7,07,000**

You are informed that:

(a) Salaries in pre-incorporation and post-incorporation period were Rs. 6,000 p.m. and Rs. 9,000 p.m. respectively.

(b) Gross profit percentage is fixed. Average monthly turnover is nine times in May, October and November, 2008 as compared to Average monthly turnover of remaining months.

(c) Audit Fees Rs. 5,500 is to be provided for the above period.

(d) Rent on the Debit side is after subtracting rent received at Rs. 4,000 p.m. from 1st Dec., 2008.

You are required to prepare Profit and Loss A/c in columnar form, apportioning various incomes and expenses on suitable basis in the Pre and Post Incorporation period from 1st May, 2008 to 31st March, 2009.

5. Mr. Taitler purchased raw materials from M/s Richo Inc of USA on 1st Oct, 2008 for US $8,400. Amount to be paid in four equal half yearly installments commencing from 31st March, 2009 along with interest @ 12% per annum. **(16)**

Rate of exchange per US $ as on various dates was as follows:

1st October 2008	Rs. 45 per US $
31st March 2009	Rs. 46 per US $
30th September 2009	Rs. 43 per US $
31st March 2010	Rs. 44 per US $

Pass necessary Journal Entries in the books of Mr. Taitler for the years ended 31st March, 2009 and 31st March, 2010.

6. Following is the Trial Balance of Sunil Ltd. as on 31st March 2009: **(16)**

Particulars	Debit (Rs.)	Credit (Rs.)
Stock in Trade	3,59,000	
Cash at Banks	1,11,000	
Preliminary Expenses	17,000	
Loan from State Bank of India		1,47,500
Sundry Debtors	6,49,500	
Sundry Creditors		1,41,500
Profit and Loss A/c	4,10,000	
Bills Receivable	85,000	
Bills Payable		91,000
Outstanding Expenses		45,000
Prepaid Expenses	6,500	
Investments in shares of Rohan Ltd.	42,000	
(7,000 Equity Shares of Rs. 10 each, Rs. 6 per share called and paid up)		
Subscribed Capital		
4,000 7% Preference Shares of Rs. 100 each		4,00,000
85,500 Equity Shares of Rs. 10 each.		8,55,000
	16,80,000	**16,80,000**

The following further particular are available:-

(1) The Authorised Capital of the company was 5,000 7% Preference Shares of Rs. 100 each and 1,00,000 Equity Shares of Rs. 10 each. However company issued only 4,000 7% Preference shares of Rs. 100 each and 90,000 Equity shares of Rs. 10 each to the public.

(2) Dividend on Preference shares is in arrears for the two years 2007-2008 and 2008-2009.

(3) The Bank statement shows a wrong credit of Rs. 1,000 on 29th March, 2009 the same being detected and adjusted by the bank on 4th April, 2009.

(4) Out of the issued capital 1,000 7% Preference shares of Rs. 100 each were issued for consideration other than cash.

(5) One Bill Receivable of Rs. 10,000 endorsed in favour of Rolta Ltd., our supplier, has been returned dishonored on 26th March, 2009 for which entry has to be made in the books of accounts.

(6) The balance of Rs. 1,47,500 in the loan account with State Bank of India is inclusive of Rs. 17,500 for interest accrued but not due. The loan is secured by hypothecation of stock.

(7) Sundry debtors, are unsecured and considered good.

(8) Balance at Bank includes Rs. 9,000 with the Goregaon Co-Op Urban Bank Ltd. which is not a Scheduled Bank.

(9) Market Value of investment in shares of Rohan Ltd. was Rs. 30,000 wherease market value of stock in trade was Rs. 3,80,000 as on 31st March, 2009.

You are required to prepare

Balance Sheet of Sunil Ltd. as on 31st March, 2009 as per Schedule VI of the Companies Act, 1956 in Horizontal or Vertical Form.

Ignore previous years figure.

7. Following is the Balance Sheet of Royal Press Ltd. as on 31.03.2009: **(16)**

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	12,00,000
Authorised		Investments	2,00,000
1,50,000 Equity Shares of Rs. 10 each	15,00,000	Other Current Assets	3,00,000
40,000 9% Preference Shares of Rs. 10 each	4,00,000		
	19,00,000		
Issued Subscribed and paid up 1,00,000 Equity Shares of Rs. 10 each, fully paid			
30,000 9% Preference shares of Rs. 10 each, Rs. 8 called up 2,40,000			
Less: Calls in 6,000	2,34,000		

arrears (Rs. 2 per share)			
Securities Premium	50,000		
Revenue Reserves	1,58,000		
Sundry Creditors	2,00,000		
Bank Overdraft	58,000		
	17,00,000		**17,00,000**

The Preference Shares on which calls were in arrears were forfeited and cancelled and then the final call of Rs. 2 per share was made by the Board of Directors, which was paid by all the shareholders.

Subsequently the company redeemed the Preference Shares at a premium of 5%. For the purpose of redemption of Preference Shares the company issued 20,000 equity shares of Rs. 10 each at 10% premium and 1,000 8% Debentures of Rs. 100 each at 5% discount, redeemable at 10% premium at the end of 5 years. Both the issues were fully subscribed and paid for.

You are required to give:

(1) Necessary Journal Entries in the Books of the company.

(2) Bank A/c

(3) Balance Sheet of the company thereafter.

8. Josh Ltd. and Ashish Ltd. were amalgamated on and from 1st April 2009. A new company namely Shilpa Ltd. was formed to take over the business of Josh Ltd. and Ashish Ltd. **(16)**

Balance Sheets as on 31st March, 2009

Liabilities	**Josh Ltd. (Rs.)**	**Ashish Ltd. (Rs.)**	**Assets**	**Josh Ltd. (Rs.)**	**Ashish Ltd. (Rs.)**
Equity Shares of Rs. 100 each fully paid	4,00,000	3,75,000	Land and Building	3,00,000	1,50,000
12% Preference Shares of Rs. 100 each fully paid	1,50,000	1,00,000	Plant and Machinery	1,50,000	1,80,000
General Reserve	85,000	75,000	Computers	75,000	20,000
Profit & Loss A/c	25,000	15,000	Stock	2,00,000	1,00,000
Statutory	1,00,000	75,000	Debtors	1,25,000	2,00,000

Reserves					
10% Debenture of Rs. 100 each	30,000	15,000	Bills Receivables	90,000	20,000
Sundry Creditors	1,10,000	70,000	Bank	60,000	80,000
Bills Payable	1,00,000	25,000			
	10,00,000	**7,50,000**		**10,00,000**	**7,50,000**

Additional Information:

(a) Shilpa Ltd. issued five Equity shares, for each Equity shares of Josh Ltd. and four Equity shares, for each Equity share of Ashish Ltd. The shares are of Rs. 10 each, issued at Rs. 30 each.

(b) Preference Shareholders of both the companies are issued equivalent number of 15% Preference shares of new company at Rs. 150 per share (face value Rs. 100).

(c) 10% Debenture holders of Josh Ltd and Ashish Ltd. are discharged by Shilpa Ltd. issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.

(d) Shilpa Ltd. revalued following assets taken over from Josh Ltd. and Ashish Ltd.:

	Josh Ltd. (Rs.)	**Ashish Ltd. (Rs.)**
Land and Building	4,00,000	2,00,000
Plant and Machinery	1,20,000	1,50,000
Computers	70,000	10,000
Stock	1,50,000	80,000
Debtors	1,10,000	1,90,000

You are required to

(i) Compute Purchase Consideration.

(ii) Pass journal entries in the books of Shilpa Ltd., under purchase method.

(iii) Prepare Balance Sheet of Shilpa Ltd., after amalgamation.

9. On 1st April, 2009, 200 6% debentures of Rs. 100 each of Excellent Ltd. were held as investment by Mr. Tushar at a cost of Rs. 18,200. **(16)**

Excellent Ltd. pays interest on 1st May and 1st November every year.

The following other transactions were entered by him during the year ended 31st March, 2010 in regard to these Debentures.

Date	No. of Debentures	Transaction	Rate
1st April, 2009	100	Sale	Rs. 98 cum-interes
1st October, 2009	100	Purchase	Rs. 104 ex-interest
1st December, 2009	200	Purchase	Rs. 97 cum-interest
1st February, 2010	100	Sale	Rs. 97 ex-interest

You are required to prepare investment in 6% Debentures in Excellent Ltd. account for the year ended 31st March, 2010 as it would appear in the books of Mr. Tushar. (Apply AS 13)

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Question Paper

T.Y.B.Com.

Financial Accounting and Auditing – Paper-III

Model Paper I

W.N. : 1) Q. No. 1 and 2 compulsory.
2) From remaining answer any four question.
3) Working note should farm part of your answers.

Q.1 A Ltd. decided to redeem its outstanding Preference share and 12% Debenture. Both redeemable at 10% premium.

Balance Sheet as on 31.03.10

Liabilities	Rs.	Assets	Rs.
20,000 Equity Shares of Rs.10/- each Rs.6/- paid	1,20,000	Fixed Assets	8,00,000
		Current Assets	4,20,000
		Bank Balance	2,60,000
10% Preference Shares of Rs.100/- each Rs.80/- paid	3,20,000	Discount on issued on Debenture	20,000
Securities Premium	2,00,000	Sinking Fund Investment	4,40,000
C.R.R.	1,00,000		

P&L A/c Sinking Fund 12% Debentures (Rs.100/- each) Current Liabilities	3,50,000 3,00,000 4,00,000 1,50,000		
	19,40,000		19,40,000

After satisfying all required legal formalities directors decided to redeem Preference Shares & Debentures for the above.

1) 20,000 Equity Shares of Rs.10/- each issued @ 200% premium.
2) K holding 200 Preference Shares & 100 Debentures was expired, hence all other Preference shares & Debentures redeemed as per terms.
3) Sinking Fund investment sold for Rs.3,90,000/-.
4) Final call was made on Equity shares amount was received except on 100 shares held by Z which was forfeited.

You are required to pass entries and prepare Balance Sheet after above transaction.

Q.2 A) Fill in the blanks with suitable words & write sentence again.

1) The company making up an IPO has to open ____________ A/c with Bank.
2) Debenture interest accrued but not due is shown in the Balance Sheet as ____________ .
3) Own Debentures can be held as ____________ .
4) Buy back of shares can be of ____________ paid up shares.
5) Amalgamation is covered under ____________ .
6) Amalgamation includes ____________ reconstruction.
7) Credit balance in Capital Reduction A/c is transferred to ____________ A/c.
8) Ex-interest price includes ____________ only.

B) Match the columns.

Group "A"	Group "B"
i) Sweat Shares	a) Contingent Liability
ii) Non-payment of calls	b) Only shares
iii) Unpaid Preference Dividend	c) Calls in Advance
iv) Own Debentures	d) Part of buy-back
v) Transfer Company	e) Employees
vi) Amalgamation Adjustment A/c	f) AS – 11
vii) Currency Conversion	g) Forfeiture of Shares
viii) Investment A/c	h) Investment
	i) To be liquidates
	j) Purchase Method
	k) AS - 13

Q.3 X Ltd. was incorporated on 01/07/2008 to take over business of Z from 01/05/2008 for Rs.20 Lakhs.

Ledger Balance as on 31st December 2008

Particulars	Rs.	Particulars	Rs.
Fixed Assets	6,00,000	Current Assets	1,00,000
Preliminary Expenses	40,000	Investment (Net)	45,000
Directors Fees	10,000	Rent	50,000
Purchases	13,60,000	Audit Fees	11,000
Stock as on 1st May 2008	70,000	Sales	15,00,000
		12% Debentures	4,00,000
Rent	60,000	Printing & Stationery	18,000
Wages	40,000	Carriage	20,000
Selling Expenses	60,000	10% Investment (face value Rs.90,000/-)	1,00,000
Office Expenses	36,000		
Traveling Expenses	15,000		
		Commission received	45,000

Share Transfer Fees received 4,000/-, Bad Debt w/off Rs.30,000/- (upto 31st July 08 Rs.18,000/-) Travelling Expenses Rs.33,000/-

Additional Information :

1) Fixed Assets includes Rs.2,00,000/-, Plant purchased on 1st Oct 08 provide Depreciation Fixed Assets @ 24% p.a.
2) W/off Preliminary Expenses in 5 years.
3) Investment was purchased on 1st June 08.
4) Monthly averages sales in the month of June, July, August were 5 times of monthly sales in remaining period.
5) Purchase Consideration was agreed Rs.20 Lakhs of which Rs.12 Lacs was paid on 30th September 2008. Balance amount yet not paid provide Interest on Purchase Consideration @ 15% p.a.
6) G.P. % was 20% upto 30th June 08 & then it was 25% of Sales.

You are required to prepare Trading & P&L A/c, ascertaining Pre & Post Incorporation Profit.

Q.4 The following is the Balance Sheet of Bad – day Ltd. as on 31st December 2002.

Liabilities	Rs.	Assets	Rs.
Issued Subscribed Capital		Goodwill	75,000
		Land / Building	2,50,000
30,000 Equity Shares of Rs.10/- each fully paid	3,00,000	Plant / Machinery	1,37,500
		Furniture	16,250
2,000 12% Preference Shares of Rs.100/- each fully paid up	2,00,000	Stock	1,31,500
		Debtors	23,000
		Cash in hand	375
11% Debentures	1,25,000	Profit and Loss A/c	82,500
Sundry Creditors	22,750		
Bank Overdraft	68,375		
	7,16,125		7,16,125

The Preference dividend was in arrears for 5 years. The capital reduction scheme was submitted as under :

1) Equity shares to be reduced to Rs.5/- each.
2) All arrears of Preference dividend to be cancelled.

3) Each preference Share to be reduced to Rs.75/- and then exchanged for one new 12% Preference share of Rs.50/- each and five equity shares of Rs.5/- each.

4) The debit balance of Profit and Loss Account to be written off, Plant / Machinery to be written down by Rs.47,500/- and Goodwill is to be reduced as much as possible.

5) The Debentures are to be redeemed at 5% premium; holders being given the option to subscribe at par for new 12% Debentures.

Approval of the court is obtained. 1,00,000, new Equity shares are issued at par (sufficient new Equity shares are increased by increasing Authorised Share Capital) payable in full on application. The whole issue is underwritten for 2% commission and the issue was fully taken up. Holders of old Debentures of Rs.50,000/- exercised their option and subscribed for the new Debentures. Expenses in connection with the scheme amounted to Rs.3,375/- and were written off. Journalise the transactions to record Reduction scheme and set out new Balance Sheet of the company.

Q.5 Z Ltd. purchased from John of USA goods costing \$ 40,000 1st July 2006. Payments were made as under at the exchange rate specified.

Date	\$	Rate (per \$)
1st July 06	10,000	46
1st Nov. 06	15,000	48
1st Mar. 07	12,000	45

30th Jun 07 balance amount \$ = 47.
31.12.06 rate was \$ = 44.
31.12.07 rate was \$ = 48.

You are required to pass journal entries in the book of Z Ltd., for the year ended 31st December 06 & 31st December 07.

Q.6 Ketan holds following 12% Securities on which interest due date 31st July & 31st Jan every year.

Balance on	10.01.09	Rs.19,00,000/- F.V. Rs.20,00,000/-
Purchases	01.02.09	Rs.10,00,000/- C.I. @ Rs.98/-
	01.05.09	Rs.4,00,000/- Ex-int. @ Rs.99/-
	01.11.09	Rs.4,02,000/- C.I. (F.V. Rs.40,000/-)
Sales	01.06.09	Rs.5,00,000/- @ Rs.110/- Int.
	01.10.09	Rs.6,00,000/- @ Rs.104/- Ex-int.

You are required to prepare Investment Account in the books of Ketan for the year ended 31st December 2009.

Q.7 X Ltd. issued 50,000 Equity Shares of Rs.10/- each. Amount payable as under Rs.3/- per share on Application, Rs.6/- per share on Allotment, Rs.3/- on 1st Call and Rs..3/- on Final Call. Application received 90,000 and Allotment was made as under.

1) To refuse allotment to the applicants of 10,000 shares.
2) To allot in full to applicants 20,000 shares.
3) To allot balance shares to the applicant of remaining applications.

Mr. Y holding 400 shares, to whom shares were allotted on pro rata basis fail to pay allotment money his shares forfeited after 1st call.

These forfeited shares reissued to R as fully paid @ Rs.9/- per share. Pass entries & show Balance Sheet.

Q.8 The following information is obtained from the books of X Co. Ltd. as on 31st March 2007.

Particulars	Rs.
Profit and Loss A/c Debit balance as on 01-04-2008	2,00,000
Preliminary Expenses	10,000
Plant & Machinery	1,00,000
Furniture and Fixture	20,000
Motor Car	15,000
Sales	20,00,000
Miscellaneous Receipts	1,20,000
Opening Stock of Finished Goods	3,00,000
Consumption of Raw Material	9,00,000
Closing Stock of Raw Materials at Cost	5,00,000
Bank Overdraft (Secured against Stock)	1,00,000
Security Premium	3,60,000
Share Capital	6,00,000
Unsecured Loan	3,00,000
Sundry Debtors (including Rs.1,00,000/- over 6 months)	7,00,000
Salaries and Wages	2,00,000
Office Administration Expenses	4,00,000
Selling and Distribution Expenses	1,40,000
Sundry Creditors	4,00,000
Advance Income Tax	3,00,000
Deposits with B.S.E.S.	40,000
Interest on Overdraft paid	10,000
Interim Dividends	60,000
Tax deducted at Source payable (from salary and wages)	15,000

The following further information is given –

1) Closing Stock of finished goods at cost is Rs.6,00,000/-.
2) The original costs of fixed assets are :

	Rs.
Plant and Machinery	2,00,000
Furniture and Fixture	30,000
Motor Car	25,000

   Depreciation is to be charged for the year on written down values @ 10 per cent on Plant and Machinery and Furniture and Fixture and @ 20 per cent on Motor Car. There were no additions and disposal during the year.

3) The entire Authorised Share Capital which consists of Equity Shares of Rs.100/- each has been issued and subscribed. The share capital is paid upto the extent of 30 per cent and there are no calls in arrear.
4) The unsecured loan was taken on 1st January 2009 at 18% p.a. interest. Necessary provisions are to be made in the accounts.
5) Office administration expenses include auditor's fee Rs.5,000/- (including fees for taxation services Rs.1,000/-) and Director's fees Rs.3,000/-.
6) Taxation provision is to be created for Rs.3,50,000/-.
7) Preliminary Expenses are to be written off.
8) The Directors have proposed a final dividend of Rs.6/- on each Equity Share in addition to the interim divided already declared.

Prepare Profit and loss account and Balance Sheet of the company for the year ended 31st March 2009, keeping in view the requirements of disclosure under the Companies Act.

Q.9 The balance sheet of M Ltd. as on 31-03-2007 is as follows :

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs.10/- each	3,00,000	Net Block of Fixed Assets	8,00,000
Preference Shares of Rs.100/- each	1,00,000	Investments	1,00,000
Securities Premium A/c	1,50,000	Current Assets	7,50,000
General Reserve	1,00,000		
Profit & Loss A/c	1,00,000		

Debentures Current Liabilities	8,00,000 1,00,000		
	16,50,000		16,50,000

Keeping in view all the legal requirements, ascertain the maximum no. of Equity shares that M Ltd. can buy back @ Rs.30/- per share, being the current market price. Assume that the buy-back is carried out actually on the permitted terms and accordingly record the entries in the Journal of M Ltd. and prepare its balance sheet thereafter.

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18

INVESTMENT ACCOUNTING-I

Unit Structure

18.0 OBJECTIVES :

After studying the unit the students will be able to:

- Know the meaning of Investment and Types of Investment.
- Explain the types of transaction
- Understand the Accounting Entries
- Solve the practical problems on the unit.

18.1 INVESTMENT MEANING AND TYPES :

18.1.1 DEFINITIONS

The investment of funds basically means surplus funds of the business are utilized as source of additional income.

The accounting standards have defined as under:-

Investments are the assets held by enterprise for any one or more of the following objectives / advantages accruing to investing enterprise.

i) Earning income by way of dividend, interest or rental.

ii) Capital Appreciation

iii) Any other benefit.

18.1.2 TYPES OF INVESTMENT

Thus the investment can be in various forms, since the aforesaid objective can be achieved in varying forms of investment. These may be.

i) Securities yielding fixed income. Such as Debentures, Bonds, Certificates, Deposits.

ii) Shares.

iii) Jewellery

iv) Capital in Partnership firm

v) Immovable Property.

These investments are classified as

I) **Current Investment:** These are investments to be held for not more than one year from date of acquisition and which are readily realizable.

II) **Long Term Investments:** The investments which are not current are Long Term. The aforesaid classification is basically, based on intention of investing enterprise. as to period of holding and its ready realisability. Of these forms of investment, special accounting is required in case of investment in shares, Bonds, Debentures & Securities.

When the investments are in aforesaid securities issued by different authorities and companies it is necessary to maintain separate account for each or a separate investment register.

18.2 TERM OF TRANSACTIONS:

The aforesaid securities are generally purchased an sold at the price prevailing at recognized stock exchange through brokers. This is called transaction price.

The Brokers charge as service charge commission / Brokerage which is generally expressed as absolute amount or percentage of transaction price. In case of purchase the amount is added to transaction price. In case of sale, it is deducted from price.

In addition the buyer of securities is required to pay Stamp Duty. Thus,

I) **Cost of Investment Purchased**

Include – i) Transaction Price.............

ii) Add Commission / Brokerage................

iii) Add Stamp Duty.............

Total...........

This is called four value of Investment

II) **Sale Proceeds of Investment Comprises**

Transaction Price................

Less: Commission / Brokerage.............
Total...............

When Investments are acquired in exchange for any other assets, the Fair Value of Asset exchanged is cost of Investment.

In case of sale, it is also necessary to ascertain **Cost of Investment sold.**

The cost of investment sold can be arrived as under

i) F.I.F.O. Method

ii) Weighted Average method

iii) The Accounting standard 13, prescribes weighted Average method for this purpose.

The Carrying Amount represents amount at which balance in A/c is carried forward.

The carrying amount to be adopted is

(i) In case of Long Term Investment

- Fair value (as above)

(ii) In case of current Investment

- Fair value (as above)

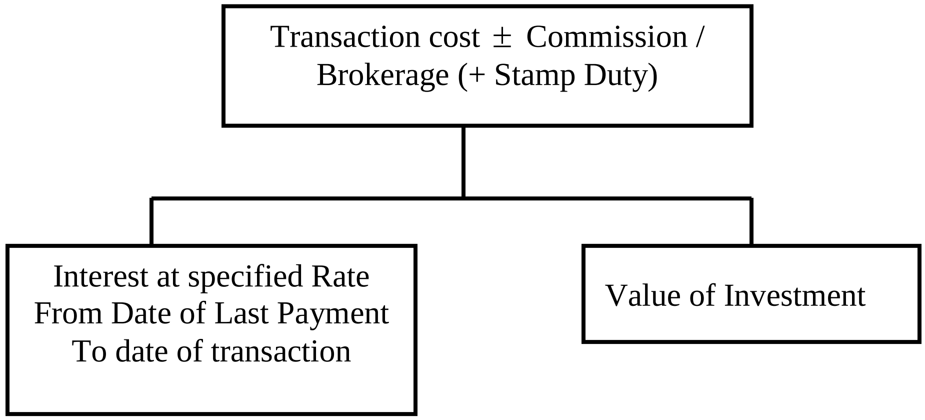
Or Market Value whichever is lower.

However, in case of long term investment. If the decline in value of investment is of long term nature, it is advisable to provide for such loss.

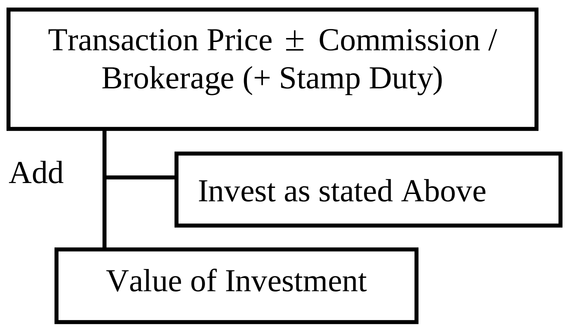
18.3 TYPES OF TRANSACTIONS:

(A) **Fixed-interest bearings investment**: In case of Fixed-interest bearings investment such as securities, Debentures, Bonds the interest is received by the holder of investment on specific dates- normally half yearly. In such case a special treatment is to be given to interest from date of the transaction. For this purpose transactions are categorized as

a) **Cum last payment to interest:** This type of transaction mean transaction is inclusive of above referred interest. The cost of investment is to be segregated between interest and value of investment. Thus



b) **Ex-Interest:** The price is exclusive of interest Hence aforesaid interest is to paid/received in condition to price.



In case the transaction (whether Cum Interest or Ex interest) is not specified, it is assumed that transaction is cum-interest.

The amount received on sell or renouncement is to be treated as Income, as specified in AS-13.

In case of Bonus Shares, the investor has NIL Cost. For purpose of carrying Amount, average cost of shares after bonus shares.

However for purpose of Income Tax computation aforesaid averaging of cost is not to be considered.

(B) **Shares:**

The Shares transactions are of various types

(i) By Purchase/sale through Broker

(ii) Rights Share

(iii) Bonus Shares

The transaction through Broker may be cum dividend or ex dividend in the same manner as cum interest or ex-interest. However difference is interest is related to time period. Whereas dividend relate to declared amount.

In case of Rights Shares, the issuing company makes offer to shareholder to subscribe and pay for Shares at specific price. Payable directly to company. The Shareholder if desire to Purchase additional shares, can acquire such right from any other shareholder on payment of additional amount called Premium. In case shareholder do not wish to invest, he can sell right and receive premium. The cost of investment in such case is,

i) **Subscribing to Shares:** Amount paid to company at right Price.
ii) **Additional Shares :** Amount paid to seller of rights and paid to company.

18.4 THE ACCOUNTING ENTRIES :

The accounting entries are

1. **Purchase**:
Investment A/c Dr. (Face Value & Amount Column
Income A/c Dr. (Income Column)
To Bank

2. **Sale** :
Bank Dr.
To Investment A/c (Face value & Account Column)
To Income (Income Column)

3. **Profit / Loss on sale** :
Investment (Amount Column)
To Profit or Loss on sale of Investment
To Investment (Amount Column)

4. **Receipt of Income on Due Date**
Bank A/c Dr.
To investment A/c (Income column)

5. **Receipt of Bonus Shares**: Entry only in Face value columns.

Note:
(i) Face value Column can be fitted as Number column in case of Shares.
(ii) In case transaction for item 1 and 2 above is on due date of payment of interest the entry will not have debit or credit to Income column.

18.5 INVESTMENT ACCOUNT:

The investment Account is maintained in multi column form. The separate columns are :

1. Date
2. Particulars
3. Folio
4. Face Value or No. of Shares / Debenture
5. Income-interest or Dividend
6. Cost / Value

Date	Particulars	No.	FV (Rs.)	Income	Investment or capital	Date	Particulars	No.	FV (Rs.)	Income	Investment or capital
	To Balance						To Bank (Sale)				
	To Bank (Purchase)						By Loss on Sale				
	To Profit on Sale						By Balance				
	To Profit/ Loss A/c										

Note: 1. The Accrued Interest should be shown as Balance in Income Column in case of opening & Closing Balances.

2. Balance in Icome column should be transferred to Profit & Loss A/c.

Check Your Progress

- Give the proforma of Investment Account.
- Explain the following terms
    1. Ex-Interest transaction
    2. Cum-Interest transaction
    3. Current Investment
    4. Long Term Investment

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19

INVESTMENT ACCOUNTING-II

Unit Structure

19.1 PRACTICAL PROBLEMS :

Illustration 1

On 1.2.2009, Messrs File Investment service purchased 9% Debentures of Rs. 100 each of Messrs Alpha Oil Limited having Face Value of Rs. 16,000 @ 95% (Cum-Interest), the expenses being Rs. 100.

On 1.4.2009 they sold debentures having face value of Rs. 6,000 @ 92% (ex-interest), the expenses being Rs. 60.

On 1.8.2009 they again sold debentures having face value of Rs. 4,000 @ 101% (cum-interest), the expenses being Rs. 40.

On 1-11-2009, they further purchased debentures of Rs. 18,000 @ 103% (ex-interest), the expenses being Rs. 200.

Beside expenses (as stated above), they paid ¼ % brokerage on both purchase and sale. The interest on debentures is payable on June 30 and December 31 every year but received on 15th July and 15th January (next month). On 31-12-2009 the Debentures on hand was valued @ Market Price of 104%.

Prepare 9% Debentures Account in the books of Messrs File Investment Service for the period ended 31.12.2009. Prepare Investment Account with detailed working under Weighted Average Method.

Answer 1:

Messrs File Investment Services
9% Debenture Account of Aplha Oil Limited

Date	Particulars	Face Value	Interest	Capital		Date	Particulars
2009		Rs.	Rs.	Rs.		2009	
Feb.	1.To Bank A/c	16,000	120	15,218		April	1. By Bank A/c
Aug.1	To P/L A/c			155		April	By Profit & Loss
Nov.1	To Bank Account	18,000	540	18,786		July 15	By Bank
	To P/L A/c		1035				Interest:
							10,000 x 9/100 x 6/12 = 450
						Aug.1	By Bank Account
							Sale (Cum-Int)
						Dec.31	By Accrued Interest
							Interest
							24,000 x 9/100 x 6/12 = 1,0
						Dec.31	By Balance c/d
	Total	**34,000**	**1,695**	**34,159**			**Total**

Answer 2:

Messrs Share Associates
12% Redeemable Debentures of Beta Products Ltd.

Date	Particulars	Face Value	Interest	Capital		Date	Particulars
2009		Rs.	Rs.	Rs.		2009	
Jan	1 To Balance b/f	50,000	-	52,000		March 31	By Bank A/c
May 31	To Bank A/c	20,000	1000	19,600			Sales (Cum Interest)
	Purchase (Cum interest)						30,000 x 107% 32
	20,000 x 103% 20,600						Interest:
	Interest:						1-1-09 to 31-3-09 (3 mth)
	1.1.09 to 31.5.09 (5 mth)						30,000 x 12/100 x 3/1
	20,000 x 12/100 x 5/12 1000						Capital 31
	Capital 19,600					June 30	By Bank
August 31	To Bank A/c	10,000	200	10,400			Interest:
	Purchase (Ex-int)						40,000 x 12/100 x 6/12 2
	10,000 x 104% 10,400						
	Interest:					Oct 31	By Bank
	1-7-09 to 31-08-09 (2 mth)						Sale (Ex. Interest)
	10,000 x 12/100 x 2/12 200						15,000 x 105% 15
Oct 31	To P & L A/c			510			Interest:
Dec 31	To Profit & Loss A/c		4,800				1.7.009 to 31.10.09 (4 mth)
							15,000 x 12/100 x 4/12
						Dec 31	By Bank
							Interest:
							35,000 x 12/100 x 6/12 2

						Dec 31	By Balance c/d
	Total	**80,000**	**6,000**	**82,510**			**Total**

Answer 3:

Messrs Cash Credit Limited
9% (Tax Free) Govt. Bonds

Date	Particulars	Face Value	Interest	Capital		Date	Particulars
2008		Rs.	Rs.	Rs.		2008	
Apr 1	To Balance b/f	60,000	-	63,000		Apr. 30	By Bank A/c
Apr 1	To Interest accrued (reversal)	-	1,350	-			Sale (Cum-Interest)
	60,000 x 9% x 3 mths						50,000 x 1012% 50,5
May 31	To Bank A/c	50,000	1,875	49,227			- Brokerage x 0.2%
	Purchase (Cum-int)						50,3
	50,000 x 102% 51,000						Interest:
	+ Brokerage x 0.2% 102						1.1.08 to 30.4.08 (4 mths)
	51,102						50,000 x 9/100 x 4/12 1,
	Interest:						Capital 48
	1.1.08 to 31.5.08 (mths)						By P & L A/c
	50,000 x 9/100 x 5/12 1875					Jun 30	By Bank
	Capital 49,227						Interest:
Sep 1	To Bank A/c	30,000	450	31,564			60,000 x 9/100 x 4/12 2
	Purchase (Cum-Interest)						By Bank A/c
	30,000 x 106.50% 31,950					Dec. 1	Sale (Ex-Interest)
	Brokerage 30,000 x 0.2% 64						60,000 x 103% 61,
	32,014						- Brokerage x 0.2%
	Interest:						Capital 61
	1.7.08 to 31.8.08 (2 mths)						Interest:
	30,000 x 9/100 x 2/12 450						1.7.08 to 30.11.08 (5 mths)
	Capital 31,550						60,000 x 9/100 x 5/12 2,
Dec. 1	To P/L A/c			815		Dec. 31	By Bank A/c
Feb. 28	To Bank A/c	50,000	750	53,106			Interest :
	Purchase (Ex-Interest)						30,000 x 9/100 x 6/12 1
	50,000 x 106% 53,000					2009	
	+ Brokerage					Mar 31	By Interest accrued
	50,000 x 0.2% 106						80,000 x 9% x 3 mths
	53,106					Mar 31	By Balance c/d
	Interest:						
	50,000 x 9/100 x 2/12 750						
Mar. 28	To P & L A/c -		5,175	-			
	Total	**190,000**	**9,600**	**197,712**			**Total**

Answer 4:

Messrs Manan Finance Limited
6% Government of India Securities

Date	Particulars	Face Value	Interest	Capital		Date	Particulars
2008		Rs.	Rs.	Rs.		2008	
Apr 1	To Bank A/c	75,000	-	78,750		Jun 30	By Bank A/c
Aug.31	To Bank A/c	30,000	750	30,150			Sale (Cum-Interest)
	Purchase (Cum-Interest)						45,000 x 107% 48,
	30,000 x 103% 30,900						Interest:
	Interest:						1.4.01 to 31.6.01 (3mths)
	1.4.01 to 31.8.01 (5 mths)						45,000 x 6/100 x 3/12
	30,000 x 6/100 x 5/12 750						Capital 47
	Capital 30,150					Sep. 30	By Bank
Nov 30	To Bank A/c	15,000	150	15,600			Interest:
	Purchase (Cum-Interest)					2002	60,000 X 6/100 X 6/12 1
	15,000 x 104% <u>15,600</u>					Jan. 31	By Bank A/c
	Interest:						Sale (Ex-Interest)
	1.10.01 to 30.11.01 (2 mths)						22,500 x 105% 23,
	15,000 x 6/100 x 2/12 150						(Also equal to prop CP)
2009							Interest:
Mar. 31	To Profit & Loss A/c	-	3,600	-			1.10.01 to 31.1.02 (4 mths)
Mar. 31	To Profit & Loss A/c	-	-	225			22,500 x 6/100 x 4/12
	Profit on Investment A/c						By Bank A/c
	[SP 47475 – 47250 PCP]						By Bank
	$\left(\frac{78750}{75000} x 45,000\right)$						52,500 x 6/100 x 6/12 1 By Balance c/d Calculation of Cost:
							Op. Bal. Rs. 7,500
							= 78,750 / 75,000 x 7500 7
							Purchase Rs. 30,000 30,
							Purchase Rs. 15,000 15,
							Cost by FIFO basis 53
							Calculation of Market
							Price:
							*52500 x 106/100 55
							(Cost Market Price) 53
	Total	**120,000**	**4,500**	**124,725**			**Total**

Answer 5:

Good Bank Ltd.

Date	Particulars	No.	Face Value	Interest	Capital	Date	Particulars
2009		Rs.	Rs.	Rs.		2009	
Jan. 1	To Balance b/f	10,000	100000	-	125000	May 25	By Bank A/c
May 15	To Bonus (issued)	5,000	50000	-	-		Sale of Rights
	(1:2 on 10,000)						4000 x Rs. 2
May 15	To Bank (Rights)	2,000	2,000	-	14,000	Oct. 15	By Bank
	(Entitled to 3:5 rights i.e. 3/5 x						(Dividend @ 20%)
	10,000 = 6,000 Shares sold						20/100 x 1,00,000
	4,000 rights: see Contra						**NB:** Bonus and Rights
	Accepted 2,000 rights shares						Not entitled to Dividend
	@ a premium of Rs. 3)					Dec. 31	By Balance c/f
	3+4 = 7 pd on Application						
Jun. 15	To Bank (Rights)	-		-	12,000		
	(Balance Rs. 6 paid)						
Mar. 31	To Profit & Loss A/c	-	-	28,000	-		
	Total	**17,000**	**170,000**	**28,000**	**151,000**		**Total**

Answer 6:

Wadala Investments Limited
Investment A/c – Equity Shares in Mumbai City Ltd.

Date	Particulars	No.	Face Value	Interest	Capital	Date	Particulars
2008		Rs.	Rs.	Rs.		2008	
Apr.1	To Balance b/f	1000	10000	-	14250	Aug 15	By Bank
Aug. 1	To Bank 50	50	500	-	846		(Dividend @ 20%)
	(Purchase of Shares						20/100 x 10,000
	Cum-dividend)						20/100 x 500
	[Note A –See Contra]						[Note A –See Contra]
Oct.1	To Bonus (Issue)	450	4,500	-	-	Nov 1	By Bank
	(3:7 of 1,050 Shares)						(Sale of 450 Shares @
Jul. 1	To Profit & Loss A/c	-	-	-	537.50		Rs. 11.25 = 5,062.50
	(Dividend Income)						(-) Brokerage 25.00
							Rs. 11.25 = 5,037.50
						2002	

						Mar 30	By Balance c/f
	Total	**1500**	**15,000**	**2,004**	**15,633.50**		**Total**

Answer 7:

Medical Services Ltd
Investment A/c Equity Shares of Sick Ltd.

Date	Particulars	No.	Face Value	Interest	Capital	Date	Particulars
2008		Rs.	Rs.	Rs.		2008	
Apr. 1	To Balance b/f	20000	200000	-	320000	Sep 30	By Bank
Jun. 1	To Bank	5000	50000	-	70000		(Sale proceeds of rights
	(Purchase of Shares						Shares 5000 x Rs. 1.50)
	Cum-dividend)						[Note: Amt. received for
Aug. 2	To Bonus (Issue)	5000	50000	-	-		Rights will be entered in
	(1:5 of 25,000 Shares)						Capital column and
Sep. 30	To Bonus (Issue)	5000	50000	-	75000		Reduces the Cost]
	(1:3 of 30,000 Shares)					Oct 20	By Bank
	(50% of 10,000 = 5,000)						(Dividend @ 15% on
	Shares accepted paid						Rs. 2,00,000 x 15%
	@ Rs. 15)						Rs. 50,000 x 15%**

Nov. 1	To profit & Loss A/c						**Dividend rate was
	(Profit on sale of 20,000				2857		Not known @ the time
	Shares- Refer Note 1)						of purchase of 5,000
							Shares on 1.6.2008
							By Bank
							(Sale of Rs.13 per Share)
2009						2009	
Mar 31	To Profit & Loss A/c	-	-	30000	-	Mar 31	By Balance c/f
	(Dividend Income Transfered)						(Refer Note 2)
	Total	**35000**	**350000**	**30000**	**467857**		**Total**

In the Books of PSI Investments
12% Partly Convertible Debentures of Ted Ltd. A/c (Interest Date 30th June, and 31st December)

Date	Particulars	Nominal Value Rs.	Interest	Capital Value Rs.	Date	Particulars
2008					2008	
Apr. 1	To Balance b/f	600000	-	618000	June 30	By Bank
Aug. 1	To Int. accrued	-	18000	-	Sep 30	By Bank
Aug. 1	To Bank	300000	3000	303000	Dec 31	By Bank
					Dec 31	By Equity shares
2009					2009	
Mar 31	To P & L (Int. trant)	-	66250	-	Feb 1	By Bank
Mar 31	To P & L A/c (Profit)	-	-	7000	Mar 31	By Bal. c/d
					Mar 31	By Int. Accrued
		900000	**87250**	**928000**		

Equity Shares in Ted Ltd. A/c

Date	Particulars	No. of Shares	Interest	Capital Value	Date	Particulars
2008					2009	
Dec 31	To 12% Partly convertible				Mar 1	By Bank
	Debentures A/c	21000	-	536250	Mar 31	By Bal c/d
2009						

Mar 31	To P & L A/c (Profit)	-	-	56250		
		21000		**592500**		

Solution:

In the Books of MRK
Investment in Equity Shares of X Ltd. A/c

Date	Particulars	No. of Shares Rs.	Face Value Rs.	Dividend Rs.	Cost Rs.	Date	Particulars	N Sh
2008						2008		
April 1	To Bal. b/d	50,000	500,000	-	750,000	Sep	By Bank	
July 1	To Bank	10,000	100,000	-	160,000	Oct 31	By Bank (Dividend)	
Aug 1	To Bonus share	10,000	100,000	-	-	Nov 15	By Bank	5
Sep 30	To Bank	20,000	200,000	-	300,000			
Nov 15	To P & L	-	-	-	100,000			
	(Profit on sale)							
2009						2009		
Mar 31	To P & L (Dividend)	-	-	100,000	-	Mar 31	By Bal. c/d	4
	Total	**90,000**	**900,000**	**100,000**	**1310,000**		**Total**	**9**

Solution:

Date	Particulars	Face Value	Interest	Capital Value	Date	Particulars	I V
1-4-08	To Bal. b/f	200,000	-	190,000	1-6-07	By Bank A/c	6
1-4-08	To Accounted int	-	4500	-	30-6-08	By Bank (Int Recd.)	
31.05-08	To Bank A/c (Purchase)	80,000	3,500	73,000	30-11-08	By Bank A/c	
1-12-08	To Bank A/c	10,000	375	10,000	31-12-08	By Bank A/c (Int. Recd.)	
31-12-09	To P & L A/c (Profit on sale)	-	-	1,100	1-3-09	By Bank	
					31-3-09	By Bank c/d	1
31-3-09	To P & L A/c (Int.)	-	18,750	-	31-3-09	By Accounted Int. c/d	
	Total	**290,000**	**-**	**274,100**		**Total**	**2**

Solution:

In the Books of Ajay
Investment Account in Equity Shares in Vipro Ltd.
For the year ended 31st March, 2009

Date	Particulars	Face Value (Rs)	Dividend (Rs)	Cost (Rs)	Date	Particulars	F V
2008					2008		
April 1	To Balance b/d	3,00,000	-	4,20,000	Oct. 22	By Bank	
July 1	To Bank	60,000	-	96,000	Nov. 1	By Bank	2
Aug 5	To Bonus Shares	60,000	-	-			
Nov 1	To Profit & Loss A/c (Profit)	-	-	72,857			
2009					2009		
Mar. 31	To Profit & Loss A/c	-	42,000	-	Mar. 31	By Balance c/d	1
		-		-			
		4,20,000	**42,000**	**5,88,857**			**4**

Solution:

In the Books of Abhishek
Investment in Equity Shares of Raj Entertainment Ltd.
Account
for the year ended 31st March, 2009

Date	Particulars	No. of Shares	Dividend Rs.	Cost (Rs)	Date	Particulars
2008					2008	
April 1	To Balance b/d	10,000		1,60,000	Oct 31	By Bank
July 1	To Bank A/c	4,000		80,000		
July 31	To Bank A/c	6,000		1,32,000		
Aug. 22	To Bonus A/c	5,000		NIL		
Oct 15	To Bank A/c	3,000		45,000		
2009					2009	

Jan 1	To Profit & Loss A/c	(WN)		1,85,750	Jan 10	By Bank	
Mar 31	To Profit & Loss A/c	-	40,000	-	Mar 31	By Balance c/d	
		-		-			
		28,000	**40,000**	**6,02,750**			

Solution:

In the Books of Mr. Mayur
Investment Account in Equity Shares of Jai Ltd.
for the year ended 31st March, 2009

Date	Particulars	WN	No. of Shares	Dividend Rs.	Cost (Rs)	Date	Particulars
2008						2008	
April 1	To Balance b/d	-	30,000	-	4,50,000	Oct 31	By Bank
June 22	To Bank	-	5,000	-	80,000	Nov 15	By Bank (Sale)
Aug 16	To Bonus Issue	1	5,000	-	-		
Sept 30	To Bank A/c	2	10,000	-	1,50,000		
	(Right Share)						
Nov 15	To Profit &	5	-	-	48,000		
	Loss A/c						
2009						2009	
Mar 31	To Profit &		-	60,000	-	Mar 31	By Balance c/d
	Loss A/c						
	(Balance Figure)						
			-	-	-		
			50,000	**60,000**	**7,28,00**		

Solution:

In the Books of Mandar
Investment Account of 6% Government Securities
for the year ended 31st March, 2009
(Due Date for Interest 30th June and 31st December)

Date	Particulars	WN	Face Value Rs.	Interest Rs.	Capital Rs.	Date	Particulars
2008						2008	
April 1	To Balance b/d	1	75,000	1,125	78,000	Jun. 30	By Bank
May 1	To Bank	2	30,000	600	28,800	Aug. 1	By Bank
Nov. 1	To Bank	6	45,000	900	45,450	Aug. 1	By Profit &
							Loss A/c
						Dec 31	By Bank

2009						2009	
Feb. 1	To Profit &					Feb. 1	By Bank
	Loss A/c	10			136	Mar. 31	By Profit &
Mar. 31	To Profit &						Loss A/c
	Loss A/c			5,595		Mar. 31	By Balance c/d
	(Balance Figure)						
			-	-	-		
			1,50,000	**8,220**	**1,52,386**		

Solution:

In the Books of M/s Bhagwati
Investment Account of 12% Debentures in Mansi Ltd.
for the year ended 31st March, 2009
(Due Date for Interest 30th June and 31st December)

Date	Particulars	WN	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars
2008						2008	
April 1	To Opening					Jun. 1	By Bank A/c
	Balance b/d	1	80,000	2,400	76,000		(Sold)
June 1	To Profit &					Jun. 30	By Bank A/c
	Loss A/c	3	-	-	1,500		(Half yearly)
	(Profit on Sale)					Dec 31	By Bank A/c
Sep. 1	To Bank A/c						(Half yearly)
	(Purchase)	5	70,000	1,400	68,600		
Dec. 1	To Bank A/c						
	(Purchase)	6	40,000	2,000	41,200		

2009						2009	
Mar.31	To Profit &					Feb. 1	By Bank A/c
	Loss A/c		-	11,300	-		(Sold)
	(Interest Transfer)					Feb. 1	By Profit &
							Loss A/c
							(Loss on Sale)
						Mar.31	By Profit &
							Loss A/c
							(Loss on
							Valuation)
						Mar. 31	By Balance c/d
			-	-	-		
			1,90,000	**17,100**	**1,87,300**		

Solution:

In the Books of Bangalore Investments
12% Debentures in Minerva Ltd. Account
(Interest 30th June, 31st December)

Date	Particulars	WN	Nominal Value Rs.	Income Rs.	Capital Rs.	Date	Particulars
2009						2009	
April 1	To Balance b/d	1	1,20,000	1,800	1,40,000	Jun. 30	By Bank A/c
Jun. 1	To Bank A/c	2	40,000	1,000	39,800	Nov.30	By Bank A/c
Nov. 1	To Bank A/c	4	40,000	800	38,400	Nov.30	By Profit &
							Loss A/c
						Dec 31	By Bank A/c
						Dec 31	By Profit &
							Loss A/c
						Dec 31	By Bank A/c
2010						2010	
Mar 31	To Profit &					Mar.31	By Balance c/d
	Loss A/c			7,800		Mar.31	By Profit &
	(Balance Figure)						Loss A/c

			-	-	-		
			2,00,000	**11,400**	**2,18,200**		

Solution:

In the Books of Mr. Dharmesh
Investment Account of 12% Debentures of XYZ Ltd.
for the year ended 31st December 2008
(Due Date for Interest – 31st December)

Date	Particulars	WN	Nominal Value Rs.	Income Rs.	Capital Rs.	Date	Particulars
2008						2008	
Jan. 1	To Balance b/d		1,00,000	-	91,000	Sept 1	By Bank
Apr. 1	To Bank	1	20,000	600	19,000	Dec. 1	By Bank
Sep. 1	To Profit &	3	-	-	1,300	Dec. 1	By Bank
	Loss A/c					Dec 31	By Bank
Dec 31	To Profit &		-	12,100	-	Dec 31	By Balance c/f
	Loss A/c						
			-	-	-		
			1,20,000	**12,700**	**1,11,300**		

Solution:

In the Books of Mr. Mehta
12% IDBI Bonds Account

Date	Particulars	Face Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars
2008					2008	
	To Opening Balance	2,00,000	6,000	1,90,000	Jun. 30	By Bank
	To Bank (800 x 96)	80,000	1,600	75,200	Oct. 31	By Bank (700 x 94)
					Oct. 31	By Profit & Loss A/c
					Dec.31	By Bank
2009					2009	
	To Profit &		25,800		Feb. 28	By Bank (300 x 96)
	Loss A/c				Feb. 28	By Profit & Loss A/c
		-	-	-	Mar. 31	By Balance c/d

			2,80,000	**33,400**	**2,65,200**		

Note:

1-2-2009	(Buy-Gain-Int) 6000 @ 95%	15200	
	Expen.	100	
	Brokerage @ 1/4%		38
			15338
	Less: Interest		
	On 16000 for Int.		120
	Investment		**15218**
1-4-2009	(Sell-Ex. Int.		
	6000 @ 12%		5520
	(-) Brokerage @ 1/4%	14	
	(-) Expenses		60
			5446
	Cost $\frac{(15218x6000)}{16000} =$		5707
	Loss		**261**
1-8-2009	Sell (Cum Int)		
	4000 @ 10%		4040
	(-) Expenses		40
	(-) Brokerage @ 1/4%	10	
			3990
	(-) Interest		30
			3960
	(-) Cost $\frac{(152118x6000)}{16000} =$		3805
	Loss		**155**
1-11-2009	Buy (Ex. Int.)		
	18000 @ 10.3%		18540
	(+) Expenses		200
	(+) Brokerage @1/4%		46
			18786
	Interest		

On 18000 for 4mth.	540
FV	Cost
Cost of Investment-24000	24492
Market Value @ 104	**24960**

Illustration 2:

Messrs Share Associates wants you to prepare Investment Account (with detailed notes and workings). The Company gives you the details for the year 2009 relating to 12% Redeemable Debentures of Rs. 100 each of Beta Products Limited:

Jan.1	: Balance Rs. 52,000 having Face Value of Rs. 50,000.
Mar. 31	: Sale of Rs. 30,000 @ Rs. 107 cum interest.
May 31	: Purchase of RS. 20,000 @ 103 cum-interest.
Aug. 31	: Purchase of Rs. 10,000 @ 104 ex-interest.
Oct. 31	: Sale of Rs. 15,000 @ 105 ex-interest.

Interest is payable on 30th June and 31st Dec. every year. The Accounting year of the Company ends on 31st December. Market Price of Debentures as at 31st December was Rs. 99.

What will be the difference, if Market Price Rs. 103 on 31st December, instead of Rs. 99 as mentioned above.

(Hint: If Market Price is Rs. 101, the new Profit on Investment Account will be Rs. 150, instead of old loss of Rs. 400).

March 31 Cost of Investment $\frac{52000}{50000} x30000 = 31200$

Profit /Loss – Nil

Oct 31 Cost of Investment

50,000		
- 30000	20000	- 20800
	20000	- 19600
	10000	- 10400
	50000	- 50800

Sales $\frac{50800}{50000} x15000$	15240
Sales	- 15750
Profit	510
31Dec $\therefore$ Balance F.V. 35000 =	35560

If Investment are treated as
Short Term / current
to be reflected at cost or Market
Value whichever is lower

(i) If Market Price @ 99 - 34650
Cost - 35560
(Lower –Rs. 34650/-)

(ii) If Market Price is 103 - 36050
Cost 35560
(Lower Rs. 35560)

Illustration 3:

On 1-4-2008, Messrs Cash Credit Limited had a balance of 9% (Tax free) government Bonds costing Rs. 63,000, having face value of Rs. 60,000. During the year, the Company had the following transactions:

April 30 2008	: Sales	Rs.50,000 @101% cum-interest
May 31 2008	: Purchases	Rs.50,000 @102% cum-interest
Sep 1, 2008	: Purchases	Rs.30,000 @106.50% cum-interest
Dec, 1 2008	: Sales	Rs. 60,000@103% ex-interest
Feb. 28, 2009	: Purchases	Rs. 50,000@106% ex-interest

Interest is payable half-yearly on 30th June and 31st December every year. Brokerage was paid at 0.20% on purchase and sale. The Company closes its account on 31st March Medical Services Limited.

On which date the market value was Rs. 105.25%. Prepare Ledger Account in the books of Messrs Cash Credit Limited, with detailed working with weighted Avarage Method.

Note: Cost of Bonds Sold

$$30\text{-}4 \quad \frac{63000}{60000} \times 50000 = 52500$$

Sale	48899
Loss	3601

Dec. 1

60000	- 63000
50000	- 49227
30000	- 31564
-140000	- 143781
- 50000	- 52500
90000	- 91291

$$\frac{91291}{90000} \times 60000$$

Loss =	60861
Sale	61676
Profit	815

Illustration 4:

Manan Finance Limited gives you the following details for the Accounting Year from 1.4.2009 relating to 6% Govt. of India Securities of Rs. 100 each:

Apr. 1: Balance Rs. 78.750 having Face Value of Rs. 75,000.
June 30 : Sale of Rs. 45,000 @ Rs. 107 cum-interest.
Aug 31 : Purchase of Rs. 30,000 @ 103 cum-interest.
Nov. 30 : Purchase of Rs. 15,000 @ 104 ex-interest.
Jan. 31 : Sale of Rs. 22,500 @ 105 ex-interest.

Interest is payable on 30th September and 31st March every year. Market Price of Securities as at 31st March was Rs. 106. Prepare Account under FIFO Method.

Illustration 5:

On 1.1.2009 Good Bank Ltd. had 10,000 Equity Shares of Rs. 10 each in Old (Nagaland) Ltd. purchased at Rs. 1,25,000. The Company, like other Investment Companies, doesn't make any apportionment of Dividends (received or receivable) in between Capital and Revenue.

On 15.5.2009, Old Ltd. made a BONUS issue of 1 fully paid share for every 2 share held on 15.5.2009. In addition, on the same day RIGHT shares were issued at 3 Shares for every 5 Shares held on that date at a premium of Rs. 3 payable as under:

Rs. 7 to be paid on application (including Premium) and the balance in one call after a month.

Bonus and Right Shares announced on 15.5.2009 are not to rank for Dividend for the year ending 30th June, 2009.

2,000 Right Shares were taken up by Good Bank Ltd. and the balance rights were sold at Rs. 2 each on 25.5.2009. on 15.10.2009 the Company declared a Dividend @ 20% for the year ending on 30.6.2009.

Prepare Investment Account in the books of Good Bank Ltd.

Illustration 6:

Wadala Investments Ltd. held on 1.4.2008, 1,000 Equity Shares of Rs. 10 each in Mumbai City Ltd. at a book value of Rs. 14,250. It had the following further transactions during the year 2008-2009 in respect of these Shares:

a) Purchased on 1-8-08 50 Shares cum-dividend for RS. 846 (including Brokerage) and registered.
b) The Company declared and paid on 15.8.2008 dividend at 20%.
c) The Company declared on 1-10-2008 a BONUS issue of 3 shares for every 7 Shares held in the Company.
d) The Company sold 450 Shares on 1-11-2008 at Rs. 11.25 per Share and paid brokerage of Rs. 25.

Prepare Investment Account in the books of Wadala Investments Ltd. for the Accounting Year from 1-4-2008 to 30.3.2009.

Note A: Out of the Dividend of Rs. 2,100 received, Rs. 96 must be credited to Capital Column as it pertain to shares purchased on cum-dividend basis (Dividend to calculate upto 1st Aug. 2008). For 14 days, Dividend of Rs. 4 taken to Revenue A/c Rs. 846 paid at the time of purchase should be entered in the Capital column as dividend rate was not known as on that date.

Note B: Profit on Sale of Shares is calculated as under:

Cost of total 1,500 Shares including Bonus Shares:

For 1,500 Shares (14,250 + 846 – 96)		15000.00
For 1 Share (Rs. 1500 Shares)	Rs.	10
For 450 Shares sold Cost (Rs. 1 0x 450)		4500.00
Sale Price as above		5037.50
Profit on Sale of Shares		537.50

Note C: Shares are to be valued "at cost or market price, whichever is less". After the Bonus issue, there is no difference between par value and cost value.

Illustration 7:

On 1.4.2008 (having accounting year ending 31-3-2009), Medical Services Ltd. had 20,000 Equity Shares of Sick Ltd. having face value of Rs. 10 each at Rs. 16 per Share.

On 1.6.2008, Medical Services Ltd. purchased 5,000 additional Equity Shares in Sick Ltd. at a premium of Rs. 4 per Share cum-dividend.

On 30.06.2008 the Directors of Sick Ltd. announced a BONUS and RIGHTS issue. Bonus was declared at 1:5 and the same was received on 2.8.2008.

Right Shares at 1:3 was issued on 10-8-2008 at Rs. 15 Share, payable not later than 30-9-2008. Medical Services Ltd. exercised their option to 50% and the balance was sold at Rs. 1.50 per Share.

Dividends for the year ended 31-3-2008 at 15% was declared by the Sick Ltd. and received by Medical Services Ltd. on 20-10-2008.

On 1.11.2008 Medical Services Ltd. sold 20,000 Equity Shares of Sick Ltd. at a premium of Rs. 3 per Share.

Prepare Investment Accounts in the books of Medical Services Ltd. for the year ended 31-3-2009.

Note 1: Cost Price calculation

1.4.2008	[20,000 Shares]		320000.00
1.6.2008	[5,000 Shares]	70000.00	
2.8.2008	[5,000 Shares]		-
30.9.2008	[5,000 Shares]	75000.00	
			465000.00
(-) 30.9.2008 Sales Proceeds		-7500.00	
(-) 30.10.2008 Dividend on Purchases			-7500.00
Cost Price of 35,000 Shares		450000.00	
Therefore, Cost price of 20,000 Shares			
[4,50,000/35,000 x 20,000]			257143.00
(-) Sale Price of 20,000 Shares @ Rs. 13		260000.00	
Profit on sale of 20,000 Shares			**2857.00**

Note 2: Cost price calculation :

1.4.2008	[20,000 Shares]		320000.00
1.6.2008	[20,000 Shares]		70000.00
2.8.2008	[5,000 Shares]		-
30.9.2008	[5,000 Shares]	75000.00	
			465000.00
			465000.00
(-) 30.9.2008 Sales Proceeds		-7500.00	
(-) 30.10.2008 Dividend on Purchases			-7500.00
Cost Price of 35,000 Shares		- 450000.00	
Therefore, Balance of 15,000 Shares			
[4,50,000/35,000 x 15,000]			**192857.00**

M/s A Investments submits you following details regarding, investment in 12% Partly Convertible Debentures of Ted Ltd.

(a) Opening balance as on 1-4-2008, 6,000 debentures of Rs. 100 each Purchased on 31st Jan. 2008 at Rs. 104 cum-interest.

(b) Aug. 1,2008 – Purchased 3,000 debentures at Rs. 102 cum interest.

(c) Sep. 30, 2008 – Sold 2,000 debentures at Rs. 106 ex-interest.

(d) Dec. 31, 2008 – Received equity shares of Rs. 10 at the premium of Rs. 15 per share in conversion of Rs. 75 per debentures at par, the balance Rs. 25 per debenture being non convertible portion.

(e) Feb. 1, 2009 – Sold 4,000 debentures (non-convertible portion of Rs. 25 each @ Rs. 26 ex-interest).

(f) Mar 1, 2009, sold 60% of the shares received at Rs. 30 per share.

On 31st Mar, 2009 the debentures and shares of Ted Ltd. were quoted at Rs. 34 and Rs. 26 respectively. Interest on debentures is receivable each year on 30th June and 31st Dec. 2009.

You are required to give 12% Debentures and equity Shares in Ted Ltd. A/c for the year ended 31st March 2009.

Solution:

Working Notes:

		Rs.
1) Opening balance as on 1-4-2008		
6,000 debentures Face value	6,00,000	
Purchased on 31st Jan 2007 @ 104 cum-interest	6,24,000	
Less: Interest @ 12% for 1 month		6,000
∴ Capital Value		**6,18,000**

2) Interest received on June 30, 2008

$$6{,}00{,}000 \times \frac{12}{100} \times \frac{6}{12} = Rs.36{,}000$$

3) Purchase of 3,000 debentures at 102 cum interest on Aug 1, 2008		
Face Value		3,00,000
Purchase cost 3,000 x 102	3,06,000	
Less: Interest @ 12% for 1 month		3,000
∴ Capital Value		**3,03,000**
4) Sale of 2,000 debentures at 106 ex-interest on Sept. 30,2008		
Face Value 2,000 x 100	2,00,000	
Sale price ex-interest 2,000 x 106	2,12,000	
Interest @ 12% for 3 months		6,000
Capital Value		**2,12,000**

5) Interest received on 31st Dec. 2008

$$7{,}00{,}000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs. } 42{,}000$$

6) Amount of debentures converted into equity shares
= 7,000 x 75
= Rs. 5,25,000

No. of equity shares received = $\frac{5{,}25{,}000}{25} = 21{,}000$

Total cost of debentures

	Opening balance		6,18,000
+	Purchased		<u>3,03,000</u>
	Total Cost		9,21,000
Less: Sold 2,000 debentures (FIFO)		<u>2,06,000</u>	
∴ Cost of Balance as on 31-12-2008		7,15,000	
75% is converted in equity shares i.e.		<u>5,76,250</u>	
∴ Cost of 21,000 equity shares			**<u>5,36,250</u>**

7) Sale of 4,000 debentures @ Rs. 26 ex-interest on Feb 1.

Face value 4,000 x 25		1,00,000
Sale price 4,000 x 26 ex-interest	1,04,000	
Interest for 1 month		1,000

8) Sale of 60% Shares on March 1,2009 at Rs. 30 per share

Total shares	21,000
∴ 60% shares	12,600
Sold for 12,600 x 30 =	3,78,000

9) Profit on sale of shares on Mar 1, 2009

Cost of 12,600 shares $= \frac{5{,}36{,}250}{21{,}000} \times 12{,}600 =$ 3,21,750

Sold for 3,78,000

∴ Profit = 3,78,000 – 3,21, 750 = 56,250

10) Valuation of closing balance of equity shares

$$= \frac{5{,}36{,}250}{21{,}000} \times 8{,}400 = 2{,}14{,}500$$

11) Valuation of closing balance of 12% debentures (non convertible part)

	Date	No. of Debentures	Cost Rs.
	1-4-2008	6,000	6,18,000
Add	1-8-2008	3,000	3,03,000
		9,000	9,21,000
Less:			
Sold	30-9-2008	2,000	2,12,000
		7,000	7,09,000
Less: Conversion			
	31-12-2008	7,000 x 75	5,36,250
Balance		7,000 x 25	1,72,750
Less:			
Sale	Feb. 1	4,000 x 25	97,000
Balance out of Purchase of 1-8-2008		3,000 x 25.25* =	75,750

$*\left(101 \text{ x } \frac{25}{100}\right)$

On 1st April 2008 MR-K had 50,000 equity shares of X Ltd. at a cost of Rs. 15 per share (Face value of Rs. 10). On 1-7-2008 she purchased another 10,000 shares of the company at Rs. 16 per share.

The directors of X Ltd. announced a bonus and right issue as follows:

Bonus on 1-8-2008 on 1:6 basis

Rights on 1-9-2008 on 3:7 basis @ price Rs.

Due date of payment 30-9-2008

Shareholders can transfer their rights in full or in part. Accordingly, Shilpa sold 1/3rd of her entitlement to Miss Rucha for a consideration of Rs. 2 per share.

Dividends for the Year ended 31st March 2008 at the rate of 20% was declared by the company and received by Miss Shilpa on 31-10-2008. Dividends for shares acquired by her on 1-7-2008 are to be adjusted against cost of purchase. On 15-11-2008 Miss Shilpa sold 50,000 equity shares at a premium of Rs. 5 share.

You are requested to prepare Investment A/c in the books of Miss Shilpa. Books of Accounts are closed on 31st March 2009 and shares are valued at Average Cost.

Working Notes:

(a) Profit on sale of 50,000 equity shares:

		Rs.
Amount paid for 90,000 shares		12,10,000
Less:		
Amount received on sale of Rights	20,000	
Dividend received for pre-acquisition Period	20,000	40,000
∴ Cost of 90,000 shares		Rs. **11,70,000**

∴ Cost of 50,000 shares $\frac{11,70,000}{90,000} \times 50,000 =$ 6,50,000

Sold for	7,50,000
∴ Profit	Rs. **1,00,000**

(b) Value of Closing Stock $\frac{11,70,000}{90,000} \times 40,000 =$ 5,20,000

Illustration: 10

Ankush Ltd. held on 1st April 2008 Rs. 2,00,000 of 9% Government bonds (2001) at Rs. 1,90,000 (Face Value of Bonds Rs. 100 each). Three months interest had been accrued on the above date. On 31st May 2008 the company purchased same Government bonds of the face value Rs. 80,000 at Rs. 95 cum interest. On 1st June 2008, 600 bonds were sold at Rs. 94 ex-interest. Interest on the bonds was payable each year on 30th June and 31st December and was credited by the bank on same date. On 30th November 400 bonds were sold at Rs. 97 cum interest. On 1st December, the company purchased the same 100 bonds at par ex-interest. On 1st, March 2009 the company sold 100 bonds at Rs. 103 (ex-interest). The market price of the bonds on 31st March 2009 was Rs. 96. Prepare 9% Government bonds (2005) A/c in the books of Ankush Ltd. following first in first out method.

Working Notes:

(1) Interest accrued on 1-4-2008

Face value x Interest Rate x Period

$$2,00,000 \text{ x } 9\% \text{ x } \frac{3}{12} = \text{Rs. } 4,500$$

(2) Purchased on 31st May 2008- Cum Int.

Face value = Rs. 80,000		Rs. 76,000
Purchased price @ Rs. 95		Rs. 3,000
Less: Interest @ 9% on 80,000 for 5 months	Rs. 73,000	
∴ Capital Value		

(3) Sale on 1-6-2008, 600 bonds at Rs. 94 ex-interest.

Face value		Rs. 60,000
Sale Price @ Rs. 94	Rs. 56,400	
Interest @ 9% on 60,000 for 5 months		Rs. 2,250

(4) Interest received on 20-6-2008

$$2,00,000 \text{ x } 9\% \text{ x } \frac{6}{12} = \text{Rs. } 9,400$$

(5) Sale on 30-11-2008, 400 bonds at Rs. 97 cum interest

Face value = 40,000		
Sale price 400 x 97 =	Rs. 38,800	
Less: Int. $40,000 \text{ x } 9\% \text{ x } \frac{5}{12}$	Rs. 1,500	
Capital Value		Rs. 37,300

(6) Int. received on 31-12-2008

$$1,90,000 \text{ x } 9\% \text{ x } \frac{6}{12} = \text{Rs. } 8,550$$

(7) Closing Balance (FIFO) Method

Opening Balance – Sales (Bank) + Purchase = Closing Balance

∴ Closing Balance

= 2,00,000 – (60,000 + 40,000 + 10,000) + (80,000 + 10,000)

= 2,00,000 – 1,10,000 + 90,000

= Rs. 1,80,000

19.2 EXERCISE:

19.2.1 OBJECTIVE TYPE QUESTIONS

- **Multiple Choice Questions :**

1. Interest is always calculated on the
   (a) Market Value
   (b) Cost of purchase
   (c) Nominal/Face Value
   (d) Higher of cost and fair value

2. The cost of right shares is
   (a) Added to the cost of investments
   (b) Subtracted from the cost of investments
   (c) No treatment is required
   (d) None of the above

3. Any reduction to market value of currency investment from cost, on valuation date is debited to
   (a) Revaluation reserve (b) Profit and Loss Account
   (c) Capital Reserve (d) General Reserve

4. Investments in immovable properties are to be shown under
   (a) Fixed assets (b) Currency assets
   (c) Current Investments (d) Long-term Investments

5. Interest on securities is paid
   (a) To the holder of the security on the due date, in respect of his actual period of holding
   (b) To the holders of the security on the due date, irrespective of his actual period of holding
   (c) To the original purchaser of the security
   (d) None of the above

6. When dividend is actually received on the due date.

(a) The entire amount is entered in the capital Column (Cr.) of the Investment Account.

(b) The entire amount is entered in the income Column (Dr.) of the Investment Account.

(c) The pro-rata amount relating to the period after the date of acquisition is entered in the Income Column (Cr.) of the Investment Account.

(d) The pro-rata amount relating the period before the date of acquisition is entered in the Income Column (Cr.) of the Investment Account.

7. When the rights shares are subscribed –

(a) Nominal Value is entered in the NV column (Cr.) and Cost is entered in the Capital column (Cr.) of the Investment Account.

(b) Nominal value is entered in the Capital column (Dr.) of the Investment Account.

(c) Nominal Value is entered in the NV column (Dr.) and Cost is entered in the Capital column (Dr.) of the Investment Account.

(d) Cost is entered in the NV column (Dr.) of the Investment Account.

8. When the rights are sold (without subscribing)

(a) Sale proceeds are credited to the Investment Account

(b) Sale proceeds are debited to the Investment Account

(c) No entry is made in the Investment Account and Sale proceeds are credited to the Profit and Loss Account

(d) None of the above

9. If an investment is acquired in exchange of another asset say Building, the acquisition cost of the investment is determined by reference to

(a) The market value of the Building

(b) The market value of the investment acquired

(c) The lower of the two market values

(d) The higher of the two market values

10. Short term investments are carried at

(a) Market Value

(b) Cost Price

(c) Cost or Market Value whichever is less

(d) None of the above

1.c, 2. a, 3. b, 4. d, 5. b, 6. c, 7. c, 8. c, 9. a, 10. c.

- **Fill in the blanks.**

1. The current investments are valued on closing date at ------------------------Value of the security.

2. If a security is transferred on the exact date when interest falls due, the entire interest upto that due date belongs to the ____________.

3. Dividend on shares accrues on the date of its ____________.

4. Dividend on shares is paid to the holder of the share on the date of ____________ , irrespective of his actual period of holding.

5. When shares are purchased, Cost is entered in the (Capital / NV) column (Dr.) in the Investment Account.

6. Weighted Average Cost of Securities on Date of Sale

$$= \frac{?}{\text{Total Number of Securities}} \times \text{Total Cost of Investments on date of Sale}$$

7. Long term investments are carried at

Answer: (1) Lower of the cost or market value (2) Seller, 3) Declaration, (4) Book-closure, (5) Capital, (6) Number of Securities Sold , (7) Cost Price

- **State whether True or False.**

1. Total Payment by purchaser = Ex-interest Price – Accrued Interest

2. Dividend on shares is paid to the holder of the shares on the date of declaration, irrespective of his actual period of holding.

3. If a security is transferred on the exact date when interest falls due, the entire interest upto that due date belongs to the purchaser.

4. If a security is transferred on any date other than the due date for payment of interest, the purchaser has the right to claim the interest upto the date of transfer as his income.

5. If a security is transferred on any date other than the due date for payment of interest, the seller has the right to claim the interest after the date of transfer as his income.

6. Ex-interest price less Accrued Interest = Cost of the investment
7. Interest is always calculated on the Market Value of the Security.

8. Dividend is always calculated on the Face Value or Nominal Value of the shares.

9. Dividend on shares accrues on the date of the book closure by the company.

10. Interest is paid to the holder of the security on the due data, in respect of his actual period of holding.

11. When bonus shares are received only the Nominal Value of such bonus shares is entered in the Investment Account.

12. When the rights are sold (Without subscribing) no entry is made in the Investment Account.

13. When the rights are sold (without subscribing), sale proceeds are credited to the Profit and Loss Account.

14. Whether the price is cum-interest or ex-interest, accrued interest is always calculated and entered in the Income column in the Investment Account.

15. Investment held as long term investment is always valued at cost at the year end as per As 13.

16. Nominal Value column in the Investment.

True: 8, 11, 12, 13, 14, 15, 16. **False: 1, 2, 3, 4, 5, 6, 7, 9, 10,**

Q.1 Explain the term Investment as per AS-13.

Q.2 a) What are constituent of cost of Investment?

b) What are the types of Investment?

Q.3 What is the carrying amount of investment in different cases?

Q.4 Write short Notes:

(a) Ex-interest

(b) Current Interest

(c) Rights Shares

(d) Bonus Shares

Q.5 Janapriya Finance Ltd. purchased on 1st February, 2009 Rs. 64,000 12% Debentures of Bharat Brewery Ltd. at 98 ex-int, plus brokerage 1/8% and expenses on purchases including stamp duty Rs. 100. On 30th June 2009, Rs. 24,000 Debentures were sold at 102 ex-interest, less brokerage at 1/8% and expenses on sale Rs. 20. On 1st August 2009, Rs. 32,000 Debentures were purchased at 101 cum interest, plus brokerage at 1/8% and expenses on purchase Rs. 60. On 31st, October, 2009, Rs. 16,000 Debentures were sold at 102 cum interest, less brokerage at 1/8% and expenses on sale Rs. 20. The market price of Debentures on 31st December 2009 was 95.

Interest on Debentures is payable on 31st March and 30th September every year. Show the Investment Account for the year ended on 31st December 2009 in the books of Janapriya Finance Ltd. transferred to P & L A/c Rs. 6880.

Q.6 On 15th March O.P Ltd. purchased Rs. 10,000 9% Govt stock (Interest payable on 1st April, 1st July, 1st October and 1st January) at 88 com-interest. On 1st August, Rs. 20,000 stock is sold at 88 cum-interest, and on 1st September, Rs. 30,000 stock is sold at 891/4 ex-interest. On 31st December the date of the balance sheet, the market price was Rs. 90.

Show the Ledger account of the Investment for the year ignoring Income tax, Brokerage etc, and making apportionments in months.

Q.7 Mr. Asoka Auddy furnishers the following details relating to his holding in 6% Debenture Bonds of M/s. Pyne & Co. Ltd.

On	1.1.09	Face value of Debenture Bonds Rs. 90,000 (cost Rs. 88,500)
On	1.3.09	150 unit purchased Ex-interest at Rs. 98.
On	1.7.09	Sold 300 units ex-interest out of the original holdings at Rs. 100.
On	1.10.09	Purchased 75 units at Rs. 98 cum-interest.
On	1.11.09	Sold 300 units Ex-interst at Rs. 99 out of the original holdings. Interest dates are 30th. September and 31st March. Mr. Auddy closes his books on 31st, December each year. Show the Investment Account in the books of Mr. Auddy.

Q.8 Kalyani investment held 100; 6% stock @ Rs. 102 on 1.1.2009 on which interest is payable half-yearly on 30th June and 31st December. The following were his transaction in the same stock during the year ending 31.12.2009.

On	1.3.09	Purchased 200 stock en-interest @ Rs. 104.
On	31.8.09	Sold 100 stock ex-interest @ Rs. 106.
On	1.10.09	Purchase 300 stock cum-interest @ Rs. 105.
On	30.11.09	Sold 200 stock cum-interest @ Rs. 107

Assuming brokerage @ 1/4%

Draw up Investment Account in the books of Kalyani Investment Ltd.

Calculate profit or loss on sale on the basis of average cost an on the date of sale.

(8) On 1.4.2005, Sunshine Ltd. had in 5% debentures amounting to Rs. 3,00,000. Interest is payable half-yearly. On 30th June and 31st December.

During the year ended 31.3.06, the following purchases were made in the open market:

15.6.05 Rs. 50,000 nominal ex-int; cost Rs. 49,450.

11.11.05 Rs. 40,000 nominal cum-int; cost Rs. 40,250

The debentures, thus purchased, were not cancelled until 30.6.08.

Draw up the own Debenture Investment Account; (Calculations are made in months and to the nearest rupee).

(9) Samar Financiers held Rs. 20,000, 6% Debentures in Stabdi Electronic Ltd. on 1st July, 2000 with a book value of Rs. 17,262. Interest is payable on 30th June and 31st December. On 1st October 2008 a further Rs. 10,000 of these Debentures were purchased at 100 cum-interest, brokerage etc. costing Rs. 140. On 1st, January 2009 one half of the total holding of the Debentures was sold at Rs. 111, brokerage, etc. on such sale amounting to Rs. 50, the proceeds being invested on the same day in equity shares of Rs. 1 at Rs. 5 each of the Manolex India Ltd., brokerage, etc. on purchase being Rs. 250. On 31st May 2009 a dividend of 30% was received from Manolex India Ltd., together with a bonus issue of one equity share for each five already held.

On 20th June 2009 all equity Shares in Manolex India Ltd. were sold at Rs. 4.50 each, brokerage, etc. on such sale being Rs. 50.

Show the Ledger Accounts in respect of the above investments for the year ended 30th June, 2009. Ignore income tax. No apportionments are required of accrued dividend on the equity Shares of Manolex India Ltd.

(10) On 1.1.2009 X Ltd. had 5,000 Equity Share of Rs. 10 each in Alpha Ltd. purchased for Rs. 62,500. The Company, unlike Investment Companies does not make any apportionments of dividends (received or receivable) in between Capital and Revenue. On 15.5.2009 the Alpha Ltd. made a Bonus issue of one fully paid share for Two held on 15.5.89. In addition, on the same day Right Shares were issued at 3 for 5 held on that date at a premium of Rs. 3, Rs. 7 to be paid on application and the balance in one call after a month. These Shares were not to rank for dividend for the year ending 30th June, 1989. 1,000 Rights were taken up by X Ltd, balance rights being sold at

Rs. 2 each on 25.5.1989. On 15.10.89 the company declared a dividend of 20% for the year ending 30th June 2009.

Make out the Investment Account in the books of X Ltd. Ignore income tax.

(11) On 1st April 2009 Mr. Das had 10,000 Equity Shares in Indian Steel Ltd. Face Value of the Share was Rs. 10 each but their book value was Rs. 16 per share. On 1st June 2009 Mr. Das Purchased 2,500 more equity shares in the company at a premium of Rs. 4 per ahead.

On 30th, June 2009. The directors of Indian Steel Ltd. announced a bonus and right issue. Bonus was declared at the rate of one equity held and these shares were received in 2nd August 2000.

The terms of the right issue were:

(a) Rights shares to be issued to the existing share holders on 10th August, 2009.

(b) Right issues would entitle the holders to subscribe to additional equity at the rate of one share for every three share held at 15 per share the whole sum being payable by 30th September.

(c) Existing share holders may, to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.

(d) Mr. Das exercise his option under the issue for 50% of his entitlements and the balance of rights, he sold to Rahul for a consideration of Rs. 1.50 per share.

(e) Dividends for the year ended 31st March 2009 at the rate of 15% were declared by the Company and received by Mr. Das on 20th October, 2009.

(f) On 1st, November Mr. Das sold 10,000 Equity Shares at a premium of Rs. 3 per share.

Show the investment Amount as it would appear in Mr. Das's books as on 31.12.2009 and the value of held on that date.

(I.C.W.A. (Inter) adapted)

Q.9 On 1st April, 2009 Santosh purchased 50,000 equity shares of Telco Ltd. at a cost of Rs. 15 per share. On 16th May, 2009 he acquired another 10,000 shares of the same company for Rs. 16 per share.
The directors of Telco Ltd. announced a bonus and right issue.
Bonus basis 1:6 on 31st Aug 2009.
Rights basis 4:7 on 12th Sept. 2001 at Rs. 20 per share. The date for payment 30th Sept. 2009.

Shareholders can transfer their rights in full or in part. Accordingly, Santosh sold 40% of his entitlement to Paritosh at Rs. 3 per share.

Dividend for the year ended 31st March 2009 at the rate of 25% was declared by Telco Ltd. on 25th Oct. 2001 and received by Santosh on 4th Nov. 2009. Dividends for Shares acquired by him on 16th, May 2009 are to be adjusted against the cost of the purchase. On 26th Nov. 2009 he sold 47,000 shares at Rs. 20 per share.
You are required to prepare the Investments Account in the books of Mr. Santosh.

Q.10 Mr. Sudhanshu holds on 1st April 2008 Rs. 50,000 6% Gold Bonds, at a cost of Rs. 48,000, Investments on which interest is payable on 1st Jan and 1st July each year.

Following ire the transactions of sales and purchases of be same security during the year ended 31st March 2009.

Purchases

(i) On 1.5.2008 Face value Rs. 40,000 @ 102 cum-interest.

(ii) On 1.11.2008 Face value Rs. 30,000 @ 101 ex-interest.

Sales

(i) On 1.8.2008 Face value Rs. 30,000 @ 103 ex-interest.

(ii) On 1.3.2009 Face value Rs. 40,000 @ 101 cum-interst.

Brokerage @ 1% was paid on sale & purchase of Investments

Income Tax is deducted on interest @ 10% by the Governments.
Prepare investment account in the books of Mr. Sudhanshu.

Q.11 Nutan Bharat Bank Limited held on 1st January 2009, 1,000 equity shares of Rs. 10 each in Double Century Limited at a book value of Rs. 14,250. It had the following further transactions during the year 2000, in respect of these shares:

(1) Purchased on 1st April, 2009, 50 shares cum-dividend for Rs. 850 (including brokerage) (the shares were immediately registered in its name).

(2) The company declared and paid on 15th April, 2009, dividend at 20%.

(3) The company declared on 1st June, 2009, a bonus issue of 3 shares for every 7 shares held in the company.

(4) The bank sold 450 shares on 1st July, 2009, at Rs. 11.25 per share and paid brokerage and transfer charges Rs. 25.

You are required to prepare the investment account in the Bank's ledger in respect of these shares.

Q.12 On 15th May, 2009, Alpha Limited made a bonus issue of 1 fully paid share for every two held on 15th May, 2009. In addition, on the same day rights shares were issued at 3 for every 5 held on that date it a premium of Rs. 3, Rs. 7 to be paid on application and the balance in one call after a month. These shares are not to rank for dividend for the year ending 30th June, 2009. 2,000 rights shares were taken u by X Ltd., balance rights being sold at Rs. 2 each on 25th May 2009.

On 15th October, 2009 the company declared a dividend of 20% for the year ending 30th June, 2009.

Q.13 On 1st April 2009, Sundhya had 20,000 Equity Shares in Alpha Ltd. Face value of the shares was Rs. 10 each but their book value was Rs. 16 per share.
On 1st June 2009, Singh purchased 5,000 more equity shares in the company at a premium of Rs. 4 per share.

On 30th June, 2009, the directors of X Ltd announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August 2009.

The terms of the rights issue were:

(a) Rights shares to be-issued to the existing shareholders on 10th August.

(b) Rights issue would entitle the holders to subscribe to additional equity shares at the rate of one share for every three shares held at Rs. 15 per share – the whole sum being payable by 30th September, 2009.

(c) Existing shareholders may, to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.

(d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights, he sold to Ananth for a consideration of Rs. 1.50 per share.

(e) Dividends for the year ended 31st March 2009, at the rate of 15% were declared by the company and received by Singh on a 20th October.

(f) On 1st November, 2009, Singh sold 20,000 equity shares at a premium of Rs. 3 per share.

Show the investment account as it would appear in Singh's books as on 31.12.2009 and the value of shares held on that date.

Problem No. 1

On 1st April, 2008; Mr. Ajay had 30,000 equity shares in Vipro Ltd. face value of the share was Rs. 10 each but his purchase price was Rs. 14 per share. On 1st July, 2008; Ajay purchased 6,000 additional equity shares of the same company for a price of Rs. 16 per share. On 31st July, 2008; the directors of the company announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every six shares held. Bonus shares were received on 5th August, 2008.

1. Rights shares to be issued to the existing holders on 17th August, 2008.
2. Rights offered were at the rate of one share for every three shares held at Rs. 15 per share. Full amount was payable by 30th September, 2009.
3. Existing shareholders may to the extent of their entitlement, either wholly or in part, transfer their rights, to outsiders.
4. Ajay exercised his option and subscribed for 60% of his entitlement and the balance of rights, he sold to Vikas for a consideration of Rs. 1.50 per share.
5. Dividend for the year ended 31st March, 2008 at the rate of 14% was declared by the company and received by Ajay on 22nd October, 2008.
6. On 1st November, 2008; he sold 25,000 shares at Rs. 15 per share.

   Prepare Investment Account of equity shares in Vipro Ltd. for the year ended 31st March, 2009 in the books of Mr. Ajay. Apply AS-13.

   The market price of an equity share was Rs. 14 as on 31st March, 2009.

Working Notes:

1. **Bonus Shares: 1:6**

   No. of Shares held = 30,000 + 6,000
   = 36,000 shares

   No. of Bonus Shares = $\frac{1}{6} \times 36{,}000$
   = 6,000 shares

2. **Rights Shares:**

   Rights Shares Ratio: 1:3

   Ajays holding = 30,000 + 6,000 + 6,000
   = 42,000 shares

   Rights Entitlements = $\frac{1}{3} \times 42{,}000$
   = 14,000 shares

   Rights Share subscribed = 60% of 14,000
   = 8,400 shares @ Rs. 15 per share
   = 1,26,000

3. **Sale of Rights Entitlements:**

No. of Rights Entitlements not subscribed = 40% of 14,000
= 5,600

Sale of Rights Entitlements = 5,600 shares
@ Rs. 1.50
= Rs. 8,400

As per AS- 13, Sale of Rights Entitlements is credited to Profit & Loss Account.

4. **Dividend received:**

Dividend on 22nd October, 2008 for the year ending 31st March, 2008. Ajays holding on 22nd October, 2008 = 50,400 (30,000 + 6,000 + 6,000 + 8,400) shares. These will be no dividend on 14,400 shares (6,000 + 8,400) as these shares were not in existence as on 31st March, 2008.

Out of remaining 36,000 share (50,400 – 14,400), 6,000 shares were purchased by Ajay after 31st March, 2008. Hence, dividend on these shares will be pre-acquisitions dividend.

Pre-acquisition dividend = 14% of Rs. 60,000
= Rs. 8,400

It will be deducted from cost.

So, Normal dividend = 14% of Rs. 3,00,000
= Rs. 42,000

5. **Profit or Loss on Sale:**

Cost of Shares Sold

Date	**Face Value Rs.**	**Cost Rs.**
1.4.2008	3,00,000	4,20,000
1.7.2008	60,000	96,000
5.8.2008	60,000	-
22.10.2008	-	-8,400
	4,20,000	5,07,600
1.11.2008	-2,50,000	3,02,143
	1,70,000	**2,05,457**

Sale Proceeds :

25,000 shares @ Rs. 15 = Rs. 3,75,000

Less: Cost of Shares Sold $\left(\frac{5,07,600}{4,20,000} x 2,50,000\right)$ = Rs. 3,02,143

Profit on Sale = Rs. 72,857

6. **Valuation on 31st March, 2009:**

   Cost Price = Rs. 2,05,457

   Market Price = 17,000 x 14

   = 2,38,000

   Whichever is less.

Problem No. 2 (October, 2008)

On 1st April, 2008; Mr. Abhishek had 10,000 equity shares (of Rs. 10 each) in RAI Entertainment Ltd. at the cost of Rs. 1,60,000.

On 1st July, 2008; he acquired 4,000 more shares in the same company for Rs. 80,000
On 31st July, 2008; he further acquired 6,000 more shares at Rs. 22 per share.

On 10th August, 2008; Rai entertainment Ltd. announced bonus shares to the equity shareholders in the ratio of 1 bonus share for every 4 shares held on 5th August, 2008. Abhishek received the bonus shares on 22nd August, 2008.

The directors of Rai Entertainment Ltd. issued rights shares to the equity shareholders as on the following terms:

1 Rights shares to be issued to the existing shareholders as on 31st August, 2008.
2. Right offered was at the rate of Rs. 15 per share in the ratio of 1 share for every 5 shares held. Full amount was payable on or before 15th October, 2008.
3. Shareholders would be entitled to renounce their entitlement either wholly or in part to the outsiders.
4. Abhishek exercised his right of option under the issue of 3,000 shares and sold the balance to Mr. Raj @ Rs. 4 per share. On 20th October, 2008; Rai Entertainment Ltd. declared the dividend @ Rs. 4 per share for the year ending 31st March, 2008. Abhishek received the dividend on 31st October, 2008.

   On 10th January, 2009 Abhishek sold 7,000 shares @ Rs. 40 per share.

Prepare Investments Account in the books of Abhishek for the year ended 31st March, 2009.

Working Notes:

1. Bonus Shares $= \frac{20,000}{4} x1$ = 5,000 shares

2. Rights Shares $= \frac{1}{5} x\, 25,000$ = 5,000 shares

   i) Purchased 3,000 Shares

   ii) Sold 2,000 Shares

3. **Cost of Shares Purchased**

Date	Particulars	No. of Shares	Cost Rs.
1.4.2008	Purchase	10,000	1,60,000
1.7.2008	Purchase	4,000	80,000
31.7.2008	Purchase	6,000	1,32,000
22.8.2008	Bonus	5,000	Nil
15.10.2008	Rights	3,000	45,000
31.10.2008	Dividend	-	(40,000)
	Total	**28,000**	**3,77,000**

4. Cost of shares sold $= \frac{3,37,000}{28,000} x\, 7,000$ = 94,250

5. Profit Loss on Sale of Shares:

   Sale Proceeds = (7,000 x 40) = Rs. 2,80,000

   Less: Cost of Shares sold

   (Weighted average cost as per AS-13) = Rs. 94,250

   Profit = Rs. **1,85,750**

Problem No. 3 (April, 2008)

On 1^{st} April, 2008; Mr. Mayur had 30,000 equity shares in Jai Ltd. at a book value of Rs. 4,50,000 (face value Rs. 10 per share). On 22^{nd} June, 2008; he purchased another 5,000 shares of the company for Rs. 80,000.

The Directors of Jai Ltd. announced a bonus issue of equity shares in the ration of one share for seven shares held on 16^{th} August 2008.

On 31^{st} August, 2008; the Company made a right issue in the ratio of three shares for 8 shares held on payment of Rs. 15 per share. Due date for the payment was 30^{th} September, 2008. Mr. Mayur subscribed to $\frac{2}{3}$rd of the right shares and sold remaining of his entitlement to Vinayak for a consideration or Rs. 2 per share.

On 31^{st} October, 2008; received dividends from Jai Ltd. @ 20% for the year ended 31^{st} March, 2008. Dividend for shares acquired by him on 22^{nd} June, 2008 are to be adjusted against the cost of purchase.

On 15^{th} November, 2008; Mayur sold 30,000 equity shares at a premium of Rs. 5 per share.

You are required to prepare Investments Account in the book of Mr. Mayur. Assume that the books of accounts are closed on 31^{st} March, 2009 and shares valued at weighted average cost.

Working Notes:

1. **Cost of Shares Sold**

Date	Particulars	No. of Shares	Cost Rs.	
1.4.2008	Opening Balance	30,000	4,50,000	
22.6.2008	Purchases	5,000	80,000	
		35,000	5,30,000	
16.8.2008	Bonus Shares	5,000	-	
		40,000	5,30,000	
30.9.2008	Right Shares	10,000	1,50,000	
		50,000	6,80,000	
31.10.2008	Dividend	-	(10,000)	
		50,000	6,70,000	
15.11.2008	Sold	30,000	4,02,000	$\frac{30,000}{50,000} \times 6,70,000$
	Balance	**20,000**	**2,68,000**	

2. Bonus Shares = $\frac{35,000}{7} \times 1$ = 5,000 shares

3. Rights Shares = $\frac{40,000}{8} \times 3$ = 15,000

15,000

Purchased $\frac{2}{3}$ — 10,000

Sold $\frac{1}{3}$ — 5,000

Sale of Rights Shares = 5,000 x Rs. 2
= Rs. 10,000

4. As per AS-13, profit on sale of right entitlement is directly credited to Profit & Loss Account.

Dividend received on 31st October, 2008 = 30,000 x 10 x 20%
= Rs. 60,000

Dividend received on Shares purchased on 22nd June, 2008
= 5,000 x 10 x 20%

= 10,000

Which is adjusted to Investment Account
Sold: 30,000 Shares at Rs. 15 = Rs. 4,50,000
Less: Cost of Shares sold = Rs. 4,02,000
Profit **= Rs. 48,000**

Problem No. 4

During the year ended 31st March, 2006; a company had acquired shares of Telecom Ltd. as follows:

Date of Acquisition	No. of Shares	Purchase Cost per share Rs.
4.5.2005	500	55.00
25.8.2005	500	60.00
15.12.2005	1,000	70.00
18.2.2006	750	75.00

On 15th March, 2006; a company sold 1,000 shares at Rs. 80 per share.

Calculate profit or loss on sale of shares.

Solution:

Cost of Shares Purchased

Date	No. of Shares	Rate Rs.	Cost Rs.
4.5.2005	500	55.00	27,500
25.8.2005	500	60.00	30,000
15.12.2005	1,000	70.00	70,000
18.2.2006	750	75.00	56,250
	2,750		**1,83,750**

Profit / Loss on Sale of Shares

	Rs.
Sale Proceeds (1,000 x 80)	80,000
Less: Cost of Shares sold	
(Weighted Average Cost as per AS-13) $\left(\frac{1,83,750}{2,750} x 1,000\right)$	66,820
Profit	**13,180**

Problem No. 5 (October, 2007)

Mr. Mandar holds as on 1st April, 2008; Rs. 75,000 (cost price Rs. 78,000) 6% Government securities as investment on which interest is payable half yearly on 30th June and 31st December every year. The following transactions took place during the accounting year ended 31st March, 2009.

Purchases:

i) On 1st May, 2008; face value Rs. 30,000 @ 98 cum-interest.

ii) On 1st November, 2008; face value Rs. 45,000 @ 101 ex-interest.

Sales:

i) On 1st August, 2008; face value Rs. 36,000 @ 97 cum-interest.

ii) On 1st February, 2009; face value Rs. 24,000 @ 102 ex-interest.

Market price of investment at 1% discount on 31st March, 2009.

Write up Investment Account closing it on 31st March 2009 in the books of Mrs. Mandar. Investments are to be valued at cost or a market value whichever is less. (Apply AS-13)

Working Notes:

Sr. No	Date	Computation	Amount Rs.
1.	1.4.2008	Accrued Interest $75{,}000 \times \frac{6}{100} \times \frac{3}{12}$	1,125
2.	1.5.2008	Cum-interest Price $30{,}000 \times \frac{98}{100}$ 29,400 Less: Accrued Interest $\frac{6}{100} \times 30{,}000 \times \frac{4}{12}$ <u>600</u> Cost of Purchase	<u>28,800</u>
3.	30.6.2008	Interest received: $1{,}05{,}000 \times \frac{6}{100} \times \frac{6}{12}$	3,150

4.	1.8.2008	Sale: Cum-interest Sale $36{,}000 \times \frac{97}{100}$ 34,920 Less: Accrued Interest $36{,}000 \times \frac{6}{100} \times \frac{1}{12}$ 180	34,740
5.	1.8.2008	Profit /Loss Cost 36,617 Sale 34,740	1,877
6.	1.11.2008	Ex-Interest Purchase 101% of Rs. 45,000 Accrued Interest 6% of 45,000 for 4 months	45,450 900
7.	31.12.2008	Interest received: 6% of 1,14,000 (75,000 + 30,000 + 45,000 -36,000) for 6 months	3,420

8.	1.2.2009	Ex-interest Sale: 102% of 24,000			24,480
9.		Accrued Interest 6% of 24,000 for 1 month			120
10.	1.2.2009	Loss on Sale: Sale Less:Cost of Investment sold Profit		 24,480 <u>24,344</u>	136
11.	31.3.2009	Cost of Investment Sold & Carrying Cost:			
			F.V. **Rs.**	**Cost** **Rs.**	
		1.4.2008	75,000	78,000	
		1.5.2008	<u>30,000</u>	<u>28,800</u>	
		30.6.2008	1,05,000	1,06,800	$\frac{1,06,800}{1,05,000} \times 36,000$
		1.8.2008	<u>36,000</u>	<u>36,617</u>	=36,617
			69,000	70,183	
		1.11.2008	<u>45,000</u>	<u>45,450</u>	
		31.12.2008	1,14,000	1,15,633	
		1.2.2009	<u>24,000</u>	<u>24,344</u>	$\frac{1,15,633}{1,14,000} \times 24,000$
		31.3.2009	<u>90,000</u>	<u>91,289</u>	= 24,344
		31.3.2009	Cost	91,289	
			M.V. (99% of 90,000)	89,100	
			Loss	**2,189**	
12.	31.3.2009	Interest accrued: 6% of 90,000 for 3 months			1,350

Problems No. 6 (March, 2007)

Miss Bhagawati entered into the following transactions of purchase and sales of 12% debentures of Rs. 100 each of Mansi Ltd. Interest is payable on 30th June and 31st December every year.

Transactions are as under:

Date	No. of Debentures	Terms
01.04.2008	8,000	Opening Balance at a cost of Rs. 76,000
01.06.2008	300	Sold at Rs. 105 each cum-interest
01.09.2008	700	Purchased at Rs. 98. each ex-interest
01.12.2008	400	Purchased at Rs. 108 each cum-interest
01.02.2009	900	Sold at Rs. 97 each ex-interest

Prepare Investments Account of 12% debentures in the books of Bhagwati for the year ended 31st March, 2009. The market value on 31st March, 2009 was Rs. 67,500 of the said investment. Apply AS-13.

Working Notes:

1	1.4.2008: Accrued interest on opening balance for 3 months $\left(80{,}000 \times 12\% \times \frac{3}{12}\right)$	Rs. 2,400
2	1.6.2008: Sale at cum-interest (i) Cum Interest Price received (300 x 105) (ii) Interest accrued for 5 months (January-May) $\left(30{,}000 \times 12\% \times \frac{5}{12}\right)$ (iii) Sold cum-interest, So credit to capital	Rs. 31,500 Rs. 1,500 Rs. 30,000
3	1.6.2008: Profit on Sale (i) Sale Price (ii)Cost $\left(30{,}000 \times \frac{76{,}000}{80{,}000}\right)$ (iii) Profit	 Rs. 30,000 Rs. 28,500 Rs. 1,500

4	30.6.2008: Half-yearly interest received $\left[(80,000-30,000) \text{ x } 12\% \text{ x } \frac{6}{12}\right]$	Rs. 3,000
5	1.9.2008: Purchased Ex-interest (i) Ex-interest Price paid (700 x 98) (ii) Accrued Interest for 2 months (July & August) $\left(70,000 \text{ x } 12\% \text{ x } \frac{2}{6}\right)$ (iii) Total Payment	Rs. 68,600 Rs. 1,400 Rs. 70,000
6	1.12.2008: Purchased cum-interest (i) Price paid (400 x 108) (ii) Purchased after due date; so Accrued Interest for 5 months (July-November) $\left(40,000 \text{ x } 12\% \text{ x } \frac{5}{12}\right)$ (iii) Credit to Capital (as purchased cum-interest)	Rs. 43,200 Rs. 2,000 Rs. 41,200
7	31.12.2008: Half-yearly Interest received $\left(1{,}60,000 \text{ x } 12\% \text{ x } \frac{6}{12}\right)$	Rs. 9,600
8	1.2.2009: Sale Ex-interest (i) Price received (Ex-interest) (900 x 97) (ii) Accrued Interest $\left(90,000 \text{ x } 12\% \text{ x } \frac{1}{12}\right)$	Rs. 87,300 Rs. 900
9	Loss on above Sale (i)Cost $\left(90,000 \text{ x } \frac{1{,}57,300}{1{,}60,000}\right)$ (ii) Sale Price (iii) Loss	Rs. 88,481 Rs. 87,300 Rs. 1,181
10	31.3.2009: Interest Due & Valuation (i) Interest Due $\left(70,000 \text{ x } 12\% \text{ x } \frac{3}{12}\right)$	Rs. 2,100

	(ii) Valuation Book Value (Balance Figure) (1,87,300 – 1,18,481) Market Value (Lower of the two)	 Rs. 68,819 Rs. 67,500 Rs. 67,500
11	Loss on valuation is the balancing figure of the account at the year-end.	

Problem No. 7 (March, 2006)

Banglore Investment hold 1,200 – 6% debentures of Rs. 100 each in Minerva Ltd. as on 1st April, 2009 at a cost of Rs. 1,40,000. Interest is payable on 30th June and 31st December each year.

Other details are as under:

Date	Details	Rs.
01.06.2009	400 Debentures are purchased cum interest at	40,800
01.11.2009	400 Debentures are purchased ex-interest at	38,400
30.11.2009	600 Debentures are sold cum-interest for	64,500
31.12.2009	800 Debentures are sold ex-interest for	77,300

Prepare Investment Account valuating closing balance on 31st March, 2010 at cost or market price whichever is lower. The debentures are quoted at par on 31st March, 2010.

Working Notes:

1	Accrued interest on opening balance for 3 months (January to March) $\left(\text{Rs.}1{,}20{,}000 \times \frac{6}{100} \times \frac{5}{12}\right)$	Rs. 1,800
2	(i) Price Paid (ii) Purchased after due date: Accrued Interest for 5 months (January to May) $\left(\text{Rs. } 40{,}000 \times \frac{6}{100} \times \frac{5}{12}\right)$ (iii) Purchased cum-interest; so cost (Rs. 40,800 – Rs. 1000)	Rs. 40,800 Rs. 1,000 Rs. 39,800
3	Interest amount upto 30th June received	Rs. 4,800

	$\left(Rs.1{,}60{,}000 \times \frac{6}{100} \times \frac{6}{12}\right)$	
4	(i) Price paid	Rs. 38,400
	(ii) Purchased after due date; so accrued interest for 4 months (July to October)	
	$\left(Rs.40{,}000 \times \frac{6}{100} \times \frac{4}{12}\right)$	Rs. 800
	(iii) Purchased ex-interest	Rs. 38,400
5	(i) Price received	Rs. 64,500
	(ii) Sold after due date. So Interest due for 5 months	Rs. 1,500
	(July to November) $\left(Rs.60{,}000 \times \frac{6}{100} \times \frac{5}{12}\right)$	
	(iii) Sold cum-interest; so credit to capital	Rs. 63,000
	(Rs. 64,500 – Rs. 1,500)	
6	Loss on Sale:	
	Sale Proceeds	Rs. 63,000
	Less: Cost on Investments sold	Rs. 65,460
	Loss on Sale	Rs. 2,460

7	(i) Price received	Rs. 77,300
	(ii) Sold after due date; so interest due for 6 months	Rs. 2,400
	(July to December) $\left(Rs. 80,000 \times \frac{6}{100} \times \frac{6}{12}\right)$	Rs. 77,300
	(iii) Sold ex-interest	
8	Loss on Sale:	
	Sale Proceeds	Rs. 77,300
	Less: Cost of Investments sold	Rs. 87,280
	Loss on Sale	Rs. 9,980
9	Interest amount upto 31st December received	Rs. 1,800
	$\left(Rs. 60,000 \times \frac{6}{100} \times \frac{6}{12}\right)$	
10	Accrued Interest on closing balance for 3 months (January to March) $\left(Rs. 60,000 \times \frac{6}{100} \times \frac{3}{12}\right)$	Rs. 900
11	Loss on Valuation 31.3.2010	
	Market Price (at par)	Rs. 60,000
	Cost of Investments	Rs. 65,460
	Loss on Valuation on 31.3.2010	Rs. 5,460

Cost of Investment Sold

Date	Particulars	Face Value Rs.	Cost Rs.	
1.4.2009	Opening Balance	1,20,000	1,40,000	
1.6.2009	Purchased	40,000	39,800	
30.6.2009	Balance	1,60,000	1,79,800	
1.11.2009	Purchased	40,000	38,400	
		2,00,000	2,18,200	$\frac{2,18,200}{2,00,000} \times 60,000$
30.11.2009	Sold	60,000	65,460	$= 65,460$
		1,40,000	1,52,740	$\frac{1,52,740}{1,40,000} \times 80,000$
31.12.2009	Sold	80,000	87,280	$= 87,280$
31.12.2009	Balance	**60,000**	**65,460**	

Problem No. 8 (March, 2005)

On 1st January, 2008; 1,000 – 12% debentures of Rs. 100 each of Shiva Ltd. were held as investment by Mr. Dharmesh at a cost of Rs. 91,000. Interest is payable on 31st December.

On 1st April, 2008; Rs. 20,000 of such debentures were purchased by Dharmesh @ Rs. 98 cum-interest.

On 1st September, 2008; Rs. 30,000 of such debentures were sold at Rs. 96 ex-interest.

On 1st December, 2008; Rs. 50,000 of such debentures were sold at Rs. 99 cum-interest. Interest is received on due date.

Prepare Investment Account for 12% debentures of Shiva Ltd. in the books of Mr. Dharmesh valuing closing stock as on 31st December, 2008 applying AS-13. The debentures were quoted at Rs. 93 on 31st December 2008.

Working Notes:

1	1.4.2008:			
	(a) Price paid	(200 x 98)	Rs.	19,600
	(b) Accrued Interest	$\left(20,000 \times \frac{12}{100} \times \frac{3}{12}\right)$	Rs.	600
	(c) Purchased cum-interest		Rs.	-
	$\therefore$ Cost	(19,600 – 600)	Rs.	19,000
2	1.9.2008:			
	(a) Price received ex-interest	(300 x 96)	Rs.	28,800
	(b) Accrued Interest	$\left(30,000 \times \frac{12}{100} \times \frac{8}{12}\right)$	Rs.	2,400
	$\therefore$ Total Receipts		Rs.	31,200
3	1.9.2008:			
	Profit / Loss on Sale:			
	Sale Proceeds		Rs.	28,800
	- Cost	$\left(\frac{30,000}{1,40,000} \times 1,10,000\right)$	Rs.	27,500
	Profit		Rs.	1,300

4	1.12.2008:		
	(a) Price received (cum-interest) (500 x 99)	Rs.	49,500
	(b) Accrued Interest $\left(50,000 \text{ x } \frac{12}{100} \text{ x } \frac{11}{12}\right)$	Rs.	5,500
	∴ Cost of Investments (49,500 – 5,500)	Rs.	44,000
5	1.12.2008:		
	Profit / Loss on Sale:		
	Sale Proceeds	Rs.	44,000
	- Cost $\left(\frac{50,000}{90,000} \text{ x } 82,500\right)$	Rs.	45,833
	Loss	Rs.	1,833
6	31.12.2008:		
	Interest (12% of Rs. 40,000)	Rs.	4,800

7	31.12.2008 Valuation of Stock: Closing Balance (Cost) Nominal Value Rs. 40,000 Market Price (400 x 93) ∴ Valuation is at cost price as per AS-13, i.e. cost or market price whichever is lower	 Rs. 36,667 Rs. 37,200

Problem No. 9

Mr. Arvind entered into following transactions of purchase and sale of equity shares of Aspi Ltd. The shares have paid up value of Rs. 10 per share.

Date	No. of Shares	Terms
01.01.2008	600	Buy @ Rs. 20 per share
15.03.2008	900	Buy @ Rs. 25 per share
20.05.2008	1,000	Buy @ Rs. 23 per share
25.07.2008	2,500	Bonus shares received
20.12.2008	1,500	Sale @ Rs. 22 per share
01.02.2009	1,000	Sale @ Rs. 24 per share

Additional Information:

1. On 15th September 2008; dividend @ Rs. 3 per share was received for the year ended 31st March, 2008.
2. On 12th November, 2008; the company made a rights issue of equity shares in the ratio of one share for five shares held on payment of Rs. 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of premium of Rs. 3 per share.
3. Shares are to be valued on weighted average cost basis.

You are required to prepare investment Account for the year ended 31st March, 2008 and 31st March, 2009.

Solution:

In the Books of Mr. Arvind
Investment A/c
(Equity Shares of Aspi Ltd.)

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
2008				2008			
Jan.1	To Bank A/c	600	12,000	Mar. 31	By Balance c/d	1,500	34,500
Mar. 15	To Bank A/c	900	22,500			-	-
		1,500	**34,500**			**1,500**	**34,500**
Apr. 1	To Balance b/d	1,500	34,500	Sep.15	By Bank A/c		
					(#1)		
May 20	To Bonus A/c	2,500	-		(Dividend)	-	3,000
May 20	To Bank A/c	1,000	23,000	Dec.20	By Bank A/c	1,500	33,000
Nov 12	To Bank A/c	600	12,000				
Dec 20	To Profit &	-	15,187				
	Loss A/c						
2009				2009			
Feb.1	To Profit &	-	12,125	Feb. 1	By Bank A/c	1,000	24,000
	Loss A/c			Mar. 31	By Balance c/d	3,100	36,812
		-	-			-	-
		5600	**63312**			**5600**	**63312**

Note:

1. Dividend is received on 15th September, 2008; @ Rs. 3 per share on 25,000 shares. Out of these, dividend for 1,000 shares is pre-acquisition dividend, therefore Rs. 3,000 is credited to Investment Account.

2. Number of shares held on 12th November, 2008 is 5,000 shares. Right issue is of 1:5, i.e. 1,000 shares. Number of shares subscribed is 60%, i.e. 600 shares @ Rs. 20.
   Premium on renouncement is 400 x 3 = Rs. 1,200.

3. Profit on 1,500 shares sold on 20th December, 2008:

   Total number of shares [1,500 + 2,500 (Bonus) +1,000 + 600]
   = 5,600 shares.

$\therefore$ Weighted Average Cost of 1,500 shares Rs. 17,813

$$\left(\frac{66,500}{5,600} x 1,500\right)$$

Sale Price of 1,500 shares Rs. 33,000

$\therefore$ Profit **Rs. 15,187**

4. Profit on 1,000 shares sold on 1st February, 2009:
   Total number of shares [1,500 + 2,500 (Bonus) + 1,000 + 600] = 5,600 shares.

   $\therefore$ Weighted Average Cost of 1,000 shares

   $$\left(\frac{66,500}{5,600} x 1,000\right)$$ Rs. 11,875

   Sale Price of 1,000 shares Rs. 24,000

   $\therefore$ Profit **Rs. 12,125**

Cost of Shares Sold

Date	Particulars	No. of Shares	Cost Rs.	
1.1.2008		600	12,000	
15.5.2008		+ 900	22,500	
		1,500	34,500	
20.5.2008		+1,000	23,000	
		2,500	57,500	
25.7.2008	Bonus	+2,500	-	
		5,000	57,500	
15.9.2008	Capital Dividend	-	(3,000)	(1,000 share x Rs. 3)
		5,000	54,000	
12.11.2008	Right	+600	12,000	
		5,600	66,500	$\frac{1,500}{5,600} x 66,500$
20.12.2008	Sold	-1,500	17,813	
		4,100	48,687	$\frac{1,000}{4,100} x 48,687$
1.2.2009	Sold	1,000	11,875	
		3,100	**36,812**	

Problem No. 10. (October, 2003)

Mr. Mehta furnishes the following information regarding his holding in 12% IDBI bonds.

2008

April 1 Opening Balance-Nominal value of 12% bonds Rs. 2,00,000
Cost Rs. 1,90,000. Three month's interest had accumulated as interest was receivable half yearly on 30th June and 31st December.

August 31 He purchased a further Rs. 80,000 of the bonds at Rs. 96 cum interest.

October 31 Sold 700 12% bonds of Rs. 100 each at Rs. 94 ex-interest.

2009

February 28 Sold 300 12% bonds of Rs. 100 each at Rs. 96 cum interest.

The face value of each bond was Rs. 100.
Prepare 12% IDBI Bonds Account for the year ended 31st March, 2009.
Use Weighted Average.

Working Notes:

Sr. No.	Date	Computation	Amount
1.	1.4.2008	Accrued Interest 12% of 2,00,000 for 3 months	 6,000
2.	3.6..2008	Interest received 12% of 2,00,000 for 6 months	 12,000
3.	31.8.2008	Cum Interest Price 96% of 80,000 Less: Interest 12% of 80,000 for 2 months (July, August)	 76,800 1,600 **75,200**
4.	31.10.2008	Sale 700 bonds @ Rs. 94 ex-interest Cost of Bonds Loss	 65,800 66,300 **500**
5.	31.10.2008	Accrued Interest 12% of 70,000 for 4 months (July	

		to October)	2,800
6.	31.12.2008	Interest Received 12% of 2,10,000 for 6 months	12,600
7.	28.2.2009	Sale 300 Bonds @ 96 cum interest Interest 12% of 30,000 for 2 months (January, February) Cost of Bonds Sold Loss	28,800 600 28,200 28,414 **214**
8.	31.3.2009	Accrued Interest 12% of 1,80,000 for 3 months	5,400

Cost of Bonds Sold

Date	Face Value Rs.	Cost Rs.	
1.4.2008	2,00,000	1,90,000	
31.8.2008	+80,000	75,200	
	2,80,000	2,65,200	
31.10.2008	-70,000	-66,300	
31.12.2008	2,10,000	1,98,900	$\frac{1,98,900}{2,10,000} \times 30,000$ = 28,414
28.2.2009	-30,000	28,414	
	1,80,000	**1,70,486**	

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