Corporate Accounting

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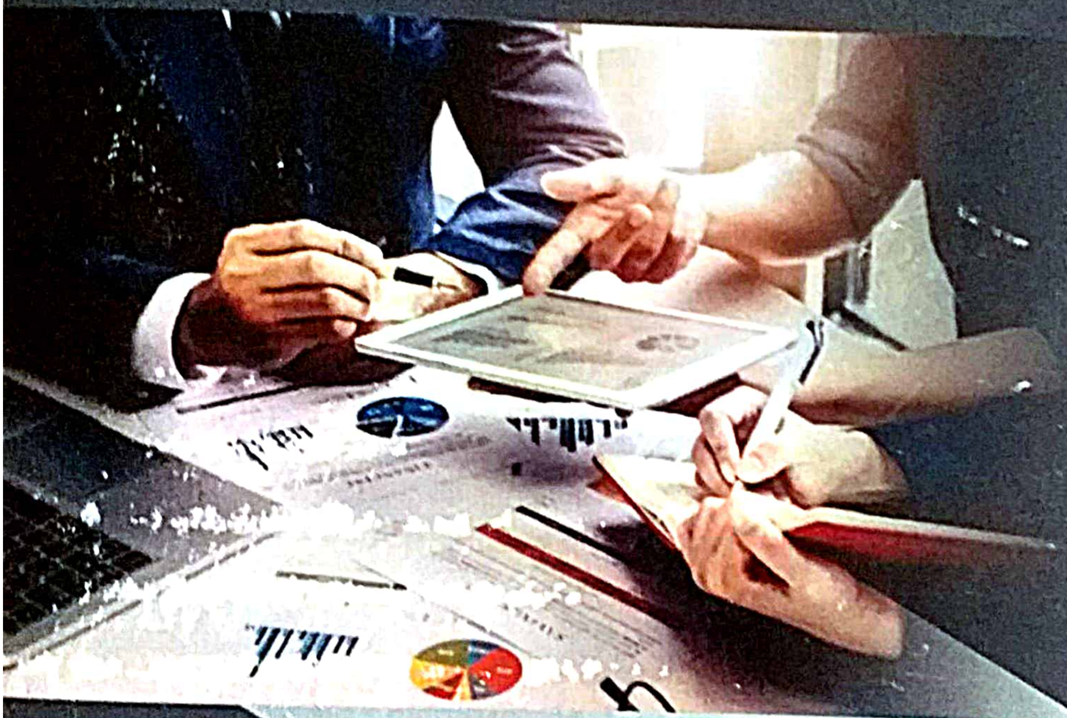

CHARULATHA PUBLICATIONS

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ISSUE OF SHARES

Company – Types-Shares – Types – Share Capital – Types – Face value – Equal subscription – Over subscription – Premium value – Forfeiture and reissue – Face value – Premium value – allotment money not given – Allotment money not given – Face value – Premium value – Over subscription – Face value – Pro-rata allotment – Over subscription – Premium value – Under subscription – Discount value – Forfeiture and reissue

The company is the third form of business organization where there is no restriction for maximum number of members. It should be registered under Companies Act 1956. It has many special features like legal status, perpetual succession, common seal, limited liability, separation of ownership and management, etc.

1.1 DEFINITION OF COMPANY

Sec. 3(1) of the Companies Act 1956 defines a company as "a company formed and registered under this Act or an already existing company". An existing company means a company formed and registered under any of the previous Companies Act.

1.2 TYPES OF COMPANY

TYPES OF COMPANY

FORMATION

1. CHARTER
2. STATUTARY
3. REGISTERED

LIABILITY

1. LTD. BY SHARES
2. LTD. BY GUARTANTEE
3. UNLIMITED

PUBLIC INVESTMENTS

1. PRIVATE
2. PUBLIC
3. FOREGIN
4. HOLDING
5. SUBSIDAIRY

A. ON THE BASIS OF FORMATION

1. Chartered Company

In olden days, the king gave a charter to start a company. Those companies which were started after getting such permission from ruling kingdom is called chartered company. E.g. East India Company

2. Statutory Company

Those companies which were formed by their specific statute are called statutory companies. E.g. LIC. Rules and regulations regarding their each and every activity are governed by that special Act.

3. Registered Company

A company incorporated under the Companies Act 1956 or earlier Companies Act is called registered company.

B. ON THE BASIS OF LIABILITIES

1. Company Limited by Shares

When the liability of shareholders of a company is limited to their value of share holdings, then it is called limited company. Though the liability of the company is more the shareholders are required to pay only the remaining amount unpaid on their holdings.

2. Companies Limited by Guarantees

When the share holders of a company accept to give a guarantee amount over and above their share holdings it is called companies limited by guarantees. But such guarantee amount should be payable only at the time of liquidation of the company.

3. Unlimited Company

This type of company is not found elsewhere. The liability of its shareholder are unlimited i.e. they have to pay necessary amount to settle company's liabilities over their shareholding value.

C. ON THE BASIS OF PUBLIC INVESTMENTS

1. Private Company

Private company is a company which by its Articles,

- can make no invitation to the public for its shares or debentures
- cannot have more than 50 members
- restricts the right to transfer shares

2. Public Company

A company which is not a private company is called public company.

3. Foreign Company

When the register office of a company is situated in foreign country then it is called foreign company.

4. Holding Company

A company which acquires more than 50% of shares of another company is called holding company.

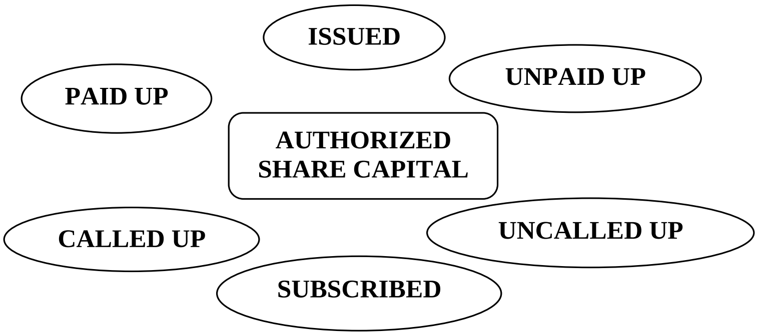
5. Subsidiary Company

A company which gives more than 50% of shares to another company is called subsidiary company.

1.3 MEANING OF SHARE CAPITAL

The company needs money to run its business. It collects the required amount from the public by issue of shares. The total amount required to run the business is called share capital. The following are the different types of share capital.

1.4 TYPES OF SHARE CAPITAL



Authorized Share Capital

The maximum amount of share capital that a company can collect during its life time is called authorized share capital. It cannot be changed in future. Proper permission should be obtained from controller of capital issues regarding authorized capital.

Issued Share Capital

That part of the authorized share capital which is issued to the public by the company is called issued share capital.

Subscribed Share Capital

That part of the issued share capital actually subscribed by the public is called subscribed share capital.

Called up Share Capital

That part of the subscribed capital which is actually called up by the company is called up capital.

Uncalled up Share Capital

That part of the subscribed capital which is not actually called up by the company is uncalled up share capital.

Paid up Share Capital

That part of the called up capital which is actually paid by the public is called paid up share capital.

Unpaid up Share Capital

That part of the called up capital which is not actually paid by the public is called unpaid up share capital.

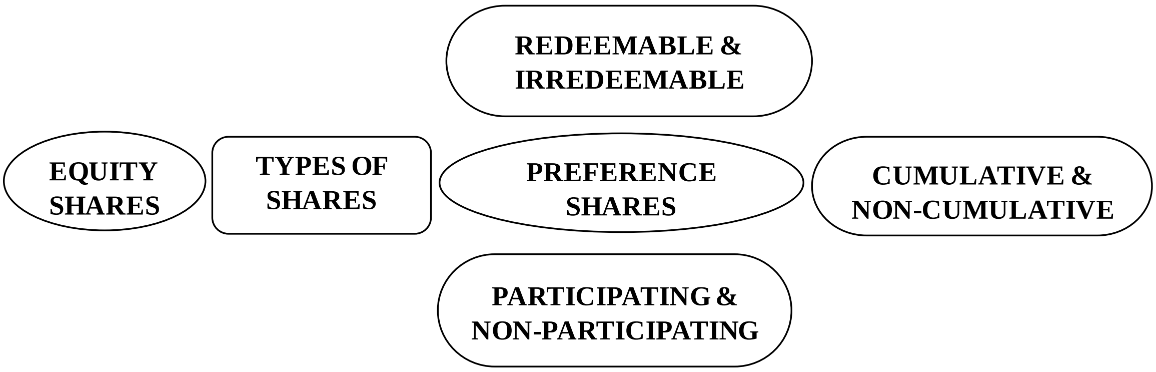
Reserve Capital

The company maintains not to call amount for a portion of share capital. This amount is called up by the company only at the time of emergency or liquidation. It is called reserve capital.

1.5 MEANING OF SHARE

The share capital is divided into small part of uniform value. Each unit is called share. The person who purchases shares from the company is called share holder and he will be considered as owner of the company.

1.6 TYPES OF SHARES



Equity Share

A share which has no preferential rights is called equity share or ordinary share. Rate of dividend is decided by the directors in every year according to the availability of profits and so it is not fixed.

Preference Share

A share which has preferential rights regarding payment of dividend and repayment of capital is called preference share. Rate of dividend is fixed and it is calculated on nominal value of shares.

Redeemable and Irredeemable

Shares which can be get back by the company after the expiry of specified period is called redeemable preference shares. A share which cannot be got back by the company during the life of company is called irredeemable preference share.

Cumulative and Non-cumulative

A company paid dividend only when sufficient profit is available. Dividend for any year is not declared by a company it will be treated as arrear. The arrear dividend of last year is paid

along with current year dividend then it is called cumulative preference shares. If the arrear dividend of one year will not be payable in future it is called non-cumulative preference dividend.

Participating and non-participating preference shares

After paying dividend to preference shareholders and equity share holders, there may be some surplus profit in the company. Those shares which have the right to share such remaining profits of the company are called participating preference shares. Those shares which do not have the right to share the remaining profits of the company are called non-participating preference shares.

1.7 PROSPECTUS

Any document which invites deposits from the public for purchase of shares or debentures of a company is called prospectus.

1.8 APPLICATION MONEY

The company through advertisement and other media invites the public to subscribe the shares. The interested public makes an application for shares along with application money. The application money should be at least 5% of the face value of shares. All the application money received from the public will be maintained in a scheduled bank account.

Journal Entries	
For application money received Bank a/c Dr To Share Application a/c	**For transferring share application money** Share Application a/c Dr To Share Capital a/c
For rejecting excess application money Share Application a/c Dr To Bank a/c	**For adjusting excess application money** Share Application a/c Dr To Share Allotment a/c

1.9 MINIMUM SUBSCRIPTION

The company should fix a minimum amount required to be raised through the issue of share capital. Such amount is required in order to meet the purposes specified in clause 5 of schedule II of the Companies Act. This is known as minimum subscription which is stated in the prospectus. If the amount received through the application money is not reached this limit, then no allotment shall be made by the company.

1.10 ALLOTMENT MONEY

After receiving the applications with allotment money from the public, the directors should scrutinize them. They have the full liberty to allot or reject the applications. The company calls further amount to confirm the allotment for the selected applications. If the applications are not selected, then the company should sent letter of regret along with the application money to be returned to applicant.

Journal Entry for allotment money due (Any one of a/b/c)		
(a)Face value Share Allotment a/c Dr To Share Capital	***(b)Premium value*** Share Allotment a/c Dr To Share Capital To Securities Premium	***(c)Discount value*** Share Allotment a/c Dr Share Discount a/c Dr To Share Capital a/c
For receiving share allotment money Bank a/c Dr To Share Allotment a/c		

1.11 CALL MONEY

After receiving application and allotment money, the company will receive the balance amount in two or three instalments. Each instalment is called call money. Shareholders are required to pay call money when the company makes a demand for it.

Journal Entries	
For call money due Share Particular Call a/c Dr To Share Capital a/c	**For receiving call money** Bank a/c Dr To Share Particular Call a/c

1.12 CALLS IN ARREARS

Sometimes the share holders failed to pay the amount which is called up by the company within the specified time limit. Such amount is called calls in arrears. The company should charge 5% interest per annum for calls in arrears.

For Calls in Arrears
Calls in Arrears a/c Dr To Share Particular Call a/c

1.13 CALLS IN ADVANCE

The company has the right to receive the call money well in advance from the share holders if it is permitted by the Articles. Such amount is called calls in advance. It should be maintained in a separate account. The company will give interest at a rate not exceeding 6% p.a. for calls in advance.

For Calls in Advance
Bank a/c Dr To Calls in Advance a/c

Format of Ledger Accounts

Bank Account

Particulars	**Amount**	**Particulars**	**Amount**
To Share application a/c	xxx	By Share application a/c	xxx
" Share allotment a/c	xxx	" Balance c/d (b/f)	xxx
" Share first call a/c	xxx		
" Share final call a/c	xxx		
" Share capital a/c (Forfeiture)	xxx		
" Calls in advance a/c	xxx		
	xxx		xxx

Share Capital Account

Particulars	**Amount**	**Particulars**	**Amount**
To Share forfeiture a/c	xxx	By Share application a/c	xxx
" Share capital a/c	xxx	" Share allotment a/c	xxx
		" Share first call a/c	xxx
		" Share final call a/c	xxx
		" Bank a/c	xxx
		" Share forfeiture a/c	xxx
	xxx		xxx

Balance Sheet

Liabilities	**Amount**	**Assets**	**Amount**
Share Capital xxx		Bank a/c	xxx
(+)Share forfeiture xxx	xxx	Share discount a/c	xxx
Securities premium a/c	xxx		
Share capital reserve	xxx		
	xxx		xxx

1.14 FACE VALUE

When the shares are issued to the public at its original price or the price which is quoted in the share certificate, then the issue is said to be at face value. It is otherwise called par value or nominal value. For e.g. when a share of ₹10 is issued by the company at ₹10 only then the issue is known as face value.

1.15 EQUAL SUBSCRIPTION

When the no. of shares issued by company and the no. of shares subscribed by the public are equal it is called equal subscription.

Method of subscription	Issued	Applied	Allotted
Equal	10,000 shares	10,000 shares	10,000 shares

Illustration -1 SK Ltd. issued 1,000 equity shares of ₹100 each payable ₹20 on application, ₹40 on allotment and ₹40 on call. All the shares subscribed and the amount duly received. Pass journal entries to give effect to these.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (1,000 x 20)	Dr	20,000	
To Share Application a/c			20,000
(Being application money received)			
Share application a/c	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share allotment a/c	Dr	40,000	
To Share capital			40,000
(Being allotment money due 1,000 x 40)			
Bank a/c	Dr	40,000	
To Share allotment a/c			40,000
(Being allotment money receiving)			
Share call a/c	Dr	40,000	
To Share capital a/c			40,000
(Being call money due 1,000 x 40)			
Bank a/c	Dr	40,000	
To Share call a/c			40,000
(Being call money received)			

Illustration -2 A Ltd. issued 10,000 shares to the general public. Share value of ₹10 will be collected as follows: On application ₹2; on allotment ₹4; on first and second call ₹2 each. All the shares are subscribed by the public. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (10,000 x 2)	Dr	20,000	
To Share application a/c			20,000
(Being application money received)			
Share application a/c	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share allotment a/c	Dr	40,000	
To Share capital			40,000
(Being allotment money due 10,000 x 4)			
Bank a/c	Dr	40,000	
To Share allotment a/c			40,000
(Being allotment money received)			
Share I call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 10,000 x 2)			
Bank a/c	Dr	20,000	
To Share I call a/c			20,000
(Being call money received)			
Share Final call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 10,000 x 2)			
Bank a/c	Dr	20,000	
To Share Final call a/c			20,000
(Being call money received)			

1.16 OVER SUBSCRIPTION

When the shares subscribed by the public are more than the shares issued by company it is called over subscription. The surplus amount may be rejected to the applicants or adjusted with allotment money in case of pro-rata allotment.

Method of subscription	**Issued**	**Applied**	**Allotted**
Over	10,000 shares	15,000 shares	10,000 shares

Treatment of Excess Application

Particulars	Amount
Total shares applied	xxx
(-)Total shares allotted	xxx
	xxx
Less: Rejected/Refunded	xxx
	xxx
Transferred to share allotment	xxx

1.17 PRO-RATA ALLOTMENT

In case of over subscription, the no. of shares applied is more than the no. of shares issued. It is not possible by the company to allot the full no. of shares applied to all the applicants. The company may reject the surplus applications. Otherwise it will allot the no. of shares issued to all the applicants in proportionately. By doing this all the shareholders are allotted some less no. of shares than the actual no. of shares applied. This process is known as pro-rata allotment.

Pro-rata allotment

Particulars	Amount
Total shares applied	xxx
Less: Rejected	xxx
	xxx
Less: Full allotment	xxx
Applied	xxx
Allotted	xxx

Illustration -3 A limited company issued 10,000 shares of ₹100 each payable as under: ₹20 on application, ₹30 on allotment, ₹50 on first and final call. The public applied for 11,000 shares. Allotment was made for 10,000 shares and the amount due on 1,000 shares returned to the applicants. All moneys were received. Pass journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (11,000 x 20)	Dr	2,20,000	
To Share Application a/c			2,20,000
(Being application money received)			

Share application a/c (10,000 x 20)	Dr	2,00,000	
To Share capital a/c			2,00,000
(Being appl. money transferred)			
Share Application a/c (1,000 x 20)	Dr	20,000	
To Bank a/c			20,000
(Being application money returned)			
Share allotment a/c	Dr	3,00,000	
To Share capital			3,00,000
(Being allotment money due)			
Bank a/c	Dr	3,00,000	
To Share allotment a/c			3,00,000
(Being allotment money received)			
Share first and final call a/c	Dr	5,00,000	
To Share capital a/c			5,00,000
(Being call money due 10,000 x 50)			
Bank a/c	Dr	5,00,000	
To Share first and final call a/c			5,00,000
(Being call money received)			

Illustration -4 A company with an authorized capital of ₹25 Lakhs issued a prospectus inviting applications for 1 Lakhs shares of ₹10 each and the terms of payment: On application – ₹5; on allotment - ₹2.50 and on first and final call ₹2.50.

The company's offer was oversubscribed by 10,000 shares. The amount due on allotment was received in full. Excess share application money was returned. There were calls in arrears to the tune of ₹50,000 for first and final call. Sundry assets were purchased for ₹1,50,000 by issue of shares to the vendors. Pass journal entries for the above transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (1,10,000 x 5)	Dr	5,50,000	
To Share Application a/c			5,50,000
(Being application money received)			
Share application a/c (1,00,000 x 5)	Dr	5,00,000	

To Share capital a/c			5,00,000
(Being appl. money transferred)			
Share Application a/c (10,000 x 5)	Dr	50,000	
To Bank a/c			50,000
(Being application money returned)			
Share allotment a/c (1,00,000 x 2.50)	Dr	2,50,000	
To Share capital			2,50,000
(Being allotment money due)			
Bank a/c	Dr	2,50,000	
To Share allotment a/c			2,50,000
(Being allotment money received)			
Share first and final call a/c	Dr	2,50,000	
To Share capital a/c			2,50,000
(Being call money due 1,00,000 x 2.50)			
Bank a/c (2,50,000 – 50,000)	Dr	2,00,000	
Calls in arrears a/c (b/f)	Dr	50,000	
To Share first and final call a/c			2,50,000
(Being call money received)			
Sundry assets a/c	Dr	1,50,000	
To Vendor a/c			1,50,000
(Being assets purchased)			
Vendor a/c	Dr	1,50,000	
To Share capital a/c			1,50,000
(Being shares allotted)			

1.18 PREMIUM VALUE

When the shares are issued to the public at a price which is more than the face value, it is called premium value. For e.g. when a share of ₹10 is issued by the company at ₹12 then the issue is known as premium value. The difference between the face value and issue price i.e. ₹2 is called premium. The premium amount is used for the following purposes only.

1. For writing down the fictitious assets appearing in the balance sheet.
2. For providing the share premium payable on the redemption of redeemable preference shares or debentures.
3. For issuing fully paid bonus shares
4. For writing off preliminary expenses

Illustration -5 F Limited issued 2,00,000 equity shares of ₹10 each at ₹12 per share. Terms of payment being: ₹2 on application, ₹5 on allotment, including premium, ₹3 on first call and ₹2 on second call. Make journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (2,00,000 x 2)	Dr	4,00,000	
To Share Application a/c			4,00,000
(Being application money received)			
Share application a/c	Dr	4,00,000	
To Share capital a/c			4,00,000
(Being application money transferred)			
Share allotment a/c (2,00,000 x 5)	Dr	10,00,000	
To Share capital			6,00,000
To Share premium a/c (2,00,000 x 2)			4,00,000
(Being allotment money due)			
Bank a/c	Dr	10,00,000	
To Share allotment a/c			10,00,000
(Being allotment money received)			
Share I call a/c	Dr	6,00,000	
To Share capital a/c			6,00,000
(Being call money due 2,00,000 x 3)			
Bank a/c	Dr	6,00,000	
To Share I call a/c			6,00,000
(Being call money received)			
Share final call a/c	Dr	4,00,000	
To Share capital a/c			4,00,000
(Being call money due 2,00,000 x 2)			
Bank a/c	Dr	4,00,000	
To Share final call a/c			4,00,000
(Being call money received)			

1.19 FORFEITURE AND REISSUE

Share forfeiture is the process of cancelling the shares from a particular share holder for non-payment of any amount due to the company. After the forfeiture, the share holder loses his

capacity as a shareholder and the company will not repay the amount which was already paid by him. These shares can be reissued at a discount to any person including the person who already had it. But the discount amount should not exceed the money already received on forfeited shares.

Journal Entries

For forfeiture of shares	For re-issue of forfeited shares
Share Capital a/c Dr	Bank a/c Dr
To Share Forfeiture a/c	Share Forfeiture a/c Dr
To Share Call a/c	To Share Capital a/c
For transferring profit on reissue	
Share Forfeiture a/c Dr	
To Share Capital Reserve a/c	

Illustration -6 Thiru Arun holds 2,000 shares of ₹10 each in Ram Ltd. He has paid ₹2 and ₹3 per share on application and allotment respectively, but failed to pay ₹3 and ₹2 per share for first and second calls respectively. Directors forfeit his shares. Give journal entry.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (2,000 x 10)	Dr	20,000	
To Share forfeiture a/c (b/f)			10,000
To Share first call a/c (2,000 x 3)			6,000
To Share final call a/c (2,000 x 2)			4,000
(Being shares forfeited)			

Illustration -7 D Ltd. forfeited 200 shares of ₹10 each on which ₹5 per share was received. All the shares were reissued at ₹8 per share. Give journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (200 x 10)	Dr	2,000	
To Share forfeiture a/c (200 x 5)			1,000
To Share first call a/c (200 x 5)			1,000
(Being shares forfeited)			
Bank a/c (200 x 8)	Dr	1,600	
Share forfeiture a/c (200 x 2)	Dr	400	
To Share capital a/c (200 x 10)			2,000

(Being reissue of forfeited shares)			
Share forfeiture a/c (1,000 – 400)	Dr	600	
To Share capital reserve a/c			600
(Being profit on reissue transferred)			

Illustration -8 A Company Ltd. issued 5,000 preference shares of ₹10 each at a premium of ₹4 per share. The money is payable as follows: ₹1 on application; ₹6 (including premium) on allotment; ₹3 on first call and ₹4 on final call. All the shares were duly subscribed but on 1,000 shares, the first call was not realized and in respect of 1,500 shares, the final call was not realized. These shares were forfeited and reissued at ₹9 per share. Draft the necessary journal entries to record these transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (5,000 x 1)	Dr	5,000	
To Share Application a/c			5,000
(Being application money received)			
Share application a/c	Dr	5,000	
To Share capital a/c			5,000
(Being application money transferred)			
Share allotment a/c (5,000 x 6)	Dr	30,000	
To Share capital			10,000
To Share premium a/c (5,000 x 4)			20,000
(Being allotment money due)			
Bank a/c	Dr	30,000	
To Share allotment a/c			30,000
(Being allotment money received)			
Share first call a/c	Dr	15,000	
To Share capital a/c			15,000
(Being call money due 5,000 x 3)			
Bank a/c 15,000 – (1,000 x 3)	Dr	12,000	
To Share first call a/c			12,000
(Being call money received)			
Share final call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 5,000 x 4)			

Bank a/c 20,000 – (1,500 x 4)	Dr	14,000	
To Share final call a/c			14,000
(Being call money received)			
Share capital a/c (1,000 x 10)	Dr	10,000	
To Share forfeiture a/c (b/f)			3,000
To Share first call a/c (1,000 x 3)			3,000
To Share final call a/c (1,000 x 4)			4,000
(Being 1,000 shares forfeited)			
Share capital a/c (500 x 10)	Dr	5,000	
To Share forfeiture a/c (b/f)			3,000
To Share final call a/c (500 x 4)			2,000
(Being shares forfeited)			
Bank a/c (1,500 x 9)	Dr	13,500	
Share forfeiture a/c (1,500 x 1)	Dr	1,500	
To Share capital a/c (1,500 x 10)			15,000
(Being reissue of forfeited shares)			
Share forfeiture a/c	Dr	4,500	
To Share capital reserve a/c			4,500
(Being profit on reissue 3,000 + 3,000 – 1,500)			

1.20 ALLOTMENT MONEY IS NOT GIVEN

Illustration -9 Give journal entries for the forfeiture and reissue of shares:

X Ltd. forfeited 30 shares of ₹10 each fully called up held by Raja for non-payment of allotment money of ₹3 per share and final call of ₹4 per share. He had paid the application money of ₹3 per share. These shares are forfeited and reissued to Saleem for ₹8 per share.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share capital a/c (30 x 10)	Dr	300	
To Share forfeiture a/c (b/f)			90
To Share allotment a/c (30 x 3)			90
To Share final call a/c (30 x 4)			120
(Being shares forfeited)			
Bank a/c (30 x 8)	Dr	240	
Share forfeiture a/c (30 x 2)	Dr	60	

To Share capital a/c (30 x 10)			300
(Being reissue of forfeited shares)			
Share forfeiture a/c (90 – 60)	Dr	30	
To Share capital reserve a/c			30
(Being profit on reissue transferred)			

Premium issue – Allotment money is not given

1. For forfeiture	**2. For reissue**
Share capital a/c Dr	Bank a/c Dr
Securities premium a/c Dr	Share forfeiture a/c Dr
To Share forfeiture a/c	To Share capital a/c
To Share allotment a/c	
To Share call a/c	

Illustration -10 A company issued 10,000 shares of ₹10 each. 12,000 applications were received and allotment was made under pro-rata ratio. Application money was ₹2 per share and allotment money ₹3 per share. Mani failed to pay the allotment money on his 300 shares. How much is due from Mani?

Solution

Calculation of allotment money received

Allotted	**Applied**
10,000	12,000
300	?
$\frac{300 \times 12,000}{10,000}$	360 shares

Share application money	
Applied	360 x ₹2 = ₹720
Allotted	300 x 2 = ₹600
Excess	60 x 2 = ₹120
Share allotment money	
Due	300 x ₹3 = ₹900
(-) Excess application money	₹120
Actual allotment money due	₹780

1.21 OVER SUBSCRIPTION– FACE VALUE - PRO-RATA ALLOTMENT - ALLOTMENT MONEY IS NOT GIVEN

Illustration -11 C Ltd. issued 2,00,000 shares of ₹10 each. Terms of payment being: ₹3 on application, ₹2 on allotment and ₹4 on first and balance on final call. The company received applications for 2,80,000 shares. Pro-rata allotment was made on the applications for 2,50,000 shares. Give journal entries assuming that an applicant who was allotted 100 shares did not pay allotment and first call money.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (2,80,000 x 3)	Dr	8,40,000	
To Share application a/c			8,40,000
(Being application money received)			
Share application a/c (2,00,000 x 3)	Dr	6,00,000	
To Share capital a/c			6,00,000
(Being application money transferred)			
Share application a/c (30,000 x 3)	Dr	90,000	
To Bank a/c			90,000
(Being excess money returned)			
Share application a/c (50,000 x 3)	Dr	1,50,000	
To Share allotment a/c			1,50,000
(Being excess money adjusted)			
Share allotment a/c (2,00,000 x 2)	Dr	4,00,000	
To Share capital			4,00,000
(Being allotment money due)			
Bank a/c	Dr	2,49,875	
To Share allotment a/c			2,49,875
(Being allotment money received)			
Share first call a/c	Dr	8,00,000	
To Share capital a/c			8,00,000
(Being call money due 2,00,000 x 4)			
Bank a/c 8,00,000 – (100 x 4)	Dr	7,99,600	
To Share first call a/c			7,99,600
(Being call money received)			

Calculation of allotment money received

Allotted	**Applied**
2,00,000	2,50,000
100	?
$\frac{100 \times 2,50,000}{2,00,000}$	125 shares

Share application money	
Applied	125 x ₹3 = ₹375
Allotted	100 x 3 = ₹300
Excess	25 x 3 = ₹75
Share allotment money	
Due	100 x ₹2 = ₹200
(-) Excess application money	₹75
Actual allotment money due	₹125
Share allotment due	₹4,00,000
(-) Excess application money	₹1,50,000
	₹2,50,000
(-) Arrear allotment money	₹125
Allotment money received	₹2,49,875

1.22 OVER SUBSCRIPTION - PREMIUM VALUE – ALLOTMENT MONEY IS NOT GIVEN

Illustration -12 Ramesh Ltd. issued 10,000 shares of ₹10 each at ₹11 per share payable as follows:

On application ₹2; allotment ₹5 and first and final call ₹4. The offer was oversubscribed by 5,000 shares and the applicants were allotted pro-rata basis and surplus application money was adjusted for future shares dues. All shares were fully called up and money received except on 300 shares held by Rahim who didn't pay allotment and call money. These shares were forfeited. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (15,000 x 2)	Dr	30,000	
To Share application a/c			30,000
(Being application money received)			

Share application a/c (10,000 x 2)	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share application a/c	Dr	10,000	
To Share allotment a/c			10,000
(Being excess money adjusted 5,000 x 2)			
Share allotment a/c (10,000 x 5)	Dr	50,000	
To Share capital			40,000
To Share premium a/c (10,000 x 1)			10,000
(Being allotment money due)			
Bank a/c	Dr	38,800	
To Share allotment a/c			38,800
(Being allotment money received)			
Share first and final call a/c	Dr	40,000	
To Share capital a/c			40,000
(Being call money due 10,000 x 4)			
Bank a/c 40,000 – (300 x 4)	Dr	38,800	
To Share first and final call a/c			38,800
(Being call money received)			
Share capital a/c (300 x 10)	Dr	3,000	
Share premium a/c (300 x 1)	Dr	300	
To Share forfeiture a/c (b/f)			900
To Share allotment a/c			1,200
To Share first & final call a/c (300 x 4)			1,200
(Being shares forfeited)			

Calculation of allotment money received

Allotted	**Applied**
10,000	15,000
300	?
$\frac{300 \times 15,000}{10,000}$	450 shares

Share application money	
Applied	450 x ₹2 = ₹900
Allotted	300 x 2 = ₹600
Excess	150 x 2 = ₹300

Share allotment money	
Due	300 x ₹5 = ₹1,500
(-) Excess application money	₹300
Actual allotment money due	₹1,200
Share allotment due	₹50,000
(-) Excess application money	₹10,000
	₹40,000
(-) Arrear allotment money	₹1,200
Allotment money received	₹38,800

Illustration -13 A Ltd. Co. issued a prospectus inviting applications for 2,000 shares of ₹10 each at a premium of ₹2 per share payable as follows: On application – ₹2, on allotment ₹5 (including premium); on 1st call – ₹3 and on 2nd and final call – ₹2

Applications were received for 3,000 shares and pro-rata allotment was made on the application for 2,400 shares. Money over paid on applications was adjusted sum due on allotment.

Ramesh to whom 40 shares allotted failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mohan the holder of 60 shares failed to pay the two calls and his shares were forfeited after the second call.

Of the shares forfeited, 80 shares were sold to Krishna credited as fully paid for ₹9 per share, the whole of Ramesh share being included. Show the journal entries and cash book entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (3,000 x 2)	Dr	6,000	
To Share application a/c			6,000
(Being application money received)			
Share application a/c (2,000 x 2)	Dr	4,000	
To Share capital a/c			4,000
(Being application money transferred)			
Share application a/c (600 x 2)	Dr	1,200	
To Bank a/c			1,200
(Being excess money returned)			

Share application a/c (400 x 2)	Dr	800	
To Share allotment a/c			800
(Being excess money adjusted)			
Share allotment a/c (2,000 x 5)	Dr	10,000	
To Share capital			6,000
To Share premium (2,000 x 2)			4,000
(Being allotment money due)			
Bank a/c	Dr	9,016	
To Share allotment a/c			9,016
(Being allotment money received)			
Share first call a/c	Dr	6,000	
To Share capital a/c			6,000
(Being call money due 2,000 x 3)			
Bank a/c 6,000 – (100 x 3)	Dr	5,700	
To Share first call a/c			5,700
(Being call money received)			
Share capital a/c (40 x 8)	Dr	320	
Share premium (40 x 2)	Dr	80	
To Share forfeiture a/c (b/f)			96
To Share allotment a/c			184
To Share first call a/c (40 x 3)			120
(Being 40 shares forfeited)			
Share final call a/c	Dr	3,920	
To Share capital a/c			3,920
(Being call money due 1,960 x 2)			
Bank a/c 3,920 – (60 x 2)	Dr	3,800	
To Share final call a/c			3,800
(Being call money received)			
Share capital a/c (60 x 10)	Dr	600	
To Share forfeiture a/c (b/f)			300
To Share first call a/c (60 x 3)			180
To Share final call a/c (60 x 2)			120
(Being 60 shares forfeited)			

Bank a/c (80 x 9)	Dr	720	
Share forfeiture a/c (b/f)	Dr	80	
To Share capital a/c (80 x 10)			800
(Being reissue of forfeited shares)			
Share forfeiture a/c	Dr	216	
To Share capital reserve a/c			216
(Being profit on reissue)			

Calculation of allotment money received

Allotted	Applied
2,000	2,400
40	?
$\frac{40 \times 2,400}{2,000}$	48 shares

Share application money	
Applied	48 x ₹2 = ₹96
Allotted	40 x 2 = ₹80
Excess	8 x 2 = ₹16
Share allotment money	
Due	40 x ₹5 = ₹200
(-) Excess application money	₹16
Actual allotment money due	₹184
Share allotment due	₹10,000
(-) Excess application money	₹800
	₹9,200
(-) Arrear allotment money	₹184
Allotment money received	₹9,016

Calculation of share capital reserve

Shares	Profit ₹
60	300
40	?

$\frac{40 \times 300}{60}$	₹200
Add: 40 shares profit	₹96
	₹296
(-) 100 shares reissue loss	₹80
Share capital reserve	₹216

1.23 DISCOUNT VALUE

When the shares are issued to the public at a price which is below the face value then it is known as discount issue. For e.g., when a share of ₹10 is issued by the company at ₹9 then the issue is known as discount value. The difference between the face value and issue price i.e. ₹1 is called discount.

1.24 CONDITIONS FOR ISSUE OF SHARES AT A DISCOUNT

1. The discount issue should be authorized by the Articles of Association or by a resolution in the general meeting
2. Court permission should be obtained
3. The rate of discount should not exceed 10%
4. The issue must be made within two months from the date of getting permission from the court.
5. Shares which is already issued alone can be issued at discount
6. The company should issue shares at discount one year after the commencement of business.
7. The unwritten off discount amount should be shown separately in the asset side of the balance sheet.

1.25 UNDER SUBSCRIPTION

When the public subscribed less no. of shares than the shares issued by company it is called under subscription.

Method of subscription	**Issued**	**Applied**	**Allotted**
Under	10,000 shares	8,000 shares	8,000 shares

Illustration -14 X Ltd. invited applications for 1,00,000 shares of ₹10 each at a discount of 6% payable as follows: On application ₹2.50; on allotment ₹3.40 and on first and final call ₹3. 50. The application received was for 90,000 shares and all of these were accepted. All money duly received except the first and final call on 1,000 shares. Pass necessary journal entries in the books of company.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (90,000 x 2.50)	Dr	2,25,000	
To Share Application a/c			2,25,000
(Being application money received)			
Share application a/c	Dr	2,25,000	
To Share capital a/c			2,25,000
(Being application money transferred)			
Share allotment a/c (90,000 x 3.40)	Dr	3,06,000	
Share discount a/c (90,000 x 0.60)	Dr	54,000	
To Share capital			3,60,000
(Being allotment money due)			
Bank a/c	Dr	3,06,000	
To Share allotment a/c			3,06,000
(Being allotment money received)			
Share first call a/c	Dr	3,15,000	
To Share capital a/c			3,15,000
(Being call money due 90,000 x 3.50)			
Bank a/c 3,15,000 – (1,000 x 3.50)	Dr	3,11,500	
To Share first call a/c			3,11,500
(Being call money received)			

1.26 DISCOUNT VALUE - FORFEITURE AND REISSUE

1. For forfeiture	**2. For reissue**
Share capital a/c Dr	Bank a/c Dr
To Share forfeiture a/c	Share discount a/c Dr
To Share discount a/c	Share forfeiture a/c Dr
To Share call a/c	To Share capital a/c

Illustration -15 Anil was holding 30 shares of ₹10 each of X Ltd. issued at 10% discount. He paid ₹2 on application but could not pay the allotment money of ₹3 and his shares were forfeited. Make journal entries for the forfeiture of shares.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share capital a/c (30 x 6)	Dr	180	
To Share forfeiture a/c (b/f)			60
To Share allotment a/c (30 x 3)			90
To Share discount a/c (30 x 1)			30
(Being 30 shares forfeited)			

Illustration -16 X Ltd. forfeited 1,000 shares of ₹10 each issued at a discount of 10% for non-payment of the first call of ₹2 and the final call of ₹3 per share. Give the necessary journal entry.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share capital a/c (1,000 x 10)	Dr	10,000	
To Share forfeiture a/c (b/f)			4,000
To Share discount a/c (1,000 x 1)			1,000
To Share first call a/c (1,000 x 2)			2,000
To Share final call a/c (1,000 x 3)			3,000
(Being 1,000 shares forfeited)			

Illustration -17 A company invited applications for 10,000 shares of ₹100 each at a discount of 5% payable as follows: On application ₹25; on allotment ₹34 and first and final call ₹36. The applications received were for 9,000 shares and all of them were accepted. All money due were received except the first and final call on 200 shares which were forfeited out of these 100 shares were reissued at ₹90 fully paid. Give journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (9,000 x ₹25)	Dr	2,25,000	
To Share Application a/c			2,25,000
(Being application money received)			
Share application a/c	Dr	2,25,000	

To Share capital a/c			2,25,000
(Being application money transferred)			
Share allotment a/c Dr (9,000 x ₹34)	Dr	3,06,000	
Share discount a/c Dr (9,000 x ₹5)		45,000	
To Share capital			3,51,000
(Being allotment money due)			
Bank a/c	Dr	3,06,000	
To Share allotment a/c			3,06,000
(Being allotment money received)			
Share first call a/c	Dr	3,24,000	
To Share capital a/c			3,24,000
(Being call money due 9,000 x ₹36)			
Bank a/c ₹3,24,000 – (200 x ₹36)	Dr	3,16,800	
To Share first call a/c			3,16,800
(Being call money received)			
Share capital a/c (200 x 100)	Dr	20,000	
To Share forfeiture a/c (b/f)			11,800
To Share first & final call a/c (200 x 36)			7,200
To Share discount a/c (200 x 5)			1,000
(Being 200 shares forfeited)			
Bank a/c (100 x 90)	Dr	9,000	
Share forfeiture a/c (100 x 5)	Dr	500	
Share discount a/c (100 x 5)	Dr	500	
To Share capital a/c (100 x 100)			10,000
(Being reissue of forfeited shares)			
Share forfeiture a/c Dr	Dr	5,400	
To Share capital reserve a/c			5,400
(Being profit on reissue)			

Calculation of amount transferred to share capital reserve (Partial reissue)

Shares	Profit ₹
200	₹11,800
100	?
$\frac{100 \times 11{,}800}{200}$	₹5,900
(-) 100 shares reissue loss	₹500
Share capital reserve	₹5,400

1.27 RIGHT ISSUES

In case company wants to make a further issue of shares, the issue must first be offered to the existing equity shareholders. This offer is known as rights issue. The existing shareholders may accept/reject the offer. The shareholders can sell their right in full or in portion to another person. If the shareholders ha neither subscribed nor transferred their right, then the company can offer the issue to the public.

When a right issue is made, a shareholder may get fractions of shares. In such cases the company will issue fraction rights and the same may be bought or sold by the individual shareholder. But a share cannot be issued in fractions.

1.28 ISSUE OF BONUS SHARES

The company at its choice may pay bonus to the shareholders in cash. But, the bonus paid in the form of cash may affect the company's working capital position. In order to avoid the outflow of cash from the business and at the same time to satisfy the shareholders, the company may resort to issuing bonus shares to the existing equity shareholders.

The bonus shares may be issued in the following circumstances:

(i) When the company has large accumulated reserves.

(ii) When the company is not in a position to pay cash bonus.

(iii) When the value of fixed assets is very high than the value of capital.

(iv) When higher rates of dividend payment is not advisable

(v) When the market value exceeds the face value of shares.

In general, bonus shares can be issued out of the following:

1) Capital Redemption Reserves Account
2) Share Premium Account.
3) General reserves
4) Credit Balance in the Profit and Loss Account.
5) Capital profit such as profit prior to incorporation, profit on purchase of business and profit on sale of fixed assets.

1.29 ACCOUNTING TREATMENT

If the bonus is to be utilized for making partly paid shares fully-paid, the entries will be as follows:

1) Profit and Loss A/c	Dr.
General Reserves A/c	Dr.
Capital Reserves A/c	Dr.
To Bonus to Shareholders A/c	

(Being the amount transferred for bonus payable to shareholders)

2) Share Final Call A/c Dr.

To share Capital A/c

(Being the amount due from the shareholders in respect of final call)

3) Bonus of Shareholders A/c Dr.

To Share Final Call A/c

(Being the bonus to shareholders applied towards meeting the call)

If the payment of bonus is made by the issue of fully paid bonus shares, the entries will be as follows:

Capital Redemption Reserve A/c Dr.

Share Premium A/c Dr.

Capital Reserve A/c Dr.

Profit and Loss A/c Dr.

General Reserve A/c Dr.

To Bonus to Shareholders A/c

(Being the amount transferred for issue of bonus shares – depending upon the available balances in the above-said accounts).

Bonus to Shareholders A/c Dr.

To Share Capital A/c

To Share Premium A/c – if issued at a premium.

Illustration 18

The following are extract from the balance sheet of A. Ltd. As on December 31, 1998:

Authorised Capital	Rs.
10,000 equity shares of Rs. 10 each	1,00,00
Issued and subscribed capital:	
5,000 equity shares of Rs. 10 each fully paid-up	50,000
Reserve fund	35,000
Profit and Loss A/c	10,000

A resolution was passed to issue 1,000 bonus shares of Rs.10 each by providing Rs. 5,000 out of the P & L Account and the balance out of the Reserve Fund.

Set out journal entries to give effect to the resolution.

Solution:

Journal

		Dr. Rs.	Dr. Rs.
	Profit and Loss A/c Dr.	5,000	
	Reserve Fund Dr.	5,000	
	To Bonus to Shareholders A/c		10,000
	(Being the amount of the reserve fund and Profit and Loss A/c to be capitalized as per Board's resolution No…..dated…..)		
	Bonus to Shareholders A/c Dr.	10,000	
	To Share Capital A/c		10,000
	(Being issue of 1,000 bonus shares of Rs. 10 each)		

Illustration 19

The balance sheet of A Ltd. as at 31.3.1995 is as follows:

Balance sheet as at 31.3.1995

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Sundry assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000		
Issued, Subscribed and Paid-up:			
80,000 equity shares of Rs. 7.50 each called-up and paid-up	6,00,000		
Reserves			
Capital redemption reserve	1,50,000		
Plant revaluation reserve	20,000		
Share premium account	1,50,000		
Development rebate reserve	2,30,000		
Investment allowances reserve	2,50,000		
General reserve	3,00,000		
	17,00,000		**17,00,000**

The company wanted to issue bonus shares its shareholders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

a) You are required to give effect to the proposal by passing journal entries in the books of A Ltd.

b) Show the amended balance sheet.

Solution

(a) Journal

		Dr. Rs.	Dr. Rs.
	(i) Share Final Call A/c Dr. To Share Capital A/c (Being the final call of Rs. 2.50 each on 80,000 equity shares to make them fully paid-up)	2,00,000	 2,00,000
	(ii) General Reserve A/c Dr. To Bonus to Shareholders A/c (Being the transfer of Rs. 2,00,000 from general reserve to make the partly paid up shares fully paid up)	2,00,000	 2,00,000
	(iii) Bonus to Shareholders A/c Dr. To Share Final Call A/c (Being the amount due on final call adjusted against transfer from general reserves to bonus to shareholders A/c)	2,00,000	 2,00,000
	(iv) General Reserves Dr. Share Premium A/c Dr. Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c (Being the appropriation made as above facilitate issue of fully paid up bonus shares at the rate of one share for every two shares held).	1,00,000 1,50,000 1,50,000	 4,00,000
	(v) Bonus to Shareholders A/c Dr. To Equity share Capital A/c (Being the issuance of 40,000 fully paid up shares of Rs. 10 each by way of bonus)	4,00,000	 4,00,000

Note

(i) Reserves other than capital redemption reserve, plant revaluation reserve and share premium account can be utilized for making the partly paid up shares fully paid up.

(ii) Except plant revaluation reserve, all other reserves and share premium account can be utilized to make the bonus issue.

(b) Balance Sheet (after bonus issue)

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Sundry assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000		
Issued and Subscribed:			
1,20,000 equity shares of Rs. 10 each fully paid of the above call on 80,000 shares @ 2.50 each has been adjusted taking transfer from general reserve without payment being received in cash. Of the above shares of 40,000 equity shares are allotted as fully paid up by way of bonus shares.	12,00,000		
Reserves and surplus			
Development rebate reserve	2,30,000		
Investment allowance reserve	2,50,000		
Plant revaluation reserve	20,000		
	17,00,000		**17,00,000**

1.30 EMPLOYEES' STOCK OPTION SCHEMES

Employees stock option means the option given to the whole-time directors, officers and employees of a company to purchase of subscribe shares at a future date at a predetermined price. Purely it is a voluntary option to the employees. The purpose of the option is to encourage the employee of the company to have more participation.

1.31 SWEAT EQUITY SHARES

Equity shares which are issued by a company to its employees or directors at a discount or consideration other than cash. It is issued to the employee for providing know-how to the company.

1.32 ISSUE OF SHARES THROUGH PRIVATE PLACEMENT ETC.

A company may issue shares, without approaching the general public or the existing shareholders, through private placement. This issue usually approached to the friends of the promoters of financial institutions.

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Unless otherwise stated a preference share is always deemed to be
   a) Cumulative, participating and non-convertible
   b) Non-Cumulative, Non-participating and non-convertible
   c) **Cumulative, Non-participating and non-convertible**
   d) Non-Cumulative, participating and non-convertible

2. The difference between subscribed capital and called up capital is called
   a) Paid up capital
   b) Calls in arrears
   c) Calls in advance
   d) **Uncalled capital**

3. When shares are forfeited the share capital a/c is debited by
   a) Paid up amount
   b) **Called up amount**
   c) Calls in arrear
   d) Nominal value

4. The profit on re-issue of forfeited shares is transferred to
   a) General reserve
   b) Capital redemption reserve
   c) **Capital reserve**
   d) P & L a/c

5. Shares enjoying disproportionate voting rights are called
   a) **Founders shares**
   b) Equity shares
   c) Preference shares
   d) Redeemable preference shares

6. Share application money should be at least ______ of the nominal value.
   a) 4%
   b) 2**5%**
   c) 6%
   d) 5%

7. Share application a/c is _____ a/c
   a) **Personal**
   b) Real
   c) Nominal
   d) Impersonal

8. Issue of shares at discount should be permitted by _________
   a) Shareholders
   b) Directors
   c) **Company Law Board**
   d) Companies Act, 1956

9. The maximum discount rate is ________
   a) **10% of face value**
   b) 10% of issue price
   c) 5% of face value
   d) 5% of issue price

10. Right shares are those shares which are
    a) issued to the directors
    b) **first offered to the existing shareholders**
    c) issued by a newly formed company
    d) Freshly issued to the public

11. Public company cannot issue
    a) Equity shares
    b) **Deferred shares**
    c) Preference shares
    d) Redeemable preference shares

12. That portion of the authorized capital which can be called up only at the time of liquidation is called
    a) Issued capital
    b) Unsubscribed capital
    c) **Reserve capital**
    d) Capital reserve

13. The rate of interest on calls in advance is ________
    a) **6%**
    b) 5%
    c) 8%
    d) 10%

14. The rate of interest on calls in arrears is
    a) 6%
    b) **5%**
    c) 8%
    d) 10%

15. Premium on issue of shares can be used for
    a) **Issue of bonus shares**
    b) Distribution of profits
    c) Transferring to general reserve
    d) Declaring dividend

16. Preference shareholders are
    a) Creditors
    b) **Owners**
    c) Customers
    d) Outsiders

17. Share allotment and share application accounts are
    a) **Personal** accounts
    b) Real accounts
    c) Nominal accounts
    d) Impersonal accounts

18. Premium on issue of shares can be used for
    a) Distribution of dividend
    b) **Writing off capital losses**
    c) Transferred to reserve
    d) Paying fees to director

19. Discount on issue of shares is a
    a) Revenue loss
    b) **Capital loss**
    c) Deferred revenue loss
    d) Capital profit

20. The difference between subscribed and called up capital is called
    a) **Uncalled up capital** b) Calls in arrears
    c) Paid up capital d) Calls in arrears

21. Minimum subscription should reach within _________ from the date of issue of prospectus.
    a) 90 days b) 2 months
    c) **120** days d) One year

22. The company must receive ________ of the issued capital as minimum subscription
    a) 10% b) 8%
    c) **5%** d) 2%

23. That part of the authorized capital which is reserved for certain purpose is called
    a) Specific capital b) Capital reserve
    c) **Reserve capital** d) Uncalled capital

24. Shares issued at discount must be approved by
    a) Central Govt. b) **Company Law Board**
    c) Share holders d) Comptroller of capital issue

25. _________ should give permission for issue of bonus shares
    a) Central Govt. b) Company Law Board
    c) Share holders d) **Comptroller of capital issue**

26. If the company receives less no. of applications than the no. of shares issued, it is called
    a) Equal subscription b) Over subscription
    c) **Under subscription** d) Premium method

27. Right issue can be possible if
    a) Passing special resolution b) Getting permission from Central Govt.
    c) the same type already issued d) **All of these**

28. If a share of ₹10 issued at a premium of ₹1 on which ₹9 (including premium) have been called and ₹7 (including premium) paid is forfeited, the capital a/c should be debited with
    a) ₹9 b) ₹**8**
    c) ₹7 d) ₹10

29. _________ shareholders get the priority over the equity shareholders as regards the payment of their capital and the dividend payable up to the date of winding up
    a**) Preference** b) Equity
    c) Founders d) Ordinary

30. Discount on issue of share is ___________

a) Current asset b) Current liability

c) **Fictitious asset** d) Tangible asset

31. Share allotment account is a _____________

a) **Personal account** b) Real account

c) Nominal account d) Impersonal account

32. If a limited company has adopted Table A, it is required to pay interest on calls in advance at the rate of _______________

a) 6% b) 5%

c) 8% d) 4%

33. Public Ltd Companies cannot issue ______________

a) Equity shares b) Preference shares

c) Debentures **d) Deferred shares**

REVIEW QUESTIONS

(A) Answer in short:

1) What is a share? **(Karaikudi, B.com(CA),Nov 2016)**

2) What do you understand by issue of shares at 'Par', at premium and at 'Discount'? **(Karaikudi, B.com(CA),Nov 2015)**

3) What is meant by allotment of shares?

4) What is 'Pro-rata' allotment of shares? **(Madras,B.com, Oct,2002)**

5) What is meant by 'over subscription'? How the excess money is treated in accounts?

6) What are calls in arrears?

7) What are calls in advance?

8) What is share premium?**(Karaikudi, B.com(CA),Nov 2016) (Madras,B.com, May,2002)**

9) Write short note on forfeiture of shares. **(Karaikudi, B.com(CA),Nov 2015, Madras,B.com, Apr,2003)**

10) When can shares be forfeited? **(Madras, B.com, Oct 2001)(Karaikudi, B.com, Nov 2016)**

11) Give journal entries forfeiture of shares? **(Madras,B.com, May,2001)**

12) Give journal entries for re-issue of forfeited shares. **(Madras,B.com, April,2001) (Karaikudi, B.com, Nov 2016)**

13) What is Bonus share? **(Karaikudi, B.com(CA),Nov 2016)**

(B) Answer in Detail:

1) Define share and explain its types. **(Madras, M.com, Oct 2002)**

2) Explain the provisions regarding issue of shares at discount.
(Madras,B.com, Oct,2002, M.com, Oct 2001, Apr 2001)

3) Explain forfeiture and reissue of shares.
(Madras, B.com, Oct 2001) (Karaikudi, B.com, Nov 2016)

4) Write short note on

a) Minimum subscription

b) Surrender of shares

c) Calls in advance

d) Bonus shares.

5) Write short note on:

a) Employees' stock option scheme

b) Sweat equity shares

c) Issue of shares through private placement etc.

EXERCISES

1. E Ltd made an issue of 10,000 equity shares of ₹100 each, payable ₹20 on application, ₹40 on allotment and ₹40 on call. All the shares subscribed and amounts duly received. Pass journal entries to give effect to the above.

2. R Ltd. Company issued 1,00,000 shares of ₹10 each payable as under:

   ₹2 on application; ₹3 on allotment; ₹3 on first call and ₹2 on final call

   The public applied for 90,000 shares. These shares were allotted. The final call was not made. All the money due on these shares was received except the first call on 400 shares. Prepare bank a/c, share capital a/c and balance sheet.

FORFEITURE AND RE-ISSUE

3. A company forfeited 10 shares of ₹10 each issued at a premium of 10% for non-payment of the final call of ₹3 per share. Out of these, 7 shares were reissued at ₹8 per share as fully paid up. Give entries for forfeiture and reissue.

4. X Ltd forfeited 100 equity shares of ₹10 each held by Ram for non-payment of first call of ₹2 per share and final call of ₹3 per share. These shares were reissued to Ramnath at a discount of ₹3.50 per share. Pass journal entries.

5. On 1st May 2010, 2,000 ordinary shares of ₹10 each, ₹7.50 paid be forfeited for the non-payment of final call of ₹2.50. On June 10,2010, 1,800 of the above shares were re-issued for ₹6 per share. Give the necessary journal entries.

6. A company issued 50,000 shares of ₹10 each payable as to ₹1 on application, ₹2 on allotment, ₹3 on first call and ₹4 on final call. All the money payable on application, allotment and calls has been received with the following exceptions:

   Mr. A who holds 2,000 shares has not paid the money dues on allotment and calls

   Mr. B who holds 1,000 shares has not paid the money due on first and final calls

   Mr. C who holds 600 shares has not paid the amount due on final call

   Therefore the shares of A, B and C were forfeited. These shares were subsequently reissued for cash at a discount of 5%. Pass journal entries for forfeiture and reissue of forfeited shares.

7. A company forfeited 300 shares upon which ₹7.50 per share were called up and ₹5 per share were paid for application and allotment. The first call of ₹2.50 per share were not paid. Calculate capital reserve in the following cases:

   a) If all the forfeited shares were re-issued at ₹5 per share, ₹7.50 per share paid up

   b) If 100 shares were reissued @ ₹4 per share ₹7.50 called up

8. Anil Co. Ltd issues 10,000 equity shares of ₹10 each, payable ₹3 on application, ₹3 on allotment and the balance by two calls. All the calls were only made and amount so realized with the exception of the following:

   a) Mr. A holding 100 shares did not pay the amount due on first call

   b) Mr. B holding 100 shares did not pay the amount due on final call

   All these were forfeited and 150 shares (full of A and balance of B) were reissued at ₹8 per share. Journalize forfeiture and reissue entries.

9. Super Star Ltd. invited applications for 35,000 shares of ₹10 each payable as follows:

   On application ₹3; on allotment ₹4 and first and final call ₹3.

   The applications were received for all the shares and accepted. All money due were received except first and final call on 1,000 shares which were forfeited. All the shares were reissued @ ₹8 per share as fully paid.

   You are required to pass journal entries in the books of Super Star Ltd.

10. A company issued 10,000 equity shares of ₹10 each at a premium of ₹3 per share payable as follows: On application ₹4 per share; On allotment ₹5 per share (including premium); On first and final call ₹4 per share. Subscriptions were received for 13,000 shares. The excess money was refunded and the allotment money was received in full. The first and final call was made in due course and the amount due was received with the exception of 100 shares. These shares were forfeited and subsequently re-issued as fully paid for a consideration of ₹8 per share. Pass journal entries for the above transactions.

ALLOTMENT MONEY IS NOT GIVEN

11. A limited company issued a prospectus inviting applications for 2,000 shares of ₹10 each at a premium of ₹2 per share payable as follows:

On application ₹2; on allotment ₹5 (including premium); on first call ₹3 and on second call ₹2. Applications were received for 3,000 shares and allotment was made pro-rata to the applications for 2,500 shares, the remaining applications being refused. Excess money adjusted in allotment.

Mr. C, to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Mr. K the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call had been made.

Of the shares forfeited, 100 shares were sold to Mr. Z at ₹9 per share, the whole of C's share being included. Show journal entries and balance sheet.

12. A company issued 40,000 equity shares of ₹10 each at a premium of ₹2 per share, payable as under:

Application ₹2; allotment ₹5 (including premium); first call ₹2 and second and final call ₹3.

Applications were received for 60,000 shares and allotment was made on pro-rata basis to the applicants of 48,000 shares and the application money for the remaining applications was refunded. Money overpaid on application was utilized towards sums due on allotment.

Rahim, to whom 1,600 shares were allotted, failed to pay the allotment money and the two calls. Ramu to whom 2,000 shares were allotted failed to pay both the calls. These shares were forfeited after second call. Subsequently, 1,800 shares (all shares of Rahim included) were reissued at ₹8 per share fully paid. Pass necessary journal entries.

13. A Limited Company issued a prospectus inviting applications for 8,000 shares of ₹10 each at a premium of ₹2 per share payable as follows:

On application ₹2; on allotment ₹5 (including premium); on 1st call ₹3 and on 2nd call ₹2.

Applications were received for 12,000 shares and allotment was made prorate to the applicants of 9,600 shares; the remaining applications were refused. Money overpaid on applications was adjusted with the sum due on allotment.

Shyam, to whom 160 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Ramesh the holder of 240 shares, failed to pay the two calls, and his shares were forfeited after the second call.

Of the shares forfeited, 320 shares were sold to Manohar at ₹9 per share, the whole of Shyam's share being included. Pass necessary journal entries.

14. Q Ltd issued applications for 20,000 shares of ₹10 each at a premium of ₹2 per share, payable ₹3 on application, ₹7 on allotment including premium and the balance on first and final call.

Applications for 25,000 shares were received. It was decided

i)To refuse allotment to the applications for 1,000 shares

ii) To allot in full to applicants for 4,000 shares

iii) To allot the balance of the available shares pro-rata among the other applicants and

iv) To utilize excess application money in part payment of allotment money

Mr. X holding 200 shares were had been allotted on pro-rata basis failed to pay the amount due on allotment and call and Mr. Y holding 100 shares to whom full allotment was made failed to pay the amount due on call money only. These shares were forfeited. 160 forfeited shares Mr. X and 140 forfeited shares of Mr. Y were reissued at a discount of ₹1 per share to Mr. Z. Show necessary journal entries.

DISCOUNT MODEL

15. A Ltd invited applications for 10,000 shares of ₹10 each at a discount of 10% payable as follows:

On application ₹3; on allotment ₹3 and on first and final call ₹3.

Applications received were for 10,000 shares and all these were accepted. All the money due was received except the first and final call on 500 shares. These shares were subsequently forfeited and reissued at ₹8 per share as fully paid up. Pass necessary entries in the journal of the company.

16. A Company issued 10,000 shares of ₹50 each at 10% discount. Amount payable on application ₹10, allotment ₹25 and first and final call ₹10.

9,000 applications were received. All the money was received except on first and final call money for 200 shares. These shares were forfeited and again reissued at a discount of ₹10 per share. Pass necessary journal entries.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Haja Ltd. was incorporated with a share capital of RS.10, 00,000 in Rs. 10 shares. The company purchased machinery from bharani Ltd. For Rs. 5, 00,000 payable in fully paid shares of the company. The directors also decided to allot 2,500 shares credited as fully paid to promoters for their services. The rest of the shares were issued for cash and were taken up by the public and fully paid for. Give the journal entries.

[Madras. B.Com (Nov.2007 (Modified)]

2. X ltd. forfeited 30 shares of Rs.10 each at 10 each fully called up, held by murugan for nonpayment allotment money of Rs. 3 per share and first and final call of Rs.4 per share. He had paid the application money of Rs.3 per share. These shares were reissued to david for Rs. 8 per share. Pass the necessary journal entries for forfeiture. & reissue of shares.

[Periyar, B.com (CA) April 2005, Bharathiar B.Com, April 2005.]

[Ans: Capital reserve a/c- Rs.30]

3. Y Ltd. forfeited 1,000 equity shares of Rs.10 each, issued at a discount of 10% for non-payment of first call of Rs.2 and the final call of Rs.2 and the final call of Rs.3 per Share. Show the necessary journal entry.

   [Madras, 1st M.com(KCAIA) Nov.2009; B.com(CS) April 2008.]

   [Ans: Amount credited to forfeited shares A/c Rs.4000]

4. The directors of R Ltd, resolved on 1 stmay 2000 that 2000 ordinary shares of Rs. 10 each, Rs.750 paid, be forfeited for nonpayment of final call of Rs.2.50. On June 10,2000, out of the above, 1800 shares were reissued for Rs.6 per share. Show the entries to give effect to the above transactions.

   [Madras I B.Com, Nov.2009]

   [Ans: Transfer to capital reserve: Rs. 6,300]

5. XY Ltd, forfeited 100 equity shares of Rs.10 each issued at a discount of 10% for nonpayment of the 1 st call of Rs.2 and final call of Rs.3 per share. Out of these 50 shares were reissued at Rs. 8 per share and the balance at Rs.7 per share. Pass the journal entries.

   [Bharathiar B.Com, Nov.2004]

   [Transfer to capital reserve: Rs.250]

6. A company forfeited 10 shares of Rs.10 each issued at a premium of 10% for nonpayment of the final call of Rs. 3 per share. Out of these, 7 shares were reissued Rs.8 per share as fully paid up. Give the entries for forfeiture and reissue.

   [Madras, B.Com (CS) (October 2008]

   [Ans: Capital reserve Account-Rs.35]

7. X Ltd, forfeited 20 share of Rs.10 each on which Rs.6 per share were paid. What amount will be transferred to capital reserve if out of these 8 shares are reissued as fully paid up on payment of Rs.5.50 per share?

   [Madras B.Com(CS) Nov.2005(Modified)]

   [Ans: Capital reserve A/c Rs.12]

8. The Hindustan manufacturing Co.Ltd. Had a total subscribed capital of Rs. 1,00,000 in equity shares of Rs.10 each of which Rs.7.50 were called up. A final call of Rs.2.50 each in respect of 100 shares held by D.Roy. These shares were forfeited and reissued at Rs.8 per share as fully paid up. Make the journal entries (including that of cash) necessary to record final call forfeiture of shares and reissue of forfeited shares.

   [Madras B.C.S oct 2000]

   [Ans: Capital reserve A/c-Rs.300]

9. A holds 100 shares of Rs. 10 each on which he has paid Re.1 per share as application money. ‘B’ holds 200 shares of Rs.10 each on which he has paid Re.1 and Rs.2 per share as application and allotment money respectively. C holds 300 shares of Rs.10 each and he

has paid Re.1. on application, Rs. 2 allotment and Rs.3 on first call. They all fail to pay their arrears and the directors therefore forfeited their shares. The shares are reissued subsequently for Rs.11 per share as fully paid. Journalize the transactions (Concerning the forfeiture and reissue only)

[Madras I M.com April 2001]

[Amount transferred to capital reserve A/c- Rs.2, 500]

10. Ganesh Ltd.issued prospectus inviting application for 10,000 equity shares of Rs.10 each, payable as follows:

    On application Rs.2 per share

    On allotment Rs.4 per share.

    On first call Rs.4 per share.

    The issue is fully subscribed. Pass journal entries in the books of ganesh Ltd, assuming that all payments due as stated above were received.

[Madurai B.Com, Nov.2003]

11. The Banglore bottling Co.ltd issued a prospectus inviting applications for 1, 00,000 equity shares of Rs.10 each payable Rs.2 on application, Rs.3 on allotment and the balance at the discretion of the directors. Applications for 1, 20,000 shares were received. The directors allotted the shares as follows:

    To applicants of 80,000 shares – full allotment

    To applicants of 30,000 shares- 20,000 shares

    To applicants of 10,000 shares- Nil.Give the journal entries assuming that all the sum due on allotment has been received and no call has been made.

[Madras B.Com, May 2002]

[Application money transferred to allotment – Rs 20,000][Application money returned- Rs.20,000]

12. A company offered for public subscription 20,000 equity shares of Rs.100 each payable as Rs.20 per share on application, Rs.30 on allotment, Rs.20 three months after allotment and the balance six months after allotment. The offer was oversubscribed by 5000 shares and the amount due on allotment was received in full. Rs.3, 80,000 and Rs.5, 55,000 were received on first, second, and final calls respectively. You are required to give the journal entries for the above information.

[Madras, B.C.S Nov.2004]

[Ans: Amount due on 1st call- Rs.20,000 and on final call – Rs.45,000]

[Hint: Assume that 5000 applications are rejected since there is no mention of pro-rata allotment.]

13. Dee Ltd. offered to the public 20,000 equity shares of Rs.100 each at premium of Rs.10 per share. The payment was to made as follows:

On application Rs.20; on allotment Rs.40 (including premium) On 1st call Rs.25; On second call rs.25.

Applications totaled for 35,000 shares; applications for 10,000 shares were rejected; those totaling 15,000 shares were allotted 10,000 shares and remaining applications were accepted in full. The directors made both the calls.

One shareholder, holding 500 shares (full allottee) failed to pay calls. Expenses of the issue amounted to Rs.10, 000.

Pass the journal entries and relevant extracts from the balance sheet relating to the above Transactions.

[Madras, M.com, Oct 2003, (Modified)]

[Ans: Calls in arrears: Rs.25,000]

14. A Ltd.issued 10,000 equity shares of Rs.10 each payable as under:

    Rs. 2 on application.

    Rs.5 on Allotment.

    Rs.3 on First and Final call.

    The public applied for 8,000 shares which were allotted. All the money due on shares was received except the first and final call on 100 shares. These shares were forfeited and reissued at Rs.8 per share. Show the journal entries in the books of the company.

    [Madras, B.Com(CS) April 2007, B.Com Nov.2005]

    [Ans:Amount transferred to capital reserve A/c. Rs.500]

15. XYZ Company Ltd. made a public issue of 20,000 equity shares of Rs.100 each at a premium of Rs.10 each. The amount payable is as under:

    On application Rs.25

    On allotment Rs.35 (including premium)

    On 1st call Rs.30

    On Final call Rs.20

    All the shares were subscribed. When calls were made, except on 100 shares of Mr.Arjun who failed to pay the first and final calls, all moneys were received. The directors have forfeited these and reissued them at Rs.75 each as fully paid up. The share issue expenses amounted to Rs.60,000. Give the necessary Journal entries.

    [Thiruvalluvar, B.Com, April 2007, Madras, B.Com (ICE) (May.2003)]

    [Ans: Amount transferred to capital Reserve A/c Rs.2,500]

16. New Line Ltd. Issued 20,000 shares of Rs.10 each at a premium of Rs.2 payable on follows:

    On application-Rs.2

    On allotment-Rs.5(including premium)

    On first call-Rs-2

On Final call-Rs.3

Applications for 15,000 shares were received and all these shares were allotted. The first call was made and the amount thereon was received except the amount on 500 shares. Hence, these shares were forfeited and reissued at Rs.7 each as fully paid up. Pass the journal entries in the books of the company.

[Madras IstM.comNov.2008; B.Com, Oct.2002]

[Ans: Amount transferred to capital reserve A/c- Rs.1,000]

17. Raj.Ltd. issued 10,000 shares of Rs.100 each at Rs.120 payable as follows:

    Rs. 25 on application

    Rs. 45 on allotment (including premium)

    Rs. 20 first call and

    Rs.30 on final call

    9000 shares were applied for and were allotted. All moneys were received with the exception of the first and final calls on 200 shares held by alagar. These shares were forfeited. Give the journal entries to record the above transactions.

[Madras, B.C.S(Sem) April 2005.]

[Ans: Forfeited shares A/c balance- Rs.10,000]

18. Good Prospectus Ltd.issued 40,000 shares of Rs. 10 each at a premium of Rs.2 per share. The shares were payable Rs. 2 on application, Rs.5 on allotment (including premium) and Rs. 5 on First & Final call. All shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs.8 per share. Were reissued as fully paid at Rs.8 per share.Give the necessary journal entries and prepare the balance sheet of the company.

[Madras. B.Com, October, 2004]

[Ans: Capital reserve Rs.1,200; Balance sheet total-Rs.4,78,200]

19. Ram. Ltd issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

    On Application Rs.25

    On allotment Rs.34

    On First & Final Call Rs.36

    Applications were received for 4,800 shares and all these were accepted. All the money due was received except the first and final call on 300 shares which were forfeited. 200 out of these shares were reissued at Rs.90 as fully paid. Show the required Cash book and Journal entries in the company's books.

[Thiruvalluvar, B.com., April 2006; Madras, B.C.S Oct.2003]

[Ans: Amount transferred to capital reserve A/c-Rs.10,800; Balance of cash book-Rs.4,63,200]

20. X.Ltd. issued for public subscription 20,000 shares of Rs.10 each at a premium of

    Rs 2 per share payable as under.

    Rs. 2 per share on application;

    Rs.5 per share on allotment (including premium)

    Rs.2 per share on first call.

    Rs. 3 per share on final call.

    Applications for 30,000 shares were received. Allotment was made Pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money over paid was used towards allotment.

    Y to whom 800 shares were allotted failed to pay the allotment money, 1st and 2nd calls and 'z' to which 1,000 shares were allotted failed to pay the last two calls. These shares were subsequently forfeited after the 2nd call was made. All these forfeited shares were reissued to 'w' as fully paid at Rs.8 per share. Give the journal entries to record the above transactions.

[Madras, B.ComOct, 2006; B.Com.Oct.2003]

[Ans Amount transferred to capital reserve A/c-3,320; Cash received allotment-Rs.88,320; Forfeited shares A/c Rs.6,920]

21. A limited company issued a prospectus inviting applications for 2000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

    On application 2

    On allotment 5 (including premium)

    On first call 3

    On second call 2

    Applications were received for 3000 shares and allotment was made pro-rata to the applicants for 2,500 shares, the remaining applications being refused. Money over paid on applications was employed on account of sum due on allotment 'p' to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. 'Q' the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call has been made. Of the shares forfeited, 100 shares were sold to 'R' credited as fully paid, for Rs.9 per share, the whole of 'p's share being included. Show journal and cash book entries and balance sheet.

[Madras II M.Com, Oct.2002]

[Ans: Amount received on allotment-Rs.8,640; Amount transferred to capital reserve A/c – Rs.200]

22. Subhas Ltd. invited applications for 20,000 shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application; Rs.7 on allotment including premium and the balance on first and final call.

    Applications for 25,000 shares were received. It was decided:

    a. To refuse allotment to the applicants of 1000 shares.

b. To allot in full to the applicants for 4,000 shares

c. To allot the balance of shares pro- rata among the applicants of the remaining applications.

d. To utilize excess application money in part payment of allotment money.

Mr. A holding 200 shares which were allotted Pro-Rata failed to pay the amount due on allotment and call. Mr.B holding 100 shares to whom full allotment was made failed to pay the call money. Shares of Both A and B were forfeited. 160 forfeited shares of A and 40 forfeited shares of B were reissued to Mr. C at Rs.9 per share. Journalise the transactions.

[Madras B.Com(CS) Nov.2007]

[Ans: Amount received on allotment –Rs.1,26,750; Amount Transferred to capital reserve A/c-720]

23. A limited company issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On application-Rs. 2 per share

On allotment – Rs.5 per share

On first call Rs.3 per share

On final call Rs. 2 per share.

Amount payable on allotment included premium also. Applications were received for 3000 shares and Pro-rata allotment was made on applications for 2,400 shares. Money Overpaid on Applications was employed towards the sum due on allotment. Ramesh who took 40 shares failed to pay the allotment money and his shares were forfeited on his failure to pay the first call also. Mohan the holder of shares failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 80 shares were sold Krishna credited as fully paid for Rs.9 per share, the whole of Ramesh's shares being included. Show the journal entries.

[Thiruvalluvar, B.com, Nov.2005; Madurai B.com Nov 2003]

[Ans: Amount received on allotment – Rs.9,016; Amount transferred to capital reserve Rs.216]

24. Haja Ltd. was incorporated with a share capital of RS.10, 00,000 in Rs. 10 shares. The company purchased machinery from bharani Ltd. For Rs. 5, 00,000 payable in fully paid shares of the company. The directors also decided to allot 2,500 shares credited as fully paid to promoters for their services. The rest of the shares were issued for cash and were taken up by the public and fully paid for. Give the journal entries.

[Madras. B.Com (AF) Nov.2007 (Modified)]

25. X ltd. forfeited 30 shares of Rs.10 each at 10 each fully called up, held by murugan for nonpayment allotment money of Rs. 3 per share and first and final call of Rs.4 per share.

He had paid the application money of Rs.3 per share. These shares were reissued to david for Rs. 8 per share. Pass the necessary journal entries for forfeiture. & reissue of shares.

[Periyar, B.com (CA) April 2005, Bharathiar B.Com, April 2005.]

[Ans: Capital reserve a/c- Rs.30]

26. Y Ltd. forfeited 1,000 equity shares of Rs.10 each, issued at a discount of 10% for non-payment of first call of Rs.2 and the final call of Rs.2 and the final call of Rs.3 per

    Share. Show the necessary journal entry.

    [Madras, 1st M.com(KCAIA) Nov.2009; B.com(CS) April 2008.]

    [Ans: Amount credited to forfeited shares A/c Rs.4000]

27. The directors of R Ltd, resolved on 1 stmay 2000 that 2000 ordinary shares of Rs. 10 each, Rs.750 paid, be forfeited for nonpayment of final call of Rs.2.50. On June 10,2000, out of the above, 1800 shares were reissued for Rs.6 per share. Show the entries to give effect to the above transactions.

    [Madras I B.Com, Nov.2009]

    [Ans: Transfer to capital reserve: Rs. 6,300]

28. XY Ltd, forfeited 100 equity shares of Rs.10 each issued at a discount of 10% for nonpayment of the 1 st call of Rs.2 and final call of Rs.3 per share. Out of these 50 shares were reissued at Rs. 8 per share and the balance at Rs.7 per share. Pass the journal entries.

    [Bharathiar B.Com, Nov.2004]

    [Transfer to capital reserve: Rs.250]

29. A company forfeited 10 shares of Rs.10 each issued at a premium of 10% for nonpayment of the final call of Rs. 3 per share. Out of these, 7 shares were reissued Rs.8 per share as fully paid up. Give the entries for forfeiture and reissue.

    [Madras, B.Com (CS) (ICE) October 2008]

    [Ans: Capital reserve Account-Rs.35]

30. X Ltd, forfeited 20 share of Rs.10 each on which Rs.6 per share were paid. What amount will be transferred to capital reserve if out of these 8 shares are reissued as fully paid up on payment of Rs.5.50 per share?

    [Madras B.Com(CS) Nov.2005(Modified)]

    [Ans: Capital reserve A/c Rs.12]

31. The Hindustan manufacturing Co.Ltd. Had a total subscribed capital of Rs. 1,00,000 in equity shares of Rs.10 each of which Rs.7.50 were called up. A final call of Rs.2.50 each in respect of 100 shares held by D.Roy. These shares were forfeited and reissued at Rs.8 per share as fully paid up. Make the journal entries (including that of cash) necessary to record final call forfeiture of shares and reissue of forfeited shares.

[Madras B.C.S (ICE) oct 2000]

[Ans: Capital reserve A/c-Rs.300]

32. A holds 100 shares of Rs. 10 each on which he has paid Re.1 per share as application money. 'B' holds 200 shares of Rs.10 each on which he has paid Re.1 and Rs.2 per share as application and allotment money respectively. C holds 300 shares of Rs.10 each and he has paid Re.1. on application, Rs. 2 allotment and Rs.3 on first call. They all fail to pay their arrears and the directors therefore forfeited their shares. The shares are reissued subsequently for Rs.11 per share as fully paid. Journalize the transactions (Concerning the forfeiture and reissue only)

[Madras I M.com April 2001]

[Amount transferred to capital reserve A/c- Rs.2, 500]

33. Ganesh Ltd.issued prospectus inviting application for 10,000 equity shares of Rs.10 each, payable as follows:

    On application Rs.2 per share

    On allotment Rs.4 per share.

    On first call Rs.4 per share.

    The issue is fully subscribed. Pass journal entries in the books of ganesh Ltd, assuming that all payments due as stated above were received.

[Madurai B.Com, Nov.2003]

34. The Banglore bottling Co.ltd issued a prospectus inviting applications for 1, 00,000 equity shares of Rs.10 each payable Rs.2 on application, Rs.3 on allotment and the balance at the discretion of the directors. Applications for 1, 20,000 shares were received. The directors allotted the shares as follows:

    To applicants of 80,000 shares – full allotment

    To applicants of 30,000 shares- 20,000 shares

    To applicants of 10,000 shares- Nil.Give the journal entries assuming that all the sum due on allotment has been received and no call has been made.

[Madras B.Com, (ICE) May 2002]

[Application money transferred to allotment – Rs 20,000][Application money returned-Rs.20,000]

35. A company offered for public subscription 20,000 equity shares of Rs.100 each payable as Rs.20 per share on application, Rs.30 on allotment, Rs.20 three months after allotment and the balance six months after allotment. The offer was oversubscribed by 5000 shares and the amount due on allotment was received in full. Rs.3, 80,000 and Rs.5, 55,000 were received on first, second, and final calls respectively. You are required to give the journal entries for the above information.

[Madras, B.C.S Nov.2004]

[Ans: Amount due on 1st call- Rs.20,000 and on final call – Rs.45,000]

[Hint: Assume that 5000 applications are rejected since there is no mention of pro- rata allotment.]

36. Dee Ltd. offered to the public 20,000 equity shares of Rs.100 each at premium of Rs.10 per share. The payment was to made as follows:

On application Rs.20; on allotment Rs.40 (including premium) On 1st call Rs.25; On second call rs.25.

Applications totaled for 35,000 shares; applications for 10,000 shares were rejected; those totaling 15,000 shares were allotted 10,000 shares and remaining applications were accepted in full. The directors made both the calls.

One shareholder, holding 500 shares (full allottee) failed to pay calls. Expenses of the issue amounted to Rs.10, 000.

Pass the journal entries and relevant extracts from the balance sheet relating to the above Transactions.

[Madras, M.com, (ICE) Oct 2003, (Modified)]

[Ans: Calls in arrears: Rs.25,000]

37. A Ltd.issued 10,000 equity shares of Rs.10 each payable as under:

Rs. 2 on application.

Rs.5 on Allotment.

Rs.3 on First and Final call.

The public applied for 8,000 shares which were allotted. All the money due on shares was received except the first and final call on 100 shares. These shares were forfeited and reissued at Rs.8 per share. Show the journal entries in the books of the company.

[Madras, B.Com(CS) April 2007, B.Com Nov.2005]

[Ans:Amount transferred to capital reserve A/c. Rs.500]

38. XYZ Company Ltd. made a public issue of 20,000 equity shares of Rs.100 each at a premium of Rs.10 each. The amount payable is as under:

On application Rs.25

On allotment Rs.35 (including premium)

On 1st call Rs.30

On Final call Rs.20

All the shares were subscribed. When calls were made, except on 100 shares of Mr.Arjun who failed to pay the first and final calls, all moneys were received. The directors have forfeited these and reissued them at Rs.75 each as fully paid up. The share issue expenses amounted to Rs.60,000. Give the necessary Journal entries.

[Thiruvalluvar, B.Com, April 2007, Madras, B.Com (ICE) (May.2003)]

[Ans: Amount transferred to capital Reserve A/c Rs.2,500]

39. New Line Ltd. Issued 20,000 shares of Rs.10 each at a premium of Rs.2 payable on follows:

On application-Rs.2

On allotment-Rs.5(including premium)

On first call-Rs-2

On Final call-Rs.3

Applications for 15,000 shares were received and all these shares were allotted. The first call was made and the amount thereon was received except the amount on 500 shares. Hence, these shares were forfeited and reissued at Rs.7 each as fully paid up. Pass the journal entries in the books of the company.

[Madras IstM.comNov.2008; B.Com, Oct.2002]

[Ans: Amount transferred to capital reserve A/c- Rs.1,000]

40. Raj.Ltd. issued 10,000 shares of Rs.100 each at Rs.120 payable as follows:

Rs. 25 on application

Rs. 45 on allotment (including premium)

Rs. 20 first call and

Rs.30 on final call

9000 shares were applied for and were allotted. All moneys were received with the exception of the first and final calls on 200 shares held by alagar. These shares were forfeited. Give the journal entries to record the above transactions.

[Madras, B.C.S(Sem) April 2005.]

[Ans: Forfeited shares A/c balance- Rs.10,000]

41. Good Prospectus Ltd.issued 40,000 shares of Rs. 10 each at a premium of Rs.2 per share. The shares were payable Rs. 2 on application, Rs.5 on allotment (including premium) and Rs. 5 on First & Final call. All shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs.8 per share. Were reissued as fully paid at

Rs.8 per share.Give the necessary journal entries and prepare the balance sheet of the company.(39)

[Madras. B.Com, October, 2004]

[Ans: Capital reserve Rs.1,200; Balance sheet total-Rs.4,78,200]

42. Ram. Ltd issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

    On Application Rs.25

    On allotment Rs.34

    On First & Final Call Rs.36

    Applications were received for 4,800 shares and all these were accepted. All the money due was received except the first and final call on 300 shares which were forfeited. 200 out of these shares were reissued at Rs.90 as fully paid. Show the required Cash book and Journal entries in the company's books.

[Thiruvalluvar, B.com., April 2006; Madras, B.C.S Oct.2003]

[Ans: Amount transferred to capital reserve A/c-Rs.10,800; Balance of cash book-Rs.4,63,200]

43. X.Ltd. issued for public subscription 20,000 shares of Rs.10 each at a premium of

    Rs 2 per share payable as under.

    Rs. 2 per share on application;

    Rs.5 per share on allotment (including premium)

    Rs.2 per share on first call.

    Rs. 3 per share on final call.

    Applications for 30,000 shares were received. Allotment was made Pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money over paid was used towards allotment.

    Y to whom 800 shares were allotted failed to pay the allotment money, 1^{st} and 2^{nd} calls and 'z' to which 1,000 shares were allotted failed to pay the last two calls. These shares were subsequently forfeited after the 2^{nd} call was made. All these forfeited shares were reissued to 'w' as fully paid at Rs.8 per share. Give the journal entries to record the above transactions.

[Madras, B.Com(ICE) Oct, 2006; B.Com.Oct.2003]

[Ans: Amount transferred to capital reserve A/c-3,320; Cash received allotment-Rs.88,320; Forfeited shares A/c Rs.6,920]

44. A limited company issued a prospectus inviting applications for 2000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

    On application 2

    On allotment 5 (including premium)

On first call 3

On second call 2

Applications were received for 3000 shares and allotment was made pro-rata to the applicants for 2,500 shares, the remaining applications being refused. Money over paid on applications was employed on account of sum due on allotment 'p' to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. 'Q' the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call has been made. Of the shares forfeited, 100 shares were sold to 'R' credited as fully paid, for Rs.9 per share, the whole of 'p's share being included. Show journal and cash book entries and balance sheet.

[Madras II M.Com, Oct.2002]

[Ans: Amount received on allotment-Rs.8,640; Amount transferred to capital reserve A/c – Rs.200]

45. Subhas Ltd. invited applications for 20,000 shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application; Rs.7 on allotment including premium and the balance on first and final call.

Applications for 25,000 shares were received. It was decided:

a) To refuse allotment to the applicants of 1000 shares.

b) To allot in full to the applicants for 4,000 shares

c) To allot the balance of shares pro- rata among the applicants of the remaining applications.

d) To utilize excess application money in part payment of allotment money.

Mr. A holding 200 shares which were allotted Pro-Rata failed to pay the amount due on allotment and call. Mr.B holding 100 shares to whom full allotment was made failed to pay the call money. Shares of Both A and B were forfeited. 160 forfeited shares of A and 40 forfeited shares of B were reissued to Mr. C at Rs.9 per share. Journalise the transactions.

[Madras B.Com(CS) Nov.2007]

[Ans: Amount received on allotment –Rs.1,26,750; Amount Transferred to capital reserve A/c-720]

46. A limited company issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On application-Rs. 2 per share

On allotment – Rs.5 per share

On first call Rs.3 per share

On final call Rs. 2 per share.

Amount payable on allotment included premium also. Applications were received for 3000 shares and Pro-rata allotment was made on applications for 2,400 shares. Money

Overpaid on Applications was employed towards the sum due on allotment. Ramesh who took 40 shares failed to pay the allotment money and his shares were forfeited on his failure to pay the first call also. Mohan the holder of shares failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 80 shares were sold Krishna credited as fully paid for Rs.9 per share, the whole of Ramesh's shares being included. Show the journal entries.

[Thiruvalluvar, B.com, Nov.2005; Madurai B.com Nov 2003]

[Ans: Amount received on allotment – Rs.9,016; Amount transferred to capital reserve Rs.216]

47. X Ltd. has resolved to utilize Rs. 3,00,000 out of the General Reserve balance to declare a bonus to the shareholders by paying the final call of Rs. 3 per share on 1,00,000 equity shares of Rs. 10 each. Along with this, the company further decided to utilize the balance of the share premium account to issue fully paid-up bonus shares in the ratio of one equity share for every five equity shares held. Show journal entries in the books of X Ltd.

48. M Ltd issued a prospectus offering 10,000 equity shares of Rs. 20 each at Rs. 22 per share payable as follows: on application Rs. 3 per share; on allotment (including premium) Rs. 8 per share; on first call Rs. 6 per share; on final call Rs. 5 per share.

On first call being made all the shareholders, except one holding 400 shares, duly paid their respective amounts. These 400 shares were forfeited by the Board of Directors and 300 of these shares were subsequently re-issued credited Rs. 15 paid, for Rs. 13 per share and the amount thus due being duly received.

Show the entries in the journal and cash book relating to forfeiture and re-issue of share and the relevant extracts from the liabilities side of the balance sheet drawn thereafter.

[Madurai, B.Com, Nov, 2003]

[Ans:Amount transferred to capital reserve Rs.2,100]

49. Flamingo Ltd. offered for public subscription 5,000 equity shares of Rs. 10 each at a premium of Rs. 2.50 per share payable as follows: on application, Rs. 2.00 per share; on allotment, Rs. 4.50 per share (including premium); on first call, Rs. 4.00 per share; on second and final call, Rs. 2.00 per share.

Applications were received for 7,500 shares and allotment was made pro rata applicants for 5,000 shares, letters of regret being issued for the remaining applicants. Money over-paid on application by the allottees was adjusted to allotment account.

Rahim to whom 100 shares were allotted failed to pay the allotment money and on his failure to pay the first call, his shares were forfeited.

Haq, the holder of 150 shares, failed to pay last two calls and his shares were forfeited after the second call was made.

Of the shares forfeited 200 were allotted as fully paid up to Karim for Rs. 8 per share paid in cash.

Show journal entries to record the forfeiture and re-issue of forfeited shares including those relating to cash.

[Madurai, B.Com, Nov, 2004]

[Ans: Amount transferred to capital reserve Rs.300]

50. G Limited invited applications for 15,000 of its equity shares of Rs. 10 each issued at Rs. 11.50 payable as follows:

On application on 1st July, 2002Rs. 7.50 per share

On allotment on 31st July, 2002 (including premium) Rs. 2.00 per share

On first and final call on 31st August 2002Rs. 2 per share

Applications were received for 18,000 shares and it was decided to deal with the same as follow in consultation with the stock exchange authorities: (a) To refuse allotment to applicants for 800 shares. (b). To give full allotment to applicants for 2,200 shares. (c) To allot the remaining shares pro rata among other applicants. (d) To utilize the surplus received on applications in part payment of amounts due on allotment.

An applicant to whom 40 shares were allotted failed to pay the amount due on the first and final call and his shares were forfeited on 31st October, 2002. These shares were re-issued on 5th November, 2002 as fully-paid at Rs. 9 per share. Give journal entries including those relating to cash to record the above transactions.

[Madurai, B.Com, Nov, 2005]

[Ans: Amount transferred to capital reserve Rs.280]

UNIT – 2

UNDERWRITING OF SHARES

Meaning – Types – Underwriter Vs. Broker – Calculation of commission – Full underwriting – Partial underwriting – Firm underwriting

Acompany issues shares for the purpose of raising funds from the public for running its business. We cannot sure that all the shares issued by the company will be subscribed by the public. Sometimes all the shares may be subscribed by the public successfully but not always. But from the company point of view they require some guarantee for at least a minimum subscription of shares issued.

Any person who gives this guarantee to the company is called underwriter. He takes the responsibility of selling the entire shares or a portion of shares for which he already gives guarantee. Thus the company is relieved from the burden of selling their shares to the public. It gives a maximum commission of 5% on issue price for shares and 2.5% for debentures to the underwriter for his services in connection with underwriting. On behalf of the company, the underwriter took necessary steps to sell the shares underwritten by him among the public. If not, he will pay the balance amount to the company to the extent of unsold shares.

2.1 TYPES OF UNDERWRITING

The underwriting may be full underwriting or partial underwriting. When all the shares issued by the company are guaranteed by one or more underwriters, then it is called full underwriting. When only a portion of the shares issued by the company is guaranteed by one or more underwriters, then it is called partial underwriting.

When an underwriter agreed to accept a particular number of shares personally in addition to normal underwriting, then it is called firm underwriting.

2.2 MARKED AND UNMARKED APPLICATIONS

The applications received by the company bear the signature or any seal of underwriters for their own identity. They are called marked applications. They are to be credited to the underwriter’s account individually.

Some applications may be received by the company without any signature or any seal of underwriters. They are called unmarked applications. They should be divided in gross liability ratio and credited to all underwriters account.

2.3 DIFFERENCE BETWEEN UNDERWRITER AND BROKER

Basis	Underwriter	Broker
Responsibility	The underwriter is fully responsible for the unsold shares	The broker is not liable for the unsold shares
Basis	He is eligible to get commission on total no. of shares underwritten by him whether they are sold or not.	He is getting commission on the no. of shares sold by him
Reward	The reward goes to underwriter for his service is known as underwriting commission	The reward goes to broker for his service is known as brokerage.

2.4 STATEMENT SHOWING NET LIABILITY OF UNDERWRITERS

Particulars	No. of shares
Gross liability	xxx
Less: Marked applications	xxx
	xxx
Less: Unmarked applications in gross liability ratio	xxx
	xxx
Add: Firm underwriting (if any)	xxx
Net liability	xxx

Note:

1. If there is any deficit (-) figure, it should be divided to the remaining underwriters in their gross liability ratio.
2. Unmarked applications = Shares subscribed – Marked applications

2.5 CALCULATION OF COMMISSION

Illustration -1R Ltd issued 20,000 shares of ₹10 each at par. The issue was underwritten by XY firm for maximum commission permitted by law. The public applied for and received 16,000 shares. Calculate the commission payable to the underwriter.

Solution:

Net Liability = 20,000 – 16,000 = 4,000 shares

Commission = 2,00,000 x 5/100 = ₹10,000

2.6 FULL UNDERWRITING

Illustration -2 A Ltd. issued 20,000 shares of ₹10 each at par which was underwritten as follows:

X – 10,000 shares; Y – 6,000 shares and Z – 4,000 shares. Applications were received for 18,000 shares which included marked applications which are as follows: X – 4,000 shares; Y – 2,000 shares and Z – 10,000 shares.

Prepare a statement showing how many more shares underwriters will have to take under the underwriting contract.

Solution

Statement showing net liability of underwriters

Particulars	X	Y	Z
Gross liability	10,000	6,000	4,000
Less: Marked applications	4,000	2,000	10,000
	6,000	4,000	(-) 6,000
Less: Unmarked applications (18,000 – 16,000= 2000 (10:6:4)	1,000	600	(-) 400
	5,000	3,400	(-) 6,400
(-) Deficiency of Z (10:6)	4,000	2,400	(+) 6,400
Net liability	1,000	1,000	–

Illustration -3 S Ltd. was formed with a capital of ₹1,00,000 in ₹10 shares, the whole amount being issued to the public. The underwriting of these shares was as follows:

M – 3,500 shares; N – 3,000 shares; O – 2,000 shares; P – 1,000 shares; Q – 300 shares and R – 200 shares. The details regarding marked application are as follows:

M – 1,000 shares; N – 2,250 shares; O – 2,000 shares; P – 700 shares; Q – 500 shares and R – Nil. Applications for 2,000 shares were received on unmarked forms.

Prepare a statement showing the number of shares each underwriter had to take up.

Solution

Statement showing net liability of underwriters

Particulars	M	N	O	P	Q	R
Gross liability	3,500	3,000	2,000	1,000	300	200
Less: Marked applications	1,000	2,250	2,000	700	500	–
	2,500	750	–	300	(-)200	200
Less: Unmarked applications	700	600	400	200	60	40
	1,800	150	(-) 400	100	(-) 260	160
(-) Deficiency of O & Q (35:30:10:2)	300	257	(+)400	86	(+)260	17
	1,500	(-)107	–	14	–	143
(-) Deficiency of N (35:10:2)	80	(+)107	–	23	–	5
	1,420	–	–	(-) 9	–	138

(-) Deficiency of P	9	–	–	(+) 9	–	–
Net liability	1,411	–	–	–	–	138

2.7 PARTIAL UNDERWRITING

Illustration -4 M Ltd. issued 1,00,000 equity shares of which only 60% was underwritten by Gandhi. Applications for 90,000 shares were received in all. Out of which application for 52,000 were marked. Determine the liability of Gandhi.

Solution

Statement showing net liability of underwriters

Particulars	Gandhi	Company
Gross liability	60,000	40,000
Less: Marked applications	52,000	–
	8,000	40,000
(-)Unmarked applications (90,000 – 52,000 = 38,000)	22,800	15,200
	(-)14,800	24,800
Less: Deficiency of Gandhi	(+) 14,800	14,800
Net liability	–	10,000

Illustration – 5 P Ltd. issued 20,000, 10% Debentures of ₹100 each for public subscription. The issue was underwritten as follows:

Satyam – 25%, Sivam – 30% and Sundaram – 25%. The company received a total number of 14,000 applications of which marked applications were as follows:

Satyam – 4,000, Sivam – 3,000 and Sundaram – 4,000.

Determine the liability of each of underwriter.

Solution

Statement showing net liability of underwriters

Particulars	Satyam	Sivam	Sundaram	Company
Gross liability	5,000	6,000	5,000	4,000
Less: Marked applications	4,000	3,000	4,000	–
	1,000	3,000	1,000	4,000
Less: Unmarked applications (14,000 – 11,000)	750	900	750	600
Net liability	250	2,100	250	3,400

2.8 FIRM UNDERWRITING

Illustration –6 P Ltd. issued 25,000 shares of ₹100 each. The whole issue was underwritten by Ram. In addition, there is a firm underwriting of 3,000 shares by Ram. Applications for 17,000 shares were received by the company in all.

Calculate the liability of Ram.

Solution

Statement showing net liability of underwriter

Particulars	Amount
Gross liability	25,000
(–) Marked applications	17,000
	8,000
(+) Firm underwriting	3,000
Net liability	11,000

Illustration –7 K Ltd. has authorized capital of ₹25 lakhs divided into 1,00,000 equity shares of ₹25 each. The company issued for subscription 25,000 shares at a premium of ₹10 each. The entire issue was underwritten as follows:

A – 15,000 shares (firm underwriting – 2,500 shares)

B – 7,500 shares (firm underwriting –1,000 shares)

C – 2,500 shares (firm underwriting – 500 shares)

Out of the total issue, 22,500 shares including firm underwriting were subscribed: The following were the marked forms: A – 8,000 shares; B – 5,000 shares and C – 2,000 shares.

Calculate the liability of each underwriter.

Solution

Statement showing net liability of underwriters

Particulars	A	B	C
Gross liability	15,000	7,500	2,500
(–) Marked applications	8,000	5,000	2,000
	7,000	2,500	500
(–) Unmarked applications	4,500	2,250	750
	2,500	250	(–)250
(–) Deficiency of C (150:75)	167	83	(+) 250

	2,333	167	–
(+) Firm underwriting	2,500	1,000	500
Net liability	4,833	1,167	500

Unmarked applications = 22,500 – 15,000 = 7,500 (150:75: 25)

Illustration 8 S Ltd. issued to public 1,50,000 equity shares of Rs.100 each at par. Rs.60 per share was payable along with application and the balance on allotment. This issue was underwritten equally by A, B and C for a commission of 2.5 per cent. Application for 1,40,000 shares were received as per details:

Underwriter	Firm Application	Marked Application	Total
A	5,000	40,000	45,000
B	5,000	46,000	51,000
C	3,000	34,000	37,000
Unmarked Applications			7,000
Total			1,40,000

It was agreed to credit the unmarked applications equally to A and C. S Ltd. accordingly made the allotment and received the amounts due from the public. The underwriters settled their accounts. You are required to:

i) Prepare a statement showing the liability of the underwriters and

ii) Journalise the above transactions in the books of S Ltd.

Solution

	A	**B**	**C**	**Total**
Gross liability	50,000	50,000	50,000	1,50,000
(–) Marked Applications	40,000	46,000	34,000	1,20,000
	10,000	4,000	16,000	30,000
(–) Unmarked Application (1,27,000 – 1,20,000)	3,500	–	3,500	7,000
	6,500	4,000	12,500	23,000
(–) Firm Underwriting	5,000	5,000	3,000	13,000
	1,500	(–) 1,000	9,500	10,000
Deficit of B	(–) 500	+ 1,000	(–) 500	–
	1,000	–	9,000	10,000

(+) Firm underwriting	5,000	5,000	3,000	13,100
Net liability	6,000	5,000	12,000	23,000

Net amount due from / due to underwriters

	A	B	C
No. of shares subscribed	6,000	5,000	12,000
Amount due @ Rs. 60 per share	3,60,000	3,00,000	7,20,000
(–) Amount already paid on firm application	3,00,000	3,00,000	1,80,000
	60,000	–	5,40,000
(–) Underwriting commission @ 2.5% on issue price	1,25,000	1,25,000	1,25,000
	(–) 65,000	(–) 1,25,000	4,15,000

Journal Entries

Date	Particulars	LF	Debit Rs.	Credit Rs
	Bank a/c	Dr	84,00,000	
	To Share application a/c			84,00,000
	(Being application money received)			
	Share Application a/c	Dr	84,00,000	
	To Share Capital a/c			84,00,000
	(Being application money transferred)			
	A a/c	Dr	60,000	
	C a/c	Dr	5,40,000	
	To Equity share capital a/c			6,00,000
	(Being allotment of shares to A & C)			
	Underwriting commission a/c	Dr	3,75,000	
	To A a/c			1,25,000
	To B a/c			1,25,000
	To C a/c			1,25,000
	(Being commission due)			
	Bank a/c	Dr	4,15,000	

	To C a/c			4,15,000
	(Being amount received from C after adjusting commission)			
	A a/c	Dr	65,000	
	B a/c	Dr	1,25,000	
	To Bank a/c			1,90,000
	(Being amount paid to A & B after commission)			
	Share Allotment a/c	Dr	60,00,000	
	To Share capital a/c			60,00,000
	(Being allotment due)			
	Bank a/c	Dr	60,00,000	
	To Share Allotment a/c			60,00,000
	(Being allotment money received)			

Illustration 9 Libra Ltd. came up with an issue of 20,00,000 equity shares of Rs.10 each at par. 5,00,000 shares were issued to the promoters and the balance to the public was underwritten by three underwriters– Anand, Vijay and Ashok, with firm underwriting of 50,000 shares each.

Subscription totaled 12,97,000 shares including the marked forms which were: Anand 4,25,000 shares; Vijay 4,50,000 shares and Ashok 3,50,000 shares.

The underwriters had applied for shares covered by firm underwriting. The amount payable on application and allotment were Rs.2.50 and Rs.2 respectively. The agreed commission was 2.5%. Pass necessary journal entries and calculate the liability of underwriters.

Statement showing the liability of underwriters

	Anand	**Vijay**	**Ashok**	**Total**
No. of shares underwritten	5,00,000	5,00,000	5,00,000	15,00,000
(–) Marked applications	4,25,000	4,50,000	3,50,000	12,25,000
	75,000	50,000	1,50,000	2,75,000
(–) Firm underwriting	50,000	50,000	50,000	1,50,000
	25,000	–	1,00,000	1,25,000
(–) Unmarked applications (12,97,000 – 12,25,000)	36,000	–	36,000	72,000
	(–) 11,000	–	64,000	53,000

(–) Deficiency of Anand	(+) 11,000	–	(–) 11,000	–
	–	–	53,000	53,000
(+) Firm underwriting	50,000	50,000	50,000	
Net liability	50,000	50,000	1,03,000	

Statement showing the amount due to or from underwriters

	Anand	Vijay	Ashok
Liability of underwriters	50,000	50,000	1,03,000
Amount to be paid by them @ Rs.4.50 per share	2,25,000	2,25,000	4,63,500
(–) Amount paid on firm applications	1,25,000	1,25,000	1,25,000
	1,00,000	1,00,000	3,38,500
(–) Commission on shares (2.5% on 50,000 shares)	1,25,000	1,25,000	1,25,000
Amount paid or received	(–)25,000	(–)25,000	1,13,500

Journal Entries

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank a/c	Dr	3,75,000	
	To Share application a/c			3,75,000
	(Being application money received)			
	Share application a/c	Dr	3,75,000	
	To Share capital a/c			3,75,000
	(Being application money transferred)			
	Anand a/c	Dr	1,00,000	
	Vijay a/c	Dr	1,00,000	
	Asohk a/c	Dr	3,38,500	
	To Equity share capital a/c			5,38,500
	(Being allotment of shares to underwriters)			
	Underwriting commission a/c	Dr	3,75,000	
	To Anand a/c			1,25,000

	To Vijay a/c			1,25,000
	To Ashok a/c			1,25,000
	(Being commission due)			
	Bank a/c	Dr	1,13,500	
	To Ashok			1,13,500
	(Being amount to be received)			
	Anand a/c	Dr	25,000	
	Vijay a/c	Dr	25,000	
	To Bank a/c			50,000
	(Being amount to be paid)			

Illustration 10 X Ltd. issued 10,000 shares of Rs.100 each at a premium of Rs.15 each. Ninety per cent of the issue was underwritten by M/S Broker and Co. at a commission of 1% on the nominal face value. Applications were received for 8,000 shares and allotment was fully made. All the money due from allottees was received in one instalment. The accounts with Broker & Co. were settled.

A) Show the journal entries to record the transactions.

B) What would be the liability of M/S Broker & Co. if applications were received for 12,000 shares but marked applications were 8,000 shares?

Journal Entries in the books of X Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs
	Bank a/c	Dr	9,20,000	
	To Share application and allotment a/c			9,20,000
	(Being application and allotment money received)			
	Share application and allotment a/c	Dr	9,20,000	
	To Share capital a/c			8,00,000
	To Securities premium a/c			1,20,000
	(Being app. and allot. money transferred)			
	M/S Brokers & Co. a/c	Dr	2,07,000	

	To Share capital a/c (1800 x 100)			1,80,000
	To Securities premium a/c			27,000
	(Being shares taken by Broker & Co.)			
	Underwriting commission a/c	Dr	9,000	
	To Broker & Co a/c			9,000
	(Being Underwriting comm. payable)			
	Bank a/c	Dr	1,98,000	
	To M/S Brokers & Co. a/c			1,98,000
	(Being balance amount received)			

	Brokers & Co.	**X Ltd**
Gross Liability	9,000	1,000
(–) Marked applications (9:1)	7,200	800
Net liability	1,800	200

b) Gross liability of the underwriter is 9,000 shares (i.e.,10,000 shares x 90%). Marked application is 8,000 shares.

Since the application have been received for 12,000 shares, net liability of the Broker & Co. is NIL

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Marked applications refers to applications carrying the

    a) **Stamp of the underwriters** b) Signatures of Public

    c) Stamp of company who offered shares d) Without any marking

2. According to Sec.76 of the Companies Act 1956, the commission payable to underwriter for shares should not exceed

    a) **5%** b) 2.5%

    c) 10% d) 1.5%

3. In case of debentures, the commission payable to underwriter should not exceed

    a) 5% b) **2.5%**

    c) 10% d) 1.5%

4. K Ltd issued shares of ₹1,000 each at ₹950. The commission will be paid on

    a) ₹1,000 b) **₹950**

    c) ₹1,950 d) ₹50

5. Underwriting commission is payable on

    a) The issue prices of shares b) **the paid up value of shares**

    c) The application money received on shares d) Market value of shares

6. When an underwriter agrees to buy shares privately apart from shares underwritten, it is called

    a) Partial underwriting b) **Firm underwriting**

    c) Full underwriting d) Individual underwriting

7. Unmarked applications are the difference between

    a) **Subscribed shares and marked** b) Marked and issued

    c) Issued and marked d) Marked and unmarked

8. Unmarked applications should be distributed in

    a) Net liability ratio b) **Gross liability ratio**

    c) Equal ratio d) Any ratio

9. Deficiency of one underwriter is shared by others in

    a) Net liability ratio b) Gross liability ratio

    c) Equal ratio d) **Remaining gross liability ratio**

10. When one underwriter agrees to underwrite the whole issue of shares it is called

a) Partial underwriting b) Firm underwriting
c) **Full underwriting** d) Individual underwriting

11. In the absence of any information, firm underwriting will be treated as ________

a) Marked b) Unmarked
c) Separate deduction d) No Treatment

12. Firm underwriting will ________

a) Increase underwriter's liability b) Decrease underwriter's liability
c) Increase marked application d) Decrease unmarked forms

13. Unmarked forms will _______

a) **Decrease underwriter's liability** b) Increase underwriter's liability
c) Nullify underwriter's liability d) Have No effect

14. The remuneration given to underwriting is called

a) Salary b) Wages
c) Underwriting commission d) Commission

15. Firm underwriting means

a) Shares to be taken irrespective of public subscribe
b) Shares taken only when public will not subscribe
c) Gross liability d) Unmarked forms.

REVIEW QUESTIONS

A. Answer in Short

1. What do you mean by underwriting of shares?
2. what are the different types of underwriting?
3. What is firm underwriting?
4. What is marked and unmarked applications?
5. Differentiate underwriter from brokers

B. Answer in Detail

1. Explain the different types of Underwriting
2. Write short note on
   a. Firm underwriting
   b. Marked Applications
   c. Unmarked Applications.

EXERCISES

1) The issue of 2,00,000 shares of ₹10 each at ₹11 per share made by Z Ltd., was underwritten by M/s X and Y. Subscriptions totaled for 2,50,000 shares. What is underwriter's liability? What is the commission they are eligible for?s

   (Ans:₹1,00,000)

2) A company issued 10,000 shares of ₹10 each. These shares were underwritten as follows:

   A – 7,000 shares; B – 3,000 shares. The public applied for 8,000 shares which included marked applications as follows: A – 5,000 shares; B – 2,000 shares.

   Determine the liability of A and B.

   Ans: Net liability A–1,300 B–700

3) The following underwriting of shares takes place:

   A – 6,000 shares; B – 2,500 shares and C – 1,500 shares. The issue consists of 10,000 shares. The total subscription was 7,100 shares and the forms included the following marked forms: A – 1,000 shares; B – 2,000 shares and C – 500 shares.

   Show the allocation of liability of underwriters.

   Ans: Net liability A–2,520 B–Nil C–380

4) ABC Ltd. was incorporated on 1–1–2009 issued applications for 5,00,000 equity shares of ₹10 each. The entire issue was fully underwritten by A, B, C and D. A – 2,00,000 shares; B– 1,50,000 shares; C – 1,00,000 shares and D – 50,000 shares. Applications were received for 4,50,000 shares of which marked applications were as follows:

   A – 2,20,000 shares; B– 90,000 shares; C – 1,10,000 shares and D – 10,000 shares.

   You are required to calculate the net liability of individual underwriters, by giving credit to unmarked applications in the ratio of gross liability.

   Ans: Net liability A–Nil B–22,500 C– Nil D –27,500

PARTIAL UNDERWRITING

5) R Ltd. issued 1,00,000 equity shares of which only 75,000 equity shares were underwritten by D. Application for 60,000 equity shares were received out of which applications for 40,000 shares were marked in favour of D.

   Determine net liability of D.

   Ans: Net liability D –20,000 Company –20,000

6) X Company issued 1,00,000 shares of ₹10 each. These shares were underwritten as follows:

   X –30,000 shares and Y –50,000 shares. The public applied for 70,000 shares which includes marked applications as follows: X –10,000 shares and Y –2,000 shares.

Determine the liability of X and Y.

Ans: Net liability X –2,600 Y –19,000 Company– 8,400

FIRM UNDERWRITING

7) Total subscription (excluding firm underwriting) – 20,000 shares; Application under firm underwriting – 8,400 shares; Marked applications – 14,000 shares.

   Calculate unmarked applications.

8) S Ltd issued 20,000 shares which were underwritten as follows:

   A – 12,000 shares, B – 5,000 shares and C – 3,000 shares. The underwriters made applications for firm underwriting as under. A – 1,600 shares; B – 600 shares and C – 2,000 shares. The total subscriptions excluding firm underwriting but including marked applications were for 10,000 shares.

   The marked applications were as follows:

   A – 2,000 shares; B – 4,000 shares and C – 1,000 shares.

   Prepare a statement showing the allocation of liability of the underwriters.

   Ans: Net liability A–6,640 B–600 C–2,760

9) The following underwriting takes place:

   A – 5,000 shares; B – 3,000 shares and C – 2,000 shares

   In addition there is firm underwriting:

   A – 1,000 shares; B – 500 shares and C – 1,500 shares

   The share issue is for 10,000 shares. Total subscription including firm underwriting was 8,500 shares and the forms included the following marked forms:

   A – 2,000 shares; B – 1,000 shares and C – 1,000 shares

   Show the allocation of liability of the underwriters.

   Ans: Net liability A–1,750 B–1,150 C–1,600

PREVIOUS YEAR UNIVERSITY QUESTION PAPERS

1) Mohanraj Ltd incorporated on 1st jan 2005 issued a prospectus inviting of applications for 5,00,000 equity shares of Rs.10 each at a premium of 10%. The whole issue was fully underwritten by kapoor, Bohra, Dalal, and Mehta as follows:

   Kapoor-2,00,000 shares, Bohra-1,50,000 shares, Dalal-1,00,000 shares, Metha-50,000 shares. Applications were received for Rs.45,000 hares which marked applications were as follows:

   Kapoor-2,20,000 shares, Bohra-90,000 shares, Dalal-1,10,000 shares, Metha-10,000 shares. It is agreed that underwriters to be paid commission at 5% on issue price. You are required to find out the net liability on Underwriters.

   [Alagappa University, B.Com(C.A), Nov,2015]

2) 'A' Co Limited has authorized share capital of Rs.1,00,00,000 dividend into 2,00,000 equity shares of Rs.50 each. The company issued for subscription for 1,00,000 shares at premium of Rs.10 each. The entire issue was underwritten as follows:

   X-60,000 shares (Firm underwriting 10,000 shares)

   Y-30,000 shares (Firm underwriting 4,000 shares)

   Z-10,000 shares (Firm Underwriting 2,000 shares).

   Out of the total issue 90,000 shares including firm underwriting were subscribed. Markets forms were X-32,000, Share's Y-2000 shares and Z-8,000 shares. Calculate the Liability of each underwriter.

   [Alagappa Univerity, B.Com, April,2011]

3) Albert Ltd, issued 50,00,000 equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below.

Underwriter	A	B	C
Shares	15,00,000	25,00,000	10,00,000

   Applications were received for 48,50,000 shares of which the marked applications were as follows.

Underwriter	A	B	C
Shares	12,00,000	25,00,000	8,50,000

   Calculate the number of shares to be taken up by the underwriters.

   [Alagappa University, B.Com, Nov,2016]

4) Bharat Lt. issued 1,50,000 equity shares.The whole of the issue was underwritten as follows :

   X-50%, Y-25%, Z-25%

   Applications for the 1,20,000 shares were received in all, out of which applications for 30,000 shares had the Stamp of X, those for 15,000 shares that of Y and those for 30,000

shares that of Z. The remaining applications for 45,000 shares did not bear any stamp.Determine the liability of the underwriters.

[Alagappa University, B.Com, Nov,2014]

5) Raj.Ltd. issues 20,000 equity shares of Rs.10 each at par. The issue was underwritten by kala& Co. for maximum commission permitted by law. The public applied for and received 16,000 shares. Calculate the commission payable to the underwriter.

[Madras, B.com., Nov.2004 (1/2 Figs)]

[Ans: Net liability: 4000 shares; commission: Rs.5,000 (i.e., 2,00,000 ×2.5%)]

Note: *In practice, SEBI has permitted only 2.5% commission on equity shares underwritten, though section 76 of the companies Act 1956 provides for maximum rate of 5%.*

6) Naszar Ltd., issued 10,000 equity shares of Rs.100 each at par. The whole issue has been underwritten by Jhon &Co for a commission of 2%. The company received applications only for 5,000 shares. All the applications were accepted. Give the journal entries, assuming that all amounts due have been received.

[Madras, B.Com, B.Com(C.S) April, 2007]

[Ans: Net liability of underwriter-Rs.5,00,000; Commission-20,000; Net Amount receivable after adjusting commission-Rs.4,80,000]

7) Good Luck Ltd., issued 1,000 equity shares of Rs.100 each and 1,000 6% debentures of Rs.100 each. The debentures were issued at a discount of 6%. The whole of the issues was underwritten by Wisdom&Co. for a commission of 4% on the issue price of shares nd 2% on the issue price of debentures. The public applied for 900 shares and 800 debentures. These were immediately paid for. The underwriters fulfilled their obligations. Pass the journal entries.

[Madras, B.Com, March 2000]

[Ans: Commission on shares-Rs.4000, Commission on debentures – Rs.1,880, Underwriters liability of shares –Rs.10,000, For Debentures-Rs.18,800, Net Cash receivables from underwriters-Rs.22,920]

8) A company issued 20,000 equity shares of Rs.100 each par and 1,000 debentures of Rs.1,000 each at Rs.950. The whole of the issue has been underwritten by paul & Co. The whole of hares are applied for but applications for 800 debentures only were received. All the applications were accepted. Commission payable to the underwriter is the maximum amount permissible. Give the journal entries to record the above transactions and prepare balance sheet at this stage, assuming that all amounts due have been received.

[Madras, IInd M.Com,)(Old) Oct.2004 (1/2 figures)]

[Ans: Underwriting Commision on shares-Rs.50,000.(20,00,000×2.5%); on debentures-Rs.11,400(7,60,000×1% + 1,90,000×2%) Underwriters liability-Rs.1,90,000; Net Cash Receivable Rs.1,28,600; Balance sheet total-30,00,000]

9) Velu.Ltd., issued 1,00,000 equity shares. The whole of the issue was underwritten as follows: A-40%; B-30%; C-30%. Applications for 80,000 shares were received in all, out of which applications for 20,000 shares had stamp of A, those for 10,000 shares that of B; and 20,000 share that of C. The remaining applications for 30,000 shares did not bear any stamp. Show the net Liability of the underwriters.

[Madras,B.Com(C.S)(; oct,2008;B.Com(C.S) Nov.2007]

[Ans: Net liability A-8000 shares; B-11,000 shares and C-1,000 shares]

10) Arun Ltd., issued 1,00,000 equity shares. The whole of the issue was underwritten as follows: X-40%, Y-40%, Z-20%. Applications for 80,000 shares were received in all out of which applications for 20,000 shares had the stamp of X, those for 10,000 shares that of Y and 20,000 shares that of Z. The remaining applications did not bear any stamp. Show the liability of the underwriters.

[Madras, B.com, B.Com(CS) April,2007, Manomaniam Sundram University, B.Com, April,2015]

[Ans: Net Liability: X-5000 shares; Y-15,000 shares; Z-Nil]

11) Thinkers.Ltd issued a prospectus inviting applications for 40,000 equity shares of Rs.100 each. The whole issue was fully underwritten by three underwriters as follows: Mani: 20,000 shares; Paul -14000 shares; Ganesh-6000 shares. Applications were received for 32,000 shares of which marked applications were as follows

[Mani-15,200 shares; Paul -8080 shares; ganesh-Nil]

[Madras, B.Com, Nov.2006 (1/2 figs)]

12) X Ltd., which was incorporated on 1.1.2005 issued applications for 5,00,000 equity shares of Rs.10 each. The entire issue was fully underwritten by A, B, C, and D.

A- 2,00,000 shares; B-1,50,000 shares; C-1,00,000 shares; D-50,000 shares. Applications were received for 4,50,000 shares of which marked applications as follows:

A- 2,20,000 shares; B- 90,000 shares; C-1,10,000 shares and D-10,000 shares; you are required to calculate the net liability of individual underwriters, by giving credit to unmarked applications in the ratio of gross liability.

[Periyar, B.Com(Old) Nov.2005; Madras. Ist M.com(April , 2005]

[Ans: 'B' takes 22,500 shares; D takes 27,500 shares]

13) X.Ltd. issued 10,000 equity shares of Rs.10 each. The issue was underwritten as follows:

A- 30%; B-30%; C-20%. However, the company received applications for 8,000 shares only. Determine the liability respective underwriters and write the journal entries in the company's books.(pg.2.50: no:16)

[Madras, B.Com, Nov.2007,Ist M.com April,2005, B.Com, May,2001]

[Alagappa university, B.Com, Nov,2015]

[Ans: 'A' Takes 600 shares; 'B' takes 600 shares; and 'C' takes 400 shares]

14) Neeraj Ltd. issued 10,000 shares of Rs.100 each at a premium of 10%. These shares were underwritten by Joseph and Jaleel to the extent of 5,000 shares and 3,000 shares respectively. The total applications were received by the company were 8,000 which the marked applications were:

Joseph-1,200 shares; Jaleel- 300 shares. You are required to determine the liability of the underwriters.

[Thiruvalluvar 1st M.com, April/May 2006; Madras, BCS, Nov.2005]

[Ans: Net liability; Joseph-987 shares; Jaleel-1013 shares]

15) A company issued 40,000 shares of Rs.100 each for public subscription. The issue was underwritten as follows:

P-25%; Q-30%; R-25%

The company received a total number of 28,000 applications of which marked applications were as follows:

p-8000 shares; Q-6000 shares; R-8000 shares. Determine the liability of each of the underwriters.

[Madurai B.Com, Nov.2003, Manomaniam Sundaram University, B.Com,April,2015]

[Ans: Net Liability: P-2000 shares;Q-6000 Shares; R-2000 shares]

16) The following underwriting took place:

A-5000 shares; B-3,000 shares; C-2000 shares. In addition there was firm underwriting:

A-1000 shares;B-500 shares; C-1,500 shares. The share issue was for 10,000 shares. Total Subscription including firm underwriting was 8,500 shares and the forms included the following marked forms.

A-2000 shares; B-1000 shares; C-1000 shares. Show the allocation of liability of the underwriters.

[Madras, B.com, April 2007]

[Ans: Total liability including firm underwriting 'Firm treated as Marked' A-1,750; B-1,250; C-1,500; 'Firm treated as unmarked' A-1,750; B-1,150; C-1,600]

17) 'A' Co.Ltd has an authorized capital of Rs.50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The company issued for subscription 50,000 shares at a premium of Rs. 10 each. The entire issue was underwritten as follows:

X-30,000 shares(Firm underwriting 5,000 shares)

Y-15,000 shares(Firm Underwriting 2,000 shares)

Z-5,000 shares(Firm underwriting 1,000 shares)

Out of the total issue 45,000 shares including firm underwriting were subscribed. The following were marked forms:

X-16,000 shares; Y-10,000 shares; Z-4,000 shares; Calculate the liability of each underwriter.

[Bharathiar, B.com, Nov.2004]

[Madras, 1st M.com, Nov.2007, Alagappa university, B.Com(C.A), Nov,2016]

[Ans: Final liability including firm underwriting firm treated as marked 'X' 9,333; Y-2,667; Z-1,000; Firm treated as Unmarked X-9,667; Y-2,333 Z-1,000]

18) Swiss Ltd. issued 40,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows.

A-24,000 shares(Firm underwriting 3,200 shares)

B-10,000 shares (Firm underwriting 4,000 shares)

C-6,000 shares (Firm underwriting 1,200 shares)

The total applications including firm underwriting were for 28,400 shares. The marked applications were as under:

A-7,200 shares; B-9,000 shares and C-3,200 shares. The underwriting contract provides that credit for unmarked application given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter and the amount of commission payable to them assuming it is the maximum allowed by law.

[Madras, B.com, Oct.2002]

[***Ans: Final Liability of the underwriters: Firm tratedas marked A- 13,920; B-4,000; C-2,080; Firm treated as unmarked- A-13,600; B-4,000;C-2,400; Commission payable to- A-6,000; B-2,500; C-1,500]***

19) R.Ltd.issued 10,000 shares of Rs.100 each at a premium of Rs.20 per share. The entire issue was underwritten as follows:

A-5,000 shares (Firm underwriting 1,000 shares)

B-3,000 shares (Firm underwriting 5,00 shares)

C-2,000 shares (Firm underwriting 5,00 shares)

The number of shares applied for were 9,000. The following were marked applications:

A-3500 shares; B-1,400 shares; C-1,600 shares, including firm underwriting. Prepare a statement showing their net liability.

[Madras I.M.com., Oct.2001]

[Ans: Final liability of underwriters: Firm treated to unmarked: A-1,188; B-1,312; C-500; Firm treated as unmarked: A-1,125; B-1,375; C-500]

20) The following underwriting takes place:

A-6,000 shares; B-2,500 shares; C-1,500 shares

In addition, there is firm underwriting:

3A-800 shares; B-300 shares; C-1,000 shares. The issue is for 10,000 shares. Total subscription including firm underwriting is or 7,100 shares and the applications include the following marked forms:

A-1,000 shares; B-2,000 shares; C-5,00 shares. Show the allocation of liability of the underwriters if the firm underwritten shares are treated as unmarked applications.

[Madras Ist M.com, Nov.2005, II M.com, Oct.2003]

[Ans: Total liability including firm underwriting: A- 3,320; B-3,00; C-1,380]

21) United India Co.Ltd., issued 1,00,000 shares which were underwritten as follows:

A-40%; B-30%; C-20%

The underwriters made firm underwriting as follows:

A-7,500 shares; B-5,000 shares; C-12,500 shares.

The total Subscription excluding firm underwriting, but including marked applications were for 50,000 shares. The marked applications were as under:

A-20,000 shares; B-12,500 shares; C-5,000 shares. Prepare a statement showing the liability of underwriters.

[Madras, II M.com, Oct,2002 and May, 2001]

[Ans: Underwriters Liability, including Firm underwriting: When the benefit of Firm Applications is given to them: A: 18,889 Shares; B: 16,667 shares; C:14,444 shares; If the Firm applications are treated as Unmarked:A: 15,278; B:13,333; C:21,389]

22) Mohanraj Ltd incorporated on 1st jan 2005 issued a prospectus inviting of applications for 5,00,000 equity shares of Rs.10 each at a premium of 10%. The whole issue was fully underwritten by kapoor, Bohra, Dalal, and Mehta as follows:

Kapoor-2,00,000 shares, Bohra-1,50,000 shares, Dalal-1,00,000 shares, Metha-50,000 shares. Applications were received for Rs.45,000 hares which marked applications were as follows:

Kapoor-2,20,000 shares, Bohra-90,000 shares, Dalal-1,10,000 shares, Metha-10,000 shares. It is agreed that underwriters to be paid commission at 5% on issue price. You are required to find out the net liability on Underwriters.

[Alagappa University, B.Com(C.A), Nov,2015]

23) ‘A’ Co Limited has authorized share capital of Rs.1,00,00,000 dividend into 2,00,000 equity shares of Rs.50 each. The company issued for subscription for 1,00,000 shares at premium of Rs.10 each. The entire issue was underwritten as follows:

X-60,000 shares (Firm underwriting 10,000 shares)

Y-30,000 shares (Firm underwriting 4,000 shares)

Z-10,000 shares (Firm Underwriting 2,000 shares).

Out of the total issue 90,000 shares including firm underwriting were subscribed. Markets forms were X-32,000, Share's Y-2000 shares and Z-8,000 shares. Calculate the Liability of each underwriter.

[Alagappa Univerity, B.Com, April,2011]

24) Albert Ltd, issued 50,00,000 equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below.

Underwriter	A	B	C
Shares	15,00,000	25,00,000	10,00,000

Applications were received for 48,50,000 shares of which the marked applications were as follows.

Underwriter	A	B	C
Shares	12,00,000	25,00,000	8,50,000

Calculate the number of shares to be taken up by the underwriters.

[Alagappa University, B.Com, Nov,2016]

25) Bharat Lt. issued 1,50,000 equity shares.The whole of the issue was underwritten as follows :

X-50%, Y-25%, Z-25%

Applications for the 1,20,000 shares were received in all, out of which applications for 30,000 shares had the Stamp of X, those for 15,000 shares that of Y and those for 30,000 shares that of Z. The remaining applications for 45,000 shares did not bear any stamp.Determine the liability of the underwriters.

[Alagappa University, B.Com, Nov,2014]

UNIT – 3

REDEMPTION OF PREFERENCE SHARES

Meaning – Procedures for redemption of preference shares – Journal entries

Shares for which the amount should be repayable after the expiry of a specified period are called redeemable preference shares. The Articles of the company should permit such redemption. The redemption is carried out either at premium or at face value.

3.1 PROCEDURES FOR REDEMPTION OF PREFERENCE SHARES

- Only fully paid shares can be redeemable. If the shares are partly paid up, then it should be converted into fully paid and then redemption is made.
- The premium required for redemption is to be paid from share premium account only. The share premium a/c may be in liability side of balance sheet or raised at the time of fresh issue of equity shares at a premium.
- If the premium amount is not sufficient for redemption, then the balance amount may be paid out of profit and loss account
- The refund of capital amount should be made from fresh issue of equity share capital, profit and loss a/c and or general reserve a/c in balance sheet.
- The fresh issue of equity shares may be at face value or at premium value or at discount value.
- Before taking any amount from profit and loss a/c and general reserve, an amount equal to the same should be transferred to capital redemption reserve.
- Redemption should not be made from issue of debentures or sale of any investments

For the issue of fully paid bonus shares to the equity shareholder's capital redemption reserve can be utilized.

Following revenue profits are transferable to capital redemption reserve.

1) General reserve
2) Dividend equalization reserve.
3) Reserve fund
4) Profit on sale of investments and fixed assets (Revenue portion).
5) Workmen's compensation fund.

6) Insurance fund.
7) Debenture redemption fund(Voluntary)
8) Debenture redemption Account(Voluntary)
9) Profit and Loss account.

Following Capital profits are not to be transferred to capital redemption reserve.

1) Capital reserve.
2) Exisisting capital redemption reserve
3) Development rebate reserve
4) Depreciation reserve.
5) Forfeited shares account.
6) Profit prior to incorporation.
7) Profit on sale of fixed assets(Capital portion)
8) Securities premium Account.

Journal entries at time of redemption of preference shares

For total amount payable Redeemable preference share capital a/c Dr Premium on redemption a/c Dr To Preference share holders a/c	**For fresh issue –** **a) Face value** Bank a/c Dr To Equity share capital a/c
For canceling premium on redemption Securities premium a/c Dr P & L a/c Dr (if needed) To Premium on redemption a/c	**b) Premium value** Bank a/c Dr To Equity share capital To Securities premium a/c
For taking balance amount from liability side of balance sheet Profit and loss a/c Dr General reserve a/c Dr To Capital redemption reserve a/c	**c) Discount value** Bank a/c Dr Share discount a/c Dr To Equity share capital a/c
For amount paid: Preference share holders a/c Dr To Bank a/c	**For profit or loss on sale of investments:** Bank a/c Dr P & L a/c (loss) Dr To Investment a/c To P & L a/c (profit)

Issue of debentures at premium/discount: Bank a/c Dr Discount on debenture a/c Dr To Debentures a/c To Premium on debentures a/c	

Illustration -1 From the following information, find out what amount shall be transferred to capital redemption reserve account.

Redeemable preference shares redeemed ₹2,00,000 at par (fresh issue of share capital ₹80,000) Redeemable preference shares redeemed ₹2,00,000 at 5% premium (fresh issue of share capital ₹80,000 at par)

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
To Preference share holders a/c			2,00,000
(Being amount due)			
Bank a/c	Dr	80,000	
To Equity share capital a/c			80,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	1,20,000	
To Capital redemption reserve a/c			1,20,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,00,000	
To Bank a/c			2,00,000
(Being amount paid to share holders)			
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			2,10,000
(Being amount due)			
Bank a/c	Dr	80,000	
To Equity share capital a/c			80,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	1,20,000	
To Capital redemption reserve a/c			1,20,000

(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,10,000	
To Bank a/c			2,10,000
(Being amount paid to share holders)			
P & L a/c	Dr	10,000	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			

Illustration -2 A company decides to redeem its preference shares amounting to ₹1 lakh at a premium of 5% and for this purpose issues 5,000 equity shares of ₹10 each at a premium of 5%. The company has also balance of ₹1,00,000 on general reserve and ₹50,000 on P & L a/c. Journalize.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	5,000	
To Preference share holders a/c			1,05,000
(Being amount due)			
Securities premium a/c	Dr	2,500	
P & L a/c	Dr	2,500	
To Premium on redemption a/c			5,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	52,500	
To Equity share capital a/c			50,000
To Securities premium a/c			2,500
(Being fresh issue of shares)			
Profit and loss a/c	Dr	47,500	
General reserve a/c	Dr	2,500	
To Capital redemption reserve a/c			50,000
(Being amount taken from Balance sheet)			
Preference share holders a/c	Dr	1,05,000	
To Bank a/c			1,05,000
(Being amount paid to share holders)			

Illustration -3 A company had as part of its share capital 1,000 redeemable preference shares of ₹100 each fully paid up. When the shares became due for redemption, the company had ₹60,000 in its reserve fund. The company issued necessary equity shares by ₹25 specifically for the purpose of redemption and received cash in full. Make the necessary journal entries recording the above transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	–	
To Preference share holders a/c			1,00,000
(Being amount due)			
Bank a/c	Dr	40,000	
To Equity share capital a/c			40,000
(Being fresh issue of shares)			
General reserve a/c	Dr	60,000	
To Capital redemption reserve a/c			60,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	1,00,000	
To Bank a/c			1,00,000
(Being amount paid to share holders)			

Illustration -4 The following are the details taken from the records of B Ltd. on June 30. 2015:

Equity shares (fully paid up) ₹6,00,000; Preference shares (fully paid up) ₹3,00,000; General reserve ₹2,00,000; P & L a/c (Credit) ₹1,25,000 and share premium a/c ₹50,000.

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and P & L a/c.

Give journal entries relating to redemption of preference shares.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	3,00,000	
Premium on redemption a/c	Dr	30,000	
To Preference share holders a/c			3,30,000
(Being amount due)			
Share premium a/c	Dr	30,000	

To Premium on redemption a/c			30,000
(Being premium on redemption cancelled)			
General reserve a/c	Dr	2,00,000	
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	3,30,000	
To Bank a/c			3,30,000
(Being amount paid to share holders)			

Illustration -5 A company has 4,000, 7% redeemable preference shares of ₹100 each fully paid. The company decides to redeem the shares on 31st Dec. 2015 at a premium of 5%. The company has sufficient profits. The following issues are made for the redemption purpose:

a) 1,000 equity shares of ₹100 each at a premium of 10%

b) 1,000, 5% Debentures of ₹100 each.

The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	4,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders a/c			4,20,000
(Being amount due)			
Securities premium a/c	Dr	10,000	
P & L a/c	Dr	10,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	1,10,000	
To Equity share capital a/c			1,00,000
To Securities premium a/c			10,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	3,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	4,20,000	
To Bank a/c			4,20,000

(Being amount paid to share holders)			
Bank a/c	Dr	1,00,000	
To 5% Debentures a/c			1,00,000
(Being debentures issued)			

Illustration -6 From the following information, find out how much minimum fresh issue is necessary in order to comply with the provisions of Section 80 of the Companies Act, 1956:

Redeemable preference shares to be redeemed	**Profit shown in balance sheet**
1. ₹2,00,000 at par	Profit ₹30,000; Share premium a/c ₹10,000
2. ₹2,00,000 at 10% premium	Profit ₹30,000; Share premium a/c ₹10,000
3. ₹2,00,000 at 10% premium	Profit ₹30,000; Share premium a/c ₹8,000; General reserve ₹20,000; Dividend equalization fund ₹50,000

Solution

1. Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
To Preference share holders a/c			2,00,000
(Being amount due)			
Bank a/c	Dr	1,70,000	
To Equity share capital a/c			1,70,000
(Being fresh issue of shares)			
P & L a/c	Dr	30,000	
To Capital redemption reserve a/c			30,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	2,00,000	
To Bank a/c			2,00,000
(Being amount paid to share holders)			

2. Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders			2,20,000
(Being amount due)			

Bank a/c	Dr	1,80,000	
To Equity share capital a/c			1,80,000
(Being fresh issue of shares)			
P & L a/c	Dr	20,000	
To Capital redemption reserve a/c			20,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	2,20,000	
To Bank a/c			2,20,000
(Being amount paid to share holders)			
Securities premium a/c	Dr	10,000	
P & L a/c	Dr	10,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			

3. Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders a/c			2,20,000
(Being amount due)			
Securities premium a/c	Dr	8,000	
P & L a/c	Dr	12,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	1,12,000	
To Equity share capital a/c			1,12,000
(Being fresh issue of shares)			
General reserve a/c	Dr	20,000	
Profit and loss a/c	Dr	18,000	
Dividend Equalization fund a/c	Dr	50,000	
To Capital redemption reserve a/c			88,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,20,000	
To Bank a/c			2,20,000
(Being amount paid to share holders)			

3.2 REDEMPTION WITH BALANCE SHEET MODEL

Illustration -7 Give journal entries and prepare revised balance sheet after redeeming the preference shares at a premium of 10%.

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
10 % Redeemable preference shares of ₹100 each fully paid	1,00,000	Fixed assets	8,10,000
Equity shares of ₹10 each fully paid	5,00,000	Bank	90,000
General reserve	1,00,000		
Creditors	1,50,000		
Capital reserve	50,000		
	9,00,000		9,00,000

For the purpose of redemption, the company made a fresh issue of 4,500 equity shares of ₹10 each, at a premium of 10%.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			1,10,000
(Being amount due)			
Securities premium a/c	Dr	4,500	
P & L a/c	Dr	5,500	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	49,500	
To Equity share capital a/c			45,000
To Share premium a/c			4,500
(Being fresh issue of shares)			

General reserve a/c	Dr	55,000	
To Capital redemption reserve a/c			55,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,10,000	
To Bank a/c			1,10,000
(Being amount paid to share holders)			

Balance Sheet

Liabilities	**Amount₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each fully paid	5,45,000	Fixed assets	8,10,000
General reserve (1,00,000 – 55,000)	45,000	Bank	29,500
Creditors	1,50,000	P & L a/c	5,500
Capital reserve	50,000		
Capital redemption reserve	55,000		
	8,45,000		8,45,000

Bank a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	90,000	By Preference shareholders	1,10,000
" Equity share capital	49,000	" Balance c/d (b/f)	29,500
	1,39,000		1,39,000

Illustration -8 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
8%Redeemable preference shares of ₹100 each	10,00,000	Fixed assets	34,00,000
Equity shares of ₹10each	10,00,000	Cash	6,00,000
Capital reserve	5,00,000		
Profit and loss a/c	9,50,000		
General reserve	2,00,000		

Creditors	3,50,000		
	40,00,000		40,00,000

The preference shares were redeemable on March 31, 2015 at a premium of 25% and the company decided to issue 50,000 equity shares of ₹10 each at premium of ₹4 per share for the purpose of redemption.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	10,00,000	
Premium on redemption a/c	Dr	2,50,000	
To Preference share holders a/c			12,50,000
(Being amount due)			
Securities premium a/c	Dr	2,00,000	
P & L a/c	Dr	50,000	
To Premium on redemption a/c			2,50,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	7,00,000	
To Equity share capital a/c			5,00,000
To Securities premium a/c			2,00,000
(Being fresh issue of shares)			
P & L a/c	Dr	5,00,000	
To Capital redemption reserve a/c			5,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	12,50,000	
To Bank a/c			12,50,000
(Being amount paid to share holders)			

Cash a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	6,00,000	By Preference shareholders	12,50,000
“ Equity share capital	7,00,000	“ Balance c/d (b/f)	50,000
	13,00,000		1,39,000

P & L a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Premium on redemption	50,000	By Balance b/d	9,50,000
" Capital Redemption Reserve	5,00,000		
" Balance c/d (b/f)	4,00,000		
	9,50,000		9,50,000

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10each	15,00,000	Fixed assets	34,00,000
Capital reserve	5,00,000	Cash	50,000
Profit and loss a/c	4,00,000		
General reserve	2,00,000		
Creditors	3,50,000		
Capital redemption reserve	5,00,000		
	34,50,000		34,50,000

Illustration -9 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
13 % Redeemable preference shares of ₹100 each	1,00,000	Fixed assets	2,10,000
		Other current assets	1,79,000
Equity shares of ₹10 each	2,50,000	Cash	4,950
Current liabilities	22,500	Investments	60,000
Provision for taxation	19,500	Prepaid expenses	2,050
Profit and loss a/c	55,000		
Securities premium	9,000		
	4,56,000		4,56,000

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a premium of 10% and sold its investments for ₹70,800. Preference shares were redeemed at a premium of 10%.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			1,10,000
(Being amount due)			

Securities premium a/c	Dr	10,000	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	55,000	
To Equity share capital a/c			50,000
To Share premium a/c			5,000
(Being fresh issue of shares)			
P & L a/c	Dr	50,000	
To Capital redemption reserve a/c			50,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,10,000	
To Bank a/c			1,10,000
(Being amount paid to share holders)			
Bank a/c	Dr	70800	
To Investment a/c			60,000
To P & L a/c (b/f)			10,800
(Being investments sold)			

Cash a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	4,950	By Preference shareholders	1,10,000
“ Investment	70,800	“ Balance c/d (b/f)	20,750
“ Equity share capital	55,000		
	1,30,750		1,30,750

P & L a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Premium on redemption	50,000	By Balance b/d	55,000
“ Balance c/d (b/f)	15,800	“ Investment	10,800
	9,50,000		9,50,000

Share Premium a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Premium on redemption	10,000	By Balance b/d	9,000
" Balance c/d (b/f)	4,000	" Equity share capital	5,000
	14,000		14,000

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	3,00,000	Fixed assets	2,10,000
Current liabilities	22,500	Other current assets	1,79,000
Provision for taxation	19,500	Cash	20,750
P & L a/c	15,800	Prepaid expenses	2,050
Securities premium	4,000		
Capital redemption reserve	50,000		
	4,11,800		4,11,800

Illustration -10 The following is the balance sheet of a company as on 31st April 2015

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
8% Redeemable preference shares of ₹100 each full paid up	4,00,000	Sundry assets	18,00,000
9% Redeemable preference shares of ₹100 each ₹80 paid up	2,40,000	Cash at bank	6,60,000
Equity share of ₹10 each fully paid up	10,00,000		
Securities premium	50,000		
Revenue reserve	5,00,000		
Current liabilities	2,70,000		
	24,60,000		24,60,000

It was decided to redeem both the classes of preference shares on 30th June at a premium of 5%. The company issued equity shares of ₹10 each for redemption purpose.

Pass journal entries and prepare balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share final call a/c	Dr	60,000	
To Share capital a/c			60,000
(Being final call due)			
Bank a/c	Dr	60,000	
To Share final call a/c			60,000
(Being final call received)			
Redeemable preference share capital a/c	Dr	7,00,000	
Premium on redemption a/c	Dr	35,000	
To Preference share holders a/c			7,35,000
(Being amount due)			
Securities premium a/c	Dr	35,000	
To Premium on redemption a/c			35,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	2,00,000	
To Equity share capital a/c			2,00,000
(Being fresh issue of shares)			
Revenue reserve a/c	Dr	5,00,000	
To Capital redemption reserve a/c			5,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	7,35,000	
To Bank a/c			7,35,000
(Being amount paid to share holders)			

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share of ₹10 each fully paid up	12,00,000	Sundry assets	18,00,000
Securities premium (50,000 – 35,000)	15,000	Cash at bank	1,85,000
Capital redemption reserve	5,00,000		
Current liabilities	2,70,000		
	19,85,000		19,85,000

Cash = ₹6,60,000 + ₹60,000 + ₹2,00,000 – ₹7,35,000 = ₹1,85,000

Illustration -11 The following is the summarized balance sheet of a company:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
8% Redeemable preference shares of ₹100 each fully paid	6,00,000	Sundry assets	26,20,000
9% Redeemable preference shares of ₹100 each, ₹75 paid up	2,25,000	Cash at bank	8,25,000
Equity shares of ₹10 each fully paid up	15,00,000		
Capital reserve	1,00,000		
Securities premium	60,000		
Revenue reserve	6,00,000		
Current liability	3,60,000		
	34,45,000		34,45,000

It was decided to redeem both the classes of preference shares at a premium of 5%. The company issued for cash so many equity shares of ₹10 each at a premium of 10% as necessary to provide for redemption of both the classes of preference shares which could not otherwise redeemed. The issue was fully subscribed and all the money was received.

Give journal entries in the books of the company and draw up the amended balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share final call a/c	Dr	75,000	
To Share capital a/c			75,000
(Being final call due)			
Bank a/c	Dr	75,000	
To Share final call a/c			75,000
(Being final call received)			
Redeemable preference share capital a/c	Dr	9,00,000	
Premium on redemption a/c	Dr	45,000	
To Preference share holders a/c			9,45,000
(Being amount due)			
Securities premium a/c	Dr	45,000	
To Premium on redemption a/c			45,000

(Being premium on redemption cancelled)			
Bank a/c	Dr	3,30,000	
To Equity share capital a/c			3,00,000
To Share premium a/c			30,000
(Being fresh issue of shares)			
Revenue reserve a/c	Dr	6,00,000	
To Capital redemption reserve a/c			6,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	9,45,000	
To Bank a/c			9,45,000
(Being amount paid to share holders)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each fully paid up	18,00,000	Sundry assets	26,20,000
Capital reserve	1,00,000	Cash at bank	2,85,000
Securities premium (60,000 + 30,000 – 45,000)	45,000		
Capital redemption reserve	6,00,000		
Current liability	3,60,000		
	29,05,000		29,05,000

Cash = ₹8,25,000 + ₹75,000 + ₹3,30,000 – ₹9,45,000 = ₹2,85,000

Illustration -12 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Redeemable preference shares of ₹100 each	5,00,000	Fixed assets	22,00,000
Equity shares of ₹100 each	10,00,000	Other current assets	8,00,000
Creditors	10,00,000		
Profit and loss a/c	1,00,000		
Securities premium a/c	1,00,000		
General reserve	2,00,000		

Capital reserve	1,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10 % per cent 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. The shortfall in funds for the purpose of the redemption after utilizing the proceeds of the fresh issue is to be met by taking a bank loan.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	5,00,000	
Premium on redemption a/c	Dr	50,000	
To Preference share holders a/c			5,50,000
(Being amount due)			
Securities premium a/c	Dr	50,000	
To Premium on redemption a/c			50,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	2,00,000	
To Equity share capital a/c			2,00,000
(Being fresh issue of shares)			
General reserve a/c	Dr	2,00,000	
Profit and loss a/c	Dr	1,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	5,50,000	
To Bank a/c			5,50,000
(Being amount paid to share holders)			

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	12,00,000	Fixed assets	22,00,000
Creditors	10,00,000	Other current assets	8,00,000
Securities premium a/c	50,000		
Capital reserve	1,00,000		

Capital redemption reserve	3,00,000		
Bank overdraft	3,50,000		
	30,00,000		30,00,000

Bank overdraft = ₹2,00,000 – ₹5,50,000 = ₹3,50,000

Illustration -13 The balance sheet of Producers Ltd. as on 31-12- 2015 is as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	50,000	Land	1,00,000
Reserves and surplus	90,000	Plant	30,000
Securities premium	10,000	Current assets	2,000
General reserve	20,000	Stock	30,000
P & L a/c	25,000	Debtors	15,000
Current liabilities	30,000	Investment	28,000
		B/R	20,000
	2,25,000		2,25,000

The company decided to redeem preference shares at a premium of 5% on 31st Jan.2016. A fresh issue of 1,000 equity shares of ₹10 each was made at ₹12 per share payable in full on 31st Jan.2016. They were fully subscribed and all money was duly collected. All the investment was sold and realized ₹27,000. The directors wish that only a minimum reduction should be made in the general reserve.

Give journal entries to record the above transactions. Draw up balance sheet after redemption of preference shares.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	50,000	
Premium on redemption a/c	Dr	2,500	
To Preference share holders a/c			52,500
(Being amount due)			
Securities premium a/c	Dr	2,500	
To Premium on redemption a/c			2,500
(Being premium on redemption cancelled)			

Bank a/c	Dr	12,000	
To Equity share capital a/c			10,000
To Share premium a/c			2,000
(Being fresh issue of shares)			
General reserve a/c	Dr	16,000	
Profit and loss a/c	Dr	24,000	
To Capital redemption reserve a/c			40,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	52,500	
To Bank a/c			52,500
(Being amount paid to share holders)			
Bank a/c	Dr	27,000	
P & L a/c	Dr	1,000	
To Investments a/c			28,000
(Being investments sold at loss)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	10,000	Land	1,00,000
Reserves and surplus	90,000	Plant	30,000
Securities premium (10,000 + 2,000 – 2,500)	9,500	Current assets	2,000
General reserve	4,000	Stock	30,000
Current liabilities	30,000	Debtors	15,000
Bank over draft	13,500	B/R	20,000
Capital redemption reserve (16,000 + 24,000)	40,000		
	1,97,000		1,97,000

Cash = ₹12,000 + ₹27,000 – ₹52,500 = ₹13,500 Bank O/D

Illustration -14 Give journal entries and prepare revised balance sheet

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
9 % Redeemable preference shares of ₹100 each fully paid	3,00,000	Fixed assets	8,00,000
Equity shares of ₹100 each fully paid	5,00,000	Bank	2,00,000
Creditors	2,00,000	Other currents	5,00,000
Capital reserve	1,00,000	Investments	1,00,000
Profit and loss a/c	2,00,000		
10 % Debentures	3,00,000		
	16,00,000		16,00,000

Both redeemable preference shares and debentures were due on 1- 1- 2015. The company arranged for the following:

- It issued 2,000 equity shares of ₹100 at a premium of 10 %
- It sold the investments for ₹90,000
- It arranged a bank overdraft to the extent necessary.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	3,00,000	
To Preference share holders a/c			3,00,000
(Being amount due)			
Bank a/c	Dr	2,20,000	
To Equity share capital a/c			2,00,000
To Share premium a/c			20,000
(Being fresh issue of shares)			
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			1,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	3,00,000	
To Bank a/c			3,00,000
(Being amount paid to share holders)			

Bank a/c	Dr	90,000	
P & L a/c	Dr	10,000	
To Investments a/c			1,00,000
(Being investments sold at loss)			
10% Debentures a/c	Dr	3,00,000	
To Bank a/c			3,00,000
(Being debentures redeemed)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of `100 each	7,00,000	Fixed assets	8,00,000
Creditors	2.00,000	Other currents	5,00,000
Capital reserve	1,00,000		
P & L a/c (2,00,000 – 1,00,000 – 10,000)	90,000		
Capital redemption reserve	1,00,000		
Bank overdraft	90,000		
Securities premium	20,000		
	13,00,000		13,00,000

Bank a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	2,00,000	By Preference shareholders	3,00,000
" Investment	90,000	" Debentures	3,00,000
" Equity share capital	2,20,000		
" Balance c/d (b/f)	90,000		
	6,00,000		6,00,000

Illustration -15 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 12- 15

Liabilities	Amount ₹	Assets	Amount ₹
6 % Redeemable preference shares of ₹10 each	1,00,000	Fixed assets	4,00,000
		Other current assets	4,60,000
Equity shares of ₹10 each			

Creditors	5,00,000	Cash	2,40,000
Profit and loss a/c	1,40,000		
8 % Debentures	2,00,000		
General reserve	50,000		
	1,10,000		
	11,00,000		11,00,000

The directors decide to

(a) redeem preference shares at a premium of 5 %

(b) redeem debentures at a premium of 10 %

(c) make a bonus issue to the equity shareholders of one ₹10 equity share for every five ₹10 shares held, in order to capitalize a part of the undistributed profits.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	5,000	
To Preference share holders a/c			1,05,000
(Being amount due)			
P & L a/c	Dr	5,000	
To Premium on redemption a/c			5,000
(Being premium on redemption cancelled)			
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			1,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,05,000	
To Bank a/c			1,05,000
(Being amount paid to share holders)			
Debenture a/c	Dr	50,000	
Loss on redemption a/c	Dr	5,000	
To Bank a/c			55,000
(Being debentures redeemed)			
Bonus to share holders a/c	Dr	1,00,000	
To Share capital a/c			1,00,000
(Being bonus shares to be given)			

P & L a/c	Dr	95,000	
General reserve a/c	Dr	5,000	
To Bonus to share holders a/c			1,00,000
(Being bonus shares given)			

Balance Sheet as on 31- 12- 15

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	6,00,000	Fixed assets	4,00,000
Creditors	1,40,000	Other current assets	4,60,000
Capital redemption reserve	1,00,000	Cash	80,000
General reserve	1,05,000	Loss on redemption of debenture	5,000
	9,45,000		9,45,000

Cash a/c = ₹2,40,000 – (1,05,000 + 55,000) = ₹80,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. To the extent redemption take place from out of profits an equal amount should be transferred to
   - a) General reserve
   - b) Share premium a/c
   - c) Capital reserve
   - d) **Capital redemption reserve**

2. Transfer to capital redemption reserve a/c can be made from
   - a) **General reserve**
   - b) Share premium a/c
   - c) Capital reserve
   - d) P & L a/c (Dr)

3. For redeeming ₹1,00,000 preference shares, a company issues 3,000 equity shares of ₹10 each at a premium of 10%. Find the amount transferred to capital redemption reserve.
   - a) ₹1,00,000
   - b) **₹70,000**
   - c) ₹67,000
   - d) ₹33,000

4. Issue and redemption of preference shares are given in ______ of the Companies Act 1956.
   - a) **Sec.80**
   - b) Sec.78
   - c) Sec.77A
   - d) Sec.77B

5. Transfer to capital redemption reserve is not allowed from
   - a) P & L a/c
   - b) Debenture redemption fund
   - c) Workmen Accident fund
   - d) **Profits prior to incorporation**

6. _______ shares can only be redeemable
   - a) Partly paid up
   - b) Uncalled up
   - c) **Fully paid up**
   - d) Called up

7. Premium on redemption of preference shares should be cancelled by utilizing
   - a) **Share premium a/c**
   - b) P & L a/c
   - c) General reserve a/c
   - d) Capital reserve a/c

8. Which of the following is not used for redemption of preference shares?
   - a) **Debenture issue**
   - b) Equity share issue
   - c) Capital redemption reserve
   - d) P & L a/c

9. Preference shares can be redeemed out of
   - a) Profits
   - b) Fresh issue of shares
   - c) **Both a and b**
   - d) Issue of debentures

10. Capital redemption reserve is used for ___________

    a) **Issue of bonus shares** b) Paying dividend

    c) Adjusting the loss d) Profit distribution

11. Redeemable preference shares can be redeemable out of

    a) Amount realized on sale of investments

    b) Divisible profits otherwise available for dividend

    c) Proceeds of fresh issue of shares

    d) **Both b and c**

12. Amount transferred to capital redemption reserve is equal to

    a) **Excess of preference shares to be redeemed over fresh issue of equity shares**

    b) Excess of fresh issue of equity shares over preference shares to be redeemed

    c) Preference shares to be redeemed

    d) Fresh issue of equity shares

REVIEW QUESTIONS

A. Answer in short:

1. What is the Meaning of redeemable Preference shares?
2. What is Capital Redemption Reserve?
3. List out the profits which are eligible to be transferred to CRR.
4. What are the various Profits which are most Transferred to CRR?
5. Give the Journal entries for redemption of preference shares?

B. Answer in Detail.

1. Explain the Conditions for issue of preference shares and give journal entries for the issue of preference shares.
2. Explain the provisions under companies Act relating to the redemption of preference shares.

EXERCISES

1. Redemption of 20,000 preference shares of ₹100 each was carried out by utilization of reserves and by issue of 8,000 equity shares of ₹100 each at ₹125. How much should be credited to capital redemption reserve a/c?

2. Redeemable preference shares to be redeemed ₹10,000; Premium on redemption 10%; Profit available for dividend ₹2,000; Fresh issue to be made at 10% premium. Ascertain the minimum fresh issue of shares.

3. G Ltd had issued 2,000, 12% Redeemable preference shares of ₹100 each. In order to redeem these, 500 ordinary shares of ₹100 each were issued at 10% premium. The company had sufficient balance in its P & L a/c. An investment costing ₹1,00,000 was sold for ₹93,000. Preference shares were redeemed at par. Pass necessary journal entries.

4. A company had as a part of its share capital 1,000 redeemable preference shares of ₹100 each fully paid-up. When the shares became due for redemption, the company has ₹60,000 in its reserve fund. The company made minimum new issue of equity shares of ₹25 each necessary for the purpose of redemption and received cash in full. Make the necessary journal entries recording the above transaction.

5. A company has issued 50,000 redeemable preference shares of ₹10 each, ₹8 paid up. In order to redeem these shares how being redeemable, the company issued for cash 30,000 equity shares of ₹10 each at a premium of ₹2 per share. Out of the cash proceeds, the redeemable preference shares were paid and the balance was met out of the reserve fund which stood at ₹2,50,000. Show the journal entries in the books of the company.

6. Murugan Ltd has 8,000 reclaimable preference shares of ₹100 each fully paid up. The company decided to redeem the shares on 30th Sep. 2015, at a premium of 7%. The company has sufficient profits result in order to augment liquid funds the following issues were made.

   i) 3,000 6% debentures of ₹100 each at ₹106

   ii) 2,000 equity shares of ₹100 each at ₹111.

   The issues were fully subscribed and all the amounts were received. The redemption was carried out. Journalize the transaction.

7. On 1-4-2015 Ram Ltd issued 10,000 9% redeemable preference shares of ₹100 each fully paid. The company decides to redeem the shares at a premium of 10%. The company makes the following issues

   a) 6,000 equity shares of ₹100 each at a premium of 10%

   b) 4,000 8% debentures of ₹100 each.

   The issue was fully subscribed and allotments were made. The redemption was fully duly carried out. The company has sufficient profits.

   You are required to pass journal entries for the above transactions.

8. A company issued 10,000 equity shares of ₹10 each ₹8 paid up. It passed the following resolutions:

   i) That profit be used in making the partly paid up shares into fully paid

   ii) That further 1,000 fully paid up bonus shares of ₹10 each be issued to the existing share holders

   iii) That the following balances be used:

   P & L a/c ₹25,000; Share premium ₹2,000 and capital redemption reserve ₹4,000.

   You are required to give journal entries for recording the above transactions.

9. On 31st March 2015 the balance sheet of S Ltd. stood as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	5,00,000	Sundry assets	7,00,000
Redeemable preference shares	2,00,000	Bank	2,50,000
General reserve	1,50,000		
Creditors	1,00,000		
	9,50,000		9,50,000

On the above date, the preference shares had to be redeemed. For the purpose, 1,000 equity shares of ₹100 each were issued at ₹110. The preference shares were duly redeemed.

Give journal entries and balance sheet after redemption.

10. The balance sheet of Agenta Ltd as on 31-12-2015 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
6% Redeemable preference shares of ₹10 each	1,00,000	Land	2,50,000
Equity shares of ₹10 each	5,00,000	Plant	1,50,000
General reserve	1,10,000	Stock	3,00,000
P & L a/c	3,40,000	Debtors	1,60,000
15% Debentures	50,000	Cash	2,40,000
	11,00,000		11,00,000

The directors decided to:

i) Redeem the preference shares at a premium of 5%

ii) Redeem the debentures at a premium of 10%

iii) Make a bonus issue of one equity share of ₹10 to equity share holders for every ₹10 share held in order to capitalize a part of the undistributed profits.

The resolution has been passed and the above transactions were completed.

You are required to show journal entries to record the transactions and the balance sheet as it could appear after the completion of transactions.

11. On 31st Dec. 2007 the balance sheet of Iniyan Ltd. was as under:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	2,00,000	Sundry assets	9,00,000
6% Redeemable preference shares of ₹100 each	3,00,000	Bank	1,00,000
6% Debentures	1,00,000		
General reserve	1,50,000		
P & L account	1,00,000		
Creditors	1,50,000		
	10,00,000		10,00,000

Redeemable preference shares were redeemable on the above date as ₹100. For this purpose 1,000 equity shares were issued at ₹150. All these shares were taken by the public.

Give journal entries and show the balance sheet.

12. M Ltd has an issued share capital of 650 7% redeemable preference shares of ₹100 each and 4,500 equity shares of ₹50 each. The preference shares are redeemable at a premium of 7.5 % on April 1, 15.

Balance Sheet as on March 31, 2015

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
7 % Redeemable preference shares of ₹100 each fully paid	65,000	Fixed assets	3,45,000
Equity shares of ₹50 each fully paid	2,25,000	Investments	18,500
Profit and loss a/c	48,000	Bank	31,000
Creditors	56,500		
	3,94,500		3,94,500

In order to facilitate the redemption of preference shares, the company decided.

- To sell all the investments for ₹16,000.
- To finance part of the redemption from company funds, subject to leaving a balance of ₹12,000 in the profit and loss a/c and
- To issue sufficient equity shares of ₹50 each at a premium of ₹13 per share to raise the balance of funds required.

Give journal entries and prepare balance sheet.

13. S Ltd decided to redeem its preference shares at a premium of 5 % on 1st April 2015.

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
14% Redeemable preference shares of ₹20 each fully paid	12,00,000	Fixed assets	25,00,000
Equity shares of ₹10 each fully paid	40,00,000	Bank	3,50,000
Creditors	11,00,000	Other current assets	38,00,000
Profit and loss a/c	7,00,000	Investments	3,50,000
	70,00,000		70,00,000

In order to facilitate the redemption, it was decided:

- To sell the investments for ₹3,00,000.
- To finance part of the redemption from company funds subject to leaving of balance in profit and loss a/c of ₹2,00,000
- To issue sufficient equity shares of ₹10 each at a premium of ₹2 per share to raise the balance of funds required.

Give journal entries and prepare balance sheet

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. XYZ Ltd. had to redeem the 5,000 6% redeemable preference shares of Rs. 100 each at a premium of 4% on December 31, 1990. The company made the following issues in the-later half of December.

   (a) 2,000 equity shares of Rs. 100 each @ Rs. 130 per share.

   (b) 6% debentures of Rs. 2,00.000 at a discount of 5%. The whole issue was subscribed and all the cash against them was received. The company carried out the redemption satisfying the legal requirements. Expenses in this respect came to Rs. 5,000

   Show the journal entries covering the issue of shares and debentures and the redemption of preference shares.

   [Periyar B.Com., Sept.,2014]

2. A company, in a series of operations: Issues at par 45,000 redeemable preference shares of Rs. 10 each, redeemable at a premium of 5 per cent. Redeems 15,000 of the redeemable preference shares out of the profit of the company. Issues for cash 30,000 equity shares of Rs. 10 each at a premium of Re. 1 per share and out of the proceeds, redeems the balance of the redeemable preference shares.

   [Periyar, M.Com Nov. 2013]

3. The following is summarized balance sheet of a company as on April 30th 2001.

Liabilities	Rs.	Assets	Rs.
Issued, subscribed and paid up capital :		Sundry assets	18,00,000
4,000 8% Redeemable Preference Shares	4,00,000	Cash at Bank	6,60,000
3,000 9% Redeemable Preference Shares of Rs. 100 each, Rs.80 paid up	2,40,000		
1,00,000 equity shares of Rs. 10 each fully called up and paid up			
Securities Premium A/c	50,000		
Revenue Reserve	5,00,000		
Current Liabilities	2,70,000		
	24,60,000		24,60,000

It was decided to redeem both the classes of preference shares on 30th June at a premium of 5%. In May 2001, the company issued for cash so many equity shares of Rs. 10 each as were necessary to provide for redemption of both classes of preference shares which could not otherwise be redeemed. The issue was fully subscribed and all moneys were received. Give journal entries in the books of the company.

[Madurai , B.Com., Oct. 2015]

4. A company has 4,000 7% redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on December 31, 1996 at a premium of 5%. The company has sufficient profits but in order to augment liquid funds and redeem the shares, it makes the following issues: 1,000 equity shares of Rs. 100 each at a premium of 10%. 1,000 5% debentures of Rs. 100 each. The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries to record the above.

[Periyar,B.Com (CA) May 2013]

5. Balance sheet of X Ltd. As on march 31,1994

Liablities	Amt	Assets	Amt
Share capital:		Fixed assets	22,00,000
Issued, Subscribed and fully paid up 10,000 ordinary shares of Rs.100 each	10,00,000	Current Assets	8,00,000
5,000 pref.shares of Rs.100 each	5,00,000		
Capital Reserve	1,00,000		
Securities premium A/c	1,00,000		
General reserve	2,00,000		
Profit& loss A/c	1,00,000		
Current Liablities--	10,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent required under the companies act for the purpose of this redemption. The short falls in funds for the purpose of redemption after utilizing the proceeds of the fresh issue are to be met by taking a bank loan. Show the journal entries.

[Azhagappa uni, B.Com, April,2016]

6. A company wants to redeem its 10,000 6% preference shares of Rs.10 each, fully paid at 10% premium. The ledger accounts show the following balances:

Securities Premium Rs. 2,000; Profit & Loss A/c (Cr) Rs.10,000; The directors redeemed the shares by making minimum fresh issue of equity shares of Rs. 10 each at a premium 5%. Give journal entries.

[Madras, B.Com., B.Com (CS) Nov. 2013]

7. The following balances appear in ledger of a company as on 30.6.2004

	Rs.
Equity shares (fully paid up)	6,00,000
Redeemable Preference shares (fully paid up)	3,00,000
General reserve	2,00,000
Profit & Loss A/c (Cr. balance)	1,25.000
Securities premium account	50,000

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and undistributed profits. Give journal relating to redemption of the preference shares.

Madras, B.C.S. (SY3B)

Nov. 2005; 1st M.Com. April 2005; B.C.S. April 2004]

[Ans: Capital Redemption Reserve A/c - Rs. 3,00,000]

8. The following is the balance sheet of Raman Company Limited as on 31.12.96

Liablities	***Amt***	***Assets***	***Amt***
Sharecapital :		Fixed assets	3,10,000
1000 6% Redeemable preference shres of Rs.100 each fully paid	1,00,000	Cash at bank	1,40,000
20,000 equity shares of Rs.10 each	2,00,000		
Profit & Loss A/c			
Sundry creditors	1,20,000		

	30,000		
	4,50,000		4,50,000

The company resolved to redeem its preference shares at a premium of 25% out of profits. Give the necessary journal entries.

[Madras, B.Com, 2004, 2014]

[Ans: Capital redemption reserve a/c-Rs.1,00,000]

9. Sam Ltd. had as part of the share capital 20,000 preference shares of Rs. 100 each fully paid up. When the shares became due for redemption, the company had Rs. 12,00,000 in its Reserve Fund. The company issued necessary Equity shares of Rs. 25 each specially for the purpose of redemption and carried out the redemption. Make necessary Journal entries to record the above transactions.

[Madras, B.Com. Oct 200, B.Com,2013]

[Ans : New Issue : 32,000 shares i.e., Rs. 8,00,000]

10. The summarized balance sheet of Gaur Ltd. on 31st Dec. 2004 was as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Sundry assets	9,80,000
2,000 9% Redeemable Preference		Cash at Bank	4,20,000
shares of Rs. 100 each fully paid	2,00,000		
80,000 equity shares of Rs. 10 each, fully paid	8,00,000		
Profit & Loss A/c	2,60,000		
Creditors	1,40,000		
	14,00,000		14,00,000

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass journal entries and give the amended balance sheet.

[Madras, B.C.S. (Sem - SY3B) AP 2005 (-1 Figs)

[Ans: Transfer to C. R. R. - Rs. 2,00,000; Balance Sheet total - Rs. 11, 80,000]

11. . The following is the balance sheet of Raj Ltd. as on 31st Dec. 2009.

Liabilities	Rs.	Assets	Rs.
Share capital:			
50,000 equity shares of Rs.10 each	5,00,000	Sundry assets	6,00,000

2,000 8% redeemable preference		Cash at Bank	4,40,000
shares of Rs. 100 each	2,00,000		
Profit & Loss A/c	2,40,000		
Sundry creditors	1,00,000		
	10,40,000		10,40,000

The company resolved to redeem its preference shares at a premium of 20% Out of profits. Pass the necessary Journal entries and show the important ledger accounts and the company's balance sheet after completion of redemption.

[Madras B.com,April,2004]

[Ans: Transfer to capital redemption reserve A/c – Rs.2,00,000]

[Total of Balance sheet- Rs.8,00,000]

12. A company wishes to redeem its preference shares amounting to Rs. 1,00,000 at a premium of 5% and for this purpose issued 5,000 equity shares of Rs. 10 each at a premium of 5%. The company has also a balance of Rs. 1.00,000 on general reserve and Rs. 50,000 on profit & loss account. Pass the necessary journal entries to record the above transactions.

[Madras, B.Com., B.Com(CS) Nov. 2008; B.C.S. Nov. 2004 B.A. Corrp. Sep. 1990]

[Ans: Transfer to Capital Redemption Reserve A/R from general reserve — Rs. 50,000]

13. B Ltd. had issued 50,000 redeemable preference shares of Rs. 10 each, Rs. 8 paid. In order to redeem these shares, the company issued for cash 30,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. Out of the cash proceeds the redeemable preference shares were paid and the balance was met out of the reserve fund which stood at Rs. 2,50,000. Give journal entries in the books of the company.

[Madras, B.Com (CS) (PYD) Nov. 2007; B.C.S. April 2000J

[Ans : C.R.R. : Rs. 2,00,rvj]

14. A company had, as part of its share capital, 1,000 redeemable preference shares of Rs. 100 each fully paid up. When the shares became due for redemption. the company had Rs. 60,000 in its reserve fund. The company made minimum new issue of equity shares of Rs. 25 each necessary for the purpose of redemption and received cash in frill. Make the necessary journal entries recording the above transactions.

[Madras, B.Com., Oct 2003 (20 Times) April 2003; April 2002; April 2001; May 1997; Sept. 1997; May 1996; March 1989]

[Ans: Capital Redemption Reserve A/c — Rs. 60,000; New issue — Rs. 40,000]

15. A company has 8,000 redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on Sept. 30 1997 at a premium of 7%. The company has sufficient profits but in order to augment liquid funds the following issues are made:

(a) 3,000 6% debentures of Rs. 100 each at Rs. 110

(b) 2,000 equity shares of Rs. 100 each at Rs. 111

These issues were fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries.

[Madras B.Com, Ap2007,Nov 2005; B.Com, 1998]

[Ans : Capital Redemption Reserve A/c Rs. 6,00,000]

16. Meenakshi Co. Ltd. has an authorised capital of Rs. 8,00,000 divided into 10,000 6% redeemable preference shares ofRs. 10 each: 20,000 7% redeemable preference shares of Rs. 10 each and 50,000 equity shares of Rs. 10 each. On 1.1.75, the whole of the two classes of preference shares and 15,000 of the equity shares stood in the books as fully paid. The securities premium account as on that date showed a balance of Rs. 20,000 and the balance of profit & loss account was Rs. 32,000.

    On 1.1.75, it was decided to redeem the whole of 6% preference shares at a premium of Re.1 per share. For specific purpose the company issued for cash 8,000 equity shares of Rs.10 each at a premium of Rs.2 per share, payable in full in total. All the above shares were taken up. The cost of issue of shares amounted to Rs.3,000. Give necessary journal entries and prepare ledger accounts in respect of the above transactions.

    [Madras,B.Com,Dec,2000]

    [Ans: capital redemption reserve A/c- Rs.20,000]

17. Sri Ram Ltd. had the following balance sheet as on 1.4.1990.

Liabilities	***Rs.***	***Assets***	***Rs.***
10,000 6% Preference shares of Rs. 10 each	1,00,000	Buildings	2,00,000
		Plant	2,00,000
30,000 Equity Shares of Rs. 10 each	3,00,000	Stock	1,00,000
General Reserve	1,00,000	Debtors	1,00,000
P & L A/c	80,000	Cash at Bank	1,00,000
Creditors	1,20,000		
	7,00,000		7,00,000

The company decided to redeem its preference shares at 10% premium. For this purpose, it issued new 5,000 equity shares of Rs. 10 each at 10% premium. Show necessary journal entries and balance sheet.

[Thiruvalluvar, B.com, April, 2007]

[Ans: capital redemption reserve account – Rs.50,000;Bank balance, Rs. 45,000; Balance sheet, Rs.6,45,000]

18. On 31st dec.1993 the balance sheet of sundaram Ltd. stood as follows:

Liablities	Amt	Assets	Amt
Equity share capital	5,00,000	Sundry Assets	7,60,000
Redeemable preference share capital	2,00,000	Bank	1,90,000
General reserve	1,50,000		
Sundry creditors	1,00,000		
	9,50,000		9,50,000

On the above date, the preference shares had to be redeemed. For this purpose 1,000 equity shares of Rs.100 each were issued at Rs.110. The shares were immediately subscribed and paid for. The preference shares were duly redeemed. Give the journal entries and balance sheet after redemption.

[Madras, B.Com, sept,2013]

[Ans: Capital redemption reserve A/c- Rs. 1,00,000; Bank balance, Rs.1,00,000;balance sheet, Rs. 8,60,000]

19. The following was the balance sheet of A.Ltd at March 31st 1985.

Liablities	Amt	Assets		Amt
Share capital:		Fixed assets	1,10,000	
10,000 Equity shares of Rs.10 each	1,00,000	Less: Depn	50,000	60,000
		Stocks		1,40,000
10,000 6% preference shares (redeemable) of Rs.10 each.	1,00,000	Debtors		1,40,000
		Cash at bank		1,00,000
P & L A/c	45,000			
General reserve	80,000			
Taxation Reserve	30,000			
Current Liablities	85000			
	4,40,000			4,40,000

It was decided to issue a further 3,000 equity shares at a premium of Rs. 5 per share and to be redeemed the preference shares. Pass the journal entries for redeeming the preference shares and prepare the balance sheet after the redemption is completed.

[Madras, B.C.S, oct, 2003]

[Ans: Capital redemption Reserve A/c-Rs.70,000; Balance sheet total-3,85,000]

20. The balance sheet of ABC&Co., Ltd on 31.12.1990

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 100 each	5,00,000	Fixed assets	8,00,000
9% redeemable preference shares		Investments	1,00,000

of Rs. 100 each	3,00,000	Bank balance	2,00,000
Securities Premium	50,000	Other current assets	5,00,000
Capital Reserve	1,00,000		
P & L A/c	2,00,000		
10% Debentures	3,00,000		
Creditors	1,50,000		
	16,00,000		16,00,000

Both the redeemable preference shares and debentures were due for redemption on 1.1.91. The company arranged for the following: It issued 2,000 equity shares of Rs. 100 at a premium of 10%. It sold the investments for Rs. 90,000 It arranged a bank overdraft to the extent necessary. The redemptions were carried out. Give entries for redemption of preference shares and debentures and balance sheet after redemption.

[Ans: Capital redemption reserve A/c Rs. 1,00,000; Balance sheet total Rs. 13,00,000; Bank overdraft Rs. 90,000] [Madras, B.Com, B.Com(CS)Ap 2009; B.Com.(PZG) Nov. 2006; B.Com Oa 1997; March 19931

21. The following is the balance sheet of Sundari Ltd. as on 31.12.1985. The company decided to redeem its preference shares at a premium of 5% on 31st January 1986. A fresh issue of 1,000 equity share of Rs. 10 each was made at Rs. 12 per share payable in full on 31st Jan. 1986. These were fully subscribed and paid for. All the investments were sold for Rs. 27,000. The directors wish that only a minimum reduction should be made in the revenue reserves. You are required to give the journal entries to record the above transactions and draw up the balance sheet after the redemption of preference shares.

Liabilities	***Rs.***	***Assets***	***Rs.***
		Fixed Assets:	
Share Capital:		Land and Building	1,00,000
500 Redeemable preference		Plant	30,000
Shares of Rs. 100 each fully paid	50,000	Furniture	2,000
9,000 equity shares of Rs. 10		*Current assets:*	
each fully paid	90,000	Stock	30,000
Reserves & Surplus :		Debtors	15,000
Securities premium	10,000	Investments	28,000
General reserve	20,000	Bank	20,000
Profit & Loss A/c	25,000		
Current liabilities	30,000		
	2,25,000		2,25,000

[Madras, B.Com (CS) (SY3B) Ap 2007;]

[Ans: Capital Redemption Reserve A/c — Rs. 40,000; Balance Sheet total — Rs. 1,83,500; Bank A/c balance,Rs. 6.500]

UNIT – 4

ISSUE AND REDEMPTION OF DEBENTURES

Definition - Differences between Debentures and Shares - Types of debentures - Issue and Redemption – Methods of redemption - Debenture Redemption Fund Method - Conversion of Debentures

Debenture is an important source of raising funds by a company as a company requires large number of funds to finance its new projects or for its expansion. This requirement is met by the company partly by raising share capital and partly by long term borrowings. One form of such long term borrowings is to raise money by issuing debentures to the general public. Debenture is a written instrument acknowledging a debt taken under the common seal of the company. It contains terms and conditions of contract as regard the payment of interest and redemption of the principal.

4.1 DEFINITION OF DEBENTURE

According to Section 2 (12) of the Companies Act 1956 defines "Debenture includes debenture stock, bonds, and any other securities of a company whether constituting a charge on the assets of the company or not".

According to Tophon, "Debenture is a document given by the company as an evidence of debt to the holder usually arising out of a loan and most commonly secured by a charge".

Debenture holders are entitled to get a fixed percentage of interest payable either annually or half yearly. Interest is a charge against profit.

4.2 DIFFERENCES BETWEEN DEBENTURES AND SHARES

Basis	Debenture	Share
Nature	It is a part of the borrowed funds	It is the part of the owned capital
Status	Debenture holders are the creditors of the company	Shareholders are the owners of the Company.
Returns	A debenture holder gets interest even if there are losses.	A shareholder gets dividend out of profits and cannot be claimed by him till declared by the company.

Repayment	They are redeemed on the due date.	Amount of equity share capital is not returned during the lifetime of the company
Charge	A charge fixed or floating is created on company's assets when debentures are issued.	No charge is created on assets of the company when it issues shares.
Voting Rights	Debenture holders do not enjoy any voting rights.	Share holders enjoy voting rights.
Convertibility	Debenture can be converted into equity shares.	Shares cannot be convertible.
Restriction	There is no legal restriction on purchase of its own debentures.	There are legal restrictions on the purchase of its own shares.
Winding up	At the time of winding up debenture holders are repaid after the payment to the shareholders is made.	Share capital is returned after all claims are met.

4.3 TYPES OF DEBENTURES

I. SECURITY POINT OF VIEW

(a) Simple or Naked or Unsecured Debentures:

These are those debentures that have no security. The holders of such debentures are treated as unsecured creditors at the time of winding up of the company.

(b) Secured Debentures:

These are the debentures that are secured against the particular assets of the company. If the company is unable to repay the amount of debentures, than the debenture holders can realize their dues from the assets mortgaged with them

II. TENURE POINT OF VIEW

(a) Redeemable Debentures:

These are those debentures that will be repaid by the company at the end of the specified period during the existence of the company.

(b) Irredeemable Debentures:

These are those debentures which are not to be repaid during the lifetime of the Company.

III. MODE POINT OF VIEW

(a) Convertible Debentures:

These are those debentures which can be converted into the equity shares on the option of the debenture holders.

(b) Non Convertible Debentures:

These are those debentures which cannot be converted into the equity shares on the option of the debenture holders.

IV. REGISTRATION POINT OF VIEW

(a) Registered debentures:

These are the debentures in which the details of the debenture holders are registered in the register of the Company. These debentures cannot be transferred from one debenture holders to another.

(b) Bearer Debentures:

These are those debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holder.

4.4 ISSUE OF DEBENTURES

Debentures are issued, like shares, by the company issuing a prospectus where by the public is invited to apply for its debentures. The debentures may be issued at par or at a premium or at a discount.

4.5 TYPES OF ISSUE OF DEBENTURES

1) Debentures issued for cash

The issue price is receivable is the form of cash. It may be received immediately in one installment or or it may be received in one installment or it may be received in two or more stages like application, allotment and calls.

2) Debentures issued for consideration other than cash

Debentures only be issued for purchase of assets or some times debentures are issued for purchase consideration (ie) purchase of the business from the vendors.

(vendors a/c dr

To debentures a/c)

3) Debentures issued as collateral security

Debentures are issued as secondary security or subsidiary security for a bank loan or mortgage loan. For the collateral security, the company makes no entry in its books.

4.6 METHODS OF REDEMPTION OF DEBENTURES

Repayment or discharge of liability on account of debentures is called redemption of debentures. The method of debenture redemption adopted determines to a very large extent, the actual accounting for redemption as well as the marshalling of resources for the same. There are broadly four methods for the redemption of debentures which are as follows:

1. Lump-sum payment method:

In Lump-sum payment method, redemption of debentures is done by repayment in one lump sum after the expiry of a stipulated period. The total amount payable to debenture holders is decided at the time of issue of debentures (i.e. debentures will be redeemed at par or at premium). Usually a company creates sinking fund or an insurance policy fund for the redemption of debentures.

2. Drawings of Lots method:

In order to reduce the liability of debentures, company may repay the debentures in some instalments. A certain amount of debentures is redeemed at regular interval of time during the lifetime of the debentures by drawings of lots.

3. Purchase in the Open Market:

The company from the open market can purchase its own Debentures. Debentures so purchased may be cancelled immediately or may be kept as an investment, which will be cancelled later. It may beneficial for the company if it purchases its own debentures at a discount from the open market.

4. Ex-interest and cum interest purchases

When a company buys and sells its own debentures in the open market, the prices include or exclude interest on the debentures. If the price includes interest on the debentures from the previous interest date till the date of sale, the price is known as "cum-interest price". If the price does not include the interest on the debentures from the previous interest date till the date of sale, the price is known as "ex-interest price".

5. Conversion Method:

Usually debentures are redeemed in cash but sometimes debenture holders are given an option to get their debentures converted either in shares or for new debentures of the company. The redemption of debentures by means of shares or new debentures is known as redemption by conversion. Debentures, which carry such right, are called 'Convertible Debentures'.

Advantages of Conversion of debentures

- In the initial stage of the company they keep themselves as secured creditors of the company and also earn fixed amount of interest on their debentures.
- At later stage when the profitability and management efficiency of a company are proved, they can exercise their right of converting their debentures into shares and can participate in the profits of the company.

Redemption out of Capital:

When debentures are redeemed out of capital, no transfer is made to general reserve or debenture redemption reserve account. In this method it is assumed that the company has sufficient funds to redeem the debentures. So the profits are not utilized to replace the debentures. It affects adversely to the Working Capital of the company.

Redemption out of Profit:

When it is intended to redeem the debentures out of profits, a part of profits available for distribution of dividends is withheld by the company every year to be used for redemption purposes as and when the need arises for the same.

There are two alternatives available to the company in this regard namely:

a) the amount of divisible profits withheld by the company may be retained in the business itself as a source of internal financing.

b) The amount of divisible profits withheld from distribution as dividend may be invested either

   i) in readily marketable securities or

   ii) in taking out insurance policy to provide funds when required.

ISSUE AND REDEMPTION OF DEBENTURES

1. Issued at par and redeemable at par Bank a/c Dr To Debenture a/c	**2. Issued at discount and redeemable at par** Bank a/c Dr Discount on debenture a/c Dr To Debenture a/c
3. Issued at premium and redeemable at par Bank a/c Dr To Debenture a/c To Premium on debenture a/c	**4. Issued at par and redeemable at premium** Bank a/c Dr Loss on issue of debenture a/c Dr To Debenture a/c To Premium on redemption of debenture
5. Issued at discount and redeemable at premium Bank a/c Dr Discount on debenture a/c Dr Loss on issue of debenture a/c Dr To Debenture a/c To Premium on redemption of debenture	

Illustration -1A company issues the following debentures:

i) 2,000, 10% Debentures of ₹100 each at par but redeemable at a premium of 10% after ten years

ii) 500, 13% Debentures of ₹100 each at a premium of 10% payable at par after five years

iii) 1,000, 11% Debentures of ₹100 each at a discount of 10% but redeemable at a premium of 5% after 8 years

iv) 500 Debentures of ₹100 each as collateral security to a creditor who advanced a loan of ₹40,000

Journalize the above transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c	Dr	2,00,000	
Loss on issue of debentures	Dr	20,000	
To 10% Debentures			2,00,000
To Premium on redemption			20,000
(Being Deb. issued at par and redeemable at premium)			
Bank a/c	Dr	55,000	
To 13% Debentures			50,000
To Premium on issue of debentures			5,000
(Being Deb. issued at premium and redeemable at par)			
Bank a/c	Dr	90,000	
Discount on debentures a/c	Dr	10,000	
Loss on issue of debentures		5,000	
To 11% Debentures			1,00,000
To Premium on redemption			5,000
(Being Deb. issued at discount and redeemable at premium)			
Debenture suspense a/c	Dr	50,000	
To Debenture a/c			50,000
(Being dep. issued as collateral security)			

Illustration -2C Ltd. issued 1,000, 12% Debentures of ₹100 each. Give journal entries under two situations:

a) Issued at a discount of 10% and redeemable at a premium of 10%

b) Issued at par and redeemable at par

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	90,000	
Discount on issue of debentures	Dr	10,000	
Loss on issue of debentures	Dr	10,000	
To 12% Debentures			1,00,000
To Premium on redemption			10,000
(Being Deb. issued at discount and redeemable at premium)			
Bank a/c	Dr	1,00,000	
To 12% Debentures			1,00,000
(Being Deb. issued at par and redeemable at par)			

Illustration -3 You are required to set out the journal entries relating to the issue of following debentures in the books of X Ltd.

- 8% 120 ₹1,000 Debentures are issued at 5% discount and are repayable at par.
- Another 7% 150 ₹1,000 debentures are issued at 5% discount and repayable at 10% premium.
- Further 80 9% ₹1,000 debentures are issued at 5% premium
- In addition another 400 8% ₹100 debentures are issued at collateral securities against a loan of ₹40,000

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	1,14,000	
Discount on issue of debentures	Dr	6,000	
To 8% Debentures			1,20,000
(Being Deb. issued at discount)			
Bank a/c	Dr	1,42,500	

Discount on issue of debentures	Dr	7,500	
Loss on issue of debentures	Dr	15,000	
To 12% Debentures			1,50,000
To Premium on redemption			15,000
(Being Deb. issued at par and redeemable at par)			
Bank a/c	Dr	84,000	
To 12% Debentures			80,000
To Premium on redemption			4,000
(Being Deb. issued at premium)			
Debenture suspense a/c	Dr	40,000	
To Debenture a/c			40,000
(Being dep. issued as collateral security)			

Illustration -4 ₹10 lakhs debentures issued at 8% discount by a Ltd. Co. Each and every year end ₹2 lakhs redeemed for 5 years. Calculate the amount of discount for each and every year.

Solution

Year	Amount O/S	Ratio	Amount of discount ₹
1	10,00,000	5	80,000 x 5/15 = 26,667
2	80,000	4	80,000 x 4/15 = 21,333
3	60,000	3	80,000 x 3/15 = 16,000
4	40,000	2	80,000 x 2/15 = 10,667
5	20,000	1	80,000 x 1/15 = 5,333

4.7 DEBENTURE REDEMPTION RESERVE:

The amount required for the redemption of debentures is usually very large. It creates a great difficulty for the company to arrange this large amount to pay off its debentures. In case this large amount is paid out of company's working capital, it may affect the routine working of the company and that will affect the profitability of the company also. So in order to avoid this difficulty a company needs funds to repay its debentures.

According to a notification of Government of India issued by Controller of Capital Issue as on 1-1-1987, it is compulsory for all companies to create a Debenture Redemption Reserve up

to at least 50% of the amount of debentures issued before the commencement of redemption of debentures. The effect of such a notification is that a Company cannot redeem its debentures purely out of capital or purely out of current profits.

4.8 DEBENTURE REDEMPTION FUND/SINKING FUND:

It is a kind of reserve by which a provision is made to reduce a liability, e.g. redemption of debentures or repayment of a loan. A sinking fund is a form of specific reserve set aside for the redemption of a long term debt. The main purpose of creating a sinking fund is to have a certain sum of money accumulated for a future date by setting aside a certain sum of money every year. It is a kind of specific reserve.

Whatever the object or the method of creating such a reserve may be, every year certain sum of money is invested in such a way that with compound interests, the exact amount to wipe off the liability or replace the wasting asset or to meet the loss will be available. The amount to be invested every year can be known from the compound interest annuity tables.

Ledger Accounts

Debenture Redemption Fund a/c

Particulars	Amount	Particulars	Amount
To Balance c/d	xxx	By P & L Appropriation a/c	xxx
	xxx		xxx
To Balance c/d	xxx	By Balance b/d	xxx
		" P & L App. a/c	xxx
		" Interest a/c	xxx
	xxx		xxx
To Loss on redemption of		By Balance b/d	xxx
debenture	xxx	" P & L App. a/c	xxx
" Debenture Fund Investment	xxx	" Interest a/c	xxx
(Loss)		" Deb. Fund Investment a/c	xxx
" General reserve (b/f)	xxx	(Profit on sales)	
	xxx		xxx

Debenture Redemption Fund Investment a/c

Particulars	Amount	Particulars	Amount
To Bank (Appropriation)	xxx	By Balance c/d	xxx
	xxx		xxx
To Balance b/d	xxx	By Balance c/d	xxx

" Bank (Appropriation + Interest)	xxx		
	xxx		xxx
To Balance b/d	xxx	By Bank (Sales)	xxx
" Deb. Fund (b/f) (Profit on sales)	xxx	" Deb. Fund a/c (b/f) (Loss on sales)	xxx
	xxx		xxx

Debenture a/c

Particulars	Amount	Particulars	Amount
To Balance c/d	xxx	By Bank a/c	xxx
	xxx		xxx
At the end of last year			
To Bank	xxx	By Balance b/d	xxx
	xxx		xxx

Debenture holder's a/c

Particulars	Amount	Particulars	Amount
To Bank	xxx	By Debentures	xxx
	xxx	" Premium on redemption	xxx
	xxx		xxx

Illustration -5 A company issued 6% Debentures of ₹6,00,000 with a condition that they should be redeemed after 3 years at 10% premium. The amount set aside for the redemption of debentures is invested in 5% Govt. Securities. The sinking fund table shows that ₹0.31720856 at 5% compound interest in three years will become ₹1. You are required to give journal entries and open sinking fund a/c and sinking fund investment a/c.

Solution

Journal entries

Year	Particulars	LF	Debit ₹	Credit ₹
I	Bank a/c	Dr	6,00,000	
	Loss on issue of Deb.	Dr	60,000	
	To 6% Debentures			6,00,000
	To Premium on redemption			60,000

	(Being deb. issued)			
	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption Fund Invest. a/c	Dr	2,09,358	
	To Bank			2,09,358
	(Being annual amount invested)			
II	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption Fund Invest a/c	Dr	2,19,826	
	To Bank			2,19,826
	(Being annual amount invested)			
	Bank a/c	Dr	10,468	
	To Debenture R. Fund			10,468
	(Being interest received)			
III	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption F.I. a/c	Dr	4,29,138	
	To Bank			4,29,138
	(Being annual amount invested)			
	Bank a/c	Dr	21,459	
	To Debenture Fund			21,459
	(Being interest received)			
	Debenture R F a/c	Dr	6,00,000	
	To General reserve a/c			6,00,000
	(Being fund a/c closed)			
	Debenture R F a/c	Dr	60,000	
	To Loss on issue of Deb.			60,000
	(Being fund investment a/c closed)			

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	2,09,358	By P & L Appropriation a/c	2,09,358
	2,09,358		2,09,358
To Balance c/d	4,29,184	By Balance b/d	2,09,358
		" P & L App. a/c	2,09,358
		" Interest a/c	10,468
	4,29,184		4,29,184
To Loss on redemption	60,000	By Balance b/d	4,29,184
" General reserve (b/f)	6,00,000	" P & L App. a/c	2,09,358
		" Interest a/c	21,458
	6,60,000		6,60,000

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	2,09,358	By Balance c/d	2,09,358
	2,09,358		2,09,358
To Balance b/d	2,09,358	By Balance c/d	4,29,184
" Bank (Appr. + Interest)	2,19,826		
	4,29,184		4,29,184
To Balance b/d	4,29,184	By Bank	4,29,184
	4,29,184		4,29,184

Illustration -6 A company issued 5,000 debentures of ₹100 each at par on 1st Jan. 2015 redeemable at par on 31st Dec.2019. A sinking fund was established for the purpose. It was expected that investments would earn 5%. Sinking fund tables show that ₹ 0.180975 amounts to ₹1 at the end of 5 years at 5% on 31st Dec.2019. The investments realized ₹3,90,000. On that date, the company's bank balance stood at ₹1,45,600. The debentures were duly redeemed. Give the necessary ledger accounts. Assume investments were made to nearest ₹10.

Solution

Annual appropriation = ₹50,000 x 0.180975 = ₹90,487.50

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	90,488	By P & L Appropriation a/c	90,488
	90,488		90,488
To Balance c/d	1,85,500	By Balance b/d	90,488

		" P & L App. a/c	90,488
		" Interest a/c	4,524
	1,85,500		1,85,500
To Balance c/d	2,85,263	By Balance b/d	1,85,500
		" P & L App. a/c	90,488
		" Interest a/c	9,275
	2,85,263		2,85,263
To Balance c/d	3,90,014	By Balance b/d	2,85,263
		" P & L App. a/c	90,488
		" Interest a/c	14,263
	3,90,014		3,90,014
To Deb. Redem. Fund		By Balance b/d	3,90,014
Investment	10	" P & L App. a/c	90,488
" General reserve (b/f)	4,99,992	" Interest a/c	19,500
	5,00,002		5,00,002

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	90,490	By Balance c/d	90,490
	90,490		90,490
To Balance b/d	90,490	By Balance c/d	1,85,500
" Bank	95,010		
(Appr. + Interest)			
	1,85,500		1,85,500
To Balance b/d	1,85,500	By Balance c/d	2,85,260
" Bank	99,760		
	2,85,260		2,85,260
To Balance b/d	2,85,260	By Balance c/d	3,90,010
" Bank	1,04,750		
	3,90,010		3,90,010
To Balance b/d	3,90,010	By Bank (Sales)	3,90,000
		" Deb. redemption fund a/c	10
	3,90,010		3,90,010

Illustration -7 A company issued ₹2,00,000, 5% debentures of ₹100 each at par repayable at the end of 6 years at a premium of 6%. The sinking fund at 4% compound interest is created for the

redemption of debentures. Draw up the debenture redemption fund a/c and debenture redemption fund investment a/c for 5 years at ₹1 per annum and 4% compound interest amounts to ₹5,3163 in 5 years.

Solution

Annual appropriation = ₹2,12,000/ 54,163 = ₹39,141

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	39,141	By P & L Appropriation a/c	39,141
	39,141		39,141
To Balance c/d	79,848	By Balance b/d	39,141
		" P & L App. a/c	39,141
		" Interest a/c	1,566
	79,848		79,848
To Balance c/d	1,22,183	By Balance b/d	79,848
		" P & L App. a/c	39,141
		" Interest a/c	3,194
	1,22,183		1,22,183
To Balance c/d	1,66,211	By Balance b/d	1,22,183
		" P & L App. a/c	39,141
		" Interest a/c	4,887
	166,211		1,66,211
To Loss on issue of deb.	12,000	By Balance b/d	1,66,211
(2,00,000 x 6%)		" P & L App. a/c	39,141
" General reserve (b/f)	2,00,000	" Interest a/c	6,648
	2,12,000		2,12,000

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	39,141	By Balance c/d	39,141
	39,141		39,141
To Balance b/d	39,141	By Balance c/d	79,848
" Bank (Appr. + Interest)	40,707		
	79,848		79,848

To Balance b/d	79,848	By Balance c/d	1,22,183
" Bank	42,335		
	1,22,183		1,22,183
To Balance b/d	1,22,183	By Balance c/d	1,66,211
" Bank	44,028		
	1,66,211		1,66,211
To Balance b/d	1,66,211	By Bank (Sales)	–

4.9 CONVERSION OF DEBENTURES

Illustration -8 On 1st Jan.2012 Green Ltd issued 250, 5% Debentures of ₹1,000 each at ₹950. The debenture holders have all options to convert at par their holdings into 7% preference shares of ₹100 each at a premium of ₹25 per share at any time after 3 years and interest is payable half yearly. On 1st Jan.2015, holders of 50 debentures exercise their option. Show journal entries relating to issue and conversion of debentures.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	2,37,500	
Discount on issue of debentures a/c	Dr	12,500	
To 5% Debentures			2,50,000
(Being debentures issued)			
5% Debentures	Dr	50,000	
To 7% Preference share capital a/c			40,000
To Share premium a/c			10,000
(Being 50 debentures converted)			

Journal entries

1. Issue of debenture at discount	**2. For paying interest**
Bank a/c Dr	Interest on debenture a/c Dr
Discount on debenture a/c Dr	To Bank a/c
To Debenture a/c	

3. For closing interest	4. For writing off discount on debenture
Profit and loss a/c Dr	Profit and loss a/c Dr
To Interest on debenture a/c	To Discount on debenture a/c

Entry for canceling the debenture

1. Face value is given	2. Premium value is given
Debenture a/c Dr	Debenture a/c Dr
To Bank a/c	Loss/Premium on redemption of debenture a/c Dr
	To Bank a/c

Illustration -9 B Ltd. issued 1,000, 12% Debentures of ₹100 each on 1-1-2015. Interest is payable on 30th June and 31st Dec. every year. On 1st April 2016, the company purchased 100 of its debentures at ₹98 ex-interest for immediate cancellation. On 1st October 2016, the company purchased another 100 of its debentures at ₹98 cum interest and cancel them immediately. The company closes its books of accounts on 31st Dec. every year. Pass journal entries and show balance sheet as on Dec.31.2016.

Solution

Journal Entries

Date	Particulars	LF	Debit ₹	Credit ₹
1-1-15	Bank a/c	Dr	1,00,000	
	To 12% Debentures			1,00,000
	(Being deb. issued)			
30-6-15	Interest on debenture a/c	Dr	6,000	
	To Bank			6,000
	(Being interest paid)			
31-12-15	Interest on debenture a/c	Dr	6,000	
	To Bank			6,000
	(Being interest paid)			
31-12-15	P & L a/c	Dr	12,000	
	To Interest on debenture a/c			12,000
	(Being interest closed)			
1-4-16	Own debentures a/c	Dr	9,800	
	Interest on debenture a/c	Dr	300	

	To Bank			10,100
	(Being interest paid)			
1-4-16	Debenture a/c	Dr	10,000	
	To Own debentures a/c			9,800
	To Capital reserve			200
	(Being debenture redeemed)			
30-6-16	Interest on debenture a/c	Dr	5,400	
	To Bank			5,400
	(Being interest paid)			
1-10-16	Own debentures a/c	Dr	9,500	
	Interest on debenture a/c	Dr	300	
	To Bank			9,800
	(Being interest paid)			
	Debenture a/c	Dr	10,000	
	To Own debentures a/c			9,500
	To Capital reserve			500
	(Being debenture redeemed)			
	Interest on debenture a/c	Dr	4,800	
	To Bank			4,800
	(Being interest paid)			
	P & L a/c		10,200	
	To Interest on debenture a/c			10,200
	(Being interest closed)			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. According to Companies Amendment Act 1999, the premium on issue of debentures should be credited to
   a) Share premium a/c b) Debenture premium a/c
   c) **Securities premium a/c** d) Debenture a/c

2. Profit on cancellation of own debentures is transferred to
   a)P & L a/c b) Dividend equalization fund
   c) **Capital reserve** d) Own debenture a/c

3. Interest on debentures is normally payable
   a) **Half yearly** b) Quarterly
   c) Annually d) Monthly

4. Own debenture a/c (at the time of purchase of own debentures) is always to be debited with
   a) The fair value b) The cum-interest
   c) **The ex-interest price** d) Face value

5. ________ is a debenture which does not have any security
   a) **Naked debentures** b) Convertible debentures
   c) Irredeemable debentures d) Redeemable debentures

6. Debentures represent the
   a) **Long term liabilities of a company** b) Investments by shareholders in a company
   c) Manager's share in business d) Owners equity

7. Ex-interest means per debenture price is excluding interest for _________
   a) Previous period b) Present period
   c) Future period d) Both for present and future period

8. Dividend/ Interest (net) received are credited to profit and loss a/c with
   a) Amount received b) Amount received + tax
   c) Amount of tax d) Amount received - tax

9. Interest on debenture is paid out of
   a) Capital profit only b) **Revenue profits only**
   c) Both capital and revenue profits d) Capital redemption reserve

10. Premium on redemption of debenture account is in the nature of
    a) **Personal account** b) Real account
    c) Nominal account d) Current account

11. Profit on cancellation of own debentures is transferred to _____________
    a) P & L a/c b) Balance sheet
    c) Dividend equalization fund d) **Capital reserve**

12. Interest on debentures is ______________
    a) Appropriation of profits b) **Charge on profit**
    c) Adjustment of profit d) Both a and b

13. Premium of redemption of debentures a/c is in the nature of __________
    a) **Personal account** b) Real account
    c) Nominal account d) Impersonal account

14. Own debenture a/c will appear on __________
    a) Liability side of the balance sheet b) **Assets side of the balance sheet**
    c) Debit side of P & L a/c d) Debit side of P & L Appropriation a/c

15. In the Balance sheet of a company, the discount on issue of debentures is shown under the following heading _____________
    a) Investments b) Fixed assets
    c) Current assets d) **Miscellaneous expenditure**

16. Interest on debenture is calculated on the basis of the ______________
    a) **Face value of debenture** b) Face value of debenture plus premium
    c) Face value of debenture with discount d) Market value of debentures

REVIEW QUESTIONS

A) Answer in short

1. What is a debenture?
2. What are called secured debenture?
3. What are called irredeemable debenture?
4. What are convertible debentures?
5. When debentures issued as collateral security?
6. When debentures issued for consideration other than cash?
7. What is a sinking fund?
8. Write a note on redemption of debentures out of capital.

9. What do you understand by redemption of debentures out of profits?
10. What do you mean by ex-interest and cum-interest debenture prices?

B) Answer in detail

1. Differentiate shares from debentures.
2. Enumerate the types of debentures.
3. Explain the different methods of redemption of debentures.
4. Describe the sinking fund method of redeeming debentures.
5. Write short note on
   a) Debenture redemption reserve.
   b) Open market buying method of redemption.

EXERCISES

ISSUE OF DEBENTURES

1. Kiran Ltd issued 2,000, 12% Debentures of ₹10 each to the public to be paid ₹4 on application and the balance on allotment. All the moneys due on debentures are received. Give journal entries.

2. A Ltd. issue 1,000, 12% Debentures of ₹100 each payable as ₹30 on application and the balance in allotment. Applications were received for 2,000 debentures, out of which applications for 800 debentures were allotted fully; applications for 600 debentures were allotted 200 debentures and the remaining was rejected. Give journal entries and balance sheet.

ISSUE AND REDEMPTION OF DEBENTURES

3. A company issued ₹1,00,000, 7.5% Debentures at par redeemable at 5% premium after 10 years. Pass journal entries to record the transaction.

4. Give journal entries for the following:

   The issue of ₹100 debentures for ₹100

   The issue of ₹100 debentures for ₹95

5. What journal entries will be made for the following cases?

   A company issued ₹40,000 6% Debentures at par redeemable at par

   A company issued ₹40,000 6% Debentures at discount of 10% and redeemable at par

   A company issued ₹40,000 6% Debentures at premium of 5% and redeemable at par

   A company issued ₹40,000 6% Debentures at par and redeemable at 10% premium

DEBENTURE FUND METHOD - LAST YEAR ONLY

6. The following balances were extracted from the books of a company as on 31st Dec.2015:
   9% Debentures ₹5,00,000; Debenture redemption fund ₹5,00,000; Debenture redemption fund investment ₹5,00,000; Cash at bank ₹1,00,000; Share premium ₹2,00,000; P & L a/c ₹3,50,000.

   On the above date the directors realized the investments at a loss of 2% and redeemed all the debentures at a premium of 5%. Write off the necessary ledger accounts to give effect to the above.

7. B Company Ltd has 60,000, 5% debentures as on 1-1-2015. On that date, the debenture redemption fund stood at ₹50,000 represented by ₹50,000, 3% Govt. of India Bonds.

   The annual instalment added to the debenture fund is ₹8,230. On 31-12-2015, the balance at bank (after the interest on investment has been received) was ₹15,640. On that date, investments were sold at 83% and debentures were paid off. Show the necessary ledger accounts.

8. Beta Ltd had ₹3,00,000, 8% Debentures outstanding on Jan.1, 20015 On that date, the debenture redemption fund had ₹2,50,000 invested in ₹2,65,000, 6% (2012) Govt. Loan Bonds. The annual appropriation from the profit to the fund was ₹41,150. On Dec.31, 2015, the interest on investments had been collected. The bank balance was ₹78,200. The debentures were redeemed by realizing the bonds at 87%. Prepare all necessary ledger accounts.

DEBENTURE FUND METHOD – Full years

9. On 1st Jan.2015, M Ltd. issued debentures for ₹1,00,000 to be redeemed at par at the end of 5th year and it was resolved that sinking fund formed and invested in the tax free securities. Give necessary ledger accounts for 5 years assuming that the interest received on investment was at the rate of 5% on cost that the interest was received yearly and immediately invested and that the investment realized at a loss of ₹300 at the end of the 5th year. Assuming investments are made in multiples of ₹100. Reference to sinking fund table shows that each year in 5% compound interest will give ₹0.180975 invested at the end of five years.

CONVERSION OF DEBENTURES

10. X Ltd redeemed ₹1,00,000 preference shares by converting them in to equity shares issued at 25% premium. What entries can be made for the redemption by the company?

11. What entries can be made for following redemptions made by the company?

    a) X Ltd redeemed ₹1,00,000 preference shares by converting them into equity shares of ₹10 each issued at 25% premium

    b) X Ltd redeemed ₹95,000 preference shares by converting them into equity shares of ₹10 each issued at 5% discount

12. On 31st Dec.2015, ₹1,50,000, 6% Debentures were redeemed out of profit by drawing a lot. Give journal entries.

WRITING OFF DISCOUNT ON ISSUE OF DEBENTURES

13. A Ltd. issues of ₹1,00,000 debentures on 1st Jan.2015 as a discount of 10% repayable in annual drawings of ₹20,000 commencing on 31st Dec.2015. The company's financial year ends on 31st Dec. Show the amount to be charged to P & L a/c for five years.

14. On 1st January 2015, a limited company issued debentures of the face value of ₹1,00,000 at a discount of 5% repayable at the end of the fifth year. Show the discount account on issue of debentures account in the company's ledger for the period.

15. A Ltd issued 20,000, 11% debentures of ₹100 each at a discount of 6%. The debentures have to be redeemed at the rate of ₹4,00,000 each year commencing with the end of 4th year. State the amount of discount to be written off each year.

EX-INTEREST AND CUM-INTEREST

16. On 1st October 2015, a company issued 10,000, 14% Debentures of ₹100 each (interest payable on 30th September and 31st March). The company is allowed to purchase own debentures which may be cancelled or kept or reissued at the company's option. The company made the following purchases in the open market.

    On 31st August 2016, 1,000 debentures @ ₹98 ex-interest

    On 31st December 2017, 500 debentures @ ₹97 cum-interest

    The debentures purchased on 31st August were cancelled on 31st March 2018. Give journal entries to record the transactions.

17. On 1st July 2014, a company issued 2,000, 6% Debentures of ₹100 each. The interest is payable on 30th June and 31st Dec. 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 by cheque in the open market.

    On 31st May 2015 – 22 debentures at ₹98 ex-interest

    On 30th September 2016 – 100 debentures at ₹97 cum-interest

    The debentures, which were purchased on 31st May 2015 were cancelled on 31st Dec.2016. All payments were made on due dates. Give journal entries and balance sheet as on 31st Dec.2016.

18. On 1st April 2015, Senthil Ltd. had issue 5% Debentures amounting to ₹3,00,000 interest is payable half yearly on 30th June and 31st Dec. During the year ended 31st March 2016 the following purchases were made in the open market:

    15th June – ₹50,000 nominal ex-interest; cost ₹49,450

    1st Nov. – ₹40,000 nominal – cum-interest; cost ₹40,250

The debentures thus purchased were not cancelled until 30th June 2016

Draw up own debentures investment account. Calculations to be made in months and to the nearest rupee.

19. B Ltd. purchased its own debentures as follows:

    31-5-15 – 200 6% debentures each at ₹98 ex-interest

    30-9-15 – 100 6% debentures each at ₹97 cum-interest

    Interest payable is on 30th June and 31st Dec. every year. On 31-12-15 both debentures are cancelled. Show journal entries and the method of calculating interest.

20. X Ltd. buys its own 6% Debentures of the nominal value ₹20,000 at ₹96 on 31st March 2015. Record the transaction in the books of X Ltd. if the quotation is a) cum- interest and b) ex-interest. X Ltd. pays debenture interest on 30th June and 31st Dec. Pass journal entries regarding i) cum-interest ii) ex-interest and iii) cancellation

21. On Jan.1, 2016, C Ltd issued 1,000, 12% Debentures of ₹100 each at ₹95. The terms of issue provided that beginning with 2007, ₹20,000 of debentures should be redeemed, either by drawings at par or by purchase in the open market every year. The company wrote off ₹1,000 from the discount on debentures every year. In 2017, the debentures to be redeemed were repaid at the end of the year by drawings. On Dec.31, 2018, the company purchased for cancellation 200 debentures at the ruling price of ₹95, the expenses being ₹100. Interest is payable half-yearly. Give journal entries in the books of C Ltd.

22. C Ltd Company has a balance of ₹1,00,000 at the credit of P & L a/c. It was resolved to utilize the profits to repay the debentures of ₹70,000. Now redeemable at a premium of 10%. Show the journal entries.

23. MK Ltd had 12% debentures of ₹2,00,000 outstanding in its books as on 1-4-2018. It also had a balance of ₹80,000 in sinking fund account represented by 10% investments (face value ₹1,00,000).

    On 31-12-2018 it sold investments of the face value of ₹20,000 @ ₹90 cum-interest and with the proceeds purchased own debenture of the face value of ₹20,000 for immediate cancellation. The interest dates for both debentures and investments were 30th September and 31st March. Annual appropriations to sinking fund came to ₹21,000. Prepare the necessary ledger account for the year ended 31st March 2019.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1) The National Investors Ltd., issued on 1.1.90 20,000 5% debentures of Rs. 100 each, redeemable at the option of the company after 3 years at Rs. 105 per debenture upon giving 3 months notice to the holders. The company purchased the following debentures in the open market. 1.4.91 Rs. 4,000 debentures at Rs. 4,025, cum-interest. 1.11.91 Rs. 7,000 debentures at Rs. 6,915; ex-interest. These debentures were retained as investment till 31.12.92 on which date they were cancelled.Give journal entries to record the above transactions, assuming that the interest is payable half-yearly on 30th June and 31st December every year. Ignore taxation.

[Madurai, B.Com,2014]

2) On 1st January2002, New Castle Ltd. allotted 10,000 9% debentures of Rs. 100 each at par, the total amount having been received along with applications.

(a) On 1st January 2002 the company purchased in the open market 1,000 of its own debentures @ Rs. 101 each and cancelled them immediately.

(b) On 1st January 2006 the company redeemed at par debentures for Rs. 3,00,000 by draw of lots.

(c) On 1st January 2007 the company purchased debentures of the face value of Rs. 2,00,000 for Rs. 1,97,800 in the open market to hold them as investments for one year and then to cancel them.

(d) Finally, as per the resolution of the Board of directors, the remaining debentures were to be redeemed at a premium of 2% on 1st January 1999 when the share premium account in the company's ledger would show a balance of Rs. 30,000.

Pass journal entries for the above transactions ignoring debenture redemption reserve, debenture interest, and interest on own debentures.

[Madurai, April, 2014]

3) The following balances are extracted from the balance sheet of M. Ltd. as on 1st January 2001 :

	Rs.
6% Debentures	1,00,000
Debenture redemption fund	85,000
Debenture redemption fund investments	90,000 (in Rs. 100 value 4% certificates)

The annual investment was Rs. 11,400. On 31st December 2001, the investments were realised at Rs. 95 each and the debentures were redeemed. The Bank balance on that date was Rs. 18,300. Give ledger accounts relating to the redemption of debentures.

[Periyar,B.Com,2013]

4) On January 1,1996,C Ltd. issued 1,000 12% Debentures of Rs. 100 each at Rs.95. The terms of issue provided that beginning with 1997, Rs.20,000 of Debentures should be redeemed, either by drawings at paror by purchase in the open market every year The company Wrote off Rs.1,000 From the discount on debentures every year. In 1997 the debentures to be redeemed were repaid at the end of the year by drawings. On December 31.1998, the company Purchased for cancellation 20 debentures at the ruling price of Rs.95, the expenses being Rs.100. Interest is payable yearly. Give the journal entries in the books of C.Ltd. and Show the balance sheet with relevant items as on December 31,1998.

[Madurai, Nov,2012]

5) The summarized balance sheet of D ltd on March 31, 2000 was as follows:

LIablities	**Amt**	**Assets**	**Amt**
Share capital 6% redeemable preference shares of Rs.10 each	2,00,000	Fixed Assets at cost less depreciation	4,12,000
Equity shares of Rs.10 each	4,00,000	Good will	2,00,000
6% debentures	3,00,000	Stock	4,50,000
Profit & Loss A/c	2,50,000	Sundry Debtors	2,15,000
Current Liabilities:		Discount on debentures	12,000
Bank Loan	50,000		
Creditors	89,000		
	12,89,000		12,89,000

Wanted to redeem the preference shares and the debentures, the company offered to the redeemable preference shareholders and the debenture holders the option to convert their holdings into equity shares which are to be treated as worth Rs.12.50. One half of the preference shareholders agreed to do this. The company issued 30,000 equity shares at Rs.12.50 to the public for cash and with the fund available paid off the bank loan and redeemed the remaining redeemable Preference shares and Debentures. Journalize the above transactions and show the balance sheet after the transactions have been completed.

[Madurai, Nov,2015]

6) Journalise the following issues :

a) A company issued 1,000, 6% Debentures of Rs. 100 each at Par.

b) A company issued 1,000, 6% Debentures of Rs. 100 each at 10% premium

c) A company issued 1,000, 6% Debentures of Rs. 100 each at 10% discount.

[Madras, B.Com., Oct. 2003]

7) Pass necessary Journal entries in the following cases, when debenture issue price is Rs. 1,00,000. Rate of Interest 8%.

   a) Issued at Par and redeemable at par.

   b) Issued at a discount of 10% and redeemable at par.

   c) Issued at premium of 5% and redeemable at par.

[Madras, B.Com(CS) (SY3B) Nov. 2008; Ap 2008;Nov. 2007; B.Com., April 2003]

8) Pass journal entries for the following transactions:

   a) Issue of debentures at a discount and redeemable at par.

   b) Issue of debentures at a premium and redeemable at par.

   c) Issue of debentures at par and redeemable at premium

   d) Issue of debentures at a discount and redeemable at a premium.

[Madras, B.Com., Oct. 2002; B. Com., April 2013]

9) .Anil Ltd., issued 4,000, 5% Debentures of Rs. 100 each at a premium of 10% payable Rs. 20 on application and the balance with premium on allotment. Pass journal entries in the books of Anil Ltd.

[Madras, B.Com (ICE) Ap 2007]

10) 'Y' Ltd. has taken over the business of Krishnan, the assets and liabilities having been valued at Rs. 80,000 and Rs. 30,000 respectively. Y Co., agreed to pay Rs. 72,000 as the purchase price, to be settled by the issue of 12% debentures of Rs. 10 each at a premium of 20%. Give Journal Entries.

[Madras,B.Com,2004]

[Ans : Goodwill Rs. 22,000; 6,000 debentures of Rs. 10 each at premium of Rs. 2 per debenture]

11) A company issued at par 1,000 6% debentures of Rs. 1,000 each. Interest is payable half yearly on 30th September and 31st March.

On 1.2.1983, the company purchased 20 of its own debentures as investment at Rs. 970.

Give the necessary journal entries, assuming the books are closed on 31st March. Ignore income tax.

[Madras, B.com,2005]

[Ans: On 1.2.83: Own debentures — Rs. 19,400 and interest — Rs. 400; assuming 'ex-interest price'. If 'cum-interest' price is assumed, own debentures — Rs. 19,000; Interest — Rs. 400]

12) A Company has outstanding 12% debentures of Rs. 1,00,000 on 1.1.1999. The company pays interest on 30 June and 31 December. It purchases debentures of Rs. 10,000 for cancellation

on 1st May 1999 @ Rs. 102 cum-interest. It further purchases for redemption debentures of Rs. 20,000 on 1st September 1999 at Rs. 95 ex-interest. You are required to pass the necessary journal entries in the books of the company.

[Madras, B.C.S. (ICE) Oct. 2001]

[Ans : Profit on cancellation : 1.5.99: Rs. 200; 1.9.99: Rs. 1,000]

13) X Ltd. purchases for immediate cancellation 2,000, 12% own Debentures of Rs. 100 each on 1st December 1998, the interest dates being 31st March and 30th September. Pass entries relating to the cancellation if :

a. Debentures are purchased at Rs. 92 Ex-interest.

b. Debentures are purchased at Rs. 92 cum-interest.

[Madras, II M.Com. (ICE) (Old) Oct. 2002]

[Ans : Profit on cancellation : (a) Rs. 16,000; (b) Rs. 20,000]

14) On 31st March 1998 'A' Ltd.'s Balance sheet showed 10,000 12% debentures of Rs. 100 each outstanding. Interest on debentures is payable on 30th September and 31st March. On 1st August 1998, the company purchased 500 of its own debentures as investment at Rs. 97 ex-interest.Pass Journal entries supposing that the company cancells all its own debentures on 1st March 1999.

[Madras, B.Com., (Old) Oct. 2001]

[Ans : Interest : 1-8-98 : Rs. 2,000; 30-9-98 : Rs. 58,000 on 1-3-99 : Rs. 2,500; Profit in concellation : Rs. 1,500]

15) Goodwill Ltd. issues 1,000 6% debentures of Rs. 100 each. Give journal entries in each of the following cases:

(a) The debentures are issued and redeemable at par.

(b) They are issued at a discount of 6% , but redeemable at par.

(c) They are issued at a premium of 5%, but redeemable at par.

(d) They are issued at a discount of 4% but are redeemable at a premium of 5%.

[Madras, B.Com., April 2001;

B.C.S. Oct. 1999; B.Com., March 91, March 90;

Madras, B.A. Corp. Sep. 901]

16) You are required to set out the journal entries relating to the issue of the following debentures in the books of X Ltd :

(a) 8%, 120 Rs. 1,000 debentures are issued at 5% discount and are repayable at par.

(b) Another 7%, 150 Rs. 1,000 debentures are issued at 5% discount and repayable at 10% premium.

(c) Further 80, 9% Rs. 1,000 debentures are issued at 5% premium.

In addition another 400, 8% Rs. 100 debentures are issued as collateral securities against a loan of Rs. 40,000.

Madurai, B.Com., Nov. 2003] Madras, B.Com(PZG)Ap 200.5; B.Com(ICE) Ap' 2001]

17) Zed Ltd. issued 1,000 9% debentures of Rs. 100 each payable, Rs. 20 on application and the balance on allotment. Applications were received for 1,500 debentures out of which applications for 900 were allotted fully. Applicants for 400 debentures were allotted 100 debentures and the remaining were rejected. All sums due were received. Give journal entries and also show how these transactions will be reflected in the Balance sheet of the company.

[Madras, B.Com (A.F) Nov. 2007 (Modified]

[Ans: Transfer of application money to debenture allotment A/c — Rs. 6,000; Return of rejected application money — Rs. 4,000]

18) Narayanan & Co. Ltd., purchased assets worth Rs. 28,80,000. It issued debentures in satisfaction of the purchase price. Calculate how many debentures will be issued:

(a) In case the debentures are of Rs. 100 each and are issued at a discount of 4% and

(b) In case the debentures are of Rs. 80 each and are issued at a premium of Rs. 10 per debenture.

Also, pass the journal entries required for the issue of debentures.

[Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans: (a) 30,000 debentures of Rs. 100 each will be issued at 4% discount; (b) 32,000 debentures of Rs. 80 each will be issued at premium of Rs. 10 per debenture]

19) A company issued debentures of the face value of Rs. 1,00,000 at a discount of 6%. The debentures were repayable by annual drawings of Rs. 20,000. How would you deal with the discount on debentures? Show t e discount account in the company's ledger for the period of duration of debentures.

[Periyar, B. Com (CA) Ap. 2005 'Madras, B.Com., B.Com(CS) Nov. 2009;1 st M.Com(ECA1A)Nov 2008; B.Com., Ap. 2007]

[Ans: Assuming proportionate write off, discount account balance on the date of issue — Rs. 6,000; At the end of one year — Rs. 4,000; At the end of 2 years — Rs. 2,400; At the end of 3 years — Rs. 1,200; At the end of 4 years — Rs. 400; - At the end of 5 years]

20) Journalize the following transactions at the time of issue of Debenture and Redemption of Debenture :

(a) Debenture issue at Rs. 95, repayable at Rs. 100

(b) Debenture issue at Rs. 95, repayable at Rs. 105

(c) Debenture issue at Rs. 100, repayable at Rs. 105

(d) Debenture issue at Rs. 95, repayable at Rs. 100

The face value of each debenture : Rs. 100.

[Madras, B.Com., Nov. 2004; B.Com (ICE) Oct 2002; I. M.Com. (ICE) May 20011]

21) On 1.1.1980, a company issued 1,000 6%. Debentures of Rs. 1,000 each at Rs. 950. The terms of the issue provided that beginning with 1982, Rs. 50,000 of debentures should be redeemed, either by drawings at par or by purchase in the market every year. The expenses of the issue amounted to Rs. 3,000 which were written off in 1980. The company writes off Rs. 10,000 from the discount on debentures every year. In 1982 the debentures to be redeemed were repaid at the end of the year by drawings. In 1983, the company purchased for cancellation 50 debentures at the ruling price of Rs, 980 on 31st December, the expenses being Rs. 100.Interest is payable yearly on 31st December. Ignore income tax. Give journal entries.

[Madras, B.COM., October 2007]

[Ans: Debenture Interest on 31st December of 1980, 81 and 82 — Rs. 60,000. On 31.12.83 — Rs. 57,000; Profit on redemption of debentures as on 31.12.83 Rs. 900]

22) A company issued 6% Debentures of Rs. 10,00,000 with a condition that they should be redeemed after 3 years at 10% premium. The amount allocated for the redemption of debentures is invested in 5%. State Government Securities.The Sinking Fund Table shows that Rs. 0.317209 at 5% compound interest in 3 years will become Re. 1. Pass Journal entries and Prepare ledger accounts for all the three years.

[Madras, B.Com., Apri12004; Oct. 2003; AP 2003]

[Ans : Annual Transfer : Rs. 3,48,929.90; Interest : end of 2nd year Rs. : 17,446.49; 3rd year : Rs. 35,765.3]

UNIT – 5

PROFITS PRIOR TO INCORPORATION

Pre -incorporation period - Post incorporation period - Basis of apportionment of expenses

A company may be purchased by another at any time. After purchasing, it should get certificate of incorporation. But the regular business will be continued. The profit earned by the company before its incorporation should not be used for dividend declaration because it is a capital profit. So it should be transferred to capital reserve a/c. In such a circumstance, we have to prepare the profit and loss a/c with two columns. It is for the purpose of dividing the net profit as relating to pre-incorporation period and as relating to post-incorporation period.

The profit which may arise from a business which has been purchased by the company before it was incorporated is known as profits prior to incorporation.

5.1 PRE -INCORPORATION PERIOD

A period from the date of purchase till the date of incorporation or registration is called pre-incorporation period. The profit relating to such period should be transferred to capital reserve and loss if any should be transferred to goodwill account.

5.2 POST INCORPORATION PERIOD

A period from the date of incorporation till the accounting year end is called post-incorporation period. The profit relating to such period should be transferred to net profit. This is revenue profit of the company and so it will be used for dividend declaration.

5.3 BASIS OF APPORTIONMENT OF EXPENSES

Basis	Expenses to be apportioned
1. Sales ratio	Gross profit, traveling expenses, carriage, carriage outward, selling expenses, variable expenses, discount allowed, bad debts, commission on sales, advertising
2. Time ratio	Rent, rates, salaries, insurance, audit fees, depreciation, interest, taxes, printing , postage, repairs, general expenses, establishment expenses, fixed expenses, bank charges, interest on loan, administration exp., electricity

3. Pre incorporation period (before incorporation)	Salary of a partner, vendor salary, interest on purchase consideration up to the date of purchase
4. Post incorporation period (after incorporation)	Preliminary expenses, debenture interest, directors fees, managing directors commission
5. Purchase ratio	Purchase expenses, carriage on purchase, discount received

Calculation of Time Ratio:

For pre-incorporation period	For post incorporation period
$\frac{\text{Pre-incorporation period}}{\text{Total period}}$	$\frac{\text{Post incorporation period}}{\text{Total period}}$

Calculation of Sales Ratio:

For pre-incorporation period	For post incorporation period
$\frac{\text{Pre-incorporation period sales}}{\text{Total period sales}}$	$\frac{\text{Post incorporation period sales}}{\text{Total period sales}}$

5.4 TREATMENT OF PROFIT IN THE PRE-INCORPORATION PERIOD:

Being Capital profit in its nature, transferred to capital reserve account which may be used to write off capital losses and expenses like preliminary expenses, underwriting commission etc..

5.5 TREATMENT OF LOSS IN THE PRE-INCORPORATION PERIOD:

Being capital loss in its nature, it can be debited to loss prior to incorporation account, which may be used to write off capital profits of the company. It may also be debited to goodwill account.

5.6 TREATMENT OF INTEREST PAID ON PURCHASE CONSIDERATION

Interest paid on purchase consideration is to be divided according to the number of months involved. The total months for which the interest is paid is divided into pre and post incorporation periods.

5.7 CALCULATION OF TIME AND SALES RATIOS

Illustration -1 G Ltd. was incorporated on 1st May 2015 to purchase the running business of Vee Ltd with effect from 1st Jan.2015. The company obtained certificate of commencement of business on 24th August 2015. Calculate the time ratio, if the accounts were finalized on 31st Dec.2015.

Solution

Pre-incorporation	1- 1-15 to 1–5-15	4 months
Post incorporation	1–5–15 to 31–12 –15	8 months
Time ratio	4:8	1:2

Illustration -2 A company incorporated on 1-7-2015 to take over the business carried on by B & Co. from 1-4-2015. The company prepared its first final accounts on 31-3-2016. Sales for the period was ₹3,00,000 (sales up to 30-6-2015 ₹1,00,000). Ascertain sales ratio.

Solution

Pre-incorporation	1- 4-15 to 1 –7 – 15	3 months
Post incorporation	1–7 –15 to 31–3–16	9 months
Time ratio	3:9	1:3
Pre-incorporation sales		₹1,00,000
Post incorporation sales	3,00,000 – 1,00,000	₹2,00,000
Sales ratio		1:2

Illustration -3 A company is incorporated on 1st May 2015. The business acquired 1-4-15 and account closing Dec.2015. Total amount of wages paid is ₹90,000. Number of workers employed in pre-incorporation period 6 and post incorporation period 24. Calculate pre and post incorporation period wages.

Solution

Pre-incorporation (1-4-15 to 1-5-2015)	1 month
Post-incorporation (1-5-15 to 31-12-2015)	8 months
Time ratio	1: 8
No. of workers	6 : 24
Weighted time ratio	6 : 192
Pre –incorporation wages (90,000 x 6/198)	₹2,727
Post –incorporation wages (90,000 x 192/198)	₹87,273

Illustration -4 The sales up to 30th September 2015 were ₹98,000. The monthly average of sales for the first four months of the year was one-half of the remaining periods. The date of incorporation of the business is 1-5-15. The date of purchase of business is 1-1-2015. The date of closing accounts is 30-9-2015. Ascertain sales ratio.

Solution

Calculation of sales ratio: Assume one month sales as X

Pre incorporation	1-1-15 to 1-5-15	4 months x X = 4X
Post incorporation	1-5-15 to 30-9-15	5 months x 2X = 10X
Sales ratio		4:10

Illustration -5 The monthly average of sales in January, November and December is double the monthly average. For the remaining - monthly average for the remaining months of the year. The date of incorporation of the business is 1- 4- 15. The date of purchase of the business is 1-1- 2015. The date of closing of accounts is 31–12- 15. Find the sales ratio.

Solution

Pre-incorporation sales

Jan	Feb	March	Total
2	0.66	0.67	3.33

Remaining period = 12 – 6 = 6/9 = 0.666

Post incorporation sales

Ap.	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
0.66	0.66	0.67	0.67	0.67	0.67	0.67	2	2	8.66
Sales ratio				3.33 : 8.66					

5.8 PREPARATION OF PROFIT AND LOSS ACCOUNT

Illustration -6 A company was incorporated on 1st June 2015. The running business was from 1st Jan.15. The following particulars are available:

a) Total sales for 2015 ₹80,000

b) Sales from 1-1-2015 to 31-5-2015 ₹20,000

c) Gross profit for the whole year ₹30,000

d) Total expenses of 2015 (including directors fees ₹1,000) ₹25,000

e) Company’s share capital ₹75,000

Find out the profit prior to incorporation and after incorporation.

Solution

Time ratio = 5: 7; Sales ratio = 2: 6

Profit and Loss a/c

Particulars	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Director's fees	–	1,000	By Gross profit	7,500	22,500
" Other exp.	10,000	14,000	" Goodwill (b/f)	2,500	–
" Net profit	–	7,500			
	10,000	22,500		10,000	22,500

Illustration -7 X Ltd. was incorporated on 1-7 -2015 to take over the business carried by Y Ltd. with effect from 1- 4- 15. The following is the P & L a/c for the year ended 31-3- 2016 of X Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Administration exp.	90,000	By Gross profit	3,75,000
" Directors fees	15,000		
" Selling exp.	1,80,000		
" Audit fees	5,000		
" Formation exp.	15,000		
" Net profit	70,000		
	3,75,000		3,75,000

Sales ₹15 lakhs (up to 30- 6- 2015 ₹5 lakhs).

Ascertain profit prior and after incorporation.

Solution

Profit and Loss a/c

Particulars	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Administration exp.	22,500	67,500	By Gross profit	93,750	2,81,250
" Directors fees	–	15,000			
" Selling exp.	60,000	1,20,000			
" Audit fees	1,667	3,333			
" Formation exp.	–	15,000			
" Capital reserve (b/f)	9,583	–			
" Net profit (b/f)	–	60,417			
	93,750	2,81,250		93,750	2,81,250

Calculation of time ratio

Pre incorporation	1-4-15 to 1-7-15	3 months
Post incorporation	1-7-15 to 31-3-16	9 months
Time ratio		3:9

Calculation of sales ratio:

Pre incorporation	1-4-15 to 1-7-15	5,00,000
Post incorporation	1-7-15 to 31-3-16	10,00,000
Sales ratio		5:10

Illustration -8 X Ltd. was incorporated on 1-8-2015. It took over the business of Y Ltd with effect from 1-4- 2015. From the following particulars related to the year ending 31-3- 2016, find out profit prior to incorporation and after incorporation. Sales for the year were ₹60 lakhs and pre-incorporation sales ₹25 lakhs. Gross profit for the year was ₹18 lakhs.

Expenses debited to P & L a/c:

Rent	₹90,000	Salaries	₹1,50,000
Directors fees	₹38,000	Interest on debentures	₹60,000
Audit fees	₹15,000	Discount on sales	₹36,000
Depreciation	₹2,40,000	General expenses	₹48,000
Advertising	₹1,80,000	Printing	₹36,000
Commission on sales	₹60,000		

Interest paid to vendor on purchase consideration ₹30,000 (up to 1-10- 2015).

Solution

Profit and Loss a/c

Particulars	**Basis**	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Rent	(TR)	30,000	60,000	Gross profit	7,50,000	10,50,000
“ Directors fees	Post	–	38,000			
“ Audit fees	(TR)	5,000	10,000			
“ Depreciation	(TR)	80,000	1,60,000			
“ Advertising	(SR)	75,000	1,05,000			

" Commission on sales	(SR)	25,000	35,000			
" Salaries	(TR)	50,000	1,00,000			
" Interest on debentures	Post	–	60,000			
" Discount on sales	(SR)	15,000	21,000			
" General exp.	(TR)	16,000	32,000			
" Printing	(TR)	12,000	24,000			
" Interest to vendors	ATR	20,000	10,000			
" Capital reserve (b/f)		4,22,000	–			
" Net profit (b/f)		–	3,95,000			
		7,50,000	10,50,000		7,50,000	10,50,000

Calculation of time ratio

Pre incorporation	1-4-15 to 1-8-15	4 months
Post incorporation	1-8-15 to 31-3-16	8 months
Time ratio		4: 8

Calculation of sales ratio

Pre incorporation	1-4-15 to 1-8-15	₹25,00,000
Post incorporation	1-8-15 to 31-3-16	₹35,00,000
Sales ratio		25:35

Interest to vendor (Adjusted Time Ratio)

Total months up 1st Sep.	1-4-15 to 1-10-15	6 months
Less: Pre-incorporation period	1-4-15 to 1-8-15	4 months
Post incorporation		2 months
Interest paid to vendor		4 : 2

Illustration -9 Karthik Company was incorporated on 1-7-15 to take over the business of Prasad with effect from 1-4-15. Following is the P & L a/c for the year ended 31-3-2016.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Commission	2,625	By Gross profit	98,000
" Advertisement	5,250	" Bad debts recovered	500
" MD remuneration	9,000		
" Depreciation	2,800		
" Salary	18,000		
" Insurance	600		
" Preliminary expenses	700		
" Rent and tax	3,000		
" Discount	350		
" Bad debts	1,250		
" Net profit	54,925		
	98,500		98,500

The following details are also available:

i) Average monthly turnover from July 15 onwards was double than that of previous months.

ii) Rent for first three months paid @ ₹200 per month and thereafter increased by ₹50 per month.

iii) Bad debts ₹350 related to sales effected after 1-9-15 and the realization of bad debts was in respect of debts written off during 13.

iv) Advertisement expenses were directed proportionate to sales.

Prepare a statement showing profit prior to and after incorporation.

Solution

Profit and Loss a/c

Particulars	**Basis**	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Commission	(SR)	375	2,250	By Gross profit	14,000	84,000
" Advertisement	(SR)	750	4,500	" Bad debts recovered	500	–
" MD remuneration		–	9,000			
" Depreciation	(TR)	700	2,100			
" Salary	(TR)	4,500	13,500			

" Insurance	(TR)	150	450			
" Preliminary exp.	Post	–	700			
" Rent and tax		638	2,362			
" Discount		50	300			
" Bad debts		386	864			
" Capital reserve (b/f)		6,951	–			
" Net profit (b/f)		–	47,974			
		14,500	84,000		14,500	84,000

Calculation of time ratio

Pre incorporation	1-4-15 to 1-7-15	3 months
Post incorporation	1-7-15 to 31-3-16	9 months
Time ratio		3:9

Calculation of sales ratio: Assume one month sales as X

Pre incorporation	1-4-15 to 1-7-15	3 months x X = 3X
Post incorporation	1-7-15 to 31-3-16	9 months x 2X = 18X
Sales ratio		3:18

Rent and taxes – ₹3,000

Rent from 1-4-15 to 1-7-15	3 months x 200	Pre	₹600
Rent from 1-7-15 to 31-3-16	9 months x 250	Post	₹2,250
Remaining for tax (₹3,000 – ₹2,850)	₹150 (TR)	Pre	₹38
		Post	₹112

Bad debts = ₹1,250 – Post ₹350 = ₹900 up to 1–9 -15

Total months	1-4- 15 to 1-9-15	5 months
Less: Pre	1-4-15 to 1-7-15	3 months x 1X = 3
Post		2 months x 2X = 4
Ratio		3:4
Bad debts- Pre	₹900 x 3/7	₹386
Post	₹900 x 4/7	₹514 + ₹350 = ₹864

Illustration -10 A company was registered on 1-4-2015 to take over the running business from 1-1-2015. The company was granted certificate to commence business on 31-5-2015. The company closes the accounts on 31-12-2015. The following details are available:

Sales during the period Jan to Dec. ₹2,40,000. The trend of sales was as follows:

Jan. and Feb. – half the average sales; May , June, July and October – equal to average sales; Nov. and Dec. – half the average sales.

Cost of goods sold is ₹60,000; Salary ₹6,000; Bad debts ₹2,400; Interest on purchase price paid by the company up to 1-8-2009 ₹2,100; Expenses exclusively related to company ₹8,900.

Prepare statement showing profit prior to and after incorporation.

Solution

Calculation of time ratio

Pre incorporation	1-1-15 to 1-4-15	3 months
Post incorporation	1-4-15 to 31-12-15	9 months
Time ratio		3:9

Calculation of sales ratio

Pre-incorporation sales

Jan	Feb	March	Total
0.50	0.50	1.50	2.50

Remaining period = 12 – 6 = 6/4 = 1.50

Post incorporation sales

Ap.	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
1.50	1	1	1	1.50	1.50	1	0.50	0.50	9.50
Sales ratio			2.50 : 9.50						

Interest to vendor

Total months up 1st August	1-1-15 to 1-8-15	7 months
Less: Pre-incorporation period	1-1-15 to 1-4-15	3 months
Post incorporation		4 months
Interest paid to vendor		3 : 4

Profit and Loss a/c

Particulars	Pre ₹	Post ₹	Particulars	Pre ₹	Post ₹
To Cost of goods sold	15,000	45,000	By Sales	50,000	1,90,000
“ Salary	1,500	4,500			
“ Bad debts	500	1,900			
“ Interest paid	900	1,200			
“ Expenses	–	8,900			
“ Capital reserve (b/f)	32,100	–			
“ Net profit (b/f)	–	1,28,500			
	50,000	1,90,000		50,000	1,90,000

Illustration -11 A company was incorporated on 1-5-2015 to take over the business from 1-1-2015. Accounts were made up to 31-12-2015 as usual and the trading and P & L a/c showed the following results.

Trading and P & L a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	30,000	By Sales	2,40,000
“ Purchases	1,80,000	“ Closing stock	54,000
“ Gross profit	84,000		
	2,94,000		2,94,000
To Salary	12,000	By Gross profit	84,000
“ Rent	4,800		
“ Directors fees	3,000		
“ Travelling exp.	2,400		
“ Office exp.	12,000		
“ Bad debts	500		
“ Discount	3,600		
“ Audit fees	600		
“ Depreciation	1,800		
“ Debenture interest	1,000		
“ Interest on purchase consideration up to 1-10-15	4,500		
“ Formation exp.	5,000		
“ Carriage	1,200		

" General exp.	2,100		
" Advertisement	1,800		
" Printing	3,000		
" Net profit	24,700		
	84,000		84,000

Following further details are also given:

1) It is ascertained that the sales for Jan. were 1.5 times of the average sales of the year, while for April, August and December were only half the average sales and those for March is twice the average.
2) Out of the total bad debts, ₹200 rebate to debts created prior to incorporation.

Ascertain the pre and post incorporation profit.

Solution

Calculation of time ratio

Pre incorporation	1-1-15 to 1-5-15	4 months
Post incorporation	1-5-15 to 31-12-15	8 months
Time ratio		4:8

Calculation of sales ratio

Pre-incorporation sales

Jan	Feb	March	Ap.	Total
1.5	1	2	0.5	5

Post incorporation sales

May	June	July	Aug	Sep	Oct	Nov	Dec	Total
1	1	1	0.5	1	1	1	0.5	7
Sales ratio		5 : 7						

Interest to vendor

Total months up 1st August	1-1-15 to 1-10-15	9 months
Less: Pre-incorporation period	1-1-15 to 1-5-15	4 months
Post incorporation		5 months
Interest paid to vendor		4 : 5

Profit and Loss Statement

Particulars	Basis	Pre ₹	Post ₹
Gross profit (A)	SR	**35,000**	**49,000**
To Salary	TR	4,000	8,000
" Rent	TR	1,600	3,200
" Directors fees	Post	–	3,000
" Travelling exp.	SR	1,000	1,400
" Office exp.	TR	4,000	8,000
" Bad debts	Actual	200	300
" Discount	SR	1,500	2,100
" Audit fees	TR	200	400
" Depreciation	TR	600	1,200
" Debenture interest	Post	–	1,000
" Int. on purchase consideration	Ad.TR	2,000	2,500
" Formation exp.	Actual	–	5,000
" Carriage	SR	500	700
" General exp.	TR	700	1,400
" Advertisement	SR	750	1,050
" Printing	TR	1,000	2,000
Total (B)		18,050	41,250
Capital reserve/ P & L a/c (A-B)		16,950	7,750

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Pre-incorporation profit is to be credited to
   a) P & L a/c above the line b) P & L a/c below the line
   c) **Capital reserve** d) Revenue reserve

2. For calculating the pre-incorporation profits, the relevant date to be considered is
   a) Date of takeover b) Date of certificate of commencement of business
   c) Date of certificate of incorporation d) **Both a and c**

3. Post-incorporation profit is to be transferred to
   a) **Net profit** b) Goodwill
   c) Capital reserve d) Gross profit

4. Directors remuneration must be charged
   a) Exclusively to pre-incorporation period b) **Exclusively to post-incorporation period**
   c) Both the periods in time ratio d) Sales ratio

5. Pre-incorporation profit represents
   a) **Capital profit** b) Revenue profit
   c) Net profit d) Gross profit

6. Pre-incorporation loss should be transferred to
   a) Capital reserve b) **Goodwill**
   c) P & L a/c d) Gross loss

7. Gross profit is to be apportioned between pre and post incorporation periods in
   a) Time ratio b) Adjusted time ratio
   c) Sales ratio d) Post incorporation

8. Interest paid to vendors should be divided in
   a) **Adjusted time ratio** b) Time ratio
   c) Sales ratio d) Post incorporation

9. Period from the date of acquisition of business to the date of certificate of commencement of business is known as period ___________ incorporation
   a) **Prior to** b) After
   c) Before and after d) Post

10. A company may acquire business from a date of __________
   a**) Prior to its incorporation** b) After its incorporation
   c) Both a and b d) Accounting year end

11. The company profit prior to incorporation capital profit is transferred to
   a) Final a/c b) Trial balance
   c) Ledger a/c d) **Capital reserve a/c**

REVIEW QUESTIONS

A. Answer in Short

1. What do you mean by profit prior to incorporation?
2. How do you treat profit and loss arrived prior to incorporation?
3. How do you treat interest on purchase consideration?
4. How do you calculate Sales and time Ratio?
5. List out the expenses which are exclusively charged to post incorporation period.
6. Write a note on pre incorporation profit.

B. Answer in detail

1. Explain Profit/Loss prior to incorporation and how do you treat it in Accounts?
2. Discuss the different ratios used in computing profit prior to incorporation and explain each of them.
3. Give the treatment of the following with reasons, while arriving profit prior to incorporation.
   A. Audit fees
   B. Directors fees
   C. Preliminary expenses written off
   D. Interest Paid to vendors.
   E. Salaries.

EXERCISES

1. You are required to calculate time ratio and also divide the total wages in to pre and post incorporation period.

   Date of incorporation – 1-4-2015; Period of financial account – Jan to Dec.2015; Date of business purchase – 1-1-2015 and Total wages ₹4,800

2. R Ltd was incorporated on 1-7- 2015, which took over a running concern with effect from 1-1-2015.

   The sales for the period up to 1-7-2015 was ₹2,70,000 and the sales from 1-7-2015 to 31-12-2015 amounted to ₹3,30,000. The expenses debited to P & L a/c included:

   Directors fees ₹15,000; Bad debts ₹1,800; Advertisements (₹500 per month) ₹6,000; Salaries ₹32,000; Preliminary expenses written off ₹3,000

   The gross profit was (1-1-2015 to 31-12-2015) – ₹2,40,000.

   Ascertain the profit prior to incorporation.

3. A company incorporated on 1st April 2015 took over a running business from 1st Jan.2015. The company prepared its final accounts on 31-12-2015. From the following, calculating time ratio and sales ratio.

   i) Sales for the year 2015 ₹6,00,000

   ii) Sales for the month of January, twice the average sales

   iii) For the month of February it is equal to average sales.

   iv) A sale for four months from May to August is 1/4th of average sales of each month

   v) Sales for October and November, three times the average sales.

4. A company incorporated on 1st May 2015 and acquired a business from 1st Jan.2015. The first accounts were drawn up to September 30, 2015.

   The gross profit is ₹56,000. The general expenses are ₹14,220; Directors remuneration ₹1,000 p.m.; Formation expenses amounted to ₹1,500. Rent which till June 30, 2015 was ₹100 p.m. was increased to ₹300 per annum from July 1, 2015. The manager of the earlier firm whose salary was ₹500 p.m. was made a director upon the incorporation and his remuneration thereafter is included in the figure of director's remuneration given earlier.

   Prepare P & L a/c for the period assuming that the net sales were ₹82,000 the monthly average of which for the first four months of 2015 being one half of therefore the remaining period.

5. ABC Company Ltd was incorporated on 30-6-2015 to acquire the business from 1-1-2015 on the basis of last balance sheet dated 31-12-2014. The accounts for the year ended 31-12-2015 disclosed the following:

   There was a gross profit of ₹2,40,000; Sales for the year is ₹12,00,000, of which ₹5,40,000 was for the first 6 months.

   Expenses debited to P & L a/c included Directors fees ₹15,000. Bad debts ₹3,600, Advertising ₹12,000 (₹1,000 per month), Salaries and general expenses ₹64,000, Preliminary expenses written off ₹5,000, Donation to political party given by company ₹5,000.

   Prepare a statement showing amount of profit made before incorporation and after incorporation.

6. G Ltd was incorporated on 1st August 2015. It took over the business of M/S Shanker with effect from 1-4-2015. From the following figures relating to year ending 31st March 2016 ascertain the profit prior and after incorporation.

   a) Sales for the year were ₹60,00,000, out of which sales up to 1st August 2015 were ₹25,00,000

   b) Gross profit for the year was ₹18,00,000

   c) The expenses debited to P & L a/c were as follows:

Rent	₹90,000	Salaries	₹1,50,000
Directors fees	₹38,000	Interest debentures	₹60,000

Audit fees	₹15,000	Discount on sales	₹36,000
Depreciation	₹2,40,000	General expenses	₹48,000
Bad debts	₹15,000		

₹5,000 of bad debts mentioned above relate to debts created prior to incorporation.

7. P & Co. Ltd. was incorporated on 1-7-2015 to take over the business carried on R & Co. as a going concern with effect from 1-4-2015. The following is the P & L a/c for the year ended 31-3-2016 of P & Co. Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Administrative exp.	₹18,000	By Gross profit	₹75,000
" Directors fees	₹3,000		
" Selling expenses	₹36,000		
" Audit fees	₹1,000		
" Preliminary expenses	₹3,000		
" Net profit	₹14,000		
	75,000		75,000

Sales ₹3,00,000 (up to 30-6-2015 ₹1,00,000).

You are required to prepare a statement showing the profit earned prior and after incorporation.

8. A Co. Ltd was incorporated on May1, 2015 to take over the business of a partnership firm as a going concern from Jan.1, 2015. The company got the certificate of commencement of business in July 1, 2015.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Rent	₹12,000	By Gross profit	₹1,55,000
" Insurance	₹3,000		
" Electric charges	₹2,400		
" Directors fees	₹3,000		
" Audit fees	₹7,600		
" Salaries	₹36,000		
" Commission	₹4,000		
" Preliminary exp.	₹6,500		
" Bad debts	₹2,000		

" Net profit	₹78,500		
	₹1,55,000		₹1,55,000

The total turnover for the year ending 31-12-2015 was ₹5,00,000 divided in to ₹1,50,000 for the period up to 1-5-2015 and ₹3,50,000 for the remaining period.

Calculate the profits prior to incorporation and profits since incorporation of the company.

9. B Ltd. was incorporated on 30th June 2015 to take over the business of T Ltd on 1-1-15. The financial accounts of the business for the year ended 31st Dec.2015 disclosed the following information:

Sales	₹	₹
Jan. to June	1,20,000	
July to Dec.	1,80,000	3,00,000
Less: Purchases		
Jan. to June	75,000	
July to Dec.	1,20,000	1,95,000
Gross profit		1,05,000
Less: Salaries	15,000	
Selling exp.	3,000	
Depreciation	1,500	
Directors remuneration	750	
Debenture interest	90	
Administration exp.	4,500	24,840
Net profit		80,160

You are required to prepare a statement apportioning the balance of profit between the period prior to and since incorporation and show the profit and loss appropriation a/c for the year ended 31st Dec.2015.

10. X Company purchased a business on 1st April 2015. The company obtained certificate of incorporation on 31st July 2015. From the following particulars for the year ending 31st March 2016, ascertain profit prior to incorporation and divisible profits.

   a) Totals sales up to 31st Mar.16 ₹10,00,000. Sales from 1st April 15 to 31st July 15 ₹2,50,000

   b) Gross profit for the year ₹2,12,000

c) Expenses debited to P & L a/c

Rent	₹6,000	Commission on sales	₹12,600
Salaries	₹27,000	Interest on debentures	₹4,000
Directors fees	₹2,600	Depreciation on machinery	₹30,000
Printing	₹4,200	Preliminary expenses	₹7,200
General expenses	₹4,800	Interest paid to vendors up to 1st Sep. 15	₹5,000
Selling expenses	₹9,000	Advertisement	₹8,000
Insurance	₹1,500	Audit fees	₹1,200
Bad debts (₹850 related to prior incorporation)			₹2,400

Previous Year University Question Papers

1. You are required to calculate the Time ratio for the Pre and Post incorporations periods from the following particulars :
   (a) Date of Incorporation : 1st June 1999
   (b) Period of Financial Accounts : April 1999 To March 2000
   (c) Total wages Rs. 4,800
   (d) Number of workers : Pre Incorporation Period : 5
   Post Incorporation Period : 25

   Also divide the total wages between Pre and Post Incorporation Periods.

   [Madras, B.Com (PZ3A) Nov. 2009; Ap. 2008; B. Com., Oct. 2003]

   [Ans : Time Ratio : 1 : 5; Weighted Time Ratio : 1 : 25; Wages : Pre Incorporation : Rs.185; Post Incorporation :Rs. 4,615]

2. Ganesh Ltd., was incorporated on 1st May 1996 to purchase the running business of Vinayak and Co., with effect from 1st January 1996. The company obtained certificate of 'commencement of business on 24th August 1996. Calculate the time ratio, if the accounts were finalised on 31st **December 1996.**

   [Madras, B.Com(CS) (ICE) Oct. 2009; B.Com (CS) (SY3B) Nov. 2007;Ap;2007]

   [Ans: 1:2]

3. Kalpana Ltd. was incorporated on 1-4-92 to take over the business of Natu Brothers from 1-1-92. From the following information, calculate sales ratio and Gross Profit;
   (i) Sales during the period January — December 1992 amounted to Rs. 72,000. The trend of the sales was a under :

   January and February — half the average sales in each month.

   May, June and July — average sales in each month

   October — average sales

November and December — half the average sales in each month.

(ii) Cost of goods sold Rs. 18,000

[Madras,B.Com (CS) (SY3B) Ap 2007]

[Ans : Sales ratio : 5 : 19; Gross Profit : Rs. 54,000]

4. A company was incorporated on 1.6.94 in order to purchase a running business from 1.1.94. The following particulars are available from its records:

(a)	Total sales for 1994		80,000
(b)	Sales from 1.1.94 to 31.5.94		20,000
(c)	Gross profit for the whole year	30,000	
(d)	Total expenses of 1994 (including directors' fees Rs. 1,000)		25,000
(e)	Company's share capital		75,000

Find out profit prior to incorporation and after incorporation by preparing profit and loss account.

[Madras, B.Com. (PZG) Nov. 2006 (Modified)]

[Ans: Loss prior to incorporation — Rs. 2,500; Profit after incorporation — Rs. 7,500]

5. A company was incorporated on 30th June 1984 to acquire the business of Mohan as from 1st January 1984. The accounts for the year ended 31st Dec. 1984. disclosed the following:

(a) There was a gross profit of Rs. 2,40,000,

(b) The sales for the year amounted to Rs. 12,00,000 of which Rs. 5,40,000 were for the first six months.

(c) The expenses debited to profit and loss account included:

Directors' fees	15,000
Bad debts	3,600
Advertising (Under a monthly contract of Rs. 1,000)	12,000
Salaries	64,000
Preliminary expenses written off	5,000
Donation to political parties given by the company	5,000

Prepare a statement showing profit made before and after incorporation.

[Periyar, Ap 2005]

[Madras, B.Cont (ICE) May 2007 (Modified) B.C.S. (Sent - SY3B) Nov. 2004; B.C.S., Ap 2002; B.Com., Madurai, November 1987; B.Com., Punjab, Apri11986]

[Ans : Profit made before incorporation — Rs. 68,380; Profit made after incorporation — Rs. 67,020]

6. Mukesh and Co., Ltd. was registered on 1-1-1999 to buy the business of M/s. MukeshBros., as on 1-10-1998 and obtained the certificate of commencement of business on 1-2-99. The accounts of the company for the period of 12 months ended 30-9-1999 disclosed the Net profit of Rs. 1,25,000 after having charged the following amounts :

   Salary : Rs. 30,000 (There were 4 employees in the pre incorporation period and 7 in the Post-incorporation period)

   Wages : Rs. 10,920 (There were 4 workers in the Pre-incorporation period_and 5 in the post-incorporation period and the rate of wages were Rs. 60 and Rs. 200 per month per worker in the Pre and post incorporation periods respectively).

   Sales : Rs. 4,80,000 of which Rs. 80,000 related to Pre incorporation period. Directors fee : Rs. 16,000.

   [Madras, M.Com. (Old) (ICE) Oct. 2001; Madras, M. Com. (Old) (ICE) May 2001 (1/2 Figures)]

   [Ans : Profit prior to Incorporation : Rs. 23,600; Post incorporation Profit :Rs. 1,01,400; adjusted time ratio for salarie : 4 : 21; Wages : Pre : Rs. 1,920; Post :,Rs. 9,000; G/P before charging wages :Rs. 1,81,920; Sales Ratio : 1 : 5)

7. Laxmi Ltd., was incorporated on 1st March 1990 and received the certificate of commencement of business on 1st April 1990. The company acquired the business of Rajan with effect from 1st November 1989. From the following figures relating to the year ending October 1990, find out the profits available for dividend.

   (a) Sales for the year were Rs. 6,00,000 out of which, sales upto 1st March 1990 were Rs. 2,50,000.

   (b) Gross profit for the year was Rs. 1,80,000.

   (c) The expenses debited to profit and loss account were:

Rent	9,000
Salaries	15,000
Directors fees	4,800
Audit fees	1,500
Discount on sales	3,600
Depreciation	24, 000
General expenses	4,800
Advertising	18,000
Printing & stationery	3,600
Commission on sales	6,000
Bad debts (Rs. 500 relates to debts prior to incorporation)	1,500
interest to vendors on purchase consideration upto 1 st May 1990	3,000

[Periyar, B.Com (CA) May 2005.), Thiruvalluvar, B.Com., Nov. 2005; Madras, B.Com (PZG) Ap 2007; Ap 2003 (10 Times) B.Com (Old EZK), Ap 2002, March 1995; Madras, B.A. Corp. Oct. 2003 (10 Tunes), March 1994] 2nd M.Com (ICE) Oct 2000 (10 Times)

[Ans : Profit available for dividend - Rs. 38,500; Profit prior to incorporation - Rs. 41,700]

Hint :Travelling Expenses : RS. 2,400 on Sales basis; Balance on Time basis.

8. M Ltd. was incorporated on 1.1.94 with an authorized capital of 50,000 equity shares of Rs. 10 each to take over the running business of V. Ltd. as from 1.10.93.Tl1e following is the summarized profit and loss account for the year ended 30.9.94.

Particulars	*Rs.*	*Rs.*
Sales — 1.10.93 to 31.12.93	6,000	
1.1.94 to 30.9.94	19,000	25,000
Cost of sales	16,000	
Administrative expenses	1,768	
Selling commission	875	
Goodwill written off	200	
Interest paid to vendors (loan repaid on 1.2.94)	373	
Distribution expenses (60% variable)	1,250	
Preliminary expenses written off	330	
Debenture interest	320	
Depreciation	444	
Directors' fees	100	21,660
Profit		3,340

The company deals with one type of product.

The unit cost of sales was reduced by 10% in the post incorporation period as compared to the preincorporation period. Apportion the net profit between pre incorporation and post incorporation periods showing the basis of apportionment.

[BharathiarB.Com., Nov. 2004; Madras, B.C.S. (ICE) May 2001; B.CS. Oct 2001 (10 Times), B.A., Corp. Madras, Sept. 1995; M.Com., Madras, April 1997]

[Ans : **Pre incorporation profit — Rs. 496; Post incorporation profit — Rs. 2,844; Cost of sales ratio =6000:(19,000*90/100) = 60 : 171; Time ratio = 1 : 3; Sales ratio = 6 : 9 Gross profit = Sales - Cost of goods sold Goodwill written off is to be allocated to post incorporation period; Interest paid to vendors - Adjusted time ratio 3 : 1 Distribution expenses - Fixed: Time ratio; Variable : Sales ratio]**

UNIT – 6

FINAL ACCOUNTS OF COMPANIES

Profit and Loss Appropriation Account- Difference between P & L a/c and P & L Appropriation a/c - Rules for transfer of minimum reserve to general reserve – Provisions -

Calculation of Managerial Remuneration - Preparation of trading, P & L, Appropriation a/c and Balance sheet

6.1 PROFIT AND LOSS APPROPRIATION ACCOUNT

The purpose of preparing P & L appropriation a/c is to distribute the available profit for various purposes. This account is prepared only when there is a profit.

6.2 DIFFERENCE BETWEEN P & L A/C AND P & L APPROPRIATION A/C

Basis	P & L a/c	P & L Appropriation a/c
Purpose	To find the net profit of a company	To distribute the profits available for various purpose
Need	It must be prepared	It may or may not be prepared
Transferred to	The surplus (Net profit) of this a/c is transferred to P & L Appropriation a/c	The balance of this a/c is transferred to liability side of the balance sheet under the heading Reserves and Surplus
When to prepare	It is prepared even though there is a loss	It is prepared only when there is profit

Profit and Loss Appropriation a/c

Particulars	Amount	Particulars	Amount
To Transfer to dividend	xxx	By Bal. from last year	xxx
“ Transfer to any particular fund	xxx	“ Net profit	xxx
“ Interim dividend	xxx		
“ Last year provision for tax	xxx		
“ Balance carried to balance sheet	xxx		
	xxx		xxx

6.3 GENERAL RESERVE

General reserve is created only when there is a profit. It is an appropriation of profit. It is created to provide additional capital or to strengthen the financial position of the business. The other purposes of creating such reserves are:

a) To meet unknown contingencies

b) To equalize the rate of dividend in the absence of adequate profit

c) To provide for the expansion of business

6.4 RULES FOR TRANSFER OF MINIMUM RESERVE TO GENERAL RESERVE

Dividend proposed	Amount to be transferred to the reserve
Exceeds 10% but not 12.5% of the paid-up capital	Not less than 2.5% of the current profit
Exceeds 12.5% but not 15% of the paid-up capital	Not less than 5% of the current profit
Exceeds 15% but not 20% of the paid-up capital	Not less than 7.5% of the current profit
Exceeds 20% of the paid-up capital	Not less than 10% of the current profit

6.5 PROVISION

Provision is created for some specific purpose and to meet certain contingent liabilities. It is a charge against profit. It must be created irrespective of the fact that there is a profit or loss. The purpose of creating such reserves is:

a) To meet some future loss such as depreciation, etc

b) To meet an outstanding liability for expenses e.g. salary due, wages due

c) To meet an expected contingency e.g. doubtful debts, undistributed claim, discount on debtors, etc

6.6 RESERVE FUND

Reserve Fund is more or less a general reserve. The only difference is that in case of a general reserve, the surplus is retained in the business and represented by general assets of the business whereas in case of reserve fund, the surplus is invested outside the business and represented by such investments.

6.7 DIVIDEND EQUALIZATION FUND

Dividend Equalization Fund is a fund created out of revenue profits. It is created to equalize the rate of dividend in the absence of adequate profits.

6.8 CAPITAL PROFITS

The profits which are not earned during the regular course of business are known as capital profits. Such profits are as follows:

a) Premium on issue of shares and debentures

b) Profit on sale of fixed assets

c) Surplus in the share forfeiture a/c

d) Profits prior to incorporation

e) Profits on the revaluation of assets and liabilities

f) Profit made on the purchase of a business

g) Profit on redemption of debentures

6.9 CAPITAL RESERVE

It is a reserve created out of capital profit. It cannot be generally distributed to the share holders. But it may be utilized for

a) Meeting capital losses

b) Issuing bonus shares subject to the Articles

c) Writing off intangible assets like goodwill, preliminary expenses, expenses for issue of shares or debentures, etc

6.10 SECRETE RESERVE

Any reserve which is not apparent on the face of the balance sheet is known as secrete reserve. It represents the surplus of assets over liabilities and capital but it is not disclosed. If a secrete reserve exists, the balance sheet of the business will not reveal the correct financial position.

6.11 DIVIDEND

Dividend means the divisible profits distributed to the members of a company. In other words it is a profit of a company divided among its share holders.

6.12 INTERIM DIVIDEND

Interim Dividend is a dividend which is paid before the final dividend is declared or it is a dividend which is paid in between two final dividends. It is a dividend which is paid between two annual general meetings. It is paid when the directors think that they have made a sufficient profit to such a dividend to be paid.

6.13 MANAGERIAL REMUNERATION

The maximum remuneration payable to different categories of managerial personnel is given below:

Sl. No.	Managerial Personnel	Max. % of net Profits
1.	Maximum remuneration to all managerial personnel	11%
2.	Manager	5%
3.	Managing Director	5%
4.	Managing Directors (all together)	10%
5.	Part time Director (without managing director)	3%
6.	Part time director (with managing director)	1%

6.14 CONTINGENT LIABILITY

A liability which may or may arise at a future date is known as contingent liability. It will appear as a foot note under that liability side of the balance sheet. E.g. bills receivable discounted with the banker.

Illustration 1 Show how you will exhibit the following items in the balance sheet of a company as on Dec.31, 2016.

Original cost of building ₹4,00,000; Book value of building on 1st Jan.2016 ₹2,80,000; Depreciation to be written off at 5% on written down value.

Solution

Assets side: - **Fixed assets**

Building	2,80,000
Less: Depreciation (2,80,000 x 5%)	14,000
	2,66,000

Illustration -2 From the following particulars, show how the fixed asset machinery should be shown in the balance sheet of the company as on 31st Dec.2016.

Cost of machinery as per balance sheet ₹2,40,000; Amount purchased during the year ₹12,000; Cost of machinery sold during the year ₹7,000; Depreciation ₹10,000

Solution

Assets side: - **Fixed assets**

Machinery	2,40,000
Add: Purchase of machinery	12,000

	2,52,000
Less: Machinery sold	7,000
	2,45,000
Less: Depreciation	10,000
	2,35,000

6.15 CALCULATION OF MANAGERIAL REMUNERATION

Illustration -3 The following are the balances extracted from the company records. Calculate the remuneration of the managing director at 5% of the net profit, after charging such commission.

Net profit is ₹38,786. Items considered for arriving at the above profit:

a) Provision for taxation ₹39,000

b) Managing Directors remuneration paid ₹12,000

c) Formation expenses written off ₹4,000

d) Directors fees ₹2,500

e) Provision for doubtful debts ₹1,200

f) Depreciation written off ₹12,880

g) Depreciation allowable as per income tax rules ₹12,000

h) Ex-gratia payment to employee (without any liability to the company) ₹2,000

Solution

Net profit as per P & L a/c	₹38,786
Add: Provision for taxation	39,000
M D remuneration	12,000
Formation expenses	4,000
Excess depreciation	880
Ex-gratia	2,000
NP for calculation of remuneration	₹96,666

Commission due	96,666 x 5/105	₹4,603
Less: Already paid		₹12,000
Due from MD	(12,000 – 4,603)	₹7,397

Illustration -4 A Ltd. had a balance of ₹11,500 in its P & L a/c on 1-4-2016. During 2016 -17 its profits amounted to ₹1,47,500. The income tax for the year amounted to ₹48,300. The company decided to transfer ₹10,000 to the general reserve, ₹15,000 to sinking fund for redemption of debentures and pay a dividend for 2016-17 @ 10%. The company's share capital consisted of 50,000 shares of ₹10 each. Draw up the P & L Appropriation a/c.

Solution

P & L Appropriation a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Income tax	48,300	By Bal. b/d	11,500
" General reserve	10,000	" Net profit	1,47,500
" Sinking Fund	15,000		
" Dividend	50,000		
" Bal. c/d	35,700		
	1,59,000		1,59,000

PART II – Form of STATEMENT OF PROFIT AND LOSS

(As per revised schedule VI)

Name of the Company

Profit and Loss statement for the year ended

(Rupees in…………)

	Particulars	Note No.	Current reporting period	Previous reporting period
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx
III.	**Total Revenue (I + II)**		xxx	xxx
IV.	**Expenses:**			
	Cost of materials consumed		xxx	xxx
	Purchases of stock-in-trade		xxx	xxx
	Changes in inventories of finished goods			
	work-in-progress and stock-in-trade		xxx	xxx
	Employee benefits expense		xxx	xxx
	Finance costs		xxx	xxx
	Depreciation and amortization expense		xxx	xxx
	Other expenses		xxx	xxx
	Total expenses		xxx	xxx

V.	Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI.	Exceptional items		xxx	xxx
VII.	Profit before extraordinary items and tax (V- VI)		xxx	xxx
VIII.	Extraordinary Items		xxx	xxx
IX.	Profit before tax (VII- VIII)		xxx	xxx
X.	Tax expense:			
	(1) Current tax		xxx	xxx
	(2) Deferred tax		xxx	xxx

6.16 REVENUE FROM OPERATIONS

Revenue from operations is to be separately disclosed in the notes, showing revenue from:

- Sale of products
- Sale of services
- Other operating revenues
- Less: Excise duty

Other Income:

"Other Income" shall be classified as:

- Interest Income (in case of a company other than a finance company);
- Dividend Income;
- Net gain / loss on sale of investments;
- Other non-operating income (net of expenses directly attributable to such income).

6.17 EXPENSES

The aggregate of the following expenses are to be disclosed on the face of the Statement of Profit and Loss:

- Cost of materials consumed
- Purchases of Stock-in-Trade
- Changes in inventories of finished goods, work in progress and stock in trade
- Employee benefits expense
- Finance costs
- Depreciation and amortization expense
- Other expenses

Cost of materials consumed

Purchases of Stock in Trade

Stock-in -trade refers to goods purchased normally with the intention to resell or trade in. In case, any semi-finished goods/materials are purchased with an intention of doing further processing activities on the same, the same should be included in 'cost of materials consumed' rather than under this item.

Changes in inventories of finished goods, work-in-progress and stock-in-trade

This requires disclosure of difference between opening and closing inventories of finished goods, work-in-progress and stock-in-trade. The difference should be disclosed separately for finished goods, work in progress and stock in trade.

Employee benefits expense

This requires disclosure of the following details:

1. Salaries and wages

The aggregate amounts paid/payable by the company for payment of salaries and wages are to be disclosed here. Expenses on account of bonus, leave encashment, compensation and other similar payments also need to be disclosed here. Where a separate fund is maintained for Gratuity payouts, contribution to Gratuity fund should be disclosed under the sub-head Contribution to provident and other funds.

2. Contribution to provident and other funds

The aggregate amounts paid/payable by a company on account of contributions to provident fund and other funds like Gratuity fund, Superannuation fund, etc. are to be disclosed here.

Contributions for such funds for contract labour may also be separately disclosed here. However, penalties and other similar amounts paid to the statutory authorities are not strictly in the nature of 'contribution' and should not be disclosed here.

3. Expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP)

The amount of expense under this head should be determined in accordance with the Guidance Note on Accounting for Employee Share based Payments and/or the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as applicable. All disclosures required by the aforesaid Guidance Note should be made here.

4. Staff welfare expense - The total expenditure on Staff welfare is to be disclosed herein.

5. Finance costs

As per Note 3 of to the General Instructions for the Preparation of the Statement of Profit and Loss, disclosure of **Finance costs** is to be bifurcated under the following:

- **Interest expense**
- **Other borrowing costs**
- **Applicable net gain/loss on foreign currency transactions and translation**

Interest expense

This would cover interest paid on borrowings from banks and others, on debentures, bonds or similar instruments etc. Finance charges on finance leases are in the nature of interest expense and hence should also be classified as interest expense. In the absence of any bifurcation required for interest paid on fixed period loans and other borrowings as required under the Old Schedule VI, the same need not be given.

Other borrowing costs

Other borrowing costs would include commitment charges, loan processing charges, guarantee charges, loan facilitation charges, discounts/premium on borrowings, other ancillary costs incurred in connection with borrowings, or amortization of such costs, etc.

Applicable net gain/loss on foreign currency transactions and translation

As per Para 4(e) of AS-16, borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Any such exchange differences would need to be disclosed under this head.

6. Depreciation and amortization expense

A company has to disclose depreciation provided on fixed assets and amortization of intangible assets under this head.

7. Other Expenses

Further Note 5(vi) requires a separate disclosure of each of the following items, which will also be classified under “Other expenses”.

- Consumption of stores and spare parts;
- Power and fuel;
- Rent;
- Repairs to buildings;
- Repairs to machinery;
- Insurance;
- Rates and taxes, excluding taxes on income;
- Miscellaneous expenses.

6.18 PREPARATION OF STATEMENT OF PROFIT AND LOSS

Illustration 5 You are given the following information from the books of Siraj Co. Ltd., as on 31st March 2015.

Trial Balance Siraj Co. Ltd as on 31st March,2015

Particulars	Amount	Particulars	Amount
Depreciation on premises	8,000	Sales	12,40,000
Materials consumed	8,00,000	Equity Share Capital	8,00,000
Opening Stock	40,000	Outstanding wages	6,000
Salaries	1,14,000		
Bad debts	3,800		
Bonus to employees	20,000		
Interest on Loan	16,000		
Depreciation on machinery	18,000		
Conveyance	4,000		
Loss on sale of machinery	20,000		
Insurance	16,200		
Sales Returns	40,000		
Provision for Tax	60,000		
Machinery	6,00,000		
P. F. Contribution	86,000		
Premises	1,60,000		
Computer	40,000		
	20,46,000		**20,46,000**

Additional information:

Closing stock was valued at ₹1, 20,000.

Solution

Statement of Profit and Loss of Siraj Co. Ltd as on 31st March,2015

		Note No.	Amount ₹
(I)	**Revenue from Operations**	1	12,00,000
(II)	**Other Income**		–
(III)	**Total revenue**		12,00,000
(IV)	**Expenses:**		
	(a) Material Consumed		8,00,000

	(b) Purchases		0
	(c) Changes in Inventories	2	(80,000)
	(d) Employees benefit expenses	3	2,20,000
	(e) Finance Cost		16,000
	(f) Depreciation and amortization exp	4	26,000
	(g) Other Expenses	5	44,000
	Total Expenses		10,26,000
(V)	**Profit & Loss before Tax (III-IV)**		1,74,000
(VI)	**Provision for Tax**		(60,000)
(VII)	**Profit Loss after Tax (V-VI)**		1,14,000

Notes

1	**Revenue from Operations**		**4**	**Depreciation & Amortization**	
	Sales	12,40,000		Depreciation on premises	8,000
	Less Sales Returns	40,000		Depreciation on machinery	18,000
		12,00,000			26,000
2	**Changes in Inventories**		**5**	**Other expenses**	
	Opening Stock	40,000		Bad debts	3800
	Less Closing Stock	(1,20,000)		Conveyance	4000
		(80,000)		Loss on sale of machinery	20000
3	**Employees benefit expenses**			Insurance	16200
	Salaries	1,14,000			44000
	PF Contribution	86,000			
	Bonus to employees	20,000			
		2,20,000			

Illustration 6 From the following Trial balance of Glory Co. Ltd., as on 31st March 2015, prepare a statement of P & L Account as per Schedule III of the Companies Act.

Trial Balance of Glory Co. Ltd. as on 31st March, 2015

Particulars	Amount ₹	Particulars	Amount ₹
Interest on Debentures	32,400	Share Transfer Fees	15,000
Delivery van expenses	5,100	Commission received	7,400
Travelling Expenses	10,200	12% Debentures	2,70,000
Bad Debts	6,500	Sales	6,45,500
Discount	7,000	Share Capital	5,00,000

Purchases	3,15,800		
Insurance	6,000		
Furniture	1,22,600		
Freight outward	8,400		
Opening Stock	72000		
Free samples	5,000		
Showroom expenses	11,400		
Depreciation	38,900		
Bank balance	1,58,600		
Land & Building	4,00,000		
Wages	93,000		
Office Equipment	1,45,000		
	14,37,900		14,37,900

Additional information:

Closing stock was valued at ₹85,500.

Solution

Statement of Profit and Loss of Glory Co. Ltd. as on 31st March, 2015

	Particulars	**Note No**	**Amount ₹**
(I)	Revenue from Operations		6,45,500
(II)	Other Income	1	22,400
(III)	Total revenue		6,67,900
(IV)	Expenses:		
	(a)Material Consumed		0
	(b)Purchases		3,15,800
	(c)Changes in Inventories	2	(13,300)
	(d)Employees benefit expenses		93,000
	(e)Finance Cost		32,400
	(f) Depreciation and Amortization Exp		38,900
	(g)Other Expenses	3	59,600
	Total Expenses		5,26,400
(V)	Profit & Loss before Tax (III-IV)		1,41,500
(VI)	Provision for Tax		0
(VII)	Profit Loss after Tax (V-VI)		1,41,500

Notes

		₹			
1	**Other Income**		**3**	**Other Expenses**	
	Share Transfer Fees	15,000		Travelling Expenses	10,200
	Commission Received	7,400		Delivery van Expenses	5,100
		22,400		Bad Debts	6,500
2	**Changes in Inventories**			Discount	7,000
	Opening Stock	72,000		Freight Outward	8,400
	Less Closing Stock	(85,500)		Free samples	5,000
		(13,500)		Showroom expenses	11,400
				Insurance	6,000
					59,600

Illustration 7 You are given the following extracts of ledger balances taken from Vihar Co. Ltd., for the year ending 31st March 2015. Prepare a statement of P & L a/c as per revised Schedule III.

Particulars	₹	Particulars	₹
Excise Duty	8,000	Machinery	25,000
Provision for tax	10,000	Directors remuneration	20,000
Depreciation on Machinery	3,300	Factory expenses	2,500
Sundry expenses	7,000	Sales	4,55,000
Rent	4,000	Returns inward	5,000
Salaries	7,500	Purchases	2,35,000
Materials consumed	90,000	Closing stock	75,000
Interest on Investment	5,000	Opening stock	82,000
Rent received	3,000	Wages	30,000
Motive power	12,000	Bank loan	40,000
Transport Charges	1,000	Interest on Bank loan	4,000

Solution

Statement of Profit and Loss of Vihar Co. Ltd. as on 31st March, 2015

Particulars	Note No.	Amount ₹
(I) Revenue from operations	1	4,42,000
(II) Other Income	2	8,000
(III) **Total revenue**		4,50,000

(IV) Expenses:		
(a) Material consumed		90,000
(b) Purchases		2,35,000
(c) Changes in inventories	3	7,000
(d) Employees benefit expenses	4	37,500
(e) Finance cost		4,000
(f) Depreciation and amortization exp		3,300
(f) Other expenses	5	46,500
Total Expenses		4,23,300
(V) Profit & Loss before Tax (III-IV)		26,700
(VI) Provision for Tax		(10,000)
(VII) Profit Loss after Tax (V-VI)		16,700

Working Notes

1 Revenue from Operations	₹	**4 Employees benefit expenses**	₹
Sales	4,55,000	Salaries	7,500
Less Sales Returns	5,000	Wages	30,000
Less Excise Duty	8,000		**37,500**
	4,42,000	**5 Other expenses**	
2 Other Income		Sundry expenses	7,000
Interest on investment	5,000	Rent	4,000
Rent received	3,000	Directors remuneration	20,000
	8,000	Factory expenses	2,500
3 Changes in Inventories		Motive power	12,000
Opening Stock	82,000	Transport charges	1000
Less Closing Stock	(75,000)		46,500
	7,000		

Illustration 8 You are given the following extracts of ledger balances taken from Chanakya Co. Ltd. for the year ending 31st March 2015. Prepare a statement of P & L a/c as per revised Schedule III.

Particulars	₹	**Particulars**	₹
Opening stock of finished goods	1,90,500	Provision for taxation	30,000
Cost of material consumed	2,92,000	Goodwill written off	18,000

Salaries to office staff	68,000	Sales returns	17,000
Closing stock of finished goods	2,03,000	Provision for bad debts	8,200
Interest on debentures paid	16,250	Delivery expenses	7,200
General expenses	8,250	Printing & stationery	22,600
Discount earned	4,900	Factory expenses	82,000
Cash sales	2,66,000	Bonus to employees	32,000
Credit sales	3,87,500	Depreciation on Plant & machinery	50,000
Income tax refund	11,500		

Solution

Statement of Profit and Loss of Chanakya Ltd. as on 31st March, 2015

	Particulars	**Note No.**	**Amount**
(I)	Revenue from Operations	1	6,36,500
(II)	Other Income	2	16,400
(III)	**Total revenue**		6,52,900
(IV)	Expenses:		
	(a) Material consumed		2,92,000
	(b) Purchases		0
	(c) Changes in inventories	3	(12,500)
	(d) Employees benefit expenses	4	1,00,000
	(e) Finance cost		16,250
	(f) Depreciation and amortization exp.	5	68,000
	(g) Other expenses	6	1,28,250
	Total Expenses		5,92,000
(V)	Profit & Loss before Tax (III-IV)		60,900
(VI)	Provision for Tax		(30,000)
(VII)	Profit Loss after Tax (V-VI)		30,900

Working Notes

1 Revenue from Operations		**4 Employees benefit expenses**	
Cash sales	2,66,000	Salaries to office staff	68,000
Credit sales	3,87,500	Bonus to employees	32,000
Less: sales returns	(17,000)		1,00,000
	6,36,000	**5 Depreciation & Amortization**	
2 Other Income		Goodwill written off	18,000

Discount earned	4,900	Dep. on Plant & machinery	50,000
Income tax refund	11,500		68,000
	16,400	**6 Other Expenses**	
3 Changes in Inventories		General expenses	8,250
Opening Stock	1,90,500	Provision for Bad debts	8,200
Less Closing Stock	(2,03,000)	Freight on purchases	7,200
	(12,500)	Printing & stationery	22,600
		Factory expenses	82,000
			1,28,250

Illustration 9 Following ledger balances are taken from Virupaksh Ltd., for the year ending 31/3/2015. Prepare P & L Account in vertical form with major heads.

Particulars	₹	Particulars	₹
Stock of finished goods as on 01-04-2014	2,90,000	Directors fees	57,000
Stock of work-in-progress as on 01-04-2014	3,93,000	Sales	10,95,000
Stock of finished goods as on 31-03-2015	1,84,000	Wages	74,000
Stock of work-in-progress as on 31-03-2015	2,60,000	Bad debts	16,570
Material consumed	3,15,000	Live stock	1,00,600
Administrative expenses	37,400	Royalty received	18,300
Provision for taxation	18,000	Bank loan	4,00,000
Patents written off	25,200	Coal & Coke	87,500
Depreciation on plant	38,000	Interest on loan	60,000

Solution

Statement of Profit and Loss of Virupaksh Co. Ltd. as on 31st March, 2015

Particulars	Note No.	Amount
(I) Revenue from Operations		10,95,000
(II) Other Income		18,300
(III)Total revenue		11,13,300
(IV) Expenses:		
(a) Material consumed		3,15,000
(b) Purchases		0
(c) Changes in inventories	1	2,39,000
(d) Employees benefit expenses		74,000
(e) Finance cost		60,000

(f) Depreciation and amortization exp.	2	63,200
(g) Other expenses	3	1,98,470
Total Expenses		9,49,670
(V) Profit & Loss before Tax (III-IV)		1,63,630
(VI) Provision for Tax		(18,000)
(VII) Profit Loss after Tax (V-VI)		1,45,630

Notes

1 Changes in inventories			**2 Depreciation & amortisation**	
Opening stock			Depreciation on plant	38,000
Work-in-progress		3,93,000	Patents written off	25,200
Finished goods		2,90,000		63,200
		6,83,000	**3. Other Expenses**	
Less: Closing stock			Coal & coke	87,500
Work-in-progress	2,60,000		Bad debts	16,570
Finished goods	1,84,000		Administrative expenses	37,400
		4,44,000	Directors fees	57,000
		2,39,000		1,98,470

PART I – Form of BALANCE SHEET

(As per revised schedule VI)

Name of the Company______________

Balance Sheet as at _________________

(Rupees in_________)

Particulars	**Note No.**	**Current reporting period**	**Previous reporting period**
I. EQUITY AND LIABILITIES			
(1) **Shareholders' funds**			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) **Share application money pending allotment**			
(3) **Non-current liabilities**			
(a) Long-term borrowings			

(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
(4) **Current liabilities**			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. ASSETS			
(1) **Non-current assets**			
(a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) **Current assets**			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
TOTAL			

6.19 ITEMS APPEARING UNDER THE HEAD EQUITY AND LIABILITIES

1) SHAREHOLDERS' FUNDS

A) Share capital: Under the head "Share Capital", some of the important items to be shown are as under:

- Number and amount of shares authorised.

- Number of shares issued, subscribed and fully paid up and subscribed but not fully paid up.
- Par value per share.
- A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.
- Shares in the company held by each share holder holding more than 5% shares specifying the number of shares held.
- Aggregate number and class of shares allotted or fully paid up for consideration other than cash.
- Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
- Calls unpaid showing aggregate value of calls unpaid by directors and officers.
- Share forfeited amount.

B) Reserves and Surplus: Under this head the following items are shown;

- Capital Reserve
- Securities Premium (Reserve)
- Capital Redemption Reserve.
- Debenture Redemption Reserve
- Revaluation Reserve
- Share Options Outstanding Account
- Other reserves (a) General Reserve (b) Tax Reserve (c) Subsidy Reserve d)Amalgamation Reserve
- Surplus i.e., balance in Statement of Profit and Loss.

In case the final balance of the statement of profit and loss shows a debit balance the same should be shown as deduction from the totals of reserves.

C) Money received against share warrants: A share warrant is a financial instrument which gives the holder the right to acquire equity shares. A disclosure of the money received against share warrants is to be made since shares are yet to be allotted against the share warrants. These are not shown as part of share capital but to be shown as a separate line items.

2) SHARE APPLICATION MONEY PENDING ALLOTMENT:

If company has issued shares but date of allotment falls after the balance sheet date, such application money pending allotment will be shown in the following manner:

- Share application money not exceeding the issued capital and to extent not refundable is to be disclosed under this line-item.
- Share application money to the extent refundable or where minimum subscription is not met, such amount shall be shown separately under the other current liabilities.

3) **NONCURRENT LIABILITIES:** A non-current Liability is a liability which is not classified as current-liability. A liability is classified as current when it satisfies any one of the following conditions:

It is expected to be settled in the company's normal operating cycle. Operating cycle means the time between the acquisition of assets for processing and their realization in cash or cash equivalents. It may vary from few days to few years. Where the operating cycle cannot be identified, it is assumed to have a duration of 12 months.

- It is held for the purpose of being traded.
- It is due to be settled within 12 months after the reporting date.
- The company does not have an unconditional right to offer settlement of the liability for at least 12 months after the reporting date

Hence, the liabilities which are not classified as current shall be classified as non–current.

a) Long Terms borrowings (Debentures, Long Term Loans etc.)

b) Deferred Tax Liabilities (Net)

c) Other Long Term Liabilities (Trade payables on account of purchase of Fixed Assets and interest accrued there on, Provisional Fund contribution)

d) Long Term provisions: All provisions for which the related claims are expected to be settled beyond 12 months after the reporting date are classified as non-current provisions. (Provision for employee benefits, Provision for Warranties).

4) **CURRENT LIABILITIES:**

a) Short term borrowings (Loans repayable on demand from banks and other parties, Deposits, Loans and advances from related parties)

b) Trade Payables: A trade payable refers to the amount due on account of goods purchased or services received in the normal course of business.

c) Other Current Liabilities (Unpaid dividends, Interest accrued and due/ not due on borrowings, income received in advance, Calls in advance and interest thereon.)

d) Short Term Provisions: All Provisions for which the related claim is expected to be settled within 12 months after the reporting period are classified as short term

provisions and shown under the head "Current Liabilities" (Provision for doubtful debts, Provision for tax, proposed dividend.)

6.20 ITEMS APPEARING ON ASSETS SIDE OF BALANCE SHEET

There are mainly two types of assets namely Non-current and Current Assets.

1. NON-CURRENT ASSETS

a) Fixed Assets

i) Tangible Assets: Tangible assets are assets which can be physically seen and touched. (Land, Building, Plant and Equipment, Furniture & Fixture, Vehicles, Office Equipments, Others)

ii) Intangible Assets: Intangible assets are assets which are not tangible classified as given below: (Goodwill, Brands/ trademarks, Computer Software, Mastheads and Publishing Titles, Mining Right, Copyrights and patents and other intellectual property rights, Recipes, formulae, models, designs, Licenses and franchise, Others.)

iii) Capital Work in Progress

iv) Intangible Assets under Development – like patents, intellectual property rights, etc. which are being developed by the company

b) Non Current Investments – Investments which are not held for purpose of resale (Investment property, Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc).

c) Deferred Tax Assets (Net)

d) Long-term Loans and Advances – Capital Advances, Security Deposits, etc.

2. CURRENT ASSET

An asset shall be classified as current when it satisfies any of the following criteria:

It is expected to be realized in, or is intended for sale or consumption in the company's normal operating cycle; An operating cycle is the time between the acquisition of assets for processing and their realization in cash and cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

- It is held primarily for the purpose of being traded;
- It is expected to be realised within twelve months after the reporting date; or
- It is cash or cash equivalents unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current Assets.

a) **Current Investments** – Investment which are held to be converted into cash within a short period i.e., within 12 months (Investments in Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc.)

b) **Inventories:** Inventories include the following: Raw material, Work-in-progress, Finished goods, Goods acquired for trading, Stores and spares and Loose tools.

c) **Trade Receivable:** Trade receivables refer to the amount due on account of goods held or services rendered in the normal course of business.

d) **Cash and Cash Equivalents** – As discussed in the silent features of revised Schedule in General Instructions.

e) **Short-term Loans and Advances**

f) **Other Current Assets** (Prepaid expenses, and advance taxes)

Contingent Liabilities and Capital Commitments

Contingent Liabilities- Those liabilities which may or may not arise because they are dependent on a happening in future. It is not recorded in the books of accounts but is disclosed in the Notes to Accounts for the information of the users. (Claims against the company not acknowledged as debts, Guarantees, Other money for which the company is contingently liable.)

Capital Commitments – Financial commitments due to activities agreed by the company to be undertaken by it in future. (Uncalled Liability)

6.21 PREPARATION OF BALANCE SHEET

Illustration 10 From the following is the trial balance of Vishal Ltd., prepare the balance sheet of the company as on 31st March 2015 as per Schedule III of the Companies Act.

Trial Balance as on 31st March 2015

Debit	₹	Credit	₹
Advances to employees	3,00,000	Equity Share Capital	52,00,000
Cash at Bank	3,14,320	Capital Reserve	60,000
Furniture & Fixture	7,50,000	Loan from SBI	8,00,000
Discount on issue of shares (unwritten off)	25,000	Provision for Employees Welfare Fund	6,00,000
Patents	10,00,000	Proposed Dividend	1,64,000
Premises	41,09,940	Short term loan from bank	4,90,200
Trade Receivables	3,66,240	Unpaid dividend	64,800
Advance Tax	50,000	Profit & Loss A/c	42,980

8% Govt. Bonds	3,36,000	Bills Payable	85,100
Stock in trade	3,55,600	Sundry Creditors	1,00,020
	76,07,100		76,07,100

Solution

Balance Sheet of Vishal Limited as on 31st March 2015

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital		52,00,000
(b) Reserves and surplus	1	1,02,980
2 Share application money pending allotment:		Nil
3 Non-current liabilities:		
(a) Long-term borrowings		8,00,000
(b) Long-term provisions		6,00,000
4 Current liabilities:		
(a) Short-term borrowings		4,90,200
(b) Trade payables	2	1,85,120
(c) Other current liabilities		64,800
(d) Short-term provisions		1,64,000
TOTAL		76,07,100
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	3	48,59,940
(ii) Intangible assets		10,00,000
(b) Other non-current assets		25,000
2. Current assets:		
(a) Current investments		3,36,000
(b) Inventories		3,55,600
(c) Trade receivables		3,66,240

(d) Cash and cash equivalents		3,14,320
(e) Short-term loans and advances		3,00,000
(f) Other current assets		50,000
TOTAL		76,07,100

Notes to the Financial Statement:

1. Reserve and Surplus		2. Trade payables	
Capital reserve	60,000	Sundry creditors	1,00,020
Profit & Loss a/c (Cr. Bal.)	42,980	Bills payable	85,100
Total	1,02,980	Total	1,85,120
3. Tangible fixed assets			
Premises	41,09,940		
Furniture & Fixture	7,50,000		
Total	48,59,940		

Illustration 11 From the following ledger balances of Varun Ltd., prepare the balance sheet of the company as on 31st March 2016 as per Schedule III of the Companies Act.

Particulars	₹	Particulars	₹
Plant & machinery	6,00,000	Immovable property	10,00,000
8% Debenture	8,00,000	Public deposit	5,00,000
Employee's provident Fund	1,30,000	Provision for taxation	1,80,000
Securities premium	80,000	Drafts on hand	5,00,000
Cash at bank	34,000	Bills Receivable	2,40,000
Prepaid insurance	1,00,000	Brokerage on issue of shares	1,10,000
Sundry Creditors	1,16,000	Bank overdraft	1,50,000
Loan to Manager	70,000	Security Deposit	1,24,000
Deposits with ICICI Bank (5 years)	1,98,000	Trade marks	1,80,000
24,000 fully paid Equity shares of ₹100 each ₹ 50 called up			12,00,000

Solution

Balance Sheet of VARUN LTD. as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		

(a) Share capital	1	12,00,000
(b) Reserves and surplus		80,000
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings	2	13,00,000
(d) Long-term provisions		1,30,000
4. Current liabilities:		
(a) Short-term borrowings		1,50,000
(b) Trade payables		1,16,000
(d) Short-term provisions		1,80,000
TOTAL		31,56,000
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	3	16,00,000
(ii) Intangible assets		1,80,000
(b) Non-current investment		1,98,000
(c) Long-term loans & advances		1,24,000
(e) Other non-current assets		1,10,000
2 .Current assets:		
(a) Trade receivables		2,40,000
(b) Cash and cash equivalents	4	5,34,000
(c) Short-term loans and advances		70,000
(d) Other current assets		1,00,000
TOTAL		31,56,000

Notes to the Financial Statement:

1. Share Capital		3. Tangible Assets	
Authorized Capital	24,00,000	Plant & Machinery	6,00,000
(24,000 Equity shares of ₹100 each)		Immovable property	10,00,000
Issued & Subscribed capital	24,00,000	TOTAL	16,00,000
(24,000 Equity shares of ₹100 each)		4. Cash & Cash equivalent	
Called up & Paid up capital	12,00,000	Cash in hand	34,000
(24,000 Equity shares of ₹80 each)		Drafts on hand	5,00,000
TOTAL	12,00,000	TOTAL	5,34,000

2. Long Term borrowings			
8% Debentures	8,00,000		
Public deposits	5,00,000		
TOTAL	13,00,000		

Illustration- 12 From the following ledger balances of Regal Limited as on 31st March 2016, you are required to prepare the balance sheet as on 31st March 2016 as per Revised Schedule III of the Indian Companies Act.

Particulars	₹	Particulars	₹
Office Equipment	4,80,600	General Reserve	4,15,000
9% Debentures in APCO Ltd	2,45,000	Creditors for Goods	1,68,500
Loose Tools	1,63,000	Creditors for expenses	36,000
Plant & machinery	18,00,000	Cash Credit	75,000
Computer Software	83,250	Mortgage loan	3,10,000
Debtors for goods	1,90,000	8% Preference share capital	5,50,000
Advertisement (unwritten off)	30,000	Equity Share Capital	15,00,000
Stores & Spares	1,00,200	Staff Welfare Fund	85,000
Interest accrued on investment	51,000	Provision for Taxation	26,550
Cash at Bank	23,000		

Solution:

Balance Sheet of Regal Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital : i) Equity Share Capital		15,00,000
ii) Preference Share Capital		5,50,000
(b) Reserves and surplus		4,15,000
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings		3,10,000
(d) Long-term provisions		85,000
4 .Current liabilities:		

(a) Short-term borrowings		75,000
(b) Trade payables	1	2,04,500
(d) Short-term provisions		26,550
TOTAL		31,66,050
II.ASSETS		
1.Non-current assets:		
(a)Fixed assets		
(i) Tangible assets	2	22,80,600
(ii) Intangible assets		83,250
(e) Other non-current assets		30,000
2. Current assets:		
(a) Current investments		2,45,000
(b) Inventories	3	2,63,200
(c) Trade receivables		1,90,000
(d) Cash and cash equivalents		23,000
(e) Other current assets		51,000
TOTAL		31,66,050

Notes to the Financial Statement:

1.	**Trade payables**		**3.**	**Inventories**	
	Creditors for Goods	1,68,500		Loose tools	1,63,000
	Creditors for expenses	36,000		Stores & Spares	1,00,200
	Total	2,04,500		Total	2,63,200
2.	**Tangible Fixed Assets**				
	Office Equipment	4,80,600			
	Plant and machinery	18,00,000			
	Total	22,80,600			

Illustration 13 From the following trial balance, prepare balance sheet of Darshan Ltd., in the prescribed proforma as on 31st March 2016.

Trial Balance as on 31st March 2016

Particulars	₹	Particulars	₹
Leasehold property	16,00,000	Unclaimed dividend	6,000

Bank balance	1,05,000	Share Capital	20,65,000
Plant & Machinery	9,00,000	Staff Provident fund	8,00,000
Goodwill	3,00,000	Capita redemption reserve	2,20,000
Investment in a subsidiary Co.	11,50,000	General reserve	1,90,000
P & L a/c	70,000	Deposits from public	9,00,000
Stock of finished goods	1,20,000	Accounts payable	2,10,000
Accounts receivable	2,40,000	Short Term loan from SBI	1,78,000
Preliminary expenses	39,000		
Underwriting commission	45,000		
	45,69,000		45,69,000

Solution

Balance Sheet of Darshan Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		
(a) Share capital		20,65,000
(b) Reserves and surplus	1	3,40,000
2. Share application money pending allotment:		
3. Non-current liabilities:		
(a) Long-term borrowings		9,00,000
(b) Long-term provisions		8,00,000
4. Current liabilities:		
(a) Short-term borrowings		1,78,000
(b) Trade payables		2,10,000
(c) Other current liabilities		6,000
TOTAL		44,99,000
II.ASSETS		
1.Non-current assets:		
a) Fixed assets		
(i) Tangible assets	2	25,00,000
(ii) Intangible assets		3,00,000

b) Non- current Investment		11,50,000
c) Other Non-current assets	3	84,000
2 .Current assets:		
(a) Inventories		1,20,000
(b) Trade receivables		2,40,000
(c) Cash and cash equivalents		1,05,000
TOTAL		44,99,000

Notes to the Financial Statement:

1.	**Reserve and Surplus**		**3.**	**Other non-current assets**	
	Capital Redemption Reserve	2,20,000		Underwriting commission	45,000
	General Reserves	1,90,000		Preliminary expenses	39,000
	Debit balance of P& L	(70,000)		Total	84,000
	Total	3,40,000			
2.	**Tangible Fixed Assets**				
	Leasehold property	16,00,000			
	Plant & machinery	9,00,000			
	Total	25,00,000			

Illustration 14 From the following ledger balances of Sunshine Co. Ltd., prepare the balance sheet of the company as on 31st March 2016 as per Schedule III of the Companies Act.

Particulars	₹	Particulars	₹
Equity Share Capital	26,00,000	Advances to employees	1,50,000
General Reserves	30,000	Discount on issue of debentures (unwritten off)	12,500
12% Debenture	4,00,000	Tools and equipment	3,75,000
Land & Buildings	15,54,970	Gratuity Fund	3,00,000
Goodwill	10,00,000	Debtors	1,38,520
Bank Overdraft	2,45,100	Cash at Bank	1,57,160
Proposed Dividend	82,000	Stores & Spares	1,77,800
Prepaid insurance	25,000	Profit & Loss a/c (credit)	21,490
Mutual Fund	1,68,000	Bills Receivable	44,600
Interest payable	32,400	Sundry Creditors	92,560

Solution:

Balance Sheet of Sunshine Company Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		
(a) Share capital		26,00,000
(b) Reserves and surplus	1	51,490
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings		4,00,000
(b) Long-term provisions		3,00,000
4. Current liabilities:		
(a) Short-term borrowings		2,45,100
(b) Trade payables		92,560
(c) Other current liabilities		32,400
(d) Short-term provisions		82,000
TOTAL		38,03,550
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	2	19,29,970
(ii) Intangible assets		10,00,000
(b) Other non-current assets		12,500
2. Current assets:		
(a) Current investments		1,68,000
(b) Inventories		1,77,800
(c) Trade receivables	3	1,83,120
(d) Cash and cash equivalents		1,57,160

(e) Short-term loans and advances		1,50,000
(f) Other current assets		25,000
TOTAL		38,03,550

Notes to the Financial Statement:

1.	**Reserve and Surplus**		**3.**	**Trade Receivables**	
	General Reserve	30,000		Sundry Debtors	1,38,520
	Profit & Loss a/c (Cr. Bal.)	21,490		Bills Receivable	44,600
	Total	51,490		Total	1,83,120
2.	**Tangible Fixed Assets**				
	Land & Buildings	15,54,970			
	Tools & Equipment	3,75,000			
	Total	19,29,970			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. In a balance sheet of a limited company, assets are arranged in the order of

   a) Liquidity b) **Performance**
   c) Neither of the two d) Either liquidity or performance

2. Dividends are usually paid on

   a) Authorized capital b) Subscribed capital
   c) **Paid up capital** d) Called up capital

3. Divisible profits do not include

   a) Reserve fund b) P & L a/c
   c) **Revaluation reserve** d) Insurance fund

4. When the proposed dividend exceeds 20% of the paid up capital, the % of profits to be transferred to reserve is

   a) **10%** b) 7.5%
   c) 5% d) 2.5%

5. The amount set aside to meet the loss of bad debts is a

   a) Reserve b) Liability
   c) Contingent liability d**) Provision**

6. Interim dividend appears in

   a) P & L a/c b) P & L Appropriation a/c
   c) Balance sheet d) **P & L Appropriation a/c and Balance sheet**

7. B/R is shown on the asset side of the balance sheet under the heading

   a) Share capital b) Investments
   c) **Current assets and loans and advances** d) None of these

8. Indicate the item that appears in the P & L a/c below the line

   a) Proposed dividend b) Provision for taxation
   c) Contribution to provident fund d) Bank loans

9. In the balance sheet of a company, bills payable is shown under the heading

   a) Current assets b) Fixed assets
   c) **Current liabilities** d) Reserves and surplus

10. Dividends are paid on _______________

a) Paid up share capital	b) Authorized share capital
c) Called up capital	d) Uncalled capital

REVIEW QUESTIONS

A) Answer in Short

1. What is managerial remuneration? Write note.
2. What are the components of final accounts of a joint stock company?
3. What is dividend?
4. What is reserve fund?
5. Write the rules for transfer of minimum reserve to general reserve.

B) Answer in Detail

1. Draft the Balance Sheet of a limited company in prescribed from with imaginary figures.
2. Explain the low relating to calculation of "managerial remuneration".
3. Explain the following

   a). Provisions b). Reserve Fund c). Reserve
4. Write short notes on:

   (a). Share capital

   (b). Contingent liabilities

   (c). Capital redemption reserve

   (d). Current asset

   (e). Current liabilities

EXERCISES

1. The provision for tax at the end of 31st March stood at ₹3,00,000. During 2008-09, the tax liabilities up to 31st March 2008 were settled for ₹2,74,000. Provision required in respect of 2008-09 is ₹82,000. How will you show provision for tax in P & L a/c?

2. X Ltd. made a loss of ₹30,000 after providing depreciation of ₹50,000 for the year 2009. In 2010, it made a profit of ₹1,00,000 after providing for that year's depreciation. Calculate the amount available for dividend.

3. A company has fixed assets of ₹2,00,000 and profit after depreciation @ 5% p.a. is ₹80,000 and the income tax limit for depreciation is ₹8,000. Calculate

   a) 5% of the net profit as commission to manager and b) Tax provision at 50%.

4. From the following details of Mohan Ltd. prepare P & L Appropriation a/c for the year ended 31-3-16.

   P & L a/c (Cr) on 1-4-2015 ₹57,500; Proposed dividend ₹50,000; Net profit ₹2,30,500; Transfer to general reserve ₹35,500; Cash balance ₹20,500; Creditors ₹9,505.

5. The following balances were extracted from the books Aarthy Ltd. for the year ended Mar.31, 2016:

Building	₹6,00,000	Furniture	₹60,000
Motor vehicles	₹60,000	Equity shares of companies	₹4,00,000
Stock	₹4,00,000	Debtors unsecured considered good	₹2,80,000
Cash	₹1,72,000	Salaries and wages	₹2,20,000
Equity shares of ₹100 each	₹10,00,000	Creditors	₹3,50,000
P & L a/c (Cr)	₹20,000	Gross profit	₹10,00,000
Dividend received on investments	₹10,000	Advance against construction of Building	₹1,30,000
Directors fees	₹8,000	Electricity charges	₹25,000
Rates, taxes	₹10,000	Auditors fees	₹15,000

   Prepare P & L a/c of the company for the year ended 31st March 2016 and balance sheet as on that date after the following adjustments:

   a) Provide 10% depreciation per annum
   b) Stock has been revalued at ₹3,60,000. This has not been considered
   c) Debt more than 6 months are ₹80,000
   d) Ignore tax provision

6. The following is the trial balance of ABC Ltd as on 30-6-2016. The authorized capital of the company consists of 50,000 equity shares of ₹10 each.

Debit	Amount ₹	Credit	Amount ₹
Calls in arrears	6,400	Equity shares of ₹10 each	1,00,000
Land	10,000	Bad debts provision on 1-7-2015	1,400
Building	25,000	Sales	80,000
Furniture	3,200	Purchase returns	3,400
Carriage inwards	2,300	Creditors	13,200
Wages	21,400	Share premium	6,000
Salary	4,600	General reserve	24,000
Sales returns	1,700		
Printing charges	100		
Fuel	700		
Rates and taxes	800		
Purchases	50,000		
Bills receivable	1,200		
General expenses	1,900		
Debtors	42,800		
Stock on 1-7-2015	25,000		
Fire insurance	400		
Cash	2,500		
Bank	13,000		
Plant	15,000		
	2,28,000		2,28,000

Adjustments:

a) Charge depreciation on building at 2.5%, on Plant at 10% and Furniture at 10%

b) Make a provision of 5% on debtors for bad debts

c) Prepaid insurance ₹120

d) Outstanding liabilities: Wages ₹3,200; salary ₹500 and rent ₹200

e) Stock on 30-6-2016 was ₹30,000

Prepare P & L a/c and balance sheet of XYZ Co. Ltd.

7. The following is the trial balance of ABC Ltd as on 31-12-2016.

Debit	**Amount ₹**	**Credit**	**Amount ₹**
Stock on 1-1-2016	7,500	Sales	35,000
Purchases	24,500	Discount	500
Productive wages	5,000	P & L a/c on 1-1-2016	1,503
Discount	700	Equity shares of ₹10 each	10,000
Salary	750	Creditors	1,750
Rent	495	Reserve	1,550
General expenses including insurance	1,705		
Dividend paid	900		
Debtors	3,750		
Plant	1,620		
Bad debts	483		
Cash	2,900		
	50,303		50,303

Adjustments:

a) Stock as on 31-12-2016 ₹8,200

b) Depreciation on Plant at 10%

c) Provide 5% as discount on debtors

d) Allow 2.5% as discount on creditors

e) Provide managing directors commission at 15% on net profit before deducting the commission

f) One month rent at ₹540 per annum was due on 31-12-2016

g) Six months insurance was unexpired at ₹75 p.a.

Prepare trading and profit and loss a/c and balance sheet of ABC Company Ltd.

8. The following is the trial balance on June 30, 2016 of A Ltd.

Stock on 30th June 2015	₹7,500	Sales	₹35,000
Purchases	₹24,500	Productive wages	₹5,000
Discount (Dr)	₹700	Discount (Cr)	₹500
Salaries	₹750	Rent	₹495
General expenses	₹1,705	P & L a/c (Cr)	₹1,503
Dividend paid August 2015	₹500	Interim dividend paid Feb.2016	₹400

Capital ₹1 each	₹10,000	Debtors	₹3,750
Creditors	₹1,750	Plant	₹2,900
Cash	₹1,620	Reserve	₹1,550
Loan to MD	₹325	Bad debts	₹158

You are required to make out the trading a/c and P & L a/c for the year ended 30th June 2016 and the balance sheet as on that date. You are required to make provision in respect of the following:

a) Depreciation of machinery 10% p.a.

b) Reserve 5% discount on debtors.

c) Stock on 30th June 2016 ₹8,200.

9. From the following balances as on 31st Dec.2016 of Kiran Ltd Co. prepare P & L a/c for the year ended and balance sheet as on that date:

Debits	**Amount ₹**	**Credits**	**Amount ₹**
Stock on 1-1-2016	33,380	Paid up capital	50,000
Discount	6,788	Sales	1,46,268
Land	22,000	Sundry receipts	200
Plant	10,700	Creditors	39,532
Purchases	91,888	Provision for bad debts	5,300
Furniture	2,750	Discount	5,904
Debtors	63,600	Bank overdraft	13,823
P & L a/c (Dr)	4,960	Customer's deposit	400
Carriage	3,780		
Wages	9,016		
Bad debts	1,820		
Office expenses	10,275		
Cash	470		
	2,61,427		2,61,427

The following adjustments have to be made:

a) Stock on 31-12-2016 ₹35,460.

b) Depreciate plant at 10% and furniture at 6%.

c) The managing director is entitled to 10% commission on net profits before charging such commission.

d) Provide 10% for doubtful debts.

10. MK Ltd made a net profit of ₹25,000 lakhs after adjusting the following items

Particulars	(₹in Lakhs)
Provision for depreciation	10,000
Capital profit on sale of part of the undertaking	200
Depreciation as per books	600
Managerial remuneration	55
Provision for diminution in the value of investments	15
Provision for wealth tax	20
Directors fees	15
Profit on sale of assets U/S 349	40
Profit on sale of investments	30
Loss on sale of assets U/S 349	35
Prior period adjustments (credit)	15
Provision for bad debts	100
Ex-gratia payment to an employee	5

You are given the following additional information

i) Depreciation as per $ 40 ₹5,000 Lakhs

ii) Bad debts actually written off ₹60 Lakhs

You are required to calculate the net profit.

11. The following trial balance of Ajit & Co as at 30th Dec.2016 is given to you:

Debit	Amount ₹	Credit	Amount ₹
Stock (1-1-2016)	40,000	Equity shares	3,00,000
Bank	8,800	6% Debentures	1,00,000
Patents	30,000	Creditors	50,000
Calls in arrears	10,000	General reserve	40,000
Returns inwards	15,000	Sales	5,00,000
Purchases	3,86,000	Returns outwards	10,000
Wages	54,000	P & L a/c (Cr)	6,000
Insurance prepaid	200		
Bills receivable	15,000		
Debtors	40,000		
Discount on issue of debentures	5,000		
Plant	2,00,000		

Land	1,50,000		
Insurance	2,000		
General expenses	20,000		
Establishment expenses	30,000		
	10,06,000		10,06,000

Additional information:

i) The value of stock on 31st Dec.2016 is ₹74,000

ii) Depreciate patents, plant and land at 10%

You are required to prepare trading, profit and loss a/c for the year ended 31-12-2016 and balance sheet as on that date.

12. The directors of M Ltd ask to prepare the profit and loss a/c for the year ended 30-6-2016 and the balance sheet as on that date.

Debit	Amount ₹	Credit	Amount ₹
Plant	3,00,000	Equity share capital	4,00,000
Land	5,00,000	8% Preference shares	2,00,000
Investment in shares	200,000	Depreciation up to 31-7-2015	
Stock	70,000	On Plant	1,00,000
Cash	60,000	On Land	1,50,000
Debtors	50,000	Dividend reserve	10,000
Income tax deducted at source on dividend	2,200	P & L a/c on 1-7-2015	25,000
Office expenses	15,000	Creditors	25,000
Rent and taxes	6,000	Dividend	10,000
Audit fees	2,500	Miscellaneous Receipts	2,300
Managing directors minimum remuneration	12,000	Trading a/c balance	3,09,400
Directors fees	2,000		
Sundry expenses	6,000		
Income tax for previous year not provided for	6,000		
	12,31,700		12,31,700

Adjustments:

a) Depreciation is to be charged on the written down value of plant at 10%, land at 5%

b) The directors propose to recommend a dividend of 15% on equity shares

c) Provision for taxation is to be made at 55%

d) The managing director is entitled to 5% of the net profit subject to a minimum of ₹12,000 p.a.

e) A sum of ₹15,000 is to be transferred to dividend reserve.

13. Authorized capital of Z Ltd. is ₹5,00,000 (₹10 each) on 31-12-2016. 25,000 shares were fully called up. On 31-12-2016, the following balances taken from the ledger of the company.

Opening stock	₹50,000	Sales	₹4,25,000
Purchases	₹3,00,000	Wages	₹70,000
Discount allowed	₹4,200	Discount received	₹3,150
Insurance (paid 31-3-2017)	₹6,720	Salaries	₹18,500
Rent	₹6,000	General expenses	₹8,950
Printing and stationery	₹2,400	Advertising	₹3,800
Bonus	₹10,500	Sundry debtors	₹38,700
Sundry creditors	₹35,200	Plant	₹80,500
Furniture	₹17,100	Cash	₹1,34,700
Reserve	₹25,000	Loan from MD	₹15,700
Bad debts	₹3,200	Calls in arrears	₹5,000
P & L a/c	₹6,220		

Additional information was furnished:

a) Closing stock ₹91,500

b) Depreciation on plant and furniture @ 15% and 10% respectively

c) Wages, salaries and rent outstanding amounts ₹5,200, ₹1,200 and ₹600 respectively

d) Dividend @ 5% on paid up share capital is to be provided.

Prepare final accounts of the company.

14. The following is the trial balance of D Ltd. as on 31-3-2016:

Debit balance	**Amount ₹**	**Credit balance**	**Amount ₹**
Stock	75,000	Purchases returns	10,000
Purchases	2,45,000	Sales	3,40,000
Wages	30,000	Discount	3,000
Carriage inwards	950	P & L Appropriation a/c	15,000
Furniture	17,000	Share capital	1,00,000
Salaries	7,500	Creditors	17,500
Rent	4,000	General reserve	15,500

Sundry expenses	7,050	Bills payable	7,000
Dividend for 2015-16	9,000		
Debtors	27,500		
Plant	29,000		
Cash	46,200		
Patents	4,800		
Bills receivable	5,000		
	5,08,000		5,08,000

Prepare final accounts after adjusting the following:

a) Stock on 31-3-2016 ₹88,000

b) Depreciate plant at 15%, furniture at 10% and patent at 5%

c) Outstanding rent ₹800 and salaries ₹900

d) Make a provision for bad debts amounting to ₹510.

15. ABC Co. Ltd. was registered with nominal capital of ₹6,00,000 in equity shares of ₹10 each. Following is the list of balances extracted from its books on 31-12-2016:

Calls in arrears	₹7,500	Paid up capital	₹4,00,000
Premises	₹3,00,000	6% Debentures	₹3,00,000
Plant	₹3,30,000	P & L a/c (Cr)	₹14,500
Interim dividend paid on 1-8-16	₹37,500	Bills payable	₹38,500
Stock on 1-1-2016	₹75,000	Creditors	₹50,000
Furniture	₹7,200	Sales	₹4,15,000
Debtors	₹87,000	General reserve	₹25,000
Goodwill	₹25,000	Cash in hand	₹1,250
Cash at bank	₹39,900	Bad debts provision on 1-1-16	₹3,500
Preliminary expenses	₹5,000	Purchases	₹1,85,000
General expenses	₹16,835	Wages	₹84,865
Salary	₹14,500	Director's fees	₹5,725
Bad debts	₹2,110	Freight and carriage	₹13,115
Debenture interest paid	₹9,000		

Prepare P & L a/c and balance sheet in proper form after making following adjustments:

i) Depreciate plant 10%

ii) Write off ₹500 from preliminary expenses

iii) Leave bad and doubtful debts at 5% on sundry debtors

iv) Stock on 31-12-2016 is ₹95,000.

16. From the under mentioned trial balance of BB Ltd., prepare a trading, profit and loss a/c for the year ended Dec.31, 2016 and the balance sheet as on that date:

Debit balance	**Amount ₹**	**Credit balance**	**Amount ₹**
Debenture interest (half year up to 30-6-16)	625	Equity share capital (₹100 each)	1,00,000
Rent and taxes	6,000	5% Debentures	25,000
Purchases	60,900	Sales	1,75,000
Wages	55,200	Creditors	8,000
Fuel	2,570	Bank overdraft	12,000
Building	70,000	Discount	2,200
Carriage in	1,175	Transfer fees	100
Debtors	20,000	Returns outward	100
Goodwill	28,000		
Plant	25,000		
Loose tools	6,000		
Advertisement	3,000		
General expense	4,400		
Bad debts	1,030		
Opening stock	30,000		
Miscellaneous Exp.	3,000		
Insurance	2,500		
Cash	3,000		
	3,22,400		3,22,400

Adjustments: 1. The authorized capital of the company is ₹2,00,000

2. Stock on Dec.31, 2016 is ₹35,000

3. Depreciate Plant by 9%

4. Allow 2.5 % discount on debtors and 2% as bad debts reserve

You are not required to show the previous year's figures.

17. The following is the trial balance of A & Co. as on 31-3- 16 with the authorized capital of 72,000 shares @ ₹10 each.

Debit balances	Amount ₹	Credit balances	Amount ₹
Cash in hand	900	P & L a/c	17,400
Cash at bank	3,05,980	Creditors	60,000
Calls in arrears	9,000	Debentures	3,60,000
Wages	92,760	Share capital	5,52,000
Land	3,60,000	Bills payable	45,600
Plant	4,32,000	Sales	4,98,000
General exp.	20,280	Reserve for bad debts	4,200
Salaries	17,400	General reserve	30,000
Interim dividend	9,000		
Furniture	40,000		
Purchases	2,29,880		
Debtors	50,000		
	15,67,200		15,67,200

Adjustments:
1) Outstanding wages ₹6,000; Salaries ₹3,000
2) General expenses include prepaid insurance @ ₹300
3) Provide depreciation on Land, Plant and Furniture at 5%, 10% and 20% respectively
4) Stock on 31-3-2016 amounted to ₹1,40,000
5) Outstanding interest on debentures ₹18,000
6) Final dividend paid ₹21,000

Prepare final accounts.

18. X Ltd has an authorized capital of ₹50,00,000, divided into 5,00,000 equity shares of ₹10 each. Their books showed the following balances as on 31-12-2016:

Stock on 1-1-2016	₹6,65,000	Discount allowed	₹30,000
Carriage inwards	₹57,500	Patents	₹3,75,000
Rent and taxes	₹55,000	Furniture	₹1,50,000
Materials purchased	₹12,32,500	Wages	₹13,05,000
Coal and coke	₹63,000	Land	₹12,50,000
Plant	₹7,50,000	Loose tools	₹1,50,000
Goodwill	₹3,75,000	Debtors	₹2,66,000

B/R	₹1,34,500	Advertisement	₹15,000
Business expenses	₹1,70,000	Bad debts	₹25,500
Bank balance	₹20,000	Cash in hand	₹8,000
Debenture interest up to 30-6-16	₹10,000	Bank interest paid	₹91,000
Preliminary expenses	₹10,000	Calls in arrears	₹10,000
Equity share capital of ₹10 each	₹20,00,000	4% Debentures	₹5,00,000
Bank O/D	₹7,57,000	Creditors	₹2,40,500
Sales	₹36,17,000	Rent (Cr)	₹30,000
Transfer fees	₹6,500	P & L a/c (Cr)	₹67,000

Adjustments:

a) The stock on 31-12-2016 was ₹7,08,000

b) Outstanding liability for wages ₹25,000 and business expenses ₹25,000

c) Provide for dividend @ 10% on paid up capital

d) Provide depreciation – Plant – 5%; Loose tools – 20%; Patent – 10% and Furniture – 10%

e) Write off ₹21,500 as bad debts and provide 2% on debtors for bad debts

f) Write off preliminary expenses ₹5,000

g) Transfer to redemption reserve ₹50,000 and provide for income tax ₹2,40,000

Prepare the P & L a/c for the year ending 31-12-2016 and balance sheet as per Companies Act on that date.

19. Following is the trial balance of Original Traders Ltd. as on 31-12-2016.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Land	70,000	Share capital	1,00,000
Plant	54,000	General reserve	15,000
Stock on 31-12-2016	64,000	8% Debentures	50,000
Salary	4,600	Bank overdraft	2,000
Debtors	38,000	Creditors	8,000
Cash	1,000	Share premium	5,000
Preliminary exp.	2,000	P & L a/c	3,000
Bank	12,000	Gross profit	52,000
Advance payment of income tax	4,000	Debenture redemption reserve	20,000

Directors fees	3,400		
Debenture interest	2,000		
	2,55,000		2,55,000

Adjustments:

i) Provide ₹12,000 for income tax, ₹1,000 for audit fees and debenture interest for 6 months

ii) Machinery worth ₹20,000 was purchased on 1-10-2016; Depreciate machinery at 10% p.a.

iii) Directors desire the following appropriations:

a) ₹5,000 to debenture redemption reserve

b) ₹2,000 to general reserve

c) Dividend at 8%

iv) The authorized capital of the company consists of 5,000 equity shares of ₹100 each, 2,000 shares are issued on which ₹50 per share was paid up.

v) Write off 50% preliminary expenses

Prepare P & L a/c and Balance sheet as on 31-12-2016.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. The following balance were extracted from the books of Kousick Ltd. for the year ended 31st March 2011.

Buildings	6,00,00
Motor vehicles	60,000
Sundry debtors unsecured considered good	2,80,000
Stock at cost	4,00,000
Advances against construction of building	1,30,000
Share capital:	
10,000 equity shares of Rs. 100 each	10,00,000
Dividend received on investments	10,000
Electricity charges	25,000
Auditor's fees	15,000
Furniture	60,000
Equity shares of companies	4,00,000
Cash at bank	1,72,000
Sundry creditors	3,50,000
P and L a/c (Cr)	20,000

Gross profit	1,00,000
Salaries and wages	2,20,000
Directors fees	8,000
Rent, rates and Insurance	10,000

Prepare profit and loss a/c of the company for the year ended 31st December 2011, and the balance sheet as on that date after the following adjustments:

(a) Provide 10% depreciation per annum

(b) Stock has been revaluated at Rs. 3,60,000. This has not yet been considered.

(c) Debts more than 6 months are Rs. 80,000

(d) Ignore tax provision.

[Alagapa B.Com., 2016]

2. Prepare final account from the following information:

Debit	Rs.	Credit	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	P & L account	6,220
Discount allowed	4,200	Creditors	35,200
Insurance up to 31.3.06	6,720	Reserves	25,000
Salaries	18,500	Loan from MD	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisement	3,800		
Bonus	10,500		
Debtors	38,700		
Plant	1,80,000		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

you are required to prepared P & L account for the year ended 31.32015 and a balance sheet as on that date. The following information is given.

(a) Closing stock was valued at Rs. 1,91,500

(b) Depreciation on plant at 15% and on furniture at 10% should be provided.

(c) A tax provision of Rs. 8,000 is considered necessary.

(d) The directors declared an interim dividend on 15.8.2005 for 6 months ending June 30, 2005 @ 6%.

[Madurai, M.Com (CA), November 2014]

3. From the following trail balance prepare trading and profit and loss account and balance sheet.

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Salaries	20,000	Creditors	50,000
Rent	25,000	Sales	3,00,000
Cash	50,000	Capital	1,50,000
Debtors	3,500	Loans	20,500
Trade Expenses	6,000		
Purchase	60,000		
Advances	1,00,000		
Bank balance	50,000		
Buildings	2,06,000		
	5,20,500		**5,20,500**

Adjustments

(a) Closing stock at the year Rs. 20,000:

(b) Create 5% provision for discount on debtors:

(c) Commission payable to the manager to 5% of the profit after charging such commission.

[Madurai, M.Com (CA), November 2016]

4. From the following trail balance and additional information provided, prepare final accounts of Swamy stationaries Ltd. for the year ending 31st December 1990.

Trail Balance as on 31st December 1990

Particulars	Dr. Rs.	Cr. Rs.
Capital 30,000 equity shares of Rs. 10 each	–	3,00,000
Stock	2,25,000	–
Purchase and sales	7,35,000	10,50,000
Productive sales	1,50,000	–
Discount	21,000	15,000
Salaries	22,500	–
Rent	14,850	–

General expenses	51,150	–
Profit and loss A/c 31.12.1989	–	45,000
Dividend paid March 1990	15,000	–
Interim dividend paid August 1990	12,000	–
Debtors and creditors	1,12,500	52,500
Plant and machinery	87,000	–
Cash at bank	48,600	–
Reserve	–	46,500
Loan to M.D.	9,750	–
Bad debts	4,650	–
	15,09,000	**15,09,000**

Additional information:

(a) Stock on 31st December 1990 Rs. 2,46,000

(b) Depreciated Plant and Machinery @ 10% p.a.

(c) Reserve 5% on debtors for doubtful debts.

(d) Provide 2% for discount on creditors.

(e) One month rent (Rs. 1,350 p.m.) was due on 3st December 1990.

(f) Six months insurance was unexpired at Rs. 2,250 p.a.

(g) Provide Rs. 13,688 for Income Tax.

[Madurai, M.Com (CA), November 2015]

5. The following is the trial balance of Bee Ltd. as on 31st March, 2010.

	(Rs. in '000)		**(Rs. in '000)**
Stock as on 1.4.2009	7,500	Purchase returns	1,000
Purchases	24,500	Sales	34,000
Wages	3,000	Discount	300
Carriage inwards	95	Profit and Loss A/c	1,635
Furniture	1,700	Share capital	10,000
Salaries	750	Creditors	1,750
Rent	400	General reserve	1,550
Sundry trade expenses	605	Bills payable	700
Dividend paid for 2008-2009	900		
Corporate dividend tax paid	135		

Debtors Plant and Machinery Cash at Bank Patents Bills receivable	2,850 2,900 4,620 480 500		
	50,935		**50,935**

Prepare the profit and loss account for the year ended 31st March, 2010 and a balance sheet as on that date after considering the following adjustments:

(a) Stock as on 31st March, 2010 was valued at Rs. 88,10,000.

(b) Make a provision for income-tax at 35%

(c) Depreciate plant and machinery at 15% furniture at 10%; and patents at 5%.

(d) On 31st March, 2010 outstanding rent amount to Rs. 80,000.

(e) The board recommends payment of a dividend @ 15% per annum. Transfer the minimum required amount to general reserve. Also make a provision for corporate dividend tax @ 15% of the amount proposed to be distributed.

(f) Provide Rs. 3,000 for doubtful debts.

(g) Provide Rs. 5,20,000 for managerial remuneration.

[Madurai, M.Com (CA), November 2012]

6. Determine the maximum remuneration payable to the part time director and manager of B Ltd. (a manufacturing company) under section 309 and 387 of the Companies Act, 1956 from the following particulars:

Before charging any such remuneration, the Profit & Loss Account showed a credit balance of Rs. 23,10,000 for the year ended 31st March 1987 after taking into account the following matters:

	Rs.
(a) Capital expenditure	5,25,000
(b) Subsidy received from Government	4,20,000
(c) Special depreciation	70,000
(d) Multiple shift allowance	1,05,000
(e) Bonus to foreign technicians	3,15,000
(f) Provision for taxation	28,00,000
(g) Compensation paid to injured workman	70,000
(h) Ex-gratia to an employee ,	35,000
(i) Loss on sale of fixed assets	70,000
(j) Profit on sale of investment	2,10,000

[Madras,B.Com(AF) Nov 2007 ;Nov 2004]

[Ans : Managerial remuneration @ 5% on Rs. 55,30,000 = Rs. 2,76,500; Total managerial remuneration payable Rs. 2,76,500 + 55,300 = Rs. 3,31,8001

[Hint: Part time director's commission : 1% on 55,30,000 = 55,300]

7. From the following balances, prepare the Balance Sheet of a Company in the prescribed format. Goodwill Rs. 1,50,000; Investments Rs. 2,00,000; Share capital Rs. 5,00,000; Reserves Rs. 1,10,000; Share premium Rs. 15,000; Preliminary expenses Rs. 10,000; Profit and Loss A/c (Cr) Rs. 25,000; Debentures R s. 2,50,000. Other fixed assets Rs. 4,70,000; Stock Rs. 80,000; Debtors Rs. 60,000; Bank balance Rs. 30,000. Unsecured loan Rs. 65,000; Sundry creditors Rs. 35.000.

(Periyar, B.Com (CA) Ap 2005)

[Ans : Balance Sheet Total : Rs. 10,00,000]

8. Prepare a Balance sheet as at 31st march 2000 from the following information of ABC Ltd as required under the companies Act 1956:

	Rs.		Rs.
Term loan	10,00,000	Loss for the year	3,00,000
Creditors	11,45,000	Sundry debtors	12,25,000
Advances	3,72,000	Miscellaneous expenses	58,000
Cash & Bank Balances	2,75,000	Loans from directors	2,00,000
Staff advances	55,000	Provisions for doubtful debts	20,200
Provision for tax	1,70,000	Stock	4,00,000
Securities premium	4,75,000	Fixed assets (W.D.V)	51,50,000
Loose tolls	50,000	Finished goods	7,50,000
Investments	2,25,200	General reserves	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% pref. shares of Rs.100 each fully paidup

(b) Term Loan is secured

(c) Depreciation on assets : Rs. 5,00,000

(d) Schedules need not be given.

(Madras BCS (SY3B) Nov 2005 II; M.Com., (ICE) (Old) May 2003]

[Ans: Balance Sheet Total :Rs. 87,40,000]

1. Assume that W.D.V. of fixed assets is after depreciation because net loss for the year is already found.
2. Net Leasehold be adjusted against general reserve.

9. A Limited Company was registered with an authorized capital of Rs. 30,00,000 in equity shares of Rs. 10 each. The following is the list of balances extracted from its books on 31.12.94.

	Rs.
Purchases	9,25,000
Wages	4,24,325
Manufacturing expenses	65,575
Salaries	70,009
Bad debts	10,550
Directors' fees	31,120
Debenture interest paid	45,000
Preliminary expenses	25,000
Calls-in-arrears	37,500
Plant & Machinery	15,00,000
Premises	16,50,000
Interim dividend paid	1,87,500
Furniture and fittings	35,000
Sundry debtors	4,36,000
General expenses	84,175
Stock on 1.1.94	3,75,000
Cash in hand	1,00,000
Goodwill	28,750
Cash at bank	1,99,500
Subscribed and fully called up capital	20,00,000
Profit & Loss A/c (Cr)	72,500
6% Debentures	15,00,000
Sundry creditors	2,90,000
Bills payable	1,67,500
Sales	20,75,000
General reserve	1,25,000

You are required to prepare Trading and Profit & Loss account for the year ended 31.12.94 and the Balance Sheet as on that date, after making the following adjustments. Depreciate Plant & Machinery by 10%. Provide half years interest on debentures. Also write

off Rs. 2,500 from preliminary expenses and make provision for bad and doubtful debts of Rs. 4,250 on sundry debtors. Stock on 31st December 1994 was Rs. 4,55,000.

[(Madras, B.Com(AF) Apri12008; B.Com, (Sem - PZ3A) Nov. 2004]

[Ans: Gross profit — Rs. 7,40,100; Net profit — Rs. 2,97,500; Balance Sheet total — Rs. 42,72,500]

10. From the under mentioned Trial Balance of Barua Brothers Ltd., prepare a Trading and Profit and Loss A/c for the ended Dec. 31-1996 and the Balance Sheet as at that date :

Debit Balances	Rs.	Credit Balances	Rs.
Opening Stock	30,000	Equity share capital 1,000 shares of Rs. 100 each	1,00,000
Rent and Taxes	6,000		
Purchases	60,900	5% Debentures	25,000
Wages	55,200	Sales	1,75,000
Discount	1,500	Creditors	8,000
Fuel	2,570	Bank Overdraft	12,000
Building	70,000	Discount	2,200
Carriage inwards	1,175	Tranffer fee	100
Debtors	20,000	Returns Outwards	100
Goodwill	28,000		
Plant & Machinery	25,000		
Loose Tools	6,000		
Advertisement	3,000		
General expenses	4,400		
Bad Debts	1,030		
Debenture Interest (For half year)	625		
Miscellaneous Expenses	3,000		
Insurance	1,000		
Cash	3,000		
	3,22,400		3,22,400

(a) The authorised capital of the company is Rs. 2,00,000;

(b) Stock on Dec. 31, 1996 is Rs. 2,00,000.

(c) Depreciate Plant & Machinery at 9% and Revalue Tools at Rs.4,100.

(d) Allow 2.5% discount on debtors and 2% as bad debts reserve.

[Madras, B.Com., Oct. 2003]

[Ans : G.P : Rs. 2,25,255; N.P : Rs. 2,01,335; B/S Total :Rs. 3,46,960]

Hint: Miscellaneous expenses are to be assumed as sundry expenses and shown in P&L A/c.

11. The following is the Trial Balance of Naveen Ltd. as at 31-3-99.

	Rs.	Rs.
Stock (1-4-98)	75,000	–
Purchase returns	–	10,000
Purchases and Sales	2,45,000	–
Wages	30,000	–
Discount	–	3,000
Carriage Inward	950	–
Furniture & Fittings	17,000	–
Salaries	7,500	–
Rent	4,000	–
Sundry expenses	7,050	–
P&L App. A/c (31-3-98)	–	15,000
Dividend paid for 1997-98	9,000	–
Share Capital	–	1,00,000
Debtors and Creditors	27,500	17,500
Plant & Machinery	29,000	–
Cash at Bank	46,200	–
General Reserve	–	15,500
Patents & Trade Marks	4,800	–
B/R & B/P	5,000	7,000
	5,08,000	5,08,000

Prepare Trading P&L a/c and P&L Appropriation A/c for the year ended 31-3-99 and Balance Sheet at that date; taking into consideration the following adjustments:

(i) Stock on 31-3-99 was valued at Rs. 88,000

(ii) Make a Provision for income tax @ 50%

(iii) Depreciate Plant & Machinery @ 15%, Furniture & Fittings @ 10% and Patents & Trademarks @ 5%.

(iv) On 31-3-99 outstanding rent amounted to Rs. 800, while outstanding salaries totalledRs. 900 and sundry expenses :Rs. 510.

(v) The Directors propose a dividend cr 15% p.a. for the year ended 31-3-99 after the minium transfer to General Reserve as required by law.

(vi) Provide for Managerial remuneration at 10% of net profits before tax.

[Madras, B.Com (PZG) Ap 2007; B.Com., April 2003]

[Ans : G.P. : Rs. 87,050; Managerial Remuneration : Rs. 6,300; Provision for tax : Rs. 28,350; Transfer to General Reserve : Rs. 1,420 (i.e.,28,350 x 5%); Net profit :Rs. 28,350; Corporate Dividend tax : Rs. 1,500 (15,000 x 10%); Balance in P&L App. A/c :Rs. 16,430; B/s total Rs. 2,11,210]

Hint : Assume that dividend tax on dividend for 97-98 was already paid and adjusted.

12. The following balances were extracted from the books of Chandra Limited for the year ended December 31, 1996.

	Rs.
Buildings	6,00,000
Furniture	60,000
Motor vehicles	60,000
Equity shares of companies	4,00,000
Stock-in-trade at cost	4,00,000
Sundry debtors, unsecured considered good	2,80,000
Cash at bank	1,72,000
Advance against construction of building	1,30,000
Share capital: 10,000 equity shares of Rs. 100 each	10,00,000
Sundry creditors	3,50,000
Profit and Loss A/c (credit)	20,000
Gross profit	10,00,000
Dividend received on investments	10,000
Salaries and wages	2,20,000
Directors' fees	8,000
Electricity charges	25,000
Rates, taxes and insurance	10,000
Auditors' fees	15,000

Prepare the Profit & Loss Account of the company for the year ended December 31, 1996, and a Balance Sheet as on that date after considering the following adjustments.

(a) Provide 10% depreciation per annum on Fixed Assets.

(b) Stock has been revalued Rs. 3,60,000. This has not yet been considered.

(c) Debts more than 6 months are Rs. 80,000.

(d) Ignore tax provision.

[Madras, BCS (ICE) May 2007]

[Ans : Net profit — Rs. 6,20,000; Surplus carried to Balance Sheet — Rs. 6,40,000; Balance Sheet total — Rs. 19,90,000]

13. The Alfa Manufacturing Company Ltd. was registered with a nominal capital of Rs. 6,00,000 in equity shares of Rs. 10 each. The following is the list of balances extracted from its books on 3Ist Dec. 2005.

	Rs
Calls-in-arrears	7,500
Premises	3,00,000
Plant & Machinery	3,30,000
Interim dividend paid on 1.8.05	37,500
Stock on 1.1.05	75,000
Fixtures	7,200
Sundry debtors	87,000
Goodwill	25,000
Cash in hand	750
Cash at bank	39,900
Purchases	1,85,000
Preliminary expenses	5,000
Wages	84,865
General expenses	16,835
Freight and carriage	13,115
Salaries	14,500
Directors' fees	5,725
Bad debts	2,110
Debenture interest paid	9,000
Subscribed and fully called up capital	4,00,000
6% debentures	3,00,000
Profit & Loss A/c (credit balance)	14,500
Bills payable	38,000
Sundry creditors	50,000
Sales	4,15,000
General reserve	25,000
Bad debts reserve (1.1.05)	3,500

Prepare Trading and Profit & Loss Account and Balance Sheet in proper form after making the following adjustments :

(a) Depreciate Plant and Machinery by 10%
(b) Write off Rs. 500 from preliminary expenses.
(c) Provide half years debenture interest due.
(d) Leave bad and doubtful debts reserve at 5% on sundry debtors.
(e) Closing stock Rs. 95,000.

(Madras, B.Com., B.Com (CS) Ap. 2008; Ap. 2007; B.Com. (PZG) Nov. 2006 (10 Times);

B.Com., B.Com. (CS) Nov. 2005; B.Com. (old) April 2002 (10 limes)

[Ans : Gross profit its. 1,52,020; Net Profit — Rs. 60,500; Surplus carried to Balance Sheet — Rs. 33,750; Dividend tax :Rs. 3,750; Balance Sheet total — Rs. 8,52,000]

14. Asia Limited is a company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. On 31.12.2005, 2,500 shares were fully called up.The following balances were extracted from the ledger of the company as on 31.12.05.

	Rs.
Stock	50,000
Sales	4,25,000
Purchases	3,00,000
Wages (productive)	70,000
Discount allowed	4,200
Discount received	3,150
Insurance upto 31.3.06	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Profit & Loss account (Cr)	6,220
Printing and stationer)'	2,400
Advertisement	3,800
Bonus	10,500
Debtors	38,700
Creditors	35,200
Plant & Machinery	80,500
Furniture	17,100
Cash and bank balance	1,34,700
Reserve	25,000
Loan from Managing director	15,700
Bad debts	3,200
Calls-in-arrears	5,000

You are required to prepare Trading and Profit & Loss A/c for the year ended 31.12.05 and the Balance Sheet as on that date.

Additional information:

(a) Closing stock Rs. 91,500;

(b) Provide depreciation at 15% on Plant and Machinery and 10% furniture,

(c) Outstanding liabilities: Wages Rs. 5,200; Salary Rs. 1,200; Rent Rs. 600.

(d) Provide 5% dividend on the paid up share capital.

(Madras, B.Com(PZG) Nov. 2007; B.Com.(ICE) Oct. 2007; B. Corn., (Sent-PZ3A) Nov. 2005; B.Com., April 2004; B.C.S. Oct. 2002; B. Corn., Oct. 2002]

[Ans: Gross profit — Rs. 91,300; Net Profit — Rs. 16,275; Surplus carried to Balance Sheet — Rs. 9,020; Dividend Tax :Rs. 1,225; Balance Sheet total — Rs. 3,50,395]

15. The authorised capital of Navzeevan Ltd. is Rs. 7,50,000 consisting of 3,000 6% cumulative preference shares of Rs. 100 each and 4,500 equity shares of Rs. 100 each. The following is the trial balance drawn upon 31.12.1998.

	Rs.		Rs.
Goodwill	1,00,000	Paid up capital:	
Trade debtors	1,67,500	3,000 6% cumulative	
Freehold properties at cost	3,90,000	preference shares	3,00,000
Stock on 1.1.1998	2,41,500	3,000 equity shares	
Salaries	1,03,500	(Rs. 75 per share	
Delivery expenses	1,02,000	called up)	2,25,000
Rent & Rates	38,250	5% first mortgage	
General expenses	21,000	debentures (secured on	
Furniture at cost	75,000	freehold properties	2,10,000
Purchases	4,76,500	Trade creditors	1,25,520
Bills receivable	6,000	General reserve	82,725
Freight and carriage inward	3,750	Profit & Loss A/c (Cr)	58,500
Investments:		Reserve for taxation	8,800
600 shares of Rs. 100 each in X Ltd.	60,000	Sales	9,18,600
Debenture int. (half year to 30.6.98)	5,250	Forfeited shares A/c	2,000

Final dividend for 1997	20,250		
Pref. dividend (half year to 30.6.98)	9,000		
Balance at Bank in current A/c	97,500		
Cash in hand	14,145		
	19,31,145		19,31,145

(i) The value of stock on 31.12.1998 was Rs. 2,15,000.

(ii) Depreciation on freehold properties is to be provided at 2-2% and on furnitureat 6%.

(iii) The directors proposed to pay the second half-year's dividend on preference shares and a 10% dividend on equity shares and

(iv) Shares were forfeited on non-payment of Rs. 35 per share.

You are required to prepare Profit & Loss A/c and Profit & Loss Appropriation A/c and Balance Sheet of the company.

[Thiruvalluvar B.Com., April 2008; Madras, B.Com (A-U.) Ap. 2007; (Modified)]

fKolhapur& M.D.U., B.Com., Adapted!

[Ans: Gross profit — Rs. 4,11,850; Net Profit — Rs. 1,22,350; Surplus carried to Balance Sheet — Rs. 1,16,050; Corporate dividends tax at 10% :Rs. 4,050; Balance Sheet total — Rs. 11,10,8951 [Issued equity capital 3,050 shares'

Hint : Dividend tax is provided for current year's dividend only on Preference & Equity capitals.

16. Sherry Engineering Ltd. have authorised capital of Rs. 50 Iakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31.12.2005.

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Stock (1.1.2005)	6,65,000	Equity share capital	20,00,000
Discounts & rebates	30,000	(2,00,000 shares	
Carriage inwards	57,500	of Rs. 10 each)	
Patents	3,75,000	4% debentures	
Rates, taxes & insurance	55,000	(Repayable after	
Furniture & fixtures	1,50,000	10 years)	5,00,000
Materials purchased	12,32,500	Bank overdraft	6,85,000
Wages	13,05,000	Sundry creditors	2,40,500
Coal and coke	63,000	(for goods)	
Freehold land	12,50,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr)	30,000
Engineering tools	1,50,000	Transfer fees	6,500

Goodwill	3,75,000	P & L A/c (Cr)	67,000
Sundry debtors	2,66,000		
Bills receivable	1,34,500		
Advertisement	15,000		
Commission & Brokerage	67,500		
Business expenses	56,000		
Bank current A/c	20,000		
Cash in hand	8,000		
Debenture int. (for half year 30.6.05)	10,000		
Interest (banks)	91,000		
Preliminary expenses	10,000		
Calls-in-arrears	10,000		
	71,46,000		71,46,000

(i) The stock (valued at cost or Market value whichever is lower) as on 31.12.05 was Rs. 7,08,000.

(ii) Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 25,000.

(iii) Dividend declared 10% on paid up capital.

(iv) Charge depreciation: Plant & Machinery @ 5%; Engineering tools @ 20%; Patents @ 10%; and furniture & fittings @ 10%.

(v) Provide 2% on debtors as doubtful debts after writing off Rs. 21,500 as bad debts.

(vi) Write off preliminary expenses Rs. 5,000 and create debenture redemption reserve Rs. 50,000;

(vii) Provide Rs. 2,40.000 for income tax.

You are required to prepare Profit & Loss A/c for the year ended 31.12.2005 and Balance Sheet as on that date.

[Madras, B. Com, April 2002] C'S Inter Dec. 1990

[Ans: Gross Profit — Rs. 9,77,000; Net profit — Rs. 2,62,610; Surplus carried to Balance Sheet — Rs.-60,710; Dividend tax :Rs. 19,900; Balance Sheet total — Rs. 40,45,110]

17. The under mentioned balances appeared in the books of the Pioneer Flour Mills Co. Ltd. as on 31st December 2005.

	Rs.
Share capital (authorised and issued 60,000 shares of Rs. 10 each,	6,00,000
General reserve	2,50,000
Unclaimed dividends	6,526
Trade creditors	36,858

Buildings	1,00,000
Purchases	5,00,903
Sales	9,83,947
Manufacturing expenses	3,59,000
Establishment	26,814
General charges	31,078
Machinery	2,00,000
Motor vehicles	15,000
Furniture	5,000
Stocks	1,72,058
Book debts	2,23,380
Investments	2,88,950
Depreciation reserve	71,000
Cash balances	72,240
Directors' fees	1,800
Interim dividend	15,000
Interest (cr)	8,544
Profit & Loss A/c 1st Jan - 2005 (credit balance)	16,848
Staff provident fund	37,500

From these balances and the following information, prepare the company's Balance Sheet as on 31.12.2005 after preparing the Trading and Profit & Loss account for the year ended on that date.

(i) The stocks of Wheat and Flour on 31st Dec. 2005 were valued at Rs. 1,48,680.

(ii) Provide Rs. 10,000 for depreciation of gross block and Rs. 1,500 for the company's contribution to the staff provident fund.

(iii) Interest accrued on investment amounted to Rs. 2,750

(iv) A claim of Rs. 2,500 for workmen's compensation is being disputed by the company.

(v) Establishment includes Rs. 6,000 paid to the manager who is entitled to remuneration at 5% of profit as per Companies Act subject to a minimum of Rs. 10,000 per annum. You may make necessary adjustments.

[Madras, B.Com (A. F) Nov. 2007]

[Ans: Gross profit — Rs. 1,00,666; Net profit — Rs. 36,768; Surplus carried to Balance Sheet — Rs. 37,116; Dividend Tax :Rs. 1,500; Balance Sheet total — Rs. 9,75,000; Profit before remuneration — Rs. 46,768]

[Hints: (i) A claim for Rs. 2,500 for workmen's compensation is being disputed by the company should be treated as contingent liability.

(ii) The amount of Rs. 4,000 still due to the managing director has to be shown under current liabilities.

(iii) It is preferable to show fixed assets together as gross block less depreciation of Rs. 81,000. (i.e., 71,000 + 10,000)

UNIT – 7

VALUATION OF GOODWILL AND SHARES

Meaning and Definition of Goodwill - Factors affecting Goodwill - Need for valuation of Goodwill - Methods of calculating Goodwill - Valuation of Shares - Need for valuation of Shares - Factors affecting the value of Shares - Methods of valuing Shares

7.1 MEANING OF GOODWILL

The value of reputation earned by a business concern in monetary value is called goodwill. The excess of amount paid over the actual value of business is called goodwill.

Goodwill refers to a measure of the capacity of a business to earn above normal profits. It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in customers. It is intangible and invisible asset.

7.2 DEFINITION

Goodwill is the present value of the firm's anticipated excess earnings.

– Dr. Canning

The capacity of a business to earn profits in future is basically what is meant by the term goodwill.

– J.O. Magee

According to the Institute of Chartered Accountants of India, Goodwill is "intangible asset arising from business connections or trade name or reputation of an enterprise".

7.3 FACTORS AFFECTING GOODWILL

The following are the main factors which affect the value of goodwill of the firm.

1. Suitable location of the business

The place or locality which the business is situated determines the goodwill. A favourable location surrounding the company where many customers come enhances the value of goodwill.

2. Managerial skill

Special ability and skill of the persons engaged in the management adds to the value of goodwill. Goodwill is the money value of a continuation of a various benefits which are being received by the business because of the efficient management of the business.

3. Nature of the business

Nature of the business dealt with the risk attached, the competition involved and certain special privileges enjoyed by the firm such as special licenses, franchise, etc., determine the value of goodwill.

4. Risk of business

When the risk is less in the business, it creates more goodwill but if the risk is more, it will create less goodwill.

5. Favourable contracts

Possession of large number of profitable contracts for supply of goods or services enhances the value of goodwill.

6. Trend in the profit

Earning capacity of a business is the most important one. When there is an upward trend in the profits, naturally it is extra value over and above the net value of the assets employed.

7. Possession of patent and trademarks

The product, branded with trademarks, registered with the registrar of patents and Trademarks prevent and distinguishes rival products from its product. The object is to acquire monopolistic rights which create goodwill.

8. Capital

When the profits of a business is more in relation to the investment of capital, the value of goodwill is higher than the business earning less profits with huge amount of investment. In other words, the return on investment is more than the normal return the value of goodwill is higher.

9. Government Patronage

When a business enjoys the patronage of government, people are willing to buy the products of such a company. Thus goodwill increases.

10. Other factors

General economic conditions, favourable government regulation, good labour relations, absence of competition, political stability, availability of raw materials, favourable market conditions, long term contract, etc.

7.4 NEED FOR VALUATION OF GOODWILL

The need for valuation of goodwill depends on the form of business organization.

- **In the case of sole trader,** it is usually valued at the time of selling the business, so as to determine the amount payable by the buyer towards goodwill.
- **In the case of partnership there are several circumstances when goodwill has to be valued. They are**

1. When a new partner is admitted.
2. When a partner retires or dies.
3. When there is a change in the ratio of profit sharing and
4. When there is dissolution either by sale to a company or amalgamation with another firm.

- **In the case of limited companies**
  1. When two or more companies amalgamate.
  2. When one company takes over another.
  3. When a company wants to acquire controlling interest in another company and
  4. When government takes over the business.

7.5 ACCOUNTING TREATMENT FOR VALUATION OF GOODWILL

Goodwill is always paid for the future. Record of goodwill in accounting is made only when it has a value. When a business is purchased and an additional amount is paid more than the amount of assets, then the additional amount is called goodwill. It is treated as an asset and the payment made for it is a capital expenditure. It is treated as an intangible asset and thus depreciation is not charged. It is not a fictitious asset. It can be sold only with the sale of business itself.

7.6 METHODS OF CALCULATING GOODWILL

A. Simple Profit Method/Average profit method

Under average profit method, goodwill is valued on the basis of an agreed number of year's purchase of the average maintainable profits. The maintainable profit indicates the adjusted profit. To get the adjusted profit, the profit for the year has to be adjusted for the abnormal items.

A) Calculation of Actual Profit

Profit for the year	xxx
(+) Abnormal loss	xxx
	xxx
(-) Abnormal gain	xxx
Actual Profit	xxx

$$B)\ Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$$

C) Calculation of Adjusted Average Profit

Average profit	xxx
(-) Expenses to be paid	xxx
	xxx
(+) Exp. not to be paid	xxx
Adjusted Average Profit	xxx

1. Purchase of Past Profit Method

Under this method, goodwill is expressed as a purchase of a certain number of years profit based on the adjusted average profit of a given number of years.

Goodwill = Adjusted Average Profit x No. of years purchased

Illustration -1 Calculate goodwill on the basis of three years purchases of the last five years average profits. The profits for the last five years are: I year – ₹4,800; II year – ₹7,200; III year – ₹10,000; IV year – ₹3,000 and V year ₹5,000.

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No. of\ Years}$	$\frac{4,800 + 7,200 + 10,000 + 3,000 + 5,000}{5}$ = ₹6,000
Goodwill = Adjusted average profit x No. of years purchased	6,000 x 3 = ₹18,000

1. a) Weighted Average Profit Method

Illustration -2G Ltd. proposed to purchase the business carried on by Thiru Dass. Goodwill for this purpose is agreed to be valued at three years purchase of the profit of the past four years. The appropriate weights to be use are: 2013- 1; 2014 – 2; 2015 – 3 and 2016 – 4. Profits for these years were: 2013- ₹10,000; 2014 – ₹11,000; 2015 – ₹12,000 and 2016 – ₹15,000.

Compute the value of the goodwill of the firm.

Solution

Year	Profit	Weights	Product
2013	10,000	1	10,000
2014	11,000	2	22,000
2015	12,000	3	36,000

2016	15,000	4	60,000
		10	1,28,000

Weighted average profit	$\frac{\text{Total of product}}{\text{Total of weights}}$	$\frac{1,28,000}{10}$	₹12,800
Goodwill = Weighted average profit x No. of years purchased		12,800 x 3 = ₹38,400	

2. Capitalization of Average Profit Method

$$Capitalized\ Profit = \frac{Adjusted\ Average\ \ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

Net tangible assets = Total assets – Goodwill – Liabilities

Good will = Capitalized profit – Net tangible assets

Illustration 3 The net profit for the 5 years is

Year	**2011**	**2012**	**2013**	**2014**	**2015**
Profit	10,000	15,000	15,000	20,000	30,000

The capital employed in the business is ₹1,50,000. Normal rate of return is 10%.

Calculate the goodwill on the basis of 4 years purchase of average profit and capitalization of average profit method.

Solution

Purchase of Average Profit Method

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{10,000 + 15,000 + 15,000 + 20,000 + 30,000}{5}$ = ₹18,000
Goodwill = Adjusted Average Profit x No. of years purchased	₹18,000 x 4 = ₹72,000

Capitalization of Adjusted Average Method

$Capitalized\ Profit = \frac{Adjusted\ Average\ \ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$	$\frac{18,000\ x\ 100}{10}$ = ₹1,80,000
Goodwill = Capitalized profit – Net Tangible Assets	₹1,80,000 – ₹1,50,000 = ₹30,000

B. Super Profits Method

Under super profits method, the super profit is multiplied by no. of years' purchases. Super profit is the difference between average profit and normal profit. Normal profit is the amount of profit which the concern expects on its investments in the same type of business. Normal Rate of return is the rate of profit generally earned by other similar firms in that industry.

Average capital employed = Assets – Liabilities
Normal profit = Average Capital Employed x Normal Rate of Return
Super profit = Adjusted Average Profit – Normal Profit

1. Purchase of Super Profit Method

Good will = Super profit x No. of years purchased

Illustration -4 From the following information calculate the value of goodwill according to super profit basis at 5 years purchase:

i) Average capital employed in the business ₹7,00,000

ii) Net trading profit of the firm for the past three years ₹1,07,600, ₹90,700 and ₹1,12,500 respectively.

iii) Rate of interest expected from capital 12%

iv) Remuneration to partners for their service ₹12,000 per annum

v) Sundry assets of the firm ₹7,54,762; Sundry liabilities ₹31,329

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No. of\ Years}$	$\frac{1,07,600 + 90,700 + 1,12,500}{3}$	₹1,03,600
	Less: Remuneration	₹12,000
Adjusted Average Profit		₹91,600
(-) Normal profit = Average Capital Employed x Normal Rate of Return	₹7,00,000 x 12%	₹84,000
Super profit		₹7,600
Goodwill = Super profit x No. of years purchased	₹7,600 x 5	₹38,000

Illustration -6 The balance sheet of R Ltd as on 31-3-2016 is as follows:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	1,00,000	Goodwill	10,000
8% Preference shares of ₹10 each	50,000	Fixed assets	1,80,000
Reserve (including provision for taxation ₹10,000)	1,00,000	Investments (5% Govt. loan)	20,000
8% debentures	50,000	Current assets	1,00,000
Creditors	25,000	Preliminary exp.	10,000
		Discount on debentures	5,000
	3,25,000		3,25,000

The average profit of the company (after deducting interest on debentures and taxes) is ₹31,000. The market value of the machinery included in the fixed assets is ₹5,000 more. Expected rate of return is 10%. Evaluate the goodwill of the company five times of the super profits.

Solution

Calculation of Adjusted Average Profit

Average profit given	31,000
Less: Non-trading profit	1,000
	30,000

Calculation of Average Capital Employed

Fixed assets	1,80,000	
(+) Increase	5,000	1,85,000
Current assets		1,00,000
		2,85,000
Less: 8% Debentures	50,000	
Creditors	25,000	
Provision for taxation	10,000	85,000
Average Capital Employed		2,00,000

Adjusted Average Profit	₹30,000
(-) Normal profit (2,00,000 x 10%)	₹20,000
Super profit	₹10,000
Goodwill	Super profit x No. of years purchased 10,000 x 5 = ₹50,000

2. Annuity method

Good will = Super profit x Annuity table value

Illustration -7 The net profits of a company after providing for taxation for the past five years are ₹78,000, ₹82,000, ₹88,000, ₹93,000 and ₹99,000. The capital employed in the business is ₹8,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of the goodwill of the business on the basis of an annuity of super profits, taking the present value of an annuity of one rupee for the five years at 10% interest as ₹3.78.

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{78{,}000 + 82{,}000 + 88{,}000 + 93{,}000 + 99{,}000}{5}$	₹88,000
(-) Normal profit = Average capital employed x Normal rate of return	8,00,000 x 10%	₹80,000
Super profit	(88,000 - 80,000)	₹8,000
Goodwill = Super profit x Annuity table value	₹8,000 x 3.78	₹30,240

3. Capitalization of super profit method

Under this method, adjusted future maintainable profits are capitalized applying normal rate of return to arrive at the normal capital employed. Goodwill is taken as the difference between the normal capital employed and the actual capital employed.

Steps:

1. Estimating the future maintainable profits.
2. Determining the normal capital employed.
3. Determining the actual capital employed.
4. Computing the difference between normal capital employed and actual capital employed.

$$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

Illustration -9 Mr. K has invested a sum of ₹3,00,000 in his own business which is a very profitable one. The annual profit earned from his business is ₹60,000 which include a sum of ₹10,000 received as compensation for acquisition of a part of his business premises. The money could have been invested in deposit for a period of five years and earn 10% interest and he himself could earn ₹7,200 per annum in alternative employment. Considering 2% as fair compensation for the risk involved in the business calculate the value of goodwill of his business on capitalization of super profits at the normal rate of return.

Solution

Annual profit	60,000
(-) Compensation received	10,000
	50,000
(-) Salary	7,200
	42,800
(-) Normal profit (₹3,00,000 x 12%)	36,000
Super profit	₹6,800

Calculation of goodwill

$$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

6,800 x 100/ 12 = ₹56,667

Illustration 10 From the following, compute the value of goodwill under all methods. Average capital employed is ₹10,00,000. Normal rate of profit is 10%. Profit for 2014-₹1,40,000, 2015 – ₹1,22,000 and 2016 –₹1,70,000. Profit for 2015 has been arrived at after writing off abnormal loss of ₹10,000 and profit of 2016 include non-recurring income of ₹22,000. Goodwill is to be calculated on the basis of 3 years purchase of super profit. The present value of annuity is ₹2.4868.

Solution

Calculation of Actual Profit

2014 Profit		₹1,40,000
2015 Profit	1,22,000	
(+) Abnormal loss	10,000	₹1,32,000
2016 Profit	1,70,000	
(-) Non-recurring income	22,000	₹1,48,000

Total of Actual profit		₹4,20,000
Average profit	₹4,20,000/3	₹1,40,000

1. Purchase of past profit method

Goodwill	Adjusted Average Profit x No. of years purchased 1,40,000 x 3 = ₹4,20,000

2. Capitalization method

Goodwill = Capitalized profit – Net tangible assets

Capitalized profit	1,40,000 x 100/10	₹14,00,000
(-) Net tangible assets		₹10,00,000
Goodwill		₹4,00,000

Super Profit Method

Adjusted Average Profit		₹1,40,000
Normal profit = Average Capital Employed x NRR	10,00,000 x 10/100	₹1,00,000
Super profit		₹40,000

a) Purchase of super profit method	Super profit x No. of years purchased	₹40,000 x 3	₹1,20,000
b) Annuity method	Super profit x Annuity table value	₹40,000 x 2.4868	₹98,478
c) Capitalization method	$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rtetum} \times 100$	$\frac{₹40,000 \times 100}{10}$	₹4,00,000

7.7 VALUATION OF SHARES

The valuation of shares by the company becomes necessary where there is no market price of the shares. It involves the use of financial and accounting data, but much depends on the valuer's judgement, experience and knowledge. Any valuation based purely on quantitative data is not realistic.

The stock exchange prices of shares are not generally acceptable because the price quoted in the stock exchange is based on demand, supply, business cycle, etc. The action and opinion of investors and their fear, guess, investment policy etc. also reflect on the price of shares. Therefore accountant or valuer is frequently to place a proper value on the shares in a company.

7.8 NEED FOR VALUATION OF SHARES

Share of a limited company have to be valued for different purposes:

1. Amalgamation or absorption of companies
2. Conversion of shares of one class into another
3. Purchase and sale of controlling shares
4. Shares as security for loans and advances
5. Assessment of estate duty, wealth tax, etc.
6. Unquoted shares in the exchange.
7. Nationalization of companies.
8. To satisfy dissentient shareholders
9. Purchase and sale of business
10. In case of trust finance or investment trust companies.

7.9 FACTORS AFFECTING THE VALUE OF SHARES

The value of shares of a company is greatly affected by the economics, political and social factors, some of which are noted below:

1. The economic condition of the country
2. The nature of company's business
3. Other political and economic factors
4. The demand and supply of shares
5. Proportion of liabilities and capital
6. Rate of proposed dividend and past profits of the company
7. Yield of other related shares of the stock exchange
8. Nature of competition
9. Companies earning capacity
10. Goodwill of the company.

7.10 METHODS OF VALUING SHARES

1. Net Assets/ Intrinsic Value/ Break- up Value Method/ Real value method/ Asset backing method:

This method measures the value of the net assets of the company against the share. The shares are valued on the basis of real internal value of the assets of the company. This method

aims at finding out the possible value of the shares in the event of the company going into liquidation.

Calculation of amount available to equity shareholders or Net equity

Total assets realized		xxx
Less: **Liabilities paid**		
Debentures	xxx	
Creditors	xxx	
Preference shares	xxx	
Depreciation fund a/c	xxx	
(if revised value of fixed asset is not given)		
Other liabilities	xxx	xxx
Amount available to equity shareholders or Net equity		xxx

$$Value\ per\ share = \frac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$$

Illustration -12 From the following balance sheet you are required to value the equity shares under net assets method:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	3,00,000	Assets at book value	6,00,000
6% Preference shares of ₹100 each	2,00,000		
Liabilities	1,00,000		
	6,00,000		6,00,000

The market value of ½ of the assets is considered at 10% more than the book value and that of remaining ½ at 5% less than the book value. There was a liability of ₹5,000 which remains unrecorded. Assume preference shares have no priority over repayment of capital or dividend.

Solution:

Calculation of amount available to share holders

Assets (6,00,000 x ½)	3,00,000 + (3,00,000 x 10%)	₹3,30,000
(6,00,000 x ½)	3,00,000 - (3,00,000 x 5%)	₹2,85,000
		₹6,15,000
Less: Liabilities	(1,00,000 + 5,000)	₹1,05,000

Amount available	₹5,10,000
Less: Preference share capital	₹2,00,000
Balance amount payable to Equity shares	₹3,10,000

Value per equity share = 3,10,000/30,000 = ₹10.33

Or

Amount available ₹5,10,000 should be divided in Capital ratio (3:2)

Value per equity share = 5,10,000 x 3/5 = 3,06,000/30,000 = ₹10.2

Value per preference share = 5,10,000 x 2/5 = 2,04,000/2,000 = ₹ 102

Illustration -13 Given below is the balance sheet of Modern Ltd. as on 31st March 2013:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	6,00,000	Land	2,70,000
Creditors	80,000	Plant	1,00,000
P & L a/c	40,000	Stock	3,60,000
Bank overdraft	10,000	Debtors	1,60,000
Provision for taxation	1,00,000		
Proposed dividend	60,000		
	8,90,000		8,90,000

The net profits of the company, after deducting usual working expenses but before providing for taxation, were as under: 2012- 13 – ₹2,00,000; 2011- 12 – ₹2,20,000; 2010- 11 – ₹1,80,000; 2009- 10 – ₹2,20,000; 2008- 09 – ₹1,70,000.

On 31st March 2013, land were valued at ₹2,80,000 and plant at ₹1,20,000. Sundry debtors on the same date included ₹4,000 as irrecoverable. Having regard to the nature of business, a 10% return on net tangible capital invested is considered reasonable.

You are required to value the company's shares ex-dividend, your own valuation of goodwill may be based on five years purchase of annual super profits. (Tax rate is to be assumed at 50%)

Solution

Calculation of goodwill

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No. of\ Years}$	$\frac{2,00,000+2,20,000+1,80,000+2,20,000+1,70,000}{5}$	₹1,98,000

Less: Income tax	1,98,000 x 50%	99,000
Adjusted Average Profit		₹99,000
(-) Normal profit = Average Capital Employed x NRR	(8,90,000 – 2,50,000) x 10%	₹64,000
Super Profit		₹35,000
Goodwill = Super profit x No. of years purchased	35,000 x 5	₹1,75,000

Calculation of value per share under Net assets method

Land		2,80,000
Plant		1,20,000
Stock		3,60,000
Debtors		1,56,000
Goodwill		1,75,000
		10,91,000
Less: Bank O/D	10,000	
Provision for taxation	1,00,000	
Proposed dividend	60,000	
Creditors	80,000	2,50,000
Amount available to ESHs /Net assets		₹8,41,000

$Value\ per\ share = \dfrac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$	$\dfrac{8,41,000}{60,000}$	₹14.01

2. Yield Method/ Market value method

Small investors are generally interested in the income they earn from the company. The valuation of shares is made on the basis of yield it is called Yield method.

Calculation of Profit Available:

Particulars	**Amount**
Average profit	xxx
Less: Tax payable	xxx
	xxx
Less: General reserve	xxx
	xxx
Less: Preference dividend (if preference share capital is given)	xxx
Profit available for equity share holders	xxx

$$Expected\ Rate\ of\ Return\ (ERR) = \frac{Profit\ Available\ for\ Equity\ Share\ holders}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$$

$$Value\ per\ share = \frac{Expected\ Rate\ of\ Return}{Normal\ Rate\ of\ Return}\ x\ Paid\ up\ value\ per\ Equity\ Share$$

Note: Normal rate of return is given in the problem

Illustration -14 X Ltd declared a dividend of 25% on its shares of ₹100 each, ₹80 paid up. Its shares are quoted in the market at ₹200. Calculate the rate of return.

Solution

Normal rate of earnings = 25/100 x 80 = 20 x 100/200 = 10%

Illustration -15 A company had 1,000 equity shares of ₹100 each. Its expected profit would be ₹25,000. Its normal rate of return which similar business earns during the period is 10%.

Calculate value of equity shares.

Solution

$ERR = \frac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$	$\frac{25{,}000\ x100}{1{,}00{,}000}$	25%
$Value\ per\ share = \frac{ERR}{NRR}\ x\ Paid\ up\ value\ per\ Equity\ Share$	$\frac{25\ x\ 100}{10}$	₹250

Illustration -16 B Ltd has 10,000 equity shares of ₹10 each (₹8 paid) and ₹1,00,000, 6% preference shares of ₹10 each fully paid. The company has a practice of transferring 20% of the profit to general reserve every year. If the expected profit before tax is ₹2,00,000 and the rate of tax is 50%.

Calculate the value per equity share. (Normal rate of dividend is 20%).

Solution

Calculation of Profit Available

Expected profit	2,00,000
Less: Tax	1,00,000
	1,00,000
Less: General reserve (20% on 1,00,000)	20,000
	80,000
Less: Preference dividend (1,00,000 x 6%)	6,000
Profit Available	₹74,000

$ERR = \frac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital} x\ 100$	$\frac{74,000\ x100}{80,000}$	92.5%
$Value\ per\ share = \frac{ERR}{NRR} x\ Paid\ up\ value\ per\ Equity\ Share$	$\frac{92.5\ x\ 8}{20}$	₹ 37

Illustration -19 On 31st Dec.2016, the balance sheet of a company showed the following positions:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	4,00,000	Fixed assets	5,00,000
Reserve	90,000	Current assets	2,00,000
P & L a/c	20,000	Goodwill	40,000
5% Debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31- 12- 2016, the fixed assets were independently valued at ₹3,50,000 and the goodwill at ₹50,000. The net profits for the three years were 2014 – ₹51,600; 2015 – ₹52,000 and 2016 – ₹51,650. From the profit 20% was placed to reserves. The fair rate of return on investment may be taken at 10%.

Compute the value of the shares by i) Net assets method and ii) Yield method.

Solution

i) Net Assets Method

Fixed assets		3,50,000
Current assets		2,00,000
Goodwill		50,000
Total		6,00,000
Less: Current liabilities	1,30,000	
5% Debentures	1,00,000	2,30,000
Net assets		₹3,70,000

$Value\ per\ share = \frac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$	$\frac{3,70,000}{40,000}$	₹9.25

ii) Yield Method

Calculation of Profit Available

Expected profit (1,55,250 / 3)	₹51,750
Less: General reserve (20% on 51,750)	10,350
Profit available	₹41,400

$ERR = \frac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$	$\frac{41,400\ x100}{4,00,000}$	10.35%
$Value\ per\ share = \frac{ERR}{NRR}\ x\ Paid\ up\ value\ per\ Equity\ Share$	$\frac{10.35\ x\ ₹10}{10}$	₹ 10.35

3. Earning Capacity Method

Under earning capacity method, the valuation depends upon the comparison of the company's earning capacity and the normal rate of return on capital employed. This method relates the value of the shares to the real efficiency of the company and also measured by the profitability of the company.

Profit earned	Average profit + Interest on debentures
Capital employed	Assets realized – Liabilities paid except debentures

$$Rate\ of\ Earnings = \frac{Profit\ Earned}{Capital\ Employed}\ x\ 100$$

$$Value\ per\ share = \frac{Reta\ of\ Earnings}{Normal\ Rate\ of\ Return}\ x\ Paid\ up\ Value\ per\ Equity\ Share$$

4. Fair value method

There are some accountants who do not prefer to use Net Assets Method or Yield Value Method for ascertaining the correct value of shares. They however prefer the Fair Value Method which is the average of net asset value and yield value and same provides a better indication about the value of shares than the other methods.

$$Value\ per\ share = \frac{Value\ as\ per\ Net\ Asset\ Method + Yield\ Method}{2}$$

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Goodwill is:

   (a) Tangible Asset — **b) Intangible Asset**

   (c) Fictitious Asset — d) Fixed Asset

2. Super profit is the difference between:

   (a) Capital employed and average capital employed

   (b) Average Profit and Normal Profit

   (c) Current year profit and Last year profit

   d) Capital employed and normal profit

3. The average return of similar concerns should be considered as:

   (a) Average profit — b) Expected rate of return

   (c) Normal rate of return — d) Super profit

4. Under net assets method, the value of a share depends on the amount that would be available to:

   (a) Equity Shareholders — b) Preference shareholders

   (c) Debenture holders — d) Outside liabilities

5. For calculation the value of equity share by intrinsic value method, it is essential to know:

   (a) Normal rate of return — **b) Net assets**

   (c) Expected rate of return — d) Super profit

6. The term "capital employed" means:

   (a) Gross Capital Employed — b) Net Capital Employed

   (c) Average Capital Employed — **d) Any of these**

7. Under the yield method, the value of equity share is calculated on the presumption that the company would be:

   (a) Wound-up — **b) Continued**

   (c) Transferred — d) None of the above

8. For calculating the value of an equity share by yield method, it is essential to know:

   (a) Expected rate of return — b) Capital employed

   (c) Called up of equity share capital — d) Net assets

9. For calculating price earnings ratio, it is essential to know

a) **Market value per share** b) Nominal value per share

c) Paid up value per share d) Normal rate of return

10. Depreciation fund is treated as liability when

a) **Revised value for fixed assets is not given** b) Revised value for fixed assets is given

c) Appeared in liability side d) Deducted from asset

11. Debenture is treated as liability under

a) Yield method b) **Net assets method**

c) Earning capacity method d) Fair value method

12. Goodwill is the most ______ form of asset

a) Realizable b) **Unrealizable**

c) Tangible d) Liquid

13. Fair value of shares means average of

a) **Intrinsic value and yield value** b) Yield value and earning capacity

c) Earning capacity and intrinsic value d) All the above

14. Goodwill is the capitalized value of

a) **Owner's capital** b) Market value

c) Super profit d) Contracts on hand

15. _______ basis of valuation of shares is concerned with the asset backing per share

a) **Net assets method** b) Earning capacity method

c) Fair value method d) Super profits method

16. Under yield method of valuing shares, which of the following should be deducted from average profit?

a) General reserve, preference dividend and income tax

b) Preference dividend, income tax and general reserve

c) **Income tax, general reserve and preference dividend**

d) Income tax, preference dividend and general reserve

REVIEW QUESTIONS

(A) Answer in short

1. What is called good will?
2. What is the accounting treatment for good will?
3. What is super profit method of calculating good will?
4. What is normal rate of return?
5. What is intrinsic value of shares?
6. Write a note yield value of shares.
7. How do you determine fair value of shares?

(B) Answer in detail

1. Explain the factors affecting good will.
2. Discuss why good will is need for a business organization.
3. Explain and illustrate the different methods of calculating good will.
4. Discuss different methods of valuing equity shares.

EXERCISES

VALUATION OF GOODWILL

Simple Average Method

1. Calculate the amount of goodwill on the basis of five years purchase of last six years average profit. The profits for the last six years are ₹22,000, ₹32,000, ₹20,000, ₹30,000, ₹16,000 and ₹30,000 respectively.

2. K & Co. decided to purchase a business for ₹2,40,000. Its profits for the last four years were 2013 – ₹60,000; 2014 – ₹75,000; 2015 – ₹72,000 and 2016 – ₹69,000. The owner of the business was personally managing it. A manager to replace him was has to be paid ₹9,000 p.a. Calculate the value of goodwill if it is valued on the basis of the average net profit for the last four years.

   (Ans: ₹60,000)

SUPER PROFIT METHOD - PURCHASE OF SUPER PROFIT METHOD

3. The net profit for the five years is:

Year	**2012**	**2013**	**2014**	**2015**	**2016**
Profit	10,000	15,000	15,000	20,000	30,000

The capital employed in the business is ₹1,50,000 and normal rate of return is 10%. Calculate the value of goodwill on the basis of 4 years purchase of super profit.

(Ans: ₹12,000)

4. State with reasons whether the following statement is correct or not Sunil's financial position is as follows:

   a) Sundry assets ₹9,27,342

   b) Current liabilities ₹52,492

   c) Average net profit of the last four years ₹1,20,500

   d) Average capital employed ₹9,00,000

   e) Partner's average annual remuneration ₹18,000

   f) The goodwill valued at four years purchase for super profit is ₹50,000

   Therefore the expected rate of return is 15%.

SUPER PROFIT METHOD -CAPITALIZATION OF SUPER PROFIT

5. Mr. K has invested a sum of ₹3,00,000 in his own business which is a very profitable one. The annual profit earned for his business is ₹60,000 which include a sum of ₹10,000 received as compensation for acquisition of a part of his business premises. The money could have been invested in deposits for a period of 5 years and over at 10% interest and he could earn ₹7,200 per annum in alternative employment. Considering 2% as fair compensation for risk involved in the business, calculate the value of goodwill of his business on capitalization of super profits at the normal rate of return.

SUPER PROFIT METHOD - ANNUITY METHOD

6. From the following particulars, find out the value of goodwill as per annuity method:

   a) Capital employed ₹3,00,000

   b) Normal rate of return 10%

   c) Present value of ₹1 for 5 years at 10% at 3.78

   d) Normal profit for five years: I year – ₹30,000; II year – ₹32,000; III year – ₹34,000; IV year – ₹36,000 and V year – ₹38,000; Non-recurring income ₹1,600; Non-recurring expenses ₹1,000.

7. The net profit of a company after providing for taxation, for the past 5 years are ₹40,000; ₹42,000; ₹46,000; ₹45,000 and ₹47,000. The capital employed in the business is ₹4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profit for the next 5 years.

   i) Calculate goodwill on 5 years purchase of super profit

   ii) Calculate goodwill under capitalization method

iii) Calculate goodwill under annuity method of super profit taking the present value of annuity of one rupee for 5 years at 10% interest as ₹3.78

VALUATION OF SHARES - Net Assets Method

8. From the following information, calculate the value of each category of equity shares of the company based on deemed liquidation.

Total assets ₹18,50,000;

External liabilities ₹2,50,000;

Share capital – 14% Preference shares of ₹10 each fully paid ₹5,00,000

40,000 Equity shares of ₹10 each fully paid ₹4,00,000

60,000 Equity shares of ₹10 each ₹7.50 paid ₹4,50,000

9. Find out the value of equity share.

Balance sheet

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹100 each	3,00,000	Debtors	80,000
6% Preference shares of ₹100 each	1,50,000	Stock	1,40,000
General reserve	40,000	Cash	22,000
P & L a/c	10,000	Land	2,05,000
Bank loan	50,000	Furniture	30,000
Creditors	15,000	Goodwill	70,000
		Discount on shares	12,000
	5,65,000		5,65,000

The value of assets is assessed as follows:

- Furniture is to be depreciated at 10%
- Value of stock, land and goodwill is estimated at ₹1,20,000, ₹2,50,000 and ₹80,000 respectively.
- Debtors are expected to realize 80% of book value.

YIELD METHOD

10. From the following information, calculate the value of an equity share:

a) The paid up share capital of a company consists of 1,000, 15% preference shares of ₹100 each and 20,000 equity shares of ₹10 each

b) The average annual profits of the company after providing for depreciation and taxation amounted to ₹75,000. It is considered necessary to transfer ₹10,000 to general reserve before declaring any dividend.

c) The normal return expected by investors on equity shares from the type of business carried on by the company is 10%

(Ans: ₹25)

11. The following is a balance sheet of a company as on 31st Dec.2016:

Liabilities	Amount	Assets	Amount
Equity share capital of ₹100 each	12,00,000	Fixed assets	14,60,000
Reserves and surpluses	2,50,000	Investments (5% Securities)	1,20,000
Creditors	5,60,000	Current assets	5,40,000
Provision for taxation	1,43,000	Preliminary expenses	33,000
	21,53,000		21,53,000

The provision for taxation for the current year is 55% of net profit. Return on capital employed in this industry is 10%. Ascertain the yield value of share.

(Ans: ₹95.75)

12. From the following information, calculate the value per equity share under yield method:

a) 2,000, 9% Preference shares of ₹100 each ₹2,00,000

b) 50,000 Equity shares of ₹10 each, ₹8 per share paid up ₹4,00,000

c) Expected profits per year before tax ₹2,18,000

d) Rate of tax 50%

e) Transfer to general reserve every year 20% of the profit

f) Normal rate of earnings 15%

13. B Ltd. Has 10,000 equity shares of ₹10 each (₹8 paid up) ₹1,00,000, 6% preference shares of ₹10 each fully paid. The company has the practice of transferring 20% of profit general reserve every year. The expected profit before tax is ₹2,00,000. The rate of tax is 50%. Normal rate of dividend is 20%. Calculate value per share under yield method.

FAIR VALUE METHOD

14. From the following particulars calculate fair value of an equity shares assuming that out of the total assets those amounting to ₹41,00,000 are fictitious.

a) Share capital: 5,50,000, 10% Preference shares of ₹100 each fully paid; 55,00,000 Equity shares of ₹10 each fully paid

b) Liability to outsiders ₹75,00,000

c) Reserves and surplus ₹45,00,000

d) The average normal profit after taxation earned every year by the company during the last 5 years ₹85,05,000

e) The normal profit earned on the market value of fully paid equity shares of similar companies is 12%

15. The following information is obtained from the books of Sunrise Company Ltd as on 31st March 16.

10,000 equity shares of ₹10 each fully paid up ₹10,00,000

10,000 equity shares of ₹10 each ₹7.50 per share called and paid up ₹75,000

10,000 equity shares of ₹10 each ₹5 per share called and paid up ₹50,000

General reserve ₹1,35,000

Liabilities to sundry parties ₹55,000

Fixed assets less depreciation ₹1,67,000

Commission on issue of shares ₹6,000

Preliminary expenses ₹9,000

Floating assets ₹2,33,000

It is estimated that the normal average profit less tax of the company will be maintained at ₹36,000 and the expected rate for capitalization purpose is 8%.

Calculate the value of each type of share by the assets backing method (excluding goodwill) and also by the earning capacity method. Assume dividends are declared on paid up capital.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. The following in the balance sheet of XYZ ltd. as on 31.12.2010.

Liablities	**Amt**	**Assets**	**Amt**
50,000 equity shares of Rs.10 each	5,00,000	Goodwill	40,000
		Plant and Machinery	2,00,000
Profit and Loss A/c(Cr.)	1,10,000	Land and Building	1,50,000
Sundry creditors	40,000	Investments	60,000
Bills payable	10,000	Stock	1,00,000
		Debtors	80,000
		Bank A/c	20,000
		Preliminary expenses	10,000
	6,60,000		6,60,000

Ascertain the value of each equity share of the company using intrinsic value method.

[Alagappa, B.Com, Nov,2016]

2. Average capital employed in karta Ltd., Rs.35,00,000 whereas net trading profits before tax for the last three years have been Rs. 14,75,000, Rs. 14,55,000 and 15,25,000. In these three years, the managing Director was paid a salary of Rs.10,000 p.m. but now he would be paid a salary of Rs.12,000 P.M. Normal rate of return expected in the industry in which K.Ltd is engaged is 18% Rate of Tax is 50%. Calculate goodwill on the basis of three years purchase of the super profits.

[Alagappa,B.Com,Nov,2016]

3. Find out the amount of goodwill of Mallika Ltd. on the basis of 4 years purchase of weighted average profit after assigning weights 1,2,3,4, and 5 serially to the profits. Profits for the last years as follows.

Year:	2004	2005	2006	2007	2008
Profit:	15,000	18,000	22,000	25,000	27,000

[Madurai,B.Com,Nov,2013]

4. The following Information is given
   1. Average capital employed Rs.1,00,000
   2. Present value of the annuity of Re.1 for 5 years at 10% is Rs.3.78
   3. Normal rate of Profit 10%.
   4. Net profits for five years are

5. I year Rs.15,000; II year Rs.16,000; III year Rs.17,000; IV Year Rs. 18000 and V year Rs.20,000. Profits included non recurring profit on an average basis of Rs.1,500 out of which Rs.300 had the recurring tendency. Remuneration of properitor is Rs.800 p.a which is not charged in profit and loss. Find out goodwill.

   1. As per 5 years purchase of super profit
   2. As per annuity method
   3. As per capitalization of profit method.

[Madurai,M.Com, Nov, 2015]

6. Mohinderruns a cosmetic store. Her net assets on 31st December 2010 amounted to Rs. 2,00,000. After paying a rent of Rs. 2,000 a year and salary of Rs. 10,000 to her manager she earns a profit of Rs.50,000. Her landlord is interested in acquired the business. (12% is considered to be a reasonable return on capital employed). Calculated the value of goodwill at 3 years purchase of a super profit.

The following the particulars are available in respect of the business carried on by trader.

(i) profit earned for three years:

2005 – 06	2,00,000
2006 – 07	2,40,000
2007 – 08	2,20,000

(ii) Normal rate of return 10%

(iii) Capital employed Rs. 12,00,000

(iv) Present value of an annuity of one rupee for 5 years at 10% = 3.78.

(v) the profit included non-recurring profit on an average basis of Rs. 3,000

You are required to calculate the value of goodwill (1) as per annuity method (2) as per capitalization method by using Average Capital employed.

[Madurai,M.Com, Nov, 2015]

7. Madhan & Co. decided to purchase a business for Rs. 2,40,000. Its profits for the last four years were 1995 Rs. 60,000; 1996 — Rs. 75,000; 1997 — Rs. 72,000 and 1998 — Rs. 69,000. The owner of the business was personally managing it. A manager to replace him has to be paid Rs. 9,000 p.a.

   Calculate the value of goodwill if it is valued on the basis of three years' purchase of the average net profit for the last four years.

(Maduari, B.Com, 2003)

[Ans: Goodwill — Rs. 1,80,000]

8**.** The following particulars are available in respect of the business carried on by Bal Thakrey Ltd.

(a). Profit earned : 1996 — Rs. 50,000; 1997 — Rs. 48,000; and 1998 — Rs. 52,000.

(b). Profit of 1997 is reduced by Rs. 5,000 due to stock destroyed by fire and profit of 1996 included a non-recurring income of Rs. 3,000.

(c). Profit of 1998 include Rs. 2,000 income on investment

(d). The stock is not insured and it is thought prudent to insure the stock in future. The insurance premium is estimated at Rs. 500 p.a.

(e). Fair remuneration to the proprietor (not taken in the calculation of profits) is Rs. 10,000 p.a.

You are required to calculate the value of goodwill on the basis of 2 years purchase of average profits of the last three years.

(Madras, B.Com (CS) (SY4B) Ap 2007;

B.Com., B.Com (CS) Nov. 2007; 1 M.Com., Ap 2005 April 2003]

[Ans : Goodwill — Rs. 79,000; Future maintainable profit — Rs. 39,500]

9. 'X', who has been carrying on a retail business for the past 15 years, intends selling his business on 31st Dec. 2001. It is agreed between 'X' and the buyer that the buyer pay Rs. 50,000 for Goodwill. From the following particulars supplied by 'X' ascertain the amount of goodwill if it were based on three years' purchase of the average profits of the last four years including the profit of 2001.

   Profits earned :

   1998 :Rs.. 10,000; 1999: Rs. 12,000 ; 2000 : Rs. 15,000 ; 2001 : Rs. 18,000.

   At the time of acquiring ₹X"s business, the buyer was employed as the manager of a similar business on a salary of Rs. 300 per month. The profit of 2001 included income from investments Rs. 1,000 and profits of 1998 has been reduced by Rs. 3,000 being speculation loss. Similarly the profits of 2000 had been reduced by Rs. 5,000 owing to loss from betting.

Periyar, B.Com (old) Nov. 2005]

[Madras I M. Conn Oct. 2003]

[Ans : Goodwill : Rs. 35,700]

10. Mr. Viswanath has invested Rs. 4,00,000 in a business. His net profit before tax at 50% is Rs. 1,60,000, out of which Rs. 12,000 annual rent of own building used as business premises and Rs. 24,000 p.a. as his salary were not deducted. For starting this business, he left a job fetching him a monthly salary of Rs. 2,000. Before starting this business, he had invested this amount on 10% securities. Fair compensation for the risk involved is 2%. Calculate the value of goodwill on the basis of three years purchase of the average annual super profits.

Madras, B.Com.,B.Com (AF) Nov. 2009]

(Ans: Adjusted annual profit—Rs. 68,000; Super profit—Rs. 20,000; Goodwin — Rs. 60,000]

Hint: Rent on own building should be ignored and Building value should be assumed to the included in the investment of Rs. 4.00.000.

11. From the following information calculate the value of goodwill on the basis of three years purchase of the super profit:

    (i) Average capital employed in the business Rs. 7,00,000.

    (ii) Net trading profit of the firm for the past three years Rs. 1,07,600: Rs. 90,700 and Rs. 1,12,500.

    (iii) Rate of interest expected from capital having regard to the risk involved 12%.

    (iv) Fair remuneration to the partner for their services Rs. 12,000 per annum.

    (v) Sundry assets of the firm -- Rs. 7,54,762

    (vi) Sundry liabilities of the firm— Rs. 31,329

Thiruvalluvar, B.Com., Nov. 2006]

[Madras, 1st M.Com(ICE) Oct. 2008;B.Com.,

B.Com(CS)., Ap. 2008; B.C.S. Oct. 2003]

[Ans: Super profit — Rs. 7,600; Goodwill — Rs. 22,800]

12. From the following particulars relating to the business of Mr. Rahul, compute the value of goodwill on the basis of 3 years purchase of super profits taking average of last four years:

    Capital invested — Rs. 1,20,000

    Market rate of return on investment —12%

    Rate of risk return on capital invested — 3%

    Managerial remuneration of the proprietor, if employed elsewhere Rs. 30,000 p.a. Trading results:

	Rs.
1995 Profit	60,000
1996 Profit	72,000
1997 Loss	8,000
1998 Profit	88,000

[Madras, B.Com., April 2001]

[Ans: Super profit — Rs. 5,000; Goodwill — Rs. 15,000]

13. The following particulars are available in respect of the business carried on by John.

    (a) Capital invested — Rs. 50,000

    (b) Trading results:

	Rs.
1990 Profit	12,200
1991 Profit	15,000
1992 Loss	2,000
1993 Profit	21,000

(c) Market rate of interest on investment 8%

(d) Rate of risk return on capital invested in business 2%

(e) Remuneration from alternative employment of the proprietor (if not engaged in business) — Rs. 3,600 p.a.

Compute the value of goodwill of the business on the basis of 3 years purchase of super profit taking average of the last four years.

[Bharathiar, B.Com, Ap 2005 Madras, B.Com.,Ap 2007; 1st M.Com: (CA) Nov. 2005; B.C.S. Nov. 2004; M.Com., April 2004; I M.Com., Oct. 2002]

[Ans: Goodwill — Rs. 8,850]

14. Ramesh runs an automobile repair shop from rented premises. He pays a rent of Rs. 15,000 per month. Apart from non-skilled workers, he employs a skilled engineer at a salary of Rs. 12,000 per month. Ramesh made a profit of Rs. 6,50,000 before taxes for the year ended 31.3.97 on which date his net assets were worth Rs. 30,00,000.

The owner of the premises is very keen to get it back from Ramesh to enable his son, an automobile engineer, to carry on business. Ramesh is willing to sell his business provided he receives fair compensation.

The premises are worth Rs. 5,00,000. If 15% were to be a reasonable return on capital employed in this line of business, how much goodwill can Ramesh expect on the basis of 3 years purchase of super profits?

[Madras, B.Com.(1CE) (PZG) Oct. 2008]

[Ans: Goodwill — Rs. 9,15,000; Expected Profit :Rs. 8,30,000; Normal Profit : Rs. 5,25,000 (35,00,000 x 15%)]

15. The following is the balance sheet of A Ltd., as on 31st December 1999:

Liabilities	**Rs.**	**Assets**	**Rs.**
6% Preference shares		Goodwill	1,50,000
of Rs. 10 each	1,50,000	Land	3,75,000
Equity Shares of		Plant	1,50,000
Rs. 10 each	4,50,000	Investments	3,00,000
Profit and Loss A/c	7,50,000	Stock	2,50,000
6% Debentures	3,00,000	Debtors	3,00,000
Sundry Creditors	1,85,000	Bank	3,00,000
		Preliminary Expenses	10,000
	18,35,000		18,35,000

Additional information's are:

(a) Debentures are to be redeemed in full before business is taken over by the new company.

(b) The investments will be sold and the proceeds so realized will be used in partly redeeming debentures.

(c) The value of land is to be ascertained on the basis of 8% return. The cur' rent rental value is Rs. 50,400.

You are required to calculate the amount of capital employed in the business for valuation of goodwill.

[Madras, B.CS. (ICE) May 2001]

[Ans: Capital Employed :Rs. 11,45,000; Land Value :Rs. 6,30,000]

16. The Balance Sheet of X Ltd. as on 31.3.1996 is as follows:

Liabilities	Rs.	Assets	Rs.
5,000 8% pref. shares of Rs. 10 each	50,000	Goodwill	10,000
10,000 equity shares of Rs. 10 each	1,00,000	Fixed assets	1,80,000
Reserves (including provisions		Investments	
for taxation Rs. 10,000)	1,00,000	(5% Govt. loan)	20.000
8% Debentures	50,000	Current assets	1,00,000
Creditors	25,000	Preliminary expenses	10,000
		Discount on debentures	5,000
	3,25,000		3,25,000

The average profit of the company (after deducting interest on debentures and taxes) is Rs. 30.000. The market value of the machinery included in fixed assets is Rs. 5,000 more. Expected rate of return is 10%. Evaluate the goodwill of the company at 5 times of the super profit.

[Periyar, B.Com., Ap 2005] [Madras, 1st M.Com., (KCA IA) Nov. 2009;

[Ans: Average capital employed Rs. 1,85,500; Super profit — Rs. 10,450; Goodwill — Rs. 52,250]

[Hint: Reduce half of average profit (less income on investment) to ascertain average capital employed]

17. Mr. Wiseman has invested a sum of Rs. 2,00,000 in his own business which is a very profitable one. The annual profit earned from his business is Rs. 45,000 which includes a sum of Rs. 10,000 received as compensation for a part of his business premises.

As a alternative to his engagement in his business, he could have invested the money in long-term deposit, with bank earning a normal rate of interest of 10% and also could engage himself in employment thereby getting an annual salary income of Rs. 7,200.

Considering 2% as fair compensation for the risk involved in the business, calculate the value of GoodWill of his business on capitalisation of super profits at the normal rate of interest. Ignore taxation.

[Madras, B.Com., Oct. 2001]

(Ans : Super Profit : Rs. 3,800 (27,800 — 24,000); Goodwill :Rs. 31,667)

18. The net profits of a company after providing for taxation, for the past five years are Rs. 40,000; Rs. 42,000; Rs. 45,000; Rs. 46,000 and Rs. 47,000. The capital employees, in the business is Rs. 4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of goodwill of the business on the basis of an annuity of super profits, taking the present value of annuity of one rupee for 5 years @ 10% interest as Rs. 3.78.

[Madras, M.Com.(KCAIA)Ap. 2009; B.Com (CS) (SY4B) Nov. 2007;

B.Com., April 2005 (2 times); Nov. 2004; 2nd M.Com. (ICE) Oct. 2005]

[Ans: Super profit — Rs. 4,000; Goodwill — Rs. 15,120]

19. From the following particulars, find out the value of Goodwill as per annuity method:

(a) Capital employed :Rs. 3,00,000

(b) Normal rate of return : 10%.

(c) Present value of Re. 1 for 5 years at 10% at 3.78.

(d) Normal profit for 5 years :

1styearRs. 30,000; IInd year Rs. 32,000; IIIrd year : Rs. 34,000; IVthRs. 36,000; Vth year : Rs. 38,000

Non-recurring Income :Rs. 1,600;

Non-recurring expenses : Rs. 1,000.

[Madras, B. Com., April 2003]

[Ans : Goodwill : Rs. 12,852 (3,400 x 3.78)]

20. The following information is given:

(a) Capital employed Rs. 1,50,000;

(b) Normal rate of profit 10%

(c) Present value of annuity of Re. 1 for 5 years at 10% is 3.78.

(d) Net profit for 5 years:

I year	14,400
II	15,400
III	16,900
IV year	17,400
V year	17,900

The profits include non-recurring prof t on an average basis of Rs. 1,000 out of which it was deemed that even non-recurring profit had a tendency of appearing at the rate of Rs. 600 per annum. You are required to calculate goodwill:

(i) As per annuity method

(ii) As per 5 years purchase of super profit

[Madras, B.Com., April 2002]

[Ans: Average expected profit — Rs. 16,000; Super profit — Rs. 1,000;

(i) Goodwill as per annuity method — Rs. 3,780;

(ii) Goodwill as per purchase of super profit — Rs. 5,000]

21. The following particulars are available in respect of the business carried on by a trader:

(a) Profit earned :

1987 — Rs. 50,000; 1988 — Rs. 60,000; 1989 — Rs. 55,000

(b) Normal rate of Profit 10%

(c) Capital employed Rs. 3,00,000

(d) Present value of an annuity of one rupee for five years at 10% is Rs. 3.78.

(e) The profits included non-recurring profits on an average basis of Rs. 4,000 out of which it was deemed that even Non-recurring profits had a tendency of appearing at the rate of Rs. 1,000 P.A.

You are required to calculate goodwill:

(i) as per Five years purchase of Super profits

(ii) as per Capitalization of Super Profit method and

(iii) as per Annuity method.

[Madras, B.Com.(AF) Nov. 2009; 1 M.Com. Oct. 2001]

22. From the following information calculate the value of goodwill:

(a). Average capital employed Rs. 12,00,000.

(b). Company declares 15% dividend on the shares of Rs. 20 fully paid, which is quoted in the market at Rs. 25.

(c). Sundry assets of the firm Rs. 15,85,000 and sundry liabilities Rs. 62,654 and

(d). Net trading profits of the firm for the past three years Rs. 2,15,200; Rs. 1,81,400; and Rs. 2,25,000]

[Madras, M.Com (ICE) (ZHC) May 2007]

[Ans: Normal rate of return — 12% i.e., $\left\{ \mathbf{15\% \times \frac{20}{25}} \right\}$

Capitalised value of business — Rs. 17,26,667;

Goodwill — Rs. 2,04,321]

Hint: Average capital employed should be ignored.

23. The Balance Sheet of Tip Top manufacturing Cc. Ltd. discloses the following financial position as at 31.3.1998

Liabilities	***Rs.***	***Assets***	***Rs.***
*Paid up capital:*90,000 shares of Rs. 10		Goodwill at cost Land & Buildings at	90,000
each fully paid	9,00,000	cost less depreciation	5,25,000
Capital reserve	1,80,000	Plant & Machinery at	
Sundry creditors	2,13,000	cost less depreciation	2,70,000
Provision for taxation	1,65,000	Stock at cost	3,45,000
Profit & Loss A/c	78,000	Book debts 2,94,000	
		Less: Provision for	
		bad debts 9,000	2,85,000
		Cash at bank	21,000
	15,36,000		15,36,000

You are required to value the goodwill of Tip lop manufacturing company for which purpose the following information is supplied:

(i) Adequate provision has been made in the accounts for income tax and depreciation.

(ii) Rate of income tax may be taken at 5O%.

(iii) The average rate of dividend declared by the company for the past five years was 15%.

(iv) The reasonable return on capital invested in the class of business done by the company is 12%.

[Madras, B.Com (A & F) Nov. 2007; BCS Oct 2004]

[Ans: Net tangible assets — Rs. 10,68,000; Total value of business — Rs. 13,75,000 i.e., $\left\{ \mathbf{\frac{1,65,000}{12\%}} \right\}$ **Goodwill — Rs. 3,07,000]**

[Hint: Actual profit during the year is assumed to be equal to the provision for taxation since the rate of income tax is 50% tax figure of Rs. 78,000 in the P & L A/c seems to be only the balance left in this account after payment of dividend]

24. From the following Balance Sheet, you are required to value the equity shares:

Liabilities	*Rs.*	*Assets*	*Rs.*
2,000 6% pref. shares of Rs.100 each 30,000 equity shares of Rs. 10 each Current liabilities	2,00,000 3,00,000 1,00,000	Assets at book values	6,00,000
	6,00,000		6,00,000

The market value of 50% of the assets is considered as 10% more than the book values and that remaining 50% at 5% less than the book values. There was a liability of Rs. 5,000 which remained unrecorded. Assume preference shares have no priority as to the repayment of capital or dividend.

[Madras, B.Com.(PZ3A) Nov. 2005; 1st M.Com. Nov. 2004;
[Madras, B.Com(CS) (SY4B) Ap. 2009; Nov. 2008; B. Com. (PZ3A) Nov. 2005;
1st M.Com. Nov. 2004; 2nd M.Com.(ICE) Oct. 2000]

[Ans: Net assets — Rs. 5,10,000; Value of each preference shares of Rs. 100 and that of equity share Rs. 10.33 (3,10,000 ÷ 30,000)]

[Hint: When net assets are adequate, preference capital is repaid and balance goes to equity shareholders whether preference shareholders have preference or not]

25. The following is the balance sheet of S' company limited as on 31st Dec. 1998.

Liabilities	**Rs.**	**Assets**	**Rs.**
3,000 equity shares of Rs. 100 each	3,00,000	Cash in Hand	2,000
		Cash at Bank	20,000
1,500 8% preference shares of Rs. 100 each	1,50,000	Sundry debtors	80,000
		Stock-in-trade	1,40,000
General reserve	40,000	Land & Building	2,05,000
Profit & Loss A/c	10,000	Furniture	30,000
Bank loan	50,000	Goodwill	70,000
Sundry creditors	15,000	Discount on shares	18,000
	5,65,000		**5,65,000**

The value of assets is assessed as follows:

(i). Furniture to be depreciated at 10%.

(ii). Value of stock-in-trade, Land and buildings and goodwill is estimated at Rs. 1,20,000; Rs. 2,50,000 and Rs. 80,000 respectively.

(iii). Debtors are expected to realise 80% of book value. Find out the value of equity shares.

[Madras, B.C.S. Oct. 2002]

[Ans: Value per equity share — Rs. 116;Net assets Rs. 3,48,000]

26. The summarized Balance sheet of BK Ltd., as at 31st March 1997, is as follows :

Balance Sheet

Liabilities	Rs.	Assets	Rs.
30,000 equity shares of Rs. 10 each fully paid	3,00,000	Goodwill	70,000
10,000 equity shares of Rs. 10 each Rs. paid up	80,000	Fixed Assets	4,50,000
Reserves	1,80,000	Current Assets	2,20,000
11% Debentures	1,00,000	Preliminary expense	10,000
Current Liabilities	90,000		
	7,50,000		**7,50,000**

The goodwill is independently valued at Rs. 50,000 and fixed assets at Rs. 4,20,000. There was a contingent liability of Rs. 20,000 which has become payable. Determine the value of both the categories of shares under the Net Assets method.

[Madras, B.Com., (ICE) (Old) May 2003]

[Ans : Value per Fully paid Equity share : Rs. 12.63; Value per Partly paid Equity share :Rs. 10.10]

27. Raman holds 5,000 equity shares in Raghavan Ltd. The paid up capital of which is30,000 equity shares of Re. 1 each. It is ascertained that:

(a) The normal net profit of such company is Rs. 5,000 and

(b) The normal return for the type of business carried out by the company is 8%

Raman requests you to value his shares based upon the above figures.

[Madras, BCS (SY4B) AR 2005 (Modified); M.Com., (ICE) (Old) May 2003;

M.Com., May 1991, May 1992]

[Ans: Yield value per equity share — Rs. 2.08; Raman's holding amounts to Rs. 10,400]

Hint: When shares of a principal shareholder are valued, transfer to reserve has to be ignored.

28. Mr. Share Wallah holds 12,000 equity shares in Bharath Ltd. the nominal and paid up capital of which consists of :

    (a) 40,000 equity shares of Re. 1 each

    (b) 10,000 preference shares of Re. 1 each, rate of dividend 12%.

    (c) Preference shares do not further participate in profits.

    (d) Usual transfer to Reserve 10% of the profits.

    It is ascertained that :

    (i) Normal annual profit is Rs. 12,000;

    (ii) Normal rate of return 15%.

    Mr. Share Wallah requests you to value his holdings based upon the above figures.

    [Madras, II M.Com., April 2001]

    [Ans : Yield Value per share : Rs.. 1.80 Share Wallah's Holdings amount to : Rs. 21,600]

    Hint: When shares of a principal shareholder are valued, transfer to reserve should be ignored.

29. X Ltd. has 10,000 equity shares of Rs. 10 each, Rs. 8 paid and 1,00,000 6% preference shares of Rs. 10 each fully paid. The company has a practice of transferring 20% of the profit to general reserve every year. If the expected profit (based on past years' performance) before tax is Rs. 2,00,000 and the rate of tax is 50%, you are required to calculate the value of equity share. It may be assumed that normal rate or dividend is 20%.

    [Thiruvalluvar, B.Com., Nov. 2005;Madras, B.Com., B.Com (CS) Nov. 2008; Nov. 2007; B.Com., Oct. 2004; Oct. 2002; B.C.S. April 2002;]

    [Ans : Profit available for equity dividend — Rs. 20,000; Expected rate of return — 25%; Value of each equity share — Rs. 10]

30. From the following information calculate the value of an equity share:

    (a) The subscribed share capital of a company consists of 10,000, 14% preference shares of Rs. 100 each and 2,00,000 equity shares of Rs. 10 each. All the shares are fully paid up.

    (b) The average annual profits of the company after providing depreciation but before taxation are Rs. 25,00,000. It is considered necessary to transfer Rs.1,25,000 to general reserve before declaring any dividend. Rate of taxation is 50%.

    (c) The normal return expected by investors on equity shares from the type of business carried on by the company is 20%.

    [Madras, 2nd M.Com, Nov. 2004; April 2004; M.Com., (ICE) (Old) May 2002;]

    [Ans: Profit available for equity dividend Rs. 9,85,000;Value of an equity share Rs. 24.63]

31. The authorised and paid up capital of a company consists of 1,000, 5% preference shares of Rs. 100 each and 20,000 equity shares of Rs. 15 each, all fully called up and paid up. A person holds 300 preference and 2,000 equity shares. Find out the value of equity shares held by the person assuming that the normal annual profit of the company is Rs. 40,000 and the normal annual return on similar equity shares is 8% per annum. Assume that the company. .transfers 25% of the profit to general reserve and the profit above is profit after tax.

[Madras, B.Com, B.Com(CS) Nov. 2008; B.Com (A.F) Nov. 2007]

[Ans: Value of an equity share— Rs. 15,625]

32. The profits of a company, Limited by shares, for the year ended 31st March 1999 were Rs. 6,00,000. After setting apart amount for interest on borrowings, Taxation and other provisions, the net surplus available to shareholders is estimated at Rs. 1,50,000. The company's capital consisted of :

    (a) 10,000 equity shares of Rs. 100 each, Rs. 50 per share paid up; -and

    (b) 2,500 12% Redeemable Preference shares of Rs. 100 each fully paid up. Enquiries in the stock market reveal that shares of companies engaged in similar business and declaring a dividend of 15% on equity shares are quoted at a premium of 10%.

    On the basis of yield method, compute the value of the equity share.

[Madras, M. Com., (ICE) (Old) Oct. 2002]

[Ans : Equity Share Value : Rs. 88; Expected Rate : 24%; Normal Rate : 13.63]

33. On 31st Dec. 1995, the balance sheet of a limited company disclosed the following position:

Liabilities	*Rs.*	*Assets*	*Rs.*
Issued capital in Rs. 10 shares	4,00,000	Fixed assets	5,00,000
Reserves	90,000	Current assets	2,00,000
Profit & Loss A/c	20,000	Goodwill	40,000
5% debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31st Dec. 1995, the fixed assets were independently valued at Rs. 3,50,000 and the goodwill at Rs. 50,000. The net profits for the three years were:

1993 — Rs. 51,600; 1994 — Rs. 52,000 and 1995 — Rs. 51,650 of which 20% was placed to reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair investment return may be taken at 10%.

Compute the value of the company's share by (a) the net assets method and (b) the yield method.

Madras, M.Com (ICE) (PBC) Oct. 2009; B.Com., B.Com(CS) Oct. 2008;

1st M.Com (CA1A) Nov. 2007; B.Com (ICE) Ap. 2007; B.Com.(PZ3A)

Nov. 2006; BCS (NYD) Nov. 2005; B.Com., Oct. 2002; B.C.S. (ICE) Oct. 2002]

[Ans: (a) Rs. 9.25; (b) Rs. 10.35]

34. The following is the summarised balance sheet of ABC Ltd. as at 31st Dec. 1998.

Liabilities	Rs.	Assets	Rs.
1,00,000 equity shares		Plant & Machinery	4,80,000
of Rs. 10 each	10,00,000	Furniture	2,00,000
Share premium	2,00,000	Stock	12,40,000
General reserve	4,78,800	Debtors	4,12,000
Profit & Loss A/c	3,15,200	Cash at bank	8,74,800
Sundry creditors	8,18,800		
Provision for taxation	3,94,000		
	32,06,800		32,06,800

The company transfers 20% of its profits (after tax) to general reserve. Net profits before taxation of the last three years have been as follows:

1996 — Rs. 6,70,000; 1997 — Rs. 7,32,000; and 1998 — Rs. 7,88,000.

Machinery is valued at Rs. 6,40,000.

Average yield in this type of business is 20%.

The rate of tax is 50%.

Find out the value of each equity share on the basis of (a) net asset method (b) yield method.

[Madras, 1st M.Com.(CA1A) Nov. 2006 (½ figs]

[Ans : Net asset available to equity shareholders — Rs. 21,54,000; Intrinsic value per share — Rs. 21.54; Expected rate of return — 29.2%; Yield value per share — Rs. 14.60]

UNIT – 8

INTERNAL RECONSTRUCTION

Meaning - Methods of alteration of share capital – Procedure for alteration - Difference between Internal and External Reconstruction – Capital Reduction a/c

Sometimes a company continuously incurs loss. The directors have the only option to liquidate the business. Before this stage a final adjustment may be done by the company to avoid such liquidation. That arrangement is called internal reconstruction.

As per the internal arrangement, the share holders and debenture holders are required to wipe off some portion of their amount for the benefit of the company. The entire amount sacrificed by them is credited in an account called capital reduction account. Just like, some asset value may be increased and the difference between market value and book value is credited in the above account. This amount is used to write off company's losses, fictitious assets and adjusting any asset value.

If there is any surplus in capital reduction a/c it should be transferred to capital reserve account. If there is any shortage, the fixed asset a/c should be written off accordingly. After the internal reconstruction is over, the word "And reduced" should be added along with the name of balance sheet.

8.1 METHODS OF ALTERATION OF SHARE CAPITAL: (SEC. 94, 95 AND 97)

- Increasing the share capital by fresh issue
- Consolidation of shares of smaller value into shares of greater value
- Sub-division of shares of greater value into shares of smaller value
- Conversion of shares into stock
- Reduction or cancellation of share capital
  a) Reducing the liability (unpaid) of shares
  b) Paying back the paid up capital
  c) Writing off portion of paid up share capital (Capital reduction)

8.2 PROCEDURE FOR ALTERATION OF SHARE CAPITAL: (SEC.100 TO 105)

- Authorized by its Articles of Association
- Special Resolution
- Confirmation by Court
- Add the words “and reduced”

8.3 MEANING OF INTERNAL RECONSTRUCTION

Reduction or writing off of share capital of a company which is not represented by any fixed assets is called internal reconstruction.

8.4 MEANING OF EXTERNAL RECONSTRUCTION

An existing company goes into liquidation and a new company is formed to take over its business under a new name.

8.5 DIFFERENCE BETWEEN INTERNAL RECONSTRUCTION AND EXTERNAL RECONSTRUCTION

Basis	**Internal Reconstruction**	**External Reconstruction**
Meaning	Reduction of share capital which is not represented by assets	An existing company goes into liquidation and a new company is formed to take over its business under a new name
Mode of reconstruction	Permission of Articles of the company, a special resolution and court confirmation are necessary	Liquidation of existing company and formation of new company is required
Status of liabilities	Liabilities of debentures, creditors, bank overdraft, etc are continued	They are settled
Processing time	Confirmation from all the parties are required and so it is very slow and tedious	Confirmation from share holders is required and so it is very speedy process
Set off the past losses	It can be set off against future profits	As the business technically comes to an end, it is not possible

8.6 CAPITAL REDUCTION ACCOUNT

Capital reduction account is a nominal account. The purpose of opening this account is to carry out the internal reconstruction procedures of a company. It is a temporary account and closed after completing the internal reconstruction procedures. At the end, if there is any Surplus balance in this account that will be transferred to capital reserve account.

Journal entries

1. For reducing the share capital Old share capital a/c Dr To New share capital a/c To Capital reduction a/c (b/f)
2. For reducing creditors: Creditors a/c Dr To Capital reduction a/c
3. For increase in the value of asset: Asset a/c Dr To Capital reduction a/c
4. For writing off P & L a/c, good will and other fixed assets a/c Capital reduction a/c Dr To Profit and loss a/c To Goodwill To Other fixed assets a/c (b/f) To Capital reserve a/c (Surplus if any)

Reconstruction a/c (Capital reduction a/c)

Particulars	Amount	Particulars	Amount
To P & L a/c	xxx	By Old equity share capital	xxx
" Goodwill	xxx	" Asset a/c	xxx
" Other fixed asset	xxx	" Creditors	xxx
" Capital reserve a/c (b/f)	xxx		
	xxx		xxx

Illustration -1 In order to eliminate the accumulated losses of ₹45,000 from the balance sheet, a company has decided to convert its 15,000, 7% preference shares of ₹10 each, ₹6 per share paid. Show journal entries in the books of company.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹10)	Dr	1,50,000	
To Preference share capital a/c (₹6)			90,000
To Capital reduction a/c (b/f)			60,000
(Being capital reduced)			
Capital reduction a/c	Dr	60,000	
To P & L a/c			45,000
To Capital reserve a/c (b/f)			15,000
(Being writing of losses)			

Illustration -2 The following is the balance sheet of Weak Ltd. as on 31-3-2016.

Liabilities	**Amount**	**Assets**	**Amount**
Equity share of ₹10 each	10,00,000	Land	1,00,000
Sundry creditors	1,73,000	Cash at bank	5,000
		Plant	2,30,000
		Furniture	68,000
		Stock	1,50,000
		Debtors	70,000
		P & L a/c	5,50,000
	11,73,000		11,73,000

Scheme of capital reduction:

a) The equity shares to be reduced to ₹4 per share

b) Plant to be written down to ₹1,50,000

c) Stock to be revalued at ₹1,40,000 and Land at ₹1,42,000

d) The provision for doubtful debts to be created ₹2,000

Pass journal entries to give effect to the above arrangement and also prepare reconstruction a/c

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Equity share capital a/c (₹10)	Dr	10,00,000	
To Equity share capital a/c (₹4)			4,00,000
To Capital reduction a/c (b/f)			6,00,000

(Being capital reduced)			
Land a/c	Dr	42,000	
To Capital reduction a/c			42,000
(Being land value increased)			
Capital reduction a/c	Dr	6,42,000	
To P & L a/c			5,50,000
To Plant			80,000
To Provision			2,000
To Stock			10,000
(Being writing of losses)			

Reconstruction a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To P & L a/c	5,50,000	By Equity share capital a/c	6,00,000
" Plant	80,000	" Land a/c	42,000
" Provision	2,000		
" Stock	10,000		
	6,42,000		6,42,000

Illustration -3 A Ltd passed resolution and got Court permission for the reduction of its share capital by ₹5,00,000 for the purposes mentioned as under:

1) To write off the debit balance of profit and loss a/c of ₹2,10,000

2) To reduce the value of investments by ₹80,000

3) To reduce the value of plant by ₹90,000 and goodwill by ₹40,000

The reduction was made by converting 50,000 preference shares of ₹20 each fully paid to the same no. of preference shares of ₹15 each fully paid and by converting 50,000 equity shares of ₹10 each fully paid up to ₹6.60 each.

Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹20)	Dr	10,00,000	
To Preference share capital a/c (₹15)			7,50,000
To Capital reduction a/c (b/f)			2,50,000
(Being capital reduced)			

Equity share capital a/c (₹10)	Dr	5,00,000	
To Equity share capital a/c (₹ 6.60)			3,30,000
To Capital reduction a/c (b/f)			1,70,000
(Being capital reduced)			
Capital reduction a/c	Dr	4,20,000	
To P & L a/c			2,10,000
To Investment			80,000
To Plant			90,000
To Goodwill			40,000
(Being writing of losses)			

Illustration -4 The following scheme of reconstruction has been approved by D Ltd.

1. The shareholders to receive in lieu of their present holding of 60,000 shares of ₹10 each fully paid the following.

   a) Fully paid new equity shares equal to $1/3^{rd}$ of their holding.

   b) 8 % preference shares fully paid to the extent of $1/5^{th}$ of the above new equity shares.

   c) ₹60,000 8 % secured debentures.

2. The debenture holders' total claim of ₹75,000 to be reduced to ₹25,000. This will be satisfied by the issue of 2,500, 8 % preference shares of ₹10 each fully paid

3. An issue of ₹50,000, 6%debentures was made and allotted, payment for the same having been received in cash.

4. The goodwill which should at ₹3,00,000 was written down to ₹50,000 and plant which stood at ₹1,00,000 was written down to ₹75,000.

5. The freehold premises which should at ₹1,75,000 was written down by ₹75,000.

Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Debenture holders a/c	Dr	75,000	
To 8% Preference shares a/c			25,000
To Capital reduction a/c			50,000

(Being debentures settled)			
Equity share capital a/c (₹10)	Dr	6,00,000	
To Equity share capital a/c (1/3 x 6,00,000)			2,00,000
To 8% Preference shares (1/5 x 2,00,000)			40,000
To 8% Debentures			60,000
To Capital reduction a/c (b/f)			3,00,000
(Being capital reduced)			
Capital reduction a/c	Dr	3,50,000	
To Free hold premises			75,000
To Plant			25,000
To Goodwill			2,50,000
(Being writing of losses)			
Cash a/c	Dr	50,000	
To 6% Debentures a/c			50,000
(Being debentures issued)			

8.7 CAPITAL REDUCTION WITH BALANCE SHEET MODEL

Illustration -5 The balance sheet of National Industries Ltd. on 31st March 2016 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	2,00,000	Goodwill	15,000
Equity shares of ₹100 each	4,00,000	Free hold properties	2,00,000
5% Mortgage debentures	1,00,000	Plant	3,00,000
Bank over draft	50,000	Stock in trade	50,000
Creditors	1,00,000	Debtors	40,000
		P & L a/c	2,45,000
	8,50,000		8,50,000

The company got the following scheme of capital reduction approved by the court.

- The preference shares to be reduced to ₹75 per share, fully paid and the equity shares to ₹37.50
- The debenture holders took over the stock in trade and the book debts in full satisfaction of the amount due to them.
- The goodwill a/c to be eliminated.
- The free hold properties to be depreciated by 50%

- The value of plant to be increased by ₹50,000

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹100)	Dr	2,00,000	
To Preference share capital a/c (₹75)			1,50,000
To Capital reduction a/c (b/f)			50,000
(Being capital reduced)			
Equity share capital a/c (₹100)	Dr	4,00,000	
To Equity share capital a/c (₹37.50)			1,50,000
To Capital reduction a/c (b/f)			2,50,000
(Being capital reduced)			
Plant a/c	Dr	50,000	
To Capital reduction a/c			50,000
(Being plant value increased)			
5% Debentures a/c	Dr	1,00,000	
To Stock a/c			50,000
To Book debts a/c			40,000
To Capital reduction a/c (b/f)			10,000
(Being debentures settled)			
Capital reduction a/c	Dr	3,60,000	
To P & L a/c			2,45,000
To Goodwill			15,000
To Free hold property			1,00,000
(Being writing of losses)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference share capital	1,50,000	Free hold properties	1,00,000
Equity share capital	1,50,000	Plant (3,00,000 + 50,000)	3,50,000
Bank over draft	50,000		
Creditors	1,00,000		
	4,50,000		4,50,000

Illustration -6 The following is the balance sheet of NB Ltd. as on 31-12-2016.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	7,50,000	Patents	8,50,000
Equity shares of ₹100 each	5,00,000	Leasehold property	1,30,800
Creditors	30,000	Machinery	42,200
Bank overdraft	20,000	Debtors	76,500
		Stock in trade	55,000
		Discount on issue of shares	18,000
		Formation expenses	12,000
		P & L a/c	1,15,000
		Cash	500
	13,00,000		13,00,000

The company suffered heavy losses. The following scheme of reconstruction was adopted:

a) The preference shares be reduced to an equal number of fully paid shares of ₹50 each

b) The equity shares be reduced to an equal number of shares of ₹25 each

The amount available be used to write off ₹30,800 on leasehold property, ₹15,000 on stock, 20% on machinery and debtors and the balance available (after writing off discount on issue of shares, formation expenses and P & L a/c completely) on patents.

Give journal entries and prepare the revised balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹100)	Dr	7,50,000	
To Preference share capital a/c (₹50)			3,75,000
To Capital reduction a/c (b/f)			3,75,000
(Being capital reduced)			
Equity share capital a/c (₹100)	Dr	5,00,000	
To Equity share capital a/c (₹25)			1,25,000
To Capital reduction a/c (b/f)			3,75,000
(Being capital reduced)			

Capital reduction a/c	Dr	7,50,000	
To P & L a/c			1,15,000
To Stock			15,000
To Lease hold property			30,800
To Machinery			8,440
To Discount on shares			18,000
To Formation expenses			12,000
To Provision on debtors			15,300
To Patents (b/f)			5,35,460
(Being writing of losses)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference share capital	3,75,000	Patents (8,50,000 – 5,35,460)	3,14,540
Equity share capital	1,25,000	Leasehold(1,30,800 – 30,800)	1,00,000
Creditors	30,000	Machinery (42,200 – 8,440)	33,760
Bank overdraft	20,000	Debtors (76,500 – 15,300)	61,200
		Stock (55,000 – 15,000)	40,000
		Cash	500
	5,50,000		5,50,000

Illustration -7 The balance sheet of Sudha Ltd. as at Dec. 31, 2016 stood as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹10 each	60,000	Goodwill	42,000
Equity shares of ₹5 each	90,000	Premises	72,000
6% Debentures	36,000	Plant	52,000
Creditors	60,000	Loose tools	15,000
		Stock	12,500
		Debtors	18,000
		B/R	6,000
		Cash	1,500
		P & L a/c	27,000
	2,46,000		2,46,000

On revaluation of the assets, it was found that the goodwill was worthless and that the assets were overvalued to the following extent Premises ₹15,000; Plant ₹7,500; Tools ₹9,000 and Debtors ₹1,500. A scheme of arrangement and reduction of capital was agreed to by the court and the creditors on the following lines:

a) That the creditors should accept 6% debentures the extent of half of their debts, the balance being payable in cash

b) That the equity shares should be reduced to shares of ₹1 each

c) That the preference shares should be reduced to shares of ₹5 each fully paid

d) That the assets should be reduced to the revalued figures.

Draft the journal entries for effecting the above scheme and prepare balance sheet on completion.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Equity share capital a/c (₹5)	Dr	90,000	
To Equity share capital a/c (₹1)			18,000
To Capital reduction a/c (b/f)			72,000
(Being capital reduced)			
Preference share capital a/c (₹10)	Dr	60,000	
To Preference share capital a/c (₹5)			30,000
To Capital reduction a/c (b/f)			30,000
(Being capital reduced)			
Creditors a/c	Dr	60,000	
To 6% Debentures			30,000
To Cash (Bank overdraft)			30,000
(Being creditors settled)			
Capital reduction a/c	Dr	1,02,000	
To Premises			15,000
To Plant			7,500
To Goodwill			42,000
To Loose Tools			9,000
To Debtors			1,500
To P & L a/c			27,000
(Being writing of losses)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference share capital	30,000	Cash	1,500
Equity share capital	18,000	Premises (72,000 – 15,000)	57,000
6% Debentures (36,000 + 30,000)	66,000	Plant (52,000 – 7,500)	44,500
Bank OD	30,000	Loose tools (15,000 – 9,000)	6,000
		Stock	12,500
		Debtors (18,000 – 1,500)	16,500
		B/R	6,000
	1,44,000		1,44,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. After writing off all losses, if there is any amount left in capital reduction a/c, it should be transferred to
   a) **Capital reserve a/c** b) Capital reduction a/c
   c) Goodwill a/c d) P & L a/c

2. If an asset value increases the capital reduction a/c should be
   a) Debited b) **Credited**
   c) Transferred d) Closed

3. If creditors agreed to reduce their claims, capital reduction should be
   a) Debited b) **Credited**
   c) Closed d) Both a and b

4. Reduction of capital is possible only when
   a) Article permits b) Special resolution is passed
   c) Court permits d) **All the above**

5. Internal reconstruction does not involve
   a) Consolidation b) Dilution
   c) Capital reduction d) **Liquidation**

6. Any decrease in the value of assets, at the time of internal reconstruction will be charged to
   a) Goodwill a/c b) **Capital reduction a/c**
   c) Revaluation a/c d) Share capital a/c

7. In case of internal reconstruction the existing company will be _________
   a) Liquidated b) Amalgamated
   c) Absorbed d) **None of these**

8. In case of consolidation of share capital the total number of shares ____________
   a) Increases b) **Decreases**
   c) No change d) None of these

9. In case of subdivision of share capital the total number of shares ____________
   a) **Increases** b) Decreases
   c) No change d) None of these

REVIEW QUESTIONS

A) Answer in short

1. What do mean by alteration of share capital?
2. What is consolidation of shares?
3. What is sub-division of shares?

4. What is called internal reconstruction?
5. What are the procedures for alteration of share capital?

B) Answer in detail

1. Explain the differences between internal and external reconstruction.
2. Explain the different kinds of alteration of share capital.

EXERCISES

1. X Ltd. with a share capital of 1,00,000 equity shares of ₹10 each fully paid decides to repay members ₹2 per share thus making each share of ₹8 fully paid. Give journal entry.

2. Balance sheet of a company as on 31st March 2016:

Liabilities	Amount ₹	Assets	Amount ₹
Share capital (₹10)	1,00,000	Fixed assets	50,000
Creditors	50,000	Current assets	30,000
		P & L a/c	50,000
		Goodwill	20,000
	1,50,000		1,50,000

Reduce ₹7 per share and wipe off losses. Give journal entries.

3. Give journal entries for the following transaction

a) 30,000 equity shares of ₹10 each fully paid reduced to share of ₹5 each fully paid

b) 300, 9% debentures of ₹1,000 each converted into 1,500, 12% debentures of ₹100 each

c) The debit balance of P & L a/c ₹1,50,000 and the preliminary expenses ₹30,000 were written off

d) The value of plant and stock were written down by ₹60,000 and ₹30,000 respectively.

4. Following was the balance sheet of X Ltd as on March 31, 2016:

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹100 each	4,00,000	Goodwill	50,000
6% Debentures	2,00,000	Land	1,40,000
Sundry creditors	2,00,000	Plant	1,50,000
7% Preference shares of ₹100 each	2,00,000	Stock	1,60,000

		Debtors	2,15,000
		Cash	5,000
		Preliminary expenses	25,000
		Discount on issue of debentures	15,000
		P & L a/c	2,00,000
		Patents	40,000
	10,00,000		10,00,000

The following scheme of reconstruction was duly approved:

a) Equity shares are to be reduced to equal number of fully paid shares of ₹50 each

b) 7% preference shares are to be reduced by 30% and the rate of dividend increased to 9%

c) The value of land to be increased by 10%

d) The debentures are to be reduced by 20%

e) All nominal and fictitious assets are to be eliminated and balance used to write off patents

f) Further equity shares are to be issued for ₹50,000 for cash.

Pass journal entries and prepare new balance sheet after incorporating the above schemes.

5. The balance sheet of Run Ltd. shows the following position as at 31st Dec.2016:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	2,00,000	Freehold premises	50,000
Sundry creditors	22,500	Plant	1,00,000
Bank overdraft	37,500	Stock	28,000
		Debtors	16,000
		Cash	500
		Preliminary expenses	3,000
		P & L a/c	62,500
	2,60,000		2,60,000

A capital reduction was brought about for this company by passing the following resolutions:

a) That the shares be reduced to the same number of shares of ₹5 each fully paid

b) The sum thus made available is utilized

- In writing off the debit balance of P & L a/c
- In writing off the preliminary expenses a/c
- In writing down the machinery a/c by ₹30,000 (to bring it to the present market value)
- In writing down stock by ₹2,500
- In providing at reserve of ₹2,000 for doubtful debts

Show the journal entries and redraft the balance sheet.

6. The following is the balance sheet of X Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	1,00,000	Goodwill	10,000
7% Preference shares of ₹10 each	1,00,000	Other fixed assets	90,000
		Stock	25,000
		Debtors	30,000
		P & L a/c	45,000
	2,00,000		2,00,000

It was resolved that equity share capital of ₹10 each be reduced to fully paid shares of ₹6 each and 7% preference shares of ₹10 each be reduced at 7.5%, fully paid preference shares of ₹7 each. Number of shares in each case remained the same.

It was also resolved that the amount so available be used for writing off the debit balance of P & L a/c and goodwill account and other fixed assets to the extent possible.

There were arrears of preference dividend for the last three years and it was decided that they be cancelled.

Pass necessary journal entries.

7. Following a series of losses, XYZ Co. Ltd. resolved to reduce its capital to 50,000 fully paid ₹5 shares and to eliminate share premium account. The company's balance sheet prior to implementation of the scheme was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	5,00,000	Goodwill	1,00,000
Share premium	50,000	Land	1,62,000
Creditors	62,000	Plant	2,07,000
Bank overdraft	73,000	Stock	92,000
		Debtors	74,000
		P & L a/c	50,000
	6,85,000		6,85,000

It was resolved to apply the sum available under the scheme:

a) To write off the goodwill account.

b) To write off the debit balance of the P & L a/c.

c) To reduce the book value of the assets by the following amounts: Land ₹42,000; Plant ₹67,000 and Stock ₹33,000

d) To provide a bad debts reserve of 10% of the book value of debtors.

Show the journal entries to give effect to the scheme and prepare the revised balance sheet after its implementation.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Reckless had the following B/S as on 31.12.2005.

Liablities	**Amt**	**Assets**	**Amt**
6% pref.shares of Rs.100 each	2,00,000	Goodwill	60,000
Equity Shares of Rs.100 each	4,00,000	Fixed assets	3,00,000
Debentures	1,00,000	Stock	1,50,000
Sundry creditors	1,50,000	Debtors	60,000
		Discount on debentures	10,000
		Bank	1,000
		P/L Account	2,69,000
Total	8,50,000		8,50,000

The following Reconstruction Scheme was approved.

1. Preference shares be reduced to 8% preference shares of Rs.60 each.
2. Equity shares to be reduced by Rs.80 each.
3. The amount is made available to be utilized to write add fictitious assets including goodwill and Rs. 50,000 from fixed assets. Give the Journal entries.

[Alagappa, B.Com(C.A), April,2016]

2. Praveen Ltd. passed resolution and got court permission for the reduction of its share capital by Rs.5,00,000 for the purposes mentioned as under.

1. To write off debit balances of Profit and Loss A/c of Rs.2,10,000
2. To reduce the value of Plant and Machinery by Rs.90,000 and goodwill by Rs.40,000.
3. To reduce the value of Investment by Rs.80,000

The reduction was made by converting 50,000 preference shares of Rs. 20 each fully paid to the same number of preference shares of Rs. 15 each fully paid and by converting 50,000 equity shares of Rs.20 each on which Rs.15 is paid up into 50,000 equity shares of Rs. 10 each fully paid up. Pass the journal entries to record the shares of Rs.10 each fully paid up. Pass the journal entires to record the shares capital reduction.

[Alagappa,B.Com(C.A), Nov,2015]

3. The following is the balance sheet of week Ltd. as on 31.3.2011.

Liablities	Amt	Assets	Amt
1,00,000 equity shares	10,00,000	Land	1,00,000
		Plant & Machinery	2,30,000
Creditors	1,73,000	Furniture	68,000
		Stock	1,50,000
		Debtors	70,000
		Bank	5,000
		Profit and Loss a/c	5,50,000
Total	11,73,000		11,73,000

The following Scheme of reduction of capital was approved by court.

1. Equity shares to be reduced to Rs.4 per share.
2. Plant and machinery to be written down to Rs.1,50,000
3. Stock to be revalued at rRs.1,40,000
4. Create provision for doubtful debts on debtors at Rs.2000.
5. Land to be revalued at Rs.1,42,000. Prepare Capital reduction.

[Alagappa, B.Com,April,2011]

4. SP Co. Ltd., resolved to write off one-half of its subscribed capital by reducing each Rs. 100 share, both preference and equity to Rs. 50 fully paid up and to reduce the book figures of its assets by an equivalent amount by wiping out the goodwill and the debit balance on the Profit & Loss account and by writing down Land and Building by Rs. 15,000, Plant &Machinery by Rs. 10,000 and providing the balance for bad debts. The Balance Sheet of the company before the reduction of capital is as under:

Liabilities	***Rs.***	***Assets***	***Rs.***
Authorised capital:		Goodwill	1,00,000
3,000 preference shares of		Land & Buildings	1,10,000

Rs. 100 each	3,00,000	Plant & Machinery	90,000
5,000 equity shares of Rs. 100 each	5,00,000	Stock	80,000
	8,00,000	Sundry debtors	90,000
		Cash	10,000
		Profit & Loss A/c	1,20,000
Subscribed capital:			
2,000 pref shares of Rs. 100 each	2,00,000		
3,000 equity shares of Rs. 100 each	3,00,000		
Sundry creditors	1,00,000		
	6,00,000		6,00,000

Pass journal entries to give effect to the above resolution, showing the new Balance Sheet of the company.

[Madras, B.Com., B.Com(CS) Ap 2006] [Lucknow, B.Com.]

[Ans: Total capital reduction — Rs. 2,50,000; Provision for Bad debts — Rs. 5,000; Balance Sheet total — Rs. 3,50,000]

5. The following is the Balance Sheet of Skylekha Ltd. as on 31st March 1998.

Liabilities	Rs.	Assets	Rs.
Share capital:		Bombay works	20,00,000
Authorized issued & paid up:		Calcutta works	10,00,000
4,00,000 ordinary shares of Rs. 5 each, fully paid	20,00,000	Workmen's compensation Fund investments	35,000
3,00,000 6% preference Shares of Rs. 5 each, fully Paid	15,00,000	Stock	1,15,000
		Debtors	50,000
		Discount on debentures:	
'A' 6% debentures secured on Bombay works	1,00,000	'A' 2,500	12,500
		'B' 10,000	16,22,500
'B' 6% debentures secured on Calcutta works	2,50,000	Profit and loss a/c	
Workmen's compensation fund:			
Bombay: 25,000			
Calcutta: 10,000	35,000		
Bank overdraft	7,50,000		

Creditors	2,00,000		
	48,35,000		48,35,000

On 1st April 1998, a scheme to reduce the capital implemented the following:

(a) The ordinary shares were reduced to Re. 0.25 each.

(b) The preference shares were reduced to Rs. 3.75 each and the rate of dividend on them to 5%.

(c) The 'A' and 'B' debenture holders waived payment of Rs. 42,000 interest (which was included in 'creditors' Rs. 2,00,000).

(d) The directors were to refund Rs. 50,000 fees they had received.

(e) The 'B' debenture holders formed a new company to take over the calcuttaworks for Rs. 5,00,000 and this price was satisfied on the same date, by the surrender of the 'B' debentures and the allotment of 50,000 fully paid shares of Rs. 5 each in the new company.

The investments were valued at Rs. 25,000. Stock at Rs. 50,000 and the debtors at Rs. 40,000. There was no actual liability to workmen at Calcutta. The fund was to be written down accordingly. Any fictitious assets were to be eliminated. Only necessary reserves were to be retained and the balance available was to be written off the book value of the Bombay works.

Journalise these transactions and prepare the Balance Sheet after this scheme is carried out.

[Madurai, B.Com,2005]

[Ans: Total capital reduction — Rs. 23,77,000; Balance Sheet total — Rs. 22,58,000; Bombay works written off—Rs. 1,57,000]

6. Abad Limited, having obtained the sanction of the debenture holders and the court, decided to reduce its capital and reorganise as at 31st Dec. 1985. and the following Balance Sheet shows the position as on that date:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Land & Buildings	4,67,000
15% preference shares of Rs. 10 each	4,00,000	Stock	8,12,500
Ordinary shares of Rs. 10 each	10,00.000	Sundry debtors	4,67,500
Reserves	4,53,500	Cash at Bank	25,000
10% Mortgage debenture of Rs. 10 each	2,00,000	Profit & Loss A/c	5,56,000
Current liabilities	2,74,500		
	23.28,000		23,28,000

The following are the details of the scheme:

(a) Each debenture is to be exchanged for Rs. 5 of new 12% debenture, one new 20% preference share of Rs. 2.50 and new ordinary share of Rs. 2.50.

(b) Each existing preference share is to be reduced from Rs. 10 to Rs. 3.75 of which Rs.2 will be represented by new 20% preference shares and Rs. 1.75 by ordinary shares.

(c) Each existing ordinary share is to be reduced from Rs. 10 to Rs. 2.50 and then both preference and ordinary shares are to be consolidated into shares of Rs. 10 each.

The reduction in share capital and the reserves are to be applied in wiping out the debit balance of Profit &Loss A/c and the balance, if any, is to be utilised in writing down the Land & Buildings and Stock pro-rata.

Show the journal entries for giving effect to the scheme mentioned above. Also draft the summarised Balance Sheet after reconstruction.

[Madras, II M.Com. (ICE) (Old) Oct. 2004]

[Ans: Total capital reduction – Rs. 14,53,500; Building to be written off– Rs. 3,27,575; Stock to be written off – Rs. 5,69,925; Balance sheet total – Rs. 8,74,500]

7. The Balance Sheet of Alpha Limited as on 31st Dec. 1998 was as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Goodwill	20,000
10,000 9% cumulative, preference		Patents & trade marks	15,000
shares of Rs. 10 each	1,00,000	Land &Buildings	88,000
20,000 equity shares of Rs. 10 each	2.00.000	Plant & Machinery	86,000
6% Debentures (secured on		Shares in Companies	30,000
Land & Buildings)	50.000	Stock	70,000
Interest due on the above	3,000	Debtors	1,01,000
Bank overdraft	59,000	P &L A/c	1,10,000
Creditors	85,000		
Advances by Directors	23,000		
	5,20,000		5,20,000

Dividend on preference shares is in arrear for 3 years and there is a contingent liability to the extent of Rs. 10,000.

A scheme of capital reduction contained the following terms:

a) The preference shares are to be reduced to Rs. 8 and the equity shares to Rs. 2.50 each. The preference shareholders waive 2/3 of the dividend arrears and receive equity shares of Rs. 2.50 for the balance.

b) All intangible assets are to be eliminated and bad debts of Rs. 7,000 and obsolete stock of Rs. 10,500 are to be written off.

c) The investments in shares of companies are sold for Rs. 40,000.

d) The debentureholders agreed to take over one of the company's properties (book value Rs. 17,500) at a price of Rs. 25,000 in part satisfaction of the debentures and to provide further cash of Rs. I 5,000 on the floating charge of assets. The interest due to them is paid.

e) The contingent liability materialised at Rs. 5,000 and was paid.

f) The directors awed to take equity shares in satisfaction of their advances.

Pass the necessary journal entries and set out the reduced Balance Sheet.

[Madras, M.Com,2012]

[Ans: Total Capital reduction — Rs. 1,87,500; Capital reserve Rs. 11,000; Balance Sheet total — Rs. 3,57,000 ; Bank Balance Rs.47,000]

8. The balance *sheet* of Sharma Co. Ltd. as on 31st Dec. 1988 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital:		Premises	4,80,000
40,000 preference shares of		Plant	3,50,000
Rs. 10 each	4,00,000	Loose tools	1,00,000
1,20,000 equity shares of Rs. 5 each		Stock	80,000
6,00,000Reserves	2,000	Debtors	1,20,000
9% debentures	2,40,000	Bills receivable	40,000
Creditors	4,00,000	Bank	12,000
		Goodwill	2,80,000
		Profit & Loss A/c	1,80,000
	16,42,000		16,42,000

Upon revaluation of assets, it was considered that the entire goodwill was worthless and assets were over valued as follows

Premises Rs. 80,000; Plant Rs. 50,000; Ldiose tools Rs. 60,000; and Debtors Rs. 10,000.

Scheme of rearrangement and reduction of capital was agreed to by the Court and the creditors on the following lines:

i) that the creditors should accept 9% debentures to the extent of half of their debts, the balance to be settled by payment of cash at 90%

ii) that the preference shares be reduced to shares of Rs. 5 each fully paid.

iii) that the equity shares be reduced to Re. 1 each.

iv) that the assets should be reduced to the revalued figures. Pass journal entries and prepare the balance sheet after rearrangement.

[Madras, B.Com., April 2001]

[Ans: Total capital reduction — Rs. 7,00,000; Capital reserve — Rs. 40,000; Bank overdraft — Rs. 1,68,000; Balance Sheet total Rs. 9,70,000]

9. The following is the Balance Sheet of Weak Co. Ltd. as on 31st March 1995.

Liabilities	*Rs.*	*Assets*	*Rs.*
1,00,000 equity shares of Rs.10	10,00,000	Land	1,00,000
Sundry creditors	1,73,000	Plant & Machinery	2,30,000
		Furniture & fittings	68,000
		Stock	1,50,000
		Debtors	70,000
		Cash at Bank	5,000
		Profit & Loss A/c	5,50,000
	11,73,000		11,73,000

The approval of the Court was obtained for the following scheme of reduction of capital:

i) The equity shares to be reduced to Rs. 4 per share.

ii) Plant & Machinery to be written down to Rs. 1,50,000

iii) Stock to be revalued at Rs. 1,40,000.

iv) The provision on debtors for doubtful debts to be created Rs. 2,000.

v) Land to be revalued at Rs. 1,42,900

vi) Pass journal entries to give effect to the above arrangement and also prepare reconstruction A/c

[Madurai.B.Com., Nov. 2003]

[Madras, B.Com., Nov. 2008; 1st M.Com., Nov. 2008; Nov. 2006; B.Com., April 2005; Oct. 2001; I M.com.April 2003]

[Ans: Total of *reconstruction* A/c — Rs. 6,42,000]

10. Given below is the Balance Sheet of Slow Success Ltd. as on 31st Dec. 1986.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Land & Buildings	1,00,000
4,000 equity shares of Rs. 100		Machinery	4,00,000
each fully paid	4,00,000	Motor Vans	40,000
1,000 equity shares of Rs. 100		Furniture	10,000
each, Rs. 50 paid	50,000	Investments	50,000
Development Rebate Reserve	1,50,000	(Market value	
Loan (unsecured)	6,40,000	Rs. 40,000)	
Creditors (including Rs. 10,000		Stock	1,00,000

holding lien on some assets)	2,60,000	Debtors	1,90,000
		Bank balance	10,000
		Profit & Loss A/c	6,00,000
	15,00,000		15,00,000

The company having turned corner, a scheme of reconstruction was prepared and approved as under:

(a) To revalue Land & Buildings to its present market value of Rs. 1,50,000.

(b) Equity shares to be reduced to Rs. 10 per share but the face value to remain at Rs. 100.

(c) A call of Rs. 50 to be made on equity shareholders to provide funds for working capital.

(d) Unsecured loans to be paid immediately to the extent of Rs. 1,00,000.

(e) Unsecured creditors to be paid immediately to the extent of 10% of their claims and they accept a remission of 20% of their claims.

(f) Development rebate reserve being no longer required, to be transferred to P & L A/c.

(g) Investments to be brought to their market value and

(h) the amount available as a result of the scheme to be used to write off the debit balance on Profit & Loss A/c.

Pass the necessary journal entries to give effect to the above scheme and prepare the reconstructed Balance Sheet.

[Madras, B.Com. (ICE) Oct. 2000; B.Com., Bharathiar, April 2005]

[Ans: Total capital reduction — Rs. 6,50,000; Capital reserve — Rs. 40,000 Bank — Rs. 1,35,000; Balance sheet total — Rs. 10,65,000]

11. A company's position on June, 30, 1993, was as follows:

	Rs.
20,000 equity shares of Rs. 100 each	20,00,000
1,000 6% debentures of Rs. 1,000 each	10,00,000
Interest on the above	1,20,000

The assets on that date amounted to Rs. 9,60,000 (valued according to their present worth). The following steps were taken with the approval of all concerned.

(i) The shares were subdivided into shares of Rs. 5 each and 90% of the shares were surrendered.

(ii) The total claims of the debenture holders were reduced to Rs. 4.90,000 and in consideration of this, they were allotted shares (out of the surrendered shares) amounting to Rs. 2,50,000.

(iii) The shares surrendered but not reissued were cancelled.

Draft journal entries and give the Balance Sheet of the company after reconstruction.

[Madras, B. Com: (ICE) Oct. 2008]

[Ans: Total capital reduction — Rs. 21,80,000; Balance Sheet total — Rs. 9,60,000; Transfer to capital reserve — Rs. 20,000]

12. The share capital of Zea Ltd. consisted of the following:

(a) 10,000 6% preference shares of Rs. 100 each and

(b) 50,000 equity shares of Rs. 10 each

The shares were fully paid. The company had accumulated losses totallingRs. 3,50,000 besides preliminary expenses Rs. 20,000. It was also ascertained that fixed assets which stood in the books at Rs. 14,00,000 were over-valued to the extent of Rs. 4,00,000. The following scheme was adopted to write off the losses and reduce the assets.

(i) 6% preference shares were to be converted into 7% pref. shares of Rs. 60 each.

(ii) Equity shares were to be reduced to Rs. 2 each.

Journalise.

(Madras, B.Com., B.Com. (CS) Ap. 2009; Nov. 2006 (Modified); B.Com.(1C1) Oct.2006; B.Com., B.Com.(CS), Nov. 2005; B.Com. (ICE); May 2002]

[Ans : Total capital reduction Rs. 8,00,000; Balance of capital reduction A/c transferred to capital reserve : Rs. 30,000]

13. Give journal entries for the following transactions in connection with internal reconstruction:

(i) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each fully paid.

(iii) 300 9% debentures of Rs. 1,000 each converted into 1,500 12% debentures of Rs. 100 each.

(iv) The debit balance of profit and loss account Rs. 1,50,000 and the preliminary expenses Rs. 30,000 were written off

(v) The value of Plant & Machinery and Stock were written down by Rs. 60,000 and Rs. 30,000 respectively.

Madras, 1st M.Com (ICE) Nov. 2009]

[Ans: Total capital reduction — Rs. 3,00,000; Balance of capital reduction A/c transferred to capital reserve Rs. 30,000]

14. The following scheme of reconstruction has been approved for B Ltd.

(a) The shareholders to receive in lieu of their present holding of 50,000 shares of Rs. 10 each, the following:

(i) Fully paid equity shares equal to 2/5of their holding

(ii) 10% preference shares, fully paid, to the extent of 1/5of the above new equity shares; and

(iii) Rs. 60,000 14% second debentures.

(b) An issue of Rs. 50.000 12% first debentures was made and allotted, payment for the same being received in cash forthwith.

(c) (c) Goodwill which stood at Rs. 1,50,000 was completely written off.

(d) (d) Plant and Machinery which stood at Rs.1,00.000 was written down to Rs. 75,000.

(e) (e) Freehold and lease hold premises which stood at Rs. 1,75,000 were written down to Rs. 1,50,000.

Give journal entries in the books of the company necessitated by the above reconstruction.

[Madras, B.Com (PZ3A) Nov: 2007 Modified; 1st M.Com. (CA1A) Nov. 2007 (Modified); April 2006; Nov. 2005; B.Com., April 2005; M.Com., Nov. 2004]

[Ans : Total capital reduction — Rs. 2,00,000]

15. The following is the summarized balance sheet of Reckless Co. Ltd. as at 31st March, 1996

Liabilities	Rs.	Assets	Rs.
5,000 equity shares of Rs. 100 each	5,00,000	Sundry assets P&l a/c	2,02,800 2,97,200
	5,00,000		5,00,000

The company has decided that the worst is over and hence it adopts a scheme of reconstruction, reducing all its equity shares into an equal number of fully paid equity shares of Rs.40 each. Pass journal entries and prepare the balance sheet immediately after the reconstruction.

[Madras, B.Com(AF) Ap. 2008; M.Com., April 2004]

[Ans: Total Capital reduction — Rs. 3,00,000;Balance Sheet total — Rs. **2,02,800; Capital reserve — Rs. 2,800]**

16. The balance sheet of Gloomy Ltd. was as follows on 30th June 1978,

Liabilities	***Rs.***	***Assets***	***Rs.***
4,000 shares of Rs.100 each fully paid	4,00,000	Goodwill	60,000
6% debentures	2,00,000	Land & Buildings	1,00,000
Sundt: creditors	2,50,000	Plant and Machinery 4,00,000	

		Stock	90,000
		Sundry debtors	60,000
		Preliminary expenses	10,000
		Profit & Loss A/c	1,30,000
	8,50.000		8,50,000

In order to reconstruct the company, wiping off fictitious and intangible assets and writing down Plant and Machinery to its proper figure of Rs. 3,00,000, the shares were reduced to Rs. 20 each. Court's approval was obtained. Draft the necessary journal entries and show the balance sheet after the scheme is put through.

[Madras, M.Com (ZHC) Ap 2007]

[Ans: Total capital reduction — Rs. 3,20,000; Amount of capital reduction transferred to capital reserve — Rs. 20,000; Balance sheet total — Rs. 5,50,000]

17. Balance sheet of X Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Issued and paid up share capital		Goodwill	10,000
10,000 equity shares of Rs. 10		Other fixed assets	90,000
each fully paid	1,00,000	Stock-in-trade	25,000
10,000 7% preference shares		Debtors	30,000
of Rs. 10 each fully paid	1,00,000	P & L A/c	45,000
	2,00,000		2,00,000

It was resolved that equity share capital of Rs. 10 each be reduced to fully paid.

Shares of Rs. 6 each and 7% preference shares of Rs. 10 each be reduced to 7 $^{1/2}$%fully paid preference shares of Rs. 7 each. Number of shares in each case remained the same. It was further resolved that amount so available be used for writing off the debit balance of the Profit and Loss account and goodwill account and other fixed assets to the extent possible.

There were arrears of preference dividend for the last three years and it was decided that they be cancelled.

Draft the journal entries and prepare the revised balance sheet.

[Madras, 11.Com(PZ4A) Ap. 2008; B.Com (PZ3A) Nov. 2006; Nov 2005; (PZG) Nov. 2006; B.Com., B.Com.(CS) April 2006; B.C.S. April 2004] April 2006; B.C.S. April 2004; Oct. 2000; B.Com. (ICE) MAY 2000; B.Com., Oct. 1994]

[Ans : Total capital reduction Rs. 70,000; Fixed assets written off Rs. 15,000; Balance sheet total Rs. 1,30,000

18. The following is the Balance Sheet of Weak Ltd. on 31-3-2003.

Liabilities	Rs.	Assets	Rs.
20.000 Equity shares of		Patents	40,000
Rs. 10 each	2,00,000	Buildings	2.00.000
500 10% Pref Shares of		Machinery	1,30,000
Rs. 100 each	50,000	Stock	80,000
8% Debentures	1.00,000	Debtors	55.000
Creditors	3,30,000	P &L A/c	1,95,000
Outstanding Expenses	20,000		
	7,00,000		7,00,000

With a view to reconstruct the company, it is proposed:

i) To reduce Equity share paid up amount by Rs. 9 each.

ii) To reduce 10% Preference shares by Rs. 40 each.

iii) To reduce 8% Debentures by 10%

iv) To reduce Trade Creditors' claim by one third.

v) fo reduce Machinery by Rs. 60.000

vi) To reduce Inventory by Rs. 10,000

vii) To provide Rs. 15,000 for bad debts.To Write off all the intangible assets

Pass Journal entries to give effect to the above scheme and show the company's Balance Sheet after reconstruction.

[Madras, B.C.S. (ICE) Oct. 2003]

[Ans : Capital Reduction : Rs. 3,20,000; B/S Total : Rs. 3,80,000]

19. The following is the balance sheet of Reckless Co. Ltd., as on 31.3.1997.

Liabilities	Rs.	Assets	Rs.
Subscribed share capital:		Leasehold premises	1,30,800
7,500 preference shares of Rs. 100		Plant	42,200
each fully paid	7,50,000	Patents	8,50,000
5,000 equity shares of Rs. 100		Stock	55,000
each fully paid	5,00,000	Debtors	76,500
Sundry creditors	30,000	Cash	500
Bank overdraft	20,000	Preliminary expenses	12,000

		Discount on issue of shares	18,000
		P & L A/c	1,15,000
	13,00,000		13,00,000

As the company was not doing well, the following scheme of reconstruction was adopted.

(a) The preference shares be reduced to an equal number of fully paid shares of Rs. 50 each.

(b) The equity shares be reduced to an equal number of shares of Rs. 25 each.

(c) The amount available be used to write off the fictitious assets fully, Rs. 30,800 off the leasehold premises, Rs. 15,000 off stock, 20% off plant and debtors and the balance available off patents.

Journalise and prepare the balance sheet after the reconstruction has been carried out.

[Periyar, M.Com. (CA) Ap 2006]

[Madras, B.Com., April 2002; M.Com., Oct. 1998]

[Ans: Total capital reduction — Rs. 7,50,000; Patents written off — Rs. 5,35,460; Balance sheet total — Rs. 5,50,000

20. Sick Ltd. had the following balance sheet as on 31.12.90.

Liabilities	**Rs.**	**Assets**	**Rs.**
6% preference share of Rs. 100 each	2,00,000	Goodwill	60,000
Equity shares of Rs. 100 each	4,00,000	Fixed assets	3,00,000
Debentures	1,00,000	Stock	1,50,000
Sundry creditors	1,50,000	Debtors	60,000
		Discount on debentures	10,000
		Bank	1,000
		P & L A/c	2,69,000
	8,50,000		8,50,000

The following reconstruction scheme was approved:

a) Preference shares be reduced to 8% preference shares of Rs. 60 each.

b) Equity shares to be reduced by Rs. 80 each.

c) The amount thus made available to be utilised to write off fictitious assets including goodwill and Rs. 50,000 from fixed assets.

Give entries for the reconstruction and the final balance sheet.

[Thiruvalluvar, B.Com., Ap2007; Nov. 2005] madras, B.Com(ICE)May2007; M.Com(CE)Ap2007; RCS(NYD)Ap2005; BCom, March1993]

[Ans: Total capital reduction —Rs. 4,00,000; Balance of capital reduction A/c transferred to capital reserve —Rs. 11,000; Balance sheet total —Rs. **4,61,000]**

21. The following was the balance sheet of ABC Limited as on 31.12.1993.

Liabilities		**Rs.**	**Assets**		**Rs.**
Issued and paid up capital:			Goodwill		10,000
12,000 shares of	1,20,000		Land & Buildings		20,500
Rs. 10 each			Machinery		50,850
Less: Calls in arrear			Preliminary expenses		1,500
Rs. 3 per share on			Stock		10.275
3,000 shares	9,000	1,11,000	Debtors		15,000
Creditors		15,425	Bank		1,500
Provision for tax		4,000	P & L A/c	22,000	
			Less: Net profit		
			of this year	1,200	20,800
		1,30,425			1,30,425

Machinery value was Rs. 10,000 in excess. It is proposed to write down this asset and to extinguish the Profit & Loss A/c debit balance and to write off goodwill and preliminary expenses by the adoption of the following scheme.

a) Forfeit the shares on which the calls are outstanding.

b) Reduce the paid up capital by Rs. 3 per share.

c) Re-issue the forfeited shares at Rs. 5 per share.

d) Utilise the provision for tax if necessary.

You are required to draft the journal entries necessary and the Balance sheet after carrying out the scheme.

[Madras, I. M.Com. (ICE) Oct. 2002; B.Com., Sep. '95, March '95, Sep. '93, Mar. '92, Sep. '921

[Ans: Total capital reduction — Rs. 42,300; B/S total — Rs. 1,03,125; Provision for tax to be used — Rs. 300]

UNIT – 9

AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Meaning of Amalgamation, Absorption and Reconstruction – Merger- Acquisition - Differences between amalgamation, absorption and reconstruction -Calculation of purchase consideration - Net Payment method- Net assets method - Lump sum payment method – Amalgamation – Absorption - External Reconstruction

9.1 AMALGAMATION

Amalgamation means joining two or more company to form a bigger company. In this case the two or more company will close down their business and the bigger company which is newly formed will continues the business. For Example, Anbu Company Ltd. joins with Babu Company Ltd. and to form a new company called Deva Company Ltd.

9.2 ABSORPTION

Absorption means an existing company taking over one or more company. In this case one or more company will close down their business and this business will be continued by the name of the existing company. For Example, Anbu Company Ltd. takes over Babu Company Ltd.

9.3 RECONSTRUCTION

If any company is suffering loss and it closes its business and joins with or without other company, it creates new company. That is called reconstruction. There are two types of reconstruction.

9.4 EXTERNAL RECONSTRUCTION

When one company is closed and a new company is formed to take over its business, it is known as external reconstruction. In this case, only one company is closed and a new company is started.

When a company has no power to operate his own business due to heavy loss and it sells his all business to a new company. It will be external reconstruction.

9.5 INTERNAL RECONSTRUCTION

Internal Reconstruction means to do every action for bringing the company out of losses. If a company is suffering heavy losses, company can use the provision 94 of Indian Company law 1956 and reduce its capital.

9.6 CLASSIFICATION OF AMALGAMATION

For accounting of amalgamation, it can be classified two parts – amalgamation in the nature of merger and amalgamation in the nature of acquisition / purchase.

Merger

Merger is a financial tool that is used for enhancing long-term profitability by expanding their operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover.

Acquisition

Acquisitions or takeovers occur between the bidding and the target company. There may be either hostile or friendly takeovers. Reverse takeover occurs when the target firm is larger than the bidding firm. In the course of acquisitions the bidder may purchase the share or the assets of the target company.

Differences between amalgamation, absorption and reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Liquidation	Two or more companies were liquidated	One or more company liquidated	One company liquidated
New company	One new company is formed	No new company is formed	One new company is formed

9.7 CALCULATION OF PURCHASE CONSIDERATION

Purchase consideration means the price payable by the purchasing company to the vendor company for the acquisition of vendor's business. It may be settled by the purchasing company in the form of cash, shares, debentures, etc. It may be calculated by any one of the following method.

1. Net payment method:

Sometimes the total amount payable as purchase consideration is given by purchasing company in the form of cash, shares and debentures. In order to calculate the total purchase consideration, we add all the payments made by purchasing company. It is known as net payment method.

Purchase consideration	Add all the payments made to Vendor Company

2. Net assets method:

Under net assets method, the purchase consideration is not given in the problem. The purchasing company specifies only a portion of purchase consideration and the remaining amount

is not given. In that case, the purchase consideration amount is equal to excess of assets taken by purchasing company at revised values over actual liabilities paid by purchasing company.

Purchase consideration	Realized value of assets taken– Total liabilities paid

Journal entries in Vendor Company

1.For closing all assets: Realization a/c Dr To All assets a/c (at book value)	**2.For closing all liabilities:** Liabilities a/c Dr To Realization a/c (at book value)
3.For receiving purchase consideration: Bank a/c Dr Shares a/c Dr Debentures a/c Dr To Realization a/c	**4.For realization exp. paid:** Realization a/c Dr To Cash a/c **6.For liabilities not taken** Realization a/c Dr To Cash a/c
5.For assets not taken by purchasing company Cash a/c Dr To Realization a/c **7.For realization profit (b/f in debit side)** Realization a/c Dr To Equity share holders a/c **8.For closing equity share capital, general reserve, P & L a/c (liability side)** Equity share capital a/c Dr General reserve a/c Dr Profit and loss a/c Dr To Equity share holders a/c **9. For closing P & L a/c, discount on issue of shares or debentures & preliminary exp. (assets side)** Equity share holders a/c Dr To Profit and loss a/c To Discount on issue of shares or Debentures To Preliminary expenses	

Ledger accounts in the books of Vendor Company

1. **Realization Account**

Particulars	Amount	Particulars	Amount
To All assets (Book value)	xxx	By All liabilities (Book value)	xxx
" Cash	xxx	" Debentures (Book value)	xxx
(Liabilities not taken paid)		" Purchasing Company a/c	

" Cash (Realization exp.) " Debenture holders (Paid) " Equity share holders (b/f)	xxx xxx xxx	(PC received) Shares xxx Debentures xxx Cash xxx	 xxx
	xxx		xxx

2. Preference Share Capital Account

Particulars	Amount	Particulars	Amount
To Bank a/c " Realization a/c (b/f)	xxx xxx	By Opening capital " Realization a/c (b/f)	xxx xxx
	xxx		xxx

3. Equity Shareholders Account

Particulars	Amount	Particulars	Amount
To P & L a/c	xxx	By Opening capital	xxx
" Preliminary exp. (Asset side)	xxx	" P & L a/c (Liability side)	xxx
" Realization a/c (Loss)	xxx	" General reserve	xxx
" Equity shares from PC	xxx	" Realization a/c (Profit)	xxx
" Cash (b/f)	xxx	" Dividend equalization fund	xxx
	xxx		xxx

4. Cash account should be prepared and it will tally

Journal entries in the books of Purchasing Company

1. For purchase consideration due Business Purchase a/c Dr To Liquidator of vendor company **2.For recording assets and liabilities taken**	**3.For settlement of purchase consideration** Liquidator of vendor company Dr Discount on shares/ debenture Dr To Share capital a/c To Securities premium a/c To Debentures a/c

Assets a/c Dr (except goodwill) Goodwill a/c Dr (b/f) To Liabilities a/c To Business purchase a/c To Capital reserve a/c (b/f)	To Bank a/c

Note:

- ❖ Except cash means cash should not transferred to realization a/c.
- ❖ If no information is given, cash in hand should be transferred to realization a/c – debit side.
- ❖ Business means creditors are taken/ paid by purchasing company.
- ❖ If no information is given, all the liabilities should be paid in cash.

Balance Sheet

Liabilities	Assets
Profit and loss a/c	Preliminary expenses
General reserve a/c	Discount on issue of share and debentures
Sinking fund a/c	Profit and loss a/c
Dividend equalization fund	Underwriting commission
Accident compensation fund	

Note:

The above assets should be transferred to debit side of equity share holder's a/c and the above liabilities should be transferred to credit side of equity share holders' a/c.

9.8 TREATMENT OF REALIZATION EXPENSES

Normally the realization expenses are paid by Vendor Company. The journal entry regarding the same is as follows:

For realization expenses paid by vendor company:
Realization a/c Dr
To Cash a/c

Sometimes the purchasing company will pay the realization expenses. We can adapt any one of the following two treatments.

1. The realization expenses paid by purchasing company are added while calculating the purchase consideration. And also the following entry is passed.

Realization a/c Dr
To Cash a/c

In the books of purchasing company the following entry is passed.

Goodwill a/c Dr To Bank a/c

2. No entry is passed in the books of Vendor Company because the realization expenses are paid by purchasing company. In the books of purchasing company the following entry is passed.

Goodwill a/c Dr To Bank a/c

9.9 CALCULATION OF PURCHASE CONSIDERATION

Net Payment method

Illustration -1A company purchased assets of ₹3,50,000 and took over the liabilities of ₹30,000. It agreed to pay the purchase price ₹3,30,000 by issuing debentures of ₹100 each at a premium of 10%. Pass journal entries.

Solution

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	3,30,000	
To Liquidator of Vendor co.			3,30,000
(Being PC due)			
Assets a/c	Dr	3,50,000	
Goodwill a/c (b/f)	Dr	10,000	
To Liabilities			30,000
To Business purchase a/c			3,30,000
(Being assets and liabilities taken)			
Liquidator of Vendor co.	Dr	3,30,000	
To Debentures			3,00,000
To Premium on debentures			30,000
(Being PC received)			

Illustration -2A purchasing company agrees to issue three shares of ₹10 each paid up market value of ₹15 per share for every 5 shares in the vendor company. Find out the number and amount of shares to be issued by the purchasing company if the vendor company has 1,00,000 shares of ₹10 each ₹5 paid up.

Solution

For 5 shares – 3 shares given 1,00,000 shares - ? 1,00,000 x 3/5 = 60,000 shares x ₹15 = ₹9,00,000

Illustration -3 Calculate purchase consideration:

a) A cash payment equivalent to ₹2.50 for every ₹10 share in Green Ltd. (No. of shares 60,000)

b) The issue of 90,000 shares of ₹10 fully paid, in White Ltd. having an agreed value of ₹15 per share.

c) The issue of 5% debentures of White Ltd. for 6% Debentures of the Green Ltd. (₹1,00,000) at a premium of 20%

Solution

Cash (60,000 x₹ 2.50)	₹1,50,000
Equity shares (90,000 x ₹15)	₹13,50,000
Debentures (1,00,000 x 20%)	₹1,20,000
Purchase consideration	₹16,20,000

Illustration -4 Business of India Traders Ltd. has purchased by the XYZ Ltd. The purchase consideration is to be discharged as follows:

i) A payment in cash at ₹20 for every share in India Traders

ii) A further payment in cash at ₹60 for every debentures in India traders in full discharge of debentures

iii) An exchange of 3 shares in XYZ Ltd. of ₹8 each (Quoted in market at ₹16) for every share in India traders.

Balance Sheet of India Traders Ltd

Liabilities	**Amount ₹**	**Assets**		**Amount ₹**
Equity shares of ₹50 each	40,000	Land		15,000
Creditors	4,200	Machinery		20,000
6% Debentures of ₹50 each	6,000	Debtors	20,000	
Capital redemption reserve	4,000	(-) Provision	1,000	19,000
P & L a/c	1,000	Furniture		1,000
		Cash		200
	55,200			55,200

Prepare important ledger a/c in India Traders Ltd. Liquidation expenses ₹400 are met by XYZ Ltd.

Solution

Cash	₹20 x 800 shares	₹16,000
Cash (Debentures)	₹60 x 120 Deb.	₹7,200
Equity shares	₹16 x 3 x 800 shares	₹38,400
	Purchase consideration	₹61,600

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Land	15,000	By Creditors	4,200
“ Machinery	20,000	“ 6% Debentures	6,000
“ Debtors	19,000	“ XYZ Ltd (PC)	
“ Furniture	1,000	Cash	23,200
“ Cash	200	Equity shares	38,400
“ Cash (Debentures)	7,200		
“ Equity share holders (b/f)	9,400		
	71,800		71,800

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization	38,400	By Equity share capital	40,000
“ Cash (b/f)	16,000	“ Capital redemption reserve	4,000
		“ P & L a/c	1,000
		“ Realization	9,400
	54,400		54,400

Cash Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization	23,200	By Equity share holders	16,000
		“ Debentures	7,200
	23,200		23,200

Journal entries in the books of XYZ Ltd.

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	61,600	
To Liquidator of Indian Traders Ltd			61,600
(Being PC due)			
Cash a/c	Dr	200	
Land a/c	Dr	15,000	
Machinery a/c	Dr	20,000	
Debtors a/c	Dr	19,000	
Furniture a/c	Dr	1,000	
Goodwill a/c (b/f)	Dr	10,600	
To Creditors a/c			4,200
To Business purchase a/c			61,600
(Being assets and liabilities recorded)			
Liquidator of Soma Ltd	Dr	61,600	
To Cash			23,200
To Equity share capital			38,400
(Being PC received)			
Goodwill a/c	Dr	400	
To Cash			400
(Being realization exp. Paid)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	38,400	Land a/c	15,000
Creditors	4,200	Machinery a/c	20,000
Bank overdraft	23,400	Debtors a/c	19,000
(23,200 +400- 200)		Furniture a/c	1,000
		Goodwill a/c (10,600 + 400)	11,000
	66,000		66,000

Illustration -5 Balance Sheet of XYZ Ltd. as on 31-12-2015.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	2,00,000	Land	1,00,000
Creditors	30,000	Machinery	1,50,000
Debentures	1,00,000	Debtors	25,000

Reserve fund	25,000	Work in progress	30,000
P & L a/c	5,100	Furniture	2,500
Dividend equalization fund	20,000	Cash in hand	100
		Cash at bank	12,500
		Stock	60,000
	3,80,100		3,80,100

The company is absorbed by ABC Ltd. The consideration for absorption is discharge of debentures at a premium of 5%, taking over the liability in respect of creditors and a payment of ₹7 per share in cash and one share of ₹5 in ABC Ltd. at the market value of ₹8 per share, in exchange for one share in XYZ Ltd. Cost of liquidation ₹5,000 met by purchasing company. Prepare ledger accounts in the books of XYZ Ltd.

Solution

Debenture holders (1,00,000 + 5,000)	₹1,05,000 (cash)
Share holders (20,000 x ₹7)	₹1,40,000 (cash)
Equity share holders (20,000 x ₹8)	₹1,60,000 (Shares)
Purchase consideration	₹4,05,000

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To All assets	3,80,100	By Creditors	30,000
" Debenture holders	5,000	" A Ltd	4,05,000
" Equity share holders a/c	49,900		
	4,35,000		4,35,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Equity shares	1,60,000	By Share capital	2,00,000
" Cash	1,40,000	" Reserve fund	25,000
		" Dividend equalization fund	20,000
		" P & L a/c	5,100
		" Realization a/c	49,900
	3,00,000		3,00,000

Journal entries in the books of ABC Ltd

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	4,05,000	
To Liquidator of XYZ Ltd			4,05,000
(Being PC due)			
Land	Dr	1,00,000	
Machinery	Dr	1,50,000	
Debtors	Dr	25,000	
Work in progress	Dr	30,000	
Furniture	Dr	2,500	
Cash	Dr	100	
Bank	Dr	12,500	
Stock	Dr	60,000	
Goodwill	Dr	54,900	
To Creditors			30,000
To Business purchase a/c			4,05,000
(Being assets and liabilities recorded)			
Liquidator of Soma Ltd	Dr	4,05,000	
To Cash			2,45,000
To Equity share capital			1,60,000
(Being PC received)			
Goodwill a/c	Dr	5,000	
To Bank			5,000
(Being exp. paid by ABC Ltd			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	1,60,000	Land	1,00,000
Creditors	30,000	Machinery	1,50,000
Bank overdraft	2,45,000	Debtors	25,000
		Work in progress	30,000
		Furniture	2,500
		Cash	100

		Bank (12,500 – 5,000)	7,500
		Stock	60,000
		Goodwill (54,900 + 5,000)	59,900
	4,35,000		4,35,000

Illustration -6 White Ltd agreed to acquire the business of Green Ltd. as on March 31, 2015. The summarized balance sheet of Green Ltd on that date was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	6,00,000	Fixed assets	6,40,000
General reserve	1,70,000	Stock	1,68,000
Profit and loss a/c	1,10,000	Cash	56,000
6% Debentures	1,00,000	Debtors	36,000
Creditors	20,000	Goodwill	1,00,000
	10,00,000		10,00,000

The consideration payable by White Ltd was agreed as follows

1. A cash payment equivalent to ₹2.50 for every ₹10 share in Green Ltd
2. The issue of 90,000 shares of ₹10 fully paid, in White Ltd, having an agreed value of ₹15 per share
3. The issue of such an amount of fully paid 5% debentures of White Ltd at 96% as is sufficient to discharge the 6% debentures of the Green Ltd at a premium of 20%

When computing the agreed consideration the directors of White Ltd valued the fixed assets at ₹12,00,000, stock at ₹1,42,000, and debtors at their face value subject to an allowance of 5 % to cover doubtful debts. The cost of liquidation of Green Ltd came to ₹5,000.

Draft important ledger accounts in both the books.

Solution

Cash (60,000 x ₹2.50)	₹1,50,000
Equity shares (90,000 x ₹15)	₹13,50,000
Debentures (1,00,000 x 20%)	₹1,20,000
Purchase consideration	₹16,20,000

Ledger accounts in the books of Green Ltd.

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Goodwill	1,00,000	By Creditors	20,000
" Fixed assets	6,40,000	" W Ltd	16,20,000
" Stock	1,68,000		
" Drs	36,000		
" Cash	56,000		
" Cash (Exp.)	5,000		
" Debentures (Loss)	20,000		
" Equity shareholders (b/f)	6,15,000		
	16,40,000		16,40,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Shares in W Ltd	13,50,000	By Share capital	6,00,000
" Cash (b/f)	1,45,000	" General reserve	1,70,000
		" P & L a/c	1,10,000
		" Realization	6,15,000
	14,95,000		14,95,000

Cash Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realisation a/c	1,50,000	By Equity shareholders	1,45,000
		" Realization a/c	5,000
	1,50,000		1,50,000

Journal entries in the books of White Ltd.

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	16,20,000	
To Liquidator of Green Ltd			16,20,000
(Being PC due)			
Fixed assets a/c	Dr	12,00,000	
Stock a/c	Dr	1,42,000	
Debtors a/c	Dr	34,200	

Goodwill a/c	Dr	2,07,800	
Cash a/c	Dr	56,000	
To Creditors			20,000
To Business purchase a/c			16,20,000
(Being assets and liabilities recorded)			
Liquidator of Green Ltd	Dr	16,20,000	
Discount on debentures (1,250 x ₹4)	Dr	5,000	
To Cash a/c			1,50,000
To Debentures a/c (1,250 x ₹100)			1,25,000
To Equity share capital (90,000 x ₹10)			9,00,000
To Share premium a/c (90,000 x ₹5)			4,50,000
(Being PC received)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	9,00,000	Fixed assets a/c	12,00,000
Creditors	20,000	Stock a/c	1,42,000
Debentures	1,25,000	Debtors a/c	34,200
Bank overdraft	1,50,000	Goodwill a/c	2,07,800
Share premium	4,50,000	Cash a/c	56,000
		Discount on issue of deb.	5,000
	16,45,000		16,45,000

9.10 Net Assets Method

Illustration-7 From the following information, calculate purchase consideration for the purpose of business acquisition. Building ₹50,000; Motor lorry ₹12,400; Stock ₹36,000; Debtors ₹29,400; Cash at bank ₹2,200; Goodwill ₹18,000; Creditors ₹31,000; Outstanding expenses ₹1,000.

Solution

Building	₹50,000
Motor	₹12,400
Stock	₹36,000
Debtors	₹29,400
Cash	₹2,200
Goodwill	₹18,000

		₹1,48,000
Less: Creditors	₹31,000	
O/S expenses	₹1,000	₹32,000
Purchase consideration		₹1,16,000

Illustration -8 The capital of A.B and C partnership firm at the date of purchase by the limited company were ₹10,000, ₹6,000 and ₹5,000. The partnership firm was converted in to a limited company and assets and liabilities were sold to the company agreed to pay ₹8,000 more than the book value and Machinery which was taken at ₹1,000 less than the book value.

Solution

Total capital (10,000 + 6,000 +5,000)	₹21,000
Add: Increase in book value	₹8,000
	₹29,000
Less: Decrease in machinery	₹1,000
Purchase consideration	₹28,000

Illustratio1n -9 Balance Sheet of Weak Ltd as on March 31, 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	2,00,000	Land	85,000
General reserve	20,000	Plant	1,60,000
Loan from A (Director)	40,000	Discount on debentures	6,000
6% Debentures	1,00,000	Stock	55,000
Creditors	80,000	Cash	34,000
		Debtors	65,000
		Goodwill	35,000
	4,40,000		4,40,000

The business of Weak Ltd is taken over by the Strong Ltd as on that date on the following terms:

1.Strong Ltd to take over the assets except cash to value the assets at their book values less 10 % except goodwill which was to be valued at 4 years' purchase of the excess of average 5 years profits over 8 % of the combined amount of share capital and reserve.

2. Strong Ltd to take over trade creditors which were subject to a discount of 5 %.

3. The purchase consideration was to be discharged by cash to the extent of ₹1,50,000 and the balance in fully paid equity shares of ₹10 each valued at ₹12.50 per share.

4. The average of five years' profit was ₹30,100. The expenses of liquidation amounted to ₹4,000.

Draft important ledger accounts in the books of Weak Ltd.

Solution

Calculation of goodwill

Average of 5 years profit	₹30,100
Less: 8% of (2,00,000 + 20,000)	₹17,600
Excess	₹12,500
Goodwill = 12,500 x 4 = ₹50,000	

Calculation of purchase consideration under net assets method

Goodwill	₹50,000
Land (85,000 – 8,500)	₹76,500
Plant (1,60,000 – 16,000)	₹1,44,000
Stock (55,000 – 5,500)	₹49,500
Debtors (65,000 – 6,500)	₹58,500
	₹3,78,500
Less: Creditors (80,000 – 4,000)	₹76,000
Purchase consideration	₹3,02,500
Less: Cash	₹1,50,000
Shares to be given	₹1,52,500

In the books of Weak Ltd

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Goodwill	35,000	By Creditors	80,000
“ Land	85,000	“ Strong Ltd (PC)	
“ Plant	1,60,000	Cash	1,50,000
“ Stock	55,000	Equity shares	1,52,500

" Debtors	65,000	" Equity share holders (b/f)	21,500
" Bank – exp.	4,000		
	4,04,000		4,04,000

Debenture holders a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bank a/c	1,00,000	By Debentures	1,00,000
	1,00,000		1,00,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Discount on debentures	6,000	By Equity share capital	2,00,000
" Realization (Loss)	21,500	" Reserve fund	20,000
" Shares in Strong Ltd	1,52,500		
" Bank (b/f)	40,000		
	2,20,000		2,20,000

Bank Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	34,000	By Debentures	1,00,000
" Strong Ltd	1,50,000	" Loan from A	40,000
		" Realization a/c	4,000
		" Equity share holders	40,000
	1,84,000		1,84,000

Illustration -10 Kumar Ltd. takes over Soma Ltd on the following terms:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	6,00,000	Fixed assets	5,00,000
Preference shares of ₹100 each	2,00,000	Stock	4,00,000
10% Debentures	3,00,000	Debtors	2,00,000
Current liabilities	1,00,000	Profit and loss a/c	1,00,000
	12,00,000		12,00,000

1) Take the fixed assets at 10% depreciation, stock at ₹3,00,000 and debtors after a provision of 25%.
2) Debentures are to be settled by issuing them 9% debentures in Kumar Ltd.
3) Current liabilities will be taken over at book values.
4) The consideration will be discharged by issue of 10,000 equity shares of ₹10 each in Kumar Ltd at an agreed value of ₹15 per share and the balance in cash.
5) Expenses of liquidation ₹20,000 will be reimbursed by Kumar Ltd.

Draft important ledger accounts in both the books.

Solution

Fixed assets (5,00,000 – 50,000)	₹4,50,000
Stock	₹3,00,000
Drs (2,00,000 – 50,000)	₹1,50,000
Total	₹9,00,000
Less: Current liability	₹1,00,000
Total purchase consideration	₹8,00,000
Add: Expenses	₹20,000
	₹8,20,000

Mode of payment

Equity shares (10,000 x ₹15)	₹1,50,000
Debentures	₹3,00,000
Bal. in cash (b/f)	₹3,70,000
	8,20,000

Realization Account

Particulars	Amount ₹	Particulars		Amount ₹
To Fixed assets	5,00,000	By 10% Debentures		3,00,000
" Stock	4,00,000	" Current liabilities		1,00,000
" Debtors	2,00,000	" Kumar Ltd (PC)		
" Debentures	3,00,000	Equity shares	1,50,000	
" Cash	20,000	Cash	3,70,000	
		Debentures	3,00,000	8,20,000
		" Equity share holders (b/f)		2,00,000
	14,20,000			14,20,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	2,00,000	By Share capital	6,00,000
" P & L a/c	1,00,000		
" Realization –Equity shares	1,50,000		
" Cash (b/f)	1,50,000		
	6,00,000		6,00,000

Preference Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Cash	2,00,000	By Share capital	2,00,000
	2,00,000		2,00,000

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	3,70,000	By Equity share holders	1,50,000
		" Preference share holders	2,00,000
		" Realisation a/c	20,000
	3,70,000		3,70,000

Journal entries in the books of Kumar Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	8,00,000	
To Liquidator of Soma Ltd			8,00,000
(Being PC due)			
Fixed asset a/c	Dr	4,50,000	
Stock a/c	Dr	3,00,000	
Debtors a/c	Dr	1,50,000	
Goodwill a/c (b/f)	Dr	20,000	
To Current liabilities			1,00,000
To Business purchase a/c			8,20,000
(Being assets and liabilities recorded)			

Liquidator of Soma Ltd	Dr	8,20,000	
To Cash			3,70,000
To Debentures			3,00,000
To Equity share capital			1,00,000
To Share premium			50,000
(Being PC received)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	1,00,000	Fixed assets	4,50,000
Debentures	3,00,000	Stock	3,00,000
Bank overdraft	3,70,000	Debtors	1,50,000
Share premium	50,000	Goodwill	20,000
Current liabilities	1,00,000		
	9,20,000		9,20,000

Illustration -11 The I.G. Ltd sells its business to the C.C Ltd. as on Dec.31st, 2015 on which date its balance sheet was as under:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹ 100 each	2,00,000	Freehold property	1,50,000
General reserve	50,000	Stock	35,000
Profit and loss a/c	20,000	Cash	50,000
10% Debentures	1,00,000	Debtors	27,500
Creditors	30,000	Bills Receivable	4,500
		Goodwill	50,000
		Plant	83,000
	4,00,000		4,00,000

The C.C Ltd agreed to take over the assets (exclusive of cash and goodwill) at 10 % less than the book value to pay ₹75,000 for goodwill and to take over the debentures. The Purchase consideration was to be discharged by the allotment to the I.G. Ltd of 1,500 shares of ₹100 each at a premium of ₹10 per share and the balance in cash. The cost of liquidation amounted to ₹ 3,000.

Draft important ledger accounts in both the books.

Solution

Goodwill		₹ 75,000
Free hold	(1,50,000 – 15,000)	₹ 1,35,000
Plant	(83,000 – 8,300)	₹ 74,700
Stock	(35,000 – 3,500)	₹ 31,500
Debtors	(27,500 – 2,750)	₹ 24,750
B/R	(4,500 – 450)	₹ 4,050
Total		₹ 3,45,000
Less: Debentures		₹ 1,00,000
Purchase consideration		₹ 2,45,000
(-) Equity shares (1,500 x ₹ 110)		₹ 1,65,000
Cash		₹ 80,000

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Goodwill	50,000	By Debentures	1,00,000
“ Free hold	1,50,000	“ C Co. Ltd	2,45,000
“ Plant	83,000	“ Equity share holders (b/f)	8,000
“ Stock	35,000		
“ Debtors	27,500		
“ B/R	4,500		
“ Bank	3,000		
	3,53,000		3,53,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization a/c	8,000	By Equity share capital	2,00,000
“ Realization (shares)	1,65,000	“ General reserve	50,000
“ Bank (b/f)	97,000	“ P & L a/c	20,000
	2,70,000		2,70,000

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Bal. b/d	50,000	By Equity share holders	97,000
" C. C. Ltd	80,000	" Realization	3,000
		" Creditors	30,000
	1,30,000		1,30,000

Journal entries in the books of C.C. Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	2,45,000	
To Liquidator of I. G. Ltd			2,45,000
(Being PC due)			
Goodwill	Dr	75,000	
Free hold	Dr	1,35,000	
Plant	Dr	74,700	
Stock	Dr	31,500	
Debtors	Dr	24,750	
B/R	Dr	4,050	
To Debentures			1,00,000
To Business purchase a/c			2,45,000
(Being assets and liabilities recorded)			
Liquidator of G Ltd	Dr	2,45,000	
To Cash			80,000
To Equity share capital			1,50,000
To Share premium			15,000
(Being PC received)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	1,50,000	Goodwill	75,000
Debentures	1,00,000	Free hold	1,35,000
Bank overdraft	80,000	Plant	74,700
Share premium	15,000	Stock	31,500
		Debtors	24,750
		B/R	4,050
	3,45,000		3,45,000

Illustration -12 X Ltd is absorbed by Y Ltd.

Balance Sheets

Liabilities	**X Ltd ₹**	**Y Ltd ₹**	**Assets**	**X Ltd ₹**	**Y Ltd ₹**
Share capital of ₹270 each	24,30,000	–	Sundry Assets	33,70,000	87,15,000
Share capital of ₹ 150 each	–	60,00,000	Cash	7,000	55,000
Creditors	1,10,000	1,30,000			
Reserve fund	8,07,000	25,70,000			
Profit and loss a/c	30,000	70,000			
	33,77,000	87,70,000		33,77,000	87,70,000

The holder of every three in the X Ltd was to receive five shares in the Y Ltd plus as much cash as is necessary to adjust the share holders of both the companies in accordance with the intrinsic value of the shares as per respective balance sheets.

Draft journal entries and balance sheet in the books of Y Ltd.

Solution

Calculation of intrinsic value of shares

	X Ltd ₹	**Y Ltd ₹**
Sundry assets	33,70,000	87,15,000
Cash in hand	7,000	55,000
Total	33,77,000	87,70,000
Less: Creditors	1,10,000	1,30,000
Net assets	32,67,000	86,40,000
Value per share	Net assets/No. of equity shares	
	$\frac{32,67,000}{9,000\text{shares}}$ = ₹ 363	$\frac{86,40,000}{40,000\text{shares}}$ = ₹ 216
Calculation of amount payable in cash		
Value of 3 shares in X Ltd	363 x 3	1,089
Value of 5 shares in Y Ltd	216 x 5	1,080
Difference in cash for every 3 shares		₹ 9

Calculation of purchase consideration

Equity shares	9,000 x 5 x 150/3	₹ 22,50,000
Cash	9,000 x 9/3	₹ 27,000
Total		₹ 22,77,000

Journal Entries in the Books of Y Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	22,77,000	
To Liquidator of X Ltd			22,77,000
(Being PC due)			
Sundry assets a/c	Dr	33,70,000	
Cash a/c	Dr	7,000	
To Creditors			1,10,000
" Business purchase a/c			22,77,000
" Capital reserve (b/f)			9,90,000
(Being assets and liabilities taken)			
Liquidator of X Co. Ltd	Dr	22,77,000	
To Equity share capital			22,50,000
" Cash			27,000
(Being PC received)			

Balance Sheet of Y Ltd

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	82,50,000	Cash (55,000 + 7,000)	62,000
Creditors (1,30,000 + 1,10,000)	2,40,000	Sundry assets (87,15,000 + 33,70,000)	120,85,000
Capital reserve	9,90,000		
P & L a/c	70,000		
Reserve fund	25,70,000		
Bank O/D (PC)	27,000		
	121,47,000		121,47,000

9.11 LUMP SUM PAYMENT METHOD

Illustration -13 The following is the balance sheet of X Ltd. as on 31-12–2015.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	1,20,000	Land	90,000
Creditors	30,000	Machinery	50,000

Bank overdraft	28,000	Debtors	20,000
		P & L a/c	18,000
	1,78,000		1,78,000

The company went into voluntary liquidation and assets were sold to Y Co. Ltd. for ₹1,50,000 payable as to ₹60,000 in cash (which is used to discharge creditors and bank overdraft and to pay off winding up expenses of ₹2,000) and as to ₹90,000 by the allotment of 12,000 shares of ₹10 each of the Y Co. Ltd., ₹7.50 per share paid up, to the shareholders of X Com. Ltd.

Prepare important ledger accounts the books of X Ltd.

Solution

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Land	90,000	By Creditors	30,000
" Machinery	50,000	" Bank overdraft	28,000
" Debtors	20,000	" Purchase consideration	
" Cash (30,000 + 28,000)	58,000	Cash	60,000
" Cash (exp.)	2,000	Equity shares	90,000
		" Equity share holders (b/f)	12,000
	2,20,000		2,20,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To P & L a/c	18,000	By Equity share capital	1,20,000
" Realization (PC)	90,000		
" Realization	12,000		
	1,20,000		1,20,000

9.12 AMALGAMATION

Illustration -14 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. In case of A Ltd. the assets and liabilities are to be taken over at book value for shares in C Ltd. at the rate of 5 shares in C Ltd. at 10 % premium (i.e. ₹11 per share) for every four shares in A Ltd.

In case of B Ltd.

1) The holders of 6% preference shares of B Ltd. would be allotted four 7 % preference shares of ₹100 each in C Ltd. for every five preference shares in B Ltd.
2) The debentures of B Ltd. would be paid off by the issue of an equal number of debentures in C Ltd. at a discount of 10 %.

3) The equity share holders would be allotted sufficient shares in C Ltd. to cover the balance on their accounts after adjusting assets values by reducing plant by 10 % and providing 5 % on debtors.

Balance Sheets

Liabilities	**A Ltd ₹**	**B Ltd ₹**	**Assets**	**A Ltd ₹**	**B Ltd ₹**
Equity shares of ₹10 each	4,00,000	5,00,000	Plant	8,00,000	8,00,000
6% Preference shares of ₹100 each	–	3,00,000	Cash	65,000	40,000
Creditors	75,000	90,000	Stock	65,000	60,000
Contingency reserve	50,000	–	Debtors	95,000	50,000
P & L a/c	5,00,000	–	P & L a/c	–	1,40,000
4 % Debentures	–	2,00,000			
	10,25,000	10,90,000		10,25,000	10,90,000

Show the important ledger accounts in the books of A Ltd and B Ltd and show the balance sheet of C Ltd.

Solution

Calculation of purchase consideration for A Ltd.

5/4 x 40,000 shares = 50,000 shares x ₹11 = ₹5,50,000

Ledger accounts in the books of A Ltd.
Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Plant	8,00,000	By Creditors	75,000
“ Stock	65,000	“ C Ltd	5,50,000
“ Drs	95,000	“ Equity shareholders a/c (b/f)	4,00,000
“ Bank	65,000		
	10,25,000		10,25,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization	4,00,000	By Share capital	4,00,000
“ Shares in C Ltd.	5,50,000	“ P & L a/c	5,00,000

		" Contingency reserve	50,000
	9,50,000		9,50,000

Calculation of purchase consideration for B Ltd.

Plant (8,00,000 – 10%)	₹7,20,000
Stock	₹60,000
Debtors (50,000 – 5%)	₹47,500
Bank	₹40,000
Total	₹8,67,500
Less: Creditors	₹90,000
PC	₹7,77,500

Mode of payment of PC

Debentures	2,00,000 x 90/100	₹1,80,000
Preference shares	3,000 x 4/5 x 100	₹2,40,000
Equity shares (b/f)	35,750 x 10	₹3,57,500
		₹7,77,500

Ledger accounts in the books of B Ltd.

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Plant	8,00,000	By Creditors	90,000
" Stock	60,000	" C Ltd	7,77,500
" Drs	50,000	" Debenture holders	20,000
" Bank	40,000	" Pref. share holders	60,000
		" Equity shareholders a/c (b/f)	2,500
	9,50,000		9,50,000

Preference Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To New pre. shares	2,40,000	By Share capital	3,00,000
" Realization (b/f)	60,000		
	3,00,000		3,00,000

Debenture holders A/c

Particulars	Amount ₹	Particulars	Amount ₹
To New debentures a/c	1,80,000	By Debenture a/c	2,00,000
“ Realization (b/f)	20,000		
	2,00,000		2,00,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	2,500	By Share capital	5,00,000
“ P & L a/c	1,40,000		
“ Shares in C Ltd.	3,57,500		
	5,00,000		5,00,000

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Preference share capital	2,40,000	Plant	15,20,000
Equity share capital	8,57,500	Stock	1,25,000
Capital reserve	4,00,000	Drs less provision	1,42,500
Share premium	50,000	Bank	1,05,000
4% Debentures	2,00,000	Discount on debentures	20,000
Creditors	1,65,000		
	19,12,500		19,12,500

Illustration -15 X Ltd. and Y Ltd. are two companies carrying on business in the same line of activity.

Balance Sheets

Liabilities	X Ltd ₹	Y Ltd ₹	Assets	X Ltd ₹	Y Ltd ₹
Equity shares of ₹10 each	6,00,000	2,00,000	Land	1,00,000	–
			Cash	1,00,000	1,00,000
Reserve	4,00,000	2,00,000	Stock	9,00,000	4,00,000
Current liabilities	6,00,000	4,00,000	Debtors	3,00,000	1,00,000
Secured loans	6,00,000	1,00,000	Plant	7,00,000	3,00,000
			Investments	1,00,000	–
	22,00,000	9,00,000		22,00,000	9,00,000

The two companies decided to amalgamate into XY Ltd. The following adjustments are given

- X Ltd. holds 8,000 shares in Y Ltd. @ ₹12.50 each.
- All assets and liabilities of the two companies except investments are taken over by XY Ltd.
- Each share in Y Ltd. is valued at ₹25 for the purpose of the amalgamation.
- Shareholders in X Ltd. and Y Ltd. are paid off by issuing to them a sufficient number of equity shares of ₹10 each in XY Ltd. as fully paid–up at par.
- Each share in X Ltd. is valued @ ₹15 for the purpose of amalgamation.

Show the important ledger accounts in the books of X Ltd. and Y Ltd. and show the balance sheet of XY Ltd.

Solution

Calculation of purchase consideration in X Ltd.

PC = 60,000 shares x ₹15 = ₹9,00,000

Calculation of purchase consideration in Y Ltd.

No. of share held by Y Ltd. = 20,000 – 8,000 = 12,000

PC = 12,000 shares x ₹25 = ₹3,00,000

Realization a/c of X Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Land	1,00,000	By Secured loan	6,00,000
" Plant	7,00,000	" Current liabilities	6,00,000
" Investments	1,00,000	" Shares in XY Ltd	9,00,000
" Stock	9,00,000	" Equity share holders (b/f)	1,00,000
" Debtors	3,00,000		
" Cash	1,00,000		
	22,00,000		22,00,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization	1,00,000	By Equity share capital	6,00,000
" Shares in XY Ltd	9,00,000	" Reserve	4,00,000
	10,00,000		10,00,000

Realization Account of Y Ltd.

Particulars	Amount ₹	Particulars	Amount ₹
To Plant	3,00,000	By Secured loan	1,00,000
“ Stock	4,00,000	“ Current liabilities	4,00,000
“ Debtors	1,00,000	“ Shares in XY Ltd	3,00,000
“ Cash	1,00,000	“ Equity share holders (b/f)	1,00,000
	9,00,000		9,00,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	1,00,000	By Equity share capital	2,00,000
“ Shares in XY Ltd	3,00,000	“ Reserve	2,00,000
	4,00,000		4,00,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Accounting standard for amalgamation is

a) AS - 8 | b) AS - 20

c) AS - 14 | d) AS – 3

2. Pooling of interest method is used to account for amalgamation in the nature of

a) Purchase | b) Sales

c) **Merger** | d) Absorption

3. Purchase consideration under AS14 should include cash and securities agreed to be given by the transferee company to the transferor company's

a) **Shareholders** | b) Shareholders and debenture holders

c) Creditors, Debenture holders and share holders | d) Debenture holders

4. If the purchasing company pays realization expenses, _______ ___a/c should be debited

a) **Goodwill a/c** | b) Capital reserve

c) Realization | d) Equity shareholders

5. For closing fictitious assets in Balance Sheet, __________ a/c should be debited

a) Realization | b) **Equity share holders**

c) Fictitious assets | d) Cash

6. Excess of purchase consideration paid by purchasing company over net tangible assets taken is transferred to

a) **Goodwill** | b) Capital reserve

c) P & L a/c | d) Equity shareholders

7. While calculating purchase consideration, if the mode of payment is complete, it is known as

a) Net assets method | b) Intrinsic value method

c) **Net payment method** | d) Lump sum payment method

8. Profit or loss on repayment of preference share capital is transferred to

a) Equity share holders a/c | b) **Realization a/c**

c) Revaluation a/c | d) P & L a/c

9. Assets and liabilities are transferred to realization a/c at its __________

a) **Book valu**e | b) Realized value

c) Book value or realized value which one is higher

d) Book value or realized value which one is lower

10. The purpose of amalgamation and absorption is

a) Eliminate competition | b) Economies of production

c) Controlling the market | d) **All the above**

11. When existing two companies go into liquidation to form a new company is called
    a) Absorption b) **Amalgamation**
    c) External reconstruction d) Internal reconstruction

12. An existing company take over another company which is going to be liquidated is called
    a) **Absorption** b) Amalgamation
    c) External reconstruction d) Internal reconstruction

13. If the purchasing company agrees to pay realization expenses the account to be debited is ____
    a) Capital reserve b) Realization
    c) Cash d) **Goodwill**

14. If the vendor company pays realization expenses the account to be debited is __________
    a) Capital reserve b) **Realization**
    c) Cash d) Goodwill

15. The excess of net assets taken over the purchase consideration is credited to _________
    a) **Capital reserve** b) Realization
    c) Cash d) Goodwill

16. The profit on repayment of debentures is ____________ to realization account
    a) Debited b) **Credited**
    c) No entry d) Both a and b

17. Liabilities not taken over by purchasing company is to be payable by _________
    a) Purchasing company b) **Vendor company**
    c) No needs to pay d) Share holders

18. Which of the following are trade liabilities?
    a) Creditors b) B/P
    c) Bank O/D d) **All of them**

19. P & L a/c appears in liability side of balance sheet should be _________
    a) **Credited to equity share holders a/c** b) Credited to realization a/c
    c) Debited to equity share holders a/c d) Debited to realization a/c

20. Underwriting commission appears in assets side of balance sheet should be
    a) Credited to equity share holders a/c b) Credited to realization a/c
    c) **Debited to equity share holders a/c** d) Debited to realization a/c

21. While calculating purchase consideration, the assets and liabilities are recorded at their _____
    a) Book value
    b) **Realized value**
    c) Difference between book value and realized value
    d) Market value

22. In the books of purchasing company the assets and liabilities are recorded at ______
    a) Book value
    b) **Realized value**
    c) Difference between book value and realized value
    d) Market value

23. Loss on realization account should be transferred to
    a) Credit side of equity share holders' a/c
    b) Credit side of realization a/c
    c) **Debit side of equity share holders' a/c**
    d) Debit side of realization a/c

24. Balance if any in equity share holders account should be transferred to ________ a/c
    a) Capital reserve
    b) Realization
    c) **Cash**
    d) Goodwill

25. Intrinsic value of purchase consideration is ________
    a) **Exchange of shares between two companies**
    b) Give up shares by both companies
    c) Raise up shares by both companies
    d) To issue further share capital

26. When there are two or more liquidations and one formation, it is known as
    a) **Amalgamation**
    b) Absorption
    c) Internal reconstruction
    d) External reconstruction

REVIEW QUESTIONS

A) Answer in short

1. What is called amalgamation?
2. What is absorption?
3. What do you mean by external reconstruction?
4. What do you understand by merger?
5. What is purchase consideration?
6. Give journal entries in the books of purchasing company of amalgamation.

B) Answer in detail

1. Explain amalgamation, absorption and external reconstruction.
2. Distinguish between amalgamation, absorption and external reconstruction.
3. Describe the methods of accounting for amalgamation.
4. Discuss the various methods of calculation purchase consideration.

5. Write short note on
   a) Purchase consideration by net asset.
   b) Purchase consideration by net payment.
6. Give the journal entries which are passed in the books of companies in the case of absorption.
7. Give journal entries which are passed in the book of Vendor Company in case of amalgamation.

EXERCISES

1. From the following particulars, calculate purchase consideration:
   a) ₹1,00,000 Debentures discharged at a premium of 5%
   b) A payment of ₹7 per share for 20,000 shares
   c) Issue of 20,000 shares at ₹8 each.

ABSORPTION

2. Following is the balance sheet of X Co. Ltd. as on June 30, 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹500 each	60,00,000	Land	27,20,000
Reserve fund	6,50,000	Plant	30,00,000
Insurance fund	1,30,000	Furniture	1,00,000
P & L a/c	20,000	Patent	4,00,000
Debentures of ₹500 each	13,00,000	Stock	20,00,000
Workman savings bank	4,00,000	Debtors	6,00,000
Creditors	5,00,000	Cash	1,80,000
	90,00,000		90,00,000

Y Com. Ltd agreed to take over X Co. Ltd. on the following basis:

a) Payment of cash at ₹90 for every share in X Co. Ltd.

b) Payment of cash at ₹550 for every debenture holder in full discharge of debentures.

c) Exchange of 4 shares of Y Co. Ltd. of ₹75 each (quoted in the market at ₹140 each) for every share in X Co. Ltd.

Show the necessary ledger accounts in X Co. Ltd.

3. A Co. Ltd. sells its business to B Co. Ltd. as on 31st March 2015 on which date its balance sheet was as under

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	4,00,000	Building	2,00,000
General reserve	80,000	Stock	85,500
Profit and loss a/c	28,000	Cash	86,000
10% Debentures	2,00,000	Debtors	37,500
Creditors	42,000	Machinery	2,63,000
		Furniture	70,000
		Underwriting commission	8,000
	7,50,000		7,50,000

B Co. Ltd. agreed to take over the assets except cash at book value except that furniture was valued at ₹56,000 and to take over creditors. The purchase consideration was discharged by the allotment at par of 2,000 fully paid 12 % Debentures of ₹100 each (to be used by A Co. Ltd. to redeem its 10 % debentures at par) and 40,000 fully paid equity shares of ₹10 each. A Co. Ltd. met the expenses of liquidation totaling ₹6,000.

Draft journal entries and important ledger accounts in both the books.

4. X Ltd. agreed to acquire the assets excluding cash, as on 31-12-2015 of Y Ltd. The following is the balance sheet of Y Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	3,00,000	Land	1,20,000
Creditors	10,000	Machinery	2,00,000
Debentures	50,000	Debtors	30,000
General reserve	80,000	Stock	80,000
P & L a/c	60,000	Goodwill	60,000
		Cash	10,000
	5,00,000		5,00,000

The consideration being

1. Cash payment of ₹4 for every share of Y Ltd.
2. The issue of one share of ₹10 each (market value ₹12.50) in the X Ltd. for every share in Y Ltd.
3. The issue of 1,100 debentures of ₹50 each in X Ltd. to enable Y Ltd. to discharge its debentures at a premium of 10%.
4. The expenses of liquidation of Y Ltd. ₹4,000 were to be met by themselves.

Give important ledger accounts in Y Ltd.

5. B Company Ltd. is absorbed by A Company Ltd. The consideration being,

i) Assumption of liabilities. (It is assumed that assets are also taken)

ii) Discharge of debentures at a premium of 5% by issue of 5% debentures in A Co. Ltd.

iii) A payment of cash of ₹30 per share.

iv) The exchange of three, ₹10 share in A Co. Ltd at an agreed value of ₹15 per share for every share in B Co. Ltd.

Balance Sheet of B Co. Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹50 each	30,00,000	Land	7,65,000
Creditors	2,00,000	Machinery	22,00,000
Debentures	15,00,000	Debtors	4,50,000
Workmen's profit sharing fund	1,00,000	Investment in compensation fund	50,000
P & L a/c	30,000	Goodwill	2,50,000
General reserve	3,20,000	Cash	3,50,000
Accident fund	50,000	Work in progress	10,60,000
		Patents	50,000
		Furniture	25,000
	52,00,000		52,00,000

Prepare important ledger accounts in the books of B Co. Ltd.

6. A company absorbs the business of B company on 31- 12- 2015 and to take over the assets and liabilities at their balance sheet values in exchange for which it has to issue 10 shares of ₹10 each for every 8 shares of ₹10 each in B company Ltd. Expenses of liquidation ₹10,000 to be paid by A Company.

Liabilities	A Co. ₹	B Co. ₹	Assets	A Co. ₹	B Co. ₹
Share capital of ₹10 each	2,500	800	Fixed assets:		
Reserves:			Goodwill	150	–
Capital reserve	500	–	Building	550	150
General reserve	–	50	Machinery	1,000	400
Secured loans	300	–	Furniture	50	25
Unsecured loan	---	200	Investment:		
Current liabilities:			Shares in X Co.	250	–
Creditors	200	–	Govt. securities	–	150
B/P	–	50	Current assets:		
			Cash	100	–
			Stock	900	175

			Debtors	250	90
			B/R	50	30
			Bank	200	80
	3,500	1,100		3,500	1,100

Prepare important ledger accounts in the books of B Company.

7. The following is the balance sheet of D Ltd. on 31-12-2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	4,00,000	Land	1,70,000
Reserve fund	50,000	Plant	4,00,000
Dividend equalization fund	24,000	Investment	50,600
P & L a/c	5,600	Stock	80,700
5% Debentures	2,50,000	Debtors	1,40,500
Creditors	1,28,700	Cash	16,500
	8,58,300		8,58,300

D Ltd. was absorbed by N Ltd. on the above mentioned date on the following terms and conditions:

a) N Ltd. to assume all liabilities and to acquire all assets except investments which were sold by D Ltd. for ₹45,500.

b) Discharge the debenture debt at a discount of 5% by the issue of 7% Debentures in N Ltd.

c) Issue two shares of ₹60 each in N Ltd. at ₹60 each in N Ltd at ₹65 per share and also to pay ₹2 in cash to the share holders of D Ltd. in exchange for one share in D Ltd.

d) Pay the cost of absorption ₹1,500.

e) D Ltd. sold in the open market one– fourth of the shares received from N Ltd. at the average rate of ₹63 per share.

Show the realization a/c, bank a/c and shareholder's a/c in the books of D Ltd.

8. X Ltd. agreed to acquire the assets excluding cash, as on 31-12-2015 of Y Ltd. The following is the balance sheet of Y Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	3,00,000	Land	60,000
Creditors	10,000	Machinery	2,00,000
Debentures	50,000	Debtors	30,000
General reserve	80,000	Stock	80,000

P & L a/c	60,000	Goodwill	60,000
		Cash	70,000
	5,00,000		5,00,000

The consideration being

1. Cash payment of ₹4 for every share of Y Ltd.
2. The issue of one share of ₹10 each (market value ₹12.50) in the X Ltd. for every share in Y Ltd.
3. The issue of 1,100 debentures of ₹50 each in X Ltd. to enable Y Ltd. to discharge its debentures at a premium of 10%.
4. The expenses of liquidation of Y Ltd. ₹4,000 were to be met by themselves.

Give important ledger accounts in Y Ltd.

9. The balance sheet of A Co. Ltd as on March 31, 2015 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹1 each	1,00,000	Fixed assets	90,000
Creditors	20,000	Current assets	10,000
		P & L a/c	20,000
	1,20,000		1,20,000

B Co. Ltd. absorbed the A Co. Ltd. and took over all the assets for ₹72,000 payable ₹50,000 in shares of ₹1 each and ₹22,000 in cash (in order to enable A Co. Ltd. to pay off its liabilities and cost of winding up of ₹2,000).

Show realization a/c, shareholders a/c and cash a/c in the books of A Co. Ltd.

10. Following is the balance sheet of K Ltd. as on 31- 12- 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹ 10 each	20,000	Fixed assets	16,500
Profit and loss a/c	7,000	Current assets	19,500
10% Debentures	10,000	Goodwill	4,000
Creditors	3,000		
	40,000		40,000

R Ltd. agreed to take over the assets of K Ltd. (exclusive of one fixed assets of ₹4,000 and cash ₹1,000 included in current assets) at 10 % more than the book values. It agreed to take over creditors also. The purchase consideration was to be discharged by the issue of 2,000 shares of ₹10 each at the market value of ₹15 each and the balance in cash. Liquidation expenses came to ₹400. K Ltd. sold the fixed assets of ₹4,000 and realized the book value. It paid off its debentures and liquidation expenses.

Give important ledger accounts in K Ltd.

AMALGAMATION

11. Given below are the balance sheets as on March 31, 2016 of A Ltd. and B Ltd. which are amalgamated to form a new company Gama Ltd.

Liabilities	**A Ltd. ₹**	**B Ltd. ₹**	**Liabilities**	**A Ltd. ₹**	**B Ltd. ₹**
Share capital (₹100 each)	1,00,000	2,00,000	Fixed assets	–	25,000
Capital reserve	50,000	10,000	Good will	–	40,000
General reserve	10,000	–	Plant	60,000	80,000
P & L a/c	40,000	–	Furniture	35,000	10,000
Loans	80,000	60,000	Stock	1,00,000	1,40,000
Other liabilities	20,000	80,000	Debtors	1,04,000	13,000
			Cash at bank	1,000	2,000
			P & L a/c	–	40,000
	3,00,000	3,50,000		3,00,000	3,50,000

The share holder in the amalgamating companies are to be allotted fully paid equity shares in Gama Ltd. for the amount of purchase consideration for which purpose all assets and liabilities are to be taken at book values except goodwill of B Ltd.

Show the opening balance sheet of the new company.

12. Green Ltd is absorbed by Yellow Ltd. Given below are the balance sheets of two companies taken after revaluation of their assets on a uniform basis.

Liabilities	**Green Ltd ₹**	**Yellow Ltd ₹**	**Assets**	**Green Ltd ₹**	**Yellow Ltd ₹**
Equity shares of ₹80 each	7,20,000	–	Sundry assets	17,83,500	44,00,000
Equity shares of ₹60 each	–	24,00,000	Discount on share issue		20,000
Reserve fund	6,50,000	13,00,000	Preliminary expenses	15,000	–
P & L a/c	2,78,500	6,40,000	Cash	20,000	1,30,000
Creditors	1,40,000	2,10,000			
Bills payable	30,000	–			
	18,18,500	45,50,000		18,18,500	45,50,000

The holder of every 3 shares in Green Ltd was to receive 5 shares in Yellow Ltd. plus as much 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 journal entries in the books of Yellow Ltd. Prepare opening balance sheet of Yellow Ltd and also prepare necessary ledger accounts in the books of Green Ltd.

13. Rajan Co Ltd and Monica Co Ltd whose business are similar nature, decided to amalgamated and new company Rajmon Co Ltd is formed to take over their assets and liabilities. The following are their balance sheets:

Liabilities	**Rajan**	**Monica**	**Assets**	**Rajan**	**Monica**
Equity shares of ₹10 each	75,000	45,500	Goodwill	30,000	20,000
Reserve fund	4,200	–	Freehold property	10,000	–
P & L a/c	800	4,500	Plant	18,300	13,450
Creditors	3,300	2,000	Cash	1,500	1,000
			Debtors	7,500	6,000
			Stock	16,000	11,550
	83,300	52,000		83,300	52,000

Assuming that assets realize their book value, what amount each company will get?

Prepare balance sheet after amalgamation.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. TV.Ltd. Absorbed the business of Radio Ltd as a going concern on 31.3.08. The balance sheets were as follows:

Balance sheet as on 31.03.08

Liablities	TV Ltd	Radio Ltd	Assets	Tv Ltd	Radio Ltd
Sharecapital			Goodwill	–	1,00,000
(Rs.10 each)	10,00,000	6,00,000	Buildings	5,00,000	–
Reserve	1,20,000	–	stock	1,40,000	2,60,000
Creditors	20,000	1,00,000	Debtors	2,80,000	2,00,000
Bank O/D	–	1,00,000	Investments	1,20,000	–
			Bank	1,00,000	–
			P/L a/c	–	2,40,000
	11,40,000	8,00,000		11,40,000	8,00,000

The purchase consideration was agreed upon at Rs.4,00,000 payable as to Rs.2,00,000 in cash and the balance by the issue of Rs.10 each in fully paid in Tv Ltd. at an agreed value of Rs.12.50 per share. Prepare balance sheet of TV Ltd by passing necessary Journal entries.

[Alagappa uni, B.Com(C.A), Nov, 2015]

2. the summarized balance sheet of A.Ltd and B.Ltd as on 1.1.2002 are as follows

Liabilities	A. Ltd	B. Ltd	Assets	A. Ltd	B. Ltd
Equity shares (Rs.10)	2,00,000	1,00,000	Land and Buildings	2,50,000	1,60,000
			Stock	30,000	40,000
			Debtors	10,000	20,000
12% preference shares (Rs.10)	1,00,00	–	Cash and Bank	70,000	45,000
9% preference shares (Rs.10)	–	1,00,000			
Reserve	30,000	50,000			
Profit and Loss A/c	20,000	10,000			
creditors	10,000	5000			
	3,60,000	2,65,000		3,60,000	2,65,000

On the above date A.Ltd. Decided absorb B.Ltd. Under the following terms and conditions.

1. A.Ltd. will take over all the assets & Liabilities of B Ltd.

2. The equity share holders of B.Ltd, will be given 11,000 equity shares of Rs.10 each at par.
3. 9% preference shares of B.Ltd will be converted into 12% preference shares of A Ltd. the number of Preference shares to be issued should be such that it would bring the same amount of dividend as before.

Prepare :

1. Realization A/c in the books of B.ltd.
2. Necessary Journal entries in the books of A.Ltd.
3. Balance sheet of A.Ltd. after absorption.

[Alagappa,B.Com,Nov,2016]

3. S.Ltd is absorbed by K.Ltd the consideration being
   1. the taking over of the trade liabilities of Rs.40,000
   2. the payment of cost of absorption of Rs.15,000.
   3. The repayment of 'B' Debentures of S.Ltd of Rs.2,00,000 at par.
   4. The discharge of 'A' Debentures of Rs.3,00,000 in the Vendor.Co., at a premium of 10% by the issue of 8% debentures in K.Ltd at par.
   5. A payment of Rs.20 per share in cash and the exchange of 4 fully paid Rs.10 shares in K.Ltd at a market price of Rs.15 per share for every Rs.50 share in KS ltd. which were 40,000 in number. You are required to find out the purchase consideration.

[Madurai,M.Com,Nov,2014]

4. Prepare a consolidated balance sheet from the following balance sheets:

Liabilities	H.Ltd	S.Ltd	Assets	H.Ltd	S.Ltd
Capital. Re.1 each	1,400	1,000	Sundry Assets	885	1,510
P&L Account	260	320	900 shares in S. Ltd.	1,125	–
Creditors	350	190			
	2010	1,510		2010	1,510

On the date of acquisition of shares by H.Ltd. the credit balance on latters Profit and Loss account was Rs.220. No dividends have been declared since that date.

[Madurai,M.Com,Nov,2014]

5. The balance sheet of A company Ltd as on 31.12.2010 was as follows:

Liabilities	**Amt**	**Assets**	**Amt**
Share capital 1,00,000 shares of Re 1 each	1,00,000	Fixed Assets Current Assets P&L A/c	90,000 10,000 20,000

Sundry creditors	20,000		
	1,20,000		1,20,000

B.Company Ltd. absorbed A company Ltd. and took over all the assets for Rs.72,000 payable Rs.50,000 shares of Re.1. each and Rs. 22,000 in cash (in order to enable A company Ltd, to payoff Liablities and cost of winding up of Rs.2000) show the realization account and shareholders account in books of A company Ltd.

[Madurai,B.com,Nov,2013]

6. X Ltd and Y Ltd are two companies carrying on business in the same line of activity. These balance sheet as on Dec 31, 2007 are given below.

Liabilities	**X Ltd**	**Y Ltd**	**Assets**	**X Ltd**	**Y Ltd**
Fully paid equity shares of Rs. 10 each	6,00,000	2,00,000	Land & Building	1,00,000	–
General reserve	4,00,000	2,00,000	Plant & Machinery	7,00,000	3,00,000
Secured loan	6,00,000	1,00,000	Investments	1,00,000	–
Current liabilities	6,00,000	4,00,000	Stock	9,00,000	4,00,000
			Debtors	3,00,000	1,00,000
			Cash	1,00,000	1,00,000
	22,00,000	**9,00,000**		**22,00,000**	**9,00,000**

7. The two companies decide to amalgamate in XY td.

   (a) X Ltd holds 8,000 shares in Y Ltd @ Rs. 12.50 each

   (b) All assets and liabilities of the companies except investments are taken over by XY Ltd.

   (c) Each shares in Y Ltd is valued @ Rs. 25 for the purpose of the amalgamation.

   (d) Shareholders in X Ltd and Y Ltd are paid off by issuing to them a sufficient nuber of equity share of Rs. 10 each in XY Ltd as fully paid at par.

   (e) Each share in X Ltd is valued @ Rs. 15 for the purpose of amalgamation.

   Show journal entries in the Books of ‘X’ Ltd.

[Madurai, M.Com, April,2014]

8. The summarized balance sheet of A Ltd. And B Ltd. As on 1-1-2002 are as follows:

Liability	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity shares (Rs. 10)	2,00,000	1,00,000	Land and buildings	2,50,000	1,60,000
12% preference shares (Rs.10%)	1,00,000	–	Stock	30,000	40,000
9% preference shares (Rs.10%)	–	1,00,000	Debtors	10,000	20,000
Reserve	30,000	50,000	Cash and bank	70,000	45,000

Profit and loss a/c Creditors	20,000 10,000	10,000 5,000			
	3,60,000	2,65,000		3,60,000	2,65,000

On the above date A Ltd. Decided absorb BLtd. Under the following terms and condition.

(a) A Ltd. will take over all the assets & liabilities of B Ltd.

(b) The equity shareholders of B Ltd. Will be given 11,000 equity shares of Rs. 10/ -0 each at par.

(c) 9% preference shares of B Ltd. Will be converted into 12% preference shares of A Ltd. the number of preference shares to be issued should be such that it would bring the same amount of dividend as before.

Prepare:

(i) Realisation A/c in the books of B Ltd.

(ii) Necessary journal entries in the books of A Ltd.

(iii) Balance sheet of A Ltd. after absorption.

9. Lee Ltd. agreed to absorb Bee Ltd. by paying Rs. 10,00,000 to the shareholders. In addition they agreed to settle 1.000 8% Debentures of Rs. 100 each in Bee Ltd. at 20% Premium by issuing their own debentures of Rs. 100 **each at 96%. Ascertain** the Face value and actual issue value of debentures to be issued.

[Madras, B.Com ,Nov. 2009]

[Ans: Face Value : Rs. 1,25,000; Issue Value : Rs. 1,20,000]

10. Lal Ltd. agreed to absorb 0 ie Business of Mal. Ltd. The Purchase consideration was as under:

(A) For every 4, 10% Preference shares of Rs. 10 each in Mal Ltd. 7 Equity shares of Rs. 10 each in I al Ltd. is Rs. 8 paid up. There were 60,00 i 10% Preference shares in Mal Ltd.

(B) For every 3 Equity shares of Rs. 10 each in Mal Ltd. 8 Equity shares in Lal Ltd. as Rs. 10 paid up. There were 90,000 Equity shares in Mal Ltd. Find out purchase consideration.

[Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans : P.C. : Rs. 32,40,000; 1,05,000 shares Rs. 8 paid up and 2,40,000 shares Rs. 10 paid up]

11. S Ltd. was taken over by R Ltd. The following position was mutually agreed upon:

	S Ltd.	*R Ltd.*
No. of Shares	60,000	90,000
Face value of share	100	10
Net assets	3,60,00,000	72,00,000

Ascertain Intrinsic values of the shares. ratio of exchange of shares and No. of shares to be issued.

[Madras, B.Com (ICE) (PBC) Nov. 2009]

[Ans : Intrinsic Value,: S Ltd. Rs. 600; R Ltd. : Rs. 80;Ratio of exchange : 1 : 7.5 No. of shares to be issued : 4,50,000]

12. Spring Field Ltd. is absorbed by Sports Field Ltd.. the consideration being:

(1) The taking over of the trade liabilities of Rs. 40,000;

(2) The payment of cost of absorption of Rs. 15,000;

(3) The repayment of ¯B¯ debentures of Spring Field Ltd. of Rs. 2,00,000 at par;

(4) The discharge of 'A' debentures of Rs. 3,00.000 in the Vendor Co. at a premium of 10% by the issue of 8% debentures in Sports Field Ltd. at par;

(5) A payment of Rs; 20 per share in cash and the exchange of 4 fully paid Rs. 10 shares in Sports Field Ltd. at a market price of Rs. 15 per share for every Rs. 50 share in Spring Field Ltd. which were 40,000 in number. You are required to find out the purchase consideration.

[Madras, B.Com (AF) (AF6C) Nov. 2009]

[Ans: Total purchase price — Rs. 32,00,000; Cash — Rs. 8,00,000 Shares — Rs. 24,00,000]

Hint : As per As-14 (Accounting Standard 14) for Amalgamations, Purchase consideration should constitute Cash and Securities given for shareholders.

13. Ram Ltd., and Shyam Ltd., have agreed to amalgamate. A new company Rajesh Ltd., has been formed to take over the combined concern as on 31st December 1998. After negotiations. the assets of the two companies have been agreed upon as shown below:

Balance Sheet as on 31-12-98

Liabilities	**Ram Ltd. Rs.**	**Shyam Ltd. Rs.**	**Assets**	**Ram Ltd. Rs.**	**Shyam Ltd. Rs.**
Share Capital :			Land& Buildings	5,00,000	3,00,000
Shares of			Plant & Machinery	2,00,000	2,50,000
Rs. 10 each	10,00,000	5,00,000	Goodwill	–	50,000
Reserve Fund	–	50,000	Furniture	1,10,000	–
P&L A/c	50,000	50,000	Stock	1,50,000	20,000
Creditors	80,000	50,000	Debtors	1,20,000	20,000
			Bank	50,000	10,000
	11,30,000	6,50,000		11,30,000	6,50,000

Prepare the balance sheet of Rajesh Ltd., assuming

(a) The entire purchase price is paid off in the form of equity shares of Rs. 100 each in Rajesh Ltd.

(b) The amalgamation is in the nature of Merger.

[Madras, B.Com., B.Com.(CS) April 2006; BCS (NYD) Nov. 2005; B.Com., March 1995; March 1991; Sept. 1990 Modified]

[Ans : Purchase price : Ram Ltd., Rs. 10,50,000 Shyam Ltd., Rs. 6,00,000. Excess of purchase price of Rs. 1,50,000 adjusted against reserves, B/S total : Rs. 17,80,000]

14. Abdul Ltd. having a capital of Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each (Rs. 75 paid up) and a reserve fund of Rs. 2,50,000 was absorbed by National Timber Ltd. having a capital of Rs. 40,00,000 divided into 40,000 shares of Rs. 100 each (Rs. 60 paid up) and a reserve fund of Rs. 16,00,000 on the terms that for every four shares in Abdul Ltd.; National Timber Ltd. was to give five shares partly paid as its original ones.Prepare ledger accounts to close the books of Abdul Ltd.

[Madras, B.Com, 2007 [M.ComAp. 2005 (Modified); B.Com.]

[Ans : Purchase price — Rs. 7,50,000; Loss on reaslisation — Rs. 2,50,000; Payment to shareholders — Shares worth — Rs. 7,50,000]

15. The following is the balance sheet of XYZ Ltd. on 31 st Dec 1976

Liabilities	**Rs.**	**Assets**	**Rs.**
20,000 shares of Rs. 10 each	2,00,000	Land & Buildings	1,00,000
Debentures	1,00,000	Plant & Machinery	1,50,000
Sundry creditors	30,000	Work-in-progress	30,000
Reserve fund	25,000	Stock	60,000
Dividend equalization fund	20,000	Furniture and fittings	2,500
Profit & Loss appropriation Aic	5,100	Sundry debtors	25,000
		Cash at Bank	12,500
		Cash in hand	100
	3,80,100		3,80,100

The company is absorbed by ABC company Ltd; on the above date. The consideration for the absorption is the discharge of debentures at a premium of 5%, taking over the liability in respect of the sundry creditors and payment of Rs. 7 in cash and one share of Rs. 5 in ABC Co. Ltd. at the market value of Rs. 8 per share in exchange for one share in XYZ Co. Ltd. The cost o liquidation of Rs. 5,000 is to be met by the purchasing company. Pass journal entries in the books of both the companies. Show how the purchase price is arrived at.

[Madras, B.Com(CS) Ap. 2009; B.Com(AF) Nov. 2008]

[Ans: Purchase price, — Rs. 3,00,000;Profit on realization — Rs. 49,900; Payment to shareholders — Rs. 3,00,00 — Cash Rs. 1,40,000 and shares Rs. 1,60,000; Total Goodwill in ABC Co. — Rs. 59,900]

Hint : (1) Payment to Debentures should be *shown* in the books of Purchasing Co.

(2) Expenses are to be treated like reimbursement.

16. "X' Co. Ltd. agreed to acquire the assets excluding cash as on 31st Dec. 1981 of Y Co. Ltd. The Balance sheet of Y Co. Ltd. as on that date was:

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity capital:		Goodwill	60,000
(shares of Rs. 10 each)	3,00,000	Land &Buildings	1,20,000
General reserve	80,000	Plant & Machinery	2,00,000
Debentures	50,000	Stock	80,000
Creditors	10,000	Debtors	30,000
P& L A/c	60,000	Cash	10,000
	5,00,000		5,00,000

The consideration was as follows:

(a) A cash payment of Rs. 4 for every share of Y Ltd.

(b) The issue of one share of Rs. 10 each at market value of Rs. 12.50 in the X.Co. Ltd. for every share in Y Ltd.

(c) The issue of 1.100 debentures of Rs. 50 each in X Co. 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. 4,000 was to be met by themselves. Give the journal entries in the books of both the companies.

[Madras, B.Com., B.Com (CS) Nov. 2007; B.Com (ICE) Ap 2007; B.Com. (PZ4A) Nov. 2006; Nov. 2005 (10 Tunes); BCS Apri12005; Oa 2002]

[Ans : Purchase price Rs. 4,95,000. Profit on realization Rs. 51,000; Payment to Shareholders — Cash Rs. 1,16,000; Shares 3,75,000; Goodwill in X Co. Rs. 1,20,000]

Hint : Cash in hand which is not taken over is assumed to be used to pay creditors.

17. The company went into voluntary liquidation and assets were sold to y Co. Ltd. for Rs. 1.50,000 payable as to Rs. 60,000 in cash (which sufficed to discharge creditors and bank overdraft and to pay off the winding up expenses of Rs. 2,000) and as to Rs. 90,000 by the allotment of 12.000 shares of Rs. 10 each of the Y Co. Ltd.. Rs. 7.50 per share paid up.Draw up the important ledger accounts to close the books of 'X' Co., Ltd. and the journal entries for recording these transactions in the books of "Y', Co. Ltd..

[Periyar, B.Com., Ap 2006; Periyar, M.Com (CA) Ap 2006]

[Madras, 1st M.Com (ECA1A) Nov. 2008; B.Com., B.Com. (CS) Nov. 2006;]
B.Com. (PZ4A), Nov. 2005; BCS (SY4B) April 2005; B.Com. April 2004]

[Ans : Loss on realisation — Rs. 29,000; Purchase price : Rs. 90,000; Payment to shareholders — Rs. 90,000 in shares]

Hint : Expenses can be treated like reimbursement. Creditors and Bank O.U. can be shown as taken over and then paid off by purchasing company.

18. The E Co. Ltd. sells its business to Metha Products Ltd. as on Dec. 31.198 on which date its Balance Sheet was as under.

Liabilities	Rs.	Assets	Rs.
Paid up capital:		Goodwill	50,000
2,000 shares of Rs. 100 each	2,00,000	Property	1,50,000
Debentures	1,00,000	Tools	83,000
Creditors	30,000	Stock	35,000
Reserve fund	50,000	Bills receivable	4,500
Profit & Loss A/c	20,000	Sundry debtors	27,500
		Cash at bank	50,000
	4,00,000		4,00,000

[Madras, 1st M.Com.(CA1A) Nov. 2006]

[Ans : Purchase price — Rs. 2,45,000; Realisation loss — Rs. 8,000; Shareho1ders get cash — Rs. 97,000; Shares — Rs. 1,65,000 Goodwill in Metha Products — Rs. 75,000]

Hint: Cash at Bank which is not taken over is to be used to to settle creditors and cost of Liquidation. Balance of Cash goes to shareholders.

19. The position of two companies. A and B is as follows:

Liabilities .	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Nominal capital: Shares of Rs. 10 each	5,00,000	10,00,000	Fixed assets	3,00,000	5,00,000
			Debtors & Stock	3,50,000	1,00,000
Issued and paid up			Cash at bank	—	1,00,000
capital: Shares of Rs.10			Goodwill	1,00,000	3,50,000
each fully called and paid	5,00,000	7,00,000	P & L A/c	1,50,000	
5% Debentures	1,00,000				
Creditors	3,00,000	2,00,000			
P & L A/c	—	1,50,000			
	9,00,000	10.50,000		9,00,000	10,50,000

B Ltd. agreed to absorb A Ltd. upon the following terms:

(a) The shares in A Ltd. are to be considered as worth Rs. 6 each. The shareholders of A Ltd. are to be paid one quarter in cash and the balance in shares of B Ltd. at Rs. 12.50 each.

(b) The debentureholders in A Ltd. agreed to take Rs. 95 of 7% debentures in B Ltd. for every Rs. 100 of 5% debentures held in A Ltd.

(c) 'A' Ltd. is to be wound up.

Show the journal entries to record the above in both companies and draw the balance sheet showing the position of B Ltd. after the absorption.

[Madras, B.Com., Oct 2001]

[Ans: Purchase price — Rs. 3,00,000; Realisation loss — Rs. 50,000; Goodwill on purchase in B Ltd. 45,000; Total goodwill in Balance Sheet 3,95,000; Balance Sheet total — Rs. 16,70,000]

20. The summarised balance sheet of Grey Ltd. and Remy Ltd. as on March 31 were as follows:

Liabilities	**Grey Ltd. Rs.**	**Remy Ltd. Rs.**	**Assets**	**Grey Ltd. Rs.**	**Remy Ltd. Rs.**
Issued share capital :			Goodwill	–	60,000
Shares of Rs. 10 each	4,00,000	3,00,000	Fixed assets	3,00,000	1,20,000
Creditors	40,000	1,20,000	Current assets	2,10,000	1,40,000
Profit & Loss A/c	70,000	–	P & L A/c	–	1,00,000
	5,10,000	4.20,000		5,10,000	4,20,000

Grey Ltd. resolved to take over the business of Remy Ltd. with effect from April 1. The shareholders of Remy Ltd. agreed to accept shares in Grey Ltd. on the basis that the shares of Grey Ltd. were worth Rs. 12 each and the shares of Remy Ltd. were worth Rs. 5 each. The purchasing company took over the fixed assets of Remy Ltd. together with the current assets and were not required to pay the liabilities. Make journal entries in the books of Grey Ltd. and draw up it's balance sheet immediately after absorption

[Madras, B.Com., April,2007]

[Ans: Purchase price Rs. 1,50,000; Goodwill on acquisition — Rs. 10,000; Total of balance sheet — Rs. 7,80,000]

21. While computing the consideration, the directors of A Ltd. valued Land & Buildings at Rs. 12,00,000, the stock at Rs. 1,42,000 and the debtors at their face value subject to an allowance of 5% to cover doubtful debts. The cost of liquidation of B Ltd. came to Rs. 5,000 which is to be paid by A Ltd. close the books of B Ltd. and give journal entries in the books of A Ltd.

[Madras, B.Com., ,B. Com.* (CS) *April 2006; 2nd M.Com.(ICE) (PTI) Oct. 2005; B.Com. Nov. 2004]

[Ans: Purchase price 15,00,000; Profit on realisation — Rs. 6,20,000; Payment to shareholders — Rs. 1,50,000 in cash and Rs. 13,50,000 in shares; Goodwill in A company — Rs. 2,12,800]

22. The creditors and shareholders having agreed upon a scheme of reconstruction, A Ltd. went into voluntary liquidation. The balance sheet as at the date of reconstruction stood as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Building	95,000
25,000 equity shares of Rs. 10 each	2,50,000	Machinery	1,05,000
5% debentures	1,00,000	Stock	50,000
Trade creditors	40,000	Debtors	60,000
		Cash at bank	2,000
		Profit & Loss Aic	78,000
	3,90,000		3,90,000

The scheme of reconstruction provided as under:

(a) A new company called A (new) Ltd. to be formed with a share capital of Rs. 5,00,000 in 50,000 shares of Rs. 10 each to take over from the above company, stock and debtors at 20% less than the book value and building and machinery at Rs. 77,000 and Rs. 1,00,000 respectively.

(b) The shareholders agreed to receive 25,000 equity shares of Rs. 10 each, credited with Rs. 5 per share paid up, with a call of Rs. 2.50 per share to be made forthwith.

(c) The debenture holders were to be satisfied by the issue of 6% mortgage debentures of Rs. 1,50,000 in the new company in exchange for old debentures.

(d) The trade creditors agreed to receive Rs. 35,000 from the new company in full settlement of their claims.

The bank balance was utilised in payment of reconstruction expenses. Give the journal entries in the books of A Ltd. and A (new) Ltd.

[Periyar, B.Com,2011]

[Ans: Purchase consideration — Rs. 1,25,000; Loss on realisation — Rs. 47,000; Goodwill in A(new) Ltd. — Rs. 45,000]

Hint : New Co., takes over Debentures and Creditors and then settles them.

23. Lala Co. Ltd. decided to reconstruct and went into liquidation with the following assets and liabilities.

Liabilities	**Rs.**	**Assets**	**Rs.**
Pref. share capital of Rs. 10 each	2,00,000	Fixed assets	4,99,200
Equity share capital Rs. 10 each	8,00,000	Stock	73,500
General reserve	12,100	Debtors	1,31,000
Bank loan	18,600	Cash	400

Creditors	86,100	Profit & Loss A/c	4,12,700
	11,16,800		11,16,800

A new company called Bala Co. Ltd. was formed to acquire the fixed assets and stock of Lala Co. Ltd. at Rs. 3,40,000 and Rs. 60,000 respectively. The purchase price is to be paid by issue of 10% preference shares and equity shares of Rs. 10 each for equal amounts. Debtors realized Rs. 1,22,750 and the creditors were paid Rs. 81,340 in full satisfaction. Bank loan was paid in full. The expenses of liquidation came to Rs. 10,710. Close the books of Lala Co. Ltd. and give the balance sheet of Bala Co. Ltd.

[Madras, B.Com.(CS) (PYD) Nov. 2004]

[Ans : Purchase price — Rs. 4,00,000; Loss on realisation — Rs. 1,86,900; Payment to equity shareholders; Cash — Rs. 12,500 and equity shares in Bala Ltd. — Rs. 2,00,000; Balance Sheet total of Bala Ltd. Rs. 4,00,000]

24. The Balance Sheets of Z Ltd. and A Ltd. as at 31st March 2000 are given below :

Liabilities	**Z Ltd. Rs.**	**A Ltd. Rs.**	**Assets**	**Z Ltd. Rs.**	**A Ltd. Rs.**
Share Capital of			Sundry Assets	3,10,000	6,00,000
Rs. 10 each	2,00,000	4,00,000	Loan to 'A' Ltd.	30,000	–
Reserves	40,000	1,00,000	Investments		
9% Debentures			5,000 shares		
of Rs. 100 each	1,00,000	–	in Q Ltd.	50,000	–
Loan from Z Ltd.	–	30,000			
Creditors	50,000	70,000			
	3,90,000	6,00,000		3,90,000	6,00,000

'A' Ltd. Proposes to takeover Z Ltd. on the following terms :

(a) A Ltd. will issue sufficient number of its shares at Rs. 11 each and Pay Re. 0.50' each per share held by members of Z Ltd.

(b) 9% Debentures of Z Ltd. are to be paid °at 8% premium by issue of sufficient number of Rs. 100 10% Debentures of A Ltd. at Rs. 90 each.

Show Journal entries and Ledger Accounts in the books of the companies and draft the Balance sheet in the books of A Ltd.

[Madras, II M.Com., Oct. 2002]

lAns : Purchase consideration : Rs. 2,30,000; Realisation Loss : Rs. 10,000; Capital Reserve in the books of 'A' Ltd. : Rs. 2,000; Balance sheet total : Rs. 9,62,000; Face value of debentures issued by A Ltd. : Rs. 1,20,000]

UNIT – 10

LIQUIDATORS FINAL STATEMENT OF ACCOUNTS

Meaning - Modes of Winding Up- Contributory- Order of Payment- Preferential Creditors- Statement of Affairs- Liquidators Final Statement of Accounts

After completing all legal formalities to close the affairs of the company, a liquidator is appointed. He prepares a statement of affairs which clearly explains the cash available in company and how it should be distributed to all the parties. The available amount should be distributed in a specific order given in the Act.

The liquidator is entitled to receive remuneration for the above work after executing it. The remuneration may be fixed or calculated as a percentage on amount realized on assets and any amount distributed to unsecured creditors.

If the shares are partly paid up, then the balance amount should be received from the shareholders before settling the amount due to them. The surplus amount should be paid first to the equity shares holders to whom the paid up share capital value is more.

10.1 MODES OF WINDING UP

A company may be wound up in any of the following ways:

1. Compulsory winding up by the court.
2. Voluntary winding up without the intervention of the court.
3. Voluntary winding up under the supervision of the court.

1. Compulsory winding up the court

Winding up of a company by an order of the court is called the compulsory winding up. A company may wound up in the following cases:

a) If the company has passed a special resolution to that effect the company is wound up by the court.

b) If default is made in filing statutory reports or in holding statutory meetings.

c) If the company does not commence business within the year from its incorporation or suspends it for a whole year.

d) If the number of members is reduced to below two in the case of private company and below seven in case of public company.

e) If the company is unable to pay its debts.

f) If the court is of the opinion that it is just and equitable that the company be wound up.

2. Voluntary winding up

Voluntary winding up occurs without intervention of the court. Here the company and its creditors mutually settle their affairs without going to the court. Voluntary winding up may be either Members' voluntary winding up or Creditors' voluntary winding up.

a) Members Voluntary winding up

When a company's solvency is declared by the directors in voluntary winding up it is called Members Voluntary winding up. The declaration must specify the directors opinion that the company has no debt or it will be able to its debts in full within three years of the commencement of the winding up.

b) Creditors Voluntary winding up

When a company's solvency is not declared by the directors in voluntary winding up, it is called Creditors voluntary winding up. Hence, the act empowers the creditors dominate over the members in this mode of winding up so as to effectively protect their interest.

3. Winding up subject to supervision of the court

This is voluntary winding up with the supervision of the court. The object of a supervision order is to ensure the protection of interests of all persons concerned i.e., the company, the contributories and the creditors. The court may issue such an order only under the following circumstances:

a. If the resolution for winding up was obtained by fraud by the company;

b. If the rules pertaining to winding up are not being properly adhered to ;

c. If the liquidator is found to be prejudicial or is negligent in releasing the assets of the company.

10.2 CONTRIBUTORY

Contributory is defined as "every person liable to contribute to the assets of a company in the event of its being wound up and includes any holder of shares which are fully paid up".

The term contributory also includes the holder of fully paid shares. A fully paid shares holder is a contributory for some purpose, e.g., where a distribution is to be made to the shareholders.

In the event of a company being winding up, every past and present member shall be liable to contribute to the assets of the company. This contribution is for an amount sufficient for payment of the company's debts and liabilities and the cost and expenses of winding up.

The liability of the contributory is subject to the following limitations:

1. A contributory cannot be asked to pay more than the unpaid value of shares held by him.
2. A past member is not liable to contribute unless the present members have been called upon to contribute to the fullest extent to which they can be so asked.
3. A past member, who has ceased to be member for at least one year before the commencement of the winding up, is not liable to contribute.
4. A past member is not liable in respect of any liability or debt of the company incurred after he ceased to be a member.

10.3 ORDER OF PAYMENT

Payments are made by liquidator in the following order:

1. Secured Creditors

A secured creditor is one who holds some security for a debt due to him from the company, such as pledge, mortgage, charge or lien. Secured creditors may be fully secured or partly secured. If they are fully secured the value of security offered to them would be more than the amount due. But in case of partly secured creditors, the value of security would be less than the amount due to them. In such case, the partly secured creditors are secured to the extent the value of security offered to them. For the remaining balance due to them, they will be treated as unsecured creditors.

2. Legal expenses

All legal expenses are met out of the cash realized.

3. Remuneration of the liquidator

The liquidator gets his remuneration in the form of commission. This is based on the assets realized. Surplus of secured creditors is mostly included in the amount of assets realized for calculation of commission.

1. Expenses and cost of winding up
2. Payment to preferential creditors
3. Payment to debenture holders or other creditors secured by floating charges
4. Payment to unsecured creditors
5. Preference share holders
6. Equity share holders

10.4 PREFERENTIAL CREDITORS

Preferential creditors or payment are those creditors or met before any payment is made to any creditors except the cost of liquidation and the remuneration payable to liquidator. Such preferential creditors or payment are:

1. All revenue, taxes and rates due from the company to the Central or State Government or to a local authority – within 12 months next before the commencement of winding up.
2. All wages, salaries whether payable for part or full time work – within 12 months next before the commencement of winding up.
3. All accrued holiday remuneration payable to any employee
4. All sums due as compensation under the Workmen's Compensation Act, 1923 in respect of death or disablement of any employee of the company.
5. All sums due to an employee, from a Provident Fund, pension Fund or any other fund for the welfare of the employee of the company.

10.5 STATEMENT OF AFFAIRS

When a company is wound up under the order of the court or when the official liquidator has been appointed by the court as provisional liquidator, the officer and directors of the company must submit within 21 days of the court's order a statement called statement of affairs. It is showing the following:

1. The assets of the company, stating separately the cash in hand and cash at bank and negotiable securities.
2. The debts and liabilities of the company.
3. The names and addresses of its creditors, stating separately the amount of secured and unsecured debts.
4. In the case of secured debts particularly of the securities held by the creditors, their value and dates on which they were given.
5. The debts due to the company and names and addresses of the persons from whom they are due and the amount likely to be realized.
6. Further information as may be required by the official liquidator.

Statement of affairs and lists to be annexed

Statementas to the affairs of ……. Ltd., on the …….. day of ……. 19, being the date of the winding up order (or order appointing provisional liquidator or the date directed by the official liquidators, as the case may be) showing assets at estimated realizable values and liabilities expected to rank:

Assets not specifically pledged (as per list A)

	Estimated realizable value	
Balance at bank	–	–
Cash in hand	–	–
Marketable securities	–	–
Bills receivable	–	–

Trade debtors	–	–
Loans and advances	–	–
Unpaid calls	–	–
Stock in trade	–	–
Work in progress	–	–
Freehold property, land & building	–	–
Leasehold property	–	–
Plant & machinery	–	–
Furniture, fittings, utensils etc.	–	–
Investment other than marketable securities	–	–
Livestock	–	–
Other property etc.	–	–

Assets Specifically pleged (As per List B)	(a) Estimated realizable value (Rs)	(b) Due to secured creditor (Rs)	(c) Defeciency ranking as unsecured (Rs)	(d) Surplus Carried to last column (Rs)
Freehold property: …………….. ……………...				
Estimated surplus from assets specifically pledged			…………….	
Estimated total assets available for preferential creditors, debenture holders secured by a floating charge and unsecured creditors (Carried forward)			……………..	
Unsecured creditors (Carried forward)			…………….	
Summary of Gross Assets:				
Gross realizable value of assets specifically pledged			……………...	
Other assets			……………..	

Gross assets			……………..	
		Liabilities		
Gross (to be deducted from surplus liabilities or added to deficiency as the case may be)				
Rs.				
Secured creditors as (as per list B) to the extent to which claims are estimated to be covered by assets specifically pledged (item (a) or (b) as above whichever is less) (Insert in gross liability column only)				
Preferential creditors (as oer list c)				……………
Estimated balance sheet available for debenture holders secured by a floating charges and secured creditors				
Debenture holders secured by floating charges and unsecured creditors				……………
Estimated surplus or deficiency as regards debenture holders unsecured creditors (as per List E)				……………
Estimated unsecured balance of claims of creditors partly secured				…………… ……………

on specific asstes brought from preceding page (C)				……………
Trade creditors Bills payable outstanding expenses				
Contingent liabilities (State nature)				
(Rs) Estimated surplus or deficiency as regards creditors (being difference between gross assets brought from preceeding page (d) and gross liabilities as per column (C))				
Issued and called up capital: …… preference shares of …… each Rs. …… called up (as per List F) ……Equity shares of ……. Each Rs………called up (as per list G)				
Estimated surplus/deficiency as regards members (as per list H)				…………… ……………

Prescribed form of deficiency or surplus account

List H – deficiency or surplus account

Item contribution to deficiency (or reducing surplus)	₹
1. Excess (if any) of capital and liabilities over assets on the ….. ….. as shown by balance sheet (copy annexed)	–
2. Net dividends and bonuses declared during the period from …… …… to the date of the statement	–

3. Net trading losses (after charging items shown in note to follow) for the same period	–
4. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars of annex schedule)	–
5. Estimated losses now written off or for which provision has been made for the purpose of preparing the statement (give particulars of annex schedule)	–
6. Other items contribution to deficiency or reducing surplus………..	–
Items reducing deficiency (or contributing to surplus)	
7. Excess (if any) of assets over capital and liabilities on the ….. ….. to the date of statement	–
8. Net trading profit (after charging items shown in note below) for the period from ….. ….. to the date of statement.	–
9. Profits and income other than trading profits during the same period (give particulars or annex schedule)	–
10.Other items reducing deficiency or contributing to surplus	–
Deficiency / surplus (as shown by the statement of affairs)	
Note as to net trading profit and losses:	
Particulars are to be inserted here (so far as applicable) of the items mentioned below, which are to be taken into account in arriving at the amount of net trading profits or losses shown in this account:	
Provision for depreciation, renewals or diminution in value of fixed assets. Charges for indian income tax and other Indian taxation on profits. Interest on debentures and other fixed loans, payment to directors made by the company and required by law to be disclosed in the accounts	
Exceptional or non-requiring receipts:…………	
Signature: ____________________ Dated _______________	

10.6 PROCEDURE FOR PREPARING STATEMENT OF AFFAIRS

1. Put down the free assets at their realizable values.
2. Add any surplus expected from securities in the hands of the creditors.
3. Deduct preferential creditors.

4. Deduct debentures having a floating charges or similar other creditors.
5. Deduct unsecured creditors together with unsatisfied balance of partly secured creditors.
6. Deduct share capital.

If at any stage the deduction to be made is more than the amount available, deficiency appears, otherwise there is a surplus.

List A:

It covers all assets which are not specifically pledged and only the values realizable are taken into account. This list includes calls in arrears but does not include calls that have not been made.

List B:

This list deals with assets specifically pledged with creditors both fully secured and partly secured. A comparison of the estimated realizable values of such assets and the amount due to creditors having a charge on such assets will enable to ascertain the surplus from such assets.

List C:

This gives the sum of amount due to preferential creditors.

List D:

This gives the amount due to debenture holders having a floating charge on the assets of the company.

List E:

This list includes unsecured creditors such as trade creditors, bills payable, outstanding expenses, etc. this list also includes preferential debts exceeding the limits specified in the act.

List F:

This list gives the amount due to preference shareholders being the called up capital.

List G:

This list includes called up equity capital.

List H:

This list explains the reasons for the surplus or the deficiency as shown by the statement of affairs. According to the law, the period covered by the Deficiency or Surplus must commence on a date not less than three years before the winding up order, or if the company has not been

incorporated for the whole of that period, the date of incorporation of the company, unless the official Liquidator otherwise agrees.

Specimen Format of Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash in hand	xxx	By Secured creditors	xxx
" Cash at bank	xxx	" Legal /Liquidation exp.	xxx
" Assets realized	xxx	" Liquidator's commission	xxx
Land xxx	xxx	% on assets realized	xxx
Building xxx	xxx	% on preferential creditors	xxx
Other assets <u>xxx</u>	xxx	% on Unsecured creditors	xxx
" Cash from partly paid up shares	xxx	" Debenture holders (including interest O/S)	xxx
		" Preferential creditors	xxx
		" Unsecured creditors	xxx
		" Preference share holders (including dividend O/S)	xxx
		" Equity shareholders(b/f)	xxx
	xxx		xxx

Note:

1. % of commission on unsecured creditors includes commission on preferential creditors also
2. Unsecured creditors except preferential creditors means commission is calculated on unsecured creditors only.
3. Assets realized normally will not include cash in hand or at bank.
4. If there are two types of equity shareholders having different paid up value, the excess amount should be paid first.
5. Amount should be received from share holders, if the shares are partly paid up.
6. Amount payable to unsecured creditors are sufficient, the commission will be

$$\text{Unsecured Creditors} \times \frac{\%}{100}$$

7. Amount payable to unsecured creditors are insufficient, the commission will be

$$\text{Unsecured Creditors} \times \frac{\%}{100 + \%}$$

Illustration -1 The following balances were extracted from the books of sudden Death Ltd on which date a winding up order was made:

Share capital:	₹
Equity shares – 20,000 shares of ₹10 each, ₹8 per Share called up	1,60,000
Preference shares – 2,000 shares of ₹ 100 each fully paid	2,00,000
Calls-in-arrears on equity shares-estimated to realize ₹600	1,000
15% debentures secured by first floating charge on the assets	2,00,000
Bank overdraft secured by second floating charge on the assets	1,00,000
Fully secured creditors (secured against plant & machinery)	60,000
Investment (estimated to realize ₹60,000)	80,000
Plant & machinery – secured to creditors	
Estimated to realize ₹80,000	1,20,000
Land & building – estimated to realize ₹ 80,000	40,000
Rent & taxes	4,000
Wages & salaries	3,000
Bills payable	24,000
Sundry creditors	60,000
Bills receivable – estimated estimated to realize ₹2000	6,000
Debtors – estimated to realize 60%	1,40,000
Bills discounted – ₹30,000 likely to rank	8,000
Contingent liability likely to materialize	6,000
Stock in trade – estimated to produce ₹ 38,000	60,000
Cash in hand and at bank	3,200

Entry for accrued salary of ₹ 4,000 and rent of ₹ 2,000 has still to be made in the books. Prepare a statement of affairs and a deficiency A/c

Solution

Statement of affairs of sudden Death Ltd

Assets	**Estimated realizable value**
Assets not specifically pledged as per list 'A'	₹
Cash in hand and at bank	3,200
Bills receivable	2,000
Sundry debtors (1,40,000 x 60%)	84,000
Calls in arrears	600
Stock in trade	38,000
Land & building	80,000
Investments	60,000
	2,67,800

Assets specifically pledged as per list B:					
	Estimated Realizable Value	Due to secured creditors	deficiency	surplus	
	Rs.	Rs.	Rs.	Rs.	
Plant & Machinery	80,000	60,000	–	20,000	20,000
Estimated total assets available for preferential creditors, Debenture holders secured by a floating charge and unsecured creditors.					2,87,800
Summary of gross assets:					
Gross realizable value of assets specifically pledged				80,000	
Other assets				2,67,800	
				3,47,800	
Liabilities					
Gross	(To be deducted from surplus or added to be Deficiency as the case may be) secured creditors as per list B to the extent to which claims are estimated to be				
60,000	covered by assets specifically pledged				–
13,000	preferential creditors as per List 'C'				13,000
	estimated balance of assets available for debenture holders and bank overdraft secured by a floating charges and for unsecured creditors (3,47,800 – 73,000)				2,74,800
2,00,000	debenture holders secured by first floating charge as per list D				2,00,000
					74,800
1,00,000	bank overdraft secured by second floating Charges as per list D				1,00,000
	Deficiency as regards creditors secured by floating Charges				–25,200
	Unsecured creditors as per list E:				
24,000	bills payable	24,000			
60,000	trade creditors	60,000			
8,000	bills discounted likely to be Dishonored	8,000			
6,000	contingent liability	6,000			–98,000
4,71,000	estimated deficiency as regards				–1,23,200

Creditors:		
2,000 preference shares of ₹ 100		
Each fully called and paid as per		
List F	2,00,000	
20,000 equity shares of ₹ 10		
Each ₹ 8 per share called up		
Less arrears irrecoverable as per		
List G.	1,59,600	–3,59,600
		4,82,800
Estimated deficiency as regards contributories		

List H deficiency account

Items contribution to deficiency		₹
Excess of liabilities over assets (see working note)		3,60,800
Estimated losses now written off for which provision Has been made for the purpose of preparing the statement:		
Investment	20,000	
Plant & machinery	40,000	
Bills receivable	4,000	
Sundry debtors	56,000	
Bills discounted	8,000	
Contingent liability	6,000	
Stock in trade	22,000	
Rent & salary outstanding	6,000	1,62,000
		5,22,800
Items reducing deficiency		
Land & building (surplus on revaluation)		40,000
Deficiency as shown by statement of affiars		4,82,800

Working note:

Excess of capital and liabilities over assets ₹ 3,60,800 has been ascertained by preparing balance sheet of sudden Death Ltd.

Balance sheet of sudden Death Ltd

liabilities	₹	Assets	₹
Equity share capital	1,60,000	Calls in arrear	1,000
Preference share capital	2,00,000	Investment	80,000

15% debentures	2,00,000	Plant & machinery	1,20,000
Bank overdraft	1,00,000	Land & building	40,000
Rent & taxes	4,000	Bills receivable	6,000
Salary & wages	3,000	Sundry debtors	1,40,000
Bills payable	24,000	Stock in trade	60,000
Sundry creditors(secured)	60,000	Cash in hand & bank	3,200
Sundry creditors	60,000	P & l A/c (bal.fig)	3,60,800
	8,11,000		8,11,000

10.7 CALCULATION OF LIQUIDATOR'S REMUNERATION

Illustration -1 From the following particulars, calculate liquidator's remuneration:

Assets realized – ₹80,000; Remuneration on assets realized – 4%; Liabilities amount to be paid – ₹50,000; Remuneration on the amount of liabilities paid – 3%.

Solution

80,000 x 4/100	₹3,216
50,000 x 3/100	₹1,500
Total commission	₹4,716

10.8 PREPARATION OF LIQUIDATOR'S FINAL STATEMENT OF ACCOUNTS

Illustration -2 From the following information, prepare liquidator's final statement of account.

Cash at bank ₹1,00,000; Surplus from securities ₹10,10,000; Expenses of liquidation ₹30,000; Liquidator's remuneration ₹7,000; Preferential creditors ₹2,00,000; Unsecured creditors ₹7,00,000; Preference shareholders ₹1,00,000 and Equity shareholders ₹1,00,000.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	1,00,000	By Liquidation exp.	30,000
" Surplus	10,10,000	" Liquidator remuneration	7,000
		" Preferential creditors	2,00,000
		" Unsecured creditors	7,00,000
		" Preference share holders	1,00,000

		" Equity share holders (b/f)	73,000
	11,10,000		11,10,000

Illustration -3 The American Co. (involuntary liquidation) has paid off its creditors in full, and the liquidator is in a position to make a return to the shareholders. The position is as follows:

a) 100 preference shares of ₹10 each fully paid

b) 400 Equity shares of ₹10 each fully paid

c) 400 Equity shares of ₹10 each (₹8 paid)

The cost of liquidation is ₹140. Creditors ₹2,225, the assets realized ₹3,740. A call of ₹2 per share on the partly paid equity shares was duly paid except in case of one share holder owning 100 shares.

Prepare liquidator's final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	3,740	By Cost of liquidation	140
" Calls in arrears	600	" Creditors	2,225
(400 x 2 = 800 – 200)		" Preference shareholders	1,000
		" Equity share holders (b/f)	975
	4,340		4,340

Illustration -4 A company went into voluntary liquidation on 1-1-2016 on which date dividend on preference shares were in arrear for two years. The subscribed capital of the company is 40,000, 6% preference shares of ₹10 each fully paid up and 50,000 equity shares of ₹10 each, ₹6 paid up.

Assets realized ₹3,50,000; Expenses of liquidation came to ₹9,800; Liquidator's remuneration is ₹11,000 and a commission of 2.5% on the amount paid to preference shareholders as capital and dividend. Liabilities amounted to ₹20,000. There is a provision in the articles of association about the payment of arrears of dividend in priority to equity share capital.

Prepare liquidator's final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	3,50,000	By Liquidation exp.	9,800
" Call money from Equity SHS (b/f)	1,50,000	" Commission - Fixed	11,000
		Pref. shareholders (4,48,000 x 2.5%)	11,200

		" Unsecured creditors	20,000
		" Preference share holders (4,00,000 + 48,000)	4,48,000
	5,00,000		5,00,000

Illustration -5 Mr. X has been appointed as liquidator of A Co. Ltd. Following is the balance sheet as on 31-12-16.

Liabilities	Amount	Assets	Amount
Equity share capital	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	50,000
Loan	50,000	Debtors	1,25,000
Creditors	50,000	Cash	5,000
		P & L a/c	20,000
	4,00,000		4,00,000

Fixed assets were sold for ₹1,20,000 to a debenture holder holding ₹40,000 debentures and cash is received after set off. Cash realized from debtors ₹80,000 and liquidation expenses amounted to ₹1,000; Liquidator is paid ₹1,000 as fixed allowances and 2% commission on collection including cash in hand ₹5,000 as remuneration. Stock realized ₹10,000.

Prepare liquidator's final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	5,000	By Secured creditors (Debtors)	40,000
" Fixed assets	1,20,000	" Cost of liquidation	1,000
" Debtors	80,000	" Liquidator remuneration	1,000
" Stock	10,000	2% on 2,15,000	4,300
		" Debentures	60,000
		" Loan	50,000
		" Creditors	50,000
		" Equity share holders (b/f)	8,700
	2,15,000		2,15,000

10.9 INSUFFICIENT AMOUNT PAID TO UNSECURED CREDITORS

Illustration -6 The Over- Confident Ltd. went into liquidation with the following liabilities:

a) Secured creditors ₹20,000 (securities realized ₹25,000)

b) Preferential creditors ₹600

c) Unsecured creditors ₹30,500

d) Liquidators expenses in connection with liquidation amounted to ₹252.

The liquidator is entitled to remuneration of 3% on every amount realized and 1.5% on the amount distributed to unsecured creditors except preferential creditors. The various assets (excluding securities in the hands of fully secured creditors) realized ₹26,000.

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Securities realized	25,000	By Secured creditors	20,000
" Assets realized	26,000	" Liquidation exp.	252
		" Commission 51,000 x 3%	1,530
		" Unsecured Crs. 28,618 x 1.5/101.5	423
		" Preferential creditors	600
		" Unsecured creditors (b/f)	28,195
	51,000		51,000

Illustration -7 A liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amounts realized (excluding cash on hand) and at 2% on the amount distributed to the unsecured creditors. Unsecured creditors including preferential creditors of ₹5,000 amounted to ₹40,000. Debenture holders were paid ₹51,875 together with interest. Preferential creditors were paid in full, ₹519 were spent as costs of liquidation. Cash in hand ₹1,000 and assets realized ₹79,000.

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	1,000	By Costs of liquidation	519
" Assets realized	79,000	" Commission - Assets realized 79,000 x 3%	2,370
		Pref. creditors 5,000 x 2%	100

		Unsecured crs (20,136 x 2/102)	395
		“ Debentures	51,875
		“ Preferential creditors	5,000
		“ Unsecured creditors (b/f)	19,741
	80,000		80,000

Illustration -8 T.V Ltd. went into voluntary liquidation on 30th April 2016. The position on that date was as under:

Liabilities	**Amount**	**Assets**	**Amount**
5,000 shares of ₹100 each ₹80 paid up	4,00,000	Machinery	80,000
Loans (secured by mortgage of machinery)	1,00,000	Other fixed assets	2,60,000
Unsecured loans (including preferential dues ₹10,000)	2,00,000	Stock	1,05,000
		Debtors	1,00,000
		Loans	40,000
		Cash	5,000
		P & L a/c	1,10,000
	7,00,000		7,00,000

Machinery was realized by the secured creditors for ₹1,20,000. Other fixed assets fetched ₹40,000, debtors ₹20,000 and stock ₹10,000. Loans were wholly bad. The liquidator is entitled to a fixed remuneration of ₹1,000 plus 2% of the amount paid to unsecured creditors. The liquidator’s out of pocket expenses amounted to ₹1,000.

Show the liquidator’s final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	5,000	By Secured creditors	1,00,000
“ Machinery	1,20,000	“ Cost of liquidation	1,000
“ Other fixed assets	40,000	“ Liquidator remuneration	1,000
“ Stock	10,000	2% on 10,000	200
“ Debtors	20,000	2/102 on 82,800	1,624
		“ Preferential creditors	10,000
		“ Unsecured creditors (b/f)	81,176
	1,95,000		1,95,000

Illustration -9 The following particulars relating to a Ltd. Co. which has gone into voluntary liquidation. You are required to prepare liquidators final statement of accounts after allowing for his remuneration @ 3% on amount realized and 2.5 % on the amount paid to unsecured creditors except preferential creditors.

12,000 Equity shares of ₹10 each, ₹8 paid up

Assets realized ₹9,24,000 excluding amount realized by sale of securities held by secured creditors. Preferential creditors ₹24,000; Unsecured creditors ₹8,51,094; Secured creditors (Security realized ₹1,62,000) ₹1,38,000; Debentures holding a floating charge on all assets ₹3,00,000; Expenses of liquidation ₹9,000. A call of ₹2 per share on the partly paid equity shares was duly paid except in case of one share holder owning 1,200 shares.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	9,24,000	By Secured creditors	1,38,000
" Security realized	1,62,000	" Expenses of liquidation	9,000
" Call money (10,800 x 2)	21,600	" Liquidator remuneration	
		Assets realized 10,86,000 x 3%	32,580
		Unsecured (6,04,020 x 2.5/102.5)	14,732
		" Debentures	3,00,000
		" Preferential creditors	24,000
		" Unsecured creditors (b/f)	5,89,288
	11,07,600		11,07,600

Illustration -10 The balance sheet of a company for the year ending 31-3-2016 is given below:

Liabilities	**Amount**	**Assets**	**Amount**
6% Preference shares of ₹100 each	70,000	Land	1,25,000
Equity shares of ₹100 each, ₹75 paid	93,750	Machinery	3,12,500
Equity shares of ₹100 each, ₹60 paid	22,500	Debtors	1,37,500
15% Debentures	50,000	Cash	37,500
Interest O/S on debentures	7,500	P & L a/c	1,50,000
Creditors	6,37,500	Stock	1,18,750
	8,81,250		8,81,250

a) Liquidator's commission is at 3% on all assets realized except cash and 2% on amount paid to unsecured creditors

b) Creditors include ₹62,500 secured by land and preferential creditors ₹7,500

c) Assets realized Land ₹1,50,000; Machinery ₹2,50,000; Stock ₹1,12,500; Debtors ₹1,00,000

d) Liquidation expenses amounted to ₹15,000

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	37,500	By Secured creditors	62,500
" Land	1,50,000	" Cost of liquidation	15,000
" Machinery	2,50,000	" Liquidator remuneration	
" Debtors	1,00,000	Assets realized 3% on 6,12,500	18,375
" Stock	1,12,500	Preferential Crs. 2% x 7,500	150
		Unsecured crs. 2/102 x 4,90,475	9,588
		" Debentures	57,500
		" Preferential creditors	7,500
		" Unsecured creditors (b/f)	4,79,387
	6,50,000		6,50,000

10.10 EQUITY SHAREHOLDERS WITH TWO TYPES OF PAID UP SHARE VALUES

Illustration -11 P Ltd. went into voluntary liquidation on 31st Dec.2016 when their balance sheet read as follows:

Liabilities	Amount	Assets	Amount
10% Cumulative preference shares of ₹100 each	10,00,000	Land	5,00,000
Equity shares of ₹100 each, ₹75 paid	3,75,000	Machinery	12,50,000
Equity shares of ₹100 each, ₹60 paid	9,00,000	Debtors	5,50,000
15% Debentures	5,00,000	Cash	1,50,000
Interest O/S on debentures	75,000	P & L a/c	5,62,000
Creditors	6,37,500	Patent	2,00,000
		Stock	2,75,500
	34,87,500		34,87,500

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of ₹76,000. The assets realized as follows: Land ₹6,00,000; Machinery ₹10,00,000;

Patent ₹1,50,000; Stock ₹3,00,000; Debtors ₹4,00,000. The expenses of liquidation amounted to ₹54,500. The liquidator is entitled to a commission of 3% on assets realized except cash.

Assuming the final payment including those on debentures is made on 30th June 2017; show the liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	1,50,000	By Cost of liquidation	54,500
" Land	6,00,000	" Liquidator remuneration (3% on 24,50,000)	73,500
" Machinery	10,00,000	" Debentures (5,75,000 + 37,500)	6,12,500
" Debtors	4,00,000	" Creditors	6,37,500
" Stock	3,00,000	" Preference share holders	12,00,000
" Patent	1,50,000	" Equity share holders (b/f)	22,000
	26,00,000		26,00,000

Amount available = 22,000/ 5,000 shares =Rs. ₹4.40

Illustration -12 The following is the balance sheet of A Ltd on 31-3-2016.

Liabilities	**Amount**	**Assets**	**Amount**
14% Preference shares of ₹100 each	2,00,000	Land	1,00,000
Equity shares of ₹100 each, ₹75 paid	1,20,000	Plant	2,50,000
Equity shares of ₹100 each, ₹60 paid	1,80,000	Patents	40,000
Creditors	1,14,000	Stock in trade	55,000
14% Debentures having a floating charge on all assets	1,00,000	Debtors	1,10,000
		Cash	75,500
		P & L a/c	83,500
	7,14,000		7,14,000

The company went into liquidation on the above date. The preference dividend was in arrears for two years. The arrears are payable automatically on liquidation. Creditors include a loan for ₹50,000 on the mortgage on land. The assets were realized as follows: Land ₹1,20,000; Plant ₹2,00,000; Patent ₹30,000; Stock ₹60,000; Debtors ₹80,000. The expenses of liquidation amounted to ₹10,900. The liquidator is entitled to a commission of 3% on all assets realized except cash and a commission of 3% on amounts distributed among unsecured creditors. Preferential creditors amount to ₹5,000.

Assume the payment was made on 30-9- 2016. Prepare liquidators final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	75,500	By Secured creditors	50,000
" Land	1,20,000	" Liquidation exp.	10,900
" Plant	2,00,000	" Liquidator remuneration	
" Patents	30,000	Assets realized (4,90,000 x 3%)	14,700
" Stock in trade	60,000	Unsecured Crs (3% on 64,000)	1,920
" Debtors	80,000	Prefer. Crs (3% x 5,000)	150
		" Debentures (1,00,000 + 7,000)	1,07,000
		" Preferential creditors	5,000
		" Unsecured creditors (1,14,000 – 50,000)	64,000
		" Preference share holders (2,00,000 + 56,000)	2,56,000
		" Equity SHs (b/f)	
		(₹21.919 x 1,600shares)	35,070
		(₹6.919 x 3,000 shares)	20,760
	5,65,500		5,65,500

Amount available	55,830
Less: Excess paid (75 – 60) ₹15 x 1,600 shares	24,000
	31,830
Bal. to all equity shares (31,830/4,600)	₹6.919

MULTIPLE CHOICE QUESTIONS WITH ANSWER

1. In liquidation, normally assets realized _______while calculating commission
   a) Include cash in hand b) **Do not include cash in hand**
   c) At book value d) Always at lesser value

2. A percentage of liquidator's remuneration on unsecured creditors
   a) **Include preferential creditors** b) Do not include preferential creditors
   c) Partly secured creditors d) Fully secured creditors

3. Income tax is an example for
   a) Unsecured creditors b) Secured creditors
   c) **Preferential creditors** d) Partly secured creditors

4. Which amount should be paid first?
   a) Debentures b) Preferential creditors
   c) **Liquidation expenses** d) Liquidators remuneration

5. Which amount should be paid first?
   a) Cost of winding up b) **Legal charges**
   c) Liquidator's remuneration d) Preferential creditors

6. Amount payable to unsecured creditors are sufficient, the liquidator's commission is calculated on
   a) **Unsecured creditors** b) Amount available
   c) Assets realized d) Fully secured creditors

7. Amount payable to unsecured creditors are insufficient, the liquidator's commission is calculated on
   a) Unsecured creditors b) **Amount available**
   c) Assets realized d) Fully secured creditors

8. The person who is in charge of realizing assets and paying liabilities is called
   a) Managing Director b) Share holders
   c) **Liquidator** d) Debenture holder

9. Contributory is a
   a) Creditor b) **Share holder**
   c) Debenture holder d) Outsiders

10. A creditor for ₹5,000 holding a charge on the stock book value of which is ₹6,000, market value is ₹4,500 is called
    a) Secured creditor b) Unsecured creditor
    c) Fully secured creditor d) **Partly secured creditor**

11. A portion of unsecured creditors which should be paid before others is called
    - a) **Preferential creditors**
    - b) Fully secured creditors
    - c) Unsecured creditors
    - d) Partly secured creditor

12. Any sum due to an employee out of provident fund is an example of:
    - a) Unsecured Creditors
    - b) Secured Creditors
    - **c) Preferential Creditors**
    - d) Un-Preferential Creditors

13. A contributor is a:
    - a) Preferential Creditor
    - b) Debenture holder
    - c) Un-secured Creditors
    - **d) Equity Shareholders**

14. Secured Creditors are shown in the Statement of Affairs under:
    - a) List A
    - **b) List B**
    - c) List C
    - d) List D

15. The term "Contributory" includes:
    - **a) Present and Past members**
    - b) Holders of fully paid shares
    - c) Preferential Creditors
    - d) Present and future members

16. In case a company is solvent, the interest of debentures sis paid up-to the date of:
    - a) The Balance Sheet
    - b) The commencement of winding-up
    - **c) Payment**
    - d) The commencement of business

17. Amount due to the Government for purchases is an example of:
    - a) Preferential Creditors
    - b) Secured Creditors
    - **c) Unsecured Creditors**
    - d) Un-Preferential Creditors

18. Money advanced by a Director do the company to pay wages to the workers of the company is of the nature of a:
    - **a) Preferential Creditors**
    - b)Unsecured Creditors
    - c) Fully Secured Creditors
    - d) Secured Creditors

19. Debenture holders having a floating charge have priority in payment over:
    - a) Preferential Creditors
    - **b)Unsecured Creditors**
    - c) Fully Secured Creditors
    - d) Secured Creditors

20. The salary of 4 clerks for a period of 6 months before the relevant date was in arrears. If the salary of each clerk is ₹ 6,000 per month the amount to be included in preferential creditors will be:
    - a) ₹96,000
    - b) ₹1, 44, 000
    - **c) ₹ 80,000**
    - d) ₹ 72,000

21. The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹1,00,000 including cash balance of ₹ 3,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration was a ₹ 46,350. The liquidator's remuneration will be;
    - a) ₹3,100
    - b) ₹3,140
    - **c) ₹3,290**
    - d) ₹3,330

22. When do formal entries liquidate?
    a) On the date of release in the case of duty-free entries
    b) On the date posted in the bulletin notice of liquidation
    c) On the date specified in the automated broker interface
    d) One year after the date of importation, by operation of law

23. Which of the following statements best completes the sentence? Liquidation o an entry may be extended ______.
    a) If information is needed by Customs for the appraisement of the merchandise
    b) By statute or court order
    c) For 90 days after the date of pretest upon request of the importer
    d) For any time period Customs deems appropriate

REVIEW QUESTIONS

A) Answer in short

1. What is liquidation of a company?
2. What are the modes of winding up of a company?
3. Define contributory.
4. Who is list-A contributory and list-B contributory?
5. What is statement of affairs?
6. Give proforma liquidators final statement of account.

B) Answer in detail

1. Write short note on
   a) Compulsory winding up
   b) Voluntary winding up
2. Explain the various methods of winding up of a company.
3. Discuss the order of payments made by liquidator
4. Explain the preferential payments with regard to company liquidation.
5. Enumerate the procedure for preparing statement of affairs.
6. Give a proforma of statement of affairs and deficiency account.

EXERCISES

1. Compute liquidator's remuneration from the information given below:

   Secured creditors ₹60,000 (Securities realized ₹80,000), Other assets realized ₹75,000. Liquidator's remuneration 3% on the amount realized.

2. Find liquidator's remuneration:

   Creditors' amount to be paid ₹60,000; Amount available on hand ₹44,000; Liquidator's remuneration on the amount paid to creditors– 10%

3. XYZ Ltd. went into liquidation. Its assets realized ₹3,50,000 excluding the amount realized by the sale of securities held by the secured creditors. Following is the position.

   Share capital 10,000 shares of ₹100 each; Secured creditors (securities realized ₹40,000) ₹35,000; Preferential creditors ₹6,000; Unsecured creditors ₹1,40,000; Debentures having floating charge on assets of the company ₹2,50,000; Liquidation expenses ₹5,000; Liquidator's remuneration ₹7,500.

   Prepare liquidator's final statement of accounts.

4. The following particulars relates to a limited company to which the company went in to voluntary liquidation.

   Preferential creditors ₹25,000; Unsecured creditors ₹58,000; 6% Debentures ₹ 30,000. The assets realized ₹80,000. The expenses of liquidation amounted to ₹1,500 and the liquidator's remuneration amounted to ₹1,500 and the liquidators remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors including preferential creditors.

   Show the liquidators final statement of account.

5. The liquidator of a company in voluntary liquidation is entitled to a remuneration of 4% on the amount realized and at 3% on the amount distributed to the unsecured creditors. Unsecured creditors including preferential creditors of ₹3,000 amounted to ₹43,000. Preferential creditors were paid in full. ₹330 were spent as cost of liquidation. Cash on hand was ₹2,500 and assets realized ₹80,000.

   Show the liquidators final statement of account.

6. The following particulars relate to a Limited Company which has gone in to voluntary liquidation. Prepare the liquidator's final accounts allowing for his remuneration at 2% on the amount realized and 2% on the amount distributed among unsecured creditors other than preferential creditors.

   Preferential creditors ₹10,000; Unsecured creditors ₹32,000; Debentures ₹10,000

   The assets realized the following sums:

Building ₹20,000; Machinery ₹18,650; Furniture ₹1,000

The liquidation expenses amount to ₹1,000.

7. ABC Company Ltd went into voluntary liquidation on 31-12-2016. Prepare liquidator's final statement of account from the following particulars:

   Sundry creditors amounting to ₹75,660 of which ₹8,160 are preferential creditors. 6% debentures carrying floating charge on assets amounted to ₹80,000; Debenture holders were paid interest up to 30-6-2016. The liquidator realized the following assets: Stock ₹84,000; Plant ₹60,600; Cash in hand stood at ₹500. Debentures were paid off on 30^{th} June of the following year with interest. Liquidation expenses amounted to ₹1,902 and the remuneration is paid as 3% on amount realized and 2% on amount distributed to unsecured creditors.

8. The following particulars relate to a limited company which had gone into voluntary liquidation. You are required to prepare the liquidators final a/c allowing for his remuneration @ 2% on the amount realized on assets and 2% on the amount distributed to unsecured creditors other than preferential creditors:

   Unsecured creditors ₹2,24,000; Preferential creditors ₹70,000; Debentures ₹75,000

   The assets realized the following amounts:

   Cash ₹20,000; Land ₹1,30,000; Plant ₹1,10,500; Fixtures ₹7,500

   The liquidation expenses amounted to ₹2,000. A call of ₹2 per share on the partly paid 10,000 equity shares were made and duly paid except in case of one share holder owning 500 shares.

9. A Ltd. of Tirunelveli went into voluntary liquidation on 1-1-2016. The liquidator's remuneration is 2.5% on assets realized and 1.5% on distribution among shareholders. From the following information prepare liquidator's final account.

   Assets realized ₹5,00,000; Expenses of liquidation ₹9,000; Unsecured creditors ₹62,000; Salaries and wages outstanding ₹6,000.

   5,000, 6% Preference share capital (dividend paid up to 1-1-2014) ₹1,50,000

   10,000 Equity share capital ₹90,000; General reserve ₹1,20,000

   As per the Articles of Association of the company the preference share holder have the right to receive 1/3 of the surplus remaining after paying the equity share capital.

10. The following particulars relate to a company which went in to voluntary liquidation. Prepare liquidators final statement of account. At that time allow 2% remuneration to liquidator on the amount realized and 3% on the amount distributed to unsecured creditors.

Unsecured creditors	₹2,80,000	Assets realized as follows:	
Debentures	₹1,90,000	Cash	₹21,500
Preferential creditors	₹20,000	Plant	₹1,80,000
Share capital	₹2,00,000	Land	₹1,30,000
		Furniture	₹20,000

11. Robert Ltd. went into voluntary liquidation on July 1, 2016. As on that date balance sheet read follows:

Liabilities	Amount	Assets	Amount
10% Preference shares of ₹10 each	2,40,000	Plant	4,00,000
Ordinary shares of ₹10 each	4,00,000	Stock	2,00,000
5% Debentures	1,20,000	Debtors	3,00,000
Creditors	2,06,000	Cash	6,000
		P & L a/c	60,000
	9,66,000		9,66,000

The dividend on the preference shares had been paid up to June 30, 2016. The Liquidator sold the plant and stock for ₹5,50,000 and realized all the debts except one ₹50,000 which proved to be bad. He admitted the claim of all creditors. ₹10,000 of which were preferential. Expenses of liquidation amounted to ₹3,200 and debentures were repaid on Dec.31, 2016. The Liquidators remuneration was at the rate of 2% on amount distributed to the ordinary share holders.

Prepare the liquidators final accounts.

12. Balance sheet of Baby Ltd. as on Dec.31, 2016.

Liabilities	Amount	Assets	Amount
Preference shares of ₹10 each	80,000	Land	25,000
Equity shares of ₹10 each	1,20,000	Other fixed assets	2,00,000
Bank loan	4,00,000	Stock	5,25,000
8% Debentures	1,00,000	Debtors	1,00,000
Interest o/s on debentures	8,000	P & L a/c	58,000
Creditors	2,00,000		
	9,08,000		9,08,000

The company went into liquidation on that date. Prepare the liquidator's final statement of accounts after taking into account the following:

a) Liquidation expenses and liquidator's remuneration amounted to ₹3,000 and ₹10,000 respectively

b) Bank loan was accrued by pledge of stock.

c) Debentures and interest thereon are secured by a floating charge on all assets.

d) Fixed assets were realized at book values and current assets at 80% of book values.

13. A company went into liquidation on 31st March 2016 when the following balance sheet was prepared:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital (₹10 each)	1,95,000	Goodwill	50,000
Sundry creditors		Leasehold property	48,000
Preferential	24,200	Plant	65,500
Partly secured	55,310	Stock	56,800
Unsecured	99,790	Debtors	64,820
Bank overdraft (unsecured)	12,000	Cash	2,500
		P & L a/c	98,680
	3,86,300		3,86,300

The liquidator realized the assets as follows:

Leasehold property which was used in the first instance to pay the partly secured creditors prorates ₹35,000; Plant ₹51,000; Stock ₹39,000; Debtors ₹58,500 and cash ₹2,500.

The expenses of liquidation amounted to ₹1,000 and the liquidator's remuneration was agreed at 2.5% on the amount including cash and 2% on the amount paid to unsecured creditors.

You are required to prepare liquidator's final accounts showing the distribution.

14. Prepare liquidator's statement accounts.

Balance sheet as on 31st December 2016

Liabilities	**Amount**	**Assets**	**Amount**
6% Pref. shares of ₹100 each	1,00,000	Land	2,00,000
Equity shares of ₹100 each, fully paid	2,00,000	Plant	2,20,000
Equity shares of ₹100 each, ₹50 paid	1,50,000	Stock	1,00,000
Secured Loan		Debtors	1,00,000
6% Debentures (all assets)	1,00,000	Cash	30,000
Others (Mortgage on land)	1,00,000	P & L account	1,00,000
Current liabilities:			
Creditors	90,000		
Income Tax	10,000		
	7,50,000		7,50,000

The company went into liquidation on 1.1.2017. The preference dividend was in arrear for 3 years. These arrears are payable on liquidation. The assets were realized as follows.

Land ₹2,40,000; Plant ₹1,80,000; Stock ₹ 70,000; Debtors ₹60,000

The expenses of liquidation amounted to ₹8,000. The liquidator is entitled to a commission of 2% on all assets realized and 3% on amount distributed unsecured creditors. All the payments were made on 30th June 2017.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. LT. Limited went into liquidation with th following liabilities;

Particulars	Amt
Secured creditors	40,000
[Secured realized ₹50,000]	
Preferential creditors	1,200
Unsecured creditors	61,000
Liquidation expenses	500

The Liquidator is entitled to a remuneration of 3% on the amount realized including Securities in the hands of secured creditors] and 1.5% on the amount distributed to the unsecured creditors. The various assets [Excluding the securities in the hands of the secured creditors] realized ₹52,000. Prepare the Liquidators final statement of account showing the payment made to unsecured creditors

[Alagappa, B.Com, April,2011]

2. Babu Ltd. went into liquidation with following liabilities Preferential creditors ₹10,000, Unsecured creditors 32,000, Debentures ₹10,000

Assets Realized as follows:

Land and Building 20,000, Machinery 18,650, Fixtures and Fittings 1,000. Liquidators remuneration is 2% on assets realized and 2% an amount distributed to unsecured creditors other than preferential creditors. Liquidation expenses amounted to ₹1,000. Prepare Liquidators Final statement of account.

[Alagappa, B.Com, April,2011]

3. From the following particulars prepare liquidators final statement of Account.

Cash ₹10,000; Assets realized ₹23,000 (other than secured creditors) Secured creditors ₹28,000 (Securities realized ₹35,000)

Preferential creditors ₹800; Unsecured creditors ₹62,000.

Legal expenses ₹250; Liquidation Expenses ₹1,200

Liquidator is entitled to a remuneration of 3% on assets realized (including securities with creditors) and 2% on the amount distributed unsecured creditors.

[Alagappa,B.Com(C.A), Nov,2015]

4. Ram Limited went into liquidation with the following liablities

Secured creditors ₹30,000 (Security realized ₹35,000)

Preferential Creditors ₹700.

Unsecured Creditors ₹40,500

Liquidators expenses are ₹352. He is entitled to a remuneration of 4% on the amounts realized (including securities with creditors) and 2% on the amount distributed to unsecured creditors. The various assets realized ₹36,000. Prepare the Liquidators Final statement of account.

[Madurai,M.Com, Nov.2014]

5. The liquidator of BC and company Ltd is entitled to a remuneration of 3% on the amount Realized from the assets and 2% on the amount distributed to the unsecured creditors. From the following particulars prepre liquidators final statement of Account.

Sale of assets	3,00,000
Preferential Creditors	10,000
Unsecured creditors	4,00,000

[Madurai,B.Com,Nov,2013]

6. The life fund of a life insurance company on 31.3.2012 showed a balance of ₹ 54,00,000. However the following items were note taken into account while preparing revenue A/c for 2011-2012. Ascertain the correct life fund balance.

Interest accrued on Investments	20,000
Income tax deducted on the above	6,000
Re-insurancce claim recoverable	7,000
Commission Due on re-insurance premium paid	10,000
Bonus in resuction of premium	3,000

[Madurai,B.Com,Nov,2013]

7. Prepare the liquidators final statement from the given information allowing @ 3% remuneration on the amount realized and 2½% on the amount paid to unsecurd creditors.

Share capital issued:

5,000 preference shares of ₹ 100 each (fully 3,000 equity shares of ₹ 10 each fully paid. 12,000 equity shares of ₹ 10 each ₹ 8 paid up.

Assets realized ₹ 9,24,000 excluding amount realized by sale of securities held by the secured creditors.

Preferential creditors	24,000
Unsecured creditors	8,51,094
Secured creditors(security realized ₹ 16,200)	1,38,000
Debentures having a floating charge on assets	3,00,000
Liquidation expenses	9,000

A call of ₹ 2 per share on the partly paid equity shares was duly paid except in case of one shareholders owning shares.

8. K ltd was liquidated on 31.12.87. balance sheet as on 31.12.87.

Share capital	1,00,000	Land and building	60,000
8% debentures	1,00,000	Plant and machinery	60,000
Mortgage loan (secured on land and buildings)	50,000	Stock	60,000
		Debtors	70,000
sundry creditors	80,000	Cash in hand	5,000
		P & L a/c	75,000
	3,30,000		3,30,000

Assets realized as follows:

i) Land and building ₹ 55,000

ii) Stock ₹ 20,000

iii) Plant and machinery ₹ 25,000

iv) Half of the debtors were bad and the balance realized 60% of book value

v) Liquidators was entitled to a commission of 3% on amount realized other than cash and 2% on the amount paid to unsecured creditors.

vi) Preferential creditors amounted to ₹ 10,000 (include in sundry creditors)

vii) Liquidation expenses amounted to ₹970.

Prepare liquidators final statement of account.

[Madurai, Nov,2011]

9. A Ltd. company went into voluntary liquidation with the following share capital:

Class X- 4,000 equity shares of ₹ 100 each₹ 75 paid up

Class Y- 3200 equity shares of ₹ 100 each ₹ 60 paid up

Class Z – 2800 equity shares of ₹ 100 each ₹ 50 paid up

Amount available for equity shareholders ₹ 1,22,000.

Calculate the amount payable to or receivable from equity shareholder.

10. The following particulars related to a limited company which went into voluntary liquidation.

	₹
Preferential creditors	25,000
Unsecured creditors	58,000
6% debentures	30,000

The assets realised₹ 80,000. The expenses of liquidation amounted to ₹ 15,00 and liquidators remuneration was agreed at ₹ 2.5% on the amount paid to unsecured creditors including preferential creditors.

Show the liquidators final statement of accounts.

[Madurai, Nov,2011]

11. Give journal entries for the following transactions in connection with internal reconstruction:

    (i) 30,000 equity shares of ₹ 10 each fully paid reduced to shares of ₹ 5 each fully paid.

    (ii) 300 9% debentures of ₹ 1,000 each converted into 1,500 12% debentures of ₹ 100 each.

    (iii) The debit balance of profit and loss account ₹ 1,50,000 and the preliminary expenses ₹ 30,000 were written off.

    (iv) The value of plant & machinery and stock were written down by ₹ 60,000 and ₹ 30,000 respectively.

[Azhagappa, April,2015]

12. The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 1,00,000 including cash balance of ₹ 5,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration.

[Madurai,B.Com,Nov,2013]

13. Prakash processors Ltd. went into voluntary liquidation on 31st December 2007 when their balance sheet read as follows:

Liabilities	₹	assets	₹
Issued and subscribed capital		Land and Building	5,00,000
10,000 10% cumulative Preference shares of ₹ 100 each fully paid	10,00,000	Machinery and plant	12,50,000
5,000 equity shares of ₹ 100 each, ₹ 75 paid	3,75,000	Patents	2,00,000
15,000 equity shares of ₹ 100 each, ₹ 60 paid	9,00,000	Stock	2,75,000
15% debenture secured by a floatation charge	5,00,000	Sundry debtors	5,50,000
Interest outstanding on debenture	75,000	Cash at bank	1,50,000
Creditors	6,37,500	Profit and loss a/c	5,62,500
Total	34,87,500	Total	34,87,500

Preference dividend were in arrears for 2 year and the creditors included preferential creditors of ₹ 76,000

The assets realized as follows:

Land and building ₹ 6,00,000: machinery and plant ₹ 10,00,000 patents ₹ 1,50,000 stock ₹ 3,00,000: sundry debtors ₹ 4,00,000.

The expenses of liquidation amounted to ₹ 54,00. The liquidator is entitled to a commission of 3% on assets realized except cash. Assuming the final payment including those on debenture is made on 30th june, 2008. Show the liquidator's final statement of account.

[Madurai,B.Com,Nov,2013]

14. The position of X Ltd. in Liquidation is as follows :

1.000 6% preference shares of ₹ 100 each fully paid

1,000 Equity shares ₹ 50 each fully paid

1,000 Equity shares of ₹ 40 each. ₹ 30 called up on which calls in arrears are ₹ 4,000

Calls in advance ₹ 6,000

Preferences share dividend in arrear fdr one year. Cash left after making payments to Creditors but before making any Call : ₹ 1,17.000.

You are required to Prepare the Liquidator's Final Statement of account.

[Madras, II MCom., ((Old) May 2001; *II* ***M.Com., Oct. 2001, (3 times);***

II ***M.Com., (Old) Oct. 2001 (Two Times)]***

[Ans : Calls in arrears collected; Calls in advance paid off fully: Preference shares capital repaid. Dividend arrears are not payable since it is not declared. Repayment to Equity shareholders : Fully paid shareholders receive : ₹ 13,889; Partly paid shareholders : ₹ 1,111]

15. B Ltd. went into voluntary liquidation. The details regarding liquidation are as follows:

Share capital:

(a) 2,000 8% preference shares of ₹ 100 each (fully paid)

(b) Class A 2.000 equity shares of ₹ 100 each (₹ 75 paid up)

(c) Class B 1.600 equity shares of ₹ 100 each (₹ 60 paid up)

(d) Class C 1,400 equity shares of ₹ 100 each (₹ 50 paid up)

Assets including Machinery realised ₹ 4,20,000. Liquidation expenses amount to ₹ 15,000.

B Ltd. has borrowed a loan of ₹ 50,000 from Patel Bros. against the Mortgage of Machinery (which realised ₹ 80,500). In the books of the company salaries of four clerks for 4 months @ ₹300 per month and the salaries of 4 peons for 3 months @ ₹ 150 per month are outstanding. In addition to this, the company's books show the creditors worth ₹ 87,400. Prepare liquidator's statement of receipts and payments.

[Madras, II M.Com., April 2001]

[Ans: Deficiency per equity share ₹ 51; Net amount returnable on 'A' class share: ₹ 24 per share; Net amount returnable on 'B' class share : ₹ 9 per share; Net amount receivable on 'C' class share: Re. 1 per share]

16. The Fast Foods Ltd. went into voluntary liquidation on 31st Dec. 1984. The Balancein its books on that date were:

Liabilities	₹	**Assets**	₹
Share capital:		Land & Buildings	2,50,000
Authorised and subscribed		Plant &Machinery	6,25,000
5,000 6% cumulative preference		Patents	1,00,000
shares of ₹ 100 each fully paid	5,00,000	Stock	1,37.500
2,500 equity shares of ₹ 100 each,		Debtors	2,75,000
₹ 75 paid	1,87,500	Cash at Bank	75,000
7,500 equity shares of ₹ 100 each,		P & L A/c	3,00,000
₹ 60 paid	4,50,000		
5% Mortgage debentures	2,50,000		
Interest outstanding	12,500		
Creditors	3,62,500		
	17,62,500		17,62,500

The liquidator is entitled to a commission of 3% on all assets realised except cash and 2% on amounts distributed among unsecured creditors other than preferential creditors.

Creditors include preferential creditors ₹ 37,500 and a loan for ₹ 1,25,000secured by a mortgage on Land & Buildings. The preference dividends were in arrears for two years. The assets realised as follows:

Land & Buildings ₹ 3,00,000; Plant & Machinery ₹ 5,00,000;

Patents ₹ 75,000; Stock ₹ 1,50,000; Debtors ₹ 2,00,000.

The expenses of liquidation amounted to ₹ 27,250.

Prepare the liquidator's final statement of account.

[Thiruvalluvar, B.Com., Nov. 2006[Madras, B.Com (ICE)

Ap 2007 (2 Times) 1 M.Com. Oct. 2003; B.Com., Oct. 1994]

[Ans: Liquidator's remuneration — ₹ 40,750; Payment made to equity shareholders: on 2,500 shares @ ₹ 15.95 ₹ 39,875; on 7,500 shares @ .95 paise per share — ₹ 7,125]

17. The following is the balance Sheet of M/s Unfortunate Ltd. as on 31.12.1987.

Liabilities	₹	**Assets**	₹
4,000 6% preference shares		Land & Buildings	2,00,000

of ₹ 100 each fully paid up	4,00,000	Plant & Machinery	5,00,000
2,000 equity shares of Rs: 100		Patents	80,000
each, ₹ 75 per share paid up	1,50,000	Stock at cost	1,10,000
6,000 equity shares of ₹ 100 each,		Sundry debtors	2,20,000
₹ 60 per share paid up	3,60,000	Cash at bank	60,000
5% debentures (having		Profit & Loss A/c	2,40,000
floating charge on all assets)	2,00,000		
Interest outstanding on debenture (also secured as above)	10,000		
Creditors	2,90,000		
	14,10,000		14,10,000

On that date, the company went into voluntary liquidation. The dividends on preference shares were in arrear for two years. Creditors include a loan of ₹ 1,00,000 on mortgage of Land & Buildings. The assets realised were as under:

Land & Buildings — ₹ 2,40,000; Plant & Machinery — ₹ 4,00,000; Patents — ₹ 60,000; Stock — ₹ 1,20,000; Sundry debtors — ₹ 1,60,000.

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to a commission of 3% on all assets realised (except cash at bank) and commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount to ₹ 30,000. All payments were made on 30th June 1988.

Prepare the liquidator's final statement of account

(Madras, BCS Nov. 2005; B.Com., Oct. 2000; C.S. June 1989]

[Ans: Payment to preference shareholders ₹ 4,48,000 including dividend: Equity shareholders ₹ 75 paid up @ ₹ 15.25 per share; (b) ₹ 60 paid up @ Re. 0.25 per share]

18. A company went into voluntary liquidation on 30.4.96. The position of the company on that date was as follows

Liabilities	₹	**Assets**	₹
Share capital:		Machinery	80,0000
5,000 shares of ₹ 100 each		Other fixed assets Stock	2,60,000
₹ 80 paid up	4,00,000	Debtors	1,05,000
Loans (secured by mortgage		Bills receivable	1,00,000
of machinery)	1,00,000	Cash	5,000
Unsecured creditors		Profit & Loss A/c	1,10,000
(including preferential			
creditors ₹ 10,000)	2,00,000		

	7,00,000		7,00,000

Machinery was realised by the secured creditors for ₹ 1,20,000. Other fixed assets realised ₹ 40,000; Debtors ₹ 20,000; and stock ₹ 10,000; Bills receivable was wholly dishonoured. The liquidator is entitled to a fixed remuneration of ₹ 1,000 plus 2% of the amount paid to unsecured creditors. Liquidation expenses amount to ₹ 1,000. Prepare liquidator's statement of account.

Periyar, M.Com.,Ap. 2005; Madurai, B.Com., Nov. 2003]

[Madras, B.Com (A F), B.Com (CS), B.com (CS) Nov. 2008. B.Com.B.Com (CS) Ap 2007; B.Com. Oct. 2006; BCS Nov. 2005; B.Com., (ICE) May 2002; B.C.S. (ICE) May 2002: B.C.S. Anril2003]

[Ans : Amount paid to unsecured creditors — ₹ 1,79,216; Liquidator's remuneration — ₹ 4,784 (i.e., 1,000 + 200 + 3,584]

19. Kannan Ltd. was liquidated on 31.12.2000 Balance Sheet as on 31.12.2000.

Balance sheet as on 31.12.2000

Liabilities	**₹**	**Assets**	**₹**
Share capital	1,00,000	Land & buildings	60,000
8% debentures	1,00,000	Plant & machinery	60,000
Mortgage loan (secured on land		Stock	60,000
& buildings)	50,000	Cash in hand	5,000
Sundry creditors	80,000	Debtors	70,000
		P & l A/c	75,000
	3,30,000		3,30,000

Assets realised as follows:

	₹
a) Land & B iildings	55,000
b) Stock	20,000
c) Plant & Machinery	25,000

d) Half of the debtors were bad and the balance realised 600/0 of hook value.
e) Liquidator was entitled. to a commission of 3% on amount realized other than cash and 2% of the amount paid to unsecured creditors.
f) Preferential creditors amounted to ₹ 10,000 (included in sundry creditors)
g) Liquidation expenses amounted to ₹ 970.

Prepare liquidator's final statement of accounts.

[Madras, B.C.S. Oct.2000 (2 Times);B.Com., March 2007]

[Ans: Liquidator's remuneration : On amounts reaised — ₹ 3,630 (i.e., 1,21,000x 3%); On Payment to preferential creditors — ₹ 200; Amount paid to debentureholders — ₹ 61,200]

20. The Balance Sheet of Babble Ltd. as on 31.12.1984 was as follows:

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Land Sc. Buildings	25,000
8.000 pref. shares of ₹ 10 each	80,000	Other fixed assets	2.00.000
₹ 2,000 equity shares of ₹ 10 each	1,20.000	Stock	525,000
Bank loan	4,00,000	Debtors	1,00.000
.% Debentures	1,00,000	Profit & Loss Aic	58,000
Interest outstanding on debentures	8,000		
Creditors	2,00,000		
	9.08,000		9,08.000

The company went into liquidation on that date. Prepare liquidator's final statement of account after taking into account the following.

(a) Liquidation expenses and liquidator's remuneration amounted to ₹ 3,000 and ₹ 10,000 respectively.

(b) Bank loan was secured by pledge of stock.

(c) Debentures and interest thereon are secured by a floating charge of all assets.

(d) Fixed assets were realised at book value and current assets at 80% of book values.

[Madras, B.Com Ap 2007; B.C.S., Oct. 2001]

[Ans: Preference shareholders get — ₹ 4,000 i.e., @ ₹ 0.50 per share on 8,000 shares]

21. Mr. X has been appointed liquidator to ABC Ltd. Balance Sheet at the time of liquidation i.e., 1.1.2001 is given blow:

Balance sheet of ABC Ltd.As on 1.1. 2001

Equity share capital (₹ 10)	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	25,000
Loans	50,000	Sundry debtors	1,25,000
Creditors	50,000	Cash	5,000
		Profit & Loss A/c	45,000
	4,00,000		4,00,000

Fixed assets are sold for ₹ 1,20,000 to a debentureholder holding ₹ 40,000 debentures and cash is received after set off Cash realised from debtors were ₹ 80,000 and the

liquidation expenses amounted to ₹ 1,000. Liquidator is paid ₹ 1,000 fixed allowance plus 2% commission on collection including cash in hand as remuneration. Stock is sold for ₹ 10,000.

Prepare the liquidators final statement of accounts.

[Madras, B.Com., B.Com (CS) Nov. 2007; B.C.S. May 2001; B.Com., Apri12003]

[Ans: Payment to equity shareholders — ₹ 9,500; Liquidator's remuneration — ₹ 4,500]

22. Compute Liquidator's Remuneration from the information given below :

Secured creditors : ₹ 60,000 (Securities realised : ₹ 80.000)

Other Assets realised : ₹ 75.000

Liquidator's remuneration : $2^{1/2}$ % on the amounts realised (including securities with creditors)

[Madras B.Com(CS) (ICE) Oct. 2009; B.Com(CS) Nov. 2008]

[Ans: L.R.: ₹ 3,875]

23. Ascertain the remuneration payable to Liquidator from the data given below :

Secured creditor : ₹ 50,000 (Securities realised by secured creditors : ₹ 60,000)

Assets realised : ₹ 80,000

Liquidator's remuneration :3% on the amounts realised.

[Madras, B.Com., B.Com (CS) Ap. 2008; Nov. 2007]

[Ans: L.R.: 2,700]

24. The liquidator of a company is entitled to a remunerate .)ri of 3% on the amounts realised (excluding cash in hand) and 2% on the amount distributed to the unsecured creditors. Unsecured creditors, including preferential creditors of ₹ 5,000, amounted to ₹ 40,000.

Debenture holders were paid ₹ 51,875 together with interest. Preferential creditors were paid in full. Expenses of liquidation come to ₹ 510.

Cash on hand ₹ 1,000 and assets realised ₹ 79,000. Calculate the liquidator's total remuneration.

[Madras, B.Com (CS) Nov. 2007; B.Com (Nov. 2006; 13.Com, Oct 2003; B.Com, April 2000; RCom, Oct 1998]

[Ans : Liquidator's total remuneration ₹ 2,865]

25. Calculate the interest payable to debentureholders from the following information assuming the liquidated company has sufficient cash to pay off all outside liabilities:

8% Debenture's	₹ 1.60,000
Date of liquidation of company Date of 31.12.2002 repayment of debentures	:30.6.2003

Date upto which interest on debentures' paid so far :30.6.2002

(Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans: Interest *payable* : ₹ 12,800]

26. Shri Chopra is appointed liquidator of Moon company Ltd. in voluntary liquidation on 1st July 1993. Following balances are extracted from the books on that date:

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Machinery	45,000
24,000 shares of ₹ 5 each	1,20,000	Leasehold	60,000
Reserve for bad debts	15,000	properties	1,500
Debentures	75,000	Stock in trade	90,000
Bank overdraft	27,000	Book debts	9,000
Liabilities for purchases	30,000	Investment	7,500
		Calls in arrears	1,500
		Cash in hand	52,500
		P & l A/c	
	2,67,000		2,67,000

Prepare a statement of affairs to be submitted to the meeting of the creditors. The following assets are valued as under:

Machinery -- ₹ 90.000: Leasehold properties — ₹ 1,09,000: Investments — ₹ 6,000; Stock-in-trade — ₹ 3,000; Bad debts are — ₹ 3.000 and the doubtful debts are — ₹ 6,000 which are estimated to realise — ₹ 3,000. The bank overdraft is secured by deposit of title deeds of leasehold properties. Preferential creditors are — ₹ 1,500.

Telephone rent outstanding is ₹ 120.

[Periyar, M.Com (CA) Ap 2006]

[Ans: Estimated surplus as regards creditors — ₹ 1,67,380]

27. On Jan. 31 1990 a compulsory order for winding up was made against X Company Ltd., the following particulars being disclosed:

	Book value	***Estimated to***
	₹	₹
Cash in hand	100	100

Debtors	4,000	3,600
Buildings	60,000	48,000
Furniture	20,000	20,000
Unsecured creditors	₹ 20,000	
Debentures:		
Secured on Buildings	₹ 42,000	
Secured on floating charge	₹ 10,000	
Preferential creditors	₹ 6,000	
Share capital: 32,000 shares of 10 each	₹ 3,20,000	

Estimated liability for bills discounted was ₹ 6,000 estimated to rank ₹ 6,000. Other contingent liabilities were ₹ 12,000 estimated to rank at ₹ 12,000.

The company was formed on the 1st day of January 1985 and has made losses of ₹ 3,13,900.

Prepare statement of affairs and deficiency A/c.

[Madras, B.Com Ap 2007; B.Com., B.Com. (CS) Nov. 2006]

[Ans : Deficiency as regards creditors — ₹ 24,300; Deficiency as regards contributories — ₹ 3,44,306]

28. The following particulars related to a company which went into voluntary liquidation. Prepare Liquidators Final Statement of Account. At that time allow 2% remuneration to Liquidator on the amount realised and 3% on the amount distributed to unsecured creditors.

	₹
Unsecured creditors	2,80,000
Preferential creditors	20,000
Debentures	1,90,000
Share capital	2,00,000
Assets realised as follows :	
Cash in hand	21,500
Land & Buildings	1,30,000
Plant & Machinery	1,80,000
Furniture	20,000

[Madras, B.Com(AF) Nov. 2008; B.C.S. (ICE) Oct. 2003; I.M.Com., (ICE) May 2003]

[Ans : Amount paid to unsecured creditors : ₹ 1,29,97] Liquidators Total Commission : ₹ 11,529(7,030 + 600 + 3,899)]

29. 'A' Ltd. went into liquidation with the following liabilities:

(a) Secured creditors ₹ 20,000

(Securitiesrealised ₹ 25,000)

(b) Preferential creditors ₹ 600

(c) Unsecured creditors ₹ 30,500

Liquidation expenses are ₹ 252. Liquidator is entitled to a remuneration of 3% on the amounts realised (including securities with creditors) and **1**$^{1/2}$% on the amountdistributed to unsecured creditors. The various assets realised ₹ 26,000 (excluding securities in the hands of secured creditors).Prepare the liquidator's final statement of account.

[Madras, B.Com (CS) Nov. 2008; 1st M.Com) Nov. 2008; B.Com (PZG) Ap 2007; B.Com Nov. 2006; BCS Nov. 2005; 1st M.Com. (CA1A) Ap. 2006; Nov., 2005; B.C.S. Oct. 2003]

[Ans : Payment to unsecured creditors — ₹ 28,186; Total liquidator's remuneration — ₹ 1,962]

30. Vijay Ltd. went into liquidation with the following liabilities:

    (a) Secured creditors — ₹ 30.000;

    (securitiesrealised — ₹ 35,000)

    (b) Preferential creditors — ₹ 700

    (c) Unsecured creditors — ₹ 40.500

    Liquidator's expenses are ₹ 352. He is entitled to a remuneration of 4% on the amounts realised (including securities with creditors) and 2% on the amount distributed to unsecured creditors. The various assets realised ₹ 36,000.

    Prepare the liquidator's final statement of account.

    [Madras, B.Com (ICE) Oct. 2007]

    [Ans: Liquidator's remuneration: On assets realised — ₹ 2,840; On payment to preferential creditors — ₹ 14; On payment to unsecured creditors — ₹ 727 (*i.e.*, 37,094 x2/102) Amount paid to unsecured creditors — ₹ 36,367]

31. The following particulars relate to a limited company which has gone into voluntary' liquidation. You are required to prepare the liquidator's final account, allowing for his remuneration @ 2% on the amount realised and 2% on the amount distributed among unsecured creditors other than preferential creditors.

	₹
Preferential creditors	10,000
Unsecured creditors	32,000
Debentures	10,000

The assets realized the following sums:

Land & building	20,000
Plant & machinery	18,650
Fixtures & fittings	1,000

The liquidation expenses amount to ₹ 1,000.

[Thiruvalluvar, B.Com., Ap. 2007]
[Madras, B.Com., B.Com(CS) Nov. 2009; 1st M.Com. (CA 1A) Nov. 2006;1st M.Com. (CA I A) Nov. 2006; 1st M.Com., Nov. 2005; (Sem-CA IA) M.Com.April 2001; B.Com. (ICE) May 2000]

[Ans: Liquidator's remuneration — ₹ 1,143; Amount paid to unsecured creditors — ₹ 17,507]

32. The Ultra Optimist Ltd. went into liquidation. Its assets realised ₹ 3,50,000excluding amount realised by sale of securities held by the secured creditors. The following was the position:

Share capital: 1,000 shares of ₹ 100 each.	₹
Secured creditors (securities realised ₹ 40,000)	35,000
Preferential creditors	6,000
Unsecured creditors	1,40,000
Debentures having a floating charge on the assets of the company y	2,50,000
Liquidation expenses	5,000
Liquidator's remuneration	7,500

Prepare the liquidator's final statement of account.

[Madras, M.Com (ICE) Oct 2006; 1st M.Com (Sent- CAI A) Ap 2005; II M.Com. (ICE) (Old) Oct-2003; B.Com., (Old) Oct. 2001; Madras, M.Com., April 1988; B.Com., Sep. 1992; Oct. 1996; Madras, B.A., Corp. March 1991; B.Com., March 1990]

[Periyar, B.Com., Ap 2006; B.Com (CA) Oct. 2005; Thiruvalluvar, B.Com., No 2005]

[Ans : Amount paid to unsecured creditors — ₹ 86,500]

33. The Ashok Company Ltd. went into voluntary liquidation on 31.12.1994. When the statement of affairs was as below:

Unsecured creditors stood at ₹ 40,000 including ₹ 5,000 preferential claims. Secured creditors secured on Plant & Machinery stood at ₹ 20,000; Cash in hand was ₹ 1,000.

The liquidator realised Plant & Machinery for ₹ 15,000 and the other assets realised ₹ 10,000. The liquidation expenses amounted to ₹ 1,000 and the liquidator's remuneration was fixed at 4% of the amount realised including cash balance and 2% ofthe amount distributed to unsecured creditors including preferential creditors.

Prepare liquidator's final statement of account showing the dividend paid to unsecured creditors.

[Madras, B.Com., B.Com., (CS) Ap 2009];
B.Com., Apri12002; B.Com., Oct. 2002; B.Com., May 19971

[Ans: Liquidator's remuneration (1,040 + 100 + 76) = ₹ 1,216; Amount paid to unsecured creditors — ₹ 3,784]

34. Ambitions Ltd. went into liquidation on 31st Dec. 1986. Following information is available with the liquidator.

Sundry creditors amount to ₹ 75,660 of which ₹ 8,000 are preferential. 6% debentures carrying floating charge on the assets amounted to ₹ 80,000 debentureholders were paid interest upto 30.6.1986. The assets realised as follows:

Stock-in-trade — ₹ 84,000

Plant & Machinery — ₹ 60,600

Cash in hand stood at ₹ 500. Debentures were paid off on 30th June of the following year with interest. Liquidator's expenses amounted to ₹ 1,902 and they were entitled to a remuneration at 3% on the amount realised and 2% on the amount distributed to unsecured creditors.

Prepare liquidator's final statement of account.

[Madurai, B.Com., Nov. 2003] [Madras, B.Com., B.Com (CS) Nov. 2006; B.Com., May 1994; Sep. 1990; Oct. 1989]

[Ans: Amount paid to unsecured creditors — ₹ 45,000; Liquidator's remuneration — ₹ 5,398]

35. The following particulars are related to a company which has gone into liquidation. You are required to prepare liquidator's final statement of account allowing for his remuneration at 2% on the amounts realised on assets and 2% on the amounts distributed to unsecured creditors other than preferential creditors.

	₹
Unsecured creditors	2,24,000
Preferential creditors	70,000
Debentures	75,000

The assets realised the following amounts:

Cash in hand	20,000
Land & Buildings	1,30,000
Plant & Machinery	1,10,500
Furniture &fittings	7,500

The liquidation expenses amounted to ₹ 2,000.

A call of ₹ 2 per share on the partly paid 10,000 equity shares was made and duly paid except in case of one shareholder owning 500 shares.

[Bharathiar, B.Com.,Ap 2005; Nov. 2004]

[Madras, II M.Com., (Old) Oct.** 2003;* **B.Com, (Old) April 2002; B.Com., (ICE) Oct. 2002; May 1999 B.Com., Sep. 1995; B.A. Corp. March 1994]

[Ans: Liquidator's remuneration (5,360 + 2,640) = ₹ 8,000; amount paid to unsecured creditors — ₹ 1,32,000]

UNIT – 11

BANKING COMPANY ACCOUNTS

11.1 INTRODUCTION

Banking business in India is largely governed by the Banking Regulation Act, 1949 which defines banking as " accepting, for the purpose of lending or investment, of deposit of money from the public, repayable on demand or otherwise and withdrawals by cheque, draft, order or otherwise".

11.2 REGULATION ON BANKING COMPANIES

Section 6 of the Banking Regulation Act contains a detailed list of the forms of business a banking company may carry on in addition to its banking business. These forms of business are:

1. Borrowing, raising or taking up of money;
2. Lending or advancing money;
3. Drawing, making, accepting, discounting, buying, selling, collecting and dealing in bill of exchange, hundies, promissory note, drafts, bill of lading, railway receipts, warrants, debentures and other securities;
4. Granting and issuing of letters of credit, travelers cheques and circular notes;
5. Buying, selling and dealing in bullion;
6. Buying and selling on commission, underwriting and dealing in shares, debentures, etc;
7. Receiving all kinds of scripts or valuables on deposit or for safe custody;
8. Providing of safe deposit vaults;
9. Collecting and transmitting of money and securities;
10. Carrying on and transacting every kind of guarantee and indemnity business;
11. Undertaking and executing trusts;
12. Undertaking the administration of estates as executor, trustee or otherwise;
13. Contracting for public or private loan and negotiating and issuing company;
14. The acquisition, construction, maintenance and alteration of any building or convenient for the purpose of the company;
15. Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account;

16. Acquiring and undertaking the whole or any part of the business of any person or company;
17. Any other form of business which the Central Government may, by notification in the Official Gazette specify as a form of business in which it is for a banking company to engage.

11.3 LEGAL PROVISIONS OF BANKING REGULATION ACT

1. Capital and Reserve

No banking company can carry on business in India unless its subscribed capital is at least half of its authorized capital and its paid up capital is at least half of its subscribed capital.

2. Payment of commission, brokerage, etc.

A banking company is prohibited from paying the commission, brokerage, discount or remuneration in any form on issue of its shares in excess of 2.5 per cent of the paid up value of such shares.

3. Payment of dividend

No banking company can pay dividend on its shares until all the capitalized expenses have been completely written off. A banking company permitted to pay its dividend without writing off the following item:

a. The depreciation in the value of its investments in approved securities where such depreciation has not actually been capitalized.
b. The depreciation in the value of investments in shares, debentures or bonds where adequate provision for such depreciation has been made to the satisfaction of its securities.
c. The bad debts, if any, where adequate provision for such bad debts has been made to the satisfaction of its auditors.

4. Statutory Reserve

It is compulsory for every banking company to make a transfer of 25% profit before declaring any dividend every year to reserve called statutory reserve. This section does not apply to banking companies incorporated outside India. The Central Government may, on the recommendation of the Reserve Bank, exempt a banking company from this restriction if the aggregate amount is not less than the paid up capital of the company.

5. Cash Reserve

A scheduled bank has to maintain with the Reserve Bank a balance equal to 3% of its time liabilities as well as of its demand liabilities. A non-scheduled bank has to maintain similar

balances either in cash or as deposit with the Reserve Bank. The Reserve Bank of India has the power to raise this percentage up to 15%.

6. Disposal of non-banking assets

A banking company can acquire immovable property for its own use. Other immovable properties acquired must be disposed of within 7 years from the date of acquisition. This period may be extended by RBI.

7. Loans and advances

The Banking Regulation Act imposes certain restrictions on the loans granted by banks to Persons connected with their management. This section as amended by the Amended Act 1968 is as follows:

a. No banking company can grant loans and advances on the securities its own shares;

b. The banking company should not enter into any commitment for giving any loan or advance;

c. Any of its directors;

d. To a firm in which any of its directors is interested as partner, manager, employee or guarantor;

e. To any company of which any of the directors of the banking company is a director, manager, guarantor

f. To any individual with whom any of its directors is a partner or guarantor.

8. Non-banking assets

A banking company may have to take possession of certain assets given as security, if the loanee fails to repay the loan. In such case, the assets acquired in satisfaction of the claim of the bank will be shown on the assets side of the balance sheet under the head Non-banking assets. Such asset should be disposal of within seven years from the date of acquisition and the profit or loss on sale of such assets will be shown separately in the profit and loss account.

11.4 ASSETS CLASSIFICATION AND PROVISIONING

All banks was to recognize income from advances on accrual basis and take credit for interest accrued on all loans, over draft etc while closing books for an accounting year. It was considered as a part of Bottom Line Management. The international practice is now to classify the assets into performing assets and non-performing assets.

Income from performing assets is recorded on accrual basis. Income from Non-performing assets is recorded only when income from them is received in cash.

11.5 NON- PERFORMING ASSET (NPA)

An asset becomes non-performing when the interest and instalment of principal is delayed and not received before a stipulated time. In other words, an asset becomes non-performing when

it ceases to generate income. The RBI has given guidelines to decide as to when an asset becomes non-performing. These guidelines are:

a. Term loan – when interest and /or instalment of principal remains over due for more than 180 days, it should be considered as NPA.

b. Cash credit and Overdrafts – when account remains out of order for more than 180 days, they are to be considered as NPA. An account is out of order if

   i) The outstanding balance is in excess of the sanctioned limit or

   ii) Drawing power or

   iii) There are no credits for a continuous period of 180 days in the account or

   iv) Credits during the period are not enough to cover the interest debited.

c. Bill purchased and discounted – if the bills remains over due for a period of more than 180 days, it should be considered as NPA.

d. Agricultural Advances – If advances to agricultural sector remain over due for two harvest seasons, not exceeding two half years, they are to be considered as NPA.

e. Other Advances – When other advances remain over due for more than 180 days, they are to be considered as NPA.

NPA are to be determined on Borrower Basis and not on the basis of each kind of advance separately. The latest development regarding NPA is that RBI has instructed the best international practices, it has been decided to adopt that 90 days (instead of 180 days) overdue norms for identification NPA from the year ending March 31, 2004.

11.6 PROVISION FOR NPA

Provisioning they are classified into four broad groups i.e., standards assets, sub-standard assets, doubtful assets and loss assets.

1. Standards assets

Standard asset is one which is not a non-performing asset and does not disclose any problem nor carry more than normal risk attached to the business. No provision was required on standard assets. From the year ending 31st March 2000 are required to make a provision of 0.25% on global loan portfolio basis.

2. Sub - Standard assets

With effect from 31.3.2001, a sub-standard asset is one which has been classified as NPA for a period not exceeding 18 months. There is no promise of recovering the dues in full, having regarded to the values of security or current net worth of the borrower, hence the possibility loss in realizing such debts. Term loan in respect of which instalments principles are overdue for more than one year are treated as sub-standard assets.

3. Doubtful assets

With effect from 31.3.2001 an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 18 months. These assets are so weak that their collection or liquidation in

full is considered highly improbable. There are two components for provision in respect of doubtful debts.

a. Debt is not covered by realizable value of the security, 100% provision is to be made.

b. For the secured portion of the doubtful asset, provision is required to be made between 20% and 50% depending upon the period for which the asset has remained doubtful.

Doubtful status up to one year	-	20%
1 year to 3 years	-	30%
More than 3 years	-	50%

4. Loss assets

Loss assets are those which have been identified by the bank or internal auditors or the RBI inspection by the amount has not been written off wholly or partly. These assets should be written off completely.100% provisions are required to be made.

Illustration -1 From the following particulars, you are required to calculate the amount of provision to be made by the bank.

Standard assets	₹24,000
Sub-standard assets	₹1,200
Doubtful assets: Up to 1 year	₹800
1 year to 3 years	₹600
More than 3 years	₹400
Loss assets	₹900

Solution

		Provision %	**Amount of provision**
Standard assets	₹24,000	–	–
Sub-standard assets	₹1,200	10	₹120
Doubtful assets: Up to 1 year	₹800	20	₹160
1 year to 3 years	₹600	30	₹180
More than 3 years	₹400	50	₹200
Loss assets	₹900	100	₹900
Total provisions required			₹1,560

11.7 REBATE ON BILL DISCOUNTED

This is also termed as unexpired discount or discount received but not earned. This is unearned amount of discount received for those bills that will mature after the date of closing the final accounts.

For example, if a bill discounted on 1.12.2014 for 3 months at ₹6,000 and accounts are closed on 31st December 2014 ₹4,000 is the unexpired discount because it relates to two months in 2015.

Discount account	Dr
To rebate on Bill Discounted	A/c

The rebate on bill discounted at the beginning is added to the discount income and the Rebate on bill discounted at the end is deducted to find out the net discount income.

Illustration -2 Chennai Bank Ltd. held the following bills on 31-03 – 2016.

Date of bill	Amount (₹)	Term (Months)	Discount (p.a.)
Jan.13	7,50,000	4	12%
Feb.17	6,00,000	3	10%
Mar. 6	4,00,000	4	11%
Mar. 16	2,00,000	2	10%

Calculate the rebate on bills discounted and give necessary journal entries.

Solution

Date of bill	Due date	Amount (₹)	No. of days after 31st March	Discount (p.a.)	Discount
Jan.13	16 -05	7,50,000	46	12%	11,342
Feb.17	20 – 05	6,00,000	50	10%	8,219
Mar. 6	9 – 07	4,00,000	100	11%	12,055
Mar. 16	19 – 07	2,00,000	49	10%	2,685
					34,301

Particulars	LF	Debit ₹	Credit ₹
Discount a/c	Dr	34,301	
To Rebate on bills discounted a/c			34,301

11.8 CONTINGENT LIABILITIES

These are not liabilities of a bank on the date of a balance sheet, but can become liabilities at a future date. The contingent liabilities are shown under Schedule 12 as a footnote to the balance sheet of a bank. The following are the contingent liabilities.

1. Claim against the bank, not acknowledged as debts.

2. Liability for partly paid investments – Liabilities on partly paid shares, debentures, etc. will be included under this head.
3. Liability on account of outstanding forward exchange contract.
4. Guarantees given on behalf of customer – Guarantees given for constituents in India and outside India may be shown separately.
5. Acceptances, endorsements and other obligations – This item will include letter of credit and bills accepted by the bank on behalf of customers.
6. Other items for which the bank is contingently liable – Arrears of cumulative dividends, bills rediscounted under underwriting contracts, estimated amounts of contracts remaining to be executed on capital account and not provided for etc are to be included here.

Illustration -3 From the following calculate statutory reserve while preparing bank P & L a/c for the current year

Profit for the year	1,83,000
Profit for the last year	35,000
Total profit	2,18,000

Solution

Statutory reserve = 1,83,000 x 25% = ₹45,750

SPECIMEN FORMAT OF
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH

		Schedule No.	Current year	Last year
I	**Income**			
	Interest earned	13	xxx	xxx
	Other incomes	14	xxx	xxx
	Total		xxx	xxx
II	**Expenditure**			
	Interest expended	15	xxx	xxx
	Operating expenses	16	xxx	xxx
	Provisions and contingencies	–	xxx	xxx
	Total		xxx	xxx
III	**Profit or Loss**			
	Net profit (Income – expenditure)		xxx	xxx
	P & L a/c balance (Last year profit)		xxx	xxx

Total		xxx	xxx
IV Appropriations			
Statutory reserve		xxx	xxx
(25% of current year net profit)			
Proposed dividend		xxx	xxx
Contingency reserve		xxx	xxx
Dividend equalization reserve		xxx	xxx
Other reserves		xxx	xxx
Bal. carried to balance sheet (b/f)		xxx	xxx
Total		xxx	xxx

EXPLANATIONS OF SCHEDULES APPEARING IN P& L ACCOUNT

Schedule –13 INTEREST EARNED	**Schedule –14 OTHER INCOMES**
Interest on loan	Commission, exchange and brokerage
Interest on cash credit	Profit on revaluation / sale of fixed assets
Interest on overdraft	Less: Loss on sale of fixed assets
Interest and discount	Other incomes
Income on investment	Transfer fees
Discount on bills discounted	Locker rent
Add: Opening rebate on bills discounted	
Less: Closing rebate on bills discounted	
Schedule –15 INTEREST EXPENDED	**Schedule –16 OPERATING EXPENSES**
Interest on fixed deposits	Salary
Interest on current account	Rent and taxes
Interest on savings bank a/c	Establishment expenses
Interest paid	Auditor fees & director fees
	All other expenses
PROVISIONS AND CONTINGENCIES:	
Bad debts written off	
Provision for bad and doubtful debts	
Provision for taxation	
Rebate on bills discounted / unexpired risk	

11.9 PREPARATION OF PROFIT AND LOSS A/C WITHOUT ADJUSTMENT

Illustration -4 From the following particulars of Arun Bank Ltd., prepare P & L a/c for the year ended 31st March 2015.

Interest on deposits	32,00,000	Commission (Cr)	1,00,000
Interest on loan	24,90,000	Sundry expenses	1,00,000
Rent and taxes	2,00,000	Salaries to employees	5,00,000
Discount received	14,90,000	Interest on overdraft	16,00,000
Audit fees	35,000	Interest on cash credit	23,20,000
Directors fees	16,000	Bad debts written off	3,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	79,00,000
Other income	14	1,00,000
Total		80,00,000
II. Expenditure		
Interest expended	15	32,00,000
Operating expenses	16	8,51,000
Provisions and contingencies	–	3,00,000
Total		43,51,000
III. Profit / loss		
Net profit		36,49,000
IV. Appropriations		
Transfer to statutory reserve (25%)		9,12,250
Balance carried to balance sheet		27,36,750
		36,49,000

Workings

Schedule 13	₹	**Schedule 14**	₹
Interest on loan	24,90,000	Commission (Cr)	**1,00,000**
Discount received	14,90,000	**Schedule 15**	
Interest on overdraft	16,00,000	Interest on deposits	**32,00,000**
Interest on cash credit	23,20,000	**Schedule 16**	
	79,00,000	Rent and taxes	2,00,000
		Salaries to employees	5,00,000
Provisions and contingencies		Audit fees	35,000

Bad debts	**3,00,000**	Directors fees	16,000
		Sundry expenses	1,00,000
			8,51,000

Illustration -5 Prepare P & L a/c for the year ended 31st March 2015 of New Bank Ltd from the following particulars:

	₹ (‘000)		**₹ (‘000)**
Interest on loan	250	Discount on bills discounted	40
Interest on savings a/c	150	Rent and taxes	5
Interest on cash credit	160	Commission, exchange & brokerage	15
Audit fees	10	Interest on fixed deposits	190
Payment to employees	50	Directors fees	20

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ (‘000)**
I. Income		
Interest earned	13	450
Other income	14	15
Total		465
II. Expenditure		
Interest expended	15	340
Operating expenses	16	85
Provisions and contingencies	–	–
Total		425
III. Profit / loss		
Net profit		40
IV. Appropriations		
Transfer to statutory reserve (25%)		10
Balance carried to balance sheet		30
		40

Workings

Schedule 13	₹ ('000)	Schedule 15	₹ ('000)
Interest on loan	250	Interest on savings a/c	150
Interest on cash credit	160	Interest on fixed deposits	190
Discount on bills discounted	40		340
	450	**Schedule 16**	
Schedule 14		Payment to employees	50
Commission, exchange & brokerage	15	Directors fees	20
		Rent and taxes	5
		Audit fees	10
			85

Illustration -6 From the following particulars, prepare P & L a/c of W Bank Ltd. for the year ended 31-12-15.

	₹ ('000)		₹ ('000)
Interest on loan	260.00	Rebate on bills discounted	50.00
Printing	3.00	Commission charged to customers	9.00
Directors fees	4.50	Interest on cash credit	225.00
Sundry charges	1.80	Interest on current account	45.00
Postage	1.50	Interest on fixed deposits	280.00
Rent and taxes	20.00	Interest on savings a/c	70.00
Interest on overdraft	56.00	Establishment expenses	56.00
Payment to employees	150.00	Discount on bills discounted	200.00

Solution

P & L a/c for the year ended 31-3-2015

Particulars	Schedule No.	Amount ₹ ('000)
I. Income		
Interest earned	13	791.00
Other income	14	9.00
Total		800.00
II. Expenditure		
Interest expended	15	395.00
Operating expenses	16	236.80

Provisions and contingencies	–	–
Total		631.80
III. Profit / loss		
Net profit		168.20
IV. Appropriations		
Transfer to statutory reserve (25%)		42.05
Balance carried to balance sheet		126.15
		168.20

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest on loan	260	Interest on savings a/c	70
Interest on cash credit	225	Interest on fixed deposits	280
Discount on bills discounted	200	Interest on current account	45
Interest on overdraft	56		395
Rebate on bills discounted	50	**Schedule 16**	
	791	Printing	3.0
		Directors fees	4.5
Schedule 14		Sundry charges	1.8
Commission charged to customers	9	Postage	1.5
		Rent and taxes	20.0
		Establishment expenses	56.0
		Payment to employees	150.0
			236.8

11.10 PREPARATION OF PROFIT AND LOSS A/C WITH ADJUSTMENT

Illustration -7 From the following details relating to the Chennai Bank Ltd, prepare P & L a/c for the year ended 31-3-15.

Interest earned	₹37,01,738	Other incomes	₹4,55,000
Interest expended	₹20,37,452	Salary and rent paid	₹4,80,286
Provisions and contingencies	₹13,00,000	Profit from last year	Nil

Adjustments:

a) Transfer to statutory reserve 25% out of profit

b) Transfer to proposed dividend ₹1,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	37,01,738
Other income	14	4,55,000
Total		41,56,738
II. Expenditure		
Interest expended	15	20,37,452
Operating expenses	16	4,80,286
Provisions and contingencies	–-	13,00,000
Total		38,17,738
III. Profit / loss		
Net profit		3,39,000
IV. Appropriations		
Transfer to statutory reserve		87,750
Transfer to proposed dividend		1,00,000
Balance carried to balance sheet		1,54,250
		3,39,000

Illustration -8 From the following information relating to Aswin Bank Ltd, prepare P & L a/c for the year ending 31-3-15 along with necessary schedules in the revised format:

	₹ (‘000)		**₹ (‘000)**
Interest, discount earned	31,628	Income on investments	11,810
Auditor’s fees	41	Commission, exchange and brokerage	2,907
Salaries to employees	9,717	Balance of profit B/D from last year	1,000
Postage	403	Interest on RBI Loan paid	3,362
Rent and taxes	1,168	Depreciation on bank property	379
Directors fees	7	Profit on sale of investments	114
Law charges	22	Interest received on balance with RBI	4,243
Other expenditure	1,799	Interest on deposits paid	31,404

Adjustments:

a) Make a provision for IT @ 51.75% on profit

b) Transfer 25% of profit to statutory reserve and 5% to revenue reserve

c) Transfer to proposed dividend ₹2,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	Schedule No.	Amount ₹
I. Income		
Interest earned	13	4,76,81,000
Other income	14	30,21,000
Total		5,07,02,000
II. Expenditure		
Interest expended	15	3,47,66,000
Operating expenses	16	1,35,36,000
Provisions and contingencies	–	12,42,000
Total		4,95,44,000
III. Profit / loss		
Net profit		11,58,000
Last year profit		10,00,000
		21,58,000
IV. Appropriations		
Transfer to statutory reserve (25%)		2,89,500
Transfer to revenue reserve (5%)		57,900
Proposed dividend		2,00,000
Balance carried to balance sheet		16,10,600
		21,58,000

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest, discount earned	31,628	Interest on deposits paid	31,404
Income on investments	11,810	Interest on RBI Loan paid	3,362
Interest received on balance with RBI	4,243		34,766
	47,681	**Schedule 16**	
Schedule 14		Auditor’s fees	41
Commission, exchange and brokerage	2,907	Salaries to employees	9,717
Profit on sale of investments	114	Postage	403
	3,021	Rent and taxes	1,168
		Directors fees	7

		Law charges	22
		Other expenditure	1,799
		Dep. on bank property	379
			13,536

Calculation of Provision for taxation ₹ (‘000)

Total income	₹50,702
Less: Total expenses	₹48,302
	₹2,400
Provision for income tax (2,400 x 51.75%)	₹1,242

Illustration -9 From the following information, prepare P & L a/c of Cholan Bank for the year ended 31-3-2015 along with necessary schedules in the revised format:

	₹ (‘000)		**₹ (‘000)**
Interest on loan	518	Directors fees	6
Commission received	16	Salaries	108
Discount on bills discounted	292	Rent and tax	36
Interest on investments	446	Sundry charges	4
Interest on fixed deposits	550	Printing	6
Interest on current accounts	84	Auditors fees	2
Interest on savings bank deposit	136	Postage	3
Depreciation on bank’s property	10	Locker rent	2
Rebate on bills discounted	98	Transfer fees	1
Interest on overdraft	308		

Other information:

a) Provision for bad debts ₹80,000

b) Provision for income tax ₹3,00,000

c) Statutory reserve 25%

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ (‘000)**
I. Income		
Interest earned	13	1,564.0
Other income	14	23.0
Total		1,587.0

II. Expenditure		
Interest expended	15	770.0
Operating expenses	16	171.0
Provisions and contingencies	–	380.0
Total		1,321.0
III. Profit / loss		
Net profit		266.0
IV. Appropriations		
Transfer to statutory reserve (25%)		66.5
Balance carried to balance sheet		199.5
		266.0

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest on loan	446	Interest on savings a/c	136
Interest on advances	518	Interest on fixed deposits	550
Discount on bills discounted	292	Interest on current account	84
Interest on overdraft	308		770
	1,564	**Schedule 16**	
		Printing	6
Schedule 14		Directors fees	6
Commission	16	Audit fees	2
Locker rent	2	Depreciation	10
Sundry charges	4	Rent and taxes	36
Transfer fees	1	Postage	3
	23	Salary	108
			171

Illustration -10 The following are the figures extracted from the books of Naveen Bank Ltd as on 31-3-15. Prepare the P & L a/c as per the revised format with all necessary schedules.

	₹		₹
Salaries	2,00,000	Interest paid to deposits	20,37,452
Subscribed capital	10,00,000	Profit on sale of investments	2,00,000
Directors fees	30,000	Stationery expenses	40,000
Postage	60,286	Statutory reserve fund	8,00,000
Rent and taxes	90,000	Depreciation on bank property	30,000

Rent received	65,000	Preliminary expenses	25,000
Auditors fees	5,000	Interest and discount received	37,05,738
		Commission received	1,90,000

Additional information:

a) A customer to whom a sum of ₹10 Lakhs has been advanced became insolvent and only 50% can be realized from his estate

b) There were also debts which a provision of ₹1,50,000 was found necessary

c) Rebate on bills discounted on 31-3-2014 ₹12,000 and on 31-3-2015 was ₹16,000

d) Provide ₹6,50,000 for income tax

e) Directors recommended 10% dividend

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	37,01,738
Other income	14	4,55,000
Total		41,56,738
II. Expenditure		
Interest expended	15	20,37,452
Operating expenses	16	4,80,286
Provisions and contingencies	–	13,00,000
Total		38,17,738
III. Profit / loss		
Net profit		3,39,000
Last year profit		–
		3,39,000
IV. Appropriations		
Transfer to statutory reserve (25%)		84,750
Proposed dividend		1,00,000
Balance carried to balance sheet		1,54,250
		3,39,000

SPECIMEN FORMAT OF BALANCE SHEET

	Schedule No.	**Current year**	**Last year**
Capital and Liabilities			
Capital	1	xxx	xxx
Reserves and surplus	2	xxx	xxx
Deposits	3	xxx	xxx
Borrowings	4	xxx	xxx
Other liabilities and provisions	5	xxx	xxx
Total		xxx	xxx
Assets			
Cash and balance with Reserve Bank of India	6	xxx	xxx
Balance with banks and money at call and short notice	7	xxx	xxx
Investments	8	xxx	xxx
Advances	9	xxx	xxx
Fixed assets	10	xxx	xxx
Other assets	11	xxx	xxx
Total		xxx	xxx
Contingent liabilities	12		
Bills for collection		xxx	xxx

Explanations of Schedules appearing in Balance Sheet

Schedule –1 CAPITAL	**Schedule –2 RESERVES AND SURPLUS**
Authorized Issued Subscribed Less: Calls in arrears Add: Forfeited shares	Statutory reserve Capital reserve Securities premium Dividend equalization fund Reserve fund Balance from P & L a/c
Schedule – 3 DEPOSITS	**Schedule –4 BORROWINGS**
Demand deposits Savings deposits	In India Outside India

Term deposits Other deposits Cash certificate	Short loan (Cr)
Schedule –5 OTHER LIABILITIES AND PROVISIONS	**Schedule –6 CASH BALANCE WITH RESERVE BANK OF INDIA**
Bills payable Creditors Inter branch adjustments (Cr) Interest accrued Provision for income tax Unclaimed dividend Provision for doubtful debts Rebate on bills discounted /unexpired discount Outstanding expenses	Cash in hand Balance with RBI
Schedule –7 BALANCE WITH BANK AND MONEY AT CALL AND SHORT NOTICE	**Schedule –8 INVESTMENTS**
Balance with other banks Money at call and short notice	Govt. securities Other approved securities Shares Debentures and bonds Reserve fund investments
Schedule –9 ADVANCES	**Schedule –10 FIXED ASSETS**
Bills purchased and discounted Cash credit, gold and loan repayable on demand Term loans	Fixed assets Less: Depreciation
Schedule – 11OTHER ASSETS	**Schedule – 12 CONTINGENT LIABILITIES**
Income outstanding Branch adjustments (Dr) Expenses paid in advance Non-banking assets Other assets	Acceptances, endorsements and other obligations Bills for collection

11.11 TREATMENT FOR SOME IMPORTANT ADJUSTMENTS:

1. Closing rebate on bills discounted:

a) Given in adjustments — Provisions and contingencies (or) Less from Schedule 13 and Schedule –5

b) Given in trial balance — Schedule – 5 only

2. Depreciation:

a) Given in adjustments — Schedule –16 and Schedule – 10

b) Given in trial balance — Schedule – 5 only

3. Bad debts written off :

a) Given in adjustments — Provisions and contingencies and Schedule -5

b) Given in trial balance — Provisions and contingencies only

4. Statutory Reserve — P & L a/c – IV Appropriations

Schedule- 2 Reserves and surplus

5. Provision for taxation — Provisions and Contingencies

Schedule -5 Other current liabilities

6. If there is reserve fund investment, there must be reserve fund equal to that amount

11.12 PREPARATION OF BALANCE SHEET

Illustration -11 From the following trial balance of a bank, prepare a balance sheet of the bank with schedule numbers as on 31-3-2015

Debit balance	₹ (in Lacs)	Credit balances	₹ (in Lacs)
Current a/c	28.00	19,80,000 shares of ₹ 10 each	198.00
Cash credits	812.10	Statutory reserve	231.00
Cash in hand	160.15	Net profit before appropriation	150.00
Cash with other RBI	37.88	P & L a/c	412.00
Money at call	210.12	Fixed deposit a/c	517.00
Gold	55.23	Savings deposit a/c	450.00
Govt. securities	110.17	Current deposit a/c	520.12
Premises	155.70	Bills payable	0.10
Term loans	792.88	Borrowings from other banks	110.00
Furniture	205.99		
	2,588.22		2,588.22

Additional information:

a) Depreciation chargers – Premises ₹1,10,000; Furniture ₹78,000

b) 50% of the term loans are secured by Govt. quarantines.

c) 10% of cash credits are unsecured.

Solution

Balance Sheet as on 31-3-2015

	Schedule No.	**2015 ₹ (in Lacs)**	**2014**
Capital and Liabilities			
Capital	1	198.00	
Reserves and surplus	2	773.00	
Deposits	3	1,487.12	
Borrowings	4	110.00	
Other liabilities and provisions	5	0.10	
Total		2,566.34	
Assets			
Cash and balance with Reserve Bank of India	6	198.03	
Bal. with banks and money at call and short notice	7	210.12	
Investments	8	110.17	
Advances	9	1,688.21	
Fixed assets	10	359.81	
Other assets	11	–	
Total		2,566.34	
Contingent liabilities	12	–	
Bills for collection			

Illustration -12 From the following trial balance as on 31st March 2015, prepare the balance sheet of World Bank Ltd.

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Cash balance	300	Share capital	2,000
Cash with RBI	200	P & L a/c	500
Balance with other banks	400	Statutory reserve	300
Money at call and short notice	200	Net profit before appropriation	200

Investments in Govt. securities	200	Fixed deposit a/c	550
Investments in other approved securities	200	Current a/c	800
Gold	100	Savings bank a/c	850
Cash credit and overdraft	1,000	Borrowings from other banks	300
Loans and advances	1,500	Borrowings from RBI	200
Bills purchased and discounted	1,000	Bills payable	100
Premises	500	Rebate on bills discounted	200
Furniture	100		
Non-banking assets	300		
	6,000		6,000

Additional information:

1) Acceptances and endorsements ₹9,00,000
2) Bills for collection ₹5,00,000

Solution

Balance Sheet as on 31-3-2015

	Schedule No.	2015 ₹ in '000	2014
Capital and Liabilities			
Capital	1	2,000	
Reserves and surplus	2	1,000	
Deposits	3	2,200	
Borrowings	4	500	
Other liabilities and provisions	5	300	
Total		6,000	
Assets			
Cash and balance with Reserve Bank of India	6	500	
Bal. with banks and money at call and short notice	7	600	
Investments	8	500	
Advances	9	3,500	
Fixed assets	10	600	
Other assets	11	300	
Total		6,000	
Contingent liabilities	12	900	
Bills for collection		500	

11.13 PREPARATION OF P & L A/C AND BALANCE SHEET

Illustration -13 Prepare P & L a/c and B/S of Chennai Bank Ltd. as on 31-12-2015 according to Banking Regulations Act,1949.

Trial Balance as on 31-12-2015

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Money at call and short notice	800	Share Capital	2,000
Cash in hand	650	Reserve fund	700
Cash at bank	950	Deposits	2,500
Investments in Govt. Securities	900	Borrowings from SBI	500
Secured loan	1,500	Rent	60
Cash credit	500	Interest and discount	800
Premises less depreciation	580	Commission and Brokerage	70
Furniture	120		
Rent	5		
Interest paid on deposits	300		
Salary and allowances paid to staff	150		
Interest paid on borrowings	50		
Audit fees	10		
Directors fees	8		
Non-banking assets	80		
Depreciation on Banks properties	13		
Printing	3		
Advertisements	1		
Stationery	5		
Postage and telegrams	2		
Other expenses	3		
	6,630		6,630

Adjustments:

1. Provide ₹ 20,000 on doubtful debts
2. Provide ₹10,000 on bills discounted but not matured on 31-12-2015.
3. Acceptance and endorsements on behalf of customers amounting to ₹4,00,000.
4. Provide ₹60,000 for taxes.

Solution:

P & L a/c for the year ended 31-12-2015

Particulars	Schedule No.	Amount ₹ in '000
I. Income		
Interest earned	13	790
Other income	14	130
Total		920
II. Expenditure		
Interest expended	15	350
Operating expenses	16	187
Provisions and contingencies	--	80
Total		617
III. Profit / loss		
Net profit		303
Last year profit		--
IV. Appropriations		
Transfer to statutory reserve (25%)		75.75
Balance carried to balance sheet		227.25
		303.00

Balance Sheet as on 31-12-2015

	Schedule No.	2015 ₹ in '000	2014
Capital and Liabilities			
Capital	1	2,000	
Reserves and surplus	2	1,003	
Deposits	3	2,500	
Borrowings	4	500	
Other liabilities and provisions	5	90	
Total		6,093	
Assets			
Cash and balance with Reserve Bank of India	6	650	
Bal. with banks and money at call and short notice	7	1,950	

Investments	8	900	
Advances	9	2,000	
Fixed assets	10	687	
Other assets	11	80	
Total		6,267	
Contingent liabilities	12	400	
Bills for collection			

Illustration -14 Prepare P & L a/c and B/S of Chennai Bank Ltd. as on 31-3-2016 according to Banking Regulations Act,1949.

Trial Balance as on 31-3-2016

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Money at call and short notice	5,000	Share Capital	10,000
Cash in hand	1,000	Statutory Reserve	5,000
Balance with other banks	15,000	Deposits	55,000
Govt. Securities	2,000	Borrowings from other banks	10,000
Loans and advances	40,000	P & L a/c as on 1-4-2015	5,300
Bills discounted	10,000	Interest and discount	5,000
Premises less depreciation	2,000	Commission and Brokerage	500
Furniture	500		
Balance with RBI	10,000		
Computer	200		
Salary and bonus	1,400		
Interest on borrowings and deposits	2,000		
Audit fees	100		
Directors fees	200		
Silver	1,000		
Printing and stationeries	200		
Advertisements	200		
	90,800		90,800

Additional information:

1. Rebate on bills discounted for unexpired term is ₹3,00,000
2. Interest accrued on investments is ₹2,00,000

3. Charge 5% depreciation on Premises and 20% on Furniture
4. A provision for doubtful debts amounting to ₹1,00,000 is required.
5. Bills for collection amounted to ₹2,0,0000
6. Acceptances for customers ₹3,00,000
7. The directors desired to declare 5% dividend.

Prepare P & L a/c and B/S in the prescribed form.

Solution:

P & L a/c for the year ended 31-3-2016

Particulars	**Schedule No.**	**31-3-2016 ₹ in'000**
I. Income		
Interest earned	13	4,900
Other income	14	500
Total		5,400
II. Expenditure		
Interest expended	15	2,000
Operating expenses	16	2,300
Provisions and contingencies	–	100
Total		4,400
III. Profit / loss		
Net profit		1,000
Last year profit		5,300
		6,300
IV. Appropriations		
Transfer to statutory reserve (25%)		250
Proposed dividend		500
Balance carried to balance sheet		5,550
		6,300

Balance Sheet as on 31-12-2016

	Schedule No.	**2016 ₹ in '000**	**2015**
Capital and Liabilities			
Capital	1	10,000	
Reserves and surplus	2	10,800	

Deposits	3	55,000	
Borrowings	4	10,000	
Other liabilities and provisions	5	900	
Total		86,700	
Assets			
Cash and balance with RBI	6	11,000	
Bal. with banks and money at call and short notice	7	20,000	
Investments	8	2,200	
Advances	9	51,000	
Fixed assets	10	2,500	
Other assets	11	–	
Total		86,700	
Contingent liabilities	12	500	
Bills for collection			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. The statutory reserve of a banking company is at least ________ of its annual profit
   a) 10% b) 15%
   c) 20% d) **25%**

2. Assets acquired in satisfaction of claims of the bank is called
   a) Non-performing assets b) Performing assets
   c) **Non-banking assets** d) Banking assets

3. Non-performing assets should be disposed of within __________ from the date of acquisition.
   a) 7 months b) 7 days
   c) **7 years** d) 7 weeks

4. ___________ asset is one which ceases to generate income for the bank
   a) **Non-performing** b) Performing
   c) Non-banking d) Banking

5. Provision required for sub-standard assets is ________ of the total outstanding amount.
   a) **10%** b) 15%
   c) 20% d) 5%

6. Provision required for unsecured portion of doubtful asset is _______ of the total outstanding amount.
   a) **100%** b) 15%
   c) 20% d) 75%

7. Provision required for unsecured portion of asset up to one year the advance has been considered doubtful is ________ of the total outstanding amount.
   a) 100% b) 15%
   c) **20%** d) 25%

8. Bank is required to maintain _______ of net time and demand liabilities as cash reserve ratio
   a) **5%** b) 15%
   c) 25% d) 20%

9. Bank is required to maintain _____ of net time and demand liabilities as statutory liquidity ratio
   a) 5% b) 15%
   c) **25%** d) 20%

10. Doubtful assets are those which have remained non-performing assets for a period _________
    a) **Exceeding 18 months** b) Not exceeding 18 months
    c) Exceeding 18 years d) Not exceeding 18 years

11. Banks prepare the accounts for the
    a) Calendar year
    b) **Financial year**
    c) Co-operative year
    d) Diwali year

12. Banks show the provision for income tax under the head
    a) Contingency a/cs
    b) Contingent liabilities
    c) **Other liabilities and provisions**
    d) Borrowings

13. The heading other assets does not include
    a) Silver
    b) Interest accrued
    c) Inter-office adjustment (Dr)
    d) **Gold**

14. Rebate on bills discounted is
    a) Income
    b) Liability
    c) **Income received in advance**
    d) Income outstanding

15. A non-banking asset is
    a) Money at call and short notice
    b) **Any asset acquired from debtors in satisfaction of claim**
    c) An item of office equipment
    d) Furniture and fixtures

16. A non-performing assets is
    a) Money at call and short notice
    b) **An asset which ceases to generate income**
    c) Cash balance
    d) Cash balance with RBI

17. When an income is to be recognized on cash basis, a distinction should be made between
    a) **Performing and non-performing assets**
    b) Banking and non-banking assets
    c) Monetary and non-monetary assets
    d) Current and non-current assets

18. Paid up capital of a banking company must be at least ______ of the subscribed capital of a banking company
    a) **50%**
    b) 1/3
    c) 40%
    d) 2/3

19. No banking company shall pay any dividend on its shares _______ have been completely written off
    a) **until all its capitalized expenses**
    b) after all its capitalized expenses
    c) After all its revenue expenses
    d) Before all its revenue incomes

20. The subscribed capital of banking company is not less than half of the __________
    a) Subscribed capital
    b) **Authorized capital**
    c) Paid up capital
    d) Called up capital

21. The capital of banking company consist of only
    a) Equity shares
    b) Preference shares
    c) **Equity shares and Preference shares issued before 1-7-1944**
    d) Redeemable preference shares

22. The Reserve Bank of India compel all the commercial banks to follow the revised format of P & L a/c and Balance sheet on
    - a) 3-12-1992
    - b) **31-3-1992**
    - c) 1-3-1992
    - d) 23-1-1992

23. Schedule 14 gives the details of ________
    - a) **Other income**
    - b) Other expenses
    - c) Operating expenses
    - d) Income received in advance

24. Interest on deposits comes under
    - a) Schedule 16
    - b) Schedule 13
    - c) **Schedule 15**
    - d) Schedule 14

25. Schedule 8 deals with
    - a) Advances
    - b) **Investments**
    - c) Other assets
    - d) Cash

26. Statutory reserve will come under
    - a) Reserves and surplus
    - b) Appropriation
    - c) **Both a & b**
    - d) Provisions and contingencies

27. Rebate on bills discounted at the end should be credited in
    - a) Rebate a/c
    - b) Discount a/c
    - c) Bills discounted a/c
    - d) **Rebate on bills discounted a/c**

28. Rebate on bills discounted is
    - a) Rebate allowed by bank on large deposits
    - b) Rebate allowed by bank on large advances
    - c) **Discount received by the bank but not earned**
    - d) Discount not received by the bank but not earned

29. The financial statements of a banking company are now required to be prepared on ______basis
    - a) **Historical cost**
    - b) Replacement cost
    - c) Historical as well as replacement cost
    - d) All of the above

30. Number of schedules in the bank balance sheet is
    - a) 16
    - **b) 12**
    - c) 08
    - d) 04

31. The statutory reserve to be created by bank is
    - a) 15%
    - **b) 20%**
    - c) 10%
    - d) 12%

REVIEW QUESTIONS

A) Answer in short

1. What do you mean by non – banking assets?
2. Write a note on non – performing assets.
3. What is rebate on bills discounted?
4. How is interest on doubtful debts treated in bank accounts?
5. What do you mean by “statutory reserve”?
6. What is a contingent liability? What do they include?

B) Answer in detail

1. Discuss the legal provisions relating to the final accounts of a banking company.
2. Explain the various schedules to be prepared by a commercial bank.
3. How the following are treated in banking final account?

    a) Bad debts b) Reserve for bad debts c) Provision for taxation

    d) Unexpired discounts

EXERCISES

REBATE ON BILLS DISCOUNTED

1. On 31-12-2016 Indian Bank had the following unmatured bills

Date	Amount	Term (Months)	Discounted at
12-10-2016	36,000	6	7%
7-11-2016	73,000	4	6%
1-12-2016	18,000	3	5%

Calculate rebate on bills discounted as on 31-12-2016

2. As on 31st Dec. 2016, the books of the Hercules bank, include among others, the following balances

    Rebate on bills discounted (1-1-2008) ₹3,20,000

    Discount received ₹46,00,000

    Bills discounted and purchased ₹3,15,47,000

Throughout 2016, the bank's rate for discounting has been 18%. On investigation and analysis, the average due date for the bills discounted and purchased is calculated as 15th Feb. 2017. Show the calculation of the amount to be credited to the bank P & L a/c under discount earned. Show also the journal entries required to adjust the above mentioned account.

3. The trial balance of Kuber Bank Ltd., as on 31st Dec.2016 shows the following balances:

   i) Interest earned (including discount on bills) ₹45,40,600

   ii) Rebate on bills discounted (on 1st Jan. 2016) ₹4,750

   iii) The amount of unexpired discount as on 31st Dec.2016 ₹5,560

   Pass necessary journal entries and show "interest and discount" account

4. On 1-1-2016, the rebate on bills discounted a/c of a bank showed a credit balance of ₹1,00,000. On 31-12-16, the discount a/c showed a credit balance of ₹15,00,000 before adjusting unexpired discount. The bills discounted outstanding on 31-12-2016 were ₹2 crores with average maturity date of 31st Jan. 2017 and they were all discounted at 12% p.a. Write adjustment entries and relevant ledger accounts to record these items and also show how these items will appear in the final accounts of the bank.

5. When closing the books of Lakshmi Bank on 31st March 2016, you find in the loan account of Mr. Arif whose financial condition is reported to you as bad and doubtful. Interest in the same account due up to March 31,2016 amounted to ₹10,000. On July 1, 2016 a final dividend of 75 paise in the rupee has been received from him. Prepare necessary ledger accounts after passing journal entries.

6. Given below interest on advances of commercial bank.

₹ in Lakhs	**Performing assets**		**Non-performing assets**	
	Interest earned	**Interest received**	**Interest earned**	**Interest received**
Term loans	200	150	140	10
Cash credit overdraft	1,400	1,200	300	25
Bills purchased and discounted	300	300	150	40

Calculate the amount of interest to be recognized as income.

7. From the following information identify the non-performing assets of a commercial bank for the year ended 31st March 2016.

   Term loans: ₹300 lakhs on which interest remains past due for three quarters on ₹100 lakhs and for four quarters on ₹80 lakhs.

Cash credit and overdraft ₹2,000 lakhs on which interest remained past due two quarters on ₹300 lakhs for three quarters on ₹150 lakhs and for four quarters ₹150 lakhs.

Bills purchased and discounted ₹4,000 lakhs on which discounted past due for one quarter on ₹1,450 lakhs for two quarters on ₹800 lakhs, for three quarters on ₹700 lakhs and for four quarters on ₹500 lakhs.

8. The following balances have been extracted from the books of a banking company as on 31-3-16.

Bad debts	₹5,00,000
Advances	₹74,50,00,000
Profit before charging bad debts	₹7,00,000
Provision for taxation to be made 40% of net profit	

Show how to above items will appear in the banking company's P & L a/c and Balance sheet?

9. The following balances are from the trial balance of Vijaya Bank Ltd.

Loans, cash credit and overdraft ₹4,00,00,000

Bills term loans ₹1,00,00,000

Bills discounted and purchased ₹2,50,00,000

You are required to show how the above will be appearing in the balance sheet.

10. While closing the books of account, a commercial bank has its advances classified as follows:

	₹ (in lakhs)
Standard assets	16,000
Sub-standard assets	1,300
Doubtful assets:	
Up to one year	700
One year to three years	400
More than three years	300
Loss assets	500

You are required to calculate the amount of provisions to be made by the bank

PREPARATION OF P & L A/C WITHOUT ADJUSTMENTS

11. From the following information relating to Lakshmi Bank Ltd., prepare the P & L a/c for the year ended 31st Dec.2015.

Rent received	72,000	Commission	32,800
Interest on fixed deposits	11,00,000	Interest on savings bank	2,72,000
Interest on overdrafts	2,16,000	Discount on bills discounted	7,80,000
Interest on current account	1,68,000	Interest on cash credit	8,92,000
Depreciation on bank property	20,000	Salaries	2,18,000
Postage	5,600	Sundry charges	4,000
Directors fees	16,800	Printing	8,000
Law charges	3,600	Locker rent	1,400
Transfer fees	2,800	Interest on loan	10,36,000

12. From the following particulars, prepare profit & loss account of Krishna Bank Ltd. for 2015.

	₹		₹
Interest on loans	34,900	Balance of profit & Loss a/c	1,200
Interest on fixed deposits	36,500	Rent & taxes	1,800
Rebate on bills discounted	4,800	Interest on overdraft	12,800
Commission charged on customers	910	Discount on Bills discounted	19,400
Office expenses	15,500	Interest on savings deposits a/c	6,900
Director's remuneration	420	Postal expenses	150
Interest on cash credits	22,400	Printing & stationery	390
		Other expenses	180

13. From the following particulars, prepare profit & loss account of New Bank Ltd. for the year ended 31.03.15

	₹		₹
Interest on loans	2,60,000	Director's and Auditor's Fees	4,500
Interest on cash credits	2,25,000	Establishment expenses	56,000
Interest on fixed deposits	2,80,000	Interest on saving bank accounts	70,000
Rent & Taxes	20,000	Discount on bills discounted	2,00,000
Interest on overdrafts	56,000	Postage & Telegrams	1,500
Commission charged to customers	9,000	Printing & Advertisement	3,000
		Sundry charges	1,800

14. From the following information you are required to prepare profit & loss account of P.N. Bank for the year ended on 31.03.15 under the provisions of the act applicable thereto:

	₹ (in '000)		**₹ (in '000)**
Interest on loans	518.00	Sundry charges	2.00
Interest on cash credits	446.00	Advertisement & Publicity	1.40
Auditor's fees	2.40	Director's fees	6.00
Interest on overdrafts	108.00	Printing & stationery	0.40
Interest on saving bank deposits	220.00	Commission, Exchange & Brokerage	16.40
Interest on fixed deposits	554.00	Payment to Employees	108.00
Law charges	1.40	Locker rent	0.70
Rent, Taxes & Lighting	36.00	Transfer fees	1.40
Postage, telegrams & telephones	2.80	Depreciation on bank property	10.00
Discount on bills discounted	390.00		

PREPARATION OF P & L A/C WITH ADJUSTMENTS

15. From the following information, prepare P & L a/c of City Bank.

Interest on loan	2,590	Interest on fixed deposit	3,170
Commission	82	Payment to employees	540
Discount on bills discounted	1,060	Interest on cash credits	2,230
Rent and tax	180	Interest on overdraft	1,540
Directors fees	30	Auditors fees	12
Interest on savings deposits	680	Postage	14
Printing	29	Sundry charges	17

Additional information:

1. Provide for contingencies ₹2,00,000
2. Transfer ₹15,57,000 to reserve
3. Transfer ₹2,00,000 to Central Govt.

16. Following is the list of balance of Lakshmi Ltd. as on 31st March 2015.

Gross profit	87,050	Furniture	17,000
Rent	4,000	Opening P & L Appropriation (Cr)	15,000
Share capital	1,00,000	Creditors	17,500
Bank balance	46,200	B/R	9,800
Discount (Cr)	3,000	Salaries	7,500

Sundry expenses	7,050	Dividend paid (07-08)	9,000
Debtors	27,500	Plant	29,000
General reserve	15,500	Bills payable	7,000

Prepare P & L a/c and P& L Appropriation a/c for the year ending 31st March 2015 after providing for:

a) Depreciation at 20% on fixed assets

b) Provision for doubtful debts at 5%

c) Provide for 15% dividend.

17. The following are the balances of Indian Bank Ltd for the year ended 31-12-2015.

Interest on loans	5,18,000	Interest on fixed deposits	5,50,000
Commission received	16,400	Discount on bills discounted	3,90,000
Salaries	1,08,000	Interest on savings accounts	1,36,000
Interest on current account	84,000	Rent and taxes	36,000
Interest on overdrafts	3,08,000	Directors fees	8,400
Interest on cash credit	4,46,000	Postage and telegrams	8,600
Locker rent	2,000	Transfer fees	1,400
Sundry expenses	3,400	Depreciation on bank premises	10,000

Other information:

i) Rebate on bills discounted ₹98,000

ii) Bad debts ₹80,000

iii) Provision for income tax ₹3,00,000

From the above information, prepare the profit and loss account of the bank for the year ended 31-12-2015.

18. From the following details, prepare P & L account S Bank Ltd., for the year ended 31st Dec.2015.

Interest on FD	4,30,000	Interest on Loan	6,50,000
Discount on bills discounted	4.15,000	Interest on OD	2, 50,000
Interest on Cash Credit	4,10,000	Salaries	1,40,000
Repairs to bank properties	2,000	Rent	40,000
Locker Rent	5,000	Depreciation	10,000
Advertisement	4,000	Audit fees	12,000
Commission and exchange	24,000	Director’s fees	25,000

Transfer Fees	2,000	P.F. Contribution	12,000
P.F. Contribution	12,000	Local committee fees	10,000
Loss on sale of furniture	2,000	Printing	4,000
Loss on sale of Govt. Securities	5,000	Postage	2,500
Interest on Savings bank deposits	1,25,000	Legal charges	2,500

Additional information:

1. Rebate on bills discounted on 31st Dec. 2014 ₹19,000
2. Rebate on bills discounted on 31st Dec. 2015 ₹26,000
3. Bad debts to be written off ₹40,000
4. Provide for taxation ₹50,000

19. From the following particulars, prepare profit & loss account of Mysore Bank Ltd. for the year ended on 31.03.15

	₹		₹
Interest on loans	51,800	Rent & Taxes	3,600
Interest on fixed deposits	55,000	Interest on overdrafts	30,800
Commission received	1,600	Director's fees	600
Salaries and allowances	10,800	Auditor's fees	200
Discount on bills discounted	29,200	Interest on saving bank deposits	13,600
Rebate on bills discounted	9,800	Postage & telegrams	300
Interest on cash credits	44,600	Printing & stationery	600
Interest on current accounts	8,400	Locker rent	200
Sundry charges	400	Transfer fees	100
		Depreciation on bank properties	1,000

Other Information:

i) Provision for bad debts ₹8,000

ii) Provision for Income tax ₹30,000

20. From the following information, prepare profit & loss a/c of Thrifty Bank for the year ended 31.03.15

	₹ (in '000)		**₹ (in '000)**
Interest on loans	2,590	Rent, Taxes & Lighting	180
Interest on fixed deposits	3,170	Interest on overdrafts	1,540
Director's fees, Allowances & exp.	30	Postage, Telegrams & telephones	14

Auditor's fees & expenses	12	Payment to employees	540
Discount on bills discounted	1,060	Interest on Savings Bank deposits	680
Interest on Cash credits	2,230	Sundry charges	17
Commission	82	Printing & Stationery	29

Additional Information:

i) Provide for contingences ₹2,00,000

ii) Transfer ₹15,57,000 to Reserve fund

iii) Transfer ₹2,00,000 to Central Government

21. Prepare Profit and Loss Account of a bank from the following information.

Directors fees	30,000	Rent and rates	24,000
Printing	12,000	Postages	5,000
Other expenses	4,000	Depreciation of bank property	15,000
Audit fees	3,000	Balance of profit as on 1- 4- 2014	2,40,000
Salaries	3,60,000	Loss on sale of investments	5,000
Rent received	40,000	Profit on sale of investments	20,000
Commission	2,40,000	Interest paid on deposits	6,50,000
		Interest and discount received	12,50,000

Additional expenses:

i) Provide ₹15,000 for doubtful debts

ii) Provide ₹60,000 for taxation

iii) Rebate on bills discounted on 31-3-2015 ₹40,000

iv) Provide 10% dividend proposed on paid up capital of ₹10,000

22. The following are the figures extracted from the books of Lakshmi Bank Ltd as on 31-3-2015. Prepare P & L a/c as per the revised format with all necessary schedules.

	₹ (in '000)		**₹ (in '000)**
Interest and discount received	3,695	Advertisement	15
Issued and subscribed capital	1,000	Directors fees	100
Interest paid on deposits	2,032	Rent received	55
Profit on sale of investments	200	Audit fees	5
Payment to employees	200	Rent and tax paid	30
Statutory reserve under Sec.17	800	Postage	50
Depreciation on bank's property	30	Stationary	50
Commission, exchange and brokerage	200		

Further information:

a) A customer to whom a sum of ₹10,00,000 has been advanced has become insolvent and it is expected only 50% can be recovered from his estate. Interest due at 18% on his debt has not been provided in the books

b) There were also other debts for which a provision of ₹1,50,000 was found necessary by the auditors

c) Rebate on bills discounted on 1-4-2014 was ₹12,000 and on 31-3-2015 was ₹16,000

d) Provide ₹6,50,000 for income tax

e) Directors recommended 10% dividend

(NP – 3,39,000)

PREPARATION OF BALANCE SHEET

23. From the following balances, prepare the Balance Sheet of Lucky Bank Ltd., as on 31.03.15.

	₹		₹
Share capital (2,000 shares)	2,00,000	Depreciation Fund on premises	10,000
Premises	1,00,000	Profit & Loss a/c (cr.)	45,000
Money at call	9,00,000	Investments	7,00,000
Traveller's Cheque	2,00,000	Bills purchased	15,00,000
Deposits	56,00,000	Acceptances for customers	5,00,000
Loans	22,00,000	Bills for collection	4,00,000
Reserves	3,00,000	Rebate on Bills Discounted	5,000
Cash in hand	30,000	Cash with RBI	5,20,000
Cash with other Bank	4,50,000	Pension Fund	40,000

The following were completely omitted while the above balances were calculated. They should be adjusted suitably.

- Travellers Cheque paid ₹10,000
- Money at call recovered ₹20,000

24. On 31 -3- 2015 the following are the ledger balances of Kovai Bank Ltd.

Particulars	₹ ('000)	Particulars	₹ ('000)
Share capital	3,500	Cash with other banks	4,400
Fixed deposit a/c	6,650	Savings bank a/c	21,000
Current a/c	56,000	Money at call and short notice	2,100
Investment	21,000	P & L a/c (Cr) 1-4-2014	1,470

Land (after depreciation up to 31-3-15)	7,445	Acceptances on behalf of customers	1,400
Cash	420	Bills discounted and purchased	4,200
Cash with RBI	10,500	Bills payable	5,600
Sundry creditors	210	Bills for collection	980
Unclaimed dividend	210	Net profit for 2014-15	1,680
Reserve fund	2,450	Dividends for 2014	350

The net profit is after deducting provisions for bad debts ₹ 2,10,000; tax provision ₹ 7,00,000 and rebate on bills discounted ₹35,000. Prepare the balance sheet of bank as on 31-3-2015.

PREPARATION OF P & L A/C AND BALANCE SHEET

25. From the following ledger balances of Laxmi Bank Ltd, prepare the Profit and Loss account and Balance sheet as on 31st March 2015.

Equity shares of ₹ 100 each	1,25,000	Statutory reserve	60,000
Current and deposit accounts	7,73,200	P & L a/c balance	1,500
Interest paid	2,700	Govt. securities	60,000
Other securities	82,500	Shares	63,700
Depreciation on premises	2,200	Interest and discount	24,500
Cash in hand and with RBI	1,58,400	Payment to employees	7,400
Bills discounted	37,900	Loans and advances	4,66,500
Building and furniture	41,800	Non-banking assets	33,700
Money at call and short notice	27,400		

Make a provision for rebate on bills discounted ₹ 300.

26. The following is the trial balance extracted from the books of Vysya Bank. You are required to prepare profit & loss a/c and the balance sheet as at 31.03.15 after taking into consideration the adjustments given below:

	Debit ₹		**Credit ₹**
Money at call & short notice	3,00,000	Equity shares of ₹10 each	6,00,000
Depreciation on Bank property	6,000	8% Preferential shares of ₹10 each	3,00,000
Cash at bank	3,60,000	Fixed deposit	3,50,000
Investment in government	1,80,000	Savings Bank account	2,50,000
Loans & cash credits	13,48,200	Current a/c	6,00,000
Furniture	30,000	Reserve fund	3,00,000

Premises	2,52,000	Interest & discount	3,00,000
Interest on deposits	1,80,000	Profit & Loss a/c 01.04.14	42,000
Salaries	48,000	Unclaimed dividend	1,20,000
Audit fees	6,000	Pension fund	36,000
Director's fees	3,000	Borrowings	90,000
Cash in hand	3,00,000	Rent	12,000
Printing & stationery	3,000	Commission	48,000
Non-Banking Assets	30,000		
Other Expenditure	1,800		
	30,48,000		30,48,000

Other information:

- Provide for bad debts ₹10,000
- Provide for rebate on bills discounted ₹4,000
- Acceptance on behalf of customers ₹5,00,000
- Bills for collection ₹4,80,000.

27. The following are the trial balance of Indian Bank Ltd as on 31-12-2016.

	Debit ₹		**Credit ₹**
Loans and advances	23,85,000	Share capital of ₹20 each	5,00,000
Premises	60,000	Reserve fund	2,00,000
Reserve fund investment	2,00,000	Current and other deposits	20,80,000
Investments in Govt. securities	1,60,000	P & L a/c as on 1-1-2016	35,000
Salaries	60,000	Interest and discounts	3,12,000
General expenses	32,000		
Rent and rates	3,000		
Directors fees	20,000		
Money at call and short notice	80,000		
Income tax paid	26,000		
Bills discounted	36,000		
Interim dividend paid	25,000		
Cash in hand with RBI	40,000		
	31,27,000		31,27,000

Adjustments

a) Interest accrued on investments ₹22,000.

b) The market value of Govt. securities is ₹1,50,000 and provision is to be made.

c) Endorsements on behalf of customers ₹2,10,000.

d) Authorized capital 50,000 shares of ₹20 each.

Prepare P & L a/c and balance sheet as on 31-12-2016.

28. From the following balances extracted from the books of Srinidhi Bank Ltd., prepare Profit & Loss a/c & Balance Sheet as at 31.03.15.

	Debit ₹		**Credit ₹**
Money at call & short notice	22,500	Share capital	1,50,000
Cash in hand	30,000	Profit & Loss Account	60,000
Cash with RBI	45,000	Deposits	8,89,500
Investments	96,000	Borrowings	90,000
Buildings	68,400	Bills Payable	24,000
Balance with other banks	57,000	Staff Security Deposits	10,500
Cash credits	7,95,000	Discount on bills	15,000
Interest on deposits and borrowings	1,18,500	Commission and Brokerage	13,500
Bills purchased	1,80,000	Interest on loans	1,75,500
Salary and other expenses	72,000	Income from investments	8,700
Audit fees	5,100	General Reserve	61,500
Postage, printing & stationery	6,300		
Depreciation on Assets	2,400		
	14,98,200		14,98,200

Other Information:

i) Provide ₹10,000 for rebate on bills discounted

ii) Bills for collection ₹1,50,000 and endorsement ₹1,40,000

iii) Provide Income Tax @ 40% of Net Profits

29. The following are the balances of City Bank Ltd. You are required to prepare the Profit & Loss a/c & the Balance Sheet as at 31.03.15.

	Debit ₹		**Credit ₹**
Bad debts written off	12,500	Equity shares of ₹500 each ₹150 paid up	3,00,000
Reserve fund investments	2,00,000		
General expenses	69,500	Deposit accounts	7,00,000
Interest paid on deposits	16,000	Profit & Loss a/c	25,000
Acceptances for customers	1,50,000	Discount received	58,000

Endorsement and Guarantee	7,500	Commission & Exchange	5,000
Cash on hand	25,000	Interest Received	25,000
Cash in RBI	2,00,000	Endorsement and Guarantee	7,500
Owings by foreign correspondents	20,000	Customers liability for acceptances	1,50,000
Loans and Advances	15,50,000	Borrowings from banks	6,50,000
Investments	10,00,000	Statutory Reserve	2,00,000
Bills discounted	6,50,000	Current Accounts	20,00,000
Premises	2,20,000		
	41,20,500		41,20,500

Other Information:

i) Interim dividend paid during the year ₹20,000

ii) Provide for rebate on bills discounted ₹6,000 and for income tax reserve ₹15,000.

30. From the following Trial Balance of Canara Bank Ltd., prepare the Profit & Loss a/c for the year ending 31.03.15 & Balance Sheet as on that date.

	Debit ₹		**Credit ₹**
Money at call & short notice	4,00,000	Paid capital	10,00,000
Cash on hand	5,00,000	Reserve fund	2,50,000
Cash with RBI	2,00,000	Fixed deposits	12,00,000
Interest on deposits and borrowings	3,10,000	Borrowings from City Bank	3,00,000
Investments	2,00,000	Pension fund	1,00,000
Furniture less depreciation	80,000	Unclaimed Dividend	50,000
Premises less depreciation	3,20,000	Rent	10,000
Salaries and allowances	90,000	Interest & discounts	6,00,000
Loans, cash creditors etc	15,00,000	Commission received	60,000
Audit fees	8,000	Profit & loss a/c 01.04.14	60,000
Directors fees	7,000		
Depreciation on Bank property	9,000		
Printing & stationery	4,000		
Other expenses	2,000		
	36,30,000		36,30,000

Other Information:

i) Provide ₹5,000 for rebate on bills discounted

ii) Provide ₹22,000 for bad debts

iii) Bills for collection on behalf of customers ₹50,000

iv) Provide for taxation ₹4,000.

31. From the following trial balance of Indian Bank Ltd. as on 31.03.15, prepare Bank Final accounts:

	Debit ₹		**Credit ₹**
Investment in government securities	5,75,000	Paid-up capital shares of ₹100/- each	15,00,000
Cash in hand and with RBI	7,00,000	P & L a/c balance as on 01.04.14	40,000
Deposit with other banks	12,45,000	Fixed deposits	26,00,000
Money at call and short notice	4,00,000	Savings Bank a/c	21,00,000
Loans, Advances & Overdrafts	74,00,000	Current a/c	34,00,000
Interest on deposits and borrowings	1,75,000	Commission & Exchange	1,02,000
Buildings	2,00,000	Bills Payable	1,00,000
Salaries and allowances to staff	85,000	Interest & discount	6,00,000
Furniture	45,000	Investment Reserve	25,000
Unexpired Insurance	450	Reserve fund	3,10,000
Stamps in hand	150	Branch adjustment	25,000
Contribution to Provident fund	18,400	Pension fund	58,500
Director's fees	4,500		
Audit fees	1,500		
Printing & stationery	3,550		
Rent, Rates & Taxes	6,450		
Postage & telegram	800		
	1,08,60,800		1,08,60,800

Other Information:

i) Market value of investments as on 31.03.15 was ₹5,48,000. The investments were written down to this figure

ii) Provide for: Taxation ₹75,000

iii) Doubtful debts ₹50,000

iv) Rebate on bills discounted ₹25,000

v) Acceptances, endorsements and other obligation ₹2,50,000

vi) Depreciate Building at 2½ %

32. Indian Bank Ltd. presents its ledger balances on 31.03.15.

	₹		₹
Loans	4,00,000	Cash with RBI	1,86,000
Cash credits	1,00,000	Money at Call	1,60,000
Overdrafts	70,000	Share capital	10,00,000
Premises	1,00,000	Reserve fund	5,00,000
Investments	8,00,000	Current Account	2,00,000
Salaries	56,000	Fixed deposit	2,50,000
General Expenses	54,000	Savings Bank Deposit	50,000
Rent, Rates & Taxes	4,600	Cash certificates	50,000
Director's fees	3,600	Profit/Loss a/c 01.04.14 (Cr.)	32,000
Stock of Stationery	17,000	Interest & Discounts	2,56,000
Bills purchased	92,000	Interim Dividend	34,000
Cash in hand	2,00,000	Shares in company	1,00,000
		Recurring Deposits	40,000

Other Information:

i) Provide for doubtful debts ₹10,000

ii) Interest receivable on investments ₹16,000

iii) Unexpired discounts ₹760

iv) Interim dividend declared was 4% actual

v) Endorsement and guarantee ₹2,00,000

vi) Additions made to premises during the year ₹10,000

vii) Depreciate premises at 5% on opening balance.

Prepare Profit & Loss a/c and Balance Sheet.

33. Following is the Trial Balance of Modern Bank Ltd. as on 31.03.15. Prepare Bank final accounts.

Debit Balance:	₹	**Credit Balance:**	₹
Premises	2,10,000	Interest & Discount	2,50,000
Money at call & short notice	2,50,000	Share Capital	5,00,000
Furniture	25,000	Reserve fund	2,50,000
Cash in hand	2,50,000	Deposit	7,50,000
Cash at Bank	3,00,000	Telegraphic transfer	2,50,000
Investments	1,50,000	Traveller's letter of credit	2,50,000

Loan & cash credit	11,23,500	Pay order and gift cheque	50,000
Interest on deposits	1,50,000	Pension fund	75,000
Audit fees	5,000	Borrowings from banks	50,000
Salaries	40,000	Unclaimed Dividend	30,000
Director's fees	2,500	Rent	10,000
Printing & Stationery	2,500	Commission received	40,000
Depreciation	5,000	Profit & Loss a/c	30,000
Non-Banking Assets	25,000	Bills payable	5,000
Other Expenditure	1,500		
	25,40,000		25,40,000

Other Information:₹

- Provide ₹2,500 for rebate on bills discounted
- Liabilities on bills rediscounted ₹5,000
- Bills for collection amounted to ₹1,50,000
- Provide ₹500 for bad debts
- Provide for income tax ₹2,000
- Director's proposed 5% dividend on share capital
- Liabilities outstanding on forward exchange contract ₹2,500

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. From the following particulars prepare a profit and loss a/c for the year ended 3 Dec of Laxmi Bank Ltd.

	Rs.
Rent received	72,000
Exchange commission	32,800
Interest on fixed deposit	11,00,000
Interest on savings a/c	2,72,000
Interest on cash credit	8,92,000
Salaries	2,18,800
Sundry charges	4,000
Printing	8,000
Locker rent	1,400
Interest on loans	10,36,000
Interest on overdraft	2,16,000
Discount on bill discounted	7,80,000
Interest on current a/c	1,68,000
Depreciation on Bank property	20,000
Postage	5,600
Director fees	16,800
Law charges	3,600
Transfer fees	2,800

[Azhagappa University, April,2011]

2. The following figures are extracted from the books of the new Bank Ltd as on 31st march 2013.

Particular	Rs. (‘000)
Interest and discount received	3,695
Interest paid on deposits	2,032
Issued and subscribed capital	1,000
Statutory reserve under sec 17	800
Commission, exchange and brokerage	200
Rent received	55
Profit on sale of investments	200
Audit fees	5
Payment to employees	200
Director’s fees and allowance	30
Rent and tax paid	100

Postage and telegrams	50
Depreciation on bank's properties	30
Stationary etc	50
Advertisement and publicity	15

The further information is given

(a) A customer to whom a sum of Rs. 10,00,000 has been advanced has become insolvent and if is expected only 50% can be recovered from his estate. Interest due at 18% on his debt has not been provided in the book:

(b) There were also other debts for which a provision of the Rs. 1,50,000 was found necessary by the auditors:

(c) Rebate on bills discounted as on 1 stapril 2012 Rs. 12,000. Rebate on bills discounted as on 31st march 2013 Rs. 16,000:

(d) Provided Rs. 6,50,000 for income tax:

(e) The directors desire to declare 10% dividend. Prepare the profit and loss account in accordance with the law. Make necessary assumptions.

[Azhagappa University, April,2013]

3. From the following information, find out the amount of provision to be shown in the Profit and Loss Account of a Commercial Bank :

Assets :	Rs. in Lakhs
Standard	8,000
Substandard	6,000
Doubtful :	
For One year	1,000
For Three years	1,600
For more than 3 years	400
Loss Assets	1,200

[Madras, II M.Com., (Old) Oct. 2003]

[Ans : Total Provision : 2,700 Lakhs]

4. The following are the ledger balances extracted from the books of a Banking Company as on 31-3-2002

Advances	Rs.15,00,000
Bad debts	Rs.10,000

The profit before charging bad debts was Rs.40,000. Create a provision for bad debts of Rs. 15,000 and Provision for Taxation at 60% of net profits.

Show how the above items will appear in the Banking Company's Profit &Loss A/c and Balance Sheet.

[Madras B.C.S., April 2003]

[Ans : Total of Provisions and contingencies : Rs. 34,000; Net Profit : Rs. 6,000; Profit carried to B/S : Rs. 4,500; In Schedule 5 of B/S :Rs. 24,000 Provisions are to be shown In schedule 5 of B/S; Rs. 1,500 to be added to statutory reserve]

5. While closing the books of a bank on 31st December. 1986, you find in the loan ledger an unsecured balance of Rs. **1,00,000**in the account of a merchant whose financial condition is reported to you as doubtful. Interest on the same account amounted to Rs. 10,000 during the year.

During year 1987, the bank accepted 60 paise in the rupee on account of the total debt upto 31st December, 1986.

Show the merchant's loan account.

[Bharathiar, B.Com., Nov. 2003]

[Ans: Amount written off as bad debts — Rs. 40,000; Interest taken into account — Rs. 6,000]

6. From the following particulars relating to the Punjab Bank Ltd. ascertain the Profit balance carried over to the Balance sheet:

	Rs.
Net Profit for the year	1,28,000
Profit brought forward from the Previous year	1,20,000
Transfer to Statutory Reserve	25%
Transfer to other reserves	10%
Transfer to proposed dividend	20,000

(Madras, B,Corn (A19 Ap. 2009; B.Com, B.Com(CS) Nov. 2007]

[Ans: Rs. 1,83,200]

7. From the following details relating to a Banking Company. find out the profit balance carried over to the Balance Sheet.

Interest earned	5,25.000
Other Incomes	2,20.440
Interest expended	1,25.000
Operating expenses	1,83,686

Profit brought forward from the previous year 1.00,640

Transfer to the Statutory Reserve at 25%

[Madras, B.Com(AF) Nov. 2009; B.C.S. Oct. 2000]

[Ans : Rs. 4,28,205]

8. From the following balances prepare single column P&L A/c of Lakshmi Bank Ltd. for the year ending 31-12-2002.

	Rs.in'000
Interest on cash credits and loans	1,790
Interest on deposits	620
Administrative expenses	480
Discount	210
Commission & exchange	300
Rebate on bills discounted 1-1-2002	90

Determine the profit after making a provision for rebate on bills discounted Rs. 2,90,000

(Madras, I M.Com., April 2004]

[Ans : Net Profit : Rs. 1,000 Thousands]

9. From the following details relating to the New Bank Ltd. find out the net profit earned by the bank in the year 1997-98.

Interest earned	37,01,738
Other incomes	4,55,000
Interest expended	20,37,452
Operating expenses	4,80,286
Provisions and contingencies	13,00,000
Profit brought forward from the previous year	Nil
Transfer to statutory reserve	84,750
Transfer to other reserves	Nil
Transfer to proposed dividend	1,00,000
Balance carried over to Balance Sheet	1,54,250

[Madras, B.Com., B.Com(CS) Ap. 2009; B.C.S. April 2000]

[Ans : Net profit : Rs. 3,39,000]

10. While closing its books of accounts, a commercial bank has its advances classified as follows:

	Rs. in lakhs
Standard assets	16,000
Sub-standard assets	1,300
Doubtful assets:	
upto one year	700
One to three years	400
More than three years	200
Loss assets	500

You are required to calculate the amount of provision to be made by the bank, assuming that all the doubtful assets are secured.

(Madras, B.Com(CS)Ap. 2009; B*Com(ICE) Oct 2007; lsi M.ComNay. 2003]*

[Ans: Total provision required — Rs. 1,030 lakhs]

11. On 31st December, 1991, the loan ledger in the books of a bank showed a debit balance of Rs. 2,00,000 including Rs. 40,000 due from a merchant which is doubtful. The interest accrued on the loans upto 31st December, 1991 was Rs. 10,000 including Rs. 2,000 on doubtful debt. The merchant became insolvent and the official receiver paid a dividend of Re. 0.25 in the rupee on 31st January, 1992.

Pass the necessary journal entries in the books of the bank on 3Ist December, 1991 and 31st January, 1992 and prepare the loan account.

[Madras, B.Com., B.Com. (CS) Nov. 2007 Ap 2006; B.Com]

[Ans: Amount written off as bad debts Rs. 30,000: Interest taken into account — Rs. 500]

12. In respect of the following transactions of X Bank Ltd., give necessary journal entries and their treatment in the Profit and Loss Account and Balance Sheet in respect of the year ended 31.12.1990. The following bills were discounted at 5% p.a.

Discounted on	*Amount Rs.*	*Due date inclusive of 3 days of grace*
1. 28.12.90	50,000	31.1.1991
2. 29.7.90	1,00,000	30.11.1990
3. 29.10.90	4,00,000	30.4.1991
4. 31.12.90	30,000	3.3.1991

(Madras, B.Com.(PZ4A) Nov. 2006; Nov. 2005: 1st M.Com.(ZHC) Nov. 2004 (Modified); 11 M.Com., April 2001; B.Com., May 1997) (Periyar, B.Com (CA) Oct. 2005; Bharathiar, B.Com., Nov. 2004)

[Ans : Rebate on bills discounted on 31.12.90 — Rs. 7,042]

13. The following is an extract from the Trial Balance of a bank as on Dec. 31, 1991.

	Rs.	Rs.
Bills discounted	50,00,000	
Rebate on bills discounted 1.1.91		20,057
Discount received		1,50,000

The following unexpired bills are included in the bills discounted as shown above:

Date 1991	*Amount Rs.*	*Term in months*	*Discounted @ % p.a.*
Oct. 10	00,000	4	12
Nov. 15	,00,000	3	10
Dec. 20	5,00.000	2	11

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate journal entries for the same. How will the relevant items appear in the bank's balance sheet

(Madras, B.Com., May 2006)

[Ans: Rebate on bills discounted on 31.12.91 — Rs. 15,057; Viscount received to be credited to P & L A/c — Rs. 1,55,000; Bills discounted is shown in Schedule '9' on B/S assets side; Closing rebate of Rs. 15,057 is shown in Schedule '5' on B/S Liabilities side]

14. The following accountsare extracted from the Trial Balance of Hindu Bank Ltd., as on 31.12.1990. You are required to show the rebate on hills discounted A/c and interest and discount A/c. How %% ill these items appear in the Bank's Balance Sheet?

	Dr	**Cr.**
Interest and discount		96,62,400
Rebate on bills discounted		
Bills discounted and purchased	3,72,700	10,840

It is ascertained that proportionate discount not yet earned on the balance of bills discounted, which will mature in 1991 amounts to Rs 15,460.

[Madras, M. Com., April 2003]

[Ans: Amount of interest and discount to be shown in the Profit and Loss Account Rs. 96,57,780; Rebate on bills — Rs. 15,460 will appear as a liability and bills discounted Rs. 3,72,700 as an asset in the balance sheet]

15. From the following particulars, prepare the Profit and Loss Account of Chennai Bank 1,td., for the year ending 31st March 1992.

	(Rs. in '000)
Interest on deposits	3,200
Commission (Cr)	100
Interest on loans	2,490
Sundry chrges (Dr)	100
Rent and taxes	200
Establishment	500
Discount on hills discounted	1,490
Interest on overdrafts	1,600
Interest on cash credits	2,320
Auditors' fees	35
Directors' fees	16
Bad debts to be written off'	300

[Madras, B.Com(PZ4A) Nov. 2008; B.Com(CS) Ap. 2008; B.Com (ICE) Ap 2007; 1st M.Com. (CA1A) Nov. 2006;B.Com.(ICE) Oct. 2006; B.Com. (Sent — PZ4A) Nov. 2005;Madurai, B.Com., Ap. 2003]

[Ans: Net profit for the year Rs. 36,49,000; Balance carried to Balance Sheet Rs. 27,36,750]

16. Prepare the Profit and Loss Account for the year ended 31.12.1992 of Kasinathan

Bank Ltd..from the following particulars.	(Rs. in '000)
Interest on loans	250
Interest on savings accounts	150
Interest on cash credits	160
Interest on· fixed deposits	190
Interest on overdrafts	50
Amount charged against current accounts	20
Rebate on bills discounted	19
Salaries and allowances	120
Discount	40
'Rent tax insurance etc	5

Dearness allowances	35
Commission, brokerage and exchange	15
Managing directors salary	15
Contribution to provident fund	10

[Madras, B.Com(CS) Nov. 2008; 1st M.Com. (ZHC) Nov. 2005; BCS April 2004; B.Com (ICE) May 2001 B.Com., March 1995, March 1994, Sep. 1992]

[Ans: Net Profit for the year Rs. 10,000 Balance carried to Balance Sheet Rs. 7,504]

17. From the following information, relating to Adarsh Bank Limited, prepare Profit and Loss A/c for the year ending 31-3-94 along with necessary schedules in the Revised format :

	(Rs. in '000)
Interest, discount earned	31,628
Income on investments	11,810
Interest received on balance with RBI	4,243
Commission, exchange and brokerage	2,907
Profit on sale of investments	114
Interest on deposits	31,404
Interest on RBI loan paid	3,362
Salaries to employees	9,717
Rent, taxes and lighting	1,168
Depreciation on Bank property	379
Directors fees	7
Auditors fees	41
Law charges	22
Postages, Telegrams, Telephone, etc.,	403
Other expenditure	1,799
Balance of Profit B/D from last year	1,000

Adjustments:

(a) Make a provision for I.T. @ 51.75% on profit.

(b) Transfer 25% of profit to statutory reserve and 5% to Revenue Reserve.

(c) Transfer to proposed dividend 2,00,000.

Madras, M.Com.(ZHC) Nov. 2006; B.Com., April 2000]

[Ans : Profit before tax : Rs. 24,00,000; Provision for 1.t. :Rs. 12,42,000; Net Profit : Rs. 11,58,000; Balance carried to Balance Sheet : Rs. 16,10,600]

18. From the following ledger balances of peoples bank Ltd, prepare profit and loss account.

Interest paid on deposits	1,60,520
Commission exchange and brokerage	44,240
Interest received	5,32,260
Discount on bills discounted	2,43,760
Salary and Provident fund	40,000
Profit on sale of fixed assets	30,000
Printing and Stationery	10,000
Postage and telephones	20,000

***Note:* Provide for taxation Rs. 20,000 and rebate on bills discounted was Rs. 14,380.**

[Madras, B.Com., Oct. 2002]

[Ans: Net profit for the year Rs. 5,85,360; Balance carried to Balance Sheet Rs. 4,39,020]

19. From the following information, prepare Profit and Loss Account of Thanjavur Bank for the year ended on 31st December, 1992:

	(Rs. in Thousands)
Interest on loans	2,590
Interest on fixed deposits	2,750
Rebate on bills discounted	490
Commission	82
Establishment	540
Discount on bills discounted (net)	1,460
Interest on cash credits	2,230
Interest on current accounts	420
Rent and taxes	180
Interest on overdrafts	1,540
Directors fees	30
Auditors fees	12
Interest on savings bank deposit	680
Postage and telegrams	14
Printing and stationery	29
Sundry charges	17

Bad debts to be written off amounted to Rs. 4,00,000. Provision for taxation may be made @ 55%.

Madras, B.Com (ICE) Ap 2007; BCS Oct. 2001; BCS (ICE) May 2001]

[Ans: Provision for taxation 15,56,500; Net profit for the year — 12,73,500; Balance carried to Balance Sheet — Rs. 9,55,125]

20. From the following information prepare Profit and Loss Account of Vasavi Bank Ltd., for the period ended on 31.3.1995.

	(Rs. In thousands)
Interest on loans	300
Interest on fixed deposits	275
Commission	10
Exchange and brokerage	20
Salaries and allowances	150
Discount on bills (gross)	152
Interest on cash credits	240
Interest on cash savings bank deposit	87
Interest on temporary overdrafts in current accounts	30
Postage, telegrams and stamps	10
Printing and stationery	20
Sundry expenses	10
Rent	15
Taxes and licenses	10
Audit fees	10

Additional information:

(a) Rebate on bills discounted Rs. 30,000

(b) Salary of Managing director Rs. 30,000

(c) Bad debts Rs. 40,000

(d) Provision for income tax is to be made at 55% (round off to nearest 1,000)

(e) Interest of Rs. 4,000 on doubtful debts was wrongly credited to interest on loans account.

Workings should form part of your answer.

[Madras, B.Com(CS) (ICE) Oct.,2008; BCS (PYD) Nov. 2005; BCS (NYD) April 2005; M.Com., April 1997]

[Ans: Net profit — Rs. 27,000; Provision for taxation — Rs. 33,550 or Rs. 34,000 (rounded off to nearest thousand)]

21. From the following information prepare Profit and Loss Account of South India Bank Ltd., as on 31st March 1996.

	Rs. in 000's
Interest and discount	3,045
Income from investments	115

Interest on balance with RBI	180
Commission exchange and brokerage	820
Profit on sale of investments	110
Interest on deposits	1,225
Interest paid to RBI	161
Payment to and provision for employees	1,044
Rent, taxes and lighting	210
Printing and Stationery	180
Advertisement and publicity	95
Depreciation	92
Directors' fees	220
Auditor's fees	120
Law charges	230
Postage, telegrams and telephone	70
Insurance	56
Repairs and maintenance	48

Other information:

(a) Interest and discount mentioned above is after adjustment for the following : (Rs. in thousands)

Tax provision for the year	220
Provision during the year for doubtful debts.	102
Loss on sale of investments	12
Rebate on bills discounted	58

(b) 25% of profit is to be transferred to statutory reserves and 5% of profit is to be transferred to revenue reserve. Profit brought forward from last year Rs. 16,000.

[**Madras, II M.Com., (Old) Oct. 2003]**

[Ans: Net profit for the year Rs. 5,19,000; Balance taken to balance sheet Rs. 3,79,300]

[Hint: The items in (a) above, except rebate on bills should be added back to interest and discount.Then they must be shown in their respective schedules.]

22. The following figures are extracted from Sri Lakshmi Vitas Bank Ltd., as on 31.12.91.

	(Rs. in ('000)
Interest and discount received	4,060
Interest paid on deposits	2,404

Issued and subscribed capital	1,000
Reserve under Section 17	700
Commission, exchange and brokerage	180
Rent received	60
Profit on sale of investments	190
Salaries and allowances	210
Directors' fees and allowances	24
Rent and taxes	108
Stationery, printing	48
Postage and telegrams	40
Preliminary expenses (written off)	10
Audit fees	8
Depreciation on bank's property	25

The following further information is available.

(1). A customer to whom a sum of Rs. 5,00,000 has been advanced has become insolvent and it is expected that only 40% can be recovered from his estate. Interest due at 15% on his debt has not been provided in the books.

(2). Provision for bad and doubtful debts on other debts necessary Rs. 1,00,000.

(3). Rebate on bills discounted as on 31.12.1990 Rs. 10,000. Rebate on bills discounted as on 31.12.1991 Rs. 15,000.

(4). Provide Rs. 7,00,000 for income tax.

(5). The directors desire to declare 10% dividend

Prepare the Profit and Loss Account in accordance with the provisions of law.

[Madras, B.CS., (ICE) Oct. 2003 (1/2 Figs.);

M.Com., Oct. 2002; B.A. Corp., Sep. 1997;

Madras, B.A., March 1995]

[Ans: Net profit — 5,08,000; Balance carried over to balance sheet — Rs. 2,81,000]

Hint: Ignore interest on bad debt. Transfer to statutory reserve is increased to 25%.

23. The following are the details of advances of a commercial bank: (Rs. in '000)

Bills purchased and discounted	300
Cash credits, and loans repayable on demand	400
Term loans	100

The following are the details of the above advances:

Secured by Tangible assets	600
Covered by banks and Government	120

Unsecured	40
Doubtful debts	40

In case of doubtful debts the bank did not hold any security and they were all sanctioned to priority sectors in the form of demand loans.

The total advances outstanding from different sectors stood as follows:

	(Rs. in '000)
Priority sectors	320
Public sector	60
Balance from others	420

Show the treatment of the above items of advances in the Bank's final accounts.

[Madras, B.C.S. (ICE) Oct. 2001]

[Ans: Schedule 9 must be shown with details]

24. On 31.12:1993, the following balances stood in the books of Asian Bank Ltd.

	(Rs. in '000)
Share capital — issued 80,000 shares of Rs. 100 each, Rs. 50 paid	4,000
Reserve fund	6,200
Fixed deposits	42,600
Savings bank deposits	19,000
Current accounts	23,200
Money at call and short notice	1,800
Government securities	9,000
Other investments	16,000
Profit and Loss Account (Cr) balance (1.1.93)	1,350
Dividend for 1992	400
Premises (after depreciation upto 31.12.93, Rs. 45,000)	2,950
Cash in hand	380
Cash with RBI	10,000
Cash with other banks	6,000
Bills discounted	51,000
Loans and overdrafts	4,136
Drafts payable	70
Unclaimed dividends	60
Rebate on bills discounted	50
Short loans (Cr)	4,750
Furniture (after depreciation upto 31.12.93, Rs. 1,36,000)	1,164
Net profit for 1993	1,550

Prepare the balance sheet as per the banking regulation Act.

[Madras, B.Com Ap. 2008; B.Com(CS) Av. 2008: B.Com (ICE) Oct 2005]

[Ans: Balance sheet total — Rs. 10,24,30,000; Profit and Loss A/c balance shown in balance sheet Rs. 21,12,500; Addition to statutory reserve is Rs. 3,87,500]

Hint: Prepare Appropriations part of P & L A/c as working note. Currently transfer to Statutory Reserve is 25% of Profit.

25. On 31.3.93 the following balances stood in the books of New Bank Ltd., after preparing Profit and Loss A/c.

	(Rs. in Tousands)
Share capital	3,500
Reserve fund	2,450
Fixed deposit accounts	6,650
Savings bank accounts	21,000
Current Accounts	56,000
Money at call and short notice	2,100
Investments (at cost)	21,000
Profit & Loss Account (Cr) 1.4.92	1,470
Dividends for 1992	350
Land and Buildings (after depreciation) upto 31.3.93	7,445
Cash in hand	420
Cash with reserve bank	10.500
Cash with other banks	9,100
Borrowings from other banks	4,400
Bills discounted and purchased	4,200
Sundry creditors	210
Bills payable	5,600
Loans, overdrafts, and cash credits	49,000
Unclaimed dividend	210
Bills for collection	980
Acceptance on behalf of customers	1,400
Net profit for 1992-93	1,680

[After deducting provisions for bad debts Rs. 2,10,000; tax provision Rs. 7,00,000 an rebate on bills discounted Rs. 35,000]

Prepare the balance sheet of the bank as on 31.3.93.

[Thiruvalluvar B.Com., April 2008]

[Madras, B.Com. B.Com (CS) Nov. 2009; B.Com., March 1995]

[Ans: P & L A/c balance carried over to balance sheet — Rs. 23,80,000; Balance sheet total — Rs. 10,37,65,000]

[Hint: (1) Provision for doubtful debts can also be reduced in schedule 9.

(2) Prepare Appropriation part of P&L a/c as working note]

26. From the following ledger balances of Indian Bank 1 td .prepare the Profit and Loss Account and Balance Sheet as on 30th June 1980.

	Rs.
Freehold and leasehold property	4,15,000
Premises and furniture	3,37,500
Loans and advances	46,65,000
Bills discounted	3,79,500
Money at call and short notice	2,74,250
Cash in hand and with RBI	15,84,750
Interest. discount and counission	2,41,500
Premises account — amount written oft'	22,500
Current expenditure, salaries, rent, etc.	71,250
Amount added to staff retirement fund	3,000
Shares and stock	6,37,500
Govt. securities	6,00,000
Other securities	8,25,000
Interest accrued and paid	25,500
Profit and Loss Account (1.7.79)	15,300
Acceptance on behalf of customers	12,00,000
Current accounts and deposits	77,00,150
Reserve. fond	6,00,00
Share capital I2,300 ordinary shares of Rs. 100 each Make provision for rebate on bills discounted	12,50,000 2,450

[Madras, 1st M.Cont. (Sent. - (A(4) Nov. 2005; 1st M.Cont. (CA IA) Nov. 2005; B.Com., March 1994]

[Ans: Net profit for the year — Rs. 1,19,800; Balance carried to B/S Rs. 1,05,150; B/S total Rs. 97,19,000 Difference in Trial Balance Rs. 500 (Cr) excess]

Hint: 1. **Show Rs. 500 in schedule 11 as other asset, representing difference in trial balance. 2. 25% of Net Profit should be transferred to statutory reserve now.**

27. The following are the balances of Karuna Bank Ltd.. you are required to prepare the Profit and Loss Account and the balance sheet as at 31st December 1994 as per the requirements of the Banking Regulation Act.

Share capital 2,000 equity shares of Rs. 500 each,	Rs.
Rs. 100 per share paid up	2,00,000
Bad debts written off	12,871
Reserve fund investments	1,00,000
General expenses	18.242
Current accounts	20,24,422
Interest paid	16,052
Deposit accounts	6,92,023
Profit and Loss Account (credit)	22,934
Acceptance for customers	1,54,282
Discount	24,376
Bills receivable	1,00,000
Endorsements and guarantees	7,402
Commission \	4,424
Cash in hand -	22,654
Interest received	53,226
Cash with banks	2,01,210
Endorsements and guarantees as per contra	7,402
Owing by foreign correspondents	20,044
Customers liabilities for acceptances	1,54,282
Short loans (Cr)	6,48,206
Loans and advances to customers	15,45,670
Investments	9,88,254
Bills discounted	6,22,824
Premises	2,21,790
Bills for collection	1,00,000
Statutory reserve	1,00,000

The following information is relevant:

(i) During the year interim dividend of Rs. 20,000 was paid

(ii) Reserve Rs. 6,438 as Rebate on bills discounted.

(iii) Provide Rs. 15,000 for taxation reserve

(iv) Particulars of investments and advances are not required.

(Madras, B. Com(CS) Ap. 2009; B.A., Com., March 1991; Sep. 1996)

[**Ans: Net profit — Rs. 13,423; Balance sheet total — Rs. 37,22,446]**

Hint: **Balance of Profit and Loss Account must be the balance left on that account after the payment of interim dividend of Rs. 20,000. So, interim dividend amount can be added to P & L balance b/f and then the interim dividend can be shown as an appropriation or the adjustment can be ignored. Former method is better.**

28. The following Ledger balances of Bank of Purasawalkam Ltd., as on 31.12.1994 are furnished to you. Prepare Profit and Loss Account and Balance Sheet as per requirement of law.

	(Rs. in Thousands)
Reserve fund	1,200
Bad debts written off	128
General expenses	182
Current accounts	20,245
Interest paid	160
Deposit accounts	6,920
Profit and Loss Account b/fd	229
Bills receivable for customers	1,500
Discounts	244
Endorsements and guarantees	575
Commission	45
Cash	225
Interest earned	550
Balance with RBI	2,030
Endorsements and guarantees (constituent liabilities)	575
Balance with foreign correspondents	1,206
Bills for collection	1,500
Borrowings from bank	6,482
Cash credit and overdrafts	15,457
Investments	9,882
Bills discounted	6,228
Premises	2,217
Share capital	2,000

The following information is furnished.

(a) Rebate on bills discounted to be provided Rs. 64,000.

(b) The bank has paid an interim dividend of Rs. 2,00,000 during the year.

[Madras, 1st M. Com, Ap. 2009]

[Ans: Net profit — Rs. 3,05,000; Balance sheet total — Rs. 3,72,45,000; Trial balance difference Rs. 2,00,000, presumed as interim dividend]

[Hint: Interim dividend mentioned in adjustments is a part of trial balance and has single effect only].

UNIT – 12

INSURANCE COMPANY ACCOUNTS

Meaning of Insurance - Insurer - Insured - Reversionary Bonus - Consideration for annuities granted - Differences between Insurance and Assurance - Valuation of balance sheet - Net liability – Claim - Differences between Life Insurance and Fire Insurance - Differences between Life Insurance and General Insurance - Differences between Fire insurance and Marine Insurance - Reserve for unexpired risk – Reinsurance - Commission on reinsurance accepted - Commission on reinsurance ceded - Computation of correct life assurance fund – Revenue a/c of Life Assurance Company - Revenue a/c and valuation of balance sheet Revenue a/c of Fire and Marine Insurance

Life is full of problems and uncertainties. Attempts are being made to reduce these problems and uncertainties and where possible, to eliminate them. Everyone is exposed to some risk or the other, whatever the precaution taken. Life is prone to accidents and buildings and goods may be destroyed or damaged due to fire, flood or cyclone. Insurance is a way of protecting people and things against such unexpected losses. The primary object of insurance is to substitute certainty for uncertainty as regards the economic cost of loss producing events.

12.1 LIFE (INSURANCE) ASSURANCE

Life Assurance is a contract whereby the insurer, in consideration of a premium, paid either in lump sum or in periodical installments undertakes to pay an annuity or a certain sum of money, either on the death of the insured or on the expiry of a certain number of years. The amount is paid to the nominee of the insured if the insured dies before the policy matures.

The person who agrees to pay an annuity or a certain sum of money (i.e., who indemnifies) is called the Insurer.

The person whose life is insured (i.e., the one to whom the money is payable) is called the Assured and the consideration paid periodically or otherwise is called the premium.

Life Insurance contract is a contingent contract i.e., the claim becomes payable only when the contingency – death or completion of the stipulated period occurs.

12.2 LIFE ASSURANCE FUND

The difference between total receipts and total expenditure of a life insurance company is called Life Assurance Fund.

12.3 PREMIUM

It includes the premium received or yet to be received for the relevant year less any premium paid or to be paid on re-insurance plus the bonus in reduction of premium.

12.4 CONSIDERATIONS FOR ANNUITIES GRANTED

In order to pay fixed amount regularly to the policyholders by insurance company after the expiry of the specified period, the insurance company initially will receive a fixed lump sum amount. The amount so received from policyholders at the beginning is called Consideration for annuities granted.

12.5 ANNUITY

Annuity is an annual payment made by an insurance company to any person, in consideration for a lump sum of money received in the beginning. The payment is made by the insurance company as long as one lives.

12.6 CLAIMS

Claim is the amount payable by the insurance company to the insured, or his nominee on the policy.

In the case of an endowment policy the claim arises either on the death or on the policy holder reaching a stipulated age, whichever is earlier.

In the case of a whole life policy the amount is payable only on the death of the policy holder.

Claim on the death of a policy holder is called Claim of Death. Claim on the policy holder reaching a stipulated age is called Claim by Maturity or Survivance. Claims include reversionary bonus and interim bonus.

12.7 SURRENDER VALUE

Surrender Value is the amount which a policy holder can get immediately in cash from the insurance company if he stops paying the premium and claims the amount paid till then. Surrender value is the present cash value of the policy.

12.8 BONUS

Bonus is the share of profit which a policy holder gets from the life insurance company. Bonus in cash is the amount of bonus payable in cash to the holder of a ‘With Profit Policy’. Bonus in cash is payable immediately. Bonus may be Reversionary Bonus or Bonus in reduction of premium.

Reversionary premium is the bonus payable on the maturity of the policy.

Bonus in Reduction of Premium is bonus payable in cash but which is utilized by the policy holder to adjust the premium due by him.

Interim Bonus is one which is payable on the maturity of a policy pending the ascertainment of profit.

12.9 POLICY

The document containing the terms of the contract is known as policy.

12.10 DIFFERENCES BETWEEN INSURANCE AND ASSURANCE

Basis	Insurance	Assurance
Applicability	Insurance is applicable to all types except life insurance	Assurance is applicable only to life
Risk	Risk may or may not be happened	Risk is certain
Claim amount	Claim amount will be given only if there is any risk happened	At the end of the specified period, policy amount will be paid even without any risk

12.11 TYPES OF INSURANCE

I. Life Insurance

The Insurer agrees to indemnify the loss which is caused by happening of some unforeseen things to the life of insured. The person whose life is insured has to pay some amount at regular intervals to the insurance company.

- **Whole life policy**

  The premium amount is to be paid up to the death of policy holders. The policy amount will be paid on the death of policy holder.

- **Endowment policy**

  The premium amount is to be paid for a specified period for which the policy is taken. The policy amount will be payable after the expiry of specified period or death whichever is earlier.

- **With profit policy**

  With profit policies are those on which, in addition to a guaranteed sum payable on maturity, a share of profits of the company will also be payable.

- **Without profit policy**

  Without Profit Policies are those on which the policy holder gets only a fixed sum of money on maturity and no profit will be paid.

II. General Insurance

All insurance contracts other than life insurance are known as general insurance.

- Fire insurance

- Marine insurance
- Accident Insurance Contract
- Other insurance

12.12 DIFFERENCES BETWEEN LIFE INSURANCE AND FIRE INSURANCE

Basis	Life Insurance	Fire Insurance
Compensation	It provides protection against financial loss due to death of insured person or on maturity of the policy	It provides protection against loss or damage by fire
Nature	It is a contingent contract	It is a contract of indemnity
Risk	Happening of risk or date of maturity of the policy is definite	Happening of risk is uncertain
Period	Policy is taken for a long period of time	Policy is taken for a short period of time for one year
Insurable interest	Insurable interest must exist at the time of proposal	Insurable interest must exist at the time of contract
Coverage	It affords full protection against risk of death	It gives protection against loss

12.13 DIFFERENCES BETWEEN LIFE INSURANCE AND GENERAL INSURANCE

Basis	Life Insurance	General Insurance
Policy against	Policy is taken against the life of human being	Policy is taken against goods and services
Period	Policy is taken for a long period of time	Policy is taken for a short period of time
Insurable interest	Insurable interest must exist at the time of proposal	Insurable interest must exist at the time of contract and at the time of loss
Nature	It is a contingent contract	It is a contract of indemnity
Purpose	Protection against loss and investment are available	Protection against loss is available
Double insurance	Insured person can get the benefits of double insurance	Insured person cannot get the benefits of double insurance
Applicability	Principle of subrogation and	Principle of subrogation and

	Contribution principle are not allowed	Contribution principle are allowed

12.14 DIFFERENCES BETWEEN FIRE INSURANCE AND MARINE INSURANCE

Basis	Fire Insurance	Marine Insurance
Policy against	It provides protection against loss or damage by fire	It provides protection from loss or damage to property while in shipments
Insurable interest	Insurable interest must exist both at the time of inception and at the time of completion of the contract	Insurable interest must exist at the time of completion of the contract
Assignment	Policy is not freely assignable	Policy is freely assignable
Profit margin	Policies do not allow margin of profit	Policies allow certain margin of profit to be charged at the time of indemnification of loss

12.15 FINAL ACCOUNTS OF LIFE INSURANCE COMPANIES

Revenue account	- Form A – RA
Profit and loss accounts	- Form A – PL
Balance sheet	- Form A – BS

The revenue a/c, profit and loss a/c and balance sheet are in summary form, they are accompanied with 15 schedules.

Revenue Account

Premium earned income from investments and other incomes are added up in the revenue account. And from the total commission expenses, operating expenses, benefits paid, provision for doubtful debts and bad debts, provision for tax are subtracted. The balance gives surplus or deficit.

Profit and loss account

Profit transferred from revenue a/c is added with opening balance. Any dividends declared and dividend distribution taxes are subtracted. After making transfer to specified reserves, the remaining balance is carried to the balance sheet.

Balance sheet

The balance sheet is of two parts namely sources of funds and application of funds.

12.16 FINAL ACCOUNTS OF GENERAL INSURANCE COMPANIES

Revenue account	- Form B – RA
Profit and loss accounts	- Form B – PL
Balance sheet	- Form B – BS

Revenue account

Separate revenue a/c is prepared for each kind of insurance business like fire, marine, accident under form B – RA

Profit and loss account

Combined profit & loss a/c is prepared for a general insurance company, conducting one or more businesses. Profit or loss of each kind of business is transferred from revenue a/c to profit and loss account. After providing for tax and making appropriation for dividend and transfer to reserves, balance of profit is added to the balance brought forward from previous year and the net balance is transferred to balance sheet.

Balance sheet

The balance sheet is of two parts namely sources of funds and application of funds. Any contingent liabilities are shown as a foot note to the balance sheet.

12.17 RESERVE FOR UNEXPIRED RISK

It is a reserve created to meet the risks which are associated with all such policies for which the premium has been reserved and the policies are still in force. In general insurance business, policy is taken for a year. Therefore the risk is covered for one year. Risk may occur on any day during the current year, after the close of the accounting year of the company. To meet this risk, the insurance company creates a reserve for this unexpired risk. This reserve is known as reserve for unexpired risk.

In case of fire insurance 50% of net premium and in case of marine insurance 100% of net premium will be transferred to reserve for unexpired risk

12.18 REINSURANCE

Sometimes the insurer thinks that the particular risk falls beyond his capacity. He may reinsure the same with some other insurance company. This arrangement is known as reinsurance.

12.19 COMMISSION ON REINSURANCE ACCEPTED

If a particular insurance company accepts reinsurance on behalf of another, in that case, it should give some commission to another insurance company. Such commission is called Commission on reinsurance accepted

12.20 COMMISSION ON REINSURANCE CEDED

If a particular insurance company gives reinsurance to another, then it earns some commission. Such commission is called Commission on reinsurance ceded.

12.21 COMPUTATION OF CORRECT LIFE ASSURANCE FUND

Illustration -1 A life insurance company disclosed a fund of ₹25,00,000 on Dec.31, 2016 before taking the following into consideration.

i) A claim of ₹15,000 was intimated and admitted but not paid during the year

ii) Premium of ₹1,000 is payable under reinsurance

iii) Reinsurance recoveries ₹30,000

iv) Bonus utilized in reduction of premium ₹8,000

Pass journal entries for the above omissions and recomputed the fund.

Solution

Particulars	**Amount ₹**	**Amount ₹**
Life assurance fund		25,00,000
Add: Reinsurance recoveries		30,000
Bonus utilized in reduction of premium		8,000
		25,38,000
Less: O/S claims	15,000	
Premium payable under reinsurance	1,000	
Bonus utilized in reduction of premium	8,000	24,000
		25,14,000

Illustration -2 The Life Assurance Fund of an insurance company on 31st March 2015 showed a balance of ₹87,76,500. It was later found that the following were not taken into account.

a) Dividend from investment ₹4,80,000

b) Income tax on above ₹48,000

c) Bonus in reduction of premium ₹8,77,500 (not taken as expense)

d) Claims covered under re-insurance ₹4,23,000

e) Claims intimated but not admitted by the company ₹7,62,000

Ascertain the correct balance of fund.

Solution

Particulars	**Amount ₹**	**Amount ₹**
Life assurance fund		87,76,500
Add: Dividend from investment		4,80,000

Bonus in reduction of premium		8,77,500
Claims covered under re-insurance		4,23,000
		1,05,57,000
Less: Income tax	48,000	
Bonus in reduction of premium	8,77,500	
Claims intimated but not admitted	7,62,000	16,87,500
		88,69,500

Revised Format of Revenue Account of Life Insurance Company

Form A - RA

Particulars	**Schedule**	**Current year**	**Last year**
Premiums earned - Net	1		
a)Premium			
b)Re-insurance ceded			
c)Reinsurance accepted			
Income from investments			
a)Interest, Dividend & Rent – Gross			
b)Profit on sale of investments			
c)Loss on sale of investments			
Other income			
Total (A)			
Commission paid (Dr)	2		
Operating expenses related to insurance business	3		
Other expenses			
Provisions other than taxation			
Total (B)			
Benefits paid (Net)	4		
Interim bonus paid			
Total (C)			
Surplus or Deficit (D) = (A) – (B) – (C)			
Appropriations			
Transfer to shareholders a/c			
Transfer to other reserve			
Transfer to funds for future appropriations			
Total (D)			

Explanations for Revenue Account of Life Insurance Company

Schedule 1Premium	**Schedule 2 Commission expenses**
Premiums Add: Closing O/S Less: Opening O/S Less: Reinsurance premium Add: Bonus in reduction of premium (Given in adjustment) Consideration for annuities granted	Commission paid Add: Commission on reinsurance accepted Less: Commission on reinsurance ceded
Schedule 3 Operating expenses	**Schedule 4 Benefits paid (Net)**
Employee's remuneration and welfare benefits (Exp. of mgt) ; Travelling expenses Rent and rates Repairs Printing and stationary Legal charges Medical fees ; Auditor fees Advertisement; Interest and bank charges Depreciation ; Other exp.	Insurance Claims Claims by death Claims by maturity Add: Closing O/S Less: Opening O/S Less: Reinsurance claims Annuities paid Surrenders paid Bonus in reduction of premium

12.22 REVENUE A/C OF LIFE ASSURANCE COMPANY

Illustration 3 The following information relates to Life Insurance Corporation for the year ended 31-3-2015. Prepare revenue a/c.

	₹ in '000		**₹ in '000**
Consideration for annuities granted	16.5	Claims	39.0
Management expenses	14.0	Surrenders	9.0
Directors fees	4.0	Premia received	151.0
Audit fees	3.0	Life Fund (1-4-2014)	1150.0
Medical expenses	5.0	Interest received	40.0
Agents commission	5.0	Rent received	10.0
Depreciation	4.0	Claims cancelled	5.0
Bonus in reduction of premium	1.5	Annuities	1.5

Solution:

Revenue Account

	Schedule No.	31-3-2015 ₹ in '000	2014
Premium earned	1		
Premium Net		160.0	
Consideration for annuities granted		16.5	
Income from Investment			
Interest received		40	
Other income			
Rent		10	
Total (A)		226.5	
Commission paid	2	5	
Operating expenses	3	25.5	
Total (B)		30.5	
Benefits paid (Net)	4	41.5	
Bonus in reduction of premium		1.5	
Annuities		1.5	
Surrenders		9.0	
Total (C)		53.5	
Surplus		142.50	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	151	Agents commission	5
(+) O/S	9		
	160	**Schedule 4 Benefits paid**	**₹ in '000**
Schedule 3 Operating exp.	**₹ in '000**	Claim	39
Management exp.	14	(+) O/S	3
Audit fees	**3**		42
Directors fees	4	(-) Claims cancelled	**0.5**
Medical exp.	**0.5**		41.5
Depreciation	4		
	25.5		

Illustration 4 Prepare in the statutory form the revenue account of Siva Insurance Company for the year ended 31-3-2015 from the following:

	₹ in '000		₹ in '000
Consideration for annuities granted	82,127	Income tax on interest and dividend	35,710
Management expenses	31,920	Claims by maturity	30,110
Claims by death	76,140	Surrenders	13,140
First Premia received	2,50,000	Life Fund (1-4-2014)	15,21,000
Renewal Premia received	3,55,690	Transfer fees	129
Single Premia received	1,00,000	Annuities	53,461
Dividend paid to shareholders	5,500	Commission	9,574
Interest, dividend and rent	97,840	Bonus paid in cash	2,416
Bonus in reduction of premium	980		

Solution:

Revenue Account

	Schedule No.	2015 ₹ in '000	2014
Premium earned	1		
Premium Net		7,05,690	
Consideration for annuities granted		82,127	
Income from Investment			
Interest, dividend and rent		97,840	
Other income			
Transfer fees		129	
Total (A)		8,85,786	
Commission paid	2	9,524	
Operating expenses	3	31,920	
Total (B)		41,494	
Benefits paid (Net)	4	1,06,250	
Bonus in reduction of premium		980	
Annuities		53,461	
Surrenders		13,140	
Interim bonus		2,416	
Total (C)		1,76,247	
Surplus		6,68,045	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	2,50,000	Commission	9,574
(+) o/s	3,55,690		
	7,05,690	**Schedule 4 Benefits paid**	
Schedule 3 Operating exp.		Claim by death	76,140
Management exp.	31,920	Claims by maturity	30,110
			1,06,250

Treatment for some important adjustments

Adjustments	Revenue Account	Balance sheet
Expenses due	Add to the particular exp.	Schedule 13 Current liabilities
Closing premium o/s	Add to premium (Schedule 1)	Asset side
Reinsurance premium ceded (Exp. Due)	Less from premium (Schedule 1)	Schedule 13 Current liabilities
Interest accrued	Add with Interest, dividend and Rent (Schedule 1)	Schedule 12 Advances and other assets
Bonus utilized in reduction of premium	Add to premium Received (Schedule 1)	Add to Benefits paid - Claims (Schedule 4)
Closing claims o/s	Add to claim in Schedule 4	Schedule 13 Current liabilities
Claims covered under reinsurance	Less from Benefits paid - Claims (Schedule 4)	Schedule 12 Advances and other assets
Surrenders adjusted against loan	Add with surrenders in Schedule 4	Schedule 9 Less from Loans on Policies
Income tax on Interest receipts	–	Schedule 12 Advances and other assets
Dividend paid to Share holders	Revenue account - Appropriations	

12.24 PREPARATION OF REVENUE ACCOUNT WITH ADJUSTMENTS

Illustration 5 From the following information relating to Life Assurance Company for the year ended 31-3-2015, prepare a revenue account.

	₹ in '000		₹ in '000
Consideration for annuities granted	1,01,200	Claims o/s by maturity on 1-4-2014	60,000
Management expenses	3,00,000	Claims by maturity	1,40,000
Income tax on interest and dividend	50,000	Claims by death	2,00,000
Premia received	15,00,000	Life Fund (1-4-2014)	39,00,000
Claims o/s by death on 1-4-2014	80,000	Income tax	45,000
Surrenders	4,000	Annuities	12,600
Registration and other fees	200	Commission	25,050
Interest, dividend and rent	2,10,000	Sundry incomes	6,000
Printing and stationary	7,700		

Additional information:

i) Claims outstanding on 31-3-2015 by death ₹50,000 Thousands; by Maturity ₹40,000 Thousands

ii) Management expenses outstanding ₹6,000 Thousands

iii) Provide ₹4,500 Thousands for depreciation

iv) Premium outstanding on 31-3-2015 is ₹2,00,000 thousands.

Solution:

Revenue Account

	Schedule No.	2015 ₹ in '000	2014
Premium earned	1		
Premium Net		17,00,000	
Income from Investment			
Interest, dividend and rent		2,10,000	
Other income			
Sundry income		6,000	
Registration fees		200	
Consideration for annuities granted		1,01,200	
Total (A)		20,17,400	
Commission paid	2	25,050	
Operating expenses	3	3,63,300	
Total (B)		3,88,250	
Benefits paid (Net)	4		
Claims		2,90,000	

Annuities		12,600	
Surrenders		4,000	
Total (C)		3,06,600	
Surplus (A – (B +C)		13,22,550	

Workings:

Schedule 1 Premium		**₹ in '000**	**Schedule 2 Commission**		**₹ in '000**
Premium		15,00,000	Agents commission		25,050
(+) Closing o/s		2,00,000			
		17,00,000	**Schedule 4 Benefits paid**		**₹ in '000**
Schedule 3 Operating exp.		**₹ in '000**	Claim by death	2,00,000	
Management exp.	3,00,000		(+) Closing o/s	50,000	
(+) O/s	6,000	3,06,000		2,50,000	
Printing and stationary		7,700	(-) Opening o/s	80,000	1,70,000
Depreciation		4,500			
Income tax		45,000	Claim by maturity	1,40,000	
		3,63,200	(+) Closing o/s	40,000	
				1,80,000	
			(-) Opening o/s	60,000	1,20,000
			Total claims		2,90,000

Illustration -6 The following balances are extracted from the books of New Bharath Life Insurance Ltd. as on 31-3-2015.

	Amount ₹		**Amount ₹**
Life Assurance Fund (1-4-2014)	15,00,000	Consideration for annuities granted	15,000
Bonus in reduction of premium	1,600	Medical fees	2,400
Annuities	2,050	Surrenders	4,000
Interest and dividend	1,00,000	Commission	18,650
Fines for revival of policies	750	Management expenses	22,000
Reinsurance premium	20,750	Income tax on dividends	8,500
Claims outstanding (1-4-2014)	4,500	Premiums	4,96,000
Claims paid during the year	64,900		

Prepare revenue account after making the following adjustments:

i) Outstanding balances:
   Claims ₹14,000
   Premium ₹4,600
ii) Further bonus for premium ₹2,400
iii) Claims under reinsurance `8,000

Solution

Revenue Account

	2015	₹2014
Premium earned – Net		
a) Premium	1	5,03,000
b) Reinsurance ceded		(-) 20,750
c) Reinsurance accepted		–
Income from investments:		
a) Interest and dividend		1,00,000
Other income		
Consideration for annuities granted		15,000
Fines for revival of policies		750
Total (A)		5,98,000
Commission	2	18,650
Operating exp.	3	24,400
Total (B)		43,050
Benefits paid	4	76,450
Total (C)		76,450
Surplus (D) = A – B – C		4,78,500

Workings

Schedule 1 - Premium

Premium received	₹4,96,000
Add: O/S premium	₹4,600
Add: Further bonus in reduction of premium	₹2,400
	₹5,03,000

Schedule 2

Commission paid	₹18,650

Schedule 3

Management exp.	₹22,000
Medical fees	₹2,400
	₹24,400

Schedule 4

Claims paid	₹64,900
Add: O/S on 31-3-2015	₹14,000
	₹78,900
Less: O/S on 1-4-2014	₹4,500
	₹74,400
Less Claims under reinsurance	₹8,000
	₹66,400
Annuities	₹2,050
Surrenders	₹4,000
Bonus in reduction of premium (1,600 +2,400)	₹4,000
	₹76,450

12.25 VALUATION BALANCE SHEET

Valuation balance sheet is a statement which is prepared by the life insurance company in order to find out the profit or loss at the end of a particular year. If the closing life assurance fund exceeds the net liabilities of a business, the difference is called surplus.

12.26 NET LIABILITY

Since nationalization of LIC, the calculation of net liability is made once in two years by Actuaries. They calculate the present value of future liability on all policies in force as well as end value of future premiums to be received on policies in force. The excess of the present value of future liability over the present value of future premium is called the net liability.

12.27 CALCULATION OF ACTUAL PROFIT IN LIC

From the actual profit earned, the insurance company gives 95% to the policy holders and 5% to the shareholders as dividend.

Valuation Balance Sheet

Particulars	**Amount**	**Particulars**	**Amount**
To Net Liability	xxx	By Closing Life Assurance Fund	xxx
“ Surplus (b/f)	xxx		
	xxx		xxx

Calculation of Actual Profit

Particulars		**Amount**
Surplus as per valuation balance sheet		xxx
Add: Interim dividend already paid		xxx
		xxx
Less: Provision for taxation if any	xxx	
Loss on investments if any	xxx	xxx
Actual profit		xxx

Statement showing amount due to policy holders

Particulars	**Amount**
95 % of actual profit	xxx
Less: Interim bonus already paid	xxx
	xxx
Amount payable to policy holders	xxx

Illustration -7 A life insurance Company gets its valuation made once in every two years. Its Life Assurance Fund on 31st March 2015 amounted to ₹41,10,000 before providing ₹30,000 for the shareholders dividend for the year 2014-15. Its actual valuation due on 31st March 2015 disclosed a net liability of ₹40,40,000 for unexpired risk. An interim bonus of ₹60,000 was paid to the policy holders for this year.

Prepare a statement showing the amount now available as bonus to policyholders.

Solution

Valuation balance sheet

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Net liability	40,40,000	By Life Insurance fund	41,10,000
" Surplus (b/f)	70,000		
	41,10,000		41,10,000

Calculation of bonus to policy holders

Particulars	**Amount ₹**
Surplus	70,000
Add: Interim bonus	60,000
Net profit	1,30,000

Particulars	Amount ₹
Bonus to policy holders (95% of 1,30,000)	1,23,500
Less: Interim bonus already paid	60,000
Bonus now available as bonus to policyholders	63,500

12.28 REVENUE ACCOUNT AND VALUATION BALANCE SHEET

Illustration 8 The following were the revenue items of a Life Insurance Company for the year ended 31-3-2015.

	₹ in '000		₹ in '000
Consideration for annuities granted	715	Claims	1,397.5
Management expenses	130	Bonus in cash	58.5
Commission	715	Surrenders	97.5
Premia received	2,015	Life Fund (1-4-2014)	2,500
Bonus in reduction of premium	2,6	Annuities	533
Interest, dividend and rent	650		

At the valuation on 31-3-2015, the actuary's certificate disclosed the net liability on policies and annuities at ₹28,80,900. Prepare revenue a/c and ascertain the valuation surplus.

Solution:

Revenue Account

	Schedule No.	2015 ₹ in '000	2014
Premium earned	1		
Premium Net		2,015,00	
Income from Investment			
Interest, dividend and rent		650,00	
Other income			
Sundry income			
Registration fees			
Consideration for annuities granted		715,00	
Total (A)		3,380,00	
Commission paid	2	165,00	
Operating expenses	3	130,00	
Total (B)		195,00	

Benefits paid (Net)	4		
Claims		1,397.50	
Annuities		533.00	
Surrenders		97.50	
Bonus in cash		58.50	
Bonus in reduction of premium		2.60	
Total (C)		2,089.10	
Surplus		1,095.90	

Valuation Balance Sheet

Particulars	₹ in '000	Particulars	₹ in '000
To Net liabilities	2,880.90	By Life Assurance Fund (2,500 + 1,095.90)	8,595.90
To Surplus (b/f)	715.00		
	3,595.90		3,595.90

Illustration 9 A Life Insurance Company having a paid up value of ₹5,00,000 disclosed a net liability of ₹46,50,000 on all their policies and contracts in force on 31-3-2015. From the following prepare revenue a/c and valuation balance sheet as on that date showing surplus for the policy holders and share holders.

	₹ in '000		₹ in '000
Consideration for annuities granted	85.00	Fines for revival of Lapsed policies	1.25
Management expenses	230.00	Bonus in cash	112.50
Claims	280.00	Surrenders	170.00
Premia received	2,580.00	Life Fund (1-4-2014)	5,000.00
Reinsurance claims irrecoverable	2.00	Income tax	240.00
Bonus in reduction of premium	3.55	Annuities	114.00
Interest, dividend and rent	1,520.00	Commission	115.00
Surplus on revaluation of reversions purchased			9.00

Solution:

Revenue Account

	Schedule No.	2015 (₹ in '000)	2014
Premium earned	1		
Premium Net		2,580.00	

Income from Investment			
Interest, dividend and rent		1,520.00	
Other income			
Surplus on revaluation		9.00	
Fines for revival of lapsed policies		1.25	
Consideration for annuities granted		85.00	
Total (A)		4,195.25	
Commission paid	2	115.00	
Operating expenses	3	230.00	
Income tax		240.00	
Total (B)		585.00	
Benefits paid (Net)	4		
Claims		280.00	
(+) Reinsurance claims irrecoverable		2.00	
Annuities		114.00	
Surrenders		170.00	
Bonus in cash		3.55	
Bonus in reduction of premium		112.50	
Total (C)		682.05	
Surplus		2,928.20	

Valuation Balance Sheet

Particulars	₹ in '000	Particulars	₹ in '000
To Net liabilities	4,650.00	By Life Assurance Fund (5,000 + 2,928.20)	7,928.20
To Surplus (b/f)	3,278.20		
	7,928.20		7,928.20

SPECIMEN FORMAT OF BALANCE SHEET OF LIFE INSURANCE COMPANY

Form A –BS

Particulars	Schedule No.	Current year	Last year
SOURCES OF FUNDS			
Share holders' funds			
Share capital	5	xxx	
Reserves and surplus	6	xxx	

Sub-total		xxx	
Borrowings	7	xxx	
Policy holders' funds			
Policy liabilities			
Insurance reserve			
Sub-total		xxx	
Funds for future appropriations		xxx	
Total		xxx	
APPLICATION OF FUNDS			
Investments			
Share holders	8	xxx	
Policy holders	8A	xxx	
Assets held to cover linked liabilities			
Loans	9	xxx	
Fixed assets	10	xxx	
Current Assets			
Cash and bank balances	11	xxx	
Advances and other assets	12	xxx	
Sub-total (A)		xxx	
Current liabilities	13	xxx	
Provisions	14	xxx	
Sub-total (B)		xxx	
Net Current Assets (C) = A – B		xxx	
Miscellaneous expenditure	15	xxx	
Debit balance in P & L a/c		xxx	
Total		xxx	

EXPLANATIONS FOR SCHEDULES IN BALANCE SHEET

Schedule – 5 Share capital	**Schedule – 6 Reserves and Surplus**
Issued and subscribed capital Less: Calls unpaid	Capital reserve Share premium General reserve

	Less: Debit bal. in P & L a/c Other reserves (Closing life assurance fund) Bal. of P & L a/c
Schedule – 7 Borrowings	**Schedule – 8 Investments – Share holders**
Debentures Fixed deposit Bank Others	Long-term investments Short term investments
Schedule – 8A Investments – Policy holders	**Schedule – 9 Loans given**
Long-term investments Short term investments	1.Security wise classification Secured – Mortgage of property Unsecured – Loan against policies 2. Borrower wise classification 3. Performance wise classification 4. Maturity wise classification
Schedule – 10 Fixed assets	**Schedule – 11 Cash and Bank balance**
Goodwill Land Lease hold property Buildings Furniture Others	1. Cash 2. Bank balance 3. Money at call and short notice 4. Others
Schedule – 12 Advances & other assets	**Schedule – 13 Current liabilities**
Advances given (Dr) 1.Reserve deposits 2.Advances 3.Advance tax paid 4. Others **Other assets** 1. Income accrued on investments 2. O/S premiums 3. Agents balances (Dr) 4. Foreign agents bal. 5. Due from other business	1.Agents balances (Cr) 2.Balance due to others 3. Deposit held on reinsurance ceded 4.Premium received in advance 5. Sundry creditors 6. Claims O/S 7.Annuities due

6. Reinsurance claims 7. Balance receivable 8. Deposits with RBI	
Schedule – 14 Provisions	**Schedule – 15 Miscellaneous expenditure**
For taxation Proposed dividend Bonus payable to policy holders	1.Discount allowed in issue of shares / Debentures

12.29 STANDARD RULES FOR CALCULATING CLOSING RESERVE FOR UNEXPIRED RISK

- No specific instructions are given, the following rules should be used for calculating closing reserve for unexpired risk

  in case of fire insurance 50 % of net premium and

  marine insurance 100 % of net premium

- Regarding closing additional reserve, if there is no adjustments, opening reserve will be the closing reserve also.

12.30 FIRE AND MARINE INSURANCE

Illustration 10 Prepare Revenue a/c of the Marine Insurance Company Ltd. as at 31st March 2015 from the following information:

	₹ in '000		**₹ in '000**
Reserve for unexpired risk (1-4-2014)	496.60	Claims	470.00
Management expenses	54.00	Director's sitting fees	3.40
Commission	35.00	General charges	12.00
Premium less reinsurance	720.00	Audit fees	10.00
Depreciation	5.00	Claims o/s (1-4-2014)	160.00
Additional reserve (1-4-2014)	49.66		

Solution:

Revenue Account

	Schedule No.	**2015 ₹ in '000**	**2014**
Net Premium	1	474.26	
Total (A)		474.26	
Claims	2	370.00	
Commission	3	3.50	
Operating expenses	4	84.40	

Total (B)		489.40	
Operating Loss		15.14	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Claim**	**₹ in '000**
Premium	720.00	Claims	470.00
Add: Opening unexpired risk	496.60	(+) Closing o/s	60.00
Add: Opening Additional Reserve	49.66		530.00
	1,266.26	(-) Opening o/s	160.00
Less: Closing unexpired risk 720			**370.00**
Less: Closing Additional Reserve 72	792.00	**Schedule 4 Operating exp.**	
	474.26	Management exp.	54.00
Schedule 3 Commission		Audit fees	10.00
Commission	**3.50**	Directors fees	3.40
		Depreciation	5.00
		General exp.	12.00
			84.40

Illustration 11 The following balances are extracted from the books of Oriental General Insurance Company. Prepare Revenue a/c for the year ending 31-3-2015.

	Fire ₹ in '000	**Marine ₹ in '000**		**Fire ₹ in '000**	**Marine ₹ in '000**
Funds on 1-4-2014	310.0	840.0	Claims paid	261.5	102.0
Premium	556.4	882.2	Commission	21.0	54.0
Due to Reinsurers	4.4	20.2	Exp. of Mgt.	42.0	73.0

It was further noticed that premium was outstanding:

Fire ₹1,400 and Marine ₹1,600. Provision is to be made for unexpired risk on fire and marine at 40% and 100% of the premium received respectively.

Solution:

Revenue Account

	Schedule No.	**Fire ₹ in '000**	**Marine ₹ in '000**
Net Premium	1	642.04	840
Total (A)		642.04	840
Claims	2	261.50	102

Commission	3	21.00	54
Operating expenses	4	42.00	73
Total (B)		324.50	229
Operating Loss		317.50	611

Workings (₹ in '000)

Schedule 1Premium	**Fire**	**Marine**	**Schedule 2 Claim**	**Fire**	**Marine**
Premium	556.4	882.2	Claims	261.5	102.0
(-) Opening o/s	4.4	20.2		261.5	102.0
	552.0	862.0			
(+) Closing o/s	1.4	1.6	**Schedule 4 Operating exp.**		
	553.4	863.6	Management exp.	42.0	73.0
Add: Opening unexpired risk	310.0	840.0			
	863.4	1,703.6	**Schedule 3 Commission**		
Less: Closing unexpired risk	221.36	863.6	Commission	21.0	54.0
	642.04	**840.0**			

Illustration -12 Z P Insurance Co. Ltd. has furnished the following information for preparation of revenue account for fire insurance business for the year ended 31-3-2015.

Claims admitted but not paid	₹42,376	Bad debts	₹2,500
Commission on reinsurance received	₹12,000	Reserve for unexpired risk on 1-4-2014	₹2,30,000
Claims O/S on 1-4-2014	₹27,000	Premium received	₹5,52,000
Dividend on share capital	₹18,500	Share transfer fees	₹5,000
Claims paid	₹15,000	Exp. of management	₹75,000
Additional reserve on 1-4-2014	₹40,000	Commission paid	₹50,000

The following further information has also to be considered:

a) Premium O/S at the end of the year ₹40,000

b) Additional reserve at 10% of net premium to be maintained

c) It is the policy of the company to maintain 50% of premium towards reserve for unexpired risk

Solution

Revenue Account

		₹
Premium earned – Net	1	5,06,800
Profit on sale / redemption of investment		–
Other income		–
Interest and dividend		–
Total (A)		5,06,800
Claims incurred (Net)	2	30,376
Commission	3	38,000
Operating exp.	4	80,500
Total (B)		1,48,876
Operating profit from fire business (C) = A – B		3,57,924

Workings

Schedule 1 – Premium earned

Premium received		₹5,52,000
Add: Premium O/S on 31-3-2015		₹40,000
		₹5,92,000
Adjustment for change in reserve for unexpired risk		
50% of 5,92,000	₹2,96,000	
Additional reserve (5,92,000 x 10%)	₹59,200	
	₹3,55,200	
Less: Reserve for unexpired risk (1-4-2014) 2,30,000		
Additional reserve (1-4-2014) 40,000	₹2,70,000	
Changes in reserve for unexpired risk		₹85,200
Total premium earned		₹5,06,800

Schedule 2 Claims incurred

Claims paid	₹15,000
(+) Claims admitted but not paid on 31-3-2015	₹42,376
	₹57,376
(-) Claims O/S on 1-4-2014	₹27,000
	₹30,376

Schedule 3 Commission

Commission on direct business	₹50,000
(-) Commission on reinsurance ceded	₹12,000
	₹38,000

Schedule 4 Operating expenses

Exp. of management	₹78,000
Bad debts	₹2,500
	₹80,500

Illustration -13 From the following particulars relating to Z Insurance Co. Ltd, prepare revenue account for the year ending 31-3-2015.

Claims intimated but not accepted and paid on 31-3-2015	₹10,000	Commission on reinsurance ceded	₹10,000
Claims intimated and accepted but not paid on 31-3-2015	₹60,000	Commission on reinsurance accepted	₹5,000
Claims O/S on 1-4-2014	₹40,000	Exp. of management	₹3,05,000
Provision for unexpired risk on 1-4-2014	₹4,00,000	Bonus in reduction of premium	₹12,000
Additional Provision for unexpired risk on 1-4-2014	₹20,000	Reinsurance premium paid	₹1,20,000
		Premium received	₹12,00,000
Claims paid	₹4,80,000	Commission	₹2,00,000

You are required to provide for additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance.

Solution

Revenue Account

		₹
Premium earned – Net	1	9,29,200
Profit on sale / redemption of investment		–
Other income		–
Interest and dividend		–
Total (A)		9,29,200
Claims incurred (Net)	2	5,10,000
Commission	3	1,95,000
Operating exp.	4	3,17,000

Total (B)		10,22,000
Operating profit from fire business (C) = A – B		92,800

Workings

Schedule 1 – Premium earned

Premium received			₹12,00,000
Less: Reinsurance premium paid			₹1,20,000
			₹10,80,000
Adjustment for change in reserve for unexpired risk			
50% of ₹10,80,000		₹5,40,000	
Additional reserve (₹10,80,000 x 1%) + ₹20,000		₹30,800	
		₹5,70,800	
Less: Reserve for unexpired risk (1-4-2014)	₹4,00,000		
Additional reserve (1-4-2014)	₹20,000	₹4,20,000	
Changes in reserve for unexpired risk			₹1,50,800
Total premium earned			₹9,29,200

Schedule 2 Claims paid

Claims paid	₹4,80,000
(+) Claims intimated but not accepted and paid on 31-3-2015	₹60,000
(+) Claims intimated and accepted but not paid on 31-3-2015	₹10,000
	₹5,50,000
(-) Claims O/S on 1-4-2014	₹40,000
	₹5,10,000

Schedule 3 Commission

Commission on direct business	₹2,00,000
(+) Commission on reinsurance accepted	₹5,000
	₹2,05,000
(-) Commission on reinsurance ceded	₹10,000
	₹1,95,000

Schedule 4 Operating expenses

Exp. of management	₹3,05,000
Bonus in reduction of premium	₹12,000
	₹3,17,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Policy holders have a right to participate ________ of true profit
   a) 5% b) **95%**
   c) 20% d) 75%

2. Valuation of balance sheet is prepared
   a) Once in one year b) Twice in two years
   c) **Once in two years** d) Twice in one year

3. The purpose of preparing valuation of balance sheet is
   a) To know the financial position b) **Surplus or deficiency**
   c) Life insurance fund d) To Know the asset value

4. The purpose of preparing revenue a/c in Life Insurance Company is to know the
   a) Financial position b) Profit or loss
   c) **Closing Life insurance fund** d) Surplus

5. Fire insurance business should transfer __________ of net premium to provision for unexpired risk
   a) 100% b) **50%**
   c) 25% d) 75%

6. Marine insurance business should transfer ________ of net premium to provision for unexpired risk
   a) **100%** b) 50%
   c) 25% d) 75%

7. The purpose of preparing revenue a/c in Fire Insurance Company is to know the
   a) Financial position b) **Profit or loss**
   c) Closing Life insurance fund d) Surplus

8. If the net liability is more than the life insurance fund, it is said to be
   a) Surplus b) **Deficiency**
   c) Both a and b d) Life assurance fund

9. Life Assurance is a ________ contract
   a) Protection b) Investment
   c) **Protection cum investment** d) Indemnity

10. General insurance is a ________ contract
    a) Protection b) Investment
    c) Protection cum investment d) **Indemnity**

11. Commission on policies effected through insurance agents cannot exceed _________ of premium in fire and marine business.
    a) **5%** b) 10%
    c) 15% d) 25%

12. Commission on policies effected through insurance agents cannot exceed _____ of premium in others except fire and marine business.
    a) 5% b) **10%**
    c) 15% d) 25%

13. Commission on policies effected through principal agent cannot exceed _______ of premium less commission payable to agent in fire and marine business.
    a) 5% b**) 20%**
    c) 15% d) 25%

14. Commission on policies effected through principal agent cannot exceed _______ of premium less commission payable to agent in other business except fire and marine business.
    a) 5% b) 20%
    c) **15%** d) 25%

15. Who is insurer?
    a) **Insurance company** b) The person insuring his risk
    c) Agent d) All the above

16. Who is insured?
    a) Insurance company b) **The person insuring his risk**
    c) Agent d) All the above

17. Which of the following is otherwise called assurance?
    a) Fire insurance b) Marine insurance
    c) **Life insurance** d) General insurance

18. Solvency margin is the difference between _______ maintained at all times by every insurer
    a) **Assets and liabilities** b) Liabilities and assets
    c) Liabilities and surplus d) Surplus and liabilities

19. Reversionary bonus is a bonus paid
    a) In cash b) Adjusted against premium
    c) **At the end along with policy amount** d) Bonus in reduction of premium

20. Which of the following is an expense?
    a) Commission on reinsurance ceded b) **Commission on reinsurance accepted**
    c) Premium d) Commission (cr)

21. The balance sheet of general insurance include ___________ schedules

    a) 4　　b) 9

    c) **11**　　d) 5

22. The balance in the revenue account of a Life Insurance Company shows

    a) The profit for the accounting period

    b) The loss for the accounting period

    c) Both profit and loss for the accounting period

    d) **The Life Assurance Fund for the accounting period**

23. The valuation of balance sheet of a life insurance company is

    a) The same as the balance sheet of the trading company

    b) The same as the balance sheet of the non-trading company

    c) Not a balance sheet in all sense

    d) **A special accounting technique of ascertaining surplus or deficit**

24. The excess of net liability over the life assurance fund is

    a) Surplus　　b) **Deficiency**

    c) Profit　　d) Loss

25. Commission paid on re-insurance is

    a) An income　　b) Deficiency

    c) Profit　　d) **Loss**

REVIEW QUESTIONS

A) Answer in short

1. What is you mean by life assurance fund?
2. What is called annuity?
3. What is the meaning of surrender value?
4. What is valuation balance sheet?
5. What is Reinsurance?
6. What do you mean by reserve for unexpired risk?
7. What is additional reserve?
8. Differentiate commission on reinsurance accepted from commission on reinsurance ceded.
9. What is additional reserve? Why it is needed?

B) Answer in detail

1. Explain the preparation of revenue a/c of a life insurance business in prescribed form and explain the items there in

2. Explain the schedules prepared for the life insurance accounts.
3. Explain why reserve for unexpired risk is created in Life Insurance Company and not created in general insurance company.
4. Briefly the schedules prepared in finalizing accounts of a general insurance company.
5. Distinguish between life insurance and general insurance.
6. In what way fire insurance differ from marine insurance?

EXERCISES

CALCULATION OF CORRECT LIFE ASSURANCE FUND

1. The Life Assurance Fund of Sun Insurance Company shows a balance of ₹76,87,500 on 31st March 2016. It was later observed that the following were not taken into account.

   a) Dividend from investment ₹3,50,000

   b) Income tax on above ₹32,000

   c) Bonus in reduction of premium ₹4,85,000

   d) Claims covered under re-insurance ₹3,25,000

   e) Claims intimated but not admitted by the company ₹8,07,000

   Ascertain the correct balance of fund in the light of above particulars.

2. The revenue account of a life insurance company showed the life fund of ₹7,31,700 on 31-3-2016 before taking into account the following terms:

Claims intimated but not admitted	₹98,250
Bonus utilized in reduction of premium	₹13,500
Interest accrued on investments	₹29,750
Outstanding premium	₹27,000
Claims covered under reinsurance	₹40,500
Provision for taxation	₹31,500

   Show the adjusted life fund

3. A life insurance company disclosed a fund of ₹20,00,000 and the balance sheet total of ₹45,00,000 on 31- 03- 2016 before taking into consideration.

   i) A claim of ₹10,000 intimated and admitted but not paid during the year

   ii) A claim of ₹6,000 outstanding in the books for 8 years and written back

   iii) Interest on securities accrued ₹800 but not received during the year

   iv) Premium of ₹600 payable under re-insurance

   v) Re-insurance recoveries ₹26,000

vi) Bonus utilized in reduction of premium ₹10,000

vii) Agent's commission to be paid ₹8,000

Recomputed the life assurance fund

REVENUE ACCOUNT OF LIFE INSURANCE WITHOUT ADJUSTMENTS

4. From the following information, prepare Revenue Account of Active life Insurance Company Limited for the year ended 31.03.2015.

	₹		₹
Life Assurance Fund (1.4.04)	30,42,000	Bonus in Reduction of Premium	1,960
Claims by death	1,52,280	Consideration for annuities granted	1,64,254
Claims by maturity	60,220	Annuities paid	1,06,922
Premiums	14,11,380	Bonus in cash	4,832
Transfer Fees	258	Expenses of Management	63,840
Interest and Dividends	1,95,680	Commission	19,148
Income-tax thereon	11,420	Dividends to Shareholders	11,000
Surrenders	26,280		

5. From the following figures, prepare Revenue Account in the Statutory from of the Star Life Assurance Company Limited for the year ended 31.03.2015.

	₹		₹
Commission	19,140	Claim by death paid	1,42,000
Interest, Dividends, Rents (net)	1,95,700	Claim by maturity paid	70,200
Income-tax deducted at source	12,400	Premiums	14,12,100
Expenses of Management	63,800	Surrenders	26,300
Bonus in reduction of premium	1,800	Annuities paid	1,06,900
Dividends paid to shareholders	9,000	Bonus paid in cash	4,800
Considerations for annuities granted			1,64,000
Outstanding Death Claims at the beginning of the year			22,000
Outstanding Death claims at the end of the year			16,000
Amount of Life Assurance Fund at the beginning of the year			30,45,000

VALUATION BALANCE SHEET

6. The life fund of a life insurance company was ₹86,48,000 as on 31st March 2015. The interim bonus paid was ₹1,48,000. The actuarial valuation determined the net liability at ₹74,25,000. The surplus brought forward from the previous valuation was ₹8,50,000. The director of the

company proposed to carry forward ₹9,31,000 and to divide the balance between the share holders and the policy holders in the ratio of 1:10. Prepare the valuation balance sheet and find out the net profit for the valuation period.

7. A life assurance corporation gets its valuation made once in every two years. The life assurance fund on 31st March 2015 amounted to ₹20,96,000 before providing for ₹16,000 for the shareholders dividend for the year 2015-16. Its actuarial valuation on 31st March 2015, disclosed net liability of ₹20,20,000 for unexpired risk. An interim bonus of ₹20,000 was paid to the policyholders for this year. Prepare a valuation balance sheet and also calculate the amount available to policyholders.

REVENUE ACCOUNT AND VALUATION BALANCE SHEET

8. Prepare revenue account and valuation balance sheet of a Life Insurance Company for the year ended 31st March 2015:

Claims by death	₹76,140	Claims by maturity	₹30,110
Premiums	₹7,05,690	Transfer fees	₹129
Consideration for annuity granted	₹82,127	Annuities paid	₹53,461
Bonus paid in cash	₹2,416	Expenses of management	₹31,920
Commission	₹9,574	Interest and dividend	₹97,840
Income tax thereon	₹35,710	Surrenders	₹13,140
Life assurance fund at the beginning	₹15,21,000	Dividend paid to share holders	₹5,500
Bonus in reduction of premium	₹980		

Paid-up share capital of the above life assurance company is ₹5,00,000 and net liability as per actuary's valuation is ₹11,05,000 as on 31st March 2015.

9. A Life Assurance Co. Ltd. having a paid up capital of ₹5,00,000 disclosed a net liability of ₹40,50,000 on all their policies and contracts in force on 31- 3- 2015. From the figures set out below, prepare the revenue account for the year ended 31- 3- 2015 and a valuation balance sheet as on that date.

	₹ in '000		**₹ in '000**
Life fund on 1- 4- 2014	5,000	Premiums	2,580
Interest, dividends and rent	1,520	Fines	1.25
Consideration for annuities granted	85	Claims paid	280
Re-insurance claims irrecoverable	2	Exp. of management	230
Bonus in reduction of premium	3.55	Commission	115
Annuities paid	114	Surplus	9
Surrenders	9	Income tax	240
Bonus in cash	11.25		

10. The valuation of ABCD Life Assurance Company Ltd. having a paid up capital of ₹5,00,000 disclosed a net liability of ₹66,50,000 and all their policies and contracts in force on 31-3-2015. From the figure set out below, prepare the revenue account for the year ended 31st March 2015 and a valuation balance sheet as on that date showing the surplus for the shareholders and policy holders (on the pattern of distribution prescribed in the life Assurance Corporation of India Act, 1956)

Life Assurance Fund 1-4-2014	₹50,00,000	Fines for revival of lapsed policies	₹1,250
Interest dividend received	₹15,00,000	Bonus in cash	₹1,12,000
Bonus in reduction of premium	₹4,050	Re-insurance balance irrecoverable	₹2,000
Surrenders	₹1,90,000	Annuities paid	₹1,14,000
Expenses of management	₹2,20,000	Commission paid to agents	₹1,25,000
Claims paid	₹2,60,000	Income tax	₹2,40,000
Surplus on revaluation of reversion purchased	₹9,000	Consideration for annuities granted	₹85,000
		Premium received	₹26,00,000

11. The following were the revenue items of a LIC for the year ended 31-3-2015.

Premium	₹40,30,000
Surrenders	₹1,95,000
Interest and Dividend (net)	₹13,00,000
Bonus in cash	₹1,17,000
Bonus in reduction of premium	₹5,200
Expenses of management	₹2,60,000
Life fund on 1.4.2014	₹52.00.000
Claims	₹27,95,000
Annuities	₹10,66,000
Consideration for annuities granted	₹14,30,000
Commission	₹1,30,000

At the valuation on 31.3.2015 the actuary's certificate disclosed the net liability on policies and annuities at ₹57, 60,000.

Prepare revenue account and ascertain the profit or loss made by the company.

REVENUE ACCOUNT OF LIFE INSURANCE WITH ADJUSTMENTS

12. The following balances were extracted from the books of the New Bharat Insurance Company Ltd. as on 31st March 2015.

Life Insurance Fund on 1-4-2014	₹15,00,000	Consideration for annuities	₹15,000
Premium	₹4,96,000	Interest and dividends	₹1,00,000
Fines for revival of policies	₹750	Claims outstanding on 1-4-14	₹4,500
Re-insurance premium	₹20,750	Claims paid during the year	₹64,900
Annuities	₹2,050	Management expenses	₹22,000
Medical fees	₹2,400	Surrenders	₹4,000
Commission	₹18,650	Bonus in reduction of premium	₹1,600
Income tax on dividends	₹8,500		

Prepare the revenue account after the following adjustments:

i) Outstanding balances: Claims ₹14,000; Premium ₹4,600

ii) Further bonus for premium ₹2,400

iii) Claims under re-insurance ₹8,000

13. The following trial balance was extracted from the books of Bharat Assurance Co. Ltd. as on 31st Dec.2015.

Particulars	Debit ₹	Particulars	Credit ₹
Dividend paid	15,000	Shares of ₹10 each	1,00,000
Bonus in reduction of premium	31,500	Life Assurance Fund 1-1-2015	29,72,300
Claims paid	1,97,000	Premium less reinsurance premium (Commission thereon ₹5,000)	1,61,500
Commission paid	9,300		
Mortgage in India	4,92,200		
Management expenses	32,300	Interest and dividend	1,12,700
Agents balances	9,300	Outstanding claims (1-1-2015)	7,000
Buildings	40,000	Consideration for annuities granted	10,000
Investments	23,05,000		
Loan on policies	1,73,600		
Cash on deposit	27,000		
Cash in hand	7,300		
Surrenders	7,000		
Medical fees	7,000		
Annuity	10,000		
	33,63,500		33,63,500

Prepare the revenue a/c after considering the following:

i) Claims outstanding ₹10,000

ii) Further bonus in reduction of premium ₹5,000

iii) Premium outstanding ₹5,000

iv) Claims covered under reinsurance ₹80,000

v) Management expenses ₹30,000

REVENUE ACCOUNT & BALANCE SHEET OF LIFE INSURANCE WITHOUT ADJUSTMENTS

14. From the following trial balance prepare the Final Accounts of the Indian Assurance Company Ltd. for the year 31.03.2015.

Debit	**Amount ₹**	**Credit**	**Amount ₹**
Loans on Life interests	4,281	Premium	3,65,982
Expenses of Management	18,241	Profit on sale of investments	10,824
Freehold Ground Rents	1,68,421	Claims admitted but not Paid	58,421
Commission	9,872	Sundry Creditors	7,724
Deposit with RBI Govt. Securities	2,00,000	Consideration for annuities granted	12,272
Income tax on interest receipts	7,139	Interest, Dividend and Rent (Gross)	1,20,682
Surrenders	21,104		
Claims by maturity	1,04,728		
Annuities paid	7,681		
House property	59,888		
Claims by death	1,72,681		
O/s premium	21,641		
Bonus in cash	4,222		
Agent's balance	6,824		
Port trust Debenture Interest and Principal Guaranteed by the Govt.	5,28,241		
Cash at bank	12,724		
Cash in Hand	354		
Foreign Govt. Securities	1,42,520		
Office Furniture	1,500		

Shares in other cos.	1,21,621		
Stock of policy stamps in land	168		
Mortgages in India	6,61,421		
Mortgages outside India	2,06,490		
Loans on Govt. Securities	4,98,321		
British Govt. Securities	2,21,640		
Loans on company's Policies	1,74,692		
	33,76,415		33,76,415

15. The following trial balances were extracted from the books of Life Insurance Corporation as on 31.03.15.

	Amount ₹		**Amount ₹**
Premium received in advance	50,000	Expenses of Management	7,50,213
Income-tax paid	1,40,074	Investments	2,55,00,000
Life Assurance Fund (1.4.2014)	2,40,00,000	Investment Reserve Fund (1.4.2014)	25,00,000
Freehold Property	12,50,000	Premium less reassurances	37,50,000
Claims admitted but not paid	15,00,000	Outstanding Premium (Net)	3,01,600
Surrenders	1,79,475	Outstanding Interest	2,95,000
Consideration for annuities granted	25,250	Interest accrued but not payable	1,58,500
Bonus in reduction of premium	2,000	Interests, Dividends and Rents Received	16,00,168
Annuities	15,000	Furniture and Fittings	45,250
Unpaid Dividends	25,895	Stamps in hand	3,661
Transfer and other Fees	3,215	Sundry Creditors	22,437
Agent's Balances Outstanding	72,952	Cash in hand and at Banks	1,82,000
Loans on Companies' Policies within their surrender value			24,50,000
Cheque paid into Banks and in course of realization			24,500
Cheque issued but not presented for payment			33260
Shareholders Capital(10,000 shares of ₹25 each, ₹10 per share paid up)			1,00,000
Claims under policies paid and outstanding less received on reassurance			22,50,000
Gain on redemption of debentures (to be carried to Investment Reserve Fund)			10,000

You are required to prepare the revenue account for the year ended 31st March, 2015 and a Balance Sheet at the date of the New India Life Insurance Co. Ltd.

16. The following balances were extracted from the books of Cosmopolitan Life Insurance Company as on 31.03.2015. You are required to prepare its final accounts.

	₹ in '000		**₹ in '000**
Shareholders Capital ₹5,00,000 in 20,000 shares of ₹ 25 each, ₹10 per share paid up	200	Life Assurance Fund (1.4.2005)	48000
Claims under policies paid and outstanding less received on reassurance	4500	Investment Reserve Fund (1.4.2005)	5000
Expenses of Management	1500	Investments	51000
Freehold and Leasehold Property	2500	Unpaid Dividends	51.79
Claims admitted or intimated but not paid	3000	Outstanding Premia (Net)	603.2
Consideration for annuities granted	50.5	Outstanding Interest	590
Bonus in reduction of premium	4	Surrenders	358.95
Gain on redemption of debentures (to be carried to Investment Reserve Fund)	20	Cheque paid into Banks and in course of collection	49
Interests, Dividends and Rents Received	3200	Premia less reassurances	7500
Loans on Companies' Policies	4900	Interest accrued	317
Cash in hand and at Banks	364	Income-tax	280.15
Annuities	30	Transfer Fees	6.430
Cheque issued but not presented for payment	66.52	Agent's Balances	145.904
Premia received in advances	100	Furniture and Fittings	90.500
Sundry Creditors	44.875	Stamps on hand	7.322

REVENUE ACCOUNT AND BALANCE SHEET OF LIFE INSURANCE WITH ADJUSTMENTS

17. The following trial balance was extracted from the books of Life Assurance Company Limited as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividends paid	30,000	Paid up Capital (₹10 each)	2,00,000
Loans on Company's	3,47,200	Life Fund Balance	59,44,600

policies		(1.4.2005)	
Claims paid	3,94,000	Premium received	3,23,000
Cash in hand and current accounts	14,600	Interest and Dividends received	2,25,400
Management Expenses	64,600		
Mortgages in India	9,84,400		
Agents balances	18,600		
Freehold premises	80,000		
Investments	46,10,000		
Bonus to policy holders	63,000		
Cash on deposits	54,000		
Commission paid	18,600		
Surrenders	14,000		
	66,93,000		66,93,000

You are required to prepare the company's revenue account for the year ended 31st March, 2015 and its balance sheet as on that date after taking the following matters into consideration:

- Claims admitted but not paid ₹18,600
- Management expenses due ₹400
- Interest accrued ₹38,600
- Premiums outstanding ₹24,000

18. The following balances were extracted from the books of Mutual Life Assurance Company as on 31.03.2015.

Debit	**₹ in '000**	**Credit**	**₹ in '000**
Mortgages	1400	Outstanding claims	22
Buildings	145	Premiums	3394
Interest accrued but not received	7	Consideration for annuities granted	420
Investments	1200	Interest and Dividends	100
Bonus in reduction of Premium	5	Life Assurance Fund (1.4.2014)	950
Annuities	12		
Claims by death	700		
Claims by maturity	1000		
Agent's Balance	5		
Deposits with RBI	30		

Outstanding Premiums	35		
Commission	54		
Cash at Bank	50		
Sundry Debtors	63		
Surrenders	25		
Loans	155		
	4886		4886

You are required to prepare the final accounts after taking into account the following adjustments;

Premiums outstanding	₹4500
Interest accruing but not due	₹3700
Claims admitted but not paid	₹3200
Surrender claims not paid	₹1100
Further bonus utilized in reduction of premiums	₹2000

19. The following are the ledger balances of Bharat Life Assurance Co. Ltd. as on 31st March 2015.

	Amount ₹		**Amount ₹**
Interest outstanding on Investments	7,295	Consideration for annuities granted	1,20,000
Claims paid	4,20,600	Share capital	5,00,000
Bonus in reduction of premium	10,200	Life Assurance Fund as on April 1, 2014	25,27,825
Claims admitted but not paid	40,210	Annuities	80,900
Premium	18,90,500	Loans on policies	6,50,000
Interest, Dividends and Rents	1,70,620	Surrenders	1,12,800
Income-tax on interest	30,200	Re-assurance Premium	2,14,500
Loss on sale of investments	1,27,800	Buildings	4,50,000
Expenses of Management	1,27,800	Policy stamps on hand	6,700
Cash and Bank balances	1,40,790	Mortgage in India	10,12,700
Outstanding Premium	4,40,600	Agents balances (Dr.)	1,20,500
Outstanding Expenses	52,200	Bonus in cash	7,800
Dividend paid to shareholders	25,000	Investments	12,50,000
Commission	40,670	Furniture	24,500

Prepare the final accounts of the company, taking the following matters into consideration:

- Claims covered under reinsurance ₹47,500
- The Managing Director is to be paid commission of ₹51,520
- Further Bonus in reduction of premium is ₹5,000

20. The following trial balance was extracted from the books of National Life Assurance Company as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividend Paid	30,000	Share Capital	3,20,000
Surrenders	14,000	Life Assurance Fund (1.4.14)	
Loans on Company's Policies	3,47,200	Interest and Dividend Received	2,25,400
Commission paid	18,600	Premiums Received	2,03,000
Management expenses	64,600		
Mortgages in India	9,84,400		
Agents Balances	18,600		
Freehold Premises	80,000		
Investments	46,10,000		
Claims paid	3,94,000		
Cash on Deposits	54,000		
Cash in hand	14,600		
Bonus to Policyholders	63,000		
	66,93,000		66,93,000

You are required to prepare the company's final accounts for the year ended March 31, 2015, after taking into consideration, the following adjustments:

- Claims admitted but not paid ₹18,600
- Premium outstanding ₹24,000
- Interest accrued ₹38,600
- Management expenses Due ₹400

21. The following trial balance was extracted from the books of Life Insurance Corporation as on 31.03.2015.

	Amount ₹		**Amount ₹**
Life Assurance Fund (as on 1.4.14)	14,70,562	Consideration for annuities granted	10,620
Premium	2,10,572	Freehold Premises	5,00,000

Management expenses	19,890	House property	1,00,000
Mortgages	3,09,110	Claims by death	79,980
Dividend paid	20,000	Claims by maturity	36,420
Fines	92	Commission	26,541
Annuities	29,420	Interest dividends and rent	52,461
Share capital	4,03,000	Income-tax on Interest	3,060
Stamps on hand	400	Surrenders	21,860
Annuities due but not paid	22,380	Bonus in reduction of premium	2,500
Govt. Securities	8,70,890	Furniture	20,000
Bonus paid in cash	9,450	Loans on Company's Policies	2,00,000
Preliminary expenses	200	Claims admitted but not paid	80,034

Prepare the final accounts of the company after taking into consideration, the following:

- Claims covered under reinsurance ₹20,000
- Further claims intimated ₹20,000
- Further bonus utilized in reduction of premium ₹3,000
- Re-insurance premium ₹6,000
- Premium outstanding ₹8,000

22. The following trial balance was extracted from the books of New Bharat Life Assurance Company Limited as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividends Paid	15,000	Paid up Capital (10,000 shares of ₹10 each)	1,00,000
Claims paid	1,97,000		
Bonus in reduction of Premium	31,500	Life Fund Balance (1.4.2014)	29,72,300
Commission	9,300	Premium less reinsurance premium	1,61,500
Management Expenses	32,300	Outstanding claims (1.4.2014)	7,000
Mortgages in India	4,92,200	Interest and Dividends received	1,12,700
Agents balances	9,300	Consideration for annuities granted	10,000
Freehold premises	40,000		
Investments	23,05,000		
Loans on Companies Balances	1,73,600		
Cash on deposits	27,000		

Cash in hand and current accounts	7,300		
Surrenders	7,000		
Medical fees	7,000		
Annuities	10,000		
	33,63,500		33,63,500

Prepare revenue account for the year ended 31st March 2015 and a balance sheet of the company as at that date after taking the following into consideration.

- Claims outstanding ₹10,000
- Further bonus in reduction of premium ₹5,000
- Premium outstanding ₹5,000
- Claims covered under reinsurance ₹80,000
- Management expenses due ₹ 30,000
- Commission on reinsurance ceded ₹ 5,000

23. From the following figures extracted from the books of life assurance Company Limited as on 31.03.2015.

	Amount ₹		**Amount ₹**
Life fund on 1st April 2014	55,56,148	Cash in hand	1,900
Interest accrued but not received	69,613	Cash at bank	9,020
Investment Reserve Fund	88,000	Bank loans	50,000
Outstanding premiums	77,651	Share Capital	1,00,000
Premium less re-assurance	3,55,674	Municipal Securities	8,50,320
Loans on security of policies	4,25,360	Foreign Govt. Bonds	1,72,760
Consideration for annuities to be granted	11,338	Fines for revival of policies	358
Shares and debentures in other companies	20,42,477	Development loan	4,15,000
Interest and dividends (less tax)	2,23,535	Stamps in hand	269
Claims announced but not paid	76,135	Mortgages in India	9,02,956
British Govt. securities	5,69,517	Claims by death	3,37,955
Annuities due but not paid	427	Claims by Survivance	32,226
Premium received in Advance	575	Surrenders	37,303
Mortgages Outside India	3,94,360	Income-tax on profit	8,594
Bonus in reduction of premium	11,156	Annuities	38,688
Interest and dividend to	9,878	Commission	11,417

shareholders			
Interest outstanding on Investment	3,700	Management Expenses	40,070

The following information is given:

- Further Bonus utilized in reduction of Life Insurance Premium ₹6,500.
- Claims covered under re-insurance ₹27,000.

24. The following trial balance was extracted from the books of Life Insurance Corporation as on 31.03.2015. You are required to prepare the final accounts for the year ended 31st March 2015 after taking the following facts into consideration:

1. Claims admitted but not paid	₹9,000
2. Management Expenses Due	₹200
3. Interest accrued	₹19,000
4. Premium outstanding	₹10,000
5. Bonus utilized in reduction of premium	₹2,000
6. Claims covered under reinsurance	₹2,300

Particulars	**Debit ₹**	**Particulars**	**Credit ₹**
Dividends paid	15,000	Paid up Capital (10,000 shares of ₹10 each)	1,00,000
Mortgages in India	4,92,200		
Bonus in reduction of Premium	31,500	Life Fund Balance (1.4.2014)	29,72,300
Loans on Companies Balances	1,73,600	Premium less reinsurance premium	1,61,500
Cash in hand and current accounts	7,300	Interest and Dividends received	1,12,700
Management Expenses	32,300		
Agents balances	9,300		
Freehold premises	40,000		
Investments	23,05,000		
Claims paid	1,97,000		
Cash on deposits	27,000		
Commission Paid	9,300		
Surrenders	7,000		
	33,46,500		33,46,500

25. From the following trial balance Life Insurance Company, prepare the Final Accounts after taking into account the following adjustments.

- Claims outstanding on 31.03.2015 ₹13,500
- Claims recoverable from reinsurer ₹6,000
- Further Bonus utilized in reduction of premium ₹3,000
- Premiums outstanding ₹1,500
- Management expenses due ₹4,500
- Surrenders adjusted against loan on policies ₹5,000

Trial Balance as on 31.03.2015

Debit balances	**₹**	**Credit balances**	**₹**
Claims paid	59,500	Life Assurance Fund (1.4.2014)	15,51,800
Surrenders	8,000	Investment Fluctuation Fund	54,000
Loans against Mortgages	3,49,500	Premium Deposits	18,000
Loans against Policies	1,50,000	Sundry Creditors	22,500
Expenses of Management	1,11,000	Interest accrued	84,000
Outstanding premium on 31.03.14	66,000	Claims outstanding on 1.4.2014	9,000
Govt. Securities with RBI	3,90,000	Premiums less re-insurance	4,21,000
Other securities	8,25,000		
Fixed Assets	75,000		
Income-tax deducted on interest	9,000		
Depreciation of Fixed Assets	1,500		
Interest accrued	15,000		
Sundry Debtors	24,000		
Bonus in reduction of Premium	3,000		
Cash and Bank Balance	73,800		
	21,60,300		21,60,300

26. The following trial balances were extracted from the books of Life Insurance Corporation as on 31.03.15.

Particulars	**Debit ₹**	**Particulars**	**Credit ₹**
Mortgages	14,00,000	Claims due on 1.4.2014	22,000
Loans	3,00,000	Premium	30,00,000
Investments	12,00,000	Consideration for annuities	4,00,000
Surrenders	25,000	Interest and Dividend	4,94,000

Annuities	12,000	Life Fund on 1.4.2014	9,70,000
Claims by death	8,50,000		
Claims by maturity	8,50,000		
Agents balances	5,000		
Deposit with RBI	30,000		
Premium Outstanding	35,000		
Commission paid	54,000		
Cash at Bank	50,000		
Management Expenses	50,000		
Bonus in reduction of premium	18,000		
Interest accrued	7,000		
	48,86,000		48,86,000

Adjustments:

- Premium Outstanding ₹4,000
- Claims admitted but not paid on 31.03.2006 ₹4,500
- Surrender claims not paid ₹1,500
- Surrenders adjusted against loans on policies ₹5,000
- Further Bonus in reduction of premium ₹2,500.

Prepare Final Accounts.

27. The following are the ledger balances of Life Assurance Co. Ltd. as on 31st March 2015.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Premiums	18,90,500	Bonus in cash	7,800
Life assurance fund as on 1st April, 14	25,27,825	Dividend paid to shareholders	25,000
Claims paid	4,20,600	Furniture	24,500
Claims admitted but not paid	40,210	Commission	40,670
Consideration for annuities granted	1,20,000	Interest, dividends and rents (gross)	1,70,620
Expenses of management	1,27,800	Cash and bank balances	1,40,790
Income-tax on interest and dividends	30,200	Interest outstanding on investments	7,295
Annuities	80,900	Agent's Balances (Dr.)	1,20,500
Loss on sale of investments	1,27,800	Outstanding Expenses	52,200
Loans on policies	6,50,000	Share Capital	5,00,000
Surrenders	1,12,800	Investments	12,50,000
Re-assurance premium	2,14,500	Outstanding Premium	4,40,600

Policy stamps on hand	6,700	Buildings	4,50,000
Bonus in reduction of premium	10,200	Mortgages in India	10,12,700

Prepare the final accounts of the Company, taking the following matters into consideration:

- Claims covered under re-insurance ₹47,500
- The Managing Director is to be paid commission at the rate of 5% on the net increase of Life Assurance Fund during the year before providing for such commission.
- Pending the Actuarial Valuation a reserve of 20% premium income is to be made
- Further bonus in reduction of premium ₹5,000

REVENUE ACCOUNT FOR FIRE INSURANCE

28. Prepare a revenue a/c in respect of fire business from the following details for the year 2015.

Reserve for unexpired risk on 1-4-14 @ 50%	₹90,000	Commission on re-insurance accepted	₹800
Estimated liability for claims intimated on 1-4-2014	₹15,500	Estimated liability for claims intimated on 31-3-2015	₹21,000
Claims paid	₹1,82,500	Legal expenses	₹3,000
Medical expenses	₹2,000	Re-insurance recoveries	₹16,000
Bad debts	₹400	Premium received	₹2,43,000
Premium on re-insurance accepted	₹16,000	Premium on re-insurance ceded	₹21,500
Profit on sale of investments	₹1,500	Expenses of management	₹45,000
Commission on re-insurance ceded	₹1,075	Commission on direct business	₹24,300
Interest, dividend and rent	₹12,000	Additional reserve	₹18,000

Create reserve on 31st March 2015, to the same extent as on 1st April 2014.

29. From the following balances as at 31st March 2015 in the books of General Insurance Co. Ltd, prepare a revenue a/c in respect of fire insurance business carried on by them.

Re-insurance premium paid	₹1,20,000	Claims paid	₹4,80,000
Claims outstanding on 1-4-14	₹40,000	Premium received	₹12,00,000
Loss on sale of motor car	₹3,500	Commission	₹2,00,000
Commission on re-insurance accepted	₹4,000	Commission on re-insurance ceded	₹8,000
Provision for unexpired risk on 1-4-14	₹4,00,000	Medical expenses regarding claims	₹5,000

Additional provision for unexpired risk on 1-4-14	₹20,000	Rent of staff quarters deducted from salaries	₹2,400
Depreciation on furniture	₹4,600	Interest and dividends	₹8,000
Re-insurance recoveries of claim	₹8,000	Bonus utilized in reduction of premium	₹12,000
Bad debts	₹2,500	Administrative expenses	₹3,02,000
Income tax deducted thereon	₹1,500	Refund of double taxation	₹4,500
Legal expenses regarding claim	₹4,000	Profit on sale of investments	₹3,500
Claims intimated and accepted but not paid on 31-3-15			₹70,000

You are required to provide additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance of additional reserve.

30. From the following particulars of Asian Insurance Company Ltd., prepare Revenue a/c and P & L a/c for the year ended 31st Dec. 2015.

Particulars	**Fire ₹**	**Marine ₹**
Claims outstanding on 31.12.15	4,620	9,808
Due to Re-insurance	2,471	4,143
Premiums received	3,56,418	4,59,960
Claims paid and outstanding	2,02,412	2,36,270
Expenses of management	96,512	96,512
Commission on Direct business	34,921	62,857
Commission on Reinsurance ceded	1,841	2,376
Commission on Reinsurance accepted	2,356	1,754
Sundry income	780	644
Funds at the beginning	2,26,300	2,16,725

Interest and Dividend received ₹1,49,512. Income tax on the above ₹32,316. Other receipts ₹3,745. Management expenses ₹16,735. Provision for unexpired risk is to be maintained at 50% and 100% of the net premium received in case fire and marine business respectively.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. From the following particulars prepare the fire Revenue Account for 2009.

Particulars	Amt
Claims (Net)	10,20,000
Premiums received	24,00,000
Re-Insurance premium	2,40,000
Commission	5,00,000
Expenses for management	4,00,000
Provision for unexpired risk on 1.1.09	14,00,000

[Alagappa University, B.Com(C.A), April, 2016]

2. The Revenue account of a life insurance company showed the life fund at Rs.73,17,000 on 31.2.2006 before taking into account the following items.

Claims but not admitted	98,250
Bonus uitilized in reduction of premium	13,500
Interest accrued on Investments	29,750
Outstanding premiums	27,000
Claims covered under reinsurance	40,500
Provision for taxation	31,500

Show the adjusted life fund.

[Madurai,M.Com,Nov,2014]

3. The following figures relate to life insurance corporation for the year ended 31.3.2010. prepare the revenue account.

Claims	78,000
Management expenses	28,000
Directors fees	8,000
Audit fees	6,000
Medical expenses	10,000
Agent’s commission	10,000
Depreciation	8,000
Bonus in reduction of premium	3,000
Consideration for annuities granted	33,000
Surrenders	18,000
Premium received	3,02,000

Life Fund(1.4.2005)	23,00,000
Interest Received	80,000
Rent Received	20,000
Claims Cancelled	1,000
Annuities	3,000

Note:

1. Premium Outstanding Rs.18,000
2. Claims Outstanding Rs.6,000

[Madurai,M.Com,Nov,2014]

4. A life insurance company disclosed a fund of Rs. 25,00,000 on Dec 31, 2000 before taking the following into consideration.

   (i) A claim of Rs. 15,000 was intimated and admitted but not during the year.

   (ii) A claim of Rs. 8,000 outstanding in the books for 8 years is written back.

   (iii) Premium of Rs. 1,000 is payable under reinsurance.

   (iv) Reinsurance recoveries Rs. 30,000

   (v) Bonus utilized in reduction of premium Rs. 8,000

   (vi) Agents commission to be paid Rs. 6,000

   Pass the necessary journal entries for the above commission and recomputed the fund.

[Alagappa University, B.Com(C.A), April, 2015]

5. The revenue account of a life assurance company shows the Life Assurance Fund on 31.3.2006 at Rs. 62,21,310, before taking ibto account the following:

		Rs.
a.	Claims covered under reinsurance	12,000
b.	Bonus utilised in reduction of life insurance premium	4,500
c.	Interest accrued on securities	8,260
d.	Outstanding premiums	5,420
e.	Claims intimated but not admitted	26,500

   What is the Life Assurance Fund after taking into account the above omissions?

[Madras, B. Com, B.Cont(CS)Ap. 2009; B. Cont (CS) Nov. 2008]

[Ans: Correct Life Assurance Fund — Rs. 62,20,490]

6. The Revenue Account of a Life Insurance Company showed a balance of Rs. 4,75,000 at the end of 2005-06 before considering the following items:

	Rs.
(a) Bonus in reduction of premiums	40,000
(b) Outstanding premiums	1,00,000
(c) Interest accrued on investments	20,000
(d) Claims intimated but not admitted	35,000
(e) Claims recovered under reinsurance	3,000

Pass necessary adjustment entries.

[Madras, B.Com. Nov. 2006]

[Ans: Adjusted life assurance fund — Rs. 5,63,000]

7. The Revenue account of a Life Insurance Company shows the Life Insurance Fund on 31.3.2006 at Rs. 48.78,000 before taking into account the following items.

	Rs.
(a) Claims intimated but not admitted	65,500
(b) Bonus utilised in reduction of premiums	6,500
(c) Interest accrued on securities	19,500
(d) Outstanding premiums	18,000
(e) Claims recovered under reinsurance	27,000

Pass the entries giving effect to the above adjustments and show the life fund at the end of the year 2005-06 after making the above adjustments.

[Madras, B.Com(ICE) Ap 2007]

[Ans: Life Assurance Fund at the end — Rs. 48,77,000]

8. From the following, you are required to calculate the amount on account of claim to be shown in the revenue A/c for the year ending 31st March 2006.

Intimated in	*Admitted in*	*Paid in*	*Rs.*
2004-05	2004-05	2005-06	15,000
2005-06	2005-06	2006-07	10,000
2003-04	2004-05	2004-05	5,000
2003-04	2004-05	2005-06	12,000
2005-06	2006-07	2006-07	8,000
2005-06	2005-06	2005-06	1,02,000

[Madras, M.Com (PBC) Oct. 2004; B.Com]

[Ans: Net claims to be shown in revenue account Rs. 95,000 (Rs. 1,29,000 + Rs. 18,000 — Rs. 27,000 — Rs. 25,000)]

9. The following figures relate to Life Insurance Corporation for the year ended 31.3.2006. Prepare the Revenue A/c.

	(Rs. '000)		*(Rs. '000)*
Claims	39	Consideration for	
Management expenses	14	annuities granted	16.5
Director's fees	4	Surrenders	9
Audit fees	3	Premia received	151
Medical expenses	0.5	Life fund (1.4.95)	1150
Agents' Commission	5	Interest received	40
Depreciation	4	Rent received	10
Bonus in reduction of premium	1.5	Claims cancelled	0.5
		Annuities	1.5

Note: (a) Premium outstanding Rs. 9 Thousand

(b) Claims outstanding Rs. 3 Thousand.

[Madras, B.Com (AF) Ap. 2008; B.Com., B.Com (CS) Nov. 2007; B.Com., April 2002; Madras, B.Com., Apri11998; Adapted]

[Ans: Surplus : Rs. 1,42,500]

10. Prepare in the proper statutory form the Revenue account of the Super Insurance Company Ltd. for the year ended 31st March 2006 from the following figures:

	Rs. ('000)		*Rs. (VON*
Claims by death	76,140	Expenses of Management	31,920
Claims by maturity	30,110	Commission	9,574
Premiums:		Interest, dividends	
First premiums	2,50,000	& rents	97,840
Renewal premiums	3,55,690	Income tax on interests,	
Single premiums	1,00,000	dividends etc.	35,710
Transfer fees	129	Surrenders	13,140
Consideration for annuities		Bonus in reduction	
granted less re assurance	82,127	of premium	980
Annuities paid	53,461	Dividend paid to	
Bonus paid in cash	2,416	shareholders	5,500
		Amount of life insurance fund at the beginning of the year	15,21,000

[Madras, 1st M.Com(CA1A) Nov. 2007; B.ComAp 2004]

[Ans : Surplus Rs. ('000) 6,68,045; (Before dividend)']

[Hints: 1. Bonus in reduction of premium should be shown only as an expenditure in Revenue A/c

2. Income tax on interest, dividend etc will be shown in schedule .12 of Balance Sheet, since it is tax deducted at source.]

11. From the following figures, prepare Revenue account, in statutory form, of the Star Assurance Co. Ltd. for the year ended 31.3.2006.

	Rs. ('000)
Claims paid by death	1,42,000
Claims paid by maturity	70,200
Premiums	14,12,000
Consideration for annuities granted	1,64,000
Annuities paid	1,06.900
Bonus paid in cash	4,800
Expenses of management	63,800
Commission	19,140
Interest, dividends and rents	1,95,700
Surrenders	26,300
Bonus in reduction of premium	1,800
Dividend paid to shareholders	9,000
Life Assurance Fund (1.4.05)	30,45,000
Claims outstanding (1.4.05)	22,000
Claims outstanding (31.3.06)	16,000

[*Madras, B.Com.(PZ4A)Ap 2007]*

[Ans : Surplus before payment of dividend : Rs. ('000) 13,42,760]

12. From the following figures relating to India Life Assurance Company for the year ended 31.3.06, prepare a revenue account of the company:

	Rs. (Thousand)
Claims less reinsurance:	
By Death	2,00,000
By Maturity	1,40,000
Annuities	12,600
Printing & Stationery	7,700
Surrenders	4,000
Commission	25,050
Expenses of management	3,00,000
Life fund on 1-4-05	39,00,000

Premium received	15,00,000
Claims outstanding on 1.405	
By Death	80,000
By Maturity	60,000
Sundry incomes	6,000
Consideration for annuities granted	1,01.200
Interest, dividends and rents	2,10,000
Registration and other fees	200
Income tax	45,000
Income tax on interest & dividends	50,000

Additional information:

(i) Claims outstanding on 31.3.06 by death Rs. 50.000 Thousands; by maturity Rs. 40,000 Thousands.

(ii) Management expenses outstanding Rs. 6,000 Thousands.

(iii) Provide Rs. 4,500 Thousands for depreciation.

(iv) Premium outstanding on 31.3.06 is Rs. 2,00,000 Thousands.

(Madras, B.Com,April,2004)

[Ans: Surplus after Tax : Rs. ('000) 13,22,550]

13. 'The following balances form part of the books of Bharat Insurance Company as on 31.3.2006

	Rs. (‘000)		Rs. ('000)
Life fund on 1.4.05	15,70,56 2	Bonus paid in reduction, of premium	3,500
Claims by death	1.16,980	Preliminary expenses	600
Claims by maturity	96,420	Claims admitted but not paid at the end of the year	80,034
Premiums	2,70,572	Annuities due but not paid	22,380
Management expenses	29,890	Capital paid up	6,00,000
Commission	36,541	Govt. securities	16,90,890
Consideration for annuities granted	10,620	Sundry assets	5,68,110
Surrenders	21,768	Interests, dividends and rents	49,401
Surrenders	29,420		
Annuities	9,450		
Bonus paid in cash			

Claims covered by re insurance

Further claims intimated

Further bonus utilised in reduction of premium Interest accrued

Premiums outstanding

Prepare a revenue account and the Balance Sheet.

[Madras, B.Com., B.Com (CS) Ap. 2009; 1st M.Com., Ap 2005]

[Ans: Surplus : Rs. ('000) 11,424; B/s Total : Rs. ('000) 21,81,386; Net Current Assets : Rs. ('000) 4,90,496; Life Assurance Fund : Rs. ('000) 15,81,986]

Hint : Sundry assets are taken as current assets.

14. The :Wowing Trial Balance was extracted from the books of the Bharat Life Assurance Company Limited as on 31-3-2006.

Debit balance	Rs. (‘000)	Credit balance	Rs. (‘000)
Claims by death	2,70,000	Share capital : (2,00,00,000) shares of Rs. 10 each)	2,00,000
Claims by maturity	2.30,000	Life Assurance Fund (1.4.05)	32,38,200
Bonus in reduction of premium	45,500	Claims outstanding (1.4.05)	25,000
Commission	12,500	Premiums less reinsurance	5,50,100
Management expenses	50,300	Outstanding commission	2,000
Building	50,000	Policy renewal fees	1.500
Investments	27,65,000	Interest & Dividends	2,90,000
Mortgages in India	5,50,000		
Loans on Company's policies	2,15,000		
Outstanding premiums	20,000		
Surrenders	8,300		
Dividend paid	20,000		
Cash at Bank	34,000		
Cash in hand	23,200		
Agent's balances	13,000		
	43,06,800		43,06,800

You are required to prepare the Company's revenue A/c for the year ended 31.3.2006 and its Balance Sheet as on that date after taking the following matters into consideration :

		Rs. (‘000)
(i)	Claims outstanding at the end of the year	20,000
(ii)	Interest accrued but not received	19,500
(iii)	Further bonus utilized in reduction of premium	8,500

(iv) Claims covered under reassurance 12,000

[Madura, B.Com., Ap 2003]

[Ans: Surplus : Rs. ('000) 2,61,500 (Before dividend); Life Assurance Fund : Rs. ('000) 34,79,700; Net Current Assets : Rs. ('000) 99,700; B/s total : Rs. ('000) 36,79,700]

15. From the figures stated below prepare a Revenue A/c and a Valuation Balance Sheet as at 31.3.2006 showing surplus for policy holders:

	(Rs. ',000)
Life Assurance fund (opening)	4.000
Premiums	2.500
Interest, dividends and rents	1.500
Consideration for annuities granted	100
Claims paid	300
Surplus on revaluation of reversions purchased	8
Bonus in reduction of premium	5
Surrenders	100
Commission	50
Net liability on policies in force on 31.3.06	5,653

[Madras, B.com., (ICE) May 2002]

[Ans: Surplus in revenue A/c : Rs. 36,53,000; Life Assurance fund at the end — Rs. 76,53,000; Surplus as per Valuation Balance Sheet — Rs. 20,00,000]

[Ans: Surplus in Revenue A/c : Rs. 10,95,900; Life Assurance Fund on 31.3.06 — Rs. 35,05,900; Valuation surplus — Rs. 7,15,000]

16. The Young India Life Assurance Co. Ltd. had a paid up capital of Rs. 2,50,000 Thousands divided into 2.50.00,000 shares of Rs. 10 each. Its net liability on all contracts in force as on 31.3.06 was Rs. 22,50,000 Thousands. From the following figures extracted from its books for the year ended 31.3.06. prepare revenue account and a valuation balance sheet. The company has paid an interim bonus of Rs. 1.03,806 Thousands and 25% of the surplus is to be allocated to shareholders and 70% of the surplus to the policy holders, the balance being carried forward.

	Rs. ('000)		Rs. ('000)
Life fund 1.4.2005	24,50,000	Income tax	1,18,500
Premium	13,80,000	Management expenses	1,75,000
Interest, dividends & rents	7,50,000	Bonus in reduction of	1,976

		premium	
Fines &fees	720	Commission	54,000
Bonus in cash	1,58,400	Surrenders	85,200
Claims	8,90,000	Reinsurance irrecoverable	1,250
Consideration for annuities granted	45,000	Surplus on revaluation of reversions	4,800

[Madras, B.Com(ICE) Oct 2006; Bharathidasan, B.Com., Nov. 2005]

[Ans: Surplus in Revenue A/c after Income Tax : Rs. ('000) 6,96,194; Life Assurance Fund at the end — Rs. ('000) 31,46,194; Surplus as per Valuation Balance Sheet —Rs. ('000) 8,96,194]

17. The Life Insurance Fund of Hindustan Life Insurance Co., Ltd. was Rs. 34,00,00'1 on 31-3-2006. Its actuarial valuation on 31st March 2006 disclosed a net liability Rs. 28,80,000. An interim bonus of Rs. 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward Rs. 1,10,000 and to divide the balance between the policyholders and shareholders. Show (a) The valuation Balance Sheet, (b) the net profit for the two year period 2 id (c) the distribution of the profits.

[Madras, B.Com, Nov,2009]

[Ans : (a) valuation surplus : Rs. 5,20,000; (b) Net profit : Rs. 5,60,000; (c) Amount due to policyholders : Rs. 3,87,500; To shareholders Rs. 22,500]

18. A Life Insurance Company got its valuation made once in every three years. The Life Assurance Fund on 31.3.06 amounted to Rs. 41,92,000 before providing for Rs. 32.000 for the shareholders' dividend for the year 2004-05. Its actuarial valuation on 31.3.06 disclosed a net liability of Rs-40,40,000 under the assurance and annuity contracts. An Interim bonus of Rs. 40,000 was paid to the policy holders during the period ending 31.3.06.Prepare a statement showing the amount now available as bonus to policy holders.

[Madras, M.Com(ICE) Oct. 2006; 1st M.Com., April 2006]

[Ans: Amount available as bonus to policy holders — Rs. 1,12,000; Surplus as per valuation balance sheet — Rs. 1,52,000]

19. Bharath Life Assurance Company gets its valuation made once in every two years. Its life assurance fund on 31.3.06 stood at Rs. 45,65,000 before providing for Rs. 45,000 being the shareholders dividend for 2005-06. Its actuarial valuation on 31.3.2006 disclosed a net liability of Rs. 32,20,000. An Interim bonus of Rs. 80,000 was paid to the policyholders during the previous two years. Prepare a statement showing the amount now available as bonus to policy holders.

[Madras, 1st M.Com (ZHC) Nov. 2004; B.Com., (ICE) May 2003]

[Ans: Amount available as bonus to policyholders — Rs. 12,31,000; Valuation surplus — Rs. 13,45,000]

20. A Life Assurance Company makes its valuation made once in every three years. Its life assurance fund on 31.3.2006 amounted to Rs. 31,92,000 before providing Rs. 40.000 for

shareholders' dividend for the year 2005-06. Its actuarial valuation due on 31.3.2006 disclosell a net liability of Rs. 30,40,000 under assurance annuity contracts. An interim bonus of Rs. 40,000 was paid to the policy holders during the year'ending 31.3.06. Prepare a statement showing the amount now available as bonus to policy holders assuming that the surplus disclosed by the valuation is to be allocated to the shareholders and the policy holders in the ratio of one and nine respectively.

[Thiruvalluvar, 1st M.Com, Ap 2006]

[Ans: Surplus as per Valuation Balance Sheet — Rs. 1,52,000; Amount due to policy holders — Rs. 96,800]

21. From the following particulars, prepare the fire revenue account for 2005-06:

	(Rs. in '000)
Claims paid	235
Legal expenses regarding claims	5
Premiums received	600
Reinsurance premium	60
Commission	100
Expenses of management	150
Provision against unexpired risk on 1.4.2005	260
Claims unpaid on 1.4.2005	20
Claims unpaid on 31.3.2006	35

[Madras, B.Com(AF) Nov. 2009; Ap. 2008; B.Com., B.Com (CS) Ap. 2009; Nov. 2008; Ap 2008; B. Cont., B.Com.(CS) APril 2006; B.Com., (ICE) Oct. 2006; Thiruvalluvar, B.Com. Ap 2006; Periyar, B.Com (CA) Oct. 2005; Madurai, B.Com., Nov. 2003]

[Ans : Operating Profit : Rs. 25,000]

22. From the following particulars prepare revenue account in respect of Fire Business for the year ending on 31-3-2006.

	(Rs. '000)
Reserve for unexpired risk-opening	2,50,000
Additional reserve -opening	50,000
Survey expenses	10,000
Commission paid	90,000
Claims paid and outstanding	1,80,000
Bad debts	5,000

Commission earned on reinsurance ceded	30.000
Premium less Reinsurances	6,00,000
Management expenses	1,45.000

In addition to usual reserve, additional reserve is to be increased by 5% of net premium.

[Madras, B.Com., April 2000

[Ans : Operating profit : Rs. ('000) 1,20,000]

23. From the following particulars prepare the fire revenue account for 2004-05. (Rs. '000)

Claims paid	270
Legal expenses regarding claims	6
Premiums received	740
Reinsurance premiums	50
Reinsurance claims	2
Commission	110
Reinsurance commission ceded	3
Expenses of management	210
Provision for unexpired risk on 1.4.04	330
Additional reserve on 1.4.04	140
Claims unpaid on 1.4.04	25
Claims unpaid on 31.3.05	35

Increase the additional reserve on 31.3.05 by 10% on the net premium.

[Madurai', B.Com., Ap 2003]

[Ans : Operating Profit : Rs. 5,000]

24. On 31-3-04, the books of National Insurance Co. disclosed the following particulars in respect of fire insurance:

	(Rs. '000)
Reserve for unexpired risk on 31.3.03	600
Additional reserve for unexpired risk on 31.3.03	100
Premiums received	450
Interest, rent and dividend (gross)	80
Income tax deducted therefrom	10

Sundry income	2
Claims paid during 2003-04	400
Claims outstanding on 31.3.03	25
Claims outstanding on 31.3.04	30
Claims recoverable under reinsurance	10
Commission to agents	50
Outstandingtommission to agents on 3 I .3.04	6
Expenses of management (including Rs. 5,000 legal expenses paid in connection with claims)	80
Sundry expenses	5
Commission on re insurance ceded	5

Keep a reserve for unexpired risk equal to 50% of the premiums and increase the additional reserve by Rs ('000) 20.

[Madras, B.Com., B.Com.(CS) Nov. 2006; M.Com.(CA1A) Nov. 2005]

[Ans: Operating Profit : Rs. 3,56,000]

(Hints :1. Income tax deducted from interest, rent and dividend is to be shown in Balance Sheet.

2. Since particulars are given and not Trial Balance, closing claims and commission are adjusted with the respective items]

25. From the following balances as at 31.3.06 in the books of General Insurance Co. Ltd. prepare a Revenue account in respect of fire insurance carried on by them.

	(Rs. '000)
Claims paid	480
Claims outstanding on 1.4.05	40
Claims intimated and accepted but not paid on 31.3.06	70
Premium received	1,200
keinsurance premium paid	120
Commission	200
Commission on reinsurance ceded	.8
Commission on reinsurance accepted	4
Expenses of management	302
Provision for unexpired risk on 1.4.05	400
Additional provision for unexpired risk on 1.4.05	20
Bonus utilised in reduction of premium	12

Reinsurance recovered of claims	8
Medical expenses regarding claims	5
Loss on sale of Motor car	3.5
Bad debts	2.5
Refund of double taxation	4.5
Interest and Dividend	8
Income tax deducted thereon	1.5
Legal expenses regarding claims	4
Profit on sale of investments	3.5
Rent of staff quarters deducted from salaries	2.4
Depreciation of furniture	4.6

Provide for additional reserve for unexpired risk at **1%** of the net premium in addition to opening balance of additional reserve.

[Madras, B.Com., (ICE) May 2001]

[Ans: Operating Loss : Rs. 84,000]

Hint : 1. Assume Interest and dividend as "gross". Income tax deducted on interestand dividend is to be shown in Balance sheet.

2. **All expenses and incomes are shown in revenue A/c itself.**
3. **Closing outstanding claims are added to claims since trial Balance is not given.**
4. **Rent of Staff Quarters in our income.**

Hint:: Creating Reserves on 31.3.2005 to the same extent as on 1.4.2004 should be taken in % terms and not as amounts. So. Additional Reserve is 10% and reserve for unexpired Risk is 50%.

26. From the following balances of Asian General Insurance Company Limited as on 31 March 2006, prepare,

(a) Fire revenue A/c (b) Marine revenue A/c (c) Profit & Loss A/c

Bonus in reduction of premium (fire)	2,000
Additional reserve on 1.4.2005 (fire)	50,000
Commission on reinsurance accepted (fire)	10,000
Commission on reinsurance ceded: (Fire)	30,000
(Marine)	60,000
Management expenses Fire	1,45,000
Marine	4,00,000
Premium less reinsurance: Fire	6,00,000
Marine	10,80,000

Profit on sale of land	60,000
Miscellaneous receipts	5,300
Interest, dividend received	14,000
Depreciation	35,000
Commission paid: Fire	90,000
Marine	1,08,000
Claims paid and outstanding (Marine)	3,80,000
Claims outstanding (fire)	10,000
Claims paid (fire)	1,80,000
Marine fund (1.4.2005)	8,20,000
Fire fund (1.4.2005)	2,50,000
Bad debts recovered	1,200
Share transfer fees	800
Director's fees	5,000
Auditor's fees	1,200
Bad debts: Fire	5,000
Marine	12,000

[Madras, B.Com., B.Com.(CS) Ap. 2008]

[Ans: Operating Profit: Fire — Rs. ('000) 1,88,000; Operating Loss: Marine — Rs. ('000) 20,000; Net profit carried to B/S — Rs. ('000) 2,08,100]

27. From the following balance of the Asian General Insurance Co. Ltd. as on 31st March 2006, prepare (a) Fire revenue A/c and (b) Marine revenue A/c and P&L A/c.

Bad debts (fire) Bad debts (marine)	Rs. (‘000)		Rs. (‘000)
Auditor's fees	5,000	Interest, dividends etc. received	14,000
Directors' fees	12,000	Difference in exchange (Cr)	300
Share transfer fees	1,200	Miscellaneous receipts	5,000
Bad debts recovered	5,000	Profit on sale of land	60,000
Fire Fund (1.4.05)	800	Fire premium less reinsurance	
Marine fund (1.4.05)	1,200	Marine premium less reinsurance	10,80,000
Claims paid & outstanding (fire)	2.50,000	Management exp. (fire)	1,45,000
Claims paid & Outstanding (marine)	8,20,000	Management exp. (marine)	4,00,000
Additional reserve on 1.4.05 (fire)	1,80,000		
Survey expenses (fire) Depreciation			
Commission earned on	3,80,000		
reinsurance ceded (fire) 10,000	50,000		

Commission earned on reinsurance ceded (marine) 20,000	10,000 35,000		

In addition to usual reserve, additional reserve in case of fire insurance is to be increased by 5% of net premiums. ReinSurance premiums received totalled Rs. 1,50,000 Thousand for fire and Rs. 3,20,000 Thousand for marine. Management expenses do not include commission. The net premium income of fire in 2004-05 was Rs. 5,00,000 Thousand.

[Madras, B. Com., B.Com(CS) Ap. 2008; Ap. 2007 (Modified)]

[Ans: operating profit (Fire) : Rs. ('000)1,50,000; Operating Loss (Marine): Rs. ('000) 26,000; Profit Transferred to B/s :Rs. ('000) 1,64,100]

[**Hints: (i) Commission on direct business =5% of(Premiums received + Commission 100 on reinsurance ceded X —5 –Reinsurance premium) (fire)– Rs ('000)32,500; Marine – Rs ('000) 58,000;**

(ii) Commission on reinsurance accepted (5%) on reinsurance premiums fire – Rs ('000) 7,500; Marine – Rs ('000) 16,000]

28. The following figures have been extracted from the books of Madurai Insurance Company Ltd. in respect of their marine business for 2005-06.

	Rs. (in lakhs)
Direct premium income received	50.00
Reserve for unexpired risks as on 1.4.05	60.00
Claims outstanding as on 1.4.05 (net)	20.00
Bad debts	10.00
Income from Investments and dividends (gross)	10.00
Rent received from properties	5.00
Investments in Govt. securities as on 1.4.05	100.00
Investment in share as on 1.4.05	20.00
Commission paid on direct business	5.00
Expenses of management	5.00
Income tax deducted at source	3.00
Profit & Loss A/c (cr) balance on 1.4.05	10.00
Other expenses	1.25
Reinsurante premium receipts	5.00
Outstanding claims as on 31.3.06 (net)	30.00
Direct claims paid (gross)	25.00
Reinsurance claims paid	4.00

Additional Information:

Prepare aRevenue A/c, and Profit & Loss A/c for the year after taking into account the following information:

(a) All direct risks are reinsured for 20% of the risk.

(b) Claim a commission of 25% on re insurance ceded.

(c) Provide 25% commission on re insurance accepted.

(d) Market value of investments as on 31.3.06 is as under:

(i) Govt. securities – Rs. 105 lakhs
(ii) Shares– Rs. 18 lakhs.

Adjust separately for each of these two categories of investment.

(e) Provide 65% for income tax.

[Madras, 1st* M.Com*(CAIA) Nov. 2007]

29. From the following Trial Balance of a marine insurance company prepare final accounts for the year ended 31-3-2006.

Particulars	Debit (Rs.'000)	Particulars	Credit (Rs. '000)
Management expenses Claims paid Audit fees Directors fees Debtors for premium due Furniture Taxes Contribution to staff provident fund Commission Investment Land & Building Cash in hand Cash at bank Provident fund investment	90,000 1,50.000 4,000 6,000 3,000 12,000 7,600 2,000 24,000 20,00,000 2,40,000 40,000 2,40,000 40,000	Marine fund as on 1.4.2005 Marine premium Interest & dividend Investment fluctuation fund Staff provident fund Transfer fees Sundry creditors Reserve fund Share capital 5,00,000 shares of Rs. 100 each Profit & Loss A/c (1.4.2005)	14,50,000 6,30,000 1,30,000 28,000 40,000 600 9,000 51,000 5,00,000 20,000
	28,58,600		28,58,600

(a) Depreciate furniture 10%. Land and Buildings 3%.

(b) Outstanding claims Rs. 11,000 Thousand.

(c) Provide Rs. 7,000 Thousand to investment reserve fund in addition to existing balance.

(d) Adjustment has to be made for Rs. 10,000 Thousand reinsurance premium paid and Rs. 5.000 Thousand for claims covered under re insurance.

[Madras, B.Com., (ICE) May 2002;

[Ans: Operating Profit : Rs('000) 12,82,600; Profit transferred to B/s : Rs('000) 12,95,600; Net current assets Rs('000) (—) 3,62,000; B/s Total : Rs('000) 18,81,600]

Hint : 1. All incomes and expenses are shown in revenue A/c itself except transfer to Investment reserve.

2. Investment fluctuation fund is shown under reserves, schedule 6.

3. Staff provident fund is shown as a current liability.

30. From the following particulars of Z Insurance Co. Ltd., prepare separate accounts of fire and Marine business and Profit & Loss A/c for the year ended 31-3-2006 and a Balance Sheet as on that date:

Provision for unexpired risk is to be made at 40% of the premium received.

	Rs. (‘000)		**RS. (‘000)**
Investment	4.06980	Share capital	4,00,000
Freehold premises	3.06.412	(40,00,000 shares of Rs.100 each) Claims admitted but not paid:	
Leasehold	12,604	Fire	4,620
Agents balance	46,212	Marine	9,808
Sundry debtors	17,918	Creditors	44,962
Income tax on int. & dividend	4,513	Due to reinsurers:	
Claims paid & outstanding		Fire	2,471
Fair	1,02,412	Marine	4,143
Marine	2,61,512	Premium received:	
Expenses of Management	:	Fire	3,56,418
Fair	96,512	Marine	8,59,960
Marine	1,42,218	Interest & dividends	19,512
Commission:		Other receipts	807
Fair	34,921		
Marine	62,857		
Interest occurred	919		
Office furniture	14.761		
Preliminary expenses	90,212		
Cash and Bank balance	1,01,738		
	17,02,701		**17,02,701**

[Madras, 1st M.Com., (KCA1A) Nov. 2009; B.Com (ICE) Ap 2007]

[Ans: Operating Loss (Fire): Rs('000) 19,994; Operating profit (Marine) : Rs('000) 49,389; Profit carried to B/s : Rs('000) 49,714; Net current assets : Rs('000) (—) 3,81,255; B/s Total ;Rs ('000) 3,59,502]

Hint : 1. Provision for unexpired risk at 40% of premium applies to both Fire and Marine, though it is against IRDA Regulations.

2 Income tax on interest & dividends appears in schedule 12 in Balance Sheet.

3. Preliminary expenses are to be reduced from paid up capital, as per 1RDA form for Balance Sheet.

31. From the following figures taken from the books of New Asia Insurance Co. Ltd. doing fire underwriting business, prepare the set of final accounts for the year 2005-06.

	(Rs. '000)		(Rs. '000)
Fire fund as on 1.4.05	9,30,000	Cash in hand & Bank bal.	1,82,462
General reserve Investments	4,50,000	Commission on direct business	2,99,777
	36,00,000		60,038
Premiums	27,01,533	Commission on reinsurance accepted	22,300
Claims paid	6,02,815	Outstanding premium Claims intimated but not paid (1.4.05)	60,000
Share capital divided into 9,000 shares of Rs. 100 each	9,00,000	Exp. of management	4,31,947
Additional reserve (1.4.05)	3,30,000	Audit fees	36,000
Profit & Loss A/c (Cr)	75,000	Rates & taxes	5,804
Re insurance premium	1,12,525	Rents (Dr)	67,500
Claims recovered from reinsurance	21,119	Income from investments	1,53,000
Commission on reinsurance ceded	48,016	Sundry creditors	22,500
Advance income tax paid	2,50,000	Agents balances (Dr)	20,000

The following further information may also be noted :

(a). Expenses of management include survey fees and legal expenses of Rs. 36,000 Thousand and Rs. 20,000 Thousand relating to claims.

(b). Claims intimated but not paid on 31.3.2006 Rs. 1,04,000 Thousand.

(c). Income tax to be provided at 55%

(d). Transfer of Rs. 2,00,000 Thousands to be made from current profits to general reserve.The additional reserve is to be continued. •10%provisica for unexpired risk is needed.

[Madras, II M.Com., (ICE) (Old) May 2002]

[Ans: Operating Profit : Rs('000) 11,57,659; Provision for tax : Rs('000) 6,36,713; Profit taken to B/s : Rs('000) 3,95,946; Net current assets : Rs('000) (—) 16,54,054; B/s Total : Rs('000) 19,45,946]

UNIT – 13

HOLDING COMPANY ACCOUNTS

Meaning and purpose of holding company - Capital profit- Revenue profit- Minority Interest- Capital Reserve or Good will- treatment of some important Adjustments – Preparation of consolidated balance sheet

13.1 HOLDING COMPANY

A company which acquires more than 50% of paid up capital of another company or controls majority of the directors of a company is called holding company

13.2 SUBSIDIARY COMPANY

A company which gives more than 50% of paid up capital of another company or majority of the directors of a company are controlled by another company is called subsidiary company.

13.3 PURPOSE OF HOLDING COMPANY

- To eliminate competition
- To enjoy the advantages of large scale production

13.4 IMPORTANT CALCULATIONS TO BE MADE BEFORE PREPARING CONSOLIDATED BALANCE SHEET

Holding company share

$$\frac{\text{No. of shares purchased}}{\text{Total no. of shares in subsidiary co.}}$$

Subsidiary company share

$$\frac{\text{Total shares of subsidiary – No. of shares purchase by Holding Com.}}{\text{Total no. of shares in subsidiary company}}$$

1. Capital profit:

That part of profit and general reserve earned before the date of purchase of shares by holding company from subsidiary company are called capital profit.

- All profits and reserves of a company **before** the date of purchase
- General reserve
- Profit and loss account
- Current year profits up to the date of purchase
- Increase in fixed asset value minus decrease in fixed asset value if any

2. Revenue profit:

That part of profit and general reserve earned after the date of purchase of shares by holding company from subsidiary company are called revenue profit.

- All profits and reserves of a company **after** the date of purchase
- General reserve
- Profit and loss account
- Current year profits after the date of purchase

Both capital and revenue profits should be divided as per holding company share and subsidiary company share.

3. Minority Interest (Liability side in balance sheet)

A holding company acquires majority shares. The remaining shares may be in the hands of the general public. Such remaining share in the subsidiary company is called "minority interest". That part of the paid up capital, capital profit and revenue profit of subsidiary company is known as minority interest. It is always shown in liability side of consolidated balance sheet.

Particulars	**Amount**
Remaining share capital of subsidiary company	xxx
(+) Capital profit of subsidiary company	xxx
(+) Revenue profit of subsidiary company	xxx
(+) Arrear of preference divided if any	xxx
Minority interest	xxx

4. Calculation of Capital Reserve or Good will:

Difference between actual values paid for shares purchased from subsidiary company and total of face value of shares held by holding company. The actual amount paid for shares is more than face value and share of capital profit, it is known as goodwill. The actual amount

paid for shares is less than face value and share of capital profit, it is known as Cost of control (capital reserve).

Particulars		Amount
Actual amount paid for shares purchased		xxx
Less: Face value of shares purchased	xxx	
Capital profit of holding company	xxx	xxx
Goodwill (if it is + figure) **(or) Capital reserve** (if it is - figure)		xxx

Calculation of current year profit

Profit and Loss a/c

Particulars	Amount	Particulars	Amount
To Transfer to reserve	xxx	By Opening balance	xxx
" Closing balance	xxx	" Net profit (b/f)	xxx
	xxx		xxx

5. Unrealized intercompany profits in stocks

The holding company may sell goods to the subsidiary company at selling price before acquiring shares. At the time of acquiring shares some of the goods may lie in the closing stock. Now we have to remove the profit on such goods. This is called unrealized intercompany profit. This should be eliminated and closing Stock should be recorded at cost price.

6. Inter - company balances / Owings

The holding company may sell goods on credit basis (Debtors) or received bill of exchange from subsidiary company (bills payable) before acquiring shares. After the Acquisition of shares, the amount due from or due to the company have to be adjusted. This is called intercompany owing. Lesser amount should be deducted on assets side and liability side of consolidated balance sheet.

7. Bonus shares issued by subsidiary company

After the holding company acquired the majority shares, subsidiary company may issue bonus shares to all the shareholders.

Bonus shares out of capital profit

The amount of bonus is reduced from capital profits. Holding company's share of the bonus is added to the face value of shares held by the holding company. Minority share of the bonus is added to the minority interest.

8. Dividends from subsidiary company

(i) When dividend is from pre - acquisition profits, it must be credited to the investment a/c.

(ii) When dividend is from post – acquisition profits, it is credited to the holding company's profits and loss a/c.

(iii) When dividend paid, is both out of pre – acquisition and post – acquisition profits the dividend received out of pre – acquisition profit will be credited to the investment a/c and that received out of post – acquisition profit to profit and loss a/c.

(iv) If it is not stated whether dividend has been declared out of pre – acquisition of post – acquisition profits, it is assumed that dividend is out of the profits for the year which dividend is declared.

(v) When the dividend has simply been proposed by the subsidiary, the holdings company's share of it is added to its profit and shown profit and loss account as balance. The share due minority share-holdersmay be either shown as proposed dividend in the balance sheet of added to the minority interest.

9. Debentures in subsidiary company

Subsidiary company may have debentures and it will be shown in the consolidated balance sheet like any other liability. If the holding company has purchased such debentures (apart or whole),they should be eliminated from the consolidated balance sheet, like any other mutual obligation.

10. Contingent liabilities

Some transaction may become liabilities in future are shown as contingent liabilities as footnotes to the consolidated balance sheet.

13.5 TREATMENT FOR IMPORTANT ADJUSTMENTS

1. Stock reserve on unsold stock	Balance sheet – Liability side - Less from P & L a/c Balance sheet – Asset side - Less from stock
2. Preliminary expenses written off	Less from total capital profit Balance sheet – Asset side – No preliminary exp.
3. Mutual obligations or inter adjustments	Less the particular amount from both the sides of balance sheet (Debtors and Creditors, Bills receivable and bills payable)
4. Cash in transit	Balance sheet – Asset side – Less from cash in hand Balance sheet – Asset side – Cash in transit
5. Over valuation of fixed assets	Less from total Capital profit Balance sheet – Asset side – Less from particular asset
6. Under valuation of fixed assets	Add to total Capital profit Balance sheet – Asset side – Add to particular asset

13.6 PURCHASE OF ENTIRE SHARES WITHOUT ADJUSTMENTS

Illustration -1 From the following balance sheets of holding company and subsidiary company prepare a consolidated balance sheet of holding company and its subsidiary company.

Liabilities	**Holding ₹**	**Subsidiary**	**Assets**	**Holding ₹**	**Subsidiary₹**
Share capital of ₹10 each	20,00,000	10,00,000	Investments of ₹10 each in Subsidiary	10,00,000	–
Liabilities	15,00,000	2,00,000	Assets	25,00,000	12,00,000
	35,00,000	12,00,000		35,00,000	12,00,000

Solution

Consolidated Balance sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	30,00,000	Investments	10,00,000
Liabilities	17,00,000	Assets	37,00,000
	47,00,000		47,00,000

Illustration -2 There exist two companies namely H Ltd and S Ltd. H Ltd is a holding company and S Ltd is subsidiary company. The shares held by S Ltd are 30,000 shares of ₹10 each. H Ltd made an investment on shares of S Ltd 24,000 shares of ₹10 each. Calculate the minority interest.

Solution

Minority interest = ₹6,000 x 10 = ₹60,000

Illustration -3 H Ltd. acquired 40,000 shares of S Ltd. on October 1, 2015 at ₹7,80,000. H Ltd. valued the machinery at ₹2,50,000 and current assets at ₹2,75,000. Calculate minority interest.

Balance sheet of S Ltd. as on March 31, 2016

Liabilities		**Amount ₹**	**Assets**	**Amount ₹**
Shares of ₹10 each		5,00,000	Land	5,00,000
General reserve as on 1-4-2015		2,00,000	Machinery	3,00,000
P & L a/c	1,50,000		Current assets	2,00,000

(+) Profit for 2015- 16 50,000	2,00,000		
Creditors	1,00,000		
	10,00,000		10,00,000

Solution

Capital profit

General reserve	₹2,00,000
P & L a/c	₹1,50,000
Profit (50,000 x 6/12)	₹25,000
	₹3,75,000
Less: Machinery decreases	₹50,000
	₹3,25,000
Add: Current asset increases	₹75,000
	₹4,00,000
H Ltd (4,00,000 x 4/5)	₹3,20,000
S Ltd (4,00,000 x 1/5)	₹80,000

Revenue profit

Profit (50,000 x 6/12)	₹25,000
H Ltd (25,000 x 4/5)	₹20,000
S Ltd (2,50,000 x 1/5)	₹5,000

Minority interest

Share capital	₹1,00,000
Capital profit	₹3,20,000
Revenue profit	₹20,000
	₹4,40,000

13.7 PURCHASE OF MAJORITY SHARES WITHOUT ADJUSTMENTS

Illustration -4 Following are the summarized balance sheets of two companies H Ltd and S Ltd. as at 31st March 2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital (₹10 each)	20,00,000	8,00,000	Sundry assets	24,54,000	13,70,000
Reserves	3,00,000	2,00,000	64,000 Shares in S Ltd.	8,96,000	–

Profit for (15-16)	4,00,000	1,00,000			
Creditors	6,50,000	2,70,000			
	33,50,000	13,70,000		33,50,000	13,70,000

H Ltd. purchased 64,000 shares of S Ltd. on 31st Dec.2015.

You are required to prepare the consolidated balance sheet.

Solution

Capital profit	**Revenue profit =** ₹25,000
(General reserve ₹2,00,000 + Profit ₹75,000)	
H Ltd = ₹2,75,000 x 64/80 = ₹2,20,000	H Ltd = ₹25,000 x 64/80 = ₹20,000
S Ltd = ₹2,75,000 x 16/80 = ₹55,000	S Ltd = ₹25,000 x 16/80 = ₹5,000

Goodwill

Actual amount paid		₹8,96,000
Less: Share capital face value	₹6,40,000	
Capital profit share	₹2,20,000	₹8,60,000
Goodwill		₹36,000

Minority interest

Share capital	₹1,60,000
Capital profit	₹55,000
Revenue profit	₹5,000
	₹2,20,000

Consolidated Balance sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	20,00,000	Sundry assets	38,24,000
Reserves	3,00,000	Goodwill	36,000
Profit	4,20,000		
Creditors	9,20,000		
Minority interest	2,20,000		
	38,60,000		38,60,000

Illustration -5 From the balance sheets given below prepare a consolidated balance sheet of M and C Ltd. The interest of the minority share holders is to be shown as a separate item. Shares were acquired on 1-1-2016.

Liabilities	**M Ltd ₹**	**C Ltd ₹**	**Assets**	**M Ltd ₹**	**C Ltd ₹**
Share capital of ₹10 each	1,50,000	30,000	2,000 shares in C Ltd	27,000	–
Reserves	20,000	–	Sundry assets	1,40,000	40,000
Creditors	25,000	9,500	Current assets	58,000	10,000
P & L a/c	30,000	4,500			
Profit for the year	–	6,000			
	2,25,000	50,000		2,25,000	50,000

Solution

Capital profit

Profit	₹4,500
M Ltd share (4500 x 2/3)	₹3,000
C Ltd share (4500 x 1/3)	₹1,500

Revenue profit

Profit	₹6,000
M Ltd share (6000 x 2/3)	₹4,000
C Ltd share (6000 x 1/3)	₹2,000

Goodwill

Actual amount paid		₹27,000
Less: Share capital face value	20,000	
Capital profit share	3,000	₹23,000
Goodwill		₹4,000

Minority interest

Share capital	₹10,000
Capital profit	₹1,500
Revenue profit	₹2,000
	₹13,500

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	1,50,000	Goodwill	4,000
Reserves	20,000	Current assets	68,000
Creditors	34,500	Sundry assets	1,80,000
Minority interest	13,500		
P & L a/c 30,000			
(+) Profit of C Ltd 4,000	34,000		
	2,52,000		2,52,000

Illustration -6 The balance sheet of X Ltd and Y Ltd on 31st Dec.2016 were as follows:

Liabilities	X Ltd ₹	Y Ltd ₹	Assets	X Ltd ₹	Y Ltd ₹
Share capital (₹10)	12,000	5,000	Fixed assets	10,000	6,000
Preference shares	4,000	1,000	Current assets	11,500	2,000
P & L a/c	2,500	1,000	Cash at bank	7,000	1,000
Creditors	10,000	2,000			
	28,500	9,000		28,500	9,000

On 1st Jan.2017 X Ltd acquired 90% of share capital of Y Ltd at ₹15 per share.

Prepare the consolidated balance sheets as on 1st Jan.2017.

Solution

Capital profit

P & L a/c	₹1,000
X Ltd share (₹1,000 x 90%)	₹900
Y Ltd share (₹1,000 x 10%)	₹100

Goodwill

Actual amount paid (450 shares x ₹15)		₹6,750
Less: Share capital face value	₹4,500	
Capital profit share	₹900	₹5,400
Goodwill		₹1,350

Minority interest

Share capital	₹500
Capital profit	₹100

Preference shares	₹1,000
	₹1,600

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	12,000	Goodwill	1,350
P & L a/c	2,500	Sundry assets	16,000
Creditors	12,000	Current assets (13,500 – 6,750)	6,750
Minority interest	1,600	Cash at bank	8,000
Preference shares	4,000		
	32,100		32,100

13.8 PURCHASE OF ENTIRE SHARES WITH ADJUSTMENTS

Illustration -7 Prepare consolidated balance sheet as on 31-3-2016.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital of (₹1)	12,000	5,000	Sundry assets	20,000	8,000
P & L a/c	2,000	1,000	5,000 shares in S Ltd.	6,500	–
Creditors	7,500	1,000			
Reserve	5,000	1,000			
	26,500	8,000		26,500	8,000

a) Shares were acquired by H Ltd on 30th September 2015

b) S Ltd transferred ₹500 from profits to reserve on 31-3-2016

Solution

Capital profit

Reserve = ₹500

Revenue profit - Profit – ₹1,000

Reserve - ₹500

H Ltd = ₹1,500 x 6/12 = ₹750

S Ltd = ₹1,500 x 6/12 =₹750

Goodwill

Actual amount paid		₹6,500
Less: Share capital face value	₹5,000	
Capital profit share (750 + 500)	₹1,250	₹6,250
		₹250

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	12,000	Sundry assets	28,000
Reserves	5,000	Goodwill	250
Profit	2,750		
Creditors	8,500		
	28,250		28,250

Illustration -8 The following are the balance sheets of the Sun Ltd and the Moon Ltd prepared on 31st Dec.2016. On 1st Jan.2017, the Sun Ltd acquired all the shares in the Moon Ltd when the latter had a credit balance of ₹35,000 on its P & L a/c.

Liabilities	Sun Ltd	Moon Ltd	Assets	Sun Ltd	Moon Ltd
Share capital of ₹10 each	3,00,000	2,00,000	Investments (Shares in Moon Ltd)	3,60,000	–
Creditors	30,000	20,000	Sundry assets	2,20,000	4,00,000
P & L a/c	1,00,000	80,000			
General reserve	1,50,000	1,00,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Prepare consolidated balance sheet.

Solution

Capital profit

General reserve	₹1,00,000
P & L a/c	₹35,000
	₹1,35,000

Revenue profit = ₹80,000 – ₹35,000 = ₹45,000

Goodwill

Amount paid	₹3,60,000
(-) Face value ₹2,00,000	
Capital profit ₹1,35,000	₹3,35,000
	₹25,000

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Share capital		3,00,000	Sundry assets	6,20,000
General reserve		1,50,000	Goodwill	25,000
Creditors		50,000		
P & L a/c	1,00,000			
(+) Profit of M Ltd	45,000	1,45,000		
		6,45,000		6,45,000

Illustration -9 From the following balance sheets of H Ltd and S Ltd, prepare consolidated balance sheet.

Liabilities	H Ltd ₹	S Ltd ₹	Assets	H Ltd ₹	S Ltd ₹
Share capital of ₹10 each	5,00,000	2,00,000	Fixed assets	3,00,000	1,00,000
Reserves	1,00,000	50,000	60% shares in S Ltd	1,60,000	–
Creditors	80,000	60,000	Current assets	2,20,000	2,10,000
	6,80,000	3,10,000		6,80,000	3,10,000

Draw consolidated balance sheet as at 31st March 2016 after taking into consideration the following information:

a) H Ltd acquired the shares on 31st March 2016

b) On 31st March 2016 S Ltd revalued its fixed assets at ₹90,000

Solution

Capital profit

Reserve	₹50,000
(-) Decrease in assets	₹10,000
	₹40,000

H Ltd share (₹40,000 x 60%)	₹24,000
S Ltd share (₹40,000 x 40%)	₹16,000

Goodwill

Actual amount paid		₹1,60,000
Less: Share capital face value	₹1,20,000	
Capital profit share	₹24,000	₹1,44,000
Goodwill		₹16,000

Minority interest

Share capital	₹80,000
Capital profit	₹16,000
Revenue profit	–
	₹96,000

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	5,00,000	Goodwill	16,000
Reserves	1,00,000	Current assets	4,30,000
Creditors	1,40,000	Fixed assets	3,90,000
Minority interest	96,000	(4,00,000 – 10,000)	
	8,36,000		8,36,000

Illustration -10 Consolidate the following balance sheets.

Liabilities	H ₹	S ₹	Assets	H ₹	S ₹
Capital ₹1 shares	1,400	1,000	900 shares in S at cost	1,200	–
Creditors	–	500	Sundry assets	200	1,800
P & L a/c	–	300			
	1,400	1,800		1,400	1,800

When H Ltd acquired the shares in S Ltd, the P & L a/c in the latter had a credit of ₹200?

Solution

Capital profit

P & L a/c	₹200
H's share (₹200 x 9/10)	₹180
S's share (₹200 x 1/10)	₹20

Revenue profit

P & L a/c	₹100
H's share (₹200 x 9/10)	₹90
S's share (₹200 x 1/10)	₹10

Goodwill

Amount paid	₹1,200
(-) Face value ₹900	
Capital profit ₹180	₹1,080
	₹120

Minority interest

Share capital	₹100
Capital profit	₹20
Revenue profit	₹10
	₹130

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	1,400	Sundry assets	2,000
Creditors	500	Goodwill	120
P & L a/c	90		
Minority interest	130		
	2,120		2,120

Illustration -11 Consolidate the following balance sheets.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital of ₹10 each	24,000	16,000	Sundry assets	14,000	19,500
P & L a/c	–	3,000	1,280 shares in S Ltd.	10,000	–
Creditors	–	500			
	24,000	19,500		24,000	19,500

On the date of acquisition of shares in S Ltd by H Ltd., S had debit balance of ₹1,000 in its P & L a/c.

Solution

Capital Loss – ₹1,000

H Ltd = ₹1,000 x 1,280/ 1,600 = ₹800

S Ltd = ₹1,000 x 320/ 1,600 = ₹200

Revenue Profit (3,000 + 1,000) = ₹4,000

H Ltd. = ₹4,000 x 1,280/ 1,600 = ₹3,200

S Ltd. = ₹4,000 x 320/ 1,600 = ₹800

Capital reserve

Actual amount		₹10,000
Less: Face value of shares held	12,800	
Share of capital loss	(-) 800	₹12,000
Capital reserve		₹2,000

Minority interest

Share capital	₹3,200
(-) Capital loss	₹200
(+) Revenue profit	₹800
	₹3,800

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	24,000	Sundry assets	33,500
Creditors	500		
Minority interest	3,800		
P & L a/c	3,200		
Capital reserve	2,000		
	33,500		33,500

Illustration -12 Balance sheet of H Ltd and its subsidiary S Ltd as on 31-3-2016 as follows:

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital (₹10 each)	10,000	6,000	Sundry assets	16,000	10,000

Reserves	4,000	–	400 Shares in S Ltd.	4,000	–
P & L a/c	4,000	1,800			
Creditors	2,000	2,200			
	20,000	10,000		20,000	10,000

The shares were purchased by H Ltd in S Ltd on 30-9-2015. On 1-4-2015 the P & L a/c showed a loss of ₹3,000 which was written off from out of the profits earned during year. Profits were earned uniformly over the year 2015-16.

Prepare consolidated balance sheet of H Ltd and S Ltd as on 31-3-2016.

Solution

Calculation of current year profit

P & L a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bal. b/d	3,000	By Net profit (b/f)	4,800
“ Bal. c/d	1,800		
	4,800		4,800

Capital loss

Capital profit (₹4,800 x 6/12)	₹2,400
Capital loss	₹3,000
Capital loss	₹600
H Ltd. share (₹600 x 2/3)	₹400
S Ltd. share (₹600 x 1/3)	₹200

Revenue profit

Revenue profit = 4,800 x 6/12	₹2,400
H Ltd. share (2,400 x 2/3)	₹1,600
S Ltd. share (2,400 x 1/3)	800

Goodwill

Amount paid		₹4,000
Less: 2/3 of share capital	₹4,000	
(-) 2/3 of capital loss	₹400	₹3,600
Goodwill		₹400

Minority interest

Share capital	₹2,000
Add: P & L a/c	₹800
	₹2,800
Less: Capital loss	₹200
	₹2,600

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Share capital		10,000	Sundry assets	26,000
General reserve		4,000	Goodwill	400
Minority interest		2,600		
P & L a/c	4,000			
(+) Profit of S Ltd	1,600	5,600		
Creditors		4,200		
		26,400		26,400

Illustration -13 From the balance sheet and information given below, prepare a consolidated balance sheet of H and S.

Liabilities	H ₹	S ₹	Assets	H ₹	S ₹
Share capital (₹10)	10,00,000	2,00,000	15,000 shares in S at cost	1,50,000	–
Creditors	2,00,000	1,20,000	Sundry assets	8,00,000	1,20,000
P & L a/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserve	1,00,000	60,000	Debtors	1,30,000	1,70,000
Bills payable	–	30,000	Bills receivable	10,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S Ltd have been earned since the shares were acquired by H Ltd; but there was already a reserve of ₹60,000 at that date.

b) All the bills accepted by S Ltd are in favour of H Ltd and H Ltd had discounted ₹20,000 of them.

c) Sundry assets of S Ltd are undervalued by ₹20,000.

d) The stock of H Ltd. includes ₹50,000 purchased from S Ltd. at a profit to latter at 25% on cost.

Solution

Capital profit

Capital reserve	₹60,000
Increase in asset	₹20,000
	₹80,000
Holding share (₹80,000x 75/100)	₹60,000
Subsidiary share (₹80,000 x 25/100)	₹20,000

Revenue profit

Profit	₹1,20,000
Holding share (₹1,20,000 x 75/100)	₹90,000
Subsidiary share (₹1,20,000 x 25/100)	₹30,000

Calculation of capital reserve

Actual amount		₹1,50,000
Less: Face value of shares held	₹1,50,000	
Share of capital profit	₹ 60,000	₹2,10,000
Capital reserve		₹60,000

Minority interest

Share capital	₹50,000
Capital profit	₹20,000
Revenue profit	₹30,000
	₹1,00,000

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	10,00,000	Sundry assets	9,40,000
General reserve	1,00,000	Stock (8,50,000 – 10,000)	8,40,000
Minority interest	1,00,000	Debtors	3,00,000
B/P (30,000 – 10,000)	20,000	B/R (Inter Owings)	–
Creditors	3,20,000		

P & L a/c 4,00,000 (+) Profit of S Ltd 90,000 4,90,000 (-) Stock reserve 10,000	4,80,000		
Capital reserve	60,000		
	20,80,000		20,80,000

Illustration -14 From the balance sheets as on 31-12-16 and information given below, prepare consolidated balance sheet.

Liabilities	**H Ltd**	**S Ltd**	**Assets**	**H Ltd**	**S Ltd**
Shares of ₹10 each	5,00,000	1,00,000	Fixed assets	4,00,000	60,000
P & L a/c	2,00,000	60,000	Stock	3,00,000	1,20,000
Reserves	60,000	30,000	Debtors	75,000	85,000
Bills payable	–	15,000	Bills receivable	20,000	–
Creditors	1,10,000	60,000	7,500 shares in S Ltd	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Additional information

a) The bills accepted by S Ltd are all in favour of H Ltd

b) Stock of H Ltd includes ₹25,000 bought from S Ltd at a profit to latter of 20% of sales.

c) All the profit of S Ltd has been earned since the shares were acquired by H Ltd. But there was already the reserve of ₹30,000 at that date.

Solution

Capital profit = ₹30,000

H Ltd. = ₹30,000 x ¾ = ₹22,500

S Ltd. = ₹30,000 x ¼ = ₹7,500

Calculation of capital reserve

Actual amount		₹75,000
Less: Face value of shares held	₹75,000	
Share of capital profit	₹22,500	₹97,500
Capital reserve		₹22,500

Minority interest

Share capital	₹25,000
¼ of reserve	₹7,500
Revenue profit (₹60,000 x ¼)	₹15,000
	₹47,500

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets		Amount ₹
Share capital		5,00,000	Fixed assets		4,60,000
Creditors		1,70,000	Stock (4,20,000 – 5,000)		4,15,000
Minority interest		47,500	Debtors		1,60,000
Reserve		60,000	B/R	20,000	
Capital reserve		22,500	(-) Mutual owing	15,000	5,000
P & L a/c	2,00,000				
(+) ¾ of 60,000	45,000				
	2,45,000				
(-) Stock reserve	5,000	2,40,000			
		10,40,000			10,40,000

Illustration -15 The summarized balance sheets of H Ltd and S Ltd as on 31-12-2016 were as follows:

Liabilities	H Ltd ₹	S Ltd ₹	Assets	H Ltd ₹	S Ltd ₹
Shares of ₹100 each	2,50,000	1,00,000	Plant	1,20,000	54,700
P & L a/c	28,600	18,000	Stock	70,000	18,000
General reserves	1,20,000	–	Debtors	21,000	20,000
B/P (including ₹1,500 to H Ltd)	–	4,200	B/R (including ₹1,500 from S Ltd)	7,900	–
Creditors: H Ltd	–	500	Investments in S Ltd	1,70,000	–
Others	23,550	4,000	Land	75,000	90,000
Capital reserve	–	60,000	Bank	7,250	4,000
Bank overdraft	50,000	–	Amount owing by S Ltd	1,000	–
	4,72,150	1,86,700		4,72,150	1,86,700

H Ltd acquired 800 equity shares of ₹100 each in S Ltd on 1-4-2016. Prepare a consolidated balance sheet as on 31-12-2016. Show your workings.

a) Sundry creditors of H Ltd include ₹6,000 due to S Ltd.

b) The directors are advised the land of S Ltd are undervalued by ₹10,000 and its plant overvalued by ₹5,000.

c) A cheque for ₹500 sent to H Ltd by S Ltd on 31-12-2016 was not received by the former until 3-1-17.

Solution

Capital profit

Profit for 3 months	₹4,500
Capital reserve	₹60,000
Increase in premises	₹10,000
	₹74,500
Less: Decrease in plant	₹5,000
Capital profit	₹69,500
Holding share (₹69,500 x 4/5)	₹55,600
Subsidiary share (₹69,500 x 1/5)	₹13,900

Revenue profit

Profit for 9 months	₹13,500
Holding share (₹13,500 x 4/5)	₹10,800
Subsidiary share (₹13,500 x 1/5)	₹2,700

Calculation of goodwill

Actual amount		₹1,70,000
Less: Face value of shares held	₹80,000	
Share of capital profit	₹55,600	₹1,35,600
Goodwill		₹34,400

Minority interest

Share capital	₹20,000
Capital profit	₹13,900
Revenue profit	₹2,700
	₹36,600

Consolidated Balance Sheet

Liabilities		**Amount ₹**	**Assets**		**Amount ₹**
Share capital		2,50,000	Goodwill		34,400
General reserve		1,20,000	Plant – H	1,20,000	
Minority interest		36,600	M (54,700 – 5,000)	49,700	1,69,700
Bank O/D		50,000	Premises – H –	75,000	
B/P		2,700	M (90,000 + 10,000)	1,00,000	1,75,000
P & L a/c	28,600		Stock		88,000
(+) Profit of M Ltd	10,800	39,400	Debtors	41,000	
Creditors H Ltd	23,550		(-) Due from H Ltd	6,000	35,000
(-) Due to M Ltd	6,000		Bank (7,250 + 4,000)		11,250
	17,550		Cheque in transit		500
(+) M Ltd. Crs	4,000	21,550	B/R		6,400
		5,20,250			5,20,250

Note:

Amount owing by S Ltd	1,000
Less: Creditors of H Ltd	500
Cheque in transit	500

13. 9 BONUS SHARES – REVALUATION OF ASSETS

Illustration – 16

A Ltd. Acquired 1,600 ordinery shares of Rs. 100 each in B Ltd. On 31st December 2004. Their summarized Balance Sheets as on that date were as under:

Liabilities	**A Ltd. Rs.**	**B Ltd. Rs.**	**Assets**	**A Ltd. Rs.**	B Ltd. Rs.
Capital:			Land & Buildings	1,50,000	1,80,000
5,000 ordinary shares of Rs. 100 each	5,00,000		Plant & Machinery	2,40,000	1,09,400
			Investment in B Ltd. at cost	3,40,000	–
2,000 ordinary shares of Rs. 100		2,00,000	Stocks	1,20,000	36,000
Capital reserve		1,20,000	Debtors	44,000	40,000
General reserve	2,40,000	–	Bills receivable		
Profit & Loss a/c	57,200	36,000	(including Rs.3000	15,800	–

Bank overdraft	80,000	–	from 'B' ltd)		
Bills payable			Cash and bank	14,500	8000
(including Rs. 4000 to A Ltd.)	–	8,400			
Creditors	47,100	9,000			
	9,24,300	3,73,400		9,24,300	3,73,400

You are supplied following information:

a) 'B' ltd has made a bonus issue on 31st December 2004 of one ordinary share for every two shares held by it's shareholders. Effect has yet to be given in the accounts for the issue.

b) The directors are advised that land & buildings of B ltd. Are undervalued by Rs. 20,000 and plant & machinery of B ltd. Over valued by Rs 10,000. These assets have to be adjusted accordingly.

c) Sundry creditors of 'A' ltd. Include Rs. 12,000 due to 'B' ltd.

You are required to prepare the consolidated balance sheet as on 31st December 2004

Solution:

Consolidated balance sheet of A ltd And its subsidiary B ltd.

As on 31st December 2004

liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Share capital: 5,000 ordinary shares of Rs. 100 each			Goodwill		47,200
			Land & buildings:		
			A ltd.	1,50,000	
General reserve		5,00,000	B ltd.	1,80,000	
Profit & loss a/c		2,40,000	Add: under valuation	20,000	3,50,000
Bank overdraft		57,200	Plant & machinery:		
Bills payable		80,000	A ltd.	2,40,000	
Less: Mutual obligation			B ltd.	1,09,400	
				3,49,400	
Creditors:			Less: over valuation	10,000	
A ltd.	8,400	5,400	Stocks:		
B ltd.	3,000		A ltd	1,20,000	
			B ltd	36,000	3,39,400
Less: Mutual	47,100	44,100			
Obligation	9,000		Debtors:		
Minority interest			A ltd.	44,000	
				40,000	
	56,100	73,200	B ltd.		1,56,000
	12,000			84,000	
				12,000	
	----------		Less: mutual		

			obligation		
			Bills receivable	15,800	
			Less: mutual obligation	3,000	72,000
			Cash and bank:		
			A ltd.	14,500	
			B ltd.	8,000	
					12,800
		9,99,900			22,500
					9,99,900

1. Holding-minority ratio.

Total shares in B ltd.	2,000
Less: shares acquired by A ltd.	1,600
Minority shares	400

Ratio = 1,600:400 or 4:1

2. Bonus issue not yet recorded, at one share for 2 shares held

		Rs.
	= 2,00,000 x ½ =	1,00,000
Holding company's share	= 1,00,000 x 4/5 =	80,000
Minority's share	= 1,00,000 x 1/5 =	20,000

3. Revenue profits = nil,
Since shares are purchased on the date of the balance sheet.

4. Capital profits

	Rs.
Capital reserve of B ltd.	1,20,000
Less: bonus issue made	1,00,000
	20,000
Add: profit & loss a/c	36,000
Add: under valuation in land & buildings	20,000
	76,000
Less: over valuation of plant & machinery	10,000
	66,000

Holding company's share	= 66,000 x 4/5 =	52,800
Minority's share	= 66,000 x 1/5 =	13,200

5. Minority interest
Face value of shares held by minority shareholders

	400 x 100	40,000
Add: bonus shares issued to minority		20,000

Minority's share of capital profits		13,200
Minority interest		73,200

6. Cost of control or goodwill

Amount paid by A ltd. For shares purchased in B ltd.		3,40,000
Less: face value of shares purchased 1,600 x 100		1,60,000
Holding company's share of capital profits		52,800
Bonus shares	80,000	2,92,800
Goodwill		47,200

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. A company which acquires majority of the shares of another is known as
   a) **Holding** b) Subsidiary
   c) Banking d) Insurance

2. The purpose of getting control over another company is
   a) Elimination of competition b) Enjoying economies
   c) Getting assured market d) **All of the above**

3. When some shares of the subsidiary are held by outside shareholders, it is called
   a) Goodwill b) **Minority interest**
   c) Capital reserve d) Capital profit

4. All the reserve and profit earned before the date of purchase are called
   a) Revenue profit b) **Capital profit**
   c) Cost of control d) Minority interest

5. Excess of purchase price of shares over the paid up value is called
   a) **Goodwill** b) Capital reserve
   c) Minority interest d) Capital profit

6. Any increase in fixed assets of subsidiary company after date of acquisition, it is treated as
   a) Revenue profit b) **Capital profit**
   c) Cost of control d) Goodwill

7. Any decrease in fixed assets of subsidiary company after date of acquisition, it is treated as
   a) **Revenue loss** b) Capital loss
   c) Cost of control d) Capital reserve

8. Issue of bonus shares out of post acquisition profit will have the effect of
   a) Reducing the cost of control b) Increase the capital reserve
   c) **Both a and b** d) Decrease the revenue reserve

9. Dividend paid from post acquisition profit, it is
   a) **Credited to holding company P & L a/c** b) Increase the cost of control
   c) Increase the capital reserve d) Both a and b

10. Dividend paid from pre acquisition profit, it is
   a) Credited to holding company P & L a/c b) Increase the cost of control
   c) Increase the capital reserve d) **Both a and b**

11. Minority interest appears on __________ side of balance sheet

    a) Asset b) **Liability**

    c) Both a and b d) After the total

12. Unrealized profit will be

    a) Deducted from stock in assets side b) Deducted from P & L a/c on liability side

    c) **Both a and b** d) P & L a/c

13. A company has to acquire ________ shares of another company in order to become a holding company

    a) **More than 50% of equity** b) 50% of equity

    c) 51% of preference d) Less than 50% of equity

14. S Ltd has in stock worth ₹10,000 supplied by its parent company H Ltd on which the latter made a profit of 20% on cost. The controlling interest of H Ltd in S Ltd is 80%. This stock should be shown in consolidated balance sheet at

    a) ₹10,000 b) ₹8,000

    c) **₹8,333** d) ₹7,500

15. Any loss or profit of assets and outside liabilities is

    a) Treated as revenue profit or loss b) Ignored in combined balance sheet

    c) **Treated as capital profit or loss in the respective assets and liabilities in combined balance sheet** d) Shown separately in liabilities side of combined balance sheet

16. Cash in transit or goods in transit should be entered in _____ of consolidated balance sheet

    a) **Assets side** b) Liability side

    c) Both a and b d) Foot note

17. When the purchase price of the shares of the subsidiary company is more than its net worth, the excess represents

    a) General reserve of the subsidiary b) Profit/ Loss of the subsidiary

    c) **Goodwill/ cost of control** d) Capital reserve

18. The company controlled is known as

    a) Parent company b) **Holding company**

    c) Subsidiary company d) Statutory company

19. Post acquisition profit is known as

    a) Capital profit **b) Revenue profit**

    c) Reserve d) Goodwill

20. Issue of bonus shares by the subsidiary company out of capital profit will
    - a) Decrease cost of control
    - b) Increase cost of control
    - c) No effect on cost of control
    - d) Increase minority interest

21. The share of outsiders in the subsidiary company is called as ________
    - **a) Minority interest**
    - b) Capital profit
    - c) Capital reserve
    - d) General reserve

REVIEW QUESTIONS

(A) Answer in short

1. What do you mean by holding company?
2. What are the requirements to be fulfilled for a company to become a holding company?
3. What is called subsidiary company?
4. What you understand by "capital profits"?
5. Write short note on Revenue profits.
6. Who are called minority interest holders?
7. How do you arrive at cost of capital?
8. How will you treat mutual obligation?
9. What is a consolidated balance sheet?
10. How would you ascertain the amount of minority interest?

(B) Answer in detail

1. Explain the treatment of the following
   - a) Bonus shares
   - b) Preference shares
2. Briefly explain how the consolidated balance sheet is prepared.
3. Write short notes on
   - a) Mutual obligation
   - b) Provision for unrealized profit in stock
   - c) Cash in transit
   - d) Capital dividend
   - e) Cost of control
   - f) Minority interest

EXERCISES

1. S Ltd. has a capital of ₹2,00,000 in shares of ₹100 each out of which H Ltd. purchased 75% of the shares of S Ltd. at ₹2,40,000. The profit of S Ltd. at the time of purchase of shares by H Ltd. were ₹1,10,000. S Ltd. decided to make a bonus issue out of pre-acquisition profit of one share for every five shares held.

   Calculate the cost of control

   i) Before the issue of bonus shares and

   ii) After the issue of bonus shares

I. Purchase of entire shares without adjustments:

2. Balance sheet as on 31-3-2016 as follows:

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share capital of ₹10 each	5,00,000	2,00,000	Sundry assets	4,26,000	3,04,000
Reserve	1,00,000	50,000	20,000 Shares in S Ltd	2,54,000	–
Creditors	80,000	60,000	Preliminary expenses	–	6,000
	6,80,000	3,10,000		6,80,000	3,10,000

Shares in S Ltd. were acquired on 31-3-2016.

Prepare a consolidated balance sheet.

3. H Ltd. acquired the whole of the shares in the S Ltd. on 1st April 2015. The balance sheet of the two companies as at 31st March 2016 was as under:

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Equity shares of ₹10 each	4,00,000	1,00,000	Investments–shares in S Ltd at cost	1,35,000	–
General reserve	50,000	20,000	Sundry assets	3,70,000	1,45,000
P & L a/c	30,000	15,000			
Creditors	25,000	10,000			
	5,05,000	1,45,000		5,05,000	1,45,000

Prepare consolidated balance sheet.

II. Purchase of majority shares without adjustments:

4. From the following balance sheets of H Ltd. and S Ltd., prepare consolidated balance sheet.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Shares of ₹10 each	2,50,000	1,00,000	Assets	2,70,000	1,30,000
Reserve fund	50,000	30,000	70% shares in S Ltd (at cost)	70,000	–
P & L a/c	40,000	–			
	3,40,000	1,30,000		3,40,000	1,30,000

5. From the balance sheet below, prepare consolidated balance sheet.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹10 each	8,00,000	3,00,000	24,000 shares in S Ltd.	2,40,000	–
Bills payable	40,000	20,000	Land	4,00,000	1,00,000
Creditors	3,50,000	1,60,000	Furniture	50,000	20,000
			Plant	2,00,000	1,00,000
			Stock	1,50,000	80,000
			Debtors	1,00,000	60,000
			Bank	50,000	20,000
	11,90,000	4,80,000		11,90,000	4,80,000

IV. Purchase of majority shares with adjustments:

6. The following is the balance sheet of S Ltd. as on 31-12- 2016:

Liabilities		**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each		10,00,000	Buildings	10,00,000
General reserve as on 1- 1-2016		4,00,000	Machinery	6,00,000
P & L a/c	3,00,000		Current assets	4,00,000
(+) Profit for 2016	1,00,000	4,00,000		
Creditors		2,00,000		
		20,00,000		20,00,000

H Ltd. acquired 80,000 shares of S Ltd. on 1st July 2016 at ₹15,60,000. H Ltd. valued the machinery at ₹5,00,000 and current assets at ₹5,50,000.

Calculate the minority interest.

7. The following balance sheets are given as on 30-6-2016.

Liabilities	**A Co. ₹**	**B Co. ₹**	**Assets**	**A Co. ₹**	**B Co. ₹**
Share capital (₹10 each)	1,20,000	30,000	Building	72,000	25,000
Creditors	15,000	5,000	Machinery	30,000	10,000
Reserve	25,000	6,000	Stock	18,000	3,000
P & L a/c	12,000	9,000	Debtors	22,000	7,000
			Bank	5,000	5,000
			2,000 Shares in B Co.	25,000	–
	1,72,000	50,000		1,72,000	50,000

At the date of acquisition by A Co., B Co. had undistributed profit amounting to ₹5,000, none of which has been distributed since the date of acquisition.

8. From the balance sheet given below, prepare a consolidated balance sheet of H Ltd. and its subsidiary company S Ltd.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital of ₹10 each	25,00,000	6,00,000	40,000 shares in S Ltd	5,00,000	–
P & L a/c	2,40,000	1,80,000	Machinery	12,60,000	3,40,000
Creditors	3,50,000	1,00,000	Furniture	1,40,000	60,000
General reserve	3,60,000	1,20,000	Land	6,40,000	2,00,000
			Stock	4,10,000	2,50,000
			Debtors	3,80,000	1,00,000
			Bank	1,20,000	50,000
	34,50,000	10,00,000		34,50,000	10,00,000

At the date of acquisition of H Ltd. of its holding of 40,000 shares in S Ltd. The latter company had undistributed profits and reserves amounting to ₹1,00,000, none of which has been distributed since then.

9. Balance sheet of H Ltd. and S Ltd. as on 31-12-2016.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital (₹100 each)	5,00,000	2,00,000	1,500 shares in S Ltd	2,40,000	–
General reserve	1,00,000	60,000	Fixed assets	3,60,000	2,20,000

P & L a/c	1,40,000	90,000	Stock	1,00,000	90,000
Creditors	80,000	90,000	Debtors	80,000	1,00,000
			Goodwill	40,000	30,000
	8,20,000	4,40,000		8,20,000	4,40,000

On the date of acquisition, S Ltd. showed a general reserve of ₹30,000 and P & L a/c ₹40,000.

Prepare a consolidated balance sheet.

10. From the following balance sheets on 31- 12- 2016, prepare consolidated balance sheet of H Ltd. and S Ltd.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹10 each	6,00,000	2,50,000	Investments (15,000 shares of S Ltd.)	2,00,000	–
General reserve (1–1–16)	1,60,000	95,000	Fixed assets	5,80,000	2,00,000
Profit for 2016	2,20,000	1,20,000	Stock	1,60,000	80,000
Bills payable	20,000	–	Goodwill	30,000	20,000
Creditors	1,00,000	35,000	Cash	50,000	70,000
			Debtors	80,000	1,15,000
			Bills receivable	–	15,000
	11,00,000	5,00,000		11,00,000	5,00,000

i) H Ltd. acquired the shares in S Ltd. on 30- 6 – 2016

ii) The bills receivable of S Ltd. are all accepted by H Ltd.

11. The following are the balance sheets of A Ltd. and B Ltd. as on Dec.31, 2016.

Liabilities	**A Ltd. ₹**	**B Ltd. ₹**	**Assets**	**A Ltd. ₹**	**B Ltd. ₹**
Equity shares of ₹10 each	2,00,000	50,000	Investments (shares of B Ltd.)	60,000	–
General reserve (1–1–16)	50,000	20,000	Fixed assets	1,95,000	70,000
P & L a/c (1 -1- 16)	30,000	7,500	Debtors	35,000	25,000
Profit for 2016	50,000	20,000	Other current assets	60,000	12,500
Creditors	20,000	10,000			
	3,50,000	1,07,500		3,50,000	1,07,500

i) A Ltd. purchased on 1-1-2016 ₹4,000 shares in B Ltd. at ₹15 each.

ii) Stock in B Ltd. includes ₹7,500 worth of goods purchased from A Ltd. which the company selling goods as 25% above cost.

iii) Creditors of B Ltd. include ₹5,000 due to A Ltd.

Prepare consolidated balance sheet as on 31-12-2016.

12. The following are the balance sheets of A Ltd. and B Ltd. as at 31st Dec.2016.

Liabilities	**A Ltd ₹**	**B Ltd ₹**	**Assets**	**A Ltd ₹**	**B Ltd ₹**
Share capital of ₹10 each	1,00,000	50,000	Sundry assets	66,250	69,100
Revenue reserve	9,000	10,000	Shares in B Ltd. at cost	70,000	–
P & L a/c as on 1-1-2016	8,500	8,000	Good will	–	10,000
Profit for the year	3,750	3,500			
Creditors	15,000	7,600			
	1,36,250	79,100		1,36,250	79,100

Profit for the year of B Ltd. was ₹6,000 out of which ₹2,500 was transferred to reserve. The holding of A Ltd acquired 90% of shares of B Ltd. year ago 31-12-2016. Write off from sundry assets of A Ltd. ₹9,000. Also write off ₹3,100 from the sundry assets of B Ltd. out of current year's profit.

Draft consolidated balance sheet of A Ltd. and its subsidiary.

13. The balance sheets of Prabhu Ltd. and Patel Ltd. on 31st Mar.2016 were as follows:

Liabilities	**Prabhu Ltd. ₹**	**Patel Ltd. ₹**	**Assets**	**Prabhu Ltd. ₹**	**Patel Ltd. ₹**
10% Preference shares of ₹100 each	–	1,00,000	3,000 Shares in Patel Ltd.	4,50,000	–
Equity shares of ₹100 each	10,00,000	4,00,000	Machinery Less: 10% Dep.	2,70,000	1,35,000
General reserve	1,00,000	50,000	Land	3,10,000	1,60,000
P & L a/c on 1-4-15	40,000	30,000	Stock	2,30,000	1,50,000
Profit for 2015-16	2,00,000	80,000	Debtors	1,55,000	90,000
Creditors	1,50,000	70,000	Cash	85,000	1,95,000
	14,90,000	7,30,000		14,90,000	7,30,000

Prabhu Ltd. acquired 3,000 shares in Patel Ltd. on 1st October 2015. As on the date of acquisition, Prabhu Ltd found that the value of land and machinery of Patel Ltd. should be ₹1,50,000 and ₹1,92,500 respectively.

Prepare the consolidated balance sheet of Prabhu Ltd. and its subsidiary S Ltd. as on 31st Mar. 2016 taking into consideration the fact that assets are to be taken at their proper values.

14. Following is the balance sheet of H Ltd. and its subsidiary S Ltd. as on 31-12-2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹100 each	5,00,000	–	8,000 Shares of S Ltd.	125,000	–
Equity shares of ₹10 each	–	1,00,000	Building	1,00,000	50,000
P & L a/c	55,000	40,000	Land	1,00,000	40,000
Creditors	20,000	35,000	Stock	90,000	30,000
			Debtors	40,000	30,000
			Cash	1,20,000	25,000
	5,75,000	1,75,000		5,75,000	1,75,000

H Ltd acquired shares in S Ltd. on 1-1-2016 when S Ltd. had ₹25,000 in P & L a/c. No dividend has been declared by S Ltd. in 2016.

Prepare the consolidated balance sheet.

15. Following are the balance sheets of H Ltd. and S Ltd. as on 31-3-2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹100 each	5,00,000	2,00,000	1,500 Shares in S Ltd.	2,40,000	–
Reserves	1,40,000	50,000	Sundry assets	6,00,000	3,00,000
P & L a/c	1,00,000	30,000			
Creditors	1,00,000	20,000			
	8,40,000	3,00,000		8,40,000	3,00,000

S Ltd. had a credit balance of ₹10,000 in reserves when H Ltd acquired shares in it. S Ltd. made a bonus issue of one share for every five shares held, all out of post acquisition profits.

Prepare the consolidated balance sheets after issue of bonus shares.

16. The following are the balance sheets of Guru Ltd. and Deva Ltd. as at 31st Dec.2016.

Liabilities	**Guru Ltd. ₹**	**Deva Ltd. ₹**	**Assets**	**Guru Ltd. ₹**	**Deva Ltd. ₹**
Equity shares of ₹10 each	50,000	25,000	Shares in Deva Ltd.	35,000	–
Revenue reserves	4,500	5,000	Sundry assets	33,125	34,550
Creditors	7,500	3,800	Goodwill	–	5,000
Profit for the year	1,875	1,750			
P & L a/c on 1-1-2016	4,250	4,000			
	68,125	39,660		68,125	39,660

Profit for the year of Deva Ltd. was ₹3,000 out of which ₹1,250 was transferred to reserves. The holding of Guru Ltd. on Deva Ltd. is 90% acquired a year ago on 31-12-2015. Write off from sundry assets of Guru Ltd. ₹4,500. Also write off ₹1,550 from sundry assets of Deva Ltd. out of current year's profit.

Draft consolidated balance sheet of Guru Ltd. and its subsidiary.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. H.Ltd.Acquired Shares of S. ltd on 1.1.2006, on that Date the P&L A/c of S.Ltd had a credit balance of Rs.1,000 and general reserve Rs.3,000.

Liabilities	**H.Ltd**	**S.Ltd**	**Assets**	**H.Ltd**	**S.Ltd**
Share Capital (Rs.10 each)	1,00,000	50,000	Fixed assets	60,000	63,000
Reserve	10,000	5,000	Investments	–	–
P&L account	10,000	4,000	(4000 shares in S ltd)	65,000	–
Creditors	5,000	4,000			
	1,25,000	63,000		1,25,000	63,000

Prepare a consolidated balance sheet.

[Madurai, B.Com, Nov, 2013]

2. On 31st March 2011 the Balance sheet of H Ltd. and its subsidiary S Ltd stood as follows.

Liabilities	**H Ltd**	**S Ltd**	**Assets**	**H Ltd**	**S Ltd**
Equity shares	80,00,000	20,00,000	Fixed assets	55,00,000	10,00,000
			75% shares in S		

General reserve	15,00,000	7,00,000	Ltd @ cost		
P and L A/c	9,00,000	5,50,000	Stock	28,00,000	–
Creditors	12,00,000	8,00,000	Others current assets	10,50,000	17,70,000
				22,50,000	12,80,000
	1,16,00,000	**40,50,000**		**1,16,00,000**	**40,50,000**

Calculate

(i) Revenue profit,

(ii) Capital profit and

(iii) Minority interest as on 31st March 2011 after taking in to consideration of the following information.

(1) H Ltd acquired the shares on 31st July 2010.

(2) S Ltd earned a profit of rs. 4,50,000 for the year ended 31 March 2011.

[Azhagappa, April,2015]

3. Prepare consolidated Balance sheet from the given data.

Liabilities	**A Ltd**	**B Ltd**	**Assets**	**A Ltd**	**B Ltd**
Shares of Rs. 50 each	2,50,000	1,00,000	Fixed assets	1,75,000	75,000
General Reserve	50,000	–	Stock in trade	45,000	20,000
Profit and Loss a/c	40,000	–	Debtors	30,000	15,000
Trade creditors	37,500	72,500	6% debentures in B Ltd, acquired @ par	30,000	–
			Shares in B Ltd 1,500 @ Rs. 40	60,000	–
			Cash at Bank	37,500	12,500
			Profit & Loss a/c	–	50,000
	3,77,500	**1,72,500**		**3,77,500**	**1,72,500**

A Ltd acquired the shares on 1.4.2009. the P and L a/c of B Ltd showed a debit balance of Rs. 75,000 on 1.1.2009. track creditors of B Ltd include Rs. 10,000 for goods supplied by A Ltd on which A Ltd made a profit of Rs. 1,000. Half of the goods were still in stock on 31.12.2009.

[Azhagappa, April,2013]

4. Balance sheet as on 31st March 2004

Liabilities	**H.ltd (Rs.)**	**S.Ltd (Rs.)**	**Assets**	**H.Ltd (Rs.)**	**S.Ltd (Rs.)**
Share capital (in Re.1 shares)	12,000	5,000	Sundry assets	20,000	8,000
Reserve					
P & L	5,000	1,000	Investment :		
Creditors	2,000	1,000	5000 shares of S Ltd	6,500	
	7,500	1,000			
	26,500	8,000		26,500	8,000

Shares were acquired by H. Ltd. On 30th sep 2003. S. Ltd. Transferred Rs. 500 from profits to reserve account on 31st march 2004. Prepare consolidated balance sheet.

[Madurai.,Nov 2012]

5. From the following balance sheets relating to H.ltd and S ltd. Prepare a consolidated balance sheet.

Liabilities	H.ltd (Rs.)	S.Ltd (Rs.)	Assets	H.Ltd (Rs.)	S.Ltd (Rs.)
Share capital	10,00,000	2,00,000	Fixed assets	8,00,000	1,20,000
P & l a/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable		
Bills payable	–	30,000			
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S ltd have been earned after the shares were acquired by H ltd. But there was already a reserve of Rs. 60,000 on that date.

b) All the bills payable of S ltd. Were accepted in favour of H ltd.

c) The stock of H ltd. Includes Rs. 50,000 purchased from S ltd. The profit added was 25% on cost.

Madurai.,Nov 2015

6. X Ltd. Purchased 60% shares of Y Ltd. on 1-1-02 when the balance on their P&L General reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31-1202, the Balance sheet of Y Ltd. showed P&L a/c balance of Rs. 4,00,000 and General reserve Rs. 3,00,000. Calculate Capital profits and Revenue profits.

[Madras, B.Com (AF) Ap. 2009; B. Con: (CS) Nov. 2008]

[Ans: Capital Profits: Rs. 3,10,000; Revenue pofits: Rs. 3,90,000]

7. P Ltd. acquired 65% shares of Q Ltd. on 1-10-02. P&L a/c in the books of Q Ltd. showed a debit balance of Rs. 40,000 on 1-4-02. On 31-3-03, the Balance sheet of Q Ltd. showed P&L We balance of Rs. 1,20,000. Calculate capital profits and Revenue profits.

'Madras, B.Com (AF) Nov. 2009; B.Com (CS) Ap 2008]

[Ans: Capital profits: Rs. 40,000; Revenue Profits: Rs. 80,000]

8. 1-1 Ltd. Purchased 75% of shares in S Ltd. on 1-7-01. On 31-12-01 the Balance Sheet of S Ltd. showed Reserve Fund balance on 1-1-01 Rs. 40,000, profit earned during 2001 Rs. 60.000 and Preliminary expenses unwritten off Rs. 20,000. Calculate capital profits and Revenue profits.

[Madras, M. Con: (ICE) (PBC) Oct. 2009; B.Cotn., B.Cotn (C'S) Nov. 2008]

[Ans: Capital profits: Rs. 50,000; Revenue profits: Rs. 30,0001

9. A subsidiary company has a capital of Rs. 5,00.000 in shares of Rs. 100 each out of which the holding company acquired 80% of the shares at Rs. 6,00,000. The profits of the subsidiary Co. on the date of acquisition of shares by the bolding Co. were Rs. 3,00,000. Calculate the value of goodwill or capital reserve.

[Madras, B.Com (AI) Ap 2009]

[Ans: Capital Reserve: Rs. 40,000 i.e., 6,40,000 — 6,00,000]

10. On 30.6.03 $_{1/3}$ rd of the shares of S' Ltd. (with a total capitral of Rs. 12,00.000)were acquired by H. Ltd. The balance sheet of 'S' Ltd. showed a debit balance of Rs. 6,00,000 on 1.1.03 and a credit balance of Rs. 3,60,000 on 3.12.03. The investment made by 'H' Ltd. in 'S' Ltd.'s shares is Rs. 9,00,000. Calculate the cost of control or Capital Reserve. •

[Madras, B. Com(AF) Nov. 2009;]

[Ans: Goodwill: Rs. 1,80,000 (i.e., 8,00,000 — 80,000 = 7,20,000) — 9,00,000]

11. Calculate minority Interest from the balance sheet of Mumbai. Ltd:

Balance sheet of Mumbai Ltd. As. On 31.12.2001

Liablities	Amt	Assets	Amt
Share capital:		Sundry assets	10,00,000
7,00,000 shares of Rs.2 each	14,00,000	Plant and machinery	7,00,000
General Reserve as on 1.1.2001	6,00,000	Other Assets	1,50,000
Creditors	3,00,000	Investment	6,50,000
P&L A/c as on 31.12.2001	2,00,000		
	25,00,000		25,00,000

Madras Ltd. Acquired 80% of the shares at Rs.6,50,000

[Madras, B.Com (ICE), 2003]

[Ans: Minority intrest: Rs. 4,40,000]

12. S Ltd. has capital of Rs. 15,00,000 in shares of Rs. 100 each. Out of this,•₹11' Ltd. purchased 75% shares at Rs. 17,50,000. The profit of 'S' Ltd. at the time of purchase of shares by 'H' Ltd. were Rs. 7,50,000. 'S' Ltd. decided to make a bonus issue out of capital profits of one share of Rs. 100 each fully paid for every three shares held. Calculate the cost of control after the issue of bonus shares.

[Madras, 1st M.Com (ICE) Oct. 2009]

[Ans: Goodwill — Rs. 62,500]

13. On 1st April 1988, S Ltd. had a subscribed share capital of Rs. 5,00,000 divided into 50,000 fully paid equity shares of Rs. 10 each. It had accumulated capital and revenue profits to the tune of Rs. 3,90,000 by that date when. H Ltd. acquired 80% of its shares for Rs. 9,00,000. The profit earned by S Ltd. amounted to Rs. 2,60,000 for.the year ended 31st March 1989 on which date S Ltd. issued by way of bonus, one fully paid equity share of Rs. 10 for every five equity shares held out of its pre-acquisition profits.Calculate as on 31.3.1989 cost of control and minority interest just before the issue of bonus shares

[Madras, 1st M.Com (Sem - CA1A) Nov. 2003]

[Ans: Just before the issue of bonus shares cost of control — Rs. 1,88,000; Minority interest — Rs. 2,30,000]

14. Prepare a consolidated Balance Sheet from the following Balance Sheets:

Liabilities	***H Ltd. Rs.***	***S Ltd. Rs.***	***Assets***	***11 Ltd. Rs.***	***S Ltd.* RA.**
Capital:			Sundry assets		1,510
Re. 1 shares	1,400	1,000	Shares in 'S' Ltd.		
Creditors	350	190	900 shares at cost	1,125	_
P & L A/c	260	320			
	2,010	1.510		2,010	1,510

On the date of acquisition of shares by H Ltd. in S Ltd., the credit balance on latter's Profit and Loss account was Rs. 220. No dividends have been declared since that date.

[Periyar, 111.Com.(CA) Ap. 2005 (10 Tintes)11Bharathiar, B.Com., Nov. 2004 (10 Times)/ [Madras, B.COM (AF) Ap. 2009]

[Ans: Capital Profit — Rs. 220; Revenue Profit — Rs. 100; Minority interest — Rs. 132; Goodwill — Rs. 27; Balance Sheet total -- Rs. 2,422]

15. Consolidate the Following balance sheet

Liabilities	**H Rs.**	**S Rs.**	**Assets**	**11 Rs.**	**S Rs.**
Capital Re. 1 shares	1,400	1,000	900 shares in		
Creditors		500	S at cost	1.200	
P&L A/c	–	300	Sundry assets	200	1.800
	1,400	1,800		1,400	1,800

When II Ltd. acquired the shares in S, the profit and loss *A/c oft ie* latter had a credit balance of Rs. 200.

[Periyar, B.Com (CA) Oct. 2005 Thirnvalluvar, B.Com., Nov. 2005 (10 Times); Bharathidasan, Nov. 2003]

[Ans : Capital profit : Rs. 200; Revenue profit : Rs. 100; Minority interest : Rs. 130; Goodwill : Rs. 120; Balance Sheet total : Rs. 2.120]

16. From the following summarised Balance Sheets of H Ltd. and S Ltd. as of 31.12.94.Prepare consolidated Balance sheet

Liabilities	*II Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*H Ltd. Rs.*	*S Ltd. Rs.*
Share capital:			Fixed assets	18,10,000	15,75,000
Shares of Rs.10			Investments (1,00,000		
each fully paid	25,00,000	12,50,000	shares in S Ltd.)	11.00,000	–.
Reserves	7,50,000	5,00,000	Current assets	5.65,000	3,75,000
Creditors	2,25,000	2,00,000			
	34,75,000	19,50,000		34,75,000	19.50,000

I-1 Ltd. purchased the shares in S Ltd. on 1st January 1994. when reserves in S Ltd stood at
Rs. 3.00,000 and in 11 Ltd., at Rs. 4,50,000.

[Madras, B.Com., (ICE) Oct. 2002]

[Ans: Capital profit - Rs. 3,00,000; Revenue profit - Rs. 2,00,000; Minority interest - Rs. 3,50,000; Capital reserve - Rs. 1,40,000 Balance Sheet total Rs. 43,25,000]

17. **Balance sheet as on 1.12.2000**

Liabilities	H Rs.	S Rs.	Assets	H Rs.	S Rs.
Share Capital :			Sundry assets	16,000	10,000
Rs. 1 each	10,000	5,000	5,000 shares in		

Reserve	5,000		S Ltd.	6,000	—
P&L A/c	4,000	1,800			
Creditors	3,000	3,200			
	22,000	10,000		22,000	10,000

Shares of S Ltd. were purchased by H Ltd. on 30th June 2000. On 1st Jan 2000 the Balance Sheet of S Ltd. showed a loss of Rs. 3,000..Prepare the consolidated Balance sheet.

(Madras, 1st M.Com (PBC) Oct.. 2004; II M.Com., (ICE) (Old) May 2002]

[Ans : Revenue Profit : Rs. 2,400; Capital Loss : Ks. WU; Goodwill : Rs. 1,600; B/s Total : Rs. 27,600]

18. **Balance sheet as on 31.12.2001**

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital :					
Rs. 10 each	2.50,000	1,00,000	Sundry Assets	2,23,000	1,52,000
Reserves	50,000	25,000	100% shares in		
Creditors	40,000	30,000	B Ltd.	1,17,000	
			Preliminary Expenses	—	3,000
	3,40,000	1,55,000		3,40,000	1,55,000

The shares of B Ltd. were acquired at Rs. 1,17,000 on 31-3-1999. Prepare consolidated Balance sheet ***as*** on 31-3-99.

[Madras, B. Corn (SEm) Nov. 2003 (2 limes), B.Com., (Old) Oct. 2002

[Periyar, B.Com., Nov. 2005; (2 Times); Bharathiar, B.Com., Nov. 2003 (2 Times)

[Ans : Capital Profit : Rs. 22,000; Capital Reserve : Rs. 5,000; B/s Total : Rs. 3,75,000]

19. **The following Balance sheet as on 31.3.2000 are given.**

Liabilities	**II Ltd. Rs.**	**.S Ltd. Rs.**	**Assets**	**II Ltd. Rs.**	**S Ltd. Rs.**
Share capital: in Re. 1 fully			Sundry assets	20,000	12,000
Paid shares	12,000	6,000	Investment		
Reserves	3,000	2,000	6,000 shares in		
P&LA/c	2,000	1,000	S Ltd.	7,500	
Sundry liabilities	10,500	3,000	.		
	27,500	12,000		27,500	12,000

S Ltd. has acquired shares in S Ltd. on 31.3.2000. Prepare consolidated Balance Sheet as on 31.3..2000

[Madras, B.Com ,Ap 2009; lst M. Corm, Nov. 2005 (Modified)]

[Ans: Capital profit — Rs. 3,000; Capital reserve — Rs. 1,500; Balance sheet total — Rs. 32,000]

20. **The following are the balances as on 31.12.2001**

Liabilities	A Ltd. Rs.	13 Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share capital:			Land & Buildings	6,40,000	2,00,000
Shares of			Machinery	12,60,000	3,40,000
Rs. 10 each	25,00,000	6,00,000	Furniture	1,40,000	60,000
General reserve	3,60,000	1,20,000	40.000 shares in	,,	
.					
Profit & Loss A/c	2,40,000	1.80.000	B Ltd.	5,00,000	—
Trade creditors	3,50,000	1,00,000	Stock	4,10,000	2,50,000
			Debtors	3,80,000	1,00,000
			Rank balance	1,20,000	50,000
	34,50,000	10,00,000		34,50,000	10,00,000

At the date of acquisition by A Ltd. of its holding of 40,000 shares in B. Ltd., the latter company had undistributed profits and reserves amounting to Rs. 1,00,000. none of which had been distributed since then.

[Madras, B.Com (2007 (i Figs.) 1st M.Cont.(CA IA) Nov. 2006;

B.Com., Oct. 2003; April 1999; March 1996; March 1988; Madras, B.A. Corp., Sep. 1995]Periyar, B.Com(CA)]

[Ans: Capital profit Rs. 1,00,000; Revenue profit - Rs. 2,00,000; Minority interest - Rs. 3,00,000; Goodwill - Rs. 33,333; Balance Sheet total - Rs. 39,83,333]

21. The following Balance Sheets are given as on 30.6.87

Liabilities	M Co. Rs.	S Co. Rs.	Assets	Al Co. Rs.	S Co. Rs.
Share capital:			Buildings	72,000	25,000
12,000 shares	1,20,000	–	Machinery	30,000	10,000
3,000 shares	–	30,000	Stock	18,000	3,000

Creditors	15,000	5,000	Debtors	22,000	7,000
Reserve	25.000	6,000	Bank	5,000	5,000
Profit & Loss A/c	12,000	9,000	Shares in S Co.		
			2.000 shares	25,000	
	1,72,000	50,000		1,72,000	50,000

At the date of acquisition by M Co., S Co. had undistributed profits amounting to Rs. 5,000. none of which has been distributed since the date of acquisition.. Prepare consolidated Balance Sheet.

[Madras, BC'S Nov 2004 (2 Times); B.C.S. April 2003]

[Ans: Capital profit - Rs. 5,000; Revenue profit - Rs. 10,000; Cost of control (goodwill) - Rs. 1,667; Minority interest - Rs. 15,006; Total of consolidated Balance Sheet - Rs. 1,98,667]

22. From the Balance Sheets given below, prepare consolidated Balance Sheet

. **Balance Sheets as at 31st December 1991**

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Shares of			Fixed assets	4,00,000	60,000
Rs.10 each	5,00,000	1,00,000	Stock	3,00,000	1,20,000
Profit & Loss A/c	2,00,000	60,000	Debtors	75,000	85,000
Reserves	60,000	30,000	Bills receivable	20,000	–
Bills payable		15,000	Shares in S Ltd.		
Creditors	1,10,000	60,000	7,500 at cost	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Other irformation

(a) The bills accepted by S Ltd. are all in favour of H. Ltd.

(b) The stock of H Ltd. includes Rs. 25,000 bought from S Ltd. at a profit to latter of 20% on sales.

(c) All the profits of S Ltd. has been earned since the shares were acquired by 11 Ltd. but there was alrpady the reserveof Rs. 30,000 at that date.

Hint : As per AS-21 'Consolidated Financial Statements' issued by C.A. Institute,Full Provision should he made for 'unrealised profit in stock'.

[Madras, 1st M.Com, Nov. 2008; B.Com (PZG) Nov. 2007 Periyar, B.Com., Ap. 2006]

[Ans: Capital profit Rs. 30,000; Revenue profit — Rs. 60,000; Minority interest — Rs. 47,500; Capital reserve — Rs. 22,500; Provision for unrealised profit — Rs. 5,000; Balance Sheet total — Rs. 10,40,000]

23. From the following details, prepare a consolidated Balance sheet of II Ltd. and its Subsidiary S Ltd. as on 3-12-2001.

Liabilities	H.	S Rs.	Assets	H.	S .
Share Capital :			Buildings	1,45,000	50,000
Shares Rs. 10 each	2,00,000	60,000	Plant	60,000	25,000
General Reserve	50,000	15,000	Stock	40,000	10,000
P&L A/c	25,000	21,000	Debtors	35,000	15,000
16% Debentures	70,000	—	13/R	15,000	10,000
Creditors	15.000	10,000	Bank	10,000	5,000
B/P	5,000	9,000	Investment in (1,000 shares of S Ltd.)	60,000	
	3,65,000	1,15,000		3,65,000	1,15,000

On the date of cquisition of shares by HLtd. in S Ltd. the lat er had undistributed Profits of Rs. 9.060 and reserve of Rs. 6,000. Thevalue of Bui dings and Plant of S Ltd. were considered at Rs. 65,000 and Rs. 16,000 respectively. No purchase or Sale of these assets after the acquisition of shares. Depreciation may be ignored. Debtors of H Ltd. include Rs. 5,000 due from S Ltd. and also Bills payable of H Ltd. includes a bill of Rs. 3,000 accepted in favour of S Ltd.

[Madras, I M.Com., (ICE) *Oct.* ***2002]***

[Ans : Capital Profit : Rs. 21,000; Revenue Profit : Rs. 21,000; Minority Interest : Rs. 34,000; Goodwill : Rs. 6,000; B/S Total : Rs. 4,24,000]

24. 'A' Ltd. acquired 20,000 equity shares of Rs. 10 each in '13' Ltd. as at 31st March 1998. The summarised Balance Sheets of the two companies as at 31st March 1999 were as follows

Liabilities	A Ltd. Rs.	B Ltd. Rs.
Equity share capital (Shares of Rs. 10 each)	8,00,000	2,50,000
General Reserve	3,00,000	50,000
P&L	1,00,000	2,00,000
Creditors	2,00,000	50,000
	14,00,000	5,50,000
Assets		
Fixed Assets	7,00,000	2.50,000

20,000 shares in B Ltd. at cost	3,00,000	
Current assets	4,00,000	3,00,000
	14,00,000	5,50,000

B' Ltd. had a Credit Balance of Rs. 50,000 in general reserve and Rs. 20,000 in P&L A/c when 'A"Ltd. acquired shares in 'B' Ltd.₹B' Ltd. issued bonus shares in the ratio of one for every five shares held out of the Profits earned during 1998-99. This is not shown in the above balance sheet of 'B' Ltd.Prepare a consolidated balance sheet of 'A' Ltd. and its subsidiary as at 31st March 1999.

[Madras, B.com, 2011]

[Ans : Revenue Profit (after Bonus) Rs. 1,30,000; Capital Profit : Rs. 70,000; Goodwill : Rs. 4,000; Minority Interest : Rs. 1,00,000; B/S Total : 16,54,000]

25. H Ltd. acquired the shares of S Ltd. on 1-1-96. On that date the profit and loss account of S Ltd.. had a credit balance of Rs. 1.000 and in reserve Rs. 3.000.

Prepare a consolidated Balance Sheet from the following:

Balance Sheet as on 31-12-96

Liabilities	*H Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*II Ltd. Rs.*	*S Ltd. Rs.*
Share Capital :			Sundry Assets	60,000	63,000
(Rs. 10 each)	1,00,000	50,000	Investemts -		
Reserve	10,000	5,000	4,000 shares in		
Profit and Loss A/c	10,000	4,000	S Ltd.	65,000	
Sundry Creditors	5,000	4,000			
	1,25,000	63,000		1,25,000	63,000

[Madras, B.C.S. Oct. 2001]

[Ans : Capital Profit : Rs. 4,000; Revenue profit : Rs. 5,000; Minority Interest : Rs. 11,800; Goodwill : Rs. 21,800; B/S Total : Rs. 1,44,800]

26. The following are the balance sheets of the Sun Co., Ltd., and the Moon Co.. Ltd., prepared on 31st December 1986. On 1st January 1986, the Sun Co. Ltd.. acquired all the shares in the'Moon Co. Ltd., when the latter had a credit balance of Rs. 35.000 on its profit and, loss account.

Liabilities	***' Sun Co. Rs.***	***Moon Co. Rs.***	***Assets***	***Sun Co. Rs.***	***,Moon Co. Rs.***
Share Capital :			Sundry Assets	2,20,000	4,00,000
Equity shares of			Investments	3,60,000	

Rs. 10 each	3,00,000	2,00,000	(Shares in the		
General reserve	1,50,000	1,00.000	Moon Co. Ltd.)		
P & L A/c	1,00,060	80,000			
Creditors	30,000	20,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Prepare consolidated balance sheet.

[Madras, B. Com., April 2001]

[Ans : Revenue Profit : Rs. 45,000; Capital Profit : Rs. 1,35,000; Minority Interest : NIL; Goodwill : Rs. 25,000; 13/s Total : Rs. 6,45,000]

27. The following are the summarised Balance Sheets of 'A' Ltd. and its subsidiary 'B' Ltd. as on 31.12.88.

Liabilities	***A Ltd. Rs.***	***B Ltd. R. s.***	***Assets***	***A Ltd. Rs.***	***B Ltd. Rs.***
Ordinary shares			Fixed assets	2,00,000	90,000
of Rs. !O each	5,00,000	1,09,000	Stock	90,000	30,000
General reserve	10,000	40,000	Debtors	40,000	30,000
Creditors	20,000	30,000	Bills receivable	5,000	–
Bills payable	–	5,000	Bank balance	1,15,000	25,000
			7,500 shares in		
			B Ltd. at cost	80,000	–
	5,30,000	1,75,000		5,30,000	1,75,000

A Ltd., acquired shares in B Ltd. on 1. .88 when B Ltd. had Rs. 10,000 in general reserve. No dividend was declared by B Ltd. in 1988.

All bills receivable of A Ltd. are drawn on B Ltd.

You are required to prepare a consolidated Balance Sheet on 31.12.1988.

[Periyar, M.Com (CA) Ap 2006; Bharathidasan B.Com., Nov. 2005 Madras, B.Com Oct. 2007]

[Ans: Capital profit — Rs. 10,000; Revenue profit — Rs. 30,000; Minority interest — Rs. 35,000; Capital reserve — Rs. 2,500; Balance Sheet total — Rs. 6,20,000]

28. The following are the summarised Balance Sheets of Imperial Co. Ltd. and Colonial -Co. Ltd. as on 31st December 1972.

Liabilities	*Imperial Co. Ltd. Rs.*	*Colonial Co. Ltd. Rs.*	*Assets*	*Imperial Co. Ltd. Rs.*	*Colonial Co. Ltd. Rs.*
Paid up capital in shares of Rs. 10 each	10,00,000	3,00,000	Freehold Premises	4,50,000	1,20,000
			Plant & Machinery	3,50,000	1,60,000
			Furniture	80,000	30,000
General reserve	4,00,000	1,25,000	Debtors	3,00,000	1,70,000
Profit & Loss A/c	3,00,000	1,75,000	Stock	3,20,000	1,60.000
Sundry creditors	1,00,000	70,000	Investment in 20,000 shares in Colonial Co. Ltd. at cost	2,60,000	
			Cash balance	40,000	30,000
	18,00,000	6,70,000		18,00,000	6,70,000

You are required to prepare consolidated Balance Sheet as on 31.12.1972 showing in detail necessary adjustments and taking into consideration the following information.

(a) Imperial Co. Ltd. acquired the shares of Colonial Co. Ltd. on 1.1.1972 when the balance on their Profit & Loss A/c and general reserves were Rs, 75,000 and Rs. 80,000 respectively.

(b) Stock of Rs. 1,60,000 held by Colonial Co. Ltd. consists of Rs. 60,000 goods purchased from Imperial Co. Ltd., who has charged profit at 25% on cost.

[Thiruvalluvar, B.Com., Nov. 2005; Bharathidasan, Nov. 2005) Madras, M.Com(ICE) Oct 2006; II M.Com., Oct 2003; II. M.Com. (ICE) (Old) May 2001; B.C.S. Oct. 2003; B.C.S. (ICE) May 2002]

[Ans: Capital profit — Rs. 1,55,000; Revenue profit — Rs. 1,45,000; Minority interest — Rs. 2,00,000; Capital reserve — Rs. 43,333; Balance Sheet total — Rs. 21,98,000; Profit & Loss A/c balance — Rs. 3,84,667]

29. Star Ltd. acquired the whole of the shares in Sun Ltd. as at 1st January 1995. The Balance Sheets of both the companies on 31st Dec. 1995 were as under.

Liabilities	***Star Ltd. Rs.***	***Sun Ltd. Rs.***	***Assets***	***Star Ltd. Rs.***	***Sun Ltd. Rs.***
Share capital:			Buildings	6,00,000	2,00,000
20,000 shares			Machinery	3,00,000	1,00,000

of Rs. 50 each	10,00,000	–	Stock	1,00,000	1,50,000
80,000 shares			Debtors	50,000	90,000
of Rs. 5 each	–	4,00,000	Investments in		
General reserve	3,00,000	40,000	shares of Sun Ltd.	5,00,000	–
Profit & Loss A/c	2,00,000	1,60,000	Cash at Bank .	50,000	1,20,000
Creditors	1,00,000	60,000			
	16,00,000	6,60,000		16,00,000	6,60,000

The Balance of Profit & Loss A/c of Sun Ltd. on 1.1.95 was Rs. 80,000. Sun Ltd. paid a dividend of 10% in March 1995 for the year 1994 which was credited by Star Ltd. to its Profit & Loss A/c.

Stock of Star Ltd. includes Rs. 20,000 goods which were purchased from Sun Ltd. at a profit of 20% on sale value. Show the Consolidated Balance sheet.

[Madras, B.Com,2009]

[Ans: Capital profit — Rs. 80,000; Revenue profit — Rs. 1,20,000; Capital reserve — Rs. 20,000; Balance Sheet total — Rs. 17,56,000]

30. 'C' Ltd. acquired 20,000 shares of Rs. 10 each in 'D' Ltd. on 1.1.94. The summarised Balance Sheets of both the companies were as under on 31.12.94.

Liabilities	**C Ltd. Rs.**	**D Ltd. Rs.**	**Assets**	**C Ltd. Rs.**	**D Ltd. Rs.**
Shares of					
Rs. 10 each	5,00,000	2,50,000	Fixed assets	4,50,000	4,65,000
Reserves	2,00,000	1,50,000	Stock	75,000	1,00,000
Creditors	3,00,000	3,00,000	Debtors	1,50,000	2,00,000
Bills payable	50,000	40,000	Shares in D Ltd.	3,25,000	–
Bank loan	–	50,000	Bills receivable	75,000	50,000
Profit & Loss A/c	50,000	40,000	Cash	25,000	15,000
	11,00,000	8,30,000		11,00,000	8,30,000

On 1st Jan. 1994, Profit & Loss A/c of 'D' Ltd. showed a debit balance of Rs. 50,000. D Ltd. made a transfer of Rs. 30,000 to reserves on 31st Dec. 94.Creditors of C Ltd. include Rs. 50,000 for goods supplied by D Ltd. on credit. Stock of Rs. 40,000 in C Ltd. represents unsold goods purchased from D Ltd. who charged profit on sale of 20%.Bills payable of D Ltd. included Rs. 30,000 accepted in favour of C Ltd. Bills receivable of C Ltd. included Rs. 25,000 received from D Ltd. Prepare consolidated Balance Sheet.

[Madras,B.com,2011]

[Ans: Capital profit — Rs. 70,000; Revenue profit — Rs. 1,20,000; Minority interest — Rs. 88,000; Goodwill — Rs. 69,000; Balance Sheet total — Rs. 15,91,000; Profit & Loss A/c — Rs. 1,38,000]

31. Y Ltd. purchased 75% of the shares in Z Ltd. on 1.1.97. The following Balance Sheets of the two companies on 31.12.97 arc made available and you are requested to prepare a consolidated Balance Sheet.

Liabilities	**Y Ltd. Rs.**	**Z Ltd. Rs.**	**Assets**	**Y Ltd Rs.**	**Z Ltd. Rs.**
Share capital:			Fixed assets	2,00,000	2,50,000
(Rs. 10 each)	2,00,000	3,00,000	Current assets	1,80,000	1,70,000
Reserves	3,00,000	–	22,500 shares in		
Profit & Loss A/c	1,00,000	80,000	Z Ltd.	3,00,000	–
Current liabilities	80,000	40,000			
	6,80,000	4,20,000		6,80,000	4,20,000

1. The Profit & Loss A/c of Z Ltd. on 1.1.97 showed a balance of Rs. 20,000.
2. It was agreed that Y Ltd. should charge Z Ltd. Rs. 1,000 per month for services rendered. No entries were passed in their books for the same.
3. Current assets of Z Ltd. include Rs. 10,000 loan receivable from Y Ltd.

[Madras,B.Com,2012]

[Ans: Capital profit — Rs. 20,000; Revenue profit — Rs. 48,000; Minority interest — Rs. 92,000; Goodwill — Rs. 60,000; Balance Sheet total — Rs. 8,50,000]

32. From the Balance Sheets given below, preparea consolidated Balance Sheet of ₹M' Ltd. and its subsidiary 'C' Ltd. The shares were acquired on **1.1.87.**

Balance Sheet as on 30th June 1987

Liabilities	**M Ltd. Rs.**	**C Ltd. Rs.**	**Assets**	**M Ltd. Rs.**	**.0 Ltd. Rs.**
Share capital:			Land & Buildings	1,20,000	20,000
Rs. 10 each	1,50,000	30,000	Machinery	20,000	20,000
General reserve	20,000	–	Current assets	58,000	10,000
Profit & Loss A/c:			*Investment:*		
on 1.7.86	–	4,500	2,000 shares of		
Profit for the year	30,000	6,000	Rs. 10 each in C Ltd.	27,000	–

Creditors	25,000	9,500			
	2,25,000	50,000		2,25,000	50,000

From the following Balance Sheets of H Ltd., and S Ltd., prepare a Consolidated Balance Sheet of I I Ltd., and S Ltd.

Balance Sheets as on 31-12-98

Liabilities	**HRs.**	**.S Rs.**	**Assets**	**H Rs.**	**S Rs.**
Share Capital :			Sundry assets	20,000	8,000
(Shares of Re. 1 each)	12,000	5,000	Investment in 5,000		
Reserve	5,000	1,000	shares of S Ltd.	6,500	–
P&L A/c	2,000	1,000			
Sundry creditors	7,500	1,000			
	26,500	8,000		26,500	8,000

Shares were acquired by H Ltd., 'n S Ltd., on 30-6-98. S Ltd., transferred Rs. 500 **from profits to** Reserve on **31-12-98.**

[Madras, B.C'ont (CS) Nov. 2008; II M.Com.,Ap 2003; B. Corn., (ICE) May 2000] [Periyar, B.Com., Ap 2006; M.Com (CA) Ap 2005; Bharathiar, B.C'ont., Nov. 2004]

[Ans : Capital profit : Rs. 1,250; Revenue profit : Rs. 750; Goodwill : Rs. 250; Balance Sheet total : Rs. 28,250]

[Hint The Sun Co. Ltd. acquired 18,000 shares in the Moon Co. Ltd., on 1st Oct. 1986. The Balance Sheets of the two companies as on 31st Dec. 86 were as under.

Liabilities Sun Co.	***Moon Co. Rs.***	***Assets Rs.***	***Sun Co.***	***Moon Co. Rs.***	***Rs.***
Share capital: '			Sundry assets	1,00,000	2,70,000
Equity shares			Shares in the		
of Rs. 10 each	2,50,000	2,00,000	Moon Co. Ltd.	2,50,000	–
General reserve	50,000	40,000			
Profit & Loss A/c	30,000	20,000			
Creditors	20,000	10,000			
	3,50,000	2,70,000		3,50,000	2,70,000

The Profit & Loss A/c of the Moon Co. Ltd. had a credit balance of Rs. 6.000 onJanuary 1st 1986. The profits of 1986 acquired evenly throughout the year.Prepare the consolidated Balance Sheet as on 31st December 1986.

[Madras, B.Com., (ICE) May 2002]

[Ans: Capital profit — Rs. 56,500; Revenue profit — Rs. 3,500; Minority interest — Rs. 26,000 Goodwill Rs. 19,150; Balance Sheet total — Rs. 3,89,150]

33. The Balance sheets of H Ltd. and S Ltd. on 31.12.95 were as under.

Liabilities	***H Ltd. Rs.***	***S Ltd. Rs.***	***Assets***	***H Ltd. Rs.***	***S Ltd. Rs.***
Acre capital:			Land & Buildings	60,000	–
(shares of			Plant & Machinery	2,00,000	–
Rs. 100 each)	2,00,000	50,000	Stock	40.000	85,000
General reserve	30,000	10,000	Sundry debtors	10,000	30,000
Profit & Loss A/c			Cash at bank	10,000	10,000
Balance on 1.1.95	40,000	20,000	300 shares in		
Profit for 1995	50,000	25,000	S Ltd. at cost	65,000	
Creditors	30,000	30,000	Bills receivable	–	10,000
Bank overdraft	20,000				
Bills payable	15,000				
	3,85,000	1,35,000		3,85,000	1,35,000

Shares were acquired by H Ltd. on 1st July 1995. Bills receivable held by S Ltd. are all accepted by H Ltd. Included in the debtors of S Ltd. is Rs. 6,000 owed by 11 Ltd. in respect of goods supplied.Prepare the consolidated Balance Sheet.

[Madras, B.Com (AF) Ap. 2008; B.C.S. Opt. 2002]

[Ans: Capital profit Rs. 42,500; Revenue profit — Rs. 12,500; Minority interest — Rs. 42,000; Goodwill — Rs. 9,500; Consolidated Balance Sheet total — Rs. 4,48,500]

34. The following are the Balance Sheets of the Sun Ltd. and Moon Ltd. as on Dec. 31, 1996.

Liabilities	***Sun Ltd. Rs.***	***Moon Ltd. Rs.***	***Assets***	***Sun Ltd. Rs.***	***Moon Ltd. Rs.***
Share capital			Fixed assets	1,95,000	70,000
Shares of					
Rs. 10 each	2,00,000	50,000	*Investments:*		
general reserve	50,000	20,000	Shares in Moon Ltd.	60,000	–

P & L A/c balance 1.1.96	30,000	7,500	Debtors	35,000	25,000
			Other current assets	60,000	12,500
Profit for the year 1996	50,000	20,000			
Creditors	20,000	10,000			
	3,50,000	1,07,500		3,50,000	1,07,500

(a) Sun Ltd. purchased on July 1, 1996 4,000 shares in Moon Ltd. at Rs. 15 each.

(b) Stock in Moon Ltd. includes Rs. 7,500 worth of goods purchased from Sun Ltd. which company sells goods at 25% above cost.

(c) Creditors of Moon Ltd. include Rs. 5,000 due to Sun Ltd. Prepare a consolidated Balance Sheet as on December 31.1996.

[Madras, B.Com (AF)Ap 2009]

[Ans: Capital profits - Rs. 37,500; Revenue profits -,Rs. 10,000; Minority interest - Rs. 19,500; Capital reserve - Rs. 10,000; Balance Sheet total - Rs. 3,91,000; Provision for unrealized profit - Rs. 1,500]

35. H Ltd. acquired all the shares in S Ltd. on 1.10.95 and the Balance Sheets of the two companies on 31.12.1995 were as follows:

Liabilities	II Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital	50,000	30,000	Sundry assets	65,000	70,000
General reserve (1.1.95)	20,000	15,000	Shares in S Ltd. at cost	50,000	-
Profit & Loss A/c	25,000	10,000			
Creditors	20,000	15,000			
	1,15,000	70,000		1,15,000	70,000

profit and Loss A/c of S Ltd. had a credit balance of Rs. 3.000 on 1.1.95. The profit of S Ltd. accrued evenly through the year.Prepare consolidated Balance Sheet as on 31.12.95.

[Madras, B.Com (PZ4A) B.A. Corp. March 2001(old)]

[Ans: Capital profit — Rs. 23,250; Revenue profit — Rs. 1,750; Capital reserve — Rs. 3,250; Balance sheet total — Rs. 1,35,000]

36. The following are the Balance Sheets of P Ltd. and N Ltd. as at 31.3.1997.

Liabilities	**P Ltd. Rs.**	**N Ltd. Rs.**	**Assets**	**P Ltd. Rs.**	**N Ltd. Rs.**
Share capital (Rs. 10 each)	3,00,000	2,00,000	Fixed assets	2,50,000	1,30,000
Capital reserve	50,000	–	Goodwill	–	30,000
General reserve	40,000	30,000	Current assets	70,000	1,40,000
Profit & Loss A/c	60,000	40,000	Shares in		
Creditors	50,000	30,000	N Ltd. at cost	1,80,000	—
	5,00,000	3,00,000		5,00,000	3,00,000

P Ltd. acquired 75% of the shares in N Ltd. on 1.7.96. In the case of N Ltd., profit made during the current year is 40,000 and transfer to reserve is Rs. 10.000.Draft a consolidated Balance Sheet of P Ltd. and its subsidiary N Ltd.

[Madras, 1st M.Com Oct. 2008]

[(Ans:.Capital profit — Rs. 40,000; Revenue profit — Rs. 30,000; Minority interest — Rs. 67,500; Cost of control — nil; Goodwill in Balance Sheet — Rs. 30,000; B/S total — Rs. 6,20,000)

[Hint: Assume transfer to reserve as a part of current year profit of Rs. 40,000.]

UNIT – 14

DOUBLE ACCOUNTING SYSTEM

Double Accounting System – Advantages – Disadvantages - Difference between Double accounts system and single accounting system - Replacement of asset - Final accounts of Electricity Companies

Double account system is a system of presenting the final accounts of Public utility concerns like Electricity, Railways and Gas. They need huge amount of fixed capital. They raised it from the public by way of selling securities. So they have to disclose the full details regarding rising of funds and how they are utilized.

14.1 ADVANTAGES OF DOUBLE ACCOUNT SYSTEM

1. Capital account

The preparation of Receipts and Expenditure on capital a/c explains how funds are raised and the purpose for which they are applied

2. Replacement of fixed assets

Every year amount of depreciation on fixed asset is maintained in a separate account namely depreciation reserve account. It is easy to replace the fixed assets by using that reserve amount.

3. Operating and non-operating activities

Operating and non-operating activities can be compared easily because they are recorded separately in revenue and net revenue a/c respectively

4. Control over current assets and liabilities

Only current assets and current liabilities are given in general balance sheet. So we can have a control over them.

5. Service at reasonable cost

By preparing final accounts, a Public utility concern ensures that they render service at reasonable cost.

14.2 DISADVANTAGES OF DOUBLE ACCOUNT SYSTEM

1. It is not prudent to show the fixed assets at cost price. The balance sheet will not disclose correct financial position of electricity companies as on a particular date.
2. Ordinary public cannot easily understand the final accounts of Electricity companies.
3. It is impossible to find the exact amount required for replacement of fixed asset.

14.3 DIFFERENCE BETWEEN DOUBLE ACCOUNTS SYSTEM AND SINGLE ACCOUNTING SYSTEM

Basis	Single accounting system or Double entry system	Double accounting system
Meaning	Single accounting system involves preparation of financial statements and one balance sheet	Double accounting system involves preparation of financial statements and balance sheet in two parts
Final accounts	Final accounts consists of trading, P & L a/c and balance sheet	Final accounts consists of revenue a/c, net revenue a/c, receipts and expenditure on capital a/c and general balance sheet
Content of balance sheet	Both fixed and current assets and liabilities are given	Fixed assets and fixed liabilities are recorded in receipts and expenditure on capital a/c and current assets and current liabilities are given in general balance sheet
Purpose of balance sheet	To know the financial position as on a particular date	To know the sources in which funds are raised and the purpose for which they are invested
Usage of the words To and By	In balance sheet we never use the words To or By in liability side and assets side respectively	We use the words To and By in liability side and assets side in both receipts and expenditure on capital a/c and general balance sheet
Value of fixed assets	Fixed assets are shown in reduced valued in every year i.e. depreciation should be deducted.	Fixed assets are shown in cost price only. Depreciation amount is recorded in a reserve a/c which is shown in liability side.

14.4 REPLACEMENT OF ASSET

I. Calculation of Estimated Cost:

Original cost of old work	xxx
Add: Increases if any	xxx
Estimated cost	xxx

II. Amount to be capitalized:

Actual cost of new work	xxx
Less: Estimated cost	xxx
Capitalized amount	xxx

III. Amount to be taken to revenue account:

Estimated cost of old assets		xxx
Less: Materials sold	xxx	
Materials reused	xxx	xxx
Revenue account		xxx

Journal Entries

<table>
<tr><td colspan="2">1.For amount spent on new work:
New works a/c Dr (Capitalized amount)
Replacement a/c Dr (Estimated cost)
To Bank a/c</td></tr>
<tr><td>2.For sale of old materials:
Bank a/c Dr
To Replacement a/c</td><td>3.For value of old materials reused:
New works a/c Dr
To Replacement a/c</td></tr>
<tr><td colspan="2">4.For amount taken to revenue a/c:
Revenue a/c Dr
To Replacement a/c</td></tr>
</table>

Illustration -1 A power house was originally built for ₹8,00,000 is to be replaced by a new one. The total cost of construction is ₹28,00,000. The estimated cost of construction of the original size power is ₹12,00,000. Materials used in new construction is ₹40,000 and old materials worth ₹20,000 are sold.

Prepare a statement showing allocation between capital and revenue expenditure and pass necessary journal entries.

Solution

Estimated cost – ₹12,00,000

Capitalized amount

Cost of new work	₹28,00,000
(-) Estimated cost	₹12,00,000
Capitalized	₹16,00,000

Revenue amount

Estimated cost		₹12,00,000
(-) Materials sold	₹20,000	
Materials reused	₹40,000	₹60,000
	Revenue	₹11,40,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	16,00,000	
Replacement a/c	Dr	12,00,000	
To Bank a/c			28,00,000
(Being amount spent on new work)			
Bank a/c	Dr	20,000	
To Replacement a/c			20,000
(Being sale of old materials)			
New works a/c	Dr	40,000	
To Replacement a/c			40,000
(Being value of old materials reused)			
Revenue a/c	Dr	11,40,000	
To Replacement a/c			11,40,000
(Being amount taken to revenue a/c)			

Illustration -2 Indian gas company rebuilt and reequipped part of their works at a cost ₹50,00,000. The part of old works, thus superseded cost ₹30 lacs. The capacity of the new work is double the capacity of the old. ₹2.50,000 is realized by the sale old materials and the old materials worth ₹1,50,000 are used in the construction of new work in addition to the total cost of ₹50,00,000 mentioned above. The cost of material is increased by 25% now then when the old work was built.

Journalize.

Solution

Estimated cost

Original cost	₹30,00,000
Add: 25%	₹7,50,000
Estimated cost	₹37,50,000

Capitalized amount

Cost of new work	₹50,00,000
(-) Estimated cost	₹37,50,000
	₹12,50,000

Revenue amount

Estimated cost		₹37,50,000
(-) Material sold	₹2,50,000	
Materials reused	₹1,50,000	₹4,00,000
		₹33,50,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	12,50,000	
Replacement a/c	Dr	37,50,000	
To Bank a/c			50,00,000
(Being amount spent on new work)			
Bank a/c	Dr	2,50,000	
To Replacement a/c			2,50,000
(Being sale of old materials)			
New works a/c	Dr	1,50,000	
To Replacement a/c			1,50,000
(Being value of old materials reused)			
Revenue a/c	Dr	33,50,000	
To Replacement a/c			33,50,000
(Being amount taken to revenue a/c)			

Illustration -3 The Tamil Nadu Electricity Ltd. decides to replace one of its old plants with modern one with a larger capacity. The plant when installed in 1980 cost the company is ₹24,00,000, the components of materials, labour and overhead being in the ratio 5:3:2. It is ascertained that the cost of material and labour have gone up by 40% and 80% respectively. The proportion of overheads to total cost is expected to remain the same as before. The cost of new plant as per impressed design is ₹60,00,000 and in addition materials recovered from the old plant of the value of ₹2,40,000 has been used in the construction of new plant. Old plant was scrapped and sold for ₹7, 50,000.

Journalize.

Solution

	Cost of exiting plant ₹	Increase in %	Current cost ₹
Material (5/10)	12,00,000	40%	16,80,000
Labour (3/10)	7,20,000	80%	12,96,000
Total	19,20,000		29,76,000
Overhead (2/10)	4,80,000	19,20,000 = 4,80,000 29,76,000 = ?	7,44,000
Total	24,00,000		37,20,000

Capitalized amount

Cost of new work	₹60,00,000
(-) Estimated cost	₹37,20,000
	₹22,80,000

Revenue amount

Estimated cost		₹37,20,000
(-) Material sold	₹2,40,000	
Materials reused	₹7,50,000	₹9,90,000
		₹27,30,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	22,80,000	
Replacement a/c	Dr	37,20,000	
To Bank a/c			60,00,000
(Being amount spent on new work)			
Bank a/c	Dr	7,50,000	
To Replacement a/c			7,50,000
(Being sale of old materials)			
New works a/c	Dr	2,40,000	
To Replacement a/c			2,40,000
(Being value of old materials reused)			
Revenue a/c	Dr	27,30,000	
To Replacement a/c			27,30,000
(Being amount taken to revenue a/c)			

Final Accounts of Electricity Company

1. Revenue Account

Particulars	Amount	Particulars	Amount
To Cost of generation	xxx	By Sale of energy for light	xxx
" Cost of distribution	xxx	" Sale of energy for power	xxx
" Rent, rates & taxes	xxx	" Sale of energy under public Contracts	xxx
" Management exp.	xxx	" Public lights	xxx
" Law charges	xxx	" Rent receivable	xxx
" Depreciation	xxx	" Transfer fees	xxx
" Bad debts	xxx	" Other incomes	xxx
" Bal. transferred to net revenue a/c (b/f)	xxx	" Reconnection & disconnection fees	xxx
		" Sale of assets	xxx
		" Meter rent	xxx
		" Sale of current	xxx
	xxx		xxx

2. Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	xxx	By Balance from revenue a/c	xxx
" Interim dividend	xxx	" Interest on bank a/c	xxx
" Interest on security deposits	xxx	" Interest on calls in arrears	xxx
" Interest on fixed loan	xxx	" Govt. Subsidiary	xxx
" Transfer to contingency reserve	xxx	" Interest earned	xxx
" Tariff and dividend control reserve	xxx		
" Income tax	xxx		
" Bal. carried to General B/S (b/f)	xxx		
	xxx		xxx

3. Receipts and Expenditure on Capital a/c

Expenditure	Last year	CY	Total	Receipts	Last year	CY	Total
To Building	xxx	xxx	xxx	By Share capital	xxx	xxx	xxx
" Machinery	xxx	xxx	xxx	" Debentures	xxx	xxx	xxx
" Land	xxx	xxx	xxx	" Share premium	xxx	xxx	xxx
" Mains	xxx	xxx	xxx				
" Meters	xxx	xxx	xxx				
Total	xxx	xxx	xxx	Total	xxx	xxx	xxx
Bal. to General B/S (b/f)			xxx	Bal. to General B/S (b/f)			xxx
			xxx				xxx

4. General Balance Sheet

Liabilities	Amount	Assets	Amount
Total of receipts	xxx	Total of expenditures	xxx
Net revenue a/c balance	xxx	Stores on hand	xxx
Depreciation fund	xxx	Debtors	xxx
Creditors	xxx	Cash at bank	xxx
Bills payable	xxx	Bills receivable	xxx
Bank overdraft	xxx		
	xxx		xxx

14.5 FINAL ACCOUNTS OF ELECTRICITY COMPANIES

Some of the important provisions of the electricity (supply) act of 1948 which have a bearing on the preparation of final accounts are discussed below:

1. Depreciation

1. There are two methods of depreciation are recognized. They are the compound interest method and straight line method.
2. Depreciation is not provided of the asset has been written down to 10% of its original cost.
3. When a fixed asset is discarded, the written down value of the asset is transferred to discarded asset account. Any profit or loss in discarding is transferred to contingency reserve account.

2. Reasonable return

The law is not allowing electricity undertaking to earn too high profit. But a reasonable return is permitted.

Reasonable return =	An yield at standard rate (*reserve bank rate + 2% on capital base*) + income derived from investment + an amount equal to ½% on loans + an amount equal to ½% on development reserve + ½% on debentures.

3. Computation of capital base

Add:

a) Original cost of fixed assets
b) Cost of intangible assets
c) Original cost of works in progress
d) Amount of investments against contingency reserve
e) Monthly average of the stores, materials, supplies and cash and bank balances.

Less:

a) Amounts written off for depreciation
b) Loans advanced by the board
c) Debentures
d) Security deposits of consumers
e) Amount in the credit of tariff and dividends control reserve.
f) Amount set apart for development reserve.
g) Balance in consumers benefit reserve.

4. Clear profit

Clear profit means the difference between the total income and the total expenditure and specific appropriations.

5. Disposal of surplus

Surplus = clear profit – reasonable return

Surplus has to be disposed as under:

1. 1/3 of the surplus not exceeding 5% of the reasonable return is at the disposal of the undertaking.
2. Of the balance, ½ is transferred to tariffs and dividends control reserve.
3. The remaining balance is distributed among consumers.

6. Contingency reserve

This reserve is created by transferring from the revenue account an amount equivalent to minimum ¼% to maximum ½% of the original cost of the fixed assets. This reserve is created until it equals 5% of the original cost of the fixed assets.

Illustration -4 The following balances extracted from the books of City Light Supply Corporation Ltd. as on 31.3.16. Prepare capital account, revenue account, net revenue account and general balance sheet.

Particulars	**Debit `**	**Particulars**	**Credit `**
Capital Expenditure 31.3.2015	2,85,000	Equity shares	1,64,700
Capital Expenditure 2015-16	18,300	Debentures	60,000
Debtors for current supplied	12,000	Sundry Creditors	300
Other debtors	150	Depreciation account	75,000
Stores on hand	1,500	Sale of Current	39,000
Cash	1,500	Meter Rent	1,500
Cost of generation of electricity	9,000	Balance of Net Revenue account as on 31.3.2015	8,550
Cost of distribution of electricity	1,500		
Management Expenses	3,600		
Rent	1,500		
Depreciation	6,000		
Interest on debentures	3,000		
Interim dividend	6,000		

Solution

Revenue Account

Particulars	**Amount**	**Particulars**	**Amount**
To Cost of generation of electricity	9,000	By Sale of Current	39,000
“ Cost of distribution of electricity	1,500	“ Meter Rent	1,500

“ Management Expenses	3,600		
“ Rent	1,500		
“ Depreciation	6,000		
“ Bal. to Net revenue a/c	18,900		
	40,500		40,500

Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	3,000	By Bal. of net revenue a/c	8,550
“ Interim dividend	6,000	“ Bal. from revenue a/c	18,900
“ Bal. carried to B/S	18,450		
	27,450		27,450

Receipts and Expenditure on Capital Account

Exp.	Last	Current	Total	Receipts	Last	Current	Total
Capital Exp.	2,85,000	18,300	3,03,300	Equity shares	1,64,700	---	1,64,700
				Debentures	60,000	----	60,000
			3,03,300				2,24,700

General Balance Sheet

Liabilities	Amount	Assets	Amount
Sundry Creditors	300	Total of Exp.	3,03,300
Depreciation account	75,000	Debtors for current supplied	12,000
Total of receipts side	2,24,700	Other debtors	150
Bal. from net revenue a/c	18,450	Stores on hand	1,500
		Cash	1,500
	3,18,450		3,18,450

Illustration -5 The following balances are extracted from the books Sakthi Ltd. on 31st March 2016.

Debit balances	Amount in ₹	Credit balances	Amount in ₹
Land on 1-4-2015	60,000	Ordinary share capital	2,19,600
Land purchased during the year	2,000	Debentures	80,000

Machinery on 1-4-2015	2,40,000	Creditors	400
Machinery purchased during the year	2,000	Depreciation provision	1,00,000
Main on 1-4-2015	80,000	Sale of current	52,000
Main expanded during the year	20,400	Rent of motors	2,000
Debtors for current supplied	16,000	Net revenue a/c on 1-4-15	11,400
Other debtors	200		
Cash	2,000		
Cost of generation of electricity	14,000		
Cost of distribution of electricity	2,000		
Rent and taxes	2,000		
Administrative expenses	4,800		
Depreciation	8,000		
Interest on debentures	4,000		
Interim dividend paid	8,000		
	4,65,400		4,65,400

Prepare capital a/c, general balance sheet, revenue a/c and net revenue a/c.

Solution

Revenue Account

Particulars	**Amount**	**Particulars**	**Amount**
To Cost of generation of electricity	14,000	By Sale of current	52,000
" Cost of distribution of electricity	2,000	" Rent of motors	2,000
" Rent and taxes	2,000		
" Administrative expenses	4,800		
" Depreciation	8,000		
" Bal. carried to net revenue a/c (b/f)	23,200		
	54,000		54,000

Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	4,000	By Bal. b/d	11,400
" Interim dividend paid	8,000	" Bal. from revenue a/c	23,200
" Bal. carried to B/S (b/f)	22,600		
	34,600		34,600

Receipts and Expenditure on Capital Account

Expenditure	Last	Current	Total	Receipts	Last	Current	Total
Land	60,000	2,000	62,000	Eq. shares	2,19,600	–	2,19,600
Machinery	2,40,000	2,000	2,42,000	Debentures	80,000	–	80,000
Main	80,000	20,400	1,00,400				
Total	3,80,000	24,400	4,04,400	Total	2,99,600	–	2,99,600
				Bal.	80,400	24,400	1,04,800
	3,80,000	24,400	4,04,400		3,80,000	24,400	4,04,400

General Balance Sheet

Liabilities	Amount	Assets	Amount
Total of capital receipts	2,99,600	Total of capital Expenditures	4,04,400
Creditors	400	Drs for current	16,000
Net revenue a/c bal.	22,600	Other debtors	200
Depreciation fund a/c	1,00,000	Cash	2,000
	4,22,600		4,22,600

Disposal of Profits

Illustration - 6

The following balances relate to an electricity company and pertain to its accounts for the year ended 31.12.2013.

Share capital	1,00,00,000
Reserve Fund (invested in 5% Govt. securities at par)	60,00,000
Contingencies Reserve (Invested in 6% State Govt.Loan)	20,00,000
Loan from State Electricity board	30,00,000
11% Debentures	8,00,000
Development Reserve	10,00,000
Fixed Assets	20,00,000
Depreciation Reserve on Fixed Assets	80,00,000
Consumer Deposits	75,00,000
Amount Contributed by consumers towards cost of Fixed assets	
Intangible assets	2,00,000
Tarrifs and Dividends control reserve	5,00,000
Current Assets (Monthly average)	6,00,000
	20,00,000

The company earned a profit of Rs.9 lakhs. Show how the profits of the company will be delat with under the provisions of the electricity act, assuming that the bank rate during the year was 8%. All working should form part of your answer.

Solution:

I Computation of Capital Base:		
Fixed assets		2,00,00,000
Intangible Assets		5,00,000
Monthly Average of Current Assets		20,00,000
Investments against Contingency reserve		20,00,000
		2,45,00,000
Less:		
Depreciation reserve	80,00,000	
Loan from state electricity board	30,00,000	
11% Debentures	8,00,000	
Development Reserve	10,00,000	
Consumer deposits	75,00,000	
Amount Contributed by Customers	2,00,000	
Tarrifs and dividend control Reserve	6,00,000	
		2,11,00,000
Capital base		34,00,000

II Computation of Reasonable return:	
Return on capital base @ 10%	
(ie RBI Rate 8% + 2%)=10% × 34,00,000	
Return on reserve fund Investment	3,40,000
(60,00,000 × 5%)	
½ on Electricity Board Loan	3,00,000
(30,00,000× ½%)	
½ % on debentures (8,00,000 × ½ %)	15,000
½% On development Reserve (10,00,000 × ½%)	4,000
Reasonable return	5,000
	6,64,000
III Computation of surpklus and Amount Refundable to consumers:	
Clear profit (Given)	
Less: Reasonable Return	9,00,000
Surplus	6,64,000
Less: 20% of Reasonable return	
(6,64,000 × 20%)	2,36,000
Amount Refundable to customers	1,32,800
IV Computation of Disposal of balance surplus of Rs.1,32,800	1,03,200
A. Availablity to the company for its disposal: 1/3 ×1,32,800 or 5% of Reasonable Return	
Whichever is less (6,64,000×5%)	
44,267 (or) 33,2000 (W.E.L)	
B. Credited to tariffs and Dividend	33,200
Control Reserve (1,32,800-33,200): 99,600×1/2	
C. Credited to consumers benefit Reserve	49,800
(1,32,800-33,2000)= 99,600×1/2	
	1,32,800
Total	
V Computation of total amount at the disposal of the company:	
Reasonable return	6,64,000
Add: Share in surplus	33,200
	6,97,200

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Under double accounts system, ------ are recorded in general balance sheet
   a) **Current assets and current liabilities**
   b) Fixed assets and fixed liabilities
   c) Fixed liabilities and current liabilities
   d) Fixed assets and current assets

2. Under double accounts system, fixed assets and fixed liabilities are recorded in ---------
   a) General balance sheet b) **Receipts and Expenditure on Capital a/c**
   c) Revenue a/c d) Net Revenue a/c

3. Revenue a/c is just like -------
   a) **P & L a/c** b) P & L Appropriation a/c
   c) Net revenue a/c d) Balance sheet

4. Net Revenue a/c is just like -------
   a) P & L a/c b) **P & L Appropriation a/c**
   c) Net revenue a/c d) Balance sheet

5. Under double accounts system, fixed assets are shown at
   a) **Cost price** b) Depreciated price
   c) Realized value d) Market value

6. Interest on loan appears on
   a) General balance sheet b) Receipts and Expenditure on Capital a/c
   c) Revenue a/c d) **Net Revenue a/c**

7. Balance of net revenue a/c is transferred to
   a) **General balance sheet** b) Receipts and Expenditure on Capital a/c
   c) Revenue a/c d) Net Revenue a/c

8. When old materials are sold ------- a/c is to be credited
   a) Bank b) **Replacement**
   c) New works d) Materials

9. Balance if any on replacement a/c is transferred to
   a) General balance sheet b) Reserve a/c
   c) **Revenue a/c** d) Net Revenue a/c

10. Cost of license is shown in the
    a) General balance sheet
    b) Receipts and Expenditure on Capital a/c
    c) Revenue a/c
    d) Net Revenue a/c

11. Cost of new work ₹3,00,000; Estimated cost Rs.1,00,000; Find the amount to be capitalized
    a) ₹4,00,000
    b) **₹2,00,000**
    c) ₹1,00,000
    d) ₹3,00,000

12. Amount to be taken to revenue a/c is equal to
    a) Estimated cost
    b) Estimated cost plus sale of old materials
    c) **Estimated cost minus old materials reused**
    d) Estimated cost plus old materials reused

13. Estimated cost is equal to
    a) Cost of old work
    b) Cost of new work
    c) **Cost of old work with adjustments if any**
    d) Cost of new work with adjustments if any

14. In general balance sheet, depreciation is recorded in
    a) Assets side
    b) **Liability side**
    c) Receipts side Expenditure side
    d) Less from assets

15. The way of presentation of balance sheet in the form of a capital account and a general balance sheet is known as
    a) Double entry system
    b) **Double accounting system**
    c) Single accounting system
    d) Single entry system

16. The original cost of an asset is ₹1,00,000. Present cost of replacement is ₹1,30,000. Amount spent on replacement is ₹1,52,000. The amount chargeable to revenue will be
    a) ₹30,000
    b) **₹22,000**
    c) ₹52,000
    d) ₹12,000

17. Under double accounts system interest is debited in
    a) Revenue account
    b) **Net revenue account**
    c) General balance sheet
    d) P & L a/c

18. Under double accounts system, the account prepared to find out profit is
    a) **Revenue account**
    b) General balance sheet
    c) P & L a/c
    d) Trading account

19. The difference between the replacement cost and sale price of goods is ---------

a) Holding gain b) Operating gain
c) Capital gain d) Revenue gain

20. Under double accounts system interest is debited in

a) Revenue a/c **b) Net revenue a/c**
c) General balance sheet d) P & L a/c

21. Under double accounts system to find out the profit the a/c prepared is

a) Revenue a/c b) Trading a/c
c) General balance sheet d) P & L a/c

22. Under double account system, the P & L a/c is termed as --------

a) Income and Expenditure a/c b) Net revenue a/c
c) Revenue a/c d) Capital a/c

23. When an asset is replaced, any amount realized on sale of old materials will be

a) Credited to replacement a/c b) Credited to asset a/c
c) Credited to revenue a/c d) Debited to revenue a/c

24. Preliminary expenses is shown on

a) Asset side in the general balance sheet
b) Debit side of net revenue a/c
c) Debit side of the receipts and expenditure a/c
d) Credit side of the receipts and expenditure a/c

REVIEW QUESTIONS

A) Answer in short

1. What is called double account system?
2. Write any two advantages of double account system.
3. What are the limitations of double account system?
4. How do you compute the amount to be charged to revenue account in case of replacement of an asset?
5. State the rules relating to calculation of reasonable return.
6. What are the provisions relating to 'Disposal of surplus?

B) Answer in detail

1. Explain how will you calculate the value of replacement of asset.
2. Distinguish double account system from single account system.
3. Discuss the advantages and disadvantages of double account system.
4. Bring out the format of "Revenue a/c" of an electricity supply company.
5. Explain how depreciation is treated under the double account system.
6. Briefly explain the provisions relating to reasonable return and disposal of surplus of an electric supply company.
7. Write short notes on
   i. Clear profit
   ii. Contingency reserve
   iii. Capital base

EXERCISES

REPLACEMENT OF ASSET

1. A water supply concern had to replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was ₹8,00,000; the auxiliary main cost ₹9,00,000 and the new main cost ₹3,50,000. It is estimated that cost of laying a main has gone up by 30%. Parts of the old main realized ₹15,000.

   Pass the necessary journal entries to record the above transactions.

2. Milan Co. Ltd. rebuilds its works at a cost of ₹3,30,000. In the process, it completely replaces a part of the old works which had cost ₹1,30,000. In constructing the new works old materials worth `4,600 has been used and the value is included in the cost of new works. The balance of the materials resulting from the old works which are replaced is sold for ₹8,400. In the case of works which are replaced the cost of materials was 70% and of labour 30% and the present cost of material and labour have increased by 12% and 15% respectively.

   Assuming the accounts are maintained under the double account system determines the amount to be capitalized and the net charge to revenue and pass journal entries.

3. A railway station was built in 2001 at a cost of ₹3,00,000. It was replaced in 09 by a new railway station at a cost of ₹16,00,000. Since 2001 prices of materials have raised by 150% and labour rates have tribled. The proportion of materials and labour in the old station was 2:3. Old

materials valued at ₹25,000 are used in the construction of new station and included in the cost of ₹16,00,000. ₹42,000 are realized by the sale of old material.

Give journal entries for recording the above transactions.

4. An Electric Supply Co. rebuilds its main at a cost of ₹19,90,000. This excluded value of ₹13,800 material used for new one. The original mains were constructed at a cost of ₹9,90,000. The ratio of material and labour then was 7:3. The increase in material price is 12.5% and wage rates 15%. Materials worth ₹22,200 from old works were sold.

   Show journal entries and prepare works and replacement account under double account system for the above and determine net replacement cost.

5. Electricity Company decides to replace one of its plants with a modern one with a large capacity. The plant when installed in 1970 costs the company ₹12 Lakhs, the components of materials, labour and overheads being 5:3:2. It is assumed that the cost of materials and labour have gone up by 40% and 80% respectively. The proportion of the new plant as per improved design is ₹30 Lakhs and in addition material recovered from the old plant of a value of ₹1,20,000 has been used in the construction of the new plant. The old plant was sold for ₹3,75,000.

   Indicate how much would be capitalized and the amount that would be charged to revenue. Show journal entries.

6. A gas company laid down a main at a cost of ₹15,00,000. Some years later, an auxiliary main was laid for a quarter of the length of the old main at a cost of ₹5,00,000 and replaced the rest of the main at a cost of ₹18,00,000, the cost of laying the main having increased by 20% in the meanwhile. Old material of the value of ₹1,00,000 was used in replacing and is included in the cost of ₹18,00,000 and old material sold fetched ₹1,50,000.

   Give journal entries to record the above in the books of the company and give the principle on which allocation between capital and revenue is made.

7. An electricity company laid down a main at a cost of ₹2,50,000. Some years later, the company laid down an auxiliary main for $1/5^{th}$ of the length of the old main at a cost of ₹75,000 and also replaced the rest of the length of the old main at a cost of ₹3,00,000. Sale of old materials realized ₹4,000. Old materials valued at ₹5,000 were used in the construction of the auxiliary main.

   Calculate revenue and capital expenditure incurred from the above transaction.

8. The Indian Gas company rebuilt their works with double the capacity at a cost of ₹8,00,000. The cost of the part of old works was ₹3,50,000. In working the new works, old material of ₹15,000 was reused and materials worth ₹25,000 were sold away. The cost of labour and materials are 50% higher now than when the old works were built.

   Pass necessary journal entries.

9. An electric company laid a main at a cost of ₹50 Lakhs. Some years later, the company laid down an auxiliary main for 1/5 of the length of the old main at a cost of ₹15 Lakhs. It also replaced the rest of the length of the old main at a cost of ₹60 Lakhs. The cost of materials and labour having gone up by 15% sale of old materials realized ₹80,000 old materials is valued at ₹1,00,000 were used in renewal and those valued at ₹50,000 were used in the construction of auxiliary main.

   You are required to give the journal entries for recording the above transactions.

10. The directors of the New Cinema Ltd., having received complaints from their engineer regarding the defective audiography of their cinematographic machinery decided to replace it by one of greater capacity and power. The old machinery was obtained at the cost of ₹20,000/- but the cost has in the meantime increased by 50% in the aggregate. The estimated cost of the new machinery ₹50,000/- and the old machinery would realise ₹5,000 only.

    You are required to allocate the cost of ₹50,000/- between capital and revenue expenditure and to give the necessary journal entries for recording the above transactions in the books of the company.

11. An Electric Supply Co. rebuilds its Mains at the cost of ₹19,90,000/- This includes value of ₹13,800/- Material of old Main used for new one. The original Mains were constructed at a cost of ₹9,90,000/- The ratio of material and labour was 7:3. The increase in material prices is 12.5% and wage rates 15%. Materials worth ₹25,200/- from old works were sold.

    Show journal entries under Double Account System for the above and determine the net cost of replacement.

12. The Calcutta Electric Co. Ltd. decides to replace a plant which was constructed 20 years back at the cost of ₹15,00,000 by an improved one. The cost of the new plant is ₹65,00,000. Materials of the old plant valued at ₹1,00,000 are used in the reconstruction and included in the cost of ₹65,00,000. Balance of the materials of the old plant is disposed of for ₹50,000. The estimated cost of constructing a plant of the original size and capacity is ₹25,00,000.

    Show how the expenditure should be apportioned between capital and revenue.

13. Kalyani Water Works Co. Ltd. Decides to replace an old plant with a modern one with larger capacity. The cost of the plant when installed in 1970 was ₹24,00,000 the components of materials, labour and over heads being in the ratio 5:3:2. It is ascertained that the costs of materials and labour have gone up by 40% and 80% respectively. The proportion of overheads to total cost is expected to remain the same as before.

    The cost of the new plant as per improved design is ₹60,00,000 and in addition, materials of the old plant worth ₹2,40,000 have been used in the construction of the new plant. The old plant was scrapped and sold for ₹7,50,000. The accounts of the company are maintained under Double Account System.

    Determine the about to be capitalised and the amount to be charged to revenue. Also Show the Journal Entries.

14. Calcutta Gas Co. Ltd. rebuilds its works at the cost of ₹3,30,000. In the process, it completely replaces a part of the old works which had cost ₹1,30,000, In constructing the new works, old materials worth ₹4,600 have been used and the value is included in the cost of the new works. The balance of the materials resulting from the old works, which are replaced, is sold for ₹10,000. In the cost of the works which are replaced, the cost of material was 70% and of labour 30% and the present cost of material and labour have increased by 12.5% and 15% respectively.

    Assuming the accounts are maintained under Double Account System, determine the amount to be capitalised and the net charge to revenue.

15. The National Gas Co. Ltd., incurred an expenditure of ₹7,70,000/-to rebuild and re-equip a part of their works. The part of the old works thus superseded cost originally ₹3,00,000/- The capacity of the new works is double the capacity of the old one. A sum of ₹60,000 is realised by sale of the old materials; and old materials of the value of ₹30,000/- are further used in the construction of the new works. The cost of materials and labour has gone up by 30% and 20% respectively since the old works were built. The cost constitutes 3/5th materials and the balance labour.

    Give journal entries to record the above transaction.

16. The Oriental Gas Co. Ltd. incurred an expenditure of ₹23,10,000/- to re-build a part of their works. The relevant part of the old works had cost originally ₹9,00,000/- The capacity of the new works is double the capacity of the old one. A sum of ₹1,80,000/- is realised by the sale of old materials; and old materials of the value of ₹90,000 are further used in the construction of the new works. The cost of materials and labour has gone up by 30% and 20% respectively since the old works were built. The cost constitutes 3/5th for materials and the balance for labour.

    Show journal entries to record the above transactions.

17. An electricity company laid down a main at a cost of ₹5,00,000. Some years later, the company laid down an auxiliary main for one-fifth of the length of the old main at a cost of ₹1,50,000. It also replaced the rest of the length of the old main at a cost of ₹6,00,000 the cost of materials and labour having gone up by 15%. Sale of old materials realised ₹8,000/- .Old materials valued at ₹10,000 were used in renewal and those valued at ₹5,000 were used in the construction of the auxiliary main.

    You are required to give the journal entries for recording the above transactions.

18. The ABC Electricity Company decided to replace some parts of its plant by an improved plant, The plant to be replaced was built in 1958 for ₹27,00,000. It is estimated that it would now cost ₹40,00,000 to build a new plant of the same size and capacity. The cost of the new plant as per the improved design was ₹85,00,000 and in addition material belonging to the old plant valued at ₹2,75,000 was used in the construction of the new plant. The balance of the plant was sold for ₹1,50,000.

    Compute the amount to be written off to revenue.

19. An Electricity Company laid down a Main at a cost of ₹16,00,000. Some years later the company laid down an auxiliary Main for one-fourth of the old main at a cost of ₹6,00,000. It also replaced the rest of the length of the old Main at a cost of ₹18,00,000, the cost of material and labour having gone up by 15%. Sale of old materials realised ₹40,000. Old materials valued at ₹40,000 were used in renewal and those valued at ₹60,000 were used in Auxiliary Main.

    Show the Journal Entries for recording the above transactions.

PREPARATION OF FINAL ACCOUNTS

20. From the following particulars for the year ended December 31,2015 prepare, under the Double Account System, the (i) Receipts and Expenditure on Capital Account and (ii) General Balance Sheet of an Electric Supply Company.

Debit	**₹**	**Credit**	**₹**
Instruments and Appliances	64,000	Equity shares of ₹1,000 each, ₹800 per share paid up	48,00,000
Freehold Lands	9,00,000	6% Debentures	14,00,000
Plant and Machinery	23,35,000	Depreciation Fund	5,00,000
Mains	4,60,000	Sundry Creditors	1,70,000
Sundry Machine Room Materials	10,000	Balance of Net Revenue Account	6,80,000
Meters	40,000		
Building	12,00,000		
Office Furniture	30,000		
Fuel	45,000		
Sundry Machine Parts	50,000		
Sundry Debtors	3,50,000		
Investments	9,00,000		
Cash in hand and at Bank	7,90,000		
Stock of General Stores	3,76,000		
	75,50,000		75,50,000

21. The following are the balances on 31-12-16 in the books of Dhoopguri Power Supply Co. Ltd.:

Debit	**₹**	**Credit**	**₹**
Land on 31.12.15	3,00,000	Equity share capital	10,98,000
Outlay on land during 2016	10,000	Debentures	4,00,000

Machinery on 31.12.15	12,00,000	Sundry Creditors	2,000
Outlay on Machinery during 2016	10,000	Depreciation Reserve	5,00,000
Mains including cost of laying on 31/12/15	4,00,000	Sale of Current	2,60,000
Outlay on Mains during 16	1,00,000	Rent of Meters	10,000
Sundry debtors for current supplied	80,000	Balance of Net Revenue Account on 31/12/15	57,000
Other debtors	1,000		
Cash	12,000		
Cost of generating electricity	70,000		
Cost of distributing electricity	10,000		
Rent rates and taxes	10,000		
Management expenses	24,000		
Depreciation	40,000		
Interest on Debentures	20,000		
Interim Dividend	40,000		
	23,27,000		23,27,000

From the above Trial Balance, prepare (a) Capital Account, (b) General Balance Sheet, (c) Revenue Account and (d) Net Revenue Account.

22. The following are the balances taken from the books of Guntur Power and Light Company of 31-12-2015 and 31-12-2016.

31-12-15		**Debit (₹)**	**Credit (₹)**
1,00,000	Share capital	–	1,25,000
75,000	Debentures	–	75,000
5,600	Depreciation fund	–	5,000
	Calls in arrears	5,000	–
46,500	Freehold land	46,500	
20,000	Building	25,000	
30,000	Machinery	50,000	
25,000	Mains	40,000	

5,000	Transformer	10,000	
2,500	Meters	7,500	
1,500	Electrical materials	2,000	
10,250	Office furniture	13,000	
	Coal	9,500	
	Oil, fuel	3,750	
	Coal stock	500	
	Repairs	2,500	
	Taxes	1,500	
	Salary	7,500	
	Directors fees	15,000	
	Stationary	3,000	
	Sundry expenses	500	
	Law charges	1,000	
	Sale of meters		43,750
	Meter rent		1,500
	Creditors		5,000
	Debtors	20,000	
	Cash	16,500	
	Sales		25,000
		2,80,250	2,80,250

Depreciation: Building 5%, Machinery 10%, Main 5%, Transformers 10% and Meter 20%.Prepare final accounts.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Ratnakar Electricity Supply. Co.Ltd (which adopts the double accounting system) rebuilt and reequipped A power station and connecting lines during the year 2004.

   For the purpouse they purchased materials of Rs.10,85,000 and used stores worth Rs. 4,90,000 from their exisisting stock. The cost of Labour came to Rs. 5,22,000. The estimated supervisory overheads attributed to this project were Rs.13,000.the station was erected in 1987 at a cost of Rs.5,00,000 and the index of costs in the line stood in 2004 @385 taking 1987 as the base year. Discarded materials from the Old station fetched Rs.12,000. Show the journal entries to record the entries relating to new station.

   [Madurai, M.Com, Nov,2015]

2. A water supply concern had to replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was Rs. 4, 00,000. The auxiliary main cost Rs. 4, 50,000 and the new main cost Rs. 1,75,000. It is estimated that the cost of laying a main has gone up by 30%. Part of the old main realized Rs. 15,000.

   [Madras, B.Com. (CS). Nov. 20081 Bharathiar, B.Com., Nov. 2004

   [Ans : Amount to be charged to revenue Rs. 1,15,000 ; Amount to be capitalized Rs. 4,95,000 (45,000 + 4,50,000)]

3. The Indian Gas company rebuilt their works with double the capacity at a cost of Rs. 8,00,000. The cost of the part of old works was Rs. 3,50,000. In working the new works, old material of Rs. 15,000 was reused and material worth Rs. 25,000 was sold away. The cost of labour and materials are 50% higher now than when the old works were built. You are required to make necessary calculations and give journal entries.

   (Madras, M.Com. (ICE) Oct. 2004;)

   [Ans : Current Replacement cost Rs. 5,25,000 ; Amount to be charged to Revenue Rs. 4,85,000 ; Amount to be capitalised Rs. 2,75,000]

4. The following are the balances as at 31.12.03 in the books if the Utopian Railway Co. Ltd. Make out the Receipts and Expenditure on Capital A/c for the year 2003 and the General Balance Sheet as at 31.12.03.

	Rs.
Traffic accounts due from other Railways	1,31,900
Expenditure on lines open for Traffic	2,88,000
Expenditure on working Stock	96,000
Expenditure on Motor Boats	48,000
Expenditure on docks, harbors and wharves	45,000

Subscription to other companies	30,000
Preference Shares paid up as at 31.12.03	2,55,000
Ordinary Shares paid up as at 1.1.03	2,40,000
Ordinary shares issued in 2003 and paid up	60,000
Premium on shares as at 1.1.03	16,500
Premium on shares received in 2003	6,600
Debentures	99,000
Net Revenue A/c, balance at credit	860
Renewals Reserve A/c	7,500
Sundry creditors	3,750
Cash at bank	4,110
Cash on deposit in bank.	13,500
Investment	8,700
Spares Stock	7,500
Sundry Debtors	16,500

[Madurai, B.Com., Ap 2003]

[Ans : Capital A/c Balance Rs. 1,70,100 ; General Balance Sheet total Rs. 1,82,210]

5. From the following particulars for the year ending 31.12.03, prepare under the Double Account System, the

   a. Receipts and Expenditure on capital, and (ii) General Balance Sheet of an Electric Supply company :

	Debit Balances Rs.	Credit Balances Rs.
Capital : Authorised : 10,000 equity shares of Rs. 1000 each Rs. 1,00,00,000 ; issued, subscribed and paid up : 6000 equity shares of Rs. 1000 each (Rs. 800 per share paid up)		48,00,000
6% Debentures	–	14,00,000
Depreciation Fund	–	5,00,000
Buildings	12,00,000	–
Freehold lands	9,00,000 .	–

Plants & Machinery	23,35,000	–
Mains	4,60,000	–
Sundry Machine Parts	50,000	–
Meters	40,000	–
Instruments and Appliances	64,000	–
Stock and General Stores	3,76,000	–
Office Furniture	30,000	–
Fuel	45,000	–
Sundry machine Room Materials		–
(Lubricants, Jute, Waste, etc.)	10,000	–
Sundry Debtors	3,50,000	–
Sundry Creditors	–	1,70,000
Investments	9,00,000	–
Cash in Hand and at Bank	7,90,000	–
Balance Transferred from Net Revenue A/c	–	6,80,000
	75,00,000	75,50,000

[Periyar,B.Com,2003]

[Ans : Balance of Capital A/c Rs. 7,45,000 ; Total of General Balance Sheet Rs. 75,50,000]

6. From the following as at 31-3-2000, prepare the Revenue A/c. Net Revenue A/c, Capital A/c and General Balance Sheet of KPTC Ltd. :

	Rs.		**Rs.**
Balance as on 1-4-99 :		Expenses of management	14,400
Land	1,80,000	Cost of distribution	6,000
Machinery	7,20,000	Depreciation	24,000
Mains	2,40,000	Sale of Power	1,56,000
Expenditure during the year :		Meter rent	6,000
Land	6,000	Interest on debentures	12,000
Machinery	6,000	Interim dividend	24,000
Mains	61,200	Net Revenue A/c	
Share Capital		as on 1-4-99	34,200

— Ordinary shares	6,58,800	Depreciation fund	3,00,000
Debentures	2,40,000	Sundry Debtors :	
Sundry Creditors	1,200	for energy supplied	48,000
Cost of generation	42,000	for others	600
Rent, Rates and Taxes	6,000	Cash balance	6,000

[Madras, B.Com., April 2000]

[Ans : Revenue A/c Balance Rs. 69,600; Net Revenue A/c Balance Rs. 67,800; Capital A/c Balance Rs. 3,14,400; General Balance Sheet total Rs. 12,67,800]

APPENDIX – A

PREVIOUS YEAR UNIVERSITY QUESTION PAPERS

MADRAS UNIVERSITY

MAY 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What do you understand by issue of shares at premium?
2. What is absorption?
3. What is a Debenture?
4. State the methods of valuation of shares.
5. What do you mean by Inflation Accounting?
6. What do you understand by 'Minority Interest'?
7. X Ltd purchased assets worth Rs. 5,40,000 and the consideration was payable in fully paid shares of Rs. 10 each at a discount of 10% pass necessary journal entries.
8. Ram Ltd was in corporated on 1st May 2000 to take over the business of Raheem and Co with effect from 1-1-2000. While preparing final accounts on 31.12.2000, It was observed that the sales on the second half of the year were double to those in first half, on a monthly average basis find out Sales Ratio.
9. From the following particulars calculate the value per equity share :

75,000 equity shares of Rs. 10 each, Rs. 8 per share paid up	Rs. 6,00,000
Profit available for equity dividend	

10. On 31.12.1996 Popular Bank Ltd held the following bills discounted at 5%

Amount in Rs.	Due Date
50.000	31.1.1997
40.000	30.4.1997
30.000	3.3.1997

    Calculate rebate on bills discounted, assuming that accounts are closed on 31st December.

11. A Life Insurance company showed its Life Assurance fund as Rs. 28,35,000 on 31.12.1987 before taking into account the following items :

	Rs.
Interest accured on Investments	20,000
Reinsurance claims revocable	7.000
Bonus in reduction of premium	3.000

Show the adjusted Life Fund.

12. The liquid for a company is entitled to get a remuneration of 3% on the amount realized from the assets and 2% on the amount distributed to unsecured creditors from the following particulars, calculate the remuneration payable :

	Rs.
Cash realised from assets	3,00,000
Preferential creditors	10,000
Amount due to unsecured creditors	4,00,000

Answer any FIVE questions.

All questions carry equal marks.

13. A Ltd., forfeited 20 shares of Rs. 10 each Rs. 7 called up, on which Mr. Gopal had paid application and allotment money of Rs. 5 per share. Of these, 15 shares were reissued to Mr. Ramesh as fully up for Rs. 6 per share. Give necessary journal entries.
14. A company issued 10,000 equity shares of Rs. 10 each at par. The issue was underwritten by Swami and Co. for one maximum commission permitted by law. The public had applied for and received 8000 shares. Give necessary journal entries in the books of the company.
15. From the following particulars, determine the maximum remuneration available to a fulltime director of a manufacturing company.

	Rs.
Net profit shown by P and L a/c after taking into account the following items	40,00,000
Depreciation (including special depreciations of Rs. 40,000)	1,00,000
Provision for Income tax	2,00,000
Donation for political parties	50.000
Ex-gratia payment to a worker	10,000
Capital profit on sale of assets	15,000

16. From the following information calculate the value of goodwill on the basis 3 years purchase of super profit.
    a) Average capital employed in the business is Rs. 20,00,000
    b) Normal Rate of Return in the business is 10%

c) Net profit for the past three years were Rs. 3,50,400, Rs, 2,80,300 and Rs. 3,10,100.

d) Salaries to partners Rs. 48,000

17. A Ltd, agreed to purchase B Ltd., and to discharge consideration by issue of shares of Rs. 10 each

	A	B		A	B
Shares of Rs. 10 each	4,00,000	8,00,000	Shares in B Ltd	30,000	–
Creditors	1,00,000	2,00,000	Sundry assets	4,70,000	10,00,000
	5,00,000	10,00,000		5,00,000	10,00,000

Prepare the revised balance sheet of A Ltd.

18. State the 'Preferential Creditors' as the event of liquidation of a company.

19. Write short notes on :

    Non banking assets and

    Non-performing assets.

20. What is meant by reinsurance? How is it helpful to Insurance Companies?

Answer any TWO questions.

All questions carry equal marks.

21. Moon and Star Co Ltd., is a company as authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.1985 of which 2500 shares were fully called up. The following is the total balance as at 31.12.1985 :

Capital balances	Rs.	Credit balances	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	Profit and loss a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance (upto 1.3.86)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing director	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisements	3,800		

Bonus	10,500
Debtors	38,700
Plant	1,80,500
Furniture	17,100
Bank	34,700
Bad debts	3,200
Calls-in-arrears	5,000
6,60,270	6,60,270

You are required to prepare profit and loss account and balance sheet as on 31.12.1985 after taking into account the following adjustments :

a) Closing stock was valued at Rs. 1,91,500

b) Depreciate plant by 15% and furniture by 10%

c) Provide for income tax Rs. 8,000

d) The directors declared on interim dividend 15.8.85 at 6%.

22. The following is the balance sheet of Balan Ltd on 31.12.98 :

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	8,00,000	Fixed Assets	10,00,000
Profit and Loss a/c	40,000	Current Assets	4,00,000
Reserves	1,80,000	Goodwill	80,000
5% Debentures	2,00,000		
Current liabilities	2,60,000		
	14,80,000		14,80,000

On 31.12.1998 the fixed assets were valued at Rs. 7,00,000 and the goodwill at Rs. 1,00,000. the net profit for the three years were : 1996- Rs 1,03,200, 1997 Rs.1,04,000 and 1998-Rs. 1,03,300 of which 20% was placed to reserve and a fair return on investment may be taken at 10% compute the value of share of the company by

a) the net asset method and
b) the yield method.

23. From the data relating to a company which had gone into voluntary liquidation, you are asked to prepare the liquidators final statement of accounts :

a) Cash with liquidator (after all assets are realised and secured creditors and debenture holders are paid) is Rs. 6,73,800

b) Preferential creditors to be paid is Rs. 30,000

c) Other unsecured creditors Rs. 2,15,000

d) 4,000, 6% pref shares of Rs. 100 each, fully paid

e) 2000 equity shares of Rs. 100 each, Rs. 75 per share paidup.

f) 6000 equity shares of Rs. 100 each, Rs. 60 per share paidup.

g) Liquidator's remuneration 2% on preferential and other unsecured creditors.

h) Preference dividends were in arrears for 2 years.

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Shares of Rs. 10 each	6,00,000	2,00,000	Machinery	3,00,000	1,00,000
General Reserve	1,50,000	70,000	Furniture	70,000	45,000
Profit and Loss A/c	70,000	50,000	Stock	1,75,000	1,89,000
Creditors	90,000	60,000	Debtors	55,000	30,000
			Cash	50,000	10,000
			Preliminary expenses	–	6,000
			70% shares in S Ltd at cost	2,60,000	
	9,10,000	3,80,000		9,10,000	3,80,000

H Ltd acquired the shares of S Ltd. On 30.6.1994, On 1.4.1994, S Ltd's general reserve and profit and loss a/c stood at Rs. 60,000 and 20,000 respectively, No part of the preliminary expenses was written off in the year ended 31.3.1995.

Prepare consolidated balance sheet of H Ltd and its subsidiary S Ltd as on 31.3.95.

MAY 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. The trial balance of Bharat Bank Ltd. as on 31st March 2009 shows the following. Prepare profit and loss a/c for the year ended 31.3.2009.

	Rs.
Interest earned	10,10,000
Other incomes	1,25,000
Interest expended	4,15,000
Operating expenses	1,65,000
Retained profit on 1.4.2008	1,00,000

Bad debts written off amounted to Rs. 55,000. Provision for taxation to be made at 50%.

2. A Life Assurance Company prepared its Revenue account for the year ended 31st March 2009 and ascertained its life assurance fund to be Rs. 56,70,000. It was found latter that the following had been omitted from the accounts :

    a) Interest accrued on investments Rs. 78,000 income tax liable to be deducted estimated to be Rs. 21,000.

    b) Outstanding premium Rs. 65,600.

    c) Bonus utilised in reduction of premium Rs. 13,500.

    d) Claims intimated but not admitted Rs. 34,800.

    e) Claims covered under re-insurance Rs. 13,000.

    Ascertain the true life assurance fund.

3. A company has 4,000, 7% redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on December 31, 2009 at a premium of 5%. The company has sufficient profits. The following issues are made for the redemption purpose :

    a) 1000 equity shares of Rs. 100 each at a premium of 10%

    b) 1000 5% debentures of Rs. 100 each

    The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries.

4. The following scheme of reconstruction was approved by X Ltd.

    a) The shareholders to receive in lieu of their present holding of 50,000 shares of Rs. 10 each, the following :

        (i) Fully paid ordinary shares equal to 2/5 of their holdings

(ii) 5% preference shares to the extent of 1/5 of the above ordinary shares

(iii) Rs. 60,000, 6% debentures.

b) The goodwill which stood at Rs. 3,00,000 was written down to Rs. 1,50,000.

c) Plant and buildings were written down by Rs. 20,000 and Rs. 30,000 respectively.

d) Give Journal entries.

5. From the following particulars, prepare fire revenue a/c for the year 2009 :

	Rs.
Claims Paid Premiums received	12,00,000
Re-insurance premium	1,20,000
Commission	2,00,000
Management expenses Fire	3,00,000
Insurance Fund (1.1.2009)	5,20,000
Claims unpaid on 1.1.2009	40,000
Claims unpaid on 31.12.2009	70000

Make provision against fire fund at end @ 50% of net premium.

6. Distinguish between CPP and CCA methods of Inflation accounting.

7. Explain the common transactions to be eliminated while preparing the consolidated balance sheet.

8. What are the conditions for redemption of preference shares?

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. A company issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 per share. These shares were payable as follows :

On application : Rs. 2

On allotment Rs. 5 (including premium)

On first and final call Rs. 5.

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. Out of these shares, 400 were reissued at Rs. 8 per share as fully paid.

Give the Journal entries and prepare the balance sheet of the company.

10. Sun Ltd. was incorporated on 1.8.2009. It took over the business of Moon Ltd. with effect from 1.4.2009. From the following particulars relating to the year ending 31.3.2010, find out

profit prior to incorporation and after incorporation. Sales for the year were Rs. 60 lakhs and pre-incorporation sales of Rs. 25 lakhs. Gross profit for the year was Rs. 18 lakhs.

Expenses debited to Profit and Loss a/c :

	Rs.
Rent	90,000
Salaries	1,50,000
Directors fees	38,000
Interest on debentures	60,000
Audit fees	15,000
Discount on sales	36,000
Depreciation	2,40,000
General expenses	48,000
Advertising	1,80,000
Printing and Stationary	36,000
Commission on sales	60,000

Interest to vendors on purchase consideration Rs. 30,000 (upto 1.10.2009)

11. Authorised capital of Vijay Ltd is Rs. 5,00,000 (50,000 shares of Rs. 10 each). On 31.12.2009, 25,000 shares were fully called up on 31.12.2009, the following balances taken from the ledger of the company.

	Rs.
Opening stock	50,000
Sales	4,25,000
Purchases	3,00,000
Wages	70,000
Discount allowed	4,200
Discount received	3,150
Insurance (paid upto 31.3.10)	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Printing and stationary	2,400
Advertising	3,800
Bonus	10,500
Sundry debtors	38,700

Sundry creditors	35,200
Plant and Machinery	80.500
Furniture	17,100
Cash and bank	1,34,700
Reserve	25,000
Loan from M.D.	15,700
Bad debts	3,200
Calls in arrears	5,000
Profit and Loss a/c (cr)	6,220

Additional information's were furnished :

a) Closing stock Rs. 91,500.

b) Depreciation on plant and machinery furniture @ 15% and 10% respectively.

c) Wages, salaries and rent outstanding amounts to Rs. 5,200, Rs. 1,200 and Rs. 600 respectively.

d) Dividend @ 5% on paid up share capital is to be provided. Prepare final accounts of the company.

12. Siva Ltd Voluntarily liquidated on 31.12.2009. Information available to liquidator :

Rs.

Sundry creditors 75,660 (included preferential creditors Rs. 8,000)

6% debentures 80,000 (having floating charge)

Debentures are redeemed on 30.6.2010

Debentures interest already paid upto 30.6.2009.

Assets realised :	Rs.
Stock	84,000
Machinery	60,600
Cash in hand	500
Liquidation expenses	1,902

Liquidator's remuneration : 3% on assets realised, 2% on amount paid to unsecured creditors. Prepare Liquidator's final statement of account.

13. From the balance sheets and information given below, prepare consolidated balance sheet.

Balance Sheet as on 31.12.2009

	H Ltd Rs.	S Ltd Rs.		H Ltd Rs.	S Ltd Rs.
Share capital :			Sundry assets	8,00,000	1,20,000
Rs. 10 fully paid	10,00,000	2,00,000	Stock	6,10,000	2,40,000
Profit and loss a/c	4,00,000	1,20,000	Debtors	1,50,000	1,70,000
Reserve	1,00,000	60,000	Bills receivable	10,000	–
Creditors	2,00,000	1,20,000	Shares in S,		
Bills payable	–	30,000	15,000 at cost	1,50,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

a) All the profit of S has been earned since the shares were acquired by H, but there was already the reserve of Rs. 60,000 at that date.

b) The bills accepted by S Rs. 10,000 are in favour of H.

c) Sundry assets of S are undervalued by Rs. 20,000.

d) The stock of H includes Rs. 50,000 bought from S at a profit to the latter of 25% on cost.

MAY 2012

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. What are the conditions for redemption of preference shares?
2. Explain the different methods of valuation of shares.
3. From the following particulars prepare the Fire Revenue Account for year ended 31.12.2010 :

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2010	3,30,000
Additional reserve on 1.1.2010	1,40,000
Claims unpaid on 1.1.2010	25,000
Claims unpaid on 31.12.2010	35,000

Increase the additional reserve on 31.12.2010 by 20% on the net premium.

4. Udayam Limited was incorporated on 1.7.2010 to take over the business carried on by Udayam Brothers with effect from 1.4.2010. The following is the Profit and Loss A/c for the year ended 31.3.2011 :

	Rs.		Rs.
To Administration expenses	18,000	By Gross profit	75,000
To Directors fees	3,000		
To Selling expenses	36,000		
To Audit fees	1,000		
To Preliminary expenses	3,000		
To Net profit	14,000		

	75,000	75,000

Sales Rs. 3,00,000 (upto 30.6.2010 Rs. 1,00,000) you are required to prepare a statement showing the profit earned prior to and after incorporation.

5. Surya Limited buys its own 12% debentures of the nominal value of Rs. 5,00,000 at Rs. 96 on 31st March 2011. Record the transactions in the books of Surya Limited if the quotation is:

   a) Cum-interest
   b) Ex-interest

   Surya Limited pays interest half-yearly on 30th June and 31st December.

6. The Liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amounts realised (excluding the cash on hand) and at 2% on the amounts distributed to the unsecured creditors. Unsecured creditors including preferential creditors of Rs. 5,000 amounted to Rs. 40,000. Debenture holders were paid Rs. 51,875 together with interest. Preferential creditors were paid in full, Rs. 510 were spent as costs of liquidation. Cash on hand Rs. 1,000 and assets realised Rs. 79,000.

   Prepare Liquidator's final statement of account.

7. The following particulars are available in respect of a company :

   Capital employed is Rs. 5,00,000. Trading results : 2007 - Profit Rs. 1,22,000; 2008 – Profit Rs. 1,50,000; 2009 - Loss Rs. 20,000 and 2010 - Profit Rs. 2,10,000. Market rate of interest on investment 10%. Remuneration from alternative employment of the proprietor (if not engaged in business) Rs. 36,000 per annum. You are required to compute the value of goodwill on the basis of 3 years' purchase of super profits of the business calculated on the average profits of the last 4 years.

8. From the following particulars, prepare the Profit and Loss A/c of Saraswathi Bank Ltd. for the year ended 31st March 2011 :

	Rs.
Interest on loans	34,90,000
Interest on fixed deposits	36,50,000
Rebate on bills discounted on 1.4.2010	4,80,000
Commission received	94,000
Administrative expenses	15,50,000
Discount received	19,40,000
Interest on cash credit	22,40,000
Amount charged against Current A/c	1,80,000
Rent and taxes	12,80,000
Interest on overdrafts	42,000

Directors fees	6,90,000
Interest on Savings Bank A/c	15,000
Postal expenses	39,000
Printing and stationery	18,000
Other expenses	

Adjustments :

a) Rebate on bills discounted on 31.3.2011 Rs. 5,20,000.

b) Provide for taxation @ 50% of the profits.

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. Discuss the different methods of valuing equity shares.

10. From the following Balance Sheets, prepare a consolidated Balance Sheet :

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital Rs. 10 fully paid	20,00,000	4,00,0000	Fixed assets	16,00,000	2,40,000
			Stock	12,00,000	5,00,000
Profit and Loss A/c	5,00,000	2,70,000	Debtors	3,00,000	3.20.000
Reserve	5,00,000	90,000	30,000 shares in S Ltd. at cost	3,00,000	–
Creditors		3,00,000			
	34,00,000	10,60,000		34,00,000	10,60,000

a. All profits of S Ltd. has been earned the shares were acquired by H, but there was already the reserve of Rs. 50,000 at that date.

b) The fixed assets of S Ltd. were overvalued by Rs. 40,000.

c) The stock of H Ltd. includes Rs. 2,00,000 bought from S Ltd. at a profit to the latter of 33-3 % on cost.

11. A company issued 2,00,000 shares of Rs. 100 each at a premium of Rs. 20 per share. These shares were payable as follows :

On application	Rs. 20
On allotment	Rs. 50 (including premium)
On call	Rs. 50

All the shares were applied for and allotted. All moneys were received except the call money on 20,000 shares which were forfeited. Out of these shares, 15,000 shares were reissued at Rs. 90 per share as fully paid.

Give journal entries in the books of the company.

12. From the following Trial Balance of Madura Ltd. prepare Trading and Profit and Loss A/c for the year ended 31st March 2011 and the Balance Sheet as on that date :

Debit Balance	Rs.	Credit Balance	Rs.
Opening stock	60,000	Equity share capital (2,000 shares of Rs. 100 each)	2,00,000
Rent and taxes	12,000	12% debentures	50,000
Purchases	1,21,800	Sales	3,50,000
Wages	1,10,400	Creditors	16,000
Discount	3,000	Bank overdraft	24,000
Fuel	5,040	Discount	4,400
Building	1,40,000	Transfer fee	100
Carriage inward	2,350	Return outward	200
Sundry debtors	40,000		
Goodwill	56,000		
Plant and machinery	50,000		
Loose tools	12,000		
Advertisement	6,000		
General expenses	8,800		
Bad debts	2,060		
Debenture interest (paid upto 30.9.2010)	3,000		
Miscellaneous expenses	6,000		
	6,44,700		6,44,700

Adjustments :

a) The authorised capital of the company is Rs. 4,00,000.

b) Stock on 31st March 2011 is Rs. 70,000

c) Depreciate Plant and Machinery at 9%.

d) Revalue loose tools at Rs. 8,200.

e) Allow 212 % discount on debtors.

f) Create reserve for bad debts at 2%.

13. The following is the Balance Sheet of Vivek Limited as on 31st March 2011 :

Liabilities	Rs.	Assets	Rs.
40,000 7% redeemable preference shares of Rs. 10 each	4,00,000	Fixed assets	9,00,000
		Stock in trade	6,00,000
		Trade debtors	1,00,000
60,000 equity shares of Rs. 10 each	6,00,000	Investments (4%)	2,50,000
		Cash at bank	1,47,500
Security premium	1,20,000	Accrued interest	2,500
General reserve	5,00,000		
Profit and Loss A/c	1,80,000		
Current liabilities	2,00,000		
	20,00,000		20,00,000

The company redeemed the whole of the preference shares at a premium of 6% on 1st April 2011.

To finance the redemption, all the investments were sold for Rs. 2,40,000 and 8,000 equity shares of Rs. 10 each were issued at Rs. 12.50 per share. The expenses of issue of shares were Rs. 5,000.

On June 1, 2011, the company made bonus issue of four equity shares, fully paid for every five equity shares held on that date.

Give journal entries in the books of the company and prepare the Balance Sheet.

OCTOBER 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. From the following particulars prepare the fire insurance revenue account for the year ended 31.12.2009 :

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2009	3,30,000
Additional reserve on 1.1.2009	1,40,000
Claims unpaid on 1.1.2009	25,000

Increase the additional reserve on 31.12.2009 by 10% on the net premium.

2. A life insurance company gets its valuation made once in two years. The life assurance fund as on 31.12.2009 was Rs. 29,65,000 before providing Rs. 35,000 for shareholders dividend for the previous year. The actuarial valuation as on 31.12.2009 disclosed a net liability of Rs. 27,30,000 for unexpired risks. An interim bonus of Rs. 60,000 was paid to the policy holders for this year. Prepare a valuation balance sheet and also calculate the amount available to policy holders.

3. The following particulars related to a company which went into voluntary liquidation. Prepare liquidator's final statement of account allowing 2% remuneration to liquidator on the amount realised and 3% on the amount distributed to unsecured creditors.

	Rs.
`Unsecured creditors	5,60,000
Preferential creditors	40,000
Debentures	3,80,000
Share capital	4,00,000

Assets realised :	
Cash in hand	43,000
Land and building	2,60,000
Plant and machinery	3,60,000
Furniture	40,000

4. Star Private Ltd. was incorporated on 1.7.2009 to takeover the business carried on by S & CO. as a going concern with effect from 1.4.2009. The following is the profit and loss account for the year ended 31.3.2010 of Star Private Ltd.

	Rs.		Rs.
To Admn. expenses	18,000	By gross profit	75,000
To directors fees	3,000		
To selling expenses	36,000		
To audit fees	3,000		
To preliminary expenses	1,000		
To net profit	14,000		
	75,000		75,000

Sales Rs. 3,00,000 (upto 30.6.2009 Rs. 1,00,000). You are required to prepare a statement showing the profit earned prior to and after incorporation.

5. From the following particulars, calculate the value per equity share :

   5,000 8% preference shares of Rs. 100 each, Rs. 5,00,000, 75,000 ordinary shares of Rs. 10 each.

   Rs. 8 per share paid-up - Rs. 6,00,000

   Expected profits per year before tax - Rs. 2,80,000

   Rate of tax - 50%

   Transfer to general reserve every year 20% of profit Normal rate of earnings - 10%

6. What are the conditions for redemption of preference shares?
7. Explain the different methods of valuation of goodwill.
8. Explain the various methods of calculating purchase consideration.

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. X Ltd. issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows :

   On application Rs. 2

On allotment Rs. 5 (including premium)

On 1st callRs. 3

On 2nd and final call Rs. 2.

Applications were received for 3000 shares and prorata allotment was made on the applications for 2400 shares. Money overpaid on applications was adjusted towards sum due on allotment.

Ram to whom 40 shares were allotted failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mohan, the holder of to shares, failed to pay the two calls, and his shares were forfeited after the second call.

Of the shares forfeited, 80 shares were sold to Kumar credited as fully paid for Rs. 8 per share, the whole of Ram being included.

Show journal entries and cash book entries.

10. The following is the balance sheet of the Delta Ltd. as on 31st December 2009.

Liabilities	Rs.	Assets	Rs.
12000 shares of		Land and buildings	1,00,000
Rs. 10 each fully paid	1,20,000	Plant and machinery	40,000
Sundry creditors	30,000	Stock	15,000
Bank overdraft	28,000	Sundry debtors	22,000
		Profit and loss A/c	1,000
	1,78,000		1,78,000

The company went into voluntary liquidation and the assets were sold to the Reddy Ltd. for Rs. 1,50,000 payable as to Rs. 60,000 in cash (which sufficed to discharge the creditors and bank and pay the costs of winding up, Rs. 2,000) and as to Rs. 90,000 by the allotment of 12000 shares of Rs. 10 each of Reddy Ltd. Rs. 7.50 per share paid up to the shareholders of Delta Ltd.

Give journal entries to close the books of Delta Ltd. and also entries for recording these transactions in the books of Reddy Ltd.

11. On 1st October 2008, a company issued 10,000 12% debentures of Rs. 100 each (interest payable on 30th September and 31st March). The company is allowed to purchase own debentures which may be cancelled or kept or reissued at the company’s option. The company made the following purchases in the open market.

On 31st August 2009, 1000 debentures @ Rs. 98 ex-interest

On 31st December 2010, 500 debentures @ Rs. 97 cum-interest

The debentures purchases on 31st August 2009 were cancelled on 31st march 2011. Give journal entries to record the transaction.

12. The following is the trial balance of Alpha Ltd. as on 31.3.2010 with the authorised capital of 72000 shares @ Rs. 10 each.

	Debit (Rs.)	Credit (Rs.)
Cash in hand	900	–
Cash at bank	3,55,980	–
Profit and loss a/c balance	–	17,400
Creditors	–	60,000
Debentures	–	3,60,000
Share capital (called up)	–	45,600
Bills payable	–	4,200
Sales	–	30,000
Reserve for bad debts General	–	–
reserve Calls in arrear Wages	–	–
Land and buildings Plant and	92,760	–
machinery General expenses	3,60,000	–
Salaries	20,280	–
Interim dividend paid	17,400	–
Furniture	40,000	–
Purchases	2,29,880	–
	15,67,200	15,67,200

Adjustments :

a. Outstanding wages Rs. 6,000; Salaries Rs. 3,000

b. General expenses include prepaid insurance @ Rs. 300

c. Provide depreciation on land and buildings plant and machinery and furniture 5%, 10% and 20% respectively.

d. Stock on 31.3.2010 amounted to Rs. 1,40,000

e. Outstanding interest on debentures Rs. 18,000

f. Final dividend declared Rs. 21,000.

Prepare final accounts of the company.

13. The balance sheet of H Ltd and S Ltd on 31.3.2010 were as under :

	H Ltd Rs.	S Ltd Rs.		H Ltd Rs.	S Ltd Rs.
Share capital shares of Rs. 100 each	2,00,000	50,000	Land and buildings	60,000	–

General reserve	30,000	10,000	Machinery	2,00,00	–
P and L a/c (1.4.2009)	40,000	20,000	Stock	0	85,000
Profit for (2009-10)	50,000	25,000	By debtors	40,000	30,000
Creditors	50,000	30,000	Bank	10,000	10,000
Bills payable	15,000	–	300 shares in S	10,000	–
			Ltd.	65,000	
			Bills receivable		10,000
				–	
	3,85,00	1,35,000		3,85,00	1,35,000

Shares were acquired by H Ltd. on 1.10.2009. Bills receivable held by S Ltd. are all accepted by H Ltd. Included in the debtors of S Ltd. is Rs. 6,000 owing by H Ltd. in respect of goods supplied.

Prepare a consolidated balance sheet.

MAY 2012

Time : Three hours **Maximum : 100 marks**

PART A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What is a share?
2. Write a short note on 'Redemption of debenture'.
3. Define human resource accounting.
4. Give a meaning of interim dividend.
5. What is external reconstruction?
6. Arun holds 2000 shares of Rs. 10 each in Ram Ltd. He has paid Rs. 2 and Rs. 3 per share on application and allotment respectively, but failed to pay Rs. 3 and Rs. 2 per share for first and second calls respectively. Directors forfeited his shares. Give journal entry.

7. Calculate the amount of goodwill on the basis of 2 years purchase of the last five years' average profits. The profits for the last five years are : Rs. 8,200; Rs. 10,500; Rs. 5,100; Rs. 7,700; Rs. 12,000.

8. From the following details compute appropriate conversion factors :
   a) General price index numbers - opening 200; closing 300; average for the year 240
   b) General price index numbers - at the end of the year 200; on the date of acquring an item of stock 120. On the date of acquiring an asset 150.

9. Ganesh Ltd. was incorporated on 1st May 1996 to purchase the running business of Vinayaka & Co. with effect from 1st January 1996. The company obtained certificate of commencement of business on 24th August 1996. Calculate the time ratio, if the accounts were finalised on 31st December 1996.

10. The company B takes over the business of company A. The value agreed for various assets is goodwill Rs. 22,000; Land and Buildings Rs. 25,000; Plant and Machinery Rs. 24,000; Stock Rs. 13,000; Debtors Rs. 8,000; B company does not take over cash but agree to assume the liability of sundry creditors Rs. 5,000

    Calculate purchase consideration.

11. From the particulars given below, ascertain liquidator's remuneration :

    Creditors to be paid Rs. 60,000 Amount available on hand Rs. 44,000

    Commission to be given on the amount paid to creditors 10%.

12. From the following particulars of Ganga Ltd., Calculate managerial remuneration :

    Net profit before provision for income tax and managerial remuneration but after depreciation Rs. 8,70,410

    Depreciation provided in the books Rs. 3,10,000

    Depreciation allowable under schedule XIV Rs. 2,60,000.

PART B — (5 x 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

13. What is the need for accounting standards?

14. Write a note on :
    a) Complete underwriting
    b) Partial underwriting.

15. Explain the methods of valuation of goodwill.

16. Visu was holding 500 shares of Rs. 10 each. He had paid upto first call but failed to pay the final call money of Rs. 3 per share. The director forfeited the shares after due notice. All these shares are again reissued at Rs. 8 per share. Give journal entry for forfeiture, reissue and capital reserve.

17. Balance sheet of Nayagam Company as on 31.12.2007

Liabilities	Rs.	Assets	Rs.
20,000 equity shares of Rs. 10 each	2,00,000	Goodwill	2,00,000
Employee's saving fund	1,50,000	Investment at cost (market value Rs. 2,50,000)	3,00,000
Employee's provident fund	6,00,000	Stock at cost	5,00,000
Creditors P and L a/c	3,70,000	Debtors	4,00,000
		Bank balance	70,000
	14,70,000		14,70,000

The profit for the last five years were Rs. 15,000, Rs. 20,000, Rs. 25,000, Rs. 30,000 and Rs. 35,000 and the goodwill is to be valued on the basis of three years purchase of the average annual profits for the last five years.

Calculate the price of the share on the basis of net asset value.

18. On 31st March, 1998 a bank held the following bills, discounted by its earlier :

Date of bill 1998	Time of bill (months)	Discounted @ % p.a.	Amount of bill Rs.
January, 17	4	17	7,30,000
February, 7	3	18	14,60,000
March, 9	3	17.5	3,64,000

You are required to calculate the rebate on bill discounted. Also show the necessary journal entry for the rebate.

19. SAN Company Ltd. passed resolution and received sanction of the court for the reduction of share capital by Rs. 2,50,000. After the arrangement, the credit balance of capital reduction account was Rs. 2,50,000. The amount available was utilised for write off profit and loss a/c (Dr.) Rs. 1,05,000 reducing the value of plant and machinery Rs. 45,000, goodwill Rs. 20,000, investment Rs. 40,000. The balance available would be transferred to capital reserve. Pass journal entry.

20. From the following information, prepare liquidator's final statement of account :

	Rs.
Cash at bank	1,00,000
Surplus from securities	10,10,000
Expenses of liquidation	30,000
Liquidator's remuneration	7,000
Preferential creditors	2,00,000
Unsecured creditors	7,00,000

Preference share holders	1,00,000
Equity shareholders	1,00,000

PART C — (2 x 20 = 40 marks)

Answer any TWO questions.

All questions carry equal marks.

21. X Ltd. Company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each 31.3.2005, 2,500 shares were fully called up. The following balances were extracted from the ledger of the company on 31.3.2005.

	Rs.
Stock	50,000
Sales	4,25,000
Purchases	3,00,000
Productive wages	70,000
Discount allowed	4,200
Discount received	3,150
Insurance upto (30.6.05)	6,720
Printing	2,400
Advertisement	3,800
Bonus	10,500
Debtors	38,700
Creditors	35,200
Machinery	80,500
Furniture	17,100
Bank balance	34,700
Salaries	18,500
Rent	6,000
General expenses	8,950
P and L a/c (Cr.)	6,220
Reserve	25,000
Loan	15,700

Additional information :

a. Closing stock Rs. 91,500
b. Depreciation on machinery 15% and on furniture 10%
c. Outstanding liability for Wages Rs. 5,200, Salaries Rs. 1,200, Rent Rs. 600

d. Provide dividend on share capital 5%

You are required to prepare final accounts of X Ltd. Company for the year 2005.

22. The following are the summarised balance sheet of Amar Ltd., and Samar Ltd., as on 31st March 2004 :

Liabilities	Amar Ltd Rs.	Samar Ltd Rs.	Assets	Amar Ltd Rs.	Samar Ltd Rs.
Issued share capital : Shares of Rs. 10 each	8,00,000	6,00,000	Goodwill	–	1,20,000
P and L a/c	1,40,000	–	Fixed assets	6,00,000	2,40,000
Creditors	80,000	2,40,000	Current assets	4,20,000	2,80,000
			P and L a/c	–	2,00,000
	10,20,000	8,40,000		10,20,000	8,40,000

Amar Ltd, agreed to take over the business of Samar Ltd., as on the date of the balance sheets. After due negotiations, it was determined that the shares of Amar Ltd., are worth Rs. 12 each and the shares of Samar Ltd., are worth Rs. 5 each.

You are required to make the necessary entries in the books of Amar Ltd., and draw up its balance sheet immediately after the take over.

23. Prepare, in the proper statutory form, the revenue account of Hindustan Life Assurance Company Ltd. for the year ended 31st March 2008 from the following figures.

	Rs.
Claims by death Claims by maturity	30,110
Premiums Transfers fee	7,05,690
Consideration for annuities granted	129
Annuities paid	82,127
Bonus paid in cash	53,461
Bonus in reduction of premium	2,416
Dividend paid to share holders	980
Expenses of management	5,500
Commission	31,920
Interest, dividend and rent	9,574
Income tax	97,840
Surrenders	35,710

Paid up share capital of the above life insurance company is Rs. 5,00,000 and net liability as per actuary's valuation is Rs. 11,05,000 as on 31.3.2008.

Also prepare valuation balance sheet of the company as on that date.

24. A company went in liquidation on 31.3.2008 when the following balance sheet was prepared :

Liabilities	Rs.	Assets	Rs.
Share capital :	1,95,000	Goodwill	60,000
19,500 shares of Rs. 10 each	53,310	Building	48,000
Sundry creditors :	99,790	Machinery	65,500
Partly secured (on building)	24,200	Stock	56,800
Unsecured creditors	8,000	Sundry debtors	48,820
Preferential creditors		Cash	2,500
Bank overdraft		P and L a/c	98,680
	3,80,300		3,80,300

Assets realised as follows :

Building Rs. 35,000; Machinery Rs. 51,000; Stock Rs. 39,000; Debtors Rs. 58,500; Cash Rs. 2,500.

The expenses of liquidation amounted to Rs. 1,000. The liquidator's remuneration was agreed at 2.5% on the amount realised (including cash) and 2% on the amount paid to unsecured creditors.

Prepare liquidator's final statement of account.

OCTOBER 2013

Time : Three hours **Maximum : 100 marks**

SECTION A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What do you mean by redeemable preference share?
2. Define underwriting.
3. Differentiate marked application from unmarked application.
4. What is meant by share premium?
5. What do you understand by purchased goodwill?
6. What is called-up capital?
7. What do you understand by errors of duplication?
8. What is the difference between investigation and audit?
9. Define continuous audit.
10. What is meant by vouching?
11. What do you understand by audit note book?
12. Define internal check.

SECTION B — (5 x 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

13. Explain the various methods of valuing goodwill.
14. Compute the value of an equity share of each of the companies A and B on the basis of the following information.

	Company 'A' Rs.	Company 'B' Rs.
Profit after tax	10.00.000	10.00.000
12% preference shares (shares of Rs. 100 each)	10.00.000	20.00.000
Equity capital (shares of Rs. 10 each)		

Assume that market expectation is 15% and 80% of profits are distributed.

15. A company issues 1.000 12% debentures of Rs. 1.000 each at a premium of 20% sixty percent of the issue was underwritten by X limited at the maximum rate of commission allowed by law. Applications were received for S00 debentures which were accepted and payment was received in full. Give journal entries.

16. A runs a chemist's shop. His net assets as on 31st March. 1989 amount to Rs. 20.00.000. After paying a rent of Rs. 45.000 a year and a salary of Rs. 30.000 the chemist, he earns a profit of Rs. 2.10.000. His landlord, who happens to be an expert chemist, is interested in purchasing the shop. 1S% is considered to be a reasonable return on capital employed. What can 'A expects as payment for goodwill?

17. What are the advantages of an annual audit?

18. What are the essential characteristics of a system of internal check?

19. Explain the rights of the company auditor.

20. Explain the various types of preference shares.

SECTION C — (2 x 20 = 40 marks)

Answer any TWO questions.

All questions carry equal marks.

21. Ascertain the value of goodwill of P. Co. Ltd. carrying on business as retail traders from the following information.

Balance sheet as on 31st December. 1998

Liabilities	Rs.	Assets	Rs.
Paid up capital :		Goodwill at cost	25,000
2.500 shares of		Land & building	
Rs. 100 each	2,50,000	at cost	1,10,000
Profit and loss a/c	56,650	Plant and machinery	
Bank overdraft	58,350	at cost less depreciation	1,00,000
Sundry creditors	90,500	Stock at cost	1,50,000
Provision for		Book debts less	
taxation	19,500	provision for doubtful debts	90,000
	4,75,000		4,75,000

The company commenced operations in 1994 with a paid up capital as aforesaid of Rs. 2.50.000. The profits earned, before providing for taxation, have been as :

1994 Rs. 61.000: 1995 Rs. 64.000: 1996 Rs. 71.500: 1997 Rs. 78.000: and 1998 Rs. S5.000

You may assume that income tax at the rate of 50% has been payable on these products. The average dividend paid by the company for the four years is 10% which is taken as reasonable return expected on the capital invested in the business.

22. Calculate maximum remuneration payable to the managing director for the year from the following information

	Rs.
Profit for the year (calculated as per sections 349. 350 and 351 of the companies act. 1956)	50,00,000
Paid-up capital	3,00,00,000
Reserves and surplus	1,20,00,000
Share premium	20,000
Long term loans	1,00,00,000
Investments	60,00,000
Preliminary expenses not written off	5,00,000
Remuneration paid to the managing director during the year	10,00,000
Share suspense account (representing application money received on shares the allotment of which is not yet due)	15,00,000

23. Discuss the duties of an auditor in detail.

24. Write a detailed note on the merits and demerits of the audit programme.

BHARATHIDASAN UNIVERSITY

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2014.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is meant by 'Over subscription'?
2. What is 'Re-issue of shares'?
3. What is 'Own debentures'?
4. What is 'Preference shares'?
5. What is 'Internal Reconstruction'?
6. What is meant by 'Alternation of share capital'?
7. Define Holding company.
8. What is capital profit?
9. What is 'Rebate on Bills discounted'?
10. What is 'Life Assurance Fund'?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) Aruna & Co. Ltd issued 1,00,000 shares of Rs. 10 each payable; Rs. 3 on application ; Rs. 2 on allotment and ; Rs. 5 on first and final call.

    1,20,000 shares were applied for. The directors decided to reject the excess applications. All moneys due were fully received. Pass journal entries.

    Or

    (b) The directors of XY Ltd decided to forfeit 100 shares of Rs. 10 each. For non-payment of final call on Rs. 3 per share. These shares were reissued at RS. 8 per share. Pass journal entries.

12. (a) Explain the conditions for the issue of Redeemable preference shares.

    Or

    (b) RS Ltd issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company if the debentures were issued as follows :

    (i) Issued at par, redeemable at par

(ii) Issued at a discount of 5%, repayable at par

(iii) Issued at a premium of 10%, repayable at par.

13. (a) What is purchase consideration? Explain the methods of its calculation.

Or

(b) Pass journal entries for the following transactions in connection with internal reconstruction.

(i) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each fully paid

(ii) 300, 9% debentures of Rs. 1,000 each converted into 1,500 12% debentures of Rs. 100 each

(iii) Plant and stock were written down by Rs. 6,000 and Rs. 30,000 respectively.

14. (a) 'H' Ltd acquired 80% of the shares in 'S' Ltd On 1.1.06 on which date 'S' Ltd had Rs. 20,000 credit balance in Profit and Loss account. The following position was on 31.12.2007.

	H Ltd. (Rs.)	S Ltd. (Rs.)
Profit for the year 2007	2,00,000	80,000
P and L balance on 31.12.2006	1,20,000	70,000

S Ltd. had not paid any dividend during the year 2006 and 2007. Prepare consolidated profit and loss a/c for the year ended 31.12.2007.

Or

(b) Arun Ltd Purchased 60% shares of Varun Ltd on 1.1.2010 when the balance on their P and L a/c and General reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2010, the balance sheet of Varun Ltd. showed a profit and loss a/c balance of Rs. 4,00,000 and General Reserve Rs. 3,00,000.

Calculate capital profit and revenue profit.

15. (a) On 31st March 2008 at bank held the following bills discounted by its earlier.

	Date of Bill (2008)	Terms of Bill (Month)	Discounted @ % p.a.	Amount of bill Rs.
(i)	January 17	4	17	7,30,000
(ii)	February 7	3	18	14,60,000
(iii)	March, 9	3	17.5	3.64.000

Calculate the rebate on bills discounted.

Or

(b) Find out the life assurance fund. The life assurance fund of a Life Assurance Company shares a balance of Rs. 22,34,400 as on 31.3.2010.

	Rs.
Interest on investment	32.000
Income tax	10,000
Outstanding premium	31,400
Bonus utilised for reduction of premium	6,600
Claims intimated but not admitted	15,200
Claims covered under reinsurance	5,300

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. Raj Ltd. issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows :

On application Rs. 25 ; On allotment Rs. 34 ; On first and final call Rs. 36.

Applications were received for 4,500 shares and all these were accepted. All moneys due were received except the final call on 300 shares which were forfeited. 200 of these shares were reissued at Rs. 90 as fully paid. Show the cash book and journal entries in the books of company.

17. X Ltd. have part of their share capital in 2,500 6% Redeemable preference shares of 100 each. The company decided to redeem the preference shares at a premium of 10%. The general reserve of the company shows a credit balance of Rs. 3,00,000. The directors decided to utilise 60% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of fresh issue of sufficient number of shares of Rs. 10 each. The premium is to be met from the year's profit and loss a/c.

Pass Journal entries.

18. A Ltd. and B Ltd. agreed to amalgamate as on 31.12.2010 Balance Sheet

Liabilities	A	B	Assets	A	B
	Rs.	Rs.		Rs.	Rs.
Equity shares of Rs. 10 each	6,00,000	2,00,000	Land and		
General reserve	4,00,000	2,00,000	Building	1,00,000	–
Secured loan	6,00,000	1,00,000	Machinery	7,00,000	3,00,000
Current liabilities	6,00,000	4,00.000	Investments	1,00,000	–
			Stock	9,00,000	4,00,000
			Debtors	3,00,000	1,00,000
			Cash	1,00,000	1,00,000
	22,00,000	9,00,000		22,00,000	9,00,000

They decided to start a New Company 'C' Ltd.

a) All assets and liabilities of the two companies are taken over

b) Each shares in 'B' Ltd is valued at Rs. 25 for the purpose of amalgamation

c) Shares holders in A Ltd. and B Ltd. are paid off by issue of sufficient number of equity shares of Rs. 10 each in 'C' Ltd.

d) Each share in 'A' Ltd. is valued at Rs. 15 for the purpose of amalgamations.

Show the journal entries to close the books of both the companies.

19. Balance sheet of H Ltd. and S Ltd. as on 31.12.2004.

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital:			Fixed assets	18,10,000	15.75.000
Shares at Rs. 10 each	25,00,000	12,50,000	Investments (1,00,000 shares in S Ltd.)	11,00,000	–
Reserves	7.50.000	5,00,000			
Creditors	2.25.000	2,00,000	Current assets	5,65,000	3,75,000
	34,75,000	19,50,000		34,75,000	19,50,000

H Ltd. purchased the shares in S Ltd. on 1st Jan. 2004. When reserves in S Ld. stood at Rs. 3,00,000 and in H Ltd. at Rs. 4,50,000. Prepare consolidated Balance sheet.

20. Draft balance sheet of a Banking company as per schedule III of banking companies act.

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, APRIL 2015.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 × 2 = 20)

Answer ALL questions.

1. Define - "Shares".
2. What is forfeiture of shares?
3. What do you mean by debenture?
4. Write the meaning of cumulative preference shares.
5. Define "Amalgamation".
6. What do you mean by internal reconstruction?
7. Give the definition of "Holding company".
8. What is meant by minority interest?
9. What is rebate on bills discounted?
10. State the meaning of surrender value.

SECTION B – (5×5=25)

Answer all questions.

11. (a) Briefly explain the methods of issue of shares.

Or

(b) A limited company issued 20,000 equity shares of Rs. 100 each at a premium of 10%. Pass journal entry.

12. (a) Briefly explain the types of debentures.

Or

(b) The Balance Sheet of Wax Ltd. as on 31st Dec. 2013 was as under:

Liabilities	Rs.	Assets	Rs.
Share capital:		Sundry assets	3,65,000
1,000 redeemable preference	1,00,000	Bank balance	1,40,000

2,000 equity shares @ Rs. 100 each	2,00,000		
General reserve	80,000		
Profit and loss a/c	50,000		
Sundry creditors	75,000		
	5,05,000		5,05,000

On this date, the preferences shares were redeemed at par. Journalise and prepare new balance sheet.

13. (a) Bring out the methods of purchase consideration.

Or

(b) Lal Ltd, absorbed the business of Mal. Ltd, agreed to pay as follows:

For every 4, 10% preference shares of Rs. 10 each in Mal ltd, 7 equity shares of Rs. 10 each in Lal Ltd, as Rs. 8 Paid up. There were 60,000 10% preference shares in Mal Ltd.

Find out purchaser consideration.

14. (a) Write a short note on capital profit and revenue profit in holding company accounts.

Or

(b) A subsidiary company has a capital of Rs. 5,00,000 in shares of Rs. 100 each, out of which the holding company acquired 80% of the shares at Rs. 6,00,000. The profit of the subsidiary Co., on the data of acquisition of shares by the holding Co. were Rs. 3,00,000. Calculate the value of goodwill or capital reserve.

15. (a) What is valuation balance sheet?

Or

(b) The life assurance fund of an insurance company on 31.3.2013 showed a balance of Rs. 87,76,500. It was found later that the following were not taken into account.

	Rs.
Dividends from investments	4,80,000
Income tax on above	48,000
Bonus In reduction of premium	8,77,5000
Claims covered under re-insurance	4,23,000
Claims intimated but not accepted by company	7,62,000

Ascertain the correct balance of fund.

SECTION C – (3×10=30)

ANSWER ANY THREE QUESTIONS.

16. Bhanu Ltd issued 50,000 shares @ Rs. 100 each payable as follows: Rs. 20 on application; Rs. 30 on allotment; Rs. 25 on first call and Rs. 25 on final call.

    The company received applications for 40,000 shares and all these applications were accepted. All sums due on allotment, first and final call were received except the final call on 400 shares. These 400 shares were subsequently forfeited by the company and re-issued at 80 per share.

17. Explain the provisions of the companies act regarding redemption of preference shares.

18. The share capital of Zea Ltd. consisted of the following:

    (a) 10,000 6% preference shares of Rs. 100 each and

    (b) 50,000 equity shares of Rs. 10 each.

    The shares were fully paid. The company has accumulated losses totaling Rs. 3,50,000 besides preliminary expenses Rs. 20,000. It was also ascertained that fixed assets which stood in the books at Rs. 14,00,000 were over-valued to the extent of Rs. 4,00,000. The following scheme was adopted to write off the losses and reduce the assets.

    (i) 6% preference shares were to be converted into 7% preference shares of Rs. 60 each.

    (ii) Equity shares were to be reduced to Rs. 2 each.

    (iii) Pass necessary Journal entries.

19. The Balance Sheets of Holding Co, and subsidiary Co, as on 31.12.2012 are given below:

Liabilities	H Ltd (Rs.)	S Ltd (Rs.)	Assets	H Ltd (Rs.)	S Ltd (Rs.)
Share capital @ Rs. 10 each	5,00,000	2,00,000	Sundry assets	5,30,000	3,00,000
Reserve fund (1.1.2012)	50,000	20,000	Investments in 60% shares of subsidiary Co.	1,50,000	–
Profit for 2012	50,000	30,000	Preliminary expenses	–	10,000
Creditors	80,000	60,000			
	6,80,000	3,10,000		6,80,000	3,10,000

Holding Co., acquired the shares in subsidiary co., on 1.7.2012. Prepare the consolidated balance sheet.

20. Prepare profit and loss a/c of Chennai bank Ltd., for the year ending 31st March 2012.

	Rs.		Rs.
Interest on deposits	32,00,000	Discount on bills discounted	14,90,000
Commission (Cr)	1,00,000	Interest on overdraft	16,00,000
Interest on loans	24,90,000	Interest on cash credits	23,20,000
Sundry charges (Dr)	1,00,000	Auditors fees	35,000
Rent and rates	2,00,000	Director’s fees	16,000
Establishment expenses	5,00,000	Bad debts to be written odd	3,00,000

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, JUNE 2015.

Part III — Computer Application — Major

CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A—(10x2 = 20)

Answer ALL questions.

1. What is a company?
2. What is meant by perpetual succession?
3. What is redeemable preference shares?
4. What do you mean by debentures?
5. What is Amalgamation?
6. What do you mean by Absorption?
7. Define holding company.

8. What is minority interest?

9. What do you mean by preliminary expenses?

10. Explain Life Insurance.

Section B – (5x5=25)

Answer all questions.

11. (a) Ganesh Ltd. issued 50,000 equity shares of Rs. 10 each to the public on condition that full amount of shares will be paid in a lump sum. All these shares were taken up and paid by the public. Pass journal entries in the books of company when (i) shares are issued at par (ii) shares are issued at a premium of 10 % and (iii) issued at 10% discount.

Or

(b) What are the classes of preference shares?

12. (a) The following balances were extracted from Lakshman Ltd. as on 31.12.2014:

	Rs.
Share capital:	
1,00,000 equity shares of Rs. 10 each	10,00,000
1,50,000 6% redeemable pref. shares of Rs. 10 each	15,00,000
Capital reserve	7,50,000
General reserve	4,50,000
Profit and loss a/c	12,25,000

The company redeemable preference shares on 1.1.15 and has sufficient cash.

Give journal entries.

Or

(b) Classify the Debentures.

13. (a) What is purchase consideration? What are they?

Or

(b) Give the journal entry for internal reconstruction.

14. (a) Arun Ltd. acquired 60% of shares in Varun Ltd. on 1.1.2000 on which date Varun Ltd. Rs. 30,000 credit balance in the Profit and loss a/c.

The following position was revealed on 31.12.2001:

	Arun Ltd.	Varun Ltd.
Profit for 2011	1,90,000	65,000

Profit and loss a/c as on 31.12.2000 1,75,000 90,000

Varun Ltd. had not paid any dividend in the years 2000 and 2001.

You are required to prepare consolidated profit and loss account for the year ended 31.12.2001.

Or

(b) Vani Ltd. purchased 70% of the shares of Rani Ltd. on 1.1.2002. The following is the summarized profit and loss account of the companies after ascertaining net profit.

Profit and loss a/c of Vani and Rani Ltd.

For the year ended31.12.2002

	Vani Ltd. Rs.	Rani Ltd. Rs.		Vani Ltd. Rs.	Rani Ltd. Rs.
To proposed dividend	–	80,000	By net profit b/d	3,00,000	2,70,000
T Balance c/d	3,56,000	1,90,000	Dividend received from B Ltd. (80,000×70/100)	56,000	–
	3,56,000	2,70,000		3,56,000	2,70,000

You are required to prepare a consolidated profit and loss a/c.

15. (a) From the following particulars of Rohit Commercial Bank, find out the closing rebate.

Date of bill	Term of bill	Discounted rate	Amount of bill
December 11	4	16%	2,40,000
January 10	3	15%	1.95.000
February 16	4	14.5%	3,12,000
March 12	3	15.5%	1,89,000
March 21	4	16.5%	2,48,000

Or

(b) What are the types of general insurance?

SECTION C – (3x10=30)

Answer any three questions.

16. Sivam Co. issued 25,000 equity shares of Rs. 100 each and the amounts were received as follows:

On application Rs. 20, on allotment Rs. 40, on call Rs. 40.

20,000 applications were received and all were allotted. Pass journal entries.

17. Krishnan Co. has part of its share capital as 3,000, Rs.100 preference shares each. When the shares became due for redemption, the company decides that the whole amount will be redeemed out of fresh issue of equal amount of equity shares of Rs. 10 ach. Pass Journal entries.

18. Vinayaga Ltd. and Muruga Ltd. agree to amalgamate as from 31st December 1999 on which date their respective balance sheet were as follows:

Liabilities	Vinayaga Ltd. Rs.	Muruga Ltd. Rs.	Assets	Vinayaga Ltd. Rs.	Muruga Ltd. Rs.
Share capital (shares of Rs. 1 each)	80,000	25,000	Cash in hand	100	50
Sundry creditors	3,00	1,000	Cash at bank	3,400	450
Reserve	7,500	4,000	Sundry debtors	22,500	6,000
Profit and loss a/c	2,500	1,000	Plant	12,000	4.500
			Stock	15,000	7,000
			Premises	30,000	10,000
			Patents	10,000	3,000
	93,000	31,000		93,000	31,000

Draw up the balance sheet of the new company Ganesh Murugan Ltd. Which was incorporated to take over the amalgamated concerns and state the number of shares in the new company which will be allotted to the shareholders of the old companies at the new share of Re. 1. Assume the same face value.

19. From the following balance sheets Somu and Ramu prepare the consolidated balance sheet as on 31.3.1999.

Liabilities	Somu Ltd. Rs.	Ramu Ltd. Rs.	Assets	Somu Ltd. Rs.	Ramu Ltd. Rs.
Share capital (shares of Rs. 10 each)	10,00,000	4,00,000	Sundry assets	8,5,0,000	6,08,000
General reserve	2,00,000	1,00,000	100% shares in ramu Ltd. acquired on 31st	5,08,000	–

			March 1999		
Sundry creditors	1,60,000	1,20,000	Preliminary expenses	–	12,000
	13,60,000	6,20,000		13,60,000	6,20,000

20. From the following particulars of Indian Bank Ltd. for the year ending 31st March 2014 find out the amount of provision required on the assets.

Particular			Rs.
Standard assets			12,90,000
Sub-standard assets			3,18,000
Doubtful assets	Secured	Unsecured	
Less than 1 year	1,20,000	86,000	
More than 1 year but less than 3 years	48,500	21,400	
More than 3 years	19,250	10,140	
Loss assets			36,880

(For candidates admitted from 2008 - 2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Part III — Computer Applications-Major

CORPORATE ACCOUNTING

Time : Three hours **maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What do you mean by shares?
2. What are the kinds of shares?
3. What do you mean by cum interest and Ex-interest?
4. Write a short note on own debentures.

5. What are the types of amalgamation?
6. Give the meaning of subsidiary company.
7. Give the formula for net asset method.
8. What is Revenue profits?
9. How Income is created on the performing assets and non — performing assets?
10. What is Insurance?

SECTION B – (5x5=25)

Answer ALL questions.

11. (a) What are salient features of a company?

Or

(b) Good luck Ltd invited application for 10,000 shares of Rs. 10 each. The shares are payable as follows.

On application Rs. 3, on allotment Rs. 3, on call Rs. 4

All the shares were subscribed. Pass journal entries.

12. (a) The Balance sheet of Wallance Ltd as a 31.12.2014 was as under.

Liabilities	Rs.	Assets	Rs.
Share capital 1,000 redeemable preference shares of Rs. 100 each	1,00,000	Sundry assets	3,65,000
2,000 equity shares of Rs. 100 each fully paid	2,00,000		
General reserve	80,000		
Profit and loss a/c	50,000		
Sundry Creditors	75,000		
	5,05,000		5,05,000

On this date, the preference shares were redeemed par journalise and prepare the balance sheet.

Or

(b) Star Ltd issued 20,000 7% debentures of Rs. 100 each

On application Rs. 40

On allotment Rs. 40

All the debentures sold. Pass necessary journal entries.

13. (a) Spring field Ltd is absorbed by sports field Ltd the consideration being.

    (i) The taking over of the trade liabilities of Rs. 40,000

    (ii) The payment of cost of absorption of Rs. 15,000

    (iii) The repayment of B debentures of spring field Ltd of Rs. 2,00,000 at par.

    (iv) The discharged of 'A' debentures of Rs. 3,00,000 in the vendor Co. at a premium of 10% by the issue of 8% debentures in sports field Ltd AST par.

    (v) A payment of Rs. 20 per share in cash and the exchange of 4 fully paid Rs. 10 share in sports field Ltd at a market price of Rs. 15 per share for every Rs. 50 share in spring field Ltd which were 40,000 in number.

    You are required to find out the purchase consideration.

    Or

    (b) X Co ltd has the following shares as a part of its share capital.

    10,000 8% preference shares of Rs. 100 each fully paid 50,000 equity shares of Rs. 5 each fully paid 20,000 equity shares of Rs. 10 each Rs. 8 called up and paid up.

    The company has decided to alter the share capital as follows.

    (i) To sub-divide the preference shares into shares of Rs. 10 each.

    (ii) To consolidate the equity shares of Rs. 5 each into share of Rs. 10 each.

    (iii) To convert the partly paid up equity shares into fully paid up shares of Rs. 8 each with necessary legal sanctions. Journalise the alterations.

14. (a) List out the format for minority Interest.

    Or

    (b) Give the format for cost of control or capital reserve.

15. (a) On 31.3.2014 Indian Bank Ltd held the following bills, discounted earlier.

Date of bills 2014	Term	Discount	Amount
January 17	4	17	7,30,000
February 7	3	18	14,60,000
March 9	3	17.5	3,64,000

    Calculate the rebate on bills discounted.

    (b) The life Insur v/s Neelam life insurance company on 31.3.2014 showed a balanced of Rs. 27,00,000. However, the following items were not taken into account while preparing the revenue for 2013-14. Ascertain the correct life fund balance.

	Rs.
(i) Interest and dividends accrued on investments	10,000
(ii) Income tax deducted at source on the above	3,000
(iii) Reinsurance claims recoverage	3,500
(iv) Commission due on reinsurance premium paid	5,000
(v) Bonus in reduction of premiums	1,500

SECTION C – (3×10=30)

Answer any THREE questions.

16. Good luck Ltd invited application for 10,000 shares of Rs. 20 each. The amount payable is Rs. 5 on application. Rs. 8 on allotment and the balance when required. The whole of the above issue was applied for and cash was duly received. Give Journal entries.

17. Shri Ram Ltd had the following Balance sheet as on 1.4.2013

Liabilities	Rs.	Assets	Rs.
10,000 6% preference	1,00,000	Buildings	2,00,000
30,000 equity shares of 10 each	3,00,000	Plant	2,00,000
General reserve	1,00,000	Stock	1,00,000
P/L a/c	80,000	Debtors	1,00,000
Creditors	1,20,000	Cash at Bank	1,00,000
	7,00,000		7,00,000

The company decided to redeem its preference shares at 10 % premium for this purpose it is issued new 5,000 equity shares of Rs. 10 each at 10% premium, show necessary journal entries and balance sheet.

18. The following was the balance sheet of ABC Ltd as on 3.12.2013

Liabilities	Rs.		Assets	Rs.
Issues and paid up capital			Good will	10,000
12,000 shares of Rs. 10 each	1,20,000		Land and building	20,500
Calls is arrear			Machinery	50,850
Rs. 3 per shares on 3,000 shares	9,000	1,11,000	Preliminary Expenses	1,500

Creditors	15,425	Stock		10,275
Provision for tax	4,000	Debtors		15,000
		Bank		1,500
		P/L a/c	22,000	
		–N/P	–1,200	20,800
	1,30,425			1,30,425

Machinery value was Rs. 10,000 in excess. It is proposed to write down this asset and to extinguish the profit loss a/c debit balance and write off good will and preliminary expenses by the adoption of the following scheme.

19. The balance sheets of A Ltd and B Ltd as at 31.12.2014 are as follows.

Liabilities	A	B	Assets	A	B
	Rs.	Rs.		Rs.	Rs.
S capital	2,00,000	1,00,000	Sundry assets	1,32,500	1,38,200
10 Rs. Each			Goodwill	–	20,000
General reserve	18,00	20,000	Shares in B Ltd	1,40,000	
P/L a/c	24,500	23,000			
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,2000

In the cash of B Ltd profit for the year 31.12.2014 is Rs. 12,000 and transfer to reserve Rs. 5,000. The holding of A Ltd in B Ltd is 90% acquired on 30.6.2014.

Draft a consolidated balance sheet of A Ltd and its subsidiary.

20. Prepare profit and loss a/c for the year ended 31st march 2014 of very sound Bank Ltd from the following particulars.

	Rs. ('000)		Rs. ('000)
Interest on loan 250	250	Discount on bills discounted	40
Interest on saving a/c	150	Rent, rates Insurance and lighting	15
Interest on cash credits	160	Auditors fees and expenses	10
Interest on fixed deposits	190	Directors fees and expenses	10
Interest on overdrafts	70		
Payments to employees	150		

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10x2= 20)

Answer ALL questions.

1. What is the meaning of shares?
2. What is pro-rata allotment?
3. Give the definition of preference shares.
4. What is meant by registered debenture?
5. What is merger of companies?
6. State the meaning of purchase consideration.
7. Define - subsidiary company.
8. What is capital profit?
9. Write the meaning of banking company.
10. Write is life assurance fund?

SECTION B – (5 x 5 = 25)

11. (a) Briefly explain the kinds of shares.

Or

(b) A Ltd. Company issued 25,000 equity shares of Rs. 100 each at a discount of 10%. Pass journal entry.

12. (a) State the provision for redemption of preference shares.

Or

(b) Mention the factors to be considered in relation to redemption of debentures.

13. (a) Write a short notes on – “Amalgamation, and absorption”.

Or

(b) Raman Ltd. Agrees to purchase the business of Krishna Ltd. On the following terms: for each of the 10,000 shares of Rs. 10 each in Krishnan Ltd. 2 shares in Raman Ltd. of Rs. 10 each will be issued at our agreed value of Rs. 12 per share. In addition, Rs. 4 per share cash also will be paid. Find out the amount of purchase consideration.

14. (a) X Ltd. Purchased 60% shares of Y Ltd. On 1.1.2012 when the balance on their profit and loss a/c and general reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2012, the balance of profit and loss a/c and general reserve were Rs. 4,00,000 and Rs. 3,00,000. Calculate capital profit and revenue profits.

Or

(b) What are the meanings of cost of control and minority interest?

15. (a) The following balances of Rajasthan Bank Ltd. On 31.3.2012.

Interest and discount Rs. 17,42,000

Rebate on bills discounted (1.4.2011) Rs. 12,500

Bills discounted and purchased Rs. 5,12,000

Rebate on bills discounted (31.3.2012 Rs. 22,700

Pass journal entries find out the adjustable amount.

Or

(b) Explain the types of general insurance.

SECTION C – (3 x 10 = 30)

Answer any three questions.

16. Ram Ltd. Issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

On application Rs. 25

On allotment Rs. 34

On first and final call Rs. 36

Application were received for 4,800 shares and all of these were accepted. All the money due was received expect the first and final call on 300 shares which were forfeited. 200 of these shares were reissued at Rs. 90 as fully paid. Pass journal entries and prepared balanced sheet.

17. A company wants to redeem its 10,000, 6% preference shares of Rs. 10 each, fully paid at 10% premium. The ledger accounts show the following balances.

Securities premium Rs. 2,000

Profit and loss a/c (Cr.) Rs. 10,000

The directors redeemed the shares by making minimum fresh issue of equity shares of Rs. 10 each at a premium of 5%. Give journal entries.

18. Pass journal entries for the following transactions in connection with internal reconstruction.

(a) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each.

(b) 300, 9% debentures of Rs. 1,000 each converted into 1500, 12% debentures of Rs. 100 each.

(c) The debit balance of profit and loss a/c Rs. 1,50,000 and the preliminary expenses rs. 30,000 were written off.

(d) The value of plant and machinery and stock were written down by Rs. 60,000 and Rs. 30,000 respectively.

19. From the balance sheets given below, prepare consolidated balance sheet

Balance sheet as at 31st December 2011.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Shares of Rs. 10 each	5,00,000	1,00,000	Fixed Assets	4,00,000	60,000
Profit and loss a/c	2,00,000	60,000	Stock	3,00,000	1,20,000
Reserves	60,000	30,000	Debtors	75,000	85,000
Bills payable	–	15,000	Bills receivable	20,000	–
Creditors	1,10,000	60,000	Shares in S Ltd. 7,500 at cost	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Other information:

a. The bills accepted by S Ltd. are all in favour of H Ltd.

b. The stock of H Ltd. Includes Rs. 25,000 bough from S Ltd. at a profit to later of 20% on sales.

c. All the profits of S Ltd. has been earned since the shares were acquired by H Ltd. but there was already the reserve of Rs. 30,000 at that date.

20. From the following particulars, prepare the fire insurance revenue a/c for 2011-2012.

	Rs
Claims paid	2,35,000
Legal expenses regarding claims	5,000
Premium received	6,00,000
Re-insurance premium	60,000
Commission	1,00,000
Expenses of management	1,50,000
Provision against unexpired risk on 1.4.2011	2,60,000
Claims unpaid on 1.4.2011	20,000
Claims unpaid on 31.3.2012	35,000

(For candidates admitted from 2008-2009 onwards)

M.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Commerce

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is the need for 'inflation accounting'?
2. Write a note on 'voluntary winding up'.
3. State the meaning of Amalgamation by merger.
4. Why the share capital is reconstructed?
5. What is a consolidated balance sheet?
6. Write a note on statutory reserve.
7. State the meaning of Reinsurance.
8. Mention any two features of double account system.
9. How are inventories defined in AS-2 Valuation of inventories?
10. How is opportunity cost of human resources obtained?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) From the following information calculate the

    Value of goodwill on the basis of 3 years purchase of super profit.

    Average capital employed in the business is Rs. 20,000

    Rate of interest expected from capital having regard to the risk involved is 10%

    Net trading profits of the firm for the past three years were Rs. 3504; Rs. 2803; and Rs. 3101

    Fair remuneration to the partners for their services is Rs. 480 per annum

    (b) You are required to calculate cost of sales adjustment from the following data:

	Particulars	Historical cost	Index for goods
01-01-97	Opening stock of goods	50,000	400
	Purchases	4,00,000	440
31-12-97	Closing stock	70,500	470

Index of goods as on 31-12-97 was 480. However, the closing stock of goods was actually acquired on 14-11-97 on which date the index of goods was 470. Purchases were made uniformly throughout the year.

12. (a) Following is the balance sheet of Samy Ltd. as on 31.3.2004.

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed	16,25,000
8% preference shares of Rs. 100	3,75,000	Assets	
Equity shares of		Investment	3,00,0000
Rs.. 10 each	7,50,000	Current	2,50,000
General Reserve	4,50,000	Assets	
7% Debentures	3,50,000		
Current liabilities	2,50,000		
	21,75,000		21,75,000

Romy Ltd. agreed to take over the business of Samy Ltd.

Calculate purchase consideration under Net assets method on the basis of the following:

Romy Ltd. agreed to discharge 7% debentures at a premium of 10% by issuing 9% debentures of Romy Ltd.

Fixed assets are to be valued at a 10% above book value, the investments at par, current assets at 10% discount and current liabilities at book value.

Or

(b) Kala Ltd's Balance sheet showed the following position on 31st March 1995.

Liabilities	Rs.	Assets	Rs.
Share :		Fixed assets	8,00,000
10000 equity shares of Rs. 100 each	10,00,000	Current assets	4,00,000
		Cash at bank	2,00,000
Capital reserve	2,00,000	Profit & Loss A/c	3,00,000
Bank Loan	2,00,000		
Sundry creditors	3,00,000		
Total	17,00,000	Total	17,00,000

Mala Ltd. was incorporated to take the fixed assets and 60% of the current assets at an agree value of Rs. 9,00,000 to be paid as to Rs. 7,40,000 in equity shares of Rs. 10 each and the balance in 9% debentures. The debentures were accepted by bank in settlement of loan. Remaining current assets realized Rs. 90,000. After meeting Rs. 20,000 expenses of liquidation, all the remaining cash was paid to the creditors in full settlement. Give the necessary accounts in both the companies.

13. (a) From the following balances prepare single column Profit and Loss Ale of Lakshmi Bank Ltd for the year ending 31.12.2002

Interest on cash credits and loans	1790
Interest on deposits	620
Administrative expenses	480
Discount	210
Commission and exchange	300
Rebate on bills discounted 1.1.2002	90

Determine the Profit after making a provision for rebate on bills discounted Rs. 290.

(b) The balance sheets of C Ltd. and D Ltd. as at 31st December, 2006 are as follows :

Liabilities	C Ltd Rs.	D Ltd Rs.	Assets	C Ltd. Rs.	D Ltd Rs
Share capital :			Sundry assets	1,32,500	1,38,200
In shares of Rs. 10 each	2,00,000	1,00,000	Goodwill	–	20,000
General Reserve	18,000	20,000	Shares in D Ltd. at cost	1,40,000	–
P&L A/c	24,500	23,000			
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

In the case of D Ltd. profit for the year ended 31st December, 2006 is Rs. 12000 and transfer to reserve is Rs. 5000. The holding of C Ltd. in D Ltd. is 90% acquired on 30th June 2006. Draft a consolidated balance sheet of C Ltd. and its subsidiary.

14. (a) The revenue account of a Life Insurance

Company showed the life fund at Rs. 73,17,000 on 31.3 .2006 before taking into account the following items

(i) Claims intimated but not admitted Rs. 98,250

(ii) Bonus utilized in reduction of premium Rs. 13,500

(iii) Interest accrued on investments Rs. 29,750

(iv) Outstanding premiums Rs. 27,000

(v) Claims covered under re insurance Rs. 40,500

(vi) Provision for taxation Rs. 31,500 Find out the correct Life Assurance fund

Or

(b) The Bangalore Municipal corporation replaces part of its existing water mains with larger mains at the cost of Rs. 7500000. The original cost of laying the old mains was Rs. 1500000 and the present cost of laying those mains would be three times the original cost Rs. 125000 was realized by the sale of old materials and old materials of Rs. 375000 were used in the replacement and included in the cost given above.

Give journal entries to record the above and show the allocation of expenses between revenue and capital along with Replacement Account.

15. (a) Explain the provisions regarding valuation of inventories as per AS - 2 Valuation of inventories.

Or

(b) Enumerate the different value based methods of valuing Human resources.

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. On 31st March 1998, balance sheet of Glorious Limited was as follows:

Liabilities	Rs.	Assets	Rs.
Share capital:		Good will	1,00,000
8% pref. shares of Rs. 100 each	2,00,000	Land & Building	2,20,000
4000 equity shares of Rs. 100 each fully paid	4,00,000	Machinery	3,00,000
		Furniture	40,000
General reserve	1,60,000	Investments in 4% govt, securities at cost (face value Rs. 80,000)	1,00,000
Capital reserve	20,000		
Profit & Loss A/c	1,20,000		
5% debentures	1,20,000	Stock	3,00,000
Sundry creditors	1,80,000	Sundry debtors	1,20,000
Provision for taxation	40,000	Cash at bank	60,000
Total	12,40,000	Total	12,40,000

The assets were revalued as under: Land & Buildings - 3,00,000, Machinery - 2,50,000, Furniture - 50,000. The normal return on capital employed for valuation of goodwill is 12%. The basis of valuation is being 4 years purchase of super profits. 50% of investments in building is treated as non trading asset because a sum of Rs. 15,000 is collected annually as rent from the building. Calculate the value of each equity share assuming that the average annual profit after tax at 50% is Rs. 1,40,000.

17. M Ltd and N Ltd. agreed to amalgamate on the basis of the following Balance sheets as on 31.3.2012.

Liabilities	M Ltd Rs.	N Ltd Rs.	Assets	M Ltd Rs.	N Ltd Rs.
Share capital:			Goodwill	30,000	–
Rs.25 each	75,000	50,000	Fixed assets	31,500	38,800
P&LA/c	7.500	2,500	Stock	15,000	12,000
Creditors	3,500	3,500	Debtors	8,000	5,200
Depreciation fund	–	2,500	Bank	1,500	2,500
	86,000	58,500		86,000	58,500

The assets and liabilities are to be taken over by a new company formed called P Ltd., at book values. P Ltd's capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs. 10 each and 10,000 9% preference shares of Rs. 10 each.

P Ltd issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price.

Prepare the consolidated balance sheet after making necessary adjustments.

18. The Balance sheets of H Ltd and S Ltd on 31st December 1991 were as follows:

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital:			Land and Buildings	3.10.000	1,60,000
10% pref. shares of Rs. 100 each	–	1,00,000	Machinery less 10% depreciation	2.70.000	1.35.000
Equity shares of Rs. 100 each	10,00,00 0	4,00,000	3000 shares in S Ltd	4.50.000	–
General Reserve	1,00,000	50.000	Stock at cost	2,20,000	1,50,000
P&LA/c balance on 1.1.90	40,000	30.000	Debtors	1,55,000	90,000
Profit for 1990		80,000	Cash and bank balance	85,000	1.95.000
Creditors	2,00,000	70,000			
	14,90,00	7,30,000		14,90,00	7,30,000

'H' Ltd. acquired 3000 equity shares in S Ltd on 1" July 1990. As on the date of acquisition, H Ltd., found that the value of Land and Buildings and Machinery of S Ltd should be Rs. 1,50,000 and Rs. 192500 respectively

Prepare the consolidated Balance sheet of H Ltd and its subsidiary S Ltd showing the assets at their proper values.

19. From the following Trial balance prepare the Revenue A/c and the Balance sheet of the Great Life Assurance Co. Ltd.

Trial Balance as on 31.3.2006

	Rs. '000		Rs. '000
Loans on policies	4,000	Premiums	3,65,900
Expenses of management	18,200	Profit on sale of investments	10,800
Deposit with RBI - Govt, of India securities	2,00,000	Claims admitted but not paid	58400
		Sundry trade creditors	7,000
Commission	9,800	Life assurance fund (1.4.05)	28,00,000
Freehold ground rents	1,68,000	Consideration for annuities granted	12,200
Bonus in cash	4,200		
Surrenders	21,100	Interest, dividends & rents-gross	1,20,500
Claims by maturity	1,04,700		
Claims by death	1,72,600		
House property	59,800		
Annuities paid	7,600		
Outstanding premiums	21,600		
Income tax on interest receipts	7,100		
Agents' balances	6,800		
Port trust debentures, interest and principal guaranteed by Govt.	5,28,200		
Cash at Bank, current A/c	12,700		
Cash in hand	1,750		
Foreign Govt, securities	1,42,500		
Office furniture	1,500		
Fully paid up share capital in limited liabilities companies registered in India	1,21,600		
Stock of policy stamps in hand	150		
Mortgage in India	6.61.400		
Mortgage out of India	2.06.400		
Loans on Govt. securities	7,19,000		
Loans on company policies	1,74,600		
	33,75,500		33,75,500

20. The XYZ Electricity company decided to replace some parts of its plant by an improved plant. The plant to be replaced was built in 2003 for Rs. 54,00,000. It is estimated that it

would now cost Rs. 80,00,-000 to build a new plant of the same size and capacity. The cost of the new plant of the same size and capacity. The cost of the new plant as per the improved design was Rs. 1,70,00,000 and in addition, material belonging to the old plant valued at Rs. 5,50,000 was used in the construction of the new plant. The balance of the old plant was sold for Rs 3,00,000. Compute the amount to be capitalized. Also show the Replace account.

(For candidates admitted from 2008-09 onwards)

B.Com. DEGREE EXAMINATION, APRIL 2016.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. Define - "Stock".
2. What is called-up-capital?
3. Write the meaning of "untraceable shareholders".
4. What do you mean by redemption of debenture?
5. Define "Absorption".
6. What is External Reconstruction?
7. Write the meaning of "Holding Company".
8. Define "Post Acquisition Profits".
9. State the meaning of money at call.
10. What is single premium?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) Briefly explain the types of preference shares.

Or

(b) B Limited company issued 50,000 equity shares of Rs. 10 each at a discount of 10%. Pass Journal entry.

12. (a) What is Debenture? Explain briefly about its' types.

Or

(b) The balance sheet of Exchange Ltd., as on 31.12.2014 was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital:		Sundry assets	9,20,000
50,000 equity shares of Rs. 10 each, fully paid	5,00,000	Bank balance	6,00,000
4,000 redeemable preference shares of Rs. 100 each fully paid	4,00,000		
Profit and loss a/c	5,20,000		
Creditors	1,00,000		
	15,20,000		15,20,000

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass Journal entries and Balance sheet.

13. (a) Briefly bring out the methods of Accounting for Amalgamation.

Or

(b) Ram Ltd agreed to absorb the business of Hari Ltd., the purchase consideration was as under :

For every 3 equity shares of Rs. 10 each in Hari Ltd., 8 equity shares in Ram Ltd., as Rs. 10 paid up. There were 90,000 equity shares in Hari Ltd. Find out purchase consideration amount.

14. (a) Write a short notes on proposed dividend and contingent liabilities in Holding company accounts.

Or

(b) P Ltd acquired 65% shares of Q Ltd. On 1.10.12 profit and loss a/c in the books of Q Ltd. Showed a debit balance of Rs. 40,000 on 1.4.12. On 31.3.13, the balance sheet of Q Ltd. Showed profit and loss a/c credit balance of Rs. 1,20,000. Calculate capital profit and revenue profits.

15. (a) Explain any five items requiring special attention in preparation of Final A/c's of Banking Companies.

Or

(b) The revenue account of a life assurance company shows the Life Assurance Fund on 31.3.2014 at Rs. 62,21,310, before taking into account the following :

	Rs.
Claims covered under reinsurance	12,000
Bonus utilised in reduction of fife insurance premium	4,500
Interest accrued on securities	8,260
Outstanding premiums	5,420
Claims intimated but not admitted	26,500

Find out the Life Assurance Fund after taking into account the above Omissions?

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. The Ever shine Co. Ltd., offered 5,000 shares of Rs. 100 each to the public at Rs. 95 payable as under :

    Rs. 15 on application

    Rs. 30 on allotment

    Rs. 25 on first call and

    Rs. 25 on final call.

    All the shares were applied for and allotted. Anand, to whom 500 shares were allotted, paid the whole of the sum due along with allotment (under arrangement with directors). Assume all sums were received. Pass journal entries and prepare Balance Sheet.

17. Explain the steps to solving problems in Redemption of Preference Shares.

18. Timex Ltd., issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company, if the debenture were issues as follows :

    Issued at par, redeemable at par

    Issued at a discount of 5%, repayable at par

    Issued at a premium of 10%, repayable at par

    Issued at par, redeemable at a premium of 10%

    Issued at a discount of 5%, repayable at a premium of 10%. You are also required to show how the items concerned appear in the Balance Sheet.

19. The Balance Sheet of Holding Co., and Subsidiary Co. as on 31.3.2014.

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
	Rs.	Rs.		Rs.	Rs.
Share capital			Sundry assets	2.23.000	1,52,000
Rs. 10 each	2,50,000	1,00,000	100% shares in B Ltd.	1.17.000	–
Reserves	50.000	25.000			
Creditors	40.000	30.000	Preliminary Expenses	–	3,000
	3,40,000	1,55,000		3,40,000	1,55,000

The shares of B Ltd. were acquired at Rs. 1,17,000 on 31.3.2014. Prepare Consolidated Balance Sheet as on 31.3.2014.

20. From the following particulars, prepare the profit and loss a/c of Chennai Bank Ltd. for the year ending 31st March 2012.

	Rs.
Interest on deposits	32,00,000
Commission (Cr.)	1,00,000
Interest on loans	24,90,000
Sundry charges (Dr.)	1,00,000
Rent and rates	2,00,000
Establishment expenses	5,00,000
Discount on bills discounted	14,90,000
Interest on overdraft	16,00,000
Interest on cash credits	23,20,000
Auditor's fees	35,000
Director's fees	16,000
Bad debts to be written off	3,00,000

(For candidates admitted from 2008 - 2009 onwards)

B.Com. DEGREE EXAMINATION, JULY 2016.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is Registered company?
2. What do you mean by Deferred shares?
3. Write the meaning of premium on redemption.
4. Define Redeemable preference share.
5. Write the meaning of Amalgamation'.
6. What is meant by Internal Re-construction?
7. What is Composite dividend?
8. What do you mean by Consolidated Profit and Loss a/c?
9. Write the meaning of share premium.
10. Give the meaning of 'Renewal of premium' in Insurance company.

SECTION-B (5x5=25)

Answer All Questions

11. (a) Define share and explain briefly about its types.

(or)

(b) Ram Ltd purchased assets of Rs. 8,00,000 from Anil Bros. it issued equity shares of Rs. 100 each fully paid up in satisfaction of their claim. Make journal entries to record these transactions.

12. (a) Explain the stages of Accounting for debentures.

(or)

(b) Modern Fibers Ltd., has part of its share capital as 5,000 Redeemable Preference shares of Rs. 100 each. When the shares became due for redemption, the company decided that the whole amount will be redeemed out of a fresh issue of equal amount of equity shares of Rs. 10 each. Show the journal entries in the books of the company.

13. (a) Bing out the methods of purchase consideration.

(or)

(b) B Ltd agreed to absorb A Ltd upon the following terms:

Shares of A Ltd. Are to be considered as worth Rs. 12 each of which shareholders are to be paid one quarter in cash and the balance in Rs. 100 shares of B Ltd. Which are to be issued at 25% premium. Total shares were: 10,000 in B Ltd. And 20,000 in A Ltd. Ascertain the number of shares to be issued by B ltd.

14. (a) Define dividend and explain its types.

(or)

(b) H Ltd purchased 75% of shares in S ltd. On 1.7.11. on 31.12.11 the Balance sheet of S ltd. Showed reserve fund balance on 1.1.11 Rs. 40,000, profit earned during 2011 Rs. 60,000 and preliminary expenses unwritten off Rs. 20,000. Calculate capital profits and revenue profits.

15. (a) What is NPA? Explain briefly about the some of Non-performing assets.

(or)

(b) The Revenue account of a life Insurance Company showed a balance of Rs. 4,75,000 at the end of 2013-14 before considering the following items:

	Rs.
(i) Bonus in reduction of premium	40,000
(ii) Outstanding premium	1,00,000
(iii) Interest accrued on investment	20,000
(iv) Claims intimated but not admitted	35,000
(v) Claims recovered under reinsurance	3,000

Find out adjusted Life Assurance Fund.

SECTION C – (3x10=30)

Answer all Three Questions

16. Nalli and Co. Ltd. Was registered with an authorized capital of Rs. 20,00,000

Divided into 20,000 shares of Rs.100 each. The company offered 12,000 shares to the public which were payable: Rs.20 per share on application, Rs.40 per share on allotment and Rs.40 on call. Applications for 18,000 shares were received on which the directors allotted as follows:

Applicants for 10,000 shares – full

Applicants for 5,000 shares – 2,000 shares,

Applicants for 3,000 shares – nil.

The excess application money was adjusted towards allotment. All the money due to on allotment and call was fully received. Pass journal entries.

17. What is equation for determining Redeemable preference shares plus premium on redemption and explain when to use the equation?

18. Moon Rays ltd. Issued 50,000 8% debentures of Rs. 10 each to the public at par, to be paid Rs. 40 on application and the balance on allotment.

Applications were received for 48,000 debentures.

Allotment was made to all the applications and the amount due was received promptly.

Give journal entries to record the transactions and show how these appear in the Balance Sheet.

19. The following Balance sheet as on 31.3.2014 are given

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
	Rs.	Rs.		Rs.	Rs.
Shares capital:			Sundry assets	20,000	12,000
In Re.1 fully paid shares	12,000	6,000	Investment 6,000 shares		
Reserves	3,000	2,000	In S ltd.	7,5000	–
Profit and Loss a/c	2,000	1,000			
Sundry liabilities	10,500	3,000			
	27,500	12,000		27,500	12,000

H ltd has acquired shares in S ltd. On 31.3.2014. Prepare Consolidated Balance sheet as on 31.3.2014.

20. Prepare the profit and loss account for the year ended 31.03.2014 of Kasinathan Bank Ltd from the following particulars.

	Rs.
Interest on loan	2,50,000
Interest on savings account	1,50,000
Interest on cash credits	1,60,000
Interest on fixed deposits	1,90,000
Interest on overdrafts	50,000
Amount charged against current accounts	20,000
Rebate on bills discounted	19,000
Salaries and allowances	1,20,000

Discount	40,000
Rent, tax, insurance etc	5,000
Dearness allowances	35,000
Commission, brokerage and exchange	15,000
Managing director's salary	15,000
Contribution to provident fund	10,000

(For candidates admitted from 2008-2009 onwards)

M.Com. DEGREE EXAMINATION, APRIL 2016.

Commerce

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

PART A — (10x2 = 20)

Answer ALL questions.

1. What do you mean by Net asset?
2. What do you mean by Insolvent?
3. What is "Merger"?
4. Write short note on "scheme" of capital reduction?
5. What is Minority interest?
6. What do you mean by Non—banking Assets?
7. What is Annuities?
8. State any two features of double account system
9. Write the formula under Reward valuation method of Human Resource Accounting.
10. What is a "Contingency" as per AS-4?

PART B – (5×5=25)

Answer all questions.

11. (a) A truck dealer acquired 6 trucks on 1—97 at Rs. 2,00,000 each. His capital on that data was Rs. 12,00,000. During the year he sold 4 trucks at an average price of Rs. 3,00,000. The replacement dealer price of the truck on 3-12-97 was Rs. 2,40,000. General price level went up by 10% during the year. You are required to show comparative income statement under CPP and CCA methods, clearly showing the realized and unrealized holdings gains.

Or

(b) From the following information calculate the value of goodwill on the basis of 3 years purchase of super profit.

(i) Average capital employed in the business is Rs. 20,00,000

(ii) Rate of interest expected from capital having regard to the risk involved IS 10%.

(iii) Net trading profits of the firm for the past three years were Rs. 3,50,400; Rs. 2,80,300 and Rs. 3,10,100.

(iv) Fair remuneration to the partners for their services is Rs, 48,000 per annum.

(v) Sundry assets of the firm are Rs. 23,50,400 and current liabilities are Rs. 95,110.

12. (a) B Ltd. Agreed to absorb A Ltd. Upon the following terms: Shares of A Ltd. Are to be considered as worth Rs. 12 each (of which shareholders are to be paid one quarter in cash and the balance in Rs. 100 shares of B Ltd. Which are to be issued at 25% premium. Total shares were: 10,000 in B Ltd. And 20,000 in A Ltd. Ascertain the number of shares to be issued by B Ltd.

Or

(b) Muthu Ltd. Has share capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, fully paid. Show the entries under each of the following conditions: (i) when Marshall Ltd. Resolves to sub-divide the shares into 20,000 shares of Rs. 10 each fully paid. (ii) when Marshall Ltd., resolves to convert its 2,000 shares of Rs. 100 each into Rs. 2,00,0000 worth of stock. Give journal entries.

13. (a) The following accounts are extracted from the Trial Balance of Rajasthan Bank on 31-3-2010

	Dr. Rs.	Cr. Rs.
Interest and discount	–	17,42,000
Rebate on bills discounted	–	12,500
Bills discounted and purchased	5,12,000	

It is ascertained that proportionate discount not yet earned on the balance of bills discounted which will mature in 2010-11 amounts to Rs. 22,700. Pass the necessary adjustment entries.

Or

(b) On 30.6.2009 2/3rd of the shares of S Ltd. (with a total capital of Rs. 12,00.000) were acquired by H. Ltd. The balance sheet of 'S' Ltd. showed a debit balance of Rs. 6,00,000 on 1.1.2009 and a credit balance of Rs. 3,60,000 on 3.12.2009. The investment made by "H" Ltd. in "S" Ltd's shares is Rs. 9,00,000. Calculate the cost of control.

14. (a) From the following, you are required to calculate the amount on account of claim to be shown in the revenue account for the year ending 31st Dec. 2013.

Intimated in	Admitted in	Paid in	Rs.
2012	2012	2013	15.000
2013	2013	2014	10.000
2011	2012	2012	5,000
2011	2012	2013	12,000
2013	2014	2014	8,000
2013	2013	2013	1,02,000

Claim on account of reinsurance in 2013 was Rs. 25,000.

Or

(b) From the following particulars, draw up

(i) Balance Sheet as on 3 1.12.2013 on the basis of the Single-Account System-and

(ii) The Capital A/c and the General Balance Sheet, as on the same date, under the Double Account System: Authorised Capital: 3,000 shares of Rs. 10 each, of which issued and paid up capital is Rs. 27,000; 6% Debentures Rs. 3,000 ; Trade creditors Rs, 1,600 ; Trade Debtors Rs. 3,800; Cash at Bank Rs. 3,500; Stock - in - Trade Rs. 2,400; Profit & Loss A/c Rs. 1,600; Land Rs. 3,700; Machineries Rs. 16;000; Shafting Rs. 5,000; Buildings Rs. 1,300; Depreciation Fund (machinery) Rs. 2,500.

15. (a) Distinguish between:

(i) Historical cost approach and replacement cost approach

(ii) Net benefit model and equivalent net benefit model.

Or

(b) How are 'Inventories' defined in AS-2(Valuation of inventories? What should financial statements 'Disclose' in relation to 'inventories' as per AS-2?

PART C — (3 x 10 = 30)

Answer any THREE questions.

16. From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator's final statement of account.

(a) Cash with liquidator (after all assets are realised and secured creditors and debenture holders are paid) is Rs. 6,73,800.

(b) Preferential creditors to be paid Rs. 30,000.

(c) Other unsecured creditors Rs. 2,15,000.

(d) 4,000, 6% preference shares of Rs. 100 each, fully paid.

(e) 2,000 equity shares of Rs. 100 each, Rs. 75 per share paid up.

(f) 6,000 equity shares of Rs. 100 each, Rs. 60 per share paid up.

(g) Liquidator's remuneration 2% on preferential and other unsecured creditors.

(h) Preference dividends were in arrears for 2 years.

17. The Balance Sheet of Nipun Ltd. on 31st March 2006 was as follows:

Liabilities	Rs.	Assets	Rs.
8% preference share of Rs. 10 each	50.000	Goodwill	90.000
Equity Share of Rs. 10 Each	2,50,000	Land & Buildings	1,40,000
General reserve	20,000	Machinery	37,500
(6% Debentures (Rs. 100 each)		Furniture	15.000
Bank overdraft	28,500	Preliminary expenses	1,000
Creditors	40,000		
		Profit & Loss A/c	1.25.000

The capital reduction scheme, approved by the court is as under:

(a) Holders of 6% debentures of Rs. 100 are to be given 8% debentures of Rs. 50 and preference share of Rs. 10 each of equal amount, for the remaining amount of Rs. 5

(b) The value of all preference shares including the preference shares given to debentures as shown above, is to be reduced to Rs. 6 and dividend rate is to be increased up to 9%.

(c) The value of equity shares is to be reduced to Rs. 2 each.

(d) The existing equity shareholders are to purchases additional equity shares of Rs. 1,00,000 for cash to pay off the bank overdraft.

(e) All fictitious and intangible assets are to be

Written off and machinery and furniture are to be written off in proportion of book values, with the help of general reserve and capital reduction A/c.

Pass necessary journal entries in the books of the company to record the above transactions prepare the company's balance sheet after such changes.

18. The Summarised Balance Sheet of H Ltd. and its S Ltd. 31st December 2014 are as follows:

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Share capital (in shares of Rs. 10 each)	5,00,000	1,00,000	Assets	50,00,000	1,70,000
			8,000 shares in S Ltd.	1,40,000	
Reserves	80,000	30.000			
Profit and Loss	60,000	40.000			
	6,40,000	1,70,000		6,40,000	1,70,000

S Ltd. had the credit balance of Rs. 30,000 in the reserves when H Ltd. acquired shares in S Ltd. decided to make a bonus issue out of post- acquistion profit of two shares of Rs. 10 each fully (paid for every five shares held. Calculate the cost of control before the issue if bonus shares and after the issue of bonus shares. Also make the consolidated balance sheet after the issue of bonus shares.

19. The following balances are extracted from the hooks of a life insurance business as, on 31st March 2006:

Life assurance fund as on 1.4.05	5,06,000
Premiums	90,000
Reinsurance premium paid	2,075
Fines for revival of policies	15
Consideration for annuities granted	1500
Management expenses	21,000
Income tax	850
Commission	18,650
Claims	440,000
Interest, dividend etc.	20,000
Surrenders	3,250
Medical fees	1,505
Annuities	1,955
Bonus in cash	1,600

Prepare the Revenue A/c for the year 2005-06 after making the following adjustments:

Claim payable	9,250
Interest accrued on investment	2,695
Medical fees outstanding	375
Outstanding premium	3,750
Commission payable	750

A claim of Rs. 500 Thousands included in the above claims payable is to be written of as it is ten years old and is not likely to arise. The managing director is to be paid at the rate of 5% on the net increase of Life Assurance Fund during the year before providing such commission.

20. The following balances have been extracted at the end of March 2009, from the books of an electricity company:

Share Capital	Rs. 2,00,00,000
Fixed assets	5,00,000
Depreciation Reserve on Fixed Assets	60,00,000
Reserve Fund (invested in 8% Govt, Securities at par)	1,20,00,000
Contingency Reserve invested in 7% State Loan	24,00,000
Consumers' deposit	80,00,000
Amount contributed by consumers towards cost of fixed assets	4,00,000
Tariffs and dividends control reserve	20,00,000
Development Reserve	16,00,000
12% Debentures	40,00,000
Loan from State Electricity Board	50,00,000
Intangible assets	16,00,000
Current assets (monthly average)	30,00,000

The company earned a profit of Rs. 56,00,000 (after tax) in 2008-09. Show how the profits have to be dealt with by the company assuming the (bank rate was 10%. All workings should form part of your answer.

THIRUVALLUVAR UNIVERSITY

APRIL 2012

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

All questions carry equal marks.

1. What do you mean by 'Issue of shares at premium'?
2. State the different kinds of shares.
3. What is Redeemable debentures?
4. What is meant by issues of debentures at premium?
5. What is acquisition of business?
6. What do you mean by purchase consideration?
7. What is profit prior to incorporation?
8. What is Absorption?
9. What is Liquidation?
10. What is statement of affairs?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

All questions carry equal marks.

11. (a) Explain the types of share capital.

Or

(b) Ram Ltd. invited applications for 1,40,000 shares of Rs. 10 each payable Rs. 2 on application, Rs. 2 on allotment, and Rs. 6 on first and final call. The company received applications for 2,00,000 shares and pro-rata allotment was made. Pass necessary journal entries.

12. (a) Explain the different kinds of debentures.

Or

(b) Inco Ltd., had issued 50,000 redeemable preference shares of Rs. 10 each, in order to redeem these shares, the company issued 30,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The Balance was met out of the Reserve Fund which stood at Rs. 2,50,000. Pass necessary entries.

13. (a) Rajah ltd., was incorporated on 1.7.2009,which took over a running concern with effect from 1.1.2009. The sales for the period upto 1.7.2009 was Rs. 2,70,000 and the sales from 1.7.2009 to 31.12.2009 amounted to Rs. 3,30,000. The expenses debited to profit and loss a/c included :

	Rs.
(i) Director's fees	15,000
(ii) Bad debts	1,800
(iii) Advertisement (Rs. 500 per month)	6,000
(iv) Salaries and general expenses	32,000
(v) Preliminary expenses written off	3,000

The gross profit was (1.1.2009 ; 31.12.2009) Rs. 2,40,000. Ascertain the profit prior to incorporation.

Or

(b) Give a specimen for profit and loss appropriation a/c.

14. (a) Explain the various methods of purchase consideration.

Or

(b) What are the merits of amalgamation?

15. (a) The following particulars relate to a limited company which went to voluntary liquidation:

	Rs.
Preferential creditors	25.000
Unsecured creditors	58.000
6% debentures	30.000

The assets realised Rs. 80,000. The expenses of liquidation amounted Rs. 1,500 and the liquidator's remuneration was agreed at $2^1/_2$% on the amount realised and 2% on the amount paid to unsecured creditors including preferential creditors.

Show that liquidator's final statement of account.

Or

(b) Give a specimen of liquidator's final statement of account with imaginary figures.

SECTION C— (3 x 10 = 30 marks)

Answer any THREE questions.

All questions carry equal marks.

16. Surya Ltd., issued 50,000 equity shares of Rs. 10 each at a premium of 10% payable as under :

On application Rs. 3

On allotment Rs. 5 (including premium)

On first and final call Rs. 3.

All the money were duly received except the first and final call of 500 shares. These shares were, therefore, forfeited and taker on reissued at Rs. 9 per share. Give journal entries.

17. State the procedure relating to redemption of preference shares.

18. From the under mentioned Trial Balance of Beta Brothers Ltd., prepare a trading and profit and loss account and the Balance Sheet as at the date.

Debit balance	Rs.	Credit balance	Rs.
Opening stock	30,000	Equity share capital (Rs. 100 each)	1,00,000
Rent	6,000		
Purchases	60,900	5% debentures	25,000
Wages	55,200	Sales	1,75,000
Discount	1,500	Creditors	8,000
Fuel	2,570	Discount	2,200
Building	70,000	Transfer fees	200
Carriage in wards	1,175		
Debtors	20,000		
Plant & machinery	25,000		
General expenses	4,400		
Bad debts	1,030		
Debenture interest (for half year)	625		
Insurance premium	1,000		
Cash	3,000		
Goodwill	28,000		
	3,10,400		3,10,400

(a) Stock as on 31.12.2009 Rs. 2,00,000.

(b) Depreciate plant and machinery @ 9%

(c) Provide 2% on debtors as reserve for doubtful debts.

19. Give the model entries to close the books of the company being winding up in case of Amalgamations.

20. Differentiate statement of Affairs from Balance sheet.

SCM41 — ADVANCED CORPORATE

NOVEMBER 2012

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL the questions.

Answers not to exceed 50 words.

1. Define a 'Holding company'
2. N Ltd. purchased 60% shares of M Ltd. on 1.1.10 when the balance on their P & L a/c and general reserve were Its. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2010, the balance sheet of M. Ltd. showed P & L a/c balance of Rs. 4,00,000 and General Reserve Rs. 3,00,000. Calculate capital profits and revenue profits.
3. What is meant by non-performing assets?
4. Pass journals in the books of XYZ Hank Ltd. for the following transactions :
   (a) Rebate on bills discounted at the beginning Rs. 4,000.
   (b) Unexpired discount at the end - Rs. 5,000.
5. What is Re-Insurance?
6. From the following calculate the claim amount to be shown in Revenue Account :

	Rs.
Total claim paid during the year	64.500
Outstanding claims at the beginning	13,500
Outstanding claims at the end	9,000
Reinsurance claim recovered	12.500

7. How do you calculate the value of goodwill under yield method?
8. How do you calculate the value of shares under net asset method?
9. Write down the conversion factor used for restating the closing stock and purchases?
10. Compute the Net monetary gain or loss from the. following information :

	1.4.01 Rs.	31.5.02 Rs.
Monetary asset	60,000	60,000
Monetary liabilities	80,000	80,000
Retail price index	150	180

SECTION B — (5 x 5 = 25 marks)

Answer ALL the questions.

Answer not to exceed 200 words.

11. (a) Briefly discuss the methods of valuation of Goodwill.

Or

(b) Explain the methods of valuation of Equity shares.

12. (a) The following are the balance sheets of H Ltd. and S Ltd. as on 31.12.2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital of Rs. 10 each	50.000	25,000	Sundry assets	32.500	30,000
Profit and Loss account	10.000	2,500	investments in 2,500 shares S Ltd. at cost	37.500	–
General reserve	5.000	2,000			
Sundry creditors	5.000	500			
	70,000	30,000		70,000	30,000

H Ltd., acquired shares in S Ltd., on 31.12.2010. Prepare consolidated Balance sheet.

(b) The Balance sheets of C Ltd., and D Ltd., as at 31st December, 1986 are as follows :

Liabilities	C Ltd. Rs.	D Ltd. Rs.	Assets	C Ltd. Rs.	D Ltd. Rs.
Share capital of Rs. 10 each	2,00,000		Goodwill		20,000
General Reserve	18,000	1,00,000	Sundry assets	1,32,500	1,38,200
Profit & Loss a/c	24,500	43,000	Shares in D Ltd at cost	1,40,000	
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

C Ltd acquired 90% of D Ltd shares on 30.6.86. On 1.1.86 the Profit and Loss account of D Ltd., was Rs. 17,000 prepare consolidated balance sheet.

13. (a) On 31st March 2010, Imperial Bank ltd. Find its assets classified as follows :

	Rs.
Standard assets	14,91,300
Sub-standard assets	92,800

Doubtful assets (Secured) :	25,660
Doubtful for one year	15,640
Doubtful for one year to 3 year	6,580
Doubtful for more than 3 year Loss assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned assets.

Or

(b) From the following information relating to Malarkodi Bank Ltd. Prepare the Profit and Loss a/c. for the year ended 31st December 2010.

	Rs.
Rent received	72,000
Exchange and commission	32,800
Interest on fixed deposits	11,00,000
Interest on overdrafts	2,16,000
Interest on SB Account	2,72,000
Discount on bills discounted	7,80,000
Interest on current a/c	1,68,000
Interest on cash credits	8,92,000
Depreciation of Bank property	20,000
Salaries Postage	2,18,800
Sundry charges	5,600
Audit fees	4,000
Printing	16,800
Law charges	8,000
Locker rent	3,600
Transfer Fees	1,400,2,800
Interest on loans	10,36,000

14. (a) The Revenue account of a life insurance company shows the life assurance fund on 31.3.2010 at Rs. 62,21,310 before taking the following into account:

		Rs.
(i)	Claims covered under reinsurance	12,000
(ii)	Bonus utilized in reduction of premium	4,500
(iii)	Interest accrued on securities	8,260
(iv)	Outstanding premium	5,420
(v)	Claims intimated but not admitted	26,500

What is the correct life assurance fund?

Or

(b) From the following particulars prepare Fire Revenue a/c for the year ended 31st December 2010.

	Rs.
Claims paid	1,17,500
Legal expenses regarding claims	2,500
Premium received	3,00,000
Reinsurance premium paid	30.000
Commission	50.000
Expenses of Management	75,000
Provision against unexpired risk on 1.1.2010	1,30,000
Claims unpaid on 1.1.2010	10,000
Claims unpaid on 3 1.12.2010	17,500

15. (a) From the following information, prepare the Revenue account of Bharathiyar Insurance Co. for the year ended 31st March 2010.

	Rs.
Provision for unexpired risks on 1.4.2009	80,000
Estimated liability in respect of outstanding claims :	
On 31st March 2009	10,000
On 1st April 2010	15,000
Medical expenses regarding claims	1,000
Claims paid	70,000
Reinsurance premiums	14,500
Reinsurance recoveries	1,500
Premiums	1,90,000
Commission on direct business	25.000
Commission on reinsurance ceded	3.000
Commission Re insurance accepted	1.000
Management expenses	55,000
Refund of double taxation	600
Interest and dividends	8,000
Legal expenses Regarding	1,500
Profit on investments during the year	1,750
Additional reserve on 31.3.2009	60.000

Additional Reserve is to be in increased by 10% of the net premium income. Prepare Revenue Account by keeping the reserve for unexpired risk at 50% premium income.

(b) On 31st December, 1995, the Balance sheet of X Company Ltd., disclosed the following position.

Liabilities	Rs.	Assets	Rs.
40,000 shares of Rs. 10 each	4,00,000	Fixed assets	5,00,000
Reserves	90,000	Current assets	2,00,000
Profit and loss account 5%	20,000	Goodwill	40,000
Debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31.12.1995, fixed assets and goodwill are valued at Rs. 3,50,000 and Rs. 50,000 respectively. Last three year's profits are given below :

1993 - Rs. 51,500; 1994 - Rs. 52,000; 1995 - Rs. 61,650

From this every year 20% transferred to reserve. The same type of business earn 10% rate of profit. From the above calculate the value of shares under yield method.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Answers not to exceed 500 words.

16. What is Current purchasing power method and explain how the general price level gain or loss is computed under this method.

17. From the following particulars of Vijaya Bank Ltd., prepare Balance sheet as on 31.03.2006.

Particulars	Rs.
Authorized share capital	20,00,000
Subscribed share capital	10,00,000
Investment	35,00,000
Bills Discounted	75,00,000
Profit and loss account	4,25,000
Endorsement on bills for collection	50,000
-Liability of customers for Acceptances	25,00,000
Money at call and short notice	45,00,000
Cash in hand	10,00,000
Cash with RBI	20,00,000
Statutory Reserve	15,00,000
Letter of credit issued	2,50,000
Telegraphic transfer payable	4,00,000

Bank draft payable	6,00,000
Short loans	20,000
Rebate on bills discounted	5,000
Acceptances of customers	25,00,000
Loans and advances	50,00,000
Cash credit	50,00,000
Bank overdraft	5,00,000
Bills purchased	5,00,000
Current deposit account	2,50,00,000
Investment fluctuation account	50,000
Bills for collection	50.000
Buildings	5,00,000

18. The following balances were extracted from the books of New Bharat Life Insurance Company Ltd., as on 31.12.1998.

	Rs.
Life Assurance Fund	15,00,000
Premium	4,96,000
Consideration for annuities	15,00
Interest and dividend	1,00,000
Fines for revival of policies	750
Reinsurance premium	20,750
Claims outstanding (1.1.98)	4,500
Claims paid during the year	64,900
Annuities	2,050
Bonus in reduction of premium	1,600
Medical fees	2,400
Surrenders	4,000
Commission	18,650
Management expenses	22.000

Prepare Revenue account after making the following adjustments :

(a) Outstanding balances :

Claim	Rs. 14, 000
Premiums	Rs. 4,600

(b) Further bonus in reduction of premium Rs. 2,400.

(c) Claims under re-insurance Rs. 8,000.

19. The following balance sheets are presented to you as on 31.12.1982.

Liabilities	X Ltd. Rs. (000's)	Y Ltd. Rs. (000's)	Assets	X Ltd. Rs. (000's)	Y Ltd. Rs. (000's)
Share capital of Rs. 10 each	1,000	250	Goodwill	100	50
			Building	200	100
Reserves on 1.1.81	200	80	Machinery	500	200
Sundry creditors	200	100	Stock	200	100
Bills payable	50	30	Debtors	340	70
P/L a/c on 1.4.81	60	60	Investments	240	30
P/L&A/c for 81-82	150	50	Bills receivable	30	20
			Cash at bank	50	
	1,660	570		1,660	570

X Ltd., acquired 15,000 shares of Y Ltd., for Rs. 1,90,000 on 1.4.81.

Sundry debtors of X Ltd., include Rs. 30,000 due from Y Ltd.,

Bills receivable of Y Ltd., include Rs. 10,000 due from X Ltd.,

The stock of Y Ltd., include goods purchased from X Ltd., at Rs. 10,000 which includes profit charged by X Ltd., at 25% on cost.

Prepare consolidated Balance sheet of X Ltd., and its subsidiary Y Ltd., as on 31.03.1982.

20. On 31.12.1998 the Balance Sheet of United Company Ltd., was as follows :

Liabilities	Rs.	Assets	Rs.
10,000 Equity shares of Rs. 100 each fully paid up	10,00,000	Land & Building	4,40,000
Profit and loss account	2 00 000	Plant & Machinery	1,90,000
Creditors	1,80,000	Stock	7,00,000
Provision for taxation	1,00,000	Debtors	3,00,000
Proposed dividend	1,50,000		
	16,30,000		16,30,000

The net profit of the company after providing for taxation was :

1994 - Rs. 1,70,000; 1995 - Rs. 1,92,000; 1996 - Rs. 1,80,000; 1997- Rs. 2,00,000; and 1998 - Rs. 1,90,000.

On 31.12.1998 the Land and Building was revalued at Rs. 5,00,000, Plant and Machinery at Rs. 3, 00,000 and debtors at 10% less. In view of the nature of the business it is considered 10% is a reasonable return on investment.

Calculate the value of company's share, valuing goodwill at five year's purchase of annual super profits.

April/May 2013

Corporate Accounting – II

1. What is Insurance?
2. What do you understand by “Life Assurance Fund”?
3. What are the different methods of calculation of goodwill?
4. State any two advantages of holding companies.
5. 5. What is Inflation Accounting?
6. How goodwill is calculated?
7. What is Holding company?
8. What is Valuation Balance Sheet?
9. What is Life Insurance?
10. What is Revenue Account?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) From the following particulars relating to the business of Mr. X, compute the value of goodwill on the basis of three years purchase of super profit taking average of last four years. Capital invested - Rs. 30,000; Market rate of interest on investment - 12%; Rate of risk return on capital invested - 3%; Managerial remuneration of the proprietor if employed elsewhere - Rs. 7,500 p.a.

Trading list:

	Rs.
Profit	
Profit	15.000
Loss	2,000
Profit	22.000

Or

(b) Greener Ltd. proposed to purchase the business carried on by Thiru. Dass. (Goodwill for this purpose is agreed to be valued at three year’s purchase of the average profit of the past four years.

The appropriate weight to be use are :

1994 - 1; 1995 - 2; 1996 - 3; 1997 - 4

Profit for these years were :

1994 - Rs. 10,000; 1995 - Rs. 11,000; 1996-Rs. 12,000; 1997 - Rs. 15,000

Compute the value of the goodwill of the firm.

12. (a) From the following balances prepare the

Profit and Loss A/c of Canara Bank in the revised format.

	Rs.
Interest received	5,42,260
Discount received	2,43,760
Commission received	44,240
Interest on deposits	1,60,520
General expenses	1,82,420
Bad debts	1,28,710

Note : Rebate on bills discounted Rs. 64,380.

Or

(b) From the following particulars prepare Profit and Loss A/c of Safety bank for the year ended 31st March 1996 :

	Rs. ('000)
Interest on deposits	3,200
Commission (Cr)	100
Interest on loans	2,490
Sundry charges (Dr)	100
Rent and taxes	200
Payment to employee	500
Discount on bills discounted	1,490
Interest on overdraft	1,600
Interest on cash credit	2,320
Auditor's fee	35
Director's fee	16
Bad debts to be written off amounted to	300

13. (a) From the following particulars prepare the

Fire Insurance Revenue Account for the year 2001.

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2001	3.30.000
Additional reserve on 1.1.2001	1.40.000
Claims unpaid on 1.1.2001	25.000
Claims unpaid on 31.12.2001	35.000

Increase the additional reserve on 31.12.200i by 10% on the net premium.

Or

(b) From the following particulars prepare the Fire Insurance Revenue Account for 1997.

	Rs.
Claims paid	2,40,000
Premiums received	6,00,000
Reinsurance premiums	60,000
Commission	1,00,000
Expenses of management	1,50,000
Provision against unexpired risk on 1.1.97	2,60,000
Claims unpaid on January 1, 1997	20,000
Claims unpaid on December 31, 1997	35,000

Make provision against unexpired risk at the end of the year at 50% of net premiums.

14. (a) From the following Balance Sheet of H Ltd. and S Ltd. prepare a Consolidated Balance Sheet of H Ltd. and S Ltd.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital (Shares of Re. 1 each)	12,000	5.000	Sundry asset	20,000	8,000
			Investment in 5,000 shares of S Ltd.	6,500	

Reserve	5.000	1,000		
P and L A/c	2,000	1,000		
Sundry creditors	7,500	1,000		
	26,500	8,000	26,500	8,000

Share were acquired by H Ltd., in S Ltd. on 30.6.98. S Ltd. transferred Rs. 500 from profits to reserve on 31.12.98.

Or

(b) What are the various reasons for valuing shares?

15. (a) From the following information calculate the average index for current purchases :

		Price Index
Stock on 1.4.2002	Rs. 8,000	120
Purchases	Rs. 30,000	Average for 2002-03 = 160
Stock on 31.3.2003	Rs. 7,000	200

Or

(b) State the merits of Inflation Accounting.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Each answer not to exceed 500 words.

16. The following are the figures extracted from the books of New Bank Ltd., as on 31.3.99. Prepare the Profit and Loss A/c as per the revised format with all necessary schedules :

	Rs.
Interest and discount received	37,05,738
Interest paid on deposits	20,37,452
Issued and subscribed capital	10,00,000
Salaries and allowance	2,00,000
Director's fee	30,000
Rent and taxes paid	90,000
Postage and Telegram	60,286
Statutory reserve fund	8,00,000
Commission, exchange and brokerage received	1,90,000
	65,000
Rent received	2,00,000

Profit on sale of investment	30.000
Depreciation on bank property	40.000
Stationery expenses	25,000
Preliminary expenses	5,000
Auditor fee	

Additional information :

(a) A customer to whom a sum of Rs. 10 lakhs has been advanced became insolvent and only 50% can be realized from his estate.

(b) There were also debts for which a provision of Rs. 1,50,000 was found necessary.

(c) Rebate on bills discounted on 31.3.98 Rs. 12,000 and on 31.3.99 was Rs. 16,000.

(d) Provide Rs. 6,50,000 for income tax,

(e) Directors recommended 10% dividend.

17. On 31.3.09 the fixed assets were valued a Rs. 7,00,000 and the goodwill at Rs. 1,00,000. The net-profits for the last 3 years were as follows:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed assets	10,00,000
(Rs. 10 each)	8,00,000	Current assets	4,00,000
Reserve and L A/c	1,80,000	Goodwill	80,000
5% debenture	40,000		
Creditors	2,00,000		
	2,60,000		
	14,80,000		14,80,000

Out of the profits 20% was placed to reserve account each year. A fair investment return may be taken of 10% compute the value of the shares by (a) Net asset method (b) Yield method.

	Rs.
Profit for the year ending 31.3.2007	1,03,200
Profit for the year ending 31.3.2008	1,04,000
Profit for the year ending 31.3.2009	1,03,300

18. Prepare a Revenue A/c in respect of fire business from the following detail for the year 1997-98.

	Rs.
Reserve for unexpired risk on 1.4.97 @ 50%	1,80,000
Additional reserve	36.000

Estimated liability for claim intimated	
on 1.4.97	31.000
on 31.3.98	42,000
Claims paid	3,65,000
Legal expenses	6,000
Medical expenses	4,000
Re-insurance recoveries	32,000
Bad debts	800
Premium recovered	4,86,000
Premium on re-insurance accepted	32,000
Premium on re-insurance ceded	43,000
Commission on direct business	48,600
Commission on re-insurance accepted	1,600
Commission on re-insurance ceded	2,150
Expenses on management	90,000
Interest, dividend and rent	24,000
Profit on sale of investment	3,000

Created reserve on 31st March 1998 to the same extent as on 1st April 1991.

19. A new machine was purchased on 1.1.2002 at a cost Rs. 10,00,000 and its useful life was estimated) to be 10 years. On 1.1.2007 a new machine similar to this cost Rs. 18,00,000 and on 31.12.2007 Rs. 20,00,000. Calculate the amount of depreciation for 2007 assuming that there is no change in the estimated life of the asset.

20. From the following Balance Sheet of H Ltd., and its subsidiary S Ltd., drawn upto 31st March, 1999, prepare a Consolidated Balance Sheet and at that date having regard to the following :

(a) Reserves and P and L (Cr) of S Ltd. stood as Rs. 25,000 and Rs. 15,000 respectively on the date of acquisition of its 80% shares by H Ltd., and

(b) Machinery (book value Rs. 1,00,000) and furniture (book value Rs. 20,000) of S were revalued at Rs. 1,50,000 and Rs. 15,000 respectively for the purpose of fixing the price of its shares : book values of others assets remaining unadjusted.

Balance Sheet of H Ltd. and S Ltd. as on
31st March 1999.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital	5,00,000	1,00,000	Machinery	3,00,000	90.000
Reserve	2,00,000	75,000	Furniture	50,000	17.000

P and L A/c	1,00,000	25,000	Other assets	4,40,000	1,43,000
Editors	1,50,000	50,000	Shares in S Ltd. 800 @ Rs. 200 each	1,60,000	
	9,50,000	2,50,000		9,50,000	2,50,000

APRIL/MAY 2014

UCM31/UFA31/SCM31 — CORPORATE ACCOUNTING —I

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is meant by forfeiture?
2. What is the purpose of Debenture Redemption Reserve Account?
3. State the meaning of profit prior to incorporation.
4. Define Amalgamation.
5. What is liquidation?
6. N Ltd issued 2000 equity shares of Rs. 10 each at a premium of Rs. 2. Give journal entry.
7. Give journal entry for debentures when issued at premium and redeemable at par.
8. Calculate sales ratio from the following

   Sales upto the date of incorporation Rs. 1,00,000

   Sales upto the date of balance sheet Rs. 2,00,000

   Total sales for the year Rs. 3,00,000.
9. 1,000 equity shares of Rs. 100 each are reduced to shares of Rs. 10 each under the reduction schem. Give journal entry.
10. From the following information identify preferential creditors

Unsecured creditors Rs. 3,80,000 one month salary in arrears Rs. 4,000 bank overdraft Rs. 40,000 secured creditors Rs. 1,00,000.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Write a note on issue of shares at par, premium and discount.

Or

(b) M Ltd. invited application for 20,000 shares of Rs. 100 each at discount of 6% payable as follows.

On application Rs. 20, on allotment Rs. 39, on first and final call Rs. 35. Applications were received for 18,000 shares and all of these were accepted and allotted. All moneys due were received. Give the cash ledger a/c.

12. (a) A company issues 4000 8% Redeemable preference shares of Rs. 100 each and 3,000 6% debentures of Rs. 100 each. They divided to redeem both for redemption, the company issued 5,000 equity shares of Rs. 100 each. Balance of Reserve funds was Rs. 50,000. Give journal entries for issue and redemption.

Or

(b) X Ltd took over assets Rs. 1,75,000 and liabilities of the Rs. 15,000 of R Ltd for the purchase consideration of Rs. 1,65,000. X Ltd paid the purchase consideration by issuing debentures of Rs. 100 each at a premium of 10%. Give journal entries.

13. (a) S Ltd. was incorporated on May 1, 1993 to take over the business of a partnership firm as a going concern from Jan. 1, 1993. The company got the certificate of commencement of business on July 1, 1993.

The following is the profit and loss a/c for the year ending 31.12.93 is as follows :

Profit and Loss Account

	Rs.		Rs.
To Rent and taxes	12,000	By Gross profit	80,000
To Insurance	3,000		
To Electricity charges	2,400		
To Directors fees	13,000		
To Net profit	49,600		
	80,000		80,000

The total turnover for the year ending 31.12.93 was Rs. 4,00,000 divided into Rs. 1,00,000 for the period upto 1.5.93 and Rs. 3,00,000 for the remaining period. Calculate profit prior to incorporation.

(b) Prepare Trading account from the following information :

	Rs.
Opening stock	75.000
Sales	4.4,15,000
Closing stock	95,000
Purchases	1,85,000
Wages	84,865
Freight	13,115
Direct expenses	2,020

14. (a) A purchasing company has agreed to issue one share of Rs. 10 each, Rs. 8 called up for every three shares in the vendor company. Find the amount of purchase consideration if there are 5,000 shares in the vendor company. The shares of purchasing company are quoted at Rs. 18 in the market. Give the journal entries in purchasing company books.

Or

(b) Balance sheet of X Ltd shows

	Rs.
Share capital 2,00,000 shares of Rs. 10 each	20,00,000
12% Debentures	10,00,000

The company was absorbed by A Ltd. The consideration is the discharge of the debentures at a premium of 5% and (payment of Rs. 7 in cash and one share of Rs. 5 in A Ltd. at the market value of Rs. 8 per share for every share in X Ltd. Calculate purchase consideration and show the related Journal entries.

15. (a) ABC Ltd. went into liquidation with the following liabilities

Secured creditors Rs. 20,000 (securities realised Rs. 25,000)

Preferential creditors Rs. 600

Unsecured creditors Rs. 3,05,000

The liquidators remuneration amounted to Rs. 2,400. The various assets (excluding secured assets) realised Rs. 36,000. Prepare the liquidators account.

Or

(b) Calculate liquidators remuneration from the following information

	Rs.
Assets realised	1,20,000
Surplus received from secured creditors	30.000
Preferential creditors	10,000
Unsecured creditors	80.000

Liquidator is entitled to a remuneration of 2% on assets realised (including surplus received) and 3% on the amount distributed to unsecured creditors (assuming the amount available is sufficient to pay off unsecured creditors).

SECTION C — (3 x 10 = 30 marks}

Answer any THREE questions.

16. Explain the provisions relating to :

    (a) Redemption of preference shares

    (b) Redemption of debentures.

17. A Ltd. issued a prospected inviting applications for 10000 shares of Rs. 10 each at a premium of Rs. 2 each payable as follows :

    On application Rs. 2, on allotment Rs. 5 (including premium) on first call Rs. 3 and on final call Rs. 2.

    Applications were received for 15000 shares and allotment was made on pro data basis to the applications of 12000 share money over paid on application was employed on allotment of sums due on allotment. R to whom 200 shares v(J allotment failed to pay allotment money and his sub segment failure to pay the first call money his shares were forfeited.

    B, the holder of 300 shares failed to pay the two calls and his shares were forfeited after the final call of these shares forfeited, 400 shares were sold to D credited as fully paid for Rs. 9 per share, the whole of R's share being included.

    Pass Journal entries in the books of A/cs.

18. A company was formed with an authorised capital of Rs. 5,00,000 divided into 25,000 equity shares of Rs. 10 each and 2,500 6% preference shares of Rs. 100 each to purchased the going concern of M/S J and Sons whose balance sheet should as follows :

Liabilities	Rs.	Assets	Rs.
Capital	1,32,100	Cash	4.500
Bills payable	3,500	Debtors	7.500
Creditors	6,400	Stock	35.000
		Machinery	50.000
		Buildings	45.000
	1,42,000		1,42,000

The purchase price was agreed at Rs. 1,75,000 payable as to Rs. 50,000 in fully paid equity shares, Rs. 50,000 in fully paid. Preference shares Rs. 30,000 in Redeemable debentures and the balance in cash. The remaining shares were issued to the public and all moneys received. Give journal entries in the books the company.

19. A Ltd. agreed to absorb B Ltd. as on 31.12.95. The Balance sheet of B Ltd on that date was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital Rs. 10	6,00,000	Fixed assets	7.40.000
Reserves	2,80,000	Current assets	2.60.000
6% Debentures	1,00,000		
Sundry creditors	20,000		
	10,00,000		10,00,000

The purchase consideration payable was :

(a) A cash payment of Rs. 2.50 per share in B Ltd

(b) The issue of 90000, Rs. 10 shares at on agreed value of Rs. 15 per share

(c) The issue of such an amount of fully paid 8% debentures of A Ltd. at 96% as are sufficient to discharge the 6% debentures of B Ltd at a premium of 20%

Show necessary ledger a/c's in the books of B Ltd.

20. Give the format of the statement of affairs prepared on liquidation of a company.

APRIL/MAY 2014 SCP41 — CORPORATE ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is intrinsic value?
2. Define Goodwill.
3. What is minority Interest?
4. What is consolidated Balance sheet?
5. What are the contents of schedule 13 of Bank P and LA/c?
6. What is statutory Reserve?
7. What is bonus utilized in reduction of premium?

8. What is meant by provision for unexpired risk?

9. What is Inflation Accounting?

10. Expand CCA.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) The net profit of a business, after providing for taxation, for the past five years were as Rs. 80,000, Rs. 85,000, Rs. 92,000, Rs. 1,05,000 and Rs, l,18,000.The capital employed in the business is Rs. 8,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next 5 years. Calculate the value of goodwill on the basis of

    (i) 5 years purchase of super profit method

    (ii) Annuity method, taking the present value of annuity of Re. 1 for five years @10% as 3.78.

Or

(b) Ramesh runs general stores. He has net assets on 31.12.89 Rs. 20,00,000. After paying rent of Rs. 20,000 per year and salary to manager Rs 10,000 he has earns an average profit of Rs. 1,50,000 per year. Its landlord is interested in acquiring this business 8% is considered to be a reasonable return on capital employed calculate the goodwill at 3 year's purchase of super profit.

12. (a) From the following data, calculate the Rebate on bills discounted as on 31.3.2000.

Bill date	Amount Rs.	Period	Discount rate
10.1.2000	15.000	5 months 4	7%
5.2.2000	20.000	months 4	8%
15.3.2000	25.000	months 3	6%
	30.000	months	9%

Or

(b) The trial balance of National Bank Ltd. As on 31.3.2008 shows the following balance :

Interest and Discounts Rs. 45,40,600.

Rebate on bills discounted (1.4.2007) Rs.4,750.

Bills discounted and purchased Rs.3,37,400.

The amount of unexpired discount as on 30.6.2008 is Rs. 5,560.

Write necessary adjusting entries and calculate the amount of interest and discount to be credit to profit and loss a/c.

13. (a) Bharath Life Assurance Company gets its valuation made once in every two years. Its life assurance fund on 31.12.2007 stood at Rs. 45,65,000 before providing for Rs. 45,000 being the dividend for shareholders for the year 2007. It's actually valuation on 31.12.2007 disclosed a net liability . of Rs. 32,20,000. An interim bonus of i.o. 80,000 was paid to the policy holders during the previous two years.

    Prepare a valuation balance sheet and find out the net profit for the period.

Or

(b) Life Assurance Fund of Insurance Company was Rs, 87, 76,500 on 31.3.2007. It was found that the following items were not taken into account.

(i) Dividend from Investment Rs.4,80,000

(ii) Income tax paid on the above Rs. 48,000

(iii) Claims covered under reinsurance Rs. 4,23,000.

(iv) Claims intimated but not accepted by the company Rs.7,62,000

(v) Bonus in reduction of premium Rs. 8,77,500.

Ascertain correct balance of found.

14. (a) From the following Balance sheet, prepare a consolidated Balance Sheet as on 31.12.2010.

Assets	H Ltd	S Ltd
	Rs.	Rs.
Fixed Assets	25,00,000	12,50,000
Investments (1,00,000)		
shares in S Ltd	1100,000	–
Current Assets	1,00,000	7,00,000
	37,00,000	19,50,000
Liabilities	H Ltd	S Ltd
	Rs.	Rs.
Equity shares of Rs. 10		
each	20,00,000	12,50,000
Reserves	9,00,000	5,00,000
Creditors	8,00,000	2,00,000
	37,00,000	19,50,000

When H Ltd., purchased shares in S ltd., Latter Company had undistributed reserves Rs. 3,00,000 and H Ltd., had reverse of Rs. 4,00,000 on that data.

Or

(b) Consolidate the following Balance Sheet.

	Sun Co. Its.	Moon Co. Rs.		Sun Co. Rs.	Moon Co. Rs.
Share capital Re. (1 each)	5.200	4,000	Sundry asset	5.200	4,800
Creditors	3.200	1,600	3600 shares in Moon Co. P and L a/c	3.200	800
	8,400	5,600		8,400	5,600

When Sun Co., acquired the Shares in Moon Co. the profit and loss account in the latter had a debit balance of Rs.600.

15. (a) Write a note an ‘‘current purchasing power method.

Or

(b) What are the limitations of historical Accounting?

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. Following is the Balance Sheet of a Company as on 31.12.2012.

Liabilities	Rs.	Assets	Rs.
Equity share of Rs.100 each	2,50,000	Good will	25,000
		Land and buildings	1,00,000
8% performance share of Rs. 100 each	2,00,000	Plant and Machinery	2,50.000
		Stock in trade	1,80,000
General reserve	20,000	Sundry debtors	50,000
Profit and Loss a/c	25,000	Investments	30,000
9% debenture	1,00,000	Bank balance	10,000
Sundry creditors	30,000	Preliminary expenses w/o	15,000
Provision for tax	35,000		
	6,60,000		6,60,000

For the valuation of equity share the assets are revailed as land and building Rs. 1,50,000: Plant and machinery Rs. 2,00,000 and good will Rs. 45,000; the market value of investment is Rs. 34,000. Calculate value of one equity shares.

17. Prepare consolidated B/S.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital (Re.l each)	1,000	200	Sundry asset	800	120
			Stock	610	240

P and L a/c	400	120	Debtors	130	170
Reserve	1,000	60	Bills receivable	10	–
Creditors	200	120	Investment 150 shares in S Ltd.	150	–
Bills payable	–	30			
	1,700	530		1,700	530

(a) All profit in S Ltd have been earned since the shares were purchased by H Ltd. but Reserve was already Rs. 60.

(b) All Bills payable of S Ltd., were issued in favour of H Ltd.

(c) The stock of H Ltd includes good worth Rs. 500 purchased from S Ltd at a profit of 25% on cost.

18. A bank's transaction are given below. Prepare its profit and loss a/c and Balance Sheet (in 000) as on 31.3.2000 :

Deposits: Current Rs, 45,500 Fixed Rs.37,180 . Saving bank Rs, 14,520 Creditors Rs, 454, Borrowings from other bank Its 12,200 Rebate on bills discounted Rs. 1,500, Branch adjustment (credit) Rs. 4,555, Reserve Fund Rs. 10,000 Dividend Equalization fund Rs. 2,500, Issued and subscribed capital Rs. 10,000, Interest and discount received Rs. 5,800, Exchange and commission Rs. 1,700, General Expenses Rs. 55, Profit and Loss a/c balance on 1.4.99 Rs. 852, Cash balance Rs. 487, Bank Balance Rs. 6,869, Money at Call and short notice Rs. 1,500, Investment in Government Securities Rs. 45,500 Investment in shares Rs.4,700, Interest received on investment Rs. 875, Loans and Advances Rs.44,100 Bills discounted Rs. 33,100 Furniture Rs. 500 Depreciation Rs.500 Interest paid Rs. 1,200, Foreign exchange commission Rs. 100, Salary Rs. 2,100 Advertising Rs.400, Miscellaneous expenses Rs. 300, Loan Rs. 3,500, Depreciation fund Rs. 500. Other Assets Rs.3,325.

19. From the following Balance of the Shalimar General Insurance Co. Ltd as on 31.12.90. Prepare

(a) Fire revenue account

(b) Marine revenue account.

	Rs.
Bonus in reduction of premium (fire)	200
Bad debts (Fire)	500
Bad debts (Marine)	1,200
Directors' fees	500
Auditors' fees	120
Share transfer fees	80
Bad debts recovered	120
Fire fund (1.1.90)	25,000

Marine fund (1.1.90)	82,000
Claims paid (fire)	18,000
Claims outstanding (fire)	1,000
Claims paid and outstanding (marine)	38,000
Commission paid (fire)	9,000
Commission paid (marine)	10,800
Additional Reserve (on 1.1.90) (fire)	5,000
Depreciation	3,500
Interest and Dividend received	1,400
Miscellaneous receipts	530
Fire premium less (-) Reinsurance	60,000
Management expenses (fire)	14,500
Management expenses (marine)	40,000
Marine premium (less) Reinsurance	1,08,000
Commission on reinsurance ceded (fire)	3.000
Commission on reinsurance accepted (fire)	1,000
Profit on sale of land	6,000
Commission on reinsurance ceded (marine)	6,000

20. Discuss the various methods of inflation accounting.

APRIL/MAY 2014

UCM41/SFA41/UFA41 — CORPORATE

ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is Goodwill?
2. What do you mean by normal profit?
3. Define Holding company.
4. What is minority interest?
5. How many schedules are prepared in Bank account?
6. Write a note on Unexpired Discount.
7. Define marine insurance.
8. What is reinsurance?
9. Define inflation accounting.
10. State any two limitations of current cost accounting method.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Explain the methods of calculating goodwill.

Or

(b) From the following information calculation the value of goodwill on the basis of 5 year purchase of weighted average profit method:

Net profit for the 5 years.

	Rs.
2002	1,60,000
2003	1,00,000
2004	80,000
2005	88,000
2006	72,000

The weights were assigned 1, 2,3,4 and 5 serially to the profits.

12. za) Balance sheet as on 31.12.2000

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital of Re. 1 each	10,000	5,000	Sundry assets	16,000	10,000
General reserve	5,000	–	5000 shares of S Ltd	6,000	–
Creditors	3,000	3,200			
P and L a/c	4,000	1,800			
	22,000	10,000		22,000	10,000

Shares of S Ltd were purchased by H Ltd. On 30th June 2000. On 1st January 2000 the Balance sheet of S Ltd. Showed a los of Rs. 3,000. Prepare the consolidated Balance Sheet.

Or

(b) Consolidated the Balance Sheet.

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Capital Re. 1 share	1,400	1,000	900 shares in S at cost	1,200	–
Creditors	–	500	Sundry assets	200	1,800
P and A/c	–	300			
	1,400	1,800		1,400,	1,800

When H Ltd., acquired the shares in S. the profit and loss a/c of the latter had a credit balance of Rs. 200.

13. (a) On 31st March, 1998 a bank held the following bills discounted by it earlier.

Date of bill 1998	Term of bill (months)	Discounted @ % P-a.	Amount of bill Rs.
January, 17	4	17	7,30,000
February, 7	3	18	14,60,000
March, 9	3	17.5	3,64,000

You are required to calculate the rebate on bills discounted. Also show the necessary journal entry for the rebate

Or

(b) The, trial balance of the Nedungadi Bank Ltd., as on 30th June 1984 shows the following balances.

	Rs.
Interest and discount	45,40,000
Rebate on bills discounted (1.7.81)	4,750
Bills discounted and purchased	3,37,400

The unexpired discount as on 30.6.84 is estimated to be Rs.5,560. Draft necessary adjusting entries and calculate the amount of interest and discount to be credited to profit and loss account.

14. (a) From the following details prepare fire revenue a/c for 2009.

	Rs.
Claim paid	2,35,000
Premium received	6,00,000
Commission	1,00,000
Reserve for un expired risk on 1.1.2009	2.60.000
Claims outstanding on 31.12.2009	35,000
Law charges	5,000
Reinsurance premium	60,000
Management expenses	1,50,000
Claims outstanding on 1.1.09	20,000

Or

(b) Bharath life assurance company gets its valuation made once in every two years. Its life assurance fund on 31.12.98 stood at Rs.45,65,000 before providing for Rs.45,000 being the dividend for shareholders for the year 1998. Its actuary's valuation on 31.12.98 disclosed a net liability of Rs.32,20,000. An interim bonus of Rs.80,000 was paid to the policy holders during the previous two years. Prepare a valuation balance sheet and find out the net profit for the period.

15. (a) State the approaches to inflation accounting.

Or

(b) List out the merits of current cost accounting method.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. Explain the different methods of valuation of shares.

17. From the following balance sheet relating to H ltd., and S ltd, prepare a consolidated Balance sheet.

Balance sheet on 31.12.2002

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital (Share of Rs. 10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	1,20,000
Profit and loss account	4,00,000	1,20,000	Stock	6,00,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	–
Bill payable	–	30,000		1,50,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

(a) All profits of S ltd., have been earned after the shares were acquired by H ltd., but there was already a reserve of Rs.60,000 on that date.

(b) All the bills payable of S ltd., were accepted in favour of H Ltd.

(c) The stock of H ltd., includes Rs.50,000 purchased from S ltd. The profit added was 25% on cost.

18. Give the specimen balance sheet of a banking company.

19. XYZ Insurance company shows following data regarding premiums on 31st March 2007.

	Rs.
Direct premium received during the year	2,50,000
Premium outstanding on 1.4.2007	25,000
Premium outstanding on 31.3.2008	50,000
Reinsurance premium paid	10,000
Reinsurance premium received	20,000
Bonus in reduction of premium	7,500

Calculate the amount of net premiums to be credited to Revenue account for the year ending 31st March 2007.

20. Discuss the merits and demerits of historical accounting.

NOVEMBER 2014

U C M31/UFA31/S CM31/SFA31/U CP31/

SCP32 — CORPORATE ACCOUNTING — I

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

Each answer not to exceed 50 words.

1. What do you mean by pro - rata allotment?
2. Y Ltd, forfeited 1000 equity shares of Rs. 10 each, issued at a discount of 10% for non — payment of first call on Rs. 2 and final call of Rs. 3 per share. Show the necessary Journal entry.
3. Give the meaning of redeemable preference shares.
4. Time X Ltd, issued 3000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company if the debentures were issued as follows.
   (a) Issued at par, redeemable at par.
   (b) Issued at discount of 5% repayable at par.
5. What is acquisition of business?
6. X Ltd which was incorporated on May 1,1998 acquired a business on January 1, 1998. The 1st accounts were closed on September 30, 1998. Find out time ratio?
7. Define Amalgamation.
8. Raman Ltd, agrees to purchase the business of Krishnan Ltd, on the following terms.

   For each of the 10,000 shares of Rs. 10 each in Krishnan Ltd. 2 shares in Raman Ltd, of Rs. 10 each will be issued at an agreed value of Rs. 12 per share. In addition Rs. 4 per share cash also will be paid. Calculate the purchase consideration.

9. The liquidator of a company is entitled to a remuneration of 2% on assets realised and 3% on the amounts distributed to unsecured creditors. The assets. The assets realised Rs. 1,00,000,

including cash balance of Rs. 5,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration was Rs. 43,100. Calculate liquidators remuneration.

10. What is a statement of affairs?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) X Ltd. forfeited 30 shares of Rs. 10 each fully called up held by Rangan for non payment of(allotment money of Rs. 3 per share and first call of Rs. 4 per share. He had paid the application money of Rs. 3 per share. These shares were re-issued to Ram for Rs. 8 per share. Pass journal entries.

Or

(b) A company forfeited 10 shares of Rs. 10 each (Rs. 6 called up) issued at a discount of 10% to A on which he paid Rs. 2 per share. Out of these 8 shares were reissued to B as Rs.8% called up Rs. 6% per share. Give journal entries for forfeiture and re-issue of shares.

12. (a) Write note on Ex - interest and cum - interest.

Or

(b) How preference shares can be redeemed?

13. (a) A company incorporated on 1.7.2004 to take over the business of Mr. Kumar as a going concern with effect from 1.4.2004. Accounts are closed on 31.3.2005. Total sales for the year 31.3.2005 was Rs. 3,00,000 dividend into Rs. 1,00,000 for the period upto 1.7.2004 and the balance for the remaining period. Calculate the time ratio and sales ratio.

Or

(b) A company had a carried forward balance of Rs. 25,000 in the profit and loss account for the year ended 31st March, 2002. During the year 2003, it made a further profit of Rs. 15,000. It was decided to carry out the following adjustments :

(i) Provision for taxation Rs. 50,000.

(ii) Dividend equalisation account Rs. 15,000

(iii) Dividend on Rs. 40,000 shares of Rs. 5 each fully paid at 15%.

(iv) Transfer to general resource Rs. 25,000.

(v) Transfer to development relate reserve account Rs. 25,000.

You are required to prepare profit and loss (app) account for the year ended 31st March 2003.

14. (a) Define : amalgamation, absorption and reconstruction.

Or

(b) What are the opening journal entries in the purchasing company?

15. (a) From the following information prepare unsecured creditors as per list E :

	Rs.
Unsecured creditors	3,80,000
One month salary in arrears	4,000
Bills payable	1,00,000
Bank overdraft	40,000
Liability on bills discounted	60,000
Party secured creditors	1,00,000
(total creditors Rs. 2,00,000)	
Preferential creditors	16,000

Or

(b) Write a note on preferential creditors.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Each answer not to exceed 500 words.

16. Good prospects Ltd, issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 per share. The shares * were payable as follows : '

Rs. 2 on application

Rs. 5 on allotment (including premium)

Rs. 5 on first and final call.

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs. 8 per share.

Give the necessary journal entries, prepare the bank all and the balance sheet of the company.

17. On 30th June 1998, the balance sheet of Suganya Ltd, stood as follows :

Liabilities	Rs.	Assets	Rs.
Equity share capital	10,00,000	Sundry assets	14,00,000
Redeemable prof	4,00,000	Bank	5,00,000
Share capital P & 1 a/c	3,00,000		

Sundry creditors	2,00,000		
	19,00,000		19,00,000

On the above date, the preference shares had to be redeemed. For this purpose 2000 equity shares of Rs. 100 each were issued at Rs. 110. The company also issued 8% debentures totaling Rs. 3,00,000. The shares and debentures were immediately subscribed and paid for. The preference shares were duly redeemed. Give journal entries and the balance sheet after redemption.

18. From the following balance and additional information for the year ended 31.03.2001 prepare the final accounts in the books of a company.

Purchase	9,25,000	Machinery	15,00,000
Wages	4,24,325	Building	16,50,000
Manufacturing expenses	65,575	Interim dividend	1,87,500
		Furniture	35,000
Salaries	70,000	Debtors	4,36,000
Bad debts	10,550	Share capital	20,00,000
General expenses	84,175	Profit and loss a/c (credit balance)	72,500
Stock (01.04.2000)	3,75,000		
Goodwill	1,00,000	Creditors	1,67,500
Cash	2,28,250	Bills payable	2,90,000
Director's fees	31,125	general reserve	1,25,000
Debentures interest	45,000		
6% debentures	15,00,000		
Sales	20,75,000		
Preliminary expenses	25,000		
alls in arrear	37,500		

Additional information :

(a) Closing stock Rs. 4,55,000.

(b) Depreciation - machinery at 10%.

(c) Write off Rs. 2,500 from preliminary expenses.

(d) Provision for doubtful debts Rs. 4,250.

19. The following is the balance sheet of'A' Ltd, as on 31st December. 2002.

Liabilities	Rs.	Assets	Rs.

Share capital	1,20,000	Land and buildings	90.000
Sundry creditors	30.000	Machinery	50.000
Bank over draft	28.000	Stock	17.000
		Debtors	20,000
		P & L a/c	1,000
	1,78,000		1,78,000

The company went into voluntary liquidation and the assets were sold to 'B' Ltd for Rs. 1,50,000 payable as to Rs. 60,000 in cash and Rs. 90,000 i{ equity shares. The cash payment of Rs. 60,000 was sufficient to discharge creditors, bank overdraft and to pay Rs. 2,000 liquidation expenses. Prepare realisation account.

20. A company went into voluntary liquidation on 30th April 2009. The position on that date was as follows :

Liabilities	Rs.	Assets	Rs.
Slum; capital :		Machinery	80,000
5,000 shares of Rs. 100 each		Other fixed assets	2,60,000
Rs. 80 paid up	4,00,000		
Loans (Secured by mortgage of machinery)	1,00,000	Stock	1,05,000
		Debtors	1,00,000
Unsecured creditors including preferential creditors Rs. 10,000)	2,00,000	Loans	40,000
		Cash	5,000
		Profit and Loss a/c	1,10,000
	7,00,000		7,00,000

Machinery was realised by the secured creditors for Rs. 1,20,000. Other fixed assets fetched Rs. 40,000. Debtors Rs. 20,000 and stock Rs. 10,000. Loans were wholly lead. The liquidator is entitled to a fixed remuneration of Rs. 1000 plus 2% of the amount paid to unsecured creditors. The liquidations out of pocket expenses amounted to Rs. 1000.

Show the liquidators statement of account.

APRIL/MAY 2015

UCM41/UFA41/UCP41/SFA41/SCP41 —

CORPORATE ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

Each answer not to exceed 50 words.

1. Define goodwill.
2. Where is the need for valuation of goodwill?
3. How is the interest on doubtful debts treated in bank accounts?
4. What do you understand by life assurance fund?
5. Explain the meaning of inflation accounting.
6. Give the accounting treatment of the rebate on & bills discounted.
7. Write a note on super profit.
8. Give the meaning and significance of human resource accounting.
9. What is the purpose of accounting standard?
10. What is Re- insurance?

SECTION B — (5x5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) The following particulars are available in by respect of the business carried on by wise head.

   (i) Capital employed Rs. 50,000

   (ii) Trading result 1989 profit Rs. 12,200; 1990 - profit Rs. 15,000 ; 1991 - loss Rs. 2,000 ; 1992 - profit Rs. 21,000.

   (iii) Market rate of interest on investment 8%.

   (iv) Benefit of risk on investment 2%.

   (v) Remuneration from alternative employment of the proprietor (if no engaged in business Rs. 3,600).

   Compute the value of goodwill on the basis of 3 years purchase of super - profits of the business calculated on the average profit of the last four years.

Or

(b) A life assurance company prepared its revenue a/c for the year ending 31-12-2005 and ascertained its life assurance fund to be Rs. 28,35,000. It was found later that the following had been omitted from the accounts.

   (i) Interest accrued on investments Rs. 39,000, income tax liable to be deducted there on is estimated to be Rs. 10,500.

   (ii) Outstanding premium Rs. 32,800.

(iii) Bonus utilised for reduction of premium Rs. 6,750.

(iv) Claims intimated but not admitted Rs. 17,400.

(v) Claims coverage under reinsurance Rs. 6,500

What is the true life assurance fund?

12. (a) On 31st December 2005, the loan account in the books of a bank showed a debit balance of

Rs. 1,00,000 including Rs. 20,000 due from a merchant which is doubtful. The interest accrued on this loan upto 31-12-2005 was Rs. 5,000 including Rs. 1,000 on doubtful debt. The merchant become insolvent and the official receiver paid a dividend of 25 paise in the rupee on 31-1-2006.

Pass necessary journal entries in the books of the bank on 31-12-2005 and 31-1-2006 and prepare merchant loan account.

Or

(b) On 31st March 2004. Bharat Bank ltd. funds its advances classified as follows :

	Rs.
Standard assets	14,91,300
Sub - standard assets	92,800
Doubtful: Assets (secured)	
1 year	25,600
1 to 3 year	15,640
more than 3 years	6,580
Loss assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned advances.

13. (a) The net profit of a business after providing for taxation for the post five year are :

Rs. 40,000, Rs. 42,500, Rs. 46,000, Rs. 46,000, Rs. 52,000 and Rs. 59,000. The capital employed in the business is Rs. 4,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next five years. Calculate the goodwill on the basis of:

(i) Five years purchase of super profits.

(ii) Capitalisation of super profits.

Or

(b) From the following particulars, prepare the fire revenue a/c for 2006 claim paid Rs. 2,35,000 ; legal expenses Rs. 5,000 ; premium received Rs. 6,00,000 ; Reinsurance premium Rs. 60,000. Commission Rs. 1,00,000. Expenses of management Rs. 1,50,000;

provision against unexpired risk on 1.1.2006 Rs. 2,60,000 claims unpaid on 1.1.2006 Rs. 20,000 claims unpaid on 31.12.2006 Rs. 35,000.

14. (a) The life fund of a life insurance company on 31.12.2007 showed a balance of Rs. 5,40,000 before the following taking items.

    (i) Interest accrued on investment Rs. 20,000.

    (ii) Income tax deducted on interest Rs. 6,000.

    (iii) Reinsurance claims recoverable Rs. 7,000

    (iv) Commission due on reinsurance premium paid Rs. 10,000.

    (v) Bonus in reduction of premium Rs. 3,000. Show the correct life fund balance.

Or

(b) Explain the objectives of financial reporting.

15. (a) From the following data relating to 2004 you are required to compute MCWA under CCA method.

	Opening Rs.	Closing Rs.
Account receivables	10,00,000	13,00,000
Account payables	6,00,000	7,00,000
Index number applicable	100	150
Average index 125		

Or

(b) Mention the methods of Human Recourse Accounting.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

All questions carry equal marks.

16. From the following balances of HF general insurance co Ltd. as on 31st March, prepare :

    (a) Fair revenue a/c

    (b) Marine revenue a/c

    (c) P & L a/c.

Survey expenses (fire) Rs. 10,000; additional reserve (opening) Rs. 50,000 ; Commission paid (marine) Rs. 1,08,000 ; Commission paid (fire) Rs. 90,000; Claims paid and outstanding (marine) Rs. 3,80,000 claims paid and outstanding (fire) Rs. 1,80,000, fire fund (opening) Rs. 2,50,000 ; marine fund (opening) Rs. 8,20,000 ; bad debts recovered

Rs. 1,200; share transfer fees Rs. 800 ; Director fees Rs. 5,000 ; auditor fees Rs. 1,200 ; bad debts (marine) Rs. 12,000 ; bad debts (fire) Rs. 5,000 ; commission earned on reinsurance coded (marine) Rs. 60,000 ; commission on earned . on reinsurance ceded (fire) Rs. 30,000; management expenses (fire) Rs. 1,45,000 ; management expenses (marine) Rs. 4,00,000 ; marine premium less reinsurance Rs. 10,80,000 ; fire premium less reinsurance Rs. 6,00,000 ; profit on sale of land Rs. 60,000 ; miscellaneous receipts Rs. 5,000 ; difference in exchange (cr) Rs. 300 ; interest dividend received Rs. 14,000; depreciation Rs. 35,000.

In addition to usual reserve additional reserve in case of fire insurance is to be increased by 5% of net premium.

17. From the following details, compute the intrinsic value of on equity share of Mahizhini Ltd.

Liabilities	Rs.	Assets	Rs.
2000 equity share of 100 each fully paid	2,00,000	Land and building	80,000
		Plant and machinery	80,000
2000 6% preference shares of Rs. 10 each	20,000	Book debts Stock	10,000
		Cash	40.000
General reserve	50.000	5% investment in	70.000
5% debentures of Rs.100 each	20.000	government securities	20.000
		Preliminary expenses	10,000
Sundry creditors	20,000		
	3.10.000		3,10.000

(a) Fair return on capital employed in this type of business is 10% p.a.

(b) Goodwill is to be taken as 4 year purchase value of super profit.

(c) Average of profits (after deduction of preliminary expenses) for the last seven years in Rs. 38,000. Preliminary expenses to the extent of Rs. 2,000 has been written off every year for the last seven years. Prof* is more or less stable over years and the same trend its expected to be maintains in the near future ignore taxation.

18. The following details are taken from the balance sheets of Suraj Ltd.

	As. on 31.3.2003	As. on 31.3.2004
Inventories	8,00,000	10,00,000
Book debts	2,00,000	33,000
Cash at bank	80,000	90,000
Advance to suppliers of materials	80,000	60,000
Trade creditors	1,20,000	1,40,000

During the year 2003-2004, material prices role by 20% and those of finished goods by 10%.

Calculate the monetary working capital adjustment (MWCA) to be made under CCA system.

19. The following are the summarised Balance Sheet of Imperial Co. Ltd Colonial Co. Ltd as on 31st December 1972.

Liabilities	Imperial Co. Ltd	Colonial Co. Ltd	Assets	Imperial Co. Ltd	Colonial Co. Ltd
Paid up capital in share of Rs. 10 each	10,00,000	3,00,000	Free hold Premises	4,50,000	1,20,000
General	4,00,000	1,25,000	Plant and		
Reserve	3,00,000	1,75,000	Machinery	3,50,000	1,60,000
Profit and loss a/c	1,00,000	70,000	Furniture	80,000	30,000
Sundry creditors			Debtors	3,00,000	1,70,000
			Stock	3,20,000	1,60,000
			Investment in 20,000 share in colonial co. Ltd at cost	2,60,000	
			Cash balance	40,000	30,000
	18,00,000	6,70,000		18,00,000	6,70,000

You are required to prepare consolidated balance sheet as on 31.12.1972 showing in detail necessary adjustments and taking into consideration the following information;

(a) Imperial co . Ltd acquired the share of co colonial co. ltd on 11.1.1992. When the balance on their profits and loss a/c and general reserves were Rs. 75,000 and Rs. 80,000 respectively.

(b) Stock of Rs. 1,60,000 held by colonial co. Ltd consists of Rs. 60,000 goods purchased from imperial co. Ltd, Who has charged profit at 25%.

20. Distinguish between capital profit and revenue profit in the context of holding company accounts.

NOVEMBER/DECEMBER 2015

UCM31/UFA31/UCP31/SCM31/SFA31/SCP32

— CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 mark**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. Define Shares.
2. What do you mean by shares issued at premium?
3. What is Ex-Interest Quotation?
4. What is Capital Redemption Reserve?
5. What is the need for calculating profit prior to incorporation?
6. What is Dividend?
7. Compute the purchase consideration to be paid by X Ltd. to Y Ltd. from the following :
   a. The shareholders of Y Ltd. are to be paid Rs. 50 in cash and offer 4 shares of Rs. 20 each in X Ltd. for every share of Y Ltd. Y Ltd. has 50,000 equity slum's outstanding.
   b. The cost of liquidation Rs. 25,000 is to be borne by X Ltd.
8. Explain members voluntary winding up.
9. Define Amalgamation.
10. Ascertain the remuneration payable to the ' liquidator from the data given below :

    Secured creditor — Rs. 50,000 (securities realised by secured creditor Rs. 60,000).

    Assets realised — Rs. 80,000.

    Liquidator remuneration — 3% on amount realised.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Pass the necessary journal entries :

    X Ltd. forfeited 100 equity shares of its. 10 each held by Mr. Akash for non-payment of Rs. 2 on first call and its. 3 on final call per share. Later they were reissued at a discount of Rs. 3.50 per share.

    Or

    (b) Y Ltd. forfeited 100 shares of Rs. 10 each at a premium of Rs. 5 per share due to non-payment of final call of Rs. 5 per share. Later they were re-issued at a discount of Rs. 4 per share. Pass journal entries.

12. (a) A company issued 1000 6% debentures of

    Rs. 100 each. They were issued at a discount of 4% but redeemable at a premium of 5%. Pass journal entry.

Or

(b) A company wishes to redeem its preference shares amounting to Rs. 1,00,000 at a premium of 5% and for this purpose it issues 5000 equity shares of Rs. 10 each at a premium of 5%. The company has also a balance of Rs. 1,00,000 on general reserve and Rs. 50,000 on profit and loss a/c Journalise.

13. (a) Describe the methods of ascertaining “Profits Prior to Incorporation”.

Or

(b) Show how will you exhibit the building items in the balance sheet of a company as on 31.12.2007. Original cost of the building Rs. 4,00,000. Book value of the building 1.1.2007 Rs. 2,80,000. Depreciation to be written off at 5% of the written down value method.

14. (a) A Co. Ltd. sells its business to B Co. Ltd. as on 31.3.2008 on which date the Balance Sheet was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital :		Building	2,00,000
40,000 equity shares of		Machinery	2,63,000
Rs. 10 each	4,00,000	Furniture	70,000
General Reserve	80,000	Stock	85,500
P & L a/c	28,000	Debtors	37,500
10% Debentures	2,00,000	Cash at bank	86.000
Trade creditors	42,000	Under writing commission	8,000
	7,50,000		7,50,000

B Co. Ltd. agreed to take over the assets except cash at bank at book values. Furniture to be valued at Rs. 56,000 and to take over creditors.

The purchase consideration was discharged by the allotment at par of 2000 fully paid 12% debentures of Rs. 100 each (to be used by A Co. Ltd. to redeem its 10% debentures at par) and 40,000 fully paid equity shares of Rs. 10 each. A Co. Ltd. met the expenses) liquidation amounting to Rs. 6,000.

Prepare ledger accounts (Realisation a/c) in the books of A Co. Ltd.

Or

(b) Write a note on purchase consideration.

15. (a) The liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amount realised (excluding cash in hand) and 2% on the amount distributed to the

unsecured creditors. Unsecured creditors including preferential creditors of Rs. 5,000 amounted to Rs .40,000. Debenture holders were paid Rs. 51,875 together with interest. Preferential creditors were paid in full. Rs. 510 were spent as cost of liquidation. Cash on hand was Rs. 1,000 and assets realised was Rs. 79,000. Find out liquidator's total remuneration.

Or

(b) The following particulars relate to Manish Ltd. which went into voluntary liquidation. Unsecured creditors stood at Rs. 40,000 including Rs. 5,000 preferential claim. Secured creditors secured on machinery stood at Rs. 20,000. Cash in hand was Rs. 1,000.

The liquidator realised machinery fee Rs. 15,000 and the other assets realised Rs. 10,000. The liquidation expenses amounted to Rs. 1,000 and the liquidator's remuneration was fixed at 4% of the amount realised including cash balance and 2% of the amount distributed to unsecured creditors including preferential creditors.

Prepare liquidator's final statements o. account.

SECTION C — (3 x 10 = 30 marks)

Answer any Three Questions

16. Star Limited issued a prospectus, inviting applications for 2,00,000 shares of Rs. 10 each at a premium of Rs. 5 per share, payable as follows :

On application — Rs. 2.50 per share.

On allotment — Rs. 7.50 per share.

On first call — Rs. 4.00 per share.

On final call — Rs. 1.00 per share.

Applications were received for 3,00,000 shares and allotment was made pro-rata to the applicants of 2,40,000 shares, the remaining applications being refused. Money received in excess on the application was adjusted towards the amount due to allotment.

John, to whom 4000 shares were allotted, failed to pay allotment money on his failure to pay the first call, his shares were forfeited. Micheal the holder of 6000 shares, failed to pay the two calls and so his shares were also forfeited. All these shares were sold to Robert, credited as fully paid for Rs. 8 per share.

Pass journal entries to record the above transactions.

17. The following balances are extracted from the balance sheet of S Ltd. as on 1st January 2004.

Rs.

6% Debentures	1,00,000
Debenture redemption fund	85.000
Debenture redemption fund investments (Rs. 100 value certificate)	90.000

The annual investment was Rs. 11,400. On 31st December 2004 the investments were realised at Rs. 95 each and the debentures were redeemed. The bank balance on that date was Rs. 18,300. Give ledger accounts relating to the redemption of debentures.

18. Moon Limited with an authorised capital of Rs. 5,00,000 divided into 5000 equity shares of Rs. 100 each on 31.12.2004 of which 2500 shares were fully called up. The following are the balances extracted from the ledger as on 31.12.2004.

Trial Balance

Debit,	Rs.	Credit	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	Profit & Loss a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance (Upto 31.3.05)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing director	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisements	3,800		
Bonus	10,500		
Debtors	38.700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

Additional Information :

(a) Closing stock was valued at Rs. 1,91,500.

(b) Depreciation on plant at 15% and on furniture at 10% should be provided.

(c) A tax provision of Rs 8,000 is considered necessary.

(d) The directors declared an interim divider)/ on 15.8.2004 for 6 months ending June 30, 2004 @ 6%.

Prepare Profit and Loss a/c and Balance Sheet.

19. X Company limited agreed to acquire the assets excluding cash as on 31 December 2001 of Y Ltd. The balance sheet of Y Ltd. as on that date was :

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	3,00,000	Goodwill	60,000
		Land & Building-	1,20,00
General reserve	80,000	Plant & Machinery	2,00,000
Debentures	50,000	Stock	80,000
Creditors	10,000	Debtors	30,000
Profit & Loss a/c	60,000	Cash	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 share of Rs. 10 each (Market value Rs. 12.50) in X Co. Ltd. for every shares of Y Co. Ltd.

(c) The issue of 1100 debentures of Rs. 50 each in X Co. 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. 4,000 was to be met by themselves.

Give journal entries and ledger a/c's in the books of Y Limited.

20. Mr. Sam has been appointed as liquidator of ABC Ltd. Balance Sheet at the time of liquidation on 1.1.2001 is given below :

Liabilities	Rs.	Assets	Rs.
Equity share capital (Rs. 10)	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	50,000
Loans	50,000	Sundry debtors	1,05,000
Creditors	50,000	Cash	5,000
		Profit & Loss a/c	40,000
	4,00,000		4,00,000

Fixed assets are sold for Rs. 1,20,000 to a debenture holder holding Rs. 40,000 debentures and cash is received after set off. Cash realised from debtors was Rs. 80,000 and

liquidation expenses amounted to Rs. 1,000. Liquidator is paid Rs. 1,000. Fixed allowance plus 2% commission on collections including cash in hand Rs. 5,000 as remuneration. Stock is sold for Rs. 10,000.

Prepare the liquidators final statement of accounts.

APRIL/MAY 2016

SCM31/UCM31/SFA31/UFA31/UCP31/

SCP32 — CORPORATE ACCOUNTING -1

Time ; Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is share forfeiture?
2. What do you understand by the issues of shares at discount?
3. Define Debenture.
4. Explain the meaning of redeemable preference shares.
5. What is meant by profit prior to incorporation?
6. Define Assets.
7. Give any two methods of calculating purchase consideration.
8. What is External Reconstruction?
9. What is Preferential Creditors?
10. Define Liquidation.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) The directors of R Ltd., resolved on 1st May 2000 that 200 ordinary shares of Rs. 10 each, Rs. 7.50 paid, be forfeited for non payment of) final call of Rs. 2.50. Show the entries to give effect to the above transactions.

Or

(b) Explain the provisions relating to issue of shares at premium and at discount.

12. (a) What is debenture? What are its types?

Or

(b) Goodwill Ltd., issued 1,000, 6% debentures of Rs.100 each.

Give journal entries in each of the following cases.

(i) The debenture are issued and redeemable at par.

(ii) They are issued at discount of 6%, but redeemable at par.

(iii) They are issued at premium of 5% but redeemable at par.

13. (a) X Ltd. was registered on 1.7.07 to acquire the running business of Y & Co. with effect from 1.7.07. The following was the P&L A/c of the company on 31.12.07.

P&L A/c

	Rs.		Rs.
To Office expenses	54,000	By Gross profit	2,25,000
To Preliminary expenses written off	10,000		
To Stationery	5,000		
To Selling expenses	60,000		
To Director's fees	20,000		
To Net profit	76,000		
	2,25,000		2,25,000

Ascertain the profit during the pre and post incorporation periods. The total sales for the year took place in the ratio of 1:2 before and after incorporation respectively.

Or

(b) From the following particulars, prepare profit and loss account of Justice Bank for the year ended 31st March 2007 :

	Rs.
Interest on deposits	6,400
Commission (Cr.)	200
Interest on loans	4,980
Sundry charges (Dr.)	200
Rent and taxes	400
Payment to employees	1,000
Discount on bills discounted	2,980
Interest on overdrafts	3,200
Interest on cash credit	4,640
Auditor's fees	70
Director's fees	32
Bad debts to be written off	600

14. (a) What are the merits of amalgamation?

Or

(b) A limited agrees to take over the business of B limited on the following terms.

(i) The shareholders of B limited are to be) paid Rs. 25 in cash and the offer of four shares of Rs. 10 each in A limited for every share of B limited. B limited has 50,000 equity shares outstanding.

(ii) The debenture holders holding 5,000 debentures of Rs. 100 each are to be redeemed at a premium of 10%.

(iii) Costs of liquidation amounting to Rs. 25,000 are to be borne by A limited.

Calculate the purchase consideration.

15. (a) Explain the different types of liquidation.

Or

(b) State liquidator's final statement of account.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. (a) A company forfeits 100 shares of Rs. 10 each at Rs. 11 per share. The premium was payable on allotment. The shareholder failed to pay the allotment money of Rs. 3 per share and second and final call Rs. 5 per share: Pass the journal entry.

(b) A company forfeits 100 shares of Rs. 10 each issued at Rs. 9 per share on account of non-payment of Rs. 4 per share by the shareholder. Pass the journal entry.

17. A Company issued Rs. 2,00,000 in 5% debentures of Rs. 100 each at par. Repayable at the end of 5 years at a premium of 6%. A Sinking fund at 4% compound interest is created for redemption of debentures.

You are required to prepare Sinking fund account and Sinking Fund Investment account for 5 years (Re. 1 per year at 4% compound interest amount to Rs. 5.4163 in 5 years).

18. Moon Ltd is a company with an authorized capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.2003 which 2,500 shares .were fully called up.

The Trial balance of Moon Ltd.

	Rs.		Rs.
Opening Stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	P and L a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance(up to 31.3.2004)	6,720	Reserves	25,000
		Loans from managing director	15,700
Salaries	18,500		
Rent	6,000	Share capital	2,50,000

General expenses	8,950	
Printing	2,400	
Advertisement	3,800	
Bonus	10,500	
Debtors	38,700	
Plant	1,80,500	
Furniture	17,100	
Bank	34,700	
Bad debts	3,200	
Calls in arrears	5,000	
	6,60,270	6,60,270

You are required to prepare P& L a/c for the year ended 31.12.2003.

Additional information :

(a) Closing stock Rs. 1,91,500

(b) Depreciation on plant - 15%

Depreciation of furniture - 10%

(c) Tax provision Rs. 8,000

(d) The directors declared an interim dividend on 15.8.2003 for six months ending June 30, 2003 @ 6%.

19. M Ltd., & N Ltd., agreed to amalgamated on the basis of the following Balance Sheets as on31.3.97.

	M	N		M	N
	Rs.	Rs.		Rs.	Rs.
Share capital Rs. 25 each	75,000	50,000	Goodwill	30,000	–
			Fixed assets	31,500	38,800
P&L a/c	7,500	2,500	Stock	15,000	12,000
Creditors	3,500	3,500	Debtors	8,000	5,200
Depreciation fund	–	2,500	Bank	1,500	2,500
	86,000	58,500		86,000	58,500

The assets and liabilities are to be taken over, by a new company formed called 'P' Ltd., at book values. P Ltd.'s share capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs. 10 each and 10,000, 9% preference shares of Rs. 10 each.

P Ltd., issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price. Pass journal entries in the books of 'P' Ltd.

20. Explain the duties of liquidator.

APPENDIX – A

PREVIOUS YEAR UNIVERSITY QUESTION PAPERS

MADRAS UNIVERSITY

MAY 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What do you understand by issue of shares at premium?
2. What is absorption?
3. What is a Debenture?
4. State the methods of valuation of shares.
5. What do you mean by Inflation Accounting?
6. What do you understand by 'Minority Interest'?
7. X Ltd purchased assets worth Rs. 5,40,000 and the consideration was payable in fully paid shares of Rs. 10 each at a discount of 10% pass necessary journal entries.
8. Ram Ltd was in corporated on 1st May 2000 to take over the business of Raheem and Co with effect from 1-1-2000. While preparing final accounts on 31.12.2000, It was observed that the sales on the second half of the year were double to those in first half, on a monthly average basis find out Sales Ratio.
9. From the following particulars calculate the value per equity share :

   75,000 equity shares of Rs. 10 each, Rs. 8 per

   share paid up Rs. 6,00,000

   Profit available for equity dividend
10. On 31.12.1996 Popular Bank Ltd held the following bills discounted at 5%

Amount in Rs.	Due Date
50.000	31.1.1997
40.000	30.4.1997
30.000	3.3.1997

Calculate rebate on bills discounted, assuming that accounts are closed on 31st December.

11. A Life Insurance company showed its Life Assurance fund as Rs. 28,35,000 on 31.12.1987 before taking into account the following items :

	Rs.
Interest accured on Investments	20,000
Reinsurance claims revocable	7.000
Bonus in reduction of premium	3.000

Show the adjusted Life Fund.

12. The liquid for a company is entitled to get a remuneration of 3% on the amount realized from the assets and 2% on the amount distributed to unsecured creditors from the following particulars, calculate the remuneration payable :

	Rs.
Cash realised from assets	3,00,000
Preferential creditors	10,000
Amount due to unsecured creditors	4,00,000

Answer any FIVE questions.

All questions carry equal marks.

13. A Ltd., forfeited 20 shares of Rs. 10 each Rs. 7 called up, on which Mr. Gopal had paid application and allotment money of Rs. 5 per share. Of these, 15 shares were reissued to Mr. Ramesh as fully up for Rs. 6 per share. Give necessary journal entries.

14. A company issued 10,000 equity shares of Rs. 10 each at par. The issue was underwritten by Swami and Co. for one maximum commission permitted by law. The public had applied for and received 8000 shares. Give necessary journal entries in the books of the company.

15. From the following particulars, determine the maximum remuneration available to a fulltime director of a manufacturing company.

	Rs.
Net profit shown by P and L a/c after taking into account the following items	40,00,000
Depreciation (including special depreciations of Rs. 40,000)	1,00,000
Provision for Income tax	2,00,000
Donation for political parties	50.000
Ex-gratia payment to a worker	10,000
Capital profit on sale of assets	15,000

16. From the following information calculate the value of goodwill on the basis 3 years purchase of super profit.

    a) Average capital employed in the business is Rs. 20,00,000

    b) Normal Rate of Return in the business is 10%

c) Net profit for the past three years were Rs. 3,50,400, Rs, 2,80,300 and Rs. 3,10,100.

d) Salaries to partners Rs. 48,000

17. A Ltd, agreed to purchase B Ltd., and to discharge consideration by issue of shares of Rs. 10 each

	A	B		A	B
Shares of Rs. 10 each	4,00,000	8,00,000	Shares in B Ltd	30,000	–
Creditors	1,00,000	2,00,000	Sundry assets	4,70,000	10,00,000
	5,00,000	10,00,000		5,00,000	10,00,000

Prepare the revised balance sheet of A Ltd.

18. State the 'Preferential Creditors' as the event of liquidation of a company.

19. Write short notes on :

    Non banking assets and

    Non-performing assets.

20. What is meant by reinsurance? How is it helpful to Insurance Companies?

Answer any TWO questions.

All questions carry equal marks.

21. Moon and Star Co Ltd., is a company as authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.1985 of which 2500 shares were fully called up. The following is the total balance as at 31.12.1985 :

Capital balances	Rs.	Credit balances	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	Profit and loss a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance (upto 1.3.86)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing director	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisements	3,800		

Bonus	10,500
Debtors	38,700
Plant	1,80,500
Furniture	17,100
Bank	34,700
Bad debts	3,200
Calls-in-arrears	5,000
6,60,270	6,60,270

You are required to prepare profit and loss account and balance sheet as on 31.12.1985 after taking into account the following adjustments :

a) Closing stock was valued at Rs. 1,91,500

b) Depreciate plant by 15% and furniture by 10%

c) Provide for income tax Rs. 8,000

d) The directors declared on interim dividend 15.8.85 at 6%.

22. The following is the balance sheet of Balan Ltd on 31.12.98 :

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	8,00,000	Fixed Assets	10,00,000
Profit and Loss a/c	40,000	Current Assets	4,00,000
Reserves	1,80,000	Goodwill	80,000
5% Debentures	2,00,000		
Current liabilities	2,60,000		
	14,80,000		14,80,000

On 31.12.1998 the fixed assets were valued at Rs. 7,00,000 and the goodwill at Rs. 1,00,000. the net profit for the three years were : 1996- Rs 1,03,200, 1997 Rs.1,04,000 and 1998-Rs. 1,03,300 of which 20% was placed to reserve and a fair return on investment may be taken at 10% compute the value of share of the company by

a) the net asset method and
b) the yield method.

23. From the data relating to a company which had gone into voluntary liquidation, you are asked to prepare the liquidators final statement of accounts :

a) Cash with liquidator (after all assets are realised and secured creditors and debenture holders are paid) is Rs. 6,73,800

b) Preferential creditors to be paid is Rs. 30,000

c) Other unsecured creditors Rs. 2,15,000

d) 4,000, 6% pref shares of Rs. 100 each, fully paid

e) 2000 equity shares of Rs. 100 each, Rs. 75 per share paidup.

f) 6000 equity shares of Rs. 100 each, Rs. 60 per share paidup.

g) Liquidator's remuneration 2% on preferential and other unsecured creditors.

h) Preference dividends were in arrears for 2 years.

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Shares of Rs. 10 each	6,00,000	2,00,000	Machinery	3,00,000	1,00,000
General Reserve	1,50,000	70,000	Furniture	70,000	45,000
Profit and Loss A/c	70,000	50,000	Stock	1,75,000	1,89,000
Creditors	90,000	60,000	Debtors	55,000	30,000
			Cash	50,000	10,000
			Preliminary expenses	–	6,000
			70% shares in S Ltd at cost	2,60,000	
	9,10,000	3,80,000		9,10,000	3,80,000

H Ltd acquired the shares of S Ltd. On 30.6.1994, On 1.4.1994, S Ltd's general reserve and profit and loss a/c stood at Rs. 60,000 and 20,000 respectively, No part of the preliminary expenses was written off in the year ended 31.3.1995.

Prepare consolidated balance sheet of H Ltd and its subsidiary S Ltd as on 31.3.95.

MAY 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. The trial balance of Bharat Bank Ltd. as on 31st March 2009 shows the following. Prepare profit and loss a/c for the year ended 31.3.2009.

	Rs.
Interest earned	10,10,000
Other incomes	1,25,000
Interest expended	4,15,000
Operating expenses	1,65,000
Retained profit on 1.4.2008	1,00,000

Bad debts written off amounted to Rs. 55,000. Provision for taxation to be made at 50%.

2. A Life Assurance Company prepared its Revenue account for the year ended 31st March 2009 and ascertained its life assurance fund to be Rs. 56,70,000. It was found latter that the following had been omitted from the accounts :

   a) Interest accrued on investments Rs. 78,000 income tax liable to be deducted estimated to be Rs. 21,000.

   b) Outstanding premium Rs. 65,600.

   c) Bonus utilised in reduction of premium Rs. 13,500.

   d) Claims intimated but not admitted Rs. 34,800.

   e) Claims covered under re-insurance Rs. 13,000.

   Ascertain the true life assurance fund.

3. A company has 4,000, 7% redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on December 31, 2009 at a premium of 5%. The company has sufficient profits. The following issues are made for the redemption purpose :

   a) 1000 equity shares of Rs. 100 each at a premium of 10%

   b) 1000 5% debentures of Rs. 100 each

   The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries.

4. The following scheme of reconstruction was approved by X Ltd.

   a) The shareholders to receive in lieu of their present holding of 50,000 shares of Rs. 10 each, the following :

      (i) Fully paid ordinary shares equal to 2/5 of their holdings

(ii) 5% preference shares to the extent of 1/5 of the above ordinary shares

(iii) Rs. 60,000, 6% debentures.

b) The goodwill which stood at Rs. 3,00,000 was written down to Rs. 1,50,000.

c) Plant and buildings were written down by Rs. 20,000 and Rs. 30,000 respectively.

d) Give Journal entries.

5. From the following particulars, prepare fire revenue a/c for the year 2009 :

	Rs.
Claims Paid Premiums received	12,00,000
Re-insurance premium	1,20,000
Commission	2,00,000
Management expenses Fire	3,00,000
Insurance Fund (1.1.2009)	5,20,000
Claims unpaid on 1.1.2009	40,000
Claims unpaid on 31.12.2009	70000

Make provision against fire fund at end @ 50% of net premium.

6. Distinguish between CPP and CCA methods of Inflation accounting.

7. Explain the common transactions to be eliminated while preparing the consolidated balance sheet.

8. What are the conditions for redemption of preference shares?

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. A company issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 per share. These shares were payable as follows :

On application : Rs. 2

On allotment Rs. 5 (including premium)

On first and final call Rs. 5.

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. Out of these shares, 400 were reissued at Rs. 8 per share as fully paid.

Give the Journal entries and prepare the balance sheet of the company.

10. Sun Ltd. was incorporated on 1.8.2009. It took over the business of Moon Ltd. with effect from 1.4.2009. From the following particulars relating to the year ending 31.3.2010, find out

profit prior to incorporation and after incorporation. Sales for the year were Rs. 60 lakhs and pre-incorporation sales of Rs. 25 lakhs. Gross profit for the year was Rs. 18 lakhs.

Expenses debited to Profit and Loss a/c :

	Rs.
Rent	90,000
Salaries	1,50,000
Directors fees	38,000
Interest on debentures	60,000
Audit fees	15,000
Discount on sales	36,000
Depreciation	2,40,000
General expenses	48,000
Advertising	1,80,000
Printing and Stationary	36,000
Commission on sales	60,000

Interest to vendors on purchase consideration Rs. 30,000 (upto 1.10.2009)

11. Authorised capital of Vijay Ltd is Rs. 5,00,000 (50,000 shares of Rs. 10 each). On 31.12.2009, 25,000 shares were fully called up on 31.12.2009, the following balances taken from the ledger of the company.

	Rs.
Opening stock	50,000
Sales	4,25,000
Purchases	3,00,000
Wages	70,000
Discount allowed	4,200
Discount received	3,150
Insurance (paid upto 31.3.10)	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Printing and stationary	2,400
Advertising	3,800
Bonus	10,500
Sundry debtors	38,700

Sundry creditors	35,200
Plant and Machinery	80.500
Furniture	17,100
Cash and bank	1,34,700
Reserve	25,000
Loan from M.D.	15,700
Bad debts	3,200
Calls in arrears	5,000
Profit and Loss a/c (cr)	
	6,220

Additional information's were furnished :

a) Closing stock Rs. 91,500.

b) Depreciation on plant and machinery furniture @ 15% and 10% respectively.

c) Wages, salaries and rent outstanding amounts to Rs. 5,200, Rs. 1,200 and Rs. 600 respectively.

d) Dividend @ 5% on paid up share capital is to be provided. Prepare final accounts of the company.

12. Siva Ltd Voluntarily liquidated on 31.12.2009. Information available to liquidator :

Rs.

Sundry creditors 75,660 (included preferential creditors Rs. 8,000)

6% debentures 80,000 (having floating charge)

Debentures are redeemed on 30.6.2010

Debentures interest already paid upto 30.6.2009.

Assets realised :	Rs.
Stock	84,000
Machinery	60,600
Cash in hand	500
Liquidation expenses	1,902

Liquidator's remuneration : 3% on assets realised, 2% on amount paid to unsecured creditors. Prepare Liquidator's final statement of account.

13. From the balance sheets and information given below, prepare consolidated balance sheet.

Balance Sheet as on 31.12.2009

	H Ltd Rs.	S Ltd Rs.		H Ltd Rs.	S Ltd Rs.
Share capital :			Sundry assets	8,00,000	1,20,000
Rs. 10 fully paid	10,00,000	2,00,000	Stock	6,10,000	2,40,000
Profit and loss a/c	4,00,000	1,20,000	Debtors	1,50,000	1,70,000
Reserve	1,00,000	60,000	Bills receivable	10,000	–
Creditors	2,00,000	1,20,000	Shares in S,		
Bills payable	–	30,000	15,000 at cost	1,50,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

a) All the profit of S has been earned since the shares were acquired by H, but there was already the reserve of Rs. 60,000 at that date.

b) The bills accepted by S Rs. 10,000 are in favour of H.

c) Sundry assets of S are undervalued by Rs. 20,000.

d) The stock of H includes Rs. 50,000 bought from S at a profit to the latter of 25% on cost.

MAY 2012

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. What are the conditions for redemption of preference shares?
2. Explain the different methods of valuation of shares.
3. From the following particulars prepare the Fire Revenue Account for year ended 31.12.2010 :

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2010	3,30,000
Additional reserve on 1.1.2010	1,40,000
Claims unpaid on 1.1.2010	25,000
Claims unpaid on 31.12.2010	35,000

Increase the additional reserve on 31.12.2010 by 20% on the net premium.

4. Udayam Limited was incorporated on 1.7.2010 to take over the business carried on by Udayam Brothers with effect from 1.4.2010. The following is the Profit and Loss A/c for the year ended 31.3.2011 :

	Rs.		Rs.
To Administration expenses	18,000	By Gross profit	75,000
To Directors fees	3,000		
To Selling expenses	36,000		
To Audit fees	1,000		
To Preliminary expenses	3,000		
To Net profit	14,000		

	75,000	75,000

Sales Rs. 3,00,000 (upto 30.6.2010 Rs. 1,00,000) you are required to prepare a statement showing the profit earned prior to and after incorporation.

5. Surya Limited buys its own 12% debentures of the nominal value of Rs. 5,00,000 at Rs. 96 on 31st March 2011. Record the transactions in the books of Surya Limited if the quotation is:

   a) Cum-interest
   b) Ex-interest

   Surya Limited pays interest half-yearly on 30th June and 31st December.

6. The Liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amounts realised (excluding the cash on hand) and at 2% on the amounts distributed to the unsecured creditors. Unsecured creditors including preferential creditors of Rs. 5,000 amounted to Rs. 40,000. Debenture holders were paid Rs. 51,875 together with interest. Preferential creditors were paid in full, Rs. 510 were spent as costs of liquidation. Cash on hand Rs. 1,000 and assets realised Rs. 79,000.

   Prepare Liquidator's final statement of account.

7. The following particulars are available in respect of a company :

   Capital employed is Rs. 5,00,000. Trading results : 2007 - Profit Rs. 1,22,000; 2008 – Profit Rs. 1,50,000; 2009 - Loss Rs. 20,000 and 2010 - Profit Rs. 2,10,000. Market rate of interest on investment 10%. Remuneration from alternative employment of the proprietor (if not engaged in business) Rs. 36,000 per annum. You are required to compute the value of goodwill on the basis of 3 years' purchase of super profits of the business calculated on the average profits of the last 4 years.

8. From the following particulars, prepare the Profit and Loss A/c of Saraswathi Bank Ltd. for the year ended 31st March 2011 :

	Rs.
Interest on loans	34,90,000
Interest on fixed deposits	36,50,000
Rebate on bills discounted on 1.4.2010	4,80,000
Commission received	94,000
Administrative expenses	15,50,000
Discount received	19,40,000
Interest on cash credit	22,40,000
Amount charged against Current A/c	1,80,000
Rent and taxes	12,80,000
Interest on overdrafts	42,000

Directors fees	6,90,000
Interest on Savings Bank A/c	15,000
Postal expenses	39,000
Printing and stationery	18,000
Other expenses	

Adjustments :

a) Rebate on bills discounted on 31.3.2011 Rs. 5,20,000.

b) Provide for taxation @ 50% of the profits.

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. Discuss the different methods of valuing equity shares.

10. From the following Balance Sheets, prepare a consolidated Balance Sheet :

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital Rs. 10 fully paid	20,00,000	4,00,0000	Fixed assets	16,00,000	2,40,000
			Stock	12,00,000	5,00,000
Profit and Loss A/c	5,00,000	2,70,000	Debtors	3,00,000	3.20.000
Reserve	5,00,000	90,000	30,000 shares in S Ltd. at cost	3,00,000	–
Creditors		3,00,000			
	34,00,000	10,60,000		34,00,000	10,60,000

a. All profits of S Ltd. has been earned the shares were acquired by H, but there was already the reserve of Rs. 50,000 at that date.

b) The fixed assets of S Ltd. were overvalued by Rs. 40,000.

c) The stock of H Ltd. includes Rs. 2,00,000 bought from S Ltd. at a profit to the latter of 33-3 % on cost.

11. A company issued 2,00,000 shares of Rs. 100 each at a premium of Rs. 20 per share. These shares were payable as follows :

On application	Rs. 20
On allotment	Rs. 50 (including premium)
On call	Rs. 50

All the shares were applied for and allotted. All moneys were received except the call money on 20,000 shares which were forfeited. Out of these shares, 15,000 shares were reissued at Rs. 90 per share as fully paid.

Give journal entries in the books of the company.

12. From the following Trial Balance of Madura Ltd. prepare Trading and Profit and Loss A/c for the year ended 31st March 2011 and the Balance Sheet as on that date :

Debit Balance	Rs.	Credit Balance	Rs.
Opening stock	60,000	Equity share capital (2,000 shares of Rs. 100 each)	2,00,000
Rent and taxes	12,000	12% debentures	50,000
Purchases	1,21,800	Sales	3,50,000
Wages	1,10,400	Creditors	16,000
Discount	3,000	Bank overdraft	24,000
Fuel	5,040	Discount	4,400
Building	1,40,000	Transfer fee	100
Carriage inward	2,350	Return outward	200
Sundry debtors	40,000		
Goodwill	56,000		
Plant and machinery	50,000		
Loose tools	12,000		
Advertisement	6,000		
General expenses	8,800		
Bad debts	2,060		
Debenture interest (paid upto 30.9.2010)	3,000		
Miscellaneous expenses	6,000		
	6,44,700		6,44,700

Adjustments :

a) The authorised capital of the company is Rs. 4,00,000.

b) Stock on 31st March 2011 is Rs. 70,000

c) Depreciate Plant and Machinery at 9%.

d) Revalue loose tools at Rs. 8,200.

e) Allow 212 % discount on debtors.

f) Create reserve for bad debts at 2%.

13. The following is the Balance Sheet of Vivek Limited as on 31st March 2011 :

Liabilities	Rs.	Assets	Rs.
40,000 7% redeemable preference shares of Rs. 10 each	4,00,000	Fixed assets	9,00,000
		Stock in trade	6,00,000
		Trade debtors	1,00,000
60,000 equity shares of Rs. 10 each	6,00,000	Investments (4%)	2,50,000
		Cash at bank	1,47,500
Security premium	1,20,000	Accrued interest	2,500
General reserve	5,00,000		
Profit and Loss A/c	1,80,000		
Current liabilities	2,00,000		
	20,00,000		20,00,000

The company redeemed the whole of the preference shares at a premium of 6% on 1st April 2011.

To finance the redemption, all the investments were sold for Rs. 2,40,000 and 8,000 equity shares of Rs. 10 each were issued at Rs. 12.50 per share. The expenses of issue of shares were Rs. 5,000.

On June 1, 2011, the company made bonus issue of four equity shares, fully paid for every five equity shares held on that date.

Give journal entries in the books of the company and prepare the Balance Sheet.

OCTOBER 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. From the following particulars prepare the fire insurance revenue account for the year ended 31.12.2009 :

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2009	3,30,000
Additional reserve on 1.1.2009	1,40,000
Claims unpaid on 1.1.2009	25,000

Increase the additional reserve on 31.12.2009 by 10% on the net premium.

2. A life insurance company gets its valuation made once in two years. The life assurance fund as on 31.12.2009 was Rs. 29,65,000 before providing Rs. 35,000 for shareholders dividend for the previous year. The actuarial valuation as on 31.12.2009 disclosed a net liability of Rs. 27,30,000 for unexpired risks. An interim bonus of Rs. 60,000 was paid to the policy holders for this year. Prepare a valuation balance sheet and also calculate the amount available to policy holders.

3. The following particulars related to a company which went into voluntary liquidation. Prepare liquidator's final statement of account allowing 2% remuneration to liquidator on the amount realised and 3% on the amount distributed to unsecured creditors.

	Rs.
`Unsecured creditors	5,60,000
Preferential creditors	40,000
Debentures	3,80,000
Share capital	4,00,000

Assets realised :

Cash in hand	43,000
Land and building	2,60,000
Plant and machinery	3,60,000
Furniture	40,000

4. Star Private Ltd. was incorporated on 1.7.2009 to takeover the business carried on by S & CO. as a going concern with effect from 1.4.2009. The following is the profit and loss account for the year ended 31.3.2010 of Star Private Ltd.

	Rs.		Rs.
To Admn. expenses	18,000	By gross profit	75,000
To directors fees	3,000		
To selling expenses	36,000		
To audit fees	3,000		
To preliminary expenses	1,000		
To net profit	14,000		
	75,000		75,000

Sales Rs. 3,00,000 (upto 30.6.2009 Rs. 1,00,000). You are required to prepare a statement showing the profit earned prior to and after incorporation.

5. From the following particulars, calculate the value per equity share :

   5,000 8% preference shares of Rs. 100 each, Rs. 5,00,000, 75,000 ordinary shares of Rs. 10 each.

   Rs. 8 per share paid-up - Rs. 6,00,000

   Expected profits per year before tax - Rs. 2,80,000

   Rate of tax - 50%

   Transfer to general reserve every year 20% of profit Normal rate of earnings - 10%

6. What are the conditions for redemption of preference shares?
7. Explain the different methods of valuation of goodwill.
8. Explain the various methods of calculating purchase consideration.

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. X Ltd. issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows :

   On application Rs. 2

On allotment Rs. 5 (including premium)

On 1st call Rs. 3

On 2nd and final call Rs. 2.

Applications were received for 3000 shares and prorata allotment was made on the applications for 2400 shares. Money overpaid on applications was adjusted towards sum due on allotment.

Ram to whom 40 shares were allotted failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mohan, the holder of to shares, failed to pay the two calls, and his shares were forfeited after the second call.

Of the shares forfeited, 80 shares were sold to Kumar credited as fully paid for Rs. 8 per share, the whole of Ram being included.

Show journal entries and cash book entries.

10. The following is the balance sheet of the Delta Ltd. as on 31st December 2009.

Liabilities	Rs.	Assets	Rs.
12000 shares of		Land and buildings	1,00,000
Rs. 10 each fully paid	1,20,000	Plant and machinery	40,000
Sundry creditors	30,000	Stock	15,000
Bank overdraft	28,000	Sundry debtors	22,000
		Profit and loss A/c	1,000
	1,78,000		1,78,000

The company went into voluntary liquidation and the assets were sold to the Reddy Ltd. for Rs. 1,50,000 payable as to Rs. 60,000 in cash (which sufficed to discharge the creditors and bank and pay the costs of winding up, Rs. 2,000) and as to Rs. 90,000 by the allotment of 12000 shares of Rs. 10 each of Reddy Ltd. Rs. 7.50 per share paid up to the shareholders of Delta Ltd.

Give journal entries to close the books of Delta Ltd. and also entries for recording these transactions in the books of Reddy Ltd.

11. On 1st October 2008, a company issued 10,000 12% debentures of Rs. 100 each (interest payable on 30th September and 31st March). The company is allowed to purchase own debentures which may be cancelled or kept or reissued at the company’s option. The company made the following purchases in the open market.

On 31st August 2009, 1000 debentures @ Rs. 98 ex-interest

On 31st December 2010, 500 debentures @ Rs. 97 cum-interest

The debentures purchases on 31st August 2009 were cancelled on 31st march 2011. Give journal entries to record the transaction.

12. The following is the trial balance of Alpha Ltd. as on 31.3.2010 with the authorised capital of 72000 shares @ Rs. 10 each.

	Debit (Rs.)	Credit (Rs.)
Cash in hand	900	–
Cash at bank	3,55,980	–
Profit and loss a/c balance	–	17,400
Creditors	–	60,000
Debentures	–	3,60,000
Share capital (called up)	–	45,600
Bills payable	–	4,200
Sales	–	30,000
Reserve for bad debts General	–	–
reserve Calls in arrear Wages	–	–
Land and buildings Plant and	92,760	–
machinery General expenses	3,60,000	–
Salaries	20,280	–
Interim dividend paid	17,400	–
Furniture	40,000	–
Purchases	2,29,880	–
	15,67,200	15,67,200

Adjustments :

a. Outstanding wages Rs. 6,000; Salaries Rs. 3,000

b. General expenses include prepaid insurance @ Rs. 300

c. Provide depreciation on land and buildings plant and machinery and furniture 5%, 10% and 20% respectively.

d. Stock on 31.3.2010 amounted to Rs. 1,40,000

e. Outstanding interest on debentures Rs. 18,000

f. Final dividend declared Rs. 21,000.

Prepare final accounts of the company.

13. The balance sheet of H Ltd and S Ltd on 31.3.2010 were as under :

	H Ltd Rs.	S Ltd Rs.		H Ltd Rs.	S Ltd Rs.
Share capital shares of Rs. 100 each	2,00,000	50,000	Land and buildings	60,000	–

General reserve	30,000	10,000	Machinery	2,00,00	–
P and L a/c (1.4.2009)	40,000	20,000	Stock	0	85,000
Profit for (2009-10)	50,000	25,000	By debtors	40,000	30,000
Creditors	50,000	30,000	Bank	10,000	10,000
Bills payable	15,000	–	300 shares in S	10,000	–
			Ltd.	65,000	
			Bills receivable		10,000
				–	
	3,85,00	1,35,000		3,85,00	1,35,000

Shares were acquired by H Ltd. on 1.10.2009. Bills receivable held by S Ltd. are all accepted by H Ltd. Included in the debtors of S Ltd. is Rs. 6,000 owing by H Ltd. in respect of goods supplied.

Prepare a consolidated balance sheet.

MAY 2012

Time : Three hours **Maximum : 100 marks**

PART A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What is a share?
2. Write a short note on 'Redemption of debenture'.
3. Define human resource accounting.
4. Give a meaning of interim dividend.
5. What is external reconstruction?
6. Arun holds 2000 shares of Rs. 10 each in Ram Ltd. He has paid Rs. 2 and Rs. 3 per share on application and allotment respectively, but failed to pay Rs. 3 and Rs. 2 per share for first and second calls respectively. Directors forfeited his shares. Give journal entry.

7. Calculate the amount of goodwill on the basis of 2 years purchase of the last five years' average profits. The profits for the last five years are : Rs. 8,200; Rs. 10,500; Rs. 5,100; Rs. 7,700; Rs. 12,000.

8. From the following details compute appropriate conversion factors :

   a) General price index numbers - opening 200; closing 300; average for the year 240
   b) General price index numbers - at the end of the year 200; on the date of acquring an item of stock 120. On the date of acquiring an asset 150.

9. Ganesh Ltd. was incorporated on 1st May 1996 to purchase the running business of Vinayaka & Co. with effect from 1st January 1996. The company obtained certificate of commencement of business on 24th August 1996. Calculate the time ratio, if the accounts were finalised on 31st December 1996.

10. The company B takes over the business of company A. The value agreed for various assets is goodwill Rs. 22,000; Land and Buildings Rs. 25,000; Plant and Machinery Rs. 24,000; Stock Rs. 13,000; Debtors Rs. 8,000; B company does not take over cash but agree to assume the liability of sundry creditors Rs. 5,000

    Calculate purchase consideration.

11. From the particulars given below, ascertain liquidator's remuneration :

    Creditors to be paid Rs. 60,000 Amount available on hand Rs. 44,000

    Commission to be given on the amount paid to creditors 10%.

12. From the following particulars of Ganga Ltd., Calculate managerial remuneration :

    Net profit before provision for income tax and managerial remuneration but after depreciation Rs. 8,70,410

    Depreciation provided in the books Rs. 3,10,000

    Depreciation allowable under schedule XIV Rs. 2,60,000.

PART B — (5 x 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

13. What is the need for accounting standards?

14. Write a note on :

    a) Complete underwriting
    b) Partial underwriting.

15. Explain the methods of valuation of goodwill.

16. Visu was holding 500 shares of Rs. 10 each. He had paid upto first call but failed to pay the final call money of Rs. 3 per share. The director forfeited the shares after due notice. All these shares are again reissued at Rs. 8 per share. Give journal entry for forfeiture, reissue and capital reserve.

17. Balance sheet of Nayagam Company as on 31.12.2007

Liabilities	Rs.	Assets	Rs.
20,000 equity shares of Rs. 10 each	2,00,000	Goodwill	2,00,000
Employee's saving fund	1,50,000	Investment at cost (market value Rs. 2,50,000)	3,00,000
Employee's provident fund	6,00,000	Stock at cost	5,00,000
Creditors P and L a/c	3,70,000	Debtors	4,00,000
		Bank balance	70,000
	14,70,000		14,70,000

The profit for the last five years were Rs. 15,000, Rs. 20,000, Rs. 25,000, Rs. 30,000 and Rs. 35,000 and the goodwill is to be valued on the basis of three years purchase of the average annual profits for the last five years.

Calculate the price of the share on the basis of net asset value.

18. On 31st March, 1998 a bank held the following bills, discounted by its earlier :

Date of bill 1998	Time of bill (months)	Discounted @ % p.a.	Amount of bill Rs.
January, 17	4	17	7,30,000
February, 7	3	18	14,60,000
March, 9	3	17.5	3,64,000

You are required to calculate the rebate on bill discounted. Also show the necessary journal entry for the rebate.

19. SAN Company Ltd. passed resolution and received sanction of the court for the reduction of share capital by Rs. 2,50,000. After the arrangement, the credit balance of capital reduction account was Rs. 2,50,000. The amount available was utilised for write off profit and loss a/c (Dr.) Rs. 1,05,000 reducing the value of plant and machinery Rs. 45,000, goodwill Rs. 20,000, investment Rs. 40,000. The balance available would be transferred to capital reserve. Pass journal entry.

20. From the following information, prepare liquidator's final statement of account :

	Rs.
Cash at bank	1,00,000
Surplus from securities	10,10,000
Expenses of liquidation	30,000
Liquidator's remuneration	7,000
Preferential creditors	2,00,000
Unsecured creditors	7,00,000

Preference share holders	1,00,000
Equity shareholders	1,00,000

PART C — (2 x 20 = 40 marks)

Answer any TWO questions.

All questions carry equal marks.

21. X Ltd. Company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each 31.3.2005, 2,500 shares were fully called up. The following balances were extracted from the ledger of the company on 31.3.2005.

	Rs.
Stock	50,000
Sales	4,25,000
Purchases	3,00,000
Productive wages	70,000
Discount allowed	4,200
Discount received	3,150
Insurance upto (30.6.05)	6,720
Printing	2,400
Advertisement	3,800
Bonus	10,500
Debtors	38,700
Creditors	35,200
Machinery	80,500
Furniture	17,100
Bank balance	34,700
Salaries	18,500
Rent	6,000
General expenses	8,950
P and L a/c (Cr.)	6,220
Reserve	25,000
Loan	15,700

Additional information :

a. Closing stock Rs. 91,500
b. Depreciation on machinery 15% and on furniture 10%
c. Outstanding liability for Wages Rs. 5,200, Salaries Rs. 1,200, Rent Rs. 600

d. Provide dividend on share capital 5%

You are required to prepare final accounts of X Ltd. Company for the year 2005.

22. The following are the summarised balance sheet of Amar Ltd., and Samar Ltd., as on 31st March 2004 :

Liabilities	Amar Ltd Rs.	Samar Ltd Rs.	Assets	Amar Ltd Rs.	Samar Ltd Rs.
Issued share capital : Shares of Rs. 10 each	8,00,000	6,00,000	Goodwill	–	1,20,000
P and L a/c	1,40,000	–	Fixed assets	6,00,000	2,40,000
Creditors	80,000	2,40,000	Current assets	4,20,000	2,80,000
			P and L a/c	–	2,00,000
	10,20,000	8,40,000		10,20,000	8,40,000

Amar Ltd, agreed to take over the business of Samar Ltd., as on the date of the balance sheets. After due negotiations, it was determined that the shares of Amar Ltd., are worth Rs. 12 each and the shares of Samar Ltd., are worth Rs. 5 each.

You are required to make the necessary entries in the books of Amar Ltd., and draw up its balance sheet immediately after the take over.

23. Prepare, in the proper statutory form, the revenue account of Hindustan Life Assurance Company Ltd. for the year ended 31st March 2008 from the following figures.

	Rs.
Claims by death Claims by maturity	30,110
Premiums Transfers fee	7,05,690
Consideration for annuities granted	129
Annuities paid	82,127
Bonus paid in cash	53,461
Bonus in reduction of premium	2,416
Dividend paid to share holders	980
Expenses of management	5,500
Commission	31,920
Interest, dividend and rent	9,574
Income tax	97,840
Surrenders	35,710

Paid up share capital of the above life insurance company is Rs. 5,00,000 and net liability as per actuary's valuation is Rs. 11,05,000 as on 31.3.2008.

Also prepare valuation balance sheet of the company as on that date.

24. A company went in liquidation on 31.3.2008 when the following balance sheet was prepared :

Liabilities	Rs.	Assets	Rs.
Share capital :	1,95,000	Goodwill	60,000
19,500 shares of Rs. 10 each	53,310	Building	48,000
Sundry creditors :	99,790	Machinery	65,500
Partly secured (on building)	24,200	Stock	56,800
Unsecured creditors	8,000	Sundry debtors	48,820
Preferential creditors		Cash	2,500
Bank overdraft		P and L a/c	98,680
	3,80,300		3,80,300

Assets realised as follows :

Building Rs. 35,000; Machinery Rs. 51,000; Stock Rs. 39,000; Debtors Rs. 58,500; Cash Rs. 2,500.

The expenses of liquidation amounted to Rs. 1,000. The liquidator's remuneration was agreed at 2.5% on the amount realised (including cash) and 2% on the amount paid to unsecured creditors.

Prepare liquidator's final statement of account.

OCTOBER 2013

Time : Three hours **Maximum : 100 marks**

SECTION A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What do you mean by redeemable preference share?
2. Define underwriting.
3. Differentiate marked application from unmarked application.
4. What is meant by share premium?
5. What do you understand by purchased goodwill?
6. What is called-up capital?
7. What do you understand by errors of duplication?
8. What is the difference between investigation and audit?
9. Define continuous audit.
10. What is meant by vouching?
11. What do you understand by audit note book?
12. Define internal check.

SECTION B — (5 x 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

13. Explain the various methods of valuing goodwill.
14. Compute the value of an equity share of each of the companies A and B on the basis of the following information.

	Company 'A' Rs.	Company 'B' Rs.
Profit after tax	10.00.000	10.00.000
12% preference shares (shares of Rs. 100 each)	10.00.000	20.00.000
Equity capital (shares of Rs. 10 each)		

Assume that market expectation is 15% and 80% of profits are distributed.

15. A company issues 1.000 12% debentures of Rs. 1.000 each at a premium of 20% sixty percent of the issue was underwritten by X limited at the maximum rate of commission allowed by law. Applications were received for S00 debentures which were accepted and payment was received in full. Give journal entries.

16. A runs a chemist's shop. His net assets as on 31st March. 1989 amount to Rs. 20.00.000. After paying a rent of Rs. 45.000 a year and a salary of Rs. 30.000 the chemist, he earns a profit of Rs. 2.10.000. His landlord, who happens to be an expert chemist, is interested in purchasing the shop. 1S% is considered to be a reasonable return on capital employed. What can 'A expects as payment for goodwill?

17. What are the advantages of an annual audit?

18. What are the essential characteristics of a system of internal check?

19. Explain the rights of the company auditor.

20. Explain the various types of preference shares.

SECTION C — (2 x 20 = 40 marks)

Answer any TWO questions.

All questions carry equal marks.

21. Ascertain the value of goodwill of P. Co. Ltd. carrying on business as retail traders from the following information.

Balance sheet as on 31st December. 1998

Liabilities	Rs.	Assets	Rs.
Paid up capital :		Goodwill at cost	25,000
2.500 shares of		Land & building	
Rs. 100 each	2,50,000	at cost	1,10,000
Profit and loss a/c	56,650	Plant and machinery	
Bank overdraft	58,350	at cost less depreciation	1,00,000
Sundry creditors	90,500	Stock at cost	1,50,000
Provision for		Book debts less	
taxation	19,500	provision for doubtful debts	90,000
	4,75,000		4,75,000

The company commenced operations in 1994 with a paid up capital as aforesaid of Rs. 2.50.000. The profits earned, before providing for taxation, have been as :

1994 Rs. 61.000: 1995 Rs. 64.000: 1996 Rs. 71.500: 1997 Rs. 78.000: and 1998 Rs. S5.000

You may assume that income tax at the rate of 50% has been payable on these products. The average dividend paid by the company for the four years is 10% which is taken as reasonable return expected on the capital invested in the business.

22. Calculate maximum remuneration payable to the managing director for the year from the following information

	Rs.
Profit for the year (calculated as per sections 349. 350 and 351 of the companies act. 1956)	50,00,000
Paid-up capital	3,00,00,000
Reserves and surplus	1,20,00,000
Share premium	20,000
Long term loans	1,00,00,000
Investments	60,00,000
Preliminary expenses not written off	5,00,000
Remuneration paid to the managing director during the year	10,00,000
Share suspense account (representing application money received on shares the allotment of which is not yet due)	15,00,000

23. Discuss the duties of an auditor in detail.

24. Write a detailed note on the merits and demerits of the audit programme.

BHARATHIDASAN UNIVERSITY

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2014.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is meant by 'Over subscription'?
2. What is 'Re-issue of shares'?
3. What is 'Own debentures'?
4. What is 'Preference shares'?
5. What is 'Internal Reconstruction'?
6. What is meant by 'Alternation of share capital'?
7. Define Holding company.
8. What is capital profit?
9. What is 'Rebate on Bills discounted'?
10. What is 'Life Assurance Fund'?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) Aruna & Co. Ltd issued 1,00,000 shares of Rs. 10 each payable; Rs. 3 on application ; Rs. 2 on allotment and ; Rs. 5 on first and final call.

    1,20,000 shares were applied for. The directors decided to reject the excess applications. All moneys due were fully received. Pass journal entries.

    Or

    (b) The directors of XY Ltd decided to forfeit 100 shares of Rs. 10 each. For non-payment of final call on Rs. 3 per share. These shares were reissued at RS. 8 per share. Pass journal entries.

12. (a) Explain the conditions for the issue of Redeemable preference shares.

    Or

    (b) RS Ltd issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company if the debentures were issued as follows :

    (i) Issued at par, redeemable at par

(ii) Issued at a discount of 5%, repayable at par

(iii) Issued at a premium of 10%, repayable at par.

13. (a) What is purchase consideration? Explain the methods of its calculation.

Or

(b) Pass journal entries for the following transactions in connection with internal reconstruction.

(i) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each fully paid

(ii) 300, 9% debentures of Rs. 1,000 each converted into 1,500 12% debentures of Rs. 100 each

(iii) Plant and stock were written down by Rs. 6,000 and Rs. 30,000 respectively.

14. (a) ‘H’ Ltd acquired 80% of the shares in ‘S’ Ltd On 1.1.06 on which date ‘S’ Ltd had Rs. 20,000 credit balance in Profit and Loss account. The following position was on 31.12.2007.

	H Ltd. (Rs.)	S Ltd. (Rs.)
Profit for the year 2007	2,00,000	80,000
P and L balance on 31.12.2006	1,20,000	70,000

S Ltd. had not paid any dividend during the year 2006 and 2007. Prepare consolidated profit and loss a/c for the year ended 31.12.2007.

Or

(b) Arun Ltd Purchased 60% shares of Varun Ltd on 1.1.2010 when the balance on their P and L a/c and General reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2010, the balance sheet of Varun Ltd. showed a profit and loss a/c balance of Rs. 4,00,000 and General Reserve Rs. 3,00,000.

Calculate capital profit and revenue profit.

15. (a) On 31st March 2008 at bank held the following bills discounted by its earlier.

	Date of Bill (2008)	Terms of Bill (Month)	Discounted @ % p.a.	Amount of bill Rs.
(i)	January 17	4	17	7,30,000
(ii)	February 7	3	18	14,60,000
(iii)	March, 9	3	17.5	3.64.000

Calculate the rebate on bills discounted.

Or

(b) Find out the life assurance fund. The life assurance fund of a Life Assurance Company shares a balance of Rs. 22,34,400 as on 31.3.2010.

	Rs.
Interest on investment	32.000
Income tax	10,000
Outstanding premium	31,400
Bonus utilised for reduction of premium	6,600
Claims intimated but not admitted	15,200
Claims covered under reinsurance	5,300

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. Raj Ltd. issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows :

    On application Rs. 25 ; On allotment Rs. 34 ; On first and final call Rs. 36.

    Applications were received for 4,500 shares and all these were accepted. All moneys due were received except the final call on 300 shares which were forfeited. 200 of these shares were reissued at Rs. 90 as fully paid. Show the cash book and journal entries in the books of company.

17. X Ltd. have part of their share capital in 2,500 6% Redeemable preference shares of 100 each. The company decided to redeem the preference shares at a premium of 10%. The general reserve of the company shows a credit balance of Rs. 3,00,000. The directors decided to utilise 60% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of fresh issue of sufficient number of shares of Rs. 10 each. The premium is to be met from the year's profit and loss a/c.

    Pass Journal entries.

18. A Ltd. and B Ltd. agreed to amalgamate as on 31.12.2010 Balance Sheet

Liabilities	A	B	Assets	A	B
	Rs.	Rs.		Rs.	Rs.
Equity shares of Rs. 10 each	6,00,000	2,00,000	Land and		
General reserve	4,00,000	2,00,000	Building	1,00,000	–
Secured loan	6,00,000	1,00,000	Machinery	7,00,000	3,00,000
Current liabilities	6,00,000	4,00.000	Investments	1,00,000	–
			Stock	9,00,000	4,00,000
			Debtors	3,00,000	1,00,000
			Cash	1,00,000	1,00,000
	22,00,000	9,00,000		22,00,000	9,00,000

They decided to start a New Company 'C' Ltd.

a) All assets and liabilities of the two companies are taken over

b) Each shares in 'B' Ltd is valued at Rs. 25 for the purpose of amalgamation

c) Shares holders in A Ltd. and B Ltd. are paid off by issue of sufficient number of equity shares of Rs. 10 each in 'C' Ltd.

d) Each share in 'A' Ltd. is valued at Rs. 15 for the purpose of amalgamations.

Show the journal entries to close the books of both the companies.

19. Balance sheet of H Ltd. and S Ltd. as on 31.12.2004.

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital:			Fixed assets	18,10,000	15.75.000
Shares at Rs. 10 each	25,00,000	12,50,000	Investments (1,00,000 shares in S Ltd.)	11,00,000	–
Reserves	7.50.000	5,00,000			
Creditors	2.25.000	2,00,000	Current assets	5,65,000	3,75,000
	34,75,000	19,50,000		34,75,000	19,50,000

H Ltd. purchased the shares in S Ltd. on 1st Jan. 2004. When reserves in S Ld. stood at Rs. 3,00,000 and in H Ltd. at Rs. 4,50,000. Prepare consolidated Balance sheet.

20. Draft balance sheet of a Banking company as per schedule III of banking companies act.

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, APRIL 2015.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 × 2 = 20)

Answer ALL questions.

1. Define - "Shares".
2. What is forfeiture of shares?
3. What do you mean by debenture?
4. Write the meaning of cumulative preference shares.
5. Define "Amalgamation".
6. What do you mean by internal reconstruction?
7. Give the definition of "Holding company".
8. What is meant by minority interest?
9. What is rebate on bills discounted?
10. State the meaning of surrender value.

SECTION B – (5×5=25)

Answer all questions.

11. (a) Briefly explain the methods of issue of shares.

Or

(b) A limited company issued 20,000 equity shares of Rs. 100 each at a premium of 10%. Pass journal entry.

12. (a) Briefly explain the types of debentures.

Or

(b) The Balance Sheet of Wax Ltd. as on 31st Dec. 2013 was as under:

Liabilities	Rs.	Assets	Rs.
Share capital:		Sundry assets	3,65,000
1,000 redeemable preference	1,00,000	Bank balance	1,40,000

2,000 equity shares @ Rs. 100 each	2,00,000		
General reserve	80,000		
Profit and loss a/c	50,000		
Sundry creditors	75,000		
	5,05,000		5,05,000

On this date, the preferences shares were redeemed at par. Journalise and prepare new balance sheet.

13. (a) Bring out the methods of purchase consideration.

Or

(b) Lal Ltd, absorbed the business of Mal. Ltd, agreed to pay as follows:

For every 4, 10% preference shares of Rs. 10 each in Mal ltd, 7 equity shares of Rs. 10 each in Lal Ltd, as Rs. 8 Paid up. There were 60,000 10% preference shares in Mal Ltd.

Find out purchaser consideration.

14. (a) Write a short note on capital profit and revenue profit in holding company accounts.

Or

(b) A subsidiary company has a capital of Rs. 5,00,000 in shares of Rs. 100 each, out of which the holding company acquired 80% of the shares at Rs. 6,00,000. The profit of the subsidiary Co., on the data of acquisition of shares by the holding Co. were Rs. 3,00,000. Calculate the value of goodwill or capital reserve.

15. (a) What is valuation balance sheet?

Or

(b) The life assurance fund of an insurance company on 31.3.2013 showed a balance of Rs. 87,76,500. It was found later that the following were not taken into account.

	Rs.
Dividends from investments	4,80,000
Income tax on above	48,000
Bonus In reduction of premium	8,77,5000
Claims covered under re-insurance	4,23,000
Claims intimated but not accepted by company	7,62,000

Ascertain the correct balance of fund.

SECTION C – (3×10=30)

ANSWER ANY THREE QUESTIONS.

16. Bhanu Ltd issued 50,000 shares @ Rs. 100 each payable as follows: Rs. 20 on application; Rs. 30 on allotment; Rs. 25 on first call and Rs. 25 on final call.

    The company received applications for 40,000 shares and all these applications were accepted. All sums due on allotment, first and final call were received except the final call on 400 shares. These 400 shares were subsequently forfeited by the company and re-issued at 80 per share.

17. Explain the provisions of the companies act regarding redemption of preference shares.

18. The share capital of Zea Ltd. consisted of the following:

    (a) 10,000 6% preference shares of Rs. 100 each and

    (b) 50,000 equity shares of Rs. 10 each.

    The shares were fully paid. The company has accumulated losses totaling Rs. 3,50,000 besides preliminary expenses Rs. 20,000. It was also ascertained that fixed assets which stood in the books at Rs. 14,00,000 were over-valued to the extent of Rs. 4,00,000. The following scheme was adopted to write off the losses and reduce the assets.

    (i) 6% preference shares were to be converted into 7% preference shares of Rs. 60 each.

    (ii) Equity shares were to be reduced to Rs. 2 each.

    (iii) Pass necessary Journal entries.

19. The Balance Sheets of Holding Co, and subsidiary Co, as on 31.12.2012 are given below:

Liabilities	H Ltd (Rs.)	S Ltd (Rs.)	Assets	H Ltd (Rs.)	S Ltd (Rs.)
Share capital @ Rs. 10 each	5,00,000	2,00,000	Sundry assets	5,30,000	3,00,000
Reserve fund (1.1.2012)	50,000	20,000	Investments in 60% shares of subsidiary Co.	1,50,000	–
Profit for 2012	50,000	30,000	Preliminary expenses	–	10,000
Creditors	80,000	60,000			
	6,80,000	3,10,000		6,80,000	3,10,000

Holding Co., acquired the shares in subsidiary co., on 1.7.2012. Prepare the consolidated balance sheet.

20. Prepare profit and loss a/c of Chennai bank Ltd., for the year ending 31st March 2012.

	Rs.		Rs.
Interest on deposits	32,00,000	Discount on bills discounted	14,90,000
Commission (Cr)	1,00,000	Interest on overdraft	16,00,000
Interest on loans	24,90,000	Interest on cash credits	23,20,000
Sundry charges (Dr)	1,00,000	Auditors fees	35,000
Rent and rates	2,00,000	Director's fees	16,000
Establishment expenses	5,00,000	Bad debts to be written odd	3,00,000

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, JUNE 2015.

Part III — Computer Application — Major

CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A—(10x2 = 20)

Answer ALL questions.

1. What is a company?
2. What is meant by perpetual succession?
3. What is redeemable preference shares?
4. What do you mean by debentures?
5. What is Amalgamation?
6. What do you mean by Absorption?
7. Define holding company.

8. What is minority interest?

9. What do you mean by preliminary expenses?

10. Explain Life Insurance.

Section B – (5x5=25)

Answer all questions.

11. (a) Ganesh Ltd. issued 50,000 equity shares of Rs. 10 each to the public on condition that full amount of shares will be paid in a lump sum. All these shares were taken up and paid by the public. Pass journal entries in the books of company when (i) shares are issued at par (ii) shares are issued at a premium of 10 % and (iii) issued at 10% discount.

Or

(b) What are the classes of preference shares?

12. (a) The following balances were extracted from Lakshman Ltd. as on 31.12.2014:

	Rs.
Share capital:	
1,00,000 equity shares of Rs. 10 each	10,00,000
1,50,000 6% redeemable pref. shares of Rs. 10 each	15,00,000
Capital reserve	7,50,000
General reserve	4,50,000
Profit and loss a/c	12,25,000

The company redeemable preference shares on 1.1.15 and has sufficient cash.

Give journal entries.

Or

(b) Classify the Debentures.

13. (a) What is purchase consideration? What are they?

Or

(b) Give the journal entry for internal reconstruction.

14. (a) Arun Ltd. acquired 60% of shares in Varun Ltd. on 1.1.2000 on which date Varun Ltd. Rs. 30,000 credit balance in the Profit and loss a/c.

The following position was revealed on 31.12.2001:

	Arun Ltd.	Varun Ltd.
Profit for 2011	1,90,000	65,000

Profit and loss a/c as on 31.12.2000 1,75,000 90,000

Varun Ltd. had not paid any dividend in the years 2000 and 2001.

You are required to prepare consolidated profit and loss account for the year ended 31.12.2001.

Or

(b) Vani Ltd. purchased 70% of the shares of Rani Ltd. on 1.1.2002. The following is the summarized profit and loss account of the companies after ascertaining net profit.

Profit and loss a/c of Vani and Rani Ltd.

For the year ended31.12.2002

	Vani Ltd. Rs.	Rani Ltd. Rs.		Vani Ltd. Rs.	Rani Ltd. Rs.
To proposed dividend	–	80,000	By net profit b/d	3,00,000	2,70,000
T Balance c/d	3,56,000	1,90,000	Dividend received from B Ltd. (80,000×70/100)	56,000	–
	3,56,000	2,70,000		3,56,000	2,70,000

You are required to prepare a consolidated profit and loss a/c.

15. (a) From the following particulars of Rohit Commercial Bank, find out the closing rebate.

Date of bill	Term of bill	Discounted rate	Amount of bill
December 11	4	16%	2,40,000
January 10	3	15%	1.95.000
February 16	4	14.5%	3,12,000
March 12	3	15.5%	1,89,000
March 21	4	16.5%	2,48,000

Or

(b) What are the types of general insurance?

SECTION C – (3x10=30)

Answer any three questions.

16. Sivam Co. issued 25,000 equity shares of Rs. 100 each and the amounts were received as follows:

On application Rs. 20, on allotment Rs. 40, on call Rs. 40.

20,000 applications were received and all were allotted. Pass journal entries.

17. Krishnan Co. has part of its share capital as 3,000, Rs.100 preference shares each. When the shares became due for redemption, the company decides that the whole amount will be redeemed out of fresh issue of equal amount of equity shares of Rs. 10 ach. Pass Journal entries.

18. Vinayaga Ltd. and Muruga Ltd. agree to amalgamate as from 31st December 1999 on which date their respective balance sheet were as follows:

Liabilities	Vinayaga Ltd. Rs.	Muruga Ltd. Rs.	Assets	Vinayaga Ltd. Rs.	Muruga Ltd. Rs.
Share capital (shares of Rs. 1 each)	80,000	25,000	Cash in hand	100	50
Sundry creditors	3,00	1,000	Cash at bank	3,400	450
Reserve	7,500	4,000	Sundry debtors	22,500	6,000
Profit and loss a/c	2,500	1,000	Plant	12,000	4.500
			Stock	15,000	7,000
			Premises	30,000	10,000
			Patents	10,000	3,000
	93,000	31,000		93,000	31,000

Draw up the balance sheet of the new company Ganesh Murugan Ltd. Which was incorporated to take over the amalgamated concerns and state the number of shares in the new company which will be allotted to the shareholders of the old companies at the new share of Re. 1. Assume the same face value.

19. From the following balance sheets Somu and Ramu prepare the consolidated balance sheet as on 31.3.1999.

Liabilities	Somu Ltd. Rs.	Ramu Ltd. Rs.	Assets	Somu Ltd. Rs.	Ramu Ltd. Rs.
Share capital (shares of Rs. 10 each)	10,00,000	4,00,000	Sundry assets	8,5,0,000	6,08,000
General reserve	2,00,000	1,00,000	100% shares in ramu Ltd. acquired on 31st	5,08,000	–

			March 1999		
Sundry creditors	1,60,000	1,20,000	Preliminary expenses	–	12,000
	13,60,000	6,20,000		13,60,000	6,20,000

20. From the following particulars of Indian Bank Ltd. for the year ending 31st March 2014 find out the amount of provision required on the assets.

Particular			Rs.
Standard assets			12,90,000
Sub-standard assets			3,18,000
Doubtful assets	Secured	Unsecured	
Less than 1 year	1,20,000	86,000	
More than 1 year but less than 3 years	48,500	21,400	
More than 3 years	19,250	10,140	
Loss assets			36,880

(For candidates admitted from 2008 - 2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Part III — Computer Applications-Major

CORPORATE ACCOUNTING

Time : Three hours **maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What do you mean by shares?
2. What are the kinds of shares?
3. What do you mean by cum interest and Ex-interest?
4. Write a short note on own debentures.

5. What are the types of amalgamation?
6. Give the meaning of subsidiary company.
7. Give the formula for net asset method.
8. What is Revenue profits?
9. How Income is created on the performing assets and non — performing assets?
10. What is Insurance?

SECTION B – (5x5=25)

Answer ALL questions.

11. (a) What are salient features of a company?

Or

(b) Good luck Ltd invited application for 10,000 shares of Rs. 10 each. The shares are payable as follows.

On application Rs. 3, on allotment Rs. 3, on call Rs. 4

All the shares were subscribed. Pass journal entries.

12. (a) The Balance sheet of Wallance Ltd as a 31.12.2014 was as under.

Liabilities	Rs.	Assets	Rs.
Share capital 1,000 redeemable preference shares of Rs. 100 each	1,00,000	Sundry assets	3,65,000
2,000 equity shares of Rs. 100 each fully paid	2,00,000		
General reserve	80,000		
Profit and loss a/c	50,000		
Sundry Creditors	75,000		
	5,05,000		5,05,000

On this date, the preference shares were redeemed par journalise and prepare the balance sheet.

Or

(b) Star Ltd issued 20,000 7% debentures of Rs. 100 each

On application Rs. 40

On allotment Rs. 40

All the debentures sold. Pass necessary journal entries.

13. (a) Spring field Ltd is absorbed by sports field Ltd the consideration being.

    (i) The taking over of the trade liabilities of Rs. 40,000

    (ii) The payment of cost of absorption of Rs. 15,000

    (iii) The repayment of B debentures of spring field Ltd of Rs. 2,00,000 at par.

    (iv) The discharged of 'A' debentures of Rs. 3,00,000 in the vendor Co. at a premium of 10% by the issue of 8% debentures in sports field Ltd AST par.

    (v) A payment of Rs. 20 per share in cash and the exchange of 4 fully paid Rs. 10 share in sports field Ltd at a market price of Rs. 15 per share for every Rs. 50 share in spring field Ltd which were 40,000 in number.

    You are required to find out the purchase consideration.

Or

(b) X Co ltd has the following shares as a part of its share capital.

10,000 8% preference shares of Rs. 100 each fully paid 50,000 equity shares of Rs. 5 each fully paid 20,000 equity shares of Rs. 10 each Rs. 8 called up and paid up.

The company has decided to alter the share capital as follows.

(i) To sub-divide the preference shares into shares of Rs. 10 each.

(ii) To consolidate the equity shares of Rs. 5 each into share of Rs. 10 each.

(iii) To convert the partly paid up equity shares into fully paid up shares of Rs. 8 each with necessary legal sanctions. Journalise the alterations.

14. (a) List out the format for minority Interest.

Or

(b) Give the format for cost of control or capital reserve.

15. (a) On 31.3.2014 Indian Bank Ltd held the following bills, discounted earlier.

Date of bills 2014	Term	Discount	Amount
January 17	4	17	7,30,000
February 7	3	18	14,60,000
March 9	3	17.5	3,64,000

Calculate the rebate on bills discounted.

(b) The life Insur v/s Neelam life insurance company on 31.3.2014 showed a balanced of Rs. 27,00,000. However, the following items were not taken into account while preparing the revenue for 2013-14. Ascertain the correct life fund balance.

	Rs.
(i) Interest and dividends accrued on investments	10,000
(ii) Income tax deducted at source on the above	3,000
(iii) Reinsurance claims recoverage	3,500
(iv) Commission due on reinsurance premium paid	5,000
(v) Bonus in reduction of premiums	1,500

SECTION C – (3×10=30)

Answer any THREE questions.

16. Good luck Ltd invited application for 10,000 shares of Rs. 20 each. The amount payable is Rs. 5 on application. Rs. 8 on allotment and the balance when required. The whole of the above issue was applied for and cash was duly received. Give Journal entries.

17. Shri Ram Ltd had the following Balance sheet as on 1.4.2013

Liabilities	Rs.	Assets	Rs.
10,000 6% preference	1,00,000	Buildings	2,00,000
30,000 equity shares of 10 each	3,00,000	Plant	2,00,000
General reserve	1,00,000	Stock	1,00,000
P/L a/c	80,000	Debtors	1,00,000
Creditors	1,20,000	Cash at Bank	1,00,000
	7,00,000		7,00,000

The company decided to redeem its preference shares at 10 % premium for this purpose it is issued new 5,000 equity shares of Rs. 10 each at 10% premium, show necessary journal entries and balance sheet.

18. The following was the balance sheet of ABC Ltd as on 3.12.2013

Liabilities	Rs.		Assets	Rs.
Issues and paid up capital			Good will	10,000
12,000 shares of Rs. 10 each	1,20,000		Land and building	20,500
Calls is arrear			Machinery	50,850
Rs. 3 per shares on 3,000 shares	9,000	1,11,000	Preliminary Expenses	1,500

Creditors	15,425	Stock		10,275
Provision for tax	4,000	Debtors		15,000
		Bank		1,500
		P/L a/c	22,000	
		–N/P	–1,200	20,800
	1,30,425			1,30,425

Machinery value was Rs. 10,000 in excess. It is proposed to write down this asset and to extinguish the profit loss a/c debit balance and write off good will and preliminary expenses by the adoption of the following scheme.

19. The balance sheets of A Ltd and B Ltd as at 31.12.2014 are as follows.

Liabilities	A	B	Assets	A	B
	Rs.	Rs.		Rs.	Rs.
S capital	2,00,000	1,00,000	Sundry assets	1,32,500	1,38,200
10 Rs. Each			Goodwill	–	20,000
General reserve	18,00	20,000	Shares in B Ltd	1,40,000	
P/L a/c	24,500	23,000			
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,2000

In the cash of B Ltd profit for the year 31.12.2014 is Rs. 12,000 and transfer to reserve Rs. 5,000. The holding of A Ltd in B Ltd is 90% acquired on 30.6.2014.

Draft a consolidated balance sheet of A Ltd and its subsidiary.

20. Prepare profit and loss a/c for the year ended 31st march 2014 of very sound Bank Ltd from the following particulars.

	Rs. (‘000)		Rs. (‘000)
Interest on loan 250	250	Discount on bills discounted	40
Interest on saving a/c	150	Rent, rates Insurance and lighting	15
Interest on cash credits	160	Auditors fees and expenses	10
Interest on fixed deposits	190	Directors fees and expenses	10
Interest on overdrafts	70		
Payments to employees	150		

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10x2= 20)

Answer ALL questions.

1. What is the meaning of shares?
2. What is pro-rata allotment?
3. Give the definition of preference shares.
4. What is meant by registered debenture?
5. What is merger of companies?
6. State the meaning of purchase consideration.
7. Define - subsidiary company.
8. What is capital profit?
9. Write the meaning of banking company.
10. Write is life assurance fund?

SECTION B – (5 x 5 = 25)

11. (a) Briefly explain the kinds of shares.

Or

(b) A Ltd. Company issued 25,000 equity shares of Rs. 100 each at a discount of 10%. Pass journal entry.

12. (a) State the provision for redemption of preference shares.

Or

(b) Mention the factors to be considered in relation to redemption of debentures.

13. (a) Write a short notes on – “Amalgamation, and absorption”.

Or

(b) Raman Ltd. Agrees to purchase the business of Krishna Ltd. On the following terms: for each of the 10,000 shares of Rs. 10 each in Krishnan Ltd. 2 shares in Raman Ltd. of Rs. 10 each will be issued at our agreed value of Rs. 12 per share. In addition, Rs. 4 per share cash also will be paid. Find out the amount of purchase consideration.

14. (a) X Ltd. Purchased 60% shares of Y Ltd. On 1.1.2012 when the balance on their profit and loss a/c and general reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2012, the balance of profit and loss a/c and general reserve were Rs. 4,00,000 and Rs. 3,00,000. Calculate capital profit and revenue profits.

Or

(b) What are the meanings of cost of control and minority interest?

15. (a) The following balances of Rajasthan Bank Ltd. On 31.3.2012.

Interest and discount Rs. 17,42,000

Rebate on bills discounted (1.4.2011) Rs. 12,500

Bills discounted and purchased Rs. 5,12,000

Rebate on bills discounted (31.3.2012 Rs. 22,700

Pass journal entries find out the adjustable amount.

Or

(b) Explain the types of general insurance.

SECTION C – (3 x 10 = 30)

Answer any three questions.

16. Ram Ltd. Issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

On application Rs. 25

On allotment Rs. 34

On first and final call Rs. 36

Application were received for 4,800 shares and all of these were accepted. All the money due was received expect the first and final call on 300 shares which were forfeited. 200 of these shares were reissued at Rs. 90 as fully paid. Pass journal entries and prepared balanced sheet.

17. A company wants to redeem its 10,000, 6% preference shares of Rs. 10 each, fully paid at 10% premium. The ledger accounts show the following balances.

Securities premium Rs. 2,000

Profit and loss a/c (Cr.) Rs. 10,000

The directors redeemed the shares by making minimum fresh issue of equity shares of Rs. 10 each at a premium of 5%. Give journal entries.

18. Pass journal entries for the following transactions in connection with internal reconstruction.

(a) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each.

(b) 300, 9% debentures of Rs. 1,000 each converted into 1500, 12% debentures of Rs. 100 each.

(c) The debit balance of profit and loss a/c Rs. 1,50,000 and the preliminary expenses rs. 30,000 were written off.

(d) The value of plant and machinery and stock were written down by Rs. 60,000 and Rs. 30,000 respectively.

19. From the balance sheets given below, prepare consolidated balance sheet

Balance sheet as at 31st December 2011.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Shares of Rs. 10 each	5,00,000	1,00,000	Fixed Assets	4,00,000	60,000
Profit and loss a/c	2,00,000	60,000	Stock	3,00,000	1,20,000
Reserves	60,000	30,000	Debtors	75,000	85,000
Bills payable	–	15,000	Bills receivable	20,000	–
Creditors	1,10,000	60,000	Shares in S Ltd. 7,500 at cost	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Other information:

a. The bills accepted by S Ltd. are all in favour of H Ltd.

b. The stock of H Ltd. Includes Rs. 25,000 bough from S Ltd. at a profit to later of 20% on sales.

c. All the profits of S Ltd. has been earned since the shares were acquired by H Ltd. but there was already the reserve of Rs. 30,000 at that date.

20. From the following particulars, prepare the fire insurance revenue a/c for 2011-2012.

	Rs
Claims paid	2,35,000
Legal expenses regarding claims	5,000
Premium received	6,00,000
Re-insurance premium	60,000
Commission	1,00,000
Expenses of management	1,50,000
Provision against unexpired risk on 1.4.2011	2,60,000
Claims unpaid on 1.4.2011	20,000
Claims unpaid on 31.3.2012	35,000

(For candidates admitted from 2008-2009 onwards)

M.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Commerce

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is the need for 'inflation accounting'?
2. Write a note on 'voluntary winding up'.
3. State the meaning of Amalgamation by merger.
4. Why the share capital is reconstructed?
5. What is a consolidated balance sheet?
6. Write a note on statutory reserve.
7. State the meaning of Reinsurance.
8. Mention any two features of double account system.
9. How are inventories defined in AS-2 Valuation of inventories?
10. How is opportunity cost of human resources obtained?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) From the following information calculate the

Value of goodwill on the basis of 3 years purchase of super profit.

Average capital employed in the business is Rs. 20,000

Rate of interest expected from capital having regard to the risk involved is 10%

Net trading profits of the firm for the past three years were Rs. 3504; Rs. 2803; and Rs. 3101

Fair remuneration to the partners for their services is Rs. 480 per annum

(b) You are required to calculate cost of sales adjustment from the following data:

	Particulars	Historical cost	Index for goods
01-01-97	Opening stock of goods	50,000	400
	Purchases	4,00,000	440
31-12-97	Closing stock	70,500	470

Index of goods as on 31-12-97 was 480. However, the closing stock of goods was actually acquired on 14-11-97 on which date the index of goods was 470. Purchases were made uniformly throughout the year.

12. (a) Following is the balance sheet of Samy Ltd. as on 31.3.2004.

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed	16,25,000
8% preference shares of Rs. 100	3,75,000	Assets	
Equity shares of		Investment	3,00,0000
Rs.. 10 each	7,50,000	Current	2,50,000
General Reserve	4,50,000	Assets	
7% Debentures	3,50,000		
Current liabilities	2,50,000		
	21,75,000		21,75,000

Romy Ltd. agreed to take over the business of Samy Ltd.

Calculate purchase consideration under Net assets method on the basis of the following:

Romy Ltd. agreed to discharge 7% debentures at a premium of 10% by issuing 9% debentures of Romy Ltd.

Fixed assets are to be valued at a 10% above book value, the investments at par, current assets at 10% discount and current liabilities at book value.

Or

(b) Kala Ltd's Balance sheet showed the following position on 31st March 1995.

Liabilities	Rs.	Assets	Rs.
Share :		Fixed assets	8,00,000
10000 equity shares of Rs. 100 each	10,00,000	Current assets	4,00,000
		Cash at bank	2,00,000
Capital reserve	2,00,000	Profit & Loss A/c	3,00,000
Bank Loan	2,00,000		
Sundry creditors	3,00,000		
Total	17,00,000	Total	17,00,000

Mala Ltd. was incorporated to take the fixed assets and 60% of the current assets at an agree value of Rs. 9,00,000 to be paid as to Rs. 7,40,000 in equity shares of Rs. 10 each and the balance in 9% debentures. The debentures were accepted by bank in settlement of loan. Remaining current assets realized Rs. 90,000. After meeting Rs. 20,000 expenses of liquidation, all the remaining cash was paid to the creditors in full settlement. Give the necessary accounts in both the companies.

13. (a) From the following balances prepare single column Profit and Loss Ale of Lakshmi Bank Ltd for the year ending 31.12.2002

Interest on cash credits and loans	1790
Interest on deposits	620
Administrative expenses	480
Discount	210
Commission and exchange	300
Rebate on bills discounted 1.1.2002	90

Determine the Profit after making a provision for rebate on bills discounted Rs. 290.

(b) The balance sheets of C Ltd. and D Ltd. as at 31st December, 2006 are as follows :

Liabilities	C Ltd Rs.	D Ltd Rs.	Assets	C Ltd. Rs.	D Ltd Rs
Share capital :			Sundry assets	1,32,500	1,38,200
In shares of Rs. 10 each	2,00,000	1,00,000	Goodwill	–	20,000
			Shares in D Ltd. at cost	1,40,000	–
General Reserve	18,000	20,000			
P&L A/c	24,500	23,000			
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

In the case of D Ltd. profit for the year ended 31st December, 2006 is Rs. 12000 and transfer to reserve is Rs. 5000. The holding of C Ltd. in D Ltd. is 90% acquired on 30th June 2006. Draft a consolidated balance sheet of C Ltd. and its subsidiary.

14. (a) The revenue account of a Life Insurance

Company showed the life fund at Rs. 73,17,000 on 31.3 .2006 before taking into account the following items

(i) Claims intimated but not admitted Rs. 98,250

(ii) Bonus utilized in reduction of premium Rs. 13,500

(iii) Interest accrued on investments Rs. 29,750

(iv) Outstanding premiums Rs. 27,000

(v) Claims covered under re insurance Rs. 40,500

(vi) Provision for taxation Rs. 31,500 Find out the correct Life Assurance fund

Or

(b) The Bangalore Municipal corporation replaces part of its existing water mains with larger mains at the cost of Rs. 7500000. The original cost of laying the old mains was Rs. 1500000 and the present cost of laying those mains would be three times the original cost Rs. 125000 was realized by the sale of old materials and old materials of Rs. 375000 were used in the replacement and included in the cost given above.

Give journal entries to record the above and show the allocation of expenses between revenue and capital along with Replacement Account.

15. (a) Explain the provisions regarding valuation of inventories as per AS - 2 Valuation of inventories.

Or

(b) Enumerate the different value based methods of valuing Human resources.

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. On 31st March 1998, balance sheet of Glorious Limited was as follows:

Liabilities	Rs.	Assets	Rs.
Share capital:		Good will	1,00,000
8% pref. shares of Rs. 100 each	2,00,000	Land & Building	2,20,000
4000 equity shares of Rs. 100 each fully paid	4,00,000	Machinery	3,00,000
		Furniture	40,000
General reserve	1,60,000	Investments in 4% govt, securities at cost (face value Rs. 80,000)	1,00,000
Capital reserve	20,000		
Profit & Loss A/c	1,20,000		
5% debentures	1,20,000	Stock	3,00,000
Sundry creditors	1,80,000	Sundry debtors	1,20,000
Provision for taxation	40,000	Cash at bank	60,000
Total	12,40,000	Total	12,40,000

The assets were revalued as under: Land & Buildings - 3,00,000, Machinery - 2,50,000, Furniture - 50,000. The normal return on capital employed for valuation of goodwill is 12%. The basis of valuation is being 4 years purchase of super profits. 50% of investments in building is treated as non trading asset because a sum of Rs. 15,000 is collected annually as rent from the building. Calculate the value of each equity share assuming that the average annual profit after tax at 50% is Rs. 1,40,000.

17. M Ltd and N Ltd. agreed to amalgamate on the basis of the following Balance sheets as on 31.3.2012.

Liabilities	M Ltd Rs.	N Ltd Rs.	Assets	M Ltd Rs.	N Ltd Rs.
Share capital:			Goodwill	30,000	–
Rs.25 each	75,000	50,000	Fixed assets	31,500	38,800
P&LA/c	7.500	2,500	Stock	15,000	12,000
Creditors	3,500	3,500	Debtors	8,000	5,200
Depreciation fund	–	2,500	Bank	1,500	2,500
	86,000	58,500		86,000	58,500

The assets and liabilities are to be taken over by a new company formed called P Ltd., at book values. P Ltd's capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs. 10 each and 10,000 9% preference shares of Rs. 10 each.

P Ltd issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price.

Prepare the consolidated balance sheet after making necessary adjustments.

18. The Balance sheets of H Ltd and S Ltd on 31st December 1991 were as follows:

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital:			Land and Buildings	3.10.000	1,60,000
10% pref. shares of Rs. 100 each	–	1,00,000	Machinery less 10% depreciation	2.70.000	1.35.000
Equity shares of Rs. 100 each	10,00,000	4,00,000	3000 shares in S Ltd	4.50.000	–
General Reserve	1,00,000	50.000	Stock at cost	2,20,000	1,50,000
P&LA/c balance on 1.1.90	40,000	30.000	Debtors	1,55,000	90,000
Profit for 1990		80,000	Cash and bank balance	85,000	1.95.000
Creditors	2,00,000	70,000			
	14,90,00	7,30,000		14,90,00	7,30,000

'H' Ltd. acquired 3000 equity shares in S Ltd on 1" July 1990. As on the date of acquisition, H Ltd., found that the value of Land and Buildings and Machinery of S Ltd should be Rs. 1,50,000 and Rs. 192500 respectively

Prepare the consolidated Balance sheet of H Ltd and its subsidiary S Ltd showing the assets at their proper values.

19. From the following Trial balance prepare the Revenue A/c and the Balance sheet of the Great Life Assurance Co. Ltd.

Trial Balance as on 31.3.2006

	Rs. '000		Rs. '000
Loans on policies	4,000	Premiums	3,65,900
Expenses of management	18,200	Profit on sale of investments	10,800
Deposit with RBI - Govt, of India securities	2,00,000	Claims admitted but not paid	58400
		Sundry trade creditors	7,000
Commission	9,800	Life assurance fund (1.4.05)	28,00,000
Freehold ground rents	1,68,000	Consideration for annuities granted	12,200
Bonus in cash	4,200		
Surrenders	21,100	Interest, dividends & rents-gross	1,20,500
Claims by maturity	1,04,700		
Claims by death	1,72,600		
House property	59,800		
Annuities paid	7,600		
Outstanding premiums	21,600		
Income tax on interest receipts	7,100		
Agents' balances	6,800		
Port trust debentures, interest and principal guaranteed by Govt.	5,28,200		
Cash at Bank, current A/c	12,700		
Cash in hand	1,750		
Foreign Govt, securities	1,42,500		
Office furniture	1,500		
Fully paid up share capital in limited liabilities companies registered in India	1,21,600		
Stock of policy stamps in hand	150		
Mortgage in India	6.61.400		
Mortgage out of India	2.06.400		
Loans on Govt. securities	7,19,000		
Loans on company policies	1,74,600		
	33,75,500		33,75,500

20. The XYZ Electricity company decided to replace some parts of its plant by an improved plant. The plant to be replaced was built in 2003 for Rs. 54,00,000. It is estimated that it

would now cost Rs. 80,00,-000 to build a new plant of the same size and capacity. The cost of the new plant of the same size and capacity. The cost of the new plant as per the improved design was Rs. 1,70,00,000 and in addition, material belonging to the old plant valued at Rs. 5,50,000 was used in the construction of the new plant. The balance of the old plant was sold for Rs 3,00,000. Compute the amount to be capitalized. Also show the Replace account.

(For candidates admitted from 2008-09 onwards)

B.Com. DEGREE EXAMINATION, APRIL 2016.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. Define - “Stock”.
2. What is called-up-capital?
3. Write the meaning of “untraceable shareholders”.
4. What do you mean by redemption of debenture?
5. Define “Absorption”.
6. What is External Reconstruction?
7. Write the meaning of “Holding Company”.
8. Define “Post Acquisition Profits”.
9. State the meaning of money at call.
10. What is single premium?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) Briefly explain the types of preference shares.

Or

(b) B Limited company issued 50,000 equity shares of Rs. 10 each at a discount of 10%. Pass Journal entry.

12. (a) What is Debenture? Explain briefly about its' types.

Or

(b) The balance sheet of Exchange Ltd., as on 31.12.2014 was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital:		Sundry assets	9,20,000
50,000 equity shares of Rs. 10 each, fully paid	5,00,000	Bank balance	6,00,000
4,000 redeemable preference shares of Rs. 100 each fully paid	4,00,000		
Profit and loss a/c	5,20,000		
Creditors	1,00,000		
	15,20,000		15,20,000

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass Journal entries and Balance sheet.

13. (a) Briefly bring out the methods of Accounting for Amalgamation.

Or

(b) Ram Ltd agreed to absorb the business of Hari Ltd., the purchase consideration was as under :

For every 3 equity shares of Rs. 10 each in Hari Ltd., 8 equity shares in Ram Ltd., as Rs. 10 paid up. There were 90,000 equity shares in Hari Ltd. Find out purchase consideration amount.

14. (a) Write a short notes on proposed dividend and contingent liabilities in Holding company accounts.

Or

(b) P Ltd acquired 65% shares of Q Ltd. On 1.10.12 profit and loss a/c in the books of Q Ltd. Showed a debit balance of Rs. 40,000 on 1.4.12. On 31.3.13, the balance sheet of Q Ltd. Showed profit and loss a/c credit balance of Rs. 1,20,000. Calculate capital profit and revenue profits.

15. (a) Explain any five items requiring special attention in preparation of Final A/c's of Banking Companies.

Or

(b) The revenue account of a life assurance company shows the Life Assurance Fund on 31.3.2014 at Rs. 62,21,310, before taking into account the following :

	Rs.
Claims covered under reinsurance	12,000
Bonus utilised in reduction of fife insurance premium	4,500
Interest accrued on securities	8,260
Outstanding premiums	5,420
Claims intimated but not admitted	26,500

Find out the Life Assurance Fund after taking into account the above Omissions?

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. The Ever shine Co. Ltd., offered 5,000 shares of Rs. 100 each to the public at Rs. 95 payable as under :

    Rs. 15 on application

    Rs. 30 on allotment

    Rs. 25 on first call and

    Rs. 25 on final call.

    All the shares were applied for and allotted. Anand, to whom 500 shares were allotted, paid the whole of the sum due along with allotment (under arrangement with directors). Assume all sums were received. Pass journal entries and prepare Balance Sheet.

17. Explain the steps to solving problems in Redemption of Preference Shares.

18. Timex Ltd., issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company, if the debenture were issues as follows :

    Issued at par, redeemable at par

    Issued at a discount of 5%, repayable at par

    Issued at a premium of 10%, repayable at par

    Issued at par, redeemable at a premium of 10%

    Issued at a discount of 5%, repayable at a premium of 10%. You are also required to show how the items concerned appear in the Balance Sheet.

19. The Balance Sheet of Holding Co., and Subsidiary Co. as on 31.3.2014.

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
	Rs.	Rs.		Rs.	Rs.
Share capital Rs. 10 each	2,50,000	1,00,000	Sundry assets	2.23.000	1,52,000
			100% shares in B Ltd.	1.17.000	–
Reserves	50.000	25.000	Preliminary Expenses	–	3,000
Creditors	40.000	30.000			
	3,40,000	1,55,000		3,40,000	1,55,000

The shares of B Ltd. were acquired at Rs. 1,17,000 on 31.3.2014. Prepare Consolidated Balance Sheet as on 31.3.2014.

20. From the following particulars, prepare the profit and loss a/c of Chennai Bank Ltd. for the year ending 31st March 2012.

	Rs.
Interest on deposits	32,00,000
Commission (Cr.)	1,00,000
Interest on loans	24,90,000
Sundry charges (Dr.)	1,00,000
Rent and rates	2,00,000
Establishment expenses	5,00,000
Discount on bills discounted	14,90,000
Interest on overdraft	16,00,000
Interest on cash credits	23,20,000
Auditor's fees	35,000
Director's fees	16,000
Bad debts to be written off	3,00,000

(For candidates admitted from 2008 - 2009 onwards)

B.Com. DEGREE EXAMINATION, JULY 2016.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is Registered company?
2. What do you mean by Deferred shares?
3. Write the meaning of premium on redemption.
4. Define Redeemable preference share.
5. Write the meaning of Amalgamation'.
6. What is meant by Internal Re-construction?
7. What is Composite dividend?
8. What do you mean by Consolidated Profit and Loss a/c?
9. Write the meaning of share premium.
10. Give the meaning of 'Renewal of premium' in Insurance company.

SECTION-B (5x5=25)

Answer All Questions

11. (a) Define share and explain briefly about its types.

(or)

(b) Ram Ltd purchased assets of Rs. 8,00,000 from Anil Bros. it issued equity shares of Rs. 100 each fully paid up in satisfaction of their claim. Make journal entries to record these transactions.

12. (a) Explain the stages of Accounting for debentures.

(or)

(b) Modern Fibers Ltd., has part of its share capital as 5,000 Redeemable Preference shares of Rs. 100 each. When the shares became due for redemption, the company decided that the whole amount will be redeemed out of a fresh issue of equal amount of equity shares of Rs. 10 each. Show the journal entries in the books of the company.

13. (a) Bing out the methods of purchase consideration.

(or)

(b) B Ltd agreed to absorb A Ltd upon the following terms:

Shares of A Ltd. Are to be considered as worth Rs. 12 each of which shareholders are to be paid one quarter in cash and the balance in Rs. 100 shares of B Ltd. Which are to be issued at 25% premium. Total shares were: 10,000 in B Ltd. And 20,000 in A Ltd. Ascertain the number of shares to be issued by B ltd.

14. (a) Define dividend and explain its types.

(or)

(b) H Ltd purchased 75% of shares in S ltd. On 1.7.11. on 31.12.11 the Balance sheet of S ltd. Showed reserve fund balance on 1.1.11 Rs. 40,000, profit earned during 2011 Rs. 60,000 and preliminary expenses unwritten off Rs. 20,000. Calculate capital profits and revenue profits.

15. (a) What is NPA? Explain briefly about the some of Non-performing assets.

(or)

(b) The Revenue account of a life Insurance Company showed a balance of Rs. 4,75,000 at the end of 2013-14 before considering the following items:

	Rs.
(i) Bonus in reduction of premium	40,000
(ii) Outstanding premium	1,00,000
(iii) Interest accrued on investment	20,000
(iv) Claims intimated but not admitted	35,000
(v) Claims recovered under reinsurance	3,000

Find out adjusted Life Assurance Fund.

SECTION C – (3x10=30)

Answer all Three Questions

16. Nalli and Co. Ltd. Was registered with an authorized capital of Rs. 20,00,000

Divided into 20,000 shares of Rs.100 each. The company offered 12,000 shares to the public which were payable: Rs.20 per share on application, Rs.40 per share on allotment and Rs.40 on call. Applications for 18,000 shares were received on which the directors allotted as follows:

Applicants for 10,000 shares – full

Applicants for 5,000 shares – 2,000 shares,

Applicants for 3,000 shares – nil.

The excess application money was adjusted towards allotment. All the money due to on allotment and call was fully received. Pass journal entries.

17. What is equation for determining Redeemable preference shares plus premium on redemption and explain when to use the equation?

18. Moon Rays ltd. Issued 50,000 8% debentures of Rs. 10 each to the public at par, to be paid Rs. 40 on application and the balance on allotment.

    Applications were received for 48,000 debentures.

    Allotment was made to all the applications and the amount due was received promptly.

    Give journal entries to record the transactions and show how these appear in the Balance Sheet.

19. The following Balance sheet as on 31.3.2014 are given

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Shares capital:			Sundry assets	20,000	12,000
In Re.1 fully paid shares	12,000	6,000	Investment 6,000 shares		
Reserves	3,000	2,000	In S ltd.	7,5000	–
Profit and Loss a/c	2,000	1,000			
Sundry liabilities	10,500	3,000			
	27,500	12,000		27,500	12,000

H ltd has acquired shares in S ltd. On 31.3.2014. Prepare Consolidated Balance sheet as on 31.3.2014.

20. Prepare the profit and loss account for the year ended 31.03.2014 of Kasinathan Bank Ltd from the following particulars.

	Rs.
Interest on loan	2,50,000
Interest on savings account	1,50,000
Interest on cash credits	1,60,000
Interest on fixed deposits	1,90,000
Interest on overdrafts	50,000
Amount charged against current accounts	20,000
Rebate on bills discounted	19,000
Salaries and allowances	1,20,000

Discount	40,000
Rent, tax, insurance etc	5,000
Dearness allowances	35,000
Commission, brokerage and exchange	15,000
Managing director's salary	15,000
Contribution to provident fund	10,000

(For candidates admitted from 2008-2009 onwards)

M.Com. DEGREE EXAMINATION, APRIL 2016.

Commerce

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

PART A — (10x2 = 20)

Answer ALL questions.

1. What do you mean by Net asset?
2. What do you mean by Insolvent?
3. What is "Merger"?
4. Write short note on "scheme" of capital reduction?
5. What is Minority interest?
6. What do you mean by Non—banking Assets?
7. What is Annuities?
8. State any two features of double account system
9. Write the formula under Reward valuation method of Human Resource Accounting.
10. What is a "Contingency" as per AS-4?

PART B – (5×5=25)

Answer all questions.

11. (a) A truck dealer acquired 6 trucks on 1—97 at Rs. 2,00,000 each. His capital on that data was Rs. 12,00,000. During the year he sold 4 trucks at an average price of Rs. 3,00,000. The replacement dealer price of the truck on 3-12-97 was Rs. 2,40,000. General price level went up by 10% during the year. You are required to show comparative income statement under CPP and CCA methods, clearly showing the realized and unrealized holdings gains.

Or

(b) From the following information calculate the value of goodwill on the basis of 3 years purchase of super profit.

(i) Average capital employed in the business is Rs. 20,00,000

(ii) Rate of interest expected from capital having regard to the risk involved IS 10%.

(iii) Net trading profits of the firm for the past three years were Rs. 3,50,400; Rs. 2,80,300 and Rs. 3,10,100.

(iv) Fair remuneration to the partners for their services is Rs, 48,000 per annum.

(v) Sundry assets of the firm are Rs. 23,50,400 and current liabilities are Rs. 95,110.

12. (a) B Ltd. Agreed to absorb A Ltd. Upon the following terms: Shares of A Ltd. Are to be considered as worth Rs. 12 each (of which shareholders are to be paid one quarter in cash and the balance in Rs. 100 shares of B Ltd. Which are to be issued at 25% premium. Total shares were: 10,000 in B Ltd. And 20,000 in A Ltd. Ascertain the number of shares to be issued by B Ltd.

Or

(b) Muthu Ltd. Has share capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, fully paid. Show the entries under each of the following conditions: (i) when Marshall Ltd. Resolves to sub-divide the shares into 20,000 shares of Rs. 10 each fully paid. (ii) when Marshall Ltd., resolves to convert its 2,000 shares of Rs. 100 each into Rs. 2,00,0000 worth of stock. Give journal entries.

13. (a) The following accounts are extracted from the Trial Balance of Rajasthan Bank on 31-3-2010

	Dr. Rs.	Cr. Rs.
Interest and discount	–	17,42,000
Rebate on bills discounted	–	12,500
Bills discounted and purchased	5,12,000	

It is ascertained that proportionate discount not yet earned on the balance of bills discounted which will mature in 2010-11 amounts to Rs. 22,700. Pass the necessary adjustment entries.

Or

(b) On 30.6.2009 2/3rd of the shares of S Ltd. (with a total capital of Rs. 12,00.000) were acquired by H. Ltd. The balance sheet of 'S' Ltd. showed a debit balance of Rs. 6,00,000 on 1.1.2009 and a credit balance of Rs. 3,60,000 on 3.12.2009. The investment made by "H" Ltd. in "S" Ltd's shares is Rs. 9,00,000. Calculate the cost of control.

14. (a) From the following, you are required to calculate the amount on account of claim to be shown in the revenue account for the year ending 31st Dec. 2013.

Intimated in	Admitted in	Paid in	Rs.
2012	2012	2013	15.000
2013	2013	2014	10.000
2011	2012	2012	5,000
2011	2012	2013	12,000
2013	2014	2014	8,000
2013	2013	2013	1,02,000

Claim on account of reinsurance in 2013 was Rs. 25,000.

Or

(b) From the following particulars, draw up

(i) Balance Sheet as on 3 1.12.2013 on the basis of the Single-Account System-and

(ii) The Capital A/c and the General Balance Sheet, as on the same date, under the Double Account System: Authorised Capital: 3,000 shares of Rs. 10 each, of which issued and paid up capital is Rs. 27,000; 6% Debentures Rs. 3,000 ; Trade creditors Rs, 1,600 ; Trade Debtors Rs. 3,800; Cash at Bank Rs. 3,500; Stock - in - Trade Rs. 2,400; Profit & Loss A/c Rs. 1,600; Land Rs. 3,700; Machineries Rs. 16;000; Shafting Rs. 5,000; Buildings Rs. 1,300; Depreciation Fund (machinery) Rs. 2,500.

15. (a) Distinguish between:

(i) Historical cost approach and replacement cost approach

(ii) Net benefit model and equivalent net benefit model.

Or

(b) How are 'Inventories' defined in AS-2(Valuation of inventories? What should financial statements 'Disclose' in relation to 'inventories' as per AS-2?

PART C — (3 x 10 = 30)

Answer any THREE questions.

16. From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator's final statement of account.

(a) Cash with liquidator (after all assets are realised and secured creditors and debenture holders are paid) is Rs. 6,73,800.

(b) Preferential creditors to be paid Rs. 30,000.

(c) Other unsecured creditors Rs. 2,15,000.

(d) 4,000, 6% preference shares of Rs. 100 each, fully paid.

(e) 2,000 equity shares of Rs. 100 each, Rs. 75 per share paid up.

(f) 6,000 equity shares of Rs. 100 each, Rs. 60 per share paid up.

(g) Liquidator's remuneration 2% on preferential and other unsecured creditors.

(h) Preference dividends were in arrears for 2 years.

17. The Balance Sheet of Nipun Ltd. on 31st March 2006 was as follows:

Liabilities	Rs.	Assets	Rs.
8% preference share of Rs. 10 each	50.000	Goodwill	90.000
Equity Share of Rs. 10 Each	2,50,000	Land & Buildings	1,40,000
General reserve	20,000	Machinery	37,500
(6% Debentures (Rs. 100 each)		Furniture	15.000
Bank overdraft	28,500	Preliminary expenses	1,000
Creditors	40,000		
		Profit & Loss A/c	1.25.000

The capital reduction scheme, approved by the court is as under:

(a) Holders of 6% debentures of Rs. 100 are to be given 8% debentures of Rs. 50 and preference share of Rs. 10 each of equal amount, for the remaining amount of Rs. 5

(b) The value of all preference shares including the preference shares given to debentures as shown above, is to be reduced to Rs. 6 and dividend rate is to be increased up to 9%.

(c) The value of equity shares is to be reduced to Rs. 2 each.

(d) The existing equity shareholders are to purchases additional equity shares of Rs. 1,00,000 for cash to pay off the bank overdraft.

(e) All fictitious and intangible assets are to be

Written off and machinery and furniture are to be written off in proportion of book values, with the help of general reserve and capital reduction A/c.

Pass necessary journal entries in the books of the company to record the above transactions prepare the company's balance sheet after such changes.

18. The Summarised Balance Sheet of H Ltd. and its S Ltd. 31st December 2014 are as follows:

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Share capital (in shares of Rs. 10 each)	5,00,000	1,00,000	Assets	50,00,000	1,70,000
			8,000 shares in S Ltd.	1,40,000	
Reserves	80,000	30.000			
Profit and Loss	60,000	40.000			
	6,40,000	1,70,000		6,40,000	1,70,000

S Ltd. had the credit balance of Rs. 30,000 in the reserves when H Ltd. acquired shares in S Ltd. decided to make a bonus issue out of post- acquistion profit of two shares of Rs. 10 each fully (paid for every five shares held. Calculate the cost of control before the issue if bonus shares and after the issue of bonus shares. Also make the consolidated balance sheet after the issue of bonus shares.

19. The following balances are extracted from the hooks of a life insurance business as, on 31st March 2006:

Life assurance fund as on 1.4.05	5,06,000
Premiums	90,000
Reinsurance premium paid	2,075
Fines for revival of policies	15
Consideration for annuities granted	1500
Management expenses	21,000
Income tax	850
Commission	18,650
Claims	440,000
Interest, dividend etc.	20,000
Surrenders	3,250
Medical fees	1,505
Annuities	1,955
Bonus in cash	1,600

Prepare the Revenue A/c for the year 2005-06 after making the following adjustments:

Claim payable	9,250
Interest accrued on investment	2,695
Medical fees outstanding	375
Outstanding premium	3,750
Commission payable	750

A claim of Rs. 500 Thousands included in the above claims payable is to be written of as it is ten years old and is not likely to arise. The managing director is to be paid at the rate of 5% on the net increase of Life Assurance Fund during the year before providing such commission.

20. The following balances have been extracted at the end of March 2009, from the books of an electricity company:

Share Capital	Rs. 2,00,00,000
Fixed assets	5,00,000
Depreciation Reserve on Fixed Assets	60,00,000
Reserve Fund (invested in 8% Govt, Securities at par)	1,20,00,000
Contingency Reserve invested in 7% State Loan	24,00,000
Consumers' deposit	80,00,000
Amount contributed by consumers towards cost of fixed assets	4,00,000
Tariffs and dividends control reserve	20,00,000
Development Reserve	16,00,000
12% Debentures	40,00,000
Loan from State Electricity Board	50,00,000
Intangible assets	16,00,000
Current assets (monthly average)	30,00,000

The company earned a profit of Rs. 56,00,000 (after tax) in 2008-09. Show how the profits have to be dealt with by the company assuming the (bank rate was 10%. All workings should form part of your answer.

THIRUVALLUVAR UNIVERSITY

APRIL 2012

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

All questions carry equal marks.

1. What do you mean by 'Issue of shares at premium'?
2. State the different kinds of shares.
3. What is Redeemable debentures?
4. What is meant by issues of debentures at premium?
5. What is acquisition of business?
6. What do you mean by purchase consideration?
7. What is profit prior to incorporation?
8. What is Absorption?
9. What is Liquidation?
10. What is statement of affairs?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

All questions carry equal marks.

11. (a) Explain the types of share capital.

Or

(b) Ram Ltd. invited applications for 1,40,000 shares of Rs. 10 each payable Rs. 2 on application, Rs. 2 on allotment, and Rs. 6 on first and final call. The company received applications for 2,00,000 shares and pro-rata allotment was made. Pass necessary journal entries.

12. (a) Explain the different kinds of debentures.

Or

(b) Inco Ltd., had issued 50,000 redeemable preference shares of Rs. 10 each, in order to redeem these shares, the company issued 30,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The Balance was met out of the Reserve Fund which stood at Rs. 2,50,000. Pass necessary entries.

13. (a) Rajah ltd., was incorporated on 1.7.2009,which took over a running concern with effect from 1.1.2009. The sales for the period upto 1.7.2009 was Rs. 2,70,000 and the sales from 1.7.2009 to 31.12.2009 amounted to Rs. 3,30,000. The expenses debited to profit and loss a/c included :

	Rs.
(i) Director's fees	15,000
(ii) Bad debts	1,800
(iii) Advertisement (Rs. 500 per month)	6,000
(iv) Salaries and general expenses	32,000
(v) Preliminary expenses written off	3,000

The gross profit was (1.1.2009 ; 31.12.2009) Rs. 2,40,000. Ascertain the profit prior to incorporation.

Or

(b) Give a specimen for profit and loss appropriation a/c.

14. (a) Explain the various methods of purchase consideration.

Or

(b) What are the merits of amalgamation?

15. (a) The following particulars relate to a limited company which went to voluntary liquidation:

	Rs.
Preferential creditors	25.000
Unsecured creditors	58.000
6% debentures	30.000

The assets realised Rs. 80,000. The expenses of liquidation amounted Rs. 1,500 and the liquidator's remuneration was agreed at $2^1/_2$% on the amount realised and 2% on the amount paid to unsecured creditors including preferential creditors.

Show that liquidator's final statement of account.

Or

(b) Give a specimen of liquidator's final statement of account with imaginary figures.

SECTION C— (3 x 10 = 30 marks)

Answer any THREE questions.

All questions carry equal marks.

16. Surya Ltd., issued 50,000 equity shares of Rs. 10 each at a premium of 10% payable as under :

On application Rs. 3

On allotment Rs. 5 (including premium)

On first and final call Rs. 3.

All the money were duly received except the first and final call of 500 shares. These shares were, therefore, forfeited and taker on reissued at Rs. 9 per share. Give journal entries.

17. State the procedure relating to redemption of preference shares.

18. From the under mentioned Trial Balance of Beta Brothers Ltd., prepare a trading and profit and loss account and the Balance Sheet as at the date.

Debit balance	Rs.	Credit balance	Rs.
Opening stock	30,000	Equity share capital (Rs. 100 each)	1,00,000
Rent	6,000		
Purchases	60,900	5% debentures	25,000
Wages	55,200	Sales	1,75,000
Discount	1,500	Creditors	8,000
Fuel	2,570	Discount	2,200
Building	70,000	Transfer fees	200
Carriage in wards	1,175		
Debtors	20,000		
Plant & machinery	25,000		
General expenses	4,400		
Bad debts	1,030		
Debenture interest (for half year)	625		
Insurance premium	1,000		
Cash	3,000		
Goodwill	28,000		
	3,10,400		3,10,400

(a) Stock as on 31.12.2009 Rs. 2,00,000.

(b) Depreciate plant and machinery @ 9%

(c) Provide 2% on debtors as reserve for doubtful debts.

19. Give the model entries to close the books of the company being winding up in case of Amalgamations.

20. Differentiate statement of Affairs from Balance sheet.

SCM41 — ADVANCED CORPORATE

NOVEMBER 2012

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL the questions.

Answers not to exceed 50 words.

1. Define a 'Holding company'

2. N Ltd. purchased 60% shares of M Ltd. on 1.1.10 when the balance on their P & L a/c and general reserve were Its. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2010, the balance sheet of M. Ltd. showed P & L a/c balance of Rs. 4,00,000 and General Reserve Rs. 3,00,000. Calculate capital profits and revenue profits.

3. What is meant by non-performing assets?

4. Pass journals in the books of XYZ Hank Ltd. for the following transactions :

   (a) Rebate on bills discounted at the beginning Rs. 4,000.

   (b) Unexpired discount at the end - Rs. 5,000.

5. What is Re-Insurance?

6. From the following calculate the claim amount to be shown in Revenue Account :

	Rs.
Total claim paid during the year	64.500
Outstanding claims at the beginning	13,500
Outstanding claims at the end	9,000
Reinsurance claim recovered	12.500

7. How do you calculate the value of goodwill under yield method?

8. How do you calculate the value of shares under net asset method?

9. Write down the conversion factor used for restating the closing stock and purchases?

10. Compute the Net monetary gain or loss from the. following information :

	1.4.01 Rs.	31.5.02 Rs.
Monetary asset	60,000	60,000
Monetary liabilities	80,000	80,000
Retail price index	150	180

SECTION B — (5 x 5 = 25 marks)

Answer ALL the questions.

Answer not to exceed 200 words.

11. (a) Briefly discuss the methods of valuation of Goodwill.

Or

(b) Explain the methods of valuation of Equity shares.

12. (a) The following are the balance sheets of H Ltd. and S Ltd. as on 31.12.2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital of Rs. 10 each	50.000	25,000	Sundry assets	32.500	30,000
Profit and Loss account	10.000	2,500	investments in 2,500 shares S Ltd. at cost	37.500	–
General reserve	5.000	2,000			
Sundry creditors	5.000	500			
	70,000	30,000		70,000	30,000

H Ltd., acquired shares in S Ltd., on 31.12.2010. Prepare consolidated Balance sheet.

(b) The Balance sheets of C Ltd., and D Ltd., as at 31st December, 1986 are as follows :

Liabilities	C Ltd. Rs.	D Ltd. Rs.	Assets	C Ltd. Rs.	D Ltd. Rs.
Share capital of Rs. 10 each	2,00,000		Goodwill		20,000
General Reserve	18,000	1,00,000	Sundry assets	1,32,500	1,38,200
Profit & Loss a/c	24,500	43,000	Shares in D Ltd at cost	1,40,000	
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

C Ltd acquired 90% of D Ltd shares on 30.6.86. On 1.1.86 the Profit and Loss account of D Ltd., was Rs. 17,000 prepare consolidated balance sheet.

13. (a) On 31st March 2010, Imperial Bank ltd. Find its assets classified as follows :

	Rs.
Standard assets	14,91,300
Sub-standard assets	92,800

Doubtful assets (Secured) :	25,660
Doubtful for one year	15,640
Doubtful for one year to 3 year	6,580
Doubtful for more than 3 year Loss assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned assets.

Or

(b) From the following information relating to Malarkodi Bank Ltd. Prepare the Profit and Loss a/c. for the year ended 31st December 2010.

	Rs.
Rent received	72,000
Exchange and commission	32,800
Interest on fixed deposits	11,00,000
Interest on overdrafts	2,16,000
Interest on SB Account	2,72,000
Discount on bills discounted	7,80,000
Interest on current a/c	1,68,000
Interest on cash credits	8,92,000
Depreciation of Bank property	20,000
Salaries Postage	2,18,800
Sundry charges	5,600
Audit fees	4,000
Printing	16,800
Law charges	8,000
Locker rent	3,600
Transfer Fees	1,400,2,800
Interest on loans	10,36,000

14. (a) The Revenue account of a life insurance company shows the life assurance fund on 31.3.2010 at Rs. 62,21,310 before taking the following into account:

		Rs.
(i)	Claims covered under reinsurance	12,000
(ii)	Bonus utilized in reduction of premium	4,500
(iii)	Interest accrued on securities	8,260
(iv)	Outstanding premium	5,420
(v)	Claims intimated but not admitted	26,500

What is the correct life assurance fund?

Or

(b) From the following particulars prepare Fire Revenue a/c for the year ended 31st December 2010.

	Rs.
Claims paid	1,17,500
Legal expenses regarding claims	2,500
Premium received	3,00,000
Reinsurance premium paid	30.000
Commission	50.000
Expenses of Management	75,000
Provision against unexpired risk on 1.1.2010	1,30,000
Claims unpaid on 1.1.2010	10,000
Claims unpaid on 3 1.12.2010	17,500

15. (a) From the following information, prepare the Revenue account of Bharathiyar Insurance Co. for the year ended 31st March 2010.

	Rs.
Provision for unexpired risks on 1.4.2009	80,000
Estimated liability in respect of outstanding claims :	
On 31st March 2009	10,000
On 1st April 2010	15,000
Medical expenses regarding claims	1,000
Claims paid	70,000
Reinsurance premiums	14,500
Reinsurance recoveries	1,500
Premiums	1,90,000
Commission on direct business	25.000
Commission on reinsurance ceded	3.000
Commission Re insurance accepted	1.000
Management expenses	55,000
Refund of double taxation	600
Interest and dividends	8,000
Legal expenses Regarding	1,500
Profit on investments during the year	1,750
Additional reserve on 31.3.2009	60.000

Additional Reserve is to be in increased by 10% of the net premium income. Prepare Revenue Account by keeping the reserve for unexpired risk at 50% premium income.

(b) On 31st December, 1995, the Balance sheet of X Company Ltd., disclosed the following position.

Liabilities	Rs.	Assets	Rs.
40,000 shares of Rs. 10 each	4,00,000	Fixed assets	5,00,000
Reserves	90,000	Current assets	2,00,000
Profit and loss account 5%	20,000	Goodwill	40,000
Debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31.12.1995, fixed assets and goodwill are valued at Rs. 3,50,000 and Rs. 50,000 respectively. Last three year's profits are given below :

1993 - Rs. 51,500; 1994 - Rs. 52,000; 1995 - Rs. 61,650

From this every year 20% transferred to reserve. The same type of business earn 10% rate of profit. From the above calculate the value of shares under yield method.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Answers not to exceed 500 words.

16. What is Current purchasing power method and explain how the general price level gain or loss is computed under this method.

17. From the following particulars of Vijaya Bank Ltd., prepare Balance sheet as on 31.03.2006.

Particulars	Rs.
Authorized share capital	20,00,000
Subscribed share capital	10,00,000
Investment	35,00,000
Bills Discounted	75,00,000
Profit and loss account	4,25,000
Endorsement on bills for collection	50,000
-Liability of customers for Acceptances	25,00,000
Money at call and short notice	45,00,000
Cash in hand	10,00,000
Cash with RBI	20,00,000
Statutory Reserve	15,00,000
Letter of credit issued	2,50,000
Telegraphic transfer payable	4,00,000

Bank draft payable	6,00,000
Short loans	20,000
Rebate on bills discounted	5,000
Acceptances of customers	25,00,000
Loans and advances	50,00,000
Cash credit	50,00,000
Bank overdraft	5,00,000
Bills purchased	5,00,000
Current deposit account	2,50,00,000
Investment fluctuation account	50,000
Bills for collection	50.000
Buildings	5,00,000

18. The following balances were extracted from the books of New Bharat Life Insurance Company Ltd., as on 31.12.1998.

	Rs.
Life Assurance Fund	15,00,000
Premium	4,96,000
Consideration for annuities	15,00
Interest and dividend	1,00,000
Fines for revival of policies	750
Reinsurance premium	20,750
Claims outstanding (1.1.98)	4,500
Claims paid during the year	64,900
Annuities	2,050
Bonus in reduction of premium	1,600
Medical fees	2,400
Surrenders	4,000
Commission	18,650
Management expenses	22.000

Prepare Revenue account after making the following adjustments :

(a) Outstanding balances :

Claim	Rs. 14, 000
Premiums	Rs. 4,600

(b) Further bonus in reduction of premium Rs. 2,400.

(c) Claims under re-insurance Rs. 8,000.

19. The following balance sheets are presented to you as on 31.12.1982.

Liabilities	X Ltd. Rs. (000's)	Y Ltd. Rs. (000's)	Assets	X Ltd. Rs. (000's)	Y Ltd. Rs. (000's)
Share capital of Rs. 10 each	1,000	250	Goodwill	100	50
			Building	200	100
Reserves on 1.1.81	200	80	Machinery	500	200
Sundry creditors	200	100	Stock	200	100
Bills payable	50	30	Debtors	340	70
P/L a/c on 1.4.81	60	60	Investments	240	30
P/L&A/c for 81-82	150	50	Bills receivable	30	20
			Cash at bank	50	
	1,660	570		1,660	570

X Ltd., acquired 15,000 shares of Y Ltd., for Rs. 1,90,000 on 1.4.81.

Sundry debtors of X Ltd., include Rs. 30,000 due from Y Ltd.,

Bills receivable of Y Ltd., include Rs. 10,000 due from X Ltd.,

The stock of Y Ltd., include goods purchased from X Ltd., at Rs. 10,000 which includes profit charged by X Ltd., at 25% on cost.

Prepare consolidated Balance sheet of X Ltd., and its subsidiary Y Ltd., as on 31.03.1982.

20. On 31.12.1998 the Balance Sheet of United Company Ltd., was as follows :

Liabilities	Rs.	Assets	Rs.
10,000 Equity shares of Rs. 100 each fully paid up	10,00,000	Land & Building	4,40,000
Profit and loss account	2 00 000	Plant & Machinery	1,90,000
Creditors	1,80,000	Stock	7,00,000
Provision for taxation	1,00,000	Debtors	3,00,000
Proposed dividend	1,50,000		
	16,30,000		16,30,000

The net profit of the company after providing for taxation was :

1994 - Rs. 1,70,000; 1995 - Rs. 1,92,000; 1996 - Rs. 1,80,000; 1997- Rs. 2,00,000; and 1998 - Rs. 1,90,000.

On 31.12.1998 the Land and Building was revalued at Rs. 5,00,000, Plant and Machinery at Rs. 3, 00,000 and debtors at 10% less. In view of the nature of the business it is considered 10% is a reasonable return on investment.

Calculate the value of company's share, valuing goodwill at five year's purchase of annual super profits.

April/May 2013

Corporate Accounting – II

1. What is Insurance?
2. What do you understand by "Life Assurance Fund"?
3. What are the different methods of calculation of goodwill?
4. State any two advantages of holding companies.
5. 5. What is Inflation Accounting?
6. How goodwill is calculated?
7. What is Holding company?
8. What is Valuation Balance Sheet?
9. What is Life Insurance?
10. What is Revenue Account?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) From the following particulars relating to the business of Mr. X, compute the value of goodwill on the basis of three years purchase of super profit taking average of last four years. Capital invested - Rs. 30,000; Market rate of interest on investment - 12%; Rate of risk return on capital invested - 3%; Managerial remuneration of the proprietor if employed elsewhere - Rs. 7,500 p.a.

Trading list:

	Rs.
Profit	
Profit	15.000
Loss	2,000
Profit	22.000

Or

(b) Greener Ltd. proposed to purchase the business carried on by Thiru. Dass. (Goodwill for this purpose is agreed to be valued at three year's purchase of the average profit of the past four years.

The appropriate weight to be use are :

1994 - 1; 1995 - 2; 1996 - 3; 1997 - 4

Profit for these years were :

1994 - Rs. 10,000; 1995 - Rs. 11,000; 1996-Rs. 12,000; 1997 - Rs. 15,000

Compute the value of the goodwill of the firm.

12. (a) From the following balances prepare the

Profit and Loss A/c of Canara Bank in the revised format.

	Rs.
Interest received	5,42,260
Discount received	2,43,760
Commission received	44,240
Interest on deposits	1,60,520
General expenses	1,82,420
Bad debts	1,28,710

Note : Rebate on bills discounted Rs. 64,380.

Or

(b) From the following particulars prepare Profit and Loss A/c of Safety bank for the year ended 31st March 1996 :

	Rs. ('000)
Interest on deposits	3,200
Commission (Cr)	100
Interest on loans	2,490
Sundry charges (Dr)	100
Rent and taxes	200
Payment to employee	500
Discount on bills discounted	1,490
Interest on overdraft	1,600
Interest on cash credit	2,320
Auditor's fee	35
Director's fee	16
Bad debts to be written off amounted to	300

13. (a) From the following particulars prepare the

Fire Insurance Revenue Account for the year 2001.

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2001	3.30.000
Additional reserve on 1.1.2001	1.40.000
Claims unpaid on 1.1.2001	25.000
Claims unpaid on 31.12.2001	35.000

Increase the additional reserve on 31.12.200i by 10% on the net premium.

Or

(b) From the following particulars prepare the Fire Insurance Revenue Account for 1997.

	Rs.
Claims paid	2,40,000
Premiums received	6,00,000
Reinsurance premiums	60,000
Commission	1,00,000
Expenses of management	1,50,000
Provision against unexpired risk on 1.1.97	2,60,000
Claims unpaid on January 1, 1997	20,000
Claims unpaid on December 31, 1997	35,000

Make provision against unexpired risk at the end of the year at 50% of net premiums.

14. (a) From the following Balance Sheet of H Ltd. and S Ltd. prepare a Consolidated Balance Sheet of H Ltd. and S Ltd.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital (Shares of Re. 1 each)	12,000	5.000	Sundry asset	20,000	8,000
			Investment in 5,000 shares of S Ltd.	6,500	

Reserve	5.000	1,000			
P and L A/c	2,000	1,000			
Sundry creditors	7,500	1,000			
	26,500	8,000		26,500	8,000

Share were acquired by H Ltd., in S Ltd. on 30.6.98. S Ltd. transferred Rs. 500 from profits to reserve on 31.12.98.

Or

(b) What are the various reasons for valuing shares?

15. (a) From the following information calculate the average index for current purchases :

		Price Index
Stock on 1.4.2002	Rs. 8,000	120
Purchases	Rs. 30,000	Average for 2002-03 = 160
Stock on 31.3.2003	Rs. 7,000	200

Or

(b) State the merits of Inflation Accounting.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Each answer not to exceed 500 words.

16. The following are the figures extracted from the books of New Bank Ltd., as on 31.3.99. Prepare the Profit and Loss A/c as per the revised format with all necessary schedules :

	Rs.
Interest and discount received	37,05,738
Interest paid on deposits	20,37,452
Issued and subscribed capital	10,00,000
Salaries and allowance	2,00,000
Director's fee	30,000
Rent and taxes paid	90,000
Postage and Telegram	60,286
Statutory reserve fund	8,00,000
Commission, exchange and brokerage received	1,90,000
	65,000
Rent received	2,00,000

Profit on sale of investment	30.000
Depreciation on bank property	40.000
Stationery expenses	25,000
Preliminary expenses	5,000
Auditor fee	

Additional information :

(a) A customer to whom a sum of Rs. 10 lakhs has been advanced became insolvent and only 50% can be realized from his estate.

(b) There were also debts for which a provision of Rs. 1,50,000 was found necessary.

(c) Rebate on bills discounted on 31.3.98 Rs. 12,000 and on 31.3.99 was Rs. 16,000.

(d) Provide Rs. 6,50,000 for income tax,

(e) Directors recommended 10% dividend.

17. On 31.3.09 the fixed assets were valued a Rs. 7,00,000 and the goodwill at Rs. 1,00,000. The net-profits for the last 3 years were as follows:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed assets	10,00,000
(Rs. 10 each)	8,00,000	Current assets	4,00,000
Reserve and L A/c	1,80,000	Goodwill	80,000
5% debenture	40,000		
Creditors	2,00,000		
	2,60,000		
	14,80,000		14,80,000

Out of the profits 20% was placed to reserve account each year. A fair investment return may be taken of 10% compute the value of the shares by (a) Net asset method (b) Yield method.

	Rs.
Profit for the year ending 31.3.2007	1,03,200
Profit for the year ending 31.3.2008	1,04,000
Profit for the year ending 31.3.2009	1,03,300

18. Prepare a Revenue A/c in respect of fire business from the following detail for the year 1997-98.

	Rs.
Reserve for unexpired risk on 1.4.97 @ 50%	1,80,000
Additional reserve	36.000

Estimated liability for claim intimated	
on 1.4.97	31.000
on 31.3.98	42,000
Claims paid	3,65,000
Legal expenses	6,000
Medical expenses	4,000
Re-insurance recoveries	32,000
Bad debts	800
Premium recovered	4,86,000
Premium on re-insurance accepted	32,000
Premium on re-insurance ceded	43,000
Commission on direct business	48,600
Commission on re-insurance accepted	1,600
Commission on re-insurance ceded	2,150
Expenses on management	90,000
Interest, dividend and rent	24,000
Profit on sale of investment	3,000

Created reserve on 31st March 1998 to the same extent as on 1st April 1991.

19. A new machine was purchased on 1.1.2002 at a cost Rs. 10,00,000 and its useful life was estimated) to be 10 years. On 1.1.2007 a new machine similar to this cost Rs. 18,00,000 and on 31.12.2007 Rs. 20,00,000. Calculate the amount of depreciation for 2007 assuming that there is no change in the estimated life of the asset.

20. From the following Balance Sheet of H Ltd., and its subsidiary S Ltd., drawn upto 31st March, 1999, prepare a Consolidated Balance Sheet and at that date having regard to the following :

(a) Reserves and P and L (Cr) of S Ltd. stood as Rs. 25,000 and Rs. 15,000 respectively on the date of acquisition of its 80% shares by H Ltd., and

(b) Machinery (book value Rs. 1,00,000) and furniture (book value Rs. 20,000) of S were revalued at Rs. 1,50,000 and Rs. 15,000 respectively for the purpose of fixing the price of its shares : book values of others assets remaining unadjusted.

Balance Sheet of H Ltd. and S Ltd. as on
31st March 1999.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital	5,00,000	1,00,000	Machinery	3,00,000	90.000
Reserve	2,00,000	75,000	Furniture	50,000	17.000

P and L A/c	1,00,000	25,000	Other assets	4,40,000	1,43,000
Editors	1,50,000	50,000	Shares in S Ltd. 800 @ Rs. 200 each	1,60,000	
	9,50,000	2,50,000		9,50,000	2,50,000

APRIL/MAY 2014

UCM31/UFA31/SCM31 — CORPORATE ACCOUNTING —I

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is meant by forfeiture?
2. What is the purpose of Debenture Redemption Reserve Account?
3. State the meaning of profit prior to incorporation.
4. Define Amalgamation.
5. What is liquidation?
6. N Ltd issued 2000 equity shares of Rs. 10 each at a premium of Rs. 2. Give journal entry.
7. Give journal entry for debentures when issued at premium and redeemable at par.
8. Calculate sales ratio from the following

   Sales upto the date of incorporation Rs. 1,00,000

   Sales upto the date of balance sheet Rs. 2,00,000

   Total sales for the year Rs. 3,00,000.
9. 1,000 equity shares of Rs. 100 each are reduced to shares of Rs. 10 each under the reduction schem. Give journal entry.
10. From the following information identify preferential creditors

Unsecured creditors Rs. 3,80,000 one month salary in arrears Rs. 4,000 bank overdraft Rs. 40,000 secured creditors Rs. 1,00,000.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Write a note on issue of shares at par, premium and discount.

Or

(b) M Ltd. invited application for 20,000 shares of Rs. 100 each at discount of 6% payable as follows.

On application Rs. 20, on allotment Rs. 39, on first and final call Rs. 35. Applications were received for 18,000 shares and all of these were accepted and allotted. All moneys due were received. Give the cash ledger a/c.

12. (a) A company issues 4000 8% Redeemable preference shares of Rs. 100 each and 3,000 6% debentures of Rs. 100 each. They divided to redeem both for redemption, the company issued 5,000 equity shares of Rs. 100 each. Balance of Reserve funds was Rs. 50,000. Give journal entries for issue and redemption.

Or

(b) X Ltd took over assets Rs. 1,75,000 and liabilities of the Rs. 15,000 of R Ltd for the purchase consideration of Rs. 1,65,000. X Ltd paid the purchase consideration by issuing debentures of Rs. 100 each at a premium of 10%. Give journal entries.

13. (a) S Ltd. was incorporated on May 1, 1993 to take over the business of a partnership firm as a going concern from Jan. 1, 1993. The company got the certificate of commencement of business on July 1, 1993.

The following is the profit and loss a/c for the year ending 31.12.93 is as follows :

Profit and Loss Account

	Rs.		Rs.
To Rent and taxes	12,000	By Gross profit	80,000
To Insurance	3,000		
To Electricity charges	2,400		
To Directors fees	13,000		
To Net profit	49,600		
	80,000		80,000

The total turnover for the year ending 31.12.93 was Rs. 4,00,000 divided into Rs. 1,00,000 for the period upto 1.5.93 and Rs. 3,00,000 for the remaining period. Calculate profit prior to incorporation.

(b) Prepare Trading account from the following information :

	Rs.
Opening stock	75.000
Sales	4.4,15,000
Closing stock	95,000
Purchases	1,85,000
Wages	84,865
Freight	13,115
Direct expenses	2,020

14. (a) A purchasing company has agreed to issue one share of Rs. 10 each, Rs. 8 called up for every three shares in the vendor company. Find the amount of purchase consideration if there are 5,000 shares in the vendor company. The shares of purchasing company are quoted at Rs. 18 in the market. Give the journal entries in purchasing company books.

Or

(b) Balance sheet of X Ltd shows

	Rs.
Share capital 2,00,000 shares of Rs. 10 each	20,00,000
12% Debentures	10,00,000

The company was absorbed by A Ltd. The consideration is the discharge of the debentures at a premium of 5% and (payment of Rs. 7 in cash and one share of Rs. 5 in A Ltd. at the market value of Rs. 8 per share for every share in X Ltd. Calculate purchase consideration and show the related Journal entries.

15. (a) ABC Ltd. went into liquidation with the following liabilities

Secured creditors Rs. 20,000 (securities realised Rs. 25,000)

Preferential creditors Rs. 600

Unsecured creditors Rs. 3,05,000

The liquidators remuneration amounted to Rs. 2,400. The various assets (excluding secured assets) realised Rs. 36,000. Prepare the liquidators account.

Or

(b) Calculate liquidators remuneration from the following information

	Rs.
Assets realised	1,20,000
Surplus received from secured creditors	30.000
Preferential creditors	10,000
Unsecured creditors	80.000

Liquidator is entitled to a remuneration of 2% on assets realised (including surplus received) and 3% on the amount distributed to unsecured creditors (assuming the amount available is sufficient to pay off unsecured creditors).

SECTION C — (3 x 10 = 30 marks}

Answer any THREE questions.

16. Explain the provisions relating to :

    (a) Redemption of preference shares

    (b) Redemption of debentures.

17. A Ltd. issued a prospected inviting applications for 10000 shares of Rs. 10 each at a premium of Rs. 2 each payable as follows :

    On application Rs. 2, on allotment Rs. 5 (including premium) on first call Rs. 3 and on final call Rs. 2.

    Applications were received for 15000 shares and allotment was made on pro data basis to the applications of 12000 share money over paid on application was employed on allotment of sums due on allotment. R to whom 200 shares v(J allotment failed to pay allotment money and his sub segment failure to pay the first call money his shares were forfeited.

    B, the holder of 300 shares failed to pay the two calls and his shares were forfeited after the final call of these shares forfeited, 400 shares were sold to D credited as fully paid for Rs. 9 per share, the whole of R's share being included.

    Pass Journal entries in the books of A/cs.

18. A company was formed with an authorised capital of Rs. 5,00,000 divided into 25,000 equity shares of Rs. 10 each and 2,500 6% preference shares of Rs. 100 each to purchased the going concern of M/S J and Sons whose balance sheet should as follows :

Liabilities	Rs.	Assets	Rs.
Capital	1,32,100	Cash	4.500
Bills payable	3,500	Debtors	7.500
Creditors	6,400	Stock	35.000
		Machinery	50.000
		Buildings	45.000
	1,42,000		1,42,000

The purchase price was agreed at Rs. 1,75,000 payable as to Rs. 50,000 in fully paid equity shares, Rs. 50,000 in fully paid. Preference shares Rs. 30,000 in Redeemable debentures and the balance in cash. The remaining shares were issued to the public and all moneys received. Give journal entries in the books the company.

19. A Ltd. agreed to absorb B Ltd. as on 31.12.95. The Balance sheet of B Ltd on that date was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital Rs. 10	6,00,000	Fixed assets	7.40.000
Reserves	2,80,000	Current assets	2.60.000
6% Debentures	1,00,000		
Sundry creditors	20,000		
	10,00,000		10,00,000

The purchase consideration payable was :

(a) A cash payment of Rs. 2.50 per share in B Ltd

(b) The issue of 90000, Rs. 10 shares at on agreed value of Rs. 15 per share

(c) The issue of such an amount of fully paid 8% debentures of A Ltd. at 96% as are sufficient to discharge the 6% debentures of B Ltd at a premium of 20%

Show necessary ledger a/c's in the books of B Ltd.

20. Give the format of the statement of affairs prepared on liquidation of a company.

APRIL/MAY 2014 SCP41 — CORPORATE ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is intrinsic value?
2. Define Goodwill.
3. What is minority Interest?
4. What is consolidated Balance sheet?
5. What are the contents of schedule 13 of Bank P and LA/c?
6. What is statutory Reserve?
7. What is bonus utilized in reduction of premium?

8. What is meant by provision for unexpired risk?

9. What is Inflation Accounting?

10. Expand CCA.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) The net profit of a business, after providing for taxation, for the past five years were as Rs. 80,000, Rs. 85,000, Rs. 92,000, Rs. 1,05,000 and Rs, l,18,000.The capital employed in the business is Rs. 8,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next 5 years. Calculate the value of goodwill on the basis of

    (i) 5 years purchase of super profit method

    (ii) Annuity method, taking the present value of annuity of Re. 1 for five years @10% as 3.78.

Or

(b) Ramesh runs general stores. He has net assets on 31.12.89 Rs. 20,00,000. After paying rent of Rs. 20,000 per year and salary to manager Rs 10,000 he has earns an average profit of Rs. 1,50,000 per year. Its landlord is interested in acquiring this business 8% is considered to be a reasonable return on capital employed calculate the goodwill at 3 year's purchase of super profit.

12. (a) From the following data, calculate the Rebate on bills discounted as on 31.3.2000.

Bill date	Amount Rs.	Period	Discount rate
10.1.2000	15.000	5 months 4	7%
5.2.2000	20.000	months 4	8%
15.3.2000	25.000	months 3	6%
	30.000	months	9%

Or

(b) The trial balance of National Bank Ltd. As on 31.3.2008 shows the following balance :

Interest and Discounts Rs. 45,40,600.

Rebate on bills discounted (1.4.2007) Rs.4,750.

Bills discounted and purchased Rs.3,37,400.

The amount of unexpired discount as on 30.6.2008 is Rs. 5,560.

Write necessary adjusting entries and calculate the amount of interest and discount to be credit to profit and loss a/c.

13. (a) Bharath Life Assurance Company gets its valuation made once in every two years. Its life assurance fund on 31.12.2007 stood at Rs. 45,65,000 before providing for Rs. 45,000 being the dividend for shareholders for the year 2007. It's actually valuation on 31.12.2007 disclosed a net liability . of Rs. 32,20,000. An interim bonus of i.o. 80,000 was paid to the policy holders during the previous two years.

Prepare a valuation balance sheet and find out the net profit for the period.

Or

(b) Life Assurance Fund of Insurance Company was Rs, 87, 76,500 on 31.3.2007. It was found that the following items were not taken into account.

(i) Dividend from Investment Rs.4,80,000

(ii) Income tax paid on the above Rs. 48,000

(iii) Claims covered under reinsurance Rs. 4,23,000.

(iv) Claims intimated but not accepted by the company Rs.7,62,000

(v) Bonus in reduction of premium Rs. 8,77,500.

Ascertain correct balance of found.

14. (a) From the following Balance sheet, prepare a consolidated Balance Sheet as on 31.12.2010.

Assets	H Ltd	S Ltd
	Rs.	Rs.
Fixed Assets	25,00,000	12,50,000
Investments (1,00,000)		
shares in S Ltd	1100,000	–
Current Assets	1,00,000	7,00,000
	37,00,000	19,50,000
Liabilities	H Ltd	S Ltd
	Rs.	Rs.
Equity shares of Rs. 10		
each	20,00,000	12,50,000
Reserves	9,00,000	5,00,000
Creditors	8,00,000	2,00,000
	37,00,000	19,50,000

When H Ltd., purchased shares in S ltd., Latter Company had undistributed reserves Rs. 3,00,000 and H Ltd., had reverse of Rs. 4,00,000 on that data.

Or

(b) Consolidate the following Balance Sheet.

	Sun Co. Its.	Moon Co. Rs.		Sun Co. Rs.	Moon Co. Rs.
Share capital Re. (1 each)	5.200	4,000	Sundry asset	5.200	4,800
Creditors	3.200	1,600	3600 shares in Moon Co. P and L a/c	3.200	800
	8,400	5,600		8,400	5,600

When Sun Co., acquired the Shares in Moon Co. the profit and loss account in the latter had a debit balance of Rs.600.

15. (a) Write a note an ‘‘current purchasing power method.

Or

(b) What are the limitations of historical Accounting?

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. Following is the Balance Sheet of a Company as on 31.12.2012.

Liabilities	Rs.	Assets	Rs.
Equity share of Rs.100 each	2,50,000	Good will	25,000
		Land and buildings	1,00,000
8% performance share of Rs. 100 each	2,00,000	Plant and Machinery	2,50.000
		Stock in trade	1,80,000
General reserve	20,000	Sundry debtors	50,000
Profit and Loss a/c	25,000	Investments	30,000
9% debenture	1,00,000	Bank balance	10,000
Sundry creditors	30,000	Preliminary expenses w/o	15,000
Provision for tax	35,000		
	6,60,000		6,60,000

For the valuation of equity share the assets are revailed as land and building Rs. 1,50,000: Plant and machinery Rs. 2,00,000 and good will Rs. 45,000; the market value of investment is Rs. 34,000. Calculate value of one equity shares.

17. Prepare consolidated B/S.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital (Re.l each)	1,000	200	Sundry asset	800	120
			Stock	610	240

P and L a/c	400	120	Debtors	130	170
Reserve	1,000	60	Bills receivable	10	–
Creditors	200	120	Investment 150 shares in S Ltd.	150	–
Bills payable	–	30			
	1,700	530		1,700	530

(a) All profit in S Ltd have been earned since the shares were purchased by H Ltd. but Reserve was already Rs. 60.

(b) All Bills payable of S Ltd., were issued in favour of H Ltd.

(c) The stock of H Ltd includes good worth Rs. 500 purchased from S Ltd at a profit of 25% on cost.

18. A bank's transaction are given below. Prepare its profit and loss a/c and Balance Sheet (in 000) as on 31.3.2000 :

Deposits: Current Rs, 45,500 Fixed Rs.37,180 . Saving bank Rs, 14,520 Creditors Rs, 454, Borrowings from other bank Its 12,200 Rebate on bills discounted Rs. 1,500, Branch adjustment (credit) Rs. 4,555, Reserve Fund Rs. 10,000 Dividend Equalization fund Rs. 2,500, Issued and subscribed capital Rs. 10,000, Interest and discount received Rs. 5,800, Exchange and commission Rs. 1,700, General Expenses Rs. 55, Profit and Loss a/c balance on 1.4.99 Rs. 852, Cash balance Rs. 487, Bank Balance Rs. 6,869, Money at Call and short notice Rs. 1,500, Investment in Government Securities Rs. 45,500 Investment in shares Rs.4,700, Interest received on investment Rs. 875, Loans and Advances Rs.44,100 Bills discounted Rs. 33,100 Furniture Rs. 500 Depreciation Rs.500 Interest paid Rs. 1,200, Foreign exchange commission Rs. 100, Salary Rs. 2,100 Advertising Rs.400, Miscellaneous expenses Rs. 300, Loan Rs. 3,500, Depreciation fund Rs. 500. Other Assets Rs.3,325.

19. From the following Balance of the Shalimar General Insurance Co. Ltd as on 31.12.90. Prepare

(a) Fire revenue account

(b) Marine revenue account.

	Rs.
Bonus in reduction of premium (fire)	200
Bad debts (Fire)	500
Bad debts (Marine)	1,200
Directors' fees	500
Auditors' fees	120
Share transfer fees	80
Bad debts recovered	120
Fire fund (1.1.90)	25,000

Marine fund (1.1.90)	82,000
Claims paid (fire)	18,000
Claims outstanding (fire)	1,000
Claims paid and outstanding (marine)	38,000
Commission paid (fire)	9,000
Commission paid (marine)	10,800
Additional Reserve (on 1.1.90) (fire)	5,000
Depreciation	3,500
Interest and Dividend received	1,400
Miscellaneous receipts	530
Fire premium less (-) Reinsurance	60,000
Management expenses (fire)	14,500
Management expenses (marine)	40,000
Marine premium (less) Reinsurance	1,08,000
Commission on reinsurance ceded (fire)	3.000
Commission on reinsurance accepted (fire)	1,000
Profit on sale of land	6,000
Commission on reinsurance ceded (marine)	6,000

20. Discuss the various methods of inflation accounting.

APRIL/MAY 2014

UCM41/SFA41/UFA41 — CORPORATE

ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is Goodwill?
2. What do you mean by normal profit?
3. Define Holding company.
4. What is minority interest?
5. How many schedules are prepared in Bank account?
6. Write a note on Unexpired Discount.
7. Define marine insurance.
8. What is reinsurance?
9. Define inflation accounting.
10. State any two limitations of current cost accounting method.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Explain the methods of calculating goodwill.

Or

(b) From the following information calculation the value of goodwill on the basis of 5 year purchase of weighted average profit method:

Net profit for the 5 years.

	Rs.
2002	1,60,000
2003	1,00,000
2004	80,000
2005	88,000
2006	72,000

The weights were assigned 1, 2,3,4 and 5 serially to the profits.

12. za) Balance sheet as on 31.12.2000

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital of Re. 1 each	10,000	5,000	Sundry assets	16,000	10,000
General reserve	5,000	–	5000 shares of S Ltd	6,000	–
Creditors	3,000	3,200			
P and L a/c	4,000	1,800			
	22,000	10,000		22,000	10,000

Shares of S Ltd were purchased by H Ltd. On 30th June 2000. On 1st January 2000 the Balance sheet of S Ltd. Showed a los of Rs. 3,000. Prepare the consolidated Balance Sheet.

Or

(b) Consolidated the Balance Sheet.

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Capital Re. 1 share	1,400	1,000	900 shares in S at cost	1,200	–
Creditors	–	500	Sundry assets		
P and A/c	–	300		200	1,800
	1,400	1,800		1,400,	1,800

When H Ltd., acquired the shares in S. the profit and loss a/c of the latter had a credit balance of Rs. 200.

13. (a) On 31st March, 1998 a bank held the following bills discounted by it earlier.

Date of bill 1998	Term of bill (months)	Discounted @ % P-a.	Amount of bill Rs.
January, 17	4	17	7,30,000
February, 7	3	18	14,60,000
March, 9	3	17.5	3,64,000

You are required to calculate the rebate on bills discounted. Also show the necessary journal entry for the rebate

Or

(b) The, trial balance of the Nedungadi Bank Ltd., as on 30th June 1984 shows the following balances.

	Rs.
Interest and discount	45,40,000
Rebate on bills discounted (1.7.81)	4,750
Bills discounted and purchased	3,37,400

The unexpired discount as on 30.6.84 is estimated to be Rs.5,560. Draft necessary adjusting entries and calculate the amount of interest and discount to be credited to profit and loss account.

14. (a) From the following details prepare fire revenue a/c for 2009.

	Rs.
Claim paid	2,35,000
Premium received	6,00,000
Commission	1,00,000
Reserve for un expired risk on 1.1.2009	2.60.000
Claims outstanding on 31.12.2009	35,000
Law charges	5,000
Reinsurance premium	60,000
Management expenses	1,50,000
Claims outstanding on 1.1.09	20,000

Or

(b) Bharath life assurance company gets its valuation made once in every two years. Its life assurance fund on 31.12.98 stood at Rs.45,65,000 before providing for Rs.45,000 being the dividend for shareholders for the year 1998. Its actuary's valuation on 31.12.98 disclosed a net liability of Rs.32,20,000. An interim bonus of Rs.80,000 was paid to the policy holders during the previous two years. Prepare a valuation balance sheet and find out the net profit for the period.

15. (a) State the approaches to inflation accounting.

Or

(b) List out the merits of current cost accounting method.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. Explain the different methods of valuation of shares.

17. From the following balance sheet relating to H ltd., and S ltd, prepare a consolidated Balance sheet.

Balance sheet on 31.12.2002

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital (Share of Rs. 10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	1,20,000
Profit and loss account	4,00,000	1,20,000	Stock	6,00,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	–
Bill payable	–	30,000		1,50,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

(a) All profits of S ltd., have been earned after the shares were acquired by H ltd., but there was already a reserve of Rs.60,000 on that date.

(b) All the bills payable of S ltd., were accepted in favour of H Ltd.

(c) The stock of H ltd., includes Rs.50,000 purchased from S ltd. The profit added was 25% on cost.

18. Give the specimen balance sheet of a banking company.

19. XYZ Insurance company shows following data regarding premiums on 31st March 2007.

	Rs.
Direct premium received during the year	2,50,000
Premium outstanding on 1.4.2007	25,000
Premium outstanding on 31.3.2008	50,000
Reinsurance premium paid	10,000
Reinsurance premium received	20,000
Bonus in reduction of premium	7,500

Calculate the amount of net premiums to be credited to Revenue account for the year ending 31st March 2007.

20. Discuss the merits and demerits of historical accounting.

NOVEMBER 2014

U C M31/UFA31/S CM31/SFA31/U CP31/

SCP32 — CORPORATE ACCOUNTING — I

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

Each answer not to exceed 50 words.

1. What do you mean by pro - rata allotment?
2. Y Ltd, forfeited 1000 equity shares of Rs. 10 each, issued at a discount of 10% for non — payment of first call on Rs. 2 and final call of Rs. 3 per share. Show the necessary Journal entry.
3. Give the meaning of redeemable preference shares.
4. Time X Ltd, issued 3000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company if the debentures were issued as follows.
   (a) Issued at par, redeemable at par.
   (b) Issued at discount of 5% repayable at par.
5. What is acquisition of business?
6. X Ltd which was incorporated on May 1,1998 acquired a business on January 1, 1998. The 1^{st} accounts were closed on September 30, 1998. Find out time ratio?
7. Define Amalgamation.
8. Raman Ltd, agrees to purchase the business of Krishnan Ltd, on the following terms.

   For each of the 10,000 shares of Rs. 10 each in Krishnan Ltd. 2 shares in Raman Ltd, of Rs. 10 each will be issued at an agreed value of Rs. 12 per share. In addition Rs. 4 per share cash also will be paid. Calculate the purchase consideration.

9. The liquidator of a company is entitled to a remuneration of 2% on assets realised and 3% on the amounts distributed to unsecured creditors. The assets. The assets realised Rs. 1,00,000,

including cash balance of Rs. 5,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration was Rs. 43,100. Calculate liquidators remuneration.

10. What is a statement of affairs?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) X Ltd. forfeited 30 shares of Rs. 10 each fully called up held by Rangan for non payment of(allotment money of Rs. 3 per share and first call of Rs. 4 per share. He had paid the application money of Rs. 3 per share. These shares were re-issued to Ram for Rs. 8 per share. Pass journal entries.

Or

(b) A company forfeited 10 shares of Rs. 10 each (Rs. 6 called up) issued at a discount of 10% to A on which he paid Rs. 2 per share. Out of these 8 shares were reissued to B as Rs.8% called up Rs. 6% per share. Give journal entries for forfeiture and re-issue of shares.

12. (a) Write note on Ex - interest and cum - interest.

Or

(b) How preference shares can be redeemed?

13. (a) A company incorporated on 1.7.2004 to take over the business of Mr. Kumar as a going concern with effect from 1.4.2004. Accounts are closed on 31.3.2005. Total sales for the year 31.3.2005 was Rs. 3,00,000 dividend into Rs. 1,00,000 for the period upto 1.7.2004 and the balance for the remaining period. Calculate the time ratio and sales ratio.

Or

(b) A company had a carried forward balance of Rs. 25,000 in the profit and loss account for the year ended 31st March, 2002. During the year 2003, it made a further profit of Rs. 15,000. It was decided to carry out the following adjustments :

(i) Provision for taxation Rs. 50,000.

(ii) Dividend equalisation account Rs. 15,000

(iii) Dividend on Rs. 40,000 shares of Rs. 5 each fully paid at 15%.

(iv) Transfer to general resource Rs. 25,000.

(v) Transfer to development relate reserve account Rs. 25,000.

You are required to prepare profit and loss (app) account for the year ended 31st March 2003.

14. (a) Define : amalgamation, absorption and reconstruction.

Or

(b) What are the opening journal entries in the purchasing company?

15. (a) From the following information prepare unsecured creditors as per list E :

	Rs.
Unsecured creditors	3,80,000
One month salary in arrears	4,000
Bills payable	1,00,000
Bank overdraft	40,000
Liability on bills discounted	60,000
Party secured creditors	1,00,000
(total creditors Rs. 2,00,000)	
Preferential creditors	16,000

Or

(b) Write a note on preferential creditors.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Each answer not to exceed 500 words.

16. Good prospects Ltd, issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 per share. The shares * were payable as follows : '

Rs. 2 on application

Rs. 5 on allotment (including premium)

Rs. 5 on first and final call.

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs. 8 per share.

Give the necessary journal entries, prepare the bank all and the balance sheet of the company.

17. On 30^{th} June 1998, the balance sheet of Suganya Ltd, stood as follows :

Liabilities	Rs.	Assets	Rs.
Equity share capital	10,00,000	Sundry assets	14,00,000
Redeemable prof	4,00,000	Bank	5,00,000
Share capital P & 1 a/c	3,00,000		

Sundry creditors	2,00,000		
	19,00,000		19,00,000

On the above date, the preference shares had to be redeemed. For this purpose 2000 equity shares of Rs. 100 each were issued at Rs. 110. The company also issued 8% debentures totaling Rs. 3,00,000. The shares and debentures were immediately subscribed and paid for. The preference shares were duly redeemed. Give journal entries and the balance sheet after redemption.

18. From the following balance and additional information for the year ended 31.03.2001 prepare the final accounts in the books of a company.

Purchase	9,25,000	Machinery	15,00,000
Wages	4,24,325	Building	16,50,000
Manufacturing expenses	65,575	Interim dividend	1,87,500
		Furniture	35,000
Salaries	70,000	Debtors	4,36,000
Bad debts	10,550	Share capital	20,00,000
General expenses	84,175	Profit and loss a/c (credit balance)	72,500
Stock (01.04.2000)	3,75,000		
Goodwill	1,00,000	Creditors	1,67,500
Cash	2,28,250	Bills payable	2,90,000
Director's fees	31,125	general reserve	1,25,000
Debentures interest	45,000		
6% debentures	15,00,000		
Sales	20,75,000		
Preliminary expenses	25,000		
alls in arrear	37,500		

Additional information :

(a) Closing stock Rs. 4,55,000.

(b) Depreciation - machinery at 10%.

(c) Write off Rs. 2,500 from preliminary expenses.

(d) Provision for doubtful debts Rs. 4,250.

19. The following is the balance sheet of'A' Ltd, as on 31st December. 2002.

Liabilities	Rs.	Assets	Rs.

Share capital	1,20,000	Land and buildings	90.000
Sundry creditors	30.000	Machinery	50.000
Bank over draft	28.000	Stock	17.000
		Debtors	20,000
		P & L a/c	1,000
	1,78,000		1,78,000

The company went into voluntary liquidation and the assets were sold to 'B' Ltd for Rs. 1,50,000 payable as to Rs. 60,000 in cash and Rs. 90,000 i{ equity shares. The cash payment of Rs. 60,000 was sufficient to discharge creditors, bank overdraft and to pay Rs. 2,000 liquidation expenses. Prepare realisation account.

20. A company went into voluntary liquidation on 30th April 2009. The position on that date was as follows :

Liabilities	Rs.	Assets	Rs.
Slum; capital :		Machinery	80,000
5,000 shares of Rs. 100 each		Other fixed assets	2,60,000
Rs. 80 paid up	4,00,000		
Loans (Secured by mortgage of machinery)	1,00,000	Stock	1,05,000
		Debtors	1,00,000
Unsecured creditors including preferential creditors Rs. 10,000)	2,00,000	Loans	40,000
		Cash	5,000
		Profit and Loss a/c	1,10,000
	7,00,000		7,00,000

Machinery was realised by the secured creditors for Rs. 1,20,000. Other fixed assets fetched Rs. 40,000. Debtors Rs. 20,000 and stock Rs. 10,000. Loans were wholly lead. The liquidator is entitled to a fixed remuneration of Rs. 1000 plus 2% of the amount paid to unsecured creditors. The liquidations out of pocket expenses amounted to Rs. 1000.

Show the liquidators statement of account.

APRIL/MAY 2015

UCM41/UFA41/UCP41/SFA41/SCP41 —

CORPORATE ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

Each answer not to exceed 50 words.

1. Define goodwill.
2. Where is the need for valuation of goodwill?
3. How is the interest on doubtful debts treated in bank accounts?
4. What do you understand by life assurance fund?
5. Explain the meaning of inflation accounting.
6. Give the accounting treatment of the rebate on & bills discounted.
7. Write a note on super profit.
8. Give the meaning and significance of human resource accounting.
9. What is the purpose of accounting standard?
10. What is Re- insurance?

SECTION B — (5x5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) The following particulars are available in by respect of the business carried on by wise head.

 (i) Capital employed Rs. 50,000

 (ii) Trading result 1989 profit Rs. 12,200; 1990 - profit Rs. 15,000 ; 1991 - loss Rs. 2,000 ; 1992 - profit Rs. 21,000.

 (iii) Market rate of interest on investment 8%.

 (iv) Benefit of risk on investment 2%.

 (v) Remuneration from alternative employment of the proprietor (if no engaged in business Rs. 3,600).

 Compute the value of goodwill on the basis of 3 years purchase of super - profits of the business calculated on the average profit of the last four years.

Or

(b) A life assurance company prepared its revenue a/c for the year ending 31-12-2005 and ascertained its life assurance fund to be Rs. 28,35,000. It was found later that the following had been omitted from the accounts.

 (i) Interest accrued on investments Rs. 39,000, income tax liable to be deducted there on is estimated to be Rs. 10,500.

 (ii) Outstanding premium Rs. 32,800.

(iii) Bonus utilised for reduction of premium Rs. 6,750.

(iv) Claims intimated but not admitted Rs. 17,400.

(v) Claims coverage under reinsurance Rs. 6,500

What is the true life assurance fund?

12. (a) On 31st December 2005, the loan account in the books of a bank showed a debit balance of

Rs. 1,00,000 including Rs. 20,000 due from a merchant which is doubtful. The interest accrued on this loan upto 31-12-2005 was Rs. 5,000 including Rs. 1,000 on doubtful debt. The merchant become insolvent and the official receiver paid a dividend of 25 paise in the rupee on 31-1-2006.

Pass necessary journal entries in the books of the bank on 31-12-2005 and 31-1-2006 and prepare merchant loan account.

Or

(b) On 31st March 2004. Bharat Bank ltd. funds its advances classified as follows :

	Rs.
Standard assets	14,91,300
Sub - standard assets	92,800
Doubtful: Assets (secured)	
1 year	25,600
1 to 3 year	15,640
more than 3 years	6,580
Loss assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned advances.

13. (a) The net profit of a business after providing for taxation for the post five year are :

Rs. 40,000, Rs. 42,500, Rs. 46,000, Rs. 46,000, Rs. 52,000 and Rs. 59,000. The capital employed in the business is Rs. 4,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next five years. Calculate the goodwill on the basis of:

(i) Five years purchase of super profits.

(ii) Capitalisation of super profits.

Or

(b) From the following particulars, prepare the fire revenue a/c for 2006 claim paid Rs. 2,35,000 ; legal expenses Rs. 5,000 ; premium received Rs. 6,00,000 ; Reinsurance premium Rs. 60,000. Commission Rs. 1,00,000. Expenses of management Rs. 1,50,000;

provision against unexpired risk on 1.1.2006 Rs. 2,60,000 claims unpaid on 1.1.2006 Rs. 20,000 claims unpaid on 31.12.2006 Rs. 35,000.

14. (a) The life fund of a life insurance company on 31.12.2007 showed a balance of Rs. 5,40,000 before the following taking items.

   (i) Interest accrued on investment Rs. 20,000.

   (ii) Income tax deducted on interest Rs. 6,000.

   (iii) Reinsurance claims recoverable Rs. 7,000

   (iv) Commission due on reinsurance premium paid Rs. 10,000.

   (v) Bonus in reduction of premium Rs. 3,000. Show the correct life fund balance.

Or

(b) Explain the objectives of financial reporting.

15. (a) From the following data relating to 2004 you are required to compute MCWA under CCA method.

	Opening Rs.	Closing Rs.
Account receivables	10,00,000	13,00,000
Account payables	6,00,000	7,00,000
Index number applicable	100	150
Average index 125		

Or

(b) Mention the methods of Human Recourse Accounting.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

All questions carry equal marks.

16. From the following balances of HF general insurance co Ltd. as on 31st March, prepare :

   (a) Fair revenue a/c

   (b) Marine revenue a/c

   (c) P & L a/c.

Survey expenses (fire) Rs. 10,000; additional reserve (opening) Rs. 50,000 ; Commission paid (marine) Rs. 1,08,000 ; Commission paid (fire) Rs. 90,000; Claims paid and outstanding (marine) Rs. 3,80,000 claims paid and outstanding (fire) Rs. 1,80,000, fire fund (opening) Rs. 2,50,000 ; marine fund (opening) Rs. 8,20,000 ; bad debts recovered

Rs. 1,200; share transfer fees Rs. 800 ; Director fees Rs. 5,000 ; auditor fees Rs. 1,200 ; bad debts (marine) Rs. 12,000 ; bad debts (fire) Rs. 5,000 ; commission earned on reinsurance coded (marine) Rs. 60,000 ; commission on earned . on reinsurance ceded (fire) Rs. 30,000; management expenses (fire) Rs. 1,45,000 ; management expenses (marine) Rs. 4,00,000 ; marine premium less reinsurance Rs. 10,80,000 ; fire premium less reinsurance Rs. 6,00,000 ; profit on sale of land Rs. 60,000 ; miscellaneous receipts Rs. 5,000 ; difference in exchange (cr) Rs. 300 ; interest dividend received Rs. 14,000; depreciation Rs. 35,000.

In addition to usual reserve additional reserve in case of fire insurance is to be increased by 5% of net premium.

17. From the following details, compute the intrinsic value of on equity share of Mahizhini Ltd.

Liabilities	Rs.	Assets	Rs.
2000 equity share of 100 each fully paid	2,00,000	Land and building	80,000
		Plant and machinery	80,000
2000 6% preference shares of Rs. 10 each	20,000	Book debts Stock	10,000
		Cash	40.000
General reserve	50.000	5% investment in	70.000
5% debentures of Rs.100 each	20.000	government securities	20.000
		Preliminary expenses	10,000
Sundry creditors	20,000		
	3.10.000		3,10.000

(a) Fair return on capital employed in this type of business is 10% p.a.

(b) Goodwill is to be taken as 4 year purchase value of super profit.

(c) Average of profits (after deduction of preliminary expenses) for the last seven years in Rs. 38,000. Preliminary expenses to the extent of Rs. 2,000 has been written off every year for the last seven years. Prof* is more or less stable over years and the same trend its expected to be maintains in the near future ignore taxation.

18. The following details are taken from the balance sheets of Suraj Ltd.

	As. on 31.3.2003	As. on 31.3.2004
Inventories	8,00,000	10,00,000
Book debts	2,00,000	33,000
Cash at bank	80,000	90,000
Advance to suppliers of materials	80,000	60,000
Trade creditors	1,20,000	1,40,000

During the year 2003-2004, material prices role by 20% and those of finished goods by 10%.

Calculate the monetary working capital adjustment (MWCA) to be made under CCA system.

19. The following are the summarised Balance Sheet of Imperial Co. Ltd Colonial Co. Ltd as on 31st December 1972.

Liabilities	Imperial Co. Ltd	Colonial Co. Ltd	Assets	Imperial Co. Ltd	Colonial Co. Ltd
Paid up capital in share of Rs. 10 each	10,00,000	3,00,000	Free hold Premises	4,50,000	1,20,000
General	4,00,000	1,25,000	Plant and		
Reserve	3,00,000	1,75,000	Machinery	3,50,000	1,60,000
Profit and loss a/c	1,00,000	70,000	Furniture	80,000	30,000
Sundry creditors			Debtors	3,00,000	1,70,000
			Stock	3,20,000	1,60,000
			Investment in 20,000 share in colonial co. Ltd at cost	2,60,000	
			Cash balance	40,000	30,000
	18,00,000	6,70,000		18,00,000	6,70,000

You are required to prepare consolidated balance sheet as on 31.12.1972 showing in detail necessary adjustments and taking into consideration the following information;

(a) Imperial co . Ltd acquired the share of co colonial co. ltd on 11.1.1992. When the balance on their profits and loss a/c and general reserves were Rs. 75,000 and Rs. 80,000 respectively.

(b) Stock of Rs. 1,60,000 held by colonial co. Ltd consists of Rs. 60,000 goods purchased from imperial co. Ltd, Who has charged profit at 25%.

20. Distinguish between capital profit and revenue profit in the context of holding company accounts.

NOVEMBER/DECEMBER 2015

UCM31/UFA31/UCP31/SCM31/SFA31/SCP32

— CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 mark**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. Define Shares.
2. What do you mean by shares issued at premium?
3. What is Ex-Interest Quotation?
4. What is Capital Redemption Reserve?
5. What is the need for calculating profit prior to incorporation?
6. What is Dividend?
7. Compute the purchase consideration to be paid by X Ltd. to Y Ltd. from the following :
   a. The shareholders of Y Ltd. are to be paid Rs. 50 in cash and offer 4 shares of Rs. 20 each in X Ltd. for every share of Y Ltd. Y Ltd. has 50,000 equity slum's outstanding.
   b. The cost of liquidation Rs. 25,000 is to be borne by X Ltd.
8. Explain members voluntary winding up.
9. Define Amalgamation.
10. Ascertain the remuneration payable to the ' liquidator from the data given below :

    Secured creditor — Rs. 50,000 (securities realised by secured creditor Rs. 60,000).

    Assets realised — Rs. 80,000.

    Liquidator remuneration — 3% on amount realised.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Pass the necessary journal entries :

    X Ltd. forfeited 100 equity shares of its. 10 each held by Mr. Akash for non-payment of Rs. 2 on first call and its. 3 on final call per share. Later they were reissued at a discount of Rs. 3.50 per share.

    Or

    (b) Y Ltd. forfeited 100 shares of Rs. 10 each at a premium of Rs. 5 per share due to non-payment of final call of Rs. 5 per share. Later they were re-issued at a discount of Rs. 4 per share. Pass journal entries.

12. (a) A company issued 1000 6% debentures of

    Rs. 100 each. They were issued at a discount of 4% but redeemable at a premium of 5%. Pass journal entry.

Or

(b) A company wishes to redeem its preference shares amounting to Rs. 1,00,000 at a premium of 5% and for this purpose it issues 5000 equity shares of Rs. 10 each at a premium of 5%. The company has also a balance of Rs. 1,00,000 on general reserve and Rs. 50,000 on profit and loss a/c Journalise.

13. (a) Describe the methods of ascertaining "Profits Prior to Incorporation".

Or

(b) Show how will you exhibit the building items in the balance sheet of a company as on 31.12.2007. Original cost of the building Rs. 4,00,000. Book value of the building 1.1.2007 Rs. 2,80,000. Depreciation to be written off at 5% of the written down value method.

14. (a) A Co. Ltd. sells its business to B Co. Ltd. as on 31.3.2008 on which date the Balance Sheet was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital :		Building	2,00,000
40,000 equity shares of		Machinery	2,63,000
Rs. 10 each	4,00,000	Furniture	70,000
General Reserve	80,000	Stock	85,500
P & L a/c	28,000	Debtors	37,500
10% Debentures	2,00,000	Cash at bank	86.000
Trade creditors	42,000	Under writing commission	8,000
	7,50,000		7,50,000

B Co. Ltd. agreed to take over the assets except cash at bank at book values. Furniture to be valued at Rs. 56,000 and to take over creditors.

The purchase consideration was discharged by the allotment at par of 2000 fully paid 12% debentures of Rs. 100 each (to be used by A Co. Ltd. to redeem its 10% debentures at par) and 40,000 fully paid equity shares of Rs. 10 each. A Co. Ltd. met the expenses) liquidation amounting to Rs. 6,000.

Prepare ledger accounts (Realisation a/c) in the books of A Co. Ltd.

Or

(b) Write a note on purchase consideration.

15. (a) The liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amount realised (excluding cash in hand) and 2% on the amount distributed to the

unsecured creditors. Unsecured creditors including preferential creditors of Rs. 5,000 amounted to Rs .40,000. Debenture holders were paid Rs. 51,875 together with interest. Preferential creditors were paid in full. Rs. 510 were spent as cost of liquidation. Cash on hand was Rs. 1,000 and assets realised was Rs. 79,000. Find out liquidator's total remuneration.

Or

(b) The following particulars relate to Manish Ltd. which went into voluntary liquidation. Unsecured creditors stood at Rs. 40,000 including Rs. 5,000 preferential claim. Secured creditors secured on machinery stood at Rs. 20,000. Cash in hand was Rs. 1,000.

The liquidator realised machinery fee Rs. 15,000 and the other assets realised Rs. 10,000. The liquidation expenses amounted to Rs. 1,000 and the liquidator's remuneration was fixed at 4% of the amount realised including cash balance and 2% of the amount distributed to unsecured creditors including preferential creditors.

Prepare liquidator's final statements o. account.

SECTION C — (3 x 10 = 30 marks)

Answer any Three Questions

16. Star Limited issued a prospectus, inviting applications for 2,00,000 shares of Rs. 10 each at a premium of Rs. 5 per share, payable as follows :

On application — Rs. 2.50 per share.

On allotment — Rs. 7.50 per share.

On first call — Rs. 4.00 per share.

On final call — Rs. 1.00 per share.

Applications were received for 3,00,000 shares and allotment was made pro-rata to the applicants of 2,40,000 shares, the remaining applications being refused. Money received in excess on the application was adjusted towards the amount due to allotment.

John, to whom 4000 shares were allotted, failed to pay allotment money on his failure to pay the first call, his shares were forfeited. Micheal the holder of 6000 shares, failed to pay the two calls and so his shares were also forfeited. All these shares were sold to Robert, credited as fully paid for Rs. 8 per share.

Pass journal entries to record the above transactions.

17. The following balances are extracted from the balance sheet of S Ltd. as on 1^{st} January 2004.

Rs.

6% Debentures	1,00,000
Debenture redemption fund	85.000
Debenture redemption fund investments (Rs. 100 value certificate)	90.000

The annual investment was Rs. 11,400. On 31st December 2004 the investments were realised at Rs. 95 each and the debentures were redeemed. The bank balance on that date was Rs. 18,300. Give ledger accounts relating to the redemption of debentures.

18. Moon Limited with an authorised capital of Rs. 5,00,000 divided into 5000 equity shares of Rs. 100 each on 31.12.2004 of which 2500 shares were fully called up. The following are the balances extracted from the ledger as on 31.12.2004.

Trial Balance

Debit,	Rs.	Credit	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	Profit & Loss a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance (Upto 31.3.05)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing director	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisements	3,800		
Bonus	10,500		
Debtors	38.700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

Additional Information :

(a) Closing stock was valued at Rs. 1,91,500.

(b) Depreciation on plant at 15% and on furniture at 10% should be provided.

(c) A tax provision of Rs 8,000 is considered necessary.

(d) The directors declared an interim divider)/ on 15.8.2004 for 6 months ending June 30, 2004 @ 6%.

Prepare Profit and Loss a/c and Balance Sheet.

19. X Company limited agreed to acquire the assets excluding cash as on 31 December 2001 of Y Ltd. The balance sheet of Y Ltd. as on that date was :

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	3,00,000	Goodwill	60,000
		Land & Building-	1,20,00
General reserve	80,000	Plant & Machinery	2,00,000
Debentures	50,000	Stock	80,000
Creditors	10,000	Debtors	30,000
Profit & Loss a/c	60,000	Cash	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 share of Rs. 10 each (Market value Rs. 12.50) in X Co. Ltd. for every shares of Y Co. Ltd.

(c) The issue of 1100 debentures of Rs. 50 each in X Co. 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. 4,000 was to be met by themselves.

Give journal entries and ledger a/c's in the books of Y Limited.

20. Mr. Sam has been appointed as liquidator of ABC Ltd. Balance Sheet at the time of liquidation on 1.1.2001 is given below :

Liabilities	Rs.	Assets	Rs.
Equity share capital (Rs. 10)	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	50,000
Loans	50,000	Sundry debtors	1,05,000
Creditors	50,000	Cash	5,000
		Profit & Loss a/c	40,000
	4,00,000		4,00,000

Fixed assets are sold for Rs. 1,20,000 to a debenture holder holding Rs. 40,000 debentures and cash is received after set off. Cash realised from debtors was Rs. 80,000 and

liquidation expenses amounted to Rs. 1,000. Liquidator is paid Rs. 1,000. Fixed allowance plus 2% commission on collections including cash in hand Rs. 5,000 as remuneration. Stock is sold for Rs. 10,000.

Prepare the liquidators final statement of accounts.

APRIL/MAY 2016

SCM31/UCM31/SFA31/UFA31/UCP31/

SCP32 — CORPORATE ACCOUNTING -1

Time ; Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is share forfeiture?
2. What do you understand by the issues of shares at discount?
3. Define Debenture.
4. Explain the meaning of redeemable preference shares.
5. What is meant by profit prior to incorporation?
6. Define Assets.
7. Give any two methods of calculating purchase consideration.
8. What is External Reconstruction?
9. What is Preferential Creditors?
10. Define Liquidation.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) The directors of R Ltd., resolved on 1st May 2000 that 200 ordinary shares of Rs. 10 each, Rs. 7.50 paid, be forfeited for non payment of) final call of Rs. 2.50. Show the entries to give effect to the above transactions.

Or

(b) Explain the provisions relating to issue of shares at premium and at discount.

12. (a) What is debenture? What are its types?

Or

(b) Goodwill Ltd., issued 1,000, 6% debentures of Rs.100 each.

Give journal entries in each of the following cases.

(i) The debenture are issued and redeemable at par.

(ii) They are issued at discount of 6%, but redeemable at par.

(iii) They are issued at premium of 5% but redeemable at par.

13. (a) X Ltd. was registered on 1.7.07 to acquire the running business of Y & Co. with effect from 1.7.07. The following was the P&L A/c of the company on 31.12.07.

P&L A/c

	Rs.		Rs.
To Office expenses	54,000	By Gross profit	2,25,000
To Preliminary expenses written off	10,000		
To Stationery	5,000		
To Selling expenses	60,000		
To Director's fees	20,000		
To Net profit	76,000		
	2,25,000		2,25,000

Ascertain the profit during the pre and post incorporation periods. The total sales for the year took place in the ratio of 1:2 before and after incorporation respectively.

Or

(b) From the following particulars, prepare profit and loss account of Justice Bank for the year ended 31^{st} March 2007 :

	Rs.
Interest on deposits	6,400
Commission (Cr.)	200
Interest on loans	4,980
Sundry charges (Dr.)	200
Rent and taxes	400
Payment to employees	1,000
Discount on bills discounted	2,980
Interest on overdrafts	3,200
Interest on cash credit	4,640
Auditor's fees	70
Director's fees	32
Bad debts to be written off	600

14. (a) What are the merits of amalgamation?

Or

(b) A limited agrees to take over the business of B limited on the following terms.

(i) The shareholders of B limited are to be) paid Rs. 25 in cash and the offer of four shares of Rs. 10 each in A limited for every share of B limited. B limited has 50,000 equity shares outstanding.

(ii) The debenture holders holding 5,000 debentures of Rs. 100 each are to be redeemed at a premium of 10%.

(iii) Costs of liquidation amounting to Rs. 25,000 are to be borne by A limited.

Calculate the purchase consideration.

15. (a) Explain the different types of liquidation.

Or

(b) State liquidator's final statement of account.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. (a) A company forfeits 100 shares of Rs. 10 each at Rs. 11 per share. The premium was payable on allotment. The shareholder failed to pay the allotment money of Rs. 3 per share and second and final call Rs. 5 per share: Pass the journal entry.

(b) A company forfeits 100 shares of Rs. 10 each issued at Rs. 9 per share on account of non-payment of Rs. 4 per share by the shareholder. Pass the journal entry.

17. A Company issued Rs. 2,00,000 in 5% debentures of Rs. 100 each at par. Repayable at the end of 5 years at a premium of 6%. A Sinking fund at 4% compound interest is created for redemption of debentures.

You are required to prepare Sinking fund account and Sinking Fund Investment account for 5 years (Re. 1 per year at 4% compound interest amount to Rs. 5.4163 in 5 years).

18. Moon Ltd is a company with an authorized capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.2003 which 2,500 shares .were fully called up.

The Trial balance of Moon Ltd.

	Rs.		Rs.
Opening Stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	P and L a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance(up to 31.3.2004)	6,720	Reserves	25,000
		Loans from managing director	15,700
Salaries	18,500		
Rent	6,000	Share capital	2,50,000

General expenses	8,950		
Printing	2,400		
Advertisement	3,800		
Bonus	10,500		
Debtors	38,700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls in arrears	5,000		
	6,60,270		6,60,270

You are required to prepare P& L a/c for the year ended 31.12.2003.

Additional information :

(a) Closing stock Rs. 1,91,500

(b) Depreciation on plant - 15%

Depreciation of furniture - 10%

(c) Tax provision Rs. 8,000

(d) The directors declared an interim dividend on 15.8.2003 for six months ending June 30, 2003 @ 6%.

19. M Ltd., & N Ltd., agreed to amalgamated on the basis of the following Balance Sheets as on31.3.97.

	M	N		M	N
	Rs.	Rs.		Rs.	Rs.
Share capital Rs. 25 each	75,000	50,000	Goodwill	30,000	–
			Fixed assets	31,500	38,800
P&L a/c	7,500	2,500	Stock	15,000	12,000
Creditors	3,500	3,500	Debtors	8,000	5,200
Depreciation fund	–	2,500	Bank	1,500	2,500
	86,000	58,500		86,000	58,500

The assets and liabilities are to be taken over, by a new company formed called ‘P’ Ltd., at book values. P Ltd.’s share capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs. 10 each and 10,000, 9% preference shares of Rs. 10 each.

P Ltd., issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price. Pass journal entries in the books of ‘P’ Ltd.

20. Explain the duties of liquidator.

SYLLABUS

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com (Applied) Syllabus under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE – IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure in corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issue of shares, application, allotment, calls, calls-in-arrears, calls-in-advance, issue of shares at premium- issue of shares at discount- forfeiture of shares - re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debentures- instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy.

Redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Accounts of Holding company - legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com (Bank Management) Syllabus under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE - IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issues of shares, applications, allotment, calls,calls-in-arrears, calls-in-advance, issue of shares at premium-issue of shares at discount- forfeiture of shares-re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debenture- in instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy and redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Holding company account – legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com Programme – Course Structure under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE – IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure in corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issue of shares, application, allotment, calls, calls-in-arrears, calls-in-advance, issue of shares at premium- issue of shares at discount- forfeiture of shares - re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debentures- instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy.

Redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Accounts of Holding company - legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com (Computer Applications) Syllabus under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE – IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure in corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issue of shares, application, allotment, calls, calls-in-arrears, calls-in-advance, issue of shares at premium- issue of shares at discount- forfeiture of shares - re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debentures- instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy.

Redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Accounts of Holding company - legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

PERIYAR UNIVERSITY

Degree of bachelor of commerce

Choice based credit system Syllabus for b.com

For the students admitted from the academic year 2017 – 2018 onwards

Semester-III Paper - XIV

CORPORATE ACCOUNTING-I

Subject Code: XXXX

OBJECTIVEs:

- To enlighten the students on the accounting procedures followed by the company.
- To enable the students to be aware on the Corporate Accounting in conformity with the provisions of the Companies Act.

UNIT – I

Equity Shares: Meaning-definition- Features- Issue at Par, at Premium and at Discount – Under Subscription, Over Subscription- call in arrears, call in advance-Forfeiture and Re-issue.

UNIT – II

Preference shares: Issue of preference shares - kinds of preference shares- advantages & disadvantages of preference shares, provisions relating to redemption of preference shares, capital profits and revenue profits. Redemption out of Revenue Reserves and Fresh issue of Bonus shares.

UNIT – III

Debentures: Meaning- definition-classification- difference between shares and Debentures- Factors to be considered in relation to redemption of debentures- Various Methods of Redemption, Writing off discount on Redemption of debentures.

Unit -IV

Underwriting of Shares: Marked, Unmarked & Firm underwriting, Complete underwriting, partial underwriting.

Valuation of Goodwill and shares- meaning, Need for valuation-methods of valuation of shares. Net assets method- yield method- fair value method.

UNIT – V

Profits prior to Incorporation: Apportionment of expenses-various types-Pre - incorporation, Post-incorporation - Preparation of Final accounts of companies. Company Balance Sheet - Computation of Managerial Remuneration.

Note: Distribution of marks: Problems 80% and Theory 20%

SEMESTER - IV

PAPER - XXI

CORPORATE ACCOUNTING -II

Subject Code: XXXX

OBJECTIVEs:

- To equip the students with accounting methods formatted from inception to liquidation and to have knowledge about Amalgamation , Absorption and Reconstruction.
- To lay down a foundation for drafting accounts for special corporate bodies such as banking companies and holding companies.

UNIT – I

Amalgamation as per AS-14, absorption and external reconstruction, Types of amalgamation, Methods of accounting for amalgamation. Computation of purchase consideration.

UNIT – II

Alteration of share capital- meaning. Different ways of alteration of share capital. Internal reconstruction- meaning, Procedure for reducing share capital. Liquidator's final statement of accounts. - Meaning, amount realized and payment of various liabilities. Calculation of liquidator's remuneration.

UNIT – III

Accounts of Banking Companies - Meaning, Legal Requirements for Preparation of Profit And Loss Account. Guidelines for profit and loss account. Balance sheet format as per form A (New Format). Nonperforming assets.

UNIT – IV

Accounts of Insurance Companies Life, Fire and Marine- (New format).

UNIT – V

Accounts of Holding Companies - Meaning, definition, capital profit, minority interest. Revenue profit, capital reserve. Goodwill, Unrealised profit. (Excluding intercompany holdings)

Note: Distribution of marks: Problems 80% Theory 20%

APPENDIX-17(R & S)

UNIVERSITY OF MADRAS

(With effect from the academic year 2016-2017)

B.Com. Degree Course

III SEMESTER

Core Paper V - CORPORATE ACCOUNTING

OBJECTIVEs **NO OF CREDITS : 4**

- To enable the students about the Preparation of the Company accounts.
- To motivate the students to understand the various Provisions of the Companies Act.

UNIT – I : Share Capital

Issue of Shares - Types of Shares - Forfeiture of shares - Reissue of shares - Underwriting of shares - Stock spilit - Meaning of Redemption - Redemption of Preference Shares.

UNIT – II : Debentures & Acquisition of Business

Meaning - Types of Debentures - Issue - Underwriting of Debentures - Redemption of Debentures. Acquisition of Business - Meaning - Profit Prior to Incorporation.

UNIT – III : Final Accounts

Final Accounts - Preparation of P & L A/c and Balance Sheet – Managerial Remuneration- Calculation and Legal Provisions.

UNIT – IV : Valuation of Shares and Goodwill

Valuation of Shares and Goodwill - Meaning - Methods of Valuation of Shares and Goodwill.

UNIT – V : Alteration of Share Capital

Meaning - Internal Reconstruction - Reduction of Share Capital.

Note : Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

IV SEMESTER

Core Paper IX - ADVANCED CORPORATE ACCOUNTING

OBJECTIVES **NO OF CREDITS : 4**

- To make the students understand the applications of Accounting Transactions in Corporate Sector.
- To facilitate the students to understand the Provision of the Indian CompaniesAct.

UNIT – I : Company Accounts

Amalgamation, Absorption and External Reconstruction of Companies.

UNIT – II : Holding Company

Holding Company - Subsidiary Company - Meaning - Preparation of Consolidated Final Statement of Accounts - Treatment of Dividend. (Inter - Company Owing excluded)

UNIT – III : Banking Company & Insurance Company

Preparation of - Final Accounts of Banking Insurance Companies.

UNIT – IV : Liquidation

Meaning - Preparation of Liquidator's Final Statement of Account - Calculation of Liquidator's Remuneration.

UNIT – V : Special Accounting

Accounting for Price Level Changes - Human Resource Accounting – Computrised Accounting Meaning.

Note : Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

MANONMANIAM SUNDARANAR UNIVERSITY TIRUNELVELI

CHOICE BASED CREDIT SYSTEM

COURSE STRUCTURE FOR B.Com., Professional Accounting

(With effect from the Academic Year 2016-2017 onwards)

II B. Com., Professional Accounting (IV Semester) – Under CBCS

Part V EXTENSION ACTIVITIES – NSS/NCC/YRC/YWF

III B. Com., Professional Accounting (V Semester) – Under CBCS

Part III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING I

UNIT – I

Issue of shares- Issue at par, Premium and discount- Forfeiture and Re-issue of shares – Pro rata allotment- Redemption of preference shares. Issue of debentures.

UNIT – II

Final Accounts of Companies as per Schedule II of Companies Act 2013 – excluding managerial remuneration.

UNIT – III

Amalgamation, Absorption and External Reconstruction - Methods of Purchase consideration. (Simple Problems only)

UNIT – IV

Profit Prior to Incorporation- Alteration of share capital and Internal Reconstruction.

UNIT – V

Valuation of Goodwill and Shares- various methods of valuation of goodwill and shares.

III B. Com., Professional Accounting (VI Semester) – Under CBCS

Part- III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING II

UNIT – I

Liquidator's final statement of Accounts.

UNIT – II

Accounts of Banking Companies – Rebate on Bills discounted- Final Accounts.

UNIT – III

Double Account System- Accounts of Electricity companies - Replacement of Asset - Calculation of Reasonable Return- Disposable of surplus.

UNIT – IV

Holding companies- Preparation of Consolidated balance sheet

UNIT – V

Human Resource accounting – OBJECTIVEs- Methods of Human Resource Value Accounting- Social Responsibility Accounting.

MANONMANIAM SUNDARANAR UNIVERSITY TIRUNELVELI

CHOICE BASED CREDIT SYSTEM

COURSE STRUCTURE FOR B.Com

(With effect from the Academic Year 2016-2017 onwards)

II B. Com (IV Semester) – Under CBCS

Part V EXTENSION ACTIVITIES – NSS/NCC/YRC/YWF

III B. Com (V Semester) – Under CBCS

Part III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING I

UNIT – I

Issue of shares- Issue at par, Premium and discount- Forfeiture and Re-issue of shares – Pro rata allotment- Redemption of preference shares. Issue of debentures.

UNIT – II

Final Accounts of Companies as per Schedule II of Companies Act 2013 – excluding managerial remuneration.

UNIT – III

Amalgamation, Absorption and External Reconstruction - Methods of Purchase consideration. (Simple Problems only)

UNIT – IV

Profit Prior to Incorporation- Alteration of share capital and Internal Reconstruction.

UNIT – V

Valuation of Goodwill and Shares- various methods of valuation of goodwill and shares.

III B. Com (VI Semester) – Under CBCS

Part- III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING II

UNIT – I

Liquidator's final statement of Accounts.

UNIT – II

Accounts of Banking Companies – Rebate on Bills discounted- Final Accounts.

UNIT – III

Double Account System- Accounts of Electricity companies - Replacement of Asset - Calculation of Reasonable Return- Disposable of surplus.

UNIT – IV

Holding companies- Preparation of Consolidated balance sheet

UNIT – V

Human Resource accounting – OBJECTIVEs- Methods of Human Resource Value Accounting- Social Responsibility Accounting.

ALAGAPPA UNIVERSITY, KARAIKUDI

NEW SYLLABUS UNDER CBCS PATTERN (w.e.f.2014-15)

B.COM – PROGRAMME STRUCTURE

III YEAR – V SEMESTER

COURSE CODE: 4BCO5C1

CORE COURSE XIII – CORPORATE ACCOUNTING

UNIT – I

Issue of shares – Issue of debentures – Underwriting of shares and debentures – Redemption of debentures – Redemption of preference shares

UNIT – II

Acquisition of business – Profits prior to incorporation.

UNIT – III

Final accounts of companies

UNIT – IV

Amalgamation, Absorption and External Reconstruction of Companies – Alteration of share capital and Internal Reconstruction

UNIT – V

Valuation of goodwill and shares of companies – Liquidation of Companies (Liquidator's final statement of accounts only)

BHARATHIARUNIVERSITY, COIMBATORE:641 046

B.Com.(Bachelor of Commerce)

(revised papers with effect from 2015-16 onwards)

SEMESTER - IV

CORPORATE ACCOUNTING – I

SUBJECT DESCRIPTION :

This course aims to enlighten the students on the accounting procedures followed by the Companies.

GOALS :

To enable the students to be aware on the Corporate Accounting in conformity with the provision of the Companies Act.

OBJECTIVES :

After the successful completion of the course the student should have a through knowledge on the accounting practice prevailing in the corporate.

UNIT – I

Issue of shares : Par , Premium and Discount - Forfeiture - Reissue – Surrender of Shares – Right Issue - Underwriting

UNIT – II

Redemption of Preference Shares. Debentures – Issue – Redemption : Sinking Fund Method.

UNIT – III

Final Accounts of Companies - Calculation of Managerial Remuneration.

UNIT – IV

Valuation of Goodwill and Shares – Need – Methods of valuation of Goodwill and Shares.

UNIT – V

Liquidation of Companies - Statement of Affairs -Deficiency a/c.

NOTE Distribution of Marks : Theory - 20% Problems - 80%

SEMESTER - V

CORPORATE ACCOUNTING - II

SUBJECT DESCRIPTION:

This course aims to enlighten the students on the accounting procedures followed by the Companies.

GOALS :

To enable the students to be aware on the Advanced Corporate Accounting in conformity with the provision of the Companies Act.

OBJECTIVES :

After the successful completion of the course the student should have a through knowledge on the Advanced Accounting Practice prevailing in the Corporates.

UNIT – I

Accounting for Mergers and Amalgamation – Absorption and External Reconstruction

UNIT – II

Holding Company Accounts - Consolidation of Balance Sheets with treatment of Mutual Owings, Contingent Liability, Unrealized Profit, Revaluation of Assets, Bonus issue and payment of dividend (Inter Company Holdings excluded).

UNIT – III

Banking Company Accounts - Preparation of Profit and Loss Account and Balance Sheet (New format only) - Rebate on Bills Discounted - Classification of Advances - Classification of Investments.

UNIT – IV

Insurance Company accounts: General Insurance and Life Insurance - Under IRDA 2000

UNIT – V

Statements of Accounts for Electricity Companies – Treatment of Repairs and Renewals - Accounting Standards – Financial Reporting Practice (Theoretical Aspects)

NOTE Distribution of Marks : Theory - 20% Problems - 80%

BHARATHIAR UNIVERSITY : COIMBATORE-641 046

B.Com. (Bachelor of Commerce)

(For the students admitted during the academic year 2016-17 and onwards)

SEMESTER - IV

CORPORATE ACCOUNTING - I

SUBJECT DESCRIPTION :

This course aims to enlighten the students on the accounting procedures followed by the Companies.

GOALS :

To enable the students to be aware on the Corporate Accounting in conformity with the provision of the Companies Act.

OBJECTIVES :

After the successful completion of the course the student should have a through knowledge on the accounting practice prevailing in the corporate.

UNIT – I

Issue of shares : Par , Premium and Discount - Forfeiture - Reissue – Surrender of Shares – Right Issue - Underwriting

UNIT – II

Redemption of Preference Shares. Debentures – Issue – Redemption : Sinking Fund Method.

UNIT – III

Final Accounts of Companies(new format) - Calculation of Managerial Remuneration.

UNIT – IV

Valuation of Goodwill and Shares – Need – Methods of valuation of Goodwill and Shares.

UNIT – V

Liquidation of Companies - Statement of Affairs -Deficiency a/c.

NOTE Distribution of Marks : Theory - 20% Problems - 80%

THIRUVALLUVAR UNIVERSITY

BACHELOR OF COMMERCE

B.COM. (GENERAL)

DEGREE COURSE

CBCS PATTERN

(With effect from 2012-2013)

SEMESTER III

PAPER - 5

CORPORATE ACCOUNTING - I

OBJECTIVE:

To gain comprehensive understanding of all aspects relating to corporate accounting.

UNIT – I

Issue of Shares – at Par, Premium and Discount – Pro-rata Allotment – Forfeiture and Reissue of Shares

UNIT – II

Issue of Debentures – Redemption of Debentures with and without Provisions – Redemption of Preference Shares.

UNIT – III

Acquisition of Business – Profit Prior to Incorporation – Final Accounts (ManagerialRemuneration Excluded)

UNIT – IV

Amalgamation, Absorption and External Reconstruction: Purchase Consideration – Methods – Amalgamation in the Nature of Merger and Purchase – Absorption – ASI4 – Alteration of Share Capital – Reduction of Share Capital (Scheme of Capital Reduction is Excluded).

UNIT – V

Liquidation Accounting – Order of Payments – Preferential Payments – Liquidators Final Statement of Account – Remuneration – Statement of Affairs and Deficiency Accounts

(Weightage of Marks = Problems - 80%, Theory - 20%)

SEMESTER IV

PAPER – 9

CORPORATE ACCOUNTING – II

OBJECTIVE:

To gain accounting knowledge in advanced corporate accounting.

UNIT – I

Valuation of Goodwill – Need – Factors Effecting the Valuation – Methods – Average Profit, Super Profit, Annuity and Capitalization Methods, Valuation of Shares: Need – Factors Effecting the Valuation – Net Asset, Yield and Fair Value Methods.

UNIT – II

Accounts of Holding Companies – Minority Interest – Cost of Control – Elimination of Common Transactions – Unrealized Profits – Revaluation of Assets and Liabilities – Bonus Shares –Consolidated Balance Sheet (Inter Company Investment Excluded)

UNIT – III

Bank Accounts: Rebate on Bills Discounted, Interest on Doubtful Debts, Preparation of Profit and Loss Account and Balance Sheet with Relevant Schedules (New Method) – Non-performing Assets (NPA)

UNIT – IV

Insurance Company Accounts: Life Insurance – Revenue Account, Valuation Balance Sheet and Balance Sheet (New Method). General Insurance - Fire and Marine Revenue Account, Profit and Loss Appropriation Account and Balance Sheet (New Method)

UNIT – V

Inflation Accounting (Accounting for Price Level Changes) – Limitations of Historical Accounting – Current Purchasing Power Method – Current Cost Accounting Method – Hybrid Method. (Simple Problems Only)

(Weightage of Marks - Problems - 80%, Theory - 20%)

TABLE OF CONTENT

UNIT – 1 : ISSUE OF SHARES

UNIT – 2 : UNDERWRITING OF SHARES

UNIT – 3: REDEMPTION OF PREFERENCE SHARES

UNIT – 4 : ISSUE AND REDEMPTION OF DEBENTURES

UNIT – 5 : PROFITS PRIOR TO INCORPORATION

UNIT – 6 : FINAL ACCOUNTS OF COMPANIES

UNIT – 7 : VALUATION OF GOODWILL AND SHARES

UNIT – 8 : INTERNAL RECONSTRUCTION

UNIT – 9: AMALGAMATION, ABSORPTION AND RECONSTRUCTION

UNIT – 10 : LIQUIDATORS FINAL STATEMENT OF ACCOUNTS

UNIT – 11 : BANKING COMPANY ACCOUNTS

UNIT – 1

ISSUE OF SHARES

Company – Types-Shares – Types – Share Capital – Types – Face value – Equal subscription – Over subscription – Premium value – Forfeiture and reissue – Face value – Premium value – allotment money not given – Allotment money not given – Face value – Premium value – Over subscription – Face value – Pro-rata allotment – Over subscription – Premium value – Under subscription – Discount value – Forfeiture and reissue

The company is the third form of business organization where there is no restriction for maximum number of members. It should be registered under Companies Act 1956. It has many special features like legal status, perpetual succession, common seal, limited liability, separation of ownership and management, etc.

1.1 DEFINITION OF COMPANY

Sec. 3(1) of the Companies Act 1956 defines a company as "a company formed and registered under this Act or an already existing company". An existing company means a company formed and registered under any of the previous Companies Act.

1.2 TYPES OF COMPANY

TYPES OF COMPANY

FORMATION	LIABILITY	PUBLIC INVESTMENTS
1. CHARTER	1. LTD. BY SHARES	1. PRIVATE
2. STATUTARY	2. LTD. BY GUARTANTEE	2. PUBLIC
3. REGISTERED	3. UNLIMITED	3. FOREGIN
		4. HOLDING
		5. SUBSIDAIRY

A. ON THE BASIS OF FORMATION

1. Chartered Company

In olden days, the king gave a charter to start a company. Those companies which were started after getting such permission from ruling kingdom is called chartered company. E.g. East India Company

2. Statutory Company

Those companies which were formed by their specific statute are called statutory companies. E.g. LIC. Rules and regulations regarding their each and every activity are governed by that special Act.

3. Registered Company

A company incorporated under the Companies Act 1956 or earlier Companies Act is called registered company.

B. ON THE BASIS OF LIABILITIES

1. Company Limited by Shares

When the liability of shareholders of a company is limited to their value of share holdings, then it is called limited company. Though the liability of the company is more the shareholders are required to pay only the remaining amount unpaid on their holdings.

2. Companies Limited by Guarantees

When the share holders of a company accept to give a guarantee amount over and above their share holdings it is called companies limited by guarantees. But such guarantee amount should be payable only at the time of liquidation of the company.

3. Unlimited Company

This type of company is not found elsewhere. The liability of its shareholder are unlimited i.e. they have to pay necessary amount to settle company's liabilities over their shareholding value.

C. ON THE BASIS OF PUBLIC INVESTMENTS

1. Private Company

Private company is a company which by its Articles,

- can make no invitation to the public for its shares or debentures
- cannot have more than 50 members
- restricts the right to transfer shares

2. Public Company

A company which is not a private company is called public company.

3. Foreign Company

When the register office of a company is situated in foreign country then it is called foreign company.

4. Holding Company

A company which acquires more than 50% of shares of another company is called holding company.

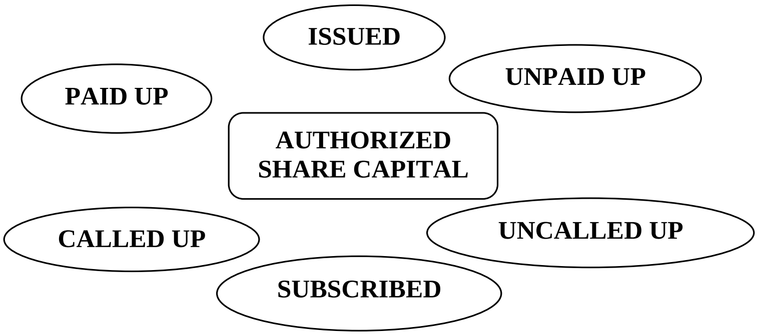
5. Subsidiary Company

A company which gives more than 50% of shares to another company is called subsidiary company.

1.3 MEANING OF SHARE CAPITAL

The company needs money to run its business. It collects the required amount from the public by issue of shares. The total amount required to run the business is called share capital. The following are the different types of share capital.

1.4 TYPES OF SHARE CAPITAL



Authorized Share Capital

The maximum amount of share capital that a company can collect during its life time is called authorized share capital. It cannot be changed in future. Proper permission should be obtained from controller of capital issues regarding authorized capital.

Issued Share Capital

That part of the authorized share capital which is issued to the public by the company is called issued share capital.

Subscribed Share Capital

That part of the issued share capital actually subscribed by the public is called subscribed share capital.

Called up Share Capital

That part of the subscribed capital which is actually called up by the company is called up capital.

Uncalled up Share Capital

That part of the subscribed capital which is not actually called up by the company is uncalled up share capital.

Paid up Share Capital

That part of the called up capital which is actually paid by the public is called paid up share capital.

Unpaid up Share Capital

That part of the called up capital which is not actually paid by the public is called unpaid up share capital.

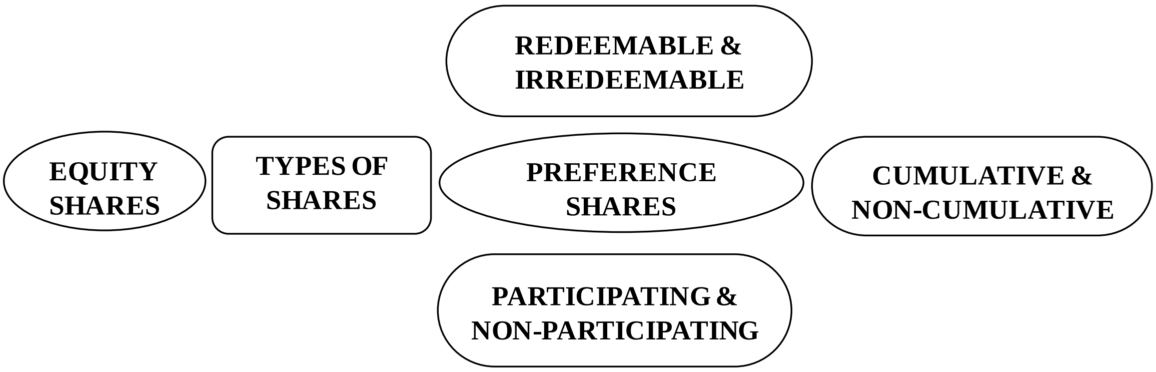
Reserve Capital

The company maintains not to call amount for a portion of share capital. This amount is called up by the company only at the time of emergency or liquidation. It is called reserve capital.

1.5 MEANING OF SHARE

The share capital is divided into small part of uniform value. Each unit is called share. The person who purchases shares from the company is called share holder and he will be considered as owner of the company.

1.6 TYPES OF SHARES



Equity Share

A share which has no preferential rights is called equity share or ordinary share. Rate of dividend is decided by the directors in every year according to the availability of profits and so it is not fixed.

Preference Share

A share which has preferential rights regarding payment of dividend and repayment of capital is called preference share. Rate of dividend is fixed and it is calculated on nominal value of shares.

Redeemable and Irredeemable

Shares which can be get back by the company after the expiry of specified period is called redeemable preference shares. A share which cannot be got back by the company during the life of company is called irredeemable preference share.

Cumulative and Non-cumulative

A company paid dividend only when sufficient profit is available. Dividend for any year is not declared by a company it will be treated as arrear. The arrear dividend of last year is paid

along with current year dividend then it is called cumulative preference shares. If the arrear dividend of one year will not be payable in future it is called non-cumulative preference dividend.

Participating and non-participating preference shares

After paying dividend to preference shareholders and equity share holders, there may be some surplus profit in the company. Those shares which have the right to share such remaining profits of the company are called participating preference shares. Those shares which do not have the right to share the remaining profits of the company are called non-participating preference shares.

1.7 PROSPECTUS

Any document which invites deposits from the public for purchase of shares or debentures of a company is called prospectus.

1.8 APPLICATION MONEY

The company through advertisement and other media invites the public to subscribe the shares. The interested public makes an application for shares along with application money. The application money should be at least 5% of the face value of shares. All the application money received from the public will be maintained in a scheduled bank account.

Journal Entries	
For application money received	**For transferring share application money**
Bank a/c Dr	Share Application a/c Dr
To Share Application a/c	To Share Capital a/c
For rejecting excess application money	**For adjusting excess application money**
Share Application a/c Dr	Share Application a/c Dr
To Bank a/c	To Share Allotment a/c

1.9 MINIMUM SUBSCRIPTION

The company should fix a minimum amount required to be raised through the issue of share capital. Such amount is required in order to meet the purposes specified in clause 5 of schedule II of the Companies Act. This is known as minimum subscription which is stated in the prospectus. If the amount received through the application money is not reached this limit, then no allotment shall be made by the company.

1.10 ALLOTMENT MONEY

After receiving the applications with allotment money from the public, the directors should scrutinize them. They have the full liberty to allot or reject the applications. The company calls further amount to confirm the allotment for the selected applications. If the applications are not selected, then the company should sent letter of regret along with the application money to be returned to applicant.

Journal Entry for allotment money due (Any one of a/b/c)		
(a)Face value Share Allotment a/c Dr To Share Capital	***(b)Premium value*** Share Allotment a/c Dr To Share Capital To Securities Premium	***(c)Discount value*** Share Allotment a/c Dr Share Discount a/c Dr To Share Capital a/c
For receiving share allotment money Bank a/c Dr To Share Allotment a/c		

1.11 CALL MONEY

After receiving application and allotment money, the company will receive the balance amount in two or three instalments. Each instalment is called call money. Shareholders are required to pay call money when the company makes a demand for it.

Journal Entries	
For call money due Share Particular Call a/c Dr To Share Capital a/c	**For receiving call money** Bank a/c Dr To Share Particular Call a/c

1.12 CALLS IN ARREARS

Sometimes the share holders failed to pay the amount which is called up by the company within the specified time limit. Such amount is called calls in arrears. The company should charge 5% interest per annum for calls in arrears.

For Calls in Arrears
Calls in Arrears a/c Dr
To Share Particular Call a/c

1.13 CALLS IN ADVANCE

The company has the right to receive the call money well in advance from the share holders if it is permitted by the Articles. Such amount is called calls in advance. It should be maintained in a separate account. The company will give interest at a rate not exceeding 6% p.a. for calls in advance.

For Calls in Advance
Bank a/c Dr
To Calls in Advance a/c

Format of Ledger Accounts

Bank Account

Particulars	**Amount**	**Particulars**	**Amount**
To Share application a/c	xxx	By Share application a/c	xxx
" Share allotment a/c	xxx	" Balance c/d (b/f)	xxx
" Share first call a/c	xxx		
" Share final call a/c	xxx		
" Share capital a/c (Forfeiture)	xxx		
" Calls in advance a/c	xxx		
	xxx		xxx

Share Capital Account

Particulars	**Amount**	**Particulars**	**Amount**
To Share forfeiture a/c	xxx	By Share application a/c	xxx
" Share capital a/c	xxx	" Share allotment a/c	xxx
		" Share first call a/c	xxx
		" Share final call a/c	xxx
		" Bank a/c	xxx
		" Share forfeiture a/c	xxx
	xxx		xxx

Balance Sheet

Liabilities	**Amount**	**Assets**	**Amount**
Share Capital xxx		Bank a/c	xxx
(+)Share forfeiture xxx	xxx	Share discount a/c	xxx
Securities premium a/c	xxx		
Share capital reserve	xxx		
	xxx		xxx

1.14 FACE VALUE

When the shares are issued to the public at its original price or the price which is quoted in the share certificate, then the issue is said to be at face value. It is otherwise called par value or nominal value. For e.g. when a share of ₹10 is issued by the company at ₹10 only then the issue is known as face value.

1.15 EQUAL SUBSCRIPTION

When the no. of shares issued by company and the no. of shares subscribed by the public are equal it is called equal subscription.

Method of subscription	Issued	Applied	Allotted
Equal	10,000 shares	10,000 shares	10,000 shares

Illustration -1 SK Ltd. issued 1,000 equity shares of ₹100 each payable ₹20 on application, ₹40 on allotment and ₹40 on call. All the shares subscribed and the amount duly received. Pass journal entries to give effect to these.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (1,000 x 20)	Dr	20,000	
To Share Application a/c			20,000
(Being application money received)			
Share application a/c	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share allotment a/c	Dr	40,000	
To Share capital			40,000
(Being allotment money due 1,000 x 40)			
Bank a/c	Dr	40,000	
To Share allotment a/c			40,000
(Being allotment money receiving)			
Share call a/c	Dr	40,000	
To Share capital a/c			40,000
(Being call money due 1,000 x 40)			
Bank a/c	Dr	40,000	
To Share call a/c			40,000
(Being call money received)			

Illustration -2 A Ltd. issued 10,000 shares to the general public. Share value of ₹10 will be collected as follows: On application ₹2; on allotment ₹4; on first and second call ₹2 each. All the shares are subscribed by the public. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (10,000 x 2)	Dr	20,000	
To Share application a/c			20,000
(Being application money received)			
Share application a/c	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share allotment a/c	Dr	40,000	
To Share capital			40,000
(Being allotment money due 10,000 x 4)			
Bank a/c	Dr	40,000	
To Share allotment a/c			40,000
(Being allotment money received)			
Share I call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 10,000 x 2)			
Bank a/c	Dr	20,000	
To Share I call a/c			20,000
(Being call money received)			
Share Final call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 10,000 x 2)			
Bank a/c	Dr	20,000	
To Share Final call a/c			20,000
(Being call money received)			

1.16 OVER SUBSCRIPTION

When the shares subscribed by the public are more than the shares issued by company it is called over subscription. The surplus amount may be rejected to the applicants or adjusted with allotment money in case of pro-rata allotment.

Method of subscription	**Issued**	**Applied**	**Allotted**
Over	10,000 shares	15,000 shares	10,000 shares

Treatment of Excess Application

Particulars	Amount
Total shares applied	xxx
(-)Total shares allotted	xxx
	xxx
Less: Rejected/Refunded	xxx
	xxx
Transferred to share allotment	xxx

1.17 PRO-RATA ALLOTMENT

In case of over subscription, the no. of shares applied is more than the no. of shares issued. It is not possible by the company to allot the full no. of shares applied to all the applicants. The company may reject the surplus applications. Otherwise it will allot the no. of shares issued to all the applicants in proportionately. By doing this all the shareholders are allotted some less no. of shares than the actual no. of shares applied. This process is known as pro-rata allotment.

Pro-rata allotment

Particulars	Amount
Total shares applied	xxx
Less: Rejected	xxx
	xxx
Less: Full allotment	xxx
Applied	xxx
Allotted	xxx

Illustration -3 A limited company issued 10,000 shares of ₹100 each payable as under: ₹20 on application, ₹30 on allotment, ₹50 on first and final call. The public applied for 11,000 shares. Allotment was made for 10,000 shares and the amount due on 1,000 shares returned to the applicants. All moneys were received. Pass journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (11,000 x 20)	Dr	2,20,000	
To Share Application a/c			2,20,000
(Being application money received)			

Share application a/c (10,000 x 20)	Dr	2,00,000	
To Share capital a/c			2,00,000
(Being appl. money transferred)			
Share Application a/c (1,000 x 20)	Dr	20,000	
To Bank a/c			20,000
(Being application money returned)			
Share allotment a/c	Dr	3,00,000	
To Share capital			3,00,000
(Being allotment money due)			
Bank a/c	Dr	3,00,000	
To Share allotment a/c			3,00,000
(Being allotment money received)			
Share first and final call a/c	Dr	5,00,000	
To Share capital a/c			5,00,000
(Being call money due 10,000 x 50)			
Bank a/c	Dr	5,00,000	
To Share first and final call a/c			5,00,000
(Being call money received)			

Illustration -4 A company with an authorized capital of ₹25 Lakhs issued a prospectus inviting applications for 1 Lakhs shares of ₹10 each and the terms of payment: On application – ₹5; on allotment - ₹2.50 and on first and final call ₹2.50.

The company's offer was oversubscribed by 10,000 shares. The amount due on allotment was received in full. Excess share application money was returned. There were calls in arrears to the tune of ₹50,000 for first and final call. Sundry assets were purchased for ₹1,50,000 by issue of shares to the vendors. Pass journal entries for the above transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (1,10,000 x 5)	Dr	5,50,000	
To Share Application a/c			5,50,000
(Being application money received)			
Share application a/c (1,00,000 x 5)	Dr	5,00,000	

To Share capital a/c			5,00,000
(Being appl. money transferred)			
Share Application a/c (10,000 x 5)	Dr	50,000	
To Bank a/c			50,000
(Being application money returned)			
Share allotment a/c (1,00,000 x 2.50)	Dr	2,50,000	
To Share capital			2,50,000
(Being allotment money due)			
Bank a/c	Dr	2,50,000	
To Share allotment a/c			2,50,000
(Being allotment money received)			
Share first and final call a/c	Dr	2,50,000	
To Share capital a/c			2,50,000
(Being call money due 1,00,000 x 2.50)			
Bank a/c (2,50,000 – 50,000)	Dr	2,00,000	
Calls in arrears a/c (b/f)	Dr	50,000	
To Share first and final call a/c			2,50,000
(Being call money received)			
Sundry assets a/c	Dr	1,50,000	
To Vendor a/c			1,50,000
(Being assets purchased)			
Vendor a/c	Dr	1,50,000	
To Share capital a/c			1,50,000
(Being shares allotted)			

1.18 PREMIUM VALUE

When the shares are issued to the public at a price which is more than the face value, it is called premium value. For e.g. when a share of ₹10 is issued by the company at ₹12 then the issue is known as premium value. The difference between the face value and issue price i.e. ₹2 is called premium. The premium amount is used for the following purposes only.

1. For writing down the fictitious assets appearing in the balance sheet.
2. For providing the share premium payable on the redemption of redeemable preference shares or debentures.
3. For issuing fully paid bonus shares
4. For writing off preliminary expenses

Illustration -5 F Limited issued 2,00,000 equity shares of ₹10 each at ₹12 per share. Terms of payment being: ₹2 on application, ₹5 on allotment, including premium, ₹3 on first call and ₹2 on second call. Make journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (2,00,000 x 2)	Dr	4,00,000	
To Share Application a/c			4,00,000
(Being application money received)			
Share application a/c	Dr	4,00,000	
To Share capital a/c			4,00,000
(Being application money transferred)			
Share allotment a/c (2,00,000 x 5)	Dr	10,00,000	
To Share capital			6,00,000
To Share premium a/c (2,00,000 x 2)			4,00,000
(Being allotment money due)			
Bank a/c	Dr	10,00,000	
To Share allotment a/c			10,00,000
(Being allotment money received)			
Share I call a/c	Dr	6,00,000	
To Share capital a/c			6,00,000
(Being call money due 2,00,000 x 3)			
Bank a/c	Dr	6,00,000	
To Share I call a/c			6,00,000
(Being call money received)			
Share final call a/c	Dr	4,00,000	
To Share capital a/c			4,00,000
(Being call money due 2,00,000 x 2)			
Bank a/c	Dr	4,00,000	
To Share final call a/c			4,00,000
(Being call money received)			

1.19 FORFEITURE AND REISSUE

Share forfeiture is the process of cancelling the shares from a particular share holder for non-payment of any amount due to the company. After the forfeiture, the share holder loses his

capacity as a shareholder and the company will not repay the amount which was already paid by him. These shares can be reissued at a discount to any person including the person who already had it. But the discount amount should not exceed the money already received on forfeited shares.

Journal Entries

For forfeiture of shares	For re-issue of forfeited shares
Share Capital a/c Dr	Bank a/c Dr
To Share Forfeiture a/c	Share Forfeiture a/c Dr
To Share Call a/c	To Share Capital a/c
For transferring profit on reissue	
Share Forfeiture a/c Dr	
To Share Capital Reserve a/c	

Illustration -6 Thiru Arun holds 2,000 shares of ₹10 each in Ram Ltd. He has paid ₹2 and ₹3 per share on application and allotment respectively, but failed to pay ₹3 and ₹2 per share for first and second calls respectively. Directors forfeit his shares. Give journal entry.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (2,000 x 10)	Dr	20,000	
To Share forfeiture a/c (b/f)			10,000
To Share first call a/c (2,000 x 3)			6,000
To Share final call a/c (2,000 x 2)			4,000
(Being shares forfeited)			

Illustration -7 D Ltd. forfeited 200 shares of ₹10 each on which ₹5 per share was received. All the shares were reissued at ₹8 per share. Give journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (200 x 10)	Dr	2,000	
To Share forfeiture a/c (200 x 5)			1,000
To Share first call a/c (200 x 5)			1,000
(Being shares forfeited)			
Bank a/c (200 x 8)	Dr	1,600	
Share forfeiture a/c (200 x 2)	Dr	400	
To Share capital a/c (200 x 10)			2,000

(Being reissue of forfeited shares)			
Share forfeiture a/c (1,000 – 400)	Dr	600	
To Share capital reserve a/c			600
(Being profit on reissue transferred)			

Illustration -8 A Company Ltd. issued 5,000 preference shares of ₹10 each at a premium of ₹4 per share. The money is payable as follows: ₹1 on application; ₹6 (including premium) on allotment; ₹3 on first call and ₹4 on final call. All the shares were duly subscribed but on 1,000 shares, the first call was not realized and in respect of 1,500 shares, the final call was not realized. These shares were forfeited and reissued at ₹9 per share. Draft the necessary journal entries to record these transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (5,000 x 1)	Dr	5,000	
To Share Application a/c			5,000
(Being application money received)			
Share application a/c	Dr	5,000	
To Share capital a/c			5,000
(Being application money transferred)			
Share allotment a/c (5,000 x 6)	Dr	30,000	
To Share capital			10,000
To Share premium a/c (5,000 x 4)			20,000
(Being allotment money due)			
Bank a/c	Dr	30,000	
To Share allotment a/c			30,000
(Being allotment money received)			
Share first call a/c	Dr	15,000	
To Share capital a/c			15,000
(Being call money due 5,000 x 3)			
Bank a/c 15,000 – (1,000 x 3)	Dr	12,000	
To Share first call a/c			12,000
(Being call money received)			
Share final call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 5,000 x 4)			

Bank a/c 20,000 – (1,500 x 4)	Dr	14,000	
To Share final call a/c			14,000
(Being call money received)			
Share capital a/c (1,000 x 10)	Dr	10,000	
To Share forfeiture a/c (b/f)			3,000
To Share first call a/c (1,000 x 3)			3,000
To Share final call a/c (1,000 x 4)			4,000
(Being 1,000 shares forfeited)			
Share capital a/c (500 x 10)	Dr	5,000	
To Share forfeiture a/c (b/f)			3,000
To Share final call a/c (500 x 4)			2,000
(Being shares forfeited)			
Bank a/c (1,500 x 9)	Dr	13,500	
Share forfeiture a/c (1,500 x 1)	Dr	1,500	
To Share capital a/c (1,500 x 10)			15,000
(Being reissue of forfeited shares)			
Share forfeiture a/c	Dr	4,500	
To Share capital reserve a/c			4,500
(Being profit on reissue 3,000 + 3,000 – 1,500)			

1.20 ALLOTMENT MONEY IS NOT GIVEN

Illustration -9 Give journal entries for the forfeiture and reissue of shares:

X Ltd. forfeited 30 shares of ₹10 each fully called up held by Raja for non-payment of allotment money of ₹3 per share and final call of ₹4 per share. He had paid the application money of ₹3 per share. These shares are forfeited and reissued to Saleem for ₹8 per share.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share capital a/c (30 x 10)	Dr	300	
To Share forfeiture a/c (b/f)			90
To Share allotment a/c (30 x 3)			90
To Share final call a/c (30 x 4)			120
(Being shares forfeited)			
Bank a/c (30 x 8)	Dr	240	
Share forfeiture a/c (30 x 2)	Dr	60	

To Share capital a/c (30 x 10)			300
(Being reissue of forfeited shares)			
Share forfeiture a/c (90 – 60)	Dr	30	
To Share capital reserve a/c			30
(Being profit on reissue transferred)			

Premium issue – Allotment money is not given

1. For forfeiture	**2. For reissue**
Share capital a/c Dr	Bank a/c Dr
Securities premium a/c Dr	Share forfeiture a/c Dr
To Share forfeiture a/c	To Share capital a/c
To Share allotment a/c	
To Share call a/c	

Illustration -10 A company issued 10,000 shares of ₹10 each. 12,000 applications were received and allotment was made under pro-rata ratio. Application money was ₹2 per share and allotment money ₹3 per share. Mani failed to pay the allotment money on his 300 shares. How much is due from Mani?

Solution

Calculation of allotment money received

Allotted	**Applied**
10,000	12,000
300	?
$\frac{300 \times 12{,}000}{10{,}000}$	360 shares

Share application money	
Applied	360 x ₹2 = ₹720
Allotted	300 x 2 = ₹600
Excess	60 x 2 = ₹120
Share allotment money	
Due	300 x ₹3 = ₹900
(-) Excess application money	₹120
Actual allotment money due	₹780

1.21 OVER SUBSCRIPTION– FACE VALUE - PRO-RATA ALLOTMENT - ALLOTMENT MONEY IS NOT GIVEN

Illustration -11 C Ltd. issued 2,00,000 shares of ₹10 each. Terms of payment being: ₹3 on application, ₹2 on allotment and ₹4 on first and balance on final call. The company received applications for 2,80,000 shares. Pro-rata allotment was made on the applications for 2,50,000 shares. Give journal entries assuming that an applicant who was allotted 100 shares did not pay allotment and first call money.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (2,80,000 x 3)	Dr	8,40,000	
To Share application a/c			8,40,000
(Being application money received)			
Share application a/c (2,00,000 x 3)	Dr	6,00,000	
To Share capital a/c			6,00,000
(Being application money transferred)			
Share application a/c (30,000 x 3)	Dr	90,000	
To Bank a/c			90,000
(Being excess money returned)			
Share application a/c (50,000 x 3)	Dr	1,50,000	
To Share allotment a/c			1,50,000
(Being excess money adjusted)			
Share allotment a/c (2,00,000 x 2)	Dr	4,00,000	
To Share capital			4,00,000
(Being allotment money due)			
Bank a/c	Dr	2,49,875	
To Share allotment a/c			2,49,875
(Being allotment money received)			
Share first call a/c	Dr	8,00,000	
To Share capital a/c			8,00,000
(Being call money due 2,00,000 x 4)			
Bank a/c 8,00,000 – (100 x 4)	Dr	7,99,600	
To Share first call a/c			7,99,600
(Being call money received)			

Calculation of allotment money received

Allotted	Applied
2,00,000	2,50,000
100	?
$\frac{100 \times 2,50,000}{2,00,000}$	125 shares

Share application money	
Applied	125 x ₹3 = ₹375
Allotted	100 x 3 = ₹300
Excess	25 x 3 = ₹75
Share allotment money	
Due	100 x ₹2 = ₹200
(-) Excess application money	₹75
Actual allotment money due	₹125
Share allotment due	₹4,00,000
(-) Excess application money	₹1,50,000
	₹2,50,000
(-) Arrear allotment money	₹125
Allotment money received	₹2,49,875

1.22 OVER SUBSCRIPTION - PREMIUM VALUE – ALLOTMENT MONEY IS NOT GIVEN

Illustration -12 Ramesh Ltd. issued 10,000 shares of ₹10 each at ₹11 per share payable as follows:

On application ₹2; allotment ₹5 and first and final call ₹4. The offer was oversubscribed by 5,000 shares and the applicants were allotted pro-rata basis and surplus application money was adjusted for future shares dues. All shares were fully called up and money received except on 300 shares held by Rahim who didn't pay allotment and call money. These shares were forfeited. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (15,000 x 2)	Dr	30,000	
To Share application a/c			30,000
(Being application money received)			

Share application a/c (10,000 x 2)	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share application a/c	Dr	10,000	
To Share allotment a/c			10,000
(Being excess money adjusted 5,000 x 2)			
Share allotment a/c (10,000 x 5)	Dr	50,000	
To Share capital			40,000
To Share premium a/c (10,000 x 1)			10,000
(Being allotment money due)			
Bank a/c	Dr	38,800	
To Share allotment a/c			38,800
(Being allotment money received)			
Share first and final call a/c	Dr	40,000	
To Share capital a/c			40,000
(Being call money due 10,000 x 4)			
Bank a/c 40,000 – (300 x 4)	Dr	38,800	
To Share first and final call a/c			38,800
(Being call money received)			
Share capital a/c (300 x 10)	Dr	3,000	
Share premium a/c (300 x 1)	Dr	300	
To Share forfeiture a/c (b/f)			900
To Share allotment a/c			1,200
To Share first & final call a/c (300 x 4)			1,200
(Being shares forfeited)			

Calculation of allotment money received

Allotted	**Applied**
10,000	15,000
300	?
$\frac{300 \times 15,000}{10,000}$	450 shares

Share application money	
Applied	450 x ₹2 = ₹900
Allotted	300 x 2 = ₹600
Excess	150 x 2 = ₹300

Share allotment money	
Due	300 x ₹5 = ₹1,500
(-) Excess application money	₹300
Actual allotment money due	₹1,200
Share allotment due	₹50,000
(-) Excess application money	₹10,000
	₹40,000
(-) Arrear allotment money	₹1,200
Allotment money received	₹38,800

Illustration -13 A Ltd. Co. issued a prospectus inviting applications for 2,000 shares of ₹10 each at a premium of ₹2 per share payable as follows: On application – ₹2, on allotment ₹5 (including premium); on 1st call – ₹3 and on 2nd and final call – ₹2

Applications were received for 3,000 shares and pro-rata allotment was made on the application for 2,400 shares. Money over paid on applications was adjusted sum due on allotment.

Ramesh to whom 40 shares allotted failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mohan the holder of 60 shares failed to pay the two calls and his shares were forfeited after the second call.

Of the shares forfeited, 80 shares were sold to Krishna credited as fully paid for ₹9 per share, the whole of Ramesh share being included. Show the journal entries and cash book entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (3,000 x 2)	Dr	6,000	
To Share application a/c			6,000
(Being application money received)			
Share application a/c (2,000 x 2)	Dr	4,000	
To Share capital a/c			4,000
(Being application money transferred)			
Share application a/c (600 x 2)	Dr	1,200	
To Bank a/c			1,200
(Being excess money returned)			

Share application a/c (400 x 2)	Dr	800	
To Share allotment a/c			800
(Being excess money adjusted)			
Share allotment a/c (2,000 x 5)	Dr	10,000	
To Share capital			6,000
To Share premium (2,000 x 2)			4,000
(Being allotment money due)			
Bank a/c	Dr	9,016	
To Share allotment a/c			9,016
(Being allotment money received)			
Share first call a/c	Dr	6,000	
To Share capital a/c			6,000
(Being call money due 2,000 x 3)			
Bank a/c 6,000 – (100 x 3)	Dr	5,700	
To Share first call a/c			5,700
(Being call money received)			
Share capital a/c (40 x 8)	Dr	320	
Share premium (40 x 2)	Dr	80	
To Share forfeiture a/c (b/f)			96
To Share allotment a/c			184
To Share first call a/c (40 x 3)			120
(Being 40 shares forfeited)			
Share final call a/c	Dr	3,920	
To Share capital a/c			3,920
(Being call money due 1,960 x 2)			
Bank a/c 3,920 – (60 x 2)	Dr	3,800	
To Share final call a/c			3,800
(Being call money received)			
Share capital a/c (60 x 10)	Dr	600	
To Share forfeiture a/c (b/f)			300
To Share first call a/c (60 x 3)			180
To Share final call a/c (60 x 2)			120
(Being 60 shares forfeited)			

Bank a/c (80 x 9)	Dr	720	
Share forfeiture a/c (b/f)	Dr	80	
To Share capital a/c (80 x 10)			800
(Being reissue of forfeited shares)			
Share forfeiture a/c	Dr	216	
To Share capital reserve a/c			216
(Being profit on reissue)			

Calculation of allotment money received

Allotted	Applied
2,000	2,400
40	?
$\frac{40 \times 2,400}{2,000}$	48 shares

Share application money	
Applied	48 x ₹2 = ₹96
Allotted	40 x 2 = ₹80
Excess	8 x 2 = ₹16
Share allotment money	
Due	40 x ₹5 = ₹200
(-) Excess application money	₹16
Actual allotment money due	₹184
Share allotment due	₹10,000
(-) Excess application money	₹800
	₹9,200
(-) Arrear allotment money	₹184
Allotment money received	₹9,016

Calculation of share capital reserve

Shares	Profit ₹
60	300
40	?

$\frac{40 \times 300}{60}$	₹200
Add: 40 shares profit	₹96
	₹296
(-) 100 shares reissue loss	₹80
Share capital reserve	₹216

1.23 DISCOUNT VALUE

When the shares are issued to the public at a price which is below the face value then it is known as discount issue. For e.g., when a share of ₹10 is issued by the company at ₹9 then the issue is known as discount value. The difference between the face value and issue price i.e. ₹1 is called discount.

1.24 CONDITIONS FOR ISSUE OF SHARES AT A DISCOUNT

1. The discount issue should be authorized by the Articles of Association or by a resolution in the general meeting
2. Court permission should be obtained
3. The rate of discount should not exceed 10%
4. The issue must be made within two months from the date of getting permission from the court.
5. Shares which is already issued alone can be issued at discount
6. The company should issue shares at discount one year after the commencement of business.
7. The unwritten off discount amount should be shown separately in the asset side of the balance sheet.

1.25 UNDER SUBSCRIPTION

When the public subscribed less no. of shares than the shares issued by company it is called under subscription.

Method of subscription	**Issued**	**Applied**	**Allotted**
Under	10,000 shares	8,000 shares	8,000 shares

Illustration -14 X Ltd. invited applications for 1,00,000 shares of ₹10 each at a discount of 6% payable as follows: On application ₹2.50; on allotment ₹3.40 and on first and final call ₹3. 50. The application received was for 90,000 shares and all of these were accepted. All money duly received except the first and final call on 1,000 shares. Pass necessary journal entries in the books of company.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (90,000 x 2.50)	Dr	2,25,000	
To Share Application a/c			2,25,000
(Being application money received)			
Share application a/c	Dr	2,25,000	
To Share capital a/c			2,25,000
(Being application money transferred)			
Share allotment a/c (90,000 x 3.40)	Dr	3,06,000	
Share discount a/c (90,000 x 0.60)	Dr	54,000	
To Share capital			3,60,000
(Being allotment money due)			
Bank a/c	Dr	3,06,000	
To Share allotment a/c			3,06,000
(Being allotment money received)			
Share first call a/c	Dr	3,15,000	
To Share capital a/c			3,15,000
(Being call money due 90,000 x 3.50)			
Bank a/c 3,15,000 – (1,000 x 3.50)	Dr	3,11,500	
To Share first call a/c			3,11,500
(Being call money received)			

1.26 DISCOUNT VALUE - FORFEITURE AND REISSUE

1. For forfeiture	**2. For reissue**
Share capital a/c Dr	Bank a/c Dr
To Share forfeiture a/c	Share discount a/c Dr
To Share discount a/c	Share forfeiture a/c Dr
To Share call a/c	To Share capital a/c

Illustration -15 Anil was holding 30 shares of ₹10 each of X Ltd. issued at 10% discount. He paid ₹2 on application but could not pay the allotment money of ₹3 and his shares were forfeited. Make journal entries for the forfeiture of shares.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (30 x 6)	Dr	180	
To Share forfeiture a/c (b/f)			60
To Share allotment a/c (30 x 3)			90
To Share discount a/c (30 x 1)			30
(Being 30 shares forfeited)			

Illustration -16 X Ltd. forfeited 1,000 shares of ₹10 each issued at a discount of 10% for non-payment of the first call of ₹2 and the final call of ₹3 per share. Give the necessary journal entry.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (1,000 x 10)	Dr	10,000	
To Share forfeiture a/c (b/f)			4,000
To Share discount a/c (1,000 x 1)			1,000
To Share first call a/c (1,000 x 2)			2,000
To Share final call a/c (1,000 x 3)			3,000
(Being 1,000 shares forfeited)			

Illustration -17 A company invited applications for 10,000 shares of ₹100 each at a discount of 5% payable as follows: On application ₹25; on allotment ₹34 and first and final call ₹36. The applications received were for 9,000 shares and all of them were accepted. All money due were received except the first and final call on 200 shares which were forfeited out of these 100 shares were reissued at ₹90 fully paid. Give journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (9,000 x ₹25)	Dr	2,25,000	
To Share Application a/c			2,25,000
(Being application money received)			
Share application a/c	Dr	2,25,000	

To Share capital a/c			2,25,000
(Being application money transferred)			
Share allotment a/c Dr (9,000 x ₹34)	Dr	3,06,000	
Share discount a/c Dr (9,000 x ₹5)		45,000	
To Share capital			3,51,000
(Being allotment money due)			
Bank a/c	Dr	3,06,000	
To Share allotment a/c			3,06,000
(Being allotment money received)			
Share first call a/c	Dr	3,24,000	
To Share capital a/c			3,24,000
(Being call money due 9,000 x ₹36)			
Bank a/c ₹3,24,000 – (200 x ₹36)	Dr	3,16,800	
To Share first call a/c			3,16,800
(Being call money received)			
Share capital a/c (200 x 100)	Dr	20,000	
To Share forfeiture a/c (b/f)			11,800
To Share first & final call a/c (200 x 36)			7,200
To Share discount a/c (200 x 5)			1,000
(Being 200 shares forfeited)			
Bank a/c (100 x 90)	Dr	9,000	
Share forfeiture a/c (100 x 5)	Dr	500	
Share discount a/c (100 x 5)	Dr	500	
To Share capital a/c (100 x 100)			10,000
(Being reissue of forfeited shares)			
Share forfeiture a/c Dr	Dr	5,400	
To Share capital reserve a/c			5,400
(Being profit on reissue)			

Calculation of amount transferred to share capital reserve (Partial reissue)

Shares	Profit ₹
200	₹11,800
100	?
$\frac{100 \times 11,800}{200}$	₹5,900
(-) 100 shares reissue loss	₹500
Share capital reserve	₹5,400

1.27 RIGHT ISSUES

In case company wants to make a further issue of shares, the issue must first be offered to the existing equity shareholders. This offer is known as rights issue. The existing shareholders may accept/reject the offer. The shareholders can sell their right in full or in portion to another person. If the shareholders ha neither subscribed nor transferred their right, then the company can offer the issue to the public.

When a right issue is made, a shareholder may get fractions of shares. In such cases the company will issue fraction rights and the same may be bought or sold by the individual shareholder. But a share cannot be issued in fractions.

1.28 ISSUE OF BONUS SHARES

The company at its choice may pay bonus to the shareholders in cash. But, the bonus paid in the form of cash may affect the company's working capital position. In order to avoid the outflow of cash from the business and at the same time to satisfy the shareholders, the company may resort to issuing bonus shares to the existing equity shareholders.

The bonus shares may be issued in the following circumstances:

(i) When the company has large accumulated reserves.

(ii) When the company is not in a position to pay cash bonus.

(iii) When the value of fixed assets is very high than the value of capital.

(iv) When higher rates of dividend payment is not advisable

(v) When the market value exceeds the face value of shares.

In general, bonus shares can be issued out of the following:

1) Capital Redemption Reserves Account
2) Share Premium Account.
3) General reserves
4) Credit Balance in the Profit and Loss Account.
5) Capital profit such as profit prior to incorporation, profit on purchase of business and profit on sale of fixed assets.

1.29 ACCOUNTING TREATMENT

If the bonus is to be utilized for making partly paid shares fully-paid, the entries will be as follows:

1) Profit and Loss A/c	Dr.
General Reserves A/c	Dr.
Capital Reserves A/c	Dr.
To Bonus to Shareholders A/c	

(Being the amount transferred for bonus payable to shareholders)

2) Share Final Call A/c Dr.

To share Capital A/c

(Being the amount due from the shareholders in respect of final call)

3) Bonus of Shareholders A/c Dr.

To Share Final Call A/c

(Being the bonus to shareholders applied towards meeting the call)

If the payment of bonus is made by the issue of fully paid bonus shares, the entries will be as follows:

Capital Redemption Reserve A/c Dr.

Share Premium A/c Dr.

Capital Reserve A/c Dr.

Profit and Loss A/c Dr.

General Reserve A/c Dr.

To Bonus to Shareholders A/c

(Being the amount transferred for issue of bonus shares – depending upon the available balances in the above-said accounts).

Bonus to Shareholders A/c Dr.

To Share Capital A/c

To Share Premium A/c – if issued at a premium.

Illustration 18

The following are extract from the balance sheet of A. Ltd. As on December 31, 1998:

Authorised Capital	Rs.
10,000 equity shares of Rs. 10 each	1,00,00
Issued and subscribed capital:	
5,000 equity shares of Rs. 10 each fully paid-up	50,000
Reserve fund	35,000
Profit and Loss A/c	10,000

A resolution was passed to issue 1,000 bonus shares of Rs.10 each by providing Rs. 5,000 out of the P & L Account and the balance out of the Reserve Fund.

Set out journal entries to give effect to the resolution.

Solution:

Journal

		Dr. Rs.	Dr. Rs.
	Profit and Loss A/c Dr.	5,000	
	Reserve Fund Dr.	5,000	
	To Bonus to Shareholders A/c		10,000
	(Being the amount of the reserve fund and Profit and Loss A/c to be capitalized as per Board's resolution No…..dated…..)		
	Bonus to Shareholders A/c Dr.	10,000	
	To Share Capital A/c		10,000
	(Being issue of 1,000 bonus shares of Rs. 10 each)		

Illustration 19

The balance sheet of A Ltd. as at 31.3.1995 is as follows:

Balance sheet as at 31.3.1995

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Sundry assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000		
Issued, Subscribed and Paid-up:			
80,000 equity shares of Rs. 7.50 each called-up and paid-up	6,00,000		
Reserves			
Capital redemption reserve	1,50,000		
Plant revaluation reserve	20,000		
Share premium account	1,50,000		
Development rebate reserve	2,30,000		
Investment allowances reserve	2,50,000		
General reserve	3,00,000		
	17,00,000		**17,00,000**

The company wanted to issue bonus shares its shareholders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

a) You are required to give effect to the proposal by passing journal entries in the books of A Ltd.

b) Show the amended balance sheet.

Solution

(a) Journal

		Dr. Rs.	Dr. Rs.
	(i) Share Final Call A/c Dr. To Share Capital A/c (Being the final call of Rs. 2.50 each on 80,000 equity shares to make them fully paid-up)	2,00,000	2,00,000
	(ii) General Reserve A/c Dr. To Bonus to Shareholders A/c (Being the transfer of Rs. 2,00,000 from general reserve to make the partly paid up shares fully paid up)	2,00,000	2,00,000
	(iii) Bonus to Shareholders A/c Dr. To Share Final Call A/c (Being the amount due on final call adjusted against transfer from general reserves to bonus to shareholders A/c)	2,00,000	2,00,000
	(iv) General Reserves Dr. Share Premium A/c Dr. Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c (Being the appropriation made as above facilitate issue of fully paid up bonus shares at the rate of one share for every two shares held).	1,00,000 1,50,000 1,50,000	4,00,000
	(v) Bonus to Shareholders A/c Dr. To Equity share Capital A/c (Being the issuance of 40,000 fully paid up shares of Rs. 10 each by way of bonus)	4,00,000	4,00,000

Note

(i) Reserves other than capital redemption reserve, plant revaluation reserve and share premium account can be utilized for making the partly paid up shares fully paid up.

(ii) Except plant revaluation reserve, all other reserves and share premium account can be utilized to make the bonus issue.

(b) Balance Sheet (after bonus issue)

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Sundry assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000		
Issued and Subscribed:			
1,20,000 equity shares of Rs. 10 each fully paid of the above call on 80,000 shares @ 2.50 each has been adjusted taking transfer from general reserve without payment being received in cash.	12,00,000		
Of the above shares of 40,000 equity shares are allotted as fully paid up by way of bonus shares.			
Reserves and surplus			
Development rebate reserve	2,30,000		
Investment allowance reserve	2,50,000		
Plant revaluation reserve	20,000		
	17,00,000		**17,00,000**

1.30 EMPLOYEES' STOCK OPTION SCHEMES

Employees stock option means the option given to the whole-time directors, officers and employees of a company to purchase of subscribe shares at a future date at a predetermined price. Purely it is a voluntary option to the employees. The purpose of the option is to encourage the employee of the company to have more participation.

1.31 SWEAT EQUITY SHARES

Equity shares which are issued by a company to its employees or directors at a discount or consideration other than cash. It is issued to the employee for providing know-how to the company.

1.32 ISSUE OF SHARES THROUGH PRIVATE PLACEMENT ETC.

A company may issue shares, without approaching the general public or the existing shareholders, through private placement. This issue usually approached to the friends of the promoters of financial institutions.

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Unless otherwise stated a preference share is always deemed to be
   - a) Cumulative, participating and non-convertible
   - b) Non-Cumulative, Non-participating and non-convertible
   - c) **Cumulative, Non-participating and non-convertible**
   - d) Non-Cumulative, participating and non-convertible

2. The difference between subscribed capital and called up capital is called
   - a) Paid up capital
   - b) Calls in arrears
   - c) Calls in advance
   - d) **Uncalled capital**

3. When shares are forfeited the share capital a/c is debited by
   - a) Paid up amount
   - b) **Called up amount**
   - c) Calls in arrear
   - d) Nominal value

4. The profit on re-issue of forfeited shares is transferred to
   - a) General reserve
   - b) Capital redemption reserve
   - c) **Capital reserve**
   - d) P & L a/c

5. Shares enjoying disproportionate voting rights are called
   - a) **Founders shares**
   - b) Equity shares
   - c) Preference shares
   - d) Redeemable preference shares

6. Share application money should be at least ______ of the nominal value.
   - a) 4%
   - b) 2**5%**
   - c) 6%
   - d) 5%

7. Share application a/c is _____ a/c
   - a) **Personal**
   - b) Real
   - c) Nominal
   - d) Impersonal

8. Issue of shares at discount should be permitted by _________
   - a) Shareholders
   - b) Directors
   - c) **Company Law Board**
   - d) Companies Act, 1956

9. The maximum discount rate is ________
   - a) **10% of face value**
   - b) 10% of issue price
   - c) 5% of face value
   - d) 5% of issue price

10. Right shares are those shares which are

a) issued to the directors
b) **first offered to the existing shareholders**
c) issued by a newly formed company
d) Freshly issued to the public

11. Public company cannot issue

a) Equity shares
b) **Deferred shares**
c) Preference shares
d) Redeemable preference shares

12. That portion of the authorized capital which can be called up only at the time of liquidation is called

a) Issued capital
b) Unsubscribed capital
c) **Reserve capital**
d) Capital reserve

13. The rate of interest on calls in advance is _________

a) **6%**
b) 5%
c) 8%
d) 10%

14. The rate of interest on calls in arrears is

a) 6%
b) **5%**
c) 8%
d) 10%

15. Premium on issue of shares can be used for

a) **Issue of bonus shares**
b) Distribution of profits
c) Transferring to general reserve
d) Declaring dividend

16. Preference shareholders are

a) Creditors
b) **Owners**
c) Customers
d) Outsiders

17. Share allotment and share application accounts are

a) **Personal** accounts
b) Real accounts
c) Nominal accounts
d) Impersonal accounts

18. Premium on issue of shares can be used for

a) Distribution of dividend
b) **Writing off capital losses**
c) Transferred to reserve
d) Paying fees to director

19. Discount on issue of shares is a

a) Revenue loss
b) **Capital loss**
c) Deferred revenue loss
d) Capital profit

20. The difference between subscribed and called up capital is called

a) **Uncalled up capital** b) Calls in arrears

c) Paid up capital d) Calls in arrears

21. Minimum subscription should reach within _________ from the date of issue of prospectus.

a) 90 days b) 2 months

c) **120** days d) One year

22. The company must receive ________ of the issued capital as minimum subscription

a) 10% b) 8%

c) **5%** d) 2%

23. That part of the authorized capital which is reserved for certain purpose is called

a) Specific capital b) Capital reserve

c) **Reserve capital** d) Uncalled capital

24. Shares issued at discount must be approved by

a) Central Govt. b) **Company Law Board**

c) Share holders d) Comptroller of capital issue

25. _________ should give permission for issue of bonus shares

a) Central Govt. b) Company Law Board

c) Share holders d) **Comptroller of capital issue**

26. If the company receives less no. of applications than the no. of shares issued, it is called

a) Equal subscription b) Over subscription

c) **Under subscription** d) Premium method

27. Right issue can be possible if

a) Passing special resolution b) Getting permission from Central Govt.

c) the same type already issued d) **All of these**

28. If a share of ₹10 issued at a premium of ₹1 on which ₹9 (including premium) have been called and ₹7 (including premium) paid is forfeited, the capital a/c should be debited with

a) ₹9 b) **₹8**

c) ₹7 d) ₹10

29. _________ shareholders get the priority over the equity shareholders as regards the payment of their capital and the dividend payable up to the date of winding up

a**) Preference** b) Equity

c) Founders d) Ordinary

30. Discount on issue of share is ___________

a) Current asset
b) Current liability
c) **Fictitious asset**
d) Tangible asset

31. Share allotment account is a _____________

a) **Personal account**
b) Real account
c) Nominal account
d) Impersonal account

32. If a limited company has adopted Table A, it is required to pay interest on calls in advance at the rate of _______________

a) 6%
b) 5%
c) 8%
d) 4%

33. Public Ltd Companies cannot issue ______________

a) Equity shares
b) Preference shares
c) Debentures
d) Deferred shares

REVIEW QUESTIONS

(A) Answer in short:

1) What is a share? **(Karaikudi, B.com(CA),Nov 2016)**

2) What do you understand by issue of shares at 'Par', at premium and at 'Discount'? **(Karaikudi, B.com(CA),Nov 2015)**

3) What is meant by allotment of shares?

4) What is 'Pro-rata' allotment of shares? **(Madras,B.com, Oct,2002)**

5) What is meant by 'over subscription'? How the excess money is treated in accounts?

6) What are calls in arrears?

7) What are calls in advance?

8) What is share premium?**(Karaikudi, B.com(CA),Nov 2016) (Madras,B.com, May,2002)**

9) Write short note on forfeiture of shares. **(Karaikudi, B.com(CA),Nov 2015, Madras,B.com, Apr,2003)**

10) When can shares be forfeited? **(Madras, B.com, Oct 2001)(Karaikudi, B.com, Nov 2016)**

11) Give journal entries forfeiture of shares? **(Madras,B.com, May,2001)**

12) Give journal entries for re-issue of forfeited shares. **(Madras,B.com, April,2001) (Karaikudi, B.com, Nov 2016)**

13) What is Bonus share? **(Karaikudi, B.com(CA),Nov 2016)**

(B) Answer in Detail:

1) Define share and explain its types. **(Madras, M.com, Oct 2002)**

2) Explain the provisions regarding issue of shares at discount.
(Madras,B.com, Oct,2002, M.com, Oct 2001, Apr 2001)

3) Explain forfeiture and reissue of shares.
(Madras, B.com, Oct 2001) (Karaikudi, B.com, Nov 2016)

4) Write short note on

a) Minimum subscription

b) Surrender of shares

c) Calls in advance

d) Bonus shares.

5) Write short note on:

a) Employees' stock option scheme

b) Sweat equity shares

c) Issue of shares through private placement etc.

EXERCISES

1. E Ltd made an issue of 10,000 equity shares of ₹100 each, payable ₹20 on application, ₹40 on allotment and ₹40 on call. All the shares subscribed and amounts duly received. Pass journal entries to give effect to the above.

2. R Ltd. Company issued 1,00,000 shares of ₹10 each payable as under:

   ₹2 on application; ₹3 on allotment; ₹3 on first call and ₹2 on final call

   The public applied for 90,000 shares. These shares were allotted. The final call was not made. All the money due on these shares was received except the first call on 400 shares. Prepare bank a/c, share capital a/c and balance sheet.

FORFEITURE AND RE-ISSUE

3. A company forfeited 10 shares of ₹10 each issued at a premium of 10% for non-payment of the final call of ₹3 per share. Out of these, 7 shares were reissued at ₹8 per share as fully paid up. Give entries for forfeiture and reissue.

4. X Ltd forfeited 100 equity shares of ₹10 each held by Ram for non-payment of first call of ₹2 per share and final call of ₹3 per share. These shares were reissued to Ramnath at a discount of ₹3.50 per share. Pass journal entries.

5. On 1st May 2010, 2,000 ordinary shares of ₹10 each, ₹7.50 paid be forfeited for the non-payment of final call of ₹2.50. On June 10,2010, 1,800 of the above shares were re-issued for ₹6 per share. Give the necessary journal entries.

6. A company issued 50,000 shares of ₹10 each payable as to ₹1 on application, ₹2 on allotment, ₹3 on first call and ₹4 on final call. All the money payable on application, allotment and calls has been received with the following exceptions:

   Mr. A who holds 2,000 shares has not paid the money dues on allotment and calls

   Mr. B who holds 1,000 shares has not paid the money due on first and final calls

   Mr. C who holds 600 shares has not paid the amount due on final call

   Therefore the shares of A, B and C were forfeited. These shares were subsequently reissued for cash at a discount of 5%. Pass journal entries for forfeiture and reissue of forfeited shares.

7. A company forfeited 300 shares upon which ₹7.50 per share were called up and ₹5 per share were paid for application and allotment. The first call of ₹2.50 per share were not paid. Calculate capital reserve in the following cases:

   a) If all the forfeited shares were re-issued at ₹5 per share, ₹7.50 per share paid up

   b) If 100 shares were reissued @ ₹4 per share ₹7.50 called up

8. Anil Co. Ltd issues 10,000 equity shares of ₹10 each, payable ₹3 on application, ₹3 on allotment and the balance by two calls. All the calls were only made and amount so realized with the exception of the following:

   a) Mr. A holding 100 shares did not pay the amount due on first call

   b) Mr. B holding 100 shares did not pay the amount due on final call

   All these were forfeited and 150 shares (full of A and balance of B) were reissued at ₹8 per share. Journalize forfeiture and reissue entries.

9. Super Star Ltd. invited applications for 35,000 shares of ₹10 each payable as follows:

   On application ₹3; on allotment ₹4 and first and final call ₹3.

   The applications were received for all the shares and accepted. All money due were received except first and final call on 1,000 shares which were forfeited. All the shares were reissued @ ₹8 per share as fully paid.

   You are required to pass journal entries in the books of Super Star Ltd.

10. A company issued 10,000 equity shares of ₹10 each at a premium of ₹3 per share payable as follows: On application ₹4 per share; On allotment ₹5 per share (including premium); On first and final call ₹4 per share. Subscriptions were received for 13,000 shares. The excess money was refunded and the allotment money was received in full. The first and final call was made in due course and the amount due was received with the exception of 100 shares. These shares were forfeited and subsequently re-issued as fully paid for a consideration of ₹8 per share. Pass journal entries for the above transactions.

ALLOTMENT MONEY IS NOT GIVEN

11. A limited company issued a prospectus inviting applications for 2,000 shares of ₹10 each at a premium of ₹2 per share payable as follows:

On application ₹2; on allotment ₹5 (including premium); on first call ₹3 and on second call ₹2. Applications were received for 3,000 shares and allotment was made pro-rata to the applications for 2,500 shares, the remaining applications being refused. Excess money adjusted in allotment.

Mr. C, to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Mr. K the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call had been made.

Of the shares forfeited, 100 shares were sold to Mr. Z at ₹9 per share, the whole of C's share being included. Show journal entries and balance sheet.

12. A company issued 40,000 equity shares of ₹10 each at a premium of ₹2 per share, payable as under:

    Application ₹2; allotment ₹5 (including premium); first call ₹2 and second and final call ₹3.

    Applications were received for 60,000 shares and allotment was made on pro-rata basis to the applicants of 48,000 shares and the application money for the remaining applications was refunded. Money overpaid on application was utilized towards sums due on allotment.

    Rahim, to whom 1,600 shares were allotted, failed to pay the allotment money and the two calls. Ramu to whom 2,000 shares were allotted failed to pay both the calls. These shares were forfeited after second call. Subsequently, 1,800 shares (all shares of Rahim included) were reissued at ₹8 per share fully paid. Pass necessary journal entries.

13. A Limited Company issued a prospectus inviting applications for 8,000 shares of ₹10 each at a premium of ₹2 per share payable as follows:

    On application ₹2; on allotment ₹5 (including premium); on 1^{st} call ₹3 and on 2^{nd} call ₹2.

    Applications were received for 12,000 shares and allotment was made prorate to the applicants of 9,600 shares; the remaining applications were refused. Money overpaid on applications was adjusted with the sum due on allotment.

    Shyam, to whom 160 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Ramesh the holder of 240 shares, failed to pay the two calls, and his shares were forfeited after the second call.

    Of the shares forfeited, 320 shares were sold to Manohar at ₹9 per share, the whole of Shyam's share being included. Pass necessary journal entries.

14. Q Ltd issued applications for 20,000 shares of ₹10 each at a premium of ₹2 per share, payable ₹3 on application, ₹7 on allotment including premium and the balance on first and final call.

    Applications for 25,000 shares were received. It was decided

    i)To refuse allotment to the applications for 1,000 shares

ii) To allot in full to applicants for 4,000 shares

iii) To allot the balance of the available shares pro-rata among the other applicants and

iv) To utilize excess application money in part payment of allotment money

Mr. X holding 200 shares were had been allotted on pro-rata basis failed to pay the amount due on allotment and call and Mr. Y holding 100 shares to whom full allotment was made failed to pay the amount due on call money only. These shares were forfeited. 160 forfeited shares Mr. X and 140 forfeited shares of Mr. Y were reissued at a discount of ₹1 per share to Mr. Z. Show necessary journal entries.

DISCOUNT MODEL

15. A Ltd invited applications for 10,000 shares of ₹10 each at a discount of 10% payable as follows:

On application ₹3; on allotment ₹3 and on first and final call ₹3.

Applications received were for 10,000 shares and all these were accepted. All the money due was received except the first and final call on 500 shares. These shares were subsequently forfeited and reissued at ₹8 per share as fully paid up. Pass necessary entries in the journal of the company.

16. A Company issued 10,000 shares of ₹50 each at 10% discount. Amount payable on application ₹10, allotment ₹25 and first and final call ₹10.

9,000 applications were received. All the money was received except on first and final call money for 200 shares. These shares were forfeited and again reissued at a discount of ₹10 per share. Pass necessary journal entries.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Haja Ltd. was incorporated with a share capital of RS.10, 00,000 in Rs. 10 shares. The company purchased machinery from bharani Ltd. For Rs. 5, 00,000 payable in fully paid shares of the company. The directors also decided to allot 2,500 shares credited as fully paid to promoters for their services. The rest of the shares were issued for cash and were taken up by the public and fully paid for. Give the journal entries.

[Madras. B.Com (Nov.2007 (Modified)]

2. X ltd. forfeited 30 shares of Rs.10 each at 10 each fully called up, held by murugan for nonpayment allotment money of Rs. 3 per share and first and final call of Rs.4 per share. He had paid the application money of Rs.3 per share. These shares were reissued to david for Rs. 8 per share. Pass the necessary journal entries for forfeiture. & reissue of shares.

[Periyar, B.com (CA) April 2005, Bharathiar B.Com, April 2005.]

[Ans: Capital reserve a/c- Rs.30]

3. Y Ltd. forfeited 1,000 equity shares of Rs.10 each, issued at a discount of 10% for non-payment of first call of Rs.2 and the final call of Rs.2 and the final call of Rs.3 per Share. Show the necessary journal entry.

   [Madras, 1st M.com(KCAIA) Nov.2009; B.com(CS) April 2008.]

   [Ans: Amount credited to forfeited shares A/c Rs.4000]

4. The directors of R Ltd, resolved on 1 stmay 2000 that 2000 ordinary shares of Rs. 10 each, Rs.750 paid, be forfeited for nonpayment of final call of Rs.2.50. On June 10,2000, out of the above, 1800 shares were reissued for Rs.6 per share. Show the entries to give effect to the above transactions.

   [Madras I B.Com, Nov.2009]

   [Ans: Transfer to capital reserve: Rs. 6,300]

5. XY Ltd, forfeited 100 equity shares of Rs.10 each issued at a discount of 10% for nonpayment of the 1 st call of Rs.2 and final call of Rs.3 per share. Out of these 50 shares were reissued at Rs. 8 per share and the balance at Rs.7 per share. Pass the journal entries.

   [Bharathiar B.Com, Nov.2004]

   [Transfer to capital reserve: Rs.250]

6. A company forfeited 10 shares of Rs.10 each issued at a premium of 10% for nonpayment of the final call of Rs. 3 per share. Out of these, 7 shares were reissued Rs.8 per share as fully paid up. Give the entries for forfeiture and reissue.

   [Madras, B.Com (CS) (October 2008]

   [Ans: Capital reserve Account-Rs.35]

7. X Ltd, forfeited 20 share of Rs.10 each on which Rs.6 per share were paid. What amount will be transferred to capital reserve if out of these 8 shares are reissued as fully paid up on payment of Rs.5.50 per share?

   [Madras B.Com(CS) Nov.2005(Modified)]

   [Ans: Capital reserve A/c Rs.12]

8. The Hindustan manufacturing Co.Ltd. Had a total subscribed capital of Rs. 1,00,000 in equity shares of Rs.10 each of which Rs.7.50 were called up. A final call of Rs.2.50 each in respect of 100 shares held by D.Roy. These shares were forfeited and reissued at Rs.8 per share as fully paid up. Make the journal entries (including that of cash) necessary to record final call forfeiture of shares and reissue of forfeited shares.

   [Madras B.C.S oct 2000]

   [Ans: Capital reserve A/c-Rs.300]

9. A holds 100 shares of Rs. 10 each on which he has paid Re.1 per share as application money. 'B' holds 200 shares of Rs.10 each on which he has paid Re.1 and Rs.2 per share as application and allotment money respectively. C holds 300 shares of Rs.10 each and he

has paid Re.1. on application, Rs. 2 allotment and Rs.3 on first call. They all fail to pay their arrears and the directors therefore forfeited their shares. The shares are reissued subsequently for Rs.11 per share as fully paid. Journalize the transactions (Concerning the forfeiture and reissue only)

[Madras I M.com April 2001]

[Amount transferred to capital reserve A/c- Rs.2, 500]

10. Ganesh Ltd.issued prospectus inviting application for 10,000 equity shares of Rs.10 each, payable as follows:

    On application Rs.2 per share

    On allotment Rs.4 per share.

    On first call Rs.4 per share.

    The issue is fully subscribed. Pass journal entries in the books of ganesh Ltd, assuming that all payments due as stated above were received.

    [Madurai B.Com, Nov.2003]

11. The Banglore bottling Co.ltd issued a prospectus inviting applications for 1, 00,000 equity shares of Rs.10 each payable Rs.2 on application, Rs.3 on allotment and the balance at the discretion of the directors. Applications for 1, 20,000 shares were received. The directors allotted the shares as follows:

    To applicants of 80,000 shares – full allotment

    To applicants of 30,000 shares- 20,000 shares

    To applicants of 10,000 shares- Nil.Give the journal entries assuming that all the sum due on allotment has been received and no call has been made.

    [Madras B.Com, May 2002]

[Application money transferred to allotment – Rs 20,000][Application money returned- Rs.20,000]

12. A company offered for public subscription 20,000 equity shares of Rs.100 each payable as Rs.20 per share on application, Rs.30 on allotment, Rs.20 three months after allotment and the balance six months after allotment. The offer was oversubscribed by 5000 shares and the amount due on allotment was received in full. Rs.3, 80,000 and Rs.5, 55,000 were received on first, second, and final calls respectively. You are required to give the journal entries for the above information.

    [Madras, B.C.S Nov.2004]

    [Ans: Amount due on 1st call- Rs.20,000 and on final call – Rs.45,000]

    [Hint: Assume that 5000 applications are rejected since there is no mention of pro-rata allotment.]

13. Dee Ltd. offered to the public 20,000 equity shares of Rs.100 each at premium of Rs.10 per share. The payment was to made as follows:

On application Rs.20; on allotment Rs.40 (including premium) On 1st call Rs.25; On second call rs.25.

Applications totaled for 35,000 shares; applications for 10,000 shares were rejected; those totaling 15,000 shares were allotted 10,000 shares and remaining applications were accepted in full. The directors made both the calls.

One shareholder, holding 500 shares (full allottee) failed to pay calls. Expenses of the issue amounted to Rs.10, 000.

Pass the journal entries and relevant extracts from the balance sheet relating to the above Transactions.

[Madras, M.com, Oct 2003, (Modified)]

[Ans: Calls in arrears: Rs.25,000]

14. A Ltd.issued 10,000 equity shares of Rs.10 each payable as under:

    Rs. 2 on application.

    Rs.5 on Allotment.

    Rs.3 on First and Final call.

    The public applied for 8,000 shares which were allotted. All the money due on shares was received except the first and final call on 100 shares. These shares were forfeited and reissued at Rs.8 per share. Show the journal entries in the books of the company.

    [Madras, B.Com(CS) April 2007, B.Com Nov.2005]

    [Ans:Amount transferred to capital reserve A/c. Rs.500]

15. XYZ Company Ltd. made a public issue of 20,000 equity shares of Rs.100 each at a premium of Rs.10 each. The amount payable is as under:

    On application Rs.25

    On allotment Rs.35 (including premium)

    On 1st call Rs.30

    On Final call Rs.20

    All the shares were subscribed. When calls were made, except on 100 shares of Mr.Arjun who failed to pay the first and final calls, all moneys were received. The directors have forfeited these and reissued them at Rs.75 each as fully paid up. The share issue expenses amounted to Rs.60,000. Give the necessary Journal entries.

    [Thiruvalluvar, B.Com, April 2007, Madras, B.Com (ICE) (May.2003)]

    [Ans: Amount transferred to capital Reserve A/c Rs.2,500]

16. New Line Ltd. Issued 20,000 shares of Rs.10 each at a premium of Rs.2 payable on follows:

    On application-Rs.2

    On allotment-Rs.5(including premium)

    On first call-Rs-2

On Final call-Rs.3

Applications for 15,000 shares were received and all these shares were allotted. The first call was made and the amount thereon was received except the amount on 500 shares. Hence, these shares were forfeited and reissued at Rs.7 each as fully paid up. Pass the journal entries in the books of the company.

[Madras IstM.comNov.2008; B.Com, Oct.2002]

[Ans: Amount transferred to capital reserve A/c- Rs.1,000]

17. Raj.Ltd. issued 10,000 shares of Rs.100 each at Rs.120 payable as follows:

    Rs. 25 on application

    Rs. 45 on allotment (including premium)

    Rs. 20 first call and

    Rs.30 on final call

    9000 shares were applied for and were allotted. All moneys were received with the exception of the first and final calls on 200 shares held by alagar. These shares were forfeited. Give the journal entries to record the above transactions.

    [Madras, B.C.S(Sem) April 2005.]

    [Ans: Forfeited shares A/c balance- Rs.10,000]

18. Good Prospectus Ltd.issued 40,000 shares of Rs. 10 each at a premium of Rs.2 per share. The shares were payable Rs. 2 on application, Rs.5 on allotment (including premium) and Rs. 5 on First & Final call. All shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs.8 per share. Were reissued as fully paid at Rs.8 per share.Give the necessary journal entries and prepare the balance sheet of the company.

    [Madras. B.Com, October, 2004]

    [Ans: Capital reserve Rs.1,200; Balance sheet total-Rs.4,78,200]

19. Ram. Ltd issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

    On Application Rs.25

    On allotment Rs.34

    On First & Final Call Rs.36

    Applications were received for 4,800 shares and all these were accepted. All the money due was received except the first and final call on 300 shares which were forfeited. 200 out of these shares were reissued at Rs.90 as fully paid. Show the required Cash book and Journal entries in the company's books.

    [Thiruvalluvar, B.com., April 2006; Madras, B.C.S Oct.2003]

    [Ans: Amount transferred to capital reserve A/c-Rs.10,800; Balance of cash book-Rs.4,63,200]

20. X.Ltd. issued for public subscription 20,000 shares of Rs.10 each at a premium of

    Rs 2 per share payable as under.

    Rs. 2 per share on application;

    Rs.5 per share on allotment (including premium)

    Rs.2 per share on first call.

    Rs. 3 per share on final call.

    Applications for 30,000 shares were received. Allotment was made Pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money over paid was used towards allotment.

    Y to whom 800 shares were allotted failed to pay the allotment money, 1^{st} and 2^{nd} calls and 'z' to which 1,000 shares were allotted failed to pay the last two calls. These shares were subsequently forfeited after the 2^{nd} call was made. All these forfeited shares were reissued to 'w' as fully paid at Rs.8 per share. Give the journal entries to record the above transactions.

[Madras, B.ComOct, 2006; B.Com.Oct.2003]

[Ans Amount transferred to capital reserve A/c-3,320; Cash received allotment-Rs.88,320; Forfeited shares A/c Rs.6,920]

21. A limited company issued a prospectus inviting applications for 2000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

    On application 2

    On allotment 5 (including premium)

    On first call 3

    On second call 2

    Applications were received for 3000 shares and allotment was made pro-rata to the applicants for 2,500 shares, the remaining applications being refused. Money over paid on applications was employed on account of sum due on allotment 'p' to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. 'Q' the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call has been made. Of the shares forfeited, 100 shares were sold to 'R' credited as fully paid, for Rs.9 per share, the whole of 'p's share being included. Show journal and cash book entries and balance sheet.

[Madras II M.Com, Oct.2002]

[Ans: Amount received on allotment-Rs.8,640; Amount transferred to capital reserve A/c – Rs.200]

22. Subhas Ltd. invited applications for 20,000 shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application; Rs.7 on allotment including premium and the balance on first and final call.

    Applications for 25,000 shares were received. It was decided:

    a. To refuse allotment to the applicants of 1000 shares.

b. To allot in full to the applicants for 4,000 shares

c. To allot the balance of shares pro- rata among the applicants of the remaining applications.

d. To utilize excess application money in part payment of allotment money.

Mr. A holding 200 shares which were allotted Pro-Rata failed to pay the amount due on allotment and call. Mr.B holding 100 shares to whom full allotment was made failed to pay the call money. Shares of Both A and B were forfeited. 160 forfeited shares of A and 40 forfeited shares of B were reissued to Mr. C at Rs.9 per share. Journalise the transactions.

[Madras B.Com(CS) Nov.2007]

[Ans: Amount received on allotment –Rs.1,26,750; Amount Transferred to capital reserve A/c-720]

23. A limited company issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On application-Rs. 2 per share

On allotment – Rs.5 per share

On first call Rs.3 per share

On final call Rs. 2 per share.

Amount payable on allotment included premium also. Applications were received for 3000 shares and Pro-rata allotment was made on applications for 2,400 shares. Money Overpaid on Applications was employed towards the sum due on allotment. Ramesh who took 40 shares failed to pay the allotment money and his shares were forfeited on his failure to pay the first call also. Mohan the holder of shares failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 80 shares were sold Krishna credited as fully paid for Rs.9 per share, the whole of Ramesh's shares being included. Show the journal entries.

[Thiruvalluvar, B.com, Nov.2005; Madurai B.com Nov 2003]

[Ans: Amount received on allotment – Rs.9,016; Amount transferred to capital reserve Rs.216]

24. Haja Ltd. was incorporated with a share capital of RS.10, 00,000 in Rs. 10 shares. The company purchased machinery from bharani Ltd. For Rs. 5, 00,000 payable in fully paid shares of the company. The directors also decided to allot 2,500 shares credited as fully paid to promoters for their services. The rest of the shares were issued for cash and were taken up by the public and fully paid for. Give the journal entries.

[Madras. B.Com (AF) Nov.2007 (Modified)]

25. X ltd. forfeited 30 shares of Rs.10 each at 10 each fully called up, held by murugan for nonpayment allotment money of Rs. 3 per share and first and final call of Rs.4 per share.

He had paid the application money of Rs.3 per share. These shares were reissued to david for Rs. 8 per share. Pass the necessary journal entries for forfeiture. & reissue of shares.

[Periyar, B.com (CA) April 2005, Bharathiar B.Com, April 2005.]

[Ans: Capital reserve a/c- Rs.30]

26. Y Ltd. forfeited 1,000 equity shares of Rs.10 each, issued at a discount of 10% for non-payment of first call of Rs.2 and the final call of Rs.2 and the final call of Rs.3 per

    Share. Show the necessary journal entry.

[Madras, 1st M.com(KCAIA) Nov.2009; B.com(CS) April 2008.]

[Ans: Amount credited to forfeited shares A/c Rs.4000]

27. The directors of R Ltd, resolved on 1 stmay 2000 that 2000 ordinary shares of Rs. 10 each, Rs.750 paid, be forfeited for nonpayment of final call of Rs.2.50. On June 10,2000, out of the above, 1800 shares were reissued for Rs.6 per share. Show the entries to give effect to the above transactions.

[Madras I B.Com, Nov.2009]

[Ans: Transfer to capital reserve: Rs. 6,300]

28. XY Ltd, forfeited 100 equity shares of Rs.10 each issued at a discount of 10% for nonpayment of the 1 st call of Rs.2 and final call of Rs.3 per share. Out of these 50 shares were reissued at Rs. 8 per share and the balance at Rs.7 per share. Pass the journal entries.

[Bharathiar B.Com, Nov.2004]

[Transfer to capital reserve: Rs.250]

29. A company forfeited 10 shares of Rs.10 each issued at a premium of 10% for nonpayment of the final call of Rs. 3 per share. Out of these, 7 shares were reissued Rs.8 per share as fully paid up. Give the entries for forfeiture and reissue.

[Madras, B.Com (CS) (ICE) October 2008]

[Ans: Capital reserve Account-Rs.35]

30. X Ltd, forfeited 20 share of Rs.10 each on which Rs.6 per share were paid. What amount will be transferred to capital reserve if out of these 8 shares are reissued as fully paid up on payment of Rs.5.50 per share?

[Madras B.Com(CS) Nov.2005(Modified)]

[Ans: Capital reserve A/c Rs.12]

31. The Hindustan manufacturing Co.Ltd. Had a total subscribed capital of Rs. 1,00,000 in equity shares of Rs.10 each of which Rs.7.50 were called up. A final call of Rs.2.50 each in respect of 100 shares held by D.Roy. These shares were forfeited and reissued at Rs.8 per share as fully paid up. Make the journal entries (including that of cash) necessary to record final call forfeiture of shares and reissue of forfeited shares.

[Madras B.C.S (ICE) oct 2000]

[Ans: Capital reserve A/c-Rs.300]

32. A holds 100 shares of Rs. 10 each on which he has paid Re.1 per share as application money. 'B' holds 200 shares of Rs.10 each on which he has paid Re.1 and Rs.2 per share as application and allotment money respectively. C holds 300 shares of Rs.10 each and he has paid Re.1. on application, Rs. 2 allotment and Rs.3 on first call. They all fail to pay their arrears and the directors therefore forfeited their shares. The shares are reissued subsequently for Rs.11 per share as fully paid. Journalize the transactions (Concerning the forfeiture and reissue only)

[Madras I M.com April 2001]

[Amount transferred to capital reserve A/c- Rs.2, 500]

33. Ganesh Ltd.issued prospectus inviting application for 10,000 equity shares of Rs.10 each, payable as follows:

    On application Rs.2 per share

    On allotment Rs.4 per share.

    On first call Rs.4 per share.

    The issue is fully subscribed. Pass journal entries in the books of ganesh Ltd, assuming that all payments due as stated above were received.

[Madurai B.Com, Nov.2003]

34. The Banglore bottling Co.ltd issued a prospectus inviting applications for 1, 00,000 equity shares of Rs.10 each payable Rs.2 on application, Rs.3 on allotment and the balance at the discretion of the directors. Applications for 1, 20,000 shares were received. The directors allotted the shares as follows:

    To applicants of 80,000 shares – full allotment

    To applicants of 30,000 shares- 20,000 shares

    To applicants of 10,000 shares- Nil.Give the journal entries assuming that all the sum due on allotment has been received and no call has been made.

[Madras B.Com, (ICE) May 2002]

[Application money transferred to allotment – Rs 20,000][Application money returned-Rs.20,000]

35. A company offered for public subscription 20,000 equity shares of Rs.100 each payable as Rs.20 per share on application, Rs.30 on allotment, Rs.20 three months after allotment and the balance six months after allotment. The offer was oversubscribed by 5000 shares and the amount due on allotment was received in full. Rs.3, 80,000 and Rs.5, 55,000 were received on first, second, and final calls respectively. You are required to give the journal entries for the above information.

[Madras, B.C.S Nov.2004]

[Ans: Amount due on 1st call- Rs.20,000 and on final call – Rs.45,000]

[Hint: Assume that 5000 applications are rejected since there is no mention of pro- rata allotment.]

36. Dee Ltd. offered to the public 20,000 equity shares of Rs.100 each at premium of Rs.10 per share. The payment was to made as follows:

On application Rs.20; on allotment Rs.40 (including premium) On 1st call Rs.25; On second call rs.25.

Applications totaled for 35,000 shares; applications for 10,000 shares were rejected; those totaling 15,000 shares were allotted 10,000 shares and remaining applications were accepted in full. The directors made both the calls.

One shareholder, holding 500 shares (full allottee) failed to pay calls. Expenses of the issue amounted to Rs.10, 000.

Pass the journal entries and relevant extracts from the balance sheet relating to the above Transactions.

[Madras, M.com, (ICE) Oct 2003, (Modified)]

[Ans: Calls in arrears: Rs.25,000]

37. A Ltd.issued 10,000 equity shares of Rs.10 each payable as under:

Rs. 2 on application.

Rs.5 on Allotment.

Rs.3 on First and Final call.

The public applied for 8,000 shares which were allotted. All the money due on shares was received except the first and final call on 100 shares. These shares were forfeited and reissued at Rs.8 per share. Show the journal entries in the books of the company.

[Madras, B.Com(CS) April 2007, B.Com Nov.2005]

[Ans:Amount transferred to capital reserve A/c. Rs.500]

38. XYZ Company Ltd. made a public issue of 20,000 equity shares of Rs.100 each at a premium of Rs.10 each. The amount payable is as under:

On application Rs.25

On allotment Rs.35 (including premium)

On 1st call Rs.30

On Final call Rs.20

All the shares were subscribed. When calls were made, except on 100 shares of Mr.Arjun who failed to pay the first and final calls, all moneys were received. The directors have forfeited these and reissued them at Rs.75 each as fully paid up. The share issue expenses amounted to Rs.60,000. Give the necessary Journal entries.

[Thiruvalluvar, B.Com, April 2007, Madras, B.Com (ICE) (May.2003)]

[Ans: Amount transferred to capital Reserve A/c Rs.2,500]

39. New Line Ltd. Issued 20,000 shares of Rs.10 each at a premium of Rs.2 payable on follows:

On application-Rs.2

On allotment-Rs.5(including premium)

On first call-Rs-2

On Final call-Rs.3

Applications for 15,000 shares were received and all these shares were allotted. The first call was made and the amount thereon was received except the amount on 500 shares. Hence, these shares were forfeited and reissued at Rs.7 each as fully paid up. Pass the journal entries in the books of the company.

[Madras IstM.comNov.2008; B.Com, Oct.2002]

[Ans: Amount transferred to capital reserve A/c- Rs.1,000]

40. Raj.Ltd. issued 10,000 shares of Rs.100 each at Rs.120 payable as follows:

Rs. 25 on application

Rs. 45 on allotment (including premium)

Rs. 20 first call and

Rs.30 on final call

9000 shares were applied for and were allotted. All moneys were received with the exception of the first and final calls on 200 shares held by alagar. These shares were forfeited. Give the journal entries to record the above transactions.

[Madras, B.C.S(Sem) April 2005.]

[Ans: Forfeited shares A/c balance- Rs.10,000]

41. Good Prospectus Ltd.issued 40,000 shares of Rs. 10 each at a premium of Rs.2 per share. The shares were payable Rs. 2 on application, Rs.5 on allotment (including premium) and Rs. 5 on First & Final call. All shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs.8 per share. Were reissued as fully paid at

Rs.8 per share.Give the necessary journal entries and prepare the balance sheet of the company.(39)

[Madras. B.Com, October, 2004]

[Ans: Capital reserve Rs.1,200; Balance sheet total-Rs.4,78,200]

42. Ram. Ltd issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

On Application Rs.25

On allotment Rs.34

On First & Final Call Rs.36

Applications were received for 4,800 shares and all these were accepted. All the money due was received except the first and final call on 300 shares which were forfeited. 200 out of these shares were reissued at Rs.90 as fully paid. Show the required Cash book and Journal entries in the company's books.

[Thiruvalluvar, B.com., April 2006; Madras, B.C.S Oct.2003]

[Ans: Amount transferred to capital reserve A/c-Rs.10,800; Balance of cash book-Rs.4,63,200]

43. X.Ltd. issued for public subscription 20,000 shares of Rs.10 each at a premium of

Rs 2 per share payable as under.

Rs. 2 per share on application;

Rs.5 per share on allotment (including premium)

Rs.2 per share on first call.

Rs. 3 per share on final call.

Applications for 30,000 shares were received. Allotment was made Pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money over paid was used towards allotment.

Y to whom 800 shares were allotted failed to pay the allotment money, 1st and 2nd calls and 'z' to which 1,000 shares were allotted failed to pay the last two calls. These shares were subsequently forfeited after the 2nd call was made. All these forfeited shares were reissued to 'w' as fully paid at Rs.8 per share. Give the journal entries to record the above transactions.

[Madras, B.Com(ICE) Oct, 2006; B.Com.Oct.2003]

[Ans: Amount transferred to capital reserve A/c-3,320; Cash received allotment-Rs.88,320; Forfeited shares A/c Rs.6,920]

44. A limited company issued a prospectus inviting applications for 2000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

On application 2

On allotment 5 (including premium)

On first call 3

On second call 2

Applications were received for 3000 shares and allotment was made pro-rata to the applicants for 2,500 shares, the remaining applications being refused. Money over paid on applications was employed on account of sum due on allotment 'p' to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. 'Q' the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call has been made. Of the shares forfeited, 100 shares were sold to 'R' credited as fully paid, for Rs.9 per share, the whole of 'p's share being included. Show journal and cash book entries and balance sheet.

[Madras II M.Com, Oct.2002]

[Ans: Amount received on allotment-Rs.8,640; Amount transferred to capital reserve A/c – Rs.200]

45. Subhas Ltd. invited applications for 20,000 shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application; Rs.7 on allotment including premium and the balance on first and final call.

Applications for 25,000 shares were received. It was decided:

a) To refuse allotment to the applicants of 1000 shares.

b) To allot in full to the applicants for 4,000 shares

c) To allot the balance of shares pro- rata among the applicants of the remaining applications.

d) To utilize excess application money in part payment of allotment money.

Mr. A holding 200 shares which were allotted Pro-Rata failed to pay the amount due on allotment and call. Mr.B holding 100 shares to whom full allotment was made failed to pay the call money. Shares of Both A and B were forfeited. 160 forfeited shares of A and 40 forfeited shares of B were reissued to Mr. C at Rs.9 per share. Journalise the transactions.

[Madras B.Com(CS) Nov.2007]

[Ans: Amount received on allotment –Rs.1,26,750; Amount Transferred to capital reserve A/c-720]

46. A limited company issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On application-Rs. 2 per share

On allotment – Rs.5 per share

On first call Rs.3 per share

On final call Rs. 2 per share.

Amount payable on allotment included premium also. Applications were received for 3000 shares and Pro-rata allotment was made on applications for 2,400 shares. Money

Overpaid on Applications was employed towards the sum due on allotment. Ramesh who took 40 shares failed to pay the allotment money and his shares were forfeited on his failure to pay the first call also. Mohan the holder of shares failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 80 shares were sold Krishna credited as fully paid for Rs.9 per share, the whole of Ramesh's shares being included. Show the journal entries.

[Thiruvalluvar, B.com, Nov.2005; Madurai B.com Nov 2003]

[Ans: Amount received on allotment – Rs.9,016; Amount transferred to capital reserve Rs.216]

47. X Ltd. has resolved to utilize Rs. 3,00,000 out of the General Reserve balance to declare a bonus to the shareholders by paying the final call of Rs. 3 per share on 1,00,000 equity shares of Rs. 10 each. Along with this, the company further decided to utilize the balance of the share premium account to issue fully paid-up bonus shares in the ratio of one equity share for every five equity shares held. Show journal entries in the books of X Ltd.

48. M Ltd issued a prospectus offering 10,000 equity shares of Rs. 20 each at Rs. 22 per share payable as follows: on application Rs. 3 per share; on allotment (including premium) Rs. 8 per share; on first call Rs. 6 per share; on final call Rs. 5 per share.

    On first call being made all the shareholders, except one holding 400 shares, duly paid their respective amounts. These 400 shares were forfeited by the Board of Directors and 300 of these shares were subsequently re-issued credited Rs. 15 paid, for Rs. 13 per share and the amount thus due being duly received.

    Show the entries in the journal and cash book relating to forfeiture and re-issue of share and the relevant extracts from the liabilities side of the balance sheet drawn thereafter.

[Madurai, B.Com, Nov, 2003]

[Ans:Amount transferred to capital reserve Rs.2,100]

49. Flamingo Ltd. offered for public subscription 5,000 equity shares of Rs. 10 each at a premium of Rs. 2.50 per share payable as follows: on application, Rs. 2.00 per share; on allotment, Rs. 4.50 per share (including premium); on first call, Rs. 4.00 per share; on second and final call, Rs. 2.00 per share.

    Applications were received for 7,500 shares and allotment was made pro rata applicants for 5,000 shares, letters of regret being issued for the remaining applicants. Money over-paid on application by the allottees was adjusted to allotment account.

    Rahim to whom 100 shares were allotted failed to pay the allotment money and on his failure to pay the first call, his shares were forfeited.

    Haq, the holder of 150 shares, failed to pay last two calls and his shares were forfeited after the second call was made.

Of the shares forfeited 200 were allotted as fully paid up to Karim for Rs. 8 per share paid in cash.

Show journal entries to record the forfeiture and re-issue of forfeited shares including those relating to cash.

[Madurai, B.Com, Nov, 2004]

[Ans: Amount transferred to capital reserve Rs.300]

50. G Limited invited applications for 15,000 of its equity shares of Rs. 10 each issued at Rs. 11.50 payable as follows:

On application on 1st July, 2002Rs. 7.50 per share

On allotment on 31st July, 2002 (including premium) Rs. 2.00 per share

On first and final call on 31st August 2002Rs. 2 per share

Applications were received for 18,000 shares and it was decided to deal with the same as follow in consultation with the stock exchange authorities: (a) To refuse allotment to applicants for 800 shares. (b). To give full allotment to applicants for 2,200 shares. (c) To allot the remaining shares pro rata among other applicants. (d) To utilize the surplus received on applications in part payment of amounts due on allotment.

An applicant to whom 40 shares were allotted failed to pay the amount due on the first and final call and his shares were forfeited on 31st October, 2002. These shares were re-issued on 5th November, 2002 as fully-paid at Rs. 9 per share. Give journal entries including those relating to cash to record the above transactions.

[Madurai, B.Com, Nov, 2005]

[Ans: Amount transferred to capital reserve Rs.280]

UNIT – 2

UNDERWRITING OF SHARES

Meaning – Types – Underwriter Vs. Broker – Calculation of commission – Full underwriting – Partial underwriting – Firm underwriting

Acompany issues shares for the purpose of raising funds from the public for running its business. We cannot sure that all the shares issued by the company will be subscribed by the public. Sometimes all the shares may be subscribed by the public successfully but not always. But from the company point of view they require some guarantee for at least a minimum subscription of shares issued.

Any person who gives this guarantee to the company is called underwriter. He takes the responsibility of selling the entire shares or a portion of shares for which he already gives guarantee. Thus the company is relieved from the burden of selling their shares to the public. It gives a maximum commission of 5% on issue price for shares and 2.5% for debentures to the underwriter for his services in connection with underwriting. On behalf of the company, the underwriter took necessary steps to sell the shares underwritten by him among the public. If not, he will pay the balance amount to the company to the extent of unsold shares.

2.1 TYPES OF UNDERWRITING

The underwriting may be full underwriting or partial underwriting. When all the shares issued by the company are guaranteed by one or more underwriters, then it is called full underwriting. When only a portion of the shares issued by the company is guaranteed by one or more underwriters, then it is called partial underwriting.

When an underwriter agreed to accept a particular number of shares personally in addition to normal underwriting, then it is called firm underwriting.

2.2 MARKED AND UNMARKED APPLICATIONS

The applications received by the company bear the signature or any seal of underwriters for their own identity. They are called marked applications. They are to be credited to the underwriter’s account individually.

Some applications may be received by the company without any signature or any seal of underwriters. They are called unmarked applications. They should be divided in gross liability ratio and credited to all underwriters account.

2.3 DIFFERENCE BETWEEN UNDERWRITER AND BROKER

Basis	Underwriter	Broker
Responsibility	The underwriter is fully responsible for the unsold shares	The broker is not liable for the unsold shares
Basis	He is eligible to get commission on total no. of shares underwritten by him whether they are sold or not.	He is getting commission on the no. of shares sold by him
Reward	The reward goes to underwriter for his service is known as underwriting commission	The reward goes to broker for his service is known as brokerage.

2.4 STATEMENT SHOWING NET LIABILITY OF UNDERWRITERS

Particulars	No. of shares
Gross liability	xxx
Less: Marked applications	xxx
	xxx
Less: Unmarked applications in gross liability ratio	xxx
	xxx
Add: Firm underwriting (if any)	xxx
Net liability	xxx

Note:

1. If there is any deficit (-) figure, it should be divided to the remaining underwriters in their gross liability ratio.
2. Unmarked applications = Shares subscribed – Marked applications

2.5 CALCULATION OF COMMISSION

Illustration -1R Ltd issued 20,000 shares of ₹10 each at par. The issue was underwritten by XY firm for maximum commission permitted by law. The public applied for and received 16,000 shares. Calculate the commission payable to the underwriter.

Solution:

Net Liability = 20,000 – 16,000 = 4,000 shares

Commission = 2,00,000 x 5/100 = ₹10,000

2.6 FULL UNDERWRITING

Illustration -2 A Ltd. issued 20,000 shares of ₹10 each at par which was underwritten as follows:

X – 10,000 shares; Y – 6,000 shares and Z – 4,000 shares. Applications were received for 18,000 shares which included marked applications which are as follows: X – 4,000 shares; Y – 2,000 shares and Z – 10,000 shares.

Prepare a statement showing how many more shares underwriters will have to take under the underwriting contract.

Solution

Statement showing net liability of underwriters

Particulars	X	Y	Z
Gross liability	10,000	6,000	4,000
Less: Marked applications	4,000	2,000	10,000
	6,000	4,000	(-) 6,000
Less: Unmarked applications (18,000 – 16,000= 2000 (10:6:4)	1,000	600	(-) 400
	5,000	3,400	(-) 6,400
(-) Deficiency of Z (10:6)	4,000	2,400	(+) 6,400
Net liability	1,000	1,000	–

Illustration -3 S Ltd. was formed with a capital of ₹1,00,000 in ₹10 shares, the whole amount being issued to the public. The underwriting of these shares was as follows:

M – 3,500 shares; N – 3,000 shares; O – 2,000 shares; P – 1,000 shares; Q – 300 shares and R – 200 shares. The details regarding marked application are as follows:

M – 1,000 shares; N – 2,250 shares; O – 2,000 shares; P – 700 shares; Q – 500 shares and R – Nil. Applications for 2,000 shares were received on unmarked forms.

Prepare a statement showing the number of shares each underwriter had to take up.

Solution

Statement showing net liability of underwriters

Particulars	M	N	O	P	Q	R
Gross liability	3,500	3,000	2,000	1,000	300	200
Less: Marked applications	1,000	2,250	2,000	700	500	–
	2,500	750	–	300	(-)200	200
Less: Unmarked applications	700	600	400	200	60	40
	1,800	150	(-) 400	100	(-) 260	160
(-) Deficiency of O & Q (35:30:10:2)	300	257	(+)400	86	(+)260	17
	1,500	(-)107	–	14	–	143
(-) Deficiency of N (35:10:2)	80	(+)107	–	23	–	5
	1,420	–	–	(-) 9	–	138

(-) Deficiency of P	9	–	–	(+) 9	–	–
Net liability	1,411	–	–	–	–	138

2.7 PARTIAL UNDERWRITING

Illustration -4 M Ltd. issued 1,00,000 equity shares of which only 60% was underwritten by Gandhi. Applications for 90,000 shares were received in all. Out of which application for 52,000 were marked. Determine the liability of Gandhi.

Solution

Statement showing net liability of underwriters

Particulars	Gandhi	Company
Gross liability	60,000	40,000
Less: Marked applications	52,000	–
	8,000	40,000
(-)Unmarked applications (90,000 – 52,000 = 38,000)	22,800	15,200
	(-)14,800	24,800
Less: Deficiency of Gandhi	(+) 14,800	14,800
Net liability	–	10,000

Illustration – 5 P Ltd. issued 20,000, 10% Debentures of ₹100 each for public subscription. The issue was underwritten as follows:

Satyam – 25%, Sivam – 30% and Sundaram – 25%. The company received a total number of 14,000 applications of which marked applications were as follows:

Satyam – 4,000, Sivam – 3,000 and Sundaram – 4,000.

Determine the liability of each of underwriter.

Solution

Statement showing net liability of underwriters

Particulars	Satyam	Sivam	Sundaram	Company
Gross liability	5,000	6,000	5,000	4,000
Less: Marked applications	4,000	3,000	4,000	–
	1,000	3,000	1,000	4,000
Less: Unmarked applications (14,000 – 11,000)	750	900	750	600
Net liability	250	2,100	250	3,400

2.8 FIRM UNDERWRITING

Illustration –6 P Ltd. issued 25,000 shares of ₹100 each. The whole issue was underwritten by Ram. In addition, there is a firm underwriting of 3,000 shares by Ram. Applications for 17,000 shares were received by the company in all.

Calculate the liability of Ram.

Solution

Statement showing net liability of underwriter

Particulars	Amount
Gross liability	25,000
(–) Marked applications	17,000
	8,000
(+) Firm underwriting	3,000
Net liability	11,000

Illustration –7 K Ltd. has authorized capital of ₹25 lakhs divided into 1,00,000 equity shares of ₹25 each. The company issued for subscription 25,000 shares at a premium of ₹10 each. The entire issue was underwritten as follows:

A – 15,000 shares (firm underwriting – 2,500 shares)

B – 7,500 shares (firm underwriting –1,000 shares)

C – 2,500 shares (firm underwriting – 500 shares)

Out of the total issue, 22,500 shares including firm underwriting were subscribed: The following were the marked forms: A – 8,000 shares; B – 5,000 shares and C – 2,000 shares.

Calculate the liability of each underwriter.

Solution

Statement showing net liability of underwriters

Particulars	A	B	C
Gross liability	15,000	7,500	2,500
(–) Marked applications	8,000	5,000	2,000
	7,000	2,500	500
(–) Unmarked applications	4,500	2,250	750
	2,500	250	(–)250
(–) Deficiency of C (150:75)	167	83	(+) 250

	2,333	167	–
(+) Firm underwriting	2,500	1,000	500
Net liability	4,833	1,167	500

Unmarked applications = 22,500 – 15,000 = 7,500 (150:75: 25)

Illustration 8 S Ltd. issued to public 1,50,000 equity shares of Rs.100 each at par. Rs.60 per share was payable along with application and the balance on allotment. This issue was underwritten equally by A, B and C for a commission of 2.5 per cent. Application for 1,40,000 shares were received as per details:

Underwriter	Firm Application	Marked Application	Total
A	5,000	40,000	45,000
B	5,000	46,000	51,000
C	3,000	34,000	37,000
Unmarked Applications			7,000
Total			1,40,000

It was agreed to credit the unmarked applications equally to A and C. S Ltd. accordingly made the allotment and received the amounts due from the public. The underwriters settled their accounts. You are required to:

i) Prepare a statement showing the liability of the underwriters and

ii) Journalise the above transactions in the books of S Ltd.

Solution

	A	**B**	**C**	**Total**
Gross liability	50,000	50,000	50,000	1,50,000
(–) Marked Applications	40,000	46,000	34,000	1,20,000
	10,000	4,000	16,000	30,000
(–) Unmarked Application (1,27,000 – 1,20,000)	3,500	–	3,500	7,000
	6,500	4,000	12,500	23,000
(–) Firm Underwriting	5,000	5,000	3,000	13,000
	1,500	(–) 1,000	9,500	10,000
Deficit of B	(–) 500	+ 1,000	(–) 500	–
	1,000	–	9,000	10,000

(+) Firm underwriting	5,000	5,000	3,000	13,100
Net liability	6,000	5,000	12,000	23,000

Net amount due from / due to underwriters

	A	B	C
No. of shares subscribed	6,000	5,000	12,000
Amount due @ Rs. 60 per share	3,60,000	3,00,000	7,20,000
(–) Amount already paid on firm application	3,00,000	3,00,000	1,80,000
	60,000	–	5,40,000
(–) Underwriting commission @ 2.5% on issue price	1,25,000	1,25,000	1,25,000
	(–) 65,000	(–) 1,25,000	4,15,000

Journal Entries

Date	Particulars	LF	Debit Rs.	Credit Rs
	Bank a/c	Dr	84,00,000	
	To Share application a/c			84,00,000
	(Being application money received)			
	Share Application a/c	Dr	84,00,000	
	To Share Capital a/c			84,00,000
	(Being application money transferred)			
	A a/c	Dr	60,000	
	C a/c	Dr	5,40,000	
	To Equity share capital a/c			6,00,000
	(Being allotment of shares to A & C)			
	Underwriting commission a/c	Dr	3,75,000	
	To A a/c			1,25,000
	To B a/c			1,25,000
	To C a/c			1,25,000
	(Being commission due)			
	Bank a/c	Dr	4,15,000	

	To C a/c			4,15,000
	(Being amount received from C after adjusting commission)			
	A a/c	Dr	65,000	
	B a/c	Dr	1,25,000	
	To Bank a/c			1,90,000
	(Being amount paid to A & B after commission)			
	Share Allotment a/c	Dr	60,00,000	
	To Share capital a/c			60,00,000
	(Being allotment due)			
	Bank a/c	Dr	60,00,000	
	To Share Allotment a/c			60,00,000
	(Being allotment money received)			

Illustration 9 Libra Ltd. came up with an issue of 20,00,000 equity shares of Rs.10 each at par. 5,00,000 shares were issued to the promoters and the balance to the public was underwritten by three underwriters– Anand, Vijay and Ashok, with firm underwriting of 50,000 shares each.

Subscription totaled 12,97,000 shares including the marked forms which were: Anand 4,25,000 shares; Vijay 4,50,000 shares and Ashok 3,50,000 shares.

The underwriters had applied for shares covered by firm underwriting. The amount payable on application and allotment were Rs.2.50 and Rs.2 respectively. The agreed commission was 2.5%. Pass necessary journal entries and calculate the liability of underwriters.

Statement showing the liability of underwriters

	Anand	**Vijay**	**Ashok**	**Total**
No. of shares underwritten	5,00,000	5,00,000	5,00,000	15,00,000
(–) Marked applications	4,25,000	4,50,000	3,50,000	12,25,000
	75,000	50,000	1,50,000	2,75,000
(–) Firm underwriting	50,000	50,000	50,000	1,50,000
	25,000	–	1,00,000	1,25,000
(–) Unmarked applications (12,97,000 – 12,25,000)	36,000	–	36,000	72,000
	(–) 11,000	–	64,000	53,000

(–) Deficiency of Anand	(+) 11,000	–	(–) 11,000	–
	–	–	53,000	53,000
(+) Firm underwriting	50,000	50,000	50,000	
Net liability	50,000	50,000	1,03,000	

Statement showing the amount due to or from underwriters

	Anand	Vijay	Ashok
Liability of underwriters	50,000	50,000	1,03,000
Amount to be paid by them @ Rs.4.50 per share	2,25,000	2,25,000	4,63,500
(–) Amount paid on firm applications	1,25,000	1,25,000	1,25,000
	1,00,000	1,00,000	3,38,500
(–) Commission on shares (2.5% on 50,000 shares)	1,25,000	1,25,000	1,25,000
Amount paid or received	(–)25,000	(–)25,000	1,13,500

Journal Entries

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank a/c	Dr	3,75,000	
	To Share application a/c			3,75,000
	(Being application money received)			
	Share application a/c	Dr	3,75,000	
	To Share capital a/c			3,75,000
	(Being application money transferred)			
	Anand a/c	Dr	1,00,000	
	Vijay a/c	Dr	1,00,000	
	Asohk a/c	Dr	3,38,500	
	To Equity share capital a/c			5,38,500
	(Being allotment of shares to underwriters)			
	Underwriting commission a/c	Dr	3,75,000	
	To Anand a/c			1,25,000

	To Vijay a/c			1,25,000
	To Ashok a/c			1,25,000
	(Being commission due)			
	Bank a/c	Dr	1,13,500	
	To Ashok			1,13,500
	(Being amount to be received)			
	Anand a/c	Dr	25,000	
	Vijay a/c	Dr	25,000	
	To Bank a/c			50,000
	(Being amount to be paid)			

Illustration 10 X Ltd. issued 10,000 shares of Rs.100 each at a premium of Rs.15 each. Ninety per cent of the issue was underwritten by M/S Broker and Co. at a commission of 1% on the nominal face value. Applications were received for 8,000 shares and allotment was fully made. All the money due from allottees was received in one instalment. The accounts with Broker & Co. were settled.

A) Show the journal entries to record the transactions.

B) What would be the liability of M/S Broker & Co. if applications were received for 12,000 shares but marked applications were 8,000 shares?

Journal Entries in the books of X Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs
	Bank a/c	Dr	9,20,000	
	To Share application and allotment a/c			9,20,000
	(Being application and allotment money received)			
	Share application and allotment a/c	Dr	9,20,000	
	To Share capital a/c			8,00,000
	To Securities premium a/c			1,20,000
	(Being app. and allot. money transferred)			
	M/S Brokers & Co. a/c	Dr	2,07,000	

	To Share capital a/c (1800 x 100)			1,80,000
	To Securities premium a/c			27,000
	(Being shares taken by Broker & Co.)			
	Underwriting commission a/c	Dr	9,000	
	To Broker & Co a/c			9,000
	(Being Underwriting comm. payable)			
	Bank a/c	Dr	1,98,000	
	To M/S Brokers & Co. a/c			1,98,000
	(Being balance amount received)			

	Brokers & Co.	**X Ltd**
Gross Liability	9,000	1,000
(–) Marked applications (9:1)	7,200	800
Net liability	1,800	200

b) Gross liability of the underwriter is 9,000 shares (i.e.,10,000 shares x 90%). Marked application is 8,000 shares.

Since the application have been received for 12,000 shares, net liability of the Broker & Co. is NIL

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Marked applications refers to applications carrying the
   a) **Stamp of the underwriters** b) Signatures of Public
   c) Stamp of company who offered shares d) Without any marking

2. According to Sec.76 of the Companies Act 1956, the commission payable to underwriter for shares should not exceed
   a) **5%** b) 2.5%
   c) 10% d) 1.5%

3. In case of debentures, the commission payable to underwriter should not exceed
   a) 5% b) **2.5%**
   c) 10% d) 1.5%

4. K Ltd issued shares of ₹1,000 each at ₹950. The commission will be paid on
   a) ₹1,000 b) **₹950**
   c) ₹1,950 d) ₹50

5. Underwriting commission is payable on
   a) The issue prices of shares b) **the paid up value of shares**
   c) The application money received on shares d) Market value of shares

6. When an underwriter agrees to buy shares privately apart from shares underwritten, it is called
   a) Partial underwriting b) **Firm underwriting**
   c) Full underwriting d) Individual underwriting

7. Unmarked applications are the difference between
   a) **Subscribed shares and marked** b) Marked and issued
   c) Issued and marked d) Marked and unmarked

8. Unmarked applications should be distributed in
   a) Net liability ratio b) **Gross liability ratio**
   c) Equal ratio d) Any ratio

9. Deficiency of one underwriter is shared by others in
   a) Net liability ratio b) Gross liability ratio
   c) Equal ratio d) **Remaining gross liability ratio**

10. When one underwriter agrees to underwrite the whole issue of shares it is called

    a) Partial underwriting   b) Firm underwriting
    c) **Full underwriting**   d) Individual underwriting

11. In the absence of any information, firm underwriting will be treated as ________

    a) Marked   b) Unmarked
    c) Separate deduction   d) No Treatment

12. Firm underwriting will ________

    a) Increase underwriter's liability   b) Decrease underwriter's liability
    c) Increase marked application   d) Decrease unmarked forms

13. Unmarked forms will _______

    a) **Decrease underwriter's liability**   b) Increase underwriter's liability
    c) Nullify underwriter's liability   d) Have No effect

14. The remuneration given to underwriting is called

    a) Salary   b) Wages
    c) Underwriting commission   d) Commission

15. Firm underwriting means

    a) Shares to be taken irrespective of public subscribe

    b) Shares taken only when public will not subscribe

    c) Gross liability   d) Unmarked forms.

REVIEW QUESTIONS

A. Answer in Short

1. What do you mean by underwriting of shares?
2. what are the different types of underwriting?
3. What is firm underwriting?
4. What is marked and unmarked applications?
5. Differentiate underwriter from brokers

B. Answer in Detail

1. Explain the different types of Underwriting
2. Write short note on
    a. Firm underwriting
    b. Marked Applications
    c. Unmarked Applications.

EXERCISES

1) The issue of 2,00,000 shares of ₹10 each at ₹11 per share made by Z Ltd., was underwritten by M/s X and Y. Subscriptions totaled for 2,50,000 shares. What is underwriter's liability? What is the commission they are eligible for?s

   (Ans:₹1,00,000)

2) A company issued 10,000 shares of ₹10 each. These shares were underwritten as follows:

   A – 7,000 shares; B – 3,000 shares. The public applied for 8,000 shares which included marked applications as follows: A – 5,000 shares; B – 2,000 shares.

   Determine the liability of A and B.

   Ans: Net liability A–1,300 B–700

3) The following underwriting of shares takes place:

   A – 6,000 shares; B – 2,500 shares and C – 1,500 shares. The issue consists of 10,000 shares. The total subscription was 7,100 shares and the forms included the following marked forms: A – 1,000 shares; B – 2,000 shares and C – 500 shares.

   Show the allocation of liability of underwriters.

   Ans: Net liability A–2,520 B–Nil C–380

4) ABC Ltd. was incorporated on 1–1–2009 issued applications for 5,00,000 equity shares of ₹10 each. The entire issue was fully underwritten by A, B, C and D. A – 2,00,000 shares; B–1,50,000 shares; C – 1,00,000 shares and D – 50,000 shares. Applications were received for 4,50,000 shares of which marked applications were as follows:

   A – 2,20,000 shares; B– 90,000 shares; C – 1,10,000 shares and D – 10,000 shares.

   You are required to calculate the net liability of individual underwriters, by giving credit to unmarked applications in the ratio of gross liability.

   Ans: Net liability A–Nil B–22,500 C– Nil D –27,500

PARTIAL UNDERWRITING

5) R Ltd. issued 1,00,000 equity shares of which only 75,000 equity shares were underwritten by D. Application for 60,000 equity shares were received out of which applications for 40,000 shares were marked in favour of D.

   Determine net liability of D.

   Ans: Net liability D –20,000 Company –20,000

6) X Company issued 1,00,000 shares of ₹10 each. These shares were underwritten as follows:

   X –30,000 shares and Y –50,000 shares. The public applied for 70,000 shares which includes marked applications as follows: X –10,000 shares and Y –2,000 shares.

Determine the liability of X and Y.

Ans: Net liability X –2,600 Y –19,000 Company– 8,400

FIRM UNDERWRITING

7) Total subscription (excluding firm underwriting) – 20,000 shares; Application under firm underwriting – 8,400 shares; Marked applications – 14,000 shares.

   Calculate unmarked applications.

8) S Ltd issued 20,000 shares which were underwritten as follows:

   A – 12,000 shares, B – 5,000 shares and C – 3,000 shares. The underwriters made applications for firm underwriting as under. A – 1,600 shares; B – 600 shares and C – 2,000 shares. The total subscriptions excluding firm underwriting but including marked applications were for 10,000 shares.

   The marked applications were as follows:

   A – 2,000 shares; B – 4,000 shares and C – 1,000 shares.

   Prepare a statement showing the allocation of liability of the underwriters.

   Ans: Net liability A–6,640 B–600 C–2,760

9) The following underwriting takes place:

   A – 5,000 shares; B – 3,000 shares and C – 2,000 shares

   In addition there is firm underwriting:

   A – 1,000 shares; B – 500 shares and C – 1,500 shares

   The share issue is for 10,000 shares. Total subscription including firm underwriting was 8,500 shares and the forms included the following marked forms:

   A – 2,000 shares; B – 1,000 shares and C – 1,000 shares

   Show the allocation of liability of the underwriters.

   Ans: Net liability A–1,750 B–1,150 C–1,600

PREVIOUS YEAR UNIVERSITY QUESTION PAPERS

1) Mohanraj Ltd incorporated on 1st jan 2005 issued a prospectus inviting of applications for 5,00,000 equity shares of Rs.10 each at a premium of 10%. The whole issue was fully underwritten by kapoor, Bohra, Dalal, and Mehta as follows:

   Kapoor-2,00,000 shares, Bohra-1,50,000 shares, Dalal-1,00,000 shares, Metha-50,000 shares. Applications were received for Rs.45,000 hares which marked applications were as follows:

   Kapoor-2,20,000 shares, Bohra-90,000 shares, Dalal-1,10,000 shares, Metha-10,000 shares. It is agreed that underwriters to be paid commission at 5% on issue price. You are required to find out the net liability on Underwriters.

   [Alagappa University, B.Com(C.A), Nov,2015]

2) 'A' Co Limited has authorized share capital of Rs.1,00,00,000 dividend into 2,00,000 equity shares of Rs.50 each. The company issued for subscription for 1,00,000 shares at premium of Rs.10 each. The entire issue was underwritten as follows:

   X-60,000 shares (Firm underwriting 10,000 shares)

   Y-30,000 shares (Firm underwriting 4,000 shares)

   Z-10,000 shares (Firm Underwriting 2,000 shares).

   Out of the total issue 90,000 shares including firm underwriting were subscribed. Markets forms were X-32,000, Share's Y-2000 shares and Z-8,000 shares. Calculate the Liability of each underwriter.

   [Alagappa Univerity, B.Com, April,2011]

3) Albert Ltd, issued 50,00,000 equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below.

Underwriter	A	B	C
Shares	15,00,000	25,00,000	10,00,000

   Applications were received for 48,50,000 shares of which the marked applications were as follows.

Underwriter	A	B	C
Shares	12,00,000	25,00,000	8,50,000

   Calculate the number of shares to be taken up by the underwriters.

   [Alagappa University, B.Com, Nov,2016]

4) Bharat Lt. issued 1,50,000 equity shares.The whole of the issue was underwritten as follows :

   X-50%, Y-25%, Z-25%

   Applications for the 1,20,000 shares were received in all, out of which applications for 30,000 shares had the Stamp of X, those for 15,000 shares that of Y and those for 30,000

shares that of Z. The remaining applications for 45,000 shares did not bear any stamp.Determine the liability of the underwriters.

[Alagappa University, B.Com, Nov,2014]

5) Raj.Ltd. issues 20,000 equity shares of Rs.10 each at par. The issue was underwritten by kala& Co. for maximum commission permitted by law. The public applied for and received 16,000 shares. Calculate the commission payable to the underwriter.

[Madras, B.com., Nov.2004 (1/2 Figs)]

[Ans: Net liability: 4000 shares; commission: Rs.5,000 (i.e., 2,00,000 ×2.5%)]

Note: *In practice, SEBI has permitted only 2.5% commission on equity shares underwritten, though section 76 of the companies Act 1956 provides for maximum rate of 5%.*

6) Naszar Ltd., issued 10,000 equity shares of Rs.100 each at par. The whole issue has been underwritten by Jhon &Co for a commission of 2%. The company received applications only for 5,000 shares. All the applications were accepted. Give the journal entries, assuming that all amounts due have been received.

[Madras, B.Com, B.Com(C.S) April, 2007]

[Ans: Net liability of underwriter-Rs.5,00,000; Commission-20,000; Net Amount receivable after adjusting commission-Rs.4,80,000]

7) Good Luck Ltd., issued 1,000 equity shares of Rs.100 each and 1,000 6% debentures of Rs.100 each. The debentures were issued at a discount of 6%. The whole of the issues was underwritten by Wisdom&Co. for a commission of 4% on the issue price of shares nd 2% on the issue price of debentures. The public applied for 900 shares and 800 debentures. These were immediately paid for. The underwriters fulfilled their obligations. Pass the journal entries.

[Madras, B.Com, March 2000]

[Ans: Commission on shares-Rs.4000, Commission on debentures – Rs.1,880, Underwriters liability of shares –Rs.10,000, For Debentures-Rs.18,800, Net Cash receivables from underwriters-Rs.22,920]

8) A company issued 20,000 equity shares of Rs.100 each par and 1,000 debentures of Rs.1,000 each at Rs.950. The whole of the issue has been underwritten by paul & Co. The whole of hares are applied for but applications for 800 debentures only were received. All the applications were accepted. Commission payable to the underwriter is the maximum amount permissible. Give the journal entries to record the above transactions and prepare balance sheet at this stage, assuming that all amounts due have been received.

[Madras, IInd M.Com,)(Old) Oct.2004 (1/2 figures)]

[Ans: Underwriting Commision on shares-Rs.50,000.(20,00,000×2.5%); on debentures-Rs.11,400(7,60,000×1% + 1,90,000×2%) Underwriters liability-Rs.1,90,000; Net Cash Receivable Rs.1,28,600; Balance sheet total-30,00,000]

9) Velu.Ltd., issued 1,00,000 equity shares. The whole of the issue was underwritten as follows: A-40%; B-30%; C-30%. Applications for 80,000 shares were received in all, out of which applications for 20,000 shares had stamp of A, those for 10,000 shares that of B; and 20,000 share that of C. The remaining applications for 30,000 shares did not bear any stamp. Show the net Liability of the underwriters.

[Madras,B.Com(C.S)(; oct,2008;B.Com(C.S) Nov.2007]

[Ans: Net liability A-8000 shares; B-11,000 shares and C-1,000 shares]

10) Arun Ltd., issued 1,00,000 equity shares. The whole of the issue was underwritten as follows: X-40%, Y-40%, Z-20%. Applications for 80,000 shares were received in all out of which applications for 20,000 shares had the stamp of X, those for 10,000 shares that of Y and 20,000 shares that of Z. The remaining applications did not bear any stamp. Show the liability of the underwriters.

[Madras, B.com, B.Com(CS) April,2007, Manomaniam Sundram University, B.Com, April,2015]

[Ans: Net Liability: X-5000 shares; Y-15,000 shares; Z-Nil]

11) Thinkers.Ltd issued a prospectus inviting applications for 40,000 equity shares of Rs.100 each. The whole issue was fully underwritten by three underwriters as follows: Mani: 20,000 shares; Paul -14000 shares; Ganesh-6000 shares. Applications were received for 32,000 shares of which marked applications were as follows

[Mani-15,200 shares; Paul -8080 shares; ganesh-Nil]

[Madras, B.Com, Nov.2006 (1/2 figs)]

12) X Ltd., which was incorporated on 1.1.2005 issued applications for 5,00,000 equity shares of Rs.10 each. The entire issue was fully underwritten by A, B, C, and D.

A- 2,00,000 shares; B-1,50,000 shares; C-1,00,000 shares; D-50,000 shares. Applications were received for 4,50,000 shares of which marked applications as follows:

A- 2,20,000 shares; B- 90,000 shares; C-1,10,000 shares and D-10,000 shares; you are required to calculate the net liability of individual underwriters, by giving credit to unmarked applications in the ratio of gross liability.

[Periyar, B.Com(Old) Nov.2005; Madras. Ist M.com(April , 2005]

[Ans: 'B' takes 22,500 shares; D takes 27,500 shares]

13) X.Ltd. issued 10,000 equity shares of Rs.10 each. The issue was underwritten as follows:

A- 30%; B-30%; C-20%. However, the company received applications for 8,000 shares only. Determine the liability respective underwriters and write the journal entries in the company's books.(pg.2.50: no:16)

[Madras, B.Com, Nov.2007,Ist M.com April,2005, B.Com, May,2001]

[Alagappa university, B.Com, Nov,2015]

[Ans: 'A' Takes 600 shares; 'B' takes 600 shares; and 'C' takes 400 shares]

14) Neeraj Ltd. issued 10,000 shares of Rs.100 each at a premium of 10%. These shares were underwritten by Joseph and Jaleel to the extent of 5,000 shares and 3,000 shares respectively. The total applications were received by the company were 8,000 which the marked applications were:

Joseph-1,200 shares; Jaleel- 300 shares. You are required to determine the liability of the underwriters.

[Thiruvalluvar 1st M.com, April/May 2006; Madras, BCS, Nov.2005]

[Ans: Net liability; Joseph-987 shares; Jaleel-1013 shares]

15) A company issued 40,000 shares of Rs.100 each for public subscription. The issue was underwritten as follows:

P-25%; Q-30%; R-25%

The company received a total number of 28,000 applications of which marked applications were as follows:

p-8000 shares; Q-6000 shares; R-8000 shares. Determine the liability of each of the underwriters.

[Madurai B.Com, Nov.2003, Manomaniam Sundaram University, B.Com,April,2015]

[Ans: Net Liability: P-2000 shares;Q-6000 Shares; R-2000 shares]

16) The following underwriting took place:

A-5000 shares; B-3,000 shares; C-2000 shares. In addition there was firm underwriting:

A-1000 shares;B-500 shares; C-1,500 shares. The share issue was for 10,000 shares. Total Subscription including firm underwriting was 8,500 shares and the forms included the following marked forms.

A-2000 shares; B-1000 shares; C-1000 shares. Show the allocation of liability of the underwriters.

[Madras, B.com, April 2007]

[Ans: Total liability including firm underwriting 'Firm treated as Marked' A-1,750; B-1,250; C-1,500; 'Firm treated as unmarked' A-1,750; B-1,150; C-1,600]

17) 'A' Co.Ltd has an authorized capital of Rs.50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The company issued for subscription 50,000 shares at a premium of Rs. 10 each. The entire issue was underwritten as follows:

X-30,000 shares(Firm underwriting 5,000 shares)

Y-15,000 shares(Firm Underwriting 2,000 shares)

Z-5,000 shares(Firm underwriting 1,000 shares)

Out of the total issue 45,000 shares including firm underwriting were subscribed. The following were marked forms:

X-16,000 shares; Y-10,000 shares; Z-4,000 shares; Calculate the liability of each underwriter.

[Bharathiar, B.com, Nov.2004]

[Madras, 1st M.com, Nov.2007, Alagappa university, B.Com(C.A), Nov,2016]

[Ans: Final liability including firm underwriting firm treated as marked 'X' 9,333; Y-2,667; Z-1,000; Firm treated as Unmarked X-9,667; Y-2,333 Z-1,000]

18) Swiss Ltd. issued 40,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows.

A-24,000 shares(Firm underwriting 3,200 shares)

B-10,000 shares (Firm underwriting 4,000 shares)

C-6,000 shares (Firm underwriting 1,200 shares)

The total applications including firm underwriting were for 28,400 shares. The marked applications were as under:

A-7,200 shares; B-9,000 shares and C-3,200 shares. The underwriting contract provides that credit for unmarked application given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter and the amount of commission payable to them assuming it is the maximum allowed by law.

[Madras, B.com, Oct.2002]

[***Ans: Final Liability of the underwriters: Firm tratedas marked A- 13,920; B-4,000; C-2,080; Firm treated as unmarked- A-13,600; B-4,000;C-2,400; Commission payable to- A-6,000; B-2,500; C-1,500]***

19) R.Ltd.issued 10,000 shares of Rs.100 each at a premium of Rs.20 per share. The entire issue was underwritten as follows:

A-5,000 shares (Firm underwriting 1,000 shares)

B-3,000 shares (Firm underwriting 5,00 shares)

C-2,000 shares (Firm underwriting 5,00 shares)

The number of shares applied for were 9,000. The following were marked applications:

A-3500 shares; B-1,400 shares; C-1,600 shares, including firm underwriting. Prepare a statement showing their net liability.

[Madras I.M.com., Oct.2001]

[Ans: Final liability of underwriters: Firm treated to unmarked: A-1,188; B-1,312; C-500; Firm treated as unmarked: A-1,125; B-1,375; C-500]

20) The following underwriting takes place:

A-6,000 shares; B-2,500 shares; C-1,500 shares

In addition, there is firm underwriting:

3A-800 shares; B-300 shares; C-1,000 shares. The issue is for 10,000 shares. Total subscription including firm underwriting is or 7,100 shares and the applications include the following marked forms:

A-1,000 shares; B-2,000 shares; C-5,00 shares. Show the allocation of liability of the underwriters if the firm underwritten shares are treated as unmarked applications.

[Madras Ist M.com, Nov.2005, II M.com, Oct.2003]

[Ans: Total liability including firm underwriting: A- 3,320; B-3,00; C-1,380]

21) United India Co.Ltd., issued 1,00,000 shares which were underwritten as follows:

A-40%; B-30%; C-20%

The underwriters made firm underwriting as follows:

A-7,500 shares; B-5,000 shares; C-12,500 shares.

The total Subscription excluding firm underwriting, but including marked applications were for 50,000 shares. The marked applications were as under:

A-20,000 shares; B-12,500 shares; C-5,000 shares. Prepare a statement showing the liability of underwriters.

[Madras, II M.com, Oct,2002 and May, 2001]

[Ans: Underwriters Liability, including Firm underwriting: When the benefit of Firm Applications is given to them: A: 18,889 Shares; B: 16,667 shares; C:14,444 shares; If the Firm applications are treated as Unmarked:A: 15,278; B:13,333; C:21,389]

22) Mohanraj Ltd incorporated on 1st jan 2005 issued a prospectus inviting of applications for 5,00,000 equity shares of Rs.10 each at a premium of 10%. The whole issue was fully underwritten by kapoor, Bohra, Dalal, and Mehta as follows:

Kapoor-2,00,000 shares, Bohra-1,50,000 shares, Dalal-1,00,000 shares, Metha-50,000 shares. Applications were received for Rs.45,000 hares which marked applications were as follows:

Kapoor-2,20,000 shares, Bohra-90,000 shares, Dalal-1,10,000 shares, Metha-10,000 shares. It is agreed that underwriters to be paid commission at 5% on issue price. You are required to find out the net liability on Underwriters.

[Alagappa University, B.Com(C.A), Nov,2015]

23) 'A' Co Limited has authorized share capital of Rs.1,00,00,000 dividend into 2,00,000 equity shares of Rs.50 each. The company issued for subscription for 1,00,000 shares at premium of Rs.10 each. The entire issue was underwritten as follows:

X-60,000 shares (Firm underwriting 10,000 shares)

Y-30,000 shares (Firm underwriting 4,000 shares)

Z-10,000 shares (Firm Underwriting 2,000 shares).

Out of the total issue 90,000 shares including firm underwriting were subscribed. Markets forms were X-32,000, Share's Y-2000 shares and Z-8,000 shares. Calculate the Liability of each underwriter.

[Alagappa Univerity, B.Com, April,2011]

24) Albert Ltd, issued 50,00,000 equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below.

Underwriter	A	B	C
Shares	15,00,000	25,00,000	10,00,000

Applications were received for 48,50,000 shares of which the marked applications were as follows.

Underwriter	A	B	C
Shares	12,00,000	25,00,000	8,50,000

Calculate the number of shares to be taken up by the underwriters.

[Alagappa University, B.Com, Nov,2016]

25) Bharat Lt. issued 1,50,000 equity shares.The whole of the issue was underwritten as follows :

X-50%, Y-25%, Z-25%

Applications for the 1,20,000 shares were received in all, out of which applications for 30,000 shares had the Stamp of X, those for 15,000 shares that of Y and those for 30,000 shares that of Z. The remaining applications for 45,000 shares did not bear any stamp.Determine the liability of the underwriters.

[Alagappa University, B.Com, Nov,2014]

UNIT – 3

REDEMPTION OF PREFERENCE SHARES

Meaning – Procedures for redemption of preference shares – Journal entries

Shares for which the amount should be repayable after the expiry of a specified period are called redeemable preference shares. The Articles of the company should permit such redemption. The redemption is carried out either at premium or at face value.

3.1 PROCEDURES FOR REDEMPTION OF PREFERENCE SHARES

- Only fully paid shares can be redeemable. If the shares are partly paid up, then it should be converted into fully paid and then redemption is made.
- The premium required for redemption is to be paid from share premium account only. The share premium a/c may be in liability side of balance sheet or raised at the time of fresh issue of equity shares at a premium.
- If the premium amount is not sufficient for redemption, then the balance amount may be paid out of profit and loss account
- The refund of capital amount should be made from fresh issue of equity share capital, profit and loss a/c and or general reserve a/c in balance sheet.
- The fresh issue of equity shares may be at face value or at premium value or at discount value.
- Before taking any amount from profit and loss a/c and general reserve, an amount equal to the same should be transferred to capital redemption reserve.
- Redemption should not be made from issue of debentures or sale of any investments

For the issue of fully paid bonus shares to the equity shareholder's capital redemption reserve can be utilized.

Following revenue profits are transferable to capital redemption reserve.

1) General reserve
2) Dividend equalization reserve.
3) Reserve fund
4) Profit on sale of investments and fixed assets (Revenue portion).
5) Workmen's compensation fund.

6) Insurance fund.
7) Debenture redemption fund(Voluntary)
8) Debenture redemption Account(Voluntary)
9) Profit and Loss account.

Following Capital profits are not to be transferred to capital redemption reserve.

1) Capital reserve.
2) Exisisting capital redemption reserve
3) Development rebate reserve
4) Depreciation reserve.
5) Forfeited shares account.
6) Profit prior to incorporation.
7) Profit on sale of fixed assets(Capital portion)
8) Securities premium Account.

Journal entries at time of redemption of preference shares

For total amount payable Redeemable preference share capital a/c Dr Premium on redemption a/c Dr To Preference share holders a/c	**For fresh issue –** **a) Face value** Bank a/c Dr To Equity share capital a/c
For canceling premium on redemption Securities premium a/c Dr P & L a/c Dr (if needed) To Premium on redemption a/c	**b) Premium value** Bank a/c Dr To Equity share capital To Securities premium a/c
For taking balance amount from liability side of balance sheet Profit and loss a/c Dr General reserve a/c Dr To Capital redemption reserve a/c	**c) Discount value** Bank a/c Dr Share discount a/c Dr To Equity share capital a/c
For amount paid: Preference share holders a/c Dr To Bank a/c	**For profit or loss on sale of investments:** Bank a/c Dr P & L a/c (loss) Dr To Investment a/c To P & L a/c (profit)

Issue of debentures at premium/discount: Bank a/c Dr Discount on debenture a/c Dr To Debentures a/c To Premium on debentures a/c	

Illustration -1 From the following information, find out what amount shall be transferred to capital redemption reserve account.

Redeemable preference shares redeemed ₹2,00,000 at par (fresh issue of share capital ₹80,000) Redeemable preference shares redeemed ₹2,00,000 at 5% premium (fresh issue of share capital ₹80,000 at par)

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
To Preference share holders a/c			2,00,000
(Being amount due)			
Bank a/c	Dr	80,000	
To Equity share capital a/c			80,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	1,20,000	
To Capital redemption reserve a/c			1,20,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,00,000	
To Bank a/c			2,00,000
(Being amount paid to share holders)			
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			2,10,000
(Being amount due)			
Bank a/c	Dr	80,000	
To Equity share capital a/c			80,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	1,20,000	
To Capital redemption reserve a/c			1,20,000

(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,10,000	
To Bank a/c			2,10,000
(Being amount paid to share holders)			
P & L a/c	Dr	10,000	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			

Illustration -2 A company decides to redeem its preference shares amounting to ₹1 lakh at a premium of 5% and for this purpose issues 5,000 equity shares of ₹10 each at a premium of 5%. The company has also balance of ₹1,00,000 on general reserve and ₹50,000 on P & L a/c. Journalize.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	5,000	
To Preference share holders a/c			1,05,000
(Being amount due)			
Securities premium a/c	Dr	2,500	
P & L a/c	Dr	2,500	
To Premium on redemption a/c			5,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	52,500	
To Equity share capital a/c			50,000
To Securities premium a/c			2,500
(Being fresh issue of shares)			
Profit and loss a/c	Dr	47,500	
General reserve a/c	Dr	2,500	
To Capital redemption reserve a/c			50,000
(Being amount taken from Balance sheet)			
Preference share holders a/c	Dr	1,05,000	
To Bank a/c			1,05,000
(Being amount paid to share holders)			

Illustration -3 A company had as part of its share capital 1,000 redeemable preference shares of ₹100 each fully paid up. When the shares became due for redemption, the company had ₹60,000 in its reserve fund. The company issued necessary equity shares by ₹25 specifically for the purpose of redemption and received cash in full. Make the necessary journal entries recording the above transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	–	
To Preference share holders a/c			1,00,000
(Being amount due)			
Bank a/c	Dr	40,000	
To Equity share capital a/c			40,000
(Being fresh issue of shares)			
General reserve a/c	Dr	60,000	
To Capital redemption reserve a/c			60,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	1,00,000	
To Bank a/c			1,00,000
(Being amount paid to share holders)			

Illustration -4 The following are the details taken from the records of B Ltd. on June 30. 2015:

Equity shares (fully paid up) ₹6,00,000; Preference shares (fully paid up) ₹3,00,000; General reserve ₹2,00,000; P & L a/c (Credit) ₹1,25,000 and share premium a/c ₹50,000.

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and P & L a/c.

Give journal entries relating to redemption of preference shares.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	3,00,000	
Premium on redemption a/c	Dr	30,000	
To Preference share holders a/c			3,30,000
(Being amount due)			
Share premium a/c	Dr	30,000	

To Premium on redemption a/c			30,000
(Being premium on redemption cancelled)			
General reserve a/c	Dr	2,00,000	
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	3,30,000	
To Bank a/c			3,30,000
(Being amount paid to share holders)			

Illustration -5 A company has 4,000, 7% redeemable preference shares of ₹100 each fully paid. The company decides to redeem the shares on 31st Dec. 2015 at a premium of 5%. The company has sufficient profits. The following issues are made for the redemption purpose:

a) 1,000 equity shares of ₹100 each at a premium of 10%

b) 1,000, 5% Debentures of ₹100 each.

The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	4,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders a/c			4,20,000
(Being amount due)			
Securities premium a/c	Dr	10,000	
P & L a/c	Dr	10,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	1,10,000	
To Equity share capital a/c			1,00,000
To Securities premium a/c			10,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	3,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	4,20,000	
To Bank a/c			4,20,000

(Being amount paid to share holders)			
Bank a/c	Dr	1,00,000	
To 5% Debentures a/c			1,00,000
(Being debentures issued)			

Illustration -6 From the following information, find out how much minimum fresh issue is necessary in order to comply with the provisions of Section 80 of the Companies Act, 1956:

Redeemable preference shares to be redeemed	**Profit shown in balance sheet**
1. ₹2,00,000 at par	Profit ₹30,000; Share premium a/c ₹10,000
2. ₹2,00,000 at 10% premium	Profit ₹30,000; Share premium a/c ₹10,000
3. ₹2,00,000 at 10% premium	Profit ₹30,000; Share premium a/c ₹8,000; General reserve ₹20,000; Dividend equalization fund ₹50,000

Solution

1. Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	2,00,000	
To Preference share holders a/c			2,00,000
(Being amount due)			
Bank a/c	Dr	1,70,000	
To Equity share capital a/c			1,70,000
(Being fresh issue of shares)			
P & L a/c	Dr	30,000	
To Capital redemption reserve a/c			30,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	2,00,000	
To Bank a/c			2,00,000
(Being amount paid to share holders)			

2. Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders			2,20,000
(Being amount due)			

Bank a/c	Dr	1,80,000	
To Equity share capital a/c			1,80,000
(Being fresh issue of shares)			
P & L a/c	Dr	20,000	
To Capital redemption reserve a/c			20,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	2,20,000	
To Bank a/c			2,20,000
(Being amount paid to share holders)			
Securities premium a/c	Dr	10,000	
P & L a/c	Dr	10,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			

3. Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders a/c			2,20,000
(Being amount due)			
Securities premium a/c	Dr	8,000	
P & L a/c	Dr	12,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	1,12,000	
To Equity share capital a/c			1,12,000
(Being fresh issue of shares)			
General reserve a/c	Dr	20,000	
Profit and loss a/c	Dr	18,000	
Dividend Equalization fund a/c	Dr	50,000	
To Capital redemption reserve a/c			88,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,20,000	
To Bank a/c			2,20,000
(Being amount paid to share holders)			

3.2 REDEMPTION WITH BALANCE SHEET MODEL

Illustration -7 Give journal entries and prepare revised balance sheet after redeeming the preference shares at a premium of 10%.

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
10 % Redeemable preference shares of ₹100 each fully paid	1,00,000	Fixed assets	8,10,000
Equity shares of ₹10 each fully paid	5,00,000	Bank	90,000
General reserve	1,00,000		
Creditors	1,50,000		
Capital reserve	50,000		
	9,00,000		9,00,000

For the purpose of redemption, the company made a fresh issue of 4,500 equity shares of ₹10 each, at a premium of 10%.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			1,10,000
(Being amount due)			
Securities premium a/c	Dr	4,500	
P & L a/c	Dr	5,500	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	49,500	
To Equity share capital a/c			45,000
To Share premium a/c			4,500
(Being fresh issue of shares)			

General reserve a/c	Dr	55,000	
To Capital redemption reserve a/c			55,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,10,000	
To Bank a/c			1,10,000
(Being amount paid to share holders)			

Balance Sheet

Liabilities	**Amount₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each fully paid	5,45,000	Fixed assets	8,10,000
General reserve (1,00,000 – 55,000)	45,000	Bank	29,500
Creditors	1,50,000	P & L a/c	5,500
Capital reserve	50,000		
Capital redemption reserve	55,000		
	8,45,000		8,45,000

Bank a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	90,000	By Preference shareholders	1,10,000
" Equity share capital	49,000	" Balance c/d (b/f)	29,500
	1,39,000		1,39,000

Illustration -8 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
8%Redeemable preference shares of ₹100 each	10,00,000	Fixed assets	34,00,000
Equity shares of ₹10each	10,00,000	Cash	6,00,000
Capital reserve	5,00,000		
Profit and loss a/c	9,50,000		
General reserve	2,00,000		

Creditors	3,50,000		
	40,00,000		40,00,000

The preference shares were redeemable on March 31, 2015 at a premium of 25% and the company decided to issue 50,000 equity shares of ₹10 each at premium of ₹4 per share for the purpose of redemption.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	10,00,000	
Premium on redemption a/c	Dr	2,50,000	
To Preference share holders a/c			12,50,000
(Being amount due)			
Securities premium a/c	Dr	2,00,000	
P & L a/c	Dr	50,000	
To Premium on redemption a/c			2,50,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	7,00,000	
To Equity share capital a/c			5,00,000
To Securities premium a/c			2,00,000
(Being fresh issue of shares)			
P & L a/c	Dr	5,00,000	
To Capital redemption reserve a/c			5,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	12,50,000	
To Bank a/c			12,50,000
(Being amount paid to share holders)			

Cash a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	6,00,000	By Preference shareholders	12,50,000
" Equity share capital	7,00,000	" Balance c/d (b/f)	50,000
	13,00,000		1,39,000

P & L a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Premium on redemption	50,000	By Balance b/d	9,50,000
" Capital Redemption Reserve	5,00,000		
" Balance c/d (b/f)	4,00,000		
	9,50,000		9,50,000

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10each	15,00,000	Fixed assets	34,00,000
Capital reserve	5,00,000	Cash	50,000
Profit and loss a/c	4,00,000		
General reserve	2,00,000		
Creditors	3,50,000		
Capital redemption reserve	5,00,000		
	34,50,000		34,50,000

Illustration -9 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
13 % Redeemable preference shares of ₹100 each	1,00,000	Fixed assets	2,10,000
		Other current assets	1,79,000
Equity shares of ₹10 each	2,50,000	Cash	4,950
Current liabilities	22,500	Investments	60,000
Provision for taxation	19,500	Prepaid expenses	2,050
Profit and loss a/c	55,000		
Securities premium	9,000		
	4,56,000		4,56,000

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a premium of 10% and sold its investments for ₹70,800. Preference shares were redeemed at a premium of 10%.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			1,10,000
(Being amount due)			

Securities premium a/c	Dr	10,000	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	55,000	
To Equity share capital a/c			50,000
To Share premium a/c			5,000
(Being fresh issue of shares)			
P & L a/c	Dr	50,000	
To Capital redemption reserve a/c			50,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,10,000	
To Bank a/c			1,10,000
(Being amount paid to share holders)			
Bank a/c	Dr	70800	
To Investment a/c			60,000
To P & L a/c (b/f)			10,800
(Being investments sold)			

Cash a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	4,950	By Preference shareholders	1,10,000
" Investment	70,800	" Balance c/d (b/f)	20,750
" Equity share capital	55,000		
	1,30,750		1,30,750

P & L a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Premium on redemption	50,000	By Balance b/d	55,000
" Balance c/d (b/f)	15,800	" Investment	10,800
	9,50,000		9,50,000

Share Premium a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Premium on redemption	10,000	By Balance b/d	9,000
" Balance c/d (b/f)	4,000	" Equity share capital	5,000
	14,000		14,000

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	3,00,000	Fixed assets	2,10,000
Current liabilities	22,500	Other current assets	1,79,000
Provision for taxation	19,500	Cash	20,750
P & L a/c	15,800	Prepaid expenses	2,050
Securities premium	4,000		
Capital redemption reserve	50,000		
	4,11,800		4,11,800

Illustration -10 The following is the balance sheet of a company as on 31st April 2015

Liabilities	Amount ₹	Assets	Amount ₹
8% Redeemable preference shares of ₹100 each full paid up	4,00,000	Sundry assets	18,00,000
9% Redeemable preference shares of ₹100 each ₹80 paid up	2,40,000	Cash at bank	6,60,000
Equity share of ₹10 each fully paid up	10,00,000		
Securities premium	50,000		
Revenue reserve	5,00,000		
Current liabilities	2,70,000		
	24,60,000		24,60,000

It was decided to redeem both the classes of preference shares on 30th June at a premium of 5%. The company issued equity shares of ₹10 each for redemption purpose.

Pass journal entries and prepare balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share final call a/c	Dr	60,000	
To Share capital a/c			60,000
(Being final call due)			
Bank a/c	Dr	60,000	
To Share final call a/c			60,000
(Being final call received)			
Redeemable preference share capital a/c	Dr	7,00,000	
Premium on redemption a/c	Dr	35,000	
To Preference share holders a/c			7,35,000
(Being amount due)			
Securities premium a/c	Dr	35,000	
To Premium on redemption a/c			35,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	2,00,000	
To Equity share capital a/c			2,00,000
(Being fresh issue of shares)			
Revenue reserve a/c	Dr	5,00,000	
To Capital redemption reserve a/c			5,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	7,35,000	
To Bank a/c			7,35,000
(Being amount paid to share holders)			

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share of ₹10 each fully paid up	12,00,000	Sundry assets	18,00,000
Securities premium (50,000 – 35,000)	15,000	Cash at bank	1,85,000
Capital redemption reserve	5,00,000		
Current liabilities	2,70,000		
	19,85,000		19,85,000

Cash = ₹6,60,000 + ₹60,000 + ₹2,00,000 – ₹7,35,000 = ₹1,85,000

Illustration -11 The following is the summarized balance sheet of a company:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
8% Redeemable preference shares of ₹100 each fully paid	6,00,000	Sundry assets	26,20,000
9% Redeemable preference shares of ₹100 each, ₹75 paid up	2,25,000	Cash at bank	8,25,000
Equity shares of ₹10 each fully paid up	15,00,000		
Capital reserve	1,00,000		
Securities premium	60,000		
Revenue reserve	6,00,000		
Current liability	3,60,000		
	34,45,000		34,45,000

It was decided to redeem both the classes of preference shares at a premium of 5%. The company issued for cash so many equity shares of ₹10 each at a premium of 10% as necessary to provide for redemption of both the classes of preference shares which could not otherwise redeemed. The issue was fully subscribed and all the money was received.

Give journal entries in the books of the company and draw up the amended balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share final call a/c	Dr	75,000	
To Share capital a/c			75,000
(Being final call due)			
Bank a/c	Dr	75,000	
To Share final call a/c			75,000
(Being final call received)			
Redeemable preference share capital a/c	Dr	9,00,000	
Premium on redemption a/c	Dr	45,000	
To Preference share holders a/c			9,45,000
(Being amount due)			
Securities premium a/c	Dr	45,000	
To Premium on redemption a/c			45,000

(Being premium on redemption cancelled)			
Bank a/c	Dr	3,30,000	
To Equity share capital a/c			3,00,000
To Share premium a/c			30,000
(Being fresh issue of shares)			
Revenue reserve a/c	Dr	6,00,000	
To Capital redemption reserve a/c			6,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	9,45,000	
To Bank a/c			9,45,000
(Being amount paid to share holders)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each fully paid up	18,00,000	Sundry assets	26,20,000
Capital reserve	1,00,000	Cash at bank	2,85,000
Securities premium (60,000 + 30,000 – 45,000)	45,000		
Capital redemption reserve	6,00,000		
Current liability	3,60,000		
	29,05,000		29,05,000

Cash = ₹8,25,000 + ₹75,000 + ₹3,30,000 – ₹9,45,000 = ₹2,85,000

Illustration -12 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Redeemable preference shares of ₹100 each	5,00,000	Fixed assets	22,00,000
Equity shares of ₹100 each	10,00,000	Other current assets	8,00,000
Creditors	10,00,000		
Profit and loss a/c	1,00,000		
Securities premium a/c	1,00,000		
General reserve	2,00,000		

Capital reserve	1,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10 % per cent 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. The shortfall in funds for the purpose of the redemption after utilizing the proceeds of the fresh issue is to be met by taking a bank loan.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	5,00,000	
Premium on redemption a/c	Dr	50,000	
To Preference share holders a/c			5,50,000
(Being amount due)			
Securities premium a/c	Dr	50,000	
To Premium on redemption a/c			50,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	2,00,000	
To Equity share capital a/c			2,00,000
(Being fresh issue of shares)			
General reserve a/c	Dr	2,00,000	
Profit and loss a/c	Dr	1,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	5,50,000	
To Bank a/c			5,50,000
(Being amount paid to share holders)			

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	12,00,000	Fixed assets	22,00,000
Creditors	10,00,000	Other current assets	8,00,000
Securities premium a/c	50,000		
Capital reserve	1,00,000		

Capital redemption reserve	3,00,000		
Bank overdraft	3,50,000		
	30,00,000		30,00,000

Bank overdraft = ₹2,00,000 – ₹5,50,000 = ₹3,50,000

Illustration -13 The balance sheet of Producers Ltd. as on 31-12- 2015 is as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	50,000	Land	1,00,000
Reserves and surplus	90,000	Plant	30,000
Securities premium	10,000	Current assets	2,000
General reserve	20,000	Stock	30,000
P & L a/c	25,000	Debtors	15,000
Current liabilities	30,000	Investment	28,000
		B/R	20,000
	2,25,000		2,25,000

The company decided to redeem preference shares at a premium of 5% on 31st Jan.2016. A fresh issue of 1,000 equity shares of ₹10 each was made at ₹12 per share payable in full on 31st Jan.2016. They were fully subscribed and all money was duly collected. All the investment was sold and realized ₹27,000. The directors wish that only a minimum reduction should be made in the general reserve.

Give journal entries to record the above transactions. Draw up balance sheet after redemption of preference shares.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	50,000	
Premium on redemption a/c	Dr	2,500	
To Preference share holders a/c			52,500
(Being amount due)			
Securities premium a/c	Dr	2,500	
To Premium on redemption a/c			2,500
(Being premium on redemption cancelled)			

Bank a/c	Dr	12,000	
To Equity share capital a/c			10,000
To Share premium a/c			2,000
(Being fresh issue of shares)			
General reserve a/c	Dr	16,000	
Profit and loss a/c	Dr	24,000	
To Capital redemption reserve a/c			40,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	52,500	
To Bank a/c			52,500
(Being amount paid to share holders)			
Bank a/c	Dr	27,000	
P & L a/c	Dr	1,000	
To Investments a/c			28,000
(Being investments sold at loss)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	10,000	Land	1,00,000
Reserves and surplus	90,000	Plant	30,000
Securities premium (10,000 + 2,000 – 2,500)	9,500	Current assets	2,000
General reserve	4,000	Stock	30,000
Current liabilities	30,000	Debtors	15,000
Bank over draft	13,500	B/R	20,000
Capital redemption reserve (16,000 + 24,000)	40,000		
	1,97,000		1,97,000

Cash = ₹12,000 + ₹27,000 – ₹52,500 = ₹13,500 Bank O/D

Illustration -14 Give journal entries and prepare revised balance sheet

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
9 % Redeemable preference shares of ₹100 each fully paid	3,00,000	Fixed assets	8,00,000
Equity shares of ₹100 each fully paid	5,00,000	Bank	2,00,000
Creditors	2,00,000	Other currents	5,00,000
Capital reserve	1,00,000	Investments	1,00,000
Profit and loss a/c	2,00,000		
10 % Debentures	3,00,000		
	16,00,000		16,00,000

Both redeemable preference shares and debentures were due on 1- 1- 2015. The company arranged for the following:

- It issued 2,000 equity shares of ₹100 at a premium of 10 %
- It sold the investments for ₹90,000
- It arranged a bank overdraft to the extent necessary.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	3,00,000	
To Preference share holders a/c			3,00,000
(Being amount due)			
Bank a/c	Dr	2,20,000	
To Equity share capital a/c			2,00,000
To Share premium a/c			20,000
(Being fresh issue of shares)			
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			1,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	3,00,000	
To Bank a/c			3,00,000
(Being amount paid to share holders)			

Bank a/c	Dr	90,000	
P & L a/c	Dr	10,000	
To Investments a/c			1,00,000
(Being investments sold at loss)			
10% Debentures a/c	Dr	3,00,000	
To Bank a/c			3,00,000
(Being debentures redeemed)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of `100 each	7,00,000	Fixed assets	8,00,000
Creditors	2.00,000	Other currents	5,00,000
Capital reserve	1,00,000		
P & L a/c (2,00,000 – 1,00,000 – 10,000)	90,000		
Capital redemption reserve	1,00,000		
Bank overdraft	90,000		
Securities premium	20,000		
	13,00,000		13,00,000

Bank a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	2,00,000	By Preference shareholders	3,00,000
" Investment	90,000	" Debentures	3,00,000
" Equity share capital	2,20,000		
" Balance c/d (b/f)	90,000		
	6,00,000		6,00,000

Illustration -15 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 12- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
6 % Redeemable preference shares of ₹10 each	1,00,000	Fixed assets	4,00,000
Equity shares of ₹10 each		Other current assets	4,60,000

Creditors	5,00,000	Cash	2,40,000
Profit and loss a/c	1,40,000		
8 % Debentures	2,00,000		
General reserve	50,000		
	1,10,000		
	11,00,000		11,00,000

The directors decide to

(a) redeem preference shares at a premium of 5 %

(b) redeem debentures at a premium of 10 %

(c) make a bonus issue to the equity shareholders of one ₹10 equity share for every five ₹10 shares held, in order to capitalize a part of the undistributed profits.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	5,000	
To Preference share holders a/c			1,05,000
(Being amount due)			
P & L a/c	Dr	5,000	
To Premium on redemption a/c			5,000
(Being premium on redemption cancelled)			
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			1,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,05,000	
To Bank a/c			1,05,000
(Being amount paid to share holders)			
Debenture a/c	Dr	50,000	
Loss on redemption a/c	Dr	5,000	
To Bank a/c			55,000
(Being debentures redeemed)			
Bonus to share holders a/c	Dr	1,00,000	
To Share capital a/c			1,00,000
(Being bonus shares to be given)			

P & L a/c	Dr	95,000	
General reserve a/c	Dr	5,000	
To Bonus to share holders a/c			1,00,000
(Being bonus shares given)			

Balance Sheet as on 31- 12- 15

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	6,00,000	Fixed assets	4,00,000
Creditors	1,40,000	Other current assets	4,60,000
Capital redemption reserve	1,00,000	Cash	80,000
General reserve	1,05,000	Loss on redemption of debenture	5,000
	9,45,000		9,45,000

Cash a/c = ₹2,40,000 – (1,05,000 + 55,000) = ₹80,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. To the extent redemption take place from out of profits an equal amount should be transferred to
    - a) General reserve
    - b) Share premium a/c
    - c) Capital reserve
    - d) **Capital redemption reserve**

2. Transfer to capital redemption reserve a/c can be made from
    - a) **General reserve**
    - b) Share premium a/c
    - c) Capital reserve
    - d) P & L a/c (Dr)

3. For redeeming ₹1,00,000 preference shares, a company issues 3,000 equity shares of ₹10 each at a premium of 10%. Find the amount transferred to capital redemption reserve.
    - a) ₹1,00,000
    - b) **₹70,000**
    - c) ₹67,000
    - d) ₹33,000

4. Issue and redemption of preference shares are given in ______ of the Companies Act 1956.
    - a) **Sec.80**
    - b) Sec.78
    - c) Sec.77A
    - d) Sec.77B

5. Transfer to capital redemption reserve is not allowed from
    - a) P & L a/c
    - b) Debenture redemption fund
    - c) Workmen Accident fund
    - d) **Profits prior to incorporation**

6. _______ shares can only be redeemable
    - a) Partly paid up
    - b) Uncalled up
    - c) **Fully paid up**
    - d) Called up

7. Premium on redemption of preference shares should be cancelled by utilizing
    - a) **Share premium a/c**
    - b) P & L a/c
    - c) General reserve a/c
    - d) Capital reserve a/c

8. Which of the following is not used for redemption of preference shares?
    - a) **Debenture issue**
    - b) Equity share issue
    - c) Capital redemption reserve
    - d) P & L a/c

9. Preference shares can be redeemed out of
    - a) Profits
    - b) Fresh issue of shares
    - c) **Both a and b**
    - d) Issue of debentures

10. Capital redemption reserve is used for ___________

    a) **Issue of bonus shares** b) Paying dividend

    c) Adjusting the loss d) Profit distribution

11. Redeemable preference shares can be redeemable out of

    a) Amount realized on sale of investments

    b) Divisible profits otherwise available for dividend

    c) Proceeds of fresh issue of shares

    d) **Both b and c**

12. Amount transferred to capital redemption reserve is equal to

    a) **Excess of preference shares to be redeemed over fresh issue of equity shares**

    b) Excess of fresh issue of equity shares over preference shares to be redeemed

    c) Preference shares to be redeemed

    d) Fresh issue of equity shares

REVIEW QUESTIONS

A. Answer in short:

1. What is the Meaning of redeemable Preference shares?
2. What is Capital Redemption Reserve?
3. List out the profits which are eligible to be transferred to CRR.
4. What are the various Profits which are most Transferred to CRR?
5. Give the Journal entries for redemption of preference shares?

B. Answer in Detail.

1. Explain the Conditions for issue of preference shares and give journal entries for the issue of preference shares.
2. Explain the provisions under companies Act relating to the redemption of preference shares.

EXERCISES

1. Redemption of 20,000 preference shares of ₹100 each was carried out by utilization of reserves and by issue of 8,000 equity shares of ₹100 each at ₹125. How much should be credited to capital redemption reserve a/c?

2. Redeemable preference shares to be redeemed ₹10,000; Premium on redemption 10%; Profit available for dividend ₹2,000; Fresh issue to be made at 10% premium. Ascertain the minimum fresh issue of shares.

3. G Ltd had issued 2,000, 12% Redeemable preference shares of ₹100 each. In order to redeem these, 500 ordinary shares of ₹100 each were issued at 10% premium. The company had sufficient balance in its P & L a/c. An investment costing ₹1,00,000 was sold for ₹93,000. Preference shares were redeemed at par. Pass necessary journal entries.

4. A company had as a part of its share capital 1,000 redeemable preference shares of ₹100 each fully paid-up. When the shares became due for redemption, the company has ₹60,000 in its reserve fund. The company made minimum new issue of equity shares of ₹25 each necessary for the purpose of redemption and received cash in full. Make the necessary journal entries recording the above transaction.

5. A company has issued 50,000 redeemable preference shares of ₹10 each, ₹8 paid up. In order to redeem these shares how being redeemable, the company issued for cash 30,000 equity shares of ₹10 each at a premium of ₹2 per share. Out of the cash proceeds, the redeemable preference shares were paid and the balance was met out of the reserve fund which stood at ₹2,50,000. Show the journal entries in the books of the company.

6. Murugan Ltd has 8,000 reclaimable preference shares of ₹100 each fully paid up. The company decided to redeem the shares on 30th Sep. 2015, at a premium of 7%. The company has sufficient profits result in order to augment liquid funds the following issues were made.

   i) 3,000 6% debentures of ₹100 each at ₹106

   ii) 2,000 equity shares of ₹100 each at ₹111.

   The issues were fully subscribed and all the amounts were received. The redemption was carried out. Journalize the transaction.

7. On 1-4-2015 Ram Ltd issued 10,000 9% redeemable preference shares of ₹100 each fully paid. The company decides to redeem the shares at a premium of 10%. The company makes the following issues

   a) 6,000 equity shares of ₹100 each at a premium of 10%

   b) 4,000 8% debentures of ₹100 each.

   The issue was fully subscribed and allotments were made. The redemption was fully duly carried out. The company has sufficient profits.

   You are required to pass journal entries for the above transactions.

8. A company issued 10,000 equity shares of ₹10 each ₹8 paid up. It passed the following resolutions:

   i) That profit be used in making the partly paid up shares into fully paid

   ii) That further 1,000 fully paid up bonus shares of ₹10 each be issued to the existing share holders

   iii) That the following balances be used:

   P & L a/c ₹25,000; Share premium ₹2,000 and capital redemption reserve ₹4,000.

   You are required to give journal entries for recording the above transactions.

9. On 31st March 2015 the balance sheet of S Ltd. stood as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	5,00,000	Sundry assets	7,00,000
Redeemable preference shares	2,00,000	Bank	2,50,000
General reserve	1,50,000		
Creditors	1,00,000		
	9,50,000		9,50,000

On the above date, the preference shares had to be redeemed. For the purpose, 1,000 equity shares of ₹100 each were issued at ₹110. The preference shares were duly redeemed.

Give journal entries and balance sheet after redemption.

10. The balance sheet of Agenta Ltd as on 31-12-2015 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
6% Redeemable preference shares of ₹10 each	1,00,000	Land	2,50,000
Equity shares of ₹10 each	5,00,000	Plant	1,50,000
General reserve	1,10,000	Stock	3,00,000
P & L a/c	3,40,000	Debtors	1,60,000
15% Debentures	50,000	Cash	2,40,000
	11,00,000		11,00,000

The directors decided to:

i) Redeem the preference shares at a premium of 5%

ii) Redeem the debentures at a premium of 10%

iii) Make a bonus issue of one equity share of ₹10 to equity share holders for every ₹10 share held in order to capitalize a part of the undistributed profits.

The resolution has been passed and the above transactions were completed.

You are required to show journal entries to record the transactions and the balance sheet as it could appear after the completion of transactions.

11. On 31st Dec. 2007 the balance sheet of Iniyan Ltd. was as under:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	2,00,000	Sundry assets	9,00,000
6% Redeemable preference shares of ₹100 each	3,00,000	Bank	1,00,000
6% Debentures	1,00,000		
General reserve	1,50,000		
P & L account	1,00,000		
Creditors	1,50,000		
	10,00,000		10,00,000

Redeemable preference shares were redeemable on the above date as ₹100. For this purpose 1,000 equity shares were issued at ₹150. All these shares were taken by the public.

Give journal entries and show the balance sheet.

12. M Ltd has an issued share capital of 650 7% redeemable preference shares of ₹100 each and 4,500 equity shares of ₹50 each. The preference shares are redeemable at a premium of 7.5 % on April 1, 15.

Balance Sheet as on March 31, 2015

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
7 % Redeemable preference shares of ₹100 each fully paid	65,000	Fixed assets	3,45,000
Equity shares of ₹50 each fully paid	2,25,000	Investments	18,500
Profit and loss a/c	48,000	Bank	31,000
Creditors	56,500		
	3,94,500		3,94,500

In order to facilitate the redemption of preference shares, the company decided.

- To sell all the investments for ₹16,000.
- To finance part of the redemption from company funds, subject to leaving a balance of ₹12,000 in the profit and loss a/c and
- To issue sufficient equity shares of ₹50 each at a premium of ₹13 per share to raise the balance of funds required.

Give journal entries and prepare balance sheet.

13. S Ltd decided to redeem its preference shares at a premium of 5 % on 1st April 2015.

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
14% Redeemable preference shares of ₹20 each fully paid	12,00,000	Fixed assets	25,00,000
Equity shares of ₹10 each fully paid	40,00,000	Bank	3,50,000
Creditors	11,00,000	Other current assets	38,00,000
Profit and loss a/c	7,00,000	Investments	3,50,000
	70,00,000		70,00,000

In order to facilitate the redemption, it was decided:

- To sell the investments for ₹3,00,000.
- To finance part of the redemption from company funds subject to leaving of balance in profit and loss a/c of ₹2,00,000
- To issue sufficient equity shares of ₹10 each at a premium of ₹2 per share to raise the balance of funds required.

Give journal entries and prepare balance sheet

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. XYZ Ltd. had to redeem the 5,000 6% redeemable preference shares of Rs. 100 each at a premium of 4% on December 31, 1990. The company made the following issues in the-later half of December.

   (a) 2,000 equity shares of Rs. 100 each @ Rs. 130 per share.

   (b) 6% debentures of Rs. 2,00.000 at a discount of 5%. The whole issue was subscribed and all the cash against them was received. The company carried out the redemption satisfying the legal requirements. Expenses in this respect came to Rs. 5,000

   Show the journal entries covering the issue of shares and debentures and the redemption of preference shares.

   [Periyar B.Com., Sept.,2014]

2. A company, in a series of operations: Issues at par 45,000 redeemable preference shares of Rs. 10 each, redeemable at a premium of 5 per cent. Redeems 15,000 of the redeemable preference shares out of the profit of the company. Issues for cash 30,000 equity shares of Rs. 10 each at a premium of Re. 1 per share and out of the proceeds, redeems the balance of the redeemable preference shares.

   [Periyar, M.Com Nov. 2013]

3. The following is summarized balance sheet of a company as on April 30th 2001.

Liabilities	Rs.	Assets	Rs.
Issued, subscribed and paid up capital :		Sundry assets	18,00,000
4,000 8% Redeemable Preference Shares	4,00,000	Cash at Bank	6,60,000
3,000 9% Redeemable Preference Shares of Rs. 100 each, Rs.80 paid up	2,40,000		
1,00,000 equity shares of Rs. 10 each fully called up and paid up			
Securities Premium A/c	50,000		
Revenue Reserve	5,00,000		
Current Liabilities	2,70,000		
	24,60,000		24,60,000

It was decided to redeem both the classes of preference shares on 30th June at a premium of 5%. In May 2001, the company issued for cash so many equity shares of Rs. 10 each as were necessary to provide for redemption of both classes of preference shares which could not otherwise be redeemed. The issue was fully subscribed and all moneys were received. Give journal entries in the books of the company.

[Madurai , B.Com., Oct. 2015]

4. A company has 4,000 7% redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on December 31, 1996 at a premium of 5%. The company has sufficient profits but in order to augment liquid funds and redeem the shares, it makes the following issues: 1,000 equity shares of Rs. 100 each at a premium of 10%. 1,000 5% debentures of Rs. 100 each. The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries to record the above.

[Periyar,B.Com (CA) May 2013]

5. Balance sheet of X Ltd. As on march 31,1994

Liablities	Amt	Assets	Amt
Share capital:		Fixed assets	22,00,000
Issued, Subscribed and fully paid up		Current Assets	8,00,000
10,000 ordinary shares of Rs.100 each	10,00,000		
5,000 pref.shares of Rs.100 each	5,00,000		
Capital Reserve	1,00,000		
Securities premium A/c	1,00,000		
General reserve	2,00,000		
Profit& loss A/c	1,00,000		
Current Liablities--	10,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent required under the companies act for the purpose of this redemption. The short falls in funds for the purpose of redemption after utilizing the proceeds of the fresh issue are to be met by taking a bank loan. Show the journal entries.

[Azhagappa uni, B.Com, April,2016]

6. A company wants to redeem its 10,000 6% preference shares of Rs.10 each, fully paid at 10% premium. The ledger accounts show the following balances:

   Securities Premium Rs. 2,000; Profit & Loss A/c (Cr) Rs.10,000; The directors redeemed the shares by making minimum fresh issue of equity shares of Rs. 10 each at a premium 5%. Give journal entries.

[Madras, B.Com., B.Com (CS) Nov. 2013]

7. The following balances appear in ledger of a company as on 30.6.2004

	Rs.
Equity shares (fully paid up)	6,00,000
Redeemable Preference shares (fully paid up)	3,00,000
General reserve	2,00,000
Profit & Loss A/c (Cr. balance)	1,25.000
Securities premium account	50,000

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and undistributed profits. Give journal relating to redemption of the preference shares.

Madras, B.C.S. (SY3B)

Nov. 2005; 1st M.Com. April 2005; B.C.S. April 2004]

[Ans: Capital Redemption Reserve A/c - Rs. 3,00,000]

8. The following is the balance sheet of Raman Company Limited as on 31.12.96

Liablities	***Amt***	***Assets***	***Amt***
Sharecapital :		Fixed assets	3,10,000
1000 6% Redeemable preference shres of Rs.100 each fully paid	1,00,000	Cash at bank	1,40,000
20,000 equity shares of Rs.10 each	2,00,000		
Profit & Loss A/c	1,20,000		
Sundry creditors			

	30,000		
	4,50,000		4,50,000

The company resolved to redeem its preference shares at a premium of 25% out of profits. Give the necessary journal entries.

[Madras, B.Com, 2004, 2014]

[Ans: Capital redemption reserve a/c-Rs.1,00,000]

9. Sam Ltd. had as part of the share capital 20,000 preference shares of Rs. 100 each fully paid up. When the shares became due for redemption, the company had Rs. 12,00,000 in its Reserve Fund. The company issued necessary Equity shares of Rs. 25 each specially for the purpose of redemption and carried out the redemption. Make necessary Journal entries to record the above transactions.

[Madras, B.Com. Oct 200, B.Com,2013]

[Ans : New Issue : 32,000 shares i.e., Rs. 8,00,000]

10. The summarized balance sheet of Gaur Ltd. on 31st Dec. 2004 was as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Sundry assets	9,80,000
2,000 9% Redeemable Preference		Cash at Bank	4,20,000
shares of Rs. 100 each fully paid	2,00,000		
80,000 equity shares of Rs. 10 each, fully paid	8,00,000		
Profit & Loss A/c	2,60,000		
Creditors	1,40,000		
	14,00,000		14,00,000

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass journal entries and give the amended balance sheet.

[Madras, B.C.S. (Sem - SY3B) AP 2005 (-1 Figs)

[Ans: Transfer to C. R. R. - Rs. 2,00,000; Balance Sheet total - Rs. 11, 80,000]

11. . The following is the balance sheet of Raj Ltd. as on 31st Dec. 2009.

Liabilities	Rs.	Assets	Rs.
Share capital:			
50,000 equity shares of Rs.10 each	5,00,000	Sundry assets	6,00,000

2,000 8% redeemable preference shares of Rs. 100 each	2,00,000	Cash at Bank	4,40,000
Profit & Loss A/c	2,40,000		
Sundry creditors	1,00,000		
	10,40,000		10,40,000

The company resolved to redeem its preference shares at a premium of 20% Out of profits. Pass the necessary Journal entries and show the important ledger accounts and the company's balance sheet after completion of redemption.

[Madras B.com,April,2004]

[Ans: Transfer to capital redemption reserve A/c – Rs.2,00,000]

[Total of Balance sheet- Rs.8,00,000]

12. A company wishes to redeem its preference shares amounting to Rs. 1,00,000 at a premium of 5% and for this purpose issued 5,000 equity shares of Rs. 10 each at a premium of 5%. The company has also a balance of Rs. 1.00,000 on general reserve and Rs. 50,000 on profit & loss account. Pass the necessary journal entries to record the above transactions.

[Madras, B.Com., B.Com(CS) Nov. 2008; B.C.S. Nov. 2004 B.A. Corrp. Sep. 1990]

[Ans: Transfer to Capital Redemption Reserve A/R from general reserve — Rs. 50,000]

13. B Ltd. had issued 50,000 redeemable preference shares of Rs. 10 each, Rs. 8 paid. In order to redeem these shares, the company issued for cash 30,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. Out of the cash proceeds the redeemable preference shares were paid and the balance was met out of the reserve fund which stood at Rs. 2,50,000. Give journal entries in the books of the company.

[Madras, B.Com (CS) (PYD) Nov. 2007; B.C.S. April 2000J

[Ans : C.R.R. : Rs. 2,00,rvj]

14. A company had, as part of its share capital, 1,000 redeemable preference shares of Rs. 100 each fully paid up. When the shares became due for redemption. the company had Rs. 60,000 in its reserve fund. The company made minimum new issue of equity shares of Rs. 25 each necessary for the purpose of redemption and received cash in frill. Make the necessary journal entries recording the above transactions.

[Madras, B.Com., Oct 2003 (20 Times) April 2003; April 2002; April 2001; May 1997; Sept. 1997; May 1996; March 1989]

[Ans: Capital Redemption Reserve A/c — Rs. 60,000; New issue — Rs. 40,000]

15. A company has 8,000 redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on Sept. 30 1997 at a premium of 7%. The company has sufficient profits but in order to augment liquid funds the following issues are made:

(a) 3,000 6% debentures of Rs. 100 each at Rs. 110

(b) 2,000 equity shares of Rs. 100 each at Rs. 111

These issues were fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries.

[Madras B.Com, Ap2007,Nov 2005; B.Com, 1998]

[Ans : Capital Redemption Reserve A/c Rs. 6,00,000]

16. Meenakshi Co. Ltd. has an authorised capital of Rs. 8,00,000 divided into 10,000 6% redeemable preference shares ofRs. 10 each: 20,000 7% redeemable preference shares of Rs. 10 each and 50,000 equity shares of Rs. 10 each. On 1.1.75, the whole of the two classes of preference shares and 15,000 of the equity shares stood in the books as fully paid. The securities premium account as on that date showed a balance of Rs. 20,000 and the balance of profit & loss account was Rs. 32,000.

    On 1.1.75, it was decided to redeem the whole of 6% preference shares at a premium of Re.1 per share. For specific purpose the company issued for cash 8,000 equity shares of Rs.10 each at a premium of Rs.2 per share, payable in full in total. All the above shares were taken up. The cost of issue of shares amounted to Rs.3,000. Give necessary journal entries and prepare ledger accounts in respect of the above transactions.

[Madras,B.Com,Dec,2000]

[Ans: capital redemption reserve A/c- Rs.20,000]

17. Sri Ram Ltd. had the following balance sheet as on 1.4.1990.

Liabilities	***Rs.***	***Assets***	***Rs.***
10,000 6% Preference shares of Rs. 10 each	1,00,000	Buildings	2,00,000
		Plant	2,00,000
30,000 Equity Shares of Rs. 10 each	3,00,000	Stock	1,00,000
General Reserve	1,00,000	Debtors	1,00,000
P & L A/c	80,000	Cash at Bank	1,00,000
Creditors	1,20,000		
	7,00,000		7,00,000

The company decided to redeem its preference shares at 10% premium. For this purpose, it issued new 5,000 equity shares of Rs. 10 each at 10% premium. Show necessary journal entries and balance sheet.

[Thiruvalluvar, B.com, April, 2007]

[Ans: capital redemption reserve account – Rs.50,000;Bank balance, Rs. 45,000; Balance sheet, Rs.6,45,000]

18. On 31st dec.1993 the balance sheet of sundaram Ltd. stood as follows:

Liablities	**Amt**	**Assets**	**Amt**
Equity share capital	5,00,000	Sundry Assets	7,60,000
Redeemable preference share capital	2,00,000	Bank	1,90,000
General reserve	1,50,000		
Sundry creditors	1,00,000		
	9,50,000		9,50,000

On the above date, the preference shares had to be redeemed. For this purpose 1,000 equity shares of Rs.100 each were issued at Rs.110. The shares were immediately subscribed and paid for. The preference shares were duly redeemed. Give the journal entries and balance sheet after redemption.

[Madras, B.Com, sept,2013]

[Ans: Capital redemption reserve A/c- Rs. 1,00,000; Bank balance, Rs.1,00,000;balance sheet, Rs. 8,60,000]

19. The following was the balance sheet of A.Ltd at March 31st 1985.

Liablities	**Amt**	**Assets**		**Amt**
Share capital:		Fixed assets	1,10,000	
10,000 Equity shares of Rs.10 each	1,00,000	Less: Depn	50,000	60,000
		Stocks		1,40,000
10,000 6% preference shares (redeemable) of Rs.10 each.	1,00,000	Debtors		1,40,000
		Cash at bank		1,00,000
P & L A/c	45,000			
General reserve	80,000			
Taxation Reserve	30,000			
Current Liablities	85000			
	4,40,000			4,40,000

It was decided to issue a further 3,000 equity shares at a premium of Rs. 5 per share and to be redeemed the preference shares. Pass the journal entries for redeeming the preference shares and prepare the balance sheet after the redemption is completed.

[Madras, B.C.S, oct, 2003]

[Ans: Capital redemption Reserve A/c-Rs.70,000; Balance sheet total-3,85,000]

20. The balance sheet of ABC&Co., Ltd on 31.12.1990

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity shares of Rs. 100 each	5,00,000	Fixed assets	8,00,000
9% redeemable preference shares		Investments	1,00,000

of Rs. 100 each	3,00,000	Bank balance	2,00,000
Securities Premium	50,000	Other current assets	5,00,000
Capital Reserve	1,00,000		
P & L A/c	2,00,000		
10% Debentures	3,00,000		
Creditors	1,50,000		
	16,00,000		16,00,000

Both the redeemable preference shares and debentures were due for redemption on 1.1.91. The company arranged for the following: It issued 2,000 equity shares of Rs. 100 at a premium of 10%. It sold the investments for Rs. 90,000 It arranged a bank overdraft to the extent necessary. The redemptions were carried out. Give entries for redemption of preference shares and debentures and balance sheet after redemption.

[Ans: Capital redemption reserve A/c Rs. 1,00,000; Balance sheet total Rs. 13,00,000; Bank overdraft Rs. 90,000] [Madras, B.Com, B.Com(CS)Ap 2009; B.Com.(PZG) Nov. 2006; B.Com Oa 1997; March 19931

21. The following is the balance sheet of Sundari Ltd. as on 31.12.1985. The company decided to redeem its preference shares at a premium of 5% on 31st January 1986. A fresh issue of 1,000 equity share of Rs. 10 each was made at Rs. 12 per share payable in full on 31st Jan. 1986. These were fully subscribed and paid for. All the investments were sold for Rs. 27,000. The directors wish that only a minimum reduction should be made in the revenue reserves. You are required to give the journal entries to record the above transactions and draw up the balance sheet after the redemption of preference shares.

Liabilities	***Rs.***	***Assets***	***Rs.***
		Fixed Assets:	
Share Capital:		Land and Building	1,00,000
500 Redeemable preference		Plant	30,000
Shares of Rs. 100 each fully paid	50,000	Furniture	2,000
9,000 equity shares of Rs. 10		*Current assets:*	
each fully paid	90,000	Stock	30,000
Reserves & Surplus :		Debtors	15,000
Securities premium	10,000	Investments	28,000
General reserve	20,000	Bank	20,000
Profit & Loss A/c	25,000		
Current liabilities	30,000		
	2,25,000		2,25,000

[Madras, B.Com (CS) (SY3B) Ap 2007;]

[Ans: Capital Redemption Reserve A/c — Rs. 40,000; Balance Sheet total — Rs. 1,83,500; Bank A/c balance,Rs. 6.500]

UNIT – 4

ISSUE AND REDEMPTION OF DEBENTURES

Definition - Differences between Debentures and Shares - Types of debentures - Issue and Redemption – Methods of redemption - Debenture Redemption Fund Method - Conversion of Debentures

Debenture is an important source of raising funds by a company as a company requires large number of funds to finance its new projects or for its expansion. This requirement is met by the company partly by raising share capital and partly by long term borrowings. One form of such long term borrowings is to raise money by issuing debentures to the general public. Debenture is a written instrument acknowledging a debt taken under the common seal of the company. It contains terms and conditions of contract as regard the payment of interest and redemption of the principal.

4.1 DEFINITION OF DEBENTURE

According to Section 2 (12) of the Companies Act 1956 defines "Debenture includes debenture stock, bonds, and any other securities of a company whether constituting a charge on the assets of the company or not".

According to Tophon, "Debenture is a document given by the company as an evidence of debt to the holder usually arising out of a loan and most commonly secured by a charge".

Debenture holders are entitled to get a fixed percentage of interest payable either annually or half yearly. Interest is a charge against profit.

4.2 DIFFERENCES BETWEEN DEBENTURES AND SHARES

Basis	Debenture	Share
Nature	It is a part of the borrowed funds	It is the part of the owned capital
Status	Debenture holders are the creditors of the company	Shareholders are the owners of the Company.
Returns	A debenture holder gets interest even if there are losses.	A shareholder gets dividend out of profits and cannot be claimed by him till declared by the company.

Repayment	They are redeemed on the due date.	Amount of equity share capital is not returned during the lifetime of the company
Charge	A charge fixed or floating is created on company's assets when debentures are issued.	No charge is created on assets of the company when it issues shares.
Voting Rights	Debenture holders do not enjoy any voting rights.	Share holders enjoy voting rights.
Convertibility	Debenture can be converted into equity shares.	Shares cannot be convertible.
Restriction	There is no legal restriction on purchase of its own debentures.	There are legal restrictions on the purchase of its own shares.
Winding up	At the time of winding up debenture holders are repaid after the payment to the shareholders is made.	Share capital is returned after all claims are met.

4.3 TYPES OF DEBENTURES

I. SECURITY POINT OF VIEW

(a) Simple or Naked or Unsecured Debentures:

These are those debentures that have no security. The holders of such debentures are treated as unsecured creditors at the time of winding up of the company.

(b) Secured Debentures:

These are the debentures that are secured against the particular assets of the company. If the company is unable to repay the amount of debentures, than the debenture holders can realize their dues from the assets mortgaged with them

II. TENURE POINT OF VIEW

(a) Redeemable Debentures:

These are those debentures that will be repaid by the company at the end of the specified period during the existence of the company.

(b) Irredeemable Debentures:

These are those debentures which are not to be repaid during the lifetime of the Company.

III. MODE POINT OF VIEW

(a) Convertible Debentures:

These are those debentures which can be converted into the equity shares on the option of the debenture holders.

(b) Non Convertible Debentures:

These are those debentures which cannot be converted into the equity shares on the option of the debenture holders.

IV. REGISTRATION POINT OF VIEW

(a) Registered debentures:

These are the debentures in which the details of the debenture holders are registered in the register of the Company. These debentures cannot be transferred from one debenture holders to another.

(b) Bearer Debentures:

These are those debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holder.

4.4 ISSUE OF DEBENTURES

Debentures are issued, like shares, by the company issuing a prospectus where by the public is invited to apply for its debentures. The debentures may be issued at par or at a premium or at a discount.

4.5 TYPES OF ISSUE OF DEBENTURES

1) Debentures issued for cash

The issue price is receivable is the form of cash. It may be received immediately in one installment or or it may be received in one installment or it may be received in two or more stages like application, allotment and calls.

2) Debentures issued for consideration other than cash

Debentures only be issued for purchase of assets or some times debentures are issued for purchase consideration (ie) purchase of the business from the vendors.

(vendors a/c dr

To debentures a/c)

3) Debentures issued as collateral security

Debentures are issued as secondary security or subsidiary security for a bank loan or mortgage loan. For the collateral security, the company makes no entry in its books.

4.6 METHODS OF REDEMPTION OF DEBENTURES

Repayment or discharge of liability on account of debentures is called redemption of debentures. The method of debenture redemption adopted determines to a very large extent, the actual accounting for redemption as well as the marshalling of resources for the same. There are broadly four methods for the redemption of debentures which are as follows:

1. Lump-sum payment method:

In Lump-sum payment method, redemption of debentures is done by repayment in one lump sum after the expiry of a stipulated period. The total amount payable to debenture holders is decided at the time of issue of debentures (i.e. debentures will be redeemed at par or at premium). Usually a company creates sinking fund or an insurance policy fund for the redemption of debentures.

2. Drawings of Lots method:

In order to reduce the liability of debentures, company may repay the debentures in some instalments. A certain amount of debentures is redeemed at regular interval of time during the lifetime of the debentures by drawings of lots.

3. Purchase in the Open Market:

The company from the open market can purchase its own Debentures. Debentures so purchased may be cancelled immediately or may be kept as an investment, which will be cancelled later. It may beneficial for the company if it purchases its own debentures at a discount from the open market.

4. Ex-interest and cum interest purchases

When a company buys and sells its own debentures in the open market, the prices include or exclude interest on the debentures. If the price includes interest on the debentures from the previous interest date till the date of sale, the price is known as “cum-interest price”. If the price does not include the interest on the debentures from the previous interest date till the date of sale, the price is known as “ex-interest price”.

5. Conversion Method:

Usually debentures are redeemed in cash but sometimes debenture holders are given an option to get their debentures converted either in shares or for new debentures of the company. The redemption of debentures by means of shares or new debentures is known as redemption by conversion. Debentures, which carry such right, are called ‘Convertible Debentures’.

Advantages of Conversion of debentures

- In the initial stage of the company they keep themselves as secured creditors of the company and also earn fixed amount of interest on their debentures.
- At later stage when the profitability and management efficiency of a company are proved, they can exercise their right of converting their debentures into shares and can participate in the profits of the company.

Redemption out of Capital:

When debentures are redeemed out of capital, no transfer is made to general reserve or debenture redemption reserve account. In this method it is assumed that the company has sufficient funds to redeem the debentures. So the profits are not utilized to replace the debentures. It affects adversely to the Working Capital of the company.

Redemption out of Profit:

When it is intended to redeem the debentures out of profits, a part of profits available for distribution of dividends is withheld by the company every year to be used for redemption purposes as and when the need arises for the same.

There are two alternatives available to the company in this regard namely:

a) the amount of divisible profits withheld by the company may be retained in the business itself as a source of internal financing.

b) The amount of divisible profits withheld from distribution as dividend may be invested either

   i) in readily marketable securities or

   ii) in taking out insurance policy to provide funds when required.

ISSUE AND REDEMPTION OF DEBENTURES

1. Issued at par and redeemable at par Bank a/c Dr To Debenture a/c	**2. Issued at discount and redeemable at par** Bank a/c Dr Discount on debenture a/c Dr To Debenture a/c
3. Issued at premium and redeemable at par Bank a/c Dr To Debenture a/c To Premium on debenture a/c	**4. Issued at par and redeemable at premium** Bank a/c Dr Loss on issue of debenture a/c Dr To Debenture a/c To Premium on redemption of debenture
5. Issued at discount and redeemable at premium Bank a/c Dr Discount on debenture a/c Dr Loss on issue of debenture a/c Dr To Debenture a/c To Premium on redemption of debenture	

Illustration -1A company issues the following debentures:

i) 2,000, 10% Debentures of ₹100 each at par but redeemable at a premium of 10% after ten years

ii) 500, 13% Debentures of ₹100 each at a premium of 10% payable at par after five years

iii) 1,000, 11% Debentures of ₹100 each at a discount of 10% but redeemable at a premium of 5% after 8 years

iv) 500 Debentures of ₹100 each as collateral security to a creditor who advanced a loan of ₹40,000

Journalize the above transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c	Dr	2,00,000	
Loss on issue of debentures	Dr	20,000	
To 10% Debentures			2,00,000
To Premium on redemption			20,000
(Being Deb. issued at par and redeemable at premium)			
Bank a/c	Dr	55,000	
To 13% Debentures			50,000
To Premium on issue of debentures			5,000
(Being Deb. issued at premium and redeemable at par)			
Bank a/c	Dr	90,000	
Discount on debentures a/c	Dr	10,000	
Loss on issue of debentures		5,000	
To 11% Debentures			1,00,000
To Premium on redemption			5,000
(Being Deb. issued at discount and redeemable at premium)			
Debenture suspense a/c	Dr	50,000	
To Debenture a/c			50,000
(Being dep. issued as collateral security)			

Illustration -2C Ltd. issued 1,000, 12% Debentures of ₹100 each. Give journal entries under two situations:

a) Issued at a discount of 10% and redeemable at a premium of 10%

b) Issued at par and redeemable at par

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	90,000	
Discount on issue of debentures	Dr	10,000	
Loss on issue of debentures	Dr	10,000	
To 12% Debentures			1,00,000
To Premium on redemption			10,000
(Being Deb. issued at discount and redeemable at premium)			
Bank a/c	Dr	1,00,000	
To 12% Debentures			1,00,000
(Being Deb. issued at par and redeemable at par)			

Illustration -3 You are required to set out the journal entries relating to the issue of following debentures in the books of X Ltd.

- 8% 120 ₹1,000 Debentures are issued at 5% discount and are repayable at par.
- Another 7% 150 ₹1,000 debentures are issued at 5% discount and repayable at 10% premium.
- Further 80 9% ₹1,000 debentures are issued at 5% premium
- In addition another 400 8% ₹100 debentures are issued at collateral securities against a loan of ₹40,000

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	1,14,000	
Discount on issue of debentures	Dr	6,000	
To 8% Debentures			1,20,000
(Being Deb. issued at discount)			
Bank a/c	Dr	1,42,500	

Discount on issue of debentures	Dr	7,500	
Loss on issue of debentures	Dr	15,000	
To 12% Debentures			1,50,000
To Premium on redemption			15,000
(Being Deb. issued at par and redeemable at par)			
Bank a/c	Dr	84,000	
To 12% Debentures			80,000
To Premium on redemption			4,000
(Being Deb. issued at premium)			
Debenture suspense a/c	Dr	40,000	
To Debenture a/c			40,000
(Being dep. issued as collateral security)			

Illustration -4 ₹10 lakhs debentures issued at 8% discount by a Ltd. Co. Each and every year end ₹2 lakhs redeemed for 5 years. Calculate the amount of discount for each and every year.

Solution

Year	Amount O/S	Ratio	Amount of discount ₹
1	10,00,000	5	80,000 x 5/15 = 26,667
2	80,000	4	80,000 x 4/15 = 21,333
3	60,000	3	80,000 x 3/15 = 16,000
4	40,000	2	80,000 x 2/15 = 10,667
5	20,000	1	80,000 x 1/15 = 5,333

4.7 DEBENTURE REDEMPTION RESERVE:

The amount required for the redemption of debentures is usually very large. It creates a great difficulty for the company to arrange this large amount to pay off its debentures. In case this large amount is paid out of company's working capital, it may affect the routine working of the company and that will affect the profitability of the company also. So in order to avoid this difficulty a company needs funds to repay its debentures.

According to a notification of Government of India issued by Controller of Capital Issue as on 1-1-1987, it is compulsory for all companies to create a Debenture Redemption Reserve up

to at least 50% of the amount of debentures issued before the commencement of redemption of debentures. The effect of such a notification is that a Company cannot redeem its debentures purely out of capital or purely out of current profits.

4.8 DEBENTURE REDEMPTION FUND/SINKING FUND:

It is a kind of reserve by which a provision is made to reduce a liability, e.g. redemption of debentures or repayment of a loan. A sinking fund is a form of specific reserve set aside for the redemption of a long term debt. The main purpose of creating a sinking fund is to have a certain sum of money accumulated for a future date by setting aside a certain sum of money every year. It is a kind of specific reserve.

Whatever the object or the method of creating such a reserve may be, every year certain sum of money is invested in such a way that with compound interests, the exact amount to wipe off the liability or replace the wasting asset or to meet the loss will be available. The amount to be invested every year can be known from the compound interest annuity tables.

Ledger Accounts

Debenture Redemption Fund a/c

Particulars	Amount	Particulars	Amount
To Balance c/d	xxx	By P & L Appropriation a/c	xxx
	xxx		xxx
To Balance c/d	xxx	By Balance b/d	xxx
		" P & L App. a/c	xxx
		" Interest a/c	xxx
	xxx		xxx
To Loss on redemption of		By Balance b/d	xxx
debenture	xxx	" P & L App. a/c	xxx
" Debenture Fund Investment	xxx	" Interest a/c	xxx
(Loss)		" Deb. Fund Investment a/c	xxx
" General reserve (b/f)	xxx	(Profit on sales)	
	xxx		xxx

Debenture Redemption Fund Investment a/c

Particulars	Amount	Particulars	Amount
To Bank (Appropriation)	xxx	By Balance c/d	xxx
	xxx		xxx
To Balance b/d	xxx	By Balance c/d	xxx

" Bank (Appropriation + Interest)	xxx		
	xxx		xxx
To Balance b/d	xxx	By Bank (Sales)	xxx
" Deb. Fund (b/f) (Profit on sales)	xxx	" Deb. Fund a/c (b/f) (Loss on sales)	xxx
	xxx		xxx

Debenture a/c

Particulars	Amount	Particulars	Amount
To Balance c/d	xxx	By Bank a/c	xxx
	xxx		xxx
At the end of last year			
To Bank	xxx	By Balance b/d	xxx
	xxx		xxx

Debenture holder's a/c

Particulars	Amount	Particulars	Amount
To Bank	xxx	By Debentures	xxx
	xxx	" Premium on redemption	xxx
	xxx		xxx

Illustration -5 A company issued 6% Debentures of ₹6,00,000 with a condition that they should be redeemed after 3 years at 10% premium. The amount set aside for the redemption of debentures is invested in 5% Govt. Securities. The sinking fund table shows that ₹0.31720856 at 5% compound interest in three years will become ₹1. You are required to give journal entries and open sinking fund a/c and sinking fund investment a/c.

Solution

Journal entries

Year	Particulars	LF	Debit ₹	Credit ₹
I	Bank a/c	Dr	6,00,000	
	Loss on issue of Deb.	Dr	60,000	
	To 6% Debentures			6,00,000
	To Premium on redemption			60,000

	(Being deb. issued)			
	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption Fund Invest. a/c	Dr	2,09,358	
	To Bank			2,09,358
	(Being annual amount invested)			
II	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption Fund Invest a/c	Dr	2,19,826	
	To Bank			2,19,826
	(Being annual amount invested)			
	Bank a/c	Dr	10,468	
	To Debenture R. Fund			10,468
	(Being interest received)			
III	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption F.I. a/c	Dr	4,29,138	
	To Bank			4,29,138
	(Being annual amount invested)			
	Bank a/c	Dr	21,459	
	To Debenture Fund			21,459
	(Being interest received)			
	Debenture R F a/c	Dr	6,00,000	
	To General reserve a/c			6,00,000
	(Being fund a/c closed)			
	Debenture R F a/c	Dr	60,000	
	To Loss on issue of Deb.			60,000
	(Being fund investment a/c closed)			

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	2,09,358	By P & L Appropriation a/c	2,09,358
	2,09,358		2,09,358
To Balance c/d	4,29,184	By Balance b/d	2,09,358
		“ P & L App. a/c	2,09,358
		“ Interest a/c	10,468
	4,29,184		4,29,184
To Loss on redemption	60,000	By Balance b/d	4,29,184
“ General reserve (b/f)	6,00,000	“ P & L App. a/c	2,09,358
		“ Interest a/c	21,458
	6,60,000		6,60,000

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	2,09,358	By Balance c/d	2,09,358
	2,09,358		2,09,358
To Balance b/d	2,09,358	By Balance c/d	4,29,184
“ Bank (Appr. + Interest)	2,19,826		
	4,29,184		4,29,184
To Balance b/d	4,29,184	By Bank	4,29,184
	4,29,184		4,29,184

Illustration -6 A company issued 5,000 debentures of ₹100 each at par on 1st Jan. 2015 redeemable at par on 31st Dec.2019. A sinking fund was established for the purpose. It was expected that investments would earn 5%. Sinking fund tables show that ₹ 0.180975 amounts to ₹1 at the end of 5 years at 5% on 31st Dec.2019. The investments realized ₹3,90,000. On that date, the company's bank balance stood at ₹1,45,600. The debentures were duly redeemed. Give the necessary ledger accounts. Assume investments were made to nearest ₹10.

Solution

Annual appropriation = ₹50,000 x 0.180975 = ₹90,487.50

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	90,488	By P & L Appropriation a/c	90,488
	90,488		90,488
To Balance c/d	1,85,500	By Balance b/d	90,488

		" P & L App. a/c	90,488
		" Interest a/c	4,524
	1,85,500		1,85,500
To Balance c/d	2,85,263	By Balance b/d	1,85,500
		" P & L App. a/c	90,488
		" Interest a/c	9,275
	2,85,263		2,85,263
To Balance c/d	3,90,014	By Balance b/d	2,85,263
		" P & L App. a/c	90,488
		" Interest a/c	14,263
	3,90,014		3,90,014
To Deb. Redem. Fund		By Balance b/d	3,90,014
Investment	10	" P & L App. a/c	90,488
" General reserve (b/f)	4,99,992	" Interest a/c	19,500
	5,00,002		5,00,002

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	90,490	By Balance c/d	90,490
	90,490		90,490
To Balance b/d	90,490	By Balance c/d	1,85,500
" Bank	95,010		
(Appr. + Interest)			
	1,85,500		1,85,500
To Balance b/d	1,85,500	By Balance c/d	2,85,260
" Bank	99,760		
	2,85,260		2,85,260
To Balance b/d	2,85,260	By Balance c/d	3,90,010
" Bank	1,04,750		
	3,90,010		3,90,010
To Balance b/d	3,90,010	By Bank (Sales)	3,90,000
		" Deb. redemption fund a/c	10
	3,90,010		3,90,010

Illustration -7 A company issued ₹2,00,000, 5% debentures of ₹100 each at par repayable at the end of 6 years at a premium of 6%. The sinking fund at 4% compound interest is created for the

redemption of debentures. Draw up the debenture redemption fund a/c and debenture redemption fund investment a/c for 5 years at ₹1 per annum and 4% compound interest amounts to ₹5,3163 in 5 years.

Solution

Annual appropriation = ₹2,12,000/ 54,163 = ₹39,141

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	39,141	By P & L Appropriation a/c	39,141
	39,141		39,141
To Balance c/d	79,848	By Balance b/d	39,141
		" P & L App. a/c	39,141
		" Interest a/c	1,566
	79,848		79,848
To Balance c/d	1,22,183	By Balance b/d	79,848
		" P & L App. a/c	39,141
		" Interest a/c	3,194
	1,22,183		1,22,183
To Balance c/d	1,66,211	By Balance b/d	1,22,183
		" P & L App. a/c	39,141
		" Interest a/c	4,887
	166,211		1,66,211
To Loss on issue of deb.	12,000	By Balance b/d	1,66,211
(2,00,000 x 6%)		" P & L App. a/c	39,141
" General reserve (b/f)	2,00,000	" Interest a/c	6,648
	2,12,000		2,12,000

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	39,141	By Balance c/d	39,141
	39,141		39,141
To Balance b/d	39,141	By Balance c/d	79,848
" Bank (Appr. + Interest)	40,707		
	79,848		79,848

To Balance b/d	79,848	By Balance c/d	1,22,183
“ Bank	42,335		
	1,22,183		1,22,183
To Balance b/d	1,22,183	By Balance c/d	1,66,211
“ Bank	44,028		
	1,66,211		1,66,211
To Balance b/d	1,66,211	By Bank (Sales)	–

4.9 CONVERSION OF DEBENTURES

Illustration -8 On 1st Jan.2012 Green Ltd issued 250, 5% Debentures of ₹1,000 each at ₹950. The debenture holders have all options to convert at par their holdings into 7% preference shares of ₹100 each at a premium of ₹25 per share at any time after 3 years and interest is payable half yearly. On 1st Jan.2015, holders of 50 debentures exercise their option. Show journal entries relating to issue and conversion of debentures.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	2,37,500	
Discount on issue of debentures a/c	Dr	12,500	
To 5% Debentures			2,50,000
(Being debentures issued)			
5% Debentures	Dr	50,000	
To 7% Preference share capital a/c			40,000
To Share premium a/c			10,000
(Being 50 debentures converted)			

Journal entries

1. Issue of debenture at discount	**2. For paying interest**
Bank a/c Dr	Interest on debenture a/c Dr
Discount on debenture a/c Dr	To Bank a/c
To Debenture a/c	

3. For closing interest	**4. For writing off discount on debenture**
Profit and loss a/c Dr	Profit and loss a/c Dr
To Interest on debenture a/c	To Discount on debenture a/c

Entry for canceling the debenture

1. Face value is given	**2. Premium value is given**
Debenture a/c Dr	Debenture a/c Dr
To Bank a/c	Loss/Premium on redemption of debenture a/c Dr
	To Bank a/c

Illustration -9 B Ltd. issued 1,000, 12% Debentures of ₹100 each on 1-1-2015. Interest is payable on 30th June and 31st Dec. every year. On 1st April 2016, the company purchased 100 of its debentures at ₹98 ex-interest for immediate cancellation. On 1st October 2016, the company purchased another 100 of its debentures at ₹98 cum interest and cancel them immediately. The company closes its books of accounts on 31st Dec. every year. Pass journal entries and show balance sheet as on Dec.31.2016.

Solution

Journal Entries

Date	Particulars	LF	Debit ₹	Credit ₹
1-1-15	Bank a/c	Dr	1,00,000	
	To 12% Debentures			1,00,000
	(Being deb. issued)			
30-6-15	Interest on debenture a/c	Dr	6,000	
	To Bank			6,000
	(Being interest paid)			
31-12-15	Interest on debenture a/c	Dr	6,000	
	To Bank			6,000
	(Being interest paid)			
31-12-15	P & L a/c	Dr	12,000	
	To Interest on debenture a/c			12,000
	(Being interest closed)			
1-4-16	Own debentures a/c	Dr	9,800	
	Interest on debenture a/c	Dr	300	

	To Bank			10,100
	(Being interest paid)			
1-4-16	Debenture a/c	Dr	10,000	
	To Own debentures a/c			9,800
	To Capital reserve			200
	(Being debenture redeemed)			
30-6-16	Interest on debenture a/c	Dr	5,400	
	To Bank			5,400
	(Being interest paid)			
1-10-16	Own debentures a/c	Dr	9,500	
	Interest on debenture a/c	Dr	300	
	To Bank			9,800
	(Being interest paid)			
	Debenture a/c	Dr	10,000	
	To Own debentures a/c			9,500
	To Capital reserve			500
	(Being debenture redeemed)			
	Interest on debenture a/c	Dr	4,800	
	To Bank			4,800
	(Being interest paid)			
	P & L a/c		10,200	
	To Interest on debenture a/c			10,200
	(Being interest closed)			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. According to Companies Amendment Act 1999, the premium on issue of debentures should be credited to

a) Share premium a/c
b) Debenture premium a/c
c) **Securities premium a/c**
d) Debenture a/c

2. Profit on cancellation of own debentures is transferred to

a)P & L a/c
b) Dividend equalization fund
c) **Capital reserve**
d) Own debenture a/c

3. Interest on debentures is normally payable

a) **Half yearly**
b) Quarterly
c) Annually
d) Monthly

4. Own debenture a/c (at the time of purchase of own debentures) is always to be debited with

a) The fair value
b) The cum-interest
c) **The ex-interest price**
d) Face value

5. ________ is a debenture which does not have any security

a) **Naked debentures**
b) Convertible debentures
c) Irredeemable debentures
d) Redeemable debentures

6. Debentures represent the

a) **Long term liabilities of a company**
b) Investments by shareholders in a company
c) Manager's share in business
d) Owners equity

7. Ex-interest means per debenture price is excluding interest for _________

a) Previous period
b) Present period
c) Future period
d) Both for present and future period

8. Dividend/ Interest (net) received are credited to profit and loss a/c with

a) Amount received
b) Amount received + tax
c) Amount of tax
d) Amount received - tax

9. Interest on debenture is paid out of

a) Capital profit only
b) **Revenue profits only**
c) Both capital and revenue profits
d) Capital redemption reserve

10. Premium on redemption of debenture account is in the nature of
    a) **Personal account** b) Real account
    c) Nominal account d) Current account

11. Profit on cancellation of own debentures is transferred to ____________
    a) P & L a/c b) Balance sheet
    c) Dividend equalization fund d) **Capital reserve**

12. Interest on debentures is _____________
    a) Appropriation of profits b) **Charge on profit**
    c) Adjustment of profit d) Both a and b

13. Premium of redemption of debentures a/c is in the nature of _________
    a) **Personal account** b) Real account
    c) Nominal account d) Impersonal account

14. Own debenture a/c will appear on _________
    a) Liability side of the balance sheet b) **Assets side of the balance sheet**
    c) Debit side of P & L a/c d) Debit side of P & L Appropriation a/c

15. In the Balance sheet of a company, the discount on issue of debentures is shown under the following heading ____________
    a) Investments b) Fixed assets
    c) Current assets d) **Miscellaneous expenditure**

16. Interest on debenture is calculated on the basis of the _____________
    a) **Face value of debenture** b) Face value of debenture plus premium
    c) Face value of debenture with discount d) Market value of debentures

REVIEW QUESTIONS

A) Answer in short

1. What is a debenture?
2. What are called secured debenture?
3. What are called irredeemable debenture?
4. What are convertible debentures?
5. When debentures issued as collateral security?
6. When debentures issued for consideration other than cash?
7. What is a sinking fund?
8. Write a note on redemption of debentures out of capital.

9. What do you understand by redemption of debentures out of profits?
10. What do you mean by ex-interest and cum-interest debenture prices?

B) Answer in detail

1. Differentiate shares from debentures.
2. Enumerate the types of debentures.
3. Explain the different methods of redemption of debentures.
4. Describe the sinking fund method of redeeming debentures.
5. Write short note on
   a) Debenture redemption reserve.
   b) Open market buying method of redemption.

EXERCISES

ISSUE OF DEBENTURES

1. Kiran Ltd issued 2,000, 12% Debentures of ₹10 each to the public to be paid ₹4 on application and the balance on allotment. All the moneys due on debentures are received. Give journal entries.
2. A Ltd. issue 1,000, 12% Debentures of ₹100 each payable as ₹30 on application and the balance in allotment. Applications were received for 2,000 debentures, out of which applications for 800 debentures were allotted fully; applications for 600 debentures were allotted 200 debentures and the remaining was rejected. Give journal entries and balance sheet.

ISSUE AND REDEMPTION OF DEBENTURES

3. A company issued ₹1,00,000, 7.5% Debentures at par redeemable at 5% premium after 10 years. Pass journal entries to record the transaction.
4. Give journal entries for the following:
   The issue of ₹100 debentures for ₹100
   The issue of ₹100 debentures for ₹95
5. What journal entries will be made for the following cases?
   A company issued ₹40,000 6% Debentures at par redeemable at par
   A company issued ₹40,000 6% Debentures at discount of 10% and redeemable at par
   A company issued ₹40,000 6% Debentures at premium of 5% and redeemable at par
   A company issued ₹40,000 6% Debentures at par and redeemable at 10% premium

DEBENTURE FUND METHOD - LAST YEAR ONLY

6. The following balances were extracted from the books of a company as on 31st Dec.2015:
   9% Debentures ₹5,00,000; Debenture redemption fund ₹5,00,000; Debenture redemption fund investment ₹5,00,000; Cash at bank ₹1,00,000; Share premium ₹2,00,000; P & L a/c ₹3,50,000.

   On the above date the directors realized the investments at a loss of 2% and redeemed all the debentures at a premium of 5%. Write off the necessary ledger accounts to give effect to the above.

7. B Company Ltd has 60,000, 5% debentures as on 1-1-2015. On that date, the debenture redemption fund stood at ₹50,000 represented by ₹50,000, 3% Govt. of India Bonds.

   The annual instalment added to the debenture fund is ₹8,230. On 31-12-2015, the balance at bank (after the interest on investment has been received) was ₹15,640. On that date, investments were sold at 83% and debentures were paid off. Show the necessary ledger accounts.

8. Beta Ltd had ₹3,00,000, 8% Debentures outstanding on Jan.1, 20015 On that date, the debenture redemption fund had ₹2,50,000 invested in ₹2,65,000, 6% (2012) Govt. Loan Bonds. The annual appropriation from the profit to the fund was ₹41,150. On Dec.31, 2015, the interest on investments had been collected. The bank balance was ₹78,200. The debentures were redeemed by realizing the bonds at 87%. Prepare all necessary ledger accounts.

DEBENTURE FUND METHOD – Full years

9. On 1st Jan.2015, M Ltd. issued debentures for ₹1,00,000 to be redeemed at par at the end of 5th year and it was resolved that sinking fund formed and invested in the tax free securities. Give necessary ledger accounts for 5 years assuming that the interest received on investment was at the rate of 5% on cost that the interest was received yearly and immediately invested and that the investment realized at a loss of ₹300 at the end of the 5th year. Assuming investments are made in multiples of ₹100. Reference to sinking fund table shows that each year in 5% compound interest will give ₹0.180975 invested at the end of five years.

CONVERSION OF DEBENTURES

10. X Ltd redeemed ₹1,00,000 preference shares by converting them in to equity shares issued at 25% premium. What entries can be made for the redemption by the company?

11. What entries can be made for following redemptions made by the company?

    a) X Ltd redeemed ₹1,00,000 preference shares by converting them into equity shares of ₹10 each issued at 25% premium

    b) X Ltd redeemed ₹95,000 preference shares by converting them into equity shares of ₹10 each issued at 5% discount

12. On 31st Dec.2015, ₹1,50,000, 6% Debentures were redeemed out of profit by drawing a lot. Give journal entries.

WRITING OFF DISCOUNT ON ISSUE OF DEBENTURES

13. A Ltd. issues of ₹1,00,000 debentures on 1st Jan.2015 as a discount of 10% repayable in annual drawings of ₹20,000 commencing on 31st Dec.2015. The company's financial year ends on 31st Dec. Show the amount to be charged to P & L a/c for five years.

14. On 1st January 2015, a limited company issued debentures of the face value of ₹1,00,000 at a discount of 5% repayable at the end of the fifth year. Show the discount account on issue of debentures account in the company's ledger for the period.

15. A Ltd issued 20,000, 11% debentures of ₹100 each at a discount of 6%. The debentures have to be redeemed at the rate of ₹4,00,000 each year commencing with the end of 4th year. State the amount of discount to be written off each year.

EX-INTEREST AND CUM-INTEREST

16. On 1st October 2015, a company issued 10,000, 14% Debentures of ₹100 each (interest payable on 30th September and 31st March). The company is allowed to purchase own debentures which may be cancelled or kept or reissued at the company's option. The company made the following purchases in the open market.

    On 31st August 2016, 1,000 debentures @ ₹98 ex-interest

    On 31st December 2017, 500 debentures @ ₹97 cum-interest

    The debentures purchased on 31st August were cancelled on 31st March 2018. Give journal entries to record the transactions.

17. On 1st July 2014, a company issued 2,000, 6% Debentures of ₹100 each. The interest is payable on 30th June and 31st Dec. 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 by cheque in the open market.

    On 31st May 2015 – 22 debentures at ₹98 ex-interest

    On 30th September 2016 – 100 debentures at ₹97 cum-interest

    The debentures, which were purchased on 31st May 2015 were cancelled on 31st Dec.2016. All payments were made on due dates. Give journal entries and balance sheet as on 31st Dec.2016.

18. On 1st April 2015, Senthil Ltd. had issue 5% Debentures amounting to ₹3,00,000 interest is payable half yearly on 30th June and 31st Dec. During the year ended 31st March 2016 the following purchases were made in the open market:

    15th June – ₹50,000 nominal ex-interest; cost ₹49,450

    1st Nov. – ₹40,000 nominal – cum-interest; cost ₹40,250

The debentures thus purchased were not cancelled until 30th June 2016

Draw up own debentures investment account. Calculations to be made in months and to the nearest rupee.

19. B Ltd. purchased its own debentures as follows:

    31-5-15 – 200 6% debentures each at ₹98 ex-interest

    30-9-15 – 100 6% debentures each at ₹97 cum-interest

    Interest payable is on 30th June and 31st Dec. every year. On 31-12-15 both debentures are cancelled. Show journal entries and the method of calculating interest.

20. X Ltd. buys its own 6% Debentures of the nominal value ₹20,000 at ₹96 on 31st March 2015. Record the transaction in the books of X Ltd. if the quotation is a) cum- interest and b) ex-interest. X Ltd. pays debenture interest on 30th June and 31st Dec. Pass journal entries regarding i) cum-interest ii) ex-interest and iii) cancellation

21. On Jan.1, 2016, C Ltd issued 1,000, 12% Debentures of ₹100 each at ₹95. The terms of issue provided that beginning with 2007, ₹20,000 of debentures should be redeemed, either by drawings at par or by purchase in the open market every year. The company wrote off ₹1,000 from the discount on debentures every year. In 2017, the debentures to be redeemed were repaid at the end of the year by drawings. On Dec.31, 2018, the company purchased for cancellation 200 debentures at the ruling price of ₹95, the expenses being ₹100. Interest is payable half-yearly. Give journal entries in the books of C Ltd.

22. C Ltd Company has a balance of ₹1,00,000 at the credit of P & L a/c. It was resolved to utilize the profits to repay the debentures of ₹70,000. Now redeemable at a premium of 10%. Show the journal entries.

23. MK Ltd had 12% debentures of ₹2,00,000 outstanding in its books as on 1-4-2018. It also had a balance of ₹80,000 in sinking fund account represented by 10% investments (face value ₹1,00,000).

    On 31-12-2018 it sold investments of the face value of ₹20,000 @ ₹90 cum-interest and with the proceeds purchased own debenture of the face value of ₹20,000 for immediate cancellation. The interest dates for both debentures and investments were 30th September and 31st March. Annual appropriations to sinking fund came to ₹21,000. Prepare the necessary ledger account for the year ended 31st March 2019.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1) The National Investors Ltd., issued on 1.1.90 20,000 5% debentures of Rs. 100 each, redeemable at the option of the company after 3 years at Rs. 105 per debenture upon giving 3 months notice to the holders. The company purchased the following debentures in the open market. 1.4.91 Rs. 4,000 debentures at Rs. 4,025, cum-interest. 1.11.91 Rs. 7,000 debentures at Rs. 6,915; ex-interest. These debentures were retained as investment till 31.12.92 on which date they were cancelled.Give journal entries to record the above transactions, assuming that the interest is payable half-yearly on 30th June and 31st December every year. Ignore taxation.

[Madurai, B.Com,2014]

2) On 1st January2002, New Castle Ltd. allotted 10,000 9% debentures of Rs. 100 each at par, the total amount having been received along with applications.

   (a) On 1st January 2002 the company purchased in the open market 1,000 of its own debentures @ Rs. 101 each and cancelled them immediately.

   (b) On 1st January 2006 the company redeemed at par debentures for Rs. 3,00,000 by draw of lots.

   (c) On 1st January 2007 the company purchased debentures of the face value of Rs. 2,00,000 for Rs. 1,97,800 in the open market to hold them as investments for one year and then to cancel them.

   (d) Finally, as per the resolution of the Board of directors, the remaining debentures were to be redeemed at a premium of 2% on 1st January 1999 when the share premium account in the company's ledger would show a balance of Rs. 30,000.

Pass journal entries for the above transactions ignoring debenture redemption reserve, debenture interest, and interest on own debentures.

[Madurai, April, 2014]

3) The following balances are extracted from the balance sheet of M. Ltd. as on 1st January 2001 :

	Rs.
6% Debentures	1,00,000
Debenture redemption fund	85,000
Debenture redemption fund investments	90,000 (in Rs. 100 value 4% certificates)

The annual investment was Rs. 11,400. On 31st December 2001, the investments were realised at Rs. 95 each and the debentures were redeemed. The Bank balance on that date was Rs. 18,300. Give ledger accounts relating to the redemption of debentures.

[Periyar,B.Com,2013]

4) On January 1,1996,C Ltd. issued 1,000 12% Debentures of Rs. 100 each at Rs.95. The terms of issue provided that beginning with 1997, Rs.20,000 of Debentures should be redeemed, either by drawings at paror by purchase in the open market every year The company Wrote off Rs.1,000 From the discount on debentures every year. In 1997 the debentures to be redeemed were repaid at the end of the year by drawings. On December 31.1998, the company Purchased for cancellation 20 debentures at the ruling price of Rs.95, the expenses being Rs.100. Interest is payable yearly. Give the journal entries in the books of C.Ltd. and Show the balance sheet with relevant items as on December 31,1998.

[Madurai, Nov,2012]

5) The summarized balance sheet of D ltd on March 31, 2000 was as follows:

LIablities	**Amt**	**Assets**	**Amt**
Share capital 6% redeemable preference shares of Rs.10 each	2,00,000	Fixed Assets at cost less depreciation	4,12,000
Equity shares of Rs.10 each	4,00,000	Good will	2,00,000
6% debentures	3,00,000	Stock	4,50,000
Profit & Loss A/c	2,50,000	Sundry Debtors	2,15,000
Current Liabilities:		Discount on debentures	12,000
Bank Loan	50,000		
Creditors	89,000		
	12,89,000		12,89,000

Wanted to redeem the preference shares and the debentures, the company offered to the redeemable preference shareholders and the debenture holders the option to convert their holdings into equity shares which are to be treated as worth Rs.12.50. One half of the preference shareholders agreed to do this. The company issued 30,000 equity shares at Rs.12.50 to the public for cash and with the fund available paid off the bank loan and redeemed the remaining redeemable Preference shares and Debentures. Journalize the above transactions and show the balance sheet after the transactions have been completed.

[Madurai, Nov,2015]

6) Journalise the following issues :

a) A company issued 1,000, 6% Debentures of Rs. 100 each at Par.

b) A company issued 1,000, 6% Debentures of Rs. 100 each at 10% premium

c) A company issued 1,000, 6% Debentures of Rs. 100 each at 10% discount.

[Madras, B.Com., Oct. 2003]

7) Pass necessary Journal entries in the following cases, when debenture issue price is Rs. 1,00,000. Rate of Interest 8%.

   a) Issued at Par and redeemable at par.

   b) Issued at a discount of 10% and redeemable at par.

   c) Issued at premium of 5% and redeemable at par.

[Madras, B.Com(CS) (SY3B) Nov. 2008; Ap 2008;Nov. 2007; B.Com., April 2003]

8) Pass journal entries for the following transactions:

   a) Issue of debentures at a discount and redeemable at par.

   b) Issue of debentures at a premium and redeemable at par.

   c) Issue of debentures at par and redeemable at premium

   d) Issue of debentures at a discount and redeemable at a premium.

[Madras, B.Com., Oct. 2002; B. Com., April 2013]

9) .Anil Ltd., issued 4,000, 5% Debentures of Rs. 100 each at a premium of 10% payable Rs. 20 on application and the balance with premium on allotment. Pass journal entries in the books of Anil Ltd.

[Madras, B.Com (ICE) Ap 2007]

10) 'Y' Ltd. has taken over the business of Krishnan, the assets and liabilities having been valued at Rs. 80,000 and Rs. 30,000 respectively. Y Co., agreed to pay Rs. 72,000 as the purchase price, to be settled by the issue of 12% debentures of Rs. 10 each at a premium of 20%. Give Journal Entries.

[Madras,B.Com,2004]

[Ans : Goodwill Rs. 22,000; 6,000 debentures of Rs. 10 each at premium of Rs. 2 per debenture]

11) A company issued at par 1,000 6% debentures of Rs. 1,000 each. Interest is payable half yearly on 30th September and 31st March.

On 1.2.1983, the company purchased 20 of its own debentures as investment at Rs. 970.

Give the necessary journal entries, assuming the books are closed on 31st March. Ignore income tax.

[Madras, B.com,2005]

[Ans: On 1.2.83: Own debentures — Rs. 19,400 and interest — Rs. 400; assuming 'ex-interest price'. If 'cum-interest' price is assumed, own debentures — Rs. 19,000; Interest — Rs. 400]

12) A Company has outstanding 12% debentures of Rs. 1,00,000 on 1.1.1999. The company pays interest on 30 June and 31 December. It purchases debentures of Rs. 10,000 for cancellation

on 1st May 1999 @ Rs. 102 cum-interest. It further purchases for redemption debentures of Rs. 20,000 on 1st September 1999 at Rs. 95 ex-interest. You are required to pass the necessary journal entries in the books of the company.

[Madras, B.C.S. (ICE) Oct. 2001]

[Ans : Profit on cancellation : 1.5.99: Rs. 200; 1.9.99: Rs. 1,000]

13) X Ltd. purchases for immediate cancellation 2,000, 12% own Debentures of Rs. 100 each on 1st December 1998, the interest dates being 31st March and 30th September. Pass entries relating to the cancellation if :

a. Debentures are purchased at Rs. 92 Ex-interest.

b. Debentures are purchased at Rs. 92 cum-interest.

[Madras, II M.Com. (ICE) (Old) Oct. 2002]

[Ans : Profit on cancellation : (a) Rs. 16,000; (b) Rs. 20,000]

14) On 31st March 1998 'A' Ltd.'s Balance sheet showed 10,000 12% debentures of Rs. 100 each outstanding. Interest on debentures is payable on 30th September and 31st March. On 1st August 1998, the company purchased 500 of its own debentures as investment at Rs. 97 ex-interest.Pass Journal entries supposing that the company cancells all its own debentures on 1st March 1999.

[Madras, B.Com., (Old) Oct. 2001]

[Ans : Interest : 1-8-98 : Rs. 2,000; 30-9-98 : Rs. 58,000 on 1-3-99 : Rs. 2,500; Profit in concellation : Rs. 1,500]

15) Goodwill Ltd. issues 1,000 6% debentures of Rs. 100 each. Give journal entries in each of the following cases:

(a) The debentures are issued and redeemable at par.

(b) They are issued at a discount of 6% , but redeemable at par.

(c) They are issued at a premium of 5%, but redeemable at par.

(d) They are issued at a discount of 4% but are redeemable at a premium of 5%.

[Madras, B.Com., April 2001;

B.C.S. Oct. 1999; B.Com., March 91, March 90;

Madras, B.A. Corp. Sep. 901]

16) You are required to set out the journal entries relating to the issue of the following debentures in the books of X Ltd :

(a) 8%, 120 Rs. 1,000 debentures are issued at 5% discount and are repayable at par.

(b) Another 7%, 150 Rs. 1,000 debentures are issued at 5% discount and repayable at 10% premium.

(c) Further 80, 9% Rs. 1,000 debentures are issued at 5% premium.

In addition another 400, 8% Rs. 100 debentures are issued as collateral securities against a loan of Rs. 40,000.

Madurai, B.Com., Nov. 2003] Madras, B.Com(PZG)Ap 200.5; B.Com(ICE) Ap' 2001]

17) Zed Ltd. issued 1,000 9% debentures of Rs. 100 each payable, Rs. 20 on application and the balance on allotment. Applications were received for 1,500 debentures out of which applications for 900 were allotted fully. Applicants for 400 debentures were allotted 100 debentures and the remaining were rejected. All sums due were received. Give journal entries and also show how these transactions will be reflected in the Balance sheet of the company.

[Madras, B.Com (A.F) Nov. 2007 (Modified]

[Ans: Transfer of application money to debenture allotment A/c — Rs. 6,000; Return of rejected application money — Rs. 4,000]

18) Narayanan & Co. Ltd., purchased assets worth Rs. 28,80,000. It issued debentures in satisfaction of the purchase price. Calculate how many debentures will be issued:

(a) In case the debentures are of Rs. 100 each and are issued at a discount of 4% and

(b) In case the debentures are of Rs. 80 each and are issued at a premium of Rs. 10 per debenture.

Also, pass the journal entries required for the issue of debentures.

[Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans: (a) 30,000 debentures of Rs. 100 each will be issued at 4% discount; (b) 32,000 debentures of Rs. 80 each will be issued at premium of Rs. 10 per debenture]

19) A company issued debentures of the face value of Rs. 1,00,000 at a discount of 6%. The debentures were repayable by annual drawings of Rs. 20,000. How would you deal with the discount on debentures? Show t e discount account in the company's ledger for the period of duration of debentures.

[Periyar, B. Com (CA) Ap. 2005 'Madras, B.Com., B.Com(CS) Nov. 2009;1 st M.Com(ECA1A)Nov 2008; B.Com., Ap. 2007]

[Ans: Assuming proportionate write off, discount account balance on the date of issue — Rs. 6,000; At the end of one year — Rs. 4,000; At the end of 2 years — Rs. 2,400; At the end of 3 years — Rs. 1,200; At the end of 4 years — Rs. 400; - At the end of 5 years]

20) Journalize the following transactions at the time of issue of Debenture and Redemption of Debenture :

(a) Debenture issue at Rs. 95, repayable at Rs. 100

(b) Debenture issue at Rs. 95, repayable at Rs. 105

(c) Debenture issue at Rs. 100, repayable at Rs. 105

(d) Debenture issue at Rs. 95, repayable at Rs. 100

The face value of each debenture : Rs. 100.

[Madras, B.Com., Nov. 2004; B.Com (ICE) Oct 2002; I. M.Com. (ICE) May 20011]

21) On 1.1.1980, a company issued 1,000 6%. Debentures of Rs. 1,000 each at Rs. 950. The terms of the issue provided that beginning with 1982, Rs. 50,000 of debentures should be redeemed, either by drawings at par or by purchase in the market every year. The expenses of the issue amounted to Rs. 3,000 which were written off in 1980. The company writes off Rs. 10,000 from the discount on debentures every year. In 1982 the debentures to be redeemed were repaid at the end of the year by drawings. In 1983, the company purchased for cancellation 50 debentures at the ruling price of Rs, 980 on 31st December, the expenses being Rs. 100.Interest is payable yearly on 31st December. Ignore income tax. Give journal entries.

[Madras, B.COM., October 2007]

[Ans: Debenture Interest on 31st December of 1980, 81 and 82 — Rs. 60,000. On 31.12.83 — Rs. 57,000; Profit on redemption of debentures as on 31.12.83 Rs. 900]

22) A company issued 6% Debentures of Rs. 10,00,000 with a condition that they should be redeemed after 3 years at 10% premium. The amount allocated for the redemption of debentures is invested in 5%. State Government Securities.The Sinking Fund Table shows that Rs. 0.317209 at 5% compound interest in 3 years will become Re. 1. Pass Journal entries and Prepare ledger accounts for all the three years.

[Madras, B.Com., Apri12004; Oct. 2003; AP 2003]

[Ans : Annual Transfer : Rs. 3,48,929.90; Interest : end of 2nd year Rs. : 17,446.49; 3rd year : Rs. 35,765.3]

UNIT – 5

PROFITS PRIOR TO INCORPORATION

Pre -incorporation period - Post incorporation period - Basis of apportionment of expenses

A company may be purchased by another at any time. After purchasing, it should get certificate of incorporation. But the regular business will be continued. The profit earned by the company before its incorporation should not be used for dividend declaration because it is a capital profit. So it should be transferred to capital reserve a/c. In such a circumstance, we have to prepare the profit and loss a/c with two columns. It is for the purpose of dividing the net profit as relating to pre-incorporation period and as relating to post-incorporation period.

The profit which may arise from a business which has been purchased by the company before it was incorporated is known as profits prior to incorporation.

5.1 PRE -INCORPORATION PERIOD

A period from the date of purchase till the date of incorporation or registration is called pre-incorporation period. The profit relating to such period should be transferred to capital reserve and loss if any should be transferred to goodwill account.

5.2 POST INCORPORATION PERIOD

A period from the date of incorporation till the accounting year end is called post-incorporation period. The profit relating to such period should be transferred to net profit. This is revenue profit of the company and so it will be used for dividend declaration.

5.3 BASIS OF APPORTIONMENT OF EXPENSES

Basis	Expenses to be apportioned
1. Sales ratio	Gross profit, traveling expenses, carriage, carriage outward, selling expenses, variable expenses, discount allowed, bad debts, commission on sales, advertising
2. Time ratio	Rent, rates, salaries, insurance, audit fees, depreciation, interest, taxes, printing , postage, repairs, general expenses, establishment expenses, fixed expenses, bank charges, interest on loan, administration exp., electricity

3. Pre incorporation period (before incorporation)	Salary of a partner, vendor salary, interest on purchase consideration up to the date of purchase
4. Post incorporation period (after incorporation)	Preliminary expenses, debenture interest, directors fees, managing directors commission
5. Purchase ratio	Purchase expenses, carriage on purchase, discount received

Calculation of Time Ratio:

For pre-incorporation period	For post incorporation period
$\frac{\text{Pre-incorporation period}}{\text{Total period}}$	$\frac{\text{Post incorporation period}}{\text{Total period}}$

Calculation of Sales Ratio:

For pre-incorporation period	For post incorporation period
$\frac{\text{Pre-incorporation period sales}}{\text{Total period sales}}$	$\frac{\text{Post incorporation period sales}}{\text{Total period sales}}$

5.4 TREATMENT OF PROFIT IN THE PRE-INCORPORATION PERIOD:

Being Capital profit in its nature, transferred to capital reserve account which may be used to write off capital losses and expenses like preliminary expenses, underwriting commission etc..

5.5 TREATMENT OF LOSS IN THE PRE-INCORPORATION PERIOD:

Being capital loss in its nature, it can be debited to loss prior to incorporation account, which may be used to write off capital profits of the company. It may also be debited to goodwill account.

5.6 TREATMENT OF INTEREST PAID ON PURCHASE CONSIDERATION

Interest paid on purchase consideration is to be divided according to the number of months involved. The total months for which the interest is paid is divided into pre and post incorporation periods.

5.7 CALCULATION OF TIME AND SALES RATIOS

Illustration -1 G Ltd. was incorporated on 1st May 2015 to purchase the running business of Vee Ltd with effect from 1st Jan.2015. The company obtained certificate of commencement of business on 24th August 2015. Calculate the time ratio, if the accounts were finalized on 31st Dec.2015.

Solution

Pre-incorporation	1- 1-15 to 1–5-15	4 months
Post incorporation	1–5–15 to 31–12 –15	8 months
Time ratio	4:8	1:2

Illustration -2 A company incorporated on 1-7-2015 to take over the business carried on by B & Co. from 1-4-2015. The company prepared its first final accounts on 31-3-2016. Sales for the period was ₹3,00,000 (sales up to 30-6-2015 ₹1,00,000). Ascertain sales ratio.

Solution

Pre-incorporation	1- 4-15 to 1 –7 – 15	3 months
Post incorporation	1–7 –15 to 31–3–16	9 months
Time ratio	3:9	1:3
Pre-incorporation sales		₹1,00,000
Post incorporation sales	3,00,000 – 1,00,000	₹2,00,000
Sales ratio		1:2

Illustration -3 A company is incorporated on 1st May 2015. The business acquired 1-4-15 and account closing Dec.2015. Total amount of wages paid is ₹90,000. Number of workers employed in pre-incorporation period 6 and post incorporation period 24. Calculate pre and post incorporation period wages.

Solution

Pre-incorporation (1-4-15 to 1-5-2015)	1 month
Post-incorporation (1-5-15 to 31-12-2015)	8 months
Time ratio	1: 8
No. of workers	6 : 24
Weighted time ratio	6 : 192
Pre –incorporation wages (90,000 x 6/198)	₹2,727
Post –incorporation wages (90,000 x 192/198)	₹87,273

Illustration -4 The sales up to 30th September 2015 were ₹98,000. The monthly average of sales for the first four months of the year was one-half of the remaining periods. The date of incorporation of the business is 1-5-15. The date of purchase of business is 1-1-2015. The date of closing accounts is 30-9-2015. Ascertain sales ratio.

Solution

Calculation of sales ratio: Assume one month sales as X

Pre incorporation	1-1-15 to 1-5-15	4 months x X = 4X
Post incorporation	1-5-15 to 30-9-15	5 months x 2X = 10X
Sales ratio		4:10

Illustration -5 The monthly average of sales in January, November and December is double the monthly average. For the remaining - monthly average for the remaining months of the year. The date of incorporation of the business is 1- 4- 15. The date of purchase of the business is 1-1- 2015. The date of closing of accounts is 31–12- 15. Find the sales ratio.

Solution

Pre-incorporation sales

Jan	Feb	March	Total
2	0.66	0.67	3.33

Remaining period = 12 – 6 = 6/9 = 0.666

Post incorporation sales

Ap.	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
0.66	0.66	0.67	0.67	0.67	0.67	0.67	2	2	8.66
Sales ratio			3.33 : 8.66						

5.8 PREPARATION OF PROFIT AND LOSS ACCOUNT

Illustration -6 A company was incorporated on 1st June 2015. The running business was from 1st Jan.15. The following particulars are available:

a) Total sales for 2015 ₹80,000

b) Sales from 1-1-2015 to 31-5-2015 ₹20,000

c) Gross profit for the whole year ₹30,000

d) Total expenses of 2015 (including directors fees ₹1,000) ₹25,000

e) Company’s share capital ₹75,000

Find out the profit prior to incorporation and after incorporation.

Solution

Time ratio = 5: 7; Sales ratio = 2: 6

Profit and Loss a/c

Particulars	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Director's fees	–	1,000	By Gross profit	7,500	22,500
" Other exp.	10,000	14,000	" Goodwill (b/f)	2,500	–
" Net profit	–	7,500			
	10,000	22,500		10,000	22,500

Illustration -7 X Ltd. was incorporated on 1-7 -2015 to take over the business carried by Y Ltd. with effect from 1- 4- 15. The following is the P & L a/c for the year ended 31-3- 2016 of X Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Administration exp.	90,000	By Gross profit	3,75,000
" Directors fees	15,000		
" Selling exp.	1,80,000		
" Audit fees	5,000		
" Formation exp.	15,000		
" Net profit	70,000		
	3,75,000		3,75,000

Sales ₹15 lakhs (up to 30- 6- 2015 ₹5 lakhs).

Ascertain profit prior and after incorporation.

Solution

Profit and Loss a/c

Particulars	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Administration exp.	22,500	67,500	By Gross profit	93,750	2,81,250
" Directors fees	–	15,000			
" Selling exp.	60,000	1,20,000			
" Audit fees	1,667	3,333			
" Formation exp.	–	15,000			
" Capital reserve (b/f)	9,583	–			
" Net profit (b/f)	–	60,417			
	93,750	2,81,250		93,750	2,81,250

Calculation of time ratio

Pre incorporation	1-4-15 to 1-7-15	3 months
Post incorporation	1-7-15 to 31-3-16	9 months
Time ratio		3:9

Calculation of sales ratio:

Pre incorporation	1-4-15 to 1-7-15	5,00,000
Post incorporation	1-7-15 to 31-3-16	10,00,000
Sales ratio		5:10

Illustration -8 X Ltd. was incorporated on 1-8-2015. It took over the business of Y Ltd with effect from 1-4- 2015. From the following particulars related to the year ending 31-3- 2016, find out profit prior to incorporation and after incorporation. Sales for the year were ₹60 lakhs and pre-incorporation sales ₹25 lakhs. Gross profit for the year was ₹18 lakhs.

Expenses debited to P & L a/c:

Rent	₹90,000	Salaries	₹1,50,000
Directors fees	₹38,000	Interest on debentures	₹60,000
Audit fees	₹15,000	Discount on sales	₹36,000
Depreciation	₹2,40,000	General expenses	₹48,000
Advertising	₹1,80,000	Printing	₹36,000
Commission on sales	₹60,000		

Interest paid to vendor on purchase consideration ₹30,000 (up to 1-10- 2015).

Solution

Profit and Loss a/c

Particulars	**Basis**	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Rent	(TR)	30,000	60,000	Gross profit	7,50,000	10,50,000
“ Directors fees	Post	–	38,000			
“ Audit fees	(TR)	5,000	10,000			
“ Depreciation	(TR)	80,000	1,60,000			
“ Advertising	(SR)	75,000	1,05,000			

" Commission on sales	(SR)	25,000	35,000			
" Salaries	(TR)	50,000	1,00,000			
" Interest on debentures	Post	–	60,000			
" Discount on sales	(SR)	15,000	21,000			
" General exp.	(TR)	16,000	32,000			
" Printing	(TR)	12,000	24,000			
" Interest to vendors	ATR	20,000	10,000			
" Capital reserve (b/f)		4,22,000	–			
" Net profit (b/f)		–	3,95,000			
		7,50,000	10,50,000		7,50,000	10,50,000

Calculation of time ratio

Pre incorporation	1-4-15 to 1-8-15	4 months
Post incorporation	1-8-15 to 31-3-16	8 months
Time ratio		4: 8

Calculation of sales ratio

Pre incorporation	1-4-15 to 1-8-15	₹25,00,000
Post incorporation	1-8-15 to 31-3-16	₹35,00,000
Sales ratio		25:35

Interest to vendor (Adjusted Time Ratio)

Total months up 1st Sep.	1-4-15 to 1-10-15	6 months
Less: Pre-incorporation period	1-4-15 to 1-8-15	4 months
Post incorporation		2 months
Interest paid to vendor		4 : 2

Illustration -9 Karthik Company was incorporated on 1-7-15 to take over the business of Prasad with effect from 1-4-15. Following is the P & L a/c for the year ended 31-3-2016.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Commission	2,625	By Gross profit	98,000
" Advertisement	5,250	" Bad debts recovered	500
" MD remuneration	9,000		
" Depreciation	2,800		
" Salary	18,000		
" Insurance	600		
" Preliminary expenses	700		
" Rent and tax	3,000		
" Discount	350		
" Bad debts	1,250		
" Net profit	54,925		
	98,500		98,500

The following details are also available:

i) Average monthly turnover from July 15 onwards was double than that of previous months.

ii) Rent for first three months paid @ ₹200 per month and thereafter increased by ₹50 per month.

iii) Bad debts ₹350 related to sales effected after 1-9-15 and the realization of bad debts was in respect of debts written off during 13.

iv) Advertisement expenses were directed proportionate to sales.

Prepare a statement showing profit prior to and after incorporation.

Solution

Profit and Loss a/c

Particulars	**Basis**	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Commission	(SR)	375	2,250	By Gross profit	14,000	84,000
" Advertisement	(SR)	750	4,500	" Bad debts recovered	500	–
" MD remuneration		–	9,000			
" Depreciation	(TR)	700	2,100			
" Salary	(TR)	4,500	13,500			

" Insurance	(TR)	150	450			
" Preliminary exp.	Post	–	700			
" Rent and tax		638	2,362			
" Discount		50	300			
" Bad debts		386	864			
" Capital reserve (b/f)		6,951	–			
" Net profit (b/f)		–	47,974			
		14,500	84,000		14,500	84,000

Calculation of time ratio

Pre incorporation	1-4-15 to 1-7-15	3 months
Post incorporation	1-7-15 to 31-3-16	9 months
Time ratio		3:9

Calculation of sales ratio: Assume one month sales as X

Pre incorporation	1-4-15 to 1-7-15	3 months x X = 3X
Post incorporation	1-7-15 to 31-3-16	9 months x 2X = 18X
Sales ratio		3:18

Rent and taxes – ₹3,000

Rent from 1-4-15 to 1-7-15	3 months x 200	Pre	₹600
Rent from 1-7-15 to 31-3-16	9 months x 250	Post	₹2,250
Remaining for tax (₹3,000 – ₹2,850)	₹150 (TR)	Pre	₹38
		Post	₹112

Bad debts = ₹1,250 – Post ₹350 = ₹900 up to 1–9 -15

Total months	1-4- 15 to 1-9-15	5 months
Less: Pre	1-4-15 to 1-7-15	3 months x 1X = 3
Post		2 months x 2X = 4
Ratio		3:4
Bad debts- Pre	₹900 x 3/7	₹386
Post	₹900 x 4/7	₹514 + ₹350 = ₹864

Illustration -10 A company was registered on 1-4-2015 to take over the running business from 1-1-2015. The company was granted certificate to commence business on 31-5-2015. The company closes the accounts on 31-12-2015. The following details are available:

Sales during the period Jan to Dec. ₹2,40,000. The trend of sales was as follows:

Jan. and Feb. – half the average sales; May , June, July and October – equal to average sales; Nov. and Dec. – half the average sales.

Cost of goods sold is ₹60,000; Salary ₹6,000; Bad debts ₹2,400; Interest on purchase price paid by the company up to 1-8-2009 ₹2,100; Expenses exclusively related to company ₹8,900.

Prepare statement showing profit prior to and after incorporation.

Solution

Calculation of time ratio

Pre incorporation	1-1-15 to 1-4-15	3 months
Post incorporation	1-4-15 to 31-12-15	9 months
Time ratio		3:9

Calculation of sales ratio

Pre-incorporation sales

Jan	Feb	March	Total
0.50	0.50	1.50	2.50

Remaining period = 12 – 6 = 6/4 = 1.50

Post incorporation sales

Ap.	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
1.50	1	1	1	1.50	1.50	1	0.50	0.50	9.50
Sales ratio		2.50 : 9.50							

Interest to vendor

Total months up 1st August	1-1-15 to 1-8-15	7 months
Less: Pre-incorporation period	1-1-15 to 1-4-15	3 months
Post incorporation		4 months
Interest paid to vendor		3 : 4

Profit and Loss a/c

Particulars	Pre ₹	Post ₹	Particulars	Pre ₹	Post ₹
To Cost of goods sold	15,000	45,000	By Sales	50,000	1,90,000
" Salary	1,500	4,500			
" Bad debts	500	1,900			
" Interest paid	900	1,200			
" Expenses	–	8,900			
" Capital reserve (b/f)	32,100	–			
" Net profit (b/f)	–	1,28,500			
	50,000	1,90,000		50,000	1,90,000

Illustration -11 A company was incorporated on 1-5-2015 to take over the business from 1-1-2015. Accounts were made up to 31-12-2015 as usual and the trading and P & L a/c showed the following results.

Trading and P & L a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	30,000	By Sales	2,40,000
" Purchases	1,80,000	" Closing stock	54,000
" Gross profit	84,000		
	2,94,000		2,94,000
To Salary	12,000	By Gross profit	84,000
" Rent	4,800		
" Directors fees	3,000		
" Travelling exp.	2,400		
" Office exp.	12,000		
" Bad debts	500		
" Discount	3,600		
" Audit fees	600		
" Depreciation	1,800		
" Debenture interest	1,000		
" Interest on purchase consideration up to 1-10-15	4,500		
" Formation exp.	5,000		
" Carriage	1,200		

" General exp.	2,100		
" Advertisement	1,800		
" Printing	3,000		
" Net profit	24,700		
	84,000		84,000

Following further details are also given:

1) It is ascertained that the sales for Jan. were 1.5 times of the average sales of the year, while for April, August and December were only half the average sales and those for March is twice the average.
2) Out of the total bad debts, ₹200 rebate to debts created prior to incorporation.

Ascertain the pre and post incorporation profit.

Solution

Calculation of time ratio

Pre incorporation	1-1-15 to 1-5-15	4 months
Post incorporation	1-5-15 to 31-12-15	8 months
Time ratio		4:8

Calculation of sales ratio

Pre-incorporation sales

Jan	Feb	March	Ap.	Total
1.5	1	2	0.5	5

Post incorporation sales

May	June	July	Aug	Sep	Oct	Nov	Dec	Total
1	1	1	0.5	1	1	1	0.5	7
Sales ratio	5 : 7							

Interest to vendor

Total months up 1st August	1-1-15 to 1-10-15	9 months
Less: Pre-incorporation period	1-1-15 to 1-5-15	4 months
Post incorporation		5 months
Interest paid to vendor		4 : 5

Profit and Loss Statement

Particulars	Basis	Pre ₹	Post ₹
Gross profit (A)	SR	**35,000**	**49,000**
To Salary	TR	4,000	8,000
" Rent	TR	1,600	3,200
" Directors fees	Post	–	3,000
" Travelling exp.	SR	1,000	1,400
" Office exp.	TR	4,000	8,000
" Bad debts	Actual	200	300
" Discount	SR	1,500	2,100
" Audit fees	TR	200	400
" Depreciation	TR	600	1,200
" Debenture interest	Post	–	1,000
" Int. on purchase consideration	Ad.TR	2,000	2,500
" Formation exp.	Actual	–	5,000
" Carriage	SR	500	700
" General exp.	TR	700	1,400
" Advertisement	SR	750	1,050
" Printing	TR	1,000	2,000
Total (B)		18,050	41,250
Capital reserve/ P & L a/c (A-B)		16,950	7,750

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Pre-incorporation profit is to be credited to
   a) P & L a/c above the line   b) P & L a/c below the line
   c) **Capital reserve**   d) Revenue reserve

2. For calculating the pre-incorporation profits, the relevant date to be considered is
   a) Date of takeover   b) Date of certificate of commencement of business
   c) Date of certificate of incorporation   d) **Both a and c**

3. Post-incorporation profit is to be transferred to
   a) **Net profit**   b) Goodwill
   c) Capital reserve   d) Gross profit

4. Directors remuneration must be charged
   a) Exclusively to pre-incorporation period   b) **Exclusively to post-incorporation period**
   c) Both the periods in time ratio   d) Sales ratio

5. Pre-incorporation profit represents
   a) **Capital profit**   b) Revenue profit
   c) Net profit   d) Gross profit

6. Pre-incorporation loss should be transferred to
   a) Capital reserve   b) **Goodwill**
   c) P & L a/c   d) Gross loss

7. Gross profit is to be apportioned between pre and post incorporation periods in
   a) Time ratio   b) Adjusted time ratio
   c) Sales ratio   d) Post incorporation

8. Interest paid to vendors should be divided in
   a) **Adjusted time ratio**   b) Time ratio
   c) Sales ratio   d) Post incorporation

9. Period from the date of acquisition of business to the date of certificate of commencement of business is known as period ___________ incorporation
   a) **Prior to**   b) After
   c) Before and after   d) Post

10. A company may acquire business from a date of __________
   a**) Prior to its incorporation**   b) After its incorporation
   c) Both a and b   d) Accounting year end

11. The company profit prior to incorporation capital profit is transferred to
   a) Final a/c   b) Trial balance
   c) Ledger a/c   d) **Capital reserve a/c**

REVIEW QUESTIONS

A. Answer in Short

1. What do you mean by profit prior to incorporation?
2. How do you treat profit and loss arrived prior to incorporation?
3. How do you treat interest on purchase consideration?
4. How do you calculate Sales and time Ratio?
5. List out the expenses which are exclusively charged to post incorporation period.
6. Write a note on pre incorporation profit.

B. Answer in detail

1. Explain Profit/Loss prior to incorporation and how do you treat it in Accounts?
2. Discuss the different ratios used in computing profit prior to incorporation and explain each of them.
3. Give the treatment of the following with reasons, while arriving profit prior to incorporation.
   A. Audit fees
   B. Directors fees
   C. Preliminary expenses written off
   D. Interest Paid to vendors.
   E. Salaries.

EXERCISES

1. You are required to calculate time ratio and also divide the total wages in to pre and post incorporation period.

   Date of incorporation – 1-4-2015; Period of financial account – Jan to Dec.2015; Date of business purchase – 1-1-2015 and Total wages ₹4,800

2. R Ltd was incorporated on 1-7- 2015, which took over a running concern with effect from 1-1-2015.

   The sales for the period up to 1-7-2015 was ₹2,70,000 and the sales from 1-7-2015 to 31-12-2015 amounted to ₹3,30,000. The expenses debited to P & L a/c included:

   Directors fees ₹15,000; Bad debts ₹1,800; Advertisements (₹500 per month) ₹6,000; Salaries ₹32,000; Preliminary expenses written off ₹3,000

   The gross profit was (1-1-2015 to 31-12-2015) – ₹2,40,000.

   Ascertain the profit prior to incorporation.

3. A company incorporated on 1st April 2015 took over a running business from 1st Jan.2015. The company prepared its final accounts on 31-12-2015. From the following, calculating time ratio and sales ratio.

    i) Sales for the year 2015 ₹6,00,000

    ii) Sales for the month of January, twice the average sales

    iii) For the month of February it is equal to average sales.

    iv) A sale for four months from May to August is 1/4th of average sales of each month

    v) Sales for October and November, three times the average sales.

4. A company incorporated on 1st May 2015 and acquired a business from 1st Jan.2015. The first accounts were drawn up to September 30, 2015.

    The gross profit is ₹56,000. The general expenses are ₹14,220; Directors remuneration ₹1,000 p.m.; Formation expenses amounted to ₹1,500. Rent which till June 30, 2015 was ₹100 p.m. was increased to ₹300 per annum from July 1, 2015. The manager of the earlier firm whose salary was ₹500 p.m. was made a director upon the incorporation and his remuneration thereafter is included in the figure of director's remuneration given earlier.

    Prepare P & L a/c for the period assuming that the net sales were ₹82,000 the monthly average of which for the first four months of 2015 being one half of therefore the remaining period.

5. ABC Company Ltd was incorporated on 30-6-2015 to acquire the business from 1-1-2015 on the basis of last balance sheet dated 31-12-2014. The accounts for the year ended 31-12-2015 disclosed the following:

    There was a gross profit of ₹2,40,000; Sales for the year is ₹12,00,000, of which ₹5,40,000 was for the first 6 months.

    Expenses debited to P & L a/c included Directors fees ₹15,000. Bad debts ₹3,600, Advertising ₹12,000 (₹1,000 per month), Salaries and general expenses ₹64,000, Preliminary expenses written off ₹5,000, Donation to political party given by company ₹5,000.

    Prepare a statement showing amount of profit made before incorporation and after incorporation.

6. G Ltd was incorporated on 1st August 2015. It took over the business of M/S Shanker with effect from 1-4-2015. From the following figures relating to year ending 31st March 2016 ascertain the profit prior and after incorporation.

    a) Sales for the year were ₹60,00,000, out of which sales up to 1st August 2015 were ₹25,00,000

    b) Gross profit for the year was ₹18,00,000

    c) The expenses debited to P & L a/c were as follows:

Rent	₹90,000	Salaries	₹1,50,000
Directors fees	₹38,000	Interest debentures	₹60,000

Audit fees	₹15,000	Discount on sales	₹36,000
Depreciation	₹2,40,000	General expenses	₹48,000
Bad debts	₹15,000		

₹5,000 of bad debts mentioned above relate to debts created prior to incorporation.

7. P & Co. Ltd. was incorporated on 1-7-2015 to take over the business carried on R & Co. as a going concern with effect from 1-4-2015. The following is the P & L a/c for the year ended 31-3-2016 of P & Co. Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Administrative exp.	₹18,000	By Gross profit	₹75,000
" Directors fees	₹3,000		
" Selling expenses	₹36,000		
" Audit fees	₹1,000		
" Preliminary expenses	₹3,000		
" Net profit	₹14,000		
	75,000		75,000

Sales ₹3,00,000 (up to 30-6-2015 ₹1,00,000).

You are required to prepare a statement showing the profit earned prior and after incorporation.

8. A Co. Ltd was incorporated on May1, 2015 to take over the business of a partnership firm as a going concern from Jan.1, 2015. The company got the certificate of commencement of business in July 1, 2015.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Rent	₹12,000	By Gross profit	₹1,55,000
" Insurance	₹3,000		
" Electric charges	₹2,400		
" Directors fees	₹3,000		
" Audit fees	₹7,600		
" Salaries	₹36,000		
" Commission	₹4,000		
" Preliminary exp.	₹6,500		
" Bad debts	₹2,000		

" Net profit	₹78,500		
	₹1,55,000		₹1,55,000

The total turnover for the year ending 31-12-2015 was ₹5,00,000 divided in to ₹1,50,000 for the period up to 1-5-2015 and ₹3,50,000 for the remaining period.

Calculate the profits prior to incorporation and profits since incorporation of the company.

9. B Ltd. was incorporated on 30th June 2015 to take over the business of T Ltd on 1-1-15. The financial accounts of the business for the year ended 31st Dec.2015 disclosed the following information:

Sales	₹	₹
Jan. to June	1,20,000	
July to Dec.	1,80,000	3,00,000
Less: Purchases		
Jan. to June	75,000	
July to Dec.	1,20,000	1,95,000
Gross profit		1,05,000
Less: Salaries	15,000	
Selling exp.	3,000	
Depreciation	1,500	
Directors remuneration	750	
Debenture interest	90	
Administration exp.	4,500	24,840
Net profit		80,160

You are required to prepare a statement apportioning the balance of profit between the period prior to and since incorporation and show the profit and loss appropriation a/c for the year ended 31st Dec.2015.

10. X Company purchased a business on 1st April 2015. The company obtained certificate of incorporation on 31st July 2015. From the following particulars for the year ending 31st March 2016, ascertain profit prior to incorporation and divisible profits.

   a) Totals sales up to 31st Mar.16 ₹10,00,000. Sales from 1st April 15 to 31st July 15 ₹2,50,000

   b) Gross profit for the year ₹2,12,000

c) Expenses debited to P & L a/c

Rent	₹6,000	Commission on sales	₹12,600
Salaries	₹27,000	Interest on debentures	₹4,000
Directors fees	₹2,600	Depreciation on machinery	₹30,000
Printing	₹4,200	Preliminary expenses	₹7,200
General expenses	₹4,800	Interest paid to vendors up to 1st Sep. 15	₹5,000
Selling expenses	₹9,000	Advertisement	₹8,000
Insurance	₹1,500	Audit fees	₹1,200
Bad debts (₹850 related to prior incorporation)			₹2,400

Previous Year University Question Papers

1. You are required to calculate the Time ratio for the Pre and Post incorporations periods from the following particulars :
   (a) Date of Incorporation : 1st June 1999
   (b) Period of Financial Accounts : April 1999 To March 2000
   (c) Total wages Rs. 4,800
   (d) Number of workers : Pre Incorporation Period : 5
   Post Incorporation Period : 25

   Also divide the total wages between Pre and Post Incorporation Periods.

   [Madras, B.Com (PZ3A) Nov. 2009; Ap. 2008; B. Com., Oct. 2003]

   [Ans : Time Ratio : 1 : 5; Weighted Time Ratio : 1 : 25; Wages : Pre Incorporation : Rs.185; Post Incorporation :Rs. 4,615]

2. Ganesh Ltd., was incorporated on 1st May 1996 to purchase the running business of Vinayak and Co., with effect from 1st January 1996. The company obtained certificate of 'commencement of business on 24th August 1996. Calculate the time ratio, if the accounts were finalised on 31st **December 1996.**

   [Madras, B.Com(CS) (ICE) Oct. 2009; B.Com (CS) (SY3B) Nov. 2007;Ap;2007]

   [Ans: 1:2]

3. Kalpana Ltd. was incorporated on 1-4-92 to take over the business of Natu Brothers from 1-1-92. From the following information, calculate sales ratio and Gross Profit;
   (i) Sales during the period January — December 1992 amounted to Rs. 72,000. The trend of the sales was a under :

   January and February — half the average sales in each month.

   May, June and July — average sales in each month

   October — average sales

November and December — half the average sales in each month.

(ii) Cost of goods sold Rs. 18,000

[Madras,B.Com (CS) (SY3B) Ap 2007]

[Ans : Sales ratio : 5 : 19; Gross Profit : Rs. 54,000]

4. A company was incorporated on 1.6.94 in order to purchase a running business from 1.1.94. The following particulars are available from its records:

(a)	Total sales for 1994		80,000
(b)	Sales from 1.1.94 to 31.5.94		20,000
(c)	Gross profit for the whole year	30,000	
(d)	Total expenses of 1994 (including directors' fees Rs. 1,000)		25,000
(e)	Company's share capital		75,000

Find out profit prior to incorporation and after incorporation by preparing profit and loss account.

[Madras, B.Com. (PZG) Nov. 2006 (Modified)]

[Ans: Loss prior to incorporation — Rs. 2,500; Profit after incorporation — Rs. 7,500]

5. A company was incorporated on 30th June 1984 to acquire the business of Mohan as from 1st January 1984. The accounts for the year ended 31st Dec. 1984. disclosed the following:

(a) There was a gross profit of Rs. 2,40,000,

(b) The sales for the year amounted to Rs. 12,00,000 of which Rs. 5,40,000 were for the first six months.

(c) The expenses debited to profit and loss account included:

Directors' fees	15,000
Bad debts	3,600
Advertising (Under a monthly contract of Rs. 1,000)	12,000
Salaries	64,000
Preliminary expenses written off	5,000
Donation to political parties given by the company	5,000

Prepare a statement showing profit made before and after incorporation.

[Periyar, Ap 2005]

[Madras, B.Cont (ICE) May 2007 (Modified) B.C.S. (Sent - SY3B) Nov. 2004; B.C.S., Ap 2002; B.Com., Madurai, November 1987; B.Com., Punjab, Apri11986]

[Ans : Profit made before incorporation — Rs. 68,380; Profit made after incorporation — Rs. 67,020]

6. Mukesh and Co., Ltd. was registered on 1-1-1999 to buy the business of M/s. MukeshBros., as on 1-10-1998 and obtained the certificate of commencement of business on 1-2-99. The accounts of the company for the period of 12 months ended 30-9-1999 disclosed the Net profit of Rs. 1,25,000 after having charged the following amounts :

   Salary : Rs. 30,000 (There were 4 employees in the pre incorporation period and 7 in the Post-incorporation period)

   Wages : Rs. 10,920 (There were 4 workers in the Pre-incorporation period_and 5 in the post-incorporation period and the rate of wages were Rs. 60 and Rs. 200 per month per worker in the Pre and post incorporation periods respectively).

   Sales : Rs. 4,80,000 of which Rs. 80,000 related to Pre incorporation period. Directors fee : Rs. 16,000.

   [Madras, M.Com. (Old) (ICE) Oct. 2001;
   Madras, M. Com. (Old) (ICE) May 2001 (1/2 Figures)]

   [Ans : Profit prior to Incorporation : Rs. 23,600; Post incorporation Profit :Rs. 1,01,400; adjusted time ratio for salarie : 4 : 21; Wages : Pre : Rs. 1,920; Post :,Rs. 9,000; G/P before charging wages :Rs. 1,81,920; Sales Ratio : 1 : 5)

7. Laxmi Ltd., was incorporated on 1st March 1990 and received the certificate of commencement of business on 1st April 1990. The company acquired the business of Rajan with effect from 1st November 1989. From the following figures relating to the year ending October 1990, find out the profits available for dividend.

   (a) Sales for the year were Rs. 6,00,000 out of which, sales upto 1st March 1990 were Rs. 2,50,000.

   (b) Gross profit for the year was Rs. 1,80,000.

   (c) The expenses debited to profit and loss account were:

Rent	9,000
Salaries	15,000
Directors fees	4,800
Audit fees	1,500
Discount on sales	3,600
Depreciation	24, 000
General expenses	4,800
Advertising	18,000
Printing & stationery	3,600
Commission on sales	6,000
Bad debts (Rs. 500 relates to debts prior to incorporation)	1,500
interest to vendors on purchase consideration upto 1 st May 1990	3,000

[Periyar, B.Com (CA) May 2005.), Thiruvalluvar, B.Com., Nov. 2005; Madras, B.Com (PZG) Ap 2007; Ap 2003 (10 Times) B.Com (Old EZK), Ap 2002, March 1995; Madras, B.A. Corp. Oct. 2003 (10 Tunes), March 1994] 2nd M.Com (ICE) Oct 2000 (10 Times)

[Ans : Profit available for dividend - Rs. 38,500; Profit prior to incorporation - Rs. 41,700]

Hint :Travelling Expenses : RS. 2,400 on Sales basis; Balance on Time basis.

8. M Ltd. was incorporated on 1.1.94 with an authorized capital of 50,000 equity shares of Rs. 10 each to take over the running business of V. Ltd. as from 1.10.93.Tl1e following is the summarized profit and loss account for the year ended 30.9.94.

Particulars	*Rs.*	*Rs.*
Sales — 1.10.93 to 31.12.93	6,000	
1.1.94 to 30.9.94	19,000	25,000
Cost of sales	16,000	
Administrative expenses	1,768	
Selling commission	875	
Goodwill written off	200	
Interest paid to vendors (loan repaid on 1.2.94)	373	
Distribution expenses (60% variable)	1,250	
Preliminary expenses written off	330	
Debenture interest	320	
Depreciation	444	
Directors' fees	100	21,660
Profit		3,340

The company deals with one type of product.

The unit cost of sales was reduced by 10% in the post incorporation period as compared to the preincorporation period. Apportion the net profit between pre incorporation and post incorporation periods showing the basis of apportionment.

[BharathiarB.Com., Nov. 2004; Madras, B.C.S. (ICE) May 2001; B.CS. Oct 2001 (10 Times), B.A., Corp. Madras, Sept. 1995; M.Com., Madras, April 1997]

[Ans : **Pre incorporation profit — Rs. 496; Post incorporation profit — Rs. 2,844; Cost of sales ratio =6000:(19,000*90/100) = 60 : 171; Time ratio = 1 : 3; Sales ratio = 6 : 9 Gross profit = Sales - Cost of goods sold Goodwill written off is to be allocated to post incorporation period; Interest paid to vendors - Adjusted time ratio 3 : 1 Distribution expenses - Fixed: Time ratio; Variable : Sales ratio]**

UNIT – 6

FINAL ACCOUNTS OF COMPANIES

Profit and Loss Appropriation Account- Difference between P & L a/c and P & L Appropriation a/c - Rules for transfer of minimum reserve to general reserve – Provisions -

Calculation of Managerial Remuneration - Preparation of trading, P & L, Appropriation a/c and Balance sheet

6.1 PROFIT AND LOSS APPROPRIATION ACCOUNT

The purpose of preparing P & L appropriation a/c is to distribute the available profit for various purposes. This account is prepared only when there is a profit.

6.2 DIFFERENCE BETWEEN P & L A/C AND P & L APPROPRIATION A/C

Basis	P & L a/c	P & L Appropriation a/c
Purpose	To find the net profit of a company	To distribute the profits available for various purpose
Need	It must be prepared	It may or may not be prepared
Transferred to	The surplus (Net profit) of this a/c is transferred to P & L Appropriation a/c	The balance of this a/c is transferred to liability side of the balance sheet under the heading Reserves and Surplus
When to prepare	It is prepared even though there is a loss	It is prepared only when there is profit

Profit and Loss Appropriation a/c

Particulars	Amount	Particulars	Amount
To Transfer to dividend	xxx	By Bal. from last year	xxx
“ Transfer to any particular fund	xxx	“ Net profit	xxx
“ Interim dividend	xxx		
“ Last year provision for tax	xxx		
“ Balance carried to balance sheet	xxx		
	xxx		xxx

6.3 GENERAL RESERVE

General reserve is created only when there is a profit. It is an appropriation of profit. It is created to provide additional capital or to strengthen the financial position of the business. The other purposes of creating such reserves are:

a) To meet unknown contingencies

b) To equalize the rate of dividend in the absence of adequate profit

c) To provide for the expansion of business

6.4 RULES FOR TRANSFER OF MINIMUM RESERVE TO GENERAL RESERVE

Dividend proposed	Amount to be transferred to the reserve
Exceeds 10% but not 12.5% of the paid-up capital	Not less than 2.5% of the current profit
Exceeds 12.5% but not 15% of the paid-up capital	Not less than 5% of the current profit
Exceeds 15% but not 20% of the paid-up capital	Not less than 7.5% of the current profit
Exceeds 20% of the paid-up capital	Not less than 10% of the current profit

6.5 PROVISION

Provision is created for some specific purpose and to meet certain contingent liabilities. It is a charge against profit. It must be created irrespective of the fact that there is a profit or loss. The purpose of creating such reserves is:

a) To meet some future loss such as depreciation, etc

b) To meet an outstanding liability for expenses e.g. salary due, wages due

c) To meet an expected contingency e.g. doubtful debts, undistributed claim, discount on debtors, etc

6.6 RESERVE FUND

Reserve Fund is more or less a general reserve. The only difference is that in case of a general reserve, the surplus is retained in the business and represented by general assets of the business whereas in case of reserve fund, the surplus is invested outside the business and represented by such investments.

6.7 DIVIDEND EQUALIZATION FUND

Dividend Equalization Fund is a fund created out of revenue profits. It is created to equalize the rate of dividend in the absence of adequate profits.

6.8 CAPITAL PROFITS

The profits which are not earned during the regular course of business are known as capital profits. Such profits are as follows:

a) Premium on issue of shares and debentures

b) Profit on sale of fixed assets

c) Surplus in the share forfeiture a/c

d) Profits prior to incorporation

e) Profits on the revaluation of assets and liabilities

f) Profit made on the purchase of a business

g) Profit on redemption of debentures

6.9 CAPITAL RESERVE

It is a reserve created out of capital profit. It cannot be generally distributed to the share holders. But it may be utilized for

a) Meeting capital losses

b) Issuing bonus shares subject to the Articles

c) Writing off intangible assets like goodwill, preliminary expenses, expenses for issue of shares or debentures, etc

6.10 SECRETE RESERVE

Any reserve which is not apparent on the face of the balance sheet is known as secrete reserve. It represents the surplus of assets over liabilities and capital but it is not disclosed. If a secrete reserve exists, the balance sheet of the business will not reveal the correct financial position.

6.11 DIVIDEND

Dividend means the divisible profits distributed to the members of a company. In other words it is a profit of a company divided among its share holders.

6.12 INTERIM DIVIDEND

Interim Dividend is a dividend which is paid before the final dividend is declared or it is a dividend which is paid in between two final dividends. It is a dividend which is paid between two annual general meetings. It is paid when the directors think that they have made a sufficient profit to such a dividend to be paid.

6.13 MANAGERIAL REMUNERATION

The maximum remuneration payable to different categories of managerial personnel is given below:

Sl. No.	Managerial Personnel	Max. % of net Profits
1.	Maximum remuneration to all managerial personnel	11%
2.	Manager	5%
3.	Managing Director	5%
4.	Managing Directors (all together)	10%
5.	Part time Director (without managing director)	3%
6.	Part time director (with managing director)	1%

6.14 CONTINGENT LIABILITY

A liability which may or may arise at a future date is known as contingent liability. It will appear as a foot note under that liability side of the balance sheet. E.g. bills receivable discounted with the banker.

Illustration 1 Show how you will exhibit the following items in the balance sheet of a company as on Dec.31, 2016.

Original cost of building ₹4,00,000; Book value of building on 1st Jan.2016 ₹2,80,000; Depreciation to be written off at 5% on written down value.

Solution

Assets side: - **Fixed assets**

Building	2,80,000
Less: Depreciation (2,80,000 x 5%)	14,000
	2,66,000

Illustration -2 From the following particulars, show how the fixed asset machinery should be shown in the balance sheet of the company as on 31st Dec.2016.

Cost of machinery as per balance sheet ₹2,40,000; Amount purchased during the year ₹12,000; Cost of machinery sold during the year ₹7,000; Depreciation ₹10,000

Solution

Assets side: - **Fixed assets**

Machinery	2,40,000
Add: Purchase of machinery	12,000

	2,52,000
Less: Machinery sold	7,000
	2,45,000
Less: Depreciation	10,000
	2,35,000

6.15 CALCULATION OF MANAGERIAL REMUNERATION

Illustration -3 The following are the balances extracted from the company records. Calculate the remuneration of the managing director at 5% of the net profit, after charging such commission.

Net profit is ₹38,786. Items considered for arriving at the above profit:

a) Provision for taxation ₹39,000

b) Managing Directors remuneration paid ₹12,000

c) Formation expenses written off ₹4,000

d) Directors fees ₹2,500

e) Provision for doubtful debts ₹1,200

f) Depreciation written off ₹12,880

g) Depreciation allowable as per income tax rules ₹12,000

h) Ex-gratia payment to employee (without any liability to the company) ₹2,000

Solution

Net profit as per P & L a/c	₹38,786
Add: Provision for taxation	39,000
M D remuneration	12,000
Formation expenses	4,000
Excess depreciation	880
Ex-gratia	2,000
NP for calculation of remuneration	₹96,666

Commission due	96,666 x 5/105	₹4,603
Less: Already paid		₹12,000
Due from MD	(12,000 – 4,603)	₹7,397

Illustration -4 A Ltd. had a balance of ₹11,500 in its P & L a/c on 1-4-2016. During 2016 -17 its profits amounted to ₹1,47,500. The income tax for the year amounted to ₹48,300. The company decided to transfer ₹10,000 to the general reserve, ₹15,000 to sinking fund for redemption of debentures and pay a dividend for 2016-17 @ 10%. The company's share capital consisted of 50,000 shares of ₹10 each. Draw up the P & L Appropriation a/c.

Solution

P & L Appropriation a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Income tax	48,300	By Bal. b/d	11,500
" General reserve	10,000	" Net profit	1,47,500
" Sinking Fund	15,000		
" Dividend	50,000		
" Bal. c/d	35,700		
	1,59,000		1,59,000

PART II – Form of STATEMENT OF PROFIT AND LOSS

(As per revised schedule VI)

Name of the Company

Profit and Loss statement for the year ended

(Rupees in…………)

	Particulars	Note No.	Current reporting period	Previous reporting period
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx
III.	**Total Revenue (I + II)**		xxx	xxx
IV.	**Expenses:**			
	Cost of materials consumed		xxx	xxx
	Purchases of stock-in-trade		xxx	xxx
	Changes in inventories of finished goods			
	work-in-progress and stock-in-trade		xxx	xxx
	Employee benefits expense		xxx	xxx
	Finance costs		xxx	xxx
	Depreciation and amortization expense		xxx	xxx
	Other expenses		xxx	xxx
	Total expenses		xxx	xxx

V.	Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI.	Exceptional items		xxx	xxx
VII.	Profit before extraordinary items and tax (V- VI)		xxx	xxx
VIII.	Extraordinary Items		xxx	xxx
IX.	Profit before tax (VII- VIII)		xxx	xxx
X.	Tax expense:			
	(1) Current tax		xxx	xxx
	(2) Deferred tax		xxx	xxx

6.16 REVENUE FROM OPERATIONS

Revenue from operations is to be separately disclosed in the notes, showing revenue from:

- Sale of products
- Sale of services
- Other operating revenues
- Less: Excise duty

Other Income:

"Other Income" shall be classified as:

- Interest Income (in case of a company other than a finance company);
- Dividend Income;
- Net gain / loss on sale of investments;
- Other non-operating income (net of expenses directly attributable to such income).

6.17 EXPENSES

The aggregate of the following expenses are to be disclosed on the face of the Statement of Profit and Loss:

- Cost of materials consumed
- Purchases of Stock-in-Trade
- Changes in inventories of finished goods, work in progress and stock in trade
- Employee benefits expense
- Finance costs
- Depreciation and amortization expense
- Other expenses

Cost of materials consumed

Purchases of Stock in Trade

Stock-in -trade refers to goods purchased normally with the intention to resell or trade in. In case, any semi-finished goods/materials are purchased with an intention of doing further processing activities on the same, the same should be included in 'cost of materials consumed' rather than under this item.

Changes in inventories of finished goods, work-in-progress and stock-in-trade

This requires disclosure of difference between opening and closing inventories of finished goods, work-in-progress and stock-in-trade. The difference should be disclosed separately for finished goods, work in progress and stock in trade.

Employee benefits expense

This requires disclosure of the following details:

1. Salaries and wages

The aggregate amounts paid/payable by the company for payment of salaries and wages are to be disclosed here. Expenses on account of bonus, leave encashment, compensation and other similar payments also need to be disclosed here. Where a separate fund is maintained for Gratuity payouts, contribution to Gratuity fund should be disclosed under the sub-head Contribution to provident and other funds.

2. Contribution to provident and other funds

The aggregate amounts paid/payable by a company on account of contributions to provident fund and other funds like Gratuity fund, Superannuation fund, etc. are to be disclosed here.

Contributions for such funds for contract labour may also be separately disclosed here. However, penalties and other similar amounts paid to the statutory authorities are not strictly in the nature of 'contribution' and should not be disclosed here.

3. Expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP)

The amount of expense under this head should be determined in accordance with the Guidance Note on Accounting for Employee Share based Payments and/or the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as applicable. All disclosures required by the aforesaid Guidance Note should be made here.

4. Staff welfare expense - The total expenditure on Staff welfare is to be disclosed herein.

5. Finance costs

As per Note 3 of to the General Instructions for the Preparation of the Statement of Profit and Loss, disclosure of **Finance costs** is to be bifurcated under the following:

- **Interest expense**
- **Other borrowing costs**
- **Applicable net gain/loss on foreign currency transactions and translation**

Interest expense

This would cover interest paid on borrowings from banks and others, on debentures, bonds or similar instruments etc. Finance charges on finance leases are in the nature of interest expense and hence should also be classified as interest expense. In the absence of any bifurcation required for interest paid on fixed period loans and other borrowings as required under the Old Schedule VI, the same need not be given.

Other borrowing costs

Other borrowing costs would include commitment charges, loan processing charges, guarantee charges, loan facilitation charges, discounts/premium on borrowings, other ancillary costs incurred in connection with borrowings, or amortization of such costs, etc.

Applicable net gain/loss on foreign currency transactions and translation

As per Para 4(e) of AS-16, borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Any such exchange differences would need to be disclosed under this head.

6. Depreciation and amortization expense

A company has to disclose depreciation provided on fixed assets and amortization of intangible assets under this head.

7. Other Expenses

Further Note 5(vi) requires a separate disclosure of each of the following items, which will also be classified under “Other expenses”.

- Consumption of stores and spare parts;
- Power and fuel;
- Rent;
- Repairs to buildings;
- Repairs to machinery;
- Insurance;
- Rates and taxes, excluding taxes on income;
- Miscellaneous expenses.

6.18 PREPARATION OF STATEMENT OF PROFIT AND LOSS

Illustration 5 You are given the following information from the books of Siraj Co. Ltd., as on 31st March 2015.

Trial Balance Siraj Co. Ltd as on 31st March,2015

Particulars	Amount	Particulars	Amount
Depreciation on premises	8,000	Sales	12,40,000
Materials consumed	8,00,000	Equity Share Capital	8,00,000
Opening Stock	40,000	Outstanding wages	6,000
Salaries	1,14,000		
Bad debts	3,800		
Bonus to employees	20,000		
Interest on Loan	16,000		
Depreciation on machinery	18,000		
Conveyance	4,000		
Loss on sale of machinery	20,000		
Insurance	16,200		
Sales Returns	40,000		
Provision for Tax	60,000		
Machinery	6,00,000		
P. F. Contribution	86,000		
Premises	1,60,000		
Computer	40,000		
	20,46,000		**20,46,000**

Additional information:

Closing stock was valued at ₹1, 20,000.

Solution

Statement of Profit and Loss of Siraj Co. Ltd as on 31st March,2015

		Note No.	Amount ₹
(I)	**Revenue from Operations**	1	12,00,000
(II)	**Other Income**		–
(III)	**Total revenue**		12,00,000
(IV)	**Expenses:**		
	(a) Material Consumed		8,00,000

	(b) Purchases		0
	(c) Changes in Inventories	2	(80,000)
	(d) Employees benefit expenses	3	2,20,000
	(e) Finance Cost		16,000
	(f) Depreciation and amortization exp	4	26,000
	(g) Other Expenses	5	44,000
	Total Expenses		10,26,000
(V)	**Profit & Loss before Tax (III-IV)**		1,74,000
(VI)	**Provision for Tax**		(60,000)
(VII)	**Profit Loss after Tax (V-VI)**		1,14,000

Notes

1	**Revenue from Operations**		**4 Depreciation & Amortization**	
	Sales	12,40,000	Depreciation on premises	8,000
	Less Sales Returns	40,000	Depreciation on machinery	18,000
		12,00,000		26,000
2	**Changes in Inventories**		**5 Other expenses**	
	Opening Stock	40,000	Bad debts	3800
	Less Closing Stock	(1,20,000)	Conveyance	4000
		(80,000)	Loss on sale of machinery	20000
3	**Employees benefit expenses**		Insurance	16200
	Salaries	1,14,000		44000
	PF Contribution	86,000		
	Bonus to employees	20,000		
		2,20,000		

Illustration 6 From the following Trial balance of Glory Co. Ltd., as on 31st March 2015, prepare a statement of P & L Account as per Schedule III of the Companies Act.

Trial Balance of Glory Co. Ltd. as on 31st March, 2015

Particulars	Amount ₹	Particulars	Amount ₹
Interest on Debentures	32,400	Share Transfer Fees	15,000
Delivery van expenses	5,100	Commission received	7,400
Travelling Expenses	10,200	12% Debentures	2,70,000
Bad Debts	6,500	Sales	6,45,500
Discount	7,000	Share Capital	5,00,000

Purchases	3,15,800		
Insurance	6,000		
Furniture	1,22,600		
Freight outward	8,400		
Opening Stock	72000		
Free samples	5,000		
Showroom expenses	11,400		
Depreciation	38,900		
Bank balance	1,58,600		
Land & Building	4,00,000		
Wages	93,000		
Office Equipment	1,45,000		
	14,37,900		14,37,900

Additional information:

Closing stock was valued at ₹85,500.

Solution

Statement of Profit and Loss of Glory Co. Ltd. as on 31st March, 2015

	Particulars	Note No	Amount ₹
(I)	Revenue from Operations		6,45,500
(II)	Other Income	1	22,400
(III)	Total revenue		6,67,900
(IV)	Expenses:		
	(a)Material Consumed		0
	(b)Purchases		3,15,800
	(c)Changes in Inventories	2	(13,300)
	(d)Employees benefit expenses		93,000
	(e)Finance Cost		32,400
	(f) Depreciation and Amortization Exp		38,900
	(g)Other Expenses	3	59,600
	Total Expenses		5,26,400
(V)	Profit & Loss before Tax (III-IV)		1,41,500
(VI)	Provision for Tax		0
(VII)	Profit Loss after Tax (V-VI)		1,41,500

Notes

		₹			
1	**Other Income**	₹	3	**Other Expenses**	
	Share Transfer Fees	15,000		Travelling Expenses	10,200
	Commission Received	7,400		Delivery van Expenses	5,100
		22,400		Bad Debts	6,500
2	**Changes in Inventories**			Discount	7,000
	Opening Stock	72,000		Freight Outward	8,400
	Less Closing Stock	(85,500)		Free samples	5,000
		(13,500)		Showroom expenses	11,400
				Insurance	6,000
					59,600

Illustration 7 You are given the following extracts of ledger balances taken from Vihar Co. Ltd., for the year ending 31st March 2015. Prepare a statement of P & L a/c as per revised Schedule III.

Particulars	₹	Particulars	₹
Excise Duty	8,000	Machinery	25,000
Provision for tax	10,000	Directors remuneration	20,000
Depreciation on Machinery	3,300	Factory expenses	2,500
Sundry expenses	7,000	Sales	4,55,000
Rent	4,000	Returns inward	5,000
Salaries	7,500	Purchases	2,35,000
Materials consumed	90,000	Closing stock	75,000
Interest on Investment	5,000	Opening stock	82,000
Rent received	3,000	Wages	30,000
Motive power	12,000	Bank loan	40,000
Transport Charges	1,000	Interest on Bank loan	4,000

Solution

Statement of Profit and Loss of Vihar Co. Ltd. as on 31st March, 2015

Particulars	Note No.	Amount ₹
(I) Revenue from operations	1	4,42,000
(II) Other Income	2	8,000
(III) **Total revenue**		4,50,000

(IV) Expenses:		
(a) Material consumed		90,000
(b) Purchases		2,35,000
(c) Changes in inventories	3	7,000
(d) Employees benefit expenses	4	37,500
(e) Finance cost		4,000
(f) Depreciation and amortization exp		3,300
(f) Other expenses	5	46,500
Total Expenses		4,23,300
(V) Profit & Loss before Tax (III-IV)		26,700
(VI) Provision for Tax		(10,000)
(VII) Profit Loss after Tax (V-VI)		16,700

Working Notes

	₹		₹
1 Revenue from Operations		**4 Employees benefit expenses**	
Sales	4,55,000	Salaries	7,500
Less Sales Returns	5,000	Wages	30,000
Less Excise Duty	8,000		**37,500**
	4,42,000	**5 Other expenses**	
2 Other Income		Sundry expenses	7,000
Interest on investment	5,000	Rent	4,000
Rent received	3,000	Directors remuneration	20,000
	8,000	Factory expenses	2,500
3 Changes in Inventories		Motive power	12,000
Opening Stock	82,000	Transport charges	1000
Less Closing Stock	(75,000)		46,500
	7,000		

Illustration 8 You are given the following extracts of ledger balances taken from Chanakya Co. Ltd. for the year ending 31st March 2015. Prepare a statement of P & L a/c as per revised Schedule III.

Particulars	₹	**Particulars**	₹
Opening stock of finished goods	1,90,500	Provision for taxation	30,000
Cost of material consumed	2,92,000	Goodwill written off	18,000

Salaries to office staff	68,000	Sales returns	17,000
Closing stock of finished goods	2,03,000	Provision for bad debts	8,200
Interest on debentures paid	16,250	Delivery expenses	7,200
General expenses	8,250	Printing & stationery	22,600
Discount earned	4,900	Factory expenses	82,000
Cash sales	2,66,000	Bonus to employees	32,000
Credit sales	3,87,500	Depreciation on Plant & machinery	50,000
Income tax refund	11,500		

Solution

Statement of Profit and Loss of Chanakya Ltd. as on 31st March, 2015

	Particulars	Note No.	Amount
(I)	Revenue from Operations	1	6,36,500
(II)	Other Income	2	16,400
(III)	**Total revenue**		6,52,900
(IV)	Expenses:		
	(a) Material consumed		2,92,000
	(b) Purchases		0
	(c) Changes in inventories	3	(12,500)
	(d) Employees benefit expenses	4	1,00,000
	(e) Finance cost		16,250
	(f) Depreciation and amortization exp.	5	68,000
	(g) Other expenses	6	1,28,250
	Total Expenses		5,92,000
(V)	Profit & Loss before Tax (III-IV)		60,900
(VI)	Provision for Tax		(30,000)
(VII)	Profit Loss after Tax (V-VI)		30,900

Working Notes

1 Revenue from Operations		**4 Employees benefit expenses**	
Cash sales	2,66,000	Salaries to office staff	68,000
Credit sales	3,87,500	Bonus to employees	32,000
Less: sales returns	(17,000)		1,00,000
	6,36,000	**5 Depreciation & Amortization**	
2 Other Income		Goodwill written off	18,000

	Discount earned	4,900		Dep. on Plant & machinery	50,000
	Income tax refund	11,500			68,000
		16,400	**6**	**Other Expenses**	
3	**Changes in Inventories**			General expenses	8,250
	Opening Stock	1,90,500		Provision for Bad debts	8,200
	Less Closing Stock	(2,03,000)		Freight on purchases	7,200
		(12,500)		Printing & stationery	22,600
				Factory expenses	82,000
					1,28,250

Illustration 9 Following ledger balances are taken from Virupaksh Ltd., for the year ending 31/3/2015. Prepare P & L Account in vertical form with major heads.

Particulars	₹	Particulars	₹
Stock of finished goods as on 01-04-2014	2,90,000	Directors fees	57,000
Stock of work-in-progress as on 01-04-2014	3,93,000	Sales	10,95,000
Stock of finished goods as on 31-03-2015	1,84,000	Wages	74,000
Stock of work-in-progress as on 31-03-2015	2,60,000	Bad debts	16,570
Material consumed	3,15,000	Live stock	1,00,600
Administrative expenses	37,400	Royalty received	18,300
Provision for taxation	18,000	Bank loan	4,00,000
Patents written off	25,200	Coal & Coke	87,500
Depreciation on plant	38,000	Interest on loan	60,000

Solution

Statement of Profit and Loss of Virupaksh Co. Ltd. as on 31st March, 2015

Particulars	Note No.	Amount
(I) Revenue from Operations		10,95,000
(II) Other Income		18,300
(III)Total revenue		11,13,300
(IV) Expenses:		
(a) Material consumed		3,15,000
(b) Purchases		0
(c) Changes in inventories	1	2,39,000
(d) Employees benefit expenses		74,000
(e) Finance cost		60,000

(f) Depreciation and amortization exp.	2	63,200
(g) Other expenses	3	1,98,470
Total Expenses		9,49,670
(V) Profit & Loss before Tax (III-IV)		1,63,630
(VI) Provision for Tax		(18,000)
(VII) Profit Loss after Tax (V-VI)		1,45,630

Notes

1 Changes in inventories			**2 Depreciation & amortisation**	
Opening stock			Depreciation on plant	38,000
Work-in-progress		3,93,000	Patents written off	25,200
Finished goods		2,90,000		63,200
		6,83,000	**3. Other Expenses**	
Less: Closing stock			Coal & coke	87,500
Work-in-progress	2,60,000		Bad debts	16,570
Finished goods	1,84,000		Administrative expenses	37,400
		4,44,000	Directors fees	57,000
		2,39,000		1,98,470

PART I – Form of BALANCE SHEET

(As per revised schedule VI)

Name of the Company_______________

Balance Sheet as at __________________

(Rupees in_________)

Particulars	**Note No.**	**Current reporting period**	**Previous reporting period**
I. EQUITY AND LIABILITIES			
(1) **Shareholders' funds**			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) **Share application money pending allotment**			
(3) **Non-current liabilities**			
(a) Long-term borrowings			

(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
(4) **Current liabilities**			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. ASSETS			
(1) **Non-current assets**			
(a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) **Current assets**			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
TOTAL			

6.19 ITEMS APPEARING UNDER THE HEAD EQUITY AND LIABILITIES

1) SHAREHOLDERS' FUNDS

A) Share capital: Under the head "Share Capital", some of the important items to be shown are as under:

- Number and amount of shares authorised.

- Number of shares issued, subscribed and fully paid up and subscribed but not fully paid up.
- Par value per share.
- A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.
- Shares in the company held by each share holder holding more than 5% shares specifying the number of shares held.
- Aggregate number and class of shares allotted or fully paid up for consideration other than cash.
- Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
- Calls unpaid showing aggregate value of calls unpaid by directors and officers.
- Share forfeited amount.

B) Reserves and Surplus: Under this head the following items are shown;

- Capital Reserve
- Securities Premium (Reserve)
- Capital Redemption Reserve.
- Debenture Redemption Reserve
- Revaluation Reserve
- Share Options Outstanding Account
- Other reserves (a) General Reserve (b) Tax Reserve (c) Subsidy Reserve d)Amalgamation Reserve
- Surplus i.e., balance in Statement of Profit and Loss.

In case the final balance of the statement of profit and loss shows a debit balance the same should be shown as deduction from the totals of reserves.

C) Money received against share warrants: A share warrant is a financial instrument which gives the holder the right to acquire equity shares. A disclosure of the money received against share warrants is to be made since shares are yet to be allotted against the share warrants. These are not shown as part of share capital but to be shown as a separate line items.

2) SHARE APPLICATION MONEY PENDING ALLOTMENT:

If company has issued shares but date of allotment falls after the balance sheet date, such application money pending allotment will be shown in the following manner:

- Share application money not exceeding the issued capital and to extent not refundable is to be disclosed under this line-item.
- Share application money to the extent refundable or where minimum subscription is not met, such amount shall be shown separately under the other current liabilities.

3) **NONCURRENT LIABILITIES:** A non-current Liability is a liability which is not classified as current-liability. A liability is classified as current when it satisfies any one of the following conditions:

It is expected to be settled in the company's normal operating cycle. Operating cycle means the time between the acquisition of assets for processing and their realization in cash or cash equivalents. It may vary from few days to few years. Where the operating cycle cannot be identified, it is assumed to have a duration of 12 months.

- It is held for the purpose of being traded.
- It is due to be settled within 12 months after the reporting date.
- The company does not have an unconditional right to offer settlement of the liability for at least 12 months after the reporting date

Hence, the liabilities which are not classified as current shall be classified as non–current.

a) Long Terms borrowings (Debentures, Long Term Loans etc.)

b) Deferred Tax Liabilities (Net)

c) Other Long Term Liabilities (Trade payables on account of purchase of Fixed Assets and interest accrued there on, Provisional Fund contribution)

d) Long Term provisions: All provisions for which the related claims are expected to be settled beyond 12 months after the reporting date are classified as non-current provisions. (Provision for employee benefits, Provision for Warranties).

4) **CURRENT LIABILITIES:**

a) Short term borrowings (Loans repayable on demand from banks and other parties, Deposits, Loans and advances from related parties)

b) Trade Payables: A trade payable refers to the amount due on account of goods purchased or services received in the normal course of business.

c) Other Current Liabilities (Unpaid dividends, Interest accrued and due/ not due on borrowings, income received in advance, Calls in advance and interest thereon.)

d) Short Term Provisions: All Provisions for which the related claim is expected to be settled within 12 months after the reporting period are classified as short term

provisions and shown under the head "Current Liabilities" (Provision for doubtful debts, Provision for tax, proposed dividend.)

6.20 ITEMS APPEARING ON ASSETS SIDE OF BALANCE SHEET

There are mainly two types of assets namely Non-current and Current Assets.

1. NON-CURRENT ASSETS

a) Fixed Assets

i) Tangible Assets: Tangible assets are assets which can be physically seen and touched. (Land, Building, Plant and Equipment, Furniture & Fixture, Vehicles, Office Equipments, Others)

ii) Intangible Assets: Intangible assets are assets which are not tangible classified as given below: (Goodwill, Brands/ trademarks, Computer Software, Mastheads and Publishing Titles, Mining Right, Copyrights and patents and other intellectual property rights, Recipes, formulae, models, designs, Licenses and franchise, Others.)

iii) Capital Work in Progress

iv) Intangible Assets under Development – like patents, intellectual property rights, etc. which are being developed by the company

b) Non Current Investments – Investments which are not held for purpose of resale (Investment property, Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc).

c) Deferred Tax Assets (Net)

d) Long-term Loans and Advances – Capital Advances, Security Deposits, etc.

2. CURRENT ASSET

An asset shall be classified as current when it satisfies any of the following criteria:

It is expected to be realized in, or is intended for sale or consumption in the company's normal operating cycle; An operating cycle is the time between the acquisition of assets for processing and their realization in cash and cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

- It is held primarily for the purpose of being traded;
- It is expected to be realised within twelve months after the reporting date; or
- It is cash or cash equivalents unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current Assets.

a) **Current Investments** – Investment which are held to be converted into cash within a short period i.e., within 12 months (Investments in Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc.)

b) **Inventories:** Inventories include the following: Raw material, Work-in-progress, Finished goods, Goods acquired for trading, Stores and spares and Loose tools.

c) **Trade Receivable:** Trade receivables refer to the amount due on account of goods held or services rendered in the normal course of business.

d) **Cash and Cash Equivalents** – As discussed in the silent features of revised Schedule in General Instructions.

e) **Short-term Loans and Advances**

f) **Other Current Assets** (Prepaid expenses, and advance taxes)

Contingent Liabilities and Capital Commitments

Contingent Liabilities- Those liabilities which may or may not arise because they are dependent on a happening in future. It is not recorded in the books of accounts but is disclosed in the Notes to Accounts for the information of the users. (Claims against the company not acknowledged as debts, Guarantees, Other money for which the company is contingently liable.)

Capital Commitments – Financial commitments due to activities agreed by the company to be undertaken by it in future. (Uncalled Liability)

6.21 PREPARATION OF BALANCE SHEET

Illustration 10 From the following is the trial balance of Vishal Ltd., prepare the balance sheet of the company as on 31st March 2015 as per Schedule III of the Companies Act.

Trial Balance as on 31st March 2015

Debit	₹	Credit	₹
Advances to employees	3,00,000	Equity Share Capital	52,00,000
Cash at Bank	3,14,320	Capital Reserve	60,000
Furniture & Fixture	7,50,000	Loan from SBI	8,00,000
Discount on issue of shares (unwritten off)	25,000	Provision for Employees Welfare Fund	6,00,000
Patents	10,00,000	Proposed Dividend	1,64,000
Premises	41,09,940	Short term loan from bank	4,90,200
Trade Receivables	3,66,240	Unpaid dividend	64,800
Advance Tax	50,000	Profit & Loss A/c	42,980

8% Govt. Bonds	3,36,000	Bills Payable	85,100
Stock in trade	3,55,600	Sundry Creditors	1,00,020
	76,07,100		76,07,100

Solution

Balance Sheet of Vishal Limited as on 31st March 2015

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital		52,00,000
(b) Reserves and surplus	1	1,02,980
2 Share application money pending allotment:		Nil
3 Non-current liabilities:		
(a) Long-term borrowings		8,00,000
(b) Long-term provisions		6,00,000
4 Current liabilities:		
(a) Short-term borrowings		4,90,200
(b) Trade payables	2	1,85,120
(c) Other current liabilities		64,800
(d) Short-term provisions		1,64,000
TOTAL		76,07,100
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	3	48,59,940
(ii) Intangible assets		10,00,000
(b) Other non-current assets		25,000
2. Current assets:		
(a) Current investments		3,36,000
(b) Inventories		3,55,600
(c) Trade receivables		3,66,240

(d) Cash and cash equivalents		3,14,320
(e) Short-term loans and advances		3,00,000
(f) Other current assets		50,000
TOTAL		76,07,100

Notes to the Financial Statement:

1. Reserve and Surplus		2. Trade payables	
Capital reserve	60,000	Sundry creditors	1,00,020
Profit & Loss a/c (Cr. Bal.)	42,980	Bills payable	85,100
Total	1,02,980	Total	1,85,120
3. Tangible fixed assets			
Premises	41,09,940		
Furniture & Fixture	7,50,000		
Total	48,59,940		

Illustration 11 From the following ledger balances of Varun Ltd., prepare the balance sheet of the company as on 31st March 2016 as per Schedule III of the Companies Act.

Particulars	₹	Particulars	₹
Plant & machinery	6,00,000	Immovable property	10,00,000
8% Debenture	8,00,000	Public deposit	5,00,000
Employee's provident Fund	1,30,000	Provision for taxation	1,80,000
Securities premium	80,000	Drafts on hand	5,00,000
Cash at bank	34,000	Bills Receivable	2,40,000
Prepaid insurance	1,00,000	Brokerage on issue of shares	1,10,000
Sundry Creditors	1,16,000	Bank overdraft	1,50,000
Loan to Manager	70,000	Security Deposit	1,24,000
Deposits with ICICI Bank (5 years)	1,98,000	Trade marks	1,80,000
24,000 fully paid Equity shares of ₹100 each ₹ 50 called up			12,00,000

Solution

Balance Sheet of VARUN LTD. as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES 1. Shareholders' funds:		

(a) Share capital	1	12,00,000
(b) Reserves and surplus		80,000
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings	2	13,00,000
(d) Long-term provisions		1,30,000
4. Current liabilities:		
(a) Short-term borrowings		1,50,000
(b) Trade payables		1,16,000
(d) Short-term provisions		1,80,000
TOTAL		31,56,000
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	3	16,00,000
(ii) Intangible assets		1,80,000
(b) Non-current investment		1,98,000
(c) Long-term loans & advances		1,24,000
(e) Other non-current assets		1,10,000
2 .Current assets:		
(a) Trade receivables		2,40,000
(b) Cash and cash equivalents	4	5,34,000
(c) Short-term loans and advances		70,000
(d) Other current assets		1,00,000
TOTAL		31,56,000

Notes to the Financial Statement:

1. Share Capital		3. Tangible Assets	
Authorized Capital	24,00,000	Plant & Machinery	6,00,000
(24,000 Equity shares of ₹100 each)		Immovable property	10,00,000
Issued & Subscribed capital	24,00,000	TOTAL	16,00,000
(24,000 Equity shares of ₹100 each)		4. Cash & Cash equivalent	
Called up & Paid up capital	12,00,000	Cash in hand	34,000
(24,000 Equity shares of ₹80 each)		Drafts on hand	5,00,000
TOTAL	12,00,000	TOTAL	5,34,000

2. Long Term borrowings			
8% Debentures	8,00,000		
Public deposits	5,00,000		
TOTAL	13,00,000		

Illustration- 12 From the following ledger balances of Regal Limited as on 31st March 2016, you are required to prepare the balance sheet as on 31st March 2016 as per Revised Schedule III of the Indian Companies Act.

Particulars	₹	Particulars	₹
Office Equipment	4,80,600	General Reserve	4,15,000
9% Debentures in APCO Ltd	2,45,000	Creditors for Goods	1,68,500
Loose Tools	1,63,000	Creditors for expenses	36,000
Plant & machinery	18,00,000	Cash Credit	75,000
Computer Software	83,250	Mortgage loan	3,10,000
Debtors for goods	1,90,000	8% Preference share capital	5,50,000
Advertisement (unwritten off)	30,000	Equity Share Capital	15,00,000
Stores & Spares	1,00,200	Staff Welfare Fund	85,000
Interest accrued on investment	51,000	Provision for Taxation	26,550
Cash at Bank	23,000		

Solution:

Balance Sheet of Regal Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital : i) Equity Share Capital		15,00,000
ii) Preference Share Capital		5,50,000
(b) Reserves and surplus		4,15,000
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings		3,10,000
(d) Long-term provisions		85,000
4 .Current liabilities:		

(a) Short-term borrowings		75,000
(b) Trade payables	1	2,04,500
(d) Short-term provisions		26,550
TOTAL		31,66,050
II.ASSETS		
1.Non-current assets:		
(a)Fixed assets		
(i) Tangible assets	2	22,80,600
(ii) Intangible assets		83,250
(e) Other non-current assets		30,000
2. Current assets:		
(a) Current investments		2,45,000
(b) Inventories	3	2,63,200
(c) Trade receivables		1,90,000
(d) Cash and cash equivalents		23,000
(e) Other current assets		51,000
TOTAL		31,66,050

Notes to the Financial Statement:

1.	**Trade payables**		**3.**	**Inventories**	
	Creditors for Goods	1,68,500		Loose tools	1,63,000
	Creditors for expenses	36,000		Stores & Spares	1,00,200
	Total	2,04,500		Total	2,63,200
2.	**Tangible Fixed Assets**				
	Office Equipment	4,80,600			
	Plant and machinery	18,00,000			
	Total	22,80,600			

Illustration 13 From the following trial balance, prepare balance sheet of Darshan Ltd., in the prescribed proforma as on 31st March 2016.

Trial Balance as on 31st March 2016

Particulars	**₹**	**Particulars**	**₹**
Leasehold property	16,00,000	Unclaimed dividend	6,000

Bank balance	1,05,000	Share Capital	20,65,000
Plant & Machinery	9,00,000	Staff Provident fund	8,00,000
Goodwill	3,00,000	Capita redemption reserve	2,20,000
Investment in a subsidiary Co.	11,50,000	General reserve	1,90,000
P & L a/c	70,000	Deposits from public	9,00,000
Stock of finished goods	1,20,000	Accounts payable	2,10,000
Accounts receivable	2,40,000	Short Term loan from SBI	1,78,000
Preliminary expenses	39,000		
Underwriting commission	45,000		
	45,69,000		45,69,000

Solution

Balance Sheet of Darshan Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		
(a) Share capital		20,65,000
(b) Reserves and surplus	1	3,40,000
2. Share application money pending allotment:		
3. Non-current liabilities:		
(a) Long-term borrowings		9,00,000
(b) Long-term provisions		8,00,000
4. Current liabilities:		
(a) Short-term borrowings		1,78,000
(b) Trade payables		2,10,000
(c) Other current liabilities		6,000
TOTAL		44,99,000
II.ASSETS		
1.Non-current assets:		
a) Fixed assets		
(i) Tangible assets	2	25,00,000
(ii) Intangible assets		3,00,000

b) Non- current Investment		11,50,000
c) Other Non-current assets	3	84,000
2 .Current assets:		
(a) Inventories		1,20,000
(b) Trade receivables		2,40,000
(c) Cash and cash equivalents		1,05,000
TOTAL		44,99,000

Notes to the Financial Statement:

1.	**Reserve and Surplus**		**3.**	**Other non-current assets**	
	Capital Redemption Reserve	2,20,000		Underwriting commission	45,000
	General Reserves	1,90,000		Preliminary expenses	39,000
	Debit balance of P& L	(70,000)		Total	84,000
	Total	3,40,000			
2.	**Tangible Fixed Assets**				
	Leasehold property	16,00,000			
	Plant & machinery	9,00,000			
	Total	25,00,000			

Illustration 14 From the following ledger balances of Sunshine Co. Ltd., prepare the balance sheet of the company as on 31st March 2016 as per Schedule III of the Companies Act.

Particulars	₹	Particulars	₹
Equity Share Capital	26,00,000	Advances to employees	1,50,000
General Reserves	30,000	Discount on issue of debentures (unwritten off)	12,500
12% Debenture	4,00,000	Tools and equipment	3,75,000
Land & Buildings	15,54,970	Gratuity Fund	3,00,000
Goodwill	10,00,000	Debtors	1,38,520
Bank Overdraft	2,45,100	Cash at Bank	1,57,160
Proposed Dividend	82,000	Stores & Spares	1,77,800
Prepaid insurance	25,000	Profit & Loss a/c (credit)	21,490
Mutual Fund	1,68,000	Bills Receivable	44,600
Interest payable	32,400	Sundry Creditors	92,560

Solution:

Balance Sheet of Sunshine Company Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		
(a) Share capital		26,00,000
(b) Reserves and surplus	1	51,490
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings		4,00,000
(b) Long-term provisions		3,00,000
4. Current liabilities:		
(a) Short-term borrowings		2,45,100
(b) Trade payables		92,560
(c) Other current liabilities		32,400
(d) Short-term provisions		82,000
TOTAL		38,03,550
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	2	19,29,970
(ii) Intangible assets		10,00,000
(b) Other non-current assets		12,500
2. Current assets:		
(a) Current investments		1,68,000
(b) Inventories		1,77,800
(c) Trade receivables	3	1,83,120
(d) Cash and cash equivalents		1,57,160

(e) Short-term loans and advances		1,50,000
(f) Other current assets		25,000
TOTAL		38,03,550

Notes to the Financial Statement:

1.	**Reserve and Surplus**		**3.**	**Trade Receivables**	
	General Reserve	30,000		Sundry Debtors	1,38,520
	Profit & Loss a/c (Cr. Bal.)	21,490		Bills Receivable	44,600
	Total	51,490		Total	1,83,120
2.	**Tangible Fixed Assets**				
	Land & Buildings	15,54,970			
	Tools & Equipment	3,75,000			
	Total	19,29,970			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. In a balance sheet of a limited company, assets are arranged in the order of

   a) Liquidity b) **Performance**
   c) Neither of the two d) Either liquidity or performance

2. Dividends are usually paid on

   a) Authorized capital b) Subscribed capital
   c) **Paid up capital** d) Called up capital

3. Divisible profits do not include

   a) Reserve fund b) P & L a/c
   c) **Revaluation reserve** d) Insurance fund

4. When the proposed dividend exceeds 20% of the paid up capital, the % of profits to be transferred to reserve is

   a) **10%** b) 7.5%
   c) 5% d) 2.5%

5. The amount set aside to meet the loss of bad debts is a

   a) Reserve b) Liability
   c) Contingent liability d**) Provision**

6. Interim dividend appears in

   a) P & L a/c b) P & L Appropriation a/c
   c) Balance sheet d) **P & L Appropriation a/c and Balance sheet**

7. B/R is shown on the asset side of the balance sheet under the heading

   a) Share capital b) Investments
   c) **Current assets and loans and advances** d) None of these

8. Indicate the item that appears in the P & L a/c below the line

   a) Proposed dividend b) Provision for taxation
   c) Contribution to provident fund d) Bank loans

9. In the balance sheet of a company, bills payable is shown under the heading

   a) Current assets b) Fixed assets
   c) **Current liabilities** d) Reserves and surplus

10. Dividends are paid on ______________

    a) Paid up share capital b) Authorized share capital
    c) Called up capital d) Uncalled capital

REVIEW QUESTIONS

A) Answer in Short

1. What is managerial remuneration? Write note.
2. What are the components of final accounts of a joint stock company?
3. What is dividend?
4. What is reserve fund?
5. Write the rules for transfer of minimum reserve to general reserve.

B) Answer in Detail

1. Draft the Balance Sheet of a limited company in prescribed from with imaginary figures.
2. Explain the low relating to calculation of "managerial remuneration".
3. Explain the following

   a). Provisions b). Reserve Fund c). Reserve
4. Write short notes on:

   (a). Share capital

   (b). Contingent liabilities

   (c). Capital redemption reserve

   (d). Current asset

   (e). Current liabilities

EXERCISES

1. The provision for tax at the end of 31st March stood at ₹3,00,000. During 2008-09, the tax liabilities up to 31st March 2008 were settled for ₹2,74,000. Provision required in respect of 2008-09 is ₹82,000. How will you show provision for tax in P & L a/c?

2. X Ltd. made a loss of ₹30,000 after providing depreciation of ₹50,000 for the year 2009. In 2010, it made a profit of ₹1,00,000 after providing for that year's depreciation. Calculate the amount available for dividend.

3. A company has fixed assets of ₹2,00,000 and profit after depreciation @ 5% p.a. is ₹80,000 and the income tax limit for depreciation is ₹8,000. Calculate

   a) 5% of the net profit as commission to manager and b) Tax provision at 50%.

4. From the following details of Mohan Ltd. prepare P & L Appropriation a/c for the year ended 31-3-16.

   P & L a/c (Cr) on 1-4-2015 ₹57,500; Proposed dividend ₹50,000; Net profit ₹2,30,500; Transfer to general reserve ₹35,500; Cash balance ₹20,500; Creditors ₹9,505.

5. The following balances were extracted from the books Aarthy Ltd. for the year ended Mar.31, 2016:

Building	₹6,00,000	Furniture	₹60,000
Motor vehicles	₹60,000	Equity shares of companies	₹4,00,000
Stock	₹4,00,000	Debtors unsecured considered good	₹2,80,000
Cash	₹1,72,000	Salaries and wages	₹2,20,000
Equity shares of ₹100 each	₹10,00,000	Creditors	₹3,50,000
P & L a/c (Cr)	₹20,000	Gross profit	₹10,00,000
Dividend received on investments	₹10,000	Advance against construction of Building	₹1,30,000
Directors fees	₹8,000	Electricity charges	₹25,000
Rates, taxes	₹10,000	Auditors fees	₹15,000

Prepare P & L a/c of the company for the year ended 31st March 2016 and balance sheet as on that date after the following adjustments:

a) Provide 10% depreciation per annum

b) Stock has been revalued at ₹3,60,000. This has not been considered

c) Debt more than 6 months are ₹80,000

d) Ignore tax provision

6. The following is the trial balance of ABC Ltd as on 30-6-2016. The authorized capital of the company consists of 50,000 equity shares of ₹10 each.

Debit	Amount ₹	Credit	Amount ₹
Calls in arrears	6,400	Equity shares of ₹10 each	1,00,000
Land	10,000	Bad debts provision on 1-7-2015	1,400
Building	25,000	Sales	80,000
Furniture	3,200	Purchase returns	3,400
Carriage inwards	2,300	Creditors	13,200
Wages	21,400	Share premium	6,000
Salary	4,600	General reserve	24,000
Sales returns	1,700		
Printing charges	100		
Fuel	700		
Rates and taxes	800		
Purchases	50,000		
Bills receivable	1,200		
General expenses	1,900		
Debtors	42,800		
Stock on 1-7-2015	25,000		
Fire insurance	400		
Cash	2,500		
Bank	13,000		
Plant	15,000		
	2,28,000		2,28,000

Adjustments:

a) Charge depreciation on building at 2.5%, on Plant at 10% and Furniture at 10%

b) Make a provision of 5% on debtors for bad debts

c) Prepaid insurance ₹120

d) Outstanding liabilities: Wages ₹3,200; salary ₹500 and rent ₹200

e) Stock on 30-6-2016 was ₹30,000

Prepare P & L a/c and balance sheet of XYZ Co. Ltd.

7. The following is the trial balance of ABC Ltd as on 31-12-2016.

Debit	**Amount ₹**	**Credit**	**Amount ₹**
Stock on 1-1-2016	7,500	Sales	35,000
Purchases	24,500	Discount	500
Productive wages	5,000	P & L a/c on 1-1-2016	1,503
Discount	700	Equity shares of ₹10 each	10,000
Salary	750	Creditors	1,750
Rent	495	Reserve	1,550
General expenses including insurance	1,705		
Dividend paid	900		
Debtors	3,750		
Plant	1,620		
Bad debts	483		
Cash	2,900		
	50,303		50,303

Adjustments:

a) Stock as on 31-12-2016 ₹8,200

b) Depreciation on Plant at 10%

c) Provide 5% as discount on debtors

d) Allow 2.5% as discount on creditors

e) Provide managing directors commission at 15% on net profit before deducting the commission

f) One month rent at ₹540 per annum was due on 31-12-2016

g) Six months insurance was unexpired at ₹75 p.a.

Prepare trading and profit and loss a/c and balance sheet of ABC Company Ltd.

8. The following is the trial balance on June 30, 2016 of A Ltd.

Stock on 30th June 2015	₹7,500	Sales	₹35,000
Purchases	₹24,500	Productive wages	₹5,000
Discount (Dr)	₹700	Discount (Cr)	₹500
Salaries	₹750	Rent	₹495
General expenses	₹1,705	P & L a/c (Cr)	₹1,503
Dividend paid August 2015	₹500	Interim dividend paid Feb.2016	₹400

Capital ₹1 each	₹10,000	Debtors	₹3,750
Creditors	₹1,750	Plant	₹2,900
Cash	₹1,620	Reserve	₹1,550
Loan to MD	₹325	Bad debts	₹158

You are required to make out the trading a/c and P & L a/c for the year ended 30th June 2016 and the balance sheet as on that date. You are required to make provision in respect of the following:

a) Depreciation of machinery 10% p.a.

b) Reserve 5% discount on debtors.

c) Stock on 30th June 2016 ₹8,200.

9. From the following balances as on 31st Dec.2016 of Kiran Ltd Co. prepare P & L a/c for the year ended and balance sheet as on that date:

Debits	**Amount ₹**	**Credits**	**Amount ₹**
Stock on 1-1-2016	33,380	Paid up capital	50,000
Discount	6,788	Sales	1,46,268
Land	22,000	Sundry receipts	200
Plant	10,700	Creditors	39,532
Purchases	91,888	Provision for bad debts	5,300
Furniture	2,750	Discount	5,904
Debtors	63,600	Bank overdraft	13,823
P & L a/c (Dr)	4,960	Customer's deposit	400
Carriage	3,780		
Wages	9,016		
Bad debts	1,820		
Office expenses	10,275		
Cash	470		
	2,61,427		2,61,427

The following adjustments have to be made:

a) Stock on 31-12-2016 ₹35,460.

b) Depreciate plant at 10% and furniture at 6%.

c) The managing director is entitled to 10% commission on net profits before charging such commission.

d) Provide 10% for doubtful debts.

10. MK Ltd made a net profit of ₹25,000 lakhs after adjusting the following items

Particulars	(₹in Lakhs)
Provision for depreciation	10,000
Capital profit on sale of part of the undertaking	200
Depreciation as per books	600
Managerial remuneration	55
Provision for diminution in the value of investments	15
Provision for wealth tax	20
Directors fees	15
Profit on sale of assets U/S 349	40
Profit on sale of investments	30
Loss on sale of assets U/S 349	35
Prior period adjustments (credit)	15
Provision for bad debts	100
Ex-gratia payment to an employee	5

You are given the following additional information

i) Depreciation as per $ 40 ₹5,000 Lakhs

ii) Bad debts actually written off ₹60 Lakhs

You are required to calculate the net profit.

11. The following trial balance of Ajit & Co as at 30th Dec.2016 is given to you:

Debit	Amount ₹	Credit	Amount ₹
Stock (1-1-2016)	40,000	Equity shares	3,00,000
Bank	8,800	6% Debentures	1,00,000
Patents	30,000	Creditors	50,000
Calls in arrears	10,000	General reserve	40,000
Returns inwards	15,000	Sales	5,00,000
Purchases	3,86,000	Returns outwards	10,000
Wages	54,000	P & L a/c (Cr)	6,000
Insurance prepaid	200		
Bills receivable	15,000		
Debtors	40,000		
Discount on issue of debentures	5,000		
Plant	2,00,000		

Land	1,50,000		
Insurance	2,000		
General expenses	20,000		
Establishment expenses	30,000		
	10,06,000		10,06,000

Additional information:

i) The value of stock on 31st Dec.2016 is ₹74,000

ii) Depreciate patents, plant and land at 10%

You are required to prepare trading, profit and loss a/c for the year ended 31-12-2016 and balance sheet as on that date.

12. The directors of M Ltd ask to prepare the profit and loss a/c for the year ended 30-6-2016 and the balance sheet as on that date.

Debit	Amount ₹	Credit	Amount ₹
Plant	3,00,000	Equity share capital	4,00,000
Land	5,00,000	8% Preference shares	2,00,000
Investment in shares	200,000	Depreciation up to 31-7-2015	
Stock	70,000	On Plant	1,00,000
Cash	60,000	On Land	1,50,000
Debtors	50,000	Dividend reserve	10,000
Income tax deducted at source on dividend	2,200	P & L a/c on 1-7-2015	25,000
Office expenses	15,000	Creditors	25,000
Rent and taxes	6,000	Dividend	10,000
Audit fees	2,500	Miscellaneous Receipts	2,300
Managing directors minimum remuneration	12,000	Trading a/c balance	3,09,400
Directors fees	2,000		
Sundry expenses	6,000		
Income tax for previous year not provided for	6,000		
	12,31,700		12,31,700

Adjustments:

a) Depreciation is to be charged on the written down value of plant at 10%, land at 5%

b) The directors propose to recommend a dividend of 15% on equity shares

c) Provision for taxation is to be made at 55%

d) The managing director is entitled to 5% of the net profit subject to a minimum of ₹12,000 p.a.

e) A sum of ₹15,000 is to be transferred to dividend reserve.

13. Authorized capital of Z Ltd. is ₹5,00,000 (₹10 each) on 31-12-2016. 25,000 shares were fully called up. On 31-12-2016, the following balances taken from the ledger of the company.

Opening stock	₹50,000	Sales	₹4,25,000
Purchases	₹3,00,000	Wages	₹70,000
Discount allowed	₹4,200	Discount received	₹3,150
Insurance (paid 31-3-2017)	₹6,720	Salaries	₹18,500
Rent	₹6,000	General expenses	₹8,950
Printing and stationery	₹2,400	Advertising	₹3,800
Bonus	₹10,500	Sundry debtors	₹38,700
Sundry creditors	₹35,200	Plant	₹80,500
Furniture	₹17,100	Cash	₹1,34,700
Reserve	₹25,000	Loan from MD	₹15,700
Bad debts	₹3,200	Calls in arrears	₹5,000
P & L a/c	₹6,220		

Additional information was furnished:

a) Closing stock ₹91,500

b) Depreciation on plant and furniture @ 15% and 10% respectively

c) Wages, salaries and rent outstanding amounts ₹5,200, ₹1,200 and ₹600 respectively

d) Dividend @ 5% on paid up share capital is to be provided.

Prepare final accounts of the company.

14. The following is the trial balance of D Ltd. as on 31-3-2016:

Debit balance	**Amount ₹**	**Credit balance**	**Amount ₹**
Stock	75,000	Purchases returns	10,000
Purchases	2,45,000	Sales	3,40,000
Wages	30,000	Discount	3,000
Carriage inwards	950	P & L Appropriation a/c	15,000
Furniture	17,000	Share capital	1,00,000
Salaries	7,500	Creditors	17,500
Rent	4,000	General reserve	15,500

Sundry expenses	7,050	Bills payable	7,000
Dividend for 2015-16	9,000		
Debtors	27,500		
Plant	29,000		
Cash	46,200		
Patents	4,800		
Bills receivable	5,000		
	5,08,000		5,08,000

Prepare final accounts after adjusting the following:

a) Stock on 31-3-2016 ₹88,000

b) Depreciate plant at 15%, furniture at 10% and patent at 5%

c) Outstanding rent ₹800 and salaries ₹900

d) Make a provision for bad debts amounting to ₹510.

15. ABC Co. Ltd. was registered with nominal capital of ₹6,00,000 in equity shares of ₹10 each. Following is the list of balances extracted from its books on 31-12-2016:

Calls in arrears	₹7,500	Paid up capital	₹4,00,000
Premises	₹3,00,000	6% Debentures	₹3,00,000
Plant	₹3,30,000	P & L a/c (Cr)	₹14,500
Interim dividend paid on 1-8-16	₹37,500	Bills payable	₹38,500
Stock on 1-1-2016	₹75,000	Creditors	₹50,000
Furniture	₹7,200	Sales	₹4,15,000
Debtors	₹87,000	General reserve	₹25,000
Goodwill	₹25,000	Cash in hand	₹1,250
Cash at bank	₹39,900	Bad debts provision on 1-1-16	₹3,500
Preliminary expenses	₹5,000	Purchases	₹1,85,000
General expenses	₹16,835	Wages	₹84,865
Salary	₹14,500	Director’s fees	₹5,725
Bad debts	₹2,110	Freight and carriage	₹13,115
Debenture interest paid	₹9,000		

Prepare P & L a/c and balance sheet in proper form after making following adjustments:

i) Depreciate plant 10%

ii) Write off ₹500 from preliminary expenses

iii) Leave bad and doubtful debts at 5% on sundry debtors

iv) Stock on 31-12-2016 is ₹95,000.

16. From the under mentioned trial balance of BB Ltd., prepare a trading, profit and loss a/c for the year ended Dec.31, 2016 and the balance sheet as on that date:

Debit balance	Amount ₹	Credit balance	Amount ₹
Debenture interest (half year up to 30-6-16)	625	Equity share capital (₹100 each)	1,00,000
Rent and taxes	6,000	5% Debentures	25,000
Purchases	60,900	Sales	1,75,000
Wages	55,200	Creditors	8,000
Fuel	2,570	Bank overdraft	12,000
Building	70,000	Discount	2,200
Carriage in	1,175	Transfer fees	100
Debtors	20,000	Returns outward	100
Goodwill	28,000		
Plant	25,000		
Loose tools	6,000		
Advertisement	3,000		
General expense	4,400		
Bad debts	1,030		
Opening stock	30,000		
Miscellaneous Exp.	3,000		
Insurance	2,500		
Cash	3,000		
	3,22,400		3,22,400

Adjustments: 1. The authorized capital of the company is ₹2,00,000

2. Stock on Dec.31, 2016 is ₹35,000

3. Depreciate Plant by 9%

4. Allow 2.5 % discount on debtors and 2% as bad debts reserve

You are not required to show the previous year's figures.

17. The following is the trial balance of A & Co. as on 31-3- 16 with the authorized capital of 72,000 shares @ ₹10 each.

Debit balances	Amount ₹	Credit balances	Amount ₹
Cash in hand	900	P & L a/c	17,400
Cash at bank	3,05,980	Creditors	60,000
Calls in arrears	9,000	Debentures	3,60,000
Wages	92,760	Share capital	5,52,000
Land	3,60,000	Bills payable	45,600
Plant	4,32,000	Sales	4,98,000
General exp.	20,280	Reserve for bad debts	4,200
Salaries	17,400	General reserve	30,000
Interim dividend	9,000		
Furniture	40,000		
Purchases	2,29,880		
Debtors	50,000		
	15,67,200		15,67,200

Adjustments: 1) Outstanding wages ₹6,000; Salaries ₹3,000

2) General expenses include prepaid insurance @ ₹300

3) Provide depreciation on Land, Plant and Furniture at 5%, 10% and 20% respectively

4) Stock on 31-3-2016 amounted to ₹1,40,000

5) Outstanding interest on debentures ₹18,000

6) Final dividend paid ₹21,000

Prepare final accounts.

18. X Ltd has an authorized capital of ₹50,00,000, divided into 5,00,000 equity shares of ₹10 each. Their books showed the following balances as on 31-12-2016:

Stock on 1-1-2016	₹6,65,000	Discount allowed	₹30,000
Carriage inwards	₹57,500	Patents	₹3,75,000
Rent and taxes	₹55,000	Furniture	₹1,50,000
Materials purchased	₹12,32,500	Wages	₹13,05,000
Coal and coke	₹63,000	Land	₹12,50,000
Plant	₹7,50,000	Loose tools	₹1,50,000
Goodwill	₹3,75,000	Debtors	₹2,66,000

B/R	₹1,34,500	Advertisement	₹15,000
Business expenses	₹1,70,000	Bad debts	₹25,500
Bank balance	₹20,000	Cash in hand	₹8,000
Debenture interest up to 30-6-16	₹10,000	Bank interest paid	₹91,000
Preliminary expenses	₹10,000	Calls in arrears	₹10,000
Equity share capital of ₹10 each	₹20,00,000	4% Debentures	₹5,00,000
Bank O/D	₹7,57,000	Creditors	₹2,40,500
Sales	₹36,17,000	Rent (Cr)	₹30,000
Transfer fees	₹6,500	P & L a/c (Cr)	₹67,000

Adjustments:

a) The stock on 31-12-2016 was ₹7,08,000

b) Outstanding liability for wages ₹25,000 and business expenses ₹25,000

c) Provide for dividend @ 10% on paid up capital

d) Provide depreciation – Plant – 5%; Loose tools – 20%; Patent – 10% and Furniture – 10%

e) Write off ₹21,500 as bad debts and provide 2% on debtors for bad debts

f) Write off preliminary expenses ₹5,000

g) Transfer to redemption reserve ₹50,000 and provide for income tax ₹2,40,000

Prepare the P & L a/c for the year ending 31-12-2016 and balance sheet as per Companies Act on that date.

19. Following is the trial balance of Original Traders Ltd. as on 31-12-2016.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Land	70,000	Share capital	1,00,000
Plant	54,000	General reserve	15,000
Stock on 31-12-2016	64,000	8% Debentures	50,000
Salary	4,600	Bank overdraft	2,000
Debtors	38,000	Creditors	8,000
Cash	1,000	Share premium	5,000
Preliminary exp.	2,000	P & L a/c	3,000
Bank	12,000	Gross profit	52,000
Advance payment of income tax	4,000	Debenture redemption reserve	20,000

Directors fees	3,400		
Debenture interest	2,000		
	2,55,000		2,55,000

Adjustments:

i) Provide ₹12,000 for income tax, ₹1,000 for audit fees and debenture interest for 6 months

ii) Machinery worth ₹20,000 was purchased on 1-10-2016; Depreciate machinery at 10% p.a.

iii) Directors desire the following appropriations:

a) ₹5,000 to debenture redemption reserve

b) ₹2,000 to general reserve

c) Dividend at 8%

iv) The authorized capital of the company consists of 5,000 equity shares of ₹100 each, 2,000 shares are issued on which ₹50 per share was paid up.

v) Write off 50% preliminary expenses

Prepare P & L a/c and Balance sheet as on 31-12-2016.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. The following balance were extracted from the books of Kousick Ltd. for the year ended 31st March 2011.

Buildings	6,00,00
Motor vehicles	60,000
Sundry debtors unsecured considered good	2,80,000
Stock at cost	4,00,000
Advances against construction of building	1,30,000
Share capital:	
10,000 equity shares of Rs. 100 each	10,00,000
Dividend received on investments	10,000
Electricity charges	25,000
Auditor’s fees	15,000
Furniture	60,000
Equity shares of companies	4,00,000
Cash at bank	1,72,000
Sundry creditors	3,50,000
P and L a/c (Cr)	20,000

Gross profit	1,00,000
Salaries and wages	2,20,000
Directors fees	8,000
Rent, rates and Insurance	10,000

Prepare profit and loss a/c of the company for the year ended 31st December 2011, and the balance sheet as on that date after the following adjustments:

(a) Provide 10% depreciation per annum

(b) Stock has been revaluated at Rs. 3,60,000. This has not yet been considered.

(c) Debts more than 6 months are Rs. 80,000

(d) Ignore tax provision.

[Alagapa B.Com., 2016]

2. Prepare final account from the following information:

Debit	Rs.	Credit	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	P & L account	6,220
Discount allowed	4,200	Creditors	35,200
Insurance up to 31.3.06	6,720	Reserves	25,000
Salaries	18,500	Loan from MD	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisement	3,800		
Bonus	10,500		
Debtors	38,700		
Plant	1,80,000		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

you are required to prepared P & L account for the year ended 31.32015 and a balance sheet as on that date. The following information is given.

(a) Closing stock was valued at Rs. 1,91,500

(b) Depreciation on plant at 15% and on furniture at 10% should be provided.

(c) A tax provision of Rs. 8,000 is considered necessary.

(d) The directors declared an interim dividend on 15.8.2005 for 6 months ending June 30, 2005 @ 6%.

[Madurai, M.Com (CA), November 2014]

3. From the following trail balance prepare trading and profit and loss account and balance sheet.

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Salaries	20,000	Creditors	50,000
Rent	25,000	Sales	3,00,000
Cash	50,000	Capital	1,50,000
Debtors	3,500	Loans	20,500
Trade Expenses	6,000		
Purchase	60,000		
Advances	1,00,000		
Bank balance	50,000		
Buildings	2,06,000		
	5,20,500		**5,20,500**

Adjustments

(a) Closing stock at the year Rs. 20,000:

(b) Create 5% provision for discount on debtors:

(c) Commission payable to the manager to 5% of the profit after charging such commission.

[Madurai, M.Com (CA), November 2016]

4. From the following trail balance and additional information provided, prepare final accounts of Swamy stationaries Ltd. for the year ending 31st December 1990.

Trail Balance as on 31st December 1990

Particulars	Dr. Rs.	Cr. Rs.
Capital 30,000 equity shares of Rs. 10 each	–	3,00,000
Stock	2,25,000	–
Purchase and sales	7,35,000	10,50,000
Productive sales	1,50,000	–
Discount	21,000	15,000
Salaries	22,500	–
Rent	14,850	–

General expenses	51,150	–
Profit and loss A/c 31.12.1989	–	45,000
Dividend paid March 1990	15,000	–
Interim dividend paid August 1990	12,000	–
Debtors and creditors	1,12,500	52,500
Plant and machinery	87,000	–
Cash at bank	48,600	–
Reserve	–	46,500
Loan to M.D.	9,750	–
Bad debts	4,650	–
	15,09,000	**15,09,000**

Additional information:

(a) Stock on 31st December 1990 Rs. 2,46,000

(b) Depreciated Plant and Machinery @ 10% p.a.

(c) Reserve 5% on debtors for doubtful debts.

(d) Provide 2% for discount on creditors.

(e) One month rent (Rs. 1,350 p.m.) was due on 3st December 1990.

(f) Six months insurance was unexpired at Rs. 2,250 p.a.

(g) Provide Rs. 13,688 for Income Tax.

[Madurai, M.Com (CA), November 2015]

5. The following is the trial balance of Bee Ltd. as on 31st March, 2010.

	(Rs. in '000)		**(Rs. in '000)**
Stock as on 1.4.2009	7,500	Purchase returns	1,000
Purchases	24,500	Sales	34,000
Wages	3,000	Discount	300
Carriage inwards	95	Profit and Loss A/c	1,635
Furniture	1,700	Share capital	10,000
Salaries	750	Creditors	1,750
Rent	400	General reserve	1,550
Sundry trade expenses	605	Bills payable	700
Dividend paid for 2008-2009	900		
Corporate dividend tax paid	135		

Debtors	2,850		
Plant and Machinery	2,900		
Cash at Bank	4,620		
Patents	480		
Bills receivable	500		
	50,935		**50,935**

Prepare the profit and loss account for the year ended 31st March, 2010 and a balance sheet as on that date after considering the following adjustments:

(a) Stock as on 31st March, 2010 was valued at Rs. 88,10,000.

(b) Make a provision for income-tax at 35%

(c) Depreciate plant and machinery at 15% furniture at 10%; and patents at 5%.

(d) On 31st March, 2010 outstanding rent amount to Rs. 80,000.

(e) The board recommends payment of a dividend @ 15% per annum. Transfer the minimum required amount to general reserve. Also make a provision for corporate dividend tax @ 15% of the amount proposed to be distributed.

(f) Provide Rs. 3,000 for doubtful debts.

(g) Provide Rs. 5,20,000 for managerial remuneration.

[Madurai, M.Com (CA), November 2012]

6. Determine the maximum remuneration payable to the part time director and manager of B Ltd. (a manufacturing company) under section 309 and 387 of the Companies Act, 1956 from the following particulars:

Before charging any such remuneration, the Profit & Loss Account showed a credit balance of Rs. 23,10,000 for the year ended 31st March 1987 after taking into account the following matters:

	Rs.
(a) Capital expenditure	5,25,000
(b) Subsidy received from Government	4,20,000
(c) Special depreciation	70,000
(d) Multiple shift allowance	1,05,000
(e) Bonus to foreign technicians	3,15,000
(f) Provision for taxation	28,00,000
(g) Compensation paid to injured workman	70,000
(h) Ex-gratia to an employee ,	35,000
(i) Loss on sale of fixed assets	70,000
(j) Profit on sale of investment	2,10,000

[Madras,B.Com(AF) Nov 2007 ;Nov 2004]

[Ans : Managerial remuneration @ 5% on Rs. 55,30,000 = Rs. 2,76,500; Total managerial remuneration payable Rs. 2,76,500 + 55,300 = Rs. 3,31,8001

[Hint: Part time director's commission : 1% on 55,30,000 = 55,300]

7. From the following balances, prepare the Balance Sheet of a Company in the prescribed format. Goodwill Rs. 1,50,000; Investments Rs. 2,00,000; Share capital Rs. 5,00,000; Reserves Rs. 1,10,000; Share premium Rs. 15,000; Preliminary expenses Rs. 10,000; Profit and Loss A/c (Cr) Rs. 25,000; Debentures R s. 2,50,000. Other fixed assets Rs. 4,70,000; Stock Rs. 80,000; Debtors Rs. 60,000; Bank balance Rs. 30,000. Unsecured loan Rs. 65,000; Sundry creditors Rs. 35.000.

(Periyar, B.Com (CA) Ap 2005)

[Ans : Balance Sheet Total : Rs. 10,00,000]

8. Prepare a Balance sheet as at 31st march 2000 from the following information of ABC Ltd as required under the companies Act 1956:

	Rs.		Rs.
Term loan	10,00,000	Loss for the year	3,00,000
Creditors	11,45,000	Sundry debtors	12,25,000
Advances	3,72,000	Miscellaneous expenses	58,000
Cash & Bank Balances	2,75,000	Loans from directors	2,00,000
Staff advances	55,000	Provisions for doubtful debts	20,200
Provision for tax	1,70,000	Stock	4,00,000
Securities premium	4,75,000	Fixed assets (W.D.V)	51,50,000
Loose tolls	50,000	Finished goods	7,50,000
Investments	2,25,200	General reserves	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% pref. shares of Rs.100 each fully paidup

(b) Term Loan is secured

(c) Depreciation on assets : Rs. 5,00,000

(d) Schedules need not be given.

(Madras BCS (SY3B) Nov 2005 II; M.Com., (ICE) (Old) May 2003]

[Ans: Balance Sheet Total :Rs. 87,40,000]

1. Assume that W.D.V. of fixed assets is after depreciation because net loss for the year is already found.
2. Net Leasehold be adjusted against general reserve.

9. A Limited Company was registered with an authorized capital of Rs. 30,00,000 in equity shares of Rs. 10 each. The following is the list of balances extracted from its books on 31.12.94.

	Rs.
Purchases	9,25,000
Wages	4,24,325
Manufacturing expenses	65,575
Salaries	70,009
Bad debts	10,550
Directors' fees	31,120
Debenture interest paid	45,000
Preliminary expenses	25,000
Calls-in-arrears	37,500
Plant & Machinery	15,00,000
Premises	16,50,000
Interim dividend paid	1,87,500
Furniture and fittings	35,000
Sundry debtors	4,36,000
General expenses	84,175
Stock on 1.1.94	3,75,000
Cash in hand	1,00,000
Goodwill	28,750
Cash at bank	1,99,500
Subscribed and fully called up capital	20,00,000
Profit & Loss A/c (Cr)	72,500
6% Debentures	15,00,000
Sundry creditors	2,90,000
Bills payable	1,67,500
Sales	20,75,000
General reserve	1,25,000

You are required to prepare Trading and Profit & Loss account for the year ended 31.12.94 and the Balance Sheet as on that date, after making the following adjustments. Depreciate Plant & Machinery by 10%. Provide half years interest on debentures. Also write

off Rs. 2,500 from preliminary expenses and make provision for bad and doubtful debts of Rs. 4,250 on sundry debtors. Stock on 31st December 1994 was Rs. 4,55,000.

[(Madras, B.Com(AF) Apri12008; B.Com, (Sem - PZ3A) Nov. 2004]

[Ans: Gross profit — Rs. 7,40,100; Net profit — Rs. 2,97,500; Balance Sheet total — Rs. 42,72,500]

10. From the under mentioned Trial Balance of Barua Brothers Ltd., prepare a Trading and Profit and Loss A/c for the ended Dec. 31-1996 and the Balance Sheet as at that date :

Debit Balances	**Rs.**	**Credit Balances**	**Rs.**
Opening Stock	30,000	Equity share capital 1,000 shares of Rs. 100 each	1,00,000
Rent and Taxes	6,000		
Purchases	60,900	5% Debentures	25,000
Wages	55,200	Sales	1,75,000
Discount	1,500	Creditors	8,000
Fuel	2,570	Bank Overdraft	12,000
Building	70,000	Discount	2,200
Carriage inwards	1,175	Tranffer fee	100
Debtors	20,000	Returns Outwards	100
Goodwill	28,000		
Plant & Machinery	25,000		
Loose Tools	6,000		
Advertisement	3,000		
General expenses	4,400		
Bad Debts	1,030		
Debenture Interest (For half year)	625		
Miscellaneous Expenses	3,000		
Insurance	1,000		
Cash	3,000		
	3,22,400		3,22,400

(a) The authorised capital of the company is Rs. 2,00,000;

(b) Stock on Dec. 31, 1996 is Rs. 2,00,000.

(c) Depreciate Plant & Machinery at 9% and Revalue Tools at Rs.4,100.

(d) Allow 2.5% discount on debtors and 2% as bad debts reserve.

[Madras, B.Com., Oct. 2003]

[Ans : G.P : Rs. 2,25,255; N.P : Rs. 2,01,335; B/S Total :Rs. 3,46,960]

Hint: Miscellaneous expenses are to be assumed as sundry expenses and shown in P&L A/c.

11. The following is the Trial Balance of Naveen Ltd. as at 31-3-99.

	Rs.	Rs.
Stock (1-4-98)	75,000	–
Purchase returns	–	10,000
Purchases and Sales	2,45,000	–
Wages	30,000	–
Discount	–	3,000
Carriage Inward	950	–
Furniture & Fittings	17,000	–
Salaries	7,500	–
Rent	4,000	–
Sundry expenses	7,050	–
P&L App. A/c (31-3-98)	–	15,000
Dividend paid for 1997-98	9,000	–
Share Capital	–	1,00,000
Debtors and Creditors	27,500	17,500
Plant & Machinery	29,000	–
Cash at Bank	46,200	–
General Reserve	–	15,500
Patents & Trade Marks	4,800	–
B/R & B/P	5,000	7,000
	5,08,000	5,08,000

Prepare Trading P&L a/c and P&L Appropriation A/c for the year ended 31-3-99 and Balance Sheet at that date; taking into consideration the following adjustments:

(i) Stock on 31-3-99 was valued at Rs. 88,000

(ii) Make a Provision for income tax @ 50%

(iii) Depreciate Plant & Machinery @ 15%, Furniture & Fittings @ 10% and Patents & Trademarks @ 5%.

(iv) On 31-3-99 outstanding rent amounted to Rs. 800, while outstanding salaries totalledRs. 900 and sundry expenses :Rs. 510.

(v) The Directors propose a dividend cr 15% p.a. for the year ended 31-3-99 after the minium transfer to General Reserve as required by law.

(vi) Provide for Managerial remuneration at 10% of net profits before tax.

[Madras, B.Com (PZG) Ap 2007; B.Com., April 2003]

[Ans : G.P. : Rs. 87,050; Managerial Remuneration : Rs. 6,300; Provision for tax : Rs. 28,350; Transfer to General Reserve : Rs. 1,420 (i.e.,28,350 x 5%); Net profit :Rs. 28,350; Corporate Dividend tax : Rs. 1,500 (15,000 x 10%); Balance in P&L App. A/c :Rs. 16,430; B/s total Rs. 2,11,210]

Hint : Assume that dividend tax on dividend for 97-98 was already paid and adjusted.

12. The following balances were extracted from the books of Chandra Limited for the year ended December 31, 1996.

	Rs.
Buildings	6,00,000
Furniture	60,000
Motor vehicles	60,000
Equity shares of companies	4,00,000
Stock-in-trade at cost	4,00,000
Sundry debtors, unsecured considered good	2,80,000
Cash at bank	1,72,000
Advance against construction of building	1,30,000
Share capital: 10,000 equity shares of Rs. 100 each	10,00,000
Sundry creditors	3,50,000
Profit and Loss A/c (credit)	20,000
Gross profit	10,00,000
Dividend received on investments	10,000
Salaries and wages	2,20,000
Directors' fees	8,000
Electricity charges	25,000
Rates, taxes and insurance	10,000
Auditors' fees	15,000

Prepare the Profit & Loss Account of the company for the year ended December 31, 1996, and a Balance Sheet as on that date after considering the following adjustments.

(a) Provide 10% depreciation per annum on Fixed Assets.

(b) Stock has been revalued Rs. 3,60,000. This has not yet been considered.

(c) Debts more than 6 months are Rs. 80,000.

(d) Ignore tax provision.

[Madras, BCS (ICE) May 2007]

[Ans : Net profit — Rs. 6,20,000; Surplus carried to Balance Sheet — Rs. 6,40,000; Balance Sheet total — Rs. 19,90,000]

13. The Alfa Manufacturing Company Ltd. was registered with a nominal capital of Rs. 6,00,000 in equity shares of Rs. 10 each. The following is the list of balances extracted from its books on 3Ist Dec. 2005.

	Rs
Calls-in-arrears	7,500
Premises	3,00,000
Plant & Machinery	3,30,000
Interim dividend paid on 1.8.05	37,500
Stock on 1.1.05	75,000
Fixtures	7,200
Sundry debtors	87,000
Goodwill	25,000
Cash in hand	750
Cash at bank	39,900
Purchases	1,85,000
Preliminary expenses	5,000
Wages	84,865
General expenses	16,835
Freight and carriage	13,115
Salaries	14,500
Directors' fees	5,725
Bad debts	2,110
Debenture interest paid	9,000
Subscribed and fully called up capital	4,00,000
6% debentures	3,00,000
Profit & Loss A/c (credit balance)	14,500
Bills payable	38,000
Sundry creditors	50,000
Sales	4,15,000
General reserve	25,000
Bad debts reserve (1.1.05)	3,500

Prepare Trading and Profit & Loss Account and Balance Sheet in proper form after making the following adjustments :

(a) Depreciate Plant and Machinery by 10%

(b) Write off Rs. 500 from preliminary expenses.

(c) Provide half years debenture interest due.

(d) Leave bad and doubtful debts reserve at 5% on sundry debtors.

(e) Closing stock Rs. 95,000.

(Madras, B.Com., B.Com (CS) Ap. 2008; Ap. 2007; B.Com. (PZG) Nov. 2006 (10 Times);

B.Com., B.Com. (CS) Nov. 2005; B.Com. (old) April 2002 (10 limes)

[Ans : Gross profit its. 1,52,020; Net Profit — Rs. 60,500; Surplus carried to Balance Sheet — Rs. 33,750; Dividend tax :Rs. 3,750; Balance Sheet total — Rs. 8,52,000]

14. Asia Limited is a company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. On 31.12.2005, 2,500 shares were fully called up.The following balances were extracted from the ledger of the company as on 31.12.05.

	Rs.
Stock	50,000
Sales	4,25,000
Purchases	3,00,000
Wages (productive)	70,000
Discount allowed	4,200
Discount received	3,150
Insurance upto 31.3.06	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Profit & Loss account (Cr)	6,220
Printing and stationer)'	2,400
Advertisement	3,800
Bonus	10,500
Debtors	38,700
Creditors	35,200
Plant & Machinery	80,500
Furniture	17,100
Cash and bank balance	1,34,700
Reserve	25,000
Loan from Managing director	15,700
Bad debts	3,200
Calls-in-arrears	5,000

You are required to prepare Trading and Profit & Loss A/c for the year ended 31.12.05 and the Balance Sheet as on that date.

Additional information:

(a) Closing stock Rs. 91,500;

(b) Provide depreciation at 15% on Plant and Machinery and 10% furniture,

(c) Outstanding liabilities: Wages Rs. 5,200; Salary Rs. 1,200; Rent Rs. 600.

(d) Provide 5% dividend on the paid up share capital.

(Madras, B.Com(PZG) Nov. 2007; B.Com.(ICE) Oct. 2007; B. Corn., (Sent-PZ3A) Nov. 2005; B.Com., April 2004; B.C.S. Oct. 2002; B. Corn., Oct. 2002]

[Ans: Gross profit — Rs. 91,300; Net Profit — Rs. 16,275; Surplus carried to Balance Sheet — Rs. 9,020; Dividend Tax :Rs. 1,225; Balance Sheet total — Rs. 3,50,395]

15. The authorised capital of Navzeevan Ltd. is Rs. 7,50,000 consisting of 3,000 6% cumulative preference shares of Rs. 100 each and 4,500 equity shares of Rs. 100 each. The following is the trial balance drawn upon 31.12.1998.

	Rs.		Rs.
Goodwill	1,00,000	Paid up capital:	
Trade debtors	1,67,500	3,000 6% cumulative	
Freehold properties at cost	3,90,000	preference shares	3,00,000
Stock on 1.1.1998	2,41,500	3,000 equity shares	
Salaries	1,03,500	(Rs. 75 per share	
Delivery expenses	1,02,000	called up)	2,25,000
Rent & Rates	38,250	5% first mortgage	
General expenses	21,000	debentures (secured on	
Furniture at cost	75,000	freehold properties	2,10,000
Purchases	4,76,500	Trade creditors	1,25,520
Bills receivable	6,000	General reserve	82,725
Freight and carriage inward	3,750	Profit & Loss A/c (Cr)	58,500
Investments:		Reserve for taxation	8,800
600 shares of Rs. 100 each in X Ltd.	60,000	Sales	9,18,600
Debenture int. (half year to 30.6.98)	5,250	Forfeited shares A/c	2,000

Final dividend for 1997	20,250		
Pref. dividend (half year to 30.6.98)	9,000		
Balance at Bank in current A/c	97,500		
Cash in hand	14,145		
	19,31,145		19,31,145

(i) The value of stock on 31.12.1998 was Rs. 2,15,000.

(ii) Depreciation on freehold properties is to be provided at 2-2% and on furnitureat 6%.

(iii) The directors proposed to pay the second half-year's dividend on preference shares and a 10% dividend on equity shares and

(iv) Shares were forfeited on non-payment of Rs. 35 per share.

You are required to prepare Profit & Loss A/c and Profit & Loss Appropriation A/c and Balance Sheet of the company.

[Thiruvalluvar B.Com., April 2008; Madras, B.Com (A-U.) Ap. 2007; (Modified)]

fKolhapur& M.D.U., B.Com., Adapted!

[Ans: Gross profit — Rs. 4,11,850; Net Profit — Rs. 1,22,350; Surplus carried to Balance Sheet — Rs. 1,16,050; Corporate dividends tax at 10% :Rs. 4,050; Balance Sheet total — Rs. 11,10,8951 [Issued equity capital 3,050 shares'

Hint : Dividend tax is provided for current year's dividend only on Preference & Equity capitals.

16. Sherry Engineering Ltd. have authorised capital of Rs. 50 Iakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31.12.2005.

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Stock (1.1.2005)	6,65,000	Equity share capital	20,00,000
Discounts & rebates	30,000	(2,00,000 shares	
Carriage inwards	57,500	of Rs. 10 each)	
Patents	3,75,000	4% debentures	
Rates, taxes & insurance	55,000	(Repayable after	
Furniture & fixtures	1,50,000	10 years)	5,00,000
Materials purchased	12,32,500	Bank overdraft	6,85,000
Wages	13,05,000	Sundry creditors	2,40,500
Coal and coke	63,000	(for goods)	
Freehold land	12,50,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr)	30,000
Engineering tools	1,50,000	Transfer fees	6,500

Goodwill	3,75,000	P & L A/c (Cr)	67,000
Sundry debtors	2,66,000		
Bills receivable	1,34,500		
Advertisement	15,000		
Commission & Brokerage	67,500		
Business expenses	56,000		
Bank current A/c	20,000		
Cash in hand	8,000		
Debenture int. (for half year 30.6.05)	10,000		
Interest (banks)	91,000		
Preliminary expenses	10,000		
Calls-in-arrears	10,000		
	71,46,000		71,46,000

(i) The stock (valued at cost or Market value whichever is lower) as on 31.12.05 was Rs. 7,08,000.

(ii) Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 25,000.

(iii) Dividend declared 10% on paid up capital.

(iv) Charge depreciation: Plant & Machinery @ 5%; Engineering tools @ 20%; Patents @ 10%; and furniture & fittings @ 10%.

(v) Provide 2% on debtors as doubtful debts after writing off Rs. 21,500 as bad debts.

(vi) Write off preliminary expenses Rs. 5,000 and create debenture redemption reserve Rs. 50,000;

(vii) Provide Rs. 2,40.000 for income tax.

You are required to prepare Profit & Loss A/c for the year ended 31.12.2005 and Balance Sheet as on that date.

[Madras, B. Com, April 2002] C'S Inter Dec. 1990

[Ans: Gross Profit — Rs. 9,77,000; Net profit — Rs. 2,62,610; Surplus carried to Balance Sheet — Rs.-60,710; Dividend tax :Rs. 19,900; Balance Sheet total — Rs. 40,45,110]

17. The under mentioned balances appeared in the books of the Pioneer Flour Mills Co. Ltd. as on 31st December 2005.

	Rs.
Share capital (authorised and issued 60,000 shares of Rs. 10 each,	6,00,000
General reserve	2,50,000
Unclaimed dividends	6,526
Trade creditors	36,858

Buildings	1,00,000
Purchases	5,00,903
Sales	9,83,947
Manufacturing expenses	3,59,000
Establishment	26,814
General charges	31,078
Machinery	2,00,000
Motor vehicles	15,000
Furniture	5,000
Stocks	1,72,058
Book debts	2,23,380
Investments	2,88,950
Depreciation reserve	71,000
Cash balances	72,240
Directors' fees	1,800
Interim dividend	15,000
Interest (cr)	8,544
Profit & Loss A/c 1st Jan - 2005 (credit balance)	16,848
Staff provident fund	37,500

From these balances and the following information, prepare the company's Balance Sheet as on 31.12.2005 after preparing the Trading and Profit & Loss account for the year ended on that date.

(i) The stocks of Wheat and Flour on 31st Dec. 2005 were valued at Rs. 1,48,680.

(ii) Provide Rs. 10,000 for depreciation of gross block and Rs. 1,500 for the company's contribution to the staff provident fund.

(iii) Interest accrued on investment amounted to Rs. 2,750

(iv) A claim of Rs. 2,500 for workmen's compensation is being disputed by the company.

(v) Establishment includes Rs. 6,000 paid to the manager who is entitled to remuneration at 5% of profit as per Companies Act subject to a minimum of Rs. 10,000 per annum. You may make necessary adjustments.

[Madras, B.Com (A. F) Nov. 2007]

[Ans: Gross profit — Rs. 1,00,666; Net profit — Rs. 36,768; Surplus carried to Balance Sheet — Rs. 37,116; Dividend Tax :Rs. 1,500; Balance Sheet total — Rs. 9,75,000; Profit before remuneration — Rs. 46,768]

[Hints: (i) A claim for Rs. 2,500 for workmen's compensation is being disputed by the company should be treated as contingent liability.

(ii) The amount of Rs. 4,000 still due to the managing director has to be shown under current liabilities.

(iii) It is preferable to show fixed assets together as gross block less depreciation of Rs. 81,000. (i.e., 71,000 + 10,000)

UNIT – 7

VALUATION OF GOODWILL AND SHARES

Meaning and Definition of Goodwill - Factors affecting Goodwill - Need for valuation of Goodwill - Methods of calculating Goodwill - Valuation of Shares - Need for valuation of Shares - Factors affecting the value of Shares - Methods of valuing Shares

7.1 MEANING OF GOODWILL

The value of reputation earned by a business concern in monetary value is called goodwill. The excess of amount paid over the actual value of business is called goodwill.

Goodwill refers to a measure of the capacity of a business to earn above normal profits. It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in customers. It is intangible and invisible asset.

7.2 DEFINITION

Goodwill is the present value of the firm's anticipated excess earnings.

– Dr. Canning

The capacity of a business to earn profits in future is basically what is meant by the term goodwill.

– J.O. Magee

According to the Institute of Chartered Accountants of India, Goodwill is "intangible asset arising from business connections or trade name or reputation of an enterprise".

7.3 FACTORS AFFECTING GOODWILL

The following are the main factors which affect the value of goodwill of the firm.

1. Suitable location of the business

The place or locality which the business is situated determines the goodwill. A favourable location surrounding the company where many customers come enhances the value of goodwill.

2. Managerial skill

Special ability and skill of the persons engaged in the management adds to the value of goodwill. Goodwill is the money value of a continuation of a various benefits which are being received by the business because of the efficient management of the business.

3. Nature of the business

Nature of the business dealt with the risk attached, the competition involved and certain special privileges enjoyed by the firm such as special licenses, franchise, etc., determine the value of goodwill.

4. Risk of business

When the risk is less in the business, it creates more goodwill but if the risk is more, it will create less goodwill.

5. Favourable contracts

Possession of large number of profitable contracts for supply of goods or services enhances the value of goodwill.

6. Trend in the profit

Earning capacity of a business is the most important one. When there is an upward trend in the profits, naturally it is extra value over and above the net value of the assets employed.

7. Possession of patent and trademarks

The product, branded with trademarks, registered with the registrar of patents and Trademarks prevent and distinguishes rival products from its product. The object is to acquire monopolistic rights which create goodwill.

8. Capital

When the profits of a business is more in relation to the investment of capital, the value of goodwill is higher than the business earning less profits with huge amount of investment. In other words, the return on investment is more than the normal return the value of goodwill is higher.

9. Government Patronage

When a business enjoys the patronage of government, people are willing to buy the products of such a company. Thus goodwill increases.

10. Other factors

General economic conditions, favourable government regulation, good labour relations, absence of competition, political stability, availability of raw materials, favourable market conditions, long term contract, etc.

7.4 NEED FOR VALUATION OF GOODWILL

The need for valuation of goodwill depends on the form of business organization.

- **In the case of sole trader,** it is usually valued at the time of selling the business, so as to determine the amount payable by the buyer towards goodwill.
- **In the case of partnership there are several circumstances when goodwill has to be valued. They are**

1. When a new partner is admitted.
2. When a partner retires or dies.
3. When there is a change in the ratio of profit sharing and
4. When there is dissolution either by sale to a company or amalgamation with another firm.

- **In the case of limited companies**
    1. When two or more companies amalgamate.
    2. When one company takes over another.
    3. When a company wants to acquire controlling interest in another company and
    4. When government takes over the business.

7.5 ACCOUNTING TREATMENT FOR VALUATION OF GOODWILL

Goodwill is always paid for the future. Record of goodwill in accounting is made only when it has a value. When a business is purchased and an additional amount is paid more than the amount of assets, then the additional amount is called goodwill. It is treated as an asset and the payment made for it is a capital expenditure. It is treated as an intangible asset and thus depreciation is not charged. It is not a fictitious asset. It can be sold only with the sale of business itself.

7.6 METHODS OF CALCULATING GOODWILL

A. Simple Profit Method/Average profit method

Under average profit method, goodwill is valued on the basis of an agreed number of year's purchase of the average maintainable profits. The maintainable profit indicates the adjusted profit. To get the adjusted profit, the profit for the year has to be adjusted for the abnormal items.

A) Calculation of Actual Profit

Profit for the year	xxx
(+) Abnormal loss	xxx
	xxx
(-) Abnormal gain	xxx
Actual Profit	xxx

$$B)\ Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$$

C) Calculation of Adjusted Average Profit

Average profit	xxx
(-) Expenses to be paid	xxx
	xxx
(+) Exp. not to be paid	xxx
Adjusted Average Profit	xxx

1. Purchase of Past Profit Method

Under this method, goodwill is expressed as a purchase of a certain number of years profit based on the adjusted average profit of a given number of years.

Goodwill = Adjusted Average Profit x No. of years purchased

Illustration -1 Calculate goodwill on the basis of three years purchases of the last five years average profits. The profits for the last five years are: I year – ₹4,800; II year – ₹7,200; III year – ₹10,000; IV year – ₹3,000 and V year ₹5,000.

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{4,800 + 7,200 + 10,000 + 3,000 + 5,000}{5}$ = ₹6,000
Goodwill = Adjusted average profit x No. of years purchased	6,000 x 3 = ₹18,000

1. a) Weighted Average Profit Method

Illustration -2G Ltd. proposed to purchase the business carried on by Thiru Dass. Goodwill for this purpose is agreed to be valued at three years purchase of the profit of the past four years. The appropriate weights to be use are: 2013- 1; 2014 – 2; 2015 – 3 and 2016 – 4. Profits for these years were: 2013- ₹10,000; 2014 – ₹11,000; 2015 – ₹12,000 and 2016 – ₹15,000.

Compute the value of the goodwill of the firm.

Solution

Year	Profit	Weights	Product
2013	10,000	1	10,000
2014	11,000	2	22,000
2015	12,000	3	36,000

2016	15,000	4	60,000
		10	1,28,000

Weighted average profit $\frac{\text{Total of product}}{\text{Total of weights}}$	$\frac{1,28,000}{10}$ ₹12,800
Goodwill = Weighted average profit x No. of years purchased	12,800 x 3 = ₹38,400

2. Capitalization of Average Profit Method

$$Capitalized\ Profit = \frac{Adjusted\ Average\ \ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

Net tangible assets = Total assets – Goodwill – Liabilities

$$\boxed{\text{Good will = Capitalized profit – Net tangible assets}}$$

Illustration 3 The net profit for the 5 years is

Year	**2011**	**2012**	**2013**	**2014**	**2015**
Profit	10,000	15,000	15,000	20,000	30,000

The capital employed in the business is ₹1,50,000. Normal rate of return is 10%.

Calculate the goodwill on the basis of 4 years purchase of average profit and capitalization of average profit method.

Solution

Purchase of Average Profit Method

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{10,000 + 15,000 + 15,000 + 20,000 + 30,000}{5}$ = ₹18,000
Goodwill = Adjusted Average Profit x No. of years purchased	₹18,000 x 4 = ₹72,000

Capitalization of Adjusted Average Method

$Capitalized\ Profit = \frac{Adjusted\ Average\ \ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$	$\frac{18,000\ x\ 100}{10}$ = ₹1,80,000
Goodwill = Capitalized profit – Net Tangible Assets	₹1,80,000 – ₹1,50,000 = ₹30,000

B. Super Profits Method

Under super profits method, the super profit is multiplied by no. of years' purchases. Super profit is the difference between average profit and normal profit. Normal profit is the amount of profit which the concern expects on its investments in the same type of business. Normal Rate of return is the rate of profit generally earned by other similar firms in that industry.

Average capital employed = Assets – Liabilities
Normal profit = Average Capital Employed x Normal Rate of Return
Super profit = Adjusted Average Profit – Normal Profit

1. Purchase of Super Profit Method

Good will = Super profit x No. of years purchased

Illustration -4 From the following information calculate the value of goodwill according to super profit basis at 5 years purchase:

i) Average capital employed in the business ₹7,00,000

ii) Net trading profit of the firm for the past three years ₹1,07,600, ₹90,700 and ₹1,12,500 respectively.

iii) Rate of interest expected from capital 12%

iv) Remuneration to partners for their service ₹12,000 per annum

v) Sundry assets of the firm ₹7,54,762; Sundry liabilities ₹31,329

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{1,07,600 + 90,700 + 1,12,500}{3}$	₹1,03,600
	Less: Remuneration	₹12,000
Adjusted Average Profit		₹91,600
(-) Normal profit = Average Capital Employed x Normal Rate of Return	₹7,00,000 x 12%	₹84,000
Super profit		₹7,600
Goodwill = Super profit x No. of years purchased	₹7,600 x 5	₹38,000

Illustration -6 The balance sheet of R Ltd as on 31-3-2016 is as follows:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	1,00,000	Goodwill	10,000
8% Preference shares of ₹10 each	50,000	Fixed assets	1,80,000
Reserve (including provision for taxation ₹10,000)	1,00,000	Investments (5% Govt. loan)	20,000
8% debentures	50,000	Current assets	1,00,000
Creditors	25,000	Preliminary exp.	10,000
		Discount on debentures	5,000
	3,25,000		3,25,000

The average profit of the company (after deducting interest on debentures and taxes) is ₹31,000. The market value of the machinery included in the fixed assets is ₹5,000 more. Expected rate of return is 10%. Evaluate the goodwill of the company five times of the super profits.

Solution

Calculation of Adjusted Average Profit

Average profit given	31,000
Less: Non-trading profit	1,000
	30,000

Calculation of Average Capital Employed

Fixed assets	1,80,000	
(+) Increase	5,000	1,85,000
Current assets		1,00,000
		2,85,000
Less: 8% Debentures	50,000	
Creditors	25,000	
Provision for taxation	10,000	85,000
Average Capital Employed		2,00,000

Adjusted Average Profit (-) Normal profit (2,00,000 x 10%) Super profit Goodwill	₹30,000 ₹20,000 ₹10,000 Super profit x No. of years purchased 10,000 x 5 = ₹50,000

2. Annuity method

$$\boxed{\text{Good will} = \text{Super profit x Annuity table value}}$$

Illustration -7 The net profits of a company after providing for taxation for the past five years are ₹78,000, ₹82,000, ₹88,000, ₹93,000 and ₹99,000. The capital employed in the business is ₹8,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of the goodwill of the business on the basis of an annuity of super profits, taking the present value of an annuity of one rupee for the five years at 10% interest as ₹3.78.

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{78{,}000 + 82{,}000 + 88{,}000 + 93{,}000 + 99{,}000}{5}$	₹88,000
(-) Normal profit = Average capital employed x Normal rate of return	8,00,000 x 10%	₹80,000
Super profit	(88,000 - 80,000)	₹8,000
Goodwill = Super profit x Annuity table value	₹8,000 x 3.78	₹30,240

3. Capitalization of super profit method

Under this method, adjusted future maintainable profits are capitalized applying normal rate of return to arrive at the normal capital employed. Goodwill is taken as the difference between the normal capital employed and the actual capital employed.

Steps:

1. Estimating the future maintainable profits.
2. Determining the normal capital employed.
3. Determining the actual capital employed.
4. Computing the difference between normal capital employed and actual capital employed.

$$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

Illustration -9 Mr. K has invested a sum of ₹3,00,000 in his own business which is a very profitable one. The annual profit earned from his business is ₹60,000 which include a sum of ₹10,000 received as compensation for acquisition of a part of his business premises. The money could have been invested in deposit for a period of five years and earn 10% interest and he himself could earn ₹7,200 per annum in alternative employment. Considering 2% as fair compensation for the risk involved in the business calculate the value of goodwill of his business on capitalization of super profits at the normal rate of return.

Solution

Annual profit	60,000
(-) Compensation received	10,000
	50,000
(-) Salary	7,200
	42,800
(-) Normal profit (₹3,00,000 x 12%)	36,000
Super profit	₹6,800

Calculation of goodwill

$$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

6,800 x 100/ 12 = ₹56,667

Illustration 10 From the following, compute the value of goodwill under all methods. Average capital employed is ₹10,00,000. Normal rate of profit is 10%. Profit for 2014-₹1,40,000, 2015 – ₹1,22,000 and 2016 –₹1,70,000. Profit for 2015 has been arrived at after writing off abnormal loss of ₹10,000 and profit of 2016 include non-recurring income of ₹22,000. Goodwill is to be calculated on the basis of 3 years purchase of super profit. The present value of annuity is ₹2.4868.

Solution

Calculation of Actual Profit

2014 Profit		₹1,40,000
2015 Profit	1,22,000	
(+) Abnormal loss	10,000	₹1,32,000
2016 Profit	1,70,000	
(-) Non-recurring income	22,000	₹1,48,000

Total of Actual profit		₹4,20,000
Average profit	₹4,20,000/3	₹1,40,000

1. Purchase of past profit method

Goodwill	Adjusted Average Profit x No. of years purchased 1,40,000 x 3 = ₹4,20,000

2. Capitalization method

Goodwill = Capitalized profit – Net tangible assets

Capitalized profit	1,40,000 x 100/10	₹14,00,000
(-) Net tangible assets		₹10,00,000
Goodwill		₹4,00,000

Super Profit Method

Adjusted Average Profit		₹1,40,000
Normal profit = Average Capital Employed x NRR	10,00,000 x 10/100	₹1,00,000
Super profit		₹40,000

a) Purchase of super profit method	Super profit x No. of years purchased	₹40,000 x 3	₹1,20,000
b) Annuity method	Super profit x Annuity table value	₹40,000 x 2.4868	₹98,478
c) Capitalization method	$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn} x\ 100$	$\frac{₹40,000 \times 100}{10}$	₹4,00,000

7.7 VALUATION OF SHARES

The valuation of shares by the company becomes necessary where there is no market price of the shares. It involves the use of financial and accounting data, but much depends on the valuer's judgement, experience and knowledge. Any valuation based purely on quantitative data is not realistic.

The stock exchange prices of shares are not generally acceptable because the price quoted in the stock exchange is based on demand, supply, business cycle, etc. The action and opinion of investors and their fear, guess, investment policy etc. also reflect on the price of shares. Therefore accountant or valuer is frequently to place a proper value on the shares in a company.

7.8 NEED FOR VALUATION OF SHARES

Share of a limited company have to be valued for different purposes:

1. Amalgamation or absorption of companies
2. Conversion of shares of one class into another
3. Purchase and sale of controlling shares
4. Shares as security for loans and advances
5. Assessment of estate duty, wealth tax, etc.
6. Unquoted shares in the exchange.
7. Nationalization of companies.
8. To satisfy dissentient shareholders
9. Purchase and sale of business
10. In case of trust finance or investment trust companies.

7.9 FACTORS AFFECTING THE VALUE OF SHARES

The value of shares of a company is greatly affected by the economics, political and social factors, some of which are noted below:

1. The economic condition of the country
2. The nature of company's business
3. Other political and economic factors
4. The demand and supply of shares
5. Proportion of liabilities and capital
6. Rate of proposed dividend and past profits of the company
7. Yield of other related shares of the stock exchange
8. Nature of competition
9. Companies earning capacity
10. Goodwill of the company.

7.10 METHODS OF VALUING SHARES

1. Net Assets/ Intrinsic Value/ Break- up Value Method/ Real value method/ Asset backing method:

This method measures the value of the net assets of the company against the share. The shares are valued on the basis of real internal value of the assets of the company. This method

aims at finding out the possible value of the shares in the event of the company going into liquidation.

Calculation of amount available to equity shareholders or Net equity

Total assets realized		xxx
Less: **Liabilities paid**		
Debentures	xxx	
Creditors	xxx	
Preference shares	xxx	
Depreciation fund a/c	xxx	
(if revised value of fixed asset is not given)		
Other liabilities	xxx	xxx
Amount available to equity shareholders or Net equity		xxx

$$Value\ per\ share = \frac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$$

Illustration -12 From the following balance sheet you are required to value the equity shares under net assets method:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	3,00,000	Assets at book value	6,00,000
6% Preference shares of ₹100 each	2,00,000		
Liabilities	1,00,000		
	6,00,000		6,00,000

The market value of ½ of the assets is considered at 10% more than the book value and that of remaining ½ at 5% less than the book value. There was a liability of ₹5,000 which remains unrecorded. Assume preference shares have no priority over repayment of capital or dividend.

Solution:

Calculation of amount available to share holders

Assets (6,00,000 x ½)	3,00,000 + (3,00,000 x 10%)	₹3,30,000
(6,00,000 x ½)	3,00,000 - (3,00,000 x 5%)	₹2,85,000
		₹6,15,000
Less: Liabilities	(1,00,000 + 5,000)	₹1,05,000

Amount available	₹5,10,000
Less: Preference share capital	₹2,00,000
Balance amount payable to Equity shares	₹3,10,000

Value per equity share = 3,10,000/30,000 = ₹10.33

Or

Amount available ₹5,10,000 should be divided in Capital ratio (3:2)

Value per equity share = 5,10,000 x 3/5 = 3,06,000/30,000 = ₹10.2

Value per preference share = 5,10,000 x 2/5 = 2,04,000/2,000 = ₹ 102

Illustration -13 Given below is the balance sheet of Modern Ltd. as on 31st March 2013:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	6,00,000	Land	2,70,000
Creditors	80,000	Plant	1,00,000
P & L a/c	40,000	Stock	3,60,000
Bank overdraft	10,000	Debtors	1,60,000
Provision for taxation	1,00,000		
Proposed dividend	60,000		
	8,90,000		8,90,000

The net profits of the company, after deducting usual working expenses but before providing for taxation, were as under: 2012- 13 – ₹2,00,000; 2011- 12 – ₹2,20,000; 2010- 11 – ₹1,80,000; 2009- 10 – ₹2,20,000; 2008- 09 – ₹1,70,000.

On 31st March 2013, land were valued at ₹2,80,000 and plant at ₹1,20,000. Sundry debtors on the same date included ₹4,000 as irrecoverable. Having regard to the nature of business, a 10% return on net tangible capital invested is considered reasonable.

You are required to value the company's shares ex-dividend, your own valuation of goodwill may be based on five years purchase of annual super profits. (Tax rate is to be assumed at 50%)

Solution

Calculation of goodwill

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{2,00,000+2,20,000+1,80,000+2,20,000+1,70,000}{5}$	₹1,98,000

Less: Income tax	1,98,000 x 50%	99,000
Adjusted Average Profit		₹99,000
(-) Normal profit = Average Capital Employed x NRR	(8,90,000 – 2,50,000) x 10%	₹64,000
Super Profit		₹35,000
Goodwill = Super profit x No. of years purchased	35,000 x 5	₹1,75,000

Calculation of value per share under Net assets method

Land		2,80,000
Plant		1,20,000
Stock		3,60,000
Debtors		1,56,000
Goodwill		1,75,000
		10,91,000
Less: Bank O/D	10,000	
Provision for taxation	1,00,000	
Proposed dividend	60,000	
Creditors	80,000	2,50,000
Amount available to ESHs /Net assets		₹8,41,000

$Value\ per\ share = \dfrac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$	$\dfrac{8{,}41{,}000}{60{,}000}$	₹14.01

2. Yield Method/ Market value method

Small investors are generally interested in the income they earn from the company. The valuation of shares is made on the basis of yield it is called Yield method.

Calculation of Profit Available:

Particulars	**Amount**
Average profit	xxx
Less: Tax payable	xxx
	xxx
Less: General reserve	xxx
	xxx
Less: Preference dividend	xxx
(if preference share capital is given)	
Profit available for equity share holders	xxx

$$Expected\ Rate\ of\ Return\ (ERR) = \frac{Profit\ Available\ for\ Equity\ Share\ holders}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$$

$$Value\ per\ share = \frac{Expected\ Rate\ of\ Return}{Normal\ Rate\ of\ Return}\ x\ Paid\ up\ value\ per\ Equity\ Share$$

Note: Normal rate of return is given in the problem

Illustration -14 X Ltd declared a dividend of 25% on its shares of ₹100 each, ₹80 paid up. Its shares are quoted in the market at ₹200. Calculate the rate of return.

Solution

Normal rate of earnings = 25/100 x 80 = 20 x 100/200 = 10%

Illustration -15 A company had 1,000 equity shares of ₹100 each. Its expected profit would be ₹25,000. Its normal rate of return which similar business earns during the period is 10%.

Calculate value of equity shares.

Solution

$ERR = \frac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$	$\frac{25,000\ x100}{1,00,000}$	25%
$Value\ per\ share = \frac{ERR}{NRR}\ x\ Paid\ up\ value\ per\ Equity\ Share$	$\frac{25\ x\ 100}{10}$	₹250

Illustration -16 B Ltd has 10,000 equity shares of ₹10 each (₹8 paid) and ₹1,00,000, 6% preference shares of ₹10 each fully paid. The company has a practice of transferring 20% of the profit to general reserve every year. If the expected profit before tax is ₹2,00,000 and the rate of tax is 50%.

Calculate the value per equity share. (Normal rate of dividend is 20%).

Solution

Calculation of Profit Available

Expected profit	2,00,000
Less: Tax	1,00,000
	1,00,000
Less: General reserve (20% on 1,00,000)	20,000
	80,000
Less: Preference dividend (1,00,000 x 6%)	6,000
Profit Available	₹74,000

$ERR = \dfrac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital} \times 100$	$\dfrac{74,000 \times 100}{80,000}$	92.5%
$Value\ per\ share = \dfrac{ERR}{NRR} \times Paid\ up\ value\ per\ Equity\ Share$	$\dfrac{92.5 \times 8}{20}$	₹ 37

Illustration -19 On 31st Dec.2016, the balance sheet of a company showed the following positions:

Liabilities	Amount	Assets	Amount
Share capital of ₹10 each	4,00,000	Fixed assets	5,00,000
Reserve	90,000	Current assets	2,00,000
P & L a/c	20,000	Goodwill	40,000
5% Debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31- 12- 2016, the fixed assets were independently valued at ₹3,50,000 and the goodwill at ₹50,000. The net profits for the three years were 2014 – ₹51,600; 2015 – ₹52,000 and 2016 – ₹51,650. From the profit 20% was placed to reserves. The fair rate of return on investment may be taken at 10%.

Compute the value of the shares by i) Net assets method and ii) Yield method.

Solution

i) Net Assets Method

Fixed assets		3,50,000
Current assets		2,00,000
Goodwill		50,000
Total		6,00,000
Less: Current liabilities	1,30,000	
5% Debentures	1,00,000	2,30,000
Net assets		₹3,70,000

$Value\ per\ share = \dfrac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$	$\dfrac{3,70,000}{40,000}$	₹9.25

ii) Yield Method

Calculation of Profit Available

Expected profit (1,55,250 / 3)	₹51,750
Less: General reserve (20% on 51,750)	10,350
Profit available	₹41,400

$ERR = \frac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$	$\frac{41,400\ x100}{4,00,000}$	10.35%
$Value\ per\ share = \frac{ERR}{NRR}\ x\ Paid\ up\ value\ per\ Equity\ Share$	$\frac{10.35\ x\ ₹10}{10}$	₹ 10.35

3. Earning Capacity Method

Under earning capacity method, the valuation depends upon the comparison of the company's earning capacity and the normal rate of return on capital employed. This method relates the value of the shares to the real efficiency of the company and also measured by the profitability of the company.

Profit earned	Average profit + Interest on debentures
Capital employed	Assets realized – Liabilities paid except debentures

$$Rate\ of\ Earnings = \frac{Profit\ Earned}{Capital\ Employed}\ x\ 100$$

$$Value\ per\ share = \frac{Reta\ of\ Earnings}{Normal\ Rate\ of\ Return}\ x\ Paid\ up\ Value\ per\ Equity\ Share$$

4. Fair value method

There are some accountants who do not prefer to use Net Assets Method or Yield Value Method for ascertaining the correct value of shares. They however prefer the Fair Value Method which is the average of net asset value and yield value and same provides a better indication about the value of shares than the other methods.

$$Value\ per\ share = \frac{Value\ as\ per\ Net\ Asset\ Method + Yield\ Method}{2}$$

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Goodwill is:

   (a) Tangible Asset **b) Intangible Asset**

   (c) Fictitious Asset d) Fixed Asset

2. Super profit is the difference between:

   (a) Capital employed and average capital employed

   (b) Average Profit and Normal Profit

   (c) Current year profit and Last year profit

   d) Capital employed and normal profit

3. The average return of similar concerns should be considered as:

   (a) Average profit b) Expected rate of return

   (c) Normal rate of return d) Super profit

4. Under net assets method, the value of a share depends on the amount that would be available to:

   (a) Equity Shareholders b) Preference shareholders

   (c) Debenture holders d) Outside liabilities

5. For calculation the value of equity share by intrinsic value method, it is essential to know:

   (a) Normal rate of return **b) Net assets**

   (c) Expected rate of return d) Super profit

6. The term "capital employed" means:

   (a) Gross Capital Employed b) Net Capital Employed

   (c) Average Capital Employed **d) Any of these**

7. Under the yield method, the value of equity share is calculated on the presumption that the company would be:

   (a) Wound-up **b) Continued**

   (c) Transferred d) None of the above

8. For calculating the value of an equity share by yield method, it is essential to know:

   (a) Expected rate of return b) Capital employed

   (c) Called up of equity share capital d) Net assets

9. For calculating price earnings ratio, it is essential to know

   a) **Market value per share** b) Nominal value per share

   c) Paid up value per share d) Normal rate of return

10. Depreciation fund is treated as liability when

    a) **Revised value for fixed assets is not given** b) Revised value for fixed assets is given

    c) Appeared in liability side d) Deducted from asset

11. Debenture is treated as liability under

    a) Yield method b) **Net assets method**

    c) Earning capacity method d) Fair value method

12. Goodwill is the most ______ form of asset

    a) Realizable b) **Unrealizable**

    c) Tangible d) Liquid

13. Fair value of shares means average of

    a) **Intrinsic value and yield value** b) Yield value and earning capacity

    c) Earning capacity and intrinsic value d) All the above

14. Goodwill is the capitalized value of

    a) **Owner's capital** b) Market value

    c) Super profit d) Contracts on hand

15. _______ basis of valuation of shares is concerned with the asset backing per share

    a) **Net assets method** b) Earning capacity method

    c) Fair value method d) Super profits method

16. Under yield method of valuing shares, which of the following should be deducted from average profit?

    a) General reserve, preference dividend and income tax

    b) Preference dividend, income tax and general reserve

    c) **Income tax, general reserve and preference dividend**

    d) Income tax, preference dividend and general reserve

REVIEW QUESTIONS

(A) Answer in short

1. What is called good will?
2. What is the accounting treatment for good will?
3. What is super profit method of calculating good will?
4. What is normal rate of return?
5. What is intrinsic value of shares?
6. Write a note yield value of shares.
7. How do you determine fair value of shares?

(B) Answer in detail

1. Explain the factors affecting good will.
2. Discuss why good will is need for a business organization.
3. Explain and illustrate the different methods of calculating good will.
4. Discuss different methods of valuing equity shares.

EXERCISES

VALUATION OF GOODWILL

Simple Average Method

1. Calculate the amount of goodwill on the basis of five years purchase of last six years average profit. The profits for the last six years are ₹22,000, ₹32,000, ₹20,000, ₹30,000, ₹16,000 and ₹30,000 respectively.

2. K & Co. decided to purchase a business for ₹2,40,000. Its profits for the last four years were 2013 – ₹60,000; 2014 – ₹75,000; 2015 – ₹72,000 and 2016 – ₹69,000. The owner of the business was personally managing it. A manager to replace him was has to be paid ₹9,000 p.a. Calculate the value of goodwill if it is valued on the basis of the average net profit for the last four years.

   (Ans: ₹60,000)

SUPER PROFIT METHOD - PURCHASE OF SUPER PROFIT METHOD

3. The net profit for the five years is:

Year	**2012**	**2013**	**2014**	**2015**	**2016**
Profit	10,000	15,000	15,000	20,000	30,000

The capital employed in the business is ₹1,50,000 and normal rate of return is 10%. Calculate the value of goodwill on the basis of 4 years purchase of super profit.

(Ans: ₹12,000)

4. State with reasons whether the following statement is correct or not Sunil's financial position is as follows:

   a) Sundry assets ₹9,27,342

   b) Current liabilities ₹52,492

   c) Average net profit of the last four years ₹1,20,500

   d) Average capital employed ₹9,00,000

   e) Partner's average annual remuneration ₹18,000

   f) The goodwill valued at four years purchase for super profit is ₹50,000

   Therefore the expected rate of return is 15%.

SUPER PROFIT METHOD -CAPITALIZATION OF SUPER PROFIT

5. Mr. K has invested a sum of ₹3,00,000 in his own business which is a very profitable one. The annual profit earned for his business is ₹60,000 which include a sum of ₹10,000 received as compensation for acquisition of a part of his business premises. The money could have been invested in deposits for a period of 5 years and over at 10% interest and he could earn ₹7,200 per annum in alternative employment. Considering 2% as fair compensation for risk involved in the business, calculate the value of goodwill of his business on capitalization of super profits at the normal rate of return.

SUPER PROFIT METHOD - ANNUITY METHOD

6. From the following particulars, find out the value of goodwill as per annuity method:

   a) Capital employed ₹3,00,000

   b) Normal rate of return 10%

   c) Present value of ₹1 for 5 years at 10% at 3.78

   d) Normal profit for five years: I year – ₹30,000; II year – ₹32,000; III year – ₹34,000; IV year – ₹36,000 and V year – ₹38,000; Non-recurring income ₹1,600; Non-recurring expenses ₹1,000.

7. The net profit of a company after providing for taxation, for the past 5 years are ₹40,000; ₹42,000; ₹46,000; ₹45,000 and ₹47,000. The capital employed in the business is ₹4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profit for the next 5 years.

   i) Calculate goodwill on 5 years purchase of super profit

   ii) Calculate goodwill under capitalization method

iii) Calculate goodwill under annuity method of super profit taking the present value of annuity of one rupee for 5 years at 10% interest as ₹3.78

VALUATION OF SHARES - Net Assets Method

8. From the following information, calculate the value of each category of equity shares of the company based on deemed liquidation.

Total assets ₹18,50,000;

External liabilities ₹2,50,000;

Share capital – 14% Preference shares of ₹10 each fully paid ₹5,00,000

40,000 Equity shares of ₹10 each fully paid ₹4,00,000

60,000 Equity shares of ₹10 each ₹7.50 paid ₹4,50,000

9. Find out the value of equity share.

Balance sheet

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹100 each	3,00,000	Debtors	80,000
6% Preference shares of ₹100 each	1,50,000	Stock	1,40,000
General reserve	40,000	Cash	22,000
P & L a/c	10,000	Land	2,05,000
Bank loan	50,000	Furniture	30,000
Creditors	15,000	Goodwill	70,000
		Discount on shares	12,000
	5,65,000		5,65,000

The value of assets is assessed as follows:

- Furniture is to be depreciated at 10%
- Value of stock, land and goodwill is estimated at ₹1,20,000, ₹2,50,000 and ₹80,000 respectively.
- Debtors are expected to realize 80% of book value.

YIELD METHOD

10. From the following information, calculate the value of an equity share:

a) The paid up share capital of a company consists of 1,000, 15% preference shares of ₹100 each and 20,000 equity shares of ₹10 each

b) The average annual profits of the company after providing for depreciation and taxation amounted to ₹75,000. It is considered necessary to transfer ₹10,000 to general reserve before declaring any dividend.

c) The normal return expected by investors on equity shares from the type of business carried on by the company is 10%

(Ans: ₹25)

11. The following is a balance sheet of a company as on 31st Dec.2016:

Liabilities	**Amount**	**Assets**	**Amount**
Equity share capital of ₹100 each	12,00,000	Fixed assets	14,60,000
Reserves and surpluses	2,50,000	Investments (5% Securities)	1,20,000
Creditors	5,60,000	Current assets	5,40,000
Provision for taxation	1,43,000	Preliminary expenses	33,000
	21,53,000		21,53,000

The provision for taxation for the current year is 55% of net profit. Return on capital employed in this industry is 10%. Ascertain the yield value of share.

(Ans: ₹95.75)

12. From the following information, calculate the value per equity share under yield method:

a) 2,000, 9% Preference shares of ₹100 each ₹2,00,000

b) 50,000 Equity shares of ₹10 each, ₹8 per share paid up ₹4,00,000

c) Expected profits per year before tax ₹2,18,000

d) Rate of tax 50%

e) Transfer to general reserve every year 20% of the profit

f) Normal rate of earnings 15%

13. B Ltd. Has 10,000 equity shares of ₹10 each (₹8 paid up) ₹1,00,000, 6% preference shares of ₹10 each fully paid. The company has the practice of transferring 20% of profit general reserve every year. The expected profit before tax is ₹2,00,000. The rate of tax is 50%. Normal rate of dividend is 20%. Calculate value per share under yield method.

FAIR VALUE METHOD

14. From the following particulars calculate fair value of an equity shares assuming that out of the total assets those amounting to ₹41,00,000 are fictitious.

a) Share capital: 5,50,000, 10% Preference shares of ₹100 each fully paid; 55,00,000 Equity shares of ₹10 each fully paid

b) Liability to outsiders ₹75,00,000

c) Reserves and surplus ₹45,00,000

d) The average normal profit after taxation earned every year by the company during the last 5 years ₹85,05,000

e) The normal profit earned on the market value of fully paid equity shares of similar companies is 12%

15. The following information is obtained from the books of Sunrise Company Ltd as on 31st March 16.

10,000 equity shares of ₹10 each fully paid up ₹10,00,000

10,000 equity shares of ₹10 each ₹7.50 per share called and paid up ₹75,000

10,000 equity shares of ₹10 each ₹5 per share called and paid up ₹50,000

General reserve ₹1,35,000

Liabilities to sundry parties ₹55,000

Fixed assets less depreciation ₹1,67,000

Commission on issue of shares ₹6,000

Preliminary expenses ₹9,000

Floating assets ₹2,33,000

It is estimated that the normal average profit less tax of the company will be maintained at ₹36,000 and the expected rate for capitalization purpose is 8%.

Calculate the value of each type of share by the assets backing method (excluding goodwill) and also by the earning capacity method. Assume dividends are declared on paid up capital.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. The following in the balance sheet of XYZ ltd. as on 31.12.2010.

Liablities	Amt	Assets	Amt
50,000 equity shares of Rs.10 each	5,00,000	Goodwill	40,000
		Plant and Machinery	2,00,000
Profit and Loss A/c(Cr.)	1,10,000	Land and Building	1,50,000
Sundry creditors	40,000	Investments	60,000
Bills payable	10,000	Stock	1,00,000
		Debtors	80,000
		Bank A/c	20,000
		Preliminary expenses	10,000
	6,60,000		6,60,000

Ascertain the value of each equity share of the company using intrinsic value method.

[Alagappa, B.Com, Nov,2016]

2. Average capital employed in karta Ltd., Rs.35,00,000 whereas net trading profits before tax for the last three years have been Rs. 14,75,000, Rs. 14,55,000 and 15,25,000. In these three years, the managing Director was paid a salary of Rs.10,000 p.m. but now he would be paid a salary of Rs.12,000 P.M. Normal rate of return expected in the industry in which K.Ltd is engaged is 18% Rate of Tax is 50%. Calculate goodwill on the basis of three years purchase of the super profits.

[Alagappa,B.Com,Nov,2016]

3. Find out the amount of goodwill of Mallika Ltd. on the basis of 4 years purchase of weighted average profit after assigning weights 1,2,3,4, and 5 serially to the profits. Profits for the last years as follows.

Year:	2004	2005	2006	2007	2008
Profit:	15,000	18,000	22,000	25,000	27,000

[Madurai,B.Com,Nov,2013]

4. The following Information is given
   1. Average capital employed Rs.1,00,000
   2. Present value of the annuity of Re.1 for 5 years at 10% is Rs.3.78
   3. Normal rate of Profit 10%.
   4. Net profits for five years are

5. I year Rs.15,000; II year Rs.16,000; III year Rs.17,000; IV Year Rs. 18000 and V year Rs.20,000. Profits included non recurring profit on an average basis of Rs.1,500 out of which Rs.300 had the recurring tendency. Remuneration of properitor is Rs.800 p.a which is not charged in profit and loss. Find out goodwill.
    1. As per 5 years purchase of super profit
    2. As per annuity method
    3. As per capitalization of profit method.

[Madurai,M.Com, Nov, 2015]

6. Mohinderruns a cosmetic store. Her net assets on 31st December 2010 amounted to Rs. 2,00,000. After paying a rent of Rs. 2,000 a year and salary of Rs. 10,000 to her manager she earns a profit of Rs.50,000. Her landlord is interested in acquired the business. (12% is considered to be a reasonable return on capital employed). Calculated the value of goodwill at 3 years purchase of a super profit.

The following the particulars are available in respect of the business carried on by trader.

(i) profit earned for three years:

2005 – 06	2,00,000
2006 – 07	2,40,000
2007 – 08	2,20,000

(ii) Normal rate of return 10%

(iii) Capital employed Rs. 12,00,000

(iv) Present value of an annuity of one rupee for 5 years at 10% = 3.78.

(v) the profit included non-recurring profit on an average basis of Rs. 3,000

You are required to calculate the value of goodwill (1) as per annuity method (2) as per capitalization method by using Average Capital employed.

[Madurai,M.Com, Nov, 2015]

7. Madhan & Co. decided to purchase a business for Rs. 2,40,000. Its profits for the last four years were 1995 Rs. 60,000; 1996 — Rs. 75,000; 1997 — Rs. 72,000 and 1998 — Rs. 69,000. The owner of the business was personally managing it. A manager to replace him has to be paid Rs. 9,000 p.a.

Calculate the value of goodwill if it is valued on the basis of three years' purchase of the average net profit for the last four years.

(Maduari, B.Com, 2003)

[Ans: Goodwill — Rs. 1,80,000]

8. The following particulars are available in respect of the business carried on by Bal Thakrey Ltd.

(a). Profit earned : 1996 — Rs. 50,000; 1997 — Rs. 48,000; and 1998 — Rs. 52,000.

(b). Profit of 1997 is reduced by Rs. 5,000 due to stock destroyed by fire and profit of 1996 included a non-recurring income of Rs. 3,000.

(c). Profit of 1998 include Rs. 2,000 income on investment

(d). The stock is not insured and it is thought prudent to insure the stock in future. The insurance premium is estimated at Rs. 500 p.a.

(e). Fair remuneration to the proprietor (not taken in the calculation of profits) is Rs. 10,000 p.a.

You are required to calculate the value of goodwill on the basis of 2 years purchase of average profits of the last three years.

(Madras, B.Com (CS) (SY4B) Ap 2007;

B.Com., B.Com (CS) Nov. 2007; 1 M.Com., Ap 2005 April 2003]

[Ans : Goodwill — Rs. 79,000; Future maintainable profit — Rs. 39,500]

9. 'X', who has been carrying on a retail business for the past 15 years, intends selling his business on 31st Dec. 2001. It is agreed between 'X' and the buyer that the buyer pay Rs. 50,000 for Goodwill. From the following particulars supplied by 'X' ascertain the amount of goodwill if it were based on three years' purchase of the average profits of the last four years including the profit of 2001.

   Profits earned :

   1998 :Rs.. 10,000; 1999: Rs. 12,000 ; 2000 : Rs. 15,000 ; 2001 : Rs. 18,000.

   At the time of acquiring ₹X"s business, the buyer was employed as the manager of a similar business on a salary of Rs. 300 per month. The profit of 2001 included income from investments Rs. 1,000 and profits of 1998 has been reduced by Rs. 3,000 being speculation loss. Similarly the profits of 2000 had been reduced by Rs. 5,000 owing to loss from betting.

Periyar, B.Com (old) Nov. 2005]

[Madras I M. Conn Oct. 2003]

[Ans : Goodwill : Rs. 35,700]

10. Mr. Viswanath has invested Rs. 4,00,000 in a business. His net profit before tax at 50% is Rs. 1,60,000, out of which Rs. 12,000 annual rent of own building used as business premises and Rs. 24,000 p.a. as his salary were not deducted. For starting this business, he left a job fetching him a monthly salary of Rs. 2,000. Before starting this business, he had invested this amount on 10% securities. Fair compensation for the risk involved is 2%. Calculate the value of goodwill on the basis of three years purchase of the average annual super profits.

Madras, B.Com.,B.Com (AF) Nov. 2009]

(Ans: Adjusted annual profit—Rs. 68,000; Super profit—Rs. 20,000; Goodwin — Rs. 60,000]

Hint: Rent on own building should be ignored and Building value should be assumed to the included in the investment of Rs. 4.00.000.

11. From the following information calculate the value of goodwill on the basis of three years purchase of the super profit:
    (i) Average capital employed in the business Rs. 7,00,000.
    (ii) Net trading profit of the firm for the past three years Rs. 1,07,600: Rs. 90,700 and Rs. 1,12,500.
    (iii) Rate of interest expected from capital having regard to the risk involved 12%.
    (iv) Fair remuneration to the partner for their services Rs. 12,000 per annum.
    (v) Sundry assets of the firm -- Rs. 7,54,762
    (vi) Sundry liabilities of the firm— Rs. 31,329

Thiruvalluvar, B.Com., Nov. 2006]

[Madras, 1st M.Com(ICE) Oct. 2008;B.Com.,

B.Com(CS)., Ap. 2008; B.C.S. Oct. 2003]

[Ans: Super profit — Rs. 7,600; Goodwill — Rs. 22,800]

12. From the following particulars relating to the business of Mr. Rahul, compute the value of goodwill on the basis of 3 years purchase of super profits taking average of last four years:

    Capital invested — Rs. 1,20,000

    Market rate of return on investment —12%

    Rate of risk return on capital invested — 3%

    Managerial remuneration of the proprietor, if employed elsewhere Rs. 30,000 p.a. Trading results:

	Rs.
1995 Profit	60,000
1996 Profit	72,000
1997 Loss	8,000
1998 Profit	88,000

[Madras, B.Com., April 2001]

[Ans: Super profit — Rs. 5,000; Goodwill — Rs. 15,000]

13. The following particulars are available in respect of the business carried on by John.
    (a) Capital invested — Rs. 50,000
    (b) Trading results:

	Rs.
1990 Profit	12,200
1991 Profit	15,000
1992 Loss	2,000
1993 Profit	21,000

(c) Market rate of interest on investment 8%

(d) Rate of risk return on capital invested in business 2%

(e) Remuneration from alternative employment of the proprietor (if not engaged in business) — Rs. 3,600 p.a.

Compute the value of goodwill of the business on the basis of 3 years purchase of super profit taking average of the last four years.

[Bharathiar, B.Com, Ap 2005 Madras, B.Com.,Ap 2007; 1st M.Com: (CA) Nov. 2005; B.C.S. Nov. 2004; M.Com., April 2004; I M.Com., Oct. 2002]

[Ans: Goodwill — Rs. 8,850]

14. Ramesh runs an automobile repair shop from rented premises. He pays a rent of Rs. 15,000 per month. Apart from non-skilled workers, he employs a skilled engineer at a salary of Rs. 12,000 per month. Ramesh made a profit of Rs. 6,50,000 before taxes for the year ended 31.3.97 on which date his net assets were worth Rs. 30,00,000.

The owner of the premises is very keen to get it back from Ramesh to enable his son, an automobile engineer, to carry on business. Ramesh is willing to sell his business provided he receives fair compensation.

The premises are worth Rs. 5,00,000. If 15% were to be a reasonable return on capital employed in this line of business, how much goodwill can Ramesh expect on the basis of 3 years purchase of super profits?

[Madras, B.Com.(1CE) (PZG) Oct. 2008]

[Ans: Goodwill — Rs. 9,15,000; Expected Profit :Rs. 8,30,000; Normal Profit : Rs. 5,25,000 (35,00,000 x 15%)]

15. The following is the balance sheet of A Ltd., as on 31st December 1999:

Liabilities	Rs.	Assets	Rs.
6% Preference shares		Goodwill	1,50,000
of Rs. 10 each	1,50,000	Land	3,75,000
Equity Shares of		Plant	1,50,000
Rs. 10 each	4,50,000	Investments	3,00,000
Profit and Loss A/c	7,50,000	Stock	2,50,000
6% Debentures	3,00,000	Debtors	3,00,000
Sundry Creditors	1,85,000	Bank	3,00,000
		Preliminary Expenses	10,000
	18,35,000		18,35,000

Additional information's are:

(a) Debentures are to be redeemed in full before business is taken over by the new company.

(b) The investments will be sold and the proceeds so realized will be used in partly redeeming debentures.

(c) The value of land is to be ascertained on the basis of 8% return. The cur' rent rental value is Rs. 50,400.

You are required to calculate the amount of capital employed in the business for valuation of goodwill.

[Madras, B.CS. (ICE) May 2001]

[Ans: Capital Employed :Rs. 11,45,000; Land Value :Rs. 6,30,000]

16. The Balance Sheet of X Ltd. as on 31.3.1996 is as follows:

Liabilities	Rs.	Assets	Rs.
5,000 8% pref. shares of Rs. 10 each	50,000	Goodwill	10,000
10,000 equity shares of Rs. 10 each	1,00,000	Fixed assets	1,80,000
Reserves (including provisions		Investments	
for taxation Rs. 10,000)	1,00,000	(5% Govt. loan)	20.000
8% Debentures	50,000	Current assets	1,00,000
Creditors	25,000	Preliminary expenses	10,000
		Discount on debentures	5,000
	3,25,000		3,25,000

The average profit of the company (after deducting interest on debentures and taxes) is Rs. 30.000. The market value of the machinery included in fixed assets is Rs. 5,000 more. Expected rate of return is 10%. Evaluate the goodwill of the company at 5 times of the super profit.

[Periyar, B.Com., Ap 2005] [Madras, 1st M.Com., (KCA IA) Nov. 2009;

[Ans: Average capital employed Rs. 1,85,500; Super profit — Rs. 10,450; Goodwill — Rs. 52,250]

[Hint: Reduce half of average profit (less income on investment) to ascertain average capital employed]

17. Mr. Wiseman has invested a sum of Rs. 2,00,000 in his own business which is a very profitable one. The annual profit earned from his business is Rs. 45,000 which includes a sum of Rs. 10,000 received as compensation for a part of his business premises.

As a alternative to his engagement in his business, he could have invested the money in long-term deposit, with bank earning a normal rate of interest of 10% and also could engage himself in employment thereby getting an annual salary income of Rs. 7,200.

Considering 2% as fair compensation for the risk involved in the business, calculate the value of GoodWill of his business on capitalisation of super profits at the normal rate of interest. Ignore taxation.

[Madras, B.Com., Oct. 2001]

(Ans : Super Profit : Rs. 3,800 (27,800 — 24,000); Goodwill :Rs. 31,667)

18. The net profits of a company after providing for taxation, for the past five years are Rs. 40,000; Rs. 42,000; Rs. 45,000; Rs. 46,000 and Rs. 47,000. The capital employees, in the business is Rs. 4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of goodwill of the business on the basis of an annuity of super profits, taking the present value of annuity of one rupee for 5 years @ 10% interest as Rs. 3.78.

[Madras, M.Com.(KCAIA)Ap. 2009; B.Com (CS) (SY4B) Nov. 2007;

B.Com., April 2005 (2 times); Nov. 2004; 2nd M.Com. (ICE) Oct. 2005]

[Ans: Super profit — Rs. 4,000; Goodwill — Rs. 15,120]

19. From the following particulars, find out the value of Goodwill as per annuity method:

(a) Capital employed :Rs. 3,00,000

(b) Normal rate of return : 10%.

(c) Present value of Re. 1 for 5 years at 10% at 3.78.

(d) Normal profit for 5 years :

1styearRs. 30,000; IInd year Rs. 32,000; IIIrd year : Rs. 34,000; IVthRs. 36,000; Vth year : Rs. 38,000

Non-recurring Income :Rs. 1,600;

Non-recurring expenses : Rs. 1,000.

[Madras, B. Com., April 2003]

[Ans : Goodwill : Rs. 12,852 (3,400 x 3.78)]

20**.** The following information is given:

(a) Capital employed Rs. 1,50,000;

(b) Normal rate of profit 10%

(c) Present value of annuity of Re. 1 for 5 years at 10% is 3.78.

(d) Net profit for 5 years:

I year	14,400
II	15,400
III	16,900
IV year	17,400
V year	17,900

The profits include non-recurring prof t on an average basis of Rs. 1,000 out of which it was deemed that even non-recurring profit had a tendency of appearing at the rate of Rs. 600 per annum. You are required to calculate goodwill:

(i) As per annuity method

(ii) As per 5 years purchase of super profit

[Madras, B.Com., April 2002]

[Ans: Average expected profit — Rs. 16,000; Super profit — Rs. 1,000;

(i) Goodwill as per annuity method — Rs. 3,780;

(ii) Goodwill as per purchase of super profit — Rs. 5,000]

21. The following particulars are available in respect of the business carried on by a trader:

(a) Profit earned :

1987 — Rs. 50,000; 1988 — Rs. 60,000; 1989 — Rs. 55,000

(b) Normal rate of Profit 10%

(c) Capital employed Rs. 3,00,000

(d) Present value of an annuity of one rupee for five years at 10% is Rs. 3.78.

(e) The profits included non-recurring profits on an average basis of Rs. 4,000 out of which it was deemed that even Non-recurring profits had a tendency of appearing at the rate of Rs. 1,000 P.A.

You are required to calculate goodwill:

(i) as per Five years purchase of Super profits

(ii) as per Capitalization of Super Profit method and

(iii) as per Annuity method.

[Madras, B.Com.(AF) Nov. 2009; 1 M.Com. Oct. 2001]

22. From the following information calculate the value of goodwill:

(a). Average capital employed Rs. 12,00,000.

(b). Company declares 15% dividend on the shares of Rs. 20 fully paid, which is quoted in the market at Rs. 25.

(c). Sundry assets of the firm Rs. 15,85,000 and sundry liabilities Rs. 62,654 and

(d). Net trading profits of the firm for the past three years Rs. 2,15,200; Rs. 1,81,400; and Rs. 2,25,000]

[Madras, M.Com (ICE) (ZHC) May 2007]

[Ans: Normal rate of return — 12% i.e., $\left\{15\% \times \frac{20}{25}\right\}$

Capitalised value of business — Rs. 17,26,667;

Goodwill — Rs. 2,04,321]

Hint: Average capital employed should be ignored.

23. The Balance Sheet of Tip Top manufacturing Cc. Ltd. discloses the following financial position as at 31.3.1998

Liabilities	***Rs.***	***Assets***	***Rs.***
Paid up capital: 90,000 shares of Rs. 10		Goodwill at cost Land & Buildings at	90,000
each fully paid	9,00,000	cost less depreciation	5,25,000
Capital reserve	1,80,000	Plant & Machinery at	
Sundry creditors	2,13,000	cost less depreciation	2,70,000
Provision for taxation	1,65,000	Stock at cost	3,45,000
Profit & Loss A/c	78,000	Book debts 2,94,000	
		Less: Provision for	
		bad debts 9,000	2,85,000
		Cash at bank	21,000
	15,36,000		15,36,000

You are required to value the goodwill of Tip lop manufacturing company for which purpose the following information is supplied:

(i) Adequate provision has been made in the accounts for income tax and depreciation.

(ii) Rate of income tax may be taken at 5O%.

(iii) The average rate of dividend declared by the company for the past five years was 15%.

(iv) The reasonable return on capital invested in the class of business done by the company is 12%.

[Madras, B.Com (A & F) Nov. 2007; BCS Oct 2004]

[Ans: Net tangible assets — Rs. 10,68,000; Total value of business — Rs. 13,75,000 i.e., $\left\{\frac{1,65,000}{12\%}\right\}$ Goodwill — Rs. 3,07,000]

[Hint: Actual profit during the year is assumed to be equal to the provision for taxation since the rate of income tax is 50% tax figure of Rs. 78,000 in the P & L A/c seems to be only the balance left in this account after payment of dividend]

24. From the following Balance Sheet, you are required to value the equity shares:

Liabilities	*Rs.*	*Assets*	*Rs.*
2,000 6% pref. shares of Rs.100 each	2,00,000	Assets at book values	6,00,000
30,000 equity shares of Rs. 10 each	3,00,000		
Current liabilities	1,00,000		
	6,00,000		6,00,000

The market value of 50% of the assets is considered as 10% more than the book values and that remaining 50% at 5% less than the book values. There was a liability of Rs. 5,000 which remained unrecorded. Assume preference shares have no priority as to the repayment of capital or dividend.

[Madras, B.Com.(PZ3A) Nov. 2005; 1st M.Com. Nov. 2004;
[Madras, B.Com(CS) (SY4B) Ap. 2009; Nov. 2008; B. Com. (PZ3A) Nov. 2005;
1st M.Com. Nov. 2004; 2nd M.Com.(ICE) Oct. 2000]

[Ans: Net assets — Rs. 5,10,000; Value of each preference shares of Rs. 100 and that of equity share Rs. 10.33 (3,10,000 ÷ 30,000)]

[Hint: When net assets are adequate, preference capital is repaid and balance goes to equity shareholders whether preference shareholders have preference or not]

25. The following is the balance sheet of S' company limited as on 31st Dec. 1998.

Liabilities	**Rs.**	**Assets**	**Rs.**
3,000 equity shares of Rs. 100 each	3,00,000	Cash in Hand	2,000
		Cash at Bank	20,000
1,500 8% preference shares of Rs. 100 each	1,50,000	Sundry debtors	80,000
		Stock-in-trade	1,40,000
General reserve	40,000	Land & Building	2,05,000
Profit & Loss A/c	10,000	Furniture	30,000
Bank loan	50,000	Goodwill	70,000
Sundry creditors	15,000	Discount on shares	18,000
	5,65,000		**5,65,000**

The value of assets is assessed as follows:

(i). Furniture to be depreciated at 10%.

(ii). Value of stock-in-trade, Land and buildings and goodwill is estimated at Rs. 1,20,000; Rs. 2,50,000 and Rs. 80,000 respectively.

(iii). Debtors are expected to realise 80% of book value. Find out the value of equity shares.

[Madras, B.C.S. Oct. 2002]

[Ans: Value per equity share — Rs. 116;Net assets Rs. 3,48,000]

26. The summarized Balance sheet of BK Ltd., as at 31st March 1997, is as follows :

Balance Sheet

Liabilities	Rs.	Assets	Rs.
30,000 equity shares of Rs. 10 each fully paid	3,00,000	Goodwill	70,000
10,000 equity shares of Rs. 10 each Rs. paid up	80,000	Fixed Assets	4,50,000
Reserves	1,80,000	Current Assets	2,20,000
11% Debentures	1,00,000	Preliminary expense	10,000
Current Liabilities	90,000		
	7,50,000		**7,50,000**

The goodwill is independently valued at Rs. 50,000 and fixed assets at Rs. 4,20,000. There was a contingent liability of Rs. 20,000 which has become payable. Determine the value of both the categories of shares under the Net Assets method.

[Madras, B.Com., (ICE) (Old) May 2003]

[Ans : Value per Fully paid Equity share : Rs. 12.63; Value per Partly paid Equity share :Rs. 10.10]

27. Raman holds 5,000 equity shares in Raghavan Ltd. The paid up capital of which is30,000 equity shares of Re. 1 each. It is ascertained that:

(a) The normal net profit of such company is Rs. 5,000 and

(b) The normal return for the type of business carried out by the company is 8%

Raman requests you to value his shares based upon the above figures.

[Madras, BCS (SY4B) AR 2005 (Modified); M.Com., (ICE) (Old) May 2003;

M.Com., May 1991, May 1992]

[Ans: Yield value per equity share — Rs. 2.08; Raman's holding amounts to Rs. 10,400]

Hint: When shares of a principal shareholder are valued, transfer to reserve has to be ignored.

28. Mr. Share Wallah holds 12,000 equity shares in Bharath Ltd. the nominal and paid up capital of which consists of :

    (a) 40,000 equity shares of Re. 1 each

    (b) 10,000 preference shares of Re. 1 each, rate of dividend 12%.

    (c) Preference shares do not further participate in profits.

    (d) Usual transfer to Reserve 10% of the profits.

    It is ascertained that :

    (i) Normal annual profit is Rs. 12,000;

    (ii) Normal rate of return 15%.

    Mr. Share Wallah requests you to value his holdings based upon the above figures.

    [Madras, II M.Com., April 2001]

    [Ans : Yield Value per share : Rs.. 1.80 Share Wallah's Holdings amount to : Rs. 21,600]

    Hint: When shares of a principal shareholder are valued, transfer to reserve should be ignored.

29. X Ltd. has 10,000 equity shares of Rs. 10 each, Rs. 8 paid and 1,00,000 6% preference shares of Rs. 10 each fully paid. The company has a practice of transferring 20% of the profit to general reserve every year. If the expected profit (based on past years' performance) before tax is Rs. 2,00,000 and the rate of tax is 50%, you are required to calculate the value of equity share. It may be assumed that normal rate or dividend is 20%.

    [Thiruvalluvar, B.Com., Nov. 2005;Madras, B.Com., B.Com (CS) Nov. 2008; Nov. 2007; B.Com., Oct. 2004; Oct. 2002; B.C.S. April 2002;]

    [Ans : Profit available for equity dividend — Rs. 20,000; Expected rate of return — 25%; Value of each equity share — Rs. 10]

30. From the following information calculate the value of an equity share:

    (a) The subscribed share capital of a company consists of 10,000, 14% preference shares of Rs. 100 each and 2,00,000 equity shares of Rs. 10 each. All the shares are fully paid up.

    (b) The average annual profits of the company after providing depreciation but before taxation are Rs. 25,00,000. It is considered necessary to transfer Rs.1,25,000 to general reserve before declaring any dividend. Rate of taxation is 50%.

    (c) The normal return expected by investors on equity shares from the type of business carried on by the company is 20%.

    [Madras, 2nd M.Com, Nov. 2004; April 2004; M.Com., (ICE) (Old) May 2002;]

    [Ans: Profit available for equity dividend Rs. 9,85,000;Value of an equity share Rs. 24.63]

31. The authorised and paid up capital of a company consists of 1,000, 5% preference shares of Rs. 100 each and 20,000 equity shares of Rs. 15 each, all fully called up and paid up. A person holds 300 preference and 2,000 equity shares. Find out the value of equity shares held by the person assuming that the normal annual profit of the company is Rs. 40,000 and the normal annual return on similar equity shares is 8% per annum. Assume that the company. .transfers 25% of the profit to general reserve and the profit above is profit after tax.

[Madras, B.Com, B.Com(CS) Nov. 2008; B.Com (A.F) Nov. 2007]

[Ans: Value of an equity share— Rs. 15,625]

32. The profits of a company, Limited by shares, for the year ended 31st March 1999 were Rs. 6,00,000. After setting apart amount for interest on borrowings, Taxation and other provisions, the net surplus available to shareholders is estimated at Rs. 1,50,000. The company's capital consisted of :

    (a) 10,000 equity shares of Rs. 100 each, Rs. 50 per share paid up; -and

    (b) 2,500 12% Redeemable Preference shares of Rs. 100 each fully paid up. Enquiries in the stock market reveal that shares of companies engaged in similar business and declaring a dividend of 15% on equity shares are quoted at a premium of 10%.

    On the basis of yield method, compute the value of the equity share.

[Madras, M. Com., (ICE) (Old) Oct. 2002]

[Ans : Equity Share Value : Rs. 88; Expected Rate : 24%; Normal Rate : 13.63]

33. On 31st Dec. 1995, the balance sheet of a limited company disclosed the following position:

Liabilities	*Rs.*	*Assets*	*Rs.*
Issued capital in Rs. 10 shares	4,00,000	Fixed assets	5,00,000
Reserves	90,000	Current assets	2,00,000
Profit & Loss A/c	20,000	Goodwill	40,000
5% debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31st Dec. 1995, the fixed assets were independently valued at Rs. 3,50,000 and the goodwill at Rs. 50,000. The net profits for the three years were:

1993 — Rs. 51,600; 1994 — Rs. 52,000 and 1995 — Rs. 51,650 of which 20% was placed to reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair investment return may be taken at 10%.

Compute the value of the company's share by (a) the net assets method and (b) the yield method.

Madras, M.Com (ICE) (PBC) Oct. 2009; B.Com., B.Com(CS) Oct. 2008;
1st M.Com (CA1A) Nov. 2007; B.Com (ICE) Ap. 2007; B.Com.(PZ3A)
Nov. 2006; BCS (NYD) Nov. 2005; B.Com., Oct. 2002; B.C.S. (ICE) Oct. 2002]

[Ans: (a) Rs. 9.25; (b) Rs. 10.35]

34. The following is the summarised balance sheet of ABC Ltd. as at 31st Dec. 1998.

Liabilities	Rs.	Assets	Rs.
1,00,000 equity shares		Plant & Machinery	4,80,000
of Rs. 10 each	10,00,000	Furniture	2,00,000
Share premium	2,00,000	Stock	12,40,000
General reserve	4,78,800	Debtors	4,12,000
Profit & Loss A/c	3,15,200	Cash at bank	8,74,800
Sundry creditors	8,18,800		
Provision for taxation	3,94,000		
	32,06,800		32,06,800

The company transfers 20% of its profits (after tax) to general reserve. Net profits before taxation of the last three years have been as follows:

1996 — Rs. 6,70,000; 1997 — Rs. 7,32,000; and 1998 — Rs. 7,88,000.

Machinery is valued at Rs. 6,40,000.

Average yield in this type of business is 20%.

The rate of tax is 50%.

Find out the value of each equity share on the basis of (a) net asset method (b) yield method.

[Madras, 1st M.Com.(CA1A) Nov. 2006 (½ figs]

[Ans : Net asset available to equity shareholders — Rs. 21,54,000; Intrinsic value per share — Rs. 21.54; Expected rate of return — 29.2%; Yield value per share — Rs. 14.60]

UNIT – 8

INTERNAL RECONSTRUCTION

Meaning - Methods of alteration of share capital – Procedure for alteration - Difference between Internal and External Reconstruction – Capital Reduction a/c

Sometimes a company continuously incurs loss. The directors have the only option to liquidate the business. Before this stage a final adjustment may be done by the company to avoid such liquidation. That arrangement is called internal reconstruction.

As per the internal arrangement, the share holders and debenture holders are required to wipe off some portion of their amount for the benefit of the company. The entire amount sacrificed by them is credited in an account called capital reduction account. Just like, some asset value may be increased and the difference between market value and book value is credited in the above account. This amount is used to write off company's losses, fictitious assets and adjusting any asset value.

If there is any surplus in capital reduction a/c it should be transferred to capital reserve account. If there is any shortage, the fixed asset a/c should be written off accordingly. After the internal reconstruction is over, the word "And reduced" should be added along with the name of balance sheet.

8.1 METHODS OF ALTERATION OF SHARE CAPITAL: (SEC. 94, 95 AND 97)

- Increasing the share capital by fresh issue
- Consolidation of shares of smaller value into shares of greater value
- Sub-division of shares of greater value into shares of smaller value
- Conversion of shares into stock
- Reduction or cancellation of share capital
  a) Reducing the liability (unpaid) of shares
  b) Paying back the paid up capital
  c) Writing off portion of paid up share capital (Capital reduction)

8.2 PROCEDURE FOR ALTERATION OF SHARE CAPITAL: (SEC.100 TO 105)

- Authorized by its Articles of Association
- Special Resolution
- Confirmation by Court
- Add the words “and reduced”

8.3 MEANING OF INTERNAL RECONSTRUCTION

Reduction or writing off of share capital of a company which is not represented by any fixed assets is called internal reconstruction.

8.4 MEANING OF EXTERNAL RECONSTRUCTION

An existing company goes into liquidation and a new company is formed to take over its business under a new name.

8.5 DIFFERENCE BETWEEN INTERNAL RECONSTRUCTION AND EXTERNAL RECONSTRUCTION

Basis	Internal Reconstruction	External Reconstruction
Meaning	Reduction of share capital which is not represented by assets	An existing company goes into liquidation and a new company is formed to take over its business under a new name
Mode of reconstruction	Permission of Articles of the company, a special resolution and court confirmation are necessary	Liquidation of existing company and formation of new company is required
Status of liabilities	Liabilities of debentures, creditors, bank overdraft, etc are continued	They are settled
Processing time	Confirmation from all the parties are required and so it is very slow and tedious	Confirmation from share holders is required and so it is very speedy process
Set off the past losses	It can be set off against future profits	As the business technically comes to an end, it is not possible

8.6 CAPITAL REDUCTION ACCOUNT

Capital reduction account is a nominal account. The purpose of opening this account is to carry out the internal reconstruction procedures of a company. It is a temporary account and closed after completing the internal reconstruction procedures. At the end, if there is any Surplus balance in this account that will be transferred to capital reserve account.

Journal entries

1. For reducing the share capital Old share capital a/c Dr To New share capital a/c To Capital reduction a/c (b/f)
2. For reducing creditors: Creditors a/c Dr To Capital reduction a/c
3. For increase in the value of asset: Asset a/c Dr To Capital reduction a/c
4. For writing off P & L a/c, good will and other fixed assets a/c Capital reduction a/c Dr To Profit and loss a/c To Goodwill To Other fixed assets a/c (b/f) To Capital reserve a/c (Surplus if any)

Reconstruction a/c (Capital reduction a/c)

Particulars	Amount	Particulars	Amount
To P & L a/c	xxx	By Old equity share capital	xxx
" Goodwill	xxx	" Asset a/c	xxx
" Other fixed asset	xxx	" Creditors	xxx
" Capital reserve a/c (b/f)	xxx		
	xxx		xxx

Illustration -1 In order to eliminate the accumulated losses of ₹45,000 from the balance sheet, a company has decided to convert its 15,000, 7% preference shares of ₹10 each, ₹6 per share paid. Show journal entries in the books of company.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹10)	Dr	1,50,000	
To Preference share capital a/c (₹6)			90,000
To Capital reduction a/c (b/f)			60,000
(Being capital reduced)			
Capital reduction a/c	Dr	60,000	
To P & L a/c			45,000
To Capital reserve a/c (b/f)			15,000
(Being writing of losses)			

Illustration -2 The following is the balance sheet of Weak Ltd. as on 31-3-2016.

Liabilities	**Amount**	**Assets**	**Amount**
Equity share of ₹10 each	10,00,000	Land	1,00,000
Sundry creditors	1,73,000	Cash at bank	5,000
		Plant	2,30,000
		Furniture	68,000
		Stock	1,50,000
		Debtors	70,000
		P & L a/c	5,50,000
	11,73,000		11,73,000

Scheme of capital reduction:

a) The equity shares to be reduced to ₹4 per share

b) Plant to be written down to ₹1,50,000

c) Stock to be revalued at ₹1,40,000 and Land at ₹1,42,000

d) The provision for doubtful debts to be created ₹2,000

Pass journal entries to give effect to the above arrangement and also prepare reconstruction a/c

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Equity share capital a/c (₹10)	Dr	10,00,000	
To Equity share capital a/c (₹4)			4,00,000
To Capital reduction a/c (b/f)			6,00,000

(Being capital reduced)			
Land a/c	Dr	42,000	
To Capital reduction a/c			42,000
(Being land value increased)			
Capital reduction a/c	Dr	6,42,000	
To P & L a/c			5,50,000
To Plant			80,000
To Provision			2,000
To Stock			10,000
(Being writing of losses)			

Reconstruction a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To P & L a/c	5,50,000	By Equity share capital a/c	6,00,000
" Plant	80,000	" Land a/c	42,000
" Provision	2,000		
" Stock	10,000		
	6,42,000		6,42,000

Illustration -3 A Ltd passed resolution and got Court permission for the reduction of its share capital by ₹5,00,000 for the purposes mentioned as under:

1) To write off the debit balance of profit and loss a/c of ₹2,10,000

2) To reduce the value of investments by ₹80,000

3) To reduce the value of plant by ₹90,000 and goodwill by ₹40,000

The reduction was made by converting 50,000 preference shares of ₹20 each fully paid to the same no. of preference shares of ₹15 each fully paid and by converting 50,000 equity shares of ₹10 each fully paid up to ₹6.60 each.

Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹20)	Dr	10,00,000	
To Preference share capital a/c (₹15)			7,50,000
To Capital reduction a/c (b/f)			2,50,000
(Being capital reduced)			

Equity share capital a/c (₹10)	Dr	5,00,000	
To Equity share capital a/c (₹ 6.60)			3,30,000
To Capital reduction a/c (b/f)			1,70,000
(Being capital reduced)			
Capital reduction a/c	Dr	4,20,000	
To P & L a/c			2,10,000
To Investment			80,000
To Plant			90,000
To Goodwill			40,000
(Being writing of losses)			

Illustration -4 The following scheme of reconstruction has been approved by D Ltd.

1. The shareholders to receive in lieu of their present holding of 60,000 shares of ₹10 each fully paid the following.

   a) Fully paid new equity shares equal to $1/3^{rd}$ of their holding.

   b) 8 % preference shares fully paid to the extent of $1/5^{th}$ of the above new equity shares.

   c) ₹60,000 8 % secured debentures.

2. The debenture holders' total claim of ₹75,000 to be reduced to ₹25,000. This will be satisfied by the issue of 2,500, 8 % preference shares of ₹10 each fully paid

3. An issue of ₹50,000, 6%debentures was made and allotted, payment for the same having been received in cash.

4. The goodwill which should at ₹3,00,000 was written down to ₹50,000 and plant which stood at ₹1,00,000 was written down to ₹75,000.

5. The freehold premises which should at ₹1,75,000 was written down by ₹75,000.

Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Debenture holders a/c	Dr	75,000	
To 8% Preference shares a/c			25,000
To Capital reduction a/c			50,000

(Being debentures settled)			
Equity share capital a/c (₹10)	Dr	6,00,000	
To Equity share capital a/c (1/3 x 6,00,000)			2,00,000
To 8% Preference shares (1/5 x 2,00,000)			40,000
To 8% Debentures			60,000
To Capital reduction a/c (b/f)			3,00,000
(Being capital reduced)			
Capital reduction a/c	Dr	3,50,000	
To Free hold premises			75,000
To Plant			25,000
To Goodwill			2,50,000
(Being writing of losses)			
Cash a/c	Dr	50,000	
To 6% Debentures a/c			50,000
(Being debentures issued)			

8.7 CAPITAL REDUCTION WITH BALANCE SHEET MODEL

Illustration -5 The balance sheet of National Industries Ltd. on 31^{st} March 2016 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	2,00,000	Goodwill	15,000
Equity shares of ₹100 each	4,00,000	Free hold properties	2,00,000
5% Mortgage debentures	1,00,000	Plant	3,00,000
Bank over draft	50,000	Stock in trade	50,000
Creditors	1,00,000	Debtors	40,000
		P & L a/c	2,45,000
	8,50,000		8,50,000

The company got the following scheme of capital reduction approved by the court.

- The preference shares to be reduced to ₹75 per share, fully paid and the equity shares to ₹37.50
- The debenture holders took over the stock in trade and the book debts in full satisfaction of the amount due to them.
- The goodwill a/c to be eliminated.
- The free hold properties to be depreciated by 50%

- The value of plant to be increased by ₹50,000

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹100)	Dr	2,00,000	
To Preference share capital a/c (₹75)			1,50,000
To Capital reduction a/c (b/f)			50,000
(Being capital reduced)			
Equity share capital a/c (₹100)	Dr	4,00,000	
To Equity share capital a/c (₹37.50)			1,50,000
To Capital reduction a/c (b/f)			2,50,000
(Being capital reduced)			
Plant a/c	Dr	50,000	
To Capital reduction a/c			50,000
(Being plant value increased)			
5% Debentures a/c	Dr	1,00,000	
To Stock a/c			50,000
To Book debts a/c			40,000
To Capital reduction a/c (b/f)			10,000
(Being debentures settled)			
Capital reduction a/c	Dr	3,60,000	
To P & L a/c			2,45,000
To Goodwill			15,000
To Free hold property			1,00,000
(Being writing of losses)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference share capital	1,50,000	Free hold properties	1,00,000
Equity share capital	1,50,000	Plant (3,00,000 + 50,000)	3,50,000
Bank over draft	50,000		
Creditors	1,00,000		
	4,50,000		4,50,000

Illustration -6 The following is the balance sheet of NB Ltd. as on 31-12-2016.

Liabilities	Amount ₹	Assets	Amount ₹
Preference shares of ₹100 each	7,50,000	Patents	8,50,000
Equity shares of ₹100 each	5,00,000	Leasehold property	1,30,800
Creditors	30,000	Machinery	42,200
Bank overdraft	20,000	Debtors	76,500
		Stock in trade	55,000
		Discount on issue of shares	18,000
		Formation expenses	12,000
		P & L a/c	1,15,000
		Cash	500
	13,00,000		13,00,000

The company suffered heavy losses. The following scheme of reconstruction was adopted:

a) The preference shares be reduced to an equal number of fully paid shares of ₹50 each

b) The equity shares be reduced to an equal number of shares of ₹25 each

The amount available be used to write off ₹30,800 on leasehold property, ₹15,000 on stock, 20% on machinery and debtors and the balance available (after writing off discount on issue of shares, formation expenses and P & L a/c completely) on patents.

Give journal entries and prepare the revised balance sheet.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Preference share capital a/c (₹100)	Dr	7,50,000	
To Preference share capital a/c (₹50)			3,75,000
To Capital reduction a/c (b/f)			3,75,000
(Being capital reduced)			
Equity share capital a/c (₹100)	Dr	5,00,000	
To Equity share capital a/c (₹25)			1,25,000
To Capital reduction a/c (b/f)			3,75,000
(Being capital reduced)			

Capital reduction a/c	Dr	7,50,000	
To P & L a/c			1,15,000
To Stock			15,000
To Lease hold property			30,800
To Machinery			8,440
To Discount on shares			18,000
To Formation expenses			12,000
To Provision on debtors			15,300
To Patents (b/f)			5,35,460
(Being writing of losses)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Preference share capital	3,75,000	Patents (8,50,000 – 5,35,460)	3,14,540
Equity share capital	1,25,000	Leasehold(1,30,800 – 30,800)	1,00,000
Creditors	30,000	Machinery (42,200 – 8,440)	33,760
Bank overdraft	20,000	Debtors (76,500 – 15,300)	61,200
		Stock (55,000 – 15,000)	40,000
		Cash	500
	5,50,000		5,50,000

Illustration -7 The balance sheet of Sudha Ltd. as at Dec. 31, 2016 stood as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Preference shares of ₹10 each	60,000	Goodwill	42,000
Equity shares of ₹5 each	90,000	Premises	72,000
6% Debentures	36,000	Plant	52,000
Creditors	60,000	Loose tools	15,000
		Stock	12,500
		Debtors	18,000
		B/R	6,000
		Cash	1,500
		P & L a/c	27,000
	2,46,000		2,46,000

On revaluation of the assets, it was found that the goodwill was worthless and that the assets were overvalued to the following extent Premises ₹15,000; Plant ₹7,500; Tools ₹9,000 and Debtors ₹1,500. A scheme of arrangement and reduction of capital was agreed to by the court and the creditors on the following lines:

a) That the creditors should accept 6% debentures the extent of half of their debts, the balance being payable in cash

b) That the equity shares should be reduced to shares of ₹1 each

c) That the preference shares should be reduced to shares of ₹5 each fully paid

d) That the assets should be reduced to the revalued figures.

Draft the journal entries for effecting the above scheme and prepare balance sheet on completion.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Equity share capital a/c (₹5)	Dr	90,000	
To Equity share capital a/c (₹1)			18,000
To Capital reduction a/c (b/f)			72,000
(Being capital reduced)			
Preference share capital a/c (₹10)	Dr	60,000	
To Preference share capital a/c (₹5)			30,000
To Capital reduction a/c (b/f)			30,000
(Being capital reduced)			
Creditors a/c	Dr	60,000	
To 6% Debentures			30,000
To Cash (Bank overdraft)			30,000
(Being creditors settled)			
Capital reduction a/c	Dr	1,02,000	
To Premises			15,000
To Plant			7,500
To Goodwill			42,000
To Loose Tools			9,000
To Debtors			1,500
To P & L a/c			27,000
(Being writing of losses)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Preference share capital	30,000	Cash	1,500
Equity share capital	18,000	Premises (72,000 – 15,000)	57,000
6% Debentures (36,000 + 30,000)	66,000	Plant (52,000 – 7,500)	44,500
Bank OD	30,000	Loose tools (15,000 – 9,000)	6,000
		Stock	12,500
		Debtors (18,000 – 1,500)	16,500
		B/R	6,000
	1,44,000		1,44,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. After writing off all losses, if there is any amount left in capital reduction a/c, it should be transferred to
   a) **Capital reserve a/c** b) Capital reduction a/c
   c) Goodwill a/c d) P & L a/c

2. If an asset value increases the capital reduction a/c should be
   a) Debited b) **Credited**
   c) Transferred d) Closed

3. If creditors agreed to reduce their claims, capital reduction should be
   a) Debited b) **Credited**
   c) Closed d) Both a and b

4. Reduction of capital is possible only when
   a) Article permits b) Special resolution is passed
   c) Court permits d) **All the above**

5. Internal reconstruction does not involve
   a) Consolidation b) Dilution
   c) Capital reduction d) **Liquidation**

6. Any decrease in the value of assets, at the time of internal reconstruction will be charged to
   a) Goodwill a/c b) **Capital reduction a/c**
   c) Revaluation a/c d) Share capital a/c

7. In case of internal reconstruction the existing company will be _________
   a) Liquidated b) Amalgamated
   c) Absorbed d) **None of these**

8. In case of consolidation of share capital the total number of shares ____________
   a) Increases b) **Decreases**
   c) No change d) None of these

9. In case of subdivision of share capital the total number of shares ____________
   a) **Increases** b) Decreases
   c) No change d) None of these

REVIEW QUESTIONS

A) Answer in short

1. What do mean by alteration of share capital?
2. What is consolidation of shares?
3. What is sub-division of shares?

4. What is called internal reconstruction?
5. What are the procedures for alteration of share capital?

B) Answer in detail

1. Explain the differences between internal and external reconstruction.
2. Explain the different kinds of alteration of share capital.

EXERCISES

1. X Ltd. with a share capital of 1,00,000 equity shares of ₹10 each fully paid decides to repay members ₹2 per share thus making each share of ₹8 fully paid. Give journal entry.

2. Balance sheet of a company as on 31st March 2016:

Liabilities	Amount ₹	Assets	Amount ₹
Share capital (₹10)	1,00,000	Fixed assets	50,000
Creditors	50,000	Current assets	30,000
		P & L a/c	50,000
		Goodwill	20,000
	1,50,000		1,50,000

Reduce ₹7 per share and wipe off losses. Give journal entries.

3. Give journal entries for the following transaction

   a) 30,000 equity shares of ₹10 each fully paid reduced to share of ₹5 each fully paid

   b) 300, 9% debentures of ₹1,000 each converted into 1,500, 12% debentures of ₹100 each

   c) The debit balance of P & L a/c ₹1,50,000 and the preliminary expenses ₹30,000 were written off

   d) The value of plant and stock were written down by ₹60,000 and ₹30,000 respectively.

4. Following was the balance sheet of X Ltd as on March 31, 2016:

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹100 each	4,00,000	Goodwill	50,000
6% Debentures	2,00,000	Land	1,40,000
Sundry creditors	2,00,000	Plant	1,50,000
7% Preference shares of ₹100 each	2,00,000	Stock	1,60,000

		Debtors	2,15,000
		Cash	5,000
		Preliminary expenses	25,000
		Discount on issue of debentures	15,000
		P & L a/c	2,00,000
		Patents	40,000
	10,00,000		10,00,000

The following scheme of reconstruction was duly approved:

a) Equity shares are to be reduced to equal number of fully paid shares of ₹50 each

b) 7% preference shares are to be reduced by 30% and the rate of dividend increased to 9%

c) The value of land to be increased by 10%

d) The debentures are to be reduced by 20%

e) All nominal and fictitious assets are to be eliminated and balance used to write off patents

f) Further equity shares are to be issued for ₹50,000 for cash.

Pass journal entries and prepare new balance sheet after incorporating the above schemes.

5. The balance sheet of Run Ltd. shows the following position as at 31st Dec.2016:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	2,00,000	Freehold premises	50,000
Sundry creditors	22,500	Plant	1,00,000
Bank overdraft	37,500	Stock	28,000
		Debtors	16,000
		Cash	500
		Preliminary expenses	3,000
		P & L a/c	62,500
	2,60,000		2,60,000

A capital reduction was brought about for this company by passing the following resolutions:

a) That the shares be reduced to the same number of shares of ₹5 each fully paid

b) The sum thus made available is utilized

- In writing off the debit balance of P & L a/c
- In writing off the preliminary expenses a/c
- In writing down the machinery a/c by ₹30,000 (to bring it to the present market value)
- In writing down stock by ₹2,500
- In providing at reserve of ₹2,000 for doubtful debts

Show the journal entries and redraft the balance sheet.

6. The following is the balance sheet of X Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	1,00,000	Goodwill	10,000
7% Preference shares of ₹10 each	1,00,000	Other fixed assets	90,000
		Stock	25,000
		Debtors	30,000
		P & L a/c	45,000
	2,00,000		2,00,000

It was resolved that equity share capital of ₹10 each be reduced to fully paid shares of ₹6 each and 7% preference shares of ₹10 each be reduced at 7.5%, fully paid preference shares of ₹7 each. Number of shares in each case remained the same.

It was also resolved that the amount so available be used for writing off the debit balance of P & L a/c and goodwill account and other fixed assets to the extent possible.

There were arrears of preference dividend for the last three years and it was decided that they be cancelled.

Pass necessary journal entries.

7. Following a series of losses, XYZ Co. Ltd. resolved to reduce its capital to 50,000 fully paid ₹5 shares and to eliminate share premium account. The company's balance sheet prior to implementation of the scheme was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	5,00,000	Goodwill	1,00,000
Share premium	50,000	Land	1,62,000
Creditors	62,000	Plant	2,07,000
Bank overdraft	73,000	Stock	92,000
		Debtors	74,000
		P & L a/c	50,000
	6,85,000		6,85,000

It was resolved to apply the sum available under the scheme:

a) To write off the goodwill account.

b) To write off the debit balance of the P & L a/c.

c) To reduce the book value of the assets by the following amounts: Land ₹42,000; Plant ₹67,000 and Stock ₹33,000

d) To provide a bad debts reserve of 10% of the book value of debtors.

Show the journal entries to give effect to the scheme and prepare the revised balance sheet after its implementation.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Reckless had the following B/S as on 31.12.2005.

Liablities	**Amt**	**Assets**	**Amt**
6% pref.shares of Rs.100 each	2,00,000	Goodwill	60,000
Equity Shares of Rs.100 each	4,00,000	Fixed assets	3,00,000
Debentures	1,00,000	Stock	1,50,000
Sundry creditors	1,50,000	Debtors	60,000
		Discount on debentures	10,000
		Bank	1,000
		P/L Account	2,69,000
Total	8,50,000		8,50,000

The following Reconstruction Scheme was approved.

1. Preference shares be reduced to 8% preference shares of Rs.60 each.
2. Equity shares to be reduced by Rs.80 each.
3. The amount is made available to be utilized to write add fictitious assets including goodwill and Rs. 50,000 from fixed assets. Give the Journal entries.

[Alagappa, B.Com(C.A), April,2016]

2. Praveen Ltd. passed resolution and got court permission for the reduction of its share capital by Rs.5,00,000 for the purposes mentioned as under.

1. To write off debit balances of Profit and Loss A/c of Rs.2,10,000
2. To reduce the value of Plant and Machinery by Rs.90,000 and goodwill by Rs.40,000.
3. To reduce the value of Investment by Rs.80,000

The reduction was made by converting 50,000 preference shares of Rs. 20 each fully paid to the same number of preference shares of Rs. 15 each fully paid and by converting 50,000 equity shares of Rs.20 each on which Rs.15 is paid up into 50,000 equity shares of Rs. 10 each fully paid up. Pass the journal entries to record the shares of Rs.10 each fully paid up. Pass the journal entires to record the shares capital reduction.

[Alagappa,B.Com(C.A), Nov,2015]

3. The following is the balance sheet of week Ltd. as on 31.3.2011.

Liablities	Amt	Assets	Amt
1,00,000 equity shares	10,00,000	Land	1,00,000
		Plant & Machinery	2,30,000
Creditors	1,73,000	Furniture	68,000
		Stock	1,50,000
		Debtors	70,000
		Bank	5,000
		Profit and Loss a/c	5,50,000
Total	11,73,000		11,73,000

The following Scheme of reduction of capital was approved by court.

1. Equity shares to be reduced to Rs.4 per share.
2. Plant and machinery to be written down to Rs.1,50,000
3. Stock to be revalued at rRs.1,40,000
4. Create provision for doubtful debts on debtors at Rs.2000.
5. Land to be revalued at Rs.1,42,000. Prepare Capital reduction.

[Alagappa, B.Com,April,2011]

4. SP Co. Ltd., resolved to write off one-half of its subscribed capital by reducing each Rs. 100 share, both preference and equity to Rs. 50 fully paid up and to reduce the book figures of its assets by an equivalent amount by wiping out the goodwill and the debit balance on the Profit & Loss account and by writing down Land and Building by Rs. 15,000, Plant &Machinery by Rs. 10,000 and providing the balance for bad debts. The Balance Sheet of the company before the reduction of capital is as under:

Liabilities	***Rs.***	***Assets***	***Rs.***
Authorised capital:		Goodwill	1,00,000
3,000 preference shares of		Land & Buildings	1,10,000

Rs. 100 each	3,00,000	Plant & Machinery	90,000
5,000 equity shares of Rs. 100 each	5,00,000	Stock	80,000
	8,00,000	Sundry debtors	90,000
		Cash	10,000
		Profit & Loss A/c	1,20,000
Subscribed capital:			
2,000 pref shares of Rs. 100 each	2,00,000		
3,000 equity shares of Rs. 100 each	3,00,000		
Sundry creditors	1,00,000		
	6,00,000		6,00,000

Pass journal entries to give effect to the above resolution, showing the new Balance Sheet of the company.

[Madras, B.Com., B.Com(CS) Ap 2006] [Lucknow, B.Com.]

[Ans: Total capital reduction — Rs. 2,50,000; Provision for Bad debts — Rs. 5,000; Balance Sheet total — Rs. 3,50,000]

5. The following is the Balance Sheet of Skylekha Ltd. as on 31st March 1998.

Liabilities	Rs.	Assets	Rs.
Share capital:		Bombay works	20,00,000
Authorized issued & paid up:		Calcutta works	10,00,000
4,00,000 ordinary shares of Rs. 5 each, fully paid	20,00,000	Workmen's compensation Fund investments	35,000
3,00,000 6% preference Shares of Rs. 5 each, fully Paid	15,00,000	Stock	1,15,000
		Debtors	50,000
		Discount on debentures:	
'A' 6% debentures secured on Bombay works	1,00,000	'A' 2,500	12,500
		'B' 10,000	16,22,500
'B' 6% debentures secured on Calcutta works	2,50,000	Profit and loss a/c	
Workmen's compensation fund:			
Bombay: 25,000			
Calcutta: 10,000	35,000		
Bank overdraft	7,50,000		

Creditors	2,00,000		
	48,35,000		48,35,000

On 1st April 1998, a scheme to reduce the capital implemented the following:

(a) The ordinary shares were reduced to Re. 0.25 each.

(b) The preference shares were reduced to Rs. 3.75 each and the rate of dividend on them to 5%.

(c) The 'A' and 'B' debenture holders waived payment of Rs. 42,000 interest (which was included in 'creditors' Rs. 2,00,000).

(d) The directors were to refund Rs. 50,000 fees they had received.

(e) The 'B' debenture holders formed a new company to take over the calcuttaworks for Rs. 5,00,000 and this price was satisfied on the same date, by the surrender of the 'B' debentures and the allotment of 50,000 fully paid shares of Rs. 5 each in the new company.

The investments were valued at Rs. 25,000. Stock at Rs. 50,000 and the debtors at Rs. 40,000. There was no actual liability to workmen at Calcutta. The fund was to be written down accordingly. Any fictitious assets were to be eliminated. Only necessary reserves were to be retained and the balance available was to be written off the book value of the Bombay works.

Journalise these transactions and prepare the Balance Sheet after this scheme is carried out.

[Madurai, B.Com,2005]

[Ans: Total capital reduction — Rs. 23,77,000; Balance Sheet total — Rs. 22,58,000; Bombay works written off—Rs. 1,57,000]

6. Abad Limited, having obtained the sanction of the debenture holders and the court, decided to reduce its capital and reorganise as at 31st Dec. 1985. and the following Balance Sheet shows the position as on that date:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Land & Buildings	4,67,000
15% preference shares of Rs. 10 each	4,00,000	Stock	8,12,500
Ordinary shares of Rs. 10 each	10,00.000	Sundry debtors	4,67,500
Reserves	4,53,500	Cash at Bank	25,000
10% Mortgage debenture of Rs. 10 each	2,00,000	Profit & Loss A/c	5,56,000
Current liabilities	2,74,500		
	23.28,000		23,28,000

The following are the details of the scheme:

(a) Each debenture is to be exchanged for Rs. 5 of new 12% debenture, one new 20% preference share of Rs. 2.50 and new ordinary share of Rs. 2.50.

(b) Each existing preference share is to be reduced from Rs. 10 to Rs. 3.75 of which Rs.2 will be represented by new 20% preference shares and Rs. 1.75 by ordinary shares.

(c) Each existing ordinary share is to be reduced from Rs. 10 to Rs. 2.50 and then both preference and ordinary shares are to be consolidated into shares of Rs. 10 each.

The reduction in share capital and the reserves are to be applied in wiping out the debit balance of Profit &Loss A/c and the balance, if any, is to be utilised in writing down the Land & Buildings and Stock pro-rata.

Show the journal entries for giving effect to the scheme mentioned above. Also draft the summarised Balance Sheet after reconstruction.

[Madras, II M.Com. (ICE) (Old) Oct. 2004]

[Ans: Total capital reduction – Rs. 14,53,500; Building to be written off– Rs. 3,27,575; Stock to be written off – Rs. 5,69,925; Balance sheet total – Rs. 8,74,500]

7. The Balance Sheet of Alpha Limited as on 31st Dec. 1998 was as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Goodwill	20,000
10,000 9% cumulative, preference		Patents & trade marks	15,000
shares of Rs. 10 each	1,00,000	Land &Buildings	88,000
20,000 equity shares of Rs. 10 each	2.00.000	Plant & Machinery	86,000
6% Debentures (secured on		Shares in Companies	30,000
Land & Buildings)	50.000	Stock	70,000
Interest due on the above	3,000	Debtors	1,01,000
Bank overdraft	59,000	P &L A/c	1,10,000
Creditors	85,000		
Advances by Directors	23,000		
	5,20,000		5,20,000

Dividend on preference shares is in arrear for 3 years and there is a contingent liability to the extent of Rs. 10,000.

A scheme of capital reduction contained the following terms:

a) The preference shares are to be reduced to Rs. 8 and the equity shares to Rs. 2.50 each. The preference shareholders waive 2/3 of the dividend arrears and receive equity shares of Rs. 2.50 for the balance.

b) All intangible assets are to be eliminated and bad debts of Rs. 7,000 and obsolete stock of Rs. 10,500 are to be written off.

c) The investments in shares of companies are sold for Rs. 40,000.

d) The debentureholders agreed to take over one of the company's properties (book value Rs. 17,500) at a price of Rs. 25,000 in part satisfaction of the debentures and to provide further cash of Rs. I 5,000 on the floating charge of assets. The interest due to them is paid.

e) The contingent liability materialised at Rs. 5,000 and was paid.

f) The directors awed to take equity shares in satisfaction of their advances.

Pass the necessary journal entries and set out the reduced Balance Sheet.

[Madras, M.Com,2012]

[Ans: Total Capital reduction — Rs. 1,87,500; Capital reserve Rs. 11,000; Balance Sheet total — Rs. 3,57,000 ; Bank Balance Rs.47,000]

8. The balance *sheet* of Sharma Co. Ltd. as on 31st Dec. 1988 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital:		Premises	4,80,000
40,000 preference shares of		Plant	3,50,000
Rs. 10 each	4,00,000	Loose tools	1,00,000
1,20,000 equity shares of Rs. 5 each		Stock	80,000
6,00,000Reserves	2,000	Debtors	1,20,000
9% debentures	2,40,000	Bills receivable	40,000
Creditors	4,00,000	Bank	12,000
		Goodwill	2,80,000
		Profit & Loss A/c	1,80,000
	16,42,000		16,42,000

Upon revaluation of assets, it was considered that the entire goodwill was worthless and assets were over valued as follows

Premises Rs. 80,000; Plant Rs. 50,000; Ldiose tools Rs. 60,000; and Debtors Rs. 10,000.

Scheme of rearrangement and reduction of capital was agreed to by the Court and the creditors on the following lines:

i) that the creditors should accept 9% debentures to the extent of half of their debts, the balance to be settled by payment of cash at 90%

ii) that the preference shares be reduced to shares of Rs. 5 each fully paid.

iii) that the equity shares be reduced to Re. 1 each.

iv) that the assets should be reduced to the revalued figures. Pass journal entries and prepare the balance sheet after rearrangement.

[Madras, B.Com., April 2001]

[Ans: Total capital reduction — Rs. 7,00,000; Capital reserve — Rs. 40,000; Bank overdraft — Rs. 1,68,000; Balance Sheet total Rs. 9,70,000]

9. The following is the Balance Sheet of Weak Co. Ltd. as on 31st March 1995.

Liabilities	*Rs.*	*Assets*	*Rs.*
1,00,000 equity shares of Rs.10	10,00,000	Land	1,00,000
Sundry creditors	1,73,000	Plant & Machinery	2,30,000
		Furniture & fittings	68,000
		Stock	1,50,000
		Debtors	70,000
		Cash at Bank	5,000
		Profit & Loss A/c	5,50,000
	11,73,000		11,73,000

The approval of the Court was obtained for the following scheme of reduction of capital:

i) The equity shares to be reduced to Rs. 4 per share.

ii) Plant & Machinery to be written down to Rs. 1,50,000

iii) Stock to be revalued at Rs. 1,40,000.

iv) The provision on debtors for doubtful debts to be created Rs. 2,000.

v) Land to be revalued at Rs. 1,42,900

vi) Pass journal entries to give effect to the above arrangement and also prepare reconstruction A/c

[Madurai.B.Com., Nov. 2003]

[Madras, B.Com., Nov. 2008; 1st M.Com., Nov. 2008; Nov. 2006; B.Com., April 2005; Oct. 2001; I M.com.April 2003]

[Ans: Total of *reconstruction* A/c — Rs. 6,42,000]

10. Given below is the Balance Sheet of Slow Success Ltd. as on 31st Dec. 1986.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Land & Buildings	1,00,000
4,000 equity shares of Rs. 100		Machinery	4,00,000
each fully paid	4,00,000	Motor Vans	40,000
1,000 equity shares of Rs. 100		Furniture	10,000
each, Rs. 50 paid	50,000	Investments	50,000
Development Rebate Reserve	1,50,000	(Market value	
Loan (unsecured)	6,40,000	Rs. 40,000)	
Creditors (including Rs. 10,000		Stock	1,00,000

holding lien on some assets)	2,60,000	Debtors	1,90,000
		Bank balance	10,000
		Profit & Loss A/c	6,00,000
	15,00,000		15,00,000

The company having turned corner, a scheme of reconstruction was prepared and approved as under:

(a) To revalue Land & Buildings to its present market value of Rs. 1,50,000.

(b) Equity shares to be reduced to Rs. 10 per share but the face value to remain at Rs. 100.

(c) A call of Rs. 50 to be made on equity shareholders to provide funds for working capital.

(d) Unsecured loans to be paid immediately to the extent of Rs. 1,00,000.

(e) Unsecured creditors to be paid immediately to the extent of 10% of their claims and they accept a remission of 20% of their claims.

(f) Development rebate reserve being no longer required, to be transferred to P & L A/c.

(g) Investments to be brought to their market value and

(h) the amount available as a result of the scheme to be used to write off the debit balance on Profit & Loss A/c.

Pass the necessary journal entries to give effect to the above scheme and prepare the reconstructed Balance Sheet.

[Madras, B.Com. (ICE) Oct. 2000; B.Com., Bharathiar, April 2005]

[Ans: Total capital reduction — Rs. 6,50,000; Capital reserve — Rs. 40,000 Bank — Rs. 1,35,000; Balance sheet total — Rs. 10,65,000]

11. A company's position on June, 30, 1993, was as follows:

	Rs.
20,000 equity shares of Rs. 100 each	20,00,000
1,000 6% debentures of Rs. 1,000 each	10,00,000
Interest on the above	1,20,000

The assets on that date amounted to Rs. 9,60,000 (valued according to their present worth). The following steps were taken with the approval of all concerned.

(i) The shares were subdivided into shares of Rs. 5 each and 90% of the shares were surrendered.

(ii) The total claims of the debenture holders were reduced to Rs. 4.90,000 and in consideration of this, they were allotted shares (out of the surrendered shares) amounting to Rs. 2,50,000.

(iii) The shares surrendered but not reissued were cancelled.

Draft journal entries and give the Balance Sheet of the company after reconstruction.

[Madras, B. Com: (ICE) Oct. 2008]

[Ans: Total capital reduction — Rs. 21,80,000; Balance Sheet total — Rs. 9,60,000; Transfer to capital reserve — Rs. 20,000]

12. The share capital of Zea Ltd. consisted of the following:

(a) 10,000 6% preference shares of Rs. 100 each and

(b) 50,000 equity shares of Rs. 10 each

The shares were fully paid. The company had accumulated losses totallingRs. 3,50,000 besides preliminary expenses Rs. 20,000. It was also ascertained that fixed assets which stood in the books at Rs. 14,00,000 were over-valued to the extent of Rs. 4,00,000. The following scheme was adopted to write off the losses and reduce the assets.

(i) 6% preference shares were to be converted into 7% pref. shares of Rs. 60 each.

(ii) Equity shares were to be reduced to Rs. 2 each.

Journalise.

(Madras, B.Com., B.Com. (CS) Ap. 2009; Nov. 2006 (Modified); B.Com.(1C1) Oct.2006; B.Com., B.Com.(CS), Nov. 2005; B.Com. (ICE); May 2002]

[Ans : Total capital reduction Rs. 8,00,000; Balance of capital reduction A/c transferred to capital reserve : Rs. 30,000]

13. Give journal entries for the following transactions in connection with internal reconstruction:

(i) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each fully paid.

(iii) 300 9% debentures of Rs. 1,000 each converted into 1,500 12% debentures of Rs. 100 each.

(iv) The debit balance of profit and loss account Rs. 1,50,000 and the preliminary expenses Rs. 30,000 were written off

(v) The value of Plant & Machinery and Stock were written down by Rs. 60,000 and Rs. 30,000 respectively.

Madras, 1st M.Com (ICE) Nov. 2009]

[Ans: Total capital reduction — Rs. 3,00,000; Balance of capital reduction A/c transferred to capital reserve Rs. 30,000]

14. The following scheme of reconstruction has been approved for B Ltd.

(a) The shareholders to receive in lieu of their present holding of 50,000 shares of Rs. 10 each, the following:

(i) Fully paid equity shares equal to 2/5of their holding

(ii) 10% preference shares, fully paid, to the extent of 1/5of the above new equity shares; and

(iii) Rs. 60,000 14% second debentures.

(b) An issue of Rs. 50.000 12% first debentures was made and allotted, payment for the same being received in cash forthwith.

(c) (c) Goodwill which stood at Rs. 1,50,000 was completely written off.

(d) (d) Plant and Machinery which stood at Rs.1,00.000 was written down to Rs. 75,000.

(e) (e) Freehold and lease hold premises which stood at Rs. 1,75,000 were written down to Rs. 1,50,000.

Give journal entries in the books of the company necessitated by the above reconstruction.

[Madras, B.Com (PZ3A) Nov: 2007 Modified; 1st M.Com. (CA1A) Nov. 2007 (Modified); April 2006; Nov. 2005; B.Com., April 2005; M.Com., Nov. 2004]

[Ans : Total capital reduction — Rs. 2,00,000]

15. The following is the summarized balance sheet of Reckless Co. Ltd. as at 31st March, 1996

Liabilities	Rs.	Assets	Rs.
5,000 equity shares of Rs. 100 each	5,00,000	Sundry assets P&l a/c	2,02,800 2,97,200
	5,00,000		5,00,000

The company has decided that the worst is over and hence it adopts a scheme of reconstruction, reducing all its equity shares into an equal number of fully paid equity shares of Rs.40 each. Pass journal entries and prepare the balance sheet immediately after the reconstruction.

[Madras, B.Com(AF) Ap. 2008; M.Com., April 2004]

[Ans: Total Capital reduction — Rs. 3,00,000;Balance Sheet total — Rs. **2,02,800; Capital reserve — Rs. 2,800]**

16. The balance sheet of Gloomy Ltd. was as follows on 30th June 1978,

Liabilities	***Rs.***	***Assets***	***Rs.***
4,000 shares of Rs.100 each fully paid	4,00,000	Goodwill	60,000
6% debentures	2,00,000	Land & Buildings	1,00,000
Sundt: creditors	2,50,000	Plant and Machinery 4,00,000	

		Stock	90,000
		Sundry debtors	60,000
		Preliminary expenses	10,000
		Profit & Loss A/c	1,30,000
	8,50.000		8,50,000

In order to reconstruct the company, wiping off fictitious and intangible assets and writing down Plant and Machinery to its proper figure of Rs. 3,00,000, the shares were reduced to Rs. 20 each. Court's approval was obtained. Draft the necessary journal entries and show the balance sheet after the scheme is put through.

[Madras, M.Com (ZHC) Ap 2007]

[Ans: Total capital reduction — Rs. 3,20,000; Amount of capital reduction transferred to capital reserve — Rs. 20,000; Balance sheet total — Rs. 5,50,000]

17. Balance sheet of X Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Issued and paid up share capital		Goodwill	10,000
10,000 equity shares of Rs. 10		Other fixed assets	90,000
each fully paid	1,00,000	Stock-in-trade	25,000
10,000 7% preference shares		Debtors	30,000
of Rs. 10 each fully paid	1,00,000	P & L A/c	45,000
	2,00,000		2,00,000

It was resolved that equity share capital of Rs. 10 each be reduced to fully paid.

Shares of Rs. 6 each and 7% preference shares of Rs. 10 each be reduced to 7 $^{1/2}$%fully paid preference shares of Rs. 7 each. Number of shares in each case remained the same. It was further resolved that amount so available be used for writing off the debit balance of the Profit and Loss account and goodwill account and other fixed assets to the extent possible.

There were arrears of preference dividend for the last three years and it was decided that they be cancelled.

Draft the journal entries and prepare the revised balance sheet.

[Madras, 11.Com(PZ4A) Ap. 2008; B.Com (PZ3A) Nov. 2006; Nov 2005; (PZG) Nov. 2006; B.Com., B.Com.(CS) April 2006; B.C.S. April 2004] April 2006; B.C.S. April 2004; Oct. 2000; B.Com. (ICE) MAY 2000; B.Com., Oct. 1994]

[Ans : Total capital reduction Rs. 70,000; Fixed assets written off Rs. 15,000; Balance sheet total Rs. 1,30,000

18. The following is the Balance Sheet of Weak Ltd. on 31-3-2003.

Liabilities	Rs.	Assets	Rs.
20.000 Equity shares of		Patents	40,000
Rs. 10 each	2,00,000	Buildings	2.00.000
500 10% Pref Shares of		Machinery	1,30,000
Rs. 100 each	50,000	Stock	80,000
8% Debentures	1.00,000	Debtors	55.000
Creditors	3,30,000	P &L A/c	1,95,000
Outstanding Expenses	20,000		
	7,00,000		7,00,000

With a view to reconstruct the company, it is proposed:

i) To reduce Equity share paid up amount by Rs. 9 each.

ii) To reduce 10% Preference shares by Rs. 40 each.

iii) To reduce 8% Debentures by 10%

iv) To reduce Trade Creditors' claim by one third.

v) fo reduce Machinery by Rs. 60.000

vi) To reduce Inventory by Rs. 10,000

vii) To provide Rs. 15,000 for bad debts.To Write off all the intangible assets

Pass Journal entries to give effect to the above scheme and show the company's Balance Sheet after reconstruction.

[Madras, B.C.S. (ICE) Oct. 2003]

[Ans : Capital Reduction : Rs. 3,20,000; B/S Total : Rs. 3,80,000]

19. The following is the balance sheet of Reckless Co. Ltd., as on 31.3.1997.

Liabilities	Rs.	Assets	Rs.
Subscribed share capital:		Leasehold premises	1,30,800
7,500 preference shares of Rs. 100		Plant	42,200
each fully paid	7,50,000	Patents	8,50,000
5,000 equity shares of Rs. 100		Stock	55,000
each fully paid	5,00,000	Debtors	76,500
Sundry creditors	30,000	Cash	500
Bank overdraft	20,000	Preliminary expenses	12,000

		Discount on issue of shares	18,000
		P & L A/c	1,15,000
	13,00,000		13,00,000

As the company was not doing well, the following scheme of reconstruction was adopted.

(a) The preference shares be reduced to an equal number of fully paid shares of Rs. 50 each.

(b) The equity shares be reduced to an equal number of shares of Rs. 25 each.

(c) The amount available be used to write off the fictitious assets fully, Rs. 30,800 off the leasehold premises, Rs. 15,000 off stock, 20% off plant and debtors and the balance available off patents.

Journalise and prepare the balance sheet after the reconstruction has been carried out.

[Periyar, M.Com. (CA) Ap 2006]
[Madras, B.Com., April 2002; M.Com., Oct. 1998]

[Ans: Total capital reduction — Rs. 7,50,000; Patents written off — Rs. 5,35,460; Balance sheet total — Rs. 5,50,000

20. Sick Ltd. had the following balance sheet as on 31.12.90.

Liabilities	**Rs.**	**Assets**	**Rs.**
6% preference share of Rs. 100 each	2,00,000	Goodwill	60,000
Equity shares of Rs. 100 each	4,00,000	Fixed assets	3,00,000
Debentures	1,00,000	Stock	1,50,000
Sundry creditors	1,50,000	Debtors	60,000
		Discount on debentures	10,000
		Bank	1,000
		P & L A/c	2,69,000
	8,50,000		8,50,000

The following reconstruction scheme was approved:

a) Preference shares be reduced to 8% preference shares of Rs. 60 each.

b) Equity shares to be reduced by Rs. 80 each.

c) The amount thus made available to be utilised to write off fictitious assets including goodwill and Rs. 50,000 from fixed assets.

Give entries for the reconstruction and the final balance sheet.

[Thiruvalluvar, B.Com., Ap2007; Nov. 2005] madras, B.Com(ICE)May2007; M.Com(CE)Ap2007; RCS(NYD)Ap2005; BCom, March1993]

[Ans: Total capital reduction —Rs. 4,00,000; Balance of capital reduction A/c transferred to capital reserve —Rs. 11,000; Balance sheet total —Rs. **4,61,000]**

21. The following was the balance sheet of ABC Limited as on 31.12.1993.

Liabilities		**Rs.**	**Assets**	**Rs.**
Issued and paid up capital:			Goodwill	10,000
12,000 shares of	1,20,000		Land & Buildings	20,500
Rs. 10 each			Machinery	50,850
Less: Calls in arrear			Preliminary expenses	1,500
Rs. 3 per share on			Stock	10.275
3,000 shares	9,000	1,11,000	Debtors	15,000
Creditors		15,425	Bank	1,500
Provision for tax		4,000	P & L A/c 22,000	
			Less: Net profit	
			of this year 1,200	20,800
		1,30,425		1,30,425

Machinery value was Rs. 10,000 in excess. It is proposed to write down this asset and to extinguish the Profit & Loss A/c debit balance and to write off goodwill and preliminary expenses by the adoption of the following scheme.

a) Forfeit the shares on which the calls are outstanding.

b) Reduce the paid up capital by Rs. 3 per share.

c) Re-issue the forfeited shares at Rs. 5 per share.

d) Utilise the provision for tax if necessary.

You are required to draft the journal entries necessary and the Balance sheet after carrying out the scheme.

[Madras, I. M.Com. (ICE) Oct. 2002; B.Com., Sep. '95, March '95, Sep. '93, Mar. '92, Sep. '921

[Ans: Total capital reduction — Rs. 42,300; B/S total — Rs. 1,03,125; Provision for tax to be used — Rs. 300]

UNIT – 9

AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Meaning of Amalgamation, Absorption and Reconstruction – Merger- Acquisition - Differences between amalgamation, absorption and reconstruction -Calculation of purchase consideration - Net Payment method- Net assets method - Lump sum payment method – Amalgamation – Absorption - External Reconstruction

9.1 AMALGAMATION

Amalgamation means joining two or more company to form a bigger company. In this case the two or more company will close down their business and the bigger company which is newly formed will continues the business. For Example, Anbu Company Ltd. joins with Babu Company Ltd. and to form a new company called Deva Company Ltd.

9.2 ABSORPTION

Absorption means an existing company taking over one or more company. In this case one or more company will close down their business and this business will be continued by the name of the existing company. For Example, Anbu Company Ltd. takes over Babu Company Ltd.

9.3 RECONSTRUCTION

If any company is suffering loss and it closes its business and joins with or without other company, it creates new company. That is called reconstruction. There are two types of reconstruction.

9.4 EXTERNAL RECONSTRUCTION

When one company is closed and a new company is formed to take over its business, it is known as external reconstruction. In this case, only one company is closed and a new company is started.

When a company has no power to operate his own business due to heavy loss and it sells his all business to a new company. It will be external reconstruction.

9.5 INTERNAL RECONSTRUCTION

Internal Reconstruction means to do every action for bringing the company out of losses. If a company is suffering heavy losses, company can use the provision 94 of Indian Company law 1956 and reduce its capital.

9.6 CLASSIFICATION OF AMALGAMATION

For accounting of amalgamation, it can be classified two parts – amalgamation in the nature of merger and amalgamation in the nature of acquisition / purchase.

Merger

Merger is a financial tool that is used for enhancing long-term profitability by expanding their operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover.

Acquisition

Acquisitions or takeovers occur between the bidding and the target company. There may be either hostile or friendly takeovers. Reverse takeover occurs when the target firm is larger than the bidding firm. In the course of acquisitions the bidder may purchase the share or the assets of the target company.

Differences between amalgamation, absorption and reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Liquidation	Two or more companies were liquidated	One or more company liquidated	One company liquidated
New company	One new company is formed	No new company is formed	One new company is formed

9.7 CALCULATION OF PURCHASE CONSIDERATION

Purchase consideration means the price payable by the purchasing company to the vendor company for the acquisition of vendor's business. It may be settled by the purchasing company in the form of cash, shares, debentures, etc. It may be calculated by any one of the following method.

1. Net payment method:

Sometimes the total amount payable as purchase consideration is given by purchasing company in the form of cash, shares and debentures. In order to calculate the total purchase consideration, we add all the payments made by purchasing company. It is known as net payment method.

Purchase consideration	Add all the payments made to Vendor Company

2. Net assets method:

Under net assets method, the purchase consideration is not given in the problem. The purchasing company specifies only a portion of purchase consideration and the remaining amount

is not given. In that case, the purchase consideration amount is equal to excess of assets taken by purchasing company at revised values over actual liabilities paid by purchasing company.

Purchase consideration	Realized value of assets taken– Total liabilities paid

Journal entries in Vendor Company

1.For closing all assets: Realization a/c Dr To All assets a/c (at book value) **3.For receiving purchase consideration:** Bank a/c Dr Shares a/c Dr Debentures a/c Dr To Realization a/c	**2.For closing all liabilities:** Liabilities a/c Dr To Realization a/c (at book value) **4.For realization exp. paid:** Realization a/c Dr To Cash a/c **6.For liabilities not taken** Realization a/c Dr To Cash a/c
5.For assets not taken by purchasing company Cash a/c Dr To Realization a/c **7.For realization profit (b/f in debit side)** Realization a/c Dr To Equity share holders a/c **8.For closing equity share capital, general reserve, P & L a/c (liability side)** Equity share capital a/c Dr General reserve a/c Dr Profit and loss a/c Dr To Equity share holders a/c **9. For closing P & L a/c, discount on issue of shares or debentures & preliminary exp. (assets side)** Equity share holders a/c Dr To Profit and loss a/c To Discount on issue of shares or Debentures To Preliminary expenses	

Ledger accounts in the books of Vendor Company

1. **Realization Account**

Particulars	Amount	Particulars	Amount
To All assets (Book value)	xxx	By All liabilities (Book value)	xxx
" Cash	xxx	" Debentures (Book value)	xxx
(Liabilities not taken paid)		" Purchasing Company a/c	

“ Cash (Realization exp.) “ Debenture holders (Paid) “ Equity share holders (b/f)	xxx xxx xxx	(PC received) Shares xxx Debentures xxx Cash xxx	 xxx
	xxx		xxx

2. Preference Share Capital Account

Particulars	Amount	Particulars	Amount
To Bank a/c “ Realization a/c (b/f)	xxx xxx	By Opening capital “ Realization a/c (b/f)	xxx xxx
	xxx		xxx

3. Equity Shareholders Account

Particulars	Amount	Particulars	Amount
To P & L a/c	xxx	By Opening capital	xxx
“ Preliminary exp. (Asset side)	xxx	“ P & L a/c (Liability side)	xxx
“ Realization a/c (Loss)	xxx	“ General reserve	xxx
“ Equity shares from PC	xxx	“ Realization a/c (Profit)	xxx
“ Cash (b/f)	xxx	“ Dividend equalization fund	xxx
	xxx		xxx

4. Cash account should be prepared and it will tally

Journal entries in the books of Purchasing Company

1. For purchase consideration due Business Purchase a/c Dr To Liquidator of vendor company **2.For recording assets and liabilities taken**	**3.For settlement of purchase consideration** Liquidator of vendor company Dr Discount on shares/ debenture Dr To Share capital a/c To Securities premium a/c To Debentures a/c

Assets a/c Dr (except goodwill) Goodwill a/c Dr (b/f) To Liabilities a/c To Business purchase a/c To Capital reserve a/c (b/f)	To Bank a/c

Note:

- ❖ Except cash means cash should not transferred to realization a/c.
- ❖ If no information is given, cash in hand should be transferred to realization a/c – debit side.
- ❖ Business means creditors are taken/ paid by purchasing company.
- ❖ If no information is given, all the liabilities should be paid in cash.

Balance Sheet

Liabilities	Assets
Profit and loss a/c	Preliminary expenses
General reserve a/c	Discount on issue of share and debentures
Sinking fund a/c	Profit and loss a/c
Dividend equalization fund	Underwriting commission
Accident compensation fund	

Note:

The above assets should be transferred to debit side of equity share holder's a/c and the above liabilities should be transferred to credit side of equity share holders' a/c.

9.8 TREATMENT OF REALIZATION EXPENSES

Normally the realization expenses are paid by Vendor Company. The journal entry regarding the same is as follows:

For realization expenses paid by vendor company: Realization a/c Dr To Cash a/c

Sometimes the purchasing company will pay the realization expenses. We can adapt any one of the following two treatments.

1. The realization expenses paid by purchasing company are added while calculating the purchase consideration. And also the following entry is passed.

Realization a/c Dr To Cash a/c

In the books of purchasing company the following entry is passed.

Goodwill a/c Dr
To Bank a/c

2. No entry is passed in the books of Vendor Company because the realization expenses are paid by purchasing company. In the books of purchasing company the following entry is passed.

Goodwill a/c Dr
To Bank a/c

9.9 CALCULATION OF PURCHASE CONSIDERATION

Net Payment method

Illustration -1A company purchased assets of ₹3,50,000 and took over the liabilities of ₹30,000. It agreed to pay the purchase price ₹3,30,000 by issuing debentures of ₹100 each at a premium of 10%. Pass journal entries.

Solution

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	3,30,000	
To Liquidator of Vendor co.			3,30,000
(Being PC due)			
Assets a/c	Dr	3,50,000	
Goodwill a/c (b/f)	Dr	10,000	
To Liabilities			30,000
To Business purchase a/c			3,30,000
(Being assets and liabilities taken)			
Liquidator of Vendor co.	Dr	3,30,000	
To Debentures			3,00,000
To Premium on debentures			30,000
(Being PC received)			

Illustration -2A purchasing company agrees to issue three shares of ₹10 each paid up market value of ₹15 per share for every 5 shares in the vendor company. Find out the number and amount of shares to be issued by the purchasing company if the vendor company has 1,00,000 shares of ₹10 each ₹5 paid up.

Solution

For 5 shares – 3 shares given
1,00,000 shares - ?
1,00,000 x 3/5 = 60,000 shares x ₹15 = ₹9,00,000

Illustration -3 Calculate purchase consideration:

a) A cash payment equivalent to ₹2.50 for every ₹10 share in Green Ltd. (No. of shares 60,000)

b) The issue of 90,000 shares of ₹10 fully paid, in White Ltd. having an agreed value of ₹15 per share.

c) The issue of 5% debentures of White Ltd. for 6% Debentures of the Green Ltd. (₹1,00,000) at a premium of 20%

Solution

Cash (60,000 x₹ 2.50)	₹1,50,000
Equity shares (90,000 x ₹15)	₹13,50,000
Debentures (1,00,000 x 20%)	₹1,20,000
Purchase consideration	₹16,20,000

Illustration -4 Business of India Traders Ltd. has purchased by the XYZ Ltd. The purchase consideration is to be discharged as follows:

i) A payment in cash at ₹20 for every share in India Traders

ii) A further payment in cash at ₹60 for every debentures in India traders in full discharge of debentures

iii) An exchange of 3 shares in XYZ Ltd. of ₹8 each (Quoted in market at ₹16) for every share in India traders.

Balance Sheet of India Traders Ltd

Liabilities	**Amount ₹**	**Assets**		**Amount ₹**
Equity shares of ₹50 each	40,000	Land		15,000
Creditors	4,200	Machinery		20,000
6% Debentures of ₹50 each	6,000	Debtors	20,000	
Capital redemption reserve	4,000	(-) Provision	1,000	19,000
P & L a/c	1,000	Furniture		1,000
		Cash		200
	55,200			55,200

Prepare important ledger a/c in India Traders Ltd. Liquidation expenses ₹400 are met by XYZ Ltd.

Solution

Cash	₹20 x 800 shares	₹16,000
Cash (Debentures)	₹60 x 120 Deb.	₹7,200
Equity shares	₹16 x 3 x 800 shares	₹38,400
Purchase consideration		₹61,600

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Land	15,000	By Creditors	4,200
" Machinery	20,000	" 6% Debentures	6,000
" Debtors	19,000	" XYZ Ltd (PC)	
" Furniture	1,000	Cash	23,200
" Cash	200	Equity shares	38,400
" Cash (Debentures)	7,200		
" Equity share holders (b/f)	9,400		
	71,800		71,800

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	38,400	By Equity share capital	40,000
" Cash (b/f)	16,000	" Capital redemption reserve	4,000
		" P & L a/c	1,000
		" Realization	9,400
	54,400		54,400

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	23,200	By Equity share holders	16,000
		" Debentures	7,200
	23,200		23,200

Journal entries in the books of XYZ Ltd.

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	61,600	
To Liquidator of Indian Traders Ltd			61,600
(Being PC due)			
Cash a/c	Dr	200	
Land a/c	Dr	15,000	
Machinery a/c	Dr	20,000	
Debtors a/c	Dr	19,000	
Furniture a/c	Dr	1,000	
Goodwill a/c (b/f)	Dr	10,600	
To Creditors a/c			4,200
To Business purchase a/c			61,600
(Being assets and liabilities recorded)			
Liquidator of Soma Ltd	Dr	61,600	
To Cash			23,200
To Equity share capital			38,400
(Being PC received)			
Goodwill a/c	Dr	400	
To Cash			400
(Being realization exp. Paid)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	38,400	Land a/c	15,000
Creditors	4,200	Machinery a/c	20,000
Bank overdraft	23,400	Debtors a/c	19,000
(23,200 +400- 200)		Furniture a/c	1,000
		Goodwill a/c (10,600 + 400)	11,000
	66,000		66,000

Illustration -5 Balance Sheet of XYZ Ltd. as on 31-12-2015.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	2,00,000	Land	1,00,000
Creditors	30,000	Machinery	1,50,000
Debentures	1,00,000	Debtors	25,000

Reserve fund	25,000	Work in progress	30,000
P & L a/c	5,100	Furniture	2,500
Dividend equalization fund	20,000	Cash in hand	100
		Cash at bank	12,500
		Stock	60,000
	3,80,100		3,80,100

The company is absorbed by ABC Ltd. The consideration for absorption is discharge of debentures at a premium of 5%, taking over the liability in respect of creditors and a payment of ₹7 per share in cash and one share of ₹5 in ABC Ltd. at the market value of ₹8 per share, in exchange for one share in XYZ Ltd. Cost of liquidation ₹5,000 met by purchasing company. Prepare ledger accounts in the books of XYZ Ltd.

Solution

Debenture holders (1,00,000 + 5,000)	₹1,05,000 (cash)
Share holders (20,000 x ₹7)	₹1,40,000 (cash)
Equity share holders (20,000 x ₹8)	₹1,60,000 (Shares)
Purchase consideration	₹4,05,000

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To All assets	3,80,100	By Creditors	30,000
" Debenture holders	5,000	" A Ltd	4,05,000
" Equity share holders a/c	49,900		
	4,35,000		4,35,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Equity shares	1,60,000	By Share capital	2,00,000
" Cash	1,40,000	" Reserve fund	25,000
		" Dividend equalization fund	20,000
		" P & L a/c	5,100
		" Realization a/c	49,900
	3,00,000		3,00,000

Journal entries in the books of ABC Ltd

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	4,05,000	
To Liquidator of XYZ Ltd			4,05,000
(Being PC due)			
Land	Dr	1,00,000	
Machinery	Dr	1,50,000	
Debtors	Dr	25,000	
Work in progress	Dr	30,000	
Furniture	Dr	2,500	
Cash	Dr	100	
Bank	Dr	12,500	
Stock	Dr	60,000	
Goodwill	Dr	54,900	
To Creditors			30,000
To Business purchase a/c			4,05,000
(Being assets and liabilities recorded)			
Liquidator of Soma Ltd	Dr	4,05,000	
To Cash			2,45,000
To Equity share capital			1,60,000
(Being PC received)			
Goodwill a/c	Dr	5,000	
To Bank			5,000
(Being exp. paid by ABC Ltd			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	1,60,000	Land	1,00,000
Creditors	30,000	Machinery	1,50,000
Bank overdraft	2,45,000	Debtors	25,000
		Work in progress	30,000
		Furniture	2,500
		Cash	100

		Bank (12,500 – 5,000)	7,500
		Stock	60,000
		Goodwill (54,900 + 5,000)	59,900
	4,35,000		4,35,000

Illustration -6 White Ltd agreed to acquire the business of Green Ltd. as on March 31, 2015. The summarized balance sheet of Green Ltd on that date was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	6,00,000	Fixed assets	6,40,000
General reserve	1,70,000	Stock	1,68,000
Profit and loss a/c	1,10,000	Cash	56,000
6% Debentures	1,00,000	Debtors	36,000
Creditors	20,000	Goodwill	1,00,000
	10,00,000		10,00,000

The consideration payable by White Ltd was agreed as follows

1. A cash payment equivalent to ₹2.50 for every ₹10 share in Green Ltd
2. The issue of 90,000 shares of ₹10 fully paid, in White Ltd, having an agreed value of ₹15 per share
3. The issue of such an amount of fully paid 5% debentures of White Ltd at 96% as is sufficient to discharge the 6% debentures of the Green Ltd at a premium of 20%

When computing the agreed consideration the directors of White Ltd valued the fixed assets at ₹12,00,000, stock at ₹1,42,000, and debtors at their face value subject to an allowance of 5 % to cover doubtful debts. The cost of liquidation of Green Ltd came to ₹5,000.

Draft important ledger accounts in both the books.

Solution

Cash (60,000 x ₹2.50)	₹1,50,000
Equity shares (90,000 x ₹15)	₹13,50,000
Debentures (1,00,000 x 20%)	₹1,20,000
Purchase consideration	₹16,20,000

Ledger accounts in the books of Green Ltd.

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Goodwill	1,00,000	By Creditors	20,000
“ Fixed assets	6,40,000	“ W Ltd	16,20,000
“ Stock	1,68,000		
“ Drs	36,000		
“ Cash	56,000		
“ Cash (Exp.)	5,000		
“ Debentures (Loss)	20,000		
“ Equity shareholders (b/f)	6,15,000		
	16,40,000		16,40,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Shares in W Ltd	13,50,000	By Share capital	6,00,000
“ Cash (b/f)	1,45,000	“ General reserve	1,70,000
		“ P & L a/c	1,10,000
		“ Realization	6,15,000
	14,95,000		14,95,000

Cash Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realisation a/c	1,50,000	By Equity shareholders	1,45,000
		“ Realization a/c	5,000
	1,50,000		1,50,000

Journal entries in the books of White Ltd.

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	16,20,000	
To Liquidator of Green Ltd			16,20,000
(Being PC due)			
Fixed assets a/c	Dr	12,00,000	
Stock a/c	Dr	1,42,000	
Debtors a/c	Dr	34,200	

Goodwill a/c	Dr	2,07,800	
Cash a/c	Dr	56,000	
To Creditors			20,000
To Business purchase a/c			16,20,000
(Being assets and liabilities recorded)			
Liquidator of Green Ltd	Dr	16,20,000	
Discount on debentures (1,250 x ₹4)	Dr	5,000	
To Cash a/c			1,50,000
To Debentures a/c (1,250 x ₹100)			1,25,000
To Equity share capital (90,000 x ₹10)			9,00,000
To Share premium a/c (90,000 x ₹5)			4,50,000
(Being PC received)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	9,00,000	Fixed assets a/c	12,00,000
Creditors	20,000	Stock a/c	1,42,000
Debentures	1,25,000	Debtors a/c	34,200
Bank overdraft	1,50,000	Goodwill a/c	2,07,800
Share premium	4,50,000	Cash a/c	56,000
		Discount on issue of deb.	5,000
	16,45,000		16,45,000

9.10 Net Assets Method

Illustration-7 From the following information, calculate purchase consideration for the purpose of business acquisition. Building ₹50,000; Motor lorry ₹12,400; Stock ₹36,000; Debtors ₹29,400; Cash at bank ₹2,200; Goodwill ₹18,000; Creditors ₹31,000; Outstanding expenses ₹1,000.

Solution

Building	₹50,000
Motor	₹12,400
Stock	₹36,000
Debtors	₹29,400
Cash	₹2,200
Goodwill	₹18,000

		₹1,48,000
Less: Creditors	₹31,000	
O/S expenses	₹1,000	₹32,000
Purchase consideration		₹1,16,000

Illustration -8 The capital of A.B and C partnership firm at the date of purchase by the limited company were ₹10,000, ₹6,000 and ₹5,000. The partnership firm was converted in to a limited company and assets and liabilities were sold to the company agreed to pay ₹8,000 more than the book value and Machinery which was taken at ₹1,000 less than the book value.

Solution

Total capital (10,000 + 6,000 +5,000)	₹21,000
Add: Increase in book value	₹8,000
	₹29,000
Less: Decrease in machinery	₹1,000
Purchase consideration	₹28,000

Illustratio1n -9 Balance Sheet of Weak Ltd as on March 31, 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	2,00,000	Land	85,000
General reserve	20,000	Plant	1,60,000
Loan from A (Director)	40,000	Discount on debentures	6,000
6% Debentures	1,00,000	Stock	55,000
Creditors	80,000	Cash	34,000
		Debtors	65,000
		Goodwill	35,000
	4,40,000		4,40,000

The business of Weak Ltd is taken over by the Strong Ltd as on that date on the following terms:

1.Strong Ltd to take over the assets except cash to value the assets at their book values less 10 % except goodwill which was to be valued at 4 years' purchase of the excess of average 5 years profits over 8 % of the combined amount of share capital and reserve.

2. Strong Ltd to take over trade creditors which were subject to a discount of 5 %.

3. The purchase consideration was to be discharged by cash to the extent of ₹1,50,000 and the balance in fully paid equity shares of ₹10 each valued at ₹12.50 per share.

4. The average of five years' profit was ₹30,100. The expenses of liquidation amounted to ₹4,000.

Draft important ledger accounts in the books of Weak Ltd.

Solution

Calculation of goodwill

Average of 5 years profit	₹30,100
Less: 8% of (2,00,000 + 20,000)	₹17,600
Excess	₹12,500
Goodwill = 12,500 x 4 = ₹50,000	

Calculation of purchase consideration under net assets method

Goodwill	₹50,000
Land (85,000 – 8,500)	₹76,500
Plant (1,60,000 – 16,000)	₹1,44,000
Stock (55,000 – 5,500)	₹49,500
Debtors (65,000 – 6,500)	₹58,500
	₹3,78,500
Less: Creditors (80,000 – 4,000)	₹76,000
Purchase consideration	₹3,02,500
Less: Cash	₹1,50,000
Shares to be given	₹1,52,500

In the books of Weak Ltd

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Goodwill	35,000	By Creditors	80,000
" Land	85,000	" Strong Ltd (PC)	
" Plant	1,60,000	Cash	1,50,000
" Stock	55,000	Equity shares	1,52,500

“ Debtors	65,000	“ Equity share holders (b/f)	21,500
“ Bank – exp.	4,000		
	4,04,000		4,04,000

Debenture holders a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bank a/c	1,00,000	By Debentures	1,00,000
	1,00,000		1,00,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Discount on debentures	6,000	By Equity share capital	2,00,000
“ Realization (Loss)	21,500	“ Reserve fund	20,000
“ Shares in Strong Ltd	1,52,500		
“ Bank (b/f)	40,000		
	2,20,000		2,20,000

Bank Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	34,000	By Debentures	1,00,000
“ Strong Ltd	1,50,000	“ Loan from A	40,000
		“ Realization a/c	4,000
		“ Equity share holders	40,000
	1,84,000		1,84,000

Illustration -10 Kumar Ltd. takes over Soma Ltd on the following terms:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	6,00,000	Fixed assets	5,00,000
Preference shares of ₹100 each	2,00,000	Stock	4,00,000
10% Debentures	3,00,000	Debtors	2,00,000
Current liabilities	1,00,000	Profit and loss a/c	1,00,000
	12,00,000		12,00,000

1) Take the fixed assets at 10% depreciation, stock at ₹3,00,000 and debtors after a provision of 25%.
2) Debentures are to be settled by issuing them 9% debentures in Kumar Ltd.
3) Current liabilities will be taken over at book values.
4) The consideration will be discharged by issue of 10,000 equity shares of ₹10 each in Kumar Ltd at an agreed value of ₹15 per share and the balance in cash.
5) Expenses of liquidation ₹20,000 will be reimbursed by Kumar Ltd.

Draft important ledger accounts in both the books.

Solution

Fixed assets (5,00,000 – 50,000)	₹4,50,000
Stock	₹3,00,000
Drs (2,00,000 – 50,000)	₹1,50,000
Total	₹9,00,000
Less: Current liability	₹1,00,000
Total purchase consideration	₹8,00,000
Add: Expenses	₹20,000
	₹8,20,000

Mode of payment

Equity shares (10,000 x ₹15)	₹1,50,000
Debentures	₹3,00,000
Bal. in cash (b/f)	₹3,70,000
	8,20,000

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Fixed assets	5,00,000	By 10% Debentures	3,00,000
" Stock	4,00,000	" Current liabilities	1,00,000
" Debtors	2,00,000	" Kumar Ltd (PC)	
" Debentures	3,00,000	Equity shares 1,50,000	
" Cash	20,000	Cash 3,70,000	
		Debentures 3,00,000	8,20,000
		" Equity share holders (b/f)	2,00,000
	14,20,000		14,20,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	2,00,000	By Share capital	6,00,000
" P & L a/c	1,00,000		
" Realization –Equity shares	1,50,000		
" Cash (b/f)	1,50,000		
	6,00,000		6,00,000

Preference Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Cash	2,00,000	By Share capital	2,00,000
	2,00,000		2,00,000

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	3,70,000	By Equity share holders	1,50,000
		" Preference share holders	2,00,000
		" Realisation a/c	20,000
	3,70,000		3,70,000

Journal entries in the books of Kumar Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	8,00,000	
To Liquidator of Soma Ltd			8,00,000
(Being PC due)			
Fixed asset a/c	Dr	4,50,000	
Stock a/c	Dr	3,00,000	
Debtors a/c	Dr	1,50,000	
Goodwill a/c (b/f)	Dr	20,000	
To Current liabilities			1,00,000
To Business purchase a/c			8,20,000
(Being assets and liabilities recorded)			

Liquidator of Soma Ltd	Dr	8,20,000	
To Cash			3,70,000
To Debentures			3,00,000
To Equity share capital			1,00,000
To Share premium			50,000
(Being PC received)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	1,00,000	Fixed assets	4,50,000
Debentures	3,00,000	Stock	3,00,000
Bank overdraft	3,70,000	Debtors	1,50,000
Share premium	50,000	Goodwill	20,000
Current liabilities	1,00,000		
	9,20,000		9,20,000

Illustration -11 The I.G. Ltd sells its business to the C.C Ltd. as on Dec.31st, 2015 on which date its balance sheet was as under:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹ 100 each	2,00,000	Freehold property	1,50,000
General reserve	50,000	Stock	35,000
Profit and loss a/c	20,000	Cash	50,000
10% Debentures	1,00,000	Debtors	27,500
Creditors	30,000	Bills Receivable	4,500
		Goodwill	50,000
		Plant	83,000
	4,00,000		4,00,000

The C.C Ltd agreed to take over the assets (exclusive of cash and goodwill) at 10 % less than the book value to pay ₹75,000 for goodwill and to take over the debentures. The Purchase consideration was to be discharged by the allotment to the I.G. Ltd of 1,500 shares of ₹100 each at a premium of ₹10 per share and the balance in cash. The cost of liquidation amounted to ₹ 3,000.

Draft important ledger accounts in both the books.

Solution

Goodwill		₹ 75,000
Free hold	(1,50,000 – 15,000)	₹ 1,35,000
Plant	(83,000 – 8,300)	₹ 74,700
Stock	(35,000 – 3,500)	₹ 31,500
Debtors	(27,500 – 2,750)	₹ 24,750
B/R	(4,500 – 450)	₹ 4,050
Total		₹ 3,45,000
Less: Debentures		₹ 1,00,000
Purchase consideration		₹ 2,45,000
(-) Equity shares (1,500 x ₹ 110)		₹ 1,65,000
Cash		₹ 80,000

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Goodwill	50,000	By Debentures	1,00,000
" Free hold	1,50,000	" C Co. Ltd	2,45,000
" Plant	83,000	" Equity share holders (b/f)	8,000
" Stock	35,000		
" Debtors	27,500		
" B/R	4,500		
" Bank	3,000		
	3,53,000		3,53,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization a/c	8,000	By Equity share capital	2,00,000
" Realization (shares)	1,65,000	" General reserve	50,000
" Bank (b/f)	97,000	" P & L a/c	20,000
	2,70,000		2,70,000

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Bal. b/d	50,000	By Equity share holders	97,000
" C. C. Ltd	80,000	" Realization	3,000
		" Creditors	30,000
	1,30,000		1,30,000

Journal entries in the books of C.C. Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	2,45,000	
To Liquidator of I. G. Ltd			2,45,000
(Being PC due)			
Goodwill	Dr	75,000	
Free hold	Dr	1,35,000	
Plant	Dr	74,700	
Stock	Dr	31,500	
Debtors	Dr	24,750	
B/R	Dr	4,050	
To Debentures			1,00,000
To Business purchase a/c			2,45,000
(Being assets and liabilities recorded)			
Liquidator of G Ltd	Dr	2,45,000	
To Cash			80,000
To Equity share capital			1,50,000
To Share premium			15,000
(Being PC received)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	1,50,000	Goodwill	75,000
Debentures	1,00,000	Free hold	1,35,000
Bank overdraft	80,000	Plant	74,700
Share premium	15,000	Stock	31,500
		Debtors	24,750
		B/R	4,050
	3,45,000		3,45,000

Illustration -12 X Ltd is absorbed by Y Ltd.

Balance Sheets

Liabilities	**X Ltd ₹**	**Y Ltd ₹**	**Assets**	**X Ltd ₹**	**Y Ltd ₹**
Share capital of ₹270 each	24,30,000	–	Sundry Assets	33,70,000	87,15,000
Share capital of ₹ 150 each	–	60,00,000	Cash	7,000	55,000
Creditors	1,10,000	1,30,000			
Reserve fund	8,07,000	25,70,000			
Profit and loss a/c	30,000	70,000			
	33,77,000	87,70,000		33,77,000	87,70,000

The holder of every three in the X Ltd was to receive five shares in the Y Ltd plus as much cash as is necessary to adjust the share holders of both the companies in accordance with the intrinsic value of the shares as per respective balance sheets.

Draft journal entries and balance sheet in the books of Y Ltd.

Solution

Calculation of intrinsic value of shares

	X Ltd ₹	**Y Ltd ₹**
Sundry assets	33,70,000	87,15,000
Cash in hand	7,000	55,000
Total	33,77,000	87,70,000
Less: Creditors	1,10,000	1,30,000
Net assets	32,67,000	86,40,000
Value per share	Net assets/No. of equity shares	
	$\frac{32,67,000}{9,000\text{shares}}$ = ₹ 363	$\frac{86,40,000}{40,000\text{shares}}$ = ₹ 216
Calculation of amount payable in cash		
Value of 3 shares in X Ltd	363 x 3	1,089
Value of 5 shares in Y Ltd	216 x 5	1,080
Difference in cash for every 3 shares		₹ 9

Calculation of purchase consideration

Equity shares	9,000 x 5 x 150/3	₹ 22,50,000
Cash	9,000 x 9/3	₹ 27,000
Total		₹ 22,77,000

Journal Entries in the Books of Y Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	22,77,000	
To Liquidator of X Ltd			22,77,000
(Being PC due)			
Sundry assets a/c	Dr	33,70,000	
Cash a/c	Dr	7,000	
To Creditors			1,10,000
" Business purchase a/c			22,77,000
" Capital reserve (b/f)			9,90,000
(Being assets and liabilities taken)			
Liquidator of X Co. Ltd	Dr	22,77,000	
To Equity share capital			22,50,000
" Cash			27,000
(Being PC received)			

Balance Sheet of Y Ltd

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	82,50,000	Cash (55,000 + 7,000)	62,000
Creditors (1,30,000 + 1,10,000)	2,40,000	Sundry assets (87,15,000 + 33,70,000)	120,85,000
Capital reserve	9,90,000		
P & L a/c	70,000		
Reserve fund	25,70,000		
Bank O/D (PC)	27,000		
	121,47,000		121,47,000

9.11 LUMP SUM PAYMENT METHOD

Illustration -13 The following is the balance sheet of X Ltd. as on 31-12–2015.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	1,20,000	Land	90,000
Creditors	30,000	Machinery	50,000

Bank overdraft	28,000	Debtors	20,000
		P & L a/c	18,000
	1,78,000		1,78,000

The company went into voluntary liquidation and assets were sold to Y Co. Ltd. for ₹1,50,000 payable as to ₹60,000 in cash (which is used to discharge creditors and bank overdraft and to pay off winding up expenses of ₹2,000) and as to ₹90,000 by the allotment of 12,000 shares of ₹10 each of the Y Co. Ltd., ₹7.50 per share paid up, to the shareholders of X Com. Ltd.

Prepare important ledger accounts the books of X Ltd.

Solution

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Land	90,000	By Creditors	30,000
" Machinery	50,000	" Bank overdraft	28,000
" Debtors	20,000	" Purchase consideration	
" Cash (30,000 + 28,000)	58,000	Cash	60,000
" Cash (exp.)	2,000	Equity shares	90,000
		" Equity share holders (b/f)	12,000
	2,20,000		2,20,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To P & L a/c	18,000	By Equity share capital	1,20,000
" Realization (PC)	90,000		
" Realization	12,000		
	1,20,000		1,20,000

9.12 AMALGAMATION

Illustration -14 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. In case of A Ltd. the assets and liabilities are to be taken over at book value for shares in C Ltd. at the rate of 5 shares in C Ltd. at 10 % premium (i.e. ₹11 per share) for every four shares in A Ltd.

In case of B Ltd.

1) The holders of 6% preference shares of B Ltd. would be allotted four 7 % preference shares of ₹100 each in C Ltd. for every five preference shares in B Ltd.
2) The debentures of B Ltd. would be paid off by the issue of an equal number of debentures in C Ltd. at a discount of 10 %.

3) The equity share holders would be allotted sufficient shares in C Ltd. to cover the balance on their accounts after adjusting assets values by reducing plant by 10 % and providing 5 % on debtors.

Balance Sheets

Liabilities	**A Ltd ₹**	**B Ltd ₹**	**Assets**	**A Ltd ₹**	**B Ltd ₹**
Equity shares of ₹10 each	4,00,000	5,00,000	Plant	8,00,000	8,00,000
6% Preference shares of ₹100 each	–	3,00,000	Cash	65,000	40,000
Creditors	75,000	90,000	Stock	65,000	60,000
Contingency reserve	50,000	–	Debtors	95,000	50,000
P & L a/c	5,00,000	–	P & L a/c	–	1,40,000
4 % Debentures	–	2,00,000			
	10,25,000	10,90,000		10,25,000	10,90,000

Show the important ledger accounts in the books of A Ltd and B Ltd and show the balance sheet of C Ltd.

Solution

Calculation of purchase consideration for A Ltd.

5/4 x 40,000 shares = 50,000 shares x ₹11 = ₹5,50,000

Ledger accounts in the books of A Ltd.
Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Plant	8,00,000	By Creditors	75,000
“ Stock	65,000	“ C Ltd	5,50,000
“ Drs	95,000	“ Equity shareholders a/c (b/f)	4,00,000
“ Bank	65,000		
	10,25,000		10,25,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization	4,00,000	By Share capital	4,00,000
“ Shares in C Ltd.	5,50,000	“ P & L a/c	5,00,000

		" Contingency reserve	50,000
	9,50,000		9,50,000

Calculation of purchase consideration for B Ltd.

Plant (8,00,000 – 10%)	₹7,20,000
Stock	₹60,000
Debtors (50,000 – 5%)	₹47,500
Bank	₹40,000
Total	₹8,67,500
Less: Creditors	₹90,000
PC	₹7,77,500

Mode of payment of PC

Debentures	2,00,000 x 90/100	₹1,80,000
Preference shares	3,000 x 4/5 x 100	₹2,40,000
Equity shares (b/f)	35,750 x 10	₹3,57,500
		₹7,77,500

Ledger accounts in the books of B Ltd.

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Plant	8,00,000	By Creditors	90,000
" Stock	60,000	" C Ltd	7,77,500
" Drs	50,000	" Debenture holders	20,000
" Bank	40,000	" Pref. share holders	60,000
		" Equity shareholders a/c (b/f)	2,500
	9,50,000		9,50,000

Preference Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To New pre. shares	2,40,000	By Share capital	3,00,000
" Realization (b/f)	60,000		
	3,00,000		3,00,000

Debenture holders A/c

Particulars	Amount ₹	Particulars	Amount ₹
To New debentures a/c	1,80,000	By Debenture a/c	2,00,000
" Realization (b/f)	20,000		
	2,00,000		2,00,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	2,500	By Share capital	5,00,000
" P & L a/c	1,40,000		
" Shares in C Ltd.	3,57,500		
	5,00,000		5,00,000

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Preference share capital	2,40,000	Plant	15,20,000
Equity share capital	8,57,500	Stock	1,25,000
Capital reserve	4,00,000	Drs less provision	1,42,500
Share premium	50,000	Bank	1,05,000
4% Debentures	2,00,000	Discount on debentures	20,000
Creditors	1,65,000		
	19,12,500		19,12,500

Illustration -15 X Ltd. and Y Ltd. are two companies carrying on business in the same line of activity.

Balance Sheets

Liabilities	X Ltd ₹	Y Ltd ₹	Assets	X Ltd ₹	Y Ltd ₹
			Land	1,00,000	–
Equity shares of ₹10 each	6,00,000	2,00,000	Cash	1,00,000	1,00,000
Reserve	4,00,000	2,00,000	Stock	9,00,000	4,00,000
Current liabilities	6,00,000	4,00,000	Debtors	3,00,000	1,00,000
Secured loans	6,00,000	1,00,000	Plant	7,00,000	3,00,000
			Investments	1,00,000	–
	22,00,000	9,00,000		22,00,000	9,00,000

The two companies decided to amalgamate into XY Ltd. The following adjustments are given

- X Ltd. holds 8,000 shares in Y Ltd. @ ₹12.50 each.
- All assets and liabilities of the two companies except investments are taken over by XY Ltd.
- Each share in Y Ltd. is valued at ₹25 for the purpose of the amalgamation.
- Shareholders in X Ltd. and Y Ltd. are paid off by issuing to them a sufficient number of equity shares of ₹10 each in XY Ltd. as fully paid–up at par.
- Each share in X Ltd. is valued @ ₹15 for the purpose of amalgamation.

Show the important ledger accounts in the books of X Ltd. and Y Ltd. and show the balance sheet of XY Ltd.

Solution

Calculation of purchase consideration in X Ltd.

PC = 60,000 shares x ₹15 = ₹9,00,000

Calculation of purchase consideration in Y Ltd.

No. of share held by Y Ltd. = 20,000 – 8,000 = 12,000

PC = 12,000 shares x ₹25 = ₹3,00,000

Realization a/c of X Ltd.

Particulars	Amount ₹	Particulars	Amount ₹
To Land	1,00,000	By Secured loan	6,00,000
“ Plant	7,00,000	“ Current liabilities	6,00,000
“ Investments	1,00,000	“ Shares in XY Ltd	9,00,000
“ Stock	9,00,000	“ Equity share holders (b/f)	1,00,000
“ Debtors	3,00,000		
“ Cash	1,00,000		
	22,00,000		22,00,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	1,00,000	By Equity share capital	6,00,000
“ Shares in XY Ltd	9,00,000	“ Reserve	4,00,000
	10,00,000		10,00,000

Realization Account of Y Ltd.

Particulars	Amount ₹	Particulars	Amount ₹
To Plant	3,00,000	By Secured loan	1,00,000
" Stock	4,00,000	" Current liabilities	4,00,000
" Debtors	1,00,000	" Shares in XY Ltd	3,00,000
" Cash	1,00,000	" Equity share holders (b/f)	1,00,000
	9,00,000		9,00,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	1,00,000	By Equity share capital	2,00,000
" Shares in XY Ltd	3,00,000	" Reserve	2,00,000
	4,00,000		4,00,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Accounting standard for amalgamation is
   a) AS - 8 b) AS - 20
   c) AS - 14 d) AS – 3

2. Pooling of interest method is used to account for amalgamation in the nature of
   a) Purchase b) Sales
   c) **Merger** d) Absorption

3. Purchase consideration under AS14 should include cash and securities agreed to be given by the transferee company to the transferor company's
   a) **Shareholders** b) Shareholders and debenture holders
   c) Creditors, Debenture holders and share holders d) Debenture holders

4. If the purchasing company pays realization expenses, ______ ___a/c should be debited
   a) **Goodwill a/c** b) Capital reserve
   c) Realization d) Equity shareholders

5. For closing fictitious assets in Balance Sheet, _________ a/c should be debited
   a) Realization b) **Equity share holders**
   c) Fictitious assets d) Cash

6. Excess of purchase consideration paid by purchasing company over net tangible assets taken is transferred to
   a) **Goodwill** b) Capital reserve
   c) P & L a/c d) Equity shareholders

7. While calculating purchase consideration, if the mode of payment is complete, it is known as
   a) Net assets method b) Intrinsic value method
   c) **Net payment method** d) Lump sum payment method

8. Profit or loss on repayment of preference share capital is transferred to
   a) Equity share holders a/c b) **Realization a/c**
   c) Revaluation a/c d) P & L a/c

9. Assets and liabilities are transferred to realization a/c at its _________
   a) **Book valu**e b) Realized value
   c) Book value or realized value which one is higher
   d) Book value or realized value which one is lower

10. The purpose of amalgamation and absorption is
   a) Eliminate competition b) Economies of production
   c) Controlling the market d) **All the above**

11. When existing two companies go into liquidation to form a new company is called
    a) Absorption b) **Amalgamation**
    c) External reconstruction d) Internal reconstruction

12. An existing company take over another company which is going to be liquidated is called
    a) **Absorption** b) Amalgamation
    c) External reconstruction d) Internal reconstruction

13. If the purchasing company agrees to pay realization expenses the account to be debited is ____
    a) Capital reserve b) Realization
    c) Cash d) **Goodwill**

14. If the vendor company pays realization expenses the account to be debited is __________
    a) Capital reserve b) **Realization**
    c) Cash d) Goodwill

15. The excess of net assets taken over the purchase consideration is credited to _________
    a) **Capital reserve** b) Realization
    c) Cash d) Goodwill

16. The profit on repayment of debentures is ____________ to realization account
    a) Debited b) **Credited**
    c) No entry d) Both a and b

17. Liabilities not taken over by purchasing company is to be payable by _________
    a) Purchasing company b) **Vendor company**
    c) No needs to pay d) Share holders

18. Which of the following are trade liabilities?
    a) Creditors b) B/P
    c) Bank O/D d) **All of them**

19. P & L a/c appears in liability side of balance sheet should be _________
    a) **Credited to equity share holders a/c** b) Credited to realization a/c
    c) Debited to equity share holders a/c d) Debited to realization a/c

20. Underwriting commission appears in assets side of balance sheet should be
    a) Credited to equity share holders a/c b) Credited to realization a/c
    c) **Debited to equity share holders a/c** d) Debited to realization a/c

21. While calculating purchase consideration, the assets and liabilities are recorded at their _____
    a) Book value
    b) **Realized value**
    c) Difference between book value and realized value
    d) Market value

22. In the books of purchasing company the assets and liabilities are recorded at ______
    - a) Book value
    - b) **Realized value**
    - c) Difference between book value and realized value
    - d) Market value

23. Loss on realization account should be transferred to
    - a) Credit side of equity share holders' a/c
    - b) Credit side of realization a/c
    - c) **Debit side of equity share holders' a/c**
    - d) Debit side of realization a/c

24. Balance if any in equity share holders account should be transferred to ________ a/c
    - a) Capital reserve
    - b) Realization
    - c) **Cash**
    - d) Goodwill

25. Intrinsic value of purchase consideration is ________
    - a) **Exchange of shares between two companies**
    - b) Give up shares by both companies
    - c) Raise up shares by both companies
    - d) To issue further share capital

26. When there are two or more liquidations and one formation, it is known as
    - a) **Amalgamation**
    - b) Absorption
    - c) Internal reconstruction
    - d) External reconstruction

REVIEW QUESTIONS

A) Answer in short

1. What is called amalgamation?
2. What is absorption?
3. What do you mean by external reconstruction?
4. What do you understand by merger?
5. What is purchase consideration?
6. Give journal entries in the books of purchasing company of amalgamation.

B) Answer in detail

1. Explain amalgamation, absorption and external reconstruction.
2. Distinguish between amalgamation, absorption and external reconstruction.
3. Describe the methods of accounting for amalgamation.
4. Discuss the various methods of calculation purchase consideration.

5. Write short note on
   a) Purchase consideration by net asset.
   b) Purchase consideration by net payment.
6. Give the journal entries which are passed in the books of companies in the case of absorption.
7. Give journal entries which are passed in the book of Vendor Company in case of amalgamation.

EXERCISES

1. From the following particulars, calculate purchase consideration:
   a) ₹1,00,000 Debentures discharged at a premium of 5%
   b) A payment of ₹7 per share for 20,000 shares
   c) Issue of 20,000 shares at ₹8 each.

ABSORPTION

2. Following is the balance sheet of X Co. Ltd. as on June 30, 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹500 each	60,00,000	Land	27,20,000
Reserve fund	6,50,000	Plant	30,00,000
Insurance fund	1,30,000	Furniture	1,00,000
P & L a/c	20,000	Patent	4,00,000
Debentures of ₹500 each	13,00,000	Stock	20,00,000
Workman savings bank	4,00,000	Debtors	6,00,000
Creditors	5,00,000	Cash	1,80,000
	90,00,000		90,00,000

Y Com. Ltd agreed to take over X Co. Ltd. on the following basis:

a) Payment of cash at ₹90 for every share in X Co. Ltd.

b) Payment of cash at ₹550 for every debenture holder in full discharge of debentures.

c) Exchange of 4 shares of Y Co. Ltd. of ₹75 each (quoted in the market at ₹140 each) for every share in X Co. Ltd.

Show the necessary ledger accounts in X Co. Ltd.

3. A Co. Ltd. sells its business to B Co. Ltd. as on 31st March 2015 on which date its balance sheet was as under

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	4,00,000	Building	2,00,000
General reserve	80,000	Stock	85,500
Profit and loss a/c	28,000	Cash	86,000
10% Debentures	2,00,000	Debtors	37,500
Creditors	42,000	Machinery	2,63,000
		Furniture	70,000
		Underwriting commission	8,000
	7,50,000		7,50,000

B Co. Ltd. agreed to take over the assets except cash at book value except that furniture was valued at ₹56,000 and to take over creditors. The purchase consideration was discharged by the allotment at par of 2,000 fully paid 12 % Debentures of ₹100 each (to be used by A Co. Ltd. to redeem its 10 % debentures at par) and 40,000 fully paid equity shares of ₹10 each. A Co. Ltd. met the expenses of liquidation totaling ₹6,000.

Draft journal entries and important ledger accounts in both the books.

4. X Ltd. agreed to acquire the assets excluding cash, as on 31-12-2015 of Y Ltd. The following is the balance sheet of Y Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	3,00,000	Land	1,20,000
Creditors	10,000	Machinery	2,00,000
Debentures	50,000	Debtors	30,000
General reserve	80,000	Stock	80,000
P & L a/c	60,000	Goodwill	60,000
		Cash	10,000
	5,00,000		5,00,000

The consideration being

1. Cash payment of ₹4 for every share of Y Ltd.
2. The issue of one share of ₹10 each (market value ₹12.50) in the X Ltd. for every share in Y Ltd.
3. The issue of 1,100 debentures of ₹50 each in X Ltd. to enable Y Ltd. to discharge its debentures at a premium of 10%.
4. The expenses of liquidation of Y Ltd. ₹4,000 were to be met by themselves.

Give important ledger accounts in Y Ltd.

5. B Company Ltd. is absorbed by A Company Ltd. The consideration being,

i) Assumption of liabilities. (It is assumed that assets are also taken)

ii) Discharge of debentures at a premium of 5% by issue of 5% debentures in A Co. Ltd.

iii) A payment of cash of ₹30 per share.

iv) The exchange of three, ₹10 share in A Co. Ltd at an agreed value of ₹15 per share for every share in B Co. Ltd.

Balance Sheet of B Co. Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹50 each	30,00,000	Land	7,65,000
Creditors	2,00,000	Machinery	22,00,000
Debentures	15,00,000	Debtors	4,50,000
Workmen's profit sharing fund	1,00,000	Investment in compensation fund	50,000
P & L a/c	30,000	Goodwill	2,50,000
General reserve	3,20,000	Cash	3,50,000
Accident fund	50,000	Work in progress	10,60,000
		Patents	50,000
		Furniture	25,000
	52,00,000		52,00,000

Prepare important ledger accounts in the books of B Co. Ltd.

6. A company absorbs the business of B company on 31- 12- 2015 and to take over the assets and liabilities at their balance sheet values in exchange for which it has to issue 10 shares of ₹10 each for every 8 shares of ₹10 each in B company Ltd. Expenses of liquidation ₹10,000 to be paid by A Company.

Liabilities	**A Co. ₹**	**B Co. ₹**	**Assets**	**A Co. ₹**	**B Co. ₹**
Share capital of ₹10 each	2,500	800	Fixed assets:		
Reserves:			Goodwill	150	–
Capital reserve	500	–	Building	550	150
General reserve	–	50	Machinery	1,000	400
Secured loans	300	–	Furniture	50	25
Unsecured loan	---	200	Investment:		
Current liabilities:			Shares in X Co.	250	–
Creditors	200	–	Govt. securities	–	150
B/P	–	50	Current assets:		
			Cash	100	–
			Stock	900	175

			Debtors	250	90
			B/R	50	30
			Bank	200	80
	3,500	1,100		3,500	1,100

Prepare important ledger accounts in the books of B Company.

7. The following is the balance sheet of D Ltd. on 31-12-2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	4,00,000	Land	1,70,000
Reserve fund	50,000	Plant	4,00,000
Dividend equalization fund	24,000	Investment	50,600
P & L a/c	5,600	Stock	80,700
5% Debentures	2,50,000	Debtors	1,40,500
Creditors	1,28,700	Cash	16,500
	8,58,300		8,58,300

D Ltd. was absorbed by N Ltd. on the above mentioned date on the following terms and conditions:

a) N Ltd. to assume all liabilities and to acquire all assets except investments which were sold by D Ltd. for ₹45,500.

b) Discharge the debenture debt at a discount of 5% by the issue of 7% Debentures in N Ltd.

c) Issue two shares of ₹60 each in N Ltd. at ₹60 each in N Ltd at ₹65 per share and also to pay ₹2 in cash to the share holders of D Ltd. in exchange for one share in D Ltd.

d) Pay the cost of absorption ₹1,500.

e) D Ltd. sold in the open market one– fourth of the shares received from N Ltd. at the average rate of ₹63 per share.

Show the realization a/c, bank a/c and shareholder's a/c in the books of D Ltd.

8. X Ltd. agreed to acquire the assets excluding cash, as on 31-12-2015 of Y Ltd. The following is the balance sheet of Y Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	3,00,000	Land	60,000
Creditors	10,000	Machinery	2,00,000
Debentures	50,000	Debtors	30,000
General reserve	80,000	Stock	80,000

P & L a/c	60,000	Goodwill	60,000
		Cash	70,000
	5,00,000		5,00,000

The consideration being

1. Cash payment of ₹4 for every share of Y Ltd.
2. The issue of one share of ₹10 each (market value ₹12.50) in the X Ltd. for every share in Y Ltd.
3. The issue of 1,100 debentures of ₹50 each in X Ltd. to enable Y Ltd. to discharge its debentures at a premium of 10%.
4. The expenses of liquidation of Y Ltd. ₹4,000 were to be met by themselves.

Give important ledger accounts in Y Ltd.

9. The balance sheet of A Co. Ltd as on March 31, 2015 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹1 each	1,00,000	Fixed assets	90,000
Creditors	20,000	Current assets	10,000
		P & L a/c	20,000
	1,20,000		1,20,000

B Co. Ltd. absorbed the A Co. Ltd. and took over all the assets for ₹72,000 payable ₹50,000 in shares of ₹1 each and ₹22,000 in cash (in order to enable A Co. Ltd. to pay off its liabilities and cost of winding up of ₹2,000).

Show realization a/c, shareholders a/c and cash a/c in the books of A Co. Ltd.

10. Following is the balance sheet of K Ltd. as on 31- 12- 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹ 10 each	20,000	Fixed assets	16,500
Profit and loss a/c	7,000	Current assets	19,500
10% Debentures	10,000	Goodwill	4,000
Creditors	3,000		
	40,000		40,000

R Ltd. agreed to take over the assets of K Ltd. (exclusive of one fixed assets of ₹4,000 and cash ₹1,000 included in current assets) at 10 % more than the book values. It agreed to take over creditors also. The purchase consideration was to be discharged by the issue of 2,000 shares of ₹10 each at the market value of ₹15 each and the balance in cash. Liquidation expenses came to ₹400. K Ltd. sold the fixed assets of ₹4,000 and realized the book value. It paid off its debentures and liquidation expenses.

Give important ledger accounts in K Ltd.

AMALGAMATION

11. Given below are the balance sheets as on March 31, 2016 of A Ltd. and B Ltd. which are amalgamated to form a new company Gama Ltd.

Liabilities	**A Ltd. ₹**	**B Ltd. ₹**	**Liabilities**	**A Ltd. ₹**	**B Ltd. ₹**
Share capital (₹100 each)	1,00,000	2,00,000	Fixed assets	–	25,000
Capital reserve	50,000	10,000	Good will	–	40,000
General reserve	10,000	–	Plant	60,000	80,000
P & L a/c	40,000	–	Furniture	35,000	10,000
Loans	80,000	60,000	Stock	1,00,000	1,40,000
Other liabilities	20,000	80,000	Debtors	1,04,000	13,000
			Cash at bank	1,000	2,000
			P & L a/c	–	40,000
	3,00,000	3,50,000		3,00,000	3,50,000

The share holder in the amalgamating companies are to be allotted fully paid equity shares in Gama Ltd. for the amount of purchase consideration for which purpose all assets and liabilities are to be taken at book values except goodwill of B Ltd.

Show the opening balance sheet of the new company.

12. Green Ltd is absorbed by Yellow Ltd. Given below are the balance sheets of two companies taken after revaluation of their assets on a uniform basis.

Liabilities	**Green Ltd ₹**	**Yellow Ltd ₹**	**Assets**	**Green Ltd ₹**	**Yellow Ltd ₹**
Equity shares of ₹80 each	7,20,000	–	Sundry assets	17,83,500	44,00,000
Equity shares of ₹60 each	–	24,00,000	Discount on share issue		20,000
Reserve fund	6,50,000	13,00,000	Preliminary expenses	15,000	–
P & L a/c	2,78,500	6,40,000	Cash	20,000	1,30,000
Creditors	1,40,000	2,10,000			
Bills payable	30,000	–			
	18,18,500	45,50,000		18,18,500	45,50,000

The holder of every 3 shares in Green Ltd was to receive 5 shares in Yellow Ltd. plus as much 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 journal entries in the books of Yellow Ltd. Prepare opening balance sheet of Yellow Ltd and also prepare necessary ledger accounts in the books of Green Ltd.

13. Rajan Co Ltd and Monica Co Ltd whose business are similar nature, decided to amalgamated and new company Rajmon Co Ltd is formed to take over their assets and liabilities. The following are their balance sheets:

Liabilities	**Rajan**	**Monica**	**Assets**	**Rajan**	**Monica**
Equity shares of ₹10 each	75,000	45,500	Goodwill	30,000	20,000
Reserve fund	4,200	–	Freehold property	10,000	–
P & L a/c	800	4,500	Plant	18,300	13,450
Creditors	3,300	2,000	Cash	1,500	1,000
			Debtors	7,500	6,000
			Stock	16,000	11,550
	83,300	52,000		83,300	52,000

Assuming that assets realize their book value, what amount each company will get?

Prepare balance sheet after amalgamation.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. TV.Ltd. Absorbed the business of Radio Ltd as a going concern on 31.3.08. The balance sheets were as follows:

Balance sheet as on 31.03.08

Liablities	TV Ltd	Radio Ltd	Assets	Tv Ltd	Radio Ltd
Sharecapital (Rs.10 each)	10,00,000	6,00,000	Goodwill	–	1,00,000
			Buildings	5,00,000	–
Reserve	1,20,000	–	stock	1,40,000	2,60,000
Creditors	20,000	1,00,000	Debtors	2,80,000	2,00,000
Bank O/D	–	1,00,000	Investments	1,20,000	–
			Bank	1,00,000	–
			P/L a/c	–	2,40,000
	11,40,000	8,00,000		11,40,000	8,00,000

The purchase consideration was agreed upon at Rs.4,00,000 payable as to Rs.2,00,000 in cash and the balance by the issue of Rs.10 each in fully paid in Tv Ltd. at an agreed value of Rs.12.50 per share. Prepare balance sheet of TV Ltd by passing necessary Journal entries.

[Alagappa uni, B.Com(C.A), Nov, 2015]

2. the summarized balance sheet of A.Ltd and B.Ltd as on 1.1.2002 are as follows

Liabilities	A. Ltd	B. Ltd	Assets	A. Ltd	B. Ltd
Equity shares (Rs.10)	2,00,000	1,00,000	Land and Buildings	2,50,000	1,60,000
			Stock	30,000	40,000
			Debtors	10,000	20,000
12% preference shares (Rs.10)	1,00,00	–	Cash and Bank	70,000	45,000
9% preference shares (Rs.10)	–	1,00,000			
Reserve	30,000	50,000			
Profit and Loss A/c	20,000	10,000			
creditors	10,000	5000			
	3,60,000	2,65,000		3,60,000	2,65,000

On the above date A.Ltd. Decided absorb B.Ltd. Under the following terms and conditions.

1. A.Ltd. will take over all the assets & Liabilities of B Ltd.

2. The equity share holders of B.Ltd, will be given 11,000 equity shares of Rs.10 each at par.
3. 9% preference shares of B.Ltd will be converted into 12% preference shares of A Ltd. the number of Preference shares to be issued should be such that it would bring the same amount of dividend as before.

Prepare :

1. Realization A/c in the books of B.ltd.
2. Necessary Journal entries in the books of A.Ltd.
3. Balance sheet of A.Ltd. after absorption.

[Alagappa,B.Com,Nov,2016]

3. S.Ltd is absorbed by K.Ltd the consideration being

1. the taking over of the trade liabilities of Rs.40,000
2. the payment of cost of absorption of Rs.15,000.
3. The repayment of 'B' Debentures of S.Ltd of Rs.2,00,000 at par.
4. The discharge of 'A' Debentures of Rs.3,00,000 in the Vendor.Co., at a premium of 10% by the issue of 8% debentures in K.Ltd at par.
5. A payment of Rs.20 per share in cash and the exchange of 4 fully paid Rs.10 shares in K.Ltd at a market price of Rs.15 per share for every Rs.50 share in KS ltd. which were 40,000 in number. You are required to find out the purchase consideration.

[Madurai,M.Com,Nov,2014]

4. Prepare a consolidated balance sheet from the following balance sheets:

Liabilities	H.Ltd	S.Ltd	Assets	H.Ltd	S.Ltd
Capital. Re.1 each	1,400	1,000	Sundry Assets	885	1,510
P&L Account	260	320	900 shares in S. Ltd.	1,125	–
Creditors	350	190			
	2010	1,510		2010	1,510

On the date of acquisition of shares by H.Ltd. the credit balance on latters Profit and Loss account was Rs.220. No dividends have been declared since that date.

[Madurai,M.Com,Nov,2014]

5. The balance sheet of A company Ltd as on 31.12.2010 was as follows:

Liabilities	**Amt**	**Assets**	**Amt**
Share capital		Fixed Assets	90,000
1,00,000 shares of Re 1 each	1,00,000	Current Assets	10,000
		P&L A/c	20,000

Sundry creditors	20,000		
	1,20,000		1,20,000

B.Company Ltd. absorbed A company Ltd. and took over all the assets for Rs.72,000 payable Rs.50,000 shares of Re.1. each and Rs. 22,000 in cash (in order to enable A company Ltd, to payoff Liablities and cost of winding up of Rs.2000) show the realization account and shareholders account in books of A company Ltd.

[Madurai,B.com,Nov,2013]

6. X Ltd and Y Ltd are two companies carrying on business in the same line of activity. These balance sheet as on Dec 31, 2007 are given below.

Liabilities	**X Ltd**	**Y Ltd**	**Assets**	**X Ltd**	**Y Ltd**
Fully paid equity shares of Rs. 10 each	6,00,000	2,00,000	Land & Building	1,00,000	–
General reserve	4,00,000	2,00,000	Plant & Machinery	7,00,000	3,00,000
Secured loan	6,00,000	1,00,000	Investments	1,00,000	–
Current liabilities	6,00,000	4,00,000	Stock	9,00,000	4,00,000
			Debtors	3,00,000	1,00,000
			Cash	1,00,000	1,00,000
	22,00,000	**9,00,000**		**22,00,000**	**9,00,000**

7. The two companies decide to amalgamate in XY td.

   (a) X Ltd holds 8,000 shares in Y Ltd @ Rs. 12.50 each

   (b) All assets and liabilities of the companies except investments are taken over by XY Ltd.

   (c) Each shares in Y Ltd is valued @ Rs. 25 for the purpose of the amalgamation.

   (d) Shareholders in X Ltd and Y Ltd are paid off by issuing to them a sufficient nuber of equity share of Rs. 10 each in XY Ltd as fully paid at par.

   (e) Each share in X Ltd is valued @ Rs. 15 for the purpose of amalgamation.

   Show journal entries in the Books of ‘X’ Ltd.

[Madurai, M.Com, April,2014]

8. The summarized balance sheet of A Ltd. And B Ltd. As on 1-1-2002 are as follows:

Liability	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity shares (Rs. 10)	2,00,000	1,00,000	Land and buildings	2,50,000	1,60,000
12% preference shares (Rs.10%)	1,00,000	–	Stock	30,000	40,000
9% preference shares (Rs.10%)	–	1,00,000	Debtors	10,000	20,000
Reserve	30,000	50,000	Cash and bank	70,000	45,000

Profit and loss a/c Creditors	20,000 10,000	10,000 5,000			
	3,60,000	2,65,000		3,60,000	2,65,000

On the above date A Ltd. Decided absorb BLtd. Under the following terms and condition.

(a) A Ltd. will take over all the assets & liabilities of B Ltd.

(b) The equity shareholders of B Ltd. Will be given 11,000 equity shares of Rs. 10/ -0 each at par.

(c) 9% preference shares of B Ltd. Will be converted into 12% preference shares of A Ltd. the number of preference shares to be issued should be such that it would bring the same amount of dividend as before.

Prepare:

(i) Realisation A/c in the books of B Ltd.

(ii) Necessary journal entries in the books of A Ltd.

(iii) Balance sheet of A Ltd. after absorption.

9. Lee Ltd. agreed to absorb Bee Ltd. by paying Rs. 10,00,000 to the shareholders. In addition they agreed to settle 1.000 8% Debentures of Rs. 100 each in Bee Ltd. at 20% Premium by issuing their own debentures of Rs. 100 **each at 96%. Ascertain** the Face value and actual issue value of debentures to be issued.

[Madras, B.Com ,Nov. 2009]

[Ans: Face Value : Rs. 1,25,000; Issue Value : Rs. 1,20,000]

10. Lal Ltd. agreed to absorb 0 ie Business of Mal. Ltd. The Purchase consideration was as under:

(A) For every 4, 10% Preference shares of Rs. 10 each in Mal Ltd. 7 Equity shares of Rs. 10 each in I al Ltd. is Rs. 8 paid up. There were 60,00 i 10% Preference shares in Mal Ltd.

(B) For every 3 Equity shares of Rs. 10 each in Mal Ltd. 8 Equity shares in Lal Ltd. as Rs. 10 paid up. There were 90,000 Equity shares in Mal Ltd. Find out purchase consideration.

[Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans : P.C. : Rs. 32,40,000; 1,05,000 shares Rs. 8 paid up and 2,40,000 shares Rs. 10 paid up]

11. S Ltd. was taken over by R Ltd. The following position was mutually agreed upon:

	S Ltd.	*R Ltd.*
No. of Shares	60,000	90,000
Face value of share	100	10
Net assets	3,60,00,000	72,00,000

Ascertain Intrinsic values of the shares. ratio of exchange of shares and No. of shares to be issued.

[Madras, B.Com (ICE) (PBC) Nov. 2009]

[Ans : Intrinsic Value,: S Ltd. Rs. 600; R Ltd. : Rs. 80;Ratio of exchange : 1 : 7.5 No. of shares to be issued : 4,50,000]

12. Spring Field Ltd. is absorbed by Sports Field Ltd.. the consideration being:

(1) The taking over of the trade liabilities of Rs. 40,000;

(2) The payment of cost of absorption of Rs. 15,000;

(3) The repayment of ¯B¯ debentures of Spring Field Ltd. of Rs. 2,00,000 at par;

(4) The discharge of 'A' debentures of Rs. 3,00.000 in the Vendor Co. at a premium of 10% by the issue of 8% debentures in Sports Field Ltd. at par;

(5) A payment of Rs; 20 per share in cash and the exchange of 4 fully paid Rs. 10 shares in Sports Field Ltd. at a market price of Rs. 15 per share for every Rs. 50 share in Spring Field Ltd. which were 40,000 in number. You are required to find out the purchase consideration.

[Madras, B.Com (AF) (AF6C) Nov. 2009]

[Ans: Total purchase price — Rs. 32,00,000; Cash — Rs. 8,00,000 Shares — Rs. 24,00,000]

Hint : As per As-14 (Accounting Standard 14) for Amalgamations, Purchase consideration should constitute Cash and Securities given for shareholders.

13. Ram Ltd., and Shyam Ltd., have agreed to amalgamate. A new company Rajesh Ltd., has been formed to take over the combined concern as on 31st December 1998. After negotiations. the assets of the two companies have been agreed upon as shown below:

Balance Sheet as on 31-12-98

Liabilities	Ram Ltd. Rs.	Shyam Ltd. Rs.	Assets	Ram Ltd. Rs.	Shyam Ltd. Rs.
Share Capital :			Land& Buildings	5,00,000	3,00,000
Shares of			Plant & Machinery	2,00,000	2,50,000
Rs. 10 each	10,00,000	5,00,000	Goodwill	–	50,000
Reserve Fund	–	50,000	Furniture	1,10,000	–
P&L A/c	50,000	50,000	Stock	1,50,000	20,000
Creditors	80,000	50,000	Debtors	1,20,000	20,000
			Bank	50,000	10,000
	11,30,000	6,50,000		11,30,000	6,50,000

Prepare the balance sheet of Rajesh Ltd., assuming

(a) The entire purchase price is paid off in the form of equity shares of Rs. 100 each in Rajesh Ltd.

(b) The amalgamation is in the nature of Merger.

[Madras, B.Com., B.Com.(CS) April 2006; BCS (NYD) Nov. 2005; B.Com., March 1995; March 1991; Sept. 1990 Modified]

[Ans : Purchase price : Ram Ltd., Rs. 10,50,000 Shyam Ltd., Rs. 6,00,000. Excess of purchase price of Rs. 1,50,000 adjusted against reserves, B/S total : Rs. 17,80,000]

14. Abdul Ltd. having a capital of Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each (Rs. 75 paid up) and a reserve fund of Rs. 2,50,000 was absorbed by National Timber Ltd. having a capital of Rs. 40,00,000 divided into 40,000 shares of Rs. 100 each (Rs. 60 paid up) and a reserve fund of Rs. 16,00,000 on the terms that for every four shares in Abdul Ltd.; National Timber Ltd. was to give five shares partly paid as its original ones.Prepare ledger accounts to close the books of Abdul Ltd.

[Madras, B.Com, 2007 [M.ComAp. 2005 (Modified); B.Com.]

[Ans : Purchase price — Rs. 7,50,000; Loss on reaslisation — Rs. 2,50,000; Payment to shareholders — Shares worth — Rs. 7,50,000]

15. The following is the balance sheet of XYZ Ltd. on 31 st Dec 1976

Liabilities	**Rs.**	**Assets**	**Rs.**
20,000 shares of Rs. 10 each	2,00,000	Land & Buildings	1,00,000
Debentures	1,00,000	Plant & Machinery	1,50,000
Sundry creditors	30,000	Work-in-progress	30,000
Reserve fund	25,000	Stock	60,000
Dividend equalization fund	20,000	Furniture and fittings	2,500
Profit & Loss appropriation Aic	5,100	Sundry debtors	25,000
		Cash at Bank	12,500
		Cash in hand	100
	3,80,100		3,80,100

The company is absorbed by ABC company Ltd; on the above date. The consideration for the absorption is the discharge of debentures at a premium of 5%, taking over the liability in respect of the sundry creditors and payment of Rs. 7 in cash and one share of Rs. 5 in ABC Co. Ltd. at the market value of Rs. 8 per share in exchange for one share in XYZ Co. Ltd. The cost o liquidation of Rs. 5,000 is to be met by the purchasing company. Pass journal entries in the books of both the companies. Show how the purchase price is arrived at.

[Madras, B.Com(CS) Ap. 2009; B.Com(AF) Nov. 2008]

[Ans: Purchase price, — Rs. 3,00,000;Profit on realization — Rs. 49,900; Payment to shareholders — Rs. 3,00,00 — Cash Rs. 1,40,000 and shares Rs. 1,60,000; Total Goodwill in ABC Co. — Rs. 59,900]

Hint : (1) Payment to Debentures should be *shown* in the books of Purchasing Co.

(2) Expenses are to be treated like reimbursement.

16. "X' Co. Ltd. agreed to acquire the assets excluding cash as on 31st Dec. 1981 of Y Co. Ltd. The Balance sheet of Y Co. Ltd. as on that date was:

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity capital:		Goodwill	60,000
(shares of Rs. 10 each)	3,00,000	Land &Buildings	1,20,000
General reserve	80,000	Plant & Machinery	2,00,000
Debentures	50,000	Stock	80,000
Creditors	10,000	Debtors	30,000
P& L A/c	60,000	Cash	10,000
	5,00,000		5,00,000

The consideration was as follows:

(a) A cash payment of Rs. 4 for every share of Y Ltd.

(b) The issue of one share of Rs. 10 each at market value of Rs. 12.50 in the X.Co. Ltd. for every share in Y Ltd.

(c) The issue of 1.100 debentures of Rs. 50 each in X Co. 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. 4,000 was to be met by themselves. Give the journal entries in the books of both the companies.

[Madras, B.Com., B.Com (CS) Nov. 2007; B.Com (ICE) Ap 2007; B.Com. (PZ4A) Nov. 2006; Nov. 2005 (10 Tunes); BCS Apri12005; Oa 2002]

[Ans : Purchase price Rs. 4,95,000. Profit on realization Rs. 51,000; Payment to Shareholders — Cash Rs. 1,16,000; Shares 3,75,000; Goodwill in X Co. Rs. 1,20,000]

Hint : Cash in hand which is not taken over is assumed to be used to pay creditors.

17. The company went into voluntary liquidation and assets were sold to y Co. Ltd. for Rs. 1.50,000 payable as to Rs. 60,000 in cash (which sufficed to discharge creditors and bank overdraft and to pay off the winding up expenses of Rs. 2,000) and as to Rs. 90,000 by the allotment of 12.000 shares of Rs. 10 each of the Y Co. Ltd.. Rs. 7.50 per share paid up.Draw up the important ledger accounts to close the books of 'X' Co., Ltd. and the journal entries for recording these transactions in the books of "Y', Co. Ltd..

[Periyar, B.Com., Ap 2006; Periyar, M.Com (CA) Ap 2006]

[Madras, 1st M.Com (ECA1A) Nov. 2008; B.Com., B.Com. (CS) Nov. 2006;] B.Com. (PZ4A), Nov. 2005; BCS (SY4B) April 2005; B.Com. April 2004]

[Ans : Loss on realisation — Rs. 29,000; Purchase price : Rs. 90,000; Payment to shareholders — Rs. 90,000 in shares]

Hint : Expenses can be treated like reimbursement. Creditors and Bank O.U. can be shown as taken over and then paid off by purchasing company.

18. The E Co. Ltd. sells its business to Metha Products Ltd. as on Dec. 31.198 on which date its Balance Sheet was as under.

Liabilities	Rs.	Assets	Rs.
Paid up capital:		Goodwill	50,000
2,000 shares of Rs. 100 each	2,00,000	Property	1,50,000
Debentures	1,00,000	Tools	83,000
Creditors	30,000	Stock	35,000
Reserve fund	50,000	Bills receivable	4,500
Profit & Loss A/c	20,000	Sundry debtors	27,500
		Cash at bank	50,000
	4,00,000		4,00,000

[Madras, 1st M.Com.(CA1A) Nov. 2006]

[Ans : Purchase price — Rs. 2,45,000; Realisation loss — Rs. 8,000; Shareho1ders get cash — Rs. 97,000; Shares — Rs. 1,65,000 Goodwill in Metha Products — Rs. 75,000]

Hint: Cash at Bank which is not taken over is to be used to to settle creditors and cost of Liquidation. Balance of Cash goes to shareholders.

19. The position of two companies. A and B is as follows:

Liabilities .	**A Ltd. Rs.**	**B Ltd. Rs.**	**Assets**	**A Ltd. Rs.**	**B Ltd. Rs.**
Nominal capital: Shares of Rs. 10 each	5,00,000	10,00,000	Fixed assets	3,00,000	5,00,000
			Debtors & Stock	3,50,000	1,00,000
Issued and paid up			Cash at bank	—	1,00,000
capital: Shares of Rs.10			Goodwill	1,00,000	3,50,000
each fully called and paid	5,00,000	7,00,000	P & L A/c	1,50,000	
5% Debentures	1,00,000				
Creditors	3,00,000	2,00,000			
P & L A/c	—	1,50,000			
	9,00,000	10.50,000		9,00,000	10,50,000

B Ltd. agreed to absorb A Ltd. upon the following terms:

(a) The shares in A Ltd. are to be considered as worth Rs. 6 each. The shareholders of A Ltd. are to be paid one quarter in cash and the balance in shares of B Ltd. at Rs. 12.50 each.

(b) The debentureholders in A Ltd. agreed to take Rs. 95 of 7% debentures in B Ltd. for every Rs. 100 of 5% debentures held in A Ltd.

(c) 'A' Ltd. is to be wound up.

Show the journal entries to record the above in both companies and draw the balance sheet showing the position of B Ltd. after the absorption.

[Madras, B.Com., Oct 2001]

[Ans: Purchase price — Rs. 3,00,000; Realisation loss — Rs. 50,000; Goodwill on purchase in B Ltd. 45,000; Total goodwill in Balance Sheet 3,95,000; Balance Sheet total — Rs. 16,70,000]

20. The summarised balance sheet of Grey Ltd. and Remy Ltd. as on March 31 were as follows:

Liabilities	**Grey Ltd. Rs.**	**Remy Ltd. Rs.**	**Assets**	**Grey Ltd. Rs.**	**Remy Ltd. Rs.**
Issued share capital :			Goodwill	–	60,000
Shares of Rs. 10 each	4,00,000	3,00,000	Fixed assets	3,00,000	1,20,000
Creditors	40,000	1,20,000	Current assets	2,10,000	1,40,000
Profit & Loss A/c	70,000	–	P & L A/c	–	1,00,000
	5,10,000	4.20,000		5,10,000	4,20,000

Grey Ltd. resolved to take over the business of Remy Ltd. with effect from April 1. The shareholders of Remy Ltd. agreed to accept shares in Grey Ltd. on the basis that the shares of Grey Ltd. were worth Rs. 12 each and the shares of Remy Ltd. were worth Rs. 5 each. The purchasing company took over the fixed assets of Remy Ltd. together with the current assets and were not required to pay the liabilities. Make journal entries in the books of Grey Ltd. and draw up it's balance sheet immediately after absorption

[Madras, B.Com., April,2007]

[Ans: Purchase price Rs. 1,50,000; Goodwill on acquisition — Rs. 10,000; Total of balance sheet — Rs. 7,80,000]

21. While computing the consideration, the directors of A Ltd. valued Land & Buildings at Rs. 12,00,000, the stock at Rs. 1,42,000 and the debtors at their face value subject to an allowance of 5% to cover doubtful debts. The cost of liquidation of B Ltd. came to Rs. 5,000 which is to be paid by A Ltd. close the books of B Ltd. and give journal entries in the books of A Ltd.

[Madras, B.Com., ,B. Com.* (CS) *April 2006; 2nd M.Com.(ICE) (PTI) Oct. 2005; B.Com. Nov. 2004]

[Ans: Purchase price 15,00,000; Profit on realisation — Rs. 6,20,000; Payment to shareholders — Rs. 1,50,000 in cash and Rs. 13,50,000 in shares; Goodwill in A company — Rs. 2,12,800]

22. The creditors and shareholders having agreed upon a scheme of reconstruction, A Ltd. went into voluntary liquidation. The balance sheet as at the date of reconstruction stood as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Building	95,000
25,000 equity shares of Rs. 10 each	2,50,000	Machinery	1,05,000
5% debentures	1,00,000	Stock	50,000
Trade creditors	40,000	Debtors	60,000
		Cash at bank	2,000
		Profit & Loss Aic	78,000
	3,90,000		3,90,000

The scheme of reconstruction provided as under:

(a) A new company called A (new) Ltd. to be formed with a share capital of Rs. 5,00,000 in 50,000 shares of Rs. 10 each to take over from the above company, stock and debtors at 20% less than the book value and building and machinery at Rs. 77,000 and Rs. 1,00,000 respectively.

(b) The shareholders agreed to receive 25,000 equity shares of Rs. 10 each, credited with Rs. 5 per share paid up, with a call of Rs. 2.50 per share to be made forthwith.

(c) The debenture holders were to be satisfied by the issue of 6% mortgage debentures of Rs. 1,50,000 in the new company in exchange for old debentures.

(d) The trade creditors agreed to receive Rs. 35,000 from the new company in full settlement of their claims.

The bank balance was utilised in payment of reconstruction expenses. Give the journal entries in the books of A Ltd. and A (new) Ltd.

[Periyar, B.Com,2011]

[Ans: Purchase consideration — Rs. 1,25,000; Loss on realisation — Rs. 47,000; Goodwill in A(new) Ltd. — Rs. 45,000]

Hint : New Co., takes over Debentures and Creditors and then settles them.

23. Lala Co. Ltd. decided to reconstruct and went into liquidation with the following assets and liabilities.

Liabilities	**Rs.**	**Assets**	**Rs.**
Pref. share capital of Rs. 10 each	2,00,000	Fixed assets	4,99,200
Equity share capital Rs. 10 each	8,00,000	Stock	73,500
General reserve	12,100	Debtors	1,31,000
Bank loan	18,600	Cash	400

Creditors	86,100	Profit & Loss A/c	4,12,700
	11,16,800		11,16,800

A new company called Bala Co. Ltd. was formed to acquire the fixed assets and stock of Lala Co. Ltd. at Rs. 3,40,000 and Rs. 60,000 respectively. The purchase price is to be paid by issue of 10% preference shares and equity shares of Rs. 10 each for equal amounts. Debtors realized Rs. 1,22,750 and the creditors were paid Rs. 81,340 in full satisfaction. Bank loan was paid in full. The expenses of liquidation came to Rs. 10,710. Close the books of Lala Co. Ltd. and give the balance sheet of Bala Co. Ltd.

[Madras, B.Com.(CS) (PYD) Nov. 2004]

[Ans : Purchase price — Rs. 4,00,000; Loss on realisation — Rs. 1,86,900; Payment to equity shareholders; Cash — Rs. 12,500 and equity shares in Bala Ltd. — Rs. 2,00,000; Balance Sheet total of Bala Ltd. Rs. 4,00,000]

24. The Balance Sheets of Z Ltd. and A Ltd. as at 31st March 2000 are given below :

Liabilities	**Z Ltd. Rs.**	**A Ltd. Rs.**	**Assets**	**Z Ltd. Rs.**	**A Ltd. Rs.**
Share Capital of			Sundry Assets	3,10,000	6,00,000
Rs. 10 each	2,00,000	4,00,000	Loan to 'A' Ltd.	30,000	–
Reserves	40,000	1,00,000	Investments		
9% Debentures			5,000 shares		
of Rs. 100 each	1,00,000	–	in Q Ltd.	50,000	–
Loan from Z Ltd.	–	30,000			
Creditors	50,000	70,000			
	3,90,000	6,00,000		3,90,000	6,00,000

'A' Ltd. Proposes to takeover Z Ltd. on the following terms :

(a) A Ltd. will issue sufficient number of its shares at Rs. 11 each and Pay Re. 0.50' each per share held by members of Z Ltd.

(b) 9% Debentures of Z Ltd. are to be paid °at 8% premium by issue of sufficient number of Rs. 100 10% Debentures of A Ltd. at Rs. 90 each.

Show Journal entries and Ledger Accounts in the books of the companies and draft the Balance sheet in the books of A Ltd.

[Madras, II M.Com., Oct. 2002]

lAns : Purchase consideration : Rs. 2,30,000; Realisation Loss : Rs. 10,000; Capital Reserve in the books of 'A' Ltd. : Rs. 2,000; Balance sheet total : Rs. 9,62,000; Face value of debentures issued by A Ltd. : Rs. 1,20,000]

UNIT – 10

LIQUIDATORS FINAL STATEMENT OF ACCOUNTS

Meaning - Modes of Winding Up- Contributory- Order of Payment- Preferential Creditors- Statement of Affairs- Liquidators Final Statement of Accounts

After completing all legal formalities to close the affairs of the company, a liquidator is appointed. He prepares a statement of affairs which clearly explains the cash available in company and how it should be distributed to all the parties. The available amount should be distributed in a specific order given in the Act.

The liquidator is entitled to receive remuneration for the above work after executing it. The remuneration may be fixed or calculated as a percentage on amount realized on assets and any amount distributed to unsecured creditors.

If the shares are partly paid up, then the balance amount should be received from the shareholders before settling the amount due to them. The surplus amount should be paid first to the equity shares holders to whom the paid up share capital value is more.

10.1 MODES OF WINDING UP

A company may be wound up in any of the following ways:

1. Compulsory winding up by the court.
2. Voluntary winding up without the intervention of the court.
3. Voluntary winding up under the supervision of the court.

1. Compulsory winding up the court

Winding up of a company by an order of the court is called the compulsory winding up. A company may wound up in the following cases:

a) If the company has passed a special resolution to that effect the company is wound up by the court.

b) If default is made in filing statutory reports or in holding statutory meetings.

c) If the company does not commence business within the year from its incorporation or suspends it for a whole year.

d) If the number of members is reduced to below two in the case of private company and below seven in case of public company.

e) If the company is unable to pay its debts.

f) If the court is of the opinion that it is just and equitable that the company be wound up.

2. Voluntary winding up

Voluntary winding up occurs without intervention of the court. Here the company and its creditors mutually settle their affairs without going to the court. Voluntary winding up may be either Members' voluntary winding up or Creditors' voluntary winding up.

a) Members Voluntary winding up

When a company's solvency is declared by the directors in voluntary winding up it is called Members Voluntary winding up. The declaration must specify the directors opinion that the company has no debt or it will be able to its debts in full within three years of the commencement of the winding up.

b) Creditors Voluntary winding up

When a company's solvency is not declared by the directors in voluntary winding up, it is called Creditors voluntary winding up. Hence, the act empowers the creditors dominate over the members in this mode of winding up so as to effectively protect their interest.

3. Winding up subject to supervision of the court

This is voluntary winding up with the supervision of the court. The object of a supervision order is to ensure the protection of interests of all persons concerned i.e., the company, the contributories and the creditors. The court may issue such an order only under the following circumstances:

a. If the resolution for winding up was obtained by fraud by the company;

b. If the rules pertaining to winding up are not being properly adhered to ;

c. If the liquidator is found to be prejudicial or is negligent in releasing the assets of the company.

10.2 CONTRIBUTORY

Contributory is defined as "every person liable to contribute to the assets of a company in the event of its being wound up and includes any holder of shares which are fully paid up".

The term contributory also includes the holder of fully paid shares. A fully paid shares holder is a contributory for some purpose, e.g., where a distribution is to be made to the shareholders.

In the event of a company being winding up, every past and present member shall be liable to contribute to the assets of the company. This contribution is for an amount sufficient for payment of the company's debts and liabilities and the cost and expenses of winding up.

The liability of the contributory is subject to the following limitations:

1. A contributory cannot be asked to pay more than the unpaid value of shares held by him.
2. A past member is not liable to contribute unless the present members have been called upon to contribute to the fullest extent to which they can be so asked.
3. A past member, who has ceased to be member for at least one year before the commencement of the winding up, is not liable to contribute.
4. A past member is not liable in respect of any liability or debt of the company incurred after he ceased to be a member.

10.3 ORDER OF PAYMENT

Payments are made by liquidator in the following order:

1. Secured Creditors

A secured creditor is one who holds some security for a debt due to him from the company, such as pledge, mortgage, charge or lien. Secured creditors may be fully secured or partly secured. If they are fully secured the value of security offered to them would be more than the amount due. But in case of partly secured creditors, the value of security would be less than the amount due to them. In such case, the partly secured creditors are secured to the extent the value of security offered to them. For the remaining balance due to them, they will be treated as unsecured creditors.

2. Legal expenses

All legal expenses are met out of the cash realized.

3. Remuneration of the liquidator

The liquidator gets his remuneration in the form of commission. This is based on the assets realized. Surplus of secured creditors is mostly included in the amount of assets realized for calculation of commission.

1. Expenses and cost of winding up
2. Payment to preferential creditors
3. Payment to debenture holders or other creditors secured by floating charges
4. Payment to unsecured creditors
5. Preference share holders
6. Equity share holders

10.4 PREFERENTIAL CREDITORS

Preferential creditors or payment are those creditors or met before any payment is made to any creditors except the cost of liquidation and the remuneration payable to liquidator. Such preferential creditors or payment are:

1. All revenue, taxes and rates due from the company to the Central or State Government or to a local authority – within 12 months next before the commencement of winding up.
2. All wages, salaries whether payable for part or full time work – within 12 months next before the commencement of winding up.
3. All accrued holiday remuneration payable to any employee
4. All sums due as compensation under the Workmen's Compensation Act, 1923 in respect of death or disablement of any employee of the company.
5. All sums due to an employee, from a Provident Fund, pension Fund or any other fund for the welfare of the employee of the company.

10.5 STATEMENT OF AFFAIRS

When a company is wound up under the order of the court or when the official liquidator has been appointed by the court as provisional liquidator, the officer and directors of the company must submit within 21 days of the court's order a statement called statement of affairs. It is showing the following:

1. The assets of the company, stating separately the cash in hand and cash at bank and negotiable securities.
2. The debts and liabilities of the company.
3. The names and addresses of its creditors, stating separately the amount of secured and unsecured debts.
4. In the case of secured debts particularly of the securities held by the creditors, their value and dates on which they were given.
5. The debts due to the company and names and addresses of the persons from whom they are due and the amount likely to be realized.
6. Further information as may be required by the official liquidator.

Statement of affairs and lists to be annexed

Statementas to the affairs of ……. Ltd., on the …….. day of ……. 19, being the date of the winding up order (or order appointing provisional liquidator or the date directed by the official liquidators, as the case may be) showing assets at estimated realizable values and liabilities expected to rank:

Assets not specifically pledged (as per list A)

	Estimated realizable value	
Balance at bank	–	–
Cash in hand	–	–
Marketable securities	–	–
Bills receivable	–	–

Trade debtors	–	–
Loans and advances	–	–
Unpaid calls	–	–
Stock in trade	–	–
Work in progress	–	–
Freehold property, land & building	–	–
Leasehold property	–	–
Plant & machinery	–	–
Furniture, fittings, utensils etc.	–	–
Investment other than marketable securities	–	–
Livestock	–	–
Other property etc.	–	–

Assets Specifically pleged (As per List B)	(a) Estimated realizable value (Rs)	(b) Due to secured creditor (Rs)	(c) Defeciency ranking as unsecured (Rs)	(d) Surplus Carried to last column (Rs)
Freehold property:				
……………..				
……………...				
Estimated surplus from assets specifically pledged			…………….	
Estimated total assets available for preferential creditors, debenture holders secured by a floating charge and unsecured creditors (Carried forward)			……………..	
Unsecured creditors (Carried forward)			…………….	
Summary of Gross Assets:				
Gross realizable value of assets specifically pledged			……………...	
Other assets			……………..	

Gross assets			……………..	
		Liabilities		
Gross (to be deducted from surplus liabilities or added to deficiency as the case may be)				
Rs.				
Secured creditors as (as per list B) to the extent to which claims are estimated to be covered by assets specifically pledged (item (a) or (b) as above whichever is less) (Insert in gross liability column only)				
Preferential creditors (as oer list c)				
Estimated balance sheet available for debenture holders secured by a floating charges and secured creditors				……………
Debenture holders secured by floating charges and unsecured creditors				……………
Estimated surplus or deficiency as regards debenture holders unsecured creditors (as per List E)				……………
Estimated unsecured balance of claims of creditors partly secured				…………… ……………

on specific asstes brought from preceding page (C)				…………….
Trade creditors Bills payable outstanding expenses				
Contingent liabilities (State nature) (Rs) Estimated surplus or deficiency as regards creditors (being difference between gross assets brought from preceeding page (d) and gross liabilities as per column (C)) Issued and called up capital: …… preference shares of …… each Rs. …… called up (as per List F) ……Equity shares of ……. Each Rs………called up (as per list G)				
Estimated surplus/deficiency as regards members (as per list H)				…………… …………….

Prescribed form of deficiency or surplus account

List H – deficiency or surplus account

Item contribution to deficiency (or reducing surplus)	**₹**
1. Excess (if any) of capital and liabilities over assets on the ….. ….. as shown by balance sheet (copy annexed)	–
2. Net dividends and bonuses declared during the period from …… …… to the date of the statement	–

3. Net trading losses (after charging items shown in note to follow) for the same period	–
4. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars of annex schedule)	–
5. Estimated losses now written off or for which provision has been made for the purpose of preparing the statement (give particulars of annex schedule)	–
6. Other items contribution to deficiency or reducing surplus………..	–
Items reducing deficiency (or contributing to surplus)	
7. Excess (if any) of assets over capital and liabilities on the ….. ….. to the date of statement	–
8. Net trading profit (after charging items shown in note below) for the period from ….. ….. to the date of statement.	–
9. Profits and income other than trading profits during the same period (give particulars or annex schedule)	–
10.Other items reducing deficiency or contributing to surplus	–
Deficiency / surplus (as shown by the statement of affairs)	
Note as to net trading profit and losses:	
Particulars are to be inserted here (so far as applicable) of the items mentioned below, which are to be taken into account in arriving at the amount of net trading profits or losses shown in this account:	
Provision for depreciation, renewals or diminution in value of fixed assets. Charges for indian income tax and other Indian taxation on profits. Interest on debentures and other fixed loans, payment to directors made by the company and required by law to be disclosed in the accounts	
Exceptional or non-requiring receipts:…………	
Signature: ____________________ Dated _______________	

10.6 PROCEDURE FOR PREPARING STATEMENT OF AFFAIRS

1. Put down the free assets at their realizable values.
2. Add any surplus expected from securities in the hands of the creditors.
3. Deduct preferential creditors.

4. Deduct debentures having a floating charges or similar other creditors.
5. Deduct unsecured creditors together with unsatisfied balance of partly secured creditors.
6. Deduct share capital.

If at any stage the deduction to be made is more than the amount available, deficiency appears, otherwise there is a surplus.

List A:

It covers all assets which are not specifically pledged and only the values realizable are taken into account. This list includes calls in arrears but does not include calls that have not been made.

List B:

This list deals with assets specifically pledged with creditors both fully secured and partly secured. A comparison of the estimated realizable values of such assets and the amount due to creditors having a charge on such assets will enable to ascertain the surplus from such assets.

List C:

This gives the sum of amount due to preferential creditors.

List D:

This gives the amount due to debenture holders having a floating charge on the assets of the company.

List E:

This list includes unsecured creditors such as trade creditors, bills payable, outstanding expenses, etc. this list also includes preferential debts exceeding the limits specified in the act.

List F:

This list gives the amount due to preference shareholders being the called up capital.

List G:

This list includes called up equity capital.

List H:

This list explains the reasons for the surplus or the deficiency as shown by the statement of affairs. According to the law, the period covered by the Deficiency or Surplus must commence on a date not less than three years before the winding up order, or if the company has not been

incorporated for the whole of that period, the date of incorporation of the company, unless the official Liquidator otherwise agrees.

Specimen Format of Liquidators Final Statement of Accounts

Particulars		**Amount**	**Particulars**	**Amount**
To Cash in hand		xxx	By Secured creditors	xxx
" Cash at bank		xxx	" Legal /Liquidation exp.	xxx
" Assets realized		xxx	" Liquidator's commission	xxx
Land	xxx	xxx	% on assets realized	xxx
Building	xxx	xxx	% on preferential creditors	xxx
Other assets	xxx	xxx	% on Unsecured creditors	xxx
" Cash from partly paid up shares		xxx	" Debenture holders (including interest O/S)	xxx
			" Preferential creditors	xxx
			" Unsecured creditors	xxx
			" Preference share holders (including dividend O/S)	xxx
			" Equity shareholders(b/f)	xxx
		xxx		xxx

Note:

1. % of commission on unsecured creditors includes commission on preferential creditors also
2. Unsecured creditors except preferential creditors means commission is calculated on unsecured creditors only.
3. Assets realized normally will not include cash in hand or at bank.
4. If there are two types of equity shareholders having different paid up value, the excess amount should be paid first.
5. Amount should be received from share holders, if the shares are partly paid up.
6. Amount payable to unsecured creditors are sufficient, the commission will be

$$\text{Unsecured Creditors} \times \frac{\%}{100}$$

7. Amount payable to unsecured creditors are insufficient, the commission will be

$$\text{Unsecured Creditors} \times \frac{\%}{100+\%}$$

Illustration -1 The following balances were extracted from the books of sudden Death Ltd on which date a winding up order was made:

Share capital:	₹
Equity shares – 20,000 shares of ₹10 each, ₹8 per Share called up	1,60,000
Preference shares – 2,000 shares of ₹ 100 each fully paid	2,00,000
Calls-in-arrears on equity shares-estimated to realize ₹600	1,000
15% debentures secured by first floating charge on the assets	2,00,000
Bank overdraft secured by second floating charge on the assets	1,00,000
Fully secured creditors (secured against plant & machinery)	60,000
Investment (estimated to realize ₹60,000)	80,000
Plant & machinery – secured to creditors	
Estimated to realize ₹80,000	1,20,000
Land & building – estimated to realize ₹ 80,000	40,000
Rent & taxes	4,000
Wages & salaries	3,000
Bills payable	24,000
Sundry creditors	60,000
Bills receivable – estimated estimated to realize ₹2000	6,000
Debtors – estimated to realize 60%	1,40,000
Bills discounted – ₹30,000 likely to rank	8,000
Contingent liability likely to materialize	6,000
Stock in trade – estimated to produce ₹ 38,000	60,000
Cash in hand and at bank	3,200

Entry for accrued salary of ₹ 4,000 and rent of ₹ 2,000 has still to be made in the books. Prepare a statement of affairs and a deficiency A/c

Solution

Statement of affairs of sudden Death Ltd

Assets	**Estimated realizable value**
Assets not specifically pledged as per list 'A'	₹
Cash in hand and at bank	3,200
Bills receivable	2,000
Sundry debtors (1,40,000 x 60%)	84,000
Calls in arrears	600
Stock in trade	38,000
Land & building	80,000
Investments	60,000
	2,67,800

Assets specifically pledged as per list B:	
Estimated Realizable Value Rs. / Due to secured creditors Rs. / deficiency Rs. / surplus Rs.	
Plant & Machinery 80,000 / 60,000 / – / 20,000	20,000
Estimated total assets available for preferential creditors, Debenture holders secured by a floating charge and unsecured creditors.	2,87,800
Summary of gross assets:	
Gross realizable value of assets specifically pledged 80,000	
Other assets 2,67,800	
3,47,800	
Liabilities	
Gross (To be deducted from surplus or added to be Deficiency as the case may be) secured creditors as per list B to the extent to which claims are estimated to be	
60,000 covered by assets specifically pledged	–
13,000 preferential creditors as per List 'C'	13,000
estimated balance of assets available for debenture holders and bank overdraft secured by a floating charges and for unsecured creditors (3,47,800 – 73,000)	2,74,800
2,00,000 debenture holders secured by first floating charge as per list D	2,00,000
1,00,000 bank overdraft secured by second floating Charges as per list D	74,800
Deficiency as regards creditors secured by floating Charges	1,00,000
	–25,200
Unsecured creditors as per list E:	
24,000 bills payable 24,000	
60,000 trade creditors 60,000	
8,000 bills discounted likely to be Dishonored 8,000	
6,000 contingent liability 6,000	
	–98,000
4,71,000 estimated deficiency as regards	–1,23,200

Creditors:		
2,000 preference shares of ₹ 100		
Each fully called and paid as per		
List F	2,00,000	
20,000 equity shares of ₹ 10		
Each ₹ 8 per share called up		
Less arrears irrecoverable as per		
List G.	1,59,600	–3,59,600
		4,82,800
Estimated deficiency as regards contributories		

List H deficiency account

Items contribution to deficiency		₹
		3,60,800
Excess of liabilities over assets (see working note)		
Estimated losses now written off for which provision		
Has been made for the purpose of preparing the statement:		
Investment	20,000	
Plant & machinery	40,000	
Bills receivable	4,000	
Sundry debtors	56,000	
Bills discounted	8,000	
Contingent liability	6,000	
Stock in trade	22,000	
		1,62,000
Rent & salary outstanding	6,000	
		5,22,800
Items reducing deficiency		40,000
Land & building (surplus on revaluation)		4,82,800
Deficiency as shown by statement of affiars		

Working note:

Excess of capital and liabilities over assets ₹ 3,60,800 has been ascertained by preparing balance sheet of sudden Death Ltd.

Balance sheet of sudden Death Ltd

liabilities	**₹**	**Assets**	**₹**
Equity share capital	1,60,000	Calls in arrear	1,000
Preference share capital	2,00,000	Investment	80,000

15% debentures	2,00,000	Plant & machinery	1,20,000
Bank overdraft	1,00,000	Land & building	40,000
Rent & taxes	4,000	Bills receivable	6,000
Salary & wages	3,000	Sundry debtors	1,40,000
Bills payable	24,000	Stock in trade	60,000
Sundry creditors(secured)	60,000	Cash in hand & bank	3,200
Sundry creditors	60,000	P & l A/c (bal.fig)	3,60,800
	8,11,000		8,11,000

10.7 CALCULATION OF LIQUIDATOR'S REMUNERATION

Illustration -1 From the following particulars, calculate liquidator's remuneration:

Assets realized – ₹80,000; Remuneration on assets realized – 4%; Liabilities amount to be paid – ₹50,000; Remuneration on the amount of liabilities paid – 3%.

Solution

80,000 x 4/100	₹3,216
50,000 x 3/100	₹1,500
Total commission	₹4,716

10.8 PREPARATION OF LIQUIDATOR'S FINAL STATEMENT OF ACCOUNTS

Illustration -2 From the following information, prepare liquidator's final statement of account.

Cash at bank ₹1,00,000; Surplus from securities ₹10,10,000; Expenses of liquidation ₹30,000; Liquidator's remuneration ₹7,000; Preferential creditors ₹2,00,000; Unsecured creditors ₹7,00,000; Preference shareholders ₹1,00,000 and Equity shareholders ₹1,00,000.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	1,00,000	By Liquidation exp.	30,000
" Surplus	10,10,000	" Liquidator remuneration	7,000
		" Preferential creditors	2,00,000
		" Unsecured creditors	7,00,000
		" Preference share holders	1,00,000

		“ Equity share holders (b/f)	73,000
	11,10,000		11,10,000

Illustration -3 The American Co. (involuntary liquidation) has paid off its creditors in full, and the liquidator is in a position to make a return to the shareholders. The position is as follows:

a) 100 preference shares of ₹10 each fully paid

b) 400 Equity shares of ₹10 each fully paid

c) 400 Equity shares of ₹10 each (₹8 paid)

The cost of liquidation is ₹140. Creditors ₹2,225, the assets realized ₹3,740. A call of ₹2 per share on the partly paid equity shares was duly paid except in case of one share holder owning 100 shares.

Prepare liquidator’s final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	3,740	By Cost of liquidation	140
“ Calls in arrears	600	“ Creditors	2,225
(400 x 2 = 800 – 200)		“ Preference shareholders	1,000
		“ Equity share holders (b/f)	975
	4,340		4,340

Illustration -4 A company went into voluntary liquidation on 1-1-2016 on which date dividend on preference shares were in arrear for two years. The subscribed capital of the company is 40,000, 6% preference shares of ₹10 each fully paid up and 50,000 equity shares of ₹10 each, ₹6 paid up.

Assets realized ₹3,50,000; Expenses of liquidation came to ₹9,800; Liquidator’s remuneration is ₹11,000 and a commission of 2.5% on the amount paid to preference shareholders as capital and dividend. Liabilities amounted to ₹20,000. There is a provision in the articles of association about the payment of arrears of dividend in priority to equity share capital.

Prepare liquidator’s final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	3,50,000	By Liquidation exp.	9,800
“ Call money from Equity SHS (b/f)	1,50,000	“ Commission - Fixed	11,000
		Pref. shareholders (4,48,000 x 2.5%)	11,200

		" Unsecured creditors	20,000
		" Preference share holders (4,00,000 + 48,000)	4,48,000
	5,00,000		5,00,000

Illustration -5 Mr. X has been appointed as liquidator of A Co. Ltd. Following is the balance sheet as on 31-12-16.

Liabilities	**Amount**	**Assets**	**Amount**
Equity share capital	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	50,000
Loan	50,000	Debtors	1,25,000
Creditors	50,000	Cash	5,000
		P & L a/c	20,000
	4,00,000		4,00,000

Fixed assets were sold for ₹1,20,000 to a debenture holder holding ₹40,000 debentures and cash is received after set off. Cash realized from debtors ₹80,000 and liquidation expenses amounted to ₹1,000; Liquidator is paid ₹1,000 as fixed allowances and 2% commission on collection including cash in hand ₹5,000 as remuneration. Stock realized ₹10,000.

Prepare liquidator's final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	5,000	By Secured creditors (Debtors)	40,000
" Fixed assets	1,20,000	" Cost of liquidation	1,000
" Debtors	80,000	" Liquidator remuneration	1,000
" Stock	10,000	2% on 2,15,000	4,300
		" Debentures	60,000
		" Loan	50,000
		" Creditors	50,000
		" Equity share holders (b/f)	8,700
	2,15,000		2,15,000

10.9 INSUFFICIENT AMOUNT PAID TO UNSECURED CREDITORS

Illustration -6 The Over- Confident Ltd. went into liquidation with the following liabilities:

a) Secured creditors ₹20,000 (securities realized ₹25,000)

b) Preferential creditors ₹600

c) Unsecured creditors ₹30,500

d) Liquidators expenses in connection with liquidation amounted to ₹252.

The liquidator is entitled to remuneration of 3% on every amount realized and 1.5% on the amount distributed to unsecured creditors except preferential creditors. The various assets (excluding securities in the hands of fully secured creditors) realized ₹26,000.

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Securities realized	25,000	By Secured creditors	20,000
" Assets realized	26,000	" Liquidation exp.	252
		" Commission 51,000 x 3%	1,530
		" Unsecured Crs. 28,618 x 1.5/101.5	423
		" Preferential creditors	600
		" Unsecured creditors (b/f)	28,195
	51,000		51,000

Illustration -7 A liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amounts realized (excluding cash on hand) and at 2% on the amount distributed to the unsecured creditors. Unsecured creditors including preferential creditors of ₹5,000 amounted to ₹40,000. Debenture holders were paid ₹51,875 together with interest. Preferential creditors were paid in full, ₹519 were spent as costs of liquidation. Cash in hand ₹1,000 and assets realized ₹79,000.

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	1,000	By Costs of liquidation	519
" Assets realized	79,000	" Commission - Assets realized 79,000 x 3%	2,370
		Pref. creditors 5,000 x 2%	100

		Unsecured crs (20,136 x 2/102)	395
		" Debentures	51,875
		" Preferential creditors	5,000
		" Unsecured creditors (b/f)	19,741
	80,000		80,000

Illustration -8 T.V Ltd. went into voluntary liquidation on 30th April 2016. The position on that date was as under:

Liabilities	Amount	Assets	Amount
5,000 shares of ₹100 each ₹80 paid up	4,00,000	Machinery	80,000
Loans (secured by mortgage of machinery)	1,00,000	Other fixed assets	2,60,000
Unsecured loans (including preferential dues ₹10,000)	2,00,000	Stock	1,05,000
		Debtors	1,00,000
		Loans	40,000
		Cash	5,000
		P & L a/c	1,10,000
	7,00,000		7,00,000

Machinery was realized by the secured creditors for ₹1,20,000. Other fixed assets fetched ₹40,000, debtors ₹20,000 and stock ₹10,000. Loans were wholly bad. The liquidator is entitled to a fixed remuneration of ₹1,000 plus 2% of the amount paid to unsecured creditors. The liquidator's out of pocket expenses amounted to ₹1,000.

Show the liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	5,000	By Secured creditors	1,00,000
" Machinery	1,20,000	" Cost of liquidation	1,000
" Other fixed assets	40,000	" Liquidator remuneration	1,000
" Stock	10,000	2% on 10,000	200
" Debtors	20,000	2/102 on 82,800	1,624
		" Preferential creditors	10,000
		" Unsecured creditors (b/f)	81,176
	1,95,000		1,95,000

Illustration -9 The following particulars relating to a Ltd. Co. which has gone into voluntary liquidation. You are required to prepare liquidators final statement of accounts after allowing for his remuneration @ 3% on amount realized and 2.5 % on the amount paid to unsecured creditors except preferential creditors.

12,000 Equity shares of ₹10 each, ₹8 paid up

Assets realized ₹9,24,000 excluding amount realized by sale of securities held by secured creditors. Preferential creditors ₹24,000; Unsecured creditors ₹8,51,094; Secured creditors (Security realized ₹1,62,000) ₹1,38,000; Debentures holding a floating charge on all assets ₹3,00,000; Expenses of liquidation ₹9,000. A call of ₹2 per share on the partly paid equity shares was duly paid except in case of one share holder owning 1,200 shares.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	9,24,000	By Secured creditors	1,38,000
" Security realized	1,62,000	" Expenses of liquidation	9,000
" Call money (10,800 x 2)	21,600	" Liquidator remuneration	
		Assets realized 10,86,000 x 3%	32,580
		Unsecured (6,04,020 x 2.5/102.5)	14,732
		" Debentures	3,00,000
		" Preferential creditors	24,000
		" Unsecured creditors (b/f)	5,89,288
	11,07,600		11,07,600

Illustration -10 The balance sheet of a company for the year ending 31-3-2016 is given below:

Liabilities	**Amount**	**Assets**	**Amount**
6% Preference shares of ₹100 each	70,000	Land	1,25,000
Equity shares of ₹100 each, ₹75 paid	93,750	Machinery	3,12,500
Equity shares of ₹100 each, ₹60 paid	22,500	Debtors	1,37,500
15% Debentures	50,000	Cash	37,500
Interest O/S on debentures	7,500	P & L a/c	1,50,000
Creditors	6,37,500	Stock	1,18,750
	8,81,250		8,81,250

a) Liquidator's commission is at 3% on all assets realized except cash and 2% on amount paid to unsecured creditors

b) Creditors include ₹62,500 secured by land and preferential creditors ₹7,500

c) Assets realized Land ₹1,50,000; Machinery ₹2,50,000; Stock ₹1,12,500; Debtors ₹1,00,000

d) Liquidation expenses amounted to ₹15,000

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	37,500	By Secured creditors	62,500
" Land	1,50,000	" Cost of liquidation	15,000
" Machinery	2,50,000	" Liquidator remuneration	
" Debtors	1,00,000	Assets realized 3% on 6,12,500	18,375
" Stock	1,12,500	Preferential Crs. 2% x 7,500	150
		Unsecured crs. 2/102 x 4,90,475	9,588
		" Debentures	57,500
		" Preferential creditors	7,500
		" Unsecured creditors (b/f)	4,79,387
	6,50,000		6,50,000

10.10 EQUITY SHAREHOLDERS WITH TWO TYPES OF PAID UP SHARE VALUES

Illustration -11 P Ltd. went into voluntary liquidation on 31st Dec.2016 when their balance sheet read as follows:

Liabilities	Amount	Assets	Amount
10% Cumulative preference shares of ₹100 each	10,00,000	Land	5,00,000
Equity shares of ₹100 each, ₹75 paid	3,75,000	Machinery	12,50,000
Equity shares of ₹100 each, ₹60 paid	9,00,000	Debtors	5,50,000
15% Debentures	5,00,000	Cash	1,50,000
Interest O/S on debentures	75,000	P & L a/c	5,62,000
Creditors	6,37,500	Patent	2,00,000
		Stock	2,75,500
	34,87,500		34,87,500

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of ₹76,000. The assets realized as follows: Land ₹6,00,000; Machinery ₹10,00,000;

Patent ₹1,50,000; Stock ₹3,00,000; Debtors ₹4,00,000. The expenses of liquidation amounted to ₹54,500. The liquidator is entitled to a commission of 3% on assets realized except cash.

Assuming the final payment including those on debentures is made on 30th June 2017; show the liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	1,50,000	By Cost of liquidation	54,500
" Land	6,00,000	" Liquidator remuneration (3% on 24,50,000)	73,500
" Machinery	10,00,000	" Debentures (5,75,000 + 37,500)	6,12,500
" Debtors	4,00,000	" Creditors	6,37,500
" Stock	3,00,000	" Preference share holders	12,00,000
" Patent	1,50,000	" Equity share holders (b/f)	22,000
	26,00,000		26,00,000

Amount available = 22,000/ 5,000 shares =Rs. ₹4.40

Illustration -12 The following is the balance sheet of A Ltd on 31-3-2016.

Liabilities	Amount	Assets	Amount
14% Preference shares of ₹100 each	2,00,000	Land	1,00,000
Equity shares of ₹100 each, ₹75 paid	1,20,000	Plant	2,50,000
Equity shares of ₹100 each, ₹60 paid	1,80,000	Patents	40,000
Creditors	1,14,000	Stock in trade	55,000
14% Debentures having a floating charge on all assets	1,00,000	Debtors	1,10,000
		Cash	75,500
		P & L a/c	83,500
	7,14,000		7,14,000

The company went into liquidation on the above date. The preference dividend was in arrears for two years. The arrears are payable automatically on liquidation. Creditors include a loan for ₹50,000 on the mortgage on land. The assets were realized as follows: Land ₹1,20,000; Plant ₹2,00,000; Patent ₹30,000; Stock ₹60,000; Debtors ₹80,000. The expenses of liquidation amounted to ₹10,900. The liquidator is entitled to a commission of 3% on all assets realized except cash and a commission of 3% on amounts distributed among unsecured creditors. Preferential creditors amount to ₹5,000.

Assume the payment was made on 30-9- 2016. Prepare liquidators final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	75,500	By Secured creditors	50,000
" Land	1,20,000	" Liquidation exp.	10,900
" Plant	2,00,000	" Liquidator remuneration	
" Patents	30,000	Assets realized (4,90,000 x 3%)	14,700
" Stock in trade	60,000	Unsecured Crs (3% on 64,000)	1,920
" Debtors	80,000	Prefer. Crs (3% x 5,000)	150
		" Debentures (1,00,000 + 7,000)	1,07,000
		" Preferential creditors	5,000
		" Unsecured creditors (1,14,000 – 50,000)	64,000
		" Preference share holders (2,00,000 + 56,000)	2,56,000
		" Equity SHs (b/f)	
		(₹21.919 x 1,600shares)	35,070
		(₹6.919 x 3,000 shares)	20,760
	5,65,500		5,65,500

Amount available	55,830
Less: Excess paid (75 – 60) ₹15 x 1,600 shares	24,000
	31,830
Bal. to all equity shares (31,830/4,600)	₹6.919

MULTIPLE CHOICE QUESTIONS WITH ANSWER

1. In liquidation, normally assets realized _______while calculating commission
   a) Include cash in hand   b) **Do not include cash in hand**
   c) At book value   d) Always at lesser value

2. A percentage of liquidator's remuneration on unsecured creditors
   a) **Include preferential creditors**   b) Do not include preferential creditors
   c) Partly secured creditors   d) Fully secured creditors

3. Income tax is an example for
   a) Unsecured creditors   b) Secured creditors
   c) **Preferential creditors**   d) Partly secured creditors

4. Which amount should be paid first?
   a) Debentures   b) Preferential creditors
   c) **Liquidation expenses**   d) Liquidators remuneration

5. Which amount should be paid first?
   a) Cost of winding up   b) **Legal charges**
   c) Liquidator's remuneration   d) Preferential creditors

6. Amount payable to unsecured creditors are sufficient, the liquidator's commission is calculated on
   a) **Unsecured creditors**   b) Amount available
   c) Assets realized   d) Fully secured creditors

7. Amount payable to unsecured creditors are insufficient, the liquidator's commission is calculated on
   a) Unsecured creditors   b) **Amount available**
   c) Assets realized   d) Fully secured creditors

8. The person who is in charge of realizing assets and paying liabilities is called
   a) Managing Director   b) Share holders
   c) **Liquidator**   d) Debenture holder

9. Contributory is a
   a) Creditor   b) **Share holder**
   c) Debenture holder   d) Outsiders

10. A creditor for ₹5,000 holding a charge on the stock book value of which is ₹6,000, market value is ₹4,500 is called
    a) Secured creditor   b) Unsecured creditor
    c) Fully secured creditor   d) **Partly secured creditor**

11. A portion of unsecured creditors which should be paid before others is called
    - a) **Preferential creditors**
    - b) Fully secured creditors
    - c) Unsecured creditors
    - d) Partly secured creditor

12. Any sum due to an employee out of provident fund is an example of:
    - a) Unsecured Creditors
    - b) Secured Creditors
    - **c) Preferential Creditors**
    - d) Un-Preferential Creditors

13. A contributor is a:
    - a) Preferential Creditor
    - b) Debenture holder
    - c) Un-secured Creditors
    - **d) Equity Shareholders**

14. Secured Creditors are shown in the Statement of Affairs under:
    - a) List A
    - **b) List B**
    - c) List C
    - d) List D

15. The term "Contributory" includes:
    - **a) Present and Past members**
    - b) Holders of fully paid shares
    - c) Preferential Creditors
    - d) Present and future members

16. In case a company is solvent, the interest of debentures sis paid up-to the date of:
    - a) The Balance Sheet
    - b) The commencement of winding-up
    - **c) Payment**
    - d) The commencement of business

17. Amount due to the Government for purchases is an example of:
    - a) Preferential Creditors
    - b) Secured Creditors
    - **c) Unsecured Creditors**
    - d) Un-Preferential Creditors

18. Money advanced by a Director do the company to pay wages to the workers of the company is of the nature of a:
    - **a) Preferential Creditors**
    - b)Unsecured Creditors
    - c) Fully Secured Creditors
    - d) Secured Creditors

19. Debenture holders having a floating charge have priority in payment over:
    - a) Preferential Creditors
    - **b)Unsecured Creditors**
    - c) Fully Secured Creditors
    - d) Secured Creditors

20. The salary of 4 clerks for a period of 6 months before the relevant date was in arrears. If the salary of each clerk is ₹ 6,000 per month the amount to be included in preferential creditors will be:
    - a) ₹96,000
    - b) ₹1, 44, 000
    - **c) ₹ 80,000**
    - d) ₹ 72,000

21. The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹1,00,000 including cash balance of ₹ 3,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration was a ₹ 46,350. The liquidator's remuneration will be;
    - a) ₹3,100
    - b) ₹3,140
    - **c) ₹3,290**
    - d) ₹3,330

22. When do formal entries liquidate?
    a) On the date of release in the case of duty-free entries
    b) On the date posted in the bulletin notice of liquidation
    c) On the date specified in the automated broker interface
    d) One year after the date of importation, by operation of law

23. Which of the following statements best completes the sentence? Liquidation o an entry may be extended ______.
    a) If information is needed by Customs for the appraisement of the merchandise
    b) By statute or court order
    c) For 90 days after the date of pretest upon request of the importer
    d) For any time period Customs deems appropriate

REVIEW QUESTIONS

A) Answer in short

1. What is liquidation of a company?
2. What are the modes of winding up of a company?
3. Define contributory.
4. Who is list-A contributory and list-B contributory?
5. What is statement of affairs?
6. Give proforma liquidators final statement of account.

B) Answer in detail

1. Write short note on
   a) Compulsory winding up
   b) Voluntary winding up
2. Explain the various methods of winding up of a company.
3. Discuss the order of payments made by liquidator
4. Explain the preferential payments with regard to company liquidation.
5. Enumerate the procedure for preparing statement of affairs.
6. Give a proforma of statement of affairs and deficiency account.

EXERCISES

1. Compute liquidator's remuneration from the information given below:

   Secured creditors ₹60,000 (Securities realized ₹80,000), Other assets realized ₹75,000. Liquidator's remuneration 3% on the amount realized.

2. Find liquidator's remuneration:

   Creditors' amount to be paid ₹60,000; Amount available on hand ₹44,000; Liquidator's remuneration on the amount paid to creditors– 10%

3. XYZ Ltd. went into liquidation. Its assets realized ₹3,50,000 excluding the amount realized by the sale of securities held by the secured creditors. Following is the position.

   Share capital 10,000 shares of ₹100 each; Secured creditors (securities realized ₹40,000) ₹35,000; Preferential creditors ₹6,000; Unsecured creditors ₹1,40,000; Debentures having floating charge on assets of the company ₹2,50,000; Liquidation expenses ₹5,000; Liquidator's remuneration ₹7,500.

   Prepare liquidator's final statement of accounts.

4. The following particulars relates to a limited company to which the company went in to voluntary liquidation.

   Preferential creditors ₹25,000; Unsecured creditors ₹58,000; 6% Debentures ₹ 30,000. The assets realized ₹80,000. The expenses of liquidation amounted to ₹1,500 and the liquidator's remuneration amounted to ₹1,500 and the liquidators remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors including preferential creditors.

   Show the liquidators final statement of account.

5. The liquidator of a company in voluntary liquidation is entitled to a remuneration of 4% on the amount realized and at 3% on the amount distributed to the unsecured creditors. Unsecured creditors including preferential creditors of ₹3,000 amounted to ₹43,000. Preferential creditors were paid in full. ₹330 were spent as cost of liquidation. Cash on hand was ₹2,500 and assets realized ₹80,000.

   Show the liquidators final statement of account.

6. The following particulars relate to a Limited Company which has gone in to voluntary liquidation. Prepare the liquidator's final accounts allowing for his remuneration at 2% on the amount realized and 2% on the amount distributed among unsecured creditors other than preferential creditors.

   Preferential creditors ₹10,000; Unsecured creditors ₹32,000; Debentures ₹10,000

   The assets realized the following sums:

Building ₹20,000; Machinery ₹18,650; Furniture ₹1,000

The liquidation expenses amount to ₹1,000.

7. ABC Company Ltd went into voluntary liquidation on 31-12-2016. Prepare liquidator's final statement of account from the following particulars:

Sundry creditors amounting to ₹75,660 of which ₹8,160 are preferential creditors. 6% debentures carrying floating charge on assets amounted to ₹80,000; Debenture holders were paid interest up to 30-6-2016. The liquidator realized the following assets: Stock ₹84,000; Plant ₹60,600; Cash in hand stood at ₹500. Debentures were paid off on 30th June of the following year with interest. Liquidation expenses amounted to ₹1,902 and the remuneration is paid as 3% on amount realized and 2% on amount distributed to unsecured creditors.

8. The following particulars relate to a limited company which had gone into voluntary liquidation. You are required to prepare the liquidators final a/c allowing for his remuneration @ 2% on the amount realized on assets and 2% on the amount distributed to unsecured creditors other than preferential creditors:

Unsecured creditors ₹2,24,000; Preferential creditors ₹70,000; Debentures ₹75,000

The assets realized the following amounts:

Cash ₹20,000; Land ₹1,30,000; Plant ₹1,10,500; Fixtures ₹7,500

The liquidation expenses amounted to ₹2,000. A call of ₹2 per share on the partly paid 10,000 equity shares were made and duly paid except in case of one share holder owning 500 shares.

9. A Ltd. of Tirunelveli went into voluntary liquidation on 1-1-2016. The liquidator's remuneration is 2.5% on assets realized and 1.5% on distribution among shareholders. From the following information prepare liquidator's final account.

Assets realized ₹5,00,000; Expenses of liquidation ₹9,000; Unsecured creditors ₹62,000; Salaries and wages outstanding ₹6,000.

5,000, 6% Preference share capital (dividend paid up to 1-1-2014) ₹1,50,000

10,000 Equity share capital ₹90,000; General reserve ₹1,20,000

As per the Articles of Association of the company the preference share holder have the right to receive 1/3 of the surplus remaining after paying the equity share capital.

10. The following particulars relate to a company which went in to voluntary liquidation. Prepare liquidators final statement of account. At that time allow 2% remuneration to liquidator on the amount realized and 3% on the amount distributed to unsecured creditors.

Unsecured creditors	₹2,80,000	Assets realized as follows:	
Debentures	₹1,90,000	Cash	₹21,500
Preferential creditors	₹20,000	Plant	₹1,80,000
Share capital	₹2,00,000	Land	₹1,30,000
		Furniture	₹20,000

11. Robert Ltd. went into voluntary liquidation on July 1, 2016. As on that date balance sheet read follows:

Liabilities	Amount	Assets	Amount
10% Preference shares of ₹10 each	2,40,000	Plant	4,00,000
Ordinary shares of ₹10 each	4,00,000	Stock	2,00,000
5% Debentures	1,20,000	Debtors	3,00,000
Creditors	2,06,000	Cash	6,000
		P & L a/c	60,000
	9,66,000		9,66,000

The dividend on the preference shares had been paid up to June 30, 2016. The Liquidator sold the plant and stock for ₹5,50,000 and realized all the debts except one ₹50,000 which proved to be bad. He admitted the claim of all creditors. ₹10,000 of which were preferential. Expenses of liquidation amounted to ₹3,200 and debentures were repaid on Dec.31, 2016. The Liquidators remuneration was at the rate of 2% on amount distributed to the ordinary share holders.

Prepare the liquidators final accounts.

12. Balance sheet of Baby Ltd. as on Dec.31, 2016.

Liabilities	Amount	Assets	Amount
Preference shares of ₹10 each	80,000	Land	25,000
Equity shares of ₹10 each	1,20,000	Other fixed assets	2,00,000
Bank loan	4,00,000	Stock	5,25,000
8% Debentures	1,00,000	Debtors	1,00,000
Interest o/s on debentures	8,000	P & L a/c	58,000
Creditors	2,00,000		
	9,08,000		9,08,000

The company went into liquidation on that date. Prepare the liquidator’s final statement of accounts after taking into account the following:

a) Liquidation expenses and liquidator’s remuneration amounted to ₹3,000 and ₹10,000 respectively

b) Bank loan was accrued by pledge of stock.

c) Debentures and interest thereon are secured by a floating charge on all assets.

d) Fixed assets were realized at book values and current assets at 80% of book values.

13. A company went into liquidation on 31st March 2016 when the following balance sheet was prepared:

Liabilities	Amount	Assets	Amount
Share capital (₹10 each)	1,95,000	Goodwill	50,000
Sundry creditors		Leasehold property	48,000
Preferential	24,200	Plant	65,500
Partly secured	55,310	Stock	56,800
Unsecured	99,790	Debtors	64,820
Bank overdraft (unsecured)	12,000	Cash	2,500
		P & L a/c	98,680
	3,86,300		3,86,300

The liquidator realized the assets as follows:

Leasehold property which was used in the first instance to pay the partly secured creditors prorates ₹35,000; Plant ₹51,000; Stock ₹39,000; Debtors ₹58,500 and cash ₹2,500.

The expenses of liquidation amounted to ₹1,000 and the liquidator's remuneration was agreed at 2.5% on the amount including cash and 2% on the amount paid to unsecured creditors.

You are required to prepare liquidator's final accounts showing the distribution.

14. Prepare liquidator's statement accounts.

Balance sheet as on 31st December 2016

Liabilities	Amount	Assets	Amount
6% Pref. shares of ₹100 each	1,00,000	Land	2,00,000
Equity shares of ₹100 each, fully paid	2,00,000	Plant	2,20,000
Equity shares of ₹100 each, ₹50 paid	1,50,000	Stock	1,00,000
Secured Loan		Debtors	1,00,000
6% Debentures (all assets)	1,00,000	Cash	30,000
Others (Mortgage on land)	1,00,000	P & L account	1,00,000
Current liabilities:			
Creditors	90,000		
Income Tax	10,000		
	7,50,000		7,50,000

The company went into liquidation on 1.1.2017. The preference dividend was in arrear for 3 years. These arrears are payable on liquidation. The assets were realized as follows.

Land ₹2,40,000; Plant ₹1,80,000; Stock ₹ 70,000; Debtors ₹60,000

The expenses of liquidation amounted to ₹8,000. The liquidator is entitled to a commission of 2% on all assets realized and 3% on amount distributed unsecured creditors. All the payments were made on 30th June 2017.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. LT. Limited went into liquidation with th following liabilities;

Particulars	Amt
Secured creditors	40,000
[Secured realized ₹50,000]	
Preferential creditors	1,200
Unsecured creditors	61,000
Liquidation expenses	500

The Liquidator is entitled to a remuneration of 3% on the amount realized including Securities in the hands of secured creditors] and 1.5% on the amount distributed to the unsecured creditors. The various assets [Excluding the securities in the hands of the secured creditors] realized ₹52,000. Prepare the Liquidators final statement of account showing the payment made to unsecured creditors

[Alagappa, B.Com, April,2011]

2. Babu Ltd. went into liquidation with following liabilities Preferential creditors ₹10,000, Unsecured creditors 32,000, Debentures ₹10,000

Assets Realized as follows:

Land and Building 20,000, Machinery 18,650, Fixtures and Fittings 1,000. Liquidators remuneration is 2% on assets realized and 2% an amount distributed to unsecured creditors other than preferential creditors. Liquidation expenses amounted to ₹1,000. Prepare Liquidators Final statement of account.

[Alagappa, B.Com, April,2011]

3. From the following particulars prepare liquidators final statement of Account.

Cash ₹10,000; Assets realized ₹23,000 (other than secured creditors) Secured creditors ₹28,000 (Securities realized ₹35,000)

Preferential creditors ₹800; Unsecured creditors ₹62,000.

Legal expenses ₹250; Liquidation Expenses ₹1,200

Liquidator is entitled to a remuneration of 3% on assets realized (including securities with creditors) and 2% on the amount distributed unsecured creditors.

[Alagappa,B.Com(C.A), Nov,2015]

4. Ram Limited went into liquidation with the following liablities

Secured creditors ₹30,000 (Security realized ₹35,000)

Preferential Creditors ₹700.

Unsecured Creditors ₹40,500

Liquidators expenses are ₹352. He is entitled to a remuneration of 4% on the amounts realized (including securities with creditors) and 2% on the amount distributed to unsecured creditors. The various assets realized ₹36,000. Prepare the Liquidators Final statement of account.

[Madurai,M.Com, Nov.2014]

5. The liquidator of BC and company Ltd is entitled to a remuneration of 3% on the amount Realized from the assets and 2% on the amount distributed to the unsecured creditors. From the following particulars prepre liquidators final statement of Account.

Sale of assets	3,00,000
Preferential Creditors	10,000
Unsecured creditors	4,00,000

[Madurai,B.Com,Nov,2013]

6. The life fund of a life insurance company on 31.3.2012 showed a balance of ₹ 54,00,000. However the following items were note taken into account while preparing revenue A/c for 2011-2012. Ascertain the correct life fund balance.

Interest accrued on Investments	20,000
Income tax deducted on the above	6,000
Re-insurancce claim recoverable	7,000
Commission Due on re-insurance premium paid	10,000
Bonus in resuction of premium	3,000

[Madurai,B.Com,Nov,2013]

7. Prepare the liquidators final statement from the given information allowing @ 3% remuneration on the amount realized and 2½% on the amount paid to unsecurd creditors.

Share capital issued:

5,000 preference shares of ₹ 100 each (fully 3,000 equity shares of ₹ 10 each fully paid. 12,000 equity shares of ₹ 10 each ₹ 8 paid up.

Assets realized ₹ 9,24,000 excluding amount realized by sale of securities held by the secured creditors.

Preferential creditors	24,000
Unsecured creditors	8,51,094
Secured creditors(security realized ₹ 16,200)	1,38,000
Debentures having a floating charge on assets	3,00,000
Liquidation expenses	9,000

A call of ₹ 2 per share on the partly paid equity shares was duly paid except in case of one shareholders owning shares.

8. K ltd was liquidated on 31.12.87. balance sheet as on 31.12.87.

Share capital	1,00,000	Land and building	60,000
8% debentures	1,00,000	Plant and machinery	60,000
Mortgage loan (secured on land and buildings)	50,000	Stock	60,000
		Debtors	70,000
sundry creditors	80,000	Cash in hand	5,000
		P & L a/c	75,000
	3,30,000		3,30,000

Assets realized as follows:

i) Land and building ₹ 55,000

ii) Stock ₹ 20,000

iii) Plant and machinery ₹ 25,000

iv) Half of the debtors were bad and the balance realized 60% of book value

v) Liquidators was entitled to a commission of 3% on amount realized other than cash and 2% on the amount paid to unsecured creditors.

vi) Preferential creditors amounted to ₹ 10,000 (include in sundry creditors)

vii) Liquidation expenses amounted to ₹970.

Prepare liquidators final statement of account.

[Madurai, Nov,2011]

9. A Ltd. company went into voluntary liquidation with the following share capital:

Class X- 4,000 equity shares of ₹ 100 each₹ 75 paid up

Class Y- 3200 equity shares of ₹ 100 each ₹ 60 paid up

Class Z – 2800 equity shares of ₹ 100 each ₹ 50 paid up

Amount available for equity shareholders ₹ 1,22,000.

Calculate the amount payable to or receivable from equity shareholder.

10. The following particulars related to a limited company which went into voluntary liquidation.

	₹
Preferential creditors	25,000
Unsecured creditors	58,000
6% debentures	30,000

The assets realised₹ 80,000. The expenses of liquidation amounted to ₹ 15,00 and liquidators remuneration was agreed at ₹ 2.5% on the amount paid to unsecured creditors including preferential creditors.

Show the liquidators final statement of accounts.

[Madurai, Nov,2011]

11. Give journal entries for the following transactions in connection with internal reconstruction:
    (i) 30,000 equity shares of ₹ 10 each fully paid reduced to shares of ₹ 5 each fully paid.
    (ii) 300 9% debentures of ₹ 1,000 each converted into 1,500 12% debentures of ₹ 100 each.
    (iii) The debit balance of profit and loss account ₹ 1,50,000 and the preliminary expenses ₹ 30,000 were written off.
    (iv) The value of plant & machinery and stock were written down by ₹ 60,000 and ₹ 30,000 respectively.

[Azhagappa, April,2015]

12. The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 1,00,000 including cash balance of ₹ 5,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration.

[Madurai,B.Com,Nov,2013]

13. Prakash processors Ltd. went into voluntary liquidation on 31st December 2007 when their balance sheet read as follows:

Liabilities	₹	assets	₹
Issued and subscribed capital 10,000 10% cumulative	10,00,000	Land and Building	5,00,000
Preference shares of ₹ 100 each fully paid		Machinery and plant	12,50,000
5,000 equity shares of ₹ 100 each, ₹ 75 paid	3,75,000	Patents	2,00,000
15,000 equity shares of ₹ 100 each, ₹ 60 paid	9,00,000	Stock	2,75,000
15% debenture secured by a floatation charge	5,00,000	Sundry debtors	5,50,000
Interest outstanding on debenture	75,000	Cash at bank	1,50,000
Creditors	6,37,500	Profit and loss a/c	5,62,500
Total	34,87,500	Total	34,87,500

Preference dividend were in arrears for 2 year and the creditors included preferential creditors of ₹ 76,000

The assets realized as follows:

Land and building ₹ 6,00,000: machinery and plant ₹ 10,00,000 patents ₹ 1,50,000 stock ₹ 3,00,000: sundry debtors ₹ 4,00,000.

The expenses of liquidation amounted to ₹ 54,00. The liquidator is entitled to a commission of 3% on assets realized except cash. Assuming the final payment including those on debenture is made on 30th june, 2008. Show the liquidator's final statement of account.

[Madurai,B.Com,Nov,2013]

14. The position of X Ltd. in Liquidation is as follows :

1.000 6% preference shares of ₹ 100 each fully paid

1,000 Equity shares ₹ 50 each fully paid

1,000 Equity shares of ₹ 40 each. ₹ 30 called up on which calls in arrears are ₹ 4,000

Calls in advance ₹ 6,000

Preferences share dividend in arrear fdr one year. Cash left after making payments to Creditors but before making any Call : ₹ 1,17.000.

You are required to Prepare the Liquidator's Final Statement of account.

[Madras, II MCom., ((Old) May 2001; II M.Com., Oct. 2001, (3 times);

II M.Com., (Old) Oct. 2001 (Two Times)]

[Ans : Calls in arrears collected; Calls in advance paid off fully: Preference shares capital repaid. Dividend arrears are not payable since it is not declared. Repayment to Equity shareholders : Fully paid shareholders receive : ₹ 13,889; Partly paid shareholders : ₹ 1,111]

15. B Ltd. went into voluntary liquidation. The details regarding liquidation are as follows:

Share capital:

(a) 2,000 8% preference shares of ₹ 100 each (fully paid)

(b) Class A 2.000 equity shares of ₹ 100 each (₹ 75 paid up)

(c) Class B 1.600 equity shares of ₹ 100 each (₹ 60 paid up)

(d) Class C 1,400 equity shares of ₹ 100 each (₹ 50 paid up)

Assets including Machinery realised ₹ 4,20,000. Liquidation expenses amount to ₹ 15,000.

B Ltd. has borrowed a loan of ₹ 50,000 from Patel Bros. against the Mortgage of Machinery (which realised ₹ 80,500). In the books of the company salaries of four clerks for 4 months @ ₹300 per month and the salaries of 4 peons for 3 months @ ₹ 150 per month are outstanding. In addition to this, the company's books show the creditors worth ₹ 87,400. Prepare liquidator's statement of receipts and payments.

[Madras, II M.Com., April 2001]

[Ans: Deficiency per equity share ₹ 51; Net amount returnable on 'A' class share: ₹ 24 per share; Net amount returnable on 'B' class share : ₹ 9 per share; Net amount receivable on 'C' class share: Re. 1 per share]

16. The Fast Foods Ltd. went into voluntary liquidation on 31st Dec. 1984. The Balancein its books on that date were:

Liabilities	₹	Assets	₹
Share capital:		Land & Buildings	2,50,000
Authorised and subscribed		Plant &Machinery	6,25,000
5,000 6% cumulative preference		Patents	1,00,000
shares of ₹ 100 each fully paid	5,00,000	Stock	1,37.500
2,500 equity shares of ₹ 100 each,		Debtors	2,75,000
₹ 75 paid	1,87,500	Cash at Bank	75,000
7,500 equity shares of ₹ 100 each,		P & L A/c	3,00,000
₹ 60 paid	4,50,000		
5% Mortgage debentures	2,50,000		
Interest outstanding	12,500		
Creditors	3,62,500		
	17,62,500		17,62,500

The liquidator is entitled to a commission of 3% on all assets realised except cash and 2% on amounts distributed among unsecured creditors other than preferential creditors.

Creditors include preferential creditors ₹ 37,500 and a loan for ₹ 1,25,000secured by a mortgage on Land & Buildings. The preference dividends were in arrears for two years. The assets realised as follows:

Land & Buildings ₹ 3,00,000; Plant & Machinery ₹ 5,00,000;

Patents ₹ 75,000; Stock ₹ 1,50,000; Debtors ₹ 2,00,000.

The expenses of liquidation amounted to ₹ 27,250.

Prepare the liquidator's final statement of account.

[Thiruvalluvar, B.Com., Nov. 2006[Madras, B.Com (ICE)

Ap 2007 (2 Times) 1 M.Com. Oct. 2003; B.Com., Oct. 1994]

[Ans: Liquidator's remuneration — ₹ 40,750; Payment made to equity shareholders: on 2,500 shares @ ₹ 15.95 ₹ 39,875; on 7,500 shares @ .95 paise per share — ₹ 7,125]

17. The following is the balance Sheet of M/s Unfortunate Ltd. as on 31.12.1987.

Liabilities	₹	Assets	₹
4,000 6% preference shares		Land & Buildings	2,00,000

of ₹ 100 each fully paid up	4,00,000	Plant & Machinery	5,00,000
2,000 equity shares of Rs: 100		Patents	80,000
each, ₹ 75 per share paid up	1,50,000	Stock at cost	1,10,000
6,000 equity shares of ₹ 100 each,		Sundry debtors	2,20,000
₹ 60 per share paid up	3,60,000	Cash at bank	60,000
5% debentures (having		Profit & Loss A/c	2,40,000
floating charge on all assets)	2,00,000		
Interest outstanding on debenture (also secured as above)	10,000		
Creditors	2,90,000		
	14,10,000		14,10,000

On that date, the company went into voluntary liquidation. The dividends on preference shares were in arrear for two years. Creditors include a loan of ₹ 1,00,000 on mortgage of Land & Buildings. The assets realised were as under:

Land & Buildings — ₹ 2,40,000; Plant & Machinery — ₹ 4,00,000; Patents — ₹ 60,000; Stock — ₹ 1,20,000; Sundry debtors — ₹ 1,60,000.

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to a commission of 3% on all assets realised (except cash at bank) and commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount to ₹ 30,000. All payments were made on 30th June 1988.

Prepare the liquidator's final statement of account

(Madras, BCS Nov. 2005; B.Com., Oct. 2000; C.S. June 1989]

[Ans: Payment to preference shareholders ₹ 4,48,000 including dividend: Equity shareholders ₹ 75 paid up @ ₹ 15.25 per share; (b) ₹ 60 paid up @ Re. 0.25 per share]

18. A company went into voluntary liquidation on 30.4.96. The position of the company on that date was as follows

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Machinery	80,0000
5,000 shares of ₹ 100 each		Other fixed assets Stock	2,60,000
₹ 80 paid up	4,00,000	Debtors	1,05,000
Loans (secured by mortgage		Bills receivable	1,00,000
of machinery)	1,00,000	Cash	5,000
Unsecured creditors		Profit & Loss A/c	1,10,000
(including preferential			
creditors ₹ 10,000)	2,00,000		

7,00,000 7,00,000

Machinery was realised by the secured creditors for ₹ 1,20,000. Other fixed assets realised ₹ 40,000; Debtors ₹ 20,000; and stock ₹ 10,000; Bills receivable was wholly dishonoured. The liquidator is entitled to a fixed remuneration of ₹ 1,000 plus 2% of the amount paid to unsecured creditors. Liquidation expenses amount to ₹ 1,000. Prepare liquidator's statement of account.

Periyar, M.Com.,Ap. 2005; Madurai, B.Com., Nov. 2003]

[Madras, B.Com (A F), B.Com (CS), B.com (CS) Nov. 2008. B.Com.B.Com (CS) Ap 2007; B.Com. Oct. 2006; BCS Nov. 2005; B.Com., (ICE) May 2002; B.C.S. (ICE) May 2002: B.C.S. Anril2003]

[Ans : Amount paid to unsecured creditors — ₹ 1,79,216; Liquidator's remuneration — ₹ 4,784 (i.e., 1,000 + 200 + 3,584]

19. Kannan Ltd. was liquidated on 31.12.2000 Balance Sheet as on 31.12.2000.

Balance sheet as on 31.12.2000

Liabilities	**₹**	**Assets**	**₹**
Share capital	1,00,000	Land & buildings	60,000
8% debentures	1,00,000	Plant & machinery	60,000
Mortgage loan (secured on land & buildings)	50,000	Stock	60,000
		Cash in hand	5,000
Sundry creditors	80,000	Debtors	70,000
		P & l A/c	75,000
	3,30,000		3,30,000

Assets realised as follows:

	₹
a) Land & B iildings	55,000
b) Stock	20,000
c) Plant & Machinery	25,000

d) Half of the debtors were bad and the balance realised 600/0 of hook value.
e) Liquidator was entitled. to a commission of 3% on amount realized other than cash and 2% of the amount paid to unsecured creditors.
f) Preferential creditors amounted to ₹ 10,000 (included in sundry creditors)
g) Liquidation expenses amounted to ₹ 970.

Prepare liquidator's final statement of accounts.

[Madras, B.C.S. Oct.2000 (2 Times);B.Com., March 2007]

[Ans: Liquidator's remuneration : On amounts reaised — ₹ 3,630 (i.e., 1,21,000x 3%); On Payment to preferential creditors — ₹ 200; Amount paid to debentureholders — ₹ 61,200]

20. The Balance Sheet of Babble Ltd. as on 31.12.1984 was as follows:

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Land Sc. Buildings	25,000
8.000 pref. shares of ₹ 10 each	80,000	Other fixed assets	2.00.000
₹ 2,000 equity shares of ₹ 10 each	1,20.000	Stock	525,000
Bank loan	4,00,000	Debtors	1,00.000
.% Debentures	1,00,000	Profit & Loss Aic	58,000
Interest outstanding on debentures	8,000		
Creditors	2,00,000		
	9.08,000		9,08.000

The company went into liquidation on that date. Prepare liquidator's final statement of account after taking into account the following.

(a) Liquidation expenses and liquidator's remuneration amounted to ₹ 3,000 and ₹ 10,000 respectively.

(b) Bank loan was secured by pledge of stock.

(c) Debentures and interest thereon are secured by a floating charge of all assets.

(d) Fixed assets were realised at book value and current assets at 80% of book values.

[Madras, B.Com Ap 2007; B.C.S., Oct. 2001]

[Ans: Preference shareholders get — ₹ 4,000 i.e., @ ₹ 0.50 per share on 8,000 shares]

21. Mr. X has been appointed liquidator to ABC Ltd. Balance Sheet at the time of liquidation i.e., 1.1.2001 is given blow:

Balance sheet of ABC Ltd.As on 1.1. 2001

Equity share capital (₹ 10)	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	25,000
Loans	50,000	Sundry debtors	1,25,000
Creditors	50,000	Cash	5,000
		Profit & Loss A/c	45,000
	4,00,000		4,00,000

Fixed assets are sold for ₹ 1,20,000 to a debentureholder holding ₹ 40,000 debentures and cash is received after set off Cash realised from debtors were ₹ 80,000 and the

liquidation expenses amounted to ₹ 1,000. Liquidator is paid ₹ 1,000 fixed allowance plus 2% commission on collection including cash in hand as remuneration. Stock is sold for ₹ 10,000.

Prepare the liquidators final statement of accounts.

[Madras, B.Com., B.Com (CS) Nov. 2007; B.C.S. May 2001; B.Com., Apri12003]

[Ans: Payment to equity shareholders — ₹ 9,500; Liquidator's remuneration — ₹ 4,500]

22. Compute Liquidator's Remuneration from the information given below :

    Secured creditors : ₹ 60,000 (Securities realised : ₹ 80.000)

    Other Assets realised : ₹ 75.000

    Liquidator's remuneration : $2^{1/2}$ % on the amounts realised (including securities with creditors)

[Madras B.Com(CS) (ICE) Oct. 2009; B.Com(CS) Nov. 2008]

[Ans: L.R.: ₹ 3,875]

23. Ascertain the remuneration payable to Liquidator from the data given below :

    Secured creditor : ₹ 50,000 (Securities realised by secured creditors : ₹ 60,000)

    Assets realised : ₹ 80,000

    Liquidator's remuneration :3% on the amounts realised.

[Madras, B.Com., B.Com (CS) Ap. 2008; Nov. 2007]

[Ans: L.R.: 2,700]

24. The liquidator of a company is entitled to a remunerate .)ri of 3% on the amounts realised (excluding cash in hand) and 2% on the amount distributed to the unsecured creditors. Unsecured creditors, including preferential creditors of ₹ 5,000, amounted to ₹ 40,000.

    Debenture holders were paid ₹ 51,875 together with interest. Preferential creditors were paid in full. Expenses of liquidation come to ₹ 510.

    Cash on hand ₹ 1,000 and assets realised ₹ 79,000. Calculate the liquidator’s total remuneration.

[Madras, B.Com (CS) Nov. 2007; B.Com (Nov. 2006; 13.Com, Oct 2003; B.Com, April 2000; RCom, Oct 1998]

[Ans : Liquidator's total remuneration ₹ 2,865]

25. Calculate the interest payable to debentureholders from the following information assuming the liquidated company has sufficient cash to pay off all outside liabilities:

8% Debenture's	₹ 1.60,000
Date of liquidation of company Date of 31.12.2002 repayment of debentures	:30.6.2003

Date upto which interest on debentures' paid so far :30.6.2002

(Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans: Interest *payable* : ₹ 12,800]

26. Shri Chopra is appointed liquidator of Moon company Ltd. in voluntary liquidation on 1st July 1993. Following balances are extracted from the books on that date:

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Machinery	45,000
24,000 shares of ₹ 5 each	1,20,000	Leasehold	60,000
Reserve for bad debts	15,000	properties	1,500
Debentures	75,000	Stock in trade	90,000
Bank overdraft	27,000	Book debts	9,000
Liabilities for purchases	30,000	Investment	7,500
		Calls in arrears	1,500
		Cash in hand	52,500
		P & l A/c	
	2,67,000		2,67,000

Prepare a statement of affairs to be submitted to the meeting of the creditors. The following assets are valued as under:

Machinery -- ₹ 90.000: Leasehold properties — ₹ 1,09,000: Investments — ₹ 6,000; Stock-in-trade — ₹ 3,000; Bad debts are — ₹ 3.000 and the doubtful debts are — ₹ 6,000 which are estimated to realise — ₹ 3,000. The bank overdraft is secured by deposit of title deeds of leasehold properties. Preferential creditors are — ₹ 1,500.

Telephone rent outstanding is ₹ 120.

[Periyar, M.Com (CA) Ap 2006]

[Ans: Estimated surplus as regards creditors — ₹ 1,67,380]

27. On Jan. 31 1990 a compulsory order for winding up was made against X Company Ltd., the following particulars being disclosed:

	Book value	***Estimated to***
	₹	₹
Cash in hand	100	100

Debtors	4,000	3,600
Buildings	60,000	48,000
Furniture	20,000	20,000
Unsecured creditors	₹ 20,000	
Debentures:		
Secured on Buildings	₹ 42,000	
Secured on floating charge	₹ 10,000	
Preferential creditors	₹ 6,000	
Share capital: 32,000 shares of 10 each	₹ 3,20,000	

Estimated liability for bills discounted was ₹ 6,000 estimated to rank ₹ 6,000. Other contingent liabilities were ₹ 12,000 estimated to rank at ₹ 12,000.

The company was formed on the 1st day of January 1985 and has made losses of ₹ 3,13,900.

Prepare statement of affairs and deficiency A/c.

[Madras, B.Com Ap 2007; B.Com., B.Com. (CS) Nov. 2006]

[Ans : Deficiency as regards creditors — ₹ 24,300; Deficiency as regards contributories — ₹ 3,44,306]

28. The following particulars related to a company which went into voluntary liquidation. Prepare Liquidators Final Statement of Account. At that time allow 2% remuneration to Liquidator on the amount realised and 3% on the amount distributed to unsecured creditors.

	₹
Unsecured creditors	2,80,000
Preferential creditors	20,000
Debentures	1,90,000
Share capital	2,00,000
Assets realised as follows :	
Cash in hand	21,500
Land & Buildings	1,30,000
Plant & Machinery	1,80,000
Furniture	20,000

[Madras, B.Com(AF) Nov. 2008; B.C.S. (ICE) Oct. 2003; I.M.Com., (ICE) May 2003]

[Ans : Amount paid to unsecured creditors : ₹ 1,29,97] Liquidators Total Commission : ₹ 11,529(7,030 + 600 + 3,899)]

29. 'A' Ltd. went into liquidation with the following liabilities:

(a) Secured creditors ₹ 20,000

(Securitiesrealised ₹ 25,000)

(b) Preferential creditors ₹ 600

(c) Unsecured creditors ₹ 30,500

Liquidation expenses are ₹ 252. Liquidator is entitled to a remuneration of 3% on the amounts realised (including securities with creditors) and **1**$^{1/2}$% on the amountdistributed to unsecured creditors. The various assets realised ₹ 26,000 (excluding securities in the hands of secured creditors).Prepare the liquidator's final statement of account.

[Madras, B.Com (CS) Nov. 2008; 1st M.Com) Nov. 2008; B.Com (PZG) Ap 2007; B.Com Nov. 2006; BCS Nov. 2005; 1st M.Com. (CA1A) Ap. 2006; Nov., 2005; B.C.S. Oct. 2003]

[Ans : Payment to unsecured creditors — ₹ 28,186; Total liquidator's remuneration — ₹ 1,962]

30. Vijay Ltd. went into liquidation with the following liabilities:

    (a) Secured creditors — ₹ 30.000;

    (securitiesrealised — ₹ 35,000)

    (b) Preferential creditors — ₹ 700

    (c) Unsecured creditors — ₹ 40.500

    Liquidator's expenses are ₹ 352. He is entitled to a remuneration of 4% on the amounts realised (including securities with creditors) and 2% on the amount distributed to unsecured creditors. The various assets realised ₹ 36,000.

    Prepare the liquidator's final statement of account.

    [Madras, B.Com (ICE) Oct. 2007]

    [Ans: Liquidator's remuneration: On assets realised — ₹ 2,840; On payment to preferential creditors — ₹ 14; On payment to unsecured creditors — ₹ 727 (*i.e.*, 37,094 x2/102) Amount paid to unsecured creditors — ₹ 36,367]

31. The following particulars relate to a limited company which has gone into voluntary' liquidation. You are required to prepare the liquidator's final account, allowing for his remuneration @ 2% on the amount realised and 2% on the amount distributed among unsecured creditors other than preferential creditors.

	₹
Preferential creditors	10,000
Unsecured creditors	32,000
Debentures	10,000

The assets realized the following sums:

Land & building	20,000
Plant & machinery	18,650
Fixtures & fittings	1,000

The liquidation expenses amount to ₹ 1,000.

[Thiruvalluvar, B.Com., Ap. 2007]
[Madras, B.Com., B.Com(CS) Nov. 2009; 1st M.Com. (CA 1A) Nov. 2006;1st M.Com. (CA I A) Nov. 2006; 1st M.Com., Nov. 2005; (Sem-CA IA) M.Com.April 2001; B.Com. (ICE) May 2000]

[Ans: Liquidator's remuneration — ₹ 1,143; Amount paid to unsecured creditors — ₹ 17,507]

32. The Ultra Optimist Ltd. went into liquidation. Its assets realised ₹ 3,50,000excluding amount realised by sale of securities held by the secured creditors. The following was the position:

Share capital: 1,000 shares of ₹ 100 each.	₹
Secured creditors (securities realised ₹ 40,000)	35,000
Preferential creditors	6,000
Unsecured creditors	1,40,000
Debentures having a floating charge on the assets of the company y	2,50,000
Liquidation expenses	5,000
Liquidator's remuneration	7,500

Prepare the liquidator's final statement of account.

[Madras, M.Com (ICE) Oct 2006; 1st M.Com (Sent- CAI A) Ap 2005; II M.Com. (ICE) (Old) Oct-2003; B.Com., (Old) Oct. 2001; Madras, M.Com., April 1988; B.Com., Sep. 1992; Oct. 1996; Madras, B.A., Corp. March 1991; B.Com., March 1990]

[Periyar, B.Com., Ap 2006; B.Com (CA) Oct. 2005; Thiruvalluvar, B.Com., No 2005]

[Ans : Amount paid to unsecured creditors — ₹ 86,500]

33. The Ashok Company Ltd. went into voluntary liquidation on 31.12.1994. When the statement of affairs was as below:

Unsecured creditors stood at ₹ 40,000 including ₹ 5,000 preferential claims. Secured creditors secured on Plant & Machinery stood at ₹ 20,000; Cash in hand was ₹ 1,000.

The liquidator realised Plant & Machinery for ₹ 15,000 and the other assets realised ₹ 10,000. The liquidation expenses amounted to ₹ 1,000 and the liquidator's remuneration was fixed at 4% of the amount realised including cash balance and 2% ofthe amount distributed to unsecured creditors including preferential creditors.

Prepare liquidator's final statement of account showing the dividend paid to unsecured creditors.

[Madras, B.Com., B.Com., (CS) Ap 2009];
B.Com., Apri12002; B.Com., Oct. 2002; B.Com., May 19971

[Ans: Liquidator's remuneration (1,040 + 100 + 76) = ₹ 1,216; Amount paid to unsecured creditors — ₹ 3,784]

34. Ambitions Ltd. went into liquidation on 31st Dec. 1986. Following information is available with the liquidator.

Sundry creditors amount to ₹ 75,660 of which ₹ 8,000 are preferential. 6% debentures carrying floating charge on the assets amounted to ₹ 80,000 debentureholders were paid interest upto 30.6.1986. The assets realised as follows:

Stock-in-trade — ₹ 84,000

Plant & Machinery — ₹ 60,600

Cash in hand stood at ₹ 500. Debentures were paid off on 30th June of the following year with interest. Liquidator's expenses amounted to ₹ 1,902 and they were entitled to a remuneration at 3% on the amount realised and 2% on the amount distributed to unsecured creditors.

Prepare liquidator's final statement of account.

[Madurai, B.Com., Nov. 2003] [Madras, B.Com., B.Com (CS) Nov. 2006; B.Com., May 1994; Sep. 1990; Oct. 1989]

[Ans: Amount paid to unsecured creditors — ₹ 45,000; Liquidator's remuneration — ₹ 5,398]

35. The following particulars are related to a company which has gone into liquidation. You are required to prepare liquidator's final statement of account allowing for his remuneration at 2% on the amounts realised on assets and 2% on the amounts distributed to unsecured creditors other than preferential creditors.

	₹
Unsecured creditors	2,24,000
Preferential creditors	70,000
Debentures	75,000

The assets realised the following amounts:

Cash in hand	20,000
Land & Buildings	1,30,000
Plant & Machinery	1,10,500
Furniture &fittings	7,500

The liquidation expenses amounted to ₹ 2,000.

A call of ₹ 2 per share on the partly paid 10,000 equity shares was made and duly paid except in case of one shareholder owning 500 shares.

[Bharathiar, B.Com.,Ap 2005; Nov. 2004]

[Madras, II M.Com., (Old) Oct. *2003;* ***B.Com, (Old) April 2002; B.Com., (ICE) Oct. 2002; May 1999 B.Com., Sep. 1995; B.A. Corp. March 1994]***

[Ans: Liquidator's remuneration (5,360 + 2,640) = ₹ 8,000; amount paid to unsecured creditors — ₹ 1,32,000]

UNIT – 11

BANKING COMPANY ACCOUNTS

11.1 INTRODUCTION

Banking business in India is largely governed by the Banking Regulation Act, 1949 which defines banking as " accepting, for the purpose of lending or investment, of deposit of money from the public, repayable on demand or otherwise and withdrawals by cheque, draft, order or otherwise".

11.2 REGULATION ON BANKING COMPANIES

Section 6 of the Banking Regulation Act contains a detailed list of the forms of business a banking company may carry on in addition to its banking business. These forms of business are:

1. Borrowing, raising or taking up of money;
2. Lending or advancing money;
3. Drawing, making, accepting, discounting, buying, selling, collecting and dealing in bill of exchange, hundies, promissory note, drafts, bill of lading, railway receipts, warrants, debentures and other securities;
4. Granting and issuing of letters of credit, travelers cheques and circular notes;
5. Buying, selling and dealing in bullion;
6. Buying and selling on commission, underwriting and dealing in shares, debentures, etc;
7. Receiving all kinds of scripts or valuables on deposit or for safe custody;
8. Providing of safe deposit vaults;
9. Collecting and transmitting of money and securities;
10. Carrying on and transacting every kind of guarantee and indemnity business;
11. Undertaking and executing trusts;
12. Undertaking the administration of estates as executor, trustee or otherwise;
13. Contracting for public or private loan and negotiating and issuing company;
14. The acquisition, construction, maintenance and alteration of any building or convenient for the purpose of the company;
15. Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account;

16. Acquiring and undertaking the whole or any part of the business of any person or company;
17. Any other form of business which the Central Government may, by notification in the Official Gazette specify as a form of business in which it is for a banking company to engage.

11.3 LEGAL PROVISIONS OF BANKING REGULATION ACT

1. Capital and Reserve

No banking company can carry on business in India unless its subscribed capital is at least half of its authorized capital and its paid up capital is at least half of its subscribed capital.

2. Payment of commission, brokerage, etc.

A banking company is prohibited from paying the commission, brokerage, discount or remuneration in any form on issue of its shares in excess of 2.5 per cent of the paid up value of such shares.

3. Payment of dividend

No banking company can pay dividend on its shares until all the capitalized expenses have been completely written off. A banking company permitted to pay its dividend without writing off the following item:

a. The depreciation in the value of its investments in approved securities where such depreciation has not actually been capitalized.
b. The depreciation in the value of investments in shares, debentures or bonds where adequate provision for such depreciation has been made to the satisfaction of its securities.
c. The bad debts, if any, where adequate provision for such bad debts has been made to the satisfaction of its auditors.

4. Statutory Reserve

It is compulsory for every banking company to make a transfer of 25% profit before declaring any dividend every year to reserve called statutory reserve. This section does not apply to banking companies incorporated outside India. The Central Government may, on the recommendation of the Reserve Bank, exempt a banking company from this restriction if the aggregate amount is not less than the paid up capital of the company.

5. Cash Reserve

A scheduled bank has to maintain with the Reserve Bank a balance equal to 3% of its time liabilities as well as of its demand liabilities. A non-scheduled bank has to maintain similar

balances either in cash or as deposit with the Reserve Bank. The Reserve Bank of India has the power to raise this percentage up to 15%.

6. Disposal of non-banking assets

A banking company can acquire immovable property for its own use. Other immovable properties acquired must be disposed of within 7 years from the date of acquisition. This period may be extended by RBI.

7. Loans and advances

The Banking Regulation Act imposes certain restrictions on the loans granted by banks to Persons connected with their management. This section as amended by the Amended Act 1968 is as follows:

a. No banking company can grant loans and advances on the securities its own shares;

b. The banking company should not enter into any commitment for giving any loan or advance;

c. Any of its directors;

d. To a firm in which any of its directors is interested as partner, manager, employee or guarantor;

e. To any company of which any of the directors of the banking company is a director, manager, guarantor

f. To any individual with whom any of its directors is a partner or guarantor.

8. Non-banking assets

A banking company may have to take possession of certain assets given as security, if the loanee fails to repay the loan. In such case, the assets acquired in satisfaction of the claim of the bank will be shown on the assets side of the balance sheet under the head Non-banking assets. Such asset should be disposal of within seven years from the date of acquisition and the profit or loss on sale of such assets will be shown separately in the profit and loss account.

11.4 ASSETS CLASSIFICATION AND PROVISIONING

All banks was to recognize income from advances on accrual basis and take credit for interest accrued on all loans, over draft etc while closing books for an accounting year. It was considered as a part of Bottom Line Management. The international practice is now to classify the assets into performing assets and non-performing assets.

Income from performing assets is recorded on accrual basis. Income from Non-performing assets is recorded only when income from them is received in cash.

11.5 NON- PERFORMING ASSET (NPA)

An asset becomes non-performing when the interest and instalment of principal is delayed and not received before a stipulated time. In other words, an asset becomes non-performing when

it ceases to generate income. The RBI has given guidelines to decide as to when an asset becomes non-performing. These guidelines are:

a. Term loan – when interest and /or instalment of principal remains over due for more than 180 days, it should be considered as NPA.

b. Cash credit and Overdrafts – when account remains out of order for more than 180 days, they are to be considered as NPA. An account is out of order if

   i) The outstanding balance is in excess of the sanctioned limit or

   ii) Drawing power or

   iii) There are no credits for a continuous period of 180 days in the account or

   iv) Credits during the period are not enough to cover the interest debited.

c. Bill purchased and discounted – if the bills remains over due for a period of more than 180 days, it should be considered as NPA.

d. Agricultural Advances – If advances to agricultural sector remain over due for two harvest seasons, not exceeding two half years, they are to be considered as NPA.

e. Other Advances – When other advances remain over due for more than 180 days, they are to be considered as NPA.

NPA are to be determined on Borrower Basis and not on the basis of each kind of advance separately. The latest development regarding NPA is that RBI has instructed the best international practices, it has been decided to adopt that 90 days (instead of 180 days) overdue norms for identification NPA from the year ending March 31, 2004.

11.6 PROVISION FOR NPA

Provisioning they are classified into four broad groups i.e., standards assets, sub-standard assets, doubtful assets and loss assets.

1. Standards assets

Standard asset is one which is not a non-performing asset and does not disclose any problem nor carry more than normal risk attached to the business. No provision was required on standard assets. From the year ending 31st March 2000 are required to make a provision of 0.25% on global loan portfolio basis.

2. Sub - Standard assets

With effect from 31.3.2001, a sub-standard asset is one which has been classified as NPA for a period not exceeding 18 months. There is no promise of recovering the dues in full, having regarded to the values of security or current net worth of the borrower, hence the possibility loss in realizing such debts. Term loan in respect of which instalments principles are overdue for more than one year are treated as sub-standard assets.

3. Doubtful assets

With effect from 31.3.2001 an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 18 months. These assets are so weak that their collection or liquidation in

full is considered highly improbable. There are two components for provision in respect of doubtful debts.

a. Debt is not covered by realizable value of the security, 100% provision is to be made.

b. For the secured portion of the doubtful asset, provision is required to be made between 20% and 50% depending upon the period for which the asset has remained doubtful.

Doubtful status up to one year	-	20%
1 year to 3 years	-	30%
More than 3 years	-	50%

4. Loss assets

Loss assets are those which have been identified by the bank or internal auditors or the RBI inspection by the amount has not been written off wholly or partly. These assets should be written off completely.100% provisions are required to be made.

Illustration -1 From the following particulars, you are required to calculate the amount of provision to be made by the bank.

Standard assets	₹24,000
Sub-standard assets	₹1,200
Doubtful assets: Up to 1 year	₹800
1 year to 3 years	₹600
More than 3 years	₹400
Loss assets	₹900

Solution

		Provision %	**Amount of provision**
Standard assets	₹24,000	–	–
Sub-standard assets	₹1,200	10	₹120
Doubtful assets: Up to 1 year	₹800	20	₹160
1 year to 3 years	₹600	30	₹180
More than 3 years	₹400	50	₹200
Loss assets	₹900	100	₹900
Total provisions required			₹1,560

11.7 REBATE ON BILL DISCOUNTED

This is also termed as unexpired discount or discount received but not earned. This is unearned amount of discount received for those bills that will mature after the date of closing the final accounts.

For example, if a bill discounted on 1.12.2014 for 3 months at ₹6,000 and accounts are closed on 31st December 2014 ₹4,000 is the unexpired discount because it relates to two months in 2015.

Discount account	Dr
To rebate on Bill Discounted	A/c

The rebate on bill discounted at the beginning is added to the discount income and the Rebate on bill discounted at the end is deducted to find out the net discount income.

Illustration -2 Chennai Bank Ltd. held the following bills on 31-03 – 2016.

Date of bill	Amount (₹)	Term (Months)	Discount (p.a.)
Jan.13	7,50,000	4	12%
Feb.17	6,00,000	3	10%
Mar. 6	4,00,000	4	11%
Mar. 16	2,00,000	2	10%

Calculate the rebate on bills discounted and give necessary journal entries.

Solution

Date of bill	Due date	Amount (₹)	No. of days after 31st March	Discount (p.a.)	Discount
Jan.13	16 -05	7,50,000	46	12%	11,342
Feb.17	20 – 05	6,00,000	50	10%	8,219
Mar. 6	9 – 07	4,00,000	100	11%	12,055
Mar. 16	19 – 07	2,00,000	49	10%	2,685
					34,301

Particulars	LF	Debit ₹	Credit ₹
Discount a/c	Dr	34,301	
To Rebate on bills discounted a/c			34,301

11.8 CONTINGENT LIABILITIES

These are not liabilities of a bank on the date of a balance sheet, but can become liabilities at a future date. The contingent liabilities are shown under Schedule 12 as a footnote to the balance sheet of a bank. The following are the contingent liabilities.

1. Claim against the bank, not acknowledged as debts.

2. Liability for partly paid investments – Liabilities on partly paid shares, debentures, etc. will be included under this head.
3. Liability on account of outstanding forward exchange contract.
4. Guarantees given on behalf of customer – Guarantees given for constituents in India and outside India may be shown separately.
5. Acceptances, endorsements and other obligations – This item will include letter of credit and bills accepted by the bank on behalf of customers.
6. Other items for which the bank is contingently liable – Arrears of cumulative dividends, bills rediscounted under underwriting contracts, estimated amounts of contracts remaining to be executed on capital account and not provided for etc are to be included here.

Illustration -3 From the following calculate statutory reserve while preparing bank P & L a/c for the current year

Profit for the year	1,83,000
Profit for the last year	35,000
Total profit	2,18,000

Solution

Statutory reserve = 1,83,000 x 25% = ₹45,750

SPECIMEN FORMAT OF
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH

	Schedule No.	Current year	Last year
I Income			
Interest earned	13	xxx	xxx
Other incomes	14	xxx	xxx
Total		xxx	xxx
II Expenditure			
Interest expended	15	xxx	xxx
Operating expenses	16	xxx	xxx
Provisions and contingencies	–	xxx	xxx
Total		xxx	xxx
III Profit or Loss			
Net profit (Income – expenditure)		xxx	xxx
P & L a/c balance (Last year profit)		xxx	xxx

Total		xxx	xxx
IV Appropriations			
Statutory reserve (25% of current year net profit)		xxx	xxx
Proposed dividend		xxx	xxx
Contingency reserve		xxx	xxx
Dividend equalization reserve		xxx	xxx
Other reserves		xxx	xxx
Bal. carried to balance sheet (b/f)		xxx	xxx
Total		xxx	xxx

EXPLANATIONS OF SCHEDULES APPEARING IN P& L ACCOUNT

Schedule –13 INTEREST EARNED	**Schedule –14 OTHER INCOMES**
Interest on loan Interest on cash credit Interest on overdraft Interest and discount Income on investment Discount on bills discounted Add: Opening rebate on bills discounted Less: Closing rebate on bills discounted	Commission, exchange and brokerage Profit on revaluation / sale of fixed assets Less: Loss on sale of fixed assets Other incomes Transfer fees Locker rent
Schedule –15 INTEREST EXPENDED	**Schedule –16 OPERATING EXPENSES**
Interest on fixed deposits Interest on current account Interest on savings bank a/c Interest paid	Salary Rent and taxes Establishment expenses Auditor fees & director fees All other expenses
PROVISIONS AND CONTINGENCIES: Bad debts written off Provision for bad and doubtful debts Provision for taxation Rebate on bills discounted / unexpired risk	

11.9 PREPARATION OF PROFIT AND LOSS A/C WITHOUT ADJUSTMENT

Illustration -4 From the following particulars of Arun Bank Ltd., prepare P & L a/c for the year ended 31st March 2015.

Interest on deposits	32,00,000	Commission (Cr)	1,00,000
Interest on loan	24,90,000	Sundry expenses	1,00,000
Rent and taxes	2,00,000	Salaries to employees	5,00,000
Discount received	14,90,000	Interest on overdraft	16,00,000
Audit fees	35,000	Interest on cash credit	23,20,000
Directors fees	16,000	Bad debts written off	3,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	Schedule No.	Amount ₹
I. Income		
Interest earned	13	79,00,000
Other income	14	1,00,000
Total		80,00,000
II. Expenditure		
Interest expended	15	32,00,000
Operating expenses	16	8,51,000
Provisions and contingencies	–	3,00,000
Total		43,51,000
III. Profit / loss		
Net profit		36,49,000
IV. Appropriations		
Transfer to statutory reserve (25%)		9,12,250
Balance carried to balance sheet		27,36,750
		36,49,000

Workings

Schedule 13	₹	**Schedule 14**	₹
Interest on loan	24,90,000	Commission (Cr)	**1,00,000**
Discount received	14,90,000	**Schedule 15**	
Interest on overdraft	16,00,000	Interest on deposits	**32,00,000**
Interest on cash credit	23,20,000	**Schedule 16**	
	79,00,000	Rent and taxes	2,00,000
		Salaries to employees	5,00,000
Provisions and contingencies		Audit fees	35,000

Bad debts	**3,00,000**	Directors fees	16,000
		Sundry expenses	1,00,000
			8,51,000

Illustration -5 Prepare P & L a/c for the year ended 31st March 2015 of New Bank Ltd from the following particulars:

	₹ (‘000)		**₹ (‘000)**
Interest on loan	250	Discount on bills discounted	40
Interest on savings a/c	150	Rent and taxes	5
Interest on cash credit	160	Commission, exchange & brokerage	15
Audit fees	10	Interest on fixed deposits	190
Payment to employees	50	Directors fees	20

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ (‘000)**
I. Income		
Interest earned	13	450
Other income	14	15
Total		465
II. Expenditure		
Interest expended	15	340
Operating expenses	16	85
Provisions and contingencies	–	–
Total		425
III. Profit / loss		
Net profit		40
IV. Appropriations		
Transfer to statutory reserve (25%)		10
Balance carried to balance sheet		30
		40

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest on loan	250	Interest on savings a/c	150
Interest on cash credit	160	Interest on fixed deposits	190
Discount on bills discounted	40		340
	450	**Schedule 16**	
Schedule 14		Payment to employees	50
Commission, exchange & brokerage	15	Directors fees	20
		Rent and taxes	5
		Audit fees	10
			85

Illustration -6 From the following particulars, prepare P & L a/c of W Bank Ltd. for the year ended 31-12-15.

	₹ (‘000)		**₹ (‘000)**
Interest on loan	260.00	Rebate on bills discounted	50.00
Printing	3.00	Commission charged to customers	9.00
Directors fees	4.50	Interest on cash credit	225.00
Sundry charges	1.80	Interest on current account	45.00
Postage	1.50	Interest on fixed deposits	280.00
Rent and taxes	20.00	Interest on savings a/c	70.00
Interest on overdraft	56.00	Establishment expenses	56.00
Payment to employees	150.00	Discount on bills discounted	200.00

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ (‘000)**
I. Income		
Interest earned	13	791.00
Other income	14	9.00
Total		800.00
II. Expenditure		
Interest expended	15	395.00
Operating expenses	16	236.80

Provisions and contingencies	–	–
Total		631.80
III. Profit / loss		
Net profit		168.20
IV. Appropriations		
Transfer to statutory reserve (25%)		42.05
Balance carried to balance sheet		126.15
		168.20

Workings

Schedule 13	**₹ ('000)**	**Schedule 15**	**₹ ('000)**
Interest on loan	260	Interest on savings a/c	70
Interest on cash credit	225	Interest on fixed deposits	280
Discount on bills discounted	200	Interest on current account	45
Interest on overdraft	56		395
Rebate on bills discounted	50	**Schedule 16**	
	791	Printing	3.0
		Directors fees	4.5
Schedule 14		Sundry charges	1.8
Commission charged to customers	9	Postage	1.5
		Rent and taxes	20.0
		Establishment expenses	56.0
		Payment to employees	150.0
			236.8

11.10 PREPARATION OF PROFIT AND LOSS A/C WITH ADJUSTMENT

Illustration -7 From the following details relating to the Chennai Bank Ltd, prepare P & L a/c for the year ended 31-3-15.

Interest earned	₹37,01,738	Other incomes	₹4,55,000
Interest expended	₹20,37,452	Salary and rent paid	₹4,80,286
Provisions and contingencies	₹13,00,000	Profit from last year	Nil

Adjustments:

a) Transfer to statutory reserve 25% out of profit

b) Transfer to proposed dividend ₹1,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	37,01,738
Other income	14	4,55,000
Total		41,56,738
II. Expenditure		
Interest expended	15	20,37,452
Operating expenses	16	4,80,286
Provisions and contingencies	–-	13,00,000
Total		38,17,738
III. Profit / loss		
Net profit		3,39,000
IV. Appropriations		
Transfer to statutory reserve		87,750
Transfer to proposed dividend		1,00,000
Balance carried to balance sheet		1,54,250
		3,39,000

Illustration -8 From the following information relating to Aswin Bank Ltd, prepare P & L a/c for the year ending 31-3-15 along with necessary schedules in the revised format:

	₹ ('000)		**₹ ('000)**
Interest, discount earned	31,628	Income on investments	11,810
Auditor's fees	41	Commission, exchange and brokerage	2,907
Salaries to employees	9,717	Balance of profit B/D from last year	1,000
Postage	403	Interest on RBI Loan paid	3,362
Rent and taxes	1,168	Depreciation on bank property	379
Directors fees	7	Profit on sale of investments	114
Law charges	22	Interest received on balance with RBI	4,243
Other expenditure	1,799	Interest on deposits paid	31,404

Adjustments:

a) Make a provision for IT @ 51.75% on profit

b) Transfer 25% of profit to statutory reserve and 5% to revenue reserve

c) Transfer to proposed dividend ₹2,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	Schedule No.	Amount ₹
I. Income		
Interest earned	13	4,76,81,000
Other income	14	30,21,000
Total		5,07,02,000
II. Expenditure		
Interest expended	15	3,47,66,000
Operating expenses	16	1,35,36,000
Provisions and contingencies	–	12,42,000
Total		4,95,44,000
III. Profit / loss		
Net profit		11,58,000
Last year profit		10,00,000
		21,58,000
IV. Appropriations		
Transfer to statutory reserve (25%)		2,89,500
Transfer to revenue reserve (5%)		57,900
Proposed dividend		2,00,000
Balance carried to balance sheet		16,10,600
		21,58,000

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest, discount earned	31,628	Interest on deposits paid	31,404
Income on investments	11,810	Interest on RBI Loan paid	3,362
Interest received on balance with RBI	4,243		34,766
	47,681	**Schedule 16**	
Schedule 14		Auditor’s fees	41
Commission, exchange and brokerage	2,907	Salaries to employees	9,717
Profit on sale of investments	114	Postage	403
	3,021	Rent and taxes	1,168
		Directors fees	7

		Law charges	22
		Other expenditure	1,799
		Dep. on bank property	379
			13,536

Calculation of Provision for taxation ₹ (‘000)

Total income	₹50,702
Less: Total expenses	₹48,302
	₹2,400
Provision for income tax (2,400 x 51.75%)	₹1,242

Illustration -9 From the following information, prepare P & L a/c of Cholan Bank for the year ended 31-3-2015 along with necessary schedules in the revised format:

	₹ (‘000)		**₹ (‘000)**
Interest on loan	518	Directors fees	6
Commission received	16	Salaries	108
Discount on bills discounted	292	Rent and tax	36
Interest on investments	446	Sundry charges	4
Interest on fixed deposits	550	Printing	6
Interest on current accounts	84	Auditors fees	2
Interest on savings bank deposit	136	Postage	3
Depreciation on bank’s property	10	Locker rent	2
Rebate on bills discounted	98	Transfer fees	1
Interest on overdraft	308		

Other information:

a) Provision for bad debts ₹80,000

b) Provision for income tax ₹3,00,000

c) Statutory reserve 25%

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ (‘000)**
I. Income		
Interest earned	13	1,564.0
Other income	14	23.0
Total		1,587.0

II. Expenditure		
Interest expended	15	770.0
Operating expenses	16	171.0
Provisions and contingencies	–	380.0
Total		1,321.0
III. Profit / loss		
Net profit		266.0
IV. Appropriations		
Transfer to statutory reserve (25%)		66.5
Balance carried to balance sheet		199.5
		266.0

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest on loan	446	Interest on savings a/c	136
Interest on advances	518	Interest on fixed deposits	550
Discount on bills discounted	292	Interest on current account	84
Interest on overdraft	308		770
	1,564	**Schedule 16**	
		Printing	6
Schedule 14		Directors fees	6
Commission	16	Audit fees	2
Locker rent	2	Depreciation	10
Sundry charges	4	Rent and taxes	36
Transfer fees	1	Postage	3
	23	Salary	108
			171

Illustration -10 The following are the figures extracted from the books of Naveen Bank Ltd as on 31-3-15. Prepare the P & L a/c as per the revised format with all necessary schedules.

	₹		₹
Salaries	2,00,000	Interest paid to deposits	20,37,452
Subscribed capital	10,00,000	Profit on sale of investments	2,00,000
Directors fees	30,000	Stationery expenses	40,000
Postage	60,286	Statutory reserve fund	8,00,000
Rent and taxes	90,000	Depreciation on bank property	30,000

Rent received	65,000	Preliminary expenses	25,000
Auditors fees	5,000	Interest and discount received	37,05,738
		Commission received	1,90,000

Additional information:

a) A customer to whom a sum of ₹10 Lakhs has been advanced became insolvent and only 50% can be realized from his estate

b) There were also debts which a provision of ₹1,50,000 was found necessary

c) Rebate on bills discounted on 31-3-2014 ₹12,000 and on 31-3-2015 was ₹16,000

d) Provide ₹6,50,000 for income tax

e) Directors recommended 10% dividend

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	37,01,738
Other income	14	4,55,000
Total		41,56,738
II. Expenditure		
Interest expended	15	20,37,452
Operating expenses	16	4,80,286
Provisions and contingencies	–	13,00,000
Total		38,17,738
III. Profit / loss		
Net profit		3,39,000
Last year profit		–
		3,39,000
IV. Appropriations		
Transfer to statutory reserve (25%)		84,750
Proposed dividend		1,00,000
Balance carried to balance sheet		1,54,250
		3,39,000

SPECIMEN FORMAT OF BALANCE SHEET

	Schedule No.	Current year	Last year
Capital and Liabilities			
Capital	1	xxx	xxx
Reserves and surplus	2	xxx	xxx
Deposits	3	xxx	xxx
Borrowings	4	xxx	xxx
Other liabilities and provisions	5	xxx	xxx
Total		xxx	xxx
Assets			
Cash and balance with Reserve Bank of India	6	xxx	xxx
Balance with banks and money at call and short notice	7	xxx	xxx
Investments	8	xxx	xxx
Advances	9	xxx	xxx
Fixed assets	10	xxx	xxx
Other assets	11	xxx	xxx
Total		xxx	xxx
Contingent liabilities	12		
Bills for collection		xxx	xxx

Explanations of Schedules appearing in Balance Sheet

Schedule –1 CAPITAL	**Schedule –2 RESERVES AND SURPLUS**
Authorized Issued Subscribed Less: Calls in arrears Add: Forfeited shares	Statutory reserve Capital reserve Securities premium Dividend equalization fund Reserve fund Balance from P & L a/c
Schedule – 3 DEPOSITS	**Schedule –4 BORROWINGS**
Demand deposits Savings deposits	In India Outside India

Term deposits Other deposits Cash certificate	Short loan (Cr)
Schedule –5 OTHER LIABILITIES AND PROVISIONS	**Schedule –6 CASH BALANCE WITH RESERVE BANK OF INDIA**
Bills payable Creditors Inter branch adjustments (Cr) Interest accrued Provision for income tax Unclaimed dividend Provision for doubtful debts Rebate on bills discounted /unexpired discount Outstanding expenses	Cash in hand Balance with RBI
Schedule –7 BALANCE WITH BANK AND MONEY AT CALL AND SHORT NOTICE	**Schedule –8 INVESTMENTS**
Balance with other banks Money at call and short notice	Govt. securities Other approved securities Shares Debentures and bonds Reserve fund investments
Schedule –9 ADVANCES	**Schedule –10 FIXED ASSETS**
Bills purchased and discounted Cash credit, gold and loan repayable on demand Term loans	Fixed assets Less: Depreciation
Schedule – 11OTHER ASSETS	**Schedule – 12 CONTINGENT LIABILITIES**
Income outstanding Branch adjustments (Dr) Expenses paid in advance Non-banking assets Other assets	Acceptances, endorsements and other obligations Bills for collection

11.11 TREATMENT FOR SOME IMPORTANT ADJUSTMENTS:

1. Closing rebate on bills discounted:

a) Given in adjustments	Provisions and contingencies (or) Less from Schedule 13 and Schedule –5
b) Given in trial balance	Schedule – 5 only

2. Depreciation:

a) Given in adjustments	Schedule –16 and Schedule – 10
b) Given in trial balance	Schedule – 5 only

3. Bad debts written off :

a) Given in adjustments	Provisions and contingencies and Schedule -5
b) Given in trial balance	Provisions and contingencies only

4. Statutory Reserve	P & L a/c – IV Appropriations Schedule- 2 Reserves and surplus
5. Provision for taxation	Provisions and Contingencies Schedule -5 Other current liabilities

6. If there is reserve fund investment, there must be reserve fund equal to that amount

11.12 PREPARATION OF BALANCE SHEET

Illustration -11 From the following trial balance of a bank, prepare a balance sheet of the bank with schedule numbers as on 31-3-2015

Debit balance	₹ (in Lacs)	Credit balances	₹ (in Lacs)
Current a/c	28.00	19,80,000 shares of ₹ 10 each	198.00
Cash credits	812.10	Statutory reserve	231.00
Cash in hand	160.15	Net profit before appropriation	150.00
Cash with other RBI	37.88	P & L a/c	412.00
Money at call	210.12	Fixed deposit a/c	517.00
Gold	55.23	Savings deposit a/c	450.00
Govt. securities	110.17	Current deposit a/c	520.12
Premises	155.70	Bills payable	0.10
Term loans	792.88	Borrowings from other banks	110.00
Furniture	205.99		
	2,588.22		2,588.22

Additional information:

a) Depreciation chargers – Premises ₹1,10,000; Furniture ₹78,000

b) 50% of the term loans are secured by Govt. quarantines.

c) 10% of cash credits are unsecured.

Solution

Balance Sheet as on 31-3-2015

	Schedule No.	**2015 ₹ (in Lacs)**	**2014**
Capital and Liabilities			
Capital	1	198.00	
Reserves and surplus	2	773.00	
Deposits	3	1,487.12	
Borrowings	4	110.00	
Other liabilities and provisions	5	0.10	
Total		2,566.34	
Assets			
Cash and balance with Reserve Bank of India	6	198.03	
Bal. with banks and money at call and short notice	7	210.12	
Investments	8	110.17	
Advances	9	1,688.21	
Fixed assets	10	359.81	
Other assets	11	–	
Total		2,566.34	
Contingent liabilities	12	–	
Bills for collection			

Illustration -12 From the following trial balance as on 31st March 2015, prepare the balance sheet of World Bank Ltd.

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Cash balance	300	Share capital	2,000
Cash with RBI	200	P & L a/c	500
Balance with other banks	400	Statutory reserve	300
Money at call and short notice	200	Net profit before appropriation	200

Investments in Govt. securities	200	Fixed deposit a/c	550
Investments in other approved securities	200	Current a/c	800
Gold	100	Savings bank a/c	850
Cash credit and overdraft	1,000	Borrowings from other banks	300
Loans and advances	1,500	Borrowings from RBI	200
Bills purchased and discounted	1,000	Bills payable	100
Premises	500	Rebate on bills discounted	200
Furniture	100		
Non-banking assets	300		
	6,000		6,000

Additional information:

1) Acceptances and endorsements ₹9,00,000
2) Bills for collection ₹5,00,000

Solution

Balance Sheet as on 31-3-2015

	Schedule No.	2015 ₹ in '000	2014
Capital and Liabilities			
Capital	1	2,000	
Reserves and surplus	2	1,000	
Deposits	3	2,200	
Borrowings	4	500	
Other liabilities and provisions	5	300	
Total		6,000	
Assets			
Cash and balance with Reserve Bank of India	6	500	
Bal. with banks and money at call and short notice	7	600	
Investments	8	500	
Advances	9	3,500	
Fixed assets	10	600	
Other assets	11	300	
Total		6,000	
Contingent liabilities	12	900	
Bills for collection		500	

11.13 PREPARATION OF P & L A/C AND BALANCE SHEET

Illustration -13 Prepare P & L a/c and B/S of Chennai Bank Ltd. as on 31-12-2015 according to Banking Regulations Act,1949.

Trial Balance as on 31-12-2015

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Money at call and short notice	800	Share Capital	2,000
Cash in hand	650	Reserve fund	700
Cash at bank	950	Deposits	2,500
Investments in Govt. Securities	900	Borrowings from SBI	500
Secured loan	1,500	Rent	60
Cash credit	500	Interest and discount	800
Premises less depreciation	580	Commission and Brokerage	70
Furniture	120		
Rent	5		
Interest paid on deposits	300		
Salary and allowances paid to staff	150		
Interest paid on borrowings	50		
Audit fees	10		
Directors fees	8		
Non-banking assets	80		
Depreciation on Banks properties	13		
Printing	3		
Advertisements	1		
Stationery	5		
Postage and telegrams	2		
Other expenses	3		
	6,630		6,630

Adjustments:

1. Provide ₹ 20,000 on doubtful debts
2. Provide ₹10,000 on bills discounted but not matured on 31-12-2015.
3. Acceptance and endorsements on behalf of customers amounting to ₹4,00,000.
4. Provide ₹60,000 for taxes.

Solution:

P & L a/c for the year ended 31-12-2015

Particulars	**Schedule No.**	**Amount ₹ in '000**
I. Income		
Interest earned	13	790
Other income	14	130
Total		920
II. Expenditure		
Interest expended	15	350
Operating expenses	16	187
Provisions and contingencies	--	80
Total		617
III. Profit / loss		
Net profit		303
Last year profit		--
IV. Appropriations		
Transfer to statutory reserve (25%)		75.75
Balance carried to balance sheet		227.25
		303.00

Balance Sheet as on 31-12-2015

	Schedule No.	**2015 ₹ in '000**	**2014**
Capital and Liabilities			
Capital	1	2,000	
Reserves and surplus	2	1,003	
Deposits	3	2,500	
Borrowings	4	500	
Other liabilities and provisions	5	90	
Total		6,093	
Assets			
Cash and balance with Reserve Bank of India	6	650	
Bal. with banks and money at call and short notice	7	1,950	

Investments	8	900	
Advances	9	2,000	
Fixed assets	10	687	
Other assets	11	80	
Total		6,267	
Contingent liabilities	12	400	
Bills for collection			

Illustration -14 Prepare P & L a/c and B/S of Chennai Bank Ltd. as on 31-3-2016 according to Banking Regulations Act,1949.

Trial Balance as on 31-3-2016

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Money at call and short notice	5,000	Share Capital	10,000
Cash in hand	1,000	Statutory Reserve	5,000
Balance with other banks	15,000	Deposits	55,000
Govt. Securities	2,000	Borrowings from other banks	10,000
Loans and advances	40,000	P & L a/c as on 1-4-2015	5,300
Bills discounted	10,000	Interest and discount	5,000
Premises less depreciation	2,000	Commission and Brokerage	500
Furniture	500		
Balance with RBI	10,000		
Computer	200		
Salary and bonus	1,400		
Interest on borrowings and deposits	2,000		
Audit fees	100		
Directors fees	200		
Silver	1,000		
Printing and stationeries	200		
Advertisements	200		
	90,800		90,800

Additional information:

1. Rebate on bills discounted for unexpired term is ₹3,00,000
2. Interest accrued on investments is ₹2,00,000

3. Charge 5% depreciation on Premises and 20% on Furniture
4. A provision for doubtful debts amounting to ₹1,00,000 is required.
5. Bills for collection amounted to ₹2,0,0000
6. Acceptances for customers ₹3,00,000
7. The directors desired to declare 5% dividend.

Prepare P & L a/c and B/S in the prescribed form.

Solution:

P & L a/c for the year ended 31-3-2016

Particulars	**Schedule No.**	**31-3-2016 ₹ in'000**
I. Income		
Interest earned	13	4,900
Other income	14	500
Total		5,400
II. Expenditure		
Interest expended	15	2,000
Operating expenses	16	2,300
Provisions and contingencies	–	100
Total		4,400
III. Profit / loss		
Net profit		1,000
Last year profit		5,300
		6,300
IV. Appropriations		
Transfer to statutory reserve (25%)		250
Proposed dividend		500
Balance carried to balance sheet		5,550
		6,300

Balance Sheet as on 31-12-2016

	Schedule No.	**2016 ₹ in '000**	**2015**
Capital and Liabilities			
Capital	1	10,000	
Reserves and surplus	2	10,800	

Deposits	3	55,000	
Borrowings	4	10,000	
Other liabilities and provisions	5	900	
Total		86,700	
Assets			
Cash and balance with RBI	6	11,000	
Bal. with banks and money at call and short notice	7	20,000	
Investments	8	2,200	
Advances	9	51,000	
Fixed assets	10	2,500	
Other assets	11	–	
Total		86,700	
Contingent liabilities	12	500	
Bills for collection			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. The statutory reserve of a banking company is at least ________ of its annual profit
   a) 10% b) 15%
   c) 20% d) **25%**

2. Assets acquired in satisfaction of claims of the bank is called
   a) Non-performing assets b) Performing assets
   c) **Non-banking assets** d) Banking assets

3. Non-performing assets should be disposed of within _________ from the date of acquisition.
   a) 7 months b) 7 days
   c) **7 years** d) 7 weeks

4. __________ asset is one which ceases to generate income for the bank
   a) **Non-performing** b) Performing
   c) Non-banking d) Banking

5. Provision required for sub-standard assets is _______ of the total outstanding amount.
   a) **10%** b) 15%
   c) 20% d) 5%

6. Provision required for unsecured portion of doubtful asset is ______ of the total outstanding amount.
   a) **100%** b) 15%
   c) 20% d) 75%

7. Provision required for unsecured portion of asset up to one year the advance has been considered doubtful is _______ of the total outstanding amount.
   a) 100% b) 15%
   c) **20%** d) 25%

8. Bank is required to maintain ______ of net time and demand liabilities as cash reserve ratio
   a) **5%** b) 15%
   c) 25% d) 20%

9. Bank is required to maintain _____ of net time and demand liabilities as statutory liquidity ratio
   a) 5% b) 15%
   c) **25%** d) 20%

10. Doubtful assets are those which have remained non-performing assets for a period ________
    a) **Exceeding 18 months** b) Not exceeding 18 months
    c) Exceeding 18 years d) Not exceeding 18 years

11. Banks prepare the accounts for the
    a) Calendar year   b) **Financial year**
    c) Co-operative year   d) Diwali year

12. Banks show the provision for income tax under the head
    a) Contingency a/cs   b) Contingent liabilities
    c) **Other liabilities and provisions**   d) Borrowings

13. The heading other assets does not include
    a) Silver   b) Interest accrued
    c) Inter-office adjustment (Dr) d) **Gold**

14. Rebate on bills discounted is
    a) Income   b) Liability
    c) **Income received in advance**   d) Income outstanding

15. A non-banking asset is
    a) Money at call and short notice   b) **Any asset acquired from debtors in satisfaction of claim**
    c) An item of office equipment d) Furniture and fixtures

16. A non-performing assets is
    a) Money at call and short notice   b) **An asset which ceases to generate income**
    c) Cash balance   d) Cash balance with RBI

17. When an income is to be recognized on cash basis, a distinction should be made between
    a) **Performing and non-performing assets**   b) Banking and non-banking assets
    c) Monetary and non-monetary assets   d) Current and non-current assets

18. Paid up capital of a banking company must be at least ______ of the subscribed capital of a banking company
    a) **50%**   b) 1/3
    c) 40%   d) 2/3

19. No banking company shall pay any dividend on its shares _______ have been completely written off
    a) **until all its capitalized expenses**   b) after all its capitalized expenses
    c) After all its revenue expenses   d) Before all its revenue incomes

20. The subscribed capital of banking company is not less than half of the __________
    a) Subscribed capital   b) **Authorized capital**
    c) Paid up capital   d) Called up capital

21. The capital of banking company consist of only
    a) Equity shares   b) Preference shares
    c) **Equity shares and Preference shares issued before 1-7-1944**   d) Redeemable preference shares

22. The Reserve Bank of India compel all the commercial banks to follow the revised format of P & L a/c and Balance sheet on
    - a) 3-12-1992
    - b) **31-3-1992**
    - c) 1-3-1992
    - d) 23-1-1992

23. Schedule 14 gives the details of ________
    - a) **Other income**
    - b) Other expenses
    - c) Operating expenses
    - d) Income received in advance

24. Interest on deposits comes under
    - a) Schedule 16
    - b) Schedule 13
    - c) **Schedule 15**
    - d) Schedule 14

25. Schedule 8 deals with
    - a) Advances
    - b) **Investments**
    - c) Other assets
    - d) Cash

26. Statutory reserve will come under
    - a) Reserves and surplus
    - b) Appropriation
    - c) **Both a & b**
    - d) Provisions and contingencies

27. Rebate on bills discounted at the end should be credited in
    - a) Rebate a/c
    - b) Discount a/c
    - c) Bills discounted a/c
    - d) **Rebate on bills discounted a/c**

28. Rebate on bills discounted is
    - a) Rebate allowed by bank on large deposits
    - b) Rebate allowed by bank on large advances
    - c) **Discount received by the bank but not earned**
    - d) Discount not received by the bank but not earned

29. The financial statements of a banking company are now required to be prepared on ______basis
    - a) **Historical cost**
    - b) Replacement cost
    - c) Historical as well as replacement cost
    - d) All of the above

30. Number of schedules in the bank balance sheet is
    - a) 16
    - **b) 12**
    - c) 08
    - d) 04

31. The statutory reserve to be created by bank is
    - a) 15%
    - **b) 20%**
    - c) 10%
    - d) 12%

REVIEW QUESTIONS

A) Answer in short

1. What do you mean by non – banking assets?
2. Write a note on non – performing assets.
3. What is rebate on bills discounted?
4. How is interest on doubtful debts treated in bank accounts?
5. What do you mean by "statutory reserve"?
6. What is a contingent liability? What do they include?

B) Answer in detail

1. Discuss the legal provisions relating to the final accounts of a banking company.
2. Explain the various schedules to be prepared by a commercial bank.
3. How the following are treated in banking final account?

   a) Bad debts b) Reserve for bad debts c) Provision for taxation

   d) Unexpired discounts

EXERCISES

REBATE ON BILLS DISCOUNTED

1. On 31-12-2016 Indian Bank had the following unmatured bills

Date	Amount	Term (Months)	Discounted at
12-10-2016	36,000	6	7%
7-11-2016	73,000	4	6%
1-12-2016	18,000	3	5%

Calculate rebate on bills discounted as on 31-12-2016

2. As on 31st Dec. 2016, the books of the Hercules bank, include among others, the following balances

   Rebate on bills discounted (1-1-2008) ₹3,20,000

   Discount received ₹46,00,000

   Bills discounted and purchased ₹3,15,47,000

Throughout 2016, the bank's rate for discounting has been 18%. On investigation and analysis, the average due date for the bills discounted and purchased is calculated as 15th Feb. 2017. Show the calculation of the amount to be credited to the bank P & L a/c under discount earned. Show also the journal entries required to adjust the above mentioned account.

3. The trial balance of Kuber Bank Ltd., as on 31st Dec.2016 shows the following balances:

   i) Interest earned (including discount on bills) ₹45,40,600

   ii) Rebate on bills discounted (on 1st Jan. 2016) ₹4,750

   iii) The amount of unexpired discount as on 31st Dec.2016 ₹5,560

   Pass necessary journal entries and show "interest and discount" account

4. On 1-1-2016, the rebate on bills discounted a/c of a bank showed a credit balance of ₹1,00,000. On 31-12-16, the discount a/c showed a credit balance of ₹15,00,000 before adjusting unexpired discount. The bills discounted outstanding on 31-12-2016 were ₹2 crores with average maturity date of 31st Jan. 2017 and they were all discounted at 12% p.a. Write adjustment entries and relevant ledger accounts to record these items and also show how these items will appear in the final accounts of the bank.

5. When closing the books of Lakshmi Bank on 31st March 2016, you find in the loan account of Mr. Arif whose financial condition is reported to you as bad and doubtful. Interest in the same account due up to March 31,2016 amounted to ₹10,000. On July 1, 2016 a final dividend of 75 paise in the rupee has been received from him. Prepare necessary ledger accounts after passing journal entries.

6. Given below interest on advances of commercial bank.

₹ in Lakhs	Performing assets		Non-performing assets	
	Interest earned	**Interest received**	**Interest earned**	**Interest received**
Term loans	200	150	140	10
Cash credit overdraft	1,400	1,200	300	25
Bills purchased and discounted	300	300	150	40

   Calculate the amount of interest to be recognized as income.

7. From the following information identify the non-performing assets of a commercial bank for the year ended 31st March 2016.

   Term loans: ₹300 lakhs on which interest remains past due for three quarters on ₹100 lakhs and for four quarters on ₹80 lakhs.

Cash credit and overdraft ₹2,000 lakhs on which interest remained past due two quarters on ₹300 lakhs for three quarters on ₹150 lakhs and for four quarters ₹150 lakhs.

Bills purchased and discounted ₹4,000 lakhs on which discounted past due for one quarter on ₹1,450 lakhs for two quarters on ₹800 lakhs, for three quarters on ₹700 lakhs and for four quarters on ₹500 lakhs.

8. The following balances have been extracted from the books of a banking company as on 31-3-16.

Bad debts	₹5,00,000
Advances	₹74,50,00,000
Profit before charging bad debts	₹7,00,000
Provision for taxation to be made 40% of net profit	

Show how to above items will appear in the banking company's P & L a/c and Balance sheet?

9. The following balances are from the trial balance of Vijaya Bank Ltd.

Loans, cash credit and overdraft ₹4,00,00,000

Bills term loans ₹1,00,00,000

Bills discounted and purchased ₹2,50,00,000

You are required to show how the above will be appearing in the balance sheet.

10. While closing the books of account, a commercial bank has its advances classified as follows:

	₹ (in lakhs)
Standard assets	16,000
Sub-standard assets	1,300
Doubtful assets:	
Up to one year	700
One year to three years	400
More than three years	300
Loss assets	500

You are required to calculate the amount of provisions to be made by the bank

PREPARATION OF P & L A/C WITHOUT ADJUSTMENTS

11. From the following information relating to Lakshmi Bank Ltd., prepare the P & L a/c for the year ended 31st Dec.2015.

Rent received	72,000	Commission	32,800
Interest on fixed deposits	11,00,000	Interest on savings bank	2,72,000
Interest on overdrafts	2,16,000	Discount on bills discounted	7,80,000
Interest on current account	1,68,000	Interest on cash credit	8,92,000
Depreciation on bank property	20,000	Salaries	2,18,000
Postage	5,600	Sundry charges	4,000
Directors fees	16,800	Printing	8,000
Law charges	3,600	Locker rent	1,400
Transfer fees	2,800	Interest on loan	10,36,000

12. From the following particulars, prepare profit & loss account of Krishna Bank Ltd. for 2015.

	₹		₹
Interest on loans	34,900	Balance of profit & Loss a/c	1,200
Interest on fixed deposits	36,500	Rent & taxes	1,800
Rebate on bills discounted	4,800	Interest on overdraft	12,800
Commission charged on customers	910	Discount on Bills discounted	19,400
Office expenses	15,500	Interest on savings deposits a/c	6,900
Director’s remuneration	420	Postal expenses	150
Interest on cash credits	22,400	Printing & stationery	390
		Other expenses	180

13. From the following particulars, prepare profit & loss account of New Bank Ltd. for the year ended 31.03.15

	₹		₹
Interest on loans	2,60,000	Director’s and Auditor’s Fees	4,500
Interest on cash credits	2,25,000	Establishment expenses	56,000
Interest on fixed deposits	2,80,000	Interest on saving bank accounts	70,000
Rent & Taxes	20,000	Discount on bills discounted	2,00,000
Interest on overdrafts	56,000	Postage & Telegrams	1,500
Commission charged to customers	9,000	Printing & Advertisement	3,000
		Sundry charges	1,800

14. From the following information you are required to prepare profit & loss account of P.N. Bank for the year ended on 31.03.15 under the provisions of the act applicable thereto:

	₹ (in '000)		**₹ (in '000)**
Interest on loans	518.00	Sundry charges	2.00
Interest on cash credits	446.00	Advertisement & Publicity	1.40
Auditor's fees	2.40	Director's fees	6.00
Interest on overdrafts	108.00	Printing & stationery	0.40
Interest on saving bank deposits	220.00	Commission, Exchange & Brokerage	16.40
Interest on fixed deposits	554.00	Payment to Employees	108.00
Law charges	1.40	Locker rent	0.70
Rent, Taxes & Lighting	36.00	Transfer fees	1.40
Postage, telegrams & telephones	2.80	Depreciation on bank property	10.00
Discount on bills discounted	390.00		

PREPARATION OF P & L A/C WITH ADJUSTMENTS

15. From the following information, prepare P & L a/c of City Bank.

Interest on loan	2,590	Interest on fixed deposit	3,170
Commission	82	Payment to employees	540
Discount on bills discounted	1,060	Interest on cash credits	2,230
Rent and tax	180	Interest on overdraft	1,540
Directors fees	30	Auditors fees	12
Interest on savings deposits	680	Postage	14
Printing	29	Sundry charges	17

Additional information:

1. Provide for contingencies ₹2,00,000
2. Transfer ₹15,57,000 to reserve
3. Transfer ₹2,00,000 to Central Govt.

16. Following is the list of balance of Lakshmi Ltd. as on 31st March 2015.

Gross profit	87,050	Furniture	17,000
Rent	4,000	Opening P & L Appropriation (Cr)	15,000
Share capital	1,00,000	Creditors	17,500
Bank balance	46,200	B/R	9,800
Discount (Cr)	3,000	Salaries	7,500

Sundry expenses	7,050	Dividend paid (07-08)	9,000
Debtors	27,500	Plant	29,000
General reserve	15,500	Bills payable	7,000

Prepare P & L a/c and P& L Appropriation a/c for the year ending 31st March 2015 after providing for:

a) Depreciation at 20% on fixed assets

b) Provision for doubtful debts at 5%

c) Provide for 15% dividend.

17. The following are the balances of Indian Bank Ltd for the year ended 31-12-2015.

Interest on loans	5,18,000	Interest on fixed deposits	5,50,000
Commission received	16,400	Discount on bills discounted	3,90,000
Salaries	1,08,000	Interest on savings accounts	1,36,000
Interest on current account	84,000	Rent and taxes	36,000
Interest on overdrafts	3,08,000	Directors fees	8,400
Interest on cash credit	4,46,000	Postage and telegrams	8,600
Locker rent	2,000	Transfer fees	1,400
Sundry expenses	3,400	Depreciation on bank premises	10,000

Other information:

i) Rebate on bills discounted ₹98,000

ii) Bad debts ₹80,000

iii) Provision for income tax ₹3,00,000

From the above information, prepare the profit and loss account of the bank for the year ended 31-12-2015.

18. From the following details, prepare P & L account S Bank Ltd., for the year ended 31st Dec.2015.

Interest on FD	4,30,000	Interest on Loan	6,50,000
Discount on bills discounted	4.15,000	Interest on OD	2, 50,000
Interest on Cash Credit	4,10,000	Salaries	1,40,000
Repairs to bank properties	2,000	Rent	40,000
Locker Rent	5,000	Depreciation	10,000
Advertisement	4,000	Audit fees	12,000
Commission and exchange	24,000	Director's fees	25,000

Transfer Fees	2,000	P.F. Contribution	12,000
P.F. Contribution	12,000	Local committee fees	10,000
Loss on sale of furniture	2,000	Printing	4,000
Loss on sale of Govt. Securities	5,000	Postage	2,500
Interest on Savings bank deposits	1,25,000	Legal charges	2,500

Additional information:

1. Rebate on bills discounted on 31st Dec. 2014 ₹19,000
2. Rebate on bills discounted on 31st Dec. 2015 ₹26,000
3. Bad debts to be written off ₹40,000
4. Provide for taxation ₹50,000

19. From the following particulars, prepare profit & loss account of Mysore Bank Ltd. for the year ended on 31.03.15

	₹		₹
Interest on loans	51,800	Rent & Taxes	3,600
Interest on fixed deposits	55,000	Interest on overdrafts	30,800
Commission received	1,600	Director's fees	600
Salaries and allowances	10,800	Auditor's fees	200
Discount on bills discounted	29,200	Interest on saving bank deposits	13,600
Rebate on bills discounted	9,800	Postage & telegrams	300
Interest on cash credits	44,600	Printing & stationery	600
Interest on current accounts	8,400	Locker rent	200
Sundry charges	400	Transfer fees	100
		Depreciation on bank properties	1,000

Other Information:

i) Provision for bad debts ₹8,000

ii) Provision for Income tax ₹30,000

20. From the following information, prepare profit & loss a/c of Thrifty Bank for the year ended 31.03.15

	₹ (in '000)		**₹ (in '000)**
Interest on loans	2,590	Rent, Taxes & Lighting	180
Interest on fixed deposits	3,170	Interest on overdrafts	1,540
Director's fees, Allowances & exp.	30	Postage, Telegrams & telephones	14

Auditor's fees & expenses	12	Payment to employees	540
Discount on bills discounted	1,060	Interest on Savings Bank deposits	680
Interest on Cash credits	2,230	Sundry charges	17
Commission	82	Printing & Stationery	29

Additional Information:

i) Provide for contingences ₹2,00,000

ii) Transfer ₹15,57,000 to Reserve fund

iii) Transfer ₹2,00,000 to Central Government

21. Prepare Profit and Loss Account of a bank from the following information.

Directors fees	30,000	Rent and rates	24,000
Printing	12,000	Postages	5,000
Other expenses	4,000	Depreciation of bank property	15,000
Audit fees	3,000	Balance of profit as on 1- 4- 2014	2,40,000
Salaries	3,60,000	Loss on sale of investments	5,000
Rent received	40,000	Profit on sale of investments	20,000
Commission	2,40,000	Interest paid on deposits	6,50,000
		Interest and discount received	12,50,000

Additional expenses:

i) Provide ₹15,000 for doubtful debts

ii) Provide ₹60,000 for taxation

iii) Rebate on bills discounted on 31-3-2015 ₹40,000

iv) Provide 10% dividend proposed on paid up capital of ₹10,000

22. The following are the figures extracted from the books of Lakshmi Bank Ltd as on 31-3-2015. Prepare P & L a/c as per the revised format with all necessary schedules.

	₹ (in '000)		**₹ (in '000)**
Interest and discount received	3,695	Advertisement	15
Issued and subscribed capital	1,000	Directors fees	100
Interest paid on deposits	2,032	Rent received	55
Profit on sale of investments	200	Audit fees	5
Payment to employees	200	Rent and tax paid	30
Statutory reserve under Sec.17	800	Postage	50
Depreciation on bank's property	30	Stationary	50
Commission, exchange and brokerage	200		

Further information:

a) A customer to whom a sum of ₹10,00,000 has been advanced has become insolvent and it is expected only 50% can be recovered from his estate. Interest due at 18% on his debt has not been provided in the books

b) There were also other debts for which a provision of ₹1,50,000 was found necessary by the auditors

c) Rebate on bills discounted on 1-4-2014 was ₹12,000 and on 31-3-2015 was ₹16,000

d) Provide ₹6,50,000 for income tax

e) Directors recommended 10% dividend

(NP – 3,39,000)

PREPARATION OF BALANCE SHEET

23. From the following balances, prepare the Balance Sheet of Lucky Bank Ltd., as on 31.03.15.

	₹		₹
Share capital (2,000 shares)	2,00,000	Depreciation Fund on premises	10,000
Premises	1,00,000	Profit & Loss a/c (cr.)	45,000
Money at call	9,00,000	Investments	7,00,000
Traveller's Cheque	2,00,000	Bills purchased	15,00,000
Deposits	56,00,000	Acceptances for customers	5,00,000
Loans	22,00,000	Bills for collection	4,00,000
Reserves	3,00,000	Rebate on Bills Discounted	5,000
Cash in hand	30,000	Cash with RBI	5,20,000
Cash with other Bank	4,50,000	Pension Fund	40,000

The following were completely omitted while the above balances were calculated. They should be adjusted suitably.

- Travellers Cheque paid ₹10,000
- Money at call recovered ₹20,000

24. On 31 -3- 2015 the following are the ledger balances of Kovai Bank Ltd.

Particulars	**₹ ('000)**	**Particulars**	**₹ ('000)**
Share capital	3,500	Cash with other banks	4,400
Fixed deposit a/c	6,650	Savings bank a/c	21,000
Current a/c	56,000	Money at call and short notice	2,100
Investment	21,000	P & L a/c (Cr) 1-4-2014	1,470

Land (after depreciation up to 31-3-15)	7,445	Acceptances on behalf of customers	1,400
Cash	420	Bills discounted and purchased	4,200
Cash with RBI	10,500	Bills payable	5,600
Sundry creditors	210	Bills for collection	980
Unclaimed dividend	210	Net profit for 2014-15	1,680
Reserve fund	2,450	Dividends for 2014	350

The net profit is after deducting provisions for bad debts ₹ 2,10,000; tax provision ₹ 7,00,000 and rebate on bills discounted ₹35,000. Prepare the balance sheet of bank as on 31-3-2015.

PREPARATION OF P & L A/C AND BALANCE SHEET

25. From the following ledger balances of Laxmi Bank Ltd, prepare the Profit and Loss account and Balance sheet as on 31st March 2015.

Equity shares of ₹ 100 each	1,25,000	Statutory reserve	60,000
Current and deposit accounts	7,73,200	P & L a/c balance	1,500
Interest paid	2,700	Govt. securities	60,000
Other securities	82,500	Shares	63,700
Depreciation on premises	2,200	Interest and discount	24,500
Cash in hand and with RBI	1,58,400	Payment to employees	7,400
Bills discounted	37,900	Loans and advances	4,66,500
Building and furniture	41,800	Non-banking assets	33,700
Money at call and short notice	27,400		

Make a provision for rebate on bills discounted ₹ 300.

26. The following is the trial balance extracted from the books of Vysya Bank. You are required to prepare profit & loss a/c and the balance sheet as at 31.03.15 after taking into consideration the adjustments given below:

	Debit ₹		**Credit ₹**
Money at call & short notice	3,00,000	Equity shares of ₹10 each	6,00,000
Depreciation on Bank property	6,000	8% Preferential shares of ₹10 each	3,00,000
Cash at bank	3,60,000	Fixed deposit	3,50,000
Investment in government	1,80,000	Savings Bank account	2,50,000
Loans & cash credits	13,48,200	Current a/c	6,00,000
Furniture	30,000	Reserve fund	3,00,000

Premises	2,52,000	Interest & discount	3,00,000
Interest on deposits	1,80,000	Profit & Loss a/c 01.04.14	42,000
Salaries	48,000	Unclaimed dividend	1,20,000
Audit fees	6,000	Pension fund	36,000
Director's fees	3,000	Borrowings	90,000
Cash in hand	3,00,000	Rent	12,000
Printing & stationery	3,000	Commission	48,000
Non-Banking Assets	30,000		
Other Expenditure	1,800		
	30,48,000		30,48,000

Other information:

- Provide for bad debts ₹10,000
- Provide for rebate on bills discounted ₹4,000
- Acceptance on behalf of customers ₹5,00,000
- Bills for collection ₹4,80,000.

27. The following are the trial balance of Indian Bank Ltd as on 31-12-2016.

	Debit ₹		**Credit ₹**
Loans and advances	23,85,000	Share capital of ₹20 each	5,00,000
Premises	60,000	Reserve fund	2,00,000
Reserve fund investment	2,00,000	Current and other deposits	20,80,000
Investments in Govt. securities	1,60,000	P & L a/c as on 1-1-2016	35,000
Salaries	60,000	Interest and discounts	3,12,000
General expenses	32,000		
Rent and rates	3,000		
Directors fees	20,000		
Money at call and short notice	80,000		
Income tax paid	26,000		
Bills discounted	36,000		
Interim dividend paid	25,000		
Cash in hand with RBI	40,000		
	31,27,000		31,27,000

Adjustments

a) Interest accrued on investments ₹22,000.

b) The market value of Govt. securities is ₹1,50,000 and provision is to be made.

c) Endorsements on behalf of customers ₹2,10,000.

d) Authorized capital 50,000 shares of ₹20 each.

Prepare P & L a/c and balance sheet as on 31-12-2016.

28. From the following balances extracted from the books of Srinidhi Bank Ltd., prepare Profit & Loss a/c & Balance Sheet as at 31.03.15.

	Debit ₹		**Credit ₹**
Money at call & short notice	22,500	Share capital	1,50,000
Cash in hand	30,000	Profit & Loss Account	60,000
Cash with RBI	45,000	Deposits	8,89,500
Investments	96,000	Borrowings	90,000
Buildings	68,400	Bills Payable	24,000
Balance with other banks	57,000	Staff Security Deposits	10,500
Cash credits	7,95,000	Discount on bills	15,000
Interest on deposits and borrowings	1,18,500	Commission and Brokerage	13,500
Bills purchased	1,80,000	Interest on loans	1,75,500
Salary and other expenses	72,000	Income from investments	8,700
Audit fees	5,100	General Reserve	61,500
Postage, printing & stationery	6,300		
Depreciation on Assets	2,400		
	14,98,200		14,98,200

Other Information:

i) Provide ₹10,000 for rebate on bills discounted

ii) Bills for collection ₹1,50,000 and endorsement ₹1,40,000

iii) Provide Income Tax @ 40% of Net Profits

29. The following are the balances of City Bank Ltd. You are required to prepare the Profit & Loss a/c & the Balance Sheet as at 31.03.15.

	Debit ₹		**Credit ₹**
Bad debts written off	12,500	Equity shares of ₹500 each ₹150 paid up	3,00,000
Reserve fund investments	2,00,000		
General expenses	69,500	Deposit accounts	7,00,000
Interest paid on deposits	16,000	Profit & Loss a/c	25,000
Acceptances for customers	1,50,000	Discount received	58,000

Endorsement and Guarantee	7,500	Commission & Exchange	5,000
Cash on hand	25,000	Interest Received	25,000
Cash in RBI	2,00,000	Endorsement and Guarantee	7,500
Owings by foreign correspondents	20,000	Customers liability for acceptances	1,50,000
Loans and Advances	15,50,000	Borrowings from banks	6,50,000
Investments	10,00,000	Statutory Reserve	2,00,000
Bills discounted	6,50,000	Current Accounts	20,00,000
Premises	2,20,000		
	41,20,500		41,20,500

Other Information:

i) Interim dividend paid during the year ₹20,000

ii) Provide for rebate on bills discounted ₹6,000 and for income tax reserve ₹15,000.

30. From the following Trial Balance of Canara Bank Ltd., prepare the Profit & Loss a/c for the year ending 31.03.15 & Balance Sheet as on that date.

	Debit ₹		**Credit ₹**
Money at call & short notice	4,00,000	Paid capital	10,00,000
Cash on hand	5,00,000	Reserve fund	2,50,000
Cash with RBI	2,00,000	Fixed deposits	12,00,000
Interest on deposits and borrowings	3,10,000	Borrowings from City Bank	3,00,000
Investments	2,00,000	Pension fund	1,00,000
Furniture less depreciation	80,000	Unclaimed Dividend	50,000
Premises less depreciation	3,20,000	Rent	10,000
Salaries and allowances	90,000	Interest & discounts	6,00,000
Loans, cash creditors etc	15,00,000	Commission received	60,000
Audit fees	8,000	Profit & loss a/c 01.04.14	60,000
Directors fees	7,000		
Depreciation on Bank property	9,000		
Printing & stationery	4,000		
Other expenses	2,000		
	36,30,000		36,30,000

Other Information:

i) Provide ₹5,000 for rebate on bills discounted

ii) Provide ₹22,000 for bad debts

iii) Bills for collection on behalf of customers ₹50,000

iv) Provide for taxation ₹4,000.

31. From the following trial balance of Indian Bank Ltd. as on 31.03.15, prepare Bank Final accounts:

	Debit ₹		**Credit ₹**
Investment in government securities	5,75,000	Paid-up capital shares of ₹100/- each	15,00,000
Cash in hand and with RBI	7,00,000	P & L a/c balance as on 01.04.14	40,000
Deposit with other banks	12,45,000	Fixed deposits	26,00,000
Money at call and short notice	4,00,000	Savings Bank a/c	21,00,000
Loans, Advances & Overdrafts	74,00,000	Current a/c	34,00,000
Interest on deposits and borrowings	1,75,000	Commission & Exchange	1,02,000
Buildings	2,00,000	Bills Payable	1,00,000
Salaries and allowances to staff	85,000	Interest & discount	6,00,000
Furniture	45,000	Investment Reserve	25,000
Unexpired Insurance	450	Reserve fund	3,10,000
Stamps in hand	150	Branch adjustment	25,000
Contribution to Provident fund	18,400	Pension fund	58,500
Director’s fees	4,500		
Audit fees	1,500		
Printing & stationery	3,550		
Rent, Rates & Taxes	6,450		
Postage & telegram	800		
	1,08,60,800		1,08,60,800

Other Information:

i) Market value of investments as on 31.03.15 was ₹5,48,000. The investments were written down to this figure

ii) Provide for: Taxation ₹75,000

iii) Doubtful debts ₹50,000

iv) Rebate on bills discounted ₹25,000

v) Acceptances, endorsements and other obligation ₹2,50,000

vi) Depreciate Building at 2½ %

32. Indian Bank Ltd. presents its ledger balances on 31.03.15.

	₹		₹
Loans	4,00,000	Cash with RBI	1,86,000
Cash credits	1,00,000	Money at Call	1,60,000
Overdrafts	70,000	Share capital	10,00,000
Premises	1,00,000	Reserve fund	5,00,000
Investments	8,00,000	Current Account	2,00,000
Salaries	56,000	Fixed deposit	2,50,000
General Expenses	54,000	Savings Bank Deposit	50,000
Rent, Rates & Taxes	4,600	Cash certificates	50,000
Director's fees	3,600	Profit/Loss a/c 01.04.14 (Cr.)	32,000
Stock of Stationery	17,000	Interest & Discounts	2,56,000
Bills purchased	92,000	Interim Dividend	34,000
Cash in hand	2,00,000	Shares in company	1,00,000
		Recurring Deposits	40,000

Other Information:

i) Provide for doubtful debts ₹10,000

ii) Interest receivable on investments ₹16,000

iii) Unexpired discounts ₹760

iv) Interim dividend declared was 4% actual

v) Endorsement and guarantee ₹2,00,000

vi) Additions made to premises during the year ₹10,000

vii) Depreciate premises at 5% on opening balance.

Prepare Profit & Loss a/c and Balance Sheet.

33. Following is the Trial Balance of Modern Bank Ltd. as on 31.03.15. Prepare Bank final accounts.

Debit Balance:	₹	**Credit Balance:**	₹
Premises	2,10,000	Interest & Discount	2,50,000
Money at call & short notice	2,50,000	Share Capital	5,00,000
Furniture	25,000	Reserve fund	2,50,000
Cash in hand	2,50,000	Deposit	7,50,000
Cash at Bank	3,00,000	Telegraphic transfer	2,50,000
Investments	1,50,000	Traveller's letter of credit	2,50,000

Loan & cash credit	11,23,500	Pay order and gift cheque	50,000
Interest on deposits	1,50,000	Pension fund	75,000
Audit fees	5,000	Borrowings from banks	50,000
Salaries	40,000	Unclaimed Dividend	30,000
Director's fees	2,500	Rent	10,000
Printing & Stationery	2,500	Commission received	40,000
Depreciation	5,000	Profit & Loss a/c	30,000
Non-Banking Assets	25,000	Bills payable	5,000
Other Expenditure	1,500		
	25,40,000		25,40,000

Other Information:₹

- Provide ₹2,500 for rebate on bills discounted
- Liabilities on bills rediscounted ₹5,000
- Bills for collection amounted to ₹1,50,000
- Provide ₹500 for bad debts
- Provide for income tax ₹2,000
- Director's proposed 5% dividend on share capital
- Liabilities outstanding on forward exchange contract ₹2,500

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. From the following particulars prepare a profit and loss a/c for the year ended 3 Dec of Laxmi Bank Ltd.

	Rs.
Rent received	72,000
Exchange commission	32,800
Interest on fixed deposit	11,00,000
Interest on savings a/c	2,72,000
Interest on cash credit	8,92,000
Salaries	2,18,800
Sundry charges	4,000
Printing	8,000
Locker rent	1,400
Interest on loans	10,36,000
Interest on overdraft	2,16,000
Discount on bill discounted	7,80,000
Interest on current a/c	1,68,000
Depreciation on Bank property	20,000
Postage	5,600
Director fees	16,800
Law charges	3,600
Transfer fees	2,800

[Azhagappa University, April,2011]

2. The following figures are extracted from the books of the new Bank Ltd as on 31st march 2013.

Particular	Rs. ('000)
Interest and discount received	3,695
Interest paid on deposits	2,032
Issued and subscribed capital	1,000
Statutory reserve under sec 17	800
Commission, exchange and brokerage	200
Rent received	55
Profit on sale of investments	200
Audit fees	5
Payment to employees	200
Director's fees and allowance	30
Rent and tax paid	100

Postage and telegrams	50
Depreciation on bank's properties	30
Stationary etc	50
Advertisement and publicity	15

The further information is given

(a) A customer to whom a sum of Rs. 10,00,000 has been advanced has become insolvent and if is expected only 50% can be recovered from his estate. Interest due at 18% on his debt has not been provided in the book:

(b) There were also other debts for which a provision of the Rs. 1,50,000 was found necessary by the auditors:

(c) Rebate on bills discounted as on 1 stapril 2012 Rs. 12,000. Rebate on bills discounted as on 31st march 2013 Rs. 16,000:

(d) Provided Rs. 6,50,000 for income tax:

(e) The directors desire to declare 10% dividend. Prepare the profit and loss account in accordance with the law. Make necessary assumptions.

[Azhagappa University, April,2013]

3. From the following information, find out the amount of provision to be shown in the Profit and Loss Account of a Commercial Bank :

Assets :	Rs. in Lakhs
Standard	8,000
Substandard	6,000
Doubtful :	
For One year	1,000
For Three years	1,600
For more than 3 years	400
Loss Assets	1,200

[Madras, II M.Com., (Old) Oct. 2003]

[Ans : Total Provision : 2,700 Lakhs]

4. The following are the ledger balances extracted from the books of a Banking Company as on 31-3-2002

Advances	Rs.15,00,000
Bad debts	Rs.10,000

The profit before charging bad debts was Rs.40,000. Create a provision for bad debts of Rs. 15,000 and Provision for Taxation at 60% of net profits.

Show how the above items will appear in the Banking Company's Profit &Loss A/c and Balance Sheet.

[Madras B.C.S., April 2003]

[Ans : Total of Provisions and contingencies : Rs. 34,000; Net Profit : Rs. 6,000; Profit carried to B/S : Rs. 4,500; In Schedule 5 of B/S :Rs. 24,000 Provisions are to be shown In schedule 5 of B/S; Rs. 1,500 to be added to statutory reserve]

5. While closing the books of a bank on 31st December. 1986, you find in the loan ledger an unsecured balance of Rs. **1,00,000**in the account of a merchant whose financial condition is reported to you as doubtful. Interest on the same account amounted to Rs. 10,000 during the year.

During year 1987, the bank accepted 60 paise in the rupee on account of the total debt upto 31st December, 1986.

Show the merchant's loan account.

[Bharathiar, B.Com., Nov. 2003]

[Ans: Amount written off as bad debts — Rs. 40,000; Interest taken into account — Rs. 6,000]

6. From the following particulars relating to the Punjab Bank Ltd. ascertain the Profit balance carried over to the Balance sheet:

	Rs.
Net Profit for the year	1,28,000
Profit brought forward from the Previous year	1,20,000
Transfer to Statutory Reserve	25%
Transfer to other reserves	10%
Transfer to proposed dividend	20,000

(Madras, B,Corn (A19 Ap. 2009; B.Com, B.Com(CS) Nov. 2007]

[Ans: Rs. 1,83,200]

7. From the following details relating to a Banking Company. find out the profit balance carried over to the Balance Sheet.

Interest earned	5,25.000
Other Incomes	2,20.440
Interest expended	1,25.000
Operating expenses	1,83,686

Profit brought forward from the previous year 1.00,640

Transfer to the Statutory Reserve at 25%

[Madras, B.Com(AF) Nov. 2009; B.C.S. Oct. 2000]

[Ans : Rs. 4,28,205]

8. From the following balances prepare single column P&L A/c of Lakshmi Bank Ltd. for the year ending 31-12-2002.

	Rs.in'000
Interest on cash credits and loans	1,790
Interest on deposits	620
Administrative expenses	480
Discount	210
Commission & exchange	300
Rebate on bills discounted 1-1-2002	90

Determine the profit after making a provision for rebate on bills discounted Rs. 2,90,000

(Madras, I M.Com., April 2004]

[Ans : Net Profit : Rs. 1,000 Thousands]

9. From the following details relating to the New Bank Ltd. find out the net profit earned by the bank in the year 1997-98.

Interest earned	37,01,738
Other incomes	4,55,000
Interest expended	20,37,452
Operating expenses	4,80,286
Provisions and contingencies	13,00,000
Profit brought forward from the previous year	Nil
Transfer to statutory reserve	84,750
Transfer to other reserves	Nil
Transfer to proposed dividend	1,00,000
Balance carried over to Balance Sheet	1,54,250

[Madras, B.Com., B.Com(CS) Ap. 2009; B.C.S. April 2000]

[Ans : Net profit : Rs. 3,39,000]

10. While closing its books of accounts, a commercial bank has its advances classified as follows:

	Rs. in lakhs
Standard assets	16,000
Sub-standard assets	1,300
Doubtful assets:	
upto one year	700
One to three years	400
More than three years	200
Loss assets	500

You are required to calculate the amount of provision to be made by the bank, assuming that all the doubtful assets are secured.

(Madras, B.Com(CS)Ap. 2009; B*Com(ICE) Oct 2007; lsi M.ComNay. 2003]*

[Ans: Total provision required — Rs. 1,030 lakhs]

11. On 31st December, 1991, the loan ledger in the books of a bank showed a debit balance of Rs. 2,00,000 including Rs. 40,000 due from a merchant which is doubtful. The interest accrued on the loans upto 31st December, 1991 was Rs. 10,000 including Rs. 2,000 on doubtful debt. The merchant became insolvent and the official receiver paid a dividend of Re. 0.25 in the rupee on 31st January, 1992.

Pass the necessary journal entries in the books of the bank on 3Ist December, 1991 and 31st January, 1992 and prepare the loan account.

[Madras, B.Com., B.Com. (CS) Nov. 2007 Ap 2006; B.Com]

[Ans: Amount written off as bad debts Rs. 30,000: Interest taken into account — Rs. 500]

12. In respect of the following transactions of X Bank Ltd., give necessary journal entries and their treatment in the Profit and Loss Account and Balance Sheet in respect of the year ended 31.12.1990. The following bills were discounted at 5% p.a.

Discounted on	*Amount Rs.*	*Due date inclusive of 3 days of grace*
1. 28.12.90	50,000	31.1.1991
2. 29.7.90	1,00,000	30.11.1990
3. 29.10.90	4,00,000	30.4.1991
4. 31.12.90	30,000	3.3.1991

(Madras, B.Com.(PZ4A) Nov. 2006; Nov. 2005: 1st M.Com.(ZHC) Nov. 2004 (Modified); 11 M.Com., April 2001; B.Com., May 1997) (Periyar, B.Com (CA) Oct. 2005; Bharathiar, B.Com., Nov. 2004)

[Ans : Rebate on bills discounted on 31.12.90 — Rs. 7,042]

13. The following is an extract from the Trial Balance of a bank as on Dec. 31, 1991.

	Rs.	Rs.
Bills discounted	50,00,000	
Rebate on bills discounted 1.1.91		20,057
Discount received		1,50,000

The following unexpired bills are included in the bills discounted as shown above:

Date 1991	*Amount Rs.*	*Term in months*	*Discounted @ % p.a.*
Oct. 10	00,000	4	12
Nov. 15	,00,000	3	10
Dec. 20	5,00.000	2	11

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate journal entries for the same. How will the relevant items appear in the bank's balance sheet

(Madras, B.Com., May 2006)

[Ans: Rebate on bills discounted on 31.12.91 — Rs. 15,057; Viscount received to be credited to P & L A/c — Rs. 1,55,000; Bills discounted is shown in Schedule '9' on B/S assets side; Closing rebate of Rs. 15,057 is shown in Schedule '5' on B/S Liabilities side]

14. The following accountsare extracted from the Trial Balance of Hindu Bank Ltd., as on 31.12.1990. You are required to show the rebate on hills discounted A/c and interest and discount A/c. How %% ill these items appear in the Bank's Balance Sheet?

	Dr	**Cr.**
Interest and discount		96,62,400
Rebate on bills discounted		
Bills discounted and purchased	3,72,700	10,840

It is ascertained that proportionate discount not yet earned on the balance of bills discounted, which will mature in 1991 amounts to Rs 15,460.

[Madras, M. Com., April 2003]

[Ans: Amount of interest and discount to be shown in the Profit and Loss Account Rs. 96,57,780; Rebate on bills — Rs. 15,460 will appear as a liability and bills discounted Rs. 3,72,700 as an asset in the balance sheet]

15. From the following particulars, prepare the Profit and Loss Account of Chennai Bank 1,td., for the year ending 31st March 1992.

	(Rs. in '000)
Interest on deposits	3,200
Commission (Cr)	100
Interest on loans	2,490
Sundry chrges (Dr)	100
Rent and taxes	200
Establishment	500
Discount on hills discounted	1,490
Interest on overdrafts	1,600
Interest on cash credits	2,320
Auditors' fees	35
Directors' fees	16
Bad debts to be written off'	300

[Madras, B.Com(PZ4A) Nov. 2008; B.Com(CS) Ap. 2008; B.Com (ICE) Ap 2007; 1st M.Com. (CA1A) Nov. 2006;B.Com.(ICE) Oct. 2006; B.Com. (Sent — PZ4A) Nov. 2005;Madurai, B.Com., Ap. 2003]

[Ans: Net profit for the year Rs. 36,49,000; Balance carried to Balance Sheet Rs. 27,36,750]

16. Prepare the Profit and Loss Account for the year ended 31.12.1992 of Kasinathan

Bank Ltd..from the following particulars.	(Rs. in '000)
Interest on loans	250
Interest on savings accounts	150
Interest on cash credits	160
Interest on· fixed deposits	190
Interest on overdrafts	50
Amount charged against current accounts	20
Rebate on bills discounted	19
Salaries and allowances	120
Discount	40
'Rent tax insurance etc	5

Dearness allowances	35
Commission, brokerage and exchange	15
Managing directors salary	15
Contribution to provident fund	10

[Madras, B.Com(CS) Nov. 2008; 1st M.Com. (ZHC) Nov. 2005; BCS April 2004; B.Com (ICE) May 2001 B.Com., March 1995, March 1994, Sep. 1992]

[Ans: Net Profit for the year Rs. 10,000 Balance carried to Balance Sheet Rs. 7,504]

17. From the following information, relating to Adarsh Bank Limited, prepare Profit and Loss A/c for the year ending 31-3-94 along with necessary schedules in the Revised format :

	(Rs. in '000)
Interest, discount earned	31,628
Income on investments	11,810
Interest received on balance with RBI	4,243
Commission, exchange and brokerage	2,907
Profit on sale of investments	114
Interest on deposits	31,404
Interest on RBI loan paid	3,362
Salaries to employees	9,717
Rent, taxes and lighting	1,168
Depreciation on Bank property	379
Directors fees	7
Auditors fees	41
Law charges	22
Postages, Telegrams, Telephone, etc.,	403
Other expenditure	1,799
Balance of Profit B/D from last year	1,000

Adjustments:

(a) Make a provision for I.T. @ 51.75% on profit.

(b) Transfer 25% of profit to statutory reserve and 5% to Revenue Reserve.

(c) Transfer to proposed dividend 2,00,000.

Madras, M.Com.(ZHC) Nov. 2006; B.Com., April 2000]

[Ans : Profit before tax : Rs. 24,00,000; Provision for 1.t. :Rs. 12,42,000; Net Profit : Rs. 11,58,000; Balance carried to Balance Sheet : Rs. 16,10,600]

18. From the following ledger balances of peoples bank Ltd, prepare profit and loss account.

Interest paid on deposits	1,60,520
Commission exchange and brokerage	44,240
Interest received	5,32,260
Discount on bills discounted	2,43,760
Salary and Provident fund	40,000
Profit on sale of fixed assets	30,000
Printing and Stationery	10,000
Postage and telephones	20,000

Note: **Provide for taxation Rs. 20,000 and rebate on bills discounted was Rs. 14,380.**

[Madras, B.Com., Oct. 2002]

[Ans: Net profit for the year Rs. 5,85,360; Balance carried to Balance Sheet Rs. 4,39,020]

19. From the following information, prepare Profit and Loss Account of Thanjavur Bank for the year ended on 31st December, 1992:

	(Rs. in Thousands)
Interest on loans	2,590
Interest on fixed deposits	2,750
Rebate on bills discounted	490
Commission	82
Establishment	540
Discount on bills discounted (net)	1,460
Interest on cash credits	2,230
Interest on current accounts	420
Rent and taxes	180
Interest on overdrafts	1,540
Directors fees	30
Auditors fees	12
Interest on savings bank deposit	680
Postage and telegrams	14
Printing and stationery	29
Sundry charges	17

Bad debts to be written off amounted to Rs. 4,00,000. Provision for taxation may be made @ 55%.

Madras, B.Com (ICE) Ap 2007; BCS Oct. 2001; BCS (ICE) May 2001]

[Ans: Provision for taxation 15,56,500; Net profit for the year — 12,73,500; Balance carried to Balance Sheet — Rs. 9,55,125]

20. From the following information prepare Profit and Loss Account of Vasavi Bank Ltd., for the period ended on 31.3.1995.

	(Rs. In thousands)
Interest on loans	300
Interest on fixed deposits	275
Commission	10
Exchange and brokerage	20
Salaries and allowances	150
Discount on bills (gross)	152
Interest on cash credits	240
Interest on cash savings bank deposit	87
Interest on temporary overdrafts in current accounts	30
Postage, telegrams and stamps	10
Printing and stationery	20
Sundry expenses	10
Rent	15
Taxes and licenses	10
Audit fees	10

Additional information:

(a) Rebate on bills discounted Rs. 30,000

(b) Salary of Managing director Rs. 30,000

(c) Bad debts Rs. 40,000

(d) Provision for income tax is to be made at 55% (round off to nearest 1,000)

(e) Interest of Rs. 4,000 on doubtful debts was wrongly credited to interest on loans account.

Workings should form part of your answer.

[Madras, B.Com(CS) (ICE) Oct.,2008; BCS (PYD) Nov. 2005; BCS (NYD) April 2005; M.Com., April 1997]

[Ans: Net profit — Rs. 27,000; Provision for taxation — Rs. 33,550 or Rs. 34,000 (rounded off to nearest thousand)]

21. From the following information prepare Profit and Loss Account of South India Bank Ltd., as on 31st March 1996.

	Rs. in 000's
Interest and discount	3,045
Income from investments	115

Interest on balance with RBI	180
Commission exchange and brokerage	820
Profit on sale of investments	110
Interest on deposits	1,225
Interest paid to RBI	161
Payment to and provision for employees	1,044
Rent, taxes and lighting	210
Printing and Stationery	180
Advertisement and publicity	95
Depreciation	92
Directors' fees	220
Auditor's fees	120
Law charges	230
Postage, telegrams and telephone	70
Insurance	56
Repairs and maintenance	48

Other information:

(a) Interest and discount mentioned above is after adjustment for the following :
(Rs. in thousands)

Tax provision for the year	220
Provision during the year for doubtful debts.	102
Loss on sale of investments	12
Rebate on bills discounted	58

(b) 25% of profit is to be transferred to statutory reserves and 5% of profit is to be transferred to revenue reserve. Profit brought forward from last year Rs. 16,000.

[**Madras, II M.Com., (Old) Oct. 2003]**

[Ans: Net profit for the year Rs. 5,19,000; Balance taken to balance sheet Rs. 3,79,300]

[Hint: The items in (a) above, except rebate on bills should be added back to interest and discount.Then they must be shown in their respective schedules.]

22. The following figures are extracted from Sri Lakshmi Vitas Bank Ltd., as on 31.12.91.

	(Rs. in ('000)
Interest and discount received	4,060
Interest paid on deposits	2,404

Issued and subscribed capital	1,000
Reserve under Section 17	700
Commission, exchange and brokerage	180
Rent received	60
Profit on sale of investments	190
Salaries and allowances	210
Directors' fees and allowances	24
Rent and taxes	108
Stationery, printing	48
Postage and telegrams	40
Preliminary expenses (written off)	10
Audit fees	8
Depreciation on bank's property	25

The following further information is available.

(1). A customer to whom a sum of Rs. 5,00,000 has been advanced has become insolvent and it is expected that only 40% can be recovered from his estate. Interest due at 15% on his debt has not been provided in the books.

(2).Provision for bad and doubtful debts on other debts necessary Rs. 1,00,000.

(3).Rebate on bills discounted as on 31.12.1990 Rs. 10,000. Rebate on bills discounted as on 31.12.1991 Rs. 15,000.

(4). Provide Rs. 7,00,000 for income tax.

(5). The directors desire to declare 10% dividend

Prepare the Profit and Loss Account in accordance with the provisions of law.

[Madras, B.CS., (ICE) Oct. 2003 (1/2 Figs.);

M.Com., Oct. 2002; B.A. Corp., Sep. 1997;

Madras, B.A., March 1995]

[Ans: Net profit — 5,08,000; Balance carried over to balance sheet — Rs. 2,81,000]

Hint: Ignore interest on bad debt. Transfer to statutory reserve is increased to 25%.

23. The following are the details of advances of a commercial bank: (Rs. in '000)

Bills purchased and discounted	300
Cash credits, and loans repayable on demand	400
Term loans	100

The following are the details of the above advances:

Secured by Tangible assets	600
Covered by banks and Government	120

Unsecured	40
Doubtful debts	40

In case of doubtful debts the bank did not hold any security and they were all sanctioned to priority sectors in the form of demand loans.

The total advances outstanding from different sectors stood as follows:

	(Rs. in '000)
Priority sectors	320
Public sector	60
Balance from others	420

Show the treatment of the above items of advances in the Bank's final accounts.

[Madras, B.C.S. (ICE) Oct. 2001]

[Ans: Schedule 9 must be shown with details]

24. On 31.12:1993, the following balances stood in the books of Asian Bank Ltd.

	(Rs. in '000)
Share capital — issued 80,000 shares of Rs. 100 each, Rs. 50 paid	4,000
Reserve fund	6,200
Fixed deposits	42,600
Savings bank deposits	19,000
Current accounts	23,200
Money at call and short notice	1,800
Government securities	9,000
Other investments	16,000
Profit and Loss Account (Cr) balance (1.1.93)	1,350
Dividend for 1992	400
Premises (after depreciation upto 31.12.93, Rs. 45,000)	2,950
Cash in hand	380
Cash with RBI	10,000
Cash with other banks	6,000
Bills discounted	51,000
Loans and overdrafts	4,136
Drafts payable	70
Unclaimed dividends	60
Rebate on bills discounted	50
Short loans (Cr)	4,750
Furniture (after depreciation upto 31.12.93, Rs. 1,36,000)	1,164
Net profit for 1993	1,550

Prepare the balance sheet as per the banking regulation Act.

[Madras, B.Com Ap. 2008; B.Com(CS) Av. 2008: B.Com (ICE) Oct 2005]

[Ans: Balance sheet total — Rs. 10,24,30,000; Profit and Loss A/c balance shown in balance sheet Rs. 21,12,500; Addition to statutory reserve is Rs. 3,87,500]

Hint: Prepare Appropriations part of P & L A/c as working note. Currently transfer to Statutory Reserve is 25% of Profit.

25. On 31.3.93 the following balances stood in the books of New Bank Ltd., after preparing Profit and Loss A/c.

	(Rs. in Tousands)
Share capital	3,500
Reserve fund	2,450
Fixed deposit accounts	6,650
Savings bank accounts	21,000
Current Accounts	56,000
Money at call and short notice	2,100
Investments (at cost)	21,000
Profit & Loss Account (Cr) 1.4.92	1,470
Dividends for 1992	350
Land and Buildings (after depreciation) upto 31.3.93	7,445
Cash in hand	420
Cash with reserve bank	10.500
Cash with other banks	9,100
Borrowings from other banks	4,400
Bills discounted and purchased	4,200
Sundry creditors	210
Bills payable	5,600
Loans, overdrafts, and cash credits	49,000
Unclaimed dividend	210
Bills for collection	980
Acceptance on behalf of customers	1,400
Net profit for 1992-93	1,680

[After deducting provisions for bad debts Rs. 2,10,000; tax provision Rs. 7,00,000 an rebate on bills discounted Rs. 35,000]

Prepare the balance sheet of the bank as on 31.3.93.

[Thiruvalluvar B.Com., April 2008]

[Madras, B.Com. B.Com (CS) Nov. 2009; B.Com., March 1995]

[Ans: P & L A/c balance carried over to balance sheet — Rs. 23,80,000; Balance sheet total — Rs. 10,37,65,000]

[Hint: (1) Provision for doubtful debts can also be reduced in schedule 9.

(2) Prepare Appropriation part of P&L a/c as working note]

26. From the following ledger balances of Indian Bank 1 td .prepare the Profit and Loss Account and Balance Sheet as on 30th June 1980.

	Rs.
Freehold and leasehold property	4,15,000
Premises and furniture	3,37,500
Loans and advances	46,65,000
Bills discounted	3,79,500
Money at call and short notice	2,74,250
Cash in hand and with RBI	15,84,750
Interest. discount and counission	2,41,500
Premises account — amount written oft'	22,500
Current expenditure, salaries, rent, etc.	71,250
Amount added to staff retirement fund	3,000
Shares and stock	6,37,500
Govt. securities	6,00,000
Other securities	8,25,000
Interest accrued and paid	25,500
Profit and Loss Account (1.7.79)	15,300
Acceptance on behalf of customers	12,00,000
Current accounts and deposits	77,00,150
Reserve. fond	6,00,00
Share capital I2,300 ordinary shares of Rs. 100 each Make provision for rebate on bills discounted	12,50,000 2,450

[Madras, 1st M.Cont. (Sent. - (A(4) Nov. 2005; 1st M.Cont. (CA IA) Nov. 2005; B.Com., March 1994]

[Ans: Net profit for the year — Rs. 1,19,800; Balance carried to B/S Rs. 1,05,150; B/S total Rs. 97,19,000 Difference in Trial Balance Rs. 500 (Cr) excess]

Hint:1. **Show Rs. 500 in schedule 11 as other asset, representing difference in trial balance. 2. 25% of Net Profit should be transferred to statutory reserve now.**

27. The following are the balances of Karuna Bank Ltd.. you are required to prepare the Profit and Loss Account and the balance sheet as at 31st December 1994 as per the requirements of the Banking Regulation Act.

Share capital 2,000 equity shares of Rs. 500 each,	Rs.
Rs. 100 per share paid up	2,00,000
Bad debts written off	12,871
Reserve fund investments	1,00,000
General expenses	18.242
Current accounts	20,24,422
Interest paid	16,052
Deposit accounts	6,92,023
Profit and Loss Account (credit)	22,934
Acceptance for customers	1,54,282
Discount	24,376
Bills receivable	1,00,000
Endorsements and guarantees	7,402
Commission \	4,424
Cash in hand -	22,654
Interest received	53,226
Cash with banks	2,01,210
Endorsements and guarantees as per contra	7,402
Owing by foreign correspondents	20,044
Customers liabilities for acceptances	1,54,282
Short loans (Cr)	6,48,206
Loans and advances to customers	15,45,670
Investments	9,88,254
Bills discounted	6,22,824
Premises	2,21,790
Bills for collection	1,00,000
Statutory reserve	1,00,000

The following information is relevant:

(i) During the year interim dividend of Rs. 20,000 was paid

(ii) Reserve Rs. 6,438 as Rebate on bills discounted.

(iii) Provide Rs. 15,000 for taxation reserve

(iv) Particulars of investments and advances are not required.

(Madras, B. Com(CS) Ap. 2009; B.A., Com., March 1991; Sep. 1996)

[**Ans: Net profit — Rs. 13,423; Balance sheet total — Rs. 37,22,446]**

Hint: **Balance of Profit and Loss Account must be the balance left on that account after the payment of interim dividend of Rs. 20,000. So, interim dividend amount can be added to P & L balance b/f and then the interim dividend can be shown as an appropriation or the adjustment can be ignored. Former method is better.**

28. The following Ledger balances of Bank of Purasawalkam Ltd., as on 31.12.1994 are furnished to you. Prepare Profit and Loss Account and Balance Sheet as per requirement of law.

	(Rs. in Thousands)
Reserve fund	1,200
Bad debts written off	128
General expenses	182
Current accounts	20,245
Interest paid	160
Deposit accounts	6,920
Profit and Loss Account b/fd	229
Bills receivable for customers	1,500
Discounts	244
Endorsements and guarantees	575
Commission	45
Cash	225
Interest earned	550
Balance with RBI	2,030
Endorsements and guarantees (constituent liabilities)	575
Balance with foreign correspondents	1,206
Bills for collection	1,500
Borrowings from bank	6,482
Cash credit and overdrafts	15,457
Investments	9,882
Bills discounted	6,228
Premises	2,217
Share capital	2,000

The following information is furnished.

(a) Rebate on bills discounted to be provided Rs. 64,000.

(b) The bank has paid an interim dividend of Rs. 2,00,000 during the year.

[Madras, 1st M. Com, Ap. 2009]

[Ans: Net profit — Rs. 3,05,000; Balance sheet total — Rs. 3,72,45,000; Trial balance difference Rs. 2,00,000, presumed as interim dividend]

[Hint: Interim dividend mentioned in adjustments is a part of trial balance and has single effect only].

UNIT – 12

INSURANCE COMPANY ACCOUNTS

Meaning of Insurance - Insurer - Insured - Reversionary Bonus - Consideration for annuities granted - Differences between Insurance and Assurance - Valuation of balance sheet - Net liability – Claim - Differences between Life Insurance and Fire Insurance - Differences between Life Insurance and General Insurance - Differences between Fire insurance and Marine Insurance - Reserve for unexpired risk – Reinsurance - Commission on reinsurance accepted - Commission on reinsurance ceded - Computation of correct life assurance fund – Revenue a/c of Life Assurance Company - Revenue a/c and valuation of balance sheet Revenue a/c of Fire and Marine Insurance

Life is full of problems and uncertainties. Attempts are being made to reduce these problems and uncertainties and where possible, to eliminate them. Everyone is exposed to some risk or the other, whatever the precaution taken. Life is prone to accidents and buildings and goods may be destroyed or damaged due to fire, flood or cyclone. Insurance is a way of protecting people and things against such unexpected losses. The primary object of insurance is to substitute certainty for uncertainty as regards the economic cost of loss producing events.

12.1 LIFE (INSURANCE) ASSURANCE

Life Assurance is a contract whereby the insurer, in consideration of a premium, paid either in lump sum or in periodical installments undertakes to pay an annuity or a certain sum of money, either on the death of the insured or on the expiry of a certain number of years. The amount is paid to the nominee of the insured if the insured dies before the policy matures.

The person who agrees to pay an annuity or a certain sum of money (i.e., who indemnifies) is called the Insurer.

The person whose life is insured (i.e., the one to whom the money is payable) is called the Assured and the consideration paid periodically or otherwise is called the premium.

Life Insurance contract is a contingent contract i.e., the claim becomes payable only when the contingency – death or completion of the stipulated period occurs.

12.2 LIFE ASSURANCE FUND

The difference between total receipts and total expenditure of a life insurance company is called Life Assurance Fund.

12.3 PREMIUM

It includes the premium received or yet to be received for the relevant year less any premium paid or to be paid on re-insurance plus the bonus in reduction of premium.

12.4 CONSIDERATIONS FOR ANNUITIES GRANTED

In order to pay fixed amount regularly to the policyholders by insurance company after the expiry of the specified period, the insurance company initially will receive a fixed lump sum amount. The amount so received from policyholders at the beginning is called Consideration for annuities granted.

12.5 ANNUITY

Annuity is an annual payment made by an insurance company to any person, in consideration for a lump sum of money received in the beginning. The payment is made by the insurance company as long as one lives.

12.6 CLAIMS

Claim is the amount payable by the insurance company to the insured, or his nominee on the policy.

In the case of an endowment policy the claim arises either on the death or on the policy holder reaching a stipulated age, whichever is earlier.

In the case of a whole life policy the amount is payable only on the death of the policy holder.

Claim on the death of a policy holder is called Claim of Death. Claim on the policy holder reaching a stipulated age is called Claim by Maturity or Survivance. Claims include reversionary bonus and interim bonus.

12.7 SURRENDER VALUE

Surrender Value is the amount which a policy holder can get immediately in cash from the insurance company if he stops paying the premium and claims the amount paid till then. Surrender value is the present cash value of the policy.

12.8 BONUS

Bonus is the share of profit which a policy holder gets from the life insurance company. Bonus in cash is the amount of bonus payable in cash to the holder of a ‘With Profit Policy’. Bonus in cash is payable immediately. Bonus may be Reversionary Bonus or Bonus in reduction of premium.

Reversionary premium is the bonus payable on the maturity of the policy.

Bonus in Reduction of Premium is bonus payable in cash but which is utilized by the policy holder to adjust the premium due by him.

Interim Bonus is one which is payable on the maturity of a policy pending the ascertainment of profit.

12.9 POLICY

The document containing the terms of the contract is known as policy.

12.10 DIFFERENCES BETWEEN INSURANCE AND ASSURANCE

Basis	Insurance	Assurance
Applicability	Insurance is applicable to all types except life insurance	Assurance is applicable only to life
Risk	Risk may or may not be happened	Risk is certain
Claim amount	Claim amount will be given only if there is any risk happened	At the end of the specified period, policy amount will be paid even without any risk

12.11 TYPES OF INSURANCE

I. Life Insurance

The Insurer agrees to indemnify the loss which is caused by happening of some unforeseen things to the life of insured. The person whose life is insured has to pay some amount at regular intervals to the insurance company.

- **Whole life policy**

  The premium amount is to be paid up to the death of policy holders. The policy amount will be paid on the death of policy holder.

- **Endowment policy**

  The premium amount is to be paid for a specified period for which the policy is taken. The policy amount will be payable after the expiry of specified period or death whichever is earlier.

- **With profit policy**

  With profit policies are those on which, in addition to a guaranteed sum payable on maturity, a share of profits of the company will also be payable.

- **Without profit policy**

  Without Profit Policies are those on which the policy holder gets only a fixed sum of money on maturity and no profit will be paid.

II. General Insurance

All insurance contracts other than life insurance are known as general insurance.

- Fire insurance

- Marine insurance
- Accident Insurance Contract
- Other insurance

12.12 DIFFERENCES BETWEEN LIFE INSURANCE AND FIRE INSURANCE

Basis	Life Insurance	Fire Insurance
Compensation	It provides protection against financial loss due to death of insured person or on maturity of the policy	It provides protection against loss or damage by fire
Nature	It is a contingent contract	It is a contract of indemnity
Risk	Happening of risk or date of maturity of the policy is definite	Happening of risk is uncertain
Period	Policy is taken for a long period of time	Policy is taken for a short period of time for one year
Insurable interest	Insurable interest must exist at the time of proposal	Insurable interest must exist at the time of contract
Coverage	It affords full protection against risk of death	It gives protection against loss

12.13 DIFFERENCES BETWEEN LIFE INSURANCE AND GENERAL INSURANCE

Basis	Life Insurance	General Insurance
Policy against	Policy is taken against the life of human being	Policy is taken against goods and services
Period	Policy is taken for a long period of time	Policy is taken for a short period of time
Insurable interest	Insurable interest must exist at the time of proposal	Insurable interest must exist at the time of contract and at the time of loss
Nature	It is a contingent contract	It is a contract of indemnity
Purpose	Protection against loss and investment are available	Protection against loss is available
Double insurance	Insured person can get the benefits of double insurance	Insured person cannot get the benefits of double insurance
Applicability	Principle of subrogation and	Principle of subrogation and

	Contribution principle are not allowed	Contribution principle are allowed

12.14 DIFFERENCES BETWEEN FIRE INSURANCE AND MARINE INSURANCE

Basis	Fire Insurance	Marine Insurance
Policy against	It provides protection against loss or damage by fire	It provides protection from loss or damage to property while in shipments
Insurable interest	Insurable interest must exist both at the time of inception and at the time of completion of the contract	Insurable interest must exist at the time of completion of the contract
Assignment	Policy is not freely assignable	Policy is freely assignable
Profit margin	Policies do not allow margin of profit	Policies allow certain margin of profit to be charged at the time of indemnification of loss

12.15 FINAL ACCOUNTS OF LIFE INSURANCE COMPANIES

Revenue account - Form A – RA
Profit and loss accounts - Form A – PL
Balance sheet - Form A – BS

The revenue a/c, profit and loss a/c and balance sheet are in summary form, they are accompanied with 15 schedules.

Revenue Account

Premium earned income from investments and other incomes are added up in the revenue account. And from the total commission expenses, operating expenses, benefits paid, provision for doubtful debts and bad debts, provision for tax are subtracted. The balance gives surplus or deficit.

Profit and loss account

Profit transferred from revenue a/c is added with opening balance. Any dividends declared and dividend distribution taxes are subtracted. After making transfer to specified reserves, the remaining balance is carried to the balance sheet.

Balance sheet

The balance sheet is of two parts namely sources of funds and application of funds.

12.16 FINAL ACCOUNTS OF GENERAL INSURANCE COMPANIES

Revenue account - Form B – RA

Profit and loss accounts - Form B – PL

Balance sheet - Form B – BS

Revenue account

Separate revenue a/c is prepared for each kind of insurance business like fire, marine, accident under form B – RA

Profit and loss account

Combined profit & loss a/c is prepared for a general insurance company, conducting one or more businesses. Profit or loss of each kind of business is transferred from revenue a/c to profit and loss account. After providing for tax and making appropriation for dividend and transfer to reserves, balance of profit is added to the balance brought forward from previous year and the net balance is transferred to balance sheet.

Balance sheet

The balance sheet is of two parts namely sources of funds and application of funds. Any contingent liabilities are shown as a foot note to the balance sheet.

12.17 RESERVE FOR UNEXPIRED RISK

It is a reserve created to meet the risks which are associated with all such policies for which the premium has been reserved and the policies are still in force. In general insurance business, policy is taken for a year. Therefore the risk is covered for one year. Risk may occur on any day during the current year, after the close of the accounting year of the company. To meet this risk, the insurance company creates a reserve for this unexpired risk. This reserve is known as reserve for unexpired risk.

In case of fire insurance 50% of net premium and in case of marine insurance 100% of net premium will be transferred to reserve for unexpired risk

12.18 REINSURANCE

Sometimes the insurer thinks that the particular risk falls beyond his capacity. He may reinsure the same with some other insurance company. This arrangement is known as reinsurance.

12.19 COMMISSION ON REINSURANCE ACCEPTED

If a particular insurance company accepts reinsurance on behalf of another, in that case, it should give some commission to another insurance company. Such commission is called Commission on reinsurance accepted

12.20 COMMISSION ON REINSURANCE CEDED

If a particular insurance company gives reinsurance to another, then it earns some commission. Such commission is called Commission on reinsurance ceded.

12.21 COMPUTATION OF CORRECT LIFE ASSURANCE FUND

Illustration -1 A life insurance company disclosed a fund of ₹25,00,000 on Dec.31, 2016 before taking the following into consideration.

i) A claim of ₹15,000 was intimated and admitted but not paid during the year

ii) Premium of ₹1,000 is payable under reinsurance

iii) Reinsurance recoveries ₹30,000

iv) Bonus utilized in reduction of premium ₹8,000

Pass journal entries for the above omissions and recomputed the fund.

Solution

Particulars	**Amount ₹**	**Amount ₹**
Life assurance fund		25,00,000
Add: Reinsurance recoveries		30,000
Bonus utilized in reduction of premium		8,000
		25,38,000
Less: O/S claims	15,000	
Premium payable under reinsurance	1,000	
Bonus utilized in reduction of premium	8,000	24,000
		25,14,000

Illustration -2 The Life Assurance Fund of an insurance company on 31st March 2015 showed a balance of ₹87,76,500. It was later found that the following were not taken into account.

a) Dividend from investment ₹4,80,000

b) Income tax on above ₹48,000

c) Bonus in reduction of premium ₹8,77,500 (not taken as expense)

d) Claims covered under re-insurance ₹4,23,000

e) Claims intimated but not admitted by the company ₹7,62,000

Ascertain the correct balance of fund.

Solution

Particulars	**Amount ₹**	**Amount ₹**
Life assurance fund		87,76,500
Add: Dividend from investment		4,80,000

Bonus in reduction of premium		8,77,500
Claims covered under re-insurance		4,23,000
		1,05,57,000
Less: Income tax	48,000	
Bonus in reduction of premium	8,77,500	
Claims intimated but not admitted	7,62,000	16,87,500
		88,69,500

Revised Format of Revenue Account of Life Insurance Company

Form A - RA

Particulars	**Schedule**	**Current year**	**Last year**
Premiums earned - Net	1		
a)Premium			
b)Re-insurance ceded			
c)Reinsurance accepted			
Income from investments			
a)Interest, Dividend & Rent – Gross			
b)Profit on sale of investments			
c)Loss on sale of investments			
Other income			
Total (A)			
Commission paid (Dr)	2		
Operating expenses related to insurance business	3		
Other expenses			
Provisions other than taxation			
Total (B)			
Benefits paid (Net)	4		
Interim bonus paid			
Total (C)			
Surplus or Deficit (D) = (A) – (B) – (C)			
Appropriations			
Transfer to shareholders a/c			
Transfer to other reserve			
Transfer to funds for future appropriations			
Total (D)			

Explanations for Revenue Account of Life Insurance Company

Schedule 1Premium	Schedule 2 Commission expenses
Premiums Add: Closing O/S Less: Opening O/S Less: Reinsurance premium Add: Bonus in reduction of premium (Given in adjustment) Consideration for annuities granted	Commission paid Add: Commission on reinsurance accepted Less: Commission on reinsurance ceded
Schedule 3 Operating expenses	**Schedule 4 Benefits paid (Net)**
Employee's remuneration and welfare benefits (Exp. of mgt) ; Travelling expenses Rent and rates Repairs Printing and stationary Legal charges Medical fees ; Auditor fees Advertisement; Interest and bank charges Depreciation ; Other exp.	Insurance Claims Claims by death Claims by maturity Add: Closing O/S Less: Opening O/S Less: Reinsurance claims Annuities paid Surrenders paid Bonus in reduction of premium

12.22 REVENUE A/C OF LIFE ASSURANCE COMPANY

Illustration 3 The following information relates to Life Insurance Corporation for the year ended 31-3-2015. Prepare revenue a/c.

	₹ in '000		**₹ in '000**
Consideration for annuities granted	16.5	Claims	39.0
Management expenses	14.0	Surrenders	9.0
Directors fees	4.0	Premia received	151.0
Audit fees	3.0	Life Fund (1-4-2014)	1150.0
Medical expenses	5.0	Interest received	40.0
Agents commission	5.0	Rent received	10.0
Depreciation	4.0	Claims cancelled	5.0
Bonus in reduction of premium	1.5	Annuities	1.5

Solution:

Revenue Account

	Schedule No.	31-3-2015 ₹ in '000	2014
Premium earned	1		
Premium Net		160.0	
Consideration for annuities granted		16.5	
Income from Investment			
Interest received		40	
Other income			
Rent		10	
Total (A)		226.5	
Commission paid	2	5	
Operating expenses	3	25.5	
Total (B)		30.5	
Benefits paid (Net)	4	41.5	
Bonus in reduction of premium		1.5	
Annuities		1.5	
Surrenders		9.0	
Total (C)		53.5	
Surplus		142.50	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	151	Agents commission	5
(+) O/S	9		
	160	**Schedule 4 Benefits paid**	**₹ in '000**
Schedule 3 Operating exp.	**₹ in '000**	Claim	39
Management exp.	14	(+) O/S	3
Audit fees	**3**		42
Directors fees	4	(-) Claims cancelled	**0.5**
Medical exp.	**0.5**		41.5
Depreciation	4		
	25.5		

Illustration 4 Prepare in the statutory form the revenue account of Siva Insurance Company for the year ended 31-3-2015 from the following:

	₹ in '000		₹ in '000
Consideration for annuities granted	82,127	Income tax on interest and dividend	35,710
Management expenses	31,920	Claims by maturity	30,110
Claims by death	76,140	Surrenders	13,140
First Premia received	2,50,000	Life Fund (1-4-2014)	15,21,000
Renewal Premia received	3,55,690	Transfer fees	129
Single Premia received	1,00,000	Annuities	53,461
Dividend paid to shareholders	5,500	Commission	9,574
Interest, dividend and rent	97,840	Bonus paid in cash	2,416
Bonus in reduction of premium	980		

Solution:

Revenue Account

	Schedule No.	2015 ₹ in '000	2014
Premium earned	1		
Premium Net		7,05,690	
Consideration for annuities granted		82,127	
Income from Investment			
Interest, dividend and rent		97,840	
Other income			
Transfer fees		129	
Total (A)		8,85,786	
Commission paid	2	9,524	
Operating expenses	3	31,920	
Total (B)		41,494	
Benefits paid (Net)	4	1,06,250	
Bonus in reduction of premium		980	
Annuities		53,461	
Surrenders		13,140	
Interim bonus		2,416	
Total (C)		1,76,247	
Surplus		6,68,045	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	2,50,000	Commission	9,574
(+) o/s	3,55,690		
	7,05,690	**Schedule 4 Benefits paid**	
Schedule 3 Operating exp.		Claim by death	76,140
Management exp.	31,920	Claims by maturity	30,110
			1,06,250

Treatment for some important adjustments

Adjustments	Revenue Account	Balance sheet
Expenses due	Add to the particular exp.	Schedule 13 Current liabilities
Closing premium o/s	Add to premium (Schedule 1)	Asset side
Reinsurance premium ceded (Exp. Due)	Less from premium (Schedule 1)	Schedule 13 Current liabilities
Interest accrued	Add with Interest, dividend and Rent (Schedule 1)	Schedule 12 Advances and other assets
Bonus utilized in reduction of premium	Add to premium Received (Schedule 1)	Add to Benefits paid - Claims (Schedule 4)
Closing claims o/s	Add to claim in Schedule 4	Schedule 13 Current liabilities
Claims covered under reinsurance	Less from Benefits paid - Claims (Schedule 4)	Schedule 12 Advances and other assets
Surrenders adjusted against loan	Add with surrenders in Schedule 4	Schedule 9 Less from Loans on Policies
Income tax on Interest receipts	–	Schedule 12 Advances and other assets
Dividend paid to Share holders	Revenue account - Appropriations	

12.24 PREPARATION OF REVENUE ACCOUNT WITH ADJUSTMENTS

Illustration 5 From the following information relating to Life Assurance Company for the year ended 31-3-2015, prepare a revenue account.

	₹ in '000		₹ in '000
Consideration for annuities granted	1,01,200	Claims o/s by maturity on 1-4-2014	60,000
Management expenses	3,00,000	Claims by maturity	1,40,000
Income tax on interest and dividend	50,000	Claims by death	2,00,000
Premia received	15,00,000	Life Fund (1-4-2014)	39,00,000
Claims o/s by death on 1-4-2014	80,000	Income tax	45,000
Surrenders	4,000	Annuities	12,600
Registration and other fees	200	Commission	25,050
Interest, dividend and rent	2,10,000	Sundry incomes	6,000
Printing and stationary	7,700		

Additional information:

i) Claims outstanding on 31-3-2015 by death ₹50,000 Thousands; by Maturity ₹40,000 Thousands

ii) Management expenses outstanding ₹6,000 Thousands

iii) Provide ₹4,500 Thousands for depreciation

iv) Premium outstanding on 31-3-2015 is ₹2,00,000 thousands.

Solution:

Revenue Account

	Schedule No.	**2015 ₹ in '000**	**2014**
Premium earned	1		
Premium Net		17,00,000	
Income from Investment			
Interest, dividend and rent		2,10,000	
Other income			
Sundry income		6,000	
Registration fees		200	
Consideration for annuities granted		1,01,200	
Total (A)		20,17,400	
Commission paid	2	25,050	
Operating expenses	3	3,63,300	
Total (B)		3,88,250	
Benefits paid (Net)	4		
Claims		2,90,000	

Annuities		12,600	
Surrenders		4,000	
Total (C)		3,06,600	
Surplus (A – (B +C)		13,22,550	

Workings:

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	15,00,000	Agents commission	25,050
(+) Closing o/s	2,00,000		
	17,00,000	**Schedule 4 Benefits paid**	**₹ in '000**
Schedule 3 Operating exp.	**₹ in '000**	Claim by death 2,00,000	
Management exp. 3,00,000		(+) Closing o/s 50,000	
(+) O/s 6,000	3,06,000	2,50,000	
Printing and stationary	7,700	(-) Opening o/s 80,000	1,70,000
Depreciation	4,500		
Income tax	45,000	Claim by maturity 1,40,000	
	3,63,200	(+) Closing o/s 40,000	
		1,80,000	
		(-) Opening o/s 60,000	1,20,000
		Total claims	2,90,000

Illustration -6 The following balances are extracted from the books of New Bharath Life Insurance Ltd. as on 31-3-2015.

	Amount ₹		**Amount ₹**
Life Assurance Fund (1-4-2014)	15,00,000	Consideration for annuities granted	15,000
Bonus in reduction of premium	1,600	Medical fees	2,400
Annuities	2,050	Surrenders	4,000
Interest and dividend	1,00,000	Commission	18,650
Fines for revival of policies	750	Management expenses	22,000
Reinsurance premium	20,750	Income tax on dividends	8,500
Claims outstanding (1-4-2014)	4,500	Premiums	4,96,000
Claims paid during the year	64,900		

Prepare revenue account after making the following adjustments:

i) Outstanding balances:

Claims ₹14,000

Premium ₹4,600

ii) Further bonus for premium ₹2,400

iii) Claims under reinsurance `8,000

Solution

Revenue Account

	2015	**₹2014**
Premium earned – Net		
a) Premium	1	5,03,000
b) Reinsurance ceded		(-) 20,750
c) Reinsurance accepted		–
Income from investments:		
a) Interest and dividend		1,00,000
Other income		
Consideration for annuities granted		15,000
Fines for revival of policies		750
Total (A)		5,98,000
Commission	2	18,650
Operating exp.	3	24,400
Total (B)		43,050
Benefits paid	4	76,450
Total (C)		76,450
Surplus (D) = A – B – C		4,78,500

Workings

Schedule 1 - Premium

Premium received	₹4,96,000
Add: O/S premium	₹4,600
Add: Further bonus in reduction of premium	₹2,400
	₹5,03,000

Schedule 2

Commission paid	₹18,650

Schedule 3

Management exp.	₹22,000
Medical fees	₹2,400
	₹24,400

Schedule 4

Claims paid	₹64,900
Add: O/S on 31-3-2015	₹14,000
	₹78,900
Less: O/S on 1-4-2014	₹4,500
	₹74,400
Less Claims under reinsurance	₹8,000
	₹66,400
Annuities	₹2,050
Surrenders	₹4,000
Bonus in reduction of premium (1,600 +2,400)	₹4,000
	₹76,450

12.25 VALUATION BALANCE SHEET

Valuation balance sheet is a statement which is prepared by the life insurance company in order to find out the profit or loss at the end of a particular year. If the closing life assurance fund exceeds the net liabilities of a business, the difference is called surplus.

12.26 NET LIABILITY

Since nationalization of LIC, the calculation of net liability is made once in two years by Actuaries. They calculate the present value of future liability on all policies in force as well as end value of future premiums to be received on policies in force. The excess of the present value of future liability over the present value of future premium is called the net liability.

12.27 CALCULATION OF ACTUAL PROFIT IN LIC

From the actual profit earned, the insurance company gives 95% to the policy holders and 5% to the shareholders as dividend.

Valuation Balance Sheet

Particulars	**Amount**	**Particulars**	**Amount**
To Net Liability	xxx	By Closing Life Assurance Fund	xxx
" Surplus (b/f)	xxx		
	xxx		xxx

Calculation of Actual Profit

Particulars		Amount
Surplus as per valuation balance sheet		xxx
Add: Interim dividend already paid		xxx
		xxx
Less: Provision for taxation if any	xxx	
Loss on investments if any	xxx	xxx
Actual profit		xxx

Statement showing amount due to policy holders

Particulars	Amount
95 % of actual profit	xxx
Less: Interim bonus already paid	xxx
	xxx
Amount payable to policy holders	xxx

Illustration -7 A life insurance Company gets its valuation made once in every two years. Its Life Assurance Fund on 31st March 2015 amounted to ₹41,10,000 before providing ₹30,000 for the shareholders dividend for the year 2014-15. Its actual valuation due on 31st March 2015 disclosed a net liability of ₹40,40,000 for unexpired risk. An interim bonus of ₹60,000 was paid to the policy holders for this year.

Prepare a statement showing the amount now available as bonus to policyholders.

Solution

Valuation balance sheet

Particulars	Amount ₹	Particulars	Amount ₹
To Net liability	40,40,000	By Life Insurance fund	41,10,000
" Surplus (b/f)	70,000		
	41,10,000		41,10,000

Calculation of bonus to policy holders

Particulars	Amount ₹
Surplus	70,000
Add: Interim bonus	60,000
Net profit	1,30,000

Particulars	Amount ₹
Bonus to policy holders (95% of 1,30,000)	1,23,500
Less: Interim bonus already paid	60,000
Bonus now available as bonus to policyholders	63,500

12.28 REVENUE ACCOUNT AND VALUATION BALANCE SHEET

Illustration 8 The following were the revenue items of a Life Insurance Company for the year ended 31-3-2015.

	₹ in '000		**₹ in '000**
Consideration for annuities granted	715	Claims	1,397.5
Management expenses	130	Bonus in cash	58.5
Commission	715	Surrenders	97.5
Premia received	2,015	Life Fund (1-4-2014)	2,500
Bonus in reduction of premium	2,6	Annuities	533
Interest, dividend and rent	650		

At the valuation on 31-3-2015, the actuary's certificate disclosed the net liability on policies and annuities at ₹28,80,900. Prepare revenue a/c and ascertain the valuation surplus.

Solution:

Revenue Account

	Schedule No.	**2015 ₹ in '000**	**2014**
Premium earned	1		
Premium Net		2,015,00	
Income from Investment			
Interest, dividend and rent		650,00	
Other income			
Sundry income			
Registration fees			
Consideration for annuities granted		715,00	
Total (A)		3,380,00	
Commission paid	2	165,00	
Operating expenses	3	130,00	
Total (B)		195,00	

Benefits paid (Net)	4		
Claims		1,397.50	
Annuities		533.00	
Surrenders		97.50	
Bonus in cash		58.50	
Bonus in reduction of premium		2.60	
Total (C)		2,089.10	
Surplus		1,095.90	

Valuation Balance Sheet

Particulars	₹ in '000	Particulars	₹ in '000
To Net liabilities	2,880.90	By Life Assurance Fund (2,500 + 1,095.90)	8,595.90
To Surplus (b/f)	715.00		
	3,595.90		3,595.90

Illustration 9 A Life Insurance Company having a paid up value of ₹5,00,000 disclosed a net liability of ₹46,50,000 on all their policies and contracts in force on 31-3-2015. From the following prepare revenue a/c and valuation balance sheet as on that date showing surplus for the policy holders and share holders.

	₹ in '000		₹ in '000
Consideration for annuities granted	85.00	Fines for revival of Lapsed policies	1.25
Management expenses	230.00	Bonus in cash	112.50
Claims	280.00	Surrenders	170.00
Premia received	2,580.00	Life Fund (1-4-2014)	5,000.00
Reinsurance claims irrecoverable	2.00	Income tax	240.00
Bonus in reduction of premium	3.55	Annuities	114.00
Interest, dividend and rent	1,520.00	Commission	115.00
Surplus on revaluation of reversions purchased			9.00

Solution:

Revenue Account

	Schedule No.	2015 (₹ in '000)	2014
Premium earned	1		
Premium Net		2,580.00	

Income from Investment			
Interest, dividend and rent		1,520.00	
Other income			
Surplus on revaluation		9.00	
Fines for revival of lapsed policies		1.25	
Consideration for annuities granted		85.00	
Total (A)		4,195.25	
Commission paid	2	115.00	
Operating expenses	3	230.00	
Income tax		240.00	
Total (B)		585.00	
Benefits paid (Net)	4		
Claims		280.00	
(+) Reinsurance claims irrecoverable		2.00	
Annuities		114.00	
Surrenders		170.00	
Bonus in cash		3.55	
Bonus in reduction of premium		112.50	
Total (C)		682.05	
Surplus		2,928.20	

Valuation Balance Sheet

Particulars	₹ in '000	Particulars	₹ in '000
To Net liabilities	4,650.00	By Life Assurance Fund (5,000 + 2,928.20)	7,928.20
To Surplus (b/f)	3,278.20		
	7,928.20		7,928.20

SPECIMEN FORMAT OF BALANCE SHEET OF LIFE INSURANCE COMPANY

Form A –BS

Particulars	Schedule No.	Current year	Last year
SOURCES OF FUNDS			
Share holders' funds			
Share capital	5	xxx	
Reserves and surplus	6	xxx	

Sub-total		xxx	
Borrowings	7	xxx	
Policy holders' funds			
Policy liabilities			
Insurance reserve			
Sub-total		xxx	
Funds for future appropriations		xxx	
Total		xxx	
APPLICATION OF FUNDS			
Investments			
Share holders	8	xxx	
Policy holders	8A	xxx	
Assets held to cover linked liabilities			
Loans	9	xxx	
Fixed assets	10	xxx	
Current Assets			
Cash and bank balances	11	xxx	
Advances and other assets	12	xxx	
Sub-total (A)		xxx	
Current liabilities	13	xxx	
Provisions	14	xxx	
Sub-total (B)		xxx	
Net Current Assets (C) = A – B		xxx	
Miscellaneous expenditure	15	xxx	
Debit balance in P & L a/c		xxx	
Total		xxx	

EXPLANATIONS FOR SCHEDULES IN BALANCE SHEET

Schedule – 5 Share capital	**Schedule – 6 Reserves and Surplus**
Issued and subscribed capital Less: Calls unpaid	Capital reserve Share premium General reserve

	Less: Debit bal. in P & L a/c Other reserves (Closing life assurance fund) Bal. of P & L a/c
Schedule – 7 Borrowings	**Schedule – 8 Investments – Share holders**
Debentures Fixed deposit Bank Others	Long-term investments Short term investments
Schedule – 8A Investments – Policy holders	**Schedule – 9 Loans given**
Long-term investments Short term investments	1.Security wise classification Secured – Mortgage of property Unsecured – Loan against policies 2. Borrower wise classification 3. Performance wise classification 4. Maturity wise classification
Schedule – 10 Fixed assets	**Schedule – 11 Cash and Bank balance**
Goodwill Land Lease hold property Buildings Furniture Others	1. Cash 2. Bank balance 3. Money at call and short notice 4. Others
Schedule – 12 Advances & other assets	**Schedule – 13 Current liabilities**
Advances given (Dr) 1.Reserve deposits 2.Advances 3.Advance tax paid 4. Others **Other assets** 1. Income accrued on investments 2. O/S premiums 3. Agents balances (Dr) 4. Foreign agents bal. 5. Due from other business	1.Agents balances (Cr) 2.Balance due to others 3. Deposit held on reinsurance ceded 4.Premium received in advance 5. Sundry creditors 6. Claims O/S 7.Annuities due

6. Reinsurance claims 7. Balance receivable 8. Deposits with RBI	
Schedule – 14 Provisions	**Schedule – 15 Miscellaneous expenditure**
For taxation Proposed dividend Bonus payable to policy holders	1.Discount allowed in issue of shares / Debentures

12.29 STANDARD RULES FOR CALCULATING CLOSING RESERVE FOR UNEXPIRED RISK

- No specific instructions are given, the following rules should be used for calculating closing reserve for unexpired risk

  in case of fire insurance 50 % of net premium and

  marine insurance 100 % of net premium

- Regarding closing additional reserve, if there is no adjustments, opening reserve will be the closing reserve also.

12.30 FIRE AND MARINE INSURANCE

Illustration 10 Prepare Revenue a/c of the Marine Insurance Company Ltd. as at 31st March 2015 from the following information:

	₹ in '000		**₹ in '000**
Reserve for unexpired risk (1-4-2014)	496.60	Claims	470.00
Management expenses	54.00	Director's sitting fees	3.40
Commission	35.00	General charges	12.00
Premium less reinsurance	720.00	Audit fees	10.00
Depreciation	5.00	Claims o/s (1-4-2014)	160.00
Additional reserve (1-4-2014)	49.66		

Solution:

Revenue Account

	Schedule No.	**2015 ₹ in '000**	**2014**
Net Premium	1	474.26	
Total (A)		474.26	
Claims	2	370.00	
Commission	3	3.50	
Operating expenses	4	84.40	

Total (B)		489.40	
Operating Loss		15.14	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Claim**	**₹ in '000**
Premium	720.00	Claims	470.00
Add: Opening unexpired risk	496.60	(+) Closing o/s	60.00
Add: Opening Additional Reserve	49.66		530.00
	1,266.26	(-) Opening o/s	160.00
Less: Closing unexpired risk 720			**370.00**
Less: Closing Additional Reserve 72	792.00	**Schedule 4 Operating exp.**	
	474.26	Management exp.	54.00
Schedule 3 Commission		Audit fees	10.00
Commission	**3.50**	Directors fees	3.40
		Depreciation	5.00
		General exp.	12.00
			84.40

Illustration 11 The following balances are extracted from the books of Oriental General Insurance Company. Prepare Revenue a/c for the year ending 31-3-2015.

	Fire ₹ in '000	**Marine ₹ in '000**		**Fire ₹ in '000**	**Marine ₹ in '000**
Funds on 1-4-2014	310.0	840.0	Claims paid	261.5	102.0
Premium	556.4	882.2	Commission	21.0	54.0
Due to Reinsurers	4.4	20.2	Exp. of Mgt.	42.0	73.0

It was further noticed that premium was outstanding:

Fire ₹1,400 and Marine ₹1,600. Provision is to be made for unexpired risk on fire and marine at 40% and 100% of the premium received respectively.

Solution:

Revenue Account

	Schedule No.	**Fire ₹ in '000**	**Marine ₹ in '000**
Net Premium	1	642.04	840
Total (A)		642.04	840
Claims	2	261.50	102

Commission	3	21.00	54
Operating expenses	4	42.00	73
Total (B)		324.50	229
Operating Loss		317.50	611

Workings (₹ in '000)

Schedule 1Premium	**Fire**	**Marine**	**Schedule 2 Claim**	**Fire**	**Marine**
Premium	556.4	882.2	Claims	261.5	102.0
(-) Opening o/s	4.4	20.2		261.5	102.0
	552.0	862.0			
(+) Closing o/s	1.4	1.6	**Schedule 4 Operating exp.**		
	553.4	863.6	Management exp.	42.0	73.0
Add: Opening unexpired risk	310.0	840.0			
	863.4	1,703.6	**Schedule 3 Commission**		
Less: Closing unexpired risk	221.36	863.6	Commission	21.0	54.0
	642.04	**840.0**			

Illustration -12 Z P Insurance Co. Ltd. has furnished the following information for preparation of revenue account for fire insurance business for the year ended 31-3-2015.

Claims admitted but not paid	₹42,376	Bad debts	₹2,500
Commission on reinsurance received	₹12,000	Reserve for unexpired risk on 1-4-2014	₹2,30,000
Claims O/S on 1-4-2014	₹27,000	Premium received	₹5,52,000
Dividend on share capital	₹18,500	Share transfer fees	₹5,000
Claims paid	₹15,000	Exp. of management	₹75,000
Additional reserve on 1-4-2014	₹40,000	Commission paid	₹50,000

The following further information has also to be considered:

a) Premium O/S at the end of the year ₹40,000

b) Additional reserve at 10% of net premium to be maintained

c) It is the policy of the company to maintain 50% of premium towards reserve for unexpired risk

Solution

Revenue Account

		₹
Premium earned – Net	1	5,06,800
Profit on sale / redemption of investment		–
Other income		–
Interest and dividend		–
Total (A)		5,06,800
Claims incurred (Net)	2	30,376
Commission	3	38,000
Operating exp.	4	80,500
Total (B)		1,48,876
Operating profit from fire business (C) = A – B		3,57,924

Workings

Schedule 1 – Premium earned

Premium received		₹5,52,000
Add: Premium O/S on 31-3-2015		₹40,000
		₹5,92,000
Adjustment for change in reserve for unexpired risk		
50% of 5,92,000	₹2,96,000	
Additional reserve (5,92,000 x 10%)	₹59,200	
	₹3,55,200	
Less: Reserve for unexpired risk (1-4-2014) 2,30,000		
Additional reserve (1-4-2014) 40,000	₹2,70,000	
Changes in reserve for unexpired risk		₹85,200
Total premium earned		₹5,06,800

Schedule 2 Claims incurred

Claims paid	₹15,000
(+) Claims admitted but not paid on 31-3-2015	₹42,376
	₹57,376
(-) Claims O/S on 1-4-2014	₹27,000
	₹30,376

Schedule 3 Commission

Commission on direct business	₹50,000
(-) Commission on reinsurance ceded	₹12,000
	₹38,000

Schedule 4 Operating expenses

Exp. of management	₹78,000
Bad debts	₹2,500
	₹80,500

Illustration -13 From the following particulars relating to Z Insurance Co. Ltd, prepare revenue account for the year ending 31-3-2015.

Claims intimated but not accepted and paid on 31-3-2015	₹10,000	Commission on reinsurance ceded	₹10,000
Claims intimated and accepted but not paid on 31-3-2015	₹60,000	Commission on reinsurance accepted	₹5,000
Claims O/S on 1-4-2014	₹40,000	Exp. of management	₹3,05,000
Provision for unexpired risk on 1-4-2014	₹4,00,000	Bonus in reduction of premium	₹12,000
Additional Provision for unexpired risk on 1-4-2014	₹20,000	Reinsurance premium paid	₹1,20,000
		Premium received	₹12,00,000
Claims paid	₹4,80,000	Commission	₹2,00,000

You are required to provide for additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance.

Solution

Revenue Account

		₹
Premium earned – Net	1	9,29,200
Profit on sale / redemption of investment		–
Other income		–
Interest and dividend		–
Total (A)		9,29,200
Claims incurred (Net)	2	5,10,000
Commission	3	1,95,000
Operating exp.	4	3,17,000

Total (B)		10,22,000
Operating profit from fire business (C) = A – B		92,800

Workings

Schedule 1 – Premium earned

Premium received			₹12,00,000
Less: Reinsurance premium paid			₹1,20,000
			₹10,80,000
Adjustment for change in reserve for unexpired risk			
50% of ₹10,80,000		₹5,40,000	
Additional reserve (₹10,80,000 x 1%) + ₹20,000		₹30,800	
		₹5,70,800	
Less: Reserve for unexpired risk (1-4-2014)	₹4,00,000		
Additional reserve (1-4-2014)	₹20,000	₹4,20,000	
Changes in reserve for unexpired risk			₹1,50,800
Total premium earned			₹9,29,200

Schedule 2 Claims paid

Claims paid	₹4,80,000
(+) Claims intimated but not accepted and paid on 31-3-2015	₹60,000
(+) Claims intimated and accepted but not paid on 31-3-2015	₹10,000
	₹5,50,000
(-) Claims O/S on 1-4-2014	₹40,000
	₹5,10,000

Schedule 3 Commission

Commission on direct business	₹2,00,000
(+) Commission on reinsurance accepted	₹5,000
	₹2,05,000
(-) Commission on reinsurance ceded	₹10,000
	₹1,95,000

Schedule 4 Operating expenses

Exp. of management	₹3,05,000
Bonus in reduction of premium	₹12,000
	₹3,17,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Policy holders have a right to participate ________ of true profit
   a) 5% b) **95%**
   c) 20% d) 75%

2. Valuation of balance sheet is prepared
   a) Once in one year b) Twice in two years
   c) **Once in two years** d) Twice in one year

3. The purpose of preparing valuation of balance sheet is
   a) To know the financial position b) **Surplus or deficiency**
   c) Life insurance fund d) To Know the asset value

4. The purpose of preparing revenue a/c in Life Insurance Company is to know the
   a) Financial position b) Profit or loss
   c) **Closing Life insurance fund** d) Surplus

5. Fire insurance business should transfer __________ of net premium to provision for unexpired risk
   a) 100% b) **50%**
   c) 25% d) 75%

6. Marine insurance business should transfer ________ of net premium to provision for unexpired risk
   a) **100%** b) 50%
   c) 25% d) 75%

7. The purpose of preparing revenue a/c in Fire Insurance Company is to know the
   a) Financial position b) **Profit or loss**
   c) Closing Life insurance fund d) Surplus

8. If the net liability is more than the life insurance fund, it is said to be
   a) Surplus b) **Deficiency**
   c) Both a and b d) Life assurance fund

9. Life Assurance is a ________ contract
   a) Protection b) Investment
   c) **Protection cum investment** d) Indemnity

10. General insurance is a ________ contract
    a) Protection b) Investment
    c) Protection cum investment d) **Indemnity**

11. Commission on policies effected through insurance agents cannot exceed ________ of premium in fire and marine business.
    a) **5%** b) 10%
    c) 15% d) 25%

12. Commission on policies effected through insurance agents cannot exceed _____ of premium in others except fire and marine business.
    a) 5% b) **10%**
    c) 15% d) 25%

13. Commission on policies effected through principal agent cannot exceed _______ of premium less commission payable to agent in fire and marine business.
    a) 5% b**) 20%**
    c) 15% d) 25%

14. Commission on policies effected through principal agent cannot exceed _______ of premium less commission payable to agent in other business except fire and marine business.
    a) 5% b) 20%
    c) **15%** d) 25%

15. Who is insurer?
    a) **Insurance company** b) The person insuring his risk
    c) Agent d) All the above

16. Who is insured?
    a) Insurance company b) **The person insuring his risk**
    c) Agent d) All the above

17. Which of the following is otherwise called assurance?
    a) Fire insurance b) Marine insurance
    c) **Life insurance** d) General insurance

18. Solvency margin is the difference between _______ maintained at all times by every insurer
    a) **Assets and liabilities** b) Liabilities and assets
    c) Liabilities and surplus d) Surplus and liabilities

19. Reversionary bonus is a bonus paid
    a) In cash b) Adjusted against premium
    c) **At the end along with policy amount** d) Bonus in reduction of premium

20. Which of the following is an expense?
    a) Commission on reinsurance ceded b) **Commission on reinsurance accepted**
    c) Premium d) Commission (cr)

21. The balance sheet of general insurance include ___________ schedules

    a) 4 b) 9

    c) **11** d) 5

22. The balance in the revenue account of a Life Insurance Company shows

    a) The profit for the accounting period

    b) The loss for the accounting period

    c) Both profit and loss for the accounting period

    d) **The Life Assurance Fund for the accounting period**

23. The valuation of balance sheet of a life insurance company is

    a) The same as the balance sheet of the trading company

    b) The same as the balance sheet of the non-trading company

    c) Not a balance sheet in all sense

    d) **A special accounting technique of ascertaining surplus or deficit**

24. The excess of net liability over the life assurance fund is

    a) Surplus b) **Deficiency**

    c) Profit d) Loss

25. Commission paid on re-insurance is

    a) An income b) Deficiency

    c) Profit d) **Loss**

REVIEW QUESTIONS

A) Answer in short

1. What is you mean by life assurance fund?
2. What is called annuity?
3. What is the meaning of surrender value?
4. What is valuation balance sheet?
5. What is Reinsurance?
6. What do you mean by reserve for unexpired risk?
7. What is additional reserve?
8. Differentiate commission on reinsurance accepted from commission on reinsurance ceded.
9. What is additional reserve? Why it is needed?

B) Answer in detail

1. Explain the preparation of revenue a/c of a life insurance business in prescribed form and explain the items there in

2. Explain the schedules prepared for the life insurance accounts.
3. Explain why reserve for unexpired risk is created in Life Insurance Company and not created in general insurance company.
4. Briefly the schedules prepared in finalizing accounts of a general insurance company.
5. Distinguish between life insurance and general insurance.
6. In what way fire insurance differ from marine insurance?

EXERCISES

CALCULATION OF CORRECT LIFE ASSURANCE FUND

1. The Life Assurance Fund of Sun Insurance Company shows a balance of ₹76,87,500 on 31st March 2016. It was later observed that the following were not taken into account.
   a) Dividend from investment ₹3,50,000
   b) Income tax on above ₹32,000
   c) Bonus in reduction of premium ₹4,85,000
   d) Claims covered under re-insurance ₹3,25,000
   e) Claims intimated but not admitted by the company ₹8,07,000

   Ascertain the correct balance of fund in the light of above particulars.

2. The revenue account of a life insurance company showed the life fund of ₹7,31,700 on 31-3-2016 before taking into account the following terms:

Claims intimated but not admitted	₹98,250
Bonus utilized in reduction of premium	₹13,500
Interest accrued on investments	₹29,750
Outstanding premium	₹27,000
Claims covered under reinsurance	₹40,500
Provision for taxation	₹31,500

   Show the adjusted life fund

3. A life insurance company disclosed a fund of ₹20,00,000 and the balance sheet total of ₹45,00,000 on 31- 03- 2016 before taking into consideration.
   i) A claim of ₹10,000 intimated and admitted but not paid during the year
   ii) A claim of ₹6,000 outstanding in the books for 8 years and written back
   iii) Interest on securities accrued ₹800 but not received during the year
   iv) Premium of ₹600 payable under re-insurance
   v) Re-insurance recoveries ₹26,000

vi) Bonus utilized in reduction of premium ₹10,000

vii) Agent’s commission to be paid ₹8,000

Recomputed the life assurance fund

REVENUE ACCOUNT OF LIFE INSURANCE WITHOUT ADJUSTMENTS

4. From the following information, prepare Revenue Account of Active life Insurance Company Limited for the year ended 31.03.2015.

	₹		₹
Life Assurance Fund (1.4.04)	30,42,000	Bonus in Reduction of Premium	1,960
Claims by death	1,52,280	Consideration for annuities granted	1,64,254
Claims by maturity	60,220	Annuities paid	1,06,922
Premiums	14,11,380	Bonus in cash	4,832
Transfer Fees	258	Expenses of Management	63,840
Interest and Dividends	1,95,680	Commission	19,148
Income-tax thereon	11,420	Dividends to Shareholders	11,000
Surrenders	26,280		

5. From the following figures, prepare Revenue Account in the Statutory from of the Star Life Assurance Company Limited for the year ended 31.03.2015.

	₹		₹
Commission	19,140	Claim by death paid	1,42,000
Interest, Dividends, Rents (net)	1,95,700	Claim by maturity paid	70,200
Income-tax deducted at source	12,400	Premiums	14,12,100
Expenses of Management	63,800	Surrenders	26,300
Bonus in reduction of premium	1,800	Annuities paid	1,06,900
Dividends paid to shareholders	9,000	Bonus paid in cash	4,800
Considerations for annuities granted			1,64,000
Outstanding Death Claims at the beginning of the year			22,000
Outstanding Death claims at the end of the year			16,000
Amount of Life Assurance Fund at the beginning of the year			30,45,000

VALUATION BALANCE SHEET

6. The life fund of a life insurance company was ₹86,48,000 as on 31st March 2015. The interim bonus paid was ₹1,48,000. The actuarial valuation determined the net liability at ₹74,25,000. The surplus brought forward from the previous valuation was ₹8,50,000. The director of the

company proposed to carry forward ₹9,31,000 and to divide the balance between the share holders and the policy holders in the ratio of 1:10. Prepare the valuation balance sheet and find out the net profit for the valuation period.

7. A life assurance corporation gets its valuation made once in every two years. The life assurance fund on 31st March 2015 amounted to ₹20,96,000 before providing for ₹16,000 for the shareholders dividend for the year 2015-16. Its actuarial valuation on 31st March 2015, disclosed net liability of ₹20,20,000 for unexpired risk. An interim bonus of ₹20,000 was paid to the policyholders for this year. Prepare a valuation balance sheet and also calculate the amount available to policyholders.

REVENUE ACCOUNT AND VALUATION BALANCE SHEET

8. Prepare revenue account and valuation balance sheet of a Life Insurance Company for the year ended 31st March 2015:

Claims by death	₹76,140	Claims by maturity	₹30,110
Premiums	₹7,05,690	Transfer fees	₹129
Consideration for annuity granted	₹82,127	Annuities paid	₹53,461
Bonus paid in cash	₹2,416	Expenses of management	₹31,920
Commission	₹9,574	Interest and dividend	₹97,840
Income tax thereon	₹35,710	Surrenders	₹13,140
Life assurance fund at the beginning	₹15,21,000	Dividend paid to share holders	₹5,500
Bonus in reduction of premium	₹980		

Paid-up share capital of the above life assurance company is ₹5,00,000 and net liability as per actuary's valuation is ₹11,05,000 as on 31st March 2015.

9. A Life Assurance Co. Ltd. having a paid up capital of ₹5,00,000 disclosed a net liability of ₹40,50,000 on all their policies and contracts in force on 31- 3- 2015. From the figures set out below, prepare the revenue account for the year ended 31- 3- 2015 and a valuation balance sheet as on that date.

	₹ in '000		**₹ in '000**
Life fund on 1- 4- 2014	5,000	Premiums	2,580
Interest, dividends and rent	1,520	Fines	1.25
Consideration for annuities granted	85	Claims paid	280
Re-insurance claims irrecoverable	2	Exp. of management	230
Bonus in reduction of premium	3.55	Commission	115
Annuities paid	114	Surplus	9
Surrenders	9	Income tax	240
Bonus in cash	11.25		

10. The valuation of ABCD Life Assurance Company Ltd. having a paid up capital of ₹5,00,000 disclosed a net liability of ₹66,50,000 and all their policies and contracts in force on 31-3-2015. From the figure set out below, prepare the revenue account for the year ended 31st March 2015 and a valuation balance sheet as on that date showing the surplus for the shareholders and policy holders (on the pattern of distribution prescribed in the life Assurance Corporation of India Act, 1956)

Life Assurance Fund 1-4-2014	₹50,00,000	Fines for revival of lapsed policies	₹1,250
Interest dividend received	₹15,00,000	Bonus in cash	₹1,12,000
Bonus in reduction of premium	₹4,050	Re-insurance balance irrecoverable	₹2,000
Surrenders	₹1,90,000	Annuities paid	₹1,14,000
Expenses of management	₹2,20,000	Commission paid to agents	₹1,25,000
Claims paid	₹2,60,000	Income tax	₹2,40,000
Surplus on revaluation of reversion purchased	₹9,000	Consideration for annuities granted	₹85,000
		Premium received	₹26,00,000

11. The following were the revenue items of a LIC for the year ended 31-3-2015.

Premium	₹40,30,000
Surrenders	₹1,95,000
Interest and Dividend (net)	₹13,00,000
Bonus in cash	₹1,17,000
Bonus in reduction of premium	₹5,200
Expenses of management	₹2,60,000
Life fund on 1.4.2014	₹52.00.000
Claims	₹27,95,000
Annuities	₹10,66,000
Consideration for annuities granted	₹14,30,000
Commission	₹1,30,000

At the valuation on 31.3.2015 the actuary's certificate disclosed the net liability on policies and annuities at ₹57, 60,000.

Prepare revenue account and ascertain the profit or loss made by the company.

REVENUE ACCOUNT OF LIFE INSURANCE WITH ADJUSTMENTS

12. The following balances were extracted from the books of the New Bharat Insurance Company Ltd. as on 31st March 2015.

Life Insurance Fund on 1-4-2014	₹15,00,000	Consideration for annuities	₹15,000
Premium	₹4,96,000	Interest and dividends	₹1,00,000
Fines for revival of policies	₹750	Claims outstanding on 1-4-14	₹4,500
Re-insurance premium	₹20,750	Claims paid during the year	₹64,900
Annuities	₹2,050	Management expenses	₹22,000
Medical fees	₹2,400	Surrenders	₹4,000
Commission	₹18,650	Bonus in reduction of premium	₹1,600
Income tax on dividends	₹8,500		

Prepare the revenue account after the following adjustments:

i) Outstanding balances: Claims ₹14,000; Premium ₹4,600

ii) Further bonus for premium ₹2,400

iii) Claims under re-insurance ₹8,000

13. The following trial balance was extracted from the books of Bharat Assurance Co. Ltd. as on 31st Dec.2015.

Particulars	Debit ₹	Particulars	Credit ₹
Dividend paid	15,000	Shares of ₹10 each	1,00,000
Bonus in reduction of premium	31,500	Life Assurance Fund 1-1-2015	29,72,300
Claims paid	1,97,000	Premium less reinsurance premium (Commission thereon ₹5,000)	1,61,500
Commission paid	9,300		
Mortgage in India	4,92,200		
Management expenses	32,300	Interest and dividend	1,12,700
Agents balances	9,300	Outstanding claims (1-1-2015)	7,000
Buildings	40,000	Consideration for annuities granted	10,000
Investments	23,05,000		
Loan on policies	1,73,600		
Cash on deposit	27,000		
Cash in hand	7,300		
Surrenders	7,000		
Medical fees	7,000		
Annuity	10,000		
	33,63,500		33,63,500

Prepare the revenue a/c after considering the following:

i) Claims outstanding ₹10,000

ii) Further bonus in reduction of premium ₹5,000

iii) Premium outstanding ₹5,000

iv) Claims covered under reinsurance ₹80,000

v) Management expenses ₹30,000

REVENUE ACCOUNT & BALANCE SHEET OF LIFE INSURANCE WITHOUT ADJUSTMENTS

14. From the following trial balance prepare the Final Accounts of the Indian Assurance Company Ltd. for the year 31.03.2015.

Debit	Amount ₹	Credit	Amount ₹
Loans on Life interests	4,281	Premium	3,65,982
Expenses of Management	18,241	Profit on sale of investments	10,824
Freehold Ground Rents	1,68,421	Claims admitted but not Paid	58,421
Commission	9,872	Sundry Creditors	7,724
Deposit with RBI Govt. Securities	2,00,000	Consideration for annuities granted	12,272
Income tax on interest receipts	7,139	Interest, Dividend and Rent (Gross)	1,20,682
Surrenders	21,104		
Claims by maturity	1,04,728		
Annuities paid	7,681		
House property	59,888		
Claims by death	1,72,681		
O/s premium	21,641		
Bonus in cash	4,222		
Agent’s balance	6,824		
Port trust Debenture Interest and Principal Guaranteed by the Govt.	5,28,241		
Cash at bank	12,724		
Cash in Hand	354		
Foreign Govt. Securities	1,42,520		
Office Furniture	1,500		

Shares in other cos.	1,21,621		
Stock of policy stamps in land	168		
Mortgages in India	6,61,421		
Mortgages outside India	2,06,490		
Loans on Govt. Securities	4,98,321		
British Govt. Securities	2,21,640		
Loans on company's Policies	1,74,692		
	33,76,415		33,76,415

15. The following trial balances were extracted from the books of Life Insurance Corporation as on 31.03.15.

	Amount ₹		**Amount ₹**
Premium received in advance	50,000	Expenses of Management	7,50,213
Income-tax paid	1,40,074	Investments	2,55,00,000
Life Assurance Fund (1.4.2014)	2,40,00,000	Investment Reserve Fund (1.4.2014)	25,00,000
Freehold Property	12,50,000	Premium less reassurances	37,50,000
Claims admitted but not paid	15,00,000	Outstanding Premium (Net)	3,01,600
Surrenders	1,79,475	Outstanding Interest	2,95,000
Consideration for annuities granted	25,250	Interest accrued but not payable	1,58,500
Bonus in reduction of premium	2,000	Interests, Dividends and Rents Received	16,00,168
Annuities	15,000	Furniture and Fittings	45,250
Unpaid Dividends	25,895	Stamps in hand	3,661
Transfer and other Fees	3,215	Sundry Creditors	22,437
Agent's Balances Outstanding	72,952	Cash in hand and at Banks	1,82,000
Loans on Companies' Policies within their surrender value			24,50,000
Cheque paid into Banks and in course of realization			24,500
Cheque issued but not presented for payment			33260
Shareholders Capital(10,000 shares of ₹25 each, ₹10 per share paid up)			1,00,000
Claims under policies paid and outstanding less received on reassurance			22,50,000
Gain on redemption of debentures (to be carried to Investment Reserve Fund)			10,000

You are required to prepare the revenue account for the year ended 31st March, 2015 and a Balance Sheet at the date of the New India Life Insurance Co. Ltd.

16. The following balances were extracted from the books of Cosmopolitan Life Insurance Company as on 31.03.2015. You are required to prepare its final accounts.

	₹ in '000		**₹ in '000**
Shareholders Capital ₹5,00,000 in 20,000 shares of ₹ 25 each, ₹10 per share paid up	200	Life Assurance Fund (1.4.2005)	48000
Claims under policies paid and outstanding less received on reassurance	4500	Investment Reserve Fund (1.4.2005)	5000
Expenses of Management	1500	Investments	51000
Freehold and Leasehold Property	2500	Unpaid Dividends	51.79
Claims admitted or intimated but not paid	3000	Outstanding Premia (Net)	603.2
Consideration for annuities granted	50.5	Outstanding Interest	590
Bonus in reduction of premium	4	Surrenders	358.95
Gain on redemption of debentures (to be carried to Investment Reserve Fund)	20	Cheque paid into Banks and in course of collection	49
Interests, Dividends and Rents Received	3200	Premia less reassurances	7500
Loans on Companies' Policies	4900	Interest accrued	317
Cash in hand and at Banks	364	Income-tax	280.15
Annuities	30	Transfer Fees	6.430
Cheque issued but not presented for payment	66.52	Agent's Balances	145.904
Premia received in advances	100	Furniture and Fittings	90.500
Sundry Creditors	44.875	Stamps on hand	7.322

REVENUE ACCOUNT AND BALANCE SHEET OF LIFE INSURANCE WITH ADJUSTMENTS

17. The following trial balance was extracted from the books of Life Assurance Company Limited as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividends paid	30,000	Paid up Capital (₹10 each)	2,00,000
Loans on Company's	3,47,200	Life Fund Balance	59,44,600

policies		(1.4.2005)	
Claims paid	3,94,000	Premium received	3,23,000
Cash in hand and current accounts	14,600	Interest and Dividends received	2,25,400
Management Expenses	64,600		
Mortgages in India	9,84,400		
Agents balances	18,600		
Freehold premises	80,000		
Investments	46,10,000		
Bonus to policy holders	63,000		
Cash on deposits	54,000		
Commission paid	18,600		
Surrenders	14,000		
	66,93,000		66,93,000

You are required to prepare the company's revenue account for the year ended 31st March, 2015 and its balance sheet as on that date after taking the following matters into consideration:

- Claims admitted but not paid ₹18,600
- Management expenses due ₹400
- Interest accrued ₹38,600
- Premiums outstanding ₹24,000

18. The following balances were extracted from the books of Mutual Life Assurance Company as on 31.03.2015.

Debit	**₹ in '000**	**Credit**	**₹ in '000**
Mortgages	1400	Outstanding claims	22
Buildings	145	Premiums	3394
Interest accrued but not received	7	Consideration for annuities granted	420
Investments	1200	Interest and Dividends	100
Bonus in reduction of Premium	5	Life Assurance Fund (1.4.2014)	950
Annuities	12		
Claims by death	700		
Claims by maturity	1000		
Agent's Balance	5		
Deposits with RBI	30		

Outstanding Premiums	35		
Commission	54		
Cash at Bank	50		
Sundry Debtors	63		
Surrenders	25		
Loans	155		
	4886		4886

You are required to prepare the final accounts after taking into account the following adjustments;

Premiums outstanding	₹4500
Interest accruing but not due	₹3700
Claims admitted but not paid	₹3200
Surrender claims not paid	₹1100
Further bonus utilized in reduction of premiums	₹2000

19. The following are the ledger balances of Bharat Life Assurance Co. Ltd. as on 31st March 2015.

	Amount ₹		**Amount ₹**
Interest outstanding on Investments	7,295	Consideration for annuities granted	1,20,000
Claims paid	4,20,600	Share capital	5,00,000
Bonus in reduction of premium	10,200	Life Assurance Fund as on April 1, 2014	25,27,825
Claims admitted but not paid	40,210	Annuities	80,900
Premium	18,90,500	Loans on policies	6,50,000
Interest, Dividends and Rents	1,70,620	Surrenders	1,12,800
Income-tax on interest	30,200	Re-assurance Premium	2,14,500
Loss on sale of investments	1,27,800	Buildings	4,50,000
Expenses of Management	1,27,800	Policy stamps on hand	6,700
Cash and Bank balances	1,40,790	Mortgage in India	10,12,700
Outstanding Premium	4,40,600	Agents balances (Dr.)	1,20,500
Outstanding Expenses	52,200	Bonus in cash	7,800
Dividend paid to shareholders	25,000	Investments	12,50,000
Commission	40,670	Furniture	24,500

Prepare the final accounts of the company, taking the following matters into consideration:

- Claims covered under reinsurance ₹47,500
- The Managing Director is to be paid commission of ₹51,520
- Further Bonus in reduction of premium is ₹5,000

20. The following trial balance was extracted from the books of National Life Assurance Company as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividend Paid	30,000	Share Capital	3,20,000
Surrenders	14,000	Life Assurance Fund (1.4.14)	
Loans on Company's Policies	3,47,200	Interest and Dividend Received	2,25,400
Commission paid	18,600	Premiums Received	2,03,000
Management expenses	64,600		
Mortgages in India	9,84,400		
Agents Balances	18,600		
Freehold Premises	80,000		
Investments	46,10,000		
Claims paid	3,94,000		
Cash on Deposits	54,000		
Cash in hand	14,600		
Bonus to Policyholders	63,000		
	66,93,000		66,93,000

You are required to prepare the company's final accounts for the year ended March 31, 2015, after taking into consideration, the following adjustments:

- Claims admitted but not paid ₹18,600
- Premium outstanding ₹24,000
- Interest accrued ₹38,600
- Management expenses Due ₹400

21. The following trial balance was extracted from the books of Life Insurance Corporation as on 31.03.2015.

	Amount ₹		**Amount ₹**
Life Assurance Fund (as on 1.4.14)	14,70,562	Consideration for annuities granted	10,620
Premium	2,10,572	Freehold Premises	5,00,000

Management expenses	19,890	House property	1,00,000
Mortgages	3,09,110	Claims by death	79,980
Dividend paid	20,000	Claims by maturity	36,420
Fines	92	Commission	26,541
Annuities	29,420	Interest dividends and rent	52,461
Share capital	4,03,000	Income-tax on Interest	3,060
Stamps on hand	400	Surrenders	21,860
Annuities due but not paid	22,380	Bonus in reduction of premium	2,500
Govt. Securities	8,70,890	Furniture	20,000
Bonus paid in cash	9,450	Loans on Company's Policies	2,00,000
Preliminary expenses	200	Claims admitted but not paid	80,034

Prepare the final accounts of the company after taking into consideration, the following:

- Claims covered under reinsurance ₹20,000
- Further claims intimated ₹20,000
- Further bonus utilized in reduction of premium ₹3,000
- Re-insurance premium ₹6,000
- Premium outstanding ₹8,000

22. The following trial balance was extracted from the books of New Bharat Life Assurance Company Limited as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividends Paid	15,000	Paid up Capital (10,000 shares of ₹10 each)	1,00,000
Claims paid	1,97,000		
Bonus in reduction of Premium	31,500	Life Fund Balance (1.4.2014)	29,72,300
Commission	9,300	Premium less reinsurance premium	1,61,500
Management Expenses	32,300	Outstanding claims (1.4.2014)	7,000
Mortgages in India	4,92,200	Interest and Dividends received	1,12,700
Agents balances	9,300	Consideration for annuities granted	10,000
Freehold premises	40,000		
Investments	23,05,000		
Loans on Companies Balances	1,73,600		
Cash on deposits	27,000		

Cash in hand and current accounts	7,300		
Surrenders	7,000		
Medical fees	7,000		
Annuities	10,000		
	33,63,500		33,63,500

Prepare revenue account for the year ended 31st March 2015 and a balance sheet of the company as at that date after taking the following into consideration.

- Claims outstanding ₹10,000
- Further bonus in reduction of premium ₹5,000
- Premium outstanding ₹5,000
- Claims covered under reinsurance ₹80,000
- Management expenses due ₹ 30,000
- Commission on reinsurance ceded ₹ 5,000

23. From the following figures extracted from the books of life assurance Company Limited as on 31.03.2015.

	Amount ₹		**Amount ₹**
Life fund on 1st April 2014	55,56,148	Cash in hand	1,900
Interest accrued but not received	69,613	Cash at bank	9,020
Investment Reserve Fund	88,000	Bank loans	50,000
Outstanding premiums	77,651	Share Capital	1,00,000
Premium less re-assurance	3,55,674	Municipal Securities	8,50,320
Loans on security of policies	4,25,360	Foreign Govt. Bonds	1,72,760
Consideration for annuities to be granted	11,338	Fines for revival of policies	358
Shares and debentures in other companies	20,42,477	Development loan	4,15,000
Interest and dividends (less tax)	2,23,535	Stamps in hand	269
Claims announced but not paid	76,135	Mortgages in India	9,02,956
British Govt. securities	5,69,517	Claims by death	3,37,955
Annuities due but not paid	427	Claims by Survivance	32,226
Premium received in Advance	575	Surrenders	37,303
Mortgages Outside India	3,94,360	Income-tax on profit	8,594
Bonus in reduction of premium	11,156	Annuities	38,688
Interest and dividend to	9,878	Commission	11,417

shareholders			
Interest outstanding on Investment	3,700	Management Expenses	40,070

The following information is given:

- Further Bonus utilized in reduction of Life Insurance Premium ₹6,500.
- Claims covered under re-insurance ₹27,000.

24. The following trial balance was extracted from the books of Life Insurance Corporation as on 31.03.2015. You are required to prepare the final accounts for the year ended 31st March 2015 after taking the following facts into consideration:

1. Claims admitted but not paid	₹9,000
2. Management Expenses Due	₹200
3. Interest accrued	₹19,000
4. Premium outstanding	₹10,000
5. Bonus utilized in reduction of premium	₹2,000
6. Claims covered under reinsurance	₹2,300

Particulars	**Debit ₹**	**Particulars**	**Credit ₹**
Dividends paid	15,000	Paid up Capital (10,000 shares of ₹10 each)	1,00,000
Mortgages in India	4,92,200		
Bonus in reduction of Premium	31,500	Life Fund Balance (1.4.2014)	29,72,300
Loans on Companies Balances	1,73,600	Premium less reinsurance premium	1,61,500
Cash in hand and current accounts	7,300	Interest and Dividends received	1,12,700
Management Expenses	32,300		
Agents balances	9,300		
Freehold premises	40,000		
Investments	23,05,000		
Claims paid	1,97,000		
Cash on deposits	27,000		
Commission Paid	9,300		
Surrenders	7,000		
	33,46,500		33,46,500

25. From the following trial balance Life Insurance Company, prepare the Final Accounts after taking into account the following adjustments.

- Claims outstanding on 31.03.2015 ₹13,500
- Claims recoverable from reinsurer ₹6,000
- Further Bonus utilized in reduction of premium ₹3,000
- Premiums outstanding ₹1,500
- Management expenses due ₹4,500
- Surrenders adjusted against loan on policies ₹5,000

Trial Balance as on 31.03.2015

Debit balances	**₹**	**Credit balances**	**₹**
Claims paid	59,500	Life Assurance Fund (1.4.2014)	15,51,800
Surrenders	8,000	Investment Fluctuation Fund	54,000
Loans against Mortgages	3,49,500	Premium Deposits	18,000
Loans against Policies	1,50,000	Sundry Creditors	22,500
Expenses of Management	1,11,000	Interest accrued	84,000
Outstanding premium on 31.03.14	66,000	Claims outstanding on 1.4.2014	9,000
Govt. Securities with RBI	3,90,000	Premiums less re-insurance	4,21,000
Other securities	8,25,000		
Fixed Assets	75,000		
Income-tax deducted on interest	9,000		
Depreciation of Fixed Assets	1,500		
Interest accrued	15,000		
Sundry Debtors	24,000		
Bonus in reduction of Premium	3,000		
Cash and Bank Balance	73,800		
	21,60,300		21,60,300

26. The following trial balances were extracted from the books of Life Insurance Corporation as on 31.03.15.

Particulars	**Debit ₹**	**Particulars**	**Credit ₹**
Mortgages	14,00,000	Claims due on 1.4.2014	22,000
Loans	3,00,000	Premium	30,00,000
Investments	12,00,000	Consideration for annuities	4,00,000
Surrenders	25,000	Interest and Dividend	4,94,000

Annuities	12,000	Life Fund on 1.4.2014	9,70,000
Claims by death	8,50,000		
Claims by maturity	8,50,000		
Agents balances	5,000		
Deposit with RBI	30,000		
Premium Outstanding	35,000		
Commission paid	54,000		
Cash at Bank	50,000		
Management Expenses	50,000		
Bonus in reduction of premium	18,000		
Interest accrued	7,000		
	48,86,000		48,86,000

Adjustments:

- Premium Outstanding ₹4,000
- Claims admitted but not paid on 31.03.2006 ₹4,500
- Surrender claims not paid ₹1,500
- Surrenders adjusted against loans on policies ₹5,000
- Further Bonus in reduction of premium ₹2,500.

Prepare Final Accounts.

27. The following are the ledger balances of Life Assurance Co. Ltd. as on 31st March 2015.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Premiums	18,90,500	Bonus in cash	7,800
Life assurance fund as on 1st April, 14	25,27,825	Dividend paid to shareholders	25,000
Claims paid	4,20,600	Furniture	24,500
Claims admitted but not paid	40,210	Commission	40,670
Consideration for annuities granted	1,20,000	Interest, dividends and rents (gross)	1,70,620
Expenses of management	1,27,800	Cash and bank balances	1,40,790
Income-tax on interest and dividends	30,200	Interest outstanding on investments	7,295
Annuities	80,900	Agent’s Balances (Dr.)	1,20,500
Loss on sale of investments	1,27,800	Outstanding Expenses	52,200
Loans on policies	6,50,000	Share Capital	5,00,000
Surrenders	1,12,800	Investments	12,50,000
Re-assurance premium	2,14,500	Outstanding Premium	4,40,600

Policy stamps on hand	6,700	Buildings	4,50,000
Bonus in reduction of premium	10,200	Mortgages in India	10,12,700

Prepare the final accounts of the Company, taking the following matters into consideration:

- Claims covered under re-insurance ₹47,500
- The Managing Director is to be paid commission at the rate of 5% on the net increase of Life Assurance Fund during the year before providing for such commission.
- Pending the Actuarial Valuation a reserve of 20% premium income is to be made
- Further bonus in reduction of premium ₹5,000

REVENUE ACCOUNT FOR FIRE INSURANCE

28. Prepare a revenue a/c in respect of fire business from the following details for the year 2015.

Reserve for unexpired risk on 1-4-14 @ 50%	₹90,000	Commission on re-insurance accepted	₹800
Estimated liability for claims intimated on 1-4-2014	₹15,500	Estimated liability for claims intimated on 31-3-2015	₹21,000
Claims paid	₹1,82,500	Legal expenses	₹3,000
Medical expenses	₹2,000	Re-insurance recoveries	₹16,000
Bad debts	₹400	Premium received	₹2,43,000
Premium on re-insurance accepted	₹16,000	Premium on re-insurance ceded	₹21,500
Profit on sale of investments	₹1,500	Expenses of management	₹45,000
Commission on re-insurance ceded	₹1,075	Commission on direct business	₹24,300
Interest, dividend and rent	₹12,000	Additional reserve	₹18,000

Create reserve on 31st March 2015, to the same extent as on 1st April 2014.

29. From the following balances as at 31st March 2015 in the books of General Insurance Co. Ltd, prepare a revenue a/c in respect of fire insurance business carried on by them.

Re-insurance premium paid	₹1,20,000	Claims paid	₹4,80,000
Claims outstanding on 1-4-14	₹40,000	Premium received	₹12,00,000
Loss on sale of motor car	₹3,500	Commission	₹2,00,000
Commission on re-insurance accepted	₹4,000	Commission on re-insurance ceded	₹8,000
Provision for unexpired risk on 1-4-14	₹4,00,000	Medical expenses regarding claims	₹5,000

Additional provision for unexpired risk on 1-4-14	₹20,000	Rent of staff quarters deducted from salaries	₹2,400
Depreciation on furniture	₹4,600	Interest and dividends	₹8,000
Re-insurance recoveries of claim	₹8,000	Bonus utilized in reduction of premium	₹12,000
Bad debts	₹2,500	Administrative expenses	₹3,02,000
Income tax deducted thereon	₹1,500	Refund of double taxation	₹4,500
Legal expenses regarding claim	₹4,000	Profit on sale of investments	₹3,500
Claims intimated and accepted but not paid on 31-3-15			₹70,000

You are required to provide additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance of additional reserve.

30. From the following particulars of Asian Insurance Company Ltd., prepare Revenue a/c and P & L a/c for the year ended 31st Dec. 2015.

Particulars	**Fire ₹**	**Marine ₹**
Claims outstanding on 31.12.15	4,620	9,808
Due to Re-insurance	2,471	4,143
Premiums received	3,56,418	4,59,960
Claims paid and outstanding	2,02,412	2,36,270
Expenses of management	96,512	96,512
Commission on Direct business	34,921	62,857
Commission on Reinsurance ceded	1,841	2,376
Commission on Reinsurance accepted	2,356	1,754
Sundry income	780	644
Funds at the beginning	2,26,300	2,16,725

Interest and Dividend received ₹1,49,512. Income tax on the above ₹32,316. Other receipts ₹3,745. Management expenses ₹16,735. Provision for unexpired risk is to be maintained at 50% and 100% of the net premium received in case fire and marine business respectively.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. From the following particulars prepare the fire Revenue Account for 2009.

Particulars	Amt
Claims (Net)	10,20,000
Premiums received	24,00,000
Re-Insurance premium	2,40,000
Commission	5,00,000
Expenses for management	4,00,000
Provision for unexpired risk on 1.1.09	14,00,000

[Alagappa University, B.Com(C.A), April, 2016]

2. The Revenue account of a life insurance company showed the life fund at Rs.73,17,000 on 31.2.2006 before taking into account the following items.

Claims but not admitted	98,250
Bonus uitilized in reduction of premium	13,500
Interest accrued on Investments	29,750
Outstanding premiums	27,000
Claims covered under reinsurance	40,500
Provision for taxation	31,500

Show the adjusted life fund.

[Madurai,M.Com,Nov,2014]

3. The following figures relate to life insurance corporation for the year ended 31.3.2010. prepare the revenue account.

Claims	78,000
Management expenses	28,000
Directors fees	8,000
Audit fees	6,000
Medical expenses	10,000
Agent's commission	10,000
Depreciation	8,000
Bonus in reduction of premium	3,000
Consideration for annuities granted	33,000
Surrenders	18,000
Premium received	3,02,000

Life Fund(1.4.2005)	23,00,000
Interest Received	80,000
Rent Received	20,000
Claims Cancelled	1,000
Annuities	3,000

Note:

1. Premium Outstanding Rs.18,000
2. Claims Outstanding Rs.6,000

[Madurai,M.Com,Nov,2014]

4. A life insurance company disclosed a fund of Rs. 25,00,000 on Dec 31, 2000 before taking the following into consideration.

(i) A claim of Rs. 15,000 was intimated and admitted but not during the year.

(ii) A claim of Rs. 8,000 outstanding in the books for 8 years is written back.

(iii) Premium of Rs. 1,000 is payable under reinsurance.

(iv) Reinsurance recoveries Rs. 30,000

(v) Bonus utilized in reduction of premium Rs. 8,000

(vi) Agents commission to be paid Rs. 6,000

Pass the necessary journal entries for the above commission and recomputed the fund.

[Alagappa University, B.Com(C.A), April, 2015]

5. The revenue account of a life assurance company shows the Life Assurance Fund on 31.3.2006 at Rs. 62,21,310, before taking ibto account the following:

		Rs.
a.	Claims covered under reinsurance	12,000
b.	Bonus utilised in reduction of life insurance premium	4,500
c.	Interest accrued on securities	8,260
d.	Outstanding premiums	5,420
e.	Claims intimated but not admitted	26,500

What is the Life Assurance Fund after taking into account the above omissions?

[Madras, B. Com, B.Cont(CS)Ap. 2009; B. Cont (CS) Nov. 2008]

[Ans: Correct Life Assurance Fund — Rs. 62,20,490]

6. The Revenue Account of a Life Insurance Company showed a balance of Rs. 4,75,000 at the end of 2005-06 before considering the following items:

	Rs.
(a) Bonus in reduction of premiums	40,000
(b) Outstanding premiums	1,00,000
(c) Interest accrued on investments	20,000
(d) Claims intimated but not admitted	35,000
(e) Claims recovered under reinsurance	3,000

Pass necessary adjustment entries.

[Madras, B.Com. Nov. 2006]

[Ans: Adjusted life assurance fund — Rs. 5,63,000]

7. The Revenue account of a Life Insurance Company shows the Life Insurance Fund on 31.3.2006 at Rs. 48.78,000 before taking into account the following items.

	Rs.
(a) Claims intimated but not admitted	65,500
(b) Bonus utilised in reduction of premiums	6,500
(c) Interest accrued on securities	19,500
(d) Outstanding premiums	18,000
(e) Claims recovered under reinsurance	27,000

Pass the entries giving effect to the above adjustments and show the life fund at the end of the year 2005-06 after making the above adjustments.

[Madras, B.Com(ICE) Ap 2007]

[Ans: Life Assurance Fund at the end — Rs. 48,77,000]

8. From the following, you are required to calculate the amount on account of claim to be shown in the revenue A/c for the year ending 31st March 2006.

Intimated in	*Admitted in*	*Paid in*	*Rs.*
2004-05	2004-05	2005-06	15,000
2005-06	2005-06	2006-07	10,000
2003-04	2004-05	2004-05	5,000
2003-04	2004-05	2005-06	12,000
2005-06	2006-07	2006-07	8,000
2005-06	2005-06	2005-06	1,02,000

[Madras, M.Com (PBC) Oct. 2004; B.Com]

[Ans: Net claims to be shown in revenue account Rs. 95,000 (Rs. 1,29,000 + Rs. 18,000 — Rs. 27,000 — Rs. 25,000)]

9. The following figures relate to Life Insurance Corporation for the year ended 31.3.2006. Prepare the Revenue A/c.

	(Rs. '000)		*(Rs. '000)*
Claims	39	Consideration for	
Management expenses	14	annuities granted	16.5
Director's fees	4	Surrenders	9
Audit fees	3	Premia received	151
Medical expenses	0.5	Life fund (1.4.95)	1150
Agents' Commission	5	Interest received	40
Depreciation	4	Rent received	10
Bonus in reduction of premium	1.5	Claims cancelled	0.5
		Annuities	1.5

Note: (a) Premium outstanding Rs. 9 Thousand

(b) Claims outstanding Rs. 3 Thousand.

[Madras, B.Com (AF) Ap. 2008; B.Com., B.Com (CS) Nov. 2007; B.Com., April 2002; Madras, B.Com., Apri11998; Adapted]

[Ans: Surplus : Rs. 1,42,500]

10. Prepare in the proper statutory form the Revenue account of the Super Insurance Company Ltd. for the year ended 31st March 2006 from the following figures:

	Rs. ('000)		*Rs. (VON*
Claims by death	76,140	Expenses of Management	31,920
Claims by maturity	30,110	Commission	9,574
Premiums:		Interest, dividends	
First premiums	2,50,000	& rents	97,840
Renewal premiums	3,55,690	Income tax on interests,	
Single premiums	1,00,000	dividends etc.	35,710
Transfer fees	129	Surrenders	13,140
Consideration for annuities		Bonus in reduction	
granted less re assurance	82,127	of premium	980
Annuities paid	53,461	Dividend paid to	
Bonus paid in cash	2,416	shareholders	5,500
		Amount of life insurance fund at the beginning of the year	15,21,000

[Madras, 1st M.Com(CA1A) Nov. 2007; B.ComAp 2004]

[Ans : Surplus Rs. ('000) 6,68,045; (Before dividend)']

[Hints: 1. Bonus in reduction of premium should be shown only as an expenditure in Revenue A/c

2. Income tax on interest, dividend etc will be shown in schedule .12 of Balance Sheet, since it is tax deducted at source.]

11. From the following figures, prepare Revenue account, in statutory form, of the Star Assurance Co. Ltd. for the year ended 31.3.2006.

	Rs. ('000)
Claims paid by death	1,42,000
Claims paid by maturity	70,200
Premiums	14,12,000
Consideration for annuities granted	1,64,000
Annuities paid	1,06.900
Bonus paid in cash	4,800
Expenses of management	63,800
Commission	19,140
Interest, dividends and rents	1,95,700
Surrenders	26,300
Bonus in reduction of premium	1,800
Dividend paid to shareholders	9,000
Life Assurance Fund (1.4.05)	30,45,000
Claims outstanding (1.4.05)	22,000
Claims outstanding (31.3.06)	16,000

[*Madras, B.Com.(PZ4A)Ap 2007]*

[Ans : Surplus before payment of dividend : Rs. ('000) 13,42,760]

12. From the following figures relating to India Life Assurance Company for the year ended 31.3.06, prepare a revenue account of the company:

	Rs. (Thousand)
Claims less reinsurance:	
By Death	2,00,000
By Maturity	1,40,000
Annuities	12,600
Printing & Stationery	7,700
Surrenders	4,000
Commission	25,050
Expenses of management	3,00,000
Life fund on 1-4-05	39,00,000

Premium received	15,00,000
Claims outstanding on 1.405	
By Death	80,000
By Maturity	60,000
Sundry incomes	6,000
Consideration for annuities granted	1,01.200
Interest, dividends and rents	2,10,000
Registration and other fees	200
Income tax	45,000
Income tax on interest & dividends	50,000

Additional information:

(i) Claims outstanding on 31.3.06 by death Rs. 50.000 Thousands; by maturity Rs. 40,000 Thousands.

(ii) Management expenses outstanding Rs. 6,000 Thousands.

(iii) Provide Rs. 4,500 Thousands for depreciation.

(iv) Premium outstanding on 31.3.06 is Rs. 2,00,000 Thousands.

(Madras, B.Com,April,2004)

[Ans: Surplus after Tax : Rs. ('000) 13,22,550]

13. 'The following balances form part of the books of Bharat Insurance Company as on 31.3.2006

	Rs. (‘000)		Rs. ('000)
Life fund on 1.4.05	15,70,56 2	Bonus paid in reduction, of premium	3,500
Claims by death	1.16,980	Preliminary expenses	600
Claims by maturity	96,420	Claims admitted but not paid at the end of the year	80,034
Premiums	2,70,572	Annuities due but not paid	22,380
Management expenses	29,890	Capital paid up	6,00,000
Commission	36,541	Govt. securities	16,90,890
Consideration for annuities granted	10,620	Sundry assets	5,68,110
Surrenders	21,768	Interests, dividends and rents	49,401
Surrenders	29,420		
Annuities	9,450		
Bonus paid in cash			

Claims covered by re insurance

Further claims intimated

Further bonus utilised in reduction of premium Interest accrued

Premiums outstanding

Prepare a revenue account and the Balance Sheet.

[Madras, B.Com., B.Com (CS) Ap. 2009; 1st M.Com., Ap 2005]

[Ans: Surplus : Rs. ('000) 11,424; B/s Total : Rs. ('000) 21,81,386; Net Current Assets : Rs. ('000) 4,90,496; Life Assurance Fund : Rs. ('000) 15,81,986]

Hint : Sundry assets are taken as current assets.

14. The :Wowing Trial Balance was extracted from the books of the Bharat Life Assurance Company Limited as on 31-3-2006.

Debit balance	Rs. ('000)	Credit balance	Rs. ('000)
Claims by death	2,70,000	Share capital : (2,00,00,000) shares of Rs. 10 each)	2,00,000
Claims by maturity	2.30,000	Life Assurance Fund (1.4.05)	32,38,200
Bonus in reduction of premium	45,500	Claims outstanding (1.4.05)	25,000
Commission	12,500	Premiums less reinsurance	5,50,100
Management expenses	50,300	Outstanding commission	2,000
Building	50,000	Policy renewal fees	1.500
Investments	27,65,000	Interest & Dividends	2,90,000
Mortgages in India	5,50,000		
Loans on Company's policies	2,15,000		
Outstanding premiums	20,000		
Surrenders	8,300		
Dividend paid	20,000		
Cash at Bank	34,000		
Cash in hand	23,200		
Agent's balances	13,000		
	43,06,800		43,06,800

You are required to prepare the Company's revenue A/c for the year ended 31.3.2006 and its Balance Sheet as on that date after taking the following matters into consideration :

		Rs. ('000)
(i)	Claims outstanding at the end of the year	20,000
(ii)	Interest accrued but not received	19,500
(iii)	Further bonus utilized in reduction of premium	8,500

(iv) Claims covered under reassurance 12,000

[Madura, B.Com., Ap 2003]

[Ans: Surplus : Rs. ('000) 2,61,500 (Before dividend); Life Assurance Fund : Rs. ('000) 34,79,700; Net Current Assets : Rs. ('000) 99,700; B/s total : Rs. ('000) 36,79,700]

15. From the figures stated below prepare a Revenue A/c and a Valuation Balance Sheet as at 31.3.2006 showing surplus for policy holders:

	(Rs. ',000)
Life Assurance fund (opening)	4.000
Premiums	2.500
Interest, dividends and rents	1.500
Consideration for annuities granted	100
Claims paid	300
Surplus on revaluation of reversions purchased	8
Bonus in reduction of premium	5
Surrenders	100
Commission	50
Net liability on policies in force on 31.3.06	5,653

[Madras, B.com., (ICE) May 2002]

[Ans: Surplus in revenue A/c : Rs. 36,53,000; Life Assurance fund at the end — Rs. 76,53,000; Surplus as per Valuation Balance Sheet — Rs. 20,00,000]

[Ans: Surplus in Revenue A/c : Rs. 10,95,900; Life Assurance Fund on 31.3.06 — Rs. 35,05,900; Valuation surplus — Rs. 7,15,000]

16. The Young India Life Assurance Co. Ltd. had a paid up capital of Rs. 2,50,000 Thousands divided into 2.50.00,000 shares of Rs. 10 each. Its net liability on all contracts in force as on 31.3.06 was Rs. 22,50,000 Thousands. From the following figures extracted from its books for the year ended 31.3.06. prepare revenue account and a valuation balance sheet. The company has paid an interim bonus of Rs. 1.03,806 Thousands and 25% of the surplus is to be allocated to shareholders and 70% of the surplus to the policy holders, the balance being carried forward.

	Rs. ('000)		Rs. ('000)
Life fund 1.4.2005	24,50,000	Income tax	1,18,500
Premium	13,80,000	Management expenses	1,75,000
Interest, dividends & rents	7,50,000	Bonus in reduction of	1,976

		premium	
Fines &fees	720	Commission	54,000
Bonus in cash	1,58,400	Surrenders	85,200
Claims	8,90,000	Reinsurance irrecoverable	1,250
Consideration for annuities granted	45,000	Surplus on revaluation of reversions	4,800

[Madras, B.Com(ICE) Oct 2006; Bharathidasan, B.Com., Nov. 2005]

[Ans: Surplus in Revenue A/c after Income Tax : Rs. ('000) 6,96,194; Life Assurance Fund at the end — Rs. ('000) 31,46,194; Surplus as per Valuation Balance Sheet —Rs. ('000) 8,96,194]

17. The Life Insurance Fund of Hindustan Life Insurance Co., Ltd. was Rs. 34,00,00'1 on 31-3-2006. Its actuarial valuation on 31st March 2006 disclosed a net liability Rs. 28,80,000. An interim bonus of Rs. 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward Rs. 1,10,000 and to divide the balance between the policyholders and shareholders. Show (a) The valuation Balance Sheet, (b) the net profit for the two year period 2 id (c) the distribution of the profits.

[Madras, B.Com, Nov,2009]

[Ans : (a) valuation surplus : Rs. 5,20,000; (b) Net profit : Rs. 5,60,000; (c) Amount due to policyholders : Rs. 3,87,500; To shareholders Rs. 22,500]

18. A Life Insurance Company got its valuation made once in every three years. The Life Assurance Fund on 31.3.06 amounted to Rs. 41,92,000 before providing for Rs. 32.000 for the shareholders' dividend for the year 2004-05. Its actuarial valuation on 31.3.06 disclosed a net liability of Rs-40,40,000 under the assurance and annuity contracts. An Interim bonus of Rs. 40,000 was paid to the policy holders during the period ending 31.3.06.Prepare a statement showing the amount now available as bonus to policy holders.

[Madras, M.Com(ICE) Oct. 2006; 1st M.Com., April 2006]

[Ans: Amount available as bonus to policy holders — Rs. 1,12,000; Surplus as per valuation balance sheet — Rs. 1,52,000]

19. Bharath Life Assurance Company gets its valuation made once in every two years. Its life assurance fund on 31.3.06 stood at Rs. 45,65,000 before providing for Rs. 45,000 being the shareholders dividend for 2005-06. Its actuarial valuation on 31.3.2006 disclosed a net liability of Rs. 32,20,000. An Interim bonus of Rs. 80,000 was paid to the policyholders during the previous two years. Prepare a statement showing the amount now available as bonus to policy holders.

[Madras, 1st M.Com (ZHC) Nov. 2004; B.Com., (ICE) May 2003]

[Ans: Amount available as bonus to policyholders — Rs. 12,31,000; Valuation surplus — Rs. 13,45,000]

20. A Life Assurance Company makes its valuation made once in every three years. Its life assurance fund on 31.3.2006 amounted to Rs. 31,92,000 before providing Rs. 40.000 for

shareholders' dividend for the year 2005-06. Its actuarial valuation due on 31.3.2006 disclosell a net liability of Rs. 30,40,000 under assurance annuity contracts. An interim bonus of Rs. 40,000 was paid to the policy holders during the year'ending 31.3.06. Prepare a statement showing the amount now available as bonus to policy holders assuming that the surplus disclosed by the valuation is to be allocated to the shareholders and the policy holders in the ratio of one and nine respectively.

[Thiruvalluvar, 1st M.Com, Ap 2006]

[Ans: Surplus as per Valuation Balance Sheet — Rs. 1,52,000; Amount due to policy holders — Rs. 96,800]

21. From the following particulars, prepare the fire revenue account for 2005-06:

	(Rs. in '000)
Claims paid	235
Legal expenses regarding claims	5
Premiums received	600
Reinsurance premium	60
Commission	100
Expenses of management	150
Provision against unexpired risk on 1.4.2005	260
Claims unpaid on 1.4.2005	20
Claims unpaid on 31.3.2006	35

[Madras, B.Com(AF) Nov. 2009; Ap. 2008; B.Com., B.Com (CS) Ap. 2009; Nov. 2008; Ap 2008; B. Cont., B.Com.(CS) APril 2006; B.Com., (ICE) Oct. 2006; Thiruvalluvar, B.Com. Ap 2006; Periyar, B.Com (CA) Oct. 2005; Madurai, B.Com., Nov. 2003]

[Ans : Operating Profit : Rs. 25,000]

22. From the following particulars prepare revenue account in respect of Fire Business for the year ending on 31-3-2006.

	(Rs. '000)
Reserve for unexpired risk-opening	2,50,000
Additional reserve -opening	50,000
Survey expenses	10,000
Commission paid	90,000
Claims paid and outstanding	1,80,000
Bad debts	5,000

Commission earned on reinsurance ceded	30.000
Premium less Reinsurances	6,00,000
Management expenses	1,45.000

In addition to usual reserve, additional reserve is to be increased by 5% of net premium.

[Madras, B.Com., April 2000

[Ans : Operating profit : Rs. ('000) 1,20,000]

23. From the following particulars prepare the fire revenue account for 2004-05. (Rs. '000)

Claims paid	270
Legal expenses regarding claims	6
Premiums received	740
Reinsurance premiums	50
Reinsurance claims	2
Commission	110
Reinsurance commission ceded	3
Expenses of management	210
Provision for unexpired risk on 1.4.04	330
Additional reserve on 1.4.04	140
Claims unpaid on 1.4.04	25
Claims unpaid on 31.3.05	35

Increase the additional reserve on 31.3.05 by 10% on the net premium.

[Madurai', B.Com., Ap 2003]

[Ans : Operating Profit : Rs. 5,000]

24. On 31-3-04, the books of National Insurance Co. disclosed the following particulars in respect of fire insurance:

	(Rs. '000)
Reserve for unexpired risk on 31.3.03	600
Additional reserve for unexpired risk on 31.3.03	100
Premiums received	450
Interest, rent and dividend (gross)	80
Income tax deducted therefrom	10

Sundry income	2
Claims paid during 2003-04	400
Claims outstanding on 31.3.03	25
Claims outstanding on 31.3.04	30
Claims recoverable under reinsurance	10
Commission to agents	50
Outstandingtommission to agents on 3 I .3.04	6
Expenses of management (including Rs. 5,000 legal expenses paid in connection with claims)	80
Sundry expenses	5
Commission on re insurance ceded	5

Keep a reserve for unexpired risk equal to 50% of the premiums and increase the additional reserve by Rs ('000) 20.

[Madras, B.Com., B.Com.(CS) Nov. 2006; M.Com.(CA1A) Nov. 2005]

[Ans: Operating Profit : Rs. 3,56,000]

(Hints :1. Income tax deducted from interest, rent and dividend is to be shown in Balance Sheet.

2. Since particulars are given and not Trial Balance, closing claims and commission are adjusted with the respective items]

25. From the following balances as at 31.3.06 in the books of General Insurance Co. Ltd. prepare a Revenue account in respect of fire insurance carried on by them.

	(Rs. '000)
Claims paid	480
Claims outstanding on 1.4.05	40
Claims intimated and accepted but not paid on 31.3.06	70
Premium received	1,200
keinsurance premium paid	120
Commission	200
Commission on reinsurance ceded	.8
Commission on reinsurance accepted	4
Expenses of management	302
Provision for unexpired risk on 1.4.05	400
Additional provision for unexpired risk on 1.4.05	20
Bonus utilised in reduction of premium	12

Reinsurance recovered of claims	8
Medical expenses regarding claims	5
Loss on sale of Motor car	3.5
Bad debts	2.5
Refund of double taxation	4.5
Interest and Dividend	8
Income tax deducted thereon	1.5
Legal expenses regarding claims	4
Profit on sale of investments	3.5
Rent of staff quarters deducted from salaries	2.4
Depreciation of furniture	4.6

Provide for additional reserve for unexpired risk at **1%** of the net premium in addition to opening balance of additional reserve.

[Madras, B.Com., (ICE) May 2001]

[Ans: Operating Loss : Rs. 84,000]

Hint : 1. Assume Interest and dividend as "gross". Income tax deducted on interestand dividend is to be shown in Balance sheet.

2. All expenses and incomes are shown in revenue A/c itself.

3. Closing outstanding claims are added to claims since trial Balance is not given.

4. Rent of Staff Quarters in our income.

Hint:: Creating Reserves on 31.3.2005 to the same extent as on 1.4.2004 should be taken in % terms and not as amounts. So. Additional Reserve is 10% and reserve for unexpired Risk is 50%.

26. From the following balances of Asian General Insurance Company Limited as on 31 March 2006, prepare,

(a) Fire revenue A/c (b) Marine revenue A/c (c) Profit & Loss A/c

Bonus in reduction of premium (fire)	2,000
Additional reserve on 1.4.2005 (fire)	50,000
Commission on reinsurance accepted (fire)	10,000
Commission on reinsurance ceded: (Fire)	30,000
(Marine)	60,000
Management expenses Fire	1,45,000
Marine	4,00,000
Premium less reinsurance: Fire	6,00,000
Marine	10,80,000

Profit on sale of land	60,000
Miscellaneous receipts	5,300
Interest, dividend received	14,000
Depreciation	35,000
Commission paid: Fire	90,000
Marine	1,08,000
Claims paid and outstanding (Marine)	3,80,000
Claims outstanding (fire)	10,000
Claims paid (fire)	1,80,000
Marine fund (1.4.2005)	8,20,000
Fire fund (1.4.2005)	2,50,000
Bad debts recovered	1,200
Share transfer fees	800
Director's fees	5,000
Auditor's fees	1,200
Bad debts: Fire	5,000
Marine	12,000

[Madras, B.Com., B.Com.(CS) Ap. 2008]

[Ans: Operating Profit: Fire — Rs. ('000) 1,88,000; Operating Loss: Marine — Rs. ('000) 20,000; Net profit carried to B/S — Rs. ('000) 2,08,100]

27. From the following balance of the Asian General Insurance Co. Ltd. as on 31st March 2006, prepare (a) Fire revenue A/c and (b) Marine revenue A/c and P&L A/c.

Bad debts (fire) Bad debts (marine)	Rs. ('000)		Rs. ('000)
Auditor's fees	5,000	Interest, dividends etc. received	14,000
Directors' fees	12,000	Difference in exchange (Cr)	300
Share transfer fees	1,200	Miscellaneous receipts	5,000
Bad debts recovered	5,000	Profit on sale of land	60,000
Fire Fund (1.4.05)	800	Fire premium less reinsurance	
Marine fund (1.4.05)	1,200	Marine premium less reinsurance	10,80,000
Claims paid & outstanding (fire)	2.50,000	Management exp. (fire)	1,45,000
Claims paid & Outstanding (marine)	8,20,000	Management exp. (marine)	4,00,000
Additional reserve on 1.4.05 (fire)	1,80,000		
Survey expenses (fire) Depreciation			
Commission earned on	3,80,000		
reinsurance ceded (fire) 10,000	50,000		

Commission earned on reinsurance ceded (marine) 20,000	10,000 35,000		

In addition to usual reserve, additional reserve in case of fire insurance is to be increased by 5% of net premiums. ReinSurance premiums received totalled Rs. 1,50,000 Thousand for fire and Rs. 3,20,000 Thousand for marine. Management expenses do not include commission. The net premium income of fire in 2004-05 was Rs. 5,00,000 Thousand.

[Madras, B. Com., B.Com(CS) Ap. 2008; Ap. 2007 (Modified)]

[Ans: operating profit (Fire) : Rs. ('000)1,50,000; Operating Loss (Marine): Rs. ('000) 26,000; Profit Transferred to B/s :Rs. ('000) 1,64,100]

[**Hints: (i) Commission on direct business =5% of(Premiums received + Commission 100 on reinsurance ceded X —5 –Reinsurance premium) (fire)– Rs ('000)32,500; Marine – Rs ('000) 58,000;**

(ii) Commission on reinsurance accepted (5%) on reinsurance premiums fire – Rs ('000) 7,500; Marine – Rs ('000) 16,000]

28. The following figures have been extracted from the books of Madurai Insurance Company Ltd. in respect of their marine business for 2005-06.

	Rs. (in lakhs)
Direct premium income received	50.00
Reserve for unexpired risks as on 1.4.05	60.00
Claims outstanding as on 1.4.05 (net)	20.00
Bad debts	10.00
Income from Investments and dividends (gross)	10.00
Rent received from properties	5.00
Investments in Govt. securities as on 1.4.05	100.00
Investment in share as on 1.4.05	20.00
Commission paid on direct business	5.00
Expenses of management	5.00
Income tax deducted at source	3.00
Profit & Loss A/c (cr) balance on 1.4.05	10.00
Other expenses	1.25
Reinsurante premium receipts	5.00
Outstanding claims as on 31.3.06 (net)	30.00
Direct claims paid (gross)	25.00
Reinsurance claims paid	4.00

Additional Information:

Prepare aRevenue A/c, and Profit & Loss A/c for the year after taking into account the following information:

(a) All direct risks are reinsured for 20% of the risk.

(b) Claim a commission of 25% on re insurance ceded.

(c) Provide 25% commission on re insurance accepted.

(d) Market value of investments as on 31.3.06 is as under:

(i) Govt. securities – Rs. 105 lakhs

(ii) Shares– Rs. 18 lakhs.

Adjust separately for each of these two categories of investment.

(e) Provide 65% for income tax.

[Madras, 1st* M.Com*(CAIA) Nov. 2007]

29. From the following Trial Balance of a marine insurance company prepare final accounts for the year ended 31-3-2006.

Particulars	Debit (Rs.'000)	Particulars	Credit (Rs. '000)
Management expenses Claims paid Audit fees Directors fees Debtors for premium due Furniture Taxes Contribution to staff provident fund Commission Investment Land & Building Cash in hand Cash at bank Provident fund investment	90,000 1,50.000 4,000 6,000 3,000 12,000 7,600 2,000 24,000 20,00,000 2,40,000 40,000 2,40,000 40,000	Marine fund as on 1.4.2005 Marine premium Interest & dividend Investment fluctuation fund Staff provident fund Transfer fees Sundry creditors Reserve fund Share capital 5,00,000 shares of Rs. 100 each Profit & Loss A/c (1.4.2005)	14,50,000 6,30,000 1,30,000 28,000 40,000 600 9,000 51,000 5,00,000 20,000
	28,58,600		28,58,600

(a) Depreciate furniture 10%. Land and Buildings 3%.

(b) Outstanding claims Rs. 11,000 Thousand.

(c) Provide Rs. 7,000 Thousand to investment reserve fund in addition to existing balance.

(d) Adjustment has to be made for Rs. 10,000 Thousand reinsurance premium paid and Rs. 5.000 Thousand for claims covered under re insurance.

[Madras, B.Com., (ICE) May 2002;

[Ans: Operating Profit : Rs('000) 12,82,600; Profit transferred to B/s : Rs('000) 12,95,600; Net current assets Rs('000) (—) 3,62,000; B/s Total : Rs('000) 18,81,600]

Hint : 1. All incomes and expenses are shown in revenue A/c itself except transfer to Investment reserve.

2. Investment fluctuation fund is shown under reserves, schedule 6.

3. Staff provident fund is shown as a current liability.

30. From the following particulars of Z Insurance Co. Ltd., prepare separate accounts of fire and Marine business and Profit & Loss A/c for the year ended 31-3-2006 and a Balance Sheet as on that date:

Provision for unexpired risk is to be made at 40% of the premium received.

	Rs. ('000)		**RS. ('000)**
Investment	4.06980	Share capital	4,00,000
Freehold premises	3.06.412	(40,00,000 shares of Rs.100 each) Claims admitted but not paid:	
Leasehold	12,604		
Agents balance	46,212		
Sundry debtors	17,918	Fire	4,620
Income tax on int. & dividend	4,513	Marine	9,808
Claims paid & outstanding		Creditors	44,962
Fair	1,02,412	Due to reinsurers:	
Marine	2,61,512	Fire	2,471
Expenses of Management	:	Marine	4,143
Fair	96,512	Premium received:	
Marine	1,42,218	Fire	3,56,418
Commission:		Marine	8,59,960
Fair	34,921	Interest & dividends	19,512
Marine	62,857	Other receipts	807
Interest occurred	919		
Office furniture	14.761		
Preliminary expenses	90,212		
Cash and Bank balance	1,01,738		
	17,02,701		**17,02,701**

[Madras, 1st M.Com., (KCA1A) Nov. 2009; B.Com (ICE) Ap 2007]

[Ans: Operating Loss (Fire): Rs('000) 19,994; Operating profit (Marine) : Rs('000) 49,389; Profit carried to B/s : Rs('000) 49,714; Net current assets : Rs('000) (—) 3,81,255; B/s Total ;Rs ('000) 3,59,502]

Hint : 1. Provision for unexpired risk at 40% of premium applies to both Fire and Marine, though it is against IRDA Regulations.

2 Income tax on interest & dividends appears in schedule 12 in Balance Sheet.

3. Preliminary expenses are to be reduced from paid up capital, as per 1RDA form for Balance Sheet.

31. From the following figures taken from the books of New Asia Insurance Co. Ltd. doing fire underwriting business, prepare the set of final accounts for the year 2005-06.

	(Rs. '000)		(Rs. '000)
Fire fund as on 1.4.05	9,30,000	Cash in hand & Bank bal.	1,82,462
General reserve Investments	4,50,000	Commission on direct business	2,99,777
	36,00,000		60,038
Premiums	27,01,533	Commission on reinsurance accepted	22,300
Claims paid	6,02,815	Outstanding premium Claims intimated but not paid (1.4.05)	60,000
Share capital divided into 9,000 shares of Rs. 100 each	9,00,000	Exp. of management	4,31,947
Additional reserve (1.4.05)	3,30,000	Audit fees	36,000
Profit & Loss A/c (Cr)	75,000	Rates & taxes	5,804
Re insurance premium	1,12,525	Rents (Dr)	67,500
Claims recovered from reinsurance	21,119	Income from investments	1,53,000
Commission on reinsurance ceded	48,016	Sundry creditors	22,500
Advance income tax paid	2,50,000	Agents balances (Dr)	20,000

The following further information may also be noted :

(a). Expenses of management include survey fees and legal expenses of Rs. 36,000 Thousand and Rs. 20,000 Thousand relating to claims.

(b). Claims intimated but not paid on 31.3.2006 Rs. 1,04,000 Thousand.

(c). Income tax to be provided at 55%

(d). Transfer of Rs. 2,00,000 Thousands to be made from current profits to general reserve.The additional reserve is to be continued. •10%provisica for unexpired risk is needed.

[Madras, II M.Com., (ICE) (Old) May 2002]

[Ans: Operating Profit : Rs('000) 11,57,659; Provision for tax : Rs('000) 6,36,713; Profit taken to B/s : Rs('000) 3,95,946; Net current assets : Rs('000) (—) 16,54,054; B/s Total : Rs('000) 19,45,946]

UNIT – 13

HOLDING COMPANY ACCOUNTS

Meaning and purpose of holding company - Capital profit- Revenue profit- Minority Interest- Capital Reserve or Good will- treatment of some important Adjustments – Preparation of consolidated balance sheet

13.1 HOLDING COMPANY

A company which acquires more than 50% of paid up capital of another company or controls majority of the directors of a company is called holding company

13.2 SUBSIDIARY COMPANY

A company which gives more than 50% of paid up capital of another company or majority of the directors of a company are controlled by another company is called subsidiary company.

13.3 PURPOSE OF HOLDING COMPANY

- To eliminate competition
- To enjoy the advantages of large scale production

13.4 IMPORTANT CALCULATIONS TO BE MADE BEFORE PREPARING CONSOLIDATED BALANCE SHEET

Holding company share

No. of shares purchased
Total no. of shares in subsidiary co.

Subsidiary company share

Total shares of subsidiary – No. of shares purchase by Holding Com.
Total no. of shares in subsidiary company

1. **Capital profit:**

That part of profit and general reserve earned before the date of purchase of shares by holding company from subsidiary company are called capital profit.

- All profits and reserves of a company **before** the date of purchase
- General reserve
- Profit and loss account
- Current year profits up to the date of purchase
- Increase in fixed asset value minus decrease in fixed asset value if any

2. **Revenue profit:**

That part of profit and general reserve earned after the date of purchase of shares by holding company from subsidiary company are called revenue profit.

- All profits and reserves of a company **after** the date of purchase
- General reserve
- Profit and loss account
- Current year profits after the date of purchase

Both capital and revenue profits should be divided as per holding company share and subsidiary company share.

3. **Minority Interest (Liability side in balance sheet)**

A holding company acquires majority shares. The remaining shares may be in the hands of the general public. Such remaining share in the subsidiary company is called "minority interest". That part of the paid up capital, capital profit and revenue profit of subsidiary company is known as minority interest. It is always shown in liability side of consolidated balance sheet.

Particulars	**Amount**
Remaining share capital of subsidiary company	xxx
(+) Capital profit of subsidiary company	xxx
(+) Revenue profit of subsidiary company	xxx
(+) Arrear of preference divided if any	xxx
Minority interest	xxx

4. **Calculation of Capital Reserve or Good will:**

Difference between actual values paid for shares purchased from subsidiary company and total of face value of shares held by holding company. The actual amount paid for shares is more than face value and share of capital profit, it is known as goodwill. The actual amount

paid for shares is less than face value and share of capital profit, it is known as Cost of control (capital reserve).

Particulars		Amount
Actual amount paid for shares purchased		xxx
Less: Face value of shares purchased	xxx	
Capital profit of holding company	xxx	xxx
Goodwill (if it is + figure) **(or) Capital reserve** (if it is - figure)		xxx

Calculation of current year profit

Profit and Loss a/c

Particulars	Amount	Particulars	Amount
To Transfer to reserve	xxx	By Opening balance	xxx
" Closing balance	xxx	" Net profit (b/f)	xxx
	xxx		xxx

5. Unrealized intercompany profits in stocks

The holding company may sell goods to the subsidiary company at selling price before acquiring shares. At the time of acquiring shares some of the goods may lie in the closing stock. Now we have to remove the profit on such goods. This is called unrealized intercompany profit. This should be eliminated and closing Stock should be recorded at cost price.

6. Inter - company balances / Owings

The holding company may sell goods on credit basis (Debtors) or received bill of exchange from subsidiary company (bills payable) before acquiring shares. After the Acquisition of shares, the amount due from or due to the company have to be adjusted. This is called intercompany owing. Lesser amount should be deducted on assets side and liability side of consolidated balance sheet.

7. Bonus shares issued by subsidiary company

After the holding company acquired the majority shares, subsidiary company may issue bonus shares to all the shareholders.

Bonus shares out of capital profit

The amount of bonus is reduced from capital profits. Holding company's share of the bonus is added to the face value of shares held by the holding company. Minority share of the bonus is added to the minority interest.

8. Dividends from subsidiary company

(i) When dividend is from pre - acquisition profits, it must be credited to the investment a/c.

(ii) When dividend is from post – acquisition profits, it is credited to the holding company's profits and loss a/c.

(iii) When dividend paid, is both out of pre – acquisition and post – acquisition profits the dividend received out of pre – acquisition profit will be credited to the investment a/c and that received out of post – acquisition profit to profit and loss a/c.

(iv) If it is not stated whether dividend has been declared out of pre – acquisition of post – acquisition profits, it is assumed that dividend is out of the profits for the year which dividend is declared.

(v) When the dividend has simply been proposed by the subsidiary, the holdings company's share of it is added to its profit and shown profit and loss account as balance. The share due minority share-holdersmay be either shown as proposed dividend in the balance sheet of added to the minority interest.

9. Debentures in subsidiary company

Subsidiary company may have debentures and it will be shown in the consolidated balance sheet like any other liability. If the holding company has purchased such debentures (apart or whole),they should be eliminated from the consolidated balance sheet, like any other mutual obligation.

10. Contingent liabilities

Some transaction may become liabilities in future are shown as contingent liabilities as footnotes to the consolidated balance sheet.

13.5 TREATMENT FOR IMPORTANT ADJUSTMENTS

1. Stock reserve on unsold stock	Balance sheet – Liability side - Less from P & L a/c Balance sheet – Asset side - Less from stock
2. Preliminary expenses written off	Less from total capital profit Balance sheet – Asset side – No preliminary exp.
3. Mutual obligations or inter adjustments	Less the particular amount from both the sides of balance sheet (Debtors and Creditors, Bills receivable and bills payable)
4. Cash in transit	Balance sheet – Asset side – Less from cash in hand Balance sheet – Asset side – Cash in transit
5. Over valuation of fixed assets	Less from total Capital profit Balance sheet – Asset side – Less from particular asset
6. Under valuation of fixed assets	Add to total Capital profit Balance sheet – Asset side – Add to particular asset

13.6 PURCHASE OF ENTIRE SHARES WITHOUT ADJUSTMENTS

Illustration -1 From the following balance sheets of holding company and subsidiary company prepare a consolidated balance sheet of holding company and its subsidiary company.

Liabilities	**Holding ₹**	**Subsidiary**	**Assets**	**Holding ₹**	**Subsidiary₹**
Share capital of ₹10 each	20,00,000	10,00,000	Investments of ₹10 each in Subsidiary	10,00,000	–
Liabilities	15,00,000	2,00,000	Assets	25,00,000	12,00,000
	35,00,000	12,00,000		35,00,000	12,00,000

Solution

Consolidated Balance sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	30,00,000	Investments	10,00,000
Liabilities	17,00,000	Assets	37,00,000
	47,00,000		47,00,000

Illustration -2 There exist two companies namely H Ltd and S Ltd. H Ltd is a holding company and S Ltd is subsidiary company. The shares held by S Ltd are 30,000 shares of ₹10 each. H Ltd made an investment on shares of S Ltd 24,000 shares of ₹10 each. Calculate the minority interest.

Solution

Minority interest = ₹6,000 x 10 = ₹60,000

Illustration -3 H Ltd. acquired 40,000 shares of S Ltd. on October 1, 2015 at ₹7,80,000. H Ltd. valued the machinery at ₹2,50,000 and current assets at ₹2,75,000. Calculate minority interest.

Balance sheet of S Ltd. as on March 31, 2016

Liabilities		**Amount ₹**	**Assets**	**Amount ₹**
Shares of ₹10 each		5,00,000	Land	5,00,000
General reserve as on 1-4-2015		2,00,000	Machinery	3,00,000
P & L a/c	1,50,000		Current assets	2,00,000

(+) Profit for 2015- 16 50,000	2,00,000		
Creditors	1,00,000		
	10,00,000		10,00,000

Solution

Capital profit

General reserve	₹2,00,000
P & L a/c	₹1,50,000
Profit (50,000 x 6/12)	₹25,000
	₹3,75,000
Less: Machinery decreases	₹50,000
	₹3,25,000
Add: Current asset increases	₹75,000
	₹4,00,000
H Ltd (4,00,000 x 4/5)	₹3,20,000
S Ltd (4,00,000 x 1/5)	₹80,000

Revenue profit

Profit (50,000 x 6/12)	₹25,000
H Ltd (25,000 x 4/5)	₹20,000
S Ltd (2,50,000 x 1/5)	₹5,000

Minority interest

Share capital	₹1,00,000
Capital profit	₹3,20,000
Revenue profit	₹20,000
	₹4,40,000

13.7 PURCHASE OF MAJORITY SHARES WITHOUT ADJUSTMENTS

Illustration -4 Following are the summarized balance sheets of two companies H Ltd and S Ltd. as at 31st March 2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital (₹10 each)	20,00,000	8,00,000	Sundry assets	24,54,000	13,70,000
Reserves	3,00,000	2,00,000	64,000 Shares in S Ltd.	8,96,000	–

Profit for (15-16)	4,00,000	1,00,000			
Creditors	6,50,000	2,70,000			
	33,50,000	13,70,000		33,50,000	13,70,000

H Ltd. purchased 64,000 shares of S Ltd. on 31st Dec.2015.

You are required to prepare the consolidated balance sheet.

Solution

Capital profit	**Revenue profit =** ₹25,000
(General reserve ₹2,00,000 + Profit ₹75,000)	
H Ltd = ₹2,75,000 x 64/80 = ₹2,20,000	H Ltd = ₹25,000 x 64/80 = ₹20,000
S Ltd = ₹2,75,000 x 16/80 = ₹55,000	S Ltd = ₹25,000 x 16/80 = ₹5,000

Goodwill

Actual amount paid		₹8,96,000
Less: Share capital face value	₹6,40,000	
Capital profit share	₹2,20,000	₹8,60,000
Goodwill		₹36,000

Minority interest

Share capital	₹1,60,000
Capital profit	₹55,000
Revenue profit	₹5,000
	₹2,20,000

Consolidated Balance sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	20,00,000	Sundry assets	38,24,000
Reserves	3,00,000	Goodwill	36,000
Profit	4,20,000		
Creditors	9,20,000		
Minority interest	2,20,000		
	38,60,000		38,60,000

Illustration -5 From the balance sheets given below prepare a consolidated balance sheet of M and C Ltd. The interest of the minority share holders is to be shown as a separate item. Shares were acquired on 1-1-2016.

Liabilities	M Ltd ₹	C Ltd ₹	Assets	M Ltd ₹	C Ltd ₹
Share capital of ₹10 each	1,50,000	30,000	2,000 shares in C Ltd	27,000	–
Reserves	20,000	–	Sundry assets	1,40,000	40,000
Creditors	25,000	9,500	Current assets	58,000	10,000
P & L a/c	30,000	4,500			
Profit for the year	–	6,000			
	2,25,000	50,000		2,25,000	50,000

Solution

Capital profit

Profit	₹4,500
M Ltd share (4500 x 2/3)	₹3,000
C Ltd share (4500 x 1/3)	₹1,500

Revenue profit

Profit	₹6,000
M Ltd share (6000 x 2/3)	₹4,000
C Ltd share (6000 x 1/3)	₹2,000

Goodwill

Actual amount paid		₹27,000
Less: Share capital face value	20,000	
Capital profit share	3,000	₹23,000
Goodwill		₹4,000

Minority interest

Share capital	₹10,000
Capital profit	₹1,500
Revenue profit	₹2,000
	₹13,500

Consolidated Balance Sheet

Liabilities		**Amount ₹**	**Assets**	**Amount ₹**
Share capital		1,50,000	Goodwill	4,000
Reserves		20,000	Current assets	68,000
Creditors		34,500	Sundry assets	1,80,000
Minority interest		13,500		
P & L a/c	30,000			
(+) Profit of C Ltd	4,000	34,000		
		2,52,000		2,52,000

Illustration -6 The balance sheet of X Ltd and Y Ltd on 31st Dec.2016 were as follows:

Liabilities	**X Ltd ₹**	**Y Ltd ₹**	**Assets**	**X Ltd ₹**	**Y Ltd ₹**
Share capital (₹10)	12,000	5,000	Fixed assets	10,000	6,000
Preference shares	4,000	1,000	Current assets	11,500	2,000
P & L a/c	2,500	1,000	Cash at bank	7,000	1,000
Creditors	10,000	2,000			
	28,500	9,000		28,500	9,000

On 1st Jan.2017 X Ltd acquired 90% of share capital of Y Ltd at ₹15 per share.

Prepare the consolidated balance sheets as on 1st Jan.2017.

Solution

Capital profit

P & L a/c	₹1,000
X Ltd share (₹1,000 x 90%)	₹900
Y Ltd share (₹1,000 x 10%)	₹100

Goodwill

Actual amount paid (450 shares x ₹15)		₹6,750
Less: Share capital face value	₹4,500	
Capital profit share	₹900	₹5,400
Goodwill		₹1,350

Minority interest

Share capital	₹500
Capital profit	₹100

Preference shares	₹1,000
	₹1,600

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	12,000	Goodwill	1,350
P & L a/c	2,500	Sundry assets	16,000
Creditors	12,000	Current assets (13,500 – 6,750)	6,750
Minority interest	1,600	Cash at bank	8,000
Preference shares	4,000		
	32,100		32,100

13.8 PURCHASE OF ENTIRE SHARES WITH ADJUSTMENTS

Illustration -7 Prepare consolidated balance sheet as on 31-3-2016.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital of (₹1)	12,000	5,000	Sundry assets	20,000	8,000
P & L a/c	2,000	1,000	5,000 shares in S Ltd.	6,500	–
Creditors	7,500	1,000			
Reserve	5,000	1,000			
	26,500	8,000		26,500	8,000

a) Shares were acquired by H Ltd on 30th September 2015

b) S Ltd transferred ₹500 from profits to reserve on 31-3-2016

Solution

Capital profit

Reserve = ₹500

Revenue profit - Profit – ₹1,000

Reserve - ₹500

H Ltd = ₹1,500 x 6/12 = ₹750

S Ltd = ₹1,500 x 6/12 =₹750

Goodwill

Actual amount paid		₹6,500
Less: Share capital face value	₹5,000	
Capital profit share (750 + 500)	₹1,250	₹6,250
		₹250

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	12,000	Sundry assets	28,000
Reserves	5,000	Goodwill	250
Profit	2,750		
Creditors	8,500		
	28,250		28,250

Illustration -8 The following are the balance sheets of the Sun Ltd and the Moon Ltd prepared on 31st Dec.2016. On 1st Jan.2017, the Sun Ltd acquired all the shares in the Moon Ltd when the latter had a credit balance of ₹35,000 on its P & L a/c.

Liabilities	Sun Ltd	Moon Ltd	Assets	Sun Ltd	Moon Ltd
Share capital of ₹10 each	3,00,000	2,00,000	Investments (Shares in Moon Ltd)	3,60,000	–
Creditors	30,000	20,000	Sundry assets	2,20,000	4,00,000
P & L a/c	1,00,000	80,000			
General reserve	1,50,000	1,00,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Prepare consolidated balance sheet.

Solution

Capital profit

General reserve	₹1,00,000
P & L a/c	₹35,000
	₹1,35,000

Revenue profit = ₹80,000 – ₹35,000 = ₹45,000

Goodwill

Amount paid			₹3,60,000
(-) Face value	₹2,00,000		
Capital profit	₹1,35,000		₹3,35,000
			₹25,000

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Share capital		3,00,000	Sundry assets	6,20,000
General reserve		1,50,000	Goodwill	25,000
Creditors		50,000		
P & L a/c	1,00,000			
(+) Profit of M Ltd	45,000	1,45,000		
		6,45,000		6,45,000

Illustration -9 From the following balance sheets of H Ltd and S Ltd, prepare consolidated balance sheet.

Liabilities	H Ltd ₹	S Ltd ₹	Assets	H Ltd ₹	S Ltd ₹
Share capital of ₹10 each	5,00,000	2,00,000	Fixed assets	3,00,000	1,00,000
Reserves	1,00,000	50,000	60% shares in S Ltd	1,60,000	–
Creditors	80,000	60,000	Current assets	2,20,000	2,10,000
	6,80,000	3,10,000		6,80,000	3,10,000

Draw consolidated balance sheet as at 31st March 2016 after taking into consideration the following information:

a) H Ltd acquired the shares on 31st March 2016

b) On 31st March 2016 S Ltd revalued its fixed assets at ₹90,000

Solution

Capital profit

Reserve	₹50,000
(-) Decrease in assets	₹10,000
	₹40,000

H Ltd share (₹40,000 x 60%)	₹24,000
S Ltd share (₹40,000 x 40%)	₹16,000

Goodwill

Actual amount paid		₹1,60,000
Less: Share capital face value	₹1,20,000	
Capital profit share	₹24,000	₹1,44,000
Goodwill		₹16,000

Minority interest

Share capital	₹80,000
Capital profit	₹16,000
Revenue profit	–
	₹96,000

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	5,00,000	Goodwill	16,000
Reserves	1,00,000	Current assets	4,30,000
Creditors	1,40,000	Fixed assets	3,90,000
Minority interest	96,000	(4,00,000 – 10,000)	
	8,36,000		8,36,000

Illustration -10 Consolidate the following balance sheets.

Liabilities	H ₹	S ₹	Assets	H ₹	S ₹
Capital ₹1 shares	1,400	1,000	900 shares in S at cost	1,200	–
Creditors	–	500	Sundry assets	200	1,800
P & L a/c	–	300			
	1,400	1,800		1,400	1,800

When H Ltd acquired the shares in S Ltd, the P & L a/c in the latter had a credit of ₹200?

Solution

Capital profit

P & L a/c	₹200
H's share (₹200 x 9/10)	₹180
S's share (₹200 x 1/10)	₹20

Revenue profit

P & L a/c	₹100
H's share (₹200 x 9/10)	₹90
S's share (₹200 x 1/10)	₹10

Goodwill

Amount paid	₹1,200
(-) Face value ₹900	
Capital profit ₹180	₹1,080
	₹120

Minority interest

Share capital	₹100
Capital profit	₹20
Revenue profit	₹10
	₹130

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	1,400	Sundry assets	2,000
Creditors	500	Goodwill	120
P & L a/c	90		
Minority interest	130		
	2,120		2,120

Illustration -11 Consolidate the following balance sheets.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital of ₹10 each	24,000	16,000	Sundry assets	14,000	19,500
P & L a/c	–	3,000	1,280 shares in S Ltd.	10,000	–
Creditors	–	500			
	24,000	19,500		24,000	19,500

On the date of acquisition of shares in S Ltd by H Ltd., S had debit balance of ₹1,000 in its P & L a/c.

Solution

Capital Loss – ₹1,000

H Ltd = ₹1,000 x 1,280/ 1,600 = ₹800

S Ltd = ₹1,000 x 320/ 1,600 = ₹200

Revenue Profit (3,000 + 1,000) = ₹4,000

H Ltd. = ₹4,000 x 1,280/ 1,600 = ₹3,200

S Ltd. = ₹4,000 x 320/ 1,600 = ₹800

Capital reserve

Actual amount		₹10,000
Less: Face value of shares held	12,800	
Share of capital loss	(-) 800	₹12,000
Capital reserve		₹2,000

Minority interest

Share capital	₹3,200
(-) Capital loss	₹200
(+) Revenue profit	₹800
	₹3,800

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	24,000	Sundry assets	33,500
Creditors	500		
Minority interest	3,800		
P & L a/c	3,200		
Capital reserve	2,000		
	33,500		33,500

Illustration -12 Balance sheet of H Ltd and its subsidiary S Ltd as on 31-3-2016 as follows:

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital (₹10 each)	10,000	6,000	Sundry assets	16,000	10,000

Reserves	4,000	–	400 Shares in S Ltd.	4,000	–
P & L a/c	4,000	1,800			
Creditors	2,000	2,200			
	20,000	10,000		20,000	10,000

The shares were purchased by H Ltd in S Ltd on 30-9-2015. On 1-4-2015 the P & L a/c showed a loss of ₹3,000 which was written off from out of the profits earned during year. Profits were earned uniformly over the year 2015-16.

Prepare consolidated balance sheet of H Ltd and S Ltd as on 31-3-2016.

Solution

Calculation of current year profit

P & L a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bal. b/d	3,000	By Net profit (b/f)	4,800
" Bal. c/d	1,800		
	4,800		4,800

Capital loss

Capital profit (₹4,800 x 6/12)	₹2,400
Capital loss	₹3,000
Capital loss	₹600
H Ltd. share (₹600 x 2/3)	₹400
S Ltd. share (₹600 x 1/3)	₹200

Revenue profit

Revenue profit = 4,800 x 6/12	₹2,400
H Ltd. share (2,400 x 2/3)	₹1,600
S Ltd. share (2,400 x 1/3)	800

Goodwill

Amount paid		₹4,000
Less: 2/3 of share capital	₹4,000	
(-) 2/3 of capital loss	₹400	₹3,600
Goodwill		₹400

Minority interest

Share capital	₹2,000
Add: P & L a/c	₹800
	₹2,800
Less: Capital loss	₹200
	₹2,600

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Share capital		10,000	Sundry assets	26,000
General reserve		4,000	Goodwill	400
Minority interest		2,600		
P & L a/c	4,000			
(+) Profit of S Ltd	1,600	5,600		
Creditors		4,200		
		26,400		26,400

Illustration -13 From the balance sheet and information given below, prepare a consolidated balance sheet of H and S.

Liabilities	H ₹	S ₹	Assets	H ₹	S ₹
Share capital (₹10)	10,00,000	2,00,000	15,000 shares in S at cost	1,50,000	–
Creditors	2,00,000	1,20,000	Sundry assets	8,00,000	1,20,000
P & L a/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserve	1,00,000	60,000	Debtors	1,30,000	1,70,000
Bills payable	–	30,000	Bills receivable	10,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S Ltd have been earned since the shares were acquired by H Ltd; but there was already a reserve of ₹60,000 at that date.

b) All the bills accepted by S Ltd are in favour of H Ltd and H Ltd had discounted ₹20,000 of them.

c) Sundry assets of S Ltd are undervalued by ₹20,000.

d) The stock of H Ltd. includes ₹50,000 purchased from S Ltd. at a profit to latter at 25% on cost.

Solution

Capital profit

Capital reserve	₹60,000
Increase in asset	₹20,000
	₹80,000
Holding share (₹80,000x 75/100)	₹60,000
Subsidiary share (₹80,000 x 25/100)	₹20,000

Revenue profit

Profit	₹1,20,000
Holding share (₹1,20,000 x 75/100)	₹90,000
Subsidiary share (₹1,20,000 x 25/100)	₹30,000

Calculation of capital reserve

Actual amount		₹1,50,000
Less: Face value of shares held	₹1,50,000	
Share of capital profit	₹ 60,000	₹2,10,000
Capital reserve		₹60,000

Minority interest

Share capital	₹50,000
Capital profit	₹20,000
Revenue profit	₹30,000
	₹1,00,000

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	10,00,000	Sundry assets	9,40,000
General reserve	1,00,000	Stock (8,50,000 – 10,000)	8,40,000
Minority interest	1,00,000	Debtors	3,00,000
B/P (30,000 – 10,000)	20,000	B/R (Inter Owings)	–
Creditors	3,20,000		

P & L a/c 4,00,000			
(+) Profit of S Ltd 90,000			
4,90,000			
(-) Stock reserve 10,000	4,80,000		
Capital reserve	60,000		
	20,80,000		20,80,000

Illustration -14 From the balance sheets as on 31-12-16 and information given below, prepare consolidated balance sheet.

Liabilities	**H Ltd**	**S Ltd**	**Assets**	**H Ltd**	**S Ltd**
Shares of ₹10 each	5,00,000	1,00,000	Fixed assets	4,00,000	60,000
P & L a/c	2,00,000	60,000	Stock	3,00,000	1,20,000
Reserves	60,000	30,000	Debtors	75,000	85,000
Bills payable	–	15,000	Bills receivable	20,000	–
Creditors	1,10,000	60,000	7,500 shares in S Ltd	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Additional information

a) The bills accepted by S Ltd are all in favour of H Ltd

b) Stock of H Ltd includes ₹25,000 bought from S Ltd at a profit to latter of 20% of sales.

c) All the profit of S Ltd has been earned since the shares were acquired by H Ltd. But there was already the reserve of ₹30,000 at that date.

Solution

Capital profit = ₹30,000

H Ltd. = ₹30,000 x ¾ = ₹22,500

S Ltd. = ₹30,000 x ¼ = ₹7,500

Calculation of capital reserve

Actual amount	₹75,000
Less: Face value of shares held ₹75,000	
Share of capital profit ₹22,500	₹97,500
Capital reserve	₹22,500

Minority interest

Share capital	₹25,000
¼ of reserve	₹7,500
Revenue profit (₹60,000 x ¼)	₹15,000
	₹47,500

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets		Amount ₹
Share capital		5,00,000	Fixed assets		4,60,000
Creditors		1,70,000	Stock (4,20,000 – 5,000)		4,15,000
Minority interest		47,500	Debtors		1,60,000
Reserve		60,000	B/R	20,000	
Capital reserve		22,500	(-) Mutual owing	15,000	5,000
P & L a/c	2,00,000				
(+) ¾ of 60,000	45,000				
	2,45,000				
(-) Stock reserve	5,000	2,40,000			
		10,40,000			10,40,000

Illustration -15 The summarized balance sheets of H Ltd and S Ltd as on 31-12-2016 were as follows:

Liabilities	H Ltd ₹	S Ltd ₹	Assets	H Ltd ₹	S Ltd ₹
Shares of ₹100 each	2,50,000	1,00,000	Plant	1,20,000	54,700
P & L a/c	28,600	18,000	Stock	70,000	18,000
General reserves	1,20,000	–	Debtors	21,000	20,000
B/P (including ₹1,500 to H Ltd)	–	4,200	B/R (including ₹1,500 from S Ltd)	7,900	–
Creditors: H Ltd	–	500	Investments in S Ltd	1,70,000	–
Others	23,550	4,000	Land	75,000	90,000
Capital reserve	–	60,000	Bank	7,250	4,000
Bank overdraft	50,000	–	Amount owing by S Ltd	1,000	–
	4,72,150	1,86,700		4,72,150	1,86,700

H Ltd acquired 800 equity shares of ₹100 each in S Ltd on 1-4-2016. Prepare a consolidated balance sheet as on 31-12-2016. Show your workings.

a) Sundry creditors of H Ltd include ₹6,000 due to S Ltd.

b) The directors are advised the land of S Ltd are undervalued by ₹10,000 and its plant overvalued by ₹5,000.

c) A cheque for ₹500 sent to H Ltd by S Ltd on 31-12-2016 was not received by the former until 3-1-17.

Solution

Capital profit

Profit for 3 months	₹4,500
Capital reserve	₹60,000
Increase in premises	₹10,000
	₹74,500
Less: Decrease in plant	₹5,000
Capital profit	₹69,500
Holding share (₹69,500 x 4/5)	₹55,600
Subsidiary share (₹69,500 x 1/5)	₹13,900

Revenue profit

Profit for 9 months	₹13,500
Holding share (₹13,500 x 4/5)	₹10,800
Subsidiary share (₹13,500 x 1/5)	₹2,700

Calculation of goodwill

Actual amount		₹1,70,000
Less: Face value of shares held	₹80,000	
Share of capital profit	₹55,600	₹1,35,600
Goodwill		₹34,400

Minority interest

Share capital	₹20,000
Capital profit	₹13,900
Revenue profit	₹2,700
	₹36,600

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets		Amount ₹
Share capital		2,50,000	Goodwill		34,400
General reserve		1,20,000	Plant – H	1,20,000	
Minority interest		36,600	M (54,700 – 5,000)	49,700	1,69,700
Bank O/D		50,000	Premises – H –	75,000	
B/P		2,700	M (90,000 + 10,000)	1,00,000	1,75,000
P & L a/c	28,600		Stock		88,000
(+) Profit of M Ltd	10,800	39,400	Debtors	41,000	
Creditors H Ltd	23,550		(-) Due from H Ltd	6,000	35,000
(-) Due to M Ltd	6,000		Bank (7,250 + 4,000)		11,250
	17,550		Cheque in transit		500
(+) M Ltd. Crs	4,000	21,550	B/R		6,400
		5,20,250			5,20,250

Note:

Amount owing by S Ltd	1,000
Less: Creditors of H Ltd	500
Cheque in transit	500

13. 9 BONUS SHARES – REVALUATION OF ASSETS

Illustration – 16

A Ltd. Acquired 1,600 ordinery shares of Rs. 100 each in B Ltd. On 31st December 2004. Their summarized Balance Sheets as on that date were as under:

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Capital:			Land & Buildings	1,50,000	1,80,000
5,000 ordinary shares of Rs. 100 each	5,00,000		Plant & Machinery	2,40,000	1,09,400
2,000 ordinary shares of Rs. 100		2,00,000	Investment in B Ltd. at cost	3,40,000	–
Capital reserve		1,20,000	Stocks	1,20,000	36,000
General reserve	2,40,000	–	Debtors	44,000	40,000
Profit & Loss a/c	57,200	36,000	Bills receivable (including Rs.3000	15,800	–

Bank overdraft	80,000	–	from 'B' ltd)		
Bills payable (including Rs. 4000 to A Ltd.)	–	8,400	Cash and bank	14,500	8000
Creditors	47,100	9,000			
	9,24,300	3,73,400		9,24,300	3,73,400

You are supplied following information:

a) 'B' ltd has made a bonus issue on 31st December 2004 of one ordinary share for every two shares held by it's shareholders. Effect has yet to be given in the accounts for the issue.

b) The directors are advised that land & buildings of B ltd. Are undervalued by Rs. 20,000 and plant & machinery of B ltd. Over valued by Rs 10,000. These assets have to be adjusted accordingly.

c) Sundry creditors of 'A' ltd. Include Rs. 12,000 due to 'B' ltd.

You are required to prepare the consolidated balance sheet as on 31st December 2004

Solution:

Consolidated balance sheet of A ltd And its subsidiary B ltd.

As on 31st December 2004

liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Share capital: 5,000 ordinary shares of Rs. 100 each			Goodwill		47,200
			Land & buildings:		
			A ltd.	1,50,000	
General reserve		5,00,000	B ltd.	1,80,000	
Profit & loss a/c		2,40,000	Add: under valuation	20,000	3,50,000
Bank overdraft		57,200	Plant & machinery:		
Bills payable		80,000	A ltd.	2,40,000	
Less: Mutual obligation			B ltd.	1,09,400	
				3,49,400	
Creditors:			Less: over valuation	10,000	
A ltd.	8,400	5,400	Stocks:		
B ltd.	3,000		A ltd	1,20,000	
			B ltd	36,000	3,39,400
Less: Mutual	47,100	44,100			
Obligation	9,000		Debtors:		
Minority interest			A ltd.	44,000	
				40,000	
	56,100	73,200	B ltd.	84,000	1,56,000
	12,000			12,000	
	----------		Less: mutual		

			obligation		
			Bills receivable	15,800	
			Less: mutual obligation	3,000	72,000
			Cash and bank:		
			A ltd.	14,500	
			B ltd.	8,000	
					12,800
		9,99,900			22,500
					9,99,900

1. Holding-minority ratio.

Total shares in B ltd.	2,000
Less: shares acquired by A ltd.	1,600
Minority shares	400

Ratio = 1,600:400 or 4:1

2. Bonus issue not yet recorded, at one share for 2 shares held

			Rs.
	= 2,00,000 x ½	=	1,00,000
Holding company's share	= 1,00,000 x 4/5	=	80,000
Minority's share	= 1,00,000 x 1/5	=	20,000

3. Revenue profits = nil,
   Since shares are purchased on the date of the balance sheet.

4. Capital profits

	Rs.
Capital reserve of B ltd.	1,20,000
Less: bonus issue made	1,00,000
	20,000
Add: profit & loss a/c	36,000
Add: under valuation in land & buildings	20,000
	76,000
Less: over valuation of plant & machinery	10,000
	66,000

Holding company's share	= 66,000 x 4/5	=	52,800
Minority's share	= 66,000 x 1/5	=	13,200

5. Minority interest
   Face value of shares held by minority shareholders

	400 x 100	40,000
Add: bonus shares issued to minority		20,000

Minority's share of capital profits		13,200
Minority interest		73,200

6. Cost of control or goodwill

Amount paid by A ltd. For shares purchased in B ltd.		3,40,000
Less: face value of shares purchased 1,600 x 100		1,60,000
Holding company's share of capital profits		52,800
Bonus shares	80,000	2,92,800
Goodwill		47,200

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. A company which acquires majority of the shares of another is known as
   a) **Holding** b) Subsidiary
   c) Banking d) Insurance

2. The purpose of getting control over another company is
   a) Elimination of competition b) Enjoying economies
   c) Getting assured market d) **All of the above**

3. When some shares of the subsidiary are held by outside shareholders, it is called
   a) Goodwill b) **Minority interest**
   c) Capital reserve d) Capital profit

4. All the reserve and profit earned before the date of purchase are called
   a) Revenue profit b) **Capital profit**
   c) Cost of control d) Minority interest

5. Excess of purchase price of shares over the paid up value is called
   a) **Goodwill** b) Capital reserve
   c) Minority interest d) Capital profit

6. Any increase in fixed assets of subsidiary company after date of acquisition, it is treated as
   a) Revenue profit b) **Capital profit**
   c) Cost of control d) Goodwill

7. Any decrease in fixed assets of subsidiary company after date of acquisition, it is treated as
   a) **Revenue loss** b) Capital loss
   c) Cost of control d) Capital reserve

8. Issue of bonus shares out of post acquisition profit will have the effect of
   a) Reducing the cost of control b) Increase the capital reserve
   c) **Both a and b** d) Decrease the revenue reserve

9. Dividend paid from post acquisition profit, it is
   a) **Credited to holding company P & L a/c** b) Increase the cost of control
   c) Increase the capital reserve d) Both a and b

10. Dividend paid from pre acquisition profit, it is
    a) Credited to holding company P & L a/c b) Increase the cost of control
    c) Increase the capital reserve d) **Both a and b**

11. Minority interest appears on __________ side of balance sheet
    - a) Asset
    - b) **Liability**
    - c) Both a and b
    - d) After the total

12. Unrealized profit will be
    - a) Deducted from stock in assets side
    - b) Deducted from P & L a/c on liability side
    - c) **Both a and b**
    - d) P & L a/c

13. A company has to acquire ________ shares of another company in order to become a holding company
    - a) **More than 50% of equity**
    - b) 50% of equity
    - c) 51% of preference
    - d) Less than 50% of equity

14. S Ltd has in stock worth ₹10,000 supplied by its parent company H Ltd on which the latter made a profit of 20% on cost. The controlling interest of H Ltd in S Ltd is 80%. This stock should be shown in consolidated balance sheet at
    - a) ₹10,000
    - b) ₹8,000
    - c) **₹8,333**
    - d) ₹7,500

15. Any loss or profit of assets and outside liabilities is
    - a) Treated as revenue profit or loss
    - b) Ignored in combined balance sheet
    - c) **Treated as capital profit or loss in the respective assets and liabilities in combined balance sheet**
    - d) Shown separately in liabilities side of combined balance sheet

16. Cash in transit or goods in transit should be entered in ____ of consolidated balance sheet
    - a) **Assets side**
    - b) Liability side
    - c) Both a and b
    - d) Foot note

17. When the purchase price of the shares of the subsidiary company is more than its net worth, the excess represents
    - a) General reserve of the subsidiary
    - b) Profit/ Loss of the subsidiary
    - c) **Goodwill/ cost of control**
    - d) Capital reserve

18. The company controlled is known as
    - a) Parent company
    - b) **Holding company**
    - c) Subsidiary company
    - d) Statutory company

19. Post acquisition profit is known as
    - a) Capital profit
    - **b) Revenue profit**
    - c) Reserve
    - d) Goodwill

20. Issue of bonus shares by the subsidiary company out of capital profit will
    - a) Decrease cost of control
    - b) Increase cost of control
    - c) No effect on cost of control
    - d) Increase minority interest

21. The share of outsiders in the subsidiary company is called as ________
    - **a) Minority interest**
    - b) Capital profit
    - c) Capital reserve
    - d) General reserve

REVIEW QUESTIONS

(A) Answer in short

1. What do you mean by holding company?
2. What are the requirements to be fulfilled for a company to become a holding company?
3. What is called subsidiary company?
4. What you understand by "capital profits"?
5. Write short note on Revenue profits.
6. Who are called minority interest holders?
7. How do you arrive at cost of capital?
8. How will you treat mutual obligation?
9. What is a consolidated balance sheet?
10. How would you ascertain the amount of minority interest?

(B) Answer in detail

1. Explain the treatment of the following
   - a) Bonus shares
   - b) Preference shares
2. Briefly explain how the consolidated balance sheet is prepared.
3. Write short notes on
   - a) Mutual obligation
   - b) Provision for unrealized profit in stock
   - c) Cash in transit
   - d) Capital dividend
   - e) Cost of control
   - f) Minority interest

EXERCISES

1. S Ltd. has a capital of ₹2,00,000 in shares of ₹100 each out of which H Ltd. purchased 75% of the shares of S Ltd. at ₹2,40,000. The profit of S Ltd. at the time of purchase of shares by H Ltd. were ₹1,10,000. S Ltd. decided to make a bonus issue out of pre-acquisition profit of one share for every five shares held.

   Calculate the cost of control

   i) Before the issue of bonus shares and

   ii) After the issue of bonus shares

I. Purchase of entire shares without adjustments:

2. Balance sheet as on 31-3-2016 as follows:

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital of ₹10 each	5,00,000	2,00,000	Sundry assets	4,26,000	3,04,000
Reserve	1,00,000	50,000	20,000 Shares in S Ltd	2,54,000	–
Creditors	80,000	60,000	Preliminary expenses	–	6,000
	6,80,000	3,10,000		6,80,000	3,10,000

Shares in S Ltd. were acquired on 31-3-2016.

Prepare a consolidated balance sheet.

3. H Ltd. acquired the whole of the shares in the S Ltd. on 1st April 2015. The balance sheet of the two companies as at 31st March 2016 was as under:

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹10 each	4,00,000	1,00,000	Investments–shares in S Ltd at cost	1,35,000	–
General reserve	50,000	20,000	Sundry assets	3,70,000	1,45,000
P & L a/c	30,000	15,000			
Creditors	25,000	10,000			
	5,05,000	1,45,000		5,05,000	1,45,000

Prepare consolidated balance sheet.

II. Purchase of majority shares without adjustments:

4. From the following balance sheets of H Ltd. and S Ltd., prepare consolidated balance sheet.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Shares of ₹10 each	2,50,000	1,00,000	Assets	2,70,000	1,30,000
Reserve fund	50,000	30,000	70% shares in S Ltd (at cost)	70,000	–
P & L a/c	40,000	–			
	3,40,000	1,30,000		3,40,000	1,30,000

5. From the balance sheet below, prepare consolidated balance sheet.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹10 each	8,00,000	3,00,000	24,000 shares in S Ltd.	2,40,000	–
Bills payable	40,000	20,000	Land	4,00,000	1,00,000
Creditors	3,50,000	1,60,000	Furniture	50,000	20,000
			Plant	2,00,000	1,00,000
			Stock	1,50,000	80,000
			Debtors	1,00,000	60,000
			Bank	50,000	20,000
	11,90,000	4,80,000		11,90,000	4,80,000

IV. Purchase of majority shares with adjustments:

6. The following is the balance sheet of S Ltd. as on 31-12- 2016:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	10,00,000	Buildings	10,00,000
General reserve as on 1- 1-2016	4,00,000	Machinery	6,00,000
P & L a/c 3,00,000		Current assets	4,00,000
(+) Profit for 2016 1,00,000	4,00,000		
Creditors	2,00,000		
	20,00,000		20,00,000

H Ltd. acquired 80,000 shares of S Ltd. on 1st July 2016 at ₹15,60,000. H Ltd. valued the machinery at ₹5,00,000 and current assets at ₹5,50,000.

Calculate the minority interest.

7. The following balance sheets are given as on 30-6-2016.

Liabilities	**A Co. ₹**	**B Co. ₹**	**Assets**	**A Co. ₹**	**B Co. ₹**
Share capital (₹10 each)	1,20,000	30,000	Building	72,000	25,000
Creditors	15,000	5,000	Machinery	30,000	10,000
Reserve	25,000	6,000	Stock	18,000	3,000
P & L a/c	12,000	9,000	Debtors	22,000	7,000
			Bank	5,000	5,000
			2,000 Shares in B Co.	25,000	–
	1,72,000	50,000		1,72,000	50,000

At the date of acquisition by A Co., B Co. had undistributed profit amounting to ₹5,000, none of which has been distributed since the date of acquisition.

8. From the balance sheet given below, prepare a consolidated balance sheet of H Ltd. and its subsidiary company S Ltd.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital of ₹10 each	25,00,000	6,00,000	40,000 shares in S Ltd	5,00,000	–
P & L a/c	2,40,000	1,80,000	Machinery	12,60,000	3,40,000
Creditors	3,50,000	1,00,000	Furniture	1,40,000	60,000
General reserve	3,60,000	1,20,000	Land	6,40,000	2,00,000
			Stock	4,10,000	2,50,000
			Debtors	3,80,000	1,00,000
			Bank	1,20,000	50,000
	34,50,000	10,00,000		34,50,000	10,00,000

At the date of acquisition of H Ltd. of its holding of 40,000 shares in S Ltd. The latter company had undistributed profits and reserves amounting to ₹1,00,000, none of which has been distributed since then.

9. Balance sheet of H Ltd. and S Ltd. as on 31-12-2016.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital (₹100 each)	5,00,000	2,00,000	1,500 shares in S Ltd	2,40,000	–
General reserve	1,00,000	60,000	Fixed assets	3,60,000	2,20,000

P & L a/c	1,40,000	90,000	Stock	1,00,000	90,000
Creditors	80,000	90,000	Debtors	80,000	1,00,000
			Goodwill	40,000	30,000
	8,20,000	4,40,000		8,20,000	4,40,000

On the date of acquisition, S Ltd. showed a general reserve of ₹30,000 and P & L a/c ₹40,000.

Prepare a consolidated balance sheet.

10. From the following balance sheets on 31- 12- 2016, prepare consolidated balance sheet of H Ltd. and S Ltd.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹10 each	6,00,000	2,50,000	Investments (15,000 shares of S Ltd.)	2,00,000	–
General reserve (1–1–16)	1,60,000	95,000	Fixed assets	5,80,000	2,00,000
Profit for 2016	2,20,000	1,20,000	Stock	1,60,000	80,000
Bills payable	20,000	–	Goodwill	30,000	20,000
Creditors	1,00,000	35,000	Cash	50,000	70,000
			Debtors	80,000	1,15,000
			Bills receivable	–	15,000
	11,00,000	5,00,000		11,00,000	5,00,000

i) H Ltd. acquired the shares in S Ltd. on 30- 6 – 2016

ii) The bills receivable of S Ltd. are all accepted by H Ltd.

11. The following are the balance sheets of A Ltd. and B Ltd. as on Dec.31, 2016.

Liabilities	**A Ltd. ₹**	**B Ltd. ₹**	**Assets**	**A Ltd. ₹**	**B Ltd. ₹**
Equity shares of ₹10 each	2,00,000	50,000	Investments (shares of B Ltd.)	60,000	–
General reserve (1–1–16)	50,000	20,000	Fixed assets	1,95,000	70,000
P & L a/c (1 -1- 16)	30,000	7,500	Debtors	35,000	25,000
Profit for 2016	50,000	20,000	Other current assets	60,000	12,500
Creditors	20,000	10,000			
	3,50,000	1,07,500		3,50,000	1,07,500

i) A Ltd. purchased on 1-1-2016 ₹4,000 shares in B Ltd. at ₹15 each.

ii) Stock in B Ltd. includes ₹7,500 worth of goods purchased from A Ltd. which the company selling goods as 25% above cost.

iii) Creditors of B Ltd. include ₹5,000 due to A Ltd.

Prepare consolidated balance sheet as on 31-12-2016.

12. The following are the balance sheets of A Ltd. and B Ltd. as at 31st Dec.2016.

Liabilities	**A Ltd ₹**	**B Ltd ₹**	**Assets**	**A Ltd ₹**	**B Ltd ₹**
Share capital of ₹10 each	1,00,000	50,000	Sundry assets	66,250	69,100
Revenue reserve	9,000	10,000	Shares in B Ltd. at cost	70,000	–
P & L a/c as on 1-1-2016	8,500	8,000	Good will	–	10,000
Profit for the year	3,750	3,500			
Creditors	15,000	7,600			
	1,36,250	79,100		1,36,250	79,100

Profit for the year of B Ltd. was ₹6,000 out of which ₹2,500 was transferred to reserve. The holding of A Ltd acquired 90% of shares of B Ltd. year ago 31-12-2016. Write off from sundry assets of A Ltd. ₹9,000. Also write off ₹3,100 from the sundry assets of B Ltd. out of current year's profit.

Draft consolidated balance sheet of A Ltd. and its subsidiary.

13. The balance sheets of Prabhu Ltd. and Patel Ltd. on 31st Mar.2016 were as follows:

Liabilities	**Prabhu Ltd. ₹**	**Patel Ltd. ₹**	**Assets**	**Prabhu Ltd. ₹**	**Patel Ltd. ₹**
10% Preference shares of ₹100 each	–	1,00,000	3,000 Shares in Patel Ltd.	4,50,000	–
Equity shares of ₹100 each	10,00,000	4,00,000	Machinery Less: 10% Dep.	2,70,000	1,35,000
General reserve	1,00,000	50,000	Land	3,10,000	1,60,000
P & L a/c on 1-4-15	40,000	30,000	Stock	2,30,000	1,50,000
Profit for 2015-16	2,00,000	80,000	Debtors	1,55,000	90,000
Creditors	1,50,000	70,000	Cash	85,000	1,95,000
	14,90,000	7,30,000		14,90,000	7,30,000

Prabhu Ltd. acquired 3,000 shares in Patel Ltd. on 1st October 2015. As on the date of acquisition, Prabhu Ltd found that the value of land and machinery of Patel Ltd. should be ₹1,50,000 and ₹1,92,500 respectively.

Prepare the consolidated balance sheet of Prabhu Ltd. and its subsidiary S Ltd. as on 31st Mar. 2016 taking into consideration the fact that assets are to be taken at their proper values.

14. Following is the balance sheet of H Ltd. and its subsidiary S Ltd. as on 31-12-2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹100 each	5,00,000	–	8,000 Shares of S Ltd.	125,000	–
Equity shares of ₹10 each	–	1,00,000	Building	1,00,000	50,000
P & L a/c	55,000	40,000	Land	1,00,000	40,000
Creditors	20,000	35,000	Stock	90,000	30,000
			Debtors	40,000	30,000
			Cash	1,20,000	25,000
	5,75,000	1,75,000		5,75,000	1,75,000

H Ltd acquired shares in S Ltd. on 1-1-2016 when S Ltd. had ₹25,000 in P & L a/c. No dividend has been declared by S Ltd. in 2016.

Prepare the consolidated balance sheet.

15. Following are the balance sheets of H Ltd. and S Ltd. as on 31-3-2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹100 each	5,00,000	2,00,000	1,500 Shares in S Ltd.	2,40,000	–
Reserves	1,40,000	50,000	Sundry assets	6,00,000	3,00,000
P & L a/c	1,00,000	30,000			
Creditors	1,00,000	20,000			
	8,40,000	3,00,000		8,40,000	3,00,000

S Ltd. had a credit balance of ₹10,000 in reserves when H Ltd acquired shares in it. S Ltd. made a bonus issue of one share for every five shares held, all out of post acquisition profits.

Prepare the consolidated balance sheets after issue of bonus shares.

16. The following are the balance sheets of Guru Ltd. and Deva Ltd. as at 31st Dec.2016.

Liabilities	**Guru Ltd. ₹**	**Deva Ltd. ₹**	**Assets**	**Guru Ltd. ₹**	**Deva Ltd. ₹**
Equity shares of ₹10 each	50,000	25,000	Shares in Deva Ltd.	35,000	–
Revenue reserves	4,500	5,000	Sundry assets	33,125	34,550
Creditors	7,500	3,800	Goodwill	–	5,000
Profit for the year	1,875	1,750			
P & L a/c on 1-1-2016	4,250	4,000			
	68,125	39,660		68,125	39,660

Profit for the year of Deva Ltd. was ₹3,000 out of which ₹1,250 was transferred to reserves. The holding of Guru Ltd. on Deva Ltd. is 90% acquired a year ago on 31-12-2015. Write off from sundry assets of Guru Ltd. ₹4,500. Also write off ₹1,550 from sundry assets of Deva Ltd. out of current year's profit.

Draft consolidated balance sheet of Guru Ltd. and its subsidiary.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. H.Ltd.Acquired Shares of S. ltd on 1.1.2006, on that Date the P&L A/c of S.Ltd had a credit balance of Rs.1,000 and general reserve Rs.3,000.

Liabilities	**H.Ltd**	**S.Ltd**	**Assets**	**H.Ltd**	**S.Ltd**
Share Capital (Rs.10 each)	1,00,000	50,000	Fixed assets	60,000	63,000
			Investments	–	–
Reserve	10,000	5,000	(4000 shares in S ltd)	65,000	–
P&L account	10,000	4,000			
Creditors	5,000	4,000			
	1,25,000	63,000		1,25,000	63,000

Prepare a consolidated balance sheet.

[Madurai, B.Com, Nov, 2013]

2. On 31st March 2011 the Balance sheet of H Ltd. and its subsidiary S Ltd stood as follows.

Liabilities	**H Ltd**	**S Ltd**	**Assets**	**H Ltd**	**S Ltd**
Equity shares	80,00,000	20,00,000	Fixed assets	55,00,000	10,00,000
			75% shares in S		

General reserve	15,00,000	7,00,000	Ltd @ cost		
P and L A/c	9,00,000	5,50,000	Stock	28,00,000	–
Creditors	12,00,000	8,00,000	Others current assets	10,50,000 22,50,000	17,70,000 12,80,000
	1,16,00,000	**40,50,000**		**1,16,00,000**	**40,50,000**

Calculate

(i) Revenue profit,

(ii) Capital profit and

(iii) Minority interest as on 31st March 2011 after taking in to consideration of the following information.

(1) H Ltd acquired the shares on 31st July 2010.

(2) S Ltd earned a profit of rs. 4,50,000 for the year ended 31 March 2011.

[Azhagappa, April,2015]

3. Prepare consolidated Balance sheet from the given data.

Liabilities	**A Ltd**	**B Ltd**	**Assets**	**A Ltd**	**B Ltd**
Shares of Rs. 50 each	2,50,000	1,00,000	Fixed assets	1,75,000	75,000
General Reserve	50,000	–	Stock in trade	45,000	20,000
Profit and Loss a/c	40,000	–	Debtors	30,000	15,000
Trade creditors	37,500	72,500	6% debentures in B Ltd, acquired @ par	30,000	–
			Shares in B Ltd 1,500 @ Rs. 40	60,000	–
			Cash at Bank	37,500	12,500
			Profit & Loss a/c	–	50,000
	3,77,500	**1,72,500**		**3,77,500**	**1,72,500**

A Ltd acquired the shares on 1.4.2009. the P and L a/c of B Ltd showed a debit balance of Rs. 75,000 on 1.1.2009. track creditors of B Ltd include Rs. 10,000 for goods supplied by A Ltd on which A Ltd made a profit of Rs. 1,000. Half of the goods were still in stock on 31.12.2009.

[Azhagappa, April,2013]

4. Balance sheet as on 31st March 2004

Liabilities	**H.ltd (Rs.)**	**S.Ltd (Rs.)**	**Assets**	**H.Ltd (Rs.)**	**S.Ltd (Rs.)**
Share capital	12,000	5,000	Sundry assets	20,000	8,000
(in Re.1 shares)					
Reserve					
P & L	5,000	1,000	Investment :		
Creditors	2,000	1,000	5000 shares of S Ltd	6,500	
	7,500	1,000			
	26,500	8,000		26,500	8,000

Shares were acquired by H. Ltd. On 30th sep 2003. S. Ltd. Transferred Rs. 500 from profits to reserve account on 31st march 2004. Prepare consolidated balance sheet.

[Madurai.,Nov 2012]

5. From the following balance sheets relating to H.ltd and S ltd. Prepare a consolidated balance sheet.

Liabilities	H.ltd (Rs.)	S.Ltd (Rs.)	Assets	H.Ltd (Rs.)	S.Ltd (Rs.)
Share capital	10,00,000	2,00,000	Fixed assets	8,00,000	1,20,000
P & l a/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable		
Bills payable	–	30,000			
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S ltd have been earned after the shares were acquired by H ltd. But there was already a reserve of Rs. 60,000 on that date.

b) All the bills payable of S ltd. Were accepted in favour of H ltd.

c) The stock of H ltd. Includes Rs. 50,000 purchased from S ltd. The profit added was 25% on cost.

Madurai.,Nov 2015

6. X Ltd. Purchased 60% shares of Y Ltd. on 1-1-02 when the balance on their P&L General reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31-1202, the Balance sheet of Y Ltd. showed P&L a/c balance of Rs. 4,00,000 and General reserve Rs. 3,00,000. Calculate Capital profits and Revenue profits.

[Madras, B.Com (AF) Ap. 2009; B. Con: (CS) Nov. 2008]

[Ans: Capital Profits: Rs. 3,10,000; Revenue pofits: Rs. 3,90,000]

7. P Ltd. acquired 65% shares of Q Ltd. on 1-10-02. P&L a/c in the books of Q Ltd. showed a debit balance of Rs. 40,000 on 1-4-02. On 31-3-03, the Balance sheet of Q Ltd. showed P&L We balance of Rs. 1,20,000. Calculate capital profits and Revenue profits.

'Madras, B.Com (AF) Nov. 2009; B.Com (CS) Ap 2008]

[Ans: Capital profits: Rs. 40,000; Revenue Profits: Rs. 80,000]

8. 1-1 Ltd. Purchased 75% of shares in S Ltd. on 1-7-01. On 31-12-01 the Balance Sheet of S Ltd. showed Reserve Fund balance on 1-1-01 Rs. 40,000, profit earned during 2001 Rs. 60.000 and Preliminary expenses unwritten off Rs. 20,000. Calculate capital profits and Revenue profits.

[Madras, M. Con: (ICE) (PBC) Oct. 2009; B.Cotn., B.Cotn (C'S) Nov. 2008]

[Ans: Capital profits: Rs. 50,000; Revenue profits: Rs. 30,0001

9. A subsidiary company has a capital of Rs. 5,00.000 in shares of Rs. 100 each out of which the holding company acquired 80% of the shares at Rs. 6,00,000. The profits of the subsidiary Co. on the date of acquisition of shares by the bolding Co. were Rs. 3,00,000. Calculate the value of goodwill or capital reserve.

[Madras, B.Com (AI) Ap 2009]

[Ans: Capital Reserve: Rs. 40,000 i.e., 6,40,000 — 6,00,000]

10. On 30.6.03 $_{1/3}$ rd of the shares of S' Ltd. (with a total capitral of Rs. 12,00.000)were acquired by H. Ltd. The balance sheet of 'S' Ltd. showed a debit balance of Rs. 6,00,000 on 1.1.03 and a credit balance of Rs. 3,60,000 on 3.12.03. The investment made by 'H' Ltd. in 'S' Ltd.'s shares is Rs. 9,00,000. Calculate the cost of control or Capital Reserve. •

[Madras, B. Com(AF) Nov. 2009;]

[Ans: Goodwill: Rs. 1,80,000 (i.e., 8,00,000 — 80,000 = 7,20,000) — 9,00,000]

11. Calculate minority Interest from the balance sheet of Mumbai. Ltd:

Balance sheet of Mumbai Ltd. As. On 31.12.2001

Liablities	**Amt**	**Assets**	**Amt**
Share capital:		Sundry assets	10,00,000
7,00,000 shares of Rs.2 each	14,00,000	Plant and machinery	7,00,000
General Reserve as on 1.1.2001	6,00,000	Other Assets	1,50,000
Creditors	3,00,000	Investment	6,50,000
P&L A/c as on 31.12.2001	2,00,000		
	25,00,000		25,00,000

Madras Ltd. Acquired 80% of the shares at Rs.6,50,000

[Madras, B.Com (ICE), 2003]

[Ans: Minority intrest: Rs. 4,40,000]

12. S Ltd. has capital of Rs. 15,00,000 in shares of Rs. 100 each. Out of this,•₹11' Ltd. purchased 75% shares at Rs. 17,50,000. The profit of 'S' Ltd. at the time of purchase of shares by 'H' Ltd. were Rs. 7,50,000. 'S' Ltd. decided to make a bonus issue out of capital profits of one share of Rs. 100 each fully paid for every three shares held. Calculate the cost of control after the issue of bonus shares.

[Madras, 1st M.Com (ICE) Oct. 2009]

[Ans: Goodwill — Rs. 62,500]

13. On 1st April 1988, S Ltd. had a subscribed share capital of Rs. 5,00,000 divided into 50,000 fully paid equity shares of Rs. 10 each. It had accumulated capital and revenue profits to the tune of Rs. 3,90,000 by that date when. H Ltd. acquired 80% of its shares for Rs. 9,00,000. The profit earned by S Ltd. amounted to Rs. 2,60,000 for.the year ended 31st March 1989 on which date S Ltd. issued by way of bonus, one fully paid equity share of Rs. 10 for every five equity shares held out of its pre-acquisition profits.Calculate as on 31.3.1989 cost of control and minority interest just before the issue of bonus shares

[Madras, 1st M.Com (Sem - CA1A) Nov. 2003]

[Ans: Just before the issue of bonus shares cost of control — Rs. 1,88,000; Minority interest — Rs. 2,30,000]

14. Prepare a consolidated Balance Sheet from the following Balance Sheets:

Liabilities	*H Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*11 Ltd. Rs.*	*S Ltd.* **RA.**
Capital:			Sundry assets		1,510
Re. 1 shares	1,400	1,000	Shares in 'S' Ltd.		
Creditors	350	190	900 shares at cost	1,125	_
P & L A/c	260	320			
	2,010	1.510		2,010	1,510

On the date of acquisition of shares by H Ltd. in S Ltd., the credit balance on latter's Profit and Loss account was Rs. 220. No dividends have been declared since that date.

[Periyar, 111.Com.(CA) Ap. 2005 (10 Tintes)11Bharathiar, B.Com., Nov. 2004 (10 Times)/ [Madras, B.COM (AF) Ap. 2009]

[Ans: Capital Profit — Rs. 220; Revenue Profit — Rs. 100; Minority interest — Rs. 132; Goodwill — Rs. 27; Balance Sheet total -- Rs. 2,422]

15. Consolidate the Following balance sheet

Liabilities	**H Rs.**	**S Rs.**	**Assets**	**11 Rs.**	**S Rs.**
Capital Re. 1 shares	1,400	1,000	900 shares in		
Creditors		500	S at cost	1.200	
P&L A/c	–	300	Sundry assets	200	1.800
	1,400	1,800		1,400	1,800

When II Ltd. acquired the shares in S, the profit and loss *A/c oft ie* latter had a credit balance of Rs. 200.

[Periyar, B.Com (CA) Oct. 2005 Thirnvalluvar, B.Com., Nov. 2005 (10 Times); Bharathidasan, Nov. 2003]

[Ans : Capital profit : Rs. 200; Revenue profit : Rs. 100; Minority interest : Rs. 130; Goodwill : Rs. 120; Balance Sheet total : Rs. 2.120]

16. From the following summarised Balance Sheets of H Ltd. and S Ltd. as of 31.12.94.Prepare consolidated Balance sheet

Liabilities	*II Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*H Ltd. Rs.*	*S Ltd. Rs.*
Share capital:			Fixed assets	18,10,000	15,75,000
Shares of Rs.10			Investments (1,00,000		
each fully paid	25,00,000	12,50,000	shares in S Ltd.)	11.00,000	–.
Reserves	7,50,000	5,00,000	Current assets	5.65,000	3,75,000
Creditors	2,25,000	2,00,000			
	34,75,000	19,50,000		34,75,000	19.50,000

I-1 Ltd. purchased the shares in S Ltd. on 1st January 1994. when reserves in S Ltd stood at
Rs. 3.00,000 and in 11 Ltd., at Rs. 4,50,000.

[Madras, B.Com., (ICE) Oct. 2002]

[Ans: Capital profit - Rs. 3,00,000; Revenue profit - Rs. 2,00,000; Minority interest - Rs. 3,50,000; Capital reserve - Rs. 1,40,000 Balance Sheet total Rs. 43,25,000]

17. **Balance sheet as on 1.12.2000**

Liabilities	H Rs.	S Rs.	Assets	H Rs.	S Rs.
Share Capital :			Sundry assets	16,000	10,000
Rs. 1 each	10,000	5,000	5,000 shares in		

Reserve	5,000		S Ltd.	6,000	—
P&L A/c	4,000	1,800			
Creditors	3,000	3,200			
	22,000	10,000		22,000	10,000

Shares of S Ltd. were purchased by H Ltd. on 30th June 2000. On 1st Jan 2000 the Balance Sheet of S Ltd. showed a loss of Rs. 3,000..Prepare the consolidated Balance sheet.

(Madras, 1st M.Com (PBC) Oct.. 2004; II M.Com., (ICE) (Old) May 2002]

[Ans : Revenue Profit : Rs. 2,400; Capital Loss : Ks. WU; Goodwill : Rs. 1,600; B/s Total : Rs. 27,600]

18. **Balance sheet as on 31.12.2001**

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital :					
Rs. 10 each	2.50,000	1,00,000	Sundry Assets	2,23,000	1,52,000
Reserves	50,000	25,000	100% shares in		
Creditors	40,000	30,000	B Ltd.	1,17,000	
			Preliminary		
			Expenses	—	3,000
	3,40,000	1,55,000		3,40,000	1,55,000

The shares of B Ltd. were acquired at Rs. 1,17,000 on 31-3-1999. Prepare consolidated Balance sheet ***as*** on 31-3-99.

[Madras, B. Corn (SEm) Nov. 2003 (2 limes), B.Com., (Old) Oct. 2002

[Periyar, B.Com., Nov. 2005; (2 Times); Bharathiar, B.Com., Nov. 2003 (2 Times)

[Ans : Capital Profit : Rs. 22,000; Capital Reserve : Rs. 5,000; B/s Total : Rs. 3,75,000]

19. **The following Balance sheet as on 31.3.2000 are given.**

Liabilities	**II Ltd. Rs.**	**.S Ltd. Rs.**	**Assets**	**II Ltd. Rs.**	**S Ltd. Rs.**
Share capital: in Re. 1 fully			Sundry assets	20,000	12,000
Paid shares	12,000	6,000	Investment		
Reserves	3,000	2,000	6,000 shares in		
P&LA/c	2,000	1,000	S Ltd.	7,500	
Sundry liabilities	10,500	3,000	.		
	27,500	12,000		27,500	12,000

S Ltd. has acquired shares in S Ltd. on 31.3.2000. Prepare consolidated Balance Sheet as on 31.3..2000

[Madras, B.Com ,Ap 2009; lst M. Corm, Nov. 2005 (Modified)]

[Ans: Capital profit — Rs. 3,000; Capital reserve — Rs. 1,500; Balance sheet total — Rs. 32,000]

20. **The following are the balances as on 31.12.2001**

Liabilities	**A Ltd. Rs.**	**13 Ltd. Rs.**	**Assets**	**A Ltd. Rs.**	**B Ltd. Rs.**
Share capital:			Land & Buildings	6,40,000	2,00,000
Shares of			Machinery	12,60,000	3,40,000
Rs. 10 each	25,00,000	6,00,000	Furniture	1,40,000	60,000
General reserve	3,60,000	1,20,000	40.000 shares in	,,	
.					
Profit & Loss A/c	2,40,000	1.80.000	B Ltd.	5,00,000	—
Trade creditors	3,50,000	1,00,000	Stock	4,10,000	2,50,000
			Debtors	3,80,000	1,00,000
			Rank balance	1,20,000	50,000
	34,50,000	10,00,000		34,50,000	10,00,000

At the date of acquisition by A Ltd. of its holding of 40,000 shares in B. Ltd., the latter company had undistributed profits and reserves amounting to Rs. 1,00,000. none of which had been distributed since then.

[Madras, B.Com (2007 (i Figs.) 1st M.Cont.(CA IA) Nov. 2006;

B.Com., Oct. 2003; April 1999; March 1996; March 1988; Madras, B.A. Corp., Sep. 1995]Periyar, B.Com(CA)]

[Ans: Capital profit Rs. 1,00,000; Revenue profit - Rs. 2,00,000; Minority interest - Rs. 3,00,000; Goodwill - Rs. 33,333; Balance Sheet total - Rs. 39,83,333]

21. The following Balance Sheets are given as on 30.6.87

Liabilities	M Co. Rs.	S Co. Rs.	Assets	Al Co. Rs.	S Co. Rs.
Share capital:			Buildings	72,000	25,000
12,000 shares	1,20,000	–	Machinery	30,000	10,000
3,000 shares	–	30,000	Stock	18,000	3,000

Creditors	15,000	5,000	Debtors	22,000	7,000
Reserve	25.000	6,000	Bank	5,000	5,000
Profit & Loss A/c	12,000	9,000	Shares in S Co.		
			2.000 shares	25,000	
	1,72,000	50,000		1,72,000	50,000

At the date of acquisition by M Co., S Co. had undistributed profits amounting to Rs. 5,000. none of which has been distributed since the date of acquisition.. Prepare consolidated Balance Sheet.

[Madras, BC'S Nov 2004 (2 Times); B.C.S. April 2003]

[Ans: Capital profit - Rs. 5,000; Revenue profit - Rs. 10,000; Cost of control (goodwill) - Rs. 1,667; Minority interest - Rs. 15,006; Total of consolidated Balance Sheet - Rs. 1,98,667]

22. From the Balance Sheets given below, prepare consolidated Balance Sheet

. **Balance Sheets as at 31st December 1991**

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Shares of			Fixed assets	4,00,000	60,000
Rs.10 each	5,00,000	1,00,000	Stock	3,00,000	1,20,000
Profit & Loss A/c	2,00,000	60,000	Debtors	75,000	85,000
Reserves	60,000	30,000	Bills receivable	20,000	–
Bills payable		15,000	Shares in S Ltd.		
Creditors	1,10,000	60,000	7,500 at cost	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Other irformation

(a) The bills accepted by S Ltd. are all in favour of H. Ltd.

(b) The stock of H Ltd. includes Rs. 25,000 bought from S Ltd. at a profit to latter of 20% on sales.

(c) All the profits of S Ltd. has been earned since the shares were acquired by 11 Ltd. but there was alrpady the reserveof Rs. 30,000 at that date.

Hint : As per AS-21 'Consolidated Financial Statements' issued by C.A. Institute,Full Provision should he made for 'unrealised profit in stock'.

[Madras, 1st M.Com, Nov. 2008; B.Com (PZG) Nov. 2007 Periyar, B.Com., Ap. 2006]

[Ans: Capital profit Rs. 30,000; Revenue profit — Rs. 60,000; Minority interest — Rs. 47,500; Capital reserve — Rs. 22,500; Provision for unrealised profit — Rs. 5,000; Balance Sheet total — Rs. 10,40,000]

23. From the following details, prepare a consolidated Balance sheet of II Ltd. and its Subsidiary S Ltd. as on 3-12-2001.

Liabilities	H.	S Rs.	Assets	H.	S .
Share Capital :			Buildings	1,45,000	50,000
Shares Rs. 10 each	2,00,000	60,000	Plant	60,000	25,000
General Reserve	50,000	15,000	Stock	40,000	10,000
P&L A/c	25,000	21,000	Debtors	35,000	15,000
16% Debentures	70,000	—	13/R	15,000	10,000
Creditors	15.000	10,000	Bank	10,000	5,000
B/P	5,000	9,000	Investment in (1,000 shares of S Ltd.)	60,000	
	3,65,000	1,15,000		3,65,000	1,15,000

On the date of cquisition of shares by HLtd. in S Ltd. the lat er had undistributed Profits of Rs. 9.060 and reserve of Rs. 6,000. Thevalue of Bui dings and Plant of S Ltd. were considered at Rs. 65,000 and Rs. 16,000 respectively. No purchase or Sale of these assets after the acquisition of shares. Depreciation may be ignored. Debtors of H Ltd. include Rs. 5,000 due from S Ltd. and also Bills payable of H Ltd. includes a bill of Rs. 3,000 accepted in favour of S Ltd.

[Madras, I M.Com., (ICE)** Oct. **2002]

[Ans : Capital Profit : Rs. 21,000; Revenue Profit : Rs. 21,000; Minority Interest : Rs. 34,000; Goodwill : Rs. 6,000; B/S Total : Rs. 4,24,000]

24. 'A' Ltd. acquired 20,000 equity shares of Rs. 10 each in '13' Ltd. as at 31st March 1998. The summarised Balance Sheets of the two companies as at 31st March 1999 were as follows

Liabilities	A Ltd. Rs.	B Ltd. Rs.
Equity share capital (Shares of Rs. 10 each)	8,00,000	2,50,000
General Reserve	3,00,000	50,000
P&L	1,00,000	2,00,000
Creditors	2,00,000	50,000
	14,00,000	5,50,000
Assets		
Fixed Assets	7,00,000	2.50,000

20,000 shares in B Ltd. at cost	3,00,000	
Current assets	4,00,000	3,00,000
	14,00,000	5,50,000

B' Ltd. had a Credit Balance of Rs. 50,000 in general reserve and Rs. 20,000 in P&L A/c when 'A"Ltd. acquired shares in 'B' Ltd.₹B' Ltd. issued bonus shares in the ratio of one for every five shares held out of the Profits earned during 1998-99. This is not shown in the above balance sheet of 'B' Ltd.Prepare a consolidated balance sheet of 'A' Ltd. and its subsidiary as at 31st March 1999.

[Madras, B.com, 2011]

[Ans : Revenue Profit (after Bonus) Rs. 1,30,000; Capital Profit : Rs. 70,000; Goodwill : Rs. 4,000; Minority Interest : Rs. 1,00,000; B/S Total : 16,54,000]

25. H Ltd. acquired the shares of S Ltd. on 1-1-96. On that date the profit and loss account of S Ltd.. had a credit balance of Rs. 1.000 and in reserve Rs. 3.000.

Prepare a consolidated Balance Sheet from the following:

Balance Sheet as on 31-12-96

Liabilities	*H Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*II Ltd. Rs.*	*S Ltd. Rs.*
Share Capital :			Sundry Assets	60,000	63,000
(Rs. 10 each)	1,00,000	50,000	Investemts -		
Reserve	10,000	5,000	4,000 shares in		
Profit and Loss A/c	10,000	4,000	S Ltd.	65,000	
Sundry Creditors	5,000	4,000			
	1,25,000	63,000		1,25,000	63,000

[Madras, B.C.S. Oct. 2001]

[Ans : Capital Profit : Rs. 4,000; Revenue profit : Rs. 5,000; Minority Interest : Rs. 11,800; Goodwill : Rs. 21,800; B/S Total : Rs. 1,44,800]

26. The following are the balance sheets of the Sun Co., Ltd., and the Moon Co.. Ltd., prepared on 31st December 1986. On 1st January 1986, the Sun Co. Ltd.. acquired all the shares in the'Moon Co. Ltd., when the latter had a credit balance of Rs. 35.000 on its profit and, loss account.

Liabilities	***' Sun Co. Rs.***	***Moon Co. Rs.***	***Assets***	***Sun Co. Rs.***	***,Moon Co. Rs.***
Share Capital :			Sundry Assets	2,20,000	4,00,000
Equity shares of			Investments	3,60,000	

Rs. 10 each	3,00,000	2,00,000	(Shares in the		
General reserve	1,50,000	1,00.000	Moon Co. Ltd.)		
P & L A/c	1,00,060	80,000			
Creditors	30,000	20,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Prepare consolidated balance sheet.

[Madras, B. Com., April 2001]

[Ans : Revenue Profit : Rs. 45,000; Capital Profit : Rs. 1,35,000; Minority Interest : NIL; Goodwill : Rs. 25,000; 13/s Total : Rs. 6,45,000]

27. The following are the summarised Balance Sheets of 'A' Ltd. and its subsidiary 'B' Ltd. as on 31.12.88.

Liabilities	*A Ltd. Rs.*	*B Ltd. R. s.*	*Assets*	*A Ltd. Rs.*	*B Ltd. Rs.*
Ordinary shares			Fixed assets	2,00,000	90,000
of Rs. !O each	5,00,000	1,09,000	Stock	90,000	30,000
General reserve	10,000	40,000	Debtors	40,000	30,000
Creditors	20,000	30,000	Bills receivable	5,000	–
Bills payable	–	5,000	Bank balance	1,15,000	25,000
			7,500 shares in		
			B Ltd. at cost	80,000	–
	5,30,000	1,75,000		5,30,000	1,75,000

A Ltd., acquired shares in B Ltd. on 1. .88 when B Ltd. had Rs. 10,000 in general reserve. No dividend was declared by B Ltd. in 1988.

All bills receivable of A Ltd. are drawn on B Ltd.

You are required to prepare a consolidated Balance Sheet on 31.12.1988.

[Periyar, M.Com (CA) Ap 2006; Bharathidasan B.Com., Nov. 2005 Madras, B.Com Oct. 2007]

[Ans: Capital profit — Rs. 10,000; Revenue profit — Rs. 30,000; Minority interest — Rs. 35,000; Capital reserve — Rs. 2,500; Balance Sheet total — Rs. 6,20,000]

28. The following are the summarised Balance Sheets of Imperial Co. Ltd. and Colonial -Co. Ltd. as on 31st December 1972.

Liabilities	*Imperial Co. Ltd. Rs.*	*Colonial Co. Ltd. Rs.*	*Assets*	*Imperial Co. Ltd. Rs.*	*Colonial Co. Ltd. Rs.*
Paid up capital in shares of Rs. 10 each	10,00,000	3,00,000	Freehold Premises	4,50,000	1,20,000
			Plant & Machinery	3,50,000	1,60,000
			Furniture	80,000	30,000
General reserve	4,00,000	1,25,000	Debtors	3,00,000	1,70,000
Profit & Loss A/c	3,00,000	1,75,000	Stock	3,20,000	1,60.000
Sundry creditors	1,00,000	70,000	Investment in 20,000 shares in Colonial Co. Ltd. at cost	2,60,000	
			Cash balance	40,000	30,000
	18,00,000	6,70,000		18,00,000	6,70,000

You are required to prepare consolidated Balance Sheet as on 31.12.1972 showing in detail necessary adjustments and taking into consideration the following information.

(a) Imperial Co. Ltd. acquired the shares of Colonial Co. Ltd. on 1.1.1972 when the balance on their Profit & Loss A/c and general reserves were Rs, 75,000 and Rs. 80,000 respectively.

(b) Stock of Rs. 1,60,000 held by Colonial Co. Ltd. consists of Rs. 60,000 goods purchased from Imperial Co. Ltd., who has charged profit at 25% on cost.

[Thiruvalluvar, B.Com., Nov. 2005; Bharathidasan, Nov. 2005) Madras, M.Com(ICE) Oct 2006; II M.Com., Oct 2003; II. M.Com. (ICE) (Old) May 2001; B.C.S. Oct. 2003; B.C.S. (ICE) May 2002]

[Ans: Capital profit — Rs. 1,55,000; Revenue profit — Rs. 1,45,000; Minority interest — Rs. 2,00,000; Capital reserve — Rs. 43,333; Balance Sheet total — Rs. 21,98,000; Profit & Loss A/c balance — Rs. 3,84,667]

29. Star Ltd. acquired the whole of the shares in Sun Ltd. as at 1st January 1995. The Balance Sheets of both the companies on 31st Dec. 1995 were as under.

Liabilities	***Star Ltd. Rs.***	***Sun Ltd. Rs.***	***Assets***	***Star Ltd. Rs.***	***Sun Ltd. Rs.***
Share capital:			Buildings	6,00,000	2,00,000
20,000 shares			Machinery	3,00,000	1,00,000

of Rs. 50 each	10,00,000	–	Stock	1,00,000	1,50,000
80,000 shares			Debtors	50,000	90,000
of Rs. 5 each	–	4,00,000	Investments in		
General reserve	3,00,000	40,000	shares of Sun Ltd.	5,00,000	–
Profit & Loss A/c	2,00,000	1,60,000	Cash at Bank .	50,000	1,20,000
Creditors	1,00,000	60,000			
	16,00,000	6,60,000		16,00,000	6,60,000

The Balance of Profit & Loss A/c of Sun Ltd. on 1.1.95 was Rs. 80,000. Sun Ltd. paid a dividend of 10% in March 1995 for the year 1994 which was credited by Star Ltd. to its Profit & Loss A/c.

Stock of Star Ltd. includes Rs. 20,000 goods which were purchased from Sun Ltd. at a profit of 20% on sale value. Show the Consolidated Balance sheet.

[Madras, B.Com,2009]

[Ans: Capital profit — Rs. 80,000; Revenue profit — Rs. 1,20,000; Capital reserve — Rs. 20,000; Balance Sheet total — Rs. 17,56,000]

30. 'C' Ltd. acquired 20,000 shares of Rs. 10 each in 'D' Ltd. on 1.1.94. The summarised Balance Sheets of both the companies were as under on 31.12.94.

Liabilities	**C Ltd. Rs.**	**D Ltd. Rs.**	**Assets**	**C Ltd. Rs.**	**D Ltd. Rs.**
Shares of					
Rs. 10 each	5,00,000	2,50,000	Fixed assets	4,50,000	4,65,000
Reserves	2,00,000	1,50,000	Stock	75,000	1,00,000
Creditors	3,00,000	3,00,000	Debtors	1,50,000	2,00,000
Bills payable	50,000	40,000	Shares in D Ltd.	3,25,000	–
Bank loan	–	50,000	Bills receivable	75,000	50,000
Profit & Loss A/c	50,000	40,000	Cash	25,000	15,000
	11,00,000	8,30,000		11,00,000	8,30,000

On 1st Jan. 1994, Profit & Loss A/c of 'D' Ltd. showed a debit balance of Rs. 50,000. D Ltd. made a transfer of Rs. 30,000 to reserves on 31st Dec. 94.Creditors of C Ltd. include Rs. 50,000 for goods supplied by D Ltd. on credit. Stock of Rs. 40,000 in C Ltd. represents unsold goods purchased from D Ltd. who charged profit on sale of 20%.Bills payable of D Ltd. included Rs. 30,000 accepted in favour of C Ltd. Bills receivable of C Ltd. included Rs. 25,000 received from D Ltd. Prepare consolidated Balance Sheet.

[Madras,B.com,2011]

[Ans: Capital profit — Rs. 70,000; Revenue profit — Rs. 1,20,000; Minority interest — Rs. 88,000; Goodwill — Rs. 69,000; Balance Sheet total — Rs. 15,91,000; Profit & Loss A/c — Rs. 1,38,000]

31. Y Ltd. purchased 75% of the shares in Z Ltd. on 1.1.97. The following Balance Sheets of the two companies on 31.12.97 arc made available and you are requested to prepare a consolidated Balance Sheet.

Liabilities	**Y Ltd. Rs.**	**Z Ltd. Rs.**	**Assets**	**Y Ltd Rs.**	**Z Ltd. Rs.**
Share capital:			Fixed assets	2,00,000	2,50,000
(Rs. 10 each)	2,00,000	3,00,000	Current assets	1,80,000	1,70,000
Reserves	3,00,000	–	22,500 shares in		
Profit & Loss A/c	1,00,000	80,000	Z Ltd.	3,00,000	–
Current liabilities	80,000	40,000			
	6,80,000	4,20,000		6,80,000	4,20,000

1. The Profit & Loss A/c of Z Ltd. on 1.1.97 showed a balance of Rs. 20,000.
2. It was agreed that Y Ltd. should charge Z Ltd. Rs. 1,000 per month for services rendered. No entries were passed in their books for the same.
3. Current assets of Z Ltd. include Rs. 10,000 loan receivable from Y Ltd.

[Madras,B.Com,2012]

[Ans: Capital profit — Rs. 20,000; Revenue profit — Rs. 48,000; Minority interest — Rs. 92,000; Goodwill — Rs. 60,000; Balance Sheet total — Rs. 8,50,000]

32. From the Balance Sheets given below, preparea consolidated Balance Sheet of ₹M' Ltd. and its subsidiary 'C' Ltd. The shares were acquired on **1.1.87.**

Balance Sheet as on 30th June 1987

Liabilities	**M Ltd. Rs.**	**C Ltd. Rs.**	**Assets**	**M Ltd. Rs.**	**.0 Ltd. Rs.**
Share capital:			Land & Buildings	1,20,000	20,000
Rs. 10 each	1,50,000	30,000	Machinery	20,000	20,000
General reserve	20,000	–	Current assets	58,000	10,000
Profit & Loss A/c:			*Investment:*		
on 1.7.86	–	4,500	2,000 shares of		
Profit for the year	30,000	6,000	Rs. 10 each in C Ltd.	27,000	–

Creditors	25,000	9,500			
	2,25,000	50,000		2,25,000	50,000

From the following Balance Sheets of H Ltd., and S Ltd., prepare a Consolidated Balance Sheet of I I Ltd., and S Ltd.

Balance Sheets as on 31-12-98

Liabilities	**HRs.**	**.S Rs.**	**Assets**	**H Rs.**	**S Rs.**
Share Capital :			Sundry assets	20,000	8,000
(Shares of Re. 1 each)	12,000	5,000	Investment in 5,000		
Reserve	5,000	1,000	shares of S Ltd.	6,500	–
P&L A/c	2,000	1,000			
Sundry creditors	7,500	1,000			
	26,500	8,000		26,500	8,000

Shares were acquired by H Ltd., 'n S Ltd., on 30-6-98. S Ltd., transferred Rs. 500 **from profits to** Reserve on **31-12-98.**

[Madras, B.C'ont (CS) Nov. 2008; II M.Com.,Ap 2003; B. Corn., (ICE) May 2000] [Periyar, B.Com., Ap 2006; M.Com (CA) Ap 2005; Bharathiar, B.C'ont., Nov. 2004]

[Ans : Capital profit : Rs. 1,250; Revenue profit : Rs. 750; Goodwill : Rs. 250; Balance Sheet total : Rs. 28,250]

[Hint The Sun Co. Ltd. acquired 18,000 shares in the Moon Co. Ltd., on 1st Oct. 1986. The Balance Sheets of the two companies as on 31st Dec. 86 were as under.

Liabilities Sun Co.	***Moon Co. Rs.***	***Assets Rs.***	***Sun Co.***	***Moon Co. Rs.***	***Rs.***
Share capital: '			Sundry assets	1,00,000	2,70,000
Equity shares			Shares in the		
of Rs. 10 each	2,50,000	2,00,000	Moon Co. Ltd.	2,50,000	–
General reserve	50,000	40,000			
Profit & Loss A/c	30,000	20,000			
Creditors	20,000	10,000			
	3,50,000	2,70,000		3,50,000	2,70,000

The Profit & Loss A/c of the Moon Co. Ltd. had a credit balance of Rs. 6.000 onJanuary 1st 1986. The profits of 1986 acquired evenly throughout the year.Prepare the consolidated Balance Sheet as on 31st December 1986.

[Madras, B.Com., (ICE) May 2002]

[Ans: Capital profit — Rs. 56,500; Revenue profit — Rs. 3,500; Minority interest — Rs. 26,000 Goodwill Rs. 19,150; Balance Sheet total — Rs. 3,89,150]

33. The Balance sheets of H Ltd. and S Ltd. on 31.12.95 were as under.

Liabilities	***H Ltd. Rs.***	***S Ltd. Rs.***	***Assets***	***H Ltd. Rs.***	***S Ltd. Rs.***
Acre capital:			Land & Buildings	60,000	–
(shares of			Plant & Machinery	2,00,000	–
Rs. 100 each)	2,00,000	50,000	Stock	40.000	85,000
General reserve	30,000	10,000	Sundry debtors	10,000	30,000
Profit & Loss A/c			Cash at bank	10,000	10,000
Balance on 1.1.95	40,000	20,000	300 shares in		
Profit for 1995	50,000	25,000	S Ltd. at cost	65,000	
Creditors	30,000	30,000	Bills receivable	–	10,000
Bank overdraft	20,000				
Bills payable	15,000				
	3,85,000	1,35,000		3,85,000	1,35,000

Shares were acquired by H Ltd. on 1st July 1995. Bills receivable held by S Ltd. are all accepted by H Ltd. Included in the debtors of S Ltd. is Rs. 6,000 owed by 11 Ltd. in respect of goods supplied.Prepare the consolidated Balance Sheet.

[Madras, B.Com (AF) Ap. 2008; B.C.S. Opt. 2002]

[Ans: Capital profit Rs. 42,500; Revenue profit — Rs. 12,500; Minority interest — Rs. 42,000; Goodwill — Rs. 9,500; Consolidated Balance Sheet total — Rs. 4,48,500]

34. The following are the Balance Sheets of the Sun Ltd. and Moon Ltd. as on Dec. 31, 1996.

Liabilities	***Sun Ltd. Rs.***	***Moon Ltd. Rs.***	***Assets***	***Sun Ltd. Rs.***	***Moon Ltd. Rs.***
Share capital			Fixed assets	1,95,000	70,000
Shares of					
Rs. 10 each	2,00,000	50,000	*Investments:*		
general reserve	50,000	20,000	Shares in Moon Ltd.	60,000	–

P & L A/c balance 1.1.96	30,000	7,500	Debtors	35,000	25,000
			Other current assets	60,000	12,500
Profit for the year 1996	50,000	20,000			
Creditors	20,000	10,000			
	3,50,000	1,07,500		3,50,000	1,07,500

(a) Sun Ltd. purchased on July 1, 1996 4,000 shares in Moon Ltd. at Rs. 15 each.

(b) Stock in Moon Ltd. includes Rs. 7,500 worth of goods purchased from Sun Ltd. which company sells goods at 25% above cost.

(c) Creditors of Moon Ltd. include Rs. 5,000 due to Sun Ltd. Prepare a consolidated Balance Sheet as on December 31.1996.

[Madras, B.Com (AF)Ap 2009]

[Ans: Capital profits - Rs. 37,500; Revenue profits -,Rs. 10,000; Minority interest - Rs. 19,500; Capital reserve - Rs. 10,000; Balance Sheet total - Rs. 3,91,000; Provision for unrealized profit - Rs. 1,500]

35. H Ltd. acquired all the shares in S Ltd. on 1.10.95 and the Balance Sheets of the two companies on 31.12.1995 were as follows:

Liabilities	II Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital	50,000	30,000	Sundry assets	65,000	70,000
General reserve (1.1.95)	20,000	15,000	Shares in S Ltd. at cost	50,000	-
Profit & Loss A/c	25,000	10,000			
Creditors	20,000	15,000			
	1,15,000	70,000		1,15,000	70,000

profit and Loss A/c of S Ltd. had a credit balance of Rs. 3.000 on 1.1.95. The profit of S Ltd. accrued evenly through the year.Prepare consolidated Balance Sheet as on 31.12.95.

[Madras, B.Com (PZ4A) B.A. Corp. March 2001(old)]

[Ans: Capital profit — Rs. 23,250; Revenue profit — Rs. 1,750; Capital reserve — Rs. 3,250; Balance sheet total — Rs. 1,35,000]

36. The following are the Balance Sheets of P Ltd. and N Ltd. as at 31.3.1997.

Liabilities	**P Ltd. Rs.**	**N Ltd. Rs.**	**Assets**	**P Ltd. Rs.**	**N Ltd. Rs.**
Share capital (Rs. 10 each)	3,00,000	2,00,000	Fixed assets	2,50,000	1,30,000
Capital reserve	50,000	–	Goodwill	–	30,000
General reserve	40,000	30,000	Current assets	70,000	1,40,000
Profit & Loss A/c	60,000	40,000	Shares in		
Creditors	50,000	30,000	N Ltd. at cost	1,80,000	—
	5,00,000	3,00,000		5,00,000	3,00,000

P Ltd. acquired 75% of the shares in N Ltd. on 1.7.96. In the case of N Ltd., profit made during the current year is 40,000 and transfer to reserve is Rs. 10.000.Draft a consolidated Balance Sheet of P Ltd. and its subsidiary N Ltd.

[Madras, 1st M.Com Oct. 2008]

[(Ans:.Capital profit — Rs. 40,000; Revenue profit — Rs. 30,000; Minority interest — Rs. 67,500; Cost of control — nil; Goodwill in Balance Sheet — Rs. 30,000; B/S total — Rs. 6,20,000)

[Hint: Assume transfer to reserve as a part of current year profit of Rs. 40,000.]

UNIT – 14

DOUBLE ACCOUNTING SYSTEM

Double Accounting System – Advantages – Disadvantages - Difference between Double accounts system and single accounting system - Replacement of asset - Final accounts of Electricity Companies

Double account system is a system of presenting the final accounts of Public utility concerns like Electricity, Railways and Gas. They need huge amount of fixed capital. They raised it from the public by way of selling securities. So they have to disclose the full details regarding rising of funds and how they are utilized.

14.1 ADVANTAGES OF DOUBLE ACCOUNT SYSTEM

1. Capital account

The preparation of Receipts and Expenditure on capital a/c explains how funds are raised and the purpose for which they are applied

2. Replacement of fixed assets

Every year amount of depreciation on fixed asset is maintained in a separate account namely depreciation reserve account. It is easy to replace the fixed assets by using that reserve amount.

3. Operating and non-operating activities

Operating and non-operating activities can be compared easily because they are recorded separately in revenue and net revenue a/c respectively

4. Control over current assets and liabilities

Only current assets and current liabilities are given in general balance sheet. So we can have a control over them.

5. Service at reasonable cost

By preparing final accounts, a Public utility concern ensures that they render service at reasonable cost.

14.2 DISADVANTAGES OF DOUBLE ACCOUNT SYSTEM

1. It is not prudent to show the fixed assets at cost price. The balance sheet will not disclose correct financial position of electricity companies as on a particular date.
2. Ordinary public cannot easily understand the final accounts of Electricity companies.
3. It is impossible to find the exact amount required for replacement of fixed asset.

14.3 DIFFERENCE BETWEEN DOUBLE ACCOUNTS SYSTEM AND SINGLE ACCOUNTING SYSTEM

Basis	Single accounting system or Double entry system	Double accounting system
Meaning	Single accounting system involves preparation of financial statements and one balance sheet	Double accounting system involves preparation of financial statements and balance sheet in two parts
Final accounts	Final accounts consists of trading, P & L a/c and balance sheet	Final accounts consists of revenue a/c, net revenue a/c, receipts and expenditure on capital a/c and general balance sheet
Content of balance sheet	Both fixed and current assets and liabilities are given	Fixed assets and fixed liabilities are recorded in receipts and expenditure on capital a/c and current assets and current liabilities are given in general balance sheet
Purpose of balance sheet	To know the financial position as on a particular date	To know the sources in which funds are raised and the purpose for which they are invested
Usage of the words To and By	In balance sheet we never use the words To or By in liability side and assets side respectively	We use the words To and By in liability side and assets side in both receipts and expenditure on capital a/c and general balance sheet
Value of fixed assets	Fixed assets are shown in reduced valued in every year i.e. depreciation should be deducted.	Fixed assets are shown in cost price only. Depreciation amount is recorded in a reserve a/c which is shown in liability side.

14.4 REPLACEMENT OF ASSET

I. Calculation of Estimated Cost:

Original cost of old work	xxx
Add: Increases if any	xxx
Estimated cost	xxx

II. Amount to be capitalized:

Actual cost of new work	xxx
Less: Estimated cost	xxx
Capitalized amount	xxx

III. Amount to be taken to revenue account:

Estimated cost of old assets		xxx
Less: Materials sold	xxx	
Materials reused	xxx	xxx
Revenue account		xxx

Journal Entries

1.For amount spent on new work: New works a/c Dr (Capitalized amount) Replacement a/c Dr (Estimated cost) To Bank a/c	
2.For sale of old materials: Bank a/c Dr To Replacement a/c	**3.For value of old materials reused:** New works a/c Dr To Replacement a/c
4.For amount taken to revenue a/c: Revenue a/c Dr To Replacement a/c	

Illustration -1 A power house was originally built for ₹8,00,000 is to be replaced by a new one. The total cost of construction is ₹28,00,000. The estimated cost of construction of the original size power is ₹12,00,000. Materials used in new construction is ₹40,000 and old materials worth ₹20,000 are sold.

Prepare a statement showing allocation between capital and revenue expenditure and pass necessary journal entries.

Solution

Estimated cost – ₹12,00,000

Capitalized amount

Cost of new work	₹28,00,000
(-) Estimated cost	₹12,00,000
Capitalized	₹16,00,000

Revenue amount

Estimated cost		₹12,00,000
(-) Materials sold	₹20,000	
Materials reused	₹40,000	₹60,000
	Revenue	₹11,40,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	16,00,000	
Replacement a/c	Dr	12,00,000	
To Bank a/c			28,00,000
(Being amount spent on new work)			
Bank a/c	Dr	20,000	
To Replacement a/c			20,000
(Being sale of old materials)			
New works a/c	Dr	40,000	
To Replacement a/c			40,000
(Being value of old materials reused)			
Revenue a/c	Dr	11,40,000	
To Replacement a/c			11,40,000
(Being amount taken to revenue a/c)			

Illustration -2 Indian gas company rebuilt and reequipped part of their works at a cost ₹50,00,000. The part of old works, thus superseded cost ₹30 lacs. The capacity of the new work is double the capacity of the old. ₹2.50,000 is realized by the sale old materials and the old materials worth ₹1,50,000 are used in the construction of new work in addition to the total cost of ₹50,00,000 mentioned above. The cost of material is increased by 25% now then when the old work was built.

Journalize.

Solution

Estimated cost

Original cost	₹30,00,000
Add: 25%	₹7,50,000
Estimated cost	₹37,50,000

Capitalized amount

Cost of new work	₹50,00,000
(-) Estimated cost	₹37,50,000
	₹12,50,000

Revenue amount

Estimated cost		₹37,50,000
(-) Material sold	₹2,50,000	
Materials reused	₹1,50,000	₹4,00,000
		₹33,50,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	12,50,000	
Replacement a/c	Dr	37,50,000	
To Bank a/c			50,00,000
(Being amount spent on new work)			
Bank a/c	Dr	2,50,000	
To Replacement a/c			2,50,000
(Being sale of old materials)			
New works a/c	Dr	1,50,000	
To Replacement a/c			1,50,000
(Being value of old materials reused)			
Revenue a/c	Dr	33,50,000	
To Replacement a/c			33,50,000
(Being amount taken to revenue a/c)			

Illustration -3 The Tamil Nadu Electricity Ltd. decides to replace one of its old plants with modern one with a larger capacity. The plant when installed in 1980 cost the company is ₹24,00,000, the components of materials, labour and overhead being in the ratio 5:3:2. It is ascertained that the cost of material and labour have gone up by 40% and 80% respectively. The proportion of overheads to total cost is expected to remain the same as before. The cost of new plant as per impressed design is ₹60,00,000 and in addition materials recovered from the old plant of the value of ₹2,40,000 has been used in the construction of new plant. Old plant was scrapped and sold for ₹7, 50,000.

Journalize.

Solution

	Cost of exiting plant ₹	Increase in %	Current cost ₹
Material (5/10)	12,00,000	40%	16,80,000
Labour (3/10)	7,20,000	80%	12,96,000
Total	19,20,000		29,76,000
Overhead (2/10)	4,80,000	19,20,000 = 4,80,000 29,76,000 = ?	7,44,000
Total	24,00,000		37,20,000

Capitalized amount

Cost of new work	₹60,00,000
(-) Estimated cost	₹37,20,000
	₹22,80,000

Revenue amount

Estimated cost		₹37,20,000
(-) Material sold	₹2,40,000	
Materials reused	₹7,50,000	₹9,90,000
		₹27,30,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	22,80,000	
Replacement a/c	Dr	37,20,000	
To Bank a/c			60,00,000
(Being amount spent on new work)			
Bank a/c	Dr	7,50,000	
To Replacement a/c			7,50,000
(Being sale of old materials)			
New works a/c	Dr	2,40,000	
To Replacement a/c			2,40,000
(Being value of old materials reused)			
Revenue a/c	Dr	27,30,000	
To Replacement a/c			27,30,000
(Being amount taken to revenue a/c)			

Final Accounts of Electricity Company

1. Revenue Account

Particulars	Amount	Particulars	Amount
To Cost of generation	xxx	By Sale of energy for light	xxx
" Cost of distribution	xxx	" Sale of energy for power	xxx
" Rent, rates & taxes	xxx	" Sale of energy under public Contracts	xxx
" Management exp.	xxx	" Public lights	xxx
" Law charges	xxx	" Rent receivable	xxx
" Depreciation	xxx	" Transfer fees	xxx
" Bad debts	xxx	" Other incomes	xxx
" Bal. transferred to net revenue a/c (b/f)	xxx	" Reconnection & disconnection fees	xxx
		" Sale of assets	xxx
		" Meter rent	xxx
		" Sale of current	xxx
	xxx		xxx

2. Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	xxx	By Balance from revenue a/c	xxx
" Interim dividend	xxx	" Interest on bank a/c	xxx
" Interest on security deposits	xxx	" Interest on calls in arrears	xxx
" Interest on fixed loan	xxx	" Govt. Subsidiary	xxx
" Transfer to contingency reserve	xxx	" Interest earned	xxx
" Tariff and dividend control reserve	xxx		
" Income tax	xxx		
" Bal. carried to General B/S (b/f)	xxx		
	xxx		xxx

3. Receipts and Expenditure on Capital a/c

Expenditure	Last year	CY	Total	Receipts	Last year	CY	Total
To Building	xxx	xxx	xxx	By Share capital	xxx	xxx	xxx
" Machinery	xxx	xxx	xxx	" Debentures	xxx	xxx	xxx
" Land	xxx	xxx	xxx	" Share premium	xxx	xxx	xxx
" Mains	xxx	xxx	xxx				
" Meters	xxx	xxx	xxx				
Total	xxx	xxx	xxx	Total	xxx	xxx	xxx
Bal. to General B/S (b/f)			xxx	Bal. to General B/S (b/f)			xxx
			xxx				xxx

4. General Balance Sheet

Liabilities	Amount	Assets	Amount
Total of receipts	xxx	Total of expenditures	xxx
Net revenue a/c balance	xxx	Stores on hand	xxx
Depreciation fund	xxx	Debtors	xxx
Creditors	xxx	Cash at bank	xxx
Bills payable	xxx	Bills receivable	xxx
Bank overdraft	xxx		
	xxx		xxx

14.5 FINAL ACCOUNTS OF ELECTRICITY COMPANIES

Some of the important provisions of the electricity (supply) act of 1948 which have a bearing on the preparation of final accounts are discussed below:

1. Depreciation

1. There are two methods of depreciation are recognized. They are the compound interest method and straight line method.
2. Depreciation is not provided of the asset has been written down to 10% of its original cost.
3. When a fixed asset is discarded, the written down value of the asset is transferred to discarded asset account. Any profit or loss in discarding is transferred to contingency reserve account.

2. Reasonable return

The law is not allowing electricity undertaking to earn too high profit. But a reasonable return is permitted.

Reasonable return =	An yield at standard rate (*reserve bank rate + 2% on capital base*) + income derived from investment + an amount equal to ½% on loans + an amount equal to ½% on development reserve + ½% on debentures.

3. Computation of capital base

Add:

a) Original cost of fixed assets

b) Cost of intangible assets

c) Original cost of works in progress

d) Amount of investments against contingency reserve

e) Monthly average of the stores, materials, supplies and cash and bank balances.

Less:

a) Amounts written off for depreciation

b) Loans advanced by the board

c) Debentures

d) Security deposits of consumers

e) Amount in the credit of tariff and dividends control reserve.

f) Amount set apart for development reserve.

g) Balance in consumers benefit reserve.

4. Clear profit

Clear profit means the difference between the total income and the total expenditure and specific appropriations.

5. Disposal of surplus

Surplus = clear profit – reasonable return

Surplus has to be disposed as under:

1. 1/3 of the surplus not exceeding 5% of the reasonable return is at the disposal of the undertaking.
2. Of the balance, ½ is transferred to tariffs and dividends control reserve.
3. The remaining balance is distributed among consumers.

6. Contingency reserve

This reserve is created by transferring from the revenue account an amount equivalent to minimum ¼% to maximum ½% of the original cost of the fixed assets. This reserve is created until it equals 5% of the original cost of the fixed assets.

Illustration -4 The following balances extracted from the books of City Light Supply Corporation Ltd. as on 31.3.16. Prepare capital account, revenue account, net revenue account and general balance sheet.

Particulars	**Debit `**	**Particulars**	**Credit `**
Capital Expenditure 31.3.2015	2,85,000	Equity shares	1,64,700
Capital Expenditure 2015-16	18,300	Debentures	60,000
Debtors for current supplied	12,000	Sundry Creditors	300
Other debtors	150	Depreciation account	75,000
Stores on hand	1,500	Sale of Current	39,000
Cash	1,500	Meter Rent	1,500
Cost of generation of electricity	9,000	Balance of Net Revenue account as on 31.3.2015	8,550
Cost of distribution of electricity	1,500		
Management Expenses	3,600		
Rent	1,500		
Depreciation	6,000		
Interest on debentures	3,000		
Interim dividend	6,000		

Solution

Revenue Account

Particulars	**Amount**	**Particulars**	**Amount**
To Cost of generation of electricity	9,000	By Sale of Current	39,000
“ Cost of distribution of electricity	1,500	“ Meter Rent	1,500

“ Management Expenses	3,600		
“ Rent	1,500		
“ Depreciation	6,000		
“ Bal. to Net revenue a/c	18,900		
	40,500		40,500

Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	3,000	By Bal. of net revenue a/c	8,550
“ Interim dividend	6,000	“ Bal. from revenue a/c	18,900
“ Bal. carried to B/S	18,450		
	27,450		27,450

Receipts and Expenditure on Capital Account

Exp.	Last	Current	Total	Receipts	Last	Current	Total
Capital Exp.	2,85,000	18,300	3,03,300	Equity shares	1,64,700	---	1,64,700
				Debentures	60,000	----	60,000
			3,03,300				2,24,700

General Balance Sheet

Liabilities	Amount	Assets	Amount
Sundry Creditors	300	Total of Exp.	3,03,300
Depreciation account	75,000	Debtors for current supplied	12,000
Total of receipts side	2,24,700	Other debtors	150
Bal. from net revenue a/c	18,450	Stores on hand	1,500
		Cash	1,500
	3,18,450		3,18,450

Illustration -5 The following balances are extracted from the books Sakthi Ltd. on 31st March 2016.

Debit balances	Amount in ₹	Credit balances	Amount in ₹
Land on 1-4-2015	60,000	Ordinary share capital	2,19,600
Land purchased during the year	2,000	Debentures	80,000

Machinery on 1-4-2015	2,40,000	Creditors	400
Machinery purchased during the year	2,000	Depreciation provision	1,00,000
Main on 1-4-2015	80,000	Sale of current	52,000
Main expanded during the year	20,400	Rent of motors	2,000
Debtors for current supplied	16,000	Net revenue a/c on 1-4-15	11,400
Other debtors	200		
Cash	2,000		
Cost of generation of electricity	14,000		
Cost of distribution of electricity	2,000		
Rent and taxes	2,000		
Administrative expenses	4,800		
Depreciation	8,000		
Interest on debentures	4,000		
Interim dividend paid	8,000		
	4,65,400		4,65,400

Prepare capital a/c, general balance sheet, revenue a/c and net revenue a/c.

Solution

Revenue Account

Particulars	**Amount**	**Particulars**	**Amount**
To Cost of generation of electricity	14,000	By Sale of current	52,000
" Cost of distribution of electricity	2,000	" Rent of motors	2,000
" Rent and taxes	2,000		
" Administrative expenses	4,800		
" Depreciation	8,000		
" Bal. carried to net revenue a/c (b/f)	23,200		
	54,000		54,000

Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	4,000	By Bal. b/d	11,400
" Interim dividend paid	8,000	" Bal. from revenue a/c	23,200
" Bal. carried to B/S (b/f)	22,600		
	34,600		34,600

Receipts and Expenditure on Capital Account

Expenditure	Last	Current	Total	Receipts	Last	Current	Total
Land	60,000	2,000	62,000	Eq. shares	2,19,600	–	2,19,600
Machinery	2,40,000	2,000	2,42,000	Debentures	80,000	–	80,000
Main	80,000	20,400	1,00,400				
Total	3,80,000	24,400	4,04,400	Total	2,99,600	–	2,99,600
				Bal.	80,400	24,400	1,04,800
	3,80,000	24,400	4,04,400		3,80,000	24,400	4,04,400

General Balance Sheet

Liabilities	Amount	Assets	Amount
Total of capital receipts	2,99,600	Total of capital Expenditures	4,04,400
Creditors	400	Drs for current	16,000
Net revenue a/c bal.	22,600	Other debtors	200
Depreciation fund a/c	1,00,000	Cash	2,000
	4,22,600		4,22,600

Disposal of Profits

Illustration - 6

The following balances relate to an electricity company and pertain to its accounts for the year ended 31.12.2013.

Share capital	1,00,00,000
Reserve Fund (invested in 5% Govt. securities at par)	60,00,000
Contingencies Reserve (Invested in 6% State Govt.Loan)	20,00,000
Loan from State Electricity board	30,00,000
11% Debentures	8,00,000
Development Reserve	10,00,000
Fixed Assets	20,00,000
Depreciation Reserve on Fixed Assets	80,00,000
Consumer Deposits	75,00,000
Amount Contributed by consumers towards cost of Fixed assets	
Intangible assets	2,00,000
Tarrifs and Dividends control reserve	5,00,000
Current Assets (Monthly average)	6,00,000
	20,00,000

The company earned a profit of Rs.9 lakhs. Show how the profits of the company will be delat with under the provisions of the electricity act, assuming that the bank rate during the year was 8%. All working should form part of your answer.

Solution:

I Computation of Capital Base:		
Fixed assets		2,00,00,000
Intangible Assets		5,00,000
Monthly Average of Current Assets		20,00,000
Investments against Contingency reserve		20,00,000
		2,45,00,000
Less:		
Depreciation reserve	80,00,000	
Loan from state electricity board	30,00,000	
11% Debentures	8,00,000	
Development Reserve	10,00,000	
Consumer deposits	75,00,000	
Amount Contributed by Customers	2,00,000	
Tarrifs and dividend control Reserve	6,00,000	
		2,11,00,000
Capital base		34,00,000

II Computation of Reasonable return:	
Return on capital base @ 10%	
(ie RBI Rate 8% + 2%)=10% × 34,00,000	
Return on reserve fund Investment	3,40,000
(60,00,000 × 5%)	
½ on Electricity Board Loan	3,00,000
(30,00,000× ½%)	
½ % on debentures (8,00,000 × ½ %)	15,000
½% On development Reserve (10,00,000 × ½%)	4,000
Reasonable return	5,000
	6,64,000
III Computation of surpklus and Amount Refundable to consumers:	
Clear profit (Given)	
Less: Reasonable Return	9,00,000
Surplus	6,64,000
Less: 20% of Reasonable return	
(6,64,000 × 20%)	2,36,000
Amount Refundable to customers	1,32,800
IV Computation of Disposal of balance surplus of Rs.1,32,800	1,03,200
A. Availablity to the company for its disposal: 1/3 ×1,32,800 or 5% of Reasonable Return	
Whichever is less (6,64,000×5%)	
44,267 (or) 33,2000 (W.E.L)	
B. Credited to tariffs and Dividend	33,200
Control Reserve (1,32,800-33,200): 99,600×1/2	
C. Credited to consumers benefit Reserve	49,800
(1,32,800-33,2000)= 99,600×1/2	
	1,32,800
Total	
V Computation of total amount at the disposal of the company:	
Reasonable return	6,64,000
Add: Share in surplus	33,200
	6,97,200

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Under double accounts system, ------ are recorded in general balance sheet
   a) **Current assets and current liabilities**
   b) Fixed assets and fixed liabilities
   c) Fixed liabilities and current liabilities
   d) Fixed assets and current assets

2. Under double accounts system, fixed assets and fixed liabilities are recorded in ---------
   a) General balance sheet b) **Receipts and Expenditure on Capital a/c**
   c) Revenue a/c d) Net Revenue a/c

3. Revenue a/c is just like -------
   a) **P & L a/c** b) P & L Appropriation a/c
   c) Net revenue a/c d) Balance sheet

4. Net Revenue a/c is just like -------
   a) P & L a/c b) **P & L Appropriation a/c**
   c) Net revenue a/c d) Balance sheet

5. Under double accounts system, fixed assets are shown at
   a) **Cost price** b) Depreciated price
   c) Realized value d) Market value

6. Interest on loan appears on
   a) General balance sheet b) Receipts and Expenditure on Capital a/c
   c) Revenue a/c d) **Net Revenue a/c**

7. Balance of net revenue a/c is transferred to
   a) **General balance sheet** b) Receipts and Expenditure on Capital a/c
   c) Revenue a/c d) Net Revenue a/c

8. When old materials are sold ------- a/c is to be credited
   a) Bank b) **Replacement**
   c) New works d) Materials

9. Balance if any on replacement a/c is transferred to
   a) General balance sheet b) Reserve a/c
   c) **Revenue a/c** d) Net Revenue a/c

10. Cost of license is shown in the
    a) General balance sheet
    b) Receipts and Expenditure on Capital a/c
    c) Revenue a/c
    d) Net Revenue a/c

11. Cost of new work ₹3,00,000; Estimated cost Rs.1,00,000; Find the amount to be capitalized
    a) ₹4,00,000
    b) **₹2,00,000**
    c) ₹1,00,000
    d) ₹3,00,000

12. Amount to be taken to revenue a/c is equal to
    a) Estimated cost
    b) Estimated cost plus sale of old materials
    c) **Estimated cost minus old materials reused**
    d) Estimated cost plus old materials reused

13. Estimated cost is equal to
    a) Cost of old work
    b) Cost of new work
    c) **Cost of old work with adjustments if any**
    d) Cost of new work with adjustments if any

14. In general balance sheet, depreciation is recorded in
    a) Assets side
    b) **Liability side**
    c) Receipts side Expenditure side
    d) Less from assets

15. The way of presentation of balance sheet in the form of a capital account and a general balance sheet is known as
    a) Double entry system
    b) **Double accounting system**
    c) Single accounting system
    d) Single entry system

16. The original cost of an asset is ₹1,00,000. Present cost of replacement is ₹1,30,000. Amount spent on replacement is ₹1,52,000. The amount chargeable to revenue will be
    a) ₹30,000
    b) **₹22,000**
    c) ₹52,000
    d) ₹12,000

17. Under double accounts system interest is debited in
    a) Revenue account
    b) **Net revenue account**
    c) General balance sheet
    d) P & L a/c

18. Under double accounts system, the account prepared to find out profit is
    a) **Revenue account**
    b) General balance sheet
    c) P & L a/c
    d) Trading account

19. The difference between the replacement cost and sale price of goods is ---------

    a) Holding gain   b) Operating gain
    c) Capital gain   d) Revenue gain

20. Under double accounts system interest is debited in

    a) Revenue a/c   **b) Net revenue a/c**
    c) General balance sheet   d) P & L a/c

21. Under double accounts system to find out the profit the a/c prepared is

    a) Revenue a/c   b) Trading a/c
    c) General balance sheet   d) P & L a/c

22. Under double account system, the P & L a/c is termed as --------

    a) Income and Expenditure a/c   b) Net revenue a/c
    c) Revenue a/c   d) Capital a/c

23. When an asset is replaced, any amount realized on sale of old materials will be

    a) Credited to replacement a/c b) Credited to asset a/c
    c) Credited to revenue a/c   d) Debited to revenue a/c

24. Preliminary expenses is shown on

    a) Asset side in the general balance sheet
    b) Debit side of net revenue a/c
    c) Debit side of the receipts and expenditure a/c
    d) Credit side of the receipts and expenditure a/c

REVIEW QUESTIONS

A) Answer in short

1. What is called double account system?
2. Write any two advantages of double account system.
3. What are the limitations of double account system?
4. How do you compute the amount to be charged to revenue account in case of replacement of an asset?
5. State the rules relating to calculation of reasonable return.
6. What are the provisions relating to 'Disposal of surplus?

B) Answer in detail

1. Explain how will you calculate the value of replacement of asset.
2. Distinguish double account system from single account system.
3. Discuss the advantages and disadvantages of double account system.
4. Bring out the format of "Revenue a/c" of an electricity supply company.
5. Explain how depreciation is treated under the double account system.
6. Briefly explain the provisions relating to reasonable return and disposal of surplus of an electric supply company.
7. Write short notes on
   i. Clear profit
   ii. Contingency reserve
   iii. Capital base

EXERCISES

REPLACEMENT OF ASSET

1. A water supply concern had to replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was ₹8,00,000; the auxiliary main cost ₹9,00,000 and the new main cost ₹3,50,000. It is estimated that cost of laying a main has gone up by 30%. Parts of the old main realized ₹15,000.

   Pass the necessary journal entries to record the above transactions.

2. Milan Co. Ltd. rebuilds its works at a cost of ₹3,30,000. In the process, it completely replaces a part of the old works which had cost ₹1,30,000. In constructing the new works old materials worth `4,600 has been used and the value is included in the cost of new works. The balance of the materials resulting from the old works which are replaced is sold for ₹8,400. In the case of works which are replaced the cost of materials was 70% and of labour 30% and the present cost of material and labour have increased by 12% and 15% respectively.

   Assuming the accounts are maintained under the double account system determines the amount to be capitalized and the net charge to revenue and pass journal entries.

3. A railway station was built in 2001 at a cost of ₹3,00,000. It was replaced in 09 by a new railway station at a cost of ₹16,00,000. Since 2001 prices of materials have raised by 150% and labour rates have tribled. The proportion of materials and labour in the old station was 2:3. Old

materials valued at ₹25,000 are used in the construction of new station and included in the cost of ₹16,00,000. ₹42,000 are realized by the sale of old material.

Give journal entries for recording the above transactions.

4. An Electric Supply Co. rebuilds its main at a cost of ₹19,90,000. This excluded value of ₹13,800 material used for new one. The original mains were constructed at a cost of ₹9,90,000. The ratio of material and labour then was 7:3. The increase in material price is 12.5% and wage rates 15%. Materials worth ₹22,200 from old works were sold.

   Show journal entries and prepare works and replacement account under double account system for the above and determine net replacement cost.

5. Electricity Company decides to replace one of its plants with a modern one with a large capacity. The plant when installed in 1970 costs the company ₹12 Lakhs, the components of materials, labour and overheads being 5:3:2. It is assumed that the cost of materials and labour have gone up by 40% and 80% respectively. The proportion of the new plant as per improved design is ₹30 Lakhs and in addition material recovered from the old plant of a value of ₹1,20,000 has been used in the construction of the new plant. The old plant was sold for ₹3,75,000.

   Indicate how much would be capitalized and the amount that would be charged to revenue. Show journal entries.

6. A gas company laid down a main at a cost of ₹15,00,000. Some years later, an auxiliary main was laid for a quarter of the length of the old main at a cost of ₹5,00,000 and replaced the rest of the main at a cost of ₹18,00,000, the cost of laying the main having increased by 20% in the meanwhile. Old material of the value of ₹1,00,000 was used in replacing and is included in the cost of ₹18,00,000 and old material sold fetched ₹1,50,000.

   Give journal entries to record the above in the books of the company and give the principle on which allocation between capital and revenue is made.

7. An electricity company laid down a main at a cost of ₹2,50,000. Some years later, the company laid down an auxiliary main for $1/5^{th}$ of the length of the old main at a cost of ₹75,000 and also replaced the rest of the length of the old main at a cost of ₹3,00,000. Sale of old materials realized ₹4,000. Old materials valued at ₹5,000 were used in the construction of the auxiliary main.

   Calculate revenue and capital expenditure incurred from the above transaction.

8. The Indian Gas company rebuilt their works with double the capacity at a cost of ₹8,00,000. The cost of the part of old works was ₹3,50,000. In working the new works, old material of ₹15,000 was reused and materials worth ₹25,000 were sold away. The cost of labour and materials are 50% higher now than when the old works were built.

   Pass necessary journal entries.

9. An electric company laid a main at a cost of ₹50 Lakhs. Some years later, the company laid down an auxiliary main for 1/5 of the length of the old main at a cost of ₹15 Lakhs. It also replaced the rest of the length of the old main at a cost of ₹60 Lakhs. The cost of materials and labour having gone up by 15% sale of old materials realized ₹80,000 old materials is valued at ₹1,00,000 were used in renewal and those valued at ₹50,000 were used in the construction of auxiliary main.

   You are required to give the journal entries for recording the above transactions.

10. The directors of the New Cinema Ltd., having received complaints from their engineer regarding the defective audiography of their cinematographic machinery decided to replace it by one of greater capacity and power. The old machinery was obtained at the cost of ₹20,000/- but the cost has in the meantime increased by 50% in the aggregate. The estimated cost of the new machinery ₹50,000/- and the old machinery would realise ₹5,000 only.

    You are required to allocate the cost of ₹50,000/- between capital and revenue expenditure and to give the necessary journal entries for recording the above transactions in the books of the company.

11. An Electric Supply Co. rebuilds its Mains at the cost of ₹19,90,000/- This includes value of ₹13,800/- Material of old Main used for new one. The original Mains were constructed at a cost of ₹9,90,000/- The ratio of material and labour was 7:3. The increase in material prices is 12.5% and wage rates 15%. Materials worth ₹25,200/- from old works were sold.

    Show journal entries under Double Account System for the above and determine the net cost of replacement.

12. The Calcutta Electric Co. Ltd. decides to replace a plant which was constructed 20 years back at the cost of ₹15,00,000 by an improved one. The cost of the new plant is ₹65,00,000. Materials of the old plant valued at ₹1,00,000 are used in the reconstruction and included in the cost of ₹65,00,000. Balance of the materials of the old plant is disposed of for ₹50,000. The estimated cost of constructing a plant of the original size and capacity is ₹25,00,000.

    Show how the expenditure should be apportioned between capital and revenue.

13. Kalyani Water Works Co. Ltd. Decides to replace an old plant with a modern one with larger capacity. The cost of the plant when installed in 1970 was ₹24,00,000 the components of materials, labour and over heads being in the ratio 5:3:2. It is ascertained that the costs of materials and labour have gone up by 40% and 80% respectively. The proportion of overheads to total cost is expected to remain the same as before.

    The cost of the new plant as per improved design is ₹60,00,000 and in addition, materials of the old plant worth ₹2,40,000 have been used in the construction of the new plant. The old plant was scrapped and sold for ₹7,50,000. The accounts of the company are maintained under Double Account System.

    Determine the about to be capitalised and the amount to be charged to revenue. Also Show the Journal Entries.

14. Calcutta Gas Co. Ltd. rebuilds its works at the cost of ₹3,30,000. In the process, it completely replaces a part of the old works which had cost ₹1,30,000, In constructing the new works, old materials worth ₹4,600 have been used and the value is included in the cost of the new works. The balance of the materials resulting from the old works, which are replaced, is sold for ₹10,000. In the cost of the works which are replaced, the cost of material was 70% and of labour 30% and the present cost of material and labour have increased by 12.5% and 15% respectively.

    Assuming the accounts are maintained under Double Account System, determine the amount to be capitalised and the net charge to revenue.

15. The National Gas Co. Ltd., incurred an expenditure of ₹7,70,000/-to rebuild and re-equip a part of their works. The part of the old works thus superseded cost originally ₹3,00,000/- The capacity of the new works is double the capacity of the old one. A sum of ₹60,000 is realised by sale of the old materials; and old materials of the value of ₹30,000/- are further used in the construction of the new works. The cost of materials and labour has gone up by 30% and 20% respectively since the old works were built. The cost constitutes 3/5th materials and the balance labour.

    Give journal entries to record the above transaction.

16. The Oriental Gas Co. Ltd. incurred an expenditure of ₹23,10,000/- to re-build a part of their works. The relevant part of the old works had cost originally ₹9,00,000/- The capacity of the new works is double the capacity of the old one. A sum of ₹1,80,000/- is realised by the sale of old materials; and old materials of the value of ₹90,000 are further used in the construction of the new works. The cost of materials and labour has gone up by 30% and 20% respectively since the old works were built. The cost constitutes 3/5th for materials and the balance for labour.

    Show journal entries to record the above transactions.

17. An electricity company laid down a main at a cost of ₹5,00,000. Some years later, the company laid down an auxiliary main for one-fifth of the length of the old main at a cost of ₹1,50,000. It also replaced the rest of the length of the old main at a cost of ₹6,00,000 the cost of materials and labour having gone up by 15%. Sale of old materials realised ₹8,000/- .Old materials valued at ₹10,000 were used in renewal and those valued at ₹5,000 were used in the construction of the auxiliary main.

    You are required to give the journal entries for recording the above transactions.

18. The ABC Electricity Company decided to replace some parts of its plant by an improved plant, The plant to be replaced was built in 1958 for ₹27,00,000. It is estimated that it would now cost ₹40,00,000 to build a new plant of the same size and capacity. The cost of the new plant as per the improved design was ₹85,00,000 and in addition material belonging to the old plant valued at ₹2,75,000 was used in the construction of the new plant. The balance of the plant was sold for ₹1,50,000.

    Compute the amount to be written off to revenue.

19. An Electricity Company laid down a Main at a cost of ₹16,00,000. Some years later the company laid down an auxiliary Main for one-fourth of the old main at a cost of ₹6,00,000. It also replaced the rest of the length of the old Main at a cost of ₹18,00,000, the cost of material and labour having gone up by 15%. Sale of old materials realised ₹40,000. Old materials valued at ₹40,000 were used in renewal and those valued at ₹60,000 were used in Auxiliary Main.

    Show the Journal Entries for recording the above transactions.

PREPARATION OF FINAL ACCOUNTS

20. From the following particulars for the year ended December 31,2015 prepare, under the Double Account System, the (i) Receipts and Expenditure on Capital Account and (ii) General Balance Sheet of an Electric Supply Company.

Debit	**₹**	**Credit**	**₹**
Instruments and Appliances	64,000	Equity shares of ₹1,000 each, ₹800 per share paid up	48,00,000
Freehold Lands	9,00,000	6% Debentures	14,00,000
Plant and Machinery	23,35,000	Depreciation Fund	5,00,000
Mains	4,60,000	Sundry Creditors	1,70,000
Sundry Machine Room Materials	10,000	Balance of Net Revenue Account	6,80,000
Meters	40,000		
Building	12,00,000		
Office Furniture	30,000		
Fuel	45,000		
Sundry Machine Parts	50,000		
Sundry Debtors	3,50,000		
Investments	9,00,000		
Cash in hand and at Bank	7,90,000		
Stock of General Stores	3,76,000		
	75,50,000		75,50,000

21. The following are the balances on 31-12-16 in the books of Dhoopguri Power Supply Co. Ltd.:

Debit	**₹**	**Credit**	**₹**
Land on 31.12.15	3,00,000	Equity share capital	10,98,000
Outlay on land during 2016	10,000	Debentures	4,00,000

Machinery on 31.12.15	12,00,000	Sundry Creditors	2,000
Outlay on Machinery during 2016	10,000	Depreciation Reserve	5,00,000
Mains including cost of laying on 31/12/15	4,00,000	Sale of Current	2,60,000
Outlay on Mains during 16	1,00,000	Rent of Meters	10,000
Sundry debtors for current supplied	80,000	Balance of Net Revenue Account on 31/12/15	57,000
Other debtors	1,000		
Cash	12,000		
Cost of generating electricity	70,000		
Cost of distributing electricity	10,000		
Rent rates and taxes	10,000		
Management expenses	24,000		
Depreciation	40,000		
Interest on Debentures	20,000		
Interim Dividend	40,000		
	23,27,000		23,27,000

From the above Trial Balance, prepare (a) Capital Account, (b) General Balance Sheet, (c) Revenue Account and (d) Net Revenue Account.

22. The following are the balances taken from the books of Guntur Power and Light Company of 31-12-2015 and 31-12-2016.

31-12-15		**Debit (₹)**	**Credit (₹)**
1,00,000	Share capital	–	1,25,000
75,000	Debentures	–	75,000
5,600	Depreciation fund	–	5,000
	Calls in arrears	5,000	–
46,500	Freehold land	46,500	
20,000	Building	25,000	
30,000	Machinery	50,000	
25,000	Mains	40,000	

5,000	Transformer	10,000	
2,500	Meters	7,500	
1,500	Electrical materials	2,000	
10,250	Office furniture	13,000	
	Coal	9,500	
	Oil, fuel	3,750	
	Coal stock	500	
	Repairs	2,500	
	Taxes	1,500	
	Salary	7,500	
	Directors fees	15,000	
	Stationary	3,000	
	Sundry expenses	500	
	Law charges	1,000	
	Sale of meters		43,750
	Meter rent		1,500
	Creditors		5,000
	Debtors	20,000	
	Cash	16,500	
	Sales		25,000
		2,80,250	2,80,250

Depreciation: Building 5%, Machinery 10%, Main 5%, Transformers 10% and Meter 20%.Prepare final accounts.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Ratnakar Electricity Supply. Co.Ltd (which adopts the double accounting system) rebuilt and reequipped A power station and connecting lines during the year 2004.

   For the purpouse they purchased materials of Rs.10,85,000 and used stores worth Rs. 4,90,000 from their exisisting stock. The cost of Labour came to Rs. 5,22,000. The estimated supervisory overheads attributed to this project were Rs.13,000.the station was erected in 1987 at a cost of Rs.5,00,000 and the index of costs in the line stood in 2004 @385 taking 1987 as the base year. Discarded materials from the Old station fetched Rs.12,000. Show the journal entries to record the entries relating to new station.

   [Madurai, M.Com, Nov,2015]

2. A water supply concern had to replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was Rs. 4, 00,000. The auxiliary main cost Rs. 4, 50,000 and the new main cost Rs. 1,75,000. It is estimated that the cost of laying a main has gone up by 30%. Part of the old main realized Rs. 15,000.

   [Madras, B.Com. (CS). Nov. 20081 Bharathiar, B.Com., Nov. 2004

   [Ans : Amount to be charged to revenue Rs. 1,15,000 ; Amount to be capitalized Rs. 4,95,000 (45,000 + 4,50,000)]

3. The Indian Gas company rebuilt their works with double the capacity at a cost of Rs. 8,00,000. The cost of the part of old works was Rs. 3,50,000. In working the new works, old material of Rs. 15,000 was reused and material worth Rs. 25,000 was sold away. The cost of labour and materials are 50% higher now than when the old works were built. You are required to make necessary calculations and give journal entries.

   (Madras, M.Com. (ICE) Oct. 2004;)

   [Ans : Current Replacement cost Rs. 5,25,000 ; Amount to be charged to Revenue Rs. 4,85,000 ; Amount to be capitalised Rs. 2,75,000]

4. The following are the balances as at 31.12.03 in the books if the Utopian Railway Co. Ltd. Make out the Receipts and Expenditure on Capital A/c for the year 2003 and the General Balance Sheet as at 31.12.03.

	Rs.
Traffic accounts due from other Railways	1,31,900
Expenditure on lines open for Traffic	2,88,000
Expenditure on working Stock	96,000
Expenditure on Motor Boats	48,000
Expenditure on docks, harbors and wharves	45,000

Subscription to other companies	30,000
Preference Shares paid up as at 31.12.03	2,55,000
Ordinary Shares paid up as at 1.1.03	2,40,000
Ordinary shares issued in 2003 and paid up	60,000
Premium on shares as at 1.1.03	16,500
Premium on shares received in 2003	6,600
Debentures	99,000
Net Revenue A/c, balance at credit	860
Renewals Reserve A/c	7,500
Sundry creditors	3,750
Cash at bank	4,110
Cash on deposit in bank.	13,500
Investment	8,700
Spares Stock	7,500
Sundry Debtors	16,500

[Madurai, B.Com., Ap 2003]

[Ans : Capital A/c Balance Rs. 1,70,100 ; General Balance Sheet total Rs. 1,82,210]

5. From the following particulars for the year ending 31.12.03, prepare under the Double Account System, the

   a. Receipts and Expenditure on capital, and (ii) General Balance Sheet of an Electric Supply company :

	Debit Balances Rs.	Credit Balances Rs.
Capital : Authorised : 10,000 equity shares of Rs. 1000 each Rs. 1,00,00,000 ; issued, subscribed and paid up : 6000 equity shares of Rs. 1000 each (Rs. 800 per share paid up)		48,00,000
6% Debentures	–	14,00,000
Depreciation Fund	–	5,00,000
Buildings	12,00,000	–
Freehold lands	9,00,000 .	–

Plants & Machinery	23,35,000	–
Mains	4,60,000	–
Sundry Machine Parts	50,000	–
Meters	40,000	–
Instruments and Appliances	64,000	–
Stock and General Stores	3,76,000	–
Office Furniture	30,000	–
Fuel	45,000	–
Sundry machine Room Materials		–
(Lubricants, Jute, Waste, etc.)	10,000	–
Sundry Debtors	3,50,000	–
Sundry Creditors	–	1,70,000
Investments	9,00,000	–
Cash in Hand and at Bank	7,90,000	–
Balance Transferred from Net Revenue A/c	–	6,80,000
	75,00,000	75,50,000

[Periyar,B.Com,2003]

[Ans : Balance of Capital A/c Rs. 7,45,000 ; Total of General Balance Sheet Rs. 75,50,000]

6. From the following as at 31-3-2000, prepare the Revenue A/c. Net Revenue A/c, Capital A/c and General Balance Sheet of KPTC Ltd. :

	Rs.		**Rs.**
Balance as on 1-4-99 :		Expenses of management	14,400
Land	1,80,000	Cost of distribution	6,000
Machinery	7,20,000	Depreciation	24,000
Mains	2,40,000	Sale of Power	1,56,000
Expenditure during the year :		Meter rent	6,000
Land	6,000	Interest on debentures	12,000
Machinery	6,000	Interim dividend	24,000
Mains	61,200	Net Revenue A/c	
Share Capital		as on 1-4-99	34,200

— Ordinary shares	6,58,800	Depreciation fund	3,00,000
Debentures	2,40,000	Sundry Debtors :	
Sundry Creditors	1,200	for energy supplied	48,000
Cost of generation	42,000	for others	600
Rent, Rates and Taxes	6,000	Cash balance	6,000

[Madras, B.Com., April 2000]

[Ans : Revenue A/c Balance Rs. 69,600; Net Revenue A/c Balance Rs. 67,800; Capital A/c Balance Rs. 3,14,400; General Balance Sheet total Rs. 12,67,800]

APPENDIX – A

PREVIOUS YEAR UNIVERSITY QUESTION PAPERS

MADRAS UNIVERSITY

MAY 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What do you understand by issue of shares at premium?
2. What is absorption?
3. What is a Debenture?
4. State the methods of valuation of shares.
5. What do you mean by Inflation Accounting?
6. What do you understand by 'Minority Interest'?
7. X Ltd purchased assets worth Rs. 5,40,000 and the consideration was payable in fully paid shares of Rs. 10 each at a discount of 10% pass necessary journal entries.
8. Ram Ltd was in corporated on 1st May 2000 to take over the business of Raheem and Co with effect from 1-1-2000. While preparing final accounts on 31.12.2000, It was observed that the sales on the second half of the year were double to those in first half, on a monthly average basis find out Sales Ratio.
9. From the following particulars calculate the value per equity share :

   75,000 equity shares of Rs. 10 each, Rs. 8 per

   share paid up Rs. 6,00,000

   Profit available for equity dividend
10. On 31.12.1996 Popular Bank Ltd held the following bills discounted at 5%

Amount in Rs.	Due Date
50.000	31.1.1997
40.000	30.4.1997
30.000	3.3.1997

Calculate rebate on bills discounted, assuming that accounts are closed on 31st December.

11. A Life Insurance company showed its Life Assurance fund as Rs. 28,35,000 on 31.12.1987 before taking into account the following items :

	Rs.
Interest accured on Investments	20,000
Reinsurance claims revocable	7.000
Bonus in reduction of premium	3.000

Show the adjusted Life Fund.

12. The liquid for a company is entitled to get a remuneration of 3% on the amount realized from the assets and 2% on the amount distributed to unsecured creditors from the following particulars, calculate the remuneration payable :

	Rs.
Cash realised from assets	3,00,000
Preferential creditors	10,000
Amount due to unsecured creditors	4,00,000

Answer any FIVE questions.

All questions carry equal marks.

13. A Ltd., forfeited 20 shares of Rs. 10 each Rs. 7 called up, on which Mr. Gopal had paid application and allotment money of Rs. 5 per share. Of these, 15 shares were reissued to Mr. Ramesh as fully up for Rs. 6 per share. Give necessary journal entries.

14. A company issued 10,000 equity shares of Rs. 10 each at par. The issue was underwritten by Swami and Co. for one maximum commission permitted by law. The public had applied for and received 8000 shares. Give necessary journal entries in the books of the company.

15. From the following particulars, determine the maximum remuneration available to a fulltime director of a manufacturing company.

	Rs.
Net profit shown by P and L a/c after taking into account the following items	40,00,000
Depreciation (including special depreciations of Rs. 40,000)	1,00,000
Provision for Income tax	2,00,000
Donation for political parties	50.000
Ex-gratia payment to a worker	10,000
Capital profit on sale of assets	15,000

16. From the following information calculate the value of goodwill on the basis 3 years purchase of super profit.

   a) Average capital employed in the business is Rs. 20,00,000

   b) Normal Rate of Return in the business is 10%

c) Net profit for the past three years were Rs. 3,50,400, Rs, 2,80,300 and Rs. 3,10,100.

d) Salaries to partners Rs. 48,000

17. A Ltd, agreed to purchase B Ltd., and to discharge consideration by issue of shares of Rs. 10 each

	A	B		A	B
Shares of Rs. 10 each	4,00,000	8,00,000	Shares in B Ltd	30,000	–
Creditors	1,00,000	2,00,000	Sundry assets	4,70,000	10,00,000
	5,00,000	10,00,000		5,00,000	10,00,000

Prepare the revised balance sheet of A Ltd.

18. State the 'Preferential Creditors' as the event of liquidation of a company.

19. Write short notes on :

    Non banking assets and

    Non-performing assets.

20. What is meant by reinsurance? How is it helpful to Insurance Companies?

Answer any TWO questions.

All questions carry equal marks.

21. Moon and Star Co Ltd., is a company as authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.1985 of which 2500 shares were fully called up. The following is the total balance as at 31.12.1985 :

Capital balances	Rs.	Credit balances	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	Profit and loss a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance (upto 1.3.86)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing director	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisements	3,800		

Bonus	10,500
Debtors	38,700
Plant	1,80,500
Furniture	17,100
Bank	34,700
Bad debts	3,200
Calls-in-arrears	5,000
6,60,270	6,60,270

You are required to prepare profit and loss account and balance sheet as on 31.12.1985 after taking into account the following adjustments :

a) Closing stock was valued at Rs. 1,91,500

b) Depreciate plant by 15% and furniture by 10%

c) Provide for income tax Rs. 8,000

d) The directors declared on interim dividend 15.8.85 at 6%.

22. The following is the balance sheet of Balan Ltd on 31.12.98 :

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	8,00,000	Fixed Assets	10,00,000
Profit and Loss a/c	40,000	Current Assets	4,00,000
Reserves	1,80,000	Goodwill	80,000
5% Debentures	2,00,000		
Current liabilities	2,60,000		
	14,80,000		14,80,000

On 31.12.1998 the fixed assets were valued at Rs. 7,00,000 and the goodwill at Rs. 1,00,000. the net profit for the three years were : 1996- Rs 1,03,200, 1997 Rs.1,04,000 and 1998-Rs. 1,03,300 of which 20% was placed to reserve and a fair return on investment may be taken at 10% compute the value of share of the company by

a) the net asset method and
b) the yield method.

23. From the data relating to a company which had gone into voluntary liquidation, you are asked to prepare the liquidators final statement of accounts :

a) Cash with liquidator (after all assets are realised and secured creditors and debenture holders are paid) is Rs. 6,73,800

b) Preferential creditors to be paid is Rs. 30,000

c) Other unsecured creditors Rs. 2,15,000

d) 4,000, 6% pref shares of Rs. 100 each, fully paid

e) 2000 equity shares of Rs. 100 each, Rs. 75 per share paidup.

f) 6000 equity shares of Rs. 100 each, Rs. 60 per share paidup.

g) Liquidator's remuneration 2% on preferential and other unsecured creditors.

h) Preference dividends were in arrears for 2 years.

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Shares of Rs. 10 each	6,00,000	2,00,000	Machinery	3,00,000	1,00,000
General Reserve	1,50,000	70,000	Furniture	70,000	45,000
Profit and Loss A/c	70,000	50,000	Stock	1,75,000	1,89,000
Creditors	90,000	60,000	Debtors	55,000	30,000
			Cash	50,000	10,000
			Preliminary expenses	–	6,000
			70% shares in S Ltd at cost	2,60,000	
	9,10,000	3,80,000		9,10,000	3,80,000

H Ltd acquired the shares of S Ltd. On 30.6.1994, On 1.4.1994, S Ltd's general reserve and profit and loss a/c stood at Rs. 60,000 and 20,000 respectively, No part of the preliminary expenses was written off in the year ended 31.3.1995.

Prepare consolidated balance sheet of H Ltd and its subsidiary S Ltd as on 31.3.95.

MAY 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. The trial balance of Bharat Bank Ltd. as on 31st March 2009 shows the following. Prepare profit and loss a/c for the year ended 31.3.2009.

	Rs.
Interest earned	10,10,000
Other incomes	1,25,000
Interest expended	4,15,000
Operating expenses	1,65,000
Retained profit on 1.4.2008	1,00,000

Bad debts written off amounted to Rs. 55,000. Provision for taxation to be made at 50%.

2. A Life Assurance Company prepared its Revenue account for the year ended 31st March 2009 and ascertained its life assurance fund to be Rs. 56,70,000. It was found latter that the following had been omitted from the accounts :

   a) Interest accrued on investments Rs. 78,000 income tax liable to be deducted estimated to be Rs. 21,000.

   b) Outstanding premium Rs. 65,600.

   c) Bonus utilised in reduction of premium Rs. 13,500.

   d) Claims intimated but not admitted Rs. 34,800.

   e) Claims covered under re-insurance Rs. 13,000.

   Ascertain the true life assurance fund.

3. A company has 4,000, 7% redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on December 31, 2009 at a premium of 5%. The company has sufficient profits. The following issues are made for the redemption purpose :

   a) 1000 equity shares of Rs. 100 each at a premium of 10%

   b) 1000 5% debentures of Rs. 100 each

   The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries.

4. The following scheme of reconstruction was approved by X Ltd.

   a) The shareholders to receive in lieu of their present holding of 50,000 shares of Rs. 10 each, the following :

      (i) Fully paid ordinary shares equal to 2/5 of their holdings

(ii) 5% preference shares to the extent of 1/5 of the above ordinary shares

(iii) Rs. 60,000, 6% debentures.

b) The goodwill which stood at Rs. 3,00,000 was written down to Rs. 1,50,000.

c) Plant and buildings were written down by Rs. 20,000 and Rs. 30,000 respectively.

d) Give Journal entries.

5. From the following particulars, prepare fire revenue a/c for the year 2009 :

	Rs.
Claims Paid Premiums received	12,00,000
Re-insurance premium	1,20,000
Commission	2,00,000
Management expenses Fire	3,00,000
Insurance Fund (1.1.2009)	5,20,000
Claims unpaid on 1.1.2009	40,000
Claims unpaid on 31.12.2009	70000

Make provision against fire fund at end @ 50% of net premium.

6. Distinguish between CPP and CCA methods of Inflation accounting.

7. Explain the common transactions to be eliminated while preparing the consolidated balance sheet.

8. What are the conditions for redemption of preference shares?

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. A company issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 per share. These shares were payable as follows :

On application : Rs. 2

On allotment Rs. 5 (including premium)

On first and final call Rs. 5.

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. Out of these shares, 400 were reissued at Rs. 8 per share as fully paid.

Give the Journal entries and prepare the balance sheet of the company.

10. Sun Ltd. was incorporated on 1.8.2009. It took over the business of Moon Ltd. with effect from 1.4.2009. From the following particulars relating to the year ending 31.3.2010, find out

profit prior to incorporation and after incorporation. Sales for the year were Rs. 60 lakhs and pre-incorporation sales of Rs. 25 lakhs. Gross profit for the year was Rs. 18 lakhs.

Expenses debited to Profit and Loss a/c :

	Rs.
Rent	90,000
Salaries	1,50,000
Directors fees	38,000
Interest on debentures	60,000
Audit fees	15,000
Discount on sales	36,000
Depreciation	2,40,000
General expenses	48,000
Advertising	1,80,000
Printing and Stationary	36,000
Commission on sales	60,000

Interest to vendors on purchase consideration Rs. 30,000 (upto 1.10.2009)

11. Authorised capital of Vijay Ltd is Rs. 5,00,000 (50,000 shares of Rs. 10 each). On 31.12.2009, 25,000 shares were fully called up on 31.12.2009, the following balances taken from the ledger of the company.

	Rs.
Opening stock	50,000
Sales	4,25,000
Purchases	3,00,000
Wages	70,000
Discount allowed	4,200
Discount received	3,150
Insurance (paid upto 31.3.10)	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Printing and stationary	2,400
Advertising	3,800
Bonus	10,500
Sundry debtors	38,700

Sundry creditors	35,200
Plant and Machinery	80.500
Furniture	17,100
Cash and bank	1,34,700
Reserve	25,000
Loan from M.D.	15,700
Bad debts	3,200
Calls in arrears	5,000
Profit and Loss a/c (cr)	
	6,220

Additional information's were furnished :

a) Closing stock Rs. 91,500.

b) Depreciation on plant and machinery furniture @ 15% and 10% respectively.

c) Wages, salaries and rent outstanding amounts to Rs. 5,200, Rs. 1,200 and Rs. 600 respectively.

d) Dividend @ 5% on paid up share capital is to be provided. Prepare final accounts of the company.

12. Siva Ltd Voluntarily liquidated on 31.12.2009. Information available to liquidator :

Rs.

Sundry creditors 75,660 (included preferential creditors Rs. 8,000)

6% debentures 80,000 (having floating charge)

Debentures are redeemed on 30.6.2010

Debentures interest already paid upto 30.6.2009.

Assets realised :	Rs.
Stock	84,000
Machinery	60,600
Cash in hand	500
Liquidation expenses	1,902

Liquidator's remuneration : 3% on assets realised, 2% on amount paid to unsecured creditors. Prepare Liquidator's final statement of account.

13. From the balance sheets and information given below, prepare consolidated balance sheet.

Balance Sheet as on 31.12.2009

	H Ltd Rs.	S Ltd Rs.		H Ltd Rs.	S Ltd Rs.
Share capital :			Sundry assets	8,00,000	1,20,000
Rs. 10 fully paid	10,00,000	2,00,000	Stock	6,10,000	2,40,000
Profit and loss a/c	4,00,000	1,20,000	Debtors	1,50,000	1,70,000
Reserve	1,00,000	60,000	Bills receivable	10,000	–
Creditors	2,00,000	1,20,000	Shares in S,		
Bills payable	–	30,000	15,000 at cost	1,50,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

a) All the profit of S has been earned since the shares were acquired by H, but there was already the reserve of Rs. 60,000 at that date.

b) The bills accepted by S Rs. 10,000 are in favour of H.

c) Sundry assets of S are undervalued by Rs. 20,000.

d) The stock of H includes Rs. 50,000 bought from S at a profit to the latter of 25% on cost.

MAY 2012

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. What are the conditions for redemption of preference shares?
2. Explain the different methods of valuation of shares.
3. From the following particulars prepare the Fire Revenue Account for year ended 31.12.2010 :

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2010	3,30,000
Additional reserve on 1.1.2010	1,40,000
Claims unpaid on 1.1.2010	25,000
Claims unpaid on 31.12.2010	35,000

Increase the additional reserve on 31.12.2010 by 20% on the net premium.

4. Udayam Limited was incorporated on 1.7.2010 to take over the business carried on by Udayam Brothers with effect from 1.4.2010. The following is the Profit and Loss A/c for the year ended 31.3.2011 :

	Rs.		Rs.
To Administration expenses	18,000	By Gross profit	75,000
To Directors fees	3,000		
To Selling expenses	36,000		
To Audit fees	1,000		
To Preliminary expenses	3,000		
To Net profit	14,000		

75,000	75,000

Sales Rs. 3,00,000 (upto 30.6.2010 Rs. 1,00,000) you are required to prepare a statement showing the profit earned prior to and after incorporation.

5. Surya Limited buys its own 12% debentures of the nominal value of Rs. 5,00,000 at Rs. 96 on 31st March 2011. Record the transactions in the books of Surya Limited if the quotation is:

   a) Cum-interest
   b) Ex-interest

   Surya Limited pays interest half-yearly on 30th June and 31st December.

6. The Liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amounts realised (excluding the cash on hand) and at 2% on the amounts distributed to the unsecured creditors. Unsecured creditors including preferential creditors of Rs. 5,000 amounted to Rs. 40,000. Debenture holders were paid Rs. 51,875 together with interest. Preferential creditors were paid in full, Rs. 510 were spent as costs of liquidation. Cash on hand Rs. 1,000 and assets realised Rs. 79,000.

   Prepare Liquidator's final statement of account.

7. The following particulars are available in respect of a company :

   Capital employed is Rs. 5,00,000. Trading results : 2007 - Profit Rs. 1,22,000; 2008 – Profit Rs. 1,50,000; 2009 - Loss Rs. 20,000 and 2010 - Profit Rs. 2,10,000. Market rate of interest on investment 10%. Remuneration from alternative employment of the proprietor (if not engaged in business) Rs. 36,000 per annum. You are required to compute the value of goodwill on the basis of 3 years' purchase of super profits of the business calculated on the average profits of the last 4 years.

8. From the following particulars, prepare the Profit and Loss A/c of Saraswathi Bank Ltd. for the year ended 31st March 2011 :

	Rs.
Interest on loans	34,90,000
Interest on fixed deposits	36,50,000
Rebate on bills discounted on 1.4.2010	4,80,000
Commission received	94,000
Administrative expenses	15,50,000
Discount received	19,40,000
Interest on cash credit	22,40,000
Amount charged against Current A/c	1,80,000
Rent and taxes	12,80,000
Interest on overdrafts	42,000

Directors fees	6,90,000
Interest on Savings Bank A/c	15,000
Postal expenses	39,000
Printing and stationery	18,000
Other expenses	

Adjustments :

a) Rebate on bills discounted on 31.3.2011 Rs. 5,20,000.

b) Provide for taxation @ 50% of the profits.

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. Discuss the different methods of valuing equity shares.

10. From the following Balance Sheets, prepare a consolidated Balance Sheet :

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital			Fixed assets	16,00,000	2,40,000
Rs. 10 fully paid	20,00,000	4,00,0000	Stock	12,00,000	5,00,000
Profit and Loss A/c	5,00,000	2,70,000	Debtors	3,00,000	3.20.000
Reserve	5,00,000	90,000	30,000 shares in		
Creditors		3,00,000	S Ltd. at cost	3,00,000	–
	34,00,000	10,60,000		34,00,000	10,60,000

a. All profits of S Ltd. has been earned the shares were acquired by H, but there was already the reserve of Rs. 50,000 at that date.

b) The fixed assets of S Ltd. were overvalued by Rs. 40,000.

c) The stock of H Ltd. includes Rs. 2,00,000 bought from S Ltd. at a profit to the latter of 33-3 % on cost.

11. A company issued 2,00,000 shares of Rs. 100 each at a premium of Rs. 20 per share. These shares were payable as follows :

On application	Rs. 20
On allotment	Rs. 50 (including premium)
On call	Rs. 50

All the shares were applied for and allotted. All moneys were received except the call money on 20,000 shares which were forfeited. Out of these shares, 15,000 shares were reissued at Rs. 90 per share as fully paid.

Give journal entries in the books of the company.

12. From the following Trial Balance of Madura Ltd. prepare Trading and Profit and Loss A/c for the year ended 31st March 2011 and the Balance Sheet as on that date :

Debit Balance	Rs.	Credit Balance	Rs.
Opening stock	60,000	Equity share capital	
Rent and taxes	12,000	(2,000 shares of	
Purchases	1,21,800	Rs. 100 each)	2,00,000
Wages	1,10,400	12% debentures	50,000
Discount	3,000	Sales	3,50,000
Fuel	5,040	Creditors	16,000
Building	1,40,000	Bank overdraft	24,000
Carriage inward	2,350	Discount	4,400
Sundry debtors	40,000	Transfer fee	100
Goodwill	56,000	Return outward	200
Plant and machinery	50,000		
Loose tools	12,000		
Advertisement	6,000		
General expenses	8,800		
Bad debts	2,060		
Debenture interest (paid upto 30.9.2010)	3,000		
Miscellaneous expenses	6,000		
	6,44,700		6,44,700

Adjustments :

a) The authorised capital of the company is Rs. 4,00,000.

b) Stock on 31st March 2011 is Rs. 70,000

c) Depreciate Plant and Machinery at 9%.

d) Revalue loose tools at Rs. 8,200.

e) Allow 212 % discount on debtors.

f) Create reserve for bad debts at 2%.

13. The following is the Balance Sheet of Vivek Limited as on 31st March 2011 :

Liabilities	Rs.	Assets	Rs.
40,000 7% redeemable preference shares of Rs. 10 each	4,00,000	Fixed assets	9,00,000
		Stock in trade	6,00,000
		Trade debtors	1,00,000
60,000 equity shares of Rs. 10 each	6,00,000	Investments (4%)	2,50,000
		Cash at bank	1,47,500
Security premium	1,20,000	Accrued interest	2,500
General reserve	5,00,000		
Profit and Loss A/c	1,80,000		
Current liabilities	2,00,000		
	20,00,000		20,00,000

The company redeemed the whole of the preference shares at a premium of 6% on 1st April 2011.

To finance the redemption, all the investments were sold for Rs. 2,40,000 and 8,000 equity shares of Rs. 10 each were issued at Rs. 12.50 per share. The expenses of issue of shares were Rs. 5,000.

On June 1, 2011, the company made bonus issue of four equity shares, fully paid for every five equity shares held on that date.

Give journal entries in the books of the company and prepare the Balance Sheet.

OCTOBER 2011

Time : Three hours **Maximum : 100 marks**

SECTION A — (5 x 8 = 40 marks)

Answer any FIVE questions.

All questions carry equal marks.

1. From the following particulars prepare the fire insurance revenue account for the year ended 31.12.2009 :

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2009	3,30,000
Additional reserve on 1.1.2009	1,40,000
Claims unpaid on 1.1.2009	25,000

Increase the additional reserve on 31.12.2009 by 10% on the net premium.

2. A life insurance company gets its valuation made once in two years. The life assurance fund as on 31.12.2009 was Rs. 29,65,000 before providing Rs. 35,000 for shareholders dividend for the previous year. The actuarial valuation as on 31.12.2009 disclosed a net liability of Rs. 27,30,000 for unexpired risks. An interim bonus of Rs. 60,000 was paid to the policy holders for this year. Prepare a valuation balance sheet and also calculate the amount available to policy holders.

3. The following particulars related to a company which went into voluntary liquidation. Prepare liquidator's final statement of account allowing 2% remuneration to liquidator on the amount realised and 3% on the amount distributed to unsecured creditors.

	Rs.
`Unsecured creditors	5,60,000
Preferential creditors	40,000
Debentures	3,80,000
Share capital	4,00,000

Assets realised :	
Cash in hand	43,000
Land and building	2,60,000
Plant and machinery	3,60,000
Furniture	40,000

4. Star Private Ltd. was incorporated on 1.7.2009 to takeover the business carried on by S & CO. as a going concern with effect from 1.4.2009. The following is the profit and loss account for the year ended 31.3.2010 of Star Private Ltd.

	Rs.		Rs.
To Admn. expenses	18,000	By gross profit	75,000
To directors fees	3,000		
To selling expenses	36,000		
To audit fees	3,000		
To preliminary expenses	1,000		
To net profit	14,000		
	75,000		75,000

Sales Rs. 3,00,000 (upto 30.6.2009 Rs. 1,00,000). You are required to prepare a statement showing the profit earned prior to and after incorporation.

5. From the following particulars, calculate the value per equity share :

   5,000 8% preference shares of Rs. 100 each, Rs. 5,00,000, 75,000 ordinary shares of Rs. 10 each.

   Rs. 8 per share paid-up - Rs. 6,00,000

   Expected profits per year before tax - Rs. 2,80,000

   Rate of tax - 50%

   Transfer to general reserve every year 20% of profit Normal rate of earnings - 10%

6. What are the conditions for redemption of preference shares?
7. Explain the different methods of valuation of goodwill.
8. Explain the various methods of calculating purchase consideration.

SECTION B — (3 x 20 = 60 marks)

Answer any THREE questions.

All questions carry equal marks.

9. X Ltd. issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows :

   On application Rs. 2

On allotment Rs. 5 (including premium)

On 1st callRs. 3

On 2nd and final call Rs. 2.

Applications were received for 3000 shares and prorata allotment was made on the applications for 2400 shares. Money overpaid on applications was adjusted towards sum due on allotment.

Ram to whom 40 shares were allotted failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mohan, the holder of to shares, failed to pay the two calls, and his shares were forfeited after the second call.

Of the shares forfeited, 80 shares were sold to Kumar credited as fully paid for Rs. 8 per share, the whole of Ram being included.

Show journal entries and cash book entries.

10. The following is the balance sheet of the Delta Ltd. as on 31st December 2009.

Liabilities	Rs.	Assets	Rs.
12000 shares of		Land and buildings	1,00,000
Rs. 10 each fully paid	1,20,000	Plant and machinery	40,000
Sundry creditors	30,000	Stock	15,000
Bank overdraft	28,000	Sundry debtors	22,000
		Profit and loss A/c	1,000
	1,78,000		1,78,000

The company went into voluntary liquidation and the assets were sold to the Reddy Ltd. for Rs. 1,50,000 payable as to Rs. 60,000 in cash (which sufficed to discharge the creditors and bank and pay the costs of winding up, Rs. 2,000) and as to Rs. 90,000 by the allotment of 12000 shares of Rs. 10 each of Reddy Ltd. Rs. 7.50 per share paid up to the shareholders of Delta Ltd.

Give journal entries to close the books of Delta Ltd. and also entries for recording these transactions in the books of Reddy Ltd.

11. On 1st October 2008, a company issued 10,000 12% debentures of Rs. 100 each (interest payable on 30th September and 31st March). The company is allowed to purchase own debentures which may be cancelled or kept or reissued at the company's option. The company made the following purchases in the open market.

On 31st August 2009, 1000 debentures @ Rs. 98 ex-interest

On 31st December 2010, 500 debentures @ Rs. 97 cum-interest

The debentures purchases on 31st August 2009 were cancelled on 31st march 2011. Give journal entries to record the transaction.

12. The following is the trial balance of Alpha Ltd. as on 31.3.2010 with the authorised capital of 72000 shares @ Rs. 10 each.

	Debit (Rs.)	Credit (Rs.)
Cash in hand	900	–
Cash at bank	3,55,980	–
Profit and loss a/c balance	–	17,400
Creditors	–	60,000
Debentures	–	3,60,000
Share capital (called up)	–	45,600
Bills payable	–	4,200
Sales	–	30,000
Reserve for bad debts General	–	–
reserve Calls in arrear Wages	–	–
Land and buildings Plant and	92,760	–
machinery General expenses	3,60,000	–
Salaries	20,280	–
Interim dividend paid	17,400	–
Furniture	40,000	–
Purchases	2,29,880	–
	15,67,200	15,67,200

Adjustments :

a. Outstanding wages Rs. 6,000; Salaries Rs. 3,000
b. General expenses include prepaid insurance @ Rs. 300
c. Provide depreciation on land and buildings plant and machinery and furniture 5%, 10% and 20% respectively.
d. Stock on 31.3.2010 amounted to Rs. 1,40,000
e. Outstanding interest on debentures Rs. 18,000
f. Final dividend declared Rs. 21,000.

Prepare final accounts of the company.

13. The balance sheet of H Ltd and S Ltd on 31.3.2010 were as under :

	H Ltd Rs.	S Ltd Rs.		H Ltd Rs.	S Ltd Rs.
Share capital shares of Rs. 100 each	2,00,000	50,000	Land and buildings	60,000	–

General reserve	30,000	10,000	Machinery	2,00,00	–
P and L a/c (1.4.2009)	40,000	20,000	Stock	0	85,000
Profit for (2009-10)	50,000	25,000	By debtors	40,000	30,000
Creditors	50,000	30,000	Bank	10,000	10,000
Bills payable	15,000	–	300 shares in S	10,000	–
			Ltd.	65,000	
			Bills receivable		10,000
				–	
	3,85,00	1,35,000		3,85,00	1,35,000

Shares were acquired by H Ltd. on 1.10.2009. Bills receivable held by S Ltd. are all accepted by H Ltd. Included in the debtors of S Ltd. is Rs. 6,000 owing by H Ltd. in respect of goods supplied.

Prepare a consolidated balance sheet.

MAY 2012

Time : Three hours **Maximum : 100 marks**

PART A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What is a share?
2. Write a short note on ‘Redemption of debenture’.
3. Define human resource accounting.
4. Give a meaning of interim dividend.
5. What is external reconstruction?
6. Arun holds 2000 shares of Rs. 10 each in Ram Ltd. He has paid Rs. 2 and Rs. 3 per share on application and allotment respectively, but failed to pay Rs. 3 and Rs. 2 per share for first and second calls respectively. Directors forfeited his shares. Give journal entry.

7. Calculate the amount of goodwill on the basis of 2 years purchase of the last five years' average profits. The profits for the last five years are : Rs. 8,200; Rs. 10,500; Rs. 5,100; Rs. 7,700; Rs. 12,000.

8. From the following details compute appropriate conversion factors :
   a) General price index numbers - opening 200; closing 300; average for the year 240
   b) General price index numbers - at the end of the year 200; on the date of acquring an item of stock 120. On the date of acquiring an asset 150.

9. Ganesh Ltd. was incorporated on 1st May 1996 to purchase the running business of Vinayaka & Co. with effect from 1st January 1996. The company obtained certificate of commencement of business on 24th August 1996. Calculate the time ratio, if the accounts were finalised on 31st December 1996.

10. The company B takes over the business of company A. The value agreed for various assets is goodwill Rs. 22,000; Land and Buildings Rs. 25,000; Plant and Machinery Rs. 24,000; Stock Rs. 13,000; Debtors Rs. 8,000; B company does not take over cash but agree to assume the liability of sundry creditors Rs. 5,000

    Calculate purchase consideration.

11. From the particulars given below, ascertain liquidator's remuneration :

    Creditors to be paid Rs. 60,000 Amount available on hand Rs. 44,000

    Commission to be given on the amount paid to creditors 10%.

12. From the following particulars of Ganga Ltd., Calculate managerial remuneration :

    Net profit before provision for income tax and managerial remuneration but after depreciation Rs. 8,70,410

    Depreciation provided in the books Rs. 3,10,000

    Depreciation allowable under schedule XIV Rs. 2,60,000.

PART B — (5 x 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

13. What is the need for accounting standards?

14. Write a note on :
    a) Complete underwriting
    b) Partial underwriting.

15. Explain the methods of valuation of goodwill.

16. Visu was holding 500 shares of Rs. 10 each. He had paid upto first call but failed to pay the final call money of Rs. 3 per share. The director forfeited the shares after due notice. All these shares are again reissued at Rs. 8 per share. Give journal entry for forfeiture, reissue and capital reserve.

17. Balance sheet of Nayagam Company as on 31.12.2007

Liabilities	Rs.	Assets	Rs.
20,000 equity shares of Rs. 10 each	2,00,000	Goodwill	2,00,000
Employee's saving fund	1,50,000	Investment at cost (market value Rs. 2,50,000)	3,00,000
Employee's provident fund	6,00,000	Stock at cost	5,00,000
Creditors P and L a/c	3,70,000	Debtors	4,00,000
		Bank balance	70,000
	14,70,000		14,70,000

The profit for the last five years were Rs. 15,000, Rs. 20,000, Rs. 25,000, Rs. 30,000 and Rs. 35,000 and the goodwill is to be valued on the basis of three years purchase of the average annual profits for the last five years.

Calculate the price of the share on the basis of net asset value.

18. On 31st March, 1998 a bank held the following bills, discounted by its earlier :

Date of bill 1998	Time of bill (months)	Discounted @ % p.a.	Amount of bill Rs.
January, 17	4	17	7,30,000
February, 7	3	18	14,60,000
March, 9	3	17.5	3,64,000

You are required to calculate the rebate on bill discounted. Also show the necessary journal entry for the rebate.

19. SAN Company Ltd. passed resolution and received sanction of the court for the reduction of share capital by Rs. 2,50,000. After the arrangement, the credit balance of capital reduction account was Rs. 2,50,000. The amount available was utilised for write off profit and loss a/c (Dr.) Rs. 1,05,000 reducing the value of plant and machinery Rs. 45,000, goodwill Rs. 20,000, investment Rs. 40,000. The balance available would be transferred to capital reserve. Pass journal entry.

20. From the following information, prepare liquidator's final statement of account :

	Rs.
Cash at bank	1,00,000
Surplus from securities	10,10,000
Expenses of liquidation	30,000
Liquidator's remuneration	7,000
Preferential creditors	2,00,000
Unsecured creditors	7,00,000

Preference share holders	1,00,000
Equity shareholders	1,00,000

PART C — (2 x 20 = 40 marks)

Answer any TWO questions.

All questions carry equal marks.

21. X Ltd. Company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each 31.3.2005, 2,500 shares were fully called up. The following balances were extracted from the ledger of the company on 31.3.2005.

	Rs.
Stock	50,000
Sales	4,25,000
Purchases	3,00,000
Productive wages	70,000
Discount allowed	4,200
Discount received	3,150
Insurance upto (30.6.05)	6,720
Printing	2,400
Advertisement	3,800
Bonus	10,500
Debtors	38,700
Creditors	35,200
Machinery	80,500
Furniture	17,100
Bank balance	34,700
Salaries	18,500
Rent	6,000
General expenses	8,950
P and L a/c (Cr.)	6,220
Reserve	25,000
Loan	15,700

Additional information :

a. Closing stock Rs. 91,500
b. Depreciation on machinery 15% and on furniture 10%
c. Outstanding liability for Wages Rs. 5,200, Salaries Rs. 1,200, Rent Rs. 600

d. Provide dividend on share capital 5%

You are required to prepare final accounts of X Ltd. Company for the year 2005.

22. The following are the summarised balance sheet of Amar Ltd., and Samar Ltd., as on 31st March 2004 :

Liabilities	Amar Ltd Rs.	Samar Ltd Rs.	Assets	Amar Ltd Rs.	Samar Ltd Rs.
Issued share capital : Shares of Rs. 10 each	8,00,000	6,00,000	Goodwill	–	1,20,000
P and L a/c	1,40,000	–	Fixed assets	6,00,000	2,40,000
Creditors	80,000	2,40,000	Current assets	4,20,000	2,80,000
			P and L a/c	–	2,00,000
	10,20,000	8,40,000		10,20,000	8,40,000

Amar Ltd, agreed to take over the business of Samar Ltd., as on the date of the balance sheets. After due negotiations, it was determined that the shares of Amar Ltd., are worth Rs. 12 each and the shares of Samar Ltd., are worth Rs. 5 each.

You are required to make the necessary entries in the books of Amar Ltd., and draw up its balance sheet immediately after the take over.

23. Prepare, in the proper statutory form, the revenue account of Hindustan Life Assurance Company Ltd. for the year ended 31st March 2008 from the following figures.

	Rs.
Claims by death Claims by maturity	30,110
Premiums Transfers fee	7,05,690
Consideration for annuities granted	129
Annuities paid	82,127
Bonus paid in cash	53,461
Bonus in reduction of premium	2,416
Dividend paid to share holders	980
Expenses of management	5,500
Commission	31,920
Interest, dividend and rent	9,574
Income tax	97,840
Surrenders	35,710

Paid up share capital of the above life insurance company is Rs. 5,00,000 and net liability as per actuary's valuation is Rs. 11,05,000 as on 31.3.2008.

Also prepare valuation balance sheet of the company as on that date.

24. A company went in liquidation on 31.3.2008 when the following balance sheet was prepared :

Liabilities	Rs.	Assets	Rs.
Share capital :	1,95,000	Goodwill	60,000
19,500 shares of Rs. 10 each	53,310	Building	48,000
Sundry creditors :	99,790	Machinery	65,500
Partly secured (on building)	24,200	Stock	56,800
Unsecured creditors	8,000	Sundry debtors	48,820
Preferential creditors		Cash	2,500
Bank overdraft		P and L a/c	98,680
	3,80,300		3,80,300

Assets realised as follows :

Building Rs. 35,000; Machinery Rs. 51,000; Stock Rs. 39,000; Debtors Rs. 58,500; Cash Rs. 2,500.

The expenses of liquidation amounted to Rs. 1,000. The liquidator's remuneration was agreed at 2.5% on the amount realised (including cash) and 2% on the amount paid to unsecured creditors.

Prepare liquidator's final statement of account.

OCTOBER 2013

Time : Three hours **Maximum : 100 marks**

SECTION A — (10 x 3 = 30 marks)

Answer any TEN questions.

All questions carry equal marks.

1. What do you mean by redeemable preference share?
2. Define underwriting.
3. Differentiate marked application from unmarked application.
4. What is meant by share premium?
5. What do you understand by purchased goodwill?
6. What is called-up capital?
7. What do you understand by errors of duplication?
8. What is the difference between investigation and audit?
9. Define continuous audit.
10. What is meant by vouching?
11. What do you understand by audit note book?
12. Define internal check.

SECTION B — (5 x 6 = 30 marks)

Answer any FIVE questions.

All questions carry equal marks.

13. Explain the various methods of valuing goodwill.
14. Compute the value of an equity share of each of the companies A and B on the basis of the following information.

	Company 'A' Rs.	Company 'B' Rs.
Profit after tax	10.00.000	10.00.000
12% preference shares (shares of Rs. 100 each)	10.00.000	20.00.000
Equity capital (shares of Rs. 10 each)		

Assume that market expectation is 15% and 80% of profits are distributed.

15. A company issues 1.000 12% debentures of Rs. 1.000 each at a premium of 20% sixty percent of the issue was underwritten by X limited at the maximum rate of commission allowed by law. Applications were received for S00 debentures which were accepted and payment was received in full. Give journal entries.

16. A runs a chemist's shop. His net assets as on 31st March. 1989 amount to Rs. 20.00.000. After paying a rent of Rs. 45.000 a year and a salary of Rs. 30.000 the chemist, he earns a profit of Rs. 2.10.000. His landlord, who happens to be an expert chemist, is interested in purchasing the shop. 1S% is considered to be a reasonable return on capital employed. What can 'A expects as payment for goodwill?

17. What are the advantages of an annual audit?

18. What are the essential characteristics of a system of internal check?

19. Explain the rights of the company auditor.

20. Explain the various types of preference shares.

SECTION C — (2 x 20 = 40 marks)

Answer any TWO questions.

All questions carry equal marks.

21. Ascertain the value of goodwill of P. Co. Ltd. carrying on business as retail traders from the following information.

Balance sheet as on 31st December. 1998

Liabilities	Rs.	Assets	Rs.
Paid up capital :		Goodwill at cost	25,000
2.500 shares of		Land & building	
Rs. 100 each	2,50,000	at cost	1,10,000
Profit and loss a/c	56,650	Plant and machinery	
Bank overdraft	58,350	at cost less depreciation	1,00,000
Sundry creditors	90,500	Stock at cost	1,50,000
Provision for		Book debts less	
taxation	19,500	provision for doubtful debts	90,000
	4,75,000		4,75,000

The company commenced operations in 1994 with a paid up capital as aforesaid of Rs. 2.50.000. The profits earned, before providing for taxation, have been as :

1994 Rs. 61.000: 1995 Rs. 64.000: 1996 Rs. 71.500: 1997 Rs. 78.000: and 1998 Rs. S5.000

You may assume that income tax at the rate of 50% has been payable on these products. The average dividend paid by the company for the four years is 10% which is taken as reasonable return expected on the capital invested in the business.

22. Calculate maximum remuneration payable to the managing director for the year from the following information

	Rs.
Profit for the year (calculated as per sections 349. 350 and 351 of the companies act. 1956)	50,00,000
Paid-up capital	3,00,00,000
Reserves and surplus	1,20,00,000
Share premium	20,000
Long term loans	1,00,00,000
Investments	60,00,000
Preliminary expenses not written off	5,00,000
Remuneration paid to the managing director during the year	10,00,000
Share suspense account (representing application money received on shares the allotment of which is not yet due)	15,00,000

23. Discuss the duties of an auditor in detail.

24. Write a detailed note on the merits and demerits of the audit programme.

BHARATHIDASAN UNIVERSITY

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2014.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is meant by ‘Over subscription’?
2. What is ‘Re-issue of shares’?
3. What is ‘Own debentures’?
4. What is ‘Preference shares’?
5. What is ‘Internal Reconstruction’?
6. What is meant by ‘Alternation of share capital’?
7. Define Holding company.
8. What is capital profit?
9. What is ‘Rebate on Bills discounted’?
10. What is ‘Life Assurance Fund’?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) Aruna & Co. Ltd issued 1,00,000 shares of Rs. 10 each payable; Rs. 3 on application ; Rs. 2 on allotment and ; Rs. 5 on first and final call.

    1,20,000 shares were applied for. The directors decided to reject the excess applications. All moneys due were fully received. Pass journal entries.

    Or

    (b) The directors of XY Ltd decided to forfeit 100 shares of Rs. 10 each. For non-payment of final call on Rs. 3 per share. These shares were reissued at RS. 8 per share. Pass journal entries.

12. (a) Explain the conditions for the issue of Redeemable preference shares.

    Or

    (b) RS Ltd issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company if the debentures were issued as follows :

    (i) Issued at par, redeemable at par

(ii) Issued at a discount of 5%, repayable at par

(iii) Issued at a premium of 10%, repayable at par.

13. (a) What is purchase consideration? Explain the methods of its calculation.

Or

(b) Pass journal entries for the following transactions in connection with internal reconstruction.

(i) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each fully paid

(ii) 300, 9% debentures of Rs. 1,000 each converted into 1,500 12% debentures of Rs. 100 each

(iii) Plant and stock were written down by Rs. 6,000 and Rs. 30,000 respectively.

14. (a) 'H' Ltd acquired 80% of the shares in 'S' Ltd On 1.1.06 on which date 'S' Ltd had Rs. 20,000 credit balance in Profit and Loss account. The following position was on 31.12.2007.

	H Ltd. (Rs.)	S Ltd. (Rs.)
Profit for the year 2007	2,00,000	80,000
P and L balance on 31.12.2006	1,20,000	70,000

S Ltd. had not paid any dividend during the year 2006 and 2007. Prepare consolidated profit and loss a/c for the year ended 31.12.2007.

Or

(b) Arun Ltd Purchased 60% shares of Varun Ltd on 1.1.2010 when the balance on their P and L a/c and General reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2010, the balance sheet of Varun Ltd. showed a profit and loss a/c balance of Rs. 4,00,000 and General Reserve Rs. 3,00,000.

Calculate capital profit and revenue profit.

15. (a) On 31st March 2008 at bank held the following bills discounted by its earlier.

	Date of Bill (2008)	Terms of Bill (Month)	Discounted @ % p.a.	Amount of bill Rs.
(i)	January 17	4	17	7,30,000
(ii)	February 7	3	18	14,60,000
(iii)	March, 9	3	17.5	3.64.000

Calculate the rebate on bills discounted.

Or

(b) Find out the life assurance fund. The life assurance fund of a Life Assurance Company shares a balance of Rs. 22,34,400 as on 31.3.2010.

	Rs.
Interest on investment	32.000
Income tax	10,000
Outstanding premium	31,400
Bonus utilised for reduction of premium	6,600
Claims intimated but not admitted	15,200
Claims covered under reinsurance	5,300

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. Raj Ltd. issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows :

    On application Rs. 25 ; On allotment Rs. 34 ; On first and final call Rs. 36.

    Applications were received for 4,500 shares and all these were accepted. All moneys due were received except the final call on 300 shares which were forfeited. 200 of these shares were reissued at Rs. 90 as fully paid. Show the cash book and journal entries in the books of company.

17. X Ltd. have part of their share capital in 2,500 6% Redeemable preference shares of 100 each. The company decided to redeem the preference shares at a premium of 10%. The general reserve of the company shows a credit balance of Rs. 3,00,000. The directors decided to utilise 60% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of fresh issue of sufficient number of shares of Rs. 10 each. The premium is to be met from the year's profit and loss a/c.

    Pass Journal entries.

18. A Ltd. and B Ltd. agreed to amalgamate as on 31.12.2010 Balance Sheet

Liabilities	A	B	Assets	A	B
	Rs.	Rs.		Rs.	Rs.
Equity shares of Rs. 10 each	6,00,000	2,00,000	Land and		
General reserve	4,00,000	2,00,000	Building	1,00,000	–
Secured loan	6,00,000	1,00,000	Machinery	7,00,000	3,00,000
Current liabilities	6,00,000	4,00.000	Investments	1,00,000	–
			Stock	9,00,000	4,00,000
			Debtors	3,00,000	1,00,000
			Cash	1,00,000	1,00,000
	22,00,000	9,00,000		22,00,000	9,00,000

They decided to start a New Company ‘C’ Ltd.

a) All assets and liabilities of the two companies are taken over

b) Each shares in ‘B’ Ltd is valued at Rs. 25 for the purpose of amalgamation

c) Shares holders in A Ltd. and B Ltd. are paid off by issue of sufficient number of equity shares of Rs. 10 each in ‘C’ Ltd.

d) Each share in ‘A’ Ltd. is valued at Rs. 15 for the purpose of amalgamations.

Show the journal entries to close the books of both the companies.

19. Balance sheet of H Ltd. and S Ltd. as on 31.12.2004.

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital:			Fixed assets	18,10,000	15.75.000
Shares at Rs. 10 each	25,00,000	12,50,000	Investments (1,00,000 shares in S Ltd.)	11,00,000	–
Reserves	7.50.000	5,00,000	Current assets	5,65,000	3,75,000
Creditors	2.25.000	2,00,000			
	34,75,000	19,50,000		34,75,000	19,50,000

H Ltd. purchased the shares in S Ltd. on 1st Jan. 2004. When reserves in S Ld. stood at Rs. 3,00,000 and in H Ltd. at Rs. 4,50,000. Prepare consolidated Balance sheet.

20. Draft balance sheet of a Banking company as per schedule III of banking companies act.

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, APRIL 2015.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 × 2 = 20)

Answer ALL questions.

1. Define - "Shares".
2. What is forfeiture of shares?
3. What do you mean by debenture?
4. Write the meaning of cumulative preference shares.
5. Define "Amalgamation".
6. What do you mean by internal reconstruction?
7. Give the definition of "Holding company".
8. What is meant by minority interest?
9. What is rebate on bills discounted?
10. State the meaning of surrender value.

SECTION B – (5×5=25)

Answer all questions.

11. (a) Briefly explain the methods of issue of shares.

Or

(b) A limited company issued 20,000 equity shares of Rs. 100 each at a premium of 10%. Pass journal entry.

12. (a) Briefly explain the types of debentures.

Or

(b) The Balance Sheet of Wax Ltd. as on 31st Dec. 2013 was as under:

Liabilities	Rs.	Assets	Rs.
Share capital:		Sundry assets	3,65,000
1,000 redeemable preference	1,00,000	Bank balance	1,40,000

2,000 equity shares @ Rs. 100 each	2,00,000		
General reserve	80,000		
Profit and loss a/c	50,000		
Sundry creditors	75,000		
	5,05,000		5,05,000

On this date, the preferences shares were redeemed at par. Journalise and prepare new balance sheet.

13. (a) Bring out the methods of purchase consideration.

Or

(b) Lal Ltd, absorbed the business of Mal. Ltd, agreed to pay as follows:

For every 4, 10% preference shares of Rs. 10 each in Mal ltd, 7 equity shares of Rs. 10 each in Lal Ltd, as Rs. 8 Paid up. There were 60,000 10% preference shares in Mal Ltd.

Find out purchaser consideration.

14. (a) Write a short note on capital profit and revenue profit in holding company accounts.

Or

(b) A subsidiary company has a capital of Rs. 5,00,000 in shares of Rs. 100 each, out of which the holding company acquired 80% of the shares at Rs. 6,00,000. The profit of the subsidiary Co., on the data of acquisition of shares by the holding Co. were Rs. 3,00,000. Calculate the value of goodwill or capital reserve.

15. (a) What is valuation balance sheet?

Or

(b) The life assurance fund of an insurance company on 31.3.2013 showed a balance of Rs. 87,76,500. It was found later that the following were not taken into account.

	Rs.
Dividends from investments	4,80,000
Income tax on above	48,000
Bonus In reduction of premium	8,77,5000
Claims covered under re-insurance	4,23,000
Claims intimated but not accepted by company	7,62,000

Ascertain the correct balance of fund.

SECTION C – (3×10=30)

ANSWER ANY THREE QUESTIONS.

16. Bhanu Ltd issued 50,000 shares @ Rs. 100 each payable as follows: Rs. 20 on application; Rs. 30 on allotment; Rs. 25 on first call and Rs. 25 on final call.

    The company received applications for 40,000 shares and all these applications were accepted. All sums due on allotment, first and final call were received except the final call on 400 shares. These 400 shares were subsequently forfeited by the company and re-issued at 80 per share.

17. Explain the provisions of the companies act regarding redemption of preference shares.

18. The share capital of Zea Ltd. consisted of the following:

    (a) 10,000 6% preference shares of Rs. 100 each and

    (b) 50,000 equity shares of Rs. 10 each.

    The shares were fully paid. The company has accumulated losses totaling Rs. 3,50,000 besides preliminary expenses Rs. 20,000. It was also ascertained that fixed assets which stood in the books at Rs. 14,00,000 were over-valued to the extent of Rs. 4,00,000. The following scheme was adopted to write off the losses and reduce the assets.

    (i) 6% preference shares were to be converted into 7% preference shares of Rs. 60 each.

    (ii) Equity shares were to be reduced to Rs. 2 each.

    (iii) Pass necessary Journal entries.

19. The Balance Sheets of Holding Co, and subsidiary Co, as on 31.12.2012 are given below:

Liabilities	H Ltd (Rs.)	S Ltd (Rs.)	Assets	H Ltd (Rs.)	S Ltd (Rs.)
Share capital @ Rs. 10 each	5,00,000	2,00,000	Sundry assets	5,30,000	3,00,000
Reserve fund (1.1.2012)	50,000	20,000	Investments in 60% shares of subsidiary Co.	1,50,000	–
Profit for 2012	50,000	30,000	Preliminary expenses	–	10,000
Creditors	80,000	60,000			
	6,80,000	3,10,000		6,80,000	3,10,000

Holding Co., acquired the shares in subsidiary co., on 1.7.2012. Prepare the consolidated balance sheet.

20. Prepare profit and loss a/c of Chennai bank Ltd., for the year ending 31st March 2012.

	Rs.		Rs.
Interest on deposits	32,00,000	Discount on bills discounted	14,90,000
Commission (Cr)	1,00,000	Interest on overdraft	16,00,000
Interest on loans	24,90,000	Interest on cash credits	23,20,000
Sundry charges (Dr)	1,00,000	Auditors fees	35,000
Rent and rates	2,00,000	Director's fees	16,000
Establishment expenses	5,00,000	Bad debts to be written odd	3,00,000

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, JUNE 2015.

Part III — Computer Application — Major

CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A—(10x2 = 20)

Answer ALL questions.

1. What is a company?
2. What is meant by perpetual succession?
3. What is redeemable preference shares?
4. What do you mean by debentures?
5. What is Amalgamation?
6. What do you mean by Absorption?
7. Define holding company.

8. What is minority interest?

9. What do you mean by preliminary expenses?

10. Explain Life Insurance.

Section B – (5x5=25)

Answer all questions.

11. (a) Ganesh Ltd. issued 50,000 equity shares of Rs. 10 each to the public on condition that full amount of shares will be paid in a lump sum. All these shares were taken up and paid by the public. Pass journal entries in the books of company when (i) shares are issued at par (ii) shares are issued at a premium of 10 % and (iii) issued at 10% discount.

Or

(b) What are the classes of preference shares?

12. (a) The following balances were extracted from Lakshman Ltd. as on 31.12.2014:

	Rs.
Share capital:	
1,00,000 equity shares of Rs. 10 each	10,00,000
1,50,000 6% redeemable pref. shares of Rs. 10 each	15,00,000
Capital reserve	7,50,000
General reserve	4,50,000
Profit and loss a/c	12,25,000

The company redeemable preference shares on 1.1.15 and has sufficient cash.

Give journal entries.

Or

(b) Classify the Debentures.

13. (a) What is purchase consideration? What are they?

Or

(b) Give the journal entry for internal reconstruction.

14. (a) Arun Ltd. acquired 60% of shares in Varun Ltd. on 1.1.2000 on which date Varun Ltd. Rs. 30,000 credit balance in the Profit and loss a/c.

The following position was revealed on 31.12.2001:

	Arun Ltd.	Varun Ltd.
Profit for 2011	1,90,000	65,000

Profit and loss a/c as on 31.12.2000 1,75,000 90,000

Varun Ltd. had not paid any dividend in the years 2000 and 2001.

You are required to prepare consolidated profit and loss account for the year ended 31.12.2001.

Or

(b) Vani Ltd. purchased 70% of the shares of Rani Ltd. on 1.1.2002. The following is the summarized profit and loss account of the companies after ascertaining net profit.

Profit and loss a/c of Vani and Rani Ltd.

For the year ended31.12.2002

	Vani Ltd. Rs.	Rani Ltd. Rs.		Vani Ltd. Rs.	Rani Ltd. Rs.
To proposed dividend	–	80,000	By net profit b/d	3,00,000	2,70,000
T Balance c/d	3,56,000	1,90,000	Dividend received from B Ltd. (80,000×70/100)	56,000	–
	3,56,000	2,70,000		3,56,000	2,70,000

You are required to prepare a consolidated profit and loss a/c.

15. (a) From the following particulars of Rohit Commercial Bank, find out the closing rebate.

Date of bill	Term of bill	Discounted rate	Amount of bill
December 11	4	16%	2,40,000
January 10	3	15%	1.95.000
February 16	4	14.5%	3,12,000
March 12	3	15.5%	1,89,000
March 21	4	16.5%	2,48,000

Or

(b) What are the types of general insurance?

SECTION C – (3x10=30)

Answer any three questions.

16. Sivam Co. issued 25,000 equity shares of Rs. 100 each and the amounts were received as follows:

On application Rs. 20, on allotment Rs. 40, on call Rs. 40.

20,000 applications were received and all were allotted. Pass journal entries.

17. Krishnan Co. has part of its share capital as 3,000, Rs.100 preference shares each. When the shares became due for redemption, the company decides that the whole amount will be redeemed out of fresh issue of equal amount of equity shares of Rs. 10 ach. Pass Journal entries.

18. Vinayaga Ltd. and Muruga Ltd. agree to amalgamate as from 31st December 1999 on which date their respective balance sheet were as follows:

Liabilities	Vinayaga Ltd. Rs.	Muruga Ltd. Rs.	Assets	Vinayaga Ltd. Rs.	Muruga Ltd. Rs.
Share capital (shares of Rs. 1 each)	80,000	25,000	Cash in hand	100	50
Sundry creditors	3,00	1,000	Cash at bank	3,400	450
Reserve	7,500	4,000	Sundry debtors	22,500	6,000
Profit and loss a/c	2,500	1,000	Plant	12,000	4.500
			Stock	15,000	7,000
			Premises	30,000	10,000
			Patents	10,000	3,000
	93,000	31,000		93,000	31,000

Draw up the balance sheet of the new company Ganesh Murugan Ltd. Which was incorporated to take over the amalgamated concerns and state the number of shares in the new company which will be allotted to the shareholders of the old companies at the new share of Re. 1. Assume the same face value.

19. From the following balance sheets Somu and Ramu prepare the consolidated balance sheet as on 31.3.1999.

Liabilities	Somu Ltd. Rs.	Ramu Ltd. Rs.	Assets	Somu Ltd. Rs.	Ramu Ltd. Rs.
Share capital (shares of Rs. 10 each)	10,00,000	4,00,000	Sundry assets	8,5,0,000	6,08,000
General reserve	2,00,000	1,00,000	100% shares in ramu Ltd. acquired on 31st	5,08,000	–

			March 1999		
Sundry creditors	1,60,000	1,20,000	Preliminary expenses	–	12,000
	13,60,000	6,20,000		13,60,000	6,20,000

20. From the following particulars of Indian Bank Ltd. for the year ending 31st March 2014 find out the amount of provision required on the assets.

Particular			Rs.
Standard assets			12,90,000
Sub-standard assets			3,18,000
Doubtful assets	Secured	Unsecured	
Less than 1 year	1,20,000	86,000	
More than 1 year but less than 3 years	48,500	21,400	
More than 3 years	19,250	10,140	
Loss assets			36,880

(For candidates admitted from 2008 - 2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Part III — Computer Applications-Major

CORPORATE ACCOUNTING

Time : Three hours **maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What do you mean by shares?
2. What are the kinds of shares?
3. What do you mean by cum interest and Ex-interest?
4. Write a short note on own debentures.

5. What are the types of amalgamation?

6. Give the meaning of subsidiary company.

7. Give the formula for net asset method.

8. What is Revenue profits?

9. How Income is created on the performing assets and non — performing assets?

10. What is Insurance?

SECTION B – (5x5=25)

Answer ALL questions.

11. (a) What are salient features of a company?

Or

(b) Good luck Ltd invited application for 10,000 shares of Rs. 10 each. The shares are payable as follows.

On application Rs. 3, on allotment Rs. 3, on call Rs. 4

All the shares were subscribed. Pass journal entries.

12. (a) The Balance sheet of Wallance Ltd as a 31.12.2014 was as under.

Liabilities	Rs.	Assets	Rs.
Share capital 1,000 redeemable preference shares of Rs. 100 each	1,00,000	Sundry assets	3,65,000
2,000 equity shares of Rs. 100 each fully paid	2,00,000		
General reserve	80,000		
Profit and loss a/c	50,000		
Sundry Creditors	75,000		
	5,05,000		5,05,000

On this date, the preference shares were redeemed par journalise and prepare the balance sheet.

Or

(b) Star Ltd issued 20,000 7% debentures of Rs. 100 each

On application Rs. 40

On allotment Rs. 40

All the debentures sold. Pass necessary journal entries.

13. (a) Spring field Ltd is absorbed by sports field Ltd the consideration being.

    (i) The taking over of the trade liabilities of Rs. 40,000

    (ii) The payment of cost of absorption of Rs. 15,000

    (iii) The repayment of B debentures of spring field Ltd of Rs. 2,00,000 at par.

    (iv) The discharged of 'A' debentures of Rs. 3,00,000 in the vendor Co. at a premium of 10% by the issue of 8% debentures in sports field Ltd AST par.

    (v) A payment of Rs. 20 per share in cash and the exchange of 4 fully paid Rs. 10 share in sports field Ltd at a market price of Rs. 15 per share for every Rs. 50 share in spring field Ltd which were 40,000 in number.

    You are required to find out the purchase consideration.

Or

(b) X Co ltd has the following shares as a part of its share capital.

10,000 8% preference shares of Rs. 100 each fully paid 50,000 equity shares of Rs. 5 each fully paid 20,000 equity shares of Rs. 10 each Rs. 8 called up and paid up.

The company has decided to alter the share capital as follows.

(i) To sub-divide the preference shares into shares of Rs. 10 each.

(ii) To consolidate the equity shares of Rs. 5 each into share of Rs. 10 each.

(iii) To convert the partly paid up equity shares into fully paid up shares of Rs. 8 each with necessary legal sanctions. Journalise the alterations.

14. (a) List out the format for minority Interest.

Or

(b) Give the format for cost of control or capital reserve.

15. (a) On 31.3.2014 Indian Bank Ltd held the following bills, discounted earlier.

Date of bills 2014	Term	Discount	Amount
January 17	4	17	7,30,000
February 7	3	18	14,60,000
March 9	3	17.5	3,64,000

Calculate the rebate on bills discounted.

(b) The life Insur v/s Neelam life insurance company on 31.3.2014 showed a balanced of Rs. 27,00,000. However, the following items were not taken into account while preparing the revenue for 2013-14. Ascertain the correct life fund balance.

	Rs.
(i) Interest and dividends accrued on investments	10,000
(ii) Income tax deducted at source on the above	3,000
(iii) Reinsurance claims recoverage	3,500
(iv) Commission due on reinsurance premium paid	5,000
(v) Bonus in reduction of premiums	1,500

SECTION C – (3×10=30)

Answer any THREE questions.

16. Good luck Ltd invited application for 10,000 shares of Rs. 20 each. The amount payable is Rs. 5 on application. Rs. 8 on allotment and the balance when required. The whole of the above issue was applied for and cash was duly received. Give Journal entries.

17. Shri Ram Ltd had the following Balance sheet as on 1.4.2013

Liabilities	Rs.	Assets	Rs.
10,000 6% preference	1,00,000	Buildings	2,00,000
30,000 equity shares of 10 each	3,00,000	Plant	2,00,000
General reserve	1,00,000	Stock	1,00,000
P/L a/c	80,000	Debtors	1,00,000
Creditors	1,20,000	Cash at Bank	1,00,000
	7,00,000		7,00,000

The company decided to redeem its preference shares at 10 % premium for this purpose it is issued new 5,000 equity shares of Rs. 10 each at 10% premium, show necessary journal entries and balance sheet.

18. The following was the balance sheet of ABC Ltd as on 3.12.2013

Liabilities	Rs.		Assets	Rs.
Issues and paid up capital			Good will	10,000
12,000 shares of Rs. 10 each	1,20,000		Land and building	20,500
Calls is arrear			Machinery	50,850
Rs. 3 per shares on 3,000 shares	9,000	1,11,000	Preliminary Expenses	1,500

Creditors	15,425	Stock		10,275
Provision for tax	4,000	Debtors		15,000
		Bank		1,500
		P/L a/c	22,000	
		–N/P	–1,200	20,800
	1,30,425			1,30,425

Machinery value was Rs. 10,000 in excess. It is proposed to write down this asset and to extinguish the profit loss a/c debit balance and write off good will and preliminary expenses by the adoption of the following scheme.

19. The balance sheets of A Ltd and B Ltd as at 31.12.2014 are as follows.

Liabilities	A Rs.	B Rs.	Assets	A Rs.	B Rs.
S capital	2,00,000	1,00,000	Sundry assets	1,32,500	1,38,200
10 Rs. Each			Goodwill	–	20,000
General reserve	18,00	20,000	Shares in B Ltd	1,40,000	
P/L a/c	24,500	23,000			
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,2000

In the cash of B Ltd profit for the year 31.12.2014 is Rs. 12,000 and transfer to reserve Rs. 5,000. The holding of A Ltd in B Ltd is 90% acquired on 30.6.2014.

Draft a consolidated balance sheet of A Ltd and its subsidiary.

20. Prepare profit and loss a/c for the year ended 31st march 2014 of very sound Bank Ltd from the following particulars.

	Rs. (‘000)		Rs. (‘000)
Interest on loan 250	250	Discount on bills discounted	40
Interest on saving a/c	150	Rent, rates Insurance and lighting	15
Interest on cash credits	160	Auditors fees and expenses	10
Interest on fixed deposits	190	Directors fees and expenses	10
Interest on overdrafts	70		
Payments to employees	150		

(For candidates admitted from 2008-2009 onwards)

B.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10x2= 20)

Answer ALL questions.

1. What is the meaning of shares?
2. What is pro-rata allotment?
3. Give the definition of preference shares.
4. What is meant by registered debenture?
5. What is merger of companies?
6. State the meaning of purchase consideration.
7. Define - subsidiary company.
8. What is capital profit?
9. Write the meaning of banking company.
10. Write is life assurance fund?

SECTION B – (5 x 5 = 25)

11. (a) Briefly explain the kinds of shares.

Or

(b) A Ltd. Company issued 25,000 equity shares of Rs. 100 each at a discount of 10%. Pass journal entry.

12. (a) State the provision for redemption of preference shares.

Or

(b) Mention the factors to be considered in relation to redemption of debentures.

13. (a) Write a short notes on – “Amalgamation, and absorption”.

Or

(b) Raman Ltd. Agrees to purchase the business of Krishna Ltd. On the following terms: for each of the 10,000 shares of Rs. 10 each in Krishnan Ltd. 2 shares in Raman Ltd. of Rs. 10 each will be issued at our agreed value of Rs. 12 per share. In addition, Rs. 4 per share cash also will be paid. Find out the amount of purchase consideration.

14. (a) X Ltd. Purchased 60% shares of Y Ltd. On 1.1.2012 when the balance on their profit and loss a/c and general reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2012, the balance of profit and loss a/c and general reserve were Rs. 4,00,000 and Rs. 3,00,000. Calculate capital profit and revenue profits.

Or

(b) What are the meanings of cost of control and minority interest?

15. (a) The following balances of Rajasthan Bank Ltd. On 31.3.2012.

Interest and discount Rs. 17,42,000

Rebate on bills discounted (1.4.2011) Rs. 12,500

Bills discounted and purchased Rs. 5,12,000

Rebate on bills discounted (31.3.2012 Rs. 22,700

Pass journal entries find out the adjustable amount.

Or

(b) Explain the types of general insurance.

SECTION C – (3 x 10 = 30)

Answer any three questions.

16. Ram Ltd. Issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

On application Rs. 25

On allotment Rs. 34

On first and final call Rs. 36

Application were received for 4,800 shares and all of these were accepted. All the money due was received expect the first and final call on 300 shares which were forfeited. 200 of these shares were reissued at Rs. 90 as fully paid. Pass journal entries and prepared balanced sheet.

17. A company wants to redeem its 10,000, 6% preference shares of Rs. 10 each, fully paid at 10% premium. The ledger accounts show the following balances.

Securities premium Rs. 2,000

Profit and loss a/c (Cr.) Rs. 10,000

The directors redeemed the shares by making minimum fresh issue of equity shares of Rs. 10 each at a premium of 5%. Give journal entries.

18. Pass journal entries for the following transactions in connection with internal reconstruction.

(a) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each.

(b) 300, 9% debentures of Rs. 1,000 each converted into 1500, 12% debentures of Rs. 100 each.

(c) The debit balance of profit and loss a/c Rs. 1,50,000 and the preliminary expenses rs. 30,000 were written off.

(d) The value of plant and machinery and stock were written down by Rs. 60,000 and Rs. 30,000 respectively.

19. From the balance sheets given below, prepare consolidated balance sheet

Balance sheet as at 31st December 2011.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Shares of Rs. 10 each	5,00,000	1,00,000	Fixed Assets	4,00,000	60,000
Profit and loss a/c	2,00,000	60,000	Stock	3,00,000	1,20,000
Reserves	60,000	30,000	Debtors	75,000	85,000
Bills payable	–	15,000	Bills receivable	20,000	–
Creditors	1,10,000	60,000	Shares in S Ltd. 7,500 at cost	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Other information:

a. The bills accepted by S Ltd. are all in favour of H Ltd.

b. The stock of H Ltd. Includes Rs. 25,000 bough from S Ltd. at a profit to later of 20% on sales.

c. All the profits of S Ltd. has been earned since the shares were acquired by H Ltd. but there was already the reserve of Rs. 30,000 at that date.

20. From the following particulars, prepare the fire insurance revenue a/c for 2011-2012.

	Rs
Claims paid	2,35,000
Legal expenses regarding claims	5,000
Premium received	6,00,000
Re-insurance premium	60,000
Commission	1,00,000
Expenses of management	1,50,000
Provision against unexpired risk on 1.4.2011	2,60,000
Claims unpaid on 1.4.2011	20,000
Claims unpaid on 31.3.2012	35,000

(For candidates admitted from 2008-2009 onwards)

M.Com. DEGREE EXAMINATION, NOVEMBER 2015.

Commerce

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is the need for 'inflation accounting'?
2. Write a note on 'voluntary winding up'.
3. State the meaning of Amalgamation by merger.
4. Why the share capital is reconstructed?
5. What is a consolidated balance sheet?
6. Write a note on statutory reserve.
7. State the meaning of Reinsurance.
8. Mention any two features of double account system.
9. How are inventories defined in AS-2 Valuation of inventories?
10. How is opportunity cost of human resources obtained?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) From the following information calculate the

Value of goodwill on the basis of 3 years purchase of super profit.

Average capital employed in the business is Rs. 20,000

Rate of interest expected from capital having regard to the risk involved is 10%

Net trading profits of the firm for the past three years were Rs. 3504; Rs. 2803; and Rs. 3101

Fair remuneration to the partners for their services is Rs. 480 per annum

(b) You are required to calculate cost of sales adjustment from the following data:

	Particulars	Historical cost	Index for goods
01-01-97	Opening stock of goods	50,000	400
	Purchases	4,00,000	440
31-12-97	Closing stock	70,500	470

Index of goods as on 31-12-97 was 480. However, the closing stock of goods was actually acquired on 14-11-97 on which date the index of goods was 470. Purchases were made uniformly throughout the year.

12. (a) Following is the balance sheet of Samy Ltd. as on 31.3.2004.

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed	16,25,000
8% preference shares of Rs. 100	3,75,000	Assets	
Equity shares of		Investment	3,00,0000
Rs.. 10 each	7,50,000	Current	2,50,000
General Reserve	4,50,000	Assets	
7% Debentures	3,50,000		
Current liabilities	2,50,000		
	21,75,000		21,75,000

Romy Ltd. agreed to take over the business of Samy Ltd.

Calculate purchase consideration under Net assets method on the basis of the following:

Romy Ltd. agreed to discharge 7% debentures at a premium of 10% by issuing 9% debentures of Romy Ltd.

Fixed assets are to be valued at a 10% above book value, the investments at par, current assets at 10% discount and current liabilities at book value.

Or

(b) Kala Ltd's Balance sheet showed the following position on 31st March 1995.

Liabilities	Rs.	Assets	Rs.
Share :		Fixed assets	8,00,000
10000 equity shares of Rs. 100 each	10,00,000	Current assets	4,00,000
		Cash at bank	2,00,000
Capital reserve	2,00,000	Profit & Loss A/c	3,00,000
Bank Loan	2,00,000		
Sundry creditors	3,00,000		
Total	17,00,000	Total	17,00,000

Mala Ltd. was incorporated to take the fixed assets and 60% of the current assets at an agree value of Rs. 9,00,000 to be paid as to Rs. 7,40,000 in equity shares of Rs. 10 each and the balance in 9% debentures. The debentures were accepted by bank in settlement of loan. Remaining current assets realized Rs. 90,000. After meeting Rs. 20,000 expenses of liquidation, all the remaining cash was paid to the creditors in full settlement. Give the necessary accounts in both the companies.

13. (a) From the following balances prepare single column Profit and Loss Ale of Lakshmi Bank Ltd for the year ending 31.12.2002

Interest on cash credits and loans	1790
Interest on deposits	620
Administrative expenses	480
Discount	210
Commission and exchange	300
Rebate on bills discounted 1.1.2002	90

Determine the Profit after making a provision for rebate on bills discounted Rs. 290.

(b) The balance sheets of C Ltd. and D Ltd. as at 31st December, 2006 are as follows :

Liabilities	C Ltd Rs.	D Ltd Rs.	Assets	C Ltd. Rs.	D Ltd Rs
Share capital :			Sundry assets	1,32,500	1,38,200
In shares of Rs. 10 each	2,00,000	1,00,000	Goodwill	–	20,000
			Shares in D Ltd. at cost	1,40,000	–
General Reserve	18,000	20,000			
P&L A/c	24,500	23,000			
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

In the case of D Ltd. profit for the year ended 31st December, 2006 is Rs. 12000 and transfer to reserve is Rs. 5000. The holding of C Ltd. in D Ltd. is 90% acquired on 30th June 2006. Draft a consolidated balance sheet of C Ltd. and its subsidiary.

14. (a) The revenue account of a Life Insurance

Company showed the life fund at Rs. 73,17,000 on 31.3 .2006 before taking into account the following items

(i) Claims intimated but not admitted Rs. 98,250

(ii) Bonus utilized in reduction of premium Rs. 13,500

(iii) Interest accrued on investments Rs. 29,750

(iv) Outstanding premiums Rs. 27,000

(v) Claims covered under re insurance Rs. 40,500

(vi) Provision for taxation Rs. 31,500 Find out the correct Life Assurance fund

Or

(b) The Bangalore Municipal corporation replaces part of its existing water mains with larger mains at the cost of Rs. 7500000. The original cost of laying the old mains was Rs. 1500000 and the present cost of laying those mains would be three times the original cost Rs. 125000 was realized by the sale of old materials and old materials of Rs. 375000 were used in the replacement and included in the cost given above.

Give journal entries to record the above and show the allocation of expenses between revenue and capital along with Replacement Account.

15. (a) Explain the provisions regarding valuation of inventories as per AS - 2 Valuation of inventories.

Or

(b) Enumerate the different value based methods of valuing Human resources.

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. On 31st March 1998, balance sheet of Glorious Limited was as follows:

Liabilities	Rs.	Assets	Rs.
Share capital:		Good will	1,00,000
8% pref. shares of Rs. 100 each	2,00,000	Land & Building	2,20,000
4000 equity shares of Rs. 100		Machinery	3,00,000
each fully paid	4,00,000	Furniture	40,000
General reserve	1,60,000	Investments in 4%	
Capital reserve	20,000	govt, securities at cost	
Profit & Loss A/c	1,20,000	(face value Rs. 80,000)	1,00,000
5% debentures	1,20,000	Stock	3,00,000
Sundry creditors	1,80,000	Sundry debtors	1,20,000
Provision for taxation	40,000	Cash at bank	60,000
Total	12,40,000	Total	12,40,000

The assets were revalued as under: Land & Buildings - 3,00,000, Machinery - 2,50,000, Furniture - 50,000. The normal return on capital employed for valuation of goodwill is 12%. The basis of valuation is being 4 years purchase of super profits. 50% of investments in building is treated as non trading asset because a sum of Rs. 15,000 is collected annually as rent from the building. Calculate the value of each equity share assuming that the average annual profit after tax at 50% is Rs. 1,40,000.

17. M Ltd and N Ltd. agreed to amalgamate on the basis of the following Balance sheets as on 31.3.2012.

Liabilities	M Ltd Rs.	N Ltd Rs.	Assets	M Ltd Rs.	N Ltd Rs.
Share capital:			Goodwill	30,000	–
Rs.25 each	75,000	50,000	Fixed assets	31,500	38,800
P&LA/c	7.500	2,500	Stock	15,000	12,000
Creditors	3,500	3,500	Debtors	8,000	5,200
Depreciation fund	–	2,500	Bank	1,500	2,500
	86,000	58,500		86,000	58,500

The assets and liabilities are to be taken over by a new company formed called P Ltd., at book values. P Ltd's capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs. 10 each and 10,000 9% preference shares of Rs. 10 each.

P Ltd issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price.

Prepare the consolidated balance sheet after making necessary adjustments.

18. The Balance sheets of H Ltd and S Ltd on 31st December 1991 were as follows:

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital:			Land and Buildings	3.10.000	1,60,000
10% pref. shares of Rs. 100 each	–	1,00,000	Machinery less 10% depreciation	2.70.000	1.35.000
Equity shares of Rs. 100 each	10,00,000	4,00,000	3000 shares in S Ltd	4.50.000	–
General Reserve	1,00,000	50.000	Stock at cost	2,20,000	1,50,000
P&LA/c balance on 1.1.90	40,000	30.000	Debtors	1,55,000	90,000
Profit for 1990		80,000	Cash and bank balance	85,000	1.95.000
Creditors	2,00,000	70,000			
	14,90,00	7,30,000		14,90,00	7,30,000

'H' Ltd. acquired 3000 equity shares in S Ltd on 1" July 1990. As on the date of acquisition, H Ltd., found that the value of Land and Buildings and Machinery of S Ltd should be Rs. 1,50,000 and Rs. 192500 respectively

Prepare the consolidated Balance sheet of H Ltd and its subsidiary S Ltd showing the assets at their proper values.

19. From the following Trial balance prepare the Revenue A/c and the Balance sheet of the Great Life Assurance Co. Ltd.

Trial Balance as on 31.3.2006

	Rs. '000		Rs. '000
Loans on policies	4,000	Premiums	3,65,900
Expenses of management	18,200	Profit on sale of investments	10,800
Deposit with RBI - Govt, of India securities	2,00,000	Claims admitted but not paid	58400
		Sundry trade creditors	7,000
Commission	9,800	Life assurance fund (1.4.05)	28,00,000
Freehold ground rents	1,68,000	Consideration for annuities granted	12,200
Bonus in cash	4,200		
Surrenders	21,100	Interest, dividends & rents-gross	1,20,500
Claims by maturity	1,04,700		
Claims by death	1,72,600		
House property	59,800		
Annuities paid	7,600		
Outstanding premiums	21,600		
Income tax on interest receipts	7,100		
Agents' balances	6,800		
Port trust debentures, interest and principal guaranteed by Govt.	5,28,200		
Cash at Bank, current A/c	12,700		
Cash in hand	1,750		
Foreign Govt, securities	1,42,500		
Office furniture	1,500		
Fully paid up share capital in limited liabilities companies registered in India	1,21,600		
Stock of policy stamps in hand	150		
Mortgage in India	6.61.400		
Mortgage out of India	2.06.400		
Loans on Govt. securities	7,19,000		
Loans on company policies	1,74,600		
	33,75,500		33,75,500

20. The XYZ Electricity company decided to replace some parts of its plant by an improved plant. The plant to be replaced was built in 2003 for Rs. 54,00,000. It is estimated that it

would now cost Rs. 80,00,-000 to build a new plant of the same size and capacity. The cost of the new plant of the same size and capacity. The cost of the new plant as per the improved design was Rs. 1,70,00,000 and in addition, material belonging to the old plant valued at Rs. 5,50,000 was used in the construction of the new plant. The balance of the old plant was sold for Rs 3,00,000. Compute the amount to be capitalized. Also show the Replace account.

(For candidates admitted from 2008-09 onwards)

B.Com. DEGREE EXAMINATION, APRIL 2016.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. Define - “Stock”.
2. What is called-up-capital?
3. Write the meaning of “untraceable shareholders”.
4. What do you mean by redemption of debenture?
5. Define “Absorption”.
6. What is External Reconstruction?
7. Write the meaning of “Holding Company”.
8. Define “Post Acquisition Profits”.
9. State the meaning of money at call.
10. What is single premium?

SECTION B — (5 x 5 = 25)

Answer ALL questions.

11. (a) Briefly explain the types of preference shares.

Or

(b) B Limited company issued 50,000 equity shares of Rs. 10 each at a discount of 10%. Pass Journal entry.

12. (a) What is Debenture? Explain briefly about its' types.

Or

(b) The balance sheet of Exchange Ltd., as on 31.12.2014 was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital:		Sundry assets	9,20,000
50,000 equity shares of Rs. 10 each, fully paid	5,00,000	Bank balance	6,00,000
4,000 redeemable preference shares of Rs. 100 each fully paid	4,00,000		
Profit and loss a/c	5,20,000		
Creditors	1,00,000		
	15,20,000		15,20,000

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass Journal entries and Balance sheet.

13. (a) Briefly bring out the methods of Accounting for Amalgamation.

Or

(b) Ram Ltd agreed to absorb the business of Hari Ltd., the purchase consideration was as under :

For every 3 equity shares of Rs. 10 each in Hari Ltd., 8 equity shares in Ram Ltd., as Rs. 10 paid up. There were 90,000 equity shares in Hari Ltd. Find out purchase consideration amount.

14. (a) Write a short notes on proposed dividend and contingent liabilities in Holding company accounts.

Or

(b) P Ltd acquired 65% shares of Q Ltd. On 1.10.12 profit and loss a/c in the books of Q Ltd. Showed a debit balance of Rs. 40,000 on 1.4.12. On 31.3.13, the balance sheet of Q Ltd. Showed profit and loss a/c credit balance of Rs. 1,20,000. Calculate capital profit and revenue profits.

15. (a) Explain any five items requiring special attention in preparation of Final A/c's of Banking Companies.

Or

(b) The revenue account of a life assurance company shows the Life Assurance Fund on 31.3.2014 at Rs. 62,21,310, before taking into account the following :

	Rs.
Claims covered under reinsurance	12,000
Bonus utilised in reduction of fife insurance premium	4,500
Interest accrued on securities	8,260
Outstanding premiums	5,420
Claims intimated but not admitted	26,500

Find out the Life Assurance Fund after taking into account the above Omissions?

SECTION C — (3 x 10 = 30)

Answer any THREE questions.

16. The Ever shine Co. Ltd., offered 5,000 shares of Rs. 100 each to the public at Rs. 95 payable as under :

    Rs. 15 on application

    Rs. 30 on allotment

    Rs. 25 on first call and

    Rs. 25 on final call.

    All the shares were applied for and allotted. Anand, to whom 500 shares were allotted, paid the whole of the sum due along with allotment (under arrangement with directors). Assume all sums were received. Pass journal entries and prepare Balance Sheet.

17. Explain the steps to solving problems in Redemption of Preference Shares.

18. Timex Ltd., issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company, if the debenture were issues as follows :

    Issued at par, redeemable at par

    Issued at a discount of 5%, repayable at par

    Issued at a premium of 10%, repayable at par

    Issued at par, redeemable at a premium of 10%

    Issued at a discount of 5%, repayable at a premium of 10%. You are also required to show how the items concerned appear in the Balance Sheet.

19. The Balance Sheet of Holding Co., and Subsidiary Co. as on 31.3.2014.

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
	Rs.	Rs.		Rs.	Rs.
Share capital			Sundry assets	2.23.000	1,52,000
Rs. 10 each	2,50,000	1,00,000	100% shares in B Ltd.	1.17.000	–
Reserves	50.000	25.000			
Creditors	40.000	30.000	Preliminary Expenses	–	3,000
	3,40,000	1,55,000		3,40,000	1,55,000

The shares of B Ltd. were acquired at Rs. 1,17,000 on 31.3.2014. Prepare Consolidated Balance Sheet as on 31.3.2014.

20. From the following particulars, prepare the profit and loss a/c of Chennai Bank Ltd. for the year ending 31st March 2012.

	Rs.
Interest on deposits	32,00,000
Commission (Cr.)	1,00,000
Interest on loans	24,90,000
Sundry charges (Dr.)	1,00,000
Rent and rates	2,00,000
Establishment expenses	5,00,000
Discount on bills discounted	14,90,000
Interest on overdraft	16,00,000
Interest on cash credits	23,20,000
Auditor’s fees	35,000
Director’s fees	16,000
Bad debts to be written off	3,00,000

(For candidates admitted from 2008 - 2009 onwards)

B.Com. DEGREE EXAMINATION, JULY 2016.

Part III — Commerce — Major CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20)

Answer ALL questions.

1. What is Registered company?
2. What do you mean by Deferred shares?
3. Write the meaning of premium on redemption.
4. Define Redeemable preference share.
5. Write the meaning of Amalgamation'.
6. What is meant by Internal Re-construction?
7. What is Composite dividend?
8. What do you mean by Consolidated Profit and Loss a/c?
9. Write the meaning of share premium.
10. Give the meaning of 'Renewal of premium' in Insurance company.

SECTION-B (5x5=25)

Answer All Questions

11. (a) Define share and explain briefly about its types.

(or)

(b) Ram Ltd purchased assets of Rs. 8,00,000 from Anil Bros. it issued equity shares of Rs. 100 each fully paid up in satisfaction of their claim. Make journal entries to record these transactions.

12. (a) Explain the stages of Accounting for debentures.

(or)

(b) Modern Fibers Ltd., has part of its share capital as 5,000 Redeemable Preference shares of Rs. 100 each. When the shares became due for redemption, the company decided that the whole amount will be redeemed out of a fresh issue of equal amount of equity shares of Rs. 10 each. Show the journal entries in the books of the company.

13. (a) Bing out the methods of purchase consideration.

(or)

(b) B Ltd agreed to absorb A Ltd upon the following terms:

Shares of A Ltd. Are to be considered as worth Rs. 12 each of which shareholders are to be paid one quarter in cash and the balance in Rs. 100 shares of B Ltd. Which are to be issued at 25% premium. Total shares were: 10,000 in B Ltd. And 20,000 in A Ltd. Ascertain the number of shares to be issued by B ltd.

14. (a) Define dividend and explain its types.

(or)

(b) H Ltd purchased 75% of shares in S ltd. On 1.7.11. on 31.12.11 the Balance sheet of S ltd. Showed reserve fund balance on 1.1.11 Rs. 40,000, profit earned during 2011 Rs. 60,000 and preliminary expenses unwritten off Rs. 20,000. Calculate capital profits and revenue profits.

15. (a) What is NPA? Explain briefly about the some of Non-performing assets.

(or)

(b) The Revenue account of a life Insurance Company showed a balance of Rs. 4,75,000 at the end of 2013-14 before considering the following items:

	Rs.
(i) Bonus in reduction of premium	40,000
(ii) Outstanding premium	1,00,000
(iii) Interest accrued on investment	20,000
(iv) Claims intimated but not admitted	35,000
(v) Claims recovered under reinsurance	3,000

Find out adjusted Life Assurance Fund.

SECTION C – (3x10=30)

Answer all Three Questions

16. Nalli and Co. Ltd. Was registered with an authorized capital of Rs. 20,00,000

Divided into 20,000 shares of Rs.100 each. The company offered 12,000 shares to the public which were payable: Rs.20 per share on application, Rs.40 per share on allotment and Rs.40 on call. Applications for 18,000 shares were received on which the directors allotted as follows:

Applicants for 10,000 shares – full

Applicants for 5,000 shares – 2,000 shares,

Applicants for 3,000 shares – nil.

The excess application money was adjusted towards allotment. All the money due to on allotment and call was fully received. Pass journal entries.

17. What is equation for determining Redeemable preference shares plus premium on redemption and explain when to use the equation?

18. Moon Rays ltd. Issued 50,000 8% debentures of Rs. 10 each to the public at par, to be paid Rs. 40 on application and the balance on allotment.

    Applications were received for 48,000 debentures.

    Allotment was made to all the applications and the amount due was received promptly.

    Give journal entries to record the transactions and show how these appear in the Balance Sheet.

19. The following Balance sheet as on 31.3.2014 are given

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
	Rs.	Rs.		Rs.	Rs.
Shares capital:			Sundry assets	20,000	12,000
In Re.1 fully paid			Investment		
shares	12,000	6,000	6,000 shares		
Reserves	3,000	2,000	In S ltd.	7,5000	–
Profit and Loss a/c	2,000	1,000			
Sundry liabilities	10,500	3,000			
	27,500	12,000		27,500	12,000

H ltd has acquired shares in S ltd. On 31.3.2014. Prepare Consolidated Balance sheet as on 31.3.2014.

20. Prepare the profit and loss account for the year ended 31.03.2014 of Kasinathan Bank Ltd from the following particulars.

	Rs.
Interest on loan	2,50,000
Interest on savings account	1,50,000
Interest on cash credits	1,60,000
Interest on fixed deposits	1,90,000
Interest on overdrafts	50,000
Amount charged against current accounts	20,000
Rebate on bills discounted	19,000
Salaries and allowances	1,20,000

Discount	40,000
Rent, tax, insurance etc	5,000
Dearness allowances	35,000
Commission, brokerage and exchange	15,000
Managing director's salary	15,000
Contribution to provident fund	10,000

(For candidates admitted from 2008-2009 onwards)

M.Com. DEGREE EXAMINATION, APRIL 2016.

Commerce

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

PART A — (10x2 = 20)

Answer ALL questions.

1. What do you mean by Net asset?
2. What do you mean by Insolvent?
3. What is "Merger"?
4. Write short note on "scheme" of capital reduction?
5. What is Minority interest?
6. What do you mean by Non—banking Assets?
7. What is Annuities?
8. State any two features of double account system
9. Write the formula under Reward valuation method of Human Resource Accounting.
10. What is a "Contingency" as per AS-4?

PART B – (5×5=25)

Answer all questions.

11. (a) A truck dealer acquired 6 trucks on 1—97 at Rs. 2,00,000 each. His capital on that data was Rs. 12,00,000. During the year he sold 4 trucks at an average price of Rs. 3,00,000. The replacement dealer price of the truck on 3-12-97 was Rs. 2,40,000. General price level went up by 10% during the year. You are required to show comparative income statement under CPP and CCA methods, clearly showing the realized and unrealized holdings gains.

Or

(b) From the following information calculate the value of goodwill on the basis of 3 years purchase of super profit.

(i) Average capital employed in the business is Rs. 20,00,000

(ii) Rate of interest expected from capital having regard to the risk involved IS 10%.

(iii) Net trading profits of the firm for the past three years were Rs. 3,50,400; Rs. 2,80,300 and Rs. 3,10,100.

(iv) Fair remuneration to the partners for their services is Rs, 48,000 per annum.

(v) Sundry assets of the firm are Rs. 23,50,400 and current liabilities are Rs. 95,110.

12. (a) B Ltd. Agreed to absorb A Ltd. Upon the following terms: Shares of A Ltd. Are to be considered as worth Rs. 12 each (of which shareholders are to be paid one quarter in cash and the balance in Rs. 100 shares of B Ltd. Which are to be issued at 25% premium. Total shares were: 10,000 in B Ltd. And 20,000 in A Ltd. Ascertain the number of shares to be issued by B Ltd.

Or

(b) Muthu Ltd. Has share capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, fully paid. Show the entries under each of the following conditions: (i) when Marshall Ltd. Resolves to sub-divide the shares into 20,000 shares of Rs. 10 each fully paid. (ii) when Marshall Ltd., resolves to convert its 2,000 shares of Rs. 100 each into Rs. 2,00,0000 worth of stock. Give journal entries.

13. (a) The following accounts are extracted from the Trial Balance of Rajasthan Bank on 31-3-2010

	Dr. Rs.	Cr. Rs.
Interest and discount	–	17,42,000
Rebate on bills discounted	–	12,500
Bills discounted and purchased	5,12,000	

It is ascertained that proportionate discount not yet earned on the balance of bills discounted which will mature in 2010-11 amounts to Rs. 22,700. Pass the necessary adjustment entries.

Or

(b) On 30.6.2009 2/3rd of the shares of S Ltd. (with a total capital of Rs. 12,00.000) were acquired by H. Ltd. The balance sheet of 'S' Ltd. showed a debit balance of Rs. 6,00,000 on 1.1.2009 and a credit balance of Rs. 3,60,000 on 3.12.2009. The investment made by "H" Ltd. in "S" Ltd's shares is Rs. 9,00,000. Calculate the cost of control.

14. (a) From the following, you are required to calculate the amount on account of claim to be shown in the revenue account for the year ending 31st Dec. 2013.

Intimated in	Admitted in	Paid in	Rs.
2012	2012	2013	15.000
2013	2013	2014	10.000
2011	2012	2012	5,000
2011	2012	2013	12,000
2013	2014	2014	8,000
2013	2013	2013	1,02,000

Claim on account of reinsurance in 2013 was Rs. 25,000.

Or

(b) From the following particulars, draw up

(i) Balance Sheet as on 3 1.12.2013 on the basis of the Single-Account System-and

(ii) The Capital A/c and the General Balance Sheet, as on the same date, under the Double Account System: Authorised Capital: 3,000 shares of Rs. 10 each, of which issued and paid up capital is Rs. 27,000; 6% Debentures Rs. 3,000 ; Trade creditors Rs, 1,600 ; Trade Debtors Rs. 3,800; Cash at Bank Rs. 3,500; Stock - in - Trade Rs. 2,400; Profit & Loss A/c Rs. 1,600; Land Rs. 3,700; Machineries Rs. 16;000; Shafting Rs. 5,000; Buildings Rs. 1,300; Depreciation Fund (machinery) Rs. 2,500.

15. (a) Distinguish between:

(i) Historical cost approach and replacement cost approach

(ii) Net benefit model and equivalent net benefit model.

Or

(b) How are 'Inventories' defined in AS-2(Valuation of inventories? What should financial statements 'Disclose' in relation to 'inventories' as per AS-2?

PART C — (3 x 10 = 30)

Answer any THREE questions.

16. From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator's final statement of account.

(a) Cash with liquidator (after all assets are realised and secured creditors and debenture holders are paid) is Rs. 6,73,800.

(b) Preferential creditors to be paid Rs. 30,000.

(c) Other unsecured creditors Rs. 2,15,000.

(d) 4,000, 6% preference shares of Rs. 100 each, fully paid.

(e) 2,000 equity shares of Rs. 100 each, Rs. 75 per share paid up.

(f) 6,000 equity shares of Rs. 100 each, Rs. 60 per share paid up.

(g) Liquidator's remuneration 2% on preferential and other unsecured creditors.

(h) Preference dividends were in arrears for 2 years.

17. The Balance Sheet of Nipun Ltd. on 31st March 2006 was as follows:

Liabilities	Rs.	Assets	Rs.
8% preference share of Rs. 10 each	50.000	Goodwill	90.000
Equity Share of Rs. 10 Each	2,50,000	Land & Buildings	1,40,000
General reserve	20,000	Machinery	37,500
(6% Debentures (Rs. 100 each)		Furniture	15.000
Bank overdraft	28,500	Preliminary expenses	1,000
Creditors	40,000		
		Profit & Loss A/c	1.25.000

The capital reduction scheme, approved by the court is as under:

(a) Holders of 6% debentures of Rs. 100 are to be given 8% debentures of Rs. 50 and preference share of Rs. 10 each of equal amount, for the remaining amount of Rs. 5

(b) The value of all preference shares including the preference shares given to debentures as shown above, is to be reduced to Rs. 6 and dividend rate is to be increased up to 9%.

(c) The value of equity shares is to be reduced to Rs. 2 each.

(d) The existing equity shareholders are to purchases additional equity shares of Rs. 1,00,000 for cash to pay off the bank overdraft.

(e) All fictitious and intangible assets are to be

Written off and machinery and furniture are to be written off in proportion of book values, with the help of general reserve and capital reduction A/c.

Pass necessary journal entries in the books of the company to record the above transactions prepare the company's balance sheet after such changes.

18. The Summarised Balance Sheet of H Ltd. and its S Ltd. 31st December 2014 are as follows:

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
Share capital (in shares of Rs. 10 each)	5,00,000	1,00,000	Assets	50,00,000	1,70,000
			8,000 shares in S Ltd.	1,40,000	
Reserves	80,000	30.000			
Profit and Loss	60,000	40.000			
	6,40,000	1,70,000		6,40,000	1,70,000

S Ltd. had the credit balance of Rs. 30,000 in the reserves when H Ltd. acquired shares in S Ltd. decided to make a bonus issue out of post- acquistion profit of two shares of Rs. 10 each fully (paid for every five shares held. Calculate the cost of control before the issue if bonus shares and after the issue of bonus shares. Also make the consolidated balance sheet after the issue of bonus shares.

19. The following balances are extracted from the hooks of a life insurance business as, on 31st March 2006:

Life assurance fund as on 1.4.05	5,06,000
Premiums	90,000
Reinsurance premium paid	2,075
Fines for revival of policies	15
Consideration for annuities granted	1500
Management expenses	21,000
Income tax	850
Commission	18,650
Claims	440,000
Interest, dividend etc.	20,000
Surrenders	3,250
Medical fees	1,505
Annuities	1,955
Bonus in cash	1,600

Prepare the Revenue A/c for the year 2005-06 after making the following adjustments:

Claim payable	9,250
Interest accrued on investment	2,695
Medical fees outstanding	375
Outstanding premium	3,750
Commission payable	750

A claim of Rs. 500 Thousands included in the above claims payable is to be written of as it is ten years old and is not likely to arise. The managing director is to be paid at the rate of 5% on the net increase of Life Assurance Fund during the year before providing such commission.

20. The following balances have been extracted at the end of March 2009, from the books of an electricity company:

Share Capital	Rs. 2,00,00,000
Fixed assets	5,00,000
Depreciation Reserve on Fixed Assets	60,00,000
Reserve Fund (invested in 8% Govt, Securities at par)	1,20,00,000
Contingency Reserve invested in 7% State Loan	24,00,000
Consumers' deposit	80,00,000
Amount contributed by consumers towards cost of fixed assets	4,00,000
Tariffs and dividends control reserve	20,00,000
Development Reserve	16,00,000
12% Debentures	40,00,000
Loan from State Electricity Board	50,00,000
Intangible assets	16,00,000
Current assets (monthly average)	30,00,000

The company earned a profit of Rs. 56,00,000 (after tax) in 2008-09. Show how the profits have to be dealt with by the company assuming the (bank rate was 10%. All workings should form part of your answer.

THIRUVALLUVAR UNIVERSITY

APRIL 2012

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

All questions carry equal marks.

1. What do you mean by 'Issue of shares at premium'?
2. State the different kinds of shares.
3. What is Redeemable debentures?
4. What is meant by issues of debentures at premium?
5. What is acquisition of business?
6. What do you mean by purchase consideration?
7. What is profit prior to incorporation?
8. What is Absorption?
9. What is Liquidation?
10. What is statement of affairs?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

All questions carry equal marks.

11. (a) Explain the types of share capital.

Or

(b) Ram Ltd. invited applications for 1,40,000 shares of Rs. 10 each payable Rs. 2 on application, Rs. 2 on allotment, and Rs. 6 on first and final call. The company received applications for 2,00,000 shares and pro-rata allotment was made. Pass necessary journal entries.

12. (a) Explain the different kinds of debentures.

Or

(b) Inco Ltd., had issued 50,000 redeemable preference shares of Rs. 10 each, in order to redeem these shares, the company issued 30,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The Balance was met out of the Reserve Fund which stood at Rs. 2,50,000. Pass necessary entries.

13. (a) Rajah ltd., was incorporated on 1.7.2009,which took over a running concern with effect from 1.1.2009. The sales for the period upto 1.7.2009 was Rs. 2,70,000 and the sales from 1.7.2009 to 31.12.2009 amounted to Rs. 3,30,000. The expenses debited to profit and loss a/c included :

	Rs.
(i) Director's fees	15,000
(ii) Bad debts	1,800
(iii) Advertisement (Rs. 500 per month)	6,000
(iv) Salaries and general expenses	32,000
(v) Preliminary expenses written off	3,000

The gross profit was (1.1.2009 ; 31.12.2009) Rs. 2,40,000. Ascertain the profit prior to incorporation.

Or

(b) Give a specimen for profit and loss appropriation a/c.

14. (a) Explain the various methods of purchase consideration.

Or

(b) What are the merits of amalgamation?

15. (a) The following particulars relate to a limited company which went to voluntary liquidation:

	Rs.
Preferential creditors	25.000
Unsecured creditors	58.000
6% debentures	30.000

The assets realised Rs. 80,000. The expenses of liquidation amounted Rs. 1,500 and the liquidator's remuneration was agreed at $2^1/_2$% on the amount realised and 2% on the amount paid to unsecured creditors including preferential creditors.

Show that liquidator's final statement of account.

Or

(b) Give a specimen of liquidator's final statement of account with imaginary figures.

SECTION C— (3 x 10 = 30 marks)

Answer any THREE questions.

All questions carry equal marks.

16. Surya Ltd., issued 50,000 equity shares of Rs. 10 each at a premium of 10% payable as under :

On application Rs. 3

On allotment Rs. 5 (including premium)

On first and final call Rs. 3.

All the money were duly received except the first and final call of 500 shares. These shares were, therefore, forfeited and taker on reissued at Rs. 9 per share. Give journal entries.

17. State the procedure relating to redemption of preference shares.

18. From the under mentioned Trial Balance of Beta Brothers Ltd., prepare a trading and profit and loss account and the Balance Sheet as at the date.

Debit balance	Rs.	Credit balance	Rs.
Opening stock	30,000	Equity share capital (Rs. 100 each)	1,00,000
Rent	6,000		
Purchases	60,900	5% debentures	25,000
Wages	55,200	Sales	1,75,000
Discount	1,500	Creditors	8,000
Fuel	2,570	Discount	2,200
Building	70,000	Transfer fees	200
Carriage in wards	1,175		
Debtors	20,000		
Plant & machinery	25,000		
General expenses	4,400		
Bad debts	1,030		
Debenture interest (for half year)	625		
Insurance premium	1,000		
Cash	3,000		
Goodwill	28,000		
	3,10,400		3,10,400

(a) Stock as on 31.12.2009 Rs. 2,00,000.

(b) Depreciate plant and machinery @ 9%

(c) Provide 2% on debtors as reserve for doubtful debts.

19. Give the model entries to close the books of the company being winding up in case of Amalgamations.

20. Differentiate statement of Affairs from Balance sheet.

SCM41 — ADVANCED CORPORATE

NOVEMBER 2012

ADVANCED CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL the questions.

Answers not to exceed 50 words.

1. Define a ‘Holding company’
2. N Ltd. purchased 60% shares of M Ltd. on 1.1.10 when the balance on their P & L a/c and general reserve were Its. 1,50,000 and Rs. 1,60,000 respectively. On 31.12.2010, the balance sheet of M. Ltd. showed P & L a/c balance of Rs. 4,00,000 and General Reserve Rs. 3,00,000. Calculate capital profits and revenue profits.
3. What is meant by non-performing assets?
4. Pass journals in the books of XYZ Hank Ltd. for the following transactions :
   (a) Rebate on bills discounted at the beginning Rs. 4,000.
   (b) Unexpired discount at the end - Rs. 5,000.
5. What is Re-Insurance?
6. From the following calculate the claim amount to be shown in Revenue Account :

	Rs.
Total claim paid during the year	64.500
Outstanding claims at the beginning	13,500
Outstanding claims at the end	9,000
Reinsurance claim recovered	12.500

7. How do you calculate the value of goodwill under yield method?
8. How do you calculate the value of shares under net asset method?
9. Write down the conversion factor used for restating the closing stock and purchases?
10. Compute the Net monetary gain or loss from the. following information :

	1.4.01 Rs.	31.5.02 Rs.
Monetary asset	60,000	60,000
Monetary liabilities	80,000	80,000
Retail price index	150	180

SECTION B — (5 x 5 = 25 marks)

Answer ALL the questions.

Answer not to exceed 200 words.

11. (a) Briefly discuss the methods of valuation of Goodwill.

Or

(b) Explain the methods of valuation of Equity shares.

12. (a) The following are the balance sheets of H Ltd. and S Ltd. as on 31.12.2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital of Rs. 10 each	50.000	25,000	Sundry assets	32.500	30,000
Profit and Loss account	10.000	2,500	investments in 2,500 shares S Ltd. at cost	37.500	–
General reserve	5.000	2,000			
Sundry creditors	5.000	500			
	70,000	30,000		70,000	30,000

H Ltd., acquired shares in S Ltd., on 31.12.2010. Prepare consolidated Balance sheet.

(b) The Balance sheets of C Ltd., and D Ltd., as at 31st December, 1986 are as follows :

Liabilities	C Ltd. Rs.	D Ltd. Rs.	Assets	C Ltd. Rs.	D Ltd. Rs.
Share capital of Rs. 10 each	2,00,000		Goodwill		20,000
General Reserve	18,000	1,00,000	Sundry assets	1,32,500	1,38,200
Profit & Loss a/c	24,500	43,000	Shares in D Ltd at cost	1,40,000	
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

C Ltd acquired 90% of D Ltd shares on 30.6.86. On 1.1.86 the Profit and Loss account of D Ltd., was Rs. 17,000 prepare consolidated balance sheet.

13. (a) On 31st March 2010, Imperial Bank ltd. Find its assets classified as follows :

	Rs.
Standard assets	14,91,300
Sub-standard assets	92,800

Doubtful assets (Secured) :	25,660
Doubtful for one year	15,640
Doubtful for one year to 3 year	6,580
Doubtful for more than 3 year Loss assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned assets.

Or

(b) From the following information relating to Malarkodi Bank Ltd. Prepare the Profit and Loss a/c. for the year ended 31st December 2010.

	Rs.
Rent received	72,000
Exchange and commission	32,800
Interest on fixed deposits	11,00,000
Interest on overdrafts	2,16,000
Interest on SB Account	2,72,000
Discount on bills discounted	7,80,000
Interest on current a/c	1,68,000
Interest on cash credits	8,92,000
Depreciation of Bank property	20,000
Salaries Postage	2,18,800
Sundry charges	5,600
Audit fees	4,000
Printing	16,800
Law charges	8,000
Locker rent	3,600
Transfer Fees	1,400,2,800
Interest on loans	10,36,000

14. (a) The Revenue account of a life insurance company shows the life assurance fund on 31.3.2010 at Rs. 62,21,310 before taking the following into account:

		Rs.
(i)	Claims covered under reinsurance	12,000
(ii)	Bonus utilized in reduction of premium	4,500
(iii)	Interest accrued on securities	8,260
(iv)	Outstanding premium	5,420
(v)	Claims intimated but not admitted	26,500

What is the correct life assurance fund?

Or

(b) From the following particulars prepare Fire Revenue a/c for the year ended 31st December 2010.

	Rs.
Claims paid	1,17,500
Legal expenses regarding claims	2,500
Premium received	3,00,000
Reinsurance premium paid	30.000
Commission	50.000
Expenses of Management	75,000
Provision against unexpired risk on 1.1.2010	1,30,000
Claims unpaid on 1.1.2010	10,000
Claims unpaid on 3 1.12.2010	17,500

15. (a) From the following information, prepare the Revenue account of Bharathiyar Insurance Co. for the year ended 31st March 2010.

	Rs.
Provision for unexpired risks on 1.4.2009	80,000
Estimated liability in respect of outstanding claims :	
On 31st March 2009	10,000
On 1st April 2010	15,000
Medical expenses regarding claims	1,000
Claims paid	70,000
Reinsurance premiums	14,500
Reinsurance recoveries	1,500
Premiums	1,90,000
Commission on direct business	25.000
Commission on reinsurance ceded	3.000
Commission Re insurance accepted	1.000
Management expenses	55,000
Refund of double taxation	600
Interest and dividends	8,000
Legal expenses Regarding	1,500
Profit on investments during the year	1,750
Additional reserve on 31.3.2009	60.000

Additional Reserve is to be in increased by 10% of the net premium income. Prepare Revenue Account by keeping the reserve for unexpired risk at 50% premium income.

(b) On 31st December, 1995, the Balance sheet of X Company Ltd., disclosed the following position.

Liabilities	Rs.	Assets	Rs.
40,000 shares of Rs. 10 each	4,00,000	Fixed assets	5,00,000
Reserves	90,000	Current assets	2,00,000
Profit and loss account 5%	20,000	Goodwill	40,000
Debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31.12.1995, fixed assets and goodwill are valued at Rs. 3,50,000 and Rs. 50,000 respectively. Last three year's profits are given below :

1993 - Rs. 51,500; 1994 - Rs. 52,000; 1995 - Rs. 61,650

From this every year 20% transferred to reserve. The same type of business earn 10% rate of profit. From the above calculate the value of shares under yield method.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Answers not to exceed 500 words.

16. What is Current purchasing power method and explain how the general price level gain or loss is computed under this method.

17. From the following particulars of Vijaya Bank Ltd., prepare Balance sheet as on 31.03.2006.

Particulars	Rs.
Authorized share capital	20,00,000
Subscribed share capital	10,00,000
Investment	35,00,000
Bills Discounted	75,00,000
Profit and loss account	4,25,000
Endorsement on bills for collection	50,000
-Liability of customers for Acceptances	25,00,000
Money at call and short notice	45,00,000
Cash in hand	10,00,000
Cash with RBI	20,00,000
Statutory Reserve	15,00,000
Letter of credit issued	2,50,000
Telegraphic transfer payable	4,00,000

Bank draft payable	6,00,000
Short loans	20,000
Rebate on bills discounted	5,000
Acceptances of customers	25,00,000
Loans and advances	50,00,000
Cash credit	50,00,000
Bank overdraft	5,00,000
Bills purchased	5,00,000
Current deposit account	2,50,00,000
Investment fluctuation account	50,000
Bills for collection	50.000
Buildings	5,00,000

18. The following balances were extracted from the books of New Bharat Life Insurance Company Ltd., as on 31.12.1998.

	Rs.
Life Assurance Fund	15,00,000
Premium	4,96,000
Consideration for annuities	15,00
Interest and dividend	1,00,000
Fines for revival of policies	750
Reinsurance premium	20,750
Claims outstanding (1.1.98)	4,500
Claims paid during the year	64,900
Annuities	2,050
Bonus in reduction of premium	1,600
Medical fees	2,400
Surrenders	4,000
Commission	18,650
Management expenses	22.000

Prepare Revenue account after making the following adjustments :

(a) Outstanding balances :

Claim	Rs. 14, 000
Premiums	Rs. 4,600

(b) Further bonus in reduction of premium Rs. 2,400.

(c) Claims under re-insurance Rs. 8,000.

19. The following balance sheets are presented to you as on 31.12.1982.

Liabilities	X Ltd. Rs. (000's)	Y Ltd. Rs. (000's)	Assets	X Ltd. Rs. (000's)	Y Ltd. Rs. (000's)
Share capital of Rs. 10 each	1,000	250	Goodwill	100	50
			Building	200	100
Reserves on 1.1.81	200	80	Machinery	500	200
Sundry creditors	200	100	Stock	200	100
Bills payable	50	30	Debtors	340	70
P/L a/c on 1.4.81	60	60	Investments	240	30
P/L&A/c for 81-82	150	50	Bills receivable	30	20
			Cash at bank	50	
	1,660	570		1,660	570

X Ltd., acquired 15,000 shares of Y Ltd., for Rs. 1,90,000 on 1.4.81.

Sundry debtors of X Ltd., include Rs. 30,000 due from Y Ltd.,

Bills receivable of Y Ltd., include Rs. 10,000 due from X Ltd.,

The stock of Y Ltd., include goods purchased from X Ltd., at Rs. 10,000 which includes profit charged by X Ltd., at 25% on cost.

Prepare consolidated Balance sheet of X Ltd., and its subsidiary Y Ltd., as on 31.03.1982.

20. On 31.12.1998 the Balance Sheet of United Company Ltd., was as follows :

Liabilities	Rs.	Assets	Rs.
10,000 Equity shares of Rs. 100 each fully paid up	10,00,000	Land & Building	4,40,000
Profit and loss account	2 00 000	Plant & Machinery	1,90,000
Creditors	1,80,000	Stock	7,00,000
Provision for taxation	1,00,000	Debtors	3,00,000
Proposed dividend	1,50,000		
	16,30,000		16,30,000

The net profit of the company after providing for taxation was :

1994 - Rs. 1,70,000; 1995 - Rs. 1,92,000; 1996 - Rs. 1,80,000; 1997- Rs. 2,00,000; and 1998 - Rs. 1,90,000.

On 31.12.1998 the Land and Building was revalued at Rs. 5,00,000, Plant and Machinery at Rs. 3, 00,000 and debtors at 10% less. In view of the nature of the business it is considered 10% is a reasonable return on investment.

Calculate the value of company's share, valuing goodwill at five year's purchase of annual super profits.

April/May 2013

Corporate Accounting – II

1. What is Insurance?
2. What do you understand by “Life Assurance Fund”?
3. What are the different methods of calculation of goodwill?
4. State any two advantages of holding companies.
5. 5. What is Inflation Accounting?
6. How goodwill is calculated?
7. What is Holding company?
8. What is Valuation Balance Sheet?
9. What is Life Insurance?
10. What is Revenue Account?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) From the following particulars relating to the business of Mr. X, compute the value of goodwill on the basis of three years purchase of super profit taking average of last four years. Capital invested - Rs. 30,000; Market rate of interest on investment - 12%; Rate of risk return on capital invested - 3%; Managerial remuneration of the proprietor if employed elsewhere - Rs. 7,500 p.a.

Trading list:

	Rs.
Profit	
Profit	15.000
Loss	2,000
Profit	22.000

Or

(b) Greener Ltd. proposed to purchase the business carried on by Thiru. Dass. (Goodwill for this purpose is agreed to be valued at three year’s purchase of the average profit of the past four years.

The appropriate weight to be use are :

1994 - 1; 1995 - 2; 1996 - 3; 1997 - 4

Profit for these years were :

1994 - Rs. 10,000; 1995 - Rs. 11,000; 1996-Rs. 12,000; 1997 - Rs. 15,000

Compute the value of the goodwill of the firm.

12. (a) From the following balances prepare the

Profit and Loss A/c of Canara Bank in the revised format.

	Rs.
Interest received	5,42,260
Discount received	2,43,760
Commission received	44,240
Interest on deposits	1,60,520
General expenses	1,82,420
Bad debts	1,28,710

Note : Rebate on bills discounted Rs. 64,380.

Or

(b) From the following particulars prepare Profit and Loss A/c of Safety bank for the year ended 31st March 1996 :

	Rs. ('000)
Interest on deposits	3,200
Commission (Cr)	100
Interest on loans	2,490
Sundry charges (Dr)	100
Rent and taxes	200
Payment to employee	500
Discount on bills discounted	1,490
Interest on overdraft	1,600
Interest on cash credit	2,320
Auditor's fee	35
Director's fee	16
Bad debts to be written off amounted to	300

13. (a) From the following particulars prepare the

Fire Insurance Revenue Account for the year 2001.

	Rs.
Claims paid	2,70,000
Legal expenses regarding claims	6,000
Premiums received	7,40,000
Reinsurance premiums	50,000
Reinsurance claims	2,000
Commission	1,10,000
Reinsurance commission ceded	3,000
Expenses of management	2,10,000
Provision for unexpired risk on 1.1.2001	3.30.000
Additional reserve on 1.1.2001	1.40.000
Claims unpaid on 1.1.2001	25.000
Claims unpaid on 31.12.2001	35.000

Increase the additional reserve on 31.12.200i by 10% on the net premium.

Or

(b) From the following particulars prepare the Fire Insurance Revenue Account for 1997.

	Rs.
Claims paid	2,40,000
Premiums received	6,00,000
Reinsurance premiums	60,000
Commission	1,00,000
Expenses of management	1,50,000
Provision against unexpired risk on 1.1.97	2,60,000
Claims unpaid on January 1, 1997	20,000
Claims unpaid on December 31, 1997	35,000

Make provision against unexpired risk at the end of the year at 50% of net premiums.

14. (a) From the following Balance Sheet of H Ltd. and S Ltd. prepare a Consolidated Balance Sheet of H Ltd. and S Ltd.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital (Shares of Re. 1 each)	12,000	5.000	Sundry asset	20,000	8,000
			Investment in 5,000 shares of S Ltd.	6,500	

Reserve	5.000	1,000			
P and L A/c	2,000	1,000			
Sundry creditors	7,500	1,000			
	26,500	8,000		26,500	8,000

Share were acquired by H Ltd., in S Ltd. on 30.6.98. S Ltd. transferred Rs. 500 from profits to reserve on 31.12.98.

Or

(b) What are the various reasons for valuing shares?

15. (a) From the following information calculate the average index for current purchases :

		Price Index
Stock on 1.4.2002	Rs. 8,000	120
Purchases	Rs. 30,000	Average for 2002-03 = 160
Stock on 31.3.2003	Rs. 7,000	200

Or

(b) State the merits of Inflation Accounting.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Each answer not to exceed 500 words.

16. The following are the figures extracted from the books of New Bank Ltd., as on 31.3.99. Prepare the Profit and Loss A/c as per the revised format with all necessary schedules :

	Rs.
Interest and discount received	37,05,738
Interest paid on deposits	20,37,452
Issued and subscribed capital	10,00,000
Salaries and allowance	2,00,000
Director's fee	30,000
Rent and taxes paid	90,000
Postage and Telegram	60,286
Statutory reserve fund	8,00,000
Commission, exchange and brokerage received	1,90,000
	65,000
Rent received	2,00,000

Profit on sale of investment	30.000
Depreciation on bank property	40.000
Stationery expenses	25,000
Preliminary expenses	5,000
Auditor fee	

Additional information :

(a) A customer to whom a sum of Rs. 10 lakhs has been advanced became insolvent and only 50% can be realized from his estate.

(b) There were also debts for which a provision of Rs. 1,50,000 was found necessary.

(c) Rebate on bills discounted on 31.3.98 Rs. 12,000 and on 31.3.99 was Rs. 16,000.

(d) Provide Rs. 6,50,000 for income tax,

(e) Directors recommended 10% dividend.

17. On 31.3.09 the fixed assets were valued a Rs. 7,00,000 and the goodwill at Rs. 1,00,000. The net-profits for the last 3 years were as follows:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed assets	10,00,000
(Rs. 10 each)	8,00,000	Current assets	4,00,000
Reserve and L A/c	1,80,000	Goodwill	80,000
5% debenture	40,000		
Creditors	2,00,000		
	2,60,000		
	14,80,000		14,80,000

Out of the profits 20% was placed to reserve account each year. A fair investment return may be taken of 10% compute the value of the shares by (a) Net asset method (b) Yield method.

	Rs.
Profit for the year ending 31.3.2007	1,03,200
Profit for the year ending 31.3.2008	1,04,000
Profit for the year ending 31.3.2009	1,03,300

18. Prepare a Revenue A/c in respect of fire business from the following detail for the year 1997-98.

	Rs.
Reserve for unexpired risk on 1.4.97 @ 50%	1,80,000
Additional reserve	36.000

Estimated liability for claim intimated	
on 1.4.97	31.000
on 31.3.98	42,000
Claims paid	3,65,000
Legal expenses	6,000
Medical expenses	4,000
Re-insurance recoveries	32,000
Bad debts	800
Premium recovered	4,86,000
Premium on re-insurance accepted	32,000
Premium on re-insurance ceded	43,000
Commission on direct business	48,600
Commission on re-insurance accepted	1,600
Commission on re-insurance ceded	2,150
Expenses on management	90,000
Interest, dividend and rent	24,000
Profit on sale of investment	3,000

Created reserve on 31st March 1998 to the same extent as on 1st April 1991.

19. A new machine was purchased on 1.1.2002 at a cost Rs. 10,00,000 and its useful life was estimated) to be 10 years. On 1.1.2007 a new machine similar to this cost Rs. 18,00,000 and on 31.12.2007 Rs. 20,00,000. Calculate the amount of depreciation for 2007 assuming that there is no change in the estimated life of the asset.

20. From the following Balance Sheet of H Ltd., and its subsidiary S Ltd., drawn upto 31st March, 1999, prepare a Consolidated Balance Sheet and at that date having regard to the following :

(a) Reserves and P and L (Cr) of S Ltd. stood as Rs. 25,000 and Rs. 15,000 respectively on the date of acquisition of its 80% shares by H Ltd., and

(b) Machinery (book value Rs. 1,00,000) and furniture (book value Rs. 20,000) of S were revalued at Rs. 1,50,000 and Rs. 15,000 respectively for the purpose of fixing the price of its shares : book values of others assets remaining unadjusted.

Balance Sheet of H Ltd. and S Ltd. as on
31st March 1999.

	H Ltd. Rs.	S Ltd. Rs.		H Ltd. Rs.	S Ltd. Rs.
Share capital	5,00,000	1,00,000	Machinery	3,00,000	90.000
Reserve	2,00,000	75,000	Furniture	50,000	17.000

P and L A/c	1,00,000	25,000	Other assets	4,40,000	1,43,000
Editors	1,50,000	50,000	Shares in S Ltd. 800 @ Rs. 200 each	1,60,000	
	9,50,000	2,50,000		9,50,000	2,50,000

APRIL/MAY 2014

UCM31/UFA31/SCM31 — CORPORATE

ACCOUNTING —I

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is meant by forfeiture?
2. What is the purpose of Debenture Redemption Reserve Account?
3. State the meaning of profit prior to incorporation.
4. Define Amalgamation.
5. What is liquidation?
6. N Ltd issued 2000 equity shares of Rs. 10 each at a premium of Rs. 2. Give journal entry.
7. Give journal entry for debentures when issued at premium and redeemable at par.
8. Calculate sales ratio from the following

   Sales upto the date of incorporation Rs. 1,00,000

   Sales upto the date of balance sheet Rs. 2,00,000

   Total sales for the year Rs. 3,00,000.
9. 1,000 equity shares of Rs. 100 each are reduced to shares of Rs. 10 each under the reduction schem. Give journal entry.
10. From the following information identify preferential creditors

Unsecured creditors Rs. 3,80,000 one month salary in arrears Rs. 4,000 bank overdraft Rs. 40,000 secured creditors Rs. 1,00,000.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Write a note on issue of shares at par, premium and discount.

Or

(b) M Ltd. invited application for 20,000 shares of Rs. 100 each at discount of 6% payable as follows.

On application Rs. 20, on allotment Rs. 39, on first and final call Rs. 35. Applications were received for 18,000 shares and all of these were accepted and allotted. All moneys due were received. Give the cash ledger a/c.

12. (a) A company issues 4000 8% Redeemable preference shares of Rs. 100 each and 3,000 6% debentures of Rs. 100 each. They divided to redeem both for redemption, the company issued 5,000 equity shares of Rs. 100 each. Balance of Reserve funds was Rs. 50,000. Give journal entries for issue and redemption.

Or

(b) X Ltd took over assets Rs. 1,75,000 and liabilities of the Rs. 15,000 of R Ltd for the purchase consideration of Rs. 1,65,000. X Ltd paid the purchase consideration by issuing debentures of Rs. 100 each at a premium of 10%. Give journal entries.

13. (a) S Ltd. was incorporated on May 1, 1993 to take over the business of a partnership firm as a going concern from Jan. 1, 1993. The company got the certificate of commencement of business on July 1, 1993.

The following is the profit and loss a/c for the year ending 31.12.93 is as follows :

Profit and Loss Account

	Rs.		Rs.
To Rent and taxes	12,000	By Gross profit	80,000
To Insurance	3,000		
To Electricity charges	2,400		
To Directors fees	13,000		
To Net profit	49,600		
	80,000		80,000

The total turnover for the year ending 31.12.93 was Rs. 4,00,000 divided into Rs. 1,00,000 for the period upto 1.5.93 and Rs. 3,00,000 for the remaining period. Calculate profit prior to incorporation.

(b) Prepare Trading account from the following information :

	Rs.
Opening stock	75.000
Sales	4.4,15,000
Closing stock	95,000
Purchases	1,85,000
Wages	84,865
Freight	13,115
Direct expenses	2,020

14. (a) A purchasing company has agreed to issue one share of Rs. 10 each, Rs. 8 called up for every three shares in the vendor company. Find the amount of purchase consideration if there are 5,000 shares in the vendor company. The shares of purchasing company are quoted at Rs. 18 in the market. Give the journal entries in purchasing company books.

Or

(b) Balance sheet of X Ltd shows

	Rs.
Share capital 2,00,000 shares of Rs. 10 each	20,00,000
12% Debentures	10,00,000

The company was absorbed by A Ltd. The consideration is the discharge of the debentures at a premium of 5% and (payment of Rs. 7 in cash and one share of Rs. 5 in A Ltd. at the market value of Rs. 8 per share for every share in X Ltd. Calculate purchase consideration and show the related Journal entries.

15. (a) ABC Ltd. went into liquidation with the following liabilities

Secured creditors Rs. 20,000 (securities realised Rs. 25,000)

Preferential creditors Rs. 600

Unsecured creditors Rs. 3,05,000

The liquidators remuneration amounted to Rs. 2,400. The various assets (excluding secured assets) realised Rs. 36,000. Prepare the liquidators account.

Or

(b) Calculate liquidators remuneration from the following information

	Rs.
Assets realised	1,20,000
Surplus received from secured creditors	30.000
Preferential creditors	10,000
Unsecured creditors	80.000

Liquidator is entitled to a remuneration of 2% on assets realised (including surplus received) and 3% on the amount distributed to unsecured creditors (assuming the amount available is sufficient to pay off unsecured creditors).

SECTION C — (3 x 10 = 30 marks}

Answer any THREE questions.

16. Explain the provisions relating to :

    (a) Redemption of preference shares

    (b) Redemption of debentures.

17. A Ltd. issued a prospected inviting applications for 10000 shares of Rs. 10 each at a premium of Rs. 2 each payable as follows :

    On application Rs. 2, on allotment Rs. 5 (including premium) on first call Rs. 3 and on final call Rs. 2.

    Applications were received for 15000 shares and allotment was made on pro data basis to the applications of 12000 share money over paid on application was employed on allotment of sums due on allotment. R to whom 200 shares v(J allotment failed to pay allotment money and his sub segment failure to pay the first call money his shares were forfeited.

    B, the holder of 300 shares failed to pay the two calls and his shares were forfeited after the final call of these shares forfeited, 400 shares were sold to D credited as fully paid for Rs. 9 per share, the whole of R's share being included.

    Pass Journal entries in the books of A/cs.

18. A company was formed with an authorised capital of Rs. 5,00,000 divided into 25,000 equity shares of Rs. 10 each and 2,500 6% preference shares of Rs. 100 each to purchased the going concern of M/S J and Sons whose balance sheet should as follows :

Liabilities	Rs.	Assets	Rs.
Capital	1,32,100	Cash	4.500
Bills payable	3,500	Debtors	7.500
Creditors	6,400	Stock	35.000
		Machinery	50.000
		Buildings	45.000
	1,42,000		1,42,000

The purchase price was agreed at Rs. 1,75,000 payable as to Rs. 50,000 in fully paid equity shares, Rs. 50,000 in fully paid. Preference shares Rs. 30,000 in Redeemable debentures and the balance in cash. The remaining shares were issued to the public and all moneys received. Give journal entries in the books the company.

19. A Ltd. agreed to absorb B Ltd. as on 31.12.95. The Balance sheet of B Ltd on that date was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital Rs. 10	6,00,000	Fixed assets	7.40.000
Reserves	2,80,000	Current assets	2.60.000
6% Debentures	1,00,000		
Sundry creditors	20,000		
	10,00,000		10,00,000

The purchase consideration payable was :

(a) A cash payment of Rs. 2.50 per share in B Ltd

(b) The issue of 90000, Rs. 10 shares at on agreed value of Rs. 15 per share

(c) The issue of such an amount of fully paid 8% debentures of A Ltd. at 96% as are sufficient to discharge the 6% debentures of B Ltd at a premium of 20%

Show necessary ledger a/c's in the books of B Ltd.

20. Give the format of the statement of affairs prepared on liquidation of a company.

APRIL/MAY 2014 SCP41 — CORPORATE ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is intrinsic value?
2. Define Goodwill.
3. What is minority Interest?
4. What is consolidated Balance sheet?
5. What are the contents of schedule 13 of Bank P and LA/c?
6. What is statutory Reserve?
7. What is bonus utilized in reduction of premium?

8. What is meant by provision for unexpired risk?

9. What is Inflation Accounting?

10. Expand CCA.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) The net profit of a business, after providing for taxation, for the past five years were as Rs. 80,000, Rs. 85,000, Rs. 92,000, Rs. 1,05,000 and Rs, l,18,000.The capital employed in the business is Rs. 8,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next 5 years. Calculate the value of goodwill on the basis of

    (i) 5 years purchase of super profit method

    (ii) Annuity method, taking the present value of annuity of Re. 1 for five years @10% as 3.78.

Or

(b) Ramesh runs general stores. He has net assets on 31.12.89 Rs. 20,00,000. After paying rent of Rs. 20,000 per year and salary to manager Rs 10,000 he has earns an average profit of Rs. 1,50,000 per year. Its landlord is interested in acquiring this business 8% is considered to be a reasonable return on capital employed calculate the goodwill at 3 year's purchase of super profit.

12. (a) From the following data, calculate the Rebate on bills discounted as on 31.3.2000.

Bill date	Amount Rs.	Period	Discount rate
10.1.2000	15.000	5 months 4	7%
5.2.2000	20.000	months 4	8%
15.3.2000	25.000	months 3	6%
	30.000	months	9%

Or

(b) The trial balance of National Bank Ltd. As on 31.3.2008 shows the following balance :

Interest and Discounts Rs. 45,40,600.

Rebate on bills discounted (1.4.2007) Rs.4,750.

Bills discounted and purchased Rs.3,37,400.

The amount of unexpired discount as on 30.6.2008 is Rs. 5,560.

Write necessary adjusting entries and calculate the amount of interest and discount to be credit to profit and loss a/c.

13. (a) Bharath Life Assurance Company gets its valuation made once in every two years. Its life assurance fund on 31.12.2007 stood at Rs. 45,65,000 before providing for Rs. 45,000 being the dividend for shareholders for the year 2007. It's actually valuation on 31.12.2007 disclosed a net liability . of Rs. 32,20,000. An interim bonus of i.o. 80,000 was paid to the policy holders during the previous two years.

Prepare a valuation balance sheet and find out the net profit for the period.

Or

(b) Life Assurance Fund of Insurance Company was Rs, 87, 76,500 on 31.3.2007. It was found that the following items were not taken into account.

(i) Dividend from Investment Rs.4,80,000

(ii) Income tax paid on the above Rs. 48,000

(iii) Claims covered under reinsurance Rs. 4,23,000.

(iv) Claims intimated but not accepted by the company Rs.7,62,000

(v) Bonus in reduction of premium Rs. 8,77,500.

Ascertain correct balance of found.

14. (a) From the following Balance sheet, prepare a consolidated Balance Sheet as on 31.12.2010.

Assets	H Ltd	S Ltd
	Rs.	Rs.
Fixed Assets	25,00,000	12,50,000
Investments (1,00,000)		
shares in S Ltd	1100,000	–
Current Assets	1,00,000	7,00,000
	37,00,000	19,50,000
Liabilities	H Ltd	S Ltd
	Rs.	Rs.
Equity shares of Rs. 10		
each	20,00,000	12,50,000
Reserves	9,00,000	5,00,000
Creditors	8,00,000	2,00,000
	37,00,000	19,50,000

When H Ltd., purchased shares in S ltd., Latter Company had undistributed reserves Rs. 3,00,000 and H Ltd., had reverse of Rs. 4,00,000 on that data.

Or

(b) Consolidate the following Balance Sheet.

	Sun Co. Its.	Moon Co. Rs.		Sun Co. Rs.	Moon Co. Rs.
Share capital Re. (1 each)	5.200	4,000	Sundry asset	5.200	4,800
Creditors	3.200	1,600	3600 shares in Moon Co. P and L a/c	3.200	800
	8,400	5,600		8,400	5,600

When Sun Co., acquired the Shares in Moon Co. the profit and loss account in the latter had a debit balance of Rs.600.

15. (a) Write a note an ‘‘current purchasing power method.

Or

(b) What are the limitations of historical Accounting?

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. Following is the Balance Sheet of a Company as on 31.12.2012.

Liabilities	Rs.	Assets	Rs.
Equity share of Rs.100 each	2,50,000	Good will	25,000
		Land and buildings	1,00,000
8% performance share of Rs. 100 each	2,00,000	Plant and Machinery	2,50.000
		Stock in trade	1,80,000
General reserve	20,000	Sundry debtors	50,000
Profit and Loss a/c	25,000	Investments	30,000
9% debenture	1,00,000	Bank balance	10,000
Sundry creditors	30,000	Preliminary expenses w/o	15,000
Provision for tax	35,000		
	6,60,000		6,60,000

For the valuation of equity share the assets are revailed as land and building Rs. 1,50,000: Plant and machinery Rs. 2,00,000 and good will Rs. 45,000; the market value of investment is Rs. 34,000. Calculate value of one equity shares.

17. Prepare consolidated B/S.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital (Re.l each)	1,000	200	Sundry asset	800	120
			Stock	610	240

P and L a/c	400	120	Debtors	130	170
Reserve	1,000	60	Bills receivable	10	–
Creditors	200	120	Investment 150 shares in S Ltd.	150	–
Bills payable	–	30			
	1,700	530		1,700	530

(a) All profit in S Ltd have been earned since the shares were purchased by H Ltd. but Reserve was already Rs. 60.

(b) All Bills payable of S Ltd., were issued in favour of H Ltd.

(c) The stock of H Ltd includes good worth Rs. 500 purchased from S Ltd at a profit of 25% on cost.

18. A bank's transaction are given below. Prepare its profit and loss a/c and Balance Sheet (in 000) as on 31.3.2000 :

Deposits: Current Rs, 45,500 Fixed Rs.37,180 . Saving bank Rs, 14,520 Creditors Rs, 454, Borrowings from other bank Its 12,200 Rebate on bills discounted Rs. 1,500, Branch adjustment (credit) Rs. 4,555, Reserve Fund Rs. 10,000 Dividend Equalization fund Rs. 2,500, Issued and subscribed capital Rs. 10,000, Interest and discount received Rs. 5,800, Exchange and commission Rs. 1,700, General Expenses Rs. 55, Profit and Loss a/c balance on 1.4.99 Rs. 852, Cash balance Rs. 487, Bank Balance Rs. 6,869, Money at Call and short notice Rs. 1,500, Investment in Government Securities Rs. 45,500 Investment in shares Rs.4,700, Interest received on investment Rs. 875, Loans and Advances Rs.44,100 Bills discounted Rs. 33,100 Furniture Rs. 500 Depreciation Rs.500 Interest paid Rs. 1,200, Foreign exchange commission Rs. 100, Salary Rs. 2,100 Advertising Rs.400, Miscellaneous expenses Rs. 300, Loan Rs. 3,500, Depreciation fund Rs. 500. Other Assets Rs.3,325.

19. From the following Balance of the Shalimar General Insurance Co. Ltd as on 31.12.90. Prepare

(a) Fire revenue account

(b) Marine revenue account.

	Rs.
Bonus in reduction of premium (fire)	200
Bad debts (Fire)	500
Bad debts (Marine)	1,200
Directors' fees	500
Auditors' fees	120
Share transfer fees	80
Bad debts recovered	120
Fire fund (1.1.90)	25,000

Marine fund (1.1.90)	82,000
Claims paid (fire)	18,000
Claims outstanding (fire)	1,000
Claims paid and outstanding (marine)	38,000
Commission paid (fire)	9,000
Commission paid (marine)	10,800
Additional Reserve (on 1.1.90) (fire)	5,000
Depreciation	3,500
Interest and Dividend received	1,400
Miscellaneous receipts	530
Fire premium less (-) Reinsurance	60,000
Management expenses (fire)	14,500
Management expenses (marine)	40,000
Marine premium (less) Reinsurance	1,08,000
Commission on reinsurance ceded (fire)	3.000
Commission on reinsurance accepted (fire)	1,000
Profit on sale of land	6,000
Commission on reinsurance ceded (marine)	6,000

20. Discuss the various methods of inflation accounting.

APRIL/MAY 2014

UCM41/SFA41/UFA41 — CORPORATE

ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is Goodwill?
2. What do you mean by normal profit?
3. Define Holding company.
4. What is minority interest?
5. How many schedules are prepared in Bank account?
6. Write a note on Unexpired Discount.
7. Define marine insurance.
8. What is reinsurance?
9. Define inflation accounting.
10. State any two limitations of current cost accounting method.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Explain the methods of calculating goodwill.

Or

(b) From the following information calculation the value of goodwill on the basis of 5 year purchase of weighted average profit method:

Net profit for the 5 years.

	Rs.
2002	1,60,000
2003	1,00,000
2004	80,000
2005	88,000
2006	72,000

The weights were assigned 1, 2,3,4 and 5 serially to the profits.

12. za) Balance sheet as on 31.12.2000

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital of Re. 1 each	10,000	5,000	Sundry assets	16,000	10,000
General reserve	5,000	–	5000 shares of S Ltd	6,000	–
Creditors	3,000	3,200			
P and L a/c	4,000	1,800			
	22,000	10,000		22,000	10,000

Shares of S Ltd were purchased by H Ltd. On 30th June 2000. On 1st January 2000 the Balance sheet of S Ltd. Showed a los of Rs. 3,000. Prepare the consolidated Balance Sheet.

Or

(b) Consolidated the Balance Sheet.

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Capital Re. 1 share	1,400	1,000	900 shares in S at cost	1,200	–
Creditors	–	500	Sundry assets	200	1,800
P and A/c	–	300			
	1,400	1,800		1,400,	1,800

When H Ltd., acquired the shares in S. the profit and loss a/c of the latter had a credit balance of Rs. 200.

13. (a) On 31st March, 1998 a bank held the following bills discounted by it earlier.

Date of bill 1998	Term of bill (months)	Discounted @ % P-a.	Amount of bill Rs.
January, 17	4	17	7,30,000
February, 7	3	18	14,60,000
March, 9	3	17.5	3,64,000

You are required to calculate the rebate on bills discounted. Also show the necessary journal entry for the rebate

Or

(b) The, trial balance of the Nedungadi Bank Ltd., as on 30th June 1984 shows the following balances.

	Rs.
Interest and discount	45,40,000
Rebate on bills discounted (1.7.81)	4,750
Bills discounted and purchased	3,37,400

The unexpired discount as on 30.6.84 is estimated to be Rs.5,560. Draft necessary adjusting entries and calculate the amount of interest and discount to be credited to profit and loss account.

14. (a) From the following details prepare fire revenue a/c for 2009.

	Rs.
Claim paid	2,35,000
Premium received	6,00,000
Commission	1,00,000
Reserve for un expired risk on 1.1.2009	2.60.000
Claims outstanding on 31.12.2009	35,000
Law charges	5,000
Reinsurance premium	60,000
Management expenses	1,50,000
Claims outstanding on 1.1.09	20,000

Or

(b) Bharath life assurance company gets its valuation made once in every two years. Its life assurance fund on 31.12.98 stood at Rs.45,65,000 before providing for Rs.45,000 being the dividend for shareholders for the year 1998. Its actuary's valuation on 31.12.98 disclosed a net liability of Rs.32,20,000. An interim bonus of Rs.80,000 was paid to the policy holders during the previous two years. Prepare a valuation balance sheet and find out the net profit for the period.

15. (a) State the approaches to inflation accounting.

Or

(b) List out the merits of current cost accounting method.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. Explain the different methods of valuation of shares.

17. From the following balance sheet relating to H ltd., and S ltd, prepare a consolidated Balance sheet.

Balance sheet on 31.12.2002

Liabilities	H Ltd Rs.	S Ltd Rs.	Assets	H Ltd Rs.	S Ltd Rs.
Share capital (Share of Rs. 10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	1,20,000
Profit and loss account	4,00,000	1,20,000	Stock	6,00,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	–
Bill payable	–	30,000		1,50,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

(a) All profits of S ltd., have been earned after the shares were acquired by H ltd., but there was already a reserve of Rs.60,000 on that date.

(b) All the bills payable of S ltd., were accepted in favour of H Ltd.

(c) The stock of H ltd., includes Rs.50,000 purchased from S ltd. The profit added was 25% on cost.

18. Give the specimen balance sheet of a banking company.

19. XYZ Insurance company shows following data regarding premiums on 31st March 2007.

	Rs.
Direct premium received during the year	2,50,000
Premium outstanding on 1.4.2007	25,000
Premium outstanding on 31.3.2008	50,000
Reinsurance premium paid	10,000
Reinsurance premium received	20,000
Bonus in reduction of premium	7,500

Calculate the amount of net premiums to be credited to Revenue account for the year ending 31st March 2007.

20. Discuss the merits and demerits of historical accounting.

NOVEMBER 2014

U C M31/UFA31/S CM31/SFA31/U CP31/

SCP32 — CORPORATE ACCOUNTING — I

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

Each answer not to exceed 50 words.

1. What do you mean by pro - rata allotment?
2. Y Ltd, forfeited 1000 equity shares of Rs. 10 each, issued at a discount of 10% for non — payment of first call on Rs. 2 and final call of Rs. 3 per share. Show the necessary Journal entry.
3. Give the meaning of redeemable preference shares.
4. Time X Ltd, issued 3000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company if the debentures were issued as follows.

   (a) Issued at par, redeemable at par.

   (b) Issued at discount of 5% repayable at par.
5. What is acquisition of business?
6. X Ltd which was incorporated on May 1,1998 acquired a business on January 1, 1998. The 1^{st} accounts were closed on September 30, 1998. Find out time ratio?
7. Define Amalgamation.
8. Raman Ltd, agrees to purchase the business of Krishnan Ltd, on the following terms.

   For each of the 10,000 shares of Rs. 10 each in Krishnan Ltd. 2 shares in Raman Ltd, of Rs. 10 each will be issued at an agreed value of Rs. 12 per share. In addition Rs. 4 per share cash also will be paid. Calculate the purchase consideration.
9. The liquidator of a company is entitled to a remuneration of 2% on assets realised and 3% on the amounts distributed to unsecured creditors. The assets. The assets realised Rs. 1,00,000,

including cash balance of Rs. 5,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration was Rs. 43,100. Calculate liquidators remuneration.

10. What is a statement of affairs?

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) X Ltd. forfeited 30 shares of Rs. 10 each fully called up held by Rangan for non payment of(allotment money of Rs. 3 per share and first call of Rs. 4 per share. He had paid the application money of Rs. 3 per share. These shares were re-issued to Ram for Rs. 8 per share. Pass journal entries.

Or

(b) A company forfeited 10 shares of Rs. 10 each (Rs. 6 called up) issued at a discount of 10% to A on which he paid Rs. 2 per share. Out of these 8 shares were reissued to B as Rs.8% called up Rs. 6% per share. Give journal entries for forfeiture and re-issue of shares.

12. (a) Write note on Ex - interest and cum - interest.

Or

(b) How preference shares can be redeemed?

13. (a) A company incorporated on 1.7.2004 to take over the business of Mr. Kumar as a going concern with effect from 1.4.2004. Accounts are closed on 31.3.2005. Total sales for the year 31.3.2005 was Rs. 3,00,000 dividend into Rs. 1,00,000 for the period upto 1.7.2004 and the balance for the remaining period. Calculate the time ratio and sales ratio.

Or

(b) A company had a carried forward balance of Rs. 25,000 in the profit and loss account for the year ended 31st March, 2002. During the year 2003, it made a further profit of Rs. 15,000. It was decided to carry out the following adjustments :

(i) Provision for taxation Rs. 50,000.

(ii) Dividend equalisation account Rs. 15,000

(iii) Dividend on Rs. 40,000 shares of Rs. 5 each fully paid at 15%.

(iv) Transfer to general resource Rs. 25,000.

(v) Transfer to development relate reserve account Rs. 25,000.

You are required to prepare profit and loss (app) account for the year ended 31st March 2003.

14. (a) Define : amalgamation, absorption and reconstruction.

Or

(b) What are the opening journal entries in the purchasing company?

15. (a) From the following information prepare unsecured creditors as per list E :

	Rs.
Unsecured creditors	3,80,000
One month salary in arrears	4,000
Bills payable	1,00,000
Bank overdraft	40,000
Liability on bills discounted	60,000
Party secured creditors	1,00,000
(total creditors Rs. 2,00,000)	
Preferential creditors	16,000

Or

(b) Write a note on preferential creditors.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

Each answer not to exceed 500 words.

16. Good prospects Ltd, issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 per share. The shares * were payable as follows : '

Rs. 2 on application

Rs. 5 on allotment (including premium)

Rs. 5 on first and final call.

All the shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs. 8 per share.

Give the necessary journal entries, prepare the bank all and the balance sheet of the company.

17. On 30th June 1998, the balance sheet of Suganya Ltd, stood as follows :

Liabilities	Rs.	Assets	Rs.
Equity share capital	10,00,000	Sundry assets	14,00,000
Redeemable prof	4,00,000	Bank	5,00,000
Share capital P & 1 a/c	3,00,000		

Sundry creditors	2,00,000		
	19,00,000		19,00,000

On the above date, the preference shares had to be redeemed. For this purpose 2000 equity shares of Rs. 100 each were issued at Rs. 110. The company also issued 8% debentures totaling Rs. 3,00,000. The shares and debentures were immediately subscribed and paid for. The preference shares were duly redeemed. Give journal entries and the balance sheet after redemption.

18. From the following balance and additional information for the year ended 31.03.2001 prepare the final accounts in the books of a company.

Purchase	9,25,000	Machinery	15,00,000
Wages	4,24,325	Building	16,50,000
Manufacturing expenses	65,575	Interim dividend	1,87,500
		Furniture	35,000
Salaries	70,000	Debtors	4,36,000
Bad debts	10,550	Share capital	20,00,000
General expenses	84,175	Profit and loss a/c (credit balance)	72,500
Stock (01.04.2000)	3,75,000		
Goodwill	1,00,000	Creditors	1,67,500
Cash	2,28,250	Bills payable	2,90,000
Director's fees	31,125	general reserve	1,25,000
Debentures interest	45,000		
6% debentures	15,00,000		
Sales	20,75,000		
Preliminary expenses	25,000		
alls in arrear	37,500		

Additional information :

(a) Closing stock Rs. 4,55,000.

(b) Depreciation - machinery at 10%.

(c) Write off Rs. 2,500 from preliminary expenses.

(d) Provision for doubtful debts Rs. 4,250.

19. The following is the balance sheet of'A' Ltd, as on 31st December. 2002.

Liabilities	Rs.	Assets	Rs.

Share capital	1,20,000	Land and buildings	90.000
Sundry creditors	30.000	Machinery	50.000
Bank over draft	28.000	Stock	17.000
		Debtors	20,000
		P & L a/c	1,000
	1,78,000		1,78,000

The company went into voluntary liquidation and the assets were sold to 'B' Ltd for Rs. 1,50,000 payable as to Rs. 60,000 in cash and Rs. 90,000 i{ equity shares. The cash payment of Rs. 60,000 was sufficient to discharge creditors, bank overdraft and to pay Rs. 2,000 liquidation expenses. Prepare realisation account.

20. A company went into voluntary liquidation on 30th April 2009. The position on that date was as follows :

Liabilities	Rs.	Assets	Rs.
Slum; capital :		Machinery	80,000
5,000 shares of Rs. 100 each		Other fixed assets	2,60,000
Rs. 80 paid up	4,00,000		
Loans (Secured by mortgage of machinery)	1,00,000	Stock	1,05,000
		Debtors	1,00,000
Unsecured creditors including preferential creditors Rs. 10,000)	2,00,000	Loans	40,000
		Cash	5,000
		Profit and Loss a/c	1,10,000
	7,00,000		7,00,000

Machinery was realised by the secured creditors for Rs. 1,20,000. Other fixed assets fetched Rs. 40,000. Debtors Rs. 20,000 and stock Rs. 10,000. Loans were wholly lead. The liquidator is entitled to a fixed remuneration of Rs. 1000 plus 2% of the amount paid to unsecured creditors. The liquidations out of pocket expenses amounted to Rs. 1000.

Show the liquidators statement of account.

APRIL/MAY 2015

UCM41/UFA41/UCP41/SFA41/SCP41 —

CORPORATE ACCOUNTING — II

Time : Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

Each answer not to exceed 50 words.

1. Define goodwill.
2. Where is the need for valuation of goodwill?
3. How is the interest on doubtful debts treated in bank accounts?
4. What do you understand by life assurance fund?
5. Explain the meaning of inflation accounting.
6. Give the accounting treatment of the rebate on & bills discounted.
7. Write a note on super profit.
8. Give the meaning and significance of human resource accounting.
9. What is the purpose of accounting standard?
10. What is Re- insurance?

SECTION B — (5x5 = 25 marks)

Answer ALL questions.

Each answer not to exceed 200 words.

11. (a) The following particulars are available in by respect of the business carried on by wise head.

    (i) Capital employed Rs. 50,000

    (ii) Trading result 1989 profit Rs. 12,200; 1990 - profit Rs. 15,000 ; 1991 - loss Rs. 2,000 ; 1992 - profit Rs. 21,000.

    (iii) Market rate of interest on investment 8%.

    (iv) Benefit of risk on investment 2%.

    (v) Remuneration from alternative employment of the proprietor (if no engaged in business Rs. 3,600).

    Compute the value of goodwill on the basis of 3 years purchase of super - profits of the business calculated on the average profit of the last four years.

Or

(b) A life assurance company prepared its revenue a/c for the year ending 31-12-2005 and ascertained its life assurance fund to be Rs. 28,35,000. It was found later that the following had been omitted from the accounts.

    (i) Interest accrued on investments Rs. 39,000, income tax liable to be deducted there on is estimated to be Rs. 10,500.

    (ii) Outstanding premium Rs. 32,800.

(iii) Bonus utilised for reduction of premium Rs. 6,750.

(iv) Claims intimated but not admitted Rs. 17,400.

(v) Claims coverage under reinsurance Rs. 6,500

What is the true life assurance fund?

12. (a) On 31st December 2005, the loan account in the books of a bank showed a debit balance of

Rs. 1,00,000 including Rs. 20,000 due from a merchant which is doubtful. The interest accrued on this loan upto 31-12-2005 was Rs. 5,000 including Rs. 1,000 on doubtful debt. The merchant become insolvent and the official receiver paid a dividend of 25 paise in the rupee on 31-1-2006.

Pass necessary journal entries in the books of the bank on 31-12-2005 and 31-1-2006 and prepare merchant loan account.

Or

(b) On 31st March 2004. Bharat Bank ltd. funds its advances classified as follows :

	Rs.
Standard assets	14,91,300
Sub - standard assets	92,800
Doubtful: Assets (secured)	
1 year	25,600
1 to 3 year	15,640
more than 3 years	6,580
Loss assets	10,350

Calculate the amount of provision to be made by the bank against the above mentioned advances.

13. (a) The net profit of a business after providing for taxation for the post five year are :

Rs. 40,000, Rs. 42,500, Rs. 46,000, Rs. 46,000, Rs. 52,000 and Rs. 59,000. The capital employed in the business is Rs. 4,00,000. The normal rate of return expected in this type of business is 10%. It is expected that the company will be able to maintain its super profit for the next five years. Calculate the goodwill on the basis of:

(i) Five years purchase of super profits.

(ii) Capitalisation of super profits.

Or

(b) From the following particulars, prepare the fire revenue a/c for 2006 claim paid Rs. 2,35,000 ; legal expenses Rs. 5,000 ; premium received Rs. 6,00,000 ; Reinsurance premium Rs. 60,000. Commission Rs. 1,00,000. Expenses of management Rs. 1,50,000;

provision against unexpired risk on 1.1.2006 Rs. 2,60,000 claims unpaid on 1.1.2006 Rs. 20,000 claims unpaid on 31.12.2006 Rs. 35,000.

14. (a) The life fund of a life insurance company on 31.12.2007 showed a balance of Rs. 5,40,000 before the following taking items.

    (i) Interest accrued on investment Rs. 20,000.

    (ii) Income tax deducted on interest Rs. 6,000.

    (iii) Reinsurance claims recoverable Rs. 7,000

    (iv) Commission due on reinsurance premium paid Rs. 10,000.

    (v) Bonus in reduction of premium Rs. 3,000. Show the correct life fund balance.

Or

(b) Explain the objectives of financial reporting.

15. (a) From the following data relating to 2004 you are required to compute MCWA under CCA method.

	Opening Rs.	Closing Rs.
Account receivables	10,00,000	13,00,000
Account payables	6,00,000	7,00,000
Index number applicable	100	150
Average index 125		

Or

(b) Mention the methods of Human Recourse Accounting.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

All questions carry equal marks.

16. From the following balances of HF general insurance co Ltd. as on 31st March, prepare :

    (a) Fair revenue a/c

    (b) Marine revenue a/c

    (c) P & L a/c.

Survey expenses (fire) Rs. 10,000; additional reserve (opening) Rs. 50,000 ; Commission paid (marine) Rs. 1,08,000 ; Commission paid (fire) Rs. 90,000; Claims paid and outstanding (marine) Rs. 3,80,000 claims paid and outstanding (fire) Rs. 1,80,000, fire fund (opening) Rs. 2,50,000 ; marine fund (opening) Rs. 8,20,000 ; bad debts recovered

Rs. 1,200; share transfer fees Rs. 800 ; Director fees Rs. 5,000 ; auditor fees Rs. 1,200 ; bad debts (marine) Rs. 12,000 ; bad debts (fire) Rs. 5,000 ; commission earned on reinsurance coded (marine) Rs. 60,000 ; commission on earned . on reinsurance ceded (fire) Rs. 30,000; management expenses (fire) Rs. 1,45,000 ; management expenses (marine) Rs. 4,00,000 ; marine premium less reinsurance Rs. 10,80,000 ; fire premium less reinsurance Rs. 6,00,000 ; profit on sale of land Rs. 60,000 ; miscellaneous receipts Rs. 5,000 ; difference in exchange (cr) Rs. 300 ; interest dividend received Rs. 14,000; depreciation Rs. 35,000.

In addition to usual reserve additional reserve in case of fire insurance is to be increased by 5% of net premium.

17. From the following details, compute the intrinsic value of on equity share of Mahizhini Ltd.

Liabilities	Rs.	Assets	Rs.
2000 equity share of 100 each fully paid	2,00,000	Land and building	80,000
		Plant and machinery	80,000
2000 6% preference shares of Rs. 10 each	20,000	Book debts Stock	10,000
		Cash	40.000
General reserve	50.000	5% investment in	70.000
5% debentures of Rs.100 each	20.000	government securities	20.000
		Preliminary expenses	10,000
Sundry creditors	20,000		
	3.10.000		3,10.000

(a) Fair return on capital employed in this type of business is 10% p.a.

(b) Goodwill is to be taken as 4 year purchase value of super profit.

(c) Average of profits (after deduction of preliminary expenses) for the last seven years in Rs. 38,000. Preliminary expenses to the extent of Rs. 2,000 has been written off every year for the last seven years. Prof* is more or less stable over years and the same trend its expected to be maintains in the near future ignore taxation.

18. The following details are taken from the balance sheets of Suraj Ltd.

	As. on 31.3.2003	As. on 31.3.2004
Inventories	8,00,000	10,00,000
Book debts	2,00,000	33,000
Cash at bank	80,000	90,000
Advance to suppliers of materials	80,000	60,000
Trade creditors	1,20,000	1,40,000

During the year 2003-2004, material prices role by 20% and those of finished goods by 10%.

Calculate the monetary working capital adjustment (MWCA) to be made under CCA system.

19. The following are the summarised Balance Sheet of Imperial Co. Ltd Colonial Co. Ltd as on 31st December 1972.

Liabilities	Imperial Co. Ltd	Colonial Co. Ltd	Assets	Imperial Co. Ltd	Colonial Co. Ltd
Paid up capital in share of Rs. 10 each	10,00,000	3,00,000	Free hold Premises	4,50,000	1,20,000
General	4,00,000	1,25,000	Plant and		
Reserve	3,00,000	1,75,000	Machinery	3,50,000	1,60,000
Profit and loss a/c	1,00,000	70,000	Furniture	80,000	30,000
Sundry creditors			Debtors	3,00,000	1,70,000
			Stock	3,20,000	1,60,000
			Investment in 20,000 share in colonial co. Ltd at cost	2,60,000	
			Cash balance	40,000	30,000
	18,00,000	6,70,000		18,00,000	6,70,000

You are required to prepare consolidated balance sheet as on 31.12.1972 showing in detail necessary adjustments and taking into consideration the following information;

(a) Imperial co . Ltd acquired the share of co colonial co. ltd on 11.1.1992. When the balance on their profits and loss a/c and general reserves were Rs. 75,000 and Rs. 80,000 respectively.

(b) Stock of Rs. 1,60,000 held by colonial co. Ltd consists of Rs. 60,000 goods purchased from imperial co. Ltd, Who has charged profit at 25%.

20. Distinguish between capital profit and revenue profit in the context of holding company accounts.

NOVEMBER/DECEMBER 2015

UCM31/UFA31/UCP31/SCM31/SFA31/SCP32

— CORPORATE ACCOUNTING

Time : Three hours **Maximum : 75 mark**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. Define Shares.
2. What do you mean by shares issued at premium?
3. What is Ex-Interest Quotation?
4. What is Capital Redemption Reserve?
5. What is the need for calculating profit prior to incorporation?
6. What is Dividend?
7. Compute the purchase consideration to be paid by X Ltd. to Y Ltd. from the following :
   a. The shareholders of Y Ltd. are to be paid Rs. 50 in cash and offer 4 shares of Rs. 20 each in X Ltd. for every share of Y Ltd. Y Ltd. has 50,000 equity slum's outstanding.
   b. The cost of liquidation Rs. 25,000 is to be borne by X Ltd.
8. Explain members voluntary winding up.
9. Define Amalgamation.
10. Ascertain the remuneration payable to the ' liquidator from the data given below :

    Secured creditor — Rs. 50,000 (securities realised by secured creditor Rs. 60,000).

    Assets realised — Rs. 80,000.

    Liquidator remuneration — 3% on amount realised.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) Pass the necessary journal entries :

    X Ltd. forfeited 100 equity shares of its. 10 each held by Mr. Akash for non-payment of Rs. 2 on first call and its. 3 on final call per share. Later they were reissued at a discount of Rs. 3.50 per share.

    Or

    (b) Y Ltd. forfeited 100 shares of Rs. 10 each at a premium of Rs. 5 per share due to non-payment of final call of Rs. 5 per share. Later they were re-issued at a discount of Rs. 4 per share. Pass journal entries.

12. (a) A company issued 1000 6% debentures of

    Rs. 100 each. They were issued at a discount of 4% but redeemable at a premium of 5%. Pass journal entry.

Or

(b) A company wishes to redeem its preference shares amounting to Rs. 1,00,000 at a premium of 5% and for this purpose it issues 5000 equity shares of Rs. 10 each at a premium of 5%. The company has also a balance of Rs. 1,00,000 on general reserve and Rs. 50,000 on profit and loss a/c Journalise.

13. (a) Describe the methods of ascertaining "Profits Prior to Incorporation".

Or

(b) Show how will you exhibit the building items in the balance sheet of a company as on 31.12.2007. Original cost of the building Rs. 4,00,000. Book value of the building 1.1.2007 Rs. 2,80,000. Depreciation to be written off at 5% of the written down value method.

14. (a) A Co. Ltd. sells its business to B Co. Ltd. as on 31.3.2008 on which date the Balance Sheet was as follows :

Liabilities	Rs.	Assets	Rs.
Share capital :		Building	2,00,000
40,000 equity shares of Rs. 10 each	4,00,000	Machinery	2,63,000
		Furniture	70,000
General Reserve	80,000	Stock	85,500
P & L a/c	28,000	Debtors	37,500
10% Debentures	2,00,000	Cash at bank	86.000
Trade creditors	42,000	Under writing commission	8,000
	7,50,000		7,50,000

B Co. Ltd. agreed to take over the assets except cash at bank at book values. Furniture to be valued at Rs. 56,000 and to take over creditors.

The purchase consideration was discharged by the allotment at par of 2000 fully paid 12% debentures of Rs. 100 each (to be used by A Co. Ltd. to redeem its 10% debentures at par) and 40,000 fully paid equity shares of Rs. 10 each. A Co. Ltd. met the expenses) liquidation amounting to Rs. 6,000.

Prepare ledger accounts (Realisation a/c) in the books of A Co. Ltd.

Or

(b) Write a note on purchase consideration.

15. (a) The liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amount realised (excluding cash in hand) and 2% on the amount distributed to the

unsecured creditors. Unsecured creditors including preferential creditors of Rs. 5,000 amounted to Rs .40,000. Debenture holders were paid Rs. 51,875 together with interest. Preferential creditors were paid in full. Rs. 510 were spent as cost of liquidation. Cash on hand was Rs. 1,000 and assets realised was Rs. 79,000. Find out liquidator's total remuneration.

Or

(b) The following particulars relate to Manish Ltd. which went into voluntary liquidation. Unsecured creditors stood at Rs. 40,000 including Rs. 5,000 preferential claim. Secured creditors secured on machinery stood at Rs. 20,000. Cash in hand was Rs. 1,000.

The liquidator realised machinery fee Rs. 15,000 and the other assets realised Rs. 10,000. The liquidation expenses amounted to Rs. 1,000 and the liquidator's remuneration was fixed at 4% of the amount realised including cash balance and 2% of the amount distributed to unsecured creditors including preferential creditors.

Prepare liquidator's final statements o. account.

SECTION C — (3 x 10 = 30 marks)

Answer any Three Questions

16. Star Limited issued a prospectus, inviting applications for 2,00,000 shares of Rs. 10 each at a premium of Rs. 5 per share, payable as follows :

On application — Rs. 2.50 per share.

On allotment — Rs. 7.50 per share.

On first call — Rs. 4.00 per share.

On final call — Rs. 1.00 per share.

Applications were received for 3,00,000 shares and allotment was made pro-rata to the applicants of 2,40,000 shares, the remaining applications being refused. Money received in excess on the application was adjusted towards the amount due to allotment.

John, to whom 4000 shares were allotted, failed to pay allotment money on his failure to pay the first call, his shares were forfeited. Micheal the holder of 6000 shares, failed to pay the two calls and so his shares were also forfeited. All these shares were sold to Robert, credited as fully paid for Rs. 8 per share.

Pass journal entries to record the above transactions.

17. The following balances are extracted from the balance sheet of S Ltd. as on 1st January 2004.

Rs.

6% Debentures	1,00,000
Debenture redemption fund	85.000
Debenture redemption fund investments (Rs. 100 value certificate)	90.000

The annual investment was Rs. 11,400. On 31st December 2004 the investments were realised at Rs. 95 each and the debentures were redeemed. The bank balance on that date was Rs. 18,300. Give ledger accounts relating to the redemption of debentures.

18. Moon Limited with an authorised capital of Rs. 5,00,000 divided into 5000 equity shares of Rs. 100 each on 31.12.2004 of which 2500 shares were fully called up. The following are the balances extracted from the ledger as on 31.12.2004.

Trial Balance

Debit,	Rs.	Credit	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	Profit & Loss a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance (Upto 31.3.05)	6,720	Reserves	25,000
Salaries	18,500	Loan from managing director	15,700
Rent	6,000		
General expenses	8,950	Share capital	2,50,000
Printing	2,400		
Advertisements	3,800		
Bonus	10,500		
Debtors	38.700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

Additional Information :

(a) Closing stock was valued at Rs. 1,91,500.

(b) Depreciation on plant at 15% and on furniture at 10% should be provided.

(c) A tax provision of Rs 8,000 is considered necessary.

(d) The directors declared an interim divider)/ on 15.8.2004 for 6 months ending June 30, 2004 @ 6%.

Prepare Profit and Loss a/c and Balance Sheet.

19. X Company limited agreed to acquire the assets excluding cash as on 31 December 2001 of Y Ltd. The balance sheet of Y Ltd. as on that date was :

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	3,00,000	Goodwill	60,000
		Land & Building-	1,20,00
General reserve	80,000	Plant & Machinery	2,00,000
Debentures	50,000	Stock	80,000
Creditors	10,000	Debtors	30,000
Profit & Loss a/c	60,000	Cash	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 share of Rs. 10 each (Market value Rs. 12.50) in X Co. Ltd. for every shares of Y Co. Ltd.

(c) The issue of 1100 debentures of Rs. 50 each in X Co. 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. 4,000 was to be met by themselves.

Give journal entries and ledger a/c's in the books of Y Limited.

20. Mr. Sam has been appointed as liquidator of ABC Ltd. Balance Sheet at the time of liquidation on 1.1.2001 is given below :

Liabilities	Rs.	Assets	Rs.
Equity share capital (Rs. 10)	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	50,000
Loans	50,000	Sundry debtors	1,05,000
Creditors	50,000	Cash	5,000
		Profit & Loss a/c	40,000
	4,00,000		4,00,000

Fixed assets are sold for Rs. 1,20,000 to a debenture holder holding Rs. 40,000 debentures and cash is received after set off. Cash realised from debtors was Rs. 80,000 and

liquidation expenses amounted to Rs. 1,000. Liquidator is paid Rs. 1,000. Fixed allowance plus 2% commission on collections including cash in hand Rs. 5,000 as remuneration. Stock is sold for Rs. 10,000.

Prepare the liquidators final statement of accounts.

APRIL/MAY 2016

SCM31/UCM31/SFA31/UFA31/UCP31/

SCP32 — CORPORATE ACCOUNTING -1

Time ; Three hours **Maximum : 75 marks**

SECTION A — (10 x 2 = 20 marks)

Answer ALL questions.

1. What is share forfeiture?
2. What do you understand by the issues of shares at discount?
3. Define Debenture.
4. Explain the meaning of redeemable preference shares.
5. What is meant by profit prior to incorporation?
6. Define Assets.
7. Give any two methods of calculating purchase consideration.
8. What is External Reconstruction?
9. What is Preferential Creditors?
10. Define Liquidation.

SECTION B — (5 x 5 = 25 marks)

Answer ALL questions.

11. (a) The directors of R Ltd., resolved on 1st May 2000 that 200 ordinary shares of Rs. 10 each, Rs. 7.50 paid, be forfeited for non payment of) final call of Rs. 2.50. Show the entries to give effect to the above transactions.

Or

(b) Explain the provisions relating to issue of shares at premium and at discount.

12. (a) What is debenture? What are its types?

Or

(b) Goodwill Ltd., issued 1,000, 6% debentures of Rs.100 each.

Give journal entries in each of the following cases.

(i) The debenture are issued and redeemable at par.

(ii) They are issued at discount of 6%, but redeemable at par.

(iii) They are issued at premium of 5% but redeemable at par.

13. (a) X Ltd. was registered on 1.7.07 to acquire the running business of Y & Co. with effect from 1.7.07. The following was the P&L A/c of the company on 31.12.07.

P&L A/c

	Rs.		Rs.
To Office expenses	54,000	By Gross profit	2,25,000
To Preliminary expenses written off	10,000		
To Stationery	5,000		
To Selling expenses	60,000		
To Director's fees	20,000		
To Net profit	76,000		
	2,25,000		2,25,000

Ascertain the profit during the pre and post incorporation periods. The total sales for the year took place in the ratio of 1:2 before and after incorporation respectively.

Or

(b) From the following particulars, prepare profit and loss account of Justice Bank for the year ended 31st March 2007 :

	Rs.
Interest on deposits	6,400
Commission (Cr.)	200
Interest on loans	4,980
Sundry charges (Dr.)	200
Rent and taxes	400
Payment to employees	1,000
Discount on bills discounted	2,980
Interest on overdrafts	3,200
Interest on cash credit	4,640
Auditor's fees	70
Director's fees	32
Bad debts to be written off	600

14. (a) What are the merits of amalgamation?

Or

(b) A limited agrees to take over the business of B limited on the following terms.

(i) The shareholders of B limited are to be) paid Rs. 25 in cash and the offer of four shares of Rs. 10 each in A limited for every share of B limited. B limited has 50,000 equity shares outstanding.

(ii) The debenture holders holding 5,000 debentures of Rs. 100 each are to be redeemed at a premium of 10%.

(iii) Costs of liquidation amounting to Rs. 25,000 are to be borne by A limited.

Calculate the purchase consideration.

15. (a) Explain the different types of liquidation.

Or

(b) State liquidator's final statement of account.

SECTION C — (3 x 10 = 30 marks)

Answer any THREE questions.

16. (a) A company forfeits 100 shares of Rs. 10 each at Rs. 11 per share. The premium was payable on allotment. The shareholder failed to pay the allotment money of Rs. 3 per share and second and final call Rs. 5 per share: Pass the journal entry.

(b) A company forfeits 100 shares of Rs. 10 each issued at Rs. 9 per share on account of non-payment of Rs. 4 per share by the shareholder. Pass the journal entry.

17. A Company issued Rs. 2,00,000 in 5% debentures of Rs. 100 each at par. Repayable at the end of 5 years at a premium of 6%. A Sinking fund at 4% compound interest is created for redemption of debentures.

You are required to prepare Sinking fund account and Sinking Fund Investment account for 5 years (Re. 1 per year at 4% compound interest amount to Rs. 5.4163 in 5 years).

18. Moon Ltd is a company with an authorized capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each on 31.12.2003 which 2,500 shares .were fully called up.

The Trial balance of Moon Ltd.

	Rs.		Rs.
Opening Stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	P and L a/c	6,220
Discount allowed	4,200	Creditors	35,200
Insurance(up to 31.3.2004)	6,720	Reserves	25,000
		Loans from managing director	15,700
Salaries	18,500		
Rent	6,000	Share capital	2,50,000

General expenses	8,950	
Printing	2,400	
Advertisement	3,800	
Bonus	10,500	
Debtors	38,700	
Plant	1,80,500	
Furniture	17,100	
Bank	34,700	
Bad debts	3,200	
Calls in arrears	5,000	
	6,60,270	6,60,270

You are required to prepare P& L a/c for the year ended 31.12.2003.

Additional information :

(a) Closing stock Rs. 1,91,500

(b) Depreciation on plant - 15%

Depreciation of furniture - 10%

(c) Tax provision Rs. 8,000

(d) The directors declared an interim dividend on 15.8.2003 for six months ending June 30, 2003 @ 6%.

19. M Ltd., & N Ltd., agreed to amalgamated on the basis of the following Balance Sheets as on31.3.97.

	M	N		M	N
	Rs.	Rs.		Rs.	Rs.
Share capital Rs. 25 each	75,000	50,000	Goodwill	30,000	–
			Fixed assets	31,500	38,800
P&L a/c	7,500	2,500	Stock	15,000	12,000
Creditors	3,500	3,500	Debtors	8,000	5,200
Depreciation fund	–	2,500	Bank	1,500	2,500
	86,000	58,500		86,000	58,500

The assets and liabilities are to be taken over, by a new company formed called ‘P’ Ltd., at book values. P Ltd.’s share capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs. 10 each and 10,000, 9% preference shares of Rs. 10 each.

P Ltd., issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price. Pass journal entries in the books of ‘P’ Ltd.

20. Explain the duties of liquidator.

UNIT – 1

ISSUE OF SHARES

Company – Types-Shares – Types – Share Capital – Types – Face value – Equal subscription – Over subscription – Premium value – Forfeiture and reissue – Face value – Premium value – allotment money not given – Allotment money not given – Face value – Premium value – Over subscription – Face value – Pro-rata allotment – Over subscription – Premium value – Under subscription – Discount value – Forfeiture and reissue

The company is the third form of business organization where there is no restriction for maximum number of members. It should be registered under Companies Act 1956. It has many special features like legal status, perpetual succession, common seal, limited liability, separation of ownership and management, etc.

1.1 DEFINITION OF COMPANY

Sec. 3(1) of the Companies Act 1956 defines a company as "a company formed and registered under this Act or an already existing company". An existing company means a company formed and registered under any of the previous Companies Act.

1.2 TYPES OF COMPANY

TYPES OF COMPANY

FORMATION
1. CHARTER
2. STATUTARY
3. REGISTERED

LIABILITY
1. LTD. BY SHARES
2. LTD. BY GUARTANTEE
3. UNLIMITED

PUBLIC INVESTMENTS
1. PRIVATE
2. PUBLIC
3. FOREGIN
4. HOLDING
5. SUBSIDAIRY

A. ON THE BASIS OF FORMATION

1. Chartered Company

In olden days, the king gave a charter to start a company. Those companies which were started after getting such permission from ruling kingdom is called chartered company. E.g. East India Company

2. Statutory Company

Those companies which were formed by their specific statute are called statutory companies. E.g. LIC. Rules and regulations regarding their each and every activity are governed by that special Act.

3. Registered Company

A company incorporated under the Companies Act 1956 or earlier Companies Act is called registered company.

B. ON THE BASIS OF LIABILITIES

1. Company Limited by Shares

When the liability of shareholders of a company is limited to their value of share holdings, then it is called limited company. Though the liability of the company is more the shareholders are required to pay only the remaining amount unpaid on their holdings.

2. Companies Limited by Guarantees

When the share holders of a company accept to give a guarantee amount over and above their share holdings it is called companies limited by guarantees. But such guarantee amount should be payable only at the time of liquidation of the company.

3. Unlimited Company

This type of company is not found elsewhere. The liability of its shareholder are unlimited i.e. they have to pay necessary amount to settle company's liabilities over their shareholding value.

C. ON THE BASIS OF PUBLIC INVESTMENTS

1. Private Company

Private company is a company which by its Articles,

- can make no invitation to the public for its shares or debentures
- cannot have more than 50 members
- restricts the right to transfer shares

2. Public Company

A company which is not a private company is called public company.

3. Foreign Company

When the register office of a company is situated in foreign country then it is called foreign company.

4. Holding Company

A company which acquires more than 50% of shares of another company is called holding company.

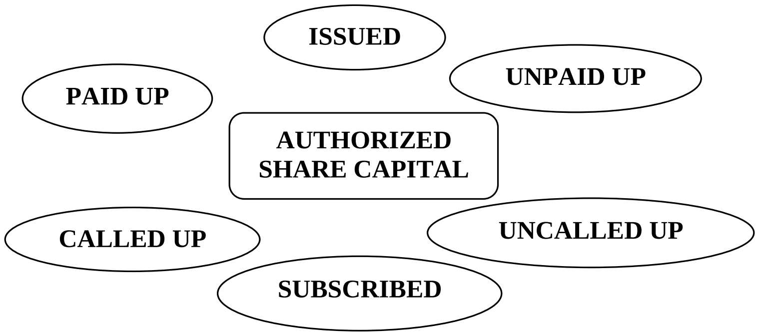
5. Subsidiary Company

A company which gives more than 50% of shares to another company is called subsidiary company.

1.3 MEANING OF SHARE CAPITAL

The company needs money to run its business. It collects the required amount from the public by issue of shares. The total amount required to run the business is called share capital. The following are the different types of share capital.

1.4 TYPES OF SHARE CAPITAL



Authorized Share Capital

The maximum amount of share capital that a company can collect during its life time is called authorized share capital. It cannot be changed in future. Proper permission should be obtained from controller of capital issues regarding authorized capital.

Issued Share Capital

That part of the authorized share capital which is issued to the public by the company is called issued share capital.

Subscribed Share Capital

That part of the issued share capital actually subscribed by the public is called subscribed share capital.

Called up Share Capital

That part of the subscribed capital which is actually called up by the company is called up capital.

Uncalled up Share Capital

That part of the subscribed capital which is not actually called up by the company is uncalled up share capital.

Paid up Share Capital

That part of the called up capital which is actually paid by the public is called paid up share capital.

Unpaid up Share Capital

That part of the called up capital which is not actually paid by the public is called unpaid up share capital.

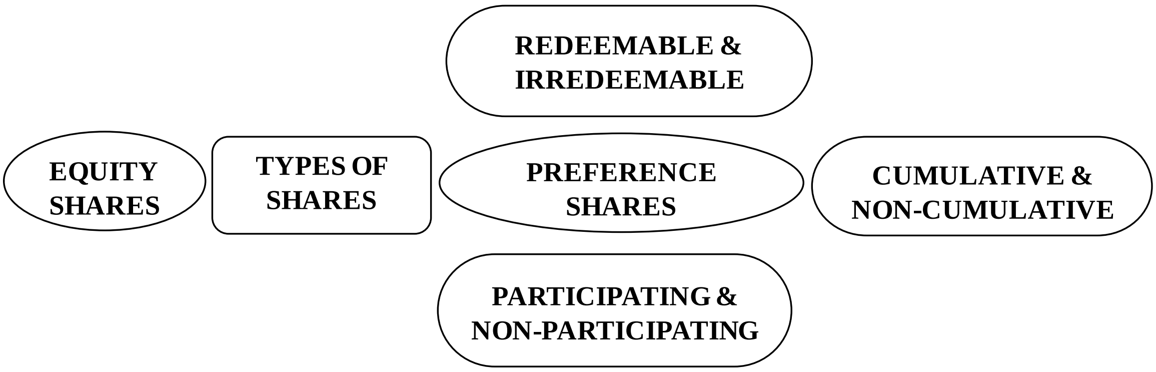
Reserve Capital

The company maintains not to call amount for a portion of share capital. This amount is called up by the company only at the time of emergency or liquidation. It is called reserve capital.

1.5 MEANING OF SHARE

The share capital is divided into small part of uniform value. Each unit is called share. The person who purchases shares from the company is called share holder and he will be considered as owner of the company.

1.6 TYPES OF SHARES



Equity Share

A share which has no preferential rights is called equity share or ordinary share. Rate of dividend is decided by the directors in every year according to the availability of profits and so it is not fixed.

Preference Share

A share which has preferential rights regarding payment of dividend and repayment of capital is called preference share. Rate of dividend is fixed and it is calculated on nominal value of shares.

Redeemable and Irredeemable

Shares which can be get back by the company after the expiry of specified period is called redeemable preference shares. A share which cannot be got back by the company during the life of company is called irredeemable preference share.

Cumulative and Non-cumulative

A company paid dividend only when sufficient profit is available. Dividend for any year is not declared by a company it will be treated as arrear. The arrear dividend of last year is paid

along with current year dividend then it is called cumulative preference shares. If the arrear dividend of one year will not be payable in future it is called non-cumulative preference dividend.

Participating and non-participating preference shares

After paying dividend to preference shareholders and equity share holders, there may be some surplus profit in the company. Those shares which have the right to share such remaining profits of the company are called participating preference shares. Those shares which do not have the right to share the remaining profits of the company are called non-participating preference shares.

1.7 PROSPECTUS

Any document which invites deposits from the public for purchase of shares or debentures of a company is called prospectus.

1.8 APPLICATION MONEY

The company through advertisement and other media invites the public to subscribe the shares. The interested public makes an application for shares along with application money. The application money should be at least 5% of the face value of shares. All the application money received from the public will be maintained in a scheduled bank account.

Journal Entries	
For application money received Bank a/c Dr To Share Application a/c	**For transferring share application money** Share Application a/c Dr To Share Capital a/c
For rejecting excess application money Share Application a/c Dr To Bank a/c	**For adjusting excess application money** Share Application a/c Dr To Share Allotment a/c

1.9 MINIMUM SUBSCRIPTION

The company should fix a minimum amount required to be raised through the issue of share capital. Such amount is required in order to meet the purposes specified in clause 5 of schedule II of the Companies Act. This is known as minimum subscription which is stated in the prospectus. If the amount received through the application money is not reached this limit, then no allotment shall be made by the company.

1.10 ALLOTMENT MONEY

After receiving the applications with allotment money from the public, the directors should scrutinize them. They have the full liberty to allot or reject the applications. The company calls further amount to confirm the allotment for the selected applications. If the applications are not selected, then the company should sent letter of regret along with the application money to be returned to applicant.

Journal Entry for allotment money due (Any one of a/b/c)		
(a)Face value Share Allotment a/c Dr To Share Capital	***(b)Premium value*** Share Allotment a/c Dr To Share Capital To Securities Premium	***(c)Discount value*** Share Allotment a/c Dr Share Discount a/c Dr To Share Capital a/c
For receiving share allotment money Bank a/c Dr To Share Allotment a/c		

1.11 CALL MONEY

After receiving application and allotment money, the company will receive the balance amount in two or three instalments. Each instalment is called call money. Shareholders are required to pay call money when the company makes a demand for it.

Journal Entries	
For call money due Share Particular Call a/c Dr To Share Capital a/c	**For receiving call money** Bank a/c Dr To Share Particular Call a/c

1.12 CALLS IN ARREARS

Sometimes the share holders failed to pay the amount which is called up by the company within the specified time limit. Such amount is called calls in arrears. The company should charge 5% interest per annum for calls in arrears.

For Calls in Arrears
Calls in Arrears a/c Dr To Share Particular Call a/c

1.13 CALLS IN ADVANCE

The company has the right to receive the call money well in advance from the share holders if it is permitted by the Articles. Such amount is called calls in advance. It should be maintained in a separate account. The company will give interest at a rate not exceeding 6% p.a. for calls in advance.

For Calls in Advance
Bank a/c Dr To Calls in Advance a/c

Format of Ledger Accounts

Bank Account

Particulars	**Amount**	**Particulars**	**Amount**
To Share application a/c	xxx	By Share application a/c	xxx
" Share allotment a/c	xxx	" Balance c/d (b/f)	xxx
" Share first call a/c	xxx		
" Share final call a/c	xxx		
" Share capital a/c (Forfeiture)	xxx		
" Calls in advance a/c	xxx		
	xxx		xxx

Share Capital Account

Particulars	**Amount**	**Particulars**	**Amount**
To Share forfeiture a/c	xxx	By Share application a/c	xxx
" Share capital a/c	xxx	" Share allotment a/c	xxx
		" Share first call a/c	xxx
		" Share final call a/c	xxx
		" Bank a/c	xxx
		" Share forfeiture a/c	xxx
	xxx		xxx

Balance Sheet

Liabilities		**Amount**	**Assets**	**Amount**
Share Capital	xxx		Bank a/c	xxx
(+)Share forfeiture	xxx	xxx	Share discount a/c	xxx
Securities premium a/c		xxx		
Share capital reserve		xxx		
		xxx		xxx

1.14 FACE VALUE

When the shares are issued to the public at its original price or the price which is quoted in the share certificate, then the issue is said to be at face value. It is otherwise called par value or nominal value. For e.g. when a share of ₹10 is issued by the company at ₹10 only then the issue is known as face value.

1.15 EQUAL SUBSCRIPTION

When the no. of shares issued by company and the no. of shares subscribed by the public are equal it is called equal subscription.

Method of subscription	Issued	Applied	Allotted
Equal	10,000 shares	10,000 shares	10,000 shares

Illustration -1 SK Ltd. issued 1,000 equity shares of ₹100 each payable ₹20 on application, ₹40 on allotment and ₹40 on call. All the shares subscribed and the amount duly received. Pass journal entries to give effect to these.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (1,000 x 20)	Dr	20,000	
To Share Application a/c			20,000
(Being application money received)			
Share application a/c	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share allotment a/c	Dr	40,000	
To Share capital			40,000
(Being allotment money due 1,000 x 40)			
Bank a/c	Dr	40,000	
To Share allotment a/c			40,000
(Being allotment money receiving)			
Share call a/c	Dr	40,000	
To Share capital a/c			40,000
(Being call money due 1,000 x 40)			
Bank a/c	Dr	40,000	
To Share call a/c			40,000
(Being call money received)			

Illustration -2 A Ltd. issued 10,000 shares to the general public. Share value of ₹10 will be collected as follows: On application ₹2; on allotment ₹4; on first and second call ₹2 each. All the shares are subscribed by the public. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (10,000 x 2)	Dr	20,000	
To Share application a/c			20,000
(Being application money received)			
Share application a/c	Dr	20,000	
To Share capital a/c			20,000
(Being application money transferred)			
Share allotment a/c	Dr	40,000	
To Share capital			40,000
(Being allotment money due 10,000 x 4)			
Bank a/c	Dr	40,000	
To Share allotment a/c			40,000
(Being allotment money received)			
Share I call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 10,000 x 2)			
Bank a/c	Dr	20,000	
To Share I call a/c			20,000
(Being call money received)			
Share Final call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 10,000 x 2)			
Bank a/c	Dr	20,000	
To Share Final call a/c			20,000
(Being call money received)			

1.16 OVER SUBSCRIPTION

When the shares subscribed by the public are more than the shares issued by company it is called over subscription. The surplus amount may be rejected to the applicants or adjusted with allotment money in case of pro-rata allotment.

Method of subscription	**Issued**	**Applied**	**Allotted**
Over	10,000 shares	15,000 shares	10,000 shares

Treatment of Excess Application

Particulars	Amount
Total shares applied	xxx
(-)Total shares allotted	xxx
	xxx
Less: Rejected/Refunded	xxx
	xxx
Transferred to share allotment	xxx

1.17 PRO-RATA ALLOTMENT

In case of over subscription, the no. of shares applied is more than the no. of shares issued. It is not possible by the company to allot the full no. of shares applied to all the applicants. The company may reject the surplus applications. Otherwise it will allot the no. of shares issued to all the applicants in proportionately. By doing this all the shareholders are allotted some less no. of shares than the actual no. of shares applied. This process is known as pro-rata allotment.

Pro-rata allotment

Particulars	Amount
Total shares applied	xxx
Less: Rejected	xxx
	xxx
Less: Full allotment	xxx
Applied	xxx
Allotted	xxx

Illustration -3 A limited company issued 10,000 shares of ₹100 each payable as under: ₹20 on application, ₹30 on allotment, ₹50 on first and final call. The public applied for 11,000 shares. Allotment was made for 10,000 shares and the amount due on 1,000 shares returned to the applicants. All moneys were received. Pass journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (11,000 x 20)	Dr	2,20,000	
To Share Application a/c			2,20,000
(Being application money received)			

Share application a/c (10,000 x 20)	Dr	2,00,000	
To Share capital a/c			2,00,000
(Being appl. money transferred)			
Share Application a/c (1,000 x 20)	Dr	20,000	
To Bank a/c			20,000
(Being application money returned)			
Share allotment a/c	Dr	3,00,000	
To Share capital			3,00,000
(Being allotment money due)			
Bank a/c	Dr	3,00,000	
To Share allotment a/c			3,00,000
(Being allotment money received)			
Share first and final call a/c	Dr	5,00,000	
To Share capital a/c			5,00,000
(Being call money due 10,000 x 50)			
Bank a/c	Dr	5,00,000	
To Share first and final call a/c			5,00,000
(Being call money received)			

Illustration -4 A company with an authorized capital of ₹25 Lakhs issued a prospectus inviting applications for 1 Lakhs shares of ₹10 each and the terms of payment: On application – ₹5; on allotment - ₹2.50 and on first and final call ₹2.50.

The company's offer was oversubscribed by 10,000 shares. The amount due on allotment was received in full. Excess share application money was returned. There were calls in arrears to the tune of ₹50,000 for first and final call. Sundry assets were purchased for ₹1,50,000 by issue of shares to the vendors. Pass journal entries for the above transactions.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (1,10,000 x 5)	Dr	5,50,000	
To Share Application a/c			5,50,000
(Being application money received)			
Share application a/c (1,00,000 x 5)	Dr	5,00,000	

To Share capital a/c (Being appl. money transferred)			5,00,000
Share Application a/c (10,000 x 5) To Bank a/c (Being application money returned)	Dr	50,000	 50,000
Share allotment a/c (1,00,000 x 2.50) To Share capital (Being allotment money due)	Dr	2,50,000	 2,50,000
Bank a/c To Share allotment a/c (Being allotment money received)	Dr	2,50,000	 2,50,000
Share first and final call a/c To Share capital a/c (Being call money due 1,00,000 x 2.50)	Dr	2,50,000	 2,50,000
Bank a/c (2,50,000 – 50,000) Calls in arrears a/c (b/f) To Share first and final call a/c (Being call money received)	Dr Dr	2,00,000 50,000	 2,50,000
Sundry assets a/c To Vendor a/c (Being assets purchased)	Dr	1,50,000	 1,50,000
Vendor a/c To Share capital a/c (Being shares allotted)	Dr	1,50,000	 1,50,000

1.18 PREMIUM VALUE

When the shares are issued to the public at a price which is more than the face value, it is called premium value. For e.g. when a share of ₹10 is issued by the company at ₹12 then the issue is known as premium value. The difference between the face value and issue price i.e. ₹2 is called premium. The premium amount is used for the following purposes only.

1. For writing down the fictitious assets appearing in the balance sheet.
2. For providing the share premium payable on the redemption of redeemable preference shares or debentures.
3. For issuing fully paid bonus shares
4. For writing off preliminary expenses

Illustration -5 F Limited issued 2,00,000 equity shares of ₹10 each at ₹12 per share. Terms of payment being: ₹2 on application, ₹5 on allotment, including premium, ₹3 on first call and ₹2 on second call. Make journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (2,00,000 x 2)	Dr	4,00,000	
To Share Application a/c			4,00,000
(Being application money received)			
Share application a/c	Dr	4,00,000	
To Share capital a/c			4,00,000
(Being application money transferred)			
Share allotment a/c (2,00,000 x 5)	Dr	10,00,000	
To Share capital			6,00,000
To Share premium a/c (2,00,000 x 2)			4,00,000
(Being allotment money due)			
Bank a/c	Dr	10,00,000	
To Share allotment a/c			10,00,000
(Being allotment money received)			
Share I call a/c	Dr	6,00,000	
To Share capital a/c			6,00,000
(Being call money due 2,00,000 x 3)			
Bank a/c	Dr	6,00,000	
To Share I call a/c			6,00,000
(Being call money received)			
Share final call a/c	Dr	4,00,000	
To Share capital a/c			4,00,000
(Being call money due 2,00,000 x 2)			
Bank a/c	Dr	4,00,000	
To Share final call a/c			4,00,000
(Being call money received)			

1.19 FORFEITURE AND REISSUE

Share forfeiture is the process of cancelling the shares from a particular share holder for non-payment of any amount due to the company. After the forfeiture, the share holder loses his

capacity as a shareholder and the company will not repay the amount which was already paid by him. These shares can be reissued at a discount to any person including the person who already had it. But the discount amount should not exceed the money already received on forfeited shares.

Journal Entries

For forfeiture of shares	For re-issue of forfeited shares
Share Capital a/c Dr To Share Forfeiture a/c To Share Call a/c	Bank a/c Dr Share Forfeiture a/c Dr To Share Capital a/c
For transferring profit on reissue Share Forfeiture a/c Dr To Share Capital Reserve a/c	

Illustration -6 Thiru Arun holds 2,000 shares of ₹10 each in Ram Ltd. He has paid ₹2 and ₹3 per share on application and allotment respectively, but failed to pay ₹3 and ₹2 per share for first and second calls respectively. Directors forfeit his shares. Give journal entry.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (2,000 x 10)	Dr	20,000	
To Share forfeiture a/c (b/f)			10,000
To Share first call a/c (2,000 x 3)			6,000
To Share final call a/c (2,000 x 2)			4,000
(Being shares forfeited)			

Illustration -7 D Ltd. forfeited 200 shares of ₹10 each on which ₹5 per share was received. All the shares were reissued at ₹8 per share. Give journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (200 x 10)	Dr	2,000	
To Share forfeiture a/c (200 x 5)			1,000
To Share first call a/c (200 x 5)			1,000
(Being shares forfeited)			
Bank a/c (200 x 8)	Dr	1,600	
Share forfeiture a/c (200 x 2)	Dr	400	
To Share capital a/c (200 x 10)			2,000

(Being reissue of forfeited shares)			
Share forfeiture a/c (1,000 – 400)	Dr	600	
To Share capital reserve a/c			600
(Being profit on reissue transferred)			

Illustration -8 A Company Ltd. issued 5,000 preference shares of ₹10 each at a premium of ₹4 per share. The money is payable as follows: ₹1 on application; ₹6 (including premium) on allotment; ₹3 on first call and ₹4 on final call. All the shares were duly subscribed but on 1,000 shares, the first call was not realized and in respect of 1,500 shares, the final call was not realized. These shares were forfeited and reissued at ₹9 per share. Draft the necessary journal entries to record these transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (5,000 x 1)	Dr	5,000	
To Share Application a/c			5,000
(Being application money received)			
Share application a/c	Dr	5,000	
To Share capital a/c			5,000
(Being application money transferred)			
Share allotment a/c (5,000 x 6)	Dr	30,000	
To Share capital			10,000
To Share premium a/c (5,000 x 4)			20,000
(Being allotment money due)			
Bank a/c	Dr	30,000	
To Share allotment a/c			30,000
(Being allotment money received)			
Share first call a/c	Dr	15,000	
To Share capital a/c			15,000
(Being call money due 5,000 x 3)			
Bank a/c 15,000 – (1,000 x 3)	Dr	12,000	
To Share first call a/c			12,000
(Being call money received)			
Share final call a/c	Dr	20,000	
To Share capital a/c			20,000
(Being call money due 5,000 x 4)			

Bank a/c 20,000 – (1,500 x 4)	Dr	14,000	
To Share final call a/c			14,000
(Being call money received)			
Share capital a/c (1,000 x 10)	Dr	10,000	
To Share forfeiture a/c (b/f)			3,000
To Share first call a/c (1,000 x 3)			3,000
To Share final call a/c (1,000 x 4)			4,000
(Being 1,000 shares forfeited)			
Share capital a/c (500 x 10)	Dr	5,000	
To Share forfeiture a/c (b/f)			3,000
To Share final call a/c (500 x 4)			2,000
(Being shares forfeited)			
Bank a/c (1,500 x 9)	Dr	13,500	
Share forfeiture a/c (1,500 x 1)	Dr	1,500	
To Share capital a/c (1,500 x 10)			15,000
(Being reissue of forfeited shares)			
Share forfeiture a/c	Dr	4,500	
To Share capital reserve a/c			4,500
(Being profit on reissue 3,000 + 3,000 – 1,500)			

1.20 ALLOTMENT MONEY IS NOT GIVEN

Illustration -9 Give journal entries for the forfeiture and reissue of shares:

X Ltd. forfeited 30 shares of ₹10 each fully called up held by Raja for non-payment of allotment money of ₹3 per share and final call of ₹4 per share. He had paid the application money of ₹3 per share. These shares are forfeited and reissued to Saleem for ₹8 per share.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share capital a/c (30 x 10)	Dr	300	
To Share forfeiture a/c (b/f)			90
To Share allotment a/c (30 x 3)			90
To Share final call a/c (30 x 4)			120
(Being shares forfeited)			
Bank a/c (30 x 8)	Dr	240	
Share forfeiture a/c (30 x 2)	Dr	60	

To Share capital a/c (30 x 10)			300
(Being reissue of forfeited shares)			
Share forfeiture a/c (90 – 60)	Dr	30	
To Share capital reserve a/c			30
(Being profit on reissue transferred)			

Premium issue – Allotment money is not given

1. For forfeiture	**2. For reissue**
Share capital a/c Dr	Bank a/c Dr
Securities premium a/c Dr	Share forfeiture a/c Dr
To Share forfeiture a/c	To Share capital a/c
To Share allotment a/c	
To Share call a/c	

Illustration -10 A company issued 10,000 shares of ₹10 each. 12,000 applications were received and allotment was made under pro-rata ratio. Application money was ₹2 per share and allotment money ₹3 per share. Mani failed to pay the allotment money on his 300 shares. How much is due from Mani?

Solution

Calculation of allotment money received

Allotted	**Applied**
10,000	12,000
300	?
$\frac{300 \times 12,000}{10,000}$	360 shares

Share application money	
Applied	360 x ₹2 = ₹720
Allotted	300 x 2 = ₹600
Excess	60 x 2 = ₹120
Share allotment money	
Due	300 x ₹3 = ₹900
(-) Excess application money	₹120
Actual allotment money due	₹780

1.21 OVER SUBSCRIPTION– FACE VALUE - PRO-RATA ALLOTMENT - ALLOTMENT MONEY IS NOT GIVEN

Illustration -11 C Ltd. issued 2,00,000 shares of ₹10 each. Terms of payment being: ₹3 on application, ₹2 on allotment and ₹4 on first and balance on final call. The company received applications for 2,80,000 shares. Pro-rata allotment was made on the applications for 2,50,000 shares. Give journal entries assuming that an applicant who was allotted 100 shares did not pay allotment and first call money.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (2,80,000 x 3)	Dr	8,40,000	
To Share application a/c			8,40,000
(Being application money received)			
Share application a/c (2,00,000 x 3)	Dr	6,00,000	
To Share capital a/c			6,00,000
(Being application money transferred)			
Share application a/c (30,000 x 3)	Dr	90,000	
To Bank a/c			90,000
(Being excess money returned)			
Share application a/c (50,000 x 3)	Dr	1,50,000	
To Share allotment a/c			1,50,000
(Being excess money adjusted)			
Share allotment a/c (2,00,000 x 2)	Dr	4,00,000	
To Share capital			4,00,000
(Being allotment money due)			
Bank a/c	Dr	2,49,875	
To Share allotment a/c			2,49,875
(Being allotment money received)			
Share first call a/c	Dr	8,00,000	
To Share capital a/c			8,00,000
(Being call money due 2,00,000 x 4)			
Bank a/c 8,00,000 – (100 x 4)	Dr	7,99,600	
To Share first call a/c			7,99,600
(Being call money received)			

Calculation of allotment money received

Allotted	Applied
2,00,000	2,50,000
100	?
$\frac{100 \times 2,50,000}{2,00,000}$	125 shares

Share application money	
Applied	125 x ₹3 = ₹375
Allotted	100 x 3 = ₹300
Excess	25 x 3 = ₹75
Share allotment money	
Due	100 x ₹2 = ₹200
(-) Excess application money	₹75
Actual allotment money due	₹125
Share allotment due	₹4,00,000
(-) Excess application money	₹1,50,000
	₹2,50,000
(-) Arrear allotment money	₹125
Allotment money received	₹2,49,875

1.22 OVER SUBSCRIPTION - PREMIUM VALUE – ALLOTMENT MONEY IS NOT GIVEN

Illustration -12 Ramesh Ltd. issued 10,000 shares of ₹10 each at ₹11 per share payable as follows:

On application ₹2; allotment ₹5 and first and final call ₹4. The offer was oversubscribed by 5,000 shares and the applicants were allotted pro-rata basis and surplus application money was adjusted for future shares dues. All shares were fully called up and money received except on 300 shares held by Rahim who didn't pay allotment and call money. These shares were forfeited. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (15,000 x 2)	Dr	30,000	
To Share application a/c			30,000
(Being application money received)			

Share application a/c (10,000 x 2) To Share capital a/c (Being application money transferred)	Dr	20,000	 20,000
Share application a/c To Share allotment a/c (Being excess money adjusted 5,000 x 2)	Dr	10,000	 10,000
Share allotment a/c (10,000 x 5) To Share capital To Share premium a/c (10,000 x 1) (Being allotment money due)	Dr	50,000	 40,000 10,000
Bank a/c To Share allotment a/c (Being allotment money received)	Dr	38,800	 38,800
Share first and final call a/c To Share capital a/c (Being call money due 10,000 x 4)	Dr	40,000	 40,000
Bank a/c 40,000 – (300 x 4) To Share first and final call a/c (Being call money received)	Dr	38,800	 38,800
Share capital a/c (300 x 10) Share premium a/c (300 x 1) To Share forfeiture a/c (b/f) To Share allotment a/c To Share first & final call a/c (300 x 4) (Being shares forfeited)	Dr Dr	3,000 300	 900 1,200 1,200

Calculation of allotment money received

Allotted	**Applied**
10,000	15,000
300	?
$\frac{300 \times 15{,}000}{10{,}000}$	450 shares

Share application money	
Applied	450 x ₹2 = ₹900
Allotted	300 x 2 = ₹600
Excess	150 x 2 = ₹300

Share allotment money	
Due	300 x ₹5 = ₹1,500
(-) Excess application money	₹300
Actual allotment money due	₹1,200
Share allotment due	₹50,000
(-) Excess application money	₹10,000
	₹40,000
(-) Arrear allotment money	₹1,200
Allotment money received	₹38,800

Illustration -13 A Ltd. Co. issued a prospectus inviting applications for 2,000 shares of ₹10 each at a premium of ₹2 per share payable as follows: On application – ₹2, on allotment ₹5 (including premium); on 1st call – ₹3 and on 2nd and final call – ₹2

Applications were received for 3,000 shares and pro-rata allotment was made on the application for 2,400 shares. Money over paid on applications was adjusted sum due on allotment.

Ramesh to whom 40 shares allotted failed to pay the allotment money and on his subsequent failure to pay the first call his shares were forfeited. Mohan the holder of 60 shares failed to pay the two calls and his shares were forfeited after the second call.

Of the shares forfeited, 80 shares were sold to Krishna credited as fully paid for ₹9 per share, the whole of Ramesh share being included. Show the journal entries and cash book entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Bank a/c (3,000 x 2)	Dr	6,000	
To Share application a/c			6,000
(Being application money received)			
Share application a/c (2,000 x 2)	Dr	4,000	
To Share capital a/c			4,000
(Being application money transferred)			
Share application a/c (600 x 2)	Dr	1,200	
To Bank a/c			1,200
(Being excess money returned)			

Share application a/c (400 x 2)	Dr	800	
To Share allotment a/c			800
(Being excess money adjusted)			
Share allotment a/c (2,000 x 5)	Dr	10,000	
To Share capital			6,000
To Share premium (2,000 x 2)			4,000
(Being allotment money due)			
Bank a/c	Dr	9,016	
To Share allotment a/c			9,016
(Being allotment money received)			
Share first call a/c	Dr	6,000	
To Share capital a/c			6,000
(Being call money due 2,000 x 3)			
Bank a/c 6,000 – (100 x 3)	Dr	5,700	
To Share first call a/c			5,700
(Being call money received)			
Share capital a/c (40 x 8)	Dr	320	
Share premium (40 x 2)	Dr	80	
To Share forfeiture a/c (b/f)			96
To Share allotment a/c			184
To Share first call a/c (40 x 3)			120
(Being 40 shares forfeited)			
Share final call a/c	Dr	3,920	
To Share capital a/c			3,920
(Being call money due 1,960 x 2)			
Bank a/c 3,920 – (60 x 2)	Dr	3,800	
To Share final call a/c			3,800
(Being call money received)			
Share capital a/c (60 x 10)	Dr	600	
To Share forfeiture a/c (b/f)			300
To Share first call a/c (60 x 3)			180
To Share final call a/c (60 x 2)			120
(Being 60 shares forfeited)			

Bank a/c (80 x 9)	Dr	720	
Share forfeiture a/c (b/f)	Dr	80	
To Share capital a/c (80 x 10)			800
(Being reissue of forfeited shares)			
Share forfeiture a/c	Dr	216	
To Share capital reserve a/c			216
(Being profit on reissue)			

Calculation of allotment money received

Allotted	**Applied**
2,000	2,400
40	?
$\frac{40 \times 2,400}{2,000}$	48 shares

Share application money	
Applied	48 x ₹2 = ₹96
Allotted	40 x 2 = ₹80
Excess	8 x 2 = ₹16
Share allotment money	
Due	40 x ₹5 = ₹200
(-) Excess application money	₹16
Actual allotment money due	₹184
Share allotment due	₹10,000
(-) Excess application money	₹800
	₹9,200
(-) Arrear allotment money	₹184
Allotment money received	₹9,016

Calculation of share capital reserve

Shares	**Profit ₹**
60	300
40	?

$\frac{40 \times 300}{60}$	₹200
Add: 40 shares profit	₹96
	₹296
(-) 100 shares reissue loss	₹80
Share capital reserve	₹216

1.23 DISCOUNT VALUE

When the shares are issued to the public at a price which is below the face value then it is known as discount issue. For e.g., when a share of ₹10 is issued by the company at ₹9 then the issue is known as discount value. The difference between the face value and issue price i.e. ₹1 is called discount.

1.24 CONDITIONS FOR ISSUE OF SHARES AT A DISCOUNT

1. The discount issue should be authorized by the Articles of Association or by a resolution in the general meeting
2. Court permission should be obtained
3. The rate of discount should not exceed 10%
4. The issue must be made within two months from the date of getting permission from the court.
5. Shares which is already issued alone can be issued at discount
6. The company should issue shares at discount one year after the commencement of business.
7. The unwritten off discount amount should be shown separately in the asset side of the balance sheet.

1.25 UNDER SUBSCRIPTION

When the public subscribed less no. of shares than the shares issued by company it is called under subscription.

Method of subscription	**Issued**	**Applied**	**Allotted**
Under	10,000 shares	8,000 shares	8,000 shares

Illustration -14 X Ltd. invited applications for 1,00,000 shares of ₹10 each at a discount of 6% payable as follows: On application ₹2.50; on allotment ₹3.40 and on first and final call ₹3. 50. The application received was for 90,000 shares and all of these were accepted. All money duly received except the first and final call on 1,000 shares. Pass necessary journal entries in the books of company.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (90,000 x 2.50)	Dr	2,25,000	
To Share Application a/c			2,25,000
(Being application money received)			
Share application a/c	Dr	2,25,000	
To Share capital a/c			2,25,000
(Being application money transferred)			
Share allotment a/c (90,000 x 3.40)	Dr	3,06,000	
Share discount a/c (90,000 x 0.60)	Dr	54,000	
To Share capital			3,60,000
(Being allotment money due)			
Bank a/c	Dr	3,06,000	
To Share allotment a/c			3,06,000
(Being allotment money received)			
Share first call a/c	Dr	3,15,000	
To Share capital a/c			3,15,000
(Being call money due 90,000 x 3.50)			
Bank a/c 3,15,000 – (1,000 x 3.50)	Dr	3,11,500	
To Share first call a/c			3,11,500
(Being call money received)			

1.26 DISCOUNT VALUE - FORFEITURE AND REISSUE

1. For forfeiture	**2. For reissue**
Share capital a/c Dr	Bank a/c Dr
To Share forfeiture a/c	Share discount a/c Dr
To Share discount a/c	Share forfeiture a/c Dr
To Share call a/c	To Share capital a/c

Illustration -15 Anil was holding 30 shares of ₹10 each of X Ltd. issued at 10% discount. He paid ₹2 on application but could not pay the allotment money of ₹3 and his shares were forfeited. Make journal entries for the forfeiture of shares.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (30 x 6)	Dr	180	
To Share forfeiture a/c (b/f)			60
To Share allotment a/c (30 x 3)			90
To Share discount a/c (30 x 1)			30
(Being 30 shares forfeited)			

Illustration -16 X Ltd. forfeited 1,000 shares of ₹10 each issued at a discount of 10% for non-payment of the first call of ₹2 and the final call of ₹3 per share. Give the necessary journal entry.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Share capital a/c (1,000 x 10)	Dr	10,000	
To Share forfeiture a/c (b/f)			4,000
To Share discount a/c (1,000 x 1)			1,000
To Share first call a/c (1,000 x 2)			2,000
To Share final call a/c (1,000 x 3)			3,000
(Being 1,000 shares forfeited)			

Illustration -17 A company invited applications for 10,000 shares of ₹100 each at a discount of 5% payable as follows: On application ₹25; on allotment ₹34 and first and final call ₹36. The applications received were for 9,000 shares and all of them were accepted. All money due were received except the first and final call on 200 shares which were forfeited out of these 100 shares were reissued at ₹90 fully paid. Give journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c (9,000 x ₹25)	Dr	2,25,000	
To Share Application a/c			2,25,000
(Being application money received)			
Share application a/c	Dr	2,25,000	

To Share capital a/c			2,25,000
(Being application money transferred)			
Share allotment a/c Dr (9,000 x ₹34)	Dr	3,06,000	
Share discount a/c Dr (9,000 x ₹5)		45,000	
To Share capital			3,51,000
(Being allotment money due)			
Bank a/c	Dr	3,06,000	
To Share allotment a/c			3,06,000
(Being allotment money received)			
Share first call a/c	Dr	3,24,000	
To Share capital a/c			3,24,000
(Being call money due 9,000 x ₹36)			
Bank a/c ₹3,24,000 – (200 x ₹36)	Dr	3,16,800	
To Share first call a/c			3,16,800
(Being call money received)			
Share capital a/c (200 x 100)	Dr	20,000	
To Share forfeiture a/c (b/f)			11,800
To Share first & final call a/c (200 x 36)			7,200
To Share discount a/c (200 x 5)			1,000
(Being 200 shares forfeited)			
Bank a/c (100 x 90)	Dr	9,000	
Share forfeiture a/c (100 x 5)	Dr	500	
Share discount a/c (100 x 5)	Dr	500	
To Share capital a/c (100 x 100)			10,000
(Being reissue of forfeited shares)			
Share forfeiture a/c Dr	Dr	5,400	
To Share capital reserve a/c			5,400
(Being profit on reissue)			

Calculation of amount transferred to share capital reserve (Partial reissue)

Shares	Profit ₹
200	₹11,800
100	?
$\frac{100 \times 11,800}{200}$	₹5,900
(-) 100 shares reissue loss	₹500
Share capital reserve	₹5,400

1.27 RIGHT ISSUES

In case company wants to make a further issue of shares, the issue must first be offered to the existing equity shareholders. This offer is known as rights issue. The existing shareholders may accept/reject the offer. The shareholders can sell their right in full or in portion to another person. If the shareholders ha neither subscribed nor transferred their right, then the company can offer the issue to the public.

When a right issue is made, a shareholder may get fractions of shares. In such cases the company will issue fraction rights and the same may be bought or sold by the individual shareholder. But a share cannot be issued in fractions.

1.28 ISSUE OF BONUS SHARES

The company at its choice may pay bonus to the shareholders in cash. But, the bonus paid in the form of cash may affect the company's working capital position. In order to avoid the outflow of cash from the business and at the same time to satisfy the shareholders, the company may resort to issuing bonus shares to the existing equity shareholders.

The bonus shares may be issued in the following circumstances:

(i) When the company has large accumulated reserves.

(ii) When the company is not in a position to pay cash bonus.

(iii) When the value of fixed assets is very high than the value of capital.

(iv) When higher rates of dividend payment is not advisable

(v) When the market value exceeds the face value of shares.

In general, bonus shares can be issued out of the following:

1) Capital Redemption Reserves Account
2) Share Premium Account.
3) General reserves
4) Credit Balance in the Profit and Loss Account.
5) Capital profit such as profit prior to incorporation, profit on purchase of business and profit on sale of fixed assets.

1.29 ACCOUNTING TREATMENT

If the bonus is to be utilized for making partly paid shares fully-paid, the entries will be as follows:

1) Profit and Loss A/c	Dr.
General Reserves A/c	Dr.
Capital Reserves A/c	Dr.
To Bonus to Shareholders A/c	

(Being the amount transferred for bonus payable to shareholders)

2) Share Final Call A/c Dr.

To share Capital A/c

(Being the amount due from the shareholders in respect of final call)

3) Bonus of Shareholders A/c Dr.

To Share Final Call A/c

(Being the bonus to shareholders applied towards meeting the call)

If the payment of bonus is made by the issue of fully paid bonus shares, the entries will be as follows:

Capital Redemption Reserve A/c Dr.

Share Premium A/c Dr.

Capital Reserve A/c Dr.

Profit and Loss A/c Dr.

General Reserve A/c Dr.

To Bonus to Shareholders A/c

(Being the amount transferred for issue of bonus shares – depending upon the available balances in the above-said accounts).

Bonus to Shareholders A/c Dr.

To Share Capital A/c

To Share Premium A/c – if issued at a premium.

Illustration 18

The following are extract from the balance sheet of A. Ltd. As on December 31, 1998:

Authorised Capital	Rs.
10,000 equity shares of Rs. 10 each	1,00,00
Issued and subscribed capital:	
5,000 equity shares of Rs. 10 each fully paid-up	50,000
Reserve fund	35,000
Profit and Loss A/c	10,000

A resolution was passed to issue 1,000 bonus shares of Rs.10 each by providing Rs. 5,000 out of the P & L Account and the balance out of the Reserve Fund.

Set out journal entries to give effect to the resolution.

Solution:

Journal

		Dr. Rs.	Dr. Rs.
	Profit and Loss A/c Dr.	5,000	
	Reserve Fund Dr.	5,000	
	To Bonus to Shareholders A/c		10,000
	(Being the amount of the reserve fund and Profit and Loss A/c to be capitalized as per Board's resolution No…..dated…..)		
	Bonus to Shareholders A/c Dr.	10,000	
	To Share Capital A/c		10,000
	(Being issue of 1,000 bonus shares of Rs. 10 each)		

Illustration 19

The balance sheet of A Ltd. as at 31.3.1995 is as follows:

Balance sheet as at 31.3.1995

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Sundry assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000		
Issued, Subscribed and Paid-up:			
80,000 equity shares of Rs. 7.50 each called-up and paid-up	6,00,000		
Reserves			
Capital redemption reserve	1,50,000		
Plant revaluation reserve	20,000		
Share premium account	1,50,000		
Development rebate reserve	2,30,000		
Investment allowances reserve	2,50,000		
General reserve	3,00,000		
	17,00,000		**17,00,000**

The company wanted to issue bonus shares its shareholders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

a) You are required to give effect to the proposal by passing journal entries in the books of A Ltd.
b) Show the amended balance sheet.

Solution

(a) Journal

		Dr. Rs.	Dr. Rs.
	(i) Share Final Call A/c Dr. To Share Capital A/c (Being the final call of Rs. 2.50 each on 80,000 equity shares to make them fully paid-up)	2,00,000	2,00,000
	(ii) General Reserve A/c Dr. To Bonus to Shareholders A/c (Being the transfer of Rs. 2,00,000 from general reserve to make the partly paid up shares fully paid up)	2,00,000	2,00,000
	(iii) Bonus to Shareholders A/c Dr. To Share Final Call A/c (Being the amount due on final call adjusted against transfer from general reserves to bonus to shareholders A/c)	2,00,000	2,00,000
	(iv) General Reserves Dr. Share Premium A/c Dr. Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c (Being the appropriation made as above facilitate issue of fully paid up bonus shares at the rate of one share for every two shares held).	1,00,000 1,50,000 1,50,000	4,00,000
	(v) Bonus to Shareholders A/c Dr. To Equity share Capital A/c (Being the issuance of 40,000 fully paid up shares of Rs. 10 each by way of bonus)	4,00,000	4,00,000

Note

(i) Reserves other than capital redemption reserve, plant revaluation reserve and share premium account can be utilized for making the partly paid up shares fully paid up.

(ii) Except plant revaluation reserve, all other reserves and share premium account can be utilized to make the bonus issue.

(b) Balance Sheet (after bonus issue)

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Sundry assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000		
Issued and Subscribed:			
1,20,000 equity shares of Rs. 10 each fully paid of the above call on 80,000 shares @ 2.50 each has been adjusted taking transfer from general reserve without payment being received in cash.	12,00,000		
Of the above shares of 40,000 equity shares are allotted as fully paid up by way of bonus shares.			
Reserves and surplus			
Development rebate reserve	2,30,000		
Investment allowance reserve	2,50,000		
Plant revaluation reserve	20,000		
	17,00,000		**17,00,000**

1.30 EMPLOYEES' STOCK OPTION SCHEMES

Employees stock option means the option given to the whole-time directors, officers and employees of a company to purchase of subscribe shares at a future date at a predetermined price. Purely it is a voluntary option to the employees. The purpose of the option is to encourage the employee of the company to have more participation.

1.31 SWEAT EQUITY SHARES

Equity shares which are issued by a company to its employees or directors at a discount or consideration other than cash. It is issued to the employee for providing know-how to the company.

1.32 ISSUE OF SHARES THROUGH PRIVATE PLACEMENT ETC.

A company may issue shares, without approaching the general public or the existing shareholders, through private placement. This issue usually approached to the friends of the promoters of financial institutions.

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Unless otherwise stated a preference share is always deemed to be
   a) Cumulative, participating and non-convertible
   b) Non-Cumulative, Non-participating and non-convertible
   c) **Cumulative, Non-participating and non-convertible**
   d) Non-Cumulative, participating and non-convertible

2. The difference between subscribed capital and called up capital is called
   a) Paid up capital b) Calls in arrears
   c) Calls in advance d) **Uncalled capital**

3. When shares are forfeited the share capital a/c is debited by
   a) Paid up amount b) **Called up amount**
   c) Calls in arrear d) Nominal value

4. The profit on re-issue of forfeited shares is transferred to
   a) General reserve b) Capital redemption reserve
   c) **Capital reserve** d) P & L a/c

5. Shares enjoying disproportionate voting rights are called
   a) **Founders shares** b) Equity shares
   c) Preference shares d) Redeemable preference shares

6. Share application money should be at least ______ of the nominal value.
   a) 4% b) 2**5%**
   c) 6% d) 5%

7. Share application a/c is _____ a/c
   a) **Personal** b) Real
   c) Nominal d) Impersonal

8. Issue of shares at discount should be permitted by _________
   a) Shareholders b) Directors
   c) **Company Law Board** d) Companies Act, 1956

9. The maximum discount rate is ________
   a) **10% of face value** b) 10% of issue price
   c) 5% of face value d) 5% of issue price

10. Right shares are those shares which are
    a) issued to the directors
    b) **first offered to the existing shareholders**
    c) issued by a newly formed company
    d) Freshly issued to the public

11. Public company cannot issue
    a) Equity shares
    b) **Deferred shares**
    c) Preference shares
    d) Redeemable preference shares

12. That portion of the authorized capital which can be called up only at the time of liquidation is called
    a) Issued capital
    b) Unsubscribed capital
    c) **Reserve capital**
    d) Capital reserve

13. The rate of interest on calls in advance is _________
    a) **6%**
    b) 5%
    c) 8%
    d) 10%

14. The rate of interest on calls in arrears is
    a) 6%
    b) **5%**
    c) 8%
    d) 10%

15. Premium on issue of shares can be used for
    a) **Issue of bonus shares**
    b) Distribution of profits
    c) Transferring to general reserve
    d) Declaring dividend

16. Preference shareholders are
    a) Creditors
    b) **Owners**
    c) Customers
    d) Outsiders

17. Share allotment and share application accounts are
    a) **Personal** accounts
    b) Real accounts
    c) Nominal accounts
    d) Impersonal accounts

18. Premium on issue of shares can be used for
    a) Distribution of dividend
    b) **Writing off capital losses**
    c) Transferred to reserve
    d) Paying fees to director

19. Discount on issue of shares is a
    a) Revenue loss
    b) **Capital loss**
    c) Deferred revenue loss
    d) Capital profit

20. The difference between subscribed and called up capital is called
    a) **Uncalled up capital** b) Calls in arrears
    c) Paid up capital d) Calls in arrears

21. Minimum subscription should reach within ________ from the date of issue of prospectus.
    a) 90 days b) 2 months
    c) **120** days d) One year

22. The company must receive _______ of the issued capital as minimum subscription
    a) 10% b) 8%
    c) **5%** d) 2%

23. That part of the authorized capital which is reserved for certain purpose is called
    a) Specific capital b) Capital reserve
    c) **Reserve capital** d) Uncalled capital

24. Shares issued at discount must be approved by
    a) Central Govt. b) **Company Law Board**
    c) Share holders d) Comptroller of capital issue

25. ________ should give permission for issue of bonus shares
    a) Central Govt. b) Company Law Board
    c) Share holders d) **Comptroller of capital issue**

26. If the company receives less no. of applications than the no. of shares issued, it is called
    a) Equal subscription b) Over subscription
    c) **Under subscription** d) Premium method

27. Right issue can be possible if
    a) Passing special resolution b) Getting permission from Central Govt.
    c) the same type already issued d) **All of these**

28. If a share of ₹10 issued at a premium of ₹1 on which ₹9 (including premium) have been called and ₹7 (including premium) paid is forfeited, the capital a/c should be debited with
    a) ₹9 b) ₹**8**
    c) ₹7 d) ₹10

29. ________ shareholders get the priority over the equity shareholders as regards the payment of their capital and the dividend payable up to the date of winding up
    a) **Preference** b) Equity
    c) Founders d) Ordinary

30. Discount on issue of share is ___________

    a) Current asset b) Current liability

    c) **Fictitious asset** d) Tangible asset

31. Share allotment account is a _____________

    a) **Personal account** b) Real account

    c) Nominal account d) Impersonal account

32. If a limited company has adopted Table A, it is required to pay interest on calls in advance at the rate of _______________

    a) 6% b) 5%

    c) 8% d) 4%

33. Public Ltd Companies cannot issue ______________

    a) Equity shares b) Preference shares

    c) Debentures **d) Deferred shares**

REVIEW QUESTIONS

(A) Answer in short:

1) What is a share? **(Karaikudi, B.com(CA),Nov 2016)**
2) What do you understand by issue of shares at 'Par', at premium and at 'Discount'? **(Karaikudi, B.com(CA),Nov 2015)**
3) What is meant by allotment of shares?
4) What is 'Pro-rata' allotment of shares? **(Madras,B.com, Oct,2002)**
5) What is meant by 'over subscription'? How the excess money is treated in accounts?
6) What are calls in arrears?
7) What are calls in advance?
8) What is share premium?**(Karaikudi, B.com(CA),Nov 2016) (Madras,B.com, May,2002)**
9) Write short note on forfeiture of shares. **(Karaikudi, B.com(CA),Nov 2015, Madras,B.com, Apr,2003)**
10) When can shares be forfeited? **(Madras, B.com, Oct 2001)(Karaikudi, B.com, Nov 2016)**
11) Give journal entries forfeiture of shares? **(Madras,B.com, May,2001)**
12) Give journal entries for re-issue of forfeited shares. **(Madras,B.com, April,2001) (Karaikudi, B.com, Nov 2016)**
13) What is Bonus share? **(Karaikudi, B.com(CA),Nov 2016)**

(B) Answer in Detail:

1) Define share and explain its types. **(Madras, M.com, Oct 2002)**

2) Explain the provisions regarding issue of shares at discount.
(Madras,B.com, Oct,2002, M.com, Oct 2001, Apr 2001)

3) Explain forfeiture and reissue of shares.
(Madras, B.com, Oct 2001) (Karaikudi, B.com, Nov 2016)

4) Write short note on
   a) Minimum subscription
   b) Surrender of shares
   c) Calls in advance
   d) Bonus shares.

5) Write short note on:
   a) Employees' stock option scheme
   b) Sweat equity shares
   c) Issue of shares through private placement etc.

EXERCISES

1. E Ltd made an issue of 10,000 equity shares of ₹100 each, payable ₹20 on application, ₹40 on allotment and ₹40 on call. All the shares subscribed and amounts duly received. Pass journal entries to give effect to the above.

2. R Ltd. Company issued 1,00,000 shares of ₹10 each payable as under:

   ₹2 on application; ₹3 on allotment; ₹3 on first call and ₹2 on final call

   The public applied for 90,000 shares. These shares were allotted. The final call was not made. All the money due on these shares was received except the first call on 400 shares. Prepare bank a/c, share capital a/c and balance sheet.

FORFEITURE AND RE-ISSUE

3. A company forfeited 10 shares of ₹10 each issued at a premium of 10% for non-payment of the final call of ₹3 per share. Out of these, 7 shares were reissued at ₹8 per share as fully paid up. Give entries for forfeiture and reissue.

4. X Ltd forfeited 100 equity shares of ₹10 each held by Ram for non-payment of first call of ₹2 per share and final call of ₹3 per share. These shares were reissued to Ramnath at a discount of ₹3.50 per share. Pass journal entries.

5. On 1st May 2010, 2,000 ordinary shares of ₹10 each, ₹7.50 paid be forfeited for the non-payment of final call of ₹2.50. On June 10,2010, 1,800 of the above shares were re-issued for ₹6 per share. Give the necessary journal entries.

6. A company issued 50,000 shares of ₹10 each payable as to ₹1 on application, ₹2 on allotment, ₹3 on first call and ₹4 on final call. All the money payable on application, allotment and calls has been received with the following exceptions:

   Mr. A who holds 2,000 shares has not paid the money dues on allotment and calls

   Mr. B who holds 1,000 shares has not paid the money due on first and final calls

   Mr. C who holds 600 shares has not paid the amount due on final call

   Therefore the shares of A, B and C were forfeited. These shares were subsequently reissued for cash at a discount of 5%. Pass journal entries for forfeiture and reissue of forfeited shares.

7. A company forfeited 300 shares upon which ₹7.50 per share were called up and ₹5 per share were paid for application and allotment. The first call of ₹2.50 per share were not paid. Calculate capital reserve in the following cases:

   a) If all the forfeited shares were re-issued at ₹5 per share, ₹7.50 per share paid up

   b) If 100 shares were reissued @ ₹4 per share ₹7.50 called up

8. Anil Co. Ltd issues 10,000 equity shares of ₹10 each, payable ₹3 on application, ₹3 on allotment and the balance by two calls. All the calls were only made and amount so realized with the exception of the following:

   a) Mr. A holding 100 shares did not pay the amount due on first call

   b) Mr. B holding 100 shares did not pay the amount due on final call

   All these were forfeited and 150 shares (full of A and balance of B) were reissued at ₹8 per share. Journalize forfeiture and reissue entries.

9. Super Star Ltd. invited applications for 35,000 shares of ₹10 each payable as follows:

   On application ₹3; on allotment ₹4 and first and final call ₹3.

   The applications were received for all the shares and accepted. All money due were received except first and final call on 1,000 shares which were forfeited. All the shares were reissued @ ₹8 per share as fully paid.

   You are required to pass journal entries in the books of Super Star Ltd.

10. A company issued 10,000 equity shares of ₹10 each at a premium of ₹3 per share payable as follows: On application ₹4 per share; On allotment ₹5 per share (including premium); On first and final call ₹4 per share. Subscriptions were received for 13,000 shares. The excess money was refunded and the allotment money was received in full. The first and final call was made in due course and the amount due was received with the exception of 100 shares. These shares were forfeited and subsequently re-issued as fully paid for a consideration of ₹8 per share. Pass journal entries for the above transactions.

ALLOTMENT MONEY IS NOT GIVEN

11. A limited company issued a prospectus inviting applications for 2,000 shares of ₹10 each at a premium of ₹2 per share payable as follows:

On application ₹2; on allotment ₹5 (including premium); on first call ₹3 and on second call ₹2. Applications were received for 3,000 shares and allotment was made pro-rata to the applications for 2,500 shares, the remaining applications being refused. Excess money adjusted in allotment.

Mr. C, to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Mr. K the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call had been made.

Of the shares forfeited, 100 shares were sold to Mr. Z at ₹9 per share, the whole of C's share being included. Show journal entries and balance sheet.

12. A company issued 40,000 equity shares of ₹10 each at a premium of ₹2 per share, payable as under:

    Application ₹2; allotment ₹5 (including premium); first call ₹2 and second and final call ₹3.

    Applications were received for 60,000 shares and allotment was made on pro-rata basis to the applicants of 48,000 shares and the application money for the remaining applications was refunded. Money overpaid on application was utilized towards sums due on allotment.

    Rahim, to whom 1,600 shares were allotted, failed to pay the allotment money and the two calls. Ramu to whom 2,000 shares were allotted failed to pay both the calls. These shares were forfeited after second call. Subsequently, 1,800 shares (all shares of Rahim included) were reissued at ₹8 per share fully paid. Pass necessary journal entries.

13. A Limited Company issued a prospectus inviting applications for 8,000 shares of ₹10 each at a premium of ₹2 per share payable as follows:

    On application ₹2; on allotment ₹5 (including premium); on 1st call ₹3 and on 2nd call ₹2.

    Applications were received for 12,000 shares and allotment was made prorate to the applicants of 9,600 shares; the remaining applications were refused. Money overpaid on applications was adjusted with the sum due on allotment.

    Shyam, to whom 160 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Ramesh the holder of 240 shares, failed to pay the two calls, and his shares were forfeited after the second call.

    Of the shares forfeited, 320 shares were sold to Manohar at ₹9 per share, the whole of Shyam's share being included. Pass necessary journal entries.

14. Q Ltd issued applications for 20,000 shares of ₹10 each at a premium of ₹2 per share, payable ₹3 on application, ₹7 on allotment including premium and the balance on first and final call.

    Applications for 25,000 shares were received. It was decided

    i)To refuse allotment to the applications for 1,000 shares

ii) To allot in full to applicants for 4,000 shares

iii) To allot the balance of the available shares pro-rata among the other applicants and

iv) To utilize excess application money in part payment of allotment money

Mr. X holding 200 shares were had been allotted on pro-rata basis failed to pay the amount due on allotment and call and Mr. Y holding 100 shares to whom full allotment was made failed to pay the amount due on call money only. These shares were forfeited. 160 forfeited shares Mr. X and 140 forfeited shares of Mr. Y were reissued at a discount of ₹1 per share to Mr. Z. Show necessary journal entries.

DISCOUNT MODEL

15. A Ltd invited applications for 10,000 shares of ₹10 each at a discount of 10% payable as follows:

On application ₹3; on allotment ₹3 and on first and final call ₹3.

Applications received were for 10,000 shares and all these were accepted. All the money due was received except the first and final call on 500 shares. These shares were subsequently forfeited and reissued at ₹8 per share as fully paid up. Pass necessary entries in the journal of the company.

16. A Company issued 10,000 shares of ₹50 each at 10% discount. Amount payable on application ₹10, allotment ₹25 and first and final call ₹10.

9,000 applications were received. All the money was received except on first and final call money for 200 shares. These shares were forfeited and again reissued at a discount of ₹10 per share. Pass necessary journal entries.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Haja Ltd. was incorporated with a share capital of RS.10, 00,000 in Rs. 10 shares. The company purchased machinery from bharani Ltd. For Rs. 5, 00,000 payable in fully paid shares of the company. The directors also decided to allot 2,500 shares credited as fully paid to promoters for their services. The rest of the shares were issued for cash and were taken up by the public and fully paid for. Give the journal entries.

[Madras. B.Com (Nov.2007 (Modified)]

2. X ltd. forfeited 30 shares of Rs.10 each at 10 each fully called up, held by murugan for nonpayment allotment money of Rs. 3 per share and first and final call of Rs.4 per share. He had paid the application money of Rs.3 per share. These shares were reissued to david for Rs. 8 per share. Pass the necessary journal entries for forfeiture. & reissue of shares.

[Periyar, B.com (CA) April 2005, Bharathiar B.Com, April 2005.]

[Ans: Capital reserve a/c- Rs.30]

3. Y Ltd. forfeited 1,000 equity shares of Rs.10 each, issued at a discount of 10% for non-payment of first call of Rs.2 and the final call of Rs.2 and the final call of Rs.3 per Share. Show the necessary journal entry.

   [Madras, 1stM.com(KCAIA) Nov.2009; B.com(CS) April 2008.]

   [Ans: Amount credited to forfeited shares A/c Rs.4000]

4. The directors of R Ltd, resolved on 1 stmay 2000 that 2000 ordinary shares of Rs. 10 each, Rs.750 paid, be forfeited for nonpayment of final call of Rs.2.50. On June 10,2000, out of the above, 1800 shares were reissued for Rs.6 per share. Show the entries to give effect to the above transactions.

   [Madras I B.Com, Nov.2009]

   [Ans: Transfer to capital reserve: Rs. 6,300]

5. XY Ltd, forfeited 100 equity shares of Rs.10 each issued at a discount of 10% for nonpayment of the 1 st call of Rs.2 and final call of Rs.3 per share. Out of these 50 shares were reissued at Rs. 8 per share and the balance at Rs.7 per share. Pass the journal entries.

   [Bharathiar B.Com, Nov.2004]

   [Transfer to capital reserve: Rs.250]

6. A company forfeited 10 shares of Rs.10 each issued at a premium of 10% for nonpayment of the final call of Rs. 3 per share. Out of these, 7 shares were reissued Rs.8 per share as fully paid up. Give the entries for forfeiture and reissue.

   [Madras, B.Com (CS) (October 2008]

   [Ans: Capital reserve Account-Rs.35]

7. X Ltd, forfeited 20 share of Rs.10 each on which Rs.6 per share were paid. What amount will be transferred to capital reserve if out of these 8 shares are reissued as fully paid up on payment of Rs.5.50 per share?

   [Madras B.Com(CS) Nov.2005(Modified)]

   [Ans: Capital reserve A/c Rs.12]

8. The Hindustan manufacturing Co.Ltd. Had a total subscribed capital of Rs. 1,00,000 in equity shares of Rs.10 each of which Rs.7.50 were called up. A final call of Rs.2.50 each in respect of 100 shares held by D.Roy. These shares were forfeited and reissued at Rs.8 per share as fully paid up. Make the journal entries (including that of cash) necessary to record final call forfeiture of shares and reissue of forfeited shares.

   [Madras B.C.S oct 2000]

   [Ans: Capital reserve A/c-Rs.300]

9. A holds 100 shares of Rs. 10 each on which he has paid Re.1 per share as application money. ‘B’ holds 200 shares of Rs.10 each on which he has paid Re.1 and Rs.2 per share as application and allotment money respectively. C holds 300 shares of Rs.10 each and he

has paid Re.1. on application, Rs. 2 allotment and Rs.3 on first call. They all fail to pay their arrears and the directors therefore forfeited their shares. The shares are reissued subsequently for Rs.11 per share as fully paid. Journalize the transactions (Concerning the forfeiture and reissue only)

[Madras I M.com April 2001]

[Amount transferred to capital reserve A/c- Rs.2, 500]

10. Ganesh Ltd.issued prospectus inviting application for 10,000 equity shares of Rs.10 each, payable as follows:

    On application Rs.2 per share

    On allotment Rs.4 per share.

    On first call Rs.4 per share.

    The issue is fully subscribed. Pass journal entries in the books of ganesh Ltd, assuming that all payments due as stated above were received.

[Madurai B.Com, Nov.2003]

11. The Banglore bottling Co.ltd issued a prospectus inviting applications for 1, 00,000 equity shares of Rs.10 each payable Rs.2 on application, Rs.3 on allotment and the balance at the discretion of the directors. Applications for 1, 20,000 shares were received. The directors allotted the shares as follows:

    To applicants of 80,000 shares – full allotment

    To applicants of 30,000 shares- 20,000 shares

    To applicants of 10,000 shares- Nil.Give the journal entries assuming that all the sum due on allotment has been received and no call has been made.

[Madras B.Com, May 2002]

[Application money transferred to allotment – Rs 20,000][Application money returned-Rs.20,000]

12. A company offered for public subscription 20,000 equity shares of Rs.100 each payable as Rs.20 per share on application, Rs.30 on allotment, Rs.20 three months after allotment and the balance six months after allotment. The offer was oversubscribed by 5000 shares and the amount due on allotment was received in full. Rs.3, 80,000 and Rs.5, 55,000 were received on first, second, and final calls respectively. You are required to give the journal entries for the above information.

[Madras, B.C.S Nov.2004]

[Ans: Amount due on 1st call- Rs.20,000 and on final call – Rs.45,000]

[Hint: Assume that 5000 applications are rejected since there is no mention of pro-rata allotment.]

13. Dee Ltd. offered to the public 20,000 equity shares of Rs.100 each at premium of Rs.10 per share. The payment was to made as follows:

On application Rs.20; on allotment Rs.40 (including premium) On 1st call Rs.25; On second call rs.25.

Applications totaled for 35,000 shares; applications for 10,000 shares were rejected; those totaling 15,000 shares were allotted 10,000 shares and remaining applications were accepted in full. The directors made both the calls.

One shareholder, holding 500 shares (full allottee) failed to pay calls. Expenses of the issue amounted to Rs.10, 000.

Pass the journal entries and relevant extracts from the balance sheet relating to the above Transactions.

[Madras, M.com, Oct 2003, (Modified)]

[Ans: Calls in arrears: Rs.25,000]

14. A Ltd.issued 10,000 equity shares of Rs.10 each payable as under:

    Rs. 2 on application.

    Rs.5 on Allotment.

    Rs.3 on First and Final call.

    The public applied for 8,000 shares which were allotted. All the money due on shares was received except the first and final call on 100 shares. These shares were forfeited and reissued at Rs.8 per share. Show the journal entries in the books of the company.

    [Madras, B.Com(CS) April 2007, B.Com Nov.2005]

    [Ans:Amount transferred to capital reserve A/c. Rs.500]

15. XYZ Company Ltd. made a public issue of 20,000 equity shares of Rs.100 each at a premium of Rs.10 each. The amount payable is as under:

    On application Rs.25

    On allotment Rs.35 (including premium)

    On 1st call Rs.30

    On Final call Rs.20

    All the shares were subscribed. When calls were made, except on 100 shares of Mr.Arjun who failed to pay the first and final calls, all moneys were received. The directors have forfeited these and reissued them at Rs.75 each as fully paid up. The share issue expenses amounted to Rs.60,000. Give the necessary Journal entries.

    [Thiruvalluvar, B.Com, April 2007, Madras, B.Com (ICE) (May.2003)]

    [Ans: Amount transferred to capital Reserve A/c Rs.2,500]

16. New Line Ltd. Issued 20,000 shares of Rs.10 each at a premium of Rs.2 payable on follows:

    On application-Rs.2

    On allotment-Rs.5(including premium)

    On first call-Rs-2

On Final call-Rs.3

Applications for 15,000 shares were received and all these shares were allotted. The first call was made and the amount thereon was received except the amount on 500 shares. Hence, these shares were forfeited and reissued at Rs.7 each as fully paid up. Pass the journal entries in the books of the company.

[Madras IstM.comNov.2008; B.Com, Oct.2002]

[Ans: Amount transferred to capital reserve A/c- Rs.1,000]

17. Raj.Ltd. issued 10,000 shares of Rs.100 each at Rs.120 payable as follows:

    Rs. 25 on application

    Rs. 45 on allotment (including premium)

    Rs. 20 first call and

    Rs.30 on final call

    9000 shares were applied for and were allotted. All moneys were received with the exception of the first and final calls on 200 shares held by alagar. These shares were forfeited. Give the journal entries to record the above transactions.

    [Madras, B.C.S(Sem) April 2005.]

    [Ans: Forfeited shares A/c balance- Rs.10,000]

18. Good Prospectus Ltd.issued 40,000 shares of Rs. 10 each at a premium of Rs.2 per share. The shares were payable Rs. 2 on application, Rs.5 on allotment (including premium) and Rs. 5 on First & Final call. All shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs.8 per share. Were reissued as fully paid at Rs.8 per share.Give the necessary journal entries and prepare the balance sheet of the company.

    [Madras. B.Com, October, 2004]

    [Ans: Capital reserve Rs.1,200; Balance sheet total-Rs.4,78,200]

19. Ram. Ltd issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

    On Application Rs.25

    On allotment Rs.34

    On First & Final Call Rs.36

    Applications were received for 4,800 shares and all these were accepted. All the money due was received except the first and final call on 300 shares which were forfeited. 200 out of these shares were reissued at Rs.90 as fully paid. Show the required Cash book and Journal entries in the company's books.

    [Thiruvalluvar, B.com., April 2006; Madras, B.C.S Oct.2003]

    [Ans: Amount transferred to capital reserve A/c-Rs.10,800; Balance of cash book-Rs.4,63,200]

20. X.Ltd. issued for public subscription 20,000 shares of Rs.10 each at a premium of

    Rs 2 per share payable as under.

    Rs. 2 per share on application;

    Rs.5 per share on allotment (including premium)

    Rs.2 per share on first call.

    Rs. 3 per share on final call.

    Applications for 30,000 shares were received. Allotment was made Pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money over paid was used towards allotment.

    Y to whom 800 shares were allotted failed to pay the allotment money, 1^{st} and 2^{nd} calls and 'z' to which 1,000 shares were allotted failed to pay the last two calls. These shares were subsequently forfeited after the 2^{nd} call was made. All these forfeited shares were reissued to 'w' as fully paid at Rs.8 per share. Give the journal entries to record the above transactions.

[Madras, B.ComOct, 2006; B.Com.Oct.2003]

[Ans Amount transferred to capital reserve A/c-3,320; Cash received allotment-Rs.88,320; Forfeited shares A/c Rs.6,920]

21. A limited company issued a prospectus inviting applications for 2000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

    On application 2

    On allotment 5 (including premium)

    On first call 3

    On second call 2

    Applications were received for 3000 shares and allotment was made pro-rata to the applicants for 2,500 shares, the remaining applications being refused. Money over paid on applications was employed on account of sum due on allotment 'p' to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. 'Q' the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call has been made. Of the shares forfeited, 100 shares were sold to 'R' credited as fully paid, for Rs.9 per share, the whole of 'p's share being included. Show journal and cash book entries and balance sheet.

[Madras II M.Com, Oct.2002]

[Ans: Amount received on allotment-Rs.8,640; Amount transferred to capital reserve A/c – Rs.200]

22. Subhas Ltd. invited applications for 20,000 shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application; Rs.7 on allotment including premium and the balance on first and final call.

    Applications for 25,000 shares were received. It was decided:

    a. To refuse allotment to the applicants of 1000 shares.

b. To allot in full to the applicants for 4,000 shares

c. To allot the balance of shares pro- rata among the applicants of the remaining applications.

d. To utilize excess application money in part payment of allotment money.

Mr. A holding 200 shares which were allotted Pro-Rata failed to pay the amount due on allotment and call. Mr.B holding 100 shares to whom full allotment was made failed to pay the call money. Shares of Both A and B were forfeited. 160 forfeited shares of A and 40 forfeited shares of B were reissued to Mr. C at Rs.9 per share. Journalise the transactions.

[Madras B.Com(CS) Nov.2007]

[Ans: Amount received on allotment –Rs.1,26,750; Amount Transferred to capital reserve A/c-720]

23. A limited company issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On application-Rs. 2 per share

On allotment – Rs.5 per share

On first call Rs.3 per share

On final call Rs. 2 per share.

Amount payable on allotment included premium also. Applications were received for 3000 shares and Pro-rata allotment was made on applications for 2,400 shares. Money Overpaid on Applications was employed towards the sum due on allotment. Ramesh who took 40 shares failed to pay the allotment money and his shares were forfeited on his failure to pay the first call also. Mohan the holder of shares failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 80 shares were sold Krishna credited as fully paid for Rs.9 per share, the whole of Ramesh’s shares being included. Show the journal entries.

[Thiruvalluvar, B.com, Nov.2005; Madurai B.com Nov 2003]

[Ans: Amount received on allotment – Rs.9,016; Amount transferred to capital reserve Rs.216]

24. Haja Ltd. was incorporated with a share capital of RS.10, 00,000 in Rs. 10 shares. The company purchased machinery from bharani Ltd. For Rs. 5, 00,000 payable in fully paid shares of the company. The directors also decided to allot 2,500 shares credited as fully paid to promoters for their services. The rest of the shares were issued for cash and were taken up by the public and fully paid for. Give the journal entries.

[Madras. B.Com (AF) Nov.2007 (Modified)]

25. X ltd. forfeited 30 shares of Rs.10 each at 10 each fully called up, held by murugan for nonpayment allotment money of Rs. 3 per share and first and final call of Rs.4 per share.

He had paid the application money of Rs.3 per share. These shares were reissued to david for Rs. 8 per share. Pass the necessary journal entries for forfeiture. & reissue of shares.

[Periyar, B.com (CA) April 2005, Bharathiar B.Com, April 2005.]

[Ans: Capital reserve a/c- Rs.30]

26. Y Ltd. forfeited 1,000 equity shares of Rs.10 each, issued at a discount of 10% for non-payment of first call of Rs.2 and the final call of Rs.2 and the final call of Rs.3 per

    Share. Show the necessary journal entry.

[Madras, 1st M.com(KCAIA) Nov.2009; B.com(CS) April 2008.]

[Ans: Amount credited to forfeited shares A/c Rs.4000]

27. The directors of R Ltd, resolved on 1 stmay 2000 that 2000 ordinary shares of Rs. 10 each, Rs.750 paid, be forfeited for nonpayment of final call of Rs.2.50. On June 10,2000, out of the above, 1800 shares were reissued for Rs.6 per share. Show the entries to give effect to the above transactions.

[Madras I B.Com, Nov.2009]

[Ans: Transfer to capital reserve: Rs. 6,300]

28. XY Ltd, forfeited 100 equity shares of Rs.10 each issued at a discount of 10% for nonpayment of the 1 st call of Rs.2 and final call of Rs.3 per share. Out of these 50 shares were reissued at Rs. 8 per share and the balance at Rs.7 per share. Pass the journal entries.

[Bharathiar B.Com, Nov.2004]

[Transfer to capital reserve: Rs.250]

29. A company forfeited 10 shares of Rs.10 each issued at a premium of 10% for nonpayment of the final call of Rs. 3 per share. Out of these, 7 shares were reissued Rs.8 per share as fully paid up. Give the entries for forfeiture and reissue.

[Madras, B.Com (CS) (ICE) October 2008]

[Ans: Capital reserve Account-Rs.35]

30. X Ltd, forfeited 20 share of Rs.10 each on which Rs.6 per share were paid. What amount will be transferred to capital reserve if out of these 8 shares are reissued as fully paid up on payment of Rs.5.50 per share?

[Madras B.Com(CS) Nov.2005(Modified)]

[Ans: Capital reserve A/c Rs.12]

31. The Hindustan manufacturing Co.Ltd. Had a total subscribed capital of Rs. 1,00,000 in equity shares of Rs.10 each of which Rs.7.50 were called up. A final call of Rs.2.50 each in respect of 100 shares held by D.Roy. These shares were forfeited and reissued at Rs.8 per share as fully paid up. Make the journal entries (including that of cash) necessary to record final call forfeiture of shares and reissue of forfeited shares.

[Madras B.C.S (ICE) oct 2000]

[Ans: Capital reserve A/c-Rs.300]

32. A holds 100 shares of Rs. 10 each on which he has paid Re.1 per share as application money. 'B' holds 200 shares of Rs.10 each on which he has paid Re.1 and Rs.2 per share as application and allotment money respectively. C holds 300 shares of Rs.10 each and he has paid Re.1. on application, Rs. 2 allotment and Rs.3 on first call. They all fail to pay their arrears and the directors therefore forfeited their shares. The shares are reissued subsequently for Rs.11 per share as fully paid. Journalize the transactions (Concerning the forfeiture and reissue only)

[Madras I M.com April 2001]

[Amount transferred to capital reserve A/c- Rs.2, 500]

33. Ganesh Ltd.issued prospectus inviting application for 10,000 equity shares of Rs.10 each, payable as follows:

On application Rs.2 per share

On allotment Rs.4 per share.

On first call Rs.4 per share.

The issue is fully subscribed. Pass journal entries in the books of ganesh Ltd, assuming that all payments due as stated above were received.

[Madurai B.Com, Nov.2003]

34. The Banglore bottling Co.ltd issued a prospectus inviting applications for 1, 00,000 equity shares of Rs.10 each payable Rs.2 on application, Rs.3 on allotment and the balance at the discretion of the directors. Applications for 1, 20,000 shares were received. The directors allotted the shares as follows:

To applicants of 80,000 shares – full allotment

To applicants of 30,000 shares- 20,000 shares

To applicants of 10,000 shares- Nil.Give the journal entries assuming that all the sum due on allotment has been received and no call has been made.

[Madras B.Com, (ICE) May 2002]

[Application money transferred to allotment – Rs 20,000][Application money returned-Rs.20,000]

35. A company offered for public subscription 20,000 equity shares of Rs.100 each payable as Rs.20 per share on application, Rs.30 on allotment, Rs.20 three months after allotment and the balance six months after allotment. The offer was oversubscribed by 5000 shares and the amount due on allotment was received in full. Rs.3, 80,000 and Rs.5, 55,000 were received on first, second, and final calls respectively. You are required to give the journal entries for the above information.

[Madras, B.C.S Nov.2004]

[Ans: Amount due on 1st call- Rs.20,000 and on final call – Rs.45,000]

[Hint: Assume that 5000 applications are rejected since there is no mention of pro- rata allotment.]

36. Dee Ltd. offered to the public 20,000 equity shares of Rs.100 each at premium of Rs.10 per share. The payment was to made as follows:

On application Rs.20; on allotment Rs.40 (including premium) On 1st call Rs.25; On second call rs.25.

Applications totaled for 35,000 shares; applications for 10,000 shares were rejected; those totaling 15,000 shares were allotted 10,000 shares and remaining applications were accepted in full. The directors made both the calls.

One shareholder, holding 500 shares (full allottee) failed to pay calls. Expenses of the issue amounted to Rs.10, 000.

Pass the journal entries and relevant extracts from the balance sheet relating to the above Transactions.

[Madras, M.com, (ICE) Oct 2003, (Modified)]

[Ans: Calls in arrears: Rs.25,000]

37. A Ltd.issued 10,000 equity shares of Rs.10 each payable as under:

Rs. 2 on application.

Rs.5 on Allotment.

Rs.3 on First and Final call.

The public applied for 8,000 shares which were allotted. All the money due on shares was received except the first and final call on 100 shares. These shares were forfeited and reissued at Rs.8 per share. Show the journal entries in the books of the company.

[Madras, B.Com(CS) April 2007, B.Com Nov.2005]

[Ans:Amount transferred to capital reserve A/c. Rs.500]

38. XYZ Company Ltd. made a public issue of 20,000 equity shares of Rs.100 each at a premium of Rs.10 each. The amount payable is as under:

On application Rs.25

On allotment Rs.35 (including premium)

On 1st call Rs.30

On Final call Rs.20

All the shares were subscribed. When calls were made, except on 100 shares of Mr.Arjun who failed to pay the first and final calls, all moneys were received. The directors have forfeited these and reissued them at Rs.75 each as fully paid up. The share issue expenses amounted to Rs.60,000. Give the necessary Journal entries.

[Thiruvalluvar, B.Com, April 2007, Madras, B.Com (ICE) (May.2003)]

[Ans: Amount transferred to capital Reserve A/c Rs.2,500]

39. New Line Ltd. Issued 20,000 shares of Rs.10 each at a premium of Rs.2 payable on follows:

    On application-Rs.2

    On allotment-Rs.5(including premium)

    On first call-Rs-2

    On Final call-Rs.3

    Applications for 15,000 shares were received and all these shares were allotted. The first call was made and the amount thereon was received except the amount on 500 shares. Hence, these shares were forfeited and reissued at Rs.7 each as fully paid up. Pass the journal entries in the books of the company.

    [Madras IstM.comNov.2008; B.Com, Oct.2002]

    [Ans: Amount transferred to capital reserve A/c- Rs.1,000]

40. Raj.Ltd. issued 10,000 shares of Rs.100 each at Rs.120 payable as follows:

    Rs. 25 on application

    Rs. 45 on allotment (including premium)

    Rs. 20 first call and

    Rs.30 on final call

    9000 shares were applied for and were allotted. All moneys were received with the exception of the first and final calls on 200 shares held by alagar. These shares were forfeited. Give the journal entries to record the above transactions.

    [Madras, B.C.S(Sem) April 2005.]

    [Ans: Forfeited shares A/c balance- Rs.10,000]

41. Good Prospectus Ltd.issued 40,000 shares of Rs. 10 each at a premium of Rs.2 per share. The shares were payable Rs. 2 on application, Rs.5 on allotment (including premium) and Rs. 5 on First & Final call. All shares were applied for and allotted. All moneys were received with the exception of the first and final call on 1000 shares which were forfeited. 400 of these were reissued as fully paid at Rs.8 per share. Were reissued as fully paid at

Rs.8 per share.Give the necessary journal entries and prepare the balance sheet of the company.(39)

[Madras. B.Com, October, 2004]

[Ans: Capital reserve Rs.1,200; Balance sheet total-Rs.4,78,200]

42. Ram. Ltd issued to the public 5,000 shares of Rs. 100 each at a discount of 5% payable as follows:

    On Application Rs.25

    On allotment Rs.34

    On First & Final Call Rs.36

    Applications were received for 4,800 shares and all these were accepted. All the money due was received except the first and final call on 300 shares which were forfeited. 200 out of these shares were reissued at Rs.90 as fully paid. Show the required Cash book and Journal entries in the company's books.

[Thiruvalluvar, B.com., April 2006; Madras, B.C.S Oct.2003]

[Ans: Amount transferred to capital reserve A/c-Rs.10,800; Balance of cash book-Rs.4,63,200]

43. X.Ltd. issued for public subscription 20,000 shares of Rs.10 each at a premium of

    Rs 2 per share payable as under.

    Rs. 2 per share on application;

    Rs.5 per share on allotment (including premium)

    Rs.2 per share on first call.

    Rs. 3 per share on final call.

    Applications for 30,000 shares were received. Allotment was made Pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money over paid was used towards allotment.

    Y to whom 800 shares were allotted failed to pay the allotment money, 1st and 2nd calls and 'z' to which 1,000 shares were allotted failed to pay the last two calls. These shares were subsequently forfeited after the 2nd call was made. All these forfeited shares were reissued to 'w' as fully paid at Rs.8 per share. Give the journal entries to record the above transactions.

[Madras, B.Com(ICE) Oct, 2006; B.Com.Oct.2003]

[Ans: Amount transferred to capital reserve A/c-3,320; Cash received allotment-Rs.88,320; Forfeited shares A/c Rs.6,920]

44. A limited company issued a prospectus inviting applications for 2000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

    On application 2

    On allotment 5 (including premium)

On first call 3

On second call 2

Applications were received for 3000 shares and allotment was made pro-rata to the applicants for 2,500 shares, the remaining applications being refused. Money over paid on applications was employed on account of sum due on allotment 'p' to whom 80 shares were allotted, failed to pay allotment money and on his subsequent failure to pay the first call, his shares were forfeited. 'Q' the holder of 40 shares failed to pay the two calls and his shares were forfeited, after the second call has been made. Of the shares forfeited, 100 shares were sold to 'R' credited as fully paid, for Rs.9 per share, the whole of 'p's share being included. Show journal and cash book entries and balance sheet.

[Madras II M.Com, Oct.2002]

[Ans: Amount received on allotment-Rs.8,640; Amount transferred to capital reserve A/c – Rs.200]

45. Subhas Ltd. invited applications for 20,000 shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application; Rs.7 on allotment including premium and the balance on first and final call.

Applications for 25,000 shares were received. It was decided:

a) To refuse allotment to the applicants of 1000 shares.

b) To allot in full to the applicants for 4,000 shares

c) To allot the balance of shares pro- rata among the applicants of the remaining applications.

d) To utilize excess application money in part payment of allotment money.

Mr. A holding 200 shares which were allotted Pro-Rata failed to pay the amount due on allotment and call. Mr.B holding 100 shares to whom full allotment was made failed to pay the call money. Shares of Both A and B were forfeited. 160 forfeited shares of A and 40 forfeited shares of B were reissued to Mr. C at Rs.9 per share. Journalise the transactions.

[Madras B.Com(CS) Nov.2007]

[Ans: Amount received on allotment –Rs.1,26,750; Amount Transferred to capital reserve A/c-720]

46. A limited company issued a prospectus inviting applications for 2000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

On application-Rs. 2 per share

On allotment – Rs.5 per share

On first call Rs.3 per share

On final call Rs. 2 per share.

Amount payable on allotment included premium also. Applications were received for 3000 shares and Pro-rata allotment was made on applications for 2,400 shares. Money

Overpaid on Applications was employed towards the sum due on allotment. Ramesh who took 40 shares failed to pay the allotment money and his shares were forfeited on his failure to pay the first call also. Mohan the holder of shares failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 80 shares were sold Krishna credited as fully paid for Rs.9 per share, the whole of Ramesh's shares being included. Show the journal entries.

[Thiruvalluvar, B.com, Nov.2005; Madurai B.com Nov 2003]

[Ans: Amount received on allotment – Rs.9,016; Amount transferred to capital reserve Rs.216]

47. X Ltd. has resolved to utilize Rs. 3,00,000 out of the General Reserve balance to declare a bonus to the shareholders by paying the final call of Rs. 3 per share on 1,00,000 equity shares of Rs. 10 each. Along with this, the company further decided to utilize the balance of the share premium account to issue fully paid-up bonus shares in the ratio of one equity share for every five equity shares held. Show journal entries in the books of X Ltd.

48. M Ltd issued a prospectus offering 10,000 equity shares of Rs. 20 each at Rs. 22 per share payable as follows: on application Rs. 3 per share; on allotment (including premium) Rs. 8 per share; on first call Rs. 6 per share; on final call Rs. 5 per share.

    On first call being made all the shareholders, except one holding 400 shares, duly paid their respective amounts. These 400 shares were forfeited by the Board of Directors and 300 of these shares were subsequently re-issued credited Rs. 15 paid, for Rs. 13 per share and the amount thus due being duly received.

    Show the entries in the journal and cash book relating to forfeiture and re-issue of share and the relevant extracts from the liabilities side of the balance sheet drawn thereafter.

[Madurai, B.Com, Nov, 2003]

[Ans:Amount transferred to capital reserve Rs.2,100]

49. Flamingo Ltd. offered for public subscription 5,000 equity shares of Rs. 10 each at a premium of Rs. 2.50 per share payable as follows: on application, Rs. 2.00 per share; on allotment, Rs. 4.50 per share (including premium); on first call, Rs. 4.00 per share; on second and final call, Rs. 2.00 per share.

    Applications were received for 7,500 shares and allotment was made pro rata applicants for 5,000 shares, letters of regret being issued for the remaining applicants. Money over-paid on application by the allottees was adjusted to allotment account.

    Rahim to whom 100 shares were allotted failed to pay the allotment money and on his failure to pay the first call, his shares were forfeited.

    Haq, the holder of 150 shares, failed to pay last two calls and his shares were forfeited after the second call was made.

Of the shares forfeited 200 were allotted as fully paid up to Karim for Rs. 8 per share paid in cash.

Show journal entries to record the forfeiture and re-issue of forfeited shares including those relating to cash.

[Madurai, B.Com, Nov, 2004]

[Ans: Amount transferred to capital reserve Rs.300]

50. G Limited invited applications for 15,000 of its equity shares of Rs. 10 each issued at Rs. 11.50 payable as follows:

On application on 1st July, 2002Rs. 7.50 per share

On allotment on 31st July, 2002 (including premium) Rs. 2.00 per share

On first and final call on 31st August 2002Rs. 2 per share

Applications were received for 18,000 shares and it was decided to deal with the same as follow in consultation with the stock exchange authorities: (a) To refuse allotment to applicants for 800 shares. (b). To give full allotment to applicants for 2,200 shares. (c) To allot the remaining shares pro rata among other applicants. (d) To utilize the surplus received on applications in part payment of amounts due on allotment.

An applicant to whom 40 shares were allotted failed to pay the amount due on the first and final call and his shares were forfeited on 31st October, 2002. These shares were re-issued on 5th November, 2002 as fully-paid at Rs. 9 per share. Give journal entries including those relating to cash to record the above transactions.

[Madurai, B.Com, Nov, 2005]

[Ans: Amount transferred to capital reserve Rs.280]

UNIT – 2

UNDERWRITING OF SHARES

Meaning – Types – Underwriter Vs. Broker – Calculation of commission – Full underwriting – Partial underwriting – Firm underwriting

Acompany issues shares for the purpose of raising funds from the public for running its business. We cannot sure that all the shares issued by the company will be subscribed by the public. Sometimes all the shares may be subscribed by the public successfully but not always. But from the company point of view they require some guarantee for at least a minimum subscription of shares issued.

Any person who gives this guarantee to the company is called underwriter. He takes the responsibility of selling the entire shares or a portion of shares for which he already gives guarantee. Thus the company is relieved from the burden of selling their shares to the public. It gives a maximum commission of 5% on issue price for shares and 2.5% for debentures to the underwriter for his services in connection with underwriting. On behalf of the company, the underwriter took necessary steps to sell the shares underwritten by him among the public. If not, he will pay the balance amount to the company to the extent of unsold shares.

2.1 TYPES OF UNDERWRITING

The underwriting may be full underwriting or partial underwriting. When all the shares issued by the company are guaranteed by one or more underwriters, then it is called full underwriting. When only a portion of the shares issued by the company is guaranteed by one or more underwriters, then it is called partial underwriting.

When an underwriter agreed to accept a particular number of shares personally in addition to normal underwriting, then it is called firm underwriting.

2.2 MARKED AND UNMARKED APPLICATIONS

The applications received by the company bear the signature or any seal of underwriters for their own identity. They are called marked applications. They are to be credited to the underwriter's account individually.

Some applications may be received by the company without any signature or any seal of underwriters. They are called unmarked applications. They should be divided in gross liability ratio and credited to all underwriters account.

2.3 DIFFERENCE BETWEEN UNDERWRITER AND BROKER

Basis	Underwriter	Broker
Responsibility	The underwriter is fully responsible for the unsold shares	The broker is not liable for the unsold shares
Basis	He is eligible to get commission on total no. of shares underwritten by him whether they are sold or not.	He is getting commission on the no. of shares sold by him
Reward	The reward goes to underwriter for his service is known as underwriting commission	The reward goes to broker for his service is known as brokerage.

2.4 STATEMENT SHOWING NET LIABILITY OF UNDERWRITERS

Particulars	No. of shares
Gross liability	xxx
Less: Marked applications	xxx
	xxx
Less: Unmarked applications in gross liability ratio	xxx
	xxx
Add: Firm underwriting (if any)	xxx
Net liability	xxx

Note:

1. If there is any deficit (-) figure, it should be divided to the remaining underwriters in their gross liability ratio.
2. Unmarked applications = Shares subscribed – Marked applications

2.5 CALCULATION OF COMMISSION

Illustration -1R Ltd issued 20,000 shares of ₹10 each at par. The issue was underwritten by XY firm for maximum commission permitted by law. The public applied for and received 16,000 shares. Calculate the commission payable to the underwriter.

Solution:

Net Liability = 20,000 – 16,000 = 4,000 shares

Commission = 2,00,000 x 5/100 = ₹10,000

2.6 FULL UNDERWRITING

Illustration -2 A Ltd. issued 20,000 shares of ₹10 each at par which was underwritten as follows:

X – 10,000 shares; Y – 6,000 shares and Z – 4,000 shares. Applications were received for 18,000 shares which included marked applications which are as follows: X – 4,000 shares; Y – 2,000 shares and Z – 10,000 shares.

Prepare a statement showing how many more shares underwriters will have to take under the underwriting contract.

Solution

Statement showing net liability of underwriters

Particulars	**X**	**Y**	**Z**
Gross liability	10,000	6,000	4,000
Less: Marked applications	4,000	2,000	10,000
	6,000	4,000	(-) 6,000
Less: Unmarked applications (18,000 – 16,000= 2000 (10:6:4)	1,000	600	(-) 400
	5,000	3,400	(-) 6,400
(-) Deficiency of Z (10:6)	4,000	2,400	(+) 6,400
Net liability	1,000	1,000	–

Illustration -3 S Ltd. was formed with a capital of ₹1,00,000 in ₹10 shares, the whole amount being issued to the public. The underwriting of these shares was as follows:

M – 3,500 shares; N – 3,000 shares; O – 2,000 shares; P – 1,000 shares; Q – 300 shares and R – 200 shares. The details regarding marked application are as follows:

M – 1,000 shares; N – 2,250 shares; O – 2,000 shares; P – 700 shares; Q – 500 shares and R – Nil. Applications for 2,000 shares were received on unmarked forms.

Prepare a statement showing the number of shares each underwriter had to take up.

Solution

Statement showing net liability of underwriters

Particulars	**M**	**N**	**O**	**P**	**Q**	**R**
Gross liability	3,500	3,000	2,000	1,000	300	200
Less: Marked applications	1,000	2,250	2,000	700	500	–
	2,500	750	–	300	(-)200	200
Less: Unmarked applications	700	600	400	200	60	40
	1,800	150	(-) 400	100	(-) 260	160
(-) Deficiency of O & Q (35:30:10:2)	300	257	(+)400	86	(+)260	17
	1,500	(-)107	–	14	–	143
(-) Deficiency of N (35:10:2)	80	(+)107	–	23	–	5
	1,420	–	–	(-) 9	–	138

(-) Deficiency of P	9	–	–	(+) 9	–	–
Net liability	1,411	–	–	–	–	138

2.7 PARTIAL UNDERWRITING

Illustration -4 M Ltd. issued 1,00,000 equity shares of which only 60% was underwritten by Gandhi. Applications for 90,000 shares were received in all. Out of which application for 52,000 were marked. Determine the liability of Gandhi.

Solution

Statement showing net liability of underwriters

Particulars	Gandhi	Company
Gross liability	60,000	40,000
Less: Marked applications	52,000	–
	8,000	40,000
(-)Unmarked applications (90,000 – 52,000 = 38,000)	22,800	15,200
	(-)14,800	24,800
Less: Deficiency of Gandhi	(+) 14,800	14,800
Net liability	–	10,000

Illustration – 5 P Ltd. issued 20,000, 10% Debentures of ₹100 each for public subscription. The issue was underwritten as follows:

Satyam – 25%, Sivam – 30% and Sundaram – 25%. The company received a total number of 14,000 applications of which marked applications were as follows:

Satyam – 4,000, Sivam – 3,000 and Sundaram – 4,000.

Determine the liability of each of underwriter.

Solution

Statement showing net liability of underwriters

Particulars	Satyam	Sivam	Sundaram	Company
Gross liability	5,000	6,000	5,000	4,000
Less: Marked applications	4,000	3,000	4,000	–
	1,000	3,000	1,000	4,000
Less: Unmarked applications (14,000 – 11,000)	750	900	750	600
Net liability	250	2,100	250	3,400

2.8 FIRM UNDERWRITING

Illustration –6 P Ltd. issued 25,000 shares of ₹100 each. The whole issue was underwritten by Ram. In addition, there is a firm underwriting of 3,000 shares by Ram. Applications for 17,000 shares were received by the company in all.

Calculate the liability of Ram.

Solution

Statement showing net liability of underwriter

Particulars	Amount
Gross liability	25,000
(–) Marked applications	17,000
	8,000
(+) Firm underwriting	3,000
Net liability	11,000

Illustration –7 K Ltd. has authorized capital of ₹25 lakhs divided into 1,00,000 equity shares of ₹25 each. The company issued for subscription 25,000 shares at a premium of ₹10 each. The entire issue was underwritten as follows:

A – 15,000 shares (firm underwriting – 2,500 shares)

B – 7,500 shares (firm underwriting –1,000 shares)

C – 2,500 shares (firm underwriting – 500 shares)

Out of the total issue, 22,500 shares including firm underwriting were subscribed: The following were the marked forms: A – 8,000 shares; B – 5,000 shares and C – 2,000 shares.

Calculate the liability of each underwriter.

Solution

Statement showing net liability of underwriters

Particulars	A	B	C
Gross liability	15,000	7,500	2,500
(–) Marked applications	8,000	5,000	2,000
	7,000	2,500	500
(–) Unmarked applications	4,500	2,250	750
	2,500	250	(–)250
(–) Deficiency of C (150:75)	167	83	(+) 250

	2,333	167	–
(+) Firm underwriting	2,500	1,000	500
Net liability	4,833	1,167	500

Unmarked applications = 22,500 – 15,000 = 7,500 (150:75: 25)

Illustration 8 S Ltd. issued to public 1,50,000 equity shares of Rs.100 each at par. Rs.60 per share was payable along with application and the balance on allotment. This issue was underwritten equally by A, B and C for a commission of 2.5 per cent. Application for 1,40,000 shares were received as per details:

Underwriter	Firm Application	Marked Application	Total
A	5,000	40,000	45,000
B	5,000	46,000	51,000
C	3,000	34,000	37,000
Unmarked Applications			7,000
Total			1,40,000

It was agreed to credit the unmarked applications equally to A and C. S Ltd. accordingly made the allotment and received the amounts due from the public. The underwriters settled their accounts. You are required to:

i) Prepare a statement showing the liability of the underwriters and

ii) Journalise the above transactions in the books of S Ltd.

Solution

	A	**B**	**C**	**Total**
Gross liability	50,000	50,000	50,000	1,50,000
(–) Marked Applications	40,000	46,000	34,000	1,20,000
	10,000	4,000	16,000	30,000
(–) Unmarked Application (1,27,000 – 1,20,000)	3,500	–	3,500	7,000
	6,500	4,000	12,500	23,000
(–) Firm Underwriting	5,000	5,000	3,000	13,000
	1,500	(–) 1,000	9,500	10,000
Deficit of B	(–) 500	+ 1,000	(–) 500	–
	1,000	–	9,000	10,000

(+) Firm underwriting	5,000	5,000	3,000	13,100
Net liability	6,000	5,000	12,000	23,000

Net amount due from / due to underwriters

	A	B	C
No. of shares subscribed	6,000	5,000	12,000
Amount due @ Rs. 60 per share	3,60,000	3,00,000	7,20,000
(–) Amount already paid on firm application	3,00,000	3,00,000	1,80,000
	60,000	–	5,40,000
(–) Underwriting commission @ 2.5% on issue price	1,25,000	1,25,000	1,25,000
	(–) 65,000	(–) 1,25,000	4,15,000

Journal Entries

Date	Particulars	LF	Debit Rs.	Credit Rs
	Bank a/c	Dr	84,00,000	
	To Share application a/c			84,00,000
	(Being application money received)			
	Share Application a/c	Dr	84,00,000	
	To Share Capital a/c			84,00,000
	(Being application money transferred)			
	A a/c	Dr	60,000	
	C a/c	Dr	5,40,000	
	To Equity share capital a/c			6,00,000
	(Being allotment of shares to A & C)			
	Underwriting commission a/c	Dr	3,75,000	
	To A a/c			1,25,000
	To B a/c			1,25,000
	To C a/c			1,25,000
	(Being commission due)			
	Bank a/c	Dr	4,15,000	

	To C a/c			4,15,000
	(Being amount received from C after adjusting commission)			
	A a/c	Dr	65,000	
	B a/c	Dr	1,25,000	
	To Bank a/c			1,90,000
	(Being amount paid to A & B after commission)			
	Share Allotment a/c	Dr	60,00,000	
	To Share capital a/c			60,00,000
	(Being allotment due)			
	Bank a/c	Dr	60,00,000	
	To Share Allotment a/c			60,00,000
	(Being allotment money received)			

Illustration 9 Libra Ltd. came up with an issue of 20,00,000 equity shares of Rs.10 each at par. 5,00,000 shares were issued to the promoters and the balance to the public was underwritten by three underwriters– Anand, Vijay and Ashok, with firm underwriting of 50,000 shares each.

Subscription totaled 12,97,000 shares including the marked forms which were: Anand 4,25,000 shares; Vijay 4,50,000 shares and Ashok 3,50,000 shares.

The underwriters had applied for shares covered by firm underwriting. The amount payable on application and allotment were Rs.2.50 and Rs.2 respectively. The agreed commission was 2.5%. Pass necessary journal entries and calculate the liability of underwriters.

Statement showing the liability of underwriters

	Anand	**Vijay**	**Ashok**	**Total**
No. of shares underwritten	5,00,000	5,00,000	5,00,000	15,00,000
(–) Marked applications	4,25,000	4,50,000	3,50,000	12,25,000
	75,000	50,000	1,50,000	2,75,000
(–) Firm underwriting	50,000	50,000	50,000	1,50,000
	25,000	–	1,00,000	1,25,000
(–) Unmarked applications (12,97,000 – 12,25,000)	36,000	–	36,000	72,000
	(–) 11,000	–	64,000	53,000

(–) Deficiency of Anand	(+) 11,000	–	(–) 11,000	–
	–	–	53,000	53,000
(+) Firm underwriting	50,000	50,000	50,000	
Net liability	50,000	50,000	1,03,000	

Statement showing the amount due to or from underwriters

	Anand	Vijay	Ashok
Liability of underwriters	50,000	50,000	1,03,000
Amount to be paid by them @ Rs.4.50 per share	2,25,000	2,25,000	4,63,500
(–) Amount paid on firm applications	1,25,000	1,25,000	1,25,000
	1,00,000	1,00,000	3,38,500
(–) Commission on shares (2.5% on 50,000 shares)	1,25,000	1,25,000	1,25,000
Amount paid or received	(–)25,000	(–)25,000	1,13,500

Journal Entries

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank a/c	Dr	3,75,000	
	To Share application a/c			3,75,000
	(Being application money received)			
	Share application a/c	Dr	3,75,000	
	To Share capital a/c			3,75,000
	(Being application money transferred)			
	Anand a/c	Dr	1,00,000	
	Vijay a/c	Dr	1,00,000	
	Asohk a/c	Dr	3,38,500	
	To Equity share capital a/c			5,38,500
	(Being allotment of shares to underwriters)			
	Underwriting commission a/c	Dr	3,75,000	
	To Anand a/c			1,25,000

	To Vijay a/c			1,25,000
	To Ashok a/c			1,25,000
	(Being commission due)			
	Bank a/c	Dr	1,13,500	
	To Ashok			1,13,500
	(Being amount to be received)			
	Anand a/c	Dr	25,000	
	Vijay a/c	Dr	25,000	
	To Bank a/c			50,000
	(Being amount to be paid)			

Illustration 10 X Ltd. issued 10,000 shares of Rs.100 each at a premium of Rs.15 each. Ninety per cent of the issue was underwritten by M/S Broker and Co. at a commission of 1% on the nominal face value. Applications were received for 8,000 shares and allotment was fully made. All the money due from allottees was received in one instalment. The accounts with Broker & Co. were settled.

A) Show the journal entries to record the transactions.

B) What would be the liability of M/S Broker & Co. if applications were received for 12,000 shares but marked applications were 8,000 shares?

Journal Entries in the books of X Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs
	Bank a/c	Dr	9,20,000	
	To Share application and allotment a/c			9,20,000
	(Being application and allotment money received)			
	Share application and allotment a/c	Dr	9,20,000	
	To Share capital a/c			8,00,000
	To Securities premium a/c			1,20,000
	(Being app. and allot. money transferred)			
	M/S Brokers & Co. a/c	Dr	2,07,000	

	To Share capital a/c (1800 x 100)			1,80,000
	To Securities premium a/c			27,000
	(Being shares taken by Broker & Co.)			
	Underwriting commission a/c	Dr	9,000	
	To Broker & Co a/c			9,000
	(Being Underwriting comm. payable)			
	Bank a/c	Dr	1,98,000	
	To M/S Brokers & Co. a/c			1,98,000
	(Being balance amount received)			

	Brokers & Co.	**X Ltd**
Gross Liability	9,000	1,000
(–) Marked applications (9:1)	7,200	800
Net liability	1,800	200

b) Gross liability of the underwriter is 9,000 shares (i.e.,10,000 shares x 90%). Marked application is 8,000 shares.

Since the application have been received for 12,000 shares, net liability of the Broker & Co. is NIL

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Marked applications refers to applications carrying the
   a) **Stamp of the underwriters** b) Signatures of Public
   c) Stamp of company who offered shares d) Without any marking

2. According to Sec.76 of the Companies Act 1956, the commission payable to underwriter for shares should not exceed
   a) **5%** b) 2.5%
   c) 10% d) 1.5%

3. In case of debentures, the commission payable to underwriter should not exceed
   a) 5% b) **2.5%**
   c) 10% d) 1.5%

4. K Ltd issued shares of ₹1,000 each at ₹950. The commission will be paid on
   a) ₹1,000 b) **₹950**
   c) ₹1,950 d) ₹50

5. Underwriting commission is payable on
   a) The issue prices of shares b) **the paid up value of shares**
   c) The application money received on shares d) Market value of shares

6. When an underwriter agrees to buy shares privately apart from shares underwritten, it is called
   a) Partial underwriting b) **Firm underwriting**
   c) Full underwriting d) Individual underwriting

7. Unmarked applications are the difference between
   a) **Subscribed shares and marked** b) Marked and issued
   c) Issued and marked d) Marked and unmarked

8. Unmarked applications should be distributed in
   a) Net liability ratio b) **Gross liability ratio**
   c) Equal ratio d) Any ratio

9. Deficiency of one underwriter is shared by others in
   a) Net liability ratio b) Gross liability ratio
   c) Equal ratio d) **Remaining gross liability ratio**

10. When one underwriter agrees to underwrite the whole issue of shares it is called

    a) Partial underwriting b) Firm underwriting
    c) **Full underwriting** d) Individual underwriting

11. In the absence of any information, firm underwriting will be treated as ________

    a) Marked b) Unmarked
    c) Separate deduction d) No Treatment

12. Firm underwriting will ________

    a) Increase underwriter's liability b) Decrease underwriter's liability
    c) Increase marked application d) Decrease unmarked forms

13. Unmarked forms will _______

    a) **Decrease underwriter's liability** b) Increase underwriter's liability
    c) Nullify underwriter's liability d) Have No effect

14. The remuneration given to underwriting is called

    a) Salary b) Wages
    c) Underwriting commission d) Commission

15. Firm underwriting means

    a) Shares to be taken irrespective of public subscribe
    b) Shares taken only when public will not subscribe
    c) Gross liability d) Unmarked forms.

REVIEW QUESTIONS

A. Answer in Short

1. What do you mean by underwriting of shares?
2. what are the different types of underwriting?
3. What is firm underwriting?
4. What is marked and unmarked applications?
5. Differentiate underwriter from brokers

B. Answer in Detail

1. Explain the different types of Underwriting
2. Write short note on
    a. Firm underwriting
    b. Marked Applications
    c. Unmarked Applications.

EXERCISES

1) The issue of 2,00,000 shares of ₹10 each at ₹11 per share made by Z Ltd., was underwritten by M/s X and Y. Subscriptions totaled for 2,50,000 shares. What is underwriter's liability? What is the commission they are eligible for?s

   (Ans:₹1,00,000)

2) A company issued 10,000 shares of ₹10 each. These shares were underwritten as follows:

   A – 7,000 shares; B – 3,000 shares. The public applied for 8,000 shares which included marked applications as follows: A – 5,000 shares; B – 2,000 shares.

   Determine the liability of A and B.

   Ans: Net liability A–1,300 B–700

3) The following underwriting of shares takes place:

   A – 6,000 shares; B – 2,500 shares and C – 1,500 shares. The issue consists of 10,000 shares. The total subscription was 7,100 shares and the forms included the following marked forms: A – 1,000 shares; B – 2,000 shares and C – 500 shares.

   Show the allocation of liability of underwriters.

   Ans: Net liability A–2,520 B–Nil C–380

4) ABC Ltd. was incorporated on 1–1–2009 issued applications for 5,00,000 equity shares of ₹10 each. The entire issue was fully underwritten by A, B, C and D. A – 2,00,000 shares; B– 1,50,000 shares; C – 1,00,000 shares and D – 50,000 shares. Applications were received for 4,50,000 shares of which marked applications were as follows:

   A – 2,20,000 shares; B– 90,000 shares; C – 1,10,000 shares and D – 10,000 shares.

   You are required to calculate the net liability of individual underwriters, by giving credit to unmarked applications in the ratio of gross liability.

   Ans: Net liability A–Nil B–22,500 C– Nil D –27,500

PARTIAL UNDERWRITING

5) R Ltd. issued 1,00,000 equity shares of which only 75,000 equity shares were underwritten by D. Application for 60,000 equity shares were received out of which applications for 40,000 shares were marked in favour of D.

   Determine net liability of D.

   Ans: Net liability D –20,000 Company –20,000

6) X Company issued 1,00,000 shares of ₹10 each. These shares were underwritten as follows:

   X –30,000 shares and Y –50,000 shares. The public applied for 70,000 shares which includes marked applications as follows: X –10,000 shares and Y –2,000 shares.

Determine the liability of X and Y.

Ans: Net liability X –2,600 Y –19,000 Company– 8,400

FIRM UNDERWRITING

7) Total subscription (excluding firm underwriting) – 20,000 shares; Application under firm underwriting – 8,400 shares; Marked applications – 14,000 shares.

   Calculate unmarked applications.

8) S Ltd issued 20,000 shares which were underwritten as follows:

   A – 12,000 shares, B – 5,000 shares and C – 3,000 shares. The underwriters made applications for firm underwriting as under. A – 1,600 shares; B – 600 shares and C – 2,000 shares. The total subscriptions excluding firm underwriting but including marked applications were for 10,000 shares.

   The marked applications were as follows:

   A – 2,000 shares; B – 4,000 shares and C – 1,000 shares.

   Prepare a statement showing the allocation of liability of the underwriters.

   Ans: Net liability A–6,640 B–600 C–2,760

9) The following underwriting takes place:

   A – 5,000 shares; B – 3,000 shares and C – 2,000 shares

   In addition there is firm underwriting:

   A – 1,000 shares; B – 500 shares and C – 1,500 shares

   The share issue is for 10,000 shares. Total subscription including firm underwriting was 8,500 shares and the forms included the following marked forms:

   A – 2,000 shares; B – 1,000 shares and C – 1,000 shares

   Show the allocation of liability of the underwriters.

   Ans: Net liability A–1,750 B–1,150 C–1,600

PREVIOUS YEAR UNIVERSITY QUESTION PAPERS

1) Mohanraj Ltd incorporated on 1st jan 2005 issued a prospectus inviting of applications for 5,00,000 equity shares of Rs.10 each at a premium of 10%. The whole issue was fully underwritten by kapoor, Bohra, Dalal, and Mehta as follows:

   Kapoor-2,00,000 shares, Bohra-1,50,000 shares, Dalal-1,00,000 shares, Metha-50,000 shares. Applications were received for Rs.45,000 hares which marked applications were as follows:

   Kapoor-2,20,000 shares, Bohra-90,000 shares, Dalal-1,10,000 shares, Metha-10,000 shares. It is agreed that underwriters to be paid commission at 5% on issue price. You are required to find out the net liability on Underwriters.

   [Alagappa University, B.Com(C.A), Nov,2015]

2) 'A' Co Limited has authorized share capital of Rs.1,00,00,000 dividend into 2,00,000 equity shares of Rs.50 each. The company issued for subscription for 1,00,000 shares at premium of Rs.10 each. The entire issue was underwritten as follows:

   X-60,000 shares (Firm underwriting 10,000 shares)

   Y-30,000 shares (Firm underwriting 4,000 shares)

   Z-10,000 shares (Firm Underwriting 2,000 shares).

   Out of the total issue 90,000 shares including firm underwriting were subscribed. Markets forms were X-32,000, Share's Y-2000 shares and Z-8,000 shares. Calculate the Liability of each underwriter.

   [Alagappa Univerity, B.Com, April,2011]

3) Albert Ltd, issued 50,00,000 equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below.

Underwriter	A	B	C
Shares	15,00,000	25,00,000	10,00,000

   Applications were received for 48,50,000 shares of which the marked applications were as follows.

Underwriter	A	B	C
Shares	12,00,000	25,00,000	8,50,000

   Calculate the number of shares to be taken up by the underwriters.

   [Alagappa University, B.Com, Nov,2016]

4) Bharat Lt. issued 1,50,000 equity shares.The whole of the issue was underwritten as follows :

   X-50%, Y-25%, Z-25%

   Applications for the 1,20,000 shares were received in all, out of which applications for 30,000 shares had the Stamp of X, those for 15,000 shares that of Y and those for 30,000

shares that of Z. The remaining applications for 45,000 shares did not bear any stamp.Determine the liability of the underwriters.

[Alagappa University, B.Com, Nov,2014]

5) Raj.Ltd. issues 20,000 equity shares of Rs.10 each at par. The issue was underwritten by kala& Co. for maximum commission permitted by law. The public applied for and received 16,000 shares. Calculate the commission payable to the underwriter.

[Madras, B.com., Nov.2004 (1/2 Figs)]

[Ans: Net liability: 4000 shares; commission: Rs.5,000 (i.e., 2,00,000 ×2.5%)]

Note: *In practice, SEBI has permitted only 2.5% commission on equity shares underwritten, though section 76 of the companies Act 1956 provides for maximum rate of 5%.*

6) Naszar Ltd., issued 10,000 equity shares of Rs.100 each at par. The whole issue has been underwritten by Jhon &Co for a commission of 2%. The company received applications only for 5,000 shares. All the applications were accepted. Give the journal entries, assuming that all amounts due have been received.

[Madras, B.Com, B.Com(C.S) April, 2007]

[Ans: Net liability of underwriter-Rs.5,00,000; Commission-20,000; Net Amount receivable after adjusting commission-Rs.4,80,000]

7) Good Luck Ltd., issued 1,000 equity shares of Rs.100 each and 1,000 6% debentures of Rs.100 each. The debentures were issued at a discount of 6%. The whole of the issues was underwritten by Wisdom&Co. for a commission of 4% on the issue price of shares nd 2% on the issue price of debentures. The public applied for 900 shares and 800 debentures. These were immediately paid for. The underwriters fulfilled their obligations. Pass the journal entries.

[Madras, B.Com, March 2000]

[Ans: Commission on shares-Rs.4000, Commission on debentures – Rs.1,880, Underwriters liability of shares –Rs.10,000, For Debentures-Rs.18,800, Net Cash receivables from underwriters-Rs.22,920]

8) A company issued 20,000 equity shares of Rs.100 each par and 1,000 debentures of Rs.1,000 each at Rs.950. The whole of the issue has been underwritten by paul & Co. The whole of hares are applied for but applications for 800 debentures only were received. All the applications were accepted. Commission payable to the underwriter is the maximum amount permissible. Give the journal entries to record the above transactions and prepare balance sheet at this stage, assuming that all amounts due have been received.

[Madras, IInd M.Com,)(Old) Oct.2004 (1/2 figures)]

[Ans: Underwriting Commision on shares-Rs.50,000.(20,00,000×2.5%); on debentures-Rs.11,400(7,60,000×1% + 1,90,000×2%) Underwriters liability-Rs.1,90,000; Net Cash Receivable Rs.1,28,600; Balance sheet total-30,00,000]

9) Velu.Ltd., issued 1,00,000 equity shares. The whole of the issue was underwritten as follows: A-40%; B-30%; C-30%. Applications for 80,000 shares were received in all, out of which applications for 20,000 shares had stamp of A, those for 10,000 shares that of B; and 20,000 share that of C. The remaining applications for 30,000 shares did not bear any stamp. Show the net Liability of the underwriters.

[Madras,B.Com(C.S)(; oct,2008;B.Com(C.S) Nov.2007]

[Ans: Net liability A-8000 shares; B-11,000 shares and C-1,000 shares]

10) Arun Ltd., issued 1,00,000 equity shares. The whole of the issue was underwritten as follows: X-40%, Y-40%, Z-20%. Applications for 80,000 shares were received in all out of which applications for 20,000 shares had the stamp of X, those for 10,000 shares that of Y and 20,000 shares that of Z. The remaining applications did not bear any stamp. Show the liability of the underwriters.

[Madras, B.com, B.Com(CS) April,2007, Manomaniam Sundram University, B.Com, April,2015]

[Ans: Net Liability: X-5000 shares; Y-15,000 shares; Z-Nil]

11) Thinkers.Ltd issued a prospectus inviting applications for 40,000 equity shares of Rs.100 each. The whole issue was fully underwritten by three underwriters as follows: Mani: 20,000 shares; Paul -14000 shares; Ganesh-6000 shares. Applications were received for 32,000 shares of which marked applications were as follows

[Mani-15,200 shares; Paul -8080 shares; ganesh-Nil]

[Madras, B.Com, Nov.2006 (1/2 figs)]

12) X Ltd., which was incorporated on 1.1.2005 issued applications for 5,00,000 equity shares of Rs.10 each. The entire issue was fully underwritten by A, B, C, and D.

A- 2,00,000 shares; B-1,50,000 shares; C-1,00,000 shares; D-50,000 shares. Applications were received for 4,50,000 shares of which marked applications as follows:

A- 2,20,000 shares; B- 90,000 shares; C-1,10,000 shares and D-10,000 shares; you are required to calculate the net liability of individual underwriters, by giving credit to unmarked applications in the ratio of gross liability.

[Periyar, B.Com(Old) Nov.2005; Madras. Ist M.com(April , 2005]

[Ans: 'B' takes 22,500 shares; D takes 27,500 shares]

13) X.Ltd. issued 10,000 equity shares of Rs.10 each. The issue was underwritten as follows:

A- 30%; B-30%; C-20%. However, the company received applications for 8,000 shares only. Determine the liability respective underwriters and write the journal entries in the company's books.(pg.2.50: no:16)

[Madras, B.Com, Nov.2007,Ist M.com April,2005, B.Com, May,2001]

[Alagappa university, B.Com, Nov,2015]

[Ans: 'A' Takes 600 shares; 'B' takes 600 shares; and 'C' takes 400 shares]

14) Neeraj Ltd. issued 10,000 shares of Rs.100 each at a premium of 10%. These shares were underwritten by Joseph and Jaleel to the extent of 5,000 shares and 3,000 shares respectively. The total applications were received by the company were 8,000 which the marked applications were:

    Joseph-1,200 shares; Jaleel- 300 shares. You are required to determine the liability of the underwriters.

    [Thiruvalluvar 1st M.com, April/May 2006; Madras, BCS, Nov.2005]

    [Ans: Net liability; Joseph-987 shares; Jaleel-1013 shares]

15) A company issued 40,000 shares of Rs.100 each for public subscription. The issue was underwritten as follows:

    P-25%; Q-30%; R-25%

    The company received a total number of 28,000 applications of which marked applications were as follows:

    p-8000 shares; Q-6000 shares; R-8000 shares. Determine the liability of each of the underwriters.

    [Madurai B.Com, Nov.2003, Manomaniam Sundaram University, B.Com,April,2015]

    [Ans: Net Liability: P-2000 shares;Q-6000 Shares; R-2000 shares]

16) The following underwriting took place:

    A-5000 shares; B-3,000 shares; C-2000 shares. In addition there was firm underwriting:

    A-1000 shares;B-500 shares; C-1,500 shares. The share issue was for 10,000 shares. Total Subscription including firm underwriting was 8,500 shares and the forms included the following marked forms.

    A-2000 shares; B-1000 shares; C-1000 shares. Show the allocation of liability of the underwriters.

    [Madras, B.com, April 2007]

    [Ans: Total liability including firm underwriting 'Firm treated as Marked' A-1,750; B-1,250; C-1,500; 'Firm treated as unmarked' A-1,750; B-1,150; C-1,600]

17) 'A' Co.Ltd has an authorized capital of Rs.50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The company issued for subscription 50,000 shares at a premium of Rs. 10 each. The entire issue was underwritten as follows:

    X-30,000 shares(Firm underwriting 5,000 shares)

    Y-15,000 shares(Firm Underwriting 2,000 shares)

    Z-5,000 shares(Firm underwriting 1,000 shares)

    Out of the total issue 45,000 shares including firm underwriting were subscribed. The following were marked forms:

X-16,000 shares; Y-10,000 shares; Z-4,000 shares; Calculate the liability of each underwriter.

[Bharathiar, B.com, Nov.2004]

[Madras, 1st M.com, Nov.2007, Alagappa university, B.Com(C.A), Nov,2016]

[Ans: Final liability including firm underwriting firm treated as marked 'X' 9,333; Y-2,667; Z-1,000; Firm treated as Unmarked X-9,667; Y-2,333 Z-1,000]

18) Swiss Ltd. issued 40,000 equity shares of Rs.10 each at par. The entire issue was underwritten as follows.

A-24,000 shares(Firm underwriting 3,200 shares)

B-10,000 shares (Firm underwriting 4,000 shares)

C-6,000 shares (Firm underwriting 1,200 shares)

The total applications including firm underwriting were for 28,400 shares. The marked applications were as under:

A-7,200 shares; B-9,000 shares and C-3,200 shares. The underwriting contract provides that credit for unmarked application given to the underwriters in proportion to the shares underwritten. Determine the liability of each underwriter and the amount of commission payable to them assuming it is the maximum allowed by law.

[Madras, B.com, Oct.2002]

[***Ans: Final Liability of the underwriters: Firm tratedas marked A- 13,920; B-4,000; C-2,080; Firm treated as unmarked- A-13,600; B-4,000;C-2,400; Commission payable to- A-6,000; B-2,500; C-1,500]***

19) R.Ltd.issued 10,000 shares of Rs.100 each at a premium of Rs.20 per share. The entire issue was underwritten as follows:

A-5,000 shares (Firm underwriting 1,000 shares)

B-3,000 shares (Firm underwriting 5,00 shares)

C-2,000 shares (Firm underwriting 5,00 shares)

The number of shares applied for were 9,000. The following were marked applications:

A-3500 shares; B-1,400 shares; C-1,600 shares, including firm underwriting. Prepare a statement showing their net liability.

[Madras I.M.com., Oct.2001]

[Ans: Final liability of underwriters: Firm treated to unmarked: A-1,188; B-1,312; C-500; Firm treated as unmarked: A-1,125; B-1,375; C-500]

20) The following underwriting takes place:

A-6,000 shares; B-2,500 shares; C-1,500 shares

In addition, there is firm underwriting:

3A-800 shares; B-300 shares; C-1,000 shares. The issue is for 10,000 shares. Total subscription including firm underwriting is or 7,100 shares and the applications include the following marked forms:

A-1,000 shares; B-2,000 shares; C-5,00 shares. Show the allocation of liability of the underwriters if the firm underwritten shares are treated as unmarked applications.

[Madras Ist M.com, Nov.2005, II M.com, Oct.2003]

[Ans: Total liability including firm underwriting: A- 3,320; B-3,00; C-1,380]

21) United India Co.Ltd., issued 1,00,000 shares which were underwritten as follows:

A-40%; B-30%; C-20%

The underwriters made firm underwriting as follows:

A-7,500 shares; B-5,000 shares; C-12,500 shares.

The total Subscription excluding firm underwriting, but including marked applications were for 50,000 shares. The marked applications were as under:

A-20,000 shares; B-12,500 shares; C-5,000 shares. Prepare a statement showing the liability of underwriters.

[Madras, II M.com, Oct,2002 and May, 2001]

[Ans: Underwriters Liability, including Firm underwriting: When the benefit of Firm Applications is given to them: A: 18,889 Shares; B: 16,667 shares; C:14,444 shares; If the Firm applications are treated as Unmarked:A: 15,278; B:13,333; C:21,389]

22) Mohanraj Ltd incorporated on 1st jan 2005 issued a prospectus inviting of applications for 5,00,000 equity shares of Rs.10 each at a premium of 10%. The whole issue was fully underwritten by kapoor, Bohra, Dalal, and Mehta as follows:

Kapoor-2,00,000 shares, Bohra-1,50,000 shares, Dalal-1,00,000 shares, Metha-50,000 shares. Applications were received for Rs.45,000 hares which marked applications were as follows:

Kapoor-2,20,000 shares, Bohra-90,000 shares, Dalal-1,10,000 shares, Metha-10,000 shares. It is agreed that underwriters to be paid commission at 5% on issue price. You are required to find out the net liability on Underwriters.

[Alagappa University, B.Com(C.A), Nov,2015]

23) 'A' Co Limited has authorized share capital of Rs.1,00,00,000 dividend into 2,00,000 equity shares of Rs.50 each. The company issued for subscription for 1,00,000 shares at premium of Rs.10 each. The entire issue was underwritten as follows:

X-60,000 shares (Firm underwriting 10,000 shares)

Y-30,000 shares (Firm underwriting 4,000 shares)

Z-10,000 shares (Firm Underwriting 2,000 shares).

Out of the total issue 90,000 shares including firm underwriting were subscribed. Markets forms were X-32,000, Share's Y-2000 shares and Z-8,000 shares. Calculate the Liability of each underwriter.

[Alagappa Univerity, B.Com, April,2011]

24) Albert Ltd, issued 50,00,000 equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below.

Underwriter	A	B	C
Shares	15,00,000	25,00,000	10,00,000

Applications were received for 48,50,000 shares of which the marked applications were as follows.

Underwriter	A	B	C
Shares	12,00,000	25,00,000	8,50,000

Calculate the number of shares to be taken up by the underwriters.

[Alagappa University, B.Com, Nov,2016]

25) Bharat Lt. issued 1,50,000 equity shares.The whole of the issue was underwritten as follows :

X-50%, Y-25%, Z-25%

Applications for the 1,20,000 shares were received in all, out of which applications for 30,000 shares had the Stamp of X, those for 15,000 shares that of Y and those for 30,000 shares that of Z. The remaining applications for 45,000 shares did not bear any stamp.Determine the liability of the underwriters.

[Alagappa University, B.Com, Nov,2014]

UNIT – 3

REDEMPTION OF PREFERENCE SHARES

Meaning – Procedures for redemption of preference shares – Journal entries

Shares for which the amount should be repayable after the expiry of a specified period are called redeemable preference shares. The Articles of the company should permit such redemption. The redemption is carried out either at premium or at face value.

3.1 PROCEDURES FOR REDEMPTION OF PREFERENCE SHARES

- Only fully paid shares can be redeemable. If the shares are partly paid up, then it should be converted into fully paid and then redemption is made.
- The premium required for redemption is to be paid from share premium account only. The share premium a/c may be in liability side of balance sheet or raised at the time of fresh issue of equity shares at a premium.
- If the premium amount is not sufficient for redemption, then the balance amount may be paid out of profit and loss account
- The refund of capital amount should be made from fresh issue of equity share capital, profit and loss a/c and or general reserve a/c in balance sheet.
- The fresh issue of equity shares may be at face value or at premium value or at discount value.
- Before taking any amount from profit and loss a/c and general reserve, an amount equal to the same should be transferred to capital redemption reserve.
- Redemption should not be made from issue of debentures or sale of any investments

For the issue of fully paid bonus shares to the equity shareholder's capital redemption reserve can be utilized.

Following revenue profits are transferable to capital redemption reserve.

1) General reserve
2) Dividend equalization reserve.
3) Reserve fund
4) Profit on sale of investments and fixed assets (Revenue portion).
5) Workmen's compensation fund.

6) Insurance fund.
7) Debenture redemption fund(Voluntary)
8) Debenture redemption Account(Voluntary)
9) Profit and Loss account.

Following Capital profits are not to be transferred to capital redemption reserve.

1) Capital reserve.
2) Exisisting capital redemption reserve
3) Development rebate reserve
4) Depreciation reserve.
5) Forfeited shares account.
6) Profit prior to incorporation.
7) Profit on sale of fixed assets(Capital portion)
8) Securities premium Account.

Journal entries at time of redemption of preference shares

For total amount payable Redeemable preference share capital a/c Dr Premium on redemption a/c Dr To Preference share holders a/c	**For fresh issue –** **a) Face value** Bank a/c Dr To Equity share capital a/c
For canceling premium on redemption Securities premium a/c Dr P & L a/c Dr (if needed) To Premium on redemption a/c	**b) Premium value** Bank a/c Dr To Equity share capital To Securities premium a/c
For taking balance amount from liability side of balance sheet Profit and loss a/c Dr General reserve a/c Dr To Capital redemption reserve a/c	**c) Discount value** Bank a/c Dr Share discount a/c Dr To Equity share capital a/c
For amount paid: Preference share holders a/c Dr To Bank a/c	**For profit or loss on sale of investments:** Bank a/c Dr P & L a/c (loss) Dr To Investment a/c To P & L a/c (profit)

Issue of debentures at premium/discount: Bank a/c Dr Discount on debenture a/c Dr To Debentures a/c To Premium on debentures a/c	

Illustration -1 From the following information, find out what amount shall be transferred to capital redemption reserve account.

Redeemable preference shares redeemed ₹2,00,000 at par (fresh issue of share capital ₹80,000) Redeemable preference shares redeemed ₹2,00,000 at 5% premium (fresh issue of share capital ₹80,000 at par)

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
To Preference share holders a/c			2,00,000
(Being amount due)			
Bank a/c	Dr	80,000	
To Equity share capital a/c			80,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	1,20,000	
To Capital redemption reserve a/c			1,20,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,00,000	
To Bank a/c			2,00,000
(Being amount paid to share holders)			
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			2,10,000
(Being amount due)			
Bank a/c	Dr	80,000	
To Equity share capital a/c			80,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	1,20,000	
To Capital redemption reserve a/c			1,20,000

(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,10,000	
To Bank a/c			2,10,000
(Being amount paid to share holders)			
P & L a/c	Dr	10,000	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			

Illustration -2 A company decides to redeem its preference shares amounting to ₹1 lakh at a premium of 5% and for this purpose issues 5,000 equity shares of ₹10 each at a premium of 5%. The company has also balance of ₹1,00,000 on general reserve and ₹50,000 on P & L a/c. Journalize.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	5,000	
To Preference share holders a/c			1,05,000
(Being amount due)			
Securities premium a/c	Dr	2,500	
P & L a/c	Dr	2,500	
To Premium on redemption a/c			5,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	52,500	
To Equity share capital a/c			50,000
To Securities premium a/c			2,500
(Being fresh issue of shares)			
Profit and loss a/c	Dr	47,500	
General reserve a/c	Dr	2,500	
To Capital redemption reserve a/c			50,000
(Being amount taken from Balance sheet)			
Preference share holders a/c	Dr	1,05,000	
To Bank a/c			1,05,000
(Being amount paid to share holders)			

Illustration -3 A company had as part of its share capital 1,000 redeemable preference shares of ₹100 each fully paid up. When the shares became due for redemption, the company had ₹60,000 in its reserve fund. The company issued necessary equity shares by ₹25 specifically for the purpose of redemption and received cash in full. Make the necessary journal entries recording the above transactions.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	–	
To Preference share holders a/c			1,00,000
(Being amount due)			
Bank a/c	Dr	40,000	
To Equity share capital a/c			40,000
(Being fresh issue of shares)			
General reserve a/c	Dr	60,000	
To Capital redemption reserve a/c			60,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	1,00,000	
To Bank a/c			1,00,000
(Being amount paid to share holders)			

Illustration -4 The following are the details taken from the records of B Ltd. on June 30. 2015:

Equity shares (fully paid up) ₹6,00,000; Preference shares (fully paid up) ₹3,00,000; General reserve ₹2,00,000; P & L a/c (Credit) ₹1,25,000 and share premium a/c ₹50,000.

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and P & L a/c.

Give journal entries relating to redemption of preference shares.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	3,00,000	
Premium on redemption a/c	Dr	30,000	
To Preference share holders a/c			3,30,000
(Being amount due)			
Share premium a/c	Dr	30,000	

To Premium on redemption a/c			30,000
(Being premium on redemption cancelled)			
General reserve a/c	Dr	2,00,000	
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	3,30,000	
To Bank a/c			3,30,000
(Being amount paid to share holders)			

Illustration -5 A company has 4,000, 7% redeemable preference shares of ₹100 each fully paid. The company decides to redeem the shares on 31st Dec. 2015 at a premium of 5%. The company has sufficient profits. The following issues are made for the redemption purpose:

a) 1,000 equity shares of ₹100 each at a premium of 10%

b) 1,000, 5% Debentures of ₹100 each.

The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	4,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders a/c			4,20,000
(Being amount due)			
Securities premium a/c	Dr	10,000	
P & L a/c	Dr	10,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	1,10,000	
To Equity share capital a/c			1,00,000
To Securities premium a/c			10,000
(Being fresh issue of shares)			
Profit and loss a/c	Dr	3,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	4,20,000	
To Bank a/c			4,20,000

(Being amount paid to share holders)			
Bank a/c	Dr	1,00,000	
To 5% Debentures a/c			1,00,000
(Being debentures issued)			

Illustration -6 From the following information, find out how much minimum fresh issue is necessary in order to comply with the provisions of Section 80 of the Companies Act, 1956:

Redeemable preference shares to be redeemed	**Profit shown in balance sheet**
1. ₹2,00,000 at par	Profit ₹30,000; Share premium a/c ₹10,000
2. ₹2,00,000 at 10% premium	Profit ₹30,000; Share premium a/c ₹10,000
3. ₹2,00,000 at 10% premium	Profit ₹30,000; Share premium a/c ₹8,000; General reserve ₹20,000; Dividend equalization fund ₹50,000

Solution

1. Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
To Preference share holders a/c			2,00,000
(Being amount due)			
Bank a/c	Dr	1,70,000	
To Equity share capital a/c			1,70,000
(Being fresh issue of shares)			
P & L a/c	Dr	30,000	
To Capital redemption reserve a/c			30,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	2,00,000	
To Bank a/c			2,00,000
(Being amount paid to share holders)			

2. Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders			2,20,000
(Being amount due)			

Bank a/c	Dr	1,80,000	
To Equity share capital a/c			1,80,000
(Being fresh issue of shares)			
P & L a/c	Dr	20,000	
To Capital redemption reserve a/c			20,000
(Being amount taken from general reserve)			
Preference share holders a/c	Dr	2,20,000	
To Bank a/c			2,20,000
(Being amount paid to share holders)			
Securities premium a/c	Dr	10,000	
P & L a/c	Dr	10,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			

3. Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	2,00,000	
Premium on redemption a/c	Dr	20,000	
To Preference share holders a/c			2,20,000
(Being amount due)			
Securities premium a/c	Dr	8,000	
P & L a/c	Dr	12,000	
To Premium on redemption a/c			20,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	1,12,000	
To Equity share capital a/c			1,12,000
(Being fresh issue of shares)			
General reserve a/c	Dr	20,000	
Profit and loss a/c	Dr	18,000	
Dividend Equalization fund a/c	Dr	50,000	
To Capital redemption reserve a/c			88,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	2,20,000	
To Bank a/c			2,20,000
(Being amount paid to share holders)			

3.2 REDEMPTION WITH BALANCE SHEET MODEL

Illustration -7 Give journal entries and prepare revised balance sheet after redeeming the preference shares at a premium of 10%.

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
10 % Redeemable preference shares of ₹100 each fully paid	1,00,000	Fixed assets	8,10,000
Equity shares of ₹10 each fully paid	5,00,000	Bank	90,000
General reserve	1,00,000		
Creditors	1,50,000		
Capital reserve	50,000		
	9,00,000		9,00,000

For the purpose of redemption, the company made a fresh issue of 4,500 equity shares of ₹10 each, at a premium of 10%.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			1,10,000
(Being amount due)			
Securities premium a/c	Dr	4,500	
P & L a/c	Dr	5,500	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	49,500	
To Equity share capital a/c			45,000
To Share premium a/c			4,500
(Being fresh issue of shares)			

General reserve a/c	Dr	55,000	
To Capital redemption reserve a/c			55,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,10,000	
To Bank a/c			1,10,000
(Being amount paid to share holders)			

Balance Sheet

Liabilities	Amount₹	Assets	Amount ₹
Equity shares of ₹10 each fully paid	5,45,000	Fixed assets	8,10,000
General reserve (1,00,000 – 55,000)	45,000	Bank	29,500
Creditors	1,50,000	P & L a/c	5,500
Capital reserve	50,000		
Capital redemption reserve	55,000		
	8,45,000		8,45,000

Bank a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	90,000	By Preference shareholders	1,10,000
" Equity share capital	49,000	" Balance c/d (b/f)	29,500
	1,39,000		1,39,000

Illustration -8 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
8%Redeemable preference shares of ₹100 each	10,00,000	Fixed assets	34,00,000
Equity shares of ₹10each	10,00,000	Cash	6,00,000
Capital reserve	5,00,000		
Profit and loss a/c	9,50,000		
General reserve	2,00,000		

Creditors	3,50,000		
	40,00,000		40,00,000

The preference shares were redeemable on March 31, 2015 at a premium of 25% and the company decided to issue 50,000 equity shares of ₹10 each at premium of ₹4 per share for the purpose of redemption.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	10,00,000	
Premium on redemption a/c	Dr	2,50,000	
To Preference share holders a/c			12,50,000
(Being amount due)			
Securities premium a/c	Dr	2,00,000	
P & L a/c	Dr	50,000	
To Premium on redemption a/c			2,50,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	7,00,000	
To Equity share capital a/c			5,00,000
To Securities premium a/c			2,00,000
(Being fresh issue of shares)			
P & L a/c	Dr	5,00,000	
To Capital redemption reserve a/c			5,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	12,50,000	
To Bank a/c			12,50,000
(Being amount paid to share holders)			

Cash a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	6,00,000	By Preference shareholders	12,50,000
" Equity share capital	7,00,000	" Balance c/d (b/f)	50,000
	13,00,000		1,39,000

P & L a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Premium on redemption	50,000	By Balance b/d	9,50,000
" Capital Redemption Reserve	5,00,000		
" Balance c/d (b/f)	4,00,000		
	9,50,000		9,50,000

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10each	15,00,000	Fixed assets	34,00,000
Capital reserve	5,00,000	Cash	50,000
Profit and loss a/c	4,00,000		
General reserve	2,00,000		
Creditors	3,50,000		
Capital redemption reserve	5,00,000		
	34,50,000		34,50,000

Illustration -9 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
13 % Redeemable preference shares of ₹100 each	1,00,000	Fixed assets	2,10,000
		Other current assets	1,79,000
Equity shares of ₹10 each	2,50,000	Cash	4,950
Current liabilities	22,500	Investments	60,000
Provision for taxation	19,500	Prepaid expenses	2,050
Profit and loss a/c	55,000		
Securities premium	9,000		
	4,56,000		4,56,000

In order to redeem its preference shares, the company issued 5,000 equity shares of ₹10 each at a premium of 10% and sold its investments for ₹70,800. Preference shares were redeemed at a premium of 10%.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	10,000	
To Preference share holders a/c			1,10,000
(Being amount due)			

Securities premium a/c	Dr	10,000	
To Premium on redemption a/c			10,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	55,000	
To Equity share capital a/c			50,000
To Share premium a/c			5,000
(Being fresh issue of shares)			
P & L a/c	Dr	50,000	
To Capital redemption reserve a/c			50,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,10,000	
To Bank a/c			1,10,000
(Being amount paid to share holders)			
Bank a/c	Dr	70800	
To Investment a/c			60,000
To P & L a/c (b/f)			10,800
(Being investments sold)			

Cash a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	4,950	By Preference shareholders	1,10,000
“ Investment	70,800	“ Balance c/d (b/f)	20,750
“ Equity share capital	55,000		
	1,30,750		1,30,750

P & L a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Premium on redemption	50,000	By Balance b/d	55,000
“ Balance c/d (b/f)	15,800	“ Investment	10,800
	9,50,000		9,50,000

Share Premium a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Premium on redemption	10,000	By Balance b/d	9,000
" Balance c/d (b/f)	4,000	" Equity share capital	5,000
	14,000		14,000

Balance Sheet as on 31- 3- 15

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	3,00,000	Fixed assets	2,10,000
Current liabilities	22,500	Other current assets	1,79,000
Provision for taxation	19,500	Cash	20,750
P & L a/c	15,800	Prepaid expenses	2,050
Securities premium	4,000		
Capital redemption reserve	50,000		
	4,11,800		4,11,800

Illustration -10 The following is the balance sheet of a company as on 31st April 2015

Liabilities	Amount ₹	Assets	Amount ₹
8% Redeemable preference shares of ₹100 each full paid up	4,00,000	Sundry assets	18,00,000
9% Redeemable preference shares of ₹100 each ₹80 paid up	2,40,000	Cash at bank	6,60,000
Equity share of ₹10 each fully paid up	10,00,000		
Securities premium	50,000		
Revenue reserve	5,00,000		
Current liabilities	2,70,000		
	24,60,000		24,60,000

It was decided to redeem both the classes of preference shares on 30th June at a premium of 5%. The company issued equity shares of ₹10 each for redemption purpose.

Pass journal entries and prepare balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share final call a/c	Dr	60,000	
To Share capital a/c			60,000
(Being final call due)			
Bank a/c	Dr	60,000	
To Share final call a/c			60,000
(Being final call received)			
Redeemable preference share capital a/c	Dr	7,00,000	
Premium on redemption a/c	Dr	35,000	
To Preference share holders a/c			7,35,000
(Being amount due)			
Securities premium a/c	Dr	35,000	
To Premium on redemption a/c			35,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	2,00,000	
To Equity share capital a/c			2,00,000
(Being fresh issue of shares)			
Revenue reserve a/c	Dr	5,00,000	
To Capital redemption reserve a/c			5,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	7,35,000	
To Bank a/c			7,35,000
(Being amount paid to share holders)			

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share of ₹10 each fully paid up	12,00,000	Sundry assets	18,00,000
Securities premium (50,000 – 35,000)	15,000	Cash at bank	1,85,000
Capital redemption reserve	5,00,000		
Current liabilities	2,70,000		
	19,85,000		19,85,000

Cash = ₹6,60,000 + ₹60,000 + ₹2,00,000 – ₹7,35,000 = ₹1,85,000

Illustration -11 The following is the summarized balance sheet of a company:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
8% Redeemable preference shares of ₹100 each fully paid	6,00,000	Sundry assets	26,20,000
9% Redeemable preference shares of ₹100 each, ₹75 paid up	2,25,000	Cash at bank	8,25,000
Equity shares of ₹10 each fully paid up	15,00,000		
Capital reserve	1,00,000		
Securities premium	60,000		
Revenue reserve	6,00,000		
Current liability	3,60,000		
	34,45,000		34,45,000

It was decided to redeem both the classes of preference shares at a premium of 5%. The company issued for cash so many equity shares of ₹10 each at a premium of 10% as necessary to provide for redemption of both the classes of preference shares which could not otherwise redeemed. The issue was fully subscribed and all the money was received.

Give journal entries in the books of the company and draw up the amended balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Share final call a/c	Dr	75,000	
To Share capital a/c			75,000
(Being final call due)			
Bank a/c	Dr	75,000	
To Share final call a/c			75,000
(Being final call received)			
Redeemable preference share capital a/c	Dr	9,00,000	
Premium on redemption a/c	Dr	45,000	
To Preference share holders a/c			9,45,000
(Being amount due)			
Securities premium a/c	Dr	45,000	
To Premium on redemption a/c			45,000

(Being premium on redemption cancelled)			
Bank a/c	Dr	3,30,000	
To Equity share capital a/c			3,00,000
To Share premium a/c			30,000
(Being fresh issue of shares)			
Revenue reserve a/c	Dr	6,00,000	
To Capital redemption reserve a/c			6,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	9,45,000	
To Bank a/c			9,45,000
(Being amount paid to share holders)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each fully paid up	18,00,000	Sundry assets	26,20,000
Capital reserve	1,00,000	Cash at bank	2,85,000
Securities premium (60,000 + 30,000 – 45,000)	45,000		
Capital redemption reserve	6,00,000		
Current liability	3,60,000		
	29,05,000		29,05,000

Cash = ₹8,25,000 + ₹75,000 + ₹3,30,000 – ₹9,45,000 = ₹2,85,000

Illustration -12 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Redeemable preference shares of ₹100 each	5,00,000	Fixed assets	22,00,000
Equity shares of ₹100 each	10,00,000	Other current assets	8,00,000
Creditors	10,00,000		
Profit and loss a/c	1,00,000		
Securities premium a/c	1,00,000		
General reserve	2,00,000		

Capital reserve	1,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10 % per cent 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. The shortfall in funds for the purpose of the redemption after utilizing the proceeds of the fresh issue is to be met by taking a bank loan.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	5,00,000	
Premium on redemption a/c	Dr	50,000	
To Preference share holders a/c			5,50,000
(Being amount due)			
Securities premium a/c	Dr	50,000	
To Premium on redemption a/c			50,000
(Being premium on redemption cancelled)			
Bank a/c	Dr	2,00,000	
To Equity share capital a/c			2,00,000
(Being fresh issue of shares)			
General reserve a/c	Dr	2,00,000	
Profit and loss a/c	Dr	1,00,000	
To Capital redemption reserve a/c			3,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	5,50,000	
To Bank a/c			5,50,000
(Being amount paid to share holders)			

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	12,00,000	Fixed assets	22,00,000
Creditors	10,00,000	Other current assets	8,00,000
Securities premium a/c	50,000		
Capital reserve	1,00,000		

Capital redemption reserve Bank overdraft	3,00,000 3,50,000		
	30,00,000		30,00,000

Bank overdraft = ₹2,00,000 – ₹5,50,000 = ₹3,50,000

Illustration -13 The balance sheet of Producers Ltd. as on 31-12- 2015 is as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	50,000	Land	1,00,000
Reserves and surplus	90,000	Plant	30,000
Securities premium	10,000	Current assets	2,000
General reserve	20,000	Stock	30,000
P & L a/c	25,000	Debtors	15,000
Current liabilities	30,000	Investment	28,000
		B/R	20,000
	2,25,000		2,25,000

The company decided to redeem preference shares at a premium of 5% on 31st Jan.2016. A fresh issue of 1,000 equity shares of ₹10 each was made at ₹12 per share payable in full on 31st Jan.2016. They were fully subscribed and all money was duly collected. All the investment was sold and realized ₹27,000. The directors wish that only a minimum reduction should be made in the general reserve.

Give journal entries to record the above transactions. Draw up balance sheet after redemption of preference shares.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	50,000	
Premium on redemption a/c	Dr	2,500	
To Preference share holders a/c			52,500
(Being amount due)			
Securities premium a/c	Dr	2,500	
To Premium on redemption a/c			2,500
(Being premium on redemption cancelled)			

Bank a/c	Dr	12,000	
To Equity share capital a/c			10,000
To Share premium a/c			2,000
(Being fresh issue of shares)			
General reserve a/c	Dr	16,000	
Profit and loss a/c	Dr	24,000	
To Capital redemption reserve a/c			40,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	52,500	
To Bank a/c			52,500
(Being amount paid to share holders)			
Bank a/c	Dr	27,000	
P & L a/c	Dr	1,000	
To Investments a/c			28,000
(Being investments sold at loss)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	10,000	Land	1,00,000
Reserves and surplus	90,000	Plant	30,000
Securities premium (10,000 + 2,000 – 2,500)	9,500	Current assets	2,000
General reserve	4,000	Stock	30,000
Current liabilities	30,000	Debtors	15,000
Bank over draft	13,500	B/R	20,000
Capital redemption reserve (16,000 + 24,000)	40,000		
	1,97,000		1,97,000

Cash = ₹12,000 + ₹27,000 – ₹52,500 = ₹13,500 Bank O/D

Illustration -14 Give journal entries and prepare revised balance sheet

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
9 % Redeemable preference shares of ₹100 each fully paid	3,00,000	Fixed assets	8,00,000
Equity shares of ₹100 each fully paid	5,00,000	Bank	2,00,000
Creditors	2,00,000	Other currents	5,00,000
Capital reserve	1,00,000	Investments	1,00,000
Profit and loss a/c	2,00,000		
10 % Debentures	3,00,000		
	16,00,000		16,00,000

Both redeemable preference shares and debentures were due on 1- 1- 2015. The company arranged for the following:

- It issued 2,000 equity shares of ₹100 at a premium of 10 %
- It sold the investments for ₹90,000
- It arranged a bank overdraft to the extent necessary.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Redeemable preference share capital a/c	Dr	3,00,000	
To Preference share holders a/c			3,00,000
(Being amount due)			
Bank a/c	Dr	2,20,000	
To Equity share capital a/c			2,00,000
To Share premium a/c			20,000
(Being fresh issue of shares)			
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			1,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	3,00,000	
To Bank a/c			3,00,000
(Being amount paid to share holders)			

Bank a/c	Dr	90,000	
P & L a/c	Dr	10,000	
To Investments a/c			1,00,000
(Being investments sold at loss)			
10% Debentures a/c	Dr	3,00,000	
To Bank a/c			3,00,000
(Being debentures redeemed)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of `100 each	7,00,000	Fixed assets	8,00,000
Creditors	2.00,000	Other currents	5,00,000
Capital reserve	1,00,000		
P & L a/c (2,00,000 – 1,00,000 – 10,000)	90,000		
Capital redemption reserve	1,00,000		
Bank overdraft	90,000		
Securities premium	20,000		
	13,00,000		13,00,000

Bank a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	2,00,000	By Preference shareholders	3,00,000
" Investment	90,000	" Debentures	3,00,000
" Equity share capital	2,20,000		
" Balance c/d (b/f)	90,000		
	6,00,000		6,00,000

Illustration -15 Give journal entries and prepare balance sheet.

Balance Sheet as on 31- 12- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
6 % Redeemable preference shares of ₹10 each	1,00,000	Fixed assets	4,00,000
Equity shares of ₹10 each		Other current assets	4,60,000

Creditors	5,00,000	Cash	2,40,000
Profit and loss a/c	1,40,000		
8 % Debentures	2,00,000		
General reserve	50,000		
	1,10,000		
	11,00,000		11,00,000

The directors decide to

(a) redeem preference shares at a premium of 5 %

(b) redeem debentures at a premium of 10 %

(c) make a bonus issue to the equity shareholders of one ₹10 equity share for every five ₹10 shares held, in order to capitalize a part of the undistributed profits.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Redeemable preference share capital a/c	Dr	1,00,000	
Premium on redemption a/c	Dr	5,000	
To Preference share holders a/c			1,05,000
(Being amount due)			
P & L a/c	Dr	5,000	
To Premium on redemption a/c			5,000
(Being premium on redemption cancelled)			
P & L a/c	Dr	1,00,000	
To Capital redemption reserve a/c			1,00,000
(Being amount taken from P & L a/c)			
Preference share holders a/c	Dr	1,05,000	
To Bank a/c			1,05,000
(Being amount paid to share holders)			
Debenture a/c	Dr	50,000	
Loss on redemption a/c	Dr	5,000	
To Bank a/c			55,000
(Being debentures redeemed)			
Bonus to share holders a/c	Dr	1,00,000	
To Share capital a/c			1,00,000
(Being bonus shares to be given)			

P & L a/c	Dr	95,000	
General reserve a/c	Dr	5,000	
To Bonus to share holders a/c			1,00,000
(Being bonus shares given)			

Balance Sheet as on 31- 12- 15

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	6,00,000	Fixed assets	4,00,000
Creditors	1,40,000	Other current assets	4,60,000
Capital redemption reserve	1,00,000	Cash	80,000
General reserve	1,05,000	Loss on redemption of debenture	5,000
	9,45,000		9,45,000

Cash a/c = ₹2,40,000 – (1,05,000 + 55,000) = ₹80,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. To the extent redemption take place from out of profits an equal amount should be transferred to

   a) General reserve b) Share premium a/c

   c) Capital reserve d) **Capital redemption reserve**

2. Transfer to capital redemption reserve a/c can be made from

   a) **General reserve** b) Share premium a/c

   c) Capital reserve d) P & L a/c (Dr)

3. For redeeming ₹1,00,000 preference shares, a company issues 3,000 equity shares of ₹10 each at a premium of 10%. Find the amount transferred to capital redemption reserve.

   a) ₹1,00,000 b) **₹70,000**

   c) ₹67,000 d) ₹33,000

4. Issue and redemption of preference shares are given in ______ of the Companies Act 1956.

   a) **Sec.80** b) Sec.78

   c) Sec.77A d) Sec.77B

5. Transfer to capital redemption reserve is not allowed from

   a) P & L a/c b) Debenture redemption fund

   c) Workmen Accident fund d) **Profits prior to incorporation**

6. _______ shares can only be redeemable

   a) Partly paid up b) Uncalled up

   c) **Fully paid up** d) Called up

7. Premium on redemption of preference shares should be cancelled by utilizing

   a) **Share premium a/c** b) P & L a/c

   c) General reserve a/c d) Capital reserve a/c

8. Which of the following is not used for redemption of preference shares?

   a) **Debenture issue** b) Equity share issue

   c) Capital redemption reserve d) P & L a/c

9. Preference shares can be redeemed out of

   a) Profits b) Fresh issue of shares

   c) **Both a and b** d) Issue of debentures

10. Capital redemption reserve is used for ___________

    a) **Issue of bonus shares**　　b) Paying dividend

    c) Adjusting the loss　　d) Profit distribution

11. Redeemable preference shares can be redeemable out of

    a) Amount realized on sale of investments

    b) Divisible profits otherwise available for dividend

    c) Proceeds of fresh issue of shares

    d) **Both b and c**

12. Amount transferred to capital redemption reserve is equal to

    a) **Excess of preference shares to be redeemed over fresh issue of equity shares**

    b) Excess of fresh issue of equity shares over preference shares to be redeemed

    c) Preference shares to be redeemed

    d) Fresh issue of equity shares

REVIEW QUESTIONS

A. Answer in short:

1. What is the Meaning of redeemable Preference shares?
2. What is Capital Redemption Reserve?
3. List out the profits which are eligible to be transferred to CRR.
4. What are the various Profits which are most Transferred to CRR?
5. Give the Journal entries for redemption of preference shares?

B. Answer in Detail.

1. Explain the Conditions for issue of preference shares and give journal entries for the issue of preference shares.
2. Explain the provisions under companies Act relating to the redemption of preference shares.

EXERCISES

1. Redemption of 20,000 preference shares of ₹100 each was carried out by utilization of reserves and by issue of 8,000 equity shares of ₹100 each at ₹125. How much should be credited to capital redemption reserve a/c?

2. Redeemable preference shares to be redeemed ₹10,000; Premium on redemption 10%; Profit available for dividend ₹2,000; Fresh issue to be made at 10% premium. Ascertain the minimum fresh issue of shares.

3. G Ltd had issued 2,000, 12% Redeemable preference shares of ₹100 each. In order to redeem these, 500 ordinary shares of ₹100 each were issued at 10% premium. The company had sufficient balance in its P & L a/c. An investment costing ₹1,00,000 was sold for ₹93,000. Preference shares were redeemed at par. Pass necessary journal entries.

4. A company had as a part of its share capital 1,000 redeemable preference shares of ₹100 each fully paid-up. When the shares became due for redemption, the company has ₹60,000 in its reserve fund. The company made minimum new issue of equity shares of ₹25 each necessary for the purpose of redemption and received cash in full. Make the necessary journal entries recording the above transaction.

5. A company has issued 50,000 redeemable preference shares of ₹10 each, ₹8 paid up. In order to redeem these shares how being redeemable, the company issued for cash 30,000 equity shares of ₹10 each at a premium of ₹2 per share. Out of the cash proceeds, the redeemable preference shares were paid and the balance was met out of the reserve fund which stood at ₹2,50,000. Show the journal entries in the books of the company.

6. Murugan Ltd has 8,000 reclaimable preference shares of ₹100 each fully paid up. The company decided to redeem the shares on 30th Sep. 2015, at a premium of 7%. The company has sufficient profits result in order to augment liquid funds the following issues were made.

   i) 3,000 6% debentures of ₹100 each at ₹106

   ii) 2,000 equity shares of ₹100 each at ₹111.

   The issues were fully subscribed and all the amounts were received. The redemption was carried out. Journalize the transaction.

7. On 1-4-2015 Ram Ltd issued 10,000 9% redeemable preference shares of ₹100 each fully paid. The company decides to redeem the shares at a premium of 10%. The company makes the following issues

   a) 6,000 equity shares of ₹100 each at a premium of 10%

   b) 4,000 8% debentures of ₹100 each.

   The issue was fully subscribed and allotments were made. The redemption was fully duly carried out. The company has sufficient profits.

   You are required to pass journal entries for the above transactions.

8. A company issued 10,000 equity shares of ₹10 each ₹8 paid up. It passed the following resolutions:

i) That profit be used in making the partly paid up shares into fully paid

ii) That further 1,000 fully paid up bonus shares of ₹10 each be issued to the existing share holders

iii) That the following balances be used:

P & L a/c ₹25,000; Share premium ₹2,000 and capital redemption reserve ₹4,000.

You are required to give journal entries for recording the above transactions.

9. On 31st March 2015 the balance sheet of S Ltd. stood as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	5,00,000	Sundry assets	7,00,000
Redeemable preference shares	2,00,000	Bank	2,50,000
General reserve	1,50,000		
Creditors	1,00,000		
	9,50,000		9,50,000

On the above date, the preference shares had to be redeemed. For the purpose, 1,000 equity shares of ₹100 each were issued at ₹110. The preference shares were duly redeemed.

Give journal entries and balance sheet after redemption.

10. The balance sheet of Agenta Ltd as on 31-12-2015 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
6% Redeemable preference shares of ₹10 each	1,00,000	Land	2,50,000
Equity shares of ₹10 each	5,00,000	Plant	1,50,000
General reserve	1,10,000	Stock	3,00,000
P & L a/c	3,40,000	Debtors	1,60,000
15% Debentures	50,000	Cash	2,40,000
	11,00,000		11,00,000

The directors decided to:

i) Redeem the preference shares at a premium of 5%

ii) Redeem the debentures at a premium of 10%

iii) Make a bonus issue of one equity share of ₹10 to equity share holders for every ₹10 share held in order to capitalize a part of the undistributed profits.

The resolution has been passed and the above transactions were completed.

You are required to show journal entries to record the transactions and the balance sheet as it could appear after the completion of transactions.

11. On 31st Dec. 2007 the balance sheet of Iniyan Ltd. was as under:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	2,00,000	Sundry assets	9,00,000
6% Redeemable preference shares of ₹100 each	3,00,000	Bank	1,00,000
6% Debentures	1,00,000		
General reserve	1,50,000		
P & L account	1,00,000		
Creditors	1,50,000		
	10,00,000		10,00,000

Redeemable preference shares were redeemable on the above date as ₹100. For this purpose 1,000 equity shares were issued at ₹150. All these shares were taken by the public.

Give journal entries and show the balance sheet.

12. M Ltd has an issued share capital of 650 7% redeemable preference shares of ₹100 each and 4,500 equity shares of ₹50 each. The preference shares are redeemable at a premium of 7.5 % on April 1, 15.

Balance Sheet as on March 31, 2015

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
7 % Redeemable preference shares of ₹100 each fully paid	65,000	Fixed assets	3,45,000
Equity shares of ₹50 each fully paid	2,25,000	Investments	18,500
Profit and loss a/c	48,000	Bank	31,000
Creditors	56,500		
	3,94,500		3,94,500

In order to facilitate the redemption of preference shares, the company decided.

- To sell all the investments for ₹16,000.
- To finance part of the redemption from company funds, subject to leaving a balance of ₹12,000 in the profit and loss a/c and
- To issue sufficient equity shares of ₹50 each at a premium of ₹13 per share to raise the balance of funds required.

Give journal entries and prepare balance sheet.

13. S Ltd decided to redeem its preference shares at a premium of 5 % on 1st April 2015.

Balance Sheet as on 31- 3- 15

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
14% Redeemable preference shares of ₹20 each fully paid	12,00,000	Fixed assets	25,00,000
Equity shares of ₹10 each fully paid	40,00,000	Bank	3,50,000
Creditors	11,00,000	Other current assets	38,00,000
Profit and loss a/c	7,00,000	Investments	3,50,000
	70,00,000		70,00,000

In order to facilitate the redemption, it was decided:

- To sell the investments for ₹3,00,000.
- To finance part of the redemption from company funds subject to leaving of balance in profit and loss a/c of ₹2,00,000
- To issue sufficient equity shares of ₹10 each at a premium of ₹2 per share to raise the balance of funds required.

Give journal entries and prepare balance sheet

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. XYZ Ltd. had to redeem the 5,000 6% redeemable preference shares of Rs. 100 each at a premium of 4% on December 31, 1990. The company made the following issues in the-later half of December.

   (a) 2,000 equity shares of Rs. 100 each @ Rs. 130 per share.

   (b) 6% debentures of Rs. 2,00.000 at a discount of 5%. The whole issue was subscribed and all the cash against them was received. The company carried out the redemption satisfying the legal requirements. Expenses in this respect came to Rs. 5,000

   Show the journal entries covering the issue of shares and debentures and the redemption of preference shares.

   [Periyar B.Com., Sept.,2014]

2. A company, in a series of operations: Issues at par 45,000 redeemable preference shares of Rs. 10 each, redeemable at a premium of 5 per cent. Redeems 15,000 of the redeemable preference shares out of the profit of the company. Issues for cash 30,000 equity shares of Rs. 10 each at a premium of Re. 1 per share and out of the proceeds, redeems the balance of the redeemable preference shares.

   [Periyar, M.Com Nov. 2013]

3. The following is summarized balance sheet of a company as on April 30th 2001.

Liabilities	Rs.	Assets	Rs.
Issued, subscribed and paid up capital :		Sundry assets	18,00,000
4,000 8% Redeemable Preference Shares	4,00,000	Cash at Bank	6,60,000
3,000 9% Redeemable Preference Shares of Rs. 100 each, Rs.80 paid up	2,40,000		
1,00,000 equity shares of Rs. 10 each fully called up and paid up			
Securities Premium A/c	50,000		
Revenue Reserve	5,00,000		
Current Liabilities	2,70,000		
	24,60,000		24,60,000

It was decided to redeem both the classes of preference shares on 30th June at a premium of 5%. In May 2001, the company issued for cash so many equity shares of Rs. 10 each as were necessary to provide for redemption of both classes of preference shares which could not otherwise be redeemed. The issue was fully subscribed and all moneys were received. Give journal entries in the books of the company.

[Madurai , B.Com., Oct. 2015]

4. A company has 4,000 7% redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on December 31, 1996 at a premium of 5%. The company has sufficient profits but in order to augment liquid funds and redeem the shares, it makes the following issues: 1,000 equity shares of Rs. 100 each at a premium of 10%. 1,000 5% debentures of Rs. 100 each. The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries to record the above.

[Periyar,B.Com (CA) May 2013]

5. Balance sheet of X Ltd. As on march 31,1994

Liablities	Amt	Assets	Amt
Share capital:		Fixed assets	22,00,000
Issued, Subscribed and fully paid up		Current Assets	8,00,000
10,000 ordinary shares of Rs.100 each	10,00,000		
5,000 pref.shares of Rs.100 each	5,00,000		
Capital Reserve	1,00,000		
Securities premium A/c	1,00,000		
General reserve	2,00,000		
Profit& loss A/c	1,00,000		
Current Liablities--	10,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent required under the companies act for the purpose of this redemption. The short falls in funds for the purpose of redemption after utilizing the proceeds of the fresh issue are to be met by taking a bank loan. Show the journal entries.

[Azhagappa uni, B.Com, April,2016]

6. A company wants to redeem its 10,000 6% preference shares of Rs.10 each, fully paid at 10% premium. The ledger accounts show the following balances:

Securities Premium Rs. 2,000; Profit & Loss A/c (Cr) Rs.10,000; The directors redeemed the shares by making minimum fresh issue of equity shares of Rs. 10 each at a premium 5%. Give journal entries.

[Madras, B.Com., B.Com (CS) Nov. 2013]

7. The following balances appear in ledger of a company as on 30.6.2004

	Rs.
Equity shares (fully paid up)	6,00,000
Redeemable Preference shares (fully paid up)	3,00,000
General reserve	2,00,000
Profit & Loss A/c (Cr. balance)	1,25.000
Securities premium account	50,000

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and undistributed profits. Give journal relating to redemption of the preference shares.

Madras, B.C.S. (SY3B)

Nov. 2005; 1st M.Com. April 2005; B.C.S. April 2004]

[Ans: Capital Redemption Reserve A/c - Rs. 3,00,000]

8. The following is the balance sheet of Raman Company Limited as on 31.12.96

Liablities	***Amt***	***Assets***	***Amt***
Sharecapital :		Fixed assets	3,10,000
1000 6% Redeemable preference shres of Rs.100 each fully paid	1,00,000	Cash at bank	1,40,000
20,000 equity shares of Rs.10 each	2,00,000		
Profit & Loss A/c			
Sundry creditors	1,20,000		

	30,000		
	4,50,000		4,50,000

The company resolved to redeem its preference shares at a premium of 25% out of profits. Give the necessary journal entries.

[Madras, B.Com, 2004, 2014]

[Ans: Capital redemption reserve a/c-Rs.1,00,000]

9. Sam Ltd. had as part of the share capital 20,000 preference shares of Rs. 100 each fully paid up. When the shares became due for redemption, the company had Rs. 12,00,000 in its Reserve Fund. The company issued necessary Equity shares of Rs. 25 each specially for the purpose of redemption and carried out the redemption. Make necessary Journal entries to record the above transactions.

[Madras, B.Com. Oct 200, B.Com,2013]

[Ans : New Issue : 32,000 shares i.e., Rs. 8,00,000]

10. The summarized balance sheet of Gaur Ltd. on 31st Dec. 2004 was as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Sundry assets	9,80,000
2,000 9% Redeemable Preference		Cash at Bank	4,20,000
shares of Rs. 100 each fully paid	2,00,000		
80,000 equity shares of Rs. 10 each, fully paid	8,00,000		
Profit & Loss A/c	2,60,000		
Creditors	1,40,000		
	14,00,000		14,00,000

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass journal entries and give the amended balance sheet.

[Madras, B.C.S. (Sem - SY3B) AP 2005 (-1 Figs)

[Ans: Transfer to C. R. R. - Rs. 2,00,000; Balance Sheet total - Rs. 11, 80,000]

11. . The following is the balance sheet of Raj Ltd. as on 31st Dec. 2009.

Liabilities	Rs.	Assets	Rs.
Share capital:			
50,000 equity shares of Rs.10 each	5,00,000	Sundry assets	6,00,000

2,000 8% redeemable preference		Cash at Bank	4,40,000
shares of Rs. 100 each	2,00,000		
Profit & Loss A/c	2,40,000		
Sundry creditors	1,00,000		
	10,40,000		10,40,000

The company resolved to redeem its preference shares at a premium of 20% Out of profits. Pass the necessary Journal entries and show the important ledger accounts and the company's balance sheet after completion of redemption.

[Madras B.com,April,2004]

[Ans: Transfer to capital redemption reserve A/c – Rs.2,00,000]

[Total of Balance sheet- Rs.8,00,000]

12. A company wishes to redeem its preference shares amounting to Rs. 1,00,000 at a premium of 5% and for this purpose issued 5,000 equity shares of Rs. 10 each at a premium of 5%. The company has also a balance of Rs. 1.00,000 on general reserve and Rs. 50,000 on profit & loss account. Pass the necessary journal entries to record the above transactions.

[Madras, B.Com., B.Com(CS) Nov. 2008; B.C.S. Nov. 2004 B.A. Corrp. Sep. 1990]

[Ans: Transfer to Capital Redemption Reserve A/R from general reserve — Rs. 50,000]

13. B Ltd. had issued 50,000 redeemable preference shares of Rs. 10 each, Rs. 8 paid. In order to redeem these shares, the company issued for cash 30,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. Out of the cash proceeds the redeemable preference shares were paid and the balance was met out of the reserve fund which stood at Rs. 2,50,000. Give journal entries in the books of the company.

[Madras, B.Com (CS) (PYD) Nov. 2007; B.C.S. April 2000J

[Ans : C.R.R. : Rs. 2,00,rvj]

14. A company had, as part of its share capital, 1,000 redeemable preference shares of Rs. 100 each fully paid up. When the shares became due for redemption. the company had Rs. 60,000 in its reserve fund. The company made minimum new issue of equity shares of Rs. 25 each necessary for the purpose of redemption and received cash in frill. Make the necessary journal entries recording the above transactions.

[Madras, B.Com., Oct 2003 (20 Times) April 2003; April 2002; April 2001; May 1997; Sept. 1997; May 1996; March 1989]

[Ans: Capital Redemption Reserve A/c — Rs. 60,000; New issue — Rs. 40,000]

15. A company has 8,000 redeemable preference shares of Rs. 100 each fully paid. The company decides to redeem the shares on Sept. 30 1997 at a premium of 7%. The company has sufficient profits but in order to augment liquid funds the following issues are made:

(a) 3,000 6% debentures of Rs. 100 each at Rs. 110

(b) 2,000 equity shares of Rs. 100 each at Rs. 111

These issues were fully subscribed and all the amounts were received. The redemption was duly carried out. Give journal entries.

[Madras B.Com, Ap2007,Nov 2005; B.Com, 1998]

[Ans : Capital Redemption Reserve A/c Rs. 6,00,000]

16. Meenakshi Co. Ltd. has an authorised capital of Rs. 8,00,000 divided into 10,000 6% redeemable preference shares ofRs. 10 each: 20,000 7% redeemable preference shares of Rs. 10 each and 50,000 equity shares of Rs. 10 each. On 1.1.75, the whole of the two classes of preference shares and 15,000 of the equity shares stood in the books as fully paid. The securities premium account as on that date showed a balance of Rs. 20,000 and the balance of profit & loss account was Rs. 32,000.

    On 1.1.75, it was decided to redeem the whole of 6% preference shares at a premium of Re.1 per share. For specific purpose the company issued for cash 8,000 equity shares of Rs.10 each at a premium of Rs.2 per share, payable in full in total. All the above shares were taken up. The cost of issue of shares amounted to Rs.3,000. Give necessary journal entries and prepare ledger accounts in respect of the above transactions.

[Madras,B.Com,Dec,2000]

[Ans: capital redemption reserve A/c- Rs.20,000]

17. Sri Ram Ltd. had the following balance sheet as on 1.4.1990.

Liabilities	***Rs.***	***Assets***	***Rs.***
10,000 6% Preference shares of Rs. 10 each	1,00,000	Buildings	2,00,000
		Plant	2,00,000
30,000 Equity Shares of Rs. 10 each	3,00,000	Stock	1,00,000
General Reserve	1,00,000	Debtors	1,00,000
P & L A/c	80,000	Cash at Bank	1,00,000
Creditors	1,20,000		
	7,00,000		7,00,000

The company decided to redeem its preference shares at 10% premium. For this purpose, it issued new 5,000 equity shares of Rs. 10 each at 10% premium. Show necessary journal entries and balance sheet.

[Thiruvalluvar, B.com, April, 2007]

[Ans: capital redemption reserve account – Rs.50,000;Bank balance, Rs. 45,000; Balance sheet, Rs.6,45,000]

18. On 31st dec.1993 the balance sheet of sundaram Ltd. stood as follows:

Liablities	**Amt**	**Assets**	**Amt**
Equity share capital	5,00,000	Sundry Assets	7,60,000
Redeemable preference share capital	2,00,000	Bank	1,90,000
General reserve	1,50,000		
Sundry creditors	1,00,000		
	9,50,000		9,50,000

On the above date, the preference shares had to be redeemed. For this purpose 1,000 equity shares of Rs.100 each were issued at Rs.110. The shares were immediately subscribed and paid for. The preference shares were duly redeemed. Give the journal entries and balance sheet after redemption.

[Madras, B.Com, sept,2013]

[Ans: Capital redemption reserve A/c- Rs. 1,00,000; Bank balance, Rs.1,00,000;balance sheet, Rs. 8,60,000]

19. The following was the balance sheet of A.Ltd at March 31st 1985.

Liablities	**Amt**	**Assets**		**Amt**
Share capital:		Fixed assets	1,10,000	
10,000 Equity shares of Rs.10 each	1,00,000	Less: Depn	50,000	60,000
		Stocks		1,40,000
10,000 6% preference shares (redeemable) of Rs.10 each.	1,00,000	Debtors		1,40,000
		Cash at bank		1,00,000
P & L A/c	45,000			
General reserve	80,000			
Taxation Reserve	30,000			
Current Liablities	85000			
	4,40,000			4,40,000

It was decided to issue a further 3,000 equity shares at a premium of Rs. 5 per share and to be redeemed the preference shares. Pass the journal entries for redeeming the preference shares and prepare the balance sheet after the redemption is completed.

[Madras, B.C.S, oct, 2003]

[Ans: Capital redemption Reserve A/c-Rs.70,000; Balance sheet total-3,85,000]

20. The balance sheet of ABC&Co., Ltd on 31.12.1990

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity shares of Rs. 100 each	5,00,000	Fixed assets	8,00,000
9% redeemable preference shares		Investments	1,00,000

of Rs. 100 each	3,00,000	Bank balance	2,00,000
Securities Premium	50,000	Other current assets	5,00,000
Capital Reserve	1,00,000		
P & L A/c	2,00,000		
10% Debentures	3,00,000		
Creditors	1,50,000		
	16,00,000		16,00,000

Both the redeemable preference shares and debentures were due for redemption on 1.1.91. The company arranged for the following: It issued 2,000 equity shares of Rs. 100 at a premium of 10%. It sold the investments for Rs. 90,000 It arranged a bank overdraft to the extent necessary. The redemptions were carried out. Give entries for redemption of preference shares and debentures and balance sheet after redemption.

[Ans: Capital redemption reserve A/c Rs. 1,00,000; Balance sheet total Rs. 13,00,000; Bank overdraft Rs. 90,000] [Madras, B.Com, B.Com(CS)Ap 2009; B.Com.(PZG) Nov. 2006; B.Com Oa 1997; March 19931

21. The following is the balance sheet of Sundari Ltd. as on 31.12.1985. The company decided to redeem its preference shares at a premium of 5% on 31st January 1986. A fresh issue of 1,000 equity share of Rs. 10 each was made at Rs. 12 per share payable in full on 31st Jan. 1986. These were fully subscribed and paid for. All the investments were sold for Rs. 27,000. The directors wish that only a minimum reduction should be made in the revenue reserves. You are required to give the journal entries to record the above transactions and draw up the balance sheet after the redemption of preference shares.

Liabilities	***Rs.***	***Assets***	***Rs.***
		Fixed Assets:	
Share Capital:		Land and Building	1,00,000
500 Redeemable preference		Plant	30,000
Shares of Rs. 100 each fully paid	50,000	Furniture	2,000
9,000 equity shares of Rs. 10		*Current assets:*	
each fully paid	90,000	Stock	30,000
Reserves & Surplus :		Debtors	15,000
Securities premium	10,000	Investments	28,000
General reserve	20,000	Bank	20,000
Profit & Loss A/c	25,000		
Current liabilities	30,000		
	2,25,000		2,25,000

[Madras, B.Com (CS) (SY3B) Ap 2007;]

[Ans: Capital Redemption Reserve A/c — Rs. 40,000; Balance Sheet total — Rs. 1,83,500; Bank A/c balance,Rs. 6.500]

UNIT – 4

ISSUE AND REDEMPTION OF DEBENTURES

Definition - Differences between Debentures and Shares - Types of debentures - Issue and Redemption – Methods of redemption - Debenture Redemption Fund Method - Conversion of Debentures

Debenture is an important source of raising funds by a company as a company requires large number of funds to finance its new projects or for its expansion. This requirement is met by the company partly by raising share capital and partly by long term borrowings. One form of such long term borrowings is to raise money by issuing debentures to the general public. Debenture is a written instrument acknowledging a debt taken under the common seal of the company. It contains terms and conditions of contract as regard the payment of interest and redemption of the principal.

4.1 DEFINITION OF DEBENTURE

According to Section 2 (12) of the Companies Act 1956 defines "Debenture includes debenture stock, bonds, and any other securities of a company whether constituting a charge on the assets of the company or not".

According to Tophon, "Debenture is a document given by the company as an evidence of debt to the holder usually arising out of a loan and most commonly secured by a charge".

Debenture holders are entitled to get a fixed percentage of interest payable either annually or half yearly. Interest is a charge against profit.

4.2 DIFFERENCES BETWEEN DEBENTURES AND SHARES

Basis	Debenture	Share
Nature	It is a part of the borrowed funds	It is the part of the owned capital
Status	Debenture holders are the creditors of the company	Shareholders are the owners of the Company.
Returns	A debenture holder gets interest even if there are losses.	A shareholder gets dividend out of profits and cannot be claimed by him till declared by the company.

Repayment	They are redeemed on the due date.	Amount of equity share capital is not returned during the lifetime of the company
Charge	A charge fixed or floating is created on company's assets when debentures are issued.	No charge is created on assets of the company when it issues shares.
Voting Rights	Debenture holders do not enjoy any voting rights.	Share holders enjoy voting rights.
Convertibility	Debenture can be converted into equity shares.	Shares cannot be convertible.
Restriction	There is no legal restriction on purchase of its own debentures.	There are legal restrictions on the purchase of its own shares.
Winding up	At the time of winding up debenture holders are repaid after the payment to the shareholders is made.	Share capital is returned after all claims are met.

4.3 TYPES OF DEBENTURES

I. SECURITY POINT OF VIEW

(a) Simple or Naked or Unsecured Debentures:

These are those debentures that have no security. The holders of such debentures are treated as unsecured creditors at the time of winding up of the company.

(b) Secured Debentures:

These are the debentures that are secured against the particular assets of the company. If the company is unable to repay the amount of debentures, than the debenture holders can realize their dues from the assets mortgaged with them

II. TENURE POINT OF VIEW

(a) Redeemable Debentures:

These are those debentures that will be repaid by the company at the end of the specified period during the existence of the company.

(b) Irredeemable Debentures:

These are those debentures which are not to be repaid during the lifetime of the Company.

III. MODE POINT OF VIEW

(a) Convertible Debentures:

These are those debentures which can be converted into the equity shares on the option of the debenture holders.

(b) Non Convertible Debentures:

These are those debentures which cannot be converted into the equity shares on the option of the debenture holders.

IV. REGISTRATION POINT OF VIEW

(a) Registered debentures:

These are the debentures in which the details of the debenture holders are registered in the register of the Company. These debentures cannot be transferred from one debenture holders to another.

(b) Bearer Debentures:

These are those debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holder.

4.4 ISSUE OF DEBENTURES

Debentures are issued, like shares, by the company issuing a prospectus where by the public is invited to apply for its debentures. The debentures may be issued at par or at a premium or at a discount.

4.5 TYPES OF ISSUE OF DEBENTURES

1) Debentures issued for cash

The issue price is receivable is the form of cash. It may be received immediately in one installment or or it may be received in one installment or it may be received in two or more stages like application, allotment and calls.

2) Debentures issued for consideration other than cash

Debentures only be issued for purchase of assets or some times debentures are issued for purchase consideration (ie) purchase of the business from the vendors.

(vendors a/c dr

To debentures a/c)

3) Debentures issued as collateral security

Debentures are issued as secondary security or subsidiary security for a bank loan or mortgage loan. For the collateral security, the company makes no entry in its books.

4.6 METHODS OF REDEMPTION OF DEBENTURES

Repayment or discharge of liability on account of debentures is called redemption of debentures. The method of debenture redemption adopted determines to a very large extent, the actual accounting for redemption as well as the marshalling of resources for the same. There are broadly four methods for the redemption of debentures which are as follows:

1. Lump-sum payment method:

In Lump-sum payment method, redemption of debentures is done by repayment in one lump sum after the expiry of a stipulated period. The total amount payable to debenture holders is decided at the time of issue of debentures (i.e. debentures will be redeemed at par or at premium). Usually a company creates sinking fund or an insurance policy fund for the redemption of debentures.

2. Drawings of Lots method:

In order to reduce the liability of debentures, company may repay the debentures in some instalments. A certain amount of debentures is redeemed at regular interval of time during the lifetime of the debentures by drawings of lots.

3. Purchase in the Open Market:

The company from the open market can purchase its own Debentures. Debentures so purchased may be cancelled immediately or may be kept as an investment, which will be cancelled later. It may beneficial for the company if it purchases its own debentures at a discount from the open market.

4. Ex-interest and cum interest purchases

When a company buys and sells its own debentures in the open market, the prices include or exclude interest on the debentures. If the price includes interest on the debentures from the previous interest date till the date of sale, the price is known as “cum-interest price”. If the price does not include the interest on the debentures from the previous interest date till the date of sale, the price is known as “ex-interest price”.

5. Conversion Method:

Usually debentures are redeemed in cash but sometimes debenture holders are given an option to get their debentures converted either in shares or for new debentures of the company. The redemption of debentures by means of shares or new debentures is known as redemption by conversion. Debentures, which carry such right, are called ‘Convertible Debentures’.

Advantages of Conversion of debentures

- In the initial stage of the company they keep themselves as secured creditors of the company and also earn fixed amount of interest on their debentures.
- At later stage when the profitability and management efficiency of a company are proved, they can exercise their right of converting their debentures into shares and can participate in the profits of the company.

Redemption out of Capital:

When debentures are redeemed out of capital, no transfer is made to general reserve or debenture redemption reserve account. In this method it is assumed that the company has sufficient funds to redeem the debentures. So the profits are not utilized to replace the debentures. It affects adversely to the Working Capital of the company.

Redemption out of Profit:

When it is intended to redeem the debentures out of profits, a part of profits available for distribution of dividends is withheld by the company every year to be used for redemption purposes as and when the need arises for the same.

There are two alternatives available to the company in this regard namely:

a) the amount of divisible profits withheld by the company may be retained in the business itself as a source of internal financing.

b) The amount of divisible profits withheld from distribution as dividend may be invested either

   i) in readily marketable securities or

   ii) in taking out insurance policy to provide funds when required.

ISSUE AND REDEMPTION OF DEBENTURES

1. Issued at par and redeemable at par Bank a/c Dr To Debenture a/c	**2. Issued at discount and redeemable at par** Bank a/c Dr Discount on debenture a/c Dr To Debenture a/c
3. Issued at premium and redeemable at par Bank a/c Dr To Debenture a/c To Premium on debenture a/c	**4. Issued at par and redeemable at premium** Bank a/c Dr Loss on issue of debenture a/c Dr To Debenture a/c To Premium on redemption of debenture
5. Issued at discount and redeemable at premium Bank a/c Dr Discount on debenture a/c Dr Loss on issue of debenture a/c Dr To Debenture a/c To Premium on redemption of debenture	

Illustration -1A company issues the following debentures:

i) 2,000, 10% Debentures of ₹100 each at par but redeemable at a premium of 10% after ten years

ii) 500, 13% Debentures of ₹100 each at a premium of 10% payable at par after five years

iii) 1,000, 11% Debentures of ₹100 each at a discount of 10% but redeemable at a premium of 5% after 8 years

iv) 500 Debentures of ₹100 each as collateral security to a creditor who advanced a loan of ₹40,000

Journalize the above transactions.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	2,00,000	
Loss on issue of debentures	Dr	20,000	
To 10% Debentures			2,00,000
To Premium on redemption			20,000
(Being Deb. issued at par and redeemable at premium)			
Bank a/c	Dr	55,000	
To 13% Debentures			50,000
To Premium on issue of debentures			5,000
(Being Deb. issued at premium and redeemable at par)			
Bank a/c	Dr	90,000	
Discount on debentures a/c	Dr	10,000	
Loss on issue of debentures		5,000	
To 11% Debentures			1,00,000
To Premium on redemption			5,000
(Being Deb. issued at discount and redeemable at premium)			
Debenture suspense a/c	Dr	50,000	
To Debenture a/c			50,000
(Being dep. issued as collateral security)			

Illustration -2C Ltd. issued 1,000, 12% Debentures of ₹100 each. Give journal entries under two situations:

a) Issued at a discount of 10% and redeemable at a premium of 10%

b) Issued at par and redeemable at par

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	90,000	
Discount on issue of debentures	Dr	10,000	
Loss on issue of debentures	Dr	10,000	
To 12% Debentures			1,00,000
To Premium on redemption			10,000
(Being Deb. issued at discount and redeemable at premium)			
Bank a/c	Dr	1,00,000	
To 12% Debentures			1,00,000
(Being Deb. issued at par and redeemable at par)			

Illustration -3 You are required to set out the journal entries relating to the issue of following debentures in the books of X Ltd.

- 8% 120 ₹1,000 Debentures are issued at 5% discount and are repayable at par.
- Another 7% 150 ₹1,000 debentures are issued at 5% discount and repayable at 10% premium.
- Further 80 9% ₹1,000 debentures are issued at 5% premium
- In addition another 400 8% ₹100 debentures are issued at collateral securities against a loan of ₹40,000

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	1,14,000	
Discount on issue of debentures	Dr	6,000	
To 8% Debentures			1,20,000
(Being Deb. issued at discount)			
Bank a/c	Dr	1,42,500	

Discount on issue of debentures	Dr	7,500	
Loss on issue of debentures	Dr	15,000	
To 12% Debentures			1,50,000
To Premium on redemption			15,000
(Being Deb. issued at par and redeemable at par)			
Bank a/c	Dr	84,000	
To 12% Debentures			80,000
To Premium on redemption			4,000
(Being Deb. issued at premium)			
Debenture suspense a/c	Dr	40,000	
To Debenture a/c			40,000
(Being dep. issued as collateral security)			

Illustration -4 ₹10 lakhs debentures issued at 8% discount by a Ltd. Co. Each and every year end ₹2 lakhs redeemed for 5 years. Calculate the amount of discount for each and every year.

Solution

Year	Amount O/S	Ratio	Amount of discount ₹
1	10,00,000	5	80,000 x 5/15 = 26,667
2	80,000	4	80,000 x 4/15 = 21,333
3	60,000	3	80,000 x 3/15 = 16,000
4	40,000	2	80,000 x 2/15 = 10,667
5	20,000	1	80,000 x 1/15 = 5,333

4.7 DEBENTURE REDEMPTION RESERVE:

The amount required for the redemption of debentures is usually very large. It creates a great difficulty for the company to arrange this large amount to pay off its debentures. In case this large amount is paid out of company's working capital, it may affect the routine working of the company and that will affect the profitability of the company also. So in order to avoid this difficulty a company needs funds to repay its debentures.

According to a notification of Government of India issued by Controller of Capital Issue as on 1-1-1987, it is compulsory for all companies to create a Debenture Redemption Reserve up

to at least 50% of the amount of debentures issued before the commencement of redemption of debentures. The effect of such a notification is that a Company cannot redeem its debentures purely out of capital or purely out of current profits.

4.8 DEBENTURE REDEMPTION FUND/SINKING FUND:

It is a kind of reserve by which a provision is made to reduce a liability, e.g. redemption of debentures or repayment of a loan. A sinking fund is a form of specific reserve set aside for the redemption of a long term debt. The main purpose of creating a sinking fund is to have a certain sum of money accumulated for a future date by setting aside a certain sum of money every year. It is a kind of specific reserve.

Whatever the object or the method of creating such a reserve may be, every year certain sum of money is invested in such a way that with compound interests, the exact amount to wipe off the liability or replace the wasting asset or to meet the loss will be available. The amount to be invested every year can be known from the compound interest annuity tables.

Ledger Accounts

Debenture Redemption Fund a/c

Particulars	Amount	Particulars	Amount
To Balance c/d	xxx	By P & L Appropriation a/c	xxx
	xxx		xxx
To Balance c/d	xxx	By Balance b/d	xxx
		" P & L App. a/c	xxx
		" Interest a/c	xxx
	xxx		xxx
To Loss on redemption of debenture	xxx	By Balance b/d	xxx
		" P & L App. a/c	xxx
" Debenture Fund Investment (Loss)	xxx	" Interest a/c	xxx
		" Deb. Fund Investment a/c (Profit on sales)	xxx
" General reserve (b/f)	xxx		
	xxx		xxx

Debenture Redemption Fund Investment a/c

Particulars	Amount	Particulars	Amount
To Bank (Appropriation)	xxx	By Balance c/d	xxx
	xxx		xxx
To Balance b/d	xxx	By Balance c/d	xxx

“ Bank (Appropriation + Interest)	xxx		
	xxx		xxx
To Balance b/d	xxx	By Bank (Sales)	xxx
“ Deb. Fund (b/f) (Profit on sales)	xxx	“ Deb. Fund a/c (b/f) (Loss on sales)	xxx
	xxx		xxx

Debenture a/c

Particulars	Amount	Particulars	Amount
To Balance c/d	xxx	By Bank a/c	xxx
	xxx		xxx
At the end of last year			
To Bank	xxx	By Balance b/d	xxx
	xxx		xxx

Debenture holder’s a/c

Particulars	Amount	Particulars	Amount
To Bank	xxx	By Debentures	xxx
	xxx	“ Premium on redemption	xxx
	xxx		xxx

Illustration -5 A company issued 6% Debentures of ₹6,00,000 with a condition that they should be redeemed after 3 years at 10% premium. The amount set aside for the redemption of debentures is invested in 5% Govt. Securities. The sinking fund table shows that ₹0.31720856 at 5% compound interest in three years will become ₹1. You are required to give journal entries and open sinking fund a/c and sinking fund investment a/c.

Solution

Journal entries

Year	Particulars	LF	Debit ₹	Credit ₹
I	Bank a/c	Dr	6,00,000	
	Loss on issue of Deb.	Dr	60,000	
	To 6% Debentures			6,00,000
	To Premium on redemption			60,000

	(Being deb. issued)			
	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption Fund Invest. a/c	Dr	2,09,358	
	To Bank			2,09,358
	(Being annual amount invested)			
II	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption Fund Invest a/c	Dr	2,19,826	
	To Bank			2,19,826
	(Being annual amount invested)			
	Bank a/c	Dr	10,468	
	To Debenture R. Fund			10,468
	(Being interest received)			
III	P & L Appropriation a/c	Dr	2,09,358	
	To Debenture Fund			2,09,358
	(Being annual amount provided)			
	Deb. Redemption F.I. a/c	Dr	4,29,138	
	To Bank			4,29,138
	(Being annual amount invested)			
	Bank a/c	Dr	21,459	
	To Debenture Fund			21,459
	(Being interest received)			
	Debenture R F a/c	Dr	6,00,000	
	To General reserve a/c			6,00,000
	(Being fund a/c closed)			
	Debenture R F a/c	Dr	60,000	
	To Loss on issue of Deb.			60,000
	(Being fund investment a/c closed)			

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	2,09,358	By P & L Appropriation a/c	2,09,358
	2,09,358		2,09,358
To Balance c/d	4,29,184	By Balance b/d	2,09,358
		" P & L App. a/c	2,09,358
		" Interest a/c	10,468
	4,29,184		4,29,184
To Loss on redemption	60,000	By Balance b/d	4,29,184
" General reserve (b/f)	6,00,000	" P & L App. a/c	2,09,358
		" Interest a/c	21,458
	6,60,000		6,60,000

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	2,09,358	By Balance c/d	2,09,358
	2,09,358		2,09,358
To Balance b/d	2,09,358	By Balance c/d	4,29,184
" Bank (Appr. + Interest)	2,19,826		
	4,29,184		4,29,184
To Balance b/d	4,29,184	By Bank	4,29,184
	4,29,184		4,29,184

Illustration -6 A company issued 5,000 debentures of ₹100 each at par on 1st Jan. 2015 redeemable at par on 31st Dec.2019. A sinking fund was established for the purpose. It was expected that investments would earn 5%. Sinking fund tables show that ₹ 0.180975 amounts to ₹1 at the end of 5 years at 5% on 31st Dec.2019. The investments realized ₹3,90,000. On that date, the company's bank balance stood at ₹1,45,600. The debentures were duly redeemed. Give the necessary ledger accounts. Assume investments were made to nearest ₹10.

Solution

Annual appropriation = ₹50,000 x 0.180975 = ₹90,487.50

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	90,488	By P & L Appropriation a/c	90,488
	90,488		90,488
To Balance c/d	1,85,500	By Balance b/d	90,488

		" P & L App. a/c	90,488
		" Interest a/c	4,524
	1,85,500		1,85,500
To Balance c/d	2,85,263	By Balance b/d	1,85,500
		" P & L App. a/c	90,488
		" Interest a/c	9,275
	2,85,263		2,85,263
To Balance c/d	3,90,014	By Balance b/d	2,85,263
		" P & L App. a/c	90,488
		" Interest a/c	14,263
	3,90,014		3,90,014
To Deb. Redem. Fund Investment	10	By Balance b/d	3,90,014
		" P & L App. a/c	90,488
" General reserve (b/f)	4,99,992	" Interest a/c	19,500
	5,00,002		5,00,002

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	90,490	By Balance c/d	90,490
	90,490		90,490
To Balance b/d	90,490	By Balance c/d	1,85,500
" Bank (Appr. + Interest)	95,010		
	1,85,500		1,85,500
To Balance b/d	1,85,500	By Balance c/d	2,85,260
" Bank	99,760		
	2,85,260		2,85,260
To Balance b/d	2,85,260	By Balance c/d	3,90,010
" Bank	1,04,750		
	3,90,010		3,90,010
To Balance b/d	3,90,010	By Bank (Sales)	3,90,000
		" Deb. redemption fund a/c	10
	3,90,010		3,90,010

Illustration -7 A company issued ₹2,00,000, 5% debentures of ₹100 each at par repayable at the end of 6 years at a premium of 6%. The sinking fund at 4% compound interest is created for the

redemption of debentures. Draw up the debenture redemption fund a/c and debenture redemption fund investment a/c for 5 years at ₹1 per annum and 4% compound interest amounts to ₹5,3163 in 5 years.

Solution

Annual appropriation = ₹2,12,000/ 54,163 = ₹39,141

Debenture Redemption Fund a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance c/d	39,141	By P & L Appropriation a/c	39,141
	39,141		39,141
To Balance c/d	79,848	By Balance b/d	39,141
		“ P & L App. a/c	39,141
		“ Interest a/c	1,566
	79,848		79,848
To Balance c/d	1,22,183	By Balance b/d	79,848
		“ P & L App. a/c	39,141
		“ Interest a/c	3,194
	1,22,183		1,22,183
To Balance c/d	1,66,211	By Balance b/d	1,22,183
		“ P & L App. a/c	39,141
		“ Interest a/c	4,887
	166,211		1,66,211
To Loss on issue of deb.	12,000	By Balance b/d	1,66,211
(2,00,000 x 6%)		“ P & L App. a/c	39,141
“ General reserve (b/f)	2,00,000	“ Interest a/c	6,648
	2,12,000		2,12,000

Debenture Redemption Fund Investment a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Bank (Appropriation)	39,141	By Balance c/d	39,141
	39,141		39,141
To Balance b/d	39,141	By Balance c/d	79,848
“ Bank (Appr. + Interest)	40,707		
	79,848		79,848

To Balance b/d	79,848	By Balance c/d	1,22,183
" Bank	42,335		
	1,22,183		1,22,183
To Balance b/d	1,22,183	By Balance c/d	1,66,211
" Bank	44,028		
	1,66,211		1,66,211
To Balance b/d	1,66,211	By Bank (Sales)	–

4.9 CONVERSION OF DEBENTURES

Illustration -8 On 1st Jan.2012 Green Ltd issued 250, 5% Debentures of ₹1,000 each at ₹950. The debenture holders have all options to convert at par their holdings into 7% preference shares of ₹100 each at a premium of ₹25 per share at any time after 3 years and interest is payable half yearly. On 1st Jan.2015, holders of 50 debentures exercise their option. Show journal entries relating to issue and conversion of debentures.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Bank a/c	Dr	2,37,500	
Discount on issue of debentures a/c	Dr	12,500	
To 5% Debentures			2,50,000
(Being debentures issued)			
5% Debentures	Dr	50,000	
To 7% Preference share capital a/c			40,000
To Share premium a/c			10,000
(Being 50 debentures converted)			

Journal entries

1. Issue of debenture at discount	**2. For paying interest**
Bank a/c Dr	Interest on debenture a/c Dr
Discount on debenture a/c Dr	To Bank a/c
To Debenture a/c	

3. For closing interest Profit and loss a/c Dr To Interest on debenture a/c	**4. For writing off discount on debenture** Profit and loss a/c Dr To Discount on debenture a/c

Entry for canceling the debenture

1. Face value is given Debenture a/c Dr To Bank a/c	**2. Premium value is given** Debenture a/c Dr Loss/Premium on redemption of debenture a/c Dr To Bank a/c

Illustration -9 B Ltd. issued 1,000, 12% Debentures of ₹100 each on 1-1-2015. Interest is payable on 30th June and 31st Dec. every year. On 1st April 2016, the company purchased 100 of its debentures at ₹98 ex-interest for immediate cancellation. On 1st October 2016, the company purchased another 100 of its debentures at ₹98 cum interest and cancel them immediately. The company closes its books of accounts on 31st Dec. every year. Pass journal entries and show balance sheet as on Dec.31.2016.

Solution

Journal Entries

Date	Particulars	LF	Debit ₹	Credit ₹
1-1-15	Bank a/c	Dr	1,00,000	
	To 12% Debentures			1,00,000
	(Being deb. issued)			
30-6-15	Interest on debenture a/c	Dr	6,000	
	To Bank			6,000
	(Being interest paid)			
31-12-15	Interest on debenture a/c	Dr	6,000	
	To Bank			6,000
	(Being interest paid)			
31-12-15	P & L a/c	Dr	12,000	
	To Interest on debenture a/c			12,000
	(Being interest closed)			
1-4-16	Own debentures a/c	Dr	9,800	
	Interest on debenture a/c	Dr	300	

	To Bank			10,100
	(Being interest paid)			
1-4-16	Debenture a/c	Dr	10,000	
	To Own debentures a/c			9,800
	To Capital reserve			200
	(Being debenture redeemed)			
30-6-16	Interest on debenture a/c	Dr	5,400	
	To Bank			5,400
	(Being interest paid)			
1-10-16	Own debentures a/c	Dr	9,500	
	Interest on debenture a/c	Dr	300	
	To Bank			9,800
	(Being interest paid)			
	Debenture a/c	Dr	10,000	
	To Own debentures a/c			9,500
	To Capital reserve			500
	(Being debenture redeemed)			
	Interest on debenture a/c	Dr	4,800	
	To Bank			4,800
	(Being interest paid)			
	P & L a/c		10,200	
	To Interest on debenture a/c			10,200
	(Being interest closed)			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. According to Companies Amendment Act 1999, the premium on issue of debentures should be credited to

    a) Share premium a/c b) Debenture premium a/c

    c) **Securities premium a/c** d) Debenture a/c

2. Profit on cancellation of own debentures is transferred to

    a)P & L a/c b) Dividend equalization fund

    c) **Capital reserve** d) Own debenture a/c

3. Interest on debentures is normally payable

    a) **Half yearly** b) Quarterly

    c) Annually d) Monthly

4. Own debenture a/c (at the time of purchase of own debentures) is always to be debited with

    a) The fair value b) The cum-interest

    c) **The ex-interest price** d) Face value

5. ________ is a debenture which does not have any security

    a) **Naked debentures** b) Convertible debentures

    c) Irredeemable debentures d) Redeemable debentures

6. Debentures represent the

    a) **Long term liabilities of a company** b) Investments by shareholders in a company

    c) Manager's share in business d) Owners equity

7. Ex-interest means per debenture price is excluding interest for _________

    a) Previous period b) Present period

    c) Future period d) Both for present and future period

8. Dividend/ Interest (net) received are credited to profit and loss a/c with

    a) Amount received b) Amount received + tax

    c) Amount of tax d) Amount received - tax

9. Interest on debenture is paid out of

    a) Capital profit only b) **Revenue profits only**

    c) Both capital and revenue profits d) Capital redemption reserve

10. Premium on redemption of debenture account is in the nature of
    a) **Personal account** b) Real account
    c) Nominal account d) Current account

11. Profit on cancellation of own debentures is transferred to ____________
    a) P & L a/c b) Balance sheet
    c) Dividend equalization fund d) **Capital reserve**

12. Interest on debentures is _____________
    a) Appropriation of profits b) **Charge on profit**
    c) Adjustment of profit d) Both a and b

13. Premium of redemption of debentures a/c is in the nature of _________
    a) **Personal account** b) Real account
    c) Nominal account d) Impersonal account

14. Own debenture a/c will appear on _________
    a) Liability side of the balance sheet b) **Assets side of the balance sheet**
    c) Debit side of P & L a/c d) Debit side of P & L Appropriation a/c

15. In the Balance sheet of a company, the discount on issue of debentures is shown under the following heading ____________
    a) Investments b) Fixed assets
    c) Current assets d) **Miscellaneous expenditure**

16. Interest on debenture is calculated on the basis of the _____________
    a) **Face value of debenture** b) Face value of debenture plus premium
    c) Face value of debenture with discount d) Market value of debentures

REVIEW QUESTIONS

A) Answer in short

1. What is a debenture?
2. What are called secured debenture?
3. What are called irredeemable debenture?
4. What are convertible debentures?
5. When debentures issued as collateral security?
6. When debentures issued for consideration other than cash?
7. What is a sinking fund?
8. Write a note on redemption of debentures out of capital.

9. What do you understand by redemption of debentures out of profits?
10. What do you mean by ex-interest and cum-interest debenture prices?

B) Answer in detail

1. Differentiate shares from debentures.
2. Enumerate the types of debentures.
3. Explain the different methods of redemption of debentures.
4. Describe the sinking fund method of redeeming debentures.
5. Write short note on
   a) Debenture redemption reserve.
   b) Open market buying method of redemption.

EXERCISES

ISSUE OF DEBENTURES

1. Kiran Ltd issued 2,000, 12% Debentures of ₹10 each to the public to be paid ₹4 on application and the balance on allotment. All the moneys due on debentures are received. Give journal entries.

2. A Ltd. issue 1,000, 12% Debentures of ₹100 each payable as ₹30 on application and the balance in allotment. Applications were received for 2,000 debentures, out of which applications for 800 debentures were allotted fully; applications for 600 debentures were allotted 200 debentures and the remaining was rejected. Give journal entries and balance sheet.

ISSUE AND REDEMPTION OF DEBENTURES

3. A company issued ₹1,00,000, 7.5% Debentures at par redeemable at 5% premium after 10 years. Pass journal entries to record the transaction.

4. Give journal entries for the following:

   The issue of ₹100 debentures for ₹100

   The issue of ₹100 debentures for ₹95

5. What journal entries will be made for the following cases?

   A company issued ₹40,000 6% Debentures at par redeemable at par

   A company issued ₹40,000 6% Debentures at discount of 10% and redeemable at par

   A company issued ₹40,000 6% Debentures at premium of 5% and redeemable at par

   A company issued ₹40,000 6% Debentures at par and redeemable at 10% premium

DEBENTURE FUND METHOD - LAST YEAR ONLY

6. The following balances were extracted from the books of a company as on 31st Dec.2015:
9% Debentures ₹5,00,000; Debenture redemption fund ₹5,00,000; Debenture redemption fund investment ₹5,00,000; Cash at bank ₹1,00,000; Share premium ₹2,00,000; P & L a/c ₹3,50,000.

On the above date the directors realized the investments at a loss of 2% and redeemed all the debentures at a premium of 5%. Write off the necessary ledger accounts to give effect to the above.

7. B Company Ltd has 60,000, 5% debentures as on 1-1-2015. On that date, the debenture redemption fund stood at ₹50,000 represented by ₹50,000, 3% Govt. of India Bonds.
The annual instalment added to the debenture fund is ₹8,230. On 31-12-2015, the balance at bank (after the interest on investment has been received) was ₹15,640. On that date, investments were sold at 83% and debentures were paid off. Show the necessary ledger accounts.

8. Beta Ltd had ₹3,00,000, 8% Debentures outstanding on Jan.1, 20015 On that date, the debenture redemption fund had ₹2,50,000 invested in ₹2,65,000, 6% (2012) Govt. Loan Bonds. The annual appropriation from the profit to the fund was ₹41,150. On Dec.31, 2015, the interest on investments had been collected. The bank balance was ₹78,200. The debentures were redeemed by realizing the bonds at 87%. Prepare all necessary ledger accounts.

DEBENTURE FUND METHOD – Full years

9. On 1st Jan.2015, M Ltd. issued debentures for ₹1,00,000 to be redeemed at par at the end of 5th year and it was resolved that sinking fund formed and invested in the tax free securities. Give necessary ledger accounts for 5 years assuming that the interest received on investment was at the rate of 5% on cost that the interest was received yearly and immediately invested and that the investment realized at a loss of ₹300 at the end of the 5th year. Assuming investments are made in multiples of ₹100. Reference to sinking fund table shows that each year in 5% compound interest will give ₹0.180975 invested at the end of five years.

CONVERSION OF DEBENTURES

10. X Ltd redeemed ₹1,00,000 preference shares by converting them in to equity shares issued at 25% premium. What entries can be made for the redemption by the company?

11. What entries can be made for following redemptions made by the company?

    a) X Ltd redeemed ₹1,00,000 preference shares by converting them into equity shares of ₹10 each issued at 25% premium

    b) X Ltd redeemed ₹95,000 preference shares by converting them into equity shares of ₹10 each issued at 5% discount

12. On 31st Dec.2015, ₹1,50,000, 6% Debentures were redeemed out of profit by drawing a lot. Give journal entries.

WRITING OFF DISCOUNT ON ISSUE OF DEBENTURES

13. A Ltd. issues of ₹1,00,000 debentures on 1st Jan.2015 as a discount of 10% repayable in annual drawings of ₹20,000 commencing on 31st Dec.2015. The company's financial year ends on 31st Dec. Show the amount to be charged to P & L a/c for five years.

14. On 1st January 2015, a limited company issued debentures of the face value of ₹1,00,000 at a discount of 5% repayable at the end of the fifth year. Show the discount account on issue of debentures account in the company's ledger for the period.

15. A Ltd issued 20,000, 11% debentures of ₹100 each at a discount of 6%. The debentures have to be redeemed at the rate of ₹4,00,000 each year commencing with the end of 4th year. State the amount of discount to be written off each year.

EX-INTEREST AND CUM-INTEREST

16. On 1st October 2015, a company issued 10,000, 14% Debentures of ₹100 each (interest payable on 30th September and 31st March). The company is allowed to purchase own debentures which may be cancelled or kept or reissued at the company's option. The company made the following purchases in the open market.

    On 31st August 2016, 1,000 debentures @ ₹98 ex-interest

    On 31st December 2017, 500 debentures @ ₹97 cum-interest

    The debentures purchased on 31st August were cancelled on 31st March 2018. Give journal entries to record the transactions.

17. On 1st July 2014, a company issued 2,000, 6% Debentures of ₹100 each. The interest is payable on 30th June and 31st Dec. 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 by cheque in the open market.

    On 31st May 2015 – 22 debentures at ₹98 ex-interest

    On 30th September 2016 – 100 debentures at ₹97 cum-interest

    The debentures, which were purchased on 31st May 2015 were cancelled on 31st Dec.2016. All payments were made on due dates. Give journal entries and balance sheet as on 31st Dec.2016.

18. On 1st April 2015, Senthil Ltd. had issue 5% Debentures amounting to ₹3,00,000 interest is payable half yearly on 30th June and 31st Dec. During the year ended 31st March 2016 the following purchases were made in the open market:

    15th June – ₹50,000 nominal ex-interest; cost ₹49,450

    1st Nov. – ₹40,000 nominal – cum-interest; cost ₹40,250

The debentures thus purchased were not cancelled until 30th June 2016

Draw up own debentures investment account. Calculations to be made in months and to the nearest rupee.

19. B Ltd. purchased its own debentures as follows:

    31-5-15 – 200 6% debentures each at ₹98 ex-interest

    30-9-15 – 100 6% debentures each at ₹97 cum-interest

    Interest payable is on 30th June and 31st Dec. every year. On 31-12-15 both debentures are cancelled. Show journal entries and the method of calculating interest.

20. X Ltd. buys its own 6% Debentures of the nominal value ₹20,000 at ₹96 on 31st March 2015. Record the transaction in the books of X Ltd. if the quotation is a) cum- interest and b) ex-interest. X Ltd. pays debenture interest on 30th June and 31st Dec. Pass journal entries regarding i) cum-interest ii) ex-interest and iii) cancellation

21. On Jan.1, 2016, C Ltd issued 1,000, 12% Debentures of ₹100 each at ₹95. The terms of issue provided that beginning with 2007, ₹20,000 of debentures should be redeemed, either by drawings at par or by purchase in the open market every year. The company wrote off ₹1,000 from the discount on debentures every year. In 2017, the debentures to be redeemed were repaid at the end of the year by drawings. On Dec.31, 2018, the company purchased for cancellation 200 debentures at the ruling price of ₹95, the expenses being ₹100. Interest is payable half-yearly. Give journal entries in the books of C Ltd.

22. C Ltd Company has a balance of ₹1,00,000 at the credit of P & L a/c. It was resolved to utilize the profits to repay the debentures of ₹70,000. Now redeemable at a premium of 10%. Show the journal entries.

23. MK Ltd had 12% debentures of ₹2,00,000 outstanding in its books as on 1-4-2018. It also had a balance of ₹80,000 in sinking fund account represented by 10% investments (face value ₹1,00,000).

    On 31-12-2018 it sold investments of the face value of ₹20,000 @ ₹90 cum-interest and with the proceeds purchased own debenture of the face value of ₹20,000 for immediate cancellation. The interest dates for both debentures and investments were 30th September and 31st March. Annual appropriations to sinking fund came to ₹21,000. Prepare the necessary ledger account for the year ended 31st March 2019.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1) The National Investors Ltd., issued on 1.1.90 20,000 5% debentures of Rs. 100 each, redeemable at the option of the company after 3 years at Rs. 105 per debenture upon giving 3 months notice to the holders. The company purchased the following debentures in the open market. 1.4.91 Rs. 4,000 debentures at Rs. 4,025, cum-interest. 1.11.91 Rs. 7,000 debentures at Rs. 6,915; ex-interest. These debentures were retained as investment till 31.12.92 on which date they were cancelled.Give journal entries to record the above transactions, assuming that the interest is payable half-yearly on 30th June and 31st December every year. Ignore taxation.

[Madurai, B.Com,2014]

2) On 1st January2002, New Castle Ltd. allotted 10,000 9% debentures of Rs. 100 each at par, the total amount having been received along with applications.

   (a) On 1st January 2002 the company purchased in the open market 1,000 of its own debentures @ Rs. 101 each and cancelled them immediately.

   (b) On 1st January 2006 the company redeemed at par debentures for Rs. 3,00,000 by draw of lots.

   (c) On 1st January 2007 the company purchased debentures of the face value of Rs. 2,00,000 for Rs. 1,97,800 in the open market to hold them as investments for one year and then to cancel them.

   (d) Finally, as per the resolution of the Board of directors, the remaining debentures were to be redeemed at a premium of 2% on 1st January 1999 when the share premium account in the company's ledger would show a balance of Rs. 30,000.

Pass journal entries for the above transactions ignoring debenture redemption reserve, debenture interest, and interest on own debentures.

[Madurai, April, 2014]

3) The following balances are extracted from the balance sheet of M. Ltd. as on 1st January 2001 :

	Rs.
6% Debentures	1,00,000
Debenture redemption fund	85,000
Debenture redemption fund investments	90,000 (in Rs. 100 value 4% certificates)

The annual investment was Rs. 11,400. On 31st December 2001, the investments were realised at Rs. 95 each and the debentures were redeemed. The Bank balance on that date was Rs. 18,300. Give ledger accounts relating to the redemption of debentures.

[Periyar,B.Com,2013]

4) On January 1,1996,C Ltd. issued 1,000 12% Debentures of Rs. 100 each at Rs.95. The terms of issue provided that beginning with 1997, Rs.20,000 of Debentures should be redeemed, either by drawings at paror by purchase in the open market every year The company Wrote off Rs.1,000 From the discount on debentures every year. In 1997 the debentures to be redeemed were repaid at the end of the year by drawings. On December 31.1998, the company Purchased for cancellation 20 debentures at the ruling price of Rs.95, the expenses being Rs.100. Interest is payable yearly. Give the journal entries in the books of C.Ltd. and Show the balance sheet with relevant items as on December 31,1998.

[Madurai, Nov,2012]

5) The summarized balance sheet of D ltd on March 31, 2000 was as follows:

LIablities	**Amt**	**Assets**	**Amt**
Share capital 6% redeemable preference shares of Rs.10 each	2,00,000	Fixed Assets at cost less depreciation	4,12,000
Equity shares of Rs.10 each	4,00,000	Good will	2,00,000
6% debentures	3,00,000	Stock	4,50,000
Profit & Loss A/c	2,50,000	Sundry Debtors	2,15,000
Current Liabilities:		Discount on debentures	12,000
Bank Loan	50,000		
Creditors	89,000		
	12,89,000		12,89,000

Wanted to redeem the preference shares and the debentures, the company offered to the redeemable preference shareholders and the debenture holders the option to convert their holdings into equity shares which are to be treated as worth Rs.12.50. One half of the preference shareholders agreed to do this. The company issued 30,000 equity shares at Rs.12.50 to the public for cash and with the fund available paid off the bank loan and redeemed the remaining redeemable Preference shares and Debentures. Journalize the above transactions and show the balance sheet after the transactions have been completed.

[Madurai, Nov,2015]

6) Journalise the following issues :

a) A company issued 1,000, 6% Debentures of Rs. 100 each at Par.

b) A company issued 1,000, 6% Debentures of Rs. 100 each at 10% premium

c) A company issued 1,000, 6% Debentures of Rs. 100 each at 10% discount.

[Madras, B.Com., Oct. 2003]

7) Pass necessary Journal entries in the following cases, when debenture issue price is Rs. 1,00,000. Rate of Interest 8%.

   a) Issued at Par and redeemable at par.

   b) Issued at a discount of 10% and redeemable at par.

   c) Issued at premium of 5% and redeemable at par.

[Madras, B.Com(CS) (SY3B) Nov. 2008; Ap 2008;Nov. 2007; B.Com., April 2003]

8) Pass journal entries for the following transactions:

   a) Issue of debentures at a discount and redeemable at par.

   b) Issue of debentures at a premium and redeemable at par.

   c) Issue of debentures at par and redeemable at premium

   d) Issue of debentures at a discount and redeemable at a premium.

[Madras, B.Com., Oct. 2002; B. Com., April 2013]

9) .Anil Ltd., issued 4,000, 5% Debentures of Rs. 100 each at a premium of 10% payable Rs. 20 on application and the balance with premium on allotment. Pass journal entries in the books of Anil Ltd.

[Madras, B.Com (ICE) Ap 2007]

10) 'Y' Ltd. has taken over the business of Krishnan, the assets and liabilities having been valued at Rs. 80,000 and Rs. 30,000 respectively. Y Co., agreed to pay Rs. 72,000 as the purchase price, to be settled by the issue of 12% debentures of Rs. 10 each at a premium of 20%. Give Journal Entries.

[Madras,B.Com,2004]

[Ans : Goodwill Rs. 22,000; 6,000 debentures of Rs. 10 each at premium of Rs. 2 per debenture]

11) A company issued at par 1,000 6% debentures of Rs. 1,000 each. Interest is payable half yearly on 30th September and 31st March.

On 1.2.1983, the company purchased 20 of its own debentures as investment at Rs. 970.

Give the necessary journal entries, assuming the books are closed on 31st March. Ignore income tax.

[Madras, B.com,2005]

[Ans: On 1.2.83: Own debentures — Rs. 19,400 and interest — Rs. 400; assuming 'ex-interest price'. If 'cum-interest' price is assumed, own debentures — Rs. 19,000; Interest — Rs. 400]

12) A Company has outstanding 12% debentures of Rs. 1,00,000 on 1.1.1999. The company pays interest on 30 June and 31 December. It purchases debentures of Rs. 10,000 for cancellation

on 1st May 1999 @ Rs. 102 cum-interest. It further purchases for redemption debentures of Rs. 20,000 on 1st September 1999 at Rs. 95 ex-interest. You are required to pass the necessary journal entries in the books of the company.

[Madras, B.C.S. (ICE) Oct. 2001]

[Ans : Profit on cancellation : 1.5.99: Rs. 200; 1.9.99: Rs. 1,000]

13) X Ltd. purchases for immediate cancellation 2,000, 12% own Debentures of Rs. 100 each on 1st December 1998, the interest dates being 31st March and 30th September. Pass entries relating to the cancellation if :

a. Debentures are purchased at Rs. 92 Ex-interest.

b. Debentures are purchased at Rs. 92 cum-interest.

[Madras, II M.Com. (ICE) (Old) Oct. 2002]

[Ans : Profit on cancellation : (a) Rs. 16,000; (b) Rs. 20,000]

14) On 31st March 1998 'A' Ltd.'s Balance sheet showed 10,000 12% debentures of Rs. 100 each outstanding. Interest on debentures is payable on 30th September and 31st March. On 1st August 1998, the company purchased 500 of its own debentures as investment at Rs. 97 ex-interest.Pass Journal entries supposing that the company cancells all its own debentures on 1st March 1999.

[Madras, B.Com., (Old) Oct. 2001]

[Ans : Interest : 1-8-98 : Rs. 2,000; 30-9-98 : Rs. 58,000 on 1-3-99 : Rs. 2,500; Profit in concellation : Rs. 1,500]

15) Goodwill Ltd. issues 1,000 6% debentures of Rs. 100 each. Give journal entries in each of the following cases:

(a) The debentures are issued and redeemable at par.

(b) They are issued at a discount of 6% , but redeemable at par.

(c) They are issued at a premium of 5%, but redeemable at par.

(d) They are issued at a discount of 4% but are redeemable at a premium of 5%.

[Madras, B.Com., April 2001;

B.C.S. Oct. 1999; B.Com., March 91, March 90;

Madras, B.A. Corp. Sep. 901]

16) You are required to set out the journal entries relating to the issue of the following debentures in the books of X Ltd :

(a) 8%, 120 Rs. 1,000 debentures are issued at 5% discount and are repayable at par.

(b) Another 7%, 150 Rs. 1,000 debentures are issued at 5% discount and repayable at 10% premium.

(c) Further 80, 9% Rs. 1,000 debentures are issued at 5% premium.

In addition another 400, 8% Rs. 100 debentures are issued as collateral securities against a loan of Rs. 40,000.

Madurai, B.Com., Nov. 2003] Madras, B.Com(PZG)Ap 200.5; B.Com(ICE) Ap' 2001]

17) Zed Ltd. issued 1,000 9% debentures of Rs. 100 each payable, Rs. 20 on application and the balance on allotment. Applications were received for 1,500 debentures out of which applications for 900 were allotted fully. Applicants for 400 debentures were allotted 100 debentures and the remaining were rejected. All sums due were received. Give journal entries and also show how these transactions will be reflected in the Balance sheet of the company.

[Madras, B.Com (A.F) Nov. 2007 (Modified]

[Ans: Transfer of application money to debenture allotment A/c — Rs. 6,000; Return of rejected application money — Rs. 4,000]

18) Narayanan & Co. Ltd., purchased assets worth Rs. 28,80,000. It issued debentures in satisfaction of the purchase price. Calculate how many debentures will be issued:

(a) In case the debentures are of Rs. 100 each and are issued at a discount of 4% and

(b) In case the debentures are of Rs. 80 each and are issued at a premium of Rs. 10 per debenture.

Also, pass the journal entries required for the issue of debentures.

[Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans: (a) 30,000 debentures of Rs. 100 each will be issued at 4% discount; (b) 32,000 debentures of Rs. 80 each will be issued at premium of Rs. 10 per debenture]

19) A company issued debentures of the face value of Rs. 1,00,000 at a discount of 6%. The debentures were repayable by annual drawings of Rs. 20,000. How would you deal with the discount on debentures? Show t e discount account in the company's ledger for the period of duration of debentures.

[Periyar, B. Com (CA) Ap. 2005 'Madras, B.Com., B.Com(CS) Nov. 2009;1 st M.Com(ECA1A)Nov 2008; B.Com., Ap. 2007]

[Ans: Assuming proportionate write off, discount account balance on the date of issue — Rs. 6,000; At the end of one year — Rs. 4,000; At the end of 2 years — Rs. 2,400; At the end of 3 years — Rs. 1,200; At the end of 4 years — Rs. 400; - At the end of 5 years]

20) Journalize the following transactions at the time of issue of Debenture and Redemption of Debenture :

(a) Debenture issue at Rs. 95, repayable at Rs. 100

(b) Debenture issue at Rs. 95, repayable at Rs. 105

(c) Debenture issue at Rs. 100, repayable at Rs. 105

(d) Debenture issue at Rs. 95, repayable at Rs. 100

The face value of each debenture : Rs. 100.

[Madras, B.Com., Nov. 2004; B.Com (ICE) Oct 2002; I. M.Com. (ICE) May 20011]

21) On 1.1.1980, a company issued 1,000 6%. Debentures of Rs. 1,000 each at Rs. 950. The terms of the issue provided that beginning with 1982, Rs. 50,000 of debentures should be redeemed, either by drawings at par or by purchase in the market every year. The expenses of the issue amounted to Rs. 3,000 which were written off in 1980. The company writes off Rs. 10,000 from the discount on debentures every year. In 1982 the debentures to be redeemed were repaid at the end of the year by drawings. In 1983, the company purchased for cancellation 50 debentures at the ruling price of Rs, 980 on 31st December, the expenses being Rs. 100.Interest is payable yearly on 31st December. Ignore income tax. Give journal entries.

[Madras, B.COM., October 2007]

[Ans: Debenture Interest on 31st December of 1980, 81 and 82 — Rs. 60,000. On 31.12.83 — Rs. 57,000; Profit on redemption of debentures as on 31.12.83 Rs. 900]

22) A company issued 6% Debentures of Rs. 10,00,000 with a condition that they should be redeemed after 3 years at 10% premium. The amount allocated for the redemption of debentures is invested in 5%. State Government Securities.The Sinking Fund Table shows that Rs. 0.317209 at 5% compound interest in 3 years will become Re. 1. Pass Journal entries and Prepare ledger accounts for all the three years.

[Madras, B.Com., Apri12004; Oct. 2003; AP 2003]

[Ans : Annual Transfer : Rs. 3,48,929.90; Interest : end of 2nd year Rs. : 17,446.49; 3rd year : Rs. 35,765.3]

UNIT – 9

AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Meaning of Amalgamation, Absorption and Reconstruction – Merger- Acquisition - Differences between amalgamation, absorption and reconstruction -Calculation of purchase consideration - Net Payment method- Net assets method - Lump sum payment method – Amalgamation – Absorption - External Reconstruction

9.1 AMALGAMATION

Amalgamation means joining two or more company to form a bigger company. In this case the two or more company will close down their business and the bigger company which is newly formed will continues the business. For Example, Anbu Company Ltd. joins with Babu Company Ltd. and to form a new company called Deva Company Ltd.

9.2 ABSORPTION

Absorption means an existing company taking over one or more company. In this case one or more company will close down their business and this business will be continued by the name of the existing company. For Example, Anbu Company Ltd. takes over Babu Company Ltd.

9.3 RECONSTRUCTION

If any company is suffering loss and it closes its business and joins with or without other company, it creates new company. That is called reconstruction. There are two types of reconstruction.

9.4 EXTERNAL RECONSTRUCTION

When one company is closed and a new company is formed to take over its business, it is known as external reconstruction. In this case, only one company is closed and a new company is started.

When a company has no power to operate his own business due to heavy loss and it sells his all business to a new company. It will be external reconstruction.

9.5 INTERNAL RECONSTRUCTION

Internal Reconstruction means to do every action for bringing the company out of losses. If a company is suffering heavy losses, company can use the provision 94 of Indian Company law 1956 and reduce its capital.

9.6 CLASSIFICATION OF AMALGAMATION

For accounting of amalgamation, it can be classified two parts – amalgamation in the nature of merger and amalgamation in the nature of acquisition / purchase.

Merger

Merger is a financial tool that is used for enhancing long-term profitability by expanding their operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover.

Acquisition

Acquisitions or takeovers occur between the bidding and the target company. There may be either hostile or friendly takeovers. Reverse takeover occurs when the target firm is larger than the bidding firm. In the course of acquisitions the bidder may purchase the share or the assets of the target company.

Differences between amalgamation, absorption and reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Liquidation	Two or more companies were liquidated	One or more company liquidated	One company liquidated
New company	One new company is formed	No new company is formed	One new company is formed

9.7 CALCULATION OF PURCHASE CONSIDERATION

Purchase consideration means the price payable by the purchasing company to the vendor company for the acquisition of vendor's business. It may be settled by the purchasing company in the form of cash, shares, debentures, etc. It may be calculated by any one of the following method.

1. Net payment method:

Sometimes the total amount payable as purchase consideration is given by purchasing company in the form of cash, shares and debentures. In order to calculate the total purchase consideration, we add all the payments made by purchasing company. It is known as net payment method.

Purchase consideration	Add all the payments made to Vendor Company

2. Net assets method:

Under net assets method, the purchase consideration is not given in the problem. The purchasing company specifies only a portion of purchase consideration and the remaining amount

is not given. In that case, the purchase consideration amount is equal to excess of assets taken by purchasing company at revised values over actual liabilities paid by purchasing company.

Purchase consideration	Realized value of assets taken– Total liabilities paid

Journal entries in Vendor Company

1.For closing all assets: Realization a/c Dr To All assets a/c (at book value)	**2.For closing all liabilities:** Liabilities a/c Dr To Realization a/c (at book value)
3.For receiving purchase consideration: Bank a/c Dr Shares a/c Dr Debentures a/c Dr To Realization a/c	**4.For realization exp. paid:** Realization a/c Dr To Cash a/c **6.For liabilities not taken** Realization a/c Dr To Cash a/c
5.For assets not taken by purchasing company Cash a/c Dr To Realization a/c **7.For realization profit (b/f in debit side)** Realization a/c Dr To Equity share holders a/c **8.For closing equity share capital, general reserve, P & L a/c (liability side)** Equity share capital a/c Dr General reserve a/c Dr Profit and loss a/c Dr To Equity share holders a/c **9. For closing P & L a/c, discount on issue of shares or debentures & preliminary exp. (assets side)** Equity share holders a/c Dr To Profit and loss a/c To Discount on issue of shares or Debentures To Preliminary expenses	

Ledger accounts in the books of Vendor Company

1. **Realization Account**

Particulars	**Amount**	**Particulars**	**Amount**
To All assets (Book value)	xxx	By All liabilities (Book value)	xxx
" Cash	xxx	" Debentures (Book value)	xxx
(Liabilities not taken paid)		" Purchasing Company a/c	

" Cash (Realization exp.) " Debenture holders (Paid) " Equity share holders (b/f)	xxx xxx xxx	(PC received) Shares xxx Debentures xxx Cash <u>xxx</u>	 xxx
	xxx		xxx

2. **Preference Share Capital Account**

Particulars	Amount	Particulars	Amount
To Bank a/c " Realization a/c (b/f)	xxx xxx	By Opening capital " Realization a/c (b/f)	xxx xxx
	xxx		xxx

3. **Equity Shareholders Account**

Particulars	Amount	Particulars	Amount
To P & L a/c	xxx	By Opening capital	xxx
" Preliminary exp. (Asset side)	xxx	" P & L a/c (Liability side)	xxx
" Realization a/c (Loss)	xxx	" General reserve	xxx
" Equity shares from PC	xxx	" Realization a/c (Profit)	xxx
" Cash (b/f)	xxx	" Dividend equalization fund	xxx
	xxx		xxx

4. Cash account should be prepared and it will tally

Journal entries in the books of Purchasing Company

1. For purchase consideration due Business Purchase a/c Dr To Liquidator of vendor company **2.For recording assets and liabilities taken**	**3.For settlement of purchase consideration** Liquidator of vendor company Dr Discount on shares/ debenture Dr To Share capital a/c To Securities premium a/c To Debentures a/c

Assets a/c Dr (except goodwill) Goodwill a/c Dr (b/f) To Liabilities a/c To Business purchase a/c To Capital reserve a/c (b/f)	To Bank a/c

Note:

- ❖ Except cash means cash should not transferred to realization a/c.
- ❖ If no information is given, cash in hand should be transferred to realization a/c – debit side.
- ❖ Business means creditors are taken/ paid by purchasing company.
- ❖ If no information is given, all the liabilities should be paid in cash.

Balance Sheet

Liabilities	Assets
Profit and loss a/c	Preliminary expenses
General reserve a/c	Discount on issue of share and debentures
Sinking fund a/c	Profit and loss a/c
Dividend equalization fund	Underwriting commission
Accident compensation fund	

Note:

The above assets should be transferred to debit side of equity share holder's a/c and the above liabilities should be transferred to credit side of equity share holders' a/c.

9.8 TREATMENT OF REALIZATION EXPENSES

Normally the realization expenses are paid by Vendor Company. The journal entry regarding the same is as follows:

For realization expenses paid by vendor company: Realization a/c Dr To Cash a/c

Sometimes the purchasing company will pay the realization expenses. We can adapt any one of the following two treatments.

1. The realization expenses paid by purchasing company are added while calculating the purchase consideration. And also the following entry is passed.

Realization a/c Dr To Cash a/c

In the books of purchasing company the following entry is passed.

Goodwill a/c Dr
To Bank a/c

2. No entry is passed in the books of Vendor Company because the realization expenses are paid by purchasing company. In the books of purchasing company the following entry is passed.

Goodwill a/c Dr
To Bank a/c

9.9 CALCULATION OF PURCHASE CONSIDERATION

Net Payment method

Illustration -1A company purchased assets of ₹3,50,000 and took over the liabilities of ₹30,000. It agreed to pay the purchase price ₹3,30,000 by issuing debentures of ₹100 each at a premium of 10%. Pass journal entries.

Solution

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	3,30,000	
To Liquidator of Vendor co.			3,30,000
(Being PC due)			
Assets a/c	Dr	3,50,000	
Goodwill a/c (b/f)	Dr	10,000	
To Liabilities			30,000
To Business purchase a/c			3,30,000
(Being assets and liabilities taken)			
Liquidator of Vendor co.	Dr	3,30,000	
To Debentures			3,00,000
To Premium on debentures			30,000
(Being PC received)			

Illustration -2A purchasing company agrees to issue three shares of ₹10 each paid up market value of ₹15 per share for every 5 shares in the vendor company. Find out the number and amount of shares to be issued by the purchasing company if the vendor company has 1,00,000 shares of ₹10 each ₹5 paid up.

Solution

For 5 shares – 3 shares given
1,00,000 shares - ?
1,00,000 x 3/5 = 60,000 shares x ₹15 = ₹9,00,000

Illustration -3 Calculate purchase consideration:

a) A cash payment equivalent to ₹2.50 for every ₹10 share in Green Ltd. (No. of shares 60,000)

b) The issue of 90,000 shares of ₹10 fully paid, in White Ltd. having an agreed value of ₹15 per share.

c) The issue of 5% debentures of White Ltd. for 6% Debentures of the Green Ltd. (₹1,00,000) at a premium of 20%

Solution

Cash (60,000 x₹ 2.50)	₹1,50,000
Equity shares (90,000 x ₹15)	₹13,50,000
Debentures (1,00,000 x 20%)	₹1,20,000
Purchase consideration	₹16,20,000

Illustration -4 Business of India Traders Ltd. has purchased by the XYZ Ltd. The purchase consideration is to be discharged as follows:

i) A payment in cash at ₹20 for every share in India Traders

ii) A further payment in cash at ₹60 for every debentures in India traders in full discharge of debentures

iii) An exchange of 3 shares in XYZ Ltd. of ₹8 each (Quoted in market at ₹16) for every share in India traders.

Balance Sheet of India Traders Ltd

Liabilities	**Amount ₹**	**Assets**		**Amount ₹**
Equity shares of ₹50 each	40,000	Land		15,000
Creditors	4,200	Machinery		20,000
6% Debentures of ₹50 each	6,000	Debtors	20,000	
Capital redemption reserve	4,000	(-) Provision	1,000	19,000
P & L a/c	1,000	Furniture		1,000
		Cash		200
	55,200			55,200

Prepare important ledger a/c in India Traders Ltd. Liquidation expenses ₹400 are met by XYZ Ltd.

Solution

Cash	₹20 x 800 shares	₹16,000
Cash (Debentures)	₹60 x 120 Deb.	₹7,200
Equity shares	₹16 x 3 x 800 shares	₹38,400
	Purchase consideration	₹61,600

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Land	15,000	By Creditors	4,200
" Machinery	20,000	" 6% Debentures	6,000
" Debtors	19,000	" XYZ Ltd (PC)	
" Furniture	1,000	Cash	23,200
" Cash	200	Equity shares	38,400
" Cash (Debentures)	7,200		
" Equity share holders (b/f)	9,400		
	71,800		71,800

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	38,400	By Equity share capital	40,000
" Cash (b/f)	16,000	" Capital redemption reserve	4,000
		" P & L a/c	1,000
		" Realization	9,400
	54,400		54,400

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	23,200	By Equity share holders	16,000
		" Debentures	7,200
	23,200		23,200

Journal entries in the books of XYZ Ltd.

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	61,600	
To Liquidator of Indian Traders Ltd			61,600
(Being PC due)			
Cash a/c	Dr	200	
Land a/c	Dr	15,000	
Machinery a/c	Dr	20,000	
Debtors a/c	Dr	19,000	
Furniture a/c	Dr	1,000	
Goodwill a/c (b/f)	Dr	10,600	
To Creditors a/c			4,200
To Business purchase a/c			61,600
(Being assets and liabilities recorded)			
Liquidator of Soma Ltd	Dr	61,600	
To Cash			23,200
To Equity share capital			38,400
(Being PC received)			
Goodwill a/c	Dr	400	
To Cash			400
(Being realization exp. Paid)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	38,400	Land a/c	15,000
Creditors	4,200	Machinery a/c	20,000
Bank overdraft	23,400	Debtors a/c	19,000
(23,200 +400- 200)		Furniture a/c	1,000
		Goodwill a/c (10,600 + 400)	11,000
	66,000		66,000

Illustration -5 Balance Sheet of XYZ Ltd. as on 31-12-2015.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	2,00,000	Land	1,00,000
Creditors	30,000	Machinery	1,50,000
Debentures	1,00,000	Debtors	25,000

Reserve fund	25,000	Work in progress	30,000
P & L a/c	5,100	Furniture	2,500
Dividend equalization fund	20,000	Cash in hand	100
		Cash at bank	12,500
		Stock	60,000
	3,80,100		3,80,100

The company is absorbed by ABC Ltd. The consideration for absorption is discharge of debentures at a premium of 5%, taking over the liability in respect of creditors and a payment of ₹7 per share in cash and one share of ₹5 in ABC Ltd. at the market value of ₹8 per share, in exchange for one share in XYZ Ltd. Cost of liquidation ₹5,000 met by purchasing company. Prepare ledger accounts in the books of XYZ Ltd.

Solution

Debenture holders (1,00,000 + 5,000)	₹1,05,000 (cash)
Share holders (20,000 x ₹7)	₹1,40,000 (cash)
Equity share holders (20,000 x ₹8)	₹1,60,000 (Shares)
Purchase consideration	₹4,05,000

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To All assets	3,80,100	By Creditors	30,000
" Debenture holders	5,000	" A Ltd	4,05,000
" Equity share holders a/c	49,900		
	4,35,000		4,35,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Equity shares	1,60,000	By Share capital	2,00,000
" Cash	1,40,000	" Reserve fund	25,000
		" Dividend equalization fund	20,000
		" P & L a/c	5,100
		" Realization a/c	49,900
	3,00,000		3,00,000

Journal entries in the books of ABC Ltd

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	4,05,000	
To Liquidator of XYZ Ltd			4,05,000
(Being PC due)			
Land	Dr	1,00,000	
Machinery	Dr	1,50,000	
Debtors	Dr	25,000	
Work in progress	Dr	30,000	
Furniture	Dr	2,500	
Cash	Dr	100	
Bank	Dr	12,500	
Stock	Dr	60,000	
Goodwill	Dr	54,900	
To Creditors			30,000
To Business purchase a/c			4,05,000
(Being assets and liabilities recorded)			
Liquidator of Soma Ltd	Dr	4,05,000	
To Cash			2,45,000
To Equity share capital			1,60,000
(Being PC received)			
Goodwill a/c	Dr	5,000	
To Bank			5,000
(Being exp. paid by ABC Ltd			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	1,60,000	Land	1,00,000
Creditors	30,000	Machinery	1,50,000
Bank overdraft	2,45,000	Debtors	25,000
		Work in progress	30,000
		Furniture	2,500
		Cash	100

		Bank (12,500 – 5,000)	7,500
		Stock	60,000
		Goodwill (54,900 + 5,000)	59,900
	4,35,000		4,35,000

Illustration -6 White Ltd agreed to acquire the business of Green Ltd. as on March 31, 2015. The summarized balance sheet of Green Ltd on that date was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	6,00,000	Fixed assets	6,40,000
General reserve	1,70,000	Stock	1,68,000
Profit and loss a/c	1,10,000	Cash	56,000
6% Debentures	1,00,000	Debtors	36,000
Creditors	20,000	Goodwill	1,00,000
	10,00,000		10,00,000

The consideration payable by White Ltd was agreed as follows

1. A cash payment equivalent to ₹2.50 for every ₹10 share in Green Ltd
2. The issue of 90,000 shares of ₹10 fully paid, in White Ltd, having an agreed value of ₹15 per share
3. The issue of such an amount of fully paid 5% debentures of White Ltd at 96% as is sufficient to discharge the 6% debentures of the Green Ltd at a premium of 20%

When computing the agreed consideration the directors of White Ltd valued the fixed assets at ₹12,00,000, stock at ₹1,42,000, and debtors at their face value subject to an allowance of 5 % to cover doubtful debts. The cost of liquidation of Green Ltd came to ₹5,000.

Draft important ledger accounts in both the books.

Solution

Cash (60,000 x ₹2.50)	₹1,50,000
Equity shares (90,000 x ₹15)	₹13,50,000
Debentures (1,00,000 x 20%)	₹1,20,000
Purchase consideration	₹16,20,000

Ledger accounts in the books of Green Ltd.

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Goodwill	1,00,000	By Creditors	20,000
“ Fixed assets	6,40,000	“ W Ltd	16,20,000
“ Stock	1,68,000		
“ Drs	36,000		
“ Cash	56,000		
“ Cash (Exp.)	5,000		
“ Debentures (Loss)	20,000		
“ Equity shareholders (b/f)	6,15,000		
	16,40,000		16,40,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Shares in W Ltd	13,50,000	By Share capital	6,00,000
“ Cash (b/f)	1,45,000	“ General reserve	1,70,000
		“ P & L a/c	1,10,000
		“ Realization	6,15,000
	14,95,000		14,95,000

Cash Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realisation a/c	1,50,000	By Equity shareholders	1,45,000
		“ Realization a/c	5,000
	1,50,000		1,50,000

Journal entries in the books of White Ltd.

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	16,20,000	
To Liquidator of Green Ltd			16,20,000
(Being PC due)			
Fixed assets a/c	Dr	12,00,000	
Stock a/c	Dr	1,42,000	
Debtors a/c	Dr	34,200	

Goodwill a/c	Dr	2,07,800	
Cash a/c	Dr	56,000	
To Creditors			20,000
To Business purchase a/c			16,20,000
(Being assets and liabilities recorded)			
Liquidator of Green Ltd	Dr	16,20,000	
Discount on debentures (1,250 x ₹4)	Dr	5,000	
To Cash a/c			1,50,000
To Debentures a/c (1,250 x ₹100)			1,25,000
To Equity share capital (90,000 x ₹10)			9,00,000
To Share premium a/c (90,000 x ₹5)			4,50,000
(Being PC received)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	9,00,000	Fixed assets a/c	12,00,000
Creditors	20,000	Stock a/c	1,42,000
Debentures	1,25,000	Debtors a/c	34,200
Bank overdraft	1,50,000	Goodwill a/c	2,07,800
Share premium	4,50,000	Cash a/c	56,000
		Discount on issue of deb.	5,000
	16,45,000		16,45,000

9.10 Net Assets Method

Illustration-7 From the following information, calculate purchase consideration for the purpose of business acquisition. Building ₹50,000; Motor lorry ₹12,400; Stock ₹36,000; Debtors ₹29,400; Cash at bank ₹2,200; Goodwill ₹18,000; Creditors ₹31,000; Outstanding expenses ₹1,000.

Solution

Building	₹50,000
Motor	₹12,400
Stock	₹36,000
Debtors	₹29,400
Cash	₹2,200
Goodwill	₹18,000

		₹1,48,000
Less: Creditors	₹31,000	
O/S expenses	₹1,000	₹32,000
Purchase consideration		₹1,16,000

Illustration -8 The capital of A.B and C partnership firm at the date of purchase by the limited company were ₹10,000, ₹6,000 and ₹5,000. The partnership firm was converted in to a limited company and assets and liabilities were sold to the company agreed to pay ₹8,000 more than the book value and Machinery which was taken at ₹1,000 less than the book value.

Solution

Total capital (10,000 + 6,000 +5,000)	₹21,000
Add: Increase in book value	₹8,000
	₹29,000
Less: Decrease in machinery	₹1,000
Purchase consideration	₹28,000

Illustratio1n -9 Balance Sheet of Weak Ltd as on March 31, 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	2,00,000	Land	85,000
General reserve	20,000	Plant	1,60,000
Loan from A (Director)	40,000	Discount on debentures	6,000
6% Debentures	1,00,000	Stock	55,000
Creditors	80,000	Cash	34,000
		Debtors	65,000
		Goodwill	35,000
	4,40,000		4,40,000

The business of Weak Ltd is taken over by the Strong Ltd as on that date on the following terms:

1.Strong Ltd to take over the assets except cash to value the assets at their book values less 10 % except goodwill which was to be valued at 4 years' purchase of the excess of average 5 years profits over 8 % of the combined amount of share capital and reserve.

2. Strong Ltd to take over trade creditors which were subject to a discount of 5 %.

3. The purchase consideration was to be discharged by cash to the extent of ₹1,50,000 and the balance in fully paid equity shares of ₹10 each valued at ₹12.50 per share.
4. The average of five years' profit was ₹30,100. The expenses of liquidation amounted to ₹4,000.

Draft important ledger accounts in the books of Weak Ltd.

Solution

Calculation of goodwill

Average of 5 years profit	₹30,100
Less: 8% of (2,00,000 + 20,000)	₹17,600
Excess	₹12,500
Goodwill = 12,500 x 4 = ₹50,000	

Calculation of purchase consideration under net assets method

Goodwill	₹50,000
Land (85,000 – 8,500)	₹76,500
Plant (1,60,000 – 16,000)	₹1,44,000
Stock (55,000 – 5,500)	₹49,500
Debtors (65,000 – 6,500)	₹58,500
	₹3,78,500
Less: Creditors (80,000 – 4,000)	₹76,000
Purchase consideration	₹3,02,500
Less: Cash	₹1,50,000
Shares to be given	₹1,52,500

In the books of Weak Ltd

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Goodwill	35,000	By Creditors	80,000
" Land	85,000	" Strong Ltd (PC)	
" Plant	1,60,000	Cash	1,50,000
" Stock	55,000	Equity shares	1,52,500

" Debtors	65,000	" Equity share holders (b/f)	21,500
" Bank – exp.	4,000		
	4,04,000		4,04,000

Debenture holders a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bank a/c	1,00,000	By Debentures	1,00,000
	1,00,000		1,00,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Discount on debentures	6,000	By Equity share capital	2,00,000
" Realization (Loss)	21,500	" Reserve fund	20,000
" Shares in Strong Ltd	1,52,500		
" Bank (b/f)	40,000		
	2,20,000		2,20,000

Bank Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	34,000	By Debentures	1,00,000
" Strong Ltd	1,50,000	" Loan from A	40,000
		" Realization a/c	4,000
		" Equity share holders	40,000
	1,84,000		1,84,000

Illustration -10 Kumar Ltd. takes over Soma Ltd on the following terms:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	6,00,000	Fixed assets	5,00,000
Preference shares of ₹100 each	2,00,000	Stock	4,00,000
10% Debentures	3,00,000	Debtors	2,00,000
Current liabilities	1,00,000	Profit and loss a/c	1,00,000
	12,00,000		12,00,000

1) Take the fixed assets at 10% depreciation, stock at ₹3,00,000 and debtors after a provision of 25%.
2) Debentures are to be settled by issuing them 9% debentures in Kumar Ltd.
3) Current liabilities will be taken over at book values.
4) The consideration will be discharged by issue of 10,000 equity shares of ₹10 each in Kumar Ltd at an agreed value of ₹15 per share and the balance in cash.
5) Expenses of liquidation ₹20,000 will be reimbursed by Kumar Ltd.

Draft important ledger accounts in both the books.

Solution

Fixed assets (5,00,000 – 50,000)	₹4,50,000
Stock	₹3,00,000
Drs (2,00,000 – 50,000)	₹1,50,000
Total	₹9,00,000
Less: Current liability	₹1,00,000
Total purchase consideration	₹8,00,000
Add: Expenses	₹20,000
	₹8,20,000

Mode of payment

Equity shares (10,000 x ₹15)	₹1,50,000
Debentures	₹3,00,000
Bal. in cash (b/f)	₹3,70,000
	8,20,000

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Fixed assets	5,00,000	By 10% Debentures	3,00,000
“ Stock	4,00,000	“ Current liabilities	1,00,000
“ Debtors	2,00,000	“ Kumar Ltd (PC)	
“ Debentures	3,00,000	Equity shares 1,50,000	
“ Cash	20,000	Cash 3,70,000	
		Debentures 3,00,000	8,20,000
		“ Equity share holders (b/f)	2,00,000
	14,20,000		14,20,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	2,00,000	By Share capital	6,00,000
" P & L a/c	1,00,000		
" Realization –Equity shares	1,50,000		
" Cash (b/f)	1,50,000		
	6,00,000		6,00,000

Preference Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Cash	2,00,000	By Share capital	2,00,000
	2,00,000		2,00,000

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	3,70,000	By Equity share holders	1,50,000
		" Preference share holders	2,00,000
		" Realisation a/c	20,000
	3,70,000		3,70,000

Journal entries in the books of Kumar Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	8,00,000	
To Liquidator of Soma Ltd			8,00,000
(Being PC due)			
Fixed asset a/c	Dr	4,50,000	
Stock a/c	Dr	3,00,000	
Debtors a/c	Dr	1,50,000	
Goodwill a/c (b/f)	Dr	20,000	
To Current liabilities			1,00,000
To Business purchase a/c			8,20,000
(Being assets and liabilities recorded)			

Liquidator of Soma Ltd	Dr	8,20,000	
To Cash			3,70,000
To Debentures			3,00,000
To Equity share capital			1,00,000
To Share premium			50,000
(Being PC received)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	1,00,000	Fixed assets	4,50,000
Debentures	3,00,000	Stock	3,00,000
Bank overdraft	3,70,000	Debtors	1,50,000
Share premium	50,000	Goodwill	20,000
Current liabilities	1,00,000		
	9,20,000		9,20,000

Illustration -11 The I.G. Ltd sells its business to the C.C Ltd. as on Dec.31st, 2015 on which date its balance sheet was as under:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹ 100 each	2,00,000	Freehold property	1,50,000
General reserve	50,000	Stock	35,000
Profit and loss a/c	20,000	Cash	50,000
10% Debentures	1,00,000	Debtors	27,500
Creditors	30,000	Bills Receivable	4,500
		Goodwill	50,000
		Plant	83,000
	4,00,000		4,00,000

The C.C Ltd agreed to take over the assets (exclusive of cash and goodwill) at 10 % less than the book value to pay ₹75,000 for goodwill and to take over the debentures. The Purchase consideration was to be discharged by the allotment to the I.G. Ltd of 1,500 shares of ₹100 each at a premium of ₹10 per share and the balance in cash. The cost of liquidation amounted to ₹ 3,000.

Draft important ledger accounts in both the books.

Solution

Goodwill		₹ 75,000
Free hold	(1,50,000 – 15,000)	₹ 1,35,000
Plant	(83,000 – 8,300)	₹ 74,700
Stock	(35,000 – 3,500)	₹ 31,500
Debtors	(27,500 – 2,750)	₹ 24,750
B/R	(4,500 – 450)	₹ 4,050
Total		₹ 3,45,000
Less: Debentures		₹ 1,00,000
Purchase consideration		₹ 2,45,000
(-) Equity shares (1,500 x ₹ 110)		₹ 1,65,000
Cash		₹ 80,000

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Goodwill	50,000	By Debentures	1,00,000
" Free hold	1,50,000	" C Co. Ltd	2,45,000
" Plant	83,000	" Equity share holders (b/f)	8,000
" Stock	35,000		
" Debtors	27,500		
" B/R	4,500		
" Bank	3,000		
	3,53,000		3,53,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization a/c	8,000	By Equity share capital	2,00,000
" Realization (shares)	1,65,000	" General reserve	50,000
" Bank (b/f)	97,000	" P & L a/c	20,000
	2,70,000		2,70,000

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Bal. b/d	50,000	By Equity share holders	97,000
" C. C. Ltd	80,000	" Realization	3,000
		" Creditors	30,000
	1,30,000		1,30,000

Journal entries in the books of C.C. Ltd

Particulars	LF	Debit ₹	Credit ₹
Business purchase a/c	Dr	2,45,000	
To Liquidator of I. G. Ltd			2,45,000
(Being PC due)			
Goodwill	Dr	75,000	
Free hold	Dr	1,35,000	
Plant	Dr	74,700	
Stock	Dr	31,500	
Debtors	Dr	24,750	
B/R	Dr	4,050	
To Debentures			1,00,000
To Business purchase a/c			2,45,000
(Being assets and liabilities recorded)			
Liquidator of G Ltd	Dr	2,45,000	
To Cash			80,000
To Equity share capital			1,50,000
To Share premium			15,000
(Being PC received)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Equity share capital	1,50,000	Goodwill	75,000
Debentures	1,00,000	Free hold	1,35,000
Bank overdraft	80,000	Plant	74,700
Share premium	15,000	Stock	31,500
		Debtors	24,750
		B/R	4,050
	3,45,000		3,45,000

Illustration -12 X Ltd is absorbed by Y Ltd.

Balance Sheets

Liabilities	**X Ltd ₹**	**Y Ltd ₹**	**Assets**	**X Ltd ₹**	**Y Ltd ₹**
Share capital of ₹270 each	24,30,000	–	Sundry Assets	33,70,000	87,15,000
Share capital of ₹ 150 each	–	60,00,000	Cash	7,000	55,000
Creditors	1,10,000	1,30,000			
Reserve fund	8,07,000	25,70,000			
Profit and loss a/c	30,000	70,000			
	33,77,000	87,70,000		33,77,000	87,70,000

The holder of every three in the X Ltd was to receive five shares in the Y Ltd plus as much cash as is necessary to adjust the share holders of both the companies in accordance with the intrinsic value of the shares as per respective balance sheets.

Draft journal entries and balance sheet in the books of Y Ltd.

Solution

Calculation of intrinsic value of shares

	X Ltd ₹	**Y Ltd ₹**
Sundry assets	33,70,000	87,15,000
Cash in hand	7,000	55,000
Total	33,77,000	87,70,000
Less: Creditors	1,10,000	1,30,000
Net assets	32,67,000	86,40,000
Value per share	Net assets/No. of equity shares	
	$\frac{32,67,000}{9,000 \text{shares}}$ = ₹ 363	$\frac{86,40,000}{40,000 \text{shares}}$ = ₹ 216
Calculation of amount payable in cash		
Value of 3 shares in X Ltd	363 x 3	1,089
Value of 5 shares in Y Ltd	216 x 5	1,080
Difference in cash for every 3 shares		₹ 9

Calculation of purchase consideration

Equity shares	9,000 x 5 x 150/3	₹ 22,50,000
Cash	9,000 x 9/3	₹ 27,000
Total		₹ 22,77,000

Journal Entries in the Books of Y Ltd

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Business purchase a/c	Dr	22,77,000	
To Liquidator of X Ltd			22,77,000
(Being PC due)			
Sundry assets a/c	Dr	33,70,000	
Cash a/c	Dr	7,000	
To Creditors			1,10,000
" Business purchase a/c			22,77,000
" Capital reserve (b/f)			9,90,000
(Being assets and liabilities taken)			
Liquidator of X Co. Ltd	Dr	22,77,000	
To Equity share capital			22,50,000
" Cash			27,000
(Being PC received)			

Balance Sheet of Y Ltd

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity share capital	82,50,000	Cash (55,000 + 7,000)	62,000
Creditors (1,30,000 + 1,10,000)	2,40,000	Sundry assets (87,15,000 + 33,70,000)	120,85,000
Capital reserve	9,90,000		
P & L a/c	70,000		
Reserve fund	25,70,000		
Bank O/D (PC)	27,000		
	121,47,000		121,47,000

9.11 LUMP SUM PAYMENT METHOD

Illustration -13 The following is the balance sheet of X Ltd. as on 31-12–2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	1,20,000	Land	90,000
Creditors	30,000	Machinery	50,000

Bank overdraft	28,000	Debtors	20,000
		P & L a/c	18,000
	1,78,000		1,78,000

The company went into voluntary liquidation and assets were sold to Y Co. Ltd. for ₹1,50,000 payable as to ₹60,000 in cash (which is used to discharge creditors and bank overdraft and to pay off winding up expenses of ₹2,000) and as to ₹90,000 by the allotment of 12,000 shares of ₹10 each of the Y Co. Ltd., ₹7.50 per share paid up, to the shareholders of X Com. Ltd.

Prepare important ledger accounts the books of X Ltd.

Solution

Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Land	90,000	By Creditors	30,000
" Machinery	50,000	" Bank overdraft	28,000
" Debtors	20,000	" Purchase consideration	
" Cash (30,000 + 28,000)	58,000	Cash	60,000
" Cash (exp.)	2,000	Equity shares	90,000
		" Equity share holders (b/f)	12,000
	2,20,000		2,20,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To P & L a/c	18,000	By Equity share capital	1,20,000
" Realization (PC)	90,000		
" Realization	12,000		
	1,20,000		1,20,000

9.12 AMALGAMATION

Illustration -14 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. In case of A Ltd. the assets and liabilities are to be taken over at book value for shares in C Ltd. at the rate of 5 shares in C Ltd. at 10 % premium (i.e. ₹11 per share) for every four shares in A Ltd.

In case of B Ltd.

1) The holders of 6% preference shares of B Ltd. would be allotted four 7 % preference shares of ₹100 each in C Ltd. for every five preference shares in B Ltd.
2) The debentures of B Ltd. would be paid off by the issue of an equal number of debentures in C Ltd. at a discount of 10 %.

3) The equity share holders would be allotted sufficient shares in C Ltd. to cover the balance on their accounts after adjusting assets values by reducing plant by 10 % and providing 5 % on debtors.

Balance Sheets

Liabilities	**A Ltd ₹**	**B Ltd ₹**	**Assets**	**A Ltd ₹**	**B Ltd ₹**
Equity shares of ₹10 each	4,00,000	5,00,000	Plant	8,00,000	8,00,000
6% Preference shares of ₹100 each	–	3,00,000	Cash	65,000	40,000
Creditors	75,000	90,000	Stock	65,000	60,000
Contingency reserve	50,000	–	Debtors	95,000	50,000
P & L a/c	5,00,000	–	P & L a/c	–	1,40,000
4 % Debentures	–	2,00,000			
	10,25,000	10,90,000		10,25,000	10,90,000

Show the important ledger accounts in the books of A Ltd and B Ltd and show the balance sheet of C Ltd.

Solution

Calculation of purchase consideration for A Ltd.

5/4 x 40,000 shares = 50,000 shares x ₹11 = ₹5,50,000

Ledger accounts in the books of A Ltd.
Realization Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Plant	8,00,000	By Creditors	75,000
“ Stock	65,000	“ C Ltd	5,50,000
“ Drs	95,000	“ Equity shareholders a/c (b/f)	4,00,000
“ Bank	65,000		
	10,25,000		10,25,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization	4,00,000	By Share capital	4,00,000
“ Shares in C Ltd.	5,50,000	“ P & L a/c	5,00,000

		“ Contingency reserve	50,000
	9,50,000		9,50,000

Calculation of purchase consideration for B Ltd.

Plant (8,00,000 – 10%)	₹7,20,000
Stock	₹60,000
Debtors (50,000 – 5%)	₹47,500
Bank	₹40,000
Total	₹8,67,500
Less: Creditors	₹90,000
PC	₹7,77,500

Mode of payment of PC

Debentures	2,00,000 x 90/100	₹1,80,000
Preference shares	3,000 x 4/5 x 100	₹2,40,000
Equity shares (b/f)	35,750 x 10	₹3,57,500
		₹7,77,500

Ledger accounts in the books of B Ltd.

Realization Account

Particulars	Amount ₹	Particulars	Amount ₹
To Plant	8,00,000	By Creditors	90,000
“ Stock	60,000	“ C Ltd	7,77,500
“ Drs	50,000	“ Debenture holders	20,000
“ Bank	40,000	“ Pref. share holders	60,000
		“ Equity shareholders a/c (b/f)	2,500
	9,50,000		9,50,000

Preference Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To New pre. shares	2,40,000	By Share capital	3,00,000
“ Realization (b/f)	60,000		
	3,00,000		3,00,000

Debenture holders A/c

Particulars	Amount ₹	Particulars	Amount ₹
To New debentures a/c	1,80,000	By Debenture a/c	2,00,000
“ Realization (b/f)	20,000		
	2,00,000		2,00,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	2,500	By Share capital	5,00,000
“ P & L a/c	1,40,000		
“ Shares in C Ltd.	3,57,500		
	5,00,000		5,00,000

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Preference share capital	2,40,000	Plant	15,20,000
Equity share capital	8,57,500	Stock	1,25,000
Capital reserve	4,00,000	Drs less provision	1,42,500
Share premium	50,000	Bank	1,05,000
4% Debentures	2,00,000	Discount on debentures	20,000
Creditors	1,65,000		
	19,12,500		19,12,500

Illustration -15 X Ltd. and Y Ltd. are two companies carrying on business in the same line of activity.

Balance Sheets

Liabilities	X Ltd ₹	Y Ltd ₹	Assets	X Ltd ₹	Y Ltd ₹
Equity shares of ₹10 each	6,00,000	2,00,000	Land	1,00,000	–
Reserve	4,00,000	2,00,000	Cash	1,00,000	1,00,000
Current liabilities	6,00,000	4,00,000	Stock	9,00,000	4,00,000
Secured loans	6,00,000	1,00,000	Debtors	3,00,000	1,00,000
			Plant	7,00,000	3,00,000
			Investments	1,00,000	–
	22,00,000	9,00,000		22,00,000	9,00,000

The two companies decided to amalgamate into XY Ltd. The following adjustments are given

- X Ltd. holds 8,000 shares in Y Ltd. @ ₹12.50 each.
- All assets and liabilities of the two companies except investments are taken over by XY Ltd.
- Each share in Y Ltd. is valued at ₹25 for the purpose of the amalgamation.
- Shareholders in X Ltd. and Y Ltd. are paid off by issuing to them a sufficient number of equity shares of ₹10 each in XY Ltd. as fully paid–up at par.
- Each share in X Ltd. is valued @ ₹15 for the purpose of amalgamation.

Show the important ledger accounts in the books of X Ltd. and Y Ltd. and show the balance sheet of XY Ltd.

Solution

Calculation of purchase consideration in X Ltd.

PC = 60,000 shares x ₹15 = ₹9,00,000

Calculation of purchase consideration in Y Ltd.

No. of share held by Y Ltd. = 20,000 – 8,000 = 12,000

PC = 12,000 shares x ₹25 = ₹3,00,000

Realization a/c of X Ltd.

Particulars	Amount ₹	Particulars	Amount ₹
To Land	1,00,000	By Secured loan	6,00,000
" Plant	7,00,000	" Current liabilities	6,00,000
" Investments	1,00,000	" Shares in XY Ltd	9,00,000
" Stock	9,00,000	" Equity share holders (b/f)	1,00,000
" Debtors	3,00,000		
" Cash	1,00,000		
	22,00,000		22,00,000

Equity Shareholders Account

Particulars	Amount ₹	Particulars	Amount ₹
To Realization	1,00,000	By Equity share capital	6,00,000
" Shares in XY Ltd	9,00,000	" Reserve	4,00,000
	10,00,000		10,00,000

Realization Account of Y Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Plant	3,00,000	By Secured loan	1,00,000
" Stock	4,00,000	" Current liabilities	4,00,000
" Debtors	1,00,000	" Shares in XY Ltd	3,00,000
" Cash	1,00,000	" Equity share holders (b/f)	1,00,000
	9,00,000		9,00,000

Equity Shareholders Account

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Realization	1,00,000	By Equity share capital	2,00,000
" Shares in XY Ltd	3,00,000	" Reserve	2,00,000
	4,00,000		4,00,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Accounting standard for amalgamation is

a) AS - 8 b) AS - 20
c) AS - 14 d) AS – 3

2. Pooling of interest method is used to account for amalgamation in the nature of

a) Purchase b) Sales
c) **Merger** d) Absorption

3. Purchase consideration under AS14 should include cash and securities agreed to be given by the transferee company to the transferor company's

a) **Shareholders** b) Shareholders and debenture holders
c) Creditors, Debenture holders and share holders d) Debenture holders

4. If the purchasing company pays realization expenses, ______ ___a/c should be debited

a) **Goodwill a/c** b) Capital reserve
c) Realization d) Equity shareholders

5. For closing fictitious assets in Balance Sheet, _________ a/c should be debited

a) Realization b) **Equity share holders**
c) Fictitious assets d) Cash

6. Excess of purchase consideration paid by purchasing company over net tangible assets taken is transferred to

a) **Goodwill** b) Capital reserve
c) P & L a/c d) Equity shareholders

7. While calculating purchase consideration, if the mode of payment is complete, it is known as

a) Net assets method b) Intrinsic value method
c) **Net payment method** d) Lump sum payment method

8. Profit or loss on repayment of preference share capital is transferred to

a) Equity share holders a/c b) **Realization a/c**
c) Revaluation a/c d) P & L a/c

9. Assets and liabilities are transferred to realization a/c at its _________

a) **Book valu**e b) Realized value
c) Book value or realized value which one is higher
d) Book value or realized value which one is lower

10. The purpose of amalgamation and absorption is

a) Eliminate competition b) Economies of production
c) Controlling the market d) **All the above**

11. When existing two companies go into liquidation to form a new company is called
    a) Absorption b) **Amalgamation**
    c) External reconstruction d) Internal reconstruction

12. An existing company take over another company which is going to be liquidated is called
    a) **Absorption** b) Amalgamation
    c) External reconstruction d) Internal reconstruction

13. If the purchasing company agrees to pay realization expenses the account to be debited is ____
    a) Capital reserve b) Realization
    c) Cash d) **Goodwill**

14. If the vendor company pays realization expenses the account to be debited is __________
    a) Capital reserve b) **Realization**
    c) Cash d) Goodwill

15. The excess of net assets taken over the purchase consideration is credited to _________
    a) **Capital reserve** b) Realization
    c) Cash d) Goodwill

16. The profit on repayment of debentures is ____________ to realization account
    a) Debited b) **Credited**
    c) No entry d) Both a and b

17. Liabilities not taken over by purchasing company is to be payable by _________
    a) Purchasing company b) **Vendor company**
    c) No needs to pay d) Share holders

18. Which of the following are trade liabilities?
    a) Creditors b) B/P
    c) Bank O/D d) **All of them**

19. P & L a/c appears in liability side of balance sheet should be _________
    a) **Credited to equity share holders a/c** b) Credited to realization a/c
    c) Debited to equity share holders a/c d) Debited to realization a/c

20. Underwriting commission appears in assets side of balance sheet should be
    a) Credited to equity share holders a/c b) Credited to realization a/c
    c) **Debited to equity share holders a/c** d) Debited to realization a/c

21. While calculating purchase consideration, the assets and liabilities are recorded at their _____
    a) Book value
    b) **Realized value**
    c) Difference between book value and realized value
    d) Market value

22. In the books of purchasing company the assets and liabilities are recorded at ______
    a) Book value
    b) **Realized value**
    c) Difference between book value and realized value
    d) Market value

23. Loss on realization account should be transferred to
    a) Credit side of equity share holders' a/c
    b) Credit side of realization a/c
    c) **Debit side of equity share holders' a/c**
    d) Debit side of realization a/c

24. Balance if any in equity share holders account should be transferred to ________ a/c
    a) Capital reserve
    b) Realization
    c) **Cash**
    d) Goodwill

25. Intrinsic value of purchase consideration is ________
    a) **Exchange of shares between two companies**
    b) Give up shares by both companies
    c) Raise up shares by both companies
    d) To issue further share capital

26. When there are two or more liquidations and one formation, it is known as
    a) **Amalgamation**
    b) Absorption
    c) Internal reconstruction
    d) External reconstruction

REVIEW QUESTIONS

A) Answer in short

1. What is called amalgamation?
2. What is absorption?
3. What do you mean by external reconstruction?
4. What do you understand by merger?
5. What is purchase consideration?
6. Give journal entries in the books of purchasing company of amalgamation.

B) Answer in detail

1. Explain amalgamation, absorption and external reconstruction.
2. Distinguish between amalgamation, absorption and external reconstruction.
3. Describe the methods of accounting for amalgamation.
4. Discuss the various methods of calculation purchase consideration.

5. Write short note on
   a) Purchase consideration by net asset.
   b) Purchase consideration by net payment.
6. Give the journal entries which are passed in the books of companies in the case of absorption.
7. Give journal entries which are passed in the book of Vendor Company in case of amalgamation.

EXERCISES

1. From the following particulars, calculate purchase consideration:
   a) ₹1,00,000 Debentures discharged at a premium of 5%
   b) A payment of ₹7 per share for 20,000 shares
   c) Issue of 20,000 shares at ₹8 each.

ABSORPTION

2. Following is the balance sheet of X Co. Ltd. as on June 30, 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹500 each	60,00,000	Land	27,20,000
Reserve fund	6,50,000	Plant	30,00,000
Insurance fund	1,30,000	Furniture	1,00,000
P & L a/c	20,000	Patent	4,00,000
Debentures of ₹500 each	13,00,000	Stock	20,00,000
Workman savings bank	4,00,000	Debtors	6,00,000
Creditors	5,00,000	Cash	1,80,000
	90,00,000		90,00,000

Y Com. Ltd agreed to take over X Co. Ltd. on the following basis:

a) Payment of cash at ₹90 for every share in X Co. Ltd.

b) Payment of cash at ₹550 for every debenture holder in full discharge of debentures.

c) Exchange of 4 shares of Y Co. Ltd. of ₹75 each (quoted in the market at ₹140 each) for every share in X Co. Ltd.

Show the necessary ledger accounts in X Co. Ltd.

3. A Co. Ltd. sells its business to B Co. Ltd. as on 31st March 2015 on which date its balance sheet was as under

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	4,00,000	Building	2,00,000
General reserve	80,000	Stock	85,500
Profit and loss a/c	28,000	Cash	86,000
10% Debentures	2,00,000	Debtors	37,500
Creditors	42,000	Machinery	2,63,000
		Furniture	70,000
		Underwriting commission	8,000
	7,50,000		7,50,000

B Co. Ltd. agreed to take over the assets except cash at book value except that furniture was valued at ₹56,000 and to take over creditors. The purchase consideration was discharged by the allotment at par of 2,000 fully paid 12 % Debentures of ₹100 each (to be used by A Co. Ltd. to redeem its 10 % debentures at par) and 40,000 fully paid equity shares of ₹10 each. A Co. Ltd. met the expenses of liquidation totaling ₹6,000.

Draft journal entries and important ledger accounts in both the books.

4. X Ltd. agreed to acquire the assets excluding cash, as on 31-12-2015 of Y Ltd. The following is the balance sheet of Y Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹10 each	3,00,000	Land	1,20,000
Creditors	10,000	Machinery	2,00,000
Debentures	50,000	Debtors	30,000
General reserve	80,000	Stock	80,000
P & L a/c	60,000	Goodwill	60,000
		Cash	10,000
	5,00,000		5,00,000

The consideration being

1. Cash payment of ₹4 for every share of Y Ltd.
2. The issue of one share of ₹10 each (market value ₹12.50) in the X Ltd. for every share in Y Ltd.
3. The issue of 1,100 debentures of ₹50 each in X Ltd. to enable Y Ltd. to discharge its debentures at a premium of 10%.
4. The expenses of liquidation of Y Ltd. ₹4,000 were to be met by themselves.

Give important ledger accounts in Y Ltd.

5. B Company Ltd. is absorbed by A Company Ltd. The consideration being,

i) Assumption of liabilities. (It is assumed that assets are also taken)

ii) Discharge of debentures at a premium of 5% by issue of 5% debentures in A Co. Ltd.

iii) A payment of cash of ₹30 per share.

iv) The exchange of three, ₹10 share in A Co. Ltd at an agreed value of ₹15 per share for every share in B Co. Ltd.

Balance Sheet of B Co. Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹50 each	30,00,000	Land	7,65,000
Creditors	2,00,000	Machinery	22,00,000
Debentures	15,00,000	Debtors	4,50,000
Workmen's profit sharing fund	1,00,000	Investment in compensation fund	50,000
P & L a/c	30,000	Goodwill	2,50,000
General reserve	3,20,000	Cash	3,50,000
Accident fund	50,000	Work in progress	10,60,000
		Patents	50,000
		Furniture	25,000
	52,00,000		52,00,000

Prepare important ledger accounts in the books of B Co. Ltd.

6. A company absorbs the business of B company on 31- 12- 2015 and to take over the assets and liabilities at their balance sheet values in exchange for which it has to issue 10 shares of ₹10 each for every 8 shares of ₹10 each in B company Ltd. Expenses of liquidation ₹10,000 to be paid by A Company.

Liabilities	**A Co. ₹**	**B Co. ₹**	**Assets**	**A Co. ₹**	**B Co. ₹**
Share capital of ₹10 each	2,500	800	Fixed assets:		
Reserves:			Goodwill	150	–
Capital reserve	500	–	Building	550	150
General reserve	–	50	Machinery	1,000	400
Secured loans	300	–	Furniture	50	25
Unsecured loan	---	200	Investment:		
Current liabilities:			Shares in X Co.	250	–
Creditors	200	–	Govt. securities	–	150
B/P	–	50	Current assets:		
			Cash	100	–
			Stock	900	175

			Debtors	250	90
			B/R	50	30
			Bank	200	80
	3,500	1,100		3,500	1,100

Prepare important ledger accounts in the books of B Company.

7. The following is the balance sheet of D Ltd. on 31-12-2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹100 each	4,00,000	Land	1,70,000
Reserve fund	50,000	Plant	4,00,000
Dividend equalization fund	24,000	Investment	50,600
P & L a/c	5,600	Stock	80,700
5% Debentures	2,50,000	Debtors	1,40,500
Creditors	1,28,700	Cash	16,500
	8,58,300		8,58,300

D Ltd. was absorbed by N Ltd. on the above mentioned date on the following terms and conditions:

a) N Ltd. to assume all liabilities and to acquire all assets except investments which were sold by D Ltd. for ₹45,500.

b) Discharge the debenture debt at a discount of 5% by the issue of 7% Debentures in N Ltd.

c) Issue two shares of ₹60 each in N Ltd. at ₹60 each in N Ltd at ₹65 per share and also to pay ₹2 in cash to the share holders of D Ltd. in exchange for one share in D Ltd.

d) Pay the cost of absorption ₹1,500.

e) D Ltd. sold in the open market one– fourth of the shares received from N Ltd. at the average rate of ₹63 per share.

Show the realization a/c, bank a/c and shareholder's a/c in the books of D Ltd.

8. X Ltd. agreed to acquire the assets excluding cash, as on 31-12-2015 of Y Ltd. The following is the balance sheet of Y Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	3,00,000	Land	60,000
Creditors	10,000	Machinery	2,00,000
Debentures	50,000	Debtors	30,000
General reserve	80,000	Stock	80,000

P & L a/c	60,000	Goodwill	60,000
		Cash	70,000
	5,00,000		5,00,000

The consideration being

1. Cash payment of ₹4 for every share of Y Ltd.
2. The issue of one share of ₹10 each (market value ₹12.50) in the X Ltd. for every share in Y Ltd.
3. The issue of 1,100 debentures of ₹50 each in X Ltd. to enable Y Ltd. to discharge its debentures at a premium of 10%.
4. The expenses of liquidation of Y Ltd. ₹4,000 were to be met by themselves.

Give important ledger accounts in Y Ltd.

9. The balance sheet of A Co. Ltd as on March 31, 2015 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹1 each	1,00,000	Fixed assets	90,000
Creditors	20,000	Current assets	10,000
		P & L a/c	20,000
	1,20,000		1,20,000

B Co. Ltd. absorbed the A Co. Ltd. and took over all the assets for ₹72,000 payable ₹50,000 in shares of ₹1 each and ₹22,000 in cash (in order to enable A Co. Ltd. to pay off its liabilities and cost of winding up of ₹2,000).

Show realization a/c, shareholders a/c and cash a/c in the books of A Co. Ltd.

10. Following is the balance sheet of K Ltd. as on 31- 12- 2015.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹ 10 each	20,000	Fixed assets	16,500
Profit and loss a/c	7,000	Current assets	19,500
10% Debentures	10,000	Goodwill	4,000
Creditors	3,000		
	40,000		40,000

R Ltd. agreed to take over the assets of K Ltd. (exclusive of one fixed assets of ₹4,000 and cash ₹1,000 included in current assets) at 10 % more than the book values. It agreed to take over creditors also. The purchase consideration was to be discharged by the issue of 2,000 shares of ₹10 each at the market value of ₹15 each and the balance in cash. Liquidation expenses came to ₹400. K Ltd. sold the fixed assets of ₹4,000 and realized the book value. It paid off its debentures and liquidation expenses.

Give important ledger accounts in K Ltd.

AMALGAMATION

11. Given below are the balance sheets as on March 31, 2016 of A Ltd. and B Ltd. which are amalgamated to form a new company Gama Ltd.

Liabilities	**A Ltd. ₹**	**B Ltd. ₹**	**Liabilities**	**A Ltd. ₹**	**B Ltd. ₹**
Share capital (₹100 each)	1,00,000	2,00,000	Fixed assets	–	25,000
Capital reserve	50,000	10,000	Good will	–	40,000
General reserve	10,000	–	Plant	60,000	80,000
P & L a/c	40,000	–	Furniture	35,000	10,000
Loans	80,000	60,000	Stock	1,00,000	1,40,000
Other liabilities	20,000	80,000	Debtors	1,04,000	13,000
			Cash at bank	1,000	2,000
			P & L a/c	–	40,000
	3,00,000	3,50,000		3,00,000	3,50,000

The share holder in the amalgamating companies are to be allotted fully paid equity shares in Gama Ltd. for the amount of purchase consideration for which purpose all assets and liabilities are to be taken at book values except goodwill of B Ltd.

Show the opening balance sheet of the new company.

12. Green Ltd is absorbed by Yellow Ltd. Given below are the balance sheets of two companies taken after revaluation of their assets on a uniform basis.

Liabilities	**Green Ltd ₹**	**Yellow Ltd ₹**	**Assets**	**Green Ltd ₹**	**Yellow Ltd ₹**
Equity shares of ₹80 each	7,20,000	–	Sundry assets	17,83,500	44,00,000
Equity shares of ₹60 each	–	24,00,000	Discount on share issue		20,000
Reserve fund	6,50,000	13,00,000	Preliminary expenses	15,000	–
P & L a/c	2,78,500	6,40,000	Cash	20,000	1,30,000
Creditors	1,40,000	2,10,000			
Bills payable	30,000	–			
	18,18,500	45,50,000		18,18,500	45,50,000

The holder of every 3 shares in Green Ltd was to receive 5 shares in Yellow Ltd. plus as much 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 journal entries in the books of Yellow Ltd. Prepare opening balance sheet of Yellow Ltd and also prepare necessary ledger accounts in the books of Green Ltd.

13. Rajan Co Ltd and Monica Co Ltd whose business are similar nature, decided to amalgamated and new company Rajmon Co Ltd is formed to take over their assets and liabilities. The following are their balance sheets:

Liabilities	**Rajan**	**Monica**	**Assets**	**Rajan**	**Monica**
Equity shares of ₹10 each	75,000	45,500	Goodwill	30,000	20,000
Reserve fund	4,200	–	Freehold property	10,000	–
P & L a/c	800	4,500	Plant	18,300	13,450
Creditors	3,300	2,000	Cash	1,500	1,000
			Debtors	7,500	6,000
			Stock	16,000	11,550
	83,300	52,000		83,300	52,000

Assuming that assets realize their book value, what amount each company will get?

Prepare balance sheet after amalgamation.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. TV.Ltd. Absorbed the business of Radio Ltd as a going concern on 31.3.08. The balance sheets were as follows:

Balance sheet as on 31.03.08

Liablities	TV Ltd	Radio Ltd	Assets	Tv Ltd	Radio Ltd
Sharecapital (Rs.10 each)	10,00,000	6,00,000	Goodwill	–	1,00,000
			Buildings	5,00,000	–
Reserve	1,20,000	–	stock	1,40,000	2,60,000
Creditors	20,000	1,00,000	Debtors	2,80,000	2,00,000
Bank O/D	–	1,00,000	Investments	1,20,000	–
			Bank	1,00,000	–
			P/L a/c	–	2,40,000
	11,40,000	8,00,000		11,40,000	8,00,000

The purchase consideration was agreed upon at Rs.4,00,000 payable as to Rs.2,00,000 in cash and the balance by the issue of Rs.10 each in fully paid in Tv Ltd. at an agreed value of Rs.12.50 per share. Prepare balance sheet of TV Ltd by passing necessary Journal entries.

[Alagappa uni, B.Com(C.A), Nov, 2015]

2. the summarized balance sheet of A.Ltd and B.Ltd as on 1.1.2002 are as follows

Liabilities	A. Ltd	B. Ltd	Assets	A. Ltd	B. Ltd
Equity shares (Rs.10)	2,00,000	1,00,000	Land and Buildings	2,50,000	1,60,000
			Stock	30,000	40,000
			Debtors	10,000	20,000
12% preference shares (Rs.10)	1,00,00	–	Cash and Bank	70,000	45,000
9% preference shares (Rs.10)	–	1,00,000			
Reserve	30,000	50,000			
Profit and Loss A/c	20,000	10,000			
creditors	10,000	5000			
	3,60,000	2,65,000		3,60,000	2,65,000

On the above date A.Ltd. Decided absorb B.Ltd. Under the following terms and conditions.

1. A.Ltd. will take over all the assets & Liabilities of B Ltd.

2. The equity share holders of B.Ltd, will be given 11,000 equity shares of Rs.10 each at par.
3. 9% preference shares of B.Ltd will be converted into 12% preference shares of A Ltd. the number of Preference shares to be issued should be such that it would bring the same amount of dividend as before.

Prepare :

1. Realization A/c in the books of B.ltd.
2. Necessary Journal entries in the books of A.Ltd.
3. Balance sheet of A.Ltd. after absorption.

[Alagappa,B.Com,Nov,2016]

3. S.Ltd is absorbed by K.Ltd the consideration being
   1. the taking over of the trade liabilities of Rs.40,000
   2. the payment of cost of absorption of Rs.15,000.
   3. The repayment of 'B' Debentures of S.Ltd of Rs.2,00,000 at par.
   4. The discharge of 'A' Debentures of Rs.3,00,000 in the Vendor.Co., at a premium of 10% by the issue of 8% debentures in K.Ltd at par.
   5. A payment of Rs.20 per share in cash and the exchange of 4 fully paid Rs.10 shares in K.Ltd at a market price of Rs.15 per share for every Rs.50 share in KS ltd. which were 40,000 in number. You are required to find out the purchase consideration.

[Madurai,M.Com,Nov,2014]

4. Prepare a consolidated balance sheet from the following balance sheets:

Liabilities	H.Ltd	S.Ltd	Assets	H.Ltd	S.Ltd
Capital. Re.1 each	1,400	1,000	Sundry Assets	885	1,510
P&L Account	260	320	900 shares in S. Ltd.	1,125	–
Creditors	350	190			
	2010	1,510		2010	1,510

On the date of acquisition of shares by H.Ltd. the credit balance on latters Profit and Loss account was Rs.220. No dividends have been declared since that date.

[Madurai,M.Com,Nov,2014]

5. The balance sheet of A company Ltd as on 31.12.2010 was as follows:

Liabilities	**Amt**	**Assets**	**Amt**
Share capital 1,00,000 shares of Re 1 each	1,00,000	Fixed Assets Current Assets P&L A/c	90,000 10,000 20,000

Sundry creditors	20,000		
	1,20,000		1,20,000

B.Company Ltd. absorbed A company Ltd. and took over all the assets for Rs.72,000 payable Rs.50,000 shares of Re.1. each and Rs. 22,000 in cash (in order to enable A company Ltd, to payoff Liablities and cost of winding up of Rs.2000) show the realization account and shareholders account in books of A company Ltd.

[Madurai,B.com,Nov,2013]

6. X Ltd and Y Ltd are two companies carrying on business in the same line of activity. These balance sheet as on Dec 31, 2007 are given below.

Liabilities	**X Ltd**	**Y Ltd**	**Assets**	**X Ltd**	**Y Ltd**
Fully paid equity shares of Rs. 10 each	6,00,000	2,00,000	Land & Building	1,00,000	–
			Plant & Machinery	7,00,000	3,00,000
General reserve	4,00,000	2,00,000	Investments	1,00,000	–
Secured loan	6,00,000	1,00,000	Stock	9,00,000	4,00,000
Current liabilities	6,00,000	4,00,000	Debtors	3,00,000	1,00,000
			Cash	1,00,000	1,00,000
	22,00,000	**9,00,000**		**22,00,000**	**9,00,000**

7. The two companies decide to amalgamate in XY td.

   (a) X Ltd holds 8,000 shares in Y Ltd @ Rs. 12.50 each

   (b) All assets and liabilities of the companies except investments are taken over by XY Ltd.

   (c) Each shares in Y Ltd is valued @ Rs. 25 for the purpose of the amalgamation.

   (d) Shareholders in X Ltd and Y Ltd are paid off by issuing to them a sufficient nuber of equity share of Rs. 10 each in XY Ltd as fully paid at par.

   (e) Each share in X Ltd is valued @ Rs. 15 for the purpose of amalgamation.

   Show journal entries in the Books of ‘X’ Ltd.

[Madurai, M.Com, April,2014]

8. The summarized balance sheet of A Ltd. And B Ltd. As on 1-1-2002 are as follows:

Liability	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity shares (Rs. 10)	2,00,000	1,00,000	Land and buildings	2,50,000	1,60,000
12% preference shares (Rs.10%)	1,00,000	–	Stock	30,000	40,000
			Debtors	10,000	20,000
9% preference shares (Rs.10%)	–	1,00,000	Cash and bank	70,000	45,000
Reserve	30,000	50,000			

Profit and loss a/c Creditors	20,000 10,000	10,000 5,000			
	3,60,000	2,65,000		3,60,000	2,65,000

On the above date A Ltd. Decided absorb BLtd. Under the following terms and condition.

(a) A Ltd. will take over all the assets & liabilities of B Ltd.

(b) The equity shareholders of B Ltd. Will be given 11,000 equity shares of Rs. 10/ -0 each at par.

(c) 9% preference shares of B Ltd. Will be converted into 12% preference shares of A Ltd. the number of preference shares to be issued should be such that it would bring the same amount of dividend as before.

Prepare:

(i) Realisation A/c in the books of B Ltd.

(ii) Necessary journal entries in the books of A Ltd.

(iii) Balance sheet of A Ltd. after absorption.

9. Lee Ltd. agreed to absorb Bee Ltd. by paying Rs. 10,00,000 to the shareholders. In addition they agreed to settle 1.000 8% Debentures of Rs. 100 each in Bee Ltd. at 20% Premium by issuing their own debentures of Rs. 100 **each at 96%. Ascertain** the Face value and actual issue value of debentures to be issued.

[Madras, B.Com ,Nov. 2009]

[Ans: Face Value : Rs. 1,25,000; Issue Value : Rs. 1,20,000]

10. Lal Ltd. agreed to absorb 0 ie Business of Mal. Ltd. The Purchase consideration was as under:

(A) For every 4, 10% Preference shares of Rs. 10 each in Mal Ltd. 7 Equity shares of Rs. 10 each in I al Ltd. is Rs. 8 paid up. There were 60,00 i 10% Preference shares in Mal Ltd.

(B) For every 3 Equity shares of Rs. 10 each in Mal Ltd. 8 Equity shares in Lal Ltd. as Rs. 10 paid up. There were 90,000 Equity shares in Mal Ltd. Find out purchase consideration.

[Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans : P.C. : Rs. 32,40,000; 1,05,000 shares Rs. 8 paid up and 2,40,000 shares Rs. 10 paid up]

11. S Ltd. was taken over by R Ltd. The following position was mutually agreed upon:

	S Ltd.	*R Ltd.*
No. of Shares	60,000	90,000
Face value of share	100	10
Net assets	3,60,00,000	72,00,000

Ascertain Intrinsic values of the shares. ratio of exchange of shares and No. of shares to be issued.

[Madras, B.Com (ICE) (PBC) Nov. 2009]

[Ans : Intrinsic Value,: S Ltd. Rs. 600; R Ltd. : Rs. 80;Ratio of exchange : 1 : 7.5 No. of shares to be issued : 4,50,000]

12. Spring Field Ltd. is absorbed by Sports Field Ltd.. the consideration being:

    (1) The taking over of the trade liabilities of Rs. 40,000;

    (2) The payment of cost of absorption of Rs. 15,000;

    (3) The repayment of ¯B¯ debentures of Spring Field Ltd. of Rs. 2,00,000 at par;

    (4) The discharge of 'A' debentures of Rs. 3,00.000 in the Vendor Co. at a premium of 10% by the issue of 8% debentures in Sports Field Ltd. at par;

    (5) A payment of Rs; 20 per share in cash and the exchange of 4 fully paid Rs. 10 shares in Sports Field Ltd. at a market price of Rs. 15 per share for every Rs. 50 share in Spring Field Ltd. which were 40,000 in number. You are required to find out the purchase consideration.

[Madras, B.Com (AF) (AF6C) Nov. 2009]

[Ans: Total purchase price — Rs. 32,00,000; Cash — Rs. 8,00,000 Shares — Rs. 24,00,000]

Hint : As per As-14 (Accounting Standard 14) for Amalgamations, Purchase consideration should constitute Cash and Securities given for shareholders.

13. Ram Ltd., and Shyam Ltd., have agreed to amalgamate. A new company Rajesh Ltd., has been formed to take over the combined concern as on 31st December 1998. After negotiations. the assets of the two companies have been agreed upon as shown below:

Balance Sheet as on 31-12-98

Liabilities	**Ram Ltd. Rs.**	**Shyam Ltd. Rs.**	**Assets**	**Ram Ltd. Rs.**	**Shyam Ltd. Rs.**
Share Capital :			Land& Buildings	5,00,000	3,00,000
Shares of			Plant & Machinery	2,00,000	2,50,000
Rs. 10 each	10,00,000	5,00,000	Goodwill	–	50,000
Reserve Fund	–	50,000	Furniture	1,10,000	–
P&L A/c	50,000	50,000	Stock	1,50,000	20,000
Creditors	80,000	50,000	Debtors	1,20,000	20,000
			Bank	50,000	10,000
	11,30,000	6,50,000		11,30,000	6,50,000

Prepare the balance sheet of Rajesh Ltd., assuming

(a) The entire purchase price is paid off in the form of equity shares of Rs. 100 each in Rajesh Ltd.

(b) The amalgamation is in the nature of Merger.

[Madras, B.Com., B.Com.(CS) April 2006; BCS (NYD) Nov. 2005; B.Com., March 1995; March 1991; Sept. 1990 Modified]

[Ans : Purchase price : Ram Ltd., Rs. 10,50,000 Shyam Ltd., Rs. 6,00,000. Excess of purchase price of Rs. 1,50,000 adjusted against reserves, B/S total : Rs. 17,80,000]

14. Abdul Ltd. having a capital of Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each (Rs. 75 paid up) and a reserve fund of Rs. 2,50,000 was absorbed by National Timber Ltd. having a capital of Rs. 40,00,000 divided into 40,000 shares of Rs. 100 each (Rs. 60 paid up) and a reserve fund of Rs. 16,00,000 on the terms that for every four shares in Abdul Ltd.; National Timber Ltd. was to give five shares partly paid as its original ones.Prepare ledger accounts to close the books of Abdul Ltd.

[Madras, B.Com, 2007 [M.ComAp. 2005 (Modified); B.Com.]

[Ans : Purchase price — Rs. 7,50,000; Loss on reaslisation — Rs. 2,50,000; Payment to shareholders — Shares worth — Rs. 7,50,000]

15. The following is the balance sheet of XYZ Ltd. on 31 st Dec 1976

Liabilities	**Rs.**	**Assets**	**Rs.**
20,000 shares of Rs. 10 each	2,00,000	Land & Buildings	1,00,000
Debentures	1,00,000	Plant & Machinery	1,50,000
Sundry creditors	30,000	Work-in-progress	30,000
Reserve fund	25,000	Stock	60,000
Dividend equalization fund	20,000	Furniture and fittings	2,500
Profit & Loss appropriation Aic	5,100	Sundry debtors	25,000
		Cash at Bank	12,500
		Cash in hand	100
	3,80,100		3,80,100

The company is absorbed by ABC company Ltd; on the above date. The consideration for the absorption is the discharge of debentures at a premium of 5%, taking over the liability in respect of the sundry creditors and payment of Rs. 7 in cash and one share of Rs. 5 in ABC Co. Ltd. at the market value of Rs. 8 per share in exchange for one share in XYZ Co. Ltd. The cost o liquidation of Rs. 5,000 is to be met by the purchasing company. Pass journal entries in the books of both the companies. Show how the purchase price is arrived at.

[Madras, B.Com(CS) Ap. 2009; B.Com(AF) Nov. 2008]

[Ans: Purchase price, — Rs. 3,00,000;Profit on realization — Rs. 49,900; Payment to shareholders — Rs. 3,00,00 — Cash Rs. 1,40,000 and shares Rs. 1,60,000; Total Goodwill in ABC Co. — Rs. 59,900]

Hint : (1) Payment to Debentures should be *shown* in the books of Purchasing Co.

(2) Expenses are to be treated like reimbursement.

16. "X' Co. Ltd. agreed to acquire the assets excluding cash as on 31st Dec. 1981 of Y Co. Ltd. The Balance sheet of Y Co. Ltd. as on that date was:

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity capital:		Goodwill	60,000
(shares of Rs. 10 each)	3,00,000	Land &Buildings	1,20,000
General reserve	80,000	Plant & Machinery	2,00,000
Debentures	50,000	Stock	80,000
Creditors	10,000	Debtors	30,000
P& L A/c	60,000	Cash	10,000
	5,00,000		5,00,000

The consideration was as follows:

(a) A cash payment of Rs. 4 for every share of Y Ltd.

(b) The issue of one share of Rs. 10 each at market value of Rs. 12.50 in the X.Co. Ltd. for every share in Y Ltd.

(c) The issue of 1.100 debentures of Rs. 50 each in X Co. 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. 4,000 was to be met by themselves. Give the journal entries in the books of both the companies.

[Madras, B.Com., B.Com (CS) Nov. 2007; B.Com (ICE) Ap 2007; B.Com. (PZ4A) Nov. 2006; Nov. 2005 (10 Tunes); BCS Apri12005; Oa 2002]

[Ans : Purchase price Rs. 4,95,000. Profit on realization Rs. 51,000; Payment to Shareholders — Cash Rs. 1,16,000; Shares 3,75,000; Goodwill in X Co. Rs. 1,20,000]

Hint : Cash in hand which is not taken over is assumed to be used to pay creditors.

17. The company went into voluntary liquidation and assets were sold to y Co. Ltd. for Rs. 1.50,000 payable as to Rs. 60,000 in cash (which sufficed to discharge creditors and bank overdraft and to pay off the winding up expenses of Rs. 2,000) and as to Rs. 90,000 by the allotment of 12.000 shares of Rs. 10 each of the Y Co. Ltd.. Rs. 7.50 per share paid up.Draw up the important ledger accounts to close the books of 'X' Co., Ltd. and the journal entries for recording these transactions in the books of "Y', Co. Ltd..

[Periyar, B.Com., Ap 2006; Periyar, M.Com (CA) Ap 2006]

[Madras, 1st M.Com (ECA1A) Nov. 2008; B.Com., B.Com. (CS) Nov. 2006;] B.Com. (PZ4A), Nov. 2005; BCS (SY4B) April 2005; B.Com. April 2004]

[Ans : Loss on realisation — Rs. 29,000; Purchase price : Rs. 90,000; Payment to shareholders — Rs. 90,000 in shares]

Hint : Expenses can be treated like reimbursement. Creditors and Bank O.U. can be shown as taken over and then paid off by purchasing company.

18. The E Co. Ltd. sells its business to Metha Products Ltd. as on Dec. 31.198 on which date its Balance Sheet was as under.

Liabilities	Rs.	Assets	Rs.
Paid up capital:		Goodwill	50,000
2,000 shares of Rs. 100 each	2,00,000	Property	1,50,000
Debentures	1,00,000	Tools	83,000
Creditors	30,000	Stock	35,000
Reserve fund	50,000	Bills receivable	4,500
Profit & Loss A/c	20,000	Sundry debtors	27,500
		Cash at bank	50,000
	4,00,000		4,00,000

[Madras, 1st M.Com.(CA1A) Nov. 2006]

[Ans : Purchase price — Rs. 2,45,000; Realisation loss — Rs. 8,000; Shareho1ders get cash — Rs. 97,000; Shares — Rs. 1,65,000 Goodwill in Metha Products — Rs. 75,000]

Hint: Cash at Bank which is not taken over is to be used to to settle creditors and cost of Liquidation. Balance of Cash goes to shareholders.

19. The position of two companies. A and B is as follows:

Liabilities .	**A Ltd. Rs.**	**B Ltd. Rs.**	**Assets**	**A Ltd. Rs.**	**B Ltd. Rs.**
Nominal capital: Shares of Rs. 10 each	5,00,000	10,00,000	Fixed assets	3,00,000	5,00,000
			Debtors & Stock	3,50,000	1,00,000
Issued and paid up			Cash at bank	—	1,00,000
capital: Shares of Rs.10			Goodwill	1,00,000	3,50,000
each fully called and paid	5,00,000	7,00,000	P & L A/c	1,50,000	
5% Debentures	1,00,000				
Creditors	3,00,000	2,00,000			
P & L A/c	—	1,50,000			
	9,00,000	10.50,000		9,00,000	10,50,000

B Ltd. agreed to absorb A Ltd. upon the following terms:

(a) The shares in A Ltd. are to be considered as worth Rs. 6 each. The shareholders of A Ltd. are to be paid one quarter in cash and the balance in shares of B Ltd. at Rs. 12.50 each.

(b) The debentureholders in A Ltd. agreed to take Rs. 95 of 7% debentures in B Ltd. for every Rs. 100 of 5% debentures held in A Ltd.

(c) 'A' Ltd. is to be wound up.

Show the journal entries to record the above in both companies and draw the balance sheet showing the position of B Ltd. after the absorption.

[Madras, B.Com., Oct 2001]

[Ans: Purchase price — Rs. 3,00,000; Realisation loss — Rs. 50,000; Goodwill on purchase in B Ltd. 45,000; Total goodwill in Balance Sheet 3,95,000; Balance Sheet total — Rs. 16,70,000]

20. The summarised balance sheet of Grey Ltd. and Remy Ltd. as on March 31 were as follows:

Liabilities	**Grey Ltd. Rs.**	**Remy Ltd. Rs.**	**Assets**	**Grey Ltd. Rs.**	**Remy Ltd. Rs.**
Issued share capital :			Goodwill	–	60,000
Shares of Rs. 10 each	4,00,000	3,00,000	Fixed assets	3,00,000	1,20,000
Creditors	40,000	1,20,000	Current assets	2,10,000	1,40,000
Profit & Loss A/c	70,000	–	P & L A/c	–	1,00,000
	5,10,000	4.20,000		5,10,000	4,20,000

Grey Ltd. resolved to take over the business of Remy Ltd. with effect from April 1. The shareholders of Remy Ltd. agreed to accept shares in Grey Ltd. on the basis that the shares of Grey Ltd. were worth Rs. 12 each and the shares of Remy Ltd. were worth Rs. 5 each. The purchasing company took over the fixed assets of Remy Ltd. together with the current assets and were not required to pay the liabilities. Make journal entries in the books of Grey Ltd. and draw up it's balance sheet immediately after absorption

[Madras, B.Com., April,2007]

[Ans: Purchase price Rs. 1,50,000; Goodwill on acquisition — Rs. 10,000; Total of balance sheet — Rs. 7,80,000]

21. While computing the consideration, the directors of A Ltd. valued Land & Buildings at Rs. 12,00,000, the stock at Rs. 1,42,000 and the debtors at their face value subject to an allowance of 5% to cover doubtful debts. The cost of liquidation of B Ltd. came to Rs. 5,000 which is to be paid by A Ltd. close the books of B Ltd. and give journal entries in the books of A Ltd.

[Madras, B.Com., ,B. Com.* **(CS)** *April 2006; 2nd M.Com.(ICE) (PTI) Oct. 2005; B.Com. Nov. 2004]

[Ans: Purchase price 15,00,000; Profit on realisation — Rs. 6,20,000; Payment to shareholders — Rs. 1,50,000 in cash and Rs. 13,50,000 in shares; Goodwill in A company — Rs. 2,12,800]

22. The creditors and shareholders having agreed upon a scheme of reconstruction, A Ltd. went into voluntary liquidation. The balance sheet as at the date of reconstruction stood as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Building	95,000
25,000 equity shares of Rs. 10 each	2,50,000	Machinery	1,05,000
5% debentures	1,00,000	Stock	50,000
Trade creditors	40,000	Debtors	60,000
		Cash at bank	2,000
		Profit & Loss Aic	78,000
	3,90,000		3,90,000

The scheme of reconstruction provided as under:

(a) A new company called A (new) Ltd. to be formed with a share capital of Rs. 5,00,000 in 50,000 shares of Rs. 10 each to take over from the above company, stock and debtors at 20% less than the book value and building and machinery at Rs. 77,000 and Rs. 1,00,000 respectively.

(b) The shareholders agreed to receive 25,000 equity shares of Rs. 10 each, credited with Rs. 5 per share paid up, with a call of Rs. 2.50 per share to be made forthwith.

(c) The debenture holders were to be satisfied by the issue of 6% mortgage debentures of Rs. 1,50,000 in the new company in exchange for old debentures.

(d) The trade creditors agreed to receive Rs. 35,000 from the new company in full settlement of their claims.

The bank balance was utilised in payment of reconstruction expenses. Give the journal entries in the books of A Ltd. and A (new) Ltd.

[Periyar, B.Com,2011]

[Ans: Purchase consideration — Rs. 1,25,000; Loss on realisation — Rs. 47,000; Goodwill in A(new) Ltd. — Rs. 45,000]

Hint : New Co., takes over Debentures and Creditors and then settles them.

23. Lala Co. Ltd. decided to reconstruct and went into liquidation with the following assets and liabilities.

Liabilities	**Rs.**	**Assets**	**Rs.**
Pref. share capital of Rs. 10 each	2,00,000	Fixed assets	4,99,200
Equity share capital Rs. 10 each	8,00,000	Stock	73,500
General reserve	12,100	Debtors	1,31,000
Bank loan	18,600	Cash	400

Creditors	86,100	Profit & Loss A/c	4,12,700
	11,16,800		11,16,800

A new company called Bala Co. Ltd. was formed to acquire the fixed assets and stock of Lala Co. Ltd. at Rs. 3,40,000 and Rs. 60,000 respectively. The purchase price is to be paid by issue of 10% preference shares and equity shares of Rs. 10 each for equal amounts. Debtors realized Rs. 1,22,750 and the creditors were paid Rs. 81,340 in full satisfaction. Bank loan was paid in full. The expenses of liquidation came to Rs. 10,710. Close the books of Lala Co. Ltd. and give the balance sheet of Bala Co. Ltd.

[Madras, B.Com.(CS) (PYD) Nov. 2004]

[Ans : Purchase price — Rs. 4,00,000; Loss on realisation — Rs. 1,86,900; Payment to equity shareholders; Cash — Rs. 12,500 and equity shares in Bala Ltd. — Rs. 2,00,000; Balance Sheet total of Bala Ltd. Rs. 4,00,000]

24. The Balance Sheets of Z Ltd. and A Ltd. as at 31st March 2000 are given below :

Liabilities	**Z Ltd. Rs.**	**A Ltd. Rs.**	**Assets**	**Z Ltd. Rs.**	**A Ltd. Rs.**
Share Capital of			Sundry Assets	3,10,000	6,00,000
Rs. 10 each	2,00,000	4,00,000	Loan to 'A' Ltd.	30,000	–
Reserves	40,000	1,00,000	Investments		
9% Debentures			5,000 shares		
of Rs. 100 each	1,00,000	–	in Q Ltd.	50,000	–
Loan from Z Ltd.	–	30,000			
Creditors	50,000	70,000			
	3,90,000	6,00,000		3,90,000	6,00,000

'A' Ltd. Proposes to takeover Z Ltd. on the following terms :

(a) A Ltd. will issue sufficient number of its shares at Rs. 11 each and Pay Re. 0.50' each per share held by members of Z Ltd.

(b) 9% Debentures of Z Ltd. are to be paid °at 8% premium by issue of sufficient number of Rs. 100 10% Debentures of A Ltd. at Rs. 90 each.

Show Journal entries and Ledger Accounts in the books of the companies and draft the Balance sheet in the books of A Ltd.

[Madras, II M.Com., Oct. 2002]

lAns : Purchase consideration : Rs. 2,30,000; Realisation Loss : Rs. 10,000; Capital Reserve in the books of 'A' Ltd. : Rs. 2,000; Balance sheet total : Rs. 9,62,000; Face value of debentures issued by A Ltd. : Rs. 1,20,000]

SYLLABUS

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com (Applied) Syllabus under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE – IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure in corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issue of shares, application, allotment, calls, calls-in-arrears, calls-in-advance, issue of shares at premium- issue of shares at discount- forfeiture of shares - re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debentures- instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy.

Redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Accounts of Holding company - legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com (Bank Management) Syllabus under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE - IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issues of shares, applications, allotment, calls,calls-in-arrears, calls-in-advance, issue of shares at premium-issue of shares at discount- forfeiture of shares-re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debenture- in instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy and redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Holding company account – legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com Programme – Course Structure under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE – IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure in corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issue of shares, application, allotment, calls, calls-in-arrears, calls-in-advance, issue of shares at premium- issue of shares at discount- forfeiture of shares - re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debentures- instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy.

Redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Accounts of Holding company - legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI 620 024

B.Com (Computer Applications) Syllabus under CBCS

(Applicable to the candidates admitted from the academic year 2016 -2017 onwards)

CORE COURSE – IX

CORPORATE ACCOUNTING

OBJECTIVE:

To enable the students to know about accounting procedure in corporate accounting

UNIT – I

Company accounts – introduction – legal provisions regarding issue of shares, application, allotment, calls, calls-in-arrears, calls-in-advance, issue of shares at premium- issue of shares at discount- forfeiture of shares - re-issue – accounting entries.

UNIT – II

Issue and redemption of debentures – methods of redemption of debentures- instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy.

Redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

UNIT – III

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

UNIT – IV

Accounts of Holding company - legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

UNIT – V

Final accounts of banking companies (new format) and Insurance companies (new format).

Theory: 25% Problem: 75%

PERIYAR UNIVERSITY

Degree of bachelor of commerce

Choice based credit system Syllabus for b.com

For the students admitted from the academic year 2017 – 2018 onwards

Semester-III Paper - XIV

CORPORATE ACCOUNTING-I

Subject Code: XXXX

OBJECTIVEs:

- To enlighten the students on the accounting procedures followed by the company.
- To enable the students to be aware on the Corporate Accounting in conformity with the provisions of the Companies Act.

UNIT – I

Equity Shares: Meaning-definition- Features- Issue at Par, at Premium and at Discount – Under Subscription, Over Subscription- call in arrears, call in advance-Forfeiture and Re-issue.

UNIT – II

Preference shares: Issue of preference shares - kinds of preference shares- advantages & disadvantages of preference shares, provisions relating to redemption of preference shares, capital profits and revenue profits. Redemption out of Revenue Reserves and Fresh issue of Bonus shares.

UNIT – III

Debentures: Meaning- definition-classification- difference between shares and Debentures- Factors to be considered in relation to redemption of debentures- Various Methods of Redemption, Writing off discount on Redemption of debentures.

Unit -IV

Underwriting of Shares: Marked, Unmarked & Firm underwriting, Complete underwriting, partial underwriting.

Valuation of Goodwill and shares- meaning, Need for valuation-methods of valuation of shares. Net assets method- yield method- fair value method.

UNIT – V

Profits prior to Incorporation: Apportionment of expenses-various types-Pre -incorporation, Post-incorporation - Preparation of Final accounts of companies. Company Balance Sheet - Computation of Managerial Remuneration.

Note: Distribution of marks: Problems 80% and Theory 20%

SEMESTER - IV

PAPER - XXI

CORPORATE ACCOUNTING -II

Subject Code: XXXX

OBJECTIVEs:

- To equip the students with accounting methods formatted from inception to liquidation and to have knowledge about Amalgamation , Absorption and Reconstruction.
- To lay down a foundation for drafting accounts for special corporate bodies such as banking companies and holding companies.

UNIT – I

Amalgamation as per AS-14, absorption and external reconstruction, Types of amalgamation, Methods of accounting for amalgamation. Computation of purchase consideration.

UNIT – II

Alteration of share capital- meaning. Different ways of alteration of share capital. Internal reconstruction- meaning, Procedure for reducing share capital. Liquidator's final statement of accounts. - Meaning, amount realized and payment of various liabilities. Calculation of liquidator's remuneration.

UNIT – III

Accounts of Banking Companies - Meaning, Legal Requirements for Preparation of Profit And Loss Account. Guidelines for profit and loss account. Balance sheet format as per form A (New Format). Nonperforming assets.

UNIT – IV

Accounts of Insurance Companies Life, Fire and Marine- (New format).

UNIT – V

Accounts of Holding Companies - Meaning, definition, capital profit, minority interest. Revenue profit, capital reserve. Goodwill, Unrealised profit. (Excluding intercompany holdings)

Note: Distribution of marks: Problems 80% Theory 20%

APPENDIX-17(R & S)

UNIVERSITY OF MADRAS

(With effect from the academic year 2016-2017)

B.Com. Degree Course

III SEMESTER

Core Paper V - CORPORATE ACCOUNTING

OBJECTIVEs **NO OF CREDITS : 4**

- To enable the students about the Preparation of the Company accounts.
- To motivate the students to understand the various Provisions of the Companies Act.

UNIT – I : Share Capital

Issue of Shares - Types of Shares - Forfeiture of shares - Reissue of shares - Underwriting of shares - Stock spilit - Meaning of Redemption - Redemption of Preference Shares.

UNIT – II : Debentures & Acquisition of Business

Meaning - Types of Debentures - Issue - Underwriting of Debentures - Redemption of Debentures. Acquisition of Business - Meaning - Profit Prior to Incorporation.

UNIT – III : Final Accounts

Final Accounts - Preparation of P & L A/c and Balance Sheet – Managerial Remuneration- Calculation and Legal Provisions.

UNIT – IV : Valuation of Shares and Goodwill

Valuation of Shares and Goodwill - Meaning - Methods of Valuation of Shares and Goodwill.

UNIT – V : Alteration of Share Capital

Meaning - Internal Reconstruction - Reduction of Share Capital.

Note : Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

IV SEMESTER

Core Paper IX - ADVANCED CORPORATE ACCOUNTING

OBJECTIVES **NO OF CREDITS : 4**

- To make the students understand the applications of Accounting Transactions in Corporate Sector.
- To facilitate the students to understand the Provision of the Indian CompaniesAct.

UNIT – I : Company Accounts

Amalgamation, Absorption and External Reconstruction of Companies.

UNIT – II : Holding Company

Holding Company - Subsidiary Company - Meaning - Preparation of Consolidated Final Statement of Accounts - Treatment of Dividend. (Inter - Company Owing excluded)

UNIT – III : Banking Company & Insurance Company

Preparation of - Final Accounts of Banking Insurance Companies.

UNIT – IV : Liquidation

Meaning - Preparation of Liquidator's Final Statement of Account - Calculation of Liquidator's Remuneration.

UNIT – V : Special Accounting

Accounting for Price Level Changes - Human Resource Accounting – Computrised Accounting Meaning.

Note : Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

MANONMANIAM SUNDARANAR UNIVERSITY TIRUNELVELI

CHOICE BASED CREDIT SYSTEM

COURSE STRUCTURE FOR B.Com., Professional Accounting

(With effect from the Academic Year 2016-2017 onwards)

II B. Com., Professional Accounting (IV Semester) – Under CBCS

Part V EXTENSION ACTIVITIES – NSS/NCC/YRC/YWF

III B. Com., Professional Accounting (V Semester) – Under CBCS

Part III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING I

UNIT – I

Issue of shares- Issue at par, Premium and discount- Forfeiture and Re-issue of shares – Pro rata allotment- Redemption of preference shares. Issue of debentures.

UNIT – II

Final Accounts of Companies as per Schedule II of Companies Act 2013 – excluding managerial remuneration.

UNIT – III

Amalgamation, Absorption and External Reconstruction - Methods of Purchase consideration. (Simple Problems only)

UNIT – IV

Profit Prior to Incorporation- Alteration of share capital and Internal Reconstruction.

UNIT – V

Valuation of Goodwill and Shares- various methods of valuation of goodwill and shares.

III B. Com., Professional Accounting (VI Semester) – Under CBCS

Part- III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING II

UNIT – I

Liquidator's final statement of Accounts.

UNIT – II

Accounts of Banking Companies – Rebate on Bills discounted- Final Accounts.

UNIT – III

Double Account System- Accounts of Electricity companies - Replacement of Asset - Calculation of Reasonable Return- Disposable of surplus.

UNIT – IV

Holding companies- Preparation of Consolidated balance sheet

UNIT – V

Human Resource accounting – OBJECTIVEs- Methods of Human Resource Value Accounting- Social Responsibility Accounting.

MANONMANIAM SUNDARANAR UNIVERSITY TIRUNELVELI

CHOICE BASED CREDIT SYSTEM

COURSE STRUCTURE FOR B.Com

(With effect from the Academic Year 2016-2017 onwards)

II B. Com (IV Semester) – Under CBCS

Part V EXTENSION ACTIVITIES – NSS/NCC/YRC/YWF

III B. Com (V Semester) – Under CBCS

Part III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING I

UNIT – I

Issue of shares- Issue at par, Premium and discount- Forfeiture and Re-issue of shares – Pro rata allotment- Redemption of preference shares. Issue of debentures.

UNIT – II

Final Accounts of Companies as per Schedule II of Companies Act 2013 – excluding managerial remuneration.

UNIT – III

Amalgamation, Absorption and External Reconstruction - Methods of Purchase consideration. (Simple Problems only)

UNIT – IV

Profit Prior to Incorporation- Alteration of share capital and Internal Reconstruction.

UNIT – V

Valuation of Goodwill and Shares- various methods of valuation of goodwill and shares.

III B. Com (VI Semester) – Under CBCS

Part- III – Core Subject-1 (One Course)

CORPORATE ACCOUNTING II

UNIT – I

Liquidator's final statement of Accounts.

UNIT – II

Accounts of Banking Companies – Rebate on Bills discounted- Final Accounts.

UNIT – III

Double Account System- Accounts of Electricity companies - Replacement of Asset - Calculation of Reasonable Return- Disposable of surplus.

UNIT – IV

Holding companies- Preparation of Consolidated balance sheet

UNIT – V

Human Resource accounting – OBJECTIVEs- Methods of Human Resource Value Accounting- Social Responsibility Accounting.

ALAGAPPA UNIVERSITY, KARAIKUDI

NEW SYLLABUS UNDER CBCS PATTERN (w.e.f.2014-15)

B.COM – PROGRAMME STRUCTURE

III YEAR – V SEMESTER

COURSE CODE: 4BCO5C1

CORE COURSE XIII – CORPORATE ACCOUNTING

UNIT – I

Issue of shares – Issue of debentures – Underwriting of shares and debentures – Redemption of debentures – Redemption of preference shares

UNIT – II

Acquisition of business – Profits prior to incorporation.

UNIT – III

Final accounts of companies

UNIT – IV

Amalgamation, Absorption and External Reconstruction of Companies – Alteration of share capital and Internal Reconstruction

UNIT – V

Valuation of goodwill and shares of companies – Liquidation of Companies (Liquidator's final statement of accounts only)

BHARATHIARUNIVERSITY, COIMBATORE:641 046

B.Com.(Bachelor of Commerce)

(revised papers with effect from 2015-16 onwards)

SEMESTER - IV

CORPORATE ACCOUNTING – I

SUBJECT DESCRIPTION :

This course aims to enlighten the students on the accounting procedures followed by the Companies.

GOALS :

To enable the students to be aware on the Corporate Accounting in conformity with the provision of the Companies Act.

OBJECTIVES :

After the successful completion of the course the student should have a through knowledge on the accounting practice prevailing in the corporate.

UNIT – I

Issue of shares : Par , Premium and Discount - Forfeiture - Reissue – Surrender of Shares – Right Issue - Underwriting

UNIT – II

Redemption of Preference Shares. Debentures – Issue – Redemption : Sinking Fund Method.

UNIT – III

Final Accounts of Companies - Calculation of Managerial Remuneration.

UNIT – IV

Valuation of Goodwill and Shares – Need – Methods of valuation of Goodwill and Shares.

UNIT – V

Liquidation of Companies - Statement of Affairs -Deficiency a/c.

NOTE Distribution of Marks : Theory - 20% Problems - 80%

SEMESTER - V

CORPORATE ACCOUNTING - II

SUBJECT DESCRIPTION:

This course aims to enlighten the students on the accounting procedures followed by the Companies.

GOALS :

To enable the students to be aware on the Advanced Corporate Accounting in conformity with the provision of the Companies Act.

OBJECTIVES :

After the successful completion of the course the student should have a through knowledge on the Advanced Accounting Practice prevailing in the Corporates.

UNIT – I

Accounting for Mergers and Amalgamation – Absorption and External Reconstruction

UNIT – II

Holding Company Accounts - Consolidation of Balance Sheets with treatment of Mutual Owings, Contingent Liability, Unrealized Profit, Revaluation of Assets, Bonus issue and payment of dividend (Inter Company Holdings excluded).

UNIT – III

Banking Company Accounts - Preparation of Profit and Loss Account and Balance Sheet (New format only) - Rebate on Bills Discounted - Classification of Advances - Classification of Investments.

UNIT – IV

Insurance Company accounts: General Insurance and Life Insurance - Under IRDA 2000

UNIT – V

Statements of Accounts for Electricity Companies – Treatment of Repairs and Renewals - Accounting Standards – Financial Reporting Practice (Theoretical Aspects)

NOTE Distribution of Marks : Theory - 20% Problems - 80%

BHARATHIAR UNIVERSITY : COIMBATORE-641 046

B.Com. (Bachelor of Commerce)

(For the students admitted during the academic year 2016-17 and onwards)

SEMESTER - IV

CORPORATE ACCOUNTING - I

SUBJECT DESCRIPTION :

This course aims to enlighten the students on the accounting procedures followed by the Companies.

GOALS :

To enable the students to be aware on the Corporate Accounting in conformity with the provision of the Companies Act.

OBJECTIVES :

After the successful completion of the course the student should have a through knowledge on the accounting practice prevailing in the corporate.

UNIT – I

Issue of shares : Par , Premium and Discount - Forfeiture - Reissue – Surrender of Shares – Right Issue - Underwriting

UNIT – II

Redemption of Preference Shares. Debentures – Issue – Redemption : Sinking Fund Method.

UNIT – III

Final Accounts of Companies(new format) - Calculation of Managerial Remuneration.

UNIT – IV

Valuation of Goodwill and Shares – Need – Methods of valuation of Goodwill and Shares.

UNIT – V

Liquidation of Companies - Statement of Affairs -Deficiency a/c.

NOTE Distribution of Marks : Theory - 20% Problems - 80%

THIRUVALLUVAR UNIVERSITY

BACHELOR OF COMMERCE

B.COM. (GENERAL)

DEGREE COURSE

CBCS PATTERN

(With effect from 2012-2013)

SEMESTER III

PAPER - 5

CORPORATE ACCOUNTING - I

OBJECTIVE:

To gain comprehensive understanding of all aspects relating to corporate accounting.

UNIT – I

Issue of Shares – at Par, Premium and Discount – Pro-rata Allotment – Forfeiture and Reissue of Shares

UNIT – II

Issue of Debentures – Redemption of Debentures with and without Provisions – Redemption of Preference Shares.

UNIT – III

Acquisition of Business – Profit Prior to Incorporation – Final Accounts (ManagerialRemuneration Excluded)

UNIT – IV

Amalgamation, Absorption and External Reconstruction: Purchase Consideration – Methods – Amalgamation in the Nature of Merger and Purchase – Absorption – ASI4 – Alteration of Share Capital – Reduction of Share Capital (Scheme of Capital Reduction is Excluded).

UNIT – V

Liquidation Accounting – Order of Payments – Preferential Payments – Liquidators Final Statement of Account – Remuneration – Statement of Affairs and Deficiency Accounts

(Weightage of Marks = Problems - 80%, Theory - 20%)

SEMESTER IV

PAPER – 9

CORPORATE ACCOUNTING – II

OBJECTIVE:

To gain accounting knowledge in advanced corporate accounting.

UNIT – I

Valuation of Goodwill – Need – Factors Effecting the Valuation – Methods – Average Profit, Super Profit, Annuity and Capitalization Methods, Valuation of Shares: Need – Factors Effecting the Valuation – Net Asset, Yield and Fair Value Methods.

UNIT – II

Accounts of Holding Companies – Minority Interest – Cost of Control – Elimination of Common Transactions – Unrealized Profits – Revaluation of Assets and Liabilities – Bonus Shares –Consolidated Balance Sheet (Inter Company Investment Excluded)

UNIT – III

Bank Accounts: Rebate on Bills Discounted, Interest on Doubtful Debts, Preparation of Profit and Loss Account and Balance Sheet with Relevant Schedules (New Method) – Non-performing Assets (NPA)

UNIT – IV

Insurance Company Accounts: Life Insurance – Revenue Account, Valuation Balance Sheet and Balance Sheet (New Method). General Insurance - Fire and Marine Revenue Account, Profit and Loss Appropriation Account and Balance Sheet (New Method)

UNIT – V

Inflation Accounting (Accounting for Price Level Changes) – Limitations of Historical Accounting – Current Purchasing Power Method – Current Cost Accounting Method – Hybrid Method. (Simple Problems Only)

(Weightage of Marks - Problems - 80%, Theory - 20%)

TABLE OF CONTENT

UNIT – 1 : ISSUE OF SHARES

UNIT – 2 : UNDERWRITING OF SHARES

UNIT – 3: REDEMPTION OF PREFERENCE SHARES

UNIT – 4 : ISSUE AND REDEMPTION OF DEBENTURES

UNIT – 5 : PROFITS PRIOR TO INCORPORATION

UNIT – 6 : FINAL ACCOUNTS OF COMPANIES

UNIT – 7 : VALUATION OF GOODWILL AND SHARES

UNIT – 10 : LIQUIDATORS FINAL STATEMENT OF ACCOUNTS

UNIT – 11 : BANKING COMPANY ACCOUNTS

UNIT – 12 : INSURANCE COMPANY ACCOUNTS

UNIT – 13 : HOLDING COMPANY ACCOUNTS

UNIT – 14 : DOUBLE ACCOUNTING SYSTEM

UNIT – 5

PROFITS PRIOR TO INCORPORATION

Pre -incorporation period - Post incorporation period - Basis of apportionment of expenses

A company may be purchased by another at any time. After purchasing, it should get certificate of incorporation. But the regular business will be continued. The profit earned by the company before its incorporation should not be used for dividend declaration because it is a capital profit. So it should be transferred to capital reserve a/c. In such a circumstance, we have to prepare the profit and loss a/c with two columns. It is for the purpose of dividing the net profit as relating to pre-incorporation period and as relating to post-incorporation period.

The profit which may arise from a business which has been purchased by the company before it was incorporated is known as profits prior to incorporation.

5.1 PRE -INCORPORATION PERIOD

A period from the date of purchase till the date of incorporation or registration is called pre-incorporation period. The profit relating to such period should be transferred to capital reserve and loss if any should be transferred to goodwill account.

5.2 POST INCORPORATION PERIOD

A period from the date of incorporation till the accounting year end is called post-incorporation period. The profit relating to such period should be transferred to net profit. This is revenue profit of the company and so it will be used for dividend declaration.

5.3 BASIS OF APPORTIONMENT OF EXPENSES

Basis	Expenses to be apportioned
1. Sales ratio	Gross profit, traveling expenses, carriage, carriage outward, selling expenses, variable expenses, discount allowed, bad debts, commission on sales, advertising
2. Time ratio	Rent, rates, salaries, insurance, audit fees, depreciation, interest, taxes, printing , postage, repairs, general expenses, establishment expenses, fixed expenses, bank charges, interest on loan, administration exp., electricity

3. Pre incorporation period (before incorporation)	Salary of a partner, vendor salary, interest on purchase consideration up to the date of purchase
4. Post incorporation period (after incorporation)	Preliminary expenses, debenture interest, directors fees, managing directors commission
5. Purchase ratio	Purchase expenses, carriage on purchase, discount received

Calculation of Time Ratio:

For pre-incorporation period	For post incorporation period
$\frac{\text{Pre-incorporation period}}{\text{Total period}}$	$\frac{\text{Post incorporation period}}{\text{Total period}}$

Calculation of Sales Ratio:

For pre-incorporation period	For post incorporation period
$\frac{\text{Pre-incorporation period sales}}{\text{Total period sales}}$	$\frac{\text{Post incorporation period sales}}{\text{Total period sales}}$

5.4 TREATMENT OF PROFIT IN THE PRE-INCORPORATION PERIOD:

Being Capital profit in its nature, transferred to capital reserve account which may be used to write off capital losses and expenses like preliminary expenses, underwriting commission etc..

5.5 TREATMENT OF LOSS IN THE PRE-INCORPORATION PERIOD:

Being capital loss in its nature, it can be debited to loss prior to incorporation account, which may be used to write off capital profits of the company. It may also be debited to goodwill account.

5.6 TREATMENT OF INTEREST PAID ON PURCHASE CONSIDERATION

Interest paid on purchase consideration is to be divided according to the number of months involved. The total months for which the interest is paid is divided into pre and post incorporation periods.

5.7 CALCULATION OF TIME AND SALES RATIOS

Illustration -1 G Ltd. was incorporated on 1st May 2015 to purchase the running business of Vee Ltd with effect from 1st Jan.2015. The company obtained certificate of commencement of business on 24th August 2015. Calculate the time ratio, if the accounts were finalized on 31st Dec.2015.

Solution

Pre-incorporation	1- 1-15 to 1–5-15	4 months
Post incorporation	1–5–15 to 31–12 –15	8 months
Time ratio	4:8	1:2

Illustration -2 A company incorporated on 1-7-2015 to take over the business carried on by B & Co. from 1-4-2015. The company prepared its first final accounts on 31-3-2016. Sales for the period was ₹3,00,000 (sales up to 30-6-2015 ₹1,00,000). Ascertain sales ratio.

Solution

Pre-incorporation	1- 4-15 to 1 –7 – 15	3 months
Post incorporation	1–7 –15 to 31–3–16	9 months
Time ratio	3:9	1:3
Pre-incorporation sales		₹1,00,000
Post incorporation sales	3,00,000 – 1,00,000	₹2,00,000
Sales ratio		1:2

Illustration -3 A company is incorporated on 1st May 2015. The business acquired 1-4-15 and account closing Dec.2015. Total amount of wages paid is ₹90,000. Number of workers employed in pre-incorporation period 6 and post incorporation period 24. Calculate pre and post incorporation period wages.

Solution

Pre-incorporation (1-4-15 to 1-5-2015)	1 month
Post-incorporation (1-5-15 to 31-12-2015)	8 months
Time ratio	1: 8
No. of workers	6 : 24
Weighted time ratio	6 : 192
Pre –incorporation wages (90,000 x 6/198)	₹2,727
Post –incorporation wages (90,000 x 192/198)	₹87,273

Illustration -4 The sales up to 30th September 2015 were ₹98,000. The monthly average of sales for the first four months of the year was one-half of the remaining periods. The date of incorporation of the business is 1-5-15. The date of purchase of business is 1-1-2015. The date of closing accounts is 30-9-2015. Ascertain sales ratio.

Solution

Calculation of sales ratio: Assume one month sales as X

Pre incorporation	1-1-15 to 1-5-15	4 months x X = 4X
Post incorporation	1-5-15 to 30-9-15	5 months x 2X = 10X
Sales ratio		4:10

Illustration -5 The monthly average of sales in January, November and December is double the monthly average. For the remaining - monthly average for the remaining months of the year. The date of incorporation of the business is 1- 4- 15. The date of purchase of the business is 1-1- 2015. The date of closing of accounts is 31–12- 15. Find the sales ratio.

Solution

Pre-incorporation sales

Jan	Feb	March	Total
2	0.66	0.67	3.33

Remaining period = 12 – 6 = 6/9 = 0.666

Post incorporation sales

Ap.	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
0.66	0.66	0.67	0.67	0.67	0.67	0.67	2	2	8.66
Sales ratio			3.33 : 8.66						

5.8 PREPARATION OF PROFIT AND LOSS ACCOUNT

Illustration -6 A company was incorporated on 1st June 2015. The running business was from 1st Jan.15. The following particulars are available:

a) Total sales for 2015 ₹80,000

b) Sales from 1-1-2015 to 31-5-2015 ₹20,000

c) Gross profit for the whole year ₹30,000

d) Total expenses of 2015 (including directors fees ₹1,000) ₹25,000

e) Company’s share capital ₹75,000

Find out the profit prior to incorporation and after incorporation.

Solution

Time ratio = 5: 7; Sales ratio = 2: 6

Profit and Loss a/c

Particulars	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Director's fees	–	1,000	By Gross profit	7,500	22,500
" Other exp.	10,000	14,000	" Goodwill (b/f)	2,500	–
" Net profit	–	7,500			
	10,000	22,500		10,000	22,500

Illustration -7 X Ltd. was incorporated on 1-7 -2015 to take over the business carried by Y Ltd. with effect from 1- 4- 15. The following is the P & L a/c for the year ended 31-3- 2016 of X Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Administration exp.	90,000	By Gross profit	3,75,000
" Directors fees	15,000		
" Selling exp.	1,80,000		
" Audit fees	5,000		
" Formation exp.	15,000		
" Net profit	70,000		
	3,75,000		3,75,000

Sales ₹15 lakhs (up to 30- 6- 2015 ₹5 lakhs).

Ascertain profit prior and after incorporation.

Solution

Profit and Loss a/c

Particulars	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Administration exp.	22,500	67,500	By Gross profit	93,750	2,81,250
" Directors fees	–	15,000			
" Selling exp.	60,000	1,20,000			
" Audit fees	1,667	3,333			
" Formation exp.	–	15,000			
" Capital reserve (b/f)	9,583	–			
" Net profit (b/f)	–	60,417			
	93,750	2,81,250		93,750	2,81,250

Calculation of time ratio

Pre incorporation	1-4-15 to 1-7-15	3 months
Post incorporation	1-7-15 to 31-3-16	9 months
Time ratio		3:9

Calculation of sales ratio:

Pre incorporation	1-4-15 to 1-7-15	5,00,000
Post incorporation	1-7-15 to 31-3-16	10,00,000
Sales ratio		5:10

Illustration -8 X Ltd. was incorporated on 1-8-2015. It took over the business of Y Ltd with effect from 1-4- 2015. From the following particulars related to the year ending 31-3- 2016, find out profit prior to incorporation and after incorporation. Sales for the year were ₹60 lakhs and pre-incorporation sales ₹25 lakhs. Gross profit for the year was ₹18 lakhs.

Expenses debited to P & L a/c:

Rent	₹90,000	Salaries	₹1,50,000
Directors fees	₹38,000	Interest on debentures	₹60,000
Audit fees	₹15,000	Discount on sales	₹36,000
Depreciation	₹2,40,000	General expenses	₹48,000
Advertising	₹1,80,000	Printing	₹36,000
Commission on sales	₹60,000		

Interest paid to vendor on purchase consideration ₹30,000 (up to 1-10- 2015).

Solution

Profit and Loss a/c

Particulars	**Basis**	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Rent	(TR)	30,000	60,000	Gross profit	7,50,000	10,50,000
“ Directors fees	Post	–	38,000			
“ Audit fees	(TR)	5,000	10,000			
“ Depreciation	(TR)	80,000	1,60,000			
“ Advertising	(SR)	75,000	1,05,000			

" Commission on sales	(SR)	25,000	35,000			
" Salaries	(TR)	50,000	1,00,000			
" Interest on debentures	Post	–	60,000			
" Discount on sales	(SR)	15,000	21,000			
" General exp.	(TR)	16,000	32,000			
" Printing	(TR)	12,000	24,000			
" Interest to vendors	ATR	20,000	10,000			
" Capital reserve (b/f)		4,22,000	–			
" Net profit (b/f)		–	3,95,000			
		7,50,000	10,50,000		7,50,000	10,50,000

Calculation of time ratio

Pre incorporation	1-4-15 to 1-8-15	4 months
Post incorporation	1-8-15 to 31-3-16	8 months
Time ratio		4: 8

Calculation of sales ratio

Pre incorporation	1-4-15 to 1-8-15	₹25,00,000
Post incorporation	1-8-15 to 31-3-16	₹35,00,000
Sales ratio		25:35

Interest to vendor (Adjusted Time Ratio)

Total months up 1st Sep.	1-4-15 to 1-10-15	6 months
Less: Pre-incorporation period	1-4-15 to 1-8-15	4 months
Post incorporation		2 months
Interest paid to vendor		4 : 2

Illustration -9 Karthik Company was incorporated on 1-7-15 to take over the business of Prasad with effect from 1-4-15. Following is the P & L a/c for the year ended 31-3-2016.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Commission	2,625	By Gross profit	98,000
" Advertisement	5,250	" Bad debts recovered	500
" MD remuneration	9,000		
" Depreciation	2,800		
" Salary	18,000		
" Insurance	600		
" Preliminary expenses	700		
" Rent and tax	3,000		
" Discount	350		
" Bad debts	1,250		
" Net profit	54,925		
	98,500		98,500

The following details are also available:

i) Average monthly turnover from July 15 onwards was double than that of previous months.

ii) Rent for first three months paid @ ₹200 per month and thereafter increased by ₹50 per month.

iii) Bad debts ₹350 related to sales effected after 1-9-15 and the realization of bad debts was in respect of debts written off during 13.

iv) Advertisement expenses were directed proportionate to sales.

Prepare a statement showing profit prior to and after incorporation.

Solution

Profit and Loss a/c

Particulars	**Basis**	**Pre ₹**	**Post ₹**	**Particulars**	**Pre ₹**	**Post ₹**
To Commission	(SR)	375	2,250	By Gross profit	14,000	84,000
" Advertisement	(SR)	750	4,500	" Bad debts recovered	500	–
" MD remuneration		–	9,000			
" Depreciation	(TR)	700	2,100			
" Salary	(TR)	4,500	13,500			

" Insurance	(TR)	150	450			
" Preliminary exp.	Post	–	700			
" Rent and tax		638	2,362			
" Discount		50	300			
" Bad debts		386	864			
" Capital reserve (b/f)		6,951	–			
" Net profit (b/f)		–	47,974			
		14,500	84,000		14,500	84,000

Calculation of time ratio

Pre incorporation	1-4-15 to 1-7-15	3 months
Post incorporation	1-7-15 to 31-3-16	9 months
Time ratio		3:9

Calculation of sales ratio: Assume one month sales as X

Pre incorporation	1-4-15 to 1-7-15	3 months x X = 3X
Post incorporation	1-7-15 to 31-3-16	9 months x 2X = 18X
Sales ratio		3:18

Rent and taxes – ₹3,000

Rent from 1-4-15 to 1-7-15	3 months x 200	Pre	₹600
Rent from 1-7-15 to 31-3-16	9 months x 250	Post	₹2,250
Remaining for tax (₹3,000 – ₹2,850)	₹150 (TR)	Pre	₹38
		Post	₹112

Bad debts = ₹1,250 – Post ₹350 = ₹900 up to 1–9 -15

Total months	1-4- 15 to 1-9-15	5 months
Less: Pre	1-4-15 to 1-7-15	3 months x 1X = 3
Post		2 months x 2X = 4
Ratio		3:4
Bad debts- Pre	₹900 x 3/7	₹386
Post	₹900 x 4/7	₹514 + ₹350 = ₹864

Illustration -10 A company was registered on 1-4-2015 to take over the running business from 1-1-2015. The company was granted certificate to commence business on 31-5-2015. The company closes the accounts on 31-12-2015. The following details are available:

Sales during the period Jan to Dec. ₹2,40,000. The trend of sales was as follows:

Jan. and Feb. – half the average sales; May , June, July and October – equal to average sales; Nov. and Dec. – half the average sales.

Cost of goods sold is ₹60,000; Salary ₹6,000; Bad debts ₹2,400; Interest on purchase price paid by the company up to 1-8-2009 ₹2,100; Expenses exclusively related to company ₹8,900.

Prepare statement showing profit prior to and after incorporation.

Solution

Calculation of time ratio

Pre incorporation	1-1-15 to 1-4-15	3 months
Post incorporation	1-4-15 to 31-12-15	9 months
Time ratio		3:9

Calculation of sales ratio

Pre-incorporation sales

Jan	Feb	March	Total
0.50	0.50	1.50	2.50

Remaining period = 12 – 6 = 6/4 = 1.50

Post incorporation sales

Ap.	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
1.50	1	1	1	1.50	1.50	1	0.50	0.50	9.50
Sales ratio			2.50 : 9.50						

Interest to vendor

Total months up 1st August	1-1-15 to 1-8-15	7 months
Less: Pre-incorporation period	1-1-15 to 1-4-15	3 months
Post incorporation		4 months
Interest paid to vendor		3 : 4

Profit and Loss a/c

Particulars	Pre ₹	Post ₹	Particulars	Pre ₹	Post ₹
To Cost of goods sold	15,000	45,000	By Sales	50,000	1,90,000
“ Salary	1,500	4,500			
“ Bad debts	500	1,900			
“ Interest paid	900	1,200			
“ Expenses	–	8,900			
“ Capital reserve (b/f)	32,100	–			
“ Net profit (b/f)	–	1,28,500			
	50,000	1,90,000		50,000	1,90,000

Illustration -11 A company was incorporated on 1-5-2015 to take over the business from 1-1-2015. Accounts were made up to 31-12-2015 as usual and the trading and P & L a/c showed the following results.

Trading and P & L a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	30,000	By Sales	2,40,000
“ Purchases	1,80,000	“ Closing stock	54,000
“ Gross profit	84,000		
	2,94,000		2,94,000
To Salary	12,000	By Gross profit	84,000
“ Rent	4,800		
“ Directors fees	3,000		
“ Travelling exp.	2,400		
“ Office exp.	12,000		
“ Bad debts	500		
“ Discount	3,600		
“ Audit fees	600		
“ Depreciation	1,800		
“ Debenture interest	1,000		
“ Interest on purchase consideration up to 1-10-15	4,500		
“ Formation exp.	5,000		
“ Carriage	1,200		

" General exp.	2,100		
" Advertisement	1,800		
" Printing	3,000		
" Net profit	24,700		
	84,000		84,000

Following further details are also given:

1) It is ascertained that the sales for Jan. were 1.5 times of the average sales of the year, while for April, August and December were only half the average sales and those for March is twice the average.
2) Out of the total bad debts, ₹200 rebate to debts created prior to incorporation.

Ascertain the pre and post incorporation profit.

Solution

Calculation of time ratio

Pre incorporation	1-1-15 to 1-5-15	4 months
Post incorporation	1-5-15 to 31-12-15	8 months
Time ratio		4:8

Calculation of sales ratio

Pre-incorporation sales

Jan	Feb	March	Ap.	Total
1.5	1	2	0.5	5

Post incorporation sales

May	June	July	Aug	Sep	Oct	Nov	Dec	Total
1	1	1	0.5	1	1	1	0.5	7
Sales ratio		5 : 7						

Interest to vendor

Total months up 1st August	1-1-15 to 1-10-15	9 months
Less: Pre-incorporation period	1-1-15 to 1-5-15	4 months
Post incorporation		5 months
Interest paid to vendor		4 : 5

Profit and Loss Statement

Particulars	Basis	Pre ₹	Post ₹
Gross profit (A)	SR	**35,000**	**49,000**
To Salary	TR	4,000	8,000
" Rent	TR	1,600	3,200
" Directors fees	Post	–	3,000
" Travelling exp.	SR	1,000	1,400
" Office exp.	TR	4,000	8,000
" Bad debts	Actual	200	300
" Discount	SR	1,500	2,100
" Audit fees	TR	200	400
" Depreciation	TR	600	1,200
" Debenture interest	Post	–	1,000
" Int. on purchase consideration	Ad.TR	2,000	2,500
" Formation exp.	Actual	–	5,000
" Carriage	SR	500	700
" General exp.	TR	700	1,400
" Advertisement	SR	750	1,050
" Printing	TR	1,000	2,000
Total (B)		18,050	41,250
Capital reserve/ P & L a/c (A-B)		16,950	7,750

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Pre-incorporation profit is to be credited to
   a) P & L a/c above the line b) P & L a/c below the line
   c) **Capital reserve** d) Revenue reserve

2. For calculating the pre-incorporation profits, the relevant date to be considered is
   a) Date of takeover b) Date of certificate of commencement of business
   c) Date of certificate of incorporation d) **Both a and c**

3. Post-incorporation profit is to be transferred to
   a) **Net profit** b) Goodwill
   c) Capital reserve d) Gross profit

4. Directors remuneration must be charged
   a) Exclusively to pre-incorporation period b) **Exclusively to post-incorporation period**
   c) Both the periods in time ratio d) Sales ratio

5. Pre-incorporation profit represents
   a) **Capital profit** b) Revenue profit
   c) Net profit d) Gross profit

6. Pre-incorporation loss should be transferred to
   a) Capital reserve b) **Goodwill**
   c) P & L a/c d) Gross loss

7. Gross profit is to be apportioned between pre and post incorporation periods in
   a) Time ratio b) Adjusted time ratio
   c) Sales ratio d) Post incorporation

8. Interest paid to vendors should be divided in
   a) **Adjusted time ratio** b) Time ratio
   c) Sales ratio d) Post incorporation

9. Period from the date of acquisition of business to the date of certificate of commencement of business is known as period __________ incorporation
   a) **Prior to** b) After
   c) Before and after d) Post

10. A company may acquire business from a date of _________
    a**) Prior to its incorporation** b) After its incorporation
    c) Both a and b d) Accounting year end

11. The company profit prior to incorporation capital profit is transferred to
    a) Final a/c b) Trial balance
    c) Ledger a/c d) **Capital reserve a/c**

REVIEW QUESTIONS

A. Answer in Short

1. What do you mean by profit prior to incorporation?
2. How do you treat profit and loss arrived prior to incorporation?
3. How do you treat interest on purchase consideration?
4. How do you calculate Sales and time Ratio?
5. List out the expenses which are exclusively charged to post incorporation period.
6. Write a note on pre incorporation profit.

B. Answer in detail

1. Explain Profit/Loss prior to incorporation and how do you treat it in Accounts?
2. Discuss the different ratios used in computing profit prior to incorporation and explain each of them.
3. Give the treatment of the following with reasons, while arriving profit prior to incorporation.

   A. Audit fees

   B. Directors fees

   C. Preliminary expenses written off

   D. Interest Paid to vendors.

   E. Salaries.

EXERCISES

1. You are required to calculate time ratio and also divide the total wages in to pre and post incorporation period.

   Date of incorporation – 1-4-2015; Period of financial account – Jan to Dec.2015; Date of business purchase – 1-1-2015 and Total wages ₹4,800

2. R Ltd was incorporated on 1-7- 2015, which took over a running concern with effect from 1-1-2015.

   The sales for the period up to 1-7-2015 was ₹2,70,000 and the sales from 1-7-2015 to 31-12-2015 amounted to ₹3,30,000. The expenses debited to P & L a/c included:

   Directors fees ₹15,000; Bad debts ₹1,800; Advertisements (₹500 per month) ₹6,000; Salaries ₹32,000; Preliminary expenses written off ₹3,000

   The gross profit was (1-1-2015 to 31-12-2015) – ₹2,40,000.

   Ascertain the profit prior to incorporation.

3. A company incorporated on 1st April 2015 took over a running business from 1st Jan.2015. The company prepared its final accounts on 31-12-2015. From the following, calculating time ratio and sales ratio.

   i) Sales for the year 2015 ₹6,00,000

   ii) Sales for the month of January, twice the average sales

   iii) For the month of February it is equal to average sales.

   iv) A sale for four months from May to August is 1/4th of average sales of each month

   v) Sales for October and November, three times the average sales.

4. A company incorporated on 1st May 2015 and acquired a business from 1st Jan.2015. The first accounts were drawn up to September 30, 2015.

   The gross profit is ₹56,000. The general expenses are ₹14,220; Directors remuneration ₹1,000 p.m.; Formation expenses amounted to ₹1,500. Rent which till June 30, 2015 was ₹100 p.m. was increased to ₹300 per annum from July 1, 2015. The manager of the earlier firm whose salary was ₹500 p.m. was made a director upon the incorporation and his remuneration thereafter is included in the figure of director's remuneration given earlier.

   Prepare P & L a/c for the period assuming that the net sales were ₹82,000 the monthly average of which for the first four months of 2015 being one half of therefore the remaining period.

5. ABC Company Ltd was incorporated on 30-6-2015 to acquire the business from 1-1-2015 on the basis of last balance sheet dated 31-12-2014. The accounts for the year ended 31-12-2015 disclosed the following:

   There was a gross profit of ₹2,40,000; Sales for the year is ₹12,00,000, of which ₹5,40,000 was for the first 6 months.

   Expenses debited to P & L a/c included Directors fees ₹15,000. Bad debts ₹3,600, Advertising ₹12,000 (₹1,000 per month), Salaries and general expenses ₹64,000, Preliminary expenses written off ₹5,000, Donation to political party given by company ₹5,000.

   Prepare a statement showing amount of profit made before incorporation and after incorporation.

6. G Ltd was incorporated on 1st August 2015. It took over the business of M/S Shanker with effect from 1-4-2015. From the following figures relating to year ending 31st March 2016 ascertain the profit prior and after incorporation.

   a) Sales for the year were ₹60,00,000, out of which sales up to 1st August 2015 were ₹25,00,000

   b) Gross profit for the year was ₹18,00,000

   c) The expenses debited to P & L a/c were as follows:

Rent	₹90,000	Salaries	₹1,50,000
Directors fees	₹38,000	Interest debentures	₹60,000

Audit fees	₹15,000	Discount on sales	₹36,000
Depreciation	₹2,40,000	General expenses	₹48,000
Bad debts	₹15,000		

₹5,000 of bad debts mentioned above relate to debts created prior to incorporation.

7. P & Co. Ltd. was incorporated on 1-7-2015 to take over the business carried on R & Co. as a going concern with effect from 1-4-2015. The following is the P & L a/c for the year ended 31-3-2016 of P & Co. Ltd.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Administrative exp.	₹18,000	By Gross profit	₹75,000
" Directors fees	₹3,000		
" Selling expenses	₹36,000		
" Audit fees	₹1,000		
" Preliminary expenses	₹3,000		
" Net profit	₹14,000		
	75,000		75,000

Sales ₹3,00,000 (up to 30-6-2015 ₹1,00,000).

You are required to prepare a statement showing the profit earned prior and after incorporation.

8. A Co. Ltd was incorporated on May1, 2015 to take over the business of a partnership firm as a going concern from Jan.1, 2015. The company got the certificate of commencement of business in July 1, 2015.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Rent	₹12,000	By Gross profit	₹1,55,000
" Insurance	₹3,000		
" Electric charges	₹2,400		
" Directors fees	₹3,000		
" Audit fees	₹7,600		
" Salaries	₹36,000		
" Commission	₹4,000		
" Preliminary exp.	₹6,500		
" Bad debts	₹2,000		

" Net profit	₹78,500		
	₹1,55,000		₹1,55,000

The total turnover for the year ending 31-12-2015 was ₹5,00,000 divided in to ₹1,50,000 for the period up to 1-5-2015 and ₹3,50,000 for the remaining period.

Calculate the profits prior to incorporation and profits since incorporation of the company.

9. B Ltd. was incorporated on 30th June 2015 to take over the business of T Ltd on 1-1-15. The financial accounts of the business for the year ended 31st Dec.2015 disclosed the following information:

Sales	₹	₹
Jan. to June	1,20,000	
July to Dec.	1,80,000	3,00,000
Less: Purchases		
Jan. to June	75,000	
July to Dec.	1,20,000	1,95,000
Gross profit		1,05,000
Less: Salaries	15,000	
Selling exp.	3,000	
Depreciation	1,500	
Directors remuneration	750	
Debenture interest	90	
Administration exp.	4,500	24,840
Net profit		80,160

You are required to prepare a statement apportioning the balance of profit between the period prior to and since incorporation and show the profit and loss appropriation a/c for the year ended 31st Dec.2015.

10. X Company purchased a business on 1st April 2015. The company obtained certificate of incorporation on 31st July 2015. From the following particulars for the year ending 31st March 2016, ascertain profit prior to incorporation and divisible profits.

a) Totals sales up to 31st Mar.16 ₹10,00,000. Sales from 1st April 15 to 31st July 15 ₹2,50,000

b) Gross profit for the year ₹2,12,000

c) Expenses debited to P & L a/c

Rent	₹6,000	Commission on sales	₹12,600
Salaries	₹27,000	Interest on debentures	₹4,000
Directors fees	₹2,600	Depreciation on machinery	₹30,000
Printing	₹4,200	Preliminary expenses	₹7,200
General expenses	₹4,800	Interest paid to vendors up to 1st Sep. 15	₹5,000
Selling expenses	₹9,000	Advertisement	₹8,000
Insurance	₹1,500	Audit fees	₹1,200
Bad debts (₹850 related to prior incorporation)			₹2,400

Previous Year University Question Papers

1. You are required to calculate the Time ratio for the Pre and Post incorporations periods from the following particulars :
   (a) Date of Incorporation : 1st June 1999
   (b) Period of Financial Accounts : April 1999 To March 2000
   (c) Total wages Rs. 4,800
   (d) Number of workers : Pre Incorporation Period : 5
   Post Incorporation Period : 25

   Also divide the total wages between Pre and Post Incorporation Periods.

   [Madras, B.Com (PZ3A) Nov. 2009; Ap. 2008; B. Com., Oct. 2003]

   [Ans : Time Ratio : 1 : 5; Weighted Time Ratio : 1 : 25; Wages : Pre Incorporation : Rs.185; Post Incorporation :Rs. 4,615]

2. Ganesh Ltd., was incorporated on 1st May 1996 to purchase the running business of Vinayak and Co., with effect from 1st January 1996. The company obtained certificate of 'commencement of business on 24th August 1996. Calculate the time ratio, if the accounts were finalised on 31st **December 1996.**

   [Madras, B.Com(CS) (ICE) Oct. 2009; B.Com (CS) (SY3B) Nov. 2007;Ap;2007]

   [Ans: 1:2]

3. Kalpana Ltd. was incorporated on 1-4-92 to take over the business of Natu Brothers from 1-1-92. From the following information, calculate sales ratio and Gross Profit;
   (i) Sales during the period January — December 1992 amounted to Rs. 72,000. The trend of the sales was a under :

   January and February — half the average sales in each month.

   May, June and July — average sales in each month

   October — average sales

November and December — half the average sales in each month.

(ii) Cost of goods sold Rs. 18,000

[Madras,B.Com (CS) (SY3B) Ap 2007]

[Ans : Sales ratio : 5 : 19; Gross Profit : Rs. 54,000]

4. A company was incorporated on 1.6.94 in order to purchase a running business from 1.1.94. The following particulars are available from its records:

(a)	Total sales for 1994		80,000
(b)	Sales from 1.1.94 to 31.5.94		20,000
(c)	Gross profit for the whole year	30,000	
(d)	Total expenses of 1994 (including directors' fees Rs. 1,000)		25,000
(e)	Company's share capital		75,000

Find out profit prior to incorporation and after incorporation by preparing profit and loss account.

[Madras, B.Com. (PZG) Nov. 2006 (Modified)]

[Ans: Loss prior to incorporation — Rs. 2,500; Profit after incorporation — Rs. 7,500]

5. A company was incorporated on 30th June 1984 to acquire the business of Mohan as from 1st January 1984. The accounts for the year ended 31st Dec. 1984. disclosed the following:

(a) There was a gross profit of Rs. 2,40,000,

(b) The sales for the year amounted to Rs. 12,00,000 of which Rs. 5,40,000 were for the first six months.

(c) The expenses debited to profit and loss account included:

Directors' fees	15,000
Bad debts	3,600
Advertising (Under a monthly contract of Rs. 1,000)	12,000
Salaries	64,000
Preliminary expenses written off	5,000
Donation to political parties given by the company	5,000

Prepare a statement showing profit made before and after incorporation.

[Periyar, Ap 2005]

[Madras, B.Cont (ICE) May 2007 (Modified) B.C.S. (Sent - SY3B) Nov. 2004; B.C.S., Ap 2002; B.Com., Madurai, November 1987; B.Com., Punjab, Apri11986]

[Ans : Profit made before incorporation — Rs. 68,380; Profit made after incorporation — Rs. 67,020]

6. Mukesh and Co., Ltd. was registered on 1-1-1999 to buy the business of M/s. MukeshBros., as on 1-10-1998 and obtained the certificate of commencement of business on 1-2-99. The accounts of the company for the period of 12 months ended 30-9-1999 disclosed the Net profit of Rs. 1,25,000 after having charged the following amounts :

   Salary : Rs. 30,000 (There were 4 employees in the pre incorporation period and 7 in the Post-incorporation period)

   Wages : Rs. 10,920 (There were 4 workers in the Pre-incorporation period_and 5 in the post-incorporation period and the rate of wages were Rs. 60 and Rs. 200 per month per worker in the Pre and post incorporation periods respectively).

   Sales : Rs. 4,80,000 of which Rs. 80,000 related to Pre incorporation period. Directors fee : Rs. 16,000.

   [Madras, M.Com. (Old) (ICE) Oct. 2001; Madras, M. Com. (Old) (ICE) May 2001 (1/2 Figures)]

   [Ans : Profit prior to Incorporation : Rs. 23,600; Post incorporation Profit :Rs. 1,01,400; adjusted time ratio for salarie : 4 : 21; Wages : Pre : Rs. 1,920; Post :,Rs. 9,000; G/P before charging wages :Rs. 1,81,920; Sales Ratio : 1 : 5)

7. Laxmi Ltd., was incorporated on 1st March 1990 and received the certificate of commencement of business on 1st April 1990. The company acquired the business of Rajan with effect from 1st November 1989. From the following figures relating to the year ending October 1990, find out the profits available for dividend.

   (a) Sales for the year were Rs. 6,00,000 out of which, sales upto 1st March 1990 were Rs. 2,50,000.

   (b) Gross profit for the year was Rs. 1,80,000.

   (c) The expenses debited to profit and loss account were:

Rent	9,000
Salaries	15,000
Directors fees	4,800
Audit fees	1,500
Discount on sales	3,600
Depreciation	24, 000
General expenses	4,800
Advertising	18,000
Printing & stationery	3,600
Commission on sales	6,000
Bad debts (Rs. 500 relates to debts prior to incorporation)	1,500
interest to vendors on purchase consideration upto 1 st May 1990	3,000

[Periyar, B.Com (CA) May 2005.), Thiruvalluvar, B.Com., Nov. 2005; Madras, B.Com (PZG) Ap 2007; Ap 2003 (10 Times) B.Com (Old EZK), Ap 2002, March 1995; Madras, B.A. Corp. Oct. 2003 (10 Tunes), March 1994] 2nd M.Com (ICE) Oct 2000 (10 Times)

[Ans : Profit available for dividend - Rs. 38,500; Profit prior to incorporation - Rs. 41,700]

Hint :Travelling Expenses : RS. 2,400 on Sales basis; Balance on Time basis.

8. M Ltd. was incorporated on 1.1.94 with an authorized capital of 50,000 equity shares of Rs. 10 each to take over the running business of V. Ltd. as from 1.10.93.Tl1e following is the summarized profit and loss account for the year ended 30.9.94.

Particulars	*Rs.*	*Rs.*
Sales — 1.10.93 to 31.12.93	6,000	
1.1.94 to 30.9.94	19,000	25,000
Cost of sales	16,000	
Administrative expenses	1,768	
Selling commission	875	
Goodwill written off	200	
Interest paid to vendors (loan repaid on 1.2.94)	373	
Distribution expenses (60% variable)	1,250	
Preliminary expenses written off	330	
Debenture interest	320	
Depreciation	444	
Directors' fees	100	21,660
Profit		3,340

The company deals with one type of product.

The unit cost of sales was reduced by 10% in the post incorporation period as compared to the preincorporation period. Apportion the net profit between pre incorporation and post incorporation periods showing the basis of apportionment.

[BharathiarB.Com., Nov. 2004; Madras, B.C.S. (ICE) May 2001; B.CS. Oct 2001 (10 Times), B.A., Corp. Madras, Sept. 1995; M.Com., Madras, April 1997]

[Ans : **Pre incorporation profit — Rs. 496; Post incorporation profit — Rs. 2,844; Cost of sales ratio =6000:(19,000*90/100) = 60 : 171; Time ratio = 1 : 3; Sales ratio = 6 : 9 Gross profit = Sales - Cost of goods sold Goodwill written off is to be allocated to post incorporation period; Interest paid to vendors - Adjusted time ratio 3 : 1 Distribution expenses - Fixed: Time ratio; Variable : Sales ratio]**

UNIT – 6

FINAL ACCOUNTS OF COMPANIES

Profit and Loss Appropriation Account- Difference between P & L a/c and P & L Appropriation a/c - Rules for transfer of minimum reserve to general reserve – Provisions -

Calculation of Managerial Remuneration - Preparation of trading, P & L, Appropriation a/c and Balance sheet

6.1 PROFIT AND LOSS APPROPRIATION ACCOUNT

The purpose of preparing P & L appropriation a/c is to distribute the available profit for various purposes. This account is prepared only when there is a profit.

6.2 DIFFERENCE BETWEEN P & L A/C AND P & L APPROPRIATION A/C

Basis	P & L a/c	P & L Appropriation a/c
Purpose	To find the net profit of a company	To distribute the profits available for various purpose
Need	It must be prepared	It may or may not be prepared
Transferred to	The surplus (Net profit) of this a/c is transferred to P & L Appropriation a/c	The balance of this a/c is transferred to liability side of the balance sheet under the heading Reserves and Surplus
When to prepare	It is prepared even though there is a loss	It is prepared only when there is profit

Profit and Loss Appropriation a/c

Particulars	Amount	Particulars	Amount
To Transfer to dividend	xxx	By Bal. from last year	xxx
“ Transfer to any particular fund	xxx	“ Net profit	xxx
“ Interim dividend	xxx		
“ Last year provision for tax	xxx		
“ Balance carried to balance sheet	xxx		
	xxx		xxx

6.3 GENERAL RESERVE

General reserve is created only when there is a profit. It is an appropriation of profit. It is created to provide additional capital or to strengthen the financial position of the business. The other purposes of creating such reserves are:

a) To meet unknown contingencies

b) To equalize the rate of dividend in the absence of adequate profit

c) To provide for the expansion of business

6.4 RULES FOR TRANSFER OF MINIMUM RESERVE TO GENERAL RESERVE

Dividend proposed	Amount to be transferred to the reserve
Exceeds 10% but not 12.5% of the paid-up capital	Not less than 2.5% of the current profit
Exceeds 12.5% but not 15% of the paid-up capital	Not less than 5% of the current profit
Exceeds 15% but not 20% of the paid-up capital	Not less than 7.5% of the current profit
Exceeds 20% of the paid-up capital	Not less than 10% of the current profit

6.5 PROVISION

Provision is created for some specific purpose and to meet certain contingent liabilities. It is a charge against profit. It must be created irrespective of the fact that there is a profit or loss. The purpose of creating such reserves is:

a) To meet some future loss such as depreciation, etc

b) To meet an outstanding liability for expenses e.g. salary due, wages due

c) To meet an expected contingency e.g. doubtful debts, undistributed claim, discount on debtors, etc

6.6 RESERVE FUND

Reserve Fund is more or less a general reserve. The only difference is that in case of a general reserve, the surplus is retained in the business and represented by general assets of the business whereas in case of reserve fund, the surplus is invested outside the business and represented by such investments.

6.7 DIVIDEND EQUALIZATION FUND

Dividend Equalization Fund is a fund created out of revenue profits. It is created to equalize the rate of dividend in the absence of adequate profits.

6.8 CAPITAL PROFITS

The profits which are not earned during the regular course of business are known as capital profits. Such profits are as follows:

a) Premium on issue of shares and debentures

b) Profit on sale of fixed assets

c) Surplus in the share forfeiture a/c

d) Profits prior to incorporation

e) Profits on the revaluation of assets and liabilities

f) Profit made on the purchase of a business

g) Profit on redemption of debentures

6.9 CAPITAL RESERVE

It is a reserve created out of capital profit. It cannot be generally distributed to the share holders. But it may be utilized for

a) Meeting capital losses

b) Issuing bonus shares subject to the Articles

c) Writing off intangible assets like goodwill, preliminary expenses, expenses for issue of shares or debentures, etc

6.10 SECRETE RESERVE

Any reserve which is not apparent on the face of the balance sheet is known as secrete reserve. It represents the surplus of assets over liabilities and capital but it is not disclosed. If a secrete reserve exists, the balance sheet of the business will not reveal the correct financial position.

6.11 DIVIDEND

Dividend means the divisible profits distributed to the members of a company. In other words it is a profit of a company divided among its share holders.

6.12 INTERIM DIVIDEND

Interim Dividend is a dividend which is paid before the final dividend is declared or it is a dividend which is paid in between two final dividends. It is a dividend which is paid between two annual general meetings. It is paid when the directors think that they have made a sufficient profit to such a dividend to be paid.

6.13 MANAGERIAL REMUNERATION

The maximum remuneration payable to different categories of managerial personnel is given below:

Sl. No.	Managerial Personnel	Max. % of net Profits
1.	Maximum remuneration to all managerial personnel	11%
2.	Manager	5%
3.	Managing Director	5%
4.	Managing Directors (all together)	10%
5.	Part time Director (without managing director)	3%
6.	Part time director (with managing director)	1%

6.14 CONTINGENT LIABILITY

A liability which may or may arise at a future date is known as contingent liability. It will appear as a foot note under that liability side of the balance sheet. E.g. bills receivable discounted with the banker.

Illustration 1 Show how you will exhibit the following items in the balance sheet of a company as on Dec.31, 2016.

Original cost of building ₹4,00,000; Book value of building on 1st Jan.2016 ₹2,80,000; Depreciation to be written off at 5% on written down value.

Solution

Assets side: - **Fixed assets**

Building	2,80,000
Less: Depreciation (2,80,000 x 5%)	14,000
	2,66,000

Illustration -2 From the following particulars, show how the fixed asset machinery should be shown in the balance sheet of the company as on 31st Dec.2016.

Cost of machinery as per balance sheet ₹2,40,000; Amount purchased during the year ₹12,000; Cost of machinery sold during the year ₹7,000; Depreciation ₹10,000

Solution

Assets side: - **Fixed assets**

Machinery	2,40,000
Add: Purchase of machinery	12,000

	2,52,000
Less: Machinery sold	7,000
	2,45,000
Less: Depreciation	10,000
	2,35,000

6.15 CALCULATION OF MANAGERIAL REMUNERATION

Illustration -3 The following are the balances extracted from the company records. Calculate the remuneration of the managing director at 5% of the net profit, after charging such commission.

Net profit is ₹38,786. Items considered for arriving at the above profit:

a) Provision for taxation ₹39,000

b) Managing Directors remuneration paid ₹12,000

c) Formation expenses written off ₹4,000

d) Directors fees ₹2,500

e) Provision for doubtful debts ₹1,200

f) Depreciation written off ₹12,880

g) Depreciation allowable as per income tax rules ₹12,000

h) Ex-gratia payment to employee (without any liability to the company) ₹2,000

Solution

Net profit as per P & L a/c	₹38,786
Add: Provision for taxation	39,000
M D remuneration	12,000
Formation expenses	4,000
Excess depreciation	880
Ex-gratia	2,000
NP for calculation of remuneration	₹96,666

Commission due	96,666 x 5/105	₹4,603
Less: Already paid		₹12,000
Due from MD	(12,000 – 4,603)	₹7,397

Illustration -4 A Ltd. had a balance of ₹11,500 in its P & L a/c on 1-4-2016. During 2016 -17 its profits amounted to ₹1,47,500. The income tax for the year amounted to ₹48,300. The company decided to transfer ₹10,000 to the general reserve, ₹15,000 to sinking fund for redemption of debentures and pay a dividend for 2016-17 @ 10%. The company's share capital consisted of 50,000 shares of ₹10 each. Draw up the P & L Appropriation a/c.

Solution

P & L Appropriation a/c

Particulars	Amount ₹	Particulars	Amount ₹
To Income tax	48,300	By Bal. b/d	11,500
" General reserve	10,000	" Net profit	1,47,500
" Sinking Fund	15,000		
" Dividend	50,000		
" Bal. c/d	35,700		
	1,59,000		1,59,000

PART II – Form of STATEMENT OF PROFIT AND LOSS

(As per revised schedule VI)

Name of the Company

Profit and Loss statement for the year ended

(Rupees in…………)

	Particulars	Note No.	Current reporting period	Previous reporting period
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx
III.	**Total Revenue (I + II)**		xxx	xxx
IV.	**Expenses:**			
	Cost of materials consumed		xxx	xxx
	Purchases of stock-in-trade		xxx	xxx
	Changes in inventories of finished goods work-in-progress and stock-in-trade		xxx	xxx
	Employee benefits expense		xxx	xxx
	Finance costs		xxx	xxx
	Depreciation and amortization expense		xxx	xxx
	Other expenses		xxx	xxx
	Total expenses		xxx	xxx

V.	Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI.	Exceptional items		xxx	xxx
VII.	Profit before extraordinary items and tax (V- VI)		xxx	xxx
VIII.	Extraordinary Items		xxx	xxx
IX.	Profit before tax (VII- VIII)		xxx	xxx
X.	Tax expense:			
	(1) Current tax		xxx	xxx
	(2) Deferred tax		xxx	xxx

6.16 REVENUE FROM OPERATIONS

Revenue from operations is to be separately disclosed in the notes, showing revenue from:

- Sale of products
- Sale of services
- Other operating revenues
- Less: Excise duty

Other Income:

"Other Income" shall be classified as:

- Interest Income (in case of a company other than a finance company);
- Dividend Income;
- Net gain / loss on sale of investments;
- Other non-operating income (net of expenses directly attributable to such income).

6.17 EXPENSES

The aggregate of the following expenses are to be disclosed on the face of the Statement of Profit and Loss:

- Cost of materials consumed
- Purchases of Stock-in-Trade
- Changes in inventories of finished goods, work in progress and stock in trade
- Employee benefits expense
- Finance costs
- Depreciation and amortization expense
- Other expenses

Cost of materials consumed

Purchases of Stock in Trade

Stock-in -trade refers to goods purchased normally with the intention to resell or trade in. In case, any semi-finished goods/materials are purchased with an intention of doing further processing activities on the same, the same should be included in 'cost of materials consumed' rather than under this item.

Changes in inventories of finished goods, work-in-progress and stock-in-trade

This requires disclosure of difference between opening and closing inventories of finished goods, work-in-progress and stock-in-trade. The difference should be disclosed separately for finished goods, work in progress and stock in trade.

Employee benefits expense

This requires disclosure of the following details:

1. Salaries and wages

The aggregate amounts paid/payable by the company for payment of salaries and wages are to be disclosed here. Expenses on account of bonus, leave encashment, compensation and other similar payments also need to be disclosed here. Where a separate fund is maintained for Gratuity payouts, contribution to Gratuity fund should be disclosed under the sub-head Contribution to provident and other funds.

2. Contribution to provident and other funds

The aggregate amounts paid/payable by a company on account of contributions to provident fund and other funds like Gratuity fund, Superannuation fund, etc. are to be disclosed here.

Contributions for such funds for contract labour may also be separately disclosed here. However, penalties and other similar amounts paid to the statutory authorities are not strictly in the nature of 'contribution' and should not be disclosed here.

3. Expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP)

The amount of expense under this head should be determined in accordance with the Guidance Note on Accounting for Employee Share based Payments and/or the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as applicable. All disclosures required by the aforesaid Guidance Note should be made here.

4. Staff welfare expense - The total expenditure on Staff welfare is to be disclosed herein.

5. Finance costs

As per Note 3 of to the General Instructions for the Preparation of the Statement of Profit and Loss, disclosure of **Finance costs** is to be bifurcated under the following:

- **Interest expense**
- **Other borrowing costs**
- **Applicable net gain/loss on foreign currency transactions and translation**

Interest expense

This would cover interest paid on borrowings from banks and others, on debentures, bonds or similar instruments etc. Finance charges on finance leases are in the nature of interest expense and hence should also be classified as interest expense. In the absence of any bifurcation required for interest paid on fixed period loans and other borrowings as required under the Old Schedule VI, the same need not be given.

Other borrowing costs

Other borrowing costs would include commitment charges, loan processing charges, guarantee charges, loan facilitation charges, discounts/premium on borrowings, other ancillary costs incurred in connection with borrowings, or amortization of such costs, etc.

Applicable net gain/loss on foreign currency transactions and translation

As per Para 4(e) of AS-16, borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Any such exchange differences would need to be disclosed under this head.

6. Depreciation and amortization expense

A company has to disclose depreciation provided on fixed assets and amortization of intangible assets under this head.

7. Other Expenses

Further Note 5(vi) requires a separate disclosure of each of the following items, which will also be classified under "Other expenses".

- Consumption of stores and spare parts;
- Power and fuel;
- Rent;
- Repairs to buildings;
- Repairs to machinery;
- Insurance;
- Rates and taxes, excluding taxes on income;
- Miscellaneous expenses.

6.18 PREPARATION OF STATEMENT OF PROFIT AND LOSS

Illustration 5 You are given the following information from the books of Siraj Co. Ltd., as on 31st March 2015.

Trial Balance Siraj Co. Ltd as on 31st March,2015

Particulars	Amount	Particulars	Amount
Depreciation on premises	8,000	Sales	12,40,000
Materials consumed	8,00,000	Equity Share Capital	8,00,000
Opening Stock	40,000	Outstanding wages	6,000
Salaries	1,14,000		
Bad debts	3,800		
Bonus to employees	20,000		
Interest on Loan	16,000		
Depreciation on machinery	18,000		
Conveyance	4,000		
Loss on sale of machinery	20,000		
Insurance	16,200		
Sales Returns	40,000		
Provision for Tax	60,000		
Machinery	6,00,000		
P. F. Contribution	86,000		
Premises	1,60,000		
Computer	40,000		
	20,46,000		**20,46,000**

Additional information:

Closing stock was valued at ₹1, 20,000.

Solution

Statement of Profit and Loss of Siraj Co. Ltd as on 31st March,2015

		Note No.	Amount ₹
(I)	**Revenue from Operations**	1	12,00,000
(II)	**Other Income**		–
(III)	**Total revenue**		12,00,000
(IV)	**Expenses:**		
	(a) Material Consumed		8,00,000

	(b) Purchases		0
	(c) Changes in Inventories	2	(80,000)
	(d) Employees benefit expenses	3	2,20,000
	(e) Finance Cost		16,000
	(f) Depreciation and amortization exp	4	26,000
	(g) Other Expenses	5	44,000
	Total Expenses		10,26,000
(V)	**Profit & Loss before Tax (III-IV)**		1,74,000
(VI)	**Provision for Tax**		(60,000)
(VII)	**Profit Loss after Tax (V-VI)**		1,14,000

Notes

1	**Revenue from Operations**		4	**Depreciation & Amortization**	
	Sales	12,40,000		Depreciation on premises	8,000
	Less Sales Returns	40,000		Depreciation on machinery	18,000
		12,00,000			26,000
2	**Changes in Inventories**		5	**Other expenses**	
	Opening Stock	40,000		Bad debts	3800
	Less Closing Stock	(1,20,000)		Conveyance	4000
		(80,000)		Loss on sale of machinery	20000
3	**Employees benefit expenses**			Insurance	16200
	Salaries	1,14,000			44000
	PF Contribution	86,000			
	Bonus to employees	20,000			
		2,20,000			

Illustration 6 From the following Trial balance of Glory Co. Ltd., as on 31st March 2015, prepare a statement of P & L Account as per Schedule III of the Companies Act.

Trial Balance of Glory Co. Ltd. as on 31st March, 2015

Particulars	Amount ₹	Particulars	Amount ₹
Interest on Debentures	32,400	Share Transfer Fees	15,000
Delivery van expenses	5,100	Commission received	7,400
Travelling Expenses	10,200	12% Debentures	2,70,000
Bad Debts	6,500	Sales	6,45,500
Discount	7,000	Share Capital	5,00,000

Purchases	3,15,800		
Insurance	6,000		
Furniture	1,22,600		
Freight outward	8,400		
Opening Stock	72000		
Free samples	5,000		
Showroom expenses	11,400		
Depreciation	38,900		
Bank balance	1,58,600		
Land & Building	4,00,000		
Wages	93,000		
Office Equipment	1,45,000		
	14,37,900		14,37,900

Additional information:

Closing stock was valued at ₹85,500.

Solution

Statement of Profit and Loss of Glory Co. Ltd. as on 31st March, 2015

	Particulars	Note No	Amount ₹
(I)	Revenue from Operations		6,45,500
(II)	Other Income	1	22,400
(III)	Total revenue		6,67,900
(IV)	Expenses:		
	(a)Material Consumed		0
	(b)Purchases		3,15,800
	(c)Changes in Inventories	2	(13,300)
	(d)Employees benefit expenses		93,000
	(e)Finance Cost		32,400
	(f) Depreciation and Amortization Exp		38,900
	(g)Other Expenses	3	59,600
	Total Expenses		5,26,400
(V)	Profit & Loss before Tax (III-IV)		1,41,500
(VI)	Provision for Tax		0
(VII)	Profit Loss after Tax (V-VI)		1,41,500

Notes

		₹			
1	**Other Income**		**3**	**Other Expenses**	
	Share Transfer Fees	15,000		Travelling Expenses	10,200
	Commission Received	7,400		Delivery van Expenses	5,100
		22,400		Bad Debts	6,500
2	**Changes in Inventories**			Discount	7,000
	Opening Stock	72,000		Freight Outward	8,400
	Less Closing Stock	(85,500)		Free samples	5,000
		(13,500)		Showroom expenses	11,400
				Insurance	6,000
					59,600

Illustration 7 You are given the following extracts of ledger balances taken from Vihar Co. Ltd., for the year ending 31st March 2015. Prepare a statement of P & L a/c as per revised Schedule III.

Particulars	₹	Particulars	₹
Excise Duty	8,000	Machinery	25,000
Provision for tax	10,000	Directors remuneration	20,000
Depreciation on Machinery	3,300	Factory expenses	2,500
Sundry expenses	7,000	Sales	4,55,000
Rent	4,000	Returns inward	5,000
Salaries	7,500	Purchases	2,35,000
Materials consumed	90,000	Closing stock	75,000
Interest on Investment	5,000	Opening stock	82,000
Rent received	3,000	Wages	30,000
Motive power	12,000	Bank loan	40,000
Transport Charges	1,000	Interest on Bank loan	4,000

Solution

Statement of Profit and Loss of Vihar Co. Ltd. as on 31st March, 2015

Particulars	Note No.	Amount ₹
(I) Revenue from operations	1	4,42,000
(II) Other Income	2	8,000
(III) **Total revenue**		4,50,000

(IV) Expenses:		
(a) Material consumed		90,000
(b) Purchases		2,35,000
(c) Changes in inventories	3	7,000
(d) Employees benefit expenses	4	37,500
(e) Finance cost		4,000
(f) Depreciation and amortization exp		3,300
(f) Other expenses	5	46,500
Total Expenses		4,23,300
(V) Profit & Loss before Tax (III-IV)		26,700
(VI) Provision for Tax		(10,000)
(VII) Profit Loss after Tax (V-VI)		16,700

Working Notes

1	**Revenue from Operations**	₹	4	**Employees benefit expenses**	₹
	Sales	4,55,000		Salaries	7,500
	Less Sales Returns	5,000		Wages	30,000
	Less Excise Duty	8,000			**37,500**
		4,42,000	5	**Other expenses**	
2	**Other Income**			Sundry expenses	7,000
	Interest on investment	5,000		Rent	4,000
	Rent received	3,000		Directors remuneration	20,000
		8,000		Factory expenses	2,500
3	**Changes in Inventories**			Motive power	12,000
	Opening Stock	82,000		Transport charges	1000
	Less Closing Stock	(75,000)			46,500
		7,000			

Illustration 8 You are given the following extracts of ledger balances taken from Chanakya Co. Ltd. for the year ending 31st March 2015. Prepare a statement of P & L a/c as per revised Schedule III.

Particulars	₹	Particulars	₹
Opening stock of finished goods	1,90,500	Provision for taxation	30,000
Cost of material consumed	2,92,000	Goodwill written off	18,000

Salaries to office staff	68,000	Sales returns	17,000
Closing stock of finished goods	2,03,000	Provision for bad debts	8,200
Interest on debentures paid	16,250	Delivery expenses	7,200
General expenses	8,250	Printing & stationery	22,600
Discount earned	4,900	Factory expenses	82,000
Cash sales	2,66,000	Bonus to employees	32,000
Credit sales	3,87,500	Depreciation on Plant & machinery	50,000
Income tax refund	11,500		

Solution

Statement of Profit and Loss of Chanakya Ltd. as on 31st March, 2015

	Particulars	Note No.	Amount
(I)	Revenue from Operations	1	6,36,500
(II)	Other Income	2	16,400
(III)	**Total revenue**		6,52,900
(IV)	Expenses:		
	(a) Material consumed		2,92,000
	(b) Purchases		0
	(c) Changes in inventories	3	(12,500)
	(d) Employees benefit expenses	4	1,00,000
	(e) Finance cost		16,250
	(f) Depreciation and amortization exp.	5	68,000
	(g) Other expenses	6	1,28,250
	Total Expenses		5,92,000
(V)	Profit & Loss before Tax (III-IV)		60,900
(VI)	Provision for Tax		(30,000)
(VII)	Profit Loss after Tax (V-VI)		30,900

Working Notes

1 Revenue from Operations		**4 Employees benefit expenses**	
Cash sales	2,66,000	Salaries to office staff	68,000
Credit sales	3,87,500	Bonus to employees	32,000
Less: sales returns	(17,000)		1,00,000
	6,36,000	**5 Depreciation & Amortization**	
2 Other Income		Goodwill written off	18,000

Discount earned	4,900	Dep. on Plant & machinery	50,000
Income tax refund	11,500		68,000
	16,400	**6 Other Expenses**	
3 Changes in Inventories		General expenses	8,250
Opening Stock	1,90,500	Provision for Bad debts	8,200
Less Closing Stock	(2,03,000)	Freight on purchases	7,200
	(12,500)	Printing & stationery	22,600
		Factory expenses	82,000
			1,28,250

Illustration 9 Following ledger balances are taken from Virupaksh Ltd., for the year ending 31/3/2015. Prepare P & L Account in vertical form with major heads.

Particulars	₹	Particulars	₹
Stock of finished goods as on 01-04-2014	2,90,000	Directors fees	57,000
Stock of work-in-progress as on 01-04-2014	3,93,000	Sales	10,95,000
Stock of finished goods as on 31-03-2015	1,84,000	Wages	74,000
Stock of work-in-progress as on 31-03-2015	2,60,000	Bad debts	16,570
Material consumed	3,15,000	Live stock	1,00,600
Administrative expenses	37,400	Royalty received	18,300
Provision for taxation	18,000	Bank loan	4,00,000
Patents written off	25,200	Coal & Coke	87,500
Depreciation on plant	38,000	Interest on loan	60,000

Solution

Statement of Profit and Loss of Virupaksh Co. Ltd. as on 31st March, 2015

Particulars	Note No.	Amount
(I) Revenue from Operations		10,95,000
(II) Other Income		18,300
(III)Total revenue		11,13,300
(IV) Expenses:		
(a) Material consumed		3,15,000
(b) Purchases		0
(c) Changes in inventories	1	2,39,000
(d) Employees benefit expenses		74,000
(e) Finance cost		60,000

(f) Depreciation and amortization exp.	2	63,200
(g) Other expenses	3	1,98,470
Total Expenses		9,49,670
(V) Profit & Loss before Tax (III-IV)		1,63,630
(VI) Provision for Tax		(18,000)
(VII) Profit Loss after Tax (V-VI)		1,45,630

Notes

1 Changes in inventories			**2 Depreciation & amortisation**	
Opening stock			Depreciation on plant	38,000
Work-in-progress		3,93,000	Patents written off	25,200
Finished goods		2,90,000		63,200
		6,83,000	**3. Other Expenses**	
Less: Closing stock			Coal & coke	87,500
Work-in-progress	2,60,000		Bad debts	16,570
Finished goods	1,84,000		Administrative expenses	37,400
		4,44,000	Directors fees	57,000
		2,39,000		1,98,470

PART I – Form of BALANCE SHEET

(As per revised schedule VI)

Name of the Company______________

Balance Sheet as at _________________

(Rupees in_________)

Particulars	Note No.	Current reporting period	Previous reporting period
I. EQUITY AND LIABILITIES			
(1) **Shareholders' funds**			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) **Share application money pending allotment**			
(3) **Non-current liabilities**			
(a) Long-term borrowings			

(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
(4) **Current liabilities**			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. ASSETS			
(1) **Non-current assets**			
(a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) **Current assets**			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
TOTAL			

6.19 ITEMS APPEARING UNDER THE HEAD EQUITY AND LIABILITIES

1) SHAREHOLDERS' FUNDS

A) Share capital: Under the head "Share Capital", some of the important items to be shown are as under:

- Number and amount of shares authorised.

- Number of shares issued, subscribed and fully paid up and subscribed but not fully paid up.
- Par value per share.
- A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.
- Shares in the company held by each share holder holding more than 5% shares specifying the number of shares held.
- Aggregate number and class of shares allotted or fully paid up for consideration other than cash.
- Aggregate number and class of shares allotted as fully paid up by way of bonus shares.
- Calls unpaid showing aggregate value of calls unpaid by directors and officers.
- Share forfeited amount.

B) Reserves and Surplus: Under this head the following items are shown;

- Capital Reserve
- Securities Premium (Reserve)
- Capital Redemption Reserve.
- Debenture Redemption Reserve
- Revaluation Reserve
- Share Options Outstanding Account
- Other reserves (a) General Reserve (b) Tax Reserve (c) Subsidy Reserve d)Amalgamation Reserve
- Surplus i.e., balance in Statement of Profit and Loss.

In case the final balance of the statement of profit and loss shows a debit balance the same should be shown as deduction from the totals of reserves.

C) Money received against share warrants: A share warrant is a financial instrument which gives the holder the right to acquire equity shares. A disclosure of the money received against share warrants is to be made since shares are yet to be allotted against the share warrants. These are not shown as part of share capital but to be shown as a separate line items.

2) SHARE APPLICATION MONEY PENDING ALLOTMENT:

If company has issued shares but date of allotment falls after the balance sheet date, such application money pending allotment will be shown in the following manner:

- Share application money not exceeding the issued capital and to extent not refundable is to be disclosed under this line-item.
- Share application money to the extent refundable or where minimum subscription is not met, such amount shall be shown separately under the other current liabilities.

3) **NONCURRENT LIABILITIES:** A non-current Liability is a liability which is not classified as current-liability. A liability is classified as current when it satisfies any one of the following conditions:

It is expected to be settled in the company's normal operating cycle. Operating cycle means the time between the acquisition of assets for processing and their realization in cash or cash equivalents. It may vary from few days to few years. Where the operating cycle cannot be identified, it is assumed to have a duration of 12 months.

- It is held for the purpose of being traded.
- It is due to be settled within 12 months after the reporting date.
- The company does not have an unconditional right to offer settlement of the liability for at least 12 months after the reporting date

Hence, the liabilities which are not classified as current shall be classified as non–current.

a) Long Terms borrowings (Debentures, Long Term Loans etc.)

b) Deferred Tax Liabilities (Net)

c) Other Long Term Liabilities (Trade payables on account of purchase of Fixed Assets and interest accrued there on, Provisional Fund contribution)

d) Long Term provisions: All provisions for which the related claims are expected to be settled beyond 12 months after the reporting date are classified as non-current provisions. (Provision for employee benefits, Provision for Warranties).

4) **CURRENT LIABILITIES:**

a) Short term borrowings (Loans repayable on demand from banks and other parties, Deposits, Loans and advances from related parties)

b) Trade Payables: A trade payable refers to the amount due on account of goods purchased or services received in the normal course of business.

c) Other Current Liabilities (Unpaid dividends, Interest accrued and due/ not due on borrowings, income received in advance, Calls in advance and interest thereon.)

d) Short Term Provisions: All Provisions for which the related claim is expected to be settled within 12 months after the reporting period are classified as short term

provisions and shown under the head "Current Liabilities" (Provision for doubtful debts, Provision for tax, proposed dividend.)

6.20 ITEMS APPEARING ON ASSETS SIDE OF BALANCE SHEET

There are mainly two types of assets namely Non-current and Current Assets.

1. NON-CURRENT ASSETS

a) Fixed Assets

i) Tangible Assets: Tangible assets are assets which can be physically seen and touched. (Land, Building, Plant and Equipment, Furniture & Fixture, Vehicles, Office Equipments, Others)

ii) Intangible Assets: Intangible assets are assets which are not tangible classified as given below: (Goodwill, Brands/ trademarks, Computer Software, Mastheads and Publishing Titles, Mining Right, Copyrights and patents and other intellectual property rights, Recipes, formulae, models, designs, Licenses and franchise, Others.)

iii) Capital Work in Progress

iv) Intangible Assets under Development – like patents, intellectual property rights, etc. which are being developed by the company

b) Non Current Investments – Investments which are not held for purpose of resale (Investment property, Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc).

c) Deferred Tax Assets (Net)

d) Long-term Loans and Advances – Capital Advances, Security Deposits, etc.

2. CURRENT ASSET

An asset shall be classified as current when it satisfies any of the following criteria:

It is expected to be realized in, or is intended for sale or consumption in the company's normal operating cycle; An operating cycle is the time between the acquisition of assets for processing and their realization in cash and cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

- It is held primarily for the purpose of being traded;
- It is expected to be realised within twelve months after the reporting date; or
- It is cash or cash equivalents unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current Assets.

a) **Current Investments** – Investment which are held to be converted into cash within a short period i.e., within 12 months (Investments in Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc.)

b) **Inventories:** Inventories include the following: Raw material, Work-in-progress, Finished goods, Goods acquired for trading, Stores and spares and Loose tools.

c) **Trade Receivable:** Trade receivables refer to the amount due on account of goods held or services rendered in the normal course of business.

d) **Cash and Cash Equivalents** – As discussed in the silent features of revised Schedule in General Instructions.

e) **Short-term Loans and Advances**

f) **Other Current Assets** (Prepaid expenses, and advance taxes)

Contingent Liabilities and Capital Commitments

Contingent Liabilities- Those liabilities which may or may not arise because they are dependent on a happening in future. It is not recorded in the books of accounts but is disclosed in the Notes to Accounts for the information of the users. (Claims against the company not acknowledged as debts, Guarantees, Other money for which the company is contingently liable.)

Capital Commitments – Financial commitments due to activities agreed by the company to be undertaken by it in future. (Uncalled Liability)

6.21 PREPARATION OF BALANCE SHEET

Illustration 10 From the following is the trial balance of Vishal Ltd., prepare the balance sheet of the company as on 31st March 2015 as per Schedule III of the Companies Act.

Trial Balance as on 31st March 2015

Debit	₹	Credit	₹
Advances to employees	3,00,000	Equity Share Capital	52,00,000
Cash at Bank	3,14,320	Capital Reserve	60,000
Furniture & Fixture	7,50,000	Loan from SBI	8,00,000
Discount on issue of shares (unwritten off)	25,000	Provision for Employees Welfare Fund	6,00,000
Patents	10,00,000	Proposed Dividend	1,64,000
Premises	41,09,940	Short term loan from bank	4,90,200
Trade Receivables	3,66,240	Unpaid dividend	64,800
Advance Tax	50,000	Profit & Loss A/c	42,980

8% Govt. Bonds	3,36,000	Bills Payable	85,100
Stock in trade	3,55,600	Sundry Creditors	1,00,020
	76,07,100		76,07,100

Solution

Balance Sheet of Vishal Limited as on 31st March 2015

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital		52,00,000
(b) Reserves and surplus	1	1,02,980
2 Share application money pending allotment:		Nil
3 Non-current liabilities:		
(a) Long-term borrowings		8,00,000
(b) Long-term provisions		6,00,000
4 Current liabilities:		
(a) Short-term borrowings		4,90,200
(b) Trade payables	2	1,85,120
(c) Other current liabilities		64,800
(d) Short-term provisions		1,64,000
TOTAL		76,07,100
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	3	48,59,940
(ii) Intangible assets		10,00,000
(b) Other non-current assets		25,000
2. Current assets:		
(a) Current investments		3,36,000
(b) Inventories		3,55,600
(c) Trade receivables		3,66,240

(d) Cash and cash equivalents		3,14,320
(e) Short-term loans and advances		3,00,000
(f) Other current assets		50,000
TOTAL		76,07,100

Notes to the Financial Statement:

1. Reserve and Surplus		2. Trade payables	
Capital reserve	60,000	Sundry creditors	1,00,020
Profit & Loss a/c (Cr. Bal.)	42,980	Bills payable	85,100
Total	1,02,980	Total	1,85,120
3. Tangible fixed assets			
Premises	41,09,940		
Furniture & Fixture	7,50,000		
Total	48,59,940		

Illustration 11 From the following ledger balances of Varun Ltd., prepare the balance sheet of the company as on 31st March 2016 as per Schedule III of the Companies Act.

Particulars	₹	Particulars	₹
Plant & machinery	6,00,000	Immovable property	10,00,000
8% Debenture	8,00,000	Public deposit	5,00,000
Employee's provident Fund	1,30,000	Provision for taxation	1,80,000
Securities premium	80,000	Drafts on hand	5,00,000
Cash at bank	34,000	Bills Receivable	2,40,000
Prepaid insurance	1,00,000	Brokerage on issue of shares	1,10,000
Sundry Creditors	1,16,000	Bank overdraft	1,50,000
Loan to Manager	70,000	Security Deposit	1,24,000
Deposits with ICICI Bank (5 years)	1,98,000	Trade marks	1,80,000
24,000 fully paid Equity shares of ₹100 each ₹ 50 called up			12,00,000

Solution

Balance Sheet of VARUN LTD. as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		

(a) Share capital	1	12,00,000
(b) Reserves and surplus		80,000
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings	2	13,00,000
(d) Long-term provisions		1,30,000
4. Current liabilities:		
(a) Short-term borrowings		1,50,000
(b) Trade payables		1,16,000
(d) Short-term provisions		1,80,000
TOTAL		31,56,000
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	3	16,00,000
(ii) Intangible assets		1,80,000
(b) Non-current investment		1,98,000
(c) Long-term loans & advances		1,24,000
(e) Other non-current assets		1,10,000
2 .Current assets:		
(a) Trade receivables		2,40,000
(b) Cash and cash equivalents	4	5,34,000
(c) Short-term loans and advances		70,000
(d) Other current assets		1,00,000
TOTAL		31,56,000

Notes to the Financial Statement:

1. Share Capital		3. Tangible Assets	
Authorized Capital	24,00,000	Plant & Machinery	6,00,000
(24,000 Equity shares of ₹100 each)		Immovable property	10,00,000
Issued & Subscribed capital	24,00,000	TOTAL	16,00,000
(24,000 Equity shares of ₹100 each)		4. Cash & Cash equivalent	
Called up & Paid up capital	12,00,000	Cash in hand	34,000
(24,000 Equity shares of ₹80 each)		Drafts on hand	5,00,000
TOTAL	12,00,000	TOTAL	5,34,000

2. Long Term borrowings			
8% Debentures	8,00,000		
Public deposits	5,00,000		
TOTAL	13,00,000		

Illustration- 12 From the following ledger balances of Regal Limited as on 31st March 2016, you are required to prepare the balance sheet as on 31st March 2016 as per Revised Schedule III of the Indian Companies Act.

Particulars	**₹**	**Particulars**	**₹**
Office Equipment	4,80,600	General Reserve	4,15,000
9% Debentures in APCO Ltd	2,45,000	Creditors for Goods	1,68,500
Loose Tools	1,63,000	Creditors for expenses	36,000
Plant & machinery	18,00,000	Cash Credit	75,000
Computer Software	83,250	Mortgage loan	3,10,000
Debtors for goods	1,90,000	8% Preference share capital	5,50,000
Advertisement (unwritten off)	30,000	Equity Share Capital	15,00,000
Stores & Spares	1,00,200	Staff Welfare Fund	85,000
Interest accrued on investment	51,000	Provision for Taxation	26,550
Cash at Bank	23,000		

Solution:

Balance Sheet of Regal Limited as on 31st March 2016

Particulars	**Note No.**	**Amount (₹)**
I.EQUITY AND LIABILITIES		
1 Shareholders' funds:		
(a) Share capital : i) Equity Share Capital		15,00,000
ii) Preference Share Capital		5,50,000
(b) Reserves and surplus		4,15,000
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings		3,10,000
(d) Long-term provisions		85,000
4 .Current liabilities:		

(a) Short-term borrowings		75,000
(b) Trade payables	1	2,04,500
(d) Short-term provisions		26,550
TOTAL		31,66,050
II.ASSETS		
1.Non-current assets:		
(a)Fixed assets		
(i) Tangible assets	2	22,80,600
(ii) Intangible assets		83,250
(e) Other non-current assets		30,000
2. Current assets:		
(a) Current investments		2,45,000
(b) Inventories	3	2,63,200
(c) Trade receivables		1,90,000
(d) Cash and cash equivalents		23,000
(e) Other current assets		51,000
TOTAL		31,66,050

Notes to the Financial Statement:

1.	**Trade payables**		**3.**	**Inventories**	
	Creditors for Goods	1,68,500		Loose tools	1,63,000
	Creditors for expenses	36,000		Stores & Spares	1,00,200
	Total	2,04,500		Total	2,63,200
2.	**Tangible Fixed Assets**				
	Office Equipment	4,80,600			
	Plant and machinery	18,00,000			
	Total	22,80,600			

Illustration 13 From the following trial balance, prepare balance sheet of Darshan Ltd., in the prescribed proforma as on 31st March 2016.

Trial Balance as on 31st March 2016

Particulars	₹	Particulars	₹
Leasehold property	16,00,000	Unclaimed dividend	6,000

Bank balance	1,05,000	Share Capital	20,65,000
Plant & Machinery	9,00,000	Staff Provident fund	8,00,000
Goodwill	3,00,000	Capita redemption reserve	2,20,000
Investment in a subsidiary Co.	11,50,000	General reserve	1,90,000
P & L a/c	70,000	Deposits from public	9,00,000
Stock of finished goods	1,20,000	Accounts payable	2,10,000
Accounts receivable	2,40,000	Short Term loan from SBI	1,78,000
Preliminary expenses	39,000		
Underwriting commission	45,000		
	45,69,000		45,69,000

Solution

Balance Sheet of Darshan Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		
(a) Share capital		20,65,000
(b) Reserves and surplus	1	3,40,000
2. Share application money pending allotment:		
3. Non-current liabilities:		
(a) Long-term borrowings		9,00,000
(b) Long-term provisions		8,00,000
4. Current liabilities:		
(a) Short-term borrowings		1,78,000
(b) Trade payables		2,10,000
(c) Other current liabilities		6,000
TOTAL		44,99,000
II.ASSETS		
1.Non-current assets:		
a) Fixed assets		
(i) Tangible assets	2	25,00,000
(ii) Intangible assets		3,00,000

b) Non- current Investment		11,50,000
c) Other Non-current assets	3	84,000
2 .Current assets:		
(a) Inventories		1,20,000
(b) Trade receivables		2,40,000
(c) Cash and cash equivalents		1,05,000
TOTAL		44,99,000

Notes to the Financial Statement:

1.	**Reserve and Surplus**		**3.**	**Other non-current assets**	
	Capital Redemption Reserve	2,20,000		Underwriting commission	45,000
	General Reserves	1,90,000		Preliminary expenses	39,000
	Debit balance of P& L	(70,000)		Total	84,000
	Total	3,40,000			
2.	**Tangible Fixed Assets**				
	Leasehold property	16,00,000			
	Plant & machinery	9,00,000			
	Total	25,00,000			

Illustration 14 From the following ledger balances of Sunshine Co. Ltd., prepare the balance sheet of the company as on 31st March 2016 as per Schedule III of the Companies Act.

Particulars	₹	Particulars	₹
Equity Share Capital	26,00,000	Advances to employees	1,50,000
General Reserves	30,000	Discount on issue of debentures (unwritten off)	12,500
12% Debenture	4,00,000	Tools and equipment	3,75,000
Land & Buildings	15,54,970	Gratuity Fund	3,00,000
Goodwill	10,00,000	Debtors	1,38,520
Bank Overdraft	2,45,100	Cash at Bank	1,57,160
Proposed Dividend	82,000	Stores & Spares	1,77,800
Prepaid insurance	25,000	Profit & Loss a/c (credit)	21,490
Mutual Fund	1,68,000	Bills Receivable	44,600
Interest payable	32,400	Sundry Creditors	92,560

Solution:

Balance Sheet of Sunshine Company Limited as on 31st March 2016

Particulars	Note No.	Amount (₹)
I.EQUITY AND LIABILITIES		
1. Shareholders' funds:		
(a) Share capital		26,00,000
(b) Reserves and surplus	1	51,490
2. Share application money pending allotment:		Nil
3. Non-current liabilities:		
(a) Long-term borrowings		4,00,000
(b) Long-term provisions		3,00,000
4. Current liabilities:		
(a) Short-term borrowings		2,45,100
(b) Trade payables		92,560
(c) Other current liabilities		32,400
(d) Short-term provisions		82,000
TOTAL		38,03,550
II.ASSETS		
1.Non-current assets:		
(a) Fixed assets		
(i) Tangible assets	2	19,29,970
(ii) Intangible assets		10,00,000
(b) Other non-current assets		12,500
2. Current assets:		
(a) Current investments		1,68,000
(b) Inventories		1,77,800
(c) Trade receivables	3	1,83,120
(d) Cash and cash equivalents		1,57,160

(e) Short-term loans and advances		1,50,000
(f) Other current assets		25,000
TOTAL		38,03,550

Notes to the Financial Statement:

1.	**Reserve and Surplus**		**3.**	**Trade Receivables**	
	General Reserve	30,000		Sundry Debtors	1,38,520
	Profit & Loss a/c (Cr. Bal.)	21,490		Bills Receivable	44,600
	Total	51,490		Total	1,83,120
2.	**Tangible Fixed Assets**				
	Land & Buildings	15,54,970			
	Tools & Equipment	3,75,000			
	Total	19,29,970			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. In a balance sheet of a limited company, assets are arranged in the order of
   - a) Liquidity
   - b) **Performance**
   - c) Neither of the two
   - d) Either liquidity or performance

2. Dividends are usually paid on
   - a) Authorized capital
   - b) Subscribed capital
   - c) **Paid up capital**
   - d) Called up capital

3. Divisible profits do not include
   - a) Reserve fund
   - b) P & L a/c
   - c) **Revaluation reserve**
   - d) Insurance fund

4. When the proposed dividend exceeds 20% of the paid up capital, the % of profits to be transferred to reserve is
   - a) **10%**
   - b) 7.5%
   - c) 5%
   - d) 2.5%

5. The amount set aside to meet the loss of bad debts is a
   - a) Reserve
   - b) Liability
   - c) Contingent liability
   - d) **Provision**

6. Interim dividend appears in
   - a) P & L a/c
   - b) P & L Appropriation a/c
   - c) Balance sheet
   - d) **P & L Appropriation a/c and Balance sheet**

7. B/R is shown on the asset side of the balance sheet under the heading
   - a) Share capital
   - b) Investments
   - c) **Current assets and loans and advances**
   - d) None of these

8. Indicate the item that appears in the P & L a/c below the line
   - a) Proposed dividend
   - b) Provision for taxation
   - c) Contribution to provident fund
   - d) Bank loans

9. In the balance sheet of a company, bills payable is shown under the heading
   - a) Current assets
   - b) Fixed assets
   - c) **Current liabilities**
   - d) Reserves and surplus

10. Dividends are paid on ______________

    a) Paid up share capital b) Authorized share capital
    c) Called up capital d) Uncalled capital

REVIEW QUESTIONS

A) Answer in Short

1. What is managerial remuneration? Write note.
2. What are the components of final accounts of a joint stock company?
3. What is dividend?
4. What is reserve fund?
5. Write the rules for transfer of minimum reserve to general reserve.

B) Answer in Detail

1. Draft the Balance Sheet of a limited company in prescribed from with imaginary figures.
2. Explain the low relating to calculation of "managerial remuneration".
3. Explain the following

   a). Provisions b). Reserve Fund c). Reserve
4. Write short notes on:

   (a). Share capital

   (b). Contingent liabilities

   (c). Capital redemption reserve

   (d). Current asset

   (e). Current liabilities

EXERCISES

1. The provision for tax at the end of 31st March stood at ₹3,00,000. During 2008-09, the tax liabilities up to 31st March 2008 were settled for ₹2,74,000. Provision required in respect of 2008-09 is ₹82,000. How will you show provision for tax in P & L a/c?

2. X Ltd. made a loss of ₹30,000 after providing depreciation of ₹50,000 for the year 2009. In 2010, it made a profit of ₹1,00,000 after providing for that year's depreciation. Calculate the amount available for dividend.

3. A company has fixed assets of ₹2,00,000 and profit after depreciation @ 5% p.a. is ₹80,000 and the income tax limit for depreciation is ₹8,000. Calculate

   a) 5% of the net profit as commission to manager and b) Tax provision at 50%.

4. From the following details of Mohan Ltd. prepare P & L Appropriation a/c for the year ended 31-3-16.

   P & L a/c (Cr) on 1-4-2015 ₹57,500; Proposed dividend ₹50,000; Net profit ₹2,30,500; Transfer to general reserve ₹35,500; Cash balance ₹20,500; Creditors ₹9,505.

5. The following balances were extracted from the books Aarthy Ltd. for the year ended Mar.31, 2016:

Building	₹6,00,000	Furniture	₹60,000
Motor vehicles	₹60,000	Equity shares of companies	₹4,00,000
Stock	₹4,00,000	Debtors unsecured considered good	₹2,80,000
Cash	₹1,72,000	Salaries and wages	₹2,20,000
Equity shares of ₹100 each	₹10,00,000	Creditors	₹3,50,000
P & L a/c (Cr)	₹20,000	Gross profit	₹10,00,000
Dividend received on investments	₹10,000	Advance against construction of Building	₹1,30,000
Directors fees	₹8,000	Electricity charges	₹25,000
Rates, taxes	₹10,000	Auditors fees	₹15,000

   Prepare P & L a/c of the company for the year ended 31st March 2016 and balance sheet as on that date after the following adjustments:

   a) Provide 10% depreciation per annum
   b) Stock has been revalued at ₹3,60,000. This has not been considered
   c) Debt more than 6 months are ₹80,000
   d) Ignore tax provision

6. The following is the trial balance of ABC Ltd as on 30-6-2016. The authorized capital of the company consists of 50,000 equity shares of ₹10 each.

Debit	Amount ₹	Credit	Amount ₹
Calls in arrears	6,400	Equity shares of ₹10 each	1,00,000
Land	10,000	Bad debts provision on 1-7-2015	1,400
Building	25,000	Sales	80,000
Furniture	3,200	Purchase returns	3,400
Carriage inwards	2,300	Creditors	13,200
Wages	21,400	Share premium	6,000
Salary	4,600	General reserve	24,000
Sales returns	1,700		
Printing charges	100		
Fuel	700		
Rates and taxes	800		
Purchases	50,000		
Bills receivable	1,200		
General expenses	1,900		
Debtors	42,800		
Stock on 1-7-2015	25,000		
Fire insurance	400		
Cash	2,500		
Bank	13,000		
Plant	15,000		
	2,28,000		2,28,000

Adjustments:

a) Charge depreciation on building at 2.5%, on Plant at 10% and Furniture at 10%

b) Make a provision of 5% on debtors for bad debts

c) Prepaid insurance ₹120

d) Outstanding liabilities: Wages ₹3,200; salary ₹500 and rent ₹200

e) Stock on 30-6-2016 was ₹30,000

Prepare P & L a/c and balance sheet of XYZ Co. Ltd.

7. The following is the trial balance of ABC Ltd as on 31-12-2016.

Debit	**Amount ₹**	**Credit**	**Amount ₹**
Stock on 1-1-2016	7,500	Sales	35,000
Purchases	24,500	Discount	500
Productive wages	5,000	P & L a/c on 1-1-2016	1,503
Discount	700	Equity shares of ₹10 each	10,000
Salary	750	Creditors	1,750
Rent	495	Reserve	1,550
General expenses including insurance	1,705		
Dividend paid	900		
Debtors	3,750		
Plant	1,620		
Bad debts	483		
Cash	2,900		
	50,303		50,303

Adjustments:

a) Stock as on 31-12-2016 ₹8,200

b) Depreciation on Plant at 10%

c) Provide 5% as discount on debtors

d) Allow 2.5% as discount on creditors

e) Provide managing directors commission at 15% on net profit before deducting the commission

f) One month rent at ₹540 per annum was due on 31-12-2016

g) Six months insurance was unexpired at ₹75 p.a.

Prepare trading and profit and loss a/c and balance sheet of ABC Company Ltd.

8. The following is the trial balance on June 30, 2016 of A Ltd.

Stock on 30th June 2015	₹7,500	Sales	₹35,000
Purchases	₹24,500	Productive wages	₹5,000
Discount (Dr)	₹700	Discount (Cr)	₹500
Salaries	₹750	Rent	₹495
General expenses	₹1,705	P & L a/c (Cr)	₹1,503
Dividend paid August 2015	₹500	Interim dividend paid Feb.2016	₹400

Capital ₹1 each	₹10,000	Debtors	₹3,750
Creditors	₹1,750	Plant	₹2,900
Cash	₹1,620	Reserve	₹1,550
Loan to MD	₹325	Bad debts	₹158

You are required to make out the trading a/c and P & L a/c for the year ended 30th June 2016 and the balance sheet as on that date. You are required to make provision in respect of the following:

a) Depreciation of machinery 10% p.a.

b) Reserve 5% discount on debtors.

c) Stock on 30th June 2016 ₹8,200.

9. From the following balances as on 31st Dec.2016 of Kiran Ltd Co. prepare P & L a/c for the year ended and balance sheet as on that date:

Debits	**Amount ₹**	**Credits**	**Amount ₹**
Stock on 1-1-2016	33,380	Paid up capital	50,000
Discount	6,788	Sales	1,46,268
Land	22,000	Sundry receipts	200
Plant	10,700	Creditors	39,532
Purchases	91,888	Provision for bad debts	5,300
Furniture	2,750	Discount	5,904
Debtors	63,600	Bank overdraft	13,823
P & L a/c (Dr)	4,960	Customer's deposit	400
Carriage	3,780		
Wages	9,016		
Bad debts	1,820		
Office expenses	10,275		
Cash	470		
	2,61,427		2,61,427

The following adjustments have to be made:

a) Stock on 31-12-2016 ₹35,460.

b) Depreciate plant at 10% and furniture at 6%.

c) The managing director is entitled to 10% commission on net profits before charging such commission.

d) Provide 10% for doubtful debts.

10. MK Ltd made a net profit of ₹25,000 lakhs after adjusting the following items

Particulars	(₹in Lakhs)
Provision for depreciation	10,000
Capital profit on sale of part of the undertaking	200
Depreciation as per books	600
Managerial remuneration	55
Provision for diminution in the value of investments	15
Provision for wealth tax	20
Directors fees	15
Profit on sale of assets U/S 349	40
Profit on sale of investments	30
Loss on sale of assets U/S 349	35
Prior period adjustments (credit)	15
Provision for bad debts	100
Ex-gratia payment to an employee	5

You are given the following additional information

i) Depreciation as per $ 40 ₹5,000 Lakhs

ii) Bad debts actually written off ₹60 Lakhs

You are required to calculate the net profit.

11. The following trial balance of Ajit & Co as at 30th Dec.2016 is given to you:

Debit	Amount ₹	Credit	Amount ₹
Stock (1-1-2016)	40,000	Equity shares	3,00,000
Bank	8,800	6% Debentures	1,00,000
Patents	30,000	Creditors	50,000
Calls in arrears	10,000	General reserve	40,000
Returns inwards	15,000	Sales	5,00,000
Purchases	3,86,000	Returns outwards	10,000
Wages	54,000	P & L a/c (Cr)	6,000
Insurance prepaid	200		
Bills receivable	15,000		
Debtors	40,000		
Discount on issue of debentures	5,000		
Plant	2,00,000		

Land	1,50,000		
Insurance	2,000		
General expenses	20,000		
Establishment expenses	30,000		
	10,06,000		10,06,000

Additional information:

i) The value of stock on 31st Dec.2016 is ₹74,000

ii) Depreciate patents, plant and land at 10%

You are required to prepare trading, profit and loss a/c for the year ended 31-12-2016 and balance sheet as on that date.

12. The directors of M Ltd ask to prepare the profit and loss a/c for the year ended 30-6-2016 and the balance sheet as on that date.

Debit	Amount ₹	Credit	Amount ₹
Plant	3,00,000	Equity share capital	4,00,000
Land	5,00,000	8% Preference shares	2,00,000
Investment in shares	200,000	Depreciation up to 31-7-2015	
Stock	70,000	On Plant	1,00,000
Cash	60,000	On Land	1,50,000
Debtors	50,000	Dividend reserve	10,000
Income tax deducted at source on dividend	2,200	P & L a/c on 1-7-2015	25,000
Office expenses	15,000	Creditors	25,000
Rent and taxes	6,000	Dividend	10,000
Audit fees	2,500	Miscellaneous Receipts	2,300
Managing directors minimum remuneration	12,000	Trading a/c balance	3,09,400
Directors fees	2,000		
Sundry expenses	6,000		
Income tax for previous year not provided for	6,000		
	12,31,700		12,31,700

Adjustments:

a) Depreciation is to be charged on the written down value of plant at 10%, land at 5%

b) The directors propose to recommend a dividend of 15% on equity shares

c) Provision for taxation is to be made at 55%

d) The managing director is entitled to 5% of the net profit subject to a minimum of ₹12,000 p.a.

e) A sum of ₹15,000 is to be transferred to dividend reserve.

13. Authorized capital of Z Ltd. is ₹5,00,000 (₹10 each) on 31-12-2016. 25,000 shares were fully called up. On 31-12-2016, the following balances taken from the ledger of the company.

Opening stock	₹50,000	Sales	₹4,25,000
Purchases	₹3,00,000	Wages	₹70,000
Discount allowed	₹4,200	Discount received	₹3,150
Insurance (paid 31-3-2017)	₹6,720	Salaries	₹18,500
Rent	₹6,000	General expenses	₹8,950
Printing and stationery	₹2,400	Advertising	₹3,800
Bonus	₹10,500	Sundry debtors	₹38,700
Sundry creditors	₹35,200	Plant	₹80,500
Furniture	₹17,100	Cash	₹1,34,700
Reserve	₹25,000	Loan from MD	₹15,700
Bad debts	₹3,200	Calls in arrears	₹5,000
P & L a/c	₹6,220		

Additional information was furnished:

a) Closing stock ₹91,500

b) Depreciation on plant and furniture @ 15% and 10% respectively

c) Wages, salaries and rent outstanding amounts ₹5,200, ₹1,200 and ₹600 respectively

d) Dividend @ 5% on paid up share capital is to be provided.

Prepare final accounts of the company.

14. The following is the trial balance of D Ltd. as on 31-3-2016:

Debit balance	**Amount ₹**	**Credit balance**	**Amount ₹**
Stock	75,000	Purchases returns	10,000
Purchases	2,45,000	Sales	3,40,000
Wages	30,000	Discount	3,000
Carriage inwards	950	P & L Appropriation a/c	15,000
Furniture	17,000	Share capital	1,00,000
Salaries	7,500	Creditors	17,500
Rent	4,000	General reserve	15,500

Sundry expenses	7,050	Bills payable	7,000
Dividend for 2015-16	9,000		
Debtors	27,500		
Plant	29,000		
Cash	46,200		
Patents	4,800		
Bills receivable	5,000		
	5,08,000		5,08,000

Prepare final accounts after adjusting the following:

a) Stock on 31-3-2016 ₹88,000

b) Depreciate plant at 15%, furniture at 10% and patent at 5%

c) Outstanding rent ₹800 and salaries ₹900

d) Make a provision for bad debts amounting to ₹510.

15. ABC Co. Ltd. was registered with nominal capital of ₹6,00,000 in equity shares of ₹10 each. Following is the list of balances extracted from its books on 31-12-2016:

Calls in arrears	₹7,500	Paid up capital	₹4,00,000
Premises	₹3,00,000	6% Debentures	₹3,00,000
Plant	₹3,30,000	P & L a/c (Cr)	₹14,500
Interim dividend paid on 1-8-16	₹37,500	Bills payable	₹38,500
Stock on 1-1-2016	₹75,000	Creditors	₹50,000
Furniture	₹7,200	Sales	₹4,15,000
Debtors	₹87,000	General reserve	₹25,000
Goodwill	₹25,000	Cash in hand	₹1,250
Cash at bank	₹39,900	Bad debts provision on 1-1-16	₹3,500
Preliminary expenses	₹5,000	Purchases	₹1,85,000
General expenses	₹16,835	Wages	₹84,865
Salary	₹14,500	Director's fees	₹5,725
Bad debts	₹2,110	Freight and carriage	₹13,115
Debenture interest paid	₹9,000		

Prepare P & L a/c and balance sheet in proper form after making following adjustments:

i) Depreciate plant 10%

ii) Write off ₹500 from preliminary expenses

iii) Leave bad and doubtful debts at 5% on sundry debtors

iv) Stock on 31-12-2016 is ₹95,000.

16. From the under mentioned trial balance of BB Ltd., prepare a trading, profit and loss a/c for the year ended Dec.31, 2016 and the balance sheet as on that date:

Debit balance	**Amount ₹**	**Credit balance**	**Amount ₹**
Debenture interest (half year up to 30-6-16)	625	Equity share capital (₹100 each)	1,00,000
Rent and taxes	6,000	5% Debentures	25,000
Purchases	60,900	Sales	1,75,000
Wages	55,200	Creditors	8,000
Fuel	2,570	Bank overdraft	12,000
Building	70,000	Discount	2,200
Carriage in	1,175	Transfer fees	100
Debtors	20,000	Returns outward	100
Goodwill	28,000		
Plant	25,000		
Loose tools	6,000		
Advertisement	3,000		
General expense	4,400		
Bad debts	1,030		
Opening stock	30,000		
Miscellaneous Exp.	3,000		
Insurance	2,500		
Cash	3,000		
	3,22,400		3,22,400

Adjustments: 1. The authorized capital of the company is ₹2,00,000

2. Stock on Dec.31, 2016 is ₹35,000

3. Depreciate Plant by 9%

4. Allow 2.5 % discount on debtors and 2% as bad debts reserve

You are not required to show the previous year's figures.

17. The following is the trial balance of A & Co. as on 31-3- 16 with the authorized capital of 72,000 shares @ ₹10 each.

Debit balances	Amount ₹	Credit balances	Amount ₹
Cash in hand	900	P & L a/c	17,400
Cash at bank	3,05,980	Creditors	60,000
Calls in arrears	9,000	Debentures	3,60,000
Wages	92,760	Share capital	5,52,000
Land	3,60,000	Bills payable	45,600
Plant	4,32,000	Sales	4,98,000
General exp.	20,280	Reserve for bad debts	4,200
Salaries	17,400	General reserve	30,000
Interim dividend	9,000		
Furniture	40,000		
Purchases	2,29,880		
Debtors	50,000		
	15,67,200		15,67,200

Adjustments: 1) Outstanding wages ₹6,000; Salaries ₹3,000

2) General expenses include prepaid insurance @ ₹300

3) Provide depreciation on Land, Plant and Furniture at 5%, 10% and 20% respectively

4) Stock on 31-3-2016 amounted to ₹1,40,000

5) Outstanding interest on debentures ₹18,000

6) Final dividend paid ₹21,000

Prepare final accounts.

18. X Ltd has an authorized capital of ₹50,00,000, divided into 5,00,000 equity shares of ₹10 each. Their books showed the following balances as on 31-12-2016:

Stock on 1-1-2016	₹6,65,000	Discount allowed	₹30,000
Carriage inwards	₹57,500	Patents	₹3,75,000
Rent and taxes	₹55,000	Furniture	₹1,50,000
Materials purchased	₹12,32,500	Wages	₹13,05,000
Coal and coke	₹63,000	Land	₹12,50,000
Plant	₹7,50,000	Loose tools	₹1,50,000
Goodwill	₹3,75,000	Debtors	₹2,66,000

B/R	₹1,34,500	Advertisement	₹15,000
Business expenses	₹1,70,000	Bad debts	₹25,500
Bank balance	₹20,000	Cash in hand	₹8,000
Debenture interest up to 30-6-16	₹10,000	Bank interest paid	₹91,000
Preliminary expenses	₹10,000	Calls in arrears	₹10,000
Equity share capital of ₹10 each	₹20,00,000	4% Debentures	₹5,00,000
Bank O/D	₹7,57,000	Creditors	₹2,40,500
Sales	₹36,17,000	Rent (Cr)	₹30,000
Transfer fees	₹6,500	P & L a/c (Cr)	₹67,000

Adjustments:

a) The stock on 31-12-2016 was ₹7,08,000

b) Outstanding liability for wages ₹25,000 and business expenses ₹25,000

c) Provide for dividend @ 10% on paid up capital

d) Provide depreciation – Plant – 5%; Loose tools – 20%; Patent – 10% and Furniture – 10%

e) Write off ₹21,500 as bad debts and provide 2% on debtors for bad debts

f) Write off preliminary expenses ₹5,000

g) Transfer to redemption reserve ₹50,000 and provide for income tax ₹2,40,000

Prepare the P & L a/c for the year ending 31-12-2016 and balance sheet as per Companies Act on that date.

19. Following is the trial balance of Original Traders Ltd. as on 31-12-2016.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Land	70,000	Share capital	1,00,000
Plant	54,000	General reserve	15,000
Stock on 31-12-2016	64,000	8% Debentures	50,000
Salary	4,600	Bank overdraft	2,000
Debtors	38,000	Creditors	8,000
Cash	1,000	Share premium	5,000
Preliminary exp.	2,000	P & L a/c	3,000
Bank	12,000	Gross profit	52,000
Advance payment of income tax	4,000	Debenture redemption reserve	20,000

Directors fees	3,400		
Debenture interest	2,000		
	2,55,000		2,55,000

Adjustments:

i) Provide ₹12,000 for income tax, ₹1,000 for audit fees and debenture interest for 6 months

ii) Machinery worth ₹20,000 was purchased on 1-10-2016; Depreciate machinery at 10% p.a.

iii) Directors desire the following appropriations:

a) ₹5,000 to debenture redemption reserve

b) ₹2,000 to general reserve

c) Dividend at 8%

iv) The authorized capital of the company consists of 5,000 equity shares of ₹100 each, 2,000 shares are issued on which ₹50 per share was paid up.

v) Write off 50% preliminary expenses

Prepare P & L a/c and Balance sheet as on 31-12-2016.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. The following balance were extracted from the books of Kousick Ltd. for the year ended 31st March 2011.

Buildings	6,00,00
Motor vehicles	60,000
Sundry debtors unsecured considered good	2,80,000
Stock at cost	4,00,000
Advances against construction of building	1,30,000
Share capital:	
10,000 equity shares of Rs. 100 each	10,00,000
Dividend received on investments	10,000
Electricity charges	25,000
Auditor’s fees	15,000
Furniture	60,000
Equity shares of companies	4,00,000
Cash at bank	1,72,000
Sundry creditors	3,50,000
P and L a/c (Cr)	20,000

Gross profit	1,00,000
Salaries and wages	2,20,000
Directors fees	8,000
Rent, rates and Insurance	10,000

Prepare profit and loss a/c of the company for the year ended 31st December 2011, and the balance sheet as on that date after the following adjustments:

(a) Provide 10% depreciation per annum

(b) Stock has been revaluated at Rs. 3,60,000. This has not yet been considered.

(c) Debts more than 6 months are Rs. 80,000

(d) Ignore tax provision.

[Alagapa B.Com., 2016]

2. Prepare final account from the following information:

Debit	Rs.	Credit	Rs.
Opening stock	50,000	Sales	3,25,000
Purchases	2,00,000	Discount received	3,150
Wages	70,000	P & L account	6,220
Discount allowed	4,200	Creditors	35,200
Insurance up to 31.3.06	6,720	Reserves	25,000
Salaries	18,500	Loan from MD	15,700
Rent	6,000	Share capital	2,50,000
General expenses	8,950		
Printing	2,400		
Advertisement	3,800		
Bonus	10,500		
Debtors	38,700		
Plant	1,80,000		
Furniture	17,100		
Bank	34,700		
Bad debts	3,200		
Calls-in-arrears	5,000		
	6,60,270		6,60,270

you are required to prepared P & L account for the year ended 31.32015 and a balance sheet as on that date. The following information is given.

(a) Closing stock was valued at Rs. 1,91,500

(b) Depreciation on plant at 15% and on furniture at 10% should be provided.

(c) A tax provision of Rs. 8,000 is considered necessary.

(d) The directors declared an interim dividend on 15.8.2005 for 6 months ending June 30, 2005 @ 6%.

[Madurai, M.Com (CA), November 2014]

3. From the following trail balance prepare trading and profit and loss account and balance sheet.

Particulars	**Dr. Rs.**	**Particulars**	**Cr. Rs.**
Salaries	20,000	Creditors	50,000
Rent	25,000	Sales	3,00,000
Cash	50,000	Capital	1,50,000
Debtors	3,500	Loans	20,500
Trade Expenses	6,000		
Purchase	60,000		
Advances	1,00,000		
Bank balance	50,000		
Buildings	2,06,000		
	5,20,500		**5,20,500**

Adjustments

(a) Closing stock at the year Rs. 20,000:

(b) Create 5% provision for discount on debtors:

(c) Commission payable to the manager to 5% of the profit after charging such commission.

[Madurai, M.Com (CA), November 2016]

4. From the following trail balance and additional information provided, prepare final accounts of Swamy stationaries Ltd. for the year ending 31^{st} December 1990.

Trail Balance as on 31^{st} December 1990

Particulars	**Dr. Rs.**	**Cr. Rs.**
Capital 30,000 equity shares of Rs. 10 each	–	3,00,000
Stock	2,25,000	–
Purchase and sales	7,35,000	10,50,000
Productive sales	1,50,000	–
Discount	21,000	15,000
Salaries	22,500	–
Rent	14,850	–

General expenses	51,150	–
Profit and loss A/c 31.12.1989	–	45,000
Dividend paid March 1990	15,000	–
Interim dividend paid August 1990	12,000	–
Debtors and creditors	1,12,500	52,500
Plant and machinery	87,000	–
Cash at bank	48,600	–
Reserve	–	46,500
Loan to M.D.	9,750	–
Bad debts	4,650	–
	15,09,000	**15,09,000**

Additional information:

(a) Stock on 31st December 1990 Rs. 2,46,000

(b) Depreciated Plant and Machinery @ 10% p.a.

(c) Reserve 5% on debtors for doubtful debts.

(d) Provide 2% for discount on creditors.

(e) One month rent (Rs. 1,350 p.m.) was due on 3st December 1990.

(f) Six months insurance was unexpired at Rs. 2,250 p.a.

(g) Provide Rs. 13,688 for Income Tax.

[Madurai, M.Com (CA), November 2015]

5. The following is the trial balance of Bee Ltd. as on 31st March, 2010.

	(Rs. in '000)		**(Rs. in '000)**
Stock as on 1.4.2009	7,500	Purchase returns	1,000
Purchases	24,500	Sales	34,000
Wages	3,000	Discount	300
Carriage inwards	95	Profit and Loss A/c	1,635
Furniture	1,700	Share capital	10,000
Salaries	750	Creditors	1,750
Rent	400	General reserve	1,550
Sundry trade expenses	605	Bills payable	700
Dividend paid for 2008-2009	900		
Corporate dividend tax paid	135		

Debtors	2,850		
Plant and Machinery	2,900		
Cash at Bank	4,620		
Patents	480		
Bills receivable	500		
	50,935		**50,935**

Prepare the profit and loss account for the year ended 31st March, 2010 and a balance sheet as on that date after considering the following adjustments:

(a) Stock as on 31st March, 2010 was valued at Rs. 88,10,000.

(b) Make a provision for income-tax at 35%

(c) Depreciate plant and machinery at 15% furniture at 10%; and patents at 5%.

(d) On 31st March, 2010 outstanding rent amount to Rs. 80,000.

(e) The board recommends payment of a dividend @ 15% per annum. Transfer the minimum required amount to general reserve. Also make a provision for corporate dividend tax @ 15% of the amount proposed to be distributed.

(f) Provide Rs. 3,000 for doubtful debts.

(g) Provide Rs. 5,20,000 for managerial remuneration.

[Madurai, M.Com (CA), November 2012]

6. Determine the maximum remuneration payable to the part time director and manager of B Ltd. (a manufacturing company) under section 309 and 387 of the Companies Act, 1956 from the following particulars:

Before charging any such remuneration, the Profit & Loss Account showed a credit balance of Rs. 23,10,000 for the year ended 31st March 1987 after taking into account the following matters:

	Rs.
(a) Capital expenditure	5,25,000
(b) Subsidy received from Government	4,20,000
(c) Special depreciation	70,000
(d) Multiple shift allowance	1,05,000
(e) Bonus to foreign technicians	3,15,000
(f) Provision for taxation	28,00,000
(g) Compensation paid to injured workman	70,000
(h) Ex-gratia to an employee ,	35,000
(i) Loss on sale of fixed assets	70,000
(j) Profit on sale of investment	2,10,000

[Madras,B.Com(AF) Nov 2007 ;Nov 2004]

[Ans : Managerial remuneration @ 5% on Rs. 55,30,000 = Rs. 2,76,500; Total managerial remuneration payable Rs. 2,76,500 + 55,300 = Rs. 3,31,8001

[Hint: Part time director's commission : 1% on 55,30,000 = 55,300]

7. From the following balances, prepare the Balance Sheet of a Company in the prescribed format. Goodwill Rs. 1,50,000; Investments Rs. 2,00,000; Share capital Rs. 5,00,000; Reserves Rs. 1,10,000; Share premium Rs. 15,000; Preliminary expenses Rs. 10,000; Profit and Loss A/c (Cr) Rs. 25,000; Debentures R s. 2,50,000. Other fixed assets Rs. 4,70,000; Stock Rs. 80,000; Debtors Rs. 60,000; Bank balance Rs. 30,000. Unsecured loan Rs. 65,000; Sundry creditors Rs. 35.000.

(Periyar, B.Com (CA) Ap 2005)

[Ans : Balance Sheet Total : Rs. 10,00,000]

8. Prepare a Balance sheet as at 31st march 2000 from the following information of ABC Ltd as required under the companies Act 1956:

	Rs.		Rs.
Term loan	10,00,000	Loss for the year	3,00,000
Creditors	11,45,000	Sundry debtors	12,25,000
Advances	3,72,000	Miscellaneous expenses	58,000
Cash & Bank Balances	2,75,000	Loans from directors	2,00,000
Staff advances	55,000	Provisions for doubtful debts	20,200
Provision for tax	1,70,000	Stock	4,00,000
Securities premium	4,75,000	Fixed assets (W.D.V)	51,50,000
Loose tolls	50,000	Finished goods	7,50,000
Investments	2,25,200	General reserves	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% pref. shares of Rs.100 each fully paidup

(b) Term Loan is secured

(c) Depreciation on assets : Rs. 5,00,000

(d) Schedules need not be given.

(Madras BCS (SY3B) Nov 2005 II; M.Com., (ICE) (Old) May 2003]

[Ans: Balance Sheet Total :Rs. 87,40,000]

1. Assume that W.D.V. of fixed assets is after depreciation because net loss for the year is already found.
2. Net Leasehold be adjusted against general reserve.

9. A Limited Company was registered with an authorized capital of Rs. 30,00,000 in equity shares of Rs. 10 each. The following is the list of balances extracted from its books on 31.12.94.

	Rs.
Purchases	9,25,000
Wages	4,24,325
Manufacturing expenses	65,575
Salaries	70,009
Bad debts	10,550
Directors' fees	31,120
Debenture interest paid	45,000
Preliminary expenses	25,000
Calls-in-arrears	37,500
Plant & Machinery	15,00,000
Premises	16,50,000
Interim dividend paid	1,87,500
Furniture and fittings	35,000
Sundry debtors	4,36,000
General expenses	84,175
Stock on 1.1.94	3,75,000
Cash in hand	1,00,000
Goodwill	28,750
Cash at bank	1,99,500
Subscribed and fully called up capital	20,00,000
Profit & Loss A/c (Cr)	72,500
6% Debentures	15,00,000
Sundry creditors	2,90,000
Bills payable	1,67,500
Sales	20,75,000
General reserve	1,25,000

You are required to prepare Trading and Profit & Loss account for the year ended 31.12.94 and the Balance Sheet as on that date, after making the following adjustments. Depreciate Plant & Machinery by 10%. Provide half years interest on debentures. Also write

off Rs. 2,500 from preliminary expenses and make provision for bad and doubtful debts of Rs. 4,250 on sundry debtors. Stock on 31st December 1994 was Rs. 4,55,000.

[(Madras, B.Com(AF) Apri12008; B.Com, (Sem - PZ3A) Nov. 2004]

[Ans: Gross profit — Rs. 7,40,100; Net profit — Rs. 2,97,500; Balance Sheet total — Rs. 42,72,500]

10. From the under mentioned Trial Balance of Barua Brothers Ltd., prepare a Trading and Profit and Loss A/c for the ended Dec. 31-1996 and the Balance Sheet as at that date :

Debit Balances	Rs.	Credit Balances	Rs.
Opening Stock	30,000	Equity share capital 1,000 shares of Rs. 100 each	1,00,000
Rent and Taxes	6,000		
Purchases	60,900	5% Debentures	25,000
Wages	55,200	Sales	1,75,000
Discount	1,500	Creditors	8,000
Fuel	2,570	Bank Overdraft	12,000
Building	70,000	Discount	2,200
Carriage inwards	1,175	Tranffer fee	100
Debtors	20,000	Returns Outwards	100
Goodwill	28,000		
Plant & Machinery	25,000		
Loose Tools	6,000		
Advertisement	3,000		
General expenses	4,400		
Bad Debts	1,030		
Debenture Interest (For half year)	625		
Miscellaneous Expenses	3,000		
Insurance	1,000		
Cash	3,000		
	3,22,400		3,22,400

(a) The authorised capital of the company is Rs. 2,00,000;

(b) Stock on Dec. 31, 1996 is Rs. 2,00,000.

(c) Depreciate Plant & Machinery at 9% and Revalue Tools at Rs.4,100.

(d) Allow 2.5% discount on debtors and 2% as bad debts reserve.

[Madras, B.Com., Oct. 2003]

[Ans : G.P : Rs. 2,25,255; N.P : Rs. 2,01,335; B/S Total :Rs. 3,46,960]

Hint: Miscellaneous expenses are to be assumed as sundry expenses and shown in P&L A/c.

11. The following is the Trial Balance of Naveen Ltd. as at 31-3-99.

	Rs.	Rs.
Stock (1-4-98)	75,000	–
Purchase returns	–	10,000
Purchases and Sales	2,45,000	–
Wages	30,000	–
Discount	–	3,000
Carriage Inward	950	–
Furniture & Fittings	17,000	–
Salaries	7,500	–
Rent	4,000	–
Sundry expenses	7,050	–
P&L App. A/c (31-3-98)	–	15,000
Dividend paid for 1997-98	9,000	–
Share Capital	–	1,00,000
Debtors and Creditors	27,500	17,500
Plant & Machinery	29,000	–
Cash at Bank	46,200	–
General Reserve	–	15,500
Patents & Trade Marks	4,800	–
B/R & B/P	5,000	7,000
	5,08,000	5,08,000

Prepare Trading P&L a/c and P&L Appropriation A/c for the year ended 31-3-99 and Balance Sheet at that date; taking into consideration the following adjustments:

(i) Stock on 31-3-99 was valued at Rs. 88,000

(ii) Make a Provision for income tax @ 50%

(iii) Depreciate Plant & Machinery @ 15%, Furniture & Fittings @ 10% and Patents & Trademarks @ 5%.

(iv) On 31-3-99 outstanding rent amounted to Rs. 800, while outstanding salaries totalledRs. 900 and sundry expenses :Rs. 510.

(v) The Directors propose a dividend cr 15% p.a. for the year ended 31-3-99 after the minium transfer to General Reserve as required by law.

(vi) Provide for Managerial remuneration at 10% of net profits before tax.

[Madras, B.Com (PZG) Ap 2007; B.Com., April 2003]

[Ans : G.P. : Rs. 87,050; Managerial Remuneration : Rs. 6,300; Provision for tax : Rs. 28,350; Transfer to General Reserve : Rs. 1,420 (i.e.,28,350 x 5%); Net profit :Rs. 28,350; Corporate Dividend tax : Rs. 1,500 (15,000 x 10%); Balance in P&L App. A/c :Rs. 16,430; B/s total Rs. 2,11,210]

Hint : Assume that dividend tax on dividend for 97-98 was already paid and adjusted.

12. The following balances were extracted from the books of Chandra Limited for the year ended December 31, 1996.

	Rs.
Buildings	6,00,000
Furniture	60,000
Motor vehicles	60,000
Equity shares of companies	4,00,000
Stock-in-trade at cost	4,00,000
Sundry debtors, unsecured considered good	2,80,000
Cash at bank	1,72,000
Advance against construction of building	1,30,000
Share capital: 10,000 equity shares of Rs. 100 each	10,00,000
Sundry creditors	3,50,000
Profit and Loss A/c (credit)	20,000
Gross profit	10,00,000
Dividend received on investments	10,000
Salaries and wages	2,20,000
Directors' fees	8,000
Electricity charges	25,000
Rates, taxes and insurance	10,000
Auditors' fees	15,000

Prepare the Profit & Loss Account of the company for the year ended December 31, 1996, and a Balance Sheet as on that date after considering the following adjustments.

(a) Provide 10% depreciation per annum on Fixed Assets.

(b) Stock has been revalued Rs. 3,60,000. This has not yet been considered.

(c) Debts more than 6 months are Rs. 80,000.

(d) Ignore tax provision.

[Madras, BCS (ICE) May 2007]

[Ans : Net profit — Rs. 6,20,000; Surplus carried to Balance Sheet — Rs. 6,40,000; Balance Sheet total — Rs. 19,90,000]

13. The Alfa Manufacturing Company Ltd. was registered with a nominal capital of Rs. 6,00,000 in equity shares of Rs. 10 each. The following is the list of balances extracted from its books on 3Ist Dec. 2005.

	Rs
Calls-in-arrears	7,500
Premises	3,00,000
Plant & Machinery	3,30,000
Interim dividend paid on 1.8.05	37,500
Stock on 1.1.05	75,000
Fixtures	7,200
Sundry debtors	87,000
Goodwill	25,000
Cash in hand	750
Cash at bank	39,900
Purchases	1,85,000
Preliminary expenses	5,000
Wages	84,865
General expenses	16,835
Freight and carriage	13,115
Salaries	14,500
Directors' fees	5,725
Bad debts	2,110
Debenture interest paid	9,000
Subscribed and fully called up capital	4,00,000
6% debentures	3,00,000
Profit & Loss A/c (credit balance)	14,500
Bills payable	38,000
Sundry creditors	50,000
Sales	4,15,000
General reserve	25,000
Bad debts reserve (1.1.05)	3,500

Prepare Trading and Profit & Loss Account and Balance Sheet in proper form after making the following adjustments :

(a) Depreciate Plant and Machinery by 10%

(b) Write off Rs. 500 from preliminary expenses.

(c) Provide half years debenture interest due.

(d) Leave bad and doubtful debts reserve at 5% on sundry debtors.

(e) Closing stock Rs. 95,000.

(Madras, B.Com., B.Com (CS) Ap. 2008; Ap. 2007; B.Com. (PZG) Nov. 2006 (10 Times);

B.Com., B.Com. (CS) Nov. 2005; B.Com. (old) April 2002 (10 limes)

[Ans : Gross profit its. 1,52,020; Net Profit — Rs. 60,500; Surplus carried to Balance Sheet — Rs. 33,750; Dividend tax :Rs. 3,750; Balance Sheet total — Rs. 8,52,000]

14. Asia Limited is a company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. On 31.12.2005, 2,500 shares were fully called up.The following balances were extracted from the ledger of the company as on 31.12.05.

	Rs.
Stock	50,000
Sales	4,25,000
Purchases	3,00,000
Wages (productive)	70,000
Discount allowed	4,200
Discount received	3,150
Insurance upto 31.3.06	6,720
Salaries	18,500
Rent	6,000
General expenses	8,950
Profit & Loss account (Cr)	6,220
Printing and stationer)'	2,400
Advertisement	3,800
Bonus	10,500
Debtors	38,700
Creditors	35,200
Plant & Machinery	80,500
Furniture	17,100
Cash and bank balance	1,34,700
Reserve	25,000
Loan from Managing director	15,700
Bad debts	3,200
Calls-in-arrears	5,000

You are required to prepare Trading and Profit & Loss A/c for the year ended 31.12.05 and the Balance Sheet as on that date.

Additional information:

(a) Closing stock Rs. 91,500;

(b) Provide depreciation at 15% on Plant and Machinery and 10% furniture,

(c) Outstanding liabilities: Wages Rs. 5,200; Salary Rs. 1,200; Rent Rs. 600.

(d) Provide 5% dividend on the paid up share capital.

(Madras, B.Com(PZG) Nov. 2007; B.Com.(ICE) Oct. 2007; B. Corn., (Sent-PZ3A) Nov. 2005; B.Com., April 2004; B.C.S. Oct. 2002; B. Corn., Oct. 2002]

[Ans: Gross profit — Rs. 91,300; Net Profit — Rs. 16,275; Surplus carried to Balance Sheet — Rs. 9,020; Dividend Tax :Rs. 1,225; Balance Sheet total — Rs. 3,50,395]

15. The authorised capital of Navzeevan Ltd. is Rs. 7,50,000 consisting of 3,000 6% cumulative preference shares of Rs. 100 each and 4,500 equity shares of Rs. 100 each. The following is the trial balance drawn upon 31.12.1998.

	Rs.		Rs.
Goodwill	1,00,000	Paid up capital:	
Trade debtors	1,67,500	3,000 6% cumulative	
Freehold properties at cost	3,90,000	preference shares	3,00,000
Stock on 1.1.1998	2,41,500	3,000 equity shares	
Salaries	1,03,500	(Rs. 75 per share	
Delivery expenses	1,02,000	called up)	2,25,000
Rent & Rates	38,250	5% first mortgage	
General expenses	21,000	debentures (secured on	
Furniture at cost	75,000	freehold properties	2,10,000
Purchases	4,76,500	Trade creditors	1,25,520
Bills receivable	6,000	General reserve	82,725
Freight and carriage inward	3,750	Profit & Loss A/c (Cr)	58,500
Investments:		Reserve for taxation	8,800
600 shares of Rs. 100 each in X Ltd.	60,000	Sales	9,18,600
Debenture int. (half year to 30.6.98)	5,250	Forfeited shares A/c	2,000

Final dividend for 1997	20,250		
Pref. dividend (half year to 30.6.98)	9,000		
Balance at Bank in current A/c	97,500		
Cash in hand	14,145		
	19,31,145		19,31,145

(i) The value of stock on 31.12.1998 was Rs. 2,15,000.

(ii) Depreciation on freehold properties is to be provided at 2-2% and on furnitureat 6%.

(iii) The directors proposed to pay the second half-year's dividend on preference shares and a 10% dividend on equity shares and

(iv) Shares were forfeited on non-payment of Rs. 35 per share.

You are required to prepare Profit & Loss A/c and Profit & Loss Appropriation A/c and Balance Sheet of the company.

[Thiruvalluvar B.Com., April 2008; Madras, B.Com (A-U.) Ap. 2007; (Modified)]

fKolhapur& M.D.U., B.Com., Adapted!

[Ans: Gross profit — Rs. 4,11,850; Net Profit — Rs. 1,22,350; Surplus carried to Balance Sheet — Rs. 1,16,050; Corporate dividends tax at 10% :Rs. 4,050; Balance Sheet total — Rs. 11,10,8951 [Issued equity capital 3,050 shares'

Hint : Dividend tax is provided for current year's dividend only on Preference & Equity capitals.

16. Sherry Engineering Ltd. have authorised capital of Rs. 50 Iakhs divided into 5,00,000 equity shares of Rs. 10 each. Their books show the following balances as on 31.12.2005.

Particulars	Dr. Rs.	Particulars	Cr. Rs.
Stock (1.1.2005)	6,65,000	Equity share capital	20,00,000
Discounts & rebates	30,000	(2,00,000 shares	
Carriage inwards	57,500	of Rs. 10 each)	
Patents	3,75,000	4% debentures	
Rates, taxes & insurance	55,000	(Repayable after	
Furniture & fixtures	1,50,000	10 years)	5,00,000
Materials purchased	12,32,500	Bank overdraft	6,85,000
Wages	13,05,000	Sundry creditors	2,40,500
Coal and coke	63,000	(for goods)	
Freehold land	12,50,000	Sales	36,17,000
Plant & Machinery	7,50,000	Rent (Cr)	30,000
Engineering tools	1,50,000	Transfer fees	6,500

Goodwill	3,75,000	P & L A/c (Cr)	67,000
Sundry debtors	2,66,000		
Bills receivable	1,34,500		
Advertisement	15,000		
Commission & Brokerage	67,500		
Business expenses	56,000		
Bank current A/c	20,000		
Cash in hand	8,000		
Debenture int. (for half year 30.6.05)	10,000		
Interest (banks)	91,000		
Preliminary expenses	10,000		
Calls-in-arrears	10,000		
	71,46,000		71,46,000

(i) The stock (valued at cost or Market value whichever is lower) as on 31.12.05 was Rs. 7,08,000.

(ii) Outstanding liabilities for wages Rs. 25,000 and business expenses Rs. 25,000.

(iii) Dividend declared 10% on paid up capital.

(iv) Charge depreciation: Plant & Machinery @ 5%; Engineering tools @ 20%; Patents @ 10%; and furniture & fittings @ 10%.

(v) Provide 2% on debtors as doubtful debts after writing off Rs. 21,500 as bad debts.

(vi) Write off preliminary expenses Rs. 5,000 and create debenture redemption reserve Rs. 50,000;

(vii) Provide Rs. 2,40.000 for income tax.

You are required to prepare Profit & Loss A/c for the year ended 31.12.2005 and Balance Sheet as on that date.

[Madras, B. Com, April 2002] C'S Inter Dec. 1990

[Ans: Gross Profit — Rs. 9,77,000; Net profit — Rs. 2,62,610; Surplus carried to Balance Sheet — Rs.-60,710; Dividend tax :Rs. 19,900; Balance Sheet total — Rs. 40,45,110]

17. The under mentioned balances appeared in the books of the Pioneer Flour Mills Co. Ltd. as on 31st December 2005.

	Rs.
Share capital (authorised and issued 60,000 shares of Rs. 10 each,	6,00,000
General reserve	2,50,000
Unclaimed dividends	6,526
Trade creditors	36,858

Buildings	1,00,000
Purchases	5,00,903
Sales	9,83,947
Manufacturing expenses	3,59,000
Establishment	26,814
General charges	31,078
Machinery	2,00,000
Motor vehicles	15,000
Furniture	5,000
Stocks	1,72,058
Book debts	2,23,380
Investments	2,88,950
Depreciation reserve	71,000
Cash balances	72,240
Directors' fees	1,800
Interim dividend	15,000
Interest (cr)	8,544
Profit & Loss A/c 1st Jan - 2005 (credit balance)	16,848
Staff provident fund	37,500

From these balances and the following information, prepare the company's Balance Sheet as on 31.12.2005 after preparing the Trading and Profit & Loss account for the year ended on that date.

(i) The stocks of Wheat and Flour on 31st Dec. 2005 were valued at Rs. 1,48,680.

(ii) Provide Rs. 10,000 for depreciation of gross block and Rs. 1,500 for the company's contribution to the staff provident fund.

(iii) Interest accrued on investment amounted to Rs. 2,750

(iv) A claim of Rs. 2,500 for workmen's compensation is being disputed by the company.

(v) Establishment includes Rs. 6,000 paid to the manager who is entitled to remuneration at 5% of profit as per Companies Act subject to a minimum of Rs. 10,000 per annum. You may make necessary adjustments.

[Madras, B.Com (A. F) Nov. 2007]

[Ans: Gross profit — Rs. 1,00,666; Net profit — Rs. 36,768; Surplus carried to Balance Sheet — Rs. 37,116; Dividend Tax :Rs. 1,500; Balance Sheet total — Rs. 9,75,000; Profit before remuneration — Rs. 46,768]

[Hints: (i) A claim for Rs. 2,500 for workmen's compensation is being disputed by the company should be treated as contingent liability.

(ii) The amount of Rs. 4,000 still due to the managing director has to be shown under current liabilities.

(iii) It is preferable to show fixed assets together as gross block less depreciation of Rs. 81,000. (i.e., 71,000 + 10,000)

UNIT – 7

VALUATION OF GOODWILL AND SHARES

Meaning and Definition of Goodwill - Factors affecting Goodwill - Need for valuation of Goodwill - Methods of calculating Goodwill - Valuation of Shares - Need for valuation of Shares - Factors affecting the value of Shares - Methods of valuing Shares

7.1 MEANING OF GOODWILL

The value of reputation earned by a business concern in monetary value is called goodwill. The excess of amount paid over the actual value of business is called goodwill.

Goodwill refers to a measure of the capacity of a business to earn above normal profits. It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in customers. It is intangible and invisible asset.

7.2 DEFINITION

Goodwill is the present value of the firm's anticipated excess earnings.

– Dr. Canning

The capacity of a business to earn profits in future is basically what is meant by the term goodwill.

– J.O. Magee

According to the Institute of Chartered Accountants of India, Goodwill is "intangible asset arising from business connections or trade name or reputation of an enterprise".

7.3 FACTORS AFFECTING GOODWILL

The following are the main factors which affect the value of goodwill of the firm.

1. Suitable location of the business

The place or locality which the business is situated determines the goodwill. A favourable location surrounding the company where many customers come enhances the value of goodwill.

2. Managerial skill

Special ability and skill of the persons engaged in the management adds to the value of goodwill. Goodwill is the money value of a continuation of a various benefits which are being received by the business because of the efficient management of the business.

3. Nature of the business

Nature of the business dealt with the risk attached, the competition involved and certain special privileges enjoyed by the firm such as special licenses, franchise, etc., determine the value of goodwill.

4. Risk of business

When the risk is less in the business, it creates more goodwill but if the risk is more, it will create less goodwill.

5. Favourable contracts

Possession of large number of profitable contracts for supply of goods or services enhances the value of goodwill.

6. Trend in the profit

Earning capacity of a business is the most important one. When there is an upward trend in the profits, naturally it is extra value over and above the net value of the assets employed.

7. Possession of patent and trademarks

The product, branded with trademarks, registered with the registrar of patents and Trademarks prevent and distinguishes rival products from its product. The object is to acquire monopolistic rights which create goodwill.

8. Capital

When the profits of a business is more in relation to the investment of capital, the value of goodwill is higher than the business earning less profits with huge amount of investment. In other words, the return on investment is more than the normal return the value of goodwill is higher.

9. Government Patronage

When a business enjoys the patronage of government, people are willing to buy the products of such a company. Thus goodwill increases.

10. Other factors

General economic conditions, favourable government regulation, good labour relations, absence of competition, political stability, availability of raw materials, favourable market conditions, long term contract, etc.

7.4 NEED FOR VALUATION OF GOODWILL

The need for valuation of goodwill depends on the form of business organization.

- **In the case of sole trader,** it is usually valued at the time of selling the business, so as to determine the amount payable by the buyer towards goodwill.
- **In the case of partnership there are several circumstances when goodwill has to be valued. They are**

1. When a new partner is admitted.
2. When a partner retires or dies.
3. When there is a change in the ratio of profit sharing and
4. When there is dissolution either by sale to a company or amalgamation with another firm.

- **In the case of limited companies**
    1. When two or more companies amalgamate.
    2. When one company takes over another.
    3. When a company wants to acquire controlling interest in another company and
    4. When government takes over the business.

7.5 ACCOUNTING TREATMENT FOR VALUATION OF GOODWILL

Goodwill is always paid for the future. Record of goodwill in accounting is made only when it has a value. When a business is purchased and an additional amount is paid more than the amount of assets, then the additional amount is called goodwill. It is treated as an asset and the payment made for it is a capital expenditure. It is treated as an intangible asset and thus depreciation is not charged. It is not a fictitious asset. It can be sold only with the sale of business itself.

7.6 METHODS OF CALCULATING GOODWILL

A. Simple Profit Method/Average profit method

Under average profit method, goodwill is valued on the basis of an agreed number of year's purchase of the average maintainable profits. The maintainable profit indicates the adjusted profit. To get the adjusted profit, the profit for the year has to be adjusted for the abnormal items.

A) Calculation of Actual Profit

Profit for the year	xxx
(+) Abnormal loss	xxx
	xxx
(-) Abnormal gain	xxx
Actual Profit	xxx

$$B)\ Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$$

C) Calculation of Adjusted Average Profit

Average profit	xxx
(-) Expenses to be paid	xxx
	xxx
(+) Exp. not to be paid	xxx
Adjusted Average Profit	xxx

1. Purchase of Past Profit Method

Under this method, goodwill is expressed as a purchase of a certain number of years profit based on the adjusted average profit of a given number of years.

Goodwill = Adjusted Average Profit x No. of years purchased

Illustration -1 Calculate goodwill on the basis of three years purchases of the last five years average profits. The profits for the last five years are: I year – ₹4,800; II year – ₹7,200; III year – ₹10,000; IV year – ₹3,000 and V year ₹5,000.

Solution

$Average\ Profit = \dfrac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\dfrac{4,800 + 7,200 + 10,000 + 3,000 + 5,000}{5}$ = ₹6,000
Goodwill = Adjusted average profit x No. of years purchased	6,000 x 3 = ₹18,000

1. a) Weighted Average Profit Method

Illustration -2G Ltd. proposed to purchase the business carried on by Thiru Dass. Goodwill for this purpose is agreed to be valued at three years purchase of the profit of the past four years. The appropriate weights to be use are: 2013- 1; 2014 – 2; 2015 – 3 and 2016 – 4. Profits for these years were: 2013- ₹10,000; 2014 – ₹11,000; 2015 – ₹12,000 and 2016 – ₹15,000.

Compute the value of the goodwill of the firm.

Solution

Year	Profit	Weights	Product
2013	10,000	1	10,000
2014	11,000	2	22,000
2015	12,000	3	36,000

2016	15,000	4	60,000
		10	1,28,000

Weighted average profit	$\frac{\text{Total of product}}{\text{Total of weights}}$	$\frac{1,28,000}{10}$	₹12,800
Goodwill = Weighted average profit x No. of years purchased		12,800 x 3 = ₹38,400	

2. Capitalization of Average Profit Method

$$Capitalized\ Profit = \frac{Adjusted\ Average\ \ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

Net tangible assets = Total assets – Goodwill – Liabilities

Good will = Capitalized profit – Net tangible assets

Illustration 3 The net profit for the 5 years is

Year	**2011**	**2012**	**2013**	**2014**	**2015**
Profit	10,000	15,000	15,000	20,000	30,000

The capital employed in the business is ₹1,50,000. Normal rate of return is 10%.

Calculate the goodwill on the basis of 4 years purchase of average profit and capitalization of average profit method.

Solution

Purchase of Average Profit Method

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{10,000 + 15,000 + 15,000 + 20,000 + 30,000}{5}$ = ₹18,000
Goodwill = Adjusted Average Profit x No. of years purchased	₹18,000 x 4 = ₹72,000

Capitalization of Adjusted Average Method

$Capitalized\ Profit = \frac{Adjusted\ Average\ \ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$	$\frac{18,000\ x\ 100}{10}$ = ₹1,80,000
Goodwill = Capitalized profit – Net Tangible Assets	₹1,80,000 – ₹1,50,000 = ₹30,000

B. Super Profits Method

Under super profits method, the super profit is multiplied by no. of years' purchases. Super profit is the difference between average profit and normal profit. Normal profit is the amount of profit which the concern expects on its investments in the same type of business. Normal Rate of return is the rate of profit generally earned by other similar firms in that industry.

Average capital employed = Assets – Liabilities
Normal profit = Average Capital Employed x Normal Rate of Return
Super profit = Adjusted Average Profit – Normal Profit

1. Purchase of Super Profit Method

Good will = Super profit x No. of years purchased

Illustration -4 From the following information calculate the value of goodwill according to super profit basis at 5 years purchase:

i) Average capital employed in the business ₹7,00,000

ii) Net trading profit of the firm for the past three years ₹1,07,600, ₹90,700 and ₹1,12,500 respectively.

iii) Rate of interest expected from capital 12%

iv) Remuneration to partners for their service ₹12,000 per annum

v) Sundry assets of the firm ₹7,54,762; Sundry liabilities ₹31,329

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{1,07,600 + 90,700 + 1,12,500}{3}$	₹1,03,600
	Less: Remuneration	₹12,000
Adjusted Average Profit		₹91,600
(-) Normal profit = Average Capital Employed x Normal Rate of Return	₹7,00,000 x 12%	₹84,000
Super profit		₹7,600
Goodwill = Super profit x No. of years purchased	₹7,600 x 5	₹38,000

Illustration -6 The balance sheet of R Ltd as on 31-3-2016 is as follows:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	1,00,000	Goodwill	10,000
8% Preference shares of ₹10 each	50,000	Fixed assets	1,80,000
Reserve (including provision for taxation ₹10,000)	1,00,000	Investments (5% Govt. loan)	20,000
8% debentures	50,000	Current assets	1,00,000
Creditors	25,000	Preliminary exp.	10,000
		Discount on debentures	5,000
	3,25,000		3,25,000

The average profit of the company (after deducting interest on debentures and taxes) is ₹31,000. The market value of the machinery included in the fixed assets is ₹5,000 more. Expected rate of return is 10%. Evaluate the goodwill of the company five times of the super profits.

Solution

Calculation of Adjusted Average Profit

Average profit given	31,000
Less: Non-trading profit	1,000
	30,000

Calculation of Average Capital Employed

Fixed assets	1,80,000	
(+) Increase	5,000	1,85,000
Current assets		1,00,000
		2,85,000
Less: 8% Debentures	50,000	
Creditors	25,000	
Provision for taxation	10,000	85,000
Average Capital Employed		2,00,000

Adjusted Average Profit	₹30,000
(-) Normal profit (2,00,000 x 10%)	₹20,000
Super profit	₹10,000
Goodwill	Super profit x No. of years purchased
	10,000 x 5 = ₹50,000

2. Annuity method

$$\boxed{\text{Good will} = \text{Super profit x Annuity table value}}$$

Illustration -7 The net profits of a company after providing for taxation for the past five years are ₹78,000, ₹82,000, ₹88,000, ₹93,000 and ₹99,000. The capital employed in the business is ₹8,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of the goodwill of the business on the basis of an annuity of super profits, taking the present value of an annuity of one rupee for the five years at 10% interest as ₹3.78.

Solution

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{78{,}000 + 82{,}000 + 88{,}000 + 93{,}000 + 99{,}000}{5}$	₹88,000
(-) Normal profit = Average capital employed x Normal rate of return	8,00,000 x 10%	₹80,000
Super profit	(88,000 - 80,000)	₹8,000
Goodwill = Super profit x Annuity table value	₹8,000 x 3.78	₹30,240

3. Capitalization of super profit method

Under this method, adjusted future maintainable profits are capitalized applying normal rate of return to arrive at the normal capital employed. Goodwill is taken as the difference between the normal capital employed and the actual capital employed.

Steps:

1. Estimating the future maintainable profits.
2. Determining the normal capital employed.
3. Determining the actual capital employed.
4. Computing the difference between normal capital employed and actual capital employed.

$$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

Illustration -9 Mr. K has invested a sum of ₹3,00,000 in his own business which is a very profitable one. The annual profit earned from his business is ₹60,000 which include a sum of ₹10,000 received as compensation for acquisition of a part of his business premises. The money could have been invested in deposit for a period of five years and earn 10% interest and he himself could earn ₹7,200 per annum in alternative employment. Considering 2% as fair compensation for the risk involved in the business calculate the value of goodwill of his business on capitalization of super profits at the normal rate of return.

Solution

Annual profit	60,000
(-) Compensation received	10,000
	50,000
(-) Salary	7,200
	42,800
(-) Normal profit (₹3,00,000 x 12%)	36,000
Super profit	₹6,800

Calculation of goodwill

$$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$$

6,800 x 100/ 12 = ₹56,667

Illustration 10 From the following, compute the value of goodwill under all methods. Average capital employed is ₹10,00,000. Normal rate of profit is 10%. Profit for 2014-₹1,40,000, 2015 – ₹1,22,000 and 2016 –₹1,70,000. Profit for 2015 has been arrived at after writing off abnormal loss of ₹10,000 and profit of 2016 include non-recurring income of ₹22,000. Goodwill is to be calculated on the basis of 3 years purchase of super profit. The present value of annuity is ₹2.4868.

Solution

Calculation of Actual Profit

2014 Profit		₹1,40,000
2015 Profit	1,22,000	
(+) Abnormal loss	10,000	₹1,32,000
2016 Profit	1,70,000	
(-) Non-recurring income	22,000	₹1,48,000

Total of Actual profit		₹4,20,000
Average profit	₹4,20,000/3	₹1,40,000

1. Purchase of past profit method

Goodwill	Adjusted Average Profit x No. of years purchased 1,40,000 x 3 = ₹4,20,000

2. Capitalization method

Goodwill = Capitalized profit – Net tangible assets

Capitalized profit	1,40,000 x 100/10	₹14,00,000
(-) Net tangible assets		₹10,00,000
Goodwill		₹4,00,000

Super Profit Method

Adjusted Average Profit		₹1,40,000
Normal profit = Average Capital Employed x NRR	10,00,000 x 10/100	₹1,00,000
Super profit		₹40,000

a) Purchase of super profit method	Super profit x No. of years purchased	₹40,000 x 3	₹1,20,000
b) Annuity method	Super profit x Annuity table value	₹40,000 x 2.4868	₹98,478
c) Capitalization method	$Goodwill = \frac{Super\ Profit}{Normal\ Rate\ of\ Rteturn}\ x\ 100$	$\frac{₹40,000 \times 100}{10}$	₹4,00,000

7.7 VALUATION OF SHARES

The valuation of shares by the company becomes necessary where there is no market price of the shares. It involves the use of financial and accounting data, but much depends on the valuer's judgement, experience and knowledge. Any valuation based purely on quantitative data is not realistic.

The stock exchange prices of shares are not generally acceptable because the price quoted in the stock exchange is based on demand, supply, business cycle, etc. The action and opinion of investors and their fear, guess, investment policy etc. also reflect on the price of shares. Therefore accountant or valuer is frequently to place a proper value on the shares in a company.

7.8 NEED FOR VALUATION OF SHARES

Share of a limited company have to be valued for different purposes:

1. Amalgamation or absorption of companies
2. Conversion of shares of one class into another
3. Purchase and sale of controlling shares
4. Shares as security for loans and advances
5. Assessment of estate duty, wealth tax, etc.
6. Unquoted shares in the exchange.
7. Nationalization of companies.
8. To satisfy dissentient shareholders
9. Purchase and sale of business
10. In case of trust finance or investment trust companies.

7.9 FACTORS AFFECTING THE VALUE OF SHARES

The value of shares of a company is greatly affected by the economics, political and social factors, some of which are noted below:

1. The economic condition of the country
2. The nature of company's business
3. Other political and economic factors
4. The demand and supply of shares
5. Proportion of liabilities and capital
6. Rate of proposed dividend and past profits of the company
7. Yield of other related shares of the stock exchange
8. Nature of competition
9. Companies earning capacity
10. Goodwill of the company.

7.10 METHODS OF VALUING SHARES

1. Net Assets/ Intrinsic Value/ Break- up Value Method/ Real value method/ Asset backing method:

This method measures the value of the net assets of the company against the share. The shares are valued on the basis of real internal value of the assets of the company. This method

aims at finding out the possible value of the shares in the event of the company going into liquidation.

Calculation of amount available to equity shareholders or Net equity

Total assets realized		xxx
Less: **Liabilities paid**		
Debentures	xxx	
Creditors	xxx	
Preference shares	xxx	
Depreciation fund a/c	xxx	
(if revised value of fixed asset is not given)		
Other liabilities	xxx	xxx
Amount available to equity shareholders or Net equity		xxx

$$Value\ per\ share = \frac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$$

Illustration -12 From the following balance sheet you are required to value the equity shares under net assets method:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	3,00,000	Assets at book value	6,00,000
6% Preference shares of ₹100 each	2,00,000		
Liabilities	1,00,000		
	6,00,000		6,00,000

The market value of ½ of the assets is considered at 10% more than the book value and that of remaining ½ at 5% less than the book value. There was a liability of ₹5,000 which remains unrecorded. Assume preference shares have no priority over repayment of capital or dividend.

Solution:

Calculation of amount available to share holders

Assets (6,00,000 x ½)	3,00,000 + (3,00,000 x 10%)	₹3,30,000
(6,00,000 x ½)	3,00,000 - (3,00,000 x 5%)	₹2,85,000
		₹6,15,000
Less: Liabilities	(1,00,000 + 5,000)	₹1,05,000

Amount available	₹5,10,000
Less: Preference share capital	₹2,00,000
Balance amount payable to Equity shares	₹3,10,000

Value per equity share = 3,10,000/30,000 = ₹10.33

Or

Amount available ₹5,10,000 should be divided in Capital ratio (3:2)

Value per equity share = 5,10,000 x 3/5 = 3,06,000/30,000 = ₹10.2

Value per preference share = 5,10,000 x 2/5 = 2,04,000/2,000 = ₹ 102

Illustration -13 Given below is the balance sheet of Modern Ltd. as on 31st March 2013:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹10 each	6,00,000	Land	2,70,000
Creditors	80,000	Plant	1,00,000
P & L a/c	40,000	Stock	3,60,000
Bank overdraft	10,000	Debtors	1,60,000
Provision for taxation	1,00,000		
Proposed dividend	60,000		
	8,90,000		8,90,000

The net profits of the company, after deducting usual working expenses but before providing for taxation, were as under: 2012- 13 – ₹2,00,000; 2011- 12 – ₹2,20,000; 2010- 11 – ₹1,80,000; 2009- 10 – ₹2,20,000; 2008- 09 – ₹1,70,000.

On 31st March 2013, land were valued at ₹2,80,000 and plant at ₹1,20,000. Sundry debtors on the same date included ₹4,000 as irrecoverable. Having regard to the nature of business, a 10% return on net tangible capital invested is considered reasonable.

You are required to value the company's shares ex-dividend, your own valuation of goodwill may be based on five years purchase of annual super profits. (Tax rate is to be assumed at 50%)

Solution

Calculation of goodwill

$Average\ Profit = \frac{Total\ of\ Actual\ Profit}{No.of\ Years}$	$\frac{2,00,000+2,20,000+1,80,000+2,20,000+1,70,000}{5}$	₹1,98,000

Less: Income tax	1,98,000 x 50%	99,000
Adjusted Average Profit		₹99,000
(-) Normal profit = Average Capital Employed x NRR	(8,90,000 – 2,50,000) x 10%	₹64,000
Super Profit		₹35,000
Goodwill = Super profit x No. of years purchased	35,000 x 5	₹1,75,000

Calculation of value per share under Net assets method

Land		2,80,000
Plant		1,20,000
Stock		3,60,000
Debtors		1,56,000
Goodwill		1,75,000
		10,91,000
Less: Bank O/D	10,000	
Provision for taxation	1,00,000	
Proposed dividend	60,000	
Creditors	80,000	2,50,000
Amount available to ESHs /Net assets		₹8,41,000

$Value\ per\ share = \dfrac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$	$\dfrac{8{,}41{,}000}{60{,}000}$	₹14.01

2. Yield Method/ Market value method

Small investors are generally interested in the income they earn from the company. The valuation of shares is made on the basis of yield it is called Yield method.

Calculation of Profit Available:

Particulars	**Amount**
Average profit	xxx
Less: Tax payable	xxx
	xxx
Less: General reserve	xxx
	xxx
Less: Preference dividend (if preference share capital is given)	xxx
Profit available for equity share holders	xxx

$$Expected\ Rate\ of\ Return\ (ERR) = \frac{Profit\ Available\ for\ Equity\ Share\ holders}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$$

$$Value\ per\ share = \frac{Expected\ Rate\ of\ Return}{Normal\ Rate\ of\ Return}\ x\ Paid\ up\ value\ per\ Equity\ Share$$

Note: Normal rate of return is given in the problem

Illustration -14 X Ltd declared a dividend of 25% on its shares of ₹100 each, ₹80 paid up. Its shares are quoted in the market at ₹200. Calculate the rate of return.

Solution

Normal rate of earnings = 25/100 x 80 = 20 x 100/200 = 10%

Illustration -15 A company had 1,000 equity shares of ₹100 each. Its expected profit would be ₹25,000. Its normal rate of return which similar business earns during the period is 10%.

Calculate value of equity shares.

Solution

$ERR = \frac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital}\ x\ 100$	$\frac{25{,}000\ x100}{1{,}00{,}000}$	25%
$Value\ per\ share = \frac{ERR}{NRR}\ x\ Paid\ up\ value\ per\ Equity\ Share$	$\frac{25\ x\ 100}{10}$	₹250

Illustration -16 B Ltd has 10,000 equity shares of ₹10 each (₹8 paid) and ₹1,00,000, 6% preference shares of ₹10 each fully paid. The company has a practice of transferring 20% of the profit to general reserve every year. If the expected profit before tax is ₹2,00,000 and the rate of tax is 50%.

Calculate the value per equity share. (Normal rate of dividend is 20%).

Solution

Calculation of Profit Available

Expected profit	2,00,000
Less: Tax	1,00,000
	1,00,000
Less: General reserve (20% on 1,00,000)	20,000
	80,000
Less: Preference dividend (1,00,000 x 6%)	6,000
Profit Available	₹74,000

$ERR = \dfrac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital} x\ 100$	$\dfrac{74{,}000 \times 100}{80{,}000}$	92.5%
$Value\ per\ share = \dfrac{ERR}{NRR} x\ Paid\ up\ value\ per\ Equity\ Share$	$\dfrac{92.5 \times 8}{20}$	₹ 37

Illustration -19 On 31st Dec.2016, the balance sheet of a company showed the following positions:

Liabilities	Amount	Assets	Amount
Share capital of ₹10 each	4,00,000	Fixed assets	5,00,000
Reserve	90,000	Current assets	2,00,000
P & L a/c	20,000	Goodwill	40,000
5% Debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31- 12- 2016, the fixed assets were independently valued at ₹3,50,000 and the goodwill at ₹50,000. The net profits for the three years were 2014 – ₹51,600; 2015 – ₹52,000 and 2016 – ₹51,650. From the profit 20% was placed to reserves. The fair rate of return on investment may be taken at 10%.

Compute the value of the shares by i) Net assets method and ii) Yield method.

Solution

i) Net Assets Method

Fixed assets		3,50,000
Current assets		2,00,000
Goodwill		50,000
Total		6,00,000
Less: Current liabilities	1,30,000	
5% Debentures	1,00,000	2,30,000
Net assets		₹3,70,000

$Value\ per\ share = \dfrac{Amount\ Available\ to\ Equity\ Shareholdres}{No.\ of\ Equity\ Shares}$	$\dfrac{3{,}70{,}000}{40{,}000}$	₹9.25

ii) Yield Method

Calculation of Profit Available

Expected profit (1,55,250 / 3)	₹51,750
Less: General reserve (20% on 51,750)	10,350
Profit available	₹41,400

$ERR = \frac{Profit\ Available}{Paid\ up\ Equity\ Share\ Capital} x\ 100$	$\frac{41,400\ x100}{4,00,000}$	10.35%
$Value\ per\ share = \frac{ERR}{NRR} x\ Paid\ up\ value\ per\ Equity\ Share$	$\frac{10.35\ x\ ₹10}{10}$	₹ 10.35

3. Earning Capacity Method

Under earning capacity method, the valuation depends upon the comparison of the company's earning capacity and the normal rate of return on capital employed. This method relates the value of the shares to the real efficiency of the company and also measured by the profitability of the company.

Profit earned	Average profit + Interest on debentures
Capital employed	Assets realized – Liabilities paid except debentures

$$Rate\ of\ Earnings = \frac{Profit\ Earned}{Capital\ Employed} x\ 100$$

$$Value\ per\ share = \frac{Reta\ of\ Earnings}{Normal\ Rate\ of\ Return} x\ Paid\ up\ Value\ per\ Equity\ Share$$

4. Fair value method

There are some accountants who do not prefer to use Net Assets Method or Yield Value Method for ascertaining the correct value of shares. They however prefer the Fair Value Method which is the average of net asset value and yield value and same provides a better indication about the value of shares than the other methods.

$$Value\ per\ share = \frac{Value\ as\ per\ Net\ Asset\ Method + Yield\ Method}{2}$$

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Goodwill is:

(a) Tangible Asset
b) Intangible Asset
(c) Fictitious Asset
d) Fixed Asset

2. Super profit is the difference between:

(a) Capital employed and average capital employed
(b) Average Profit and Normal Profit
(c) Current year profit and Last year profit
d) Capital employed and normal profit

3. The average return of similar concerns should be considered as:

(a) Average profit
b) Expected rate of return
(c) Normal rate of return
d) Super profit

4. Under net assets method, the value of a share depends on the amount that would be available to:

(a) Equity Shareholders
b) Preference shareholders
(c) Debenture holders
d) Outside liabilities

5. For calculation the value of equity share by intrinsic value method, it is essential to know:

(a) Normal rate of return
b) Net assets
(c) Expected rate of return
d) Super profit

6. The term "capital employed" means:

(a) Gross Capital Employed
b) Net Capital Employed
(c) Average Capital Employed
d) Any of these

7. Under the yield method, the value of equity share is calculated on the presumption that the company would be:

(a) Wound-up
b) Continued
(c) Transferred
d) None of the above

8. For calculating the value of an equity share by yield method, it is essential to know:

(a) Expected rate of return
b) Capital employed
(c) Called up of equity share capital
d) Net assets

9. For calculating price earnings ratio, it is essential to know

   a) **Market value per share** b) Nominal value per share

   c) Paid up value per share d) Normal rate of return

10. Depreciation fund is treated as liability when

    a) **Revised value for fixed assets is not given** b) Revised value for fixed assets is given

    c) Appeared in liability side d) Deducted from asset

11. Debenture is treated as liability under

    a) Yield method b) **Net assets method**

    c) Earning capacity method d) Fair value method

12. Goodwill is the most ______ form of asset

    a) Realizable b) **Unrealizable**

    c) Tangible d) Liquid

13. Fair value of shares means average of

    a) **Intrinsic value and yield value** b) Yield value and earning capacity

    c) Earning capacity and intrinsic value d) All the above

14. Goodwill is the capitalized value of

    a) **Owner's capital** b) Market value

    c) Super profit d) Contracts on hand

15. _______ basis of valuation of shares is concerned with the asset backing per share

    a) **Net assets method** b) Earning capacity method

    c) Fair value method d) Super profits method

16. Under yield method of valuing shares, which of the following should be deducted from average profit?

    a) General reserve, preference dividend and income tax

    b) Preference dividend, income tax and general reserve

    c) **Income tax, general reserve and preference dividend**

    d) Income tax, preference dividend and general reserve

REVIEW QUESTIONS

(A) Answer in short

1. What is called good will?
2. What is the accounting treatment for good will?
3. What is super profit method of calculating good will?
4. What is normal rate of return?
5. What is intrinsic value of shares?
6. Write a note yield value of shares.
7. How do you determine fair value of shares?

(B) Answer in detail

1. Explain the factors affecting good will.
2. Discuss why good will is need for a business organization.
3. Explain and illustrate the different methods of calculating good will.
4. Discuss different methods of valuing equity shares.

EXERCISES

VALUATION OF GOODWILL

Simple Average Method

1. Calculate the amount of goodwill on the basis of five years purchase of last six years average profit. The profits for the last six years are ₹22,000, ₹32,000, ₹20,000, ₹30,000, ₹16,000 and ₹30,000 respectively.

2. K & Co. decided to purchase a business for ₹2,40,000. Its profits for the last four years were 2013 – ₹60,000; 2014 – ₹75,000; 2015 – ₹72,000 and 2016 – ₹69,000. The owner of the business was personally managing it. A manager to replace him was has to be paid ₹9,000 p.a. Calculate the value of goodwill if it is valued on the basis of the average net profit for the last four years.

   (Ans: ₹60,000)

SUPER PROFIT METHOD - PURCHASE OF SUPER PROFIT METHOD

3. The net profit for the five years is:

Year	**2012**	**2013**	**2014**	**2015**	**2016**
Profit	10,000	15,000	15,000	20,000	30,000

The capital employed in the business is ₹1,50,000 and normal rate of return is 10%. Calculate the value of goodwill on the basis of 4 years purchase of super profit.

(Ans: ₹12,000)

4. State with reasons whether the following statement is correct or not Sunil's financial position is as follows:

   a) Sundry assets ₹9,27,342

   b) Current liabilities ₹52,492

   c) Average net profit of the last four years ₹1,20,500

   d) Average capital employed ₹9,00,000

   e) Partner's average annual remuneration ₹18,000

   f) The goodwill valued at four years purchase for super profit is ₹50,000

   Therefore the expected rate of return is 15%.

SUPER PROFIT METHOD -CAPITALIZATION OF SUPER PROFIT

5. Mr. K has invested a sum of ₹3,00,000 in his own business which is a very profitable one. The annual profit earned for his business is ₹60,000 which include a sum of ₹10,000 received as compensation for acquisition of a part of his business premises. The money could have been invested in deposits for a period of 5 years and over at 10% interest and he could earn ₹7,200 per annum in alternative employment. Considering 2% as fair compensation for risk involved in the business, calculate the value of goodwill of his business on capitalization of super profits at the normal rate of return.

SUPER PROFIT METHOD - ANNUITY METHOD

6. From the following particulars, find out the value of goodwill as per annuity method:

   a) Capital employed ₹3,00,000

   b) Normal rate of return 10%

   c) Present value of ₹1 for 5 years at 10% at 3.78

   d) Normal profit for five years: I year – ₹30,000; II year – ₹32,000; III year – ₹34,000; IV year – ₹36,000 and V year – ₹38,000; Non-recurring income ₹1,600; Non-recurring expenses ₹1,000.

7. The net profit of a company after providing for taxation, for the past 5 years are ₹40,000; ₹42,000; ₹46,000; ₹45,000 and ₹47,000. The capital employed in the business is ₹4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profit for the next 5 years.

   i) Calculate goodwill on 5 years purchase of super profit

   ii) Calculate goodwill under capitalization method

iii) Calculate goodwill under annuity method of super profit taking the present value of annuity of one rupee for 5 years at 10% interest as ₹3.78

VALUATION OF SHARES - Net Assets Method

8. From the following information, calculate the value of each category of equity shares of the company based on deemed liquidation.

Total assets ₹18,50,000;

External liabilities ₹2,50,000;

Share capital – 14% Preference shares of ₹10 each fully paid ₹5,00,000

40,000 Equity shares of ₹10 each fully paid ₹4,00,000

60,000 Equity shares of ₹10 each ₹7.50 paid ₹4,50,000

9. Find out the value of equity share.

Balance sheet

Liabilities	**Amount**	**Assets**	**Amount**
Share capital of ₹100 each	3,00,000	Debtors	80,000
6% Preference shares of ₹100 each	1,50,000	Stock	1,40,000
General reserve	40,000	Cash	22,000
P & L a/c	10,000	Land	2,05,000
Bank loan	50,000	Furniture	30,000
Creditors	15,000	Goodwill	70,000
		Discount on shares	12,000
	5,65,000		5,65,000

The value of assets is assessed as follows:

- Furniture is to be depreciated at 10%
- Value of stock, land and goodwill is estimated at ₹1,20,000, ₹2,50,000 and ₹80,000 respectively.
- Debtors are expected to realize 80% of book value.

YIELD METHOD

10. From the following information, calculate the value of an equity share:

a) The paid up share capital of a company consists of 1,000, 15% preference shares of ₹100 each and 20,000 equity shares of ₹10 each

b) The average annual profits of the company after providing for depreciation and taxation amounted to ₹75,000. It is considered necessary to transfer ₹10,000 to general reserve before declaring any dividend.

c) The normal return expected by investors on equity shares from the type of business carried on by the company is 10%

(Ans: ₹25)

11. The following is a balance sheet of a company as on 31st Dec.2016:

Liabilities	Amount	Assets	Amount
Equity share capital of ₹100 each	12,00,000	Fixed assets	14,60,000
Reserves and surpluses	2,50,000	Investments (5% Securities)	1,20,000
Creditors	5,60,000	Current assets	5,40,000
Provision for taxation	1,43,000	Preliminary expenses	33,000
	21,53,000		21,53,000

The provision for taxation for the current year is 55% of net profit. Return on capital employed in this industry is 10%. Ascertain the yield value of share.

(Ans: ₹95.75)

12. From the following information, calculate the value per equity share under yield method:

a) 2,000, 9% Preference shares of ₹100 each ₹2,00,000

b) 50,000 Equity shares of ₹10 each, ₹8 per share paid up ₹4,00,000

c) Expected profits per year before tax ₹2,18,000

d) Rate of tax 50%

e) Transfer to general reserve every year 20% of the profit

f) Normal rate of earnings 15%

13. B Ltd. Has 10,000 equity shares of ₹10 each (₹8 paid up) ₹1,00,000, 6% preference shares of ₹10 each fully paid. The company has the practice of transferring 20% of profit general reserve every year. The expected profit before tax is ₹2,00,000. The rate of tax is 50%. Normal rate of dividend is 20%. Calculate value per share under yield method.

FAIR VALUE METHOD

14. From the following particulars calculate fair value of an equity shares assuming that out of the total assets those amounting to ₹41,00,000 are fictitious.

a) Share capital: 5,50,000, 10% Preference shares of ₹100 each fully paid; 55,00,000 Equity shares of ₹10 each fully paid

b) Liability to outsiders ₹75,00,000

c) Reserves and surplus ₹45,00,000

d) The average normal profit after taxation earned every year by the company during the last 5 years ₹85,05,000

e) The normal profit earned on the market value of fully paid equity shares of similar companies is 12%

15. The following information is obtained from the books of Sunrise Company Ltd as on 31st March 16.

10,000 equity shares of ₹10 each fully paid up ₹10,00,000

10,000 equity shares of ₹10 each ₹7.50 per share called and paid up ₹75,000

10,000 equity shares of ₹10 each ₹5 per share called and paid up ₹50,000

General reserve ₹1,35,000

Liabilities to sundry parties ₹55,000

Fixed assets less depreciation ₹1,67,000

Commission on issue of shares ₹6,000

Preliminary expenses ₹9,000

Floating assets ₹2,33,000

It is estimated that the normal average profit less tax of the company will be maintained at ₹36,000 and the expected rate for capitalization purpose is 8%.

Calculate the value of each type of share by the assets backing method (excluding goodwill) and also by the earning capacity method. Assume dividends are declared on paid up capital.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. The following in the balance sheet of XYZ ltd. as on 31.12.2010.

Liablities	**Amt**	**Assets**	**Amt**
50,000 equity shares of Rs.10 each	5,00,000	Goodwill	40,000
		Plant and Machinery	2,00,000
Profit and Loss A/c(Cr.)	1,10,000	Land and Building	1,50,000
Sundry creditors	40,000	Investments	60,000
Bills payable	10,000	Stock	1,00,000
		Debtors	80,000
		Bank A/c	20,000
		Preliminary expenses	10,000
	6,60,000		6,60,000

Ascertain the value of each equity share of the company using intrinsic value method.

[Alagappa, B.Com, Nov,2016]

2. Average capital employed in karta Ltd., Rs.35,00,000 whereas net trading profits before tax for the last three years have been Rs. 14,75,000, Rs. 14,55,000 and 15,25,000. In these three years, the managing Director was paid a salary of Rs.10,000 p.m. but now he would be paid a salary of Rs.12,000 P.M. Normal rate of return expected in the industry in which K.Ltd is engaged is 18% Rate of Tax is 50%. Calculate goodwill on the basis of three years purchase of the super profits.

[Alagappa,B.Com,Nov,2016]

3. Find out the amount of goodwill of Mallika Ltd. on the basis of 4 years purchase of weighted average profit after assigning weights 1,2,3,4, and 5 serially to the profits. Profits for the last years as follows.

Year:	2004	2005	2006	2007	2008
Profit:	15,000	18,000	22,000	25,000	27,000

[Madurai,B.Com,Nov,2013]

4. The following Information is given
   1. Average capital employed Rs.1,00,000
   2. Present value of the annuity of Re.1 for 5 years at 10% is Rs.3.78
   3. Normal rate of Profit 10%.
   4. Net profits for five years are

5. I year Rs.15,000; II year Rs.16,000; III year Rs.17,000; IV Year Rs. 18000 and V year Rs.20,000. Profits included non recurring profit on an average basis of Rs.1,500 out of which Rs.300 had the recurring tendency. Remuneration of properitor is Rs.800 p.a which is not charged in profit and loss. Find out goodwill.

    1. As per 5 years purchase of super profit
    2. As per annuity method
    3. As per capitalization of profit method.

[Madurai,M.Com, Nov, 2015]

6. Mohinderruns a cosmetic store. Her net assets on 31^{st} December 2010 amounted to Rs. 2,00,000. After paying a rent of Rs. 2,000 a year and salary of Rs. 10,000 to her manager she earns a profit of Rs.50,000. Her landlord is interested in acquired the business. (12% is considered to be a reasonable return on capital employed). Calculated the value of goodwill at 3 years purchase of a super profit.

The following the particulars are available in respect of the business carried on by trader.

(i) profit earned for three years:

2005 – 06	2,00,000
2006 – 07	2,40,000
2007 – 08	2,20,000

(ii) Normal rate of return 10%

(iii) Capital employed Rs. 12,00,000

(iv) Present value of an annuity of one rupee for 5 years at 10% = 3.78.

(v) the profit included non-recurring profit on an average basis of Rs. 3,000

You are required to calculate the value of goodwill (1) as per annuity method (2) as per capitalization method by using Average Capital employed.

[Madurai,M.Com, Nov, 2015]

7. Madhan & Co. decided to purchase a business for Rs. 2,40,000. Its profits for the last four years were 1995 Rs. 60,000; 1996 — Rs. 75,000; 1997 — Rs. 72,000 and 1998 — Rs. 69,000. The owner of the business was personally managing it. A manager to replace him has to be paid Rs. 9,000 p.a.

    Calculate the value of goodwill if it is valued on the basis of three years' purchase of the average net profit for the last four years.

(Maduari, B.Com, 2003)

[Ans: Goodwill — Rs. 1,80,000]

8. The following particulars are available in respect of the business carried on by Bal Thakrey Ltd.

    (a). Profit earned : 1996 — Rs. 50,000; 1997 — Rs. 48,000; and 1998 — Rs. 52,000.

(b). Profit of 1997 is reduced by Rs. 5,000 due to stock destroyed by fire and profit of 1996 included a non-recurring income of Rs. 3,000.

(c). Profit of 1998 include Rs. 2,000 income on investment

(d). The stock is not insured and it is thought prudent to insure the stock in future. The insurance premium is estimated at Rs. 500 p.a.

(e). Fair remuneration to the proprietor (not taken in the calculation of profits) is Rs. 10,000 p.a.

You are required to calculate the value of goodwill on the basis of 2 years purchase of average profits of the last three years.

(Madras, B.Com (CS) (SY4B) Ap 2007;

B.Com., B.Com (CS) Nov. 2007; 1 M.Com., Ap 2005 April 2003]

[Ans : Goodwill — Rs. 79,000; Future maintainable profit — Rs. 39,500]

9. 'X', who has been carrying on a retail business for the past 15 years, intends selling his business on 31st Dec. 2001. It is agreed between 'X' and the buyer that the buyer pay Rs. 50,000 for Goodwill. From the following particulars supplied by 'X' ascertain the amount of goodwill if it were based on three years' purchase of the average profits of the last four years including the profit of 2001.

Profits earned :

1998 :Rs.. 10,000; 1999: Rs. 12,000 ; 2000 : Rs. 15,000 ; 2001 : Rs. 18,000.

At the time of acquiring ₹X"s business, the buyer was employed as the manager of a similar business on a salary of Rs. 300 per month. The profit of 2001 included income from investments Rs. 1,000 and profits of 1998 has been reduced by Rs. 3,000 being speculation loss. Similarly the profits of 2000 had been reduced by Rs. 5,000 owing to loss from betting.

Periyar, B.Com (old) Nov. 2005]

[Madras I M. Conn Oct. 2003]

[Ans : Goodwill : Rs. 35,700]

10. Mr. Viswanath has invested Rs. 4,00,000 in a business. His net profit before tax at 50% is Rs. 1,60,000, out of which Rs. 12,000 annual rent of own building used as business premises and Rs. 24,000 p.a. as his salary were not deducted. For starting this business, he left a job fetching him a monthly salary of Rs. 2,000. Before starting this business, he had invested this amount on 10% securities. Fair compensation for the risk involved is 2%. Calculate the value of goodwill on the basis of three years purchase of the average annual super profits.

Madras, B.Com.,B.Com (AF) Nov. 2009]

(Ans: Adjusted annual profit—Rs. 68,000; Super profit—Rs. 20,000; Goodwin — Rs. 60,000]

Hint: Rent on own building should be ignored and Building value should be assumed to the included in the investment of Rs. 4.00.000.

11. From the following information calculate the value of goodwill on the basis of three years purchase of the super profit:

    (i) Average capital employed in the business Rs. 7,00,000.

    (ii) Net trading profit of the firm for the past three years Rs. 1,07,600: Rs. 90,700 and Rs. 1,12,500.

    (iii) Rate of interest expected from capital having regard to the risk involved 12%.

    (iv) Fair remuneration to the partner for their services Rs. 12,000 per annum.

    (v) Sundry assets of the firm -- Rs. 7,54,762

    (vi) Sundry liabilities of the firm— Rs. 31,329

Thiruvalluvar, B.Com., Nov. 2006]

[Madras, 1st M.Com(ICE) Oct. 2008;B.Com.,

B.Com(CS)., Ap. 2008; B.C.S. Oct. 2003]

[Ans: Super profit — Rs. 7,600; Goodwill — Rs. 22,800]

12. From the following particulars relating to the business of Mr. Rahul, compute the value of goodwill on the basis of 3 years purchase of super profits taking average of last four years:

    Capital invested — Rs. 1,20,000

    Market rate of return on investment —12%

    Rate of risk return on capital invested — 3%

    Managerial remuneration of the proprietor, if employed elsewhere Rs. 30,000 p.a. Trading results:

	Rs.
1995 Profit	60,000
1996 Profit	72,000
1997 Loss	8,000
1998 Profit	88,000

[Madras, B.Com., April 2001]

[Ans: Super profit — Rs. 5,000; Goodwill — Rs. 15,000]

13. The following particulars are available in respect of the business carried on by John.

    (a) Capital invested — Rs. 50,000

    (b) Trading results:

	Rs.
1990 Profit	12,200
1991 Profit	15,000
1992 Loss	2,000
1993 Profit	21,000

(c) Market rate of interest on investment 8%

(d) Rate of risk return on capital invested in business 2%

(e) Remuneration from alternative employment of the proprietor (if not engaged in business) — Rs. 3,600 p.a.

Compute the value of goodwill of the business on the basis of 3 years purchase of super profit taking average of the last four years.

[Bharathiar, B.Com, Ap 2005 Madras, B.Com.,Ap 2007; 1st M.Com: (CA) Nov. 2005; B.C.S. Nov. 2004; M.Com., April 2004; I M.Com., Oct. 2002]

[Ans: Goodwill — Rs. 8,850]

14. Ramesh runs an automobile repair shop from rented premises. He pays a rent of Rs. 15,000 per month. Apart from non-skilled workers, he employs a skilled engineer at a salary of Rs. 12,000 per month. Ramesh made a profit of Rs. 6,50,000 before taxes for the year ended 31.3.97 on which date his net assets were worth Rs. 30,00,000.

The owner of the premises is very keen to get it back from Ramesh to enable his son, an automobile engineer, to carry on business. Ramesh is willing to sell his business provided he receives fair compensation.

The premises are worth Rs. 5,00,000. If 15% were to be a reasonable return on capital employed in this line of business, how much goodwill can Ramesh expect on the basis of 3 years purchase of super profits?

[Madras, B.Com.(1CE) (PZG) Oct. 2008]

[Ans: Goodwill — Rs. 9,15,000; Expected Profit :Rs. 8,30,000; Normal Profit : Rs. 5,25,000 (35,00,000 x 15%)]

15. The following is the balance sheet of A Ltd., as on 31st December 1999:

Liabilities	**Rs.**	**Assets**	**Rs.**
6% Preference shares		Goodwill	1,50,000
of Rs. 10 each	1,50,000	Land	3,75,000
Equity Shares of		Plant	1,50,000
Rs. 10 each	4,50,000	Investments	3,00,000
Profit and Loss A/c	7,50,000	Stock	2,50,000
6% Debentures	3,00,000	Debtors	3,00,000
Sundry Creditors	1,85,000	Bank	3,00,000
		Preliminary Expenses	10,000
	18,35,000		18,35,000

Additional information's are:

(a) Debentures are to be redeemed in full before business is taken over by the new company.

(b) The investments will be sold and the proceeds so realized will be used in partly redeeming debentures.

(c) The value of land is to be ascertained on the basis of 8% return. The cur' rent rental value is Rs. 50,400.

You are required to calculate the amount of capital employed in the business for valuation of goodwill.

[Madras, B.CS. (ICE) May 2001]

[Ans: Capital Employed :Rs. 11,45,000; Land Value :Rs. 6,30,000]

16. The Balance Sheet of X Ltd. as on 31.3.1996 is as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
5,000 8% pref. shares of Rs. 10 each	50,000	Goodwill	10,000
10,000 equity shares of Rs. 10 each	1,00,000	Fixed assets	1,80,000
Reserves (including provisions		Investments	
for taxation Rs. 10,000)	1,00,000	(5% Govt. loan)	20.000
8% Debentures	50,000	Current assets	1,00,000
Creditors	25,000	Preliminary expenses	10,000
		Discount on debentures	5,000
	3,25,000		3,25,000

The average profit of the company (after deducting interest on debentures and taxes) is Rs. 30.000. The market value of the machinery included in fixed assets is Rs. 5,000 more. Expected rate of return is 10%. Evaluate the goodwill of the company at 5 times of the super profit.

[Periyar, B.Com., Ap 2005] [Madras, 1st M.Com., (KCA IA) Nov. 2009;

[Ans: Average capital employed Rs. 1,85,500; Super profit — Rs. 10,450; Goodwill — Rs. 52,250]

[Hint: Reduce half of average profit (less income on investment) to ascertain average capital employed]

17. Mr. Wiseman has invested a sum of Rs. 2,00,000 in his own business which is a very profitable one. The annual profit earned from his business is Rs. 45,000 which includes a sum of Rs. 10,000 received as compensation for a part of his business premises.

As a alternative to his engagement in his business, he could have invested the money in long-term deposit, with bank earning a normal rate of interest of 10% and also could engage himself in employment thereby getting an annual salary income of Rs. 7,200.

Considering 2% as fair compensation for the risk involved in the business, calculate the value of GoodWill of his business on capitalisation of super profits at the normal rate of interest. Ignore taxation.

[Madras, B.Com., Oct. 2001]

(Ans : Super Profit : Rs. 3,800 (27,800 — 24,000); Goodwill :Rs. 31,667)

18. The net profits of a company after providing for taxation, for the past five years are Rs. 40,000; Rs. 42,000; Rs. 45,000; Rs. 46,000 and Rs. 47,000. The capital employees, in the business is Rs. 4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of goodwill of the business on the basis of an annuity of super profits, taking the present value of annuity of one rupee for 5 years @ 10% interest as Rs. 3.78.

[Madras, M.Com.(KCAIA)Ap. 2009; B.Com (CS) (SY4B) Nov. 2007;

B.Com., April 2005 (2 times); Nov. 2004; 2nd M.Com. (ICE) Oct. 2005]

[Ans: Super profit — Rs. 4,000; Goodwill — Rs. 15,120]

19. From the following particulars, find out the value of Goodwill as per annuity method:

(a) Capital employed :Rs. 3,00,000

(b) Normal rate of return : 10%.

(c) Present value of Re. 1 for 5 years at 10% at 3.78.

(d) Normal profit for 5 years :

1styearRs. 30,000; IInd year Rs. 32,000; IIIrd year : Rs. 34,000; IVthRs. 36,000; Vth year : Rs. 38,000

Non-recurring Income :Rs. 1,600;

Non-recurring expenses : Rs. 1,000.

[Madras, B. Com., April 2003]

[Ans : Goodwill : Rs. 12,852 (3,400 x 3.78)]

20. The following information is given:

(a) Capital employed Rs. 1,50,000;

(b) Normal rate of profit 10%

(c) Present value of annuity of Re. 1 for 5 years at 10% is 3.78.

(d) Net profit for 5 years:

I year	14,400
II	15,400
III	16,900
IV year	17,400
V year	17,900

The profits include non-recurring prof t on an average basis of Rs. 1,000 out of which it was deemed that even non-recurring profit had a tendency of appearing at the rate of Rs. 600 per annum. You are required to calculate goodwill:

(i) As per annuity method

(ii) As per 5 years purchase of super profit

[Madras, B.Com., April 2002]

[Ans: Average expected profit — Rs. 16,000; Super profit — Rs. 1,000;

(i) Goodwill as per annuity method — Rs. 3,780;

(ii) Goodwill as per purchase of super profit — Rs. 5,000]

21. The following particulars are available in respect of the business carried on by a trader:

(a) Profit earned :

1987 — Rs. 50,000; 1988 — Rs. 60,000; 1989 — Rs. 55,000

(b) Normal rate of Profit 10%

(c) Capital employed Rs. 3,00,000

(d) Present value of an annuity of one rupee for five years at 10% is Rs. 3.78.

(e) The profits included non-recurring profits on an average basis of Rs. 4,000 out of which it was deemed that even Non-recurring profits had a tendency of appearing at the rate of Rs. 1,000 P.A.

You are required to calculate goodwill:

(i) as per Five years purchase of Super profits

(ii) as per Capitalization of Super Profit method and

(iii) as per Annuity method.

[Madras, B.Com.(AF) Nov. 2009; 1 M.Com. Oct. 2001]

22. From the following information calculate the value of goodwill:

(a). Average capital employed Rs. 12,00,000.

(b). Company declares 15% dividend on the shares of Rs. 20 fully paid, which is quoted in the market at Rs. 25.

(c). Sundry assets of the firm Rs. 15,85,000 and sundry liabilities Rs. 62,654 and

(d). Net trading profits of the firm for the past three years Rs. 2,15,200; Rs. 1,81,400; and Rs. 2,25,000]

[Madras, M.Com (ICE) (ZHC) May 2007]

[Ans: Normal rate of return — 12% i.e., $\left\{15\% \times \frac{20}{25}\right\}$

Capitalised value of business — Rs. 17,26,667;

Goodwill — Rs. 2,04,321]

Hint: Average capital employed should be ignored.

23. The Balance Sheet of Tip Top manufacturing Cc. Ltd. discloses the following financial position as at 31.3.1998

Liabilities	***Rs.***	***Assets***	***Rs.***
*Paid up capital:*90,000 shares of Rs. 10		Goodwill at cost Land & Buildings at	90,000
each fully paid	9,00,000	cost less depreciation	5,25,000
Capital reserve	1,80,000	Plant & Machinery at	
Sundry creditors	2,13,000	cost less depreciation	2,70,000
Provision for taxation	1,65,000	Stock at cost	3,45,000
Profit & Loss A/c	78,000	Book debts 2,94,000	
		Less: Provision for	
		bad debts 9,000	2,85,000
		Cash at bank	21,000
	15,36,000		15,36,000

You are required to value the goodwill of Tip lop manufacturing company for which purpose the following information is supplied:

(i) Adequate provision has been made in the accounts for income tax and depreciation.

(ii) Rate of income tax may be taken at 5O%.

(iii) The average rate of dividend declared by the company for the past five years was 15%.

(iv) The reasonable return on capital invested in the class of business done by the company is 12%.

[Madras, B.Com (A & F) Nov. 2007; BCS Oct 2004]

[Ans: Net tangible assets — Rs. 10,68,000; Total value of business — Rs. 13,75,000 i.e., $\left\{\frac{1,65,000}{12\%}\right\}$ Goodwill — Rs. 3,07,000]

[Hint: Actual profit during the year is assumed to be equal to the provision for taxation since the rate of income tax is 50% tax figure of Rs. 78,000 in the P & L A/c seems to be only the balance left in this account after payment of dividend]

24. From the following Balance Sheet, you are required to value the equity shares:

Liabilities	*Rs.*	*Assets*	*Rs.*
2,000 6% pref. shares of Rs.100 each	2,00,000	Assets at book values	6,00,000
30,000 equity shares of Rs. 10 each	3,00,000		
Current liabilities	1,00,000		
	6,00,000		6,00,000

The market value of 50% of the assets is considered as 10% more than the book values and that remaining 50% at 5% less than the book values. There was a liability of Rs. 5,000 which remained unrecorded. Assume preference shares have no priority as to the repayment of capital or dividend.

[Madras, B.Com.(PZ3A) Nov. 2005; 1st M.Com. Nov. 2004;
[Madras, B.Com(CS) (SY4B) Ap. 2009; Nov. 2008; B. Com. (PZ3A) Nov. 2005;
1st M.Com. Nov. 2004; 2nd M.Com.(ICE) Oct. 2000]

[Ans: Net assets — Rs. 5,10,000; Value of each preference shares of Rs. 100 and that of equity share Rs. 10.33 (3,10,000 ÷ 30,000)]

[Hint: When net assets are adequate, preference capital is repaid and balance goes to equity shareholders whether preference shareholders have preference or not]

25. The following is the balance sheet of S' company limited as on 31st Dec. 1998.

Liabilities	**Rs.**	**Assets**	**Rs.**
3,000 equity shares of Rs. 100 each	3,00,000	Cash in Hand	2,000
		Cash at Bank	20,000
1,500 8% preference shares of Rs. 100 each	1,50,000	Sundry debtors	80,000
		Stock-in-trade	1,40,000
General reserve	40,000	Land & Building	2,05,000
Profit & Loss A/c	10,000	Furniture	30,000
Bank loan	50,000	Goodwill	70,000
Sundry creditors	15,000	Discount on shares	18,000
	5,65,000		**5,65,000**

The value of assets is assessed as follows:

(i). Furniture to be depreciated at 10%.

(ii). Value of stock-in-trade, Land and buildings and goodwill is estimated at Rs. 1,20,000; Rs. 2,50,000 and Rs. 80,000 respectively.

(iii). Debtors are expected to realise 80% of book value. Find out the value of equity shares.

[Madras, B.C.S. Oct. 2002]

[Ans: Value per equity share — Rs. 116;Net assets Rs. 3,48,000]

26. The summarized Balance sheet of BK Ltd., as at 31st March 1997, is as follows :

Balance Sheet

Liabilities	Rs.	Assets	Rs.
30,000 equity shares of Rs. 10 each fully paid	3,00,000	Goodwill	70,000
10,000 equity shares of Rs. 10 each Rs. paid up	80,000	Fixed Assets	4,50,000
Reserves	1,80,000	Current Assets	2,20,000
11% Debentures	1,00,000	Preliminary expense	10,000
Current Liabilities	90,000		
	7,50,000		**7,50,000**

The goodwill is independently valued at Rs. 50,000 and fixed assets at Rs. 4,20,000. There was a contingent liability of Rs. 20,000 which has become payable. Determine the value of both the categories of shares under the Net Assets method.

[Madras, B.Com., (ICE) (Old) May 2003]

[Ans : Value per Fully paid Equity share : Rs. 12.63; Value per Partly paid Equity share :Rs. 10.10]

27. Raman holds 5,000 equity shares in Raghavan Ltd. The paid up capital of which is30,000 equity shares of Re. 1 each. It is ascertained that:

(a) The normal net profit of such company is Rs. 5,000 and

(b) The normal return for the type of business carried out by the company is 8%

Raman requests you to value his shares based upon the above figures.

[Madras, BCS (SY4B) AR 2005 (Modified); M.Com., (ICE) (Old) May 2003;

M.Com., May 1991, May 1992]

[Ans: Yield value per equity share — Rs. 2.08; Raman's holding amounts to Rs. 10,400]

Hint: When shares of a principal shareholder are valued, transfer to reserve has to be ignored.

28. Mr. Share Wallah holds 12,000 equity shares in Bharath Ltd. the nominal and paid up capital of which consists of :

    (a) 40,000 equity shares of Re. 1 each

    (b) 10,000 preference shares of Re. 1 each, rate of dividend 12%.

    (c) Preference shares do not further participate in profits.

    (d) Usual transfer to Reserve 10% of the profits.

    It is ascertained that :

    (i) Normal annual profit is Rs. 12,000;

    (ii) Normal rate of return 15%.

    Mr. Share Wallah requests you to value his holdings based upon the above figures.

    [Madras, II M.Com., April 2001]

    [Ans : Yield Value per share : Rs.. 1.80 Share Wallah's Holdings amount to : Rs. 21,600]

    Hint: When shares of a principal shareholder are valued, transfer to reserve should be ignored.

29. X Ltd. has 10,000 equity shares of Rs. 10 each, Rs. 8 paid and 1,00,000 6% preference shares of Rs. 10 each fully paid. The company has a practice of transferring 20% of the profit to general reserve every year. If the expected profit (based on past years' performance) before tax is Rs. 2,00,000 and the rate of tax is 50%, you are required to calculate the value of equity share. It may be assumed that normal rate or dividend is 20%.

    [Thiruvalluvar, B.Com., Nov. 2005;Madras, B.Com., B.Com (CS) Nov. 2008; Nov. 2007; B.Com., Oct. 2004; Oct. 2002; B.C.S. April 2002;]

    [Ans : Profit available for equity dividend — Rs. 20,000; Expected rate of return — 25%; Value of each equity share — Rs. 10]

30. From the following information calculate the value of an equity share:

    (a) The subscribed share capital of a company consists of 10,000, 14% preference shares of Rs. 100 each and 2,00,000 equity shares of Rs. 10 each. All the shares are fully paid up.

    (b) The average annual profits of the company after providing depreciation but before taxation are Rs. 25,00,000. It is considered necessary to transfer Rs.1,25,000 to general reserve before declaring any dividend. Rate of taxation is 50%.

    (c) The normal return expected by investors on equity shares from the type of business carried on by the company is 20%.

    [Madras, 2nd M.Com, Nov. 2004; April 2004; M.Com., (ICE) (Old) May 2002;]

    [Ans: Profit available for equity dividend Rs. 9,85,000;Value of an equity share Rs. 24.63]

31. The authorised and paid up capital of a company consists of 1,000, 5% preference shares of Rs. 100 each and 20,000 equity shares of Rs. 15 each, all fully called up and paid up. A person holds 300 preference and 2,000 equity shares. Find out the value of equity shares held by the person assuming that the normal annual profit of the company is Rs. 40,000 and the normal annual return on similar equity shares is 8% per annum. Assume that the company. .transfers 25% of the profit to general reserve and the profit above is profit after tax.

[Madras, B.Com, B.Com(CS) Nov. 2008; B.Com (A.F) Nov. 2007]

[Ans: Value of an equity share— Rs. 15,625]

32. The profits of a company, Limited by shares, for the year ended 31st March 1999 were Rs. 6,00,000. After setting apart amount for interest on borrowings, Taxation and other provisions, the net surplus available to shareholders is estimated at Rs. 1,50,000. The company's capital consisted of :

    (a) 10,000 equity shares of Rs. 100 each, Rs. 50 per share paid up; -and

    (b) 2,500 12% Redeemable Preference shares of Rs. 100 each fully paid up. Enquiries in the stock market reveal that shares of companies engaged in similar business and declaring a dividend of 15% on equity shares are quoted at a premium of 10%.

    On the basis of yield method, compute the value of the equity share.

[Madras, M. Com., (ICE) (Old) Oct. 2002]

[Ans : Equity Share Value : Rs. 88; Expected Rate : 24%; Normal Rate : 13.63]

33. On 31st Dec. 1995, the balance sheet of a limited company disclosed the following position:

Liabilities	*Rs.*	*Assets*	*Rs.*
Issued capital in Rs. 10 shares	4,00,000	Fixed assets	5,00,000
Reserves	90,000	Current assets	2,00,000
Profit & Loss A/c	20,000	Goodwill	40,000
5% debentures	1,00,000		
Current liabilities	1,30,000		
	7,40,000		7,40,000

On 31st Dec. 1995, the fixed assets were independently valued at Rs. 3,50,000 and the goodwill at Rs. 50,000. The net profits for the three years were:

1993 — Rs. 51,600; 1994 — Rs. 52,000 and 1995 — Rs. 51,650 of which 20% was placed to reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair investment return may be taken at 10%.

Compute the value of the company's share by (a) the net assets method and (b) the yield method.

Madras, M.Com (ICE) (PBC) Oct. 2009; B.Com., B.Com(CS) Oct. 2008;

1st M.Com (CA1A) Nov. 2007; B.Com (ICE) Ap. 2007; B.Com.(PZ3A)

Nov. 2006; BCS (NYD) Nov. 2005; B.Com., Oct. 2002; B.C.S. (ICE) Oct. 2002]

[Ans: (a) Rs. 9.25; (b) Rs. 10.35]

34. The following is the summarised balance sheet of ABC Ltd. as at 31st Dec. 1998.

Liabilities	**Rs.**	**Assets**	**Rs.**
1,00,000 equity shares		Plant & Machinery	4,80,000
of Rs. 10 each	10,00,000	Furniture	2,00,000
Share premium	2,00,000	Stock	12,40,000
General reserve	4,78,800	Debtors	4,12,000
Profit & Loss A/c	3,15,200	Cash at bank	8,74,800
Sundry creditors	8,18,800		
Provision for taxation	3,94,000		
	32,06,800		32,06,800

The company transfers 20% of its profits (after tax) to general reserve. Net profits before taxation of the last three years have been as follows:

1996 — Rs. 6,70,000; 1997 — Rs. 7,32,000; and 1998 — Rs. 7,88,000.

Machinery is valued at Rs. 6,40,000.

Average yield in this type of business is 20%.

The rate of tax is 50%.

Find out the value of each equity share on the basis of (a) net asset method (b) yield method.

[Madras, 1st M.Com.(CA1A) Nov. 2006 (½ figs]

[Ans : Net asset available to equity shareholders — Rs. 21,54,000; Intrinsic value per share — Rs. 21.54; Expected rate of return — 29.2%; Yield value per share — Rs. 14.60]

UNIT – 8

INTERNAL RECONSTRUCTION

Meaning - Methods of alteration of share capital – Procedure for alteration - Difference between Internal and External Reconstruction – Capital Reduction a/c

Sometimes a company continuously incurs loss. The directors have the only option to liquidate the business. Before this stage a final adjustment may be done by the company to avoid such liquidation. That arrangement is called internal reconstruction.

As per the internal arrangement, the share holders and debenture holders are required to wipe off some portion of their amount for the benefit of the company. The entire amount sacrificed by them is credited in an account called capital reduction account. Just like, some asset value may be increased and the difference between market value and book value is credited in the above account. This amount is used to write off company's losses, fictitious assets and adjusting any asset value.

If there is any surplus in capital reduction a/c it should be transferred to capital reserve account. If there is any shortage, the fixed asset a/c should be written off accordingly. After the internal reconstruction is over, the word "And reduced" should be added along with the name of balance sheet.

8.1 METHODS OF ALTERATION OF SHARE CAPITAL: (SEC. 94, 95 AND 97)

- Increasing the share capital by fresh issue
- Consolidation of shares of smaller value into shares of greater value
- Sub-division of shares of greater value into shares of smaller value
- Conversion of shares into stock
- Reduction or cancellation of share capital
  a) Reducing the liability (unpaid) of shares
  b) Paying back the paid up capital
  c) Writing off portion of paid up share capital (Capital reduction)

8.2 PROCEDURE FOR ALTERATION OF SHARE CAPITAL: (SEC.100 TO 105)

- Authorized by its Articles of Association
- Special Resolution
- Confirmation by Court
- Add the words "and reduced"

8.3 MEANING OF INTERNAL RECONSTRUCTION

Reduction or writing off of share capital of a company which is not represented by any fixed assets is called internal reconstruction.

8.4 MEANING OF EXTERNAL RECONSTRUCTION

An existing company goes into liquidation and a new company is formed to take over its business under a new name.

8.5 DIFFERENCE BETWEEN INTERNAL RECONSTRUCTION AND EXTERNAL RECONSTRUCTION

Basis	**Internal Reconstruction**	**External Reconstruction**
Meaning	Reduction of share capital which is not represented by assets	An existing company goes into liquidation and a new company is formed to take over its business under a new name
Mode of reconstruction	Permission of Articles of the company, a special resolution and court confirmation are necessary	Liquidation of existing company and formation of new company is required
Status of liabilities	Liabilities of debentures, creditors, bank overdraft, etc are continued	They are settled
Processing time	Confirmation from all the parties are required and so it is very slow and tedious	Confirmation from share holders is required and so it is very speedy process
Set off the past losses	It can be set off against future profits	As the business technically comes to an end, it is not possible

8.6 CAPITAL REDUCTION ACCOUNT

Capital reduction account is a nominal account. The purpose of opening this account is to carry out the internal reconstruction procedures of a company. It is a temporary account and closed after completing the internal reconstruction procedures. At the end, if there is any Surplus balance in this account that will be transferred to capital reserve account.

Journal entries

1. For reducing the share capital Old share capital a/c Dr To New share capital a/c To Capital reduction a/c (b/f)
2. For reducing creditors: Creditors a/c Dr To Capital reduction a/c
3. For increase in the value of asset: Asset a/c Dr To Capital reduction a/c
4. For writing off P & L a/c, good will and other fixed assets a/c Capital reduction a/c Dr To Profit and loss a/c To Goodwill To Other fixed assets a/c (b/f) To Capital reserve a/c (Surplus if any)

Reconstruction a/c (Capital reduction a/c)

Particulars	**Amount**	**Particulars**	**Amount**
To P & L a/c " Goodwill " Other fixed asset " Capital reserve a/c (b/f)	xxx xxx xxx xxx	By Old equity share capital " Asset a/c " Creditors	xxx xxx xxx
	xxx		xxx

Illustration -1 In order to eliminate the accumulated losses of ₹45,000 from the balance sheet, a company has decided to convert its 15,000, 7% preference shares of ₹10 each, ₹6 per share paid. Show journal entries in the books of company.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹10)	Dr	1,50,000	
To Preference share capital a/c (₹6)			90,000
To Capital reduction a/c (b/f)			60,000
(Being capital reduced)			
Capital reduction a/c	Dr	60,000	
To P & L a/c			45,000
To Capital reserve a/c (b/f)			15,000
(Being writing of losses)			

Illustration -2 The following is the balance sheet of Weak Ltd. as on 31-3-2016.

Liabilities	**Amount**	**Assets**	**Amount**
Equity share of ₹10 each	10,00,000	Land	1,00,000
Sundry creditors	1,73,000	Cash at bank	5,000
		Plant	2,30,000
		Furniture	68,000
		Stock	1,50,000
		Debtors	70,000
		P & L a/c	5,50,000
	11,73,000		11,73,000

Scheme of capital reduction:

a) The equity shares to be reduced to ₹4 per share

b) Plant to be written down to ₹1,50,000

c) Stock to be revalued at ₹1,40,000 and Land at ₹1,42,000

d) The provision for doubtful debts to be created ₹2,000

Pass journal entries to give effect to the above arrangement and also prepare reconstruction a/c

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Equity share capital a/c (₹10)	Dr	10,00,000	
To Equity share capital a/c (₹4)			4,00,000
To Capital reduction a/c (b/f)			6,00,000

(Being capital reduced)			
Land a/c	Dr	42,000	
To Capital reduction a/c			42,000
(Being land value increased)			
Capital reduction a/c	Dr	6,42,000	
To P & L a/c			5,50,000
To Plant			80,000
To Provision			2,000
To Stock			10,000
(Being writing of losses)			

Reconstruction a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To P & L a/c	5,50,000	By Equity share capital a/c	6,00,000
" Plant	80,000	" Land a/c	42,000
" Provision	2,000		
" Stock	10,000		
	6,42,000		6,42,000

Illustration -3 A Ltd passed resolution and got Court permission for the reduction of its share capital by ₹5,00,000 for the purposes mentioned as under:

1) To write off the debit balance of profit and loss a/c of ₹2,10,000

2) To reduce the value of investments by ₹80,000

3) To reduce the value of plant by ₹90,000 and goodwill by ₹40,000

The reduction was made by converting 50,000 preference shares of ₹20 each fully paid to the same no. of preference shares of ₹15 each fully paid and by converting 50,000 equity shares of ₹10 each fully paid up to ₹6.60 each.

Pass journal entries.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹20)	Dr	10,00,000	
To Preference share capital a/c (₹15)			7,50,000
To Capital reduction a/c (b/f)			2,50,000
(Being capital reduced)			

Equity share capital a/c (₹10)	Dr	5,00,000	
To Equity share capital a/c (₹ 6.60)			3,30,000
To Capital reduction a/c (b/f)			1,70,000
(Being capital reduced)			
Capital reduction a/c	Dr	4,20,000	
To P & L a/c			2,10,000
To Investment			80,000
To Plant			90,000
To Goodwill			40,000
(Being writing of losses)			

Illustration -4 The following scheme of reconstruction has been approved by D Ltd.

1. The shareholders to receive in lieu of their present holding of 60,000 shares of ₹10 each fully paid the following.

   a) Fully paid new equity shares equal to $1/3^{rd}$ of their holding.

   b) 8 % preference shares fully paid to the extent of $1/5^{th}$ of the above new equity shares.

   c) ₹60,000 8 % secured debentures.

2. The debenture holders' total claim of ₹75,000 to be reduced to ₹25,000. This will be satisfied by the issue of 2,500, 8 % preference shares of ₹10 each fully paid

3. An issue of ₹50,000, 6%debentures was made and allotted, payment for the same having been received in cash.

4. The goodwill which should at ₹3,00,000 was written down to ₹50,000 and plant which stood at ₹1,00,000 was written down to ₹75,000.

5. The freehold premises which should at ₹1,75,000 was written down by ₹75,000.

Pass journal entries.

Solution

Journal Entries

Particulars	LF	Debit ₹	Credit ₹
Debenture holders a/c	Dr	75,000	
To 8% Preference shares a/c			25,000
To Capital reduction a/c			50,000

(Being debentures settled)			
Equity share capital a/c (₹10)	Dr	6,00,000	
To Equity share capital a/c (1/3 x 6,00,000)			2,00,000
To 8% Preference shares (1/5 x 2,00,000)			40,000
To 8% Debentures			60,000
To Capital reduction a/c (b/f)			3,00,000
(Being capital reduced)			
Capital reduction a/c	Dr	3,50,000	
To Free hold premises			75,000
To Plant			25,000
To Goodwill			2,50,000
(Being writing of losses)			
Cash a/c	Dr	50,000	
To 6% Debentures a/c			50,000
(Being debentures issued)			

8.7 CAPITAL REDUCTION WITH BALANCE SHEET MODEL

Illustration -5 The balance sheet of National Industries Ltd. on 31st March 2016 was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	2,00,000	Goodwill	15,000
Equity shares of ₹100 each	4,00,000	Free hold properties	2,00,000
5% Mortgage debentures	1,00,000	Plant	3,00,000
Bank over draft	50,000	Stock in trade	50,000
Creditors	1,00,000	Debtors	40,000
		P & L a/c	2,45,000
	8,50,000		8,50,000

The company got the following scheme of capital reduction approved by the court.

- The preference shares to be reduced to ₹75 per share, fully paid and the equity shares to ₹37.50
- The debenture holders took over the stock in trade and the book debts in full satisfaction of the amount due to them.
- The goodwill a/c to be eliminated.
- The free hold properties to be depreciated by 50%

- The value of plant to be increased by ₹50,000

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹100)	Dr	2,00,000	
To Preference share capital a/c (₹75)			1,50,000
To Capital reduction a/c (b/f)			50,000
(Being capital reduced)			
Equity share capital a/c (₹100)	Dr	4,00,000	
To Equity share capital a/c (₹37.50)			1,50,000
To Capital reduction a/c (b/f)			2,50,000
(Being capital reduced)			
Plant a/c	Dr	50,000	
To Capital reduction a/c			50,000
(Being plant value increased)			
5% Debentures a/c	Dr	1,00,000	
To Stock a/c			50,000
To Book debts a/c			40,000
To Capital reduction a/c (b/f)			10,000
(Being debentures settled)			
Capital reduction a/c	Dr	3,60,000	
To P & L a/c			2,45,000
To Goodwill			15,000
To Free hold property			1,00,000
(Being writing of losses)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference share capital	1,50,000	Free hold properties	1,00,000
Equity share capital	1,50,000	Plant (3,00,000 + 50,000)	3,50,000
Bank over draft	50,000		
Creditors	1,00,000		
	4,50,000		4,50,000

Illustration -6 The following is the balance sheet of NB Ltd. as on 31-12-2016.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹100 each	7,50,000	Patents	8,50,000
Equity shares of ₹100 each	5,00,000	Leasehold property	1,30,800
Creditors	30,000	Machinery	42,200
Bank overdraft	20,000	Debtors	76,500
		Stock in trade	55,000
		Discount on issue of shares	18,000
		Formation expenses	12,000
		P & L a/c	1,15,000
		Cash	500
	13,00,000		13,00,000

The company suffered heavy losses. The following scheme of reconstruction was adopted:

a) The preference shares be reduced to an equal number of fully paid shares of ₹50 each

b) The equity shares be reduced to an equal number of shares of ₹25 each

The amount available be used to write off ₹30,800 on leasehold property, ₹15,000 on stock, 20% on machinery and debtors and the balance available (after writing off discount on issue of shares, formation expenses and P & L a/c completely) on patents.

Give journal entries and prepare the revised balance sheet.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Preference share capital a/c (₹100)	Dr	7,50,000	
To Preference share capital a/c (₹50)			3,75,000
To Capital reduction a/c (b/f)			3,75,000
(Being capital reduced)			
Equity share capital a/c (₹100)	Dr	5,00,000	
To Equity share capital a/c (₹25)			1,25,000
To Capital reduction a/c (b/f)			3,75,000
(Being capital reduced)			

Capital reduction a/c	Dr	7,50,000	
To P & L a/c			1,15,000
To Stock			15,000
To Lease hold property			30,800
To Machinery			8,440
To Discount on shares			18,000
To Formation expenses			12,000
To Provision on debtors			15,300
To Patents (b/f)			5,35,460
(Being writing of losses)			

Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference share capital	3,75,000	Patents (8,50,000 – 5,35,460)	3,14,540
Equity share capital	1,25,000	Leasehold(1,30,800 – 30,800)	1,00,000
Creditors	30,000	Machinery (42,200 – 8,440)	33,760
Bank overdraft	20,000	Debtors (76,500 – 15,300)	61,200
		Stock (55,000 – 15,000)	40,000
		Cash	500
	5,50,000		5,50,000

Illustration -7 The balance sheet of Sudha Ltd. as at Dec. 31, 2016 stood as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Preference shares of ₹10 each	60,000	Goodwill	42,000
Equity shares of ₹5 each	90,000	Premises	72,000
6% Debentures	36,000	Plant	52,000
Creditors	60,000	Loose tools	15,000
		Stock	12,500
		Debtors	18,000
		B/R	6,000
		Cash	1,500
		P & L a/c	27,000
	2,46,000		2,46,000

On revaluation of the assets, it was found that the goodwill was worthless and that the assets were overvalued to the following extent Premises ₹15,000; Plant ₹7,500; Tools ₹9,000 and Debtors ₹1,500. A scheme of arrangement and reduction of capital was agreed to by the court and the creditors on the following lines:

a) That the creditors should accept 6% debentures the extent of half of their debts, the balance being payable in cash

b) That the equity shares should be reduced to shares of ₹1 each

c) That the preference shares should be reduced to shares of ₹5 each fully paid

d) That the assets should be reduced to the revalued figures.

Draft the journal entries for effecting the above scheme and prepare balance sheet on completion.

Solution

Journal Entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
Equity share capital a/c (₹5)	Dr	90,000	
To Equity share capital a/c (₹1)			18,000
To Capital reduction a/c (b/f)			72,000
(Being capital reduced)			
Preference share capital a/c (₹10)	Dr	60,000	
To Preference share capital a/c (₹5)			30,000
To Capital reduction a/c (b/f)			30,000
(Being capital reduced)			
Creditors a/c	Dr	60,000	
To 6% Debentures			30,000
To Cash (Bank overdraft)			30,000
(Being creditors settled)			
Capital reduction a/c	Dr	1,02,000	
To Premises			15,000
To Plant			7,500
To Goodwill			42,000
To Loose Tools			9,000
To Debtors			1,500
To P & L a/c			27,000
(Being writing of losses)			

Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Preference share capital	30,000	Cash	1,500
Equity share capital	18,000	Premises (72,000 – 15,000)	57,000
6% Debentures (36,000 + 30,000)	66,000	Plant (52,000 – 7,500)	44,500
Bank OD	30,000	Loose tools (15,000 – 9,000)	6,000
		Stock	12,500
		Debtors (18,000 – 1,500)	16,500
		B/R	6,000
	1,44,000		1,44,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. After writing off all losses, if there is any amount left in capital reduction a/c, it should be transferred to
   a) **Capital reserve a/c** b) Capital reduction a/c
   c) Goodwill a/c d) P & L a/c

2. If an asset value increases the capital reduction a/c should be
   a) Debited b) **Credited**
   c) Transferred d) Closed

3. If creditors agreed to reduce their claims, capital reduction should be
   a) Debited b) **Credited**
   c) Closed d) Both a and b

4. Reduction of capital is possible only when
   a) Article permits b) Special resolution is passed
   c) Court permits d) **All the above**

5. Internal reconstruction does not involve
   a) Consolidation b) Dilution
   c) Capital reduction d) **Liquidation**

6. Any decrease in the value of assets, at the time of internal reconstruction will be charged to
   a) Goodwill a/c b) **Capital reduction a/c**
   c) Revaluation a/c d) Share capital a/c

7. In case of internal reconstruction the existing company will be _________
   a) Liquidated b) Amalgamated
   c) Absorbed d) **None of these**

8. In case of consolidation of share capital the total number of shares ____________
   a) Increases b) **Decreases**
   c) No change d) None of these

9. In case of subdivision of share capital the total number of shares ____________
   a) **Increases** b) Decreases
   c) No change d) None of these

REVIEW QUESTIONS

A) Answer in short

1. What do mean by alteration of share capital?
2. What is consolidation of shares?
3. What is sub-division of shares?

4. What is called internal reconstruction?
5. What are the procedures for alteration of share capital?

B) Answer in detail

1. Explain the differences between internal and external reconstruction.
2. Explain the different kinds of alteration of share capital.

EXERCISES

1. X Ltd. with a share capital of 1,00,000 equity shares of ₹10 each fully paid decides to repay members ₹2 per share thus making each share of ₹8 fully paid. Give journal entry.

2. Balance sheet of a company as on 31st March 2016:

Liabilities	Amount ₹	Assets	Amount ₹
Share capital (₹10)	1,00,000	Fixed assets	50,000
Creditors	50,000	Current assets	30,000
		P & L a/c	50,000
		Goodwill	20,000
	1,50,000		1,50,000

Reduce ₹7 per share and wipe off losses. Give journal entries.

3. Give journal entries for the following transaction

a) 30,000 equity shares of ₹10 each fully paid reduced to share of ₹5 each fully paid

b) 300, 9% debentures of ₹1,000 each converted into 1,500, 12% debentures of ₹100 each

c) The debit balance of P & L a/c ₹1,50,000 and the preliminary expenses ₹30,000 were written off

d) The value of plant and stock were written down by ₹60,000 and ₹30,000 respectively.

4. Following was the balance sheet of X Ltd as on March 31, 2016:

Liabilities	Amount ₹	Assets	Amount ₹
Equity shares of ₹100 each	4,00,000	Goodwill	50,000
6% Debentures	2,00,000	Land	1,40,000
Sundry creditors	2,00,000	Plant	1,50,000
7% Preference shares of ₹100 each	2,00,000	Stock	1,60,000

		Debtors	2,15,000
		Cash	5,000
		Preliminary expenses	25,000
		Discount on issue of debentures	15,000
		P & L a/c	2,00,000
		Patents	40,000
	10,00,000		10,00,000

The following scheme of reconstruction was duly approved:

a) Equity shares are to be reduced to equal number of fully paid shares of ₹50 each

b) 7% preference shares are to be reduced by 30% and the rate of dividend increased to 9%

c) The value of land to be increased by 10%

d) The debentures are to be reduced by 20%

e) All nominal and fictitious assets are to be eliminated and balance used to write off patents

f) Further equity shares are to be issued for ₹50,000 for cash.

Pass journal entries and prepare new balance sheet after incorporating the above schemes.

5. The balance sheet of Run Ltd. shows the following position as at 31st Dec.2016:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	2,00,000	Freehold premises	50,000
Sundry creditors	22,500	Plant	1,00,000
Bank overdraft	37,500	Stock	28,000
		Debtors	16,000
		Cash	500
		Preliminary expenses	3,000
		P & L a/c	62,500
	2,60,000		2,60,000

A capital reduction was brought about for this company by passing the following resolutions:

a) That the shares be reduced to the same number of shares of ₹5 each fully paid

b) The sum thus made available is utilized

- In writing off the debit balance of P & L a/c
- In writing off the preliminary expenses a/c
- In writing down the machinery a/c by ₹30,000 (to bring it to the present market value)
- In writing down stock by ₹2,500
- In providing at reserve of ₹2,000 for doubtful debts

Show the journal entries and redraft the balance sheet.

6. The following is the balance sheet of X Ltd.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	1,00,000	Goodwill	10,000
7% Preference shares of ₹10 each	1,00,000	Other fixed assets	90,000
		Stock	25,000
		Debtors	30,000
		P & L a/c	45,000
	2,00,000		2,00,000

It was resolved that equity share capital of ₹10 each be reduced to fully paid shares of ₹6 each and 7% preference shares of ₹10 each be reduced at 7.5%, fully paid preference shares of ₹7 each. Number of shares in each case remained the same.

It was also resolved that the amount so available be used for writing off the debit balance of P & L a/c and goodwill account and other fixed assets to the extent possible.

There were arrears of preference dividend for the last three years and it was decided that they be cancelled.

Pass necessary journal entries.

7. Following a series of losses, XYZ Co. Ltd. resolved to reduce its capital to 50,000 fully paid ₹5 shares and to eliminate share premium account. The company's balance sheet prior to implementation of the scheme was as follows:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	5,00,000	Goodwill	1,00,000
Share premium	50,000	Land	1,62,000
Creditors	62,000	Plant	2,07,000
Bank overdraft	73,000	Stock	92,000
		Debtors	74,000
		P & L a/c	50,000
	6,85,000		6,85,000

It was resolved to apply the sum available under the scheme:

a) To write off the goodwill account.

b) To write off the debit balance of the P & L a/c.

c) To reduce the book value of the assets by the following amounts: Land ₹42,000; Plant ₹67,000 and Stock ₹33,000

d) To provide a bad debts reserve of 10% of the book value of debtors.

Show the journal entries to give effect to the scheme and prepare the revised balance sheet after its implementation.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Reckless had the following B/S as on 31.12.2005.

Liablities	**Amt**	**Assets**	**Amt**
6% pref.shares of Rs.100 each	2,00,000	Goodwill	60,000
Equity Shares of Rs.100 each	4,00,000	Fixed assets	3,00,000
Debentures	1,00,000	Stock	1,50,000
Sundry creditors	1,50,000	Debtors	60,000
		Discount on debentures	10,000
		Bank	1,000
		P/L Account	2,69,000
Total	8,50,000		8,50,000

The following Reconstruction Scheme was approved.

1. Preference shares be reduced to 8% preference shares of Rs.60 each.
2. Equity shares to be reduced by Rs.80 each.
3. The amount is made available to be utilized to write add fictitious assets including goodwill and Rs. 50,000 from fixed assets. Give the Journal entries.

[Alagappa, B.Com(C.A), April,2016]

2. Praveen Ltd. passed resolution and got court permission for the reduction of its share capital by Rs.5,00,000 for the purposes mentioned as under.

1. To write off debit balances of Profit and Loss A/c of Rs.2,10,000
2. To reduce the value of Plant and Machinery by Rs.90,000 and goodwill by Rs.40,000.
3. To reduce the value of Investment by Rs.80,000

The reduction was made by converting 50,000 preference shares of Rs. 20 each fully paid to the same number of preference shares of Rs. 15 each fully paid and by converting 50,000 equity shares of Rs.20 each on which Rs.15 is paid up into 50,000 equity shares of Rs. 10 each fully paid up. Pass the journal entries to record the shares of Rs.10 each fully paid up. Pass the journal entires to record the shares capital reduction.

[Alagappa,B.Com(C.A), Nov,2015]

3. The following is the balance sheet of week Ltd. as on 31.3.2011.

Liablities	Amt	Assets	Amt
1,00,000 equity shares	10,00,000	Land	1,00,000
Creditors	1,73,000	Plant & Machinery	2,30,000
		Furniture	68,000
		Stock	1,50,000
		Debtors	70,000
		Bank	5,000
		Profit and Loss a/c	5,50,000
Total	11,73,000		11,73,000

The following Scheme of reduction of capital was approved by court.

1. Equity shares to be reduced to Rs.4 per share.
2. Plant and machinery to be written down to Rs.1,50,000
3. Stock to be revalued at rRs.1,40,000
4. Create provision for doubtful debts on debtors at Rs.2000.
5. Land to be revalued at Rs.1,42,000. Prepare Capital reduction.

[Alagappa, B.Com,April,2011]

4. SP Co. Ltd., resolved to write off one-half of its subscribed capital by reducing each Rs. 100 share, both preference and equity to Rs. 50 fully paid up and to reduce the book figures of its assets by an equivalent amount by wiping out the goodwill and the debit balance on the Profit & Loss account and by writing down Land and Building by Rs. 15,000, Plant &Machinery by Rs. 10,000 and providing the balance for bad debts. The Balance Sheet of the company before the reduction of capital is as under:

Liabilities	***Rs.***	***Assets***	***Rs.***
Authorised capital:		Goodwill	1,00,000
3,000 preference shares of		Land & Buildings	1,10,000

Rs. 100 each	3,00,000	Plant & Machinery	90,000
5,000 equity shares of Rs. 100 each	5,00,000	Stock	80,000
	8,00,000	Sundry debtors	90,000
		Cash	10,000
		Profit & Loss A/c	1,20,000
Subscribed capital:			
2,000 pref shares of Rs. 100 each	2,00,000		
3,000 equity shares of Rs. 100 each	3,00,000		
Sundry creditors	1,00,000		
	6,00,000		6,00,000

Pass journal entries to give effect to the above resolution, showing the new Balance Sheet of the company.

[Madras, B.Com., B.Com(CS) Ap 2006] [Lucknow, B.Com.]

[Ans: Total capital reduction — Rs. 2,50,000; Provision for Bad debts — Rs. 5,000; Balance Sheet total — Rs. 3,50,000]

5. The following is the Balance Sheet of Skylekha Ltd. as on 31st March 1998.

Liabilities	Rs.	Assets	Rs.
Share capital:		Bombay works	20,00,000
Authorized issued & paid up:		Calcutta works	10,00,000
4,00,000 ordinary shares of Rs. 5 each, fully paid	20,00,000	Workmen's compensation Fund investments	35,000
3,00,000 6% preference Shares of Rs. 5 each, fully Paid	15,00,000	Stock	1,15,000
		Debtors	50,000
		Discount on debentures:	
'A' 6% debentures secured on Bombay works	1,00,000	'A' 2,500	12,500
		'B' 10,000	16,22,500
'B' 6% debentures secured on Calcutta works	2,50,000	Profit and loss a/c	
Workmen's compensation fund:			
Bombay: 25,000			
Calcutta: 10,000	35,000		
Bank overdraft	7,50,000		

Creditors	2,00,000		
	48,35,000		48,35,000

On 1st April 1998, a scheme to reduce the capital implemented the following:

(a) The ordinary shares were reduced to Re. 0.25 each.

(b) The preference shares were reduced to Rs. 3.75 each and the rate of dividend on them to 5%.

(c) The 'A' and 'B' debenture holders waived payment of Rs. 42,000 interest (which was included in 'creditors' Rs. 2,00,000).

(d) The directors were to refund Rs. 50,000 fees they had received.

(e) The 'B' debenture holders formed a new company to take over the calcuttaworks for Rs. 5,00,000 and this price was satisfied on the same date, by the surrender of the 'B' debentures and the allotment of 50,000 fully paid shares of Rs. 5 each in the new company.

The investments were valued at Rs. 25,000. Stock at Rs. 50,000 and the debtors at Rs. 40,000. There was no actual liability to workmen at Calcutta. The fund was to be written down accordingly. Any fictitious assets were to be eliminated. Only necessary reserves were to be retained and the balance available was to be written off the book value of the Bombay works.

Journalise these transactions and prepare the Balance Sheet after this scheme is carried out.

[Madurai, B.Com,2005]

[Ans: Total capital reduction — Rs. 23,77,000; Balance Sheet total — Rs. 22,58,000; Bombay works written off—Rs. 1,57,000]

6. Abad Limited, having obtained the sanction of the debenture holders and the court, decided to reduce its capital and reorganise as at 31st Dec. 1985. and the following Balance Sheet shows the position as on that date:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Land & Buildings	4,67,000
15% preference shares of Rs. 10 each	4,00,000	Stock	8,12,500
Ordinary shares of Rs. 10 each	10,00.000	Sundry debtors	4,67,500
Reserves	4,53,500	Cash at Bank	25,000
10% Mortgage debenture of Rs. 10 each	2,00,000	Profit & Loss A/c	5,56,000
Current liabilities	2,74,500		
	23.28,000		23,28,000

The following are the details of the scheme:

(a) Each debenture is to be exchanged for Rs. 5 of new 12% debenture, one new 20% preference share of Rs. 2.50 and new ordinary share of Rs. 2.50.

(b) Each existing preference share is to be reduced from Rs. 10 to Rs. 3.75 of which Rs.2 will be represented by new 20% preference shares and Rs. 1.75 by ordinary shares.

(c) Each existing ordinary share is to be reduced from Rs. 10 to Rs. 2.50 and then both preference and ordinary shares are to be consolidated into shares of Rs. 10 each.

The reduction in share capital and the reserves are to be applied in wiping out the debit balance of Profit &Loss A/c and the balance, if any, is to be utilised in writing down the Land & Buildings and Stock pro-rata.

Show the journal entries for giving effect to the scheme mentioned above. Also draft the summarised Balance Sheet after reconstruction.

[Madras, II M.Com. (ICE) (Old) Oct. 2004]

[Ans: Total capital reduction – Rs. 14,53,500; Building to be written off– Rs. 3,27,575; Stock to be written off – Rs. 5,69,925; Balance sheet total – Rs. 8,74,500]

7. The Balance Sheet of Alpha Limited as on 31st Dec. 1998 was as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Share capital:		Goodwill	20,000
10,000 9% cumulative, preference		Patents & trade marks	15,000
shares of Rs. 10 each	1,00,000	Land &Buildings	88,000
20,000 equity shares of Rs. 10 each	2.00.000	Plant & Machinery	86,000
6% Debentures (secured on		Shares in Companies	30,000
Land & Buildings)	50.000	Stock	70,000
Interest due on the above	3,000	Debtors	1,01,000
Bank overdraft	59,000	P &L A/c	1,10,000
Creditors	85,000		
Advances by Directors	23,000		
	5,20,000		5,20,000

Dividend on preference shares is in arrear for 3 years and there is a contingent liability to the extent of Rs. 10,000.

A scheme of capital reduction contained the following terms:

a) The preference shares are to be reduced to Rs. 8 and the equity shares to Rs. 2.50 each. The preference shareholders waive 2/3 of the dividend arrears and receive equity shares of Rs. 2.50 for the balance.

b) All intangible assets are to be eliminated and bad debts of Rs. 7,000 and obsolete stock of Rs. 10,500 are to be written off.

c) The investments in shares of companies are sold for Rs. 40,000.

d) The debentureholders agreed to take over one of the company's properties (book value Rs. 17,500) at a price of Rs. 25,000 in part satisfaction of the debentures and to provide further cash of Rs. I 5,000 on the floating charge of assets. The interest due to them is paid.

e) The contingent liability materialised at Rs. 5,000 and was paid.

f) The directors awed to take equity shares in satisfaction of their advances.

Pass the necessary journal entries and set out the reduced Balance Sheet.

[Madras, M.Com,2012]

[Ans: Total Capital reduction — Rs. 1,87,500; Capital reserve Rs. 11,000; Balance Sheet total — Rs. 3,57,000 ; Bank Balance Rs.47,000]

8. The balance *sheet* of Sharma Co. Ltd. as on 31st Dec. 1988 was as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital:		Premises	4,80,000
40,000 preference shares of		Plant	3,50,000
Rs. 10 each	4,00,000	Loose tools	1,00,000
1,20,000 equity shares of Rs. 5 each		Stock	80,000
6,00,000Reserves	2,000	Debtors	1,20,000
9% debentures	2,40,000	Bills receivable	40,000
Creditors	4,00,000	Bank	12,000
		Goodwill	2,80,000
		Profit & Loss A/c	1,80,000
	16,42,000		16,42,000

Upon revaluation of assets, it was considered that the entire goodwill was worthless and assets were over valued as follows

Premises Rs. 80,000; Plant Rs. 50,000; Ldiose tools Rs. 60,000; and Debtors Rs. 10,000.

Scheme of rearrangement and reduction of capital was agreed to by the Court and the creditors on the following lines:

i) that the creditors should accept 9% debentures to the extent of half of their debts, the balance to be settled by payment of cash at 90%

ii) that the preference shares be reduced to shares of Rs. 5 each fully paid.

iii) that the equity shares be reduced to Re. 1 each.

iv) that the assets should be reduced to the revalued figures. Pass journal entries and prepare the balance sheet after rearrangement.

[Madras, B.Com., April 2001]

[Ans: Total capital reduction — Rs. 7,00,000; Capital reserve — Rs. 40,000; Bank overdraft — Rs. 1,68,000; Balance Sheet total Rs. 9,70,000]

9. The following is the Balance Sheet of Weak Co. Ltd. as on 31st March 1995.

Liabilities	*Rs.*	*Assets*	*Rs.*
1,00,000 equity shares of Rs.10	10,00,000	Land	1,00,000
Sundry creditors	1,73,000	Plant & Machinery	2,30,000
		Furniture & fittings	68,000
		Stock	1,50,000
		Debtors	70,000
		Cash at Bank	5,000
		Profit & Loss A/c	5,50,000
	11,73,000		11,73,000

The approval of the Court was obtained for the following scheme of reduction of capital:

i) The equity shares to be reduced to Rs. 4 per share.

ii) Plant & Machinery to be written down to Rs. 1,50,000

iii) Stock to be revalued at Rs. 1,40,000.

iv) The provision on debtors for doubtful debts to be created Rs. 2,000.

v) Land to be revalued at Rs. 1,42,900

vi) Pass journal entries to give effect to the above arrangement and also prepare reconstruction A/c

[Madurai.B.Com., Nov. 2003]

[Madras, B.Com., Nov. 2008; 1st M.Com., Nov. 2008; Nov. 2006; B.Com., April 2005; Oct. 2001; I M.com.April 2003]

[Ans: Total of *reconstruction* A/c — Rs. 6,42,000]

10. Given below is the Balance Sheet of Slow Success Ltd. as on 31st Dec. 1986.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Land & Buildings	1,00,000
4,000 equity shares of Rs. 100		Machinery	4,00,000
each fully paid	4,00,000	Motor Vans	40,000
1,000 equity shares of Rs. 100		Furniture	10,000
each, Rs. 50 paid	50,000	Investments	50,000
Development Rebate Reserve	1,50,000	(Market value	
Loan (unsecured)	6,40,000	Rs. 40,000)	
Creditors (including Rs. 10,000		Stock	1,00,000

holding lien on some assets)	2,60,000	Debtors	1,90,000
		Bank balance	10,000
		Profit & Loss A/c	6,00,000
	15,00,000		15,00,000

The company having turned corner, a scheme of reconstruction was prepared and approved as under:

(a) To revalue Land & Buildings to its present market value of Rs. 1,50,000.

(b) Equity shares to be reduced to Rs. 10 per share but the face value to remain at Rs. 100.

(c) A call of Rs. 50 to be made on equity shareholders to provide funds for working capital.

(d) Unsecured loans to be paid immediately to the extent of Rs. 1,00,000.

(e) Unsecured creditors to be paid immediately to the extent of 10% of their claims and they accept a remission of 20% of their claims.

(f) Development rebate reserve being no longer required, to be transferred to P & L A/c.

(g) Investments to be brought to their market value and

(h) the amount available as a result of the scheme to be used to write off the debit balance on Profit & Loss A/c.

Pass the necessary journal entries to give effect to the above scheme and prepare the reconstructed Balance Sheet.

[Madras, B.Com. (ICE) Oct. 2000; B.Com., Bharathiar, April 2005]

[Ans: Total capital reduction — Rs. 6,50,000; Capital reserve — Rs. 40,000 Bank — Rs. 1,35,000; Balance sheet total — Rs. 10,65,000]

11. A company's position on June, 30, 1993, was as follows:

	Rs.
20,000 equity shares of Rs. 100 each	20,00,000
1,000 6% debentures of Rs. 1,000 each	10,00,000
Interest on the above	1,20,000

The assets on that date amounted to Rs. 9,60,000 (valued according to their present worth). The following steps were taken with the approval of all concerned.

(i) The shares were subdivided into shares of Rs. 5 each and 90% of the shares were surrendered.

(ii) The total claims of the debenture holders were reduced to Rs. 4.90,000 and in consideration of this, they were allotted shares (out of the surrendered shares) amounting to Rs. 2,50,000.

(iii) The shares surrendered but not reissued were cancelled.

Draft journal entries and give the Balance Sheet of the company after reconstruction.

[Madras, B. Com: (ICE) Oct. 2008]

[Ans: Total capital reduction — Rs. 21,80,000; Balance Sheet total — Rs. 9,60,000; Transfer to capital reserve — Rs. 20,000]

12. The share capital of Zea Ltd. consisted of the following:

(a) 10,000 6% preference shares of Rs. 100 each and

(b) 50,000 equity shares of Rs. 10 each

The shares were fully paid. The company had accumulated losses totallingRs. 3,50,000 besides preliminary expenses Rs. 20,000. It was also ascertained that fixed assets which stood in the books at Rs. 14,00,000 were over-valued to the extent of Rs. 4,00,000. The following scheme was adopted to write off the losses and reduce the assets.

(i) 6% preference shares were to be converted into 7% pref. shares of Rs. 60 each.

(ii) Equity shares were to be reduced to Rs. 2 each.

Journalise.

(Madras, B.Com., B.Com. (CS) Ap. 2009; Nov. 2006 (Modified); B.Com.(1C1) Oct.2006; B.Com., B.Com.(CS), Nov. 2005; B.Com. (ICE); May 2002]

[Ans : Total capital reduction Rs. 8,00,000; Balance of capital reduction A/c transferred to capital reserve : Rs. 30,000]

13. Give journal entries for the following transactions in connection with internal reconstruction:

(i) 30,000 equity shares of Rs. 10 each fully paid reduced to shares of Rs. 5 each fully paid.

(iii) 300 9% debentures of Rs. 1,000 each converted into 1,500 12% debentures of Rs. 100 each.

(iv) The debit balance of profit and loss account Rs. 1,50,000 and the preliminary expenses Rs. 30,000 were written off

(v) The value of Plant & Machinery and Stock were written down by Rs. 60,000 and Rs. 30,000 respectively.

Madras, 1st M.Com (ICE) Nov. 2009]

[Ans: Total capital reduction — Rs. 3,00,000; Balance of capital reduction A/c transferred to capital reserve Rs. 30,000]

14. The following scheme of reconstruction has been approved for B Ltd.

(a) The shareholders to receive in lieu of their present holding of 50,000 shares of Rs. 10 each, the following:

(i) Fully paid equity shares equal to 2/5of their holding

(ii) 10% preference shares, fully paid, to the extent of 1/5of the above new equity shares; and

(iii) Rs. 60,000 14% second debentures.

(b) An issue of Rs. 50.000 12% first debentures was made and allotted, payment for the same being received in cash forthwith.

(c) (c) Goodwill which stood at Rs. 1,50,000 was completely written off.

(d) (d) Plant and Machinery which stood at Rs.1,00.000 was written down to Rs. 75,000.

(e) (e) Freehold and lease hold premises which stood at Rs. 1,75,000 were written down to Rs. 1,50,000.

Give journal entries in the books of the company necessitated by the above reconstruction.

[Madras, B.Com (PZ3A) Nov: 2007 Modified; 1st M.Com. (CA1A) Nov. 2007 (Modified); April 2006; Nov. 2005; B.Com., April 2005; M.Com., Nov. 2004]

[Ans : Total capital reduction — Rs. 2,00,000]

15. The following is the summarized balance sheet of Reckless Co. Ltd. as at 31st March, 1996

Liabilities	Rs.	Assets	Rs.
5,000 equity shares of Rs. 100 each	5,00,000	Sundry assets P&l a/c	2,02,800 2,97,200
	5,00,000		5,00,000

The company has decided that the worst is over and hence it adopts a scheme of reconstruction, reducing all its equity shares into an equal number of fully paid equity shares of Rs.40 each. Pass journal entries and prepare the balance sheet immediately after the reconstruction.

[Madras, B.Com(AF) Ap. 2008; M.Com., April 2004]

[Ans: Total Capital reduction — Rs. 3,00,000;Balance Sheet total — Rs. **2,02,800; Capital reserve — Rs. 2,800]**

16. The balance sheet of Gloomy Ltd. was as follows on 30th June 1978,

Liabilities	***Rs.***	***Assets***	***Rs.***
4,000 shares of Rs.100 each fully paid	4,00,000	Goodwill	60,000
6% debentures	2,00,000	Land & Buildings	1,00,000
Sundt: creditors	2,50,000	Plant and Machinery 4,00,000	

		Stock	90,000
		Sundry debtors	60,000
		Preliminary expenses	10,000
		Profit & Loss A/c	1,30,000
	8,50.000		8,50,000

In order to reconstruct the company, wiping off fictitious and intangible assets and writing down Plant and Machinery to its proper figure of Rs. 3,00,000, the shares were reduced to Rs. 20 each. Court's approval was obtained. Draft the necessary journal entries and show the balance sheet after the scheme is put through.

[Madras, M.Com (ZHC) Ap 2007]

[Ans: Total capital reduction — Rs. 3,20,000; Amount of capital reduction transferred to capital reserve — Rs. 20,000; Balance sheet total — Rs. 5,50,000]

17. Balance sheet of X Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Issued and paid up share capital		Goodwill	10,000
10,000 equity shares of Rs. 10		Other fixed assets	90,000
each fully paid	1,00,000	Stock-in-trade	25,000
10,000 7% preference shares		Debtors	30,000
of Rs. 10 each fully paid	1,00,000	P & L A/c	45,000
	2,00,000		2,00,000

It was resolved that equity share capital of Rs. 10 each be reduced to fully paid.

Shares of Rs. 6 each and 7% preference shares of Rs. 10 each be reduced to 7 $^{1/2}$%fully paid preference shares of Rs. 7 each. Number of shares in each case remained the same. It was further resolved that amount so available be used for writing off the debit balance of the Profit and Loss account and goodwill account and other fixed assets to the extent possible.

There were arrears of preference dividend for the last three years and it was decided that they be cancelled.

Draft the journal entries and prepare the revised balance sheet.

[Madras, 11.Com(PZ4A) Ap. 2008; B.Com (PZ3A) Nov. 2006; Nov 2005; (PZG) Nov. 2006; B.Com., B.Com.(CS) April 2006; B.C.S. April 2004] April 2006; B.C.S. April 2004; Oct. 2000; B.Com. (ICE) MAY 2000; B.Com., Oct. 1994]

[Ans : Total capital reduction Rs. 70,000; Fixed assets written off Rs. 15,000; Balance sheet total Rs. 1,30,000

18. The following is the Balance Sheet of Weak Ltd. on 31-3-2003.

Liabilities	Rs.	Assets	Rs.
20.000 Equity shares of		Patents	40,000
Rs. 10 each	2,00,000	Buildings	2.00.000
500 10% Pref Shares of		Machinery	1,30,000
Rs. 100 each	50,000	Stock	80,000
8% Debentures	1.00,000	Debtors	55.000
Creditors	3,30,000	P &L A/c	1,95,000
Outstanding Expenses	20,000		
	7,00,000		7,00,000

With a view to reconstruct the company, it is proposed:

i) To reduce Equity share paid up amount by Rs. 9 each.

ii) To reduce 10% Preference shares by Rs. 40 each.

iii) To reduce 8% Debentures by 10%

iv) To reduce Trade Creditors' claim by one third.

v) fo reduce Machinery by Rs. 60.000

vi) To reduce Inventory by Rs. 10,000

vii) To provide Rs. 15,000 for bad debts.To Write off all the intangible assets

Pass Journal entries to give effect to the above scheme and show the company's Balance Sheet after reconstruction.

[Madras, B.C.S. (ICE) Oct. 2003]

[Ans : Capital Reduction : Rs. 3,20,000; B/S Total : Rs. 3,80,000]

19. The following is the balance sheet of Reckless Co. Ltd., as on 31.3.1997.

Liabilities	Rs.	Assets	Rs.
Subscribed share capital:		Leasehold premises	1,30,800
7,500 preference shares of Rs. 100		Plant	42,200
each fully paid	7,50,000	Patents	8,50,000
5,000 equity shares of Rs. 100		Stock	55,000
each fully paid	5,00,000	Debtors	76,500
Sundry creditors	30,000	Cash	500
Bank overdraft	20,000	Preliminary expenses	12,000

		Discount on issue of shares	18,000
		P & L A/c	1,15,000
	13,00,000		13,00,000

As the company was not doing well, the following scheme of reconstruction was adopted.

(a) The preference shares be reduced to an equal number of fully paid shares of Rs. 50 each.

(b) The equity shares be reduced to an equal number of shares of Rs. 25 each.

(c) The amount available be used to write off the fictitious assets fully, Rs. 30,800 off the leasehold premises, Rs. 15,000 off stock, 20% off plant and debtors and the balance available off patents.

Journalise and prepare the balance sheet after the reconstruction has been carried out.

[Periyar, M.Com. (CA) Ap 2006]
[Madras, B.Com., April 2002; M.Com., Oct. 1998]

[Ans: Total capital reduction — Rs. 7,50,000; Patents written off — Rs. 5,35,460; Balance sheet total — Rs. 5,50,000

20. Sick Ltd. had the following balance sheet as on 31.12.90.

Liabilities	**Rs.**	**Assets**	**Rs.**
6% preference share of Rs. 100 each	2,00,000	Goodwill	60,000
Equity shares of Rs. 100 each	4,00,000	Fixed assets	3,00,000
Debentures	1,00,000	Stock	1,50,000
Sundry creditors	1,50,000	Debtors	60,000
		Discount on debentures	10,000
		Bank	1,000
		P & L A/c	2,69,000
	8,50,000		8,50,000

The following reconstruction scheme was approved:

a) Preference shares be reduced to 8% preference shares of Rs. 60 each.

b) Equity shares to be reduced by Rs. 80 each.

c) The amount thus made available to be utilised to write off fictitious assets including goodwill and Rs. 50,000 from fixed assets.

Give entries for the reconstruction and the final balance sheet.

[Thiruvalluvar, B.Com., Ap2007; Nov. 2005] madras, B.Com(ICE)May2007; M.Com(CE)Ap2007; RCS(NYD)Ap2005; BCom, March1993]

[Ans: Total capital reduction —Rs. 4,00,000; Balance of capital reduction A/c transferred to capital reserve —Rs. 11,000; Balance sheet total —Rs. **4,61,000]**

21. The following was the balance sheet of ABC Limited as on 31.12.1993.

Liabilities		**Rs.**	**Assets**		**Rs.**
Issued and paid up capital:			Goodwill		10,000
12,000 shares of	1,20,000		Land & Buildings		20,500
Rs. 10 each			Machinery		50,850
Less: Calls in arrear			Preliminary expenses		1,500
Rs. 3 per share on			Stock		10.275
3,000 shares	9,000	1,11,000	Debtors		15,000
Creditors		15,425	Bank		1,500
Provision for tax		4,000	P & L A/c	22,000	
			Less: Net profit		
			of this year	1,200	20,800
		1,30,425			1,30,425

Machinery value was Rs. 10,000 in excess. It is proposed to write down this asset and to extinguish the Profit & Loss A/c debit balance and to write off goodwill and preliminary expenses by the adoption of the following scheme.

a) Forfeit the shares on which the calls are outstanding.

b) Reduce the paid up capital by Rs. 3 per share.

c) Re-issue the forfeited shares at Rs. 5 per share.

d) Utilise the provision for tax if necessary.

You are required to draft the journal entries necessary and the Balance sheet after carrying out the scheme.

[Madras, I. M.Com. (ICE) Oct. 2002; B.Com., Sep. '95, March '95, Sep. '93, Mar. '92, Sep. '921

[Ans: Total capital reduction — Rs. 42,300; B/S total — Rs. 1,03,125; Provision for tax to be used — Rs. 300]

UNIT – 11

BANKING COMPANY ACCOUNTS

11.1 INTRODUCTION

Banking business in India is largely governed by the Banking Regulation Act, 1949 which defines banking as " accepting, for the purpose of lending or investment, of deposit of money from the public, repayable on demand or otherwise and withdrawals by cheque, draft, order or otherwise".

11.2 REGULATION ON BANKING COMPANIES

Section 6 of the Banking Regulation Act contains a detailed list of the forms of business a banking company may carry on in addition to its banking business. These forms of business are:

1. Borrowing, raising or taking up of money;
2. Lending or advancing money;
3. Drawing, making, accepting, discounting, buying, selling, collecting and dealing in bill of exchange, hundies, promissory note, drafts, bill of lading, railway receipts, warrants, debentures and other securities;
4. Granting and issuing of letters of credit, travelers cheques and circular notes;
5. Buying, selling and dealing in bullion;
6. Buying and selling on commission, underwriting and dealing in shares, debentures, etc;
7. Receiving all kinds of scripts or valuables on deposit or for safe custody;
8. Providing of safe deposit vaults;
9. Collecting and transmitting of money and securities;
10. Carrying on and transacting every kind of guarantee and indemnity business;
11. Undertaking and executing trusts;
12. Undertaking the administration of estates as executor, trustee or otherwise;
13. Contracting for public or private loan and negotiating and issuing company;
14. The acquisition, construction, maintenance and alteration of any building or convenient for the purpose of the company;
15. Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account;

16. Acquiring and undertaking the whole or any part of the business of any person or company;
17. Any other form of business which the Central Government may, by notification in the Official Gazette specify as a form of business in which it is for a banking company to engage.

11.3 LEGAL PROVISIONS OF BANKING REGULATION ACT

1. Capital and Reserve

No banking company can carry on business in India unless its subscribed capital is at least half of its authorized capital and its paid up capital is at least half of its subscribed capital.

2. Payment of commission, brokerage, etc.

A banking company is prohibited from paying the commission, brokerage, discount or remuneration in any form on issue of its shares in excess of 2.5 per cent of the paid up value of such shares.

3. Payment of dividend

No banking company can pay dividend on its shares until all the capitalized expenses have been completely written off. A banking company permitted to pay its dividend without writing off the following item:

a. The depreciation in the value of its investments in approved securities where such depreciation has not actually been capitalized.
b. The depreciation in the value of investments in shares, debentures or bonds where adequate provision for such depreciation has been made to the satisfaction of its securities.
c. The bad debts, if any, where adequate provision for such bad debts has been made to the satisfaction of its auditors.

4. Statutory Reserve

It is compulsory for every banking company to make a transfer of 25% profit before declaring any dividend every year to reserve called statutory reserve. This section does not apply to banking companies incorporated outside India. The Central Government may, on the recommendation of the Reserve Bank, exempt a banking company from this restriction if the aggregate amount is not less than the paid up capital of the company.

5. Cash Reserve

A scheduled bank has to maintain with the Reserve Bank a balance equal to 3% of its time liabilities as well as of its demand liabilities. A non-scheduled bank has to maintain similar

balances either in cash or as deposit with the Reserve Bank. The Reserve Bank of India has the power to raise this percentage up to 15%.

6. Disposal of non-banking assets

A banking company can acquire immovable property for its own use. Other immovable properties acquired must be disposed of within 7 years from the date of acquisition. This period may be extended by RBI.

7. Loans and advances

The Banking Regulation Act imposes certain restrictions on the loans granted by banks to Persons connected with their management. This section as amended by the Amended Act 1968 is as follows:

a. No banking company can grant loans and advances on the securities its own shares;

b. The banking company should not enter into any commitment for giving any loan or advance;

c. Any of its directors;

d. To a firm in which any of its directors is interested as partner, manager, employee or guarantor;

e. To any company of which any of the directors of the banking company is a director, manager, guarantor

f. To any individual with whom any of its directors is a partner or guarantor.

8. Non-banking assets

A banking company may have to take possession of certain assets given as security, if the loanee fails to repay the loan. In such case, the assets acquired in satisfaction of the claim of the bank will be shown on the assets side of the balance sheet under the head Non-banking assets. Such asset should be disposal of within seven years from the date of acquisition and the profit or loss on sale of such assets will be shown separately in the profit and loss account.

11.4 ASSETS CLASSIFICATION AND PROVISIONING

All banks was to recognize income from advances on accrual basis and take credit for interest accrued on all loans, over draft etc while closing books for an accounting year. It was considered as a part of Bottom Line Management. The international practice is now to classify the assets into performing assets and non-performing assets.

Income from performing assets is recorded on accrual basis. Income from Non-performing assets is recorded only when income from them is received in cash.

11.5 NON- PERFORMING ASSET (NPA)

An asset becomes non-performing when the interest and instalment of principal is delayed and not received before a stipulated time. In other words, an asset becomes non-performing when

it ceases to generate income. The RBI has given guidelines to decide as to when an asset becomes non-performing. These guidelines are:

a. Term loan – when interest and /or instalment of principal remains over due for more than 180 days, it should be considered as NPA.

b. Cash credit and Overdrafts – when account remains out of order for more than 180 days, they are to be considered as NPA. An account is out of order if

   i) The outstanding balance is in excess of the sanctioned limit or

   ii) Drawing power or

   iii) There are no credits for a continuous period of 180 days in the account or

   iv) Credits during the period are not enough to cover the interest debited.

c. Bill purchased and discounted – if the bills remains over due for a period of more than 180 days, it should be considered as NPA.

d. Agricultural Advances – If advances to agricultural sector remain over due for two harvest seasons, not exceeding two half years, they are to be considered as NPA.

e. Other Advances – When other advances remain over due for more than 180 days, they are to be considered as NPA.

NPA are to be determined on Borrower Basis and not on the basis of each kind of advance separately. The latest development regarding NPA is that RBI has instructed the best international practices, it has been decided to adopt that 90 days (instead of 180 days) overdue norms for identification NPA from the year ending March 31, 2004.

11.6 PROVISION FOR NPA

Provisioning they are classified into four broad groups i.e., standards assets, sub-standard assets, doubtful assets and loss assets.

1. Standards assets

Standard asset is one which is not a non-performing asset and does not disclose any problem nor carry more than normal risk attached to the business. No provision was required on standard assets. From the year ending 31st March 2000 are required to make a provision of 0.25% on global loan portfolio basis.

2. Sub - Standard assets

With effect from 31.3.2001, a sub-standard asset is one which has been classified as NPA for a period not exceeding 18 months. There is no promise of recovering the dues in full, having regarded to the values of security or current net worth of the borrower, hence the possibility loss in realizing such debts. Term loan in respect of which instalments principles are overdue for more than one year are treated as sub-standard assets.

3. Doubtful assets

With effect from 31.3.2001 an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 18 months. These assets are so weak that their collection or liquidation in

full is considered highly improbable. There are two components for provision in respect of doubtful debts.

a. Debt is not covered by realizable value of the security, 100% provision is to be made.

b. For the secured portion of the doubtful asset, provision is required to be made between 20% and 50% depending upon the period for which the asset has remained doubtful.

Doubtful status up to one year	-	20%
1 year to 3 years	-	30%
More than 3 years	-	50%

4. Loss assets

Loss assets are those which have been identified by the bank or internal auditors or the RBI inspection by the amount has not been written off wholly or partly. These assets should be written off completely.100% provisions are required to be made.

Illustration -1 From the following particulars, you are required to calculate the amount of provision to be made by the bank.

Standard assets	₹24,000
Sub-standard assets	₹1,200
Doubtful assets: Up to 1 year	₹800
1 year to 3 years	₹600
More than 3 years	₹400
Loss assets	₹900

Solution

		Provision %	**Amount of provision**
Standard assets	₹24,000	–	–
Sub-standard assets	₹1,200	10	₹120
Doubtful assets: Up to 1 year	₹800	20	₹160
1 year to 3 years	₹600	30	₹180
More than 3 years	₹400	50	₹200
Loss assets	₹900	100	₹900
Total provisions required			₹1,560

11.7 REBATE ON BILL DISCOUNTED

This is also termed as unexpired discount or discount received but not earned. This is unearned amount of discount received for those bills that will mature after the date of closing the final accounts.

For example, if a bill discounted on 1.12.2014 for 3 months at ₹6,000 and accounts are closed on 31st December 2014 ₹4,000 is the unexpired discount because it relates to two months in 2015.

Discount account Dr
To rebate on Bill Discounted A/c

The rebate on bill discounted at the beginning is added to the discount income and the Rebate on bill discounted at the end is deducted to find out the net discount income.

Illustration -2 Chennai Bank Ltd. held the following bills on 31-03 – 2016.

Date of bill	Amount (₹)	Term (Months)	Discount (p.a.)
Jan.13	7,50,000	4	12%
Feb.17	6,00,000	3	10%
Mar. 6	4,00,000	4	11%
Mar. 16	2,00,000	2	10%

Calculate the rebate on bills discounted and give necessary journal entries.

Solution

Date of bill	Due date	Amount (₹)	No. of days after 31st March	Discount (p.a.)	Discount
Jan.13	16 -05	7,50,000	46	12%	11,342
Feb.17	20 – 05	6,00,000	50	10%	8,219
Mar. 6	9 – 07	4,00,000	100	11%	12,055
Mar. 16	19 – 07	2,00,000	49	10%	2,685
					34,301

Particulars	LF	Debit ₹	Credit ₹
Discount a/c	Dr	34,301	
To Rebate on bills discounted a/c			34,301

11.8 CONTINGENT LIABILITIES

These are not liabilities of a bank on the date of a balance sheet, but can become liabilities at a future date. The contingent liabilities are shown under Schedule 12 as a footnote to the balance sheet of a bank. The following are the contingent liabilities.

1. Claim against the bank, not acknowledged as debts.

2. Liability for partly paid investments – Liabilities on partly paid shares, debentures, etc. will be included under this head.
3. Liability on account of outstanding forward exchange contract.
4. Guarantees given on behalf of customer – Guarantees given for constituents in India and outside India may be shown separately.
5. Acceptances, endorsements and other obligations – This item will include letter of credit and bills accepted by the bank on behalf of customers.
6. Other items for which the bank is contingently liable – Arrears of cumulative dividends, bills rediscounted under underwriting contracts, estimated amounts of contracts remaining to be executed on capital account and not provided for etc are to be included here.

Illustration -3 From the following calculate statutory reserve while preparing bank P & L a/c for the current year

Profit for the year	1,83,000
Profit for the last year	35,000
Total profit	2,18,000

Solution

Statutory reserve = 1,83,000 x 25% = ₹45,750

SPECIMEN FORMAT OF
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH

	Schedule No.	Current year	Last year
I Income			
Interest earned	13	xxx	xxx
Other incomes	14	xxx	xxx
Total		xxx	xxx
II Expenditure			
Interest expended	15	xxx	xxx
Operating expenses	16	xxx	xxx
Provisions and contingencies	–	xxx	xxx
Total		xxx	xxx
III Profit or Loss			
Net profit (Income – expenditure)		xxx	xxx
P & L a/c balance (Last year profit)		xxx	xxx

Total		xxx	xxx
IV Appropriations			
Statutory reserve		xxx	xxx
(25% of current year net profit)			
Proposed dividend		xxx	xxx
Contingency reserve		xxx	xxx
Dividend equalization reserve		xxx	xxx
Other reserves		xxx	xxx
Bal. carried to balance sheet (b/f)		xxx	xxx
Total		xxx	xxx

EXPLANATIONS OF SCHEDULES APPEARING IN P& L ACCOUNT

Schedule –13 INTEREST EARNED	**Schedule –14 OTHER INCOMES**
Interest on loan	Commission, exchange and brokerage
Interest on cash credit	Profit on revaluation / sale of fixed assets
Interest on overdraft	Less: Loss on sale of fixed assets
Interest and discount	Other incomes
Income on investment	Transfer fees
Discount on bills discounted	Locker rent
Add: Opening rebate on bills discounted	
Less: Closing rebate on bills discounted	
Schedule –15 INTEREST EXPENDED	**Schedule –16 OPERATING EXPENSES**
Interest on fixed deposits	Salary
Interest on current account	Rent and taxes
Interest on savings bank a/c	Establishment expenses
Interest paid	Auditor fees & director fees
	All other expenses
PROVISIONS AND CONTINGENCIES:	
Bad debts written off	
Provision for bad and doubtful debts	
Provision for taxation	
Rebate on bills discounted / unexpired risk	

11.9 PREPARATION OF PROFIT AND LOSS A/C WITHOUT ADJUSTMENT

Illustration -4 From the following particulars of Arun Bank Ltd., prepare P & L a/c for the year ended 31st March 2015.

Interest on deposits	32,00,000	Commission (Cr)	1,00,000
Interest on loan	24,90,000	Sundry expenses	1,00,000
Rent and taxes	2,00,000	Salaries to employees	5,00,000
Discount received	14,90,000	Interest on overdraft	16,00,000
Audit fees	35,000	Interest on cash credit	23,20,000
Directors fees	16,000	Bad debts written off	3,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	Schedule No.	Amount ₹
I. Income		
Interest earned	13	79,00,000
Other income	14	1,00,000
Total		80,00,000
II. Expenditure		
Interest expended	15	32,00,000
Operating expenses	16	8,51,000
Provisions and contingencies	–	3,00,000
Total		43,51,000
III. Profit / loss		
Net profit		36,49,000
IV. Appropriations		
Transfer to statutory reserve (25%)		9,12,250
Balance carried to balance sheet		27,36,750
		36,49,000

Workings

Schedule 13	₹	**Schedule 14**	₹
Interest on loan	24,90,000	Commission (Cr)	**1,00,000**
Discount received	14,90,000	**Schedule 15**	
Interest on overdraft	16,00,000	Interest on deposits	**32,00,000**
Interest on cash credit	23,20,000	**Schedule 16**	
	79,00,000	Rent and taxes	2,00,000
		Salaries to employees	5,00,000
Provisions and contingencies		Audit fees	35,000

Bad debts	**3,00,000**	Directors fees	16,000
		Sundry expenses	1,00,000
			8,51,000

Illustration -5 Prepare P & L a/c for the year ended 31st March 2015 of New Bank Ltd from the following particulars:

	₹ (‘000)		**₹ (‘000)**
Interest on loan	250	Discount on bills discounted	40
Interest on savings a/c	150	Rent and taxes	5
Interest on cash credit	160	Commission, exchange & brokerage	15
Audit fees	10	Interest on fixed deposits	190
Payment to employees	50	Directors fees	20

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ (‘000)**
I. Income		
Interest earned	13	450
Other income	14	15
Total		465
II. Expenditure		
Interest expended	15	340
Operating expenses	16	85
Provisions and contingencies	–	–
Total		425
III. Profit / loss		
Net profit		40
IV. Appropriations		
Transfer to statutory reserve (25%)		10
Balance carried to balance sheet		30
		40

Workings

Schedule 13	**₹ ('000)**	**Schedule 15**	**₹ ('000)**
Interest on loan	250	Interest on savings a/c	150
Interest on cash credit	160	Interest on fixed deposits	190
Discount on bills discounted	40		340
	450	**Schedule 16**	
Schedule 14		Payment to employees	50
Commission, exchange & brokerage	15	Directors fees	20
		Rent and taxes	5
		Audit fees	10
			85

Illustration -6 From the following particulars, prepare P & L a/c of W Bank Ltd. for the year ended 31-12-15.

	₹ ('000)		**₹ ('000)**
Interest on loan	260.00	Rebate on bills discounted	50.00
Printing	3.00	Commission charged to customers	9.00
Directors fees	4.50	Interest on cash credit	225.00
Sundry charges	1.80	Interest on current account	45.00
Postage	1.50	Interest on fixed deposits	280.00
Rent and taxes	20.00	Interest on savings a/c	70.00
Interest on overdraft	56.00	Establishment expenses	56.00
Payment to employees	150.00	Discount on bills discounted	200.00

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ ('000)**
I. Income		
Interest earned	13	791.00
Other income	14	9.00
Total		800.00
II. Expenditure		
Interest expended	15	395.00
Operating expenses	16	236.80

Provisions and contingencies	–	–
Total		631.80
III. Profit / loss		
Net profit		168.20
IV. Appropriations		
Transfer to statutory reserve (25%)		42.05
Balance carried to balance sheet		126.15
		168.20

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest on loan	260	Interest on savings a/c	70
Interest on cash credit	225	Interest on fixed deposits	280
Discount on bills discounted	200	Interest on current account	45
Interest on overdraft	56		395
Rebate on bills discounted	50	**Schedule 16**	
	791	Printing	3.0
		Directors fees	4.5
Schedule 14		Sundry charges	1.8
Commission charged to customers	9	Postage	1.5
		Rent and taxes	20.0
		Establishment expenses	56.0
		Payment to employees	150.0
			236.8

11.10 PREPARATION OF PROFIT AND LOSS A/C WITH ADJUSTMENT

Illustration -7 From the following details relating to the Chennai Bank Ltd, prepare P & L a/c for the year ended 31-3-15.

Interest earned	₹37,01,738	Other incomes	₹4,55,000
Interest expended	₹20,37,452	Salary and rent paid	₹4,80,286
Provisions and contingencies	₹13,00,000	Profit from last year	Nil

Adjustments:

a) Transfer to statutory reserve 25% out of profit

b) Transfer to proposed dividend ₹1,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	37,01,738
Other income	14	4,55,000
Total		41,56,738
II. Expenditure		
Interest expended	15	20,37,452
Operating expenses	16	4,80,286
Provisions and contingencies	–-	13,00,000
Total		38,17,738
III. Profit / loss		
Net profit		3,39,000
IV. Appropriations		
Transfer to statutory reserve		87,750
Transfer to proposed dividend		1,00,000
Balance carried to balance sheet		1,54,250
		3,39,000

Illustration -8 From the following information relating to Aswin Bank Ltd, prepare P & L a/c for the year ending 31-3-15 along with necessary schedules in the revised format:

	₹ (‘000)		**₹ (‘000)**
Interest, discount earned	31,628	Income on investments	11,810
Auditor’s fees	41	Commission, exchange and brokerage	2,907
Salaries to employees	9,717	Balance of profit B/D from last year	1,000
Postage	403	Interest on RBI Loan paid	3,362
Rent and taxes	1,168	Depreciation on bank property	379
Directors fees	7	Profit on sale of investments	114
Law charges	22	Interest received on balance with RBI	4,243
Other expenditure	1,799	Interest on deposits paid	31,404

Adjustments:

a) Make a provision for IT @ 51.75% on profit

b) Transfer 25% of profit to statutory reserve and 5% to revenue reserve

c) Transfer to proposed dividend ₹2,00,000

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	4,76,81,000
Other income	14	30,21,000
Total		5,07,02,000
II. Expenditure		
Interest expended	15	3,47,66,000
Operating expenses	16	1,35,36,000
Provisions and contingencies	–	12,42,000
Total		4,95,44,000
III. Profit / loss		
Net profit		11,58,000
Last year profit		10,00,000
		21,58,000
IV. Appropriations		
Transfer to statutory reserve (25%)		2,89,500
Transfer to revenue reserve (5%)		57,900
Proposed dividend		2,00,000
Balance carried to balance sheet		16,10,600
		21,58,000

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest, discount earned	31,628	Interest on deposits paid	31,404
Income on investments	11,810	Interest on RBI Loan paid	3,362
Interest received on balance with RBI	4,243		34,766
	47,681	**Schedule 16**	
Schedule 14		Auditor’s fees	41
Commission, exchange and brokerage	2,907	Salaries to employees	9,717
Profit on sale of investments	114	Postage	403
	3,021	Rent and taxes	1,168
		Directors fees	7

		Law charges	22
		Other expenditure	1,799
		Dep. on bank property	379
			13,536

Calculation of Provision for taxation ₹ (‘000)

Total income	₹50,702
Less: Total expenses	₹48,302
	₹2,400
Provision for income tax (2,400 x 51.75%)	₹1,242

Illustration -9 From the following information, prepare P & L a/c of Cholan Bank for the year ended 31-3-2015 along with necessary schedules in the revised format:

	₹ (‘000)		**₹ (‘000)**
Interest on loan	518	Directors fees	6
Commission received	16	Salaries	108
Discount on bills discounted	292	Rent and tax	36
Interest on investments	446	Sundry charges	4
Interest on fixed deposits	550	Printing	6
Interest on current accounts	84	Auditors fees	2
Interest on savings bank deposit	136	Postage	3
Depreciation on bank’s property	10	Locker rent	2
Rebate on bills discounted	98	Transfer fees	1
Interest on overdraft	308		

Other information:

a) Provision for bad debts ₹80,000

b) Provision for income tax ₹3,00,000

c) Statutory reserve 25%

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹ (‘000)**
I. Income		
Interest earned	13	1,564.0
Other income	14	23.0
Total		1,587.0

II. Expenditure		
Interest expended	15	770.0
Operating expenses	16	171.0
Provisions and contingencies	–	380.0
Total		1,321.0
III. Profit / loss		
Net profit		266.0
IV. Appropriations		
Transfer to statutory reserve (25%)		66.5
Balance carried to balance sheet		199.5
		266.0

Workings

Schedule 13	**₹ (‘000)**	**Schedule 15**	**₹ (‘000)**
Interest on loan	446	Interest on savings a/c	136
Interest on advances	518	Interest on fixed deposits	550
Discount on bills discounted	292	Interest on current account	84
Interest on overdraft	308		770
	1,564	**Schedule 16**	
		Printing	6
Schedule 14		Directors fees	6
Commission	16	Audit fees	2
Locker rent	2	Depreciation	10
Sundry charges	4	Rent and taxes	36
Transfer fees	1	Postage	3
	23	Salary	108
			171

Illustration -10 The following are the figures extracted from the books of Naveen Bank Ltd as on 31-3-15. Prepare the P & L a/c as per the revised format with all necessary schedules.

	₹		₹
Salaries	2,00,000	Interest paid to deposits	20,37,452
Subscribed capital	10,00,000	Profit on sale of investments	2,00,000
Directors fees	30,000	Stationery expenses	40,000
Postage	60,286	Statutory reserve fund	8,00,000
Rent and taxes	90,000	Depreciation on bank property	30,000

Rent received	65,000	Preliminary expenses	25,000
Auditors fees	5,000	Interest and discount received	37,05,738
		Commission received	1,90,000

Additional information:

a) A customer to whom a sum of ₹10 Lakhs has been advanced became insolvent and only 50% can be realized from his estate

b) There were also debts which a provision of ₹1,50,000 was found necessary

c) Rebate on bills discounted on 31-3-2014 ₹12,000 and on 31-3-2015 was ₹16,000

d) Provide ₹6,50,000 for income tax

e) Directors recommended 10% dividend

Solution

P & L a/c for the year ended 31-3-2015

Particulars	**Schedule No.**	**Amount ₹**
I. Income		
Interest earned	13	37,01,738
Other income	14	4,55,000
Total		41,56,738
II. Expenditure		
Interest expended	15	20,37,452
Operating expenses	16	4,80,286
Provisions and contingencies	–	13,00,000
Total		38,17,738
III. Profit / loss		
Net profit		3,39,000
Last year profit		–
		3,39,000
IV. Appropriations		
Transfer to statutory reserve (25%)		84,750
Proposed dividend		1,00,000
Balance carried to balance sheet		1,54,250
		3,39,000

SPECIMEN FORMAT OF BALANCE SHEET

	Schedule No.	**Current year**	**Last year**
Capital and Liabilities			
Capital	1	xxx	xxx
Reserves and surplus	2	xxx	xxx
Deposits	3	xxx	xxx
Borrowings	4	xxx	xxx
Other liabilities and provisions	5	xxx	xxx
Total		xxx	xxx
Assets			
Cash and balance with Reserve Bank of India	6	xxx	xxx
Balance with banks and money at call and short notice	7	xxx	xxx
Investments	8	xxx	xxx
Advances	9	xxx	xxx
Fixed assets	10	xxx	xxx
Other assets	11	xxx	xxx
Total		xxx	xxx
Contingent liabilities	12		
Bills for collection		xxx	xxx

Explanations of Schedules appearing in Balance Sheet

Schedule –1 CAPITAL	**Schedule –2 RESERVES AND SURPLUS**
Authorized Issued Subscribed Less: Calls in arrears Add: Forfeited shares	Statutory reserve Capital reserve Securities premium Dividend equalization fund Reserve fund Balance from P & L a/c
Schedule – 3 DEPOSITS	**Schedule –4 BORROWINGS**
Demand deposits Savings deposits	In India Outside India

Term deposits Other deposits Cash certificate	Short loan (Cr)
Schedule –5 OTHER LIABILITIES AND PROVISIONS	**Schedule –6 CASH BALANCE WITH RESERVE BANK OF INDIA**
Bills payable Creditors Inter branch adjustments (Cr) Interest accrued Provision for income tax Unclaimed dividend Provision for doubtful debts Rebate on bills discounted /unexpired discount Outstanding expenses	Cash in hand Balance with RBI
Schedule –7 BALANCE WITH BANK AND MONEY AT CALL AND SHORT NOTICE	**Schedule –8 INVESTMENTS**
Balance with other banks Money at call and short notice	Govt. securities Other approved securities Shares Debentures and bonds Reserve fund investments
Schedule –9 ADVANCES	**Schedule –10 FIXED ASSETS**
Bills purchased and discounted Cash credit, gold and loan repayable on demand Term loans	Fixed assets Less: Depreciation
Schedule – 11OTHER ASSETS	**Schedule – 12 CONTINGENT LIABILITIES**
Income outstanding Branch adjustments (Dr) Expenses paid in advance Non-banking assets Other assets	Acceptances, endorsements and other obligations Bills for collection

11.11 TREATMENT FOR SOME IMPORTANT ADJUSTMENTS:

1. Closing rebate on bills discounted:

a) Given in adjustments	Provisions and contingencies (or) Less from Schedule 13 and Schedule –5
b) Given in trial balance	Schedule – 5 only

2. Depreciation:

a) Given in adjustments	Schedule –16 and Schedule – 10
b) Given in trial balance	Schedule – 5 only

3. Bad debts written off :

a) Given in adjustments	Provisions and contingencies and Schedule -5
b) Given in trial balance	Provisions and contingencies only

4. Statutory Reserve	P & L a/c – IV Appropriations Schedule- 2 Reserves and surplus
5. Provision for taxation	Provisions and Contingencies Schedule -5 Other current liabilities

6. If there is reserve fund investment, there must be reserve fund equal to that amount

11.12 PREPARATION OF BALANCE SHEET

Illustration -11 From the following trial balance of a bank, prepare a balance sheet of the bank with schedule numbers as on 31-3-2015

Debit balance	₹ (in Lacs)	Credit balances	₹ (in Lacs)
Current a/c	28.00	19,80,000 shares of ₹ 10 each	198.00
Cash credits	812.10	Statutory reserve	231.00
Cash in hand	160.15	Net profit before appropriation	150.00
Cash with other RBI	37.88	P & L a/c	412.00
Money at call	210.12	Fixed deposit a/c	517.00
Gold	55.23	Savings deposit a/c	450.00
Govt. securities	110.17	Current deposit a/c	520.12
Premises	155.70	Bills payable	0.10
Term loans	792.88	Borrowings from other banks	110.00
Furniture	205.99		
	2,588.22		2,588.22

Additional information:

a) Depreciation chargers – Premises ₹1,10,000; Furniture ₹78,000

b) 50% of the term loans are secured by Govt. quarantines.

c) 10% of cash credits are unsecured.

Solution

Balance Sheet as on 31-3-2015

	Schedule No.	**2015 ₹ (in Lacs)**	**2014**
Capital and Liabilities			
Capital	1	198.00	
Reserves and surplus	2	773.00	
Deposits	3	1,487.12	
Borrowings	4	110.00	
Other liabilities and provisions	5	0.10	
Total		2,566.34	
Assets			
Cash and balance with Reserve Bank of India	6	198.03	
Bal. with banks and money at call and short notice	7	210.12	
Investments	8	110.17	
Advances	9	1,688.21	
Fixed assets	10	359.81	
Other assets	11	–	
Total		2,566.34	
Contingent liabilities	12	–	
Bills for collection			

Illustration -12 From the following trial balance as on 31st March 2015, prepare the balance sheet of World Bank Ltd.

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Cash balance	300	Share capital	2,000
Cash with RBI	200	P & L a/c	500
Balance with other banks	400	Statutory reserve	300
Money at call and short notice	200	Net profit before appropriation	200

Investments in Govt. securities	200	Fixed deposit a/c	550
Investments in other approved securities	200	Current a/c	800
Gold	100	Savings bank a/c	850
Cash credit and overdraft	1,000	Borrowings from other banks	300
Loans and advances	1,500	Borrowings from RBI	200
Bills purchased and discounted	1,000	Bills payable	100
Premises	500	Rebate on bills discounted	200
Furniture	100		
Non-banking assets	300		
	6,000		6,000

Additional information:

1) Acceptances and endorsements ₹9,00,000
2) Bills for collection ₹5,00,000

Solution

Balance Sheet as on 31-3-2015

	Schedule No.	2015 ₹ in '000	2014
Capital and Liabilities			
Capital	1	2,000	
Reserves and surplus	2	1,000	
Deposits	3	2,200	
Borrowings	4	500	
Other liabilities and provisions	5	300	
Total		6,000	
Assets			
Cash and balance with Reserve Bank of India	6	500	
Bal. with banks and money at call and short notice	7	600	
Investments	8	500	
Advances	9	3,500	
Fixed assets	10	600	
Other assets	11	300	
Total		6,000	
Contingent liabilities	12	900	
Bills for collection		500	

11.13 PREPARATION OF P & L A/C AND BALANCE SHEET

Illustration -13 Prepare P & L a/c and B/S of Chennai Bank Ltd. as on 31-12-2015 according to Banking Regulations Act,1949.

Trial Balance as on 31-12-2015

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Money at call and short notice	800	Share Capital	2,000
Cash in hand	650	Reserve fund	700
Cash at bank	950	Deposits	2,500
Investments in Govt. Securities	900	Borrowings from SBI	500
Secured loan	1,500	Rent	60
Cash credit	500	Interest and discount	800
Premises less depreciation	580	Commission and Brokerage	70
Furniture	120		
Rent	5		
Interest paid on deposits	300		
Salary and allowances paid to staff	150		
Interest paid on borrowings	50		
Audit fees	10		
Directors fees	8		
Non-banking assets	80		
Depreciation on Banks properties	13		
Printing	3		
Advertisements	1		
Stationery	5		
Postage and telegrams	2		
Other expenses	3		
	6,630		6,630

Adjustments:

1. Provide ₹ 20,000 on doubtful debts
2. Provide ₹10,000 on bills discounted but not matured on 31-12-2015.
3. Acceptance and endorsements on behalf of customers amounting to ₹4,00,000.
4. Provide ₹60,000 for taxes.

Solution:

P & L a/c for the year ended 31-12-2015

Particulars	Schedule No.	Amount ₹ in '000
I. Income		
Interest earned	13	790
Other income	14	130
Total		920
II. Expenditure		
Interest expended	15	350
Operating expenses	16	187
Provisions and contingencies	--	80
Total		617
III. Profit / loss		
Net profit		303
Last year profit		--
IV. Appropriations		
Transfer to statutory reserve (25%)		75.75
Balance carried to balance sheet		227.25
		303.00

Balance Sheet as on 31-12-2015

	Schedule No.	2015 ₹ in '000	2014
Capital and Liabilities			
Capital	1	2,000	
Reserves and surplus	2	1,003	
Deposits	3	2,500	
Borrowings	4	500	
Other liabilities and provisions	5	90	
Total		6,093	
Assets			
Cash and balance with Reserve Bank of India	6	650	
Bal. with banks and money at call and short notice	7	1,950	

Investments	8	900	
Advances	9	2,000	
Fixed assets	10	687	
Other assets	11	80	
Total		6,267	
Contingent liabilities	12	400	
Bills for collection			

Illustration -14 Prepare P & L a/c and B/S of Chennai Bank Ltd. as on 31-3-2016 according to Banking Regulations Act,1949.

Trial Balance as on 31-3-2016

Particulars	**Debit ₹ in '000**	**Particulars**	**Credit ₹ in '000**
Money at call and short notice	5,000	Share Capital	10,000
Cash in hand	1,000	Statutory Reserve	5,000
Balance with other banks	15,000	Deposits	55,000
Govt. Securities	2,000	Borrowings from other banks	10,000
Loans and advances	40,000	P & L a/c as on 1-4-2015	5,300
Bills discounted	10,000	Interest and discount	5,000
Premises less depreciation	2,000	Commission and Brokerage	500
Furniture	500		
Balance with RBI	10,000		
Computer	200		
Salary and bonus	1,400		
Interest on borrowings and deposits	2,000		
Audit fees	100		
Directors fees	200		
Silver	1,000		
Printing and stationeries	200		
Advertisements	200		
	90,800		90,800

Additional information:

1. Rebate on bills discounted for unexpired term is ₹3,00,000
2. Interest accrued on investments is ₹2,00,000

3. Charge 5% depreciation on Premises and 20% on Furniture
4. A provision for doubtful debts amounting to ₹1,00,000 is required.
5. Bills for collection amounted to ₹2,0,0000
6. Acceptances for customers ₹3,00,000
7. The directors desired to declare 5% dividend.

Prepare P & L a/c and B/S in the prescribed form.

Solution:

P & L a/c for the year ended 31-3-2016

Particulars	**Schedule No.**	**31-3-2016 ₹ in'000**
I. Income		
Interest earned	13	4,900
Other income	14	500
Total		5,400
II. Expenditure		
Interest expended	15	2,000
Operating expenses	16	2,300
Provisions and contingencies	–	100
Total		4,400
III. Profit / loss		
Net profit		1,000
Last year profit		5,300
		6,300
IV. Appropriations		
Transfer to statutory reserve (25%)		250
Proposed dividend		500
Balance carried to balance sheet		5,550
		6,300

Balance Sheet as on 31-12-2016

	Schedule No.	**2016 ₹ in '000**	**2015**
Capital and Liabilities			
Capital	1	10,000	
Reserves and surplus	2	10,800	

Deposits	3	55,000	
Borrowings	4	10,000	
Other liabilities and provisions	5	900	
Total		86,700	
Assets			
Cash and balance with RBI	6	11,000	
Bal. with banks and money at call and short notice	7	20,000	
Investments	8	2,200	
Advances	9	51,000	
Fixed assets	10	2,500	
Other assets	11	–	
Total		86,700	
Contingent liabilities	12	500	
Bills for collection			

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. The statutory reserve of a banking company is at least ________ of its annual profit
   a) 10% b) 15%
   c) 20% d) **25%**

2. Assets acquired in satisfaction of claims of the bank is called
   a) Non-performing assets b) Performing assets
   c) **Non-banking assets** d) Banking assets

3. Non-performing assets should be disposed of within _________ from the date of acquisition.
   a) 7 months b) 7 days
   c) **7 years** d) 7 weeks

4. __________ asset is one which ceases to generate income for the bank
   a) **Non-performing** b) Performing
   c) Non-banking d) Banking

5. Provision required for sub-standard assets is _______ of the total outstanding amount.
   a) **10%** b) 15%
   c) 20% d) 5%

6. Provision required for unsecured portion of doubtful asset is ______ of the total outstanding amount.
   a) **100%** b) 15%
   c) 20% d) 75%

7. Provision required for unsecured portion of asset up to one year the advance has been considered doubtful is _______ of the total outstanding amount.
   a) 100% b) 15%
   c) **20%** d) 25%

8. Bank is required to maintain ______ of net time and demand liabilities as cash reserve ratio
   a) **5%** b) 15%
   c) 25% d) 20%

9. Bank is required to maintain _____ of net time and demand liabilities as statutory liquidity ratio
   a) 5% b) 15%
   c) **25%** d) 20%

10. Doubtful assets are those which have remained non-performing assets for a period ________
    a) **Exceeding 18 months** b) Not exceeding 18 months
    c) Exceeding 18 years d) Not exceeding 18 years

11. Banks prepare the accounts for the
    a) Calendar year b) **Financial year**
    c) Co-operative year d) Diwali year

12. Banks show the provision for income tax under the head
    a) Contingency a/cs b) Contingent liabilities
    c) **Other liabilities and provisions** d) Borrowings

13. The heading other assets does not include
    a) Silver b) Interest accrued
    c) Inter-office adjustment (Dr) d) **Gold**

14. Rebate on bills discounted is
    a) Income b) Liability
    c) **Income received in advance** d) Income outstanding

15. A non-banking asset is
    a) Money at call and short notice b) **Any asset acquired from debtors in satisfaction of claim**
    c) An item of office equipment d) Furniture and fixtures

16. A non-performing assets is
    a) Money at call and short notice b) **An asset which ceases to generate income**
    c) Cash balance d) Cash balance with RBI

17. When an income is to be recognized on cash basis, a distinction should be made between
    a) **Performing and non-performing assets** b) Banking and non-banking assets
    c) Monetary and non-monetary assets d) Current and non-current assets

18. Paid up capital of a banking company must be at least ______ of the subscribed capital of a banking company
    a) **50%** b) 1/3
    c) 40% d) 2/3

19. No banking company shall pay any dividend on its shares _______ have been completely written off
    a) **until all its capitalized expenses** b) after all its capitalized expenses
    c) After all its revenue expenses d) Before all its revenue incomes

20. The subscribed capital of banking company is not less than half of the __________
    a) Subscribed capital b) **Authorized capital**
    c) Paid up capital d) Called up capital

21. The capital of banking company consist of only
    a) Equity shares b) Preference shares
    c) **Equity shares and Preference shares issued before 1-7-1944** d) Redeemable preference shares

22. The Reserve Bank of India compel all the commercial banks to follow the revised format of P & L a/c and Balance sheet on
    a) 3-12-1992
    b) **31-3-1992**
    c) 1-3-1992
    d) 23-1-1992

23. Schedule 14 gives the details of ________
    a) **Other income**
    b) Other expenses
    c) Operating expenses
    d) Income received in advance

24. Interest on deposits comes under
    a) Schedule 16
    b) Schedule 13
    c) **Schedule 15**
    d) Schedule 14

25. Schedule 8 deals with
    a) Advances
    b) **Investments**
    c) Other assets
    d) Cash

26. Statutory reserve will come under
    a) Reserves and surplus
    b) Appropriation
    c) **Both a & b**
    d) Provisions and contingencies

27. Rebate on bills discounted at the end should be credited in
    a) Rebate a/c
    b) Discount a/c
    c) Bills discounted a/c
    d) **Rebate on bills discounted a/c**

28. Rebate on bills discounted is
    a) Rebate allowed by bank on large deposits
    b) Rebate allowed by bank on large advances
    c) **Discount received by the bank but not earned**
    d) Discount not received by the bank but not earned

29. The financial statements of a banking company are now required to be prepared on _____basis
    a) **Historical cost**
    b) Replacement cost
    c) Historical as well as replacement cost
    d) All of the above

30. Number of schedules in the bank balance sheet is
    a) 16
    b) 12
    c) 08
    d) 04

31. The statutory reserve to be created by bank is
    a) 15%
    b) 20%
    c) 10%
    d) 12%

REVIEW QUESTIONS

A) Answer in short

1. What do you mean by non – banking assets?
2. Write a note on non – performing assets.
3. What is rebate on bills discounted?
4. How is interest on doubtful debts treated in bank accounts?
5. What do you mean by “statutory reserve”?
6. What is a contingent liability? What do they include?

B) Answer in detail

1. Discuss the legal provisions relating to the final accounts of a banking company.
2. Explain the various schedules to be prepared by a commercial bank.
3. How the following are treated in banking final account?

    a) Bad debts b) Reserve for bad debts c) Provision for taxation

    d) Unexpired discounts

EXERCISES

REBATE ON BILLS DISCOUNTED

1. On 31-12-2016 Indian Bank had the following unmatured bills

Date	Amount	Term (Months)	Discounted at
12-10-2016	36,000	6	7%
7-11-2016	73,000	4	6%
1-12-2016	18,000	3	5%

Calculate rebate on bills discounted as on 31-12-2016

2. As on 31st Dec. 2016, the books of the Hercules bank, include among others, the following balances

    Rebate on bills discounted (1-1-2008) ₹3,20,000

    Discount received ₹46,00,000

    Bills discounted and purchased ₹3,15,47,000

Throughout 2016, the bank's rate for discounting has been 18%. On investigation and analysis, the average due date for the bills discounted and purchased is calculated as 15th Feb. 2017. Show the calculation of the amount to be credited to the bank P & L a/c under discount earned. Show also the journal entries required to adjust the above mentioned account.

3. The trial balance of Kuber Bank Ltd., as on 31st Dec.2016 shows the following balances:

   i) Interest earned (including discount on bills) ₹45,40,600

   ii) Rebate on bills discounted (on 1st Jan. 2016) ₹4,750

   iii) The amount of unexpired discount as on 31st Dec.2016 ₹5,560

   Pass necessary journal entries and show "interest and discount" account

4. On 1-1-2016, the rebate on bills discounted a/c of a bank showed a credit balance of ₹1,00,000. On 31-12-16, the discount a/c showed a credit balance of ₹15,00,000 before adjusting unexpired discount. The bills discounted outstanding on 31-12-2016 were ₹2 crores with average maturity date of 31st Jan. 2017 and they were all discounted at 12% p.a. Write adjustment entries and relevant ledger accounts to record these items and also show how these items will appear in the final accounts of the bank.

5. When closing the books of Lakshmi Bank on 31st March 2016, you find in the loan account of Mr. Arif whose financial condition is reported to you as bad and doubtful. Interest in the same account due up to March 31,2016 amounted to ₹10,000. On July 1, 2016 a final dividend of 75 paise in the rupee has been received from him. Prepare necessary ledger accounts after passing journal entries.

6. Given below interest on advances of commercial bank.

₹ in Lakhs	Performing assets		Non-performing assets	
	Interest earned	**Interest received**	**Interest earned**	**Interest received**
Term loans	200	150	140	10
Cash credit overdraft	1,400	1,200	300	25
Bills purchased and discounted	300	300	150	40

   Calculate the amount of interest to be recognized as income.

7. From the following information identify the non-performing assets of a commercial bank for the year ended 31st March 2016.

   Term loans: ₹300 lakhs on which interest remains past due for three quarters on ₹100 lakhs and for four quarters on ₹80 lakhs.

Cash credit and overdraft ₹2,000 lakhs on which interest remained past due two quarters on ₹300 lakhs for three quarters on ₹150 lakhs and for four quarters ₹150 lakhs.

Bills purchased and discounted ₹4,000 lakhs on which discounted past due for one quarter on ₹1,450 lakhs for two quarters on ₹800 lakhs, for three quarters on ₹700 lakhs and for four quarters on ₹500 lakhs.

8. The following balances have been extracted from the books of a banking company as on 31-3-16.

Bad debts	₹5,00,000
Advances	₹74,50,00,000
Profit before charging bad debts	₹7,00,000
Provision for taxation to be made 40% of net profit	

Show how to above items will appear in the banking company's P & L a/c and Balance sheet?

9. The following balances are from the trial balance of Vijaya Bank Ltd.

Loans, cash credit and overdraft ₹4,00,00,000

Bills term loans ₹1,00,00,000

Bills discounted and purchased ₹2,50,00,000

You are required to show how the above will be appearing in the balance sheet.

10. While closing the books of account, a commercial bank has its advances classified as follows:

	₹ (in lakhs)
Standard assets	16,000
Sub-standard assets	1,300
Doubtful assets:	
Up to one year	700
One year to three years	400
More than three years	300
Loss assets	500

You are required to calculate the amount of provisions to be made by the bank

PREPARATION OF P & L A/C WITHOUT ADJUSTMENTS

11. From the following information relating to Lakshmi Bank Ltd., prepare the P & L a/c for the year ended 31st Dec.2015.

Rent received	72,000	Commission	32,800
Interest on fixed deposits	11,00,000	Interest on savings bank	2,72,000
Interest on overdrafts	2,16,000	Discount on bills discounted	7,80,000
Interest on current account	1,68,000	Interest on cash credit	8,92,000
Depreciation on bank property	20,000	Salaries	2,18,000
Postage	5,600	Sundry charges	4,000
Directors fees	16,800	Printing	8,000
Law charges	3,600	Locker rent	1,400
Transfer fees	2,800	Interest on loan	10,36,000

12. From the following particulars, prepare profit & loss account of Krishna Bank Ltd. for 2015.

	₹		₹
Interest on loans	34,900	Balance of profit & Loss a/c	1,200
Interest on fixed deposits	36,500	Rent & taxes	1,800
Rebate on bills discounted	4,800	Interest on overdraft	12,800
Commission charged on customers	910	Discount on Bills discounted	19,400
Office expenses	15,500	Interest on savings deposits a/c	6,900
Director’s remuneration	420	Postal expenses	150
Interest on cash credits	22,400	Printing & stationery	390
		Other expenses	180

13. From the following particulars, prepare profit & loss account of New Bank Ltd. for the year ended 31.03.15

	₹		₹
Interest on loans	2,60,000	Director’s and Auditor’s Fees	4,500
Interest on cash credits	2,25,000	Establishment expenses	56,000
Interest on fixed deposits	2,80,000	Interest on saving bank accounts	70,000
Rent & Taxes	20,000	Discount on bills discounted	2,00,000
Interest on overdrafts	56,000	Postage & Telegrams	1,500
Commission charged to customers	9,000	Printing & Advertisement	3,000
		Sundry charges	1,800

14. From the following information you are required to prepare profit & loss account of P.N. Bank for the year ended on 31.03.15 under the provisions of the act applicable thereto:

	₹ (in '000)		**₹ (in '000)**
Interest on loans	518.00	Sundry charges	2.00
Interest on cash credits	446.00	Advertisement & Publicity	1.40
Auditor's fees	2.40	Director's fees	6.00
Interest on overdrafts	108.00	Printing & stationery	0.40
Interest on saving bank deposits	220.00	Commission, Exchange & Brokerage	16.40
Interest on fixed deposits	554.00	Payment to Employees	108.00
Law charges	1.40	Locker rent	0.70
Rent, Taxes & Lighting	36.00	Transfer fees	1.40
Postage, telegrams & telephones	2.80	Depreciation on bank property	10.00
Discount on bills discounted	390.00		

PREPARATION OF P & L A/C WITH ADJUSTMENTS

15. From the following information, prepare P & L a/c of City Bank.

Interest on loan	2,590	Interest on fixed deposit	3,170
Commission	82	Payment to employees	540
Discount on bills discounted	1,060	Interest on cash credits	2,230
Rent and tax	180	Interest on overdraft	1,540
Directors fees	30	Auditors fees	12
Interest on savings deposits	680	Postage	14
Printing	29	Sundry charges	17

Additional information:

1. Provide for contingencies ₹2,00,000
2. Transfer ₹15,57,000 to reserve
3. Transfer ₹2,00,000 to Central Govt.

16. Following is the list of balance of Lakshmi Ltd. as on 31st March 2015.

Gross profit	87,050	Furniture	17,000
Rent	4,000	Opening P & L Appropriation (Cr)	15,000
Share capital	1,00,000	Creditors	17,500
Bank balance	46,200	B/R	9,800
Discount (Cr)	3,000	Salaries	7,500

Sundry expenses	7,050	Dividend paid (07-08)	9,000
Debtors	27,500	Plant	29,000
General reserve	15,500	Bills payable	7,000

Prepare P & L a/c and P& L Appropriation a/c for the year ending 31st March 2015 after providing for:

a) Depreciation at 20% on fixed assets

b) Provision for doubtful debts at 5%

c) Provide for 15% dividend.

17. The following are the balances of Indian Bank Ltd for the year ended 31-12-2015.

Interest on loans	5,18,000	Interest on fixed deposits	5,50,000
Commission received	16,400	Discount on bills discounted	3,90,000
Salaries	1,08,000	Interest on savings accounts	1,36,000
Interest on current account	84,000	Rent and taxes	36,000
Interest on overdrafts	3,08,000	Directors fees	8,400
Interest on cash credit	4,46,000	Postage and telegrams	8,600
Locker rent	2,000	Transfer fees	1,400
Sundry expenses	3,400	Depreciation on bank premises	10,000

Other information:

i) Rebate on bills discounted ₹98,000

ii) Bad debts ₹80,000

iii) Provision for income tax ₹3,00,000

From the above information, prepare the profit and loss account of the bank for the year ended 31-12-2015.

18. From the following details, prepare P & L account S Bank Ltd., for the year ended 31st Dec.2015.

Interest on FD	4,30,000	Interest on Loan	6,50,000
Discount on bills discounted	4.15,000	Interest on OD	2, 50,000
Interest on Cash Credit	4,10,000	Salaries	1,40,000
Repairs to bank properties	2,000	Rent	40,000
Locker Rent	5,000	Depreciation	10,000
Advertisement	4,000	Audit fees	12,000
Commission and exchange	24,000	Director's fees	25,000

Transfer Fees	2,000	P.F. Contribution	12,000
P.F. Contribution	12,000	Local committee fees	10,000
Loss on sale of furniture	2,000	Printing	4,000
Loss on sale of Govt. Securities	5,000	Postage	2,500
Interest on Savings bank deposits	1,25,000	Legal charges	2,500

Additional information:

1. Rebate on bills discounted on 31st Dec. 2014 ₹19,000
2. Rebate on bills discounted on 31st Dec. 2015 ₹26,000
3. Bad debts to be written off ₹40,000
4. Provide for taxation ₹50,000

19. From the following particulars, prepare profit & loss account of Mysore Bank Ltd. for the year ended on 31.03.15

	₹		₹
Interest on loans	51,800	Rent & Taxes	3,600
Interest on fixed deposits	55,000	Interest on overdrafts	30,800
Commission received	1,600	Director's fees	600
Salaries and allowances	10,800	Auditor's fees	200
Discount on bills discounted	29,200	Interest on saving bank deposits	13,600
Rebate on bills discounted	9,800	Postage & telegrams	300
Interest on cash credits	44,600	Printing & stationery	600
Interest on current accounts	8,400	Locker rent	200
Sundry charges	400	Transfer fees	100
		Depreciation on bank properties	1,000

Other Information:

i) Provision for bad debts ₹8,000

ii) Provision for Income tax ₹30,000

20. From the following information, prepare profit & loss a/c of Thrifty Bank for the year ended 31.03.15

	₹ (in '000)		**₹ (in '000)**
Interest on loans	2,590	Rent, Taxes & Lighting	180
Interest on fixed deposits	3,170	Interest on overdrafts	1,540
Director's fees, Allowances & exp.	30	Postage, Telegrams & telephones	14

Auditor's fees & expenses	12	Payment to employees	540
Discount on bills discounted	1,060	Interest on Savings Bank deposits	680
Interest on Cash credits	2,230	Sundry charges	17
Commission	82	Printing & Stationery	29

Additional Information:

i) Provide for contingences ₹2,00,000

ii) Transfer ₹15,57,000 to Reserve fund

iii) Transfer ₹2,00,000 to Central Government

21. Prepare Profit and Loss Account of a bank from the following information.

Directors fees	30,000	Rent and rates	24,000
Printing	12,000	Postages	5,000
Other expenses	4,000	Depreciation of bank property	15,000
Audit fees	3,000	Balance of profit as on 1- 4- 2014	2,40,000
Salaries	3,60,000	Loss on sale of investments	5,000
Rent received	40,000	Profit on sale of investments	20,000
Commission	2,40,000	Interest paid on deposits	6,50,000
		Interest and discount received	12,50,000

Additional expenses:

i) Provide ₹15,000 for doubtful debts

ii) Provide ₹60,000 for taxation

iii) Rebate on bills discounted on 31-3-2015 ₹40,000

iv) Provide 10% dividend proposed on paid up capital of ₹10,000

22. The following are the figures extracted from the books of Lakshmi Bank Ltd as on 31-3-2015. Prepare P & L a/c as per the revised format with all necessary schedules.

	₹ (in '000)		**₹ (in '000)**
Interest and discount received	3,695	Advertisement	15
Issued and subscribed capital	1,000	Directors fees	100
Interest paid on deposits	2,032	Rent received	55
Profit on sale of investments	200	Audit fees	5
Payment to employees	200	Rent and tax paid	30
Statutory reserve under Sec.17	800	Postage	50
Depreciation on bank's property	30	Stationary	50
Commission, exchange and brokerage	200		

Further information:

a) A customer to whom a sum of ₹10,00,000 has been advanced has become insolvent and it is expected only 50% can be recovered from his estate. Interest due at 18% on his debt has not been provided in the books

b) There were also other debts for which a provision of ₹1,50,000 was found necessary by the auditors

c) Rebate on bills discounted on 1-4-2014 was ₹12,000 and on 31-3-2015 was ₹16,000

d) Provide ₹6,50,000 for income tax

e) Directors recommended 10% dividend

(NP – 3,39,000)

PREPARATION OF BALANCE SHEET

23. From the following balances, prepare the Balance Sheet of Lucky Bank Ltd., as on 31.03.15.

	₹		₹
Share capital (2,000 shares)	2,00,000	Depreciation Fund on premises	10,000
Premises	1,00,000	Profit & Loss a/c (cr.)	45,000
Money at call	9,00,000	Investments	7,00,000
Traveller's Cheque	2,00,000	Bills purchased	15,00,000
Deposits	56,00,000	Acceptances for customers	5,00,000
Loans	22,00,000	Bills for collection	4,00,000
Reserves	3,00,000	Rebate on Bills Discounted	5,000
Cash in hand	30,000	Cash with RBI	5,20,000
Cash with other Bank	4,50,000	Pension Fund	40,000

The following were completely omitted while the above balances were calculated. They should be adjusted suitably.

- Travellers Cheque paid ₹10,000
- Money at call recovered ₹20,000

24. On 31 -3- 2015 the following are the ledger balances of Kovai Bank Ltd.

Particulars	₹ ('000)	Particulars	₹ ('000)
Share capital	3,500	Cash with other banks	4,400
Fixed deposit a/c	6,650	Savings bank a/c	21,000
Current a/c	56,000	Money at call and short notice	2,100
Investment	21,000	P & L a/c (Cr) 1-4-2014	1,470

Land (after depreciation up to 31-3-15)	7,445	Acceptances on behalf of customers	1,400
Cash	420	Bills discounted and purchased	4,200
Cash with RBI	10,500	Bills payable	5,600
Sundry creditors	210	Bills for collection	980
Unclaimed dividend	210	Net profit for 2014-15	1,680
Reserve fund	2,450	Dividends for 2014	350

The net profit is after deducting provisions for bad debts ₹ 2,10,000; tax provision ₹ 7,00,000 and rebate on bills discounted ₹35,000. Prepare the balance sheet of bank as on 31-3-2015.

PREPARATION OF P & L A/C AND BALANCE SHEET

25. From the following ledger balances of Laxmi Bank Ltd, prepare the Profit and Loss account and Balance sheet as on 31st March 2015.

Equity shares of ₹ 100 each	1,25,000	Statutory reserve	60,000
Current and deposit accounts	7,73,200	P & L a/c balance	1,500
Interest paid	2,700	Govt. securities	60,000
Other securities	82,500	Shares	63,700
Depreciation on premises	2,200	Interest and discount	24,500
Cash in hand and with RBI	1,58,400	Payment to employees	7,400
Bills discounted	37,900	Loans and advances	4,66,500
Building and furniture	41,800	Non-banking assets	33,700
Money at call and short notice	27,400		

Make a provision for rebate on bills discounted ₹ 300.

26. The following is the trial balance extracted from the books of Vysya Bank. You are required to prepare profit & loss a/c and the balance sheet as at 31.03.15 after taking into consideration the adjustments given below:

	Debit ₹		**Credit ₹**
Money at call & short notice	3,00,000	Equity shares of ₹10 each	6,00,000
Depreciation on Bank property	6,000	8% Preferential shares of ₹10 each	3,00,000
Cash at bank	3,60,000	Fixed deposit	3,50,000
Investment in government	1,80,000	Savings Bank account	2,50,000
Loans & cash credits	13,48,200	Current a/c	6,00,000
Furniture	30,000	Reserve fund	3,00,000

Premises	2,52,000	Interest & discount	3,00,000
Interest on deposits	1,80,000	Profit & Loss a/c 01.04.14	42,000
Salaries	48,000	Unclaimed dividend	1,20,000
Audit fees	6,000	Pension fund	36,000
Director's fees	3,000	Borrowings	90,000
Cash in hand	3,00,000	Rent	12,000
Printing & stationery	3,000	Commission	48,000
Non-Banking Assets	30,000		
Other Expenditure	1,800		
	30,48,000		30,48,000

Other information:

- Provide for bad debts ₹10,000
- Provide for rebate on bills discounted ₹4,000
- Acceptance on behalf of customers ₹5,00,000
- Bills for collection ₹4,80,000.

27. The following are the trial balance of Indian Bank Ltd as on 31-12-2016.

	Debit ₹		**Credit ₹**
Loans and advances	23,85,000	Share capital of ₹20 each	5,00,000
Premises	60,000	Reserve fund	2,00,000
Reserve fund investment	2,00,000	Current and other deposits	20,80,000
Investments in Govt. securities	1,60,000	P & L a/c as on 1-1-2016	35,000
Salaries	60,000	Interest and discounts	3,12,000
General expenses	32,000		
Rent and rates	3,000		
Directors fees	20,000		
Money at call and short notice	80,000		
Income tax paid	26,000		
Bills discounted	36,000		
Interim dividend paid	25,000		
Cash in hand with RBI	40,000		
	31,27,000		31,27,000

Adjustments

a) Interest accrued on investments ₹22,000.

b) The market value of Govt. securities is ₹1,50,000 and provision is to be made.

c) Endorsements on behalf of customers ₹2,10,000.

d) Authorized capital 50,000 shares of ₹20 each.

Prepare P & L a/c and balance sheet as on 31-12-2016.

28. From the following balances extracted from the books of Srinidhi Bank Ltd., prepare Profit & Loss a/c & Balance Sheet as at 31.03.15.

	Debit ₹		**Credit ₹**
Money at call & short notice	22,500	Share capital	1,50,000
Cash in hand	30,000	Profit & Loss Account	60,000
Cash with RBI	45,000	Deposits	8,89,500
Investments	96,000	Borrowings	90,000
Buildings	68,400	Bills Payable	24,000
Balance with other banks	57,000	Staff Security Deposits	10,500
Cash credits	7,95,000	Discount on bills	15,000
Interest on deposits and borrowings	1,18,500	Commission and Brokerage	13,500
Bills purchased	1,80,000	Interest on loans	1,75,500
Salary and other expenses	72,000	Income from investments	8,700
Audit fees	5,100	General Reserve	61,500
Postage, printing & stationery	6,300		
Depreciation on Assets	2,400		
	14,98,200		14,98,200

Other Information:

i) Provide ₹10,000 for rebate on bills discounted

ii) Bills for collection ₹1,50,000 and endorsement ₹1,40,000

iii) Provide Income Tax @ 40% of Net Profits

29. The following are the balances of City Bank Ltd. You are required to prepare the Profit & Loss a/c & the Balance Sheet as at 31.03.15.

	Debit ₹		**Credit ₹**
Bad debts written off	12,500	Equity shares of ₹500 each ₹150 paid up	3,00,000
Reserve fund investments	2,00,000		
General expenses	69,500	Deposit accounts	7,00,000
Interest paid on deposits	16,000	Profit & Loss a/c	25,000
Acceptances for customers	1,50,000	Discount received	58,000

Endorsement and Guarantee	7,500	Commission & Exchange	5,000
Cash on hand	25,000	Interest Received	25,000
Cash in RBI	2,00,000	Endorsement and Guarantee	7,500
Owings by foreign correspondents	20,000	Customers liability for acceptances	1,50,000
Loans and Advances	15,50,000	Borrowings from banks	6,50,000
Investments	10,00,000	Statutory Reserve	2,00,000
Bills discounted	6,50,000	Current Accounts	20,00,000
Premises	2,20,000		
	41,20,500		41,20,500

Other Information:

i) Interim dividend paid during the year ₹20,000

ii) Provide for rebate on bills discounted ₹6,000 and for income tax reserve ₹15,000.

30. From the following Trial Balance of Canara Bank Ltd., prepare the Profit & Loss a/c for the year ending 31.03.15 & Balance Sheet as on that date.

	Debit ₹		**Credit ₹**
Money at call & short notice	4,00,000	Paid capital	10,00,000
Cash on hand	5,00,000	Reserve fund	2,50,000
Cash with RBI	2,00,000	Fixed deposits	12,00,000
Interest on deposits and borrowings	3,10,000	Borrowings from City Bank	3,00,000
Investments	2,00,000	Pension fund	1,00,000
Furniture less depreciation	80,000	Unclaimed Dividend	50,000
Premises less depreciation	3,20,000	Rent	10,000
Salaries and allowances	90,000	Interest & discounts	6,00,000
Loans, cash creditors etc	15,00,000	Commission received	60,000
Audit fees	8,000	Profit & loss a/c 01.04.14	60,000
Directors fees	7,000		
Depreciation on Bank property	9,000		
Printing & stationery	4,000		
Other expenses	2,000		
	36,30,000		36,30,000

Other Information:

i) Provide ₹5,000 for rebate on bills discounted

ii) Provide ₹22,000 for bad debts

iii) Bills for collection on behalf of customers ₹50,000

iv) Provide for taxation ₹4,000.

31. From the following trial balance of Indian Bank Ltd. as on 31.03.15, prepare Bank Final accounts:

	Debit ₹		**Credit ₹**
Investment in government securities	5,75,000	Paid-up capital shares of ₹100/- each	15,00,000
Cash in hand and with RBI	7,00,000	P & L a/c balance as on 01.04.14	40,000
Deposit with other banks	12,45,000	Fixed deposits	26,00,000
Money at call and short notice	4,00,000	Savings Bank a/c	21,00,000
Loans, Advances & Overdrafts	74,00,000	Current a/c	34,00,000
Interest on deposits and borrowings	1,75,000	Commission & Exchange	1,02,000
Buildings	2,00,000	Bills Payable	1,00,000
Salaries and allowances to staff	85,000	Interest & discount	6,00,000
Furniture	45,000	Investment Reserve	25,000
Unexpired Insurance	450	Reserve fund	3,10,000
Stamps in hand	150	Branch adjustment	25,000
Contribution to Provident fund	18,400	Pension fund	58,500
Director’s fees	4,500		
Audit fees	1,500		
Printing & stationery	3,550		
Rent, Rates & Taxes	6,450		
Postage & telegram	800		
	1,08,60,800		1,08,60,800

Other Information:

i) Market value of investments as on 31.03.15 was ₹5,48,000. The investments were written down to this figure

ii) Provide for: Taxation ₹75,000

iii) Doubtful debts ₹50,000

iv) Rebate on bills discounted ₹25,000

v) Acceptances, endorsements and other obligation ₹2,50,000

vi) Depreciate Building at 2½ %

32. Indian Bank Ltd. presents its ledger balances on 31.03.15.

	₹		₹
Loans	4,00,000	Cash with RBI	1,86,000
Cash credits	1,00,000	Money at Call	1,60,000
Overdrafts	70,000	Share capital	10,00,000
Premises	1,00,000	Reserve fund	5,00,000
Investments	8,00,000	Current Account	2,00,000
Salaries	56,000	Fixed deposit	2,50,000
General Expenses	54,000	Savings Bank Deposit	50,000
Rent, Rates & Taxes	4,600	Cash certificates	50,000
Director's fees	3,600	Profit/Loss a/c 01.04.14 (Cr.)	32,000
Stock of Stationery	17,000	Interest & Discounts	2,56,000
Bills purchased	92,000	Interim Dividend	34,000
Cash in hand	2,00,000	Shares in company	1,00,000
		Recurring Deposits	40,000

Other Information:

i) Provide for doubtful debts ₹10,000

ii) Interest receivable on investments ₹16,000

iii) Unexpired discounts ₹760

iv) Interim dividend declared was 4% actual

v) Endorsement and guarantee ₹2,00,000

vi) Additions made to premises during the year ₹10,000

vii) Depreciate premises at 5% on opening balance.

Prepare Profit & Loss a/c and Balance Sheet.

33. Following is the Trial Balance of Modern Bank Ltd. as on 31.03.15. Prepare Bank final accounts.

Debit Balance:	₹	**Credit Balance:**	₹
Premises	2,10,000	Interest & Discount	2,50,000
Money at call & short notice	2,50,000	Share Capital	5,00,000
Furniture	25,000	Reserve fund	2,50,000
Cash in hand	2,50,000	Deposit	7,50,000
Cash at Bank	3,00,000	Telegraphic transfer	2,50,000
Investments	1,50,000	Traveller's letter of credit	2,50,000

Loan & cash credit	11,23,500	Pay order and gift cheque	50,000
Interest on deposits	1,50,000	Pension fund	75,000
Audit fees	5,000	Borrowings from banks	50,000
Salaries	40,000	Unclaimed Dividend	30,000
Director's fees	2,500	Rent	10,000
Printing & Stationery	2,500	Commission received	40,000
Depreciation	5,000	Profit & Loss a/c	30,000
Non-Banking Assets	25,000	Bills payable	5,000
Other Expenditure	1,500		
	25,40,000		25,40,000

Other Information:₹

- Provide ₹2,500 for rebate on bills discounted
- Liabilities on bills rediscounted ₹5,000
- Bills for collection amounted to ₹1,50,000
- Provide ₹500 for bad debts
- Provide for income tax ₹2,000
- Director's proposed 5% dividend on share capital
- Liabilities outstanding on forward exchange contract ₹2,500

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. From the following particulars prepare a profit and loss a/c for the year ended 3 Dec of Laxmi Bank Ltd.

	Rs.
Rent received	72,000
Exchange commission	32,800
Interest on fixed deposit	11,00,000
Interest on savings a/c	2,72,000
Interest on cash credit	8,92,000
Salaries	2,18,800
Sundry charges	4,000
Printing	8,000
Locker rent	1,400
Interest on loans	10,36,000
Interest on overdraft	2,16,000
Discount on bill discounted	7,80,000
Interest on current a/c	1,68,000
Depreciation on Bank property	20,000
Postage	5,600
Director fees	16,800
Law charges	3,600
Transfer fees	2,800

[Azhagappa University, April,2011]

2. The following figures are extracted from the books of the new Bank Ltd as on 31st march 2013.

Particular	Rs. ('000)
Interest and discount received	3,695
Interest paid on deposits	2,032
Issued and subscribed capital	1,000
Statutory reserve under sec 17	800
Commission, exchange and brokerage	200
Rent received	55
Profit on sale of investments	200
Audit fees	5
Payment to employees	200
Director's fees and allowance	30
Rent and tax paid	100

Postage and telegrams	50
Depreciation on bank's properties	30
Stationary etc	50
Advertisement and publicity	15

The further information is given

(a) A customer to whom a sum of Rs. 10,00,000 has been advanced has become insolvent and if is expected only 50% can be recovered from his estate. Interest due at 18% on his debt has not been provided in the book:

(b) There were also other debts for which a provision of the Rs. 1,50,000 was found necessary by the auditors:

(c) Rebate on bills discounted as on 1 stapril 2012 Rs. 12,000. Rebate on bills discounted as on 31st march 2013 Rs. 16,000:

(d) Provided Rs. 6,50,000 for income tax:

(e) The directors desire to declare 10% dividend. Prepare the profit and loss account in accordance with the law. Make necessary assumptions.

[Azhagappa University, April,2013]

3. From the following information, find out the amount of provision to be shown in the Profit and Loss Account of a Commercial Bank :

Assets :	Rs. in Lakhs
Standard	8,000
Substandard	6,000
Doubtful :	
For One year	1,000
For Three years	1,600
For more than 3 years	400
Loss Assets	1,200

[Madras, II M.Com., (Old) Oct. 2003]

[Ans : Total Provision : 2,700 Lakhs]

4. The following are the ledger balances extracted from the books of a Banking Company as on 31-3-2002

Advances	Rs.15,00,000
Bad debts	Rs.10,000

The profit before charging bad debts was Rs.40,000. Create a provision for bad debts of Rs. 15,000 and Provision for Taxation at 60% of net profits.

Show how the above items will appear in the Banking Company's Profit &Loss A/c and Balance Sheet.

[Madras B.C.S., April 2003]

[Ans : Total of Provisions and contingencies : Rs. 34,000; Net Profit : Rs. 6,000; Profit carried to B/S : Rs. 4,500; In Schedule 5 of B/S :Rs. 24,000 Provisions are to be shown In schedule 5 of B/S; Rs. 1,500 to be added to statutory reserve]

5. While closing the books of a bank on 31st December. 1986, you find in the loan ledger an unsecured balance of Rs. **1,00,000**in the account of a merchant whose financial condition is reported to you as doubtful. Interest on the same account amounted to Rs. 10,000 during the year.

During year 1987, the bank accepted 60 paise in the rupee on account of the total debt upto 31st December, 1986.

Show the merchant's loan account.

[Bharathiar, B.Com., Nov. 2003]

[Ans: Amount written off as bad debts — Rs. 40,000; Interest taken into account — Rs. 6,000]

6. From the following particulars relating to the Punjab Bank Ltd. ascertain the Profit balance carried over to the Balance sheet:

	Rs.
Net Profit for the year	1,28,000
Profit brought forward from the Previous year	1,20,000
Transfer to Statutory Reserve	25%
Transfer to other reserves	10%
Transfer to proposed dividend	20,000

(Madras, B,Corn (A19 Ap. 2009; B.Com, B.Com(CS) Nov. 2007]

[Ans: Rs. 1,83,200]

7. From the following details relating to a Banking Company. find out the profit balance carried over to the Balance Sheet.

Interest earned	5,25.000
Other Incomes	2,20.440
Interest expended	1,25.000
Operating expenses	1,83,686

Profit brought forward from the previous year 1.00,640

Transfer to the Statutory Reserve at 25%

[Madras, B.Com(AF) Nov. 2009; B.C.S. Oct. 2000]

[Ans : Rs. 4,28,205]

8. From the following balances prepare single column P&L A/c of Lakshmi Bank Ltd. for the year ending 31-12-2002.

	Rs.in'000
Interest on cash credits and loans	1,790
Interest on deposits	620
Administrative expenses	480
Discount	210
Commission & exchange	300
Rebate on bills discounted 1-1-2002	90

Determine the profit after making a provision for rebate on bills discounted Rs. 2,90,000

(Madras, I M.Com., April 2004]

[Ans : Net Profit : Rs. 1,000 Thousands]

9. From the following details relating to the New Bank Ltd. find out the net profit earned by the bank in the year 1997-98.

Interest earned	37,01,738
Other incomes	4,55,000
Interest expended	20,37,452
Operating expenses	4,80,286
Provisions and contingencies	13,00,000
Profit brought forward from the previous year	Nil
Transfer to statutory reserve	84,750
Transfer to other reserves	Nil
Transfer to proposed dividend	1,00,000
Balance carried over to Balance Sheet	1,54,250

[Madras, B.Com., B.Com(CS) Ap. 2009; B.C.S. April 2000]

[Ans : Net profit : Rs. 3,39,000]

10. While closing its books of accounts, a commercial bank has its advances classified as follows:

	Rs. in lakhs
Standard assets	16,000
Sub-standard assets	1,300
Doubtful assets:	
upto one year	700
One to three years	400
More than three years	200
Loss assets	500

You are required to calculate the amount of provision to be made by the bank, assuming that all the doubtful assets are secured.

(Madras, B.Com(CS)Ap. 2009; BCom(ICE) Oct 2007; lsi M.ComNay. 2003]

[Ans: Total provision required — Rs. 1,030 lakhs]

11. On 31st December, 1991, the loan ledger in the books of a bank showed a debit balance of Rs. 2,00,000 including Rs. 40,000 due from a merchant which is doubtful. The interest accrued on the loans upto 31st December, 1991 was Rs. 10,000 including Rs. 2,000 on doubtful debt. The merchant became insolvent and the official receiver paid a dividend of Re. 0.25 in the rupee on 31st January, 1992.

Pass the necessary journal entries in the books of the bank on 3Ist December, 1991 and 31st January, 1992 and prepare the loan account.

[Madras, B.Com., B.Com. (CS) Nov. 2007 Ap 2006; B.Com]

[Ans: Amount written off as bad debts Rs. 30,000: Interest taken into account — Rs. 500]

12. In respect of the following transactions of X Bank Ltd., give necessary journal entries and their treatment in the Profit and Loss Account and Balance Sheet in respect of the year ended 31.12.1990. The following bills were discounted at 5% p.a.

Discounted on	*Amount Rs.*	*Due date inclusive of 3 days of grace*
1. 28.12.90	50,000	31.1.1991
2. 29.7.90	1,00,000	30.11.1990
3. 29.10.90	4,00,000	30.4.1991
4. 31.12.90	30,000	3.3.1991

(Madras, B.Com.(PZ4A) Nov. 2006; Nov. 2005: 1st M.Com.(ZHC) Nov. 2004 (Modified); 11 M.Com., April 2001; B.Com., May 1997) (Periyar, B.Com (CA) Oct. 2005; Bharathiar, B.Com., Nov. 2004)

[Ans : Rebate on bills discounted on 31.12.90 — Rs. 7,042]

13. The following is an extract from the Trial Balance of a bank as on Dec. 31, 1991.

	Rs.	Rs.
Bills discounted	50,00,000	
Rebate on bills discounted 1.1.91		20,057
Discount received		1,50,000

The following unexpired bills are included in the bills discounted as shown above:

Date 1991	*Amount Rs.*	*Term in months*	*Discounted @ % p.a.*
Oct. 10	00,000	4	12
Nov. 15	,00,000	3	10
Dec. 20	5,00.000	2	11

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate journal entries for the same. How will the relevant items appear in the bank's balance sheet

(Madras, B.Com., May 2006)

[Ans: Rebate on bills discounted on 31.12.91 — Rs. 15,057; Viscount received to be credited to P & L A/c — Rs. 1,55,000; Bills discounted is shown in Schedule '9' on B/S assets side; Closing rebate of Rs. 15,057 is shown in Schedule '5' on B/S Liabilities side]

14. The following accountsare extracted from the Trial Balance of Hindu Bank Ltd., as on 31.12.1990. You are required to show the rebate on hills discounted A/c and interest and discount A/c. How %% ill these items appear in the Bank's Balance Sheet?

	Dr	**Cr.**
Interest and discount		96,62,400
Rebate on bills discounted		
Bills discounted and purchased	3,72,700	10,840

It is ascertained that proportionate discount not yet earned on the balance of bills discounted, which will mature in 1991 amounts to Rs 15,460.

[Madras, M. Com., April 2003]

[Ans: Amount of interest and discount to be shown in the Profit and Loss Account Rs. 96,57,780; Rebate on bills — Rs. 15,460 will appear as a liability and bills discounted Rs. 3,72,700 as an asset in the balance sheet]

15. From the following particulars, prepare the Profit and Loss Account of Chennai Bank 1,td., for the year ending 31st March 1992.

	(Rs. in '000)
Interest on deposits	3,200
Commission (Cr)	100
Interest on loans	2,490
Sundry chrges (Dr)	100
Rent and taxes	200
Establishment	500
Discount on hills discounted	1,490
Interest on overdrafts	1,600
Interest on cash credits	2,320
Auditors' fees	35
Directors' fees	16
Bad debts to be written off'	300

[Madras, B.Com(PZ4A) Nov. 2008; B.Com(CS) Ap. 2008; B.Com (ICE) Ap 2007; 1st M.Com. (CA1A) Nov. 2006;B.Com.(ICE) Oct. 2006; B.Com. (Sent — PZ4A) Nov. 2005;Madurai, B.Com., Ap. 2003]

[Ans: Net profit for the year Rs. 36,49,000; Balance carried to Balance Sheet Rs. 27,36,750]

16. Prepare the Profit and Loss Account for the year ended 31.12.1992 of Kasinathan

Bank Ltd..from the following particulars.	(Rs. in '000)
Interest on loans	250
Interest on savings accounts	150
Interest on cash credits	160
Interest on· fixed deposits	190
Interest on overdrafts	50
Amount charged against current accounts	20
Rebate on bills discounted	19
Salaries and allowances	120
Discount	40
'Rent tax insurance etc	5

Dearness allowances	35
Commission, brokerage and exchange	15
Managing directors salary	15
Contribution to provident fund	10

[Madras, B.Com(CS) Nov. 2008; 1st M.Com. (ZHC) Nov. 2005; BCS April 2004; B.Com (ICE) May 2001 B.Com., March 1995, March 1994, Sep. 1992]

[Ans: Net Profit for the year Rs. 10,000 Balance carried to Balance Sheet Rs. 7,504]

17. From the following information, relating to Adarsh Bank Limited, prepare Profit and Loss A/c for the year ending 31-3-94 along with necessary schedules in the Revised format :

	(Rs. in '000)
Interest, discount earned	31,628
Income on investments	11,810
Interest received on balance with RBI	4,243
Commission, exchange and brokerage	2,907
Profit on sale of investments	114
Interest on deposits	31,404
Interest on RBI loan paid	3,362
Salaries to employees	9,717
Rent, taxes and lighting	1,168
Depreciation on Bank property	379
Directors fees	7
Auditors fees	41
Law charges	22
Postages, Telegrams, Telephone, etc.,	403
Other expenditure	1,799
Balance of Profit B/D from last year	1,000

Adjustments:

(a) Make a provision for I.T. @ 51.75% on profit.

(b) Transfer 25% of profit to statutory reserve and 5% to Revenue Reserve.

(c) Transfer to proposed dividend 2,00,000.

Madras, M.Com.(ZHC) Nov. 2006; B.Com., April 2000]

[Ans : Profit before tax : Rs. 24,00,000; Provision for 1.t. :Rs. 12,42,000; Net Profit : Rs. 11,58,000; Balance carried to Balance Sheet : Rs. 16,10,600]

18. From the following ledger balances of peoples bank Ltd, prepare profit and loss account.

Interest paid on deposits	1,60,520
Commission exchange and brokerage	44,240
Interest received	5,32,260
Discount on bills discounted	2,43,760
Salary and Provident fund	40,000
Profit on sale of fixed assets	30,000
Printing and Stationery	10,000
Postage and telephones	20,000

Note: **Provide for taxation Rs. 20,000 and rebate on bills discounted was Rs. 14,380.**

[Madras, B.Com., Oct. 2002]

[Ans: Net profit for the year Rs. 5,85,360; Balance carried to Balance Sheet Rs. 4,39,020]

19. From the following information, prepare Profit and Loss Account of Thanjavur Bank for the year ended on 31st December, 1992:

	(Rs. in Thousands)
Interest on loans	2,590
Interest on fixed deposits	2,750
Rebate on bills discounted	490
Commission	82
Establishment	540
Discount on bills discounted (net)	1,460
Interest on cash credits	2,230
Interest on current accounts	420
Rent and taxes	180
Interest on overdrafts	1,540
Directors fees	30
Auditors fees	12
Interest on savings bank deposit	680
Postage and telegrams	14
Printing and stationery	29
Sundry charges	17

Bad debts to be written off amounted to Rs. 4,00,000. Provision for taxation may be made @ 55%.

Madras, B.Com (ICE) Ap 2007; BCS Oct. 2001; BCS (ICE) May 2001]

[Ans: Provision for taxation 15,56,500; Net profit for the year — 12,73,500; Balance carried to Balance Sheet — Rs. 9,55,125]

20. From the following information prepare Profit and Loss Account of Vasavi Bank Ltd., for the period ended on 31.3.1995.

	(Rs. In thousands)
Interest on loans	300
Interest on fixed deposits	275
Commission	10
Exchange and brokerage	20
Salaries and allowances	150
Discount on bills (gross)	152
Interest on cash credits	240
Interest on cash savings bank deposit	87
Interest on temporary overdrafts in current accounts	30
Postage, telegrams and stamps	10
Printing and stationery	20
Sundry expenses	10
Rent	15
Taxes and licenses	10
Audit fees	10

Additional information:

(a) Rebate on bills discounted Rs. 30,000

(b) Salary of Managing director Rs. 30,000

(c) Bad debts Rs. 40,000

(d) Provision for income tax is to be made at 55% (round off to nearest 1,000)

(e) Interest of Rs. 4,000 on doubtful debts was wrongly credited to interest on loans account.

Workings should form part of your answer.

[Madras, B.Com(CS) (ICE) Oct.,2008; BCS (PYD) Nov. 2005; BCS (NYD) April 2005; M.Com., April 1997]

[Ans: Net profit — Rs. 27,000; Provision for taxation — Rs. 33,550 or Rs. 34,000 (rounded off to nearest thousand)]

21. From the following information prepare Profit and Loss Account of South India Bank Ltd., as on 31st March 1996.

	Rs. in 000's
Interest and discount	3,045
Income from investments	115

Interest on balance with RBI	180
Commission exchange and brokerage	820
Profit on sale of investments	110
Interest on deposits	1,225
Interest paid to RBI	161
Payment to and provision for employees	1,044
Rent, taxes and lighting	210
Printing and Stationery	180
Advertisement and publicity	95
Depreciation	92
Directors' fees	220
Auditor's fees	120
Law charges	230
Postage, telegrams and telephone	70
Insurance	56
Repairs and maintenance	48

Other information:

(a) Interest and discount mentioned above is after adjustment for the following : (Rs. in thousands)

Tax provision for the year	220
Provision during the year for doubtful debts.	102
Loss on sale of investments	12
Rebate on bills discounted	58

(b) 25% of profit is to be transferred to statutory reserves and 5% of profit is to be transferred to revenue reserve. Profit brought forward from last year Rs. 16,000.

[**Madras, II M.Com., (Old) Oct. 2003]**

[Ans: Net profit for the year Rs. 5,19,000; Balance taken to balance sheet Rs. 3,79,300]

[Hint: The items in (a) above, except rebate on bills should be added back to interest and discount.Then they must be shown in their respective schedules.]

22. The following figures are extracted from Sri Lakshmi Vitas Bank Ltd., as on 31.12.91.

	(Rs. in ('000)
Interest and discount received	4,060
Interest paid on deposits	2,404

Issued and subscribed capital	1,000
Reserve under Section 17	700
Commission, exchange and brokerage	180
Rent received	60
Profit on sale of investments	190
Salaries and allowances	210
Directors' fees and allowances	24
Rent and taxes	108
Stationery, printing	48
Postage and telegrams	40
Preliminary expenses (written off)	10
Audit fees	8
Depreciation on bank's property	25

The following further information is available.

(1). A customer to whom a sum of Rs. 5,00,000 has been advanced has become insolvent and it is expected that only 40% can be recovered from his estate. Interest due at 15% on his debt has not been provided in the books.

(2).Provision for bad and doubtful debts on other debts necessary Rs. 1,00,000.

(3).Rebate on bills discounted as on 31.12.1990 Rs. 10,000. Rebate on bills discounted as on 31.12.1991 Rs. 15,000.

(4). Provide Rs. 7,00,000 for income tax.

(5). The directors desire to declare 10% dividend

Prepare the Profit and Loss Account in accordance with the provisions of law.

[Madras, B.CS., (ICE) Oct. 2003 (1/2 Figs.);

M.Com., Oct. 2002; B.A. Corp., Sep. 1997;

Madras, B.A., March 1995]

[Ans: Net profit — 5,08,000; Balance carried over to balance sheet — Rs. 2,81,000]

Hint: Ignore interest on bad debt. Transfer to statutory reserve is increased to 25%.

23. The following are the details of advances of a commercial bank: (Rs. in '000)

Bills purchased and discounted	300
Cash credits, and loans repayable on demand	400
Term loans	100

The following are the details of the above advances:

Secured by Tangible assets	600
Covered by banks and Government	120

Unsecured	40
Doubtful debts	40

In case of doubtful debts the bank did not hold any security and they were all sanctioned to priority sectors in the form of demand loans.

The total advances outstanding from different sectors stood as follows:

	(Rs. in '000)
Priority sectors	320
Public sector	60
Balance from others	420

Show the treatment of the above items of advances in the Bank's final accounts.

[Madras, B.C.S. (ICE) Oct. 2001]

[Ans: Schedule 9 must be shown with details]

24. On 31.12:1993, the following balances stood in the books of Asian Bank Ltd.

	(Rs. in '000)
Share capital — issued 80,000 shares of Rs. 100 each, Rs. 50 paid	4,000
Reserve fund	6,200
Fixed deposits	42,600
Savings bank deposits	19,000
Current accounts	23,200
Money at call and short notice	1,800
Government securities	9,000
Other investments	16,000
Profit and Loss Account (Cr) balance (1.1.93)	1,350
Dividend for 1992	400
Premises (after depreciation upto 31.12.93, Rs. 45,000)	2,950
Cash in hand	380
Cash with RBI	10,000
Cash with other banks	6,000
Bills discounted	51,000
Loans and overdrafts	4,136
Drafts payable	70
Unclaimed dividends	60
Rebate on bills discounted	50
Short loans (Cr)	4,750
Furniture (after depreciation upto 31.12.93, Rs. 1,36,000)	1,164
Net profit for 1993	1,550

Prepare the balance sheet as per the banking regulation Act.

[Madras, B.Com Ap. 2008; B.Com(CS) Av. 2008: B.Com (ICE) Oct 2005]

[Ans: Balance sheet total — Rs. 10,24,30,000; Profit and Loss A/c balance shown in balance sheet Rs. 21,12,500; Addition to statutory reserve is Rs. 3,87,500]

Hint: Prepare Appropriations part of P & L A/c as working note. Currently transfer to Statutory Reserve is 25% of Profit.

25. On 31.3.93 the following balances stood in the books of New Bank Ltd., after preparing Profit and Loss A/c.

	(Rs. in Tousands)
Share capital	3,500
Reserve fund	2,450
Fixed deposit accounts	6,650
Savings bank accounts	21,000
Current Accounts	56,000
Money at call and short notice	2,100
Investments (at cost)	21,000
Profit & Loss Account (Cr) 1.4.92	1,470
Dividends for 1992	350
Land and Buildings (after depreciation) upto 31.3.93	7,445
Cash in hand	420
Cash with reserve bank	10.500
Cash with other banks	9,100
Borrowings from other banks	4,400
Bills discounted and purchased	4,200
Sundry creditors	210
Bills payable	5,600
Loans, overdrafts, and cash credits	49,000
Unclaimed dividend	210
Bills for collection	980
Acceptance on behalf of customers	1,400
Net profit for 1992-93	1,680

[After deducting provisions for bad debts Rs. 2,10,000; tax provision Rs. 7,00,000 an rebate on bills discounted Rs. 35,000]

Prepare the balance sheet of the bank as on 31.3.93.

[Thiruvalluvar B.Com., April 2008]

[Madras, B.Com. B.Com (CS) Nov. 2009; B.Com., March 1995]

[Ans: P & L A/c balance carried over to balance sheet — Rs. 23,80,000; Balance sheet total — Rs. 10,37,65,000]

[Hint: (1) Provision for doubtful debts can also be reduced in schedule 9.

(2) Prepare Appropriation part of P&L a/c as working note]

26. From the following ledger balances of Indian Bank 1 td .prepare the Profit and Loss Account and Balance Sheet as on 30th June 1980.

	Rs.
Freehold and leasehold property	4,15,000
Premises and furniture	3,37,500
Loans and advances	46,65,000
Bills discounted	3,79,500
Money at call and short notice	2,74,250
Cash in hand and with RBI	15,84,750
Interest. discount and counission	2,41,500
Premises account — amount written oft'	22,500
Current expenditure, salaries, rent, etc.	71,250
Amount added to staff retirement fund	3,000
Shares and stock	6,37,500
Govt. securities	6,00,000
Other securities	8,25,000
Interest accrued and paid	25,500
Profit and Loss Account (1.7.79)	15,300
Acceptance on behalf of customers	12,00,000
Current accounts and deposits	77,00,150
Reserve. fond	6,00,00
Share capital I2,300 ordinary shares of Rs. 100 each Make provision for rebate on bills discounted	12,50,000 2,450

[Madras, 1st M.Cont. (Sent. - (A(4) Nov. 2005;
1st M.Cont. (CA IA) Nov. 2005; B.Com., March 1994]

[Ans: Net profit for the year — Rs. 1,19,800; Balance carried to B/S Rs. 1,05,150; B/S total Rs. 97,19,000 Difference in Trial Balance Rs. 500 (Cr) excess]

Hint:1. **Show Rs. 500 in schedule 11 as other asset, representing difference in trial balance. 2. 25% of Net Profit should be transferred to statutory reserve now.**

27. The following are the balances of Karuna Bank Ltd.. you are required to prepare the Profit and Loss Account and the balance sheet as at 31st December 1994 as per the requirements of the Banking Regulation Act.

Share capital 2,000 equity shares of Rs. 500 each,	Rs.
Rs. 100 per share paid up	2,00,000
Bad debts written off	12,871
Reserve fund investments	1,00,000
General expenses	18.242
Current accounts	20,24,422
Interest paid	16,052
Deposit accounts	6,92,023
Profit and Loss Account (credit)	22,934
Acceptance for customers	1,54,282
Discount	24,376
Bills receivable	1,00,000
Endorsements and guarantees	7,402
Commission \	4,424
Cash in hand -	22,654
Interest received	53,226
Cash with banks	2,01,210
Endorsements and guarantees as per contra	7,402
Owing by foreign correspondents	20,044
Customers liabilities for acceptances	1,54,282
Short loans (Cr)	6,48,206
Loans and advances to customers	15,45,670
Investments	9,88,254
Bills discounted	6,22,824
Premises	2,21,790
Bills for collection	1,00,000
Statutory reserve	1,00,000

The following information is relevant:

(i) During the year interim dividend of Rs. 20,000 was paid

(ii) Reserve Rs. 6,438 as Rebate on bills discounted.

(iii) Provide Rs. 15,000 for taxation reserve

(iv) Particulars of investments and advances are not required.

(Madras, B. Com(CS) Ap. 2009; B.A., Com., March 1991; Sep. 1996)

[**Ans: Net profit — Rs. 13,423; Balance sheet total — Rs. 37,22,446]**

Hint: **Balance of Profit and Loss Account must be the balance left on that account after the payment of interim dividend of Rs. 20,000. So, interim dividend amount can be added to P & L balance b/f and then the interim dividend can be shown as an appropriation or the adjustment can be ignored. Former method is better.**

28. The following Ledger balances of Bank of Purasawalkam Ltd., as on 31.12.1994 are furnished to you. Prepare Profit and Loss Account and Balance Sheet as per requirement of law.

	(Rs. in Thousands)
Reserve fund	1,200
Bad debts written off	128
General expenses	182
Current accounts	20,245
Interest paid	160
Deposit accounts	6,920
Profit and Loss Account b/fd	229
Bills receivable for customers	1,500
Discounts	244
Endorsements and guarantees	575
Commission	45
Cash	225
Interest earned	550
Balance with RBI	2,030
Endorsements and guarantees (constituent liabilities)	575
Balance with foreign correspondents	1,206
Bills for collection	1,500
Borrowings from bank	6,482
Cash credit and overdrafts	15,457
Investments	9,882
Bills discounted	6,228
Premises	2,217
Share capital	2,000

The following information is furnished.

(a) Rebate on bills discounted to be provided Rs. 64,000.

(b) The bank has paid an interim dividend of Rs. 2,00,000 during the year.

[Madras, 1st M. Com, Ap. 2009]

[Ans: Net profit — Rs. 3,05,000; Balance sheet total — Rs. 3,72,45,000; Trial balance difference Rs. 2,00,000, presumed as interim dividend]

[Hint: Interim dividend mentioned in adjustments is a part of trial balance and has single effect only].

UNIT – 12

INSURANCE COMPANY ACCOUNTS

Meaning of Insurance - Insurer - Insured - Reversionary Bonus - Consideration for annuities granted - Differences between Insurance and Assurance - Valuation of balance sheet - Net liability – Claim - Differences between Life Insurance and Fire Insurance - Differences between Life Insurance and General Insurance - Differences between Fire insurance and Marine Insurance - Reserve for unexpired risk – Reinsurance - Commission on reinsurance accepted - Commission on reinsurance ceded - Computation of correct life assurance fund – Revenue a/c of Life Assurance Company - Revenue a/c and valuation of balance sheet Revenue a/c of Fire and Marine Insurance

Life is full of problems and uncertainties. Attempts are being made to reduce these problems and uncertainties and where possible, to eliminate them. Everyone is exposed to some risk or the other, whatever the precaution taken. Life is prone to accidents and buildings and goods may be destroyed or damaged due to fire, flood or cyclone. Insurance is a way of protecting people and things against such unexpected losses. The primary object of insurance is to substitute certainty for uncertainty as regards the economic cost of loss producing events.

12.1 LIFE (INSURANCE) ASSURANCE

Life Assurance is a contract whereby the insurer, in consideration of a premium, paid either in lump sum or in periodical installments undertakes to pay an annuity or a certain sum of money, either on the death of the insured or on the expiry of a certain number of years. The amount is paid to the nominee of the insured if the insured dies before the policy matures.

The person who agrees to pay an annuity or a certain sum of money (i.e., who indemnifies) is called the Insurer.

The person whose life is insured (i.e., the one to whom the money is payable) is called the Assured and the consideration paid periodically or otherwise is called the premium.

Life Insurance contract is a contingent contract i.e., the claim becomes payable only when the contingency – death or completion of the stipulated period occurs.

12.2 LIFE ASSURANCE FUND

The difference between total receipts and total expenditure of a life insurance company is called Life Assurance Fund.

12.3 PREMIUM

It includes the premium received or yet to be received for the relevant year less any premium paid or to be paid on re-insurance plus the bonus in reduction of premium.

12.4 CONSIDERATIONS FOR ANNUITIES GRANTED

In order to pay fixed amount regularly to the policyholders by insurance company after the expiry of the specified period, the insurance company initially will receive a fixed lump sum amount. The amount so received from policyholders at the beginning is called Consideration for annuities granted.

12.5 ANNUITY

Annuity is an annual payment made by an insurance company to any person, in consideration for a lump sum of money received in the beginning. The payment is made by the insurance company as long as one lives.

12.6 CLAIMS

Claim is the amount payable by the insurance company to the insured, or his nominee on the policy.

In the case of an endowment policy the claim arises either on the death or on the policy holder reaching a stipulated age, whichever is earlier.

In the case of a whole life policy the amount is payable only on the death of the policy holder.

Claim on the death of a policy holder is called Claim of Death. Claim on the policy holder reaching a stipulated age is called Claim by Maturity or Survivance. Claims include reversionary bonus and interim bonus.

12.7 SURRENDER VALUE

Surrender Value is the amount which a policy holder can get immediately in cash from the insurance company if he stops paying the premium and claims the amount paid till then. Surrender value is the present cash value of the policy.

12.8 BONUS

Bonus is the share of profit which a policy holder gets from the life insurance company. Bonus in cash is the amount of bonus payable in cash to the holder of a 'With Profit Policy'. Bonus in cash is payable immediately. Bonus may be Reversionary Bonus or Bonus in reduction of premium.

Reversionary premium is the bonus payable on the maturity of the policy.

Bonus in Reduction of Premium is bonus payable in cash but which is utilized by the policy holder to adjust the premium due by him.

Interim Bonus is one which is payable on the maturity of a policy pending the ascertainment of profit.

12.9 POLICY

The document containing the terms of the contract is known as policy.

12.10 DIFFERENCES BETWEEN INSURANCE AND ASSURANCE

Basis	Insurance	Assurance
Applicability	Insurance is applicable to all types except life insurance	Assurance is applicable only to life
Risk	Risk may or may not be happened	Risk is certain
Claim amount	Claim amount will be given only if there is any risk happened	At the end of the specified period, policy amount will be paid even without any risk

12.11 TYPES OF INSURANCE

I. Life Insurance

The Insurer agrees to indemnify the loss which is caused by happening of some unforeseen things to the life of insured. The person whose life is insured has to pay some amount at regular intervals to the insurance company.

- **Whole life policy**

  The premium amount is to be paid up to the death of policy holders. The policy amount will be paid on the death of policy holder.

- **Endowment policy**

  The premium amount is to be paid for a specified period for which the policy is taken. The policy amount will be payable after the expiry of specified period or death whichever is earlier.

- **With profit policy**

  With profit policies are those on which, in addition to a guaranteed sum payable on maturity, a share of profits of the company will also be payable.

- **Without profit policy**

  Without Profit Policies are those on which the policy holder gets only a fixed sum of money on maturity and no profit will be paid.

II. General Insurance

All insurance contracts other than life insurance are known as general insurance.

- Fire insurance

- Marine insurance
- Accident Insurance Contract
- Other insurance

12.12 DIFFERENCES BETWEEN LIFE INSURANCE AND FIRE INSURANCE

Basis	Life Insurance	Fire Insurance
Compensation	It provides protection against financial loss due to death of insured person or on maturity of the policy	It provides protection against loss or damage by fire
Nature	It is a contingent contract	It is a contract of indemnity
Risk	Happening of risk or date of maturity of the policy is definite	Happening of risk is uncertain
Period	Policy is taken for a long period of time	Policy is taken for a short period of time for one year
Insurable interest	Insurable interest must exist at the time of proposal	Insurable interest must exist at the time of contract
Coverage	It affords full protection against risk of death	It gives protection against loss

12.13 DIFFERENCES BETWEEN LIFE INSURANCE AND GENERAL INSURANCE

Basis	Life Insurance	General Insurance
Policy against	Policy is taken against the life of human being	Policy is taken against goods and services
Period	Policy is taken for a long period of time	Policy is taken for a short period of time
Insurable interest	Insurable interest must exist at the time of proposal	Insurable interest must exist at the time of contract and at the time of loss
Nature	It is a contingent contract	It is a contract of indemnity
Purpose	Protection against loss and investment are available	Protection against loss is available
Double insurance	Insured person can get the benefits of double insurance	Insured person cannot get the benefits of double insurance
Applicability	Principle of subrogation and	Principle of subrogation and

	Contribution principle are not allowed	Contribution principle are allowed

12.14 DIFFERENCES BETWEEN FIRE INSURANCE AND MARINE INSURANCE

Basis	Fire Insurance	Marine Insurance
Policy against	It provides protection against loss or damage by fire	It provides protection from loss or damage to property while in shipments
Insurable interest	Insurable interest must exist both at the time of inception and at the time of completion of the contract	Insurable interest must exist at the time of completion of the contract
Assignment	Policy is not freely assignable	Policy is freely assignable
Profit margin	Policies do not allow margin of profit	Policies allow certain margin of profit to be charged at the time of indemnification of loss

12.15 FINAL ACCOUNTS OF LIFE INSURANCE COMPANIES

Revenue account - Form A – RA
Profit and loss accounts - Form A – PL
Balance sheet - Form A – BS

The revenue a/c, profit and loss a/c and balance sheet are in summary form, they are accompanied with 15 schedules.

Revenue Account

Premium earned income from investments and other incomes are added up in the revenue account. And from the total commission expenses, operating expenses, benefits paid, provision for doubtful debts and bad debts, provision for tax are subtracted. The balance gives surplus or deficit.

Profit and loss account

Profit transferred from revenue a/c is added with opening balance. Any dividends declared and dividend distribution taxes are subtracted. After making transfer to specified reserves, the remaining balance is carried to the balance sheet.

Balance sheet

The balance sheet is of two parts namely sources of funds and application of funds.

12.16 FINAL ACCOUNTS OF GENERAL INSURANCE COMPANIES

Revenue account - Form B – RA

Profit and loss accounts - Form B – PL

Balance sheet - Form B – BS

Revenue account

Separate revenue a/c is prepared for each kind of insurance business like fire, marine, accident under form B – RA

Profit and loss account

Combined profit & loss a/c is prepared for a general insurance company, conducting one or more businesses. Profit or loss of each kind of business is transferred from revenue a/c to profit and loss account. After providing for tax and making appropriation for dividend and transfer to reserves, balance of profit is added to the balance brought forward from previous year and the net balance is transferred to balance sheet.

Balance sheet

The balance sheet is of two parts namely sources of funds and application of funds. Any contingent liabilities are shown as a foot note to the balance sheet.

12.17 RESERVE FOR UNEXPIRED RISK

It is a reserve created to meet the risks which are associated with all such policies for which the premium has been reserved and the policies are still in force. In general insurance business, policy is taken for a year. Therefore the risk is covered for one year. Risk may occur on any day during the current year, after the close of the accounting year of the company. To meet this risk, the insurance company creates a reserve for this unexpired risk. This reserve is known as reserve for unexpired risk.

In case of fire insurance 50% of net premium and in case of marine insurance 100% of net premium will be transferred to reserve for unexpired risk

12.18 REINSURANCE

Sometimes the insurer thinks that the particular risk falls beyond his capacity. He may reinsure the same with some other insurance company. This arrangement is known as reinsurance.

12.19 COMMISSION ON REINSURANCE ACCEPTED

If a particular insurance company accepts reinsurance on behalf of another, in that case, it should give some commission to another insurance company. Such commission is called Commission on reinsurance accepted

12.20 COMMISSION ON REINSURANCE CEDED

If a particular insurance company gives reinsurance to another, then it earns some commission. Such commission is called Commission on reinsurance ceded.

12.21 COMPUTATION OF CORRECT LIFE ASSURANCE FUND

Illustration -1 A life insurance company disclosed a fund of ₹25,00,000 on Dec.31, 2016 before taking the following into consideration.

i) A claim of ₹15,000 was intimated and admitted but not paid during the year

ii) Premium of ₹1,000 is payable under reinsurance

iii) Reinsurance recoveries ₹30,000

iv) Bonus utilized in reduction of premium ₹8,000

Pass journal entries for the above omissions and recomputed the fund.

Solution

Particulars	**Amount ₹**	**Amount ₹**
Life assurance fund		25,00,000
Add: Reinsurance recoveries		30,000
Bonus utilized in reduction of premium		8,000
		25,38,000
Less: O/S claims	15,000	
Premium payable under reinsurance	1,000	
Bonus utilized in reduction of premium	8,000	24,000
		25,14,000

Illustration -2 The Life Assurance Fund of an insurance company on 31st March 2015 showed a balance of ₹87,76,500. It was later found that the following were not taken into account.

a) Dividend from investment ₹4,80,000

b) Income tax on above ₹48,000

c) Bonus in reduction of premium ₹8,77,500 (not taken as expense)

d) Claims covered under re-insurance ₹4,23,000

e) Claims intimated but not admitted by the company ₹7,62,000

Ascertain the correct balance of fund.

Solution

Particulars	**Amount ₹**	**Amount ₹**
Life assurance fund		87,76,500
Add: Dividend from investment		4,80,000

Bonus in reduction of premium		8,77,500
Claims covered under re-insurance		4,23,000
		1,05,57,000
Less: Income tax	48,000	
Bonus in reduction of premium	8,77,500	
Claims intimated but not admitted	7,62,000	16,87,500
		88,69,500

Revised Format of Revenue Account of Life Insurance Company

Form A - RA

Particulars	Schedule	Current year	Last year
Premiums earned - Net	1		
a)Premium			
b)Re-insurance ceded			
c)Reinsurance accepted			
Income from investments			
a)Interest, Dividend & Rent – Gross			
b)Profit on sale of investments			
c)Loss on sale of investments			
Other income			
Total (A)			
Commission paid (Dr)	2		
Operating expenses related to insurance business	3		
Other expenses			
Provisions other than taxation			
Total (B)			
Benefits paid (Net)	4		
Interim bonus paid			
Total (C)			
Surplus or Deficit (D) = (A) – (B) – (C)			
Appropriations			
Transfer to shareholders a/c			
Transfer to other reserve			
Transfer to funds for future appropriations			
Total (D)			

Explanations for Revenue Account of Life Insurance Company

Schedule 1Premium	**Schedule 2 Commission expenses**
Premiums Add: Closing O/S Less: Opening O/S Less: Reinsurance premium Add: Bonus in reduction of premium (Given in adjustment) Consideration for annuities granted	Commission paid Add: Commission on reinsurance accepted Less: Commission on reinsurance ceded
Schedule 3 Operating expenses	**Schedule 4 Benefits paid (Net)**
Employee's remuneration and welfare benefits (Exp. of mgt) ; Travelling expenses Rent and rates Repairs Printing and stationary Legal charges Medical fees ; Auditor fees Advertisement; Interest and bank charges Depreciation ; Other exp.	Insurance Claims Claims by death Claims by maturity Add: Closing O/S Less: Opening O/S Less: Reinsurance claims Annuities paid Surrenders paid Bonus in reduction of premium

12.22 REVENUE A/C OF LIFE ASSURANCE COMPANY

Illustration 3 The following information relates to Life Insurance Corporation for the year ended 31-3-2015. Prepare revenue a/c.

	₹ in '000		**₹ in '000**
Consideration for annuities granted	16.5	Claims	39.0
Management expenses	14.0	Surrenders	9.0
Directors fees	4.0	Premia received	151.0
Audit fees	3.0	Life Fund (1-4-2014)	1150.0
Medical expenses	5.0	Interest received	40.0
Agents commission	5.0	Rent received	10.0
Depreciation	4.0	Claims cancelled	5.0
Bonus in reduction of premium	1.5	Annuities	1.5

Solution:

Revenue Account

	Schedule No.	31-3-2015 ₹ in '000	2014
Premium earned	1		
Premium Net		160.0	
Consideration for annuities granted		16.5	
Income from Investment			
Interest received		40	
Other income			
Rent		10	
Total (A)		226.5	
Commission paid	2	5	
Operating expenses	3	25.5	
Total (B)		30.5	
Benefits paid (Net)	4	41.5	
Bonus in reduction of premium		1.5	
Annuities		1.5	
Surrenders		9.0	
Total (C)		53.5	
Surplus		142.50	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	151	Agents commission	5
(+) O/S	9		
	160	**Schedule 4 Benefits paid**	**₹ in '000**
Schedule 3 Operating exp.	**₹ in '000**	Claim	39
Management exp.	14	(+) O/S	3
Audit fees	**3**		42
Directors fees	4	(-) Claims cancelled	**0.5**
Medical exp.	**0.5**		41.5
Depreciation	4		
	25.5		

Illustration 4 Prepare in the statutory form the revenue account of Siva Insurance Company for the year ended 31-3-2015 from the following:

	₹ in '000		₹ in '000
Consideration for annuities granted	82,127	Income tax on interest and dividend	35,710
Management expenses	31,920	Claims by maturity	30,110
Claims by death	76,140	Surrenders	13,140
First Premia received	2,50,000	Life Fund (1-4-2014)	15,21,000
Renewal Premia received	3,55,690	Transfer fees	129
Single Premia received	1,00,000	Annuities	53,461
Dividend paid to shareholders	5,500	Commission	9,574
Interest, dividend and rent	97,840	Bonus paid in cash	2,416
Bonus in reduction of premium	980		

Solution:

Revenue Account

	Schedule No.	**2015 ₹ in '000**	**2014**
Premium earned	1		
Premium Net		7,05,690	
Consideration for annuities granted		82,127	
Income from Investment			
Interest, dividend and rent		97,840	
Other income			
Transfer fees		129	
Total (A)		8,85,786	
Commission paid	2	9,524	
Operating expenses	3	31,920	
Total (B)		41,494	
Benefits paid (Net)	4	1,06,250	
Bonus in reduction of premium		980	
Annuities		53,461	
Surrenders		13,140	
Interim bonus		2,416	
Total (C)		1,76,247	
Surplus		6,68,045	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	2,50,000	Commission	9,574
(+) o/s	3,55,690		
	7,05,690	**Schedule 4 Benefits paid**	
Schedule 3 Operating exp.		Claim by death	76,140
Management exp.	31,920	Claims by maturity	30,110
			1,06,250

Treatment for some important adjustments

Adjustments	Revenue Account	Balance sheet
Expenses due	Add to the particular exp.	Schedule 13 Current liabilities
Closing premium o/s	Add to premium (Schedule 1)	Asset side
Reinsurance premium ceded (Exp. Due)	Less from premium (Schedule 1)	Schedule 13 Current liabilities
Interest accrued	Add with Interest, dividend and Rent (Schedule 1)	Schedule 12 Advances and other assets
Bonus utilized in reduction of premium	Add to premium Received (Schedule 1)	Add to Benefits paid - Claims (Schedule 4)
Closing claims o/s	Add to claim in Schedule 4	Schedule 13 Current liabilities
Claims covered under reinsurance	Less from Benefits paid - Claims (Schedule 4)	Schedule 12 Advances and other assets
Surrenders adjusted against loan	Add with surrenders in Schedule 4	Schedule 9 Less from Loans on Policies
Income tax on Interest receipts	–	Schedule 12 Advances and other assets
Dividend paid to Share holders	Revenue account - Appropriations	

12.24 PREPARATION OF REVENUE ACCOUNT WITH ADJUSTMENTS

Illustration 5 From the following information relating to Life Assurance Company for the year ended 31-3-2015, prepare a revenue account.

	₹ in '000		₹ in '000
Consideration for annuities granted	1,01,200	Claims o/s by maturity on 1-4-2014	60,000
Management expenses	3,00,000	Claims by maturity	1,40,000
Income tax on interest and dividend	50,000	Claims by death	2,00,000
Premia received	15,00,000	Life Fund (1-4-2014)	39,00,000
Claims o/s by death on 1-4-2014	80,000	Income tax	45,000
Surrenders	4,000	Annuities	12,600
Registration and other fees	200	Commission	25,050
Interest, dividend and rent	2,10,000	Sundry incomes	6,000
Printing and stationary	7,700		

Additional information:

i) Claims outstanding on 31-3-2015 by death ₹50,000 Thousands; by Maturity ₹40,000 Thousands

ii) Management expenses outstanding ₹6,000 Thousands

iii) Provide ₹4,500 Thousands for depreciation

iv) Premium outstanding on 31-3-2015 is ₹2,00,000 thousands.

Solution:

Revenue Account

	Schedule No.	2015 ₹ in '000	2014
Premium earned	1		
Premium Net		17,00,000	
Income from Investment			
Interest, dividend and rent		2,10,000	
Other income			
Sundry income		6,000	
Registration fees		200	
Consideration for annuities granted		1,01,200	
Total (A)		20,17,400	
Commission paid	2	25,050	
Operating expenses	3	3,63,300	
Total (B)		3,88,250	
Benefits paid (Net)	4		
Claims		2,90,000	

Annuities		12,600	
Surrenders		4,000	
Total (C)		3,06,600	
Surplus (A – (B +C)		13,22,550	

Workings:

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Commission**	**₹ in '000**
Premium	15,00,000	Agents commission	25,050
(+) Closing o/s	2,00,000		
	17,00,000	**Schedule 4 Benefits paid**	**₹ in '000**
Schedule 3 Operating exp.	**₹ in '000**	Claim by death 2,00,000	
Management exp. 3,00,000		(+) Closing o/s 50,000	
(+) O/s 6,000	3,06,000	2,50,000	
Printing and stationary	7,700	(-) Opening o/s 80,000	1,70,000
Depreciation	4,500		
Income tax	45,000	Claim by maturity 1,40,000	
	3,63,200	(+) Closing o/s 40,000	
		1,80,000	
		(-) Opening o/s 60,000	1,20,000
		Total claims	2,90,000

Illustration -6 The following balances are extracted from the books of New Bharath Life Insurance Ltd. as on 31-3-2015.

	Amount ₹		**Amount ₹**
Life Assurance Fund (1-4-2014)	15,00,000	Consideration for annuities granted	15,000
Bonus in reduction of premium	1,600	Medical fees	2,400
Annuities	2,050	Surrenders	4,000
Interest and dividend	1,00,000	Commission	18,650
Fines for revival of policies	750	Management expenses	22,000
Reinsurance premium	20,750	Income tax on dividends	8,500
Claims outstanding (1-4-2014)	4,500	Premiums	4,96,000
Claims paid during the year	64,900		

Prepare revenue account after making the following adjustments:

i) Outstanding balances:

Claims ₹14,000

Premium ₹4,600

ii) Further bonus for premium ₹2,400

iii) Claims under reinsurance `8,000

Solution

Revenue Account

	2015	₹2014
Premium earned – Net		
a) Premium	1	5,03,000
b) Reinsurance ceded		(-) 20,750
c) Reinsurance accepted		–
Income from investments:		
a) Interest and dividend		1,00,000
Other income		
Consideration for annuities granted		15,000
Fines for revival of policies		750
Total (A)		5,98,000
Commission	2	18,650
Operating exp.	3	24,400
Total (B)		43,050
Benefits paid	4	76,450
Total (C)		76,450
Surplus (D) = A – B – C		4,78,500

Workings

Schedule 1 - Premium

Premium received	₹4,96,000
Add: O/S premium	₹4,600
Add: Further bonus in reduction of premium	₹2,400
	₹5,03,000

Schedule 2

Commission paid	₹18,650

Schedule 3

Management exp.	₹22,000
Medical fees	₹2,400
	₹24,400

Schedule 4

Claims paid	₹64,900
Add: O/S on 31-3-2015	₹14,000
	₹78,900
Less: O/S on 1-4-2014	₹4,500
	₹74,400
Less Claims under reinsurance	₹8,000
	₹66,400
Annuities	₹2,050
Surrenders	₹4,000
Bonus in reduction of premium (1,600 +2,400)	₹4,000
	₹76,450

12.25 VALUATION BALANCE SHEET

Valuation balance sheet is a statement which is prepared by the life insurance company in order to find out the profit or loss at the end of a particular year. If the closing life assurance fund exceeds the net liabilities of a business, the difference is called surplus.

12.26 NET LIABILITY

Since nationalization of LIC, the calculation of net liability is made once in two years by Actuaries. They calculate the present value of future liability on all policies in force as well as end value of future premiums to be received on policies in force. The excess of the present value of future liability over the present value of future premium is called the net liability.

12.27 CALCULATION OF ACTUAL PROFIT IN LIC

From the actual profit earned, the insurance company gives 95% to the policy holders and 5% to the shareholders as dividend.

Valuation Balance Sheet

Particulars	**Amount**	**Particulars**	**Amount**
To Net Liability	xxx	By Closing Life Assurance Fund	xxx
“ Surplus (b/f)	xxx		
	xxx		xxx

Calculation of Actual Profit

Particulars		**Amount**
Surplus as per valuation balance sheet		xxx
Add: Interim dividend already paid		xxx
		xxx
Less: Provision for taxation if any	xxx	
Loss on investments if any	xxx	xxx
Actual profit		xxx

Statement showing amount due to policy holders

Particulars	**Amount**
95 % of actual profit	xxx
Less: Interim bonus already paid	xxx
	xxx
Amount payable to policy holders	xxx

Illustration -7 A life insurance Company gets its valuation made once in every two years. Its Life Assurance Fund on 31st March 2015 amounted to ₹41,10,000 before providing ₹30,000 for the shareholders dividend for the year 2014-15. Its actual valuation due on 31st March 2015 disclosed a net liability of ₹40,40,000 for unexpired risk. An interim bonus of ₹60,000 was paid to the policy holders for this year.

Prepare a statement showing the amount now available as bonus to policyholders.

Solution

Valuation balance sheet

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Net liability	40,40,000	By Life Insurance fund	41,10,000
" Surplus (b/f)	70,000		
	41,10,000		41,10,000

Calculation of bonus to policy holders

Particulars	**Amount ₹**
Surplus	70,000
Add: Interim bonus	60,000
Net profit	1,30,000

Particulars	Amount ₹
Bonus to policy holders (95% of 1,30,000)	1,23,500
Less: Interim bonus already paid	60,000
Bonus now available as bonus to policyholders	63,500

12.28 REVENUE ACCOUNT AND VALUATION BALANCE SHEET

Illustration 8 The following were the revenue items of a Life Insurance Company for the year ended 31-3-2015.

	₹ in '000		**₹ in '000**
Consideration for annuities granted	715	Claims	1,397.5
Management expenses	130	Bonus in cash	58.5
Commission	715	Surrenders	97.5
Premia received	2,015	Life Fund (1-4-2014)	2,500
Bonus in reduction of premium	2,6	Annuities	533
Interest, dividend and rent	650		

At the valuation on 31-3-2015, the actuary's certificate disclosed the net liability on policies and annuities at ₹28,80,900. Prepare revenue a/c and ascertain the valuation surplus.

Solution:

Revenue Account

	Schedule No.	**2015 ₹ in '000**	**2014**
Premium earned	1		
Premium Net		2,015,00	
Income from Investment			
Interest, dividend and rent		650,00	
Other income			
Sundry income			
Registration fees			
Consideration for annuities granted		715,00	
Total (A)		3,380,00	
Commission paid	2	165,00	
Operating expenses	3	130,00	
Total (B)		195,00	

Benefits paid (Net)	4		
Claims		1,397.50	
Annuities		533.00	
Surrenders		97.50	
Bonus in cash		58.50	
Bonus in reduction of premium		2.60	
Total (C)		2,089.10	
Surplus		1,095.90	

Valuation Balance Sheet

Particulars	₹ in '000	Particulars	₹ in '000
To Net liabilities	2,880.90	By Life Assurance Fund (2,500 + 1,095.90)	8,595.90
To Surplus (b/f)	715.00		
	3,595.90		3,595.90

Illustration 9 A Life Insurance Company having a paid up value of ₹5,00,000 disclosed a net liability of ₹46,50,000 on all their policies and contracts in force on 31-3-2015. From the following prepare revenue a/c and valuation balance sheet as on that date showing surplus for the policy holders and share holders.

	₹ in '000		₹ in '000
Consideration for annuities granted	85.00	Fines for revival of Lapsed policies	1.25
Management expenses	230.00	Bonus in cash	112.50
Claims	280.00	Surrenders	170.00
Premia received	2,580.00	Life Fund (1-4-2014)	5,000.00
Reinsurance claims irrecoverable	2.00	Income tax	240.00
Bonus in reduction of premium	3.55	Annuities	114.00
Interest, dividend and rent	1,520.00	Commission	115.00
Surplus on revaluation of reversions purchased			9.00

Solution:

Revenue Account

	Schedule No.	2015 (₹ in '000)	2014
Premium earned	1		
Premium Net		2,580.00	

Income from Investment			
Interest, dividend and rent		1,520.00	
Other income			
Surplus on revaluation		9.00	
Fines for revival of lapsed policies		1.25	
Consideration for annuities granted		85.00	
Total (A)		4,195.25	
Commission paid	2	115.00	
Operating expenses	3	230.00	
Income tax		240.00	
Total (B)		585.00	
Benefits paid (Net)	4		
Claims		280.00	
(+) Reinsurance claims irrecoverable		2.00	
Annuities		114.00	
Surrenders		170.00	
Bonus in cash		3.55	
Bonus in reduction of premium		112.50	
Total (C)		682.05	
Surplus		2,928.20	

Valuation Balance Sheet

Particulars	₹ in '000	Particulars	₹ in '000
To Net liabilities	4,650.00	By Life Assurance Fund (5,000 + 2,928.20)	7,928.20
To Surplus (b/f)	3,278.20		
	7,928.20		7,928.20

SPECIMEN FORMAT OF BALANCE SHEET OF LIFE INSURANCE COMPANY

Form A –BS

Particulars	Schedule No.	Current year	Last year
SOURCES OF FUNDS			
Share holders' funds			
Share capital	5	xxx	
Reserves and surplus	6	xxx	

Sub-total		xxx	
Borrowings	7	xxx	
Policy holders' funds			
Policy liabilities			
Insurance reserve			
Sub-total		xxx	
Funds for future appropriations		xxx	
Total		xxx	
APPLICATION OF FUNDS			
Investments			
Share holders	8	xxx	
Policy holders	8A	xxx	
Assets held to cover linked liabilities			
Loans	9	xxx	
Fixed assets	10	xxx	
Current Assets			
Cash and bank balances	11	xxx	
Advances and other assets	12	xxx	
Sub-total (A)		xxx	
Current liabilities	13	xxx	
Provisions	14	xxx	
Sub-total (B)		xxx	
Net Current Assets (C) = A – B		xxx	
Miscellaneous expenditure	15	xxx	
Debit balance in P & L a/c		xxx	
Total		xxx	

EXPLANATIONS FOR SCHEDULES IN BALANCE SHEET

Schedule – 5 Share capital	**Schedule – 6 Reserves and Surplus**
Issued and subscribed capital Less: Calls unpaid	Capital reserve Share premium General reserve

	Less: Debit bal. in P & L a/c Other reserves (Closing life assurance fund) Bal. of P & L a/c
Schedule – 7 Borrowings	**Schedule – 8 Investments – Share holders**
Debentures Fixed deposit Bank Others	Long-term investments Short term investments
Schedule – 8A Investments – Policy holders	**Schedule – 9 Loans given**
Long-term investments Short term investments	1.Security wise classification Secured – Mortgage of property Unsecured – Loan against policies 2. Borrower wise classification 3. Performance wise classification 4. Maturity wise classification
Schedule – 10 Fixed assets	**Schedule – 11 Cash and Bank balance**
Goodwill Land Lease hold property Buildings Furniture Others	1. Cash 2. Bank balance 3. Money at call and short notice 4. Others
Schedule – 12 Advances & other assets	**Schedule – 13 Current liabilities**
Advances given (Dr) 1.Reserve deposits 2.Advances 3.Advance tax paid 4. Others **Other assets** 1. Income accrued on investments 2. O/S premiums 3. Agents balances (Dr) 4. Foreign agents bal. 5. Due from other business	1.Agents balances (Cr) 2.Balance due to others 3. Deposit held on reinsurance ceded 4.Premium received in advance 5. Sundry creditors 6. Claims O/S 7.Annuities due

6. Reinsurance claims 7. Balance receivable 8. Deposits with RBI	
Schedule – 14 Provisions	**Schedule – 15 Miscellaneous expenditure**
For taxation Proposed dividend Bonus payable to policy holders	1.Discount allowed in issue of shares / Debentures

12.29 STANDARD RULES FOR CALCULATING CLOSING RESERVE FOR UNEXPIRED RISK

- No specific instructions are given, the following rules should be used for calculating closing reserve for unexpired risk

  in case of fire insurance 50 % of net premium and

  marine insurance 100 % of net premium

- Regarding closing additional reserve, if there is no adjustments, opening reserve will be the closing reserve also.

12.30 FIRE AND MARINE INSURANCE

Illustration 10 Prepare Revenue a/c of the Marine Insurance Company Ltd. as at 31st March 2015 from the following information:

	₹ in '000		**₹ in '000**
Reserve for unexpired risk (1-4-2014)	496.60	Claims	470.00
Management expenses	54.00	Director's sitting fees	3.40
Commission	35.00	General charges	12.00
Premium less reinsurance	720.00	Audit fees	10.00
Depreciation	5.00	Claims o/s (1-4-2014)	160.00
Additional reserve (1-4-2014)	49.66		

Solution:

Revenue Account

	Schedule No.	**2015 ₹ in '000**	**2014**
Net Premium	1	474.26	
Total (A)		474.26	
Claims	2	370.00	
Commission	3	3.50	
Operating expenses	4	84.40	

Total (B)		489.40	
Operating Loss		15.14	

Workings

Schedule 1 Premium	**₹ in '000**	**Schedule 2 Claim**	**₹ in '000**
Premium	720.00	Claims	470.00
Add: Opening unexpired risk	496.60	(+) Closing o/s	60.00
Add: Opening Additional Reserve	49.66		530.00
	1,266.26	(-) Opening o/s	160.00
Less: Closing unexpired risk 720			**370.00**
Less: Closing Additional Reserve 72	792.00	**Schedule 4 Operating exp.**	
	474.26	Management exp.	54.00
Schedule 3 Commission		Audit fees	10.00
Commission	**3.50**	Directors fees	3.40
		Depreciation	5.00
		General exp.	12.00
			84.40

Illustration 11 The following balances are extracted from the books of Oriental General Insurance Company. Prepare Revenue a/c for the year ending 31-3-2015.

	Fire ₹ in '000	**Marine ₹ in '000**		**Fire ₹ in '000**	**Marine ₹ in '000**
Funds on 1-4-2014	310.0	840.0	Claims paid	261.5	102.0
Premium	556.4	882.2	Commission	21.0	54.0
Due to Reinsurers	4.4	20.2	Exp. of Mgt.	42.0	73.0

It was further noticed that premium was outstanding:

Fire ₹1,400 and Marine ₹1,600. Provision is to be made for unexpired risk on fire and marine at 40% and 100% of the premium received respectively.

Solution:

Revenue Account

	Schedule No.	**Fire ₹ in '000**	**Marine ₹ in '000**
Net Premium	1	642.04	840
Total (A)		642.04	840
Claims	2	261.50	102

Commission	3	21.00	54
Operating expenses	4	42.00	73
Total (B)		324.50	229
Operating Loss		317.50	611

Workings (₹ in '000)

Schedule 1Premium	**Fire**	**Marine**	**Schedule 2 Claim**	**Fire**	**Marine**
Premium	556.4	882.2	Claims	261.5	102.0
(-) Opening o/s	4.4	20.2		261.5	102.0
	552.0	862.0			
(+) Closing o/s	1.4	1.6	**Schedule 4 Operating exp.**		
	553.4	863.6	Management exp.	42.0	73.0
Add: Opening unexpired risk	310.0	840.0			
	863.4	1,703.6	**Schedule 3 Commission**		
Less: Closing unexpired risk	221.36	863.6	Commission	21.0	54.0
	642.04	**840.0**			

Illustration -12 Z P Insurance Co. Ltd. has furnished the following information for preparation of revenue account for fire insurance business for the year ended 31-3-2015.

Claims admitted but not paid	₹42,376	Bad debts	₹2,500
Commission on reinsurance received	₹12,000	Reserve for unexpired risk on 1-4-2014	₹2,30,000
Claims O/S on 1-4-2014	₹27,000	Premium received	₹5,52,000
Dividend on share capital	₹18,500	Share transfer fees	₹5,000
Claims paid	₹15,000	Exp. of management	₹75,000
Additional reserve on 1-4-2014	₹40,000	Commission paid	₹50,000

The following further information has also to be considered:

a) Premium O/S at the end of the year ₹40,000

b) Additional reserve at 10% of net premium to be maintained

c) It is the policy of the company to maintain 50% of premium towards reserve for unexpired risk

Solution

Revenue Account

		₹
Premium earned – Net	1	5,06,800
Profit on sale / redemption of investment		–
Other income		–
Interest and dividend		–
Total (A)		5,06,800
Claims incurred (Net)	2	30,376
Commission	3	38,000
Operating exp.	4	80,500
Total (B)		1,48,876
Operating profit from fire business (C) = A – B		3,57,924

Workings

Schedule 1 – Premium earned

Premium received		₹5,52,000
Add: Premium O/S on 31-3-2015		₹40,000
		₹5,92,000
Adjustment for change in reserve for unexpired risk		
50% of 5,92,000	₹2,96,000	
Additional reserve (5,92,000 x 10%)	₹59,200	
	₹3,55,200	
Less: Reserve for unexpired risk (1-4-2014) 2,30,000		
Additional reserve (1-4-2014) 40,000	₹2,70,000	
Changes in reserve for unexpired risk		₹85,200
Total premium earned		₹5,06,800

Schedule 2 Claims incurred

Claims paid	₹15,000
(+) Claims admitted but not paid on 31-3-2015	₹42,376
	₹57,376
(-) Claims O/S on 1-4-2014	₹27,000
	₹30,376

Schedule 3 Commission

Commission on direct business	₹50,000
(-) Commission on reinsurance ceded	₹12,000
	₹38,000

Schedule 4 Operating expenses

Exp. of management	₹78,000
Bad debts	₹2,500
	₹80,500

Illustration -13 From the following particulars relating to Z Insurance Co. Ltd, prepare revenue account for the year ending 31-3-2015.

Claims intimated but not accepted and paid on 31-3-2015	₹10,000	Commission on reinsurance ceded	₹10,000
Claims intimated and accepted but not paid on 31-3-2015	₹60,000	Commission on reinsurance accepted	₹5,000
Claims O/S on 1-4-2014	₹40,000	Exp. of management	₹3,05,000
Provision for unexpired risk on 1-4-2014	₹4,00,000	Bonus in reduction of premium	₹12,000
Additional Provision for unexpired risk on 1-4-2014	₹20,000	Reinsurance premium paid	₹1,20,000
		Premium received	₹12,00,000
Claims paid	₹4,80,000	Commission	₹2,00,000

You are required to provide for additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance.

Solution

Revenue Account

		₹
Premium earned – Net	1	9,29,200
Profit on sale / redemption of investment		–
Other income		–
Interest and dividend		–
Total (A)		9,29,200
Claims incurred (Net)	2	5,10,000
Commission	3	1,95,000
Operating exp.	4	3,17,000

Total (B)		10,22,000
Operating profit from fire business (C) = A – B		92,800

Workings

Schedule 1 – Premium earned

Premium received			₹12,00,000
Less: Reinsurance premium paid			₹1,20,000
			₹10,80,000
Adjustment for change in reserve for unexpired risk			
50% of ₹10,80,000		₹5,40,000	
Additional reserve (₹10,80,000 x 1%) + ₹20,000		₹30,800	
		₹5,70,800	
Less: Reserve for unexpired risk (1-4-2014)	₹4,00,000		
Additional reserve (1-4-2014)	₹20,000	₹4,20,000	
Changes in reserve for unexpired risk			₹1,50,800
Total premium earned			₹9,29,200

Schedule 2 Claims paid

Claims paid	₹4,80,000
(+) Claims intimated but not accepted and paid on 31-3-2015	₹60,000
(+) Claims intimated and accepted but not paid on 31-3-2015	₹10,000
	₹5,50,000
(-) Claims O/S on 1-4-2014	₹40,000
	₹5,10,000

Schedule 3 Commission

Commission on direct business	₹2,00,000
(+) Commission on reinsurance accepted	₹5,000
	₹2,05,000
(-) Commission on reinsurance ceded	₹10,000
	₹1,95,000

Schedule 4 Operating expenses

Exp. of management	₹3,05,000
Bonus in reduction of premium	₹12,000
	₹3,17,000

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Policy holders have a right to participate ________ of true profit
   - a) 5% b) **95%**
   - c) 20% d) 75%

2. Valuation of balance sheet is prepared
   - a) Once in one year b) Twice in two years
   - c) **Once in two years** d) Twice in one year

3. The purpose of preparing valuation of balance sheet is
   - a) To know the financial position b) **Surplus or deficiency**
   - c) Life insurance fund d) To Know the asset value

4. The purpose of preparing revenue a/c in Life Insurance Company is to know the
   - a) Financial position b) Profit or loss
   - c) **Closing Life insurance fund** d) Surplus

5. Fire insurance business should transfer __________ of net premium to provision for unexpired risk
   - a) 100% b) **50%**
   - c) 25% d) 75%

6. Marine insurance business should transfer ________ of net premium to provision for unexpired risk
   - a) **100%** b) 50%
   - c) 25% d) 75%

7. The purpose of preparing revenue a/c in Fire Insurance Company is to know the
   - a) Financial position b) **Profit or loss**
   - c) Closing Life insurance fund d) Surplus

8. If the net liability is more than the life insurance fund, it is said to be
   - a) Surplus b) **Deficiency**
   - c) Both a and b d) Life assurance fund

9. Life Assurance is a ________ contract
   - a) Protection b) Investment
   - c) **Protection cum investment** d) Indemnity

10. General insurance is a ________ contract
    - a) Protection b) Investment
    - c) Protection cum investment d) **Indemnity**

11. Commission on policies effected through insurance agents cannot exceed _________ of premium in fire and marine business.
    a) **5%** b) 10%
    c) 15% d) 25%

12. Commission on policies effected through insurance agents cannot exceed _____ of premium in others except fire and marine business.
    a) 5% b) **10%**
    c) 15% d) 25%

13. Commission on policies effected through principal agent cannot exceed _______ of premium less commission payable to agent in fire and marine business.
    a) 5% b**) 20%**
    c) 15% d) 25%

14. Commission on policies effected through principal agent cannot exceed _______ of premium less commission payable to agent in other business except fire and marine business.
    a) 5% b) 20%
    c) **15%** d) 25%

15. Who is insurer?
    a) **Insurance company** b) The person insuring his risk
    c) Agent d) All the above

16. Who is insured?
    a) Insurance company b) **The person insuring his risk**
    c) Agent d) All the above

17. Which of the following is otherwise called assurance?
    a) Fire insurance b) Marine insurance
    c) **Life insurance** d) General insurance

18. Solvency margin is the difference between _______ maintained at all times by every insurer
    a) **Assets and liabilities** b) Liabilities and assets
    c) Liabilities and surplus d) Surplus and liabilities

19. Reversionary bonus is a bonus paid
    a) In cash b) Adjusted against premium
    c) **At the end along with policy amount** d) Bonus in reduction of premium

20. Which of the following is an expense?
    a) Commission on reinsurance ceded b) **Commission on reinsurance accepted**
    c) Premium d) Commission (cr)

21. The balance sheet of general insurance include ____________ schedules

    a) 4 b) 9
    c) **11** d) 5

22. The balance in the revenue account of a Life Insurance Company shows

    a) The profit for the accounting period
    b) The loss for the accounting period
    c) Both profit and loss for the accounting period
    d) **The Life Assurance Fund for the accounting period**

23. The valuation of balance sheet of a life insurance company is

    a) The same as the balance sheet of the trading company
    b) The same as the balance sheet of the non-trading company
    c) Not a balance sheet in all sense
    d) **A special accounting technique of ascertaining surplus or deficit**

24. The excess of net liability over the life assurance fund is

    a) Surplus b) **Deficiency**
    c) Profit d) Loss

25. Commission paid on re-insurance is

    a) An income b) Deficiency
    c) Profit d) **Loss**

REVIEW QUESTIONS

A) Answer in short

1. What is you mean by life assurance fund?
2. What is called annuity?
3. What is the meaning of surrender value?
4. What is valuation balance sheet?
5. What is Reinsurance?
6. What do you mean by reserve for unexpired risk?
7. What is additional reserve?
8. Differentiate commission on reinsurance accepted from commission on reinsurance ceded.
9. What is additional reserve? Why it is needed?

B) Answer in detail

1. Explain the preparation of revenue a/c of a life insurance business in prescribed form and explain the items there in

2. Explain the schedules prepared for the life insurance accounts.
3. Explain why reserve for unexpired risk is created in Life Insurance Company and not created in general insurance company.
4. Briefly the schedules prepared in finalizing accounts of a general insurance company.
5. Distinguish between life insurance and general insurance.
6. In what way fire insurance differ from marine insurance?

EXERCISES

CALCULATION OF CORRECT LIFE ASSURANCE FUND

1. The Life Assurance Fund of Sun Insurance Company shows a balance of ₹76,87,500 on 31st March 2016. It was later observed that the following were not taken into account.
   a) Dividend from investment ₹3,50,000
   b) Income tax on above ₹32,000
   c) Bonus in reduction of premium ₹4,85,000
   d) Claims covered under re-insurance ₹3,25,000
   e) Claims intimated but not admitted by the company ₹8,07,000

   Ascertain the correct balance of fund in the light of above particulars.

2. The revenue account of a life insurance company showed the life fund of ₹7,31,700 on 31-3-2016 before taking into account the following terms:

Claims intimated but not admitted	₹98,250
Bonus utilized in reduction of premium	₹13,500
Interest accrued on investments	₹29,750
Outstanding premium	₹27,000
Claims covered under reinsurance	₹40,500
Provision for taxation	₹31,500

   Show the adjusted life fund

3. A life insurance company disclosed a fund of ₹20,00,000 and the balance sheet total of ₹45,00,000 on 31- 03- 2016 before taking into consideration.
   i) A claim of ₹10,000 intimated and admitted but not paid during the year
   ii) A claim of ₹6,000 outstanding in the books for 8 years and written back
   iii) Interest on securities accrued ₹800 but not received during the year
   iv) Premium of ₹600 payable under re-insurance
   v) Re-insurance recoveries ₹26,000

vi) Bonus utilized in reduction of premium ₹10,000

vii) Agent's commission to be paid ₹8,000

Recomputed the life assurance fund

REVENUE ACCOUNT OF LIFE INSURANCE WITHOUT ADJUSTMENTS

4. From the following information, prepare Revenue Account of Active life Insurance Company Limited for the year ended 31.03.2015.

	₹		₹
Life Assurance Fund (1.4.04)	30,42,000	Bonus in Reduction of Premium	1,960
Claims by death	1,52,280	Consideration for annuities granted	1,64,254
Claims by maturity	60,220	Annuities paid	1,06,922
Premiums	14,11,380	Bonus in cash	4,832
Transfer Fees	258	Expenses of Management	63,840
Interest and Dividends	1,95,680	Commission	19,148
Income-tax thereon	11,420	Dividends to Shareholders	11,000
Surrenders	26,280		

5. From the following figures, prepare Revenue Account in the Statutory from of the Star Life Assurance Company Limited for the year ended 31.03.2015.

	₹		₹
Commission	19,140	Claim by death paid	1,42,000
Interest, Dividends, Rents (net)	1,95,700	Claim by maturity paid	70,200
Income-tax deducted at source	12,400	Premiums	14,12,100
Expenses of Management	63,800	Surrenders	26,300
Bonus in reduction of premium	1,800	Annuities paid	1,06,900
Dividends paid to shareholders	9,000	Bonus paid in cash	4,800
Considerations for annuities granted			1,64,000
Outstanding Death Claims at the beginning of the year			22,000
Outstanding Death claims at the end of the year			16,000
Amount of Life Assurance Fund at the beginning of the year			30,45,000

VALUATION BALANCE SHEET

6. The life fund of a life insurance company was ₹86,48,000 as on 31st March 2015. The interim bonus paid was ₹1,48,000. The actuarial valuation determined the net liability at ₹74,25,000. The surplus brought forward from the previous valuation was ₹8,50,000. The director of the

company proposed to carry forward ₹9,31,000 and to divide the balance between the share holders and the policy holders in the ratio of 1:10. Prepare the valuation balance sheet and find out the net profit for the valuation period.

7. A life assurance corporation gets its valuation made once in every two years. The life assurance fund on 31st March 2015 amounted to ₹20,96,000 before providing for ₹16,000 for the shareholders dividend for the year 2015-16. Its actuarial valuation on 31st March 2015, disclosed net liability of ₹20,20,000 for unexpired risk. An interim bonus of ₹20,000 was paid to the policyholders for this year. Prepare a valuation balance sheet and also calculate the amount available to policyholders.

REVENUE ACCOUNT AND VALUATION BALANCE SHEET

8. Prepare revenue account and valuation balance sheet of a Life Insurance Company for the year ended 31st March 2015:

Claims by death	₹76,140	Claims by maturity	₹30,110
Premiums	₹7,05,690	Transfer fees	₹129
Consideration for annuity granted	₹82,127	Annuities paid	₹53,461
Bonus paid in cash	₹2,416	Expenses of management	₹31,920
Commission	₹9,574	Interest and dividend	₹97,840
Income tax thereon	₹35,710	Surrenders	₹13,140
Life assurance fund at the beginning	₹15,21,000	Dividend paid to share holders	₹5,500
Bonus in reduction of premium	₹980		

Paid-up share capital of the above life assurance company is ₹5,00,000 and net liability as per actuary's valuation is ₹11,05,000 as on 31st March 2015.

9. A Life Assurance Co. Ltd. having a paid up capital of ₹5,00,000 disclosed a net liability of ₹40,50,000 on all their policies and contracts in force on 31- 3- 2015. From the figures set out below, prepare the revenue account for the year ended 31- 3- 2015 and a valuation balance sheet as on that date.

	₹ in '000		**₹ in '000**
Life fund on 1- 4- 2014	5,000	Premiums	2,580
Interest, dividends and rent	1,520	Fines	1.25
Consideration for annuities granted	85	Claims paid	280
Re-insurance claims irrecoverable	2	Exp. of management	230
Bonus in reduction of premium	3.55	Commission	115
Annuities paid	114	Surplus	9
Surrenders	9	Income tax	240
Bonus in cash	11.25		

10. The valuation of ABCD Life Assurance Company Ltd. having a paid up capital of ₹5,00,000 disclosed a net liability of ₹66,50,000 and all their policies and contracts in force on 31-3-2015. From the figure set out below, prepare the revenue account for the year ended 31st March 2015 and a valuation balance sheet as on that date showing the surplus for the shareholders and policy holders (on the pattern of distribution prescribed in the life Assurance Corporation of India Act, 1956)

Life Assurance Fund 1-4-2014	₹50,00,000	Fines for revival of lapsed policies	₹1,250
Interest dividend received	₹15,00,000	Bonus in cash	₹1,12,000
Bonus in reduction of premium	₹4,050	Re-insurance balance irrecoverable	₹2,000
Surrenders	₹1,90,000	Annuities paid	₹1,14,000
Expenses of management	₹2,20,000	Commission paid to agents	₹1,25,000
Claims paid	₹2,60,000	Income tax	₹2,40,000
Surplus on revaluation of reversion purchased	₹9,000	Consideration for annuities granted	₹85,000
		Premium received	₹26,00,000

11. The following were the revenue items of a LIC for the year ended 31-3-2015.

Premium	₹40,30,000
Surrenders	₹1,95,000
Interest and Dividend (net)	₹13,00,000
Bonus in cash	₹1,17,000
Bonus in reduction of premium	₹5,200
Expenses of management	₹2,60,000
Life fund on 1.4.2014	₹52.00.000
Claims	₹27,95,000
Annuities	₹10,66,000
Consideration for annuities granted	₹14,30,000
Commission	₹1,30,000

At the valuation on 31.3.2015 the actuary's certificate disclosed the net liability on policies and annuities at ₹57, 60,000.

Prepare revenue account and ascertain the profit or loss made by the company.

REVENUE ACCOUNT OF LIFE INSURANCE WITH ADJUSTMENTS

12. The following balances were extracted from the books of the New Bharat Insurance Company Ltd. as on 31st March 2015.

Life Insurance Fund on 1-4-2014	₹15,00,000	Consideration for annuities	₹15,000
Premium	₹4,96,000	Interest and dividends	₹1,00,000
Fines for revival of policies	₹750	Claims outstanding on 1-4-14	₹4,500
Re-insurance premium	₹20,750	Claims paid during the year	₹64,900
Annuities	₹2,050	Management expenses	₹22,000
Medical fees	₹2,400	Surrenders	₹4,000
Commission	₹18,650	Bonus in reduction of premium	₹1,600
Income tax on dividends	₹8,500		

Prepare the revenue account after the following adjustments:

i) Outstanding balances: Claims ₹14,000; Premium ₹4,600

ii) Further bonus for premium ₹2,400

iii) Claims under re-insurance ₹8,000

13. The following trial balance was extracted from the books of Bharat Assurance Co. Ltd. as on 31st Dec.2015.

Particulars	Debit ₹	Particulars	Credit ₹
Dividend paid	15,000	Shares of ₹10 each	1,00,000
Bonus in reduction of premium	31,500	Life Assurance Fund 1-1-2015	29,72,300
Claims paid	1,97,000	Premium less reinsurance premium (Commission thereon ₹5,000)	1,61,500
Commission paid	9,300		
Mortgage in India	4,92,200		
Management expenses	32,300	Interest and dividend	1,12,700
Agents balances	9,300	Outstanding claims (1-1-2015)	7,000
Buildings	40,000	Consideration for annuities granted	10,000
Investments	23,05,000		
Loan on policies	1,73,600		
Cash on deposit	27,000		
Cash in hand	7,300		
Surrenders	7,000		
Medical fees	7,000		
Annuity	10,000		
	33,63,500		33,63,500

Prepare the revenue a/c after considering the following:

i) Claims outstanding ₹10,000

ii) Further bonus in reduction of premium ₹5,000

iii) Premium outstanding ₹5,000

iv) Claims covered under reinsurance ₹80,000

v) Management expenses ₹30,000

REVENUE ACCOUNT & BALANCE SHEET OF LIFE INSURANCE WITHOUT ADJUSTMENTS

14. From the following trial balance prepare the Final Accounts of the Indian Assurance Company Ltd. for the year 31.03.2015.

Debit	**Amount ₹**	**Credit**	**Amount ₹**
Loans on Life interests	4,281	Premium	3,65,982
Expenses of Management	18,241	Profit on sale of investments	10,824
Freehold Ground Rents	1,68,421	Claims admitted but not Paid	58,421
Commission	9,872	Sundry Creditors	7,724
Deposit with RBI Govt. Securities	2,00,000	Consideration for annuities granted	12,272
Income tax on interest receipts	7,139	Interest, Dividend and Rent (Gross)	1,20,682
Surrenders	21,104		
Claims by maturity	1,04,728		
Annuities paid	7,681		
House property	59,888		
Claims by death	1,72,681		
O/s premium	21,641		
Bonus in cash	4,222		
Agent's balance	6,824		
Port trust Debenture Interest and Principal Guaranteed by the Govt.	5,28,241		
Cash at bank	12,724		
Cash in Hand	354		
Foreign Govt. Securities	1,42,520		
Office Furniture	1,500		

Shares in other cos.	1,21,621		
Stock of policy stamps in land	168		
Mortgages in India	6,61,421		
Mortgages outside India	2,06,490		
Loans on Govt. Securities	4,98,321		
British Govt. Securities	2,21,640		
Loans on company's Policies	1,74,692		
	33,76,415		33,76,415

15. The following trial balances were extracted from the books of Life Insurance Corporation as on 31.03.15.

	Amount ₹		**Amount ₹**
Premium received in advance	50,000	Expenses of Management	7,50,213
Income-tax paid	1,40,074	Investments	2,55,00,000
Life Assurance Fund (1.4.2014)	2,40,00,000	Investment Reserve Fund (1.4.2014)	25,00,000
Freehold Property	12,50,000	Premium less reassurances	37,50,000
Claims admitted but not paid	15,00,000	Outstanding Premium (Net)	3,01,600
Surrenders	1,79,475	Outstanding Interest	2,95,000
Consideration for annuities granted	25,250	Interest accrued but not payable	1,58,500
Bonus in reduction of premium	2,000	Interests, Dividends and Rents Received	16,00,168
Annuities	15,000	Furniture and Fittings	45,250
Unpaid Dividends	25,895	Stamps in hand	3,661
Transfer and other Fees	3,215	Sundry Creditors	22,437
Agent's Balances Outstanding	72,952	Cash in hand and at Banks	1,82,000
Loans on Companies' Policies within their surrender value			24,50,000
Cheque paid into Banks and in course of realization			24,500
Cheque issued but not presented for payment			33260
Shareholders Capital(10,000 shares of ₹25 each, ₹10 per share paid up)			1,00,000
Claims under policies paid and outstanding less received on reassurance			22,50,000
Gain on redemption of debentures (to be carried to Investment Reserve Fund)			10,000

You are required to prepare the revenue account for the year ended 31^{st} March, 2015 and a Balance Sheet at the date of the New India Life Insurance Co. Ltd.

16. The following balances were extracted from the books of Cosmopolitan Life Insurance Company as on 31.03.2015. You are required to prepare its final accounts.

	₹ in '000		**₹ in '000**
Shareholders Capital ₹5,00,000 in 20,000 shares of ₹ 25 each, ₹10 per share paid up	200	Life Assurance Fund (1.4.2005)	48000
Claims under policies paid and outstanding less received on reassurance	4500	Investment Reserve Fund (1.4.2005)	5000
Expenses of Management	1500	Investments	51000
Freehold and Leasehold Property	2500	Unpaid Dividends	51.79
Claims admitted or intimated but not paid	3000	Outstanding Premia (Net)	603.2
Consideration for annuities granted	50.5	Outstanding Interest	590
Bonus in reduction of premium	4	Surrenders	358.95
Gain on redemption of debentures (to be carried to Investment Reserve Fund)	20	Cheque paid into Banks and in course of collection	49
Interests, Dividends and Rents Received	3200	Premia less reassurances	7500
Loans on Companies' Policies	4900	Interest accrued	317
Cash in hand and at Banks	364	Income-tax	280.15
Annuities	30	Transfer Fees	6.430
Cheque issued but not presented for payment	66.52	Agent's Balances	145.904
Premia received in advances	100	Furniture and Fittings	90.500
Sundry Creditors	44.875	Stamps on hand	7.322

REVENUE ACCOUNT AND BALANCE SHEET OF LIFE INSURANCE WITH ADJUSTMENTS

17. The following trial balance was extracted from the books of Life Assurance Company Limited as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividends paid	30,000	Paid up Capital (₹10 each)	2,00,000
Loans on Company's	3,47,200	Life Fund Balance	59,44,600

policies		(1.4.2005)	
Claims paid	3,94,000	Premium received	3,23,000
Cash in hand and current accounts	14,600	Interest and Dividends received	2,25,400
Management Expenses	64,600		
Mortgages in India	9,84,400		
Agents balances	18,600		
Freehold premises	80,000		
Investments	46,10,000		
Bonus to policy holders	63,000		
Cash on deposits	54,000		
Commission paid	18,600		
Surrenders	14,000		
	66,93,000		66,93,000

You are required to prepare the company's revenue account for the year ended 31st March, 2015 and its balance sheet as on that date after taking the following matters into consideration:

- Claims admitted but not paid ₹18,600
- Management expenses due ₹400
- Interest accrued ₹38,600
- Premiums outstanding ₹24,000

18. The following balances were extracted from the books of Mutual Life Assurance Company as on 31.03.2015.

Debit	**₹ in '000**	**Credit**	**₹ in '000**
Mortgages	1400	Outstanding claims	22
Buildings	145	Premiums	3394
Interest accrued but not received	7	Consideration for annuities granted	420
Investments	1200	Interest and Dividends	100
Bonus in reduction of Premium	5	Life Assurance Fund (1.4.2014)	950
Annuities	12		
Claims by death	700		
Claims by maturity	1000		
Agent's Balance	5		
Deposits with RBI	30		

Outstanding Premiums	35		
Commission	54		
Cash at Bank	50		
Sundry Debtors	63		
Surrenders	25		
Loans	155		
	4886		4886

You are required to prepare the final accounts after taking into account the following adjustments;

Premiums outstanding	₹4500
Interest accruing but not due	₹3700
Claims admitted but not paid	₹3200
Surrender claims not paid	₹1100
Further bonus utilized in reduction of premiums	₹2000

19. The following are the ledger balances of Bharat Life Assurance Co. Ltd. as on 31st March 2015.

	Amount ₹		**Amount ₹**
Interest outstanding on Investments	7,295	Consideration for annuities granted	1,20,000
Claims paid	4,20,600	Share capital	5,00,000
Bonus in reduction of premium	10,200	Life Assurance Fund as on April 1, 2014	25,27,825
Claims admitted but not paid	40,210	Annuities	80,900
Premium	18,90,500	Loans on policies	6,50,000
Interest, Dividends and Rents	1,70,620	Surrenders	1,12,800
Income-tax on interest	30,200	Re-assurance Premium	2,14,500
Loss on sale of investments	1,27,800	Buildings	4,50,000
Expenses of Management	1,27,800	Policy stamps on hand	6,700
Cash and Bank balances	1,40,790	Mortgage in India	10,12,700
Outstanding Premium	4,40,600	Agents balances (Dr.)	1,20,500
Outstanding Expenses	52,200	Bonus in cash	7,800
Dividend paid to shareholders	25,000	Investments	12,50,000
Commission	40,670	Furniture	24,500

Prepare the final accounts of the company, taking the following matters into consideration:

- Claims covered under reinsurance ₹47,500
- The Managing Director is to be paid commission of ₹51,520
- Further Bonus in reduction of premium is ₹5,000

20. The following trial balance was extracted from the books of National Life Assurance Company as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividend Paid	30,000	Share Capital	3,20,000
Surrenders	14,000	Life Assurance Fund (1.4.14)	
Loans on Company's Policies	3,47,200	Interest and Dividend Received	2,25,400
Commission paid	18,600	Premiums Received	2,03,000
Management expenses	64,600		
Mortgages in India	9,84,400		
Agents Balances	18,600		
Freehold Premises	80,000		
Investments	46,10,000		
Claims paid	3,94,000		
Cash on Deposits	54,000		
Cash in hand	14,600		
Bonus to Policyholders	63,000		
	66,93,000		66,93,000

You are required to prepare the company's final accounts for the year ended March 31, 2015, after taking into consideration, the following adjustments:

- Claims admitted but not paid ₹18,600
- Premium outstanding ₹24,000
- Interest accrued ₹38,600
- Management expenses Due ₹400

21. The following trial balance was extracted from the books of Life Insurance Corporation as on 31.03.2015.

	Amount ₹		**Amount ₹**
Life Assurance Fund (as on 1.4.14)	14,70,562	Consideration for annuities granted	10,620
Premium	2,10,572	Freehold Premises	5,00,000

Management expenses	19,890	House property	1,00,000
Mortgages	3,09,110	Claims by death	79,980
Dividend paid	20,000	Claims by maturity	36,420
Fines	92	Commission	26,541
Annuities	29,420	Interest dividends and rent	52,461
Share capital	4,03,000	Income-tax on Interest	3,060
Stamps on hand	400	Surrenders	21,860
Annuities due but not paid	22,380	Bonus in reduction of premium	2,500
Govt. Securities	8,70,890	Furniture	20,000
Bonus paid in cash	9,450	Loans on Company's Policies	2,00,000
Preliminary expenses	200	Claims admitted but not paid	80,034

Prepare the final accounts of the company after taking into consideration, the following:

- Claims covered under reinsurance ₹20,000
- Further claims intimated ₹20,000
- Further bonus utilized in reduction of premium ₹3,000
- Re-insurance premium ₹6,000
- Premium outstanding ₹8,000

22. The following trial balance was extracted from the books of New Bharat Life Assurance Company Limited as on 31.03.2015.

	Debit ₹		**Credit ₹**
Dividends Paid	15,000	Paid up Capital (10,000 shares of ₹10 each)	1,00,000
Claims paid	1,97,000		
Bonus in reduction of Premium	31,500	Life Fund Balance (1.4.2014)	29,72,300
Commission	9,300	Premium less reinsurance premium	1,61,500
Management Expenses	32,300	Outstanding claims (1.4.2014)	7,000
Mortgages in India	4,92,200	Interest and Dividends received	1,12,700
Agents balances	9,300	Consideration for annuities granted	10,000
Freehold premises	40,000		
Investments	23,05,000		
Loans on Companies Balances	1,73,600		
Cash on deposits	27,000		

Cash in hand and current accounts	7,300		
Surrenders	7,000		
Medical fees	7,000		
Annuities	10,000		
	33,63,500		33,63,500

Prepare revenue account for the year ended 31st March 2015 and a balance sheet of the company as at that date after taking the following into consideration.

- Claims outstanding ₹10,000
- Further bonus in reduction of premium ₹5,000
- Premium outstanding ₹5,000
- Claims covered under reinsurance ₹80,000
- Management expenses due ₹ 30,000
- Commission on reinsurance ceded ₹ 5,000

23. From the following figures extracted from the books of life assurance Company Limited as on 31.03.2015.

	Amount ₹		**Amount ₹**
Life fund on 1st April 2014	55,56,148	Cash in hand	1,900
Interest accrued but not received	69,613	Cash at bank	9,020
Investment Reserve Fund	88,000	Bank loans	50,000
Outstanding premiums	77,651	Share Capital	1,00,000
Premium less re-assurance	3,55,674	Municipal Securities	8,50,320
Loans on security of policies	4,25,360	Foreign Govt. Bonds	1,72,760
Consideration for annuities to be granted	11,338	Fines for revival of policies	358
Shares and debentures in other companies	20,42,477	Development loan	4,15,000
Interest and dividends (less tax)	2,23,535	Stamps in hand	269
Claims announced but not paid	76,135	Mortgages in India	9,02,956
British Govt. securities	5,69,517	Claims by death	3,37,955
Annuities due but not paid	427	Claims by Survivance	32,226
Premium received in Advance	575	Surrenders	37,303
Mortgages Outside India	3,94,360	Income-tax on profit	8,594
Bonus in reduction of premium	11,156	Annuities	38,688
Interest and dividend to	9,878	Commission	11,417

shareholders			
Interest outstanding on Investment	3,700	Management Expenses	40,070

The following information is given:

- Further Bonus utilized in reduction of Life Insurance Premium ₹6,500.
- Claims covered under re-insurance ₹27,000.

24. The following trial balance was extracted from the books of Life Insurance Corporation as on 31.03.2015. You are required to prepare the final accounts for the year ended 31st March 2015 after taking the following facts into consideration:

1. Claims admitted but not paid	₹9,000
2. Management Expenses Due	₹200
3. Interest accrued	₹19,000
4. Premium outstanding	₹10,000
5. Bonus utilized in reduction of premium	₹2,000
6. Claims covered under reinsurance	₹2,300

Particulars	**Debit ₹**	**Particulars**	**Credit ₹**
Dividends paid	15,000	Paid up Capital (10,000 shares of ₹10 each)	1,00,000
Mortgages in India	4,92,200		
Bonus in reduction of Premium	31,500	Life Fund Balance (1.4.2014)	29,72,300
Loans on Companies Balances	1,73,600	Premium less reinsurance premium	1,61,500
Cash in hand and current accounts	7,300	Interest and Dividends received	1,12,700
Management Expenses	32,300		
Agents balances	9,300		
Freehold premises	40,000		
Investments	23,05,000		
Claims paid	1,97,000		
Cash on deposits	27,000		
Commission Paid	9,300		
Surrenders	7,000		
	33,46,500		33,46,500

25. From the following trial balance Life Insurance Company, prepare the Final Accounts after taking into account the following adjustments.

- Claims outstanding on 31.03.2015 ₹13,500
- Claims recoverable from reinsurer ₹6,000
- Further Bonus utilized in reduction of premium ₹3,000
- Premiums outstanding ₹1,500
- Management expenses due ₹4,500
- Surrenders adjusted against loan on policies ₹5,000

Trial Balance as on 31.03.2015

Debit balances	₹	**Credit balances**	₹
Claims paid	59,500	Life Assurance Fund (1.4.2014)	15,51,800
Surrenders	8,000	Investment Fluctuation Fund	54,000
Loans against Mortgages	3,49,500	Premium Deposits	18,000
Loans against Policies	1,50,000	Sundry Creditors	22,500
Expenses of Management	1,11,000	Interest accrued	84,000
Outstanding premium on 31.03.14	66,000	Claims outstanding on 1.4.2014	9,000
Govt. Securities with RBI	3,90,000	Premiums less re-insurance	4,21,000
Other securities	8,25,000		
Fixed Assets	75,000		
Income-tax deducted on interest	9,000		
Depreciation of Fixed Assets	1,500		
Interest accrued	15,000		
Sundry Debtors	24,000		
Bonus in reduction of Premium	3,000		
Cash and Bank Balance	73,800		
	21,60,300		21,60,300

26. The following trial balances were extracted from the books of Life Insurance Corporation as on 31.03.15.

Particulars	**Debit ₹**	**Particulars**	**Credit ₹**
Mortgages	14,00,000	Claims due on 1.4.2014	22,000
Loans	3,00,000	Premium	30,00,000
Investments	12,00,000	Consideration for annuities	4,00,000
Surrenders	25,000	Interest and Dividend	4,94,000

Annuities	12,000	Life Fund on 1.4.2014	9,70,000
Claims by death	8,50,000		
Claims by maturity	8,50,000		
Agents balances	5,000		
Deposit with RBI	30,000		
Premium Outstanding	35,000		
Commission paid	54,000		
Cash at Bank	50,000		
Management Expenses	50,000		
Bonus in reduction of premium	18,000		
Interest accrued	7,000		
	48,86,000		48,86,000

Adjustments:

- Premium Outstanding ₹4,000
- Claims admitted but not paid on 31.03.2006 ₹4,500
- Surrender claims not paid ₹1,500
- Surrenders adjusted against loans on policies ₹5,000
- Further Bonus in reduction of premium ₹2,500.

Prepare Final Accounts.

27. The following are the ledger balances of Life Assurance Co. Ltd. as on 31st March 2015.

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Premiums	18,90,500	Bonus in cash	7,800
Life assurance fund as on 1st April, 14	25,27,825	Dividend paid to shareholders	25,000
Claims paid	4,20,600	Furniture	24,500
Claims admitted but not paid	40,210	Commission	40,670
Consideration for annuities granted	1,20,000	Interest, dividends and rents (gross)	1,70,620
Expenses of management	1,27,800	Cash and bank balances	1,40,790
Income-tax on interest and dividends	30,200	Interest outstanding on investments	7,295
Annuities	80,900	Agent's Balances (Dr.)	1,20,500
Loss on sale of investments	1,27,800	Outstanding Expenses	52,200
Loans on policies	6,50,000	Share Capital	5,00,000
Surrenders	1,12,800	Investments	12,50,000
Re-assurance premium	2,14,500	Outstanding Premium	4,40,600

Policy stamps on hand	6,700	Buildings	4,50,000
Bonus in reduction of premium	10,200	Mortgages in India	10,12,700

Prepare the final accounts of the Company, taking the following matters into consideration:

- Claims covered under re-insurance ₹47,500
- The Managing Director is to be paid commission at the rate of 5% on the net increase of Life Assurance Fund during the year before providing for such commission.
- Pending the Actuarial Valuation a reserve of 20% premium income is to be made
- Further bonus in reduction of premium ₹5,000

REVENUE ACCOUNT FOR FIRE INSURANCE

28. Prepare a revenue a/c in respect of fire business from the following details for the year 2015.

Reserve for unexpired risk on 1-4-14 @ 50%	₹90,000	Commission on re-insurance accepted	₹800
Estimated liability for claims intimated on 1-4-2014	₹15,500	Estimated liability for claims intimated on 31-3-2015	₹21,000
Claims paid	₹1,82,500	Legal expenses	₹3,000
Medical expenses	₹2,000	Re-insurance recoveries	₹16,000
Bad debts	₹400	Premium received	₹2,43,000
Premium on re-insurance accepted	₹16,000	Premium on re-insurance ceded	₹21,500
Profit on sale of investments	₹1,500	Expenses of management	₹45,000
Commission on re-insurance ceded	₹1,075	Commission on direct business	₹24,300
Interest, dividend and rent	₹12,000	Additional reserve	₹18,000

Create reserve on 31st March 2015, to the same extent as on 1st April 2014.

29. From the following balances as at 31st March 2015 in the books of General Insurance Co. Ltd, prepare a revenue a/c in respect of fire insurance business carried on by them.

Re-insurance premium paid	₹1,20,000	Claims paid	₹4,80,000
Claims outstanding on 1-4-14	₹40,000	Premium received	₹12,00,000
Loss on sale of motor car	₹3,500	Commission	₹2,00,000
Commission on re-insurance accepted	₹4,000	Commission on re-insurance ceded	₹8,000
Provision for unexpired risk on 1-4-14	₹4,00,000	Medical expenses regarding claims	₹5,000

Additional provision for unexpired risk on 1-4-14	₹20,000	Rent of staff quarters deducted from salaries	₹2,400
Depreciation on furniture	₹4,600	Interest and dividends	₹8,000
Re-insurance recoveries of claim	₹8,000	Bonus utilized in reduction of premium	₹12,000
Bad debts	₹2,500	Administrative expenses	₹3,02,000
Income tax deducted thereon	₹1,500	Refund of double taxation	₹4,500
Legal expenses regarding claim	₹4,000	Profit on sale of investments	₹3,500
Claims intimated and accepted but not paid on 31-3-15			₹70,000

You are required to provide additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance of additional reserve.

30. From the following particulars of Asian Insurance Company Ltd., prepare Revenue a/c and P & L a/c for the year ended 31st Dec. 2015.

Particulars	**Fire ₹**	**Marine ₹**
Claims outstanding on 31.12.15	4,620	9,808
Due to Re-insurance	2,471	4,143
Premiums received	3,56,418	4,59,960
Claims paid and outstanding	2,02,412	2,36,270
Expenses of management	96,512	96,512
Commission on Direct business	34,921	62,857
Commission on Reinsurance ceded	1,841	2,376
Commission on Reinsurance accepted	2,356	1,754
Sundry income	780	644
Funds at the beginning	2,26,300	2,16,725

Interest and Dividend received ₹1,49,512. Income tax on the above ₹32,316. Other receipts ₹3,745. Management expenses ₹16,735. Provision for unexpired risk is to be maintained at 50% and 100% of the net premium received in case fire and marine business respectively.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. From the following particulars prepare the fire Revenue Account for 2009.

Particulars	Amt
Claims (Net)	10,20,000
Premiums received	24,00,000
Re-Insurance premium	2,40,000
Commission	5,00,000
Expenses for management	4,00,000
Provision for unexpired risk on 1.1.09	14,00,000

[Alagappa University, B.Com(C.A), April, 2016]

2. The Revenue account of a life insurance company showed the life fund at Rs.73,17,000 on 31.2.2006 before taking into account the following items.

Claims but not admitted	98,250
Bonus uitilized in reduction of premium	13,500
Interest accrued on Investments	29,750
Outstanding premiums	27,000
Claims covered under reinsurance	40,500
Provision for taxation	31,500

Show the adjusted life fund.

[Madurai,M.Com,Nov,2014]

3. The following figures relate to life insurance corporation for the year ended 31.3.2010. prepare the revenue account.

Claims	78,000
Management expenses	28,000
Directors fees	8,000
Audit fees	6,000
Medical expenses	10,000
Agent's commission	10,000
Depreciation	8,000
Bonus in reduction of premium	3,000
Consideration for annuities granted	33,000
Surrenders	18,000
Premium received	3,02,000

Life Fund(1.4.2005)	23,00,000
Interest Received	80,000
Rent Received	20,000
Claims Cancelled	1,000
Annuities	3,000

Note:

1. Premium Outstanding Rs.18,000
2. Claims Outstanding Rs.6,000

[Madurai,M.Com,Nov,2014]

4. A life insurance company disclosed a fund of Rs. 25,00,000 on Dec 31, 2000 before taking the following into consideration.

   (i) A claim of Rs. 15,000 was intimated and admitted but not during the year.

   (ii) A claim of Rs. 8,000 outstanding in the books for 8 years is written back.

   (iii) Premium of Rs. 1,000 is payable under reinsurance.

   (iv) Reinsurance recoveries Rs. 30,000

   (v) Bonus utilized in reduction of premium Rs. 8,000

   (vi) Agents commission to be paid Rs. 6,000

   Pass the necessary journal entries for the above commission and recomputed the fund.

[Alagappa University, B.Com(C.A), April, 2015]

5. The revenue account of a life assurance company shows the Life Assurance Fund on 31.3.2006 at Rs. 62,21,310, before taking ibto account the following:

		Rs.
a.	Claims covered under reinsurance	12,000
b.	Bonus utilised in reduction of life insurance premium	4,500
c.	Interest accrued on securities	8,260
d.	Outstanding premiums	5,420
e.	Claims intimated but not admitted	26,500

   What is the Life Assurance Fund after taking into account the above omissions?

[Madras, B. Com, B.Cont(CS)Ap. 2009; B. Cont (CS) Nov. 2008]

   [Ans: Correct Life Assurance Fund — Rs. 62,20,490]

6. The Revenue Account of a Life Insurance Company showed a balance of Rs. 4,75,000 at the end of 2005-06 before considering the following items:

	Rs.
(a) Bonus in reduction of premiums	40,000
(b) Outstanding premiums	1,00,000
(c) Interest accrued on investments	20,000
(d) Claims intimated but not admitted	35,000
(e) Claims recovered under reinsurance	3,000

Pass necessary adjustment entries.

[Madras, B.Com. Nov. 2006]

[Ans: Adjusted life assurance fund — Rs. 5,63,000]

7. The Revenue account of a Life Insurance Company shows the Life Insurance Fund on 31.3.2006 at Rs. 48.78,000 before taking into account the following items.

	Rs.
(a) Claims intimated but not admitted	65,500
(b) Bonus utilised in reduction of premiums	6,500
(c) Interest accrued on securities	19,500
(d) Outstanding premiums	18,000
(e) Claims recovered under reinsurance	27,000

Pass the entries giving effect to the above adjustments and show the life fund at the end of the year 2005-06 after making the above adjustments.

[Madras, B.Com(ICE) Ap 2007]

[Ans: Life Assurance Fund at the end — Rs. 48,77,000]

8. From the following, you are required to calculate the amount on account of claim to be shown in the revenue A/c for the year ending 31st March 2006.

Intimated in	*Admitted in*	*Paid in*	*Rs.*
2004-05	2004-05	2005-06	15,000
2005-06	2005-06	2006-07	10,000
2003-04	2004-05	2004-05	5,000
2003-04	2004-05	2005-06	12,000
2005-06	2006-07	2006-07	8,000
2005-06	2005-06	2005-06	1,02,000

[Madras, M.Com (PBC) Oct. 2004; B.Com]

[Ans: Net claims to be shown in revenue account Rs. 95,000 (Rs. 1,29,000 + Rs. 18,000 — Rs. 27,000 — Rs. 25,000)]

9. The following figures relate to Life Insurance Corporation for the year ended 31.3.2006. Prepare the Revenue A/c.

	(Rs. '000)		*(Rs. '000)*
Claims	39	Consideration for	
Management expenses	14	annuities granted	16.5
Director's fees	4	Surrenders	9
Audit fees	3	Premia received	151
Medical expenses	0.5	Life fund (1.4.95)	1150
Agents' Commission	5	Interest received	40
Depreciation	4	Rent received	10
Bonus in reduction of premium	1.5	Claims cancelled	0.5
		Annuities	1.5

Note: (a) Premium outstanding Rs. 9 Thousand

(b) Claims outstanding Rs. 3 Thousand.

[Madras, B.Com (AF) Ap. 2008; B.Com., B.Com (CS) Nov. 2007; B.Com., April 2002; Madras, B.Com., Apri11998; Adapted]

[Ans: Surplus : Rs. 1,42,500]

10. Prepare in the proper statutory form the Revenue account of the Super Insurance Company Ltd. for the year ended 31st March 2006 from the following figures:

	Rs. ('000)		*Rs. (VON*
Claims by death	76,140	Expenses of Management	31,920
Claims by maturity	30,110	Commission	9,574
Premiums:		Interest, dividends	
First premiums	2,50,000	& rents	97,840
Renewal premiums	3,55,690	Income tax on interests,	
Single premiums	1,00,000	dividends etc.	35,710
Transfer fees	129	Surrenders	13,140
Consideration for annuities		Bonus in reduction	
granted less re assurance	82,127	of premium	980
Annuities paid	53,461	Dividend paid to	
Bonus paid in cash	2,416	shareholders	5,500
		Amount of life insurance fund at the beginning of the year	15,21,000

[Madras, 1st M.Com(CA1A) Nov. 2007; B.ComAp 2004]

[Ans : Surplus Rs. ('000) 6,68,045; (Before dividend)']

[Hints: 1. Bonus in reduction of premium should be shown only as an expenditure in Revenue A/c

2. Income tax on interest, dividend etc will be shown in schedule .12 of Balance Sheet, since it is tax deducted at source.]

11. From the following figures, prepare Revenue account, in statutory form, of the Star Assurance Co. Ltd. for the year ended 31.3.2006.

	Rs. ('000)
Claims paid by death	1,42,000
Claims paid by maturity	70,200
Premiums	14,12,000
Consideration for annuities granted	1,64,000
Annuities paid	1,06.900
Bonus paid in cash	4,800
Expenses of management	63,800
Commission	19,140
Interest, dividends and rents	1,95,700
Surrenders	26,300
Bonus in reduction of premium	1,800
Dividend paid to shareholders	9,000
Life Assurance Fund (1.4.05)	30,45,000
Claims outstanding (1.4.05)	22,000
Claims outstanding (31.3.06)	16,000

[*Madras, B.Com.(PZ4A)Ap 2007]*

[Ans : Surplus before payment of dividend : Rs. ('000) 13,42,760]

12. From the following figures relating to India Life Assurance Company for the year ended 31.3.06, prepare a revenue account of the company:

	Rs. (Thousand)
Claims less reinsurance:	
By Death	2,00,000
By Maturity	1,40,000
Annuities	12,600
Printing & Stationery	7,700
Surrenders	4,000
Commission	25,050
Expenses of management	3,00,000
Life fund on 1-4-05	39,00,000

Premium received	15,00,000
Claims outstanding on 1.405	
By Death	80,000
By Maturity	60,000
Sundry incomes	6,000
Consideration for annuities granted	1,01.200
Interest, dividends and rents	2,10,000
Registration and other fees	200
Income tax	45,000
Income tax on interest & dividends	50,000

Additional information:

(i) Claims outstanding on 31.3.06 by death Rs. 50.000 Thousands; by maturity Rs. 40,000 Thousands.

(ii) Management expenses outstanding Rs. 6,000 Thousands.

(iii) Provide Rs. 4,500 Thousands for depreciation.

(iv) Premium outstanding on 31.3.06 is Rs. 2,00,000 Thousands.

(Madras, B.Com,April,2004)

[Ans: Surplus after Tax : Rs. ('000) 13,22,550]

13. 'The following balances form part of the books of Bharat Insurance Company as on 31.3.2006

	Rs. ('000)		Rs. ('000)
Life fund on 1.4.05	15,70,56 2	Bonus paid in reduction, of premium	3,500
Claims by death	1.16,980	Preliminary expenses	600
Claims by maturity	96,420	Claims admitted but not paid at the end of the year	80,034
Premiums	2,70,572	Annuities due but not paid	22,380
Management expenses	29,890	Capital paid up	6,00,000
Commission	36,541	Govt. securities	16,90,890
Consideration for annuities granted	10,620	Sundry assets	5,68,110
Surrenders	21,768	Interests, dividends and rents	49,401
Surrenders	29,420		
Annuities	9,450		
Bonus paid in cash			

Claims covered by re insurance

Further claims intimated

Further bonus utilised in reduction of premium Interest accrued

Premiums outstanding

Prepare a revenue account and the Balance Sheet.

[Madras, B.Com., B.Com (CS) Ap. 2009; 1st M.Com., Ap 2005]

[Ans: Surplus : Rs. ('000) 11,424; B/s Total : Rs. ('000) 21,81,386; Net Current Assets : Rs. ('000) 4,90,496; Life Assurance Fund : Rs. ('000) 15,81,986]

Hint : Sundry assets are taken as current assets.

14. The :Wowing Trial Balance was extracted from the books of the Bharat Life Assurance Company Limited as on 31-3-2006.

Debit balance	Rs. ('000)	Credit balance	Rs. ('000)
Claims by death	2,70,000	Share capital : (2,00,00,000) shares of Rs. 10 each)	2,00,000
Claims by maturity	2.30,000	Life Assurance Fund (1.4.05)	32,38,200
Bonus in reduction of premium	45,500	Claims outstanding (1.4.05)	25,000
Commission	12,500	Premiums less reinsurance	5,50,100
Management expenses	50,300	Outstanding commission	2,000
Building	50,000	Policy renewal fees	1.500
Investments	27,65,000	Interest & Dividends	2,90,000
Mortgages in India	5,50,000		
Loans on Company's policies	2,15,000		
Outstanding premiums	20,000		
Surrenders	8,300		
Dividend paid	20,000		
Cash at Bank	34,000		
Cash in hand	23,200		
Agent's balances	13,000		
	43,06,800		43,06,800

You are required to prepare the Company's revenue A/c for the year ended 31.3.2006 and its Balance Sheet as on that date after taking the following matters into consideration :

		Rs. ('000)
(i)	Claims outstanding at the end of the year	20,000
(ii)	Interest accrued but not received	19,500
(iii)	Further bonus utilized in reduction of premium	8,500

(iv) Claims covered under reassurance 12,000

[Madura, B.Com., Ap 2003]

[Ans: Surplus : Rs. ('000) 2,61,500 (Before dividend); Life Assurance Fund : Rs. ('000) 34,79,700; Net Current Assets : Rs. ('000) 99,700; B/s total : Rs. ('000) 36,79,700]

15. From the figures stated below prepare a Revenue A/c and a Valuation Balance Sheet as at 31.3.2006 showing surplus for policy holders:

	(Rs. ',000)
Life Assurance fund (opening)	4.000
Premiums	2.500
Interest, dividends and rents	1.500
Consideration for annuities granted	100
Claims paid	300
Surplus on revaluation of reversions purchased	8
Bonus in reduction of premium	5
Surrenders	100
Commission	50
Net liability on policies in force on 31.3.06	5,653

[Madras, B.com., (ICE) May 2002]

[Ans: Surplus in revenue A/c : Rs. 36,53,000; Life Assurance fund at the end — Rs. 76,53,000; Surplus as per Valuation Balance Sheet — Rs. 20,00,000]

[Ans: Surplus in Revenue A/c : Rs. 10,95,900; Life Assurance Fund on 31.3.06 — Rs. 35,05,900; Valuation surplus — Rs. 7,15,000]

16. The Young India Life Assurance Co. Ltd. had a paid up capital of Rs. 2,50,000 Thousands divided into 2.50.00,000 shares of Rs. 10 each. Its net liability on all contracts in force as on 31.3.06 was Rs. 22,50,000 Thousands. From the following figures extracted from its books for the year ended 31.3.06. prepare revenue account and a valuation balance sheet. The company has paid an interim bonus of Rs. 1.03,806 Thousands and 25% of the surplus is to be allocated to shareholders and 70% of the surplus to the policy holders, the balance being carried forward.

	Rs. ('000)		Rs. ('000)
Life fund 1.4.2005	24,50,000	Income tax	1,18,500
Premium	13,80,000	Management expenses	1,75,000
Interest, dividends & rents	7,50,000	Bonus in reduction of	1,976

		premium	
Fines &fees	720	Commission	54,000
Bonus in cash	1,58,400	Surrenders	85,200
Claims	8,90,000	Reinsurance irrecoverable	1,250
Consideration for annuities granted	45,000	Surplus on revaluation of reversions	4,800

[Madras, B.Com(ICE) Oct 2006; Bharathidasan, B.Com., Nov. 2005]

[Ans: Surplus in Revenue A/c after Income Tax : Rs. ('000) 6,96,194; Life Assurance Fund at the end — Rs. ('000) 31,46,194; Surplus as per Valuation Balance Sheet —Rs. ('000) 8,96,194]

17. The Life Insurance Fund of Hindustan Life Insurance Co., Ltd. was Rs. 34,00,00'1 on 31-3-2006. Its actuarial valuation on 31st March 2006 disclosed a net liability Rs. 28,80,000. An interim bonus of Rs. 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward Rs. 1,10,000 and to divide the balance between the policyholders and shareholders. Show (a) The valuation Balance Sheet, (b) the net profit for the two year period 2 id (c) the distribution of the profits.

[Madras, B.Com, Nov,2009]

[Ans : (a) valuation surplus : Rs. 5,20,000; (b) Net profit : Rs. 5,60,000; (c) Amount due to policyholders : Rs. 3,87,500; To shareholders Rs. 22,500]

18. A Life Insurance Company got its valuation made once in every three years. The Life Assurance Fund on 31.3.06 amounted to Rs. 41,92,000 before providing for Rs. 32.000 for the shareholders' dividend for the year 2004-05. Its actuarial valuation on 31.3.06 disclosed a net liability of Rs-40,40,000 under the assurance and annuity contracts. An Interim bonus of Rs. 40,000 was paid to the policy holders during the period ending 31.3.06.Prepare a statement showing the amount now available as bonus to policy holders.

[Madras, M.Com(ICE) Oct. 2006; 1st M.Com., April 2006]

[Ans: Amount available as bonus to policy holders — Rs. 1,12,000; Surplus as per valuation balance sheet — Rs. 1,52,000]

19. Bharath Life Assurance Company gets its valuation made once in every two years. Its life assurance fund on 31.3.06 stood at Rs. 45,65,000 before providing for Rs. 45,000 being the shareholders dividend for 2005-06. Its actuarial valuation on 31.3.2006 disclosed a net liability of Rs. 32,20,000. An Interim bonus of Rs. 80,000 was paid to the policyholders during the previous two years. Prepare a statement showing the amount now available as bonus to policy holders.

[Madras, 1st M.Com (ZHC) Nov. 2004; B.Com., (ICE) May 2003]

[Ans: Amount available as bonus to policyholders — Rs. 12,31,000; Valuation surplus — Rs. 13,45,000]

20. A Life Assurance Company makes its valuation made once in every three years. Its life assurance fund on 31.3.2006 amounted to Rs. 31,92,000 before providing Rs. 40.000 for

shareholders' dividend for the year 2005-06. Its actuarial valuation due on 31.3.2006 disclosell a net liability of Rs. 30,40,000 under assurance annuity contracts. An interim bonus of Rs. 40,000 was paid to the policy holders during the year'ending 31.3.06. Prepare a statement showing the amount now available as bonus to policy holders assuming that the surplus disclosed by the valuation is to be allocated to the shareholders and the policy holders in the ratio of one and nine respectively.

[Thiruvalluvar, 1st M.Com, Ap 2006]

[Ans: Surplus as per Valuation Balance Sheet — Rs. 1,52,000; Amount due to policy holders — Rs. 96,800]

21. From the following particulars, prepare the fire revenue account for 2005-06:

	(Rs. in '000)
Claims paid	235
Legal expenses regarding claims	5
Premiums received	600
Reinsurance premium	60
Commission	100
Expenses of management	150
Provision against unexpired risk on 1.4.2005	260
Claims unpaid on 1.4.2005	20
Claims unpaid on 31.3.2006	35

[Madras, B.Com(AF) Nov. 2009; Ap. 2008; B.Com., B.Com (CS) Ap. 2009; Nov. 2008; Ap 2008; B. Cont., B.Com.(CS) APril 2006; B.Com., (ICE) Oct. 2006; Thiruvalluvar, B.Com. Ap 2006; Periyar, B.Com (CA) Oct. 2005; Madurai, B.Com., Nov. 2003]

[Ans : Operating Profit : Rs. 25,000]

22. From the following particulars prepare revenue account in respect of Fire Business for the year ending on 31-3-2006.

	(Rs. '000)
Reserve for unexpired risk-opening	2,50,000
Additional reserve -opening	50,000
Survey expenses	10,000
Commission paid	90,000
Claims paid and outstanding	1,80,000
Bad debts	5,000

Commission earned on reinsurance ceded	30.000
Premium less Reinsurances	6,00,000
Management expenses	1,45.000

In addition to usual reserve, additional reserve is to be increased by 5% of net premium.

[Madras, B.Com., April 2000

[Ans : Operating profit : Rs. ('000) 1,20,000]

23. From the following particulars prepare the fire revenue account for 2004-05. (Rs. '000)

Claims paid	270
Legal expenses regarding claims	6
Premiums received	740
Reinsurance premiums	50
Reinsurance claims	2
Commission	110
Reinsurance commission ceded	3
Expenses of management	210
Provision for unexpired risk on 1.4.04	330
Additional reserve on 1.4.04	140
Claims unpaid on 1.4.04	25
Claims unpaid on 31.3.05	35

Increase the additional reserve on 31.3.05 by 10% on the net premium.

[Madurai', B.Com., Ap 2003]

[Ans : Operating Profit : Rs. 5,000]

24. On 31-3-04, the books of National Insurance Co. disclosed the following particulars in respect of fire insurance:

	(Rs. '000)
Reserve for unexpired risk on 31.3.03	600
Additional reserve for unexpired risk on 31.3.03	100
Premiums received	450
Interest, rent and dividend (gross)	80
Income tax deducted therefrom	10

Sundry income	2
Claims paid during 2003-04	400
Claims outstanding on 31.3.03	25
Claims outstanding on 31.3.04	30
Claims recoverable under reinsurance	10
Commission to agents	50
Outstandingtommission to agents on 3 I .3.04	6
Expenses of management (including Rs. 5,000 legal expenses paid in connection with claims)	80
Sundry expenses	5
Commission on re insurance ceded	5

Keep a reserve for unexpired risk equal to 50% of the premiums and increase the additional reserve by Rs ('000) 20.

[Madras, B.Com., B.Com.(CS) Nov. 2006; M.Com.(CA1A) Nov. 2005]

[Ans: Operating Profit : Rs. 3,56,000]

(Hints :1. Income tax deducted from interest, rent and dividend is to be shown in Balance Sheet.

2. Since particulars are given and not Trial Balance, closing claims and commission are adjusted with the respective items]

25. From the following balances as at 31.3.06 in the books of General Insurance Co. Ltd. prepare a Revenue account in respect of fire insurance carried on by them.

	(Rs. '000)
Claims paid	480
Claims outstanding on 1.4.05	40
Claims intimated and accepted but not paid on 31.3.06	70
Premium received	1,200
keinsurance premium paid	120
Commission	200
Commission on reinsurance ceded	.8
Commission on reinsurance accepted	4
Expenses of management	302
Provision for unexpired risk on 1.4.05	400
Additional provision for unexpired risk on 1.4.05	20
Bonus utilised in reduction of premium	12

Reinsurance recovered of claims	8
Medical expenses regarding claims	5
Loss on sale of Motor car	3.5
Bad debts	2.5
Refund of double taxation	4.5
Interest and Dividend	8
Income tax deducted thereon	1.5
Legal expenses regarding claims	4
Profit on sale of investments	3.5
Rent of staff quarters deducted from salaries	2.4
Depreciation of furniture	4.6

Provide for additional reserve for unexpired risk at **1%** of the net premium in addition to opening balance of additional reserve.

[Madras, B.Com., (ICE) May 2001]

[Ans: Operating Loss : Rs. 84,000]

Hint : 1. Assume Interest and dividend as "gross". Income tax deducted on interestand dividend is to be shown in Balance sheet.

2. All expenses and incomes are shown in revenue A/c itself.

3. Closing outstanding claims are added to claims since trial Balance is not given.

4. Rent of Staff Quarters in our income.

Hint:: Creating Reserves on 31.3.2005 to the same extent as on 1.4.2004 should be taken in % terms and not as amounts. So. Additional Reserve is 10% and reserve for unexpired Risk is 50%.

26. From the following balances of Asian General Insurance Company Limited as on 31 March 2006, prepare,

(a) Fire revenue A/c (b) Marine revenue A/c (c) Profit & Loss A/c

Bonus in reduction of premium (fire)	2,000
Additional reserve on 1.4.2005 (fire)	50,000
Commission on reinsurance accepted (fire)	10,000
Commission on reinsurance ceded: (Fire)	30,000
(Marine)	60,000
Management expenses Fire	1,45,000
Marine	4,00,000
Premium less reinsurance: Fire	6,00,000
Marine	10,80,000

Profit on sale of land	60,000
Miscellaneous receipts	5,300
Interest, dividend received	14,000
Depreciation	35,000
Commission paid: Fire	90,000
Marine	1,08,000
Claims paid and outstanding (Marine)	3,80,000
Claims outstanding (fire)	10,000
Claims paid (fire)	1,80,000
Marine fund (1.4.2005)	8,20,000
Fire fund (1.4.2005)	2,50,000
Bad debts recovered	1,200
Share transfer fees	800
Director's fees	5,000
Auditor's fees	1,200
Bad debts: Fire	5,000
Marine	12,000

[Madras, B.Com., B.Com.(CS) Ap. 2008]

[Ans: Operating Profit: Fire — Rs. ('000) 1,88,000; Operating Loss: Marine — Rs. ('000) 20,000; Net profit carried to B/S — Rs. ('000) 2,08,100]

27. From the following balance of the Asian General Insurance Co. Ltd. as on 31st March 2006, prepare (a) Fire revenue A/c and (b) Marine revenue A/c and P&L A/c.

Bad debts (fire) Bad debts (marine)	Rs. (‘000)		Rs. (‘000)
Auditor's fees	5,000	Interest, dividends etc. received	14,000
Directors' fees	12,000	Difference in exchange (Cr)	300
Share transfer fees	1,200	Miscellaneous receipts	5,000
Bad debts recovered	5,000	Profit on sale of land	60,000
Fire Fund (1.4.05)	800	Fire premium less reinsurance	
Marine fund (1.4.05)	1,200	Marine premium less reinsurance	10,80,000
Claims paid & outstanding (fire)	2.50,000	Management exp. (fire)	1,45,000
Claims paid & Outstanding (marine)	8,20,000	Management exp. (marine)	4,00,000
Additional reserve on 1.4.05 (fire)	1,80,000		
Survey expenses (fire) Depreciation			
Commission earned on	3,80,000		
reinsurance ceded (fire) 10,000	50,000		

Commission earned on reinsurance ceded (marine) 20,000	10,000 35,000		

In addition to usual reserve, additional reserve in case of fire insurance is to be increased by 5% of net premiums. ReinSurance premiums received totalled Rs. 1,50,000 Thousand for fire and Rs. 3,20,000 Thousand for marine. Management expenses do not include commission. The net premium income of fire in 2004-05 was Rs. 5,00,000 Thousand.

[Madras, B. Com., B.Com(CS) Ap. 2008; Ap. 2007 (Modified)]

[Ans: operating profit (Fire) : Rs. ('000)1,50,000; Operating Loss (Marine): Rs. ('000) 26,000; Profit Transferred to B/s :Rs. ('000) 1,64,100]

[**Hints: (i) Commission on direct business =5% of(Premiums received + Commission 100 on reinsurance ceded X —5 –Reinsurance premium) (fire)– Rs ('000)32,500; Marine – Rs ('000) 58,000;**

(ii) Commission on reinsurance accepted (5%) on reinsurance premiums fire – Rs ('000) 7,500; Marine – Rs ('000) 16,000]

28. The following figures have been extracted from the books of Madurai Insurance Company Ltd. in respect of their marine business for 2005-06.

	Rs. (in lakhs)
Direct premium income received	50.00
Reserve for unexpired risks as on 1.4.05	60.00
Claims outstanding as on 1.4.05 (net)	20.00
Bad debts	10.00
Income from Investments and dividends (gross)	10.00
Rent received from properties	5.00
Investments in Govt. securities as on 1.4.05	100.00
Investment in share as on 1.4.05	20.00
Commission paid on direct business	5.00
Expenses of management	5.00
Income tax deducted at source	3.00
Profit & Loss A/c (cr) balance on 1.4.05	10.00
Other expenses	1.25
Reinsurante premium receipts	5.00
Outstanding claims as on 31.3.06 (net)	30.00
Direct claims paid (gross)	25.00
Reinsurance claims paid	4.00

Additional Information:

Prepare aRevenue A/c, and Profit & Loss A/c for the year after taking into account the following information:

(a) All direct risks are reinsured for 20% of the risk.

(b) Claim a commission of 25% on re insurance ceded.

(c) Provide 25% commission on re insurance accepted.

(d) Market value of investments as on 31.3.06 is as under:

(i) Govt. securities – Rs. 105 lakhs
(ii) Shares– Rs. 18 lakhs.

Adjust separately for each of these two categories of investment.

(e) Provide 65% for income tax.

[Madras, 1st* M.Com*(CAIA) Nov. 2007]

29. From the following Trial Balance of a marine insurance company prepare final accounts for the year ended 31-3-2006.

Particulars	Debit (Rs.'000)	Particulars	Credit (Rs. '000)
Management expenses	90,000	Marine fund as on 1.4.2005	14,50,000
Claims paid	1,50.000	Marine premium	6,30,000
Audit fees	4,000	Interest & dividend	1,30,000
Directors fees	6,000	Investment fluctuation fund	28,000
Debtors for premium due Furniture	3,000	Staff provident fund	40,000
Taxes	12,000	Transfer fees	600
Contribution to staff provident fund	7,600	Sundry creditors	9,000
Commission		Reserve fund	51,000
Investment	2,000	Share capital	
Land & Building	24,000	5,00,000 shares of Rs. 100 each	5,00,000
Cash in hand	20,00,000	Profit & Loss A/c	
Cash at bank	2,40,000	(1.4.2005)	20,000
Provident fund investment	40,000		
	2,40,000		
	40,000		
	28,58,600		28,58,600

(a) Depreciate furniture 10%. Land and Buildings 3%.

(b) Outstanding claims Rs. 11,000 Thousand.

(c) Provide Rs. 7,000 Thousand to investment reserve fund in addition to existing balance.

(d) Adjustment has to be made for Rs. 10,000 Thousand reinsurance premium paid and Rs. 5.000 Thousand for claims covered under re insurance.

[Madras, B.Com., (ICE) May 2002;

[Ans: Operating Profit : Rs('000) 12,82,600; Profit transferred to B/s : Rs('000) 12,95,600; Net current assets Rs('000) (—) 3,62,000; B/s Total : Rs('000) 18,81,600]

Hint : 1. All incomes and expenses are shown in revenue A/c itself except transfer to Investment reserve.
2. Investment fluctuation fund is shown under reserves, schedule 6.
3. Staff provident fund is shown as a current liability.

30. From the following particulars of Z Insurance Co. Ltd., prepare separate accounts of fire and Marine business and Profit & Loss A/c for the year ended 31-3-2006 and a Balance Sheet as on that date:

Provision for unexpired risk is to be made at 40% of the premium received.

	Rs. (‘000)		**RS. (‘000)**
Investment	4.06980	Share capital	4,00,000
Freehold premises	3.06.412	(40,00,000 shares of Rs.100 each) Claims admitted but not paid:	
Leasehold	12,604		
Agents balance	46,212		
Sundry debtors	17,918	Fire	4,620
Income tax on int. & dividend	4,513	Marine	9,808
Claims paid & outstanding		Creditors	44,962
Fair	1,02,412	Due to reinsurers:	
Marine	2,61,512	Fire	2,471
Expenses of Management	:	Marine	4,143
Fair	96,512	Premium received:	
Marine	1,42,218	Fire	3,56,418
Commission:		Marine	8,59,960
Fair	34,921	Interest & dividends	19,512
Marine	62,857	Other receipts	807
Interest occurred	919		
Office furniture	14.761		
Preliminary expenses	90,212		
Cash and Bank balance	1,01,738		
	17,02,701		**17,02,701**

[Madras, 1st M.Com., (KCA1A) Nov. 2009; B.Com (ICE) Ap 2007]

[Ans: Operating Loss (Fire): Rs('000) 19,994; Operating profit (Marine) : Rs('000) 49,389; Profit carried to B/s : Rs('000) 49,714; Net current assets : Rs('000) (—) 3,81,255; B/s Total ;Rs ('000) 3,59,502]

Hint : 1. Provision for unexpired risk at 40% of premium applies to both Fire and Marine, though it is against IRDA Regulations.

2 Income tax on interest & dividends appears in schedule 12 in Balance Sheet.

3. Preliminary expenses are to be reduced from paid up capital, as per 1RDA form for Balance Sheet.

31. From the following figures taken from the books of New Asia Insurance Co. Ltd. doing fire underwriting business, prepare the set of final accounts for the year 2005-06.

	(Rs. '000)		(Rs. '000)
Fire fund as on 1.4.05	9,30,000	Cash in hand & Bank bal.	1,82,462
General reserve Investments	4,50,000	Commission on direct business	2,99,777
	36,00,000		60,038
Premiums	27,01,533	Commission on reinsurance accepted	22,300
Claims paid	6,02,815	Outstanding premium Claims intimated but not paid (1.4.05)	60,000
Share capital divided into 9,000 shares of Rs. 100 each	9,00,000	Exp. of management	4,31,947
Additional reserve (1.4.05)	3,30,000	Audit fees	36,000
Profit & Loss A/c (Cr)	75,000	Rates & taxes	5,804
Re insurance premium	1,12,525	Rents (Dr)	67,500
Claims recovered from reinsurance	21,119	Income from investments	1,53,000
Commission on reinsurance ceded	48,016	Sundry creditors	22,500
Advance income tax paid	2,50,000	Agents balances (Dr)	20,000

The following further information may also be noted :

(a). Expenses of management include survey fees and legal expenses of Rs. 36,000 Thousand and Rs. 20,000 Thousand relating to claims.

(b). Claims intimated but not paid on 31.3.2006 Rs. 1,04,000 Thousand.

(c). Income tax to be provided at 55%

(d). Transfer of Rs. 2,00,000 Thousands to be made from current profits to general reserve.The additional reserve is to be continued. •10%provisica for unexpired risk is needed.

[Madras, II M.Com., (ICE) (Old) May 2002]

[Ans: Operating Profit : Rs('000) 11,57,659; Provision for tax : Rs('000) 6,36,713; Profit taken to B/s : Rs('000) 3,95,946; Net current assets : Rs('000) (—) 16,54,054; B/s Total : Rs('000) 19,45,946]

UNIT – 13

HOLDING COMPANY ACCOUNTS

Meaning and purpose of holding company - Capital profit- Revenue profit- Minority Interest- Capital Reserve or Good will- treatment of some important Adjustments – Preparation of consolidated balance sheet

13.1 HOLDING COMPANY

A company which acquires more than 50% of paid up capital of another company or controls majority of the directors of a company is called holding company

13.2 SUBSIDIARY COMPANY

A company which gives more than 50% of paid up capital of another company or majority of the directors of a company are controlled by another company is called subsidiary company.

13.3 PURPOSE OF HOLDING COMPANY

- To eliminate competition
- To enjoy the advantages of large scale production

13.4 IMPORTANT CALCULATIONS TO BE MADE BEFORE PREPARING CONSOLIDATED BALANCE SHEET

Holding company share

$$\frac{\text{No. of shares purchased}}{\text{Total no. of shares in subsidiary co.}}$$

Subsidiary company share

$$\frac{\text{Total shares of subsidiary – No. of shares purchase by Holding Com.}}{\text{Total no. of shares in subsidiary company}}$$

1. **Capital profit:**

That part of profit and general reserve earned before the date of purchase of shares by holding company from subsidiary company are called capital profit.

- All profits and reserves of a company **before** the date of purchase
- General reserve
- Profit and loss account
- Current year profits up to the date of purchase
- Increase in fixed asset value minus decrease in fixed asset value if any

2. **Revenue profit:**

That part of profit and general reserve earned after the date of purchase of shares by holding company from subsidiary company are called revenue profit.

- All profits and reserves of a company **after** the date of purchase
- General reserve
- Profit and loss account
- Current year profits after the date of purchase

Both capital and revenue profits should be divided as per holding company share and subsidiary company share.

3. **Minority Interest (Liability side in balance sheet)**

A holding company acquires majority shares. The remaining shares may be in the hands of the general public. Such remaining share in the subsidiary company is called "minority interest". That part of the paid up capital, capital profit and revenue profit of subsidiary company is known as minority interest. It is always shown in liability side of consolidated balance sheet.

Particulars	**Amount**
Remaining share capital of subsidiary company	xxx
(+) Capital profit of subsidiary company	xxx
(+) Revenue profit of subsidiary company	xxx
(+) Arrear of preference divided if any	xxx
Minority interest	xxx

4. **Calculation of Capital Reserve or Good will:**

Difference between actual values paid for shares purchased from subsidiary company and total of face value of shares held by holding company. The actual amount paid for shares is more than face value and share of capital profit, it is known as goodwill. The actual amount

paid for shares is less than face value and share of capital profit, it is known as Cost of control (capital reserve).

Particulars		Amount
Actual amount paid for shares purchased		xxx
Less: Face value of shares purchased	xxx	
Capital profit of holding company	xxx	xxx
Goodwill (if it is + figure) **(or) Capital reserve** (if it is - figure)		xxx

Calculation of current year profit

Profit and Loss a/c

Particulars	Amount	Particulars	Amount
To Transfer to reserve	xxx	By Opening balance	xxx
" Closing balance	xxx	" Net profit (b/f)	xxx
	xxx		xxx

5. Unrealized intercompany profits in stocks

The holding company may sell goods to the subsidiary company at selling price before acquiring shares. At the time of acquiring shares some of the goods may lie in the closing stock. Now we have to remove the profit on such goods. This is called unrealized intercompany profit. This should be eliminated and closing Stock should be recorded at cost price.

6. Inter - company balances / Owings

The holding company may sell goods on credit basis (Debtors) or received bill of exchange from subsidiary company (bills payable) before acquiring shares. After the Acquisition of shares, the amount due from or due to the company have to be adjusted. This is called intercompany owing. Lesser amount should be deducted on assets side and liability side of consolidated balance sheet.

7. Bonus shares issued by subsidiary company

After the holding company acquired the majority shares, subsidiary company may issue bonus shares to all the shareholders.

Bonus shares out of capital profit

The amount of bonus is reduced from capital profits. Holding company's share of the bonus is added to the face value of shares held by the holding company. Minority share of the bonus is added to the minority interest.

8. Dividends from subsidiary company

(i) When dividend is from pre - acquisition profits, it must be credited to the investment a/c.

(ii) When dividend is from post – acquisition profits, it is credited to the holding company's profits and loss a/c.

(iii) When dividend paid, is both out of pre – acquisition and post – acquisition profits the dividend received out of pre – acquisition profit will be credited to the investment a/c and that received out of post – acquisition profit to profit and loss a/c.

(iv) If it is not stated whether dividend has been declared out of pre – acquisition of post – acquisition profits, it is assumed that dividend is out of the profits for the year which dividend is declared.

(v) When the dividend has simply been proposed by the subsidiary, the holdings company's share of it is added to its profit and shown profit and loss account as balance. The share due minority share-holdersmay be either shown as proposed dividend in the balance sheet of added to the minority interest.

9. Debentures in subsidiary company

Subsidiary company may have debentures and it will be shown in the consolidated balance sheet like any other liability. If the holding company has purchased such debentures (apart or whole),they should be eliminated from the consolidated balance sheet, like any other mutual obligation.

10. Contingent liabilities

Some transaction may become liabilities in future are shown as contingent liabilities as footnotes to the consolidated balance sheet.

13.5 TREATMENT FOR IMPORTANT ADJUSTMENTS

1. Stock reserve on unsold stock	Balance sheet – Liability side - Less from P & L a/c Balance sheet – Asset side - Less from stock
2. Preliminary expenses written off	Less from total capital profit Balance sheet – Asset side – No preliminary exp.
3. Mutual obligations or inter adjustments	Less the particular amount from both the sides of balance sheet (Debtors and Creditors, Bills receivable and bills payable)
4. Cash in transit	Balance sheet – Asset side – Less from cash in hand Balance sheet – Asset side – Cash in transit
5. Over valuation of fixed assets	Less from total Capital profit Balance sheet – Asset side – Less from particular asset
6. Under valuation of fixed assets	Add to total Capital profit Balance sheet – Asset side – Add to particular asset

13.6 PURCHASE OF ENTIRE SHARES WITHOUT ADJUSTMENTS

Illustration -1 From the following balance sheets of holding company and subsidiary company prepare a consolidated balance sheet of holding company and its subsidiary company.

Liabilities	Holding ₹	Subsidiary	Assets	Holding ₹	Subsidiary₹
Share capital of ₹10 each	20,00,000	10,00,000	Investments of ₹10 each in Subsidiary	10,00,000	–
Liabilities	15,00,000	2,00,000	Assets	25,00,000	12,00,000
	35,00,000	12,00,000		35,00,000	12,00,000

Solution

Consolidated Balance sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	30,00,000	Investments	10,00,000
Liabilities	17,00,000	Assets	37,00,000
	47,00,000		47,00,000

Illustration -2 There exist two companies namely H Ltd and S Ltd. H Ltd is a holding company and S Ltd is subsidiary company. The shares held by S Ltd are 30,000 shares of ₹10 each. H Ltd made an investment on shares of S Ltd 24,000 shares of ₹10 each. Calculate the minority interest.

Solution

Minority interest = ₹6,000 x 10 = ₹60,000

Illustration -3 H Ltd. acquired 40,000 shares of S Ltd. on October 1, 2015 at ₹7,80,000. H Ltd. valued the machinery at ₹2,50,000 and current assets at ₹2,75,000. Calculate minority interest.

Balance sheet of S Ltd. as on March 31, 2016

Liabilities		Amount ₹	Assets	Amount ₹
Shares of ₹10 each		5,00,000	Land	5,00,000
General reserve as on 1-4-2015		2,00,000	Machinery	3,00,000
P & L a/c	1,50,000		Current assets	2,00,000

(+) Profit for 2015- 16 50,000	2,00,000		
Creditors	1,00,000		
	10,00,000		10,00,000

Solution

Capital profit

General reserve	₹2,00,000
P & L a/c	₹1,50,000
Profit (50,000 x 6/12)	₹25,000
	₹3,75,000
Less: Machinery decreases	₹50,000
	₹3,25,000
Add: Current asset increases	₹75,000
	₹4,00,000
H Ltd (4,00,000 x 4/5)	₹3,20,000
S Ltd (4,00,000 x 1/5)	₹80,000

Revenue profit

Profit (50,000 x 6/12)	₹25,000
H Ltd (25,000 x 4/5)	₹20,000
S Ltd (2,50,000 x 1/5)	₹5,000

Minority interest

Share capital	₹1,00,000
Capital profit	₹3,20,000
Revenue profit	₹20,000
	₹4,40,000

13.7 PURCHASE OF MAJORITY SHARES WITHOUT ADJUSTMENTS

Illustration -4 Following are the summarized balance sheets of two companies H Ltd and S Ltd. as at 31st March 2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital (₹10 each)	20,00,000	8,00,000	Sundry assets	24,54,000	13,70,000
Reserves	3,00,000	2,00,000	64,000 Shares in S Ltd.	8,96,000	–

Profit for (15-16)	4,00,000	1,00,000			
Creditors	6,50,000	2,70,000			
	33,50,000	13,70,000		33,50,000	13,70,000

H Ltd. purchased 64,000 shares of S Ltd. on 31st Dec.2015.

You are required to prepare the consolidated balance sheet.

Solution

Capital profit	**Revenue profit =** ₹25,000
(General reserve ₹2,00,000 + Profit ₹75,000)	
H Ltd = ₹2,75,000 x 64/80 = ₹2,20,000	H Ltd = ₹25,000 x 64/80 = ₹20,000
S Ltd = ₹2,75,000 x 16/80 = ₹55,000	S Ltd = ₹25,000 x 16/80 = ₹5,000

Goodwill

Actual amount paid		₹8,96,000
Less: Share capital face value	₹6,40,000	
Capital profit share	₹2,20,000	₹8,60,000
Goodwill		₹36,000

Minority interest

Share capital	₹1,60,000
Capital profit	₹55,000
Revenue profit	₹5,000
	₹2,20,000

Consolidated Balance sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	20,00,000	Sundry assets	38,24,000
Reserves	3,00,000	Goodwill	36,000
Profit	4,20,000		
Creditors	9,20,000		
Minority interest	2,20,000		
	38,60,000		38,60,000

Illustration -5 From the balance sheets given below prepare a consolidated balance sheet of M and C Ltd. The interest of the minority share holders is to be shown as a separate item. Shares were acquired on 1-1-2016.

Liabilities	**M Ltd ₹**	**C Ltd ₹**	**Assets**	**M Ltd ₹**	**C Ltd ₹**
Share capital of ₹10 each	1,50,000	30,000	2,000 shares in C Ltd	27,000	–
Reserves	20,000	–	Sundry assets	1,40,000	40,000
Creditors	25,000	9,500	Current assets	58,000	10,000
P & L a/c	30,000	4,500			
Profit for the year	–	6,000			
	2,25,000	50,000		2,25,000	50,000

Solution

Capital profit

Profit	₹4,500
M Ltd share (4500 x 2/3)	₹3,000
C Ltd share (4500 x 1/3)	₹1,500

Revenue profit

Profit	₹6,000
M Ltd share (6000 x 2/3)	₹4,000
C Ltd share (6000 x 1/3)	₹2,000

Goodwill

Actual amount paid		₹27,000
Less: Share capital face value	20,000	
Capital profit share	3,000	₹23,000
Goodwill		₹4,000

Minority interest

Share capital	₹10,000
Capital profit	₹1,500
Revenue profit	₹2,000
	₹13,500

Consolidated Balance Sheet

Liabilities		**Amount ₹**	**Assets**	**Amount ₹**
Share capital		1,50,000	Goodwill	4,000
Reserves		20,000	Current assets	68,000
Creditors		34,500	Sundry assets	1,80,000
Minority interest		13,500		
P & L a/c	30,000			
(+) Profit of C Ltd	4,000	34,000		
		2,52,000		2,52,000

Illustration -6 The balance sheet of X Ltd and Y Ltd on 31st Dec.2016 were as follows:

Liabilities	**X Ltd ₹**	**Y Ltd ₹**	**Assets**	**X Ltd ₹**	**Y Ltd ₹**
Share capital (₹10)	12,000	5,000	Fixed assets	10,000	6,000
Preference shares	4,000	1,000	Current assets	11,500	2,000
P & L a/c	2,500	1,000	Cash at bank	7,000	1,000
Creditors	10,000	2,000			
	28,500	9,000		28,500	9,000

On 1st Jan.2017 X Ltd acquired 90% of share capital of Y Ltd at ₹15 per share.

Prepare the consolidated balance sheets as on 1st Jan.2017.

Solution

Capital profit

P & L a/c	₹1,000
X Ltd share (₹1,000 x 90%)	₹900
Y Ltd share (₹1,000 x 10%)	₹100

Goodwill

Actual amount paid (450 shares x ₹15)		₹6,750
Less: Share capital face value	₹4,500	
Capital profit share	₹900	₹5,400
Goodwill		₹1,350

Minority interest

Share capital	₹500
Capital profit	₹100

Preference shares	₹1,000
	₹1,600

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	12,000	Goodwill	1,350
P & L a/c	2,500	Sundry assets	16,000
Creditors	12,000	Current assets (13,500 – 6,750)	6,750
Minority interest	1,600	Cash at bank	8,000
Preference shares	4,000		
	32,100		32,100

13.8 PURCHASE OF ENTIRE SHARES WITH ADJUSTMENTS

Illustration -7 Prepare consolidated balance sheet as on 31-3-2016.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital of (₹1)	12,000	5,000	Sundry assets	20,000	8,000
P & L a/c	2,000	1,000	5,000 shares in S Ltd.	6,500	–
Creditors	7,500	1,000			
Reserve	5,000	1,000			
	26,500	8,000		26,500	8,000

a) Shares were acquired by H Ltd on 30th September 2015

b) S Ltd transferred ₹500 from profits to reserve on 31-3-2016

Solution

Capital profit
Reserve = ₹500

Revenue profit - Profit – ₹1,000
Reserve - ₹500

H Ltd = ₹1,500 x 6/12 = ₹750

S Ltd = ₹1,500 x 6/12 =₹750

Goodwill

Actual amount paid			₹6,500
Less: Share capital face value		₹5,000	
Capital profit share	(750 + 500)	₹1,250	₹6,250
			₹250

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	12,000	Sundry assets	28,000
Reserves	5,000	Goodwill	250
Profit	2,750		
Creditors	8,500		
	28,250		28,250

Illustration -8 The following are the balance sheets of the Sun Ltd and the Moon Ltd prepared on 31st Dec.2016. On 1st Jan.2017, the Sun Ltd acquired all the shares in the Moon Ltd when the latter had a credit balance of ₹35,000 on its P & L a/c.

Liabilities	Sun Ltd	Moon Ltd	Assets	Sun Ltd	Moon Ltd
Share capital of ₹10 each	3,00,000	2,00,000	Investments (Shares in Moon Ltd)	3,60,000	–
Creditors	30,000	20,000	Sundry assets	2,20,000	4,00,000
P & L a/c	1,00,000	80,000			
General reserve	1,50,000	1,00,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Prepare consolidated balance sheet.

Solution

Capital profit

General reserve	₹1,00,000
P & L a/c	₹35,000
	₹1,35,000

Revenue profit = ₹80,000 – ₹35,000 = ₹45,000

Goodwill

Amount paid			₹3,60,000
(-) Face value	₹2,00,000		
Capital profit	₹1,35,000		₹3,35,000
			₹25,000

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Share capital		3,00,000	Sundry assets	6,20,000
General reserve		1,50,000	Goodwill	25,000
Creditors		50,000		
P & L a/c	1,00,000			
(+) Profit of M Ltd	45,000	1,45,000		
		6,45,000		6,45,000

Illustration -9 From the following balance sheets of H Ltd and S Ltd, prepare consolidated balance sheet.

Liabilities	H Ltd ₹	S Ltd ₹	Assets	H Ltd ₹	S Ltd ₹
Share capital of ₹10 each	5,00,000	2,00,000	Fixed assets	3,00,000	1,00,000
Reserves	1,00,000	50,000	60% shares in S Ltd	1,60,000	–
Creditors	80,000	60,000	Current assets	2,20,000	2,10,000
	6,80,000	3,10,000		6,80,000	3,10,000

Draw consolidated balance sheet as at 31st March 2016 after taking into consideration the following information:

a) H Ltd acquired the shares on 31st March 2016

b) On 31st March 2016 S Ltd revalued its fixed assets at ₹90,000

Solution

Capital profit

Reserve	₹50,000
(-) Decrease in assets	₹10,000
	₹40,000

H Ltd share (₹40,000 x 60%)	₹24,000
S Ltd share (₹40,000 x 40%)	₹16,000

Goodwill

Actual amount paid		₹1,60,000
Less: Share capital face value	₹1,20,000	
Capital profit share	₹24,000	₹1,44,000
Goodwill		₹16,000

Minority interest

Share capital	₹80,000
Capital profit	₹16,000
Revenue profit	–
	₹96,000

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	5,00,000	Goodwill	16,000
Reserves	1,00,000	Current assets	4,30,000
Creditors	1,40,000	Fixed assets	3,90,000
Minority interest	96,000	(4,00,000 – 10,000)	
	8,36,000		8,36,000

Illustration -10 Consolidate the following balance sheets.

Liabilities	H ₹	S ₹	Assets	H ₹	S ₹
Capital ₹1 shares	1,400	1,000	900 shares in S at cost	1,200	–
Creditors	–	500	Sundry assets	200	1,800
P & L a/c	–	300			
	1,400	1,800		1,400	1,800

When H Ltd acquired the shares in S Ltd, the P & L a/c in the latter had a credit of ₹200?

Solution

Capital profit

P & L a/c	₹200
H's share (₹200 x 9/10)	₹180
S's share (₹200 x 1/10)	₹20

Revenue profit

P & L a/c	₹100
H's share (₹200 x 9/10)	₹90
S's share (₹200 x 1/10)	₹10

Goodwill

Amount paid		₹1,200
(-) Face value	₹900	
Capital profit	₹180	₹1,080
		₹120

Minority interest

Share capital	₹100
Capital profit	₹20
Revenue profit	₹10
	₹130

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	1,400	Sundry assets	2,000
Creditors	500	Goodwill	120
P & L a/c	90		
Minority interest	130		
	2,120		2,120

Illustration -11 Consolidate the following balance sheets.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital of ₹10 each	24,000	16,000	Sundry assets	14,000	19,500
P & L a/c	–	3,000	1,280 shares in S Ltd.	10,000	–
Creditors	–	500			
	24,000	19,500		24,000	19,500

On the date of acquisition of shares in S Ltd by H Ltd., S had debit balance of ₹1,000 in its P & L a/c.

Solution

Capital Loss – ₹1,000

H Ltd = ₹1,000 x 1,280/ 1,600 = ₹800

S Ltd = ₹1,000 x 320/ 1,600 = ₹200

Revenue Profit (3,000 + 1,000) = ₹4,000

H Ltd. = ₹4,000 x 1,280/ 1,600 = ₹3,200

S Ltd. = ₹4,000 x 320/ 1,600 = ₹800

Capital reserve

Actual amount		₹10,000
Less: Face value of shares held	12,800	
Share of capital loss	(-) 800	₹12,000
Capital reserve		₹2,000

Minority interest

Share capital	₹3,200
(-) Capital loss	₹200
(+) Revenue profit	₹800
	₹3,800

Consolidated Balance Sheet

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Share capital	24,000	Sundry assets	33,500
Creditors	500		
Minority interest	3,800		
P & L a/c	3,200		
Capital reserve	2,000		
	33,500		33,500

Illustration -12 Balance sheet of H Ltd and its subsidiary S Ltd as on 31-3-2016 as follows:

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital (₹10 each)	10,000	6,000	Sundry assets	16,000	10,000

Reserves	4,000	–	400 Shares in S Ltd.	4,000	–
P & L a/c	4,000	1,800			
Creditors	2,000	2,200			
	20,000	10,000		20,000	10,000

The shares were purchased by H Ltd in S Ltd on 30-9-2015. On 1-4-2015 the P & L a/c showed a loss of ₹3,000 which was written off from out of the profits earned during year. Profits were earned uniformly over the year 2015-16.

Prepare consolidated balance sheet of H Ltd and S Ltd as on 31-3-2016.

Solution

Calculation of current year profit

P & L a/c

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Bal. b/d	3,000	By Net profit (b/f)	4,800
" Bal. c/d	1,800		
	4,800		4,800

Capital loss

Capital profit (₹4,800 x 6/12)	₹2,400
Capital loss	₹3,000
Capital loss	₹600
H Ltd. share (₹600 x 2/3)	₹400
S Ltd. share (₹600 x 1/3)	₹200

Revenue profit

Revenue profit = 4,800 x 6/12	₹2,400
H Ltd. share (2,400 x 2/3)	₹1,600
S Ltd. share (2,400 x 1/3)	800

Goodwill

Amount paid		₹4,000
Less: 2/3 of share capital	₹4,000	
(-) 2/3 of capital loss	₹400	₹3,600
Goodwill		₹400

Minority interest

Share capital	₹2,000
Add: P & L a/c	₹800
	₹2,800
Less: Capital loss	₹200
	₹2,600

Consolidated Balance Sheet

Liabilities		Amount ₹	Assets	Amount ₹
Share capital		10,000	Sundry assets	26,000
General reserve		4,000	Goodwill	400
Minority interest		2,600		
P & L a/c	4,000			
(+) Profit of S Ltd	1,600	5,600		
Creditors		4,200		
		26,400		26,400

Illustration -13 From the balance sheet and information given below, prepare a consolidated balance sheet of H and S.

Liabilities	H ₹	S ₹	Assets	H ₹	S ₹
Share capital (₹10)	10,00,000	2,00,000	15,000 shares in S at cost	1,50,000	–
Creditors	2,00,000	1,20,000	Sundry assets	8,00,000	1,20,000
P & L a/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserve	1,00,000	60,000	Debtors	1,30,000	1,70,000
Bills payable	–	30,000	Bills receivable	10,000	–
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S Ltd have been earned since the shares were acquired by H Ltd; but there was already a reserve of ₹60,000 at that date.

b) All the bills accepted by S Ltd are in favour of H Ltd and H Ltd had discounted ₹20,000 of them.

c) Sundry assets of S Ltd are undervalued by ₹20,000.

d) The stock of H Ltd. includes ₹50,000 purchased from S Ltd. at a profit to latter at 25% on cost.

Solution

Capital profit

Capital reserve	₹60,000
Increase in asset	₹20,000
	₹80,000
Holding share (₹80,000x 75/100)	₹60,000
Subsidiary share (₹80,000 x 25/100)	₹20,000

Revenue profit

Profit	₹1,20,000
Holding share (₹1,20,000 x 75/100)	₹90,000
Subsidiary share (₹1,20,000 x 25/100)	₹30,000

Calculation of capital reserve

Actual amount		₹1,50,000
Less: Face value of shares held	₹1,50,000	
Share of capital profit	₹ 60,000	₹2,10,000
Capital reserve		₹60,000

Minority interest

Share capital	₹50,000
Capital profit	₹20,000
Revenue profit	₹30,000
	₹1,00,000

Consolidated Balance Sheet

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	10,00,000	Sundry assets	9,40,000
General reserve	1,00,000	Stock (8,50,000 – 10,000)	8,40,000
Minority interest	1,00,000	Debtors	3,00,000
B/P (30,000 – 10,000)	20,000	B/R (Inter Owings)	–
Creditors	3,20,000		

P & L a/c 4,00,000			
(+) Profit of S Ltd 90,000			
4,90,000			
(-) Stock reserve 10,000	4,80,000		
Capital reserve	60,000		
	20,80,000		20,80,000

Illustration -14 From the balance sheets as on 31-12-16 and information given below, prepare consolidated balance sheet.

Liabilities	**H Ltd**	**S Ltd**	**Assets**	**H Ltd**	**S Ltd**
Shares of ₹10 each	5,00,000	1,00,000	Fixed assets	4,00,000	60,000
P & L a/c	2,00,000	60,000	Stock	3,00,000	1,20,000
Reserves	60,000	30,000	Debtors	75,000	85,000
Bills payable	–	15,000	Bills receivable	20,000	–
Creditors	1,10,000	60,000	7,500 shares in S Ltd	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Additional information

a) The bills accepted by S Ltd are all in favour of H Ltd

b) Stock of H Ltd includes ₹25,000 bought from S Ltd at a profit to latter of 20% of sales.

c) All the profit of S Ltd has been earned since the shares were acquired by H Ltd. But there was already the reserve of ₹30,000 at that date.

Solution

Capital profit = ₹30,000

H Ltd. = ₹30,000 x ¾ = ₹22,500

S Ltd. = ₹30,000 x ¼ = ₹7,500

Calculation of capital reserve

Actual amount		₹75,000
Less: Face value of shares held	₹75,000	
Share of capital profit	₹22,500	₹97,500
Capital reserve		₹22,500

Minority interest

Share capital	₹25,000
¼ of reserve	₹7,500
Revenue profit (₹60,000 x ¼)	₹15,000
	₹47,500

Consolidated Balance Sheet

Liabilities			Amount ₹	Assets		Amount ₹
Share capital			5,00,000	Fixed assets		4,60,000
Creditors			1,70,000	Stock (4,20,000 – 5,000)		4,15,000
Minority interest			47,500	Debtors		1,60,000
Reserve			60,000	B/R	20,000	
Capital reserve			22,500	(-) Mutual owing	15,000	5,000
P & L a/c	2,00,000					
(+) ¾ of 60,000	45,000					
	2,45,000					
(-) Stock reserve	5,000		2,40,000			
			10,40,000			10,40,000

Illustration -15 The summarized balance sheets of H Ltd and S Ltd as on 31-12-2016 were as follows:

Liabilities	H Ltd ₹	S Ltd ₹	Assets	H Ltd ₹	S Ltd ₹
Shares of ₹100 each	2,50,000	1,00,000	Plant	1,20,000	54,700
P & L a/c	28,600	18,000	Stock	70,000	18,000
General reserves	1,20,000	–	Debtors	21,000	20,000
B/P (including ₹1,500 to H Ltd)	–	4,200	B/R (including ₹1,500 from S Ltd)	7,900	–
Creditors: H Ltd	–	500	Investments in S Ltd	1,70,000	–
Others	23,550	4,000	Land	75,000	90,000
Capital reserve	–	60,000	Bank	7,250	4,000
Bank overdraft	50,000	–	Amount owing by S Ltd	1,000	–
	4,72,150	1,86,700		4,72,150	1,86,700

H Ltd acquired 800 equity shares of ₹100 each in S Ltd on 1-4-2016. Prepare a consolidated balance sheet as on 31-12-2016. Show your workings.

a) Sundry creditors of H Ltd include ₹6,000 due to S Ltd.

b) The directors are advised the land of S Ltd are undervalued by ₹10,000 and its plant overvalued by ₹5,000.

c) A cheque for ₹500 sent to H Ltd by S Ltd on 31-12-2016 was not received by the former until 3-1-17.

Solution

Capital profit

Profit for 3 months	₹4,500
Capital reserve	₹60,000
Increase in premises	₹10,000
	₹74,500
Less: Decrease in plant	₹5,000
Capital profit	₹69,500
Holding share (₹69,500 x 4/5)	₹55,600
Subsidiary share (₹69,500 x 1/5)	₹13,900

Revenue profit

Profit for 9 months	₹13,500
Holding share (₹13,500 x 4/5)	₹10,800
Subsidiary share (₹13,500 x 1/5)	₹2,700

Calculation of goodwill

Actual amount		₹1,70,000
Less: Face value of shares held	₹80,000	
Share of capital profit	₹55,600	₹1,35,600
Goodwill		₹34,400

Minority interest

Share capital	₹20,000
Capital profit	₹13,900
Revenue profit	₹2,700
	₹36,600

Consolidated Balance Sheet

Liabilities		**Amount ₹**	**Assets**		**Amount ₹**
Share capital		2,50,000	Goodwill		34,400
General reserve		1,20,000	Plant – H	1,20,000	
Minority interest		36,600	M (54,700 – 5,000)	49,700	1,69,700
Bank O/D		50,000	Premises – H –	75,000	
B/P		2,700	M (90,000 + 10,000)	1,00,000	1,75,000
P & L a/c	28,600		Stock		88,000
(+) Profit of M Ltd	10,800	39,400	Debtors	41,000	
Creditors H Ltd	23,550		(-) Due from H Ltd	6,000	35,000
(-) Due to M Ltd	6,000		Bank (7,250 + 4,000)		11,250
	17,550		Cheque in transit		500
(+) M Ltd. Crs	4,000	21,550	B/R		6,400
		5,20,250			5,20,250

Note:

Amount owing by S Ltd	1,000
Less: Creditors of H Ltd	500
Cheque in transit	500

13. 9 BONUS SHARES – REVALUATION OF ASSETS

Illustration – 16

A Ltd. Acquired 1,600 ordinery shares of Rs. 100 each in B Ltd. On 31st December 2004. Their summarized Balance Sheets as on that date were as under:

Liabilities	**A Ltd. Rs.**	**B Ltd. Rs.**	**Assets**	**A Ltd. Rs.**	B Ltd. Rs.
Capital:			Land & Buildings	1,50,000	1,80,000
5,000 ordinary shares of Rs. 100 each	5,00,000		Plant & Machinery	2,40,000	1,09,400
			Investment in B Ltd. at cost	3,40,000	–
2,000 ordinary shares of Rs. 100		2,00,000	Stocks	1,20,000	36,000
Capital reserve		1,20,000	Debtors	44,000	40,000
General reserve	2,40,000	–	Bills receivable		
Profit & Loss a/c	57,200	36,000	(including Rs.3000	15,800	–

Bank overdraft	80,000	–	from 'B' ltd)		
Bills payable (including Rs. 4000 to A Ltd.)	–	8,400	Cash and bank	14,500	8000
Creditors	47,100	9,000			
	9,24,300	3,73,400		9,24,300	3,73,400

You are supplied following information:

a) 'B' ltd has made a bonus issue on 31st December 2004 of one ordinary share for every two shares held by it's shareholders. Effect has yet to be given in the accounts for the issue.

b) The directors are advised that land & buildings of B ltd. Are undervalued by Rs. 20,000 and plant & machinery of B ltd. Over valued by Rs 10,000. These assets have to be adjusted accordingly.

c) Sundry creditors of 'A' ltd. Include Rs. 12,000 due to 'B' ltd.

You are required to prepare the consolidated balance sheet as on 31st December 2004

Solution:

Consolidated balance sheet of A ltd And its subsidiary B ltd.

As on 31st December 2004

liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital: 5,000 ordinary shares of Rs. 100 each			Goodwill		47,200
			Land & buildings:		
			A ltd.	1,50,000	
General reserve		5,00,000	B ltd.	1,80,000	
Profit & loss a/c		2,40,000	Add: under valuation	20,000	3,50,000
Bank overdraft		57,200	Plant & machinery:		
Bills payable		80,000	A ltd.	2,40,000	
Less: Mutual obligation			B ltd.	1,09,400	
				3,49,400	
Creditors:			Less: over valuation	10,000	
A ltd.	8,400	5,400	Stocks:		
B ltd.	3,000		A ltd	1,20,000	
			B ltd	36,000	3,39,400
Less: Mutual	47,100	44,100			
Obligation	9,000		Debtors:		
Minority interest			A ltd.	44,000	
	56,100	73,200	B ltd.	40,000	1,56,000
	12,000			84,000	
	----------		Less: mutual	12,000	

			obligation		
			Bills receivable	15,800	72,000
			Less: mutual obligation	3,000	
			Cash and bank:		
			A ltd.	14,500	
			B ltd.	8,000	
					12,800
		9,99,900			22,500
					9,99,900

1. Holding-minority ratio.

Total shares in B ltd.	2,000
Less: shares acquired by A ltd.	1,600
Minority shares	400

Ratio = 1,600:400 or 4:1

2. Bonus issue not yet recorded, at one share for 2 shares held

			Rs.
	= 2,00,000 x ½	=	1,00,000
Holding company's share	= 1,00,000 x 4/5	=	80,000
Minority's share	= 1,00,000 x 1/5	=	20,000

3. Revenue profits = nil,
   Since shares are purchased on the date of the balance sheet.

4. Capital profits

	Rs.
Capital reserve of B ltd.	1,20,000
Less: bonus issue made	1,00,000
	20,000
Add: profit & loss a/c	36,000
Add: under valuation in land & buildings	20,000
	76,000
Less: over valuation of plant & machinery	10,000
	66,000

Holding company's share	= 66,000 x 4/5	=	52,800
Minority's share	= 66,000 x 1/5	=	13,200

5. Minority interest
   Face value of shares held by minority shareholders

	400 x 100	40,000
Add: bonus shares issued to minority		20,000

Minority's share of capital profits		13,200
Minority interest		73,200

6. Cost of control or goodwill

Amount paid by A ltd. For shares purchased in B ltd.		3,40,000
Less: face value of shares purchased 1,600 x 100		1,60,000
Holding company's share of capital profits		52,800
Bonus shares	80,000	2,92,800
Goodwill		47,200

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. A company which acquires majority of the shares of another is known as
   - a) **Holding**
   - b) Subsidiary
   - c) Banking
   - d) Insurance

2. The purpose of getting control over another company is
   - a) Elimination of competition
   - b) Enjoying economies
   - c) Getting assured market
   - d) **All of the above**

3. When some shares of the subsidiary are held by outside shareholders, it is called
   - a) Goodwill
   - b) **Minority interest**
   - c) Capital reserve
   - d) Capital profit

4. All the reserve and profit earned before the date of purchase are called
   - a) Revenue profit
   - b) **Capital profit**
   - c) Cost of control
   - d) Minority interest

5. Excess of purchase price of shares over the paid up value is called
   - a) **Goodwill**
   - b) Capital reserve
   - c) Minority interest
   - d) Capital profit

6. Any increase in fixed assets of subsidiary company after date of acquisition, it is treated as
   - a) Revenue profit
   - b) **Capital profit**
   - c) Cost of control
   - d) Goodwill

7. Any decrease in fixed assets of subsidiary company after date of acquisition, it is treated as
   - a) **Revenue loss**
   - b) Capital loss
   - c) Cost of control
   - d) Capital reserve

8. Issue of bonus shares out of post acquisition profit will have the effect of
   - a) Reducing the cost of control
   - b) Increase the capital reserve
   - c) **Both a and b**
   - d) Decrease the revenue reserve

9. Dividend paid from post acquisition profit, it is
   - a) **Credited to holding company P & L a/c**
   - b) Increase the cost of control
   - c) Increase the capital reserve
   - d) Both a and b

10. Dividend paid from pre acquisition profit, it is
    - a) Credited to holding company P & L a/c
    - b) Increase the cost of control
    - c) Increase the capital reserve
    - d) **Both a and b**

11. Minority interest appears on __________ side of balance sheet
    a) Asset b) **Liability**
    c) Both a and b d) After the total

12. Unrealized profit will be
    a) Deducted from stock in assets side b) Deducted from P & L a/c on liability side
    c) **Both a and b** d) P & L a/c

13. A company has to acquire ________ shares of another company in order to become a holding company
    a) **More than 50% of equity** b) 50% of equity
    c) 51% of preference d) Less than 50% of equity

14. S Ltd has in stock worth ₹10,000 supplied by its parent company H Ltd on which the latter made a profit of 20% on cost. The controlling interest of H Ltd in S Ltd is 80%. This stock should be shown in consolidated balance sheet at
    a) ₹10,000 b) ₹8,000
    c) **₹8,333** d) ₹7,500

15. Any loss or profit of assets and outside liabilities is
    a) Treated as revenue profit or loss b) Ignored in combined balance sheet
    c) **Treated as capital profit or loss in the respective assets and liabilities in combined balance sheet** d) Shown separately in liabilities side of combined balance sheet

16. Cash in transit or goods in transit should be entered in ____ of consolidated balance sheet
    a) **Assets side** b) Liability side
    c) Both a and b d) Foot note

17. When the purchase price of the shares of the subsidiary company is more than its net worth, the excess represents
    a) General reserve of the subsidiary b) Profit/ Loss of the subsidiary
    c) **Goodwill/ cost of control** d) Capital reserve

18. The company controlled is known as
    a) Parent company b) **Holding company**
    c) Subsidiary company d) Statutory company

19. Post acquisition profit is known as
    a) Capital profit **b) Revenue profit**
    c) Reserve d) Goodwill

20. Issue of bonus shares by the subsidiary company out of capital profit will

    a) Decrease cost of control b) Increase cost of control

    c) No effect on cost of control d) Increase minority interest

21. The share of outsiders in the subsidiary company is called as ________

    a) Minority interest b) Capital profit

    c) Capital reserve d) General reserve

REVIEW QUESTIONS

(A) Answer in short

1. What do you mean by holding company?
2. What are the requirements to be fulfilled for a company to become a holding company?
3. What is called subsidiary company?
4. What you understand by "capital profits"?
5. Write short note on Revenue profits.
6. Who are called minority interest holders?
7. How do you arrive at cost of capital?
8. How will you treat mutual obligation?
9. What is a consolidated balance sheet?
10. How would you ascertain the amount of minority interest?

(B) Answer in detail

1. Explain the treatment of the following
   - a) Bonus shares
   - b) Preference shares
2. Briefly explain how the consolidated balance sheet is prepared.
3. Write short notes on
   - a) Mutual obligation
   - b) Provision for unrealized profit in stock
   - c) Cash in transit
   - d) Capital dividend
   - e) Cost of control
   - f) Minority interest

EXERCISES

1. S Ltd. has a capital of ₹2,00,000 in shares of ₹100 each out of which H Ltd. purchased 75% of the shares of S Ltd. at ₹2,40,000. The profit of S Ltd. at the time of purchase of shares by H Ltd. were ₹1,10,000. S Ltd. decided to make a bonus issue out of pre-acquisition profit of one share for every five shares held.

   Calculate the cost of control

   i) Before the issue of bonus shares and

   ii) After the issue of bonus shares

I. Purchase of entire shares without adjustments:

2. Balance sheet as on 31-3-2016 as follows:

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Share capital of ₹10 each	5,00,000	2,00,000	Sundry assets	4,26,000	3,04,000
Reserve	1,00,000	50,000	20,000 Shares in S Ltd	2,54,000	–
Creditors	80,000	60,000	Preliminary expenses	–	6,000
	6,80,000	3,10,000		6,80,000	3,10,000

   Shares in S Ltd. were acquired on 31-3-2016.

   Prepare a consolidated balance sheet.

3. H Ltd. acquired the whole of the shares in the S Ltd. on 1st April 2015. The balance sheet of the two companies as at 31st March 2016 was as under:

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Equity shares of ₹10 each	4,00,000	1,00,000	Investments–shares in S Ltd at cost	1,35,000	–
General reserve	50,000	20,000	Sundry assets	3,70,000	1,45,000
P & L a/c	30,000	15,000			
Creditors	25,000	10,000			
	5,05,000	1,45,000		5,05,000	1,45,000

   Prepare consolidated balance sheet.

II. Purchase of majority shares without adjustments:

4. From the following balance sheets of H Ltd. and S Ltd., prepare consolidated balance sheet.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Shares of ₹10 each	2,50,000	1,00,000	Assets	2,70,000	1,30,000
Reserve fund	50,000	30,000	70% shares in S Ltd (at cost)	70,000	–
P & L a/c	40,000	–			
	3,40,000	1,30,000		3,40,000	1,30,000

5. From the balance sheet below, prepare consolidated balance sheet.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹10 each	8,00,000	3,00,000	24,000 shares in S Ltd.	2,40,000	–
Bills payable	40,000	20,000	Land	4,00,000	1,00,000
Creditors	3,50,000	1,60,000	Furniture	50,000	20,000
			Plant	2,00,000	1,00,000
			Stock	1,50,000	80,000
			Debtors	1,00,000	60,000
			Bank	50,000	20,000
	11,90,000	4,80,000		11,90,000	4,80,000

IV. Purchase of majority shares with adjustments:

6. The following is the balance sheet of S Ltd. as on 31-12- 2016:

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity shares of ₹10 each	10,00,000	Buildings	10,00,000
General reserve as on 1- 1-2016	4,00,000	Machinery	6,00,000
P & L a/c 3,00,000		Current assets	4,00,000
(+) Profit for 2016 1,00,000	4,00,000		
Creditors	2,00,000		
	20,00,000		20,00,000

H Ltd. acquired 80,000 shares of S Ltd. on 1st July 2016 at ₹15,60,000. H Ltd. valued the machinery at ₹5,00,000 and current assets at ₹5,50,000.

Calculate the minority interest.

7. The following balance sheets are given as on 30-6-2016.

Liabilities	**A Co. ₹**	**B Co. ₹**	**Assets**	**A Co. ₹**	**B Co. ₹**
Share capital (₹10 each)	1,20,000	30,000	Building	72,000	25,000
Creditors	15,000	5,000	Machinery	30,000	10,000
Reserve	25,000	6,000	Stock	18,000	3,000
P & L a/c	12,000	9,000	Debtors	22,000	7,000
			Bank	5,000	5,000
			2,000 Shares in B Co.	25,000	–
	1,72,000	50,000		1,72,000	50,000

At the date of acquisition by A Co., B Co. had undistributed profit amounting to ₹5,000, none of which has been distributed since the date of acquisition.

8. From the balance sheet given below, prepare a consolidated balance sheet of H Ltd. and its subsidiary company S Ltd.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Share capital of ₹10 each	25,00,000	6,00,000	40,000 shares in S Ltd	5,00,000	–
P & L a/c	2,40,000	1,80,000	Machinery	12,60,000	3,40,000
Creditors	3,50,000	1,00,000	Furniture	1,40,000	60,000
General reserve	3,60,000	1,20,000	Land	6,40,000	2,00,000
			Stock	4,10,000	2,50,000
			Debtors	3,80,000	1,00,000
			Bank	1,20,000	50,000
	34,50,000	10,00,000		34,50,000	10,00,000

At the date of acquisition of H Ltd. of its holding of 40,000 shares in S Ltd. The latter company had undistributed profits and reserves amounting to ₹1,00,000, none of which has been distributed since then.

9. Balance sheet of H Ltd. and S Ltd. as on 31-12-2016.

Liabilities	**H Ltd ₹**	**S Ltd ₹**	**Assets**	**H Ltd ₹**	**S Ltd ₹**
Share capital (₹100 each)	5,00,000	2,00,000	1,500 shares in S Ltd	2,40,000	–
General reserve	1,00,000	60,000	Fixed assets	3,60,000	2,20,000

P & L a/c	1,40,000	90,000	Stock	1,00,000	90,000
Creditors	80,000	90,000	Debtors	80,000	1,00,000
			Goodwill	40,000	30,000
	8,20,000	4,40,000		8,20,000	4,40,000

On the date of acquisition, S Ltd. showed a general reserve of ₹30,000 and P & L a/c ₹40,000.

Prepare a consolidated balance sheet.

10. From the following balance sheets on 31- 12- 2016, prepare consolidated balance sheet of H Ltd. and S Ltd.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹10 each	6,00,000	2,50,000	Investments (15,000 shares of S Ltd.)	2,00,000	–
General reserve (1–1–16)	1,60,000	95,000	Fixed assets	5,80,000	2,00,000
Profit for 2016	2,20,000	1,20,000	Stock	1,60,000	80,000
Bills payable	20,000	–	Goodwill	30,000	20,000
Creditors	1,00,000	35,000	Cash	50,000	70,000
			Debtors	80,000	1,15,000
			Bills receivable	–	15,000
	11,00,000	5,00,000		11,00,000	5,00,000

i) H Ltd. acquired the shares in S Ltd. on 30- 6 – 2016

ii) The bills receivable of S Ltd. are all accepted by H Ltd.

11. The following are the balance sheets of A Ltd. and B Ltd. as on Dec.31, 2016.

Liabilities	**A Ltd. ₹**	**B Ltd. ₹**	**Assets**	**A Ltd. ₹**	**B Ltd. ₹**
Equity shares of ₹10 each	2,00,000	50,000	Investments (shares of B Ltd.)	60,000	–
General reserve (1–1–16)	50,000	20,000	Fixed assets	1,95,000	70,000
P & L a/c (1 -1- 16)	30,000	7,500	Debtors	35,000	25,000
Profit for 2016	50,000	20,000	Other current assets	60,000	12,500
Creditors	20,000	10,000			
	3,50,000	1,07,500		3,50,000	1,07,500

i) A Ltd. purchased on 1-1-2016 ₹4,000 shares in B Ltd. at ₹15 each.

ii) Stock in B Ltd. includes ₹7,500 worth of goods purchased from A Ltd. which the company selling goods as 25% above cost.

iii) Creditors of B Ltd. include ₹5,000 due to A Ltd.

Prepare consolidated balance sheet as on 31-12-2016.

12. The following are the balance sheets of A Ltd. and B Ltd. as at 31st Dec.2016.

Liabilities	**A Ltd ₹**	**B Ltd ₹**	**Assets**	**A Ltd ₹**	**B Ltd ₹**
Share capital of ₹10 each	1,00,000	50,000	Sundry assets	66,250	69,100
Revenue reserve	9,000	10,000	Shares in B Ltd. at cost	70,000	–
P & L a/c as on 1-1-2016	8,500	8,000	Good will	–	10,000
Profit for the year	3,750	3,500			
Creditors	15,000	7,600			
	1,36,250	79,100		1,36,250	79,100

Profit for the year of B Ltd. was ₹6,000 out of which ₹2,500 was transferred to reserve. The holding of A Ltd acquired 90% of shares of B Ltd. year ago 31-12-2016. Write off from sundry assets of A Ltd. ₹9,000. Also write off ₹3,100 from the sundry assets of B Ltd. out of current year's profit.

Draft consolidated balance sheet of A Ltd. and its subsidiary.

13. The balance sheets of Prabhu Ltd. and Patel Ltd. on 31st Mar.2016 were as follows:

Liabilities	**Prabhu Ltd. ₹**	**Patel Ltd. ₹**	**Assets**	**Prabhu Ltd. ₹**	**Patel Ltd. ₹**
10% Preference shares of ₹100 each	–	1,00,000	3,000 Shares in Patel Ltd.	4,50,000	–
Equity shares of ₹100 each	10,00,000	4,00,000	Machinery Less: 10% Dep.	2,70,000	1,35,000
General reserve	1,00,000	50,000	Land	3,10,000	1,60,000
P & L a/c on 1-4-15	40,000	30,000	Stock	2,30,000	1,50,000
Profit for 2015-16	2,00,000	80,000	Debtors	1,55,000	90,000
Creditors	1,50,000	70,000	Cash	85,000	1,95,000
	14,90,000	7,30,000		14,90,000	7,30,000

Prabhu Ltd. acquired 3,000 shares in Patel Ltd. on 1st October 2015. As on the date of acquisition, Prabhu Ltd found that the value of land and machinery of Patel Ltd. should be ₹1,50,000 and ₹1,92,500 respectively.

Prepare the consolidated balance sheet of Prabhu Ltd. and its subsidiary S Ltd. as on 31st Mar. 2016 taking into consideration the fact that assets are to be taken at their proper values.

14. Following is the balance sheet of H Ltd. and its subsidiary S Ltd. as on 31-12-2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹100 each	5,00,000	–	8,000 Shares of S Ltd.	125,000	–
Equity shares of ₹10 each	–	1,00,000	Building	1,00,000	50,000
P & L a/c	55,000	40,000	Land	1,00,000	40,000
Creditors	20,000	35,000	Stock	90,000	30,000
			Debtors	40,000	30,000
			Cash	1,20,000	25,000
	5,75,000	1,75,000		5,75,000	1,75,000

H Ltd acquired shares in S Ltd. on 1-1-2016 when S Ltd. had ₹25,000 in P & L a/c. No dividend has been declared by S Ltd. in 2016.

Prepare the consolidated balance sheet.

15. Following are the balance sheets of H Ltd. and S Ltd. as on 31-3-2016.

Liabilities	**H Ltd. ₹**	**S Ltd. ₹**	**Assets**	**H Ltd. ₹**	**S Ltd. ₹**
Equity shares of ₹100 each	5,00,000	2,00,000	1,500 Shares in S Ltd.	2,40,000	–
Reserves	1,40,000	50,000	Sundry assets	6,00,000	3,00,000
P & L a/c	1,00,000	30,000			
Creditors	1,00,000	20,000			
	8,40,000	3,00,000		8,40,000	3,00,000

S Ltd. had a credit balance of ₹10,000 in reserves when H Ltd acquired shares in it. S Ltd. made a bonus issue of one share for every five shares held, all out of post acquisition profits.

Prepare the consolidated balance sheets after issue of bonus shares.

16. The following are the balance sheets of Guru Ltd. and Deva Ltd. as at 31st Dec.2016.

Liabilities	**Guru Ltd. ₹**	**Deva Ltd. ₹**	**Assets**	**Guru Ltd. ₹**	**Deva Ltd. ₹**
Equity shares of ₹10 each	50,000	25,000	Shares in Deva Ltd.	35,000	–
Revenue reserves	4,500	5,000	Sundry assets	33,125	34,550
Creditors	7,500	3,800	Goodwill	–	5,000
Profit for the year	1,875	1,750			
P & L a/c on 1-1-2016	4,250	4,000			
	68,125	39,660		68,125	39,660

Profit for the year of Deva Ltd. was ₹3,000 out of which ₹1,250 was transferred to reserves. The holding of Guru Ltd. on Deva Ltd. is 90% acquired a year ago on 31-12-2015. Write off from sundry assets of Guru Ltd. ₹4,500. Also write off ₹1,550 from sundry assets of Deva Ltd. out of current year's profit.

Draft consolidated balance sheet of Guru Ltd. and its subsidiary.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. H.Ltd.Acquired Shares of S. ltd on 1.1.2006, on that Date the P&L A/c of S.Ltd had a credit balance of Rs.1,000 and general reserve Rs.3,000.

Liabilities	**H.Ltd**	**S.Ltd**	**Assets**	**H.Ltd**	**S.Ltd**
Share Capital (Rs.10 each)	1,00,000	50,000	Fixed assets	60,000	63,000
			Investments	–	–
Reserve	10,000	5,000	(4000 shares in S ltd)	65,000	–
P&L account	10,000	4,000			
Creditors	5,000	4,000			
	1,25,000	63,000		1,25,000	63,000

Prepare a consolidated balance sheet.

[Madurai, B.Com, Nov, 2013]

2. On 31st March 2011 the Balance sheet of H Ltd. and its subsidiary S Ltd stood as follows.

Liabilities	**H Ltd**	**S Ltd**	**Assets**	**H Ltd**	**S Ltd**
Equity shares	80,00,000	20,00,000	Fixed assets	55,00,000	10,00,000
			75% shares in S		

General reserve	15,00,000	7,00,000	Ltd @ cost		
P and L A/c	9,00,000	5,50,000	Stock	28,00,000	–
Creditors	12,00,000	8,00,000	Others current assets	10,50,000 22,50,000	17,70,000 12,80,000
	1,16,00,000	**40,50,000**		**1,16,00,000**	**40,50,000**

Calculate

(i) Revenue profit,

(ii) Capital profit and

(iii) Minority interest as on 31st March 2011 after taking in to consideration of the following information.

(1) H Ltd acquired the shares on 31st July 2010.

(2) S Ltd earned a profit of rs. 4,50,000 for the year ended 31 March 2011.

[Azhagappa, April,2015]

3. Prepare consolidated Balance sheet from the given data.

Liabilities	**A Ltd**	**B Ltd**	**Assets**	**A Ltd**	**B Ltd**
Shares of Rs. 50 each	2,50,000	1,00,000	Fixed assets	1,75,000	75,000
General Reserve	50,000	–	Stock in trade	45,000	20,000
Profit and Loss a/c	40,000	–	Debtors	30,000	15,000
Trade creditors	37,500	72,500	6% debentures in B Ltd, acquired @ par	30,000	–
			Shares in B Ltd 1,500 @ Rs. 40	60,000	–
			Cash at Bank	37,500	12,500
			Profit & Loss a/c	–	50,000
	3,77,500	**1,72,500**		**3,77,500**	**1,72,500**

A Ltd acquired the shares on 1.4.2009. the P and L a/c of B Ltd showed a debit balance of Rs. 75,000 on 1.1.2009. track creditors of B Ltd include Rs. 10,000 for goods supplied by A Ltd on which A Ltd made a profit of Rs. 1,000. Half of the goods were still in stock on 31.12.2009.

[Azhagappa, April,2013]

4. Balance sheet as on 31st March 2004

Liabilities	**H.ltd (Rs.)**	**S.Ltd (Rs.)**	**Assets**	**H.Ltd (Rs.)**	**S.Ltd (Rs.)**
Share capital	12,000	5,000	Sundry assets	20,000	8,000
(in Re.1 shares)					
Reserve					
P & L	5,000	1,000	Investment :		
Creditors	2,000	1,000	5000 shares of S Ltd	6,500	
	7,500	1,000			
	26,500	8,000		26,500	8,000

Shares were acquired by H. Ltd. On 30th sep 2003. S. Ltd. Transferred Rs. 500 from profits to reserve account on 31st march 2004. Prepare consolidated balance sheet.

[Madurai.,Nov 2012]

5. From the following balance sheets relating to H.ltd and S ltd. Prepare a consolidated balance sheet.

Liabilities	H.ltd (Rs.)	S.Ltd (Rs.)	Assets	H.Ltd (Rs.)	S.Ltd (Rs.)
Share capital	10,00,000	2,00,000	Fixed assets	8,00,000	1,20,000
P & l a/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable		
Bills payable	–	30,000			
	17,00,000	5,30,000		17,00,000	5,30,000

a) All profits of S ltd have been earned after the shares were acquired by H ltd. But there was already a reserve of Rs. 60,000 on that date.

b) All the bills payable of S ltd. Were accepted in favour of H ltd.

c) The stock of H ltd. Includes Rs. 50,000 purchased from S ltd. The profit added was 25% on cost.

Madurai.,Nov 2015

6. X Ltd. Purchased 60% shares of Y Ltd. on 1-1-02 when the balance on their P&L General reserve were Rs. 1,50,000 and Rs. 1,60,000 respectively. On 31-1202, the Balance sheet of Y Ltd. showed P&L a/c balance of Rs. 4,00,000 and General reserve Rs. 3,00,000. Calculate Capital profits and Revenue profits.

[Madras, B.Com (AF) Ap. 2009; B. Con: (CS) Nov. 2008]

[Ans: Capital Profits: Rs. 3,10,000; Revenue pofits: Rs. 3,90,000]

7. P Ltd. acquired 65% shares of Q Ltd. on 1-10-02. P&L a/c in the books of Q Ltd. showed a debit balance of Rs. 40,000 on 1-4-02. On 31-3-03, the Balance sheet of Q Ltd. showed P&L We balance of Rs. 1,20,000. Calculate capital profits and Revenue profits.

'Madras, B.Com (AF) Nov. 2009; B.Com (CS) Ap 2008]

[Ans: Capital profits: Rs. 40,000; Revenue Profits: Rs. 80,000]

8. 1-1 Ltd. Purchased 75% of shares in S Ltd. on 1-7-01. On 31-12-01 the Balance Sheet of S Ltd. showed Reserve Fund balance on 1-1-01 Rs. 40,000, profit earned during 2001 Rs. 60.000 and Preliminary expenses unwritten off Rs. 20,000. Calculate capital profits and Revenue profits.

[Madras, M. Con: (ICE) (PBC) Oct. 2009; B.Cotn., B.Cotn (C'S) Nov. 2008]

[Ans: Capital profits: Rs. 50,000; Revenue profits: Rs. 30,0001

9. A subsidiary company has a capital of Rs. 5,00.000 in shares of Rs. 100 each out of which the holding company acquired 80% of the shares at Rs. 6,00,000. The profits of the subsidiary Co. on the date of acquisition of shares by the bolding Co. were Rs. 3,00,000. Calculate the value of goodwill or capital reserve.

[Madras, B.Com (AI) Ap 2009]

[Ans: Capital Reserve: Rs. 40,000 i.e., 6,40,000 — 6,00,000]

10. On 30.6.03 $_{1/3}$ rd of the shares of S' Ltd. (with a total capitral of Rs. 12,00.000)were acquired by H. Ltd. The balance sheet of 'S' Ltd. showed a debit balance of Rs. 6,00,000 on 1.1.03 and a credit balance of Rs. 3,60,000 on 3.12.03. The investment made by 'H' Ltd. in 'S' Ltd.'s shares is Rs. 9,00,000. Calculate the cost of control or Capital Reserve. •

[Madras, B. Com(AF) Nov. 2009;]

[Ans: Goodwill: Rs. 1,80,000 (i.e., 8,00,000 — 80,000 = 7,20,000) — 9,00,000]

11. Calculate minority Interest from the balance sheet of Mumbai. Ltd:

Balance sheet of Mumbai Ltd. As. On 31.12.2001

Liablities	Amt	Assets	Amt
Share capital:		Sundry assets	10,00,000
7,00,000 shares of Rs.2 each	14,00,000	Plant and machinery	7,00,000
General Reserve as on 1.1.2001	6,00,000	Other Assets	1,50,000
Creditors	3,00,000	Investment	6,50,000
P&L A/c as on 31.12.2001	2,00,000		
	25,00,000		25,00,000

Madras Ltd. Acquired 80% of the shares at Rs.6,50,000

[Madras, B.Com (ICE), 2003]

[Ans: Minority intrest: Rs. 4,40,000]

12. S Ltd. has capital of Rs. 15,00,000 in shares of Rs. 100 each. Out of this,•₹11' Ltd. purchased 75% shares at Rs. 17,50,000. The profit of 'S' Ltd. at the time of purchase of shares by 'H' Ltd. were Rs. 7,50,000. 'S' Ltd. decided to make a bonus issue out of capital profits of one share of Rs. 100 each fully paid for every three shares held. Calculate the cost of control after the issue of bonus shares.

[Madras, 1st M.Com (ICE) Oct. 2009]

[Ans: Goodwill — Rs. 62,500]

13. On 1st April 1988, S Ltd. had a subscribed share capital of Rs. 5,00,000 divided into 50,000 fully paid equity shares of Rs. 10 each. It had accumulated capital and revenue profits to the tune of Rs. 3,90,000 by that date when. H Ltd. acquired 80% of its shares for Rs. 9,00,000. The profit earned by S Ltd. amounted to Rs. 2,60,000 for.the year ended 31st March 1989 on which date S Ltd. issued by way of bonus, one fully paid equity share of Rs. 10 for every five equity shares held out of its pre-acquisition profits.Calculate as on 31.3.1989 cost of control and minority interest just before the issue of bonus shares

[Madras, 1st M.Com (Sem - CA1A) Nov. 2003]

[Ans: Just before the issue of bonus shares cost of control — Rs. 1,88,000; Minority interest — Rs. 2,30,000]

14. Prepare a consolidated Balance Sheet from the following Balance Sheets:

Liabilities	*H Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*11 Ltd. Rs.*	*S Ltd.* **RA.**
Capital:			Sundry assets		1,510
Re. 1 shares	1,400	1,000	Shares in 'S' Ltd.		
Creditors	350	190	900 shares at cost	1,125	_
P & L A/c	260	320			
	2,010	1.510		2,010	1,510

On the date of acquisition of shares by H Ltd. in S Ltd., the credit balance on latter's Profit and Loss account was Rs. 220. No dividends have been declared since that date.

[Periyar, 111.Com.(CA) Ap. 2005 (10 Tintes)11Bharathiar, B.Com., Nov. 2004 (10 Times)/ [Madras, B.COM (AF) Ap. 2009]

[Ans: Capital Profit — Rs. 220; Revenue Profit — Rs. 100; Minority interest — Rs. 132; Goodwill — Rs. 27; Balance Sheet total -- Rs. 2,422]

15. Consolidate the Following balance sheet

Liabilities	H Rs.	S Rs.	Assets	11 Rs.	S Rs.
Capital Re. 1 shares	1,400	1,000	900 shares in		
Creditors		500	S at cost	1.200	
P&L A/c	–	300	Sundry assets	200	1.800
	1,400	1,800		1,400	1,800

When II Ltd. acquired the shares in S, the profit and loss *A/c oft ie* latter had a credit balance of Rs. 200.

[Periyar, B.Com (CA) Oct. 2005 Thirnvalluvar, B.Com., Nov. 2005 (10 Times); Bharathidasan, Nov. 2003]

[Ans : Capital profit : Rs. 200; Revenue profit : Rs. 100; Minority interest : Rs. 130; Goodwill : Rs. 120; Balance Sheet total : Rs. 2.120]

16. From the following summarised Balance Sheets of H Ltd. and S Ltd. as of 31.12.94.Prepare consolidated Balance sheet

Liabilities	*II Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*H Ltd. Rs.*	*S Ltd. Rs.*
Share capital:			Fixed assets	18,10,000	15,75,000
Shares of Rs.10			Investments (1,00,000		
each fully paid	25,00,000	12,50,000	shares in S Ltd.)	11.00,000	–.
Reserves	7,50,000	5,00,000	Current assets	5.65,000	3,75,000
Creditors	2,25,000	2,00,000			
	34,75,000	19,50,000		34,75,000	19.50,000

I-1 Ltd. purchased the shares in S Ltd. on 1st January 1994. when reserves in S Ltd stood at
Rs. 3.00,000 and in 11 Ltd., at Rs. 4,50,000.

[Madras, B.Com., (ICE) Oct. 2002]

[Ans: Capital profit - Rs. 3,00,000; Revenue profit - Rs. 2,00,000; Minority interest - Rs. 3,50,000; Capital reserve - Rs. 1,40,000 Balance Sheet total Rs. 43,25,000]

17. **Balance sheet as on 1.12.2000**

Liabilities	H Rs.	S Rs.	Assets	H Rs.	S Rs.
Share Capital :			Sundry assets	16,000	10,000
Rs. 1 each	10,000	5,000	5,000 shares in		

Reserve	5,000		S Ltd.	6,000	—
P&L A/c	4,000	1,800			
Creditors	3,000	3,200			
	22,000	10,000		22,000	10,000

Shares of S Ltd. were purchased by H Ltd. on 30th June 2000. On 1st Jan 2000 the Balance Sheet of S Ltd. showed a loss of Rs. 3,000..Prepare the consolidated Balance sheet.

(Madras, 1st M.Com (PBC) Oct.. 2004; II M.Com., (ICE) (Old) May 2002]

[Ans : Revenue Profit : Rs. 2,400; Capital Loss : Ks. WU; Goodwill : Rs. 1,600; B/s Total : Rs. 27,600]

18. **Balance sheet as on 31.12.2001**

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital :					
Rs. 10 each	2.50,000	1,00,000	Sundry Assets	2,23,000	1,52,000
Reserves	50,000	25,000	100% shares in		
Creditors	40,000	30,000	B Ltd.	1,17,000	
			Preliminary		
			Expenses	—	3,000
	3,40,000	1,55,000		3,40,000	1,55,000

The shares of B Ltd. were acquired at Rs. 1,17,000 on 31-3-1999. Prepare consolidated Balance sheet ***as*** on 31-3-99.

[Madras, B. Corn (SEm) Nov. 2003 (2 limes), B.Com., (Old) Oct. 2002

[Periyar, B.Com., Nov. 2005; (2 Times); Bharathiar, B.Com., Nov. 2003 (2 Times)

[Ans : Capital Profit : Rs. 22,000; Capital Reserve : Rs. 5,000; B/s Total : Rs. 3,75,000]

19. **The following Balance sheet as on 31.3.2000 are given.**

Liabilities	**II Ltd. Rs.**	**.S Ltd. Rs.**	**Assets**	**II Ltd. Rs.**	**S Ltd. Rs.**
Share capital: in Re. 1 fully			Sundry assets	20,000	12,000
Paid shares	12,000	6,000	Investment		
Reserves	3,000	2,000	6,000 shares in		
P&LA/c	2,000	1,000	S Ltd.	7,500	
Sundry liabilities	10,500	3,000	.		
	27,500	12,000		27,500	12,000

S Ltd. has acquired shares in S Ltd. on 31.3.2000. Prepare consolidated Balance Sheet as on 31.3..2000

[Madras, B.Com ,Ap 2009; lst M. Corm, Nov. 2005 (Modified)]

[Ans: Capital profit — Rs. 3,000; Capital reserve — Rs. 1,500; Balance sheet total — Rs. 32,000]

20. **The following are the balances as on 31.12.2001**

Liabilities	**A Ltd. Rs.**	**13 Ltd. Rs.**	**Assets**	**A Ltd. Rs.**	**B Ltd. Rs.**
Share capital:			Land & Buildings	6,40,000	2,00,000
Shares of			Machinery	12,60,000	3,40,000
Rs. 10 each	25,00,000	6,00,000	Furniture	1,40,000	60,000
General reserve .	3,60,000	1,20,000	40.000 shares in	,,	
Profit & Loss A/c	2,40,000	1.80.000	B Ltd.	5,00,000	—
Trade creditors	3,50,000	1,00,000	Stock	4,10,000	2,50,000
			Debtors	3,80,000	1,00,000
			Rank balance	1,20,000	50,000
	34,50,000	10,00,000		34,50,000	10,00,000

At the date of acquisition by A Ltd. of its holding of 40,000 shares in B. Ltd., the latter company had undistributed profits and reserves amounting to Rs. 1,00,000. none of which had been distributed since then.

[Madras, B.Com (2007 (i Figs.) 1st M.Cont.(CA IA) Nov. 2006;

B.Com., Oct. 2003; April 1999; March 1996; March 1988; Madras, B.A. Corp., Sep. 1995]Periyar, B.Com(CA)]

[Ans: Capital profit Rs. 1,00,000; Revenue profit - Rs. 2,00,000; Minority interest - Rs. 3,00,000; Goodwill - Rs. 33,333; Balance Sheet total - Rs. 39,83,333]

21. The following Balance Sheets are given as on 30.6.87

Liabilities	M Co. Rs.	S Co. Rs.	Assets	Al Co. Rs.	S Co. Rs.
Share capital:			Buildings	72,000	25,000
12,000 shares	1,20,000	–	Machinery	30,000	10,000
3,000 shares	–	30,000	Stock	18,000	3,000

Creditors	15,000	5,000	Debtors	22,000	7,000
Reserve	25.000	6,000	Bank	5,000	5,000
Profit & Loss A/c	12,000	9,000	Shares in S Co.		
			2.000 shares	25,000	
	1,72,000	50,000		1,72,000	50,000

At the date of acquisition by M Co., S Co. had undistributed profits amounting to Rs. 5,000. none of which has been distributed since the date of acquisition.. Prepare consolidated Balance Sheet.

[Madras, BC'S Nov 2004 (2 Times); B.C.S. April 2003]

[Ans: Capital profit - Rs. 5,000; Revenue profit - Rs. 10,000; Cost of control (goodwill) - Rs. 1,667; Minority interest - Rs. 15,006; Total of consolidated Balance Sheet - Rs. 1,98,667]

22. From the Balance Sheets given below, prepare consolidated Balance Sheet

. **Balance Sheets as at 31st December 1991**

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Shares of			Fixed assets	4,00,000	60,000
Rs.10 each	5,00,000	1,00,000	Stock	3,00,000	1,20,000
Profit & Loss A/c	2,00,000	60,000	Debtors	75,000	85,000
Reserves	60,000	30,000	Bills receivable	20,000	–
Bills payable		15,000	Shares in S Ltd.		
Creditors	1,10,000	60,000	7,500 at cost	75,000	–
	8,70,000	2,65,000		8,70,000	2,65,000

Other irformation

(a) The bills accepted by S Ltd. are all in favour of H. Ltd.

(b) The stock of H Ltd. includes Rs. 25,000 bought from S Ltd. at a profit to latter of 20% on sales.

(c) All the profits of S Ltd. has been earned since the shares were acquired by 11 Ltd. but there was alrpady the reserveof Rs. 30,000 at that date.

Hint : As per AS-21 'Consolidated Financial Statements' issued by C.A. Institute,Full Provision should he made for 'unrealised profit in stock'.

[Madras, 1st M.Com, Nov. 2008; B.Com (PZG) Nov. 2007 Periyar, B.Com., Ap. 2006]

[Ans: Capital profit Rs. 30,000; Revenue profit — Rs. 60,000; Minority interest — Rs. 47,500; Capital reserve — Rs. 22,500; Provision for unrealised profit — Rs. 5,000; Balance Sheet total — Rs. 10,40,000]

23. From the following details, prepare a consolidated Balance sheet of II Ltd. and its Subsidiary S Ltd. as on 3-12-2001.

Liabilities	H.	S Rs.	Assets	H.	S .
Share Capital :			Buildings	1,45,000	50,000
Shares Rs. 10 each	2,00,000	60,000	Plant	60,000	25,000
General Reserve	50,000	15,000	Stock	40,000	10,000
P&L A/c	25,000	21,000	Debtors	35,000	15,000
16% Debentures	70,000	—	13/R	15,000	10,000
Creditors	15.000	10,000	Bank	10,000	5,000
B/P	5,000	9,000	Investment in (1,000 shares of S Ltd.)	60,000	
	3,65,000	1,15,000		3,65,000	1,15,000

On the date of cquisition of shares by HLtd. in S Ltd. the lat er had undistributed Profits of Rs. 9.060 and reserve of Rs. 6,000. Thevalue of Bui dings and Plant of S Ltd. were considered at Rs. 65,000 and Rs. 16,000 respectively. No purchase or Sale of these assets after the acquisition of shares. Depreciation may be ignored. Debtors of H Ltd. include Rs. 5,000 due from S Ltd. and also Bills payable of H Ltd. includes a bill of Rs. 3,000 accepted in favour of S Ltd.

[Madras, I M.Com., (ICE)** Oct. **2002]

[Ans : Capital Profit : Rs. 21,000; Revenue Profit : Rs. 21,000; Minority Interest : Rs. 34,000; Goodwill : Rs. 6,000; B/S Total : Rs. 4,24,000]

24. 'A' Ltd. acquired 20,000 equity shares of Rs. 10 each in '13' Ltd. as at 31st March 1998. The summarised Balance Sheets of the two companies as at 31st March 1999 were as follows

Liabilities	A Ltd. Rs.	B Ltd. Rs.
Equity share capital (Shares of Rs. 10 each)	8,00,000	2,50,000
General Reserve	3,00,000	50,000
P&L	1,00,000	2,00,000
Creditors	2,00,000	50,000
	14,00,000	5,50,000
Assets		
Fixed Assets	7,00,000	2.50,000

20,000 shares in B Ltd. at cost	3,00,000	
Current assets	4,00,000	3,00,000
	14,00,000	5,50,000

B' Ltd. had a Credit Balance of Rs. 50,000 in general reserve and Rs. 20,000 in P&L A/c when 'A"Ltd. acquired shares in 'B' Ltd.₹B' Ltd. issued bonus shares in the ratio of one for every five shares held out of the Profits earned during 1998-99. This is not shown in the above balance sheet of 'B' Ltd.Prepare a consolidated balance sheet of 'A' Ltd. and its subsidiary as at 31st March 1999.

[Madras, B.com, 2011]

[Ans : Revenue Profit (after Bonus) Rs. 1,30,000; Capital Profit : Rs. 70,000; Goodwill : Rs. 4,000; Minority Interest : Rs. 1,00,000; B/S Total : 16,54,000]

25. H Ltd. acquired the shares of S Ltd. on 1-1-96. On that date the profit and loss account of S Ltd.. had a credit balance of Rs. 1.000 and in reserve Rs. 3.000.

Prepare a consolidated Balance Sheet from the following:

Balance Sheet as on 31-12-96

Liabilities	*H Ltd. Rs.*	*S Ltd. Rs.*	*Assets*	*II Ltd. Rs.*	*S Ltd. Rs.*
Share Capital :			Sundry Assets	60,000	63,000
(Rs. 10 each)	1,00,000	50,000	Investemts -		
Reserve	10,000	5,000	4,000 shares in		
Profit and Loss A/c	10,000	4,000	S Ltd.	65,000	
Sundry Creditors	5,000	4,000			
	1,25,000	63,000		1,25,000	63,000

[Madras, B.C.S. Oct. 2001]

[Ans : Capital Profit : Rs. 4,000; Revenue profit : Rs. 5,000; Minority Interest : Rs. 11,800; Goodwill : Rs. 21,800; B/S Total : Rs. 1,44,800]

26. The following are the balance sheets of the Sun Co., Ltd., and the Moon Co.. Ltd., prepared on 31st December 1986. On 1st January 1986, the Sun Co. Ltd.. acquired all the shares in the'Moon Co. Ltd., when the latter had a credit balance of Rs. 35.000 on its profit and, loss account.

Liabilities	***' Sun Co. Rs.***	***Moon Co. Rs.***	***Assets***	***Sun Co. Rs.***	***,Moon Co. Rs.***
Share Capital :			Sundry Assets	2,20,000	4,00,000
Equity shares of			Investments	3,60,000	

Rs. 10 each	3,00,000	2,00,000	(Shares in the		
General reserve	1,50,000	1,00.000	Moon Co. Ltd.)		
P & L A/c	1,00,060	80,000			
Creditors	30,000	20,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Prepare consolidated balance sheet.

[Madras, B. Com., April 2001]

[Ans : Revenue Profit : Rs. 45,000; Capital Profit : Rs. 1,35,000; Minority Interest : NIL; Goodwill : Rs. 25,000; 13/s Total : Rs. 6,45,000]

27. The following are the summarised Balance Sheets of 'A' Ltd. and its subsidiary 'B' Ltd. as on 31.12.88.

Liabilities	*A Ltd. Rs.*	*B Ltd. R. s.*	*Assets*	*A Ltd. Rs.*	*B Ltd. Rs.*
Ordinary shares			Fixed assets	2,00,000	90,000
of Rs. !O each	5,00,000	1,09,000	Stock	90,000	30,000
General reserve	10,000	40,000	Debtors	40,000	30,000
Creditors	20,000	30,000	Bills receivable	5,000	–
Bills payable	–	5,000	Bank balance	1,15,000	25,000
			7,500 shares in		
			B Ltd. at cost	80,000	–
	5,30,000	1,75,000		5,30,000	1,75,000

A Ltd., acquired shares in B Ltd. on 1. .88 when B Ltd. had Rs. 10,000 in general reserve. No dividend was declared by B Ltd. in 1988.

All bills receivable of A Ltd. are drawn on B Ltd.

You are required to prepare a consolidated Balance Sheet on 31.12.1988.

[Periyar, M.Com (CA) Ap 2006; Bharathidasan B.Com., Nov. 2005 Madras, B.Com Oct. 2007]

[Ans: Capital profit — Rs. 10,000; Revenue profit — Rs. 30,000; Minority interest — Rs. 35,000; Capital reserve — Rs. 2,500; Balance Sheet total — Rs. 6,20,000]

28. The following are the summarised Balance Sheets of Imperial Co. Ltd. and Colonial -Co. Ltd. as on 31st December 1972.

Liabilities	*Imperial Co. Ltd. Rs.*	*Colonial Co. Ltd. Rs.*	*Assets*	*Imperial Co. Ltd. Rs.*	*Colonial Co. Ltd. Rs.*
Paid up capital in shares of Rs. 10 each	10,00,000	3,00,000	Freehold Premises	4,50,000	1,20,000
			Plant & Machinery	3,50,000	1,60,000
			Furniture	80,000	30,000
General reserve	4,00,000	1,25,000	Debtors	3,00,000	1,70,000
Profit & Loss A/c	3,00,000	1,75,000	Stock	3,20,000	1,60.000
Sundry creditors	1,00,000	70,000	Investment in 20,000 shares in Colonial Co. Ltd. at cost	2,60,000	
			Cash balance	40,000	30,000
	18,00,000	6,70,000		18,00,000	6,70,000

You are required to prepare consolidated Balance Sheet as on 31.12.1972 showing in detail necessary adjustments and taking into consideration the following information.

(a) Imperial Co. Ltd. acquired the shares of Colonial Co. Ltd. on 1.1.1972 when the balance on their Profit & Loss A/c and general reserves were Rs, 75,000 and Rs. 80,000 respectively.

(b) Stock of Rs. 1,60,000 held by Colonial Co. Ltd. consists of Rs. 60,000 goods purchased from Imperial Co. Ltd., who has charged profit at 25% on cost.

[Thiruvalluvar, B.Com., Nov. 2005; Bharathidasan, Nov. 2005) Madras, M.Com(ICE) Oct 2006; II M.Com., Oct 2003; II. M.Com. (ICE) (Old) May 2001; B.C.S. Oct. 2003; B.C.S. (ICE) May 2002]

[Ans: Capital profit — Rs. 1,55,000; Revenue profit — Rs. 1,45,000; Minority interest — Rs. 2,00,000; Capital reserve — Rs. 43,333; Balance Sheet total — Rs. 21,98,000; Profit & Loss A/c balance — Rs. 3,84,667]

29. Star Ltd. acquired the whole of the shares in Sun Ltd. as at 1st January 1995. The Balance Sheets of both the companies on 31st Dec. 1995 were as under.

Liabilities	***Star Ltd. Rs.***	***Sun Ltd. Rs.***	***Assets***	***Star Ltd. Rs.***	***Sun Ltd. Rs.***
Share capital:			Buildings	6,00,000	2,00,000
20,000 shares			Machinery	3,00,000	1,00,000

of Rs. 50 each	10,00,000	–	Stock	1,00,000	1,50,000
80,000 shares			Debtors	50,000	90,000
of Rs. 5 each	–	4,00,000	Investments in		
General reserve	3,00,000	40,000	shares of Sun Ltd.	5,00,000	–
Profit & Loss A/c	2,00,000	1,60,000	Cash at Bank .	50,000	1,20,000
Creditors	1,00,000	60,000			
	16,00,000	6,60,000		16,00,000	6,60,000

The Balance of Profit & Loss A/c of Sun Ltd. on 1.1.95 was Rs. 80,000. Sun Ltd. paid a dividend of 10% in March 1995 for the year 1994 which was credited by Star Ltd. to its Profit & Loss A/c.

Stock of Star Ltd. includes Rs. 20,000 goods which were purchased from Sun Ltd. at a profit of 20% on sale value. Show the Consolidated Balance sheet.

[Madras, B.Com,2009]

[Ans: Capital profit — Rs. 80,000; Revenue profit — Rs. 1,20,000; Capital reserve — Rs. 20,000; Balance Sheet total — Rs. 17,56,000]

30. 'C' Ltd. acquired 20,000 shares of Rs. 10 each in 'D' Ltd. on 1.1.94. The summarised Balance Sheets of both the companies were as under on 31.12.94.

Liabilities	**C Ltd. Rs.**	**D Ltd. Rs.**	**Assets**	**C Ltd. Rs.**	**D Ltd. Rs.**
Shares of					
Rs. 10 each	5,00,000	2,50,000	Fixed assets	4,50,000	4,65,000
Reserves	2,00,000	1,50,000	Stock	75,000	1,00,000
Creditors	3,00,000	3,00,000	Debtors	1,50,000	2,00,000
Bills payable	50,000	40,000	Shares in D Ltd.	3,25,000	–
Bank loan	–	50,000	Bills receivable	75,000	50,000
Profit & Loss A/c	50,000	40,000	Cash	25,000	15,000
	11,00,000	8,30,000		11,00,000	8,30,000

On 1st Jan. 1994, Profit & Loss A/c of 'D' Ltd. showed a debit balance of Rs. 50,000. D Ltd. made a transfer of Rs. 30,000 to reserves on 31st Dec. 94.Creditors of C Ltd. include Rs. 50,000 for goods supplied by D Ltd. on credit. Stock of Rs. 40,000 in C Ltd. represents unsold goods purchased from D Ltd. who charged profit on sale of 20%.Bills payable of D Ltd. included Rs. 30,000 accepted in favour of C Ltd. Bills receivable of C Ltd. included Rs. 25,000 received from D Ltd. Prepare consolidated Balance Sheet.

[Madras,B.com,2011]

[Ans: Capital profit — Rs. 70,000; Revenue profit — Rs. 1,20,000; Minority interest — Rs. 88,000; Goodwill — Rs. 69,000; Balance Sheet total — Rs. 15,91,000; Profit & Loss A/c — Rs. 1,38,000]

31. Y Ltd. purchased 75% of the shares in Z Ltd. on 1.1.97. The following Balance Sheets of the two companies on 31.12.97 arc made available and you are requested to prepare a consolidated Balance Sheet.

Liabilities	**Y Ltd. Rs.**	**Z Ltd. Rs.**	**Assets**	**Y Ltd Rs.**	**Z Ltd. Rs.**
Share capital:			Fixed assets	2,00,000	2,50,000
(Rs. 10 each)	2,00,000	3,00,000	Current assets	1,80,000	1,70,000
Reserves	3,00,000	–	22,500 shares in		
Profit & Loss A/c	1,00,000	80,000	Z Ltd.	3,00,000	–
Current liabilities	80,000	40,000			
	6,80,000	4,20,000		6,80,000	4,20,000

1. The Profit & Loss A/c of Z Ltd. on 1.1.97 showed a balance of Rs. 20,000.
2. It was agreed that Y Ltd. should charge Z Ltd. Rs. 1,000 per month for services rendered. No entries were passed in their books for the same.
3. Current assets of Z Ltd. include Rs. 10,000 loan receivable from Y Ltd.

[Madras,B.Com,2012]

[Ans: Capital profit — Rs. 20,000; Revenue profit — Rs. 48,000; Minority interest — Rs. 92,000; Goodwill — Rs. 60,000; Balance Sheet total — Rs. 8,50,000]

32. From the Balance Sheets given below, preparea consolidated Balance Sheet of ₹M' Ltd. and its subsidiary 'C' Ltd. The shares were acquired on **1.1.87.**

Balance Sheet as on 30th June 1987

Liabilities	**M Ltd. Rs.**	**C Ltd. Rs.**	**Assets**	**M Ltd. Rs.**	**.0 Ltd. Rs.**
Share capital:			Land & Buildings	1,20,000	20,000
Rs. 10 each	1,50,000	30,000	Machinery	20,000	20,000
General reserve	20,000	–	Current assets	58,000	10,000
Profit & Loss A/c:			*Investment:*		
on 1.7.86	–	4,500	2,000 shares of		
Profit for the year	30,000	6,000	Rs. 10 each in C Ltd.	27,000	–

Creditors	25,000	9,500			
	2,25,000	50,000		2,25,000	50,000

From the following Balance Sheets of H Ltd., and S Ltd., prepare a Consolidated Balance Sheet of I I Ltd., and S Ltd.

Balance Sheets as on 31-12-98

Liabilities	**HRs.**	**.S Rs.**	**Assets**	**H Rs.**	**S Rs.**
Share Capital :			Sundry assets	20,000	8,000
(Shares of Re. 1 each)	12,000	5,000	Investment in 5,000		
Reserve	5,000	1,000	shares of S Ltd.	6,500	–
P&L A/c	2,000	1,000			
Sundry creditors	7,500	1,000			
	26,500	8,000		26,500	8,000

Shares were acquired by H Ltd., 'n S Ltd., on 30-6-98. S Ltd., transferred Rs. 500 **from profits to** Reserve on **31-12-98.**

[Madras, B.C'ont (CS) Nov. 2008; II M.Com.,Ap 2003; B. Corn., (ICE) May 2000] [Periyar, B.Com., Ap 2006; M.Com (CA) Ap 2005; Bharathiar, B.C'ont., Nov. 2004]

[Ans : Capital profit : Rs. 1,250; Revenue profit : Rs. 750; Goodwill : Rs. 250; Balance Sheet total : Rs. 28,250]

[Hint The Sun Co. Ltd. acquired 18,000 shares in the Moon Co. Ltd., on 1st Oct. 1986. The Balance Sheets of the two companies as on 31st Dec. 86 were as under.

Liabilities Sun Co.	***Moon Co. Rs.***	***Assets Rs.***	***Sun Co.***	***Moon Co. Rs.***	***Rs.***
Share capital: '			Sundry assets	1,00,000	2,70,000
Equity shares			Shares in the		
of Rs. 10 each	2,50,000	2,00,000	Moon Co. Ltd.	2,50,000	–
General reserve	50,000	40,000			
Profit & Loss A/c	30,000	20,000			
Creditors	20,000	10,000			
	3,50,000	2,70,000		3,50,000	2,70,000

The Profit & Loss A/c of the Moon Co. Ltd. had a credit balance of Rs. 6.000 onJanuary 1st 1986. The profits of 1986 acquired evenly throughout the year.Prepare the consolidated Balance Sheet as on 31st December 1986.

[Madras, B.Com., (ICE) May 2002]

[Ans: Capital profit — Rs. 56,500; Revenue profit — Rs. 3,500; Minority interest — Rs. 26,000 Goodwill Rs. 19,150; Balance Sheet total — Rs. 3,89,150]

33. The Balance sheets of H Ltd. and S Ltd. on 31.12.95 were as under.

Liabilities	***H Ltd. Rs.***	***S Ltd. Rs.***	***Assets***	***H Ltd. Rs.***	***S Ltd. Rs.***
Acre capital:			Land & Buildings	60,000	–
(shares of			Plant & Machinery	2,00,000	–
Rs. 100 each)	2,00,000	50,000	Stock	40.000	85,000
General reserve	30,000	10,000	Sundry debtors	10,000	30,000
Profit & Loss A/c			Cash at bank	10,000	10,000
Balance on 1.1.95	40,000	20,000	300 shares in		
Profit for 1995	50,000	25,000	S Ltd. at cost	65,000	
Creditors	30,000	30,000	Bills receivable	–	10,000
Bank overdraft	20,000				
Bills payable	15,000				
	3,85,000	1,35,000		3,85,000	1,35,000

Shares were acquired by H Ltd. on 1st July 1995. Bills receivable held by S Ltd. are all accepted by H Ltd. Included in the debtors of S Ltd. is Rs. 6,000 owed by 11 Ltd. in respect of goods supplied.Prepare the consolidated Balance Sheet.

[Madras, B.Com (AF) Ap. 2008; B.C.S. Opt. 2002]

[Ans: Capital profit Rs. 42,500; Revenue profit — Rs. 12,500; Minority interest — Rs. 42,000; Goodwill — Rs. 9,500; Consolidated Balance Sheet total — Rs. 4,48,500]

34. The following are the Balance Sheets of the Sun Ltd. and Moon Ltd. as on Dec. 31, 1996.

Liabilities	***Sun Ltd. Rs.***	***Moon Ltd. Rs.***	***Assets***	***Sun Ltd. Rs.***	***Moon Ltd. Rs.***
Share capital			Fixed assets	1,95,000	70,000
Shares of					
Rs. 10 each	2,00,000	50,000	*Investments:*		
general reserve	50,000	20,000	Shares in Moon Ltd.	60,000	–

P & L A/c balance 1.1.96	30,000	7,500	Debtors	35,000	25,000
			Other current assets	60,000	12,500
Profit for the year 1996	50,000	20,000			
Creditors	20,000	10,000			
	3,50,000	1,07,500		3,50,000	1,07,500

(a) Sun Ltd. purchased on July 1, 1996 4,000 shares in Moon Ltd. at Rs. 15 each.

(b) Stock in Moon Ltd. includes Rs. 7,500 worth of goods purchased from Sun Ltd. which company sells goods at 25% above cost.

(c) Creditors of Moon Ltd. include Rs. 5,000 due to Sun Ltd. Prepare a consolidated Balance Sheet as on December 31.1996.

[Madras, B.Com (AF)Ap 2009]

[Ans: Capital profits - Rs. 37,500; Revenue profits -,Rs. 10,000; Minority interest - Rs. 19,500; Capital reserve - Rs. 10,000; Balance Sheet total - Rs. 3,91,000; Provision for unrealized profit - Rs. 1,500]

35. H Ltd. acquired all the shares in S Ltd. on 1.10.95 and the Balance Sheets of the two companies on 31.12.1995 were as follows:

Liabilities	II Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital	50,000	30,000	Sundry assets	65,000	70,000
General reserve			Shares in		
(1.1.95)	20,000	15,000	S Ltd. at cost	50,000	-
Profit & Loss A/c	25,000	10,000			
Creditors	20,000	15,000			
	1,15,000	70,000		1,15,000	70,000

profit and Loss A/c of S Ltd. had a credit balance of Rs. 3.000 on 1.1.95. The profit of S Ltd. accrued evenly through the year.Prepare consolidated Balance Sheet as on 31.12.95.

[Madras, B.Com (PZ4A) B.A. Corp. March 2001(old)]

[Ans: Capital profit — Rs. 23,250; Revenue profit — Rs. 1,750; Capital reserve — Rs. 3,250; Balance sheet total — Rs. 1,35,000]

36. The following are the Balance Sheets of P Ltd. and N Ltd. as at 31.3.1997.

Liabilities	**P Ltd. Rs.**	**N Ltd. Rs.**	**Assets**	**P Ltd. Rs.**	**N Ltd. Rs.**
Share capital (Rs. 10 each)	3,00,000	2,00,000	Fixed assets	2,50,000	1,30,000
Capital reserve	50,000	–	Goodwill	–	30,000
General reserve	40,000	30,000	Current assets	70,000	1,40,000
Profit & Loss A/c	60,000	40,000	Shares in		
Creditors	50,000	30,000	N Ltd. at cost	1,80,000	—
	5,00,000	3,00,000		5,00,000	3,00,000

P Ltd. acquired 75% of the shares in N Ltd. on 1.7.96. In the case of N Ltd., profit made during the current year is 40,000 and transfer to reserve is Rs. 10.000.Draft a consolidated Balance Sheet of P Ltd. and its subsidiary N Ltd.

[Madras, 1st M.Com Oct. 2008]

[(Ans:.Capital profit — Rs. 40,000; Revenue profit — Rs. 30,000; Minority interest — Rs. 67,500; Cost of control — nil; Goodwill in Balance Sheet — Rs. 30,000; B/S total — Rs. 6,20,000)

[Hint: Assume transfer to reserve as a part of current year profit of Rs. 40,000.]

UNIT – 14

DOUBLE ACCOUNTING SYSTEM

Double Accounting System – Advantages – Disadvantages - Difference between Double accounts system and single accounting system - Replacement of asset - Final accounts of Electricity Companies

Double account system is a system of presenting the final accounts of Public utility concerns like Electricity, Railways and Gas. They need huge amount of fixed capital. They raised it from the public by way of selling securities. So they have to disclose the full details regarding rising of funds and how they are utilized.

14.1 ADVANTAGES OF DOUBLE ACCOUNT SYSTEM

1. Capital account

The preparation of Receipts and Expenditure on capital a/c explains how funds are raised and the purpose for which they are applied

2. Replacement of fixed assets

Every year amount of depreciation on fixed asset is maintained in a separate account namely depreciation reserve account. It is easy to replace the fixed assets by using that reserve amount.

3. Operating and non-operating activities

Operating and non-operating activities can be compared easily because they are recorded separately in revenue and net revenue a/c respectively

4. Control over current assets and liabilities

Only current assets and current liabilities are given in general balance sheet. So we can have a control over them.

5. Service at reasonable cost

By preparing final accounts, a Public utility concern ensures that they render service at reasonable cost.

14.2 DISADVANTAGES OF DOUBLE ACCOUNT SYSTEM

1. It is not prudent to show the fixed assets at cost price. The balance sheet will not disclose correct financial position of electricity companies as on a particular date.
2. Ordinary public cannot easily understand the final accounts of Electricity companies.
3. It is impossible to find the exact amount required for replacement of fixed asset.

14.3 DIFFERENCE BETWEEN DOUBLE ACCOUNTS SYSTEM AND SINGLE ACCOUNTING SYSTEM

Basis	Single accounting system or Double entry system	Double accounting system
Meaning	Single accounting system involves preparation of financial statements and one balance sheet	Double accounting system involves preparation of financial statements and balance sheet in two parts
Final accounts	Final accounts consists of trading, P & L a/c and balance sheet	Final accounts consists of revenue a/c, net revenue a/c, receipts and expenditure on capital a/c and general balance sheet
Content of balance sheet	Both fixed and current assets and liabilities are given	Fixed assets and fixed liabilities are recorded in receipts and expenditure on capital a/c and current assets and current liabilities are given in general balance sheet
Purpose of balance sheet	To know the financial position as on a particular date	To know the sources in which funds are raised and the purpose for which they are invested
Usage of the words To and By	In balance sheet we never use the words To or By in liability side and assets side respectively	We use the words To and By in liability side and assets side in both receipts and expenditure on capital a/c and general balance sheet
Value of fixed assets	Fixed assets are shown in reduced valued in every year i.e. depreciation should be deducted.	Fixed assets are shown in cost price only. Depreciation amount is recorded in a reserve a/c which is shown in liability side.

14.4 REPLACEMENT OF ASSET

I. Calculation of Estimated Cost:

Original cost of old work	xxx
Add: Increases if any	xxx
Estimated cost	xxx

II. Amount to be capitalized:

Actual cost of new work	xxx
Less: Estimated cost	xxx
Capitalized amount	xxx

III. Amount to be taken to revenue account:

Estimated cost of old assets		xxx
Less: Materials sold	xxx	
Materials reused	xxx	xxx
Revenue account		xxx

Journal Entries

<table>
<tr><td colspan="2">1.For amount spent on new work:
New works a/c Dr (Capitalized amount)
Replacement a/c Dr (Estimated cost)
To Bank a/c</td></tr>
<tr><td>2.For sale of old materials:
Bank a/c Dr
To Replacement a/c</td><td>3.For value of old materials reused:
New works a/c Dr
To Replacement a/c</td></tr>
<tr><td colspan="2">4.For amount taken to revenue a/c:
Revenue a/c Dr
To Replacement a/c</td></tr>
</table>

Illustration -1 A power house was originally built for ₹8,00,000 is to be replaced by a new one. The total cost of construction is ₹28,00,000. The estimated cost of construction of the original size power is ₹12,00,000. Materials used in new construction is ₹40,000 and old materials worth ₹20,000 are sold.

Prepare a statement showing allocation between capital and revenue expenditure and pass necessary journal entries.

Solution

Estimated cost – ₹12,00,000

Capitalized amount

Cost of new work	₹28,00,000
(-) Estimated cost	₹12,00,000
Capitalized	₹16,00,000

Revenue amount

Estimated cost		₹12,00,000
(-) Materials sold	₹20,000	
Materials reused	₹40,000	₹60,000
	Revenue	₹11,40,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	16,00,000	
Replacement a/c	Dr	12,00,000	
To Bank a/c			28,00,000
(Being amount spent on new work)			
Bank a/c	Dr	20,000	
To Replacement a/c			20,000
(Being sale of old materials)			
New works a/c	Dr	40,000	
To Replacement a/c			40,000
(Being value of old materials reused)			
Revenue a/c	Dr	11,40,000	
To Replacement a/c			11,40,000
(Being amount taken to revenue a/c)			

Illustration -2 Indian gas company rebuilt and reequipped part of their works at a cost ₹50,00,000. The part of old works, thus superseded cost ₹30 lacs. The capacity of the new work is double the capacity of the old. ₹2.50,000 is realized by the sale old materials and the old materials worth ₹1,50,000 are used in the construction of new work in addition to the total cost of ₹50,00,000 mentioned above. The cost of material is increased by 25% now then when the old work was built.

Journalize.

Solution

Estimated cost

Original cost	₹30,00,000
Add: 25%	₹7,50,000
Estimated cost	₹37,50,000

Capitalized amount

Cost of new work	₹50,00,000
(-) Estimated cost	₹37,50,000
	₹12,50,000

Revenue amount

Estimated cost		₹37,50,000
(-) Material sold	₹2,50,000	
Materials reused	₹1,50,000	₹4,00,000
		₹33,50,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	12,50,000	
Replacement a/c	Dr	37,50,000	
To Bank a/c			50,00,000
(Being amount spent on new work)			
Bank a/c	Dr	2,50,000	
To Replacement a/c			2,50,000
(Being sale of old materials)			
New works a/c	Dr	1,50,000	
To Replacement a/c			1,50,000
(Being value of old materials reused)			
Revenue a/c	Dr	33,50,000	
To Replacement a/c			33,50,000
(Being amount taken to revenue a/c)			

Illustration -3 The Tamil Nadu Electricity Ltd. decides to replace one of its old plants with modern one with a larger capacity. The plant when installed in 1980 cost the company is ₹24,00,000, the components of materials, labour and overhead being in the ratio 5:3:2. It is ascertained that the cost of material and labour have gone up by 40% and 80% respectively. The proportion of overheads to total cost is expected to remain the same as before. The cost of new plant as per impressed design is ₹60,00,000 and in addition materials recovered from the old plant of the value of ₹2,40,000 has been used in the construction of new plant. Old plant was scrapped and sold for ₹7, 50,000.

Journalize.

Solution

	Cost of exiting plant ₹	Increase in %	Current cost ₹
Material (5/10)	12,00,000	40%	16,80,000
Labour (3/10)	7,20,000	80%	12,96,000
Total	19,20,000		29,76,000
Overhead (2/10)	4,80,000	19,20,000 = 4,80,000 29,76,000 = ?	7,44,000
Total	24,00,000		37,20,000

Capitalized amount

Cost of new work	₹60,00,000
(-) Estimated cost	₹37,20,000
	₹22,80,000

Revenue amount

Estimated cost		₹37,20,000
(-) Material sold	₹2,40,000	
Materials reused	₹7,50,000	₹9,90,000
		₹27,30,000

Journal entries

Particulars	**LF**	**Debit ₹**	**Credit ₹**
New works a/c	Dr	22,80,000	
Replacement a/c	Dr	37,20,000	
To Bank a/c			60,00,000
(Being amount spent on new work)			
Bank a/c	Dr	7,50,000	
To Replacement a/c			7,50,000
(Being sale of old materials)			
New works a/c	Dr	2,40,000	
To Replacement a/c			2,40,000
(Being value of old materials reused)			
Revenue a/c	Dr	27,30,000	
To Replacement a/c			27,30,000
(Being amount taken to revenue a/c)			

Final Accounts of Electricity Company

1. Revenue Account

Particulars	Amount	Particulars	Amount
To Cost of generation	xxx	By Sale of energy for light	xxx
" Cost of distribution	xxx	" Sale of energy for power	xxx
" Rent, rates & taxes	xxx	" Sale of energy under public Contracts	xxx
" Management exp.	xxx	" Public lights	xxx
" Law charges	xxx	" Rent receivable	xxx
" Depreciation	xxx	" Transfer fees	xxx
" Bad debts	xxx	" Other incomes	xxx
" Bal. transferred to net revenue a/c (b/f)	xxx	" Reconnection & disconnection fees	xxx
		" Sale of assets	xxx
		" Meter rent	xxx
		" Sale of current	xxx
	xxx		xxx

2. Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	xxx	By Balance from revenue a/c	xxx
" Interim dividend	xxx	" Interest on bank a/c	xxx
" Interest on security deposits	xxx	" Interest on calls in arrears	xxx
" Interest on fixed loan	xxx	" Govt. Subsidiary	xxx
" Transfer to contingency reserve	xxx	" Interest earned	xxx
" Tariff and dividend control reserve	xxx		
" Income tax	xxx		
" Bal. carried to General B/S (b/f)	xxx		
	xxx		xxx

3. Receipts and Expenditure on Capital a/c

Expenditure	Last year	CY	Total	Receipts	Last year	CY	Total
To Building	xxx	xxx	xxx	By Share capital	xxx	xxx	xxx
“ Machinery	xxx	xxx	xxx	“ Debentures	xxx	xxx	xxx
“ Land	xxx	xxx	xxx	“ Share premium	xxx	xxx	xxx
“ Mains	xxx	xxx	xxx				
“ Meters	xxx	xxx	xxx				
Total	xxx	xxx	xxx	Total	xxx	xxx	xxx
Bal. to General B/S (b/f)			xxx	Bal. to General B/S (b/f)			xxx
			xxx				xxx

4. General Balance Sheet

Liabilities	Amount	Assets	Amount
Total of receipts	xxx	Total of expenditures	xxx
Net revenue a/c balance	xxx	Stores on hand	xxx
Depreciation fund	xxx	Debtors	xxx
Creditors	xxx	Cash at bank	xxx
Bills payable	xxx	Bills receivable	xxx
Bank overdraft	xxx		
	xxx		xxx

14.5 FINAL ACCOUNTS OF ELECTRICITY COMPANIES

Some of the important provisions of the electricity (supply) act of 1948 which have a bearing on the preparation of final accounts are discussed below:

1. Depreciation

1. There are two methods of depreciation are recognized. They are the compound interest method and straight line method.
2. Depreciation is not provided of the asset has been written down to 10% of its original cost.
3. When a fixed asset is discarded, the written down value of the asset is transferred to discarded asset account. Any profit or loss in discarding is transferred to contingency reserve account.

2. Reasonable return

The law is not allowing electricity undertaking to earn too high profit. But a reasonable return is permitted.

Reasonable return =	An yield at standard rate (*reserve bank rate + 2% on capital base*) + income derived from investment + an amount equal to ½% on loans + an amount equal to ½% on development reserve + ½% on debentures.

3. Computation of capital base

Add:

a) Original cost of fixed assets

b) Cost of intangible assets

c) Original cost of works in progress

d) Amount of investments against contingency reserve

e) Monthly average of the stores, materials, supplies and cash and bank balances.

Less:

a) Amounts written off for depreciation

b) Loans advanced by the board

c) Debentures

d) Security deposits of consumers

e) Amount in the credit of tariff and dividends control reserve.

f) Amount set apart for development reserve.

g) Balance in consumers benefit reserve.

4. Clear profit

Clear profit means the difference between the total income and the total expenditure and specific appropriations.

5. Disposal of surplus

Surplus = clear profit – reasonable return

Surplus has to be disposed as under:

1. 1/3 of the surplus not exceeding 5% of the reasonable return is at the disposal of the undertaking.
2. Of the balance, ½ is transferred to tariffs and dividends control reserve.
3. The remaining balance is distributed among consumers.

6. Contingency reserve

This reserve is created by transferring from the revenue account an amount equivalent to minimum ¼% to maximum ½% of the original cost of the fixed assets. This reserve is created until it equals 5% of the original cost of the fixed assets.

Illustration -4 The following balances extracted from the books of City Light Supply Corporation Ltd. as on 31.3.16. Prepare capital account, revenue account, net revenue account and general balance sheet.

Particulars	**Debit `**	**Particulars**	**Credit `**
Capital Expenditure 31.3.2015	2,85,000	Equity shares	1,64,700
Capital Expenditure 2015-16	18,300	Debentures	60,000
Debtors for current supplied	12,000	Sundry Creditors	300
Other debtors	150	Depreciation account	75,000
Stores on hand	1,500	Sale of Current	39,000
Cash	1,500	Meter Rent	1,500
Cost of generation of electricity	9,000	Balance of Net Revenue account as on 31.3.2015	8,550
Cost of distribution of electricity	1,500		
Management Expenses	3,600		
Rent	1,500		
Depreciation	6,000		
Interest on debentures	3,000		
Interim dividend	6,000		

Solution

Revenue Account

Particulars	**Amount**	**Particulars**	**Amount**
To Cost of generation of electricity	9,000	By Sale of Current	39,000
“ Cost of distribution of electricity	1,500	“ Meter Rent	1,500

“ Management Expenses “ Rent “ Depreciation “ Bal. to Net revenue a/c	3,600 1,500 6,000 18,900		
	40,500		40,500

Net Revenue Account

Particulars	**Amount**	**Particulars**	**Amount**
To Interest on debentures “ Interim dividend “ Bal. carried to B/S	3,000 6,000 18,450	By Bal. of net revenue a/c “ Bal. from revenue a/c	8,550 18,900
	27,450		27,450

Receipts and Expenditure on Capital Account

Exp.	**Last**	**Current**	**Total**	**Receipts**	**Last**	**Current**	**Total**
Capital Exp.	2,85,000	18,300	3,03,300	Equity shares Debentures	1,64,700 60,000	--- ----	1,64,700 60,000
			3,03,300				2,24,700

General Balance Sheet

Liabilities	**Amount**	**Assets**	**Amount**
Sundry Creditors Depreciation account Total of receipts side Bal. from net revenue a/c	300 75,000 2,24,700 18,450	Total of Exp. Debtors for current supplied Other debtors Stores on hand Cash	3,03,300 12,000 150 1,500 1,500
	3,18,450		3,18,450

Illustration -5 The following balances are extracted from the books Sakthi Ltd. on 31st March 2016.

Debit balances	**Amount in ₹**	**Credit balances**	**Amount in ₹**
Land on 1-4-2015	60,000	Ordinary share capital	2,19,600
Land purchased during the year	2,000	Debentures	80,000

Machinery on 1-4-2015	2,40,000	Creditors	400
Machinery purchased during the year	2,000	Depreciation provision	1,00,000
Main on 1-4-2015	80,000	Sale of current	52,000
Main expanded during the year	20,400	Rent of motors	2,000
Debtors for current supplied	16,000	Net revenue a/c on 1-4-15	11,400
Other debtors	200		
Cash	2,000		
Cost of generation of electricity	14,000		
Cost of distribution of electricity	2,000		
Rent and taxes	2,000		
Administrative expenses	4,800		
Depreciation	8,000		
Interest on debentures	4,000		
Interim dividend paid	8,000		
	4,65,400		4,65,400

Prepare capital a/c, general balance sheet, revenue a/c and net revenue a/c.

Solution

Revenue Account

Particulars	**Amount**	**Particulars**	**Amount**
To Cost of generation of electricity	14,000	By Sale of current	52,000
" Cost of distribution of electricity	2,000	" Rent of motors	2,000
" Rent and taxes	2,000		
" Administrative expenses	4,800		
" Depreciation	8,000		
" Bal. carried to net revenue a/c (b/f)	23,200		
	54,000		54,000

Net Revenue Account

Particulars	Amount	Particulars	Amount
To Interest on debentures	4,000	By Bal. b/d	11,400
" Interim dividend paid	8,000	" Bal. from revenue a/c	23,200
" Bal. carried to B/S (b/f)	22,600		
	34,600		34,600

Receipts and Expenditure on Capital Account

Expenditure	Last	Current	Total	Receipts	Last	Current	Total
Land	60,000	2,000	62,000	Eq. shares	2,19,600	–	2,19,600
Machinery	2,40,000	2,000	2,42,000	Debentures	80,000	–	80,000
Main	80,000	20,400	1,00,400				
Total	3,80,000	24,400	4,04,400	Total	2,99,600	–	2,99,600
				Bal.	80,400	24,400	1,04,800
	3,80,000	24,400	4,04,400		3,80,000	24,400	4,04,400

General Balance Sheet

Liabilities	Amount	Assets	Amount
Total of capital receipts	2,99,600	Total of capital Expenditures	4,04,400
Creditors	400	Drs for current	16,000
Net revenue a/c bal.	22,600	Other debtors	200
Depreciation fund a/c	1,00,000	Cash	2,000
	4,22,600		4,22,600

Disposal of Profits

Illustration - 6

The following balances relate to an electricity company and pertain to its accounts for the year ended 31.12.2013.

Share capital	1,00,00,000
Reserve Fund (invested in 5% Govt. securities at par)	60,00,000
Contingencies Reserve (Invested in 6% State Govt.Loan)	20,00,000
Loan from State Electricity board	30,00,000
11% Debentures	8,00,000
Development Reserve	10,00,000
Fixed Assets	20,00,000
Depreciation Reserve on Fixed Assets	80,00,000
Consumer Deposits	75,00,000
Amount Contributed by consumers towards cost of Fixed assets	
Intangible assets	2,00,000
Tarrifs and Dividends control reserve	5,00,000
Current Assets (Monthly average)	6,00,000
	20,00,000

The company earned a profit of Rs.9 lakhs. Show how the profits of the company will be delat with under the provisions of the electricity act, assuming that the bank rate during the year was 8%. All working should form part of your answer.

Solution:

I Computation of Capital Base:		
Fixed assets		2,00,00,000
Intangible Assets		5,00,000
Monthly Average of Current Assets		20,00,000
Investments against Contingency reserve		20,00,000
		2,45,00,000
Less:		
Depreciation reserve	80,00,000	
Loan from state electricity board	30,00,000	
11% Debentures	8,00,000	
Development Reserve	10,00,000	
Consumer deposits	75,00,000	
Amount Contributed by Customers	2,00,000	
Tarrifs and dividend control Reserve	6,00,000	
		2,11,00,000
Capital base		34,00,000

II Computation of Reasonable return:	
Return on capital base @ 10%	
(ie RBI Rate 8% + 2%)=10% × 34,00,000	
Return on reserve fund Investment	3,40,000
(60,00,000 × 5%)	
½ on Electricity Board Loan	3,00,000
(30,00,000× ½%)	
½ % on debentures (8,00,000 × ½ %)	15,000
½% On development Reserve (10,00,000 × ½%)	4,000
Reasonable return	5,000
	6,64,000
III Computation of surpklus and Amount Refundable to consumers:	
Clear profit (Given)	
Less: Reasonable Return	9,00,000
Surplus	6,64,000
Less: 20% of Reasonable return	
(6,64,000 × 20%)	2,36,000
Amount Refundable to customers	1,32,800
IV Computation of Disposal of balance surplus of Rs.1,32,800	1,03,200
A. Availablity to the company for its disposal: 1/3 ×1,32,800 or 5% of Reasonable Return Whichever is less (6,64,000×5%) 44,267 (or) 33,2000 (W.E.L)	
B. Credited to tariffs and Dividend Control Reserve (1,32,800-33,200): 99,600×1/2	33,200
C. Credited to consumers benefit Reserve (1,32,800-33,2000)= 99,600×1/2	49,800
	1,32,800
Total	
V Computation of total amount at the disposal of the company:	
Reasonable return	6,64,000
Add: Share in surplus	33,200
	6,97,200

MULTIPLE CHOICE QUESTIONS WITH ANSWERS

1. Under double accounts system, ------ are recorded in general balance sheet
   a) **Current assets and current liabilities**
   b) Fixed assets and fixed liabilities
   c) Fixed liabilities and current liabilities
   d) Fixed assets and current assets

2. Under double accounts system, fixed assets and fixed liabilities are recorded in ---------
   a) General balance sheet b) **Receipts and Expenditure on Capital a/c**
   c) Revenue a/c d) Net Revenue a/c

3. Revenue a/c is just like -------
   a) **P & L a/c** b) P & L Appropriation a/c
   c) Net revenue a/c d) Balance sheet

4. Net Revenue a/c is just like -------
   a) P & L a/c b) **P & L Appropriation a/c**
   c) Net revenue a/c d) Balance sheet

5. Under double accounts system, fixed assets are shown at
   a) **Cost price** b) Depreciated price
   c) Realized value d) Market value

6. Interest on loan appears on
   a) General balance sheet b) Receipts and Expenditure on Capital a/c
   c) Revenue a/c d) **Net Revenue a/c**

7. Balance of net revenue a/c is transferred to
   a) **General balance sheet** b) Receipts and Expenditure on Capital a/c
   c) Revenue a/c d) Net Revenue a/c

8. When old materials are sold ------- a/c is to be credited
   a) Bank b) **Replacement**
   c) New works d) Materials

9. Balance if any on replacement a/c is transferred to
   a) General balance sheet b) Reserve a/c
   c) **Revenue a/c** d) Net Revenue a/c

10. Cost of license is shown in the
    a) General balance sheet
    b) Receipts and Expenditure on Capital a/c
    c) Revenue a/c
    d) Net Revenue a/c

11. Cost of new work ₹3,00,000; Estimated cost Rs.1,00,000; Find the amount to be capitalized
    a) ₹4,00,000
    b) **₹2,00,000**
    c) ₹1,00,000
    d) ₹3,00,000

12. Amount to be taken to revenue a/c is equal to
    a) Estimated cost
    b) Estimated cost plus sale of old materials
    c) **Estimated cost minus old materials reused**
    d) Estimated cost plus old materials reused

13. Estimated cost is equal to
    a) Cost of old work
    b) Cost of new work
    c) **Cost of old work with adjustments if any**
    d) Cost of new work with adjustments if any

14. In general balance sheet, depreciation is recorded in
    a) Assets side
    b) **Liability side**
    c) Receipts side Expenditure side
    d) Less from assets

15. The way of presentation of balance sheet in the form of a capital account and a general balance sheet is known as
    a) Double entry system
    b) **Double accounting system**
    c) Single accounting system
    d) Single entry system

16. The original cost of an asset is ₹1,00,000. Present cost of replacement is ₹1,30,000. Amount spent on replacement is ₹1,52,000. The amount chargeable to revenue will be
    a) ₹30,000
    b) **₹22,000**
    c) ₹52,000
    d) ₹12,000

17. Under double accounts system interest is debited in
    a) Revenue account
    b) **Net revenue account**
    c) General balance sheet
    d) P & L a/c

18. Under double accounts system, the account prepared to find out profit is
    a) **Revenue account**
    b) General balance sheet
    c) P & L a/c
    d) Trading account

19. The difference between the replacement cost and sale price of goods is ---------

    a) Holding gain   b) Operating gain

    c) Capital gain   d) Revenue gain

20. Under double accounts system interest is debited in

    a) Revenue a/c   **b) Net revenue a/c**

    c) General balance sheet   d) P & L a/c

21. Under double accounts system to find out the profit the a/c prepared is

    a) Revenue a/c   b) Trading a/c

    c) General balance sheet   d) P & L a/c

22. Under double account system, the P & L a/c is termed as --------

    a) Income and Expenditure a/c   b) Net revenue a/c

    c) Revenue a/c   d) Capital a/c

23. When an asset is replaced, any amount realized on sale of old materials will be

    a) Credited to replacement a/c   b) Credited to asset a/c

    c) Credited to revenue a/c   d) Debited to revenue a/c

24. Preliminary expenses is shown on

    a) Asset side in the general balance sheet

    b) Debit side of net revenue a/c

    c) Debit side of the receipts and expenditure a/c

    d) Credit side of the receipts and expenditure a/c

REVIEW QUESTIONS

A) Answer in short

1. What is called double account system?
2. Write any two advantages of double account system.
3. What are the limitations of double account system?
4. How do you compute the amount to be charged to revenue account in case of replacement of an asset?
5. State the rules relating to calculation of reasonable return.
6. What are the provisions relating to 'Disposal of surplus?

B) Answer in detail

1. Explain how will you calculate the value of replacement of asset.
2. Distinguish double account system from single account system.
3. Discuss the advantages and disadvantages of double account system.
4. Bring out the format of “Revenue a/c” of an electricity supply company.
5. Explain how depreciation is treated under the double account system.
6. Briefly explain the provisions relating to reasonable return and disposal of surplus of an electric supply company.
7. Write short notes on
   - i. Clear profit
   - ii. Contingency reserve
   - iii. Capital base

EXERCISES

REPLACEMENT OF ASSET

1. A water supply concern had to replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was ₹8,00,000; the auxiliary main cost ₹9,00,000 and the new main cost ₹3,50,000. It is estimated that cost of laying a main has gone up by 30%. Parts of the old main realized ₹15,000.

   Pass the necessary journal entries to record the above transactions.

2. Milan Co. Ltd. rebuilds its works at a cost of ₹3,30,000. In the process, it completely replaces a part of the old works which had cost ₹1,30,000. In constructing the new works old materials worth `4,600 has been used and the value is included in the cost of new works. The balance of the materials resulting from the old works which are replaced is sold for ₹8,400. In the case of works which are replaced the cost of materials was 70% and of labour 30% and the present cost of material and labour have increased by 12% and 15% respectively.

   Assuming the accounts are maintained under the double account system determines the amount to be capitalized and the net charge to revenue and pass journal entries.

3. A railway station was built in 2001 at a cost of ₹3,00,000. It was replaced in 09 by a new railway station at a cost of ₹16,00,000. Since 2001 prices of materials have raised by 150% and labour rates have tribled. The proportion of materials and labour in the old station was 2:3. Old

materials valued at ₹25,000 are used in the construction of new station and included in the cost of ₹16,00,000. ₹42,000 are realized by the sale of old material.

Give journal entries for recording the above transactions.

4. An Electric Supply Co. rebuilds its main at a cost of ₹19,90,000. This excluded value of ₹13,800 material used for new one. The original mains were constructed at a cost of ₹9,90,000. The ratio of material and labour then was 7:3. The increase in material price is 12.5% and wage rates 15%. Materials worth ₹22,200 from old works were sold.

   Show journal entries and prepare works and replacement account under double account system for the above and determine net replacement cost.

5. Electricity Company decides to replace one of its plants with a modern one with a large capacity. The plant when installed in 1970 costs the company ₹12 Lakhs, the components of materials, labour and overheads being 5:3:2. It is assumed that the cost of materials and labour have gone up by 40% and 80% respectively. The proportion of the new plant as per improved design is ₹30 Lakhs and in addition material recovered from the old plant of a value of ₹1,20,000 has been used in the construction of the new plant. The old plant was sold for ₹3,75,000.

   Indicate how much would be capitalized and the amount that would be charged to revenue. Show journal entries.

6. A gas company laid down a main at a cost of ₹15,00,000. Some years later, an auxiliary main was laid for a quarter of the length of the old main at a cost of ₹5,00,000 and replaced the rest of the main at a cost of ₹18,00,000, the cost of laying the main having increased by 20% in the meanwhile. Old material of the value of ₹1,00,000 was used in replacing and is included in the cost of ₹18,00,000 and old material sold fetched ₹1,50,000.

   Give journal entries to record the above in the books of the company and give the principle on which allocation between capital and revenue is made.

7. An electricity company laid down a main at a cost of ₹2,50,000. Some years later, the company laid down an auxiliary main for 1/5th of the length of the old main at a cost of ₹75,000 and also replaced the rest of the length of the old main at a cost of ₹3,00,000. Sale of old materials realized ₹4,000. Old materials valued at ₹5,000 were used in the construction of the auxiliary main.

   Calculate revenue and capital expenditure incurred from the above transaction.

8. The Indian Gas company rebuilt their works with double the capacity at a cost of ₹8,00,000. The cost of the part of old works was ₹3,50,000. In working the new works, old material of ₹15,000 was reused and materials worth ₹25,000 were sold away. The cost of labour and materials are 50% higher now than when the old works were built.

   Pass necessary journal entries.

9. An electric company laid a main at a cost of ₹50 Lakhs. Some years later, the company laid down an auxiliary main for 1/5 of the length of the old main at a cost of ₹15 Lakhs. It also replaced the rest of the length of the old main at a cost of ₹60 Lakhs. The cost of materials and labour having gone up by 15% sale of old materials realized ₹80,000 old materials is valued at ₹1,00,000 were used in renewal and those valued at ₹50,000 were used in the construction of auxiliary main.

   You are required to give the journal entries for recording the above transactions.

10. The directors of the New Cinema Ltd., having received complaints from their engineer regarding the defective audiography of their cinematographic machinery decided to replace it by one of greater capacity and power. The old machinery was obtained at the cost of ₹20,000/- but the cost has in the meantime increased by 50% in the aggregate. The estimated cost of the new machinery ₹50,000/- and the old machinery would realise ₹5,000 only.

    You are required to allocate the cost of ₹50,000/- between capital and revenue expenditure and to give the necessary journal entries for recording the above transactions in the books of the company.

11. An Electric Supply Co. rebuilds its Mains at the cost of ₹19,90,000/- This includes value of ₹13,800/- Material of old Main used for new one. The original Mains were constructed at a cost of ₹9,90,000/- The ratio of material and labour was 7:3. The increase in material prices is 12.5% and wage rates 15%. Materials worth ₹25,200/- from old works were sold.

    Show journal entries under Double Account System for the above and determine the net cost of replacement.

12. The Calcutta Electric Co. Ltd. decides to replace a plant which was constructed 20 years back at the cost of ₹15,00,000 by an improved one. The cost of the new plant is ₹65,00,000. Materials of the old plant valued at ₹1,00,000 are used in the reconstruction and included in the cost of ₹65,00,000. Balance of the materials of the old plant is disposed of for ₹50,000. The estimated cost of constructing a plant of the original size and capacity is ₹25,00,000.

    Show how the expenditure should be apportioned between capital and revenue.

13. Kalyani Water Works Co. Ltd. Decides to replace an old plant with a modern one with larger capacity. The cost of the plant when installed in 1970 was ₹24,00,000 the components of materials, labour and over heads being in the ratio 5:3:2. It is ascertained that the costs of materials and labour have gone up by 40% and 80% respectively. The proportion of overheads to total cost is expected to remain the same as before.

    The cost of the new plant as per improved design is ₹60,00,000 and in addition, materials of the old plant worth ₹2,40,000 have been used in the construction of the new plant. The old plant was scrapped and sold for ₹7,50,000. The accounts of the company are maintained under Double Account System.

    Determine the about to be capitalised and the amount to be charged to revenue. Also Show the Journal Entries.

14. Calcutta Gas Co. Ltd. rebuilds its works at the cost of ₹3,30,000. In the process, it completely replaces a part of the old works which had cost ₹1,30,000, In constructing the new works, old materials worth ₹4,600 have been used and the value is included in the cost of the new works. The balance of the materials resulting from the old works, which are replaced, is sold for ₹10,000. In the cost of the works which are replaced, the cost of material was 70% and of labour 30% and the present cost of material and labour have increased by 12.5% and 15% respectively.

    Assuming the accounts are maintained under Double Account System, determine the amount to be capitalised and the net charge to revenue.

15. The National Gas Co. Ltd., incurred an expenditure of ₹7,70,000/-to rebuild and re-equip a part of their works. The part of the old works thus superseded cost originally ₹3,00,000/- The capacity of the new works is double the capacity of the old one. A sum of ₹60,000 is realised by sale of the old materials; and old materials of the value of ₹30,000/- are further used in the construction of the new works. The cost of materials and labour has gone up by 30% and 20% respectively since the old works were built. The cost constitutes 3/5th materials and the balance labour.

    Give journal entries to record the above transaction.

16. The Oriental Gas Co. Ltd. incurred an expenditure of ₹23,10,000/- to re-build a part of their works. The relevant part of the old works had cost originally ₹9,00,000/- The capacity of the new works is double the capacity of the old one. A sum of ₹1,80,000/- is realised by the sale of old materials; and old materials of the value of ₹90,000 are further used in the construction of the new works. The cost of materials and labour has gone up by 30% and 20% respectively since the old works were built. The cost constitutes 3/5th for materials and the balance for labour.

    Show journal entries to record the above transactions.

17. An electricity company laid down a main at a cost of ₹5,00,000. Some years later, the company laid down an auxiliary main for one-fifth of the length of the old main at a cost of ₹1,50,000. It also replaced the rest of the length of the old main at a cost of ₹6,00,000 the cost of materials and labour having gone up by 15%. Sale of old materials realised ₹8,000/- .Old materials valued at ₹10,000 were used in renewal and those valued at ₹5,000 were used in the construction of the auxiliary main.

    You are required to give the journal entries for recording the above transactions.

18. The ABC Electricity Company decided to replace some parts of its plant by an improved plant, The plant to be replaced was built in 1958 for ₹27,00,000. It is estimated that it would now cost ₹40,00,000 to build a new plant of the same size and capacity. The cost of the new plant as per the improved design was ₹85,00,000 and in addition material belonging to the old plant valued at ₹2,75,000 was used in the construction of the new plant. The balance of the plant was sold for ₹1,50,000.

    Compute the amount to be written off to revenue.

19. An Electricity Company laid down a Main at a cost of ₹16,00,000. Some years later the company laid down an auxiliary Main for one-fourth of the old main at a cost of ₹6,00,000. It also replaced the rest of the length of the old Main at a cost of ₹18,00,000, the cost of material and labour having gone up by 15%. Sale of old materials realised ₹40,000. Old materials valued at ₹40,000 were used in renewal and those valued at ₹60,000 were used in Auxiliary Main.

Show the Journal Entries for recording the above transactions.

PREPARATION OF FINAL ACCOUNTS

20. From the following particulars for the year ended December 31,2015 prepare, under the Double Account System, the (i) Receipts and Expenditure on Capital Account and (ii) General Balance Sheet of an Electric Supply Company.

Debit	**₹**	**Credit**	**₹**
Instruments and Appliances	64,000	Equity shares of ₹1,000 each, ₹800 per share paid up	48,00,000
Freehold Lands	9,00,000	6% Debentures	14,00,000
Plant and Machinery	23,35,000	Depreciation Fund	5,00,000
Mains	4,60,000	Sundry Creditors	1,70,000
Sundry Machine Room Materials	10,000	Balance of Net Revenue Account	6,80,000
Meters	40,000		
Building	12,00,000		
Office Furniture	30,000		
Fuel	45,000		
Sundry Machine Parts	50,000		
Sundry Debtors	3,50,000		
Investments	9,00,000		
Cash in hand and at Bank	7,90,000		
Stock of General Stores	3,76,000		
	75,50,000		75,50,000

21. The following are the balances on 31-12-16 in the books of Dhoopguri Power Supply Co. Ltd.:

Debit	**₹**	**Credit**	**₹**
Land on 31.12.15	3,00,000	Equity share capital	10,98,000
Outlay on land during 2016	10,000	Debentures	4,00,000

Machinery on 31.12.15	12,00,000	Sundry Creditors	2,000
Outlay on Machinery during 2016	10,000	Depreciation Reserve	5,00,000
Mains including cost of laying on 31/12/15	4,00,000	Sale of Current	2,60,000
Outlay on Mains during 16	1,00,000	Rent of Meters	10,000
Sundry debtors for current supplied	80,000	Balance of Net Revenue Account on 31/12/15	57,000
Other debtors	1,000		
Cash	12,000		
Cost of generating electricity	70,000		
Cost of distributing electricity	10,000		
Rent rates and taxes	10,000		
Management expenses	24,000		
Depreciation	40,000		
Interest on Debentures	20,000		
Interim Dividend	40,000		
	23,27,000		23,27,000

From the above Trial Balance, prepare (a) Capital Account, (b) General Balance Sheet, (c) Revenue Account and (d) Net Revenue Account.

22. The following are the balances taken from the books of Guntur Power and Light Company of 31-12-2015 and 31-12-2016.

31-12-15		**Debit (₹)**	**Credit (₹)**
1,00,000	Share capital	–	1,25,000
75,000	Debentures	–	75,000
5,600	Depreciation fund	–	5,000
	Calls in arrears	5,000	–
46,500	Freehold land	46,500	
20,000	Building	25,000	
30,000	Machinery	50,000	
25,000	Mains	40,000	

5,000	Transformer	10,000	
2,500	Meters	7,500	
1,500	Electrical materials	2,000	
10,250	Office furniture	13,000	
	Coal	9,500	
	Oil, fuel	3,750	
	Coal stock	500	
	Repairs	2,500	
	Taxes	1,500	
	Salary	7,500	
	Directors fees	15,000	
	Stationary	3,000	
	Sundry expenses	500	
	Law charges	1,000	
	Sale of meters		43,750
	Meter rent		1,500
	Creditors		5,000
	Debtors	20,000	
	Cash	16,500	
	Sales		25,000
		2,80,250	2,80,250

Depreciation: Building 5%, Machinery 10%, Main 5%, Transformers 10% and Meter 20%.Prepare final accounts.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. Ratnakar Electricity Supply. Co.Ltd (which adopts the double accounting system) rebuilt and reequipped A power station and connecting lines during the year 2004.

   For the purpouse they purchased materials of Rs.10,85,000 and used stores worth Rs. 4,90,000 from their exisisting stock. The cost of Labour came to Rs. 5,22,000. The estimated supervisory overheads attributed to this project were Rs.13,000.the station was erected in 1987 at a cost of Rs.5,00,000 and the index of costs in the line stood in 2004 @385 taking 1987 as the base year. Discarded materials from the Old station fetched Rs.12,000. Show the journal entries to record the entries relating to new station.

   [Madurai, M.Com, Nov,2015]

2. A water supply concern had to replace a quarter of the mains and lay an auxiliary main for the remaining length in order to augment supplies of water to a locality. The total cost of the original main was Rs. 4, 00,000. The auxiliary main cost Rs. 4, 50,000 and the new main cost Rs. 1,75,000. It is estimated that the cost of laying a main has gone up by 30%. Part of the old main realized Rs. 15,000.

   [Madras, B.Com. (CS). Nov. 20081 Bharathiar, B.Com., Nov. 2004

   [Ans : Amount to be charged to revenue Rs. 1,15,000 ; Amount to be capitalized Rs. 4,95,000 (45,000 + 4,50,000)]

3. The Indian Gas company rebuilt their works with double the capacity at a cost of Rs. 8,00,000. The cost of the part of old works was Rs. 3,50,000. In working the new works, old material of Rs. 15,000 was reused and material worth Rs. 25,000 was sold away. The cost of labour and materials are 50% higher now than when the old works were built. You are required to make necessary calculations and give journal entries.

   (Madras, M.Com. (ICE) Oct. 2004;)

   [Ans : Current Replacement cost Rs. 5,25,000 ; Amount to be charged to Revenue Rs. 4,85,000 ; Amount to be capitalised Rs. 2,75,000]

4. The following are the balances as at 31.12.03 in the books if the Utopian Railway Co. Ltd. Make out the Receipts and Expenditure on Capital A/c for the year 2003 and the General Balance Sheet as at 31.12.03.

	Rs.
Traffic accounts due from other Railways	1,31,900
Expenditure on lines open for Traffic	2,88,000
Expenditure on working Stock	96,000
Expenditure on Motor Boats	48,000
Expenditure on docks, harbors and wharves	45,000

Subscription to other companies	30,000
Preference Shares paid up as at 31.12.03	2,55,000
Ordinary Shares paid up as at 1.1.03	2,40,000
Ordinary shares issued in 2003 and paid up	60,000
Premium on shares as at 1.1.03	16,500
Premium on shares received in 2003	6,600
Debentures	99,000
Net Revenue A/c, balance at credit	860
Renewals Reserve A/c	7,500
Sundry creditors	3,750
Cash at bank	4,110
Cash on deposit in bank.	13,500
Investment	8,700
Spares Stock	7,500
Sundry Debtors	16,500

[Madurai, B.Com., Ap 2003]

[Ans : Capital A/c Balance Rs. 1,70,100 ; General Balance Sheet total Rs. 1,82,210]

5. From the following particulars for the year ending 31.12.03, prepare under the Double Account System, the

   a. Receipts and Expenditure on capital, and (ii) General Balance Sheet of an Electric Supply company :

	Debit Balances Rs.	Credit Balances Rs.
Capital : Authorised : 10,000 equity shares of Rs. 1000 each Rs. 1,00,00,000 ; issued, subscribed and paid up : 6000 equity shares of Rs. 1000 each (Rs. 800 per share paid up)		48,00,000
6% Debentures	–	14,00,000
Depreciation Fund	–	5,00,000
Buildings	12,00,000	–
Freehold lands	9,00,000 .	–

Plants & Machinery	23,35,000	–
Mains	4,60,000	–
Sundry Machine Parts	50,000	–
Meters	40,000	–
Instruments and Appliances	64,000	–
Stock and General Stores	3,76,000	–
Office Furniture	30,000	–
Fuel	45,000	–
Sundry machine Room Materials		–
(Lubricants, Jute, Waste, etc.)	10,000	–
Sundry Debtors	3,50,000	–
Sundry Creditors	–	1,70,000
Investments	9,00,000	–
Cash in Hand and at Bank	7,90,000	–
Balance Transferred from Net Revenue A/c	–	6,80,000
	75,00,000	75,50,000

[Periyar,B.Com,2003]

[Ans : Balance of Capital A/c Rs. 7,45,000 ; Total of General Balance Sheet Rs. 75,50,000]

6. From the following as at 31-3-2000, prepare the Revenue A/c. Net Revenue A/c, Capital A/c and General Balance Sheet of KPTC Ltd. :

	Rs.		**Rs.**
Balance as on 1-4-99 :		Expenses of management	14,400
Land	1,80,000	Cost of distribution	6,000
Machinery	7,20,000	Depreciation	24,000
Mains	2,40,000	Sale of Power	1,56,000
Expenditure during the year :		Meter rent	6,000
Land	6,000	Interest on debentures	12,000
Machinery	6,000	Interim dividend	24,000
Mains	61,200	Net Revenue A/c	
Share Capital		as on 1-4-99	34,200

— Ordinary shares	6,58,800	Depreciation fund	3,00,000
Debentures	2,40,000	Sundry Debtors :	
Sundry Creditors	1,200	for energy supplied	48,000
Cost of generation	42,000	for others	600
Rent, Rates and Taxes	6,000	Cash balance	6,000

[Madras, B.Com., April 2000]

[Ans : Revenue A/c Balance Rs. 69,600; Net Revenue A/c Balance Rs. 67,800; Capital A/c Balance Rs. 3,14,400; General Balance Sheet total Rs. 12,67,800]

UNIT – 10

LIQUIDATORS FINAL STATEMENT OF ACCOUNTS

Meaning - Modes of Winding Up- Contributory- Order of Payment- Preferential Creditors- Statement of Affairs- Liquidators Final Statement of Accounts

After completing all legal formalities to close the affairs of the company, a liquidator is appointed. He prepares a statement of affairs which clearly explains the cash available in company and how it should be distributed to all the parties. The available amount should be distributed in a specific order given in the Act.

The liquidator is entitled to receive remuneration for the above work after executing it. The remuneration may be fixed or calculated as a percentage on amount realized on assets and any amount distributed to unsecured creditors.

If the shares are partly paid up, then the balance amount should be received from the shareholders before settling the amount due to them. The surplus amount should be paid first to the equity shares holders to whom the paid up share capital value is more.

10.1 MODES OF WINDING UP

A company may be wound up in any of the following ways:

1. Compulsory winding up by the court.
2. Voluntary winding up without the intervention of the court.
3. Voluntary winding up under the supervision of the court.

1. Compulsory winding up the court

Winding up of a company by an order of the court is called the compulsory winding up. A company may wound up in the following cases:

a) If the company has passed a special resolution to that effect the company is wound up by the court.

b) If default is made in filing statutory reports or in holding statutory meetings.

c) If the company does not commence business within the year from its incorporation or suspends it for a whole year.

d) If the number of members is reduced to below two in the case of private company and below seven in case of public company.

e) If the company is unable to pay its debts.

f) If the court is of the opinion that it is just and equitable that the company be wound up.

2. Voluntary winding up

Voluntary winding up occurs without intervention of the court. Here the company and its creditors mutually settle their affairs without going to the court. Voluntary winding up may be either Members' voluntary winding up or Creditors' voluntary winding up.

a) Members Voluntary winding up

When a company's solvency is declared by the directors in voluntary winding up it is called Members Voluntary winding up. The declaration must specify the directors opinion that the company has no debt or it will be able to its debts in full within three years of the commencement of the winding up.

b) Creditors Voluntary winding up

When a company's solvency is not declared by the directors in voluntary winding up, it is called Creditors voluntary winding up. Hence, the act empowers the creditors dominate over the members in this mode of winding up so as to effectively protect their interest.

3. Winding up subject to supervision of the court

This is voluntary winding up with the supervision of the court. The object of a supervision order is to ensure the protection of interests of all persons concerned i.e., the company, the contributories and the creditors. The court may issue such an order only under the following circumstances:

a. If the resolution for winding up was obtained by fraud by the company;

b. If the rules pertaining to winding up are not being properly adhered to ;

c. If the liquidator is found to be prejudicial or is negligent in releasing the assets of the company.

10.2 CONTRIBUTORY

Contributory is defined as "every person liable to contribute to the assets of a company in the event of its being wound up and includes any holder of shares which are fully paid up".

The term contributory also includes the holder of fully paid shares. A fully paid shares holder is a contributory for some purpose, e.g., where a distribution is to be made to the shareholders.

In the event of a company being winding up, every past and present member shall be liable to contribute to the assets of the company. This contribution is for an amount sufficient for payment of the company's debts and liabilities and the cost and expenses of winding up.

The liability of the contributory is subject to the following limitations:

1. A contributory cannot be asked to pay more than the unpaid value of shares held by him.
2. A past member is not liable to contribute unless the present members have been called upon to contribute to the fullest extent to which they can be so asked.
3. A past member, who has ceased to be member for at least one year before the commencement of the winding up, is not liable to contribute.
4. A past member is not liable in respect of any liability or debt of the company incurred after he ceased to be a member.

10.3 ORDER OF PAYMENT

Payments are made by liquidator in the following order:

1. Secured Creditors

A secured creditor is one who holds some security for a debt due to him from the company, such as pledge, mortgage, charge or lien. Secured creditors may be fully secured or partly secured. If they are fully secured the value of security offered to them would be more than the amount due. But in case of partly secured creditors, the value of security would be less than the amount due to them. In such case, the partly secured creditors are secured to the extent the value of security offered to them. For the remaining balance due to them, they will be treated as unsecured creditors.

2. Legal expenses

All legal expenses are met out of the cash realized.

3. Remuneration of the liquidator

The liquidator gets his remuneration in the form of commission. This is based on the assets realized. Surplus of secured creditors is mostly included in the amount of assets realized for calculation of commission.

1. Expenses and cost of winding up
2. Payment to preferential creditors
3. Payment to debenture holders or other creditors secured by floating charges
4. Payment to unsecured creditors
5. Preference share holders
6. Equity share holders

10.4 PREFERENTIAL CREDITORS

Preferential creditors or payment are those creditors or met before any payment is made to any creditors except the cost of liquidation and the remuneration payable to liquidator. Such preferential creditors or payment are:

1. All revenue, taxes and rates due from the company to the Central or State Government or to a local authority – within 12 months next before the commencement of winding up.
2. All wages, salaries whether payable for part or full time work – within 12 months next before the commencement of winding up.
3. All accrued holiday remuneration payable to any employee
4. All sums due as compensation under the Workmen's Compensation Act, 1923 in respect of death or disablement of any employee of the company.
5. All sums due to an employee, from a Provident Fund, pension Fund or any other fund for the welfare of the employee of the company.

10.5 STATEMENT OF AFFAIRS

When a company is wound up under the order of the court or when the official liquidator has been appointed by the court as provisional liquidator, the officer and directors of the company must submit within 21 days of the court's order a statement called statement of affairs. It is showing the following:

1. The assets of the company, stating separately the cash in hand and cash at bank and negotiable securities.
2. The debts and liabilities of the company.
3. The names and addresses of its creditors, stating separately the amount of secured and unsecured debts.
4. In the case of secured debts particularly of the securities held by the creditors, their value and dates on which they were given.
5. The debts due to the company and names and addresses of the persons from whom they are due and the amount likely to be realized.
6. Further information as may be required by the official liquidator.

Statement of affairs and lists to be annexed

Statementas to the affairs of ……. Ltd., on the …….. day of ……. 19, being the date of the winding up order (or order appointing provisional liquidator or the date directed by the official liquidators, as the case may be) showing assets at estimated realizable values and liabilities expected to rank:

Assets not specifically pledged (as per list A)

	Estimated realizable value	
Balance at bank	–	–
Cash in hand	–	–
Marketable securities	–	–
Bills receivable	–	–

Trade debtors	–	–
Loans and advances	–	–
Unpaid calls	–	–
Stock in trade	–	–
Work in progress	–	–
Freehold property, land & building	–	–
Leasehold property	–	–
Plant & machinery	–	–
Furniture, fittings, utensils etc.	–	–
Investment other than marketable securities	–	–
Livestock	–	–
Other property etc.	–	–

Assets Specifically pleged (As per List B)	(a) Estimated realizable value (Rs)	(b) Due to secured creditor (Rs)	(c) Defeciency ranking as unsecured (Rs)	(d) Surplus Carried to last column (Rs)
Freehold property:				
……………..				
……………...				
Estimated surplus from assets specifically pledged			……………	
Estimated total assets available for preferential creditors, debenture holders secured by a floating charge and unsecured creditors (Carried forward)			……………..	
Unsecured creditors (Carried forward)			……………	
Summary of Gross Assets:				
Gross realizable value of assets specifically pledged			……………...	
Other assets			……………..	

Gross assets			……………..	
Gross (to be deducted from surplus liabilities or added to deficiency as the case may be)		**Liabilities**		
Rs.				
Secured creditors as (as per list B) to the extent to which claims are estimated to be covered by assets specifically pledged (item (a) or (b) as above whichever is less) (Insert in gross liability column only)				
Preferential creditors (as oer list c)				
Estimated balance sheet available for debenture holders secured by a floating charges and secured creditors				……………
Debenture holders secured by floating charges and unsecured creditors				……………
Estimated surplus or deficiency as regards debenture holders unsecured creditors (as per List E)				……………
Estimated unsecured balance of claims of creditors partly secured				……………. …………….

on specific asstes brought from preceding page (C)				…………….
Trade creditors Bills payable outstanding expenses				
Contingent liabilities (State nature) (Rs) Estimated surplus or deficiency as regards creditors (being difference between gross assets brought from preceeding page (d) and gross liabilities as per column (C)) Issued and called up capital: …… preference shares of …… each Rs. …… called up (as per List F) ……Equity shares of ……. Each Rs………called up (as per list G)				
Estimated surplus/deficiency as regards members (as per list H)				……………
				…………….

Prescribed form of deficiency or surplus account

List H – deficiency or surplus account

Item contribution to deficiency (or reducing surplus)	**₹**
1. Excess (if any) of capital and liabilities over assets on the ….. ….. as shown by balance sheet (copy annexed)	–
2. Net dividends and bonuses declared during the period from …… …… to the date of the statement	–

3. Net trading losses (after charging items shown in note to follow) for the same period	–
4. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars of annex schedule)	–
5. Estimated losses now written off or for which provision has been made for the purpose of preparing the statement (give particulars of annex schedule)	–
6. Other items contribution to deficiency or reducing surplus………..	–
Items reducing deficiency (or contributing to surplus)	
7. Excess (if any) of assets over capital and liabilities on the ….. ….. to the date of statement	–
8. Net trading profit (after charging items shown in note below) for the period from ….. ….. to the date of statement.	–
9. Profits and income other than trading profits during the same period (give particulars or annex schedule)	–
10.Other items reducing deficiency or contributing to surplus	–
Deficiency / surplus (as shown by the statement of affairs)	
Note as to net trading profit and losses:	
Particulars are to be inserted here (so far as applicable) of the items mentioned below, which are to be taken into account in arriving at the amount of net trading profits or losses shown in this account:	
Provision for depreciation, renewals or diminution in value of fixed assets. Charges for indian income tax and other Indian taxation on profits. Interest on debentures and other fixed loans, payment to directors made by the company and required by law to be disclosed in the accounts	
Exceptional or non-requiring receipts:…………	
Signature: ___________________ Dated ______________	

10.6 PROCEDURE FOR PREPARING STATEMENT OF AFFAIRS

1. Put down the free assets at their realizable values.
2. Add any surplus expected from securities in the hands of the creditors.
3. Deduct preferential creditors.

4. Deduct debentures having a floating charges or similar other creditors.
5. Deduct unsecured creditors together with unsatisfied balance of partly secured creditors.
6. Deduct share capital.

If at any stage the deduction to be made is more than the amount available, deficiency appears, otherwise there is a surplus.

List A:

It covers all assets which are not specifically pledged and only the values realizable are taken into account. This list includes calls in arrears but does not include calls that have not been made.

List B:

This list deals with assets specifically pledged with creditors both fully secured and partly secured. A comparison of the estimated realizable values of such assets and the amount due to creditors having a charge on such assets will enable to ascertain the surplus from such assets.

List C:

This gives the sum of amount due to preferential creditors.

List D:

This gives the amount due to debenture holders having a floating charge on the assets of the company.

List E:

This list includes unsecured creditors such as trade creditors, bills payable, outstanding expenses, etc. this list also includes preferential debts exceeding the limits specified in the act.

List F:

This list gives the amount due to preference shareholders being the called up capital.

List G:

This list includes called up equity capital.

List H:

This list explains the reasons for the surplus or the deficiency as shown by the statement of affairs. According to the law, the period covered by the Deficiency or Surplus must commence on a date not less than three years before the winding up order, or if the company has not been

incorporated for the whole of that period, the date of incorporation of the company, unless the official Liquidator otherwise agrees.

Specimen Format of Liquidators Final Statement of Accounts

Particulars		**Amount**	**Particulars**	**Amount**
To Cash in hand		xxx	By Secured creditors	xxx
“ Cash at bank		xxx	“ Legal /Liquidation exp.	xxx
“ Assets realized		xxx	“ Liquidator’s commission	xxx
Land	xxx	xxx	% on assets realized	xxx
Building	xxx	xxx	% on preferential creditors	xxx
Other assets	<u>xxx</u>	xxx	% on Unsecured creditors	xxx
“ Cash from partly paid up shares		xxx	“ Debenture holders (including interest O/S)	xxx
			“ Preferential creditors	xxx
			“ Unsecured creditors	xxx
			“ Preference share holders (including dividend O/S)	xxx
			“ Equity shareholders(b/f)	xxx
		xxx		xxx

Note:

1. % of commission on unsecured creditors includes commission on preferential creditors also
2. Unsecured creditors except preferential creditors means commission is calculated on unsecured creditors only.
3. Assets realized normally will not include cash in hand or at bank.
4. If there are two types of equity shareholders having different paid up value, the excess amount should be paid first.
5. Amount should be received from share holders, if the shares are partly paid up.
6. Amount payable to unsecured creditors are sufficient, the commission will be

$$\text{Unsecured Creditors} \times \frac{\%}{100}$$

7. Amount payable to unsecured creditors are insufficient, the commission will be

$$\text{Unsecured Creditors} \times \frac{\%}{100+\%}$$

Illustration -1 The following balances were extracted from the books of sudden Death Ltd on which date a winding up order was made:

Share capital:	₹
Equity shares – 20,000 shares of ₹10 each, ₹8 per Share called up	1,60,000
Preference shares – 2,000 shares of ₹ 100 each fully paid	2,00,000
Calls-in-arrears on equity shares-estimated to realize ₹600	1,000
15% debentures secured by first floating charge on the assets	2,00,000
Bank overdraft secured by second floating charge on the assets	1,00,000
Fully secured creditors (secured against plant & machinery)	60,000
Investment (estimated to realize ₹60,000)	80,000
Plant & machinery – secured to creditors	
Estimated to realize ₹80,000	1,20,000
Land & building – estimated to realize ₹ 80,000	40,000
Rent & taxes	4,000
Wages & salaries	3,000
Bills payable	24,000
Sundry creditors	60,000
Bills receivable – estimated estimated to realize ₹2000	6,000
Debtors – estimated to realize 60%	1,40,000
Bills discounted – ₹30,000 likely to rank	8,000
Contingent liability likely to materialize	6,000
Stock in trade – estimated to produce ₹ 38,000	60,000
Cash in hand and at bank	3,200

Entry for accrued salary of ₹ 4,000 and rent of ₹ 2,000 has still to be made in the books. Prepare a statement of affairs and a deficiency A/c

Solution

Statement of affairs of sudden Death Ltd

Assets	**Estimated realizable value**
Assets not specifically pledged as per list 'A'	₹
Cash in hand and at bank	3,200
Bills receivable	2,000
Sundry debtors (1,40,000 x 60%)	84,000
Calls in arrears	600
Stock in trade	38,000
Land & building	80,000
Investments	60,000
	2,67,800

Assets specifically pledged as per list B:	
	Estimated Realizable Value Rs.	Due to secured creditors Rs.	deficiency Rs.	surplus Rs.	

	Estimated Realizable Value Rs.	Due to secured creditors Rs.	deficiency Rs.	surplus Rs.	
Plant & Machinery	80,000	60,000	–	20,000	20,000
Estimated total assets available for preferential creditors, Debenture holders secured by a floating charge and unsecured creditors.					2,87,800

Summary of gross assets:

Gross realizable value of assets specifically pledged	80,000	
Other assets	2,67,800	
	3,47,800	

Liabilities

Gross			
	(To be deducted from surplus or added to be Deficiency as the case may be) secured creditors as per list B to the extent to which claims are estimated to be		
60,000	covered by assets specifically pledged		–
13,000	preferential creditors as per List 'C'		13,000
	estimated balance of assets available for debenture holders and bank overdraft secured by a floating charges and for unsecured creditors (3,47,800 – 73,000)		2,74,800
2,00,000	debenture holders secured by first floating charge as per list D		2,00,000
			74,800
1,00,000	bank overdraft secured by second floating Charges as per list D		1,00,000
	Deficiency as regards creditors secured by floating Charges		–25,200
	Unsecured creditors as per list E:		
24,000	bills payable	24,000	
60,000	trade creditors	60,000	
8,000	bills discounted likely to be Dishonored	8,000	
6,000	contingent liability	6,000	
			–98,000
4,71,000	estimated deficiency as regards		–1,23,200

Creditors:		
2,000 preference shares of ₹ 100		
Each fully called and paid as per		
List F	2,00,000	
20,000 equity shares of ₹ 10		
Each ₹ 8 per share called up		
Less arrears irrecoverable as per		
List G.	1,59,600	–3,59,600
		4,82,800
Estimated deficiency as regards contributories		

List H deficiency account

Items contribution to deficiency		₹
		3,60,800
Excess of liabilities over assets (see working note)		
Estimated losses now written off for which provision		
Has been made for the purpose of preparing the statement:		
Investment	20,000	
Plant & machinery	40,000	
Bills receivable	4,000	
Sundry debtors	56,000	
Bills discounted	8,000	
Contingent liability	6,000	
Stock in trade	22,000	1,62,000
Rent & salary outstanding	6,000	
		5,22,800
Items reducing deficiency		40,000
Land & building (surplus on revaluation)		4,82,800
Deficiency as shown by statement of affiars		

Working note:

Excess of capital and liabilities over assets ₹ 3,60,800 has been ascertained by preparing balance sheet of sudden Death Ltd.

Balance sheet of sudden Death Ltd

liabilities	**₹**	**Assets**	**₹**
Equity share capital	1,60,000	Calls in arrear	1,000
Preference share capital	2,00,000	Investment	80,000

15% debentures	2,00,000	Plant & machinery	1,20,000
Bank overdraft	1,00,000	Land & building	40,000
Rent & taxes	4,000	Bills receivable	6,000
Salary & wages	3,000	Sundry debtors	1,40,000
Bills payable	24,000	Stock in trade	60,000
Sundry creditors(secured)	60,000	Cash in hand & bank	3,200
Sundry creditors	60,000	P & l A/c (bal.fig)	3,60,800
	8,11,000		8,11,000

10.7 CALCULATION OF LIQUIDATOR'S REMUNERATION

Illustration -1 From the following particulars, calculate liquidator's remuneration:

Assets realized – ₹80,000; Remuneration on assets realized – 4%; Liabilities amount to be paid – ₹50,000; Remuneration on the amount of liabilities paid – 3%.

Solution

80,000 x 4/100	₹3,216
50,000 x 3/100	₹1,500
Total commission	₹4,716

10.8 PREPARATION OF LIQUIDATOR'S FINAL STATEMENT OF ACCOUNTS

Illustration -2 From the following information, prepare liquidator's final statement of account.

Cash at bank ₹1,00,000; Surplus from securities ₹10,10,000; Expenses of liquidation ₹30,000; Liquidator's remuneration ₹7,000; Preferential creditors ₹2,00,000; Unsecured creditors ₹7,00,000; Preference shareholders ₹1,00,000 and Equity shareholders ₹1,00,000.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	1,00,000	By Liquidation exp.	30,000
" Surplus	10,10,000	" Liquidator remuneration	7,000
		" Preferential creditors	2,00,000
		" Unsecured creditors	7,00,000
		" Preference share holders	1,00,000

		" Equity share holders (b/f)	73,000
	11,10,000		11,10,000

Illustration -3 The American Co. (involuntary liquidation) has paid off its creditors in full, and the liquidator is in a position to make a return to the shareholders. The position is as follows:

a) 100 preference shares of ₹10 each fully paid

b) 400 Equity shares of ₹10 each fully paid

c) 400 Equity shares of ₹10 each (₹8 paid)

The cost of liquidation is ₹140. Creditors ₹2,225, the assets realized ₹3,740. A call of ₹2 per share on the partly paid equity shares was duly paid except in case of one share holder owning 100 shares.

Prepare liquidator's final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	3,740	By Cost of liquidation	140
" Calls in arrears	600	" Creditors	2,225
(400 x 2 = 800 – 200)		" Preference shareholders	1,000
		" Equity share holders (b/f)	975
	4,340		4,340

Illustration -4 A company went into voluntary liquidation on 1-1-2016 on which date dividend on preference shares were in arrear for two years. The subscribed capital of the company is 40,000, 6% preference shares of ₹10 each fully paid up and 50,000 equity shares of ₹10 each, ₹6 paid up.

Assets realized ₹3,50,000; Expenses of liquidation came to ₹9,800; Liquidator's remuneration is ₹11,000 and a commission of 2.5% on the amount paid to preference shareholders as capital and dividend. Liabilities amounted to ₹20,000. There is a provision in the articles of association about the payment of arrears of dividend in priority to equity share capital.

Prepare liquidator's final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	3,50,000	By Liquidation exp.	9,800
" Call money from Equity SHS (b/f)	1,50,000	" Commission - Fixed	11,000
		Pref. shareholders (4,48,000 x 2.5%)	11,200

		" Unsecured creditors	20,000
		" Preference share holders (4,00,000 + 48,000)	4,48,000
	5,00,000		5,00,000

Illustration -5 Mr. X has been appointed as liquidator of A Co. Ltd. Following is the balance sheet as on 31-12-16.

Liabilities	Amount	Assets	Amount
Equity share capital	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	50,000
Loan	50,000	Debtors	1,25,000
Creditors	50,000	Cash	5,000
		P & L a/c	20,000
	4,00,000		4,00,000

Fixed assets were sold for ₹1,20,000 to a debenture holder holding ₹40,000 debentures and cash is received after set off. Cash realized from debtors ₹80,000 and liquidation expenses amounted to ₹1,000; Liquidator is paid ₹1,000 as fixed allowances and 2% commission on collection including cash in hand ₹5,000 as remuneration. Stock realized ₹10,000.

Prepare liquidator's final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	5,000	By Secured creditors (Debtors)	40,000
" Fixed assets	1,20,000	" Cost of liquidation	1,000
" Debtors	80,000	" Liquidator remuneration	1,000
" Stock	10,000	2% on 2,15,000	4,300
		" Debentures	60,000
		" Loan	50,000
		" Creditors	50,000
		" Equity share holders (b/f)	8,700
	2,15,000		2,15,000

10.9 INSUFFICIENT AMOUNT PAID TO UNSECURED CREDITORS

Illustration -6 The Over- Confident Ltd. went into liquidation with the following liabilities:

a) Secured creditors ₹20,000 (securities realized ₹25,000)

b) Preferential creditors ₹600

c) Unsecured creditors ₹30,500

d) Liquidators expenses in connection with liquidation amounted to ₹252.

The liquidator is entitled to remuneration of 3% on every amount realized and 1.5% on the amount distributed to unsecured creditors except preferential creditors. The various assets (excluding securities in the hands of fully secured creditors) realized ₹26,000.

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Securities realized	25,000	By Secured creditors	20,000
" Assets realized	26,000	" Liquidation exp.	252
		" Commission 51,000 x 3%	1,530
		" Unsecured Crs. 28,618 x 1.5/101.5	423
		" Preferential creditors	600
		" Unsecured creditors (b/f)	28,195
	51,000		51,000

Illustration -7 A liquidator of a company in voluntary liquidation is entitled to a remuneration of 3% on the amounts realized (excluding cash on hand) and at 2% on the amount distributed to the unsecured creditors. Unsecured creditors including preferential creditors of ₹5,000 amounted to ₹40,000. Debenture holders were paid ₹51,875 together with interest. Preferential creditors were paid in full, ₹519 were spent as costs of liquidation. Cash in hand ₹1,000 and assets realized ₹79,000.

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	1,000	By Costs of liquidation	519
" Assets realized	79,000	" Commission - Assets realized 79,000 x 3%	2,370
		Pref. creditors 5,000 x 2%	100

		Unsecured crs (20,136 x 2/102)	395
		“ Debentures	51,875
		“ Preferential creditors	5,000
		“ Unsecured creditors (b/f)	19,741
	80,000		80,000

Illustration -8 T.V Ltd. went into voluntary liquidation on 30th April 2016. The position on that date was as under:

Liabilities	Amount	Assets	Amount
5,000 shares of ₹100 each ₹80 paid up	4,00,000	Machinery	80,000
Loans (secured by mortgage of machinery)	1,00,000	Other fixed assets	2,60,000
Unsecured loans (including preferential dues ₹10,000)	2,00,000	Stock	1,05,000
		Debtors	1,00,000
		Loans	40,000
		Cash	5,000
		P & L a/c	1,10,000
	7,00,000		7,00,000

Machinery was realized by the secured creditors for ₹1,20,000. Other fixed assets fetched ₹40,000, debtors ₹20,000 and stock ₹10,000. Loans were wholly bad. The liquidator is entitled to a fixed remuneration of ₹1,000 plus 2% of the amount paid to unsecured creditors. The liquidator’s out of pocket expenses amounted to ₹1,000.

Show the liquidator’s final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	5,000	By Secured creditors	1,00,000
“ Machinery	1,20,000	“ Cost of liquidation	1,000
“ Other fixed assets	40,000	“ Liquidator remuneration	1,000
“ Stock	10,000	2% on 10,000	200
“ Debtors	20,000	2/102 on 82,800	1,624
		“ Preferential creditors	10,000
		“ Unsecured creditors (b/f)	81,176
	1,95,000		1,95,000

Illustration -9 The following particulars relating to a Ltd. Co. which has gone into voluntary liquidation. You are required to prepare liquidators final statement of accounts after allowing for his remuneration @ 3% on amount realized and 2.5 % on the amount paid to unsecured creditors except preferential creditors.

12,000 Equity shares of ₹10 each, ₹8 paid up

Assets realized ₹9,24,000 excluding amount realized by sale of securities held by secured creditors. Preferential creditors ₹24,000; Unsecured creditors ₹8,51,094; Secured creditors (Security realized ₹1,62,000) ₹1,38,000; Debentures holding a floating charge on all assets ₹3,00,000; Expenses of liquidation ₹9,000. A call of ₹2 per share on the partly paid equity shares was duly paid except in case of one share holder owning 1,200 shares.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Assets realized	9,24,000	By Secured creditors	1,38,000
" Security realized	1,62,000	" Expenses of liquidation	9,000
" Call money (10,800 x 2)	21,600	" Liquidator remuneration	
		Assets realized 10,86,000 x 3%	32,580
		Unsecured (6,04,020 x 2.5/102.5)	14,732
		" Debentures	3,00,000
		" Preferential creditors	24,000
		" Unsecured creditors (b/f)	5,89,288
	11,07,600		11,07,600

Illustration -10 The balance sheet of a company for the year ending 31-3-2016 is given below:

Liabilities	**Amount**	**Assets**	**Amount**
6% Preference shares of ₹100 each	70,000	Land	1,25,000
Equity shares of ₹100 each, ₹75 paid	93,750	Machinery	3,12,500
Equity shares of ₹100 each, ₹60 paid	22,500	Debtors	1,37,500
15% Debentures	50,000	Cash	37,500
Interest O/S on debentures	7,500	P & L a/c	1,50,000
Creditors	6,37,500	Stock	1,18,750
	8,81,250		8,81,250

a) Liquidator's commission is at 3% on all assets realized except cash and 2% on amount paid to unsecured creditors

b) Creditors include ₹62,500 secured by land and preferential creditors ₹7,500

c) Assets realized Land ₹1,50,000; Machinery ₹2,50,000; Stock ₹1,12,500; Debtors ₹1,00,000

d) Liquidation expenses amounted to ₹15,000

Prepare liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	37,500	By Secured creditors	62,500
" Land	1,50,000	" Cost of liquidation	15,000
" Machinery	2,50,000	" Liquidator remuneration	
" Debtors	1,00,000	Assets realized 3% on 6,12,500	18,375
" Stock	1,12,500	Preferential Crs. 2% x 7,500	150
		Unsecured crs. 2/102 x 4,90,475	9,588
		" Debentures	57,500
		" Preferential creditors	7,500
		" Unsecured creditors (b/f)	4,79,387
	6,50,000		6,50,000

10.10 EQUITY SHAREHOLDERS WITH TWO TYPES OF PAID UP SHARE VALUES

Illustration -11 P Ltd. went into voluntary liquidation on 31st Dec.2016 when their balance sheet read as follows:

Liabilities	Amount	Assets	Amount
10% Cumulative preference shares of ₹100 each	10,00,000	Land	5,00,000
Equity shares of ₹100 each, ₹75 paid	3,75,000	Machinery	12,50,000
Equity shares of ₹100 each, ₹60 paid	9,00,000	Debtors	5,50,000
15% Debentures	5,00,000	Cash	1,50,000
Interest O/S on debentures	75,000	P & L a/c	5,62,000
Creditors	6,37,500	Patent	2,00,000
		Stock	2,75,500
	34,87,500		34,87,500

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of ₹76,000. The assets realized as follows: Land ₹6,00,000; Machinery ₹10,00,000;

Patent ₹1,50,000; Stock ₹3,00,000; Debtors ₹4,00,000. The expenses of liquidation amounted to ₹54,500. The liquidator is entitled to a commission of 3% on assets realized except cash.

Assuming the final payment including those on debentures is made on 30th June 2017; show the liquidator's final statement of account.

Solution

Liquidators Final Statement of Accounts

Particulars	**Amount**	**Particulars**	**Amount**
To Cash	1,50,000	By Cost of liquidation	54,500
" Land	6,00,000	" Liquidator remuneration (3% on 24,50,000)	73,500
" Machinery	10,00,000	" Debentures (5,75,000 + 37,500)	6,12,500
" Debtors	4,00,000	" Creditors	6,37,500
" Stock	3,00,000	" Preference share holders	12,00,000
" Patent	1,50,000	" Equity share holders (b/f)	22,000
	26,00,000		26,00,000

Amount available = 22,000/ 5,000 shares =Rs. ₹4.40

Illustration -12 The following is the balance sheet of A Ltd on 31-3-2016.

Liabilities	**Amount**	**Assets**	**Amount**
14% Preference shares of ₹100 each	2,00,000	Land	1,00,000
Equity shares of ₹100 each, ₹75 paid	1,20,000	Plant	2,50,000
Equity shares of ₹100 each, ₹60 paid	1,80,000	Patents	40,000
Creditors	1,14,000	Stock in trade	55,000
14% Debentures having a floating charge on all assets	1,00,000	Debtors	1,10,000
		Cash	75,500
		P & L a/c	83,500
	7,14,000		7,14,000

The company went into liquidation on the above date. The preference dividend was in arrears for two years. The arrears are payable automatically on liquidation. Creditors include a loan for ₹50,000 on the mortgage on land. The assets were realized as follows: Land ₹1,20,000; Plant ₹2,00,000; Patent ₹30,000; Stock ₹60,000; Debtors ₹80,000. The expenses of liquidation amounted to ₹10,900. The liquidator is entitled to a commission of 3% on all assets realized except cash and a commission of 3% on amounts distributed among unsecured creditors. Preferential creditors amount to ₹5,000.

Assume the payment was made on 30-9- 2016. Prepare liquidators final statement of accounts.

Solution

Liquidators Final Statement of Accounts

Particulars	Amount	Particulars	Amount
To Cash	75,500	By Secured creditors	50,000
" Land	1,20,000	" Liquidation exp.	10,900
" Plant	2,00,000	" Liquidator remuneration	
" Patents	30,000	Assets realized (4,90,000 x 3%)	14,700
" Stock in trade	60,000	Unsecured Crs (3% on 64,000)	1,920
" Debtors	80,000	Prefer. Crs (3% x 5,000)	150
		" Debentures (1,00,000 + 7,000)	1,07,000
		" Preferential creditors	5,000
		" Unsecured creditors (1,14,000 – 50,000)	64,000
		" Preference share holders (2,00,000 + 56,000)	2,56,000
		" Equity SHs (b/f)	
		(₹21.919 x 1,600shares)	35,070
		(₹6.919 x 3,000 shares)	20,760
	5,65,500		5,65,500

Amount available	55,830
Less: Excess paid (75 – 60) ₹15 x 1,600 shares	24,000
	31,830
Bal. to all equity shares (31,830/4,600)	₹6.919

MULTIPLE CHOICE QUESTIONS WITH ANSWER

1. In liquidation, normally assets realized _______while calculating commission
   a) Include cash in hand b) **Do not include cash in hand**
   c) At book value d) Always at lesser value

2. A percentage of liquidator's remuneration on unsecured creditors
   a) **Include preferential creditors** b) Do not include preferential creditors
   c) Partly secured creditors d) Fully secured creditors

3. Income tax is an example for
   a) Unsecured creditors b) Secured creditors
   c) **Preferential creditors** d) Partly secured creditors

4. Which amount should be paid first?
   a) Debentures b) Preferential creditors
   c) **Liquidation expenses** d) Liquidators remuneration

5. Which amount should be paid first?
   a) Cost of winding up b) **Legal charges**
   c) Liquidator's remuneration d) Preferential creditors

6. Amount payable to unsecured creditors are sufficient, the liquidator's commission is calculated on
   a) **Unsecured creditors** b) Amount available
   c) Assets realized d) Fully secured creditors

7. Amount payable to unsecured creditors are insufficient, the liquidator's commission is calculated on
   a) Unsecured creditors b) **Amount available**
   c) Assets realized d) Fully secured creditors

8. The person who is in charge of realizing assets and paying liabilities is called
   a) Managing Director b) Share holders
   c) **Liquidator** d) Debenture holder

9. Contributory is a
   a) Creditor b) **Share holder**
   c) Debenture holder d) Outsiders

10. A creditor for ₹5,000 holding a charge on the stock book value of which is ₹6,000, market value is ₹4,500 is called
    a) Secured creditor b) Unsecured creditor
    c) Fully secured creditor d) **Partly secured creditor**

11. A portion of unsecured creditors which should be paid before others is called
    a) **Preferential creditors** b) Fully secured creditors
    c) Unsecured creditors d) Partly secured creditor

12. Any sum due to an employee out of provident fund is an example of:
    a) Unsecured Creditors b) Secured Creditors
    c) Preferential Creditors d) Un-Preferential Creditors

13. A contributor is a:
    a) Preferential Creditor b) Debenture holder
    c) Un-secured Creditors **d) Equity Shareholders**

14. Secured Creditors are shown in the Statement of Affairs under:
    a) List A **b) List B**
    c) List C d) List D

15. The term "Contributory" includes:
    a) Present and Past members b) Holders of fully paid shares
    c) Preferential Creditors d) Present and future members

16. In case a company is solvent, the interest of debentures sis paid up-to the date of:
    a) The Balance Sheet b) The commencement of winding-up
    c) Payment d) The commencement of business

17. Amount due to the Government for purchases is an example of:
    a) Preferential Creditors b) Secured Creditors
    c) Unsecured Creditors d) Un-Preferential Creditors

18. Money advanced by a Director do the company to pay wages to the workers of the company is of the nature of a:
    a) Preferential Creditors b)Unsecured Creditors
    c) Fully Secured Creditors d) Secured Creditors

19. Debenture holders having a floating charge have priority in payment over:
    a) Preferential Creditors **b)Unsecured Creditors**
    c) Fully Secured Creditors d) Secured Creditors

20. The salary of 4 clerks for a period of 6 months before the relevant date was in arrears. If the salary of each clerk is ₹ 6,000 per month the amount to be included in preferential creditors will be:
    a) ₹96,000 b) ₹1, 44, 000
    c) ₹ 80,000 d) ₹ 72,000

21. The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹1,00,000 including cash balance of ₹ 3,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration was a ₹ 46,350. The liquidator's remuneration will be;
    a) ₹3,100 b) ₹3,140
    c) ₹3,290 d) ₹3,330

22. When do formal entries liquidate?
    a) On the date of release in the case of duty-free entries
    b) On the date posted in the bulletin notice of liquidation
    c) On the date specified in the automated broker interface
    d) One year after the date of importation, by operation of law

23. Which of the following statements best completes the sentence? Liquidation o an entry may be extended ______.
    a) If information is needed by Customs for the appraisement of the merchandise
    b) By statute or court order
    c) For 90 days after the date of pretest upon request of the importer
    d) For any time period Customs deems appropriate

REVIEW QUESTIONS

A) Answer in short

1. What is liquidation of a company?
2. What are the modes of winding up of a company?
3. Define contributory.
4. Who is list-A contributory and list-B contributory?
5. What is statement of affairs?
6. Give proforma liquidators final statement of account.

B) Answer in detail

1. Write short note on
   a) Compulsory winding up
   b) Voluntary winding up
2. Explain the various methods of winding up of a company.
3. Discuss the order of payments made by liquidator
4. Explain the preferential payments with regard to company liquidation.
5. Enumerate the procedure for preparing statement of affairs.
6. Give a proforma of statement of affairs and deficiency account.

EXERCISES

1. Compute liquidator's remuneration from the information given below:

   Secured creditors ₹60,000 (Securities realized ₹80,000), Other assets realized ₹75,000. Liquidator's remuneration 3% on the amount realized.

2. Find liquidator's remuneration:

   Creditors' amount to be paid ₹60,000; Amount available on hand ₹44,000; Liquidator's remuneration on the amount paid to creditors– 10%

3. XYZ Ltd. went into liquidation. Its assets realized ₹3,50,000 excluding the amount realized by the sale of securities held by the secured creditors. Following is the position.

   Share capital 10,000 shares of ₹100 each; Secured creditors (securities realized ₹40,000) ₹35,000; Preferential creditors ₹6,000; Unsecured creditors ₹1,40,000; Debentures having floating charge on assets of the company ₹2,50,000; Liquidation expenses ₹5,000; Liquidator's remuneration ₹7,500.

   Prepare liquidator's final statement of accounts.

4. The following particulars relates to a limited company to which the company went in to voluntary liquidation.

   Preferential creditors ₹25,000; Unsecured creditors ₹58,000; 6% Debentures ₹ 30,000. The assets realized ₹80,000. The expenses of liquidation amounted to ₹1,500 and the liquidator's remuneration amounted to ₹1,500 and the liquidators remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors including preferential creditors.

   Show the liquidators final statement of account.

5. The liquidator of a company in voluntary liquidation is entitled to a remuneration of 4% on the amount realized and at 3% on the amount distributed to the unsecured creditors. Unsecured creditors including preferential creditors of ₹3,000 amounted to ₹43,000. Preferential creditors were paid in full. ₹330 were spent as cost of liquidation. Cash on hand was ₹2,500 and assets realized ₹80,000.

   Show the liquidators final statement of account.

6. The following particulars relate to a Limited Company which has gone in to voluntary liquidation. Prepare the liquidator's final accounts allowing for his remuneration at 2% on the amount realized and 2% on the amount distributed among unsecured creditors other than preferential creditors.

   Preferential creditors ₹10,000; Unsecured creditors ₹32,000; Debentures ₹10,000

   The assets realized the following sums:

Building ₹20,000; Machinery ₹18,650; Furniture ₹1,000

The liquidation expenses amount to ₹1,000.

7. ABC Company Ltd went into voluntary liquidation on 31-12-2016. Prepare liquidator's final statement of account from the following particulars:

Sundry creditors amounting to ₹75,660 of which ₹8,160 are preferential creditors. 6% debentures carrying floating charge on assets amounted to ₹80,000; Debenture holders were paid interest up to 30-6-2016. The liquidator realized the following assets: Stock ₹84,000; Plant ₹60,600; Cash in hand stood at ₹500. Debentures were paid off on 30th June of the following year with interest. Liquidation expenses amounted to ₹1,902 and the remuneration is paid as 3% on amount realized and 2% on amount distributed to unsecured creditors.

8. The following particulars relate to a limited company which had gone into voluntary liquidation. You are required to prepare the liquidators final a/c allowing for his remuneration @ 2% on the amount realized on assets and 2% on the amount distributed to unsecured creditors other than preferential creditors:

Unsecured creditors ₹2,24,000; Preferential creditors ₹70,000; Debentures ₹75,000

The assets realized the following amounts:

Cash ₹20,000; Land ₹1,30,000; Plant ₹1,10,500; Fixtures ₹7,500

The liquidation expenses amounted to ₹2,000. A call of ₹2 per share on the partly paid 10,000 equity shares were made and duly paid except in case of one share holder owning 500 shares.

9. A Ltd. of Tirunelveli went into voluntary liquidation on 1-1-2016. The liquidator's remuneration is 2.5% on assets realized and 1.5% on distribution among shareholders. From the following information prepare liquidator's final account.

Assets realized ₹5,00,000; Expenses of liquidation ₹9,000; Unsecured creditors ₹62,000; Salaries and wages outstanding ₹6,000.

5,000, 6% Preference share capital (dividend paid up to 1-1-2014) ₹1,50,000

10,000 Equity share capital ₹90,000; General reserve ₹1,20,000

As per the Articles of Association of the company the preference share holder have the right to receive 1/3 of the surplus remaining after paying the equity share capital.

10. The following particulars relate to a company which went in to voluntary liquidation. Prepare liquidators final statement of account. At that time allow 2% remuneration to liquidator on the amount realized and 3% on the amount distributed to unsecured creditors.

Unsecured creditors	₹2,80,000	Assets realized as follows:	
Debentures	₹1,90,000	Cash	₹21,500
Preferential creditors	₹20,000	Plant	₹1,80,000
Share capital	₹2,00,000	Land	₹1,30,000
		Furniture	₹20,000

11. Robert Ltd. went into voluntary liquidation on July 1, 2016. As on that date balance sheet read follows:

Liabilities	Amount	Assets	Amount
10% Preference shares of ₹10 each	2,40,000	Plant	4,00,000
Ordinary shares of ₹10 each	4,00,000	Stock	2,00,000
5% Debentures	1,20,000	Debtors	3,00,000
Creditors	2,06,000	Cash	6,000
		P & L a/c	60,000
	9,66,000		9,66,000

The dividend on the preference shares had been paid up to June 30, 2016. The Liquidator sold the plant and stock for ₹5,50,000 and realized all the debts except one ₹50,000 which proved to be bad. He admitted the claim of all creditors. ₹10,000 of which were preferential. Expenses of liquidation amounted to ₹3,200 and debentures were repaid on Dec.31, 2016. The Liquidators remuneration was at the rate of 2% on amount distributed to the ordinary share holders.

Prepare the liquidators final accounts.

12. Balance sheet of Baby Ltd. as on Dec.31, 2016.

Liabilities	Amount	Assets	Amount
Preference shares of ₹10 each	80,000	Land	25,000
Equity shares of ₹10 each	1,20,000	Other fixed assets	2,00,000
Bank loan	4,00,000	Stock	5,25,000
8% Debentures	1,00,000	Debtors	1,00,000
Interest o/s on debentures	8,000	P & L a/c	58,000
Creditors	2,00,000		
	9,08,000		9,08,000

The company went into liquidation on that date. Prepare the liquidator's final statement of accounts after taking into account the following:

a) Liquidation expenses and liquidator's remuneration amounted to ₹3,000 and ₹10,000 respectively

b) Bank loan was accrued by pledge of stock.

c) Debentures and interest thereon are secured by a floating charge on all assets.

d) Fixed assets were realized at book values and current assets at 80% of book values.

13. A company went into liquidation on 31st March 2016 when the following balance sheet was prepared:

Liabilities	**Amount**	**Assets**	**Amount**
Share capital (₹10 each)	1,95,000	Goodwill	50,000
Sundry creditors		Leasehold property	48,000
Preferential	24,200	Plant	65,500
Partly secured	55,310	Stock	56,800
Unsecured	99,790	Debtors	64,820
Bank overdraft (unsecured)	12,000	Cash	2,500
		P & L a/c	98,680
	3,86,300		3,86,300

The liquidator realized the assets as follows:

Leasehold property which was used in the first instance to pay the partly secured creditors prorates ₹35,000; Plant ₹51,000; Stock ₹39,000; Debtors ₹58,500 and cash ₹2,500.

The expenses of liquidation amounted to ₹1,000 and the liquidator's remuneration was agreed at 2.5% on the amount including cash and 2% on the amount paid to unsecured creditors.

You are required to prepare liquidator's final accounts showing the distribution.

14. Prepare liquidator's statement accounts.

Balance sheet as on 31st December 2016

Liabilities	**Amount**	**Assets**	**Amount**
6% Pref. shares of ₹100 each	1,00,000	Land	2,00,000
Equity shares of ₹100 each, fully paid	2,00,000	Plant	2,20,000
Equity shares of ₹100 each, ₹50 paid	1,50,000	Stock	1,00,000
<u>Secured Loan</u>		Debtors	1,00,000
6% Debentures (all assets)	1,00,000	Cash	30,000
Others (Mortgage on land)	1,00,000	P & L account	1,00,000
<u>Current liabilities:</u>			
Creditors	90,000		
Income Tax	10,000		
	7,50,000		7,50,000

The company went into liquidation on 1.1.2017. The preference dividend was in arrear for 3 years. These arrears are payable on liquidation. The assets were realized as follows.

Land ₹2,40,000; Plant ₹1,80,000; Stock ₹ 70,000; Debtors ₹60,000

The expenses of liquidation amounted to ₹8,000. The liquidator is entitled to a commission of 2% on all assets realized and 3% on amount distributed unsecured creditors. All the payments were made on 30th June 2017.

PREVIOUS YEAR UNIVERSITY QUESTIONS

1. LT. Limited went into liquidation with th following liabilities;

Particulars	Amt
Secured creditors	40,000
[Secured realized ₹50,000]	
Preferential creditors	1,200
Unsecured creditors	61,000
Liquidation expenses	500

The Liquidator is entitled to a remuneration of 3% on the amount realized including Securities in the hands of secured creditors] and 1.5% on the amount distributed to the unsecured creditors. The various assets [Excluding the securities in the hands of the secured creditors] realized ₹52,000. Prepare the Liquidators final statement of account showing the payment made to unsecured creditors

[Alagappa, B.Com, April,2011]

2. Babu Ltd. went into liquidation with following liabilities Preferential creditors ₹10,000, Unsecured creditors 32,000, Debentures ₹10,000

Assets Realized as follows:

Land and Building 20,000, Machinery 18,650, Fixtures and Fittings 1,000. Liquidators remuneration is 2% on assets realized and 2% an amount distributed to unsecured creditors other than preferential creditors. Liquidation expenses amounted to ₹1,000. Prepare Liquidators Final statement of account.

[Alagappa, B.Com, April,2011]

3. From the following particulars prepare liquidators final statement of Account.

Cash ₹10,000; Assets realized ₹23,000 (other than secured creditors) Secured creditors ₹28,000 (Securities realized ₹35,000)

Preferential creditors ₹800; Unsecured creditors ₹62,000.

Legal expenses ₹250; Liquidation Expenses ₹1,200

Liquidator is entitled to a remuneration of 3% on assets realized (including securities with creditors) and 2% on the amount distributed unsecured creditors.

[Alagappa,B.Com(C.A), Nov,2015]

4. Ram Limited went into liquidation with the following liablities

Secured creditors ₹30,000 (Security realized ₹35,000)

Preferential Creditors ₹700.

Unsecured Creditors ₹40,500

Liquidators expenses are ₹352. He is entitled to a remuneration of 4% on the amounts realized (including securities with creditors) and 2% on the amount distributed to unsecured creditors. The various assets realized ₹36,000. Prepare the Liquidators Final statement of account.

[Madurai,M.Com, Nov.2014]

5. The liquidator of BC and company Ltd is entitled to a remuneration of 3% on the amount Realized from the assets and 2% on the amount distributed to the unsecured creditors. From the following particulars prepre liquidators final statement of Account.

Sale of assets	3,00,000
Preferential Creditors	10,000
Unsecured creditors	4,00,000

[Madurai,B.Com,Nov,2013]

6. The life fund of a life insurance company on 31.3.2012 showed a balance of ₹ 54,00,000. However the following items were note taken into account while preparing revenue A/c for 2011-2012. Ascertain the correct life fund balance.

Interest accrued on Investments	20,000
Income tax deducted on the above	6,000
Re-insurancce claim recoverable	7,000
Commission Due on re-insurance premium paid	10,000
Bonus in resuction of premium	3,000

[Madurai,B.Com,Nov,2013]

7. Prepare the liquidators final statement from the given information allowing @ 3% remuneration on the amount realized and 2½% on the amount paid to unsecurd creditors.

Share capital issued:

5,000 preference shares of ₹ 100 each (fully 3,000 equity shares of ₹ 10 each fully paid. 12,000 equity shares of ₹ 10 each ₹ 8 paid up.

Assets realized ₹ 9,24,000 excluding amount realized by sale of securities held by the secured creditors.

Preferential creditors	24,000
Unsecured creditors	8,51,094
Secured creditors(security realized ₹ 16,200)	1,38,000
Debentures having a floating charge on assets	3,00,000
Liquidation expenses	9,000

A call of ₹ 2 per share on the partly paid equity shares was duly paid except in case of one shareholders owning shares.

8. K ltd was liquidated on 31.12.87. balance sheet as on 31.12.87.

Share capital	1,00,000	Land and building	60,000
8% debentures	1,00,000	Plant and machinery	60,000
Mortgage loan (secured on land and buildings)	50,000	Stock	60,000
		Debtors	70,000
sundry creditors	80,000	Cash in hand	5,000
		P & L a/c	75,000
	3,30,000		3,30,000

Assets realized as follows:

i) Land and building ₹ 55,000

ii) Stock ₹ 20,000

iii) Plant and machinery ₹ 25,000

iv) Half of the debtors were bad and the balance realized 60% of book value

v) Liquidators was entitled to a commission of 3% on amount realized other than cash and 2% on the amount paid to unsecured creditors.

vi) Preferential creditors amounted to ₹ 10,000 (include in sundry creditors)

vii) Liquidation expenses amounted to ₹970.

Prepare liquidators final statement of account.

[Madurai, Nov,2011]

9. A Ltd. company went into voluntary liquidation with the following share capital:

Class X- 4,000 equity shares of ₹ 100 each₹ 75 paid up

Class Y- 3200 equity shares of ₹ 100 each ₹ 60 paid up

Class Z – 2800 equity shares of ₹ 100 each ₹ 50 paid up

Amount available for equity shareholders ₹ 1,22,000.

Calculate the amount payable to or receivable from equity shareholder.

10. The following particulars related to a limited company which went into voluntary liquidation.

	₹
Preferential creditors	25,000
Unsecured creditors	58,000
6% debentures	30,000

The assets realised₹ 80,000. The expenses of liquidation amounted to ₹ 15,00 and liquidators remuneration was agreed at ₹ 2.5% on the amount paid to unsecured creditors including preferential creditors.

Show the liquidators final statement of accounts.

[Madurai, Nov,2011]

11. Give journal entries for the following transactions in connection with internal reconstruction:

    (i) 30,000 equity shares of ₹ 10 each fully paid reduced to shares of ₹ 5 each fully paid.

    (ii) 300 9% debentures of ₹ 1,000 each converted into 1,500 12% debentures of ₹ 100 each.

    (iii) The debit balance of profit and loss account ₹ 1,50,000 and the preliminary expenses ₹ 30,000 were written off.

    (iv) The value of plant & machinery and stock were written down by ₹ 60,000 and ₹ 30,000 respectively.

[Azhagappa, April,2015]

12. The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 1,00,000 including cash balance of ₹ 5,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration.

[Madurai,B.Com,Nov,2013]

13. Prakash processors Ltd. went into voluntary liquidation on 31st December 2007 when their balance sheet read as follows:

Liabilities	₹	assets	₹
Issued and subscribed capital 10,000 10% cumulative Preference shares of ₹ 100 each fully paid	10,00,000	Land and Building	5,00,000
		Machinery and plant	12,50,000
5,000 equity shares of ₹ 100 each, ₹ 75 paid	3,75,000	Patents	2,00,000
15,000 equity shares of ₹ 100 each, ₹ 60 paid	9,00,000	Stock	2,75,000
15% debenture secured by a floatation charge	5,00,000	Sundry debtors	5,50,000
Interest outstanding on debenture	75,000	Cash at bank	1,50,000
Creditors	6,37,500	Profit and loss a/c	5,62,500
Total	34,87,500	Total	34,87,500

Preference dividend were in arrears for 2 year and the creditors included preferential creditors of ₹ 76,000

The assets realized as follows:

Land and building ₹ 6,00,000: machinery and plant ₹ 10,00,000 patents ₹ 1,50,000 stock ₹ 3,00,000: sundry debtors ₹ 4,00,000.

The expenses of liquidation amounted to ₹ 54,00. The liquidator is entitled to a commission of 3% on assets realized except cash. Assuming the final payment including those on debenture is made on 30th june, 2008. Show the liquidator's final statement of account.

[Madurai,B.Com,Nov,2013]

14. The position of X Ltd. in Liquidation is as follows :

1.000 6% preference shares of ₹ 100 each fully paid

1,000 Equity shares ₹ 50 each fully paid

1,000 Equity shares of ₹ 40 each. ₹ 30 called up on which calls in arrears are ₹ 4,000

Calls in advance ₹ 6,000

Preferences share dividend in arrear fdr one year. Cash left after making payments to Creditors but before making any Call : ₹ 1,17.000.

You are required to Prepare the Liquidator's Final Statement of account.

[Madras, II MCom., ((Old) May 2001; II M.Com., Oct. 2001, (3 times);

II M.Com., (Old) Oct. 2001 (Two Times)]

[Ans : Calls in arrears collected; Calls in advance paid off fully: Preference shares capital repaid. Dividend arrears are not payable since it is not declared. Repayment to Equity shareholders : Fully paid shareholders receive : ₹ 13,889; Partly paid shareholders : ₹ 1,111]

15. B Ltd. went into voluntary liquidation. The details regarding liquidation are as follows:

Share capital:

(a) 2,000 8% preference shares of ₹ 100 each (fully paid)

(b) Class A 2.000 equity shares of ₹ 100 each (₹ 75 paid up)

(c) Class B 1.600 equity shares of ₹ 100 each (₹ 60 paid up)

(d) Class C 1,400 equity shares of ₹ 100 each (₹ 50 paid up)

Assets including Machinery realised ₹ 4,20,000. Liquidation expenses amount to ₹ 15,000.

B Ltd. has borrowed a loan of ₹ 50,000 from Patel Bros. against the Mortgage of Machinery (which realised ₹ 80,500). In the books of the company salaries of four clerks for 4 months @ ₹300 per month and the salaries of 4 peons for 3 months @ ₹ 150 per month are outstanding. In addition to this, the company's books show the creditors worth ₹ 87,400. Prepare liquidator's statement of receipts and payments.

[Madras, II M.Com., April 2001]

[Ans: Deficiency per equity share ₹ 51; Net amount returnable on 'A' class share: ₹ 24 per share; Net amount returnable on 'B' class share : ₹ 9 per share; Net amount receivable on 'C' class share: Re. 1 per share]

16. The Fast Foods Ltd. went into voluntary liquidation on 31st Dec. 1984. The Balancein its books on that date were:

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Land & Buildings	2,50,000
Authorised and subscribed		Plant &Machinery	6,25,000
5,000 6% cumulative preference		Patents	1,00,000
shares of ₹ 100 each fully paid	5,00,000	Stock	1,37.500
2,500 equity shares of ₹ 100 each,		Debtors	2,75,000
₹ 75 paid	1,87,500	Cash at Bank	75,000
7,500 equity shares of ₹ 100 each,		P & L A/c	3,00,000
₹ 60 paid	4,50,000		
5% Mortgage debentures	2,50,000		
Interest outstanding	12,500		
Creditors	3,62,500		
	17,62,500		17,62,500

The liquidator is entitled to a commission of 3% on all assets realised except cash and 2% on amounts distributed among unsecured creditors other than preferential creditors.

Creditors include preferential creditors ₹ 37,500 and a loan for ₹ 1,25,000secured by a mortgage on Land & Buildings. The preference dividends were in arrears for two years. The assets realised as follows:

Land & Buildings ₹ 3,00,000; Plant & Machinery ₹ 5,00,000;

Patents ₹ 75,000; Stock ₹ 1,50,000; Debtors ₹ 2,00,000.

The expenses of liquidation amounted to ₹ 27,250.

Prepare the liquidator's final statement of account.

[Thiruvalluvar, B.Com., Nov. 2006[Madras, B.Com (ICE)

Ap 2007 (2 Times) 1 M.Com. Oct. 2003; B.Com., Oct. 1994]

[Ans: Liquidator's remuneration — ₹ 40,750; Payment made to equity shareholders: on 2,500 shares @ ₹ 15.95 ₹ 39,875; on 7,500 shares @ .95 paise per share — ₹ 7,125]

17. The following is the balance Sheet of M/s Unfortunate Ltd. as on 31.12.1987.

Liabilities	**₹**	**Assets**	**₹**
4,000 6% preference shares		Land & Buildings	2,00,000

of ₹ 100 each fully paid up	4,00,000	Plant & Machinery	5,00,000
2,000 equity shares of Rs: 100		Patents	80,000
each, ₹ 75 per share paid up	1,50,000	Stock at cost	1,10,000
6,000 equity shares of ₹ 100 each,		Sundry debtors	2,20,000
₹ 60 per share paid up	3,60,000	Cash at bank	60,000
5% debentures (having		Profit & Loss A/c	2,40,000
floating charge on all assets)	2,00,000		
Interest outstanding on debenture (also secured as above)	10,000		
Creditors	2,90,000		
	14,10,000		14,10,000

On that date, the company went into voluntary liquidation. The dividends on preference shares were in arrear for two years. Creditors include a loan of ₹ 1,00,000 on mortgage of Land & Buildings. The assets realised were as under:

Land & Buildings — ₹ 2,40,000; Plant & Machinery — ₹ 4,00,000; Patents — ₹ 60,000; Stock — ₹ 1,20,000; Sundry debtors — ₹ 1,60,000.

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to a commission of 3% on all assets realised (except cash at bank) and commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount to ₹ 30,000. All payments were made on 30th June 1988.

Prepare the liquidator's final statement of account

(Madras, BCS Nov. 2005; B.Com., Oct. 2000; C.S. June 1989]

[Ans: Payment to preference shareholders ₹ 4,48,000 including dividend: Equity shareholders ₹ 75 paid up @ ₹ 15.25 per share; (b) ₹ 60 paid up @ Re. 0.25 per share]

18. A company went into voluntary liquidation on 30.4.96. The position of the company on that date was as follows

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Machinery	80,0000
5,000 shares of ₹ 100 each		Other fixed assets Stock	2,60,000
₹ 80 paid up	4,00,000	Debtors	1,05,000
Loans (secured by mortgage		Bills receivable	1,00,000
of machinery)	1,00,000	Cash	5,000
Unsecured creditors		Profit & Loss A/c	1,10,000
(including preferential			
creditors ₹ 10,000)	2,00,000		

	7,00,000		7,00,000

Machinery was realised by the secured creditors for ₹ 1,20,000. Other fixed assets realised ₹ 40,000; Debtors ₹ 20,000; and stock ₹ 10,000; Bills receivable was wholly dishonoured. The liquidator is entitled to a fixed remuneration of ₹ 1,000 plus 2% of the amount paid to unsecured creditors. Liquidation expenses amount to ₹ 1,000. Prepare liquidator's statement of account.

Periyar, M.Com.,Ap. 2005; Madurai, B.Com., Nov. 2003]

[Madras, B.Com (A F), B.Com (CS), B.com (CS) Nov. 2008. B.Com.B.Com (CS) Ap 2007; B.Com. Oct. 2006; BCS Nov. 2005; B.Com., (ICE) May 2002; B.C.S. (ICE) May 2002: B.C.S. Anril2003]

[Ans : Amount paid to unsecured creditors — ₹ 1,79,216; Liquidator's remuneration — ₹ 4,784 (i.e., 1,000 + 200 + 3,584]

19. Kannan Ltd. was liquidated on 31.12.2000 Balance Sheet as on 31.12.2000.

Balance sheet as on 31.12.2000

Liabilities	**₹**	**Assets**	**₹**
Share capital	1,00,000	Land & buildings	60,000
8% debentures	1,00,000	Plant & machinery	60,000
Mortgage loan (secured on land		Stock	60,000
& buildings)	50,000	Cash in hand	5,000
Sundry creditors	80,000	Debtors	70,000
		P & l A/c	75,000
	3,30,000		3,30,000

Assets realised as follows:

	₹
a) Land & B iildings	55,000
b) Stock	20,000
c) Plant & Machinery	25,000

d) Half of the debtors were bad and the balance realised 600/0 of hook value.
e) Liquidator was entitled. to a commission of 3% on amount realized other than cash and 2% of the amount paid to unsecured creditors.
f) Preferential creditors amounted to ₹ 10,000 (included in sundry creditors)
g) Liquidation expenses amounted to ₹ 970.

Prepare liquidator's final statement of accounts.

[Madras, B.C.S. Oct.2000 (2 Times);B.Com., March 2007]

[Ans: Liquidator's remuneration : On amounts reaised — ₹ 3,630 (i.e., 1,21,000x 3%); On Payment to preferential creditors — ₹ 200; Amount paid to debentureholders — ₹ 61,200]

20. The Balance Sheet of Babble Ltd. as on 31.12.1984 was as follows:

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Land Sc. Buildings	25,000
8.000 pref. shares of ₹ 10 each	80,000	Other fixed assets	2.00.000
₹ 2,000 equity shares of ₹ 10 each	1,20.000	Stock	525,000
Bank loan	4,00,000	Debtors	1,00.000
.% Debentures	1,00,000	Profit & Loss Aic	58,000
Interest outstanding on debentures	8,000		
Creditors	2,00,000		
	9.08,000		9,08.000

The company went into liquidation on that date. Prepare liquidator's final statement of account after taking into account the following.

(a) Liquidation expenses and liquidator's remuneration amounted to ₹ 3,000 and ₹ 10,000 respectively.

(b) Bank loan was secured by pledge of stock.

(c) Debentures and interest thereon are secured by a floating charge of all assets.

(d) Fixed assets were realised at book value and current assets at 80% of book values.

[Madras, B.Com Ap 2007; B.C.S., Oct. 2001]

[Ans: Preference shareholders get — ₹ 4,000 i.e., @ ₹ 0.50 per share on 8,000 shares]

21. Mr. X has been appointed liquidator to ABC Ltd. Balance Sheet at the time of liquidation i.e., 1.1.2001 is given blow:

Balance sheet of ABC Ltd.As on 1.1. 2001

Equity share capital (₹ 10)	2,00,000	Fixed assets	2,00,000
Debentures	1,00,000	Stock	25,000
Loans	50,000	Sundry debtors	1,25,000
Creditors	50,000	Cash	5,000
		Profit & Loss A/c	45,000
	4,00,000		4,00,000

Fixed assets are sold for ₹ 1,20,000 to a debentureholder holding ₹ 40,000 debentures and cash is received after set off Cash realised from debtors were ₹ 80,000 and the

liquidation expenses amounted to ₹ 1,000. Liquidator is paid ₹ 1,000 fixed allowance plus 2% commission on collection including cash in hand as remuneration. Stock is sold for ₹ 10,000.

Prepare the liquidators final statement of accounts.

[Madras, B.Com., B.Com (CS) Nov. 2007; B.C.S. May 2001; B.Com., Apri12003]

[Ans: Payment to equity shareholders — ₹ 9,500; Liquidator's remuneration — ₹ 4,500]

22. Compute Liquidator's Remuneration from the information given below :

Secured creditors : ₹ 60,000 (Securities realised : ₹ 80.000)

Other Assets realised : ₹ 75.000

Liquidator's remuneration : $2^{1/2}$ % on the amounts realised (including securities with creditors)

[Madras B.Com(CS) (ICE) Oct. 2009; B.Com(CS) Nov. 2008]

[Ans: L.R.: ₹ 3,875]

23. Ascertain the remuneration payable to Liquidator from the data given below :

Secured creditor : ₹ 50,000 (Securities realised by secured creditors : ₹ 60,000)

Assets realised : ₹ 80,000

Liquidator's remuneration :3% on the amounts realised.

[Madras, B.Com., B.Com (CS) Ap. 2008; Nov. 2007]

[Ans: L.R.: 2,700]

24. The liquidator of a company is entitled to a remunerate .)ri of 3% on the amounts realised (excluding cash in hand) and 2% on the amount distributed to the unsecured creditors. Unsecured creditors, including preferential creditors of ₹ 5,000, amounted to ₹ 40,000.

Debenture holders were paid ₹ 51,875 together with interest. Preferential creditors were paid in full. Expenses of liquidation come to ₹ 510.

Cash on hand ₹ 1,000 and assets realised ₹ 79,000. Calculate the liquidator’s total remuneration.

[Madras, B.Com (CS) Nov. 2007; B.Com (Nov. 2006; 13.Com, Oct 2003; B.Com, April 2000; RCom, Oct 1998]

[Ans : Liquidator's total remuneration ₹ 2,865]

25. Calculate the interest payable to debentureholders from the following information assuming the liquidated company has sufficient cash to pay off all outside liabilities:

8% Debenture's	₹ 1.60,000
Date of liquidation of company Date of 31.12.2002 repayment of debentures	:30.6.2003

Date upto which interest on debentures' paid so far :30.6.2002

(Madras, B.Com., B.Com (CS) Nov. 2007]

[Ans: Interest *payable* : ₹ 12,800]

26. Shri Chopra is appointed liquidator of Moon company Ltd. in voluntary liquidation on 1st July 1993. Following balances are extracted from the books on that date:

Liabilities	**₹**	**Assets**	**₹**
Share capital:		Machinery	45,000
24,000 shares of ₹ 5 each	1,20,000	Leasehold	60,000
Reserve for bad debts	15,000	properties	1,500
Debentures	75,000	Stock in trade	90,000
Bank overdraft	27,000	Book debts	9,000
Liabilities for purchases	30,000	Investment	7,500
		Calls in arrears	1,500
		Cash in hand	52,500
		P & l A/c	
	2,67,000		2,67,000

Prepare a statement of affairs to be submitted to the meeting of the creditors. The following assets are valued as under:

Machinery -- ₹ 90.000: Leasehold properties — ₹ 1,09,000: Investments — ₹ 6,000; Stock-in-trade — ₹ 3,000; Bad debts are — ₹ 3.000 and the doubtful debts are — ₹ 6,000 which are estimated to realise — ₹ 3,000. The bank overdraft is secured by deposit of title deeds of leasehold properties. Preferential creditors are — ₹ 1,500.

Telephone rent outstanding is ₹ 120.

[Periyar, M.Com (CA) Ap 2006]

[Ans: Estimated surplus as regards creditors — ₹ 1,67,380]

27. On Jan. 31 1990 a compulsory order for winding up was made against X Company Ltd., the following particulars being disclosed:

	Book value	***Estimated to***
	₹	₹
Cash in hand	100	100

Debtors	4,000	3,600
Buildings	60,000	48,000
Furniture	20,000	20,000
Unsecured creditors	₹ 20,000	
Debentures:		
Secured on Buildings	₹ 42,000	
Secured on floating charge	₹ 10,000	
Preferential creditors	₹ 6,000	
Share capital: 32,000 shares of 10 each	₹ 3,20,000	

Estimated liability for bills discounted was ₹ 6,000 estimated to rank ₹ 6,000. Other contingent liabilities were ₹ 12,000 estimated to rank at ₹ 12,000.

The company was formed on the 1st day of January 1985 and has made losses of ₹ 3,13,900.

Prepare statement of affairs and deficiency A/c.

[Madras, B.Com Ap 2007; B.Com., B.Com. (CS) Nov. 2006]

[Ans : Deficiency as regards creditors — ₹ 24,300; Deficiency as regards contributories — ₹ 3,44,306]

28. The following particulars related to a company which went into voluntary liquidation. Prepare Liquidators Final Statement of Account. At that time allow 2% remuneration to Liquidator on the amount realised and 3% on the amount distributed to unsecured creditors.

	₹
Unsecured creditors	2,80,000
Preferential creditors	20,000
Debentures	1,90,000
Share capital	2,00,000
Assets realised as follows :	
Cash in hand	21,500
Land & Buildings	1,30,000
Plant & Machinery	1,80,000
Furniture	20,000

[Madras, B.Com(AF) Nov. 2008; B.C.S. (ICE) Oct. 2003; I.M.Com., (ICE) May 2003]

[Ans : Amount paid to unsecured creditors : ₹ 1,29,97] Liquidators Total Commission : ₹ 11,529(7,030 + 600 + 3,899)]

29. 'A' Ltd. went into liquidation with the following liabilities:

(a) Secured creditors ₹ 20,000

(Securitiesrealised ₹ 25,000)

(b) Preferential creditors ₹ 600

(c) Unsecured creditors ₹ 30,500

Liquidation expenses are ₹ 252. Liquidator is entitled to a remuneration of 3% on the amounts realised (including securities with creditors) and $1^{1/2}$% on the amountdistributed to unsecured creditors. The various assets realised ₹ 26,000 (excluding securities in the hands of secured creditors).Prepare the liquidator's final statement of account.

[Madras, B.Com (CS) Nov. 2008; 1st M.Com) Nov. 2008; B.Com (PZG) Ap 2007; B.Com Nov. 2006; BCS Nov. 2005; 1st M.Com. (CA1A) Ap. 2006; Nov., 2005; B.C.S. Oct. 2003]

[Ans : Payment to unsecured creditors — ₹ 28,186; Total liquidator's remuneration — ₹ 1,962]

30. Vijay Ltd. went into liquidation with the following liabilities:

(a) Secured creditors — ₹ 30.000;

(securitiesrealised — ₹ 35,000)

(b) Preferential creditors — ₹ 700

(c) Unsecured creditors — ₹ 40.500

Liquidator's expenses are ₹ 352. He is entitled to a remuneration of 4% on the amounts realised (including securities with creditors) and 2% on the amount distributed to unsecured creditors. The various assets realised ₹ 36,000.

Prepare the liquidator's final statement of account.

[Madras, B.Com (ICE) Oct. 2007]

[Ans: Liquidator's remuneration: On assets realised — ₹ 2,840; On payment to preferential creditors — ₹ 14; On payment to unsecured creditors — ₹ 727 (*i.e.*, 37,094 x2/102) Amount paid to unsecured creditors — ₹ 36,367]

31. The following particulars relate to a limited company which has gone into voluntary' liquidation. You are required to prepare the liquidator's final account, allowing for his remuneration @ 2% on the amount realised and 2% on the amount distributed among unsecured creditors other than preferential creditors.

	₹
Preferential creditors	10,000
Unsecured creditors	32,000
Debentures	10,000

The assets realized the following sums:

Land & building	20,000
Plant & machinery	18,650
Fixtures & fittings	1,000

The liquidation expenses amount to ₹ 1,000.

[Thiruvalluvar, B.Com., Ap. 2007]
[Madras, B.Com., B.Com(CS) Nov. 2009; 1st M.Com. (CA 1A) Nov. 2006;1st M.Com. (CA I A) Nov. 2006; 1st M.Com., Nov. 2005; (Sem-CA IA) M.Com.April 2001; B.Com. (ICE) May 2000]

[Ans: Liquidator's remuneration — ₹ 1,143; Amount paid to unsecured creditors — ₹ 17,507]

32. The Ultra Optimist Ltd. went into liquidation. Its assets realised ₹ 3,50,000excluding amount realised by sale of securities held by the secured creditors. The following was the position:

Share capital: 1,000 shares of ₹ 100 each.	₹
Secured creditors (securities realised ₹ 40,000)	35,000
Preferential creditors	6,000
Unsecured creditors	1,40,000
Debentures having a floating charge on the assets of the company y	2,50,000
Liquidation expenses	5,000
Liquidator's remuneration	7,500

Prepare the liquidator's final statement of account.

[Madras, M.Com (ICE) Oct 2006; 1st M.Com (Sent- CAI A) Ap 2005; II M.Com. (ICE) (Old) Oct-2003; B.Com., (Old) Oct. 2001; Madras, M.Com., April 1988; B.Com., Sep. 1992; Oct. 1996; Madras, B.A., Corp. March 1991; B.Com., March 1990]

[Periyar, B.Com., Ap 2006; B.Com (CA) Oct. 2005; Thiruvalluvar, B.Com., No 2005]

[Ans : Amount paid to unsecured creditors — ₹ 86,500]

33. The Ashok Company Ltd. went into voluntary liquidation on 31.12.1994. When the statement of affairs was as below:

Unsecured creditors stood at ₹ 40,000 including ₹ 5,000 preferential claims. Secured creditors secured on Plant & Machinery stood at ₹ 20,000; Cash in hand was ₹ 1,000.

The liquidator realised Plant & Machinery for ₹ 15,000 and the other assets realised ₹ 10,000. The liquidation expenses amounted to ₹ 1,000 and the liquidator's remuneration was fixed at 4% of the amount realised including cash balance and 2% ofthe amount distributed to unsecured creditors including preferential creditors.

Prepare liquidator's final statement of account showing the dividend paid to unsecured creditors.

[Madras, B.Com., B.Com., (CS) Ap 2009]; B.Com., Apri12002; B.Com., Oct. 2002; B.Com., May 19971

[Ans: Liquidator's remuneration (1,040 + 100 + 76) = ₹ 1,216; Amount paid to unsecured creditors — ₹ 3,784]

34. Ambitions Ltd. went into liquidation on 31st Dec. 1986. Following information is available with the liquidator.

Sundry creditors amount to ₹ 75,660 of which ₹ 8,000 are preferential. 6% debentures carrying floating charge on the assets amounted to ₹ 80,000 debentureholders were paid interest upto 30.6.1986. The assets realised as follows:

Stock-in-trade — ₹ 84,000

Plant & Machinery — ₹ 60,600

Cash in hand stood at ₹ 500. Debentures were paid off on 30th June of the following year with interest. Liquidator's expenses amounted to ₹ 1,902 and they were entitled to a remuneration at 3% on the amount realised and 2% on the amount distributed to unsecured creditors.

Prepare liquidator's final statement of account.

[Madurai, B.Com., Nov. 2003] [Madras, B.Com., B.Com (CS) Nov. 2006; B.Com., May 1994; Sep. 1990; Oct. 1989]

[Ans: Amount paid to unsecured creditors — ₹ 45,000; Liquidator's remuneration — ₹ 5,398]

35. The following particulars are related to a company which has gone into liquidation. You are required to prepare liquidator's final statement of account allowing for his remuneration at 2% on the amounts realised on assets and 2% on the amounts distributed to unsecured creditors other than preferential creditors.

	₹
Unsecured creditors	2,24,000
Preferential creditors	70,000
Debentures	75,000

The assets realised the following amounts:

Cash in hand	20,000
Land & Buildings	1,30,000
Plant & Machinery	1,10,500
Furniture &fittings	7,500

The liquidation expenses amounted to ₹ 2,000.

A call of ₹ 2 per share on the partly paid 10,000 equity shares was made and duly paid except in case of one shareholder owning 500 shares.

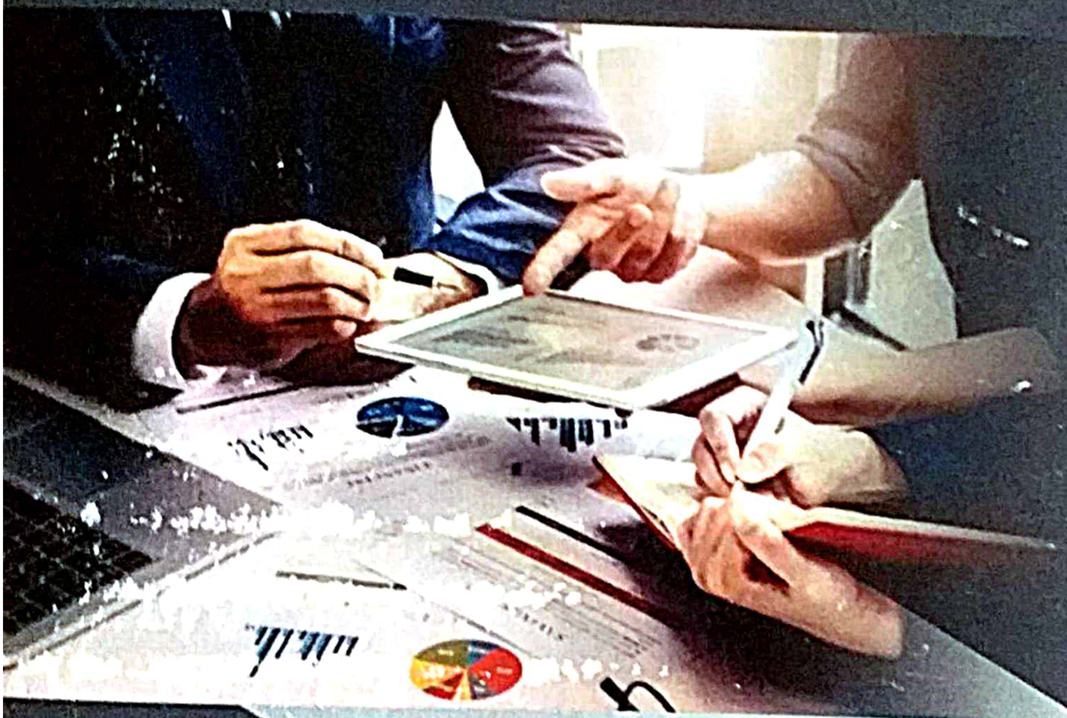
[Bharathiar, B.Com.,Ap 2005; Nov. 2004]

[Madras, II M.Com., (Old) Oct. *2003;* ***B.Com, (Old) April 2002; B.Com., (ICE) Oct. 2002; May 1999 B.Com., Sep. 1995; B.A. Corp. March 1994]***

[Ans: Liquidator's remuneration (5,360 + 2,640) = ₹ 8,000; amount paid to unsecured creditors — ₹ 1,32,000]

Corporate Accounting

M. Prabhu



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